File No. 100473

Committee Item No. 11
Board Item No. 14

COMMITTEE/BOARD OF SUPERVISORS

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Sub - Committee: Budget and Finance　　**Date:** April 28, 2010

Board of Supervisors Meeting　　**Date:** May 4, 2010

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Completed by: Andrea S. Ausberry　　**Date** Thursday, April 23, 2010
Completed by: Andrea S. Ausberry　　**Date** Thursday, April 29, 2010

An asterisked item represents the cover sheet to a document that exceeds 25 pages. The complete document is in the file.

[Adopting Five Year Financial Plans Submitted by the Port and the Airport]

Resolution adopting the five year financial plans submitted by the Port and the Airport under Charter Section 9.119.

WHEREAS, Charter Section 9.119 requires the Mayor to propose and the Board of Supervisors to adopt a five-year financial plan, and sets deadlines for the implementation of that requirement over time; and

WHEREAS, Section 9.119 provides that by July 1, 2010, the City shall adopt a five-year financial plan for those non-General Fund departments designated by ordinance for early adoption of the requirement; and

WHEREAS, Board of Supervisors Ordinance No. 21-10 designates the Port and the Airport for early implementation of Section 9.119; and

WHEREAS, The Port and the Airport have submitted their five-year plans for consideration under Section 9.119, which plans are on file with the Clerk of the Board of Supervisors in File No. 100473, which is hereby declared to be a part of this resolution as if set forth fully herein; and

WHEREAS, These financial plans are intended to be used as tool to plan for future budgets but are not binding upon those budgets; now, therefore, be it

RESOLVED, That the Board of Supervisors adopts the five-year financial plans submitted by the Port and the Airport.

PORT OF SAN FRANCISCO

Port of San Francisco
Five-Year Financial Plan

Fiscal Year 2010/11 – Fiscal Year 2014/15

April 23, 2010

Five Year Financial Plan
Fiscal Years 2010-11 to 2014-15

Background

The Port of San Francisco is operated as an enterprise department of the City and County of San Francisco. The Port's property is located on the eastern side of San Francisco in Supervisorial districts 3, 6 and 10. The Port's property consists of public tidelands, which are held in trust for the people of California, pursuant to the Burton Act of 1969. As trustee, the Port is required to promote maritime commerce, navigation and fisheries, as well as to protect natural resources and develop recreational facilities for public use.

Port Area • The Port area consists of 7½ miles of mostly contiguous waterfront property adjacent to the Bay, from Hyde Street Pier in the northeast to India Basin in the southeast. The area includes more than 834 acres consisting of 629 acres of landside property and 205 acres of waterside property. The Port owns or has responsibility for the maintenance of a great number of capital assets, including 39 pile-supported pier structures, 80 substructures (of both piers and marginal wharves between piers), 245 commercial and industrial buildings, over 3 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.

Port Activity & Employment • The Port is one of the most diverse ports in the nation. Commercial operations on Port property include restaurants, retail shopping, ferry service, commercial fishing, Bay excursions, harbor services, professional sports, bulk and breakbulk cargo, cruise ship calls, ship repair and much more. On an annul basis approximately 22 major public events are held at the Port. The Port estimates that approximately 24 million people visit or pass through the Port's facilities annually.

The Port is landlord to approximately 550 ground, commercial, retail, office, industrial and maritime industrial tenants, at several internally recognized locations such as Fisherman's Wharf, Pier 39, the Ferry Building, and AT&T Park (home of the San Francisco Giants). The majority of tenants at the Port are small to medium sized businesses. Port tenants operate tourism and entertainment venues, food and beverage outlets, concrete batching facilities, land and water transportation services, construction firms, storage facilities, commercial recycling operations, etc. The Port is also home to a sea lion sanctuary, a fleet of historic fishing vessels, a Fisherman's & Seaman's Memorial Chapel, a mechanical museum, an historic submarine, a WW II Liberty Ship, an artist colony, the only sandy beach on the east side of the city, a public boat ramp, a public dock, an expanding collection of waterside parks, an off-the-grid Eco Center, bird sanctuaries and the largest floating ship repair facilities on the Pacific Americas.

Generally, Port tenants account for approximately 9,500[1] private sector jobs not including self-employed workers who are not covered by State unemployment insurance law. Accommodation, Entertainment and Retail jobs represent the greatest share of total Port private sector employment. Technology and Business Services represents the second largest Port private employment and Logistics and Utilities represents the third largest sector.

Port Governance • The Port is governed by a 5-member Board of Commissioners, each of whom is appointed by the Mayor and subject to confirmation by the Board of Supervisors. The Port operates through 7 different divisions with approximately 206 FTEs. The Port is advised by 7 different community advisory committees.

The use of Port property and facilities, the rehabilitation and development of its assets, and its operations are all subject to a number of controls. The controls within which the Port must operate include those imposed by the Port's 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 San Francisco Board of Supervisors, the City Charter and Administrative Codes, federal regulation, Port tenants, and community interest groups, and certain Port piers, buildings and other structures are also subject to regulations due to their historic significance. Generally, the Port adheres to the policies, guidance and regulations of 14 separate local, regional, state and federal agencies.

Mission Statement • The Port's mission statement summarizes the Port's founding mandate contained in the State of California's Burton Act:

> The Port of San Francisco is a public enterprise committed to promoting a balance of maritime, recreational, industrial, transportation, public access and commercial activities on a safe, secure and self-supporting basis through appropriate management and development of the waterfront for the benefit of the people of the State of California.

Bond Covenants & Credit Ratings • In February 2010, the Port issued its first "new money" revenue bonds in 25 years. As such, the Port entered into long-term agreements with bondholders that require, among many things, the Port to maintain annual net revenues equal to 130% of annual debt service, maintain a 15% annual operating reserve and maintain a debt service reserve fund. The Port received the following long-term bond ratings:

Moody's Investors Service, Inc.	A1
Standard & Poor's Credit Ratings Services	A-
Fitch Ratings	A

[1] *From Quarterly Census of Employment and Wages for San Francisco, 2006*

Strategic Focus & Major Challenges

The Port operates under a broad set of strategic goals reflecting its diverse activities, interests, and value to the Port. Such goals range from protecting and promoting the Port's maritime industries, to attracting residents & visitors to the waterfront, managing the Port with operational and environmental safety and security, etc.

Strategic Focus:

The Port's strategic focus for fiscal years 2010-11 and 2014-15 are as follows:

Strategy #1 Ensure the long-term viability of the Port's 40-year history of passenger cruising by designing, financing and constructing a renewed cruise terminal at Pier 27, including the Northeast Wharf Plaza

A recent economic impact study prepared by Bay Area Economics concluded that the cruise ship industry in San Francisco supports approximately $31.2 million annually in economic activity and generates 300 jobs within San Francisco. Nearly $1 million in annual tax revenues is paid directly to the City. The majority of the Port's cruise vessels dock at Pier 35 which has a number of physical and structural deficiencies. Pier 35 is not well-suited to service the Port's current cruise customers and, as passenger counts for new vessels continue to grow, will become unable to serve new classes of cruise vessels.

A new, state of the art, sustainable, multi-use cruise terminal is planned at Pier 27 on The Embarcadero across from Lombard Street. Pier 27 was selected by a Blue Ribbon panel as the most viable location for an upgraded cruise terminal capable of servicing the projected growth in cruise vessel size and passenger volumes. This is a public works project that includes (1) converting the existing pier and maritime shed for use as a primary single berth cruise terminal, (2) constructing the two acre Northeast Wharf Plaza on the western corner of Pier 27 along The Embarcadero edge, (3) creating a viable and efficient vehicular circulation program and (4) building in multi-use functionality to secure revenue-generating activities on non-cruise days. The Port has retained the Department of Public Works as project manager who in turn competitively selected a design team led by the joint venture team of KMD Architects and Pfau Long Architecture in association with cruise terminal design consultant, Bermello Ajamil & Partners.

