KPMG

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, 2022

(With Independent Auditors' Report Thereon)

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

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

Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Airport, as of June 30, 2022, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Airport and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Airport are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities and each major fund of the City and County of San Francisco, California 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 and County of San Francisco, California, as of June 30, 2022, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Airport's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 audit 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 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. Such information 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. The 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 GAAS. In our opinion, the information 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 January 25, 2023 on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Airport's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control over financial reporting and compliance.

KPMG LLP

San Francisco, California
January 25, 2023

The management of the Airport Commission (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 year ended June 30, 2022.

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

Statement of Net Position presents 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 statement of net position provides information about the nature and amount of resources and obligations at the year end, the *Statement of Revenues, Expenses, and Changes in Net Position* presents 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. The statement 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 Statement of Cash Flows presents changes in cash and cash equivalents resulting from operating, noncapital financing, capital financing, and investing activities. The statement summarizes 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 2022 passenger traffic at SFO concluded with approximately 34.9 million passengers, an increase of 155.1% compared to the prior fiscal year (FY). Domestic enplaned passengers increased 134.6%, and international enplaned passengers increased 272.9%. The year-over year recovery was predominately due to increased travel demand. Total cargo and U.S. mail tonnage increased by 15.6%.

Published scheduled departing seats for SFO, Oakland (OAK) and Mineta San Jose International (SJC) were 80.6%, 43.4%, and 64.5% higher, respectively, for fiscal year 2022 compared to prior fiscal year. Total scheduled departing seats for the Bay Area were 69.2% higher than the prior fiscal year.

Passenger and Other Traffic Activity

The number of flight operations (takeoffs and landings) increased by 57.2% fiscal year over year. Aircraft revenue landed weight, which affects revenue generated by landing fees, increased by 68.9% in comparison to the prior fiscal year. Total airport passengers, which are comprised of enplaned, deplaned and in transit passengers (defined as passengers who fly into and out of SFO on the same aircraft), were close to 34.9 million, which was 155.1% above last fiscal year. Overall enplaned passengers increased by 151.2% over the

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prior fiscal year to 17.4 million. Domestic enplanements increased by 134.6% to 14.3 million, and international enplanements increased by 272.9% to 3.1 million passengers. Total cargo and U.S. mail tonnage increased by 15.6%, mainly due to freight increases of 17.6%, which was partially offset by an 8.5% decline in mail tonnage over the previous fiscal year.

The following table[1] presents a comparative summary of passenger and other traffic at the Airport for fiscal years ended June 30, 2022 and 2021:

	FY 2022	FY 2021	Percentage change FY 2022
Flight operations	328,183	208,764	57.2 %
Landed weight (in 000 lbs.)	26,496,685	15,686,706	68.9
Total Airport passengers	34,890,102	13,676,314	155.1
Enplaned passengers	17,396,249	6,924,578	151.2
Domestic enplaned passengers	14,290,034	6,091,685	134.6
International enplaned passengers	3,106,215	832,893	272.9
Cargo and U.S. mail tonnage (in metric tons)	545,335	471,793	15.6

Passenger Traffic

Passenger enplanements in fiscal year 2022 increased 151.2% from 6.9 million to 17.4 million. Domestic passenger enplanements increased by 134.6%, and international enplanements increased by 272.9%. Overall enplanements increased by 10.5 million passengers, comprised of 8.2 million in domestic and 2.3 million in international enplanements. The development and distribution of vaccines helped increase the demand for air travel. With the rise in the number of people vaccinated, passenger traffic recovery gained momentum. While there were two periods of slowdown due to COVID-19 Delta and Omicron variants, passenger traffic recovered swiftly and continued to grow. Passenger enplanements in the month of June surpassed two million for the first time since the pandemic started.

International sector passenger traffic recovery also gained momentum with relaxation of COVID-19 restrictions to Europe, Canada, and Middle East, while Asia and Australia/Oceania which still have more COVID-19 related restrictions saw slower recovery. For fiscal year 2022, enplanements to Asia increased by 117.0%, Europe increased by 555.3%, Latin America increased by 151.0%, Canada increased by 1,041.2%, Middle East increased by 366.6%, and Australia/Oceania increased by 296.5%.

On a quarterly basis, enplanements increased by 200.0%, 171.1%, 179.3%, and 103.8% respectively, relative to the same quarter in fiscal year 2021.

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[1] Sources: Airport's Analysis of Airline Traffic, Fiscal Years 2021 and 2022.

Overall airline seat capacity increased by 80.6% during fiscal year 2022 as compared to fiscal year 2021, with a domestic increase of 71.7% and an international increase of 122.4%. The overall load factor (the percentage of seats filled on flights) increased by 22.2 percentage points to 79.1%. The domestic load factor increased by 22.2 percentage points to 82.7%, while the international load factor increased by 26.6 percentage points to 65.8%.

Flight Operations

During fiscal year 2022, the number of aircraft operations (takeoffs and landings) increased by 119,419 flights (57.2%) as compared to fiscal year 2021. Scheduled passenger aircraft arrivals and departures increased by 115,728 flights (57.7%). Civil and military traffic increased by 3,691 flights (45.4%). Total number of scheduled airline passenger and cargo landings increased by 58.7%, with an increase in revenue landed weight of 68.9%. Domestic passenger landings increased by 55.9%, while domestic landed weight increased by 73.1%. International passenger landings increased by 96.1%, while international landed weight increased by 84.8%. Average passenger aircraft size increased from approximately 139 to 153 seats per flight. Domestic scheduled seats per flight increased from 129 to 141, while international scheduled seats per flight increased from 226 to 227. The overall balance between mainline passenger aircraft (wide body and narrow body) and commuter aircraft (regional jets and turbo props) shifted 8.1% towards mainline aircraft, which increased to 71.4% for domestic and international operations combined. Mainline landings increased by 46,083, and commuter landings increased by 8,297.

Cargo Tonnage

Fiscal year 2022 cargo and mail tonnage increased by 73,542 metric tons (15.6%). Domestic cargo and mail increased by 6,672 metric tons (3.1%), while international cargo and mail increased by 66,870 metric tons (25.8%). Tonnage shares of Cargo-only carriers decreased by 8.4% to 22.8%. Tonnage on cargo-only carriers decreased by 15.5%, while tonnage on passenger carriers increased by 29.7%, due to an increase in passenger aircraft flight activities.

Financial Highlights

- Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources at the close of the fiscal year by $660.2 million.
- Total revenue bonds payable by the Airport increased by $240.7 million.
- Operating revenues were $821.3 million.
- Operating expenses were $809.8 million.
- Nonoperating expenses, net of revenues from nonoperating sources (including revenues of $72.8 million from Passenger Facility Charges (PFC) and revenues of $175.1 million from the federal Coronavirus Aid, Relief and Economic Security (CARES) Act, the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), and the American Rescue Plan Act (ARPA)) were $180.0 million. Total Federal awards received by the Airport were $175.8 million. The Airport has $23.8 million in ARPA funds remaining available for use in FY 2023.

- Capital contributions consist of grants from the Federal Aviation Administration's (FAA) Airport Improvement Program (AIP) and Bay Area Air Quality Management District (BAAQMD) of $17.0 million and asset contributions from SFO Fuel of $24.0 million.
- Transfers to the City and County of San Francisco as annual service payment were $37.9 million.
- Net position decreased by $165.4 million primarily attributable to lower nonoperating revenue as a result of the CARES Act grant fund being fully expended in fiscal year 2021.

Overview of the Airport's Financial Statements

Net Position Summary

A condensed summary of the Airport's net position for the fiscal years 2022 and 2021 is shown below (in thousands):

	FY 2022	FY 2021	Percentage increase (decrease) FY 2022
Assets:			
Unrestricted current assets	$ 1,104,277	719,602	53.5 %
Restricted current assets	591,895	625,641	(5.4)
Unrestricted noncurrent assets	241,871	—	100.0
Restricted noncurrent assets	930,708	1,147,970	(18.9)
Net pension asset	153,872	—	100.0
Capital assets, net	6,977,073	7,070,878	(1.3)
Total assets	9,999,696	9,564,091	4.6
Deferred outflows of resources:			
Unamortized loss on refunding of debt	36,158	52,746	(31.4)
Deferred outflows on derivative instruments	10,192	21,374	(52.3)
Deferred outflows related to OPEB	35,683	39,632	(10.0)
Deferred outflows related to pensions	82,086	94,882	(13.5)
Total deferred outflows of resources	164,119	208,634	(21.3)
Liabilities:			
Current liabilities	527,812	268,178	96.8
Current liabilities payable from restricted assets	215,088	459,508	(53.2)
Noncurrent liabilities	9,102,113	8,860,986	2.7
Net OPEB liability	251,367	258,525	(2.8)
Net pension liability	—	340,330	(100.0)
Derivative instruments	10,192	21,374	(52.3)
Total liabilities	10,106,572	10,208,901	(1.0)
Deferred inflows of resources:			
Deferred inflows related to OPEB	50,638	43,768	15.7
Deferred inflows related to pensions	380,803	14,859	2,462.8
Deferred inflows related to leases	286,045	—	100.0
Total deferred inflows of resources	717,486	58,627	1,123.8
Net position:			
Net investment in capital assets	(1,327,327)	(1,030,427)	(28.8)
Restricted for debt service	61,899	117,856	(47.5)
Restricted for capital projects	492,914	436,516	12.9
Restricted for other purpose	1,978	—	100.0
Unrestricted	110,293	(18,748)	688.3
Total net position	$ (660,243)	(494,803)	(33.4)%

FY 2021 has not been restated for the effects of GASB 87

Total net position serves as an indicator of the Airport's financial position. The Airport's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $660.2 million and $494.8 million as of June 30, 2022 and 2021, respectively, representing a decrease of $165.4 million (33.4%).

Unrestricted current assets consist primarily of cash and investments available to meet the Airport's current obligations. Unrestricted current assets increased by $384.7 million (53.5%), primarily due to higher operating revenues as the Airport begins its recovery from the pandemic. As of June 30, 2022, the Airport has set aside $149.6 million in a separate fund for purposes of its Other Postemployment 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 consist primarily of PFCs collected, debt service funds held by the bond trustee, grants receivable, and PFCs receivable. Restricted current assets decreased by $33.7 million (5.4%). The decrease was primarily due to the decrease in grants receivable as the CARES Act grant was fully expended in fiscal year 2021.

Unrestricted noncurrent assets increased by $241.9 million (100.0%) due to the adoption of GASB 87 in fiscal year 2022. Fiscal year 2021 has not been restated to reflect the adoption of GASB 87.

Restricted noncurrent assets decreased by $217.3 million (18.9%). The decrease was primarily due to the capital project spending which lowered the cash and investments held in the City Treasury.

Net pension asset increased by $153.9 million (100.0%). The increase was primarily due to investment gains that resulted in a net pension asset compared to a net pension liability in fiscal year 2021. See additional information in note 10a.

Capital assets consist of land, buildings, structures, improvements, equipment, and intangible assets. Capital assets, net of depreciation, decreased by $93.8 million (1.3%), primarily due to the disposal of assets.

Unamortized loss on refunding of debt decreased by $16.6 million (31.4%). The decrease was primarily due to the amortization of the bond refunding gain/loss.

Deferred outflows on derivative instruments decreased by $11.2 million (52.3%), 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 decreased $3.9 million (10.0%) primarily due to experience gains. See additional information in note 10b.

Deferred outflows related to pensions decreased by $12.8 million (13.5%) primarily due to investment gains. See additional information in note 10a.

Current liabilities payable from unrestricted assets increased by $259.6 million (96.8%), primarily due to an increase in unearned aviation revenue.

Current liabilities payable from restricted assets decreased by $244.4 million (53.2%), primarily due to the take-outs of commercial paper notes with the 2022ABC bond proceeds.

Noncurrent liabilities before net OPEB liability, net pension liability, and derivative instruments increased by $241.1 million (2.7%), primarily due to the issuance of the Airport's Second Series Revenue Bonds 2022ABC.

Net OPEB liability decreased by $7.2 million (2.8%) primarily due to experience gains and offset by contributions and net investment income being less than interest and administrative expenses. See additional information in note 10b.

Net pension liability (NPL) decreased by $340.3 million (100.0%) primarily due to investment gains resulting in a net pension asset in fiscal year 2022. See additional information in note 10a.

Derivative instruments liabilities decreased by $11.2 million (52.3%), due to the change in fair value of the interest rate swap contract per GASB 53 and GASB 72.

Deferred inflows related to OPEB increased by $6.9 million (15.7%) primarily due to the amortization of deferrals. See additional information in note 10b.

Deferred inflows related to pensions decreased by $365.9 million (2,462.8%) primarily due to the impact of recognizing prior periods investment earnings and amortization of other deferrals. See additional information in note 10a.

Deferred inflows related to leases increased by $286.0 million (100.0%) due to the adoption of GASB 87 in fiscal year 2022.

The Airport's net investment in capital assets decreased by $296.9 million (28.8%), 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 decreased by $56.0 million (47.5%), primarily due to less cash and investments held outside City Treasury for debt services.

Net position restricted for capital projects increased by $56.4 million (12.9%), primarily due to higher PFC revenue generated from the air traffic growth.

Net position restricted for other purposes was $2.0 million. In fiscal year 2021, this amount was negative and reclassed to Unrestricted net position.

Unrestricted net position increased by $129.0 million (688.3%), primarily due to more revenue generated as passenger traffic started to rebound.

Highlights of Changes in Net Position

The following table shows a condensed summary of changes in net position for fiscal years 2022 and 2021 (in thousands):

	FY 2022	FY 2021	FY 2022 percentage increase (decrease)
Operating revenues	$ 821,253	515,416	59.3 %
Operating expenses	(809,830)	(914,385)	(11.4)
Operating income (loss)	11,423	(398,969)	102.9
Nonoperating expenses, net	(179,955)	(53,093)	238.9
Loss before capital contributions and transfers	(168,532)	(452,062)	62.7
Capital contributions	40,998	64,735	(36.7)
Transfers to City and County of San Francisco	(37,906)	(14,736)	157.2
Changes in net position (deficit)	(165,440)	(402,063)	58.9
Total net position (deficit) – beginning of year	(494,803)	(92,740)	(433.5)
Total net position (deficit) – end of year	$ (660,243)	(494,803)	(33.4)%

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. Landing fees and demised premise rental rates assessed to airlines are set periodically based on formulas and procedures described in the Lease and Use Agreement (Agreement).[2]

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 demised premise rental rates using certain cost centers. Using this methodology, Rates and Charges (that includes landing fees, demised premise rental rates, and other fees) are established each fiscal year to

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[2] In fiscal year 2010, the Airport and airlines reached agreement on a new, ten-year 2011 Lease and Use Agreement that became effective on July 1, 2011, that originally expired June 30, 2021, and that was mutually extended to June 30, 2023. The 2011 Lease and Use Agreement and the 2-Year Extension of said agreement are referred to generally as the "Lease and Use Agreement," and the airlines that are parties to those agreements are referred to as "Signatory Airlines".

