

AIRPORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO

January 26, 2024

The Airport Commission (the “Commission”) of the City and County of San Francisco hereby provides its Continuing Disclosure Annual Report (the “Report”). The Report contains the audited financial statements of the Commission for the fiscal year ended June 30, 2023, as well as certain operating data and other information. It is delivered pursuant to the continuing disclosure certificates (the “Continuing Disclosure Certificates”) that the Commission has executed or elected to apply in connection with the bond issues identified in the Report.

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

AIRPORT COMMISSION OF THE CITY AND
COUNTY OF SAN FRANCISCO

Enclosure: Annual Report

AIRPORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO

CONTINUING DISCLOSURE ANNUAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Introduction

This Continuing Disclosure Annual Report for the Fiscal Year Ended June 30, 2023 (this “Report”) is provided for the purpose of satisfying the obligations of the Airport Commission (the “Commission”) of the City and County of San Francisco (the “City”) under the continuing disclosure certificates (the “Continuing Disclosure Certificates”) executed in connection with the following bond issues (collectively, the “Bonds”):

- Second Series Revenue Refunding Bonds, Series 2009D, dated November 4, 2009
- Second Series Revenue Bonds, Series 2014A/B, dated September 24, 2014
- Second Series Revenue Refunding Bonds, Series 2016A, dated February 25, 2016
- Second Series Revenue Bonds, Series 2016B/C, dated September 29, 2016
- Second Series Revenue Refunding Bonds, Series 2016D, dated September 29, 2016
- Second Series Revenue Bonds, Series 2017A/B, dated October 31, 2017
- Second Series Revenue Refunding Bonds, Series 2017D, dated October 31, 2017
- Second Series Revenue Bonds, Series 2018D/E/F, dated May 30, 2018
- Second Series Revenue Refunding Bonds, Series 2018G, dated May 30, 2018
- Second Series Variable Rate Revenue Bonds, Series 2018B/C, dated June 6, 2018
- Second Series Revenue Bonds, Series 2019A/B/C, dated February 7, 2019
- Second Series Revenue Refunding Bonds, Series 2019D, dated February 7, 2019
- Second Series Revenue Bonds, Series 2019E/F/G, dated September 10, 2019
- Second Series Revenue Refunding Bonds, Series 2019H, dated September 10, 2019
- Second Series Revenue Refunding Bonds, Series 2020A/B/C, dated August 20, 2020
- Second Series Revenue Refunding Bonds, Series 2021A/B/C, dated April 21, 2021
- Second Series Revenue Bonds, Series 2022A/B/C, dated February 8, 2022
- Second Series Revenue Refunding Bonds, Series 2023A/B, dated March 1, 2023
- Second Series Revenue Refunding Bonds, Series 2023C/D, dated November 15, 2023
- Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 2019A/B, dated February 26, 2019.*

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

By providing the information in this Report, the Commission does not imply or represent: (a) that all of the information provided is material to investors’ decisions regarding the Bonds, (b) that no changes, circumstances or events have occurred since the end of the fiscal year ended June 30, 2023 other than what is contained in this Report, or (c) that no other information exists that may have a bearing on the Commission’s financial condition, the security for the Bonds, or an investor’s decision to buy, sell or hold the Bonds. The information contained in this Report has been obtained from officers, employees and records of the Commission and other sources that are believed to be reliable, but such information is not guaranteed as to its accuracy or completeness.

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

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

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

Audited Financial Statements

The audited financial statements of the Commission for the fiscal year ended June 30, 2023 are attached as **Appendix A**.

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Operating and Financial Data

Air Traffic Data

Air traffic data for the past ten Fiscal Years and the first five months of Fiscal Years 2022-23 and 2023-24 is presented in the table below.

PASSENGER TRAFFIC

Fiscal Year	Scheduled Passenger Aircraft Arrivals and Departures ⁽¹⁾		Passenger Enplanements and Deplanements				Total	
	Total	% Change	Domestic	% Change	International	% Change	Total	% Change
<i>First Five Months 2023-24</i>	168,098	7.6%	16,129,588	9.6%	6,403,091	25.9%	22,613,821	13.8%
<i>First Five Months 2022-23</i>	156,191		14,718,153		5,087,762		19,805,915	
2022-23	359,227	13.5%	34,381,130	20.3%	12,524,044	100.7%	46,905,174	34.7%
2021-22	316,369	57.7	28,572,974	137.4	6,239,066	280.1	34,812,040	154.6
2020-21	200,641	(43.3)	12,036,933	(59.9)	1,637,797	(84.5)	13,674,730	(66.3)
2019-20 ⁽²⁾	353,648	(21.2)	30,007,053	(29.6)	10,535,883	(28.8)	40,542,936	(29.4)
2018-19	448,642	(2.4)	42,653,872	(2.9)	14,792,616	7.0	57,446,488	(0.5)
2017-18	459,900	5.8	43,926,851	7.0	13,820,335	6.9	57,747,186	7.0
2016-17	434,582	2.5	41,046,640	3.4	12,922,418	10.3	53,969,058	5.0
2015-16	423,813	2.7	39,697,866	5.6	11,711,366	10.2	51,409,232	6.6
2014-15	412,539	(0.5)	37,580,982	4.4	10,631,812	5.6	48,212,794	4.7
2013-14	414,452	2.3	35,985,757	2.7	10,072,231	5.1	46,057,988	3.3

⁽¹⁾ Includes air carrier and air taxi operations.

⁽²⁾ Data for Fiscal Year 2019-20 includes estimates for one airline for March 2020. That airline comprised less than 0.1% of enplanements in the first six months of Fiscal Year 2019-20.

Source: Commission.

Total enplanements for the Airport's ten most active airlines for Fiscal Years 2018-19 through 2022-23 and for Fiscal Year 2022-23's top ten airlines during the first five months of Fiscal Year 2023-24 (with comparative data for the same period in Fiscal Year 2022-23) are shown in the table below, ranked in the order of the results from Fiscal Year 2022-23. Enplanements for airlines include enplanements by affiliates.

**TOTAL ENPLANEMENTS BY AIRLINE
(Fiscal Years)**

Airline	2018-19	2019-20	2020-21	2021-22	2022-23	% of 2022-23 ⁽¹⁾	<i>First Five Months (July through November)</i>	
							2022-23	2023-24
United Airlines	13,066,968	9,255,208	3,305,425	8,207,321	10,943,757	46.7%	4,593,887	5,211,310
Alaska Airlines	3,376,047	2,353,270	890,371	2,180,641	2,891,802	12.3	1,175,659	1,181,233
Delta Air Lines	2,219,421	1,614,526	658,583	1,615,032	1,855,714	7.9	803,424	918,884
American Airlines	2,175,454	1,539,607	757,433	1,401,428	1,475,566	6.3	626,864	752,848
Southwest Airlines	1,713,578	1,156,504	404,218	831,567	985,045	4.2	431,691	467,049
jetBlue Airways	738,297	519,464	264,689	704,364	712,744	3.0	320,355	306,059
Air Canada ⁽²⁾	567,734	393,221	–	291,064	515,142	2.2	242,822	241,368
Frontier Airlines ⁽³⁾	–	199,230	147,461	284,132	447,522	1.9	181,688	287,654
British Airways ⁽⁴⁾	–	–	–	–	201,494	0.9	83,965	96,708
EVA Airways ⁽⁵⁾	282,641	186,882	–	–	189,951	0.8	42,206	139,990
Turkish Airlines ⁽⁶⁾	–	–	49,200	–	–	–	–	–
Hawaiian Airlines ⁽⁷⁾	–	–	72,334	154,612	–	–	–	–
Aeromexico ⁽⁸⁾	–	–	–	150,092	–	–	–	–
Air India ⁽⁹⁾	–	–	53,101	–	–	–	–	–
Lufthansa Airlines ⁽¹⁰⁾	243,861	158,103	–	–	–	–	–	–
Cathay Pacific ⁽¹¹⁾	260,286	–	–	–	–	–	–	–
SUBTOTAL	24,644,287	17,376,015	6,602,815	15,820,253	20,218,737	86.3	8,502,561	9,603,103
All others ⁽¹²⁾	3,977,519	2,838,890	321,763	1,575,996	3,200,831	13.7	1,322,965	1,577,914
TOTAL	28,621,806	20,214,905	6,924,578	17,396,249	23,419,568	100.0%	9,825,526	11,181,017
Percentage change	(0.7%)	(29.4%)	(65.7%)	151.2%	34.6%			13.8%

⁽¹⁾ Figures may not total due to rounding.

⁽²⁾ Air Canada served the Airport in Fiscal Year 2020-21 but was not among the top 10 most active airlines in terms of total enplanements for that year.

⁽³⁾ Frontier Airlines served the Airport in Fiscal Year 2018-19, but was not among the top 10 most active airlines in terms of total enplanements for that year.

⁽⁴⁾ British Airways served the Airport in Fiscal Years 2018-19 through 2021-22, but was not among the top 10 most active airlines in terms of total enplanements for those years.

⁽⁵⁾ EVA Airways served the Airport in Fiscal Years 2020-21 through 2021-22, but was not among the top 10 most active airlines in terms of total enplanements for those years.

⁽⁶⁾ Turkish Airlines served the Airport in Fiscal Years 2018-19 through 2019-20 and 2021-22 through 2022-23, but was not amount the top 10 most active airlines in terms of total enplanements for those years.

⁽⁷⁾ Hawaiian Airlines served the Airport in Fiscal Years 2018-19 through 2019-20 and Fiscal Year 2022-23, but was not among the top 10 most active airlines in terms of total enplanements for those years.

⁽⁸⁾ Aeromexico served the Airport in Fiscal Years 2018-19 through 2020-21 and Fiscal Year 2022-23, but was not amount the top 10 most active airlines in terms of total enplanements for those years.

⁽⁹⁾ Air India served the Airport in Fiscal Years 2017-18 through 2019-20 and 2021-22 through 2022-23, but was not amount the top 10 most active airlines in terms of total enplanements for those years.

⁽¹⁰⁾ Lufthansa served the Airport in Fiscal Years 2020-21 through 2022-23, but was not among the top 10 most active airlines in terms of total enplanements.

⁽¹¹⁾ Cathay Pacific served the Airport in Fiscal Years 2019-20 through 2022-23, but was not among the top 10 most active airlines in terms of total enplanements for those years.

⁽¹²⁾ Data for Fiscal Year 2019-20 includes estimates for one airline for March 2020. That airline comprised less than 0.1% of enplanements in the first six months of Fiscal Year 2019-20.

Source: Commission.

Cargo Traffic Data

The following table provides combined domestic and international cargo traffic information for the Airport for the last five Fiscal Years and the first five months of Fiscal Years 2022-23 and 2023-24.

AIR CARGO ON AND OFF (in metric tons)

<u>Fiscal Year</u>	<u>Freight and Express</u>	<u>U. S. and Foreign Mail</u>	<u>Total Cargo⁽¹⁾</u>	<u>Percent Change</u>
<i>First Five Months</i>				
2023-24	209,805	6,617	216,422	12.6%
<i>First Five Months</i>				
2022-23	182,329	9,893	192,222	
2022-23	429,112	25,009	454,121	(16.7)%
2021-22	512,268	33,068	545,335	15.6
2020-21	435,670	36,123	471,793	(3.7)
2019-20	435,887	54,185	490,073	(13.2)
2018-19	497,436	67,049	564,485	0.6

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

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Total Landed Weight

The revenue landed weights for the Airport's 10 most active airlines for Fiscal Years 2018-19 through 2022-23 and for Fiscal Year 2022-23's top ten airlines during the first five months of Fiscal Year 2023-24 (with comparative data for the same period in Fiscal Year 2022-2023) are shown in the table below, ranked in the order of the results from Fiscal Year 2022-23. Landed weights for airlines include landed weight of affiliates.

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

Airline	2018-19	2019-20	2020-21	2021-22	2022-23	% of 2022-23 ⁽¹⁾	First Five Months (July through November)	
							2022-23	2023-24
United Airlines	16,555,781	13,070,159	6,407,767	11,435,976	14,403,370	44.5%	5,923,493	7,056,779
Alaska Airlines	3,949,910	3,020,090	1,523,460	2,507,418	3,176,131	9.8	1,275,153	1,355,988
Delta Air Lines	2,555,766	1,993,374	1,208,342	2,089,920	2,168,839	6.7	942,263	993,455
American Airlines	2,589,043	1,945,770	1,067,894	1,520,737	1,602,953	5.0	674,131	790,898
Southwest Airlines	1,946,440	1,535,680	750,437	955,031	1,137,409	3.5	484,106	509,593
jetBlue Airways	902,658	709,469	447,491	919,669	875,093	2.7	378,007	369,356
Air Canada ⁽²⁾	794,984	590,547	–	356,572	614,891	1.9	300,128	273,067
British Airways ⁽³⁾	–	389,388	–	–	440,104	1.3	183,020	206,773
Korean Air Lines	649,509	532,487	339,479	360,650	436,597	1.3	176,860	205,394
Lufthansa Airlines ⁽⁴⁾	516,270	–	–	–	393,974	1.2	160,815	175,087
All Nippon ⁽⁵⁾	–	–	295,928	379,959	–	–	–	–
China Airlines ⁽⁶⁾	–	–	341,849	356,258	–	–	–	–
Air Transport ⁽⁷⁾	–	–	340,898	–	–	–	–	–
EVA Airways ⁽⁸⁾	–	483,642	–	–	–	–	–	–
Cathay Pacific ⁽⁹⁾	559,497	–	–	–	–	–	–	–
SUBTOTAL	31,019,858	24,270,606	12,723,545	20,882,190	25,249,361	78.0	10,497,976	11,936,390
All others ⁽¹⁰⁾	8,343,850	6,528,682	2,963,161	5,614,495	7,101,068	22.0	2,960,371	3,629,148
TOTAL	39,363,708	30,799,288	15,686,706	26,496,685	32,350,429	100.0%	13,458,347	15,565,538
Percentage change	(0.4%)	(21.8%)	(49.1%)	68.9%	22.1%			

⁽¹⁾ Figures may not total due to rounding.

⁽²⁾ Air Canada served the Airport in Fiscal Year 2020-21, but was not among the top 10 most active airlines in terms of revenue landed weight for that period.

⁽³⁾ British Airways served the Airport in Fiscal Years 2018-19 and 2020-21 through 2021-22, but was not among the top 10 most active airlines in terms of revenue landed weight for those periods.

⁽⁴⁾ Lufthansa served the Airport during Fiscal Years 2019-20 through 2021-22, but was not among the top 10 most active airlines in terms of landed weight for those periods.

⁽⁵⁾ All Nippon served the Airport in Fiscal Years 2018-19 through 2019-20 and 2022-23, but was not among the top 10 most active airlines in terms of revenue landed weight for those periods.

⁽⁶⁾ China Airlines served the Airport in Fiscal Years 2018-19 through 2019-20 and 2022-23, but was not among the top 10 most active airlines in terms of revenue landed weight for those periods.

⁽⁷⁾ Air Transport served the Airport in Fiscal Years 2019-20, 2021-22 and 2022-23, but was not among the top 10 most active airlines in terms of revenue landed weight for those periods.

⁽⁸⁾ EVA Airways served the Airport in Fiscal Years 2018-19 and 2020-21 through 2022-23, but was not among the top 10 most active airlines in terms of revenue landed weight for those periods.

⁽⁹⁾ Cathay Pacific served the Airport in Fiscal Years 2019-20 through 2022-23, but was not among the top 10 most active airlines in terms of revenue landed weight for those periods.

⁽¹⁰⁾ Data for Fiscal Year 2019-20 includes estimates for one airline for March 2020. That airline comprised less than 0.1% of enplanements in the first six months of Fiscal Year 2019-20.

Source: Commission.

Airline Service

See the table "Air Carriers Serving the Airport in Fiscal Year 2023" in the Management's Discussion and Analysis in the audited financial statements attached as Appendix A for a list of the air carriers reporting enplaned passengers and/or enplaned cargo at the Airport during Fiscal Year 2022-23.

The following table lists the air carriers reporting enplaned passengers and/or enplaned cargo at the Airport during the first five months of Fiscal Year 2023-24.

AIR CARRIERS REPORTING AIR TRAFFIC AT THE AIRPORT
First Five Months of Fiscal Year 2023-24⁽¹⁾

Domestic Passenger Air Carriers

Alaska Airlines^{(2)*}
 American Airlines*
 Breeze Aviation Group, Inc.
 Delta Air Lines*
 Frontier Airlines*
 Hawaiian Airlines*
 jetBlue Airways*
 Southwest Airlines*
 Sun Country Airlines*
 United Airlines^{(2)*}

Foreign Flag Carriers

Aer Lingus
 Aeromexico
 Air Canada*
 Air France*
 Air India*
 Air New Zealand*
 Air Pacific Limited dba Fiji Airways
 Air Transat
 All Nippon Airways*
 Asiana Airlines*
 British Airways*
 COPA Airlines
 Cathay Pacific Airways*
 China Airlines*
 China Eastern*
 China Southern Airlines*
 Condor Flugdienst GmbH
 EVA Airways*
 Emirates*
 Flair Airlines
 French Bee
 ITA Airways

Foreign Flag Carriers (continued)

Iberia⁽³⁾
 Japan Airlines*
 KLM Royal Dutch Airlines*
 Korean Air*
 Lufthansa German Airlines*
 Norse Atlantic UK, Ltd.⁽⁵⁾
 Philippine Airlines
 Qantas Airways
 Qatar Airways
 Scandinavian Airlines*
 Singapore Airlines*
 Swiss International*
 TACA International Airlines*
 TAP Air Portugal
 Turkish Airlines*
 Vietnam Airlines JSC
 Virgin Atlantic*
 WestJet Airlines*
 ZIPAIR Tokyo

Cargo-Only Carriers

21 Air
 ABX Air*
 Air Transport International
 Atlas Air
 Federal Express*
 Kalitta Air*

Regional Affiliates⁽⁴⁾

Horizon Air (Alaska Airlines)
 Jazz Aviation (Air Canada)
 SkyWest Airlines (Alaska SkyWest, American Eagle, Delta Connection and United Express)

* Indicates a "Signatory Airline" to a Lease and Use Agreement. Any air carrier that is certified by the Secretary of Transportation, is engaged in the business of scheduled or non-scheduled commercial transportation by air of persons, property, mail, parcels and/or cargo, and signs a Lease and Use Agreement, is considered a "Signatory Airline."

⁽¹⁾ Includes all airlines that served the Airport at any time during the first five months of Fiscal Year 2023-24.

⁽²⁾ Provides international and domestic air passenger service at the Airport.

⁽³⁾ Level Airlines operates under Iberia's permit.

⁽⁴⁾ Airlines designated as affiliates by Signatory Airlines per the Lease and Use Agreement. Affiliates may (i) be a wholly-owned subsidiary of a Signatory Airline, (ii) be a subsidiary of the same corporate parent of the Signatory Airline, (iii) share flight codes with a Signatory Airline, or (iv) operate cargo feeder flights under the direction and control of a Signatory Airline. Affiliates do not sell their own seats or flights at the Airport.