The Port hopes to conclude design in FY 2010-11 and conclude its entitlement process in FY 2011-12. The Port anticipates construction to commence in FY 2012-13 and conclude in FY 2013-14. The Port's 5-year fiscal plan does not assume any new revenue growth from the Pier 27 terminal project.

Strategy #2 Protect and promote San Francisco as the import/export center for bulk and neo-bulk cargo markets

There are 5 public ports and 1 private port on the San Francisco Bay serving the Bay Area. The Port of San Francisco competes in the bulk and neo-bulk cargo markets. San Francisco's leading cargo is imported construction aggregates shipped in from Canada. The Port also handles neo-bulk cargoes such as steel coils, rebar, structural steel, lumber and project cargoes. San Francisco's construction industry is bolstered through the movement of construction materials directly in and out of San Francisco by ship, rather than trucking them across the Bay Bridge. The ability to bring such cargoes directly into the Port serves to contain construction prices as well as lessen the number of truck trips and environmental impacts within the City.

San Francisco owns one of the last remaining ocean terminals in the Bay Area handling non-containerized general cargo. The Port must aggressively market the facility to leading shippers with the expectation that cargo volumes will begin to increase as the economy improves. Key targets include a potentially significant opportunity to serve as a national distribution for import automobiles. Additionally, there is strong market interest for exporting iron ore and other raw materials to supply the steelmaking industries in China and other Asian countries. This factor, as well as President Obama's push to double exports in five years, could position the Port to develop infrastructure for the export of bulk commodities. The Port's deep-water berths, freight rail infrastructure and available industrial space are well-suited for supporting this activity.

If properly marketed, the Port projects annual cargo shipping revenue of approximately $4.5 million in 2011, rising to $5.4 million in 2015, representing approximately 4% revenue growth per year. As one of the key Bay Area ports handling construction materials, San Francisco is positioned favorably to supply major Bay Area infrastructure projects such as the eastern span of the Bay Bridge, Transbay Terminal, California High-Speed Rail project, SFPUC capital projects in San Francisco, Mission Bay Redevelopment project and Doyle Drive reconstruction.

Strategy #3 Ensure the highest possible commercial utilization of Port property to generate sufficient revenue to continue to self-fund the Port's Mission

Commercial leasing accounts for 73.3% of the Port's annual operating revenues. In addition to being a large contributor to the City's tourism industry, the Port also provides affordable rental property to hundreds of small businesses, non-profit organizations and industrial tenants that may otherwise locate outside of the City.

Although diversified in terms of the numbers of users, several categories of Port tenants represent a larger share of Port revenues than do others. Rent from the Port's diversified industrial tenants represent approximately 27% of such revenues. The Port's industrial portfolio consists of over 200 tenancy agreements and represents approximately 50% of all Port real estate lease agreements. These tenants could relocate outside of the Port since their businesses are not water dependent.

As economic conditions continue to improve over the next five years, and the City's 2009 Eastern Neighborhoods Plan is implemented, the Port must strategically respond to "Production Distribution & Repair ("PDR" or "light industrial") needs to capture higher utilization of Port properties in the Southern Waterfront. The Piers 90-96 Backlands contain 23 acres of undeveloped land that can support trucking, industrial and cargo activities. Responding to desires for an Eco-Industrial Park in this area, the Port will continue working with existing tenants and attract new tenants to co-locate industrial uses to enable by-product exchange, incorporate green design and green technologies to foster resource recovery and reduce industrial environmental impacts. The Port is working with the Department of Public Works to design and construct improvements to the Piers 90-96 Backlands using $8 million in 2010 revenue bond proceeds.

Strategy #4 Attract public and private development partners to restore Port properties for both economic viability and preservation of historic assets

The Port's Waterfront Land Use Plan (Waterfront Plan) was founded on the principle that the Port and City's public investment required to restore the Port's property, including its historic resources, is too costly, and that outside capital is needed to accomplish the goals of the Waterfront Plan. These "public-private partnerships" deliver mixed use development projects restoring historic properties on the waterfront and building on Port vacant land such as the Ferry Building and AT&T Ballpark. Under this model, the Port utilizes competitive processes to select private development partners who bring private equity, real estate and development acumen, and a vision for a mixed use development project. Port adds its expertise taking a lead role in the development process through negotiation of a Lease Development and Disposition Agreement and a Lease and through a series of development approvals, including the Board of Supervisors, the California State Lands Commission and the Bay Conservation and Development Commission.

This model has yielded notable successes, including AT&T Ballpark, the Ferry Building, Pier 1, the Rincon Restaurants and Piers 1½-3-5. Through these efforts, Port staff and the Port Commission have learned a great deal about the combination of uses, including maritime, retail, and office uses, with robust public access, that lead to regulatory approval of historic rehabilitation projects constructed in accordance with Secretary of Interior Standards for Historic Rehabilitation.

In the past several years, the Port has developed additional public finance tools to augment the public-private partnership model. The Port has secured the legislative authorization to form Infrastructure Finance Districts (IFDs) through state legislation and the opportunity to secure funding equivalent to 75% of future local taxes generated at Pier 70 (through November 2008's Proposition D). These are additional tools the Port will deploy to enhance its primary public-private partnership model.

Currently the Port expects to execute a lease with the Exploratorium in 2010 and commencement of construction at Pier 15 shortly thereafter. The Port is in negotiations with private developers for Seawall 351 and Seawall 337. The Port anticipates offering portions of Pier 70 for to secure a private development partner. These projects, when implemented, are expected to generate over $50 million in state and local taxes and over $2 billion in regional economic activity. Successful reuse of Pier 70 would fulfill $545 million of the Port's identified capital repair needs representing over a quarter of all capital repair needs identified in the Port's FY 2011-2020 Ten-Year Capital Plan Update.

Strategy #5 Provide opportunities for residents of San Francisco and the region as well as visitors to connect with the waterfront through continued creation of public access and open space improvements.

With the adoption of the Port's Waterfront Land Use Plan in 1997, the Port began the process of reconnecting San Francisco with its waterfront. The plan called for the creation of a continuous waterfront walkway linking the various historic resources and adjacent neighborhoods with the 7½ miles of San Francisco bay front. Since plan adoption, the Port has developed the Embarcadero Promenade which links Fisherman's Wharf to South Beach and AT&T Ballpark.

Several major open spaces have been constructed along the promenade including Rincon Park and the Pier 14 pedestrian pier adjacent to the Ferry Building.

In 2000, the Port reached agreement with the San Francisco Bay Conservation and Development Commission on a Special Area Plan (SAP). The SAP focused on areas of the Port to be designated for marine activities. It also indicated where major new public open spaces would be developed. Over the next five years the Port must deliver on the promised open spaces. Specifically, the Port is partnering with The Exploratorium at Piers 15-17 to create 110,000 square feet of public access including a 32,000 square foot plaza. Construction begins this summer.

In addition, Port staff, working with DPW, must complete the designs for the Brannan Street Wharf (65,000 sq. ft.) in South Beach, the Heron's Head Park expansion (2 acres) in the Bay view and the Pier 43 Promenade in Fisherman's Wharf (400 linear ft.) in FY 2010-11. All three projects are funded through 2008 Proposition A General Obligation bond funds and are to be constructed in FY 2010-11. The Port must also move forward with several other projects as part of the Blue Greenway that are in the planning process which will use Proposition A funds.

In addition, four other parks are in the early design phase and the Port must work to start construction before the FY 2014-15. Three are located on Terry Francois Blvd. in Mission Bay and are being developed by the Redevelopment Agency. The Northeast Wharf Plaza is a two acre park in the northern waterfront and must move forward as part of the Pier 27 cruise terminal project.