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 (ASP) 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 demised premise rental rates and landing fees in subsequent years. Such differences are recorded on the statements of net position in the financial statements of the Airport in the fiscal year to which such differences pertain. Net overcharges are recorded as liabilities and net undercharges are recorded as assets.

The overcharge balance of $160.2 million as of June 30, 2021, increased to $417.1 million as of June 30, 2022, and was recorded as unearned aviation revenue in the statements of net position. See note 2i.

(Continued)

The following table shows the air carriers that served the Airport in fiscal year 2022:

Domestic passenger air carriers	Foreign flag carriers	Cargo-only carriers
Alaska Airlines	Aer Lingus	ABX Air
American Airlines	Aeromexico	Air Transport International
Breeze Airways	Air Canada	Atlas Air
Delta Air Lines	Air France	Federal Express
Frontier Airlines	Air India Limited	Kalitta Air
Hawaiian Airlines	Air New Zealand	Nippon Cargo Airlines
JetBlue Airways	Air Transat	
Southwest Airlines	All Nippon Airways	
Sun Country Airlines	Asiana Airlines	
United Airlines	British Airways	
	COPA Airlines, Inc.	
	Cathay Pacific	
	China Airlines	
	China Eastern	
	China Southern	
	Condor	
	EVA Airways	
	Emirates	
Commuter air carriers	Fiji Airways	
Horizon Air (Alaska Airlines)	Flair Airlines	
Jazz Aviation (Air Canada)	French Bee	
SkyWest Airlines (Alaska Airlines)	Iberia	
SkyWest Airlines (American Airlines)	Japan Airlines	
SkyWest Airlines (Delta Air Lines)	KLM Royal Dutch Airlines	
SkyWest Airlines (United Airlines)	Korean Air Lines	
	Lufthansa German Airlines	
	Philippine Airlines	
	Qatar Airways	
	SAS Airlines	
	Singapore Airlines	
	Swiss International	
	TACA International Airlines, S.A.	
	TAP Air Portugal	
	Turkish Airlines	
	Vietnam Airline JSC	
	Virgin Atlantic	
	WestJet	

The following table shows a comparison of terminal rental rates and airline landing fees for fiscal years 2022 and 2021:

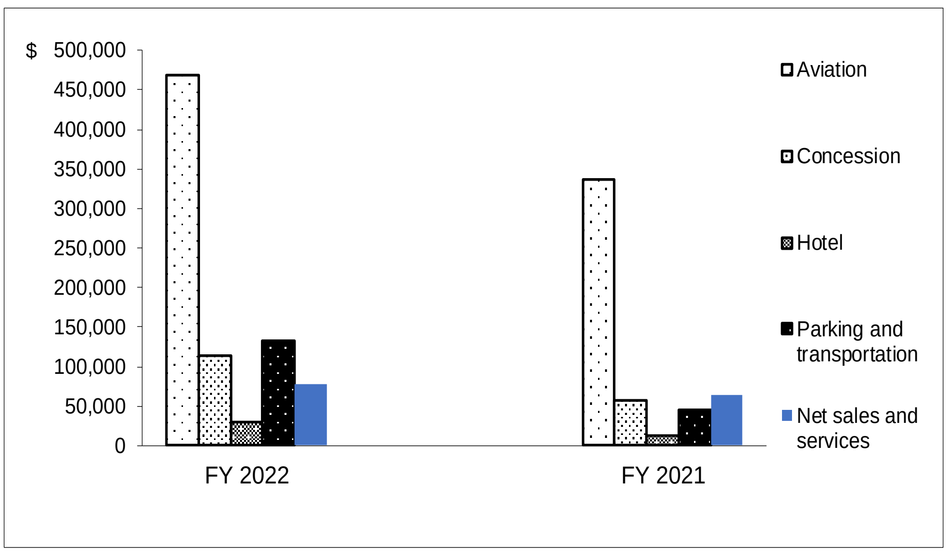
		FY 2022	FY 2021
Effective average terminal rental rate (per sq. ft.)	$	196.45	196.45
Signatory Airline – landing fee rate (per 1,000 lbs.)		11.40	7.29
Non-Signatory Airline – landing fee rate (per 1,000 lbs.)		14.25	9.11
General aviation and itinerant aircraft – landing fee rate (per 1,000 lbs.)		14.25	9.11

During fiscal years ended June 30, 2022 and 2021, revenues realized from the following source equaled or exceeded 5% of the Airport's total operating revenues:

	FY 2022	FY 2021
United Airlines	28.4 %	32.0 %
American Airlines	4.4 %	5.5 %

The following shows a comparative summary of operating revenues for fiscal years 2022 and 2021 (in thousands):

		FY 2022	FY 2021	FY 2022 percentage increase (decrease)
Aviation	$	468,840	337,215	39.0 %
Concession		113,261	56,528	100.4
Hotel		29,251	12,567	132.8
Parking and transportation		132,253	44,819	195.1
Net sales and services		77,648	64,287	20.8
Total operating revenues	$	821,253	515,416	59.3 %



Operating revenues increased by 59.3%, from $515.4 million in fiscal year 2021 to $821.3 million primarily due to increased passenger traffic.

Aviation revenues increased from $337.2 million in fiscal year 2021 to $468.8 million primarily due to passenger traffic beginning to rebound.

As determined by the calculation method in the Agreement, scheduled airline landing fees per thousand pounds increased from $7.29 in fiscal year 2021 to $11.40 in fiscal year 2022. From fiscal year 2021 to fiscal year 2022, the airline average annual terminal rent per square foot remained unchanged at $196.45 as both residual airline terminal rental revenue requirement and airline leased space remained relatively stable.

Before the unearned aviation revenue adjustment of $256.9 million, revenues from landing fees increased by $184.5 million (161.9%) due to higher flight activity and higher landing fees. Terminal rentals increased slightly by $2.4 million (0.7%), as a result of minor changes in airline leased space. In aggregate, all other aviation revenues increased by $17.6 million (21.1%), from $83.6 million in fiscal year 2021 to $101.2 million in fiscal year 2022, with net aviation rental revenue and activity-based fees including aircraft parking, parking-employees, common use gate fees 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), rental car concessions, and other concession revenue increased by 100.4%, from $56.5 million in fiscal year 2021 to $113.3 million. The higher revenues resulted mainly from a 202.1% increase in airport food & beverage and retail sales. Food and beverage revenues increased by $11.8 million (255.7%) due to higher passenger volumes and average spend rate per passenger. The passenger food and beverage spend rate increased by 25.6% from $8.29 to $10.40. Retail merchandise revenues excluding duty free revenues increased by $5.1 million (151.8%) for the same reasons. The Airport-wide per passenger spend rate for such merchandise increased by 8.9% from $3.69 in fiscal year 2021 to $4.02 in fiscal year 2022. As of June 2022, 12 out of 15 DFS locations have reopened, including the newly renovated DFS Duty Free Galleria in boarding Areas A and G, and this, combined with the recovery of international passenger volumes, resulted in an $11.0 million (326.6%) increase in revenues from duty free merchandise sales. On- and off-Airport rental car revenues increased by $26.8 million (170.1%) as a result of increased passenger volumes. Other concession revenues increased by $4.5 million (15.3%); this was mainly driven by the sales growth from Alclear. As of June 30, 2022, MAG rent, which previously had been suspended as a result of reduced enplanement levels, has been reinstated for approximately 40% of all concession leases.

The on-Airport hotel operating revenues increased by 132.8% from $12.6 million in fiscal year 2021 to $29.3 million primarily due to the increase in high-end leisure travelers, individual business travelers, and the return of group meetings.

Public parking and transportation revenues, consisting of rentals and fees derived from parking facilities and ground transportation operations, increased by 195.1%, from $44.8 million in fiscal year 2021 to $132.3 million. The combined net effect of a 20.7% increase in the average revenue per ticket, from $31.04 in fiscal year 2021 to $37.48, and a 127.7% increase in parking transactions resulted in a parking revenue increase of $59.9 million (174.9%). Ground transportation revenues, including taxi trip fee revenue, increased by $27.5 million (262.1%) primarily due to increased passenger levels. Transportation network company (TNC) operations at the Airport (including Uber Technologies Inc., Lyft, Inc., and Tickengo, Inc., d/b/a/ Wingz) increased by 196.8%. TNC Airport pick-ups/drop-offs totaled nearly 5.4 million resulting in $30.0 million in trip fee revenue. Other modes of transportation also experienced increased activity levels compared to fiscal year 2021, including hotel shuttles (up 99.5%), shared ride vans (up 104.6%), door to door pre-arranged vans (up 174.6%), limousines (up 271.1%), taxis (up 372.0%), scheduled buses (up 119.3 %), charter buses (up 262.1%) and off-airport parking vans (up 66.1%). The Airport continues to see a shift in passenger behavior where parking is preferred over single or high occupancy mode transportation (such as taxis, TNCs, and buses), as compared to relative market share of ground transportation options prior to the pandemic.

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 20.8%, from $64.3 million to $77.6 million. Revenue from the sale of water sewage disposal increased by $1.3 million (33.0%). Telecommunication fees were higher by $0.2 million (4.3%) because of increased demand for telecommunication access services. Licenses and permit fees increased $0.9 million (91.1%) as a result of higher badging activity by tenant employees and contractors. The transportation and facility fee (AirTrain fee charged on rental car contracts) increased by $8.5 million (120.9%) due to a 121.5% increase in the number of rental car contracts. Fees collected for the cost of the Rental Car Center decreased by $1.1 million (6.9%) primarily due to the CRRSAA grant adjustment, which reclassed the related revenue to non-operating revenue. Revenue from penalties from the enforcement of airfield safety rules and regulations increased by $1.3 million (156.6%) due to higher level of activity and increased passenger levels. Miscellaneous terminal fees decreased by $0.7 million (6.9%), due to the prior year adjustment for the Terminal 1 baggage handling system, passenger boarding bridges and equipment maintenance contract costs. Governmental agency rent revenue increased by $0.3 million (5.0%) reflecting current lease terms. Miscellaneous Airport Revenues increased $0.2 million (112.7%) this increase was mainly driven by the lease to Worksite Labs Inc. as a COVID testing site. 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 $4.0 million (28.4%).

Operating Expenses

The following table shows a comparative summary of operating expenses for fiscal years 2022 and 2021 (in thousands):

	FY 2022	FY 2021	Percentage increase (decrease) FY 2022
Personnel	$ 216,842	363,451	(40.3)%
Depreciation	356,649	331,135	7.7
Contractual services	81,424	77,077	5.6
Hotel	24,969	14,396	73.4
Light, heat and power	27,554	24,809	11.1
Services provided by other City departments	26,949	29,320	(8.1)
Repairs and maintenance	56,189	51,507	9.1
Materials and supplies	12,560	11,488	9.3
General and administrative	4,567	5,766	(20.8)
Environmental remediation	2,127	5,436	(60.9)
Total operating expenses	$ 809,830	914,385	(11.4)%

Operating expenses decreased from $914.4 million to $809.8 million due to decreases in expenses for personnel, services provided by other city departments, general and administrative, and environmental remediation. In fiscal year 2022, the Airport capitalized $14.0 million of indirect costs related to construction of capital projects as overhead, compared to $19.2 million in fiscal year 2021. The variances in the different categories are discussed below.

(Continued)

Personnel expenses decreased $146.7 million (40.3%), from $363.5 million to $216.8 million. The decrease was primarily due to a decrease in pension expenses as a result of investment gains.

Depreciation increased $25.5 million (7.7%), from $331.1 million to $356.6 million. The increase was primarily due to the additions of capital assets related to Airtrain System, Terminals, and Runway improvement projects.

Contractual services increased $4.3 million (5.6%), from $77.1 million to $81.4 million. The increase was primarily due to increased expenses for various professional services contracts, such as parking and shuttle buses as a result of increased passenger traffic.

The on-Airport hotel operating expenses increased $10.6 million (73.4%), from $14.4 million to $25.0. The increase was primarily due to the significant rise in labor costs and hotel supplies.

Light, heat and power expenses increased $2.8 million (11.1%), from $24.8 million to $27.6 million. The increase was primarily due to an increase in consumption and rates.

Expenses of services provided by other City departments decreased $2.4 million (8.1%), from $29.3 million to $26.9 million. The decrease was primarily due to lower Police academy training costs.

Repairs and maintenance expenses increased $4.7 million (9.1%), from $51.5 million to $56.2 million. The increase was primarily due to the return of pre-pandemic service levels in maintenance contracts for elevator, escalator, and moving walkways.

Materials and supplies expenses increased $1.1 million (9.3%), from $11.5 million to $12.6 million. The increase was a result of inflation as well as increased spending on cleaning and electrical supplies due to higher passenger traffic and outages that occurred during fiscal year 2022.

General and administrative expenses decreased $1.2 million (20.8%), from $5.8 million to $4.6 million. The decrease was primarily due to a decrease in estimated bad debts expense related to the Airport COVID-19 Emergency Rent Relief Program for concession tenants.

Environmental remediation expenses decreased $3.3 million (60.9%), from $5.4 million to $2.1 million. The decrease was primarily due to fewer capital project activities.

Nonoperating Revenues and Expenses

The following summary shows a comparison of nonoperating revenues and expenses in fiscal years 2022 and 2021 (in thousands):

		FY 2022	FY 2021	FY 2022 percentage increase (decrease)
Nonoperating revenues:				
Passenger facility charges (PFC)	$	72,804	29,473	147.0 %
Investment income		(64,113)	(2,542)	(2,422.1)
Other		176,955	299,655	(40.9)
Total nonoperating revenues		185,646	326,586	(43.2)
Nonoperating expenses:				
Interest expense		321,132	270,299	18.8
Write-offs and gain on disposal		11,672	41,976	(72.2)
Other		32,797	67,404	(51.3)
Total nonoperating expenses		365,601	379,679	(3.7)
Total nonoperating expenses, net		(179,955)	(53,093)	238.9
Capital contributions		40,998	64,735	(36.7)
Transfers to City and County of San Francisco		(37,906)	(14,736)	157.2
Total	$	(176,863)	(3,094)	5,616.3 %

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 $72.8 million during fiscal year 2022, an increase of 147.0% compared to the $29.5 million received in fiscal year 2021. The increase in PFC revenues was primarily due to an increase in passenger traffic due to the easing of the COVID-19 restriction.

