AIRPORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO

January 25, 2019

The Airport Commission (the "Commission") of the City and County of San Francisco hereby provides its Continuing Disclosure Annual Report (the "Report"). The Report contains the audited financial statements of the Commission for the fiscal year ended June 30, 2018, as well as certain operating data and other information. It is delivered pursuant to the continuing disclosure certificates (the "Continuing Disclosure Certificates") that the Commission has executed or elected to apply in connection with the bond issues identified in the Report.

This Report is provided solely for the purpose of satisfying the Commission's obligations under the Continuing Disclosure Certificates.

AIRPORT COMMISSION OF THE CITY AND
COUNTY OF SAN FRANCISCO

Enclosure: Annual Report

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AIRPORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO

CONTINUING DISCLOSURE ANNUAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Introduction

This Continuing Disclosure Annual Report for the Fiscal Year Ended June 30, 2018 (this "Report") is provided for the purpose of satisfying the obligations of the Airport Commission (the "Commission") of the City and County of San Francisco (the "City") under the continuing disclosure certificates (the "Continuing Disclosure Certificates") executed in connection with the following bond issues:

- Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 1997A, dated September 1, 1997*
- 1997 Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 2000A, dated June 1, 2000*
- Second Series Revenue Refunding Bonds, Issue 32F, dated November 16, 2006
- Second Series Revenue Refunding Bonds, Issue 37C, dated May 15, 2008 (Converted to Non-AMT June 3, 2009)
- Second Series Revenue Refunding Bonds, Series 2009A/B, dated September 3, 2009
- Second Series Revenue Refunding Bonds, Series 2009C, dated November 3, 2009
- Second Series Revenue Refunding Bonds, Series 2009D, dated November 4, 2009
- Second Series Revenue Bonds, Series 2009E, dated November 18, 2009
- Second Series Variable Rate Revenue Refunding Bonds, Series 2010A, dated February 10, 2010
- Second Series Revenue Refunding Bonds, Series 2010C/D, dated April 7, 2010
- Second Series Revenue Bonds, Series 2010F/G, dated August 5, 2010
- Second Series Revenue Refunding Bonds, Series 2011A/B, dated February 22, 2011
- Second Series Revenue Refunding Bonds, Series 2011C/D/E, dated July 21, 2011
- Second Series Revenue Refunding Bonds, Series 2011F/G/H, dated September 20, 2011
- Second Series Revenue Refunding Bonds, Series 2012A/B, dated March 22, 2012
- Second Series Revenue Bonds, Series 2013A/B/C, dated July 31, 2013
- Second Series Revenue Bonds, Series 2014A/B, dated September 24, 2014
- Second Series Revenue Refunding Bonds, Series 2016A, dated February 25, 2016
- Second Series Revenue Bonds, Series 2016B/C, dated September 29, 2016
- Second Series Revenue Refunding Bonds, Series 2016D, dated September 29, 2016
- Second Series Revenue Bonds, Series 2017A/B/C, dated October 31, 2017
- Second Series Revenue Refunding Bonds, Series 2017D, dated October 31, 2017
- Second Series Revenue Refunding Bonds, Series 2018A, dated February 1, 2018
- Second Series Revenue Bonds, Series 2018D/E/F, dated May 30, 2018
- Second Series Revenue Refunding Bonds, Series 2018G, dated May 30, 2018
- Second Series Variable Rate Revenue Bonds, Series 2018B/C, dated June 6, 2018

(collectively, the "Outstanding Bonds").

* This Continuing Disclosure Annual Report satisfies the Commission's obligations under its continuing disclosure certificate with respect to these bonds. SFO Fuel Company LLC is obligated to make a separate filing.

In addition, this Report is provided in connection with the following Commission bonds, which the Commission expects to issue on February 7, 2019, assuming certain conditions to such issuance are met:

- Second Series Revenue Bonds, Series 2019A/B/C, expected to be dated February 7, 2019
- Second Series Revenue Refunding Bonds, Series 2019D, expected to be dated February 7, 2019

(collectively, the "Expected Bonds," and, together with the Outstanding Bonds, the "Bonds")

The Second Series Revenue Bonds issued under the Resolution No. 91-0210, which the Commission adopted on December 3, 1991 (as supplemented and amended, the "1991 Master Resolution") are referred to herein as the "Senior Bonds."

By providing the information in this Report, the Commission does not imply or represent: (a) that all of the information provided is material to investors' decisions regarding the Bonds, (b) that no changes, circumstances or events have occurred since the end of the fiscal year ended June 30, 2018 other than what is contained in this Report, or (c) that there is no other information in existence that may have a bearing on the Commission's financial condition, the security for the Bonds, or an investor's decision to buy, sell or hold the Bonds. The information contained in this Report has been obtained from officers, employees and records of the Commission and other sources that are believed to be reliable, but such information is not guaranteed as to its accuracy or completeness.

To the extent that this Report contains information that the Commission is not obligated to provide under the Continuing Disclosure Certificates, the Commission is not obligated to present or update such information in future annual reports.

No statement in this Report should be construed as a prediction or representation about the future operating results or financial performance of the Commission.

Audited Financial Statements

The audited financial statements of the Commission for the fiscal year ended June 30, 2018 are attached as **Appendix A**.

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Operating and Financial Data

Air Traffic Data

Air traffic data for the past ten Fiscal Years and the first four months of Fiscal Years 2017-18 and 2018-19 is presented in the table below.

PASSENGER TRAFFIC

	Scheduled Passenger Aircraft Arrivals and Departures		Passenger Enplanements and Deplanements					
Fiscal Year	Total	% Change	Domestic	% Change	International	% Change	Total	Total % Change
*First Four Months 2018-19**	158,905	(1.2)%	15,487,977	(0.5)%	5,235,005	3.9%	20,722,982	0.5%
First Four Months 2017-18	160,890	4.3	15,572,723	5.4	5,040,889	9.1	20,613,612	6.3
2017-18	459,900	5.8	43,926,851	7.0	13,820,335	6.9	57,747,186	7.0
2016-17	434,582	2.5	41,046,640	3.4	12,922,418	10.3	53,969,058	5.0
2015-16	423,813	2.7	39,697,866	5.6	11,711,366	10.2	51,409,232	6.6
2014-15	412,539	(0.5)	37,580,982	4.4	10,631,812	5.6	48,212,794	4.7
2013-14	414,452	2.3	35,985,757	2.7	10,072,231	5.1	46,057,988	3.3
2012-13	405,320	0.8	35,024,595	4.3	9,583,582	3.3	44,608,177	4.1
2011-12	402,131	6.7	33,588,149	9.3	9,275,507	3.1	42,863,656	7.9
2010-11	376,939	2.3	30,725,774	3.5	9,000,697	5.8	39,726,471	4.0
2009-10	368,638	1.5	29,697,949	5.9	8,506,012	0.7	38,203,961	4.7
2008-09	363,034	(2.0)	28,030,334	1.7	8,445,278	(7.7)	36,475,612	(0.6)

* Preliminary.
Source: Commission.

During the first five months (July through November) of Fiscal Year 2018-19, based on preliminary data, scheduled passenger aircraft arrivals and departures decreased 1.3%, domestic passenger traffic decreased 1.4%, international passenger traffic increased 5.0% and total passenger traffic increased 0.2% compared to the same period in the prior fiscal year. The reductions in aircraft arrivals and departures and the decrease in domestic traffic are primarily attributable to Alaska Airlines's route restructuring described in the following paragraph.

Alaska Air Group, Inc., the parent company of Alaska Airlines, and Virgin America, Inc. merged effective December 2016. The merged airline received a single operating certificate from the Federal Aviation Administration ("FAA") in January 2018. The merged airline moved to a single reservations system on April 25, 2018, and has announced that it will adopt Alaska Airlines's name and logo and retire the Virgin America brand. Virgin America handled 8.0% of total enplaned passengers and Alaska Airlines handled 5.1% of total enplaned passengers in Fiscal Year 2017-18 (during a portion of which only Alaska Airlines was operational), as compared to a combined share of 13.2% in Fiscal Year 2016-17. In Fiscal Year 2018-19, Alaska Airlines is expected to decrease seats at the Airport by approximately 11% as a result of the restructuring of the combined airline's routes, and in the first five months of Fiscal Year 2018-19, Alaska Airlines had approximately 9.6% fewer enplanements than Alaska Airlines and Virgin America had together in the first five months of Fiscal Year 2017-18, based on preliminary data.

Total enplanements for the Airport's 10 most active airlines for Fiscal Years 2013-14 through 2017-18, as well as total enplanements for Fiscal Year 2017-18's most active airlines during the first four months of Fiscal Year 2017-18 and Fiscal Year 2018-19, are shown in the table below, ranked in the order of the results from Fiscal Year 2017-18. Enplanements for airlines include enplanements by affiliates.

TOTAL ENPLANEMENTS BY AIRLINE
(Fiscal Years)

Airline	2013-14	2014-15	2015-16	2016-17	2017-18	% of 2017-18[1]	*First Four Months (July through October)* *2017-18*	*2018-19*[*]
United Airlines	10,655,513	10,867,589	11,216,891	11,875,239	12,860,422	44.6%	4,593,463	4,707,145
Virgin America[2]	1,965,310	1,997,367	2,279,332	2,502,709	2,325,380	8.1	941,685	-
American Airlines[3]	1,464,378	1,476,862	2,119,968	2,204,111	2,198,766	7.6	757,453	767,908
Delta Air Lines[4]	1,843,363	2,023,216	2,105,573	2,080,821	2,157,886	7.5	810,871	835,100
Southwest Airlines[5]	1,567,768	1,682,298	1,722,390	1,794,989	1,907,453	6.6	662,265	655,860
Alaska Airlines[2]	663,557	725,137	742,284	792,496	1,464,505	5.1	327,870	1,151,531
jetBlue Airways	542,761	602,206	755,398	785,328	805,572	2.8	274,201	257,014
Air Canada	337,424	388,401	432,354	484,287	545,755	1.9	211,825	225,543
Cathay Pacific[6]	–	–	–	–	258,182	0.9	78,504	81,808
Lufthansa Airlines [7]	241,483	262,802	–	245,550	255,434	0.9	88,637	85,017
Frontier Airlines[8]	–	–	343,736	341,903	–	–	103,318	51,227
US Airways[3]	827,146	878,176	293,408	–	–	–	-	-
SUBTOTAL	20,108,703	20,904,054	22,011,334	23,107,433	24,779,355	86.0	8,850,092	8,818,153
All others	2,886,971	3,119,545	3,610,176	3,763,979	4,034,496	14.0	1,372,240	1,434,706
TOTAL	22,995,674	24,023,599	25,621,510	26,871,412	28,813,851	100.0%	10,222,332	10,252,859
Percentage Change	3.2%	4.5%	6.7%	4.9%	7.2%			0.3%

* Preliminary.
(1) Figures do not total due to rounding.
(2) Alaska Air Group, Inc. and Virgin America, Inc. merged effective December 2016. The merged airline received a single operating certificate from the FAA in January 2018. The merged airline moved to a single reservations system on April 25, 2018, and has announced that it will adopt Alaska's name and logo and retire the Virgin America brand. All operations of the merged carrier at the Airport have been recorded as Alaska Airlines operations since April 2018.
(3) American Airlines filed for bankruptcy protection in November 2011 and exited from bankruptcy on December 9, 2013. On December 9, 2013, American Airlines and US Airways merged, although they continued to operate under separate FAA operating certificates until April 8, 2015, when American Airlines received a single operating certificate from the FAA. US Airways continued to report operations separately until October 2015.
(4) Delta Air Lines ceased its international service at the Airport in March 2014.
(5) In May 2011, Southwest Airlines acquired AirTran Holdings, Inc., the parent company of AirTran Airways. The airlines combined operating certificates in March 2012 but operated separately through November 2014. Since November 1, 2014, all flights have been operated as Southwest Airlines.
(6) Cathay Pacific served the Airport in Fiscal Years 2013-14 to 2016-17, but was not among the top 10 most active airlines in terms of total enplanements for those years.
(7) Lufthansa served the Airport in Fiscal Year 2015-16, but was not among the top 10 most active airlines in terms of total enplanements.
(8) Frontier Airlines served the Airport in Fiscal Years 2013-14, 2014-15 and 2017-18, but was not among the top 10 most active airlines in terms of total enplanements for those years.
Source: Commission.

Total enplanements increased by 3.4% and 0.8%, respectively, in July and August 2018, and declined 3.1%, 0.4% and 2.4%, respectively, in September, October, and November 2018, as compared to the same months in 2017, based on preliminary data. Total enplanements for the first five months of Fiscal Year 2018-19 declined by 23,994 (0.2%) compared to the first five months of Fiscal Year 2017-18, based on preliminary data. The decrease in enplanements is primarily attributable to the Alaska Airlines post-merger route restructuring described above.

Cargo Traffic Data

The following table provides combined domestic and international cargo traffic information for the Airport for the last five Fiscal Years and the first four months of Fiscal Years 2017-18 and 2018-19.

AIR CARGO ON AND OFF
(in metric tons)

Fiscal Year	Freight and Express	U.S. and Foreign Mail	Total Cargo[1]	Percent Change
First Four Months 2018-19[*]	175,104	22,578	197,682	2.4%
First Four Months 2017-18	169,741	23,277	193,018	12.9
2017-18	488,526	72,624	561,150	4.8
2016-17	466,923	68,659	535,581	18.6
2015-16	383,305	68,196	451,501	2.2
2014-15	383,351	58,447	441,797	19.2
2013-14	328,828	41,697	370,525	0.1

* Preliminary.
(1) Totals may not add due to rounding.
Source: Commission.

Compared with the first five months of Fiscal Year 2017-18, domestic cargo and mail traffic tonnage decreased 2,324 metric tons (2.5%), international cargo and mail tonnage increased 10,191 metric tons (6.9%) and total cargo and mail traffic tonnage increased 7,867 metric tons (3.3%) during the first five months of Fiscal Year 2018-19, based on preliminary data.

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Total Landed Weights

The revenue landed weights for the 10 most active airlines operating at the Airport for Fiscal Years 2013-14 through 2017-18, ranked in the order of the results from Fiscal Year 2017-18, as well as the revenue landed weights for Fiscal Year 2017-18's most active airlines during the first four months of Fiscal Year 2017-18 and 2018-19, are shown in the table below. Landed weights for airlines include landed weight of affiliates.

TOTAL REVENUE LANDED WEIGHT BY AIRLINE
(in thousands of pounds)
(Fiscal Years)

Airline	2013-14	2014-15	2015-16	2016-17	2017-18	% of 2017-18[1]	*First Four Months (July through October)* 2017-18	2018-19*
United Airlines	13,607,516	13,587,731	13,953,205	15,453,760	16,315,849	41.3%	5,950,797	5,870,141
Alaska Airlines[2]	734,442	827,323	874,199	930,717	2,694,093	6.8	384,622	1,368,271
Delta Air Lines[3]	2,230,034	2,350,648	2,567,319	2,525,718	2,579,834	6.5	952,876	957,311
American Airlines[4]	1,865,682	1,802,575	2,462,970	2,654,816	2,562,887	6.5	866,126	908,412
Southwest Airlines[5]	1,832,578	1,872,090	1,895,646	2,038,119	2,188,500	5.5	757,399	757,256
Virgin America[2]	2,494,821	2,424,728	2,757,501	2,996,660	1,787,582	4.5	1,104,903	-
jetBlue Airways	596,813	672,117	875,867	939,439	1,011,057	2.6	359,120	324,290
Air Canada[6]	–	492,160	546,720	640,396	700,161	1.8	277,763	309,615
Korean Air Lines[7]	–	–	–	542,308	648,994	1.6	218,014	219,882
Cathay Pacific[8]	–	–	–	–	523,947	1.3	162,583	186,647
Lufthansa Airlines	459,455	503,285	501,143	510,879	–	–	176,418	177,317
British Airways[9]	457,210	–	506,376	–	–	–	-	-
US Airways[3]	859,552	921,285	–	–	–	–	-	-
SUBTOTAL	25,138,103	25,453,942	26,940,946	29,232,812	31,012,904	78.4	11,210,622	11,079,142
All others	6,490,469	7,156,110	8,072,361	8,363,816	8,521,518	21.6	2,881,947	2,907,531
TOTAL	31,628,572	32,610,052	35,012,485	37,596,628	39,534,422	100.0%	14,092,568	13,986,673
Percentage Change	3.1%	3.1%	7.4%	7.4%	5.2%			-0.8%

* Preliminary.
(1) Figures do not total due to rounding.
(2) Alaska Air Group, Inc. and Virgin America, Inc. merged effective December 2016. The merged airline received a single operating certificate from the FAA in January 2018. The merged airline moved to a single reservations system on April 25, 2018, and has announced that it will adopt Alaska's name and logo and retire the Virgin America brand. All operations of the merged carrier at the Airport have been recorded as Alaska Airlines operations since April 2018.
(3) Delta ceased its international service at the Airport in March 2014.
(4) American Airlines filed for bankruptcy protection in November 2011 and exited from bankruptcy on December 9, 2013. On December 9, 2013, American Airlines and US Airways merged, although they continued to operate under separate FAA operating certificates until April 8, 2015, when American Airlines received a single operating certificate from the FAA. US Airways continued to report operations separately until October 2015. US Airways served the Airport in Fiscal Year 2015-16, but was not among the top 10 most active airlines in terms of revenue landed weight.
(5) In May 2011, Southwest Airlines acquired AirTran Holdings, Inc., the parent company of AirTran Airways. The airlines combined operating certificates in March 2012 but operated separately through November 2014. Since November 1, 2014, all flights have been operated as Southwest Airlines.
(6) Air Canada served the Airport in Fiscal Year 2013-14, but was not among the top 10 most active airlines in terms of revenue landed weight for those years.
(7) Korean Air Lines served the Airport in Fiscal Years 2013-14 through 2015-16, but was not among the top 10 most active airlines in terms of revenue landed weight for those years.
(8) Cathay Pacific served the Airport in Fiscal Years 2013-14 through Fiscal Year 2016-17, but was not among the top 10 most active airlines in terms of revenue landed weight for those periods.
(9) British Airways served the Airport in Fiscal Years 2014-15, 2016-17 and 2017-18, but was not among the top 10 most active airlines in terms of revenue landed weight for those periods.

Source: Commission.

Landed weight increased by 0.1% in July 2018 and declined 1.0%, 1.1%, 1.1% and 0.2%, respectively in August, September, October and November 2018, as compared to the same months in 2017, based on preliminary data. Landed weight for the first five months of Fiscal Year 2018-19 declined by 111,496 thousand pounds (0.6%) compared to the first five months of Fiscal Year 2017-18, based on preliminary data. The decrease in landed weight is primarily attributable to Alaska Airlines's post-merger route restructuring described above.

Airline Service

See the table "Air Carriers Serving the Airport in Fiscal Year 2018" in the Management's Discussion and Analysis in the audited financial statements attached as Appendix A for a list of the air carriers reporting enplaned passengers and/or enplaned cargo at the Airport during Fiscal Year 2017-18.

Ten Highest Revenue Producing Concessionaires

The table below summarizes concession revenues for Fiscal Years 2015-16, 2016-17 and 2017-18 attributable to the Airport's largest concession revenue sources. For the purpose of this table, "Concession Revenue" is defined as fees and rentals collected by the Commission for: (i) the right to provide and operate restaurants, bars, car rental services, newsstands, gift shops, specialty shops, advertising displays, public telephones and other merchandising concessions and consumer services in the Terminal Area; (ii) the right to provide and operate courtesy vehicles, ground transportation services, hotels, service stations and other concessions and services in the groundside area; and (iii) other activities and services in the groundside area of the Terminals such as public automobile parking and traffic fines.

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TOP TEN SOURCES OF AIRPORT CONCESSION REVENUES

Concessionaire/Manager	Concession Revenue Sources	Lease/Agreement Expiration Date	FY 2015-16 Concession Revenue ($ in thousands)	FY 2016-17 Concession Revenue ($ in thousands)	FY 2017-18 Concession Revenue ($ in thousands)
DFS Group, L.P.	Duty Free and General Merchandise	12/31/17[1]	$ 29,436	$ 29,671	$ 36,418
Enterprise Rent-a-Car Rental, LLC (formerly EAN, LLC)[2]	Rental Car	12/31/18[3,4]	16,820	17,522	16,909
Avis Budget Rental Car, LLC	Rental Car	12/31/18[3,5]	13,028	12,969	11,439
The Hertz Corporation	Rental Car	12/31/18[3,6]	13,987	12,248	11,373
Clear Channel Airports	Advertising	12/31/22[7]	10,307	10,802	11,139
Travelex America, Inc.	Currency Exchange	1/31/20[8]	5,396	5,610	5,786
Tastes on the Fly San Francisco LLC	Food and Beverage	Various[9]	2,911	4,107	5,448
DTG Operations Rental Car	Rental Car	12/31/18[3,10]	4,420	4,316	4,382
WDFG North America, LLC (formerly Host International Inc.)	General Merchandise	Various[11]	3,509	3,376	3,045
Gotham Enterprises, LLC	Food and Beverage	Various[12]	N/A	2,776	2,424
D-Lew Enterprises	Food and Beverage	Various[13]	2,566	N/A	N/A
Sub Total			**$102,380**	**$103,397**	**$108,363**
Other Revenue[14]			181,235	196,849	201,962
Total Concession Revenue			**$283,615**	**$300,246**	**$310,325**

(1) The minimum annual guaranteed rent for DFS Group, L.P. in Fiscal Year 2017-18 was $27.0 million.
(2) Effective September 1, 2017, the EAN, LLC lease was reassigned to Enterprise Rent-a-Car Rental LLC.
(3) For each rental car company there are two leases: a concession lease and a facility lease. Revenue reflects only the concession lease.
(4) Doing business as Enterprise Rent-A-Car, Alamo Rent-A-Car and National Car Rental. The minimum annual guaranteed rent for Fiscal Year 2017-18 was $14.6 million.
(5) Doing business as Avis Rent-A-Car and Budget Rent-A-Car. The minimum annual guaranteed rent for Fiscal Year 2017-18 was $10.6 million.
(6) The minimum annual guaranteed rent for Hertz Corporation in Fiscal Year 2017-18 was $10.7 million.
(7) The minimum annual guaranteed rent for Clear Channel in Fiscal Year 2017-18 was $11.1 million.
(8) The minimum annual guaranteed rent for Travelex American Inc. in Fiscal Year 2017-18 was $5.8 million.
(9) Tastes on the Fly operates various locations within the Airport, each with a different expiration date. The total minimum annual guaranteed rent for Fiscal Year 2017-18 was $1.4 million. In January 2014, two leases under D-Lew Enterprises were reassigned to Tastes on the Fly San Francisco, LLC. In October 2015, a lease under J. Avery Enterprises was reassigned to Tastes on the Fly San Francisco, LLC.
(10) Doing business as Dollar Rent-A-Car and Thrifty Car Rental. The minimum annual guaranteed rent for Fiscal Year 2017-18 was $3.7 million.
(11) WDFG North America, LLC (formerly Host International Inc.) operates various locations within the Airport, each with a different expiration date. The total minimum annual guaranteed rent for Fiscal Year 2017-18 was $2.3 million. In January 2014, WDFG of North America, LLC purchased the Retail unit of Host International Inc. and continues to operate its locations under the existing lease terms.
(12) Gotham Enterprises, LLC operates various locations within the Airport, each with a different expiration date. The total minimum annual guaranteed rent for Fiscal Year 2017-18 was $0.2 million. Gotham Enterprises, LLC was not one of the top ten sources of concession revenues in Fiscal Year 2015-16.
(13) D-Lew Enterprises operates various locations within the Airport, each under lease agreements with a different expiration date. D-Lew Enterprises, LLC was not one of the top ten sources of concession revenues in Fiscal Year 2016-17. In January 2014, two leases under D-Lew Enterprises, LLC were reassigned to Tastes on the Fly San Francisco, LLC.
(14) Represents the aggregate concession revenue received from approximately 86 additional concessionaires operating 135 concessions, public parking and ground transportation operators at the Airport, including public parking revenues of approximately $103.3 million in Fiscal Year 2015-16, approximately $106.8 million in Fiscal Year 2016-17 and approximately $100.9 million in Fiscal Year 2017-18, and TNC trip fee revenues of approximately $16.9 million in Fiscal Year 2015-16, approximately $26.6 million in Fiscal Year 2016-17 and approximately $34.5 million in Fiscal Year 2017-18.

Source: Commission.

Ten Highest Revenue Producers

Set forth in the table below is a description of the Airport's principal revenue sources. No single tenant accounted for more than 23% of total operating revenue or more than 21% of total Airport revenue in Fiscal Year 2017-18. For the purpose of this table, the term "revenues" includes all amounts paid to the Airport by a company, including Concession Revenues, rent, utilities, etc.

TOP TEN SOURCES OF REVENUE

Company/Source	Category	FY 2016-17[1] Revenues ($ in thousands)	FY 2017-18[1] Revenues ($ in thousands)	FY 2017-18[1] Percent of Operating Revenue[2]	Percent of Total Revenue[2]
United Airlines	Airline	$218,231	$239,071	22.47%	20.11%
On Airport Parking[3]	Public Parking	106,791	100,903	9.49	8.49
DFS Group, L.P.	Duty Free and General Merchandise	30,385	37,118	3.49	3.12
American Airlines[4]	Airline	36,515	35,750	3.36	3.01
Enterprise Rent-a-Car Rental, LLC (formerly EAN, LLC)[5]	Rental Car	35,644	35,573	3.34	2.99
Delta Air Lines	Airline	28,902	30,863	2.90	2.60
Virgin America[6]	Airline	31,409	26,306	2.47	2.21
The Hertz Corporation	Rental Car	27,065	24,932	2.34	2.10
Avis Budget Car Rental, LLC	Rental Car	26,783	24,459	2.30	2.06
Raiser CA LLC/Uber 032512	Ground Transportation	20,057	22,057	2.07	1.86
Subtotal Ten Highest		**$561,781**	**$577,032**	**54.24%**	**48.54%**
Other Operating Revenue		365,019	486,770	45.76	40.94
Total Operating Revenue		**$926,800**	**$1,063,802**	**100.00%**	**89.48%**
Other Revenue[7]		8,967	13,087		1.10
PFC Collections		103,955	111,971		9.42
Total Airport Revenue		**$1,039,722**	**$1,188,860**		**100.00%**

(1) Revenue is audited and includes operating and non-operating income and credit adjustments.
(2) Column may not add due to rounding
(3) New South Parking-California manages the Airport's public short-term garages and long-term parking facility and collects parking revenues on behalf of the Airport.
(4) American Airlines filed for bankruptcy protection in November 2011 and exited from bankruptcy on December 9, 2013. On December 9, 2013, American Airlines and US Airways merged, although they continued to operate under separate FAA operating certificates until April 8, 2015, when American Airlines received a single operating certificate from the FAA. US Airways continued to report operations separately until October 2015.
(5) Effective September 1, 2017, the EAN, LLC lease was reassigned to Enterprise Rent-a-Car Rental LLC.
(6) Alaska Air Group, Inc. and Virgin America, Inc. merged effective December 2016. The merged airline received a single operating certificate from the FAA in January 2018. The merged airline moved to a single reservations system on April 25, 2018, and has announced that it will adopt Alaska's name and logo and retire the Virgin America brand. The figures in this table include only Virgin America's revenues, not Alaska's, in the respective years.
(7) Includes interest and other non-operating revenue.
Source: Commission.

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Total Outstanding Long-Term Debt

Outstanding Senior Bonds

The Commission had the following Senior Bonds outstanding as of June 30, 2018.

Series	Dated Date	Original Principal Amount Issued	Outstanding Principal (as of 6/30/18)	Purpose
Issue 32F (Non-AMT)†	November 16, 2006	$ 260,115,000	$ 70,930,000	Refunding
Issue 37C (Non-AMT/Private Activity)†*	May 15, 2008	89,895,000	85,135,000	Refunding
2009A (Non-AMT/Private Activity)†	September 3, 2009	92,500,000	88,835,000	Refunding
2009B (Non-AMT/Private Activity)†	September 3, 2009	82,500,000	79,635,000	Refunding
2009C (Non-AMT/Private Activity)‡	November 3, 2009	132,915,000	30,125,000	Refunding
2009D (Non-AMT/Private Activity)†	November 4, 2009	88,190,000	80,180,000	Refunding
2009E (Non-AMT/Private Activity)† (1)	November 18, 2009	485,800,000	469,400,000	New Money
2010A (AMT)	February 10, 2010	215,970,000	205,865,000	Refunding
2010C (Non-AMT/Governmental Purpose)†	April 7, 2010	345,735,000	126,165,000	Refunding
2010D (Non-AMT/Private Activity)‡	April 7, 2010	89,860,000	43,755,000	Refunding
2010F (Non-AMT/Private Activity)†	August 5, 2010	121,360,000	121,360,000	New Money
2010G (Non-AMT/Governmental Purpose)†	August 5, 2010	7,100,000	7,100,000	New Money
2011A (AMT)†	February 22, 2011	88,815,000	7,080,000	Refunding
2011B (Non-AMT/Governmental Purpose)†	February 22, 2011	66,535,000	18,645,000	Refunding
2011C (AMT)†	July 21, 2011	163,720,000	163,720,000	Refunding
2011D (Non-AMT/Governmental Purpose)†	July 21, 2011	124,110,000	84,865,000	Refunding
2011E (Taxable)†	July 21, 2011	62,585,000	5,625,000	Refunding
2011F (AMT)†	September 20, 2011	123,325,000	123,325,000	Refunding
2011G (Non-AMT/Governmental Purpose)†	September 20, 2011	106,195,000	29,660,000	Refunding
2011H (Taxable)†	September 20, 2011	125,055,000	49,455,000	Refunding
2012A (AMT)†	March 22, 2012	208,025,000	208,025,000	Refunding
2012B (Non-AMT/Governmental Purpose)†	March 22, 2012	108,425,000	107,465,000	Refunding
2013A (AMT)†	July 31, 2013	360,785,000	319,080,000	New Money
2013B (Non-AMT/Governmental Purpose)†	July 31, 2013	87,860,000	87,860,000	New Money
2013C (Taxable)†	July 31, 2013	12,480,000	3,430,000	New Money
2014A (AMT)†	September 24, 2014	376,320,000	376,320,000	New Money
2014B (Non-AMT/Governmental Purpose)†	September 24, 2014	97,290,000	97,290,000	New Money
2016A (Non-AMT/Governmental Purpose)†	February 25, 2016	232,075,000	232,075,000	Refunding
2016B (AMT)†	September 29, 2016	574,970,000	574,970,000	New Money
2016C (Non-AMT/Governmental Purpose)†	September 29, 2016	165,155,000	165,155,000	New Money
2016D (Non-AMT/Governmental Purpose)†	September 29, 2016	147,795,000	147,305,000	Refunding
2017A (AMT)†	October 31, 2017	339,585,000	339,585,000	New Money
2017B (Non-AMT/Governmental Purpose)†	October 31, 2017	231,985,000	231,985,000	New Money
2017C (Taxable)Ω	October 31, 2017	45,140,000	45,140,000	New Money
2017D (AMT)Ω	October 31, 2017	144,830,000	144,830,000	Refunding
2018A (AMT)Ω	February 1, 2018	115,355,000	115,355,000	Refunding
2018D (AMT)†	May 30, 2018	722,805,000	722,805,000	New Money
2018E (Non-AMT)†	May 30, 2018	116,275,000	116,275,000	New Money
2018F (Taxable)†	May 30, 2018	7,025,000	7,025,000	New Money
2018G (AMT)†	May 30, 2018	35,665,000	35,665,000	Refunding
2018B (Non-AMT)	June 6, 2018	138,170,000	138,170,000	New Money
2018C (Non-AMT)	June 6, 2018	138,170,000	138,170,000	New Money
TOTAL		$7,278,465,000	$6,244,840,000	

* This Issue of Senior Bonds was converted to Senior Bonds the interest on which is not subject to the federal alternative minimum tax.
† Secured by Issue 1 Reserve Account (also referred to as the Original Reserve Account).
‡ Secured by 2009 Reserve Account.
Ω Secured by 2017 Reserve Account.
(1) These Senior Bonds were issued as Non-AMT/Private Activity bonds on May 3, 2009.
Source: Commission.

The Commission has entered into a bond purchase agreement pursuant to which it agreed to sell $1,763,565,000 aggregate principal amount of its Second Series Revenue Bonds, Series 2019A, Series 2019B and Series 2019C and Second Series Revenue Refunding Bonds, Series 2019D (the "Series 2019A Bonds," "Series 2019B Bonds," "Series 2019C Bonds" and "Series 2019D Bonds," respectively, and together the "Series 2019A-D Bonds") to the underwriters identified in such agreement on or about February 7, 2019, subject to certain conditions being met. If the Series 2019A-D Bonds are issued, a portion of the proceeds of the Series 2019C Bonds and the Series 2019D Bonds will be used to defease the Commission's outstanding Second Series Revenue Bonds, Series 2009E, and to redeem such Series 2009E Bonds on May 1, 2019. If issued, the Series 2019A Bonds and the Series 2019C Bonds will be secured by the Original Reserve Account and the Series 2019B Bonds and Series 2019D Bonds will be secured by the 2017 Reserve Account.

Credit Facilities Relating to Senior Bonds

As of June 30, 2018, the Commission had outstanding approximately $567,340,000 of variable rate tender option Senior Bonds, in each case secured by a bank letter of credit, as summarized in the table below. If amounts on the Senior Bonds are paid under a letter of credit, the obligation of the Commission to repay such amounts would constitute "Repayment Obligations" under the 1991 Master Resolution and would be accorded the status of "Bonds" to the extent provided in the 1991 Master Resolution.

CREDIT FACILITIES FOR SENIOR BONDS
(as of June 30, 2018)

	Issue 37C	**Series 2010A**	**Series 2018B**	**Series 2018C**
Outstanding Principal Amount	$85,135,000	$205,865,000	$138,170,000	$138,170,000
Type	LOC[1]	LOC[1]	LOC[1]	LOC[1]
Expiration Date	January 28, 2019	June 29, 2020	June 3, 2022	June 3, 2022
Credit Provider	Union Bank[2]	BofA[3]	Barclays[4]	Sumitomo[5]
Credit Provider Ratings[6]				
Short-Term	P-1/A-1/F1	P-1/A-1/F1+	P-1/A-1/F1	P-1/A-1/F1
Long-Term	A2/A/A	Aa3/A+/AA-	A2/A/A	A1/A/A

(1) Letter of credit.
(2) MUFG Union Bank, N.A.
(3) Bank of America, N.A.
(4) Barclays Bank PLC.
(5) Sumitomo Mitsui Banking Corporation acting through its New York Branch.
(6) As of June 30, 2018. Ratings are provided for convenience of reference only. Such rating information has been obtained from sources believed to be reliable but has not been confirmed or re-verified by the rating agencies. The Commission does not take any responsibility for the accuracy of such ratings, or give any assurance that such ratings will apply for any given period of time, or that such ratings will not be revised downward or withdrawn if, in the judgment of the agency providing such rating, circumstances so warrant. Reflects the ratings of the credit provider, not the rating on the related Senior Bonds. Ratings on related Senior Bonds may be different. Ratings for the credit providers are displayed as Moody's/S&P/Fitch. The Long-Term ratings provided are Moody's Issuer Rating, Standard & Poor's Long-Term Local Issuer Credit Rating and Fitch's Long-Term Issuer Default Rating. The Short-Term ratings provided are Moody's Short-Term Rating, Standard & Poor's Short-Term Local Issuer Credit Rating and Fitch's Short-Term Issuer Default Rating.

Source: Commission

In December 2018, the expiration date of the letter of credit provided by MUFG Union Bank, N.A. supporting the Issue 37C Bonds was extended to January 27, 2020.

In December 2018, Fitch upgraded its Long-Term Issuer Default Rating for Barclays Bank PLC to A+.

Interest Rate Swaps

Pursuant to the 1991 Master Resolution, the Commission may enter into one or more interest rate swaps in connection with one or more series of Senior Bonds. The obligation of the Commission to make regularly scheduled payments to the swap provider under the swap agreements is an obligation of the Commission payable from Net Revenues (as defined in the 1991 Master Resolution) on a parity with payments of principal of or interest on the Senior Bonds. The swap agreements are subject to termination upon the occurrence of specified events and the Commission may be required to make a substantial termination payment to the respective swap provider depending on the then-current market value of the swap transaction even if the Commission were not the defaulting party. The termination payment would be approximately equal to the economic value realized by the Commission from the termination of the swap agreement. Any payment due upon the termination of a swap agreement is payable from Net Revenues subordinate to payments of principal of or interest on the Senior Bonds.

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The table below summarizes the interest rate swap agreements to which the Commission was a party as of June 30, 2018.

