

File No. 140342

Committee Item No. 4

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Sub-Committee

Date April 23, 2014

Board of Supervisors Meeting

Date _____

Cmte Board

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| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Digest |
| <input type="checkbox"/> | <input type="checkbox"/> | Budget and Legislative Analyst Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Youth Commission Report |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Introduction Form |
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OTHER

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| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>Preliminary official statement</u> |
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| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>Bond Purchase Contract</u> |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>Second Supplement to Indenture</u> |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>Proof of Publication</u> |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>Port Commission Nos. 13-53 & 14-18</u> |
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Completed by: Linda Wong

Date April 11, 2014

Completed by: _____

Date _____

1 [Revenue Bonds Issuance - Port Commission - Certain Capital Improvements - Up to
2 \$30,000,000]

3 **Resolution authorizing the issuance of up to \$30,000,000 aggregate principal amount of**
4 **Port Revenue Bonds for the purpose of financing or refinancing certain capital**
5 **improvements related to the Port; approving the forms of documents relating thereto;**
6 **approving maximum interest thereon; approving the issuance of Tax-Exempt Bonds**
7 **(as defined herein) in accordance with Internal Revenue Code, Section 147(f), following**
8 **a public hearing held on December 18, 2013, with the Director of Public Finance; and**
9 **related matters.**

10
11 WHEREAS, Pursuant to City and County of San Francisco (the "City") Charter, Section
12 9.107(4), (the "Charter"), the Board of Supervisors (the "Board") of the City is authorized to
13 provide for the issuance of revenue bonds by the Port Commission of the City and County of
14 San Francisco (the "Port Commission") for any Port-related purpose and secured solely by
15 Port revenues, such revenue bonds to be issued and sold in accordance with State law or the
16 Port Commission of the City and County of San Francisco Revenue Bond Law, being San
17 Francisco Administrative Code, Chapter 43, Article XII, (the "Port Bond Ordinance"); and

18 WHEREAS, Pursuant to Resolution No. 173-13 adopted by this Board on June 4,
19 2013, and signed by the Mayor of the City on June 13, 2013, (the "Initial Board Resolution"),
20 this Board gave initial approval for the issuance of the Bonds described herein and the
21 issuance by the City of its commercial paper (the "Commercial Paper") in anticipation of the
22 repayment thereof from the proceeds of such Bonds; and

23 WHEREAS, The Port Commission, pursuant to the terms of Resolution No. 13-53,
24 adopted by the Port Commission on December 12, 2013, (the "Port Bond Resolution"), has
25 authorized the issuance of up to \$30,000,000 aggregate principal amount of its revenue

1 bonds (the "Bonds" or the "Port Revenue Bonds"), for the purpose of financing certain capital
2 improvements to properties and facilities under the jurisdiction of the Port as well as for the
3 payment of costs of issuance and other incidental costs therefor and has approved the forms
4 of various documents relating to the issuance, sale, and delivery of the Bonds (collectively,
5 the "Financing Documents," as further defined in Section 10 below); and

6 WHEREAS, The Port Commission, pursuant to the terms of Resolution No. 14-18,
7 adopted by the Port Commission on March 25, 2014, (the "Port Official Statement
8 Resolution"), has approved the form of an official statement and a continuing disclosure
9 certificate; and

10 WHEREAS, Interest on the portion of the Bonds (the "Tax-Exempt Bonds") financing
11 certain portions of the Project (the "Tax-Exempt Project") may qualify for tax exemption under
12 Internal Revenue Code of 1986, Section 103, as amended (the "Code") provided such Tax-
13 Exempt Bonds are approved in accordance with Section 147(f) of the Code; and

14 WHEREAS, The Tax-Exempt Project is located wholly within the City; and

15 WHEREAS, The Board of the City is the elected legislative body of the City and is one
16 of the applicable elected representatives required to approve the issue within the meaning of
17 Section 147(f) of the Code; and

18 WHEREAS, The Director of Public Finance of the City (the "Director of Public Finance")
19 held a public hearing at 9:00 a.m. on Wednesday, December 18, 2013, notice of which
20 hearing was published in a newspaper of general circulation in the City in accordance with
21 Section 147(f) of the Code, and an opportunity was provided for persons to comment on the
22 issuance of the Tax-Exempt Bonds and the plan of finance for the Tax-Exempt Project copy of
23 which is on file with the Clerk of the Board under File No. 104342; and

1 WHEREAS, The provisions of the Port Bond Resolution, the Port Official Statement
2 Resolution, and the Financing Documents do not conflict with the requirements of the Port
3 Bond Ordinance; now therefore, be it

4 RESOLVED by the Board of Supervisors of the City and County of San Francisco, as
5 follows:

6 Section 1. Recitals. All of the recitals herein are true and correct.

7 Section 2. Approval and Authorization of Revenue Bonds. The issuance by the Port
8 Commission of the Port Revenue Bonds for the purpose of financing or refinancing certain
9 capital improvements to properties and facilities under the jurisdiction of the Port as well as for
10 the payment of costs of issuance and other incidental costs therefor, is hereby approved as
11 required by Port Bond Ordinance, Section 43.12.5. The total principal amount of the Port
12 Revenue Bonds shall not exceed \$30,000,000.

13 The approval of the issuance of the Bonds contained herein shall also constitute
14 approval of the issuance of the Tax-Exempt Bonds pursuant to Section 147(f) of the Code.

15 Section 3. No Conflict with Port Bond Ordinance. The Port Revenue Bonds shall be
16 issued pursuant to the terms of the Financing Documents as each shall be approved by the
17 City Attorney, which approval shall be conclusively evidenced by the signature of the City
18 Attorney on each such agreement; provided, that the terms of the Financing Documents shall
19 not conflict with the requirements of the Port Bond Ordinance.

20 Section 4. Maximum Interest Rate. Pursuant to Port Bond Ordinance, Section
21 43.12.5(b), the maximum interest rate for the Port Revenue Bonds shall not exceed 12% per
22 annum.

23 Section 5. Approval of the Second Supplement to Indenture. The form of a second
24 supplement to indenture of trust (the "Second Supplement to Indenture") between the Port
25 Commission and U.S. Bank National Association, as trustee (collectively, the "Indenture"),

1 copies of which are on file with the Clerk of the Board under File No. 104342, is hereby
2 approved, with such changes, additions, and modifications as the Executive Director of the
3 Port Commission (the "Executive Director") may make or approve in accordance with Section
4 10 hereof.

5 Section 6. Approval of Bond Purchase Contract relating to the Bonds. The form of a
6 bond purchase contract (the "Bond Purchase Contract") between the Port Commission and
7 the underwriting firm or firms selected by the Port Commission, a copy of which is on file with
8 the Clerk of the Board under File No. 104342, is hereby approved, with such changes,
9 additions, and modifications as the Executive Director may make or approve in accordance
10 with Section 10 hereof.

11 Section 7. Approval of the Official Statement in Preliminary and Final Form. The form
12 of an official statement relating to the Bonds (the "Official Statement"), a copy of which is on
13 file in preliminary form with the Clerk of the Board under File No. 104342, is hereby approved,
14 with such changes, additions, and modifications as the Executive Director may make or
15 approve in accordance with Section 10 hereof.

16 Section 8. Approval of the Continuing Disclosure Certificate. The form of a continuing
17 disclosure certificate of the City (the "Continuing Disclosure Certificate"), a copy of which is on
18 file with the Clerk of the Board under File No. 104342, is hereby approved, with such changes,
19 additions, and modifications as the Executive Director may make or approve in accordance
20 with Section 10 hereof.

21 Section 9. Approval of Payment Instructions. The form of Payment Instructions of
22 the City providing for repayment of the Commercial Paper, a copy of which is on file with the
23 Clerk of the Board under File No. 104342, is hereby approved, and the Controller and the
24 Director of Public Finance of the City are each hereby authorized and directed to execute
25 such Payment Instructions, with such changes, additions, and modifications as the officer of

1 the City executing the same may make or approve, upon consultation with the City Attorney,
2 which approval shall be conclusively evidenced by the execution and delivery thereof.

3 Section 10. Modifications, Changes and Additions; Additional Agreements. The
4 approvals contained herein shall extend to any amendments to the Second Supplement to
5 Indenture, the Bond Purchase Contract, the Official Statement and the Continuing Disclosure
6 Certificate (collectively, the "Financing Documents") and all agreements of the Port
7 Commission supplemental thereto, as well as to such additional agreements as the Port
8 Commission may adopt or execute for the purpose of implementing the issuance, sale and
9 delivery of the Port Revenue Bonds. The Executive Director's approval of such modifications,
10 changes or additions, made upon consultation with the City Attorney, shall be conclusively
11 evidenced by the execution and delivery by the Executive Director of the Financing
12 Documents.

13 Section 11. General Authority. The Controller, the Director of Public Finance, the City
14 Attorney, and all other appropriate officers, employees, representatives and agents of the City
15 are hereby authorized and directed to do everything necessary or desirable to provide for the
16 issuance of the Port Revenue Bonds.

17
18 APPROVED AS TO FORM:

19 DENNIS J. HERRERA
20 City Attorney

21 By: 

22 Mark D. Blake
23 Deputy City Attorney

24 n:\financ\as2014\1300466\00918127.doc

ATTACHMENT 1
PRELIMINARY OFFICIAL STATEMENT DATED _____, 2014

New Issue – Book-Entry Only

Ratings: Moody's: "___"
S&P: "___"
Fitch: "___"
(See "RATINGS" herein)

In the opinion of Jones Hall, A Professional Law Corporation, and Schiff Hardin LLP, Co-Bond Counsel, subject, however, to certain qualifications described herein, under existing law, the interest on the Series 2014A Bonds is excluded from gross income for federal income tax purposes, except during any period while a Series 2014A Bond is held by a "substantial user" of the facilities financed by the Series 2014A Bonds or by a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986. It should be noted, however, that such interest is an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. The interest on the Series 2014B Bonds is not intended by the Port Commission to be excluded from gross income for federal income tax purposes. In the further opinion of Co-Bond Counsel, interest on the Series 2014 Bonds is, under existing law, exempt from personal income taxation imposed by the State of California. See "TAX MATTERS."

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

**[\$21,000,000]*
REVENUE BONDS
SERIES 2014A
(AMT TAX-EXEMPT)**

**[\$2,000,000]*
REVENUE BONDS
SERIES 2014B
(FEDERALLY TAXABLE)**

Dated: Date of Delivery

Due: March 1, as shown below

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014A (AMT Tax-Exempt) (the "Series 2014A Bonds") and Series 2014B (Federally Taxable) (the "Series 2014B Bonds," and together with the Series 2014A Bonds, the "Series 2014 Bonds"), are being issued by the Port Commission of the City and County of San Francisco (the "Port Commission") pursuant to the Charter of the City and County of San Francisco (the "City") and an Indenture of Trust dated as of February 1, 2010 (the "Master Indenture") between the Port Commission and U.S. Bank National Association (the "Trustee"), as successor trustee to Deutsche Bank National Trust Company, as amended and supplemented by the First Supplement to Indenture of Trust dated as of February 1, 2010 (the "First Supplemental Indenture") between the Port Commission and the Trustee, and the Second Supplement to Indenture of Trust dated as of March 1, 2014 (the "Second Supplemental Indenture" and, together with the Master Indenture and the First Supplemental Indenture, the "Indenture") between the Port Commission and the Trustee. The Series 2014 Bonds are being sold to provide funds to: (i) finance or refinance the planning, acquisition, design, construction, reconstruction, rehabilitation or improvements to various facilities of the Port of San Francisco (the "Port"), as described herein; (ii) refinance certain outstanding commercial paper of the City issued to finance certain Port projects and related commercial paper costs; (iii) fund the Reserve Accounts for the Series 2014 Bonds; and (iv) pay costs associated with the issuance of the Series 2014 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "THE SERIES 2014 PROJECTS."

Interest on the Series 2014 Bonds will be payable on March 1 and September 1 of each year commencing September 1, 2014 (each, an "Interest Payment Date"), until their respective stated maturity dates. The Trustee will pay interest to the person in whose name each Series 2014 Bond is registered in the registration books maintained by the Trustee as of the close of business on the fifteenth day of the month preceding each Interest Payment Date (the "Record Date"), whether or not such fifteenth day is a Business Day. The Series 2014 Bonds will be issued only as fully registered bonds without coupons and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), to which payments of principal of and interest on the Series 2014 Bonds will be made. Individual purchases of the Series 2014 Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Beneficial Owners of the Series 2014 Bonds will not receive physical delivery of bond certificates. Payment of principal of the Series 2014 Bonds at maturity, as shown in the Maturity Schedule set forth on the inside cover, and interest when due will be payable by the Trustee, as paying agent, to DTC. DTC will remit such principal and interest payments to its participants, which will be responsible for remittance to the Beneficial Owners of the Series 2014 Bonds. See Appendix E – "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

The Series 2014A Bonds are subject to optional and mandatory redemption prior to maturity as described herein. [The Series 2014B Bonds are not subject to redemption prior to maturity.] See "TERMS OF THE SERIES 2014 BONDS – Redemption Provisions."

The Series 2014 Bonds are special, limited obligations of the Port Commission secured by and payable solely from Net Revenue (as defined herein) of the Port Commission and from moneys held in certain funds and accounts established pursuant to the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS." The Series 2014 Bonds are not a debt or obligation of the City, the State of California (the "State") or any political subdivision thereof (other than the Port Commission payable solely from Net Revenue). Neither the credit nor the taxing power of the City, the State or any political subdivision thereof is pledged to pay the principal of and interest on the Series 2014 Bonds. No Holder of a Series 2014 Bond may compel the exercise of the taxing power of the City, the State or any political subdivision thereof to pay principal of the Series 2014 Bonds or the interest thereon. The Port Commission has no taxing power. The Series 2014 Bonds are not secured by a lien on any Port property (other than the Port's Net Revenue). See "CERTAIN RISK FACTORS."

MATURITY SCHEDULE

(See inside cover)

The Series 2014 Bonds are offered when, as, and if issued by the Port Commission and accepted by the Underwriters, subject to approval of legality by Jones Hall, A Professional Law Corporation, San Francisco, California, and Schiff Hardin LLP, San Francisco, California, Co-Bond Counsel. Certain legal matters will be passed upon for the Port Commission by Hawkins Delafield & Wood LLP, San Francisco, California, Disclosure Counsel, and the City Attorney of the City and County of San Francisco, and for the Underwriters by their counsel, Curls Bartling P.C., Oakland, California. It is expected that the Series 2014 Bonds will be available for delivery in book-entry form through the facilities of DTC in New York, New York, on or about _____, 2014.

Siebert Brandford Shank & Co., L.L.C.

Stifel

The date of this Official Statement is _____, 2014.

MATURITY SCHEDULE

Series 2014A Bonds
(AMT Tax-Exempt)
(Base CUSIP[†] Number: 797679)
\$ _____ Serial Bonds

<u>Maturity</u> <u>(March 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price / Yield</u>	<u>CUSIP[†] Suffix</u>
-------------------------------------	-----------------------------------	--------------------------------	----------------------	---------------------------------

\$ _____ % Term Bond Due March 1, 20__ Yield – ____ % Price – ____ CUSIP: 797679 ____

Series 2014B Bonds
(Federally Taxable)
(Base CUSIP[†] Number: 797679)
\$ _____ Serial Bonds

<u>Maturity</u> <u>(March 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price / Yield</u>	<u>CUSIP[†] Suffix</u>
-------------------------------------	-----------------------------------	--------------------------------	----------------------	---------------------------------

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2014 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

The information set forth herein has been obtained from the Port Commission, the City and other sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Port Commission or the City since the date hereof.

The City and the Port each maintain a website and issue from time to time a variety of reports and other information. The information presented on such websites and otherwise issued is *not* incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Series 2014 Bonds. Various other websites, reports and other information referred to in this Official Statement also are not incorporated herein by such references.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information and expression of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information provided herein since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2014 BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2014 BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

This Official Statement is not to be construed as a contract with the purchaser or purchasers of the Series 2014 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

FORWARD-LOOKING STATEMENTS

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND "FORWARD-LOOKING STATEMENTS." ALL FORWARD-LOOKING STATEMENTS ARE PREDICTIONS AND ARE SUBJECT TO KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES. NO ASSURANCE CAN BE GIVEN THAT THE FUTURE RESULTS DISCUSSED HEREIN WILL BE ACHIEVED, AND ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE FORECASTS DESCRIBED HEREIN. IN THIS RESPECT, THE WORDS "ESTIMATE," "PROJECT," "ANTICIPATE," "EXPECT," "INTEND," "BELIEVE" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. GIVEN THEIR UNCERTAINTY, INVESTORS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH STATEMENTS.

Port of San Francisco

[Map to come]

* The Series 2014 Bonds are not secured by a lien on any Port property (other than the Port's Net Revenue).

PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO

Leslie Katz, *President*
Willie Adams, *Vice President*
Kimberly K. Brandon, *Commissioner*
Mel Murphy, *Commissioner*
Doreen Woo Ho, *Commissioner*

Monique Moyer, *Executive Director*

THE CITY AND COUNTY OF SAN FRANCISCO

MAYOR

Edwin M. Lee

BOARD OF SUPERVISORS

David Chiu, *Board President, District 3*

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Mark Farrell, *District 2*
Katy Tang, *District 4*
London Breed, *District 5*
Jane Kim, *District 6*

Norman Yee, *District 7*
Scott Wiener, *District 8*
David Campos, *District 9*
Malia Cohen, *District 10*
John Avalos, *District 11*

CITY ATTORNEY

Dennis J. Herrera

CITY TREASURER

José Cisneros

OTHER CITY AND COUNTY OFFICIALS

Naomi M. Kelly, *City Administrator*
Benjamin Rosenfield, *Controller*

SPECIAL SERVICES

Co-Bond Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Schiff Hardin LLP,
San Francisco, California

Disclosure Counsel

Hawkins Delafield & Wood LLP,
San Francisco, California

Co-Financial Advisors

Public Financial Management, Inc.,
San Francisco, California

Backstrom McCarley Berry & Co. LLC,
San Francisco, California

Trustee

U.S. Bank National Association,
San Francisco, California

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OFFICIAL STATEMENT

PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO

**[\$21,000,000]*
REVENUE BONDS
SERIES 2014A
(AMT TAX-EXEMPT)**

**[\$2,000,000]*
REVENUE BONDS
SERIES 2014B
(FEDERALLY TAXABLE)**

INTRODUCTION

This Official Statement is furnished in connection with the offering of \$[21,000,000]* aggregate principal amount of the Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014A (AMT Tax-Exempt) (the "Series 2014A Bonds"), and \$[2,000,000]* aggregate principal amount of the Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014B (Federally Taxable) (the "Series 2014B Bonds" and, together with the Series 2014A Bonds, the "Series 2014 Bonds").

This Introduction is subject in all respects to the more complete information contained elsewhere in this Official Statement, including the Appendices attached hereto. Unless otherwise defined below, all capitalized terms used in this Official Statement shall have the meanings ascribed thereto in the Indenture (as defined below).

The Port of San Francisco

The Port of San Francisco (the "Port") consists of seven and one half miles of waterfront adjacent to San Francisco Bay from Hyde Street Pier in the north to India Basin in the south located in the City and County of San Francisco (the "City"). In 1969, the State of California (the "State") transferred the Port to the City to be held in trust for the people of the State. The Port is governed by the five-member Port Commission of the City and County of San Francisco (the "Port Commission") and is managed as a self-supporting enterprise department of the City. The term "Port Commission" is sometimes used in this Official Statement to refer to the Port as a legal entity and the term "Port" is sometimes used to refer to the enterprise governed by the Port Commission and its operations or to the Port Area (defined below) and the land and facilities therein; however, in each case the meaning of such terms depends upon the context in which used. The term "Port Area" is defined under the Indenture as all real and personal property owned, controlled or operated by the Port Commission, or over which the Port Commission has management, supervision or control, or is deemed by the Port Commission to be a benefit to the Port Area. See "CERTAIN RISK FACTORS – Burton Act and Transfer Agreement" and Appendix B – "SUMMARY OF THE BURTON ACT, TRANSFER AGREEMENT AND RELATED STATE REGULATION."

The Port's waterfront property comprises a natural harbor with channel and berth depths of up to 40 feet that can accommodate larger ships. The Port's revenue is derived primarily from leases of Port property to commercial, industrial and maritime enterprises and from maritime operations, including cargo, ship repair, fishing, harbor services, cruise and other maritime activities. The Port is different from most municipal seaport enterprises in that only a minority of its revenues (approximately 25%) is derived from maritime operations and a majority of its revenue (approximately 75%) is derived from real estate operations. **The Port Commission has no taxing power.** The Port's financial operations are included as a part of the City's budget and financial reporting but is separately accounted for as a City enterprise operation. Additional information concerning the Port's organization and finances is set forth herein under "THE PORT OF SAN FRANCISCO," "PORT FINANCIAL OPERATIONS" and in Appendix C – "THE PORT COMMISSION OF THE CITY

AND COUNTY OF SAN FRANCISCO – FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2013."

Authority for Issuance

The Series 2014 Bonds are being issued pursuant to Section 9.107 of the Charter of the City (the "Charter"), Chapter 43, Article XII ("Article XII") of the City and County of San Francisco Administrative Code (the "Administrative Code") and an Indenture of Trust, dated as of February 1, 2010 (the "Master Indenture"), between the Port Commission and U.S. Bank National Association (the "Trustee"), as successor trustee to Deutsche Bank National Trust Company, as amended and supplemented by a First Supplement to Indenture of Trust dated as of February 1, 2010 between the Port Commission and the Trustee (the "First Supplemental Indenture") and the Second Supplement to Indenture of Trust dated as of March 1, 2014 (the "Second Supplemental Indenture" and, together with the Master Indenture and the First Supplemental Indenture, the "Indenture"), and resolutions of the Port Commission adopted on December 12, 2013 and _____, 2014. The Board of Supervisors of the City and County of San Francisco (the "Board of Supervisors") approved the issuance of the Series 2014 Bonds by resolution adopted on _____, 2014.

Purpose

The Series 2014 Bonds are being sold to provide funds to: (i) finance or refinance the planning, acquisition, design, construction, reconstruction, rehabilitation or improvements to various facilities of the Port as described herein (see "THE SERIES 2014 PROJECTS"); (ii) refinance certain outstanding commercial paper of the City issued to finance certain Port projects and related commercial paper costs; (iii) fund the Reserve Accounts for the Series 2014 Bonds; and (iv) pay costs associated with the issuance of the Series 2014 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "THE SERIES 2014 PROJECTS."

Security and Sources of Payment for the Series 2014 Bonds

The Series 2014 Bonds are special, limited obligations of the Port Commission secured by and payable solely from Net Revenue (as defined herein) of the Port Commission and from moneys held in certain funds and accounts established pursuant to the Indenture. **The Series 2014 Bonds are not a debt or obligation of the City, the State or any political subdivision thereof (other than the Port Commission payable solely from Net Revenue). Neither the credit nor the taxing power of the City, the State or any political subdivision thereof is pledged to pay the principal of and interest on the Series 2014 Bonds. No Holder of a Series 2014 Bond may compel the exercise of the taxing power of the City, the State or any political subdivision thereof to pay principal of the Series 2014 Bonds or the interest thereon. The Port Commission has no taxing power. The Series 2014 Bonds are not secured by a lien on any Port property (other than the Port's Net Revenue).**

The Series 2014 Bonds are issued and secured pursuant to the terms of the Indenture. Under the Indenture, the Port Commission covenants that it will manage its business operations and establish and at all times maintain rentals, rates, fees and charges for the use of the Port Area and for services rendered by the Port Commission in connection with the Port Area so that Net Revenue in each Fiscal Year will be at least equal to 130% of Annual Debt Service with respect to the Bonds (as defined below) for such Fiscal Year. In determining Net Revenue pursuant to the provisions of the Indenture described in this paragraph, the Port Commission may take into account as a credit the amount on deposit in one or more funds of the Port Commission holding amounts designated by the Port Commission to be generally available to pay debt service on the Bonds and/or Operation and Maintenance Expenses (the "Revenue Stabilization Fund") on June 30 of each Fiscal Year; provided that the Port Commission shall maintain Coverage equal to at least 100% of Annual Debt Service without regard to any credit for any such amounts or deposits in the Revenue Stabilization Fund. The Port Commission has also covenanted in the Indenture to take certain specified actions in the event that Net Revenue falls below the required levels. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Covenant to Maintain Net Revenue."

Upon the issuance of the Series 2014 Bonds, the Port Commission will deposit \$ _____ into the following accounts in the Reserve Fund established under the Master Indenture: (i) the Series 2014A Reserve Account relating to the Series 2014A Bonds in the amount of \$ _____, and (ii) the Series 2014B Reserve Account relating to the Series 2014B Bonds in the amount of \$ _____. Moneys on deposit in the Series 2014A Reserve Account will be used and withdrawn for the purpose of paying principal of and interest on the Series 2014A Bonds in the event Net Revenue deposited with the Trustee is insufficient therefor. Moneys on deposit in the Series 2014B Reserve Account will be used and withdrawn for the purpose of paying principal of and interest on the Series 2014B Bonds in the event Net Revenue deposited with the Trustee is insufficient therefor. Amounts on deposit in the Series 2014A Reserve Account may not be used to pay debt service with respect to the Series 2014B Bonds, and amounts on deposit in the Series 2014B Reserve Account may not be used to pay debt service with respect to the Series 2014A Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Reserve Fund" and Appendix A – "SUMMARY OF THE LEGAL DOCUMENTS – THE MASTER INDENTURE – Funds – Reserve Fund" and "– SECOND SUPPLEMENT TO INDENTURE OF TRUST – Reserve Fund."

Pursuant to the Indenture, the Port Commission is permitted to issue additional bonds and to enter into additional obligations secured by Net Revenue on a parity with the payment of principal of and interest on the Series 2014 Bonds, provided that certain conditions are satisfied as described herein. The Indenture also permits the Port Commission to incur subordinate obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Additional Bonds and Other Obligations."

The Port Commission has previously issued \$36.65 million in aggregate principal amount of its Series 2010 Revenue Bonds (the "Series 2010 Bonds"), currently outstanding in the aggregate principal amount of \$34.075 million. The Series 2010 Bonds are payable solely from Net Revenue. Upon issuance of the Series 2014 Bonds, the Series 2014 Bonds will be on a parity with the Series 2010 Bonds. The Port may issue additional bonds payable from Net Revenue on a parity with the Series 2014 Bonds and the Series 2010 Bonds in the future (the Series 2010 Bonds, the Series 2014 Bonds and any additional bonds issued pursuant to the Indenture are collectively referred to as the "Bonds" under the Indenture). The Port Commission also has outstanding the following long-term obligations: (i) a \$3.5 million loan from the California Division of Boating and Waterways (now a division of the California State Parks); (ii) a \$1.14 million loan from the San Francisco Public Utilities Commission (the "SFPUC"); and (iii) payment obligations with respect to an aggregate principal amount of \$37.7 million certificates of participation executed and delivered by the City on behalf of the Port Commission. These obligations are all expressly subordinate to the Series 2014 Bonds and are not secured by any lien on Port revenues or property, except that certain marina revenues are pledged on a limited basis to the loan from the California Division of Boating and Waterways. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Additional Bonds and Other Obligations."

For more information regarding the security and sources of payment for the Series 2014 Bonds, see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS," "THE PORT OF SAN FRANCISCO," "PORT FINANCIAL OPERATIONS," "PORT REAL ESTATE OPERATIONS," "PORT MARITIME OPERATIONS" and "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY" herein. Audited financial information concerning the Port is set forth in Appendix C attached hereto. See "CERTAIN RISK FACTORS" for a discussion of certain risks related to an investment in the Series 2014 Bonds.

Debt Service Coverage

Under the Indenture, the Port Commission covenants that it will manage its business operations and establish and at all times maintain rentals, rates, fees and charges for the use of the Port Area and for services rendered by the Port Commission in connection with the Port Area so that Net Revenue in each Fiscal Year will be at least equal to 130% of Annual Debt Service with respect to the Bonds for such Fiscal Year. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Covenant to Maintain Net Revenue."

Historical Debt Service Coverage. The following table summarizes the historical debt service coverage for the Bonds. See "PORT FINANCIAL OPERATIONS – Historical Debt Service Coverage" for a more detailed discussion of the historical debt service coverage.

PORT OF SAN FRANCISCO
Historic Debt Service Coverage
For Fiscal Years Ended June 30,
(Amounts in Thousands)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Total Revenues	\$67,634	\$68,357	\$73,451	\$78,318	\$82,360
Total Operating Expenses	\$54,563	\$56,305	\$55,268	\$60,856	\$63,760
Net Revenue	\$ 13,071	\$12,052	\$18,183	\$17,462	\$18,600
Debt Service on Bonds	\$ 4,407	\$4,396	\$2,843	\$2,845	\$2,846
Bonds Debt Service Coverage (times)	2.97x	2.74x	6.40x	6.14x	6.54x

*Projected Debt Service Coverage.** The following table presents a summary of projected debt service coverage for the Bonds. Projections and assumptions are inherently subject to significant uncertainties and actual results may differ significantly from projected results. See "PORT FINANCIAL OPERATIONS – Projected Debt Service Coverage" for a detailed description of the assumptions used in the projections. See also "CERTAIN RISK FACTORS – Uncertainties of Projections and Assumptions; Forward Looking Statements."

PORT OF SAN FRANCISCO
Projected Debt Service Coverage
For Fiscal Years Ending June 30,
(Amounts in Thousands)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Revenues	\$83,066	\$87,988	\$92,935	\$97,046	\$99,447
Total Operating Expenses	\$63,881	\$66,599	\$68,949	\$70,950	\$73,266
Net Revenue	\$19,185	\$21,389	\$23,986	\$26,096	\$26,181
Total Bonds Debt Service	\$2,847	\$4,549	\$4,552	\$4,547	\$4,551
Projected Bonds Debt Service Coverage	6.74x	4.70x	5.27x	5.74x	5.75x

Continuing Disclosure and Additional Information

The Port Commission will covenant in a Continuing Disclosure Certificate, to be delivered concurrently with the issuance of the Series 2014 Bonds, to provide certain financial information and operating data relating to the Port Commission and notices of certain events. Such information and notices will be filed by the Port Commission with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") system. The Port Commission will act as Dissemination Agent under the Continuing Disclosure Certificate. In the last five years, the Port Commission has not failed to comply in all material respects with any previous undertakings with regard to Securities and Exchange Commission Rule 15c2-12(b)(5). For more information concerning the Port Commission's continuing disclosure commitment and the form of the Continuing Disclosure Certificate, see "CONTINUING DISCLOSURE" and Appendix D – "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Brief descriptions of the Series 2014 Bonds, the Indenture, the security and sources of payment for the Series 2014 Bonds, the Net Revenue, the Port Commission and related matters are included in this Official Statement, together with summaries of certain provisions of the Series 2014 Bonds, the Indenture and certain

other documents. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Indenture, the Series 2014 Bonds and other documents and instruments are qualified in their entirety by reference to such documents or instruments or the forms thereof, copies of which are available for inspection at the office of the Port Commission. The Port Commission regularly prepares a variety of reports, including audits, budgets and related documents, which may be obtained from the Port Commission. Additional information regarding such reports, the Indenture or other documents relating to the Series 2014 Bonds or this Official Statement may be obtained by contacting the Manager of Communications, Port of San Francisco, Pier 1, San Francisco, CA 94111; Telephone (415) 274-0400, Fax (415) 274-0412 or www.sfport.com. Information found on the website is not incorporated herein by reference. Copies of the Indenture are also available for inspection at the principal corporate trust office of the Trustee.

TERMS OF THE SERIES 2014 BONDS

General

The Series 2014 Bonds will be executed and delivered only as one fully-registered Bond for each maturity shown on the inside cover hereof. The Series 2014 Bonds will be delivered only in denominations of \$5,000 or an integral multiple thereof and interest on the Series 2014 Bonds will be payable on each March 1 and September 1, commencing September 1, 2014, so long as any Series 2014 Bonds are outstanding (each an "Interest Payment Date"). Interest on the Series 2014 Bonds will be computed on the basis of a 360-day year comprised of twelve 30-day months. Interest on the Series 2014 Bonds will accrue from the date of delivery thereof at the rates per annum set forth on the inside cover of this Official Statement. The principal of the Series 2014 Bonds will be payable, subject to redemption, as described below, on the dates and in the principal amounts set forth on the inside cover of this Official Statement.

Form and Registration

The Series 2014 Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC," together with any successor securities depository, the "Securities Depository"). DTC will act as initial Securities Depository for the Series 2014 Bonds so purchased. Individual purchases will be made in book-entry only form. Purchasers will not receive a certificate representing their beneficial ownership interest in the Series 2014 Bonds. So long as Cede & Co. is the registered owner of the Series 2014 Bonds, as nominee of DTC, references herein to the Bondholders, holders or registered owners will mean Cede & Co. as aforesaid, and will not mean the "Beneficial Owners" of the Series 2014 Bonds. In this Official Statement, the term "Beneficial Owner" will mean the person for whom a Participant (as defined herein) acquires an interest in the Series 2014 Bonds.

So long as Cede & Co. is the registered owner of the Series 2014 Bonds, all payments of principal, premium (if any) and interest on the Series 2014 Bonds will be payable by wire transfer of same day funds by the Trustee to Cede & Co., as nominee of DTC as the sole registered owner of the Series 2014 Bonds. DTC and its Participants are solely responsible for payments to the Beneficial Owners.

In the event the use of the book-entry only system is discontinued, principal of the Series 2014 Bonds will be payable upon surrender thereof at the principal corporate trust office of the Trustee in San Francisco, California. Interest payable on the Series 2014 Bonds will be paid by check mailed on the Interest Payment Date to the person in whose name each Bond is registered in the registration books maintained by the Trustee as of the applicable Record Date for such Interest Payment Date, in accordance with the provisions set forth in the Indenture. Pursuant to the Indenture, the Record Date with respect to the Series 2014 Bonds is the fifteenth day of the month preceding each Interest Payment Date (the "Record Date"), whether or not such fifteenth day is a Business Day.

A more detailed description of the Book-Entry Only System is contained in Appendix E – "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Redemption Provisions

Optional Redemption of Series 2014A Bonds. The Series 2014A Bonds maturing on or before March 1, 20__ are not subject to optional redemption prior to maturity. The Series 2014A Bonds maturing on or after March 1, 20__ are subject to optional redemption prior to maturity at the sole option of the Port Commission, as a whole or in part, on any date on or after March 1, 20__ (from such maturities as are selected by the Port Commission and by lot within a maturity if less than all of the Series 2014A Bonds of such maturity are selected for redemption), from any source of available funds, at redemption prices equal to the principal amount thereof plus accrued but unpaid interest thereon to the date fixed for redemption.

Mandatory Sinking Fund Redemption of Series 2014A Bonds. The Series 2014A Bonds maturing on March 1, 20__ are subject to redemption prior to their stated maturity date in part, by lot, from mandatory sinking fund payments, at a redemption price equal to the principal amount thereof, without premium, plus accrued interest thereof, on March 1 in each of the years in the following amounts:

Mandatory Sinking Fund Payment Date March 1	Sinking Fund Payment
	\$

*

* Maturity

[No Redemption Prior to Maturity of Series 2014B Bonds. The Series 2014B Bonds are not subject to redemption prior to maturity.]

Notice of Redemption. The Trustee is required to send a notice of redemption to the Owners of the Series 2014 Bonds selected for redemption not less than 30 nor more than 60 days prior to the date set for redemption by first class mail or electronic mail, as appropriate (i) with respect to each Series 2014 Bond to be redeemed, to the Holder of such Series 2014 Bond at his or her address as it appears on the records maintained by the Registrar, and (ii) to any information services of national recognition which disseminate redemption information with respect to municipal securities (currently the EMMA System of the Municipal Securities Rulemaking Board), as directed by the Port Commission. However, so long as any Series 2014 Bonds are in book-entry form through the facilities of DTC, notice of redemption will be provided to Cede & Co., as the registered owner of the Series 2014 Bonds, and not directly to the Owners.

If less than all Series 2014 Bonds of a Series are to be redeemed, the Series 2014 Bonds to be redeemed will be identified by reference to the Series designation, date of issue, serial numbers and maturity dates. Each notice of redemption will specify: (i) the date of such notice and the date fixed for redemption, (ii) the principal amount of Series 2014 Bonds or portions thereof to be redeemed, (iii) the applicable redemption price, (iv) the place or places of payment, (v) that payment of the principal amount and premium, if any, will be made upon presentation and surrender to the Trustee of the Series 2014 Bonds to be redeemed, (vi) that interest accrued to the date fixed for redemption will be paid as specified in such notice, (vii) that on and after said date interest on the Series 2014 Bonds called for redemption will cease to accrue, and (viii) the designation, including Series, and the CUSIP and serial numbers, if any, of the Series 2014 Bonds to be redeemed and, if less than the face amount of any such Series 2014 Bond is to be redeemed, the Principal Amount to be redeemed.

Neither the failure to receive any redemption notice nor any defect in such redemption notice so given will affect the sufficiency of the proceedings for such redemption of the Series 2014 Bonds.

Requirements of Optional Redemption. The Commission will deposit with, or otherwise make available to, the Trustee the moneys required for payment of the redemption price of all Series 2014A Bonds then to be called for redemption at least one Business Day before the date fixed for such redemption. Any notice of redemption may be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Series 2014A Bonds then called for redemption, and such cancellation does not constitute an Event of Default under the Indenture.

[Partial Redemption of the Series 2014A Bonds. Whenever provision is made in the Indenture for the redemption of the Series 2014 Bonds (other than from the Sinking Fund Installments) and less than all of the Outstanding Series 2014A Bonds are to be redeemed, the Port Commission will designate the maturity or maturities to be redeemed and specify to the Trustee the principal amount in each maturity to be redeemed. Whenever less than all of the Outstanding Series 2014A Bonds maturing on any one date are called for redemption, the Trustee will select the portions to be redeemed by lot in a manner the Trustee deems fair and appropriate.]

Effect of Notice of Redemption. When a notice of redemption has been duly given as provided in the Indenture and sufficient moneys for the redemption of the Series 2014A Bonds selected for redemption, together with accrued interest to such redemption date are held by the Trustee; then, from and after such redemption date, interest on the Series 2014A Bonds selected for redemption will cease to accrue, and all such Series 2014A Bonds will cease to be entitled to any benefit or security under the Indenture, except for the right of the Owners to receive payment of the redemption price thereof.

ESTIMATED SOURCES AND USES OF FUNDS

Proceeds of the Series 2014 Bonds are expected to be applied approximately as set forth below:

	Series 2014A (AMT Tax- Exempt)	Series 2014B (Federally Taxable)	Total
	<hr/>	<hr/>	<hr/>
<i>Sources</i>			
Par Amount			
Plus / Less Original Issue Premium / Discount			
<i>Total Sources of Funds</i>			
 <i>Uses</i>			
Deposit to Project Costs Fund			
Deposit to Reimbursement Fund ⁽¹⁾			
Deposit to Reserve Account			
Costs of Issuance ⁽²⁾			
Underwriters' Discount			
<i>Total Uses of Funds</i>			

⁽¹⁾ Amounts deposited into the Reimbursement Funds will be applied to the payment of certain commercial paper of the City issued to finance certain capital projects of the Port Commission and related commercial paper costs. See "THE SERIES 2014 PROJECTS" herein.

⁽²⁾ Includes amounts for rating agency fees, fees of Co-Bond Counsel and Disclosure Counsel, fees of the financial advisors, Trustee's fees, and other costs relating to the issuance of the Series 2014 Bonds.

DEBT SERVICE SCHEDULE

Set forth below are the annual principal, interest and total debt service requirements for the Series 2014 Bonds, the Series 2010 Bonds and other subordinate obligations of the Port Commission:

Fiscal Year Ending June 30	Series 2014A Bonds* (AMT Tax-Exempt)		Series 2014B Bonds* (Federally Taxable)		Total Series 2014 Bonds*	Series 2010 Bonds	Total Parity Bonds*	Other Subordinate Obligations ⁽¹⁾	Total Debt Service*
	Principal	Interest	Principal	Interest					
2014						\$2,846,711	\$2,846,711	\$3,359,152	\$6,205,863
2015	\$205,000	\$1,238,992	\$200,000	\$61,769	\$1,705,761	2,843,360	4,549,121	3,178,851	7,727,972
2016	165,000	1,278,875	200,000	61,668	1,705,543	2,845,988	4,551,531	3,075,650	7,627,181
2017	175,000	1,270,625	200,000	58,628	1,704,253	2,842,430	4,546,683	3,028,245	7,574,928
2018	185,000	1,261,875	205,000	54,948	1,706,823	2,844,593	4,551,416	2,965,598	7,517,014
2019	195,000	1,252,625	210,000	50,725	1,708,350	2,846,926	4,555,276	2,965,348	7,520,624
2020	205,000	1,242,875	215,000	44,845	1,707,720	2,845,047	4,552,767	2,962,247	7,515,014
2021	215,000	1,232,625	220,000	37,836	1,705,461	2,844,342	4,549,803	2,966,598	7,516,401
2022	225,000	1,221,875	230,000	30,004	1,706,879	2,845,482	4,552,361	3,362,595	7,914,956
2023	235,000	1,210,625	240,000	21,057	1,706,682	2,846,370	4,553,052	2,965,598	7,518,650
2024	245,000	1,198,875	250,000	11,025	1,704,900	2,841,658	4,546,558	2,225,097	6,771,655
2025	520,000	1,186,625	-	-	1,706,625	2,846,345	4,552,970	2,228,098	6,781,068
2026	545,000	1,160,625	-	-	1,705,625	2,844,381	4,550,006	2,224,097	6,774,103
2027	575,000	1,130,650	-	-	1,705,650	2,844,743	4,550,393	2,223,368	6,773,761
2028	605,000	1,099,025	-	-	1,704,025	2,841,956	4,545,981	2,223,460	6,769,441
2029	640,000	1,065,750	-	-	1,705,750	2,845,649	4,551,399	2,216,176	6,767,575
2030	680,000	1,027,350	-	-	1,707,350	2,844,713	4,552,063	1,994,575	6,546,638
2031	720,000	986,550	-	-	1,706,550	1,853,775	3,560,325	1,992,075	5,552,400
2032	765,000	943,350	-	-	1,708,350	1,851,119	3,559,469	1,991,950	5,551,419
2033	810,000	897,450	-	-	1,707,450	1,850,644	3,558,094	1,993,938	5,552,032
2034	855,000	848,850	-	-	1,703,850	1,852,094	3,555,944	1,992,775	5,548,719
2035	910,000	797,550	-	-	1,707,550	1,855,213	3,562,763	1,991,525	5,554,288
2036	970,000	738,400	-	-	1,708,400	1,854,744	3,563,144	1,994,062	5,557,206
2037	1,030,000	675,350	-	-	1,705,350	1,850,687	3,556,037	1,989,725	5,545,762
2038	1,100,000	608,400	-	-	1,708,400	1,853,044	3,561,444	1,992,275	5,553,719
2039	1,170,000	536,900	-	-	1,706,900	1,851,300	3,558,200	1,991,500	5,549,700
2040	1,245,000	460,850	-	-	1,705,850	1,855,456	3,561,306	1,993,500	5,554,806

Fiscal Year Ending June 30	Series 2014A Bonds* (AMT Tax-Exempt)		Series 2014B Bonds* (Federally Taxable)		Total Series 2014 Bonds*	Series 2010 Bonds	Total Parity Bonds*	Other Subordinate Obligations ⁽¹⁾	Total Debt Service*
	Principal	Interest	Principal	Interest					
2041	1,325,000	379,925	-	-	1,704,925	-	1,704,925	1,991,500	3,696,425
2042	1,415,000	293,800	-	-	1,708,800	-	1,708,800	1,995,500	3,704,300
2043	1,505,000	201,825	-	-	1,706,825	-	1,706,825	1,995,000	3,701,825
2044	1,600,000	104,000	-	-	1,704,000	-	1,704,000	-	1,704,000
TOTAL	\$21,035,000	\$27,553,092	\$2,170,000	\$432,505	\$51,190,597	\$66,888,770	\$118,079,367	\$72,070,078	\$190,149,445

THE SERIES 2014 PROJECTS

The Port Commission will apply a portion of the proceeds of the Series 2014 Bonds to finance the planning, design, acquisition, construction, reconstruction, rehabilitation or improvement of the Series 2014 Projects. A brief description of the Series 2014 Projects expected to be funded with the proceeds of the Series 2014 Bonds is set forth below. **These descriptions are not intended to and do not constitute a commitment by the Port Commission to finance or complete any particular project. The Port Commission may substitute other projects for some or all of the Series 2014 Projects.**

Piers are numbered from the Ferry Building, located at Market Street and The Embarcadero, with odd numbered piers going north (with the highest number the furthest north) and even numbered piers going south (with the highest number the furthest south). See the map located at the front of this Official Statement. The projects described below are considered part of the "Port Area," which consists of all real and personal property owned, controlled or operated by the Port Commission, or over which the Port Commission has management, supervision or control, or is deemed by the Port Commission to be a benefit to the Port Area. See "CERTAIN RISK FACTORS – Burton Act and Transfer Agreement" and Appendix B – "SUMMARY OF THE BURTON ACT, TRANSFER AGREEMENT AND RELATED STATE REGULATION."

James R. Herman Cruise Terminal at Pier 27

The Port Commission is developing a primary cruise terminal at Pier 27 to replace the existing facility at Pier 35. The existing primary terminal at Pier 35 has neither the capacity to allow for the increasing length and passenger capacity of new cruise ships nor the amenities needed for an international cruise terminal. Pier 27 has been used as a back-up berth, but did not have any amenities within the maritime shed. The Port Commission's engineering staff determined that Pier 27 is in good seismic condition, and that its use as a cruise terminal is consistent with the Port of San Francisco Building Code. The Port Commission approved the development of a new cruise terminal on Pier 27 that would serve as the primary cruise ship terminal, while the cruise terminal on Pier 35 would be used as a secondary terminal in the event that two cruise ships require berthing on the same date. The new cruise terminal building is an approximately 88,000 square foot, two-level cruise terminal facility, and is designed to meet modern ship and operational requirements of the cruise industry and provide an appropriate, welcoming gateway to the City. Additionally, the facility will also be used for special events and will continue to be used for maritime events, such as Fleet Week, foreign naval diplomatic calls, Tall Ships Festivals and visits by oceanic research vessels. The new cruise terminal building was used to host the 34th America's Cup in 2013.

On June 14, 2011, pursuant to a competitive bid process, the Port Commission selected Turner Construction Company as the general contractor for the Pier 27 cruise terminal project. The new terminal is being constructed in two phases. Phase I, which began in April 2012 and was completed in March 2013, consisted of hazardous material abatement and demolition of the old Pier 27 shed, partial demolition of the Pier 29 shed and the Pier 27 Annex office building, relocation of the shoreside power equipment, construction of the core and shell of the cruise terminal building, and preparation of the Pier 27 site for the installation of temporary improvements for the duration of the 34th America's Cup, a sailing race hosted on Port property. Phase II of construction began in November 2013 and includes completing the interior spaces specific to the needs of the cruise terminal, landscaping, and completing the Northeast Wharf Plaza, an approximately 2.5 acre open space at the western end of Pier 27. Phase II is currently expected to be completed in August 2014, and the cruise terminal is expected to be operational by September 2014.

A portion of the Series 2014 Project consists of finishing the remaining portions of the cruise terminal building, including the U.S. Customs and Border Protection facilities, building out the Northeast Wharf Plaza and North Point, the ground transportation area, apron and substructure repairs, installation of maritime equipment such as the mobile gangway system, fenders and bollards, electrical upgrades, and provision of miscellaneous furniture and equipment. The estimated total project cost for Phase II of the James R. Herman Cruise Terminal is approximately \$47 million, of which \$19.5 million is expected to be financed with proceeds

of the Series 2014 Bonds. The balance of the project costs are funded through a combination of a Federal Emergency Management Agency ("FEMA") grant for security improvements and contributions from the City consisting of proceeds of certain general obligation bonds issued by the City, and proceeds of certain certificates of participation which the Port is obligated to repay. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Additional Bonds and Other Obligations" herein.

[On _____, the City sold commercial paper to finance on an interim basis a portion of the Pier 27 improvement costs. This amount and related costs in the total amount of \$_____ will be reimbursed with a portion of the proceeds of the Series 2014 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.]

Pier 29½ and Pier 31

A portion of the proceeds of the Series 2014 Bonds is planned to be used on structural repairs to the superstructure (columns, beams, truss members and roof decking), exterior apron deck reconstruction, window repairs, door repairs to the apron for egress and safety ladders for roof access, removal and replacement of roofing and miscellaneous sheet metal caps and flashing, and to provide plumbing and electrical infrastructure needed for restrooms, lighting and potential tenant needs. The estimated total project cost is approximately \$6 million, of which \$917,000 is expected to be financed with proceeds of the Series 2014 Bonds. The balance of the project costs are funded using a portion of the proceeds of the Series 2010 Bonds.

Other Capital Improvements

A portion of the proceeds of the Series 2014 Bonds is planned to be used for various capital improvements in order to upgrade and re-lease currently vacant facilities and/or historic window rehabilitation and/or other capital improvements.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS

Pledge of Net Revenue Under the Indenture

The Series 2014 Bonds are special, limited obligations of the Port Commission secured by and payable solely from Net Revenue (as defined herein) of the Port Commission and from moneys held in certain funds and accounts established pursuant to the Indenture. The Series 2014 Bonds are not a debt or obligation of the City, the State or any political subdivision thereof (other than the Port Commission payable solely from Net Revenue). Neither the credit nor the taxing power of the City, the State or any political subdivision thereof is pledged to pay the principal of and interest on the Series 2014 Bonds. No Holder of a Series 2014 Bond may compel the exercise of the taxing power of the City, the State or any political subdivision thereof to pay principal of the Series 2014 Bonds or the interest thereon. The Port Commission has no taxing power. The Series 2014 Bonds are not secured by a lien on any Port property (other than the Port's Net Revenue).

The Indenture provides that the Series 2014 Bonds will be payable as to principal, premium, if any, and interest exclusively from, and will be secured by a pledge of, first lien on and security interest in Net Revenue. "Net Revenue" is defined under the Indenture to mean Revenue (as defined below) less Operation and Maintenance Expenses (as defined below). Under the Indenture, for the benefit of the Bondholders, the Port Commission also grants a first lien on and security interest in, amounts on deposit from time to time in the Funds and Accounts created pursuant to the Indenture, subject to the provisions of the Indenture and any Supplemental Indenture permitting the application of such amounts for the purposes and on the terms and conditions set forth in the Indenture.

"Revenue" is defined under the Indenture to include all revenue earned by the Port Commission from or with respect to its management, supervision, operation and control of the Port Area, as determined in accordance with generally accepted accounting principles. To the extent permitted by law and designated as

Revenues in a Supplemental Indenture, Revenue will include revenues available to the Port Commission from any district established pursuant to Chapter 2.8 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California or a similar law ("IFD Revenues"). Revenue will not include: (a) Special Facility Revenue (as described herein) and any interest income or profit realized from the investment thereof, unless such receipts are designated as Revenue by the Port Commission, (b) grants-in-aid, donations and/or bequests, which by their terms would be restricted to uses inconsistent with the purposes provided hereunder or (c) IFD Revenues unless designated by the Port Commission as Revenues in a Supplemental Indenture (*i.e.*, under the Indenture, the Port must designate IFD Revenues in order for them to be included in the Revenues pledged to Bonds).

The Port Commission currently does not derive revenue from any facility classifiable as "Special Facility Revenue" under the Indenture and does not have any "Special Facility Bonds" outstanding.

"Operation and Maintenance Expenses" is defined under the Indenture to mean, for any period, all expenses of the Port Commission incurred for the operation and maintenance of the Port Area, as determined in accordance with generally accepted accounting principles. Operation and Maintenance Expenses do not include: (a) the principal of, premium, if any, or interest (including capitalized interest) on any Bonds, Subordinate Bonds, general obligation bonds or certificates of participation issued by the City for Port Area purposes or other Port indebtedness; (b) any allowance for amortization, depreciation or obsolescence of the Port Area; (c) any expense for which, or to the extent to which, the Port Commission is or will be paid or reimbursed from or through any source that is not included or includable as Revenue, including, but not limited to, Special Facility Revenue; (d) any extraordinary items arising from the early extinguishment of debt; (e) any costs, or charges made therefor, for capital additions, replacements, betterments, extensions or improvements to the Port Area which, under generally accepted accounting principles, are properly chargeable to the capital account or any reserves for depreciation; (f) any losses from the sale, abandonment, reclassification, revaluation or other disposition of any Port Area properties; (g) items that are unusual or unrelated to the Port Commission's ordinary activities and would occur infrequently, including but not limited to litigation settlements or awards or other items not included in the annual budget or non-cash items paid over a number of years; (h) non-cash expenses arising from pension and post-employment pension benefits; and (i) dredging costs. 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 Port Commission may establish or the Board of Supervisors may require with respect to employees of the Port Commission.

Application of Revenue Under the Charter and Indenture

Under the Charter and the Indenture, all Revenue as received is required to be set aside and deposited by the Treasurer of the City in the San Francisco Harbor Trust Fund (the "Enterprise Fund").

The Charter provides that moneys in the Enterprise Fund will be applied by the City Treasurer for the following purposes in the following order of priority:

(1) for the payment of maintenance and operating expenses, pension charges and proportionate payments to such compensation and other insurance and accident reserve funds as the Port Commission may establish or the Board of Supervisors may require;

(2) for the payment of principal, interest, reserve funds, sinking funds, and other funds established for the benefit of any forms of indebtedness issued or undertaken by or on behalf of the Port Commission for any purpose authorized under the Charter, including, but not limited to, revenue bonds, general obligation bonds, Infrastructure Financing District bonds, certificates of participation, lease revenue bonds, commercial paper, variable rate demand notes, auction rate securities, bond anticipation notes and other evidences of indebtedness;

(3) for capital improvements to, and reconstruction and replacement of, the properties, equipment and facilities of the harbor; and

(4) to establish a reserve, surplus or sinking fund for harbor operations, capital improvements, reconstruction, and replacement of equipment or facilities used in connection thereto as the Port Commission may establish.

In conformity with the priorities established under the Charter, the Indenture provides that moneys in the Enterprise Fund will be applied by the Treasurer for the following purposes and in the following amounts and order of priority, each priority to be fully satisfied before the next priority:

(1) *Operation and Maintenance Expenses.* An amount equal to the Operation and Maintenance Expenses as the same become due;

(2) *Debt Service Fund Transfer.* An amount equal to the requirements described below will be transferred and applied by the Treasurer for the purposes described herein:

(i) first, to the Trustee for deposit in the Debt Service Fund, the amount necessary to make all payments and deposits required to be made into the Debt Service Fund and the Reserve Fund with respect to the payment of Bonds (as further described below) and the payment or reimbursement of a Credit Provider for Repayment Obligations to the extent provided in the Indenture or in the Supplemental Indentures with respect thereto (in addition, if and to the extent provided for in any Supplemental Indenture authorizing the issuance of a Series of Bonds, Swap Payments may be paid directly out of, and Swap Receipts paid directly into, the account or accounts in the Debt Service Fund established with respect to such Series of Bonds); and

(ii) second, to pay directly or to make all payments and deposits required to be made into any funds and accounts created to pay or secure the payment of the Principal Amount or purchase price of or interest or redemption premium on any Subordinate Bonds in the amounts and at the times required by the resolutions and other agreements authorizing the issuance and providing the terms and conditions thereof; and

(3) *General Purposes.* Any amounts remaining after the applications pursuant to paragraphs (1) and (2) above will be used for any lawful purpose of the Port Commission and in accordance with all relevant provisions of the Charter.

Flow of Funds

The following is a graphic presentation of the flow of funds under the Charter and the Indenture (as described above) for Port Revenue. The numbers indicate the order of priority in the flow of funds.

⁽¹⁾ Certain subordinated obligations are paid directly by the Port. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Additional Bonds and Other Obligations."

Reserve Fund

The Second Supplemental Indenture establishes the Series 2014A Reserve Account for the Series 2014A Bonds and the Series 2014B Reserve Account for the Series 2014B Bonds. Upon delivery of the Series 2014 Bonds, the Series 2014A Reserve Account within the Reserve Fund will be funded in an amount equal to \$ _____, and the Series 2014B Reserve Account within the Reserve Fund will be funded in an amount equal to \$ _____. The Series 2014A Reserve Requirement is defined under the Indenture, as of any date of calculation, as the least of (i) an amount equal to Maximum Annual Debt Service with respect to the Series 2014A Bonds, (ii) 125% of average annual debt service on the Series 2014A Bonds, (iii) 10% of the initial Principal Amount of Series 2014A Bonds, or (iv) the sum of (A) \$[992,206] which is the initial deposit to the Series 2014A Reserve Account, plus (B) any amounts available to be transferred from the Series 2014B Reserve Account pursuant to the Indenture. To the extent a future Series of Bonds is designated in a Supplemental Indenture to benefit from the Series 2014A Reserve Account, the foregoing definition shall be revised in such Supplemental Indenture to take into account such Series of Bonds and the requirements of the Code. The Series 2014B Reserve Requirement is defined under the Indenture as the Maximum Annual Debt Service on the Series 2014B Bonds. See Appendix A – "SUMMARY OF THE LEGAL DOCUMENTS – DEFINITIONS," "– THE MASTER INDENTURE – Funds – Reserve Fund" and "– SECOND SUPPLEMENT TO INDENTURE OF TRUST – Reserve Fund" in Appendix A.

Moneys in the Series 2014A Reserve Account will be held in trust for the benefit and security of the Holders of the Series 2014A Bonds, and are not available to pay or secure the payment of the Series 2014B Bonds. Moneys in the Series 2014B Reserve Account will be held in trust for the benefit and security of the Holders of the Series 2014B Bonds, and are not available to pay or secure the payment of the Series 2014A Bonds. As provided in a Supplemental Indenture, the Series 2014A Reserve Account or the Series 2014B Reserve Account may support additional Series of Bonds issued in the future, subject to the amount therein equaling the required amount for all covered Bonds.

The Series 2014A Reserve Requirement (or any portion thereof) or the Series 2014B Reserve Requirement (or any portion thereof) may be provided by one or more policies of municipal bond insurance or surety bonds issued by a municipal bond insurer or by a letter of credit issued by a bank if the obligations insured by such insurer or issued by such bank, as the case may be, initially have ratings at the time of issuance of such policy or surety bond or letter of credit in one of the two highest rating categories of the Rating Agencies then rating the Series 2014 Bonds. See Appendix A – "SUMMARY OF THE LEGAL DOCUMENTS – THE MASTER INDENTURE – Funds – Reserve Fund."

Permitted Investments

The Indenture provides that moneys in all funds and accounts held by the Trustee under the Indenture will be invested upon receipt in Permitted Investments as directed by the Port Commission. For a summary of the definition of Permitted Investments and information regarding the investment of moneys held in the various funds and accounts relating to the Series 2014 Bonds, see Appendix A – "SUMMARY OF THE LEGAL DOCUMENTS – THE MASTER INDENTURE – Funds – Investment of Moneys" attached hereto. For information regarding the investment of moneys held in the various funds and accounts of the Port, see "PORT FINANCIAL OPERATIONS – Investment Policy and Investments."

Covenant to Maintain Net Revenue

Under the Indenture, the Port Commission covenants that it will manage its business operations and establish and at all times maintain rentals, rates, fees and charges for the use of the Port Area and for services rendered by the Port Commission in connection with the Port Area so that Net Revenue in each Fiscal Year will be at least equal to 130% of Annual Debt Service for such Fiscal Year. In determining Net Revenue pursuant to the provisions of the Indenture described in this paragraph, the Port Commission may take into account as a credit the amount on deposit in the Revenue Stabilization Fund on June 30 of each Fiscal Year;

provided that the Port Commission will maintain Coverage equal to at least 100% without regard to any credit for any such amounts or deposits in the Revenue Stabilization Fund. **The Port has not deposited any moneys into the Revenue Stabilization Fund to date, but may do so in the future.**

The Port Commission also covenants that if Net Revenue as of the end of any Fiscal Year is less than the amount described in the paragraph above, the Port Commission will retain and direct a Port Consultant to make recommendations as to the revision of the Port Commission's business operations and/or its schedule of rentals, rates, fees and charges for the use of the Port Area and for services rendered by the Port Commission in connection with the Port Area and will take such recommendations into account for future budgets and management.

In the event that Net Revenue as of the end of any Fiscal Year is less than the amount described above, but the Port Commission promptly has taken prior to or during the next succeeding Fiscal Year all lawful measures to revise its business operations and/or its schedule of rentals, rates, fees and charges as required by the Indenture, such deficiency in Net Revenue will not constitute an Event of Default under the Indenture. Nevertheless, if after taking the measures required by the Indenture to revise its business operations and/or its schedule of rentals, rates, fees and charges, Net Revenue in such next succeeding Fiscal Year (as evidenced by the audited financial statements of the Port Commission for such Fiscal Year) is less than the amount described above, such deficiency in Net Revenue will constitute an Event of Default. For a description of the Events of Default and available remedies to Bondholders in an Event of Default, see Appendix A – "SUMMARY OF THE LEGAL DOCUMENTS – The Master Indenture – Default and Remedies."

See "CERTAIN RISK FACTORS" for a description of certain risk factors that could adversely affect the ability of the Port Commission to maintain Net Revenue as required by the Indenture.

Additional Bonds and Other Obligations

Pursuant to the Indenture, the Port Commission is permitted to issue additional bonds and to enter into additional obligations secured by Net Revenue on parity with the payment of principal of and interest on the Series 2014 Bonds, provided that the conditions described below are satisfied. Under the Charter, no voter approval is required with respect to revenue bonds authorized and issued by the Port Commission for any Port-related purpose and secured solely by Port revenues.

The Port Commission has previously issued \$36.65 million in aggregate principal amount of its Series 2010 Bonds, currently outstanding in the aggregate principal amount of \$34.075 million. The Series 2010 Bonds are payable from Net Revenue. Upon issuance of the Series 2014 Bonds, the Series 2014 Bonds will be secured by and payable from Net Revenue on a parity basis with the Series 2010 Bonds. The Port Commission currently has no other obligations outstanding that would be on a parity with the Series 2010 Bonds and the Series 2014 Bonds. The Port's current Ten-Year Capital Plan (as defined herein) assumes no additional Port revenue bonds will be issued, but the Plan notes that the Port would revisit issuing bonds if projects were identified in the future that generate revenues in excess of the amount required to service debt costs. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY – Ten-Year Capital Plan" herein.

All Bonds issued under the Indenture and at any time outstanding will be equally and ratably secured with all other outstanding Bonds, with the same right, lien, preference and priority with respect to Net Revenue, without preference, priority or distinction on account of the date or dates or the actual time or times of the issuance or maturity of the Bonds or otherwise. All Bonds of a particular Series will in all respects be equally and ratably secured and will have the same right, lien and preference established under the Indenture for the benefit of such Series of Bonds including, without limitation, rights in any related project fund and/or delivery costs fund, debt service fund or reserve fund. Notwithstanding the foregoing, amounts drawn under a Credit Facility with respect to particular Bonds and all other amounts held in funds or accounts established with respect to particular Bonds pursuant to the Indenture and of any Supplemental Indenture will be applied solely to make payments on such Bonds.

Additional Bonds. Under the Master Indenture, the Port Commission is permitted to issue additional Series of Bonds subject to certain conditions. These conditions include, among other things, submission to the Trustee of a report of the Port Commission demonstrating that for the period from and including the first full Fiscal Year following the issuance of such additional Series of Bonds during which no interest on such additional Series of Bonds is expected to be paid from the proceeds thereof through and including the later of (A) the fifth full Fiscal Year following the issuance of such additional Series of Bonds or (B) the third full Fiscal Year during which no interest on such additional Series of Bonds is expected to be paid from the proceeds thereof, projected Net Revenue in each such Fiscal Year will be at least sufficient to satisfy the rate covenants set forth in the Indenture. See "Covenant to Maintain Net Revenue" above.

In determining projected Net Revenue for purposes of the report of the Port Commission described in the paragraph above, the Port Commission may take into account any reasonably anticipated changes in Revenue and Operation and Maintenance Expenses over such period, which assumed changes and the basis therefor will be described in the calculations provided by the Port Commission. In determining Annual Debt Service for such purposes, (i) Bonds that will be paid or discharged immediately after the issuance of the additional Series of Bonds proposed to be issued from the proceeds thereof or other moneys will be disregarded, and (ii) Variable Rate Bonds and variable rate Interest Rate Swaps will generally be deemed to bear interest during any period after the date of calculation at a fixed annual rate equal to the lower of one hundred twenty five percent of the average Index Rate (*i.e.*, generally defined under the Indenture as the SIFMA Municipal Swap Index) during the twelve calendar months immediately preceding the date on which such calculation is made or the maximum rate of interest payable under such Bonds or Interest Rate Swaps. The Port Commission may also take into account as a credit amounts expected to be on deposit in the Revenue Stabilization Fund on June 30 of each Fiscal Year; provided that the Port Commission will maintain Coverage under the provisions of the Indenture summarized above under "– Covenant to Maintain Net Revenue" equal to at least 100% without regard to any credit for any such amounts on deposit in the Revenue Stabilization Fund.

The Port Commission may also issue additional Series of Bonds for the purpose of refunding any Bonds or Subordinate Bonds on or prior to maturity. Upon issuance of the Series 2014 Bonds, the Series 2014 Bonds will be secured by a lien on Net Revenue on a parity with the Series 2010 Bonds.

Subordinate Obligations. The Port Commission has a loan from the California Division of Boating and Waterways, in the principal amount of \$3.5 million. This loan is secured by a lien on certain marina revenues but such loan is expressly subordinate to the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Application of Revenue Under the Charter and Indenture" and "– Flow of Funds."

In October 2013, the City caused the execution and delivery of certificates of participation in the aggregate principal amount of \$37.7 million, for the purpose of financing and refinancing capital improvements to certain facilities owned by the Port, including Phase I of the new cruise terminal at Pier 27. Pursuant to a memorandum of understanding between the Port Commission and the City, the Port Commission agreed, during the term of the certificates of participation, to pay the principal and interest with respect to the certificates of participation. The Port's payment obligations with respect to the certificates of participation are unsecured by any lien on Port revenues or property and are expressly subordinate to the Bonds. The Pier 27 facilities are the leased property under a lease relating to the certificates of participation; however, the lease is an obligation payable from the City's General Fund and the lease does not provide for a remedy of re-entering and re-leasing the leased property in the event of a default.

The San Francisco Public Utilities Commission ("SFPUC"), a department of the City, has advanced funds to the Port in the principal amount of \$1.14 million to construct certain energy efficiency projects at identified Port facilities. Pursuant to a memorandum of understanding between the Port Commission and the SFPUC, the Port has agreed to repay these advances with interest. The Port's payment obligations with respect to these advances are unsecured by any lien on Port revenues or property and are expressly subordinate to the Bonds.

Repayment Obligations as Bonds. If so provided in the applicable Supplemental Indenture and in the written agreement between the Port Commission and a Credit Provider, a Repayment Obligation (other than a Repayment Obligation with respect to a Credit Facility credited to the Reserve Fund) may be accorded the status of an obligation payable on a parity from Net Revenue with the Series 2014 Bonds for purposes of securing such Repayment Obligation under the Indenture. The foregoing rights of a Credit Provider are in addition to any rights of subrogation which the Credit Provider may otherwise have or be granted under law or pursuant to any Supplemental Indenture.

Interest Rate Swaps as Bonds. If so provided in the applicable Supplemental Indenture and in the written agreement establishing an Interest Rate Swap between the Port Commission and a Swap Counter Party, a Swap Payment may be accorded the status of an obligation payable on a parity from Net Revenue with the Series 2014 Bonds for purposes of securing such obligation to make Swap Payments under the Indenture. The Port Commission currently does not have any outstanding Interest Rate Swap.

Special Facilities and Special Facility Bonds. The Port Commission from time to time, subject to the terms and conditions of the Indenture and all applicable laws, may (a) designate an existing or planned facility, structure, equipment or other property, real or personal, which is located within the Port Area or part of any facility or structure at the Port Area as a "Special Facility," (b) provide that revenues earned by the Port Commission from or with respect to such Special Facility will constitute "Special Facility Revenue" and will not be included as Revenue, and (c) issue Special Facility Bonds primarily for the purpose of acquiring, constructing, renovating or improving, or providing financing to a third party to acquire, construct, renovate or improve, such Special Facility. The Special Facility Bonds will be payable as to principal, purchase price, if any, redemption premium, if any, and interest from and secured by the Special Facility Revenue with respect thereto, and not from or by Net Revenue. The Port Commission from time to time may refinance any such Special Facility Bonds with other Special Facility Bonds. The Port Commission currently does not have any outstanding Special Facility Bonds.

No Special Facility Bonds may be issued by the Port Commission unless there has been filed with the Trustee (i) a certificate of the Port Commission to the effect that no Event of Default then exists under the Indenture, (ii) an opinion of Bond Counsel to the effect that such Special Facility Bonds may lawfully be issued in accordance with the Charter and all other applicable laws, and (iii) a report of the Port Commission providing the following calculations:

(a) the estimated Special Facility Revenue with respect to the proposed Special Facility are at least sufficient to pay the principal (either at maturity or by mandatory sinking fund redemptions) or purchase price of and interest on such Special Facility Bonds as and when the same becomes due, all costs of operating and maintaining such Special Facility to be paid by the Port Commission, and all sinking fund, reserve fund and other payments required with respect to such Special Facility Bonds as and when the same will become due; and

(b) the estimated Net Revenue, calculated without including the Special Facility Revenue and without including any operation and maintenance expenses of the Special Facility as Operation and Maintenance Expenses, that will be sufficient so that the Port Commission will be in compliance with the rate covenant under the Indenture (see "- Covenant to Maintain Net Revenue" above) during each of the five full Fiscal Years immediately following the issuance of such Special Facility Bonds.

At such time as the Special Facility Bonds issued for a Special Facility, including Special Facility Bonds issued to refinance such Special Facility Bonds, are fully paid or otherwise discharged and no longer outstanding, the Special Facility Revenue with respect to such Special Facility will be included as Revenue.