⁽⁵⁾ Norse Atlantic Airways operated from July – October 2023, and is not expected to return to the airport next year.

Source: Commission.

Ten Highest Revenue Producers

Set forth in the table below is a description of the Airport's principal revenue sources. For the purpose of this table, the term "revenues" includes all amounts paid to the Airport by a company, including Concession Revenues (defined below), rent, utilities, etc.

TOP TEN SOURCES OF REVENUE

Company/Source	Category	FY 2020-21 ⁽¹⁾	FY 2021-22 ⁽¹⁾	FY 2022-23		
		Revenues (\$ in thousands)	Revenues (\$ in thousands)	Revenues (\$ in thousands)	Percent of Operating Revenue	Percent of Total Revenue ⁽²⁾
United Airlines	Airline	\$224,630	\$307,228	\$292,641	28%	24%
On Airport Parking ⁽³⁾	Public Parking	34,237	94,111	127,715	12	10
American Airlines	Airline	38,589	47,535	42,778	4	3
Alaska Airlines	Airline	29,315	45,327	41,463	4	3
Delta Air Lines	Airline	29,324	45,836	38,251	4	3
The Hertz Corporation ⁽⁴⁾	Rental Car	13,987	25,722	35,281	3	3
Enterprise Rent-a-Car Co. of San Francisco, LLC	Rental Car	15,535	25,230	33,368		
Avis Budget Car Rental, LLC	Rental Car	N/A	23,722	32,768	3	3
Raiser CA LLC/Uber 032512	Ground Transportation	N/A	N/A	30,281	3	2
Signature Flight Support		15,119	N/A	23,724	2	2
SkyWest Airlines	Airline	15,499	27,273	N/A		
Southwest Airlines	Airline	19,408	24,377	N/A		
Subtotal Ten Highest		\$435,643	\$666,361	\$698,270	66	56
Other Operating Revenue		79,773	154,892	365,834	34%	29%
Total Operating Revenue		\$515,416	\$821,253	\$1,064,104	100	86
Other Revenue ⁽⁵⁾		299,655	112,842	86,037		7%
PFC Collections		29,473	72,804	92,341		7
Total Airport Revenue		\$844,544	\$1,006,899	\$1,242,482		100%

⁽¹⁾ Revenue is audited and includes operating and non-operating income and credit adjustments.

⁽²⁾ Column may not add due to rounding.

⁽³⁾ New South Parking-California manages the Airport's public short-term garages and long-term parking facility and collects parking revenues on behalf of the Airport.

⁽⁴⁾ The Hertz Corporation filed for bankruptcy relief in May 2020 and emerged from bankruptcy in June 2021.

⁽⁵⁾ Includes interest and other non-operating revenue. "Other Revenues" for Fiscal Year 2020-21 was adjusted to \$297,113 in the Commission's Fiscal Year 2021-22 audited financial statements as a result of \$2,542 of unrealized investment losses being recharacterized as "Other Revenue" rather than being included as interest expense (figures in thousands).

Source: Commission.

Ten Highest Revenue Producing Concessionaires

The following table summarizes concession revenues for Fiscal Years 2020-21 through Fiscal Year 2022-23 attributable to the Airport's largest concession revenue sources. For the purpose of this table, "Concession Revenue" is defined as fees and rentals collected by the Commission for: (i) the right to provide and operate restaurants, bars, car rental services, newsstands, gift shops, specialty shops, advertising displays, public telephones and other merchandising concessions and consumer services in the terminal area; (ii) the right to provide and operate courtesy vehicles, ground transportation services, hotels, service stations and other concessions and services in the groundside area; and (iii) other activities and services in the groundside area of the terminals such as public automobile parking and traffic fines. "Concession Revenues" for identified concessionaires/managers includes only revenues derived from percentage rent (including minimum annual guarantees where applicable), not fees for permits or facility rent.

TOP TEN SOURCES OF AIRPORT CONCESSION REVENUES

Concessionaire/Manager	Concession Revenue Sources	Lease/Agreement Expiration Date	FY 2020-21 Concession Revenue (\$ in thousands)	FY 2021-22 Concession Revenue (\$ in thousands)	FY2022-23 Concession Revenue (\$ in thousands) ⁽¹⁶⁾
DFS Group, L.P.	Duty Free and General Merchandise	Various ⁽¹⁾	\$ 2,776	\$ 14,370	\$ 27,538
The Hertz Corporation	Rental Car	8/31/25 ^(2,3)	3,637	12,086	16,928
Enterprise Rent-a-Car Rental, LLC (formerly EAN, LLC)	Rental Car	8/31/25 ^(2,4)	4,417	11,649	16,071
Avis Budget Rental Car, LLC	Rental Car	8/31/25 ^(2,5)	3,313	12,294	15,497
Clear Channel Airports	Advertising	12/31/23 ⁽⁶⁾	12,202	12,712	12,738
Tastes on the Fly San Francisco, LLC	Food and Beverage	Various ⁽⁷⁾	708	3,821	7,221
Sixt Rent A Car, LLC	Rental Car	8/31/25 ^(2,8)	n/a	2,671	4,403
Alclear, LLC.	Travel Service	12/31/23 ⁽⁹⁾	2,239	2,713	4,024
American Express Travel Related Services Co., Inc	VIP Club	11/05/24 ⁽¹⁰⁾	2,255	1,577	2,718
WDFG North America, LLC (Formerly Host International Inc.)	General Merchandise	Various ⁽¹¹⁾	n/a	n/a	2,598
Fox Rent A Car, Inc.	Rental Car	8/31/20 ⁽¹²⁾	896	1,719	n/a
New Cingular Wireless	Wireless Network	2/1/32 ⁽¹³⁾	719	n/a	n/a
Sprint Spectrum	Wireless Network	Expired ⁽¹⁴⁾	719	n/a	n/a
GTE MobilNet of California	Wireless Network	Expired ⁽¹⁴⁾	719	n/a	n/a
T-Mobile	Wireless Network	Expired ⁽¹⁴⁾	719	n/a	n/a
Sub Total			\$35,317	\$75,613	\$109,735
On Airport Parking			34,237	94,111	127,715
Other Revenue ⁽¹⁵⁾			44,360	105,041	111,465
Total Concession Revenue			\$113,914	\$274,765	\$348,916

⁽¹⁾ There are two concession leases for DFS Group: a duty paid lease and a duty free lease. In Fiscal Year 2022-23, the minimum annual guaranteed rent for the duty free lease was \$7.0 million. The duty paid lease expires January 31, 2028; the duty free lease expires March 31, 2034.

⁽²⁾ The Commission receives multiple revenue streams from rental car companies (such as concessions rent, facilities rent, transportation and facilities fees). Revenue in this table reflects only the concession rent.

⁽³⁾ The minimum annual guaranteed rent for Hertz Corporation was \$11.0 million in Fiscal Year 2022-23.

⁽⁴⁾ Doing business as Enterprise Rent-A-Car, Alamo Rent-A-Car and National Car Rental. Tenant's minimum annual guaranteed rent was \$9.4 million in Fiscal Year 2022-23.

⁽⁵⁾ Doing business as Avis Rent-A-Car and Budget Rent-A-Car. Tenant's minimum annual guaranteed rent was \$7.4 million in Fiscal Year 2022-23.

⁽⁶⁾ The fixed rent for Clear Channel in Fiscal Year 2022-23 was \$12.7 million.

⁽⁷⁾ Tastes on the Fly operates various locations within the Airport, each with a different expiration date. The total minimum annual guaranteed rent for Fiscal Year 2022-23 was \$2.2 million.

⁽⁸⁾ The minimum annual guaranteed rent for Sixt Rent A Car was \$2.0 million in Fiscal Year 2022-23.

⁽⁹⁾ The minimum annual guaranteed rent for Alclear, LLC. in Fiscal Year 2022-23 was \$1.7 million.

⁽¹⁰⁾ American Express Travel Services rents space for its common use club at CAT II rate.

⁽¹¹⁾ WDFG North America, LLC (Formerly Host International Inc.) operates various locations within the Airport, each with a different expiration date. The total minimum annual guaranteed rent for Fiscal Year 2022-23 was \$2.4 million.

⁽¹²⁾ Fox Rent A Car on-airport lease ceased 08/31/2020. Off-airport permit commenced September 2020. Tenant was not one of the top ten sources of concession revenue in Fiscal Year 2022-23.

⁽¹³⁾ Tenant provides wireless network service. Tenant was not one of the top ten sources of concession revenue in Fiscal Year 2021-22 and Fiscal Year 2022-23.

⁽¹⁴⁾ Tenant was not one of the top ten sources of concession revenue in Fiscal Year 2021-22 and Fiscal Year 2022-23.

⁽¹⁵⁾ Represents the aggregate concession revenue received from approximately 85 additional concessionaires operating 125 concessions and ground transportation operators at the Airport, including TNC trip fee revenues of approximately \$8.3 million in Fiscal Year 2020-21, approximately \$30.0 million in Fiscal Year 2021-22, and approximately \$45.1 million in Fiscal Year 2022-23.

⁽¹⁶⁾ The concession revenue for Fiscal Year 2022-23 does not include any Concession Relief adjustments in connection with federal coronavirus relief grant programs.

Source: Commission.

Total Outstanding Long-Term Debt

Outstanding Senior Bonds

The Commission had the following Senior Bonds outstanding as of June 30, 2023.

Series	Dated Date	Principal Amount Issued	Outstanding Principal (as of 6/30/23)	Purpose
2009D (Non-AMT/Private Activity)†	November 4, 2009	\$ 88,190,000	\$ 51,615,000	Refunding
2013A (AMT)†	July 31, 2013	360,785,000	241,790,000	New Money
2014A (AMT)†	September 24, 2014	376,320,000	376,310,000	New Money
2014B (Non-AMT/Governmental Purpose)†	September 24, 2014	97,290,000	97,290,000	New Money
2016A (Non-AMT/Governmental Purpose)†	February 25, 2016	232,075,000	139,020,000	Refunding
2016B (AMT)†	September 29, 2016	574,970,000	574,970,000	New Money
2016C (Non-AMT/Governmental Purpose)†	September 29, 2016	165,155,000	165,155,000	New Money
2016D (Non-AMT/Governmental Purpose)†	September 29, 2016	147,795,000	100,280,000	Refunding
2017A (AMT)†	October 31, 2017	339,585,000	339,580,000	New Money
2017B (Non-AMT/Governmental Purpose)†	October 31, 2017	231,985,000	231,985,000	New Money
2017D (AMT) ^Ω	October 31, 2017	144,830,000	72,015,000	Refunding
2018D (AMT)†	May 30, 2018	722,805,000	722,800,000	New Money
2018E (Non-AMT/Governmental Purpose)†	May 30, 2018	116,275,000	116,275,000	New Money
2018F (Taxable)†	May 30, 2018	7,025,000	7,025,000	New Money
2018G (AMT)†	May 30, 2018	35,665,000	35,660,000	Refunding
2018B (Non-AMT/Governmental Purpose)	June 6, 2018	138,170,000	138,170,000	New Money
2018C (Non-AMT/Governmental Purpose)	June 6, 2018	138,170,000	138,170,000	New Money
2019A (AMT)†	February 7, 2019	1,176,215,000	1,176,215,000	New Money
2019B (Non-AMT/Governmental Purpose) ^Ω	February 7, 2019	91,280,000	91,280,000	New Money
2019C (Taxable)†	February 7, 2019	88,750,000	8,010,000	New Money/Refunding
2019D (Non-AMT/Private Activity) ^Ω	February 7, 2019	407,320,000	373,295,000	Refunding
2019E (AMT)†	September 10, 2019	773,475,000	773,475,000	New Money
2019F (Non-AMT/Governmental Purpose)†	September 10, 2019	106,925,000	106,925,000	New Money
2019G (Taxable)†	September 10, 2019	41,770,000	12,285,000	New Money
2019H (AMT)†	September 10, 2019	267,005,000	148,195,000	Refunding
2020A (AMT)†	August 20, 2020	109,520,000	109,520,000	Refunding
2020B (Non-AMT/Governmental Purpose)†	August 20, 2020	51,575,000	51,575,000	Refunding
2020C (Taxable)	August 20, 2020	130,180,000	130,180,000	Refunding
2021A (AMT)†	April 21, 2021	195,225,000	195,225,000	Refunding
2021B (Non-AMT/Governmental Purpose)†	April 21, 2021	129,070,000	129,070,000	Refunding
2021C (Taxable)†	April 21, 2021	222,810,000	222,810,000	Refunding
2022A (AMT)†	February 8, 2022	301,530,000	301,530,000	New Money/Refunding
2022B (Non-AMT/Governmental Purpose)†	February 8, 2022	236,475,000	236,475,000	New Money/Refunding
2022C (Taxable)†	February 8, 2022	194,815,000	194,815,000	New Money/Refunding
2023A (AMT)†	March 1, 2023	162,405,000	161,165,000	Refunding
2023B (Non-AMT)†	March 1, 2023	79,510,000	79,510,000	Refunding
TOTAL		\$8,682,945,000	\$8,049,665,000	

† Secured by Issue 1 Reserve Account (also referred to as the Original Reserve Account).

^Ω Secured by 2017 Reserve Account.

Source: Commission.

On November 15, 2023, the Commission issued \$748,430,000 principal amount of its Second Series Revenue Refunding Bonds, Series 2023C (the “Series 2023C Bonds”) and \$45,880,000 principal amount of its Second Series Revenue Refunding Bonds, Series 2023D (the “Series 2023D Bonds”) and, together with the Series 2023C Bonds, the “Series 2023CD Bonds”). The Commission used a portion of the proceeds of the Series 2023CD Bonds, together with other available moneys, to refund and defease certain of its outstanding Second Series Revenue Bonds, Series 2013A (such Senior Bonds so refunded and defeased, collectively, the “Refunded Bonds”). The Refunded Bonds will be redeemed on February 12, 2024. The Series 2023CD Bonds are secured by the Issue 1 Reserve Account established under the 1991 Master Resolution. As of January 1, 2024, the Senior Bonds outstanding principal is \$8,602,185,000.

Credit Facilities Relating to Senior Bonds

As of June 30, 2023 and as of January 1, 2024, the Commission had outstanding \$276,340,000 of variable rate tender option Senior Bonds, secured by bank letters of credit, as summarized in the table below. If amounts due on the Senior Bonds are paid under a letter of credit, the obligation of the Commission to repay such amounts would constitute “Repayment Obligations” under the 1991 Master Resolution and would be accorded the status of Senior Bonds.

CREDIT FACILITIES SUPPORTING SENIOR BONDS (as of June 30, 2023)

	<u>Series 2018B</u>	<u>Series 2018C</u>
Outstanding Principal Amount	\$138,170,000	\$138,170,000
Type	LOC ⁽¹⁾	LOC ⁽¹⁾
Expiration Date	June 3, 2026	April 5, 2027
Credit Provider	Barclays ⁽²⁾	Sumitomo ⁽³⁾
Credit Provider Ratings ⁽⁴⁾		
Short-Term	P-1/A-1/F1	P-1/A-1/F1
Long-Term	A1/A+/A+	A1/A/A-

⁽¹⁾ Letter of Credit.

⁽²⁾ Barclays Bank PLC.

⁽³⁾ Sumitomo Mitsui Banking Corporation acting through its New York Branch.

⁽⁴⁾ As of June 30, 2023. Ratings are provided for convenience of reference only. Such rating information has been obtained from sources believed to be reliable but has not been confirmed or re-verified by the rating agencies. The Commission does not take any responsibility for the accuracy of such ratings, nor does it give any assurance that such ratings will apply for any given period of time, or that such ratings will not be revised downward or withdrawn if, in the judgment of the agency providing such rating, circumstances so warrant. The rating information reflects the ratings of the credit provider’s obligations, not the rating on the related Bonds; ratings on related Bonds may be different. Ratings for the Credit Providers’ obligations are displayed as Moody’s/S&P/Fitch. The Long-Term ratings provided are Moody’s Issuer Rating, Standard & Poor’s Long-Term Local Issuer Credit Rating and Fitch’s Long-Term Issuer Default Rating.

Source: Commission

Interest Rate Swaps

Pursuant to the 1991 Master Resolution, the Commission may enter into one or more interest rate swaps in connection with one or more series of Senior Bonds. The Commission is not currently party to any interest rate swap. The 1991 Master Resolution provides that, if and to the extent provided in any supplemental resolution authorizing the issuance of a series of Senior Bonds, regularly scheduled swap payments may be paid directly out of the account or accounts in the debt service fund established with respect to such series of Senior Bonds, and thus on a parity with debt service on the Senior Bonds.

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Other Indebtedness

Commercial Paper Notes

The Commission has authorized, and the Board of Supervisors of the City has approved, the issuance by the Commission of up to \$600,000,000 principal amount outstanding at any one time of commercial paper notes (the “Commercial Paper Notes”), which constitute “Subordinate Bonds.” As of June 30, 2023, the Commission had six irrevocable direct-pay letters of credit totaling \$600,000,000 to support the Commercial Paper Notes. Payment of Commercial Paper Notes and repayment of amounts drawn on the letters of credit with respect thereto, are secured by a lien on Net Revenues subordinate to the lien of the 1991 Master Resolution securing the Senior Bonds. Those letters of credit are described in the following table.

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LETTERS OF CREDIT FOR COMMERCIAL PAPER NOTES
(as of June 30, 2023)

<u>Series</u>	<u>Principal Amount</u>	<u>Letter of Credit Provider</u>	<u>Expiration Date</u>	<u>Credit Provider Ratings (short term; long term)⁽⁵⁾</u>
Series A-1 Notes Series B-1 Notes Series C-1 Notes	\$100,000,000	State Street ⁽¹⁾	May 2, 2024	P-1/A-1+/F1+; Aa3/AA-/AA
Series A-2 Notes Series B-2 Notes Series C-2 Notes	\$100,000,000	Sumitomo Mitsui Banking ⁽²⁾	April 7, 2027	P-1/A-1/F1; A1/A/A-
Series A-3 Notes Series B-3 Notes Series C-3 Notes	\$100,000,000	Barclays Bank ⁽³⁾	May 24, 2024	P-1/A-1/F1; A1/A+/A+
Series A-4 Notes Series B-4 Notes Series C-4 Notes	\$100,000,000	Sumitomo Mitsui Banking ⁽²⁾	June 6, 2028	P-1/A-1/F1; A1/A/A-
Series A-5 Notes Series B-5 Notes Series C-5 Notes	\$125,000,000	Barclays Bank ⁽³⁾	April 23, 2027	P-1/A-1/F1; A1/A+/A+
Series A-6 Notes Series B-6 Notes Series C-6 Notes	\$75,000,000	Bank of America ⁽⁴⁾	May 4, 2026	P-1/A-1/F1+; Aa1/A+/AA

⁽¹⁾ State Street Bank and Trust Company.