SUMMARY OF INTEREST RATE SWAP AGREEMENTS

Associated Bonds	Effective Date	Outstanding Notional Amount	Counterparty	Counterparty Credit Ratings (Moody's/S&P/Fitch)[1]	Insurer	Fixed Rate Payable by Commission	Market Value to Commission[2]	Expiration Date
Issue 37B[3]	05/15/2008	$ 75,473,000	Merrill Lynch Capital Services[4]	NR/NR/NR	AGM	3.773%	($8,451,987.76)	May 1, 2029
Issue 37C	05/15/2008	85,107,000	JPMorgan Chase Bank, N.A.[5]	Aa3/A+/AA	AGM	3.898	(10,209,667.95)	May 1, 2029
Series 2010A	02/01/2010	137,980,000	Goldman Sachs Bank USA[6]	A1/A+/A+		3.925	(18,598,857.39)	May 1, 2030
	TOTAL	$298,560,000					**($37,260,513.10)**	

(1) As of June 30, 2018. Ratings are provided for convenience of reference only. Such rating information has been obtained from sources believed to be reliable but has not been confirmed or re-verified by the rating agencies. The Commission takes no responsibility for the accuracy of such ratings, or gives any assurance that such ratings will apply for any given period of time, or that such ratings will not be revised downward or withdrawn if, in the judgment of the agency providing such rating, circumstances so warrant. The ratings provided are Moody's Issuer Rating, Standard & Poor's Long-Term Local Issuer Credit Rating and Fitch's Long-Term Issuer Default Rating.
(2) The market values of the swaps were calculated as of June 30, 2018 by an independent third-party consultant to the Commission who does not have an interest in the Swap Agreements.
(3) The Issue 37B Bonds that are hedged by this swap agreement were purchased with proceeds of the Series 2008B Notes, which the Commission subsequently refunded, and the Issue 37B Bonds are held in trust. The swap is now indirectly hedging the Series 2010A-3 Bonds.
(4) Guaranteed by Merrill Lynch Derivative Products AG, which is rated Aa3/AA/NR as of June 30, 2018.
(5) The original counterparty to this swap agreement was Bear Stearns Capital Markets Inc.
(6) Guaranteed by The Goldman Sachs Group, which is rated A3/BBB+/A as of June 30, 2018.

Source: Commission.

In October 2018, Moody's upgraded its Issuer Rating for JPMorgan Chase Bank, N.A. to Aa2.

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Other Indebtedness

Commercial Paper Notes

The Commission has authorized, and the Board of Supervisors has approved, the issuance of up to $500,000,000 principal amount outstanding at any one time of commercial paper notes (the "Commercial Paper Notes"), which constitute "Subordinate Bonds." The Commission has obtained four irrevocable direct-pay letters of credit totaling $500,000,000 to support the Commercial Paper Notes. Payment of Commercial Paper Notes and repayment of amounts drawn on letters of credit with respect thereto, is secured by a lien on Net Revenues subordinate to the lien of the 1991 Master Resolution securing the Senior Bonds. Those letters of credit are described in the following table.

LETTERS OF CREDIT FOR COMMERCIAL PAPER NOTES
(as of June 30, 2018)

	Series A-1 Notes, Series B-1 Notes, Series C-1 Notes	Series A-2 Notes, Series B-2 Notes, Series C-2 Notes	Series A-3 Notes, Series B-3 Notes, Series C-3 Notes	Series A-4 Notes, Series B-4 Notes, Series C-4 Notes
Principal Amount	$100,000,000	$100,000,000	$200,000,000	$100,000,000
Expiration Date	May 2, 2019	June 21, 2022	May 1, 2020	May 31, 2019
Credit Provider	State Street(1)	Sumitomo Mitsui Banking(2)	Royal Bank of Canada(3)	Wells Fargo(4)
Credit Provider Ratings(5)				
Short-Term	P-1/A-1+/F1+	P-1/A-1/F1	P-1/A-1+/F1+	P-1/A-1/F1+
Long-Term	Aa3/AA-/AA	A1/A/A	A1/AA-/AA	Aa2/A+/AA-

(1) State Street Bank and Trust Company.
(2) Sumitomo Mitsui Banking Corporation, acting through its New York Branch.
(3) Royal Bank of Canada, acting through a branch located at 200 Vesey Street, New York, New York.
(4) Wells Fargo Bank, National Association.
(5) As of June 30, 2018. Ratings are provided for convenience of reference only. Such rating information has been obtained from sources believed to be reliable but has not been confirmed or re-verified by the rating agencies. The Commission does not take any responsibility for the accuracy of such ratings, or give any assurance that such ratings will apply for any given period of time, or that such ratings will not be revised downward or withdrawn if, in the judgment of the agency providing such rating, circumstances so warrant. Reflects the ratings of the credit provider, not the rating on the related Commercial Paper Notes. Ratings on related Commercial Paper Notes may be different. Ratings for the credit providers are displayed as Moody's/S&P/Fitch. The Long-Term ratings provided are Moody's Issuer Rating, Standard & Poor's Long-Term Local Issuer Credit Rating and Fitch's Long-Term Issuer Default Rating. The Short-Term ratings provided are Moody's Short Term Rating, Standard & Poor's Short-Term Local Issuer Credit Rating and Fitch's Short-Term Issuer Default Rating.
Source: Commission.

Moody's upgraded its Issuer Rating for Royal Bank of Canada in July 2018 and downgraded its Issuer Rating for Royal Bank of Canada in September 2018. The current rating is A2.

SFO FUEL Bonds

The Commission has two outstanding issues of Special Facility Bonds which were issued to finance the construction of jet fuel distribution and related facilities at the Airport for the benefit of the airlines: its Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 1997A (AMT), of which $52,865,000 was outstanding as of June 30, 2018 and $48,115,000 was outstanding as of January 2, 2019; and its Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 2000A (AMT), of which $9,965,000 was outstanding as of June 30, 2018 and $9,090,000 was outstanding as of January 2, 2019 (collectively, the "SFO Fuel Bonds").

The SFO Fuel Bonds are payable from and secured by payments made by SFO FUEL COMPANY, LLC, a special purpose limited liability company ("SFO Fuel") pursuant to a lease agreement between the Commission and SFO Fuel with respect to the jet fuel distribution facilities. SFO Fuel was formed by certain airlines operating at the San Francisco International Airport (the "Airport"). The lease payments, and therefore the SFO Fuel Bonds, are payable from charges imposed by SFO Fuel on air carriers for into-plane fueling at the Airport, and are not payable from or secured by Net Revenues.

Airport Hotel Special Facility Revenue Bonds

The Commission issued $260 million of San Francisco International Airport Hotel Special Facility Revenue Bonds (the "Hotel Special Facility Bonds") in June 2018 to finance and refinance (through the repayment of Commercial Paper Notes) the development and construction of a new Commission-owned hotel to be located at the Airport (the "On-Airport Hotel"), to fund capitalized interest on the Hotel Special Facility Bonds and to pay related costs. The Hotel Special Facility Bonds are payable from On-Airport Hotel revenues. There are currently $260 million of the Hotel Special Facility Bonds outstanding. The On-Airport Hotel is expected to be managed as a Grand Hyatt in accordance with a long-term management agreement between the Commission and Hyatt Corporation and is expected to be a four-star hotel with 351 rooms. Construction of the On-Airport Hotel commenced in June 2017 and is expected to be completed in summer 2019. The Hotel Special Facility Bonds were purchased by the Commission with the proceeds of its Second Series Revenue Bonds, Series 2018B and Series 2018C.

Historical Landing Fees and Terminal Rentals

A summary of historical and current landing fees for scheduled aircraft with a lease or operating permit and average terminal rental rates for Fiscal Years 2014-15 through 2018-19 is set forth below.

HISTORICAL AND CURRENT LANDING FEES AND TERMINAL RENTALS
(Fiscal Years)

	2014-15	2015-16	2016-17	2017-18	2018-19
Landing Fees (per 1,000 pounds)	$4.57	$4.87	$4.99	$5.24	$5.54
Minimum Landing Fee (fixed wing)	220	245	285	350	372
Minimum Landing Fee (rotary)	110	123	143	175	186
Average Terminal Rental Rate (per square foot)	149.98	157.18	161.16	169.03	179.21

Source: Commission.

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Calculation of Net Revenues and Compliance with Rate Covenant

The following table reflects historical Net Revenues and the calculation of debt service coverage on the Senior Bonds based on such Net Revenues for Fiscal Years 2013-14 through 2017-18.

HISTORICAL DEBT SERVICE COVERAGE
(Fiscal Year)
($ in thousands)

	2013-14	2014-15	2015-16	2016-17	2017-18
Net Revenues[1]	$367,336	$391,831	$430,333	$466,015	$493,304
PFCs Treated as Revenues	35,700	47,550	43,110	23,363	4,068
Transfer from the Contingency Account[2]	93,327	93,883	94,426	95,221	132,000
TOTAL AVAILABLE FOR DEBT SERVICE	$496,363	$533,264	$567,869	$584,599	$629,372
Total Annual Debt Service[3]	$365,314	$393,449	$394,157	$404,555	$405,341
Historical Debt Service Coverage per the 1991 Master Resolution[4]	135.9%	135.5%	144.1%	144.5%	155.3%
Historical Debt Service Coverage Excluding Transfer	110.3%	111.7%	120.1%	121.0%	122.7%

(1) Using the definition of Net Revenues contained in the 1991 Master Resolution, but excluding PFCs treated as "Revenues" pursuant to the 1991 Master Resolution.
(2) Represents the Transfer from the Contingency Account to the Revenues Account in each such Fiscal Year.
(3) Annual Debt Service net of accrued and capitalized interest.
(4) Net Revenues plus Transfer divided by total Annual Debt Service. Must not be less than 125% pursuant to the 1991 Master Resolution.
Source: Commission.

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PFC Collections

Set forth in the table below is a summary of Airport PFC designations, collections and amounts applied to pay debt service for the ten most recent Fiscal Years and the current Fiscal Year (to the extent information is available).

PFC COLLECTIONS APPLIED BY THE COMMISSION FOR PAYMENT OF DEBT SERVICE ON OUTSTANDING SENIOR BONDS

Applicable Fiscal Year	PFC Collections (millions)[1]	PFC Designated as Revenues (millions)[2]	Designation Date	Amount Applied to Pay Debt Service (millions)[3]
2018-19	N/A[4]	$67.9	5/15/18	N/A[4]
2017-18	$115.1	31.7	5/16/17	$ 4.1
2016-17	105.9	44.9	5/17/16	23.4
2015-16	100.2	58.1	5/26/15	43.1
2014-15	93.2	62.6	5/20/14	47.6
2013-14	88.0	60.2	5/21/13	35.7
2012-13	85.1	51.5	5/15/12	45.0
2011-12	82.3	88.5	5/17/11	73.0
2010-11	77.9	87.2	5/18/10	87.2
2009-10	75.0	61.0	5/5/09	61.0
2008-09	70.3	51.0	5/6/08	51.0

(1) Includes PFC collections and related interest earned for the year. Based on Audited Financial Statements.
(2) Amount designated as Revenues to be applied to pay debt service. Accumulated PFCs from prior years can be designated in future years.
(3) Amount actually applied to pay debt service. Accumulated PFCs from prior years can be applied to pay debt service in future years.
(4) Final numbers not available at this time.
Source: Commission.

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Payments Made to the City

Set forth in the table below is a summary of the payments made by the Airport to the City for Fiscal Years 2013-14 through 2017-18.

SUMMARY OF PAYMENTS MADE BY THE AIRPORT TO THE CITY
($ in millions)

	Annual	Reimbursement for Direct Services					
Fiscal Year	Service Payment	Police	Fire	Other[1]	Utility Costs	Subtotal	Total
2017-18	$46.5	$56.1	$24.2	$26.4	$49.7[2]	$156.3	$202.8
2016-17	45.0	52.2	22.4	23.7	49.1[3]	147.4	192.4
2015-16	42.5	49.6	20.9	22.4	47.8[4]	140.7	183.2
2014-15	40.5	47.4	20.7	21.1	46.6[5]	135.8	176.3
2013-14	38.0	45.7	20.6	20.8	44.2[6]	131.3	169.3

(1) Represents costs of direct services provided by the City Attorney, City Treasurer, City Controller, City Purchasing Agent and other City departments.
(2) Approximately $22.9 million in utility costs were recovered from Airport tenants.
(3) Approximately $22.3 million in utility costs were recovered from Airport tenants.
(4) Approximately $21.7 million in utility costs were recovered from Airport tenants.
(5) Approximately $21.7 million in utility costs were recovered from Airport tenants.
(6) Approximately $20.6 million in utility costs were recovered from Airport tenants.
Source: Commission.

Additional Information

Additional information about the Commission, the Airport and the Senior Bonds is available in the Official Statement for the Series 2019A-D Bonds, dated January 11, 2019, which is available on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website.

Appendix A

Audited Financial Statements for Fiscal Year Ended June 30, 2018

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AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Financial Statements with
Schedule of Passenger Facility Charge Revenues and Expenditures

June 30, 2018 and 2017

(With Independent Auditors’ Report Thereon)

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

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KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

We have audited the accompanying financial statements of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport), an enterprise fund of the City and County of San Francisco, California (the City), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Airport's 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 U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport Commission, City and County of San Francisco, San Francisco International Airport, as of June 30, 2018 and 2017, and the respective changes in its financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1, the financial statements are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the City that is attributable to the transactions of the Airport. They do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

As discussed in Note 2(b) to the financial statements, in 2018, the Airport adopted Governmental Accounting Standards Board (GASB) Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefit Other Than Pensions. The July 1, 2017 beginning financial position has been restated for the retrospective application of this new accounting guidance. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4–36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audits of the basic 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Airport's basic financial statements. The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures as specified in the Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Passenger Facility Charge Revenues and Expenditures is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Passenger Facility Charge Revenues and Expenditures is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2019 on our consideration of the Airport'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 solely 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 the effectiveness of the Airport's 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 Airport's internal control over financial reporting and compliance.

KPMG LLP

San Francisco, California
January 25, 2019

The management of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport or SFO), an enterprise fund of City and County of San Francisco (the City), presents the following narrative overview and analysis of the financial activities of the Airport for the fiscal years ended June 30, 2018 and 2017.

The Airport's financial statements comprise the following components: (1) Financial Statements and (2) Notes to Financial Statements. The Airport's financial statements include:

Statements of Net Position present information on the Airport's assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of the year end, with the difference between the amounts as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the Airport is improving or weakening.

While the statements of net position provide information about the nature and amount of resources and obligations at the year end, the *Statements of Revenues, Expenses, and Changes in Net Position* present the results of the Airport's operations over the course of the fiscal year and information as to how the net position changed during the fiscal year. These statements can be used as an indicator of the extent to which the Airport has successfully recovered its costs through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The Statements of Cash Flows present changes in cash and cash equivalents resulting from operating, noncapital financing, capital financing, and investing activities. These statements summarize the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or revenue and exclude noncash accounting measures of depreciation or amortization of assets.

The *Notes to Financial Statements* provide information that is not displayed on the face of the financial statements but is essential to a full understanding of the financial statements.

Highlights of Airline Operations at the Airport

Fiscal year 2018 passenger traffic at SFO concluded with 57.8 million passengers, an increase of 7.0% compared to the prior fiscal year, establishing a new peak for the Airport. Domestic passengers increased 7.0%, while international passengers increased 6.9%. Domestic growth was from increased service by a combination of Low Cost Carriers (LCC) Southwest Airlines (Southwest) and legacy carriers United Airlines (United) and Alaska Airlines (Alaska). (Because Alaska completed its merger with Virgin America in April 2018, references to Alaska throughout this discussion include Virgin America.) The international sector also experienced service additions, including new service, aircraft size increases, and increases in frequency of flights. Total cargo and U.S. mail tonnage increased by 4.8% due to increases in both domestic and international shipments.

The 7.2% fiscal year-over-year enplanement increase at SFO compares to increases of 6.0%[1] at Oakland International Airport and 17.2%[2] at Mineta San Jose International Airport, resulting in a Bay Area passenger market share of 68.3% for SFO, compared to 69.1% in fiscal year 2017.

Passenger and Other Traffic Activity

The number of flight operations (takeoffs and landings) increased by 5.6% fiscal year-over-year. Aircraft revenue landed weight, which affects revenue generated by landing fees, increased by 5.2% above prior fiscal year levels. Total Airport passengers, which comprise enplaned, deplaned and in-transit passengers (defined as passengers who fly into and out of SFO on the same aircraft) were 57.8 million, establishing a new peak for the Airport. Overall enplaned passengers totaled 28.8 million, a 7.2% increase, with 22.0 million domestic and 6.9 million international enplaned passengers, increases of 7.0% and 7.9%, respectively. Cargo and U.S. mail tonnage increased by 4.8%, reflecting a freight increase of 4.6%, and mail increase of 5.8%.

The following table[3] presents a comparative summary of passenger and other traffic at the Airport for the fiscal years ended June 30, 2018, 2017, and 2016:

	FY 2018	FY 2017*	FY 2016	Percentage change FY 2018	Percentage change FY 2017
Flight operations	474,387	449,035	439,918	5.6 %	2.1 %
Landed weight (in 000 lbs.)	39,534,422	37,596,628	35,012,485	5.2	7.4
Total Airport passengers	57,780,300	53,985,826	51,421,348	7.0	5.0
Enplaned passengers	28,813,851	26,871,412	25,621,510	7.2	4.9
Domestic enplaned passengers	21,955,031	20,513,891	19,844,991	7.0	3.4
International enplaned passengers	6,858,820	6,357,521	5,776,519	7.9	10.1
Cargo and U.S. mail tonnage (in metric tons)	561,150	535,581	451,501	4.8	18.6

* Numbers updated to include revised data received subsequent to the 2017 fiscal year end.

Fiscal Year 2018

Passenger Traffic

Compared to fiscal year 2017, passenger enplanements in fiscal year 2018 increased by 7.2% from 26.9 million to 28.8 million passengers. Domestic passenger enplanements increased 7.0%, while international enplanements increased 7.9%. The enplanement increase totaled 1,942,439 passengers, 1,441,140 of which were domestic and 501,299 were international. The domestic sector grew mostly from service additions, primarily by LCC Southwest and by legacy carriers Alaska and United. The international sector saw commencement of new service, aircraft size increases and increases in frequency of flights by multiple carriers. Asia had the largest increase in international enplanements with 229,909, followed by Europe with 111,972,

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1 Source: Oakland International Airport Traffic Report.

2 Source: Mineta San Jose International Airport Traffic Report.

3 Sources: Airport's Analysis of Airline Traffic, Fiscal Years 2016, 2017 and 2018.

and Latin America with 77,811. Growth to Asia was from increased service, including service additions, aircraft size increases and increases in frequency of flights by Air India, China Eastern, China Southern, China Airlines, EVA Air, Korean Airlines, and United. New service was also started to Hong Kong by Hong Kong Air. Latin American growth was primarily due to additional service by Copa Airlines and new airline Interjet. Europe growth came from increased services by United, Thomas Cook, KLM, Turkish Airlines, Swiss International, and new service by Icelandair and French Bee, and new seasonal service to Madrid by Iberia. Canada enplanements increased by 75,367 mainly due to Air Canada service and capacity increases. Australia/Oceania enplanements grew by 26,690 mainly attributable to increased frequency of flights (conversion of seasonal service to year round service) by Fiji Airways and Qantas. The Middle East was the only region to experience a decline in enplanements by 20,450, mainly due to the discontinuation of Etihad Airways service to Abu Dhabi in October 2017.

The fiscal year quarterly results outpaced the previous year with strong performance in both domestic and international sectors, with overall enplanement growth rates of 6.8%, 7.5%, 8.8%, and 6.1% in each of the four consecutive quarters. Airline seat capacity increased by 5.9% during fiscal year 2018, with a domestic increase of 6.2% and an international increase of 5.2%. The overall load factor (the percentage of seats filled on flights) increased by 1.0 percentage point to 83.1%. Domestic load factor increased by 0.7 percentage points to 83.2% and international increased by 2.1 percentage points to 82.7%.

Flight Operations

During fiscal year 2018, the number of aircraft operations (takeoffs and landings) increased by 25,352 flights (5.6%). Scheduled passenger aircraft arrivals and departures increased by 25,318 flights (5.8%). Civil and military traffic increased by 34 flights (0.2%).

Total scheduled airline passenger and cargo landings increased by 5.6% with an increase in revenue landed weight of 5.2%. Domestic passenger landings increased by 5.6%, while domestic landed weight increased by 6.6%. International passenger landings increased by 6.6%, while international landed weight increased by 3.9%. Average passenger aircraft size increased from approximately 157 to 158 seats per flight. Domestic scheduled seats per flight increased from 141 to 142 while international scheduled seats per flight decreased from 247 to 244 in fiscal year 2018. The overall balance between mainline passenger aircraft (wide body and narrow body) and commuters (regional jets and turbo props) continued to shift towards mainline, which increased in share by 0.3 percentage points to 79.8% for domestic and international operations combined. Mainline landings increased by 10,065, and commuter landings increased by 1,678. Cargo-only aircraft landings decreased by 6.9%, and cargo-only landed weight decreased by 9.5%.

Cargo Tonnage

Fiscal year 2018 cargo and U.S. mail tonnage increased by 25,569 metric tons (4.8%). Mail increased by 3,965 metric tons (5.8%), with growth for both for domestic and international mail, and cargo volume excluding mail increased by 21,603 metric tons (4.6%), primarily due to increases in both domestic and international shipments. Cargo-only carriers' tonnage share decreased by 1.0 percentage point to 19.4%. Tonnage on cargo-only carriers decreased by 0.1%, while those on passenger carriers increased by 32.1%.

Fiscal Year 2017

Passenger Traffic

Compared to fiscal year 2016, passenger enplanements in fiscal year 2017 increased by 4.9% from 25.6 million to 26.9 million passengers. Domestic passenger enplanements increased 3.4%, while international enplanements increased 10.1%. The enplanement increase totaled 1,250,039 passengers, 668,900 of which were domestic and 581,139 were international. The domestic sector grew mostly from service additions by LCCs JetBlue, Frontier and Virgin America, and by legacy carrier United. The international sector had a number of new and added services. Asia had the largest increase in international enplanements with 225,961, followed by Latin America with 153,713, and Europe with 113,378. Growth to Asia was from increased services, including service additions and upgauging and frequency increases by Air China, China Eastern, China Southern, China Airlines, EVA Air, Korean Airlines, and United. New services were also started to Asia by China Eastern to Qingdao, China, and United to Hangzhou, China and nonstop to Singapore. Latin American growth was primarily due to additional service by Copa Airlines and Volaris. Europe growth came from new services by WOW Air to Keflavik, return of Air Berlin service to Dusseldorf as well as new nonstop service to Berlin, new seasonal service to Manchester, UK by Virgin Atlantic and Thomas Cook, as well as frequency increases by KLM to Amsterdam. Canada enplanements increased by 16,780 mainly due to Air Canada service and capacity increase. Australia/Oceania enplanements grew by 82,282 mainly from increased frequency by Qantas Airways, and seasonal services by Fiji Airways to Nadi, and United to Auckland, New Zealand. The Middle East was the only region to experience decline in enplanements by 10,975, mainly due to Etihad Airways reductions to Abu Dhabi that will be fully discontinued in October.

The fiscal year quarterly results outpaced the previous year with strong performance in both domestic and international sectors, with overall enplanement growth rates of 7.1%, 4.9%, 2.5%, and 4.6% in each of the four consecutive quarters. The increases resulted from added frequencies and operations of larger aircraft, and the addition of new services. Airline seat capacity increased by 6.7% during fiscal year 2017, with a domestic increase of 4.9% and an international increase of 12.8%. The overall load factor decreased by 1.4 percentage points to 82.1%. Domestic load factor decreased by 1.2 percentage points to 82.6% and international decreased by 2.0 percentage points to 80.6%.

Flight Operations

During fiscal year 2017, the number of aircraft operations (takeoffs and landings) increased by 9,117 flights (2.1%). Scheduled passenger aircraft arrivals and departures increased by 10,769 flights (2.5%). Civil and military traffic decreased by 1,652 flights (10.3%).

Total scheduled airline passenger and cargo landings increased by 2.6% with an increase in revenue landed weight of 7.4%. Domestic passenger landings increased by 1.2%, while domestic landed weight increased by 5.4%. International passenger landings increased by 11.5%, while international landed weight increased by 12.2%. Average passenger aircraft size increased from approximately 153 to 157 seats per flight. Domestic scheduled seats per flight increased from 138 to 141 while international scheduled seats per flight increased from 245 to 247 in fiscal year 2017. The overall balance between mainline passenger aircraft (wide body and narrow body) and commuters (regional jets and turbo props) continued to shift towards mainline, which increased in share by 1.8 percentage points to 79.5% for domestic and international operations combined. Mainline landings increased by 7,795, and commuter landings decreased by 2,397. Cargo only aircraft landings decreased by 4.2%, while cargo-only landed weight increased by 2.1%.

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Cargo Tonnage

Fiscal year 2017 cargo and U.S. mail tonnage increased by 84,080 metric tons (18.6%). Mail increased by 463 metric tons (0.7%), as growth in domestic mail was offset by a decrease in international mail, and cargo volume excluding mail increased by 83,617 metric tons (21.8%), due to increases in both domestic and international shipments. Cargo-only carriers' tonnage share decreased by 3.0 percentage points to 21.1%. Tonnage on cargo-only carriers increased by 3.8%, while those on passenger carriers increased by 23.4%.

Financial Highlights, Fiscal Year 2018

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the fiscal year by $32.4 million.
- Total revenue bonds payable by the Airport increased by $1.7 billion.
- Operating revenues were $1.1 billion.
- Operating expenses were $770.2 million.
- Nonoperating expenses, net of revenues from nonoperating sources (including revenues of $112.0 million from Passenger Facility Charges) were $196.9 million.
- Capital contributions from the Federal Aviation Administration's (FAA) Airport Improvement Program (AIP) and Air Traffic Control Tower program, and Transportation Security Administration's (TSA) Airport Checked Baggage Screening System were $15.1 million.
- Transfers to the City and County of San Francisco as annual service payment were $46.5 million.
- Net position decreased by $17.8 million due to an increase in net OPEB liability as a result of the adoption of GASB 75. See note 10b.

Financial Highlights, Fiscal Year 2017

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the fiscal year by $50.2 million.
- Total revenue bonds payable by the Airport increased by $656.0 million.
- Operating revenues were $926.8 million.
- Operating expenses were $808.9 million.
- Nonoperating expenses, net of revenues from nonoperating sources (including revenues of $104.0 million from Passenger Facility Charges) were $201.0 million.
- Capital contributions from the Federal Aviation Administration's (FAA) Airport Improvement Program (AIP) and Air Traffic Control Tower program, and Transportation Security Administration's (TSA) Airport Checked Baggage Screening System were $11.2 million.
- Transfers to the City and County of San Francisco as annual service payment were $45.0 million.
- Net position decreased by $116.9 million due to a significant increase in net pension liability. This increase primarily resulted from updated assumptions about citywide supplemental cost of living adjustments (COLA) for certain retirees. See note 10a.

Overview of the Airport's Financial Statements

Net Position Summary

A condensed summary of the Airport's net position for the fiscal years 2018, 2017, and 2016 is shown below (in thousands):

SAN FRANCISCO INTERNATIONAL AIRPORT'S NET POSITION

	FY 2018	FY 2017	FY 2016	Percentage increase (decrease) FY 2018	Percentage increase (decrease) FY 2017
Assets:					
Unrestricted current assets	$ 567,930	440,930	467,577	28.8 %	(5.7)%
Restricted current assets	632,233	437,934	282,371	44.4	55.1
Restricted noncurrent assets	1,460,521	726,310	640,970	101.1	13.3
Capital assets, net	4,930,029	4,282,629	4,045,636	15.1	5.9
Total assets	7,590,713	5,887,803	5,436,554	28.9	8.3
Deferred outflows of resources:					
Unamortized loss on refunding of debt	75,343	76,789	68,100	(1.9)	12.8
Unamortized loss on derivative instruments	29,245	54,870	83,614	(46.7)	(34.4)
Deferred outflows related to OPEB	13,387	—	—	100.0	—
Deferred outflows related to pensions	91,596	145,743	43,982	(37.2)	231.4
Total deferred outflows of resources	209,571	277,402	195,696	(24.5)	41.8
Liabilities:					
Current liabilities	272,022	284,221	309,888	(4.3)	(8.3)
Current liabilities payable from restricted assets	298,855	356,535	494,128	(16.2)	(27.8)
Noncurrent liabilities	6,584,291	4,895,146	4,248,252	34.5	15.2
Net OPEB liability	244,096	138,168	124,352	76.7	11.1
Net pension liability	308,459	359,599	144,271	(14.2)	149.3
Derivative instruments	37,558	65,965	96,132	(43.1)	(31.4)
Total liabilities	7,745,281	6,099,634	5,417,023	27.0	12.6
Deferred inflows of resources:					
Deferred inflows related to OPEB	394	—	—	100.0	—
Deferred inflows related to pensions	22,230	15,402	48,154	44.3	(68.0)
Total deferred inflows of resources	22,624	15,402	48,154	46.9	(68.0)
Net position (deficit):					
Net investment in capital assets	(564,762)	(284,761)	(117,377)	(98.3)	142.6
Restricted for debt service	186,655	109,554	35,462	70.4	208.9
Restricted for capital projects	419,486	296,188	212,931	41.6	39.1
Unrestricted	(9,000)	(70,812)	36,057	87.3	(296.4)
Total net position	$ 32,379	50,169	167,073	(35.5)%	(70.0)%

The Airport adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Post-employment Benefits other than Pensions* (GASB 75) as of July 1, 2017. As indicated in this statement, if restatement of all prior periods is not practical, then the cumulative effect of applying this statement is reported as a restatement of beginning net position as of July 1, 2017 (See note 2, Summary of Significant Accounting Policies, (b) for the effects of GASB 75 on restatement of beginning net position.)

Fiscal Year 2018

Total net position serves as an indicator of the Airport's financial position. The Airport's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $32.4 million and $50.2 million as of June 30, 2018 and 2017, respectively, representing a decrease of $17.8 million (35.5%). Unrestricted net position represented (27.8%) and (141.1%) of total net position as of June 30, 2018 and 2017, respectively.

Unrestricted current assets consist primarily of cash and investments available to meet the Airport's current obligations. Unrestricted current assets increased by $127.0 million (28.8%) as of June 30, 2018, primarily due to an increase in the Airport's cash and investments held in the City Treasury as a result of the issuance of the Airport's Second Series Revenue Bonds. As of June 30, 2018, the Airport has set aside $117.3 million in a separate fund for purposes of its Other Post-Employment Benefit (OPEB) obligations and such amount is included in unrestricted cash and investments held in the City Treasury in the statements of net position. The disposition of this fund is under management's discretion and has not been placed in a trust fund.

Restricted current assets consist of cash and investments held in the City Treasury and outside the City Treasury. Cash and investments held in the City Treasury consists primarily of Passenger Facility Charges (PFC) collected, debt service funds held by the bond trustee, grants receivable and PFC receivable. Restricted current assets increased by $194.3 million (44.4%) as of June 30, 2018. The increase was primarily due to an increase in the Airport's cash and investments held in the City Treasury generated from the growth of passenger traffic. The increase was also due to the Airport's cash and investments held outside the City Treasury in connection with the issuance of the Airport's Second Series Revenue Refunding Bonds.

Restricted noncurrent assets increased by $734.2 million (101.1%) as of June 30, 2018. The increase was primarily due to an increase in the Airport's cash and investments held in the City Treasury related to the issuance of the Airport's Second Series Revenue Bonds.

Capital assets consist of land, buildings, structures, improvements, equipment, and intangible assets. Capital assets, net of depreciation, increased by $647.4 million (15.1%) as of June 30, 2018, primarily due to higher spending on capital improvement projects.

Unamortized loss on refunding of debt decreased by $1.4 million (1.9%) as of June 30, 2018. The decrease was due to the refunding of bond Issues 36A/B/C; the unamortized balance of derivative instrument off-market component has been reduced.

Deferred outflows on derivative instruments decreased by $25.6 million (46.7%) as of June 30, 2018, representing deferred outflows of resources offsetting interest rate swap liabilities in accordance with GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments* (GASB 53) and GASB Statement No. 72 – *Fair Value Measurement and Application* (GASB 72).

Deferred outflows related to OPEB increased $13.4 million (100%) primarily due to the contributions made subsequent to the measurement period. See additional information in note 10b.

Deferred outflows related to pensions decreased by $54.1 million (37.2%) primarily due to the change of assumptions and the difference between projected and actual investment earnings on pension plan investments. See additional information in note 10a.

Current liabilities payable from unrestricted assets decreased by $12.2 million (4.3%) as of June 30, 2018, primarily due to the decrease in unearned aviation revenue of $54.9 million offset by an increase in current maturities of the Airport's long-term debt, contractual services and accounts payable in fiscal year 2018.

Current liabilities payable from restricted assets decreased by $57.7 million (16.2%) as of June 30, 2018, primarily due to the refunding of commercial paper notes with the proceeds of the Airport's Second Series Revenue Bonds during fiscal year 2018.

Noncurrent liabilities before net OPEB liability, net pension liability, and derivative instruments increased by $1.7 billion (34.5%) as of June 30, 2018, primarily due to the issuance of the Airport's Second Series Revenue Bonds and the Airport's Second Series Revenue Refunding Bonds during fiscal year 2018.

Net OPEB liability increased by $105.9 million (76.7%) primarily due to implementation of GASB 75. See additional information in note 10b.

Net pension liability (NPL) decreased by $51.1 million (14.2%) primarily due to actual investment earnings. See additional information in note 10a.

Derivative instruments liabilities decreased by $28.4 million (43.1%) as of June 30, 2018, due to the change in fair values of interest rate swap contracts per GASB 53 and GASB 72.

Deferred inflows related to OPEB – See note 10b.

Deferred inflows related to pensions increased by $6.8 million (44.3%) primarily due to the change of assumptions and the difference between projected and actual investment earnings on pension plan investments. See additional information in note 10a.

The Airport's net investment in capital assets decreased by $280.0 million (98.3%) as of June 30, 2018, primarily due to the residual effect of the Airport depreciating its capital assets faster than repaying its bonded debt.

Net position restricted for debt service increased by $77.1 million (70.4%) as of June 30, 2018, primarily due to the issuance of the Airport's Second Series Revenue Bonds and the Airport's Second Series Revenue Refunding Bonds.

Net position restricted for capital projects increased by $123.2 million (41.6%) as of June 30, 2018, primarily due to the issuance of the Airport's Second Series Revenue Bonds.

Unrestricted net position increased by $61.8 million (87.3%) as of June 30, 2018, primarily due to the net effect of increase in aviation revenue and a 14.2% decrease in net pension liability.

(Continued)

Fiscal Year 2017

Total net position serves as an indicator of the Airport's financial position. The Airport's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $50.2 million and $167.1 million as of June 30, 2017 and 2016, respectively, representing a decrease of $116.9 million (70.0%). Unrestricted net position represented (141.1%) and 21.6% of total net position as of June 30, 2017 and 2016, respectively.

Unrestricted current assets consist primarily of cash and investments available to meet the Airport's current obligations. Unrestricted current assets decreased by $26.6 million (5.7%) as of June 30, 2017, primarily due to decrease in the Airport's cash and investments held in the City Treasury as a result of the transfer of July 2017 debt service deposit in June 2017.

Restricted current assets consist of cash and investments held in the City Treasury, primarily from Passenger Facility Charges (PFC) collected, debt service funds held by the bond trustee, grants receivable and PFC receivable. Restricted current assets increased by $155.6 million (55.1%) as of June 30, 2017. The increase was primarily due to an increase in the Airport's cash and investments held in the City Treasury generated from the growth of passenger traffic and an increase in the Airport's cash and investments held outside the City Treasury in connection with the issuance of the Airport's Second Series Revenue Bonds, Series 2016B/C.

Restricted noncurrent assets increased by $85.3 million (13.3%) as of June 30, 2017. The increase was primarily due to an increase in the Airport's cash and investments held in the City Treasury and outside the City Treasury related to the issuance of the Airport's Second Series Revenue Bonds, Series 2016B/C and the Airport's Second Series Revenue Refunding Bonds, Series 2016D.

Capital assets consist of land, buildings, structures, improvements, equipment, and intangible assets. Capital assets, net of depreciation, increased by $237.0 million (5.9%) as of June 30, 2017, primarily due to the capitalization of capital improvement project costs.

Unamortized loss on refunding of debt increased by $8.7 million (12.8%) as of June 30, 2017. The increase was due to the issuance of the Airport's Second Series Revenue Refunding Bonds, Series 2016D.

Deferred outflows on derivative instruments decreased by $28.7 million (34.4%) as of June 30, 2017, representing deferred outflows of resources offsetting interest rate swap liabilities in accordance with GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments* (GASB 53) and GASB Statement No. 72 – *Fair Value Measurement and Application* (GASB 72).

Deferred outflows related to pensions increased by $101.8 million (231.4%) primarily due to the change of assumptions and the difference between projected and actual investment earnings on pension plan investments. See additional information in note 10a.

Current liabilities payable from unrestricted assets decreased by $25.7 million (8.3%) as of June 30, 2017, primarily due to the decrease in current maturities of the Airport's long-term debt and unearned aviation revenue.