Subordinate Bonds. Under the Indenture, the Port Commission may issue at any time obligations with a pledge of, lien on, and security interest in Net Revenue which are junior and subordinate to those of the Series 2014 Bonds ("Subordinate Bonds"). Under the Charter, no voter approval is required with respect to

revenue bonds authorized and issued by the Port Commission for any Port-related purpose and secured solely by Port revenues. See "- Additional Bonds" above. The principal and purchase price of and interest, redemption premium and reserve fund requirements on such Subordinate Bonds are payable from time to time out of Net Revenue only if all amounts then required to have been paid or deposited under the Indenture from Net Revenue with respect to principal, purchase price, redemption premium, interest and reserve fund requirements on the Series 2014 Bonds then Outstanding has been paid or deposited as required in the Indenture. The Port has certain long-term obligations outstanding which constitute "Subordinate Bonds" as defined under the Indenture and/or which are otherwise subordinate to the Bonds. See "- Subordinate Obligations" above.

THE CITY AND COUNTY OF SAN FRANCISCO

The City is the economic and cultural center of the San Francisco Bay Area and northern California. The limits of the City encompass over 93 square miles, of which 49 square miles are land, with the balance consisting of tidelands and a portion of the San Francisco Bay (the "Bay"). The City is located at the northern tip of the San Francisco Peninsula, bounded by the Pacific Ocean to the west, the Bay and the San Francisco-Oakland Bay Bridge to the east, the entrance to the Bay and the Golden Gate Bridge to the north, and San Mateo County to the south. Silicon Valley is about a 40-minute drive to the south, and the wine country is about an hour's drive to the north. The population of the City as of January 1, 2013 was approximately 839,100.

The San Francisco Bay Area consists of the nine counties contiguous to the Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma Counties (collectively, the "Bay Area"). The economy of the Bay Area includes a wide range of industries, supplying local needs as well as the needs of national and international markets. Major business sectors in the Bay Area include retail, entertainment and the arts, conventions and tourism, service businesses, banking, professional and financial services, corporate headquarters, international and wholesale trade, multimedia and advertising, technology and higher education.

The City is a major convention and tourist destination. According to the San Francisco Travel Association, a nonprofit membership organization, during the calendar year 2012, approximately 16.5 million people visited the City and spent an estimated \$8.93 billion during their stay. The City is also a leading center for financial activity in the State and is the headquarters of the Twelfth Federal Reserve District, the Eleventh District Federal Home Loan Bank, and the San Francisco regional Office of Thrift Supervision.

The City benefits from a highly skilled, educated and professional labor force. The per-capita personal income of the City for Fiscal Year 2012-13 was estimated to be \$73,197. The San Francisco Unified School District operates 72 elementary and K-8 school sites, 13 middle schools, 18 senior high schools (including two continuation schools and an independent study school), and 34 state-funded preschool sites, and sponsors 13 independent charter schools. Higher education institutions located in the City include the University of San Francisco, San Francisco State University, University of California – San Francisco (a medical school and health science campus), the University of California Hastings College of the Law, the University of the Pacific's School of Dentistry, Golden Gate University, City College of San Francisco (a public community college), the Art Institute of California – San Francisco, the San Francisco Conservatory of Music, the California Culinary Academy, and the Academy of Art University.

San Francisco International Airport ("SFO"), located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County and owned and operated by the City, is the principal commercial service airport for the Bay Area and one of the nation's principal gateways for Pacific traffic. In 2013, SFO serviced approximately 44 million passengers and handled 363,794 metric tons of cargo. The City is also served by the Bay Area Rapid Transit District (electric rail commuter service linking the City with the East Bay and the San Francisco Peninsula, including SFO), Caltrain (a conventional commuter rail line linking the City with the San Francisco Peninsula), and bus and ferry services between the City and residential areas to the

north, east and south of the City. San Francisco Municipal Railway, operated by the City, provides bus and streetcar service within the City.

The City is governed by a Board of Supervisors elected from 11 districts to serve 4-year terms, and a Mayor who serves as chief executive officer, elected citywide to a 4-year term. Edwin M. Lee is the 43rd and current Mayor of the City, having been elected by the voters of the City in November 2011. The City's Original Budget for Fiscal Years 2013-14 and 2014-15 totals \$7.91 billion and \$7.93 billion, respectively. The General Fund portion of each year's budget is \$3.95 billion in Fiscal Year 2013-14 and \$4.05 billion in Fiscal Year 2014-15, with the balance being allocated to all other funds, including enterprise fund departments, such as the Port Commission, SFO, the San Francisco Municipal Transportation Agency, and the San Francisco Public Utilities Commission. The City employed 28,387 full-time-equivalent employees at the end of Fiscal Year 2012-13. According to the Controller of the City (the "Controller"), Fiscal Year 2013-14 total net assessed valuation of taxable property in the City is approximately \$172.5 billion.

THE SERIES 2014 BONDS ARE NOT A DEBT OR OBLIGATION OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN THE PORT COMMISSION PAYABLE SOLELY FROM NET REVENUE). NEITHER THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO PAY THE PRINCIPAL OF AND INTEREST ON THE SERIES 2014 BONDS. NO HOLDER OF A SERIES 2014 BOND MAY COMPEL THE EXERCISE OF THE TAXING POWER OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO PAY PRINCIPAL OF THE SERIES 2014 BONDS OR THE INTEREST THEREON. THE PORT COMMISSION HAS NO TAXING POWER. THE SERIES 2014 BONDS ARE NOT SECURED BY A LIEN ON ANY PORT PROPERTY (OTHER THAN THE PORT'S NET REVENUE).

THE PORT OF SAN FRANCISCO

Introduction and Overview

The State transferred the Port to the City in 1969 pursuant to California Statutes of 1968, Chapter 1333 (the "Burton Act"). The Burton Act and related Transfer Agreement require the City to manage the Port in trust for the State consistent with public trust laws, including limitations on the uses of Port property to those that are water-dependent or water-related, but not necessarily revenue-generating, such as commerce, industry, fisheries, navigation, environmental preservation and recreation. In addition, the Burton Act requires the City to use all of the revenues generated from Port property to operate, maintain and develop the Port. See "CERTAIN RISK FACTORS – Burton Act and Transfer Agreement" and Appendix B – "SUMMARY OF THE BURTON ACT, TRANSFER AGREEMENT AND RELATED STATE REGULATION."

The Port Commission was established to govern the Port pursuant to the Charter and the Burton Act. The mission of the Port Commission is to promote a balance of recreational, industrial, maritime, transportation, public access and commercial activities on a self-supporting basis through appropriate management and development of the waterfront for the benefit of the public.

The Port Area consists of seven and one-half miles of waterfront property adjacent to the San Francisco Bay, from Hyde Street Pier in the north to India Basin in the south, including more than 834 acres consisting of 629 acres of landside property and 205 acres of waterside property. Among ports, the Port has one of the most diverse mixes of types of businesses in the nation. Commercial operations on Port property include restaurants, retail shopping, ferry service, commercial fishing, Bay excursions, professional sports, bulk and breakbulk cargo, cruise ship calls and ship repair. To support these operations, the Port owns or has responsibility for the maintenance of certain capital assets, including 39 pile-supported pier structures, 80 substructures (of both piers and wharves between piers), 245 commercial and industrial buildings, over three miles of streets and sidewalks, and elements of the utility infrastructure that support them, as well as drydocks, cargo cranes and heavy equipment used by the Port's maintenance division. The Port Commission is the

landlord under approximately 533 ground, commercial, retail, office, industrial and maritime industrial leases, including ground leases of many internationally recognized landmarks such as Fisherman's Wharf, Pier 39, The Exploratorium, the Ferry Building, and AT&T Park (home of the San Francisco Giants baseball team).

Port operating revenues, which totaled approximately \$81.5 million in Fiscal Year 2012-13, were derived primarily from real estate and maritime operations. Real estate revenues, which are made up of ground leases and other short and long-term leases of Port property to non-maritime industrial, commercial, retail, office and other business enterprises, represented approximately 75% of Port operating revenues in Fiscal Year 2012-13. Maritime revenues, which are derived from cargo shipping (dry and liquid bulk cargo, and break bulk cargo), dry dock and ship repair services, passenger cruise ship and ferryboat activities, warehousing, harbor services, commercial fishing and other miscellaneous maritime activities, comprised approximately 18% of Port operating revenues in Fiscal Year 2012-13. See "PORT REAL ESTATE OPERATIONS AND MARITIME."

The use of Port property and facilities, the rehabilitation and development of its assets, and its operations are all subject to a number of constraints. The constraints within which the Port Commission must operate include those imposed by the Waterfront Land Use Plan, the San Francisco Bay Conservation and Development Commission (through its Seaport and Special Area Plans), the California Environmental Quality Act and other State environmental regulations, the California State Lands Commission (interpreting public trust law), the Burton Act, the Transfer Agreement, the Board of Supervisors, the Charter and Administrative Codes, federal regulation, Port tenants, and community interest groups. Certain Port piers, buildings and other structures are also subject to additional regulations due to their historic significance. See "PORT FINANCIAL OPERATIONS – Regulatory Compliance."

Most capital assets comprising the Port range from 50 to 100 years old, were constructed for use in the cargo shipping industry as it existed at the time of original construction and are reaching the end of their useful life. When the State transferred responsibility for the Port to the City, the Port capital assets were already in a state of disrepair. Of the 39 piers currently in use by the Port Commission or Port tenants, 10 have been significantly rehabilitated since 1950. The piers that were structurally sound at the time of transfer were only marginally productive because containerized shipping was already replacing breakbulk (*e.g.*, bagged, boxed, crated or palletized) shipping as the primary mode of cargo shipping at that time. Containerized shipping requires significant acreage of land and access to rail and truck transportation facilities that the Port lacks given its proximity to the City's dense urban neighborhoods. Therefore, the Port Commission has been transitioning Port facilities from primarily cargo-serving uses to mixed uses including more non-cargo related maritime uses, retail, restaurants, and office space. The Port's Capital Plan and development strategy attempt to address some of the foregoing issues. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY."

Port Commissioners

The Port Commission governs the Port. The five Port Commissioners, appointed by the Mayor and subject to confirmation by the Board of Supervisors of the City, serve four-year terms and elect, from the members of the Port Commission, the Port Commission President and Vice President to one-year terms. Through resolutions and directives, the Port Commission sets policy for the Port.

The current members of the Port Commission and the appointment and expiration dates of their terms are:

<u>Name and Title</u>	<u>Occupation</u>	<u>Originally Appointed</u>	<u>Term Expires</u>
Leslie Katz, President	Strategy and external affairs consultant and attorney	March 2011	May 2014
Willie Adams, Vice President	Secretary-Treasurer of the International Longshore & Warehouse Union	July 2012	May 2014
Kimberly Brandon	Financial services	August 1997	May 2017
Mel Murphy	General contractor and real estate developer	March 2013	May 2016
Doreen Woo Ho	Retired banking executive	May 2011	May 2014

Executive Director and Senior Management

The policies set by the Port Commission are implemented by the Port's Executive Director and staff. The Executive Director serves as chief executive of the Port, is appointed by the Mayor, serves at the pleasure of the Port Commission, and is charged with the management of all the offices and activities placed under the jurisdiction of the Port Commission. The staff of the Port Commission is organized into the following divisions: Maritime; Real Estate; Planning and Development; Engineering; Maintenance; and Finance and Administration. In addition, the Executive Director oversees the Executive Division functions for Public Relations, Homeland Security and Special Projects.

Monique Moyer, Executive Director. Monique Moyer is the Executive Director of the Port, appointed by Mayor Gavin Newsom and confirmed by the Port Commission in April 2004. She is the second woman to serve as Executive Director in the Port's 151-year history. Prior to joining the Port Commission, Ms. Moyer served the City for seven years as the Director of the Mayor's Office of Public Finance & Business Affairs. Ms. Moyer sits on the non-profit boards of the Mid-Peninsula Housing Coalition, the Foundation of the Fine Arts Museums, and is Vice Chair of the California Association of Port Authorities. In 2002, Ms. Moyer received the San Francisco Chamber of Commerce Public Managerial Leadership Award. She has been named annually as one of the *San Francisco Business Times'* 150 Influential Women in Business from 2005-2011 and became "Ever Influential" in 2012. She is the recipient of San Francisco Travel's 2013 Silver Cable Car Award in recognition of her significant contribution to San Francisco tourism.

Brad Benson, Director Special Projects. Brad Benson joined the Port in 2005. He directs government affairs, long-term capital planning and complex projects. Mr. Benson specializes in the public trust for commerce, navigation and fisheries and regulations that govern waterfront development and oversees the Port's local, State and federal legislative program. Mr. Benson serves as project leader for large development projects and manages interdepartmental and interdivisional efforts, such as the 34th America's Cup and the under pier utility inspection program. Prior to joining the Port, Mr. Benson served as legislative aide to Supervisor Tom Ammiano from 1998-2005.

Thomas Wm. Carter, Deputy Director of Maintenance. Thomas Wm. Carter has served as Deputy Director of Maintenance for the Port since December 2004. He is responsible for directing and managing maintenance services for all Port facilities and providing the overall evaluation, direction, planning and management of services for the Port's Maintenance Division. Prior to joining the Port Commission, Mr. Carter

held various positions at the City and its Department of Public Works ("DPW"), including serving as Operations Superintendent – Bureau of Street & Sewer Repair for the Department of Public Works, the first Operations Superintendent of the Bureau of Urban Forestry, and Assistant Superintendent of the Bureau of Building Repair for DPW.

Peter A. Dailey, Deputy Director of Maritime. Peter A. Dailey has served as Deputy Director, Maritime, for the Port since 1998 and is responsible for managing and marketing the Port's varied maritime business portfolio. Mr. Dailey has been at the Port for over 27 years. Prior to his current position, Mr. Dailey was senior marketing executive at the Port with responsibility for public relations and public affairs, strategic marketing and press relations. He is a member of the San Francisco Bay Conservation and Development Commission's Seaport Planning Advisory Committee and the California Association of Port Authorities Advisory Committee, and past Chairman of the American Association of Port Authorities Cruise Committee.

Elaine Forbes, Deputy Director of Finance and Administration. Elaine Forbes joined the Port in July of 2010. She is responsible for directing and managing all internal support services for other Port divisions and the executive staff; overseeing business services, inventory and purchasing; managing information systems, human resources, finance, accounting and infrastructure maintenance function; and formulating division-wide budget, business and strategic plans. Prior to joining the Port, Ms. Forbes worked for the City and County of San Francisco for nine years. She worked for the Board of Supervisors as a legislative and budget analyst for five years, served as the San Francisco Airport's budget manager, and was most recently the chief administrative officer for the Planning Department, where she was responsible for finance and accounting, contracts, information technology, and operations.

Eileen Malley, Deputy City Attorney and Port General Counsel. Eileen Malley began serving as the Port's General Counsel in March 2012. In this capacity, she provides advice on a range of legal matters including contracts, real estate agreements, public trust matters, environmental and community stewardship, land use, California Environmental Quality Act compliance processes and public meeting laws and rules. Ms. Malley has been a Deputy City Attorney in the San Francisco City Attorney's Office since January 2005. Prior to working as General Counsel to the Port, she was a member of the City Attorney's Office Real Estate and Finance Team and served as General Counsel to the Treasure Island Development Authority. Before joining the City Attorney's Office, Ms. Malley practiced real estate law at Brobeck Phleger & Harrison LLP and Morgan Lewis & Bockius LLP, and was a member of the Legal Department at Catellus Development Corporation.

Uday Prasad, Interim Chief Harbor Engineer. As Interim Chief Harbor Engineer, Uday Prasad has been overseeing the Port's Engineering Division since June 2013. He is responsible for developing, planning, and directing the work of the Port's Engineering Division, which oversees several major functions including: building/encroachment permits, engineering and architectural design, facilities assessment, construction management, and project management. Mr. Prasad has more than twenty years of experience in engineering design, supervision, and management. He started with the Port as a Civil Engineer in 2002 and has also held the position of the Port's Senior Civil Engineer since 2005. Prior to joining the Port Commission, Mr. Prasad worked for San Francisco Department of Public Works and San Francisco Public Utilities Commission. He has been with the City and County of San Francisco since 1992.

Susan Reynolds, Deputy Director of Real Estate. Susan Reynolds has served as Deputy Director of Real Estate for the Port since November 2006. She is responsible for directing, promoting and managing the Port's diverse real estate portfolio. Prior to joining the Port Commission, Ms. Reynolds worked for eight years at the Mayor's Office of Community Development. Prior to joining the City, Ms. Reynolds spent over 25 years in the commercial banking industry.

Byron A. Rhett, Deputy Director of Planning & Development. Byron A. Rhett has served as the Deputy Director of Planning & Development for the Port since November 2000. Mr. Rhett is responsible for overseeing all planning and development activities at the Port including the implementation of large scale,

mixed-use commercial, recreational and industrial projects. Prior to joining the Port Commission, Mr. Rhett worked at the San Francisco Redevelopment Agency for over 21 years, serving as a senior project manager managing the Hunters Point Shipyard project and nearby Bayview Hunters Point neighborhood development projects. Prior to that, he worked as a planner for the City of Newark, New Jersey, the Newark Watershed Conservation and Development Corporation and Special Assistant in the City Manager's Office in Kansas City, Missouri.

Margaret "Sidonie" Sansom, Director of Homeland Security. Sidonie Sansom has served as Director of Homeland Security at the Port since July 2005. She is responsible for developing, directing, and implementing a comprehensive homeland security program for the Port. She is also responsible for the Port's emergency preparedness and response programs, and the Port's physical security programs. Before joining the Port Commission, Ms. Sansom served as an Emergency Planner at the San Francisco International Airport where she developed exercises to test emergency response and emergent threats, as well as cross-jurisdictional, multi-agency response procedures for the airport's Water Perimeter Security Zone. Prior to that, she served in the U.S. Coast Guard, planning and leading flight operations throughout the world, in a variety of mission areas including search and rescue, anti-terrorism/threat response, law enforcement, pollution response and high latitude science. Ms. Sansom is a member of the American Association of Port Authorities Security Committee, the Port Security Caucus, the California Maritime Security Council, the California Association of Port Authorities Security Committee and the Area Maritime Security Committee.

Port Operating Divisions

Real Estate Division. The Real Estate Division is responsible for all asset management, property and lease management, marketing and leasing for the Port's commercial and industrial property along the 7.5 miles of San Francisco's waterfront properties that extends from Fisherman's Wharf to Bayview/Hunters Point, exclusive of those leases to maritime tenants that are managed by the Maritime Division. Real estate asset and property management duties entail lease negotiations, lease and property administration and enforcement, and asset value enhancement.

Maritime Division. The Maritime Division is responsible for managing and marketing a wide array of maritime industries: cruise and cargo shipping, ship repair, commercial and sport fishing, ferry and excursion operations and other harbor services. The division promotes Port maritime facilities to potential and existing customers while ensuring compliance with federal security mandates and providing environmental stewardship. Areas of responsibility include cruise and cargo terminals, ferry terminals, shipyards and dry docks, Fisherman's Wharf and Hyde Street commercial fishing harbors, excursion terminals and harbor service facilities for pilots, tugboats, barges, layberthing and other ship services.

Planning and Development Division. The Port's Planning and Development Division is responsible for developing and maintaining planning and land use policies adopted by the Port Commission. The Port's land use policies, as adopted by the Port Commission, are contained in the Waterfront Land Use Plan and its Waterfront Design and Access element. The Waterfront Land Use Plan establishes the foundation and framework for new development projects, real estate leasing and asset management, public access, open space and environmental improvements, and preservation of the Port's historic resources. Another important responsibility of the Planning and Development Division is to manage major development projects on Port property. This responsibility includes major public-private partnership development projects with a private developer partner, from the developer selection stage through the project approval and construction stage. Finally, the Planning and Development Division provides regulatory and review responsibilities pertaining to Port building permits, leases and use proposals to ensure that proposals for Port properties comply with applicable land use, design review, and environmental impact review requirements administered by a number of different government agencies.

Engineering Division. The Engineering Division provides project and construction management, engineering design, facility inspection, contracting, code compliance review and permitting services for all of

the Port's facilities including piers, structures, buildings, cranes, utilities, public and private areas, development projects, streets and walkways. The Engineering Division assists and coordinates with other City Departments to assure an appropriate transition between the City and the property in the Port's jurisdiction.

Maintenance Division. The Maintenance Division is responsible for maintaining the Port's 7.5 miles of waterfront property and maintaining the waterfront as a positive connection to the other parts of the City. More than 100 skilled craftspersons are responsible for the preservation and improvement of the Port's fishing harbors, ferry landing, public parks, cargo terminals and piers. The overall maintenance performed by the Maintenance Division includes the skilled work of 18 different crafts, including carpenters, electricians, painters, gardeners, pile drivers, plumbers, roofers and general laborers.

Finance and Administration Division. The Finance and Administration Division is responsible for management of Port operations and support services, including human resources, accounting, finance, contracts, information systems, and business services. Human resources include labor and employee relations, payroll, training programs, employee recruitment and hiring, and contract compliance. Finance includes budget development and analysis, capital planning, grants, forecasting, financing, risk analysis, and reporting. Accounting includes accounts payable, accounts receivable, general ledger, financial statements and managing outside audits. Information systems include the Port's information technology equipment acquisition and maintenance, local area network, computer application development and maintenance. Business services includes purchasing, materials management, mail service, telephone system, receptionist service, administration of the Port's vehicles, and management of the Port's offices.

PORT REAL ESTATE OPERATIONS

Overview

The Port through its Real Estate Division is engaged in the marketing, leasing and management of its properties for commercial business uses including office, industrial, storage, retail, restaurants, parking lots, parking meters, and tourist attractions. As of June 2013, the Port had 408 real estate leases representing 309 commercial and industrial tenants who occupied approximately 13.1 million square feet including piers, sheds, wharves, seawall lots, and open industrial land that generated approximately \$53.5 million in lease revenues in Fiscal Year 2012-13. An additional \$7.9 million was derived from non-lease sources such as parking meters and parking fines, for total Real Estate Division revenues of \$61.4 million. For information on certain maritime leases of the Port, see "PORT MARITIME OPERATIONS" herein.

The Port is authorized pursuant to the Burton Act, under specified conditions, to grant leases with terms up to 66 years. Beginning in the 1970s, the Port has entered into several major ground leases of its properties that provide for the development of significant office, retail, and tourism attractions across the waterfront, including, for example, the Pier 39 festival marketplace, AT&T Park, the renovation of the historic Ferry Building and the opening of a 330,000 square foot science museum, the Exploratorium. Most of these long-term master leases, with base and percentage rents, have replaced short-term leases to dozens of individual tenants. In establishing such long-term lease arrangements, the Port endeavors to transfer risks related to such developments to the ground lease tenant and in certain cases to address repairs and seismic upgrades needed for Port facilities. The Port is currently pursuing several public-private partnership development projects with the intention of addressing the Port's capital backlog and enhancing Port land value. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY" below.

Industrial and Other Non-Maritime Real Estate Leases and Lease Revenues

The largest category of the Port's real estate operations is the "industrial" group of leases. The industrial group consists of 225 tenancy agreements and represents approximately 55% of the Port's 408 real estate lease agreements. Industrial tenant uses range from simple storage to manufacturing and fabrication.

The next largest group by number of leases, the "office" leases, comprises approximately 25% of the Port's real estate tenancy agreement mix.

Although diversified in terms of the numbers of users, several categories of Port tenants represent a larger share of Port revenues than do others. The Port's restaurant and retail tenants account for approximately 16% of real estate lease annualized revenue. Annualized revenue is calculated by the Port based on current minimum rents as of June 30, 2013 plus Fiscal Year 2012-13 percentage rents over the minimum rent, net of certain credits. Similarly, rent from the Port's diversified industrial tenants represents approximately 31% of such annualized revenues. Industrial tenants include concrete batching plants, warehouse and storage space leases. Leases to parking companies generate 23% of such annualized revenues.

A large majority of all Port real estate leases provide for periodic fixed or cost of living increases in the base or minimum rents. Most Port retail and restaurant leases provide for the monthly payment of percentage rents utilizing factors consistent with national and regional percentage rent comparables. Most Port commercial property leases are fully or partially net leases, with the tenants responsible for some or all of the property operating expenses including utility fees, some maintenance and repair, liability and fire damage insurance, janitorial expenses and the payment of state and local taxes.

Information regarding lease terms held by current non-maritime tenants of the Port is set forth in the following table:

Table 1
PORT OF SAN FRANCISCO
Real Estate Leases
Remaining Lease Terms
As of June 2013

	Number of Leases		Annualized Revenue ⁽¹⁾	
Month-to-Month	184	45.1%	\$11,247,674	20.2%
<i>Remaining Term:</i>				
Less than One Year	51	12.5	1,742,305	3.1
One to Five Years	104	25.5	17,395,588	31.3
Five to Ten Years	12	2.9	3,059,638	5.5
Ten to Twenty Years	11	2.7	4,005,168	7.2
Twenty to Thirty Years	28	6.9	12,346,475	22.2
Over Thirty Years	18	4.4	5,855,037	10.5
Total	408	100.0%	\$55,651,885	100.0%

⁽¹⁾ Based on current minimum rents as of June 30, 2013 and Fiscal Year 2012-13 percentage rents over minimum rent amounts. Amounts shown are net of certain rent credits. At February 28, 2014, there were 405 active leases, representing approximately \$54.9 million in annualized revenue. Certain re-leasing activities are currently in progress.

Source: Port of San Francisco.

The following table sets forth the top ten real estate tenants of the Port, in terms of revenue, for Fiscal Year 2012-13. The lease revenue of these ten tenants accounted for approximately \$24,965,000 or 40.7% of the total revenues managed by the Port's Real Estate division.

Table 2
PORT OF SAN FRANCISCO
Top Ten Real Estate Tenants
Fiscal Year ending June 30, 2013
(Revenues in Thousands)

Tenant Name	Revenue ⁽¹⁾⁽²⁾	Percent of Real Estate Revenue ⁽³⁾	Percent of Total Revenue ⁽⁴⁾	Use
China Basin Ballpark Company LLC	\$6,167	10.1%	7.6%	Ballpark Site and Related Parking
Pier 39 Limited Partnership	3,268	5.3	4.0	Retail/Entertainment
Priority Parking-CA	2,468	4.0	3.0	Parking
San Francisco Municipal Transportation Agency	2,447	4.0	3.0	Storage, Office, and Parking
Central Parking System	2,373	3.9	2.9	Parking
Recology San Francisco	2,238	3.6	2.8	Recycling
Trans Bay Cable LLC	1,935	3.2	2.4	Utility (Power Transmission)
Ferry Building Investors, LLC	1,491	2.4	1.8	Office/Retail
AMB Pier One, LLC	1,362	2.2	1.6	Office/Retail
Imperial Parking (U.S.), Inc.	1,216	2.0	1.5	Parking
Total	\$24,965	40.7%	30.6%	

(1) Includes tenants with leases that generate non-maritime revenues. Minor maritime or other revenues may be included in a tenant's revenue total.

(2) Amounts represent tenant billings net of certain revenue credits and allowances.

(3) Real Estate revenue for Fiscal Year 2012-13 was approximately \$61.4 million.

(4) Port operating revenue for Fiscal Year 2012-13 was approximately \$81.5 million.

Source: Port of San Francisco

San Francisco's and the Port's Real Estate Market

The 2008 economic crisis took its toll on all Bay Area commercial real estate markets. However, due to the diversity of the Port's real estate portfolio, which includes office, industrial, storage, retail, restaurants, parking lots, parking meters, and major tourist attractions, and the relative scarcity of industrial space in San Francisco, the Port's real estate revenues remained relatively stable throughout the economic downturn. Recent growth in real estate revenues has followed regional economic improvements, driven primarily by growth in parking revenues.

Today, the San Francisco office market continues to attract tenants from across a wide spectrum of industries around the globe. The technology sector is the principal driver of demand in the office market, but

professional service firms are continuing to lease space throughout the City. With major tenants still in the market leasing space, the Port expects high leasing activity to continue through the short term, and a return to traditional levels in the long term.

In Fiscal Year 2012-13, commercial and residential rents and median home prices in San Francisco increased. The average residential rent for apartments in San Francisco rose 6.6% during Fiscal Year 2012-13, from \$2,640 to \$2,813. Commercial rents saw a 14.8% increase in Fiscal Year 2012-13 compared to Fiscal Year 2011-12. The average median home price in Fiscal Year 2012-13 was \$765,583, up 18.4% from the previous fiscal year.

The table below shows the Port's commercial and industrial lease revenues, and parking rental revenues (excluding parking meter, parking fine and parking stall revenues), from Fiscal Year 2008-09 to Fiscal Year 2012-13.

Table 3
PORT OF SAN FRANCISCO
Historical Results of Real Estate Lease Revenue
For Fiscal Years Ended June 30,
(Amounts in Thousands)

	2009	2010	2011	2012	2013
Commercial/Industrial	\$41,506	\$39,956	\$42,221	\$42,883	\$43,266
Parking Lot Rent	<u>7,210</u>	<u>7,970</u>	<u>10,077</u>	<u>10,688</u>	<u>10,222</u>
Total	\$48,716	\$47,926	\$52,298	\$53,571	\$53,488

Source: Port of San Francisco.

Overall Port vacancy rates for shed (warehouse), office, and retail space have closely followed vacancy rates in the City real estate market. The table below reflects the vacancy rate of Port facilities under direct management by Port staff (excluding those facilities under master leases such as Pier 39 or the Ferry Building) available for leasing as of the end of each Fiscal Year from Fiscal Year 2008-09 to Fiscal Year 2012-13. Some fluctuations in the vacancy rate are caused by either (a) facilities coming off the market due to safety concerns, to allow for renovation, or to facilitate long term development projects, or (b) the return of property to the Port that was previously under a master lease, or dedicated to a special event such as the 34th America's Cup. Notably, these fluctuations in the vacancy rate generally are due to changes in the supply of leasable Port property and not any underlying change in demand. Generally, demand for Port space has been increasing with improvements in the regional economy.

Table 4
PORT OF SAN FRANCISCO
Vacancy Rates of Facilities Available Under Direct Port Real Estate Management
On June 30,

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012⁽¹⁾</u>	<u>2013⁽¹⁾</u>
Office ⁽²⁾	15.5%	17.7%	21.0%	10.1%	9.3%
Shed	10.2	12.7	3.0	2.3	0.3
Overall ⁽³⁾	10.9	13.4	5.5	3.5	1.6

⁽¹⁾ At specified dates during Fiscal Years 2011-12 and 2012-13 various sheds and piers were provided to the America's Cup Event Authority, causing reductions in the vacancy rate shown above.

⁽²⁾ Office space includes both traditional office space as well as bulkhead building office space.

⁽³⁾ Overall vacancy is weighted by square footage in each respective category, and does not equal the average of office and shed.

Source: Port of San Francisco.

In 2009, the City's Planning Commission and Board of Supervisors approved the City's Eastern Neighborhoods Plan and associated zoning and planning codes. The Eastern Neighborhoods Plan does not include the Port Area, but a significant portion of the area covered by the plan is directly adjacent to the Port's industrial properties. The Eastern Neighborhoods Plan calls for transitioning about half of the existing industrial areas in four San Francisco neighborhoods to mixed use zones that encourage new housing. The other remaining half would be reserved for "Production, Distribution and Repair" (Light Industrial) districts, where a wide variety of functions such as bus vehicle yards, caterers, and performance spaces can continue to operate. The Port's industrial properties are expected to house a significant portion of such "Production, Distribution and Repair" uses on behalf of the City. Demand for the Port's industrial space could remain high. Some industrial property owners in San Francisco have been converting their industrial properties to different uses. As these conversions continue, the Port's status as the single largest holder of built industrial space in the City may strengthen.

In December 2010, the City was selected to host the world's premier sailing race, the 34th America's Cup managed by the America's Cup Event Authority. In connection with the event, the City, through the Port, agreed to provide rent-free use of facilities for certain race events that occurred in 2012 and 2013. The City and the Port entered into a memorandum of understanding ("MOU") for payments-in-lieu of rent, to reimburse the Port for certain race-induced lost revenues.

As the successful defender of the 34th America's Cup challenge in September 2013, the Golden Gate Yacht Club ("GGYC") has the right to organize the next America's Cup including selection of the race format, date, and location of the race. While negotiating with the City, the GGYC announced that it intends to consider other locations to host the 35th America's Cup, and to finalize a selection by the summer of 2014. The financial cost or benefit to the Port of hosting the 35th America's Cup, if any, will not be known until after these negotiations have been concluded. Any negotiated agreement will then be subject to environmental review under CEQA, and approvals by the Port Commission and by the Board of Supervisors. Should the next America's Cup also occur in San Francisco, it is anticipated that the Port would receive full or partial rents for the use of its facilities.

PORT MARITIME OPERATIONS

Overview

The Port's maritime revenues are derived from cargo, cruise, ship repair, commercial and sport fishing, ferry and excursion operations and a full range of harbor services. Term leases related to maritime activity normally provide base or minimum rents payable to the Port in equal monthly installments. Percentage or other contingent rents could be payable based on revenue volumes in excess of threshold amounts. Some maritime revenues are based on actual occupancy or use by a measured unit (*e.g.*, per lineal feet of vessel length for dockage) or measured time (*e.g.*, per 24-hour day). These maritime use fees may be based on a standardized tariff schedule or covered by a specific contractual agreement.

In Fiscal Year 2012-13, maritime revenues (apart from maritime revenues such as excursion agreements allocated in the Port's real estate division) were \$14.9 million, or approximately 18.3% of the Port's Fiscal Year 2012-13 total operating revenues of \$81.5 million. The Port has shifted its maritime business focus from solely cargo to passenger cruises, harbor services and ship repair, in recognition of the Port's competitive advantages among the northern California ports as a popular tourist destination and a diversified facility. The largest source of the Port's maritime revenues continues to be cargo, followed by passenger cruises. In addition, the Port has one of the largest dry docks in the United States that is able to repair cruise ships that are so large they are unable to pass through the Panama Canal ("post-panamax ships").

As of June 30, 2013 the Port had 125 maritime leases representing 99 maritime industry tenants. The breakdown of these leases by industry segment is as follows:

Table 5
PORT OF SAN FRANCISCO
Maritime Leases
As of June 30, 2013

	Annualized Revenue ⁽¹⁾	No. of Leases
Cargo	\$3,900,346	14
Harbor Services	2,046,257	5
Ship Repair	1,897,552	1
Various Maritime	1,890,568	32
Commercial Fishing	1,828,334	72
Passenger Cruise ⁽²⁾	180,000	1
Total	\$11,743,057	125

⁽¹⁾ Annualized revenue figures are based on the following: (a) current minimum rents as of June 30, 2013; (b) percentage rent for Fiscal Year 2012-13; and (c) agreement-based maritime user fees, such as wharfage and dockage.

⁽²⁾ Represents lease revenue from a single stevedoring company with which the Port contracts to operate its passenger cruise berths. Approximately 12 different cruise lines visit the Port on an annual basis. A significant amount of passenger cruise revenue is derived from dockage and wharfage fees.

Source: Port of San Francisco

The following table sets forth the top 10 Maritime tenants of the Port, in terms of revenue, for Fiscal Year 2012-13. The lease revenue from these 10 tenants accounted for \$9,808,000 or 66.0% of the total revenues generated by the Port's Maritime division and 12% of the Port's total Revenue.

Table 6
PORT OF SAN FRANCISCO
Top Ten Maritime Tenants and Customers
Fiscal Year ending June 30, 2013
(Revenues in Thousands)

Customer/Tenant Name	Revenue ⁽¹⁾	Percent of Maritime Revenue ⁽²⁾	Percent of Total Revenue ⁽³⁾	Use
BAE Systems San Francisco Ship Repair, Inc.	\$1,827	12.3%	2.2%	Ship Repair
Princess Cruises ⁽⁴⁾	1,719	11.6	2.1	Passenger Cruises
Hanson Aggregates Mid-Pacific, Inc.	1,702	11.5	2.1	Maritime Terminals (Dry Bulk Cargo)
San Francisco Bar Pilots Benevolent & Protective	1,258	8.5	1.6	Maritime Layberthing Operations
CEMEX Construction Materials Pacific, LLC	911	6.1	1.1	Maritime Terminals (Dry Bulk Cargo)
Bode Gravel Company	630	4.2	0.8	Maritime Terminals (Dry Bulk Cargo)
California Sealift Terminals, Inc.	520	3.5	0.6	Maritime Layberthing Operations
Darling International, Inc.	447	3.0	0.5	Maritime Terminals (Liquid Bulk Cargo)
SF Bay Area Water Emergency Transportation Authority	402	2.7	0.5	Excursions/Ferry
Crosslink, Inc.	392	2.6	0.5	Warehouse (Maritime), Office and Parking
Total	\$9,808	66.0%	12.0%	

⁽¹⁾ Amounts represent tenant billings net of certain revenue credits and allowances.

⁽²⁾ Maritime revenue for Fiscal Year 2012-13 was approximately \$14.86 million.

⁽³⁾ Port operating revenue for Fiscal Year 2012-13 was approximately \$81.5 million.

⁽⁴⁾ Princess Cruises is a customer of the Port. The Port's stevedoring tenant for its cruise facilities is Metro Cruises.

Source: Port of San Francisco

Cargo

The primary Port cargo facilities are the 69-acre general cargo terminal at Pier 80 and bulk terminals at Piers 90, 92 and 94.

The Port competes in the bulk and neo-bulk cargo markets, having ceased handling containerized cargoes in 2005 due to high operating costs and low container volumes. The Port's shift in marketing focus resulted in terminal agreements and leases at Piers 90, 92 and 94 with four different companies handling

construction aggregates imported primarily from Canada. In 2013, 1.2 million tons of aggregate sand crossed San Francisco terminals, making it the Port's leading commodity.

The Port handles neo-bulk cargoes at Pier 80 including steel coils, rebar, structural steel, lumber and project cargoes. West Coast cargo volumes have been negatively impacted as international trade has slowed due to the world-wide economic recession. Pier 80 is one of the last remaining ocean terminals in the Bay Area handling non-containerized general cargo, and the Port is aggressively marketing the facility to leading shippers with the expectation that cargo volumes will begin to increase as the economy improves.

In January 2009, the Port hired CBRE Consulting and Martin Associates to examine current and future Port cargo markets. This analysis indicated that the Port should continue to focus on bulk cargoes, which should continue to be a stable and profitable market, while the breakbulk market may continue to be extremely sensitive to world market conditions.

Passenger Cruises

One of the Port's leading maritime industries is commercial passenger cruises. From 2007 to 2013 there was a 15.2% increase in the volume of cruise passengers on a calendar year basis (from 184,935 in 2007 to 213,020 in 2013). The Port has been actively marketing itself to the cruise industry in order to attract more cruise calls and new cruise ship lines to San Francisco. In 2013, there were 213,020 passengers on a total of 64 cruise ship calls, which generated approximately \$2.6 million in revenues to the Port. In Fiscal Year 2013-14, the Port expects to have a total of nine cruise lines calling. On average, approximately 5,000 passengers and crewmembers pass through the cruise terminal whenever a cruise ship is in port. Cruise vacations have continued to be a strong vacation option, with cruise lines reporting occupancy of close to 100% for ships sailing out of San Francisco.

The Port has been a home port for Alaska cruises since 1969, and more recently for Mexico and Hawaii round trips. The Port also welcomes world cruises, coastal itineraries, and repositioning calls. Competing West Coast cruise ports include Los Angeles, Long Beach, and San Diego to the south, and Seattle and Vancouver, Canada, to the north. These ports have a geographic advantage because of their relative proximity to either Mexico or Alaska, which allows them to offer round-trip cruises of seven days or less. San Francisco's round-trip cruises to Mexico, Alaska, and Hawaii are 10 to 15 days in duration, which appeals to a narrower segment of the market. However, the Port has the benefit of offering a convenient debarkation to the Bay Area region.

The Port's current primary cruise terminal, Pier 35, is within walking distance of some of the City's most popular visitor destinations, including Fisherman's Wharf, Pier 39, and the Alcatraz ferry. The James R. Herman Cruise Terminal at Pier 27 will become the primary cruise terminal in September 2014 and is expected to feature the highest design, energy, and environmental standards, including a shoreside power hook-up for cruise ships. See "THE SERIES 2014 PROJECTS." The Port's Pier 70 shipyard offers cruise lines the expert technical support they require and the largest floating repair drydock in North America (see "Ship Repair" below).

Commercial Fishing and Fish Processing

The Port is the center of the commercial fishing industry in northern California. The Hyde Street Harbor, a \$7.5 million fishing marina completed in 2001, and Fisherman's Wharf together accommodate more than 200 fishing fleet vessels. The region's major fish processors are located at specialized facilities in Fisherman's Wharf and the adjacent Pier 45 Commercial Fishing Center. The Port berths approximately 180 boats between Hyde St. and Fisherman's Wharf harbor. Major local fisheries off of the Northern California coast include Dungeness crab, salmon and herring. On a typical day, 40% of the fish processed arrives from local fishermen, 45% by truck from Washington, Oregon and Southern California and 20% by air freight. Approximately 80% of the fish processed is delivered daily within San Francisco to restaurants, grocery, stores

and specialty retailers. The remainder is delivered to Marin County and the Ferry Building. Federal limitations have been imposed on both the salmon and herring seasons in an effort to protect both species from overfishing and environmental impacts exacerbated by below average rainfall. Fish processing has remained active, however, as a significant portion of seafood processed at the Port is flown into San Francisco for processing, as opposed to being caught in local waters.

Ferry Operations

The Port serves as the central terminus for Bay Area commuter ferry routes. The Port built, maintains and operates two ferry terminals; one at the Ferry Building and one at China Basin near AT&T Park. The Golden Gate Bridge Highway and Transportation District operates a terminal at the Ferry Building for Marin County commuters. In 2013, over 4.4 million passengers passed through the Port's ferry terminals. The ferry system is an important emergency transportation system for the Bay Area and has proved invaluable during closures of the Bay Bridge or BART transit worker strikes. Future expansion of ferry facilities is being planned by the Port and the San Francisco Bay Water Emergency Transit Authority.

Harbor Services

The Port is also the center of Northern California's harbor service industry and leases facilities to tenants providing harbor services to the maritime industry throughout the Bay Area including the Ports of Oakland, Redwood City, Richmond, Benicia, West Sacramento and Stockton. These ancillary operators include numerous tug and tow operators, the San Francisco Bar Pilots, and contractors providing lay berthing to Maritime Administration Ready Reserve ("MARAD") ships. Maritime rents and real estate leases and fees, collected both from contractors that provide lay berthing to ships and from vessel owners requiring temporary berthing, comprise the revenues included in this category.

Ship Repair

The Port's ship repair yard at Pier 70 is operated by BAE Systems Ship Repair – San Francisco ("BAE Systems") a multinational firm that offers engineering, advanced technology and other technical services and which operates a number of shipyards in the United States including San Francisco and San Diego, California, Honolulu, Hawaii and Norfolk, Virginia. BAE Systems provides repair services to cruise ships, petroleum tanker vessels, bulk carriers, container ships, military reserve vessels, commercial tugs and barges, and local bay traffic for maintenance, alterations and repairs. BAE Systems leases over 15 acres of land and over 17 acres of water from the Port. Included in the tenant's leasehold are eight cranes and two floating drydocks, all owned by the Port, including the largest floating dry dock on the West Coast. The next closest large-scale dry docks are located in Portland, Oregon. In 2007, the Port entered into an agreement with BAE Systems and Princess Cruises that resulted in a \$5 million enhancement of the largest drydock at Pier 70. BAE Systems has four years remaining on its lease with the Port pursuant to which the Port receives a percentage rent subject to an annual minimum of \$1.05 million. The Port has agreed to provide BAE Systems with rent credits that will apply as an offset of percentage rent payments of up to \$3 million over ten years to reimburse some of the drydock enhancement costs.

PORT FINANCIAL OPERATIONS

Introduction and Overview

The Audited Financial Statements of the Port Commission (the "Financial Statements") for the Fiscal Year ended June 30, 2013 are attached as Appendix C. See Appendix C – "PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO, FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2013." Such Financial Statements should be read in conjunction with the information below and in their entirety.

As shown in Table 12, Port operating revenues, which totaled approximately \$81.5 million in Fiscal Year 2012-13, were derived primarily from real estate and maritime operations. Real estate revenues, which are made up of ground leases and other short and long-term leases of Port property to non-maritime industrial, commercial, retail, office and other business enterprises, represented approximately 75% of Port operating revenues in Fiscal Year 2012-13. Maritime revenues, which are derived from cargo shipping (dry and liquid bulk cargo, and break bulk cargo), dry dock and ship repair services, passenger cruise ship activities, warehousing, harbor services, commercial fishing and other miscellaneous maritime activities, comprised approximately 18% of Port operating revenues in Fiscal Year 2012-13. Most of Port real estate revenues are rental revenues derived from long-term leases of Port facilities, providing a practical constraint on the Port's ability to increase annual revenues absent significant tenant turnover and/or capital investment in the creation or improvement of rental facilities. Port operating revenues increased by \$15.0 million, or 23%, between Fiscal Year 2008-09 and Fiscal Year 2012-13. See "Historical Operating Results" below. Other sources of funding available to the Port include fund balances from year-end savings and revenue surpluses, grants, Port Commission revenue bond proceeds, City general obligation bond proceeds, IFD Revenues (if any Infrastructure Financing District bonds are issued), tax increment revenue, tenant contributions and developer partner equity. These other sources are used primarily for capital projects. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY."

Port operation and maintenance expenses, which totaled approximately \$63.6 million in Fiscal Year 2012-13, include personnel costs, charges for use of City services provided by other City departments, contractual services, office expenses, utility costs, materials and supply costs, discretionary expenses, judgments, claims and litigation expenses, and other general operating expenses. In Fiscal Year 2012-13, the largest of those categories were personnel expenses, representing approximately 52% of total operation and maintenance expenses, and charges for use of City services, representing approximately 27% of the total. Operation and maintenance expenses also include the costs of any repair and maintenance of Port facilities that do not extend the useful life or expand the productive capacity of a capital asset. Port operation and maintenance expenses increased by \$6.0 million, or 11%, between Fiscal Year 2008-09 and Fiscal Year 2012-13. Annual deferred maintenance expenses relating to older Port facilities are not treated as operation and maintenance expenses, but rather as capital expenditures, and are generally payable from Net Revenue or other available sources after provision for payment of principal and interest on revenue bonds of the Port Commission. See "Operation and Maintenance Expenses" below.

In February 2008, the Port Commission adopted Resolution 08-12, which directs the Port to budget a 15% operating reserve defined as a percentage of operating expenses. Commencing with the Port's Fiscal Year 2008-09 budget, the 15% operating reserve has been included in every adopted budget, including the current biennial budget for Fiscal Years 2012-13 and 2013-14. See "Port Commission Operating Reserve Policy and Liquidity."

Port Commission Operating and Capital Budget Processes

As a department within the City and pursuant to Charter requirements, the Port prepares a biennial Operating and Capital Budget. As part of the biennial budget process, the Port is on a "fixed" two-year budget and only amends the budget on alternating years if revenues or expenditures are 5% above or below projections.

The Port's biennial budget is a detailed operating plan that includes the programs, projects, services, and activities to be provided during the two fiscal years, estimated resources available for appropriation, including revenues, fund balance, interdepartmental work order recoveries and other income, and the estimated changes to appropriations. The budget represents a process through which policy decisions are deliberated, implemented, and controlled. The Charter prohibits expending funds for which there is no legal appropriation.

The Capital Budget prioritizes projects submitted for funding and identifies the various sources of funding. The Capital Budget also details previously approved capital projects that are in progress, and

provides the funding status of approved projects. Funding for capital projects is generated from grants, operating fund surpluses, general obligation bond funds, the Port's operating budget and Port Commission debt issuances. Each biennial capital budget includes capital expenditures on Port projects and Portwide activities such as dredging of the Bay floor along the waterfront, facility condition surveys and emergency facility repair. Many of the capital projects address deferred maintenance and facility improvement needs for the Port's maritime and commercial properties. Some of the capital projects create new public amenities such as parks. Most capital projects typically do not include seismic upgrades to the substructure or super-structure of the facilities. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY."

The Operating and Capital Budgets are approved by the Executive Director and then submitted to the Port Commission. Upon approval by the Port Commission, the budget is submitted to the Mayor for approval by May 1 of every other year and then forwarded to the Board of Supervisors for review and approval by August 1 of every other year. The Board of Supervisors can make certain reductions to the budget in their sole judgment. The Port's Executive Director is authorized by the Port Commission to make non-material changes to the operating budget. Significant expenditure increases to the approved budget require Port Commission and Board of Supervisors approval.

Port Commission Operating Reserve Policy and Liquidity

In February 2008, the Port Commission adopted Resolution 08-12, which directs the Port to budget a 15% operating reserve defined as a percentage of operating expenses. Resolution 08-12 further states that the operating reserve should not fall below an amount equal to the estimated cost of two months' expenditures on essential expenses, including salaries, fringe benefits, rent, debt service, essential materials and supplies, and payment of outstanding invoices for professional services. The Resolution allows the Port's Executive Director to use the operating reserve for unforeseen operating expenses, provided prior authorization is obtained from the Port Commission, the Mayor and the City's Board of Supervisors. Prior authorization to use the operating reserve is not required if the funds are to be used to address an emergency that has been declared by the Mayor, or to address other emergencies on Port property that requires an immediate response. Commencing with the Port's Fiscal Year 2008-09 budget, the 15% operating reserve has been included in every adopted budget, including the current biennial budget for Fiscal Years 2012-13 and 2013-14. The operating reserve has been maintained at 15%. The operating reserve has not been drawn upon since first being established in Fiscal Year 2008-09.

Substantially all of the Port's cash is held in the City Treasurer's pooled account of cash and investments. The higher level of capital spending in recent years has decreased the unrestricted cash balance from a peak of \$98.9 million at June 30, 2011 to \$80.4 million at June 30, 2013. With Fiscal Year 2012-13 Operations and Maintenance expenses at \$63.6 million, the unrestricted cash position at June 30, 2013 represents 461 days of cash on hand. See "Historical Condensed Statement of Net Position."

Fiscal Year 2013-14 Operating and Capital Budgets

The Port's Fiscal Year 2013-14 budget of \$105.4 million consists of \$70.3 million for operating expenses, \$8.6 million to fund annual projects (stand-alone small maintenance and other noncapital projects such as technology projects the duration of which is expected to be one year), \$14.0 million for capital projects, \$2.0 million in funds that are designated for capital projects in future years, and a \$10.5 million operating reserve. \$81.7 million or 77% of the Port's \$105.4 million budget is derived from the revenues the Port generates from the use of its property, including rental income from real estate activities, parking related fees and fines, berthing fees, and permitting fees. These revenues are sufficient to cover the Port's operating and maintenance expenses, including the Port's annually funded projects, as well as debt service payments.

The Port's Fiscal Year 2013-14 Capital Budget, shown as Capital Projects in the table below, provides \$14.0 million in funding for 13 capital projects. Such funding is available from Port Fund Balance, which is derived from year-end savings and revenue surpluses. In addition to these newly funded projects, the Port has

other capital projects that were funded in prior years and are in various stages of completion. The Port uses the following criteria to determine which projects to recommend to the Port Commission for funding: (i) addresses health and safety or regulatory issues; (ii) reduces potential significant liability to the Port; (iii) promotes commerce, navigation or fisheries; (iv) attracts people to the waterfront; (v) promotes natural and cultural resources; (vi) preserves existing Port revenues and (vii) generates additional revenues for the Port. See "CERTAIN RISK FACTORS – Condition of Port Facilities" herein, for a discussion of the Port's costs related to its capital improvements and deferred maintenance needs.

Table 7
PORT OF SAN FRANCISCO
Fiscal Year 2013-14 Budget
(Amounts in Millions)

Sources	Amount
Estimated Fund Balance ⁽¹⁾	\$23.7
Revenue	<u>81.7</u>
Total Sources	\$105.4
Uses	
Operating Expenses	\$70.3
Annual Projects	8.6
Capital Projects	14.0
Designated to Future Capital Projects	2.0
Operating Reserve	<u>10.5</u>
Total Uses	\$105.4
Operating Reserve as a Percent of Operating Expenses	15.0%

⁽¹⁾ Estimate of accumulated surplus after provision for 15% operating reserve.
Source: *Port of San Francisco*.

Historical Condensed Statement of Net Position

Table 8 below sets forth the Port's condensed summary statement of net position for the Fiscal Years 2008-09 through 2012-13, which is compiled from the audited financial statements of the Port. Audited financial statements of the Port Commission for the fiscal years ended June 30, 2013 and 2012 are attached as Appendix C.

During the last five fiscal years, the Port Commission has adopted policies, pursued legislative changes and positioned its budget and capital plans for capital investment and strategically focused on revenue enhancements. A portion of the investment in capital assets is funded from the issuance of debt which has resulted in the increases to long-term obligations, including the Series 2010 Bonds. Restricted assets are comprised of unexpended bond proceeds, including proceeds from City general obligation bonds for park and open space improvements on Port property. The higher accounts payable and other liabilities in recent years reflect the impact of obligations incurred in connection with higher capital activities.

Table 8
PORT OF SAN FRANCISCO
Condensed Summary Statement of Net Position
For the Fiscal Years Ending June 30,
(Amounts in Thousands)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Unrestricted cash and investments, held in					
City Treasury	\$85,094	\$91,793	\$98,905	\$92,408	\$80,366
Other unrestricted current assets	6,786	9,389	7,502	19,604	7,632
Restricted current assets	16,422	54,933	49,428	44,796	46,492
Total current assets	<u>108,302</u>	<u>156,115</u>	<u>155,835</u>	<u>156,808</u>	<u>134,490</u>
Capital assets ⁽¹⁾	258,754	261,039	263,834	294,718	409,032
Other assets	869	1,529	1,654	1,745	1,853
Total assets	<u>367,925</u>	<u>418,683</u>	<u>421,323</u>	<u>453,271</u>	<u>545,375</u>
Accounts payable and accrued liabilities ⁽²⁾	7,876	9,195	7,440	18,319	44,081
Current portion of long-term obligations	4,473	760	956	992	1,068
Other current liabilities	10,847	10,665	11,982	16,627	16,100
Total current liabilities	<u>23,196</u>	<u>20,620</u>	<u>20,378</u>	<u>35,938</u>	<u>61,249</u>
Long-term obligations - net of current maturities	3,590	39,215	38,269	37,285	36,601
Other noncurrent liabilities ⁽³⁾	51,006	57,643	53,169	44,572	84,359
Total liabilities	<u>77,792</u>	<u>117,478</u>	<u>111,816</u>	<u>117,795</u>	<u>182,209</u>
Net position	<u>\$290,133</u>	<u>\$301,205</u>	<u>\$309,507</u>	<u>\$335,476</u>	<u>\$363,166</u>

⁽¹⁾ The Fiscal Year 2012-13 capital asset total reflects major capital projects that were completed and put into service during the fiscal year, including (i) Phase I of the James R. Herman Cruise Terminal at Pier 27, (ii) substructure improvements to Pier 15, (iii) the Brannan Street Wharf and Pier 43 Bay Trail Link open space projects, (iv) various capital improvements to Piers 19, 23, 29 and 30-32 that were required as part of the City's agreement to host the 34th America's Cup yacht races, and (v) the installation of shoreside power at Pier 70.

⁽²⁾ The Fiscal Year 2011-12 total includes approximately \$8.7 million in accounts payable and contract retention accruals related to certain Port capital projects including, Phase I of the James R. Herman Cruise Terminal at Pier 27, the Brannan Street Wharf and Bayfront Park projects, shoreside power at Pier 70, the Fisherman's Wharf Harbor Joint Operations and Security center, and security fencing project, among others and an accrual of AC34-related fee charge for \$1.0 million.

The total for Fiscal Year 2012-13 includes \$26.8 million in funds advanced to the Port from the City's commercial paper ("CP") program. These advances were used for CP draws used to fund Port capital project expenditures, principally the James R Herman Cruise Terminal at Pier 27, and for related CP program costs. In October 2013 these CP advances were repaid from proceeds received from the \$37.7 million in Certificates of Participation that were issued by the City on behalf of the Port. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Additional Bonds and Other Obligations."

⁽³⁾ The Fiscal Year 2012-13 other noncurrent liabilities total reflects approximately \$45 million in deferred credits provided to the Exploratorium, a Port tenant, for substructure improvements that they completed. These rent credits will be amortized over the remaining term of their lease.

Source: Port of San Francisco.

Port Operating Revenues – General

The Port's operating revenues are derived from real estate and maritime operations: (i) real estate revenues, which are made up of ground leases and other short and long-term leases of Port property to non-maritime industrial, commercial, retail, office and other business enterprises, and (ii) maritime revenues, which

are derived from cargo shipping (dry and liquid bulk cargo, and break bulk cargo), dry dock and ship repair services, passenger cruise ship activities, warehousing, harbor services, commercial fishing and other miscellaneous maritime activities.

The Port's operating revenues are primarily a function of the terms of leases and agreements the rates of which are determined chiefly by the San Francisco real estate market. Increasing the Port's rental income often requires the Port and/or its tenant to invest in repairs and upgrades to the Port's property. If the tenant paid for the improvements, the Port typically is able to increase the rental rates only after the tenant's contributions have been amortized. As previously noted, the Port does not receive tax revenues to support its operations.

The following table sets forth information about the Port's operating revenues from maritime and commercial and industrial real estate operations, based on an annualization of minimum rents of Port tenants as of June 30, 2013 and percentage rents received in Fiscal Year 2012-13.

Table 9
PORT OF SAN FRANCISCO
Major Port Operating Revenues⁽¹⁾
June 30, 2013

	Annualized Revenue ⁽²⁾		Square Footage	
	Amount	Percent	Size	Percent
Real Estate				
Industrial ⁽³⁾	\$17,349,363	24.32%	8,454,640	43.10%
Ground Lease ⁽³⁾	11,844,753	16.61	3,002,306	15.30
Restaurant & Retail	8,970,493	12.57	271,108	1.38
Parking	12,872,878	18.04	1,187,364	6.05
Office	4,614,399	6.47	269,798	1.38
Subtotal Real Estate	\$55,651,886	78.01%	13,185,216	67.21%
Maritime				
Cargo	\$4,746,928	6.65%	2,626,155	13.39%
Commercial Fishing	2,174,925	3.05	254,953	1.30
Passenger Cruise	3,085,947	4.33	241,447	1.23
Various Maritime	1,735,451	2.43	2,198,161	11.20
Harbor Services	2,046,257	2.87	192,705	0.98
Ship Repair	1,897,552	2.66	920,354	4.69
Subtotal Maritime	\$15,687,060	21.99%	6,433,775	32.79%
Total	\$71,338,946	100.00%	19,618,991	100.00%

⁽¹⁾ Table only includes major revenues from tenancy and operating agreements and maritime user fees (*i.e.*, wharfage and dockage). Revenues from miscellaneous sources (*i.e.*, parking meters and parking fines) are not included. Total operating revenue for Fiscal Year 2012-13 was approximately \$81.5 million.

⁽²⁾ The Port calculates annualized lease revenue based on current base rents as of June 30, 2013 and Fiscal Year 2012-13 percentage rents in excess of base rent amounts. Revenue amounts are net of certain rent credits.

⁽³⁾ During Fiscal Year 2012-13, approximately 2.2 million square feet of leased space was reclassified from the category of ground lease to that of industrial. The former San Francisco Redevelopment Agency ("SFRDA") leased several parcels of land from the Port under long term ground leases and developed them into housing, retail, marina operations and other uses. Beginning July 1, 2012, this area came under Port management.

Source: Port of San Francisco.

The following table sets forth the top ten tenants and customers (both maritime and non-maritime) of the Port for Fiscal Year 2012-13.

Table 10
PORT OF SAN FRANCISCO
Top Ten Port Tenants and Customers
Fiscal Year ending June 30, 2013
(Revenues in Thousands)

Tenant Name	Revenue ⁽¹⁾	Percent of Operating Revenue ⁽²⁾	Use	Expiration
China Basin Ballpark Co.	\$6,167	7.6%	Ballpark Site and Related Parking	12/31/2022 ⁽³⁾
Pier 39 Ltd. Partnership	3,268	4.0	Retail/Entertainment	12/31/2042 ⁽⁴⁾
Priority Parking-CA	2,468	3.0	Parking	Expired ⁽⁵⁾
SF Municipal Transportation Agency	2,447	3.0	Storage, Office, and Parking	Expired ⁽⁶⁾
Central Parking System	2,373	2.9	Parking	Expired ⁽⁷⁾
Recology San Francisco ⁽⁸⁾	2,238	2.8	Recycling	7/31/2023 ⁽⁹⁾
Transbay Cable, LLC	1,935	2.4	Utility (Electric Power Transmission)	11/21/2035
BAE Systems – SF Ship Repair, Inc	1,827	2.2	Ship Repair	12/16/2017
Princess Cruises	1,719	2.1	Passenger Cruises	N/A ⁽¹⁰⁾
Hanson Aggregates Mid-Pacific	<u>1,702</u>	<u>2.1</u>	Maritime Terminals (Dry Bulk Cargo)	8/31/2018 ⁽¹¹⁾
Total	\$26,144	32.1%		

(1) Amounts represent tenant billings net of certain revenue credits and allowances.

(2) Operating revenue for Fiscal Year 2012-13 was approximately \$81.5 million.

(3) Tenant has multiple leases. The expiration date shown is for the stadium lease (approximately 23% of tenant revenues). The primary parking lot lease expires March 31, 2017 (77% of revenues). The parking lot may be included in a future development project, under which it is currently anticipated that parking spaces and parking rent to the Port will be retained. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY."

(4) Tenant has multiple leases. The expiration date shown is for the tenant's primary lease (99% of tenant revenues). The tenant's other leases expire March 31, 2016.

(5) Tenant has multiple leases, all of which are expired, but have continued under month-to-month holdover provisions. The Port is preparing a Request for Proposals to competitively bid these parking lots.

(6) The Agency terminated its primary lease on June 30, 2013 (approximately 79% of tenant revenues). The vacated space has been largely re-leased to other tenants. Remaining Agency leases are expired, but have continued under month-to-month holdover provisions.

(7) Lease expired on March 31, 2012 and is continuing under month-to-month holdover provisions. The Port is preparing a Request for Proposals to competitively bid the lease of these parking lots.

(8) Formerly known as SF Recycling and Disposal, Inc.

(9) Tenant has two leases. Expiration date shown is for the primary lease (75% of tenant revenues). The tenant's other lease expires July 31, 2014 (25% of tenant revenues).

(10) Princess Cruises does not lease property. Metro Cruises is the Port's stevedoring tenant for its cruise facilities and Princess Cruises is a passenger cruise line customer. The revenue represents fees paid to the Port based on cruise ship call duration and cruise passenger volume.

(11) Tenant has multiple leases. Expiration date shown is for the primary lease. The tenant's other leases expire February 28, 2019 or are month to month.

Source: Port of San Francisco.

Operation and Maintenance Expenses

General. The Port's Operation and Maintenance Expenses include the following costs: personnel, office expenses, utility costs, materials and supply costs, discretionary expenses, litigation expenses, payments made to the City for services of other City departments, and other general operating expenses. Any maintenance and repair work to Port facilities that does not extend the useful life and/or expand productive capacity of a capital asset is charged to operating expense as incurred (and as such, such costs are included as Operation and Maintenance Expense, as shown in Table 11 below and as discussed herein). The Port has significant deferred maintenance expenses relating to its older facilities, but due to the advanced age of these facilities and the great magnitude of rehabilitation that is required to bring such properties to a current state of repair, such costs are not treated as Operation and Maintenance Expense, but rather as capital expenditures, payable from Net Revenue after provision for payment of principal of and interest on the Bonds. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY" herein.

Port Payments to the City and County of San Francisco. The Port reimburses the City for services provided to the Port by various City departments. Such amounts are included in Operation and Maintenance Expenses as "Charges for Use of City Services" in the table set forth below. Examples of City services include fire protection (fire boat and crew), police protection, performance audits of Port operations by the City Controller's Office including tenant concession audits, insurance procured through the City's Risk Manager, and legal services provided by the City Attorney's Office. In Fiscal Year 2012-13, these expenses totaled \$17.2 million or approximately 22% of the Port's total Operations and Maintenance Expenses. The Fiscal Year 2012-13 total included \$3.2 million in pass through charges for such items as workers' compensation, insurance, electricity, and telephone service.

The Port also reimburses the City for indirect costs based on the City's County Wide Indirect Cost Allocation Plan. Examples of these City services include materials, supplies and equipment procurement, document processing and financial reporting, and payroll services. In [Fiscal Year 2011-12 and] Fiscal Year 2012-13 the Port did not contribute to the City's overhead expenses due to a credit from overpayment in prior years. However, in Fiscal Year 2013-14 the Port will pay \$0.3 million for its share of the City's overhead expenses.

The following table sets forth historical Operation and Maintenance Expenses of the Port, based on the categories of expenses discussed above.

Table 11
PORT OF SAN FRANCISCO
Historical Operations & Maintenance Expenses
For Fiscal Year Ended June 30,
(Amounts in Thousands)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Operations & Maintenance					
Personnel Expense	\$29,239	\$29,324	\$30,092	\$32,318	\$32,894
Citywide Overhead	538	261	100	0	0
Other Current Expenses ⁽¹⁾	2,868	2,778	2,794	3,355	3,802
Professional & Specialized Services	4,417	3,336	3,454	3,826	4,887
Utility Expenses	2,004	1,963	1,769	2,111	2,040
Materials & Supplies	1,618	1,311	1,462	1,051	1,548
Judgments, Claims & Litigation	702 ⁽²⁾	353	308	333	427
Office Rent	3,097	3,213	3,032	2,882	2,892
Charges for Use of City Services	12,771	16,021	14,495	16,395	17,221
Other Operating & Maintenance Expense (net)	320	197	214	1,231 ⁽³⁾	715 ⁽⁴⁾
Subtotal	<u>\$57,574</u>	<u>\$58,757</u>	<u>\$57,720</u>	<u>\$63,502</u>	<u>\$66,426</u>
Non-cash adj. for estimated pollution remediation costs	<u>0</u>	<u>0</u>	<u>(5,850)</u>	<u>(8,032)</u>	<u>(2,810)</u>
Total Operations & Maintenance Exp.	<u>\$57,574</u>	<u>\$58,757</u>	<u>\$51,870</u>	<u>\$55,470</u>	<u>\$63,616</u>

⁽¹⁾ The reported expense for Fiscal Years 2010-11 through 2012-13 excludes the effect of a credit that represented a noncash adjustment to account for a reduction in estimated future environmental costs. These credits totaled \$5.85 million, \$8.032 million and \$2.81 million for Fiscal Years 2010-11, 2011-12 and 2012-13, respectively.

⁽²⁾ The relatively high expense for Fiscal Year 2008-09 is due, in part, to the settlement of a claim from a Port tenant alleging breach of contract.

⁽³⁾ The increase in "other operating and maintenance expenses" for Fiscal Year 2011-12 results from a \$1 million payment to the America's Cup Event Authority for the use of plans and design drawings that they developed for repairs to and seismic upgrade of Piers 30-32.

⁽⁴⁾ The "other operating and maintenance expenses" for Fiscal Year 2012-13 reflects \$451,000 in fees paid to the City for the use of their commercial paper program to finance certain Port capital projects.

Source: Port of San Francisco.

Historical Operating Results

A summary of the Port Commission's historical results of operations as reported in the Port Commission's financial statements for the Fiscal Year 2008-09 through Fiscal Year 2012-13 are shown in the table set forth below.

Table 12
PORT OF SAN FRANCISCO
Historical Results of Operations
For Fiscal Year Ended June 30,
(Amounts in Thousands)

	2009	2010	2011	2012	2013
Operating Revenues:					
Maritime Operations					
Cargo	\$4,655	\$4,500	\$5,052	\$5,442	\$4,886
Ship Repair	975	875	927	1,706	1,553
Harbor Services	991	1,032	1,477	1,964	2,018
Cruise	1,924	1,716	1,903	2,266	2,825
Fishing	1,972	1,980	1,986	2,024	2,012
Other Marine	1,534	1,631	1,490	1,517	1,556
Miscellaneous	107	1	13	73	11
Total Maritime	\$12,158	\$11,735	\$12,848	\$14,992	\$14,861
Real Estate Operations					
Commercial/Industrial	\$41,506	\$39,956	\$42,221	\$42,883	\$43,266
Parking	10,697	11,958	15,105	17,159	17,774
Filming & Special Event Revenue	114	157	202	203	48
Miscellaneous	106	114	153	226	300
Total Real Estate Operations	\$52,423	\$52,185	\$57,681	\$60,471	\$61,388
Other Operating Revenues	1,558	2,659	1,737	1,797	5,263
Total Operating Revenues	\$66,139	\$66,579	\$72,266	\$77,260	\$81,512
Operating Expenses					
Operations & Maintenance	\$57,574	\$58,757	\$51,870	\$55,470	\$63,615
Depreciation & Amortization	13,349	13,760	14,695	15,070	16,367
Total Operating Expenses	\$70,923	\$72,517	\$66,565	\$70,540	\$79,982
Operating Income	(\$4,784)	(\$5,938)	\$5,701	\$6,720	\$1,530

[Table Continued on Next Page]

	2009	2010	2011	2012	2013
Other Income & (Expenses)					
Interest & Investment Income	\$2,595	\$2,313	\$1,508	\$2,559	\$24 ⁽¹⁾
Interest Expense	(544)	(1,056)	(2,178)	(1,767)	(1,440)
Pier Demolition & Other Dispositions	(14)	(2,203)	10	(7,648) ⁽²⁾	(5,821) ⁽³⁾
Other	15	1,822	234	9,150 ⁽⁴⁾	7,565 ⁽⁵⁾
Total Other Income/(Expense) Net	\$2,052	\$876	(\$426)	\$2,294	\$328
Net Income/(Loss) Before Capital Contribution	(\$2,732)	(\$5,062)	\$5,275	\$9,014	\$1,858
Capital Grants and Other Contributions	5,203	16,134	3,027	16,955	25,832
Change in Net Assets	\$2,471	\$11,072	\$8,302	\$25,969	\$27,690

Source: Port of San Francisco.

Historical Debt Service Coverage

The following table sets forth historical information relating to the Port's debt service coverage.