⁽²⁾ Sumitomo Mitsui Banking Corporation, acting through its New York Branch.

⁽³⁾ Barclays Bank PLC.

⁽⁴⁾ Bank of America, N. A.

⁽⁵⁾ As of June 30, 2023. Ratings are provided for convenience of reference only. Such rating information has been obtained from sources believed to be reliable but has not been confirmed or re-verified by the rating agencies. The Commission does not take any responsibility for the accuracy of such ratings, nor does it give any assurance that such ratings will apply for any given period of time or that such ratings will not be revised downward or withdrawn if, in the judgment of the agency providing such rating, circumstances so warrant. The rating information reflects the ratings of the credit provider's obligations, not the rating on the related Commercial Paper Notes; ratings on related Commercial Paper Notes may be different. Ratings for the credit providers' obligations are displayed as Moody's/S&P/Fitch. The Long-Term ratings provided are Moody's Issuer Rating, S&P's Long-Term Local Issuer Credit Rating and Fitch's Long-Term Issuer Default Rating. The Short-Term ratings provided are Moody's Short-Term Rating, S&P's Short-Term Local Issuer Credit Rating and Fitch's Short-Term Issuer Default Rating.

Source: Commission.

SFO Fuel Bonds

The Commission issued \$125,000,000 of Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC) Series 2019A and Series 2019B (the "SFO Fuel Bonds"), which are Special Facility Bonds (as defined in the 1991 Master Resolution), in February 2019. \$96,715,000 aggregate principal amount of these Special Facility Bonds remained outstanding as of June 30, 2023 and \$87,705,000 aggregate principal amount remains outstanding as of January 1, 2024. The SFO Fuel Bonds were issued to finance and refinance (including through the refunding of Special Facility Bonds issued in 1997 and 2000) construction of jet fuel storage, distribution and related facilities at the Airport for the benefit of the airlines.

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

Airport Hotel Special Facility Revenue Bonds

In June 2018, the Commission issued \$260,000,000 of San Francisco International Airport Hotel Special Facility Revenue Bonds (the “Hotel Special Facility Bonds”) to finance and refinance (through the repayment of Commercial Paper Notes) the development and construction of a new Commission-owned hotel at the Airport (the “On-Airport Hotel”), to fund capitalized interest on the Hotel Special Facility Bonds and to pay related costs. The On-Airport Hotel was designated as a Special Facility (as defined in the 1991 Master Resolution), and the Hotel Special Facility Bonds are Special Facility Bonds. The Hotel Special Facility Bonds are payable from On-Airport Hotel revenues. There were \$260,000,000 in principal amount of the Hotel Special Facility Bonds outstanding as of June 30, 2023 and January 1, 2024. The final maturity date of the Hotel Special Facility Bonds is April 1, 2058. The Hotel Special Facility Bonds are held by the Commission and were purchased with proceeds of the Commission’s Second Series Revenue Bonds, Series 2018B and Series 2018C.

The terms of the Hotel Special Facility Bonds were modified to address financial challenges then faced by the On-Airport Hotel as a result of the COVID-19 pandemic. In September 2020, the Commission, as beneficiary of the trust that owns the Hotel Special Facility Bonds, instructed that the October 1, 2020 interest payment with respect to the Hotel Special Facility Bonds not be made until the Commission directed the payment to occur. On February 26, 2021, the Commission entered into an Amended and Restated Trust Agreement that restructured the Hotel Special Facility Bonds by delaying principal repayment until April 1, 2025 instead of April 1, 2022 and temporarily reduced the interest rate on the Hotel Special Facility Bonds from 3.00% to 0.086% through September 30, 2023. The interest rate then increases incrementally until it is restored to 3.00% beginning on April 1, 2029. In addition, the Amended and Restated Trust Agreement provided that October 1, 2020 was no longer an interest payment date, and there was no requirement to pay interest on the Hotel Special Facility Bonds until October 1, 2023.

Historical Landing Fees and Terminal Rentals

A summary of historical and current landing fees for scheduled aircraft with a lease or operating permit and average terminal rental rates for Fiscal Years 2019-20 through 2023-24 is set forth below.

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

	2019-20	2020-21	2021-22	2022-23	2023-24
Landing Fees (per 1,000 pounds)	\$5.80	\$7.29	\$11.40	\$7.73	\$5.98
Minimum Landing Fee (fixed wing)	393	393	393	415	514
Minimum Landing Fee (rotary)	196	196	196	208	257
Average Terminal Rental Rate (per square foot)	191.50	196.45	196.45	187.47	225.62

Source: Commission.

Calculation of Net Revenues and Compliance with Rate Covenant

The following table reflects historical Net Revenues and the calculation of debt service coverage on the Senior Bonds based on such Net Revenues for Fiscal Years 2018-19 through 2022-23.

HISTORICAL DEBT SERVICE COVERAGE					
(Fiscal Year)					
(\$ in thousands)					
	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>
Net Revenues ⁽¹⁾	\$476,653	\$385,832	\$311,233	\$429,280	\$511,495
PFCs Treated as Revenues	63,260	151,810	-	-	-
Transfer from the Contingency Account ⁽²⁾	<u>155,164</u>	<u>166,213</u>	<u>167,295</u>	<u>168,193</u>	<u>171,632</u>
TOTAL AVAILABLE FOR DEBT SERVICE	\$695,076	\$703,855	\$478,528	\$597,474	\$683,127
Total Annual Debt Service ⁽³⁾	\$436,459	\$479,168	\$290,261	\$288,609	\$408,661
Historical Debt Service Coverage per the 1991 Master Resolution ⁽⁴⁾	159.3%	146.9%	164.9%	207.0%	167.2%
Historical Debt Service Coverage Excluding Transfer	123.7%	112.2%	107.2%	148.7%	125.2%

(1) Using the definition of Net Revenues contained in the 1991 Master Resolution, but excluding PFCs (defined below) treated as “Revenues” pursuant to the 1991 Master Resolution. For fiscal year 2022-23, the calculation of Net Revenues excluded \$23.8 million of revenue from the American Rescue Plan Act (ARPA) grant reimbursements received by the Airport, which are not includable as revenue, and excluded \$23.8 million of operating expenses that were reimbursed using the ARPA grant funds. For Fiscal Year 2021-22, the calculation of Net Revenues excluded \$175.1 million of revenue from certain federal grant reimbursements received by the Airport, which are not includable as Revenue, and excluded \$175.1 million of operating expenses that were reimbursed using such grant funds. For Fiscal Year 2020-21, the calculation of Net Revenues excluded \$296.1 million of revenue from certain federal grant reimbursements received by the Airport, which are not includable as Revenue, and excluded \$296.1 million of operating expenses that were reimbursed using such grant funds. In addition, this calculation excluded \$57.0 million of operating expenses that were paid using proceeds of Senior Bonds that were issued in Fiscal Year 2020-21 to reimburse the Airport for prior years’ bond interest expense on capital projects; Bond proceeds are not includable as Revenue.

(2) Represents the Transfer from the Contingency Account to the Revenues Account in each such Fiscal Year.

(3) Annual Debt Service net of accrued and capitalized interest. Calculated on a cash basis. Amendments to the 1991 Master Resolution that became effective in 2023 would permit the Commission to opt to calculate on a deposit basis instead.

(4) Net Revenues plus Transfer divided by total Annual Debt Service. Must not be less than 125% pursuant to the 1991 Master Resolution.

Source: Commission.

PFC Collections

Set forth in the table below is a summary of Airport passenger facility charge (“PFC”) designations, collections and amounts applied to pay debt service for the ten most recent Fiscal Years.

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

Applicable Fiscal Year	PFC Collections (millions) ⁽¹⁾	PFC Designated as Revenues (millions) ⁽²⁾	Designation Date	Amount Applied to Pay Debt Service (millions) ⁽³⁾
2022-23	\$99.4	\$137.0	5/17/22	\$0.0
2021-22	60.9	397.0	2/16/21	0.0
2020-21	29.3	0.0	2/16/21	0.0
2019-20	83.7	523.6	4/7/20 & 5/21/19	151.8
2018-19	124.8	67.9	5/15/18	63.3
2017-18	115.1	31.7	5/16/17	4.1
2016-17	105.9	44.9	5/17/16	23.4
2015-16	100.2	58.1	5/26/15	43.1
2014-15	93.2	62.6	5/20/14	47.6
2013-14	88.0	60.2	5/21/13	35.7

⁽¹⁾ Includes PFC collections and related interest earned for the year. Based on Audited Financial Statements.

⁽²⁾ Amount authorized to be designated as Revenues to be applied to pay debt service. Accumulated PFCs from prior years can be designated in future years. The Commission authorized the Director to designate up to \$397 million of PFCs as Revenues in Fiscal Year 2020-21 or Fiscal Year 2021-22. The Director did not designate any PFCs as Revenues in Fiscal Year 2020-21, leaving the full \$397 million available to be applied to pay debt service in Fiscal Year 2021-22.

⁽³⁾ Amount actually applied to pay debt service. Accumulated PFCs from prior years can be applied to pay debt service in future years.

Source: Commission.

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Payments Made to the City

Set forth in the table below is a summary of the payments made by the Airport to the City for Fiscal Years 2018-19 through 2022-23.

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

Fiscal Year	Annual Service Payment	Reimbursement for Direct Services				Subtotal	Total
		Police	Fire	Other ⁽¹⁾	Utility Costs		
2022-23	\$48.7	\$67.6	\$29.5	\$32.4	\$56.9 ⁽²⁾	\$186.4	\$235.1
2021-22	37.9	64.9	29.0	30.5	61.8 ⁽³⁾	186.2	224.1
2020-21	14.7	69.4	26.9	29.0	48.2 ⁽⁴⁾	173.5	188.2
2019-20	33.5	69.5	27.1	33.4	53.5 ⁽⁵⁾	183.5	217.0
2018-19	49.1	65.2	25.0	29.2	51.9 ⁽⁶⁾	171.3	220.4

⁽¹⁾ Represents costs of direct services provided by the City Attorney, City Treasurer, City Controller, City Purchasing Agent and other City departments.

⁽²⁾ Approximately \$23.0 million (preliminary) in utility costs were recovered from Airport tenants.

⁽³⁾ Approximately \$22.5 million in utility costs were recovered from Airport tenants.

⁽⁴⁾ Approximately \$19.2 million in utility costs were recovered from Airport tenants.

⁽⁵⁾ Approximately \$23.6 million in utility costs were recovered from Airport tenants.

⁽⁶⁾ Approximately \$22.8 million in utility costs were recovered from Airport tenants.

Source: Commission.

Lease and Use Agreements

As of June 30, 2023 the City and 37 of the airlines that served the Airport in Fiscal Year 2022-23 were party to Lease and Use Agreements that became effective on and after July 1, 2023 following the expiration of prior lease and operating agreements with the airlines. The term of the Lease and Use Agreements is through June 30, 2033. Non-signatory airlines operate at the Airport under month-to-month operating permits or on an itinerant basis. The terms of the Lease and Use Agreements are described in the Official Statement for the Series 2023CD Bonds.

Taxiway Realignment Project

The Airport expects one runway to be closed for approximately five months in early 2024 for a project that will result in the realignment of two taxiways to improve safety. This work could lead to significant delays at the Airport during the period of the runway closure, however, the Airport is working to mitigate the impact of such delays. The Airport cannot currently predict the impact on passenger traffic as a result of this project.

The publication of this section in the Annual Report does not constitute or imply any representation (i) that all of the foregoing is material to investors, (ii) regarding any other financial, operating or other information about the Commission, the Airport or its bonds or (iii) that no other circumstances or events have occurred or that no other information exists concerning the Commission, its bonds or the Airport which may have a bearing on the financial condition of the Commission, the security for its bonds, or an investor's decision to buy, sell or hold any bonds.

By posting this statement, the Commission does not undertake to post any additional statement. The Commission disclaims any obligation to update this statement.

Appendix A

Audited Financial Statements for Fiscal Year Ended June 30, 2023

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

Financial Statements with
Schedule of Passenger Facility Charge Revenues and Expenditures
Schedule of Customer Facility Charge Revenues and Expenditures

June 30, 2023

(With Independent Auditor's Report Thereon)

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements***Opinion***

We have audited the financial statements of the Airport Commission, City and County of San Francisco, San Francisco International Airport, an enterprise fund of the City and County of San Francisco, California, (the "Airport"), as of and for the year ended June 30, 2023 and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Airport as of June 30, 2023, and the changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Airport and do not purport to, and do not, present fairly the financial position of the City and County of San Francisco, California, as of June 30, 2023, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Airport's financial statements. The accompanying schedule of passenger facility charge revenues and expenditures and the schedule of customer facility charge revenues and expenditures, are presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of passenger facility charge revenues and expenditures and the schedule of customer facility charge revenues and expenditures are fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2023 on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Airport's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport's internal control over financial reporting and compliance.

The logo for Crowe LLP, featuring the company name in a stylized, handwritten-style font above the text "Crowe LLP" in a clean, sans-serif font.

Crowe LLP
Crowe LLP

Costa Mesa, California
December 22, 2023

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The management of the Airport Commission (Commission), City and County of San Francisco, San Francisco International Airport (the Airport or SFO), an enterprise department of City and County of San Francisco (the City), presents the following narrative overview and analysis of the financial activities of the Airport for the fiscal year ended June 30, 2023.

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

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

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

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

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

Highlights of Airline Operations at the Airport

Fiscal year 2022-23 passenger traffic at SFO concluded with approximately 47.1 million passengers, an increase of 34.9% compared to the prior fiscal year (FY). Domestic enplaned passengers increased by 20.2%, and international enplaned passengers increased by 101.0%. The year-over-year recovery was predominately due to increased travel demand. Total cargo and U.S. mail tonnage decreased by 16.7%.

Published scheduled departing seats for SFO, Oakland (OAK) and Mineta San Jose International (SJC) were 26.1%, 17.4%, and 22.9% higher, respectively, for fiscal year 2022-23 compared to prior fiscal year. Total scheduled departing seats for the Bay Area were 23.9% higher than the prior fiscal year.

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Passenger and Other Traffic Activity

The number of flight operations (takeoffs and landings) increased by 12.7% fiscal year over year. Aircraft revenue landed weight, which affects revenue generated by landing fees, increased by 22.1% in comparison to the prior fiscal year. Total airport passengers, which are comprised of enplaned, deplaned and in transit passengers (defined as passengers who fly into and out of SFO on the same aircraft), were close to 47.1 million, which was 34.9% above last fiscal year. Overall enplaned passengers increased by 34.6% over the prior fiscal year to 23.4 million. Domestic enplanements increased by 20.2% to 17.2 million, and international enplanements increased by 101.0% to 6.2 million passengers. Total cargo and U.S. mail tonnage decreased by 16.7%.

The following table¹ presents a comparative summary of passenger and other traffic at the Airport for fiscal years ended June 30, 2023 and 2022:

	<u>FY 2023</u>	<u>FY 2022</u>
Flight operations (takeoffs and landings)	369,974	328,183
Landed weight (in 000 lbs.)	32,350,429	26,496,685
Total Airport passengers	47,052,180	34,890,102
Enplaned passengers	23,419,568	17,396,249
Domestic enplaned passengers	17,177,004	14,290,034
International enplaned passengers	6,242,564	3,106,215
Cargo and U.S. mail tonnage (in metric tons)	454,121	545,335

Passenger Traffic

Passenger enplanements in fiscal year 2022-23 increased by 34.6% from 17.4 million to 23.4 million. Domestic passenger enplanements increased by 20.2%, and international enplanements increased by 101.0%. Overall enplanements increased by 6.0 million passengers, comprised of 2.9 million in domestic and 3.1 million in international enplanements. Passenger traffic continues to close the gap to pre-pandemic levels, and has recovered 81.8%, with domestic and international recoveries of 80.6% and 85.3% respectively, compared to fiscal year 2018-19 (pre-pandemic).

Except for Asia where COVID-19 restrictions were in place for a longer period of time, international sector passenger traffic recovery was robust following the lifting and relaxation of COVID-19 restrictions worldwide, with recovery of over 90.0% for all international regions. For fiscal year 2022-23, enplanements to Asia increased by 199.6%, Europe increased by 84.0%, Latin America increased by 21.7%, Canada increased by 114.2%, Middle East increased by 44.4%, and Australia/Oceania increased by 272.4%, compared to fiscal year 2021-22.

¹ Sources: Airport's Analysis of Airline Traffic, Fiscal Years 2023 and 2022.

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On a quarterly basis, enplanements increased by 55.7%, 35.5%, 39.0%, and 16.6%, relative to the same quarter in fiscal year 2021-22.

Overall airline seat capacity increased by 26.1% during fiscal year 2022-23 as compared to fiscal year 2021-22, with a domestic increase of 16.9% and an international increase of 59.7%. The overall load factor (the percentage of seats filled on flights) increased by 5.3 percentage points to 84.4%. The domestic load factor increased by 2.3 percentage points to 85.1%, while the international load factor increased by 17.0 percentage points to 82.8%.

Flight Operations

During fiscal year 2022-23, the number of aircraft operations (takeoffs and landings) increased by 41,791 flights (12.7%) as compared to fiscal year 2021-22. Scheduled passenger aircraft arrivals and departures increased by 42,858 flights (13.5%). Civil and military traffic decreased by 1,067 flights (9.0%). The total number of scheduled airline passenger and cargo landings increased by 14.3%, with an increase in revenue landed weight of 22.1%. Domestic passenger landings increased by 10.6%, while domestic landed weight increased by 14.4%. International passenger landings increased by 38.7%, while international landed weight increased by 45.1%. Average passenger aircraft size increased from approximately 153 to 167 seats per flight. Domestic scheduled seats per flight increased from 141 to 149, while international scheduled seats per flight increased from 227 to 243. The overall balance between mainline passenger aircraft (wide body and narrow body) and commuter aircraft (regional jets and turbo props) shifted 6.6% towards mainline aircraft, which increased to 78.1% for domestic and international operations combined. Mainline landings increased by 26,213 and commuter landings decreased by 4,853.

Cargo Tonnage

Fiscal year 2022-23 cargo and mail tonnage decreased by 91,214 metric tons (16.7%). Domestic cargo and mail decreased by 36,513 metric tons (16.6%), while international cargo and mail decreased by 54,701 metric tons (16.7%). Tonnage shares of cargo-only carriers decreased by 2.6% to 20.2%. Tonnage on cargo-only carriers decreased by 26.1%, while tonnage on passenger carriers decreased by 14.0%, due to overall decline in shipments.

Financial Highlights

- Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources at the close of the fiscal year by \$822.9 million.
- Total revenue bonds payable by the Airport decreased by \$81.4 million.
- Operating revenues were \$1.1 billion.
- Operating expenses were \$902.8 million.
- Nonoperating expenses, net of revenues from nonoperating sources were \$197.4 million (including revenues of \$92.3 million from Passenger Facility Charges (PFC), \$11.4 million from Customer Facility Charges (CFC), and \$23.8 million from the American Rescue Plan Act (ARPA)). Total Federal awards received were \$24.6 million. The Airport has \$0.08 million remaining in Coronavirus Response and Relief

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Supplemental Appropriations Act (CRRSAA) and \$3.9 million in ARPA funds remaining available for use in fiscal year 2023-24.