Strategy #6 Promote environmental sustainability in new development projects and Port operations to protect public health and the environment and to support the commercial and recreational viability of the waterfront

The Port is engaged in ongoing redevelopment of its properties. These types of project typically proceed in phases from site characterization through design and construction, and require adherence to a multitude of environmental, land use, and other regulatory requirements. Redevelopment also offers the opportunity to incorporate cleanup of historic environmental contamination (often referred to as brownfields) as well as leading edge environmental strategies and best management practices in new construction.

San Francisco is a leader in the development of environmental policy and the Port is in a position to implement these policies throughout the waterfront. The Port is developing a green building policy that reflects City policy and requirements, as well as the specific needs and opportunities posed by waterfront development. Green building practices that can be implemented in upcoming development include reuse of existing structures, recycling existing materials, selecting sustainable materials, water and energy efficiency, use of renewable energy, and operational and waste management strategies.

The Port has recent experience implementing such practices and is incorporating these and others into future projects. In 2007, the San Francisco Public Utilities Commission and the Port installed 1292 solar PV panels on the roof of the Pier 96 shed. Funded by the U.S. Environmental Protection Agency, the Bay Area Air Quality Management District and the San Francisco Public Utilities Commission, the Pier 27 shore-side power project will be among the first clean energy projects for the cruise industry on the west coast. Each ship that connects to the shore-side power system will save approximately 16 tons of fuel and reduce diesel emissions by approximately 140 pounds. Current and anticipated development projects will meet a minimum LEED Silver certification. Reuse of existing structures is among the most effective green building strategies. The Port's anticipated redevelopment of the Pier 70 area offers the opportunity to clean up and rehabilitate dozens of uniquely valuable historic buildings and return them to economically productive and publically accessible use.

The Port is nearly finished with an effort, originating in the City's Climate Action Plan, to identify sources and locations within the 7.5 miles of waterfront where the greenhouse gas emissions are greatest. This offers the opportunity to focus emission reduction efforts efficiently and effectively.

Major Challenges:

Meeting the criteria of the Port's Mission and to continue to serve the City economically and enhance San Francisco's attractiveness, is not without significant challenges. Challenges directly affecting the Port's ability to achieve its Strategic Focus include the following ongoing issues.

Challenge #1 The Port's portfolio consists of aged infrastructure exacerbated by deferred maintenance

The majority of the Port's infrastructure is more than 75 years old and is heavily impacted by the marine environment and general wear & tear. The Port has calculated a cost of $2.1 billion to adequately repair its portfolio. However, the Port has only identified $688 million in potential funding sources to address these issues. In the Port's 5-year Fiscal Plan, the Port anticipates spending an annual average of $9.5 million in operating revenues on maintenance and capital plans. 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. These parts of the piers tend to degrade most rapidly because they are repeatedly exposed to wet-then-dry conditions due to tidal and storm movement of the Bay waters. Unfortunately, the Port has already lost 15 piers completely. Additionally, over the past five years, the Port has had to condemn two piers when the piles became deteriorated to such an extent that it would be unsafe for the Port's tenants to continue to use the piers. Numerous other piers have been subject to severe weight restrictions thereby limiting their revenue generation. As the Port's "challenged" properties continue to deteriorate and are taken off-line, it will be critical for the Port to either repair these facilities or create other new areas that will replace lost revenue-sites.

Challenge #2 The Port's tenants are susceptible to and impacted by changes in economic conditions

The Port does not offer a singular service or product such as safety protection or water. While the Port's contributions to the City's economy are numerous, the demand for Port facilities is fairly elastic and susceptible to negative changes in the Bay Area economy. The Port's ability to adhere to its strategies is reliant on its ability to generate the revenues to fund them. Challenging economic conditions have a direct impact on the revenues of Port tenants and therefore the Port itself.

Port vacancy rates have closely followed rates of vacancy in the City real estate market. The more dramatic swings can be attributed to large Port properties coming onto or off of the market, whether because of completion of construction or renovation, or because of temporary or long-term closure of facilities in need of renovation. Further, when large properties such as Piers 27, 29, and 31 have been scheduled for development, there is typically less leasing activity because the Port is only able to offer short lease terms to prospective tenants.

Challenge #3 Costs to maintain, repair, beautify and enhance Port facilities are high

Given the age of most of the Port's infrastructure and its location over water, costs to maintain, repair, beautify and enhance Port facilities are greater than costs of equivalent landside facilities. As a result, the Port's limited dollars do not buy as much improvement as they would landside. While the historic and cultural value of many of the Port's buildings are a great asset, removal of hazardous materials and restoration to applicable standards for historic preservation make them much more costly to maintain, repair and reuse. Additionally, the high cost basis often results in a disincentive for existing tenants to perform improvements or for developers to make investment in the Port's infrastructure. At those properties that are being redeveloped (such as the Pier 27 cruise terminal or the Pier 15 Exploratorium project), significant tenant revenues will be disrupted and/or lost during construction and as a result of the new use as existing tenants are permanently displaced from these facilities. The Port will make every effort to retain current tenants and find them replacement space, but in some cases some tenants unfortunately will have to relocate off of Port property.

Challenge #4 Freight Rail infrastructure serving the Port is inadequate to serve cargo growth

One of the Port's key targets for cargo movement is a potentially significant opportunity to serve as a national distribution for import automobiles. However, in order to secure such an importer, the Port will need to move automobile cargo inland via efficient and expedient rail service. Currently, there is inadequate rail infrastructure serving the Port for such cargo, including rail tunnel clearance on the Union Pacific Railroad peninsula line just south of its cargo terminals. Additionally, plans for Caltrain electrification and/or California High Speed Rail services are proposed to limit allowable heights for railed cargoes.

Financial Operations

Revenues • The Port of San Francisco is an enterprise department, and as such, receives no revenue from taxes, instead it must generate all its operating funds and the majority of its capital funding through Port operations. The Port's revenue sources fall into three main categories:

1. Maritime
2. Real Estate
3. Other

Port operating revenues are derived 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, are projected to comprise approximately 78.5% per annum of Port operating revenues in the next 5 years. 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, are projected to comprise approximately 18.4% per annum of Port operating revenues. The bulk of Port 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 tenant turnover or capital investment in the creation or improvement of rental facilities. Other sources of funding available to the Port, used primarily for capital projects, include grants, Port Commission revenue bond proceeds, City general obligation bond proceeds, Infrastructure Financing District bond proceeds, tax increment revenue, tenant contributions and developer partner equity.

Expenses • 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 repair and maintenance activity of the Port relative to its facilities that does not extend the useful life and/or expand productive capacity of a capital asset is charged to operating expense.

Reserve Policy • In February 2008, the Port Commission adopted Resolution 08-12 which directs the Port to annually budget a 15% operating reserve defined as a percent of operating expenses.

Capital Plan • All of the piers currently in use by the Port or Port tenants were originally constructed around 100 years ago. Of those, only nine have been rehabilitated since 1950, including AT&T Ballpark, the Ferry Building, Pier 1, Piers 1½, 3 & 5, Pier 27, Pier 39, Pier 45, Pier 48, and Pier 80. Most of the buildings atop the Port's piers are 40 to 100 years old, making many of them historically significant structures.

The FY 2011-20 update of the Port's 10-year capital plan identifies a total need of approximately $2.1 billion, primarily for deferred maintenance and seismic upgrade work required on Port facilities. Of the $2.1 billion in total need, the Port has identified a total of $688 million in funding including: Port tenant obligations, the Port's annual operating budget, revenue bonds, development projects, Infrastructure Financing District bonds, General Obligation bonds, and the Water Resources Development Act of 2007. The largest element of the Port's Plan is the rehabilitation and redevelopment of the heavily blighted Pier 70 area, with an estimated need of approximately $650 million for that area.

The Port has developed policy options to address the unfunded portion of its plan including use of grant funds, tax increment financing and potential private development options. In November 2008, San Francisco's voters approved Proposition D which provides an option for the Board of Supervisors to capture general fund money equal to up to 75% of the payroll and hotel tax increment generated by future Pier 70 development to help fund Pier 70's immense public infrastructure and improvements.