Current liabilities payable from restricted assets decreased by $137.6 million (27.8%) as of June 30, 2017, primarily due to the take-out of commercial paper notes with the proceeds of the Airport's Second Series Revenue Bonds, Series 2016B/C during fiscal year 2017.

Noncurrent liabilities before net pension liability and derivative instruments increased by $660.7 million (15.1%) as of June 30, 2017, primarily due to the issuance of the Airport's Second Series Revenue Bonds, Series 2016B/C and the Airport's Second Series Revenue Refunding Bonds, Series 2016D during fiscal year 2017.

Net pension liability (NPL) increased by $215.3 million (149.3%) primarily due to the impact of changes in benefits, the updated citywide Supplemental COLA assumptions and amortization of deferred outflows/inflows. See additional information in note 10a.

Derivative instruments liabilities decreased by $30.2 million (31.4%) as of June 30, 2017, due to the change in fair values of interest rate swap contracts per GASB 53 and GASB 72.

Deferred inflows related to pensions decreased by $32.8 million (68.0%) primarily due to the difference between projected and actual investment earnings on pension plan investments. See additional information in note 10a.

The Airport's net investment in capital assets decreased by $167.4 million (142.6%) as of June 30, 2017, primarily due to the residual effect of the Airport depreciating its capital assets faster than repaying its bonded debt.

Net position restricted for debt service increased by $74.1 million (208.9%) as of June 30, 2017, primarily due to an increase in the Airport's cash and investments held outside the City Treasury in connection with the issuance of the Airport's Second Series Revenue Bonds, Series 2016B/C and the Airport's Second Series Revenue Refunding Bonds, Series 2016D.

Net position restricted for capital projects increased by $83.3 million (39.1%) as of June 30, 2017, primarily due to an increase in the Airport's cash and investment held in the City Treasury related to the issuance of the Airport's Second Series Revenue Bonds, Series 2016B/C.

Unrestricted net position decreased by $106.9 million (296.4%) as of June 30, 2017, primarily due to the 149.3% increase in net pension liability related to the impact of changes in benefits, the updated citywide Supplemental COLA assumptions and amortization of deferred outflows/inflows.

Highlights of Changes in Net Position

The following table shows a condensed summary of changes in net position for fiscal years 2018, 2017, and 2016 (in thousands):

	FY 2018	FY 2017	FY 2016	FY 2018 percentage increase (decrease)	FY 2017 percentage increase (decrease)
Operating revenues	$ 1,063,802	926,800	866,991	14.8 %	6.9 %
Operating expenses	(770,186)	(808,860)	(640,473)	(4.8)	26.3
Operating income	293,616	117,940	226,518	149.0	(47.9)
Nonoperating expenses, net	(196,910)	(201,020)	(144,463)	(2.0)	39.1
Income (loss) before capital contributions and transfers	96,706	(83,080)	82,055	216.4	(201.2)
Capital contributions	15,051	11,212	10,424	34.2	7.6
Transfers to City and County of San Francisco	(46,549)	(45,036)	(42,542)	3.4	5.9
Changes in net position	65,208	(116,904)	49,937	155.8	(334.1)
Total net position – beginning of year (as previously reported)	50,169	167,073	117,136	(70.0)	42.6
Restatement due to adoption of GASB 75	(82,998)	—	—	—	—
Total net position (deficit) – beginning of year (as restated)	(32,829)	167,073	117,136	(119.6)	42.6
Total net position at end of year	$ 32,379	50,169	167,073	(35.5)%	(70.0)%

Operating Revenues

The Airport derives its operating revenues from rates, fees, and charges assessed to the airlines; the operation of public and employee parking facilities; rents and fees assessed to concessionaires and ground transportation operators; and fees assessed for telecommunication access services. Terminal rental rates and landing fees assessed to air carriers are set periodically based on formulas and procedures described in the Lease and Use Agreement (Agreement).[4]

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4 In fiscal year 2010, the Airport and airlines reached agreement on a new form of Lease and Use Agreement that became effective on July 1, 2011 and expires June 30, 2021. The Lease and Use Agreements are referred to generally as the "Lease and Use Agreement," and the airlines that are parties to those agreements are referred to as the "Signatory Airlines."

A brief summary of the underlying rate-setting methodology under this Agreement is presented below:

The Agreement establishes a residual rate-setting methodology for the calculation of the landing fees and terminal rental rates using certain cost centers. Under this methodology, landing fees and terminal rentals are established each fiscal year to produce projected revenues from the airlines equal to the difference between the Airport's estimated nonairline revenues and the Airport's budgeted total costs, including operating expenses, debt service expenses and the annual service payment to the City for that year. The Agreement provides for matching revenues each fiscal year to the Airport's expenditures by adjusting payments from the airlines. Differences between actual revenues and expenditures and amounts estimated in the calculation of airline fees and charges for that fiscal year result in adjustments of terminal rentals and landing fees in subsequent years. Such differences are recorded on the statements of net position in the financial statements of the Airport in the fiscal year to which such differences pertain. Net overcharges are recorded as liabilities and net undercharges are recorded as assets.

The overcharge balance of $54.9 million as of June 30, 2017 was recorded as unearned aviation revenue in the statements of net position. An undercharge balance of $37.8 million as of June 30, 2018 was recorded as aviation revenue due in the statements of net position. The fiscal year 2017 overcharge shifted to a fiscal year 2018 undercharge primarily as a result of the effect of GASB Statement No. 75 – *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions* on the Airport's beginning net position for fiscal year 2018. See notes 2b, 2j, and 10b.

The following table shows the air carriers that served the Airport in fiscal year 2018:

Air Carriers Serving the Airport in Fiscal Year 2018

Domestic passenger air carriers	Foreign flag carriers	Cargo only carriers
Alaska Airlines (1)	Aer Lingus	Atlas Air (DHL)
American Airlines	Aeromexico	Federal Express
Delta Air Lines	Air Berlin (2)	Kalitta Air
Frontier Airlines	Air Canada	Nippon Cargo Airlines
Hawaiian Airlines	Air China	Redding Aero Enterprise
JetBlue Airways	Air France	
Southwest Airlines	Air India Limited	
Sun Country Airlines	Air New Zealand	
United Airlines	Air Pacific Limited dba Fiji Airways	
	All Nippon Airways	
	Asiana Airlines	
	British Airways	
	COPA Airlines, Inc.	
	Cathay Pacific	
	China Airlines	
	China Eastern	
	China Southern	
	EVA Airways	
Commuter air carriers	Emirates	
Compass Airlines(American Airlines)	Etihad Airways (3)	
Compass Airlines(Delta Air Lines)	Finnair	
Horizon Air (Alaska Airlines)	French Bee	
Jazz Aviation(Air Canada)	Hong Kong Airlines Limited	
SkyWest Airlines(Alaska Airlines)	Iberia	
SkyWest Airlines(Delta Air Lines)	Icelandair EHF	
SkyWest Airlines(United Airlines)	Interjet	
	Japan Airlines	
	KLM Royal Dutch Airlines	
	Korean Air Lines	
	Lufthansa German Airlines	
	Philippine Airlines	
	Qantas Airways	
	SAS Airlines	
	Singapore Airlines	
	Swiss International	
	TACA	

Air Carriers Serving the Airport in Fiscal Year 2018

Commuter air carriers	Foreign flag carriers	Cargo only carriers
	Thomas Cook Airlines	
	Turkish Airlines	
	Virgin Atlantic	
	Volaris Airlines	
	WOW Air	
	WestJet Airlines	
	XL Airways France	

(1) Includes Virgin America
(2) Discontinued service in Oct 2017 due to bankruptcy
(3) Discontinued service in Oct 2017

The following table shows a comparison of terminal rental rates and airline landing fees for fiscal years 2018, 2017, and 2016:

SAN FRANCISCO INTERNATIONAL AIRPORT TERMINAL RENTAL RATES AND LANDING FEES

	FY 2018	FY 2017	FY 2016
Effective average terminal rental rate (per sq. ft.)	$ 169.03	161.16	157.18
Signatory Airline – landing fee rate (per 1,000 lbs.)	5.24	4.99	4.87
General aviation and itinerant aircraft – landing fee rate (per 1,000 lbs.)	6.55	5.49	5.36

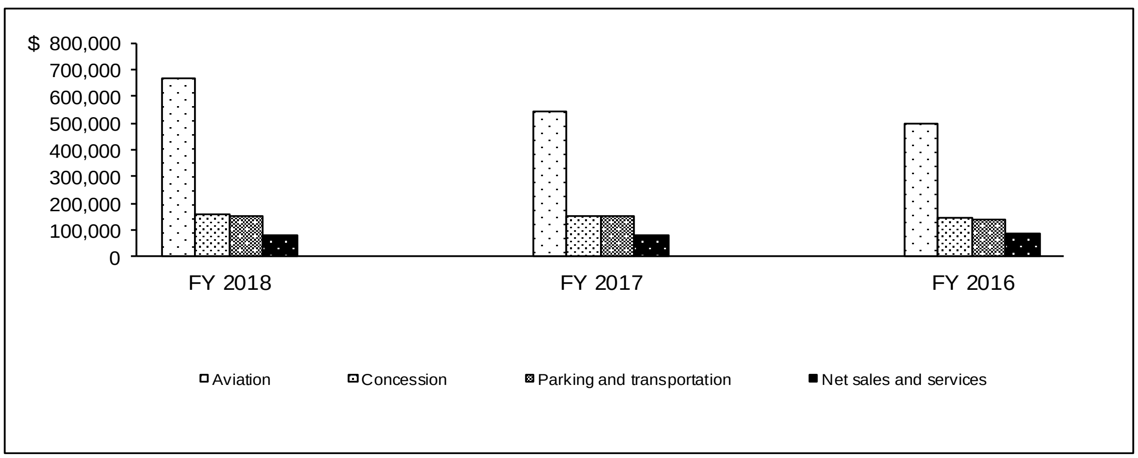
During fiscal years ended June 30, 2018, 2017, and 2016, revenues realized from the following source equaled or exceeded 5% of the Airport's total operating revenues:

	FY 2018	FY 2017	FY 2016
United Airlines	24.6 %	23.9 %	23.5 %

The following shows a comparative summary of operating revenues for fiscal years 2018, 2017, and 2016 (in thousands):

COMPARATIVE SUMMARY OF AIRPORT'S OPERATING REVENUES

	FY 2018	FY 2017	FY 2016	FY 2018 percentage increase	FY 2017 percentage increase (decrease)
Aviation	$ 670,282	545,310	495,439	22.9 %	10.1 %
Concession	158,594	149,697	146,872	5.9	1.9
Parking and transportation	151,731	150,548	136,743	0.8	10.1
Net sales and services	83,195	81,245	87,937	2.4	(7.6)
Total operating revenues	$ 1,063,802	926,800	866,991	14.8 %	6.9 %



Fiscal Year 2018

Operating revenues increased by 14.8%, from $926.8 million in fiscal year 2017 to $1.1 billion in fiscal year 2018. The Airport experienced increases in aviation revenues, concession revenues, parking and transportation revenues, and net sales and service revenues.

Aviation revenues increased by 22.9% from $545.3 million in fiscal year 2017 to $670.3 million in fiscal year 2018, due to increases in airline landing fees and passenger traffic, due to increases in terminal rent, and revenue related to a receivable of $37.8 million for aviation revenue due to be collected from the airlines.

As determined by the calculation method in the Agreement, scheduled airline landing fees per thousand pounds increased 4.9%, from $4.99 in fiscal year 2017 to $5.24 in fiscal year 2018. The airline average annual terminal rent per square foot increased 4.9%, from $161.16 in fiscal year 2017 to $169.03 in fiscal year 2018, partially due to a 5.8% increase in the residual airline terminal rental revenue requirement. Airline leased space increased 0.9% to 1.67 million square feet.

Before the aviation revenue receivable adjustment, revenues from landing fees increased by $23.0 million (12.6%), which reflects the rate increase and a 5.2% increase in airline landed weight. Terminal rentals increased by $14.8 million (5.6%), based on the terminal rental rate increase combined with the consolidation of Alaska Airlines and Virgin America merger which increased Alaska's overall leased space in Terminal 2. The overcharge balance of $54.9 million as of June 30,2017 was used to increase the fiscal year 2018 aviation revenue together with a receivable of $37.8 million due from the airlines as of June 30, 2018. See note 2j. In aggregate, all other aviation revenues increased by $7.3 million (8.7%), from $83.7 million in fiscal year 2017 to $91.0 million in fiscal year 2018, with net aviation rental revenue and activity-based fees including aircraft parking, common use gates, and employee parking all showing increases.

Concession revenues, consisting of rentals and fees derived from food and beverage concessions, duty free, retail merchandise (gifts, candy, tobacco, and news) and rental car concessions increased by 5.9%, from $149.7 million in fiscal year 2017 to $158.6 million in fiscal year 2018. The higher revenues primarily resulted from a 7.2% increase in airport enplaned passengers, and inflationary increases to minimum annual guarantee (MAG) rent. Food and beverage revenues increased by $2.0 million (8.5%) due to the updates to food and beverage concessions in the International Terminal under the International Terminal Food and Beverage Program and a 0.9% increase in the passenger food and beverage spend rate. Retail merchandise revenues excluding duty free revenues were higher by $1.1 million (7.6%) primarily from higher retail sales activity in the domestic terminals and inflationary MAG rent increases, which were partly offset by temporary tenant improvement closures in the International Terminal, and a decline in the per passenger spend rate for such merchandise from $4.72 to $4.33 (8.4%). Revenues from duty free merchandise sales increased by $6.7 million (22.7%) driven by the combination of a 7.9% increase in international enplaned passenger traffic and an increase in the spend rate per international enplaned passenger departing from the International Terminal of 0.9%, from $19.19 to $19.37. On- and off Airport rental car revenues decreased by $2.8 million (5.3%). Other concession revenues increased by $1.9 million (6.1%), primarily from Consumer Products Index-based adjustments to Minimum Annual Guarantee (MAG) rent per lease terms.

Public parking and transportation revenues, consisting of rentals and fees derived from parking facilities and ground transportation operations, increased by 0.8%, from $150.5 million in fiscal year 2017 to $151.7 million in fiscal year 2018. Parking revenue decreased by $5.9 million (5.5%) due to the net effect of a 5.9% decline in the average ticket price from $32.66 in fiscal year 2017 to $30.74 in fiscal year 2018 and a 0.8% increase in parking transactions in fiscal year 2018. Ground transportation revenues, including taxi trip fee revenue, increased by $7.1 million (16.4%) in fiscal year 2018 primarily due to both commercial vehicle trip fee rate increases of up to 20% and a 30.1% increase in transportation network company (TNC) operations at the Airport (including Uber Technologies Inc., Lyft, Inc., and Tickengo, Inc., d/b/a/ Wingz). TNC Airport pick ups/drop offs totaled nearly 9.1 million during the fiscal year resulting in $34.5 million in trip fee revenue. Aside from scheduled buses (4.7%), all other modes of transportation experienced activity declines compared to the prior year including door to door pre arranged vans (down 23.5%), shared ride vans (down 19.4%), limousines (down 14.9%), taxis (down 13.9%), charter buses (down 7.6%), hotel shuttles (down 4.5%) and off airport parking vans (down 0.9%).

Net sales and service revenues consist of revenue derived from utility services, telecommunication access fees, badge and permit fees, rental car facility fees, and cost-based reimbursement of various services. Revenues from net sales and services increased by 2.4%, from $81.2 million in fiscal year 2017 to $83.2 million in fiscal year 2018. Sales of electricity revenue increased by $0.7 million (12.8%) from utility rate increases. Revenue from the sale of water-sewage disposal increased by $0.6 million (13.0%) from a 7.0% water rate increase in fiscal year 2018 combined with higher tenant usage. Telecommunication fees were higher by $0.4 million (10.2%) from increased demand for telecommunication access services. Licenses and permits fees increased $0.4 million (19.4%) from increased badging activity from tenant employees and contractors. The transportation and facility fee (AirTrain fee charged on rental car contracts) decreased by $2.4 million (6.9%) due to the combination of a $1 per transaction rate deduction and a 2.0% decline in rental car contracts. Fees collected for the cost of the Rental Car Center (RCC) increased $0.6 million (3.6%) due to the Rental Car Center structure and surface rent annual Consumer Price Index (CPI) adjustments. Revenue from penalties resulting from the enforcement of airfield safety rules and regulations increased by $0.2 million (18.7%). Miscellaneous terminal fees increased by $0.5 million (12.0%) to cover an increase in the Terminal 2 baggage handling maintenance contract premium increase. Governmental agency rent revenue increased by $0.7 million (15.3%) compared to fiscal year 2017 mainly due to the renewal of the US Post Office lease which includes higher rent based on increased land valuation. Net revenue from all other sales and services including food court infrastructure/cleaning fees, refuse disposal, miscellaneous airport revenue, collection charges and settlements increased $0.3 million (5.3%).

Fiscal Year 2017

Operating revenues increased by 6.9%, from $867.0 million in fiscal year 2016 to $926.8 million in fiscal year 2017. The Airport experienced increases in aviation revenues, concession revenues, and parking and transportation revenues, which were offset by a decline in net sales and service revenues.

Aviation revenues increased by 10.1%, from $495.4 million in fiscal year 2016 to $545.3 million in fiscal year 2017, due to increases in airline landing fees and passenger traffic, and due to increases in terminal rent partly offset by a net reduction in total rented space. As determined by the calculation method in the Agreement, scheduled airline landing fees per thousand pounds increased 2.5%, from $4.87 in fiscal year 2016 to $4.99 in fiscal year 2017. The airline average annual terminal rent per square foot increased 2.5%, from $157.18 in fiscal year 2016 to $161.16 in fiscal year 2017, partially due to a 3.2% increase in the residual airline terminal rental revenue requirement. Airline leased space increased 0.6% to 1.66 million square feet.

Before the unearned aviation revenue adjustment, revenues from landing fees increased by $16.5 million (9.9%), which reflects the rate increase and a 7.4% increase in airline landed weight. Terminal rentals increased by $3.2 million (1.2%), based on the rate increase partly offset by consolidation of rented space as a result of the US Airways/American Airlines merger which reduced leased space in the Terminal 1. The overcharge balance decreased by $12.7 million, from $67.6 million in fiscal year 2016 to $54.9 million at the end of fiscal year 2017. In aggregate, all other aviation revenues increased by $5.6 million (7.2%), from $78.1 million in fiscal year 2016 to $83.7 million in fiscal year 2017, with net aviation rental revenue and activity-based fees including aircraft parking, common use gates, and employee parking all showing increases.

Concession revenues, consisting of rentals and fees derived from food and beverage concessions, duty free, retail merchandise (gifts, candy, tobacco, and news) and rental car concessions increased by 1.9%, from $146.9 million in fiscal year 2016 to $149.7 million in fiscal year 2017. The higher revenues primarily resulted from a 5.0% increase in airport passengers, and a higher food and beverage spend rate per passenger. Food and beverage revenues increased by $2.1 million (9.9%) due to the commencement of the new International

Terminal Food & Beverage program and a 1.5% increase in the passenger food and beverage spend rate. Retail merchandise excluding duty free revenues were slightly higher by $0.03 million (0.2%) despite increases in passenger traffic, as the per passenger spend rate for such merchandise declined from $4.85 to $4.72 (2.7%). Revenues from duty free merchandise sales increased by $0.2 million (0.8%) despite a decline in spend rate per international enplaned passenger departing from the International Terminal of 2.6% from $19.70 to $19.19. On and off-Airport rental car revenues decreased by $1.0 million (1.9%). Other concession revenues increased by $1.5 million (5.0%), primarily from additional jet bridge advertising and a new foreign currency exchange lease that includes a higher Minimum Annual Guarantee (MAG) rent to the Airport.

Public parking and transportation revenues, consisting of rentals and fees derived from parking facilities and ground transportation operations, increased by 10.1%, from $136.7 million in fiscal year 2016 to $150.5 million in fiscal year 2017. Public parking transactions decreased by 7.9% in fiscal year 2017 resulting from the displacement of approximately 600 long-term parking spaces due to the construction of the second long-term garage partly offset by an increase in average ticket price by 12.2%, from $29.12 in fiscal year 2016 to $32.66 in fiscal year 2017. The net result was a parking revenue increase of $3.5 million (3.4%). Ground transportation revenues, including taxi trip fee revenue, increased by $10.3 million (30.7%) in fiscal year 2017 primarily due to both commercial vehicle trip fee rate increases of up to 18.0% and a 58.9% increase in transportation network company (TNC) operations at the Airport (including Uber Technologies Inc., Lyft, Inc., and Tickengo, Inc., d/b/a/ Wingz). TNC Airport pick-ups/drop-offs totaled nearly 7.0 million during the fiscal year resulting in $26.5 million in trip fee revenue. Other modes of transportation also experienced activity increases compared to fiscal year 2016 including door-to-door pre-arranged vans (14.2%), hotel shuttles (5.0%), off-airport parking vans (4.6%), scheduled buses (2.2%) and charter buses (0.7%). Modes that experienced declines compared to the prior year include shared-ride-vans (7.4%), limousines (14.5%) and taxis (18.1%).

Net sales and service revenues consist of revenue derived from utility services, telecommunication access fees, badge and permit fees, rental car facility fees, and cost-based reimbursement of various services. Revenues from net sales and services decreased by 7.6%, from $87.9 million in fiscal year 2016 to $81.2 million in fiscal year 2017. Sales of electricity revenue increased by $0.2 million (2.9%) from utility rate increases. Revenue from the sale of water-sewage disposal increased by $0.3 million (6.4%) from a 10.0% water rate increase in fiscal year 2017 partly offset by a 4.1% decline in tenant usage. Telecommunication fees were higher by $0.4 million (11.7%) from increased demand for telecommunication access services. Licenses and permits fees increased $0.4 million (21.6%) from increased badging activity from tenant employees and contractors. The transportation and facility fee (AirTrain fee charged on rental car contracts) decreased by $4.1 million (10.5%) due to the combination of a $1 per transaction rate deduction and a 5.6% decline in rental car contracts. Fees collected for the cost of the Rental Car Center (RCC) increased $0.5 million (3.3%) due to the Rental Car Center structure and surface rent annual Consumer Price Index (CPI) adjustments. Revenue from penalties resulting from the enforcement of airfield safety rules and regulations decreased by $0.6 million (39.4%). Miscellaneous terminal fees increased by $0.4 million (11.6%) due to the Terminal 2 baggage handling maintenance contract premium increase. Miscellaneous airport revenue decreased by $4.8 million (99.4%) compared to fiscal year 2016, when the Airport recorded payments from certain air carriers and other Airport users under a settlement agreement governing cost sharing for residual contamination. Net revenue from all other sales and services including collection charges, food court infrastructure/cleaning fees, refuse disposal, governmental agency rentals, collection charges and settlements increased $0.6 million (6.5%).

Operating Expenses

The following table shows a comparative summary of operating expenses for fiscal years 2018, 2017, and 2016 (in thousands):

	FY 2018	FY 2017	FY 2016	Percentage increase (decrease) FY 2018	Percentage increase (decrease) FY 2017
Personnel	$ 312,972	364,831	241,162	(14.2)%	51.3 %
Depreciation	265,169	265,841	228,359	(0.3)	16.4
Contractual services	86,103	73,918	68,064	16.5	8.6
Light, heat and power	23,800	23,093	22,925	3.1	0.7
Services provided by other City departments	23,369	21,594	19,946	8.2	8.3
Repairs and maintenance	34,038	34,863	35,839	(2.4)	(2.7)
Materials and supplies	17,573	16,152	16,419	8.8	(1.6)
General and administrative	2,535	4,360	3,694	(41.9)	18.0
Environmental remediation	4,627	4,208	4,065	10.0	3.5
	$ 770,186	808,860	640,473	(4.8)%	26.3 %

Fiscal Year 2018

Operating expenses decreased $38.7 million (4.8%), from $808.9 million in fiscal year 2017 to $770.2 million in fiscal year 2018, due to decrease in expense for personnel, depreciation, repairs and maintenance, and general and administrative costs. The decrease was partially offset by an increase in the cost of contractual services, light, heat, and power, services provided by other City departments, material and supplies and environmental remediation. In fiscal year 2018, the Airport capitalized $19.4 million of indirect costs related to construction of capital projects as overhead, compared to $18.1 million in fiscal year 2017. The variance in the different categories are discussed below.

Personnel expenses decreased $51.8 million (14.2%), from $364.8 million in fiscal year 2017 to $313.0 million in fiscal year 2018. The decrease was primarily due to fiscal 2017 reflected significant increase in pension expense due the impact of changes in the updated Supplemental COLA assumptions and amortization of deferred inflows/outflows.

Depreciation decreased $0.7 million (0.3%), from $265.8 million in fiscal year 2017 to $265.1 million in fiscal year 2018. The decrease was primarily due to a certain capital asset fully depreciated by November 30, 2017.

Contractual services increased $12.2 million (16.5%), from $73.9 million in fiscal year 2017 to $86.1 million in fiscal year 2018. The increase was primarily due to the increase services of management consulting and transportation.

Light, heat and power expenses increased $0.7 million (3.1%), from $23.1 million in fiscal year 2017 to $23.8 million in fiscal year 2018. The increase was primarily due to increases in rates and higher consumption.

Expenses of services provided by other City departments increased $1.8 million (8.2%), from $21.6 million in fiscal year 2017 to $23.4 million in fiscal year 2018. The increase was primarily due to the costs associated with the Human Resources Management/Benefits Administration System.

Repairs and maintenance expenses decreased $0.9 million (2.4%), from $34.9 million in fiscal year 2017 to $34.0 million in fiscal year 2018. The decrease was primarily due to lower spending on facilities maintenance projects.

Materials and supplies expenses increased $1.4 million (8.8%), from $16.2 million in fiscal year 2017 to $17.6 million in fiscal year 2018. This increase was primarily due to increases in purchases of supplies for security access and mechanical maintenance.

General and administrative expenses decreased $1.8 million (41.9%), from $4.4 million in fiscal year 2017 to $2.6 million in fiscal year 2018. This decrease was primarily due to the decrease in estimated bad debt expense.

Environmental remediation expenses increased $0.4 million (10.0%), from $4.2 million in fiscal year 2017 to $4.6 million in fiscal year 2018. The increase was primarily due an increase in remediation costs related to capital improvement projects.

Fiscal Year 2017

Operating expenses increased $168.4 million (26.3%), from $640.5 million in fiscal year 2016 to $808.9 million in fiscal year 2017, due to increases in expense for personnel, depreciation, contractual services, services provided by other City departments, general and administrative costs and costs of environmental remediation. The increase was partially offset by a decrease in the cost of repairs and maintenance, and materials and supplies expenses. In fiscal year 2017, the Airport capitalized $18.1 million of indirect costs related to construction of capital projects as overhead, compared to $14.6 million in fiscal year 2016. The variance in the different categories are discussed below.

Personnel expenses increased $123.6 million (51.3%), from $241.2 million in fiscal year 2016 to $364.8 million in fiscal year 2017. The increase was primarily due to a significant pension costs increase, cost of living adjustments, and additional positions added in fiscal year 2017.

Depreciation increased $37.4 million (16.4%), from $228.4 million in fiscal year 2016 to $265.8 million in fiscal year 2017. The increase was primarily due to the addition of completed capital improvement projects such as Terminal 1 Temporary Boarding Area B, Fire House #3 and South Field Checkpoint Relocation, and Terminal 1 Center.

Contractual services increased $5.8 million (8.6%), from $68.1 million in fiscal year 2016 to $73.9 million in fiscal year 2017. The increase was driven by higher software licensing costs and the expansion of information booth services.

Light, heat and power expenses increased $0.2 million (0.7%), from $22.9 million in fiscal year 2016 to $23.1 million in fiscal year 2017. The increase was primarily due to increases in rate and higher consumption.

Expenses of services provided by other City departments increased $1.7 million (8.3%), from $19.9 million in fiscal year 2016 to $21.6 million in fiscal year 2017. The increase was primarily due to costs associated with the implementation of the City's new financial system.

Repairs and maintenance expenses decreased $0.9 million (2.7%), from $35.8 million in fiscal year 2016 to $34.9 million in fiscal year 2017. The decrease was primarily due to lower spending on facilities maintenance projects.

Materials and supplies expenses decreased $0.2 million (1.6%), from $16.4 million in fiscal year 2016 to $16.2 million in fiscal year 2017. This decrease was primarily due to lower spending on electrical supplies.

General and administrative expenses increased $0.7 million (18.0%), from $3.7 million in fiscal year 2016 to $4.4 million in fiscal year 2017. This increase was primarily due to the increase in estimated bad debt expense.

Environmental remediation expenses increased $0.1 million (3.5%), from $4.1 million in fiscal year 2016 to $4.2 million in fiscal year 2017. The increase was primarily due an increase in remediation costs related to capital improvement projects.

(Continued)

Nonoperating Revenues and Expenses

The following summary shows a comparison of nonoperating revenues and expenses in fiscal years 2018, 2017, and 2016 (in thousands):

	FY 2018	FY 2017	FY 2016	FY 2018 percentage increase (decrease)	FY 2017 percentage increase (decrease)
Nonoperating revenues:					
Passenger facility charges (PFC)	$ 111,971	103,955	99,131	7.7 %	4.9 %
Investment income	11,316	7,892	13,957	43.4	(43.5)
Other	1,771	1,075	2,597	64.7	(58.6)
Total nonoperating revenues	125,058	112,922	115,685	10.7	(2.4)
Nonoperating expenses:					
Interest expense	211,461	210,415	208,597	0.5	0.9
Write-offs and loss on disposal	21,253	21,619	13,091	(1.7)	65.1
Other	89,254	81,908	38,460	9.0	113.0
Total nonoperating expenses	321,968	313,942	260,148	2.6	20.7
Total nonoperating expense, net	(196,910)	(201,020)	(144,463)	(2.0)	39.1
Capital contributions	15,051	11,212	10,424	34.2	7.6
Transfers to City and County of San Francisco	(46,549)	(45,036)	(42,542)	3.4	5.9
Total	$ (228,408)	(234,844)	(176,581)	(2.7)%	33.0 %

Fiscal Year 2018

Nonoperating revenues consist primarily of PFC revenues and investment income, while nonoperating expenses consist of interest expense, write-offs and loss on the disposal of capital assets, and capital improvement costs that did not meet capitalization requirements. PFCs, which became effective in October 2001, generated $112.0 million during fiscal year 2018, an increase of 7.7% compared to the $104.0 million received in fiscal year 2017. The increase in PFC revenues was primarily due to an increase in passenger traffic.

Investment income increased $3.4 million (43.4%), from $7.9 million in fiscal year 2017 to $11.3 million in fiscal year 2018, primarily due to the net effect of $8.6 million of investment fair value adjustments. Excluding the fair value adjustments, actual investment income increased $12.0 million.

Other nonoperating revenues increased $0.7 million (64.7%) from $1.1 million in fiscal year 2017 to $1.8 million in fiscal year 2018, primarily due to the increase in federal direct grants.

Interest expense increased $1.1 million (0.5%), from $210.4 million in fiscal year 2017 to $211.5 million in fiscal year 2018, primarily due to an increase in financing activities to fund capital improvement projects.

Write-offs and loss on disposal decreased $0.3 million (1.7%), from $21.6 million in fiscal year 2017 to $21.3 million in fiscal year 2018, primarily due to a reduction in capital assets write-offs in fiscal year 2018.

Other nonoperating expenses increased $7.3 million (9.0%), from $81.9 million in fiscal year 2017 to $89.2 million in fiscal year 2018, primarily due to the higher demolition and capital improvement projects costs that did not meet the capitalization requirement.

Capital contributions received from federal grants increased $3.9 million (34.2%) from $11.2 million in fiscal year 2017 to $15.1 million in fiscal year 2018. The net increase was primarily due to the increase of $6.9 million in the FAA Air Traffic Control Tower Project and TSA Checked Baggage Recapitalization Construction Project, and the decrease of $2.5 million in the Airport Improvement Program.

The annual service payments transferred to the City increased $1.5 million (3.4%), from $45.0 million in fiscal year 2017 to $46.5 million in fiscal year 2018. The increase was due to higher concession, parking and transportation revenues during fiscal year 2018.

Fiscal Year 2017

Nonoperating revenues consist primarily of PFC revenues and investment income, while nonoperating expenses consist of interest expense, write-offs and loss on the disposal of capital assets, and capital improvement costs that did not meet capitalization requirements. PFCs, which became effective in October 2001, generated $104.0 million during fiscal year 2017, an increase of 4.9% compared to the $99.1 million received in fiscal year 2016. The increase in PFC revenues was primarily due to an increase in passenger traffic.

Investment income decreased $6.1 million (43.5%), from $14.0 million in fiscal year 2016 to $7.9 million in fiscal year 2017, primarily due to the net effect of $12.3 million of investment fair value adjustments. Excluding the fair value adjustments, actual investment income increased $6.2 million.

Other nonoperating revenues decreased $1.5 million (58.6%) from $2.6 million in fiscal year 2016 to $1.1 million in fiscal year 2017, primarily due to the decrease in settlement income.

Interest expense increased $1.8 million (0.9%), from $208.6 million in fiscal year 2016 to $210.4 million in fiscal year 2017, primarily due to an increase in financing activities to fund capital improvement projects.

Write-offs and loss on disposal increased $8.5 million (65.1%), from $13.1 million in fiscal year 2016 to $21.6 million in fiscal year 2017, primarily due to the write-offs of the replaced capital assets and assets that did not meet the capitalization threshold.

Other nonoperating expenses increased $43.4 million (113.0%), from $38.5 million in fiscal year 2016 to $81.9 million in fiscal year 2017, primarily due to the higher demolition and capital improvement projects costs that did not meet the capitalization requirement.

Capital contributions received from federal grants increased $0.8 million (7.6%) from $10.4 million in fiscal year 2016 to $11.2 million in fiscal year 2017. The net increase was primarily due to the increase of $10.2 million in the FAA Air Traffic Control Tower and Airport Improvement Program grants, and the decrease of $9.4 million in the TSA's Checked Baggage Screening System grant.

The annual service payments transferred to the City increased $2.5 million (5.9%), from $42.5 million in fiscal year 2016 to $45.0 million in fiscal year 2017. The increase was due to higher concession, parking and transportation revenues during fiscal year 2017.

Capital Acquisitions and Construction

Under the Lease and Use Agreement, the Airport Commission is obligated to use commercially reasonable efforts to finance all capital improvements (above certain de minimis amounts) through the issuance of Airport revenue bonds, grants, TSA funding, and PFCs. The Lease and Use Agreement also provides for airline review of capital projects that exceed the dollar thresholds established in the Agreement.

The Airport maintains a Capital Improvement Plan to build new facilities, improve existing facilities, renovate buildings, repair or replace infrastructure, preserve assets, enhance safety and security, develop systems functionality, and perform needed maintenance.

Fiscal Year 2018

Expenses incurred during fiscal year 2018 with respect to major capital projects are listed below. The figures below do not reflect the total project budget. Most major capital projects at the Airport are implemented over multiple fiscal years.

	Amount
Terminal 1 Redevelopment	$ 470,066,343
Additional Long-Term Parking Garage	79,322,981
On-Airport Hotel	56,203,190
Consolidated Administration Campus	51,771,936
AirTrain Extension	49,559,763
Security Improvements	45,742,160
South McDonnell Road Realignment	38,258,038
Plot 700 Redevelopment	17,586,346
Airport Traffic Control Tower	15,633,333
Miscellaneous Airfield Improvements	12,702,150
Technology Improvement	12,580,746
Terminal 3 Renovation	12,426,758
Gate Capacity Enhancements	11,864,298
Superbay Renovation	11,460,170
Runway Improvements	11,123,075
Revenue Enhancement and Customer Hospitality (REACH)	10,791,778
Waste Water System Improvements	8,451,849
International Terminal Baggage Handling System	7,518,177
Capital Improvement Plan Support	7,378,925
Roadway Improvements	6,996,793
Energy and Efficiency Improvements	4,239,735
Airport Support Miscellaneous Improvements	3,889,742
Utility Improvements	3,475,465
South Field Redevelopment	3,362,845
Wayfinding	2,954,690
Courtyard 3 Connector	2,283,506
Parking and Garage Improvements	2,042,170
Net Zero Energy Program	1,966,544
Fire Equipment Replacement	1,765,804

(Continued)

		Amount
Cargo and Hangar Improvements	$	1,679,381
Capital Equipment		1,476,681
Central Plant Improvements		1,352,759
International Terminal Refresh Program		1,329,503
Support Facility Improvements		1,282,358
Airport Support Computer System Improvements		1,212,653
Taxiway Improvements		1,015,516
Total	$	972,768,161

Significant projects in design or under construction in fiscal year 2019 include the Terminal 1 (T1) Redevelopment Projects, which include the redevelopment of Boarding Area B and the expansion of the T1 Central Area, as well as the Terminal 3 (T3) Redevelopment Projects, which include the redevelopment of the western portion of T3 and a new secure connector and office block between Terminal 2 (T2) and T3. Other notable ongoing projects include a new on-airport hotel, upgrades and enhancements to the International Terminal, a second long-term parking garage, the extension of the AirTrain to the second long-term parking garage, replacement of the Superbay fire suppression system and a new industrial waste treatment plant, among others.