- Capital contributions consist of grants from the Federal Aviation Administration's (FAA) Airport Improvement Program (AIP) of \$28.7 million.
- Transfers to the City and County of San Francisco for the annual service payments were \$48.7 million.
- Net position decreased by \$162.7 million mainly due to the cumulative effect of accounting change from the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 91 - *Conduit Debt Obligations* and the recognition of capital assets for the SFO Fuel System.

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Overview of the Airport's Financial Statements

Net Position Summary

A condensed summary of the Airport's net position for the fiscal years 2023 and 2022 is shown below (in thousands):

	<u>FY 2023</u>	<u>FY 2022</u>
Assets:		
Unrestricted current assets	\$ 1,223,147	1,104,277
Restricted current assets	741,971	591,895
Unrestricted noncurrent assets	831,198	241,871
Restricted noncurrent assets	1,113,454	930,708
Net pension asset	—	153,872
Capital assets, net	6,934,498	6,977,073
Total assets	<u>10,844,268</u>	<u>9,999,696</u>
Deferred outflows of resources:		
Unamortized loss on refunding of debt	30,534	36,158
Deferred outflows on derivative instruments	—	10,192
Deferred outflows related to OPEB	38,931	35,683
Deferred outflows related to pensions	105,957	82,086
Total deferred outflows of resources	<u>175,422</u>	<u>164,119</u>
Liabilities:		
Current liabilities	648,266	527,812
Current liabilities payable from restricted assets	202,883	215,088
Noncurrent liabilities	9,440,484	9,102,113
Net OPEB liability	257,767	251,367
Net pension liability	162,200	—
Derivative instruments	—	10,192
Total liabilities	<u>10,711,600</u>	<u>10,106,572</u>
Deferred inflows of resources:		
Deferred inflows related to OPEB	50,948	50,638
Deferred inflows related to pensions	37,692	380,803
Deferred inflows related to leases	1,042,367	286,045
Total deferred inflows of resources	<u>1,131,007</u>	<u>717,486</u>
Net position:		
Net investment in capital assets	(1,603,694)	(1,327,327)
Restricted for debt service	75,798	61,899
Restricted for capital projects	653,258	492,914
Restricted for other purposes	4,660	1,978
Unrestricted	47,061	110,293
Total net position	<u>\$ (822,917)</u>	<u>(660,243)</u>

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Total net position serves as an indicator of the Airport's financial position. The Airport's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$822.9 million and \$660.2 million as of June 30, 2023 and 2022, respectively, representing a decrease of \$162.7 million (24.6%).

Unrestricted current assets consist primarily of cash and investments available to meet the Airport's current obligations. Unrestricted current assets increased by \$118.9 million (10.8%), primarily due to higher operating revenues as the Airport begins its recovery from the pandemic. As of June 30, 2023, the Airport has set aside \$156.7 million in a separate fund for purposes of its Other Postemployment Benefit (OPEB) obligations and such amount is included in unrestricted cash and investments held in the City Treasury in the statement of net position. The disposition of this fund is under management's discretion and has not been placed in a trust fund.

Restricted current assets consist of cash and investments held in the City Treasury and outside the City Treasury. Cash and investments held in the City Treasury consist primarily of PFCs collected, CFCs collected, debt service funds held by the bond trustee, grants receivable, and PFCs receivable. Restricted current assets increased by \$150.1 million (25.4%). The increase was primarily due to the new CFCs collected, higher investment earnings, increase of grants receivable and PFCs receivable.

Unrestricted noncurrent assets increased by \$589.3 million (243.7%) due to the increase in lease receivable.

Restricted noncurrent assets increased by \$182.7 million (19.6%), primarily due to the increase in interest receivable and less capital project spending which increased the cash and investments held in the City Treasury.

The net pension asset decreased by \$153.9 million (100.0%). The decrease was primarily due to investment losses that resulted in a net pension liability compared to a net pension asset in fiscal year 2021-22. See additional information in note 12a.

Capital assets consist of land, buildings, structures, improvements, equipment, and intangible assets. Capital assets, net of depreciation and amortization, decreased by \$42.6 million (0.6%), primarily due to the depreciation of assets.

Unamortized loss on refunding of debt decreased by \$5.6 million (15.6%). The decrease was primarily due to the amortization of the bond refunding gain/loss.

Deferred outflows on derivative instruments decreased by \$10.2 million (100.0%), representing deferred outflows of resources offsetting interest rate swap liabilities in accordance with GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments* (GASB Statement No. 53) and GASB Statement No. 72 – *Fair Value Measurement and Application* (GASB Statement No. 72). The last remaining interest rate swaps were terminated in fiscal year 2022-23.

Deferred outflows related to OPEB increased by \$3.2 million (9.1%) primarily due to investment losses offset by experience gains. See additional information in note 12b.

Deferred outflows related to pensions increased by \$23.9 million (29.1%) primarily due to changes in the discount rate, the Airport's proportionate share, and actuarial assumptions. See additional information in note 12a.

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Current liabilities payable from unrestricted assets increased by \$120.5 million (22.8%), primarily due to an increase in unearned aviation revenue and current maturities of long-term debt.

Current liabilities payable from restricted assets decreased by \$12.2 million (5.7%), primarily due to the reclassification from a short-term liability to a long-term liability of commercial paper notes that were refinanced with the proceeds of the Series 2023C/D bond issued on November 15, 2023. See note 17.

Noncurrent liabilities before net OPEB liability, net pension liability, and derivative instruments increased by \$338.4 million (3.7%), primarily due to the reclassification of commercial paper notes as described in the preceding paragraph. See note 17.

Net OPEB liability increased by \$6.4 million (2.5%) primarily due to investment losses offset by the actual experience gain. See additional information in note 12b.

Net pension liability (NPL) increased by \$162.2 million (100.0%) primarily due to investment losses resulting in a net pension liability in fiscal year 2022-23. See additional information in note 12a.

Derivative instruments liabilities decreased by \$10.2 million (100.0%) due to the termination of interest rate swaps in fiscal year 2022-23.

Deferred inflows related to OPEB increased by \$0.3 million (0.6%) primarily due to investment losses and the amortization of deferrals. See additional information in note 12b.

Deferred inflows related to pensions decreased by \$343.1 million (90.1%) primarily due to investment losses which caused a reduction in deferred inflow of earnings. See additional information in note 12a.

Deferred inflows related to leases increased by \$756.3 million (264.4%) due to the addition of new leases and the adoption of GASB Statement No. 91 in fiscal year 2022-23.

The Airport's net investment in capital assets decreased by \$276.4 million (20.8%), primarily due to the residual effect of the Airport depreciating its capital assets faster than repaying its bonded debt.

Net position restricted for debt service increased by \$13.9 million (22.5%), primarily due to more cash and investments held outside City Treasury for debt service.

Net position restricted for capital projects increased by \$160.3 million (32.5%), primarily due to higher PFC generated from the growth in air traffic and new CFC revenue.

Net position restricted for other purposes increased by \$2.7 million (135.6%), primarily due to the Hotel's operating revenues exceeding the Hotel's operating expenses due to higher occupancy levels.

Unrestricted net position decreased by \$63.2 million (57.3%), primarily due to the cumulative effect of accounting change from the implementation of GASB Statement No. 91 and the recognition of capital assets for the SFO Fuel system. See note 10.

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Highlights of Changes in Net Position

The following table shows a condensed summary of changes in net position for fiscal years 2023 and 2022 (in thousands):

	<u>FY 2023</u>	<u>FY 2022</u>
Operating revenues	\$ 1,064,104	821,253
Operating expenses	<u>902,750</u>	<u>809,830</u>
Operating income	161,354	11,423
Non-Operating Expenses, net	<u>197,389</u>	<u>179,955</u>
Loss before capital contributions and transfers	(36,035)	(168,532)
Capital contributions	28,679	40,998
Transfers to City and County of San Francisco	<u>(48,701)</u>	<u>(37,906)</u>
Changes in net position (deficit)	<u>(56,057)</u>	<u>(165,440)</u>
Total net position (deficit) – beginning of year	(660,243)	(494,803)
Cumulative effect of accounting change	<u>(106,617)</u>	<u>—</u>
Total net position (deficit) – end of year	<u>\$ (822,917)</u>	<u>(660,243)</u>

Operating Revenues

The Airport derives its operating revenues from rates, fees, and charges assessed to the airlines; the operation of public and employee parking facilities; rents and fees assessed to concessionaires and ground transportation operators; and fees assessed for telecommunication access services. Landing fees and demised premise rental rates assessed to airlines are set periodically based on formulas and procedures described in the Lease and Use Agreement (Agreement).²

² In fiscal year 2009-10, the Airport and airlines reached agreement on a new, ten-year 2011 Lease and Use Agreement that became effective on July 1, 2011, that originally expired June 30, 2021, and that was mutually extended to June 30, 2023. The 2011 Lease and Use Agreement and the 2-Year Extension of said agreement are referred to generally as the "Lease and Use Agreement," and the airlines that are parties to those agreements are referred to as "Signatory Airlines". See note 2(i) and note 17 for a brief description of the new, ten-year 2023 Lease and Use Agreement.

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

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

The overcharge balance of \$417.1 million as of June 30, 2022, increased to \$461.7 million as of June 30, 2023, and was recorded as unearned aviation revenue in the statement of net position. See note 2i.

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The following table shows a comparison of terminal rental rates and airline landing fees for fiscal years 2022-23 and 2021-22:

	<u>FY 2023</u>	<u>FY 2022</u>
Effective average terminal rental rate (per sq. ft.)	\$ 187.47	196.45
Signatory Airline – landing fee rate (per 1,000 lbs.)	7.73	11.40
Non-Signatory Airline – landing fee rate (per 1,000 lbs.)	9.66	14.25
General aviation and itinerant aircraft – landing fee rate (per 1,000 lbs.)	9.66	14.25

During fiscal years ended June 30, 2023 and 2022, revenues realized from the following source equaled or exceeded 5.0% of the Airport's total operating revenues:

	<u>FY 2023</u>	<u>FY 2022</u>
United Airlines	26.2 %	28.4 %

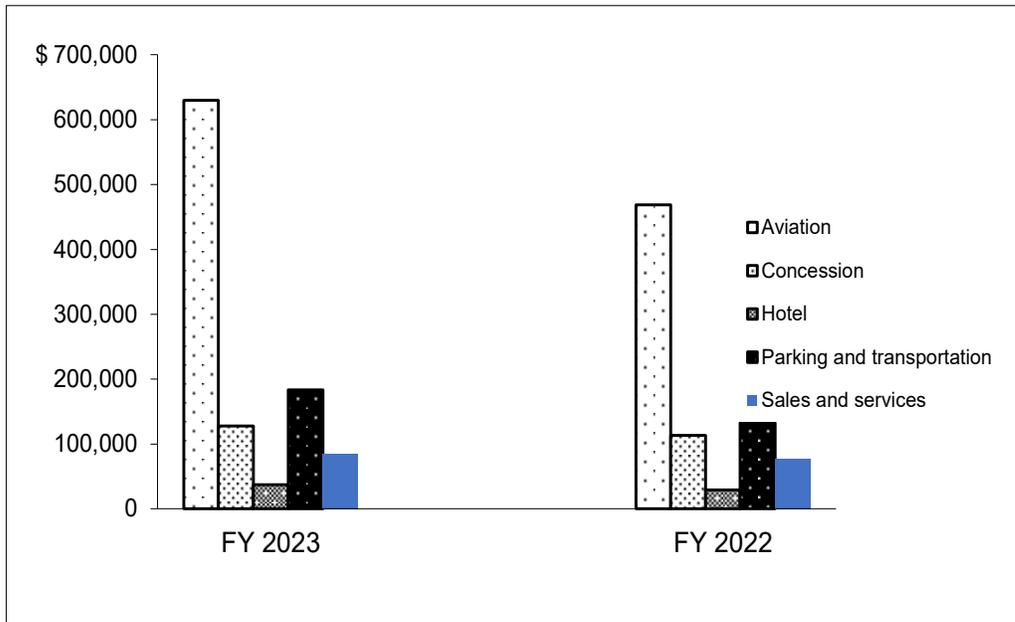
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The following shows a comparative summary of operating revenues for fiscal years 2022-23 and 2021-22 (in thousands):

	<u>FY 2023</u>	<u>FY 2022</u>
Aviation	\$ 630,250	468,840
Concession	128,019	113,261
Hotel	37,377	29,251
Parking and transportation	183,520	132,253
Sales and services	84,938	77,648
Total operating revenues	<u>\$ 1,064,104</u>	<u>821,253</u>



Operating revenues increased by 29.6%, from \$821.3 million in fiscal year 2021-22 to \$1.1 billion primarily due to increased passenger traffic.

Aviation revenues increased from \$468.8 million in fiscal year 2021-22 to \$630.3 million primarily due to rebounding passenger traffic.

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As determined by the calculation method in the Agreement, scheduled airline landing fees per thousand pounds decreased from \$11.40 in fiscal year 2021-22 to \$7.73 in fiscal year 2022-23. The airline average annual terminal rent per square foot decreased from \$196.45 in fiscal year 2021-22 to \$187.47 in fiscal year 2022-23, due to a 6.2% decrease in residual terminal rental revenue requirement combined with a 1.7% decrease in airline leased space to 1.72 million square feet.

Before the unearned aviation revenue adjustment of \$44.7 million, revenues from landing fees decreased by \$51.7 million (17.3%) due to a landing fee rate decrease partly offset by landed weight increase. Terminal rentals decreased by \$8.4 million (2.6%), due to decreases in terminal rental rates combined with changes in airline leased space. In aggregate, all other aviation revenues increased by \$9.3 million (9.2%), from \$101.2 million in fiscal year 2021-22 to \$110.5 million in fiscal year 2022-23, with net aviation rental revenue and activity-based fees including aircraft parking, parking employees, common use gate fees and fixed base operations (FBO) all showing increases.

Concession revenues, consisting of rentals and fees derived from food and beverage concessions, duty free, retail merchandise (gifts, candy, tobacco, and news), rental car concessions, and other concession revenue increased by 13.0%, from \$113.3 million in fiscal year 2021-22 to \$128.0 million in fiscal year 2022-23. The higher revenues resulted mainly from a 44.9% increase in airport food & beverage and retail sales. Food and beverage revenues increased by \$4.3 million (26.1%) due to higher passenger volumes and the average spend rate per passenger. The passenger food and beverage spend rate increased by 8.3% from \$10.40 in fiscal year 2021-22 to \$11.26 in fiscal year 2022-23. Retail merchandise revenues excluding duty free revenues increased by \$4.2 million (49.8%) for the same reasons. The Airport-wide per passenger spend rate for such merchandise increased by 6.2% from \$4.02 in fiscal year 2021-22 to \$4.27 in fiscal year 2022-23. As of June 2023, all Duty Free and Luxury Stores (DFS) locations have reopened, including the newly renovated DFS Duty Free Galleria in boarding Areas A and G, and this, combined with the recovery of international passenger volumes, resulted in a \$0.9 million (6.6%) increase in revenues from duty free merchandise sales. On- and off-Airport rental car revenues increased by \$12.3 million (28.8%) as a result of increased passenger volumes. Other concession revenues decreased by \$1.5 million (4.6%), primarily due to lower rental revenue from an on-Airport COVID testing site. During the pandemic, the Minimum Annual Guarantee (MAG) rent had been suspended due to severe decline in enplanements. Through June 2023, MAG rent has been reinstated for approximately 63.0% of all concession leases.

The on-Airport hotel operating revenues increased by 27.8% from \$29.3 million in fiscal year 2021-22 to \$37.4 million primarily due to the increase in high-end leisure travelers, individual business travelers, and the return of group meetings.

Public parking and transportation revenues, consisting of rentals and fees derived from parking facilities and ground transportation operations, increased by 38.8%, from \$132.3 million in fiscal year 2021-22 to \$183.5 million in fiscal year 2022-23. The combined net effect of a 13.2% increase in the average revenue per ticket, from \$37.48 in fiscal year 2021-22 to \$42.43 in fiscal year 2022-23, and a 19.4% increase in parking transactions resulted in a parking revenue increase of \$33.6 million (35.7%). Ground transportation revenues, including taxi trip fee revenue, increased by \$17.7 million (46.5%) primarily due to increased passenger levels. Transportation Network Company (TNC) operations at the Airport (including Uber Technologies Inc., Lyft, Inc., and Tickengo, Inc., d/b/a/ Wingz) increased by 50.4%. TNC Airport pick-ups/drop-offs totaled nearly 8.2 million resulting in \$45.1 million in trip fee revenue. Other modes of transportation also experienced increased activity

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levels compared to fiscal year 2021-22, including hotel shuttles (up 12.1%), door to door pre-arranged vans (up 94.0%), limousines (up 35.6%), taxis (up 33.6%), scheduled buses (up 27.3%), charter buses (up 100.9%) and off-airport parking vans (up 8.4%). The Airport continues to see a shift in passenger behavior where parking is preferred over single or high occupancy mode transportation (such as taxis, TNCs, and buses), as compared to relative market share of ground transportation options prior to the pandemic.

Sales and service revenues consist of revenue derived from utility services, telecommunication access fees, badge and permit fees, rental car facility fees, and cost-based reimbursement of various services. Revenues from sales and services increased by 9.4%, from \$77.6 million in fiscal year 2021-22 to \$84.9 million in fiscal year 2022-23. Revenue from the sale of water sewage disposal increased by \$1.5 million (29.3%). Telecommunication fees were lower by \$0.2 million (3.0%) due to decreased demand for telecommunication access services. Licenses and permit fees increased by \$0.4 million (19.2%) as a result of higher badging activity by tenant employees and contractors. The transportation and facility fee (AirTrain fee charged on rental car contracts) increased by \$4.2 million (27.0%) due to a 26.6% increase in the number of rental car contracts. Fees collected for the cost of the Rental Car Center increased by \$2.3 million (14.7%) primarily due to lower fiscal year 2021-22 fees resulting from credits provided through the Federal CRRSAA concession relief grant and the Rental Car Center structure and surface rent annual Consumer Price Index (CPI) adjustments. Revenue from penalties from the enforcement of airfield safety rules and regulations decreased by \$0.5 million (22.8%) due to the lower level of activity. Miscellaneous terminal fees increased by \$1.1 million (11.7%), reflecting billings per lease and permit terms. Governmental agency rent revenue decreased by \$1.4 million (22.3%) primarily due to the expiration of the U.S. Postal Service ground lease. Miscellaneous Airport Revenues decreased by \$0.1 million (32.0%) reflecting billings per lease and permit terms. Net revenue from all other sales and services including sale of electricity, sale of natural gas, food court infrastructure/cleaning fees, refuse disposal, collection charges and settlements decreased by \$0.7 million (4.0%).