Table 13
PORT OF SAN FRANCISCO
Historic Debt Service Coverage
For Fiscal Years Ended June 30,
(Amounts in Thousands)

	2009	2010	2011	2012	2013
Revenues ⁽¹⁾					
Maritime	\$12,158	\$11,735	\$12,848	\$14,992	\$14,861
Real Estate ⁽⁵⁾	52,423	52,185	57,681	\$60,471	61,388
Interest Income ⁽²⁾	1,480	880	962	\$1,084	848
Other Revenue ⁽³⁾	<u>1,573</u>	<u>3,557</u>	<u>1,960</u>	<u>\$1,771</u>	<u>5,263</u>
Total Revenues	\$67,634	\$68,357	\$73,451	\$78,318	\$82,360
Operating Expenses ⁽¹⁾⁽⁴⁾					
Operations & Maintenance	<u>\$54,563</u>	<u>\$56,305</u>	<u>\$55,268</u>	<u>\$60,856</u>	<u>\$63,760</u>
Total Operating Expenses	\$57,739	\$58,922	\$55,268	\$60,856	\$63,760
Net Revenue ⁽⁵⁾	\$13,071	\$12,052	\$18,183	\$17,462	\$18,600
Debt Service on Bonds ⁽⁶⁾	\$4,407	\$4,396	\$2,843	\$2,845	\$2,846
Net Revenue Coverage on Bonds (times) ⁽⁷⁾	2.97x	2.74x	6.40x	6.14x	6.54x
Debt Service on Subordinate Obligations ⁽⁸⁾	\$232	\$297	\$427	\$427	\$474
Net Revenue Coverage on Bonds and Subordinate Obligations (times) ⁽⁹⁾	2.82x	2.57x	5.56x	5.34x	5.60x

(1) Revenues and expenses were determined in accordance with the Master Indenture. For comparative purposes, revenues and expenses for Fiscal Years 2008-09 and 2009-10 were adjusted to conform with the Master Indenture. With this exception, the amounts are derived from financial reports which have been audited and adjusted for elements discussed in footnotes 2 and 4.

(2) Represents interest income earned on funds on deposit with the City Treasurer and late charges received from tenants.

(3) The revenues reported for Fiscal Year 2012-13 include the following: a) a \$1,310,000 payment in lieu of rent received from the City pursuant to an MOU in which the City agreed to compensate the Port for lost rent resulting from the City's hosting of the 34th America's Cup yacht races, and b) a \$1,878,000 increase in the amount of fees and Port expense recoveries received from developers in connection with contract negotiations for future development projects.

(4) Operations & Maintenance Expenses excludes non-cash OPEB expenses, and accretion expenses, pursuant to the Indenture which took effect with the issuance of the Series 2010 Bonds.

(5) Higher Net Revenue reported for Fiscal Year 2010-11 and subsequent years is largely derived from higher Total Revenues reflecting, in part: (i) revenues from a new license for the use and maintenance of a subterranean high voltage transmission cable that runs through Port property; and (ii) higher parking revenues generated from several parking lot operating agreements that were put out to competitive bid.

(6) Represents debt service on the Series 2004 Refunding Revenue Bonds for Fiscal Years 2008-09 and 2009-10, and debt service on the Series 2010 Bonds for Fiscal Years 2010-11 through 2012-13.

(7) Represents Net Revenue coverage on the Series 2004 Refunding Revenue Bonds for Fiscal Years 2008-09 and 2009-10, and Net Revenue coverage on the Series 2010 Bonds for Fiscal Years 2010-11 through 2012-13.

(8) Includes the loan from the California Division of Boating and Waterways, the SFPUC loan and the certificates of participation issued by the City. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Additional Bonds and Other Obligations."

(9) The Indenture does not require the Port to maintain any level of Net Revenue coverage on Subordinate Bonds or other subordinate obligations.

Source: Port of San Francisco.

Projected Debt Service Coverage*

The projected debt service coverage ratios of Net Revenue to debt service on the Bonds shown in the following table are calculated in accordance with the Indenture. Such information constitutes "forward looking statements." A discussion of the major assumptions that underlie the revenue projections reflected in the following table is set forth below, and a discussion of certain risk factors affecting the achievement of Revenue and Net Revenue is set forth under the caption "CERTAIN RISK FACTORS" below, but no assurance is given that actual results will meet the Port Commission's forecasts in any way. Such discussion is not intended to address all possible risks and uncertainties relating to the achievement of such results. Changes in the circumstances that form the bases for the assumptions used in developing these projections as well as unanticipated events may occur subsequent to the date of this Official Statement. Differences between forecasted results and actual results may be material. See "CERTAIN RISK FACTORS – Uncertainties of Projections and Assumptions; Forward Looking Statements."

Table 14
PORT OF SAN FRANCISCO
Projected Debt Service Coverage
For Fiscal Years Ending June 30,
(Amounts in Thousands)

	2014	2015	2016	2017	2018
Revenue					
Maritime	\$16,283	\$18,032	\$19,159	\$19,933	\$20,365
Real Estate	63,039	68,053	71,725	74,872	76,651
Interest Income ⁽¹⁾	777	777	900	1,064	1,228
Other Revenue ⁽²⁾	2,967	1,126	1,151	1,177	1,203
Total Revenues	83,066	87,988	92,935	97,046	99,447
Operating Expenses					
Operations & Maintenance ⁽³⁾	63,881	66,599	68,949	70,950	73,266
Total Operating Expenses	63,881	66,599	68,949	70,950	73,266
Net Revenue	\$19,185	\$21,389	\$23,986	\$26,096	\$26,181
Total Bonds Debt Service ⁽⁴⁾	\$2,847	\$4,549	\$4,552	\$4,547	\$4,551
Projected Net Revenue Coverage on Series					
2010 Bonds and Series 2014 Bonds (times)	6.74x	4.70x	5.27x	5.74x	5.75x
Total Debt Service on Subordinate					
Obligations ⁽⁵⁾	\$3,359	\$3,179	\$3,076	\$3,028	\$2,966
Net Revenue Coverage on Bonds and					
Subordinate Obligations (times) ⁽⁶⁾	3.09x	2.77x	3.14x	3.45x	3.48x

(1) Includes interest income earned on funds on deposit with the City Treasurer plus late charges from tenants.

(2) Includes certain non-recurring permit fees and income from developers as well as other operating revenues. For Fiscal Year 2013-14 also includes reimbursement from the City for rental income lost as a result of hosting the 34th America's Cup yacht races.

(3) Excludes non-cash charges associated with providing other post-employment benefit (OPEB) of approximately \$2.67 million per year.

(4) Reflects debt service on the Port's Series 2010 Bonds and projected debt service on the Series 2014 Bonds.

(5) Includes the loan from the California Division of Boating and Waterways, the SFPUC loan and the certificates of participation issued by the City. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS – Additional Bonds and Other Obligations."

(6) The Indenture does not require the Port to maintain any level of Net Revenue coverage on Subordinate Bonds or other subordinate obligations.

Source: Port of San Francisco.

Effect on Revenues of Projects Funded, in part, by the 2014 Revenue Bonds. The Port expects to generate new revenues from the projects to be funded, in part, by the Series 2014 Bonds. More specifically, new revenues will be generated from: (i) special events and parking revenues from the new James R. Herman cruise terminal at Pier 27, (ii) a new cruise passenger facility charge that will be implemented upon the opening of the new terminal, and (iii) repaired pier facilities located in the Port's northern waterfront. Revenues generated from these sources and included in the projections are as follows:

Table 15
PORT OF SAN FRANCISCO
Projected New Revenues from Series 2014 Bond-Funded Projects

Fiscal Year Ending June 30,	Revenues (in 000s)
2014	—
2015	\$1,534
2016	2,906
2017	3,503
2018	3,945

Source: Port of San Francisco.

Major Assumptions Relating to Revenues from Maritime Operations. Maritime revenues are projected to increase by approximately \$5.5 million or 3.7% from Fiscal Year 2012-13 to Fiscal Year 2017-18. The increase reflects increased rental income from scheduled rent increases and cost of living rent adjustments for the Port's maritime tenants, and additional revenues from cruise operations due to additional revenues anticipated from the new Pier 27 cruise terminal that is scheduled to open in September 2014, and a new passenger facility charge to be imposed in the fall of 2014. Cruise operations, which are discussed in more detail below, accounts for 73% of the \$5.5 million revenue increase projected. Other assumptions incorporated into these projections are further described below.

Cargo. Cargo revenue increases principally reflect annual cost of living and scheduled rent increases for the Port's [sand and] aggregate tenants located in the Port's Southern Waterfront. The projections assume annual consumer price index ("CPI") increases of 2% in Fiscal Years 2014-15 and 2015-16, and 3% thereafter. The projections assume that no major new cargo business at Pier 80 will be added during the forecast period.

Ship Repair. Revenues from ship repair in Fiscal Year 2013-14 are projected to increase due to timing issues associated with the collection of certain rent revenues from April to June 2012. Thereafter, revenues from ship repair are projected to decline over the next four years due to increased competition from Vigor Marine in Oregon and the expansion of the Panama Canal which will permit larger, "post-panamax" ships to move much more easily from the Pacific Ocean to the Gulf of Mexico and the Atlantic Ocean. As a result, dry docks in the Southern and Eastern United States will be able to compete for West Coast ship repair business.

Cruise. Cruise revenues are projected to increase significantly over the forecast period from \$2.8 million in FY 2012-13 to \$6.8 million in FY 2017-18. The revenue growth stems from the following three factors:

(a) A new \$6 per person passenger facility charge ("PFC") that will be imposed beginning November 2014, after the new cruise terminal at Pier 27 is completed and becomes operational. The PFC is designed to help pay for a portion of the costs of the new terminal and other improvements at the Port's other major cruise facility at Pier 35;

(b) New special event and parking revenues generated from the Pier 27 cruise facility beginning in November 2014; and

(c) An increase in the projected number of cruise passengers from 202,000 in Fiscal Year 2012-13 to approximately 261,000 in Fiscal Year 2014-15, based on scheduled booking with the cruise lines. As the new PFC is not scheduled to go into effect until November 2014, the projections assume that only about 155,000 passengers will be subject to the new charge in Fiscal Year 2014-15.

Revenues from the new PFC and the new cruise terminal over the forecast period are projected to be as follows:

Table 16
PORT OF SAN FRANCISCO
Projected Revenues
From PFC and New Cruise Terminal
For Fiscal Years Ending June 30,

	<u>2014</u>	<u>2015⁽¹⁾</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Add'l Rev Due to New PFC	\$0	\$929,718	\$1,567,158	\$1,567,158	\$1,567,158
Revenue from Pier 27 Special Events	0	304,009	556,363	749,235	756,727
Pier 27 Parking Revenue	0	300,643	601,287	721,544	865,853
Total Add'l Revenue Projected	\$0	\$1,534,370	\$2,724,808	\$3,037,937	\$3,189,738

⁽¹⁾ Represents a partial year based on a November 2014 opening.

Source: Port of San Francisco.

Major Assumptions Relating to Real Estate and Operations Revenues. Real Estate revenues are projected to increase by approximately \$9.8 million, or 16.0%, from Fiscal Year 2012-13 to Fiscal Year 2017-18. The increase reflects higher commercial rental and parking income related to: (i) the ability to lease-up the facilities previously used by the America's Cup Event Authority during the races, (ii) increased base rents from scheduled rent increases and cost of living rent adjustments of tenant leases, and (iii) new lease income from the lease-up of newly renovated and repaired spaces at Piers 31 and 33, a new restaurant at Pier 50, and a major new tenant at the Port's Pier 94/96 facility.

Base rental income is projected to grow at 2% annually throughout the forecast period. Percentage rents are forecast to increase by 7.5% in Fiscal Year 2013-14, 5% in Fiscal Year 2014-15, and 2% annually thereafter. Vacancy rates are projected to remain stable throughout the forecast period, and uncollectable rents have been projected to total 1% of gross rental revenues throughout the forecast period. The projections also assume that leases expiring during the forecast period will be renewed or replaced with leases generating similar rents to those of the expiring leases.

America's Cup. As more fully discussed in "PORT REAL ESTATE OPERATIONS," the City hosted the 34th America's Cup sailing race. Most of the facilities and support services for the event were located on Port property, and the Port provided rent-free use of certain facilities for race events. The City and the Port entered into a memorandum of understanding ("MOU") for payments-in-lieu of rent, to reimburse the Port for certain race-induced lost revenues through December 2013. The projections assume that under the MOU the Port will receive close to \$1 million for Fiscal Year 2013-14.

The projections assume that the America's Cup facilities will be leased for their prior permitted uses, beginning in July of 2014, and that full lease up of these facilities will take two years. Revenues projected from the leasing of these facilities are as follows:

Table 17
PORT OF SAN FRANCISCO
Projected Revenues from Release of America's Cup Facilities

Fiscal Year Ending <u>June 30,</u>	Revenues <u>(in 000s)</u>
2015	\$2,122
2016	3,917
2017	5,279
2018	5,385

Source: Port of San Francisco.

As the successful defender of the America's Cup challenge, the Golden Gate Yacht Club has announced that it intends to negotiate with the City and other locations to host the 35th America's Cup in San Francisco. The City has made a proposal to the Golden Gate Yacht Club that seeks payment of rent for Port facilities. However, no assurances can be made that a final host agreement will include full payment thereof. No impact on revenues from hosting this event has been assumed in these projections.

Planned Real Estate Developments. The Port is currently in negotiations with developers on several major development projects. These projects are in various stages of negotiation and it is not known whether these projects will move forward on the schedules envisioned by their developers. Due to these uncertainties, no impact from these planned developments has been incorporated into these projections. For a discussion of these major development projects, along with their impact on the Port's real estate revenues, and debt service coverage see "Projected Debt Service Coverage – Major Assumptions Relating to Real Estate Development Projects" below.

Other major real estate assumptions incorporated into these projections include the following:

Pier 33. A large portion of this facility has been vacant for several years. A complete core and shell buildout, and ADA upgrade of the space has recently been completed, and the projections assume that the space will be leased up by the second quarter of Fiscal Year 2014-15.

Pier 31. The shed portion of this facility is currently red tagged. The projections assume that the shed will re-open and be re-leased beginning in Fiscal Year 2015-16, after structural and other repairs have been completed. Full lease up of the facility is projected to take 18 months. Funds from the Series 2014 Bonds will be used to finance the repairs to this facility.

Pier 38. This facility is currently vacant. The Port is currently negotiating a lease and development agreement with TMG Pier 38 Partners, LLC for the lease of the bulkhead portion of the facility. The projections assume that these negotiations are successful, and that the bulkhead will be re-opened and generating revenues starting in mid-Fiscal Year 2015-16.

Parking. The increase in parking revenues over the forecast period reflects, in large part, the additional revenue generated from the leasing of the America's Cup venue sites. Additional revenues from a new parking lot at 20th and Illinois Street are projected for Fiscal Year 2015-16 and thereafter. Existing parking revenues in all categories (meters, parking stalls, fines, and rent) are forecast to increase by 7.5% in Fiscal Year 2013-14, by 5% in Fiscal Year 2014-15, and by 2% annually thereafter.

General. Real Estate revenues are projected to grow at (a) 2% per annum throughout the forecast period for those leases that have fixed rental amounts with a lease provision for annual inflationary adjustments, or (b) 7.5% in Fiscal Year 2013-14, 5% in Fiscal Year 2014-15, and 2% annually thereafter for retail leases with rents based on a percentage of sales.

Major Assumptions Relating to Operations and Maintenance Expenses. Total operations and maintenance expenses are projected to increase by \$9.2 million, or 14.0%, from Fiscal Year 2012-13 to Fiscal Year 2017-18. The increase is the result of rising personnel costs due in large part to higher health and retirement plan benefit costs, and general expense increases resulting from inflation, and higher utility expenses reflecting anticipated increases in water rates over the projected period. With the exception of personnel, the projections assume annual increases of 3% in most expense items throughout the forecast period. Other major assumptions incorporated into these projections include:

Salary and benefits. The projections assume the addition of three new staff positions in Fiscal Year 2014-15 and two new positions in Fiscal Year 2016-17. Increased personnel costs arising from these new positions are estimated to be \$464,000 and \$331,000 for Fiscal Years 2014-15 and 2016-17, respectively.

The projections reflect salary increases of 3% in Fiscal Year 2013-14, 1% in Fiscal Year 2014-15, and 3% per year thereafter. In spite of the salary growth, total salary expense growth for Fiscal Year 2013-14 is projected to be relatively flat (growing by just 0.3%), due to sharp declines in temporary salary costs and, to a lesser extent, overtime costs. These costs were unusually high in Fiscal Year 2012-13 due to additional staffing required for the 34th America's Cup yacht races. Expenses in these areas have now returned to more normal levels.

Assumptions for personnel benefit costs are based upon the Port's historical spending and the City's adopted Five Year Financial Plan for Fiscal Year 2013-14 through Fiscal Year 2017-18 (the "City's Financial Plan"). Health and dental insurance costs are projected to increase by 6.0% in Fiscal Year 2014-15 and in each fiscal year thereafter. The projections also include estimated charges for other post-employment benefits of \$2.7 million annually. The City's Financial Plan assumes employer pension contributions to the San Francisco Employee Retirement System that were projected in 2012 by Cheiron (the City's actuarial consultant) and show a peak of employer contribution rates in Fiscal Year 2014-15 that fall slightly by Fiscal Year 2017-18. Based upon the foregoing, the Port projections assumed retirement plan net employer contributions of 20.1% of total salaries in Fiscal Year 2013-14, 23.1% in Fiscal Year 2014-15, 24.0% in Fiscal Year 2015-16, 23.1% in Fiscal Year 2016-17, and 22.8% in Fiscal Year 2017-18. For budget projections, the actuarially determined employer contribution rate is reduced by certain additional employee contributions (up to 4% depending on salary and type of employee) pursuant to Proposition C, a Charter amendment passed by City voters in November 2011.

Risk Management. Insurance premiums are projected to increase at the rate of 5% per year beginning in Fiscal Year 2014-15 (the projections incorporate the actual insurance premium expense incurred for Fiscal Year 2013-14). All other risk management costs, including fees paid to the City Risk Manager for managing and placing the Port's insurance policies are forecast to increase at an annual rate of 3% beginning in Fiscal Year 2014-15.

Major Assumptions Relating to Depreciation and Amortization. Total depreciation and amortization expense is projected to increase by \$9.0 million, or 54.9%, from Fiscal Year 2012-13 to Fiscal Year 2017-18 as a direct result of depreciation associated with the capital projects being financed, in part, by the Series 2014 Bonds, including the new cruise terminal at Pier 27, and other large capital improvements that are planned over the projected period. For the projections, depreciation is computed using the straight-line method applied over the estimated useful life of the assets. The estimated useful life of the Series 2014 Bond-financed Pier 27 cruise terminal improvements is assumed to be 35 years. Substructure and pier improvements are assumed to have a useful life of 50 years. The estimated useful life of building and other improvements have assumed useful lives ranging from 20 to 35 years.

Major Assumptions Relating to Interest Expense. Interest expense includes the Series 2010 Bonds, the City's certificates of participation executed and delivered in October 2013 for certain Port projects, and the Series 2014 Bonds. The Port's current Ten-Year Capital Plan assumes no additional Port revenue bonds will be issued, but the Plan notes that the Port would revisit issuing bonds if projects were identified in the future

that generate revenues in excess of the amount required to service debt costs. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY – Ten-Year Capital Plan" herein.

Major Assumptions Relating to Capital Grants and Other Capital Contributions. The Port estimates that it will receive \$72.0 million in grant funding and capital contributions over the next five years, broken down as follows (see "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY – Ongoing and Future Capital Projects – Bond Funded Projects"):

Table 18
PORT OF SAN FRANCISCO
Assumptions on Grant Funding and Capital Contributions
For Fiscal Years 2013-14 through 2017-18

Grant Type/Funding Source	Amount (in millions)
City G.O. Bond Funds	\$50.5
Security Grants	6.7
City / America's Cup Organizing Committee	1.6
U.S. Army Corps Contributed Capital for Central Basin	3.5
Other Grants & Contributed Capital	<u>9.7</u>
Total	\$72.0

Source: Port of San Francisco.

Major Assumptions Relating to Real Estate Development Projects. The Port is currently in negotiations with developers on the following major development projects.

1. Seawall Lot 330 & Piers 30-32
2. Seawall Lot 337 & Pier 48
3. Pier 70 – Waterfront site development
4. Pier 70 – 20th Street Historic Buildings and Historic Core
5. Seawall Lot 351

The Port is in the final stages of negotiations with the developer of the Pier 70 – 20th Street Historic Buildings and Historic Core area, and the project is expected to begin in the first quarter of calendar 2015. The project, however, is not anticipated to have any impact on Port revenues during the forecast period because of the length of time needed to fully construct and entitle the project, and the returns expected to be paid to the developer on its equity investment. The Port currently generates no revenues from these facilities.

The other development projects are in various stages of negotiation and it is not known if these projects will move forward on the proposed schedules due to uncertainties as to the timing for entitlements. Should these projects proceed to construction as currently envisioned, they would have a significant effect on the Port's Real Estate and Operations revenues during the forecast period. Real Estate and Operations revenues would be negatively affected as a result of revenues lost from the affected facilities when construction begins. In some cases, the losses are temporary, as the completed development generates more revenues for the Port than it previously received from the site, but in other cases revenues will be permanently lost due to the terms of the development agreements that provide for rent credits or other rent relief necessary to make the projects financially feasible for private sector investment. In such cases the Port will benefit from repairs and improvements to the affected facilities that the developer will undertake which would otherwise be the obligation of the Port. As provided in the Port's Ten-Year Capital Plan FY 2015-2024, development projects are forecast to be the largest financial source to address both state-of-good-repair (\$243.2 million) and enhancements (\$243.2 million) in the plan. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY."

None of the projects discussed above has all of the entitlements and approvals needed for any of them to proceed to construction. With the exception of the Pier 70 – 20th Street Historic Buildings and Historic Core project (which is close to being fully entitled), it is uncertain that these major development projects will move forward as currently planned. The Seawall Lot 351 development project may not proceed as currently contemplated due to the passage of a November 2013 ballot measure in which the City's voters overturned the City's decision to grant the project an exemption from an existing zoning building height limitation that applies to the site. Additionally, a ballot measure to require voter approval of any exemption to existing zoning building height limitations on Port properties qualified for the June 2014 election. If this measure passes, any proposed Port development project that would exceed existing height limitations would be subject to voter approval as a criterion for entitlement thereof. Four of the five major projects currently under negotiation for development at the Port exceed existing height limitations (only the Pier 70 – 20th Street Historic Buildings and Historic Core project would be unaffected). See "CERTAIN RISK FACTORS – Certain Economic and Other Constraints on Port Revenue."

If all of these projects go forward as currently planned and are completed during the forecast period they are projected to have the following negative impacts to Port's Real Estate revenues.

Table 19
PORT OF SAN FRANCISCO
Projected Impact of Major Real Estate Development on Rental Revenues

Fiscal Year Ending <u>June 30,</u>	Revenues <u>(in 000s)</u>
2014	\$0
2015	(890)
2016	(1,816)
2017	(3,317)
2018	(4,623)

Source: Port of San Francisco.

Debt Service Coverage inclusive of the effects of these major development projects would be as follows:

Table 20
PORT OF SAN FRANCISCO
Projected Debt Service Coverage
Including the Effects of Major Real Estate Developments
For Fiscal Years Ending June 30,
(Amounts in Thousands)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Net Revenue	\$19,185	\$20,499	\$22,170	\$22,815	\$21,558
Total Debt Service	2,847	4,549	4,552	4,547	4,551
Projected Debt Service Coverage	6.74x	4.51x	4.87x	5.02x	4.74x

Source: Port of San Francisco.

Investment Policy and Investments

The Port maintains its operating fund cash and investments and a portion of its restricted asset cash and investments, including moneys constituting Revenues of the Port, as part of the City's pool of cash and investments. Moneys deposited by the Port with the Trustee in the funds and accounts relating to the Series 2014 Bonds are invested in investments constituting "Permitted Investments" under the Indenture, as described in Appendix A – "SUMMARY OF THE LEGAL DOCUMENTS – DEFINITIONS" and "– THE MASTER INDENTURE – Funds – Investment of Moneys" herein.

Information on the Port's cash and investments is available in the Audited Financial Statements of the Port Commission (the "Financial Statements") for the Fiscal Year ended June 30, 2013, attached hereto as Appendix C. For additional information on the external investment pool, the City's investment policies and risk exposure, contact the Office of the Treasurer, City & County of San Francisco, Room 140, City Hall, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

Regulatory Environment

General. In addition to the Port Commission, a number of local and other regulatory agencies exercise control over Port property and activities including land use planning and development of Port properties. The Port is required to comply with the provisions of a number of federal, State, and local laws and regulations designed to protect and enhance the environment and protect public health and safety. These laws and regulations address a wide range of topics including allowable uses of Port property, hazardous waste management and remediation, water quality, groundwater quality, sediment quality, air quality, environmental impact analysis, oil spill prevention and clean up, and occupational health and safety. These regulations and control measures determine many aspects of the Port's use of its existing properties, as well as new developments on Port property. Four governmental bodies are of particular importance with respect to land use planning and development issues for the Port:

(1) *State Lands Commission ("SLC")* has jurisdiction and oversight responsibilities as to the Port's obligation under the Burton Act to promote the use and development of the Port for public trust purposes of maritime related fisheries, commerce, navigation, recreation and open space; see Appendix B – "SUMMARY OF THE BURTON ACT, TRANSFER AGREEMENT AND RELATED STATE REGULATION" herein.

(2) *San Francisco Bay Conservation and Development Commission ("BCDC")* was established by the California Legislature pursuant to the McAteer Petris Act in 1965 to limit fill within the San Francisco Bay, promote maximum feasible public access to the Bay, and protect the Bay and shoreline from inappropriate development. BCDC has permitting authority that applies to development and real estate leasing on the Port's pile supported piers and upland areas within 100 feet of the Bay. BCDC policies applicable to Port properties are contained in the San Francisco Bay Plan, the San Francisco Waterfront Special Area Plan and the Seaport Plan and influence allowable uses of Port property and prioritization of investment of Port resources.

(3) *San Francisco Board of Supervisors* has legislative authority to adopt zoning ordinances and General Plan amendments (in conjunction with action by the San Francisco Planning Commission), and to hear appeals on conditional use authorizations and the California Environmental Quality Act ("CEQA") documents issued by the Planning Commission. The Board of Supervisors also exercises budgetary and fiscal authority over the Port, as with all City departments, including the authority to approve non-maritime leases that either exceed a ten year term or generate at least \$1 million in total revenue over the term of the lease.

(4) *San Francisco Planning Commission* is the City's established forum for review and discussion of future land use plans and development regulations and projects, for the certification of environmental impact analysis documents pursuant to CEQA, and for the performance of traditional municipal

planning review of development and use proposals to ensure compliance with applicable land use regulations and planning policies. See also "– Waterfront Land Use Plan and Waterfront Special Area Plan" below.

The San Francisco Planning Code and Zoning Map classifies the majority of Port waterfront property as "M-1" (Light Industrial), "M-2," (Heavy Industrial), or "C-2" (Commercial Business). These zoning classifications permit a broad range of commercial and industrial uses and provide for "conditional use authorization" of other specified uses such as housing. While hotels are conditional uses on Port land, San Francisco voters have passed a referendum that prohibits the construction of hotels on piers and on Port property within 100 feet of the shoreline. In addition, Port property between Fisherman's Wharf and China Basin is classified as within one of two "Waterfront Special Use Districts" established in the Planning Code, which set forth procedures for review of major non-maritime development projects by a Waterfront Design Advisory Committee. The San Francisco Zoning Map establishes a 40-foot height limit on most Port owned property sites. The Planning Commission has a specific responsibility for certifying CEQA evaluation documents, and in reviewing and approving certain mixed use Port development projects that include conditional uses. The Port Commission serves as a co-applicant with its tenants or development partners in applying for and securing all required regulatory permits from other public agencies. The Port issues its own building permits.

In addition, four agencies play a significant role in regulating Port activities and have a direct impact on the Port's activities in the Bay:

(1) *U.S. Coast Guard*, a member of the U.S. Department of Homeland Security, protects ports, waterways and provides coastal security; maintains aids to navigation; enforces laws governing the use of navigable waters; ensures marine safety; conducts search and rescue; performs a commercial vessel traffic monitoring function for the Bay and is responsible for marine environmental protection including the administration of a national oil spill response capability. In addition, the U.S. Coast Guard is the lead agency responsible for the enforcement of all maritime-related rules and regulations of the Department of Homeland Security.

(2) *U.S. Army Corps of Engineers* (the "Corps") provides vital public engineering services to strengthen U.S. security, reduce risks from disasters, develop and maintain Federal maritime infrastructure, and promote environmental restoration. As such, under the Federal Rivers and Harbors Act, the Corps has jurisdiction over fill located beyond the Port's pierhead line, dredging and dredge sediment disposal by the Port and new in-water Port construction. The Corps also consults with Federal resource agencies on projects that may entail issues involving the Federal Endangered Species Act.

(3) *San Francisco Regional Water Quality Control Board* is the local enforcement agency for the federal Water Pollution Control Act and the State Porter Cologne Water Quality Act, regulating discharges into the Bay, such as wastewater from the City's wastewater treatment facilities and storm water from municipal and industrial facilities, and discharges, or potential discharges, associated with activities on Port property.

(4) *Bay Area Air Quality Management District* is the public agency entrusted with regulating stationary sources of air pollution in the nine counties that surround San Francisco Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, southwestern Solano, and southern Sonoma counties. From time to time, air quality issues affect operations on land surrounding the Bay, including operations of the Port.

Waterfront Land Use Plan and San Francisco Waterfront Special Area Plan. In November 1990, the voters of San Francisco passed Proposition H which imposed a moratorium on non-maritime development on the Port's waterfront property pending the completion of a land use plan for the Port's piers and properties nearest to the shore. Proposition H also banned hotel development on piers and on Port property within 100 feet of the shoreline. In response to Proposition H, the Port Commission determined to develop a

comprehensive plan, including all Port properties, and created the Waterfront Plan Advisory Board to recommend a land use plan for Port Commission adoption. In Fiscal Year 1997-98, the Port Commission and the Board of Supervisors adopted the San Francisco Waterfront Land Use Plan (the "Waterfront Land Use Plan"), and the San Francisco Planning Commission adopted conforming amendments to the City's General Plan and Planning Code. The Waterfront Land Use Plan reserves most Port properties for expansion of maritime operations, and requires creation of new public access, recreation and open space along the Bay. It also identifies sites for compatible new commercial development to improve or rehabilitate important historic buildings and capital assets and to provide additional revenues to subsidize maritime industries, fund new public access and open spaces, and stem the continuing deterioration of the Port's aging properties.

Following local adoption of the Waterfront Land Use Plan, the Port Commission commenced discussions with the BCDC concerning the Plan and related regulatory processes. In July 2000, the Port Commission approved amendments to its Waterfront Land Use Plan, and BCDC approved amendments to its San Francisco Bay Plan to create mutually consistent planning policies for the waterfront area between Pier 35 and China Basin (the San Francisco Waterfront Special Area Plan, referred to herein as the "Special Area Plan"). To achieve the objectives of the Special Area Plan, among other things, the Port Commission committed the Port to spend \$30 million over a 20-year period pursuant to benchmarks set forth in the Special Area Plan for the removal of certain piers and the construction of major public plazas and other public access improvements. One of the major public access projects targeted in the Special Area Plan is the Brannan Street Wharf Public Plaza. Subsequent to the July 2000 Special Area Plan approval, State Legislation known as AB1389 was adopted in 2001 which accelerated the timing for the completion of the Brannan Street Wharf Public Plaza. For more information on AB1389, see Appendix B – "SUMMARY OF THE BURTON ACT, TRANSFER AGREEMENT AND RELATED STATE REGULATION."

Under the Special Area Plan, the Port Commission is permitted to utilize other funding sources (such as grants and contributions) to finance the required pier removals and public access improvements. However, until sufficient funding from other sources is secured, the Port Commission must commit capital funds to produce the pier removal and public access projects described in the Special Area Plan projects. As of June 30, 2013, approximately \$46.6 million had been appropriated, and \$27.1 million had been expended, for projects under the Special Area Plan.

Environmental Compliance

The Port is an environmentally sensitive area with a long history of intensive commercial and industrial use, and the Port's environmental risk exposure is typical of other sites with a mix of light industrial activities dominated by transportation, transportation related, and warehousing activities. Due to historical placement of fill of varying quality, and widespread use of aboveground and underground tanks and pipelines containing and transporting fuel, elevated levels of petroleum hydrocarbons and lead are commonly found on Port properties. Consequently, any significant construction, excavation, or other activity at the Port that disturbs soil or fill material may encounter hazardous materials and/or generate hazardous waste. Port facilities are also vulnerable to oil spills and other hazards of maritime activity.

At any given time, there may be many such projects of varying size and scope underway at the Port, and the Port may be involved in any number of regulatory proceedings involving the environmental compliance agencies referred to above, relating to environmental conditions on its many properties. The Port properties contain several sites that are or have been subject to cleanup or monitoring orders by state agencies. There are a number of sites that may require additional remediation to achieve regulatory closure and compliance. For most of these sites, entities other than the Port Commission (*i.e.* the former facility operators) have been identified as primarily responsible for closure and remediation, however, in all cases, the Port, as the property owner, is also potentially liable. Certain of such matters are discussed in detail below.

Environmental compliance is managed by environmental professionals with varying backgrounds in environmental science, industrial hygiene, and regulatory analysis working within the Port's Engineering,

Maintenance, Real Estate, Maritime, and Planning and Development divisions. Port environmental activities are coordinated by an Environmental Coordinating Committee that meets bi-weekly.

Port properties do not include any hazardous waste sites listed on the National Priority List by the US EPA ("Superfund sites") or the State equivalent.

Environmental matters impacting the Port are described in Note 18 of the Financial Statements of the Port Commission attached hereto as Appendix C. Crane Cove Park, an estimated \$45 million park located in the northwest corner of Pier 70; is currently in the design phase. The construction of park improvements will be phased based on available funding. Previous investigation of the shoreline found that near-shore sediment in this area is contaminated with metals, petroleum hydrocarbons and polychlorinated biphenyls at concentrations that pose a potential risk to human health or the environment, and will likely require removal or capping of sediment before development of the area for public access and recreation. Since the date of the Financial Statements, additional investigation concerning the scope of sediment contamination in the Crane Cove Park area has been completed. The Port's environmental consultant has also prepared a preliminary cost estimation assuming the installation of gravel/rock layer to cover the total area of impact (approximately \$3.0 million) and expected costs for postremediation monitoring, on-going operation and maintenance, and future capital repair for a thirty-year period (\$2.4 million). The Port is currently operating under a voluntary clean-up oversight agreement with the Regional Water Quality Control Board as the lead agency. The Port has not initiated any clean-up actions beyond the investigation and analysis of risk management alternatives. It is anticipated that a portion of the total impacted area (approximately 27%) will be covered through by the first phase of Crane Cove Park construction. The extent and timing of other remedial work has not been determined.

A new municipal stormwater permit was adopted by the State of California in 2013 to reduce pollutants in stormwater runoff. This State-wide permit is a common standard that regulates storm water discharges and imposes more stringent requirements on municipal permittees, including the Port. The Port will incur added costs to develop, implement, and enforce permit program areas including public education and outreach, illicit discharge detection and elimination, construction site plan review, and post-construction stormwater control. The Port will largely assume the costs to comply with the new permit; although some post-construction stormwater design and control costs could be borne by tenants and private developers.

In 2006 the State of California Water Resources Control Board issued Waste Discharge Requirements to California municipalities requiring development of programs to control overflows from sanitary sewer collection systems (Order No. 2006-0003-DWQ, or the "Order"). Among the specific obligations specified in the Order, the Port is required to perform an assessment of its sanitary sewer infrastructure and develop a capital program to repair and replace deficient sewers. In 2010 the Port completed an initial assessment of the sanitary sewer infrastructure over water. Based upon this assessment the Port developed an under-pier utility improvement program. This includes an annual inspection of each facility with an annual capital budget of \$250,000 for inspection and small repairs. This \$250,000 level of annual funding is included in the Port's Ten-Year Capital Plan. See "PORT'S CAPITAL PLAN AND DEVELOPMENT STRATEGY." Larger repairs are beyond the scope of the annual inspection and response program. Additional capital monies will be assigned for specific large projects, such as the Pier 49 / J1 sewer replacement with an estimated cost of \$750,000.

Port tenant operations at times pose an environmental risk to the Port area. Proposed Port tenant operations are reviewed by Port staff for environmental risk and, where appropriate, tenants are required to make an environmental oversight deposit, maintain environmental management insurance, develop operations plans that describe major operations and associated environmental best management practices, and/or conduct operations in a manner that will reduce the risk of potential environmental hazards. Port staff also conducts environmental inspections of tenant leaseholds periodically throughout the lease duration and as part of lease termination and tenant vacancy procedures.

There is no assurance that the costs to the Port of compliance with environmental and health and safety laws will not increase significantly in the future. In addition, the Port currently estimates that a portion

of its accumulated deferred maintenance and facility improvement needs for its maritime and commercial properties are attributable to environmental compliance. It is expected that the Port will undertake these projects over the next several years as and if funding becomes available. See "CERTAIN RISK FACTORS – Condition of Port Facilities" and "– Risks Related to Environmental Liability; Hazardous Substances and Increased Environmental Regulation" herein.

Risk Management and Insurance

The Port Commission utilizes the services of the City's Risk Manager. The Risk Manager advises the Port Commission and is responsible for directing and coordinating the purchase of insurance and the recovery for insured and uninsured losses. Liability claims are administered by the City Attorney's Office and the Risk Manager. Additional information relating to risk management and insurance is provided under Note 19 of the Port's audited financial statements, attached hereto as Appendix C.

The Port Commission imposes certain risk transfer requirements on its tenants, vendors and contractors. The Port Commission's policies generally require that each agreement with an entity doing business with the Port contain provisions to defend and indemnify the Port Commission from losses arising out of that entity's activities and to maintain specified levels of insurance coverage as a financial guarantee. The Port Commission and the City are named as additional insureds under those policies. Rental income and business interruption insurance may be required from tenants to be maintained on property leased or assigned. Rental income insurance provides for the continuation of payments in case of fire or other extended coverage loss for the time required to repair or reconstruct damaged facilities.

In November 2007, the Port Commission adopted an environmental risk management policy and financial assurance requirements for Port tenants with real property agreements. The purpose of the policy is to manage risk and minimize the Port's potential environmental liability. Pursuant to the policy, every new lease, lease renewal, lease amendment, sublease, lease assignment, license, and permit-to-enter is subject to review for applicability of the Port financial assurance requirements. Tenants whose operations are determined by Port staff to pose a significant environmental risk are required to post a \$10,000 environmental oversight deposit to be used to reimburse the Port for staff costs and administrative expenses associated with a notice of violation or enforcement action issued to the tenant by an environmental regulatory agency. In addition, an environmental performance deposit, in the form of cash, a standby letter of credit, or other form of deposit acceptable to the Port Commission, may be required to cover any cost incurred by the Port caused by the tenant's failure to meet any of its environmental obligations. The size of the environmental performance deposit is determined by Port environmental staff after an assessment of the tenant's operations and the estimated cleanup cost of a tenant caused environmental incident.

The Port Commission is required to maintain throughout the term of the Indenture insurance or Qualified Self-Insurance on the Port Area against such risks as are usually insured by other ports which are similar in their operations to the Port Area. Such insurance or Qualified Self-Insurance will be maintained in an adequate amount as to the related risk as determined by the Port Commission. The Port Commission need not carry insurance or Qualified Self-Insurance against losses caused by land movement, including but not limited to seismic activity. The Port Commission may self-insure against any of the risks required to be insured against. The Indenture further provides that Qualified Self-Insurance is to include reserves or reinsurance in amounts which the Port Commission determines to be adequate to protect against risks assumed under such Qualified Self-Insurance including, without limitation, any potential retained liability in the event of the termination of such Qualified Self-Insurance.

The Port Commission purchases commercial insurance policies to cover catastrophic and other losses, other than earthquake risk, that cannot prudently be assumed by the Port Commission. Those policies currently include all categories of insurance coverage that the Port Commission deems reasonable in light of its current operations. Total commercial insurance premiums for all coverage for Fiscal Year 2013-14 are approximately \$2.2 million.

The Port Commission pays worker's compensation costs out of current revenues and budgetary reserves. The Port Commission paid approximately \$809,000 in Fiscal Year 2012-13 and \$537,000 in Fiscal Year 2011-12 for this purpose.

The Port Commission does not maintain commercial insurance coverage for property damage resulting from earthquakes or tsunamis. Commercial earthquake or tsunami insurance is not available at commercially reasonable rates, with both premiums and deductibles being prohibitively high. The Port Commission does not expect to maintain commercial earthquake or tsunami insurance coverage in the foreseeable future. Other risks, such as losses to its fleet of vehicles from terrorist activities, are not covered by any Port commercial insurance policies. The Port Commission would expect to address any losses resulting from any uninsured casualty or occurrence, in whole or in part, from FEMA grant funds, as and to the extent such grant funds are available, and from its budgetary reserves.

With the assistance of the City Risk Manager, the Port is in the process of implementing an enterprise risk management program. The goals of the program are to: (i) identify risks and their impact on Port operations, (ii) optimize risk taking by minimizing threats and enhancing opportunities; and (iii) reduce uncertainty. An enterprise risk management working group formed by the Port has identified and assessed risks at the Port focusing on their impact and likelihood of occurrence. The Port will develop a risk management policy, and tools will be implemented to monitor and manage risk. The first of these tools, a computer-based insurance certificate tracking system has been implemented to assist Port staff in ensuring that Port tenants are in compliance with their insurance requirements.

Labor Relations

As the Port is a department of the City, the Port's employment policies are governed by the City Charter which, since 1976, has prohibited strikes by City employees. The Charter authorizes the San Francisco Civil Service Commission to establish rules and procedures to implement Charter mandates.

As of June 30, 2013, the Port had 236 full-time equivalent employees. There are presently 17 labor unions representing Port employees. With the exception of the Port Executive Director, all Port employees bargain collectively for wages, hours, benefits and other conditions of employment.

Collective bargaining agreements are generally adopted for a term of one to three years. Impasses between the represented employees and the City in collective bargaining are resolved by an arbitration panel whose decisions are final. There have been no strikes by City employees since the adoption in 1976 of the strike prohibition.

The Port's employees participate in the retirement plan established by the City for all City employees (the "Plan"). The Port is responsible for employer contributions to the Plan on behalf of Port employees. Employer contributions are a component of the Port's Operation and Maintenance Expenses. Additional information on the Plan is provided under Note 10 of the Port's audited financial statements, attached hereto as Appendix C.

Under the various collective bargaining agreements of the City covering its employees, until 2003 the mandatory employee contributions had been made by the Port on the behalf of Port employees and for their account. Since Fiscal Year 2003-04, substantially all employees have assumed full responsibility for the mandatory employee contribution pursuant to the Plan (defined below). See "Employee Benefit Plans."

Employee Benefit Plans

Port employees are City employees, and Port benefit plans are the same as for other employees of the City. The following provides certain benefit plan information both on a City-wide basis and with respect to Port employees. The actuarial assessments herein are based upon a variety of assumptions, one or more of

which may prove to be inaccurate or be changed in the future, and will change with the future experience of the pension plan. Prospective purchasers of the Bonds should carefully review and assess the assumptions regarding the performance of the Retirement System. There is a risk that actual results will differ significantly from assumptions. In addition, prospective purchasers of the Bonds are cautioned that the information and assumptions speak only as of the respective dates contained in the underlying source documents, and are therefore subject to change.

Retirement System Plan Description. The Port participates in the City's single employer defined benefit retirement plan (the "Plan") which is administered by the San Francisco City and County Employees' Retirement System (the "Retirement System"). The Plan covers substantially all full-time employees of the Port along with substantially all other employees of the City and certain other employees. The Plan provides basic service retirement, disability, and death benefits based on specified percentages of final average salary and provides cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The Charter and the Administrative Code establish the benefit provisions and employer obligations of the Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, CA 94102, or by calling (415) 487-7020. Such report is not incorporated by reference herein. Additional information on the Plan is described under Note 12 of the Port's audited financial statements, attached hereto as Appendix C.

SFERS Financial Information. Table 21 below shows financial information concerning the Retirement System for Fiscal Years 2007-08 through 2011-12. "Market Value of Assets" reflects the fair market value of assets held in trust for payment of pension benefits. "Actuarial Value of Assets" refers to the value of assets held in trust adjusted according to the Retirement System's actuarial methods. "Pension Benefit Obligation" reflects the accrued actuarial liability of the Retirement System. The "Market Percent Funded" column is determined by dividing the market value of assets by the Pension Benefit Obligation. The "Actuarial Percent Funded" column is determined by dividing the actuarial value of assets by the Pension Benefit Obligations. "Employee and Employer Contributions" reflects the total of mandated employee contributions and employer Actuarial Retirement Contributions received by the Retirement System for Fiscal Years 2007-08 through 2011-12.

Table 21
CITY AND COUNTY OF SAN FRANCISCO
Employees' Retirement System
For the Fiscal Years 2007-08 through 2011-12
(Amounts in Thousands)

Fiscal Year	Market Value of Assets	Actuarial Value of Assets	Pension Benefit Obligation	Market Percent Funded	Actuarial Percent Funded	Employee & Employer Contribution	Employer Contribution Rates⁽¹⁾
2007-08	\$15,832,521	\$15,941,390	\$15,358,824	103.0%	103.8%	\$319,183	5.91%
2008-09	11,886,729	16,004,730	16,498,649	72.3	97.0	312,715	4.99
2009-10	13,136,786	16,069,100	17,643,400	74.5	91.1	413,562	9.49
2010-11	15,598,839	16,313,100	18,598,700	83.9	87.7	490,578	13.56
2011-12	15,293,700	16,027,700	19,393,900	78.9	82.6	608,957	18.09

⁽¹⁾ The actuarially-determined employer contribution rates for Fiscal Years 2012-13 and 2013-14 are 20.71% and 24.82%, respectively.

Source: *SFERS Actuarial Valuation Reports for Fiscal Years 2008-09 through 2011-12.*

Table 21 reflects that the Fiscal Year 2011-12 Actuarial Percent Funded ratio decreased to 82.6%, corresponding to an unfunded actuarial liability ("UAAL") of approximately \$3.4 billion. The UAAL is the difference between the Actuarial Value of Assets and the total Pension Benefit Obligation. This means that as

of June 30, 2012, for every dollar of pension benefits the City is obligated to pay, it had approximately \$0.83 in assets available for payment, if the assets were liquidated as of such date.

City Projected Pension Costs; City Contributions. The latest actuarial report as of July 1, 2012 provides that future employer contribution rates are projected to increase to 28% for fiscal year 2014-2015 as the Retirement System recognizes certain economic assumption changes from 2011 and the losses incurred by the Retirement System in Fiscal Years 2007-08 and 2008-09. In its Five-Year Financial Plan for Fiscal Year 2013-14 through 2017-18, the City projected employee pension costs, wages and other benefit growth will be the single largest driver of cost growth and the imbalance between revenues and expenditures in the City's finances, growing by \$459 million (43% of the total expenditure growth) between Fiscal Year 2013-14 and Fiscal Year 2017-18 (the City currently projects revenue growth of \$578 million and expenditure growth of \$1.065 billion over the same five-year period).

Port Contribution. Contributions are made to the Plan by both the Port and its employees. Employee contributions are mandatory. Employee contribution rates for Fiscal Year 2012-13 varied from 7.5% to 11.0% and for Fiscal Years 2008-09 through 2011-12 varied from 7.5% to 8.0%, as a percentage of covered payroll costs. As the employer, the Port is required to contribute at an actuarially determined rate, which during the last five years ranged from 4.99% to 20.71% as a percentage of that portion of members' earned wages that are includable for calculation and contribution purposes ("Pensionable Salary"), as shown in the following Table 22. For Fiscal Year 2013-14, the Port's actuarially-determined contribution rate is 24.82% of Pensionable Salary or approximately \$4.5 million.

Table 22
PORT OF SAN FRANCISCO
Required Retirement Contribution
For the Fiscal Years Ended June 30,

<u>Year</u>	<u>Employer Contribution</u>	<u>Port Required Retirement Contribution</u>	<u>Employee Contribution Paid by the Port</u>
2009	4.99%	\$994,000	
2010	9.49	1,862,000	
2011	13.56	2,559,000	
2012	18.09	3,551,000	
2013 ⁽¹⁾	20.71	3,599,000	

⁽¹⁾ For the fiscal year ended June 30, 2013, the Port's required retirement contribution represented approximately 0.81% of the total City contribution of \$443 million.

Source: *Port of San Francisco*

Asset Management and Actuarial Valuation. The assets of the Retirement System, (the "Fund") are invested in a broadly diversified manner across the institutional global capital markets. In addition to U.S. equities and fixed income securities, the Fund holds international equities, global sovereign and corporate debt, global public and private real estate and an array of alternative investments including private equity and venture capital limited partnerships. The Fund does not hold hedge funds. The investments, their allocation, transactions and proxy votes are regularly reviewed by the board of the Retirement System (the "Retirement Board") and monitored by an internal staff of investment professionals who in turn are advised by external consultants who are specialists in the areas of investments detailed above. A description of the Retirement System's investment policy, a description of asset allocation targets and current investments, and the Annual Report of the Retirement System are available upon request from the Retirement System by writing to the San Francisco Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, California 94102, or by calling (415) 487-7020. Certain documents are available at the Retirement System website at www.sfers.org. These documents are not incorporated herein by reference.

The liabilities of the Retirement System (the Pension Benefit Obligation) are measured annually by an independent consulting actuary in accordance with Actuarial Standards of Practice. In addition, an actuarial audit is conducted every five years in accordance with Retirement Board policy.

As of June 30, 2013, the Retirement System estimated that the market value of its assets was approximately \$17.0 billion. The estimated market value represents, as of the date specified, the estimated value of the Retirement System's portfolio if it were liquidated on that date. The Retirement System cannot be certain of the value of certain of its portfolio assets and, accordingly, the market value of the portfolio could be more or less. Moreover, appraisals for classes of assets that are not publicly traded are based on estimates which typically lag changes in actual market value by three to six months. Representations of market valuations are not subject to audit (other than at year end).

Health Care Benefits. Health care benefits of the Port employees, retired employees and eligible dependents are financed by beneficiaries and by the City through the City and County of San Francisco Health Service System. The Port's annual contribution is determined by a Charter provision based on similar contributions made by the ten most populous counties in the State. The Port's payments for all health care benefits for the last five fiscal years are shown in the following Table 23.

Table 23
PORT OF SAN FRANCISCO
Health Care Benefit Payments
For the Fiscal Years Ended June 30,

<u>Year</u>	<u>Health Care Benefit Payments</u>
2009	\$3,748,000
2010	3,918,000
2011	4,244,000
2012	4,460,000
2013	4,545,000

The Health Service System issues a publicly available financial report that includes financial statements for the health care benefits plan. The report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Second Floor, San Francisco, California 94103, or by calling (415) 554-1700. Such report is not incorporated herein by this reference.

Postemployment Health Care Benefits. Eligibility of former employees for retiree health care benefits is governed by the City Charter. In general, employees hired before January 10, 2009 and a spouse or dependent are potentially eligible for health benefits following retirement at age 50 and completion of five years of service. Proposition B, passed by San Francisco voters on June 3, 2008, restricted post-retirement health benefit eligibility rules for employees hired on or after January 10, 2009, and generally requires payments by the City and these employees equal to three percent of salary into a new retiree health trust fund. See " *Pension and Health Care Cost Reforms* " below

The City was required to begin reporting the liability and related information for unfunded post-retirement medical and other benefits ("OPEBs") in its financial statements for the fiscal year ended June 30, 2008. This reporting requirement is defined under Governmental Accounting Standards Board Statement 45 ("GASB 45"). GASB 45 does not require that the affected government agencies, including the City, actually fund any portion of this post-retirement health benefit liability. Rather, GASB 45 requires government agencies to determine on an actuarial basis the amount of its total OPEB liability and the annual contributions estimated to fund such liability over 30 years. Any underfunding in a year is recognized as a liability on the government agency's balance sheet. The City has not established an OPEB trust fund.

For Fiscal Year 2012-13, the City estimated that the Fiscal Year 2012-13 annual OPEB cost was \$418.5 million, of which the City funded \$160.3 million which caused, among other factors, the City's long-term liability to increase by \$258.2 million (as shown in Table 24 below). Table 24 below sets forth the City's annual OPEB cost, the percentage of OPEB cost funded and the net OPEB obligation for the past four fiscal years.

Table 24
CITY AND COUNTY OF SAN FRANCISCO
OPEB Funding Progress
(Amounts in Thousands)

<u>June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Funded</u>	<u>Net OPEB Obligation</u>
2010	\$374,214	33.9%	\$852,782
2011	392,151	37.2	1,099,177
2012	405,850	38.5	1,348,883
2013	418,539	38.3	1,607,130

Source: City and County of San Francisco.

In its October 8, 2012 report, the City's actuary calculated that the City's unfunded liability was approximately \$4.42 billion as of July 1, 2010. The City's actuary estimates that the City's total long-term actuarial liability will reach \$5.7 billion by 2030. The actuary's calculations are sensitive to a number of critical assumptions, including, but not limited to, the projected rate of increase in health plan costs.

The City's allocation of the OPEB related costs to the Port for Fiscal Years 2008-09 through 2012-13, based upon its percentage of City-wide payroll costs (0.96% for Fiscal Year 2012-13), is presented in Table 25 below. The Port makes contributions, on a pay-as-you-go basis, to provide postretirement benefits for retired employees in the City Health Service System, which contributions are included in the Port's payment amounts for all health care benefits shown in Table 23 above. However, the Port's annual OPEB contributions, as calculated by the City, are insufficient to defease the Port's annual OPEB obligation, causing the unfunded Port OPEB amount to grow annually.

Table 25
PORT OF SAN FRANCISCO
Annual OPEB Obligation
For the Fiscal Years Ended June 30,
(Amounts in Thousands)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Annual OPEB Cost (expense)	\$3,944	\$3,454	\$3,694	\$3,962	\$4,002
Contribution Made	(933)	(1,002)	(1,256)	(1,278)	(1,336)
Increase in Net OPEB Obligation	3,011	2,452	2,438	2,684	2,666
Net OPEB Obligation – beginning of year	<u>2,805</u>	<u>5,816</u>	<u>8,268</u>	<u>10,706</u>	<u>13,390</u>
Net OPEB obligation – end of year	<u>\$5,816</u>	<u>\$8,268</u>	<u>\$10,706</u>	<u>\$13,390</u>	<u>\$16,056</u>

Source: Port of San Francisco.

Pension and Health Care Cost Reforms. City voters have implemented pension and health care cost reforms in recent years to help mitigate future cost increases. These include the following propositions:

Proposition B. Proposition B was approved by voters in June 2008 and increased the years of service required to qualify for employer-funded retiree health benefits for City employees who retire under SFERS and were hired on or after January 10, 2009. Employees hired before January 10, 2009 became eligible to participate in the retirement health care system and after five years of service and the employer paid 100% of the contribution. Proposition B also stated that a separate Retiree Health Care Trust Fund would be created to pay for the City's future costs related to retiree health care. This trust fund will be funded by employer and employee contributions for employees hired on or after January 10, 2009. These new employees would contribute up to 2% of their pre-tax pay and employers would contribute 1%.

Proposition D. In June 2010, the voters of the City approved a Charter amendment to create new benefit plans for City employees who are hired on or after July 1, 2010. The new benefit plan covering non-safety employees hired on or after July 1, 2010 provides for a service retirement benefit, which is calculated using the member's final compensation (highest two-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation. The Charter amendment also increased the employee contribution rate for City safety and CalPERS members hired on or after July 1, 2010 from 7.5% of covered pay to 9.0%, and provides that, in years when the City's required contribution to SFERS is less than the employer normal cost as described above, the amount saved would be deposited into the Retiree Health Care Trust Fund.

Proposition C. Proposition C was a Charter amendment approved by voters in November 2011 that changed the way the City and current and future employees share in funding SFERS pension and health benefits.

With regard to pension benefits, the base employee contribution rate remains at 7.5% for most employees when the City contribution rate is between 11% and 12% of City payroll. Employees making at least \$50,000 will pay an additional amount up to 6% of compensation when the City contribution rate is over 12% of City payroll. When the City contribution rate falls below 11%, employee contributions will be decreased proportionately.

Proposition C creates new retirement plans for employees hired on or after January 7, 2012 that: (1) for miscellaneous employees, increased the minimum retirement age to 53 with 20 years of service or 65 with 10 years; (2) for safety employees, kept the minimum retirement age at 50 with five years of service, but increased the age for maximum benefits to 58; (3) for all employees, limited covered compensation, calculated final compensation from three-year average, and changed the multipliers used to calculate pension benefits, and (4) for miscellaneous employees, raised the age of eligibility to receive vesting allowance to 53 and reduced by half the City's contribution to vesting allowances. Proposition C limits cost-of-living adjustments for SFERS retirees.

With regard to health benefits, elected officials and employees hired before January 9, 2009 contribute up to 1% of compensation toward their retiree health care, with matching contribution by the City. For employees or elected officials who left the City workforce before June 30, 2001 and retire after January 6, 2012, Proposition C requires that the City contributions toward retiree health benefits remain at the same levels they were when the employee left the City workforce.

PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY

Most capital assets comprising the Port range from 50 to 100 years old, were constructed for use in the pre-containerized cargo shipping industry and are reaching the end of their useful structural life. Many of the piers were originally constructed approximately 100 years ago and many of the building structures over 50 years ago. Of those, only 10 – AT&T Park, the Ferry Building, Pier 1, Piers 1½, 3 & 5, Pier 15, Pier 27, Pier 39, Pier 45, Pier 48 and Pier 80 – have been improved by a major rehabilitation since 1950. An additional 16 piers have been removed. Many Port facilities are historically significant structures. In recognition of this significance, the National Park Service designated the Port's northeast waterfront, from Pier 45 in the north to

Pier 48 in the south, as the Embarcadero National Register Historic District. This District includes 20 historic piers as well as eight other structures of historic significance. In the Port's Southern Waterfront, the Pier 70 area also includes 35 buildings and many other features recognized to be of historical significance. The Port is in conversation with the National Park Service regarding the designation of a portion of the Pier 70 area as a National Register Historic District.

The age and condition of Port facilities, combined with their construction on filled tidelands in a high-risk seismic area, means that most Port facilities need capital improvements in order to be functional, code-compliant and in usable condition in service of the mission of the Port, whether they are continued in their current uses or transformed to a new or enhanced use. The Port has removed nearly one million square feet of pile supported structures over the past 30 years to create open vistas, build new marinas and eliminate public safety, navigational and fire hazards.

Many of the Port's leased facilities are in need of repairs and seismic upgrades that limit the Port's ability to realize potential lease revenues. Without the needed repairs, the facilities will continue to deteriorate and will eventually be condemned, resulting in the loss of leasable space. Maintenance challenges for the Port tend to be related to the need to replace the piles supporting the piers and the aprons that surround the pier sheds, as well as the under pier utilities. These parts of the piers tend to degrade most rapidly because they are repeatedly exposed to wet and dry cycles due to tidal and storm movement of the Bay waters. Lack of maintenance and repairs to building or shed roofs may also lead to structural deterioration of the roof structural framing and eventual condemnation of the facility.

Port staff conduct ongoing assessments of the condition of Port facilities. Using data from this assessment process, the Port has developed a Ten-Year Capital Plan (the "Capital Plan") to quantify all of the Port's outstanding capital needs and the sources of funding, if any, available to address those needs. The Capital Plan is updated annually, typically in the first quarter of each year and is submitted biennially to the City for review and approval by the Board of Supervisors and the Mayor. See "PORT FINANCIAL OPERATIONS – Port Commission Operating and Capital Budget Processes." The Port's current Capital Plan, updated for Fiscal Years 2015-2024 was adopted by the Port Commission on February 11, 2014, and is further described under "Ten-Year Capital Plan" below. Copies of the Capital Plan can be found on the Port's website at www.sfport.com. The Capital Plan and any information found in the Port's website is not incorporated herein by such reference.

The Port Commission prioritizes capital spending in a manner that reflects the Port's institutional values, namely, ensuring the safety of the public, fiscal responsibility, and fulfilling the Port's mission. As a practical matter, certain types of funding available to the Port for capital projects are earmarked for particular projects, so those projects are accelerated by virtue of having received funding. Capital improvement activity necessary to address such deferred maintenance is not part of annual Operation and Maintenance Expenses. See "PORT FINANCIAL OPERATIONS – Port Commission Operating and Capital Budget Processes" herein.

Facility Assessment Program

Formalized in 2002, the Port's Facility Assessment Program inspects, categorizes and records the condition of the over 350 piers, wharves and buildings in the Port area. The Port's Facility Assessment Team manages the program, conducts periodic inspections to identify health and safety issues, and informs tenants and the public about its findings. The Facility Assessment Team is comprised of civil and structural engineers (primarily Port staff, but also some outside contractors) who perform facility inspections and non-engineering Port staff who provide support in addressing legal and lease-related matters arising out of the inspections. The frequency of the inspections varies by facility and depends on the type of building material and the type of occupancy or use of the facility. Based on the structural condition of each facility, the Facility Assessment Team makes recommendations for barricades and warning signs. The inspection findings are used to document maintenance and repair needs for the Port facilities.

The Facility Assessment Team's inspection findings and recommendations are summarized in a report that includes a structural rating of each facility using the following categories: (i) green (good structural condition, no live load reductions/restrictions); (ii) yellow (fair structural condition, but needs some structural remediation, reduced/restricted live loading); and (iii) red (poor structural condition, restricted access).

Ten-Year Capital Plan

Capital Projects and Needs. The current Ten-Year Capital Plan identifies approximately \$2.06 billion in work for Port piers and buildings, consisting of repair and replacement requirements and conditional seismic upgrades. The Capital Plan estimates the Port's accumulated deferred maintenance and capital improvement needs for its maritime and commercial properties to be approximately \$1.59 billion. This figure represents the anticipated cost over the next ten years for deferred maintenance and subsystem renewals required on Port facilities in order to maintain such facilities in a state-of-good-repair. The Capital Plan also identifies an additional \$464.3 million for conditional seismic work on Port facilities, which may or may not be required during the 10-year period.

Potential Funding Sources. The Ten-Year Capital Plan identifies \$1.14 billion in existing or potential funding sources to finance the listed expenditures. These sources are distinguished between internally and externally generated sources. Internally-generated funding sources include Port capital funds, Port Commission revenue bond proceeds from the Series 2014 Bonds, and tenant contributions pursuant to improvement and maintenance obligations required under existing leases. Together, these sources are projected to generate approximately \$419.3 million. The Port's current Ten-Year Capital Plan assumes no additional Port revenue bonds will be issued, but the Plan notes that the Port would revisit issuing bonds if projects were identified in the future that generate revenues in excess of the amount required to service debt costs. However, this is subject to change in the future. Externally-generated funding sources include private sector development project funding, City general obligation bond proceeds, and Federal, State and local grants. These sources are projected to generate approximately \$721.5 million. The Ten-Year Capital Plan reflects that approximately 59% of the identified funding sources (\$669.5 million) will be applied towards state-of-good-repair projects and approximately 41% of identified funding sources (\$471.3 million) will be applied towards enhancement projects.

Under the Ten-Year Capital Plan, development projects remain the principal drivers of potential waterfront improvements, representing 36% of the state-of-good-repair funding and 52% of the proposed capital enhancements during the ten-year period of the plan. These revenues are dependent on approval of the projects themselves. The Ten-Year Capital Plan identifies a significant change in the real estate market or a dramatic change in the political climate vis-à-vis waterfront development as risks to the funding strategy presented in such plan.

Port Legislative Efforts

Since 2005, the Port has pursued State and local legislative changes which were designed to increase the funding options available to address the Port's future capital requirements and to expand the range and profitability of uses on Port property. The Port has been successful in obtaining authority to: (i) capture the State and local share of certain property tax increment revenues that would otherwise be paid to the State and local entities, and (ii) form Infrastructure Finance Districts (IFD) and issue IFD bonds against incremental property tax revenues to provide financing for the public portion of several public private development projects in which the Port is currently involved (see "PORT FINANCIAL OPERATIONS – Projected Debt Service Coverage – Major Assumptions Related to Real Estate Development Projects"). The Port has also received funding from two City general obligation bond measures approved by the voters in 2008 and 2012 to fund several Port waterfront parks and open space projects. A brief summary of major legislation passed to date which may benefit the Port is provided below:

- The 2005 adoption of SB 1085 added IFD bonds to the Port's funding options. SB 1085 permits the Port to petition the Board of Supervisors to form a Port IFD, with the power to capture growth in property tax increment for periods of up to 40 years to finance improvements. Formation of such an IFD is currently in progress.
- The 2007 adoption of SB 815, which authorizes the Port to lease or sell underutilized landside waterfront property located south of the Bay Bridge for its highest and best use, free of the use restrictions of the public trust, in order to generate funds for historic rehabilitation and open space.
- The 2008 approval by City voters of Propositions A and D, and the 2012 approval by City voters of Proposition B, directed City general obligation bond funds to Port waterfront park and open space projects.
- AB 1199 was enacted in 2010 to clarify and extend the Port's use of property tax increment revenues. Among other things, this legislation allows the future Pier 70 IFD project area to receive for a 20-year period the portion of property tax increment (with certain limitations) that would otherwise go into a State fund.
- AB 664 was enacted in September 2011 and allows the Port to capture the portion of property tax increment (with certain limitations) that would otherwise go into a State fund to fund specified capital improvements, and open space improvements.

Enactment of this legislation required a significant amount of favorable political will and cooperation among a variety of legislative and regulatory bodies, and further regulatory and legislative approvals will be required to realize the full benefit of recent legislation to the Port. The Port can give no assurances that such approvals will be granted.

Further information on the Port's legislative efforts is provided in the Management Discussion and Analysis section of the Audited Financial Statements of the Port Commission for the Fiscal Year ended June 30, 2013, attached hereto as Appendix C.

Recently Completed Capital Improvement Projects

Since the Port's first adopted ten-year capital plan in 2006, the Port has guided nearly \$196 million non-development capital investment, of which \$138 million occurred in the last three years. Below are summarized descriptions of examples of recent major capital projects (generally involving investments of \$15 million or more) in Fiscal Year 2012-13:

James R. Herman Cruise Terminal at Pier 27. As discussed in detail under "THE SERIES 2014 PROJECTS" above, Pier 27 is being developed as a primary cruise terminal. Phase 1 of the project, construction for the "core and shell" of the building, was completed in March 2013 at a cost of approximately \$62 million.

Pier 15 Substructure Improvements. The Exploratorium, a museum of science, art and human perception, was privately constructed at Pier 15, which was rehabilitated for this use. The Exploratorium opened in April 2013. The Exploratorium's total construction costs, reported as \$220 million, were funded privately. The substructure work, including seismic upgrades for this project, exceeded \$65 million.

AC34 Facility Requirements. Pursuant to the 34th America's Cup Lease Disposition Agreement between the City and the America's Cup Event Authority, the City was required to complete certain infrastructure improvements, certain identified repairs at venue facilities, and to implement certain mitigation measures pursuant to various regulatory and permit requirements. The Port, acting on the City's behalf,

completed all improvements by July 2013 and spent \$21 million for various improvements to its venue site facilities, and environmental mitigation measures required for the permit for America's Cup improvements.

The Brannan Street Wharf. Located on The Embarcadero Promenade between Piers 30-32 and Pier 38, the Brannan Street Wharf is a new 57,000 square foot public park over the water and parallel to the Embarcadero Promenade. The project was completed in July 2013 at a cost of approximately \$26.0 million (including the demolition and removal of Pier 36). A small craft float and gangway was deferred due to insufficient funding, but is required to be installed by July 2018 under the terms of a permit for the project from the San Francisco Bay Conservation and Development Commission.

Ongoing and Future Capital Projects

The capital projects discussed herein are ongoing or have at least partial identified funding under the current Ten-Year Capital Plan. Many of these projects will be implemented concurrently, with progress made on each as and when funding for such project becomes available. In the forthcoming ten-year period, the Port intends to expend \$669.5 million for state-of-good repair projects and \$471.3 million for capital enhancement projects. State-of-good repair projects cover the existing backlog of deferred maintenance, capital renewal (regular facility maintenance) and certain projected one-time expenses. At the end of the Ten-Year Capital Plan period, the Port is projected to reduce its state-of-good repair needs by 42%, from \$1.59 billion to \$921.0 million. To the extent funds are available for discretionary application by the Port Commission, priority is given to projects that reflect the Port's institutional values, namely, ensuring the safety of the public, fiscal responsibility, and fulfilling the Port's mission. If the Port is unable to identify a funding source or a developer to repair and seismically upgrade structurally compromised facilities, eventually it will need to close those facilities that are no longer safe for use. Any closed piers will either deteriorate in place or be demolished (if the Port can secure funds for demolition). To date, 16 piers have been demolished. Funding sources for deferred projects are limited: (i) possible grant funding for open space and transportation projects, and (ii) possible real estate development projects, requiring significant equity contributions from private partners.

Ongoing Projects. Each year, the Port capital budget funds the deferred maintenance and improvement of existing systems and Port facilities, dredging so that the depth of the berths at the Port's piers remain suitable for water traffic, and projects which are designed to enhance the Port's facilities including infrastructure investments needed to attract new development on Port property.

Bond Funded Projects. For a description of projects proposed to be funded with proceeds of the Series 2014 Bonds, see "THE SERIES 2014 PROJECTS." With respect to projects to be funded with proceeds of City general obligation bonds, City voters approved Proposition A – Clean and Safe Neighborhood Park General Obligation Bonds at the February 2008 election, authorizing the issuance of \$33.5 million of City general obligation bonds (the "2008 G.O. Bonds") to finance certain waterfront parks on Port property. In November 2012, City voters approved Proposition B – Clean and Safe Neighborhood Park General Obligation Bonds, authorizing the issuance of \$34.5 million of City general obligation bonds (the "2012 G.O. Bonds"), to finance certain parks and waterfront open spaces on Port property. In Fiscal Year 2012-13, the Port received \$18.2 million of proceeds from the City's 2012 G.O. Bonds to fund open space projects on Port property. Previously, the Port received \$24.6 million of proceeds from the City's 2008 G.O. Bonds, for a total to date of \$42.8 million in net general obligation bond proceeds.

Real Estate Development Projects. Since the 1970s, the Port's primary tool for redeveloping its property has been public-private partnerships with private entities for development of Port property. In the past, completed development projects have helped address the Port's deferred maintenance capital needs as well as being a source of new revenues. In evaluating potential development opportunities, the Port seeks to balance the proposed development as a source for addressing its deferred capital needs, against any negative impact to revenue as a result of the proposed development.

Major real estate development projects in which the Port is in active negotiations with private developer partners are planned to provide approximately \$243 million of the Port's deferred maintenance capital needs over the next 10 years. These development projects involve a variety of project risks, including development, entitlement, financial, construction, project completion, market and operating risks; but with few exceptions, generally no immediate negative risk to revenues.