Additional information about the Airport's capital acquisitions and construction is presented in note 5 to the financial statements.

Fiscal Year 2017

Expenses incurred during fiscal year 2017 with respect to major capital projects are listed below. The figures below do not reflect the total project budget. Most major capital projects at the Airport are implemented over multiple fiscal years.

	Amount
Terminal 1 Redevelopment	$ 287,274,333
Runway Improvements	35,839,944
South Field Redevelopment	31,990,680
AirTrain Extension	28,458,188
Consolidated Administration Campus	27,304,929
Additional Long-Term Parking Garage	25,567,160
Airport Traffic Control Tower	20,333,657
Plot 700 Redevelopment	16,057,414
Revenue Enhancement and Customer Hospitality (REACH)	13,752,773
On-Airport Hotel	11,795,966
Security Improvements	8,783,795
Superbay Renovation	7,987,835
Capital Improvement Plan Support	7,076,890
Waste Water System Improvements	6,245,015
Terminal 3 Renovation	5,601,704
Technology Improvement	4,469,897
Parking and Garage Improvements	4,063,867
International Terminal Improvements	3,580,364
Support Facility Improvements	3,547,704
Miscellaneous Terminal Improvements	2,971,747
South McDonnell Road Realignment	2,577,821
Capital Equipment	2,165,901
Shoreline Protection	2,122,848
Miscellaneous Airfield Improvements	1,418,473
Roadway Improvements	1,324,244
Wi-Fi Improvements	1,266,074
Fire Equipment Replacement	1,262,688
Support Facility Improvements	1,152,351
Wayfinding	1,123,892
Gate Capacity Enhancements	1,072,785
Total	$ 568,190,939

Significant projects in design or under construction in fiscal year 2018 include the Terminal 1 (T1) Redevelopment Projects, which includes the redevelopment of Boarding Area B and the expansion of the T1 Central Area, as well as the Terminal 3 (T3) Redevelopment Projects, which will include the redevelopment of the western portion of T3 and a new secure connector and office block between Terminal 2 (T2) and T3. Other notable ongoing projects include a new on-airport hotel, a new consolidated administration campus building, upgrades and enhancements to the International Terminal, a second long-term parking garage, the extension of the AirTrain to the second long-term parking garage, and a new industrial waste treatment plant.

Additional information about the Airport's capital acquisitions and construction is presented in note 5 to the financial statements.

Debt Administration

Fiscal Year 2018

Capital Plan Bonds: On October 31, 2017, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2017A (AMT), Series 2017B (Non-AMT/Governmental Purpose), and Series 2017C (Federally Taxable) in the aggregate principal amount of $602.4 million to finance and refinance (through the repayment of commercial paper notes) a portion of the costs of the following projects, among others: (a) redevelopment of Terminal 1, (b) redevelopment of Terminal 3 West, (c) renovation of the International Terminal, (d) construction of a new long-term parking garage and extension of AirTrain service to that garage, (e) improvements to the Airport's security infrastructure, (f) certain airfield improvements, and (g) the construction of a new administration campus to consolidate some Commission administrative departments, to fund deposits to debt service reserve accounts and a contingency reserve account, to fund deposits to capitalized interest accounts, and to pay costs of issuance.

On May 30, 2018, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2018D (AMT), Series 2018E (Non-AMT/Governmental Purpose), and Series 2018F (Federally Taxable) in the aggregate principal amount of $846.1 million to finance and refinance (through the repayment of commercial paper notes) a portion of the costs of the following projects, among others: (a) redevelopment of Terminal 1, (b) redevelopment of Terminal 3 West, (c) renovation of the International Terminal departures level, (d) extension of AirTrain service to the long-term parking garages, (e) improvements to the Airport's security and technology infrastructure, (f) certain airfield improvements, and (g) the completion of a new administration campus to consolidate some Commission administrative departments, to fund deposits to a debt service reserve account and a contingency reserve account, to fund deposits to capitalized interest accounts, and to pay costs of issuance.

On June 6, 2018, the Airport issued its Second Series Variable Rate Revenue Bonds, Series 2018B (Non-AMT/Governmental Purpose) and Series 2018C (Non-AMT/Governmental Purpose) in the aggregate principal amount of $276.3 million to purchase $260.0 million of Hotel Special Facility Bonds also issued by the Airport, to finance the development and construction of an AirTrain station adjacent to the on-Airport hotel that is under construction, and to pay costs of issuance. The Airport issued the Hotel Special Facility Bonds (described below under Hotel Special Facility Bonds) simultaneously with the Series 2018B/C Bonds. The Hotel Special Facility Bonds are payable from on-Airport hotel revenues.

Refunding Bonds: On October 31, 2017 the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2017D (AMT) in the aggregate principal amount of $144.8 million, to refund $93.1 million of its Issue 36A Bonds, $37.8 million of its Issue 36B Bonds, and $33.7 million of its Issue 36C Bonds (all of which were variable rate bonds) and to fund a deposit to a debt service reserve account. The Airport also issued its fixed rate Second Series Revenue Bonds, Series 2017C (Federally Taxable) of which $14.3 million in principal amount was used for refunding purposes, including to make swap termination payments associated with the refunding bonds, to fund a deposit to a debt service reserve account and to pay costs of issuance.

On February 1, 2018, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2018A (AMT) in the aggregate principal amount of $115.4 million to refund $140.1 million of its fixed-rate Issue 34E Bonds for debt service savings, to fund a deposit to a debt service reserve account, and to pay costs of issuance.

On May 30, 2018, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2018G (AMT) in the aggregate principal amount of $35.7 million to refund $41.7 million of its fixed-rate Series 2013A Bonds for debt service savings and to pay costs of issuance.

Cash Defeasance: On June 27, 2018, the Airport legally defeased $16.4 million of its fixed-rate Second Series Revenue Bonds, Series 2009E (Non-AMT/Private Activity), using available cash on hand together with amounts held by the Trustee for purposes of paying future debt service on such bonds.

Remarketed Bonds: The Airport did not remarket any outstanding bonds during fiscal year 2018.

Hotel Special Facility Bonds: On June 6, 2018, the Airport issued its fixed rate Special Facility Revenue Bonds (San Francisco International Airport Hotel), Series 2018, in the aggregate principal amount of $260.0 million to finance the on-Airport hotel, repay Subordinate Commercial Paper Notes that were issued to provide interim financing, and pay other related costs. The principal and interest on the Hotel Special Facility Bonds are paid solely from the net revenues of the on-Airport hotel. The Hotel Special Facility Bonds were sold to a trust entity created by the Airport. The Airport is the sole beneficiary of the trust entity, and, as the beneficiary, the Airport will receive all principal and interest paid on the Hotel Special Facility Bonds. Because the Airport is the issuer of the Hotel Special Facility Bonds and the sole beneficiary of the trust entity serving as holder of the Hotel Special Facility Bonds, neither the Hotel Special Facility Bonds debt service payments nor the Airport's receipts from the trust are included in the accompanying financial statements. The financial statements net the interest income received from the trust against the combined interest expenses of the Hotel Special Facility Bonds and the Series 2018B/C Bonds.

Subordinate Commercial Paper Notes: During fiscal year 2018, the Airport issued $152.4 million in new money commercial paper notes, then used proceeds of the Series 2017A and Series 2017B Bonds to retire $300.5 million in commercial paper notes, including commercial paper notes that were outstanding as of July 1, 2017, and subsequently issued $405.3 million in new money commercial paper notes. Thereafter, the Airport also used proceeds from the Series 2018D and Series 2018E Bonds to retire $312.8 million in commercial paper notes and proceeds from the Hotel Special Facility Bonds to retire $93.0 million in commercial paper notes. As of June 30, 2018, the Airport had $29.4 million in outstanding commercial paper notes.

Interest Rate Swaps: During fiscal year 2018, the Airport refunded its Issue 36A, Issue 36B, and Issue 36C Bonds and concurrently terminated the swaps associated with those Bonds. The Airport ended fiscal year 2018 with three interest rate swaps outstanding with a total notional amount of $298.6 million and related deferred outflows on derivative instruments of $37.8 million recorded as a long-term obligation as of June 30, 2018. The Airport's interest rate swaps are intended as a hedge against the potential volatility of the interest rates on the Airport's variable rate bonds. Under the Airport's swap agreements, the Airport receives a monthly variable rate payment from each counterparty that is intended to approximate the interest payments the Airport makes on the associated variable rate bonds, while the Airport makes a monthly fixed rate payment to the swap counterparties, resulting in a synthetic fixed rate for these bonds. As of June 30, 2018, the Airport's interest rate swaps were associated with the Airport's Issue 37C and Series 2010A Bonds, either directly or indirectly.

More detailed information about the Airport's subordinate commercial paper notes, long-term debt, and interest rate swaps is presented in notes 6 and 7 to the financial statements.

1991 Master Bond Resolution Covenant Compliance: During fiscal year 2018, the Airport's operating revenues, together with the permitted transfers from the Airport's Contingency Account, were sufficient to meet the rate covenant requirements under the Airport's 1991 Master Bond Resolution. See "Debt Service Reserve and Covenants; Contingency Account" in note 7.

Fiscal Year 2017

Capital Plan Bonds: During fiscal year 2017, the Airport issued two series of bonds to fund capital projects. On September 29, 2016, the Airport issued its long-term, fixed rate Second Series Revenue Bonds, Series 2016B (AMT) and 2016C (Non-AMT/Governmental Purpose) in the aggregate principal amount of $740.1 million, to finance and refinance (through the repayment of commercial paper notes) the following projects, among others: (a) redevelopment of Terminal 1 including construction of an interim Boarding Area B and the design and construction of a new 24-gate Boarding Area B facility, (b) relocation of a firehouse and vehicle security checkpoint to accommodate the expansion of Boarding Area B and the related realignment of Taxiways H and M, (c) relocation of ground transportation facilities to accommodate the expansion of Boarding Area B, (d) construction of a new administration campus to consolidate some Airport administrative departments, (e) upgrades to operating systems-related components for the AirTrain extension, (f) gate enhancements to accommodate larger aircraft and address demand-driven gate needs, and (g) various technology improvements to upgrade network services.

Refunding Bonds: On September 29, 2016, the Airport issued its Second Series Revenue Refunding Bonds, Series 2016D (Non-AMT/Governmental Purpose) in the principal amount of $147.8 million to refund $42.2 million of its Series 2010C, $39.2 million of its Series 2011D, and $76.5 million of its Series 2011G long-term fixed rate bonds, each of which was refunded for debt service savings.

Cash Defeasance: On June 20, 2017, the Airport legally defeased $12.9 million of its Second Series Revenue Refunding Bonds, Issue 34E (AMT), using available cash on hand together with amounts held by the Trustee for purposes of paying future debt service on such bonds.

Remarketed Bonds: The Airport did not remarket any outstanding bonds during fiscal year 2017.

Subordinate Commercial Paper Notes:

- During fiscal year 2017, the Airport used proceeds of the Series 2016B and Series 2016C Bonds to retire the $343.1 million in commercial paper notes that were outstanding as of July 1, 2016, and subsequently issued $179.0 million in new money commercial paper notes, of which $1.0 million were retired using available cash on hand. As of June 30, 2017, the Airport had $178.0 million in outstanding commercial paper notes.
- On May 4, 2017, the Airport closed an extension of the irrevocable letter of credit issued by Royal Bank of Canada, supporting $200.0 million principal amount of the Airport's subordinate commercial paper notes, Series A-3, Series B-3, and Series C-3. The letter of credit will expire May 1, 2020.
- On June 22, 2017, the Airport closed a $100.0 million expansion of the commercial paper program, increasing the aggregate principal amount of the commercial paper notes that can be outstanding at any one time from $400.0 million to $500.0 million. A five-year irrevocable letter of credit issued by Sumitomo Mitsui Banking Corporation, acting through its New York Branch, supports the additional $100.0 million principal amount of the Airport's subordinate commercial paper notes, reviving the Series A-2, Series B-2 and Series C-2 commercial paper notes that had not been supported by a letter of credit since 2014. The Sumitomo letter of credit will expire June 21, 2022.

Interest Rate Swaps: The Airport ended fiscal year 2017 with six interest rate swaps outstanding with a total notional amount of $462.4 million. The Airport's interest rate swaps are intended as a hedge against the potential volatility of the interest rates on the Airport's variable rate bonds. Under the Airport's swap agreements, the Airport receives a monthly variable rate payment from each counterparty that is intended to approximate the interest payments the Airport makes on the associated variable rate bonds, while the Airport makes a monthly fixed rate payment to the swap counterparties, resulting in a synthetic fixed rate for these bonds. As of June 30, 2017, the Airport's interest rate swaps were associated with the Airport's Issue 36A/B/C, Issue 37C, and Series 2010A Bonds, either directly or indirectly.

More detailed information about the Airport's subordinate commercial paper notes, long-term debt, and interest rate swaps is presented in notes 6 and 7 to the financial statements.

1991 Master Bond Resolution Covenant Compliance: During fiscal year 2017, the Airport's operating revenues, together with the permitted transfers from the Airport's Contingency Account, were sufficient to meet the rate covenant requirements under the Airport's 1991 Master Bond Resolution. See "Debt Service Reserve and Covenants; Contingency Account" in note 7.

Credit Ratings and Bond Insurance

Fiscal Year 2018

Credit Ratings: During fiscal year 2018, Moody's Investors Service Inc. (Moody's), Standard & Poor's Ratings Services, a Standard and Poor's Financial Services LLC business (S&P), and Fitch Inc. (Fitch) affirmed their underlying credit ratings on the Airport's outstanding debt of the Airport of "A1", "A+", and "A+", respectively, each with stable rating outlooks.

Ratings on each subseries of the Airport's commercial paper notes reflect the short-term credit ratings of the bank whose letter of credit supports that subseries.

As of October 11, 2017, Moody's, S&P, and Fitch assigned credit ratings of "A1", "A+", and "A+", respectively, to the fixed rate Series 2017A/B/C/D Bonds, which were issued on October 31, 2017, and to the fixed rate Series 2018A Bonds, which were issued on February 1, 2018.

As of May 4, 2018, Moody's, S&P, and Fitch assigned credit ratings of "A1", "A+", and "A+", respectively, to the fixed rate Series 2018D/E/F/G Bonds, which were issued on May 30, 2018.

As of May 30, 2018, Moody's, S&P and Fitch assigned credit ratings of "Aa2/VMIG 1", "AA+/A-1" and "AA/F1", respectively, to the variable rate Series 2018B Bonds. Each rating is based upon the effectiveness of the letter of credit issued by Barclays Bank PLC. As of May 30, 2018, Moody's, S&P and Fitch assigned credit ratings of "Aa2/VMIG 1", "AA+/A-1" and "AA/F1", respectively, to the variable rate Series 2018C Bonds. Each rating is based upon the effectiveness of the letter of credit issued by Sumitomo Mitsui Banking Corporation, acting through its New York Branch.

Bond Insurance: Prior to fiscal year 2009, the Airport generally purchased municipal bond insurance policies in connection with the issuance of many series of its outstanding revenue bonds from monoline bond insurance companies that were rated "AAA" at the time. The insured credit ratings on these Airport bonds declined in tandem with the credit ratings of most bond insurance companies as a result of the global financial crisis that began in fiscal year 2008. Insured Airport bonds carry the higher of the Airport's underlying rating or the insured rating.

In fiscal year 2018, certain outstanding Airport bonds were supported by Assured Guaranty Corp., Assured Guaranty Municipal Corp., and National Public Finance Guarantee Corp. ("National"). In fiscal year 2018, the public ratings of Assured Guaranty Corp. were "A3" by Moody's and "AA" by S&P, and the public ratings of Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) were "A2" by Moody's and "AA" by S&P. On January 17, 2018, Moody's downgraded its rating of National from "A3" to "Baa2". On December 1, 2017, S&P withdrew its rating of National at National's request.

Fiscal Year 2017

Credit Ratings: During fiscal year 2017, Moody's Investors Service Inc. (Moody's), Standard & Poor's Ratings Services, a Standard and Poor's Financial Services LLC business (S&P), and Fitch Inc. (Fitch) affirmed their underlying credit ratings on the outstanding debt of the Airport of "A1", "A+", and "A+", respectively, each with stable rating outlooks.

Ratings on each subseries of the Airport's commercial paper notes reflect the short-term credit ratings of the bank whose letter of credit supports that subseries.

As of September 13, 2016, Moody's, S&P, and Fitch assigned credit ratings of "A1", "A+", and "A+", respectively, to the Series 2016B/C/D Bonds, which were issued on September 29, 2016.

Bond Insurance: Prior to fiscal year 2009, the Airport generally purchased municipal bond insurance policies in connection with the issuance of many series of its outstanding revenue bonds from monoline bond insurance companies that enjoyed "AAA" ratings at the time. The insured credit ratings on these Airport bonds declined in tandem with the credit ratings of most bond insurance companies as a result of the global financial crisis that began in fiscal year 2008.

In fiscal year 2017, certain outstanding Airport bonds were supported by Assured Guaranty Corp., Assured Guaranty Municipal Corp., and National Public Finance Guarantee Corp. In fiscal year 2017, the public ratings of Assured Guaranty Corp. were "A3" by Moody's and "AA" by S&P, and the public ratings of Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) were "A2" by Moody's and "AA" by S&P. On June 26, 2017, S&P lowered its financial strength rating on National Public Finance Guarantee Corp. (National) from "AA-" to "A". The Moody's public rating of National (which has assumed the obligations of MBIA Insurance Corporation and Financial Guaranty Insurance Corp.) was "A3" in fiscal year 2017.

Fiscal Year 2019 Airline Rates and Charges

Terminal rental rates and airline landing fees for fiscal year 2019 have been developed as part of the annual budget process that started in October 2017. The Lease and Use Agreement between the Airport and the Signatory Airlines provides the rate-setting methodology for calculating the terminal rental rates and Airline landing fees. Not less than 60 days prior to the start of the fiscal year, the Signatory Airlines are notified of the proposed rates and fees. These fees are subject to review by, but not the approval of, the Signatory Airlines. The terminal rental rates and airline landing fees for fiscal year 2019, which became effective on July 1, 2018, are as follows:

Effective average terminal rental rate (per sq. ft)	$	179.21
Signatory Airline – landing fee rate (per 1,000 lbs.)		5.54
NonSignatory Airline – landing fee rate (per 1,000 lbs.)		6.93
General aviation – landing fee rate (per 1,000 lbs.)		6.93

The effective average terminal rental rate increased by 6.0%, from $169.03 per sq. ft. in fiscal year 2018 to $179.21 per sq. ft. in fiscal year 2019. The fiscal year 2018 landing fee rate for Signatory Airlines increased by 5.7%, from $5.24 per 1,000 pounds in fiscal year 2018 to $5.54 per 1,000 pounds in fiscal year 2019, while the Non-Signatory Airline landing fee rate increased by 5.8%, from $6.55 per 1,000 pounds in fiscal year 2018 to $6.93 per 1,000 pounds in fiscal year 2019. The fiscal year 2018 landing fee rate for general aviation aircraft increased by 5.8%, from $6.55 per 1,000 pounds in fiscal year 2018 to $6.93 per 1,000 pounds in fiscal year 2019.

Requests for Information

This report is designed to provide a general overview of the San Francisco International Airport's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Business & Finance Officer, San Francisco International Airport, P.O. Box 8097, San Francisco, California 94128.

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Statements of Net Position

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Assets:			
Current assets:			
Cash and investments held in City Treasury	$	458,219	375,593
Cash and investments outside City Treasury		6,398	5,854
Cash – Revolving Fund		10	10
Accounts receivable (net of allowance for doubtful accounts: 2018: $1,609; 2017: $1,807)		57,853	53,085
Aviation revenue due		37,761	—
Accrued interest – City Treasury		1,768	139
Accrued interest – outside City Treasury		2,157	1,572
Inventories		51	58
Other current assets		3,713	4,245
Restricted assets:			
Cash and investments held in City Treasury		382,560	273,106
Cash and investments outside City Treasury		215,026	142,557
Accrued interest – City Treasury		1,346	374
Accrued interest – Other		505	172
Grants receivable		15,189	5,083
Passenger facility charges receivable		17,607	17,016
Total current assets		1,200,163	878,864
Noncurrent assets:			
Restricted assets:			
Cash and investments held in City Treasury		962,619	315,746
Cash and investments outside City Treasury		495,659	409,355
Accrued interest – City Treasury		2,243	924
Prepaid bond insurance costs		—	285
Capital assets, net		4,930,029	4,282,629
Total noncurrent assets		6,390,550	5,008,939
Total assets		7,590,713	5,887,803
Deferred outflows of resources:			
Unamortized loss on refunding of debt		75,343	76,789
Deferred outflows on derivative instruments		29,245	54,870
Deferred outflows related to OPEB		13,387	—
Deferred outflows related to pensions		91,596	145,743
Total deferred outflows of resources	$	209,571	277,402

(Continued)

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Statements of Net Position

Years ended June 30, 2018 and 2017

(In thousands)

		2018	**2017**
Liabilities:			
Current liabilities:			
Accounts payable	$	68,643	54,064
Accrued payroll		11,898	10,477
Compensated absences		10,699	9,845
Accrued workers' compensation		1,739	1,520
Estimated claims payable		22	777
Due to City and County of San Francisco		96	—
Unearned aviation revenue		—	54,853
Current maturities of long-term debt		178,925	152,685
Payable from restricted assets:			
Accounts payable		189,043	90,794
Accrued payroll		553	784
Accrued bond interest payable		44,064	36,062
Commercial paper		29,410	178,000
Current maturities of long-term debt		35,785	50,895
Total current liabilities		570,877	640,756
Noncurrent liabilities:			
Compensated absences, net of current portion		7,356	7,172
Accrued workers' compensation, net of current portion		6,254	5,816
Estimated claims payable, net of current portion		28	78
Long-term debt, net of current maturities		6,570,653	4,882,080
Net OPEB liability		244,096	138,168
Net pension liability		308,459	359,599
Derivative instruments		37,558	65,965
Total noncurrent liabilities		7,174,404	5,458,878
Total liabilities		7,745,281	6,099,634
Deferred inflows of resources:			
Deferred inflows related to OPEB		394	—
Deferred inflows related to pensions		22,230	15,402
Total deferred inflows of resources		22,624	15,402
Net position:			
Net investment in capital assets		(564,762)	(284,761)
Restricted for debt service		186,655	109,554
Restricted for capital projects		419,486	296,188
Unrestricted		(9,000)	(70,812)
Total net position	$	32,379	50,169

See accompanying notes to financial statements.

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Operating revenues:			
Aviation	$	670,282	545,310
Concession		158,594	149,697
Parking and transportation		151,731	150,548
Net sales and services		83,195	81,245
Total operating revenues		1,063,802	926,800
Operating expenses:			
Personnel		312,972	364,831
Depreciation		265,169	265,841
Contractual services		86,103	73,918
Light, heat, and power		23,800	23,093
Services provided by other City departments		23,369	21,594
Repairs and maintenance		34,038	34,863
Materials and supplies		17,573	16,152
General and administrative		2,535	4,360
Environmental remediation		4,627	4,208
Total operating expenses		770,186	808,860
Operating income		293,616	117,940
Nonoperating revenues (expenses):			
Investment income		11,316	7,892
Interest expense		(211,461)	(210,415)
Passenger facility charges		111,971	103,955
Write-offs and loss on disposal		(21,253)	(21,619)
Other nonoperating revenues		1,771	1,075
Other nonoperating expenses		(89,254)	(81,908)
Total nonoperating expenses, net		(196,910)	(201,020)
Income (loss) before capital contributions and transfers		96,706	(83,080)
Capital contributions:			
Grants		15,051	11,212
Transfers to City and County of San Francisco		(46,549)	(45,036)
Changes in net position		65,208	(116,904)
Total net position – beginning of year (as previously reported)		50,169	167,073
Restatement due to adoption of GASB 75		(82,998)	—
Total net position – beginning of year (as restated)		(32,829)	167,073
Total net position – end of year	$	32,379	50,169

See accompanying notes to financial statements.

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Cash flows from operating activities:			
Cash received from airline carriers, concessionaires, and others	$	988,320	931,127
Cash paid for employees' services		(290,061)	(268,646)
Cash paid to suppliers of goods and services		(195,409)	(204,038)
Net cash provided by operating activities		502,850	458,443
Cash flows from noncapital financing activities:			
Transfers to City and County of San Francisco		(46,549)	(45,036)
Other noncapital financing revenues		1,771	1,075
Other noncapital financing expenses		(89,254)	(81,908)
Net cash (used) in noncapital financing activities		(134,032)	(125,869)
Cash flows from capital and related financing activities:			
Principal paid on revenue bonds and commercial paper notes		(201,300)	(208,125)
Interest paid on revenue bonds and commercial paper notes		(253,077)	(233,585)
Acquisition and construction of capital assets		(807,048)	(506,508)
Revenues from passenger facility charges		111,379	97,287
Proceeds from sale of revenue bonds		1,023,750	437,465
Proceeds from commercial paper notes		557,700	179,000
Capital contributed by federal agencies and others		4,945	10,011
Net cash provided (used) in capital and related financing activities		436,349	(224,455)
Cash flows from investing activities:			
Sales of investments with Trustee		666,304	664,457
Purchases of investments with Trustee		(619,746)	(689,700)
Interest received on investments		23,419	15,235
Net cash provided (used) in investing activities		69,977	(10,008)
Net increase in cash and cash equivalents		875,143	98,111
Cash and cash equivalents, beginning of year		971,852	873,741
Cash and cash equivalents, end of year	$	1,846,995	971,852
Reconciliation of cash and cash equivalents to the statements of net position:			
Cash and investments held in City Treasury – unrestricted	$	458,219	375,593
Cash and investments held in City Treasury – restricted		1,345,179	588,852
Cash and investments outside City Treasury – unrestricted		6,398	5,854
Cash and investments outside City Treasury – restricted		27,030	1,123
Cash – Revolving Fund		10	10
Cash, cash equivalents, and investments		1,836,836	971,432
Unrealized gain on investments		10,159	420
Cash and cash equivalents, June 30	$	1,846,995	971,852

(Continued)

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	293,616	117,940
Adjustments for noncash and other activities:			
Depreciation		265,169	265,841
Allowance for doubtful accounts		(198)	593
Cost of issuance paid from bond proceeds		4,150	1,912
Changes in assets and liabilities:			
Accounts receivable		(4,570)	(5,827)
Aviation revenue due		(37,761)	—
Inventories		7	(20)
Other current assets		532	(2,438)
Deferred outflows related to OPEB		(1,311)	—
Deferred outflows related to pensions		54,147	(101,761)
Accounts payable and other liabilities		13,870	(3,041)
Accrued payroll		1,421	898
Compensated absences		1,038	(22)
Accrued workers' compensation		657	679
Net OPEB liability		10,854	13,816
Unearned aviation revenue		(54,853)	(12,703)
Deferred inflows related to OPEB		394	—
Deferred inflows related to pensions		6,828	(32,752)
Net pension liability		(51,140)	215,328
Net cash provided by operating activities	$	502,850	458,443
Noncash transactions:			
Accrued capital asset costs	$	189,596	91,578
Bond refunding through fiscal agent		26,789	184,536
Bond proceeds held by fiscal agent		802,338	434,287
Commercial paper repaid through fiscal agent		706,285	343,050

See accompanying notes to financial statements.

(1) Definition of Reporting Entity

The accompanying financial statements reflect the net position and changes in net position of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport or SFO), a commercial service airport owned and operated as an enterprise fund of the City and County of San Francisco (the City). The Airport opened in 1927 and for calendar year 2017 was the seventh busiest airport in the United States in terms of passengers and fifteenth in terms of cargo tonnage.[5] The Airport is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic. A five-member Airport Commission is responsible for its operation, development, and maintenance. Airport Commission members are appointed by the City's Mayor for terms of four years.

The Airport is an integral part of the City and is reported as a major enterprise fund in the City's Comprehensive Annual Financial Report. There are no component units considered for inclusion in the Airport's financial reporting entity. The accompanying financial statements present only the financial operations of the Airport and do not purport to, and do not, present the financial position of the City, or the results of its operations and the cash flows of its other proprietary fund types.

(2) Significant Accounting Policies

(a) Measurement Focus and Basis of Accounting

The Airport's financial activities are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

The Airport distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an organization's principal ongoing operations. The principal operating revenues of the Airport are charges to airlines, concessionaires, and parking and transportation charges. Operating expenses of the Airport include personnel costs, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

As prescribed under GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement 27, net pension liability, deferred outflows/inflows of resources related to pensions, pension expense, information about the fiduciary net position of the San Francisco Employees Retirement System (SFERS) plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan member contributions are recognized in the period in which the contributions are due. Investments are reported at fair value and liabilities are based on the results of actuarial calculations.

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[5] Source: Airports Council International – North America, 2017 North American Traffic Report.

As prescribed under GASB No. 75 – *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions,* net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense are actuarially determined on a Citywide basis. Net OPEB liability is measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees attributed to those employees' past service, less the amount of the Retiree Healthcare Trust Fund investments measured at fair value.

The provisions of GASB 75 are effective for the Airport's year ended June 30, 2018. While restatement of all prior periods was not practical because the actuarial information was not available, the cumulative effect of applying this Statement is reported as a restatement of beginning net position as of July 1, 2017 as follows (in thousands):

Record beginning net OPEB liability	$	(233,242)
Record beginning deferred outflows of resources - OPEB items		12,076
Remove net OPEB obligation (change from GASB 45)		138,168
Total cumulative effect of change in accounting principle	$	(82,998)

(b) Implementation of New Governmental Accounting Standards Board (GASB)

Governmental Accounting Standards Board (GASB) Statement No. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. GASB Statement No. 75 revises and establishes new accounting and financial reporting requirements for governments that provides their employees with other post-employment benefits other than pensions (OPEB).

The provisions of GASB Statement No. 75 are effective for fiscal years beginning after June 15, 2017. While restatement of all prior periods was not practical because the actuarial information was not available, the cumulative effect of applying this statement is reported as a restatement of beginning net position as of July 1, 2017. As of July 1, 2017, the Airport restated its net position from $50.2 million to negative $32.8 million to record beginning net OPEB liability, deferred outflow/inflow of resources and OPEB expense.

Governmental Accounting Standards Board (GASB) Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. GASB Statement No. 81 establishes accounting and financial reporting standards for irrevocable split-interest agreement created through trusts in which a donor irrevocably transfers resources to an intermediary. The new standard is effective for periods beginning after December 15, 2016. The Airport adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

Governmental Accounting Standards Board (GASB) Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations*. GASB Statement No. 83 establishes accounting and financial reporting standards for certain asset retirement obligations (AROs). The new standard is effective for periods beginning after June 15, 2018. The Airport will implement the provisions of Statement No. 83 in fiscal year 2019.

Governmental Accounting Standards Board (GASB) Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. GASB Statement No. 84 establishes criteria for state and local governments to identify fiduciary activities and how those activities should be reported. The new standard is effective for periods beginning after December 15, 2018. The Airport will implement the provisions of Statement No. 84 in fiscal year 2020.

Governmental Accounting Standards Board (GASB) Statement No. 85

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017*. GASB Statement No. 85 addresses practice issues identified during the implementation and application of certain GASB Statements. The new standard is effective for periods beginning after June 15, 2017. The Airport adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

Governmental Accounting Standards Board (GASB) Statement No. 86

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues*. GASB Statement No. 86 improves accounting and financial reporting for in-substance defeasance of debt using existing resources other than proceeds of refunding debt. The new standard is effective for periods beginning after June 15, 2017. The Airport adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

Governmental Accounting Standards Board (GASB) Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. GASB Statement No. 87 establishes a single model for lease accounting and requires reporting of certain lease liabilities that currently are not reported. The new standard is effective for periods beginning after December 15, 2019. The Airport will implement the provisions of Statement No. 87 in fiscal year 2021.

Governmental Accounting Standards Board (GASB) Statement No. 88

In March 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. GASB Statement No. 88 establishes additional financial statement note disclosure requirements related to debt obligations of governments. The new standard is effective for periods beginning after June 15, 2018. The Airport will implement the provisions of Statement No. 88 in fiscal year 2019.

Governmental Accounting Standards Board (GASB) Statement No. 89

In June 2018, the GASB issued Statement No. 89 – Accounting for interest Cost Incurred before the End of a Construction Period. GASB Statement No. 89 establishes accounting requirements for interest cost incurred before the end of a construction period. The new standard is effective for periods beginning after December 15, 2019. The Airport will implement the provisions of Statement No. 89 in fiscal year 2021.

(c) Cash, Cash Equivalents, and Investments

The Airport maintains its cash, cash equivalents, investments, and a significant portion of its restricted cash and investments as part of the City's pool of cash and investments. The Airport's portion of this pool is displayed on the statements of net position as "Cash and investments held in City Treasury." Income earned or losses arising from pooled investments are allocated on a monthly basis to appropriate funds and entities based on their average daily cash balances.

The City reports certain investments at fair value in the statements of net position and recognizes the corresponding change in fair value of investments in the year in which the change occurred.

The Airport considers its pooled deposits held with the City Treasurer to be demand deposits and therefore cash for financial reporting. The City considers highly liquid investments with original maturities of three months or less to be cash equivalents. Restricted cash and investments held by the bond trustees that meet these criteria are considered to be cash and cash equivalents.

The debt service fund, the debt service reserve fund, the costs of issuance fund, the debt service holding fund, and the variable rate demand bond fee account for the Airport's revenue bonds are held and invested at the Airport's direction by an independent bond trustee.

Certain proceeds of the Hotel Special Facility Bonds are held and invested at the Airport's direction by an independent bond trustee.

(d) Capital Assets

Capital assets are stated at historical cost, or if donated, at fair value at the date of donation. The capitalization threshold for real property is $100,000 and $5,000 for personal property with a useful life greater than one year.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

	Years
Buildings, structures, and improvements	5–50
Equipment	5–20
Intangible assets	3–20

Maintenance, repairs, and minor replacements are charged against operations in the year performed. Major replacements that extend the useful life of the related assets are capitalized. No depreciation is provided on construction in progress until construction is substantially complete and the asset is placed in service. The Airport begins depreciation on capital assets the month following the date in which assets are placed in service. Additionally, the Airport commenced allocating indirect costs on self-constructed assets starting fiscal year 2007. The indirect cost rate applied is based on a cost allocation plan developed in accordance with the terms of 2 CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance)*, as applicable. See note 5.

(e) Capitalized Interest

Interest cost of debt issued for acquiring a capital asset is capitalized as part of the historical cost of the asset. Interest costs of tax-exempt bond funds used for specified construction purposes, net of interest earned on the temporary investment of the proceeds of such tax-exempt borrowings, are capitalized from the date of borrowings until the asset is ready for its intended use. Interest costs of other borrowings are capitalized based on average accumulated construction expenditures.

(f) Derivative Instruments

The Airport has entered into certain derivative instrument agreements, which it values at fair value, in accordance with GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments* and GASB Statement No. 72 – *Fair Value Measurement and Application*. The Airport applies hedge accounting for changes in the fair value of hedging derivative instruments, in accordance with GASB Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, an amendment of GASB Statement No. 53. Under hedge accounting, if the derivatives are determined to be effective hedges, the changes in the fair value of hedging derivative instruments are reported as either deferred inflows or deferred outflows in the statements of net position, otherwise changes in fair values are recorded within the investment revenue classification.

(g) Bond Issuance Costs, Discounts, and Premiums

Bond issuance costs related to prepaid insurance costs are capitalized and amortized using the effective interest method. Other bond issuance costs are expensed when incurred. Original issue bond discount or premium are offset against the related debt and are also amortized using the effective interest method. Deferred outflows/inflows of resources from refunding of debt are recognized as a component of interest expense using the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter.

(h) Compensated Absences

Vested vacation, sick leave, and related benefits are accrued when incurred for all Airport employees.

(i) Net Position

Net position consists of the following:

Net Investment in Capital Assets – consists of capital assets, including restricted capital assets, reduced by accumulated depreciation and by any outstanding debt incurred to acquire, construct, or improve those assets (including any unamortized original issue discounts or premiums related to the debt). Deferred outflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt (such as deferred losses on advance refundings) are also included in this component of net position.

Restricted for Debt Service and Capital Projects – consists of restricted assets and deferred outflows of resources reduced by liabilities related to those assets and deferred outflows of resources. Restricted assets are those assets with restrictions on their use that are externally imposed (by creditors, grantors, contributors, or the laws or regulations of other governments).

(Continued)

Unrestricted Net Position – consists of the net amount of the assets, deferred outflows of resources, and liabilities, of the Airport that are not restricted for any project or other purpose.

A significant portion of the Airport's net position is restricted by the 1991 Master Bond Resolution and 1997 Note Resolution (the "Master Bond Resolutions") and the Lease and Use Agreement with the airlines for the purpose of capital improvements and contingencies.