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Operating Expenses

The following table shows a comparative summary of operating expenses for fiscal years 2023 and 2022 (in thousands):

	<u>FY 2023</u>	<u>FY 2022</u>
Personnel	\$ 283,669	216,842
Depreciation and amortization	355,475	356,649
Contractual services	97,718	81,424
Hotel	32,161	24,969
Light, heat and power	28,771	27,554
Services provided by other City departments	27,247	26,949
Repairs and maintenance	59,081	56,189
Materials and supplies	13,384	12,560
General and administrative	3,883	4,567
Environmental remediation	1,361	2,127
Total operating expenses	<u>\$ 902,750</u>	<u>809,830</u>

Operating expenses increased from \$809.8 million to \$902.8 million primarily due to increases in expenses for personnel, contractual services, hotel, light, heat and power, services provided by other City departments, repairs and maintenance, and materials and supplies. In fiscal year 2022-23, the Airport capitalized \$16.9 million of indirect costs related to construction of capital projects as overhead, compared to \$14.0 million in fiscal year 2021-22. The variances in the different categories are discussed below.

Personnel expenses increased by \$66.9 million (30.8%), from \$216.8 million to \$283.7 million. The increase was primarily due to an increase in pension expenses as a result of investment losses.

Depreciation and amortization decreased by \$1.1 million (0.3%), from \$356.6 million to \$355.5 million. The decrease was primarily due to assets becoming fully depreciated.

Contractual services increased by \$16.3 million (20.0%), from \$81.4 million to \$97.7 million. The increase was primarily due to increased expenses for various professional services contracts, such as parking, shuttle buses, and technology services.

The on-Airport hotel operating expenses increased by \$7.2 million (28.8%), from \$25.0 million to \$32.2 million. The increase was primarily due to a rise in departmental expenses and undistributed operating expenses.

Light, heat and power expenses increased by \$1.2 million (4.4%), from \$27.6 million to \$28.8 million. The increase was primarily due to an increase in consumption and rates.

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Expenses of services provided by other City departments increased by \$0.3 million (1.1%), from \$26.9 million to \$27.2 million. The increase was primarily due to higher water usage and an increase in San Francisco Public Utilities Commission (SFPUC) water rates.

Repairs and maintenance expenses increased by \$2.9 million (5.1%), from \$56.2 million to \$59.1 million. The increase was primarily due to the return of pre-pandemic service levels in maintenance contracts such as from Airport-wide Emergency, SFO Checkpoint and Screening Room Sanitary, and Superbay Hose Reel.

Materials and supplies expenses increased by \$0.8 million (6.6%), from \$12.6 million to \$13.4 million. The increase was a result of inflation as well as increased spending on cleaning supplies due to higher passenger traffic that occurred during fiscal year 2022-23.

General and administrative expenses decreased by \$0.7 million (15.0%), from \$4.6 million to \$3.9 million. The decrease was primarily due to a decrease in estimated bad debts expense related to the Airport COVID-19 Emergency Rent Relief Program for concession tenants and judgment claims.

Environmental remediation expenses decreased by \$0.7 million (36.0%), from \$2.1 million to \$1.4 million. The decrease was primarily due to fewer new capital projects.

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Nonoperating Revenues and Expenses

The following summary shows a comparison of nonoperating revenues and expenses in fiscal years 2023 and 2022 (in thousands):

	<u>FY 2023</u>	<u>FY 2022</u>
Nonoperating revenues:		
Passenger facility charges (PFC)	\$ 92,341	72,804
Customer facility charges (CFC)	11,441	—
Investment income (loss)	42,540	(64,113)
Other	32,056	176,955
	<u>178,378</u>	<u>185,646</u>
Total nonoperating revenues		
Nonoperating expenses:		
Interest expense	350,349	321,132
Write-offs and gain (loss) on disposal	70	11,672
Other	25,348	32,797
	<u>375,767</u>	<u>365,601</u>
Total nonoperating expenses		
Total nonoperating expenses, net	<u>(197,389)</u>	<u>(179,955)</u>
Capital contributions	28,679	40,998
Transfers to City and County of San Francisco	<u>(48,701)</u>	<u>(37,906)</u>
Total	<u>\$ (217,411)</u>	<u>(176,863)</u>

Nonoperating revenues consist primarily of PFC, CFC, and investment income, while nonoperating expenses consist of interest expense, and write-offs and gain (loss) on the disposal of capital assets. Write-offs include capital improvement costs that did not meet capitalization requirements. PFCs, which became effective in October 2001, generated \$92.3 million during fiscal year 2022-23, an increase of 26.8% compared to the \$72.8 million received in fiscal year 2021-22. The increase in PFC revenues was primarily due to an increase in passenger traffic and the easing of the COVID-19 restriction. CFCs, which became effective in July 2022, generated \$11.4 million during fiscal year 2022-23.

Investment income (loss) increased by \$106.6 million (166.4%), from \$(64.1) million to \$42.5 million primarily due to the investment fair value adjustments. Excluding the fair value adjustments, the actual investment income (loss) increased by \$40.4 million, from \$22.7 million to \$63.1 million.

Other nonoperating revenues decreased by \$144.9 million (81.9%), from \$177.0 million to \$32.1 million primarily due to the Federal CRRSAA grant award of \$5.9 million and the Federal ARPA grant award of \$169.0 million. The Federal ARPA grant was fully expended in fiscal year 2021-22.

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Interest expense increased by \$29.2 million (9.1%), from \$321.1 million to \$350.3 million primarily due to an increase in debt issued to fund capital improvement projects.

Write-offs and gain (loss) on disposal decreased by \$11.6 million (99.4%), from \$11.7 million to \$0.1 million primarily due to the sale of equipment.

Other nonoperating expenses decreased by \$7.5 million (22.7%), from \$32.8 million to \$25.3 million primarily due to a reduction in capital improvement projects costs under the capitalization threshold.

Capital contributions received from federal grants and other sources decreased by \$12.3 million (30.0%), from \$41.0 million to \$28.7 million. The decrease in capital contributions was primarily due to assets transferred from SFO Fuel to the Airport in the prior year, which did not occur in fiscal year 2022-23. Capital contributions received from federal grants and other grants increased by \$11.7 million (68.8%), from \$17.0 million to \$28.7 million. The increase was primarily due to the increase in the Airport Improvement Program grant-funded expenditures attributed to the rehabilitation of one of the airport runways.

The annual service payments transferred to the City increased by \$10.8 million (28.5%), from \$37.9 million to \$48.7 million. The increase was due to higher concession, hotel, and parking and transportation revenues attributable to an increase in passenger traffic.

Capital Acquisitions and Construction

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

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

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Expenses incurred during fiscal year 2022-23 with respect to major capital projects are listed below. The figures below do not reflect the total project budget. Most major capital projects at the Airport are implemented over multiple fiscal years (in thousands).

		Amount
Terminal 1 Redevelopment	\$	131,756
Runway Improvements		43,708
Terminal 3 Renovation		27,096
International Terminal Refresh Program		19,163
Waste Water System Improvements		18,859
Net Zero Energy Program		9,843
Courtyard 3 Connector		9,746
Energy and Efficiency Improvements		7,268
Miscellaneous Terminal Improvements		6,250
Capital Improvement Plan Support		4,995
AirTrain Improvements		4,335
Technology Improvement		4,286
Parking and Garage Improvements		3,930
Taxiway Improvements		3,764
Capital Equipment		3,657
Support Facility Improvements		3,341
International Terminal Improvements		3,190
Power & Lighting Improvements		2,465
Storm Drain Improvements		2,380
Noise Insulation Program		2,256
Miscellaneous Airfield Improvements		1,923
Shoreline Protection		1,840
Airport Support Miscellaneous Improvements		1,773
Utility Improvements		1,749
Wayfinding		1,233
All Other Projects		1,536
COVID		(5,428)
		<hr style="border-top: 1px solid black;"/>
Total	\$	<u><u>316,914</u></u>

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Due to COVID-19 pandemic and the reduction in travel demand, the Airport initially reprioritized its Capital Improvement Plan to focus on projects that were essential to Airport operations and resiliency priorities given the present-day recovery landscape. Passenger enplanements and deplanements at the Airport were approximately 57.4 million in fiscal year 2018-19, before dropping to 40.5 million in fiscal year 2019-20 and 13.7 million in fiscal year 2020-21, then recovering to 34.8 million in fiscal year 2021-22 and 46.9 million in fiscal year 2022-23. This recovery has allowed construction activity to continue on major projects such as the Terminal 1 (T1) Redevelopment Program, the Courtyard 3 Connector project, and the International Terminal Phase 2 project, which will make improvements to the building and expand both departures level security checkpoints.

The T1 Redevelopment Program completed the Harvey Milk Boarding Area B, for a total of 22 operational gates, in May 2021. Construction activity continues in the Terminal 1 North area, and this work is forecasted to complete in fiscal year 2023-24.

Notable projects that were completed in fiscal year 2022-23 included the completion of the Noise Insulation Program 2019-2023 Phase and the 12KV Cable Replacement and System Upgrade.

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

Debt Administration

Refunding Bonds: On March 1, 2023, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2023A (AMT) and Second Series Revenue Bonds, Series 2023B (Non-AMT/Governmental Purpose (collectively, the "2023A/B Bonds"), in aggregate principal amount of \$241.9 million to refund a combined \$261.5 million of its Series 2010A Bonds, Series 2013A Bonds, and Series 2013B Bonds, to fund the termination payment of an interest rate swap, and to pay costs of issuance.

Cash Defeasance: On June 28, 2023, the Airport legally defeased \$28.8 million of its Series 2019D Bonds, using monies previously deposited by the Commission in the Debt Service Fund.

Subordinate Commercial Paper Notes: During fiscal year 2022-23, the Airport issued \$417.3 million in commercial paper notes to fund capital improvement projects. As of June 30, 2023, the Airport had \$503.2 million in outstanding commercial paper notes including \$497.8 million that was refunded by the Series 2023C/D bonds that were issued on November 15, 2023. The \$497.8 million has been reclassified to long-term commercial paper notes on the financial statements as of June 30, 2023. See note 17.

Interest Rate Swaps: The Airport terminated interest rate swaps in fiscal year 2022-23.

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

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1991 Master Bond Resolution Covenant Compliance: During fiscal year 2022-23, the Airport's operating revenues, together with the permitted transfers from the Airport's Contingency Account, were sufficient to meet the rate covenant requirements under the Airport's 1991 Master Bond Resolution. See "Debt Service Reserve and Covenants; Contingency Account" in note 7.

Credit Ratings and Bond Insurance

Credit Ratings: During fiscal year 2022-23, Moody's Investors Service Inc. (Moody's) and Fitch Ratings Inc. (Fitch) affirmed their underlying long-term credit ratings on the outstanding debt of the Airport of "A1" and "A+", respectively. S&P Global Ratings (S&P) raised its underlying long-term credit ratings on the outstanding debt of the Airport to "A+". Refer to the notes below.

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

On January 12, 2023, Moody's affirmed the "A1" rating with a stable outlook and Fitch affirmed the "A+" rating with a stable outlook for the outstanding fixed rate bonds and assigned these ratings to the Series 2023A/B Bonds, which were issued on March 1, 2023. S&P did not provide a rating for the Series 2023A/B Bonds.

On July 20, 2022, S&P raised the rating for outstanding fixed rate bonds to "A+" with a stable outlook except for those bonds that do not carry an S&P rating. Each individual bond's rating is accessible through the Electronic Municipal Market Access (EMMA) website.

Bond Insurance: There were no insured Airport bonds outstanding at the end of fiscal year 2022-23.

Fiscal Year 2023-24 Airline Rates and Charges

Terminal rental rates and airline landing fees for fiscal year 2023-24 have been developed as part of the annual budget process that started in October 2022. The Lease and Use Agreement between the Airport and the Signatory Airlines provides the rate-setting methodology for calculating the terminal rental rates and airline landing fees. Not less than 60 days prior to the start of the fiscal year, the Signatory Airlines are notified of the proposed rates and fees. These fees are subject to review by, but not the approval of, the Signatory Airlines. The terminal rental rates and airline landing fees for fiscal year 2023-24, which became effective on July 1, 2023, are as follows:

Effective average terminal rental rate (per sq. ft)	\$	225.62
Signatory Airline – landing fee rate (per 1,000 lbs.)		5.98
Non-Signatory Airline – landing fee rate (per 1,000 lbs.)		7.48
General aviation – landing fee rate (per 1,000 lbs.)		7.48

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The effective average terminal rental rate increased from \$187.47 per sq. ft. in fiscal year 2022-23 to \$225.62 per sq. ft. in fiscal year 2023-24. The fiscal year 2023-24 landing fee rate for Signatory Airlines decreased by 22.6%, from \$7.73 per 1,000 pounds in fiscal year 2022-23 to \$5.98 per 1,000 pounds in fiscal year 2023-24, and the Non-Signatory Airline landing fee rate decreased by 22.6%, from \$9.66 per 1,000 pounds in fiscal year 2022-23 to \$7.48 per 1,000 pounds in fiscal year 2023-24. The fiscal year 2023-24 landing fee rate for general aviation aircraft decreased by 22.6%, from \$9.66 per 1,000 pounds in fiscal year 2022-23 to \$7.48 per 1,000 pounds in fiscal year 2023-24.

Requests for Information

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

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Statement of Net Position

June 30, 2023

(In thousands)

	Amount
Assets	
Current assets:	
Cash and investments held in City Treasury	\$ 998,115
Cash and investments outside City Treasury	23,732
Cash – Revolving Fund	41
Accounts receivable (net of allowance for doubtful accounts of \$1,446)	67,438
Lease receivable	114,523
Lease interest receivable	2,423
Accrued interest – City Treasury	6,506
Accrued interest – outside City Treasury	2,275
Inventories	3,232
Other current assets	4,862
Restricted assets:	
Cash and investments held in City Treasury	575,751
Cash and investments outside City Treasury	111,574
Accounts receivable	3,706
Accrued interest – City Treasury	3,441
Accrued interest – Other	(161)
Grants receivable	30,343
Passenger facility charges receivable	16,231
Other current assets	1,086
Total current assets	1,965,118
Noncurrent assets:	
Lease receivable	831,198
Restricted assets:	
Cash and investments held in City Treasury	545,745
Cash and investments outside City Treasury	565,059
Accrued interest – City Treasury	2,650
Capital assets, net	
Land and other assets not being depreciated/amortized	1,036,900
Facilities, infrastructure and equipment, net of depreciation/amortization	5,897,598
Total noncurrent assets	8,879,150
Total assets	10,844,268
Deferred outflows of resources:	
Unamortized loss on refunding of debt	30,534
Deferred outflows related to OPEB	38,931
Deferred outflows related to pensions	105,957
Total deferred outflows of resources	\$ 175,422

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Statement of Net Position

June 30, 2023

(In thousands)

	Amount
Liabilities:	
Current liabilities:	
Accounts payable	\$ 78,870
Accrued payroll	19,383
Compensated absences	12,326
Accrued workers' compensation	2,710
Estimated claims payable	122
Unearned aviation revenue	461,730
Current maturities of long-term debt	73,125
Payable from restricted assets:	
Accounts payable	117,998
Accrued payroll	748
Accrued bond interest payable	64,062
Commercial paper notes	5,450
Current maturities of long-term debt	14,625
Total current liabilities	851,149
Noncurrent liabilities:	
Compensated absences, net of current portion	11,861
Accrued workers' compensation, net of current portion	9,857
Estimated claims payable, net of current portion	4,150
Other liabilities	370
Long-term debt, net of current maturities	8,916,471
Commercial paper notes - long term	497,775
Net OPEB liability	257,767
Net pension liability	162,200
Total noncurrent liabilities	9,860,451
Total liabilities	10,711,600
Deferred inflows of resources:	
Deferred inflows related to OPEB	50,948
Deferred inflows related to pensions	37,692
Deferred inflows related to leases	1,042,367
Total deferred inflows of resources	1,131,007
Net position:	
Net investment in capital assets	(1,603,694)
Restricted for debt service	75,798
Restricted for capital projects	653,258
Restricted for other purposes	4,660
Unrestricted	47,061
Total net position (deficit)	\$ (822,917)

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Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2023

(In thousands)

	Amount
Operating revenues:	
Aviation	\$ 630,250
Concession	128,019
Hotel	37,377
Parking and transportation	183,520
Sales and services	84,938
Total operating revenues	1,064,104
Operating expenses:	
Personnel	283,669
Depreciation and amortization	355,475
Contractual services	97,718
Hotel	32,161
Light, heat and power	28,771
Services provided by other City departments	27,247
Repairs and maintenance	59,081
Materials and supplies	13,384
General and administrative	3,883
Environmental remediation	1,361
Total operating expenses	902,750
Operating income	161,354
Nonoperating revenues (expenses):	
Investment income (loss)	42,540
Interest expense	(350,349)
Passenger facility charges	92,341
Customer facility charges	11,441
Write-offs and loss on disposal	(70)
Other nonoperating revenues	32,056
Other nonoperating expenses	(25,348)
Total nonoperating revenues (expenses), net	(197,389)
Loss before contributions and transfers	(36,035)
Capital contributions:	
Grants	28,679
Transfers to City and County of San Francisco	(48,701)
Changes in net position (deficit)	(56,057)
Total net position (deficit) – beginning of year	(660,243)
Cumulative effect of accounting change	(106,617)
Total net position (deficit) – end of year	\$ (822,917)

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Statement of Cash Flows

Year ended June 30, 2023

(In thousands)

	Amount
Cash flows from operating activities:	
Cash received from airline carriers, concessionaires, and others	\$ 1,136,744
Cash paid for employees' services	(328,397)
Cash paid to suppliers of goods and services	(280,170)
Net cash provided by operating activities	528,177
Cash flows from noncapital financing activities:	
Transfers to City and County of San Francisco	(48,701)
Other noncapital financing revenues	31,692
Other noncapital financing expenses	(25,348)
Net cash used in noncapital financing activities	(42,357)
Cash flows from capital and related financing activities:	
Principal paid on revenue bonds and commercial paper notes	(30,060)
Interest paid on revenue bonds and commercial paper notes	(387,197)
Acquisition and construction of capital assets	(259,793)
Revenues from passenger facility charges	84,458
Revenues from customer facility charges	11,398
Proceeds from sale of revenue bonds	1,064
Proceeds from commercial paper notes	417,250
Lease payable	752
Capital contributed by federal agencies and others	8,713
Net cash used in capital and related financing activities	(153,415)
Cash flows from investing activities:	
Sales of investments with Trustee	628,083
Purchases of investments with Trustee	(659,908)
Interest received on investments	36,369
Net cash provided by investing activities	4,544
Net increase in cash and cash equivalents	336,949
Cash and cash equivalents, beginning of year	1,810,483
Cash and cash equivalents, end of year	\$ 2,147,432
Reconciliation of cash and cash equivalents to the statement of net position:	
Cash and cash equivalents held in City Treasury – unrestricted	\$ 998,115
Cash and cash equivalents held in City Treasury – restricted	1,121,496
Cash and cash equivalents outside City Treasury – unrestricted	23,732
Cash and cash equivalents outside City Treasury – restricted	4,048
Cash – Revolving Fund	41
Cash and cash equivalents, end of year	\$ 2,147,432

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Statement of Cash Flows

Year ended June 30, 2023

(In thousands)

	Amount
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 161,354
Adjustments for noncash and other activities:	
Depreciation and amortization	355,475
Cost of issuance paid from bond proceeds	477
Hotel expense	55
Changes in assets and liabilities:	
Accounts receivable (net of change in allowance for doubtful accounts of \$1,502)	8,026
Leases	(4,325)
Inventories	92
Other current assets	(1,053)
Net OPEB liability and OPEB related deferred outflows and inflows of resources	3,460
Net pension liability/asset and pension related deferred outflows and inflows of resources	(50,910)
Accounts payable and other liabilities	8,127
Accrued payroll	2,245
Compensated absences	3
Accrued workers' compensation	474
Unearned aviation revenue	44,677
Net cash provided by operating activities	\$ 528,177
Noncash transactions:	
Accrued capital asset costs	110,362
Bond refunding through fiscal agent	263,976

See accompanying notes to financial statements.