Investment income decreased $61.6 million (2,422.1%), from $(2.5) million to $(64.1) million primarily due to the investment fair value adjustments. Excluding the fair value adjustments, the actual investment income decreased $2.2 million, from $24.9 million to $22.7 million.

Other nonoperating revenues decreased $122.7 million (40.9%), from $299.7 million to $177.0 million primarily due to the CARES Act grant award of $254.8 million being fully expended in fiscal year 2021.

Interest expense increased $50.8 million (18.8%), from $270.3 million to $321.1 million primarily due to the adoption of GASB Statement No. 89 that no longer allows construction period interest capitalization.

Write-offs and loss on disposal decreased $30.3 million (72.2%), from $42.0 million to $11.7 primarily due to the sale of equipment.

Other nonoperating expenses decreased $34.6 million (51.3%), from $67.4 million to $32.8 million primarily due to fewer capital improvement projects costs that did not meet the capitalization requirement.

Capital contributions received from federal grants and other sources decreased $23.7 million (36.7%), from $64.7 million to $41.0 million. The decrease in capital contribution was primarily due to the decrease in the Airport Improvement Program grant funded expenditures and Checked Baggage Inspection System (CBIS) expenditures attributed to the completion of Terminal 1 and International Terminal CBIS TSA project prior to June 2021. The decrease in other capital contributions was due to the transfers of ownership of a fuel pump pad for $23.98 million from SFO Fuel to the Airport in January 2022 compared to the transfer of two fuel tanks for $36.32 million in November 2020.

The annual service payments transferred to the City increased $23.2 million (157.2%), from $14.7 million in to $37.9 million. The increase was due to higher concession, hotel, and parking and transportation revenues attributable to an increase in passenger traffic.

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 Passenger Facility Charges (PFCs). The Agreement also provides for airline review of capital projects that exceed the dollar thresholds established within 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.

Expenses incurred during fiscal year 2022 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).

		Amount
Terminal 1 Redevelopment	$	94,702
Runway Improvements		57,854
Courtyard 3 Connector		53,180
International Terminal Refresh Program		27,558
Taxiway Improvements		9,726
Capital Equipment		6,996
Waste Water System Improvements		6,682
Noise Insulation Program		6,497
Wayfinding		6,102
Capital Improvement Plan Support		4,353
Miscellaneous Airfield Improvements		3,429
Net Zero Energy Program		2,838
Security Improvements		2,760
Technology Improvement		2,759
Shoreline Protection		2,250
COVID		2,043
Terminal 3 Renovation		1,714
Support Facility Improvements		1,283
All Other Projects		4,557
Total	$	297,283

Due to the COVID-19 pandemic and the reduction in travel demand, the Airport has reprioritized its Capital Improvement Plan to focus on projects that are essential to Airport operations and resiliency priorities given the present-day recovery landscape. Construction activity continues on major projects such as the Terminal 1 (T1) Redevelopment Program, the Courtyard 3 Connector project, and the International Terminal Phase 2 project, which will make improvements to the building and expand both departures level security checkpoints.

The T1 Redevelopment Program completed the Harvey Milk Boarding Area B, for a total of 25 operational gates, in May 2021. Construction activity continues in the Terminal 1 North area, and this work is forecasted to complete in fiscal year 2024.

Notable projects that completed in fiscal year 2022 include a post-security passenger connector between Terminal 2 and Terminal 3, portions of the Noise Insulation Program, and the rehabilitation of Runway 10L-28R which improved existing pavement and electrical systems on the airfield.

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

Debt Administration

Refunding Bonds: On February 8, 2022, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2022A (AMT), Second Series Revenue Bonds, Series 2022B (Non-AMT/Governmental Purpose), and Second Series Revenue Bonds, Series 2022C (Federally Taxable) (collectively, the "2022A/B/C Bonds"), in aggregate principal amount of $732.8 million to refund a combined $474.2 million of its Series 2012A Bonds, Series 2012B Bonds, Series 2013A Bonds, Series 2016A Bonds, Series 2016D Bonds, Series 2017D Bonds, Series 2018A Bonds, Series 2019C Bonds, Series 2019D Bonds, Series 2019G Bonds, and Series 2019H Bonds, to repay the Airport's outstanding Commercial Paper Notes, to finance capitalized interest, and to pay costs of issuance.

Cash Defeasance: On June 28, 2022, the Airport legally defeased $30.6 million of its Series 2019H Bonds, using moneys previously deposited by the Commission in the Debt Service Fund.

Subordinate Commercial Paper Notes: During fiscal year 2022, the Airport issued $168.0 million in commercial paper notes to fund capital improvement projects and to reimburse the Airport for capitalized interest on revenue bonds then used proceeds of the Series 2022A Bonds, Series 2022B Bonds, and Series 2022C Bonds to retire $361.3 million in commercial paper notes. As of June 30, 2022, the Airport had $86.0 million in outstanding commercial paper notes.

Interest Rate Swaps: The Airport ended fiscal year 2022 with one interest rate swap outstanding with a total notional amount of $119.7 million and related deferred outflows on derivative instruments of $10.2 million recorded as a long-term obligation as of June 30, 2022. The Airport's interest rate swap is intended as a hedge against the potential volatility of the interest rates on the Airport's variable rate bonds. Under the Airport's swap agreement, the Airport receives a monthly variable rate payment from the 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 counterparty, resulting in a synthetic fixed rate for these bonds. As of June 30, 2022, the Airport's interest rate swap was associated with the Series 2010A Bonds.

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 2022, 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

Credit Ratings: During fiscal year 2022, Moody's Investors Service Inc. (Moody's), S&P Global Ratings (S&P), and Fitch Ratings Inc. (Fitch) affirmed their underlying credit ratings on the outstanding debt of the Airport of "A1," "A," and "A+", respectively.

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.

On January 13, 2022, Moody's affirmed the "A1" rating with a stable outlook and Fitch affirmed the "A+" rating with stable outlook for the outstanding fixed rate bonds and assigned these ratings to the Series 2022A/B/C Bonds, which were issued on February 8, 2022. S&P did not provide a rating for the Series 2022A/B/C Bonds.

Bond Insurance: There were no insured Airport bonds outstanding at the end of fiscal year 2022.

Fiscal Year 2023 Airline Rates and Charges

Terminal rental rates and airline landing fees for fiscal year 2023 have been developed as part of the annual budget process that started in October 2021. 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 2023, which became effective on July 1, 2022, are as follows:

Effective average terminal rental rate (per sq. ft)	$	187.47
Signatory Airline – landing fee rate (per 1,000 lbs.)		7.73
Non-Signatory Airline – landing fee rate (per 1,000 lbs.)		9.66
General aviation – landing fee rate (per 1,000 lbs.)		9.66

The effective average terminal rental rate decreased from $196.45 per sq. ft. in fiscal year 2022 to $187.47 per sq. ft. in fiscal year 2023. The fiscal year 2023 landing fee rate for Signatory Airlines decreased by 32.2%, from $11.40 per 1,000 pounds in fiscal year 2022 to $7.73 per 1,000 pounds in fiscal year 2023, while the Non-Signatory Airline landing fee rate decreased by 32.2%, from $14.25 per 1,000 pounds in fiscal year 2022 to $9.66 per 1,000 pounds in fiscal year 2023. The fiscal year 2023 landing fee rate for general aviation aircraft decreased by 32.2%, from $14.25 per 1,000 pounds in fiscal year 2022 to $9.66 per 1,000 pounds in fiscal year 2023.

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 Financial Officer, San Francisco International Airport, P.O. Box 8097, San Francisco, California 94128.

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

Statement of Net Position

June 30, 2022

(In thousands)

Assets		
Current assets:		
Cash and investments held in City Treasury	$	950,880
Cash and investments outside City Treasury		18,235
Cash – Revolving Fund		47
Accounts receivable (net of allowance for doubtful accounts of $2,949)		77,457
Lease and related interest receivable		47,891
Accrued interest – City Treasury		852
Accrued interest – outside City Treasury		1,228
Inventories		3,323
Other current assets		4,364
Restricted assets:		
Cash and investments held in City Treasury		477,480
Cash and investments outside City Treasury		88,443
Accounts receivable		1,850
Accrued interest – City Treasury		426
Accrued interest – Other		44
Grants receivable		14,728
Passenger facility charges receivable		8,394
Other current assets		530
Total current assets		1,696,172
Noncurrent assets:		
Lease receivable		241,871
Restricted assets:		
Cash and investments held in City Treasury		360,229
Cash and investments outside City Treasury		570,169
Accrued interest – City Treasury		310
Net pension asset		153,872
Capital assets, net		6,977,073
Total noncurrent assets		8,303,524
Total assets		9,999,696
Deferred outflows of resources:		
Unamortized loss on refunding of debt		36,158
Deferred outflows on derivative instruments		10,192
Deferred outflows related to OPEB		35,683
Deferred outflows related to pensions		82,086
Total deferred outflows of resources	$	164,119

(Continued)

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

Statement of Net Position

June 30, 2022

(In thousands)

Liabilities		
Current liabilities:		
Accounts payable	$	72,736
Accrued payroll		17,139
Compensated absences		11,886
Accrued workers' compensation		2,536
Estimated claims payable		220
Unearned aviation revenue		417,053
Current maturities of long-term debt		6,242
Payable from restricted assets:		
Accounts payable		65,116
Accrued payroll		485
Accrued bond interest payable		62,264
Commercial paper		85,975
Current maturities of long-term debt		1,248
Total current liabilities		742,900
Noncurrent liabilities:		
Compensated absences, net of current portion		12,298
Accrued workers' compensation, net of current portion		9,557
Estimated claims payable, net of current portion		1,938
Other liabilities		196
Long-term debt, net of current maturities		9,078,124
Net OPEB liability		251,367
Derivative instruments		10,192
Total noncurrent liabilities		9,363,672
Total liabilities		10,106,572
Deferred inflows of resources:		
Deferred inflows related to OPEB		50,638
Deferred inflows related to pensions		380,803
Deferred inflows related to leases		286,045
Total deferred inflows of resources		717,486
Net position:		
Net investment in capital assets		(1,327,327)
Restricted for debt service		61,899
Restricted for capital projects		492,914
Restricted for other purposes		1,978
Unrestricted		110,293
Total net position	$	(660,243)

See accompanying notes to financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2022

(In thousands)

		Amount
Operating revenues:		
Aviation	$	468,840
Concession		113,261
Hotel		29,251
Parking and transportation		132,253
Net sales and services		77,648
Total operating revenues		821,253
Operating expenses:		
Personnel		216,842
Depreciation		356,649
Contractual services		81,424
Hotel		24,969
Light, heat and power		27,554
Services provided by other City departments		26,949
Repairs and maintenance		56,189
Materials and supplies		12,560
General and administrative		4,567
Environmental remediation		2,127
Total operating expenses		809,830
Operating income		11,423
Nonoperating revenues (expenses):		
Investment income		(64,113)
Interest expense		(321,132)
Passenger facility charges		72,804
Write-offs and loss on disposal		(11,672)
Other nonoperating revenues		176,955
Other nonoperating expenses		(32,797)
Total nonoperating expenses, net		(179,955)
Loss before contributions and transer		(168,532)
Capital contributions:		
Grants		17,014
Other		23,984
Transfers to City and County of San Francisco		(37,906)
Changes in net position (deficit)		(165,440)
Total net position (deficit) – beginning of year		(494,803)
Total net position (deficit) – end of year	$	(660,243)

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2022

(In thousands)

		Amount
Cash flows from operating activities:		
Cash received from airline carriers, concessionaires, and others	$	1,067,453
Cash paid for employees' services		(328,780)
Cash paid to suppliers of goods and services		(260,774)
Net cash provided by operating activities		477,899
Cash flows from noncapital financing activities:		
Transfers to City and County of San Francisco		(37,906)
Other noncapital financing revenues		169,498
Other noncapital financing expenses		(32,797)
Net cash provided by noncapital financing activities		98,795
Cash flows from capital and related financing activities:		
Principal paid on revenue bonds and commercial paper notes		(36,445)
Interest paid on revenue bonds and commercial paper notes		(372,005)
Acquisition and construction of capital assets		(302,295)
Revenues from passenger facility charges		72,038
Proceeds from sale of revenue bonds		1,090
Proceeds from commercial paper notes		167,960
Lease payable		409
Capital contributed by federal agencies and others		91,633
Net cash used in capital and related financing activities		(377,615)
Cash flows from investing activities:		
Sales of investments with Trustee		435,215
Purchases of investments with Trustee		(414,043)
Interest received on investments		22,159
Net cash provided by investing activities		43,331
Net increase in cash and cash equivalents		242,410
Cash and cash equivalents, beginning of year		1,620,655
Cash and cash equivalents, end of year	$	1,863,065
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and investments held in City Treasury – unrestricted	$	950,880
Cash and nvestments held in City Treasury – restricted		837,709
Cash and investments outside City Treasury – unrestricted		18,235
Cash and investments outside City Treasury – restricted		3,612
Cash - Revolving Fund		47
Cash, cash equivalents, and investments		1,810,483
Unrealized gain on investments		52,582
Cash and cash equivalents, June 30	$	1,863,065

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2022

(In thousands)

		Amount
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	11,423
Adjustments for noncash and other activities:		
Depreciation		356,649
Allowance for doubtful accounts		(19,765)
Cost of issuance paid from bond proceeds		1,228
Hotel expense		55
Changes in assets and liabilities:		
Accounts receivable		(17,891)
Leases		(3,717)
Inventories		1,138
Other current assets		(370)
OPEB		3,662
Pension		(115,462)
Accounts payable and other liabilities		4,224
Accrued payroll		391
Compensated absences		(2,295)
Accrued workers' compensation		1,765
Unearned aviation revenue		256,864
Net cash provided by operating activities	$	477,899
Noncash transactions:		
Accrued capital asset costs	$	57,316
Bond refunding through fiscal agent		371,352
SFO Fuel capital asset contribution		23,984

See accompanying notes to financial statements.

(1) Definition of Reporting Entity

The accompanying financial statements reflect the net position and changes in net position of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport or SFO), a commercial service airport owned and operated as an enterprise fund of the City and County of San Francisco (the City). The Airport is 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 Annual Comprehensive 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. Contributions are recognized in the period in which they are due pursuant to legal requirements. 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.