(j) Aviation Revenue, Unearned Revenue and Aviation Revenue Due

Aviation revenue is based on reimbursable expenditures as defined in the Lease and Use Agreement with the airlines. Under the Lease and Use Agreement, the airlines are required to pay terminal rents and landing fees in amounts that, when aggregated with certain other Airport revenues, will be equal to the Airport's expenditures for: operating expenses other than depreciation and amortization; principal and interest on outstanding debt; annual service payments to the City; and certain acquisitions of capital assets. Airline payments are also required to cover expenses treated as "Operations and Maintenance Expenses" under the Master Bond Resolutions. Other capital asset additions are funded with proceeds of revenue bonds for which the airlines are required to fund debt service. During fiscal year 2010, the Airport reached an agreement with the airlines on a new 10 year Lease and Use Agreement that became effective on July 1, 2011. Airlines that are not signatories to this agreement operate under month-to-month permits.

Amounts billed to airlines are based on budgeted revenues and expenditures, including debt service, pension charges and proportionate payments to such compensation and other insurance or outside reserve funds as the Commission may establish or the Board of Supervisors may require with respect to employees of the Commission. Noncash accrued pension obligations other than those actually paid or budgeted to be paid during the fiscal year are excluded. Noncash accrued Other Post-Employment Benefit obligations are included. Aviation revenue collected in advance will be applied to reduce future billings and is recorded as a liability in the financial statements. Aviation revenue due to be collected will be reduced by increases in future billings and is recorded as an asset in the financial statements. Pursuant to the terms of the Lease and Use Agreement, the Airport has aviation revenue due to be collected from the airlines of approximately $37.8 million as of June 30, 2018, and had aviation revenue collected in advance from the airlines of approximately $54.9 million as of June 30, 2017. The fiscal year 2017 advance collection shifted to a fiscal year 2018 amount to be collected primarily as a result of the effect of the adoption of GASB Statement No. 75 – *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions* on the Airport's starting net position for fiscal year 2018. See Notes 2b and 10b.

(k) Concession Revenues

Concession revenues consist of rentals and fees derived from food and beverage concessions, duty free, retail merchandise and rental car concessions. Revenues are based on terms of lease agreements entered between the Airport and concessionaires, and are the greater of a percentage of tenant's gross revenues or a minimum annual guarantee (MAG) amount.

(l) Parking and Transportation Revenues

Parking and transportation revenues consist of fees derived from parking facilities and ground transportation operations. Parking revenues are parking fees collected from all public parking facilities at the Airport. Transportation revenues are ground transportation trip fees assessed to commercial vehicles that service the Airport.

(m) Net Sales and Services Revenues

Net sales and services revenues are collected for utility, security, and miscellaneous services provided to the tenants. Utility services are provided by the City. See note 11.

(n) Environmental Remediation Expenses and Recoveries

The Airport incurs costs associated with environmental remediation activities, which arise during the normal course of business. These costs are recorded as a liability when the Airport is required to perform the remediation and if the costs can be reasonably estimated. The Airport records environmental remediation cost recoveries as nonoperating revenues in the financial statements.

(o) Capital Contributions

The Airport receives federal grants for the purpose of acquisition or construction of property and equipment. These grants are recorded as capital contributions when earned generally upon expenditures of the funds.

(p) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(q) Reclassification

Certain amounts have been reclassified to conform to the current year presentation.

(3) Cash, Cash Equivalents, and Investments

(a) Pooled Cash and Investments

The Airport maintains operating cash, cash equivalents, investments, and certain restricted cash and investments as part of the City's pool of cash and investments. The City's investment pool is an unrated pool pursuant to investment policy guidelines established by the City Treasurer and is treated as a cash equivalent for financial reporting purposes as the Airport is able to withdraw amounts from the pool on demand without notice or penalty. 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 City Treasurer policy, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity. The Airport's unspent bond and commercial paper note proceeds are also generally invested as part of the City's investment pool.

The Airport's cash and investments, at fair value, held in the City's pool as of June 30, 2018 and 2017 are as follows (in thousands):

		2018	2017
Pooled cash and investments:			
Cash and investments held in City Treasury – unrestricted	$	458,219	375,593
Cash and investments held in City Treasury – restricted current		382,560	273,106
Cash and investments held in City Treasury – restricted noncurrent		962,619	315,746
Total cash and investments in City Treasury	$	1,803,398	964,445

The following table shows the percentage distribution of the City's pooled investments by maturity:

Investment maturities (in months)			
Under 1	**1 – less than 6**	**6 – less than 12**	**12 – 60**
14.3 %	22.1 %	18.5 %	45.1 %

(b) Cash and Investments with Fiscal Agent

The restricted assets for revenue bond reserves, debt service and costs of issuance are held by an independent bond trustee for the Airport's senior lien bonds (the Senior Trustee) and a separate independent bond trustee for the Airport's subordinate lien bonds (the Subordinate Trustee, and collectively with the Senior Trustee, the Trustees). In addition, restricted assets constituting proceeds of the Hotel Special Facility Bonds are held by an independent bond trustee for the Hotel Special Facility Bonds. The unrestricted assets in the debt service holding fund and the variable rate demand bond fee account are not pledged to the payment of the Airport Commission's bonds, but are held by the Senior Trustee for the convenience of the Airport Commission in the administration and investment of monies delivered to the Senior Trustee prior to the time the Airport Commission is required to make deposits into the Debt Service Fund or pay the fees of the remarketing agents for the Airport Commission's variable rate bonds, respectively.

As of June 30, 2018 and 2017, the Senior Trustee held investments for the benefit of the Airport with maturities as follows (in thousands):

Investments	Credit ratings June 30, 2018 (S&P/Moody's / Fitch)	June 30, 2018		June 30, 2017	
		Maturities	Fair value	Maturities	Fair value
Federal Home Loan Bank Notes	AA+/Aaa/NR	March 18, 2019	$ 11,496	October 1, 2018	$ 22,116
Federal Home Loan Bank Notes	AA+/Aaa/NR	May 28, 2019	248	March 18, 2019	12,145
Federal Home Loan Bank Notes	AA+/Aaa/na	June 21, 2019	10,372	May 28, 2019	5,045
Federal Home Loan Bank Notes	AA+/Aaa/NR	August 5, 2019	10,687	June 21, 2019	10,441
Federal Home Loan Bank Notes	AA+/Aaa/NR	September 26, 2019	11,414	August 5, 2019	10,737
Federal Home Loan Bank Notes	AA+/Aaa/NR	October 21, 2019	11,142	September 26, 2019	9,107
Federal Home Loan Bank Notes	AA+/Aaa/NR	November 15, 2019	8,413	November 15, 2019	8,514
Federal Home Loan Bank Notes	AA+/Aaa/NR	March 30, 2020	2,178	—	—
Federal Home Loan Bank Notes	AA+/Aaa/NR	May 28, 2020	12,204	—	—
Federal Home Loan Bank Notes	AA+/Aaa/NR	September 28, 2020	8,036	—	—
Federal National Mortgage Association Notes	AA+/Aaa/AAA	August 28, 2019	19,983	October 26, 2017	12,091
Federal National Mortgage Association Notes	AA+/Aaa/AAA	November 26, 2019	2,178	October 19, 2018	14,604
Federal National Mortgage Association Notes	AA+/Aaa/AAA	January 21, 2020	11,929	February 26, 2019	10,529
Federal National Mortgage Association Notes	AA+/Aaa/AAA	February 28, 2020	11,945	August 28, 2019	17,730
Federal National Mortgage Association Notes	AA+/Aaa/AAA	June 22, 2020	2,131	January 21, 2020	9,906
Federal National Mortgage Association Notes	AA+/Aaa/AAA	July 30, 2020	15,978	February 28, 2020	9,181
Federal National Mortgage Association Notes	AA+/Aaa/AAA	December 28, 2020	4,093	May 6, 2021	11,921
Federal National Mortgage Association Notes	AA+/Aaa/AAA	April 13, 2021	5,396	April 5, 2022	6,400
Federal National Mortgage Association Notes	AA+/Aaa/AAA	May 6, 2021	11,675	—	—
Federal National Mortgage Association Notes	AA+/Aaa/AAA	June 22, 2021	8,608	—	—
Federal National Mortgage Association Notes	AA+/Aaa/AAA	April 5, 2022	6,224	—	—
U.S. Treasury Notes	AA+/Aaa/AAA		—	July 31, 2017	1,970
U.S. Treasury Notes	AA+/Aaa/AAA	July 31, 2018	1,924	August 31, 2017	1,974
U.S. Treasury Notes	AA+/Aaa/AAA	August 31, 2018	4,738	September 30, 2017	1,973
U.S. Treasury Notes	AA+/Aaa/AAA	September 30, 2018	4,750	October 31, 2017	72,293
U.S. Treasury Notes	AA+/Aaa/AAA	October 31, 2018	84,056	November 30, 2017	1,866
U.S. Treasury Notes	AA+/Aaa/AAA	November 30, 2018	1,924	December 31, 2017	1,859
U.S. Treasury Notes	AA+/Aaa/AAA	December 31, 2018	5,019	January 31, 2018	1,867
U.S. Treasury Notes	AA+/Aaa/AAA	January 31, 2019	1,872	February 28, 2018	1,864
U.S. Treasury Notes	AA+/Aaa/AAA	February 28, 2019	1,875	March 31, 2018	1,865

(In thousands)

Investments	Credit ratings June 30, 2018 (S&P/Moody's / Fitch)	June 30, 2018 Maturities	June 30, 2018 Fair value	June 30, 2017 Maturities	June 30, 2017 Fair value
U.S. Treasury Notes	AA+/Aaa/AAA	March 31, 2019	$ 1,941	April 30, 2018	$ 1,860
U.S. Treasury Notes	AA+/Aaa/AAA	April 30, 2019	5,548	May 31, 2018	1,865
U.S. Treasury Notes	AA+/Aaa/AAA	September 30, 2019	10,021	June 30, 2018	1,571
U.S. Treasury Notes	AA+/Aaa/AAA	December 31, 2019	2,225	July 31, 2018	1,576
U.S. Treasury Notes	AA+/Aaa/AAA	January 31, 2020	618	August 31, 2018	1,574
U.S. Treasury Notes	AA+/Aaa/AAA	February 29, 2020	1,060	September 30, 2018	1,574
U.S. Treasury Notes	AA+/Aaa/AAA	March 31, 2020	3,432	October 31, 2018	1,583
U.S. Treasury Notes	AA+/Aaa/AAA	June 30, 2020	1,984	November 30, 2018	1,580
U.S. Treasury Notes	AA+/Aaa/AAA	July 31, 2020	32,490	December 31, 2018	1,568
U.S. Treasury Notes	AA+/Aaa/AAA	August 31, 2020	332	January 31, 2019	1,558
U.S. Treasury Notes	AA+/Aaa/AAA	November 30, 2020	18,430	February 28, 2019	1,558
U.S. Treasury Notes	AA+/Aaa/AAA	February 28, 2021	10,731	March 31, 2019	1,517
U.S. Treasury Notes	AA+/Aaa/AAA	March 31, 2021	12,231	May 31, 2019	10,974
U.S. Treasury Notes	AA+/Aaa/AAA	April 30, 2021	14,813	September 30, 2019	32,485
U.S. Treasury Notes	AA+/Aaa/AAA	July 31, 2021	5,472	June 30, 2020	6,296
U.S. Treasury Notes	AA+/Aaa/AAA	August 31, 2021	35,798	July 30, 2020	32,462
U.S. Treasury Notes	AA+/Aaa/AAA	October 31, 2021	15,573	November 30, 2020	13,188
U.S. Treasury Notes	AA+/Aaa/AAA	January 31, 2022	1,459	February 28, 2021	10,182
U.S. Treasury Notes	AA+/Aaa/AAA	April 30, 2022	2,911	March 31, 2021	12,594
U.S. Treasury Notes	AA+/Aaa/AAA	July 31, 2022	14,037	April 30, 2021	14,512
U.S. Treasury Notes	AA+/Aaa/AAA	September 30, 2022	25,056	July 30, 2021	5,640
U.S. Treasury Notes	AA+/Aaa/AAA	November 30, 2022	485	August 31, 2021	35,358
U.S. Treasury Notes	AA+/Aaa/AAA	January 31, 2023	24,013	October 31, 2021	14,359
U.S. Treasury Notes	AA+/Aaa/AAA	March 31, 2023	9,647	—	—
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	July 19, 2019	9,212	January 12, 2018	12,970
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	August 1, 2019	2,533	July 19, 2019	9,248
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	August 15, 2019	9,068	April 20, 2020	9,175
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	October 2, 2019	4,501	August 12, 2021	18,316
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	April 20, 2020	15,599	—	—
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	April 23, 2020	2,251	—	—
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	September 29, 2020	12,590	—	—

(Continued)

(In thousands)

Investments	Credit ratings June 30, 2018 (S&P/Moody's / Fitch)	June 30, 2018 Maturities		June 30, 2018 Fair value	June 30, 2017 Maturities		June 30, 2017 Fair value
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	November 17, 2020	$	2,812	—	$	—
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	February 16, 2021		7,497	—		—
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	August 12, 2021		17,970	—		—
American Honda Finance Corp	A-1/P-1/F1	July 23, 2018		1,598	—		—
American Honda Finance Corp	A-1/P-1/F1	July 25, 2018		999	—		—
Bank Montreal Chicago	A-1/P-1/F1+	October 4, 2018		2,624	—		—
BNP Paribas New York	A-1/P-1/F1	August 10, 2018		2,065	—		—
BNP Paribas New York	A-1/P-1/F1	August 24, 2018		498	—		—
BNP Paribas New York	A-1/P-1/F1	November 7, 2018		2,618	—		—
Credit Agricole Corp	A-1/P-1/F1	February 7, 2019		2,619	—		—
Dexia Credit Local SA New York	A-1+/P-1/F1+	February 8, 2019		2,498	—		—
ING (US) Funding LLC	A-1/P-1/NR	August 10, 2018		319	—		—
ING (US) Funding LLC	A-1/P-1/NR	February 6, 2019		2,619	—		—
JP Morgan Securities LLC	A-1/P-1/F1+	August 9, 2018		2,065	—		—
JP Morgan Securities LLC	A-1/P-1/F1+	August 24, 2018		498	—		—
JP Morgan Securities LLC	A-1/P-1/F1+	February 1, 2019		2,621	—		—
MUFG Bank LTD	A-1/P-1/F1	August 24, 2018		498	—		—
MUFG Bank LTD	A-1/P-1/F1	February 7, 2019		2,619	—		—
Apple Inc	AA+/Aa1/NR	May 6, 2019		718	—		—
Apple Inc	AA+/Aa1/NR	November 13, 2019		346	—		—
Apple Inc	AA+/Aa1/NR	February 7, 2020		296	—		—
Microsoft Corp	AAA/Aaa/AA+	August 8, 2019		1,053	—		—
Microsoft Corp	AAA/Aaa/AA+	February 6, 2020		296	—		—
Cisco Systems Inc	AA-/A1/NR	September 20, 2019		887	—		—
Cisco Systems Inc	AA-/A1/NR	January 15, 2020		308	—		—
Canadian Imperial CD	A-1/P-1/F1+	October 12, 2018		1,746	—		—
Toronto Dominion Bank NY	A-1+/P-1/F1+	October 12, 2018		1,750	—		—
International Bank for Reconstruction & Development	AAA/Aaa/AAA	September 4, 2020		391	—		—
International Bank for Reconstruction & Development	AAA/Aaa/AAA	March 9, 2021		388	—		—
International Bank for Reconstruction & Development	AAA/Aaa/AAA	May 24, 2021		385	—		—
Inter-American Development Bank	AAA/Aaa/AAA	November 9, 2020		395	—		—
Inter-American Development Bank	AAA/Aaa/AAA	March 15, 2021		489	—		—

(In thousands)

Investments	Credit ratings June 30, 2018 (S&P/Moody's / Fitch)	June 30, 2018 Maturities	June 30, 2018 Fair value	June 30, 2017 Maturities	June 30, 2017 Fair value
Inter-American Development Bank	AAA/Aaa/AAA	April 19, 2021	$ 338	—	$ —
Inter-American Development Bank	AAA/Aaa/AAA	April 14, 2022	482	—	—
Inter-American Development Bank	AAA/Aaa/AAA	September 14, 2022	862	—	—
State of California	AA-/Aa3/AA-	April 1, 2021	349	—	—
University of California	AA/Aa2/AA	May 15, 2021	501	—	—
Fannie Mae-Aces	AA+/Aaa/AAA	September 25, 2021	203	—	—
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	April 25, 2022	282	—	—
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	August 25, 2022	215	—	—
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	February 1, 2023	96	—	—
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	February 25, 2023	167	—	—
Walmart Inc	AA/Aa2/AA	October 9, 2019	297	—	—
Oracle Corp	AA-/A1/A+	October 8, 2019	298	—	—
Toyota Motor Credit Corp	AA-/Aa3/A	October 18, 2019	592	—	—
Chevron Corp	AA-/Aa2/NR	November 15, 2019	348	—	—
Chevron Corp	AA-/Aa2/NR	March 3, 2020	296	—	—
Bank of New York Mellon Corp	A/A1/AA-	February 24, 2020	395	—	—
UBS AG Stamford	A+/Aa2/AA-	March 2, 2020	451	—	—
Bank of Nova Scotia Houston CD	A+/A1/AA-	June 5, 2020	352	—	—
Swedbank (New York) Cert Depos	AA-/Aa2/AA-	November 16, 2020	296	—	—
Royal Bank of Canada NY	AA-/A1/AA-	June 7, 2021	404	—	—
International Finance Corp	AAA/Aaa/NR	January 25, 2021	494	—	—
International Finance Corp	AAA/Aaa/NR	March 9, 2021	297	—	—
Goldman Sachs Financial Square Treasury Obligations Fund			8,373		6,822
Cash			37,662		35,803
Total			$ 717,084		$ 557,766

(In thousands)

Fair Value Hierarchy

The City categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. The inputs and techniques used for valuing securities are not necessarily an indication of risk associated with investing in those securities.

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The following is a summary of the fair value hierarchy of the Airport's cash and investments with fiscal agent as of June 30, 2018 and June 30, 2017.

	Fiscal year 2018				
			Fair value measurement using		
	Fair value June 30, 2018	Investments exempt from fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)
Investments outside City Treasury:					
Certificates of deposit	$ 4,999	—	—	4,999	—
Commercial paper	26,759	—	—	26,759	—
State and local agencies	850	—	—	850	—
Supranationals	4,521	—	—	4,521	—
U.S. agencies	271,325	—	—	271,325	—
U.S. corporate notes (medium term notes)	6,130	—	—	6,130	—
U.S. treasury securities	356,465	—	356,465	—	—
Cash and cash equivalents	17,654	17,654	—	—	—
Investments exempt from fair value*	28,381	28,381	—	—	—
Total	$ 717,084	46,035	356,465	314,584	—

* Money market funds

(In thousands)

	Fiscal year 2017				
			Fair value measurement using		
	Fair value June 30, 2017	**Investments exempt from fair value**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Unobservable inputs (Level 3)**
Investments outside City Treasury:					
U.S. treasury securities	$ 294,965	—	294,965	—	—
U.S. agencies	220,176	—	—	220,176	—
Cash and cash equivalents	35,803	35,803	—	—	—
Investments exempt from fair value*	6,822	6,822	—	—	—
Total	$ 557,766	42,625	294,965	220,176	—

* Money market funds

Investments outside the City Treasury pool consists of U.S. Treasury securities, U.S. Government Agency securities, and Money Market Funds. U.S. Treasury securities are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy. U.S. Government Agency securities are valued using mid pricing and classified in Level 2 of the fair value hierarchy. Investments exempt from fair value treatment consist of money market mutual funds with investment holdings having maturities of one year or less at the time of purchase.

The primary objectives of the Airport’s policy on investment of debt service reserve funds and debt service funds (including principal and interest accounts) held by the Trustees are safety, liquidity, and yield.

Safety is the foremost objective of the investment program. Investments undertaken seek to ensure the preservation of capital in the overall portfolio, the objective of which is to mitigate credit and interest rate risk.

The term of any investment is based on the cash flow needed to meet the Airport’s debt service requirements. Consequently, investment of any debt service reserve funds is limited to seven years or less, and investments in any principal and interest payment accounts are to mature no later than the dates on which the principal or interest payments are due.

The Airport will maximize the retainable earnings of all bond proceeds after meeting the requirements of safety and liquidity. After these objectives are met, the Airport’s investment policy will attempt to achieve net investment yield as close as practicable to each bond fund’s arbitrage yield, if any.

Funds held by the Senior Trustee in funds and accounts established under the Airport Commission’s Resolution No. 91-0210 adopted on December 3, 1991, as amended and supplemented (the 1991 Master Bond Resolution), are invested in “Permitted Investments” as defined in the 1991 Master Bond Resolution.

Funds held by the Subordinate Trustee in funds and accounts established under the Airport Commission's Resolution No. 97-0146 adopted on May 20, 1997 as amended and supplemented (the 1997 Note Resolution) are invested in "Permitted Investments" as defined in the 1997 Note Resolution.

The Airport had approximately $717.1 million and $557.8 million in investments held by, and in the name of, the Trustees as of June 30, 2018 and 2017, respectively.

Funds held by the Hotel Special Facility Bonds Trustee in funds and accounts established under the Hotel Special Facility Bonds Trust Agreement, are invested in "Investment Securities" as defined in the Trust Agreement. The Airport had approximately $260.0 million and $0 in investments held by, and in the name of, the Hotel Special Facility Bonds Trustee as of June 30, 2018 and 2017, respectively.

All other funds of the Airport are invested in accordance with the (1) City Treasurer's policy and, if applicable, (2) the 1991 Master Bond Resolution or the 1997 Note Resolution, as appropriate.

(4) Grants Receivable

The Airport receives federal funding from the FAA, the TSA, and other federal agencies. Grants receivable of $15.2 million and $5.1 million as of June 30, 2018 and 2017, respectively, were based on actual costs incurred, subject to federal reimbursement limits.

In making decisions concerning the distribution of discretionary grants to an airport, the Secretary of Transportation may consider, as a militating factor, whether the Airport uses its revenues for purposes other than capital or operating costs, when those revenues exceed the amount used by the Airport for such costs in the base year ending June 30, 1995 as adjusted for inflation. The Airport Commission pays a portion of the Airport's revenues to the City's General Fund as an annual service payment, in part as compensation for all indirect services, management and facilities provided by the City to the Airport. The annual service payment is considered to be a noncapital, nonoperating cost for this purpose. For the past ten fiscal years, the annual service payment has exceeded the inflation adjusted base year payment when adjusted for inflation. The Airport Commission uses discretionary grants from the FAA to offset a portion of the costs of various capital projects at the Airport. The Commission received $12.4 million in FAA discretionary grants in the federal fiscal year ended September 30, 2016, which is $15.4 million less than the Commission requested, as a result of the amount of the annual service payment. The Commission did not request or receive any FAA discretionary grants in the federal fiscal year ended September 30, 2018. The FAA may reduce discretionary grants in the future. The reduction in discretionary grants awarded to the Airport increases by a corresponding amount the capital expenditures that the Airport Commission needs to fund from other sources, including operating revenues, PFCs and bond proceeds.

Project costs are subject to audit by the funding agencies to ensure that the costs are allowable under the grant agreements. If any project costs are disallowed, amounts recorded as grants receivable will be reduced or refunded to the respective funding agencies.

(5) Capital Assets

Capital assets consist of the following (in thousands):

Fiscal Year 2018

	July 1, 2017	Additions	Deletions	Adjustments	June 30, 2018
Capital assets not being depreciated:					
Land	$ 3,074	—	—	26,739	29,813
Intangible assets	6,881	—	—	—	6,881
Construction in progress	539,269	1,030,677	(253,155)	22	1,316,813
Total capital assets not being depreciated	549,224	1,030,677	(253,155)	26,761	1,353,507
Capital assets being depreciated/amortized:					
Buildings, structures, and improvements	6,267,094	134,934	(103,398)	(26,739)	6,271,891
Equipment	318,632	13,277	(10,435)	—	321,474
Intangible assets	111,937	3,984	—	—	115,921
Total capital assets being depreciated/amortized	6,697,663	152,195	(113,833)	(26,739)	6,709,286
Less accumulated depreciation/amortization:					
Buildings, structures, and improvements	(2,696,360)	(224,382)	90,364	(241)	(2,830,619)
Equipment	(173,854)	(33,540)	6,299	488	(200,607)
Intangible assets	(94,044)	(7,495)	—	1	(101,538)
Total accumulated depreciation/amortization	(2,964,258)	(265,417)	96,663	248	(3,132,764)
Total capital assets being depreciated/amortized, net	3,733,405	(113,222)	(17,170)	(26,491)	3,576,522
Total capital assets, net	$ 4,282,629	917,455	(270,325)	270	4,930,029

Total interest costs were approximately $240.2 million for fiscal year 2018 and $219.2 million for fiscal year 2017, of which approximately $28.8 million and $8.8 million, respectively, were capitalized.

In fiscal year 2007, the Airport adopted a cost allocation plan to capture indirect costs as a component of a building or other capital asset to reflect the full and true cost of a capital asset. In accordance with the Uniform Guidance, the indirect costs capitalized for the years ended June 30, 2018 and 2017, were $19.4 million and $18.1 million, respectively.

In fiscal year 2018, $26.7 million in capital assets was recategorized from buildings, structures and improvements to non-depreciable land and land improvements.

(In thousands)

Fiscal Year 2017

		July 1, 2016	Additions	Deletions	June 30, 2017
Capital assets not being depreciated:					
Land	$	3,074	—	—	3,074
Intangible assets		6,881	—	—	6,881
Construction in progress		286,228	398,713	(145,672)	539,269
Total capital assets not being depreciated		296,183	398,713	(145,672)	549,224
Capital assets being depreciated/amortized:					
Buildings, structures, and improvements		6,109,994	219,192	(62,092)	6,267,094
Equipment		290,644	39,067	(11,079)	318,632
Intangible assets		144,982	8,855	(41,900)	111,937
Total capital assets being depreciated/amortized		6,545,620	267,114	(115,071)	6,697,663
Less accumulated depreciation/amortization:					
Buildings, structures, and improvements		(2,518,350)	(226,245)	48,235	(2,696,360)
Equipment		(148,411)	(33,089)	7,646	(173,854)
Intangible assets		(129,406)	(6,507)	41,869	(94,044)
Total accumulated depreciation/amortization		(2,796,167)	(265,841)	97,750	(2,964,258)
Total capital assets being depreciated/amortized, net		3,749,453	1,273	(17,321)	3,733,405
Total capital assets, net	$	4,045,636	399,986	(162,993)	4,282,629

(6) Subordinate Commercial Paper Notes

On May 20, 1997, the Airport Commission adopted Resolution No. 97-0146, as amended and supplemented (the 1997 Note Resolution), authorizing the issuance of subordinate commercial paper (CP) notes in an aggregate principal amount not to exceed the lesser of $400.0 million or the stated amount of the letter(s) of credit securing the CP. On November 1, 2016, the Airport Commission adopted Resolution No. 16-0275, which amended the 1997 Note Resolution to increase the authorized maximum aggregate principal amount by $100.0 million, from $400.0 million to $500.0 million.

The Airport issues CP in series based on tax status that are divided into subseries according to the bank providing the applicable direct-pay letter of credit. In addition to the applicable letter of credit, the CP notes are further secured by a pledge of the Net Revenues of the Airport, subject to the prior payment of the Commission's San Francisco International Airport Second Series Revenue Bonds (the Senior Bonds) outstanding from time to time under Resolution No. 91-0210, adopted by the Commission on December 3, 1991, as amended and supplemented (the 1991 Master Bond Resolution).

Net Revenues are generally defined in the 1997 Note Resolution as all revenues earned by the Commission from or with respect to its construction, possession, management, supervision, maintenance, extension, operation, use and control of the Airport (not including certain amounts specified in the 1997 Note Resolution), less Operation and Maintenance Expenses (as defined in the 1997 Note Resolution). See note 8.

The CP notes are special, limited obligations of the Commission, and the payment of the principal of and interest on the CP notes is secured by a pledge of, lien on and security interest in the Net Revenues and amounts in the funds and accounts as provided in the 1997 Note Resolution, subject to the prior payment of principal of and interest on the Senior Bonds. The CP notes are secured on a parity with any other bonds or other obligations from time to time outstanding under the 1997 Note Resolution.

Fiscal Year 2018

During fiscal year 2018, the CP program was supported by two $100.0 million principal amount direct-pay letters of credit issued by State Street Bank and Trust Company and Wells Fargo Bank, National Association, which, as of June 30, 2018, had expiration dates of May 2, 2019, and May 31, 2019, respectively; a third letter of credit issued by Royal Bank of Canada, acting through a branch located at 200 Vesey Street, New York, New York, in the principal amount of $200.0 million had an expiration date of May 1, 2020, as of June 30, 2018; and a new letter of credit issued on June 22, 2017, by Sumitomo Mitsui Banking Corporation, acting through its New York Branch, in the principal amount of $100.0 million and with an expiration date of June 21, 2022. Each of the letters of credit supports separate subseries of CP. In the aggregate the letters of credit permit the Airport to issue CP up to a combined maximum principal amount of $500.0 million as of June 30, 2018.

As of June 30, 2018, there were no obligations other than the CP notes outstanding under the 1997 Note Resolution.

During fiscal year 2018, the Airport issued new money CP notes in the aggregate principal amount of $390.1 million (AMT) and $167.6 million (Non-AMT) to fund capital improvement projects.

The following table summarizes the activity of CP (excluding refunding CP) during the fiscal year ended June 30, 2018 (in thousands):

	Interest rate	July 1, 2017	Increases	Decreases	June 30, 2018
Commercial paper (Taxable)	0.00%	$ —	—	—	—
Commercial paper (AMT)	0.85%-1.88%	67,000	390,110	(455,860)	1,250
Commercial paper (Non-AMT)	0.82%-1.68%	111,000	167,590	(250,430)	28,160
Total		$ 178,000	557,700	(706,290)	29,410

Fiscal Year 2017

During fiscal year 2017, the CP program was supported by two $100.0 million principal amount direct-pay letters of credit issued by State Street Bank and Trust Company and Wells Fargo Bank, National Association, which, as of June 30, 2017, had expiration dates of May 2, 2019, and May 31, 2019, respectively; a third letter of credit issued by Royal Bank of Canada in the principal amount of $200.0 million that was amended on May 4, 2017, to extend its expiration date from May 19, 2017 to May 1, 2020; and a new letter of credit issued on June 22, 2017, by Sumitomo Mitsui Banking Corporation, acting through its New York Branch, in the principal amount of $100.0 million and with an expiration date of June 21, 2022. Each of the letters of credit supports separate subseries of CP. In the aggregate the letters of credit permit the Airport to issue CP up to a combined maximum principal amount of $500.0 million as of June 30, 2017.

As of June 30, 2017, there were no obligations other than the CP notes outstanding under the 1997 Note Resolution.

During fiscal year 2017, the Airport issued new money CP in the amount of $67.0 million (AMT) and $111.0 million (Non-AMT) to fund capital improvement projects. The Airport also issued and retired $1.0 million of new money CP (taxable) during fiscal year 2017, to fund costs related to various bond and note transactions.

The following table summarizes the activity of CP (excluding refunding CP) during the fiscal year ended June 30, 2017 (in thousands):

	Interest rate	July 1, 2016	Increases	Decreases	June 30, 2017
Commercial paper (Taxable)	0.90 %	$ —	1,000	(1,000)	—
Commercial paper (AMT)	0.36%–1.01%	320,350	67,000	(320,350)	67,000
Commercial paper (Non-AMT)	0.46%–0.99%	22,700	111,000	(22,700)	111,000
Total		$ 343,050	179,000	(344,050)	178,000

(7) Long-Term Obligations

Long-term obligation activity for the years ended June 30, 2018 and 2017, was as follows (in thousands):

	July 1, 2017	Additions	Reductions	June 30, 2018	Due within one year
Revenue bonds payable	$ 4,757,530	2,035,005	(547,695)	6,244,840	214,710
Less unamortized discounts	(262)	—	9	(253)	—
Add unamortized premiums	328,392	248,848	(36,464)	540,776	—
Total revenue bonds payable	5,085,660	2,283,853	(584,150)	6,785,363	214,710
Compensated absences	17,017	15,103	(14,066)	18,054	10,699
Accrued workers' compensation	7,336	3,019	(2,362)	7,993	1,739
Estimated claims payable	855	(792)	(13)	50	22
Net OPEB liability (see note 10b)	138,168	105,928	—	244,096	—
Net pension liability (see note 10a)	359,599	—	(51,140)	308,459	—
Derivative instruments	65,965	—	(28,407)	37,558	—
Total	$ 5,674,600	2,407,111	(680,138)	7,401,573	227,170

	July 1, 2016	Additions	Reductions	June 30, 2017	Due within one year
Revenue bonds payable	$ 4,234,725	887,920	(365,115)	4,757,530	203,580
Less unamortized discounts	(271)	—	9	(262)	—
Add unamortized premiums	195,222	168,368	(35,198)	328,392	—
Total revenue bonds payable	4,429,676	1,056,288	(400,304)	5,085,660	203,580
Compensated absences	17,039	13,525	(13,547)	17,017	9,845
Accrued workers' compensation	6,657	3,095	(2,416)	7,336	1,520
Estimated claims payable	1,477	174	(796)	855	777
Net OPEB liability (see note 10b)	124,352	13,816	—	138,168	—
Net pension liability (see note 10a)	144,271	215,328	—	359,599	—
Derivative instruments	96,132	—	(30,167)	65,965	—
Total	$ 4,819,604	1,302,226	(447,230)	5,674,600	215,722

Bond Transactions and Balances

On December 3, 1991, the Commission adopted Resolution No. 91-0210, as amended and supplemented (the 1991 Master Bond Resolution), authorizing the issuance from time to time of San Francisco International Airport Second Series Revenue Bonds to finance and refinance capital projects at the Airport. The maximum principal amount of such bonds is not limited by the 1991 Master Bond Resolution, but the Commission must satisfy an additional bonds test prior to the issuance of any such bonds. The 1991 Master Bond Resolution constitutes a contract between the Commission and the registered owners of the bonds under which the Commission has irrevocably pledged the Net Revenues of the Airport to the payment of the principal of and interest on the bonds.

Net Revenues are generally defined in the 1991 Master Bond Resolution as all revenues earned by the Commission from or with respect to its possession, management, supervision, operation, and control of the Airport (not including certain amounts specified in the 1991 Master Bond Resolution), less Operation and Maintenance Expenses (as defined in the 1991 Master Bond Resolution). See note 8. Net Revenues generally exclude revenues from Airport facilities that have been designated by the Commission as “Special Facilities” and expenses of Special Facilities payable from such excluded revenues.

The bonds are special, limited obligations of the Commission, and the payment of the principal of and interest on the bonds is secured by a pledge of, lien on and security interest in the Net Revenues and amounts in the funds and accounts provided in the 1991 Master Bond Resolution. The payment of the principal of and interest on all previously issued bonds under the 1991 Master Bond Resolution is secured by a pledge of, lien on and security interest in Net Revenues on a parity with the pledge, lien and security interest securing any additional bonds issued thereunder.

As of June 30, 2018 and 2017, long-term revenue bonds consisted of the following (in thousands):

Description	Date of issue	Interest rate	2018	2017
Second Series Revenue Bonds:				
Issue 32F	11/16/06	5.25 %	$ 70,930	$ 103,475
Issue 34C/D/E/F*	03/27/08	5.00%–5.75%	—	157,800
Issue 36A	06/03/09	Variable rate	—	93,130
Issue 36B	06/03/09	Variable rate	—	37,820
Issue 36C	06/03/09	Variable rate	—	33,655
Issue 37C	06/03/09	Variable rate	85,135	86,930
Issue 2009A/B	09/03/09	4.90 %	168,470	175,000
Issue 2009C	11/03/09	3.88%–5.00%	30,125	40,925
Issue 2009D	11/04/09	2.50%–4.00%	80,180	81,870
Issue 2009E	11/18/09	4.38%–6.00%	469,400	485,800
Issue 2010A	02/10/10	Variable rate	205,865	209,240
Issue 2010C	04/07/10	3.00%–5.00%	126,165	171,545
Issue 2010D	04/07/10	3.00%–5.00%	43,755	55,550
Issue 2010F	08/05/10	5.00 %	121,360	121,360
Issue 2010G	08/05/10	5.00 %	7,100	7,100
Issue 2011A	02/22/11	5.00%–5.75%	7,080	23,915
Issue 2011B	02/22/11	5.00%–5.50%	18,645	24,100
Issue 2011C	07/21/11	5.00 %	163,720	163,720
Issue 2011D	07/21/11	5.00 %	84,865	84,865
Issue 2011E	07/21/11	3.43%–4.48%	5,625	12,760
Issue 2011F	09/20/11	5.00 %	123,325	123,325
Issue 2011G	09/20/11	5.00%–5.25%	29,660	29,660
Issue 2011H	09/20/11	2.74%–4.15%	49,455	66,195
Issue 2012A	03/22/12	5.00 %	208,025	208,025
Issue 2012B	03/22/12	4.00%–5.00%	107,465	108,265
Issue 2013A	07/31/13	5.00%–5.50%	319,080	360,785
Issue 2013B	07/31/13	5.00 %	87,860	87,860
Issue 2013C	07/31/13	2.12%–2.86%	3,430	9,350
Issue 2014A	09/24/14	5.00 %	376,320	376,320
Issue 2014B	09/24/14	5.00 %	97,290	97,290
Issue 2016A	02/25/16	3.00%–5.00%	232,075	232,075
Issue 2016B	09/29/16	5.00 %	574,970	574,970
Issue 2016C	09/29/16	5.00 %	165,155	165,155
Issue 2016D	09/29/16	5.00 %	147,305	147,695

(In thousands)

Description	Date of issue	Interest rate	2018	2017
Issue 2017A	10/31/17	5.00% - 5.25%	$ 339,585	$ —
Issue 2017B	10/31/17	5.00 %	231,985	—
Issue 2017C	10/31/17	1.72% - 1.94%	45,140	—
Issue 2017D	10/31/17	5.00 %	144,830	—
Issue 2018A	02/01/18	5.00 %	115,355	—
Issue 2018D	05/30/18	5.00% - 5.25%	722,805	—
Issue 2018E	05/30/18	5.00 %	116,275	—
Issue 2018F	05/30/18	3.80 %	7,025	—
Issue 2018G	05/30/18	5.00 %	35,665	—
Issue 2018B	06/06/18	Variable rate	138,170	—
Issue 2018C	06/06/18	Variable rate	138,170	—
			6,244,840	4,757,530
Unamortized discount			(253)	(262)
Unamortized premium			540,776	328,392
Total revenue bonds payable			6,785,363	5,085,660
Less current portion			(214,710)	(203,580)
Total long-term revenue bonds payable			$ 6,570,653	4,882,080

* As of June 30, 2017, Issue 34C/F was no longer outstanding.