As the Port focuses on delivery of revenue bond and general obligation bond funded projects over the next five years of the Plan, it is clear that the Port must leverage currently available sources of land-based finance (revenue bonds, infrastructure financing districts, community facility districts) with other sources of public and private funding to gap-finance its projects. This strategy will strengthen the Port's balance sheet in preparation for major projects at SWL 337 and Pier 70 that will require the Port to take on substantial new debt envisioned by the Capital Plan. Toward that end, Port staff is aggressively pursuing federal funding, including $20 million in U.S. Army Corps of Engineers funding authorized by Congress in the Water Resources Development Act but not yet appropriated to specific projects. The Port is also pursuing state funding in the form of AB 1199, a bill that would permit an IFD at Pier 70 to capture the state's share of tax increment at Pier 70.

The Port's recent ability to utilize the public resources of Infrastructure Finance Districts and other tax increment financing facilitated by Proposition D, private development on SWL 337 enabled by SB 815, inclusion of Port parks in a City General Obligation Bond, and federal funding of waterfront projects constitutes a beginning to a more financially sound and sustainable Port of San Francisco.

Five Year Forecast
Fiscal Years 2010/11 – 2014/15

REVENUE AND EXPENSE FORECAST
FISCAL YEARS 2010/11 THRU 2014/15
(in thousands)

	Budget 09/10	Budget 10/11	Budget 11/12	Forecast 12/13	Forecast 13/14	Forecast 14/15
Sources						
Estimated Fund Balance	$16,723	$18,564	$20,550	$18,500	$18,500	$18,500
Revenue						
Maritime	12,232	12,004	13,103	13,842	14,084	14,311
Real Estate	49,845	53,083	54,181	56,281	60,689	63,078
Other	1,800	1,810	2,064	2,265	2,530	2,663
General Obligation Bonds	13,557	16,217	-	-	-	-
Port Revenue Bonds	-	-	59,458	-	-	-
Interest Earnings Restricted for Capital Projs.	1,623	-	-	-	-	-
Total Sources	$95,780	$101,679	$149,356	$90,888	$95,803	$98,552
Uses						
Operating Expense	$54,785	$58,603	$61,190	$62,713	$64,436	$66,484
Total Debt Service	$4,703	$3,075	$3,077	$7,240	$7,196	$7,146
Annual Projects	$4,213	$4,712	$3,400	$3,500	$4,500	$4,500
Revenue Funded Capital Appropriations	$9,600	$9,557	$12,543	$7,200	$9,000	$9,000
Bond funded Capital Appropriations	$13,557	$16,217	$59,458	$0	$0	$0
Unappropriated Operating Reserve	$8,922	$9,514	$9,689	$10,236	$10,671	$11,421
Total Uses	$95,780	$101,679	$149,356	$90,888	$95,803	$98,552
Unappropriated Operating Reserve as a Percent of Operating Expense	15%	15%	15%	15%	15%	16%

Five Year Revenue Assumptions
Fiscal Years 2010/11 – 2014/15

Cargo
Revenue assumes that the Port's stevedoring company, Metro Ports, will continue as terminal operator at Pier 80, break-bulk volumes will be down in FY 2010-11 and increase slowly through FY 2014-15. Revenue sharing payments to Metro Ports included as an expense from FY 2010-11 and revenue is budgeted at gross level.

Vessel revenues for existing tenants handling sand/aggregate and tallow are based on lease minimums.

Cargo Facilities Rent reflects FY 2010-11 budgeted tenancies with scheduled increases and CPI adjustments assumed at 0.50% for FY 2011-12, 1% for FY 2012-13, 2% for FY 2013-14 and FY 2014-15. Two major leases require market rate adjustments in FY 2012-13 and revenue assumes an increase to parameter rate.

Ship Repair
Rent revenue consists of lease "base rent" with stepped increases effective January 2013 and includes no percentage rent overage payments. The Ship Repair lease provides for $3 million in credits over ten years against percentage rent overages for tenant improvements to the drydock. Gross yard revenues projected at $40 million annually. Business is subject to subcontracting issues and government contracts.

Harbor Services
Rents are based on existing tenancies adjusted for scheduled increases with one tenant increasing by $600,000 in FY 2011/12. Dockage is variable and assumed to be flat through 2014-15.

Cruise
Cruise revenues reflect anticipated declines in FYs 2010-11 and 2011-12 with improvement in calls and passengers in FY 2012-13. Revenue assumes Pier 35 will remain the primary cruise terminal through 2015.

Fishing
It is assumed that the Pier 45 and other fish processing spaces will continue to be fully occupied. For budget years after FY 2010-11, CPI adjustment is assumed at 0.50% for FY 2011-12, 1% for FY 2012-13, 2% for FY 2013-14 and FY 2014-15. Because of the impact of regulatory issues that have shortened or closed fishing seasons, fish dockage reflects current berthing levels with only increase from annual Port tariff CPI adjustment.

Other Marine
This revenue category is composed of ferries, boatworks, marinas, ceremonial and idle ship berthing (Marad ships) as well as miscellaneous layberth activity. Dockage revenues include three Marad vessels through calendar 2014 and continued layberth activity. Rent revenues are based on existing tenancies and for budget years after FY 2010-11, CPI adjustment is assumed at 0.50% for FY 2011-12, 1% for FY 2012-13, 2% for FY 2013-14 and FY 2014-15. Pier 38

Maritime Recreation Center is included at minimum rent. Landing fees assume a 15% increase in July 2010 and July 2011.

Commercial/Industrial

Commercial/Industrial rents are based on existing tenancies. CPI assumption for annual base rental are 0.5% in FY 2010-11, 1% in FY 2011-12, 2% in FY 2012-13, FY 2013-14 and FY 2014-15. Waterfront development opportunities such as Piers 15-17, the Pier 27 Cruise Terminal, Backlands and Pier 19 are considered for the Five-Year Plan. The Exploratorium project at Piers 15-17 is projected to start construction in July 2010. Pier 27 Cruise Terminal construction is projected to start in January 2012. Most of the current tenancies at Pier 27 are anticipated to be able to relocate to other Port facilities. Trans Bay Cable is anticipated to go operational in FY 2010-11. As a result, the incremental annual revenue increase will be $1,000,000. Overage rents for FY 2010-11 are anticipated to decrease by 16% compared to FY 2008-09 actual and projected to remain flat in FY 2011-12, then gradually increase by 2% in the subsequent years.

Parking

Revenue reflects significant increases between 20% - 37% for the upcoming years. CPI increase of 0.5% is included in FY 2010-11 budget. For budget years subsequent to FY 2010-11, CPI assumption is the same as Commercial/Industrial for all applicable leases. Effective January 2010 and April 2010, two new parking operators will assume operations at SWLs 301, 314, 321, 322-1, 323 and 324. As a result, parking revenue budget is anticipated to increase by $1,414,000, or 20% in FY 2010-11 compared to FY 2009-10. Parking Meter revenue is forecast to increase by 26% compared to FY 2008-09 actual as a result of the new parking meter program. The new parking meter program permits flexible pricing based on parking demand.

Special Events

Revenue is derived from special events held in various Port facilities. Revenue is expected to remain stable based on demand for waterfront locations for events.

Miscellaneous Services

This revenue is variable. Projection is based on recent trends with no increase.

Facility Improvements

This category includes revenue from facility damage, tenant services, permits and miscellaneous repairs. The revenue estimate includes an increase in FY 2011-12 driven by increased building permit revenues. Construction activity is projected to increase as the local economy improves with the projected easing of the current recession.

Negotiation Fees

The fees are paid by developers for the exclusive right to negotiate on Port development projects. The revenue is projected to decline as the larger projects are already underway.

Interest & Services Charges

Interest revenue is derived from projected cash balances and spend down schedules consistent with the Port's Capital Budget. Interest rate assumptions are developed by Port financial staff based on present economic trends.