As prescribed under GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment 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. 87

In 2022, the Airport adopted GASB Statement No. 87, Leases (GASB 87). GASB 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessor is required to recognize, for each lease, a lease receivable and a deferred inflow of resources. The lease receivable is measured at the present value of lease payments expected to be received during the term of the lease. The deferred inflow of resources is measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relates to future periods. Interest revenue is recognized on the lease receivable and inflow of resources (revenue) is recognized from the deferred inflows of resources in a systematic and rational manner over the term of the lease. Lessors do not derecognize the asset underlying the lease. For the transition, leases should be converted ("recognized and measured") using the facts and circumstances that exist at the beginning of the period of implementation, or the beginning of the earliest period restated. The implementation of GASB 87 resulted in an opening balance sheet adjustment, as of July 1, 2020, to recognize $94.2 million in lease receivables and deferred inflow of resources.

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 was to be effective for periods beginning after December 15, 2019. The effective date was extended by the GASB to periods beginning after December 15, 2020. The Airport adopted the provisions of this Statement, which resulted in higher interest expenses.

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 was to be effective for periods beginning after December 15, 2020. The effective date was extended by the GASB to periods beginning after December 15, 2021. The Airport will implement the provisions of Statement No. 91 in fiscal year 2023.

Governmental Accounting Standards Board (GASB) Statement No. 92

In January 2020, the GASB issued Statement No. 92 – *Omnibus 2020*. GASB Statement No. 92 addresses practice issues that have been identified during implementation and application of certain GASB Statements. The new standard is effective for periods beginning after June 15, 2021. The Airport adopted the provisions of this Statement, which did not have a significant impact on its financial statements.

(Continued)

Governmental Accounting Standards Board (GASB) Statement No. 93

In March 2020, the GASB issued Statement No. 93 – *Replacement of Interbank Offered Rates*. GASB Statement No. 93 establishes accounting and financial reporting requirements related to the replacement of interbank offered rates (IBORs) in hedging derivative instruments and leases. The new standard was to be effective for periods beginning after June 15, 2020. The effective date was extended by the GASB to periods beginning after June 15, 2021. 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. 94

In March 2020, the GASB issued Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. GASB Statement No. 94 establishes standards of accounting and financial reporting for public-private and public-public partnership arrangements (PPPs) and availability payment arrangements (APAs) for governments. The new standard is effective for periods beginning after June 15, 2022. The Airport will implement the provisions of Statement No. 94 in fiscal year 2023.

Governmental Accounting Standards Board (GASB) Statement No. 96

In May 2020, the GASB issued Statement No. 96 – *Subscription-Based Information Technology Arrangements*. GASB Statement No. 96 establishes standards of accounting and financial reporting for subscription-based information technology arrangements (SBITAs) by a government. The new standard is effective for periods beginning after June 15, 2022. The Airport will implement the provisions of Statement No. 96 in fiscal year 2023.

Governmental Accounting Standards Board (GASB) Statement No. 99

In April 2022, the GASB issued Statement No. 99 – *Omnibus 2022*. GASB Statement No. 99 addresses practice issues that have been identified during implementation and application of certain GASB Statements. The new standard is effective in stages starting with periods beginning after June 15, 2022. The Airport will implement the provisions of Statement No. 99 in stages beginning in fiscal year 2023.

Governmental Accounting Standards Board (GASB) Statement No. 100

In June 2022, the GASB issued Statement No. 100 – *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. GASB Statement No. 100 improves the clarity of the accounting and financial reporting requirements for accounting changes and error corrections. The new standard is effect for periods beginning after June 15, 2023. The Airport will implement the provisions of Statement No. 100 in fiscal year 2024.

Governmental Accounting Standards Board (GASB) Statement No. 101

In June 2022, the GASB issued Statement No. 101 – *Compensated Absences*. GASB Statement No. 101 updates the recognition and measurement guidance for compensated absences. The new standard is effective for periods beginning after December 15, 2023. The Airport will implement the provisions of Statement No. 101 in fiscal year 2025.

(Continued)

(c) Cash, Cash Equivalents, and Investments

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

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

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

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

Certain accounts relating to 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) Derivative Instruments

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

(f) 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.

(g) Compensated Absences

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

(h) 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).

Restricted for Other Purposes – consists of the on-Airport Hotel’s assets and liabilities (including the Hotel Trust accounts) except the Hotel Debt Service Fund trust account, the Hotel Revenue Stabilization Fund trust account, the Hotel Capitalized Interest trust account, and the Hotel’s capital lease obligations.

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.

(i) 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 "Operation and Maintenance Expenses" under the Master Bond Resolutions. Airport expenses that are funded with sources not includable as "Revenues" under the Master Bond Resolutions are not treated as "Operation and Maintenance Expenses" under the Master Bond Resolutions. Other capital asset additions are funded with proceeds of revenue bonds for which the airlines are required to fund debt service. During fiscal year 2010, the Airport and airlines reached agreement on a new, ten-year 2011 Lease and Use Agreement that became effective on July 1, 2011, that was originally set to expire on June 30, 2021, and that was mutually extended to June 30, 2023. Airlines that are not signatories to this agreement operate under month-to-month permits. As of June 30, 2022, 34 passenger airlines representing over 97% of enplaned passengers in fiscal year 2022 and 6 cargo airlines have executed the extension amendment. Other than extending the term of the Lease and Use Agreements through June 30, 2023 and continuing the preferential use gate allocations in effect as of June 30, 2022 through the end of the extended term, the extension amendments did not affect any of the terms and conditions of the Lease and Use Agreements.

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 Postemployment Benefit obligations are included. Unanticipated sources of Revenues, or unanticipated grant funding available to apply to offset Airport expenses, can result in aviation revenue collected in advance. Aviation revenue collected in advance will be applied to reduce future billings and is recorded as a liability in the financial statements. Aviation revenue due to be collected will be reduced by increases in future billings and is recorded as an asset in the financial statements. Pursuant to the terms of the Lease and Use Agreement, the Airport has a net aviation revenue collected in advance of $417.1 million as of June 30, 2022.

(j) 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, where applicable, a minimum annual guarantee (MAG) amount.

(k) Hotel Revenues

Hotel revenues consist of rooms, food and beverage, garage, meeting and special event, and parking services.

(l) Parking and Transportation Revenues

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

(m) Net Sales and Services Revenues

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

(n) Environmental Remediation Expenses and Recoveries

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

(o) Capital Contributions

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

(p) Use of Estimates

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

(q) Reclassification

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

(3) Cash, Cash Equivalents, and Investments

(a) Pooled Cash and Investments

The Airport maintains operating cash, cash equivalents, investments, and certain restricted cash and investments as part of the City’s pool of cash and investments. The City’s investment pool is an unrated pool pursuant to investment policy guidelines established by the City Treasurer and is treated as a cash equivalent for financial reporting purposes as the Airport is able to withdraw amounts from the pool on demand without notice or penalty. The objectives of the City Treasurer’s investment 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, 2022 (in thousands):

		Amount
Pooled cash and investments:		
Cash and investments held in City Treasury – unrestricted	$	950,880
Cash and investments held in City Treasury – restricted current		477,480
Cash and investments held in City Treasury – restricted noncurrent		360,229
Total cash and investments held in City Treasury	$	1,788,589

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

Investment maturities (in months)			
Under 1	**1 – less than 6**	**6 – less than 12**	**12 – 60**
20.2%	14.0%	14.9%	50.9%

(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 relating to the Hotel Special Facility Bonds are held by an independent bond trustee for the Hotel Special Facility Bonds. The unrestricted assets in the debt service holding fund and the variable rate demand bond fee account are not pledged to the payment of the Airport Commission's bonds, but are held by the Senior Trustee for the convenience of the Airport Commission in the administration and investment of monies delivered to the Senior Trustee prior to the time the Airport Commission is required to make deposits into the Debt Service Fund or pay the fees of the remarketing agents for the Airport Commission's variable rate bonds, respectively.

As of June 30, 2022, the Senior Trustee held investments for the benefit of the Airport with maturities as follows (in thousands):

Investments	Credit ratings June 30, 2022 (S&P/Moody's / Fitch)	June 30, 2022 Maturities	June 30, 2022 Fair value
Federal Home Loan Bank Notes	AA+/Aaa/NR	June 9, 2023	$ 2,777
Federal Home Loan Bank Notes	AA+/Aaa/NR	December 8, 2023	8,473
Federal Home Loan Bank Notes	AA+/Aaa/NR	September 4, 2025	1,227
Federal National Mortgage Association Notes	AA+/Aaa/AAA	May 22, 2023	10,589
Federal National Mortgage Association Notes	AA+/Aaa/AAA	July 10, 2023	9,945
Federal National Mortgage Association Notes	AA+/Aaa/AAA	January 7, 2025	18,037
Federal National Mortgage Association Notes	AA+/Aaa/AAA	June 17, 2025	11,133
Federal National Mortgage Association Notes	AA+/Aaa/AAA	August 25, 2025	7,888
Federal National Mortgage Association Notes	AA+/Aaa/AAA	November 7, 2025	9,811
US Treasury Notes	AA+/Aaa/AAA	September 30, 2022	325
US Treasury Notes	AA+/Aaa/AAA	October 31, 2022	66,883
US Treasury Notes	AA+/Aaa/AAA	November 30, 2022	324
US Treasury Notes	AA+/Aaa/AAA	December 31, 2022	324
US Treasury Notes	AA+/Aaa/AAA	January 31, 2023	325
US Treasury Notes	AA+/Aaa/AAA	February 28, 2023	325
US Treasury Notes	AA+/Aaa/AAA	March 31, 2023	319
US Treasury Notes	AA+/Aaa/AAA	April 30, 2023	320
US Treasury Notes	AA+/Aaa/AAA	May 31, 2023	316
US Treasury Notes	AA+/Aaa/AAA	June 30, 2023	972
US Treasury Notes	AA+/Aaa/AAA	July 31, 2023	275
US Treasury Notes	AA+/Aaa/AAA	August 15, 2023	20,035
US Treasury Notes	AA+/Aaa/AAA	August 31, 2023	274
US Treasury Notes	AA+/Aaa/AAA	September 30, 2023	275
US Treasury Notes	AA+/Aaa/AAA	October 31, 2023	20,155
US Treasury Notes	AA+/Aaa/AAA	November 15, 2023	19,497
US Treasury Notes	AA+/Aaa/AAA	November 30, 2023	275
US Treasury Notes	AA+/Aaa/AAA	December 31, 2023	21,635
US Treasury Notes	AA+/Aaa/AAA	January 31, 2024	273
US Treasury Notes	AA+/Aaa/AAA	February 29, 2024	271
US Treasury Notes	AA+/Aaa/AAA	March 15, 2024	17,143
US Treasury Notes	AA+/Aaa/AAA	March 31, 2024	272
US Treasury Notes	AA+/Aaa/AAA	April 30, 2024	13,892

Investments	**Credit ratings June 30, 2022 (S&P/Moody's / Fitch)**	**June 30, 2022 Maturities**	**June 30, 2022 Fair value**
US Treasury Notes	AA+/Aaa/AAA	June 30, 2024	8,108
US Treasury Notes	AA+/Aaa/AAA	July 31, 2024	13,026
US Treasury Notes	AA+/Aaa/AAA	August 31, 2024	16,942
US Treasury Notes	AA+/Aaa/AAA	October 31, 2024	17,724
US Treasury Notes	AA+/Aaa/AAA	November 15, 2024	17,366
US Treasury Notes	AA+/Aaa/AAA	February 28, 2025	13,843
US Treasury Notes	AA+/Aaa/AAA	April 30, 2025	31,918
US Treasury Notes	AA+/Aaa/AAA	June 30, 2025	9,678
US Treasury Notes	AA+/Aaa/AAA	July 31, 2025	17,740
US Treasury Notes	AA+/Aaa/AAA	November 30, 2025	8,321
US Treasury Notes	AA+/Aaa/AAA	January 31, 2026	32,774
US Treasury Notes	AA+/Aaa/AAA	March 31, 2026	13,335
US Treasury Notes	AA+/Aaa/AAA	April 30, 2026	22,305
US Treasury Notes	AA+/Aaa/AAA	September 30, 2026	13,719
US Treasury Notes	AA+/Aaa/AAA	November 30, 2026	11,961
US Treasury Notes	AA+/Aaa/AAA	January 31, 2027	12,997
US Treasury Notes	AA+/Aaa/AAA	May 15, 2027	16,773
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	May 5, 2023	11,382
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	June 26, 2023	10,517
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	August 24, 2023	10,697
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	September 8, 2023	11,416
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	November 6, 2023	1,366
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	December 4, 2023	9,553
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	July 21, 2025	10,250
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AAA	September 23, 2025	7,968
Federal Farm Credit Banks Funding Corp	AA+/Aaa/AAA	April 8, 2024	7,845
International Bank for Reconstruction & Development	AAA/Aaa/AAA	April 19, 2023	793
International Bank for Reconstruction & Development	AAA/Aaa/AAA	March 19, 2024	446
International Bank for Reconstruction & Development	AAA/Aaa/AAA	January 15, 2025	918
Inter-American Development Bank	AAA/Aaa/AAA	May 24, 2023	411
Inter-American Development Bank	AAA/Aaa/AAA	September 23, 2024	1,045

Investments	Credit ratings June 30, 2022 (S&P/Moody's / Fitch)	June 30, 2022 Maturities	June 30, 2022 Fair value
State of Oregon Department of Tranportation	AAA/Aa1/AA+	November 15, 2023	221
State of Wisconsin	AA+/Aa1/NR	May 1, 2024	156
State of Wisconsin	NR/Aa2/AA	May 1, 2024	229
State of Maryland	AAA/Aaa/AAA	August 1, 2023	273
State of Minnesota	AAA/Aa1/AAA	August 1, 2025	189
State of Mississippi	AA/Aa2/AA	November 1, 2023	126
City of San Jose	AA+/Aa1/AAA	September 1, 2023	487
University of California	AA/Aa2/AA	May 15, 2023	426
Long Beach Community College	AA/Aa2/NR	August 1, 2023	221
Ventura County Community College	AA+/Aa1/NR	August 1, 2023	529
Los Angeles Community College	AA+/Aaa/NR	August 1, 2025	203
Los Angeles Unified School District	NR/Aa3/AA+	July 1, 2025	453
Fannie Mae-Aces	AA+/Aaa/AAA	December 1, 2022	91
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	August 1, 2022	428
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	October 1, 2022	465
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	November 1, 2022	489
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	January 1, 2023	574
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	February 1, 2023	23
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	April 1, 2023	41
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	July 1, 2023	4
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	August 1, 2023	559
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	November 1, 2023	259
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	July 1, 2024	11
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	December 1, 2024	336
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	January 1, 2025	74
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	May 1, 2025	534

Investments	Credit ratings June 30, 2022 (S&P/Moody's / Fitch)	June 30, 2022 Maturities	Fair value
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	June 1, 2025	69
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	December 1, 2025	7
Freddie Mac Multifamily Structured Pass	AAA/Aaa/AAA	July 1, 2022	87
Freddie Mac Multifamily Structured Pass	AAA/Aaa/AAA	March 1, 2023	413
New York State Urban Development Corp	AA+/NR/AA+	March 15, 2025	517
State Board of Administration Finance	AA/Aa3/AA	July 1, 2025	126
Goldman Sachs Financial Square Obligations Fund	AAAm/Aaa-mf/NR	-	18,868
First American Government Obligation Fund	AAAm/Aaa-mf/AAAmmf	-	6,572
Cash and Cash Equivalent			15,065
Total			$ 676,847

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, 2022 (in thousands):

			Fair value measurement using		
	Fair value June 30, 2022	Investments exempt from fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)
Investments outside City Treasury:					
State and local agencies	$ 4,155	—	—	4,155	—
Supranationals	3,614	—	—	3,614	—
U.S. agencies	165,337	—	—	165,337	—
U.S. treasury securities	463,236	—	463,236	—	—
Cash and cash equivalents	15,065	15,065	—	—	—
Investments exempt from fair value*	25,440	25,440	—	—	—
Total	$ 676,847	40,505	463,236	173,106	—

* Money market funds

Investments outside the City Treasury pool may 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, and other investments permitted under the applicable bond documents. 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 in the overall portfolio. As one strategy 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 all moneys invested in any principal and interest payment accounts are to mature no later than the dates on which the principal or interest payments are due.