Interest Rate Swaps

Objective and Terms – On December 16, 2004, the Airport entered into seven forward starting interest rate swaps (the 2004 swaps) with an aggregate notional amount of $405.0 million, in connection with the anticipated issuance of Second Series Variable Rate Revenue Refunding Bonds, Issues 32A-E on February 10, 2005, and Second Series Variable Rate Revenue Refunding Bonds, Issue 33 on February 15, 2006. The swap structure was intended as a means to increase the Airport's debt service savings when compared with fixed rate refunding bonds at the time of issuance. The expiration date of the 2004 swaps was May 1, 2026.

On July 26, 2007, the Airport entered into four additional forward starting interest rate swaps in connection with the anticipated issuance of its Second Series Variable Rate Revenue Refunding Bonds, Issue 37B/C, on May 15, 2008 (the 2007 swaps), and Second Series Variable Rate Revenue Refunding Bonds, Series 2010A, on February 10, 2010 (the 2010 swaps). The expiration dates of the 2007 and 2010 swaps are May 1, 2029 and 2030, respectively.

In the spring of 2008, the Airport refunded several issues of auction rate and variable rate bonds, including Issue 32 and Issue 33. The 2004 swaps associated with these issues then became associated with the Second Series Variable Rate Revenue Refunding Bonds, Issues 36A-D, and Issue 37A. Subsequently, on October 30, 2008 and December 3, 2008, the Airport refunded Issue 37A and

Issue 37B, respectively. Concurrently with the refunding of Issue 37A, the three associated swaps with an aggregate notional amount of $205.1 million were terminated. The swap associated with Issue 37B was not terminated upon the refunding of Issue 37B.

On December 16, 2010, the Airport terminated a swap with Depfa Bank plc associated with the Series 2010A-3 Bonds, with a notional amount of $72.0 million.

Following the termination of the Depfa swap, the Series 2010A-3 Bonds, which are variable rate, were no longer hedged with an interest rate swap. However, the swap associated with the Issue 37B Bonds is now indirectly hedging the Series 2010A-3 Bonds for accounting purposes.

On September 20, 2011, the Airport refunded the Issue 36D Bonds with proceeds of the San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2011H and terminated the swap with JP Morgan Chase Bank, N.A., associated with Issue 36D, which had an initial notional amount of $30.0 million. The Airport paid a termination fee of $4.6 million to the counterparty.

On October 31, 2017, the Commission refunded Issue 36A, Issue 36B, and Issue 36C Bonds and the 2004 swaps associated with these issues were terminated concurrently.

Under the 2007 and 2010 swaps, the Airport receives 61.85% of USD-LIBOR-BBA plus 0.34%. These payments are intended to approximate the variable interest rates on the bonds originally hedged by the swaps. The Airport makes a monthly fixed rate payment to the counterparties as set forth below which commenced on the date of issuance of the related bonds. The objective of the swaps is to achieve a synthetic fixed rate with respect to the hedged bonds. All of the outstanding interest rate swaps are terminable at any time upon making a market-based termination payment solely at the option of the Airport.

In July 2017, the United Kingdom (UK) Financial Conduct Authority, the UK markets regulator, indicated that the London Interbank Overnight Rate (LIBOR) would be phased out by the end of 2021. The Commission’s interest rate swap agreements calculate the variable rate payment owed from each counterparty to the Airport each month using LIBOR plus a certain spread. At least a portion of the Airport’s swaps are not scheduled to terminate until May 1, 2029 and May 1, 2030. The Commission expects its interest rate swap agreements to be modified to reflect the permanent discontinuation of LIBOR and its substitution with a new variable rate benchmark or variable rate-setting mechanism.

Risks

Basis Risk – The Airport has chosen a variable rate index based on a percentage of London Interbank Offered Rate (LIBOR) plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Airport is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable bond rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds.

Credit Risk – Should long-term interest rates rise and the fair value of the swaps become positive, the Airport would be exposed to credit risk in the amount of the swaps' fair value. Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities in an amount equal to the market value of a swap that exceeds specified thresholds linked to the counterparty's credit ratings. Any such collateral will be held by a custodial bank.

Counterparty Risk – The Airport is exposed to counterparty risk, which is related to credit and termination risk. While the insolvency or bankruptcy of a counterparty, or its failure to perform would be a default under the applicable swap documents, none of the Airport's swaps would automatically terminate. Rather, the Airport would have the option to terminate the affected swap at a market-based termination value, which may result in a payment to or from the counterparty. The Airport may also be exposed to counterparty risk in a high interest rate environment in the event a counterparty is unable to perform its obligations on a swap transaction leaving the Airport exposed to the variable rates on the associated debt. In order to diversify the Airport's swap counterparty credit risk and to limit the Airport's credit exposure to any one counterparty, the Airport's swap policy generally imposes limits on the maximum net termination exposure to any one counterparty. Maximum net termination exposure is calculated as of the date of execution of each swap and is monitored regularly during the term of the swap. The exposure limits vary for collateralized and noncollateralized swaps based upon the credit rating of the counterparty. If any exposure limit is exceeded by a counterparty during the term of a swap, the Airport Director is required to consult with the Airport's swap advisor and bond counsel regarding appropriate actions to take, if any, to mitigate such increased exposure, including, without limitation, transfer or substitution of a swap.

Termination Risk – All of the interest rate swaps are terminable at their termination price at any time at the option of the Airport. The Airport has limited termination risk with respect to the interest rate swaps. That risk would arise primarily from certain credit-related events or events of default on the part of the Airport, the municipal swap insurer, or the counterparty.

If the Airport is rated between Baa1/BBB+ and Baa3/BBB- (Moody's/S&P), and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any, unless the Airport chooses to provide suitable replacement credit enhancement, assign the Airport's interest in the swaps to a suitable replacement counterparty, or post collateral to secure the swap termination value. If the Airport is rated below Baa3/BBB- (Moody's/S&P) or its ratings are withdrawn or suspended, and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any. With respect to the Series 2010A swaps with no swap insurance, the counterparty termination provisions and the Airport rating thresholds are the same as described above.

Additional Termination Events under the swap documents with respect to the Airport include an insurer payment default under the applicable swap insurance policy, and certain insurer rating downgrades or specified insurer nonpayment defaults combined with a termination event or event of default on the part of the Airport or a ratings downgrade of the Airport below investment grade. Additional Termination Events under the swap documents with respect to a counterparty and/or its guarantor include a rating downgrade below a specific rating threshold, followed by a failure of the counterparty to assign its rights and obligations under the swap documents to another entity acceptable to the applicable insurer within 15 business days.

The downgrade of any swap counterparty is indicative of an increased risk to the Airport that such counterparty may become bankrupt or insolvent and not perform under the applicable swap. If a counterparty does not perform under its swap, the Airport may be required to continue making its fixed rate payments to the counterparty even though it does not receive a variable rate payment in return. The Airport may elect to terminate a swap with a nonperforming counterparty and may be required to pay a substantial termination payment related to the fair value of such swap, depending on market conditions at the time. The risks and termination rights related to the Airport's swaps are discussed in further detail in this Note.

Debt Service Reserve and Covenants; Contingency Account

The Airport Commission issues its senior lien San Francisco International Airport Second Series Revenue Bonds under the 1991 Master Bond Resolution, which provides, among other things, the general terms and conditions of the bonds, the funds and accounts relating to the bonds, and certain covenants made by the Airport Commission for the benefit of bondholders. Such covenants include not creating or allowing creation of liens on the Revenues or disposing of any property essential to maintaining revenues or operating the Airport, and maintaining specified levels of insurance or self-insurance. The Airport Commission may also establish one or more reserve accounts with different reserve requirements to secure one or more series of bonds. Accordingly, the Airport Commission has established three reserve accounts in the Reserve Fund: the Issue 1 Reserve Account, the 2009 Reserve Account, and the 2017 Reserve Account, all of which are held by the Senior Trustee. As permitted under the 1991 Master Bond Resolution, the Airport Commission may establish separate reserve accounts for individual series of bonds, or may issue bonds without a reserve account.

Issue 1 Reserve Account – The Issue 1 Reserve Account is the Airport's original parity reserve account established in connection with the first issuance of bonds under the 1991 Master Bond Resolution and which now secures most of the Airport Commission's outstanding bonds. Specifically, as of June 30, 2018, the Issue 1 Reserve Account secures all outstanding bonds except the series listed below as being secured by the 2009 Reserve Account and the 2017 Reserve Account, and except for Series 2010A, Series 2018B and Series 2018C. The Airport Commission may designate any series of bonds as a "participating series" secured by the Issue 1 Reserve Account. The reserve requirement is equal to the maximum annual debt service accruing in any year during the life of all participating series of bonds secured by the Issue 1 Reserve Account.

2009 Reserve Account – The Airport Commission has established an additional reserve account identified as the 2009 Reserve Account in the Reserve Fund, as security for each series of bonds (a 2009 Reserve Series) that is designated as being secured by the 2009 Reserve Account. As of June 30, 2018, only the Series 2009C and 2010D Bonds are secured by the 2009 Reserve Account. The reserve requirement for each 2009 Reserve Series is the lesser of: (i) maximum annual debt service for such series of 2009 Reserve Series Bonds, (ii) 125% of average annual debt service for such series of 2009 Reserve Series Bonds, and (iii) 10% of the outstanding principal amount of such series (or allocable issue price of such series if such series is sold with more than a de minimis (2%)

amount of original issue discount), in each case as determined from time to time. With respect to all 2009 Reserve Series, the reserve requirement is the aggregate of such amounts for each individual series.

2017 Reserve Account - The Airport Commission has established an additional pooled reserve account identified as the 2017 Reserve Account in the Reserve Fund, as security for each series of bonds (a 2017 Reserve Series) that is designated as being secured by the 2017 Reserve Account. As of June 30, 2018, only the Series 2017C, 2017D and Series 2018A Bonds are secured by the 2017 Reserve Account. The reserve requirement for the 2017 Reserve Account is equal to the lesser of: (i) the maximum amount of aggregate annual debt service for all 2017 Reserve Series Bonds in any Fiscal Year during the period from the date of calculation to the final scheduled maturity of the 2017 Reserve Series Bonds, (ii) 10% of the outstanding aggregate principal amount of all 2017 Reserve Series Bonds (provided that the issue price of a Series of 2017 Reserve Series Bonds will be used in this calculation if such Series was sold with an original issue discount that exceeded 2% of the principal of such Series on its original date of sale), and (iii) 125% of the average aggregate annual debt service for all 2017 Reserve Series Bonds.

Reserve Policies – Under the 1991 Master Bond Resolution, the Airport Commission may satisfy a portion of a reserve requirement by depositing with the Senior Trustee one or more reserve policies issued by a credit provider rated in the highest category by at least two rating agencies. However, the 1991 Master Bond Resolution does not require that those ratings be maintained after the date of deposit. The Issue 1 Reserve Account and 2009 Reserve Account contain reserve policies. Each of the providers of the reserve policies in the reserve accounts was rated “AAA” at the time the policies were deposited. However, as a result of the financial crisis that began in 2007, all of the major municipal bond insurance companies have been downgraded, and several are no longer providing current financial and operating information. In addition, under the terms of several of the reserve policies, the value of the policies may be adjusted downward from time to time as related bonds are refunded and such policies may have experienced a reduction in value. The Airport has periodically deposited additional cash in the Issue 1 Reserve Account to satisfy the reserve requirement and compensate for the diminished value or downgraded providers of these reserve policies.

Contingency Account – Under the 1991 Master Bond Resolution, the City Treasurer holds the Contingency Account as an account within the Revenue Fund, and the Commission may deposit in the Contingency Account such amounts, if any, as the Commission may determine from time to time. Moneys in the Contingency Account may be applied (i) to pay Operation and Maintenance Expenses; (ii) to make any required payments or deposits to pay or secure the payment of the principal or purchase price of or interest or redemption premium on the 1991 Resolution Bonds; and (iii) to pay the cost of any additions, improvements, repairs, renewals or replacements to the Airport, in each case only if and to the extent that moneys otherwise available to make such payments or deposits are insufficient.

(Continued)

Rate Covenant – Under the terms of the 1991 Master Bond Resolution, the Airport has covenanted that it will establish and at all times maintain rentals, rates, fees, and charges for the use of the Airport and for services rendered by the Airport so that:

(a) Net Revenues (as defined in the 1991 Master Bond Resolution) in each fiscal year will be at least sufficient (i) to make all required debt service payments and deposits in such fiscal year with respect to the bonds, any subordinate bonds, and any general obligation bonds issued by the City for the benefit of the Airport (there have been no such general obligation bonds outstanding for more than 30 years), and (ii) to make the annual service payment to the City, and

(b) Net Revenues, together with any transfer from the Contingency Account to the Revenue Account (both held by the City Treasurer), in each fiscal year will be at least equal to 125% of aggregate annual debt service with respect to the bonds for such fiscal year.

The methods required by the 1991 Master Bond Resolution for calculating debt service coverage differ from those required under GAAP, which are used to determine amounts reported in the Airport's financial statements. For example, the 1991 Master Bond Resolution includes in the definition of Operating and Maintenance Expenses (which is used to calculate Net Revenues) "the *payment* of pension charges … with respect to employees of the Commission…" (emphasis added) and excludes a number of noncash accrual items. Accordingly, the Commission excludes from its rate covenant calculations any noncash accrued pension obligations and includes only pension obligations actually paid during the fiscal year.

Post-Issuance Compliance with Federal Tax Law

The Airport follows certain federal tax law post-issuance compliance procedures that are intended to ensure that proceeds of its tax-exempt bonds are invested and expended consistent with applicable federal tax law, including the Internal Revenue Code of 1986, the Regulations promulgated thereunder, and other applicable guidance from the U.S. Treasury Department and the Internal Revenue Service (IRS).

Fiscal Year 2018

(a) Second Series Revenue Bonds (Capital Plan Bonds)

Pursuant to resolutions adopted in fiscal years 2009, 2013, 2015, 2017, and 2018, the Airport Commission has authorized the issuance of up to $7.8 billion of San Francisco International Airport Second Series Revenue Bonds (Capital Plan Bonds) to finance and refinance the construction, acquisition, equipping, and development of capital projects undertaken by the Airport, including retiring all or a portion of the Airport's outstanding subordinate commercial paper notes issued for capital projects, funding debt service reserves, and for paying costs of issuance. As of June 30, 2018, $3.8 billion of the authorized capital plan bonds remained unissued.

Second Series Revenue Bonds, Series 2017A/B/C

On October 31, 2017, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2017A (AMT), 2017B (Non-AMT/Governmental Purpose), and 2017C (Federally Taxable) in aggregate principal amount of $602.4 million to finance and refinance (through the repayment of commercial paper notes) a portion of the costs of the following projects, among others: (a) redevelopment of Terminal 1, (b) redevelopment of Terminal 3 West, (c) renovation of the International Terminal, (d) construction of a new long-term parking garage and extension of AirTrain service to that garage, (e) improvements to the Airport's security infrastructure, (f) certain airfield improvements, and (g) the construction of a new administration campus to consolidate some Commission administrative departments, to fund deposits to the Issue 1 Reserve Account and the 2017 Reserve Account, to fund a deposit to the Contingency Account, to fund deposits to capitalized interest accounts, and to pay costs of issuance.

Second Series Revenue Bonds, Series 2018D/E/F

On May 30, 2018, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2018D (AMT), Series 2018E (Non-AMT/Governmental Purpose), and Series 2018F (Federally Taxable) in aggregate principal amount of $846.1 million to finance and refinance (through the repayment of commercial paper notes) a portion of the costs of the following projects, among others: (a) redevelopment of Terminal 1, (b) redevelopment of Terminal 3 West, (c) renovation of the International Terminal departures level, (d) extension of AirTrain service to the long-term parking garages, (e) improvements to the Airport's security and technology infrastructure, (f) certain airfield improvements, (g) and the completion of a new administration campus to consolidate some Commission administrative departments, to fund a deposit to the Issue 1 Reserve Account, to fund a deposit to the Contingency Account, to fund deposits to capitalized interest accounts, and to pay costs of issuance.

Second Series Revenue Bonds, Series 2018B/C

On June 6, 2018, the Airport issued its Second Series Variable Rate Revenue Bonds, Series 2018B (Non-AMT/Governmental Purpose) and 2018C (Non-AMT/Governmental Purpose) in aggregate principal amount of $276.3 million to purchase $260.0 million of Hotel Special Facility Bonds (described below), to finance the development and construction of an AirTrain station adjacent to the on-Airport hotel being constructed, and to pay costs of issuance. See Notes 7(c) and 7(d).

(b) Second Series Revenue Refunding Bonds

Pursuant to resolutions adopted between fiscal years 2005 and 2018, the Airport Commission has authorized the issuance of up to $11.1 billion of San Francisco International Airport Second Series Revenue Refunding Bonds for the purposes of refunding outstanding 1991 Master Bond Resolution Bonds and outstanding subordinate commercial paper notes, funding debt service reserves, and paying costs of issuance, including any related bond redemption premiums. The Board has authorized the issuance of up to $8.4 billion of such refunding bonds.

As of June 30, 2018, $730.5 million of the Board-approved refunding bonds remained authorized but unissued.

(In thousands)

During fiscal year 2018, the Airport issued the following new refunding bonds under the 1991 Master Bond Resolution:

Second Series Revenue Bonds, Series 2017C and Second Series Revenue Refunding Bonds, Series 2017D

On October 31, 2017 the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2017D (AMT), in the aggregate principal amount of $144.8 million to refund $93.1 million of its Issue 36A, $37.8 million of its Issue 36B, and $33.7 million of its Issue 36C variable rate bonds and to fund a deposit to the 2017 Reserve Account. In addition, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2017C (Federally Taxable) of which $14.3 million was used for refunding purposes, including to make swap termination payments in conjunction with the refunded bonds, to fund a deposit to the 2017 Reserve Account, and to pay costs of issuance.

The net proceeds of the Series 2017D Bonds (consisting of $144.8 million par amount of the Series 2017D Bonds and original issue premium of $25.5 million), together with $9.3 million accumulated in the debt service fund and $0.1 million accumulated in the holding account relating to the refunded bonds were used to deposit $15.0 million into the 2017 Reserve Account and $164.7 million into irrevocable escrow funds with the Senior Trustee to refund $164.6 million in revenue bonds as described below.

	Amount refunded	Interest rate	Redemption price
Second Series Revenue Bonds Issue:			
Issue 36A (Non-AMT/ Private Activity)	$ 93,130	Variable rate	100%
Issue 36B (Non-AMT/ Private Activity)	37,820	Variable rate	100%
Issue 36C (Non-AMT/ Private Activity)	33,655	Variable rate	100%
Total	$ 164,605		

The refunded bonds were redeemed on November 1, 2017.

In aggregate, the Series 2017C/D refundings resulted in the recognition of a deferred accounting loss of $14.5 million for the fiscal year ended June 30, 2018. In aggregate, the Series 2017C/D refundings increased the Airport's aggregate gross debt service payments by approximately $17.2 million over the next ten years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $7.0 million.

Second Series Revenue Refunding Bonds, Series 2018A

On February 1, 2018, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2018A (AMT) in the aggregate principal amount of $115.4 million to refund $140.1 million of its Issue 34E fixed rate bonds, to fund a deposit to the 2017 Reserve Account, and to pay costs of issuance.

(In thousands)

The net proceeds of the Series 2018A Bonds (consisting of $115.4 million par amount of the Series 2018A Bonds and original issue premium of $12.5 million), together with $2.0 million accumulated in the debt service fund relating to the refunded bonds, and a $26.3 million release from the Issue 1 Reserve Account relating to the refunded bonds, were used to pay $0.3 million in costs of issuance and $0.2 million underwriter's discount and deposit $11.5 million into the 2017 Reserve Account and $144.1 million into irrevocable escrow funds with the Senior Trustee to refund $140.1 million in revenue bonds as described below.

	Amount refunded	Interest rate	Redemption price
Second Series Revenue Bonds Issue:			
Issue 34E (AMT)	$ 140,090	5.75%	100%
Total	$ 140,090		

The refunded bonds were redeemed on May 1, 2018.

The Series 2018A refunding resulted in the recognition of a deferred accounting loss of $3.5 million for the fiscal year ended June 30, 2018. The Series 2018A refunding reduced the Airport's aggregate gross debt service payments by approximately $33.5 million over the next six years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $16.6 million.

Second Series Revenue Bonds, Series 2018G

On May 30, 2018, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2018G (AMT) in the aggregate principal amount of $35.7 million to refund $41.7 million of its Series 2013A fixed rate bonds and to pay costs of issuance.

The net proceeds of the Series 2018G Bonds (consisting of $35.7 million par amount of the Series 2018G Bonds and original issue premium of $6.2 million), together with $0.2 million accumulated in the debt service fund relating to the refunded bonds, were used to pay $0.1 million in costs of issuance and $0.1 million underwriter's discount and deposit $41.9 million into irrevocable escrow funds with the Senior Trustee to refund $41.7 million in revenue bonds as described below.

	Amount refunded	Interest rate	Redemption price
Second Series Revenue Bonds Issue:			
2013A (AMT)	$ 41,705	5.50%	100%
Total	$ 41,705		

The refunded bonds were redeemed on June 1, 2018.

(In thousands)

The Series 2018G refunding resulted in the recognition of a deferred accounting gain of $1.2 million for the fiscal year ended June 30, 2018. The Series 2018G refundings reduced the Airport's aggregate gross debt service payments by approximately $10.6 million over the next eight years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $8.7 million.

(c) Variable Rate Demand Bonds

As of June 30, 2018, the Airport Commission had outstanding an aggregate principal amount of $567.3 million of Second Series Variable Rate Revenue Refunding Bonds, consisting of Issue 37C, Series 2010A, Series 2018B, and Series 2018C (collectively, the "Variable Rate Bonds"), with final maturity dates of May 1, 2029 (Issue 37C), May 1, 2030 (Series 2010A), and May 1, 2058 (Series 2018B and 2018C). The Variable Rate Bonds are long-term, tax-exempt bonds that currently bear interest at a rate that is adjusted weekly, and that are subject to tender at par at the option of the holder thereof on seven days' notice. Any tendered Variable Rate Bonds are remarketed by the applicable remarketing agent in the secondary market to other investors. The interest rate on the Variable Rate Bonds can be converted to other interest rate modes, including a term rate or fixed rates to maturity, upon appropriate notice by the Airport.

The scheduled payment of the principal of and interest on, and payment of purchase price of, the Variable Rate Bonds is secured by separate irrevocable letters of credit issued to the Senior Trustee for the benefit of the applicable bondholders by the banks identified in the table below.

Amounts drawn under a letter of credit that are not reimbursed by the Airport constitute "Repayment Obligations" under the 1991 Master Bond Resolution and are accorded the status of other outstanding bonds to the extent provided in the Resolution. The commitment fees for the letters of credit range between 0.39% and 0.63% per annum. As of June 30, 2018, there were no unreimbursed draws under these facilities.

The letters of credit securing the Variable Rate Bonds included in long-term debt as of June 30, 2018, are as follows:

	Issue 37C	Series 2010A	Series 2018B	Series 2018C
Principal amount	$ 85,135,000	205,865,000	138,170,000	138,170,000
Expiration date	January 28, 2019	June 29, 2020	June 3, 2022	June 3, 2022
Credit provider	MUFG Union Bank, N.A. (1)	Bank of America(2)	Barclays(3)	SMBC(4)

(1) Formerly Union Bank, N.A.

(2) Bank of America, National Association

(3) Barclays Bank PLC

(4) Sumitomo Mitsui Banking Corporation, acting through its New York branch

(d) Hotel Special Facility Bonds

Pursuant to resolutions adopted in fiscal years 2016, 2017 and 2018, the Airport Commission authorized the issuance of $260 million of Special Facility Bonds to finance an on-Airport hotel. These resolutions also designated the on-Airport hotel as a "Special Facility" under the 1991 Master Bond Resolution, which will allow the hotel revenues to be segregated from the Airport's other revenues and used to pay hotel operating expenses and debt service on the Hotel Special Facility Bonds through the Hotel Special Facility Bond trustee. On June 6, 2018, the Airport issued its fixed rate Special Facility Revenue Bonds (San Francisco International Airport Hotel), Series 2018 (the "Hotel Special Facility Bonds"), in the aggregate principal amount of $260 million to finance the on-Airport hotel and to fund a capitalized interest account. The Hotel Special Facility Bonds bear interest at a fixed rate of 3.0% per annum, mature in 2058, and are subject to mandatory sinking fund redemption each year starting in 2022.

The Hotel Special Facility Bonds are issued pursuant to a Trust Agreement (the "Hotel Trust Agreement"). The maximum principal amount of such bonds is not limited by the Hotel Trust Agreement, but the Commission must satisfy an additional bonds test prior to the issuance of any such bonds.

The Hotel Special Facility Bonds are limited obligations of the Commission. Under the Hotel Trust Agreement, the Commission has pledged the Revenues of the on-Airport hotel, together with other assets, to the payment of the principal of and interest on the Hotel Special Facility Bonds. Revenues are generally defined in the Hotel Trust Agreement as all revenue and income of any kind derived directly or indirectly from operations at the on-Airport hotel (not including certain amounts specified in the Hotel Trust Agreement). Operating expenses of the on-Airport hotel are payable prior to payment of principal of and interest on the Hotel Special Facility Bonds. The Airport Commission does not maintain a reserve account for the Hotel Special Facility Bonds. The Hotel Special Facility Bonds are not payable from or secured by the Airport's Net Revenues (as defined under the 1991 Master Bond Resolution) (see Note 7). However, because the Airport is the owner of the on-Airport hotel, the Airport is obligated to repay the Hotel Special Facility Bonds from the net revenues of the hotel.

Because the Airport is the issuer of the Hotel Special Facility Bonds and the sole beneficiary of the trust entity serving as holder of the Hotel Special Facility Bonds, neither the Hotel Special Facility Bonds debt service payments nor the Airport's receipts from the trust are included in the accompanying financial statements. The financial statements net the interest income received from the trust against the combined interest expenses of the Hotel Special Facility Bonds and the Series 2018B/C Bonds.

(e) Fuel System Special Facilities Lease Revenue Bonds

In addition to the long-term obligations discussed above, the Commission's San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 1997A and 2000A, were outstanding in the principal amounts of $62.8 million and $68.2 million, respectively, as of June 30, 2018 and 2017. SFO FUEL COMPANY LLC (SFO Fuel), a special purpose limited liability company formed by certain airlines operating at the Airport, is required to pay facilities rent to the Airport pursuant to a lease agreement between the Commission and SFO Fuel with respect to the on-Airport jet fuel distribution facilities in an amount equal to debt service payments on the bonds and any required bond reserve account deposits. The principal and interest on the bonds are paid solely from the facilities rent payable by SFO Fuel to the Airport. The lease payments, and therefore the SFO Fuel bonds, are payable from charges imposed by SFO Fuel on air carriers for into-plane fueling at the Airport, and are not payable from or secured by the Net Revenues of the Airport. The Airport assigned its right to receive the facilities rent to the bond trustee to pay and secure the payment of the bonds. Neither the Airport nor the City is obligated in any manner for the repayment of the SFO Fuel bonds other than from the facilities rent received from SFO Fuel. The bonds are therefore not reported in the accompanying financial statements.

(In thousands)

(f) Interest Rate Swaps

As of June 30, 2018, the Airport's derivative instruments comprised of three interest rate swaps that the Airport entered into to hedge the interest payments on several series of its variable rate Second Series Revenue Bonds. The Airport determined the hedging relationship between the variable rate bonds and the related interest rate swaps continued to be effective as of June 30, 2018.

No.	Current bonds		Initial notional amount	Notional amount June 30, 2018	Effective date
1	2010A (37B)*	$	79,684,000	75,473,000	5/15/2008
2	37C		89,856,000	85,107,000	5/15/2008
3	2010A**		143,947,000	137,980,000	2/1/2010
	Total	$	313,487,000	298,560,000	

* The Issue 37B Bonds that are hedged by this swap agreement were purchased with proceeds of the Series 2008B Notes, which the Commission subsequently refunded, and the Issue 37B Bonds are held in trust. The swap is now indirectly hedging the Series 2010A-3 Bonds for accounting purposes.

** Hedges Series 2010A-1 and 2010A-2.

Fair Value

The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps to arrive at the so-called "settlement amount", i.e., the approximate amount a party would have to pay or would receive if the swap was terminated.

In addition, pursuant to GASB 72, the settlement amounts are then adjusted for the nonperformance risk of each party to the swap to arrive at the fair value. For each swap, the nonperformance risk was computed as the total cost of the transactions required to hedge the default exposure, i.e., a series of European swaptions, exercisable on each of the future payment exchange dates under the swap that are structured to reverse the remaining future cash flow obligations as of such dates, adjusted by probability of default on each future date. Default probabilities were derived from recovery rate adjusted credit default swap quotes or generic ratings based borrowing curves that fall into Level 2 of the GASB 72 fair value hierarchy.

(In thousands)

As of June 30, 2018, the fair value of the Airport's three outstanding swaps, counterparty credit ratings, and fixed rate payable by the Airport Commission are shown in the following table. Where a swap is guaranteed, the guarantor ratings are shown. The ratings provided are S&P's Long-Term Local Issuer Credit Rating, Moody's Long-Term Counterparty Rating for Merrill Lynch Derivative Products AG, Moody's Long-Term Senior Unsecured Rating for J.P. Morgan Chase Bank N.A. and Goldman Sachs Group, Inc., and Fitch's Long-Term Issuer Default Rating.

No.	Current bonds	Counterparty/guarantor*	Counterparty credit ratings (S/M/F)	Fixed rate payable by Commission	Fair value to commission
1	2010A (37B)**	Merrill Lynch Capital Services, Inc. / Merrill Lynch Derivative Products AG	AA/Aa3/NR*	3.773%	$ (9,079,867)
2	Issue 37C	J.P. Morgan Chase Bank NA	A+/ Aa3/AA	3.898%	(10,210,873)
3	2010A***	Goldman Sachs Bank USA/ Goldman Sachs Group, Inc.	BBB+/A3/A*	3.925%	(18,267,594)
		Total			$ (37,558,334)

* Reflects ratings of the guarantor.

** The Issue 37B Bonds that are hedged by this swap agreement were purchased with proceeds of the Series 2008B Notes, which the Commission subsequently refunded, and the Issue 37B Bonds are held in trust. The swap is now indirectly hedging the Series 2010A-3 Bonds for accounting purposes.

*** Hedges Series 2010A-1 and 2010A-2

On June 21, 2018, Fitch upgraded the credit rating of J.P. Morgan Chase Bank NA, the swap counterparty on the Issue 37C Bonds, from “AA-“ to “AA”.

Fair Value Hierarchy

	Fair value June 30, 2018	Fair value measurements using significant other observable inputs (Level 2)
Interest rate swaps	$ (37,558,334)	(37,558,334)

Change in Fair Value

The impact of the interest rate swaps on the financial statements for the year ended June 30, 2018 is as follows (in thousands):

		Deferred outflows on derivative instruments	Derivative instruments
Balance as of June 30, 2017	$	54,870	65,965
Change in fair value to year end		(25,625)	(28,407)
Balance as of June 30, 2018	$	29,245	37,558

The fair value of the interest rate swap portfolio is recorded as a liability (since the Airport would owe a termination payment to the counterparty) in the statements of net position. Unless a swap was determined to be an off-market swap at the inception of its hedging relationship, the fair value of the swap is recorded as a deferred outflow asset (if a termination payment would be due to the counterparty) or inflow liability (if a termination payment would be due to the Airport). The off-market portions of the Airport's swaps are recorded as carrying costs with respect to various refunded bond issues. Unlike fair value and deferred inflow/outflow values, the balance of remaining off-market portions are valued on a present value, or fixed yield, to maturity basis. The difference between the deferred outflows and derivative instruments presented in the table above constitutes the unamortized off-market portions of the swaps as of June 30, 2018.

Basis Risk – During the fiscal year ended June 30, 2018, the Airport paid a total of $0.89 million less in interest on its variable rate bonds than the floating-rate payments it received from the swap counterparties, resulting in a decrease in the effective synthetic interest rates on the associated bonds.

Credit Risk – As of June 30, 2018, the Airport is not exposed to credit risk because the swaps have a negative fair value to the Airport.

Counterparty Risk –As of June 30, 2018, the fair value of the Airport's swaps was negative to the Airport (representing an amount payable by the Airport to each counterparty in the event the relevant swap was terminated).

(In thousands)

Termination Risk –The Airport has secured municipal swap insurance for all its regular payments and some termination payments due under all its interest rate swaps, except the swaps associated with the Series 2010A Bonds, from the following insurers, which are rated as to their claims-paying ability and financial strength as follows as of June 30, 2018:

No.	Swap	Swap insurer	Insurer credit ratings June 30, 2018 (S&P/Moody's /Fitch)
1	Series 2010A (37B)	Assured Guaranty Municipal Corp.	AA/A2/NR
2	Issue 37C	Assured Guaranty Municipal Corp.	AA/A2/NR
3	Series 2010A	None	N/A

As of June 30, 2018, the fair value of each swap was negative to the Airport as shown above.

(g) Debt Service Reserves and Requirements

Issue 1 Reserve Account

As of June 30, 2018, the reserve requirement for the Issue 1 Reserve Account was $426.1 million, which was satisfied by $427.1 million of cash and investment securities, and reserve fund surety policies in the initial principal amount of $132.7 million. All of the providers of such reserve policies have one or more credit ratings below the Airport's rating or are no longer rated. In addition, $75.8 million of such surety policies have likely experienced a reduction in value in accordance with their terms.

2009 Reserve Account

As of June 30, 2018, the reserve requirement for the 2009 Reserve Account was $7.4 million, which was satisfied by $19.9 million in cash and investment securities, and a reserve policy in the principal amount of $3.4 million issued by Financial Security Assurance Inc. (now known as Assured Guaranty Municipal Corp.). The value of this reserve policy may be adjusted downward under certain circumstances and may have experienced a reduction in value.

2017 Reserve Account

As of June 30, 2018, the reserve requirement for the 2017 Reserve Account was $30.5 million, which was satisfied by $30.7 million in cash and investment securities.

Series Secured by Other or No Reserve Accounts

The Airport Commission does not maintain reserve accounts for its Second Series Variable Rate Revenue Refunding Bonds, Series 2010A and Series 2018B/C, all of which are secured by letters of credit.