Five Year Expense Assumptions
Fiscal Years 2010/11 – 2014/15

Salaries & Fringe Benefits
Salaries assume an overall salary increase of 2% annually. Fringe benefits are projected to increase 4% annual.

Other Operating Expenses
Assumes an annual inflation rate of 3%.

Materials and Supplies
Assumes an annual inflation rate of 3%.

Equipment
Based on the 10 year vehicle replacement plan for cars and light trucks at $450,000 per year as well as the replacement of one major maintenance vehicle every 3 years at $250,000. An additional $75,000 is projected in each year for all other equipment needs.

Debt Service
Based on the current debt repayment schedules for the Port's Revenue Bonds, Series 2010, and the California Department of Boating and Waterways loan. In February 2010, the Port issued $36.7 million in Revenue Bonds Series 2010 A & B and anticipates issuing $59.5 million in additional revenue bonds in 2012.

Services of Other Departments
Assumed to increase by an annual inflation rate of 3%, with the exception of the following departments:

Fire Department	Assumes 8% annual inflation
PUC	Assumes 4% annual inflation
Police	Assumes 8% annual inflation

Interdepartmental Recovery
Recovery of costs for providing services to other City Departments, primarily specialized maintenance services.

Revenue Transfer Out
Funding for DPT to provide PCO enforcement services. Assumes 5% annual inflation.

San Francisco International Airport

Five-Year Financial Plan

Fiscal Year 2010/11 – Fiscal Year 2014/15

April 23, 2010

Background

San Francisco International Airport (SFO) is operated as an enterprise department of the City and County of San Francisco. Its financial operations are governed by: (1) Federal regulations and policies promulgated by the Federal Aviation Administration (FAA), which issues guidelines on the acceptable methods of developing Airport rates and charges and the appropriate use of Airport revenue, as well as the Transportation Security Administration (TSA), and; (2) the Airport-Airline Lease and Use Agreement, which defines the rights, privileges, and obligations of the airport operator and the airlines, and stipulates the way that rentals, fees, and charges paid by the Airlines for the use of the Airport are calculated and adjusted.

SFO has a residual airline agreement, which defines the rate-setting methodology and places the ultimate risk of budget deficits on the airlines. Under the agreement, SFO projects its non-airline operating revenues annually and deducts this amount from its projected operating expenditures including debt service. The residual amount remaining is the amount the airlines pay through their annual terminal rentals and landing fees. As part of the annual budget and rate-setting process, a majority-in-interest of the airlines signatory to the agreement can require the Airport to defer any capital project costing more than $636,016 in Fiscal Year (FY) 2009/10 dollars, with exceptions such as safety and federal mandates. The airline and tenant rates are all set annually in a process that includes review and approval by the Airport Commission in May of each year.

The ability of the Airport to derive revenues from its operations depends in part on the financial health of the airline industry and the relative cost to the airlines of operating at SFO versus other competing airports. The economic recession has hit the airlines particularly hard, so the Airport must control the costs to the airlines of operating at SFO, even though enplanements are up at SFO and Terminal 2 will open in the latter half of FY 2010/11. SFO competes with other Bay Area airports for domestic flights and passengers, particularly short- and medium-haul flights, and it competes for international traffic primarily with Los Angeles International Airport (LAX) and Seattle-Tacoma International Airport. To the extent that those airports can offer facilities to serve the market segment in question at a lower cost, SFO is vulnerable to losing service and passengers to those airports.

SFO has a unique provision grandfathered into its airline agreement by the FAA which allows SFO to pay 15% of its concession revenues to the City and County of San Francisco, which is called the Annual Service Payment (ASP). The ASP provides the Airport with an added incentive to grow its concession revenues. Through the agreement Airlines also retain the right to approve capital expenditures as a measure of control over the long-term financial obligations of the Airport.

Strategic Focus and Major Challenges

Strategic Focus

The Airport's strategic focus is on the following key initiatives:

Strategy #1 Enhance SFO's image by having a flawless opening of Terminal 2

Terminal 2 has been closed since the opening of the new International Terminal in 2000. In the fall of 2007, Airport management initiated the renovation of Terminal 2 from the former 10-gate international terminal into a 14-gate domestic terminal to address the need for domestic terminal facilities at SFO. The need for additional terminal gates was triggered primarily by anticipated growth in domestic passenger traffic, particularly from new entrant airlines including JetBlue, Southwest Airlines, and Virgin America.

SFO management has mobilized staff Airport-wide to coordinate the seamless opening of Terminal 2 toward the end of FY 2010/11. That coordination has involved working toward completion of construction and developing the business terms for the tenant airlines (coinciding with renegotiation of Airline Lease and Use Agreements), selecting concessionaires, developing operating and maintenance staffing plans, creating a hiring plan, and developing marketing and communication efforts.

Strategy #2 Ensure that the airlines' cost per enplaned passenger does not exceed $18.90 (in constant FY 2007-08 dollars)

To enhance SFO's competitiveness with other Bay Area and West Coast gateway airports, management has established a goal of limiting airline cost per enplaned passenger (CPE) to no more than $18.90 in constant FY 2007/08 dollars from FY 2010/2011 through FY 2015/16. Managing to this CPE limit requires maximizing federal and state grants and using passenger facility charge (PFC) revenues wisely; minimizing borrowing costs for bonds and other debt; enhancing non-airline revenues from concessionaires, rental cars, parking and other sources; realizing efficiencies to control administrative, operating and maintenance costs; and attracting more air service and passengers to the Airport.

Strategy #3 Focus on the total customer experience so that we remain the Airport of choice

Senior management is also focused on preserving and enlarging SFO's role as a major West Coast gateway beyond the Pacific Rim by creating a positive business climate for airlines and other business partners, and by providing top-notch customer service to the Airport's passengers. To do this, SFO has been identifying the key markets in which SFO is not competitive and working toward increasing service to those areas through marketing efforts, attractive business arrangements, superior technology availability and professional partnerships. SFO is also working to create new management systems and programs designed to enhance and improve business operations, service delivery, and workplace environment.

To improve customer satisfaction, SFO has also been focusing on customer service initiatives across Airport operations, such as better flight instrument display systems, kiosks, visual paging, etc., higher quality of food and beverage and retail offerings, and other initiatives to improve the travel experience through SFO.

Strategy #4 Create and execute the Airport Development Plan and Asset Management Plan

SFO has agreed with the airlines that it will deliver facilities on a just-in-time basis to meet demand. The first phase of this entails a Domestic Terminal Plan, which is in progress, and the second phase will be a Total Airport Plan, including an update of the Airport Layout Plan. As part of executing these plans, SFO must manage the implementation of critical projects to achieve on-time, within budget project performance, incorporating partnering concepts as a fundamental value in project implementation. SFO is also working on development and implementation of an Asset Management Plan for the repair and replacement of Airport facilities to identify maintenance and capital requirements.

Strategy #5 Continue to be a leader in sustainability, community support, safety and security, and quality of facilities

Sustainability—The Airport has developed a Climate Action Plan to reduce its carbon footprint. It has also initiated various efforts to reduce vehicle emissions and improve air quality, including Clean Air Vehicle policies such as providing discounts to rental car customers who rent green vehicles. SFO is also working to meet environmental commitments, and improve efficiency of compliance with environmental regulations and procedures by implementing an Environmental Management System (EMS) to track and initiate performance improvements to the environmental programs administered by various Airport Divisions.

Community Support—SFO's policy is to maximize business opportunities for small, local, and disadvantaged businesses by providing opportunities to (1) own and operate retail and food/beverage concessions at the Airport; and (2) participate as contractors/consultants in construction and professional services contracts. Over the past two years, small, local and disadvantaged businesses have operated over 50% of the concessions at the Airport, and received over 35% of total contract payments. For the Terminal 2 project, the Airport anticipates a total of 45 to 48% local business participation in Terminal 2, and 21% certified local business participation. In addition, over the last ten years, the Airport has mentored 529 interns through a number of intern programs, including an At-Risk Youth Employment Program (Career Connect), a high school student intern program, a College Summer Intern Program, and a Student Engineering/Architecture Trainee Program, and the Airport has participated in the City's Summer Youth Employment Program (SYEP), funded by federal stimulus dollars.