In its public-private development projects, the Port seeks to shift all or most of the project completion risk to the private development partner. The Port Commission does not typically subordinate its leases to the financing obtained by the private developers and the Port Commission does not deliver the leasehold to the developer until the developer is able to immediately start construction, with all entitlements, permits, equity and debt financing, construction contracts, insurance, and guarantees in place. Until the leasehold is delivered to the developer, the Port continues to receive rents from the interim tenants in occupancy. If a project does not proceed to construction, the Port's interim leasing revenues are maintained but the anticipated repairs and improvements and the other anticipated financial benefits are not achieved. In recognition of, and in exchange for, the project risks being assumed by the developer, the Port Commission typically grants the developer a long-term lease (50-66 years).

During the pre-development and development period, the Port is also subject to the risk of litigation from developers whose projects do not proceed, notwithstanding contract provisions that prohibit developers from making claims against the Port. Once a lease is executed, the Port is subject to economic risk affecting the tenant, lawsuits against the developer or the project and risks relating to the tenant's failure to perform, mismanagement and similar business risks, as any other owner lessor of commercial property. See "CERTAIN RISK FACTORS" herein.

To further minimize its exposure to project completion risk, in recent years, the Port has limited its contribution toward public-private partnership projects to the existing land and facilities, plus the time related expense of Port staff, attorneys and other consultants needed to coordinate and assist the developer. For some developments, the Port may grant rent credits towards specific construction components and minimize the direct contribution of Port funds. During the pre-development and development phases of a project, the amount of the interim lease revenue to the Port is typically reduced because of the uncertainty the pending project creates for interim tenants, with the Port being able to offer only very short-term leases. During the construction period for the project, the rent that the developer pays the Port is typically substantially less than the Port previously received.

The following real estate development projects on Port property are currently at various stages of negotiation and development with a private investor/partner and no assurances can be given that any of the described projects will result in a completed project or in increased Revenue. Further, certain projects include aspects that may decrease Revenue. In particular, should they proceed to construction, the following projects are expected to decrease rental revenue to the Port on a short-term and/or long-term basis. Such decreases are discussed and reflected in the projections described under "PORT FINANCIAL OPERATIONS – Projected Debt Service Coverage" herein.

Golden State Warriors Arena at Piers 30-32. The City and the Golden State Warriors NBA basketball team are partnering on a proposal to develop and build a sports and entertainment arena venue on the waterfront in San Francisco that would open for the 2017-2018 NBA season. The proposed project facility would be located at Piers 30-32 on San Francisco Bay, south of the Bay Bridge, between the Ferry Building and AT&T Park. The City in partnership with the team is proposing to repair and seismically upgrade 13 acres of deteriorating piers and develop with private funds Seawall Lot 330 (SWL 330), adjacent to Piers 30-32, into a multi-purpose venue. The goal of the proposed project is to substantially improve open space for public access, while also providing enhanced amenities and maritime facilities for the San Francisco Bay. The project contemplates a rezoning of Piers 30-32 from 40 feet to 125 feet to accommodate the arena, and a potential rezoning of Seawall Lot 330 (currently zoned for two 105 foot buildings) to accommodate one 175 foot building and one 105 foot building. The new facility would host the Warriors, as well as provide a new

venue for concerts, cultural events and conventions, and other events that the City currently cannot accommodate with existing facilities. However, Proposition B on the June 2014 ballot, if passed, would require subsequent voter approval of the project. See "CERTAIN RISK FACTORS – Certain Economic and Other Constraints on Port Revenue." The total cost of the project is currently estimated at \$1 billion and is expected to be financed through a combination of private debt, developer equity, Port rent credits and Community Facilities District Bond proceeds and IFD proceeds.

Seawall Lot 337 & Pier 48. This 16-acre site is located on the south side of China Basin Channel near AT&T Park, bounded by Third, Terry Francois and Mission Rock Streets, adjacent to the Mission Bay development, and is planned to be developed with a major waterfront public open space, a new neighborhood park and approximately 3.6 million square feet of urban, transit-oriented mixed uses including retail, light manufacturing, commercial and residential. The proposed project would include new facilities that would require rezoning the site (currently zoned as open space, 0 feet) to a maximum of 380 feet in two to three locations. The Port's development partner, Seawall Lot 337 Associates, LLC has received approval for a project term sheet from the Port Commission and Board of Supervisors. The project team is currently pursuing project entitlements including a thorough environmental review in accordance with the California Environmental Quality Act ("CEQA"). The Port anticipates that this project could generate new lease revenues and result in higher property values. The current project schedule anticipates completing the CEQA process and gaining project approvals in early 2015 with lease payments commencing on sub parcels beginning in 2016. However, Proposition B on the June 2014 ballot, if passed, would require subsequent voter approval of the project. See "CERTAIN RISK FACTORS – Certain Economic and Other Constraints on Port Revenue." The total cost of the project is currently estimated at \$1.8 billion and is expected to be financed through a combination of private debt, developer equity, development rights payments (partially prepaid rent) and Community Facilities District Bond proceeds and IFD proceeds.

Pier 70. The largest element of the Port's current Ten-Year Capital Plan is the rehabilitation and redevelopment of the heavily blighted Pier 70 area, with an estimated need of approximately \$525 million in capital improvements and with a total preliminary estimated project development cost of \$1.9 billion. The total cost of the project is expected to be paid with a combination of private debt, developer equity, IFD bond proceeds, land dispositions, and City general obligation bond proceeds. Pier 70 is a 65-acre brownfield site on the City's central waterfront bounded by Mariposa, 22nd and Illinois Streets. Pier 70 is home to a collection of historic facilities portions of which are expected to be eligible as a National Register Historic District. In early 2014, the Port nominated Pier 70 to be a National Register Historic District which nomination will be carefully reviewed by the National Park Service. The Port has produced a Pier 70 Master Plan, a result of a lengthy public process, to define a strategy to rehabilitate important historic buildings, environmentally remediate the site, improve street and utility infrastructure and public open spaces near the water's edge, and provide for over three million square feet of economic development.

Pier 70 redevelopment will require private and public funds. As a result, the Capital Plan financing includes a total of \$140 million in Community Facilities District ("CFD") bond proceeds and IFD bond proceeds, as well as City general obligation bond funds for this redevelopment. In addition, Proposition D – Pier 70 Land Use and Financial Plan, approved by the City's voters at the November 2008 election, provides the Port with new financing tools to restore Pier 70. Proposition D permits the Board of Supervisors to dedicate City general fund revenues in an amount up to 75% of projected payroll and transient occupancy tax revenues generated by Pier 70 development for a period of up to 20 years to finance waterfront parks, environmental remediation, historic rehabilitation and other public improvements.

The redevelopment of Pier 70 has been divided into five distinct subareas: (1) the subarea lease to BAE Systems Ship Repair – San Francisco; (2) the 25-acre subarea called the Waterfront Site which is under an exclusive negotiation agreement with Forest City Development California, Inc. ("Forest City") for up to three million square feet of residential and commercial development; (3) the 6-acre Historic Core which is under an exclusive negotiation agreement with Orton Development Inc. ("ODI") for rehabilitation of certain historic buildings for new uses, (4) the 9 acres of public open spaces called the Crane Cove Park to be funded

and constructed by the Port; and (5) the urban infill development opportunity sites along the eastern side of Illinois Street boundary of Pier 70 to be disposed for residential and commercial developments. Detailed information about each of the Pier 70 subareas follows.

Forest City Development Waterfront Site. This site consists of approximately 25 acres of land area and four historic buildings in dilapidated states to be rehabilitated for new uses, all on the south eastern edge of Pier 70. The Port, with the assistance of the Office of Economic and Workforce Development ("OEWD"), is in negotiations with Forest City over a proposed redevelopment of the site for the construction of approximately 950 residential units, 2.6 million square feet of office, retail and other commercial uses, adaptive reuse rehabilitation of a minimum of four historic buildings, seven acres of recreational and passive open space, and three parking structures. A term sheet approved by the Board of Supervisors is guiding further refinement of the concept toward the ideal mix of residential and commercial uses to develop, in how many phases, and at what density. The final concept is subject to review and approval under CEQA. The Waterfront Site is currently zoned at 40 feet, and will require rezoning and a Special Use District to permit construction of buildings at a range of heights, potentially including two to three 230 foot buildings. However, Proposition B on the June 2014 ballot, if passed, would require subsequent voter approval of the project. See "CERTAIN RISK FACTORS – Certain Economic and Other Constraints on Port Revenue."

Forest City is working with the Port and OEWD on the infrastructure system required to support the proposed concept or development. The required infrastructure is anticipated to cost in excess of \$180 million. The project is expected to be financed through a combination of private debt, developer equity, land proceeds and CFD bond proceeds and IFD bond proceeds. The Port is currently reviewing the feasibility of substituting portions of developer equity with certain public bond proceeds.

Orton Development Historic Core with 20th Street Historic Buildings. The Port is negotiating an agreement with ODI to lease, rehabilitate and operate six historic buildings included in the Pier 70 Master Plan area. On October 9, 2012, the Port Commission endorsed the term sheet establishing the conceptual agreement by the parties of the terms of a transaction. Subsequently on December 4, 2012, the Board of Supervisors also endorsed the term sheet and conceptual project plans. Since then ODI and Port staff have been working to realize the project approved in concept. These buildings are in a state of dilapidation and require approximately \$74 million of repairs and improvements to return them to active use. ODI will secure the required debt and equity, anticipated to include a loan from the City's Seismic Safety loan program as well as bank debt. The Port will contribute \$1.6 million for structural upgrades. The transaction terms defer any payment of rent to the Port until the sooner of 20 years or the repayment of ODI's equity investment.

This project includes 267,000 square feet of existing buildings. The proposed project would add up to approximately 70,000 square feet of new space, primarily in mezzanines. Once rehabilitated, these historic office and industrial buildings would be used for a range of businesses, including light industrial, technology, life science, office, artisan/artist studios and showrooms, and restaurant uses. The proposed project would also create an indoor lobby/atrium in Building 113, and an outdoor courtyard/venue, both of which would be made accessible to the public.

Crane Cove Park. The Port is currently in the design phase of a \$45 million park at the northwest corner of Pier 70. Approximately \$18 million of the project will be financed using general obligation bonds approved by the voters of San Francisco in 2008 and 2012, and the remaining funding has yet to be secured. Construction will likely be phased, based on available funding.

Illinois Street Infill Development Opportunity Sites. There are between three to eight parcels that could be created out of the identified large land parcels at three separate locations on the east side of Illinois Street at Pier 70 designated for infill developments. When combined, the parcels will comprise approximately nine acres.

Seawall Lot 351. This two-thirds of an acre site is currently a surface parking lot located along the Ferry Building waterfront at The Embarcadero and Washington Street. It is to be merged with the adjacent tennis club property in a \$345 million residential-commercial development agreement between the Port and San Francisco Waterfront Partners ("SFWP"), an affiliate of Pacific Waterfront Partners that developed Piers 1½, 3 and 5 and the Pier 24 Annex. The approved project is the subject of a recently passed legislative referendum revising the increase in building height granted the development. SFWP, therefore, is considering its options to reevaluate the proposed development, including project funding structure. The Port is awaiting the developer's decision on proceeding with this project following its reevaluation.

CERTAIN RISK FACTORS

This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the Series 2014 Bonds. This section is provided for convenience and is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the Series 2014 Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the Series 2014 Bonds are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the Series 2014 Bonds or adversely affect the ability of the Port Commission to make timely payments of principal of or interest on the Series 2014 Bonds. There can be no assurance that other risk factors not discussed herein will not become material in the future.

Limitation on Remedies

The Indenture provides only limited remedies to Bondholders in the event of a default by the Port Commission. The enforceability of the rights and remedies of the owners of the Series 2014 Bonds and the Trustee under the Indenture in the event of a default by the Port Commission may be subject to the following: limitations on legal remedies available against cities in California; the federal bankruptcy code and other bankruptcy, insolvency, reorganization, moratorium and similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; principles of equity which may limit the specific enforcement under State law of certain remedies; and the delay and uncertainty inherent in legal proceedings. The enforceability opinion of Co-Bond Counsel will be made subject to such limitations on remedies. See Appendix F – "PROPOSED FORMS OF LEGAL OPINION OF CO-BOND COUNSEL" herein.

Condition of Port Facilities

Most capital assets comprising the Port range from 50 to 100 years old and require significant repair for continued use. The age and condition of Port facilities, combined with their construction on filled tidelands in a high-risk seismic area, mean that most Port facilities will need future capital improvements in order to continue to be functional, code compliant and in usable condition in service of the mission of the Port. The Port has demolished or removed from service a number of facilities over the past 45 years, including some facilities that had been generating revenue for the Port, and, in the absence of funding for needed capital improvements, the Port will remove additional revenue-generating facilities from service in the future. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY." The Port envisions the need for further public and/or private development of its facilities and property, much of which requires legislative and regulatory approvals, to address its capital shortfall. If the Port fails to complete these development projects, Port facilities will continue to deteriorate, which may lead to reductions in Net Revenue.

Certain Economic and Other Constraints on Port Revenue

The ability of the Port to maintain or increase revenue growth in the future may be affected by a variety of economic, legislative and regulatory factors that are outside of its direct control.

The Port operates pursuant to many legislative and regulatory constraints that significantly restrict its ability to maximize the revenue generating activities of its waterfront properties. Public objectives set by many of these legislative and regulatory requirements, including the Port's Waterfront Land Use Plan and BCDC's Waterfront Special Area Plan, limit the Port's ability to maximize the commercial revenue generating opportunities available for many of the Port's properties. In addition, the Port is subject to many of the same economic and competitive factors affecting other commercial and real estate business enterprises in the region.

The transfer of the Port to the jurisdiction of the City in 1969 was made in trust for the people of California. The public trust doctrine directs the use and development of Port properties. The public trust doctrine, as codified in the Burton Act and the related Transfer Agreement, mandated the following missions for the Port: (1) to promote navigation, fisheries and maritime commerce; (2) to protect natural resources; and (3) to develop recreational facilities that attract people to enjoy the Bay and the waterfront. See "Burton Act and Transfer Agreement" below and Appendix B – "SUMMARY OF THE BURTON ACT, TRANSFER AGREEMENT AND RELATED STATE REGULATION." The public trust doctrine has been interpreted over time by the courts, the Attorney General, the SLC and the BCDC.

The Port's properties are also subject to the Waterfront Land Use Plan, adopted in June 1997, which was developed by the Port Commission through a public consensus process to provide a framework for all future development of Port property. Analyses conducted concurrently with the development of the Waterfront Land Use Plan concluded that, while the Waterfront Land Use Plan had significantly expanded the scope of revenue generating activities that could be developed on Port property, changes in the regulatory environment were required and other funding and financing mechanisms were needed for the Port to carry out its missions. Required regulatory changes have been achieved with the City and with BCDC, and additional regulatory changes are being pursued by the Port and will likely be required in the future. The Port can give no assurances that such changes will be granted.

Under the Charter of the City, the San Francisco Municipal Elections Code and the California Elections Code, City voters may seek to nullify certain ordinances approved by the Board of Supervisors through the process of referendum (generally, the referendum power does not extend to the annual budget or appropriations ordinances, annual salary ordinances, ordinances authorizing the City Attorney to settle litigation, ordinances that relate to purely administrative affairs, ordinances necessary for the Mayor's exercise of emergency powers, and ordinances providing for the issuance of general obligation bonds). A referendum is a petition protesting certain ordinances passed by the Board of Supervisors and asking that the Board of Supervisors reconsider the matter. If the Board does not repeal the ordinance, it is submitted to the voters at the next general municipal election or a special election. The operation of the ordinance is suspended until approved by the voters. As a recent example, City voters overturned a June 2012 decision of the Board of Supervisors allowing the construction of a luxury high-rise residential development along the Embarcadero in the November 2013 elections, through the referendum process.

City voters may also avail of the initiative process, whereby a proposal for a new ordinance or charter amendment is placed on the ballot by a petition with the required number of signatures. The Port's properties are the subject of a ballot measure to be placed before the San Francisco electorate on June 3, 2014 as Proposition B preliminarily titled "Voter Approval for Waterfront Height Increases" ("Proposition B"). If approved by the voters and upheld after any legal challenges, Proposition B would require voters' approval prior to any development on Port property that exceeds the height limits in effect as of January 1, 2014. Proposition B would apply to property currently under the control of the Port Commission, as well as any property that the Port may acquire in the future. Proposition B would require that any future ballot question to increase height limits on Port property must specify both the existing and proposed height limits. Four of the five major projects currently under negotiation for development at the Port exceed existing height limitations (only the Pier 70 – 20th Street Historic Buildings and Historic Core project would be unaffected). The Port is unable to predict the outcome of the June ballot and its impact on the Port's finances and operations.

The processes of initiative and referendum are available to California voters at the State level and may be used by voters to effect changes to the State Constitution, statutes or charters. The Port's ability to maintain or increase revenue growth and develop the Port Area may be limited by the processes of initiative and referendum at the City and State levels. The Port Commission is unable to predict any future actions by the voters of the City or the State and their impact on the Port Commission's operations.

The Port's properties suffer from a significant amount of deferred maintenance and/or desirable capital improvements. In order to promote its mission to foster and promote navigation, fisheries and maritime commerce, the Port is obligated to preserve significant waterfront historic resources that have great significance to the region and the nation but that are very costly for the Port to maintain and upgrade. The cost of needed repairs to the Port's properties has been estimated in the current Ten-Year Capital Plan to be approximately \$1.59 billion over the next ten years. The Port currently reviews these costs on an annual basis and anticipates that this estimate will continue to be refined as information is known and costs escalate. These estimates do not include the cost to repair the Port's seawall or to address sea level rise. See "PORT CAPITAL PLAN AND DEVELOPMENT STRATEGY" herein.

The public trust doctrine gives priority to maritime, visitor serving retail and other uses which do not necessarily generate maximum revenue from the Port's waterfront land. Certain maritime revenue sources, such as the Port's cargo shipping lines, have declined. In response, the Port has focused its efforts on expanding bulk cargo, harbor services, cruise and ship repair maritime lines and its commercial (non-maritime) real estate operations. Other priority public trust uses, such as protection of natural resources and open spaces do not provide any direct revenue and involve on going Operation and Maintenance Expense. The public trust doctrine prohibits housing on Port property and limits general office use to portions of historic Port facilities that are rehabilitated according to standards published by the U.S. Secretary of the Interior. The public trust doctrine permits interim leasing of Port property for uses that are not consistent with the public trust (e.g., general office) for short periods of time, in most cases not to exceed 10 years, in order to generate funds for the Port's Harbor Fund. Additionally, as a result of Proposition H passed by the San Francisco electorate in 1990, hotels are prohibited on the Port's waterside properties.

Burton Act and Transfer Agreement

The Port Area was transferred to the City by the State pursuant to special legislation, California Statutes 1968, Chapter 1333 (the "Burton Act"). The transfer was conditioned on the passage of certain Charter amendments, which were approved by the voters of the City at an election held on November 5, 1968. The transfer was effected pursuant to an agreement entered into between the State and the City, in accordance with the Burton Act, dated as of January 24, 1969 (the "Transfer Agreement"). The provisions of the Transfer Agreement generally follow those of the Burton Act itself. The amendments to the Charter were approved by the State Legislature as required by the Transfer Agreement.

The Burton Act provided for the transfer to the City, in trust for purposes of commerce, navigation and fisheries, of all of the real property located in the City and then under the jurisdiction of the San Francisco Port Authority of the State, and of all related personal property. The Burton Act and the Transfer Agreement provide that the Port Commission shall have complete authority to use, conduct, operate, maintain, manage, regulate, improve and control the harbor of the City (*i.e.*, the Port Area), and to do all things necessary in connection therewith.

The Legislature reserved the right to amend, modify or revoke, in whole or in part, the transfer of lands in trust under the Burton Act, provided that the State assumes all lawful obligations related to such lands as may revert to the State. The State has never exercised this right, other than as part of the State's budget for Fiscal Year 1992-93 when certain Port revenues were required to be diverted to the State. The transfer may also be revoked, by an action brought by the State Attorney General, for gross and willful violation of the terms of the transfer or the provisions of the Burton Act or other legislative enactment. No such action has ever

been brought or threatened by the State Attorney General, nor is the Port Commission aware of any possible grounds for such an action.

Under the Burton Act, revocation, in whole or in part, of any transfer of lands in trust to the Port Commission may not impair or affect the rights or obligations of third parties, including bondholders and lessees, arising from existing leases, contracts or other agreements. For additional information on the Burton Act and the Transfer Agreement, see Appendix B – "SUMMARY OF THE BURTON ACT, TRANSFER AGREEMENT AND RELATED STATE REGULATION."

General Economic Risk and Real Estate Risk

Most revenues of the Port Commission are derived from long term leases. Absent tenant turnover, the Port Commission has limited ability to increase rents under such long term leases to offset any reduction of other revenues or increase in expenses of the Port Commission. Thus, the ability of the Port Commission to respond to unanticipated shortfalls in Net Revenue is limited.

The Port's Revenue is derived primarily from property leases to commercial and industrial enterprises. The Port's tenants are subject to competitive conditions and other business and economic factors that may affect their ability to pay rent to the Port. See "PORT REAL ESTATE OPERATIONS" herein. Any tenant of the Port may elect not to renew its lease upon expiration of the lease term. The ability of such businesses to continue in operation, and to pay rent to the Port, may be compromised in the event of an economic downturn, failure of such businesses or their tenants to perform, mismanagement, lawsuits, increased operating expenses, and similar business risks, or in the event of a natural or other disaster and similar occurrences, and may be adversely affected by their ability to collect under their insurance policies in the event of any occurrence of a casualty. In the event of a business downturn, a Port tenant may fail to make lease payments when due, may decline to renew an expiring lease, may become insolvent or may declare bankruptcy or may fail to maintain the premises. Any such non-performance or default by a tenant under the lease will have an adverse impact on the Port's Revenue. Nonperformance by a significant tenant could have a serious long-term impact on the Port's financial condition. Even if, under the terms of the lease, the Port is able to terminate the lease and evict the tenant, the Port may have difficulty in securing another tenant. The terms of any new lease may not be as favorable as the prior lease.

The Port Commission's ability to make principal and interest payments on the Series 2014 Bonds is dependent upon the generation of Revenue, which is derived from the collection of rents, rates, tariffs and charges. A number of factors could adversely affect the Port Commission's ability to generate Revenue and pay its operating costs through its lease, rates and tariffs structure including, but not limited to, increased capital improvement needs and the costs thereof, increased Operation and Maintenance Expenses, competition in the real estate market and maritime industry for the property and services offered by the Port, limits imposed by standards for historic preservation, changes in the cost and terms of debt financing, increased federal, state and city/county restrictions or requirements, and general economic conditions. These factors are not within the Port's control, to a large degree. The ability of the Port to generate or maintain Revenue through its real estate development activities is affected by the same factors. Any adverse change in any of the foregoing factors could make the ongoing development of the Port's properties more difficult or impossible, even if only for a period of time.

The Port competes with certain other port facilities in the immediate area and the region and is subject to competitive factors and market conditions in a number of sectors. See "Certain Economic and Other Constraints on Port Revenue" above.

Risk of Earthquake

The City is located in a seismically active region. Active earthquake faults underlie both the City and the surrounding Bay Area, including the San Andreas Fault, which passes about three miles to the southeast of

the City's border, and the Hayward Fault, which runs under Oakland, Berkeley and other cities on the east side of San Francisco Bay, about 10 miles away. Significant recent seismic events include the 1989 Loma Prieta earthquake, centered about 60 miles south of the City, which registered 6.9 on the Richter scale of earthquake intensity. That earthquake caused fires, building collapses, and structural damage to buildings and highways in the City and environs. The San Francisco-Oakland Bay Bridge, the only east-west vehicle access into the City, was closed for a month for repairs, and several highways in the City were permanently closed and eventually removed.

In April 2008, the Working Group on California Earthquake Probabilities (a collaborative effort of the U.S. Geological Survey (the "U.S.G.S."), the California Geological Society, and the Southern California Earthquake Center) reported that there is a 63% chance that one or more quakes of about magnitude 6.7 or larger will occur in the San Francisco Bay Area before the year 2038. Such earthquakes may be very destructive. For example, the U.S.G.S. predicts a magnitude 7 earthquake occurring today on the Hayward Fault would likely cause hundreds of deaths and almost \$100 billion of damage. In addition to the potential damage to City-owned buildings and facilities (on which the City does not generally carry earthquake insurance), due to the importance of San Francisco as a tourist destination and regional hub of commercial, retail and entertainment activity, a major earthquake anywhere in the Bay Area may cause significant temporary and possibly longer-term harm to the City's economy, tax receipts, and residential and business real property values.

As indicated by the report, a significant earthquake in the City is probable during the time the Series 2014 Bonds will be outstanding. As stated in the Seismic Hazards Mapping Act of 1990, the effects of strong ground shaking, liquefaction, landslides or other ground failure account for approximately 95% of economic losses caused by an earthquake. The Seismic Hazards Mapping Act of 1990 requires sellers and agents of real property located within a Seismic Hazard Zone to disclose the zone designation to buyers at the time of sale. The Port Area is located within a liquefaction zone according to a report prepared by the California Geologic Survey. Liquefaction is a significant loss of soil strength resulting from increased pore water pressure during earthquakes. Loss of soil strength can cause damage to Port facilities and infrastructure (including the seawall) due to ground settlement or lateral spreading. The Seismic Hazards Mapping Act also requires cities or counties to regulate certain development projects within the zones by withholding approval until the soil conditions of the project sites are investigated and appropriate mitigation measures are incorporated into the development plans. As a part of the building permit review for waterfront projects that trigger a seismic code upgrade, the Port requires geotechnical investigations be conducted that profile the soils, determine the potential for liquefaction, and identify measures to mitigate seismic impact.

The Port does not carry earthquake insurance and the Port does not anticipate obtaining earthquake insurance for the Port Area. In addition, in the event facilities located within the Port Area are damaged or destroyed in an earthquake, the business operations and finances of the Port could be materially adversely affected.

FEMA Flood Zone

On September 21, 2007, Federal Emergency Management Agency ("FEMA") published a preliminary Flood Insurance Rate Map ("FIRM") for San Francisco depicting Special Flood Hazard Areas ("SFHAs"). A SFHA is defined as an area subject to flooding during a flood having a 1% chance of occurrence in any given year (also referred to as the 100-year flood or base flood.) The preliminary FIRM shows SFHAs along San Francisco's coastline, including most of the Port's finger piers. Initial analysis by the Port's Chief Harbor Engineer indicates that currently most of the Port's finger piers have a freeboard (or clearance) of one foot or more above the Total Water Elevations projected by FEMA during the occurrence of the base flood. Port staff submitted detailed comments to FEMA regarding its preliminary FIRM demonstrating the absence of significant flood hazards on portions of Port property and the ability of finger piers to withstand forces associated with the base flood. In 2008, the Port's Chief Harbor Engineer certified the Port's comments submitted to FEMA. The analysis and certifications included in the Chief Harbor Engineer's report show that:

1. The Port's piers and wharfs are structurally sufficient to withstand the effects of wave action and most of the pier decks are above the expected wave heights. Therefore, the Port's piers and wharves should be removed from the SFHA;
2. The Port's seawall sections are structurally sufficient and have adequate height above the expected wave heights to provide protection against the base flood. Therefore, the landside improvements should be removed from the SFHA; and
3. The breakwaters are structurally sufficient to provide protection to many areas of the Port waterfront by reducing the wave height. Since the breakwaters provide significant wave and thus flood protection, the Port requested that FEMA re-analyze the projected Base Flood Elevations in the areas behind the breakwaters to account for the breakwater's effect on wave action.

FEMA is currently evaluating these comments and performing detailed coastal engineering analyses and mapping of the San Francisco Bay shoreline within the nine Bay Area counties. The analysis and mapping will provide the flood and wave data for the City's Flood Insurance Study and FIRM map panels along the Bay shoreline. FEMA is expected to issue a final FIRM for San Francisco in 2015.

In 2008 the City published an Interim Floodplain Map and adopted a floodplain management ordinance that FEMA has approved, to ensure any construction within the City's identified flood prone areas is built to standards to withstand the base flood. The Port of San Francisco Building Code contains equivalent standards for new construction and substantial rehabilitation of non-historic structures on Port land and, since 2010, standards for additions to, and substantial rehabilitation of, historic structures.

Risk of Tsunami

The California Geological Survey ("CGS"), in concert with the California Emergency Management Agency and the Tsunami Research Center at the University of Southern California, has produced statewide tsunami inundation maps. CGS has identified the Port Area as being located in the San Francisco Tsunami Inundation Zone. Port facilities could be impacted by a tsunami that breaches San Francisco Bay. The Port does not carry tsunami insurance and the Port does not anticipate obtaining tsunami insurance for the Port Area. In the event facilities located within the Port Area are damaged or destroyed by a tsunami, the business operations and finances of the Port could be materially adversely affected.

Sea Level Rise

One of the most publicized impacts of global warming is the predicted acceleration of sea level rise. This acceleration would increase the historic rate of sea level rise, which has been measured in San Francisco Bay for over 140 years. Between 1900 and 2000, the level of the Bay increased by seven inches. Depending on which end of the range of projected temperature increases comes about, the California Climate Action Team found that the water levels in San Francisco Bay could rise an additional five inches to three feet, or nearly one meter by the end of this century. More recent analysis indicate that even higher sea level rise may occur from warming oceans which could lead to a 55-inch rise in 100 years, or higher depending upon the rate at which glaciers and other ice sheets on land melt.

Port facilities would be impacted by a sea level rise of 16 inches, a possible level projected to occur by 2050, by occasional flooding of some of the Port's facilities. A rise of 55 inches is expected to cause frequent flooding of the majority of the Port's facilities including the waterfront roadway, The Embarcadero. Many other areas of San Francisco, outside Port jurisdiction, are also expected to be subject to flooding with a 55 inch sea level rise. Therefore, it is expected that mitigation measures would need to be constructed to protect Port facilities if sea level rises significantly.

Acts of Terrorism and Force Majeure Events

The federal Department of Homeland Security has identified the major ports on the California coast, including the Port, and other ports in the United States, as facilities subject to a high level of risk of terrorist attacks. In addition, certain facilities on the Port are subject to regulation under the Maritime Transportation Security Act of 2002 ("MTSA") and regulations adopted thereunder, which require the Port to implement security measures designed to protect the ports and waterways of the U.S. from a terrorist attack. Regulated facilities at the Port include cargo, cruise and ferry facilities. In response to such concerns and in compliance with MTSA and other applicable regulations, the Port has undertaken additional security measures – both at facilities regulated under MTSA, and to protect Port facilities and public access areas not regulated under MTSA. However, the Port Commission cannot predict the likelihood of a terrorist attack on any of its facilities or the extent of damage or disruption that might result or the degree to which such compliance measures will be successful in preventing an attack. In addition, the Port Commission is not able to assess the ultimate cost of the security measures which are currently required by the MTSA and applicable regulations or which may be required in the future. Required security measures are reevaluated and modified frequently by the federal Department of Homeland Security. Such measures, and the cost of their implementation, could increase in the future. The Port's facilities are not insured by the Port Commission against terrorist attack. See "– No Insurance For Certain Losses" below.

The Port's facilities and its ability to generate Revenue from its properties are also at risk from other events of force majeure, such as extreme weather events and other natural occurrences, fires and explosions, spills of hazardous substances, strikes and lockouts, sabotage, wars, blockades and riots. While the Port Commission has attempted to address the risk of a loss from many of these sorts of occurrences through the purchase of commercial property and casualty insurance, certain of these events may not be covered by standard property and casualty insurance coverages. Notwithstanding that the Port Commission may seek recovery under its insurance policies in the event of the occurrence of an insured loss, there exists the possibility that an insurer may deny coverage and refuse to pay a claim and there is an attendant risk of litigation and delay in receipt of any loss claim payment. In the event of damage to the Port's facilities, the collection of lease rentals or other tariffs, fees and charges for the use of Port properties and other amounts comprising the Revenue could be impaired for an undetermined period.

No Insurance for Certain Losses

The Port Commission does not currently maintain insurance insuring against loss resulting from earthquake, tsunami, flood, losses to its fleet of vehicles from terrorist activity and certain other types of loss. The Port Commission would be required to pay for the costs resulting from any catastrophic loss from its budgetary reserves. It is expected that grant moneys from FEMA would be available to the Port Commission to pay a portion of such costs. However, such FEMA grant funds, if available at all, might not be available in amounts sufficient to pay a significant portion of such costs, and there can be no assurance that the Port Commission's budgetary reserves will be adequate to address any casualty or loss which its facilities might experience. See "PORT FINANCIAL OPERATIONS – Risk Management and Insurance."

Operation and Maintenance Expenses

The payment of principal of and interest on the Series 2014 Bonds will be made from the Net Revenue of the Port, which is comprised of the Revenue of the Port available after payment of the Operation and Maintenance Expenses of the Port. There can be no assurance that the Operation and Maintenance Expenses of the Port will continue at the levels that currently prevail. Such expenses could increase substantially and could cause the Port Commission to be unable to meet the debt service coverage requirement of the Indenture. The Port Commission has a limited ability to increase its rates, tariffs and charges and in all cases, such increases are subject to prevailing market conditions, which could cause such increases to raise the number of defaults under the Port's agreements with its tenants or to reduce the market demand for the Port's properties. See "PORT FINANCIAL OPERATIONS – Operation and Maintenance Expenses" herein.

Risks Related to Environmental Liability; Hazardous Substances and Increased Environmental Regulation

The Port is subject to a wide variety of local, State, and federal transportation and environmental laws. Such laws include mandates with respect to the Port's properties and operations conducted thereon, including regulations governing uses of Port property, air emissions, stormwater compliance and discharges to San Francisco Bay, and handling of hazardous materials. The regulations governing the use of Port property and activities conducted on it are likely to evolve and become more restrictive over time.

The Port is currently subject to environmental compliance orders issued by regulatory agencies with purview over Port property or voluntary oversight by such agencies associated with known or suspected contamination of Port property or groundwater. These agencies include the San Francisco Bay Regional Water Quality Control Board and the San Francisco Department of Public Health. These orders and voluntary oversight typically arise from the activities of former Port tenants who are the primary responsible parties for such contamination. It is likely that future environmental investigations of Port property will result in identifying contamination that will result in additional orders and/or voluntary oversight. In some of these cases, the Port may have difficulty identifying parties responsible for the subject contamination. The costs to the Port to implement the compliance measures required by such orders and mandates are included as Operation and Maintenance Expenses of the Port, and are substantial. Such regulations are subject to amendment from time to time, and any such amendments could require the Port to undertake additional, costly compliance measures. The costs of such compliance measures and amendments could materially increase the Port's operating costs and thereby adversely affect Net Revenue.

The Port Area includes properties on which hazardous substances have been located. It is likely, due to the nature of past operations on Port properties, that additional Port properties will be found to have hazardous substances located on them. See "PORT FINANCIAL OPERATIONS – Environmental Compliance" herein. The Port as the owner of contaminated property may be liable in the event of a determination of the presence or discharge of hazardous substances on its property, irrespective of its knowledge of the presence or discharge of such substances, or its lack of responsibility for the existence of such substances on its property. Costs of remediation of these substances, if required, could be extremely high and could exceed the value or revenue generation potential of such properties. The costs of remediation could materially increase the Port's Operation and Maintenance Expenses and could thereby adversely affect the Net Revenue available to pay the Series 2014 Bonds. Insurance coverage for the costs of environmental liability of the Port may be limited and many such costs are not covered by commercial insurance policies.

Construction Risk

Construction on Port property involves difficulties peculiar to construction over water and on landfill such as tide-limited work hours and unanticipated soil conditions or buried objects. Construction of Port facilities is also subject to ordinary construction risks and delays applicable to projects of their kind, such as (i) inclement weather affecting contractor performance and timeliness of completion, which could affect the costs and availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors; (ii) contractor claims or nonperformance; (iii) failure of contractors to execute within contract price; (iv) work stoppages or slowdowns; (v) failure of contractors to meet schedule terms; or (vi) the discovery of hazardous materials on the site or other issues regarding compliance with applicable environmental standards.

Constitutional and Statutory Restrictions on Fees and Charges; Change in Law

The Port is subject to State, federal and City laws that restrict its operations. Such laws may be amended at any time. Several constitutional and statutory limitations on taxes, revenues and expenditures exist under State law that could limit the ability of the Port to impose and increase revenue sources and to spend such revenues, and that, under certain circumstances, could permit existing revenue sources of the Port to be reduced by vote of the City electorate. These constitutional and statutory limitations, and future limitations, if

enacted, could potentially have an adverse impact on the Port's general finances and its ability to raise revenue, or maintain existing revenue sources, in the future. A summary of the currently effective limitations is set forth below.

Articles XIII C and XIII D of the California Constitution. Proposition 218, approved by the voters of the State in 1996, added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities such as the City, to levy and collect both existing and future taxes, assessments, fees and charges. The applicability of Proposition 218 to enterprise departments of cities, such as the Port, is unclear, but the Port believes that Proposition 218 is inapplicable to the fees and charges imposed by it. The voter approval requirements of Article XIII C reduce the flexibility of local governments to deal with fiscal problems by raising revenue through new, extended or increased assessments, fees and charges. No assurance can be given that the Port will be able to raise assessments, fees and charges in the future to meet increased expenditure requirements, if it is later determined that the Port's fees and charges are subject to Proposition 218.

In addition, Article XIII C addresses the initiative power in matters of local taxes, assessments, fees and charges. Pursuant to Article XIII C, the voters of the City could, by initiative, repeal, reduce or limit any existing or future local tax, assessment, fee or charge, subject to certain limitations imposed by the courts and additional limitations with respect to the collection of revenues to repay bonds. No assurance can be given that the voters of the City will not approve initiatives that repeal, reduce or prohibit the imposition or increase of local taxes, assessments, fees or charges by the Port.

Article XIII D contains several provisions intended to restrict the ability of local agencies to levy and maintain "assessments" and "fees" (as defined in Article XIII D) for "property related services." Article XIII D defines the terms "fee" and "charge" to mean "any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service." A "property related service" is defined as "a public service having a direct relationship to property ownership." The Port is of the opinion that charges for its services are not property related fees or charges and therefore are not subject to the limits of Article XIII D. The Port cannot predict the future impact of Proposition 218 on the finances of the Port, and no assurance can be given that, due to subsequent interpretations of Proposition 218 by the courts, Proposition 218 will not have a material adverse impact on the Port's revenues.

Proposition 26. Proposition 26 was approved by voters of the State in November 2010 and revises the California Constitution to expand the definition of "taxes." Proposition 26 re-categorizes many State and local fees as taxes and specifies a requirement of two-thirds voter approval for taxes levied by local governments. The applicability of Proposition 26 to the Port is unclear, but the Port believes that Proposition 26 is inapplicable to the fees and charges imposed by it.

Future Changes in Laws. No assurance can be given that the State electorate will not at some future time adopt initiatives or that the State Legislature will not enact legislation that will amend the laws or the Constitution of the State of California, resulting in a reduction of Net Revenue and, consequently, having an adverse effect on the security for the Series 2014 Bonds. No assurance can be given that the City electorate will not at some future time adopt an initiative or Charter amendment having an impact on the Port's operations and, consequently, having an adverse effect on the security for the Series 2014 Bonds.

Bankruptcy or Financial Failure of Tenant

The financial failure or bankruptcy of a Port tenant could adversely affect the ability of such tenant to honor its obligation under its lease, may affect the Port Commission's ability to enforce the terms of the lease against such tenant and could allow such tenant to reject its lease. Further, the Port Commission's right to receive payment of rent accrued prior to bankruptcy may be limited to the rights of an unsecured creditor of the bankrupt entity.

Two former Port co-tenants who had a lease at Pier 38, and one other current tenant are in bankruptcy proceedings. The Port Commission is in ongoing litigation with the former Pier 38 co-tenants. The other tenant in bankruptcy has been paying post-petition rents monthly and is expected to emerge from bankruptcy in 2014. See "LITIGATION" herein. The Port Commission is not aware of the existing or impending financial failure or bankruptcy of any other Port tenant, but there can be no assurance that a financial failure or bankruptcy of another tenant will not occur.

Uncertainties of Projections and Assumptions; Forward Looking Statements

Compliance with certain of the covenants contained in the Indenture is based upon assumptions and projections including, but not limited to, those described under "PORT FINANCIAL OPERATIONS – Projected Debt Service Coverage." Projections and assumptions are inherently subject to significant uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur and actual results are likely to differ, perhaps materially, from those projected. Accordingly, such projections are not necessarily indicative of future performance, and the Port Commission assumes no responsibility for the accuracy of such projections.

Certain statements contained in this Official Statement reflect not historical facts but forecasts and "forward-looking statements." All forward-looking statements are predictions and are subject to known and unknown risks and uncertainties. No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinions, estimates and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this official statement. Given their uncertainty, investors are cautioned not to place undue reliance on such statements.

Loss of Tax Exemption/Risk of Tax Audit of Municipal Issuers

As discussed under "TAX MATTERS," interest on the Series 2014A Bonds could fail to be excluded from the gross income of the owners thereof for purposes of federal income taxation retroactive to the date of the issuance of the Series 2014A Bonds as a result of future acts or omissions of the Port Commission in violation of its covenants to comply with requirements of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the Series 2014A Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Indenture.

Secondary Market

There can be no guarantee that there will be a secondary market for the Series 2014 Bonds or, if a secondary market exists, that the Series 2014 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

AUDITED FINANCIAL STATEMENTS

Audited Financial Statements of the Port Commission (the "Financial Statements") for the Fiscal Year ended June 30, 2013 are attached as Appendix C. See Appendix C – "PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO, FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2013." The Financial Statements have been audited

by Macias Gini & O'Connell LLP, independent certified public accountants. The Port Commission prepares financial statements that are audited annually.

The Port has not requested nor did the Port obtain permission from Macias Gini & O'Connell LLP to include its report on the audited financial statements in Appendix C to this Official Statement. Macias Gini & O'Connell LLP has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Macias Gini & O'Connell LLP also has not performed any procedures relating to this Official Statement.

CONTINUING DISCLOSURE

The Port Commission has covenanted for the benefit of the Owners of the Series 2014 Bonds to provide certain financial information and operating data relating to the Port Commission not later than 270 days after the end of the Port Commission's Fiscal Year (which currently ends on June 30), commencing with the report for Fiscal Year 2013-14 (the "Annual Report") and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the Port Commission with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access website.

The specific nature of the information to be contained in the Annual Report or the notices of certain events is summarized in Appendix D – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The Port Commission is not in default with respect to any previous undertaking made with regard to said Rule.

In the last five years, the Port Commission has not failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual financial information or notices of material events.

TAX MATTERS

Series 2014A Bonds – Federal Tax Law

In the opinion of Jones Hall, A Professional Law Corporation, and Schiff Hardin LLP, Co-Bond Counsel, subject, however, to certain qualifications set forth below, under existing law, the interest on the Series 2014A Bonds is excluded from gross income for federal income tax purposes, except during any period while a Series 2014A Bond is held by a "substantial user" of the facilities financed by the Series 2014A Bonds or by a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Tax Code"). It should be noted, however, that such interest is an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations.

The opinion of Co-Bond Counsel is subject to the condition that the Port Commission comply with certain requirements of the Tax Code that must be satisfied subsequent to the issuance of the Series 2014A Bonds. The Port Commission has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series 2014A Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series 2014A Bonds.

Series 2014B Bonds - Federal Tax Law

The interest on the Series 2014B Bonds is not intended by the Port Commission to be excluded from gross income for federal income tax purposes.

Circular 230 Disclaimer. To ensure compliance with requirements imposed by the IRS, Co-Bond Counsel informs owners of the Series 2014B Bonds that any U.S. federal tax advice contained in this Official

Statement (including any attachments) (a) was not intended or written to be used and cannot be used by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer and (b) was written to support the promotion or marketing of the Series 2014B Bonds. Each taxpayer should seek advice based on that taxpayer's particular circumstances from an independent tax advisor.

State Law

In the further opinion of Co-Bond Counsel, interest on the Series 2014 Bonds is exempt from California personal income taxes.

Original Issue Discount; Original Issue Premium

If the initial offering price to the public (excluding bond houses and brokers) at which a Series 2014 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Series 2014 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded. Owners of Series 2014 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2014 Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Series 2014 Bonds under federal individual and corporate alternative minimum taxes.

Limitation

Co-Bond Counsel expresses no opinion regarding any federal tax consequences arising with respect to the Series 2014A Bonds and the Series 2014B Bonds other than as expressly described above. Owners of the Series 2014A Bonds should be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Series 2014A Bonds may have federal or state tax consequences other than as described above for certain taxpayers, including without limitation, foreign corporations subject to the branch profits tax, financial institutions, property and casualty insurance companies, S corporations and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations. Prospective investors, particularly those who may be subject to special rules, should consult their own tax advisors regarding the tax consequences of owning the Series 2014A Bonds.

Form of Opinion

The form of opinion of Co-Bond Counsel is set forth as Appendix F hereto.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services ("S&P"), and Fitch Ratings ("Fitch") have assigned their municipal bond ratings of "___," "___" and "___," respectively, to the Series 2014 Bonds. The ratings issued reflect only the views of such rating agencies and are not a recommendation to buy, sell or hold the Series 2014 Bonds. Any explanation of the significance of these ratings should be obtained from the respective rating agencies. There is no assurance that such ratings will be retained for any given period or that the same will not be revised downward or withdrawn entirely by such rating agencies if, in the respective judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of any rating obtained may have an adverse effect on the marketability or the market price of the Series 2014 Bonds.

UNDERWRITING

The Series 2014 Bonds are being purchased by Siebert Brandford Shank & Co., L.L.C., as representative of itself and Stifel (together, the "Underwriters"). The Underwriters have agreed to purchase the Series 2014 Bonds at a purchase price of \$ _____ (comprised of the principal amount of the Series 2014 Bonds, less a reoffering discount / plus net original issue premium of \$ _____ on the Series 2014 Bonds, less an underwriters' discount in the amount of \$ _____).

The purchase contract pursuant to which the Series 2014 Bonds are being sold provides that the Underwriters will purchase all of the Series 2014 Bonds if any Series 2014 Bonds are purchased, and the obligation to make such purchase is subject to certain terms and conditions set forth in such purchase contract, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell the Series 2014 Bonds to certain dealers and others at a price lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriters.

LITIGATION

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the best knowledge of the Port Commission, threatened against the Port Commission affecting the existence of the Port Commission or the titles of its officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the Series 2014 Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the validity or enforceability of the Series 2014 Bonds, the Indenture or any action of the Port Commission contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the Port Commission with respect to the Series 2014 Bonds or any action of the Port Commission contemplated by any of said documents, nor, to the knowledge of the Port Commission, is there any basis therefor.

There are a number of litigation matters pending against the Port Commission for incidents at the Port, involving claims and suits which arise out of the ordinary course of business and operations of the Port. The Port Commission is also a named party in various other environmental and regulatory matters that are presently in the course of regulatory investigation and compliance review. Certain of such matters are discussed herein under the caption "PORT FINANCIAL OPERATIONS – Environmental Compliance." In the opinion of the Port General Counsel, an adverse judgment on any of these pending matters, either individually or in the aggregate will not have a material adverse effect on the Net Revenue or on the financial condition of the Port. Most of such claims involve claims relating to personal injury and property damage and most such claims are covered by a comprehensive insurance program maintained by the Port Commission. See "PORT FINANCIAL OPERATIONS – Risk Management and Insurance" herein.

CERTAIN LEGAL MATTERS

The validity of the Series 2014 Bonds and certain other legal matters are subject to the approving opinions of Jones Hall, A Professional Law Corporation, San Francisco, California, and Schiff Hardin LLP, San Francisco, California, Co-Bond Counsel. Complete copies of the proposed forms of Co-Bond Counsel opinions are contained in Appendix F hereto, and will be made available to the Underwriters of the Series 2014 Bonds at the time of the original delivery of the Series 2014 Bonds. None of Co-Bond Counsel, Disclosure Counsel or Underwriters' Counsel undertakes any responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Port Commission by the City Attorney and by Hawkins Delafield & Wood LLP, San Francisco, California, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by Curls Bartling PC, Oakland, California

Hawkins Delafield & Wood LLP has served as disclosure counsel to the Port Commission and in such capacity has advised the Port Commission with respect to applicable securities laws and participated with

responsible Port Commission officials and staff in conferences and meetings where information contained in this Official Statement was reviewed for accuracy and completeness. Disclosure Counsel is not responsible for the accuracy or completeness of the statements or information presented in this Official Statement and has not undertaken to independently verify any of such statements or information. Rather, the Port Commission is solely responsible for the accuracy and completeness of the statements and information contained in this Official Statement. Upon the issuance of the Series 2014 Bonds, Disclosure Counsel will deliver a letter to the Port Commission which advises the Port Commission, subject to the assumptions, exclusions, qualifications and limitations set forth therein, that no facts came to attention of such firm which caused them to believe that this Official Statement as of its date and as of the date of issuance of the Series 2014 Bonds contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. No purchaser or holder of the Series 2014 Bonds, or other person or party other than the Port Commission, will be entitled to or may rely on such letter or Hawkins Delafield & Wood LLP's having acted in the role of disclosure counsel to the Port Commission.

ROLE OF THE FINANCIAL ADVISORS

Public Financial Management, Inc., San Francisco, California, and Backstrom McCarley Berry & Co., LLC, San Francisco, California are acting as Financial Advisors to the Port Commission with respect to the Series 2014 Bonds. The Financial Advisors have assisted the Port Commission in the preparation of this Official Statement and in other matters relating to the planning, structuring, execution and delivery of the Series 2014 Bonds. The Financial Advisors have not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Port Commission to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisors assume no responsibility for the accuracy or completeness of any of the information contained herein. The Financial Advisors will not purchase or make a market in any of the Series 2014 Bonds.

Compensation to be received by the Financial Advisors from the Port Commission for services provided in connection with the planning, structuring, execution and delivery of the Series 2014 Bonds is contingent upon the sale and delivery of the Series 2014 Bonds.

MISCELLANEOUS

References made herein to certain documents and reports are brief summaries thereof that do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof.

The appendices to this Official Statement are integral parts of this Official Statement. Investors must read the entire Official Statement, including the appendices, to obtain information essential to making an informed investment decision.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Port Commission and the purchasers or owners of any of the Series 2014 Bonds. The preparation and distribution of this Official Statement has been authorized by the Port Commission. For copies, written request may be made to the Manager of Communications, Port of San Francisco, Pier 1, The Embarcadero, San Francisco, CA 94111.

APPROVAL AND EXECUTION

The execution and delivery of this Official Statement has been authorized by the Port Commission.

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

By: _____
Monique Moyer
Executive Director

APPENDIX A

SUMMARY OF THE LEGAL DOCUMENTS

[To be updated by Co-Bond Counsel.] The following is a summary of certain of the definitions and terms of the Indenture of Trust and First Supplement to Indenture of Trust. The summary is not intended to be comprehensive and investors are advised to refer to the actual executed documents for the complete terms of the documents summarized below. Following delivery of the Series 2010 Bonds, the Indenture of Trust and First Supplement to Indenture of Trust will be on file with the Trustee.

DEFINITIONS

The following is a summary of certain of the defined terms from the Indenture.

"Accreted Value" shall mean, as of any date of calculation, with respect to any Capital Appreciation Bond, the initial principal amount thereof plus the interest accumulated, compounded and unpaid thereon as of such date of calculation if a compounding date, or if such calculation date is other than a compounding date, the most recently past compounding date.

"Act" shall mean the Charter of the City and County of San Francisco, as supplemented and amended, and all enactments of the Board adopted pursuant thereto, including Ordinance No. 258-09 adopted by the Board of the City on December 8, 2009 and signed by Mayor Gavin Newsom on December 18, 2009, and codified as Chapter 43, Article XII of the San Francisco Administrative Code.

"Amortized Bonds" shall mean those Bonds subject, pursuant to their terms, to optional or mandatory tender for purchase prior to maturity by or on behalf of the Commission or a Credit Provider.

"Annual Debt Service" shall mean in any Fiscal Year (i) the amount scheduled to become due and payable on the Outstanding Bonds or any one or more Series thereof in any Fiscal Year as (a) interest, plus (b) Principal Amount at maturity, plus (c) mandatory sinking fund redemptions, (ii) Swap Payments scheduled to be paid under an Interest Rate Swap and (iii) Repayment Obligations. For purposes of calculating Annual Debt Service, the following assumptions shall be used:

(i) All Principal Amount payments and mandatory sinking fund redemptions shall be made as and when the same shall become due;

(ii) Outstanding Variable Rate Bonds shall be deemed to bear interest during any period after the date of calculation at a fixed annual rate equal to the average of the actual rates on such Variable Rate Bonds for each day during the 365 consecutive days (or any lesser period such Bonds have been outstanding) ending on the last day of the month next preceding the date of computation, or at the effective fixed annual rate thereon as a result of an Interest Rate Swap payable on a parity to the Variable Rate Bonds to which it relates (in which case, the scheduled amount due under such Variable Rate Bonds and the related Interest Rate Swap shall be deemed to be the fixed annual rate under the Interest Rate Swap);

(iii) Variable Rate Bonds proposed to be issued shall be deemed to bear interest at a fixed annual rate equal to the estimated initial rate or rates thereon, as set forth in a certificate of the Commission prior to the date of delivery of such Bonds, or at the effective fixed annual rate thereon as a result of an Interest Rate Swap payable on a parity to the Variable Rate Bonds to which it relates (in which case, the scheduled amount due under such variable rate Bonds and the related Interest Rate Swap shall be deemed to be the fixed annual rate under the Interest Rate Swap);

(iv) If any Interest Rate Swap is in effect pursuant to which the Commission pays Swap Payments at a variable rate, and such Interest Rate Swap is payable on a parity with the fixed rate Bonds to which it

relates, amounts payable under such Interest Rate Swap shall be included in the calculation of Annual Debt Service and calculated by the same method as variable rate interest pursuant to paragraphs (ii) and (iii) above, and the Annual Debt Service on such Bonds shall be adjusted to reflect the fixed rate to be received under such Interest Rate Swap;

(v) If any Bonds are Paired Obligations, the interest rate on such Bonds shall be the resulting fixed interest rate to be paid by the Commission with respect to such Paired Obligations;

(vi) Amortized Bonds shall be deemed to be amortized on a level debt service basis over the period beginning on the date of calculation to the date of final maturity of such Amortized Bonds at the then current Index Rate;

(vii) Capitalized interest on any Bonds and accrued interest paid on the date of initial delivery of any Series of Bonds shall be excluded from the calculation of Annual Debt Service if cash and/or Permitted Investments have been irrevocably deposited with and are held by the Trustee or other fiduciary for the Owners of such Bonds sufficient to pay such interest;

(viii) Repayment Obligations proposed to be entered into which are secured by Net Revenue on a parity with the Bonds as provided in the Indenture shall be deemed payable to the extent such Repayment Obligations are drawn upon and remain outstanding, and in such event, the amounts scheduled to be due under the Repayment Obligation shall be taken into account as Annual Debt Service; and

(ix) the interest rate on Build America Bonds shall be deemed to be reduced by the expected amount of Refundable Credit.

"Authenticating Agent" shall mean, with respect to any Series of Bonds, each person or entity, if any, designated as such by the Commission in the Indenture or in the Supplemental Indenture authorizing the issuance of such Bonds, and its successors and assigns and any other person or entity which may at any time be substituted for it pursuant thereto.

"Authorized Commission Representative" shall mean the Executive Director or Deputy Director of Finance and Administration or the Finance Manager of the Commission, or the respective successors to the powers and duties thereof, or such other person as may be designated to act on behalf of the Commission by written certificate furnished to the Trustee containing the specimen signature of such person and signed on behalf of the Commission by the Executive Director or Deputy Director of Finance and Administration or the Finance Manager of the Commission, or their respective successors.

"Board of Supervisors" shall mean the Board of Supervisors of the City and County of San Francisco, as duly elected, appointed and qualified from time to time in accordance with the provisions of the Charter.

"Bond Counsel" shall mean an attorney or firm of attorneys of national recognition selected or employed by the Commission with knowledge and experience in the field of municipal finance.

"Bonds" shall mean any evidences of indebtedness for borrowed money issued from time to time by the Commission under the Indenture or under a Supplemental Indenture pursuant to the Indenture, including but not limited to bonds, notes, bond anticipation notes, commercial paper, lease or installment purchase agreements or certificates of participation therein. Bonds may also include, for the purposes of any particular provision of the Indenture as provided in a Supplemental Indenture, any other obligation, including but not limited to contractual obligations, entered into by the Commission pursuant to the terms thereof with a lien on Net Revenue on a parity with other Outstanding Bonds.

"Build America Bonds" shall mean a Series of Bonds that are subject to Section 54AA of the Code pursuant to an irrevocable election of the Commission or similar tax credit bonds.

"Business Day" shall mean, unless otherwise specified by Supplemental Indenture, any day of the week other than Saturday, Sunday or a day which shall be, in the State of California, the State of New York or in the jurisdiction in which the Corporate Trust Office of the Trustee or the principal office of the Registrar is located, a legal holiday or a day on which banking institutions are authorized or obligated by law or executive order to close.

"Capital Appreciation Bonds" shall mean Bonds the interest on which is compounded and accumulated at the rate or rates and on the date or dates set forth in the Supplemental Indenture authorizing the issuance thereof and which is payable only upon redemption and/or on the maturity date thereof.

"Charter" shall mean the Charter of the City and County of San Francisco, as supplemented and amended, and any new or successor Charter.

"City" shall mean the City and County of San Francisco, a chartered city and county and municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and the applicable Treasury Regulations, rulings and procedures proposed or promulgated thereunder or under the Internal Revenue Code of 1954, as amended.

"Commission" shall mean the Port Commission of the City and County of San Francisco as duly constituted from time to time under the Charter, and all commissions, agencies or public bodies which shall succeed to the powers, duties and obligations of the Commission.

"Corporate Trust Office" shall mean the office of the Trustee at which its corporate trust business is conducted designated in writing to the Commission, which initially is located in San Francisco, California.

"Coverage" shall have the meaning provided in the Indenture.

"Credit Facility" shall mean a letter of credit, line of credit, standby purchase agreement, municipal bond insurance policy, surety bond or other financial instrument which obligates a third party to pay or provide funds for the payment of the Principal Amount or purchase price of and/or interest on any Bonds and which is designated as a Credit Facility in a Supplemental Indenture.

"Credit Provider" shall mean the person or entity obligated to make a payment or payments with respect to any Bonds under a Credit Facility.

"Debt Service Fund" shall mean the Debt Service Fund established pursuant to the Indenture.

"Delivery Costs" shall mean all items of expense directly or indirectly payable by or reimbursable to the Commission relating to the authorization, issuance, sale and delivery of the Bonds, including, but not limited to, printing expenses, filing and recording fees, fees and charges of the Trustee and its counsel, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds, bond insurance premiums or other fees in connection with credit enhancement or other credit facilities obtained in connection with Bonds, rating agency fees and any other cost, charge or fee in connection with the original issuance of Bonds.

"Delivery Costs Funds" shall mean, collectively, the Delivery Costs Funds established pursuant to the Indenture.

"Enterprise Fund" shall mean the San Francisco Harbor Trust Fund created pursuant to Section B6.406 of the Charter and held by the Treasurer, and any successor to such fund.

"Event of Default" shall mean any one or more of those events described as events of default under the Indenture.

"First Supplemental Indenture" shall mean the First Supplement to Indenture of Trust, dated as of February 1, 2010, by and between the Commission and the Trustee.

"Fiscal Year" shall mean the one-year period beginning on July 1 of each year and ending on June 30 of the succeeding calendar year, or such other one-year period as the Commission shall designate as its Fiscal Year.

"Fitch" shall mean Fitch Ratings, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, then the term "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Commission.

"Fund" or "Account" shall mean any fund or account established pursuant to the Indenture.

"Government Certificates" shall mean evidences of ownership of proportionate interests in future principal or interest payments of Government Obligations, including depository receipts thereof. Investments in such proportionate interests must be limited to circumstances wherein (i) a bank or trust company acts as custodian and holds the underlying Government Obligations; (ii) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying Government Obligations; and (iii) the underlying Government Obligations are held in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, or any person claiming through the custodian, or any person to whom the custodian may be obligated.

"Government Obligations" shall mean direct and general obligations of, or obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

"Holder," "Bondholder," "Owner" and "Bondowner" shall mean the person or persons in whose name any Bond or Bonds are registered on the records maintained by the Registrar.

"IFD Revenues" shall mean revenues available to the Commission from an Infrastructure Financing District.

"Indenture" shall mean the Indenture of Trust, dated as of February 1, 2010, by and between the Commission and the Trustee, as the same may be amended or supplemented pursuant to the terms thereof.

"Independent Auditor" shall mean a firm or firms of independent certified public accountants with knowledge and experience in the field of governmental accounting and auditing selected or employed by the Commission.

"Index Rate" shall mean the rate equal to the SIFMA Municipal Swap Index, or if such index ceases to be published, a comparable index published by the SIFMA or its successor or, if no comparable index then exists, eighty percent (80%) of the interest rate on actively traded ten (10) year United States Treasury Obligations.

"Infrastructure Financing District" means any district established pursuant to Chapter 2.8 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California or a similar law.

"Insolvent" shall be used to describe the Trustee, any Paying Agent, Authenticating Agent, Registrar, other agent appointed under the Indenture or any Credit Provider, if (a) such person shall have instituted proceedings to be adjudicated a bankrupt or insolvent, shall have consented to the institution of bankruptcy or insolvency proceedings against it, shall have filed a petition or answer or consent seeking reorganization or relief under the federal Bankruptcy Code or any other similar applicable federal or state law, or shall have consented to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator or other similar official of itself or of any substantial part of its property, or shall fail to timely controvert an involuntary petition filed against it under the federal Bankruptcy Code, or shall consent to the entry of an order for relief under the federal Bankruptcy Code or shall make an assignment for the benefit of creditors or shall admit in writing its inability to pay its debts generally as they become due; or (b) a decree or order by a court having jurisdiction in the premises adjudging such person as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such person under the federal Bankruptcy Code or any other similar applicable federal or state law or for relief under the federal Bankruptcy Code after an involuntary petition has been filed against such person, or appointing a receiver, liquidator, assignee, trustee or sequestrator or other similar official of such person or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, shall have been entered and shall have continued unstayed and in effect for a period of 90 consecutive days.

"Interest Payment Date" shall mean, with respect to any Series of Bonds, each date specified in the Indenture or in the Supplemental Indenture authorizing the issuance thereof for the payment of interest on such Bonds.

"Interest Rate Swap" shall mean an agreement between the Commission and a Swap Counter Party related to Bonds of one or more Series whereby a variable rate cash flow (which may be subject to an interest rate cap) on a principal or notional amount is exchanged for a fixed rate of return on an equal principal or notional amount.

"Master Indenture" shall mean the Indenture of Trust, dated as of February 1, 2010, by and between the Commission and the Trustee.

"Maximum Annual Debt Service" shall mean the maximum amount of Annual Debt Service in any Fiscal Year during the period from the date of calculation to the final scheduled maturity of the Bonds.

"Moody's" shall mean Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Commission.

"Net Revenue" shall mean Revenue less Operation and Maintenance Expenses.

"Operation and Maintenance Expenses" shall mean, for any period, all expenses of the Commission incurred for the operation and maintenance of the Port Area, as determined in accordance with generally accepted accounting principles. Operation and Maintenance Expenses shall not include: (a) the principal of, premium, if any, or interest (including capitalized interest) on any Bonds, Subordinate Bonds, general obligation bonds issued by the City for Port Area purposes or other Port indebtedness; (b) any allowance for amortization, depreciation or obsolescence of the Port Area; (c) 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 Revenue, including, but not limited to, Special Facility Revenue; (d) any extraordinary items arising from the early extinguishment of debt; (e) any costs, or charges made therefor, for capital additions, replacements, betterments, extensions or improvements to the Port Area which, under generally accepted accounting principles, are properly chargeable to the capital account or any reserves for depreciation; (f) any losses from the sale, abandonment, reclassification, revaluation or other disposition of any Port Area

properties; (g) items that are unusual or unrelated to the Commission's ordinary activities and would occur infrequently, including but not limited to litigation settlements or awards or other items not included in the annual budget or non-cash items paid over a number of years; (h) non-cash expenses arising from pension and post-employment pension benefits; and (i) dredging costs.

"Opinion of Bond Counsel" shall mean a written opinion of Bond Counsel.

"Opinion of Counsel" shall mean a written opinion of an attorney or firm of attorneys acceptable to the Trustee and the Commission, and who (except as otherwise expressly provided in the Indenture) may be either counsel for the Commission or for the Trustee.

"Outstanding" when used with reference to a Series of Bonds shall mean, as of any date of determination, all Bonds of such Series which have been executed and delivered under the Indenture except: (a) Bonds cancelled by the Trustee or delivered to the Trustee for cancellation; (b) Bonds which are deemed paid and no longer Outstanding as provided in the Indenture or in any Supplemental Indenture authorizing the issuance thereof; (c) Bonds in lieu of which other Bonds have been issued pursuant to the provisions of the Indenture or of any Supplemental Indenture authorizing the issuance thereof; and (d) for purposes of any consent or other action to be taken under the Indenture by the Holders of a specified percentage of Principal Amount of Bonds of a Series or all Series, Bonds held by or for the account of the Commission.

"Paired Obligations" shall mean any one or more Series (or portion thereof) of Bonds, designated as Paired Obligations in a Supplemental Indenture or a certificate of the Commission, which are simultaneously issued, executed or delivered and (i) the principal or notional amount of which, as applicable, is of equal amount and (ii) the interest rates on which, taken together, result in an irrevocably fixed rate obligation of the Commission for the term of such Bonds.

"Paying Agent" shall mean, with respect to any Series of Bonds, each person or entity, if any, designated as such by the Commission under the Indenture or in the Supplemental Indenture authorizing the issuance of such Bonds, and its successors and assigns and any other person or entity which may at any time be substituted for it pursuant thereto.

"Payment Date" shall mean, with respect to any Series of Bonds, each Interest Payment Date and Principal Payment Date.

"Permitted Investments" shall mean and include any of the following, if and to the extent the same are at the time legal for the investment of the Commission's money:

- (a) Government Obligations and Government Certificates.
- (b) Obligations issued or guaranteed by any of the following:
 - Export-Import Bank of the United States;
 - Farmers Home Administration;
 - Federal Farm Credit System;
 - Federal Financing Bank;
 - Federal Home Loan Bank System;
 - Federal Home Loan Mortgage Corporation;

Federal Housing Administration;
Federal National Mortgage Association;
Government National Mortgage Association;
Private Export Funding Corporation
Resolution Funding Corporation;
Student Loan Marketing Association; and
any other instrumentality or agency of the United States.

(c) Prerefunded municipal obligations rated at the time of purchase of such investment in the highest rating category by the Rating Agencies then rating the Bonds and meeting the following conditions:

(i) such obligations are: (A) not subject to redemption prior to maturity or the Trustee has been given irrevocable instructions concerning their calling and redemption, and (B) the issuer of such obligations has covenanted not to redeem such obligations other than as set forth in such instructions;

(ii) such obligations are secured by Government Obligations or Government Certificates that may be applied only to interest, principal and premium payments of such obligations;

(iii) the principal of and interest on such Government Obligations or Government Certificates (plus any cash in the escrow fund with respect to such prerefunded obligations) are sufficient to meet the liabilities of the obligations;

(iv) the Government Obligations or Government Certificates serving as security for the obligations have been irrevocably deposited with and are held by an escrow agent or trustee; and

(v) such Government Obligations or Government Certificates are not available to satisfy any other claims, including those against the trustee or escrow agent.

(d) Direct and general long-term obligations of any State of the United States of America or the District of Columbia (a "State") to the payment of which the full faith and credit of such State is pledged and that are rated at the time of purchase of the investment in either of the two highest rating categories by the Rating Agencies then rating the Bonds.

(e) Direct and general short-term obligations of any State to the payment of which the full faith and credit of such State is pledged and that are rated at the time of purchase of the investment in the highest rating category by the Rating Agencies then rating the Bonds.

(f) Interest-bearing demand or time deposits with, or banker's acceptances from, state banks or trust companies or national banking associations that are members of the Federal Deposit Insurance Corporation ("FDIC"). Such deposits must be at least one of the following: (i) continuously and fully insured by FDIC; (ii) if they have a maturity of one year or less, with or issued by banks that are rated in one of the two highest short-term rating categories by the Rating Agencies then rating the Bonds; (iii) if they have a maturity longer than one year, with or issued by banks that are rated at the time of purchase of the investment in one of the two highest rating categories by the Rating Agencies then rating the Bonds; or (iv) fully secured by Government Obligations and Government Certificates. Such Government Obligations and Government Certificates must have a market value at all times at least equal to the principal amount of the deposits or interests. The Government Obligations and Government Certificates must be held by a third party (who shall

not be the provider of the collateral), or by any Federal Reserve Bank or depository, as custodian for the institution issuing the deposits or interests. Such third party must have a perfected first lien in the Government Obligations and Government Certificates serving as collateral, and such collateral must be free from all other third party liens.

(g) Long-term or medium-term corporate debt guaranteed by any corporation that is rated at the time of purchase of the investment in one of the two highest rating categories by the Rating Agencies then rating the Bonds.

(h) Repurchase agreements longer than one year with financial institutions such as banks or trust companies organized under State or federal law, insurance companies, or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation, or with a dealer or parent holding company that is rated at the time of purchase of the investment "AA" or better by the Rating Agencies then rating the Bonds. The repurchase agreement must be in respect of Government Obligations and Government Certificates or obligations described in paragraph (b) of this definition.

(i) Prime commercial paper of a corporation, finance company or banking institution rated at the time of purchase of the investment in the highest short-term rating category by the Rating Agencies then rating the Bonds.

(j) State or public agency or municipality obligations rated at the time of purchase of the investment in the highest credit rating category by the Rating Agencies then rating the Bonds.

(k) Shares of a diversified open-end management investment company, as defined in the Investment Company Act of 1940, as amended, or shares in a regulated investment company, as defined in Section 851(a) of the Code, that is a money market fund that has been rated in the highest rating category by the Rating Agencies then rating the Bonds.

(l) Money market accounts of any state or federal bank, or bank whose holding parent company is, rated in the top two short-term or long-term rating categories by the Rating Agencies then rating the Bonds.

(m) Investment agreements the issuer of which is rated at the time of purchase of the investment "AA" or better by the Rating Agencies then rating the Bonds.