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

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

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

The Airport had approximately $676.8 million in investments held by, and in the name of, the Senior Trustee and the Subordinate Trustee, collectively, as of June 30, 2022.

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 $14.7 million as of June 30, 2022, were based on actual costs incurred, subject to federal reimbursement limits.

In fiscal year 2021, the FAA established the Airport Coronavirus Response Grant Program to distribute Coronavirus Response and Relief Supplemental Appropriation Act (CRRSAA) funds to eligible U.S. airports and eligible concessions at those airports affected by the COVID-19 public health emergency. In June 2021, the Airport executed a grant agreement with the FAA for approximately $5.9 million of federal CRRSAA grant funds to provide relief from rent and minimum annual guarantee (MAG) obligations to eligible concessions. Each airport receiving these CRRSAA funds must provide its eligible concessions with rent/MAG relief in an amount that reflects each eligible airport concession's proportional share of the total amount of rent of all eligible concessions at the airport. The FAA requires airports receiving funding through CRRSAA to prepare an allocation plan indicating the amount of rent/MAG relief to eligible concessions at the airport and submit it to the FAA for approval before the airport can receive these CRRSAA funds. The period over which relief can be provided starts on December 27, 2020 and continues until all concession relief funds are exhausted. The Airport may retain up to two percent of the amount allocated for concession relief purposes to administer the relief program. Included in the Airport’s grants receivable as of June 30, 2022, is $5.9 million of CRRSAA funds.

When determining the distribution of discretionary grants, the Secretary of Transportation may consider, as a militating factor, whether the Airport uses its revenues for purposes other than capital or operating costs, when those revenues exceed the amount used by the Airport for such costs in the base year ending June 30, 1995, as adjusted for inflation. The Airport Commission pays a portion of the Airport’s revenues to the City’s General Fund as an annual service payment, in part as compensation for 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 four fiscal years, the annual service payment has exceeded the base year payment when adjusted for inflation since fiscal year 1996.

In the past, the Commission has received a lower amount of FAA discretionary grants than it requested as a result of the amount of the annual service payment. For example, the FAA militated $6.4 million in discretionary grants in the federal fiscal year ended September 30, 2021, and the Commission received $29.3 million in FAA discretionary grants. The FAA may reduce discretionary grants in the future. Furthermore, AIP funding may be reduced in the future as a result of legislation or the failure of the U.S. Congress to pass an annual appropriation bill including such funding. Reduction in grants awarded to the Commission could result in the delay or cancellation of projects or the incurrence of additional debt by the Commission.

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):

	July 1, 2021	Additions	Deletions	June 30, 2022
Capital assets not being depreciated:				
Land	$ 29,813	—	—	29,813
Intangible assets	6,881	—	—	6,881
Construction in progress	1,101,020	278,775	(607,884)	771,911
Total capital assets not being depreciated	1,137,714	278,775	(607,884)	808,605
Capital assets being depreciated/amortized:				
Buildings, structures, and improvements	8,650,961	623,265	(49,188)	9,225,038
Equipment	964,345	6,191	(31,300)	939,236
Right to use asset	671	—	—	671
Intangible assets	50,504	319	(13,213)	37,610
Total capital assets being depreciated/amortized	9,666,481	629,775	(93,701)	10,202,555
Less accumulated depreciation/amortization:				
Buildings, structures, and improvements	(3,359,201)	(264,336)	35,620	(3,587,917)
Equipment	(330,819)	(89,354)	6,374	(413,799)
Right to use asset	(139)	(139)	—	(278)
Intangible assets	(42,626)	(2,681)	13,214	(32,093)
Total accumulated depreciation/amortization	(3,732,785)	(356,510)	55,208	(4,034,087)
Total capital assets being depreciated/amortized, net	5,933,696	273,265	(38,493)	6,168,468
Total capital assets, net	$ 7,071,410	552,040	(646,377)	6,977,073

In fiscal year 2007, the Airport adopted a cost allocation plan to capture indirect costs as a component of a building or other capital asset to reflect the full and true cost of a capital asset. In accordance with the Uniform Guidance, the indirect costs capitalized for the year ended June 30, 2022, were $14.0 million.

(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). The 1997 Note Resolution authorizes the issuance of subordinate commercial paper (CP) notes in an aggregate principal amount not to exceed the lesser of $600.0 million or the stated amount of the letter(s) of credit securing the CP.

The Airport issues CP in series based on tax status that are divided into subseries according to the bank providing the applicable direct-pay letter of credit. In addition to the applicable letter of credit, the CP notes are further secured by a pledge of the Net Revenues of the Airport, subject to the prior payment of the

Commission's San Francisco International Airport Second Series Revenue Bonds (the Senior Bonds) outstanding from time to time under Resolution No. 91-0210, adopted by the Commission on December 3, 1991 (as amended and supplemented, the 1991 Master Bond Resolution).

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

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

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.

As of June 30, 2022, the CP program was supported by six direct-pay letters of credit with a combined maximum stated principal amount of $600.0 million, from State Street Bank and Trust Company ($100.0 million, expires May 2, 2024), Sumitomo Mitsui Banking Corporation, acting through its New York Branch ($100.0 million, expires April 7, 2027), Barclays Bank PLC ($100.0 million, expires May 24, 2024), U.S. Bank National Association ($100.0 million, expires November 15, 2023), Barclays Bank PLC ($125.0 million, expires April 28, 2023), and Bank of America, N.A. ($75.0 million, expires May 26, 2023). Each of the letters of credit supports a separate subseries of CP notes.

As of June 30, 2022, there were no obligations other than the CP notes outstanding under the 1997 Note Resolution.

During fiscal year 2022, the Airport issued new money CP notes in the aggregate principal amount of $131.7 million (AMT), $27.3 million (Non-AMT), and $8.9 million (Taxable) to fund capital improvement projects and costs of issuance related to the debt program and to prepay certain monthly bond interest payments.

The following table summarizes CP activity (excluding refunding CP) during the fiscal year ended June 30, 2022 (in thousands):

	Interest rate		July 1, 2021	Increases	Decreases	June 30, 2022
Commercial paper (Taxable)	0.15%-1.80%	$	29,000	8,935	(35,235)	2,700
Commercial paper (AMT)	0.10%-1.33%		80,725	131,725	(147,225)	65,225
Commercial paper (Non-AMT)	0.08%-1.25%		169,615	27,300	(178,865)	18,050
Total		$	279,340	167,960	(361,325)	85,975

(7) Long-Term Obligations

Long-term obligation activity for the year ended June 30, 2022, was as follows (in thousands):

		July 1, 2021	Additions	Reductions	June 30, 2022	Due within one year
Revenue bonds payable	$	7,877,070	732,820	(510,615)	8,099,275	7,490
Less unamortized discounts		—	—	—	—	—
Add unamortized premiums		967,887	104,585	(86,133)	986,339	—
Total revenue bonds payable		8,844,957	837,405	(596,748)	9,085,614	7,490
Compensated absences		26,478	14,514	(16,808)	24,184	11,886
Accrued workers' compensation		10,328	5,924	(4,159)	12,093	2,536
Estimated claims payable		58	2,119	(19)	2,158	220
Other liabilities and leases payable		658	—	(189)	469	273
Net OPEB liability (see note 10b)		258,525	—	(7,158)	251,367	—
Net pension liability (asset) (see note 10a)		340,330	—	(494,202)	(153,872)	—
Derivative instruments		21,374	—	(11,182)	10,192	—
Total	$	9,502,708	859,962	(1,130,465)	9,232,205	22,405

Bond Transactions and Balances

On December 3, 1991, the Commission adopted Resolution No. 91-0210 (as amended and supplemented, the 1991 Master Bond Resolution). The 1991 Master Bond Resolution authorizes 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 payable solely from and 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- 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.

As of June 30, 2022, long-term revenue bonds consisted of the following (in thousands):

Description	Date of issue	Interest rate		2022
Second Series Revenue Bonds:				
Issue 2009D	11/04/09	3.00%–3.50%	$	51,615
Issue 2010A	02/10/10	Variable rate		119,745
Issue 2013A	07/31/13	5.00%-5.50%		295,650
Issue 2013B	07/31/13	5.00%		87,860
Issue 2014A	09/24/14	5.00%		376,310
Issue 2014B	09/24/14	5.00%		97,290
Issue 2016A	02/25/16	4.00%-5.00%		139,020
Issue 2016B	09/29/16	5.00%		574,970
Issue 2016C	09/29/16	5.00%		165,155
Issue 2016D	09/29/16	5.00%		100,280
Issue 2017A	10/31/17	5.00%		339,580
Issue 2017B	10/31/17	5.00%		231,985
Issue 2017D	10/31/17	5.00%		72,015
Issue 2018D	05/30/18	5.00%-5.25%		722,800
Issue 2018E	05/30/18	5.00%		116,275
Issue 2018F	05/30/18	3.80%		7,025
Issue 2018G	05/30/18	5.00%		35,660
Issue 2018B	06/06/18	Variable rate		138,170
Issue 2018C	06/06/18	Variable rate		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	3.51%		8,010
Issue 2019D	02/07/19	5.00%		402,115
Issue 2019E	09/10/19	4.00%-5.00%		773,475
Issue 2019F	09/10/19	5.00%		106,925
Issue 2019G	09/10/19	1.98%-2.39%		12,285
Issue 2019H	09/10/19	5.00%		148,195
Issue 2020A	08/20/20	4.00%-5.00%		109,520
Issue 2020B	08/20/20	4.00%		51,575
Issue 2020C	08/20/20	2.96%		130,180
Issue 2021A	04/21/21	5.00%		195,225
Issue 2021B	04/21/21	5.00%		129,070
Issue 2021C	04/21/21	3.35%		222,810
Issue 2022A	02/08/22	4.00%-5.00%		301,530
Issue 2022B	02/08/22	4.00%-5.00%		236,475
Issue 2022C	02/08/22	2.58%-3.33%		194,815
				8,099,275
Unamortized premium				986,339
Total revenue bonds payable				9,085,614
Less current portion				(7,490)
Total long-term revenue bonds payable			$	9,078,124

Interest Rate Swaps

Objective and Terms – On July 26, 2007, the Airport entered into four 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 swap structure was intended as a means to increase the Airport's debt service savings by setting a low synthetic fixed rate in advance of the first date that tax-exempt variable rate refunding bonds could be issued in the future to refinance callable bonds. The expiration dates of the 2007 and 2010 swaps were May 1, 2029 and 2030, respectively.

As of June 30, 2022, three of four swaps have been terminated and only one remains.

Under the sole remaining 2010 swap, 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 swap. The Airport makes a monthly fixed rate payment to the counterparty, Goldman Sachs Bank USA, based on an assumed amortizing notional amount, which commenced on the date of issuance of the related bonds. The outstanding interest rate swap is terminable at any time upon making a market-based termination payment solely at the option of the Airport.

In July 2017, the United Kingdom's (UK) Financial Conduct Authority (FCA), the UK markets regulator, indicated that the London Interbank Overnight Rate (LIBOR) would be phased out. In March 2021, the FCA announced the cessation dates for LIBOR benchmarks, including a cessation date of June 30, 2023, for 1-month USD-LIBOR, which is the benchmark used for the monthly floating-rate payments that the Airport receives for the 2010 swap. The Commission's interest rate swap agreement calculates the variable rate payment owed from the counterparty to the Airport each month using LIBOR plus a certain spread. The Airport's swap is not scheduled to terminate until May 1, 2030. The Commission expects its interest rate swap agreement to be terminated or 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 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 (or a substituted 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 swap becomes positive, the Airport would be exposed to credit risk in the amount of the swap's fair value. Under the terms of the swap, the counterparty is 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, the Airport's swap would not automatically terminate. Rather, the Airport would have the option to terminate the 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 the counterparty is unable to perform its obligations on a swap transaction leaving the Airport exposed to the variable rate 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 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 –The interest rate swap is terminable at the termination price at any time at the option of the Airport. The Airport has limited termination risk with respect to the interest rate swap. 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), the counterparty may terminate the swap and require the Airport to pay the termination value, if any, unless the Airport chooses to provide suitable credit enhancement, assign the Airport's interest in the swap 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, the counterparty may terminate the swap and require the Airport to pay the termination value, if any.

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 Airport within 15 business days.

The downgrade of the 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 the 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 swap is 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 necessary to maintaining revenues or operating the Airport and maintaining specified levels of insurance or 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. In conjunction with the defeasance of the Series 2010D Bonds on August 20, 2020, the 2009 Reserve Account was closed. 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, 2022, the Issue 1 Reserve Account secures all outstanding bonds except the series listed below as being secured by 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 on the outstanding bonds secured by the Issue 1 Reserve Account accruing in any year during the life of all participating series of bonds secured by the Issue 1 Reserve Account.

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, 2022, only the Series 2017D, 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 1991 Master Bond Resolution does not require that those ratings be maintained after the date of deposit. As of June 30, 2022, the Issue 1 Reserve Account contains 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 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.

