

**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, 2019 and 2018

(With Independent Auditors' Report Thereon)

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CITY AND COUNTY OF SAN FRANCISCO  
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KPMG LLP  
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## 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, 2019 and 2018, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2019 and 2018, 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, 2019 and 2018, 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.

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4–37 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.



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 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  
November 27, 2019

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Management's Discussion and Analysis

June 30, 2019 and 2018

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, 2019 and 2018.

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 2019 passenger traffic at SFO concluded with 57.6 million passengers, a decrease of 0.4% compared to the prior fiscal year. Domestic enplaned passengers decreased 3.0%, while international enplaned passengers increased 6.7%. The domestic decline was due to a combination of factors, including peak period gate constraints and Alaska Airlines post-merger route rationalization, as well as capacity reductions by Southwest, and JetBlue Airways. The international sector experienced service additions, including new service, aircraft size increases, and increases in frequency of flights. Total cargo and U.S. mail tonnage increased by 0.6% due to increases in freight shipments.

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While the fiscal year-over-year enplanement decreased by 0.7% at SFO, Oakland International Airport increased by 1.9%<sup>1</sup>, and Mineta San Jose International Airport increased by 11.1%<sup>2</sup>, resulting in a Bay Area passenger market share of 66.7% for SFO, compared to 68.3% in fiscal year 2018.

**Passenger and Other Traffic Activity**

The number of flight operations (takeoffs and landings) decreased by 2.4% fiscal year-over-year. Aircraft revenue landed weight, which affects revenue generated by landing fees, decreased by 0.4% in comparison to 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 57.6 million, which is 0.4% below last fiscal year. Overall enplaned passengers totaled 28.6 million, a 0.7% decrease. Domestic enplanements of 21.3 million decreased 3.0% over last fiscal year, while the international sector continues its strong growth with 7.3 million enplaned passengers, an increase of 6.7% and a new peak for this sector over the previous fiscal year. Total cargo tonnage increased by 0.6%, reflecting a freight increase of 1.8%, and mail decrease of 7.7%.

The following table<sup>3</sup> presents a comparative summary of passenger and other traffic at the Airport for the fiscal years ended June 30, 2019, 2018, and 2017:

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017*</u>	<u>Percentage change FY 2019</u>	<u>Percentage change FY 2018</u>
Flight operations	462,774	474,387	449,035	(2.4)%	5.6 %
Landed weight (in 000 lbs.)	39,363,708	39,534,422	37,596,628	(0.4)	5.2
Total Airport passengers	57,573,124	57,780,300	53,985,826	(0.4)	7.0
Enplaned passengers	28,620,387	28,813,851	26,871,412	(0.7)	7.2
Domestic enplaned passengers	21,301,043	21,955,031	20,513,891	(3.0)	7.0
International enplaned passengers	7,319,344	6,858,820	6,357,521	6.7	7.9
Cargo and U.S. mail tonnage (in metric tons)	564,521	561,150	535,581	0.6	4.8

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

<sup>1</sup> Source: Oakland International Airport Traffic Report.

<sup>2</sup> Source: Mineta San Jose International Airport Traffic Report.

<sup>3</sup> Sources: Airport's Analysis of Airline Traffic, Fiscal Years 2017, 2018 and 2019.

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**Fiscal Year 2019**

**Passenger Traffic**

Compared to fiscal year 2018, passenger enplanements in fiscal year 2019 decreased by 0.7% from 28.8 million to 28.6 million passengers. Domestic passenger enplanements decreased 3.0%, while international enplanements increased 6.7%. Overall enplanements decreased by 193,464 passengers, with a 653,988 decline in domestic enplanements partially offset by 460,524 additional international enplanements. The domestic sector decline was primarily due to Alaska Airlines post-merger route rationalization, as well as capacity reductions by Southwest and JetBlue. The international sector saw commencement of new service, aircraft size increases and increases in frequency of flights by multiple carriers. Europe had the largest increase in international enplanements with 208,528, followed by Asia with 168,921, and Australia/Oceania with 78,028. Growth in enplanements to Europe was from new entrants Norwegian Air UK Ltd and TAP Air Portugal, along with service increases including additions, aircraft sizes increases and increase in frequency by French Bee, Iberia, Icelandair EHF, and United. Growth in enplanements to Asia was mainly due to capacity and frequency increases by EVA Airways, Hong Kong Airlines Limited, and United. Enplanements to Australia/Oceania grew as a result of new routes to Melbourne by Qantas, as well as capacity increases by French Bee and United. Enplanements to Canada grew by 47,171, primarily from Air Canada and United frequency and capacity increases. Enplanements to Latin America saw a decline of 41,918, mainly due to the discontinuation of service by Volaris. Enplanements to the Middle East were flat compared to the previous fiscal year as increases to Tel Aviv by United as well as new entrant El Al helped offset the discontinuation of Etihad Airways service to Abu Dhabi in October 2017.

The fiscal year quarterly results were slightly below the previous year as domestic declines were offset by international increases, with overall enplanement changes of 0.5%, -1.7%, -1.8%, and -0.1% in each of the four consecutive quarters. Airline seat capacity decreased by 1.1% during fiscal year 2019, with a domestic decrease of 3.7% and an international increase of 7.0%. The overall load factor (the percentage of seats filled on flights) increased by 0.4 percentage point to 83.4%. The domestic load factor increased by 0.6 percentage point to 83.8% while the international load factor decreased by 0.2 percentage point to 82.4%.

**Flight Operations**

During fiscal year 2019, the number of aircraft operations (takeoffs and landings) decreased by 11,613 flights (2.4%). Scheduled passenger aircraft arrivals and departures decreased by 11,258 flights (2.4%). Civil and military traffic decreased by 355 flights (2.5%).

Total scheduled airline passenger and cargo landings decreased by 2.6% with a decrease in revenue landed weight of 0.4%. Domestic passenger landings decreased by 4.0%, while domestic landed weight decreased by 3.6%. International passenger landings increased by 5.9%, while international landed weight increased by 7.2%. Average passenger aircraft size increased from approximately 158 to 159 seats per flight. Domestic scheduled seats per flight remained flat at 142 while international scheduled seats per flight increased from 244 to 246 in fiscal year 2019. The overall balance between mainline passenger aircraft (wide body and narrow body) and commuters (regional jets and turbo props) shifted towards commuters, which increased in share by 0.9 percentage points to 21.1% for domestic and international operations combined. Mainline landings decreased by 6,265, and commuter landings increased by 871. Cargo-only aircraft landings decreased by 16.1%, and cargo-only landed weight decreased by 13.5%.

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**Cargo Tonnage**

Fiscal year 2019 cargo and U.S. mail tonnage increased by 3,371 metric tons (0.6%). Mail decreased by 5,577 metric tons (7.7%), with decreases for domestic and international mail, and cargo volume excluding mail increased by 8,947 metric tons (1.8%), primarily due to increases in international shipments. Cargo-only carriers' tonnage share decreased by 1.7% to 17.8%. Tonnage on cargo-only carriers decreased by 8.2%, while tonnage on passenger carriers increased by 2.5%.

**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, 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 Airlines Limited. 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 EHF 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

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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%.

**Financial Highlights, Fiscal Year 2019**

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the fiscal year by \$124.2 million.
- Total revenue bonds payable by the Airport increased by \$1.2 billion.
- Operating revenues were \$980.4 million.
- Operating expenses were \$764.0 million.
- Nonoperating expenses, net of revenues from nonoperating sources (including revenues of \$110.9 million from Passenger Facility Charges) were \$99.1 million.
- Capital contributions from the Federal Aviation Administration's (FAA) Airport Improvement Program (AIP) and Transportation Security Administration's (TSA) Airport Checked Baggage Screening System were \$23.6 million.
- Transfers to the City and County of San Francisco as annual service payment were \$49.1 million.
- Net position increased by \$91.8 million primarily due to an increase in investment fair value adjustments and a decrease in net pension liability.

**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.

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- 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.

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**Overview of the Airport's Financial Statements**

**Net Position Summary**

A condensed summary of the Airport's net position for the fiscal years 2019, 2018, and 2017 is shown below (in thousands):

**SAN FRANCISCO INTERNATIONAL AIRPORT'S NET POSITION**

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>Percentage increase (decrease) FY 2019</u>	<u>Percentage increase (decrease) FY 2018</u>
<b>Assets:</b>					
Unrestricted current assets	\$ 597,189	567,930	440,930	5.2 %	28.8 %
Restricted current assets	751,667	632,233	437,934	18.9	44.4
Restricted noncurrent assets	1,365,010	1,460,521	726,310	(6.5)	101.1
Capital assets, net	<u>6,131,342</u>	<u>4,930,029</u>	<u>4,282,629</u>	<u>24.4</u>	<u>15.1</u>
Total assets	<u>8,845,208</u>	<u>7,590,713</u>	<u>5,887,803</u>	<u>16.5</u>	<u>28.9</u>
<b>Deferred outflows of resources:</b>					
Unamortized loss on refunding of debt	64,272	75,343	76,789	(14.7)	(1.9)
Deferred outflows on derivative instruments	38,828	29,245	54,870	32.8	(46.7)
Deferred outflows related to OPEB	20,584	13,387	—	53.8	100.0
Deferred outflows related to pensions	<u>80,371</u>	<u>91,596</u>	<u>145,743</u>	<u>(12.3)</u>	<u>(37.2)</u>
Total deferred outflows of resources	<u>204,055</u>	<u>209,571</u>	<u>277,402</u>	<u>(2.6)</u>	<u>(24.5)</u>
<b>Liabilities:</b>					
Current liabilities	265,115	272,022	284,221	(2.5)	(4.3)
Current liabilities payable from restricted assets	252,616	298,855	356,535	(15.5)	(16.2)
Noncurrent liabilities	7,800,699	6,584,291	4,895,146	18.5	34.5
Net OPEB liability	236,160	244,096	138,168	(3.3)	76.7
Net pension liability	254,206	308,459	359,599	(17.6)	(14.2)
Derivative instruments	<u>46,085</u>	<u>37,558</u>	<u>65,965</u>	<u>22.7</u>	<u>(43.1)</u>
Total liabilities	<u>8,854,881</u>	<u>7,745,281</u>	<u>6,099,634</u>	<u>14.3</u>	<u>27.0</u>
<b>Deferred inflows of resources:</b>					
Deferred inflows related to OPEB	21,901	394	—	5,458.6	100.0
Deferred inflows related to pensions	<u>48,297</u>	<u>22,230</u>	<u>15,402</u>	<u>117.3</u>	<u>44.3</u>
Total deferred inflows of resources	<u>70,198</u>	<u>22,624</u>	<u>15,402</u>	<u>210.3</u>	<u>46.9</u>
<b>Net position:</b>					
Net investment in capital assets	(646,073)	(564,762)	(284,761)	(14.4)	(98.3)
Restricted for debt service	237,449	186,655	109,554	27.2	70.4
Restricted for capital projects	488,746	419,486	296,188	16.5	41.6
Unrestricted	<u>44,062</u>	<u>(9,000)</u>	<u>(70,812)</u>	<u>589.6</u>	<u>87.3</u>
Total net position	<u>\$ 124,184</u>	<u>32,379</u>	<u>50,169</u>	<u>283.5 %</u>	<u>(35.5)%</u>

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**Fiscal Year 2019**

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 \$124.2 million and \$32.4 million as of June 30, 2019 and 2018, respectively, representing an increase of \$91.8 million (283.5%). Unrestricted net position represented 35.5% and (27.8%) of total net position as of June 30, 2019 and 2018, respectively.

Unrestricted current assets consist primarily of cash and investments available to meet the Airport's current obligations. Unrestricted current assets increased by \$29.3 million (5.2%) as of June 30, 2019, primarily due to an increase in the Airport's cash and investments held in the City Treasury as a result of the issuance of senior lien bonds and an increase in the amount transferred from the Passenger Facilities Charges (PFC) fund to the operating fund for debt service expenses. As of June 30, 2019, the Airport has set aside \$135.0 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 PFC collected, debt service funds held by the bond trustee, grants receivable and PFC receivable. Restricted current assets increased by \$119.4 million (18.9%) as of June 30, 2019. The increase was primarily due to an increase in the Airport's cash and investments held in the City Treasury from the fiscal year 2019 PFC collection and the increase in the Airport's cash and investments held outside the City Treasury in connection with the issuance of the Airport's senior lien bonds.

Restricted noncurrent assets decreased by \$95.5 million (6.5%) as of June 30, 2019. The decrease was primarily due to higher spending on capital improvement projects in fiscal year 2019.

Capital assets consist of land, buildings, structures, improvements, equipment, and intangible assets. Capital assets, net of depreciation, increased by \$1.2 billion (24.4%) as of June 30, 2019, primarily due to the capitalization of higher capital improvement project costs.

Unamortized loss on refunding of debt decreased by \$11.1 million (14.7%) as of June 30, 2019. The decrease was primarily due to the refunding of the Airport's senior lien Series 2009E Bonds.

Deferred outflows on derivative instruments increased by \$9.6 million (32.8%) as of June 30, 2019, 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 \$7.2 million (53.8%) primarily due to the change of actuarial assumptions related to OPEB. See additional information in note 10b.

Deferred outflows related to pensions decreased by \$11.2 million (12.3%) primarily due to the change of actuarial assumptions related to pensions. See additional information in note 10a.

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Current liabilities payable from unrestricted assets decreased by \$6.9 million (2.5%) as of June 30, 2019, primarily due to the decrease in accounts payable.

Current liabilities payable from restricted assets decreased by \$46.2 million (15.5%) as of June 30, 2019, primarily due to the decrease in accounts payable and the refunding of commercial paper notes with the proceeds of the Airport's Second Series Revenue Bonds during fiscal year 2019.

Noncurrent liabilities before net OPEB liability, net pension liability, and derivative instruments increased by \$1.2 billion (18.5%) as of June 30, 2019, primarily due to the issuance of the Airport's Second Series Revenue Bonds during fiscal year 2019.

Net OPEB liability decreased by \$7.9 million (3.3%) primarily due to a decrease of the City's net OPEB liabilities related to the single employer defined benefit plan. See additional information in note 10b.