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Notes to Financial Statements

Year ended June 30, 2023

(1) Definition of Reporting Entity

The accompanying financial statements reflect the net position and changes in net position of the Airport Commission (the Commission), City and County of San Francisco, San Francisco International Airport (the Airport or SFO), a commercial service airport owned and operated as an enterprise department of the City and County of San Francisco (the City). The Airport is a major origin and destination point and one of the nation's principal gateways for Pacific traffic. A five-member Airport Commission is responsible for its operation, development, and maintenance. Airport Commission members are appointed by the City's Mayor for terms of four years.

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

(2) Significant Accounting Policies

(a) Measurement Focus and Basis of Accounting

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

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

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

As prescribed under GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)*, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB), net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense are actuarially determined on a citywide basis. For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and

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OPEB expense, information about the fiduciary net position of the Retiree Health Care Trust Fund (RHCTF) and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Plan member contributions are recognized in the period in which the contributions are due. Investments are reported at fair value.

As prescribed under GASB Statement No. 87 – *Leases*, a lessor is required to recognize, for each lease, a lease receivable and a deferred inflow of resources. The lease receivable is measured at the present value of lease payments expected to be received during the term of the lease. The deferred inflow of resources is measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relates to future periods. Interest revenue is recognized on the lease receivable and inflow of resources (revenue) is recognized from the deferred inflows of resources in a systematic and rational manner over the term of the lease.

(b) Effects of New Accounting Pronouncements

GASB Statement No. 91

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. GASB Statement No. 91 clarifies the definition of conduit debt and establishes new recognition, measurement, and disclosure requirements. The new standard is effective for periods beginning after December 15, 2021. Prior to that, the Airport received contributed capital assets including two tanks, pump pad and control replacements from the SFO Fuel Company LLC. Due to the implementation of GASB Statement No. 91, the Airport reclassified the assets' net book value of \$106.6 million from revenue to the deferred inflow of resources, and will amortize over the bond term through 2047. See note 10.

GASB Statement No. 94

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. GASB Statement No. 94 establishes standards of accounting and financial reporting for public-private and public-public partnerships (PPPs) and availability payment arrangements. A PPP is an arrangement in which a government contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An availability payment arrangement is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The new standard requires reporting of related assets and deferred inflows that currently are not reported and is effective for periods beginning after June 15, 2022. Application of this statement did not have a significant impact on the Airport for the year ended June 30, 2023.

GASB Statement No. 96

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. GASB Statement No. 96 defines such arrangements as contracts that convey control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. The standard clarifies measurement and recognition of capitalizable costs, intangible

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assets, and subscription liabilities for such arrangements and also requires additional disclosures related to such arrangements. The implementation of GASB Statement No. 96 resulted in recognition of \$2.7 million in a right-to-use asset and a corresponding subscription liability in fiscal year 2022-23. See note 11.

GASB Statement No. 99

In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. GASB Statement No. 99 addresses a variety of topics. The requirements related to extension of the use of the London Interbank Offered Rate, accounting for Supplemental Nutrition Assistance Program distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, and terminology updates related to Statement No. 53 and Statement No. 63 were adopted by the City for the year ended June 30, 2022. The requirements related to leases, public-public and public-private partnerships, and subscription-based information technology arrangements are effective for fiscal years beginning after June 15, 2022 and did not have a significant impact on the Airport's financial statements for the year ended June 30, 2023. The Airport is currently analyzing its accounting practices to determine the potential impact of the requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 which are effective for fiscal years beginning after June 15, 2023 and effective for the Airport's fiscal year ending June 30, 2024.

GASB Statement No. 100

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. GASB Statement No. 100 defines various types of accounting changes and prescribes accounting, reporting, and disclosure requirements for accounting changes and error corrections. The new standard is effective for periods beginning after June 15, 2023. Application of this statement is effective for the Airport's year ending June 30, 2024.

GASB Statement No. 101

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. GASB Statement No. 101 requires that liabilities for compensated absences be recognized if the leave is attributable to services already rendered and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means and establishes definitions, guidance, and disclosure requirements related to compensated absences. The new standard is effective for periods beginning after December 15, 2023. Application of this statement is effective for the Airport's year ending June 30, 2025.

(c) Cash, Cash Equivalents, and Investments

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

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

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

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

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

(d) Capital Assets

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

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

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

Maintenance, repairs, and minor replacements are charged against operations in the year performed. Major replacements that extend the useful life of the related assets are capitalized. No depreciation is provided on construction in progress until construction is substantially completed and the asset is placed in service. The Airport begins depreciation on capital assets the month following the date in which assets are placed in service. Additionally, the Airport commenced allocating indirect costs on self-constructed assets starting fiscal year 2006-07. The indirect cost rate applied is based on a cost allocation plan developed in accordance with the terms of 2 CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance)*, as applicable. See note 5.

(e) Derivative Instruments

The Airport has entered into certain derivative instrument agreements, which it values at fair value, in accordance with GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments* and GASB Statement No. 72 – *Fair Value Measurement and Application*. The Airport applies hedge accounting for changes in the fair value of hedging derivative instruments, in accordance with GASB Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination*

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Provisions, an amendment of GASB Statement No. 53. Under hedge accounting, if the derivatives are determined to be effective hedges, the changes in the fair value of hedging derivative instruments are reported as either deferred inflows or deferred outflows in the statement of net position, otherwise changes in fair values are recorded within the investment revenue classification. As of June 30, 2023, the Airport did not have any outstanding derivative instruments. The Airport will implement the provisions of GASB Statement No. 99 in the future if it is applicable.

(f) Bond Issuance Costs, Discounts, and Premiums

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

(g) Compensated Absences

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

(h) Net Position

Net position consists of the following:

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

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

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

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

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

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

Aviation revenue is based on reimbursable expenditures as defined in the Lease and Use Agreement with the airlines. Under the Lease and Use Agreement, the airlines are required to pay terminal rents and landing fees in amounts that, when aggregated with certain other Airport revenues, will be equal to the Airport's expenditures for: operating expenses other than depreciation and amortization, principal and interest on outstanding debt, annual service payments to the City's General Fund, and certain acquisitions of capital assets. Airline payments are also required to cover expenses treated as "Operation and Maintenance Expenses" under the Master Bond Resolutions. Airport expenses that are funded with sources not includable as "Revenues" under the Master Bond Resolutions are not treated as "Operation and Maintenance Expenses" under the Master Bond Resolutions. Other capital asset additions are funded with proceeds of revenue bonds for which the airlines are required to fund debt service. During fiscal year 2022-23, the Airport and airlines reached an agreement on a new, ten-year 2023 Lease and Use Agreement that expires on June 30, 2033. Airlines that are not signatories to this agreement operate under month-to-month permits. As of July 1, 2023, the signatory airlines to the Agreement, 42 passenger airlines and 5 cargo airlines, represented over 96.9% of enplaned passengers in fiscal year 2023-24.

Amounts billed to airlines are based on budgeted revenues and expenditures, including debt service, pension charges and proportionate payments to such compensation and other insurances or outside reserve funds as the Commission may establish or the Board of Supervisors may require with respect to employees of the Commission. Noncash accrued pension obligations other than those actually paid or budgeted to be paid during the fiscal year are excluded. Noncash accrued Other Postemployment Benefit obligations are included. Unanticipated sources of Revenues, or unanticipated grant funding available to apply to offset Airport expenses, can result in aviation revenue collected in advance. Aviation revenue collected in advance will be applied to reduce future billings and is recorded as a liability in the financial statements. Aviation revenue due to be collected will be reduced by increases in future billings and is recorded as an asset in the financial statements. Pursuant to the terms of the Lease and Use Agreement, the Airport has a net aviation revenue collected in advance of \$461.7 million as of June 30, 2023.

(j) Concession Revenues

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

(k) Hotel Revenues

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

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(l) *Parking and Transportation Revenues*

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

(m) *Sales and Services Revenues*

Sales and services revenues are collected for utility, security, and miscellaneous services provided to the tenants. Utility services are provided by the City. See note 13.

(n) *Environmental Remediation Expenses and Recoveries*

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

(o) *Capital Contributions*

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

(p) *Use of Estimates*

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

(q) *Reclassification*

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

(3) *Cash, Cash Equivalents, and Investments*

Pooled Cash and Investments

The Airport maintains operating cash, cash equivalents, investments, and certain restricted cash and investments as part of the City's investment pool. The City's investment pool is an unrated pool pursuant to investment policy guidelines established by the City Treasurer and is treated as a cash equivalent for financial reporting purposes as the Airport is able to withdraw amounts from the pool on demand without notice or penalty. The objectives of the City Treasurer's investment policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code and the City Treasurer policy, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity. The Airport's unspent bond and commercial paper note proceeds are also generally invested as part of the City's investment pool.

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The Airport's cash and investments, at fair value, held in the City's pool as of June 30, 2023 (in thousands):

	Amount
Pooled cash and investments:	
Cash and investments held in City Treasury – unrestricted	\$ 998,115
Cash and investments held in City Treasury – restricted current	575,751
Cash and investments held in City Treasury – restricted noncurrent	545,745
Total cash and investments held in City Treasury	\$ 2,119,611

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

Investment maturities (in months)			
Under 1	1 – less than 6	6 – less than 12	12 – 60
21.5%	18.0%	14.5%	46.0%

(b) Cash and Investments with Fiscal Agent

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

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Airport will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

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The California Government Code requires California banks and savings and loan associations to secure the Airport's deposits not covered by FDIC insurance by pledging government and/or local agency securities as collateral. The fair value of such pledged securities must equal at least 110% and be of the type authorized in California Government Code, Section 53651 (a) through (i). The collateral must be held at the pledging bank's trust department or another bank, acting as the pledging bank's agent, in the Airport's name. At June 30, 2023, all banks with funds deposited by the Treasurer secured deposits with sufficient collateral or FDIC insurance.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in interest rates. Information about the sensitivity to the fair values of the Airport's investments to interest rate fluctuations is provided by the following tables, which shows the distribution of the Airport's investments by maturity.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to pay the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The S&P Global Ratings (S&P) rating for each of the investment types are provided by the following tables.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Airport will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments; however, it is the practice of the City Treasurer that all investments are insured, registered or held by the Treasurer's custodial agent in the Airport's name. The Airport also has investments with trustees related to the issuance of bonds that are uninsured, unregistered and held by the counterparty's trust departments but not in the Airport's name. These amounts are included in the investments outside City Treasury and are provided by the following tables.

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Concentration of Credit Risk

The City's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code and/or its investment policy. U.S. Treasury and agency securities explicitly guaranteed by the U.S. government are not subject to single issuer limitation.

The Airport holds investments with trustees that represent 5.0% or more of the Airport's investments outside City Treasury as of June 30, 2023:

Federal National Mortgage Association	6.59%
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As of June 30, 2023, the Senior Trustee held investments for the benefit of the Airport with maturities as follows (in thousands):

<u>Investments</u>	<u>Credit ratings June 30, 2023 (S&P/Moody's / Fitch)</u>	<u>June 30, 2023</u>	
		<u>Maturities</u>	<u>Fair value</u>
Federal Home Loan Bank Notes	AA+/Aaa/NR	September 4, 2025	\$ 1,029
Federal Home Loan Bank Notes	AA+/Aaa/NR	September 4, 2025	187
Federal Home Loan Bank Notes	AA+/Aaa/NR	December 8, 2023	7,215
Federal Home Loan Bank Notes	AA+/Aaa/NR	December 8, 2023	1,140
Federal National Mortgage Association Notes	AA+/Aaa/AA+	June 17, 2025	9,973
Federal National Mortgage Association Notes	AA+/Aaa/AA+	August 25, 2025	7,064
Federal National Mortgage Association Notes	AA+/Aaa/AA+	November 7, 2025	8,771
Federal National Mortgage Association Notes	AA+/Aaa/AA+	January 7, 2025	8,471
Federal National Mortgage Association Notes	AA+/Aaa/AA+	January 7, 2025	7,869
Federal National Mortgage Association Notes	AA+/Aaa/AA+	June 17, 2025	1,033
Federal National Mortgage Association Notes	AA+/Aaa/AA+	August 25, 2025	741
Federal National Mortgage Association Notes	AA+/Aaa/AA+	November 7, 2025	902
Federal National Mortgage Association Notes	AA+/Aaa/AA+	January 7, 2025	882
Federal National Mortgage Association Notes	AA+/Aaa/AA+	January 7, 2025	474
US Treasury Bill	A-1+/P-1/F1+	October 26, 2023	39,335
US Treasury Notes	AA+/Aaa/AA+	March 31, 2028	13,122
US Treasury Notes	AA+/Aaa/AA+	March 31, 2026	11,747
US Treasury Notes	AA+/Aaa/AA+	April 30, 2026	10,803
US Treasury Notes	AA+/Aaa/AA+	April 30, 2026	9,003
US Treasury Notes	AA+/Aaa/AA+	September 30, 2026	5,367

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Investments	Credit ratings June 30, 2023 (S&P/Moody's / Fitch)	June 30, 2023	
		Maturities	Fair value
US Treasury Notes	AA+/Aaa/AA+	September 30, 2026	6,708
US Treasury Notes	AA+/Aaa/AA+	November 15, 2024	15,704
US Treasury Notes	AA+/Aaa/AA+	November 30, 2026	9,637
US Treasury Notes	AA+/Aaa/AA+	June 30, 2027	5,769
US Treasury Notes	AA+/Aaa/AA+	June 30, 2027	9,615
US Treasury Notes	AA+/Aaa/AA+	June 30, 2027	7,692
US Treasury Notes	AA+/Aaa/AA+	August 31, 2027	5,450
US Treasury Notes	AA+/Aaa/AA+	August 31, 2027	9,465
US Treasury Notes	AA+/Aaa/AA+	October 31, 2027	5,469
US Treasury Notes	AA+/Aaa/AA+	October 31, 2027	14,916
US Treasury Notes	AA+/Aaa/AA+	December 31, 2027	10,645
US Treasury Notes	AA+/Aaa/AA+	April 30, 2028	18,454
US Treasury Notes	AA+/Aaa/AA+	March 31, 2028	700
US Treasury Notes	AA+/Aaa/AA+	March 31, 2026	1,355
US Treasury Notes	AA+/Aaa/AA+	April 30, 2026	1,170
US Treasury Notes	AA+/Aaa/AA+	April 30, 2026	900
US Treasury Notes	AA+/Aaa/AA+	September 30, 2026	447
US Treasury Notes	AA+/Aaa/AA+	September 30, 2026	894
US Treasury Notes	AA+/Aaa/AA+	November 15, 2024	1,505
US Treasury Notes	AA+/Aaa/AA+	November 30, 2026	901
US Treasury Notes	AA+/Aaa/AA+	November 30, 2026	1,081
US Treasury Notes	AA+/Aaa/AA+	June 30, 2027	769
US Treasury Notes	AA+/Aaa/AA+	June 30, 2027	769
US Treasury Notes	AA+/Aaa/AA+	August 31, 2027	956
US Treasury Notes	AA+/Aaa/AA+	August 31, 2027	526
US Treasury Notes	AA+/Aaa/AA+	October 31, 2027	646
US Treasury Notes	AA+/Aaa/AA+	October 31, 2027	1,492
US Treasury Notes	AA+/Aaa/AA+	December 31, 2027	1,577
US Treasury Notes	AA+/Aaa/AA+	April 30, 2028	1,894
US Treasury Notes	AA+/Aaa/AA+	March 31, 2024	215
US Treasury Notes	AA+/Aaa/AA+	April 30, 2024	215
US Treasury Notes	AA+/Aaa/AA+	March 31, 2024	54
US Treasury Notes	AA+/Aaa/AA+	April 30, 2024	54
US Treasury Notes	AA+/Aaa/AA+	February 15, 2028	13,152
US Treasury Notes	AA+/Aaa/AA+	May 15, 2028	7,700
US Treasury Notes	AA+/Aaa/AA+	June 30, 2024	6,752

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Investments	Credit ratings June 30, 2023 (S&P/Moody's / Fitch)	June 30, 2023	
		Maturities	Fair value
US Treasury Notes	AA+/Aaa/AA+	December 31, 2023	3,448
US Treasury Notes	AA+/Aaa/AA+	December 31, 2023	8,078
US Treasury Notes	AA+/Aaa/AA+	April 30, 2024	12,053
US Treasury Notes	AA+/Aaa/AA+	May 15, 2027	14,895
US Treasury Notes	AA+/Aaa/AA+	July 31, 2024	12,838
US Treasury Notes	AA+/Aaa/AA+	August 31, 2024	5,025
US Treasury Notes	AA+/Aaa/AA+	August 31, 2024	11,633
US Treasury Notes	AA+/Aaa/AA+	October 31, 2024	6,835
US Treasury Notes	AA+/Aaa/AA+	October 31, 2024	9,513
US Treasury Notes	AA+/Aaa/AA+	January 31, 2027	4,528
US Treasury Notes	AA+/Aaa/AA+	January 31, 2027	6,339
US Treasury Notes	AA+/Aaa/AA+	January 31, 2027	11,319
US Treasury Notes	AA+/Aaa/AA+	February 28, 2025	12,371
US Treasury Notes	AA+/Aaa/AA+	April 30, 2025	11,182
US Treasury Notes	AA+/Aaa/AA+	April 30, 2025	8,371
US Treasury Notes	AA+/Aaa/AA+	April 30, 2025	8,896
US Treasury Notes	AA+/Aaa/AA+	June 30, 2025	8,674
US Treasury Notes	AA+/Aaa/AA+	July 31, 2025	16,377
US Treasury Notes	AA+/Aaa/AA+	November 30, 2025	4,061
US Treasury Notes	AA+/Aaa/AA+	November 30, 2025	3,610
US Treasury Notes	AA+/Aaa/AA+	January 31, 2026	5,386
US Treasury Notes	AA+/Aaa/AA+	January 31, 2026	6,284
US Treasury Notes	AA+/Aaa/AA+	January 31, 2026	14,093
US Treasury Notes	AA+/Aaa/AA+	January 31, 2026	3,591
US Treasury Notes	AA+/Aaa/AA+	March 15, 2024	15,531
US Treasury Notes	AA+/Aaa/AA+	October 31, 2023	6,943
US Treasury Notes	AA+/Aaa/AA+	October 31, 2023	40,668
US Treasury Notes	AA+/Aaa/AA+	February 15, 2028	752
US Treasury Notes	AA+/Aaa/AA+	May 15, 2028	806
US Treasury Notes	AA+/Aaa/AA+	June 30, 2024	482
US Treasury Notes	AA+/Aaa/AA+	June 30, 2024	482
US Treasury Notes	AA+/Aaa/AA+	May 15, 2027	1,210
US Treasury Notes	AA+/Aaa/AA+	August 31, 2024	95
US Treasury Notes	AA+/Aaa/AA+	October 31, 2024	709
US Treasury Notes	AA+/Aaa/AA+	October 31, 2024	381
US Treasury Notes	AA+/Aaa/AA+	January 31, 2027	906
US Treasury Notes	AA+/Aaa/AA+	January 31, 2027	815