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 calculations any noncash accrued pension obligations and includes only pension obligations actually paid during the fiscal year. As another example, the 1991 Master Bond Resolution excludes from the definition of Operating and Maintenance Expenses "any expense for which, or to the extent to which, the Commission is or will be paid or reimbursed from or through any source that is not included or includable as Revenues," and excludes from the definition of Revenues "grants-in-aid, donations and/or bequests." Accordingly, the Commission excludes from its rate covenant both grant funds used toward operating costs (such as the CARES Act, CRRSAA, and ARPA grant funds) and the operating costs reimbursed using such grant funds.

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).

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

Pursuant to resolutions adopted between fiscal years 2008 and 2022, as of June 30, 2022, the Airport Commission has authorized the issuance of up to $10.8 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, funding capitalized interest, and for paying costs of issuance. As of June 30, 2022, $4.2 billion of the authorized capital plan bonds remained unissued.

(b) Second Series Revenue Refunding Bonds

Pursuant to resolutions adopted between fiscal years 2005 and 2021, as of June 30, 2022, 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, 2022, $1.4 billion of the authorized refunding bonds remained authorized but unissued.

During fiscal year 2022, the Airport issued the following bonds for refunding and other purposes under the 1991 Master Bond Resolution:

On February 8, 2022, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2022A (AMT), Second Series Revenue Bonds, Series 2022B (Non-AMT/Governmental Purpose), and Second Series Revenue Bonds, Series 2022C (Federally Taxable), in aggregate principal amount of $732.8 million to refund a combined $474.2 million of its Series 2012A Bonds, Series 2012B Bonds, Series 2013A Bonds, Series 2016A Bonds, Series 2016D Bonds, Series 2017D Bonds, Series 2018A, Series 2019C, Series 2019D, Series 2019G and Series 2019H Bonds, to repay outstanding Commercial Paper Notes, to finance capitalized interest, and to pay costs of issuance.

The proceeds of the Series 2022A, Series 2022B, and Series 2022C (consisting of $732.8 million par amount and original issue premium of $104.6 million, less an underwriters' discount of $1.2 million), together with $26.5 million accumulated in the debt service fund and reserve fund relating to the refunded bonds were used to deposit $491.4 million into redemption accounts and escrow funds with the Senior Trustee to refund $474.2 million in revenue bonds as described below (in thousands), $361.3 million to repay outstanding commercial paper notes, $8.8 million to fund capitalized interest, and $1.1 million to pay costs of issuance.

		Amount refunded	Interest rate
Second Series Revenue Bonds Issue:			
Series 2012A (AMT)	$	208,020	5.00%
Series 2012B (Non-AMT/Governmental Purpose)		107,465	4.00-5.00%
Series 2013A (AMT)		8,290	5.00%
Series 2016A (Non-AMT/Governmental Purpose)		32,680	4.00-5.00%
Series 2016D (Non-AMT/Governmental Purpose)		19,380	5.00%
Series 2017D (AMT)		24,175	5.00%
Series 2018A (AMT)		28,055	5.00%
Series 2019C (Taxable)		13,445	3.15%
Series 2019D (Non-AMT/Private Activity)		5,205	5.00%
Series 2019G (Taxable)		7,935	1.87%
Series 2019H (Non-AMT/Governmental Purpose)		19,520	5.00%
Total	$	474,170	

The refunded Bonds were redeemed on February 8, 2022.

In aggregate, the Series 2022A/B/C refundings resulted in the recognition of a deferred accounting gain of $3.8 million for the fiscal year ended June 30, 2022. Notably, the Series 2022A/B/C refundings decreased the Airport's aggregate gross debt service payments by approximately $26.1 million over the life of the bonds and obtained an economic gain (the difference between the present values of the debt service on the old debt and the new debt) of $40.5 million.

(c) Variable Rate Demand Bonds

As of June 30, 2022, the Airport Commission had an outstanding aggregate principal amount of $396.1 million, consisting of Second Series Variable Rate Revenue Refunding Bonds, Series 2010A, and Second Series Variable Rate Revenue Bonds, Series 2018B and Series 2018C, (collectively, the "Variable Rate Bonds") with final maturity dates of May 1, 2030 (Series 2010A), and May 1, 2058 (Series 2018B and 2018C). The Variable Rate Bonds are long-term, tax-exempt bonds that currently bear interest at a rate that is adjusted weekly, and that are subject to tender at par at the option of the holder thereof on seven days' notice. Any tendered Variable Rate Bonds are remarketed by the applicable remarketing agent in the secondary market to other investors. The interest rate on the

Variable Rate Bonds can be converted to other interest rate modes, including a term rate or fixed rates to maturity, upon appropriate notice by the Airport.

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

Amounts drawn under a letter of credit that are not reimbursed by the Airport constitute “Repayment Obligations” under the 1991 Master Bond Resolution and are accorded the status of other outstanding bonds to the extent provided in the Resolution. The commitment fees for the letters of credit range between 0.28% and 0.39% per annum. As of June 30, 2022, 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, 2022, are as follows (in thousands):

	Series 2010A	Series 2018B	Series 2018C
Principal amount	$ 119,745	138,170	138,170
Expiration date	April 14, 2023	June 3, 2026	April 5, 2027
Credit provider	Bank of America(1)	Barclays(2)	SMBC(3)

(1) Bank of America, N.A.
(2) Barclays Bank PLC
(3) 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 are issued pursuant to a Trust Agreement (the “Hotel Trust Agreement”). On February 26, 2021, the Hotel Special Facility Bonds and the trust agreement pursuant to which they were issued were amended and restated, including to delay the initial principal repayment until April 1, 2025 (instead of April 1, 2022) and temporarily reduce the interest rate on the Hotel Special Facility Bonds from 3.00% to 0.086% from April 1, 2020 through September 30, 2023. The interest rate will then increase incrementally until it is restored to 3.00% beginning on April 1, 2029. In addition, the amendments provided that October 1, 2020 is no longer an interest payment date, and there is no requirement to pay interest accrued on the Hotel Special Facility Bonds until October 1, 2023. The maximum principal amount of the Hotel Special Facility Bonds is not limited by the Hotel Trust Agreement, but the Commission must satisfy an additional bonds test prior to the issuance of any such bonds.

The Hotel Special Facility Bonds are limited obligations of the Commission. Under the Hotel Trust Agreement, the Commission has pledged the Revenues of the on-Airport Hotel, together with other assets, to the payment of the principal of and interest on the Hotel Special Facility Bonds. Revenues are generally defined in the Hotel Trust Agreement as all revenue and income of any kind derived directly or indirectly from operations at the on-Airport Hotel (not including certain amounts specified in the Hotel Trust Agreement). Operating expenses of the on-Airport Hotel are payable prior to payment of principal of and interest on the Hotel Special Facility Bonds. The 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). 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, 2022, the Airport Commission had $260 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. As of June 30, 2022, the outstanding balance was $105.3 million.

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 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, 2022, the Airport's derivative instrument comprised of one interest rate swap that the Airport entered into to hedge the interest payments on its Second Series Variable Rate Revenue Refunding Bonds, Series 2010A. The Airport determined the hedging relationship between the variable rate bonds and the related interest rate swap continued to be effective as of June 30, 2022. The following table is in thousands:

No.	Current bonds		Initial notional amount	Notional amount June 30, 2022	Effective date
1	2010A*	$	143,947	119,730	2/1/2010
	Total	$	143,947	119,730	

* 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 the 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 swap 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. 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, 2022, the fair value of the Airport's outstanding swap, counterparty credit ratings, and fixed rate payable by the Airport Commission is shown in the following table (in thousands). Since the 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 Senior Unsecured Rating, 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**	Goldman Sachs Bank USA/ Goldman Sachs Group, Inc.	BBB+/A2/A*	3.925%	$	(10,192)
		Total			$	(10,192)

* Reflects ratings of the guarantor.
** Hedges Series 2010A-1 and 2010A-2

Fair Value Hierarchy

The following table is in thousands:

		Fair value June 30, 2022	Fair value measurements using significant other observable inputs (Level 2)
Interest rate swaps	$	(10,192)	(10,192)

Change in Fair Value

The impact of the interest rate swaps on the financial statements for the year ended June 30, 2022 is as follows (in thousands):

		Deferred outflows on derivative instruments	Derivative instruments
Balance as of June 30, 2021	$	21,374	21,374
Change in fair value to year-end		(11,182)	(11,182)
Balance as of June 30, 2022	$	10,192	10,192

The fair value of the interest rate swap 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). Any 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, 2022.

Basis Risk – During the fiscal year ended June 30, 2022, the Airport paid a total of $0.3 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, 2022, 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, 2022, the fair value of the Airport's swaps was negative to the Airport (representing an amount payable by the Airport to each counterparty in the event the relevant swap was terminated).

Termination Risk – The Airport has not secured municipal swap insurance for its outstanding swap.

As of June 30, 2022, the fair value of the swap was negative to the Airport as shown above.

(g) Debt Service Reserves and Requirements

Issue 1 Reserve Account

As of June 30, 2022, the reserve requirement for the Issue 1 Reserve Account was $535.0 million, which was satisfied by $536.3 million of cash and investment securities, and reserve fund surety policies in the initial principal amount of $108.6 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, $27.5 million of such surety policies have likely experienced a reduction in value in accordance with their terms.

2017 Reserve Account

As of June 30, 2022, the reserve requirement for the 2017 Reserve Account was $41.6 million, which was satisfied by $56.6 million in cash and investment securities.

Series Not Secured by Reserve Accounts

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

Debt Service Requirements

Revenue bond debt service requirements to maturity as of June 30, 2022, are as follows (in thousands):

		Principal	Interest	Total
Fiscal year:				
2023	$	7,490	383,901	391,391
2024		116,655	383,626	500,281
2025		163,605	378,042	541,647
2026		203,400	370,261	573,661
2027		209,310	360,598	569,908
2028–2032		793,865	1,672,746	2,466,611
2033–2037		917,225	1,482,537	2,399,762
2038–2042		1,551,000	1,208,301	2,759,301
2043–2047		1,998,100	781,696	2,779,796
2048–2052		2,046,215	259,601	2,305,816
2053–2057		75,530	10,287	85,817
2058–2059		16,880	549	17,429
Total	$	8,099,275	7,292,145	15,391,420

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

		Principal	Interest	Total
Fiscal year:				
2023	$	119,745	383,676	503,421
2024		106,620	379,220	485,840
2025		153,085	374,029	527,114
2026		330,560	367,080	697,640
2027		329,450	352,614	682,064
2028–2032		721,205	1,623,418	2,344,623
2033–2037		895,715	1,440,487	2,336,202
2038–2042		1,513,040	1,170,737	2,683,777
2043–2047		1,946,230	751,323	2,697,553
2048–2052		1,983,625	238,320	2,221,945
Total	$	8,099,275	7,080,904	15,180,179

(h) Cash Defeasance of Bonds

On June 28, 2022, the Airport legally defeased $30.6 million of its Series 2019H Bonds, using moneys previously deposited by the Commission in the Debt Service Fund.

(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, the "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, the "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, 2022, the final maturities of the obligations secured by the Net Revenues are Senior Bonds that mature in fiscal year 2059.

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

Operation and Maintenance Expenses are defined in the 1991 Master Bond Resolution and the 1997 Note Resolution to include all expenses of the Commission incurred for the operation and maintenance of the Airport, as determined in accordance with GAAP. Operation and Maintenance Expenses do not include: (a) the principal of, premium, if any, or interest on the Senior Bonds or Subordinate Bonds (including Commercial Paper Notes); (b) any allowance for amortization, depreciation or obsolescence of the Airport; (c) any expense for which, or to the extent to which, the Commission will be paid or reimbursed from or through any source that is not included or includable as Revenues; (d) any extraordinary items arising from the early extinguishment of debt; (e) Annual Service Payments to the City; (f) any costs, or charges made therefore, 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. Operation 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.

For fiscal year 2022, the calculation of Net Revenues excluded $175.1 million of revenue from the federal Coronavirus Aid, Relief and Economic Security (CARES) Act, Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), and American Rescue Plan Act (ARPA) grant reimbursements received by the Airport, which are not includable as revenue, and excluded $175.1 million of operating expenses that were reimbursed using the CARES, CRRSAA, and ARPA grant funds.

		2022
Bonds issued with revenue pledge	$	732,820
Bond principal and interest remaining due at the end of the fiscal year		15,391,420
Commercial paper issued with subordinate revenue pledge		167,960
Commercial paper principal and interest remaining due at the end of the fiscal year		86,047
Net revenues		429,280
Bond principal and interest paid in the fiscal year		336,597
Commercial paper principal, interest and fees paid in the fiscal year		4,383

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 Amended and Restated 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 2025.

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

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

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

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

The Commission entered into a Fuel System Lease dated as of September 1, 1997, 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 $105.3 million as of June 30, 2022. 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) Leases

Airport as Lessor

As a lessor, the Airport leases terminal space (except for regulated leases), non-terminal buildings, and land to tenants under various operating leases, a majority of which are non-cancellable and terminate at various dates as late as 2053. In total, the Airport recognized lease revenue of $44.3 million and interest revenue of $4.0 million for the year end June 30, 2022, related to these leases.

Certain provisions of the Airport's leases provide for variable rental payments that are not included in the measurement of the lease receivable. Certain rental agreements with concessionaires specify that rental payments are to be based on a percentage of tenant sales, but no less than a fixed minimum amount. Concession percentage rents in excess of minimum guarantees (to the extent applicable) for the leases subject to GASB 87 were approximately $2.6 million for the year-ended June 30, 2022.

Additionally, several leases include terms that allow for an adjustment of the rents to market at determined intervals and at least upon renewal. As a result, variable rent revenue is recognized for the rent increases due to CPI adjustments. During fiscal year 2022, the Airport recognized $0.9 million in total variable lease revenue.