Net pension liability (NPL) decreased by \$54.3 million (17.6%) primarily due to the impact of actual investment earnings. See additional information in note 10a.

Derivative instruments liabilities increased by \$8.5 million (22.7%) as of June 30, 2019, due to the change in fair values of interest rate swap contracts per GASB 53 and GASB 72.

Deferred inflows related to OPEB increased by \$21.5 million (5,458.6%) primarily due to the differences between expected and actual experiences. See additional information in note 10b.

Deferred inflows related to pensions increased by \$26.1 million (117.3%) primarily due to the impact of actual investment earnings. See additional information in note 10a.

The Airport's net investment in capital assets decreased by \$81.3 million (14.4%) as of June 30, 2019, 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 \$50.8 million (27.2%) as of June 30, 2019, 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 \$69.3 million (16.5%) as of June 30, 2019, primarily due to the decrease in accounts payable and commercial paper liabilities restricted for capital projects.

Unrestricted net position increased by \$53.1 million (589.6%) as of June 30, 2019, 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 and a 17.6% decrease in net pension liability.

**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.

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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.

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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.

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**Highlights of Changes in Net Position**

The following table shows a condensed summary of changes in net position for fiscal years 2019, 2018, and 2017 (in thousands):

**SAN FRANCISCO INTERNATIONAL AIRPORT'S CHANGES IN NET POSITION**

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>FY 2019 percentage increase (decrease)</u>	<u>FY 2018 percentage increase (decrease)</u>
Operating revenues	\$ 980,443	1,063,802	926,800	(7.8)%	14.8 %
Operating expenses	<u>(764,011)</u>	<u>(770,186)</u>	<u>(808,860)</u>	<u>(0.8)</u>	<u>(4.8)</u>
Operating income	216,432	293,616	117,940	(26.3)	149.0
Nonoperating expenses, net	<u>(99,126)</u>	<u>(196,910)</u>	<u>(201,020)</u>	<u>(49.7)</u>	<u>(2.0)</u>
Income (loss) before capital contributions and transfers	117,306	96,706	(83,080)	21.3	216.4
Capital contributions	23,611	15,051	11,212	56.9	34.2
Transfers to City and County of San Francisco	<u>(49,112)</u>	<u>(46,549)</u>	<u>(45,036)</u>	<u>5.5</u>	<u>3.4</u>
Changes in net position	<u>91,805</u>	<u>65,208</u>	<u>(116,904)</u>	<u>40.8</u>	<u>155.8</u>
Total net position – beginning of year (as previously reported)	32,379	50,169	167,073	(35.5)	(70.0)
Restatement due to adoption of GASB 75	—	<u>(82,998)</u>	—	—	—
Total net position (deficit) – beginning of year (as restated)	<u>32,379</u>	<u>(32,829)</u>	<u>167,073</u>	<u>198.6</u>	<u>(119.6)</u>
Total net position - end of year	<u>\$ 124,184</u>	<u>32,379</u>	<u>50,169</u>	<u>283.5 %</u>	<u>(35.5)%</u>

**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).<sup>4</sup>

<sup>4</sup> 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."

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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.

There was an overcharge balance as of June 30, 2019 of \$41.2 million. \$37.8 million of the overcharge was used to offset the aviation revenue due as of June 30, 2018. The remaining \$3.4 million was recorded as unearned aviation revenue in the statements of net position. See note 2j.



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The following table shows a comparison of terminal rental rates and airline landing fees for fiscal years 2019, 2018, and 2017:

**SAN FRANCISCO INTERNATIONAL AIRPORT TERMINAL RENTAL RATES AND LANDING FEES**

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>
Effective average terminal rental rate (per sq. ft.)	\$ 179.21	169.03	161.16
Signatory Airline – landing fee rate (per 1,000 lbs.)	5.54	5.24	4.99
Non-Signatory Airline – landing fee rate (per 1,000 lbs.)	6.93	6.55	6.24
General aviation and itinerant aircraft – landing fee rate (per 1,000 lbs.)	6.93	6.55	5.49

During fiscal years ended June 30, 2019, 2018, and 2017, revenues realized from the following source equaled or exceeded 5% of the Airport's total operating revenues:

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>
United Airlines	23.8 %	24.6 %	23.9 %

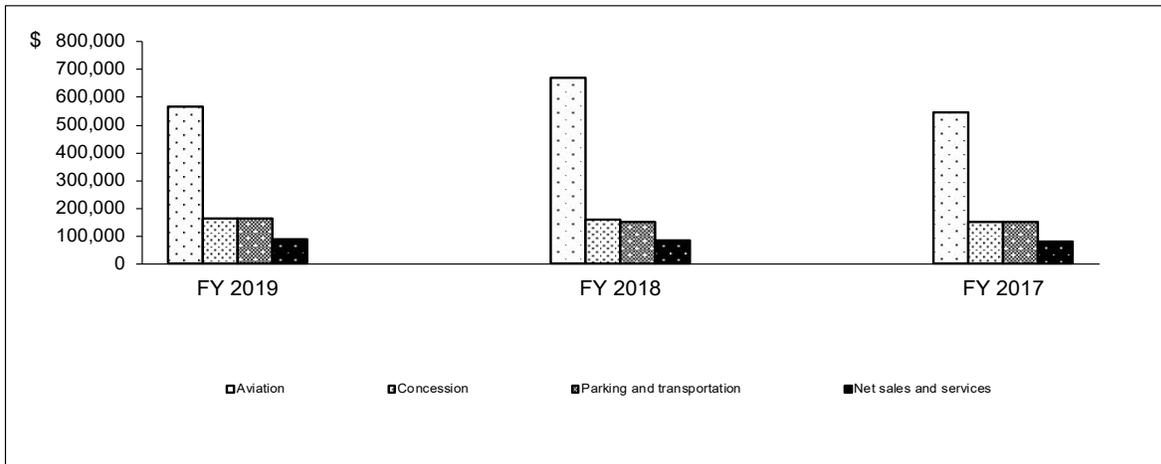
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The following shows a comparative summary of operating revenues for fiscal years 2019, 2018, and 2017 (in thousands):

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>FY 2019 percentage increase</u>	<u>FY 2018 percentage increase</u>
Aviation	\$ 565,635	670,282	545,310	(15.6)%	22.9 %
Concession	161,889	158,594	149,697	2.1	5.9
Parking and transportation	165,523	151,731	150,548	9.1	0.8
Net sales and services	87,396	83,195	81,245	5.0	2.4
Total operating revenues	<u>\$ 980,443</u>	<u>1,063,802</u>	<u>926,800</u>	<u>(7.8)%</u>	<u>14.8 %</u>



**Fiscal Year 2019**

Operating revenues decreased by 7.8%, from \$1.1 billion in fiscal year 2018 to \$1.0 billion in fiscal year 2019. The Airport experienced a decrease in aviation revenues and an increase in concession revenues, parking and transportation revenues, and net sales and service revenues.

Aviation revenues decreased from \$670.3 million in fiscal year 2018 to \$565.6 million in fiscal year 2019, primarily because fiscal year 2018 aviation revenues included an aviation revenue receivable that did not recur in fiscal year 2019, and there was an increase in PFC expenditures on debt service and non-aviation revenue in fiscal year 2019 that together reduced the aviation revenue requirement relative to fiscal year 2018.

As determined by the calculation method in the Agreement, scheduled airline landing fees per thousand pounds increased from \$5.24 in fiscal year 2018 to \$5.54 in fiscal year 2019. The airline average annual terminal rent per square foot increased from \$169.03 in fiscal year 2018 to \$179.21 in fiscal year 2019, partially due to a 4.7% increase in the residual airline terminal rental revenue requirement. Airline leased space decreased 1.2% to 1.65 million square feet.

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Before the unearned aviation revenue adjustment of \$41.2 million, revenues from landing fees increased by \$12.2 million (5.9%) which reflects an adopted rate increase. Terminal rentals increased by \$13.4 million (4.8%), based on the terminal rental rate increase combined with nominal rental space changes between air carriers. In aggregate, all other aviation revenues increased by \$3.5 million (3.9%), from \$91.0 million in fiscal year 2018 to \$94.6 million in fiscal year 2019, with net aviation rental revenue and activity-based fees including aircraft parking and fixed base operations (FBO) 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 2.1%, from \$158.6 million in fiscal year 2018 to \$161.9 million in fiscal year 2019. The higher revenues primarily resulted from a 7.2% increase in airport food & beverage and retail overall spending partially offset by a decrease in rental car activity. Food and beverage revenues increased by \$1.3 million (5.0%) due to the new and renovated food and beverage concessions in the International Terminal under the International Terminal Food and Beverage Program and a 5.9% increase in airport-wide passenger food and beverage spend rate. Retail merchandise revenues excluding duty free revenues were higher by \$3.1 million (21.0%) primarily as a result of higher retail sales activity in the international terminal as several new retail and newsstand locations opened during the fiscal year combined with an increase in airport-wide per passenger spend rate for such merchandise from \$3.29 to \$3.74 (13.5%). Revenues from duty free merchandise sales decreased by \$1.3 million (3.5%) because many of the DFS Group's retail locations were being renovated during fiscal year 2019, resulting in reduced merchandising sales space. On- and off-Airport rental car revenues decreased by \$1.6 million (3.2%). Other concession revenues increased by \$1.7 million (5.3%), primarily because of 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 9.1%, from \$151.7 million in fiscal year 2018 to \$165.5 million in fiscal year 2019. Parking revenue decreased by \$4.0 million (4.0%) due to the net effect of a 7.2% decline in the average ticket price from \$30.74 in fiscal year 2018 to \$28.54 in fiscal year 2019 and a 2.7% increase in parking transactions in fiscal year 2019. The decline in the average ticket price is partially attributable to a decrease in the long-term parking charges effective May 1, 2019. Ground transportation revenues, including taxi trip fee revenue, increased by \$17.8 million (35.1%) in fiscal year 2019 primarily due to a 19.7% 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 10.9 million during the fiscal year resulting in \$52.2 million in trip fee revenue. Aside from hotel shuttles (2.9%), all other modes of transportation experienced activity declines compared to the prior year including shared ride vans (down 23.8%), door to door pre-arranged vans (down 15.0%), limousines (down 11.4%), taxis (down 10.0%), scheduled buses (down 8.9%), charter buses (down 6.0%) and off-airport parking vans (down 1.0%).

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 5.0%, from \$83.2 million in fiscal year 2018 to \$87.4 million in fiscal year 2019. Revenue from the sale of water-sewage disposal increased by \$0.6 million (11.8%) as a result of a 4.7% water rate increase in fiscal year 2019 combined with higher tenant usage. Telecommunication fees were higher by \$0.5 million (11.7%) because of increased demand for telecommunication access services. Licenses and permits fees increased \$0.2 million (7.9%) as a result of increased badging activity by tenant

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employees and contractors. The transportation and facility fee (AirTrain fee charged on rental car contracts) decreased by \$0.9 million (2.7%) due to a 2.4% decline in the number of rental car contracts. Fees collected for the cost of the Rental Car Center increased \$0.6 million (3.5%) primarily as a result of annual Consumer Price Index (CPI) adjustments to lease rental charges. Revenue from penalties resulting from the enforcement of airfield safety rules and regulations increased by \$0.9 million (76.2%). Miscellaneous terminal fees increased by \$0.3 million (5.8%) to cover an increase in the Terminal 2 baggage handling maintenance contract costs. Governmental agency rent revenue increased by \$0.2 million (4.9%) compared to fiscal year 2018 mainly due to the renewal of the U.S. Post Office lease which includes higher rent based on increased land valuation. Miscellaneous Airport Revenues increased \$0.7 million (471.6%) reflecting rent from a short-term lease to PG&E in the West of Bayshore area. Net revenue from all other sales and services including sale of electricity, sale of natural gas, food court infrastructure/cleaning fees, refuse disposal, collection charges and settlements increased \$1.0 million (8.0%).

**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, 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 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

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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 pickups/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%).

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**Operating Expenses**

The following table shows a comparative summary of operating expenses for fiscal years 2019, 2018, and 2017 (in thousands):

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>Percentage increase (decrease) FY 2019</u>	<u>Percentage increase (decrease) FY 2018</u>
Personnel	\$ 290,125	312,972	364,831	(7.3)%	(14.2)%
Depreciation	268,789	265,169	265,841	1.4	(0.3)
Contractual services	91,498	86,103	73,918	6.3	16.5
Light, heat and power	24,952	23,800	23,093	4.8	3.1
Services provided by other City departments	29,565	23,369	21,594	26.5	8.2
Repairs and maintenance	38,528	34,038	34,863	13.2	(2.4)
Materials and supplies	14,904	17,573	16,152	(15.2)	8.8
General and administrative	2,852	2,535	4,360	12.5	(41.9)
Environmental remediation	2,798	4,627	4,208	(39.5)	10.0
Total operating expenses	<u>\$ 764,011</u>	<u>770,186</u>	<u>808,860</u>	<u>(0.8)%</u>	<u>(4.8)%</u>

**Fiscal Year 2019**

Operating expenses decreased from \$770.2 million in fiscal year 2018 to \$764.0 million in fiscal year 2019, due to a decrease in expenses for personnel, materials and supplies, and environmental remediation costs. The decrease was partially offset by an increase in the cost of depreciation, contractual services, light, heat and power, services provided by other City departments, repairs and maintenance, and general and administrative costs. In fiscal year 2019, the Airport capitalized \$23.0 million of indirect costs related to construction of capital projects as overhead, compared to \$19.4 million in fiscal year 2018. The variance in the different categories are discussed below.

Personnel expenses decreased \$22.9 million (7.3%), from \$313.0 million in fiscal year 2018 to \$290.1 million in fiscal year 2019. The decrease was primarily due to a significant decrease in pension expenses.

Depreciation increased \$3.7 million (1.4%), from \$265.1 million in fiscal year 2018 to \$268.8 million in fiscal year 2019. The increase was primarily due to the completion of capital improvement projects, such as the Additional Long-Term Parking Garage and the Consolidated Administration Campus.

Contractual services increased \$5.4 million (6.3%), from \$86.1 million in fiscal year 2018 to \$91.5 million in fiscal year 2019. The increase was primarily due to the increased expenses for various professional services contracts, such as the curbside management, technology, shuttle bus, and customer services contracts.