(n) The City and County of San Francisco Treasurer's Investment Pool.

(o) Any other debt or fixed income security specified by an Authorized Commission Representative and rated at the time of purchase of the investment in the highest short-term rating category or one of the three highest long-term rating categories by the Rating Agencies then rating the Bonds.

"Port Area" shall mean all real and personal property, which are owned, controlled or operated by the Commission or over which the Commission has management, supervision or control, or which the Commission deems to be of benefit to the Port Area.

"Port Consultant" shall mean a firm or firms of national recognition with knowledge and experience in the field of real estate and/or in the field of advising the management of ports as to the planning, development, operation and management of ports and port facilities, selected and employed by the Commission from time to time.

"Principal Amount" shall mean, as of any date of calculation, (a) with respect to any Capital Appreciation Bond, the Accreted Value thereof, and (b) with respect to any other Bonds, the stated principal amount thereof.

"Principal Payment Date" shall mean, with respect to any Series of Bonds, each date specified in the Indenture or in the Supplemental Indenture authorizing the issuance thereof for the payment of the Principal Amount of such Bonds either at maturity or upon prior redemption from mandatory sinking fund payments.

"Project Funds" shall mean, collectively, the Project Funds established pursuant to the Indenture.

"Qualified Self-Insurance" shall mean either (a) a program of self-insurance, or (b) insurance maintained with a fund, company or association in which the Commission shall have a material interest and of which the Commission shall have control, either singly or with others, and in each case which meets the requirements of the Indenture.

"Rating Agency" shall mean Moody's, Standard & Poor's and/or Fitch and any other rating agency designated by the Commission.

"Record Date" shall mean, with respect to any Series of Bonds, each date, if any, specified in the Indenture or in the Supplemental Indenture authorizing the issuance thereof as a Record Date.

"Refundable Credit" shall mean, with respect to a Series of Bonds that are Build America Bonds, the amounts which are payable by the Federal government under Section 6431 of the Code, which the Commission has elected to receive under Section 54AA(g)(1) of the Code.

"Registrar" shall mean, with respect to any Series of Bonds, each person or entity, if any, designated as such by the Commission in the Indenture or in the Supplemental Indenture authorizing the issuance of such Bonds, and its successors and assigns and any other person or entity which may at any time be substituted for it pursuant thereto.

"Repayment Obligation" shall mean an obligation under a written agreement between the Commission and a Credit Provider to reimburse the Credit Provider for amounts paid under or pursuant to a Credit Facility for the payment of the Principal Amount or purchase price of and/or interest on any Bonds.

"Reserve Fund" shall mean the Reserve Fund established pursuant to the Indenture.

"Reserve Requirement" shall mean, as to each Series of Bonds and as of any calculation date, the amount provided in the Supplemental Indenture providing for the issuance of such Series of Bonds.

"Responsible Officer" when used with respect to the Trustee shall mean any corporate trust officer to whom such matter is referred because of his or her knowledge of and familiarity with the particular subject.

"Revenue" shall mean all revenue earned by the Commission from or with respect to its management, supervision, operation and control of the Port Area, as determined in accordance with generally accepted accounting principles. Revenues shall include IFD Revenues to the extent permitted by law and designated as Revenues in a Supplemental Indenture. Revenue shall not include: (a) Special Facility Revenue and any interest income or profit realized from the investment thereof, unless such receipts are designated as Revenue by the Commission, (b) grants-in-aid, donations and/or bequests, which by their terms would be restricted to uses inconsistent with the purposes provided hereunder or (c) IFD Revenues unless designated by the Commission as Revenues in a Supplemental Indenture.

"Revenue Stabilization Fund" shall mean the amounts designated by the Commission on deposit in one or more funds of the Commission (including amounts designated in one or more existing funds or accounts of the Commission) which amounts are generally available to pay debt service on the Bonds and/or Operation and Maintenance Expenses.

"Series of Bonds" or "Bonds of a Series" or "Series" shall mean a series of Bonds issued pursuant to the Indenture.

"Series 2010 Bonds" shall mean collectively the Port Commission of the City and County of San Francisco Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt) and the Port Commission of the City and County of San Francisco Revenue Bonds, Series 2010B (Federally Taxable).

"Series 2010A Bonds" shall mean the \$14,220,000 aggregate principal amount of Port Commission of the City and County of San Francisco Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt).

"Series 2010B Bonds" shall mean the \$22,430,000 aggregate principal amount of Port Commission of the City and County of San Francisco Revenue Bonds, Series 2010B (Federally Taxable).

"Series 2010 Continuing Disclosure Certificate" means the Continuing Disclosure Certificate executed by the Commission, dated the closing date of the Series 2010 Bonds, as originally executed and as each may be amended from time to time.

"Series 2010A Delivery Costs Fund" shall mean the fund by that name established pursuant to the First Supplemental Indenture.

"Series 2010B Delivery Costs Fund" shall mean the fund by that name established pursuant to the First Supplemental Indenture.

"Series 2010A Project Costs Fund" shall mean that certain fund established pursuant to the First Supplemental Indenture.

"Series 2010B Project Costs Fund" shall mean that certain fund established pursuant to the First Supplemental Indenture.

"Series 2010A Reserve Account" shall mean the Series 2010A Reserve Account in the Reserve Fund established pursuant to the First Supplemental Indenture.

"Series 2010B Reserve Account" shall mean the Series 2010B Reserve Account in the Reserve Fund established pursuant to the First Supplemental Indenture.

"Special Facility" shall mean any existing or planned facility, structure, equipment or other property, real or personal, which is at the Port Area or a part of any facility or structure at the Port Area and which is designated as a Special Facility pursuant to the Indenture.

"Special Facility Bonds" shall mean any revenue bonds, notes, bond anticipation notes, commercial paper or other evidences of indebtedness for borrowed money issued by, or certificates of participation executed on behalf of, the Commission to finance a Special Facility, the principal, premium, if any, and interest with respect to which are payable from and secured by the Special Facility Revenue derived from such Special Facility, and not from or by Net Revenue.

"Special Facility Revenue" shall mean the revenue earned by the Commission from or with respect to a Special Facility and which is designated as such by the Commission, including but not limited to contractual payments to the Commission under a loan agreement, lease agreement or other written agreement with respect to the Special Facility by and between the Commission and the person, firm, corporation or other entity, either public or private, as shall operate, occupy or otherwise use the Special Facility.

"Standard & Poor's" shall mean Standard & Poor's Rating Services, a corporation organized and existing under the laws of the State of New York, its successors and assigns, except that if such corporation

shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, the term "Standard & Poor's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Commission.

"Subordinate Bonds" shall mean any evidences of indebtedness for borrowed money issued from time to time by the Commission pursuant to the Indenture, including but not limited to, bonds, notes, bond anticipation notes, commercial paper, lease or installment purchase agreements or certificates of participation therein.

"Supplemental Indenture" shall mean an indenture supplementing or amending the provisions of the Indenture which is adopted by the Commission pursuant to the Indenture.

"Swap Counter Party" shall mean a member of the International Swap Dealers Association rated in one of the three top rating categories by both Rating Agencies.

"Swap Payments" shall mean as of each payment date specified in an Interest Rate Swap, the amount, if any, payable to the Swap Counter Party by the Trustee, on behalf of the Commission.

"Swap Receipts" shall mean as of each payment date specified in an Interest Rate Swap, the amount, if any, payable to the Trustee for the account of the Commission by the Swap Counter Party.

"Tax Certificate" shall mean a certificate executed by an Authorized Commission Representative on behalf of the Commission with respect to any Series of Bonds relating to the federal tax aspects of the use of the proceeds of such Bonds and other related matters.

"Treasurer" shall mean the Treasurer of the City, and any successor to his or her duties under the Indenture.

"Trustee" shall mean U.S. Bank National Association, and any successor to its duties under the Indenture.

"Variable Rate Bonds" shall mean any Bonds the interest rate on which is not fixed to maturity as of the date of calculation.

THE MASTER INDENTURE

The following is a summary of certain provisions of the Master Indenture.

Funds

Creation of Funds and Accounts. The Enterprise Fund has previously been created and shall be continued and held by the Treasurer. There is created a Debt Service Fund and a Reserve Fund to be held by the Trustee in trust for the benefit of the Bondholders. The Commission may create such other Funds or Accounts for the allocation and application of Revenue or other moneys as it shall deem necessary or desirable.

Debt Service Fund. The Commission shall establish with the Trustee a separate account or accounts in the Debt Service Fund with respect to any or all of the Bonds of one or more Series. Moneys in the Debt Service Fund and the accounts therein shall be held in trust by the Trustee and applied to pay Principal Amount and purchase price of and interest and redemption premium on such Bonds, in the amounts, at the times and in the manner set forth in the Indenture and in the Supplemental Indentures with respect thereto; provided, however, that each Supplemental Indenture shall require to the extent practicable that amounts be accumulated in the applicable accounts in the Debt Service Fund so that moneys sufficient to make any

regularly scheduled payment of Principal Amount of or interest on the Bonds are on deposit therein at least one (1) Business Day prior thereto. Moneys in the accounts in the Debt Service Fund may also be applied to pay or reimburse a Credit Provider for Repayment Obligations to the extent provided in the Indenture or in the Supplemental Indentures with respect thereto.

If and to the extent provided for in any Supplemental Indenture authorizing the issuance of a Series of Bonds, Swap Payments may be paid directly out of, and Swap Receipts paid directly into, the account or accounts in the Debt Service Fund established with respect to such Series of Bonds.

Reserve Fund. The Reserve Fund shall be funded in an amount at least equal to the Reserve Requirement; provided, however, that the Commission may by Supplemental Indenture establish a separate Account or Accounts in the Reserve Fund with respect to any or all of the Bonds of one or more Series. Moneys in the Reserve Fund and the accounts therein shall be held in trust by the Trustee for the benefit and security of the Holders of the Bonds to which such accounts are pledged, and shall not be available to pay or secure the payment of any other Bonds. Each account in the Reserve Fund shall be funded and replenished in the amounts, at the times and in the manner provided in the Indenture or in the Supplemental Indentures with respect thereto. Moneys in the respective Accounts in the Reserve Fund shall be applied to pay and secure the payment of such Bonds as provided in the Indenture or in the Supplemental Indenture with respect thereto. Moneys in an Account in the Reserve Fund may also be applied to pay or reimburse a Credit Provider for Repayment Obligations to the extent provided in the Indenture or in the Supplemental Indenture with respect thereto.

The Reserve Requirement (or any portion thereof) may be provided by one or more policies of municipal bond insurance or surety bonds issued by a municipal bond insurer or by a letter of credit issued by a bank if the obligations insured by such insurer or issued by such bank, as the case may be, initially have ratings at the time of issuance of such policy or surety bond or letter of credit in one of the two highest rating categories of the Rating Agencies then rating the Bonds.

Investment of Moneys. Moneys in all Funds and Accounts held by the Trustee shall be invested as soon as practicable upon receipt in Permitted Investments as directed in writing by an Authorized Commission Representative; provided, that (i) pursuant to such written direction, the maturity date or the date on which such Permitted Investments may be redeemed at the option of the holder thereof shall coincide as nearly as practicable with (but in no event shall be later than) the date or dates on which moneys in the Funds or Accounts for which the investments were made will be required for the purposes thereof, and (ii) in the absence of direction from an Authorized Commission Representative, the Trustee shall invest moneys in the Permitted Investments described in clause (1) of the definition thereof or such other Permitted Investment identified in writing by an Authorized Commission Representative. Anything in the Indenture to the contrary notwithstanding, moneys in all Funds and Accounts held by the Treasurer shall be invested in Permitted Investments in accordance with the policies and procedures of the Treasurer in effect from time to time.

Investment of amounts in any Fund or Account shall be made in the name of such Fund or Account.

Amounts credited to a Fund or Account may be invested, together with amounts credited to one or more other Funds or Accounts, in the same Permitted Investment; provided, however, that (i) each such investment complies in all respects with the provisions of the Indenture as they apply to each Fund or Account for which the joint investment is made, and (ii) separate records are maintained for each Fund and Account and such investments are accurately reflected therein.

The Trustee may make any investment permitted by the Indenture through or with its own commercial banking or investment departments, unless otherwise directed by the Commission, provided, however, that the details of such transactions and relationships and all fees charged or received by the Trustee in such transactions shall be disclosed to the Commission.

Except as otherwise specifically provided in the Indenture, in computing the amount in any Fund or Account, Permitted Investments purchased as an investment of moneys therein shall be valued at the current market value thereof or at the redemption price thereof, if then redeemable at the option of the holder, in either event inclusive of accrued interest.

Any transfer to or deposit in any Fund or Account required by the Indenture may be satisfied by transferring or depositing an investment with a market value equal to the required transfer or deposit in lieu of transferring or depositing cash.

Earnings in any Fund or Account shall remain on deposit in such Fund or Account unless otherwise provided in the Indenture or in a written direction of an Authorized Commission Representative.

General Covenants of the Commission

Payment of Principal and Interest; Negative Pledge. (a) The Commission covenants and agrees that it promptly will pay or cause to be paid the Principal Amount and purchase price of, premium, if any, and interest on each Bond issued under the Indenture at the place, on the dates and in the manner provided in the Indenture, in any applicable Supplemental Indenture and in said Bond according to the terms thereof but solely from the sources pledged to such payment or from such other sources or revenue as may lawfully be used for such payment.

(b) The Commission covenants and agrees that it will not create any pledge of, lien on, security interest in or encumbrance upon, or permit the creation of any pledge of, lien on, security interest in or encumbrance upon, Revenue or Net Revenue except as provided in the Indenture for the benefit of the Bonds or except for a pledge, lien, security interest or encumbrance subordinate to the pledge, lien and security interest provided in therein for the benefit of the Bonds.

(c) The Commission covenants that it shall not issue, or cooperate with the issuance of, any bonds or other obligations secured by Net Revenue prior to the Bonds so long as any Bonds remain Outstanding under the Indenture.

Covenant to Maintain Net Revenue Coverage. The Commission covenants and agrees that it will manage its business operations and establish and at all times maintain rentals, rates, fees and charges for the use of the Port Area and for services rendered by the Commission in connection with the Port Area so that Net Revenue in each Fiscal Year as a percentage of Annual Debt Service for such Fiscal Year ("Coverage") will be at least equal to 130%.

The Commission covenants that if Net Revenue in any Fiscal Year is less than the amount specified in the Indenture, the Commission will retain and direct a Port Consultant to make recommendations as to the revision of the Commission's business operations and/or its schedule of rentals, rates, fees and charges for the use of the Port Area and for services rendered by the Commission in connection with the Port Area and shall take such recommendations into account for future budgets and management.

In the event that Net Revenue for any Fiscal Year is less than the amount specified in the Indenture, but the Commission promptly has taken prior to or during the next succeeding Fiscal Year all reasonable measures to revise its business operations and/or its schedule of rentals, rates, fees and charges as required by the Indenture, such deficiency in Net Revenue shall not constitute an Event of Default under the provisions thereof. Nevertheless, if after taking the measures required thereunder to revise its business operations and/or its schedule of rentals, rates, fees and charges, Net Revenue in such next succeeding Fiscal Year (as evidenced by the audited financial statements of the Commission for such Fiscal Year) is less than the amount specified thereunder, such deficiency in Net Revenue shall constitute an Event of Default under the provisions of thereof.

In determining Net Revenue pursuant to the Indenture, the Commission may take into account as a credit the amount on deposit in the Revenue Stabilization Fund on June 30 of each Fiscal Year; provided that the Commission shall maintain Coverage equal to at least 100% without regard to any credit for any such amounts or deposits in the Revenue Stabilization Fund.

Operation and Maintenance of Port Area. The Commission covenants that it will operate and maintain the Port Area as a revenue producing enterprise in accordance with law, including but not limited to the Charter and the Act. The Commission will make such repairs to the Port Area as shall be required to enable it to perform its covenants contained in the Indenture, including, without limitation, the covenants contained in the Indenture.

The Commission will, from time to time, duly pay and discharge, or cause to be paid and discharged, any taxes, assessments or other governmental charges lawfully imposed upon the Port Area or upon any part thereof, or upon the revenue from the operation thereof, when the same shall become due, as well as any lawful claim for labor, materials or supplies which, if unpaid, might by law become a lien or charge upon the Port Area or such revenue, or which might materially impair the security of the Bonds. Notwithstanding the foregoing, the Commission need not pay or discharge any tax, assessment or other governmental charge, or claim for labor, materials or supplies, if and so long as the Commission shall contest the validity or application thereof in good faith.

The Commission will continuously operate the Port Area so that all lawful orders of any governmental agency or authority having jurisdiction in the premises shall be complied with, but the Commission shall not be required to comply with any such orders so long as the validity or application thereof shall be contested in good faith.

Maintenance of Powers; Retention of Assets. The Commission covenants that it will use its reasonable efforts to maintain the powers, functions, duties and obligations now reposed in it pursuant to law, and will not at any time voluntarily do, suffer or permit any act or thing the effect of which would be to materially, adversely impact the payment of the Bonds or any other obligation secured under the Indenture or the performance or observance of any of the covenants therein contained.

The Commission covenants that it will not dispose of assets necessary to operate the Port Area in the manner and at the levels of activity required to enable it to perform its covenants contained in the Indenture, including, without limitation, the covenants contained therein.

The Commission covenants that it shall not apply Revenue or any other revenue of the Commission generated at or with respect to the Port Area for other than Port Area purposes as provided in the Charter.

Insurance. Subject in each case to the condition that insurance is obtainable at reasonable rates from responsible insurers and upon reasonable terms and conditions:

The Commission shall procure or provide and maintain, at all times while any of the Bonds shall be outstanding, insurance or Qualified Self-Insurance on the Port Area against such risks as are usually insured by other ports which are similar in their operations to the Port Area. Such insurance or Qualified Self-Insurance shall be in an adequate amount as to the risk insured against as determined by the Commission. The Commission need not carry insurance or Qualified Self-Insurance against losses caused by land movement, including but not limited to seismic activity.

Any Qualified Self-Insurance shall be established in accordance with applicable law; shall include reserves or reinsurance in amounts which the Commission determines to be adequate to protect against risks assumed under such Qualified Self-Insurance, including without limitation any potential retained liability in the event of the termination of such Qualified Self-Insurance.

The proceeds of any material claim on insurance shall be applied solely for Port Area purposes. Further, the proceeds of any casualty insurance shall, within a reasonable period of time, be applied to (1) replace the Port Area facilities which were damaged or destroyed, (2) provide additional revenue-producing Port Area facilities, (3) redeem Bonds or (4) create an escrow fund pledged to pay specified Bonds and thereby cause such Bonds to be deemed to be paid as provided in the Indenture.

Financial Records and Statements. The Commission shall maintain proper books and records in which full and correct entries shall be made in accordance with generally accepted accounting principles, of all its business and affairs. The Commission shall have an annual audit made by an Independent Auditor and shall within 210 days after the end of each of its Fiscal Years furnish to the Trustee copies of the audited financial statements of the Commission for such Fiscal Year.

All such books and records pertaining to the Port Area shall be open upon reasonable notice during regular business hours to the Trustee or the representatives thereof duly authorized in writing.

Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds will not be adversely affected for federal income tax purposes, the Commission covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) *Private Activity.* The Commission will not take or omit to take any action or make any use of the proceeds of the Bonds or of any other moneys or property which would cause the Bonds to be "private activity bonds" within the meaning of Section 141 of the Code.

(b) *Arbitrage.* The Commission will make no use of the proceeds of the Bonds or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(c) *Federal Guarantee.* The Commission will make no use of the proceeds of the Bonds or take or omit to take any action that would cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

(d) *Information Reporting.* The Commission will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code.

(e) *Miscellaneous.* The Commission will take no action inconsistent with its expectations stated in any Tax Certificate executed with respect to the Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture.

(f) *Taxable Bonds and Build America Bonds.* Notwithstanding the foregoing, the Commission may issue Series of Bonds that are intentionally not exempt from taxation and may issue Series of Bonds that are Build America Bonds.

Eminent Domain. If a Port Area facility or Port Area facilities are taken by eminent domain proceedings or conveyance in lieu thereof, the Commission shall create within the Port Area Enterprise Fund a special account and credit the net proceeds received as a result of such taking or conveyance to such account and shall within a reasonable period of time, not to exceed three years after the receipt of such amounts, use such proceeds to (1) replace the Port Area facilities which were taken or conveyed, (2) provide additional revenue-producing Port Area facilities, (3) redeem Bonds or (4) create an escrow fund pledged to pay specified Bonds and thereby cause such Bonds to be deemed to be paid as provided in the Indenture.

Default and Remedies

Events of Default. Each of the following is declared an "Event of Default" under the Indenture:

- (a) if payment of any installment of interest on any Bond shall not be made in full when the same becomes due and payable;
- (b) if payment of the Principal Amount of any Bond shall not be made in full when the same becomes due and payable, whether at maturity or by proceedings for redemption or otherwise;
- (c) if payment of the purchase price of any Bond tendered for optional or mandatory purchase in accordance with the provisions of the Supplemental Indenture providing for the issuance of such Bond shall not be made in full when due;
- (d) if the Commission shall fail to observe or perform any other covenant or agreement on its part under the Indenture, other than the covenant or agreement set forth therein, for a period of 60 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Commission by the Trustee, or to the Commission and the Trustee by the Owners of at least 25% in aggregate Principal Amount of Bonds then Outstanding; provided, however, that if the breach of covenant or agreement is one which cannot be completely remedied within the 60 days after written notice has been given, it shall not be an Event of Default as long as the Commission has taken active steps within the 60 days after written notice has been given to remedy the failure and is diligently pursuing such remedy;
- (e) subject to the Indenture, if the Commission is required pursuant thereto to take measures to revise its business operations and/or its schedule of rentals, rates, fees and charges for the use of the Port Area and Net Revenue for the Fiscal Year in which such adjustments are made are less than the amount specified under the Indenture;
- (f) if either the Commission or the City shall institute proceedings to be adjudicated a bankrupt or insolvent, or shall consent to the institution of bankruptcy or insolvency proceedings against it, or shall file a petition or answer or consent seeking reorganization or relief under the federal Bankruptcy Code or any other similar applicable federal or state law, or shall consent to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Commission or of any substantial part of its property, or shall fail to timely controvert an involuntary petition filed against it under the federal Bankruptcy Code, or shall consent to entry of an order for relief under the federal Bankruptcy Code, or shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due;
- (g) The occurrence of any other Event of Default as provided in a Supplemental Indenture.

Acceleration. (i) In each and every such case of the continuance of an Event of Default under the Indenture, the Trustee may, and upon the written request of the Credit Provider or Providers as provided in any Supplemental Indenture or the Holders of not less than fifty-one percent (51%) in aggregate Principal Amount of the Bonds then Outstanding shall, by notice in writing to the Commission, declare the Principal Amount of all Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon such declaration of the same, payment of the Principal Amount of all of the Bonds then Outstanding, and the interest accrued thereon, shall be and shall become immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

(ii) Promptly after any acceleration of the Bonds, the Trustee shall cause a notice thereof to be mailed, first class, postage prepaid, to all Holders of Bonds and, if provided by a Supplemental Indenture, to one or more Credit Providers. Failure to mail any such notice, or any defect in any notice so mailed, shall not affect such acceleration.

(iii) Notwithstanding paragraph (i) above, if at any time after the Principal Amount of the Bonds shall have become due and payable pursuant to an acceleration thereof, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Indenture, (i) sufficient moneys (other than moneys drawn by the Trustee under any Credit Facility) shall have accumulated in the Debt Service Fund to pay the Principal Amount of all matured Bonds of each Series and all arrears of interest, if any, upon all such Bonds then Outstanding (except the Principal Amount of any such Bonds not then due and payable by their terms and the interest accrued on such Bonds since the last Interest Payment Date), (ii) the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and all other amounts then payable by the Commission under the Indenture shall have been paid or moneys sufficient to pay the same shall have been deposited with the Trustee, and (iii) every other default known to the Trustee in the observance or performance of any covenant, condition, agreement or provision contained in the Bonds of each Series or in the Indenture (other than a default in the payment of the Principal Amount of such Bonds then due and payable only because of a declaration under the Indenture) shall have been remedied to the satisfaction of the Trustee, then and in every such case the Trustee shall, by a notice in writing to the Commission, rescind and annul such acceleration and its consequences, but no such rescission or annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

Remedies and Enforcement of Remedies. Subject to the provisions of Supplement Indentures regarding the rights of any Credit Providers, the occurrence and continuance of an Event of Default, the Trustee may, or upon the written request of the Holders of not less than fifty-one percent (51%) in aggregate Principal Amount of the Bonds together with indemnification of the Trustee to its satisfaction therefor shall, proceed forthwith to protect and enforce its rights and the rights of the Bondholders under the Indenture and under the Act and such Bonds by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to:

- (i) Actions to recover money or damages due and owing;
- (ii) Actions to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of such Bonds; and
- (iii) Enforcement of any other right of such Bondholders conferred by law, including the Act, or by the Indenture, including without limitation by suit, action, injunction, mandamus or other proceedings to enforce and compel the performance by the Commission of actions required by the Act or the Indenture, including the fixing, charging and collection of fees or other charges.

Application of Revenue and Other Moneys After Default. During the continuance of an Event of Default, all moneys held and received by the Trustee with respect to the Bonds pursuant to any right given or action taken under the provisions of the Indenture, after payment of the costs and expenses of the proceedings which result in the collection of such moneys and of the fees, expenses and advances incurred or made by the Trustee with respect to such Event of Default, be applied as follows; provided, however, that any proceeds of a Credit Facility, if any, and amounts held in the Debt Service Fund and the Reserve Fund pledged to a particular Series of Bonds shall be applied solely to pay Principal Amount, premium, if any, purchase price, if any, of or interest, as applicable, on the related Series of Bonds:

First: To the payment to the persons entitled thereto of all installments of interest then due on such Bonds in the order of maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid Principal Amounts and premium, if any, of any such Bonds which shall have become due (other than Bonds previously called for

redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), whether at maturity, upon tender or purchase or acceleration or by proceedings for redemption or otherwise, in the order of their due dates as provided in the Indenture and in the Supplemental Indenture under which they were issued, and if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the Principal Amounts due on such date, to the persons entitled thereto, without any discrimination or preference.

Whenever moneys are to be applied by the Trustee after a default, such moneys shall be applied by it at such times, and from time to time, as the Trustee shall determine in accordance with the Indenture, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The Trustee shall give such notice as it may deem appropriate in accordance with the Indenture of the deposit with it of any such moneys, and shall not be required to make payment to the Holder of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever the Principal Amount, premium, if any, purchase price, if any, and interest thereon of all Bonds of a Series have been paid under the provisions of the Indenture and all expenses and charges of the Trustee have been paid, and each Credit Provider, if any, has been reimbursed for all amounts drawn under the applicable Credit Facility, if any, and used to pay Principal Amount, premium, if any, purchase price, if any, and interest on the Bonds and no Repayment Obligation shall be outstanding, any balance remaining shall be paid first to such Credit Provider to the extent any other amounts are then owing to such Credit Provider under the applicable agreement, and then to the Commission or as a court of competent jurisdiction may direct.

Remedies Not Exclusive. No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Bondholders or any Credit Provider is intended to be exclusive of any other remedy but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute, including the Act, on or after the date of the Indenture.

Remedies Vested in Trustee. All rights of action (including the right to file proof of claims) under the Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceeding instituted by the Trustee may be brought in its name as the Trustee without the necessity of joining as plaintiffs or defendants any Holders of the Bonds. Subject to the provisions of the Indenture, any recovery or judgment shall be for the equal benefit of the Holders of the Outstanding Bonds.

Control of Proceedings. If an Event of Default shall have occurred and be continuing, the Holders of at least fifty-one percent (51%) in aggregate Principal Amount of the Bonds of one or more Series then Outstanding shall have the right at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting any proceeding to be taken with respect to funds or assets solely securing such one or more Series in connection with the enforcement of the terms and conditions of the Indenture; provided, that such direction is in accordance with law and the provisions of the Indenture (including indemnity to the Trustee as provided in the Indenture) and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of Bondholders of such Series of Bonds not joining in such direction; and provided further, that nothing therein shall impair the right of the Trustee in its discretion to take any other action thereunder which it may deem proper and in accordance with the Indenture and which is not inconsistent with such direction by Bondholders.

If an Event of Default with respect to shall have occurred and be continuing, the Holders of at least fifty-one percent (51%) in aggregate Principal Amount of all Bonds then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Trustee to direct the method and place of conducting any proceeding to be taken with respect to Net Revenue or other assets securing all Bonds in connection with the enforcement of the terms and conditions under the Indenture, provided, that such direction is in accordance with law and the provisions of the Indenture (including indemnity to the Trustee as provided

in the Indenture) and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of Bondholders not joining in such direction; and provided further, that nothing thereunder shall impair the right of the Trustee in its discretion to take any other action thereunder which it may deem proper in accordance with the Indenture and which is not inconsistent with such direction by Bondholders.

Individual Bondholder Action Restricted. (a) No Holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement hereof or for the execution of any trust hereunder or for any remedy under the Indenture unless:

(i) an Event of Default has occurred with respect to such Series (A) under subsection (a), (b), (c) or (g) of the definition of an Event of Default of which the Trustee is deemed to have notice, or (B) under subsection (d), (e) or (f) of the definition of Event of Default as to which the Trustee has actual knowledge, or (C) as to which the Trustee has been notified in writing by the Commission, or (D) as to which the Commission and the Trustee have been notified in writing by the Holders of at least twenty-five percent (25%) in aggregate Principal Amount of the Bonds then Outstanding;

(ii) the Holders of at least fifty-one percent (51%) in aggregate Principal Amount of Bonds then Outstanding have made written request to the Trustee to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; and

(iii) such Bondholders shall have offered the Trustee indemnity as provided in the Indenture; and

(iv) the Trustee shall have failed or refused to exercise the powers therein granted or to institute such action, suit or proceedings in its own name for a period of 60 days after receipt by it of such request and offer of indemnity.

(b) No one or more Holders of Bonds of any Series shall have any right in any manner whatsoever to affect, disturb or prejudice the security of the Indenture or to enforce any right under the Indenture except in the manner therein provided and for the equal benefit of the Holders of all Bonds then Outstanding.

(c) Nothing contained in the Indenture shall affect or impair, or be construed to affect or impair, the right of the Holder of any Bond (i) to receive payment of the Principal Amount of, premium, if any, purchase price, if any, or interest on such Bond on or after the due date thereof, or (ii) to institute suit for the enforcement of any such payment on or after such due date; provided, however, no Holder of any Bond may institute or prosecute any such suit or enter judgment therein if, and to the extent that, the institution or prosecution of such suit or the entry of judgment therein would, under applicable law, result in the surrender, impairment, waiver or loss of the lien of the Indenture on the moneys, funds and properties pledged under the Indenture for the equal and ratable benefit of all Holders of Bonds.

Termination of Proceedings. In case any proceeding taken by the Trustee on account of an Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or to the Bondholders, then the Commission, the Trustee and the Bondholders shall be restored to their former positions and rights under the Indenture, and all rights, remedies and powers of the Trustee and the Bondholders shall continue as if no such proceeding had been taken.

Waiver of Event of Default. (a) No delay or omission of the Trustee, of any Holder of the Bonds or, if provided by the Indenture or by Supplemental Indenture, any Credit Provider, to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or, an acquiescence therein. Every power and remedy given by the Indenture to the Trustee, the Holders of the Bonds and, if provided thereby or by Supplemental Indenture, any Credit Provider, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Trustee, with the consent of any Credit Provider if required by Supplemental Indenture (provided, however, that such Credit Provider's consent may be required only in connection with an Event of Default on a Series of Bonds with respect to which such Credit Provider is providing a Credit Facility), may waive any Event of Default with respect to the Bonds that, in its opinion, shall have been remedied at any time, regardless of whether any suit, action or proceeding has been instituted, before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Indenture, or before the completion of the enforcement of any other remedy under the Indenture.

(c) Notwithstanding anything contained in the Indenture to the contrary, the Trustee, upon the written request of (i) the Credit Provider, if any, if required by Supplemental Indenture, or (ii) Holders of at least fifty-one percent (51%) of the aggregate Principal Amount of Bonds then Outstanding, with the consent of the applicable Credit Provider, if any, if provided for thereby or by Supplemental Indenture, shall waive any such Event of Default under the Indenture and its consequences; provided, however, that a default in the payment of the Principal Amount of, premium, if any, purchase price, if any, or interest on any such Bond, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Bonds then Outstanding of such Series to which such Event of Default applies and any consent of the applicable Credit Provider, if any, if provided for by the Indenture or by Supplemental Indenture.

In case of any waiver by the Trustee of an Event of Default under the Indenture, the Commission, the Trustee, the Bondholders and, if required by Supplemental Indenture, the Credit Provider, if any, shall be restored to their former positions and rights under the Indenture, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon. The Trustee shall not be responsible to anyone for waiving or refraining from waiving any Event of Default in accordance with the Indenture.

Notice of Default. (a) Promptly, but in any event within 30 days after the occurrence of an Event of Default of which the Trustee is deemed to have notice pursuant to the Indenture, the Trustee shall, unless such Event of Default shall have theretofore been cured, give written notice thereof by first class mail to each Holder of registered Bonds then Outstanding, provided that, except in the case of a default in the payment of Principal Amounts, sinking fund installments, purchase price or the redemption price of or interest on any of the Bonds, the Trustee may withhold such notice to such Holders if, in its sole judgment in accordance with the Indenture, it determines that the withholding of such notice is in the best interests of the Holders of the Bonds.

(b) The Trustee shall promptly notify the Commission, the Treasurer, the Registrar and any Credit Provider, if required by the Indenture or by a Supplemental Indenture, of the occurrence of an Event of Default of which the Trustee is deemed to have notice pursuant to the Indenture.

Limitations on Remedies. It is the purpose and intention of the Indenture to provide rights and remedies to the Trustee and Bondholders which lawfully may be granted under the provisions of the Act, but should any right or remedy therein granted be held to be unlawful, the Trustee and the Bondholders shall be entitled as above set forth to every other right and remedy provided therein and by law.

Credit Providers to Control Remedies. While a Credit Facility (other than a Credit Facility on deposit in the Reserve Fund) with respect to any Bonds is in effect, notwithstanding anything else in the Indenture to the contrary, a Supplemental Indenture may provide that so long as the Credit Provider is not Insolvent and is not in default under its Credit Facility, no right, power or remedy under the Indenture with respect to such Bonds may be pursued without the prior written consent of such Credit Provider. The Supplemental Indenture may further provide that the Credit Provider shall have the right to direct the Trustee to pursue any right, power or remedy available under the Indenture with respect to any assets available under the Indenture which secure no Bonds other than the Bonds secured by such Credit Facility.

Incontestability of Bonds. The provisions of the Indenture shall constitute a contract between the Commission and the Owners of the Bonds, and from and after the issuance of a Series of Bonds and their sale and delivery by the Commission, the Bonds shall be incontestable by the Commission.

Limitation on Commission's Obligation. The Owners of the Bonds issued thereunder expressly understand and agree by their acceptance of the Bonds, that as of the date of the Indenture the Commission has no taxing power whatsoever, and nothing in the Indenture shall be deemed to require the Commission to advance any moneys derived from the levy or collection of taxes by the City for the payment of the Principal Amount of, purchase price, if any, premium, if any, or interest on the Bonds. Neither the credit nor the taxing power of the City is pledged for the payment of the Principal Amount of, premium, if any, purchase price, if any, or interest on the Bonds, and the general fund of the City is not liable for the payment of the Bonds or the interest thereon. The Owners of the Bonds cannot compel the exercise of the taxing power by the City or the forfeiture of its property or the property of the Commission.

The principal of and interest on the Bonds and any premiums upon the redemption of any thereof are not a debt of the Commission nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or on any of its income, receipts or revenue except the Net Revenue and other funds that may be legally applied, pledged or otherwise made available to their payment as in the Indenture provided.

Neither the Commission nor any officer thereof shall be liable or obligated for the payment of the Principal Amount, premium, if any, purchase price, if any, of or interest on the Bonds or for any payment agreed to be made or contemplated to be made pursuant to any of the terms of the Indenture, save and except solely and exclusively from Net Revenue and the other moneys pledged thereto pursuant to the Indenture or any Supplemental Indenture authorizing the issuance thereof. Nothing in the Indenture shall prevent the Commission from making advances of its funds howsoever derived to any of the uses and purposes in the Indenture mentioned, provided such funds are derived from any source legally available for such purpose and may be used by the Commission for such purpose without incurring indebtedness.

The Trustee

Upon the occurrence and continuance of an Event of Default under the Indenture, the Trustee shall have a right to payment prior to the Bonds as to all property and funds held by it (other than the Rebate Fund) for any reasonable amount owing to it or any predecessor Trustee pursuant to the Indenture and the rights of the Trustee to reasonable compensation for its services and to payment or reimbursement for its reasonable costs or expenses shall have priority over the Bonds in respect of all property or funds held or collected by the Trustee as such and other funds held in trust by the Trustee for the benefit of the Holders of particular Bonds; provided, however, that neither the Trustee nor any predecessor Trustee shall have any lien or claim for payment of any such compensation, reimbursement or other amounts against moneys paid under any Credit Facility or proceeds of a remarketing.

Supplemental Indentures

Supplemental Indentures Not Requiring Consent of Bondholders. The Commission may adopt, without the consent of or notice to any of the Holders, one or more Supplemental Indentures for one or more of the following purposes:

- (a) to cure any ambiguity or formal defect or omission in the Indenture;
- (b) to correct or supplement any provision in the Indenture which may be inconsistent with any other provision in the Indenture, or to make any other provisions with respect to matters or questions arising thereunder that shall not have a material adverse effect on the interests of the Holders;

(c) to grant or confer upon the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them;

(d) to secure additional revenue or provide additional security or reserves for payment of any Bonds;

(e) to preserve the excludability of interest on any Bonds from gross income for purposes of federal income taxes, or to change the tax covenants set forth in the Indenture, pursuant to an Opinion of Bond Counsel that such action will not affect adversely such excludability;

(f) to provide for the issuance of, and to set the terms and conditions of, each additional Series of Bonds under the Indenture, including covenants and provisions with respect thereto which do not violate the terms of the Indenture;

(g) to add requirements the compliance with which is required by a Rating Agency in connection with issuing a rating with respect to any Series of Bonds;

(h) to confirm, as further assurance, any interest of the Trustee in and to the Net Revenue or in and to the Funds and Accounts held by the Trustee or in and to any other moneys, securities or funds of the Commission provided pursuant to the Indenture;

(i) to comply with the requirements of the Trust Indenture Act of 1939, as amended, to the extent applicable;

(j) to provide for uncertificated Bonds or for the issuance of coupon or bearer Bonds;

(k) to accommodate the use of a Credit Facility for specific Bonds or a Series of Bonds; and

(l) to make any other change or addition to the Indenture which, in the Opinion of Bond Counsel, shall not have a material adverse effect on the interests of the Holders.

Supplemental Indentures Requiring Consent of Bondholders. (a) Other than Supplemental Indentures referred to above and subject to the terms, provisions and limitations contained in the Indenture, the Holders of at least fifty-one percent (51%) in aggregate Principal Amount of the Outstanding Bonds of all Series affected by such amendment may consent to or approve, which consent to or approval shall be in writing, the execution by the Commission of such Supplemental Indentures as shall be deemed necessary and desirable by the Commission for the purpose of modifying, altering, amending, adding to or rescinding any of the terms or provisions with respect to such Series contained in the Indenture; provided, however, nothing in the Indenture shall permit or be construed as permitting a Supplemental Indenture which would:

(i) extend the stated maturity of or time or change the currency for paying the Principal Amount or purchase price of, premium, if any, or interest on any Bond or reduce the Principal Amount or purchase price of or the redemption premium or rate of interest payable on any Bond without the consent of the Holder of such Bond;

(ii) except as expressly permitted by the Indenture, prefer or give a priority to any Bond over any other Bond without the consent of the Holder of each Bond then Outstanding not receiving such preference or priority; or

(iii) permit the creation of a lien not expressly permitted by the Indenture upon or pledge of the Net Revenue ranking prior to or on a parity with the lien of the Indenture or reduce the aggregate Principal Amount of Bonds then Outstanding the consent of the Holders of which is required to authorize such Supplemental Indenture, without the consent of the Holders of all Bonds then Outstanding.

(b) If at any time the Commission shall propose the adoption of a Supplemental Indenture pursuant to Bondholder consent, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed adoption of such Supplemental Indenture to be mailed by first class mail, postage prepaid, to all Holders of Bonds of any affected Series then outstanding at their addresses as they appear on the registration books provided for in the Indenture. The Trustee, however, shall not be subject to any liability to any Bondholder by reason of its failure to mail, or the failure of such Bondholder to receive, the notice required, and any such failure shall not affect the validity of such Supplemental Indenture when consented to and approved as provided. Such notice shall set forth briefly the nature of the proposed Supplemental Indenture and shall state that copies thereof are on file at the office of the Trustee for inspection by all Bondholders.

(c) If within such period, not exceeding one year, as shall be prescribed by the Commission, following the first giving of a notice as provided in subsection (b) above, the Trustee shall receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate Principal Amount of Bonds specified in subsection (a) above for the Supplemental Indenture in question which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof referred to in such notice as on file with the Trustee, thereupon, but not otherwise, the Trustee may accept such Supplemental Indenture in substantially such form, without liability or responsibility to any Holder of any Bond, regardless of whether such Holder shall have consented thereto.

(d) Any such consent shall be binding upon the Holder of the Bond giving such consent and upon any subsequent Holder of such Bond and of any Bond issued in exchange therefor (regardless of whether such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Bond giving such consent or by a subsequent Holder thereof by filing with the Trustee, prior to the acceptance by the Trustee of such Supplemental Indenture, such revocation. At any time after the Holders of the required Principal Amount of Bonds shall have filed their consents to the Supplemental Indenture, the Trustee shall make and file with the Commission a written statement to that effect. Such written statement shall be conclusive that such consents have been so filed.

(e) If the Holders of the required Principal Amount of the Bonds Outstanding shall have consented to and approved the adoption by the Commission of such Supplemental Indenture as provided, no Holder of any Bond shall have any right to object to the adoption thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof or to enjoin or restrain the Trustee or the Commission from adopting the same or taking any action pursuant to the provisions thereof.

Satisfaction, Discharge and Defeasance

Discharge. If payment of all Principal Amount of, premium, if any, and interest on a Series of Bonds in accordance with their terms and as provided in the Indenture is made, or is provided, and if all other sums payable by the Commission under the Indenture with respect to such Series of Bonds shall be paid or provided for, then the pledge, lien, and security interests granted thereby shall cease with respect to such Series; provided, however, that the rebate provisions, if any, of the Indenture or of the related Supplemental Indenture shall survive so long as there is any amount due to the federal government pursuant to the provisions of the Indenture or of such Supplemental Indenture. Thereupon, upon the request of the Commission, and upon receipt by the Trustee of an Opinion of Counsel stating that all conditions precedent to the satisfaction and discharge as provided above of the lien of the Indenture have been satisfied with respect to such Series of Bonds, the Trustee shall execute and deliver proper instruments acknowledging such satisfaction and discharging the lien of the Indenture with respect to such Series of Bonds. If the lien thereof has been discharged with respect to all Series of Bonds, the Trustee shall transfer all property held by it thereunder, other than moneys or obligations held by the Trustee for payment of amounts due or to become due on the Bonds, to the Commission or such other person as may be entitled thereto as their respective interests may

appear. Such satisfaction and discharge shall be without prejudice to the rights of the Trustee thereafter to charge and be compensated or reimbursed for services rendered and expenditures incurred in connection with the Indenture.

The Commission may at any time surrender to the Trustee for cancellation any Bonds previously authenticated and delivered which the Commission at its option may have acquired in any manner whatsoever and such Bond upon such surrender and cancellation shall be deemed to be paid and retired.

Defeasance. Payment of any Bonds may be provided for by the deposit with the Trustee of moneys, noncallable Governmental Obligations, noncallable Government Certificates or prerefunded municipal obligations described in paragraph (c) of the definition of Permitted Investments in the Indenture, or any combination thereof. The moneys and the maturing principal and interest income on such Government Obligations, Government Certificates or prerefunded municipal obligations, if any, must be sufficient and available without reinvestment to pay when due the Principal Amount, whether at maturity or upon fixed redemption dates, or purchase price of and premium, if any, and interest on such Bonds. The moneys, Government Obligations, Government Certificates and prerefunded municipal obligations shall be held by the Trustee irrevocably in trust for the Holders of such Bonds solely for the purpose of paying the Principal Amount or purchase price or redemption price of, including premium, if any, and interest on such Bonds as the same shall mature or become payable upon prior redemption, and, if applicable, upon simultaneous direction, expressed to be irrevocable, to the Trustee to give notice of redemption and to notify all Owners of affected Bonds that the deposit required by the Indenture has been made and that such Bonds are deemed to be paid in accordance with the Indenture and stating the applicable maturity date or redemption date and redemption price.

The Trustee shall receive a verification report from an Independent Auditor as to the sufficiency of moneys and investments to provide for payment of any Bonds in the case of a defeasance thereof.

Bonds the payment of which has been provided for in accordance with the Indenture shall no longer be deemed Outstanding thereunder. The obligation of the Commission in respect of such Bonds shall nevertheless continue but the Holders thereof shall thereafter be entitled to payment only from the moneys, Government Obligations, Government Certificates and prerefunded municipal obligations deposited with the Trustee to provide for the payment of such Bonds.

No Bond may be so provided for if, as a result thereof or of any other action in connection with which the provision for payment of such Bond is made, the interest payable on any Bond with respect to which an Opinion of Bond Counsel has been rendered that such interest is excluded from gross income for federal income tax purposes is made subject to federal income taxes. The Trustee shall receive and may rely upon an Opinion of Bond Counsel to the effect that the provisions of this paragraph will not be breached by so providing for the payment of any Bonds.

Payment of Bonds After Discharge. Notwithstanding the discharge of the lien as provided in the Indenture, the Trustee nevertheless shall retain such rights, powers and duties under the Indenture as may be necessary and convenient for the payment of amounts due or to become due on the Bonds, including without limitation pursuant to any mandatory sinking fund redemptions, and the registration, transfer, exchange and replacement of Bonds as provided therein. Nevertheless, any moneys held by the Trustee or any Paying Agent for the payment of the Principal Amount of, premium, if any, or interest on any Bond remaining unclaimed for one (1) years after such payment has become due and payable, or such other period provided by law, whether at maturity or upon proceedings for redemption, shall be disposed of pursuant to the provisions of the Indenture. After discharge of the lien thereof, but prior to payment of such amounts to Holders or as provided pursuant to the Indenture, the Trustee shall invest such amounts in Government Obligations or prerefunded municipal obligations described in the definition of Permitted Investments in the Indenture for the benefit of the Commission.

FIRST SUPPLEMENT TO INDENTURE OF TRUST

The following is a summary of certain provisions of the First Supplement to Indenture of Trust.

Series 2010 Interest and Principal Accounts. Moneys accumulated in the Enterprise Fund shall be transferred by the Commission to the Trustee for deposit in the Debt Service Fund as provided in the Indenture; provided, that the following accounts are created in the Debt Service Fund held by the Trustee with respect to the Series 2010 Bonds; provided further, however, that to the extent that deposits have been made in any of the accounts referred to below from the proceeds of the sale of the Series 2010 Bonds or otherwise, the deposits below need not be made:

(a) *Series 2010 Interest Account.* On or before the Business Day prior to each Series 2010 Interest Payment Date, the Commission shall transfer from the Enterprise Fund to the Trustee for deposit in the Series 2010 Interest Account within the Debt Service Fund (which account is created by the First Supplement to Indenture), the interest to become due on the Series 2010 Bonds on such Series 2010 Interest Payment Date; provided that the Commission need not transfer any moneys at such time as the balance in said Series 2010 Interest Account shall be equal to the aggregate amount of interest becoming due and payable on the then Outstanding Series 2010 Bonds on the next succeeding Series 2010 Interest Payment Date. The obligation to make the foregoing transfers shall be on a parity with the obligation to fund any interest accounts henceforth created under the Indenture with respect to any additional Series of Bonds which may thereafter be issued under the Indenture, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(b) *Series 2010 Principal Account.* On or before the Business Day prior to each Series 2010 Principal Payment Date, the Commission shall transfer from the Enterprise Fund to the Trustee for deposit in the Series 2010 Principal Account within the Debt Service Fund (which account is created by the First Supplement to Indenture), the Principal Amount to become due on the Series 2010 Bonds on such Series 2010 Principal Payment Date; provided that the Commission need not transfer any moneys at such time as the balance in said Series 2010 Principal Account shall be equal to the aggregate Principal Amount becoming due and payable on the then Outstanding Series 2010 Bonds on the next succeeding Series 2010 Principal Payment Date. The obligation to make the foregoing transfers shall be on a parity with the obligation to fund any principal accounts henceforth created under the Indenture with respect to any additional Series of Bonds which may thereafter be issued under the Indenture, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(c) *Reserve Fund.* Immediately after making the transfers described in paragraphs (a) and (b) above, transfers shall be made by the Commission to the Trustee from the Enterprise Fund to the Series 2010A Reserve Account and the Series 2010B Reserve Account, on or before the first Business Day of each month, commencing April 1, 2011 in an amount equal to that sum, if any, necessary to restore the Series 2010A Reserve Account to an amount equal to the Series 2010A Reserve Requirement and the Series 2010B Reserve Account to an amount equal to the Series 2010B Reserve Requirement. The obligation to make the foregoing transfers to the Series 2010A Reserve Account and the Series 2010B Reserve Account shall be on a parity without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference. If provided for in a Supplemental Indenture, the obligation to make the foregoing transfers shall be on a parity with the obligation to fund any separate reserve accounts within the Reserve Fund henceforth created under the Indenture with respect to any additional Series of Bonds which may thereafter be issued under the Indenture, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

Reserve Fund. The Series 2010A Reserve Account in the Reserve Fund is established with the Trustee. The Reserve Requirement for the Series 2010A Bonds shall be the Series 2010A Reserve Requirement. The Series 2010A Reserve Account shall benefit only the Series 2010A Bonds and any additional Series of Bonds designated in a Supplemental Indenture. The amounts on deposit in the Series 2010A Reserve Account shall secure on a parity

basis the Series 2010A Bonds and any additional Series of Bonds to the extent so designated in a Supplemental Indenture. If on any Series 2010 Payment Date the amount on deposit in the Debt Service Fund is not sufficient to pay interest on and principal to become due on the Series 2010A Bonds on such Series 2010 Payment Date (or any Series of Bonds to the extent so designated in a Supplemental Indenture on its Payment Dates), then the Trustee shall withdraw the amount of any such deficiency from the Series 2010A Reserve Account and deposit such amount in the Debt Service Fund. All money on deposit in the Series 2010A Reserve Account in excess of the Series 2010A Reserve Requirement shall be transferred to the Commission or to such account as the Commission may designate; and for this purpose all investments in the Series 2010A Reserve Account shall be valued monthly, at the lower of purchase price or the current market value of such investments (inclusive of accrued interest).

The Series 2010B Reserve Account in the Reserve Fund is established with the Trustee. The Reserve Requirement for the Series 2010B Bonds shall be the Series 2010B Reserve Requirement. The Series 2010B Reserve Account shall benefit only the Series 2010B Bonds and any additional Series of Bonds to the extent so designated in a Supplemental Indenture. The amounts on deposit in the Series 2010B Reserve Account shall secure on a parity basis the Series 2010B Bonds and any additional Series of Bonds to the extent so designated in a Supplemental Indenture. If on any Series 2010 Payment Date the amount on deposit in the Debt Service Fund is not sufficient to pay interest on and principal to become due on the Series 2010B Bonds on such Series 2010 Payment Date (or any Series of Bonds designated in a Supplemental Indenture on its Payment Dates), then the Trustee shall withdraw the amount of any such deficiency from the Series 2010B Reserve Account and deposit such amount in the Debt Service Fund. All money on deposit in the Series 2010B Reserve Account in excess of the Series 2010B Reserve Requirement shall be transferred to the Commission or to such account as the Commission may designate; and for this purpose all investments in the Series 2010B Reserve Account shall be valued monthly, at the lower of purchase price or the current market value of such investments (inclusive of accrued interest) provided that such amounts released upon redemption or maturity of the Series 2010B Bonds shall first be transferred to the Series 2010A Reserve Account to the extent needed to satisfy the Series 2010A Reserve Requirement.

APPENDIX B

SUMMARY OF THE BURTON ACT, TRANSFER AGREEMENT AND RELATED STATE REGULATION

This Appendix contains summaries of certain provisions of 1968 Statutes of California, Chapter 1333, as amended (the "Burton Act"), and of the Agreement Relating to Transfer of the Port of San Francisco from the State of California to the City and County of San Francisco (the "Transfer Agreement"). In addition, summaries are included of certain provisions of State legislation affecting the use and development of Port property at Piers 30-32, Mission Bay and Western Pacific. These summaries are not intended to be a full statement of the contents of the documents summarized, and reference is made to the complete documents for the full terms of each. Capitalized terms used herein which are not otherwise defined herein shall have the meanings ascribed thereto in the documents. Copies of the Burton Act and the Transfer Agreement may be obtained from the Port Commission; copies of State legislation are available through the California State Legislature's web site.

THE BURTON ACT

The Burton Act authorizes the transfer in trust to the City and County of San Francisco (the "City") the interest of the State of California (the "State") in and to, and the control and management of, the Harbor of San Francisco.

The Burton Act specifies the terms and conditions of transfer of all of the right, title and interest held by the State in the real property of the Port of San Francisco, together with all improvements, rights, privileges, easements and appurtenances connected therewith or in anywise appertaining thereto, and any and all personal property of every kind and description owned or controlled by the State and used in connection with the operation and maintenance of San Francisco Harbor and including any deposits of funds held by or for the San Francisco Port Authority; excepting and reserving unto the State all subsurface mineral deposits, including oil and gas deposits, together with the right of ingress and egress on the properties conveyed to the City for exploration, drilling and extraction of such mineral, oil and gas deposits.

The City, through a Harbor Commission of the City, shall have complete authority, except as otherwise agreed to as a condition of the transfer and as provided in the Burton Act, to use, conduct, operate, maintain, manage, regulate, improve and control the harbor of San Francisco and to do all things it deems necessary in connection with the use, conduct, operation, management, maintenance, regulation, improvement and control of said harbor which are not prohibited by the laws of the State or the Charter of the City and which are in conformance with the terms of the Burton Act, including, without limiting the generality of the foregoing, the following:

1. The improvement and conduct of the harbor and the construction, reconstruction, repair and operation of all works, buildings, facilities, utilities, structures and appliances, incidental, necessary or convenient for the promotion and accommodation of commerce and navigation;
2. The use for all commerce and industrial purposes and the construction, reconstruction, repair, maintenance of commercial and industrial buildings, plants and facilities;
3. The establishment, improvement and conduct of railroad facilities, which facilities shall not be subject to State Public Utilities Commission regulation, and aviation facilities and all works, buildings, facilities, utilities, structures and appliances incidental, necessary or convenient for the promotion and conduct of air commerce and navigation and railroad transportation;
4. The construction, reconstruction, repair, maintenance and operation of public buildings, parks, playgrounds, public educational and recreational facilities and all works, buildings,

facilities, structures and appliances incidental, necessary or convenient for the promotion and accommodation of any such uses;

5. The preservation or restoration of marine resources consistent with the primary mission of the San Francisco Harbor;

6. The grant of franchises for limited periods not exceeding 66 years for wharves and other public uses and purposes and the lease of said lands, facilities, or any part thereof for limited periods not exceeding 66 years, and the collection and retention of rents and other revenue from such leases, franchises, permits, licenses, and privileges shall be for purposes consistent with the trusts upon which the lands are held by the State and with the requirements of commerce and navigation, or if the Harbor Commission of the City determines that any portion of the transferred lands is not required for the foregoing uses, such lease or leases, franchises, permits, licenses, and privileges, may be for the purposes of such development and use as the commission finds to be in the public interest, with moneys derived therefrom to be used by the commission in the furtherance of commerce and navigation. The moneys derived from such lease or leases, franchises, permits, licenses, and privileges shall be used solely for the furtherance of the purposes specified by the Burton Act.

The City shall establish a separate harbor trust fund or funds upon the transfer in such manner as may be prescribed by the State Department of Finance; the City shall deposit in the fund or funds all moneys received directly from or indirectly attributable to facilities on the transferred lands in the harbor. An annual statement of financial condition and operations, to conform to such requirements as the State Department of Finance may prescribe, shall be submitted to the State Department of Finance each year by the City on or before September 30th of each year for the preceding Fiscal Year.

Notwithstanding any other provision of law to the contrary, the City, either acting alone or jointly with another local or State agency, may use revenues accruing from or out of the use of the transferred lands for any or all of the following purposes, provided the same comply with the terms of the trust which are matters of Statewide as distinguished from local or purely private interest and benefit:

1. The construction, reconstruction, improvement, repair, operation, maintenance, promotion, and protection of works, lands, waterways, and facilities necessary for the development of such transferred lands for highest and best use in the public interest, including commerce, navigation, fisheries, marinas, small boat harbors, marine stadiums, maritime museums, marine parks, beaches, and such streets, roadways, bridges, bridge approaches, earthfills, bulkheads, piers, supporting structures, buildings, recreational facilities, landscaping, and parking lots situated upon such transferred lands, or adjacent thereto and reasonably necessary to provide access to, or development of, such transferred lands;

2. The promotion, by advertising and such other means as may be reasonable and appropriate, of maximum public use of such transferred lands or to encourage private investment in development of such transferred lands for the highest and best use in the public interest;

3. Any other uses or purposes of State, as distinguished from purely local or private, interest and benefit, which are in fulfillment of those trust uses and purposes described in the Burton Act;

4. The acquisition of property and the rendition of services reasonably necessary to the carrying out of the foregoing uses and purposes, including the amortization or debt service of any capital improvement funding program which is consistent with the terms and conditions set forth in the Burton Act.

Revenue accruing from or out of the use of the transferred lands may be deposited in one or more reserve funds for use in accordance with the terms and conditions set forth in the Burton Act.

Upon transfer of the Port to the City, the authority, justification and control of San Francisco Port Authority over San Francisco Harbor and the facilities thereof shall be deemed transferred to the City and the port authority shall cease to function and be dissolved. The City shall thereupon assume control and jurisdiction over the San Francisco Harbor and facilities and shall have complete authority to use, operate, maintain, manage, regulate, improve and control the harbor of San Francisco and to do and perform all acts as may be deemed necessary in connection with the use, operation, maintenance, management, regulation, improvement and control of said harbor as may be prescribed.

San Francisco Harbor and facilities shall be under the administration and control of the Harbor Commission of the City which shall be established in accordance with the provisions of the Charter of the City. The commission shall consist of five members, each member serving for a term of four years. Each of said members shall be appointed by the mayor, said appointment being subject to confirmation by the Board of Supervisors of the City.

In the event that the City fails or refuses to file with the State Department of Finance any report, statement, or document required by any provision of the Burton Act within the time period specified by the Burton Act, or any extension period granted pursuant to the Burton Act, or fails or refuses to carry out the terms of the transfer by which the lands were transferred to it pursuant to the Burton Act, the State Attorney General shall, upon request of the State Department of Finance, bring such judicial proceedings for correction and enforcement as are appropriate, and shall act to protect any properties and assets situated on the transferred lands or derived therefrom. The State Department of Finance shall notify the Chief Clerk of the State Assembly and the Secretary of the State Senate within 30 days of the occurrence of such failure or refusal and of actions taken as a result thereof.

The State Department of Finance shall, from time to time, institute a formal inquiry to determine that the terms and conditions of the Burton Act, and amendments thereto, have been complied with, and that all other applicable provisions of law concerning the specific transferred lands are being complied with in good faith.

The State Legislature reserves the right to amend, modify, or revoke, in whole or in part, the transfer of lands in trust provided for in the Burton Act, provided that the State shall thereupon assume all lawful obligations related to such lands as may revert to the State by such action.

The State Attorney General, at his own instance, or upon formal request of the State Department of Finance, or by resolution of either house of the State Legislature, shall bring an action in the superior court of the City to declare that the transfer under which the City holds such transferred lands is revoked for gross and willful violation of the terms of such transfer or the provisions of the Burton Act or other legislative enactment, or to compel compliance with the terms and conditions of the transfer and any other provision of law including, but not limited to, the Burton Act.

No amendment, modification, or revocation, in whole or in part, of the transfer of lands in trust provided for in the Burton Act shall impair or affect the rights or obligations of third parties, including the holders of revenue bonds or securities issued by the Harbor Commission of San Francisco and payable out of revenue of the harbor, lessees, lenders for value, holders of contracts conferring the right to the use and occupation of, or the right to conduct operations upon or within, such lands, arising from leases, contracts, or other instruments lawfully entered into prior to the effective date of such amendment, modification, or revocation.

In the event, at the effective date of any such amendment, modification, or revocation, there are in effect any such leases, contracts, or other instruments, the State may, at its option exercised by, and evidenced

by appropriate action on the part of, the State Lands Commission, succeed to the interest in any such instrument of the City; otherwise the interest of the City in any such instrument then in effect shall continue during the term or other period of time during which such instrument shall remain in effect; and provided further, that in any event all revenues bonds or securities issued by the Harbor Commission of San Francisco and payable out of revenues of the harbor shall continue to be so payable and secured in all respects as provided in the proceedings for their issuance and the revenues of the harbor shall be pledged to and applied to the payment of such revenue bonds or securities in all respects as though no such amendment, modification, or revocation had taken place.

THE TRANSFER AGREEMENT

The following summary describes certain provisions of the Transfer Agreement, dated as of January 24, 1969, between the State and the City, pursuant to which the Port was transferred to the City by the State in accordance with the Burton Act.

Transfer of Property

REAL PROPERTY: The real property which is transferred under the Burton Act is the real property under the jurisdiction and control of the San Francisco Port Authority as of the date of transfer, subject to certain restrictions and exceptions, all as more particularly set forth in the Burton Act, and subject to a survey of such property by the City and agreement between the parties as to the description, which description is deemed to be a part of the Transfer Agreement.

PERSONAL PROPERTY OTHER THAN FUNDS: All personal property owned or controlled by the State and used in connection with the operation and maintenance of the harbor is transferred pursuant to the terms of the Burton Act.

TRANSFER OF FUNDS: The funds transferred from the State to the City pursuant to the Burton Act consist of the following funds established by statute: San Francisco Harbor Improvement Fund; San Francisco Sea Wall Fund No. 4; San Francisco Sea Wall No. 5; Harbor Bond Sinking Fund; India Basin Sinking Fund; San Francisco Sea Wall Sinking Fund No. 2; San Francisco Sea Wall Sinking Fund No. 3; San Francisco Sea Wall Sinking Fund No. 4; and Special Deposit. Monies in the Surplus Monies Investment Fund from each of the above funds will be transferred as of the date of transfer in accordance with the provisions of the Transfer Agreement, and interest on those monies will be credited by the State in the same manner and to the same extent as it credited interest at the time of transfer to the deposits of the funds when the San Francisco Port Authority requests transfer back to the funds. The fund designated Special Deposit is a trust fund in which monies which are not property of the State are deposited prior to refund or repayment to other persons. Such fund will be taken by the City subject to repayment to the true owners. In the event the funds are not repaid and vest in the City, such funds will be credited by the City to the San Francisco Harbor Improvement Fund. Upon the transfer of these funds from the State to the City, the City will set up funds identical with the funds designated. Deposits will be made into these funds in the same manner and to the same extent as deposits were made at the time of transfer and the funds will be used for the same purposes as the funds are used by the State; however the City is not precluded from setting up additional funds when and if that becomes necessary, nor setting up additional accounts in the funds when and if such accounts become necessary. The additional funds may not, however, be set up except upon prior written notification to the State Director of Finance. In the event the State Director of Finance is of the opinion that the additional funds will affect the security of the funds now in existence or will otherwise adversely affect the interests of the Harbor, the State Director of Finance may disapprove funds which are properly and reasonably set up for the repayment of bond issues authorized pursuant to the Burton Act providing the monies available to the Harbor are sufficient to meet obligations to funds created prior in time and to meet current obligations and maintenance.

In addition to the funds enumerated above, the parties agree that any and all receivables, obligations, liquidated and unliquidated, and choses in action owing to the Authority at the time of the transfer are likewise transferred.

Limitations on Property Transferred

All the limitations, exceptions and conditions on transfer of property from the State to the City contained in the Burton Act are made a part of the Transfer Agreement. The following provisions define and interpret the provisions of the Burton Act which require such definition or interpretation.

The Burton Act excepts and reserves to the State all subsurface mineral deposits including oil and gas deposits, together with the right of ingress and egress on the properties conveyed to the City for exploration, drilling and excavation of such mineral, oil and gas deposits. Minerals covered in this reservation are deemed to include all of the minerals enumerated in California Public Resources Code Section 6407. Nothing contained in the Transfer Agreement precludes the City in its operation of the Harbor from moving or removing earth, including sand, gravel and other deposits for purposes of dredging, filling, excavating, bulkheading or any other ordinary port maintenance, construction or reconstruction without charge to the City therefor. The right of ingress and egress in the reservation will be exercised in such manner and to such extent as not to unreasonably interfere with the property for the purposes for which it has been transferred under the Burton Act.

The Burton Act reserves to the people of the State the right to hunt and fish in and over the waters of San Francisco Harbor. The right to hunt and fish is not intended to and does not limit the police powers of the City in connection with hunting or fishing in the city limits. The right to hunt and to fish will not be exercised in such fashion as to interfere with the operation of the property for port purposes, nor will such rights be exercised in an area or in such manner as to endanger the safety of persons or property.

Conditions of Transfer

The City by the Transfer Agreement agrees to indemnify, defend and hold harmless the State with regard to all outstanding bonded indebtedness incurred for San Francisco Harbor improvements. To carry out the requirements of the Transfer Agreement the City agrees to set up certain funds. In the event that there are not sufficient funds in the San Francisco Harbor Improvement Fund set up by the City, the Board of Supervisors of the City will at the time of fixing the general tax levy and in the manner for such general tax levy provided, levy and collect annually each year until such bonds are paid or until there is a sum in the treasury of the City set apart for that purpose to meet all the sums coming due for the principal and interest on said bonds, a tax sufficient to pay the annual interest on such bonds as the same become due and also such part of the principal thereof as shall become due before the proceeds of a tax levied at the time for making the necessary general tax levy can be made available for the payment of such principal.

The City agrees to assume the obligations and duties of the Port Authority on all outstanding contracts, leases, franchises or agreements.

The City agrees to transfer to the State amounts necessary to pay the amounts due upon the bonded indebtedness prior to the time such amounts are due.

To comply with the provisions of the Burton Act, the City promises to perform all the obligations and requirements set forth in the Burton Act, and agrees that the Transfer Agreement will become a binding obligation on the City prior to the transfer.

Requirements of Transfer

The Burton Act requires the City to establish a separate Harbor Trust Fund or funds in such manner as may be prescribed by the State Department of Finance. It is the intention of the parties as more specifically set forth in the Transfer Agreement that unless or until the Transfer Agreement is amended, the City will set up funds to the same extent and for the same purpose as the Port Authority funds set up by the State Controller of the State. When all the bond redemptions covered by a specific fund have been made or when the monies in Sea Wall Fund No. 4 or Sea Wall Fund No. 5 have been exhausted, those funds may be discontinued. Nothing in the Transfer Agreement, however, precludes the establishment of additional funds which may become necessary because of Harbor operations. The City agrees that all monies received directly from or indirectly attributable to the transferred lands or its facilities or any other property transferred by the Transfer Agreement will be deposited in the fund or funds set up pursuant to the Transfer Agreement. Monies not designated for other specific funds will be deposited in the San Francisco Harbor Improvement Fund.

The Burton Act provides that an annual statement of financial condition and operation will be transmitted by the City to the State Department of Finance each year on or before September 30th for the preceding Fiscal Year, and the City agrees that it will continue to submit to the State Director of Finance financial statements in accordance with the State Administrative Manual.

The City shall, at the request of the State Department of Finance, make its books and records in connection with the Harbor available for audit and inspection to auditors of the State in order that the State may insure that the provisions of the Burton Act are complied with and to assist the State Department of Finance in complying with its duties under the Burton Act.

Expenditure of Port Funds and Use of Property

All of the property transferred under the Burton Act is required to be held by the City in trust for purposes of commerce, navigation and fisheries and subject to the terms and conditions specified in the Burton Act and set forth in the Transfer Agreement. All property acquired with funds derived from the transferred property is likewise required to be held by the City. Without prejudice to the generality of the foregoing, the parties agree specifically to the following:

Personal property transferred under the Burton Act and property later acquired with Port funds to replace such property shall continue to bear separate designations so that the trust nature of the property can be determined. In the event that the City uses said property for other than trust purposes, it shall reimburse the Port funds for the use of such property. Nothing in the Transfer Agreement shall, however, prevent the Port from disposing of personal property which is obsolete or is no longer required for the trust purposes, but in that event the funds derived therefrom shall become Port funds subject to the purposes of the trust.

The City shall not require the Port to perform functions or accept or employ personnel in excess of functions or personnel required to carry out the purposes of the trust.

The City may, if it elects to do so, undertake some or all of the functions of street maintenance within the Port area, but it may not require the Port to maintain streets and roadways outside the Port area nor may it require the Port to maintain streets, roadways, bridges or other facilities maintained by the City at the time of transfer, nor may it require the Port to undertake the furnishing or maintenance of streets, roadways and bridges primarily designed as thoroughfares for the City rather than as roadways for Port purposes. In the event streets, roadways or bridges perform a dual function, an appropriate division of costs shall be made. This provision is not intended to affect The Embarcadero, maintained by the Port at the time of transfer, nor is it intended to prevent the Port from constructing or maintaining any streets, roadways, bridges or sidewalks the Port deems required.

In the event that duties other than police traffic services in the Port area or protection of Port property are required of the Port police, payment for such additional duties shall be made from other than Harbor funds.

Revenue received from parking meters installed on the transferred lands shall continue to accrue to the Port so long as the Port installs, operates and maintains the meters.

The Port at the time of transfer performed at its own expense some fire protection services and reimbursed the City for certain other fire protection services. In the event additional fire protection services are required, such additional services shall not be paid for out of Harbor funds.

Nothing in the Transfer Agreement shall preclude the City from undertaking all or part of the services performed by the Port if economies will result therefrom. The Port shall not, however, be required to contribute to City services if such contribution will result in expenditures greater than those required.