Information about lease revenues and interest revenues recognized during the year ended June 30, 2022, is presented below (in thousands):

		Principal	Interest	Total
Buildings	$	41,115	4,012	45,127
Land		3,176	24	3,200
Total Revenue	$	44,291	4,036	48,327

Below is a schedule of future principal and interest payments that are included in the measurement of the lease receivable, for each of the five subsequent fiscal years and in five-year increments thereafter as of June 30, 2022 (in thousands):

Fiscal Year(s)	Fiscal Year Ending	Principal	Interest	Total
2023	6/30/2023	$ 47,213	4,150	51,363
2024	6/30/2024	36,474	3,665	40,139
2025	6/30/2025	33,272	3,214	36,486
2026	6/30/2026	30,132	2,777	32,909
2027	6/30/2027	28,371	2,353	30,724
2028 - 2032	6/30/2032	72,453	6,739	79,192
2033 - 2037	6/30/2037	8,023	4,477	12,500
2038 - 2042	6/30/2042	9,045	3,455	12,500
2043 - 2047	6/30/2047	10,197	2,303	12,500
2048 - 2052	6/30/2052	11,496	1,004	12,500
2053 - 2057	6/30/2057	2,408	29	2,437
		$ 289,084	34,166	323,250

Regulated Leases

Certain regulated leases are subject to external laws, regulations or legal rulings and are exempted from the GASB 87 recognition, subject to the conditions that (a) lease rates cannot exceed a reasonable amount, (b) lease rates should be similar for similar situated lessees, and (c) the lessor cannot deny potential lessees if facilities are available.

Such regulated leases at the Airport include (a) the Lease and Use Agreements with certain airlines regarding the use of terminal building and equipment on an exclusive or preferential use basis, among other uses, which are scheduled to expire on June 30, 2023, and (b) non-terminal aeronautical buildings and land leases. Based on the airlines' operation needs, an airline may lease terminal space such as office space, ticket counter space, baggage makeup space, baggage claim space, and other operation spaces on a combination of exclusive, preferential, and common use basis. The Commission provides holdrooms on a preferential or common use basis to the airlines and adjusts the preferential assignment from time to time pursuant to the Lease and Use Agreements. For the fiscal year ending June 30, 2022, United Airlines accounted for 47.2 percent of total enplaned passengers at the Airport, followed by Alaska Airlines (12.5%), Delta Air Lines (9.3%) and American Airlines (8.1%), with no other airlines account for more than 5 percent of enplaned passengers. Non-terminal building and lands are leased on an exclusive basis.

The payments under the Lease and Use Agreements are recalculated at the end of each fiscal year and therefore are variable payments. Total inflow of resources for regulated leases during fiscal year ending June 30, 2022, was $154.3 million, including approximately $44.7 million of fixed payments and $109.6 million of variable payments.

Below is a summary of the total number of regulated leases for fiscal year 2022, including which assets are subject to preferential or exclusive use by counterparties:

	# of Leases
AULA (a)	
Preferential and exclusive rental	7
Exclusive rental only	28
Non-space rental, only common use	3
Subtotal - AULA	38
Other Regulated (b)	8
Total	46

Notes:
(a) Airline-airport use and lease agreements
(b) Includes cargo, fuel, fixed-base facility leases, hangar leases, and ground leases

Lease revenues and interest revenues recognized during the year ended June 30, 2022 for regulated leases is presented below (in thousands):

Expected Minimum Payments (a)	$	44,125
Additional Fixed Payments (b)		615
Total Fixed Payments		44,740
Additional Exclusive Use Payments (c)		129,660
Additional Preferential Use Payments (d)		56,523
Year-end True-ups		(76,577)
Total Regulated Lease Payments	$	154,346

Notes:
(a) Doesn't include airline use and lease agreements, which are recalculated annually and considered variable payments

(b) Includes additional rent above the expected minimum payments after adjusmet by CPI and reappraisals

(c) Includes AULA exclusive use rental revenues, other regulated leases that were charged by airport's rates and charges rate, and percentage fee revenues above MAG

(d) Includes AULA preferential use rental revenues

Below is a schedule of expected future minimum payments under these agreements for each of the subsequent five years and in five-year increments thereafter (in thousands):

	Expected Minimum Payments (a)
FY 2023	$ 45,277
FY 2024	19,286
FY 2025	18,092
FY 2026	5,462
FY 2027	1,644
FY 2028-2032	8,221
FY 2033-2037	8,221
FY 2038-2042	8,221
FY 2043-2047	7,810
Total	$ 122,234

Note:
(a) Doesn't include airline use and lease agreements, which are recalculated annually and considered variable payments

Airport as Lessee

As a lessee, the Airport has entered into one lease agreement for the land and building located at 837 Malcolm Rd, Burlingame, CA. The total lease asset and related accumulated amortization at June 30, 2022 was as follows (in thousands):

Lease Asset	$ 671
Accumulated Amortization	(278)
	$ 393

The future principal and interest payments as of June 30, 2022, are as follows (in thousands):

Fiscal Year	Fiscal Year Ending	Principal	Interest	Total
2023	6/30/2023	$ 139	3	142
2024	6/30/2024	145	2	147
2025	6/30/2025	125	1	126
		$ 409	6	415

(10) Employee Benefit Plans

(a) San Francisco City and County Employee's Retirement System Plan

The San Francisco City and County Employees' Retirement System (Retirement System) administers a cost-sharing multiple-employer defined benefit pension Plan (SFERS Plan). For purposes of measuring the net pension liability/(asset), deferred outflows/inflows of resources related to pensions, pension expense, information about the fiduciary net position of the SFERS Plan, and additions to/deductions from the SFERS Plan's fiduciary net position have been determined on the same basis as they are reported by the SFERS Plan. Contributions are recognized in the period in which they are due pursuant to legal requirements. 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.

Replacement Benefits Plan

The Replacement Benefits Plan (RBP) is a qualified excess benefit plan established in October 1989. Internal Revenue Code Section 415(m) provides for excess benefit arrangements that legally permit benefit payments above the Section 415 limits, provided that the payments are not paid from the SFERS Plan. The RBP allows the City to pay SFERS retirees any portion of the Charter-mandated retirement allowance that exceeds the annual Section 415(b) limit. The RBP plan does not meet the criteria of a qualified trust under GASB Statement No. 73 because RBP assets are subject to the claims of the employer's general creditors under federal and state law in the event of insolvency.

GASB 68 and 73 requires that the SFERS Plan and RBP reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

	Fiscal year 2022
Valuation Date (VD)	June 30, 2020 updated to June 30, 2021
Measurement Date (MD)	June 30, 2021
Measurement Period (MP)	July 1, 2020 to June 30, 2021

SFERS Plan

The City is an employer of the plan with a proportionate share of 94.64% as of June 30, 2021 (measurement date), 0.25% increased from prior year. 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 2020-21. 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 6.50% as of the measurement date.

Replacement Benefits Plan

The Airport's allocation percentage was determined based on the Airport's headcount (both active members and retirees) divided by the City's total headcount for fiscal year 2020-21. The Airport's total 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 2.31% as of the measurement date.

SFERS 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 on the Retirement System's website or 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.

SFERS 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 (COLA) after retirement. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City and County. The four main categories of Plan members are:

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

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

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

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in CPI with increases capped at 2%. The Plan provides for a Supplemental COLA in years when there are sufficient “excess” investment earnings in the Plan. The maximum benefit adjustment each July 1 is 3.5% including the Basic COLA. Effective July 1, 2012, voters approved changes in the criteria for payment of the Supplemental COLA benefit, so that Supplemental COLAs would only be paid when the Plan is also fully funded on a market value of assets basis. Certain provisions 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

SFERS Plan

Contributions are made by both the City and other 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. 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, 2020 actuarial report, the required employer contribution rate for fiscal year 2021 range from 19.91% to 24.41%.

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, 2021 (measurement year) was $791.7 million. The Airport’s allocation of employer contributions for fiscal year 2020-21 was $52.6 million.

Replacement Benefits Plan

The RBP is and will remain unfunded and the rights of any participant and beneficiary are limited to those specified in the RBP. The RBP constitutes an unsecured promise by the City to make benefit payments in the future to the extent funded by the City. The City paid $4.1 million replacement benefits in the year ended June 30, 2022.

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

As of June 30, 2022, the City reported net pension assets (NPA) for its proportionate share of the net pension asset of the SFERS Plan and net pension liability of RBP of $2.23 billion. The City's net pension asset for the SFERS Plan is measured as the proportionate share of the net pension asset. The net pension asset of the SFERS Plan is measured as of June 30, 2021 (measurement date), and the total pension (asset)/liability for the SFERS Plan and RBP used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures. The City's proportion of the net pension (asset)/liability for the SFERS Plan 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 (asset)/liability for the SFERS Plan and RBP as of June 30, 2022 (reporting year) was $(153.9) million. The Airport's allocation of the total pension liability for the RBP as of June 30, 2022 was $5.1 million.

For the year ended June 30, 2022, the City's recognized pension (benefit) was $923.0 million including amortization of deferred outflows/inflows related pension items. The Airport's allocation of pension (benefit) including amortization of deferred outflows/inflows related pension items was $(68.1) million. Pension (benefit) increased from the prior year, largely due to the amortization of deferrals. At June 30, 2022, the Airport's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following source (in thousands).

Schedule of Deferred Inflows and Outflows

	SFERS Plan		Replacement Benefits Plan	
	Deferred outflows of resources	Deferred inflows of resources	Deferred outflows of resources	Deferred inflows of resources
Changes of assumptions	$ 10,754	27,906	948	—
Net difference between projected and actual earnings on pension plan investments	—	345,309	—	—
Change in proportionate share	7,626	5,112	69	1,955
Difference between expected and actual experience	14,597	521	691	—
Pension contributions subsequent to the measurement date	47,401	—	—	—
Total	$ 80,378	378,848	1,708	1,955

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):

		SFERS Plan	Replacement Benefits Plan
		Deferred outflows/ (inflows) of resources	Deferred outflows/ (inflows) of resources
Fiscal year:			
2023	$	(88,262)	130
2024		(81,150)	32
2025		(81,774)	(123)
2026		(94,685)	(286)
Total	$	(345,871)	(247)

Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability for both SFERS Plan and RBP as of June 30, 2021 (measurement year) is provided below, including any assumptions that differ from those used in the July 1, 2020 actuarial valuation. Refer to the July 1, 2020 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website http://mysfers.org.

	SFERS Plan
Key actuarial assumptions:	
Valuation date	June 30, 2020 updated to June 30, 2021
Measurement date	June 30, 2021
Actuarial cost method	Entry-Age Normal Cost Method
Expected rate of return	7.40% net of pension plan investment, including inflation
Municipal bond yield	2.21% as of June 30, 2020
	2.16% as of June 30, 2021
	Bond Buyer 20-Bond GO Index, June 25, 2020 and June 24, 2021
Inflation	2.50 %
Projected salary increases	3.25% plus merit component based on employee classification and years of service
Discount rate	7.40% as of June 30, 2020
	7.40% as of June 30, 2021
Administrative expenses	0.60% of payroll as of June 30, 2020
	0.60% of payroll as of June 30, 2021

(Continued)

	Old Miscellaneous and all New Plans	Old Police & Fire pre July 1, 1975 Retirements	Old Police & Fire, Charters A8.595 and A8.596	Old Police & Fire, Charters A8.559 and A8.585
Basic COLA:				
June 30, 2021	2.00 %	1.90 %	2.50 %	3.60 %

	Replacement Benefit Plan
Key actuarial assumptions:	
Valuation date	June 30, 2020 updated to June 30, 2021
Measurement date	June 30, 2021
Actuarial cost method	Entry-Age Normal Cost Method
Municipal bond yield	2.16% as of June 30, 2021
	Bond Buyer 20-Bond GO Index, June 25, 2020 and June 24, 2021
Inflation	2.50 %
Projected salary increases	3.25% plus merit component based on employee classification and years of service
Discount rate	2.16% as of June 30, 2021
Administrative expenses	0.60% of payroll as of June 30, 2021

	Old Miscellaneous	Old Police & Fire	Old Police & Fire Charters	Old Police & Fire Charters
Basic COLA:				
June 30, 2021	2.00 %	1.90 %	2.50 %	3.60 %

SFERS Plan

Mortality rates for health Miscellaneous members were based upon adjusted PubG-2010 Employee and Retiree tables for non-annuitants and retirees, respectively. Mortality rates were then projected generationally from the base year using the MP-2019 projection scale.

The actuarial assumptions used at the June 30, 2021, measurement date was based upon the result of a demographic experience study for the period July 1, 2014 through June 30, 2019 and an economic experience study as of July 1, 2020.

Discount Rate

SFERS Plan

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 7.40% as of June 30, 2020 (measurement date) and June 30, 2021 (measurement date).

The discount rate used to measure the Total Pension Liability as of June 30, 2021 was 7.40%. 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, 2020 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. The full amortization payment for the 2015 assumption changes is phased in over a period of 5 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 3.25% 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 funding 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 (Post 97 Retirees), 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 Retirement System for certain members, an assumption was developed as of June 30, 2021 for the probability and amount of Supplemental COLA for each future year. A full Supplemental COLA will be paid to all retired members, and their beneficiaries, who were retired effective July 1, 2021. The table below shows the net assumed Supplemental COLA for members with a 2.00% Basic COLA for sample years.

Assumed Supplemental COLA for Members with a 2.00% Basic COLA

	1996 – Prop C	Before November 6, 1996 or after Prop C
Fiscal year:		
2023	0.75 %	0.70 %
2025	0.75	0.70
2027	0.75	0.60
2029	0.75	0.60
2031	0.75	0.60
2033+	0.75	0.50

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 Retirement System’s fiduciary net position was projected to be available to make projected future benefit payments for current members for all future years. Projected benefit payments are discounted at the long-term expected return on assets of 7.40% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 2.16% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2021 is 7.40%.

The long-term expected rate of return on pension plan investments was 7.40%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

Asset class	Target allocation	Long-term expected real rate of return
Global equity	37.0%	4.2 %
Treasuries	8.0%	—
Liquid credit	5.0%	2.3
Private credit	10.0%	5.1
Private equity	23.0%	7.9
Real assets	10.0%	5.1
Hedge funds/absolute return	10.0%	2.9
Leverage	-3.0%	0.1
	100.0%	

Replacement Benefits Plan

The beginning and end of year measurements are based on different assumptions that result in different discount rates. The discount rate was 2.16% as of June 30, 2021. This reflects the yield for a 20-year, tax-exempt general obligation municipal bond with an average rating of AA/Aa or higher. The Municipal Bond Yields are the Bond Buyer 20-Year GO Index as of June 25, 2020 and June 24, 2021. These are the rates used to determine the total pension liability as of June 30, 2021.

The inflation assumption of 2.50% compounded annually was used for projecting the annual IRC Section 415(b) limitations. However, the actual IRC Section 415(b) limitations published by the IRS of $230 for 2021 was used for the 2021 measurement date.

The SFERS assumptions about Basic and Supplemental COLA previously discussed also apply to the Replacement Benefits Plan, including the impact of the State Appeals Court determination that the full funding requirement for payment of Supplemental COLA included in Proposition C was unconstitutional and the impact is accounted for as a change in benefits.