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Investments	Credit ratings June 30, 2023 (S&P/Moody's / Fitch)	June 30, 2023	
		Maturities	Fair value
US Treasury Notes	AA+/Aaa/AA+	January 31, 2027	1,268
US Treasury Notes	AA+/Aaa/AA+	February 28, 2025	1,246
US Treasury Notes	AA+/Aaa/AA+	April 30, 2025	1,044
US Treasury Notes	AA+/Aaa/AA+	April 30, 2025	2,111
US Treasury Notes	AA+/Aaa/AA+	June 30, 2025	913
US Treasury Notes	AA+/Aaa/AA+	July 31, 2025	1,183
US Treasury Notes	AA+/Aaa/AA+	November 30, 2025	542
US Treasury Notes	AA+/Aaa/AA+	January 31, 2026	1,167
US Treasury Notes	AA+/Aaa/AA+	January 31, 2026	1,526
US Treasury Notes	AA+/Aaa/AA+	January 31, 2026	269
US Treasury Notes	AA+/Aaa/AA+	August 31, 2023	219
US Treasury Notes	AA+/Aaa/AA+	September 30, 2023	219
US Treasury Notes	AA+/Aaa/AA+	October 31, 2023	218
US Treasury Notes	AA+/Aaa/AA+	November 30, 2023	218
US Treasury Notes	AA+/Aaa/AA+	December 31, 2023	217
US Treasury Notes	AA+/Aaa/AA+	January 31, 2024	216
US Treasury Notes	AA+/Aaa/AA+	February 29, 2024	215
US Treasury Notes	AA+/Aaa/AAA	July 31, 2023	220
US Treasury Notes	AA+/Aaa/AA+	August 31, 2023	55
US Treasury Notes	AA+/Aaa/AA+	September 30, 2023	55
US Treasury Notes	AA+/Aaa/AA+	October 31, 2023	55
US Treasury Notes	AA+/Aaa/AA+	November 30, 2023	54
US Treasury Notes	AA+/Aaa/AA+	December 31, 2023	54
US Treasury Notes	AA+/Aaa/AA+	January 31, 2024	54
US Treasury Notes	AA+/Aaa/AA+	February 29, 2024	54
US Treasury Notes	AA+/Aaa/AAA	July 31, 2023	55
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AA+	July 21, 2025	5,989
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AA+	July 21, 2025	3,649
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AA+	September 23, 2025	7,144
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AA+	December 4, 2023	1,272
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AA+	July 21, 2025	306

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Investments	Credit ratings June 30, 2023 (S&P/Moody's / Fitch)	June 30, 2023	
		Maturities	Fair value
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AA+	July 21, 2025	182
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AA+	September 23, 2025	730
Federal Home Loan Mortgage Corp Notes	AA+/Aaa/AA+	August 1, 2025	4,936
Federal Farm Credit Banks Funding Corp	AA+/Aaa/AA+	April 8, 2024	7,839
Federal Farm Credit Banks Funding Corp	AA+/Aaa/AA+	June 23, 2026	5,082
International Bank for Reconstruction & Development	AAA/Aaa/AAA	March 19, 2024	441
International Bank for Reconstruction & Development	AAA/Aaa/AAA	January 15, 2025	521
International Bank for Reconstruction & Development	AAA/Aaa/AAA	January 15, 2025	379
Inter-American Development Bank	AAA/Aaa/AAA	September 23, 2024	1,041
State of Oregon Department of Transportation	AAA/Aa1/AA+	November 15, 2023	222
State of Wisconsin	AA+/Aa1/NR	May 1, 2024	155
State of Wisconsin	NR/Aa2/AA	May 1, 2024	228
State of Minnesota	AAA/Aaa/AAA	August 1, 2025	187
State of Mississippi	AA/Aa2/AA	November 1, 2023	128
City of San Jose	AA+/Aa1/AAA	September 1, 2023	487
Long Beach Community College	AA/Aa2/NR	August 1, 2023	224
Ventura County Community College	AA+/Aa1/NR	August 1, 2023	533
Los Angeles Community College	AA+/Aaa/NR	August 1, 2025	200
Los Angeles Unified School District	NR/Aa3/AAA	July 1, 2025	446
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	August 1, 2023	293
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AA+	April 1, 2027	513
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AA+	December 1, 2024	227

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<u>Investments</u>	Credit ratings June 30, 2023 (S&P/Moody's / Fitch)	June 30, 2023	
		<u>Maturities</u>	<u>Fair value</u>
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AA+	March 1, 2025	352
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AA+	December 1, 2024	46
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AA+	May 1, 2025	515
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AA+	December 1, 2025	295
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AA+	January 1, 2026	284
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AA+	August 1, 2026	491
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AA+	November 1, 2026	352
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AA+	November 1, 2023	212
Freddie Mac Multifamily Structured Pass	AA+/Aaa/AAA	June 1, 2025	33
Walmart Inc	AA/Aa2/AA	July 8, 2024	780
New York State Urban Development Corp	NR/NR/AA+	March 15, 2025	514
State Board of Administration Finance	AA/Aa3/AA	July 1, 2025	125
Rabobank Corporate Notes	A+/Aa2/AA-	August 22, 2024	783
California State Muni Bonds	AA-/Aa2/AA	March 1, 2027	219
Massachusetts Commonwealth Muni Bond	NR/Aa1/AAA	July 15, 2025	507
Goldman Sachs Financial Square Obligations Fund	AAAm/Aaa-mf/NR	-	21,740
First American Government Obligation Fund	AAAm/Aaa-mf/AAAmf	-	11,283
Cash and Cash Equivalent			15,477
Total			<u>\$ 700,365</u>

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Fair Value Hierarchy

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

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

The following is a summary of the fair value hierarchy of the Airport's cash and investments with fiscal agent as of June 30, 2023 (in thousands):

	Fair value June 30, 2023	Investments exempt from fair value	Fair value measurement using		
			Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)
Investments outside City Treasury:					
State and local agencies	\$ 4,177	—	—	4,177	—
Suprationals	2,382	—	—	2,382	—
U.S. agencies	96,493	—	—	96,493	—
U.S. corporate bonds/notes (medium term notes)	1,563	—	—	1,563	—
U.S. treasury securities	547,250	—	547,250	—	—
Cash and cash equivalents	15,477	15,477	—	—	—
Money market funds*	33,023	33,023	—	—	—
Total	\$ 700,365	48,500	547,250	104,615	—

* Investments exempt from fair value

Investments outside the City Treasury pool may consist of U.S. Treasury securities, U.S. Government Agency securities, and other investments such as commercial paper, money market funds, negotiable certificates of deposit, supranational securities, and other investments permitted under the applicable bond documents. U.S. Treasury securities are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy. U.S. Government Agency securities are valued using mid pricing and classified in Level 2 of the fair value hierarchy. Investments exempt from fair value treatment consist of money market mutual funds with investment holdings having maturities of one year or less at the time of purchase.

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

Safety of principal is the foremost objective of the investment program. Investments undertaken seek to ensure the preservation of capital in the overall portfolio. As one strategy to attain this objective, investments are diversified.

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

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

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

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

The Airport had approximately \$700.4 million in investments held by, and in the name of, the Senior Trustee and the Subordinate Trustee, collectively, as of June 30, 2023.

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

(4) Grants Receivable

The Airport receives federal funding from the FAA, the TSA, and other federal agencies. Grants receivable of \$30.3 million as of June 30, 2023, were based on actual costs incurred, subject to federal reimbursement limits.

When determining the distribution of discretionary grants, the Secretary of Transportation may consider, as a mitigating factor, whether the Airport uses its revenues for purposes other than capital or operating costs, when those revenues exceed the amount used by the Airport for such costs in the base year ending June 30, 1995, as adjusted for inflation. The Airport Commission pays a portion of the Airport's revenues to the City's General Fund as an annual service payment, in part as compensation for indirect services, management and facilities provided by the City to the Airport. The annual service payment is considered to be a noncapital, nonoperating cost for this purpose. With the exception of five fiscal years, the annual service payment has exceeded the base year payment when adjusted for inflation since fiscal year 1995-96.

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In the past, the Commission has received a lower amount of FAA discretionary grants than it requested as a result of the amount of the annual service payments. The FAA militated \$6.7 million in discretionary grants in the federal fiscal year ended September 30, 2023, and the Commission received \$39.0 million in FAA discretionary grants, which included Bipartisan Infrastructure Law Airport Terminal Program funding. The FAA may reduce discretionary grants in the future. Furthermore, AIP funding may be reduced in the future as a result of legislation or the failure of the U.S. Congress to pass an annual appropriation bill including such funding. Reduction in grants awarded to the Commission could result in the delay or cancellation of projects or the incurrence of additional debt by the Commission.

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

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(5) Capital Assets

Capital assets consist of the following (in thousands):

	<u>July 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2023</u>
Capital assets not being depreciated/amortized:				
Land	\$ 29,813	—	—	\$ 29,813
Intangible assets	6,881	—	—	6,881
Construction in progress	771,911	310,492	(82,197)	1,000,206
Total capital assets not being depreciated/amortized	<u>808,605</u>	<u>310,492</u>	<u>(82,197)</u>	<u>1,036,900</u>
Capital assets being depreciated/amortized:				
Buildings, structures, and improvements	9,225,038	78,222	(16,503)	9,286,757
Equipment	939,236	3,020	(5,395)	936,861
Right to use asset	671	2,697	—	3,368
Intangible assets	37,610	740	(479)	37,871
Total capital assets being depreciated/amortized	<u>10,202,555</u>	<u>84,679</u>	<u>(22,377)</u>	<u>10,264,857</u>
Less accumulated depreciation/amortization:				
Buildings, structures, and improvements	(3,587,917)	(263,191)	16,504	(3,834,604)
Equipment	(413,799)	(88,100)	5,321	(496,578)
Right to use asset	(278)	(1,524)	—	(1,802)
Intangible assets	(32,093)	(2,660)	478	(34,275)
Total accumulated depreciation/amortization	<u>(4,034,087)</u>	<u>(355,475)</u>	<u>22,303</u>	<u>(4,367,259)</u>
Total capital assets being depreciated/amortized, net	<u>6,168,468</u>	<u>(270,796)</u>	<u>(74)</u>	<u>5,897,598</u>
Total capital assets, net	<u>\$ 6,977,073</u>	<u>39,696</u>	<u>(82,271)</u>	<u>\$ 6,934,498</u>

In fiscal year 2006-07, the Airport adopted a cost allocation plan to capture indirect costs as a component of a building or other capital asset to reflect the full and true cost of a capital asset. In accordance with the Uniform Guidance, the indirect costs capitalized for the fiscal year ended June 30, 2023, were \$16.9 million.

For details on leases for Airport as lessee, see note 9.

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(6) Subordinate Commercial Paper Notes

On May 20, 1997, the Airport Commission adopted Resolution No. 97-0146 (as amended and supplemented, the 1997 Note Resolution). The 1997 Note Resolution authorizes the issuance of subordinate commercial paper (CP) notes in an aggregate principal amount not to exceed the lesser of \$600.0 million or the stated amount of the letter(s) of credit securing the CP notes.

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

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

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

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

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

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As of June 30, 2023, the CP program was supported by six direct-pay letters of credit with a combined maximum stated principal amount of \$600.0 million, from State Street Bank and Trust Company (\$100.0 million, expires May 2, 2024), Sumitomo Mitsui Banking Corporation, acting through its New York Branch (\$100.0 million, expires April 7, 2027), Barclays Bank PLC (\$100.0 million, expires May 24, 2024), Sumitomo Mitsui Banking Corporation, acting through its New York Branch (\$100.0 million, expires June 6, 2028), Barclays Bank PLC (\$125.0 million, expires April 23, 2027), and Bank of America, N.A. (\$75.0 million, expires May 4, 2026). Each of the letters of credit supports a separate subseries of CP notes.

As of June 30, 2023, there were no obligations other than the CP notes outstanding under the 1997 Note Resolution.

During fiscal year 2022-23, the Airport issued new money CP notes in the aggregate principal amount of \$392.0 million (AMT), \$22.5 million (Non-AMT), and \$2.8 million (Taxable) to fund capital improvement projects.

The following table summarizes CP activity during the fiscal year ended June 30, 2023 (in thousands):

	<u>Interest rate</u>	<u>July 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2023</u>
Commercial paper (Taxable) - short term	3.50%-5.45%	\$ 2,700	2,750	—	5,450
Commercial paper (AMT) - long term	2.32%-3.42%	65,225	392,000	—	457,225
Commercial paper (Non-AMT) - long term	2.42%-3.35%	18,050	22,500	—	40,550
Total		\$ 85,975	417,250	—	503,225

The table presents the commercial paper notes' net increase and decrease activities during fiscal year FY2022-23. This excludes the issuance of commercial paper notes to repay maturing commercial paper notes.

As of June 30, 2023, the Airport had \$503.2 million in outstanding commercial paper notes including \$497.8 million that was refunded by the Series 2023C/D bonds issued on November 15, 2023. The \$497.8 million has been reclassified to long-term commercial paper notes on the financial statements as of June 30, 2023. See note 17.

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(7) Long-Term Obligations

Long-term obligation activity for the year ended June 30, 2023, is as follows (in thousands):

	<u>July 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2023</u>	<u>Due within one year</u>
Revenue bonds payable	\$ 8,099,275	241,915	(291,525)	8,049,665	87,750
Add unamortized premiums	986,339	21,584	(53,367)	954,556	—
Total revenue bonds payable	9,085,614	263,499	(344,892)	9,004,221	87,750
Commercial paper notes - long term	—	497,775	—	497,775	—
Compensated absences	24,184	11,474	(11,471)	24,187	12,326
Accrued workers' compensation	12,093	5,929	(5,455)	12,567	2,710
Estimated claims payable	2,158	2,136	(22)	4,272	122
Other liabilities and leases payable	469	2,697	(1,980)	1,186	816
Net OPEB liability (see note 12b)	251,367	6,400	—	257,767	—
Net pension liability (asset) (see note 12a)	(153,872)	—	316,072	162,200	—
Derivative instruments	10,192	—	(10,192)	—	—
Total	<u>\$ 9,232,205</u>	<u>789,910</u>	<u>(57,940)</u>	<u>9,964,175</u>	<u>103,724</u>

Bond Transactions and Balances

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

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

The bonds are special, limited obligations of the Commission, and the principal of and interest on the bonds are payable solely from and secured by a pledge of, lien on and security interest in the Net Revenues and amounts in the funds and accounts provided in the 1991 Master Bond Resolution. The payment of the

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principal of and interest on all previously issued bonds under the 1991 Master Bond Resolution is secured by a pledge of, lien on and security interest in Net Revenues on a parity with the pledge, lien and security interest securing any additional bonds issued thereunder.

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

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

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As of June 30, 2023, long-term revenue bonds consisted of the following (in thousands):

Description	Date of issue	Interest rate	June 30, 2023
Second Series Revenue Bonds:			
Issue 2009D	11/04/09	3.00%-3.50%	\$ 51,615
Issue 2013A	07/31/13	5.00%-5.50%	241,790
Issue 2014A	09/24/14	5.00%	376,310
Issue 2014B	09/24/14	5.00%	97,290
Issue 2016A	02/25/16	4.00%-5.00%	139,020
Issue 2016B	09/29/16	5.00%	574,970
Issue 2016C	09/29/16	5.00%	165,155
Issue 2016D	09/29/16	5.00%	100,280
Issue 2017A	10/31/17	5.00%	339,580
Issue 2017B	10/31/17	5.00%	231,985
Issue 2017D	10/31/17	5.00%	72,015
Issue 2018D	05/30/18	5.00%-5.25%	722,800
Issue 2018E	05/30/18	5.00%	116,275
Issue 2018F	05/30/18	3.80%	7,025
Issue 2018G	05/30/18	5.00%	35,660
Issue 2018B**	06/06/18	Variable rate	138,170
Issue 2018C**	06/06/18	Variable rate	138,170
Issue 2019A	02/07/19	4.00%-5.00%	1,176,215
Issue 2019B	02/07/19	5.00%	91,280
Issue 2019C	02/07/19	3.51%	8,010
Issue 2019D	02/07/19	5.00%	373,295
Issue 2019E	09/10/19	4.00%-5.00%	773,475
Issue 2019F	09/10/19	5.00%	106,925
Issue 2019G	09/10/19	1.98%-2.39%	12,285
Issue 2019H	09/10/19	5.00%	148,195
Issue 2020A	08/20/20	4.00%-5.00%	109,520
Issue 2020B	08/20/20	4.00%	51,575
Issue 2020C	08/20/20	2.96%	130,180
Issue 2021A	04/21/21	5.00%	195,225
Issue 2021B	04/21/21	5.00%	129,070
Issue 2021C	04/21/21	3.35%	222,810
Issue 2022A	02/08/22	4.00%-5.00%	301,530
Issue 2022B	02/08/22	4.00%-5.00%	236,475
Issue 2022C	02/08/22	2.58%-3.33%	194,815
Issue 2023A	03/01/23	5.00%	161,165
Issue 2023B	03/01/23	5.00%	79,510
			<u>8,049,665</u>
Unamortized premium			<u>954,556</u>
Total revenue bonds payable			9,004,221
Less current portion			<u>(87,750)</u>
Total long-term revenue bonds payable		\$	<u><u>8,916,471</u></u>

** The Commission used the proceeds of the Series 2018B/C Bonds to purchase \$260.0 million of San Francisco International Airport Hotel Special Facility Revenue Bonds; to finance the development and construction of an AirTrain station adjacent to the on-Airport Hotel; and to pay costs of issuance of the Series 2018B/C Bonds.