Autonomous Operation

The Port Commission provided for by the Burton Act shall have all the powers and duties given to boards and commissions by the Charter of the City, and shall have the power to establish such departments and bureaus as may be necessary or convenient for the conduct of its affairs. Subject to the terms and conditions of the transfer and the Transfer Agreement, the Port Commission shall have the control and management of all real and personal property transferred under the Burton Act, or otherwise acquired or purchased with funds under its control or acquired or purchased by it within the scope of its authority, or otherwise placed under its management, supervision and control. The property under the control and management of the commission shall be known as the Port Area. The Port Commission shall have the power and duty to use, conduct, operate, maintain, manage, regulate, and control the Port Area of San Francisco and to do all things it deems necessary in connection with the use, conduct, operation, management, maintenance, regulation, improvement and control of said Port Area, or which may further the interests of the Port in world trade, including, without limiting the generality of the foregoing, the exclusive power to perform or accomplish the following in the Port Area:

1. The improvement, operation and conduct of the harbor, and any and all improvements or facilities located thereon;
2. The construction, reconstruction, repair, operation and use of all works, buildings, facilities, utilities, structures and appliances incidental, necessary or convenient for the promotion and accommodation of commerce and navigation, or located within the Port Area;
3. The establishment, improvement and conduct of railroad and aviation facilities and all works, buildings, facilities, utilities, structures and appliances incidental, necessary or convenient for the promotion and conduct of air commerce and navigation and railroad transportation;
4. The construction, reconstruction, repair, maintenance and operation of public buildings, parks, playgrounds, public educational and recreation facilities and all works, buildings, facilities, utilities, structures and appliances incidental, necessary or convenient for the promotion and accommodation of any such uses;
5. The preservation or restoration of marine resources consistent with the primary mission of the harbor of San Francisco;
6. The grant of franchises thereof for limited periods not exceeding 66 years for wharves and other public uses and purposes and the lease of said lands, facilities, or any part thereof for limited periods not exceeding 66 years, and the collection and retention of rents and other revenue from such leases, franchises, permits, licenses, and privileges. Such lease or leases, franchises,

permits, licenses, and privileges shall be for purposes consistent with the trusts upon which the lands are held by the State and with the requirements of commerce and navigation, or if the Port Commission of the City determines that any portion of the transferred lands is not required for the foregoing uses described in this paragraph, such lease or leases, franchises, permits, licenses, and privileges, may be for the purposes of such development and use as the commission finds will yield maximum profits to be used by the commission in the furtherance of commerce and navigation;

7. Leases and franchises granted or made by the Port Commission shall be administered exclusively by the operating forces of the Port Commission;

8. There shall be a Port Director who shall be the chief executive of the Port Commission and who shall have the management of the affairs and activities placed under the jurisdiction of the commission. He shall devote his entire time to the duties of his office and his salary shall be fixed by the commission. He shall hold his office at the pleasure of the commission and shall have the management of said Harbor and of all of the facilities and equipment thereof and of all bureaus and departments established for the operation of said Harbor or for the operation of any equipment or facility thereof. Subject to the approval of the commission, he shall appoint and remove any and all heads of departments or bureaus who are not subject to the civil service provisions of the Charter of the City. He shall possess the necessary administrative, executive and technical qualifications necessary to enable him to perform the duties of his office. His compensation shall not exceed prevailing salaries paid those holding similar positions in comparable maritime employment. The commission may confer on him such additional powers and authority as it may see fit. Nothing in the foregoing provisions shall be construed to prohibit an amendment to the Charter of the City to provide for the appointment of a Port Director by the commission.

9. To regulate the berthing, anchoring, towing, loading and unloading and mooring of vessels within the Port;

10. To issue receipts, negotiable or otherwise, for property or merchandise in its charge or possession;

11. To fix all rates, dockage, rentals, tolls, wharfage, and charges, for the use and occupation of the public facilities or appliances of the Port, and for services rendered by the Port Commission, and to provide for the collection thereof;

12. To enter into contracts, agreements, or stipulations germane to the scope of its powers and duties;

13. To give such bonds or assurances as may be required by the United States in the operations permitted under the Transfer Agreement;

14. To provide and equip offices within or without the Port, within other states, or in foreign countries, and through such employees and agencies as it may deem expedient;

15. To contract for and operate foreign trade zones within the Port Area or auxiliary to the Port Area, or such zones or sub zones as have been operated by the San Francisco Port Authority. Agreement may be made with the Public Utilities Commission for operation of future zones or sub zones in other areas;

16. Members and officers of the Port Commission shall be exempt from the provisions of the Charter of the City relating to absences from the State, but shall advise the Mayor and the Board of Supervisors of the City in advance of such absences;

17. May promote the maritime and commercial interests of the Harbor by advertising its advantages and facilities and by the solicitation of business. The advertising and solicitation may be conducted within or without the State and through such agencies, mediums, employees and agents as are determined by the commission. The commission may, in its discretion, publish and distribute a magazine, pamphlets, booklets and other printed and advertising matter for the purpose of developing traffic and promoting and maintaining the commerce and prestige of the Port, and may use any monies of the Harbor Fund for the special purposes described in this paragraph. Members and employees of the commission in attending conventions of port authorities and meetings of transportation clubs, trade associations and business organizations that may advance the interests of the Port shall be allowed their actual necessary expenses in the performance of such services as may from time to time be deemed desirable by the commission and shall be allowed hospitality expenses necessarily incurred in furthering the interests of the Port;

18. To issue revenue bonds for purposes of the Burton Act; and

19. Expend all funds necessary to the carrying out of the powers and duties expressed in the Transfer Agreement; The Transfer Agreement vests in the Port Commission all of the powers set forth in the Burton Act.

It is the understanding of the parties that the finding of the Department of City Planning that a proposed capital improvement project on Port property does not conform to the Master Plan does not preclude the Board from authorizing an appropriation of Port funds for the capital improvement project.

Protection of Existing Uses

The City is required to make every effort to provide users of the property at the time of transfer with continued occupancy under fair terms and conditions and without unfair advantage or discrimination.

Amendment

The Transfer Agreement is binding on the City and the State Department of Finance unless or until the parties amend the Transfer Agreement in writing.

In the event, however, that the State Legislature amends, modifies or revokes the Burton Act, as provided therein, to the extent such action of the State Legislature is not in conformity with the Transfer Agreement, the Transfer Agreement will be deemed amended, modified or revoked thereby in accordance with the action of the Legislature. In that event the parties to the Transfer Agreement will meet promptly to negotiate any necessary changes.

Summary of State Legislation Governing Use and Development of Port of San Francisco Piers 3032, Mission Bay and Western Pacific Properties.

Ch. 489, California Stats. of 2001 (Cruise Terminal Legislation).

In September 2001, the State Legislature adopted legislation, known as AB 1389, sponsored by Assemblyman Kevin Shelley. The Governor signed AB 1389 in October 2001. Among other items, AB 1389: 1) allows 300,000 leasable square feet of office space on Piers 30-32 and allows an additional 25,000 square feet in the cruise terminal facility for no longer than 14 years, converting to trust use at that time or sooner if needed for cruise terminal expansion; and 2) allows a limited amount of non trust retail (*i.e.*, there must be a greater amount of trust consistent retail and the ratio of trust to non trust retail must be at least 40% of total office leasable space).

AB 1389 also accelerates the timing for the completion of the Brannan Street Wharf, a new waterfront park to be constructed between Piers 30-32 and Pier 38, as identified in the BCDC Special Area Plan. With review by BCDC, the Port must approve the final design concept for the Brannan Street Wharf, prior to the submittal of a major permit application to BCDC, encumber funds for the completion of the Brannan Street Wharf, place funds in a segregated account prior to issuance of a BCDC permit, construct the northern portion of the Brannan Street Wharf contemporaneously with the Piers 30-32 project, and remove Pier 36 and complete the Brannan Street Wharf no later than five years after the start of construction of the Piers 30-32 project. AB 1389 also ratified and confirmed the Special Area Plan as necessary to the health, safety and welfare of the public in the entire Bay Area.

Ch. 203, California Stats. 1997 (Mission Bay Legislation).

This State legislation adopted in 1997 (SB 1215) authorized the removal of the public trust and the Burton Act trust from certain property owned by the City, the Port and Catellus located in the Mission Bay North and South Redevelopment Plan Areas and authorized the placement of the public trust on other property in Mission Bay, together with certain use restrictions contemplated by the legislation. The areas of public trust include streets and areas along the water within Port jurisdiction as shown on the map attached to SB 1215 and restricts uses within those areas to public parks, open space, public access to and along the shoreline, rail within existing public roadways, and utility facilities that do not significantly impair the use of those lands for those uses. Other interim uses are permitted provided that the interim uses may be converted to the permitted uses under specified circumstances.

SB 1215 also authorized the removal of public trust claims from the inland areas of the Western Pacific Property, a 25 acre site located between Cesar Chavez Street, 25th Street, Illinois Street, and the Bay, and replaced the public trust on a 125' shoreline band and in the submerged portions of the Western Pacific Property in the Bay. As discussed below, in 2003, the State Lands Commission approved an exchange of the public trust from a portion of Seawall Lot 330 to a portion of the Western Pacific Property.

Western Pacific/SWL 330 Trust Exchange (California State Lands Commission Action).

In 2003, the State Lands Commission approved an exchange of the public trust between a portion of a Port's Seawall Lot, SWL 330, and the Western Pacific Property. This exchange allowed for the removal of the public trust restriction on a portion of SWL 330, which in turn allowed for the \$9 million sale of that parcel for development of a condominium tower. In exchange, the public trust and Burton Act trust is now placed on an approximately 8.77 acre site located between Maryland Street, Cesar Chavez Street, and 25th Street, on the eastern portion of the Western Pacific parcel, thereby restricting use and development on the Western Pacific property for uses consistent with the public trust and Burton Act trust.

Ch. 660, California Stats. of 2007 (Seawall Lots 328, 330, 337 and 347S)

This State legislation, adopted in October 2007 (SB 815), declares certain paper streets as no longer useful for public trust or Burton Act trust purposes. The legislation amends the Burton Act by authorizing the City to lease, sell, or otherwise transfer the streets free of the public trust and Burton Act trust or any other restrictions on use or alienability created by the Transfer Agreement, subject to specified terms and conditions. The paper streets include portions of the following streets: (1) Daggett Street; (2) Texas Street; (3) Custer Avenue; (4) Evans Street; (5) Davidson Avenue; (6) Ingalls Street; and (7) Arthur Avenue. The Port must deposit all revenues from the lease, sale or transfer of the streets in a separate account in the Port's harbor fund to be expended solely for the purpose of implementing the Port's capital plan.

SB 815 declares seawall lots 328, 330, 337, and 347S no longer useful for public trust and Burton Act trust purposes except for the production of revenue to support the purposes of the Burton Act trust. The legislation amends the Burton Act by declaring the seawall lots free from the use restrictions of the public trust, Burton Act trust, and the Transfer Agreement until January 1, 2094, subject to specified terms and

conditions. The seawall lots remain subject to all other restrictions of the public trust, Burton Act trust and Transfer Agreement. SB 815 authorizes the Port to lease all or portions of any of the seawall lots for non trust uses subject to specified terms and conditions. The term of any such lease may not exceed 75 years, including extensions. The Port must deposit all revenues generated from a non trust lease in a separate account in the Port's harbor fund for the preservation of historic piers and historic structure, or the construction and maintenance of waterfront plazas and opens space required by the Bay Conservation and Development Commission's special area plan. The Port may annually transfer funds from the separate account to the general account of the harbor fund for trust or Burton Act trust consistent purposes, subject to specified terms and conditions. The seawall lots become subject to the public trust, Burton Act trust, and Transfer Agreement use restrictions again on January 1, 2094. No later than that date, the Port must remove or modify all structures, buildings, and appurtenances on any of the seawall lots that is not consistent with the purposes of the public trust, Burton Act trust, and the Transfer Agreement to facilitate public trust uses.

APPENDIX C

**PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

The Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Port Commission of the City and County of San Francisco (the "Port Commission") in connection with the issuance of \$_____ aggregate principal amount of Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014A and Series 2014B (collectively, the "Series 2014 Bonds"). The Series 2014 Bonds are being issued pursuant to an Indenture of Trust, dated as of February 1, 2010, between the Port Commission and U.S. Bank National Association (the "Trustee"), as successor trustee to Deutsche Bank National Trust Company, as amended and supplemented by a First Supplement to Indenture of Trust dated as of February 1, 2010 and a Second Supplement to Indenture of Trust dated as of March 1, 2014, between the Port Commission and the Trustee (collectively, the "Indenture").

The Port Commission covenants and agrees in this Disclosure Certificate as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Port Commission for the benefit of the Holders and Beneficial Owners of the Series 2014 Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission (the "S.E.C.") Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in the Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Port Commission pursuant to, and as described in, Sections 3 and 4 of the Disclosure Certificate.

"Beneficial Owner" shall mean any person which: (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2014 Bonds (including persons holding Series 2014 Bonds through nominees, depositories or other intermediaries) including, but not limited to, the power to vote or consent with respect to any Series 2014 Bonds or to dispose of ownership of any Series 2014 Bonds; or (b) is treated as the owner of any Series 2014 Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the Port Commission, acting in its capacity as Dissemination Agent under the Disclosure Certificate, or any successor Dissemination Agent designated in writing by the Port Commission and which has filed with the Port Commission a written acceptance of such designation.

"Holder" shall mean either the registered owners of the Series 2014 Bonds, or, if the Series 2014 Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

"Listed Events" shall mean any of the events listed in Section 5(a) of the Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive continuing disclosure filings pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB currently located at <http://emma.msrb.org>.

"Official Statement" shall mean the final Official Statement, dated _____, 2014, prepared in connection with the sale and offering of the Series 2014 Bonds.

"Participating Underwriter" shall mean any of the original underwriters or purchasers of the Series 2014 Bonds required to comply with the Rule in connection with offering of the Series 2014 Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the S.E.C. under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Port Commission shall, or shall cause the Dissemination Agent to, not later than 9 months after the end of the Port Commission's Fiscal Year (which currently ends June 30), commencing March 31, 2015, with the report for the 2013-14 Fiscal Year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of the Disclosure Certificate. If the Dissemination Agent is not the Port Commission, the Port Commission shall provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report must be submitted in electronic format and accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of the Disclosure Certificate; provided, that if the audited financial statements of the Port Commission are not available by the date required above for the filing of the Annual Report, the Port Commission shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the Port Commission's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b).

(b) If the Port Commission is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Port Commission shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the Port Commission) file a report with the Port Commission certifying the date that the Annual Report was provided to the MSRB pursuant to the Disclosure Certificate.

SECTION 4. Content of Annual Reports. The Port Commission's Annual Report shall contain or incorporate by reference the following information:

(a) Audited Financial Statements of the Port Commission for the prior fiscal year, prepared in accordance with generally accepted accounting principles applicable to the Port Commission from time to time. If the Port Commission's audited financial statements are not available by the date the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;

(b) Updated information in Table 9 captioned "MAJOR PORT OPERATING REVENUES";

(c) Updated information in Table 1 captioned "PORT OF SAN FRANCISCO, REAL ESTATE LEASES, REMAINING LEASE TERMS";

(d) Updated information in Table 2 captioned "TOP 10 REAL ESTATE TENANTS";

(e) Updated information in Table 12 captioned "PORT OF SAN FRANCISCO, HISTORICAL RESULTS OF OPERATIONS";

(f) Updated information in Table 11 captioned "PORT OF SAN FRANCISCO, HISTORICAL OPERATION & MAINTENANCE EXPENSES"; and

(g) Updated information in Table 13 captioned "PORT OF SAN FRANCISCO HISTORIC DEBT SERVICE COVERAGE.

Any or all of the items listed above may be set forth in a document or set of documents, or may be included by specific reference to other documents, including official statements of debt issues of the Port Commission or related public entities, which are available to the public on the MSRB website. If the document included by reference is a final official statement, it must be available from the MSRB. The Port Commission shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Listed Events.

(a) To the extent applicable and pursuant to the provisions of this Section 5, the Port Commission shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2014 Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults, if material;
- (3) Unscheduled draws on any debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2014 Bonds, or other material events affecting the tax status of the Series 2014 Bonds;
- (7) Modifications to the rights of Bondholders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Series 2014 Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (13) Consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) Appointment of a successor or additional trustee or the change of name of a trustee.

(b) Whenever the Port Commission obtains knowledge of the occurrence of a Listed Event, the Port Commission will, in a timely manner not in excess of ten business days after the occurrence of the Listed Event, file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of a Listed Event described in Section 5(a)(8) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders and Beneficial Owners of affected Series 2014 Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The Port Commission's obligations under the Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2014 Bonds. If such termination occurs prior to the final maturity of the Series 2014 Bonds, the Port Commission shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

SECTION 7. Dissemination Agent. The Port Commission may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in the Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of the Disclosure Certificate, the Port Commission may amend or waive the Disclosure Certificate or any provision of the Disclosure Certificate, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 3(b), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2014 Bonds or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of the City Attorney or nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2014 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the owners of a majority in aggregate principal amount the Series 2014 Bonds or (ii) does not, in the opinion of the City Attorney or nationally recognized bond counsel, materially impair the interests of the Holders.

In the event of any amendment or waiver of a provision of the Disclosure Certificate, the Port Commission shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Port Commission. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5; and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in the Disclosure Certificate shall be deemed to prevent the Port Commission from disseminating any other information, using the means of dissemination set forth in the Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by the Disclosure Certificate. If the Port Commission chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by the Disclosure Certificate, the Port Commission shall have no obligation under the Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Remedies. In the event of a failure of the Port Commission to comply with any provision of the Disclosure Certificate, any Participating Underwriter, Holder or Beneficial Owner of the Series 2014 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Port Commission to comply with its obligations under the Disclosure Certificate; provided that any such action may be instituted only in a federal or state court located in the City and County of San Francisco, State of California. Failure by the Port Commission to comply with any provision of the Disclosure Certificate shall not be deemed an Event of Default under the Indenture and the sole remedy under the Disclosure Certificate in the event of any failure of the Port Commission to comply with the Disclosure Certificate shall be an action to compel performance.

SECTION 11. Beneficiaries. The Disclosure Certificate shall inure solely to the benefit of the Port Commission, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Series 2014 Bonds, and shall create no rights in any other person or entity.

Date: _____, 2014.

PORT COMMISSION OF THE CITY AND COUNTY OF
SAN FRANCISCO

By _____
Executive Director

Approved as to Form:

DENNIS J. HERRERA
CITY ATTORNEY

By: _____
Deputy City Attorney

CONTINUING DISCLOSURE CERTIFICATE EXHIBIT A

**FORM OF NOTICE TO THE
MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: PORT COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

Name of Issue: PORT COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
REVENUE BONDS, SERIES 2014A AND SERIES 2014B

Date of Issuance: _____, 2014

NOTICE IS HEREBY GIVEN that the Port Commission has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate of the Port Commission of the City and County of San Francisco, dated the Date of Issuance. The Port Commission anticipates that the Annual Report will be filed by _____.

Dated: _____

PORT COMMISSION OF THE CITY AND COUNTY OF
SAN FRANCISCO

By: _____ [to be signed only if filed]

Title _____

APPENDIX E

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of The Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Series 2014 Bonds, payment of principal, interest and other payments on the Series 2014 Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Series 2014 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be. Neither the Port Commission nor the Trustee take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Series 2014 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2014 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2014 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current Rules applicable to DTC are on file with the Series 2014 Bonds and Exchange Commission and the current Procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Series 2014 Bonds"). The Series 2014 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Series 2014 Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Bonds Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2014 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2014 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2014 Bond ("Beneficial Owner") is in turn to be recorded on the Direct

and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2014 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Series 2014 Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2014 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2014 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2014A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. If less than all of the Series 2014B Bonds are being redeemed, DTC will determine pro rata the amount of the interest of each Direct Participant in such issue to be redeemed as notified by the Trustee.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2014 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Port Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2014 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2014 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Port Commission or Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Trustee, or Port Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Port Commission or Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2014 Bonds at any time by giving reasonable notice to Port Commission or Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The Port Commission may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

APPENDIX F

PROPOSED FORMS OF LEGAL OPINION OF CO-BOND COUNSEL

[To come]

ATTACHMENT 2

FORM OF CONTINUING DISCLOSURE CERTIFICATE

The Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Port Commission of the City and County of San Francisco (the "Port Commission") in connection with the issuance of \$_____ aggregate principal amount of Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014A and Series 2014B (collectively, the "Series 2014 Bonds"). The Series 2014 Bonds are being issued pursuant to an Indenture of Trust, dated as of February 1, 2010, between the Port Commission and U.S. Bank National Association (the "Trustee"), as successor trustee to Deutsche Bank National Trust Company, as amended and supplemented by a First Supplement to Indenture of Trust dated as of February 1, 2010 and a Second Supplement to Indenture of Trust dated as of March 1, 2014, between the Port Commission and the Trustee (collectively, the "Indenture").

The Port Commission covenants and agrees in this Disclosure Certificate as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Port Commission for the benefit of the Holders and Beneficial Owners of the Series 2014 Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission (the "S.E.C.") Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in the Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Port Commission pursuant to, and as described in, Sections 3 and 4 of the Disclosure Certificate.

"Beneficial Owner" shall mean any person which: (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2014 Bonds (including persons holding Series 2014 Bonds through nominees, depositories or other intermediaries) including, but not limited to, the power to vote or consent with respect to any Series 2014 Bonds or to dispose of ownership of any Series 2014 Bonds; or (b) is treated as the owner of any Series 2014 Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the Port Commission, acting in its capacity as Dissemination Agent under the Disclosure Certificate, or any successor Dissemination Agent designated in writing by the Port Commission and which has filed with the Port Commission a written acceptance of such designation.

"Holder" shall mean either the registered owners of the Series 2014 Bonds, or, if the Series 2014 Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

"Listed Events" shall mean any of the events listed in Section 5(a) of the Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive continuing disclosure filings pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB currently located at <http://emma.msrb.org>.

"Official Statement" shall mean the final Official Statement, dated _____, 2014, prepared in connection with the sale and offering of the Series 2014 Bonds.

"Participating Underwriter" shall mean any of the original underwriters or purchasers of the Series 2014 Bonds required to comply with the Rule in connection with offering of the Series 2014 Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the S.E.C. under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Port Commission shall, or shall cause the Dissemination Agent to, not later than 9 months after the end of the Port Commission's Fiscal Year (which currently ends June 30), commencing March 31, 2015, with the report for the 2013-14 Fiscal Year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of the Disclosure Certificate. If the Dissemination Agent is not the Port Commission, the Port Commission shall provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report must be submitted in electronic format and accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of the Disclosure Certificate; provided, that if the audited financial statements of the Port Commission are not available by the date required above for the filing of the Annual Report, the Port Commission shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the Port Commission's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b).

(b) If the Port Commission is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Port Commission shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the Port Commission) file a report with the Port Commission certifying the date that the Annual Report was provided to the MSRB pursuant to the Disclosure Certificate.

SECTION 4. Content of Annual Reports. The Port Commission's Annual Report shall contain or incorporate by reference the following information:

(a) Audited Financial Statements of the Port Commission for the prior fiscal year, prepared in accordance with generally accepted accounting principles applicable to the Port Commission from time to time. If the Port Commission's audited financial statements are not available by the date the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;

(b) Updated information in Table 9 captioned "MAJOR PORT OPERATING REVENUES";

(c) Updated information in Table 1 captioned "PORT OF SAN FRANCISCO, REAL ESTATE LEASES, REMAINING LEASE TERMS";

(d) Updated information in Table 2 captioned "TOP 10 REAL ESTATE TENANTS";

(e) Updated information in Table 12 captioned "PORT OF SAN FRANCISCO, HISTORICAL RESULTS OF OPERATIONS";

(f) Updated information in Table 11 captioned "PORT OF SAN FRANCISCO, HISTORICAL OPERATION & MAINTENANCE EXPENSES"; and

(g) Updated information in Table 13 captioned "PORT OF SAN FRANCISCO HISTORIC DEBT SERVICE COVERAGE."

Any or all of the items listed above may be set forth in a document or set of documents, or may be included by specific reference to other documents, including official statements of debt issues of the Port Commission or related public entities, which are available to the public on the MSRB website. If the document included by reference is a final official statement, it must be available from the MSRB. The Port Commission shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Listed Events.

(a) To the extent applicable and pursuant to the provisions of this Section 5, the Port Commission shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2014 Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults, if material;
- (3) Unscheduled draws on any debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2014 Bonds, or other material events affecting the tax status of the Series 2014 Bonds;
- (7) Modifications to the rights of Bondholders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Series 2014 Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (13) Consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) Appointment of a successor or additional trustee or the change of name of a trustee.

(b) Whenever the Port Commission obtains knowledge of the occurrence of a Listed Event, the Port Commission will, in a timely manner not in excess of ten business days after the occurrence of the Listed Event, file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of a Listed Event described in Section 5(a)(8) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders and Beneficial Owners of affected Series 2014 Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The Port Commission's obligations under the Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2014 Bonds. If such termination occurs prior to the final maturity of the Series 2014 Bonds, the Port Commission shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

SECTION 7. Dissemination Agent. The Port Commission may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in the Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of the Disclosure Certificate, the Port Commission may amend or waive the Disclosure Certificate or any provision of the Disclosure Certificate, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 3(b), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2014 Bonds or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of the City Attorney or nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2014 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the owners of a majority in aggregate principal amount the Series 2014 Bonds or (ii) does not, in the opinion of the City Attorney or nationally recognized bond counsel, materially impair the interests of the Holders.

In the event of any amendment or waiver of a provision of the Disclosure Certificate, the Port Commission shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Port Commission. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5; and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in the Disclosure Certificate shall be deemed to prevent the Port Commission from disseminating any other information, using the means of dissemination set forth in the Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by the Disclosure Certificate. If the Port Commission chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by the Disclosure Certificate, the Port Commission shall have no obligation under the Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Remedies. In the event of a failure of the Port Commission to comply with any provision of the Disclosure Certificate, any Participating Underwriter, Holder or Beneficial Owner of the Series 2014 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Port Commission to comply with its obligations under the Disclosure Certificate; provided that any such action may be instituted only in a federal or state court located in the City and County of San Francisco, State of California. Failure by the Port Commission to comply with any provision of the Disclosure Certificate shall not be deemed an Event of Default under the Indenture and the sole remedy under the Disclosure Certificate in the event of any failure of the Port Commission to comply with the Disclosure Certificate shall be an action to compel performance.

SECTION 11. Beneficiaries. The Disclosure Certificate shall inure solely to the benefit of the Port Commission, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Series 2014 Bonds, and shall create no rights in any other person or entity.

Date: _____, 2014.

PORT COMMISSION OF THE CITY AND COUNTY OF
SAN FRANCISCO

By _____
Executive Director

Approved as to Form:

DENNIS J. HERRERA
CITY ATTORNEY

By: _____
Deputy City Attorney

CONTINUING DISCLOSURE CERTIFICATE EXHIBIT A

FORM OF NOTICE TO THE
MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: PORT COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

Name of Issue: PORT COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
REVENUE BONDS, SERIES 2014A AND SERIES 2014B

Date of Issuance: _____, 2014

NOTICE IS HEREBY GIVEN that the Port Commission has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate of the Port Commission of the City and County of San Francisco, dated the Date of Issuance. The Port Commission anticipates that the Annual Report will be filed by _____.

Dated: _____

PORT COMMISSION OF THE CITY AND COUNTY OF
SAN FRANCISCO

By: _____ [to be signed only if filed]

Title _____

PORT COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO

\$ _____
REVENUE BONDS
SERIES 2014A
(AMT – Tax-Exempt)

\$ _____
REVENUE BONDS
SERIES 2014B
(Federally Taxable)

BOND PURCHASE CONTRACT

April __, 2014

Port Commission of the
City and County of San Francisco
Port of San Francisco
Pier 1
San Francisco, CA 94111

Ladies and Gentlemen:

The undersigned, Siebert Brandford Shank & Co., L.L.C., as representative (the “Representative”) of itself and Stifel, Nicolaus & Company, Incorporated (together, the “Underwriters”) offers to enter into this bond purchase contract (this “Purchase Contract”) with the Port Commission of the City and County of San Francisco (the “Commission”), which will be binding upon the Commission and the Underwriters upon acceptance hereof by the Commission. This offer is made subject to the acceptance by the Commission by the execution of this Purchase Contract and its delivery to the Representative on or before 11:59 p.m., California time, on the date hereof and, if not so accepted, will be subject to withdrawal by the Representative upon written notice delivered to the Commission at any time prior to the acceptance of this Purchase Contract by the Commission. If the Representative withdraws this offer, or the Underwriters’ obligation to purchase the Bonds (as hereinafter defined) is otherwise terminated pursuant to Section 8(d) hereof, then and in such case, the Commission shall be without any further obligation to the Underwriters, including the payment of any costs set forth under Section 10(a) hereof, and the Commission shall be free to sell the Bonds to any other party. The Representative represents that it has been duly authorized by the other Underwriter to act hereunder on its behalf and has full authority to take such action as it may deem advisable in respect of all matters pertaining to this Purchase Contract and that the Representative has been duly authorized to execute this Purchase Contract. Any action taken under this Purchase Contract by the Representative will be binding upon all the Underwriters.

Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture of Trust dated as of February 1, 2010 (the “Master Indenture”); between the Commission and U.S. Bank National Association (the “Trustee”), as successor trustee, as amended and supplemented by the First Supplement to Indenture of Trust dated as of February 1, 2010 (the “First Supplement to Indenture”) and the Second Supplement to Indenture of Trust

dated as of March 1, 2014 (the "*Second Supplement to Indenture*"), each between the Commission and the Trustee (the Master Indenture, as so amended and supplemented, the "*Indenture*").

Section 1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations set forth herein, the Underwriters agree, jointly and severally, to purchase from the Commission, and the Commission hereby agrees to sell and deliver to, or for the account of, the Underwriters, all (but not less than all) of the Port Commission of the City and County of San Francisco, Revenue Bonds, Series 2014, consisting of \$_____ aggregate principal amount of Series 2014A (AMT – Tax-Exempt) (the "*Series 2014A Bonds*") and \$_____ aggregate principal amount of Series 2014B (Federally Taxable) (the "*Series 2014B Bonds*," and together with the Series 2014A Bonds, the "*Bonds*"). The Bonds shall be dated their date of delivery and shall have the maturities and bear interest at the rates per annum and have the yields all as set forth on Schedule I attached hereto.

The purchase price for the Series 2014A Bonds shall be \$_____ (comprised of the principal amount of the Series 2014A Bonds, [plus/less a [net] original issue premium/discount on the Series 2014A Bonds of \$_____,] less an Underwriters' discount in the amount of \$_____). The purchase price for the Series 2014B Bonds shall be \$_____ (comprised of the principal amount of the Series 2014B Bonds, less an Underwriters' discount in the amount of \$_____). The Bonds shall be substantially in the form described in, and shall be issued and secured under and pursuant to, the Indenture. The Bonds shall mature and shall be as otherwise described in the Official Statement (defined herein).

Section 2. Authorization for the Bonds; Purpose of Issue. Under Section 9.107 of the Charter (the "*City Charter*") of the City and County of San Francisco (the "*City*") and Chapter 43, Article XII of the City and County of San Francisco Administrative Code (the "*Port Bond Ordinance*"), the Commission has the authority to issue port revenue bonds for the purpose of acquiring, constructing, improving or developing ports or port facilities under its jurisdiction and port revenue refunding bonds under such terms and conditions as the Commission may authorize by resolution. The issuance of the Bonds was approved by the Commission pursuant to a resolution of the Commission adopted on December 12, 2013 and a resolution of the Commission adopted on _____, 2014 (together, the "*Commission Resolutions*") and by the Board pursuant to a resolution of the Board of Supervisors of the City adopted on _____, 2014 and signed by the Mayor of the City on _____, 2014 (the "*City Resolution*," and together with the Commission Resolutions, the "*Resolutions*"), each authorizing the issuance and sale of the Bonds.

The Bonds are being issued to: (i) finance or refinance the planning, acquisition, design, construction, reconstruction, rehabilitation and/or improvements to various facilities of the Port of San Francisco (the "*Port*"); (ii) refinance certain outstanding commercial paper of the City issued to finance certain Port projects and related commercial paper costs; (iii) fund the Reserve Accounts for the Bonds in the amount of the Series 2014 Reserve Requirement; and (iv) pay certain costs associated with the issuance of the Bonds.

Section 3. Public Offering. It shall be a condition to the obligations of the Underwriters to purchase, accept delivery of and pay for the Bonds that the entire principal amount of the Bonds be sold and delivered by the Commission to the Underwriters. Subsequent to the initial public offering, the public offering prices of the Bonds may change as determined by the Underwriters as deemed necessary in connection with the marketing of the Bonds.

Section 4. Delivery of Official Statement. Prior to the date hereof, the Commission has provided to the Underwriters for review a form of the preliminary official statement relating to the Bonds dated _____, 2014 (including the cover page and appendices thereto, the "*Preliminary Official Statement*"), which as of its date, a representative of the Commission on behalf of the Commission "deemed final" for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 ("*Rule 15c2-12*"), except for certain information permitted to be omitted therefrom by Rule 15c2-12. By its acceptance of this offer, the Commission hereby ratifies and consents to the use and distribution by the Underwriters of the Preliminary Official Statement and the Commission has authorized the delivery of a final official statement relating to the Bonds dated the date hereof (both in print or electronic format) which will consist of the Preliminary Official Statement and all information previously permitted to have been omitted by Rule 15c2-12. The Commission will deliver a continuing disclosure certificate substantially in the form set forth as an Appendix to the Preliminary Official Statement (the "*Continuing Disclosure Certificate*") on the Closing Date (as defined herein). A form of the Continuing Disclosure Certificate will attached as an appendix to the Official Statement.

The Commission hereby acknowledges that the Preliminary Official Statement has been made available to investors on the Internet at [MuniOS.com]. The Commission hereby agrees to deliver or cause to be delivered to the Underwriters within seven Business Days of the date hereof and at least in sufficient time to accompany any orders or confirmations that request payment from any customers, not more than [100] copies of the final official statement (including all information permitted to be omitted by Rule 15c2-12 and any amendments or supplements to such official statement as have been approved by the Commission and the Representative) (the "*Official Statement*") to enable the Underwriters to comply with the rules of the Securities and Exchange Commission (the "*SEC*") and the Municipal Securities Rulemaking Board (the "*MSRB*"). The Commission hereby approves of the use and distribution by the Underwriters of the Official Statement in connection with the offer and sale of the Bonds. At the time of or prior to the Closing Date, the Representative shall file a copy of the Official Statement with the MSRB or its designee (including the MSRB's Electronic Municipal Market Access ("*EMMA*") system).

Section 5. The Closing. At 8:00 a.m., California time, on _____, 2014, or at such other time or on such other date as the Commission and the Representative may agree (the "*Closing Date*"), the Commission shall deliver, or cause to be delivered, the Bonds to or for the account of the Underwriters through the facilities of The Depository Trust Company ("*DTC*") in fully registered, book-entry eligible form, duly executed and authenticated, and registered in the name of Cede & Co., as nominee of DTC. Concurrently with the delivery of the Bonds to the Underwriters, the Commission will deliver the documents hereinafter mentioned at the offices of [JH or SH], in San Francisco, California, or another place to be mutually agreed upon by the Commission and the Underwriters. The Underwriters shall accept such delivery and pay the

purchase price for the Bonds set forth in Section 1 by federal funds wire or certified or bank check(s) in federal funds, immediately available, to the order of the Trustee for the account of the Commission. This payment for and delivery of the Bonds, together with the delivery of the aforementioned documents, is herein called the "*Closing*." The Commission with the assistance of the Underwriters shall cause CUSIP identification numbers to be printed on the Bonds; *provided* that neither the failure to print such number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Underwriters to accept the Bonds. The Underwriters represents that the CUSIP numbers set forth on Schedule I hereof are the correct CUSIP numbers for the Bonds.

Section 6. Representations, Warranties and Covenants of the Commission. The Commission represents, warrants and covenants to the Underwriters as follows:

(a) *Due Organization, Existence and Authority.* The Commission is a duly constituted public commission of the City and County of San Francisco duly organized and validly existing pursuant to its Charter and the Constitution and laws of the State, with full authority to: (i) adopt the Commission Resolutions; (ii) execute and deliver the Second Supplement to the Indenture, the Continuing Disclosure Certificate and this Purchase Contract; (iii) approve the Official Statement and authorize its distribution by the Underwriters; (iv) sell and deliver the Bonds to the Underwriters as provided herein and (v) carry out and consummate the other transactions contemplated by such documents.

(b) *Accuracy and Completeness of the Official Statement.* The information with respect to the Commission, its activities and the Port as described in the Preliminary Official Statement was, as of its date and the Official Statement is, and at all times subsequent to the date of the Official Statement up to and including the date of the Closing will be, true and correct in all material respects, and the Preliminary Official Statement contained and the Official Statement contains and will contain no misstatement of any material fact and did not and will not omit any statement and information that is necessary to make the statements and information with respect to the Commission contained therein, in the light of the circumstances under which such statements were made, not misleading in any material respect, excluding in each case any information contained in the Preliminary Official Statement and Official Statement relating to DTC and the book-entry only system and the information under the caption "UNDERWRITING."

(c) *Official Statement.* If, at any time prior to the date twenty-five (25) days following the later of (a) the Closing or (b) the date the Underwriters no longer retains, directly or as member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public (the later of (a) or (b) being the "*End of the Underwriting Period*"), an event occurs or facts or conditions become known of which the Commission has knowledge, which in the reasonable opinion of Jones Hall, A Professional Law Corporation and Schiff Hardin LLP ("*Co-Bond Counsel*") or the General Counsel to the Commission or the City Attorney might or would cause the information in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material

fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the Commission will notify the Representative, and, if in the reasonable opinion of the Representative and the Commission such event, fact or condition requires the preparation and publication of a supplement or amendment to the Official Statement, the Commission will amend or supplement the Official Statement in a form and in a manner reasonably approved by the Underwriters and the Commission, provided all expenses incurred in connection with preparing an amendment or supplement to the Official Statement will be paid by the Commission. As used herein and for the purposes of the foregoing, the term "*End of the Underwriting Period*" for the Bonds shall refer to the Closing, unless the Commission shall have been notified in writing to the contrary by the Representative on or prior to the Closing. For the purposes of this subsection, the Commission will furnish such information as the Representative may from time to time reasonably request in writing prior to the End of the Underwriting Period.

(d) *No Breach or Default.* As of the time of acceptance hereof and as of the Closing Date and except as otherwise disclosed in the Official Statement, neither the execution nor the delivery by the Commission of the Second Supplement to the Indenture, the Continuing Disclosure Certificate or this Purchase Contract, the adoption of the Commission Resolutions, or the compliance by the Commission with such documents or authorizations, or the consummation of the transactions contemplated by such documents or by the Indenture or the Official Statement: conflicts with or constitutes a material breach of or default under any applicable law or administrative regulation of the State or the United States, or any other statute or administrative rule or regulation, judgment, decree, order, license, permit, agreement or instrument to which the Commission is subject which breach, default or conflict would have a material adverse effect on the ability of the Commission to repay the Bonds or have a material adverse effect on the ability of the Commission to perform its obligations under the Indenture, the Continuing Disclosure Certificate or this Purchase Contract.

(e) *No Other Bond Issues or Debt.* Between the time of acceptance hereof and the Closing Date, the Commission will not, without prior written notice to the Representative, issue any bonds or securities or incur any other indebtedness secured by the Net Revenue of the Commission.

(f) *No Litigation.* The Commission shall certify that, as of the date hereof and as of the Closing Date, and except as disclosed in the Official Statement, there is no action, suit, proceedings, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the best knowledge of the Commission, threatened against the Commission: (i) affecting the existence of the Commission or the titles of its officers to their respective offices or (ii) seeking to restrain or to enjoin the sale or delivery of the Bonds, the application of the proceeds thereof in accordance with the Indenture, or (iii) in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture or any action of the Commission contemplated by any of said documents, or (iv) in any way contesting the completeness or accuracy of the Official Statement or any amendment or supplement thereto, or (v) contesting the

powers of the Commission with respect to the Bonds or any action of the Commission contemplated by any of said documents, nor to the knowledge of the members of the Commission, as evidenced by the representative of the Commission signing this Purchase Contract, is there any basis therefor. The Commission shall further certify that, as of the date hereof and as of the Closing Date, and except as disclosed in the Official Statement, there is no action, suit, proceedings, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the best knowledge of the Commission, threatened against the Commission in which a final adverse decision would materially and adversely affect the operations of the Port, Net Revenue or the consummation of the transactions contemplated by this Purchase Contract; or contesting in any way the completeness, accuracy or fairness of the Official Statement.

(g) *Further Cooperation; Blue Sky.* The Commission will furnish such information, execute such instruments and take such other action in cooperation with the Underwriters as the Representative may reasonably request in order to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Representative may designate; *provided, however,* that the Commission will not be required to execute a special or general consent to service of process or qualify as a foreign corporation in connection with any such qualification in any jurisdiction.

Section 7. Representations, Covenants and Agreements of the Underwriters. The Underwriters represent, covenant and agree with the Commission that:

(a) The Underwriters have been duly authorized to enter into this Purchase Contract.

(b) The Underwriters shall comply with the San Francisco Business Tax Ordinance and shall, if not otherwise exempt from such ordinance, provide to the Commission a Business Tax Registration Certificate on or prior to the date hereof.

(c) The Underwriters shall comply with Chapter 12B of the San Francisco Administrative Code, entitled "Nondiscrimination in Contracts," which is incorporated herein by this reference.

Section 8. Closing Conditions. The Underwriters have entered into this Purchase Contract in reliance upon the representations, warranties and covenants herein and the performance by the Commission of its obligations hereunder, both as of the date hereof and as of the Closing Date. The obligations of the Underwriters under this Purchase Contract are and shall be subject to the following conditions:

(a) *Bring-Down Representation.* The representations and warranties of the Commission contained herein shall be true, accurate and correct in all material respects at the date hereof and on the Closing Date, as if made on the Closing Date.

(b) *Executed Documents and Performance Thereunder.* At the time of the Closing (i) the Indenture, this Purchase Contract and the Official Statement shall be in full force and effect, and shall not have been amended, modified or supplemented except with the consent of the Representative (which consent will not be unreasonably withheld); and (ii) the Commission shall perform or have performed all of its obligations required under or specified in this Purchase Contract, the Official Statement and the Indenture to be performed prior to the Closing.

(c) *No Default.* At the time of the Closing, no default shall have occurred or be existing under the Indenture or this Purchase Contract.

(d) *Termination Events.* The Representative may terminate this Purchase Contract by notification in writing to the Commission, but only after consultation with the Commission in the manner set forth in the paragraphs immediately below, if, at any time on or prior to the Closing, any of the following occurs and, as a result of the occurrence of such an event, the marketability of the Bonds or the market price thereof, in the reasonable opinion of the Underwriter after consultation with the Commission, would be materially adversely affected, *provided, however,* that, in the event the Commission and the Representative disagree as to the effect of the occurrence of such event on the ability of the Representative to market the Bonds, this Purchase Contract may only be terminated by the Representative after the Underwriters and the Commission shall have negotiated in good faith to determine if there is an alternate time, place and manner which would permit the Underwriters to successfully market the Bonds:

(i) any event shall occur which makes untrue any statement or results in an omission to state a material fact necessary to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading and the Commission fails to amend or supplement the Official Statement pursuant to Section 6(c) hereof; or

(ii) an amendment to the Constitution of the United States or the Constitution of the State or legislation in or by the Congress of the United States or the legislature of the State, or the amendment of legislation pending as of the date of this Purchase Contract in the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority or the occurrence of any other comparable legislative or regulatory event affecting the federal or State tax status of the interest on bonds or obligations of the general character of the Series 2014A Bonds; or

(iii) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State, or a

decision by any court of competent jurisdiction within the State shall be rendered which, in the reasonable opinion of the Representative and upon consultation with the Commission, materially adversely affects the market price or marketability of the Bonds or the ability to enforce contracts for the sale of the Bonds at the contemplated offering price; or

(iv) a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Indenture need be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or

(v) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, to the effect that obligations of the general character of the Bonds, or the Bonds, are not exempt from registration under the Securities Act of 1933, as amended and as then in effect, or the Securities Exchange Act of 1934, as amended and as then in effect, or that the Indenture is not exempt from qualification under the Trust Indenture Act of 1939, as amended and as then in effect; or

(vi) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in the United States in securities generally by any governmental authority or by any national securities exchange; or

(vii) a general banking moratorium shall have been declared by federal, State or State of New York authorities or a disruption in securities settlement, payment or clearance services materially affecting the Bonds shall have occurred; or

(viii) the ratings on the Bonds shall have been downgraded or withdrawn subsequent to the date of this Purchase Contract by one of the three rating agencies rating the Bonds; or

(ix) a decision by a federal or State court or legislative action which causes, or in the reasonable opinion of the Representative and the Commission, would cause a material reduction in the Net Revenue which would materially adversely affect the Commission's ability to repay the Bonds; or

(x) the marketability of the Bonds or the market prices thereof, in the opinion of the Representative, have been materially affected by the declaration of war or engagement in or escalation of military hostilities by the United States or

the occurrence of any other calamity or crisis (including any act of terrorism) the effect of any of which has caused a material disruption to the municipal bond market and as such, in the opinion of the Representative, makes it impracticable (or inadvisable, as agreed to by the Commission and the Representative) for the Underwriters to market the Bonds or to enforce contracts for the sale of the Bonds; or

(xi) there shall be (a) any change in or addition to applicable federal or state law, whether statutory or as interpreted by the courts or by federal or state agencies, including any changes in or new rules, regulations or other pronouncements or interpretations by federal or state agencies, (b) any legislation enacted by the Congress of the United States or recommended for passage by the President of the United States (if such enacted, introduced or recommended legislation has a proposed effective date which is on or before the Closing Date), (c) any law, rule or regulation proposed or enacted by any governmental body, department or agency (if such proposed or enacted law, rule or regulation has a proposed effective date which is on or before the Closing Date) or (d) any judgment, ruling or order issued by any court or administrative body, which in any such case would, prohibit (or have the retroactive effect of prohibiting, if enacted, adopted, passed or finalized) the Underwriters from underwriting the Bonds as provided herein or selling the Bonds to the public.

The termination of this Purchase Contract pursuant to this Section 8(d) by the Representative with respect to the Bonds shall not prohibit the Commission from selling such Bonds to any other underwriters.

(e) *Closing Documents.* At or prior to the Closing, the Underwriters shall receive with respect to the Bonds (unless the context otherwise indicates) the following documents, in each case satisfactory in form and substance to the Representative:

(1) *Approving Authorizations.* Certified copies of the Resolutions, the Port Bond Ordinance and Section 9.107 of the City Charter.

(2) *Bond Documents.* Executed originals of the Master Indenture, the First Supplement to Indenture, the Second Supplement to Indenture, the Continuing Disclosure Certificate and this Purchase Contract.

(3) *Final Opinion.* An approving opinion or opinions of Co-Bond Counsel, dated the Closing Date, and substantially in the form attached to the Official Statement, and a letter of such counsel addressed to the Underwriters to the effect that such opinion may be relied upon by the Underwriters to the same extent as if it had been addressed to each of them.

(4) *Supplemental Opinion.* A supplemental opinion or opinions of Co-Bond Counsel addressed to the Commission and the Underwriters, dated the Closing Date, to the following effect:

(i) The statements contained in the Official Statement under the captions “TERMS OF THE SERIES 2014 BONDS,” “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS,” “TAX MATTERS,” Appendix A – “SUMMARY OF THE LEGAL DOCUMENTS,” Appendix B – “SUMMARY OF THE BURTON ACT, TRANSFER AGREEMENT AND RELATED STATE REGULATIONS,” and Appendix F – “PROPOSED FORM OF LEGAL OPINIONS OF CO-BOND COUNSEL,” insofar as such statements purport to summarize certain provisions of the Port Bond Ordinance, Section 9.107 of the City Charter, the Bonds, the Indenture, and the opinion of Co-Bond Counsel with respect to the exclusion from gross income of interest on the Senior 2014A Bonds for federal income tax purposes are accurate in all material respects.

(ii) The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended.

(iii) This Purchase Contract, the Second Supplement to the Indenture and the Continuing Disclosure Certificate have each been duly authorized, executed and delivered by the Commission and constitute the valid, legal and binding agreements of the Commission, each enforceable in accordance with its respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium or other similar laws affecting enforcement of creditors’ rights, by the application of equitable principles if equitable remedies are sought and limitations on the enforcement of legal remedies against public agencies in the State.

(5) *Disclosure Counsel Opinion as to Official Statement.* An opinion or opinions of Hawkins, Delafield & Wood LLP, as Disclosure Counsel to the Commission, addressed to the Commission and the Underwriters, dated the Closing Date, in form and substance satisfactory to the Commission and the Underwriters.

(6) *Certificate of the Commission.* A certificate of the Commission dated the Closing Date, signed on behalf of the Commission by an authorized officer of the Commission, to the effect that:

(i) The representations and warranties of the Commission contained herein are true and correct in all material respects on and as of the Closing Date as if made on the Closing Date.

(ii) No event affecting the Commission has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in

the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(7) *Certificate of the Trustee.* A certificate of the Trustee, dated the Closing Date, to the effect that:

(i) The Trustee is a national banking association organized and existing under the laws of the United States of America and has full power and is qualified to accept and comply with the terms of the Indenture and to perform its obligations thereunder.

(ii) The Trustee has accepted the duties and obligations imposed on it by the Indenture.

(iii) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee that has not been obtained is or will be required for the consummation by the Trustee of the transactions contemplated by the Indenture to be undertaken by the Trustee.

(iv) Compliance with the terms of the Indenture will not conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which the Trustee is a party or by which it is bound, or, to the best knowledge of the Trustee, after reasonable investigation, any law, rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Trustee or any of its activities or properties (except that no representation, warranty or agreement is made by the Trustee with respect to any federal or state securities or Blue Sky laws or regulations).

(v) To the knowledge of the Trustee after due inquiry, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or governmental agency, public board or body served on or threatened against or affecting the existence of the Trustee, or in any way contesting or affecting the validity or enforceability of the Indenture or the Bonds, or contesting the powers of the Trustee or its authority to enter into and perform its obligations under the Indenture or the Bonds, wherein an unfavorable decision, ruling or finding would adversely affect the validity of the Bonds or the Indenture.

(8) *Trustee's Counsel Opinion.* An opinion of counsel to the Trustee addressed to the Commission and the Underwriters, dated the Closing Date, in substantially the form attached hereto as Exhibit A.

(9) *Tax Certificates.* A No-Arbitrage Certificate of the Commission and Certificate as to Use of Proceeds of the Commission, each dated the Closing Date, in form satisfactory to Co-Bond Counsel and the Representative.

(10) *California Debt and Investment Advisory Commission Filings.* Copies of the Report of Proposed Debt Issuance and Report of Final Sale required to be delivered to the California Debt and Investment Advisory Commission pursuant to Section 53583 of the Government Code and Section 8855(g) of the Government Code.

(11) *Continuing Disclosure Certificate.* An executed copy of the Continuing Disclosure Certificate in substantially the form attached to the Official Statement as Appendix D.

(12) *Rating Letters for the Bonds.* Rating Letters of Moody's Investors Service, Inc. ("*Moody's*") Standard & Poor's Ratings Services ("*S&P*"), and Fitch Ratings ("*Fitch*"), evidencing that such rating agencies have assigned their municipal bond ratings of "____," "____" and "____," respectively.

(13) *Opinion of the City Attorney.* An opinion of the City Attorney addressed to the Underwriters, dated the Closing Date, in form satisfactory to the Representative.

(14) *Additional Documents.* Such additional certificates, instruments and other documents as Co-Bond Counsel, the Representative or the City Attorney may reasonably deem necessary to evidence the truth and accuracy as of the time of the Closing of the representations of the Commission and the due performance or satisfaction by the Commission at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the Commission.

If the Commission shall be unable to satisfy the conditions contained in this Purchase Contract, or if the obligations of the Underwriters shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and the Underwriters and the Commission shall not be under further obligation hereunder, except as further set forth in Section 10 hereof.

Section 9. Good Faith Deposit. To secure the Commission from any loss resulting from the failure of the Underwriters to accept delivery of and pay the purchase price for the Bonds pursuant to the terms of this Purchase Contract, the Underwriters agree to deliver to the Commission, concurrently with the execution and delivery of this Purchase Contract, either an official bank check (which may be deposited by the Commission upon receipt) or a federal funds wire transfer in the amount of \$_____ (representing ___ percent (___%) of the principal amount of the Bonds) (the "*Good Faith Deposit*"). At the Closing, the Good Faith Deposit will be applied towards and deducted from the aggregate net purchase price for the Bonds as provided in Section 1 of this Purchase Contract. If the Underwriters fail to pay the purchase

price in full upon tender of the Bonds (other than for a reason permitted under Section 8 hereof), the Commission may retain such Good Faith Deposit as and for liquidated damages for such failure by the Underwriters. In such circumstance, the Underwriters will have no right to recover the Good Faith Deposit or to any allowance or credit therefor. Retaining the Good Faith Deposit shall constitute the Commission's sole and exclusive remedy and full liquidated damages for the Underwriters' failure (other than for a reason expressly set forth herein) to purchase and accept delivery of the Bonds pursuant to the terms of this Purchase Contract and the Underwriters shall be released and discharged from any and all claims for damages by the Commission against the Underwriters related to such failure and any other defaults by Underwriters hereunder. The Underwriters and the Commission hereby acknowledge and agree that the amount fixed pursuant to this Section for liquidated damages does not constitute a penalty and is a reasonable estimate of the damages that the Commission would sustain in the event of the Underwriters' failure to purchase and to accept delivery of the Bonds on the Closing Date pursuant to the terms of this Purchase Contract. The amount is agreed upon and fixed as liquidated damages, because of the difficulty of ascertaining as of the date hereof the actual amount of damages that would be sustained in such event. If the Commission fails to deliver the Bonds on the Closing Date pursuant to this Purchase Contract, or if the conditions to the obligations of the Underwriters to purchase, accept delivery of and pay for the Bonds as set forth in this Purchase Contract shall not be satisfied (unless waived in writing by the Underwriters pursuant to this Purchase Contract), or if this Purchase Contract is terminated for a reason set forth in Section 8 hereof, the Commission shall promptly return the Good Faith Deposit to the Underwriters, plus interest (which shall accrue at the interest rate at which private depository institutions lend balances at the Federal Reserve to other depository institutions). Upon such return of the Good Faith Deposit to the Underwriters, this Purchase Contract shall terminate, and neither party shall have any further obligations hereunder.

Section 10. Expenses.

(a) *Commission.* The Commission shall pay or cause to be paid (but solely from the proceeds of the Bonds and not otherwise) the expenses incident to the performance of the obligations of the Commission hereunder, including but not limited to: (1) the cost of printing of the Preliminary Official Statement and the final Official Statement in reasonable quantities and all other documents prepared in connection with the transactions contemplated hereby; (2) the fees and disbursements of the Trustee and counsel to the Trustee in connection with the issuance of the Bonds; (3) the fees and disbursements of Co-Bond Counsel and of Public Financial Management, Inc. and Backstrom McCarley Berry & Co., LLC, as Co-Financial Advisors to the Commission, and any other experts or consultants retained by the Commission in connection with the transactions contemplated hereby; (4) California Debt and Investment Advisory Board fees payable by the Underwriters in connection with the Bonds; (5) the costs related to obtaining ratings; and (5) all other costs connected to the issuance of the Bonds except those costs specifically described below.

(b) *Underwriters.* The Underwriters shall pay: (1) the cost of preparation and printing of the Blue Sky Memorandum, if any, to be used by it; (2) all advertising expenses in connection with the public offering of the Bonds; (3) California Debt and Investment Advisory Commission fees (subject to reimbursement as described above); and (4) all other expenses

incurred by the Underwriters in connection with their public offering and distribution of the Bonds, including, without limitation, any experts or other consultants hired or retained by the Underwriters, including Underwriter's counsel, the fees and charges of the [CUSIP Global Services, DTC] and the MSRB.

Section 11. City Contracting Requirements. The Representative hereby represents to the Commission that the Underwriters have reviewed and will comply with the following City contracting requirements:

(a) *Conflict of Interest.* By the execution of this Purchase Contract, the Underwriters each acknowledge that it is familiar with the provision of Section 15.103 of the City's Charter, Article III, Chapter 2 of City's Campaign and Governmental Conduct Code, and Section 87100 et seq. and Section 1090 et seq. of the Government Code of the State of California, and certifies that it does not know of any facts which constitute a violation of said provisions and agrees that it will immediately notify the City if it becomes aware of any such fact during the term of this Purchase Contract.

(b) *Proprietary or Confidential Information of City.* The Underwriters understand and agree that, in the performance of the work or services under this Purchase Contract or in contemplation thereof, Underwriters may have access to private or confidential information which may be owned or controlled by City and that such information may contain proprietary or confidential details, the disclosure of which to third parties may be damaging to City. The Underwriters agree that all information disclosed by City to the Underwriters shall be held in confidence and used only in performance of the Purchase Contract. The Underwriters shall exercise the same standard of care to protect such information as a reasonably prudent underwriter would use to protect its own proprietary data.

(c) *Ownership of Results.* Any interest of the Underwriters Subcontractors, in drawings, plans, specifications, blueprints, studies, reports, memoranda, computation sheets, computer files and media or other documents prepared by the Underwriters or its Subcontractors in connection with services to be performed under this Purchase Contract, shall become the property of and will be transmitted to City. However, the Underwriters may retain and use copies for reference and as documentation of their experience and capabilities.

(d) *Works for Hire.* If, in connection with services performed under this Purchase Contract, the Underwriters or its Subcontractors create artwork, copy, posters, billboards, photographs, videotapes, audiotapes, systems designs, software, reports, diagrams, surveys, blueprints, source codes or any other original works of authorship, such works of authorship shall be works for hire as defined under Title 17 of the United States Code, and all copyrights in such works are the property of the City. If it is ever determined that any works created by the Underwriters or its Subcontractors under this Purchase Contract are not works for hire under U.S. law, the Underwriters hereby assign all copyrights to such works to the City, and agrees to provide any material and execute any documents necessary to effectuate such assignment. With the approval of the City, the Underwriters may retain and use copies of such works for reference and as documentation of its experience and capabilities.

(e) *Audit and Inspection of Records.* The Underwriters agree to maintain and make available to the City, during regular business hours, accurate books and accounting records relating to its work under this Purchase Contract. The Underwriters will permit City to audit, examine and make excerpts and transcripts from such books and records, and to make audits of all invoices, materials, payrolls, records or personnel and other data related to all other matters covered by this Purchase Contract, whether funded in whole or in part under this Purchase Contract. The Underwriters shall maintain such data and records in an accessible location and condition for a period of not less than five years after final payment under this Purchase Contract or until after final audit has been resolved, whichever is later. The State of California or any federal agency having an interest in the subject matter of this Purchase Contract shall have the same rights conferred upon City by this Section.

(f) *Subcontracting.* The Underwriters are prohibited from subcontracting this Purchase Contract or any part of it unless such subcontracting is first approved by City in writing. Neither party shall, on the basis of this Purchase Contract, contract on behalf of or in the name of the other party. An agreement made in violation of this provision shall confer no rights on any party and shall be null and void.

(g) *Assignment.* The services to be performed by the Underwriters are personal in character and neither this Purchase Contract nor any duties or obligations hereunder may be assigned or delegated by the Underwriters unless first approved by City by written instrument executed and approved in the same manner as this Purchase Contract.

(h) *Non-Waiver of Rights.* The omission by either party at any time to enforce any default or right reserved to it, or to require performance of any of the terms, covenants, or provisions hereof by the other party at the time designated, shall not be a waiver of any such default or right to which the party is entitled, nor shall it in any way affect the right of the party to enforce such provisions thereafter.

(i) *Earned Income Credit (EIC) Forms.* Administrative Code section 120 requires that employers provide their employees with IRS Form W-5 (The Earned Income Credit Advance Payment Certificate) and the IRS EIC Schedule, as set forth below. Employers can locate these forms at the IRS Office, on the Internet, or anywhere that Federal Tax Forms can be found. Each Underwriter shall provide EIC Forms to each Eligible Employee at each of the following times: (i) within thirty days following the date on which this Purchase Contract becomes effective (unless the Underwriter has already provided such EIC Forms at least once during the calendar year in which such effective date falls); (ii) promptly after any Eligible Employee is hired by the Underwriter; and (iii) annually between January 1 and January 31 of each calendar year during the term of this Purchase Contract. Failure to comply with any requirement contained in subparagraph (a) of this Section shall constitute a material breach by Underwriter of the terms of this Purchase Contract. If, within thirty days after the Representative receives written notice of such a breach, said Underwriter fails to cure such breach or, if such breach cannot reasonably be cured within such period of thirty days, said Underwriter fails to commence efforts to cure within such period or thereafter fails to diligently pursue such cure to completion, the City may pursue any rights or remedies available under this Purchase Contract or under applicable law. Any Subcontract entered into by the Underwriters shall require the

Subcontractor to comply, as to the Subcontractor's Eligible Employees, with each of the terms of this Section. Capitalized terms used in this Section and not defined in this Purchase Contract shall have the meanings assigned to such terms in Section 12O of the San Francisco Administrative Code.

(j) *Local Business Enterprise Utilization; Liquidated Damages*

i. **The LBE Ordinance.** Each Underwriter, shall comply with all the requirements of the Local Business Enterprise and Non-Discrimination in Contracting Ordinance set forth in Chapter 14B of the San Francisco Administrative Code as it now exists or as it may be amended in the future (collectively the "LBE Ordinance"), provided such amendments do not materially increase the Underwriter's obligations or liabilities, or materially diminish the Underwriter's rights, under this Purchase Contract. Such provisions of the LBE Ordinance are incorporated by reference and made a part of this Purchase Contract as though fully set forth in this Section. Any Underwriter's willful failure to comply with any applicable provisions of the LBE Ordinance is a material breach of the Underwriter's obligations under this Purchase Contract and shall entitle City, subject to any applicable notice and cure provisions set forth in this Purchase Contract, to exercise any of the remedies provided for under this Purchase Contract, under the LBE Ordinance or otherwise available at law or in equity, which remedies shall be cumulative unless this Purchase Contract expressly provides that any remedy is exclusive. In addition, the Underwriters shall comply fully with all other applicable local, state and federal laws prohibiting discrimination and requiring equal opportunity in contracting, including subcontracting.

ii. **Compliance and Enforcement.** If any Underwriter willfully fails to comply with any of the provisions of the LBE Ordinance, the rules and regulations implementing the LBE Ordinance, or the provisions of this Purchase Contract pertaining to LBE participation, the Underwriter shall be liable for liquidated damages in an amount equal to the Underwriter's net profit on this Purchase Contract, or 10% of the total amount of this Purchase Contract, or \$1,000, whichever is greatest. The Director of the City's Human Rights Commission or any other public official authorized to enforce the LBE Ordinance (separately and collectively, the "Director of HRC") may also impose other sanctions against the Underwriter authorized in the LBE Ordinance, including declaring the Underwriter to be irresponsible and ineligible to contract with the City for a period of up to five years or revocation of the Underwriter's LBE certification. The Director of HRC will determine the sanctions to be imposed, including the amount of liquidated damages, after investigation pursuant to Administrative Code §14B.17. By entering into this Purchase Contract, any Underwriter acknowledges and agrees that any liquidated damages assessed by the Director of the HRC shall be payable to City upon demand. Each Underwriter further acknowledges and agrees that any liquidated damages assessed may be withheld from any monies due to the Underwriter on any contract with City. Each Underwriter agrees to maintain records necessary for monitoring its compliance with the LBE Ordinance for a period of three years following termination or expiration of this Purchase Contract, and shall make such records available for audit and inspection by the Director of HRC or the Controller upon request.

(k) *Nondiscrimination; Penalties*

i. **The Underwriters Shall Not Discriminate.** In the performance of this Purchase Contract, the Underwriters agree not to discriminate against any employee, City and County employee working with such Underwriter or Subcontractor, applicant for employment with such Underwriter or Subcontractor, or against any person seeking accommodations, advantages, facilities, privileges, services, or membership in all business, social, or other establishments or organizations, on the basis of the fact or perception of a person's race, color, creed, religion, national origin, ancestry, age, height, weight, sex, sexual orientation, gender identity, domestic partner status, marital status, disability or Acquired Immune Deficiency Syndrome or HIV status (AIDS/HIV status), or association with members of such protected classes, or in retaliation for opposition to discrimination against such classes.

ii. **Subcontracts.** The Underwriters shall incorporate by reference in all of its respective subcontracts the provisions of §§12B.2(a), 12B.2(c)-(k), and 12C.3 of the San Francisco Administrative Code (copies of which are available from Purchasing) entered into in connection with the services provided hereunder by the Underwriters and shall require all Subcontractors to comply with such provisions. The Underwriters' failure to comply with the obligations in this subsection shall constitute a material breach of this Purchase Contract.

iii. **Nondiscrimination in Benefits.** The Underwriters do not as of the date of this Purchase Contract and will not during the term of this Purchase Contract, in any of their respective operations in San Francisco, on real property owned by San Francisco, or where work is being performed for the City elsewhere in the United States, discriminate in the provision of bereavement leave, family medical leave, health benefits, membership or membership discounts, moving expenses, pension and retirement benefits or travel benefits, as well as any benefits other than the benefits specified above, between employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees, where the domestic partnership has been registered with a governmental entity pursuant to state or local law authorizing such registration, subject to the conditions set forth in §12B.2(b) of the San Francisco Administrative Code.

iv. **Condition to Contract.** As a condition to this Purchase Contract, each Underwriter shall execute the "Chapter 12B Declaration: Nondiscrimination in Contracts and Benefits" form (form HRC-12B-101) with supporting documentation and secure the approval of the form by the San Francisco Human Rights Commission.

v. **Incorporation of Administrative Code Provisions by Reference.** The provisions of Chapters 12B and 12C of the San Francisco Administrative Code are incorporated in this Section by reference and made a part of this Purchase Contract as though fully set forth herein. The Underwriters shall comply fully with and be bound by all of the provisions that apply to this Purchase Contract under such Chapters, including but not limited to the remedies provided in such Chapters. Without limiting the foregoing, the Underwriters understand that pursuant to §§12B.2(h) and 12C.3(g) of the San Francisco Administrative Code, a penalty of \$50 for each person for each calendar day during which such person was discriminated against in

violation of the provisions of this Purchase Contract may be assessed against the offending Underwriter and/or deducted from any payments due to the Underwriter.

(l) *MacBride Principles—Northern Ireland.* Pursuant to San Francisco Administrative Code §12F.5, the City and County of San Francisco urges companies doing business in Northern Ireland to move towards resolving employment inequities, and encourages such companies to abide by the MacBride Principles. The City and County of San Francisco urges San Francisco companies to do business with corporations that abide by the MacBride Principles. By signing below, the Representative on behalf of the Underwriters acknowledges and agrees that he or she has read and understood this Section.

(m) *Tropical Hardwood and Virgin Redwood Ban.* Pursuant to §804(b) of the San Francisco Environment Code, the City and County of San Francisco urges the Underwriters not to import, purchase, obtain, or use for any purpose, any tropical hardwood, tropical hardwood wood product, virgin redwood or virgin redwood wood product.

(n) *Drug-Free Workplace Policy.* The Underwriters acknowledge that pursuant to the Federal Drug-Free Workplace Act of 1989, the unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance is prohibited on City premises. The Underwriters agree that any violation of this prohibition by the Underwriters, or their respective employees, agents or assigns will be deemed a material breach of this Purchase Contract.

(o) *Resource Conservation.* Chapter 5 of the San Francisco Environment Code ("Resource Conservation") is incorporated herein by reference. Failure by the Underwriters to comply with any of the applicable requirements of Chapter 5 will be deemed a material breach of the Purchase Contract.

(p) *Compliance with Americans with Disabilities Act.* The Underwriters acknowledge that, pursuant to the Americans with Disabilities Act (ADA), programs, services and other activities provided by a public entity to the public, whether directly or through an Underwriter, must be accessible to the disabled public. The Underwriters shall provide the services specified in this Purchase Contract in a manner that complies with the ADA and any and all other applicable federal, state and local disability rights legislation. The Underwriters agree not to discriminate against disabled persons in the provision of services, benefits or activities provided under this Purchase Contract and further agree that any violation of this prohibition on the part of the Underwriters, or their respective employees, agents or assigns will constitute a material breach of this Purchase Contract.

(q) *Sunshine Ordinance.* In accordance with San Francisco Administrative Code §67.24(e), contracts, Underwriters' bids, responses to solicitations and all other records of communications between City and persons or firms seeking contracts, shall be open to inspection immediately after a contract has been awarded. Nothing in this provision requires the disclosure of a private person or organization's net worth or other proprietary financial data submitted for qualification for a contract or other benefit until and unless that person or organization is

awarded the contract or benefit. Information provided which is covered by this paragraph will be made available to the public upon request.

(r) *Public Access to Meetings and Records.* If an Underwriter receives a cumulative total per year of at least \$250,000 in City funds or City-administered funds and is a non-profit organization as defined in Chapter 12L of the San Francisco Administrative Code, the Underwriter shall comply with and be bound by all the applicable provisions of that Chapter. By executing this Purchase Contract, the Underwriters agree to open their meetings and records to the public in the manner set forth in §§12L.4 and 12L.5 of the Administrative Code. The Underwriters further agree to make-good faith efforts to promote community membership on its Board of Directors in the manner set forth in §12L.6 of the Administrative Code. The Underwriters acknowledge that their material failure to comply with any of the provisions of this paragraph shall constitute a material breach of this Purchase Contract. The Underwriters further acknowledge that such material breach of the Purchase Contract shall be grounds for the City to terminate and/or not renew the Purchase Contract, partially or in its entirety.