On June 30, 2022, City’s membership in the RBP had a total of 350 active members and 135 retirees and beneficiaries currently receiving benefits. The Airport has 10 active members and 1 retirees and beneficiaries currently receiving benefits.

Sensitivity of Proportionate Share of the Net Pension Liability/(Asset) to Changes in the Discount Rate

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

Employer		1% decrease share of NPL @ 6.40%	Share of NPL/(NPA) @ 7.40%	1% increase share of NPL/(NPA) @ 8.40%
Airport	$	105,937	(158,953)	(377,641)

The following presents the Airport's allocation of the employer's proportionate share of the total pension liability for the Replacement Benefits 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):

Employer		1% decrease @ 1.16%	Measurement Date @ 2.16%	1% increase @ 3.16%
Airport	$	6,125	5,081	4,273

(b) Other Postemployment Benefits (OPEB)

The Airport participates in a single-employer defined benefit other postemployment benefits plan (the Plan). The Plan is maintained by the City and is administered through the City's Health Service System. It provides postemployment medical, dental and vision insurance benefits to eligible employees, retired employees, surviving spouses, and domestic partners. Health benefit provisions are established and may be amended through negotiations between the City and the respective bargaining units. The City does not issue a separate report on its other postemployment benefit plan.

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 2022	
Valuation Date (VD)	June 30, 2020, updated to June 30, 2021
Measurement Date (MD)	June 30, 2021
Measurement Period (MP)	July 1, 2020 to June 30, 2021

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, 2021. 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 6.81% as of the measurement date.

Benefits

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

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

[1] 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.

[2] No service requirement for Safety members retiring under the industrial disability benefit or for surviving spouses / domestic partners of those killed in the line of duty.

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 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, 2022, the City's funding was based on "pay-as-you-go" plus a contribution of $41.8 million to the Retiree Healthcare Trust Fund. The "pay-as-you-go" portion paid by the City was $211.0 million for a total contribution of $253.0 million for the fiscal year ended June 30, 2022. The Airport's proportionate share of the City's contributions for fiscal year 2021 - 2022 was $17.2 million.

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

As of June 30, 2022, 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, 2022 was $251.4 million.

For the year ended June 30, 2022, the City's recognized OPEB expense was $272.0 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 $20.9 million.

As of June 30, 2022, 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):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 17,220	—
Differences between expected and actual experience	7,552	38,705
Changes in assumptions	10,624	—
Net difference between projected and actual earnings on plan investments	—	4,758
Change in proportion	287	7,175
Total	$ 35,683	50,638

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:		
2023	$	(6,983)
2024		(7,002)
2025		(6,935)
2026		(4,415)
2027		(5,101)
Thereafter		(1,739)
Total	$	(32,175)

Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the Total OPEB Liability as of June 30, 2021 (measurement date) is provided below:

Key actuarial assumptions:	
Valuation Date	June 30, 2020, updated to June 30, 2021
Measurement Date	June 30, 2021
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 6.74%, trending down to ultimate rate of 4.04% in 2075
	Medicare trend starts at 7.24%, trending down to ultimate rate of 4.04% in 2075
	10-County average trend starts at 5.50%, trending down to ultimate rate of 4.04% in 2075
	Vision and expenses trend remains a flat 3.00% for all years
Expected Rate of Return on Plan Assets	7.00%
Salary Increase Rate	Wage Inflation Component: 3.25%
	Additional Merit Component (dependent on years of service):
	Police: 0.50% - 7.50%
	Fire: 0.50% - 14.00%
	Muni Drivers: 0.00% - 16.00%
	Craft: 0.50% - 3.75%
	Misc: 0.30% - 5.50%
Inflation Rate	Wage Inflation: 3.25% compounded annually
	Consumer Price Inflation: 2.50% 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, 2019.

Non-Annuitants:		Adjustment Factor	
	Published Table	Male	Female
Miscellaneous	PubG-2010 Employee	0.834	0.866
Safety	PubS-2010 Employee	1.011	0.979

Healthy Retirees:		Adjustment Factor	
	Published Table	Male	Female
Miscellaneous	PubG-2010 Employee	1.031	0.977
Safety	PubS-2010 Employee	0.947	1.044

Disabled Retirees:		Adjustment Factor	
	Published Table	Male	Female
Miscellaneous	PubG-2010 Employee	1.045	1.003
Safety	PubS-2010 Employee	0.916	0.995

Beneficiaries:		Adjustment Factor	
	Published Table	Male	Female
Miscellaneous	PubG-2010 Employee	1.031	0.977
Safety	PubG-2010 Employee	1.031	0.977

The mortality rates in the base tables are projected generationally from the base year using the MP-2019 projection scale.

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):

1% Decrease	**Healthcare Trend**	**1% Increase**
$ 213,958	251,367	298,001

Discount Rate

The discount rate used to measure the Total OPEB Liability as of June 30, 2021 was 7.0%. 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 7.0% 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 and best estimates of geometric real rates of return are summarized in the following table:

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):

	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
$	293,936	251,367	216,598

The City issues a publicly available financial report that includes the complete note disclosures and required supplementary information related to the City's postemployment health care obligations. The report may be obtained by writing to the City and County of San Francisco, Office of the Controller, 1 Dr. Carlton B. Goodlett Place, Room 316, San Francisco, California 94102, or by calling (415) 554-7500.

(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. The cost of all services provided to the Airport through the City's work order system totaled approximately $186.2 million. These services include $57.1 million in utilities provided to tenants (see note 2m) and the Airport. Included in personnel operating expenses are approximately $92.9 million related to police and fire services and $4.2 million in worker's compensation claims. The remaining expenses are categorized as Repairs and Maintenance or capitalized with construction projects.

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 payment to the City was $37.9 million in fiscal year 2022. The annual service payments are reported as transfers in the statements of revenues, expenses, and changes in net position.

(Continued)

(12) Passenger Facility Charges

As of June 30, 2022, the FAA has approved several Airport applications to collect and use PFCs (from PFC #2 to PFC #9) in a total cumulative collection amount of $2.3 billion and the cumulative use amount of $2.3 billion, with a final charge expiration date estimated to be December 1, 2030. During the fiscal years ended from June 30, 2013 to June 30, 2022, the following changes occurred to the Airport's PFC collection authorizations.

In October 2013, the FAA approved the Airport's fifth PFC 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. 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 impose and use authority by $131.2 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. The Airport worked with the FAA to change the expiration date for PFC #3 and the charge effective date for PFC #5 from January 1, 2017 to November 1, 2013, because PFC #3 was fully collected earlier than originally anticipated due to increased passenger levels.

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

In May 2017, the FAA approved the Airport's seventh PFC application (PFC #7) for $319.7 million to pay for debt service associated with the AirTrain Extension and Improvements Project at the Airport. FAA estimates 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 impose and use authority for a new total PFC #6 authority of $217.1 million.

In October 2018, the FAA approved the Airport's eighth PFC Application (PFC #8), which combined PFC #6, as amended, and PFC #7, for a new combined total of $536.8 million of impose and use authority. The estimated charge expiration date is March 1, 2029. PFC #6 and PFC #7 were closed, and the projects and collections in those applications were transferred to PFC #8.

In October 2019, the FAA accepted the closeout documents, as amended, and closed PFC #3. This application was authorized to impose and use $609.1 million of PFC revenue on the Boarding Areas A and G and International Terminal Building Projects. The Commission certified that all collections were identified as received and expended on the approved projects, in accordance with the Acknowledgement Letter and any subsequent amendments to the Acknowledgement Letter.

In January 2021, the FAA approved the Airport's ninth PFC Application (PFC #9) with a total impose and use authority of $208.6 million. The estimated charge expiration date is December 1, 2030. The PFC revenues will be used to pay principal and interest on bonds issued for certain eligible costs associated with the Design and Construction of Interim Boarding Area B at the Airport.

(Continued)

PFC collections and related interest earned for the year ended June 30, 2022, are as follows (in thousands):

Amount collected	$	72,804
Interest earned		(11,945)
Total	$	60,859

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, 2022, are as follows (in thousands):

Construction	$	39,407
Operating		51,371
Total	$	90,778

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 2022, the Airport disbursed approximately $6.7 million in the new phase of the program ($3.7 million in federal grants and $3.0 million in Airport funds). As of June 30, 2022, the cumulative disbursements of Airport funds under this program were approximately $129.0 million.

(b) Security Deposits

Each Signatory Airline is required to post security with the Commission to guaranty its performance and payment. Such security generally consists of a surety bond or a letter of credit in an amount equal to two months of terminal area rentals, landing fees, and usage fees. Other forms of security deposit acceptable to the Commission, such as cash deposits, have on occasion been accepted in very limited amounts and circumstances, such as in the instance of an airline bankruptcy where other forms of security deposit are temporarily unavailable. Airlines operating at the Airport pursuant to 30-day permits are required to post security bonds or letters of credit in an amount equal to six months of its estimated rentals and fees under such agreements.

(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 liabilities and defense costs. Only those potential liabilities not covered by insurance are included in the financial statements; they have been estimated and reported 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 aviation 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 and business interruption coverage up to a $100.0 million pooled 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 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, cyber liability, and watercraft liability for Airport fire and rescue vessels, 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, 2021	$	58
Claim payments		(19)
Claims and changes in estimates		2,119
Balance as of June 30, 2022	$	2,158

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, 2021	$	10,328
Claim payments		(4,159)
Claims and changes in estimates		5,924
Balance as of June 30, 2022	$	12,093

(e) Grants

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

(f) Financial Guarantees

The Airport participates in the City and County of San Francisco's contractor development program, previously referred to as the 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, 2022.

(g) Concentration of Credit Risk

The Airport leases facilities to the airlines pursuant to the Lease and Use Agreement (see note 2i) and to other businesses to operate concessions at the Airport. For fiscal year ended June 30, 2022, revenues realized from the following source exceeded 5% of the Airport's total operating revenues:

United Airlines	28.4 %

(h) Per- and Polyfluoroalkyl Substances (PFAS)

For its aircraft rescue and firefighting vehicles and fire suppression operating systems, the Airport uses Aqueous Film Forming Foam that contains Per- and Polyfluoroalkyl Substances (PFAS), as required by the FAA. PFAS are a group of more than 3,000 synthetic chemicals. The U.S. Environmental Protection Agency (EPA) determined that, due to the widespread use and persistence in the environment of PFAS, most people in the United States have been exposed to PFAS. The EPA also found evidence that continued exposure to certain PFAS above specified levels may lead to adverse health effects.

On March 20, 2019, the California State Water Resources Control Board (the "State Board") issued an order pursuant to California Water Code Section 13267, for the Determination of the Presence of PFAS to all airports in California (the "Order"), including the Airport. The Order identifies the Airport as a facility that accepted, stored, or used materials that may contain PFAS. The Order requires the Airport to test soil, sediment, and groundwater for 23 types of PFAS. The Airport has completed the first two phases of sampling, which identified the presence of PFAS in soil, sediment, and groundwater at several locations at the Airport. Additional testing is underway and is expected to be complete by December 2022.

The State Board and the San Francisco Bay Regional Water Quality Control Board have not yet established cleanup standards for PFAS or otherwise indicated what actions will be required for PFAS found in soil, sediment, and groundwater exceeding the levels they specify. As of June 30, 2021, it is uncertain whether and to what extent the levels of PFAS discovered at the Airport will trigger a remediation obligation. It is possible that the ultimate costs of remediation and third-party liability for PFAS could be extensive.

(14) Subsequent Events

On July 20, 2022, S&P took several actions with respect to the Commission's Bonds. S&P raised its rating on the Commission's outstanding Bonds, except for Series 2022A/B/C (which are not rated by S&P) and the Variable Rate Demand Bonds Series 2010A, Series 2018B/C, from "A" to "A+. S&P also raised its joint support long-term rating and affirmed the short-term rating on the Commission's Bonds, Series 2018B/C from "AA/A-1" to "AA+/A-1." The unenhanced (underlying) rating was raised to "A+" from "A" and affirmed its respective joint support long-term rating and short-term rating of "AA+/A-1" on the Commission's Bonds, Series 2010A. The unenhanced (underlying) rating was raised to "A+" from "A."

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport), an enterprise fund of the City and County of San Francisco (the City), which comprise the Airport's statement of net position as of June 30, 2022, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 25, 2023.

Report on 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) as a basis for designing 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.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

KPMG LLP

San Francisco, California
January 25, 2023

PASSENGER FACILITY CHARGE PROGRAM AUDIT REPORT

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

Independent Auditors' Report on Compliance for Passenger Facility Charge Program; 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

Opinion on 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 identified as subject to audit 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, 2022. The Airport's passenger facility charge program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Airport complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Airport's passenger facility charge program for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of the Guide. Our responsibilities under those standards and the Guide are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Airport and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Airport's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Airport's passenger facility charge program.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Airport's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Airport's compliance with the requirements of the passenger facility charge program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Guide, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Airport's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Airport's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Airport's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

KPMG

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

KPMG LLP

San Francisco, California
January 25, 2023

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

Year ended June 30, 2022

(In thousands)

	Passenger Facility Charge revenues	Interest earned	Total revenues	Expenditures on approved projects	Revenues over (under) expenditures on approved projects
Program to date as of June 30, 2021	1,499,613	47,876	1,547,489	(1,123,240)	424,249
Fiscal year 2021 – 2022 transactions:					
Reversal passenger facility charges accrual	(8,496)	—	(8,496)	—	(8,496)
Quarter ended September 30, 2021	14,146	468	14,614	—	14,614
Quarter ended December 31, 2021	15,275	519	15,794	—	15,794
Quarter ended March 31, 2022	14,852	592	15,444	—	15,444
Quarter ended June 30, 2022	28,633	851	29,484	—	29,484
Unrealized loss on investments	—	(14,375)	(14,375)	—	(14,375)
Passenger facility charges accrual	8,394	—	8,394	—	8,394
Total fiscal year 2021 – 2022 transactions	72,804	(11,945)	60,859	—	60,859
Program to date as of June 30, 2022	$ 1,572,417	35,931	1,608,348	(1,123,240)	485,108

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

(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, 18-08-C-00-SFO and 21-09-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:

Application number	Level of PFCs authorized	Charge effective date for collection	Amounts approved for collection (in thousands)
02-02-C-00-SFO	$ 4.50	October 1, 2001	$ 224,035
03-03-C-01-SFO	4.50	November 1, 2005	609,108
11-05-C-01-SFO	4.50	November 1, 2013	741,745
18-08-C-00-SFO	4.50	October 1, 2024	536,799
21-09-C-00-SFO	4.50	March 1, 2029	208,629
Total			$ 2,320,316

(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, 2022

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