Light, heat and power expenses increased \$1.2 million (4.8%), from \$23.8 million in fiscal year 2018 to \$25.0 million in fiscal year 2019. The increase was primarily due to increases in rates and higher consumption.

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Expenses of services provided by other City departments increased \$6.2 million (26.5%), from \$23.4 million in fiscal year 2018 to \$29.6 million in fiscal year 2019. The increase was primarily due to the increase in police academy training, city attorney services, and the Radio Replacement Project.

Repairs and maintenance expenses increased \$4.5 million (13.2%), from \$34.0 million in fiscal year 2018 to \$38.5 million in fiscal year 2019. The increase was primarily due to higher spending on facilities and equipment maintenance projects.

Materials and supplies expenses decreased \$2.7 million (15.2%), from \$17.6 million in fiscal year 2018 to \$14.9 million in fiscal year 2019. The decrease was primarily due to the decrease in spending on small tools and instruments, hardware, plumbing supplies, and other materials and supplies.

General and administrative expenses increased \$0.3 million (12.5%), from \$2.6 million in fiscal year 2018 to \$2.9 million in fiscal year 2019. The increase was primarily due to the increase of estimated claims expense.

Environmental remediation expenses decreased \$1.8 million (39.5%), from \$4.6 million in fiscal year 2018 to \$2.8 million in fiscal year 2019. The decrease was primarily due to lower remediation costs incurred from capital improvement projects.

**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 decreases 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 expenses 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 variances 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 in 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.

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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.

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**Nonoperating Revenues and Expenses**

The following summary shows a comparison of nonoperating revenues and expenses in fiscal years 2019, 2018, and 2017 (in thousands):

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>FY 2019 percentage increase (decrease)</u>	<u>FY 2018 percentage increase (decrease)</u>
Nonoperating revenues:					
Passenger facility charges (PFC)	\$ 110,899	111,971	103,955	(1.0)%	7.7 %
Investment income	91,925	11,316	7,892	712.3	43.4
Other	1,304	1,771	1,075	(26.4)	64.7
	<u>204,128</u>	<u>125,058</u>	<u>112,922</u>	<u>63.2</u>	<u>10.7</u>
Total nonoperating revenues					
Nonoperating expenses:					
Interest expense	228,941	211,461	210,415	8.3	0.5
Write-offs and loss on disposal	15,341	21,253	21,619	(27.8)	(1.7)
Other	58,972	89,254	81,908	(33.9)	9.0
	<u>303,254</u>	<u>321,968</u>	<u>313,942</u>	<u>(5.8)</u>	<u>2.6</u>
	<u>(99,126)</u>	<u>(196,910)</u>	<u>(201,020)</u>	<u>(49.7)</u>	<u>(2.0)</u>
Total nonoperating expenses, net					
Capital contributions	23,611	15,051	11,212	56.9	34.2
Transfers to City and County of San Francisco	(49,112)	(46,549)	(45,036)	5.5	3.4
	<u>(25,501)</u>	<u>(31,498)</u>	<u>(33,824)</u>	<u>(11.1)</u>	<u>(1.2)</u>
Total					
	<u>\$ (124,627)</u>	<u>(228,408)</u>	<u>(234,844)</u>	<u>(45.4)%</u>	<u>(2.7)%</u>

**Fiscal Year 2019**

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 \$110.9 million during fiscal year 2019, a decrease of 1.0% compared to the \$112.0 million received in fiscal year 2018. The decrease in PFC revenues was primarily due to a 0.7% decline in enplanements caused by Alaska Airlines post-merger route rationalization, as well as capacity reductions by Southwest and JetBlue.

Investment income increased \$80.6 million (712.3%), from \$11.3 million in fiscal year 2018 to \$91.9 million in fiscal year 2019, primarily due to the net effect of \$51.0 million of investment fair value adjustments. Excluding the fair value adjustments, actual investment income increased \$29.6 million.

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Other nonoperating revenues decreased \$0.5 million (26.4%), from \$1.8 million in fiscal year 2018 to \$1.3 million in fiscal year 2019, primarily due to the decrease in federal grants for the canine explosive detection program.

Interest expense increased \$17.4 million (8.3%), from \$211.5 million in fiscal year 2018 to \$228.9 million in fiscal year 2019, primarily due to an increase in financing activities to fund capital improvement projects.

Write-offs and loss on disposal decreased \$6.0 million (27.8%), from \$21.3 million in fiscal year 2018 to \$15.3 million in fiscal year 2019, primarily due to a reduction in capital assets write-offs.

Other nonoperating expenses decreased \$30.2 million (33.9%), from \$89.2 million in fiscal year 2018 to \$59.0 million in fiscal year 2019, primarily due to lower demolition and capital improvement projects costs that did not meet the capitalization requirement.

Capital contributions received from federal grants increased \$8.5 million (56.9%), from \$15.1 million in fiscal year 2018 to \$23.6 million in fiscal year 2019. The increase was primarily due to the increase of federal grants for the Airport Improvement Program and TSA Checked Baggage Recapitalization Construction Project.

The annual service payments transferred to the City increased \$2.6 million (5.5%), from \$46.5 million in fiscal year 2018 to \$49.1 million in fiscal year 2019. The increase was due to higher concession, parking and transportation revenues.

**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.

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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.

**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.

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**Fiscal Year 2019**

Expenses incurred during fiscal year 2019 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 (in thousands).

	<u>Amount</u>
Terminal 1 Redevelopment	\$ 669,749
On-Airport Hotel	143,189
AirTrain Extension	91,597
Security Improvements	78,319
Additional Long-Term Parking Garage	46,184
Terminal 3 Renovation	40,865
Gate Capacity Enhancements	40,777
Airport Traffic Control Tower	36,882
Net Zero Energy Program	35,975
Superbay Renovation	34,121
Waste Water System Improvements	32,908
Courtyard 3 Connector	23,838
International Terminal Refresh Program	22,234
Revenue Enhancement and Customer Hospitality (REACH)	21,286
South McDonnell Road Realignment	16,868
International Terminal Baggage Handling System	14,624
Central Plant Improvements	13,893
Energy and Efficiency Improvements	13,056
Wayfinding	10,227
Consolidated Administration Campus	9,823
Capital Improvement Plan Support	9,180
Cargo and Hangar Improvements	9,152
Technology Improvement	9,013
Capital Equipment	3,749
Parking and Garage Improvements	3,375
Miscellaneous Airfield Improvements	3,251
Taxiway Improvements	2,400
Runway Improvements	1,706
Viaduct Improvements	1,652
Airport Support Miscellaneous Improvements	1,628
Roadway Improvements	1,460

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	<b>Amount</b>
Utility Improvements	\$ 1,320
Support Facility Improvements	1,278
Miscellaneous Terminal Improvements	1,065
South Field Redevelopment	1,046
Total	\$ 1,447,690

The Additional Long-Term Parking Garage and the Revenue Enhancement and Customer Hospitality (REACH) International Terminal projects were completed in fiscal year 2019. Construction activity continues on major projects such as the Terminal 1 (T1) Redevelopment Program, which includes the reconstruction of a new 25-gate Boarding Area B and the expansion of T1 Central Area, a new On-Airport Hotel, the extension of the AirTrain system to the long-term parking garages, renovation of the International Terminal Departures level, Boarding Area A gate enhancements, the renovation of the Superbay Hangar, and a new Industrial Waste Treatment Plant. Other notable projects are in programming and design such as the modernization of Terminal 3 (T3) West to the same customer experience and environmental standards as Terminal 2 (T2), and the Courtyard 3 Connector with a post-security passenger connector between T2 and T3 in conjunction with a multi-story office block for Commission and tenant use.

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

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**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 (in thousands).

	<u>Amount</u>
Terminal 1 Redevelopment	\$ 470,066
Additional Long-Term Parking Garage	79,323
On-Airport Hotel	56,203
Consolidated Administration Campus	51,772
AirTrain Extension	49,560
Security Improvements	45,742
South McDonnell Road Realignment	38,258
Plot 700 Redevelopment	17,586
Airport Traffic Control Tower	15,633
Miscellaneous Airfield Improvements	12,702
Technology Improvement	12,581
Terminal 3 Renovation	12,427
Gate Capacity Enhancements	11,864
Superbay Renovation	11,460
Runway Improvements	11,123
Revenue Enhancement and Customer Hospitality (REACH)	10,792
Waste Water System Improvements	8,452
International Terminal Baggage Handling System	7,518
Capital Improvement Plan Support	7,379
Roadway Improvements	6,997
Energy and Efficiency Improvements	4,240
Airport Support Miscellaneous Improvements	3,890
Utility Improvements	3,475
South Field Redevelopment	3,363
Wayfinding	2,955
Courtyard 3 Connector	2,284
Parking and Garage Improvements	2,042
Net Zero Energy Program	1,967
Fire Equipment Replacement	1,766
Cargo and Hangar Improvements	1,679
Capital Equipment	1,477

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	<b>Amount</b>
Central Plant Improvements	\$ 1,353
International Terminal Refresh Program	1,330
Support Facility Improvements	1,282
Airport Support Computer System Improvements	1,213
Taxiway Improvements	1,016
Total	\$ 972,770

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, an additional long-term parking garage, the extension of the AirTrain to the additional 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.

**Debt Administration**

**Fiscal Year 2019**

*Capital Plan Bonds:* On February 7, 2019, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2019A (AMT), Series 2019B (Non-AMT/Governmental Purpose), and Series 2019C (Taxable) in the aggregate principal amount of \$1.4 billion to finance and refinance (through repayment of commercial paper notes) a portion of the costs of capital projects, to fund deposits to capitalized interest accounts, to make a deposit to a contingency reserve account, and to pay costs of issuance.

*Refunding Bonds:* On February 7, 2019, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2019C (Taxable), and Second Series Revenue Refunding Bonds, Series 2019D (Non-AMT), in the aggregate principal amount of \$410.9 million, to refund \$469.4 million of its Series 2009E Bonds, to fund deposits to debt service reserve accounts, and to pay costs of issuance.

*Cash Defeasance:* On June 26, 2019, the Airport legally defeased \$23.5 million of its fixed rate Second Series Revenue Refunding Bonds Series 2009D (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.

*Special Facility Bonds:* On February 26, 2019, the Airport issued San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 2019A (AMT) and Series 2019B (Federally Taxable) (the "Fuel Bonds"), in an aggregate principal amount of \$125.0 million to refund all of the then-outstanding special facilities lease revenue bonds previously issued by the Airport Commission for the benefit of SFO FUEL COMPANY LLC (SFO Fuel), finance capital improvements to the jet fuel distribution and

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related facilities at San Francisco International Airport, pay capitalized interest on a portion of the Series 2019A Bonds, make a deposit to a reserve account for the Fuel Bonds, and pay costs of issuance.

*Subordinate Commercial Paper Notes:* During fiscal year 2019, the Airport issued \$406.1 million in new money commercial paper notes, then used proceeds of the Series 2019A, Series 2019B, and Series 2019C Bonds to retire \$431.9 million in commercial paper notes, including commercial paper notes that were outstanding as of July 1, 2018. As of June 30, 2019, the Airport had \$3.6 million in outstanding commercial paper notes.

*Interest Rate Swaps:* The Airport ended fiscal year 2019 with three interest rate swaps outstanding with a total notional amount of \$290.3 million and related deferred outflows on derivative instruments of \$38.8 million recorded as a long-term obligation as of June 30, 2019. 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, 2019, 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 2019, 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 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

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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

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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 \$29.2 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.

## **Credit Ratings and Bond Insurance**

### **Fiscal Year 2019**

*Credit Ratings:* During fiscal year 2019, 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 January 2, 2019, Moody's, S&P, and Fitch assigned credit ratings of "A1", "A+", and "A+", respectively, to the fixed rate Series 2019A/B/C/D Bonds, which were issued on February 7, 2019.

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*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 2019, certain outstanding Airport bonds were supported by Assured Guaranty Corp., Assured Guaranty Municipal Corp., and National Public Finance Guarantee Corp. ("National"). In fiscal year 2019, 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. In fiscal year 2019, the public rating of National was "Baa2" by Moody's.

**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

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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 2020 Airline Rates and Charges**

Terminal rental rates and airline landing fees for fiscal year 2020 have been developed as part of the annual budget process that started in October 2018. 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 2020, which became effective on July 1, 2019, are as follows:

Effective average terminal rental rate (per sq. ft)	\$ 191.50
Signatory Airline – landing fee rate (per 1,000 lbs.)	5.80
Non-Signatory Airline – landing fee rate (per 1,000 lbs.)	7.25
General aviation – landing fee rate (per 1,000 lbs.)	7.25

The effective average terminal rental rate increased by 6.9%, from \$179.21 per sq. ft. in fiscal year 2019 to \$191.50 per sq. ft. in fiscal year 2020. The fiscal year 2019 landing fee rate for Signatory Airlines increased by 4.7%, from \$5.54 per 1,000 pounds in fiscal year 2019 to \$5.80 per 1,000 pounds in fiscal year 2020, while the Non-Signatory Airline landing fee rate increased by 4.6%, from \$6.93 per 1,000 pounds in fiscal year 2019 to \$7.25 per 1,000 pounds in fiscal year 2020. The fiscal year 2019 landing fee rate for general aviation aircraft increased by 4.6%, from \$6.93 per 1,000 pounds in fiscal year 2019 to \$7.25 per 1,000 pounds in fiscal year 2020.