(s) *Limitations on Contributions.* Through execution of this Purchase Contract, the Underwriters acknowledge that they are familiar with Section 1.126 of the City's Campaign and Governmental Conduct Code, which prohibits any person who contracts with the City for the rendition of personal services, for the furnishing of any material, supplies or equipment, for the sale or lease of any land or building, or for a grant, loan or loan guarantee, from making any campaign contribution to (1) an individual holding a City elective office if the contract must be approved by the individual, a board on which that individual serves, or the board of a state agency on which an appointee of that individual serves, (2) a candidate for the office held by such individual, or (3) a committee controlled by such individual, at any time from the commencement of negotiations for the contract until the later of either the termination of negotiations for such contract or six months after the date the contract is approved. The Underwriters acknowledge that the foregoing restriction applies only if the Purchase Contract or a combination or series of contracts approved by the same individual or board in a fiscal year have a total anticipated or actual value of \$50,000 or more. Each Underwriter further acknowledges that the prohibition on contributions applies to each prospective party to the Purchase Contract; each member of the Underwriter's board of directors; the Underwriter's chairperson, chief executive officer, chief financial officer and chief operating officer; any person with an ownership interest of more than 20 percent in the Underwriter; any Subcontractor listed in the bid or contract; and any committee that is sponsored or controlled by the Underwriter. Additionally, the Underwriters acknowledge that the Underwriters must inform each of the persons described in the preceding sentence of the prohibitions contained in Section 1.126. The Underwriters further agree to provide to City, upon request, the names of each person, entity or committee described above.

(t) *Requiring Minimum Compensation for Covered Employees*

i. The Underwriters agree to comply fully with and be bound by all of the provisions of the Minimum Compensation Ordinance (MCO), as set forth in San Francisco Administrative Code Chapter 12P (Chapter 12P), including the remedies provided, and implementing guidelines and rules. The provisions of Chapter 12P are incorporated herein by

reference and made a part of this Purchase Contract as though fully set forth. The text of the MCO is available on the web at www.sfgov.org/olse/mco. A partial listing of some of the Underwriters' obligations under the MCO is set forth in this Section. The Underwriters are required to comply with all the provisions of the MCO, irrespective of the listing of obligations in this Section.

ii. The MCO requires the Underwriters to pay the Underwriters' employees a minimum hourly gross compensation wage rate and to provide minimum compensated and uncompensated time off. The minimum wage rate may change from year to year and the Underwriters are obligated to keep informed of the then-current requirements. Any subcontract entered into by the Underwriters shall require the Subcontractor to comply with the requirements of the MCO and shall contain contractual obligations substantially the same as those set forth in this Section. It is the Underwriters' obligation to ensure that any Subcontractors of any tier under this Purchase Contract comply with the requirements of the MCO. If any Subcontractor under this Purchase Contract fails to comply, City may pursue any of the remedies set forth in this Section against the Underwriters.

iii. The Underwriters shall not take adverse action or otherwise discriminate against an employee or other person for the exercise or attempted exercise of rights under the MCO. Such actions, if taken within 90 days of the exercise or attempted exercise of such rights, will be rebuttably presumed to be retaliation prohibited by the MCO.

iv. The Underwriters shall maintain employee and payroll records as required by the MCO. If the Underwriters fail to do so, it shall be presumed that the Underwriters paid no more than the minimum wage required under State law.

v. The City is authorized to inspect the Underwriters' job sites and conduct interviews with employees and conduct audits of the Underwriters.

vi. The Underwriters' commitment to provide the Minimum Compensation is a material element of the City's consideration for this Purchase Contract. The City in its sole discretion shall determine whether such a breach has occurred. The City and the public will suffer actual damage that will be impractical or extremely difficult to determine if the Underwriters fail to comply with these requirements. The Underwriters agree that the sums set forth in Section 12P.6.1 of the MCO as liquidated damages are not a penalty, but are reasonable estimates of the loss that the City and the public will incur for the Underwriters' noncompliance. The procedures governing the assessment of liquidated damages shall be those set forth in Section 12P.6.2 of Chapter 12P.

vii. The Underwriters understand and agree that if they fail to comply with the requirements of the MCO, the City shall have the right to pursue any rights or remedies available under Chapter 12P (including liquidated damages), under the terms of the contract, and under applicable law. If, within 30 days after receiving written notice of a breach of this Purchase Contract for violating the MCO, the breaching Underwriter fails to cure such breach or, if such breach cannot reasonably be cured within such period of 30 days, the breaching Underwriter fails to commence efforts to cure within such period, or thereafter fails diligently to pursue such cure

to completion, the City shall have the right to pursue any rights or remedies available under applicable law, including those set forth in Section 12P.6(c) of Chapter 12P. Each of these remedies shall be exercisable individually or in combination with any other rights or remedies available to the City.

viii. Each Underwriter represents and warrants that it is not an entity that was set up, or is being used, for the purpose of evading the intent of the MCO.

ix. If an Underwriter is exempt from the MCO when this Purchase Contract is executed because the cumulative amount of agreements with this department for the fiscal year is less than \$25,000, but the Underwriter later enters into an agreement or agreements that cause the Underwriter to exceed that amount in a fiscal year, the Underwriter shall thereafter be required to comply with the MCO under this Purchase Contract. This obligation arises on the effective date of the agreement that causes the cumulative amount of agreements between the Underwriter and this department to exceed \$25,000 in the fiscal year.

(u) Requiring Health Benefits for Covered Employees

The Underwriters agree to comply fully with and be bound by all of the provisions of the Health Care Accountability Ordinance (HCAO), as set forth in San Francisco Administrative Code Chapter 12Q, including the remedies provided, and implementing regulations, as the same may be amended from time to time. The provisions of Chapter 12Q are incorporated by reference and made a part of this Purchase Contract as though fully set forth herein. The text of the HCAO is available on the web at www.sfgov.org/olse. Capitalized terms used in this Section and not defined in this Purchase Contract shall have the meanings assigned to such terms in Chapter 12Q.

i. For each of their respective Covered Employees, the Underwriters shall provide the appropriate health benefit set forth in Section 12Q.3 of the HCAO. If the Underwriters choose to offer the health plan option, such health plan shall meet the minimum standards set forth by the San Francisco Health Commission.

ii. Notwithstanding the above, if the Underwriter is a small business as defined in Section 12Q.3(e) of the HCAO, it shall have no obligation to comply with part (a) above.

iii. An Underwriter's failure to comply with the HCAO shall constitute a material breach of this agreement. City shall notify the Representative if such a breach has occurred. If, within 30 days after receiving City's written notice of a breach of this Purchase Contract for violating the HCAO, the breaching Underwriter fails to cure such breach or, if such breach cannot reasonably be cured within such period of 30 days, the breaching Underwriter fails to commence efforts to cure within such period, or thereafter fails diligently to pursue such cure to completion, City shall have the right to pursue the remedies set forth in 12Q.5.1 and 12Q.5(f)(1-6). Each of these remedies shall be exercisable individually or in combination with any other rights or remedies available to City.

iv. Any Subcontract entered into by the Underwriters shall require the Subcontractor to comply with the requirements of the HCAO and shall contain contractual obligations substantially the same as those set forth in this Section. The Underwriters shall notify City's Office of Contract Administration when it enters into such a Subcontract and shall certify to the Office of Contract Administration that it has notified the Subcontractor of the obligations under the HCAO and has imposed the requirements of the HCAO on Subcontractor through the Subcontract. Each Underwriter shall be responsible for its Subcontractors' compliance with this Chapter. If a Subcontractor fails to comply, the City may pursue the remedies set forth in this Section against the Underwriters based on the Subcontractor's failure to comply, provided that City has first provided the Underwriters with notice and an opportunity to obtain a cure of the violation.

v. No Underwriter shall not discharge, reduce in compensation, or otherwise discriminate against any employee for notifying City with regard to the Underwriter's noncompliance or anticipated noncompliance with the requirements of the HCAO, for opposing any practice proscribed by the HCAO, for participating in proceedings related to the HCAO, or for seeking to assert or enforce any rights under the HCAO by any lawful means.

vi. Each Underwriter represents and warrants that it is not an entity that was set up, or is being used, for the purpose of evading the intent of the HCAO.

vii. Each Underwriter shall maintain employee and payroll records in compliance with the California Labor Code and Industrial Welfare Commission orders, including the number of hours each employee has worked on the City Contract.

viii. The Underwriters shall keep themselves informed of the current requirements of the HCAO.

ix. The Underwriters shall provide reports to the City in accordance with any reporting standards promulgated by the City under the HCAO, including reports on Subcontractors and Subtenants, as applicable.

x. Each Underwriter shall provide City with access to records pertaining to compliance with HCAO after receiving a written request from City to do so and being provided at least ten business days to respond.

xi. Each Underwriter shall allow City to inspect the Underwriter's job sites and have access to the Underwriter's employees in order to monitor and determine compliance with HCAO.

xii. City may conduct random audits of the Underwriters to ascertain its compliance with HCAO. The Underwriters agree to cooperate with City when it conducts such audits.

xiii. If an Underwriter is exempt from the HCAO when this Purchase Contract is executed because its amount is less than \$25,000 (\$50,000 for nonprofits), but the Underwriter

later enters into an agreement or agreements that cause the Underwriter's aggregate amount of all agreements with City to reach \$75,000, all the agreements shall be thereafter subject to the HCAO. This obligation arises on the effective date of the agreement that causes the cumulative amount of agreements between the Underwriter and the City to be equal to or greater than \$75,000 in the fiscal year.

(v) *Prohibition on Political Activity with City Funds.* In accordance with San Francisco Administrative Code Chapter 12.G, the Underwriters may not participate in, support, or attempt to influence any political campaign for a candidate or for a ballot measure (collectively, "Political Activity") in the performance of the services provided under this Purchase Contract. Each Underwriter agrees to comply with San Francisco Administrative Code Chapter 12.G and any implementing rules and regulations promulgated by the City's Controller. The terms and provisions of Chapter 12.G are incorporated herein by this reference. In the event an Underwriter violates the provisions of this Section, the City may, in addition to any other rights or remedies available hereunder, (i) terminate this Purchase Contract or the Underwriters' participation hereunder, and (ii) prohibit the Underwriter from bidding on or receiving any new City contract for a period of two (2) years. The Controller will not consider an Underwriter's use of profit as a violation of this Section.

(w) *Preservative-treated Wood Containing Arsenic.* The Underwriters may not purchase preservative-treated wood products containing arsenic in the performance of this Purchase Contract unless an exemption from the requirements of Chapter 13 of the San Francisco Environment Code is obtained from the Department of the Environment under Section 1304 of the Code. The term "preservative-treated wood containing arsenic" shall mean wood treated with a preservative that contains arsenic, elemental arsenic, or an arsenic copper combination, including, but not limited to, chromated copper arsenate preservative, ammoniacal copper zinc arsenate preservative, or ammoniacal copper arsenate preservative. The Underwriters may purchase preservative-treated wood products on the list of environmentally preferable alternatives prepared and adopted by the Department of the Environment. This provision does not preclude the Underwriters from purchasing preservative-treated wood containing arsenic for saltwater immersion. The term "saltwater immersion" shall mean a pressure-treated wood that is used for construction purposes or facilities that are partially or totally immersed in saltwater.

(x) *Compliance with Laws.* The Underwriters shall keep themselves fully informed of the City's Charter, codes, ordinances and regulations of the City and of all state, and federal laws in any manner affecting the performance of this Purchase Contract, and must at all times comply with such local codes, ordinances, and regulations and all applicable laws as they may be amended from time to time.

(y) *Protection of Private Information.* The Underwriters have read and agree to the terms set forth in San Francisco Administrative Code Sections 12M.2, "Nondisclosure of Private Information," and 12M.3, "Enforcement" of Administrative Code Chapter 12M, "Protection of Private Information," which are incorporated herein as if fully set forth. The Underwriters agree that any failure of the Underwriters to comply with the requirements of Section 12M.2 of this Chapter shall be a material breach of the Purchase Contract. In such an

event, in addition to any other remedies available to it under equity or law, the City may terminate the Purchase Contract, bring a false claim action against the Underwriters pursuant to Chapter 6 or Chapter 21 of the Administrative Code, or debar the Underwriters.

(z) *Graffiti Removal.* Graffiti is detrimental to the health, safety and welfare of the community in that it promotes a perception in the community that the laws protecting public and private property can be disregarded with impunity. This perception fosters a sense of disrespect of the law that results in an increase in crime; degrades the community and leads to urban blight; is detrimental to property values, business opportunities and the enjoyment of life; is inconsistent with the City's property maintenance goals and aesthetic standards; and results in additional graffiti and in other properties becoming the target of graffiti unless it is quickly removed from public and private property. Graffiti results in visual pollution and is a public nuisance. Graffiti must be abated as quickly as possible to avoid detrimental impacts on the City and County and its residents, and to prevent the further spread of graffiti. Each Underwriter shall remove all graffiti from any real property owned or leased by the Underwriter in the City and County of San Francisco within forty eight (48) hours of the earlier of the Underwriter's (a) discovery or notification of the graffiti or (b) receipt of notification of the graffiti from the Department of Public Works. This Section is not intended to require a Underwriter to breach any lease or other agreement that it may have concerning its use of the real property. The term "graffiti" means any inscription, word, figure, marking or design that is affixed, marked, etched, scratched, drawn or painted on any building, structure, fixture or other improvement, whether permanent or temporary, including by way of example only and without limitation, signs, banners, billboards and fencing surrounding construction sites, whether public or private, without the consent of the owner of the property or the owner's authorized agent, and which is visible from the public right-of-way. "Graffiti" shall not include: (1) any sign or banner that is authorized by, and in compliance with, the applicable requirements of the San Francisco Public Works Code, the San Francisco Planning Code or the San Francisco Building Code; or (2) any mural or other painting or marking on the property that is protected as a work of fine art under the California Art Preservation Act (California Civil Code Sections 987 et seq.) or as a work of visual art under the Federal Visual Artists Rights Act of 1990 (17 U.S.C. §§ 101 et seq.).

Any failure of the Underwriters to comply with this Section of this Purchase Contract shall constitute a material breach of this Purchase Contract.

(aa) *Food Service Waste Reduction Requirements.* Effective June 1, 2007, the Underwriters agree to comply fully with and be bound by all of the provisions of the Food Service Waste Reduction Ordinance, as set forth in San Francisco Environment Code Chapter 16, including the remedies provided, and implementing guidelines and rules. The provisions of Chapter 16 are incorporated herein by reference and made a part of this Purchase Contract as though fully set forth. This provision is a material term of this Purchase Contract. By entering into this Purchase Contract, the Underwriters agree that if it breaches this provision, City will suffer actual damages that will be impractical or extremely difficult to determine; further, the Underwriters agree that the sum of one hundred dollars (\$100) liquidated damages for the first breach, two hundred dollars (\$200) liquidated damages for the second breach in the same year, and five hundred dollars (\$500) liquidated damages for subsequent breaches in the same year is reasonable estimate of the damage that City will incur based on the violation, established in light

of the circumstances existing at the time this Purchase Contract was made. Such amount shall not be considered a penalty, but rather agreed monetary damages sustained by City because of the Underwriters' failure to comply with this provision.

(bb) *Cooperative Drafting.* This Purchase Contract has been drafted through a cooperative effort of both parties, and both parties have had an opportunity to have the Purchase Contract reviewed and revised by legal counsel. No party shall be considered the drafter of this Purchase Contract, and no presumption or rule that an ambiguity shall be construed against the party drafting the clause shall apply to the interpretation or enforcement of this Purchase Contract.

Section 12. Notices. Any notice or other communication to be given under this Purchase Contract to the Commission or the Underwriters may be given by delivering the same in writing at the addresses set forth below:

If to the Commission:

Port Commission of the City and
County of San Francisco
Port of San Francisco, Pier 1
San Francisco, California 94111
Attention: Executive Director
Telephone: (415) 274-0400
Fax: (415) 274-0412

With a copy to:

City and County of San Francisco
Office of Public Finance
City Hall, Room 336
1 Dr. Carlton B. Goodlett Place
San Francisco, California 94102
Telephone: (415) 554-5956
Fax: (415) 554-4864

If to the Underwriters:

Siebert Brandford Shank & Co., L.L.C.
1999 Harrison Street, Suite 2720,
Oakland, California 94612
Attention: Gary Hall
Telephone: (510) 645-2245
Fax: (510) 645-2255

Section 13. Entire Agreement. This Purchase Contract, when accepted by the Commission, shall constitute the entire agreement between the Commission and the Underwriters and is made solely for the benefit of the Commission and the Underwriter (including the successors or assigns of the Underwriters with the consent of the Commission) and no other person shall acquire or have any right hereunder by virtue hereof. All of the Commission's representations, warranties and agreements in this Purchase Contract shall remain operative and in full force and effect, regardless of (a) any investigation made by or on behalf of the Underwriters, (b) delivery of and payment for the Bonds hereunder, and (c) any termination of this Purchase Contract. This Purchase Contract may be amended, supplemented or modified in a writing, signed by the Commission and the Representative.

Section 14. Counterparts. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument. This Purchase Contract may be signed in counterparts, and upon delivery to the other party of such signed Purchase Contract, which delivery may be by facsimile transmission or electronic mail, shall constitute the binding agreement of each party to this Purchase Contract.

Section 15. Mutual Reliance on Representations and Warranties. The Commission hereby acknowledges that the Underwriters, in executing this Purchase Contract and in paying for the Bonds as provided herein, are relying upon the representations and warranties of the Commission set forth herein. The Underwriters hereby acknowledge that the Commission, in executing this Purchase Contract and issuing the Bonds described herein, is relying upon the representations and warranties of the Underwriters set forth herein.

Section 16. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof, but this Purchase Contract shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

Section 17. State of California Law Governs. The validity, interpretation and performance of this Purchase Contract shall be governed by the laws of the State of California. This Purchase Contract shall be enforceable in the State of California, and any action arising out of this Purchase Contract shall be filed with and maintained in City and County of San Francisco Superior Court, San Francisco, California; provided, that the Commission may waive the requirement of venue.

Section 18. Limited Liability. The obligations and liabilities of the Commission hereunder are limited obligations of the Commission payable solely from Revenues as defined and set forth in the Indenture. None of the Commissioners, the officers or employees of the Commission, or any person executing this Purchase Contract shall be liable personally for the obligations of the Commission hereunder or be subject to any personal liability or accountability by reason of the execution hereof. Neither of the faith and credit nor the taxing power of the State or any political subdivision thereof, including the City, is pledged to the obligations of the Commission hereunder.

Section 19. No Fiduciary or Advisory Role; Arm's Length Transaction. The Underwriters and the Commission acknowledge and agree that (i) the purchase and sale of the Bonds pursuant to this Purchase Contract is an arm's-length commercial transaction between Commission, on the one hand, and the Underwriters, on the other hand, (ii) in connection with such transaction, each Underwriter is acting solely as a principal and not as a municipal advisor, a financial advisor, or a fiduciary of the Commission, and may have financial and other interests that differ from those of the Commission, (iii) the Underwriters have not assumed (individually or collectively) a fiduciary responsibility in favor of the Commission with respect to the offering of the Bonds or the discussions, undertakings and procedures leading thereto (whether or not any Underwriter, or any affiliate of an Underwriter, has provided or is currently providing services or advice to Commission on other matters), (iv) the only obligations the Underwriters have to the Commission with respect to the transactions contemplated hereby are expressly set forth in this Purchase Contract, and (v) the Commission and the Underwriters have consulted with their respective legal, financial and other advisors to the extent they deemed appropriate in connection with the offering of the Bonds. None of the Underwriters is acting as a Municipal Advisor (as defined in Section 15B of the Exchange Act of 1934, as amended) in connection with the matters contemplated by this Purchase Contract.

Very truly yours,

THE UNDERWRITERS:
SIEBERT BRANDFORD SHANK & CO., L.L.C.
STIFEL, NICOLAUS & COMPANY, INCORPORATED

By: SIEBERT BRANDFORD SHANK & CO.,
L.L.C., as Representative of the Underwriters

By: _____
Authorized Officer

Accepted as of the date first stated above:

PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO

By: _____
Executive Director

Approved as to Form:
DENNIS J. HERRERA
City Attorney

By: _____
Mark D. Blake, Deputy City Attorney

SCHEDULE I

TO THE PURCHASE CONTRACT

MATURITY SCHEDULE

\$ _____
Series 2014A
(AMT - Tax-Exempt)

<u>MATURITY</u> <u>(MARCH 1)</u>	<u>PRINCIPAL</u> <u>AMOUNT</u>	<u>INTEREST</u> <u>RATE</u>	<u>YIELD</u>	<u>PRICE</u>	<u>CUSIP</u> <u>(BASE NO. 797679)</u>
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\$ _____
Series 2014B
(Federally Taxable)

<u>MATURITY</u> <u>(MARCH 1)</u>	<u>PRINCIPAL</u> <u>AMOUNT</u>	<u>INTEREST</u> <u>RATE</u>	<u>YIELD</u>	<u>PRICE</u>	<u>CUSIP</u> <u>(BASE NO. 797679)</u>
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EXHIBIT A

FORM OF TRUSTEE'S COUNSEL OPINION

Siebert Brandford Shank & Co., L.L.C.
Oakland, California
Stifel, Nicolaus & Company, Incorporated
San Francisco, California

Port Commission of the City and County of San Francisco
San Francisco, California

\$ _____
Port Commission of the City and County of
San Francisco
Revenue Bonds
Series 2014A
(AMT – Tax-Exempt)

\$ _____
Port Commission of the City and County of
San Francisco
Revenue Bonds
Series 2014B
(Federally Taxable)

Ladies and Gentlemen:

We are counsel to U.S. Bank National Association, as trustee (the “Trustee”), in connection with the execution and delivery of \$_____ aggregate principal amount of Port Commission of the City and County of San Francisco Revenue Bonds Series 2014A (AMT – Tax-Exempt) and of \$_____ aggregate principal amount of Port Commission of the City and County of San Francisco Revenue Bonds Series 2014B (Federally Taxable) (together, the “Bonds”), issued pursuant to the Indenture dated as of February 1, 2010, by and between the Port Commission of the City and County of San Francisco (the “Commission”) and the Trustee, as successor trustee, as amended and supplemented by the First Supplement to Indenture of Trust dated as of February 1, 2010, and by the Second Supplement to Indenture of Trust dated as of March 1, 2014, each by and between the Commission and the Trustee (collectively, the “Indenture”). This opinion is delivered to you pursuant to Section 8(e)(8) of the Bond Purchase Contract dated _____, 2014, by and among the Commission and Siebert Brandford Shank & Co., L.L.C., as Representative of itself and Stifel, Nicolaus & Company, Incorporated (together, the “Underwriters”).

As such counsel, we have examined among other things, the Indenture, the Articles of Association and Bylaws of the Trustee, and such matters of fact and questions of law as we have considered appropriate for purposes of this opinion letter.

As to facts material to the opinions, statements and assumptions expressed herein, we have, with your consent, relied upon oral or written statements and representations of officers and other representatives of the Trustee and others and other sources believed by us to be

reliable, and have not undertaken to independently verify the accuracy of factual matters represented or certified in such documents and statements. In rendering our opinions, we have assumed the genuineness of all signatures on original or certified copies, the authenticity of documents, certificates and records submitted to us as originals, the conformity to original or certified copies of all copies submitted to us as certified or reproduction copies, the legal capacity of all natural persons executing documents, certificates and records, and the completeness and accuracy as of the date of this opinion letter of the information contained in such documents, certificates and records.

We are opining herein as to the effect on the subject transaction only of the federal laws of the United States and the internal laws of the State of California, and we express no opinion with respect to the applicability thereto, or the effect thereon, of the laws of any other jurisdiction or as to any matters of municipal law or the laws of any local agencies within any state.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

(1) The Trustee is a national banking association duly organized, validly existing and in good standing under the laws of the United States of America and is authorized to exercise trust powers.

(2) The Bank has all requisite corporate power, authority and legal right to execute and deliver the Trust Indenture, as Trustee, to authenticate the Bonds, and to perform its obligations under the Trust Indenture, and has taken all necessary corporate action to authorize the execution and delivery of the Trust Indenture and the performance of its obligations under the Trust Indenture, including the authentication and delivery of the Bonds in its capacity as Trustee and the Trust Indenture.

(3) The Trustee has duly authorized, executed and delivered the Indenture and, assuming due authorization, execution and delivery by the other parties thereto, the Indenture constitutes the legal, valid and binding obligation of the Trustee, enforceable in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance, and other similar laws affecting the rights and remedies of creditors generally, and by the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, whether considered in a proceeding at law or in equity.

(4) The Bonds have been duly authenticated by the Trustee.

(5) To our knowledge, other than routine filings required to be made with governmental agencies in order to preserve the Trustee's authority to perform trust services (all of which routine filings have to our knowledge been made), no consent, approval, authorization or other action by any governmental agency or regulatory authority having jurisdiction over the Trustee is or will be required for the execution and delivery by the Trustee of the Indenture or the authentication and delivery of the Bonds by Trustee in accordance with the Indenture.

This letter is issued to and for the sole benefit of the above addressees and is issued for the sole purpose of the transaction specifically referred to herein. No parties other than the above addressees may rely upon this letter without our express prior written consent. This letter may not be utilized by you for any other purpose whatsoever and may not be quoted by you without our express prior written consent. We assume no obligation to review or supplement this letter subsequent to its date, whether by reason of a change in the current laws, by legislative or regulatory action, by judicial decision or for any other reason.

Very truly yours,

**SECOND SUPPLEMENT TO
INDENTURE OF TRUST**

by and between the

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

and

**U.S. BANK NATIONAL ASSOCIATION,
as trustee**

Dated as of ____ 1, 2014

**PORT COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
REVENUE BONDS,
SERIES 2014A (AMT Tax-Exempt)**

and

**PORT COMMISSION OF THE
CITY AND COUNTY OF SAN FRANCISCO
REVENUE BONDS,
SERIES 2014B (Federally Taxable)**

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EXHIBIT A: FORM OF SERIES 2014 BOND

SECOND SUPPLEMENT TO INDENTURE OF TRUST

This SECOND SUPPLEMENT TO INDENTURE OF TRUST, dated as of ____ 1, 2014 (the "**Second Supplemental Indenture**"), by and between the PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO (the "**Commission**"), duly constituted and established under Sections 4.100 et seq. of the Charter of the City and County of San Francisco and U.S. BANK NATIONAL ASSOCIATION, a national trust company duly organized under the laws of the United States of America, as successor trustee to Deutsche Bank National Trust Company (the "**Trustee**");

WITNESSETH:

WHEREAS, the Commission has entered into an agreement dated as of January 24, 1969 (the "**State Agreement**") pursuant to which the State of California (the "**State**") has transferred ownership of the Port of San Francisco to the City and County of San Francisco (the "**City**"); and

WHEREAS, under Section 4.114 of the Charter of the City and County of San Francisco (the "**Charter**"), the Commission has under its management, supervision, operation and control all real and personal property transferred under State of California Statutes 1968, Chapter 1333, and of all other properties wherever situated as it may acquire or which may be placed under its management, supervision or control (the "**Port Area**"); and

WHEREAS, under Section 9.107 of the Charter and Ordinance No. 258-09, adopted by the Board of Supervisors of the City on December 8, 2009 and signed by Mayor Gavin Newsom on December 18, 2009, and codified as Chapter 43, Article XII of the San Francisco Administrative Code, the Commission has the authority to issue port revenue bonds for the purpose of acquiring, constructing, improving or developing ports or port facilities under its jurisdiction and port revenue bonds under such terms and conditions as the Commission may authorize by resolution; and

WHEREAS, the Commission has authorized and issued the Series 2014 Bonds pursuant to Resolution No. _____ of the Commission, adopted on December 12, 2013 (the "**Port Commission Resolution**") and the Board of Supervisors of the City has approved the Series 2014 Bonds pursuant to Resolution No. _____, adopted on February 11, 2014 and signed by Mayor Edwin M. Lee on _____, 2014 (the "**City Resolution**"); and

WHEREAS, the Commission previously entered into an Indenture of Trust, dated as of February 1, 2010 (the "**Master Indenture**"), by and between the Commission and the Trustee, which provides for the security and issuance of one or more series of port revenue bonds (the "**Bonds**"); and

WHEREAS, the Commission previously entered into a First Supplement to Indenture of Trust, dated as of February 1, 2010, by and between the Commission and the Trustee (the "**First Supplemental Indenture**"; together with the Master Indenture, the "**Existing Indenture**") in order to provide for issuance of two series of Bonds designated as "Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt)" (the "**Series 2010A Bonds**") and "Revenue Bonds, Series 2010B (Federally Taxable)" (the "**Series 2010B Bonds**"; together with the Series 2010A Bonds, the "**Series 2010 Bonds**"); and

WHEREAS, the Commission wishes to enter into this Second Supplemental Indenture in order to provide for the terms of two series of Bonds to be designated as “Revenue Bonds, Series 2014A (AMT Tax-Exempt)” (the “**Series 2014A Bonds**”) and “Revenue Bonds, Series 2014B (Federally Taxable)” (the “**Series 2014B Bonds**”); together with the Series 2014A Bonds, the “**Series 2014 Bonds**”), which will be issued under and in accordance with the Charter and the Act (as defined in the Existing Indenture) and pursuant to the terms and conditions set forth in the Master Indenture and herein, and for the purpose of financing the Series 2014 Projects; and

WHEREAS, the Commission further wishes to enter into this Second Supplemental Indenture to amend Section 5.05 of the Master Indenture to clarify the flow of funds to pay any Subordinate Bonds and, pursuant to Section 9.01 of the Master Indenture, such amendment may be made, without the consent of or notice to any of the Holders (as defined in the Master Indenture), to address matters or questions arising under the Master Indenture that will not have a material adverse effect on the interests of the Holders, and the Trustee has received an Opinion of Bond Counsel (as defined in the Master Indenture) stating that this Second Supplemental Indenture (i) is authorized by the Master Indenture, the Act and other applicable law, (ii) will, upon the execution and delivery thereof, be a valid and binding agreement of the Commission in accordance with its terms and (iii) will not adversely affect the tax-exempt status of interest on any tax-exempt Bonds.

NOW, THEREFORE, THIS FIRST SUPPLEMENTAL INDENTURE WITNESSETH that in order to amend certain provisions of the Master Indenture, as set forth herein, to secure the payment of the Principal Amount of, premium, if any, and the interest on the Series 2014 Bonds delivered under the Master Indenture and hereunder and to secure the performance of the terms, conditions, covenants, agreements, trusts, uses and purposes hereinafter expressed, and in consideration of the premises and covenants herein contained and of the purchase and acceptance of the Series 2014 Bonds by the Owners thereof, and for other valuable consideration, the receipt of which is hereby acknowledged, the Commission does hereby agree and covenant with the Trustee for the benefit of the respective Owners, from time to time, of the Series 2014 Bonds, as follows:

ARTICLE I

DEFINITIONS

Section 1.01. Definitions. The capitalized terms used in this Second Supplemental Indenture shall have the meanings assigned to such terms in the Existing Indenture, unless otherwise defined below or elsewhere in this Second Supplemental Indenture or unless a different meaning clearly applies from the context in which such term is used herein:

“Depository” shall mean (a) initially, DTC, and (b) any other securities depository acting as Depository pursuant to Section 2.06 hereof.

“Depository System Participant” shall mean any participant in the Depository’s book-entry system.

“DTC” shall mean The Depository Trust Company, New York, New York, and its successors and assigns.

“Existing Indenture” means the Master Indenture, as amended and supplemented by the First Supplemental Indenture.

“First Supplemental Indenture” shall mean the First Supplement to Indenture of Trust, dated as of February 1, 2010, by and between the Commission and the Trustee.

“Master Indenture” shall mean the Indenture of Trust, dated as of February 1, 2010, by and between the Commission and the Trustee.

“Nominee” shall mean “CEDE & CO.” or any successor nominee designated by the Depository pursuant to the terms of the Indenture.

“Qualified Facility” means a dock or wharf and property that is functionally related and subordinate to a dock or wharf, including storage or training facilities directly related to the dock or wharf and physically located on or adjacent to the dock or wharf as described in Treasury Regulation section 1.103-8(3).

“Qualified Project Costs” means costs paid with respect to the portion of the Series 2014 Project financed with proceeds of the Series 2014A Bonds that meet each of the following requirements: (i) the costs are properly chargeable to capital account (or would be so chargeable with a proper election by the Commission or but for a proper election by the Commission to deduct such costs) in accordance with general federal income tax principles and in accordance with United States Treasury Regulations §1.103-8(a)(1), provided, however, that only such portion of interest accrued during rehabilitation or construction of the portion of the Series 2014 Project financed with proceeds of the Series 2014A Bonds shall be eligible to be a Qualified Project Cost as bears the same ratio to all such interest as the Qualified Project Costs bear to all costs of the portion of the Series 2014 Project financed with proceeds of the Series 2014A Bonds; and provided further that interest accruing after the date of completion of the portion of the Series 2014 Project financed with proceeds of the Series 2014A Bonds shall not be a Qualified Project Cost. Qualified Project Costs shall include only (A) the actual out-of-pocket costs incurred by the Commission in constructing or rehabilitating the portion of the Series 2014 Project financed with proceeds of the Series 2014A Bonds (or any portion thereof), (B) any reasonable fees for supervisory services actually rendered by the Commission; (ii) the costs are paid with respect to a qualified facility or facilities within the meaning of Section 142(c) of the Code, (iii) the costs are paid after the earlier of 60 days prior to the date of a declaration of “official intent” to reimburse costs paid with respect to the portion of the Series 2014 Project financed with proceeds of the Series 2014A Bonds (within the meaning of §1.150-2 of the United States Treasury Regulations) or the date of issue of the Series 2014A Bonds, and (iv) if the costs relating to the portion of the Series 2014 Project financed with proceeds of the Series 2014A Bonds were previously paid and are to be reimbursed with proceeds of the Series 2014A Bonds such costs were (A) costs of issuance of the Series 2014A Bonds, (B) preliminary capital expenditures (within the meaning of United States Treasury Regulations §1.150-2(f)(2)) with respect to the portion of the Series 2014 Project financed with proceeds of the Series 2014A Bonds (such as architectural, engineering and soil testing services) incurred before commencement of acquisition or construction of the portion of the Series 2014 Project financed with proceeds of the Series 2014A Bonds that do not exceed twenty percent (20%) of the issue price of the Series 2014A Bonds (as defined in United States Treasury Regulations §1.148-1), or (C) were capital expenditures with respect to the portion of the Series 2014 Project financed with proceeds of the Series 2014A Bonds that are reimbursed no later than eighteen (18) months after the later of the date the expenditure was paid or the date the portion of the Series 2014 Project financed with proceeds of the Series 2014A Bonds is placed in service (but no later than three (3) years after the expenditure is paid).

“Qualified Reimbursable Costs” means (i) expenditures paid for costs of issuance of the Series 2014A Bonds, (ii) preliminary capital expenditures (within the meaning of Treasury Regulation section 1.150-2(f)(2)) with respect to the Series 2014 Project, such as architectural, engineering and soil testing services) incurred before commencement of acquisition or construction of the Series 2014 Project that do not exceed 20% of the issue price of the Series 2014A Bonds, and (iii) capital expenditures that (A) were paid no earlier than 60 days before the date of the adoption (being _____, 20__) by the Commission of a declaration of intent to reimburse such expenditures from the proceeds of obligations, and (B) are reimbursed no later than 18 months after the later of the date the expenditure was paid or the date the Series 2014 Project is placed in service (but no later than 3 years after the expenditure is paid).

“Second Supplemental Indenture” shall mean this Second Supplement to Indenture of Trust, dated as of ____ 1, 2014, by and between the Commission and the Trustee.

“Series 2014 Bonds” shall mean, collectively, the Series 2014A Bonds and the Series 2014B Bonds.

“Series 2014 Continuing Disclosure Certificate” means the Continuing Disclosure Certificate executed by the Commission, dated the closing date of the Series 2014 Bonds, as originally executed and as each may be amended from time to time.

“Series 2014 Interest Payment Date” shall mean March 1 and September 1 of each year, commencing September 1, 2014.

“Series 2014 Payment Date” means each Series 2014 Interest Payment Date and Series 2014 Principal Payment Date.

“Series 2014 Principal Payment Date” shall mean March 1 of each year, commencing March 1, _____.

“Series 2014 Projects” shall mean the design, construction, reconstruction, repair and/or improvement of various facilities of the Port of San Francisco.

“Series 2014 Record Date” shall mean the close of business on the fifteenth day of the month preceding each Series 2014 Interest Payment Date, whether or not such fifteenth day is a Business Day.

“Series 2014A Bonds” shall mean the \$_____ aggregate principal amount of Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014A (AMT Tax-Exempt).

“Series 2014A Delivery Costs Fund” shall mean the fund by that name established pursuant to Section 2.04(c) hereof.

“Series 2014A Project Costs Fund” shall mean that certain fund established pursuant to section 2.04(b) hereof.

“Series 2014A Reimbursement Fund” shall mean the fund by that name established pursuant to Section 2.04(d) hereof.

“Series 2014A Reserve Account” shall mean the Series 2014A Reserve Account in the Reserve Fund established pursuant to Section 3.02 hereof.

“Series 2014A Reserve Requirement” shall mean, as of any date of calculation, the least of (i) an amount equal to Maximum Annual Debt Service with respect to the Series 2014A Bonds, (ii) 125% of average annual debt service on the Series 2014A Bonds, (iii) 10% of the initial Principal Amount of Series 2014A Bonds and (iv) the sum of (A) \$[991,206.00] which is the initial deposit to the Series 2014A Reserve Account established pursuant to Section 3.02(a), plus (B) any amounts available to be transferred from the Series 2014B Reserve Account pursuant to Section 3.02(b). To the extent a future Series of Bonds is designated in a Supplemental Indenture to benefit from the Series 2014A Reserve Account, the foregoing definition shall be revised in such Supplemental Indenture to take into account such Series of Bonds and the requirements of the Code.

“Series 2014B Bonds” shall mean the \$_____ aggregate principal amount of Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014B (Federally Taxable).

“Series 2014B Delivery Costs Fund” shall mean the fund by that name established pursuant to Section 2.05(c) hereof.

“Series 2014B Project Costs Fund” shall mean that certain fund established pursuant to section 2.05(b) hereof.

“Series 2014B Reimbursement Fund” shall mean the fund by that name established pursuant to Section 2.05(d) hereof.

“Series 2014B Reserve Account” shall mean the Series 2014B Reserve Account in the Reserve Fund established pursuant to Section 3.02 hereof.

“Series 2014B Reserve Requirement” shall mean, as of any date of calculation, Maximum Annual Debt Service on the Series 2014B Bonds. To the extent a future Series of Bonds is designated in a Supplemental Indenture to benefit from the Series 2014B Reserve Account, the foregoing definition shall be revised in such Supplemental Indenture to take into account such Series of Bonds and the requirements of the Code.

“Series 2010 Bonds” shall mean collectively the Series 2010A Bonds and the Series 2010B Bonds.

“Series 2010A Bonds” shall mean the \$14,220,000 aggregate principal amount of Port Commission of the City and County of San Francisco Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt).

“Series 2010B Bonds” shall mean the \$22,430,000 aggregate principal amount of Port Commission of the City and County of San Francisco Revenue Bonds, Series 2010B (Federally Taxable).

“Tax-Exempt Commercial Paper Notes” means the City and County of San Francisco Tax-Exempt Lease Revenue Commercial Paper Certificates of Participation, Series ___.

"Tax-Exempt Commercial Paper Trust Agreement" means the Trust Agreement, dated as of June 1, 2010, between the City and County of San Francisco and U.S. Bank National Association.

ARTICLE II

TERMS OF SERIES 2014 BONDS

Section 2.01. Authorization and Purpose of Series 2014 Bonds. The Commission hereby authorizes the issuance of the Series 2014 Bonds for the purpose of providing moneys to finance the Series 2014 Projects. The parties hereto hereby acknowledge and agree that the Series 2014 Bonds constitute "Bonds" as defined in the Master Indenture, that the Commission has delivered to the Trustee those items described in Section 2.09(a) and (b) of the Master Indenture and that the Series 2014 Bonds are secured on a parity with the Series 2010 Bonds and any additional Series of Bonds which may hereafter be issued under the Indenture.

Section 2.02. Terms of the Series 2014 Bonds. (a) General. The Series 2014 Bonds authorized to be issued by the Commission under and subject to the terms of the Indenture and the Charter and the Act shall be issued in two Series in the aggregate principal amount of \$_____:

Series 2014A Bonds: "Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014A (AMT Tax Exempt)," which shall be issued in the aggregate principal amount of \$_____.

Series 2014B Bonds: "Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014B (Federally Taxable)," which shall be issued in the aggregate principal amount of \$_____.

As further provided herein, the Series 2014A Bonds shall be issued as qualified private activity bonds and the Series 2014B Bonds shall be issued as taxable obligations.

The Series 2014 Bonds shall be dated their date of issuance, shall bear interest at the rates set forth herein (calculated on the basis of a 360-day year comprised of 12 30-day months), shall be issued as fully registered bonds in authorized denominations of \$5,000 or any integral multiple thereof, shall be numbered in such manner as the Trustee may deem appropriate so long as each Series 2014 Bond receives a distinctive number and shall mature, subject to the right of prior redemption in whole or in part, as described herein, and become payable in the amounts and on the dates as provided herein.

(b) Maturity Schedule of Series 2014A Bonds. The Series 2014A Bonds shall bear interest at the rates per annum, payable on each Series 2014 Interest Payment Date, and be payable as to principal on each Series 2014 Principal Payment Date in each of the years and in the amounts indicated as follows:

	<u>Series 2014A Bonds</u>	
<u>Year</u> <u>(March 1)</u>	<u>Principal</u>	<u>Interest Rate</u>

(c) Maturity Schedule of Series 2014B Bonds. The Series 2014B Bonds shall bear interest at the rates per annum, payable on each Series 2014 Interest Payment Date, and be payable as to principal on each Series 2014 Principal Payment Date in each of the years and in the amounts indicated as follows:

Year (March 1)	<u>Series 2014B Bonds</u>	
	<u>Principal</u>	<u>Interest Rate</u>

(d) Payment of Series 2014 Bonds. The Series 2014 Bonds shall bear interest from the Series 2014 Interest Payment Date immediately preceding the date of authentication thereof unless (i) the date of authentication thereof is prior to the first regular Series 2014 Record Date in which event from the dated date of such Series 2014 Bond, or (ii) the date of authentication thereof is a Series 2014 Interest Payment Date, in which event from that Series 2014 Interest Payment Date, or (iii) the date of authentication thereof is after a regular Series 2014 Record Date but before the following Series 2014 Interest Payment Date, in which event it shall bear interest from such Series 2014 Interest Payment Date.

Payment of interest on the Series 2014 Bonds shall be paid by check or draft mailed by the Trustee on the Series 2014 Interest Payment Date via first class mail to the Holders at their addresses shown on the registration books of the Trustee as of the close of business on the Series 2014 Record Date with respect to such Series 2014 Interest Payment Date; provided that payment of interest may be paid by federal wire transfer to an account in the United States designated by any Holder of Series 2014 Bonds in the aggregate principal amount of \$1,000,000 or more, upon provision of a written notice received by the Trustee prior to the applicable Series 2014 Record Date. Any such written notice shall remain in effect until terminated or changed by subsequent written notice of the Holder.

Interest shall be paid notwithstanding the cancellation of any Series 2014 Bonds upon any exchange or registration of transfer thereof subsequent to the Series 2014 Record Date and prior to such Series 2014 Interest Payment Date.

The Principal Amount of and redemption premiums, if any, on the Series 2014 Bonds and payments of interest due at maturity or earlier redemption of the Series 2014 Bonds, shall be payable upon the surrender thereof at the Corporate Trust Office of the Trustee. The Principal Amount of and redemption premiums, if any, and interest on the Series 2014 Bonds shall be paid in lawful money of the United States of America.

(e) Limitations on Transfer and Exchange of Series 2014 Bonds. The Commission and the Trustee shall not be required to issue, register the transfer of, or exchange (i) any

(ii) The Series 2014B Bonds maturing on March 1, ____ (the “**Series 2014B ____ Term Bonds**”) shall also be subject to mandatory redemption in part by lot prior to their maturity date, on March 1, commencing March 1, ____ solely from money which has been deposited into the Series 2014 Principal Account in amounts and upon the dates hereby established for such Series 2014B ____ Term Bonds, as follows:

<u>Series 2014B Term Bonds Maturing on March 1, ____</u>	
<u>Year</u> <u>(March 1)</u>	<u>Mandatory</u> <u>Sinking Fund Payments</u>

*Maturity

(iii) The Series 2014B Bonds maturing on March 1, ____ (the “**Series 2014B ____ Term Bonds**”) shall also be subject to mandatory redemption in part by lot prior to their maturity date, on March 1, commencing March 1, ____ solely from money which has been deposited into the Series 2014 Principal Account in amounts and upon the dates hereby established for such Series 2014B ____ Term Bonds, as follows:

<u>Series 2014B Term Bonds Maturing on March 1, ____</u>	
<u>Year</u> <u>(March 1)</u>	<u>Mandatory</u> <u>Sinking Fund Payments</u>

*Maturity

(h) Partial Redemption of the Series 2014B Bonds. Notwithstanding Section 3.04 of the Master Indenture, if less than all of the Series 2014B Bonds of a maturity are to be redeemed, the Trustee will effect a pro rata reduction of principal of all outstanding Series 2014B Bonds of such maturity. In the event of any such pro rata reduction of principal, the Trustee will send DTC written notice of the dollar amount per \$5,000 principal amount payable on account of principal, premium, if any, and accrued interest not less than two Business Days prior to the payment date. DTC will be responsible for distributing the principal, premium, if any, and accrued interest among the DTC participants, pro rata (subject to minimum authorized denomination restrictions) according to the beneficial interest in the Series 2014B Bonds of such maturity that DTC records list as owned by each DTC participant as of the record date for such payment. In the event the Series 2014B Bonds are designated for optional redemption, the Commission may designate the sinking fund payments, or portions thereof, that are to be reduced as allocated to such redemption.

Section 2.03. Forms of Series 2014 Bonds. The Series 2014 Bonds and the forms of authentication and registration endorsement and the assignment to appear thereon shall be substantially in the forms attached hereto as Exhibit A, with necessary or appropriate variations, omission and insertions as permitted or required by the Indenture.

Section 2.04. Application of Proceeds of Sale of the Series 2014A Bonds; Establishment of Series 2014A Project Costs Fund and Series 2014A Delivery Costs Fund.

(a) Application of Proceeds. Upon receipt of payment of the purchase price for the Series 2014A Bonds in the amount of \$_____ (representing \$_____ principal amount, less an original issue discount in the amount of \$_____ and less an Underwriter's discount in the amount of \$_____) from the original purchaser thereof, the Trustee shall set aside and deposit such amount as follows:

(1) The Trustee shall transfer to the Commission for deposit in the Series 2014A Project Costs Fund established pursuant to Section 2.04(b) hereof the sum equal to \$_____;

(2) The Trustee shall transfer to the Commission for deposit in the Series 2014A Reimbursement Fund established pursuant to Section 2.04(d) hereof the sum equal to \$_____;

(3) The Trustee shall deposit in the Series 2014A Reserve Account the sum equal to \$_____, which is equal to the initial Series 2014A Reserve Requirement with respect to the Series 2014A Bonds; and

(4) The Trustee shall deposit in the Series 2014A Delivery Costs Fund established pursuant to Section 2.04(c) hereof such moneys to be used to pay Delivery Costs with respect to the Series 2014A Bonds as directed by a certificate of an Authorized Commission Representative.

(b) Series 2014A Project Costs Fund. The Commission shall establish a Series 2014A Project Costs Fund for the deposit and retention of a portion of the Series 2014A Bond proceeds held pending disbursement thereof.

The Commission shall disburse amounts in the Series 2014A Project Costs Fund for costs of the Series 2014 Projects. Amounts on deposit in the Series 2014A Project Costs Fund may be used for Delivery Costs and upon completion of the Series 2014A Project any remaining amounts may be transferred for such purposes as comply with applicable law and the Tax Certificate for the Series 2014A Bonds. Earnings on the Series 2014A Project Costs Fund may be transferred by the Commission to the Series 2014 Interest Account and used to pay interest on the Series 2014A Bonds.

(c) Series 2014A Delivery Costs Fund. The Trustee shall establish a Series 2014A Delivery Costs Fund for the deposit and retention of a portion of the Series 2014A Bond proceeds held pending disbursement thereof. The Trustee shall disburse amounts in the Series 2014A Delivery Costs Fund upon receipt from an Authorized Commission Representative of a requisition setting out the payee, the amount of such disbursement and the purpose of such disbursement, including a statement that said disbursement was incurred for Delivery Costs. Upon the earlier of 180 days after initial delivery of the Series 2014A Bonds or receipt by the Trustee of a certificate of an Authorized Commission Representative that all Delivery Costs with respect to Series 2014A Bonds have been paid, the Trustee shall transfer remaining amounts in the Series 2014A Delivery Costs Fund to the Series 2014 Interest Account to pay interest on the Series 2014A Bonds.

The Trustee shall have no duty or liability to monitor the application of any moneys disbursed hereunder. The Trustee shall be absolutely protected in making any disbursement from the Series 2014A Delivery Costs Fund in reliance upon a requisition of an Authorized Commission Representative. Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts.

(d) The Series 2014A Reimbursement Fund. The Trustee shall establish and maintain a Series 2014A Reimbursement Fund and shall close the Fund when there are no moneys left in the Fund. The moneys in the Series 2014A Reimbursement Fund shall be held by the Trustee in trust and transferred, on the closing date of the Series 2014A Bonds, to U.S. Bank National Association, as issuing and paying agent of the Tax-Exempt Commercial Paper Notes, for deposit in the [Series ___ Subaccount of the Bank Reimbursement Account] established pursuant to Section 3.05 of the Tax-Exempt Commercial Paper Trust Agreement in order to pay off \$_____ of Tax-Exempt Commercial Paper Notes on [specify date less than 90 days from closing date of Series 2014A Bonds] (plus interest). The payment instructions to U.S. Bank National Association are as follows: **[to come]**

Section 2.05. Application of Proceeds of Sale of the Series 2014B Bonds; Establishment of Series 2014B Project Costs Fund and Series 2014B Delivery Costs Fund.

(a) Application of Proceeds. Upon receipt of payment of the purchase price for the Series 2014B Bonds in the amount of \$_____ (representing \$_____ principal amount, less an Underwriter's discount in the amount of \$_____) from the original purchaser thereof, the Trustee shall set aside and deposit such amount as follows:

(1) The Trustee shall transfer to the Commission for deposit in the Series 2014B Project Costs Fund established pursuant to Section 2.05(b) hereof the sum equal to \$_____;

(2) The Trustee shall transfer to the Commission for deposit in the Series 2014B Reimbursement Fund established pursuant to Section 2.04(d) hereof the sum equal to \$_____;

(3) The Trustee shall deposit in the Series 2014B Reserve Account the sum equal to \$_____, which is equal to the initial Series 2014B Reserve Requirement with respect to the Series 2014B Bonds;

(4) The Trustee shall deposit in the Series 2014B Delivery Costs Fund established pursuant to Section 2.05(c) hereof such moneys to be used to pay Delivery Costs with respect to the Series 2014B Bonds as directed by a certificate of an Authorized Commission Representative.

(b) Series 2014B Project Costs Fund. The Commission shall establish a Series 2014B Project Costs Fund for the deposit and retention of a portion of the Series 2014B Bond proceeds held pending disbursement thereof. The Commission shall disburse amounts in the Series 2014B Project Costs Fund for costs of the Series 2014 Projects. Amounts on deposit in the Series 2014B Project Costs Fund may be used for Delivery Costs and upon completion of the Series 2014B Project any remaining amounts may be transferred for such purposes as permitted by law. Earnings on the Series 2014B Project Costs Fund may be transferred by the Commission to the Series 2014 Interest Account.

(c) Series 2014B Delivery Costs Fund. The Trustee shall establish a Series 2014B Delivery Costs Fund for the deposit and retention of a portion of the Series 2014B Bond proceeds held pending disbursement thereof. The Trustee shall disburse amounts in the Series 2014B Delivery Costs Fund upon receipt from an Authorized Commission Representative of a requisition setting out the payee, the amount of such disbursement and the purpose of such disbursement, including a statement that said disbursement was incurred for Delivery Costs. Upon the earlier of 180 days after initial delivery of the Series 2014B Bonds or receipt by the Trustee of a certificate of an Authorized Commission Representative that all Delivery Costs with respect to Series 2014B Bonds have been paid, the Trustee shall transfer remaining amounts in the Series 2014B Delivery Costs Fund to the Series 2014 Interest Account.

The Trustee shall have no duty or liability to monitor the application of any moneys disbursed hereunder. The Trustee shall be absolutely protected in making any disbursement from the Series 2014B Delivery Costs Fund in reliance upon a requisition of the Commission. Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts.

(d) The Series 2014B Reimbursement Fund. The Trustee shall establish and maintain a Series 2014B Reimbursement Fund and shall close the Fund when there are no moneys left in the Fund. The moneys in the Series 2014B Reimbursement Fund shall be held by the Trustee in trust and transferred, on the closing date of the Series 2014B Bonds, to U.S. Bank National Association, as issuing and paying agent of the Tax-Exempt Commercial Paper Notes, for deposit in the [Series ___ Subaccount of the Bank Reimbursement Account] established pursuant to Section 3.05 of the Tax-Exempt Commercial Paper Trust Agreement in order to pay off \$_____ of Tax-Exempt Commercial Paper Notes on [specify date] (plus interest). The payment instructions to U.S. Bank National Association are as follows: [to come]

Section 2.06. Book-Entry Provisions.

(a) Original Delivery. The Commission may provide prior to the date of delivery of the Series 2014 Bonds, that the Series 2014 Bonds may be initially delivered in book-entry form pursuant to this Section 2.06.

The Series 2014 Bonds initially delivered in book-entry form shall be initially delivered in the form of a separate single fully registered Series 2014 Bond without coupons (which may be typewritten) for each maturity of the Series 2014 Bonds. Upon initial delivery, the ownership of each such Series 2014 Bond shall be registered by the Trustee in the name of the Nominee. Except as provided in subsection (c) below, the ownership of all such Outstanding Series 2014 Bonds shall be registered in the name of the Nominee on the registration books of the Registrar.

With respect to Series 2014 Bonds the ownership of which shall be registered in the name of the Nominee, the Commission and the Trustee shall have no responsibility or obligation to any Depository System Participant or to any person on behalf of which the Commission holds an interest in the Series 2014 Bonds. Without limiting the generality of the immediately preceding sentence, the Commission and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Depository System Participant with respect to any ownership interest in the Series 2014 Bonds, (ii) the delivery to any Depository System Participant or any other person, other than a Series 2014 Bondholder as shown in the Registration Books, of any notice with respect to the Series 2014 Bonds, including any notice of redemption, (iii) the selection by the Depository of the beneficial interests in the Series 2014 Bonds to be redeemed in the event the Commission elects to redeem the Series 2014 Bonds in part, (iv) the payment to any Depository System Participant or

any other person, other than a Series 2014 Bondholder as shown in the Registration Books, of any amount with respect to principal, premium, if any, or interest on the Series 2014 Bonds or (v) any consent given or other action taken by the Depository as Holder of the Series 2014 Bonds. The Commission and the Trustee may treat and consider the person in whose name each Series 2014 Bond is registered as the absolute owner of such Series 2014 Bond for the purpose of payment of principal, premium and interest on such Series 2014 Bond, for the purpose of giving notices of prepayment and other matters with respect to such Series 2014 Bond, for the purpose of registering transfers of ownership of such Series 2014 Bond, and for all other purposes whatsoever. The Trustee shall pay the principal of and interest and premium, if any, on the Series 2014 Bonds only to the respective Holders or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge all obligations with respect to payment of principal of and interest and premium, if any, on the Series 2014 Bonds to the extent of the sum or sums so paid. No person other than a Series 2014 Bondholder shall receive a Series 2014 Bond evidencing the obligation of the Commission to make payments of principal, interest and premium, if any, pursuant to this Indenture. Upon delivery by the Depository to the Nominee of written notice to the effect that the Depository has determined to substitute a new Nominee in its place, and subject to the provisions herein with respect to Record Dates, such new nominee shall become the Nominee hereunder for all purposes; and upon receipt of such a notice the Commission shall promptly deliver a copy of the same to the Trustee.

(b) Representation Letter. In order to qualify the Series 2014 Bonds for the Depository's book-entry system, the Commission and the Trustee shall execute and deliver to such Depository a letter representing such matters as shall be necessary to so qualify the Series 2014 Bonds. The execution and delivery of such letter shall not in any way limit the provisions of subsection (a) above or in any other way impose upon the Commission or the Trustee any obligation whatsoever with respect to persons having interests in the Series 2014 Bonds other than the Series 2014 Bondholders. The Trustee agrees to comply with all provisions in such letter with respect to the giving of notices thereunder by the Trustee. In addition to the execution and delivery of such letter, the Commission may take any other actions, not inconsistent with this Indenture, to qualify the Series 2014 Bonds for the Depository's book-entry program.

(c) Transfers Outside Book-Entry System. In the event that either (i) the Depository determines not to continue to act as Depository for the Series 2014 Bonds, or (ii) the Commission determines to terminate the Depository as such, then the Commission shall thereupon discontinue the book-entry system with such Depository. In such event, the Depository shall cooperate with the Commission and the Trustee in the issuance of replacement Series 2014 Bonds by providing the Trustee with a list showing the interests of the Depository System Participants in the Series 2014 Bonds, and by surrendering the Series 2014 Bonds, registered in the name of the Nominee, to the Trustee on or before the date such replacement Series 2014 Bonds are to be issued. The Depository, by accepting delivery of the Series 2014 Bonds, agrees to be bound by the provisions of this subsection (c). If, prior to the termination of the Depository acting as such, the Commission fails to identify another Securities Depository to replace the Depository, then the Series 2014 Bonds shall no longer be required to be registered in the name of the Nominee, but shall be registered in whatever name or names the Holders transferring or exchanging Series 2014 Bonds shall designate, in accordance with the provisions of Article II of the Master Indenture. Prior to its termination, the Depository shall furnish the Trustee with the names and addresses of the Depository System Participants and respective ownership interests thereof.

(d) Payments to the Nominee. Notwithstanding any other provision of the Indenture to the contrary, so long as any Series 2014 Bond is registered in the name of the Nominee, all payments with respect to principal of and interest and premium, if any, on such Series 2014 Bond and all notices with respect to such Series 2014 Bond shall be made and given, respectively, as provided in the letter described in subsection (b) of this Section 2.06 or as otherwise instructed by the Depository.

ARTICLE III

SERIES 2014 INTEREST AND PRINCIPAL ACCOUNTS; RESERVE FUND; SERIES 2014 REBATE FUND; EARNINGS ON DEBT SERVICE FUND AND RESERVE FUND

Section 3.01. Series 2014 Interest and Principal Accounts. Moneys accumulated in the Enterprise Fund shall be transferred by the Commission to the Trustee for deposit in the Debt Service Fund as provided in Section 5.05 of the Master Indenture and this Section 3.01; provided, that the following accounts are created in the Debt Service Fund held by the Trustee with respect to the Series 2014 Bonds; provided further, however, that to the extent that deposits have been made in any of the accounts referred to below from the proceeds of the sale of the Series 2014 Bonds or otherwise, the deposits below need not be made:

(a) Series 2014 Interest Account. On or before the Business Day prior to each Series 2014 Interest Payment Date, the Commission shall transfer from the Enterprise Fund to the Trustee for deposit in the Series 2014 Interest Account within the Debt Service Fund (which account is hereby created), the interest to become due on the Series 2014 Bonds on such Series 2014 Interest Payment Date; provided that the Commission need not transfer any moneys at such time as the balance in said Series 2014 Interest Account shall be equal to the aggregate amount of interest becoming due and payable on the then Outstanding Series 2014 Bonds on the next succeeding Series 2014 Interest Payment Date. The obligation to make the foregoing transfers shall be on a parity with the obligation to fund interest on the Series 2010 Bonds pursuant to the First Supplemental Indenture and any interest accounts henceforth created under the Indenture with respect to any additional Series of Bonds which may hereafter be issued under the Indenture, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(b) Series 2014 Principal Account. On or before the Business Day prior to each Series 2014 Principal Payment Date, the Commission shall transfer from the Enterprise Fund to the Trustee for deposit in the Series 2014 Principal Account within the Debt Service Fund (which account is hereby created), the Principal Amount to become due on the Series 2014 Bonds on such Series 2014 Principal Payment Date; provided that the Commission need not transfer any moneys at such time as the balance in said Series 2014 Principal Account shall be equal to the aggregate Principal Amount becoming due and payable on the then Outstanding Series 2014 Bonds on the next succeeding Series 2014 Principal Payment Date. The obligation to make the foregoing transfers shall be on a parity with the obligation to fund the principal account for the Series 2010 Bonds pursuant to the First Supplemental Indenture and any principal accounts henceforth created under the Indenture with respect to any additional Series of Bonds which may hereafter be issued under the Indenture, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(c) Reserve Fund. Immediately after making the transfers described in paragraphs (a) and (b) above, transfers shall be made by the Commission to the Trustee from the Enterprise Fund to the Series 2014A Reserve Account and the Series 2014B Reserve Account, on or before the first Business Day of each month, commencing _____, 20__ in an amount equal to that sum, if any, necessary to restore the Series 2014A Reserve Account to an amount equal to the Series 2014A Reserve Requirement and the Series 2014B Reserve Account to an amount equal to the Series 2014B Reserve Requirement.

The obligation to make the foregoing transfers to the Series 2014A Reserve Account and the obligation to make the foregoing transfers to the Series 2014B Reserve Account shall be on a parity with each other without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference. The obligation to make the foregoing transfers to the Series 2014A Reserve Account and the Series 2014B Reserve Account shall be on a parity with the obligation to make similar transfers to the Series 2010A Reserve Account and the Series 2010B Reserve Account without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference. If provided for in a Supplemental Indenture, the obligation to make the foregoing transfers and those to the Series 2010A Reserve Account and the Series 2010B Reserve Account shall be on a parity with the obligation to fund any separate reserve accounts within the Reserve Fund henceforth created under the Indenture with respect to any additional Series of Bonds which may hereafter be issued under the Indenture, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

Section 3.02. Reserve Fund. (a) The Series 2014A Reserve Account in the Reserve Fund is hereby established with the Trustee. The Reserve Requirement for the Series 2014A Bonds shall be the Series 2014A Reserve Requirement. The Series 2014A Reserve Account shall benefit only the Series 2014A Bonds and any additional Series of Bonds to the extent so designated in a Supplemental Indenture. The amounts on deposit in the Series 2014A Reserve Account shall secure on a parity basis the Series 2014A Bonds and any additional Series of Bonds to the extent so designated in a Supplemental Indenture. If on any Series 2014 Payment Date the amount on deposit in the Debt Service Fund is not sufficient to pay interest on and principal to become due on the Series 2014A Bonds on such Series 2014 Payment Date (or any Series of Bonds designated in a Supplemental Indenture on its Payment Dates), then the Trustee shall withdraw the amount of any such deficiency from the Series 2014A Reserve Account and deposit such amount in the Debt Service Fund. All money on deposit in the Series 2014A Reserve Account in excess of the Series 2014A Reserve Requirement shall be transferred to the Commission or to such account as the Commission may designate; and for this purpose all investments in the Series 2014A Reserve Account shall be valued monthly, at the lower of purchase price or the current market value of such investments (inclusive of accrued interest).

(b) The Series 2014B Reserve Account in the Reserve Fund is hereby established with the Trustee. The Reserve Requirement for the Series 2014B Bonds shall be the Series 2014B Reserve Requirement. The Series 2014B Reserve Account shall benefit only the Series 2014B Bonds and any additional Series of Bonds to the extent so designated in a Supplemental Indenture. The amounts on deposit in the Series 2014B Reserve Account shall secure on a parity basis the Series 2014B Bonds and any additional Series of Bonds to the extent so designated in a Supplemental Indenture. If on any Series 2014 Payment Date the amount on deposit in the Debt Service Fund is not sufficient to pay interest on and principal to become due on the Series 2014B Bonds on such Series 2014 Payment Date (or any Series of Bonds designated in a Supplemental Indenture on its Payment Dates), then the Trustee shall withdraw

the amount of any such deficiency from the Series 2014B Reserve Account and deposit such amount in the Debt Service Fund. All money on deposit in the Series 2014B Reserve Account in excess of the Series 2014B Reserve Requirement shall be transferred to the Commission or to such account as the Commission may designate; and for this purpose all investments in the Series 2014B Reserve Account shall be valued monthly, at the lower of purchase price or the current market value of such investments (inclusive of accrued interest); provided that such amounts released upon redemption or maturity of the Series 2014B Bonds shall first be transferred to the Series 2014A Reserve Account to the extent needed to satisfy the Series 2014A Reserve Requirement.

Section 3.03. Rebate Fund.

(a) General. The Trustee shall establish a special fund designated the "Series 2014A Bonds Rebate Fund" (the "Rebate Fund"). All amounts at any time on deposit in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the requirement to make rebate payments to the United States (the "**Rebate Requirement**") with respect to the Series 2014A Bonds, pursuant to Section 148 of the Code and the Treasury Regulations promulgated thereunder (the "**Treasury Regulations**"). The Commission may by Supplemental Indenture establish additional funds or accounts for purposes of satisfying the Rebate Requirement with respect to any other Outstanding Bonds. Amounts on deposit in the Rebate Fund shall be free and clear of any lien under the Indenture and shall be governed by this Section 3.03 and Section 6.07 of the Master Indenture and by the Tax Certificate relating to the Series 2014A Bonds. The Trustee shall be deemed conclusively to have complied with the Rebate Requirement if it follows the directions of the Commission, and shall have no independent responsibility to, or liability resulting from its failure to, enforce compliance by the Commission with the Rebate Requirement.

(b) Deposits.

(i) Within 45 days of the end of each Bond Year (as such term is defined in the Tax Certificate), (1) the Commission shall calculate or cause to be calculated with respect to the Series 2014A Bonds the amount that would be considered the "rebate amount" within the meaning of Section 1.148-3 of the Treasury Regulations, using as the "computation date" for this purpose the end of such Bond Year, and (2) upon the Commission's written direction, the Trustee shall deposit to the Rebate Fund from deposits from the Commission, if and to the extent required, amounts sufficient to cause the balance in the Rebate Fund to be equal to the "rebate amount" so calculated.

(ii) The Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with the preceding sentence if the amount on deposit in the Rebate Fund prior to the deposit required to be made under this subsection (b) equals or exceeds the "rebate amount" calculated in accordance with the preceding sentence. Such excess may be withdrawn from the Rebate Fund to the extent permitted under subsection (g) of this Section 3.03.

(iii) The Commission shall not be required to calculate the "rebate amount," and the Trustee shall not be required to make deposit of any amount to the Rebate Fund in accordance with this subsection (b), with respect to all or a portion of the proceeds of the Series 2014A Bonds (including amounts treated as proceeds of the Series 2014A Bonds) (1) to the extent such proceeds satisfy the expenditure requirements of Section 148(f)(4)(B) or Section 148(f)(4)(C) of the Code, whichever is applicable, and otherwise qualify for the exception to the Rebate Requirement pursuant to whichever of said

sections is applicable, (2) to the extent such proceeds are subject to an election by the Commission under Section 148(f)(4)(C)(vii) of the Code to pay a 1½% penalty in lieu of arbitrage rebate in the event any of the percentage expenditure requirements of Section 148(f)(4)(C) are not satisfied, or (3) to the extent such proceeds qualify for the exception to arbitrage rebate under Section 148(f)(4)(A)(ii) of the Code for amounts in a “bona fide debt service fund.” In such event, and with respect to such amounts, the Commission shall provide written direction to the Trustee that the Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with this subsection (b).

(c) Withdrawal Following Payment of Bonds. Any funds remaining in the Rebate Fund after payment of all the Series 2014 Bonds and any amounts described in paragraph (2) of subsection (d) of this Section 3.03, or provision made therefor satisfactory to the Trustee, including accrued interest and payment of any applicable fees to the Trustee, shall be withdrawn by the Trustee and remitted to the Commission.

(d) Withdrawal for Payment of Rebate. Upon the Commission’s written direction, but subject to the exceptions contained in subsection (b) of this Section 3.03 to the requirement to calculate the “rebate amount” and make deposits to the Rebate Fund, the Trustee shall pay to the United States, from amounts on deposit in the Rebate Fund,

(1) not later than 60 days after the end of (i) the fifth Bond Year, and (ii) each fifth Bond Year thereafter, an amount that, together with all previous rebate payments, is equal to at least 90% of the “rebate amount” calculated as of the end of such Bond Year in accordance with Section 1.148 3 of the Treasury Regulations; and

(2) not later than 60 days after the payment of all Series 2014A Bonds, an amount equal to 100% of the “rebate amount” calculated as of the date of such payment (and any income attributable to the “rebate amount” determined to be due and payable) in accordance with Section 1.148 3 of the Treasury Regulations.

(e) Rebate Payments. Each payment required to be made pursuant to subsection (d) of this Section 3.03 shall be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T, which shall be completed by the arbitrage rebate consultant for execution by the Commission and provided to the Trustee.

(f) Deficiencies in the Rebate Fund. In the event that, prior to the time any payment is required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the Commission shall calculate the amount of such deficiency and direct the Trustee to deposit an amount received from the Commission equal to such deficiency into the Rebate Fund prior to the time such payment is due.

(g) Withdrawals of Excess Amounts. In the event that immediately following the calculation required by subsection (b) of this Section 3.03, but prior to any deposit made under said subsection, the amount on deposit in the Rebate Fund exceeds the “rebate amount” calculated in accordance with said subsection (b), upon written instructions from the Commission, the Trustee shall withdraw the excess from the Rebate Fund and credit such excess to the Debt Service Fund.

(h) Record Keeping. The Commission shall retain records of all determinations made hereunder until six years after the complete retirement of the Series 2014 Bonds.

(i) Survival of Defeasance. Notwithstanding anything in the Indenture to the contrary, the Rebate Requirement shall survive the payment in full or defeasance of the Series 2014A Bonds.

ARTICLE IV

COVENANTS RELATING TO THE 2014 BONDS

Section 4.01. Continuing Disclosure. The Commission hereby covenants and agrees that it will comply with the provisions of the Series 2014 Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the Commission to comply with the Series 2014 Continuing Disclosure Certificate shall not be considered an event of default hereunder; however, the Trustee may (and, at the request of the Participating Underwriter (as defined in the Series 2014 Continuing Disclosure Certificate) or the Owners of at least twenty-five percent (25%) of the aggregate principal amount of the Outstanding Series 2014 Bonds, shall) or any holder or Beneficial Owner (as defined in the Series 2014 Continuing Disclosure Certificate), may take such actions as may be necessary and appropriate to cause the Commission to comply with the provisions of the Series 2014 Continuing Disclosure Certificate.

Section 4.02. Tax Matters.

(a) Federal Guarantee Prohibition. The Commission will not take any action or permit or suffer any action to be taken if the result of such action would be to cause the Series 2014A Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

(b) Rebate Requirement. The Commission will take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Series 2014A Bonds.