Safety and Security—SFO has recently completed a comprehensive security threat assessment that has resulted in a list of actions that have been prioritized into an action plan. Management is currently establishing an internal committee to implement the plan.

Quality of Facilities—SFO management is constantly looking for other ways to improve Airport facilities, such as improving wireless service free of charge to airport customers, continuously improving AirTrain System reliability and safety/security, improving apron replacement protocols, and the like.

Strategy #6 Develop and implement succession plans

Recognizing that over 43% of the Airport's top management is likely to retire over the next two to five years, SFO is developing plans to pass along institutional knowledge so that it is not lost when those key people do retire. Succession planning includes developing plans to cross-train staff to broaden their knowledge base, recognizing and rewarding managers that get the most performance from their staff, implementing the Management Development Program Airport-wide, and providing management training and coaching.

Major Challenges

To maintain its position in the national aviation market, the Airport currently faces several major challenges. The most important ones are described below.

1. ***Weak economy***—The Airport receives revenues from different types of businesses that are negatively affected by the weak economy, from airlines and rental car companies to food and retail concessionaires. The Airport must consider the needs of these businesses and control its costs to keep the airport competitive. Over the last year, SFO has been fortunate because airlines have been consolidating services into SFO from other airports and low cost carriers have continued to add service, but the pressure to keep costs low remains.

2. ***Airline financial volatility***—The Airline industry has been under tremendous financial pressure for some time and has reported significant losses in the latest economic downturn. Recent reports indicate improved airline financials, and essential premium, business and international travel are recovering. But it is in this recovery phase that mergers become more likely. While the Bay Area provides a strong and resilient origin-destination travel market for the Airport, airline mergers or service changes could have an immediate and significant financial impact.

3. ***Non-airline revenues are growing in line or above traffic growth in the forecast period, but expenses are growing faster*** —While revenues are projected to recover from the economic downturn, they will only grow slowly, in line with traffic projections, while expenses are projected to grow at a more rapid rate. The Airport will need to think creatively about managing this dynamic over time because of the impact on the CPE.

4. ***High debt burden from previous capital commitments***— Because of commitments to build the Master Plan in the late 1990s, including the International Terminal, Air Train and related projects, the Airport has a high debt burden, with annual debt service hitting a plateau of approximately $394 million per in FY 2016/17 to FY 2019/20. Debt service payments are currently more than 40% of the annual expense budget. The amount of outstanding debt places pressure on staff to find creative ways to reduce the annual debt service and may affect SFO's ability to pursue other large-scale capital projects in the future.

5. ***Terminal Development and Asset Redevelopment***— SFO will need to balance its need to redevelop and maintain facilities with the pressure to remain competitive compared to other international gateways and Bay Area airports. While the Airport has made some investments in new facilities, such as the International Terminal and Terminal 2, it also has a number of aging assets, such as Terminal 1 and older cargo buildings, which will eventually need significant renovation.

6. ***Aviation Land Leases Renewal Risk***—The Airport has a variety of aviation maintenance and cargo-related land leases. Some of these leases, worth about $21.8 million annually, will expire during the financial plan period. With airlines and cargo shipping firms focused on costs during a period of declining cargo and air carriers moving or consolidating maintenance functions, the future of these leases is uncertain.

Operations – Rate Setting Process and Revenue Discussion

Before establishing its budget each year, the Airport assesses how much it can afford in expenses, taking into consideration air traffic forecasts and the implications of projected revenues and expenses on airline rates and charges. The calculation of airline rates and charges is pursuant to the current Lease and Use Agreement through FY 2010/11 and is based on the new Lease and Use Agreement for FY 2011/12 on (it expires in FY 2020/21) and reflects the residual rate-making structure at SFO. The elements used to create annual rates are described below.

1. ***Operating Expenses***—The Airport projects its operating expenditures including debt service. Because rates and charges are established in May of each year to provide adequate notice to the airlines regarding implementation on July 1, the expenses are based on the preliminary budget as submitted in the spring, before approval by the Board of Supervisors, and therefore do not match approved annual budgets. A balancing budget entry is made between revenues and expenses reflecting the use of the Operating Fund Balance once the budget is final.

2. ***Non-Airline Operating Revenues***—Non-airline operating revenues are projected and applied against operating expenses in the airline rate calculation.

3. ***Passenger Facility Charge Revenues***—SFO applies PFC revenues designated by the Commission to pay PFC-eligible debt service. PFC revenues not used in this way can be accumulated for future years and/or used on a pay-as-you-go basis to directly pay eligible capital project costs.

4. ***Prior Year Deficit (Surplus)***—Any airline deficit (or surplus) from prior years is added (or subtracted). The airlines are currently owed a total of $51 million because the Airport's financial results have been better than forecast in recent years.

5. ***Airline Revenue Requirement***—The residual amount remaining will be paid by the airlines through their landing fees and terminal rents.

Air Traffic—Enplaned Passengers and Landed Weight

Airport staff uses an enplaned passenger forecast to estimate various activity-based revenues, to forecast the landed weight estimate, landing fee revenue, passenger facility charge revenues, and to serve as the denominator in calculating the Cost per Enplanement (CPE). The enplaned passenger forecast is based on the Jacobs Consultancy February 12, 2010 report and reflects a better than expected level of enplanements for FY 2009/10, primarily due to domestic growth. The forecast anticipates improved international activity and slowing domestic growth through the five-year period.

Traffic Forecast

Enplanements (000's)	Actual		Forecast					
	FY 07/08	FY 08/09	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15
Domestic	**13,807**	**14,004**	**14,725**	**14,950**	**15,200**	**15,415**	**15,610**	**15,775**
	9.5%	*1.4%*	*5.1%*	*1.5%*	*1.7%*	*1.4%*	*1.3%*	*1.1%*
International	**4,566**	**4,221**	**4,190**	**4,420**	**4,625**	**4,815**	**5,005**	**5,190**
	5.1%	*-7.6%*	*-0.7%*	*5.5%*	*4.6%*	*4.1%*	*3.9%*	*3.7%*
Total	**18,373**	**18,225**	**18,915**	**19,370**	**19,825**	**20,230**	**20,615**	**20,965**
	8.4%	*-0.8%*	*3.8%*	*2.4%*	*2.3%*	*2.0%*	*1.9%*	*1.7%*

Landed Weight (lbs in millions)	Actual		Forecast					
	FY 07/08	FY 08/09	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15
Domestic	**18,900**	**18,791**	**19,366**	**19,462**	**19,869**	**20,199**	**20,454**	**20,670**
	7.9%	*-0.6%*	*3.1%*	*0.5%*	*2.1%*	*1.7%*	*1.3%*	*1.1%*
International	**8,615**	**8,213**	**7,831**	**8,416**	**8,839**	**9,252**	**9,668**	**10,098**
	7.5%	*-4.7%*	*-4.7%*	*7.5%*	*5.0%*	*4.7%*	*4.5%*	*4.4%*
Cargo	**1,892**	**1,484**	**1,461**	**1,533**	**1,573**	**1,583**	**1,594**	**1,604**
	-15.0%	*-21.6%*	*-1.5%*	*4.9%*	*2.6%*	*0.6%*	*0.7%*	*0.6%*
Total	**29,407**	**28,488**	**28,658**	**29,411**	**30,281**	**31,034**	**31,716**	**32,372**
	5.9%	*-3.1%*	*0.6%*	*2.6%*	*3.0%*	*2.5%*	*2.2%*	*2.1%*

Non Airline Operating Revenues

The Airport receives revenues from parking, concessions, non-airline rentals, interest income, and other sales and service revenues, which are based on lease agreements and fees set to recover costs. A brief discussion on the forecast and assumptions for each revenue area are included below.