**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.

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Statements of Net Position

Years ended June 30, 2019 and 2018

(In thousands)

	<b>2019</b>	<b>2018</b>
<b>Assets:</b>		
<b>Current assets:</b>		
Cash and investments held in City Treasury	\$ 512,978	458,219
Cash and investments outside City Treasury	9,153	6,398
Cash – Revolving Fund	10	10
Accounts receivable (net of allowance for doubtful accounts: 2019: \$1,307; 2018: \$1,609)	62,003	57,853
Aviation revenue due	—	37,761
Accrued interest – City Treasury	3,351	1,768
Accrued interest – outside City Treasury	2,692	2,157
Inventories	224	51
Other current assets	6,778	3,713
<b>Restricted assets:</b>		
Cash and investments held in City Treasury	442,428	382,560
Cash and investments outside City Treasury	272,339	215,026
Accrued interest – City Treasury	3,262	1,346
Accrued interest – Other	744	505
Grants receivable	15,509	15,189
Passenger facility charges receivable	17,385	17,607
<b>Total current assets</b>	<b>1,348,856</b>	<b>1,200,163</b>
<b>Noncurrent assets:</b>		
<b>Restricted assets:</b>		
Cash and investments held in City Treasury	824,883	962,619
Cash and investments outside City Treasury	533,325	495,659
Accrued interest – City Treasury	6,802	2,243
<b>Capital assets, net</b>	<b>6,131,342</b>	<b>4,930,029</b>
<b>Total noncurrent assets</b>	<b>7,496,352</b>	<b>6,390,550</b>
<b>Total assets</b>	<b>8,845,208</b>	<b>7,590,713</b>
<b>Deferred outflows of resources:</b>		
Unamortized loss on refunding of debt	64,272	75,343
Deferred outflows on derivative instruments	38,828	29,245
Deferred outflows related to OPEB	20,584	13,387
Deferred outflows related to pensions	80,371	91,596
<b>Total deferred outflows of resources</b>	<b>\$ 204,055</b>	<b>209,571</b>

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Statements of Net Position

Years ended June 30, 2019 and 2018

(In thousands)

	<b>2019</b>	<b>2018</b>
Liabilities:		
Current liabilities:		
Accounts payable	\$ 50,424	68,643
Accrued payroll	12,785	11,898
Compensated absences	10,499	10,699
Accrued workers' compensation	1,939	1,739
Estimated claims payable	43	22
Due to City and County of San Francisco	—	96
Unearned aviation revenue	3,392	—
Current maturities of long-term debt	186,033	178,925
Payable from restricted assets:		
Accounts payable	149,888	189,043
Accrued payroll	681	553
Grants received in advance	5,169	—
Accrued bond interest payable	56,096	44,064
Commercial paper	3,575	29,410
Current maturities of long-term debt	37,207	35,785
Total current liabilities	517,731	570,877
Noncurrent liabilities:		
Compensated absences, net of current portion	7,704	7,356
Accrued workers' compensation, net of current portion	6,480	6,254
Estimated claims payable, net of current portion	103	28
Long-term debt, net of current maturities	7,786,412	6,570,653
Net OPEB liability	236,160	244,096
Net pension liability	254,206	308,459
Derivative instruments	46,085	37,558
Total noncurrent liabilities	8,337,150	7,174,404
Total liabilities	8,854,881	7,745,281
Deferred inflows of resources:		
Deferred inflows related to OPEB	21,901	394
Deferred inflows related to pensions	48,297	22,230
Total deferred inflows of resources	70,198	22,624
Net position:		
Net investment in capital assets	(646,073)	(564,762)
Restricted for debt service	237,449	186,655
Restricted for capital projects	488,746	419,486
Unrestricted	44,062	(9,000)
Total net position	\$ 124,184	32,379

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Aviation	\$ 565,635	670,282
Concession	161,889	158,594
Parking and transportation	165,523	151,731
Net sales and services	<u>87,396</u>	<u>83,195</u>
Total operating revenues	<u>980,443</u>	<u>1,063,802</u>
Operating expenses:		
Personnel	290,125	312,972
Depreciation	268,789	265,169
Contractual services	91,498	86,103
Light, heat and power	24,952	23,800
Services provided by other City departments	29,565	23,369
Repairs and maintenance	38,528	34,038
Materials and supplies	14,904	17,573
General and administrative	2,852	2,535
Environmental remediation	<u>2,798</u>	<u>4,627</u>
Total operating expenses	<u>764,011</u>	<u>770,186</u>
Operating income	<u>216,432</u>	<u>293,616</u>
Nonoperating revenues (expenses):		
Investment income	91,925	11,316
Interest expense	(228,941)	(211,461)
Passenger facility charges	110,899	111,971
Write-offs and loss on disposal	(15,341)	(21,253)
Other nonoperating revenues	1,304	1,771
Other nonoperating expenses	<u>(58,972)</u>	<u>(89,254)</u>
Total nonoperating expenses, net	<u>(99,126)</u>	<u>(196,910)</u>
Income before capital contributions and transfers	117,306	96,706
Capital contributions:		
Grants	23,611	15,051
Transfers to City and County of San Francisco	<u>(49,112)</u>	<u>(46,549)</u>
Changes in net position	<u>91,805</u>	<u>65,208</u>
Total net position – beginning of year (as previously reported)	32,379	50,169
Restatement due to adoption of GASB 75	<u>—</u>	<u>(82,998)</u>
Total net position – beginning of year (as restated)	<u>32,379</u>	<u>(32,829)</u>
Total net position – end of year	<u>\$ 124,184</u>	<u>32,379</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

	<b>2019</b>	<b>2018</b>
Cash flows from operating activities:		
Cash received from airline carriers, concessionaires, and others	\$ 1,040,251	988,320
Cash paid for employees' services	(299,273)	(290,061)
Cash paid to suppliers of goods and services	(246,160)	(195,409)
Net cash provided by operating activities	494,818	502,850
Cash flows from noncapital financing activities:		
Transfers to City and County of San Francisco	(49,112)	(46,549)
Other noncapital financing revenues	1,304	1,771
Other noncapital financing expenses	(58,972)	(89,254)
Net cash (used) in noncapital financing activities	(106,780)	(134,032)
Cash flows from capital and related financing activities:		
Principal paid on revenue bonds and commercial paper notes	(238,180)	(201,300)
Interest paid on revenue bonds and commercial paper notes	(310,491)	(253,077)
Acquisition and construction of capital assets	(1,458,205)	(807,048)
Revenues from passenger facility charges	111,121	111,379
Proceeds from sale of revenue bonds	912,846	1,023,750
Proceeds from commercial paper notes	406,110	557,700
Capital contributed by federal agencies and others	28,460	4,945
Net cash (used) in provided by capital and related financing activities	(548,339)	436,349
Cash flows from investing activities:		
Sales of investments with Trustee	966,275	666,304
Purchases of investments with Trustee	(900,887)	(619,746)
Interest received on investments	49,000	23,419
Net cash provided by investing activities	114,388	69,977
Net (decrease) increase in cash and cash equivalents	(45,913)	875,143
Cash and cash equivalents, beginning of year	1,846,995	971,852
Cash and cash equivalents, end of year	\$ 1,801,082	1,846,995
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and investments held in City Treasury – unrestricted	\$ 512,978	458,219
Cash and investments held in City Treasury – restricted	1,267,311	1,345,179
Cash and investments outside City Treasury – unrestricted	9,153	6,398
Cash and investments outside City Treasury – restricted	18,546	27,030
Cash – Revolving Fund	10	10
Cash, cash equivalents, and investments	1,807,998	1,836,836
Unrealized gain (loss) on investments	(6,916)	10,159
Cash and cash equivalents, June 30	\$ 1,801,082	1,846,995

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Statements of Cash Flows  
Years ended June 30, 2019 and 2018  
(In thousands)

	<b>2019</b>	<b>2018</b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 216,432	293,616
Adjustments for noncash and other activities:		
Depreciation	268,789	265,169
Allowance for doubtful accounts	(302)	(198)
Cost of issuance paid from bond proceeds	3,177	4,150
Changes in assets and liabilities:		
Accounts receivable	(3,848)	(4,570)
Aviation revenue due	37,761	(37,761)
Inventories	(173)	7
Other current assets	(3,065)	532
Deferred outflows related to OPEB	(7,197)	(1,311)
Deferred outflows related to pensions	11,225	54,147
Accounts payable and other liabilities	(18,219)	13,870
Accrued payroll	887	1,421
Compensated absences	148	1,038
Accrued workers' compensation	426	657
Net OPEB liability	(7,936)	10,854
Unearned aviation revenue	3,392	(54,853)
Deferred inflows related to OPEB	21,507	394
Deferred inflows related to pensions	26,067	6,828
Net pension liability	(54,253)	(51,140)
Net cash provided by operating activities	\$ 494,818	502,850
Noncash transactions:		
Accrued capital asset costs	\$ 150,568	189,596
Bond refunding through fiscal agent	18,134	26,789
Bond proceeds held by fiscal agent	577,510	802,338
Commercial paper repaid through fiscal agent	431,945	706,285

See accompanying notes to financial statements.

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Notes to Financial Statements

Years ended June 30, 2019 and 2018

**(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 2018 was the seventh busiest airport in the United States in terms of passengers and fifteenth in terms of cargo tonnage.<sup>5</sup> 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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<sup>5</sup> Source: Airports Council International – North America, 2018 North American Traffic Report.

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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.

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

**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 adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

**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.

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**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 adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

**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.

**Governmental Accounting Standards Board (GASB) Statement No. 90**

In August 2018, the GASB issued Statement No. 90 – Majority Equity Interests. GASB Statement No. 90 establishes accounting reporting requirements of majority equity interests in legally separate organizations and certain component units. The new standard is effective for periods beginning after December 15, 2018. The Airport will implement the provisions of Statement No. 90 in fiscal year 2020.

**Governmental Accounting Standards Board (GASB) Statement No. 91**

In May 2019, the GASB issued Statement No. 91 – Conduit Debt Obligations. GASB Statement No. 91 establishes accounting requirements for recognition, measurement, and disclosure for issuers. The new standard is effective for periods beginning after December 15, 2020. The Airport will implement the provisions of Statement No. 91 in fiscal year 2022.

**(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.

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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

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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).

*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

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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 ten-year Lease and Use Agreement that became effective on July 1, 2011 and that expires on June 30, 2021. 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. The Airport had net aviation revenue collected in advance from the airlines of approximately \$3.4 million as of June 30, 2019. The Airport had \$37.8 million of aviation revenue due from the airlines as of June 30, 2018. Pursuant to the terms of the Lease and Use Agreement, the Airport collected approximately \$41.2 million of aviation revenue in advance from the airlines during the fiscal year ended June 30, 2019. This amount, when netted against the \$37.8 million of aviation revenue due as of June 30, 2018, resulted in the \$3.4 million net aviation revenue collected in advance as of June 30, 2019.

***(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.

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**(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.

**(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, 2019 and 2018 are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Pooled cash and investments:		
Cash and investments held in City Treasury – unrestricted	\$ 512,978	458,219
Cash and investments held in City Treasury – restricted current	442,428	382,560
Cash and investments held in City Treasury – restricted noncurrent	<u>824,883</u>	<u>962,619</u>
Total cash and investments held in City Treasury	<u>\$ 1,780,289</u>	<u>1,803,398</u>

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

<b>Investment maturities (in months)</b>			
<b>Under 1</b>	<b>1 – less than 6</b>	<b>6 – less than 12</b>	<b>12 – 60</b>
17.4 %	22.2 %	16.3 %	44.1 %

**(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.

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As of June 30, 2019 and 2018, the Senior Trustee held investments for the benefit of the Airport with maturities as follows (in thousands):

Investments	Credit ratings June 30, 2019 (S&P/Moody's / Fitch)	June 30, 2019		June 30, 2018	
		Maturities	Fair value	Maturities	Fair value
Federal Home Loan Bank Notes	AA+/Aaa/NR	September 26, 2019	\$ 2,408	March 18, 2019	\$ 11,496
Federal Home Loan Bank Notes	AA+/Aaa/NR	October 21, 2019	2,280	May 28, 2019	248
Federal Home Loan Bank Notes	AA+/Aaa/NR	March 30, 2020	2,191	June 21, 2019	10,372
Federal Home Loan Bank Notes	AA+/Aaa/NR	May 28, 2020	12,265	August 5, 2019	10,687
Federal Home Loan Bank Notes	AA+/Aaa/NR	September 28, 2020	8,210	September 26, 2019	11,414
Federal Home Loan Bank Notes	AA+/Aaa/NR	September 20, 2021	7,060	October 21, 2019	11,142
Federal Home Loan Bank Notes	AA+/Aaa/NR	October 12, 2021	1,027	November 15, 2019	8,413
Federal Home Loan Bank Notes	AA+/Aaa/NR	April 29, 2022	6,561	March 30, 2020	2,178
Federal Home Loan Bank Notes	AA+/Aaa/NR	June 9, 2023	7,995	May 28, 2020	12,204
Federal Home Loan Bank Notes	AA+/Aaa/NR	December 8, 2023	9,335	September 28, 2020	8,036
Federal Home Loan Bank Notes	AA+/Aaa/NR	February 13, 2024	6,525	—	—
Federal National Mortgage Association Notes	AA+/Aaa/AAA	August 28, 2019	2,405	August 28, 2019	19,983
Federal National Mortgage Association Notes	AA+/Aaa/AAA	November 26, 2019	2,197	November 26, 2019	2,178
Federal National Mortgage Association Notes	AA+/Aaa/AAA	January 21, 2020	2,204	January 21, 2020	11,929
Federal National Mortgage Association Notes	AA+/Aaa/AAA	February 28, 2020	2,137	February 28, 2020	11,945
Federal National Mortgage Association Notes	AA+/Aaa/AAA	June 22, 2020	2,164	June 22, 2020	2,131
Federal National Mortgage Association Notes	AA+/Aaa/AAA	July 30, 2020	16,268	July 30, 2020	15,978
Federal National Mortgage Association Notes	AA+/Aaa/AAA	December 28, 2020	4,169	December 28, 2020	4,093
Federal National Mortgage Association Notes	AA+/Aaa/AAA	June 22, 2021	8,755	April 13, 2021	5,396
Federal National Mortgage Association Notes	AA+/Aaa/AAA	January 11, 2022	5,910	May 6, 2021	11,675
Federal National Mortgage Association Notes	AA+/Aaa/AAA	April 5, 2022	6,431	June 22, 2021	8,608
Federal National Mortgage Association Notes	AA+/Aaa/AAA	April 12, 2022	7,938	April 5, 2022	6,224
Federal National Mortgage Association Notes	AA+/Aaa/AAA	February 5, 2024	11,449	—	—
US Treasury Notes	AA+/Aaa/AAA	October 31, 2019	92,591	July 31, 2018	1,924
US Treasury Notes	AA+/Aaa/AAA	December 31, 2019	2,243	August 31, 2018	4,738
US Treasury Notes	AA+/Aaa/AAA	April 30, 2020	22,090	September 30, 2018	4,750
US Treasury Notes	AA+/Aaa/AAA	July 31, 2020	20,479	October 31, 2018	84,056
US Treasury Notes	AA+/Aaa/AAA	October 31, 2020	21,028	November 30, 2018	1,924
US Treasury Notes	AA+/Aaa/AAA	November 30, 2020	18,724	December 31, 2018	5,019
US Treasury Notes	AA+/Aaa/AAA	December 31, 2020	505	January 31, 2019	1,872