Debt Service Requirements

Revenue bond debt service requirements to maturity are as follows (in thousands):

		Principal	Interest	Total
Fiscal year:				
2019	$	214,710	301,172	515,882
2020		220,330	296,197	516,527
2021		230,960	286,074	517,034
2022		236,505	274,820	511,325
2023		249,945	263,136	513,081
2024–2028		1,221,795	1,137,982	2,359,777
2029–2033		581,485	903,195	1,484,680
2034–2038		350,365	786,796	1,137,161
2039–2043		1,217,865	604,223	1,822,088
2044–2048		1,577,470	266,772	1,844,242
2049–2053		64,990	19,230	84,220
2054–2058		78,420	7,839	86,259
Total	$	6,244,840	5,147,436	11,392,276

The table below presents the revenue bond debt service requirements in the event the letters of credit securing the Airport’s outstanding variable rate bonds had to be drawn upon to pay such bonds and the amount drawn had to be repaid by the Airport pursuant to the terms of the related agreements with the banks providing such letters of credit (in thousands):

		Principal	Interest	Total
Fiscal year:				
2019	$	297,210	299,918	597,128
2020		413,235	292,739	705,974
2021		218,100	273,845	491,945
2022		499,395	264,009	763,404
2023		232,750	243,126	475,876
2024–2028		1,059,520	1,053,583	2,113,103
2029–2033		498,660	855,087	1,353,747
2034–2038		325,935	745,427	1,071,362
2039–2043		1,176,415	567,893	1,744,308
2044–2048		1,523,620	238,074	1,761,694
2049–2053		-	-	-
2054–2058		-	-	-
Total	$	6,244,840	4,833,701	11,078,541

(h) Cash Defeasance of Bonds

In June 2018, the Airport Commission used cash on hand to legally defease $16.4 million of outstanding Second Series Revenue Refunding Bonds Series 2009E maturing in 2039.

Fiscal Year 2017

(a) Second Series Revenue Bonds (Capital Plan Bonds)

Pursuant to resolutions approved in fiscal years 2008, 2012, 2014, 2016, and 2017, the Airport Commission has authorized the issuance of up to $7.8 billion of San Francisco International Airport Second Series Revenue Bonds (Capital Plan Bonds) to finance and refinance the construction, acquisition, equipping, and development of capital projects undertaken by the Airport, including retiring all or a portion of the Airport's outstanding subordinate commercial paper notes issued for capital projects, funding debt service reserves, and for paying costs of issuance. As of June 30, 2017, $5.5 billion of the authorized capital plan bonds remained unissued.

On-Airport Hotel Second Series Revenue Bonds and Related Special Facility Bonds

Pursuant to resolutions adopted in fiscal years 2016 and 2017, the Airport Commission has authorized the issuance of $278.0 million of San Francisco International Airport Second Series Revenue Bonds (Capital Plan Bonds) and $260.0 million of San Francisco International Airport Hotel Special Facility Revenue Bonds to finance the development and construction of a new Airport-owned hotel and related AirTrain station. The Commission also designated the planned hotel as a "special facility" under the 1991 Master Bond Resolution, which will allow the hotel revenues to be segregated from the Airport's other revenues and used to pay hotel operating expenses and debt service on the Hotel Special Facility Bonds. In order to obtain the lowest cost of financing, the Commission does not plan to sell the Hotel Special Facility Bonds to investors, but will purchase them itself with a portion of the proceeds of Capital Plan Bonds, which will be sold to investors. The total net proceeds of the two bond issuances are expected to be approximately $278.0 million, which will be applied to the $255.0 million construction costs of the hotel and AirTrain station, capitalized interest on the Hotel Special Facility Bonds and other costs of issuance. In fiscal years 2016 and 2017, the City's Board of Supervisors authorized the issuance of such Hotel Special Facility Bonds and Capital Plan Bonds for the hotel and AirTrain station. Airport Commission approval of the bond sale is required before such bonds can be issued.

Second Series Revenue Bonds, Series 2016B/C

On September 29, 2016, the Airport issued its long-term, fixed rate Second Series Revenue Bonds (Capital Plan Bonds), Series 2016B (AMT) and 2016C (Non-AMT/Governmental Purpose) in the aggregate principal amount of $740.1 million, to finance and refinance (through the repayment of commercial paper notes) the following projects, among others: (a) redevelopment of Terminal 1 including construction of an interim Boarding Area B and the design and construction of a new 24-gate Boarding Area B facility, (b) relocation of a firehouse and vehicle security checkpoint to accommodate the expansion of Boarding Area B and the related realignment of Taxiways H and M, (c) relocation of ground transportation facilities to accommodate the expansion of Boarding Area B, (d) construction of a new administration campus to consolidate some Airport administrative departments, (e) upgrades to operating systems-related components for the AirTrain extension, (f) gate enhancements to accommodate larger aircraft and address demand-driven gate needs, and (g) various technology improvements to upgrade network services.

(In thousands)

(b) Second Series Revenue Refunding Bonds

Pursuant to resolutions adopted between fiscal years 2005 through 2016, the Airport Commission has authorized the issuance of up to $8.4 billion of San Francisco International Airport Second Series Revenue Refunding Bonds for the purposes of refunding outstanding 1991 Master Bond Resolution Bonds and outstanding subordinate commercial paper notes, funding debt service reserves, and paying costs of issuance, including any related bond redemption premiums.

As of June 30, 2017, $1.0 billion of such refunding bonds remained authorized but unissued.

During fiscal year 2017, the Airport issued the following new refunding bonds under the 1991 Master Bond Resolution:

Second Series Revenue Refunding Bonds, Series 2016D

On September 29, 2016, the Airport issued its Second Series Revenue Refunding Bonds, Series 2016D (Non-AMT/Governmental Purpose), in the principal amount of $147.8 million to advance refund and legally defease long-term fixed rate Series 2010C, 2011D, and 2011G bonds. The Series 2016D Bonds bear interest at a fixed rate of 5.0%, and have a final maturity of May 1, 2031.

The net proceeds of $188.1 million (consisting of the $147.8 million par amount of the Series 2016D Bonds, original issue premium of $37.0 million, and $3.3 million accumulated in the debt service fund relating to the refunded bonds) were used to pay $0.3 million underwriter's discount and $0.2 million in costs of issuance and deposit $187.6 million into irrevocable escrow funds with the Senior Trustee to defease and refund $158.0 million in revenue bonds as described below.

	Amount refunded	Interest rate	Redemption price
Second Series Revenue Bond Issue:			
2010C (Non-AMT)	$ 42,210,000	4.00%–5.00%	100 %
2011D (Non-AMT)	39,245,000	5.00 %	100 %
2011G (Non-AMT)	76,535,000	5.00%–5.25%	100 %
Total	$ 157,990,000		

The refunded bonds were legally defeased and scheduled for redemption on May 1, 2020 (Series 2010C) and May 3, 2021 (Series 2011D and Series 2011G). Accordingly, the liability for these bonds has been removed from the accompanying statements of net assets.

The refunding resulted in the recognition of a deferred accounting gain of $0.2 million for fiscal year ended June 30, 2017. The Airport reduced its aggregate debt service payments by approximately $15.0 million over the next fourteen years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $13.5 million.

(In thousands)

(c) *Variable Rate Demand Bonds*

As of June 30, 2017, the Airport Commission had outstanding an aggregate principal amount of $460.8 million of Second Series Variable Rate Revenue Refunding Bonds, consisting of Issue 36A/B/C, Issue 37C, and Series 2010A (collectively, the “Variable Rate Bonds”), with final maturity dates of May 1, 2026 (Issue 36A/B/C), May 1, 2029 (Issue 37C), and May 1, 2030 (Series 2010A). The Variable Rate Bonds are long-term, tax-exempt bonds that currently bear interest at a rate that is adjusted weekly, and that are subject to tender at par at the option of the holder thereof on seven days’ notice. Any tendered Variable Rate Bonds are remarketed by the applicable remarketing agent in the secondary market to other investors. The interest rate on the Variable Rate Bonds can be converted to other interest rate modes, including a term rate or fixed rates to maturity, upon appropriate notice by the Airport.

The scheduled payment of the principal of and interest on, and payment of purchase price of, the Variable Rate Bonds is secured by separate irrevocable letters of credit issued to the Senior Trustee for the benefit of the applicable bondholders by the banks identified in the table below.

Amounts drawn under a letter of credit that are not reimbursed by the Airport constitute “Repayment Obligations” under the 1991 Master Bond Resolution and are accorded the status of other outstanding bonds to the extent provided in the Resolution. The commitment fees for the letters of credit range between 0.45% and 0.63% per annum. As of June 30, 2017, there were no unreimbursed draws under these facilities.

The letters of credit securing the Variable Rate Bonds included in long-term debt as of June 30, 2017, are as follows:

	Issue 36A	Issue 36B	Issue 36C	Issue 37C	Series 2010A
Principal amount	$ 93,130,000	37,820,000	33,655,000	86,930,000	209,240,000
Expiration date	June 29, 2018	April 25, 2018	April 25, 2018	January 28, 2019	June 29, 2020
Credit provider	Wells Fargo[1]	BTMU[2]	BTMU[2]	MUFG Union Bank [3]	Bank of America[4]

(1) Wells Fargo Bank, National Association
(2) The Bank of Tokyo-Mitsubishi UFJ. Ltd.
(3) Formerly Union Bank, N.A.
(4) Bank of America, National Association

(d) *Interest Rate Swaps*

Objective and Terms – On December 16, 2004, the Airport entered into seven forward starting interest rate swaps (the 2004 swaps) with an aggregate notional amount of $405.0 million, in connection with the anticipated issuance of Second Series Variable Rate Revenue Refunding Bonds, Issues 32A-E on February 10, 2005, and Second Series Variable Rate Revenue Refunding Bonds, Issue 33 on February 15, 2006. The swap structure was intended as a means to increase the Airport’s debt service savings when compared with fixed rate refunding bonds at the time of issuance. The expiration date of the 2004 swaps is May 1, 2026.

On July 26, 2007, the Airport entered into four additional forward starting interest rate swaps in connection with the anticipated issuance of its Second Series Variable Rate Revenue Refunding Bonds, Issue 37B/C, on May 15, 2008 (the 2007 swaps), and Second Series Variable Rate Revenue Refunding Bonds, Series 2010A, on February 10, 2010 (the 2010 swaps). The expiration dates of the 2007 and 2010 swaps are May 1, 2029 and 2030, respectively.

In the spring of 2008, the Airport refunded several issues of auction rate and variable rate bonds, including Issue 32 and Issue 33. The 2004 swaps associated with these issues then became associated with the Second Series Variable Rate Revenue Refunding Bonds, Issues 36A-D, and Issue 37A. Subsequently, on October 30, 2008 and December 3, 2008, the Airport refunded Issue 37A and Issue 37B, respectively. Concurrently with the refunding of Issue 37A, the three associated swaps with an aggregate notional amount of $205.1 million were terminated. The swap associated with Issue 37B was not terminated upon the refunding of Issue 37B.

On December 16, 2010, the Airport terminated a swap with Depfa Bank plc associated with the Series 2010A-3 Bonds, with a notional amount of $72.0 million.

Following the termination of the Depfa swap, the Series 2010A-3 Bonds, which are variable rate, were no longer hedged with an interest rate swap. However, the swap associated with the Issue 37B Bonds is now indirectly hedging the Series 2010A-3 Bonds for accounting purposes. As a practical matter, the swap associated with the Issue 37B Bonds also serves as an indirect hedge on the unhedged portions of the Issue 36B and Issue 36C Bonds, when viewed alongside the Airport’s other swaps, and only to the extent that the swap’s notional amount exceeds the outstanding amount of the Series 2010A-3 Bonds.

On September 20, 2011, the Airport refunded the Issue 36D Bonds with proceeds of the San Francisco International Airport Second Series Revenue Refunding Bonds, Series 2011H and terminated the swap with JP Morgan Chase Bank, N.A., associated with Issue 36D, which had an initial notional amount of $30.0 million. The Airport paid a termination fee of $4.6 million to the counterparty.

Under the 2004 swaps, the Airport receives a monthly variable rate payment from each counterparty equal to 63.50% of USD-LIBOR-BBA plus 0.29%. Under the 2007 and 2010 swaps, the Airport receives 61.85% of USD-LIBOR-BBA plus 0.34%. These payments are intended to approximate the variable interest rates on the bonds originally hedged by the swaps. The Airport makes a monthly fixed rate payment to the counterparties as set forth below which commenced on the date of issuance of the related bonds. The objective of the swaps is to achieve a synthetic fixed rate with respect to the hedged bonds. All of the outstanding interest rate swaps are terminable at any time upon making a market-based termination payment solely at the option of the Airport.

(In thousands)

As of June 30, 2017, the Airport's derivative instruments comprised of six interest rate swaps that the Airport entered into to hedge the interest payments on several series of its variable rate Second Series Revenue Bonds. The Airport determined the hedging relationship between the variable rate bonds and the related interest rate swaps continued to be effective as of June 30, 2017.

No.	Current bonds		Initial notional amount	Notional amount June 30, 2017	Effective date
1	36AB	$	70,000,000	65,170,000	2/10/2005
2	36AB		69,930,000	65,135,000	2/10/2005
3	36C		30,000,000	27,930,000	2/10/2005
4	2010A (37B)*		79,684,000	77,061,000	5/15/2008
5	37C		89,856,000	86,899,000	5/15/2008
6	2010A**		143,947,000	140,230,000	2/1/2010
	Total	$	483,417,000	462,425,000	

* The Issue 37B Bonds that are hedged by this swap agreement were purchased with proceeds of the Series 2008B Notes, which the Commission subsequently refunded, and the Issue 37B Bonds are held in trust. The swap is now indirectly hedging the Series 2010A-3 Bonds for accounting purposes.

** Hedges Series 2010A-1 and 2010A-2.

Fair Value

The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps to arrive at the so-called "settlement amount", i.e., the approximate amount a party would have to pay or would receive if the swap was terminated.

In addition, pursuant to GASB 72, the settlement amounts are then adjusted for the nonperformance risk of each party to the swap to arrive at the fair value. For each swap, the nonperformance risk was computed as the total cost of the transactions required to hedge the default exposure, i.e., a series of European swaptions, exercisable on each of the future payment exchange dates under the swap that are structured to reverse the remaining future cash flow obligations as of such dates, adjusted by probability of default on each future date. Default probabilities were derived from recovery rate adjusted credit default swap quotes or generic ratings based borrowing curves that fall into Level 2 of the GASB 72 fair value hierarchy.

(In thousands)

As of June 30, 2017, the fair value of the Airport's six outstanding swaps, counterparty credit ratings, and fixed rate payable by the Airport Commission are as follows:

No.	Current bonds	Counterparty/guarantor*	Counterparty credit ratings (S&P/Moody's/ Fitch)	Fixed rate payable by Commission		Fair value to Commission
1	36AB	J.P. Morgan Chase Bank, N.A.	A+/Aa3/AA-	3.444 %	$	(5,509,894)
2	36AB	J.P. Morgan Chase Bank, N.A.	A+/Aa3/AA-	3.445		(5,513,321)
3	36C	J.P. Morgan Chase Bank, N.A.	A+/Aa3/AA-	3.444		(2,362,561)
4	2010A (37B)**	Merrill Lynch Capital Services, Inc./ Merrill Lynch Derivative Products AG	AA/Aa3/NR*	3.773		(12,652,178)
5	37C	J.P. Morgan Chase Bank, N.A.	A+/Aa3/AA-	3.898		(14,581,404)
6	2010A***	Goldman Sachs Bank USA/ Goldman Sachs Group, Inc.	BBB+/A3/A*	3.925		(25,345,773)
		Total			$	(65,965,131)

* Reflects ratings of the guarantor.

** The Issue 37B Bonds that are hedged by this swap agreement were purchased with proceeds of the Series 2008B Notes, which the Commission subsequently refunded, and the Issue 37B Bonds are held in trust. The swap is now indirectly hedging the Series 2010A-3 Bonds for accounting purposes.

*** Hedges Series 2010A-1 and 2010A-2.

Fair Value Hierarchy

		Fair value June 30, 2017	Fair value measurements using significant other observable inputs (Level 2)
Interest rate swaps	$	(65,965,131)	(65,965,131)

Change in Fair Value

The impact of the interest rate swaps on the financial statements for the year ended June 30, 2017 is as follows (in thousands):

		Deferred outflows on derivative instruments	Derivative instruments
Balance as of June 30, 2016	$	83,614	96,132
Change in fair value to year end		(28,744)	(30,167)
Balance as of June 30, 2017	$	54,870	65,965

The fair value of the interest rate swap portfolio is recorded as a liability (since the Airport would owe a termination payment to the counterparty) in the statements of net position. Unless a swap was determined to be an off-market swap at the inception of its hedging relationship, the fair value of the swap is recorded as a deferred outflow asset (if a termination payment would be due to the counterparty) or inflow liability (if a termination payment would be due to the Airport). The off-market portions of the Airport's swaps are recorded as carrying costs with respect to various refunded bond issues. Unlike fair value and deferred inflow/outflow values, the balance of remaining off-market portions are valued on a present value, or fixed yield, to maturity basis. The difference between the deferred outflows and derivative instruments presented in the table above constitutes the unamortized off-market portions of the swaps as of June 30, 2017.

Risks

Basis Risk – The Airport has chosen a variable rate index based on a percentage of London Interbank Offered Rate (LIBOR) plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Airport is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable bond rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. During the fiscal year ended June 30, 2017, the Airport paid a total of $0.6 million less in interest on its variable rate bonds than the floating-rate payments it received from the swap counterparties, resulting in a decrease in the effective synthetic interest rates on the associated bonds.

Credit Risk – As of June 30, 2017, the Airport is not exposed to credit risk because the swaps have a negative fair value to the Airport. Should long-term interest rates rise and the fair value of the swaps become positive, the Airport would be exposed to credit risk in the amount of the swaps' fair value. Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities in an amount equal to the market value of a swap that exceeds specified thresholds linked to the counterparty's credit ratings. Any such collateral will be held by a custodial bank.

(Continued)

(In thousands)

Counterparty Risk – The Airport is exposed to counterparty risk, which is related to credit and termination risk. While the insolvency or bankruptcy of a counterparty, or its failure to perform would be a default under the applicable swap documents, none of the Airport's swaps would automatically terminate. Rather, the Airport would have the option to terminate the affected swap at a market-based termination value, which may result in a payment to or from the counterparty. The Airport may also be exposed to counterparty risk in a high interest rate environment in the event a counterparty is unable to perform its obligations on a swap transaction leaving the Airport exposed to the variable rates on the associated debt. In order to diversify the Airport's swap counterparty credit risk and to limit the Airport's credit exposure to any one counterparty, the Airport's swap policy imposes limits on the maximum net termination exposure to any one counterparty. Maximum net termination exposure is calculated as of the date of execution of each swap and is monitored regularly during the term of the swap. The exposure limits vary for collateralized and noncollateralized swaps based upon the credit rating of the counterparty. If any exposure limit is exceeded by a counterparty during the term of a swap, the Airport Director is required to consult with the Airport's swap advisor and bond counsel regarding appropriate actions to take, if any, to mitigate such increased exposure, including, without limitation, transfer or substitution of a swap. As of June 30, 2017, the fair value of the Airport's swaps was negative to the Airport (representing an amount payable by the Airport to each counterparty in the event the relevant swap was terminated).

Termination Risk – All of the interest rate swaps are terminable at their termination price at any time at the option of the Airport. The Airport has limited termination risk with respect to the interest rate swaps. That risk would arise primarily from certain credit-related events or events of default on the part of the Airport, the municipal swap insurer, or the counterparty. The Airport has secured municipal swap insurance for all its regular payments and some termination payments due under all its interest rate swaps, except the swaps associated with the Series 2010A Bonds, from the following insurers:

No.	Swap	Swap insurer	Insurer credit ratings June 30, 2017 (S&P/Moody's /Fitch)
1	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	A/A3/NR
2	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	A/A3/NR
3	Issue 36C	Assured Guaranty Municipal Corp.	AA/A2/NR
4	Series 2010A (37B)	Assured Guaranty Municipal Corp.	AA/A2/NR
5	Issue 37C	Assured Guaranty Municipal Corp.	AA/A2/NR
6	Series 2010A	None	N/A

If the Airport is rated between Baa1/BBB+ and Baa3/BBB- (Moody's/S&P), and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any, unless the Airport chooses to provide suitable replacement credit enhancement, assign the Airport's interest in the swaps to a suitable replacement counterparty, or post collateral to secure the swap termination value. If the Airport is rated below

(Continued)

Baa3/BBB- (Moody's/S&P) or its ratings are withdrawn or suspended, and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any. With respect to the Series 2010A swaps with no swap insurance, the counterparty termination provisions and the Airport rating thresholds are the same as described above.

Additional Termination Events under the swap documents with respect to the Airport include an insurer payment default under the applicable swap insurance policy, and certain insurer rating downgrades or specified insurer nonpayment defaults combined with a termination event or event of default on the part of the Airport or a ratings downgrade of the Airport below investment grade. Additional Termination Events under the swap documents with respect to a counterparty and/or its guarantor include a rating downgrade below a specific rating threshold, followed by a failure of the counterparty to assign its rights and obligations under the swap documents to another entity acceptable to the applicable insurer within 15 business days.

On December 16, 2016, S&P upgraded the credit rating of Goldman Sachs Bank USA, the swap counterparty on the Series 2010A Swap, from "A" to "A+".

On December 23, 2016, S&P upgraded the credit rating of Merrill Lynch Derivative Products AG, the guarantor on the Issue 37B (2010A) Swap, from "AA-" to "AA".

The downgrade of any swap counterparty is indicative of an increased risk to the Airport that such counterparty may become bankrupt or insolvent and not perform under the applicable swap. If a counterparty does not perform under its swap, the Airport may be required to continue making its fixed rate payments to the counterparty even though it does not receive a variable rate payment in return. The Airport may elect to terminate a swap with a nonperforming counterparty and may be required to pay a substantial termination payment related to the fair value of such swap, depending on market conditions at the time. As of June 30, 2017, the fair value of each swap was negative to the Airport as shown above. The risks and termination rights related to the Airport's swaps are discussed in further detail above.

(e) Special Facilities Lease Revenue Bonds

In addition to the long-term obligations discussed above, the Commission's San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 1997A and 2000A, were outstanding in the principal amounts of $68.2 million and $73.2 million, respectively, as of June 30, 2017 and 2016. SFO FUEL COMPANY LLC (SFO Fuel), a special purpose limited liability company formed by certain airlines operating at the Airport, is required to pay facilities rent to the Airport pursuant to a lease agreement between the Commission and SFO Fuel with respect to the on-Airport jet fuel distribution facilities in an amount equal to debt service payments on the bonds and any required bond reserve account deposits. The principal and interest on the bonds are paid solely from the facilities rent payable by SFO Fuel to the Airport. The lease payments, and therefore the SFO Fuel bonds, are payable from charges imposed by SFO Fuel on air carriers for into-plane fueling at the Airport, and are not payable from or secured by the Net Revenues of the Airport. The Airport assigned its right to receive the facilities rent to the bond trustee to pay and secure the payment of the bonds.

Neither the Airport nor the City is obligated in any manner for the repayment of the SFO Fuel bonds other than from the facilities rent received from SFO Fuel. The bonds are therefore not reported in the accompanying financial statements.

(f) Post-Issuance Compliance with Federal Tax Law

The Airport follows certain federal tax law post-issuance compliance procedures that are intended to ensure that proceeds of its tax-exempt bonds are invested and expended consistent with applicable federal tax law, including the Internal Revenue Code of 1986, the Regulations promulgated thereunder, and other applicable guidance from the U.S. Treasury Department and the Internal Revenue Service (IRS).

(g) Cash Defeasance of Bonds

In June 2017, the Airport Commission used cash on hand to legally defease $12.9 million of outstanding Second Series Revenue Refunding Bonds Issue 34E maturing in 2024.

(8) Pledged Revenue

The Airport Commission has pledged all of the Net Revenues of the Airport to repay the following obligations when due, in order of priority, (1) the San Francisco International Airport Second Series Revenue Bonds and Revenue Refunding Bonds (collectively, Senior Bonds) issued and to be issued under the Commission's Resolution No. 91-0210 adopted on December 3, 1991, as amended and supplemented (1991 Master Bond Resolution), and amounts due under the letters of credit securing the Senior Bonds to the extent provided in the 1991 Master Bond Resolution, (2) the San Francisco International Airport Subordinate Commercial Paper Notes and any other obligations (Subordinate Bonds) issued and to be issued under the Commission's Resolution No. 97-0146 adopted on May 20, 1997, as amended and supplemented (1997 Note Resolution) and amounts due to reimburse drawings under the letters of credit securing the Commercial Paper Notes, (3) remaining amounts due to reimburse drawings under the letters of credit securing the Senior Bonds, and (4) interest rate swap termination payments. The Senior Bonds and Commercial Paper Notes are issued to finance capital projects at the Airport (including the funding of reserves) and to refund previously issued Senior Bonds and Commercial Paper Notes. The pledges of Net Revenues described above are in force so long as the secured obligations are outstanding. As of June 30, 2018, the final maturities of the obligations secured by the Net Revenues are Senior Bonds that mature in fiscal year 2058.

Net Revenues are defined in the 1991 Master Bond Resolution and the 1997 Note Resolution as Revenues less Operation and Maintenance Expenses. Revenues are defined to include all revenues earned by the Commission with respect to the Airport, as determined in accordance with GAAP. Revenues do not include: (a) investment income from moneys in (i) the Construction Fund, (ii) the Debt Service Fund which constitute capitalized interest, or (iii) the Reserve Fund if and to the extent there is any deficiency therein; (b) interest income on, and any profit realized from, the investment of the proceeds of any Special Facility Bonds (as defined in the 1991 Master Bond Resolution); (c) Special Facility Revenues (as defined in the 1991 Master Bond Resolution) and any income realized from the investment thereof unless designated as Revenues by the Commission; (d) any passenger facility or similar charge levied by or on behalf of the Commission unless designated as Revenues by the Commission; (e) grants-in-aid, donations and bequests;

(f) insurance proceeds not deemed to be Revenues in accordance with GAAP; (g) the proceeds of any condemnation award; (h) the proceeds of any sale of land, buildings or equipment; and (i) any money received by or for the account of the Commission from the levy or collection of taxes upon any property of the City.

Operation and Maintenance Expenses are defined in the 1991 Master Bond Resolution and the 1997 Note Resolution to include all expenses of the Commission incurred for the operation and maintenance of the Airport, as determined in accordance with GAAP. Operation and Maintenance Expenses do not include: (a) the principal of, premium, if any, or interest on the Senior Bonds or Subordinate Bonds (including Commercial Paper Notes); (b) any allowance for amortization, depreciation or obsolescence of the Airport; (c) any expense for which, or to the extent to which, the Commission will be paid or reimbursed from or through any source that is not included or includable as Revenues; (d) any extraordinary items arising from the early extinguishment of debt; (e) Annual Service Payments to the City; (f) any costs, or charges made therefor, for capital additions, replacements or improvements to the Airport which, under GAAP, are properly chargeable to a capital account or reserve for depreciation; and (g) any losses from the sale, abandonment, reclassification, revaluation or other disposition of any Airport properties. Operating and Maintenance Expenses include the payment of pension charges and proportionate payments to such compensation and other insurance or outside reserve funds as the Commission may establish or the Board of Supervisors may require with respect to Commission employees.

During fiscal years 2018 and 2017, the original principal amount of Senior Bonds and Commercial Paper Notes issued, principal and interest remaining due on outstanding Senior Bonds and Commercial Paper Notes, principal and interest paid on such obligations, and applicable Net Revenues are as set forth in the table below (in thousands). There were no unreimbursed drawings under any letter of credit or interest rate swap termination payments due.

		2018	2017
Bonds issued with revenue pledge	$	2,035,005	887,920
Bond principal and interest remaining due at the end of the fiscal year		11,392,276	7,985,585
Commercial paper issued with subordinate revenue pledge		557,700	179,000
Commercial paper principal and interest remaining due at the end of the fiscal year		29,550	178,564
Net revenues		497,372	489,378
Bond principal and interest paid in the fiscal year		408,425	408,750
Commercial paper principal, interest and fees paid in the fiscal year		5,530	4,106

Pledged Revenue of the On-Airport Hotel

Pursuant to the Hotel Trust Agreement, the Airport Commission has pledged all of the Revenues of the on-Airport Hotel and certain other assets pledged under the Hotel Trust Agreement, to repay the Hotel Special Facility Bonds, all in accordance with the Hotel Trust Agreement. This pledge is in force so long as the

Hotel Special Facility Bonds are outstanding. As of June 30, 2018, the Hotel Special Facility Bonds mature in fiscal year 2058.

Revenues are defined in the Hotel Trust Agreement as the Total Operating Revenues, including any insurance proceeds, condemnation proceeds, performance bonds and guaranties and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Hotel Trust Agreement (except any subaccounts of the Construction Fund that are otherwise pledged and the Rebate Fund).

Total Operating Revenues are defined in the Hotel Trust Agreement as all revenue and income of any kind derived directly or indirectly from operations at the on-Airport hotel, whether or not arranged by, for or on behalf of another person or at another location, properly attributable to the period under consideration (including rentals or other payments from licensees or concessionaires of retail space in the hotel, but not gross receipts of such licensees or concessionaires), determined in accordance with the Uniform System of Accounts and, to the extent consistent therewith, Generally Accepted Accounting Principles, but do not include: (a) certain excluded taxes (such as sales tax) and other charges; (b) receipts from the financing, sale or other disposition of capital assets and other items not in the ordinary course of the hotel's operations and income derived from securities and other property acquired and held for investment; (c) receipts from awards or sales in connection with any taking, from other transfers in lieu of and under the threat of any taking, and other receipts in connection with any taking, but only to the extent that such amounts are specifically identified as compensation for alterations or physical damage to the hotel; (d) proceeds of any insurance or sureties, including the proceeds of any business interruption insurance; (e) rebates, discounts, or credits of a similar nature (not including charge or credit card discounts, which shall not constitute a deduction from revenues in determining Total Operating Revenues, but shall constitute an Operating Expense of the hotel); (f) consideration received at the hotel for hotel accommodations, goods and services to be provided at other hotels although arranged by, for or on behalf of, the hotel manager; provided, that such consideration is recognized by such other hotels; (g) consideration received at other hotels for hotel accommodations, goods and services to be provided at the Hotel arranged by, for or on behalf of, such other hotels; provided, that such consideration is recognized by such other hotels; (h) notwithstanding any contrary requirements of Generally Accepted Accounting Principles, all gratuities collected for the benefit of and paid directly to hotel personnel; (i) proceeds of any financing; (j) the initial operating funds and working capital loans and any other funds provided by the Commission to the hotel manager whether for hotel Operating Expenses or otherwise; (k) other income or proceeds that do not result from (i) the use or occupancy of the hotel, or any part thereof, or (ii) the sale of goods, services or other items by or from the hotel in the ordinary course of business; (l) interest earned on funds held in any fund or account under the Hotel Trust Agreement; (m) the value of any complimentary rooms, goods or services; (n) refunds to hotel guests of any sums or credits to any hotel customers for lost or damaged items; and (o) refunds to parking customers of any sums or credits to any parking customers for lost or damaged items.

Generally, the Hotel Special Facility Bonds are paid after provision for the Operating Expenses of the hotel and payment of taxes and insurance premiums have been made. The Hotel Special Facility Bonds are not payable from Net Revenues, as that term is defined in the 1991 Master Bond Resolution.

Pledged Facilities Rent from Fuel System Lease with SFO FUEL COMPANY LLC

The Commission entered into a Fuel System Lease dated as of September 1, 1997, with SFO FUEL COMPANY LLC (SFO Fuel), a special purpose limited liability company formed by certain airlines operating at the Airport. The facilities rent payable by SFO Fuel has been pledged and assigned to the bond trustee to secure the repayment of the Commission's San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 1997A and 2000A, which were outstanding in the aggregate principal amounts of $62.8 million and $68.2 million, respectively, as of June 30, 2018 and 2017. The SFO Fuel bonds were issued to finance improvements to the jet fuel storage and distribution system at the Airport. The pledge of the facilities rent will be in effect until the maturity of the SFO Fuel bonds on January 1, 2027, unless this date is extended because additional bonds (including refunding bonds) with a later maturity are issued.

(9) Concession Revenue and Minimum Future Rents

Certain of the Airport's rental agreements with concessionaires specify that rental payments are to be based on a percentage of tenant sales, subject to a minimum amount, known as a Minimum Annual Guarantee (MAG). Concession percentage rents in excess of the applicable MAG were approximately $22.0 million and $29.6 million as of June 30, 2018 and 2017, respectively. Most of these concession agreements provide that the MAG does not apply if the actual enplanements achieved during a one-month period is less than 80% of the actual enplanements of the same reference month in the reference year, and such shortfall continues for three consecutive months. The MAG is reinstated once monthly enplanements equal or exceed 80% of the reference month enplanements for two consecutive months.

The Commission exercised its option effective January 1, 2014 to extend the rental car lease agreement through December 31, 2018. Under this agreement, the rental car companies will continue to pay 10% of gross revenues or a minimum guaranteed rent, whichever is higher. The MAG attributable to the rental car companies was approximately $40.6 million and $42.5 million as of June 30, 2018 and 2017, respectively.

Minimum future rents under noncancelable operating leases at the Airport having terms in excess of one year are as follows (in thousands):

Fiscal year ending:		
2019	$	59,920
2020		32,748
2021		26,052
2022		22,086
2023		15,189
2024 and thereafter		16,248
	$	172,243

(In thousands)

(10) Employee Benefit Plans

(a) Retirement Plan

The City administers a cost-sharing multiple-employer defined benefit pension Plan (the Plan). The Plan is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, pension expense, information about the fiduciary net position of the SFERS plans, and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by Cheiron, the consulting actuary for the Plan. Benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

San Francisco Employers Retirement System (SFERS) – Cost Sharing

Fiscal year 2018	
Valuation Date (VD)	June 30, 2016 updated to June 30, 2017
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017
Fiscal year 2017	
Valuation Date (VD)	June 30, 2015 updated to June 30, 2016
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	July 1, 2015 to June 30, 2016

The City is an employer of the plan with a proportionate share of 94.07% as of June 30, 2017 (measurement date). The Airport's allocation percentage was determined based on the Airport's employer contributions divided by the City's total employer contributions for fiscal year 2017. The Airport's net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows and pension expense to each department is based on the Airport's allocated percentage. The Airport's allocation of the City's proportionate share was 6.57% as of the measurement date.

Plan Description

The Plan provides basic service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and the Administrative Code are the authorities which establish and amend the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County

Employees' Retirement System, 1145 Market Street, 5th Floor, San Francisco, CA 94103 or by calling (415) 487-7000.

Benefits

The Retirement System provides service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and annual cost of living adjustments after retirement. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City and County. The four main categories of Plan members are:

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

The membership groups and the related service retirement benefits are included in the Notes to the Basic Financial Statements of San Francisco Employees Retirement System.

All members are eligible to apply for a disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that prevents them from performing their duties. Safety members are eligible to apply for an industrial disability retirement benefit from their first day on the job if their disability is caused by an illness or injury that they receive while performing their duties.

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in CPI with increases capped at 2%. The Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan. The maximum benefit adjustment each July 1 is 3.5% including the Basic COLA. Effective July 1, 2012, voters approved changes in the criteria for payment of the Supplemental COLA benefit, so that Supplemental COLAs would only be paid when the Plan is also fully funded on a market value of assets basis. Certain provision of this voter-approved proposition were challenged in the Courts. A decision by the California Courts modified the interpretation of the proposition. Effective July 1, 2012, members who retired before November 6, 1996 will receive a Supplemental COLA only when the Plan is also fully funded on a market value of assets basis. However, the "full funding" requirement does not apply to members who retired on or after November 6, 1996 and were hired before January 7, 2012. For all members hired before January 7, 2012, all Supplemental COLAs paid to them in retirement benefits will continue into the future even where an additional Supplemental COLA is not payable in any given year. For members hired on and after January 7, 2012, a Supplemental COLA will only be paid to retirees when the Plan is fully funded on a market value of asset basis and in addition for these members, Supplemental COLAs will not be permanent adjustments to retirement benefits. That is, in years when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

Funding and Contribution Policy

Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal year 2018 varied from 7.5% to 13.0% as a percentage of gross covered salary, and from 7.5% to 12.0% as a percentage of gross covered salary for fiscal year 2017. Most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2016 actuarial report, the required employer contribution rate for fiscal year 2018 was 18.96% to 23.46%. Based on the July 1, 2015 actuarial report, the required employer contribution rate for fiscal year 2017 was 17.90% to 21.40%.

Employer contributions and employee contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. The City's proportionate share of employer contributions recognized by the Retirement System in fiscal year ended June 30, 2017 (measurement period) was $519.1 million. The Airport's allocation of employer contributions for fiscal year 2017 was $34.1 million, and $33.0 million for fiscal year 2016.

Pension Liability, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

Fiscal Year 2018

As of June 30, 2018 the City reported net pension liabilities for its proportionate share of the pension liability of the Plan of $4.7 billion. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017 (measurement date), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Airport's allocation of the City's proportionate share of the net pension liability for the Plan as of June 30, 2017 and 2018 (reporting years) was $359.6 million and $308.5 million, respectively. During the measurement year 2016-17, the actual investment earnings decreased total pension liability. This was partially offset by an increase in service costs and interest costs, resulting in an overall decrease in net pension liability.

For the year ended June 30, 2018, the City's recognized pension expense was $732.9 million including amortization of deferred outflow/inflow related pension items. The Airport's allocation of pension expense including amortization of deferred outflow/inflow related pension items was $48.2 million. Pension expense decreased from the prior year, largely due to the impact of actual investment earnings.

At June 30, 2018, the Airport's proportionate share of the City's reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources set forth below (in thousands).