Parking and Ground Transportation

The Airport receives parking revenues from the domestic terminal and international terminal garages and its long-term parking garage. No public parking rate increases are included in FY 2010/11. Modest rate increases are in the forecast every other year and are subject to change based on parking demand. Rental car revenues are forecast with steady increases, partially offset by incentives for fuel-efficient vehicle rentals. Ground transportation, which has been flat during the recession, increases in FY 2010/11 primarily due to the elimination of the taxi short trip fees (less than 30 minutes). Local trips will have a minimum fare and pay the same fee as regular trips.

Terminal Concessions

The Airport has four types of terminal concessions: duty free shops, retail shops, food and beverage concessions and passenger services. For FY 2010/11 through FY 2015/16, gross concession revenues are forecast based on enplanements and passenger spending trends. Passenger spend rates have declined recently, likely a result of both the increase in short-haul flights and the slow economy. All minimum annual guarantee (MAG) rental payments in current rental agreements remain in effect through the forecast period. Terminal 2 is expected to open in the spring of 2011 and is forecast with an increased spend rate per passenger as compared to other domestic terminals based on the mix and square footage of concessions. The plan includes the revenue loss as a result of closing Boarding Area E retail and food and beverage concessionaires during the remodeling period (from mid-year 2011 through early 2012) and that frontal gate concessionaires located in the vicinity will also experience a decline in sales. No estimate is included for potential loss-of-income claims from concessionaires. The forecast projects potential closure and lease buy-outs of up to three food and beverage providers in Boarding Area B following the relocation of airlines to the remodeled Boarding Area E.

Non-Airline Rentals

The Airport rents a variety of aviation and cargo facilities, such as the United Airline's Maintenance Operations Center, the Superbay Hangar, various cargo buildings, and airline operations facilities. The Plan includes CPI increases on fixed rents of 0% in FY 2009/10, 2.2% in FY 2010/11 and 2.5% per year thereafter.

Interest Income

Additional interest earnings are forecast at 4.19% from deposits to Debt Service fund balances, and 2.5% to 4.33% from deposits in the Debt Service Reserve Fund.

Other Sales and Services

This area includes various rentals and fees, such as utility charges, refuse fees, equipment maintenance fees, government rents, and information technology and telephone fees. During the five-year period, the current Air Train fee of $18.50 per transaction will increase to $20.00 in FY 2010/11 and will increase, as necessary, to achieve higher levels of cost recovery throughout the remaining forecast. In FY 2013/14, the airlines' electricity cost increases to 100% Pacific Gas and Electric rates from the current 74% per the 1981 settlement agreement with the City Public Utilities Commission (PUC). This rate change is reflected in Airport revenues and expenses. Other revenue in this area is based on additional annual rate increases for fees not at full cost recovery or market rate as appropriate.

Passenger Facility Charges (PFCs)

Passenger Facility Charges are collected by the Airlines on behalf of the Airport, which must receive approval to collect the fee by submitting applications to the FAA. SFO has FAA approval to collect $833.1 million in PFCs, which is expected to be collected by 2017. The

Airport is applying for approval for an additional $994 million, which is expected to be collected by 2030. The forecast assumes that 84% of enplaned passengers qualify to pay a PFC as part of the ticket purchase. The amount of PFC Revenues planned for capital projects is estimated at $12.5 million in FY 2012/13, increasing to $13 million in both FY 2013/14 and 2014/15. PFC revenues that are included in the rate base and will be applied to pay for debt service range from $75.8 million to $100.0 million during the forecast period. For purposes of this Plan, the PFC is assumed to remain at the current level of $4.50, the maximum allowed under federal law. If the law changes to allow a higher PFC to be collected, the Airport expects to apply to charge the higher amount.

Prior Year Deficits (Surpluses)

According to the Lease and Use Agreement, any prior year deficit or surplus is applied to airline rates in subsequent years. The current surplus balance is $51 million. In FY 2009/10, Airport staff budgeted $32.8 million of deferred aviation revenue surplus against airline rates. The FY 2009/10 forecast (based on Second Quarter results) estimated the surplus necessary to balance revenues and expenses at $13.7 million, in which case $19.2 million would be available for reallocation to future rate years. FY 2010/11 reflects $32.0 million in applied surplus, based on the surplus balance of $51.0 million less the $13.7 million estimated for FY 2009/10 and a reserve of $5.3 million pending year-end results. The Plan projects a surplus of $4 million from FY 2011/12 through FY 2014/15 would be available to apply against Airline rates.

Airline Terminal Rentals

Airlines lease a variety of space at SFO, from ticket counters to back office space, which are reflected in Terminal Rental Revenue. The Financial Plan assumes Terminal 2 reopens in late FY 2010/11, which adds approximately 611,845 square feet to the gross building area of the Terminal Area. Approximate Airline leased space for the terminal is reflected, including changes in Airline leased space per the agreement with airlines upon the signing of the new Lease and Use Agreement.

The Plan includes the assumptions that American Airlines and Virgin America move from Boarding Area E and the International Terminal, respectively, effective late FY 2010/11. For 10 months, from mid-year 2011 through early 2012, Boarding Area E remains vacant except for Air Canada. Continental Airlines and US Airways move to Boarding Area E in early 2012. Alaska Airlines and Southwest Airlines continue to operate in Boarding Area B through the forecast period.

Operations – Expense Discussion

The operating expenses included in the Financial Plan are based on the preliminary proposed budgets for FY 2010/11 and FY 2011/12. The last fiscal year is used to forecast expenses for FY

2012/13 through FY 2014/15. The forecast uses historical trend average increases of 4.8% year over year for expenses not specifically mentioned below. The proposed expense budget reflects the 12 furlough day plan. At the end of FY 2010/11, Terminal 2 will open, resulting in an additional $5.8 million in expenses, which increases to $17.1 million for a full year of operation in FY 2011/12. Thereafter, the Terminal 2 operating costs adjust according to the historical trend average, with exception of the baggage system maintenance contract that ends after two operating years. In FY 2010/11, hold room and baggage claim cleaning services begin in Terminal 1 at a cost of $0.7 million, and increase in FY 2011/12 by $1.9 million with services starting in Terminal 3. Airline electricity rates are projected to increase beginning July 2013 when the settlement agreement with the PUC is scheduled to end, adding approximately $5.3 million in recoverable utility expense.

Facilities Maintenance

The proposed budget in FY 2010/11 includes $6 million for Facilities Maintenance projects, which increases to $7.0 million in FY 2011/12, and thereafter increases by $0.5 million per year.

Debt Service

The debt service budget reflects issuance of long-term debt for capital projects in November 2009 (Series 2009E) with a total par amount of $485.8 million at an interest cost of 5.53%. It includes lower near-term debt service on certain outstanding bonds refunded in November 2009 with the 2009C Tender and 2009D fixed refunding bonds, in January 2010 with the 2010A variable rate bond transaction and the 2010CDE fixed refunding transactions which priced on March 17, 2010. In April 2010, the Airport fixed $100 million in Series 2008A-1 and Series 2008A-2 Notes into long-term bonds (Series 2010D). Commercial paper already issued to provide cash flow for capital projects is projected to be refinanced with $145.9 million in long-term debt in July 2010, at an all-in true interest cost (TIC) of 6.44%. Annual liquidity fees associated with the Airport's variable rate bonds are forecast to increase approximately $3.8 million between FY 2012/13 and FY 2014/15 due to expiring letters of credit and the projected higher cost of entering into new agreements. The Airport plans to issue its next new money bonds of approximately $127.2 million in FY 2011/12. Pursuant to the federal stimulus legislation, all new money bonds issued in CY 2009 and 2010 are being issued as Non-AMT private activity bonds, which should result in a lower interest rate for the Airport.