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		Maturities	Fair value	Maturities	Fair value
US Treasury Notes	AA+/Aaa/AAA	\$ February 28, 2021	19,127	\$ February 28, 2019	1,875
US Treasury Notes	AA+/Aaa/AAA	March 31, 2021	12,446	March 31, 2019	1,941
US Treasury Notes	AA+/Aaa/AAA	April 15, 2021	5,238	April 30, 2019	5,548
US Treasury Notes	AA+/Aaa/AAA	April 30, 2021	35,249	September 30, 2019	10,021
US Treasury Notes	AA+/Aaa/AAA	May 15, 2021	11,916	December 31, 2019	2,225
US Treasury Notes	AA+/Aaa/AAA	July 31, 2021	10,640	January 31, 2020	618
US Treasury Notes	AA+/Aaa/AAA	August 15, 2021	18,621	February 29, 2020	1,060
US Treasury Notes	AA+/Aaa/AAA	August 31, 2021	37,348	March 31, 2020	3,432
US Treasury Notes	AA+/Aaa/AAA	October 31, 2021	29,399	June 30, 2020	1,984
US Treasury Notes	AA+/Aaa/AAA	January 31, 2022	472	July 31, 2020	32,490
US Treasury Notes	AA+/Aaa/AAA	April 30, 2022	10,477	August 31, 2020	332
US Treasury Notes	AA+/Aaa/AAA	May 31, 2022	14,960	November 30, 2020	18,430
US Treasury Notes	AA+/Aaa/AAA	July 31, 2022	19,186	February 28, 2021	10,731
US Treasury Notes	AA+/Aaa/AAA	September 30, 2022	26,649	March 31, 2021	12,231
US Treasury Notes	AA+/Aaa/AAA	November 30, 2022	1,564	April 30, 2021	14,813
US Treasury Notes	AA+/Aaa/AAA	January 31, 2023	25,078	July 31, 2021	5,472
US Treasury Notes	AA+/Aaa/AAA	March 31, 2023	29,656	August 31, 2021	35,798
US Treasury Notes	AA+/Aaa/AAA	June 30, 2023	7,199	October 31, 2021	15,573
US Treasury Notes	AA+/Aaa/AAA	August 15, 2023	26,950	January 31, 2022	1,459
US Treasury Notes	AA+/Aaa/AAA	October 31, 2023	1,493	April 30, 2022	2,911
US Treasury Notes	AA+/Aaa/AAA	December 31, 2023	22,995	July 31, 2022	14,037
US Treasury Notes	AA+/Aaa/AAA	April 30, 2024	15,851	September 30, 2022	25,056
US Treasury Notes	AA+/Aaa/AAA	—	—	November 30, 2022	485
US Treasury Notes	AA+/Aaa/AAA	—	—	January 31, 2023	24,013
US Treasury Notes	AA+/Aaa/AAA	—	—	March 31, 2023	9,647
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	August 1, 2019	2,563	July 19, 2019	9,212
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	October 2, 2019	3,162	August 1, 2019	2,533
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	April 20, 2020	13,809	August 15, 2019	9,068
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	April 23, 2020	2,265	October 2, 2019	4,501
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	September 29, 2020	12,029	April 20, 2020	15,599
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	November 17, 2020	2,664	April 23, 2020	2,251
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	February 16, 2021	7,620	September 29, 2020	12,590
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

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Investments	Credit ratings June 30, 2019 (S&P/Moody's / Fitch)	June 30, 2019		June 30, 2018	
		Maturities	Fair value	Maturities	Fair value
		American Honda Finance Corp	A-1/P-1/F1	—	\$ —
Bank Montreal Chicago	A+/Aa2/AA-	August 3, 2020	455	October 4, 2018	2,624
BNP Paribas New York	A-1/P-1/F1+	October 31, 2019	3,597	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	October 31, 2019	3,555	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+	October 31, 2019	3,597	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	October 31, 2019	3,597	August 24, 2018	498
MUFG Bank LTD	A-1/P-1/F1	—	—	February 7, 2019	2,619
Apple Inc	AA+/Aa1/NR	February 7, 2020	140	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	719	August 8, 2019	1,053
Microsoft Corp	AAA/Aaa/AA+	February 6, 2020	299	February 6, 2020	296
Cisco Systems Inc	AA-/A1/NR	September 20, 2019	599	September 20, 2019	887
Cisco Systems Inc	AA-/A1/NR	January 15, 2020	303	January 15, 2020	308
Canadian Imperial CD	A-1/P-1/F1+	February 14, 2020	702	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	March 9, 2021	399	September 4, 2020	391
International Bank for Reconstruction & Development	AAA/Aaa/AAA	May 24, 2021	396	March 9, 2021	388
International Bank for Reconstruction & Development	AAA/Aaa/AAA	July 23, 2021	428	May 24, 2021	385
International Bank for Reconstruction & Development	AAA/Aaa/AAA	July 1, 2022	542	—	—
International Bank for Reconstruction & Development	AAA/Aaa/AAA	October 7, 2022	401	—	—
International Bank for Reconstruction & Development	AAA/Aaa/AAA	April 19, 2023	798	—	—
International Bank for Reconstruction & Development	AAA/Aaa/AAA	March 19, 2024	463	—	—
Inter-American Development Bank	AAA/Aaa/AAA	March 15, 2021	500	November 9, 2020	395
Inter-American Development Bank	AAA/Aaa/AAA	April 19, 2021	344	March 15, 2021	489
Inter-American Development Bank	AAA/Aaa/AAA	April 14, 2022	499	April 19, 2021	338
Inter-American Development Bank	AAA/Aaa/AAA	September 14, 2022	899	April 14, 2022	482
Inter-American Development Bank	AAA/Aaa/AAA	—	—	September 14, 2022	862
State of California	AA-/Aa3/AA-	April 1, 2021	862	April 1, 2021	349
University of California	AA/Aa2/AA	May 15, 2021	510	May 15, 2021	501
Fannie Mae-Aces	AA+/Aaa/AAA	September 1, 2021	151	September 25, 2021	203
Fannie Mae-Aces	AA+/Aaa/AAA	December 3, 2022	312	—	—

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Investments	Credit ratings June 30, 2019 (S&P/Moody's / Fitch)	June 30, 2019		June 30, 2018	
		Maturities	Fair value	Maturities	Fair value
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	January 1, 2022	\$ 365	April 25, 2022	\$ 282
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	March 1, 2022	571	August 25, 2022	215
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	April 1, 2022	215	February 1, 2023	96
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	June 1, 2022	1,032	February 25, 2023	167
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	August 1, 2022	221	—	—
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	October 1, 2022	510	—	—
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	January 1, 2023	912	—	—
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	February 1, 2023	213	—	—
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	March 1, 2023	469	—	—
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	April 1, 2023	132	—	—
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	July 1, 2023	130	—	—
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	October 1, 2023	524	—	—
Walmart Inc	AA/Aa2/AA	December 15, 2020	499	October 9, 2019	297
Oracle Corp	AA-/A1/A	October 8, 2019	300	October 8, 2019	298
Toyota Motor Credit Corp	AA-/Aa3/A+	January 8, 2021	507	October 18, 2019	592
Chevron Corp	AA/Aa2/NR	March 3, 2020	299	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	400	February 24, 2020	395
UBS AG Stamford	A-1/P-1/F1+	March 2, 2020	452	March 2, 2020	451
Bank of Nova Scotia Houston CD	A-1/P-1/F1+	June 5, 2020	353	June 5, 2020	352
Swedbank (New York) Cert Depos	AA-/Aa2/AA-	November 16, 2020	301	November 16, 2020	296
Royal Bank of Canada NY	AA-/Aa2/AA	June 7, 2021	411	June 7, 2021	404
International Finance Corp	AAA/Aaa/NR	January 25, 2021	503	January 25, 2021	494
International Finance Corp	AAA/Aaa/NR	March 9, 2021	302	March 9, 2021	297
Cooperatieve Central Raiff	A-1/P-1/F1+	February 14, 2020	702	—	—
Westpac Bkg Corp NY	A-1+/P-1/F1+	February 13, 2020	1,003	—	—
Goldman Sachs Financial Square Obligations Fund	AAAm/Aaa-mf/NR	—	11,132	—	8,373
First American Government Obligation Fund	AAAm/AAA-mf/AAAmf	—	16,201	—	20,000
Cash and Cash Equivalents			8,921		17,662
Total			\$ 814,817		\$ 717,084

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**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, 2019 and June 30, 2018 (in thousands):

	Fiscal year 2019				
	Fair value June 30, 2019	Investments exempt from fair value	Fair value measurement using		
			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	\$ 7,934	—	—	7,934	—
Commercial paper	10,791	—	—	10,791	—
State and local agencies	1,372	—	—	1,372	—
Supranationals	6,474	—	—	6,474	—
U.S. agencies	187,753	—	—	187,753	—
U.S. corporate bonds	140	—	—	140	—
U.S. corporate notes (medium term notes)	3,925	—	—	3,925	—
U.S. treasury securities	560,174	—	560,174	—	—
Cash and cash equivalents	8,921	8,921	—	—	—
Investments exempt from fair value*	27,333	27,333	—	—	—
Total	\$ 814,817	36,254	560,174	218,389	—

\* Money market funds

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	Fiscal year 2018				
	Fair value June 30, 2018	Investments exempt from fair value	Fair value measurement using		
			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	17,662	17,662	—	—	—
Investments exempt from fair value*	28,373	28,373	—	—	—
Total	<u>\$ 717,084</u>	<u>46,035</u>	<u>356,465</u>	<u>314,584</u>	<u>—</u>

\* Money market funds

Investments outside the City Treasury pool consist of U.S. Treasury securities, U.S. Government Agency securities, and other investments such as commercial paper, money market funds, negotiable certificates of deposit, supranational securities, etc. 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, in order of priority, safety, liquidity, and yield.

Safety of principal is the foremost objective of the investment program. Investments undertaken seek to ensure the preservation of capital. To attain this objective, investments are diversified.

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.

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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 \$814.8 million and \$717.1 million in investments held by, and in the name of, the Trustees as of June 30, 2019 and 2018, 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 in investments held by, and in the name of, the Hotel Special Facility Bonds Trustee for fiscal years 2019 and 2018.

All other funds of the Airport are invested in accordance with (1) the 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 \$15.5 million and \$15.2 million as of June 30, 2019 and 2018, respectively, were based on actual costs incurred, subject to federal reimbursement limits.

When determining the distribution of discretionary grants, the Secretary of Transportation may consider, as a mitigating 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 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. With the exception of fiscal year 2002, the annual service payment has exceeded the base year payment when adjusted for inflation since fiscal year 1997. 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 \$27.8 million 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 Airport Commission uses discretionary grants from the FAA to offset a portion of the costs of various capital projects at the Airport. 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.

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Grant-funded 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 2019**

	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2019</u>
Capital assets not being depreciated:				
Land	\$ 29,813	—	—	29,813
Intangible assets	6,881	—	—	6,881
Construction in progress	<u>1,316,813</u>	<u>1,481,638</u>	<u>(389,020)</u>	<u>2,409,431</u>
Total capital assets not being depreciated	<u>1,353,507</u>	<u>1,481,638</u>	<u>(389,020)</u>	<u>2,446,125</u>
Capital assets being depreciated/amortized:				
Buildings, structures, and improvements	6,271,891	343,240	(26,134)	6,588,997
Equipment	321,474	42,167	(2,821)	360,820
Intangible assets	<u>115,921</u>	<u>3,044</u>	<u>—</u>	<u>118,965</u>
Total capital assets being depreciated/amortized	<u>6,709,286</u>	<u>388,451</u>	<u>(28,955)</u>	<u>7,068,782</u>
Less accumulated depreciation/amortization:				
Buildings, structures, and improvements	(2,830,619)	(230,245)	15,336	(3,045,528)
Equipment	(200,607)	(31,868)	2,652	(229,823)
Intangible assets	<u>(101,538)</u>	<u>(6,676)</u>	<u>—</u>	<u>(108,214)</u>
Total accumulated depreciation/amortization	<u>(3,132,764)</u>	<u>(268,789)</u>	<u>17,988</u>	<u>(3,383,565)</u>
Total capital assets being depreciated/amortized, net	<u>3,576,522</u>	<u>119,662</u>	<u>(10,967)</u>	<u>3,685,217</u>
Total capital assets, net	<u>\$ 4,930,029</u>	<u>1,601,300</u>	<u>(399,987)</u>	<u>6,131,342</u>

Total interest costs were approximately \$295.2 million for fiscal year 2019 and \$240.2 million for fiscal year 2018, of which approximately \$66.3 million and \$28.8 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

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Uniform Guidance, the indirect costs capitalized for the years ended June 30, 2019 and 2018, were \$23.0 million and \$19.4 million, respectively.

**Fiscal Year 2018**

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>June 30, 2018</u>
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	<u>549,224</u>	<u>1,030,677</u>	<u>(253,155)</u>	<u>26,761</u>	<u>1,353,507</u>
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	<u>6,697,663</u>	<u>152,195</u>	<u>(113,833)</u>	<u>(26,739)</u>	<u>6,709,286</u>
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	<u>(2,964,258)</u>	<u>(265,417)</u>	<u>96,663</u>	<u>248</u>	<u>(3,132,764)</u>
Total capital assets being depreciated/amortized, net	<u>3,733,405</u>	<u>(113,222)</u>	<u>(17,170)</u>	<u>(26,491)</u>	<u>3,576,522</u>
Total capital assets, net	<u>\$ 4,282,629</u>	<u>917,455</u>	<u>(270,325)</u>	<u>270</u>	<u>4,930,029</u>

**(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

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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.