Schedule of Deferred Inflows and Outflows

	Deferred outflows of resources	Deferred inflows of resources
Changes of assumptions	$ 50,016	906
Net difference between projected and actual earnings on pension plan investments	—	11,507
Change in proportionate share	461	504
Difference between expected and actual experience	2,862	9,313
Pension contributions subsequent to the measurement date	38,257	—
Total	$ 91,596	22,230

Amounts reported as deferred outflows (excluding pension contributions made subsequent to measurement date) and deferred inflows of resources will be amortized annually and recognized as pension expense as follows (in thousands):

	Deferred outflows/ (inflows) of resources
Fiscal year:	
2019	$ 1,430
2020	25,927
2021	16,468
2022	(12,716)
Total	$ 31,109

Fiscal Year 2017

As of June 30, 2017, the City reported net pension liabilities for its proportionate share of the pension liability of the Plan of $5.48 billion. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016 (measurement date), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016, using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Airport's allocation of the City's proportionate share of the net pension liability for each Plan as of June 30, 2016 and 2017 (reporting years) was $144.3 million and $359.6 million, respectively. During the measurement period 2016, the increase in service costs, interest costs, change in benefits, change in assumptions, and difference between projected and actual investment earnings increased total pension liability. This was only partially offset by an increase in the discount rate, contributions, investment income, and actuarial experience gains, resulting in an overall increase in net pension liability.

For the year ended June 30, 2017, the City's recognized pension expense was $1.8 billion including amortization of deferred outflow/inflow related pension items. The Airport's allocation of pension expense including amortization of deferred outflow/inflow related pension items was $114.9 million. Pension expense increased significantly, largely due to the impact of changes in benefits, namely the updated Supplemental COLA assumptions and amortization of deferred inflows/outflows.

At June 30, 2017, the Airport's proportionate share of the City's reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources set forth below (in thousands).

Schedule of Deferred Inflows and Outflows

	Deferred outflows of resources	Deferred inflows of resources
Changes of assumptions	$ 61,861	1,814
Net difference between projected and actual earnings on pension plan investments	49,167	—
Change in proportionate share	632	337
Difference between expected and actual experience	—	13,251
Pension contributions subsequent to the measurement date	34,083	—
Total	$ 145,743	15,402

Amounts reported as deferred outflows (excluding pension contributions made subsequent to measurement date) and deferred inflows of resources will be amortized annually and recognized as pension expense as follows (in thousands):

		Deferred outflows/ (inflows) of resources
Fiscal year:		
2018	$	14,167
2019		14,167
2020		38,699
2021		29,225
Total	$	96,258

Actuarial Assumptions

Fiscal Year 2018

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability as of June 30, 2017 (measurement period) is provided below, including any assumptions that differ from those used in the July 1, 2016 actuarial valuation. Refer to the July 1, 2016 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

Key actuarial assumptions:	
Valuation date	June 30, 2016 updated to June 30, 2017
Measurement date	June 30, 2017
Actuarial cost method	Entry-Age Normal Cost Method
Expected rate of return	7.50%
Municipal bond yield	2.85% as of June 30, 2016
	3.58% as of June 30, 2017
	Bond Buyer 20-Bond GO Index, June 30, 2016 and June 29, 2017
Inflation	3.25%
Salary increases	3.75% plus merit component based on employee classification
Discount rate	7.50% as of June 30, 2016
	7.50% as of June 30, 2017
Administrative expenses	0.60% of payroll as of June 30, 2016
	0.60% of payroll as of June 30, 2017

(In thousands)

	Old Miscellaneous and all New Plans	Old Police & Fire pre July 1, 1975 Retirements	Old Police & Fire, Charters A8.595 and A8.596	Old Police & Fire, Charters A8.559 and A8.585
Basic COLA:				
June 30, 2016	2.00 %	2.70 %	3.30 %	4.40 %
June 30, 2017	2.00 %	2.70 %	3.30 %	4.40 %

Mortality rates for active members and healthy annuitants were based upon adjusted Employee and Healthy Annuitant CalPERS mortality tables projected generationally from the 2009 base year using a modified version of the MP-2015 projection scale.

Fiscal Year 2017

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability as of June 30, 2016 (measurement period) is provided below, including any assumptions that differ from those used in the July 1, 2015 actuarial valuation. Refer to the July 1, 2015 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

Key actuarial assumptions:	
Valuation date	June 30, 2015 updated to June 30, 2016
Measurement date	June 30, 2016
Actuarial cost method	Entry-Age Normal Cost Method
Expected rate of return	7.50%
Municipal bond yield	3.85% as of June 30, 2015 2.85% as of June 30, 2016 Bond Buyer 20-Bond GO Index, July 2, 2015 and June 30, 2016
Inflation	3.25%
Salary increases	3.75% plus merit component based on employee classification and years of service
Discount rate	7.46% as of June 30, 2015 7.50% as of June 30, 2016
Administrative expenses	0.45% of payroll as of June 30, 2015 0.60% of payroll as of June 30, 2016

(In thousands)

	Old Miscellaneous and all New Plans	Old Police & Fire pre July 1, 1975 Retirements	Old Police & Fire, Charters A8.595 and A8.596	Old Police & Fire, Charters A8.559 and A8.585
Basic COLA:				
June 30, 2015	2.00 %	3.00 %	4.00 %	5.00 %
June 30, 2016	2.00 %	2.70 %	3.30 %	4.40 %

Mortality rates for active members and healthy annuitants were based upon adjusted Employee and Healthy Annuitant CalPERS mortality tables projected generationally from the 2009 base year using a modified version of the MP-2015 projection scale.

Discount Rate

Fiscal Year 2018

The beginning and end of year measurements are based on different assumptions and contribution methods that result in different discount rates. The discount rate was 7.50% as of June 30, 2016 (measurement date) and 7.50% as of June 30, 2017 (measurement date).

The discount rate used to measure the Total Pension Liability as of June 30, 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2016 actuarial valuation. That policy includes contributions equal to the employer portion of the Entry Age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining Unfunded Actuarial Liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. For the July 1, 2016 valuation, the increase in the Unfunded Actuarial Liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014 are amortized over 17-years and 5-years respectively. All amortization schedules are established as a level percentage of payroll so payments increase 3.75% each year. The Unfunded Actuarial Liability is based on an Actuarial Value of Assets that smooths investment gains and losses over five years and a measurement of the Actuarial Liability that excludes the value of any future Supplemental COLAs.

(In thousands)

While the contributions and measure of Actuarial Liability in the valuation do not anticipate any future Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLAs for current members when they are expected to be granted. For members who worked after November 6, 1996 and before Proposition C passed, a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the Actuarial Value of Assets. For members who did not work after November 6, 1996 and before Proposition C passed, the Market Value of Assets must also exceed the actuarial liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.50% Supplemental COLA when granted.

Because the probability of a Supplemental COLA depends on the current funded level of the System for certain members, Cheiron developed an assumption as of June 30, 2017 for the probability and amount of Supplemental COLA for each future year. The table below shows the net assumed Supplemental COLA for members with a 2.00% Basic COLA for sample years.

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

	1996 – Prop C	Before November 6, 1996 or after Prop C
Fiscal year:		
2018	0.75 %	— %
2023	0.75	0.30
2028	0.75	0.40
2033	0.75	0.40
2038+	0.75	0.40

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the System’s fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year end 2096 when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.58% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2017, is 7.50%.

(In thousands)

The long-term expected rate of return on pension plan investments was 7.50%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
Global equity	40 %	5.3 %
Fixed income	20	1.6
Private equity	18	6.5
Real assets	17	4.6
Hedge funds/absolute return	5	3.6
	100 %	

Fiscal Year 2017

The beginning and end of year measurements are based on different assumptions and contribution methods that result in different discount rates. The discount rate was 7.46% as of June 30, 2015 (measurement date) and 7.50% as of June 30, 2016 (measurement date).

The discount rate used to measure the Total Pension Liability as of June 30, 2016, was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for the July 1, 2015, actuarial valuation. That policy includes contributions equal to the employer portion of the Entry Age normal costs for members as of the valuation date, a payment for expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014, are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining Unfunded Actuarial Liability not attributable to Charter amendments as of July 1, 2013, is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014, are amortized over 20 years. For the July 1, 2016 valuation, the increases in the Unfunded Actuarial Liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014, are amortized over 17-years and 5-years, respectively. All amortization schedules are established as a level percentage of payroll so payments increase 3.75% each year. The Unfunded Actuarial Liability is based on an Actuarial Value of Assets that smooths investment gains and losses over five years and a measurement of the Actuarial Liability that excludes the value of any future Supplemental COLAs.

(In thousands)

While the contributions and measure of Actuarial Liability in the valuation do not anticipate any future Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLAs for current members when they are expected to be granted. For members who worked after November 6, 1996 and before Proposition C passed, a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the Actuarial Value of Assets. For members who did not work after November 6, 1996 and before Proposition C passed, the Market Value of Assets must also exceed the actuarial liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.50% Supplemental COLA when granted.

Because the probability of a Supplemental COLA depends on the current funded level of the System for certain members, Cheiron developed an assumption as of June 30, 2016 for the probability and amount of Supplemental COLA for each future year. The table below shows the net assumed Supplemental COLA for members with a 2.00% Basic COLA for sample years.

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

	1996 – Prop C	**Before November 6, 1996 or after Prop C**
Fiscal year:		
2018	0.750 %	— %
2023	0.750	0.220
2028	0.750	0.322
2033	0.750	0.370
2038+	0.750	0.375

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the System's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year end 2093 when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.85% to the

(Continued)

extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2016, is 7.50%.

The long-term expected rate of return on pension plan investments was 7.50%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
Global equity	40 %	5.1 %
Fixed income	20	1.1
Private equity	18	6.3
Real assets	17	4.3
Hedge funds/absolute return	5	3.3
	100 %	

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Airport's allocation of the employer's proportionate share of the net pension liability for the Plan, calculated using the discount rate, as well as what the Airport's allocation of the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate (in thousands):

Fiscal Year 2018

Employer	1% decrease share of NPL @ 6.50%	Share of NPL @ 7.50%	1% increase share of NPL @ 8.50%
Airport	$ 528,440	308,459	126,441

(In thousands)

Fiscal Year 2017

Employer		1% decrease share of NPL @ 6.50%	Share of NPL @ 7.50%	1% increase share of NPL @ 8.50%
Airport	$	569,852	359,599	185,694

(b) *Other Post-Employment Benefits (OPEB)*

The Airport participates in the City's agent multiple employer defined benefit plan, which operates as a cost-sharing multiple employer defined benefit plan for the Airport (the Plan). The Plan is maintained by the City and is administered through the City's Health Service System and provides post-employment medical, dental and vision insurance benefits to eligible employees, retired employees, and surviving spouses. Health benefit provisions are established and may be amended through negotiations between the City and the respective bargaining units. The City does not issue a separate report on its other post-employment benefit plan.

Fiscal Year 2018 (GASB 75)

GASB 75 requires that reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

San Francisco Health Service System Retiree Plan

Fiscal year 2018	
Valuation Date (VD)	June 30, 2016 updated to June 30, 2017
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

The Airport's proportionate share percentage of the Plan was determined based on its percentage of citywide "pay-as-you-go" contributions for the year ended June 30, 2017. The Airport's net OPEB liability, deferred outflows/inflows of resources related to OPEB, amortization of deferred outflows/inflows and OPEB expense to each department is based on the Airport's allocated percentage. The Airport's proportionate share of the City's OPEB elements was 6.57% as of the measurement date.

Benefits

Permanent full-time and elected employees are eligible to retire and receive post-retirement health insurance benefits when they are eligible for retirement benefits from the City and County of San Francisco's Retirement System. The eligibility requirements are as follows:

Normal Retirement	Miscellaneous	Age 50 with 20 years of credited service[1]
		Age 60 with 10 years of credited service
	Safety	Age 50 with 5 years of credited service
Disabled Retirement[2]		Any age with 10 years of credited service

(In thousands)

Terminated Vested[3]	Age 50 with 5 years of credited service at separation
Active Death[2]	Any age with 10 years of credited service

[1] Age 53 with 20 years of credited service, age 60 with 10 years of credited service, or age 60 for Miscellaneous members hired on or after January 7, 2012.
[2] No service requirement for Safety members retiring under the industrial disability benefit or for surviving spouses / domestic partners of those killed in the line of duty.
[3] Effective with Proposition B, passed June 3, 2008, participants hired on or after January 10, 2009 must retire within 180 days of separation in order to be eligible for retiree healthcare benefits.

Retiree healthcare benefits are administered by the San Francisco Health Service System and include the following:

Medical:	PPO – City Health Plan (self-insured)
	HMO – Kaiser (fully-insured) and Blue Shield (flex-funded)
Dental:	Delta Dental & DeltaCare USA
Vision:	Vision benefits are provided under the medical insurance plans and are administered by Vision Service Plan

Projections of the sharing of benefit related costs are based on an established pattern of practice.

Contributions

Benefits provided under the Plan are currently paid through “pay as you go” funding. Additionally, under the City Charter, active officers and employees of the City who commenced employment on or after January 10, 2009, shall contribute to the Retiree Health Care Trust Fund (Trust Fund) a percentage of compensation not to exceed 2% of pre-tax compensation. The City shall contribute 1% of compensation for officers and employees who commenced employment on or after January 10, 2009 until the City’s GASB Actuary has determined that the City’s portion of the Trust Fund is fully funded. At that time, the City’s 1% contribution shall cease, and officers and employees will each contribute 50% of the maximum 2% of pre-tax compensation.

Starting July 1, 2016, active officers and employees of the City who commenced employment on or before January 9, 2009, shall contribute 0.25% of pre-tax compensation into the Trust Fund. Beginning on July 1st of each subsequent year, the active officers and employees of the City who commenced employment on or before January 9, 2009, shall contribute an additional 0.25% of pre-tax compensation up to a maximum of 1%. Starting July 1, 2016, the City shall contribute 0.25% of compensation into the Trust Fund for each officer and employee who commenced employment on or before January 9, 2009. Beginning on July 1st of each subsequent year, the City shall contribute an additional 0.25% of compensation, up to a maximum of 1% for each officer and employee who commenced employment on or before January 9, 2009. When the City’s GASB Actuary has determined that the City’s portion of the Trust Fund is fully funded, the City’s 1% contribution shall cease, and officers and employees will each contribute 50% of the maximum 1% of pre-tax compensation.

Additional or existing contribution requirements may be established or modified by amendment to the City's Charter.

For the fiscal year ended June 30, 2018, the City's funding was based on "pay as you go" plus a contribution of $25.8 million to the Retiree Healthcare Trust Fund. The "pay as you go" portion paid by the City was $178.0 million for a total contribution of $203.9 million for the fiscal year ended June 30, 2018. The Airport's proportionate share of the City's contributions for fiscal year 2018 was $13.4 million.

OPEB Liabilities, OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

As of June 30, 2018, the City reported net OPEB liabilities related to the Plan of $3.7 billion. The Airport's proportionate share of the City's net OPEB liability as of June 30, 2018 was $244.1 million.

For the year ended June 30, 2018, the City's recognized OPEB expense was $355.2 million. Amortization of the City's deferred inflow is included as a component of pension expense. The Airport's proportionate share of the City's OPEB expense was $23.3 million.

As of June 30, 2018, the Airport reported its proportionate share of the City's deferred outflows/inflows of resources related to OPEB were from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 13,387	—
Net difference between projected and actual earnings on plan investments	—	394
Total	$ 13,387	394

Amounts reported as deferred outflows, exclusive of contributions made after the measurement date, and deferred inflows of resources will be amortized annually and recognized in OPEB expense as follows (in thousands):

Year ending June 30:	
2019	$ (99)
2020	(99)
2021	(98)
2022	(98)
Total	$ (394)

(In thousands)

Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the Total OPEB Liability as of June 30, 2017 (measurement period) is provided below:

Key actuarial assumptions:

Valuation Date	June 30, 2016 updated to June 30, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	The Entry Age Actuarial Cost Method is used to measure the Plan's Total OPEB Liability
Healthcare Cost Trend Rates	Pre-Medicare trend starts at 7.25% and trends down to ultimate rate of 4.5% Medicare trend starts at 7.0% and trends down to ultimate rate of 4.5% 10-County average trend starts at 6.0% and trends down to ultimate rate of 4.5%
Expected Rate of Return on Plan Assets	7.50%
Discount Rate	7.50%
Salary Increase Rate	Wage Inflation Component: 3.50% Additional Merit Component (dependent on years of service): Police: 0.00% - 8.00% Fire: 0.00% - 15.00% Muni Drivers: 0.00% - 15.00% Craft: 0.00% - 3.50% Misc: 0.00% - 5.25%
Inflation Rate	Wage Inflation: 3.50% compounded annually Consumer Price Inflation: 3.00% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ending June 30, 2014.

Non-Annuitant - CalPERS employee mortality tables without scale BB projection:

Gender	Adjustment Factor	Base Year
Female	0.918	2009
Male	0.948	2009

Healthy Annuitants - CalPERS healthy annuitant mortality table without scale BB projection:

Gender	Adjustment Factor	Base Year
Female	1.014	2009
Male	0.909	2009

Miscellaneous Disable Annuitants - RP-2014 Disabled Retiree Tables without MP-2014 projection:

Gender	Adjustment Factor	Base Year
Female	1.066	2006
Male	0.942	2006

Safety Disables Annuitants - CalPERS industrial disability mortality table without scale BB projection:

Gender	Adjustment Factor	Base Year
Female	0.983	2009
Male	0.909	2009

Sensitivity of Liabilities to Changes in the Healthcare Cost Trend Rate and Discount Rate

The following presents the Airport's proportionate share of the City's net OPEB liability calculated using the healthcare cost trend rate, as well as what the Airport's allocation of the City's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower or 1% higher than the current rate (in thousands):

Employer	(1%)	Baseline	1%
Airport	$ 213,024	244,096	282,507

Discount Rate

The discount rate used to measure the Total OPEB Liability as of June 30, 2017 was 7.5%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The long-term expected rate of return on OPEB plan investments was 7.5% based on expected future returns and historical returns experienced by the Trust Fund. Expected future returns were determined based on 10-year and 20-year capital market assumptions for the Trust Fund's asset allocation. Target allocation for each major asset class are summarized in the following table:

Asset Class	Target Allocation	20-year Expected Return
U.S. Equities	41.0%	7.3%
Developed Market Equity (non-U.S.)	20.0%	7.1%
Emerging Market Equity	16.0%	9.4%
High Yield Bonds	3.0%	5.4%
Bank Loans	3.0%	5.0%
Emerging Market Bonds	3.0%	5.4%
Treasury Inflation Protected Securities	5.0%	3.3%
Investment Grade Bonds	9.0%	3.6%

The asset allocation targets summarized above have a 20-year return estimate of 7.75%, which was weighted against a 10-year model estimating a 6.59% return, resulting in the ultimate long-term expected rate of return of 7.5%.

The following presents the Airport's proportionate share of the City's net OPEB liability calculated using the discount rate, as well as what the Airport's proportionate share of the City's net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate (in thousands):

Employer		Share of NOL @ 6.50%	Share of NOL @ 7.50%	Share of NOL @ 8.50%
Airport	$	279,629	244,096	214,957

Fiscal Year 2017 (GASB 45)

Health care benefits of Airport employees, retired employees, and surviving spouses are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System. The Airport's annual contribution, which amounted to approximately $39.7 million in fiscal year 2017, is determined by a Charter provision based on similar contributions made by the 10 most populous counties in California.

Included in the fiscal year 2017 amount were $10.9 million in post-retirement benefits for retired Airport employees on a pay-as-you-go basis and $1.0 million for the Airport's contribution to the City's retiree health care trust fund. The City did not allocate to the Airport any additional share of the payments made by the City's Health Service System for post-retirement health benefits in fiscal year 2017.

For fiscal year 2017 the City determined a Citywide annual required contribution (ARC), interest on net other post-employment benefits other than pensions (OPEB), 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 Airport for the year ended June 30, 2017, based upon its percentage of Citywide payroll costs is presented below.

The following table shows the components of the City's annual OPEB allocations for the Airport for fiscal year 2017, the amount contributed to the plan, and changes in the net OPEB obligation (in thousands):

		2017
Annual required contribution	$	22,129
Interest on net OPEB obligation		6,013
Adjustment to ARC		(2,432)
Annual OPEB cost		25,710
Contribution made		(11,894)
Increase in net OPEB obligation		13,816
Net OPEB obligation – beginning of year		124,352
Net OPEB obligation – end of year	$	138,168

As of June 30, 2017, the Airport has set aside $115.5 million in a separate fund for purposes of the OPEB obligations and such amount is included in Unrestricted Cash and Investments in the accompanying statements of net position. The disposition of this fund is under management's discretion and has not been placed in a trust fund.

The City issues a publicly available financial report at the Citywide level that includes the complete note disclosures and required supplementary information related to the City's post-retirement health care obligations. The report may be obtained by writing to 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.

(Continued)

(11) Related-Party Transactions

The Airport receives services from various other City departments that are categorized in the various operating expense line items in the statements of revenues, expenses, and changes in net position. These services include utilities provided to tenants (see note 2m) and the Airport. The cost of all services provided to the Airport by the City work order system totaled approximately $156.3 million and $147.4 million in fiscal years 2018 and 2017, respectively. Included in personnel operating expenses are approximately $80.2 million and $74.6 million in fiscal years 2018 and 2017, respectively, related to police and fire services.

The Lease and Use Agreement with the airlines provides for continuing annual service payments to the City equal to 15% of concession revenues (net of certain adjustments), but not less than $5.0 million per fiscal year. Annual service payments to the City were $46.5 million and $45.0 million in fiscal years 2018 and 2017, respectively. The annual service payments are reported as transfers in the statements of revenues, expenses, and changes in net position.

(12) Passenger Facility Charges

As of June 30, 2018, the FAA has approved several Airport applications to collect and use PFCs (from PFC #2 to PFC #7) in a total cumulative collection amount of $2.1 billion and the cumulative use amount of $1.8 billion, with a final charge expiration date estimated to be February 1, 2030. During the fiscal years ended June 30, 2015, 2017 and 2018, the following changes occurred to the Airport's PFC collection authorizations.

In October 2013, the FAA approved the Airport's fifth application (PFC #5) for $610.5 million to pay for debt service related costs associated with the reconstruction and reopening of Terminal 2 and Boarding Area D renovations. The earliest charge effective date is January 1, 2017 and is based upon the estimated charge expiration date of PFC #3. The FAA estimates the charge expiration date for PFC #5 to be June 1, 2023. In November 2014, the FAA approved an amendment to PFC #5 that increased the imposition and use authority by $131.3 million from $610.5 million to $741.7 million. The estimated expiration date for PFC #5 was changed from June 1, 2023 to October 1, 2024. As of June 30, 2018, the Airport was working with the FAA to change the expiration date for PFC #3 and the charge effective date for PFC #5 from January 1, 2017 to November 1, 2013, because PFC #3 was fully collected earlier than originally anticipated due to increased passenger levels.

In June 2015, the FAA approved the Airport's sixth PFC application (PFC #6) for $141.1 million to pay for debt service related to the Runway Safety Area Program and the installation of ten passenger boarding bridges at Boarding Area E. The FAA estimates the charge expiration date for PFC #6 to be March 1, 2026.

In May 2017, the FAA approved the Airport's seventh PFC application (PFC #7) for collection of $319.7 million to pay for debt service associated with the AirTrain Extension and Improvements Project at the Airport. The approval of PFC #7 for use is pending. FAA estimates the charge expiration date for PFC #7 to be February 1, 2030.

PFC collections and related interest earned for the years ended June 30, 2018 and 2017, are as follows (in thousands):

		2018	2017
Amount collected	$	111,971	103,955
Interest earned		3,115	1,972
Total	$	115,086	105,927

Interest earned on PFC revenues is included in investment income in the accompanying financial statements.

(13) Commitments, Litigation, and Contingencies

(a) Commitments

Purchase commitments for construction, material, and services as of June 30, 2018 are as follows (in thousands):

Construction	$	230,771
Operating		22,056
Total	$	252,827

The Airport's Noise Insulation Program was implemented to mitigate the aircraft noise impact in the surrounding communities. This involved execution of a Memorandum of Understanding in 1992 with neighboring communities to insulate eligible properties and acquire easements for noise, vibration, and other effects resulting from aircraft operations at the Airport, and implementation of a supplemental program in 2000 to complete the work. This program was managed by the local communities with Airport funds (using bond proceeds, operating and other internally generated funds), as well as federal grants.

In fiscal year 2008, these components of the program were finalized and a new phase was started, with the Airport managing all new noise insulation work directly. In fiscal year 2018, the Airport disbursed approximately $461,000 in this new phase of the program ($343,000 in federal grants and $118,000 in Airport funds). In fiscal year 2017, the Airport disbursed approximately $77,000 in this new phase of the program ($50,000 in federal grants and $27,000 in Airport funds). As of June 30, 2018, the cumulative disbursements of Airport funds under this program were approximately $122.4 million.

(b) Security Deposits

Airline leases and permits require airlines to deliver a security deposit to the Airport prior to the effective date of the lease or permit. Such deposits are either in the form of (a) a surety bond payable to the City or (b) a letter of credit naming the City as a beneficiary. Under the 2011 Lease and Use Agreement, security deposits are renewed and increased annually in order to equal to two months of fees, as established by the Airport Director each fiscal year in accordance with Rates and Charges. Under most other leases and permits at the Airport, a deposit equal to six months is required.

The bonds or letters of credit are required to be kept in full force and effect at all times to ensure the faithful performance by the respective lessee or permittee of all covenants, terms, and conditions of the leases or permits, including payment of the monthly fees.

(c) Litigation

The Airport is a defendant in various legal actions and claims that arise during the normal course of business. Insurance policies cover certain actions, claims, and defense costs. Only those items not covered by insurance are included in the financial statements. The Airport's potential liabilities have been estimated and reported in the financial statements, in conformity with GAAP.

(d) Risk Management

Under the 1991 Master Bond Resolution, the Airport is required to procure or provide and maintain insurance, or to self-insure, against such risks as are usually insured by other major airports in amounts adequate for the risk insured against, as determined by the Airport, and to file with the Trustee each year a written summary of all insurance coverage then in effect. The Airport is not required to nor does it carry insurance or self-insure against any risks due to land movement or seismic activity.

The Airport has an ongoing loss prevention program, a safety officer, property loss control, and ongoing employee training programs. The Airport has instituted an Enterprise Risk Management Program by implementing a comprehensive risk identification, assessment, and treatment protocol to address key risks that may adversely affect the Airport's ability to meet its business goals and objectives. The Airport carries general liability insurance coverage of $1.0 billion with

$250.0 million in War Perils Liability, subject to a deductible of $10,000 per single occurrence. Immediately following the events of September 11, 2001, insurers canceled the coverage for war, terrorism, and hijacking for all airports, including the Airport. A number of insurers now provide this coverage through the Terrorism Risk Insurance Reauthorization Act (TRIA) of 2002; however, the Airport's purchase of War Perils Liability in the London markets extends coverage to terrorist acts.

The Airport also carries commercial property insurance coverage for full replacement value on all facilities at the Airport owned by the Airport, subject to a limit of $1.0 billion per single occurrence and a deductible of $500,000 per single occurrence. Additionally, tenants and contractors on all contracts are required to carry commercial general and automobile liability insurance in various amounts, naming the Airport as additional insured. The Airport is self-insured as part of the City's workers' compensation program. From current revenues, the Airport pays losses from workers' compensation claims of Airport employees, the deductible portion of insured losses, and losses from other uninsured risks. The Airport carries public officials' liability and employment practices liability coverage of $5.0 million, subject to a deductible of $100,000 per single occurrence for each wrongful act other than employment practices' violations, and $250,000 per each occurrence for each employment practices' violation. The Airport also carries insurance for public employee dishonesty, fine arts, electronic data processing equipment, and watercraft liability for Airport fire and rescue vessels, active assailant liability insurance, and Target Range Liability for the San Francisco Police Department's firearms range located at the Airport.

The estimated claims payable are actuarially determined as part of the City's self-insurance program. Changes in the reported amount resulted from the following activity (in thousands):

Balance as of June 30, 2016	$	1,477
Claim payments		(796)
Claims and changes in estimates		174
Balance as of June 30, 2017		855
Claim payments		(13)
Claims and changes in estimates		(792)
Balance as of June 30, 2018	$	50

The Airport is self-insured as part of the City's program for workers' compensation. All self-insurance claims are processed by the City. Liability and risk are retained by the Airport. Accrued workers' compensation includes provisions for claims reported and claims incurred but not reported. This accrued workers' compensation liability is actuarially determined as part of the City's program and is as follows (in thousands):

Balance as of June 30, 2016	$	6,657
Claim payments		(2,416)
Claims and changes in estimates		3,095
Balance as of June 30, 2017		7,336
Claim payments		(2,362)
Claims and changes in estimates		3,019
Balance as of June 30, 2018	$	7,993

(e) Grants

Grants that the Airport receives are subject to audit and final acceptance by the granting agency. Current and prior year costs of such grants are subject to adjustment upon audit.

(f) Financial Guarantees

The Airport participates in the City and County of San Francisco's surety bond program which provides training, support and City-funded surety bond guaranties for local business enterprise (LBE) contractors who want to bid on construction contracts for City departments (including the Airport), but cannot qualify for the required surety bonds on their own. If program parameters are met, the Airport may guaranty the lesser of $750,000 or 40% of the face amount of the surety bond, which would enable the LBE contractor to bid on Airport construction work. There were no outstanding Airport guaranties under the program as of June 30, 2018.

(g) Concentration of Credit Risk

The Airport leases facilities to the airlines pursuant to the Lease and Use Agreement (see note 2j) and to other businesses to operate concessions at the Airport. For fiscal years ended June 30, 2018 and 2017, revenues realized from the following source exceeded 5% of the Airport's total operating revenues:

	2018	2017
United Airlines	24.6 %	23.9 %

(h) Noncancelable Operating Leases

The Airport has noncancelable operating leases for certain buildings and equipment that require the following minimum annual payments, net of sublease income (in thousands):

Fiscal year ending:		
2019	$	201
Total	$	201

Net operating lease expense incurred for the fiscal year ended 2018 was the same as 2017 at approximately $0.2 million.

(14) Subsequent Events

(a) Passenger Facility Charges

In October 2018, the FAA approved the Airport's eighth application (PFC #8) to consolidate its PFC #6, as amended, and PFC #7 in the combined amount of $536.8 million. The FAA estimates the charge expiration date for PFC #8 to be March 1, 2029.

(b) Variable Rate Demand Bonds

In December 2018, the expiration date of the letter of credit provided by MUFG Union Bank, N.A., supporting the Issue 37C Bonds was extended to January 27, 2020.

(c) Sale of Capital Plan Bonds and Refunding Bonds

On January 11, 2019, the Airport entered into a bond purchase agreement to issue $1.8 billion of its Series 2019A, Series 2019B, Series 2019C and 2019D Bonds on or about February 7, 2019, for the purpose of financing and refinancing (through the repayment of commercial paper notes) a portion of the costs of capital improvements to the Airport, funding deposits to debt service reserve accounts and a contingency reserve account, funding deposits to capitalized interest accounts, paying costs of issuance, and current refunding $469 million in outstanding Second Series Revenue Refunding Bonds, Series 2009E. Moody's, S&P, and Fitch assigned credit ratings of "A1", "A+", and "A+" to these bonds. The issuance of the 2019A/B/C/D Bonds is subject to certain conditions being met.

(d) FAA Financial Compliance Review

On January 22, 2019, FAA notified the Airport that FAA selected the Airport for a financial compliance review. FAA stated that the purpose of the review is to verify that the Airport and the City are in compliance with the FAA grant assurances and the FAA Policy and Procedures Concerning the Use of Airport Revenue. The on-site review is expected to occur in March and April 2019.

SCHEDULE OF PASSENGER FACILITY CHARGE REVENUES AND EXPENDITURES

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Schedule of Passenger Facility Charge Revenues and Expenditures

Years ended June 30, 2018 and 2017

(In thousands)

		Passenger Facility Charge revenues	Interest earned	Total revenues	Expenditures on approved projects	Revenues over (under) expenditures on approved projects
Program to date as of June 30, 2016	$	1,070,348	18,321	1,088,669	(880,739)	207,930
Fiscal year 2016 – 2017 transactions:						
Reversal of prior year passenger facility charges accrual		(10,348)	—	(10,348)	—	(10,348)
Quarter ended September 30, 2016		25,802	414	26,216	—	26,216
Quarter ended December 31, 2016		24,041	421	24,462	—	24,462
Quarter ended March 31, 2017		20,150	553	20,703	—	20,703
Quarter ended June 30, 2017		27,294	731	28,025	(23,363)	4,662
Unrealized loss on investments		—	(147)	(147)	—	(147)
Passenger facility charges accrual		17,016	—	17,016	—	17,016
Total fiscal year 2016 – 2017 transactions		103,955	1,972	105,927	(23,363)	82,564
Program to date as of June 30, 2017		1,174,303	20,293	1,194,596	(904,102)	290,494
Fiscal year 2017 – 2018 transactions:						
Reversal of prior year passenger facility charges accrual		(17,016)	—	(17,016)	—	(17,016)
Quarter ended September 30, 2017		27,814	952	28,766	—	28,766
Quarter ended December 31, 2017		27,662	1,091	28,753	—	28,753
Quarter ended March 31, 2018		26,069	1,378	27,447	—	27,447
Quarter ended June 30, 2018		29,835	1,730	31,565	(4,068)	27,497
Unrealized loss on investments		—	(2,036)	(2,036)	—	(2,036)
Passenger facility charges accrual		17,607	—	17,607	—	17,607
Total fiscal year 2017 – 2018 transactions		111,971	3,115	115,086	(4,068)	111,018
Program to date as of June 30, 2018	$	1,286,274	23,408	1,309,682	(908,170)	401,512

See accompanying independent auditors’ report and notes to schedule of passenger facility charge revenues and expenditures.

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Notes to Schedule of Passenger Facility Charge Revenues and Expenditures

Year ended June 30, 2018

(1) General

The accompanying schedule of Passenger Facility Charge (PFC) revenues and expenditures includes activities related to applications 02-02-C-00-SFO, 03-03-C-01-SFO, 11-05-C-01-SFO, 13-06-C-00-SFO and 17-07-I-00-SFO of the PFC program of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport). The level of PFCs authorized, charge effective dates, and approved collection amounts of the Airport's PFC program are as follows:

Application number		Level of PFCs authorized	Charge effective date for collection		Amounts approved for collection (in thousands)
02-02-C-00-SFO	$	4.50	October 1, 2001	$	224,035
03-03-C-01-SFO		4.50	November 1, 2005		609,107
11-05-C-01-SFO		4.50	January 1, 2017		741,744
13-06-C-01-SFO		4.50	October 1, 2024		217,089
17-07-I-00-SFO		3.00	March 1, 2026		319,711
Total				$	2,111,686

(2) Basis of Accounting – Schedule of Passenger Facility Charge Revenues and Expenditures

The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures (the Schedule) has been prepared on the accrual basis of accounting which is described in note 2a of the Airport's basic financial statements.

KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

We have audited, in accordance with the 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, the financial statements of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport), an enterprise fund of the City and County of San Francisco (the City), which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 25, 2019. Our report included an emphasis of matter paragraph related to the Airport's adoption of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Other Than Pensions*. The July 1, 2017 beginning net position was restated for the retrospective application of this new accounting guidance.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Airport's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airport's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Airport's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

San Francisco, California
January 25, 2019

PASSENGER FACILITY CHARGE PROGRAM AUDIT REPORT

KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report on Compliance for Passenger Facility Charge Program and Report on Internal Control Over Compliance Required by the Passenger Facility Charge Audit Guide for Public Agencies

The Honorable Mayor and Board of Supervisors
City and County of San Francisco:

Report on Compliance for Passenger Facility Charge Program

We have audited the Airport Commission, City and County of San Francisco, San Francisco International Airport's (the Airport) compliance with the types of compliance requirements described in the Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration (the Guide), that could have a direct and material effect on the Airport's passenger facility charge program for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions applicable to the passenger facility charge program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Airport's passenger facility charge program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for passenger facility charge program. However, our audit does not provide a legal determination of the Airport's compliance.

Opinion

In our opinion, the Airport complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Airport is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport's internal control over compliance with the types of requirements that could have a direct and material effect on its passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

San Francisco, California
January 25, 2019

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
SAN FRANCISCO INTERNATIONAL AIRPORT

Schedule of Findings and Responses

Year ended June 30, 2018

I. Summary of Auditors' Results

1. The type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified opinion**
2. Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
   - Material weaknesses: **No**
   - Significant deficiencies: **None Reported**
3. Noncompliance which is material to the financial statements: **No**
4. Internal control deficiencies over the passenger facility charge program:
   - Material weaknesses: **No**
   - Significant deficiencies: **None Reported**
5. The type of report issued on compliance for the passenger facility charge program: **Unmodified opinion**
6. Any audit findings: **No**

II. Findings and Responses Related to the Passenger Facility Charge Program

None