Small Capital Outlays

The proposed budget for FY 2010/11 does not allocate any funds for small capital outlays from the operating budget. In FY 2011/12, the plan includes $3.0 million for capital projects, which rises to $3.5 million in FY 2012/13 and $4.0 million in FY 2013/14. The allowable amount of operating revenue that can be allocated to capital projects according to the Lease and Use Agreement is approximately $4.2 million in FY 2009/10 dollars.

Financial Plan—Results

The Airport's Five-Year Financial Plan achieves the following objectives:

- ***Balanced Budget***—Revenues are sufficient to cover operating costs, including debt service, in each year.

- ***Coverage Levels***—Debt service coverage is forecast to be greater than 1.38 times in every year of the forecast period, exceeding the required 1.25 times coverage requirement in the Airport's bond indenture.

- ***Funding of Initiatives***—The Five-Year Financial Plan reflects Airport Management's priorities and strategic initiatives, including capital projects, through FY 2014/15.

- ***Achieves CPE Goal***—The Five-Year Financial Plan keeps airline costs per enplaned passenger below the established limit of $18.90 in constant FY 2007/08 dollars through FY 2014/15. The highest CPE in the forecast period is $18.23 in FY 2014/15. However, it is important to keep in mind that there are uncertainties, primarily airline traffic, capital project costs, and non-airline lease renewals that could increase that CPE figure.

San Francisco International Airport Five Year Expense and Revenue Projection (in thousands)

	Budget			Forecast		
Category	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**
Beginning Fund Balance	40,864	40,864	40,864	40,864	40,864	40,864
Revenues						
Terminal Concessions	64,649	65,150	65,499	68,511	69,559	70,401
Ground Transportation Concessions	106,437	117,138	122,220	125,393	130,032	133,141
Non Airline Rentals	67,370	67,314	70,949	73,398	75,572	77,386
Interest Income	15,046	15,595	17,881	19,122	19,685	20,164
Other Sales and Service	76,032	81,253	81,669	84,334	92,228	95,249
Estimated PFC collections applied to rates	61,000	71,429	73,107	74,600	65,000	64,000
Balances from prior years applied to rates		15,771	26,893	1,200		
Prior Year Deficit (Surplus) applied to rates	32,827	32,016	4,000	4,000	4,000	4,000
Airline revenue (landing fees and terminal rentals)	258,422	279,334	327,833	377,393	415,417	435,607
Total Revenues	**681,783**	**745,000**	**790,051**	**827,951**	**871,493**	**899,948**
Expenses						
Personnel Costs	151,486	159,597	172,971	181,602	190,753	200,458
Contractual Services	81,894	88,642	89,977	92,652	95,407	98,273
Utilities	34,724	37,957	43,353	46,171	54,010	56,981
Materials and Supplies	13,822	14,077	14,203	14,629	15,068	15,520
Equipment	3,058	3,157	2,901	2,973	3,062	3,154
Facilities Maintenance	5,000	6,000	7,000	8,501	9,001	9,500
Small Capital Outlays	0	0	3,000	3,500	4,000	4,000
Debt Service	295,037	332,627	345,886	362,019	378,333	384,184
Services of Other Departments	70,537	74,474	81,892	86,071	91,154	96,577
Annual Service Payment	26,225	28,469	28,868	29,833	30,705	31,301
Total Expenses	**681,783**	**742,660**	**787,785**	**825,656**	**869,223**	**897,492**
Budget Percentage Change		9.7%	6.5%	4.0%	4.8%	3.1%
Ending Fund Balance	40,864	40,864	40,864	40,864	40,864	40,864
Debt Service Coverage Ratio	1.46	1.34	1.42	1.41	1.39	1.38
Enplaned Passengers	17,475	19,370	19,825	20,230	20,615	20,965
Cost per Enplaned Passenger (FY07/08 dollars)	14.08	13.97	15.62	17.19	18.12	18.23
FY 2009/10 Capital Plan	320,401	99,063	71,721	85,126	320,619	N/A

Five-Year Capital Plan

The Airport has a Five-Year Capital Plan (the Capital Plan) that facilitates the Airport's initiatives and strategies and consists of key projects to be carried out through FY 2014/15. The debt service associated with past and future capital projects is more than 40% of the Airport's total operating budget, so the Capital Plan is a critical component of the Airport's financial planning.

The Airport is continuing the effort begun in FY 2008/09 to proceed with capital improvements after years of limiting projects to safety, security, and essential infrastructure. The primary objective for the Capital Plan is to improve facilities capacity, systems functionality and perform needed maintenance. The Capital Plan has 41 projects for a total of $896.9 million and covers FY 2009/10 through FY 2013/14. It is based on a revised evaluation of projects included in previous capital plans as well as newly identified needs at the Airport. The Capital Plan contains the two remaining years of budget authority for the $383 million project to rebuild Terminal 2 into a 14-gate domestic terminal; it also includes four new projects, such as Pre-Conditioned Air and renovation of Building 575, and a variety of continuing facilities, infrastructure, and systems projects throughout the Airport. A summary of the Capital Plan sources and uses is presented in the table below.

San Francisco International Airport
Five-Year Capital Plan
(in millions)

Sources	Amount	Percentage
Revenue Bonds	$ 541.7	60.4 %
Grants	243.9	27.2 %
Passenger Facility Charges	68.0	7.6 %
Other	43.3	4.8 %
Total Sources	**$896.9**	**100.0 %**

Uses	Amount	Percentage
Terminal Projects	$367.3	41.0 %
Airfield Projects	225.1	25.1 %
Utility Projects	158.9	17.7 %
Airport Support Projects	83.8	9.3 %
Groundside Projects	57.7	6.4 %
West of Bayshore Projects	4.1	0.5 %
Total Uses	**$896.9**	**100 %**

Capital Plan Sources

The sources of funding for the Capital Plan include airport revenue bonds, grant funds, Passenger Facility Charges (PFC), and other sources:

- ***Airport Revenue Bonds***—The Capital Plan includes $519.4 million in bond proceeds to fund projects. The Airport is currently in the second year of a five-year $593.5 million appropriation approved by the Mayor and the Board of Supervisors on May 23, 2008. Approximately 86 percent of the Plan's revenue bond sources, or $446.7 million, are covered by this appropriation. The remaining $72.7 million, which is projected to be needed in the fifth year of the Plan, would require Airport Commission and Board of Supervisor's approval.

- ***Grants***—The Capital Plan reflects the Airport's efforts to pursue new grant funds. The grant amount of $243.9 million is a $70.3 million increase over the previous year's capital plan. New grant-funded projects include $7.9 million in FAA Voluntary Airport Low Emissions (VALE) Program grant funds for the Pre-Conditioned Air project and $20.8 million in American Recovery and Reinvestment Act (ARRA) funding from the FAA to partially fund a runway repaving project and full funding from the TSA for a Checked Baggage Inspection System in Terminal 2.

- ***Passenger Facility Charges (PFCs)***—The Five-Year Capital Plan also includes $68.0 million in funding from Passenger Facility Charges.

- ***Other Sources***—The Capital Plan also uses other available funding sources, such as reprogrammed proceeds from revenue bonds, interest income, and settlement funds.

Capital Plan Uses

The plan contains four new projects and 37 continuing projects with a total budget of $896.9 million. Continuing capital projects fall into two categories: discrete projects and ongoing projects. Ongoing projects preserve, maintain and extend the useful life of critical Airport facilities and infrastructure. Examples of such projects include runway reconstruction and major utility repairs. Discrete projects are one-time in nature, and have a defined start and end date. An example of this type of project is Terminal 2.

Project Type	Number of Projects	Amount (in millions)	Percentage of Total Cost
New Projects	4	$30.2	3.4 %
Discrete Projects	15	350.7	39.1 %
Ongoing Projects	22	515.9	57.5 %
Total	**41**	**$896.9**	**100.0 %**

High Level Organization Chart- By Division