(c) No Arbitrage. The Commission will not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Series 2014A Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Series 2014A Bonds would have caused the Series 2014A Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code.

(d) Maintenance of Tax-Exemption. The Commission will take all actions necessary to assure the exclusion of interest on the Series 2014A Bonds from the gross income of the Owners of the Series 2014A Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of delivery of the Series 2014A Bonds.

(e) Record Retention. The Commission will retain its records of all accounting and monitoring it carries out with respect to the Series 2014A Bonds for at least 3 years after the Series 2014A Bonds mature or are redeemed (whichever is earlier); however, if the Series 2014A Bonds are redeemed and refunded, the Commission will retain its records of accounting and monitoring at least 3 years after the earlier of the maturity or redemption of the obligations that refunded the Series 2014A Bonds.

(f) Compliance with Tax Certificate. The Commission will comply with the provisions of the Tax Certificate and the Use of Proceeds Certificate with respect to the Series

2014A Bonds, which are incorporated herein as if fully set forth herein. The covenants of this Section will survive payment in full or defeasance of the Series 2014A Bonds.

(g) Qualified Bonds. The Commission will assure that the sale proceeds of the Series 2014A Bonds, plus any investment earnings thereon (the "Series 2014A Proceeds") are used in a manner such that the Series 2014A Bonds will satisfy the requirements of section 142(a)(2) of the Code (including the Treasury Regulations thereunder) relating to qualified docks and wharves, and the Commission will use that portion of the Series 2014 Project financed with the Series 2014A Proceeds in such a manner that it qualifies as a dock or wharf within the meaning of section 142(a)(2) of the Code for so long as the Series 2014A Bonds remain outstanding.

(h) Public Use Requirement. The portion of the Series 2014 Project financed with the Series 2014A Proceeds will satisfy the public use requirement either (a) by being located in a public port or (b) by being available for use by members of the general public.

(i) Governmental Ownership Requirement. The Commission covenants that the portion of the Series 2014 Project financed with proceeds of the Series 2014A Bonds will be owned by the Commission or by a governmental unit within the meaning of section 142(b)(1) of the Code. For this purpose, leased property is treated as owned by a governmental unit only if (A) the lessee irrevocably elects (which election is binding on the lessee and all successors under the lease) not to claim depreciation or investment credits for such property; (B) the lease term does not exceed 80% of the reasonably expected economic life of the property financed; and (C) any option to purchase is at a price equal to the fair market value at the time of exercise of the option.

(j) Prohibited Private Business Uses. The Commission covenants that no proceeds of the Series 2014A Bonds will be used to finance the following facilities if such facilities are used for a private business use:

- (i) lodging facilities;
- (ii) retail facilities (including food and beverage facilities) in excess of a size necessary to serve passengers and employees at the port facility;
- (iii) retail facilities (other than parking) located outside of the port terminal;
- (iv) office buildings for use by individuals other than employees of a governmental unit or of the operating authority; and
- (v) industrial parks or manufacturing facilities.

(k) Costs of Issuance Limitation. The Commission covenants that, from the proceeds of the Series 2014A Bonds and investment earnings thereon, an amount not in excess of two percent (2%) of the proceeds of the Series 2014A Bonds will be used for costs of issuance of the Series 2014A Bonds, all within the meaning of section 147(g)(1) of the Code. For this purpose, if the fees of the original purchaser of the Series 2014A Bonds are retained as a discount on the purchase of the Series 2014A Bonds, such retention shall be deemed to be an expenditure of Proceeds of the Series 2014A Bonds for said fees.

(l) Limitation of Expenditure of Proceeds. The Commission covenants that not less than 95% of the net proceeds of the Series 2014A Bonds (within the meaning of section 150(a)(3) of the Code) will be paid for Qualified Project Costs.

(m) Limitation on Land Acquisition. The Commission covenants that less than 25% of the Series 2014A Proceeds will be used, directly or indirectly, for the acquisition of land.

(n) Existing Facilities Limit. The Commission covenants that no Proceeds of the Series 2014A Bonds will be used for the acquisition of any tangible property or an interest therein, other than land or an interest in land, unless the first use of such property is pursuant to such acquisition; provided, however, that this limitation will not apply with respect to any building (and the equipment therefor) if rehabilitation expenditures (as defined in section 147(d) of the Code) with respect to such building equal or exceed 15% of the portion of the cost of acquiring such building (and equipment) financed with Proceeds of the Series 2014A Bonds; and provided, further, that this limitation will not apply with respect to any structure other than a building if rehabilitation expenditures with respect to such structure equal or exceed 100% of the portion of the cost of acquiring such structure financed with the Series 2014A Proceeds.

(o) Certain Uses Prohibited. The Commission covenants that no Series 2014A Proceeds will be used directly or indirectly to provide any airplane, skybox or other private luxury box, health club facility, facility used for gambling or store the principal business of which is the sale of alcoholic beverages for consumption off premises.

(p) Limitation on Office Space. The Commission covenants that no Proceeds of the Series 2014A Bonds will be used to finance office space unless the office is located on the premises of that portion of the Series 2014 Project financed with the Series 2014A Proceeds and not more than a de minimis amount of the functions to be performed at such office is not directly related to the day-to-day operations at that portion of the Series 2014 Project financed with the Series 2014A Proceeds.

ARTICLE V

MISCELLANEOUS

Section 5.01. Amendment and Restatement of Section 5.05 of the Master Indenture. Section 5.05 of the Master Indenture is hereby amended and restated in its entirety as follows:

"Section 5.05. Application of Revenue. All Revenue as received shall be set aside and deposited by the Treasurer in the Enterprise Fund. Moneys in the Enterprise Fund shall be applied by the Treasurer for the following purposes in the following amounts and order of priority, each priority to be fully satisfied before the next priority:

(a) Operation and Maintenance Expenses. An amount equal to Operation and Maintenance Expenses as they become due and payable shall be transferred and applied for such purposes. All transfers for payment of Operation and Maintenance Expenses pursuant to this paragraph (a) shall be made in accordance with Section 6.03 hereof.

Moneys applied to pay Operation and Maintenance Expenses shall not be pledged or applied to pay or secure the payment of the Bonds.

(b) Debt Service Fund Transfer. An amount equal to the requirements described below shall be transferred and applied by the Treasurer for such purposes, as applicable:

(i) first, to the Trustee for deposit in the Debt Service Fund, the amount necessary to make all payments and deposits required to be made into the Debt Service Fund and the Reserve Fund and the accounts therein in the amounts and at the times required hereby and by the Supplemental Indentures with respect to the Bonds; and

(ii) second, to pay directly or to make all payments and deposits required to be made into any funds and accounts created to pay or secure the payment of the Principal Amount or purchase price of or interest or redemption premium on any Subordinate Bonds in the amounts and at the times required by the resolutions and other agreements authorizing the issuance and providing the terms and conditions thereof.

(c) General Purposes. Any amounts remaining after the applications pursuant to paragraphs (a) and (b) above shall be used for any lawful purpose of the Commission and in accordance with all relevant provisions of the Charter.

(d) Deficiencies in Funds and Accounts. In the event that Revenue in the Enterprise Fund together with other available moneys are insufficient to make the required payments and deposits pursuant to paragraph (b)(i) of Section 5.05 hereof, after having made the payments and deposits required pursuant to paragraph (a) of Section 5.05 hereof, the Treasurer shall allocate available Net Revenue to make all payments or deposits then required, first, with respect to interest on Bonds; second, with respect to Principal Amount, redemption price or purchase price of Bonds; and third, with respect to any reserve requirements for Bonds. Available Net Revenue shall be allocated within each order of priority, to the extent necessary, on a pro rata basis in proportion to the respective amounts of payments or deposits required to be made with respect to Principal Amount or purchase price of, interest on or reserve requirements for Bonds, as the case may be."

Section 5.02. Effective Date of Second Supplemental Indenture. This Second Supplemental Indenture shall take effect upon its execution and delivery.

Section 5.03. Existing Indenture to Remain in Effect. Except as provided in this Second Supplemental Indenture, the Existing Indenture shall remain in full force and effect. In the event of any conflict between the provisions of this Second Supplemental Indenture and the Existing Indenture, the provisions of this Second Supplemental Indenture shall govern.

Section 5.04. Execution in Counterparts. This Second Supplemental Indenture may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Second Supplemental Indenture by their officers thereunto duly authorized as of the day and year first written above.

PORT COMMISSION OF THE CITY AND
COUNTY OF SAN FRANCISCO

Executive Director

ATTEST:

Commission Secretary

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

Authorized Officer

Authorized Officer

EXHIBIT A

(FORM OF SERIES 2014 BOND)

No. _____ \$ _____

**PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO
REVENUE BONDS
SERIES 2014[A/B]**

Interest Rate **Maturity Date** **Dated Date** **CUSIP**

March 1, 20__ _____, 2014

PRINCIPAL AMOUNT:

REGISTERED OWNER: CEDE & CO.

The PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO (hereinafter sometimes called the "Commission"), a public body, corporate and politic, duly organized and existing under the Constitution and statutes of the State of California and the Charter of the City and County of San Francisco (the "Charter"), for value received, hereby promises to pay (but solely out of the funds hereinafter mentioned) to the registered owner hereof as shown above or registered assigns (herein sometimes referred to as the "Owner" or "Holder"), subject to the right of prior redemption hereinafter mentioned, the Principal Amount specified above, on the maturity date specified above, and to pay such Owner on each March 1 and September 1 of each year commencing on September 1, 2014 (each, a "Series 2014 Interest Payment Date") by check or draft mailed by the Trustee hereinafter referred to on the Series 2014 Interest Payment Date via first class mail to such Owner at such Owner's address shown on the registration books of the Trustee as of the close of business on the fifteenth day of the month preceding each Series 2014 Interest Payment Date (the "Series 2014 Record Date"), or by federal wire transfer to an account in the United States designated by such Owner of Bonds in the aggregate Principal Amount of \$1,000,000 or more, upon provision of a written notice received by the Trustee prior to the applicable Series 2014 Record Date, interest on such Principal Amount from the Series 2014 Interest Payment Date immediately preceding the date of authentication hereof (unless (i) the date of authentication hereof is prior to the first regular Series 2014 Record Date in which event from the dated date specified above, or (ii) the date of authentication hereof is a Series 2014 Interest Payment Date, in which event from that Series 2014 Interest Payment Date, or (iii) the date of authentication hereof is after a regular Series 2014 Record Date but before the following Series 2014 Interest Payment Date, in which event it shall bear interest from such Series 2014 Interest Payment Date) until the Principal Amount hereof shall have been paid or provided for in accordance with the Indenture hereinafter referred to, at the interest rate per annum set forth above payable semiannually on each Series 2014 Interest Payment Date. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Principal Amount of and redemption premiums, if any, and interest on the Series 2014 Bonds shall be paid in lawful money of the United States of America. The Principal Amount of and redemption premiums, if any, on the Series 2014 Bonds and payments of interest due at maturity or earlier redemption of the Series 2014 Bonds, shall be payable upon the surrender thereof at the corporate trust office (the "Corporate Trust Office") of U.S. Bank National Association, as trustee (the "Trustee"), in San Francisco, California. All

capitalized terms which are used herein, unless otherwise defined herein, shall have the meanings ascribed to such terms in the Indenture (as hereinafter defined).

The Bonds (as defined in the Indenture hereinafter referred to) are special, limited obligations of the Commission, and are payable as to Principal Amount, redemption premium, if any, and interest, out of the Net Revenues, and not out of any other funds or moneys of the Commission not pledged thereto, as further provided in the Indenture. No Holder of the Bonds shall have the right to compel any exercise of the taxing power of the Commission, the City, the State of California or any political subdivision thereof to pay the Principal Amount of or the redemption premium, if any, or interest on the Bonds. This Bond is not a lien, charge or liability, as to either the Principal Amount or interest, against the State of California or any political subdivision thereof or against the Commission, the City or the Board of Supervisors of the City, or against the property or funds of any of the foregoing, except to the extent of the pledge of Net Revenue, as provided by the Indenture.

This Bond is one of a duly authorized issue of Bonds of the Commission designated "Port Commission of the City and County of San Francisco Revenue Bonds, Series 2014_" (herein called the "Series 2014_ Bonds"), in an aggregate principal amount of \$_____, all of like tenor and date (except for bond numbers, interest rates, amounts and maturity) and all of which have been issued pursuant to and in full conformity with the Constitution and laws of the State of California and the Charter. The Series 2014_ Bonds are authorized by and issued pursuant to certain resolutions duly adopted by the City and the Commission and under the Indenture of Trust, dated as of February 1, 2010, as amended and supplemented by a First Supplement to Indenture of Trust, dated as of February 1, 2010 (the "First Supplement"), and as further amended and supplemented by a Second Supplement to Indenture of Trust, dated as of ____ 1, 2014 (together, the "Indenture"), each by and between the Commission and the Trustee, a copy of which is on file with the Secretary of the Commission and the Trustee. This Bond will be secured on parity with two outstanding series of Bonds designated as "Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt)" and "Revenue Bonds, Series 2010B (Federally Taxable)" and with any other Outstanding Bonds hereafter issued in accordance with the Indenture.

All of the Bonds are equally secured in accordance with the terms of the Indenture, reference to which is hereby made for a specific description of the security provided for said Bonds, for the nature, extent and manner of enforcement of such security and for the covenants and agreements made for the benefit of the Holders of the Bonds. By the acceptance of this Bond the Owner hereof consents to all of the terms, conditions and provisions of the Indenture. All of the provisions of the Indenture are hereby incorporated by reference into this Bond as if set forth in full herein, and any inconsistency between the provisions of this Bond and the Indenture shall be resolved in favor of the Indenture. In the manner provided in the Indenture, said Indenture and the rights and obligations of the Commission and of the Holders of Bonds may (with certain exceptions as stated in said Indenture) be amended or supplemented with the consent of the Holders of at least fifty-one percent (51%) in aggregate Principal Amount of Outstanding Bonds of all Series affected by such amendment, unless such amendment is for the purpose of, among other things, curing ambiguities or formal defects or omissions, correcting or supplementing any provision which may be inconsistent with any other provision or to make any other change or addition which shall not have a material adverse effect on the interests of the Holders, in which case no Bondholders' consent is required.

The Series 2014_ Bonds shall be subject to optional and mandatory redemption as provided in the Indenture.

This Bond is issued in fully registered form in the denomination of \$5,000 or any integral multiple thereof and is negotiable upon proper transfer of registration. This Bond is transferable by the Owner hereof or by his duly authorized attorney, at the Corporate Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the taxes and charges provided in the Indenture, upon surrender and cancellation of this Bond. Upon such transfer, a new Series 2014_ Bond of any authorized denomination or denominations for the same aggregate principal amount and maturity of the same issue will be issued to the transferee in exchange therefor. This Bond may also be exchanged for a like aggregate principal amount of Series 2014_ Bonds of other authorized denominations of the same maturity and interest rate, but only in the manner, subject to the limitations and upon payment of the taxes and charges provided in the Indenture, upon surrender and cancellation of this Bond.

The Commission and the Trustee shall not be required to issue, register the transfer of, or exchange (i) any Series 2014_ Bond during the period beginning on the fifteenth day of the month preceding each Series 2014 Interest Payment Date and ending on such Series 2014 Interest Payment Date, during the fifteen (15) days preceding the selection of Series 2014_ Bonds for redemption, on any date on which notice of redemption is scheduled to be mailed or on any redemption date, or (ii) any Series 2014_ Bond selected for redemption.

The Commission and the Trustee may treat the Owner hereof as the absolute Owner hereof for all purposes, and the Commission and the Trustee shall not be affected by any notice to the contrary.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

The Commission by execution of this Bond hereby certifies that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California and the Charter, and that this Bond, together with all other indebtedness of the Commission pertaining to the Port Area, is within every debt and other limit prescribed by the Constitution and statutes of the State of California and said Charter.

IN WITNESS WHEREOF, the PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO has caused this Bond to be signed on its behalf by the signature of its Executive Director, all as of the Dated Date set forth above.

By: _____
Executive Director of the Port

(FORM OF CERTIFICATE OF AUTHENTICATION OF BONDS)

This is one of the Bonds described in the within mentioned Indenture.

Date of Authentication: _____, 2010

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By:

Authorized Signatory

* * * * *

(FORM OF ASSIGNMENT OF BONDS)

For value received _____ hereby sells, assigns and transfers unto
_____ the within mentioned Bond and hereby irrevocably
constitutes and appoints _____, attorney, to transfer the same on the books of the
Trustee with full power of substitution in the premises.

NOTE: The signature(s) on this Bond must
correspond with the name(s) as written on the face
of the within Registered Bond in every particular,
without alteration or enlargement or any change
whatsoever.

Dated: _____, 20__

Signature Guaranteed By:

NOTE: Signature must be
guaranteed by an eligible
guarantor institution.

PAYMENT INSTRUCTIONS

These PAYMENT INSTRUCTIONS (these "Instructions"), dated as of _____ 1, 2014, are given by the CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation organized and existing under its charter and the Constitution and laws of the State of California (the "City") to U.S. BANK NATIONAL ASSOCIATION, a national banking association, acting as the trustee (the "CP Trustee") for the Series _____ CP Notes described below.

WITNESSETH:

WHEREAS, the City has heretofore issued commercial paper certificates of participation captioned "City and County of San Francisco Tax-Exempt Lease Revenue Commercial Paper Certificates of Participation, Series _____" (the "Series _____ CP Notes"); and

WHEREAS, the Series _____ CP Notes were issued pursuant to a Trust Agreement dated as of June 1, 2010 (the "Trust Agreement") between the City and the CP Trustee; and

WHEREAS, a portion of the proceeds of the Series _____ CP Notes was used to finance certain capital projects of the Port Commission of the City and County of San Francisco (the "Port Commission"); and

WHEREAS, the Port Commission is issuing its Revenue Bonds, Series 2014A (Non-AMT Tax-Exempt) (the "Series 2014A Bonds") and its Revenue Bonds, Series 2014B (Taxable) (the "Series 2014B Bonds") pursuant to that certain Indenture of Trust, dated as of February 1, 2010 (the "Master Port Indenture"), by and between the Port Commission and U.S. Bank National Association, as successor trustee to Deutsche Bank National Trust Company (the "Port Trustee"), as supplemented and amended by a First Supplement to Indenture of Trust, dated as of February 1, 2010 (the "First Supplement") and a Second Supplement of Indenture of Trust, dated as of May 1, 2014 (the "Second Supplement"; together with the Master Port Indenture and the First Supplement, the "Port Indenture") to partially repay the Series _____ CP Notes; and

WHEREAS, pursuant to the Port Indenture, the Port has instructed the Port Trustee to transfer certain moneys to the CP Trustee; and

WHEREAS, the City wishes to give these Instructions to the CP Trustee for the purpose of providing the terms and conditions relating to the deposit and application of moneys and securities to provide for the partial payment of the Series _____ CP Notes;

NOW, THEREFORE, the City does hereby irrevocably instruct the CP Trustee as follows:

Section 1. Payment of Series _____ CP Notes.

(a) On _____, 2014, the Port Trustee will transfer to the CP Trustee for deposit into the Series _____ Subaccount of the Bank Reimbursement Account established under the Trust

Agreement the amount of \$_____ in immediately available funds to be derived from a portion of the proceeds of sale of the Series 2014A Bonds.

(b) On ___, 2014, the CP Trustee shall apply the proceeds of the Series 2014A Bonds deposited in the Series ___ Subaccount of the Bank Reimbursement Account to reimburse JP Morgan Chase Bank, National Association, for draws on its letter of credit used to pay the Series ___ CP Notes maturing on such date.

(c) On ___, 2014, the Port Trustee will transfer to the CP Trustee for deposit into the Series ___ Subaccount of the Bank Reimbursement Account established under the Trust Agreement the amount of \$_____ in immediately available funds to be derived from a portion of the proceeds of sale of the Series 2014B Bonds.

(d) On ___, 2014, the CP Trustee shall apply the proceeds of the Series 2014B Bonds deposited in the Series ___ Subaccount of the Bank Reimbursement Account to reimburse JP Morgan Chase Bank, National Association, for draws on its letter of credit used to pay the Series ___ CP Notes maturing on such date.

Section 2. Irrevocable Instructions. These Instructions shall be irrevocable by the City; however, these Instructions may be amended or supplemented.

Section 3. Governing Law. These Instructions shall be construed in accordance with and governed by the Constitution and laws of the State of California.

[REMAINDER OF PAGE INTENTIONALLY BLANK.]

Section 4. Counterparts. These Instructions may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the City and the CP Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Benjamin Rosenfield,
Controller

AGREED AND ACCEPTED:

U.S. Bank National Association,
As CP Trustee

By: _____
Authorized Signatory

DECLARATION OF PUBLICATION OF SAN FRANCISCO CHRONICLE

**PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO
NOTICE OF PUBLIC HEARING
PURSUANT TO SECTION 147(F) OF
THE INTERNAL REVENUE CODE OF
1986, AS AMENDED, FOR THE
FINANCING OF CERTAIN PROJECTS
FROM THE SALE OF TAX-EXEMPT
OBLIGATIONS**

the proposed nature and location of the Projects and the plan of financing of the Projects may either appear in person at the time and place indicated above or submit written comments, which must be received prior to the Public Hearing, to the Port Commission, c/o Amy Quesada, the Port Commission, Pier 1, San Francisco, California 94111.

Date: December 4, 2013

PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO

Lori Gomez

Declares that:
said advertisement has been regularly published

In the

SAN FRANCISCO CHRONICLE

Which is an was at all times herein mentioned established as newspaper of general circulation in the City and County of San Francisco, State of California, as the term is defined by Section 6000 of the Government Code

SAN FRANCISCO CHRONICLE

(Name of Newspaper)

901 Mission Street

San Francisco, CA 94103

From

12/4/13

To

12/4/13

Namely on

12/4/13

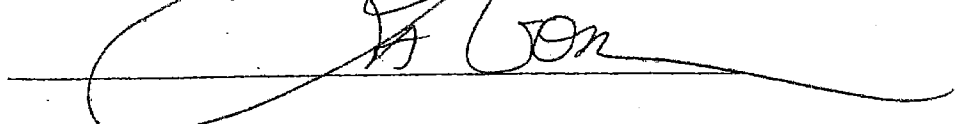
(Dates of Publication)

I declare under penalty of perjury that the foregoing is true and correct.

Executed on

12/6/13

At San Francisco, California



NOTICE IS HEREBY GIVEN by the Port Commission of the City and County of San Francisco (the "Port Commission"), which operates the Port of San Francisco (the "Port"), that a public hearing (the "Public Hearing") will be held at 9:00 a.m., or as soon thereafter as such matters can be heard, on Wednesday, December 18, 2013, with respect to the proposed issuance by the Port Commission of tax exempt revenue bonds (the "Bonds") in an aggregate principal amount not to exceed \$30,000,000. The Public Hearing will be held at the City and County of San Francisco Controller's Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102. The Port intends to sue the Bonds in one or more series or issues from time to time, as part of plan of finance as provided in Section 147(f)(2)(C) of the Internal Revenue Code of 1986, as amended (the "Code"). The Bonds will be special obligations of the Port Commission, payable as to principal and interest solely out of revenues of the Port Commission expressly pledged therefor, and neither the credit nor taxing power of the City and County of San Francisco (the "City"), the State of California (the "State") or any political subdivision thereof will be pledged to the payment of the principal of or interest on the Bonds. No holder of a bond will have the right to compel the exercise of the taxing power of the City, the State or any political subdivision thereof to pay the Bonds or the interest thereon. The Port Commission has no taxing power whatsoever.

The proceeds of the Bonds will be used to:

- (a) finance the costs of various facilities and improvements owned, operated and/or managed by the Port Commission, including without limitation the design, demolition, construction, reconstruction, expansion, improvement, equipping, renewal, restoration and/or replacement of (i) Pier 1, located along The Embarcadero, in San Francisco 94111, which is intended to be used as a cruise terminal and special events facilities, together with related and subordinate facilities (in addition to a plaza/park at the front of the terminal) and (ii) Piers 23, 29, 29 1/2 and 31 (commonly known as the Northern Waterfront Historic Pier Structures), located along the Embarcadero, San Francisco 94111 (collectively the "Projects"); (b) fund a debt service reserve fund for the Bonds; (c) pay capitalized interest on the Bonds, if any; and (d) pay costs associated with the issuance of the Bonds. All Projects are or will be located at the Port, which is within the geographical jurisdiction of the City and County of San Francisco.

The Public Hearing is intended to comply with the public approval requirements of the Code.

Please wishing to comment on the execution and delivery of the Bonds or on

MEMORANDUM

December 6, 2013

TO: MEMBERS, PORT COMMISSION
Hon. Doreen Woo Ho, President
Hon. Kimberly Brandon, Vice President
Hon. Willie Adams
Hon. Leslie Katz
Hon. Mel Murphy

FROM: Monique Moyer
Executive Director

SUBJECT: Request approval of: (1) the issuance of the Port of San Francisco's Series 2014 Revenue Bonds (the "2014 Port Revenue Bonds") to fund certain capital improvements on Port property, in the aggregate principal amount not to exceed thirty million dollars (\$30,000,000) with an interest rate not to exceed twelve percent (12%) per annum; (2) the form of the Second Supplement to Indenture of Trust, between the Port and a trustee; (3) the sale of the 2014 Bonds by negotiated sale pursuant to a bond purchase contract; (4) authority to enter into contract with the underwriter team selected by the Port's Executive Director; and (5) the form of a bond purchase contract, with a not to exceed underwriter's discount and true interest cost, between the Port and the selected underwriter team

DIRECTOR'S RECOMMENDATION: Approve attached Resolution

Background

The Port faces the challenge of limited resources to address an aging infrastructure in need of investment to enhance and maintain the assets. The Port's \$1.6 billion in deferred capital costs prevent it from leveraging investment opportunities and is resulting in facilities becoming unsafe and unusable. To address this challenge, the Port Commission has put in place a Capital Policy, which requires a minimum annual investment equal to 20% of operating revenue in capital. The annual capital investment amounts to approximately \$17 million per year, or 1% of the Port's \$1.6 billion in deferred capital costs.

The Port Commission has also put in place a debt program which allows the Port to make larger investments in key business lines and facilities. The Capital Policy with the

THIS PRINT COVERS CALENDAR ITEM NO. 10A

debt program allows the Port to address chronic infrastructure needs and prioritize facility enhancements for mission critical lines of business and strategic facilities. The proposed 2014 Port Revenue Bonds will provide financing for the Port's mission critical James R. Herman Cruise Terminal and will address deferred capital needs in historic piers to support private leasing activity.

Section 9.112 of Article IX of the City and County of San Francisco Charter (the "Charter") entitled "Revenue Bonds of the Port Commission" gives the Port Commission exclusive power to perform or accomplish issuance of revenue bonds for Port-related purposes. Chapter 43, Article XII of the San Francisco Administrative Code entitled "Port Commission of the City and County of San Francisco Revenue Bond Law" authorizes the Port Commission to issue revenue bonds for any Port-related purpose and secured solely by Port revenues, subject to the approval of the Board of Supervisors. On May 14, 2013, the Port Commission approved a financing plan that includes the issuance of Port revenue bonds in an amount not to exceed \$25.3 million for Phase II of the James R. Herman Cruise Terminal project and the Northern Waterfront Historic Pier Structure Repair project. This approval was subject to Port Commission review of the financial structure of the bond transaction and details of the specific projects included in the Northern Waterfront Historic Pier Structures Repair project. While the proposed project financing is the same, the overall amount has increased \$4.7 million to \$30 million to allow for greater flexibility pending sale to address any changes in market conditions and bond structuring.

This item provides details of the Port's existing debt obligation and capital plans, the proposed projects to be financed with proceeds of the 2014 Port Revenue Bonds, the financial impacts of the proposed financing plan, and the proposed financing structure. Port staff requests Port Commission approval of associated documents for the 2014 Port Revenue Bonds, and authorization for the Port's Executive Director to enter into a contract with a preferred underwriter team following an informal solicitation to the Controller's Office of Public Finance's as-needed pool of qualified underwriters. The Port Commission is not being asked at this time to approve the Preliminary Official Statement and Continuing Disclosure Certificate which are still being prepared. Port staff expects to return on January 14, 2014 for Port Commission review and approval of those documents.

Existing Debt Obligation and Capital Plans

The Port issued revenue bonds on February 3, 2010 (the "2010 Bonds") in the amount of \$36.65 million (current outstanding balance of \$34.8 million) to finance the design, construction, reconstruction, repair and/or improvements to Piers 19 or 23, 33, 35 and 50, Phase I of the James R. Herman Cruise Terminal and Piers 94-96 Backlands project. The 2010 Bonds were issued in two series: Series A Non AMT Tax Exempt and Series B Taxable to reflect the mix of maritime and non-maritime private uses. The annual debt service on the 2010 Bonds is approximately \$2.8 million through 2030 and \$1.9 million thereafter through 2040. The 2010 Bonds were issued pursuant to an Indenture of Trust, dated as of February 1, 2010, as supplemented by the First Supplement to Indenture of Trust, dated as of February 1, 2010 (the "Existing Indenture").

At the time the Port issued the 2010 Revenue Bonds, staff expected to issue a second bond financing within two years to fund construction of the cruise terminal and the Piers 19 or 23 project. The Port pivoted capital plans to respond to the City's successful bid for the 34th America's Cup (AC34) and the approved Lease Disposition Agreement (LDA) with the America's Cup Event Authority (Event Authority) which shifted approximately \$25 million of AC34-related infrastructure improvements, mitigation requirements and Cruise Terminal Project scope from the America's Cup Event Authority to the Port. In order to complete capital improvements to prepare for the events, in April 2012 the Port Commission approved a \$52.2 million plan of finance which included \$38.46 million of City issued Certificates of Participation (COPs), \$9.2 million reallocation from 2010 Bond projects (the Piers 94-96 Backlands project, Amador Street,¹ and the Pier 35 Substructure), and \$4.5 million reallocation of Port capital funds. The plan of finance resulted in completion of Phase I of the James R. Herman Cruise Terminal, installation of shore side power at Pier 70, improvements to Piers 19, 23, 27, 29, 30-32 and 80, and public access enhancements and fill removal.

In October of 2013, the City caused the execution and delivery of COPs on behalf of the Port in the aggregate principal amount of \$37.7 million. This approach allowed the Port to take advantage of the City's stronger credit and relatively lower cost of borrowing and reflected the benefit to the City of the projects financed by the COPs. Annual debt service on the COPs is \$2.8 million through 2023 and \$2.0 million thereafter through 2043.

Now that the Port has successfully completed the public works projects required under the LDA for the 34th America's Cup, Port staff recommends Port Commission approval of 2014 Port Revenue bonds for Phase II of the James R. Herman Cruise Terminal Project and a new Northern Waterfront Historic Pier Structures Repair project, returning to capital programming originally planned in 2010. The ongoing intent of the bond program is to continue to replenish the Port's bonding capacity through enhanced net revenues so that the Port Commission can authorize new revenue bond issuances every three to five years to invest in the Port's asset portfolio and address the backlog of deferred capital maintenance.

Proposed 2014 Port Revenue Bond Funded Projects

Attached is a resolution authorizing the issuance, of the 2014 Port Revenue Bonds in an amount not to exceed \$30 million. Anticipated expenditures for the 2014 Port Revenue Bonds are as follows:

¹ Port staff continues to conduct due diligence and design for Amador Street and the Piers 94-96 Backlands project and will return to the Port Commission with a plan of finance once these projects are ready for funding.

Table 1 – Project Descriptions

Project Description	2014 Bond Allocation
Phase II of the James R. Herman Cruise Terminal – Project consists of finishing the remaining portions of the cruise terminal building, including the U.S. Customs and Border Protection facilities, building out the Northeast Wharf Plaza and North Point, the ground transportation area, apron and substructure repairs, installation of maritime equipment such as the mobile gangway system, fenders and bollards, electrical upgrades, and provision of miscellaneous furniture and equipment. The sources for the total Phase II project cost of \$47.7 million include General Obligation Bond proceeds for the park improvements and a FEMA grant for security improvements.	\$19,532,000
Northern Waterfront Historic Pier Structures Repair Project – Pier 29½ and Pier 31. Project consists of structural repairs to the superstructure (columns, beams, truss members, and roof decking), exterior apron deck reconstruction, window repairs, provide and repair doors to the apron for egress and safety ladders for roof access, removal and replacement of roofing and miscellaneous sheet metal caps and flashing, and provide plumbing and electrical infrastructure needed for restrooms, lighting and potential tenant needs. The sources for the total project cost of \$6 million include reallocated proceeds of the 2010 Bonds.	917,000
Northern Waterfront Historic Pier Structures Repair Project – Pier Improvements. Project consists of capital improvements to support private leasing activities, which may include substructure work for Pier 29 and/or historic window rehabilitation. The project is intended to provide funding for capital improvements to upgrade and re-lease vacant facilities.	1,026,000
Project total	\$21,475,000
<i>Bond Issuance Costs</i>	766,200
<i>Debt Service Reserve Fund</i>	1,708,800
Total 2014 Anticipated Revenue Bond Uses	\$ 23,950,000
<i>Additional Authorization Pending Sale</i>	6,050,000
Total	\$30,000,000

The 2014 Port Revenue Bonds would be issued pursuant to a Second Supplement to Indenture of Trust, which would amend and supplement the Existing Indenture.

The debt service reserve fund will be used to pay debt service if the Port's revenues pledged to pay debt service are insufficient and shall be replenished at such time. The Port will to fund the debt service reserve at the lesser of (a) maximum annual debt service, (b) 125 percent of average annual debt service, or (c) 10 percent of the outstanding principal amount of the bonds.

While Port staff currently expects to issue \$24 million in principal amount of 2014 Port Revenue Bonds, the added authorization of up to \$30 million gives Port staff sufficient

flexibility to address any changes in interest rates, market conditions, and bond structuring between now and when the 2014 Port Revenue Bonds are sold. A portion of the 2014 Port Revenue Bond proceeds designated for project costs may be used to refinance commercial paper issued by the City for Phase II James R. Herman Cruise Terminal costs.

Financial Impact of Proposal: Port's Bonding Capacity and Debt Service Coverage

As discussed above, the Port pays annual debt service on its 2010 Revenue Bonds (outstanding in the principal amount of \$34.8 million) and on the City's COPs (outstanding in the principal amount of \$37.7 million). The average annual debt service payments associated with these obligations are approximately \$5.6 million through 2023, \$4.8 million through 2031, \$4 million through 2040, and \$2.0 million through 2043.

The annual net revenue of the Port, calculated in accordance with the Existing Indenture, has averaged \$15 million over the past 10 years, with a high of \$18.6 million and a low of \$9.3 million. FY 2012-13 closed with net revenues available to service bond debt of \$18.6 million. Due to the impact of economic recovery on the Port's revenues, with revenue growth averaging 5% per year slightly outpacing growth in operating expenses, Port staff estimates that net revenues available to service bonded debt will average \$20.0 million over the debt period with estimated debt capacity of approximately \$48.8 million.² The projection is based on the Port's five-year financial forecast last updated in February of 2013. Port staff is reviewing financial projections and will present the final analysis in the Preliminary Official Statement when it comes back to the Port Commission to approve that document.

The proposed 2014 Revenue Bonds would fund \$21.5 million in projects (as provided above). The proposed Passenger Facility Charge (PFC) of \$6 per passenger for 30 years is estimated to add revenue sufficient to pay debt service on \$16.8 million in Cruise Terminal projects and associated bond issuance costs. Thus, issuance of \$16.8 million of the 2014 Revenue Bonds has a neutral impact on the Port's bond capacity. The remaining \$7.15 million will reduce the Port's current remaining bonding capacity to approximately \$41.65 million.

This issuance of 2014 Port Revenue Bonds will add approximately \$1.71 million in annual debt service, increasing the overall payment obligation from \$5.6 million to \$7.3 million through 2023 with lower annual payments thereafter.³ This is within the Port's estimated bonding capacity, with estimated minimum debt service coverage of approximately 4.65 times debt service on the Port's revenue bonds and 2.91 times debt service on the Port's Revenue Bonds and the City's COPs over the forecast period. An increase in interest rates (yields on the Bonds) at the time of sale would result in increased debt service obligation which would result in lower debt service coverage.

² Assumed annual net revenues of \$20.0 million (does not include proposed \$6 PFC revenue) in FY2016 and thereafter, annual interest rate expense of 6% and debt service coverage of 2x.

³ In addition, the Port has loan obligations that do not impact its coverage but bring its total debt service to \$7.6 million.

The table below reflects annual debt service and minimum debt service coverage levels associated with a \$30 million issuance (the full authorization amount) at a 7% blended interest rate. As reflected below, even at the full authorization issuance amount, the Port's coverage levels remain strong. The Port does not anticipate issuing the full authorization amount unless prevailing market conditions and bond structure at the time of sale require the Port to do so.

Average Annual Debt Service	\$ 2.41 million
TIC	7.06%
Minimum debt service coverage (Port Revenue Bonds)	4.03x
Minimum debt service coverage (Port Revenue Bonds and City COPs)	2.65x

Table 2: Use of 2014 Revenue Bond Proceeds and Impact on Debt Capacity

Use of Bond Proceeds	Amount
Cruise Terminal	19,531,611
Northern Waterfront	1,943,389
Bond Issuance Costs	766,200
Debt Service Reserve Fund	1,708,800
	23,950,000
	Bond Amount
2014 Bond Amount Supported by Proposed PFC Revenue Stream	16,800,000
2014 Bond Amount Supported by Port Operating Revenue	7,150,000
	23,950,000
Impact to Port Revenue Bond Capacity	
Current Capacity	48,800,000
Less 2014 Bond Amount Supported by Port Operating Revenue	(7,150,000)
Remaining Capacity	41,650,000

Proposed Financing Structure

The primary use of the proposed 2014 Port Revenue bonds is the James R. Herman Cruise Terminal project which categorizes the related portion of the 2014 Port Revenue Bonds for tax exempt treatment as qualified private activity bonds (docks and wharves). Interest income paid on the portion of bonds attributable to the cruise terminal is subject to alternative minimum tax (AMT)⁴ under the Federal tax code. The Northern Waterfront Historic Pier Structures Repair project would benefit private sector tenants in

⁴ The Alternative Minimum Tax (AMT) is a federal income tax which applies to certain investors pursuant to their Federal tax bracket and allows such taxpayers to claim some or all of the interest income as tax-exempt.

connection with uses that are not primarily maritime in nature and therefore do not qualify for tax exempt debt status. The 2014 Revenue Bonds will be issued in two series: Series A (AMT) and Series B (Taxable) to reflect the mix of maritime and non-maritime private uses. As a result, the 2014 Port Revenue Bonds will be a mix of taxable and AMT bonds which will result in a mix of interest rates.

Under current market conditions, the Port could issue approximately \$24 million in 2014 Port Revenue Bonds at a 5.90% blended interest rate assuming the Port maintains its credit rating.⁵ Under this scenario, the average annual debt service would be approximately \$1.71 million and the maximum annual debt service would be \$1,708,800. However, as described in more detail below, to be more conservative, Port staff also analyzed a blended 7% interest rate which would result in average annual debt service of approximately \$1.9 million. To provide flexibility as well as a cap on the level of interest rates the Port will consider paying on the revenue bonds, the attached resolution states that the interest rate will not exceed 12%, the maximum allowable under the California State constitution.

The 2014 Port Revenue Bonds are expected to sell at the end of February or early March 2014 depending on the dates of the Board of Supervisors' and Mayor Edwin Lee's final approval of the legislation.

Port staff intend to issue the 2014 Port Revenue Bonds through a negotiated sale with an underwriter and co-underwriter, selected through an informal solicitation to the Controller's Office of Public Finance's as-needed pool of qualified underwriters. The solicitation was structured to encourage Local Business Enterprises (LBEs) to respond for the co-underwriter opportunity. The attached Resolution authorizes the Port's Executive Director to enter into an underwriting contract in an amount not to exceed 0.6% of the principal amount of the Bonds with the preferred underwriter team following an informal solicitation from the as-needed pool. The Director of the Controller's Office of Public Finance will advise the Executive Director in this selection.

The negotiated sale will afford the Port more flexibility in regards to changing the sale date or the structure of the issue in attempts to obtain lower interest rates. Port staff believes that a negotiated sale is more appropriate at this time given the size of the issuance and the credit quality of the bonds.

⁵ The Port's revenue bond ratings are A1/A-/A by Moody's, Standards & Poor's and Fitch respectively.

1. Financing Structure:

Debt Service -

- A. Market Estimate: Based on the current market conditions for "A" rated municipal revenue bond debt, the corresponding True Interest Cost (TIC) estimate is 5.90%. This is the interest expense of the 2014 Bonds or the rate compounded semi-annually, necessary to discount the amounts payable on the principal and interest payment dates to the purchase price received for the new issue of bonds. In other words, it's the average weighted interest rate aggregated for the individual bond maturities.

Average Annual Debt Service	\$1.71 million
TIC	5.90%
Minimum debt service coverage (Port Revenue Bonds)	4.65x
Minimum debt service coverage (Port Revenue Bonds and City COPs)	2.91x

To be conservative, a second scenario is based on a 7% True Interest Cost which is 116 basis points greater than the current market conditions for "A" rated municipal debt. Since the market fluctuates, staff believes it is prudent to anticipate a higher interest rate.

- B. 7% Interest Rate: This structure assumes a 7% blended interest rate on all the 2014 Bonds. A higher interest rate corresponds to higher annual debt service and therefore lower debt service coverage.

Average Annual Debt Service	\$1.95 million
TIC	7.0%
Minimum debt service coverage (Port Revenue Bonds)	4.42x
Minimum debt service coverage (Port Revenue Bonds and City COPs)	2.82x

As described in the two tables above, the Port's average annual debt service would be \$250,000 less if the Port's bonds are sold at a 5.90% interest rate rather than 7.0%. However, the Port's current five-year financial forecast assumption of \$7.66 million in FY 2014-15 for debt service is sufficient to cover the debt service costs of either scenario. The forecast includes the revenue amounts set asides to meet the Port Commission 15% operating reserve and 20% operating revenue to capital policies.

2. Bond Structure

The 2014 Port Revenue Bonds will have a term of thirty (30) years with annual payments which are almost equal, i.e., aggregate level debt service. The preliminary bond structure amortizes the more expensive taxable 2014B Bonds in

the first ten (10) years to take advantage of lower interest rates associated with shorter term debt. The less expensive AMT 2014A Bonds wrap around the taxable 2014B Bonds to achieve an aggregate level debt service structure for the 2014 Port Revenue Bonds. The bond structure will be finalized closer to the bond sale date based on prevailing market conditions. A preliminary cash flow table of estimated debt service on both series is presented in the following table. As noted in the column titled, "Total 2014AB Debt Service", the combined annual payment is approximately equal (or level) each year for the life of the bonds.

Table 3: Estimated Debt Service Schedule (subject to change)

FYE June 30	2014A (AMT)		2014B (Taxable)		2014AB
	Principal	Interest	Principal	Interest	Debt Service
2015	\$ 205,000	\$ 1,238,992	\$ 200,000	\$ 61,769	\$ 1,705,761
2016	165,000	1,278,875	200,000	61,668	1,705,543
2017	175,000	1,270,625	200,000	58,628	1,704,253
2018	185,000	1,261,875	205,000	54,948	1,706,823
2019	195,000	1,252,625	210,000	50,725	1,708,350
2020	205,000	1,242,875	215,000	44,845	1,707,720
2021	215,000	1,232,625	220,000	37,836	1,705,461
2022	225,000	1,221,875	230,000	30,004	1,706,879
2023	235,000	1,210,625	240,000	21,057	1,706,682
2024	245,000	1,198,875	250,000	11,025	1,704,900
2025	520,000	1,186,625			1,706,625
2026	545,000	1,160,625			1,705,625
2027	575,000	1,130,650			1,705,650
2028	605,000	1,099,025			1,704,025
2029	640,000	1,065,750			1,705,750
2030	680,000	1,027,350			1,707,350
2031	720,000	986,550			1,706,550
2032	765,000	943,350			1,708,350
2033	810,000	897,450			1,707,450
2034	855,000	848,850			1,703,850
2035	910,000	797,550			1,707,550
2036	970,000	738,400			1,708,400
2037	1,030,000	675,350			1,705,350
2038	1,100,000	608,400			1,708,400
2039	1,170,000	536,900			1,706,900
2040	1,245,000	460,850			1,705,850
2041	1,325,000	379,925			1,704,925
2042	1,415,000	293,800			1,708,800
2043	1,505,000	201,825			1,706,825
2044	1,600,000	104,000			1,704,000
Total	\$ 21,035,000	\$ 27,553,092	\$ 2,170,000	\$ 432,505	\$ 51,190,597

3. Description of Documents for Port Commission Approval
 Port staff request that the Port Commission approve the following documents in substantially final form as required for the issuance of the 2014 Port Revenue Bonds:
- i. Attached Port Commission Resolution
 - ii. Second Supplement to the Indenture to Trust

iii. Bond Purchase Contract

All of the foregoing documents are described in more detail below.

Additionally, Port staff expect to return to the Port Commission on January 14, 2014 to submit the Preliminary Official Statement and Continuing Disclosure Certificate for review and approval. The attached financing documents are in substantially final form, however minor modifications will continue to be made until the bond closing date. The Port staff has been working with Bond Counsel, Disclosure Counsel, Financial Advisors, and the City Attorney's Office to structure the 2014 Port Revenue Bonds and develop the necessary documents.

- A. Second Supplement to Indenture of Trust - This document is a short supplement to the Existing Indenture, which provides for the specific terms of the 2014 Port Revenue Bonds. Those terms include the bonds' maturity and payment schedules.
- B. Bond Purchase Agreement - This document contains the terms and conditions for the sale of the 2014 Revenue Bonds to the underwriters in a negotiated sale including the fees paid.

4. 2014 Port Revenue Bonds Parameters

Port Commission of San Francisco Revenue Bonds, Series 2014:

- Not to Exceed Par Amount \$30 million
- Not to Exceed True Interest Cost 7%
- Not to Exceed Interest Rate (Coupon Rate) 12%
- Final Maturity 03/01/2044 (30 Years)
- Not to Exceed Underwriter's Discount 0.6% of Par Amount

5. Estimated Sources and Uses of Funds (subject to change)

A. Sources

- Bond Proceeds \$23,950,000
- Total Sources of Funds \$23,950,000

B. Uses

- Project Fund Deposit \$21,475,000
- Deposit to Reserve Fund 1,708,800
- Costs of Issuance* 766,200
- Total \$23,950,000

*Includes fees of rating agencies, financial advisers, legal counsel, underwriter's discount, financial printer, and other miscellaneous expenses relating to the issuance of the 2014 Port Revenue Bonds.

6. Other

- A. Negotiated Sale – Staff will report back to the Port Commission on the negotiated price of the financing and provide a final debt service schedule.

7. Remaining Major Tasks

A. Credit

Port staff will meet with the Rating Agencies (Moody's Investors Services, Standard & Poor's Corporation and Fitch Ratings) in January/February 2014 and present the Port's financial picture. Additional credit tasks include:

- Provide any follow-up information, as requested
- Receive ratings from the three Rating Agencies
- Evaluate rating impact on financing

The Rating Agencies will present the Port's financing to their respective credit committees. Upon issuance of the rating, the Rating Agencies will publish a summary of the ratings. Additionally, each Rating Agency will periodically review the Port's credit status as long as the bonds are outstanding.

B. Preliminary Official Statement (POS) and Continuing Disclosure Certificate

- Complete disclosure document

C. Bond Sale/Pricing

- The underwriters will pre-market the Port's bonds to the investment community.
- Port staff, together with our Financial Advisors, will negotiate interest rates and prices for purchase of the bonds by the Underwriters.

D. Closing

- The financing team will execute the final financing documents.
- The Port will deliver the bonds to the underwriters on the closing date in return for the purchase price ("proceeds"). The proceeds will be deposited into the Port's accounts established for the 2014 Bonds.

8. Financing Schedule (Subject to Change)

December 2013	Port Commission Meeting to approve resolution and bond documents
December 2013	Review underwriter proposals and select underwriters
January 2014	Port Commission Meeting to approve Preliminary Official Statement and Continuing Disclosure Certificate
January/February 2014	Rating Agency Meetings
January 29, 2014 – February 28, 2014	Board of Supervisors Approval Process
February/March 2014	Post Preliminary Official Statement
February/March	Pricing

2014	
Mid-March	Closing and Receipt of Proceeds

SUMMARY

Port staff recommends issuing up to \$30 million in 2014 Port Revenue Bonds and approving the Port Commission Resolution, the Second Supplement to Indenture of Trust, and the Bond Purchase Contract. Port staff will return with a completed Preliminary Official Statement and Continuing Disclosure Certificate with a target date of January 14, 2014.

There could be other unforeseen issues that arise between now and the date of the bond sale. The Executive Director will be monitoring the progress of this transaction and will delay the sale should, in her opinion, any negative consequences outweigh the benefits of issuing the bonds.

Prepared by: Elaine Forbes, Deputy Director
Finance and Administration

Attachments:

1. Port Commission Resolution
2. Second Supplement to the Indenture of Trust
3. Bond Purchase Contract

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

RESOLUTION NO. 13-53

- WHEREAS,** The Port faces the challenge of limited resources to address an aging infrastructure with \$1.6 billion in deferred capital costs; and
- WHEREAS,** The Port Commission has put in place a Capital Policy, which requires a minimum annual investment equal to 20% of operating revenue in capital and a debt to make larger investments in key business lines and facilities; and
- WHEREAS,** The proposed 2014 Port Revenue Bonds would provide financing for the Port's mission critical James R. Herman Cruise Terminal and to address deferred capital needs for historic piers that support private leasing activity; and
- WHEREAS,** The Port Commission of the City and County of San Francisco (the "Port Commission" or the "Port," as applicable) desires to finance certain Phase II capital improvements to Pier 27 and certain structural capital improvements to Piers 19, 23, 29, 29½ and 31 (collectively, the "Projects") with proceeds from the issuance, sale and delivery of revenue bonds (the "Bonds"); and
- WHEREAS,** pursuant to the Charter (the "Charter") of the City and County of San Francisco (the "City") and Section 43, Article XII of the San Francisco Administrative Code (the "Port Bond Ordinance"), the Port Commission may issue revenue bonds with the approval of the Board of Supervisors of the City (the "Board"); and
- WHEREAS,** In connection with the issuance, sale and delivery of the Bonds, the Port Commission will enter into a Second Supplement to Indenture of Trust and certain other related documents and will prepare a Preliminary Official Statement and execute a final Official Statement; and
- WHEREAS,** The Port has paid, beginning on a date no earlier than 60 days prior to the adoption of this Resolution, and will pay, on or after the date hereof, certain expenditures (the "Expenditures") in connection the Projects; and
- WHEREAS,** The Port Commission has determined that those moneys previously advanced no more than 60 days prior to the date hereof and to be paid on and after the date hereof to pay the Expenditures are available only for a temporary period and it is necessary to reimburse the Port for the Expenditures from the proceeds of one or more issues of tax exempt bonds (the "Tax-Exempt Bonds"); and

WHEREAS, The Bonds will be sold by negotiated sale pursuant to a bond purchase contract; and, now, therefore, be it

RESOLVED, By the San Francisco Port Commission as follows:

Section 1. Recitals. The Port Commission finds and determines that all of the recitals above are true and correct.

Section 2. Conditions Precedent. But for the publication of the Official Statement and Continuing Disclosure Certificate, all conditions, things and acts required by law to exist, to happen and to be performed precedent to and in the execution and delivery of the Bonds exist, have happened and have been performed in due time, form and manner in accordance with applicable law, and the Port is authorized pursuant to the Charter and the Port Bond Ordinance to incur indebtedness in the manner and form provided in this Resolution, subject, however, to approval by the Board of a resolution authorizing the issuance and delivery of the Bonds.

Section 3. Approval of the Bonds. Conditioned on its prior approval of the Preliminary Official Statement and Continuing Disclosure Certificate for the Bonds, the Port Commission hereby approves the issuance, sale and delivery of the Bonds, which shall be executed and delivered in accordance with the Indenture of Trust dated as of February 1, 2010 (the "Master Indenture") between the Port Commission and U.S. Bank National Association, as successor trustee (the "Trustee"), as previously amended and supplemented and as amended and supplemented by the Second Supplement to Indenture of Trust referred to in Section 4 below (collectively, the "Indenture"), as the same is finally executed and delivered. The proceeds of the Bonds will be used to (i) fund the Projects, including repayment of any commercial paper issued by the City for purposes of the Projects; (ii) fund one or more reserve funds or purchase one or more reserve sureties, as appropriate; (iii) fund capitalized interest, if any; and (iv) pay costs of issuance of the Bonds. The Bonds shall be designated as "Port Commission of the City and County of San Francisco Port Revenue Bonds, Series 2014," with such series designation or such other designation as deemed appropriate by the Executive Director of the Port or her designee. The Bonds shall be issued in an aggregate principal amount not to exceed thirty million dollars (\$30,000,000), with an interest rate not to exceed twelve percent (12%) per annum and shall have a final maturity date not later than 30 years following the dates of issuance thereof. The Bonds may be issued in one or more series or sub-series and in whole or in part as tax-exempt or taxable obligations. The Bonds shall be subject to redemption as set forth in the Indenture. To the extent deemed necessary or desirable by the Executive Director, this Port Commission authorizes the procurement of credit enhancement for the Bonds, including, but not limited to, municipal bond insurance or a debt service reserve fund surety bond, and the documents authorized herein may be modified or amended to permit the procurement of credit

enhancement for the Bonds, to the extent deemed necessary or desirable by the Executive Director, upon consultation with the City Attorney.

Section 4. Official Intent to Reimburse. The Port hereby declares its intention to reimburse itself with the proceeds of the Tax-Exempt Bonds for the Expenditures with respect to the Projects made no more than 60 days prior to the date hereof. The Port reasonably expects that on or about the date of issuance of the Tax-Exempt Bonds that it will reimburse the Expenditures with the proceeds thereof. The Expenditures will be (a) of a type properly chargeable to a capital account under general federal income tax principles (determined in each case as of the date of the Expenditure), (b) a cost of issuance with respect to the Tax-Exempt Bonds, (c) a nonrecurring item that is not customarily payable from current revenues, or (d) a grant to a party that is not related to or an agent of the Port so long as such grant does not impose any obligation or condition (directly or indirectly) to repay any amount to or for the benefit of the Port.

Section 5. Approval of the Second Supplement to Indenture. The form of the Second Supplement to Indenture of Trust, between the Port and the Trustee, as presented to this Port Commission, copies of which are on file with the Secretary of the Port Commission, is hereby approved. The Executive Director of the Port is hereby authorized to execute the Indenture, with such changes, additions and modifications as the Executive Director may make or approve in accordance with Section 9 hereof.

Section 6. Sale of Bonds by Negotiated Sale; Selection of Underwriters. The Executive Director is hereby authorized to sell the Bonds by negotiated sale pursuant to a purchase contract as described in Section 7 below, if the Director determines that such manner of sale is in the best interest of the Port, such determination to be conclusively evidenced by the execution and delivery of such purchase contract for the Port. In order to facilitate the sale of the Bonds by negotiated sale, the Executive Director is hereby authorized and directed to select one or more investment banking firms from the City Controller's "as needed" pool and to contract with the firm or firms to act as underwriter(s) for the Bonds in accordance with Port policies and procedures.

Section 7. Approval of Bond Purchase Contract relating to the Bonds. The form of a bond purchase contract between the Port and the underwriting firm or firms appointed by the Executive Director, relating to the Bonds (the "Bond Purchase Contract"), as presented to this Port Commission, a copy of which is on file with the Secretary of the Port Commission, is hereby approved. The Executive Director is hereby authorized to execute the Bond Purchase Contract, with such changes, additions and modifications as the Executive Director may approve in accordance with Section 9 hereof; provided that the underwriters' discount with respect to the Bonds shall not exceed sixth-tenths of one percent (0.6%) of the

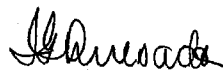
principal amount of the Bonds and the true interest cost with respect to the Bonds shall not exceed seven percent (7%) per annum, such approval to be conclusively evidenced by the execution and delivery of the Bond Purchase Contract by the Executive Director.

Section 8. General Authority. The Executive Director, the Secretary of the Port Commission and other officers of the Port, the City Attorney and their duly authorized deputies and agents are hereby authorized and directed, jointly and severally, to take such actions and to execute and deliver such certificates, agreements, requests or other documents as they may deem necessary or desirable to implement the proposed financing through the execution and delivery of the Bonds, to enter into the Indenture and the Bond Purchase Contract, to facilitate the issuance, sale and delivery of the Bonds and to obtain bond insurance or other credit enhancements with respect to the financing of the Projects and otherwise to carry out the provisions of this Resolution.

Section 9. Modifications, Changes and Additions. The Executive Director is hereby authorized to approve and make such modifications, changes or additions to the Indenture and the Bond Purchase Contract (collectively the "Financing Documents") upon consultation with the City Attorney, as may be necessary or desirable in the interests of the City, and which changes do not materially increase the obligations of the Port Commission under the Financing Documents. The Executive Director's approval of such modifications, changes or additions shall be conclusively evidenced by the execution and delivery by the Executive Director of the Financing Documents.

Section 10. Ratification of Prior Actions. All actions authorized and directed by this Resolution and heretofore taken are hereby ratified, approved and confirmed by this Port Commission.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of December 12, 2013.



Secretary

MEMORANDUM

March 21, 2014

TO: MEMBERS, PORT COMMISSION
Hon. Leslie Katz, President
Hon. Willie Adams, Vice President
Hon. Kimberly Brandon
Hon. Mel Murphy
Hon. Doreen Woo Ho

FROM: Monique Moyer
Executive Director

SUBJECT: Request approval of (1) the form of the Preliminary Official Statement relating to the Bonds and authorizing its distribution to potential investors; and (2) the form of the Continuing Disclosure Certificate related to the Revenue Bonds

DIRECTOR'S RECOMMENDATION: Approve Attached Resolution

EXECUTIVE SUMMARY

The Port Commission approved resolution no. 13-53 at the December 10, 2013 meeting authorizing the issuance of up to \$30,000,000 of Series 2014 Port Revenue Bonds (Revenue Bonds). The Preliminary Official Statement (POS) and form of the Continuing Disclosure Certificate is now submitted in substantial final form to the Port Commission for approval. These documents are required to be approved by the Port Commission since they serve as disclosure documents for potential investment and commitments by the Port to potential investors regarding ongoing disclosure.

BACKGROUND

As part of the Port Commission's debt program, which is intended to make larger investments in key business lines and facilities, the Port Commission approved 2014 Port Revenue Bonds to provide financing for the Port's mission critical James R. Herman Cruise Terminal and to address deferred capital needs in historic piers to support leasing activity.

THIS PRINT COVERS CALENDAR ITEM NO. 11A

The anticipated expenditures for the 2014 Port Revenue Bonds are as follows:

Table 1 – Project Descriptions

Project Description	2014 Bond Allocation
Phase II of the James R. Herman Cruise Terminal – Project consists of finishing the remaining portions of the cruise terminal building, including the U.S. Customs and Border Protection facilities, building out the Northeast Wharf Plaza and pier point, the ground transportation area, apron and substructure repairs, installation of maritime equipment such as the mobile gangway system, fenders and bollards, electrical upgrades, and provision of miscellaneous furniture and equipment. The sources for the total Phase II project cost of \$47.7 million include proceeds of the 2014 Port Revenue Bonds, General Obligation Bond proceeds for the park improvements and a FEMA grant for security improvements.	\$19,532,000
Northern Waterfront Historic Pier Structures Repair Project – Pier 29½ and Pier 31. Project consists of structural repairs to the superstructure (columns, beams, truss members, and roof decking), exterior apron deck reconstruction, window repairs, provide and repair doors to the apron for egress and safety ladders for roof access, removal and replacement of roofing and miscellaneous sheet metal caps and flashing, and provide plumbing and electrical infrastructure needed for restrooms, lighting and potential tenant needs. The sources for the total project cost of \$6 million include proceeds of the 2014 Port Revenue Bonds and reallocated proceeds of the 2010 Port Revenue Bonds.	917,000
Northern Waterfront Historic Pier Structures Repair Project – Pier Improvements. Project consists of capital improvements to support leasing activities, which may include substructure work for Pier 29 and/or historic window rehabilitation. The project is intended to provide funding for capital improvements to upgrade and re-release vacant facilities. The sole source of funds for this project consists of proceeds of the 2014 Port Revenue Bonds.	1,026,000
Project total	\$21,475,000
Bond Issuance Costs	766,200
Debt Service Reserve Fund	<u>1,708,800</u>
Total 2014 Anticipated Revenue Bond Uses	\$ 23,950,000
Additional Authorization Pending Sale	<u>6,050,000</u>
Total	\$30,000,000

While Port staff currently expects to issue \$24 million in principal amount of 2014 Port Revenue Bonds, the Port Commission has authorized the issuance of Port revenue bonds in an amount up to \$30 million. The additional authorization provides staff sufficient flexibility to address any changes in interest rates, market conditions, and bond payment structuring between now and the date when the 2014 Port Revenue Bonds are sold. Staff anticipates sale of the Port's 2014 Port Revenue Bonds in April 2014. A portion of the 2014 Port Revenue Bond proceeds designated for project costs may be used to refinance commercial paper previously issued by the City to commence Phase II

James R. Herman Cruise Terminal following completion of the 34th America's Cup events.

Financial Impacts

As explained in detail in the December 6, 2013 staff memorandum requesting approval of the Series 2014 Revenue Bonds, the issuance of the 2014 Bonds would add approximately \$1.71 million in annual debt service to the Port's annual operating expenses, increasing the overall debt payment obligation to \$7.3 million from \$5.6 million through 2023 with lower annual payments thereafter. This is within the Port's estimated bonding capacity, with estimated minimum debt service coverage of approximately 4.70 times debt service on the Port's revenue bonds and 2.77 times debt service on the Port's Revenue Bonds and the City's COPs over the forecast period. An increase in interest rates (yields on the Bonds) at the time of sale would result in increased debt service obligation which would result in lower debt service coverage.

Overview of Bond Documents

The Port's Disclosure Counsel, Hawkins Delafield & Wood, LLP assisted in the preparation of the Preliminary Official Statement and the Continuing Disclosure Certificate. In addition, all financing documents have been reviewed by bond counsel, Jones Hall, co-bond counsel, Schiff Hardin LLP, the Office of the City Attorney and the financing team, which includes Port staff, PFM and Backstrom McCarley Berry as co-financial advisors, Siebert Brandford Shank & Co., L.L.C. as senior managing underwriter and Stifel Nicolaus as co-managing underwriter, have had an opportunity to review the Preliminary Official Statement and ask questions of staff and make comments to the document.

Preliminary Official Statement – The Preliminary Official Statement is the document that is distributed to potential investors to solicit their interest in purchasing the Series 2014 Bonds. It provides information concerning the bond issue and operational and financial information on the Port. As required by the Securities and Exchange Commission (SEC), the document must be accurate in all material respects, and may not have any misleading misstatements or omissions. To assure accuracy of this document, all bodies approving the form of Preliminary Official Statement should carefully review it prior to authorizing its distribution to potential investors. Subsequent to sale of the Series 2014 Bonds in the bond market, the bond interest rates and sales price information will be inserted. After the pricing information is inserted, the preliminary designation will be deleted from the document caption and the document will be identified as the Official Statement which will be distributed to all purchasers of the Series 2014 Bonds upon closing of the transaction.

Continuing Disclosure Certificate – The continuing disclosure certificate is an agreement between the Port and U.S. Bank serving as Dissemination Agent, under which the Port agrees to provide certain financial and operating data, including the Port's financial statements, on an annual basis and to provide notices of certain specified events to the marketplace for the life of the Series 2014 Bonds.

NEXT STEPS

Port staff is steadily making progress towards issuance of the 2014 Revenue Bonds in April 2014. There are several major tasks yet to be completed:

- A. Rating Agency Review
- Port staff will meet with the Rating Agencies (Moody's Investors Services, Standard & Poor's Corporation and Fitch Ratings) in April 2014 and present the Port's financial picture. Additional credit tasks include:
- Provide any follow-up information, as requested
 - Receive ratings from the three Rating Agencies
 - Evaluate rating impact on financing

The Rating Agencies will present the Port's financing to their respective credit committees. Upon issuance of the rating, the Rating Agencies will publish a summary of the ratings. Additionally, each Rating Agency will periodically review the Port's credit status as long as the bonds are outstanding.

- B. Bond Sale/Pricing
- The underwriters will pre-market the Port's bonds to the investment community.
 - Port staff, together with our Financial Advisors, will negotiate interest rates and prices for purchase of the bonds by the Underwriters.
- C. Closing
- The financing team will execute all documents necessary to close the transaction. This will include the preparation of a final Official Statement.
 - The Port will deliver the bonds to the Underwriters on the closing date in return for the purchase price ("proceeds"). The proceeds will be deposited into the Port's accounts established for the 2014 Bonds.

Financing Schedule (Subject to Change)

December 2013	Port Commission Meeting approval of resolution authorizing bond issuance and certain bond documents as well as selection of the bond underwriters
March 25, 2014	Port Commission Meeting to approve Preliminary Official Statement and Continuing Disclosure Certificate
March 31, 2014	Capital Planning Committee Approval of the 2014 Revenue Bonds
April 2 & 8, 2014	Rating Agency Meetings
April 2014	Board of Supervisors Approval of the 2014 Revenue Bonds
April 2014	Receive Ratings and Post Preliminary Official Statement
May 2014	Sale and Closing

RECOMMENDATION

Port staff recommend Port Commission adopt the attached resolution approving the Preliminary Official Statement and Continuing Disclosure Certificate in substantially final forms and authorize the distribution of the Official Statement.

Prepared by: Elaine Forbes, Deputy Director
Finance and Administration

Attachments:

1. Draft Preliminary Official Statement
2. Draft Continuing Disclosure Certificate

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

RESOLUTION NO. 14-18

WHEREAS, The Port Commission of the City and County of San Francisco (the "Port Commission") desires to finance certain Phase II capital improvements to Pier 27 and certain structural capital improvements to Piers 19, 23, 29, 29½ and 31 (the "Project") and certain other Port projects; and

WHEREAS, Pursuant to the Charter of the City and County of San Francisco (the "City") and Section 43, Article XII of the San Francisco Administrative Code (the "Port Bond Ordinance"), the Port Commission may issue revenue bonds with the approval of the Board of Supervisors of the City (the "Board"); and

WHEREAS, The Port Commission adopted Resolution No. 13-53 on December 12, 2013, authorizing the issuance, sale and delivery of revenue bonds in an amount not to exceed \$30,000,000 (the "Bonds") and the selection of Underwriters, and approving the form of and authorizing the execution and delivery of the Second Supplement to Indenture of Trust, the Bond Purchase Contract and certain other related documents; and

WHEREAS, In connection with the issuance, sale and delivery of the Bonds, the Port Commission desires to approve a Preliminary Official Statement and authorize the execution of a final Official Statement and Continuing Disclosure Certificate; and, now, therefore, be it

RESOLVED, The Port Commission hereby acknowledges and approves the following:

Section 1. Recitals. All of the recitals herein are true and correct.

Section 2. Conditions Precedent. All conditions, things and acts required by law to exist, to happen and to be performed precedent to and in the execution and delivery of the Bonds exist, have happened and have been performed in due time, form and manner in accordance with applicable law, and the Port is authorized pursuant to the Charter and the Port Bond Ordinance to incur indebtedness in the manner and form provided in this Resolution, subject, however, to approval by the Board of a resolution authorizing the issuance and delivery of the Bonds.

Section 3. Approval of the Official Statement in Preliminary and Final Form. The form of an official statement relating to the Bonds (the "Official Statement"), as presented to this Port Commission, a copy of which is on file in preliminary form with the Secretary of the Port Commission, is hereby approved. The Executive Director is hereby authorized to approve the distribution of the Preliminary Official Statement in substantially said form, with such changes, additions, modifications or deletions as the

Executive Director may approve; such approval to be conclusively evidenced by the Executive Director's direction to distribute the Preliminary Official Statement to potential purchasers of the Bonds. The Executive Director is hereby authorized to cause the distribution of the Preliminary Official Statement, deemed final for purposes of Rule 15c2-12 of the Securities and Exchange Act of 1934, as amended, and to sign a certificate to that effect. The Executive Director is hereby further authorized and directed to sign the Official Statement in final form.

Section 4. Approval of the Continuing Disclosure Certificate. The form of a Continuing Disclosure Certificate of the City, as presented to this Port Commission, a copy of which is on file with the Secretary of the Port Commission, is hereby approved. The Executive Director is hereby authorized to execute the Continuing Disclosure Certificate, with such changes, additions, modifications or deletions as the Executive Director may approve; such approval to be conclusively evidenced by the execution and delivery of the Continuing Disclosure Certificate by the Executive Director.

Section 5. General Authority. The Executive Director, the Secretary of the Port Commission and other officers of the Port, the City Attorney and their duly authorized deputies and agents are hereby authorized and directed, jointly and severally, to take such actions and to execute and deliver such certificates, agreements, requests or other documents as they may deem necessary or desirable to approve the Preliminary Official Statement and execute the final Official Statement and the Continuing Disclosure Certificate and otherwise to carry out the provisions of this Resolution.

Section 6. Ratification of Prior Actions. All actions authorized and directed by this Resolution and heretofore taken are hereby ratified, approved and confirmed by this Port Commission.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of March 25, 2014.



Secretary

Print Form

Introduction Form

By a member of the Board of Supervisors or the Mayor

Time stamp
or meeting date

I hereby submit the following item for introduction:

- 1. For reference to Committee:
An ordinance, resolution, motion, or charter amendment
- 2. Request for next printed agenda without reference to Committee
- 3. Request for hearing on a subject matter at Committee:
- 4. Request for letter beginning "Supervisor inquires"
- 5. City Attorney request
- 6. Call file from Committee
- 7. Budget Analyst request (attach written motion).
- 8. Substitute Legislation File No.
- 9 Request for Closed Session:
- 10. Board to Sit as A Committee of the Whole
- 11. Question(s) submitted for Mayoral Appearance before the BOS on

Please check the appropriate boxes. The proposed legislation should be forwarded to the following:

- Small Business Commission Youth Commission Ethics Commission
- Planning Commission Building Inspection Commission

Note: For the Imperative Agenda (a resolution not on the printed agenda), use a different form.

Sponsor(s):

Supervisor David Chiu

Subject:

Port Commission Revenue Bonds

The text is listed below or attached:

See attached.

Signature of Sponsoring Supervisor: David Chiu

For Clerk's Use Only:

140342