Events of default for the CP notes include nonpayment events, bankruptcy events, noncompliance with covenants, and default under the 1991 Master Bond Resolution. The CP notes are not subject to acceleration.

Events of default with respect to the letters of credit supporting the CP notes include nonpayment events (both on CP notes and Senior Bonds), bankruptcy events, noncompliance with covenants, default on debt in excess of a specified threshold amount, default under the 1997 Note Resolution, or a determination of taxability of interest on the tax-exempt CP notes. A downgrade of the Commission's Senior Bonds to below "Baa1" by Moody's or "BBB+" by S&P or Fitch is an event of termination with respect to all of the letters of credit supporting the CP notes. In addition, the State Street Bank and Trust letter of credit supporting \$100.0 million of CP notes includes certain changes in law affecting the Commission's payment obligations to the bank as events of termination. Remedies include the letter of credit bank's ability to stop issuance of the CP notes it supports and to require a final drawing on the letter of credit. If not repaid when due, drawings under the respective letters of credit supporting the CP notes are amortized over a three-, four-, or five-year period.

**Fiscal Year 2019**

As of June 30, 2019, the CP program was supported by three \$100.0 million principal amount direct-pay letters of credit issued by State Street Bank and Trust Company, Sumitomo Mitsui Banking Corporation, acting through its New York Branch, and U.S. Bank National Association, which, as of June 30, 2019, had expiration dates of May 2, 2024, June 21, 2022, and November 15, 2023, respectively; and a fourth 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 and having an expiration date of May 1, 2020. 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, 2019.

As of June 30, 2019, there were no obligations other than the CP notes outstanding under the 1997 Note Resolution.

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During fiscal year 2019, the Airport issued new money CP notes in the aggregate principal amount of \$307.4 million (AMT), \$41.3 million (Non-AMT), and \$57.5 million (Taxable) to fund capital improvement projects and costs of issuance related to the debt program.

The following table summarizes the activity of CP (excluding refunding CP) during the fiscal year ended June 30, 2019 (in thousands):

	<u>Interest rate</u>	<u>July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2019</u>
Commercial paper (Taxable)	2.45%-2.55%	\$ —	57,470	(57,470)	—
Commercial paper (AMT)	1.25%-1.79%	1,250	307,385	(308,285)	350
Commercial paper (Non-AMT)	1.22%-1.76%	28,160	41,255	(66,190)	3,225
Total		\$ 29,410	406,110	(431,945)	3,575

**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):

	<u>Interest rate</u>	<u>July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2018</u>
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

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**(7) Long-Term Obligations**

Long-term obligation activity for the years ended June 30, 2019 and 2018, was as follows (in thousands):

	<u>July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2019</u>	<u>Due within one year</u>
Revenue bonds payable	\$ 6,244,840	1,763,565	(707,580)	7,300,825	223,240
Less unamortized discounts	(253)	—	10	(243)	—
Add unamortized premiums	540,776	216,042	(47,748)	709,070	—
Total revenue bonds payable	6,785,363	1,979,607	(755,318)	8,009,652	223,240
Compensated absences	18,055	14,476	(14,328)	18,203	10,499
Accrued workers' compensation	7,993	3,219	(2,793)	8,419	1,939
Estimated claims payable	50	177	(81)	146	43
Net OPEB liability (see note 10b)	244,096	—	(7,936)	236,160	—
Net pension liability (see note 10a)	308,459	—	(54,253)	254,206	—
Derivative instruments	37,558	8,527	—	46,085	—
Total	<u>\$ 7,401,574</u>	<u>2,006,006</u>	<u>(834,709)</u>	<u>8,572,871</u>	<u>235,721</u>

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2018</u>	<u>Due within one year</u>
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	15,104	(14,066)	18,055	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	<u>\$ 5,674,600</u>	<u>2,407,112</u>	<u>(680,138)</u>	<u>7,401,574</u>	<u>227,170</u>

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**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.

Events of default for the bonds include nonpayment events, bankruptcy events, and noncompliance with covenants, including the rate covenant described below. The bonds are not subject to acceleration.

Payment of principal, interest and purchase price of bonds that bear interest at variable interest rates are supported by letters of credit. Events of default with respect to the letters of credit supporting the bonds include nonpayment events, bankruptcy events, noncompliance with covenants, default on debt in excess of a specified threshold amount, default under the 1991 Master Bond Resolution, or a determination of taxability of interest on tax-exempt bonds supported by the letter of credit. A downgrade of the Commission's Senior Bonds to below "Baa1" or "BBB+" or withdrawal or suspension of a bond rating for credit-related reasons by any rating agency is an event of termination under the letters of credit supporting the bonds. Remedies include the letter of credit bank's ability to cause a mandatory tender of the supported bonds or to accelerate amounts due and payable to the bank; provided that payments made on a parity with the bonds are capped based on provisions in the 1991 Master Bond Resolution. If there are no default events pending, drawings under the respective letters of credit supporting the bonds are amortized over a three-, four-, or five-year period; provided that payments made on a parity with the bonds are capped based on provisions in the 1991 Master Bond Resolution.

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As of June 30, 2019 and 2018, long-term revenue bonds consisted of the following (in thousands):

Description	Date of issue	Interest rate	2019	2018
Second Series Revenue Bonds:				
Issue 32F	11/16/06	5.25%	\$ 36,470	\$ 70,930
Issue 37C	06/03/09	Variable rate	82,500	85,135
Issue 2009A/B	09/03/09	4.90%	160,210	168,470
Issue 2009C	11/03/09	4.00%–5.00%	19,080	30,125
Issue 2009D	11/04/09	3.00%–4.00%	54,225	80,180
Issue 2009E	11/18/09	4.38%–6.00%	—	469,400
Issue 2010A	02/10/10	Variable rate	200,885	205,865
Issue 2010C	04/07/10	3.50%–5.00%	81,760	126,165
Issue 2010D	04/07/10	3.38%–5.00%	32,215	43,755
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	5.75%	—	7,080
Issue 2011B	02/22/11	5.00%–5.50%	12,880	18,645
Issue 2011C	07/21/11	5.00%	157,720	163,720
Issue 2011D	07/21/11	5.00%	84,865	84,865
Issue 2011E	07/21/11	4.08%–4.48%	805	5,625
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	3.40%–4.15%	28,380	49,455
Issue 2012A	03/22/12	5.00%	208,025	208,025
Issue 2012B	03/22/12	4.00%–5.00%	107,465	107,465
Issue 2013A	07/31/13	5.00%–5.50%	319,080	319,080
Issue 2013B	07/31/13	5.00%	87,860	87,860
Issue 2013C	07/31/13	2.86%	—	3,430
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%	146,895	147,305
Issue 2017A	10/31/17	5.00%–5.25%	339,585	339,585
Issue 2017B	10/31/17	5.00%	231,985	231,985
Issue 2017C	10/31/17	1.72%–1.94%	20,930	45,140
Issue 2017D	10/31/17	5.00%	144,830	144,830
Issue 2018A	02/01/18	5.00%	93,245	115,355

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Description	Date of issue	Interest rate	2019	2018
Issue 2018D	05/30/18	5.00%-5.25%	722,805	722,805
Issue 2018E	05/30/18	5.00%	116,275	116,275
Issue 2018F	05/30/18	3.80%	7,025	7,025
Issue 2018G	05/30/18	5.00%	35,665	35,665
Issue 2018B	06/06/18	Variable rate	138,170	138,170
Issue 2018C	06/06/18	Variable rate	138,170	138,170
Issue 2019A	02/07/19	4.00%-5.00%	1,176,215	—
Issue 2019B	02/07/19	5.00%	91,280	—
Issue 2019C	02/07/19	2.90%-3.51%	88,750	—
Issue 2019D	02/07/19	5.00%	407,320	—
			<u>7,300,825</u>	<u>6,244,840</u>
Unamortized discount			(243)	(253)
Unamortized premium			<u>709,070</u>	<u>540,776</u>
Total revenue bonds payable			8,009,652	6,785,363
Less current portion			<u>(223,240)</u>	<u>(214,710)</u>
Total long-term revenue bonds payable			<u>\$ 7,786,412</u>	<u>6,570,653</u>

**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. The Airport has since terminated all of the 2004 swaps, including, most recently, on October 31, 2017, when the Commission refunded Issue 36A, Issue 36B, and Issue 36C Bonds, and concurrently terminated the 2004 swaps associated with these issues.

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 were May 1, 2029 and 2030, respectively.

On December 16, 2010, the Airport terminated a 2007 swap with Depfa Bank plc, with a notional amount of \$72.0 million.

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

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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. Under the Commission's Swap Policy, 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

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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

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self-insurance. The Airport Commission may 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, 2019, 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, 2019, 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, 2019, only the Series 2017C, 2017D, 2018A, 2019B, and 2019D 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

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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 is adjusted downward from time to time as related bonds are refunded and such policies have experienced a reduction in value and may have experienced a reduction in value to zero. The policies in the 2009 Reserve Account have likely experienced a reduction in value in accordance with their terms. The policies in the Issue 1 Reserve Account with remaining value have termination dates. 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. The cash on deposit in the 2009 Reserve Account satisfies the reserve requirement.

*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.

*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

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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 2019**

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

Pursuant to resolutions adopted between fiscal years 2008 and 2019, 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, 2019, \$2.4 billion of the authorized capital plan bonds remained unissued.

*Second Series Revenue Bonds, Series 2019A/B/C*

On February 7, 2019, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2019A (AMT), Series 2019B (Non-AMT/Governmental Purpose), and Series 2019C (Taxable) in aggregate principal amount of approximately \$1.4 billion to finance and refinance (through 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) gate capacity enhancements, (e) security improvements, (f) the Superbay renovation program, (g) extension of AirTrain service to the long-term parking garages, (h) a new long-term parking garage, to fund deposits to debt service reserve accounts and the Contingency Account, to fund deposits to capitalized interest accounts, and to pay costs of issuance.

The net proceeds of the Series 2019A and Series 2019B Bonds and the Series 2019C Bonds issued as capital plan bonds (consisting of approximately \$1.4 billion par amount and net original issue premium of \$137.4 million), were used to deposit \$891.5 million to project accounts, \$431.9 million to refund commercial paper notes, \$20.0 million to the Airport's contingency account, \$18.7 million to the Original Reserve Account, and \$3.7 million to the 2017 Reserve Account, and to pay costs of issuance.

**(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. As of June 30, 2019, \$2.9 billion of the authorized refunding bonds remained authorized but unissued.

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During fiscal year 2019, the Airport issued the following new refunding bonds under the 1991 Master Bond Resolution:

*Second Series Revenue Bonds, Series 2019C and Second Series Revenue Refunding Bonds, Series 2019D*

On February 7, 2019, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2019C (Taxable), and Second Series Revenue Refunding Bonds, Series 2019D (Non-AMT), in the aggregate principal amount of \$410.9 million, to refund \$469.4 million of its Series 2009E Bonds, to fund deposits to debt service reserve accounts, and to pay costs of issuance.

The net proceeds of the Series 2019C and 2019D Bonds (consisting of \$410.9 million par amount and original issue premium of \$78.6 million), together with \$8.7 million accumulated in the debt service fund relating to the refunded bonds were used to deposit \$17.4 million into the 2017 Reserve Account and \$479.8 million into irrevocable escrow funds with the Senior Trustee to refund \$469.4 million in revenue bonds as described below (in thousands).

	<b>Amount refunded</b>	<b>Interest rate</b>	<b>Redemption price</b>
Second Series Revenue Bonds Issue:			
Series 2009E (Non-AMT/Private Activity)	\$469,400	4.38-6.00%	100%
Total	\$469,400		

The refunded bonds were redeemed on May 1, 2019.

In aggregate, the Series 2019C/D refundings resulted in the recognition of a deferred accounting loss of \$1.2 million for the fiscal year ended June 30, 2019. In aggregate, the Series 2019C/D refundings decreased the Airport's aggregate gross debt service payments by approximately \$97.5 million over the next twenty years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of \$105.6 million.

**(c) Variable Rate Demand Bonds**

As of June 30, 2019, the Airport Commission had outstanding an aggregate principal amount of \$559.7 million of Second Series Variable Rate Revenue Refunding Bonds, consisting of Issue 37C and Series 2010A, and Second Series Variable Rate Revenue Bonds, consisting of 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.

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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, 2019, there were no unreimbursed draws under these facilities.

On December 13, 2018, the termination date of the MUFG Union Bank, N.A. letter of credit supporting the Issue 37C Bonds was extended by one year, to January 27, 2020.

The letters of credit securing the Variable Rate Bonds included in long-term debt as of June 30, 2019, are as follows (in thousands):

	<u>Issue 37C</u>	<u>Series 2010A</u>	<u>Series 2018B</u>	<u>Series 2018C</u>
Principal amount	\$ 82,500	200,885	138,170	138,170
Expiration date	January 27, 2020	June 29, 2020	June 3, 2022	June 3, 2022
Credit provider	MUFG Union Bank, N.A. <sup>(1)</sup>	Bank of America <sup>(2)</sup>	Barclays <sup>(3)</sup>	SMBC <sup>(4)</sup>

(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 2017, 2018 and 2019, the Airport Commission authorized the issuance of \$260.0 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 allows 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 \$260.0 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.

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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 Commission does not maintain a reserve account for the Hotel Special Facility Bonds. The Hotel Special Facility Bonds are subject to acceleration upon the occurrence of an event of default. Events of default include nonpayment events, bankruptcy events, noncompliance with covenants, condemnation of the hotel, or a failure by the Commission to maintain a third-party manager for the hotel. 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.

As of June 30, 2019, the Airport Commission had \$260.0 million of outstanding Hotel Special Facility Bonds.

**(e) Fuel System Special Facilities Lease Revenue Bonds**

On February 26, 2019, the Airport issued San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 2019A (AMT) and Series 2019B (Federally Taxable) (the "Fuel Bonds"), in an aggregate principal amount of \$125.0 million to refund all of the then-outstanding special facilities lease revenue bonds previously issued by the Commission for the benefit of SFO FUEL COMPANY LLC (SFO Fuel), finance capital improvements to the jet fuel distribution and related facilities at San Francisco International Airport, pay capitalized interest on a portion of the Series 2019A Bonds, make a deposit to a reserve account for the Fuel Bonds, and pay costs of issuance.

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 Fuel Bonds and any required bond reserve account deposits. The principal and interest on the Fuel Bonds are paid solely from the facilities rent payable by SFO Fuel to the Airport. The lease payments, and therefore the 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 Fuel Bonds trustee to pay and secure the payment of the Fuel Bonds. Neither the Airport nor the City is obligated in

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any manner for the repayment of the Fuel Bonds other than from the facilities rent received from SFO Fuel. The Fuel Bonds are therefore not reported in the accompanying financial statements.

**(f) Interest Rate Swaps**

As of June 30, 2019, 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, 2019. The following table is in thousands:

<u>No.</u>	<u>Current bonds</u>	<u>Initial notional amount</u>	<u>Notional amount June 30, 2019</u>	<u>Effective date</u>
1	2010A (37B)*	\$ 79,684	73,137	5/15/2008
2	37C	89,856	82,473	5/15/2008
3	2010A**	143,947	134,660	2/1/2010
	Total	<u>\$ 313,487</u>	<u>290,270</u>	

\* 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.

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As of June 30, 2019, 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 (in thousands). 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%	\$ (10,819)
2	Issue 37C	J.P. Morgan Chase Bank NA	A+ / Aa2/AA	3.898%	(12,523)
3	2010A***	Goldman Sachs Bank USA/ Goldman Sachs Group, Inc.	BBB+/A3/A*	3.925%	(22,743)
Total					<u>\$ (46,085)</u>

\* 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 October 25, 2018, Moody's upgraded the credit rating on J.P. Morgan Chase Bank, NA, the swap counterparty on the swap associated with the Issue 37C Bonds, from "Aa3" to "Aa2".

**Fair Value Hierarchy**

The following table is in thousands:

	Fair value June 30, 2019	Fair value measurements using significant other observable inputs (Level 2)
Interest rate swaps	\$ (46,085)	(46,085)

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**Change in Fair Value**

The impact of the interest rate swaps on the financial statements for the year ended June 30, 2019 is as follows (in thousands):

	<b>Deferred outflows on derivative instruments</b>	<b>Derivative instruments</b>
	<u>                    </u>	<u>                    </u>
Balance as of June 30, 2018	\$ 29,245	37,558
Change in fair value to year-end	<u>9,583</u>	<u>8,527</u>
Balance as of June 30, 2019	<u>\$ 38,828</u>	<u>46,085</u>

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, 2019.

*Basis Risk* – During the fiscal year ended June 30, 2019, the Airport paid a total of \$1.4 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, 2019, 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, 2019, 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).

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*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 for certain 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, 2019:

<u>No.</u>	<u>Swap</u>	<u>Swap insurer</u>	<u>Insurer credit ratings June 30, 2019 (S&amp;P/Moody's /Fitch)</u>
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, 2019, 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, 2019, the reserve requirement for the Issue 1 Reserve Account was \$448.8 million, which was satisfied by \$452.2 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, 2019, the reserve requirement for the 2009 Reserve Account was \$5.1 million, which was satisfied by \$20.2 million in cash and investment securities.

**2017 Reserve Account**

As of June 30, 2019, the reserve requirement for the 2017 Reserve Account was \$49.7 million, which was satisfied by \$52.6 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.

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**Debt Service Requirements**

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year:			
2020	\$ 223,240	354,478	577,718
2021	229,550	344,489	574,039
2022	234,550	333,733	568,283
2023	237,455	322,670	560,125
2024	222,140	311,270	533,410
2025–2029	1,157,705	1,382,161	2,539,866
2030–2034	517,305	1,176,649	1,693,954
2035–2039	742,995	1,043,722	1,786,717
2040–2044	1,585,375	760,894	2,346,269
2045–2049	2,019,140	327,039	2,346,179
2050–2054	67,480	17,127	84,607
2055–2059	<u>63,890</u>	<u>5,290</u>	<u>69,180</u>
Total	\$ <u>7,300,825</u>	<u>6,379,522</u>	<u>13,680,347</u>

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):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year:			
2020	\$ 498,645	354,541	853,186
2021	216,690	332,260	548,950
2022	497,440	322,922	820,362
2023	220,260	302,660	522,920
2024	199,100	292,028	491,128
2025–2029	976,635	1,305,205	2,281,840
2030–2034	472,605	1,131,787	1,604,392
2035–2039	715,455	1,003,147	1,718,602
2040–2044	1,540,775	725,897	2,266,672
2045–2049	<u>1,963,220</u>	<u>300,115</u>	<u>2,263,335</u>
Total	\$ <u>7,300,825</u>	<u>6,070,562</u>	<u>13,371,387</u>

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**(h) Cash Defeasance of Bonds**

In June 2019, the Airport Commission used cash on hand to legally defease \$23.5 million of outstanding Second Series Revenue Refunding Bonds Series 2009D.

**Fiscal Year 2018**

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

Pursuant to resolutions adopted between fiscal years 2008 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.

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*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 7c and 7d.

**(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.

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 (in thousands).

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	<u>Amount refunded</u>	<u>Interest rate</u>	<u>Redemption price</u>
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	<u>\$ 164,605</u>		

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.

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 (in thousands).

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

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

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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 (in thousands).

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

The refunded bonds were redeemed on June 1, 2018.

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.

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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 (in thousands):

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

(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 \$260.0 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 \$260.0 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

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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 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.

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**(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. The following table is in thousands:

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

\* 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.

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 (in thousands). Where a swap is guaranteed, the guarantor ratings are shown. The ratings provided are S&P's Long-

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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%	\$ (9,080)
2	Issue 37C	J.P. Morgan Chase Bank NA	A+/ Aa2/AA	3.898%	(10,211)
3	2010A***	Goldman Sachs Bank USA/ Goldman Sachs Group, Inc.	BBB+/A3/A*	3.925%	(18,267)
Total					<u>\$ (37,558)</u>

\* 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**

The following table is in thousands:

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

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**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):

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

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 \$0.9 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).

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*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:

<u>No.</u>	<u>Swap</u>	<u>Swap insurer</u>	<u>Insurer credit ratings June 30, 2018 (S&amp;P/Moody's /Fitch)</u>
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) 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.

**(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 with respect to the letters of credit supporting 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 supporting 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, 2019, 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

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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 2019 and 2018, 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.

	<u>2019</u>	<u>2018</u>
Bonds issued with revenue pledge	\$ 1,763,565	2,035,005
Bond principal and interest remaining due at the end of the fiscal year	13,680,347	11,392,276
Commercial paper issued with subordinate revenue pledge	406,110	557,700
Commercial paper principal and interest remaining due at the end of the fiscal year	3,588	29,550
Net revenues	539,913	497,372
Bond principal and interest paid in the fiscal year	442,442	408,425
Commercial paper principal, interest and fees paid in the fiscal year	5,515	5,530

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**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. The Hotel Special Facility Bonds will mature in fiscal year 2058, and are subject to mandatory sinking fund redemption each year starting in 2022.

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.

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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, as amended, 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 2019A and 2019B (the "Fuel Bonds"), which were outstanding in the aggregate principal amounts of \$125.0 million as of June 30, 2019. The Fuel bonds were issued primarily to finance and refinance 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 Fuel bonds on January 1, 2047, 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. Concession percentage rents in excess of minimum guarantees were approximately \$16.6 million and \$22.0 million as of June 30, 2019 and 2018, 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.

A five-year car rental lease agreement option was exercised effective January 1, 2014. As of June 30, 2019, the five Rental Car Center Operations Leases are on holdover term on a month-to-month basis commencing January 1, 2019. Under this agreement, the rental car companies pay 10% of gross revenues or a minimum guaranteed rent, whichever is higher. During the current holdover term, the MAG is \$0. The holdover term will continue until a new On-Airport Rental Car Operation Lease Agreement Request for Bids process is concluded and awarded.

The MAG attributable to the rental car companies was approximately \$0 and \$40.6 million as of June 30, 2019 and 2018, respectively.

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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:		
2020	\$	89,556
2021		82,626
2022		77,025
2023		69,834
2024		60,790
2025 and thereafter		434,754
	\$	814,585

**(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**

<b>Fiscal year 2019</b>	
Valuation Date (VD)	June 30, 2017 updated to June 30, 2018
Measurement Date (MD)	June 30, 2018
Measurement Period (MP)	July 1, 2017 to June 30, 2018
<b>Fiscal year 2018</b>	
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

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The City is an employer of the plan with a proportionate share of 94.10% as of June 30, 2018 (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 2018. The Airport's net pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows and pension expense is based on the Airport's allocated percentage. The Airport's allocation of the City's proportionate share was 6.31% 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.

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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 varied from 7.5% to 13.0% as a percentage of gross covered salary in fiscal years 2019 and 2018. 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, 2017 actuarial report, the required employer contribution rate for fiscal year 2019 was 18.81% to 23.31%. Based on the July 1, 2016 actuarial report, the required employer contribution rate for fiscal year 2018 was 18.96% to 23.46%.

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, 2018 (measurement year) was \$582.6 million. The Airport's allocation of employer contributions for fiscal years 2018 and 2017 was \$38.3 million and \$34.1 million respectively.

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

**Fiscal Year 2019**

As of June 30, 2019, the City reported net pension liabilities for its proportionate share of the pension liability of the Plan of \$4.0 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, 2018 (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, 2017 rolled forward to June 30, 2018 using standard update procedures. The City's proportion of the net pension liability was based

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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, 2018 and 2019 (reporting years) was \$308.5 million and \$254.2 million, respectively. During the measurement year 2018, increased investment income 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, 2019, the City's recognized pension expense was \$488.3 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 \$21.4 million. Pension expense decreased from the prior year, largely due to the impact of actual investment earnings. At June 30, 2019, the Airport's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands).

**Schedule of Deferred Inflows and Outflows**

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Changes of assumptions	\$ 39,636	—
Net difference between projected and actual earnings on pension plan investments	—	40,860
Change in proportionate share	361	242
Difference between expected and actual experience	2,062	7,195
Pension contributions subsequent to the measurement date	<u>38,312</u>	<u>—</u>
Total	<u>\$ 80,371</u>	<u>48,297</u>

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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 pension expense as follows (in thousands):

Fiscal year:	<b>Deferred outflows/ (inflows) of resources</b>
2020	\$ 16,224
2021	7,134
2022	(20,907)
2023	(8,689)
Total	\$ (6,238)

**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 2017, 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.

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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**

	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
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	—
	<u>91,596</u>	<u>22,230</u>
Total	\$ <u>91,596</u>	<u>22,230</u>

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 pension expense as follows (in thousands):

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

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**Actuarial Assumptions**

**Fiscal Year 2019**

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability as of June 30, 2018 (measurement period) is provided below, including any assumptions that differ from those used in the July 1, 2017 actuarial valuation. Refer to the July 1, 2017 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, 2017 updated to June 30, 2018
Measurement date	June 30, 2018
Actuarial cost method	Entry-Age Normal Cost Method
Expected rate of return	7.50 %
Municipal bond yield	3.58% as of June 30, 2017 3.87% as of June 30, 2018 Bond Buyer 20-Bond GO Index, June 29, 2017 and June 28, 2018
Inflation	3.00 %
Salary increases	3.50% plus merit component based on employee classification and years of service
Discount rate	7.50% as of June 30, 2017 7.50% as of June 30, 2018
Administrative expenses	0.60% of payroll as of June 30, 2017 0.60% of payroll as of June 30, 2018

	<b>Old Miscellaneous and all New Plans</b>	<b>Old Police &amp; Fire pre July 1, 1975 Retirements</b>	<b>Old Police &amp; Fire, Charters A8.595 and A8.596</b>	<b>Old Police &amp; Fire, Charters A8.559 and A8.585</b>
Basic COLA:				
June 30, 2017	2.00 %	2.70 %	3.30 %	4.40 %
June 30, 2018	2.00 %	2.50 %	3.10 %	4.20 %

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.

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**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

	<b>Old Miscellaneous and all New Plans</b>	<b>Old Police &amp; Fire pre July 1, 1975 Retirements</b>	<b>Old Police &amp; Fire, Charters A8.595 and A8.596</b>	<b>Old Police &amp; Fire, Charters A8.559 and A8.585</b>
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.

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**Discount Rate**

**Fiscal Year 2019**

The beginning and end of year measurements are based on different assumptions and contribution methods that may result in different discount rates. The discount rate was 7.50% as of June 30, 2017 (measurement date) and 7.50% as of June 30, 2018 (measurement date).

The discount rate used to measure the Total Pension Liability as of June 30, 2018 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, 2017 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 3.50% 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.

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.

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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, 2018 for the probability and amount of Supplemental COLA for each future year. We have assumed that a full Supplemental COLA will be paid to all Post 97 Retirees effective July 1, 2018. Post 97 Retirees are members who worked after November 6, 1996 and before Proposition C passed. 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**

	<b>1996 – Prop C</b>	<b>Before November 6, 1996 or after Prop C</b>
Fiscal year:		
2019	0.75 %	— %
2022	0.75	0.29
2025	0.75	0.35
2028	0.75	0.36
2031+	0.75	0.38

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 2097 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 3.87% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2018 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.

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<b>Asset class</b>	<b>Target allocation</b>	<b>Long-term expected real rate of return</b>
Global equity	31 %	5.4 %
Treasuries	6	0.5
Liquid credit	3	3.3
Private credit	10	4.6
Private equity	18	6.6
Real assets	17	4.5
Hedge funds/absolute return	15	3.7
	100 %	

**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.

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

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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**

	<b>1996 – Prop C</b>	<b>Before November 6, 1996 or after Prop C</b>
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%. 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 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

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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:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
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
	<u>100 %</u>	

**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 2019**

<u>Employer</u>	<u>1% decrease share of NPL @ 6.50%</u>	<u>Share of NPL @ 7.50%</u>	<u>1% increase share of NPL @ 8.50%</u>
Airport	\$ 476,101	254,206	70,717

**Fiscal Year 2018**

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

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

The Airport participates in the City's single employer defined benefit plan (the Plan). The Plan is maintained by the City and is administered through the City's Health Service System. It provides post-employment medical, dental and vision insurance benefits to eligible employees, retired employees, surviving spouses, and domestic partners. Health benefit provisions are established and may be

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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 2019 (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 - Single Employer**

**Fiscal year 2019**

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

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, 2018. The Airport's net OPEB liability, deferred outflows/inflows of resources related to OPEB, amortization of deferred outflows/inflows and OPEB expense is based on the Airport's allocated percentage. The Airport's proportionate share of the City's OPEB elements was 6.56% 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 <sup>1</sup> Age 60 with 10 years of credited service
	Safety	Age 50 with 5 years of credited service
Disabled Retirement <sup>2</sup>		Any age with 10 years of credited service
Terminated Vested <sup>3</sup>		5 years of credited service at separation

<sup>1</sup> Age 53 with 20 years of credited service, age 60 with 10 years of credited service, or age 65 for Miscellaneous members hired on or after January 7, 2012.

<sup>2</sup> 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.

<sup>3</sup> 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.

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

Medical:	PPO – City Health Plan (self-insured) and UHC Medicare Advantage (fully-insured) HMO – Kaiser (fully-insured) and Blue Shield (flex-funded)
Dental:	Delta Dental, DeltaCare USA and UnitedHealthcare Dental
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, 2019, the City’s funding was based on “pay as you go” plus a contribution of \$32.8 million to the Retiree Healthcare Trust Fund. The “pay as you go” portion paid by the City was \$185.8 million for a total contribution of \$218.6 million for the fiscal year ended June 30, 2019. The Airport’s proportionate share of the City’s contributions for fiscal year 2019 was \$14.3 million.

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

As of June 30, 2019, the City reported net OPEB liabilities related to the Plan of \$3.6 billion. The Airport's proportionate share of the City's net OPEB liability as of June 30, 2019 was \$236.2 million.

For the year ended June 30, 2019, the City's recognized OPEB expense was \$320.3 million. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. The Airport's proportionate share of the City's OPEB expense was \$20.7 million.

As of June 30, 2019, the Airport reported its proportionate share of the City's deferred outflows and inflows of resources related to OPEB from the following sources (in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions subsequent to measurement date	\$ 14,338	—
Differences between expected and actual experience	—	21,683
Changes in assumptions	6,246	—
Net difference between projected and actual earnings on plan investments	—	218
Total	<u>\$ 20,584</u>	<u>21,901</u>

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):

Fiscal Year:	
2020	\$ (2,652)
2021	(2,652)
2022	(2,652)
2023	(2,553)
2024	(2,573)
Thereafter	<u>(2,573)</u>
Total	<u>\$ (15,655)</u>

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**Actuarial Assumptions**

A summary of the actuarial assumptions and methods used to calculate the Total OPEB Liability as of June 30, 2018 (measurement date) is provided below:

Key actuarial assumptions:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2018
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 6.50% and trends down to ultimate rate of 3.93% in 2076 Medicare trend starts at 7.50% and trends down to ultimate rate of 3.93% in 2076 10-County average trend starts at 5.90% and trends down to ultimate rate of 3.93% in 2076 Vision and expenses trend remains a flat 3.5% for all years
Expected Rate of Return on Plan Assets	7.40%
Discount Rate	7.40%
Salary Increase Rate	Wage Inflation Component: 3.50% Additional Merit Component (dependent on years of service): Police: 1.50% - 8.00% Fire: 1.50% - 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: 2.75% 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.

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

<u>Gender</u>	<u>Adjustment Factor</u>	<u>Base Year</u>
Female	0.918	2009
Male	0.948	2009

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

<u>Gender</u>	<u>Adjustment Factor</u>	<u>Base Year</u>
Female	1.014	2009
Male	0.909	2009

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

<u>Gender</u>	<u>Adjustment Factor</u>	<u>Base Year</u>
Female	1.066	2006
Male	0.942	2006

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

<u>Gender</u>	<u>Adjustment Factor</u>	<u>Base Year</u>
Female	0.983	2009
Male	0.909	2009

The mortality rates in the base tables are projected generationally from the base year using the modified version of the MP-2015 projection scale. The scale was modified using the Society of Actuaries' model implementation tool with rates converging to the ultimate rate in 2017 (instead of 2029) and an ultimate rate of improvement of 0.85% (instead of 1.00%) up to age 85 decreasing to 0.70% (instead of 0.85%) at age 95.

**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):

	<u>1% Decrease</u>	<u>Healthcare Trend</u>	<u>1% Increase</u>
\$	205,262	236,160	274,481

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**Discount Rate**

The discount rate used to measure the Total OPEB Liability as of June 30, 2018 was 7.4%. 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 7.4% 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
<b>Equities</b>		
U.S. Equities	41.0 %	7.3 %
Developed Market Equity (non-U.S.)	20.0	7.1
Emerging Market Equity	16.0	9.4
<b>Credit</b>		
High Yield Bonds	3.0	5.4
Bank Loans	3.0	5.0
Emerging Market Bonds	3.0	4.9
<b>Rate Securities</b>		
Treasury Inflation Protected Securities	5.0	3.3
Investment Grade Bonds	9.0	3.6
	<u>100.0 %</u>	

The asset allocation targets summarized above have a 20-year return estimate of 7.5%, which was weighted against a 10-year model estimating a 6.3% return, resulting in the ultimate long-term expected rate of return of 7.4%.

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):

	<u>1% Decrease 6.40%</u>	<u>Discount Rate 7.40%</u>	<u>1% Increase 8.40%</u>
\$	271,510	236,160	207,237

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**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 <sup>1</sup> Age 60 with 10 years of credited service
	Safety	Age 50 with 5 years of credited service Any age with 10 years of credited service
Disabled Retirement <sup>2</sup>		Any age with 10 years of credited service
Terminated Vested <sup>3</sup>		Age 50 with 5 years of credited service at separation
Active Death <sup>2</sup>		Any age with 10 years of credited service

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

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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.

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**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):

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

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):

Fiscal Year:		
2019	\$	(99)
2020		(99)
2021		(98)
2022		(98)
<b>Total</b>	<b>\$</b>	<b>(394)</b>

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**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.

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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

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**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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>20-year Expected Return</u>
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
	<u>100.0 %</u>	

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):

<u>Employer</u>	<u>Share of NOL @ 6.50%</u>	<u>Share of NOL @ 7.50%</u>	<u>Share of NOL @ 8.50%</u>
Airport	\$ 279,629	244,096	214,957

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**(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 \$171.3 million and \$156.3 million in fiscal years 2019 and 2018, respectively. Included in personnel operating expenses are approximately \$84.3 million and \$80.2 million in fiscal years 2019 and 2018, 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 \$49.1 million and \$46.5 million in fiscal years 2019 and 2018, 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, 2019, the FAA has approved several Airport applications to collect and use PFCs (from PFC #2 to PFC #8) in a total cumulative collection amount of \$2.1 billion and the cumulative use amount of \$2.1 billion, with a final charge expiration date estimated to be March 1, 2029. During the fiscal years ended June 30, 2017, 2018 and 2019, 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 was January 1, 2017 and was based upon the estimated charge expiration date of PFC #3. The FAA estimated 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, 2019, 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 estimated 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. FAA estimated the charge expiration date for PFC #7 to be February 1, 2030.

In February 2018, the FAA approved the Airport's amendment to PFC #6 for an additional \$76.0 million of collection and spending authority for a new total PFC Application #6 authority of \$217.1 million.

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In October 2018, the FAA approved PFC Application #8, which combined PFC Application #6, as amended, and PFC Application #7, for a new combined total of \$536.8 million of collection and spending authority. The estimated charge expiration date is March 1, 2029. PFC Applications #6 and #7 were closed, and the projects and collections in those applications were transferred to PFC Application #8. The Commission expects that its current PFC authorization will be fully collected in fiscal year 2025.

PFC collections and related interest earned for the years ended June 30, 2019 and 2018, are as follows (in thousands):

	2019	2018
Amount collected	\$ 110,899	111,971
Interest earned	13,923	3,115
Total	\$ 124,822	115,086

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, 2019 are as follows (in thousands):

Construction	\$	246,778
Operating		32,503
Total	\$	279,281

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 2019, the Airport disbursed approximately \$0.5 million in this new phase of the program (\$0.1 million in federal grants and \$0.4 million in Airport funds). In fiscal year 2018, the Airport disbursed approximately \$0.5 million in this new phase of the program (\$0.4 million in federal grants and \$0.1 million in Airport funds). As of June 30,

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2019, the cumulative disbursements of Airport funds under this program were approximately \$122.8 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. This policy includes flood coverage up to a \$10.0 million sub-limit. 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

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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, 2017	\$	855
Claim payments		(13)
Claims and changes in estimates		<u>(792)</u>
Balance as of June 30, 2018		50
Claim payments		(81)
Claims and changes in estimates		<u>177</u>
Balance as of June 30, 2019	\$	<u><u>146</u></u>

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, 2017	\$	7,336
Claim payments		(2,362)
Claims and changes in estimates		<u>3,019</u>
Balance as of June 30, 2018		7,993
Claim payments		(2,793)
Claims and changes in estimates		<u>3,219</u>
Balance as of June 30, 2019	\$	<u><u>8,419</u></u>

**(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.

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**(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, 2019.

**(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, 2019 and 2018, revenues realized from the following source exceeded 5% of the Airport's total operating revenues:

	2019	2018
United Airlines	23.8 %	24.6 %

**(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:		
2020	\$	205
2021		209
2022		213
2023		218
2024		222
2025		200
Total	\$	1,267

Net operating lease expense incurred for the fiscal year ended 2019 was the same as 2018 at approximately \$0.2 million.

**(14) Subsequent Events**

**(a) Termination of Interest Rate Swap Agreements**

On August 9, 2019, the Airport terminated a swap associated with the Issue 37C Bonds, with a remaining notional amount of \$82.5 million. The Airport paid a termination amount of \$13.6 million to the counterparty, JPMorgan Chase Bank, N.A. On August 9, 2019, the Airport also terminated a swap associated with the Series 2010A-3 Bonds, with a remaining notional amount of \$73.1 million. The

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Airport paid a termination amount of \$11.4 million to the counterparty, Merrill Lynch Capital Services, Inc. The termination payments were financed with taxable commercial paper that was refinanced with the proceeds of the bonds described under (b) below.

**(b) Sale of Capital Plan Bonds and Refunding Bonds**

On September 10, 2019, the Airport issued \$1.2 billion of its Series 2019E, Series 2019F, Series 2019G and 2019H Bonds 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 a debt service reserve account and the Airport's contingency reserve account, funding deposits to capitalized interest accounts, paying costs of issuance, refinancing swap termination payments (through repayment of commercial paper notes) and current refunding \$328.0 million in outstanding Bonds. Moody's, S&P, and Fitch assigned credit ratings of "A1", "A+", and "A+" to these bonds. In connection with this transaction, the variable rate Issue 37C Bonds were refinanced with fixed rate bonds, and the letter of credit supporting the Issue 37C Bonds was terminated. In addition, \$11.9 million was transferred from the 2009 Reserve Account to the Issue 1 Reserve Account.

**(c) Cash Defeasance of Bonds**

On September 12, 2019, the Airport legally defeased \$5,000 of its Second Series Revenue Refunding Bonds, Series 2010D, \$160,000 of its Second Series Revenue Bonds, Series 2010F, \$5,000 of its Second Series Revenue Refunding Bonds, Series 2011C, \$5,000 of its Second Series Revenue Refunding Bonds, Series 2011F, \$5,000 of its Second Series Revenue Refunding Bonds, Series 2012A, \$5,000 of its Second Series Revenue Refunding Bonds, Series 2009D, \$5,000 of its Second Series Revenue Bonds, Series 2013A, \$10,000 of its Second Series Revenue Bonds, Series 2014A, \$5,000 of its Second Series Revenue Bonds, Series 2017A, \$5,000 of its Second Series Revenue Bonds, Series 2018D, \$5,000 of its Second Series Revenue Refunding Bonds, Series 2018G, and \$5,000 of its Second Series Revenue Refunding Bonds, Series 2018A, using available cash on hand together with amounts held by the Trustee for purposes of paying future debt service on such bonds.



KPMG LLP  
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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, 2019, 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 November 27, 2019.

**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  
November 27, 2019

**PASSENGER FACILITY CHARGE PROGRAM AUDIT REPORT**



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## **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, 2019.

#### *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 the 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 the 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, 2019.

### **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  
November 27, 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, 2019 and 2018

(In thousands)

	<b>Passenger Facility Charge revenues</b>	<b>Interest earned</b>	<b>Total revenues</b>	<b>Expenditures on approved projects</b>	<b>Revenues over (under) expenditures on approved projects</b>
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
Fiscal year 2018 – 2019 transactions:					
Reversal of prior year passenger facility charges accrual	(17,607)	—	(17,607)	—	(17,607)
Quarter ended September 30, 2018	28,919	2,075	30,994	—	30,994
Quarter ended December 31, 2018	27,492	2,388	29,880	—	29,880
Quarter ended March 31, 2019	25,123	2,673	27,796	—	27,796
Quarter ended June 30, 2019	29,587	2,913	32,500	(63,260)	(30,760)
Unrealized loss on investments	—	3,874	3,874	—	3,874
Passenger facility charges accrual	17,385	—	17,385	—	17,385
Total fiscal year 2018 – 2019 transactions	110,899	13,923	124,822	(63,260)	61,562
Program to date as of June 30, 2019	\$ 1,397,173	37,331	1,434,504	(971,430)	463,074

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, 2019

**(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 and 18-08-C-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:

<u>Application number</u>	<u>Level of PFCs authorized</u>	<u>Charge effective date for collection</u>	<u>Amounts approved for collection (in thousands)</u>
02-02-C-00-SFO	\$ 4.50	October 1, 2001	\$ 224,035
03-03-C-01-SFO	4.50	November 1, 2005	609,108
11-05-C-01-SFO	4.50	January 1, 2017	741,745
18-08-C-00-SFO	4.50	October 1, 2024	<u>536,799</u>
Total			<u>\$ 2,111,687</u>

**(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.

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

Schedule of Findings and Responses

Year ended June 30, 2019

**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**