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Interest Rate Swaps

The Airport entered into forward starting interest rate swaps in connection with the anticipated issuance of its Second Series Variable Rate Revenue Refunding Bonds, Series 2010A, on February 10, 2010. The swap structure was intended as a means to increase the Airport's debt service savings by setting a low synthetic fixed rate in advance of the first date that tax-exempt variable rate refunding bonds could be issued in the future to refinance callable bonds.

The Airport terminated these interest rate swaps on August 9, 2019 and March 1, 2023.

As of June 30, 2023, all swaps had been terminated.

Debt Service Reserve and Covenants; Contingency Account

The Airport Commission issues its senior lien San Francisco International Airport Second Series Revenue Bonds under the 1991 Master Bond Resolution, which provides, among other things, the general terms and conditions of the bonds, the funds and accounts relating to the bonds, and certain covenants made by the Airport Commission for the benefit of bondholders. Such covenants include not creating or allowing creation of liens on the Revenues or disposing of any property necessary to maintaining revenues or operating the Airport and maintaining specified levels of insurance or self-insurance. The Airport Commission may establish one or more reserve accounts with different reserve requirements to secure one or more series of bonds. Accordingly, the Airport Commission has established three reserve accounts in the Reserve Fund: the Issue 1 Reserve Account, the 2009 Reserve Account, and the 2017 Reserve Account, all of which are held by the Senior Trustee. In conjunction with the defeasance of the Series 2010D Bonds on August 20, 2020, the 2009 Reserve Account was closed. As permitted under the 1991 Master Bond Resolution, the Airport Commission may establish separate reserve accounts for individual series of bonds or may issue bonds without a reserve account.

Issue 1 Reserve Account – The Issue 1 Reserve Account is the Airport's original parity reserve account established in connection with the first issuance of bonds under the 1991 Master Bond Resolution and which now secures most of the Airport Commission's outstanding bonds. Specifically, as of June 30, 2023, the Issue 1 Reserve Account secures all outstanding bonds except the series listed below as being secured by the 2017 Reserve Account, and except for Series 2018B and Series 2018C. The Airport Commission may designate any series of bonds as a "participating series" secured by the Issue 1 Reserve Account. The reserve requirement is equal to the maximum annual debt service on the outstanding bonds secured by the Issue 1 Reserve Account accruing in any year during the life of all participating series of bonds secured by the Issue 1 Reserve Account.

2017 Reserve Account – The Airport Commission has established an additional pooled reserve account identified as the 2017 Reserve Account in the Reserve Fund, as security for each series of bonds (a 2017 Reserve Series) that is designated as being secured by the 2017 Reserve Account. As of June 30, 2023, only the Series 2017D, 2019B, and 2019D Bonds are secured by the 2017 Reserve Account. The reserve requirement for the 2017 Reserve Account is equal to the lesser of: (i) the maximum amount of aggregate annual debt service for all 2017 Reserve Series Bonds in any fiscal year during the period from the date of calculation to the final scheduled maturity of the 2017 Reserve Series Bonds, (ii) 10.0% of the outstanding aggregate principal amount of all 2017 Reserve Series Bonds (provided that the issue price of a Series of 2017 Reserve Series Bonds will be used in this calculation if such Series was sold with an original issue

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discount that exceeded 2% of the principal of such Series on its original date of sale), and (iii) 125% of the average aggregate annual debt service for all 2017 Reserve Series Bonds.

Reserve Policies – Under the 1991 Master Bond Resolution, the Airport Commission may satisfy a portion of a reserve requirement by depositing with the Senior Trustee one or more reserve policies issued by a credit provider meeting specified rating requirements. However, the 1991 Master Bond Resolution does not require that those ratings be maintained after the date of deposit. As of June 30, 2023, the Issue 1 Reserve Account contains reserve policies. Each of the providers of the reserve policies in the reserve accounts was rated “AAA” at the time the policies were deposited. However, as a result of the financial crisis that began in 2007, all of the major municipal bond insurance companies have been downgraded, and several are no longer providing current financial and operating information. In addition, under the terms of several of the reserve policies, the value of the policies is adjusted downward from time to time as related bonds are refunded and such policies have experienced a reduction in value and may have experienced a reduction in value to zero. The policies in the Issue 1 Reserve Account with remaining value have termination dates. The Airport has periodically deposited additional cash in the Issue 1 Reserve Account to satisfy the reserve requirement and compensate for the diminished value or downgraded providers of these reserve policies.

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

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

- (a) Net Revenues (as defined in the 1991 Master Bond Resolution) in each fiscal year will be at least sufficient (i) to make all required debt service payments and deposits in such fiscal year with respect to the bonds, any subordinate bonds, and any general obligation bonds issued by the City for the benefit of the Airport (there have been no such general obligation bonds outstanding for more than 30 years), and (ii) to make the annual service payments to the City, and
- (b) Net Revenues, together with any transfer from the Contingency Account to the Revenue Account (both held by the City Treasurer), in each fiscal year will be at least equal to 125% of aggregate annual debt service with respect to the bonds for such fiscal year.

The methods required by the 1991 Master Bond Resolution for calculating debt service coverage differ from those required under GAAP, which are used to determine amounts reported in the Airport’s financial statements. For example, the 1991 Master Bond Resolution includes in the definition of Operating and Maintenance Expenses (which is used to calculate Net Revenues) “the *payment* of pension charges ... with respect to employees of the Commission...” (emphasis added) and excludes a number of noncash accrual

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

Post-Issuance Compliance with Federal Tax Law

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

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

Pursuant to resolutions adopted between fiscal years 2008 and 2022, as of June 30, 2023, the Airport Commission has authorized the issuance of up to \$10.8 billion of San Francisco International Airport Second Series Revenue Bonds (Capital Plan Bonds) to finance and refinance the construction, acquisition, equipping, and development of capital projects undertaken by the Airport, including retiring all or a portion of the Airport’s outstanding subordinate commercial paper notes issued for capital projects, funding debt service reserves, funding capitalized interest, and for paying costs of issuance. As of June 30, 2023, \$4.2 billion of the authorized capital plan bonds remained unissued.

(b) Second Series Revenue Refunding Bonds

Pursuant to resolutions adopted between fiscal years 2005 and 2023, as of June 30, 2023, the Airport Commission has authorized the issuance of up to \$17.1 billion of San Francisco International Airport Second Series Revenue Refunding Bonds for the purposes of refunding outstanding 1991 Master Bond Resolution Bonds and outstanding subordinate commercial paper notes, funding debt service reserves, and paying costs of issuance, including any related bond redemption premiums. As of June 30, 2023, \$7.2 billion of the authorized refunding bonds remained authorized but unissued.

During fiscal year 2022-23, the Airport issued the following bonds for refunding and other purposes under the 1991 Master Bond Resolution:

On March 1, 2023, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2023A (AMT) and Second Series Revenue Refunding Bonds, Series 2023B (Non-AMT/Governmental Purpose), in an aggregate principal amount of \$241.9 million to refund a combined \$261.5 million of its Series 2010A Bonds, Series 2013A Bonds, and Series 2013B Bonds, to fund the termination payment of an interest rate swap, and to pay costs of issuance.

The proceeds of the Series 2023A and Series 2023B Bonds (consisting of \$241.9 million par amount and original issue premium of \$21.6 million, less an underwriters’ discount of \$0.5 million), together with \$8.6 million accumulated in the debt service fund were used to deposit \$265.0 million into redemption accounts and escrow funds with the Senior Trustee to refund \$261.5 million in revenue

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bonds as described below (in thousands), \$5.5 million to fund the swap termination payment, and \$1.1 million to pay costs of issuance.

The Series 2010A bonds were redeemed on March 31, 2023, and Series 2013A bonds and Series 2013B bonds identified in the table below were redeemed on May 1, 2023.

The following table (in thousands) shows the outstanding balance after the bonds were refunded with the issuance of Series 2023A/B bonds:

Second Series Revenue Bonds Issue:	Interest Rate	June 30, 2022	Amount Refunded	June 30, 2023
Series 2010A1 (AMT)	variable	\$ 71,845	71,845	-
Series 2010A2 (AMT)	variable	47,900	47,900	-
Series 2013A (AMT)	5.00%-5.50%	295,650	53,860	241,790
Series 2013B (Non-AMT/Governmental Purpose)	5.00%	87,860	87,860	-
Total		<u>\$ 503,255</u>	<u>261,465</u>	<u>241,790</u>

In aggregate, the Series 2023A/B refundings resulted in the recognition of a deferred accounting loss of \$3.5 million for the fiscal year ended June 30, 2023. The Series 2023A/B refundings decreased the Airport's aggregate gross debt service payments by approximately \$23.9 million over the life of the bonds and obtained an economic gain (the difference between the present values of the debt service on the old debt and the new debt) of \$10.6 million.

(c) Variable Rate Demand Bonds

As of June 30, 2023, the Airport Commission had an outstanding aggregate principal amount of \$276.3 million, consisting of Second Series Variable Rate Revenue Refunding Bonds, Series 2018B and Series 2018C, (collectively, the "Variable Rate Bonds") with final maturity dates of May 1, 2058 (Series 2018B and 2018C). The Variable Rate Bonds are long-term, tax-exempt bonds that currently bear interest at a rate that is adjusted weekly, and that are subject to tender at par at the option of the holder thereof on seven days' notice. Any tendered Variable Rate Bonds are remarketed by the applicable remarketing agent in the secondary market to other investors. The interest rate on the Variable Rate Bonds can be converted to other interest rate modes, including a term rate or fixed rates to maturity, upon appropriate notice by the Airport.

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

Amounts drawn under a letter of credit that are not reimbursed by the Airport constitute "Repayment Obligations" under the 1991 Master Bond Resolution and are accorded the status of other outstanding

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bonds to the extent provided in the Resolution. The commitment fees for the letters of credit range between 0.34% and 0.37% per annum. As of June 30, 2023, there were no unreimbursed draws under these facilities.

The letters of credit securing the Variable Rate Bonds included in long-term debt as of June 30, 2023, are as follows (in thousands):

	Series 2018B	Series 2018C
Principal amount	\$ 138,170	138,170
Expiration date	June 3, 2026	April 5, 2027
Credit provider	Barclays ⁽¹⁾	SMBC ⁽²⁾

(1) Barclays Bank PLC

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

(d) Hotel Special Facility Bonds

Pursuant to resolutions adopted in fiscal years 2017, 2018, and 2019, the Airport Commission authorized the issuance of \$260.0 million of Special Facility Bonds to finance an on-Airport Hotel. These resolutions also designated the on-Airport Hotel as a “Special Facility” under the 1991 Master Bond Resolution, which allows the hotel revenues to be segregated from the Airport’s other revenues and used to pay hotel operating expenses and debt service on the Hotel Special Facility Bonds through the Hotel Special Facility Bond trustee. On June 6, 2018, the Airport issued its fixed rate Special Facility Revenue Bonds (San Francisco International Airport Hotel), Series 2018 (the “Hotel Special Facility Bonds”), in the aggregate principal amount of \$260.0 million to finance the on-Airport Hotel and to fund a capitalized interest account.

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

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

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of principal of and interest on the Hotel Special Facility Bonds. The Commission does not maintain a reserve account for the Hotel Special Facility Bonds. The Hotel Special Facility Bonds are subject to acceleration upon the occurrence of an event of default. Events of default include nonpayment events, bankruptcy events, noncompliance with covenants, condemnation of the hotel, or a failure by the Commission to maintain a third-party manager for the hotel. The Hotel Special Facility Bonds are not payable from or secured by the Airport's Net Revenues (as defined under the 1991 Master Bond Resolution). However, because the Airport is the owner of the on-Airport Hotel, the Airport is obligated to repay the Hotel Special Facility Bonds from the net revenues of the hotel.

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

As of June 30, 2023, the Airport Commission had \$260.0 million of outstanding Hotel Special Facility Bonds.

(e) Derivative Instruments

As of June 30, 2023, the Airport did not have any outstanding derivative instruments.

(f) Debt Service Reserves and Requirements

Issue 1 Reserve Account

As of June 30, 2023, the reserve requirement for the Issue 1 Reserve Account was \$534.9 million, which was satisfied by \$539.5 million of cash and investment securities, and reserve fund surety policies in the initial principal amount of \$108.6 million. All of the providers of such reserve policies have one or more credit ratings below the Airport's rating or are no longer rated. In addition, \$27.5 million of such surety policies have likely experienced a reduction in value in accordance with their terms.

2017 Reserve Account

As of June 30, 2023, the reserve requirement for the 2017 Reserve Account was \$40.6 million, which was satisfied by \$57.1 million in cash and investment securities.

Series Not Secured by Reserve Accounts

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

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Debt Service Requirements

Revenue bond debt service requirements to maturity as of June 30, 2023, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year:			
2024	\$ 87,750	382,727	470,477
2025	163,515	378,480	541,995
2026	203,310	370,590	573,900
2027	209,165	360,813	569,978
2028	224,490	350,725	575,215
2029-2033	771,495	1,634,223	2,405,718
2034-2038	989,455	1,435,346	2,424,801
2039-2043	1,625,605	1,129,721	2,755,326
2044-2048	2,097,165	682,928	2,780,093
2049-2053	1,599,295	167,368	1,766,663
2054-2058	78,420	7,839	86,259
Total	<u>\$ 8,049,665</u>	<u>6,900,760</u>	<u>14,950,425</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year:			
2024	\$ 87,750	382,727	470,477
2025	163,515	378,480	541,995
2026	341,480	371,008	712,488
2027	346,625	355,997	702,622
2028	223,370	341,749	565,119
2029-2033	760,125	1,590,224	2,350,349
2034-2038	965,025	1,393,977	2,359,002
2039-2043	1,584,155	1,093,391	2,677,546
2044-2048	2,043,315	654,230	2,697,545
2049-2053	1,534,305	148,139	1,682,444
Total	<u>\$ 8,049,665</u>	<u>6,709,922</u>	<u>14,759,587</u>

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(g) Cash Defeasance of Bonds

On June 28, 2023, the Airport defeased \$28.8 million of its Series 2019D Bonds, using monies previously deposited by the Commission in the Debt Service Fund.

The outstanding balance for Series 2019D Bonds for the year ended June 30, 2023 is as follows (in thousands):

Bond Series	June 30, 2022	Cash Defeasance Amount	June 30, 2023
2019D	\$ 402,115	28,820	373,295

(8) Pledged Revenue

The Airport Commission has pledged all of the Net Revenues of the Airport to repay the following obligations when due, in order of priority, (1) the San Francisco International Airport Second Series Revenue Bonds and Revenue Refunding Bonds (collectively, Senior Bonds) issued and to be issued under the Commission's Resolution No. 91-0210 adopted on December 3, 1991 (as amended and supplemented, the "1991 Master Bond Resolution"), and amounts due with respect to the letters of credit supporting the Senior Bonds to the extent provided in the 1991 Master Bond Resolution, (2) the San Francisco International Airport Subordinate Commercial Paper Notes and any other obligations (Subordinate Bonds) issued and to be issued under the Commission's Resolution No. 97-0146 adopted on May 20, 1997 (as amended and supplemented, the "1997 Note Resolution") and amounts due to reimburse drawings under the letters of credit supporting the Commercial Paper Notes, (3) remaining amounts due to reimburse drawings under the letters of credit securing the Senior Bonds, and (4) interest rate swap termination payments. The Senior Bonds and Commercial Paper Notes are issued to finance capital projects at the Airport (including the funding of reserves) and to refund previously issued Senior Bonds and Commercial Paper Notes. The pledges of Net Revenues described above are in force so long as the secured obligations are outstanding. As of June 30, 2023, the final maturities of the obligations secured by the Net Revenues are Senior Bonds that mature in fiscal year 2057-58.

Net Revenues are defined in the 1991 Master Bond Resolution and the 1997 Note Resolution as Revenues less Operation and Maintenance Expenses. Revenues are defined to include all revenues earned by the Commission with respect to the Airport, as determined in accordance with GAAP. Revenues do not include:

- (a) Investment income from monies in (i) the Construction Fund, (ii) the Debt Service Fund which constitute capitalized interest, or (iii) the Reserve Fund if and to the extent there is any deficiency therein.
- (b) Interest income on, and any profit realized from, the investment of the proceeds of any Special Facility Bonds (as defined in the 1991 Master Bond Resolution).
- (c) Special Facility Revenues (as defined in the 1991 Master Bond Resolution) and any income realized from the investment thereof unless designated as Revenues by the Commission.
- (d) Any passenger facility or similar charge levied by or on behalf of the Commission unless designated as Revenues by the Commission.
- (e) Grants-in-aid, donations and bequests.

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- (f) Insurance proceeds not deemed to be Revenues in accordance with GAAP.
- (g) The proceeds of any condemnation award.
- (h) The proceeds of any sale of land, buildings or equipment.
- (i) Any money received by or for the account of the Commission from the levy or collection of taxes upon any property of the City and, with respect to the 1991 Master Bond Resolution only.
- (j) Any Customer Facility Charge (as defined in the 1991 Master Resolution) or similar charge levied by or on behalf of the Commission against customers unless designated as Revenues by the Commission.
- (k) Any Federal Subsidy Payments (as defined in the 1991 Master Resolution) unless designated as Revenues by the Commission.

Operation and Maintenance Expenses are defined in the 1991 Master Bond Resolution and the 1997 Note Resolution to include all expenses of the Commission incurred for the operation and maintenance of the Airport, as determined in accordance with GAAP. Operation and Maintenance Expenses do not include:

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

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For fiscal year 2022-23, the calculation of Net Revenues excluded \$23.8 million of revenue from the American Rescue Plan Act (ARPA) grant reimbursements received by the Airport, which are not includable as revenue, and excluded \$23.8 million of operating expenses that were reimbursed using the ARPA grant funds.

	Amount
Bonds issued with revenue pledge	\$ 241,915
Bond principal and interest remaining due at the end of the fiscal year	14,950,425
Commercial paper issued with subordinate revenue pledge	417,250
Commercial paper principal and interest remaining due at the end of the fiscal year	504,135
Net revenues	511,495
Bond principal and interest paid in the fiscal year	400,509
Commercial paper principal, interest and fees paid in the fiscal year	6,291

Pledged Revenue of the On-Airport Hotel

Pursuant to the Hotel Trust Agreement, the Airport Commission has pledged all of the Revenues of the on-Airport Hotel and certain other assets pledged under the Amended and Restated Hotel Trust Agreement to repay the Hotel Special Facility Bonds, all in accordance with the Hotel Trust Agreement. This pledge is in force so long as the Hotel Special Facility Bonds are outstanding. The Hotel Special Facility Bonds will mature in fiscal year 2057-58 and are subject to mandatory sinking fund redemption each year starting in 2025.

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

Total Operating Revenues are defined in the Hotel Trust Agreement as all revenue and income of any kind derived directly or indirectly from operations at the on-Airport Hotel, whether or not arranged by, for or on behalf of another person or at another location, properly attributable to the period under consideration (including rentals or other payments from licensees or concessionaires of retail space in the hotel, but not gross receipts of such licensees or concessionaires), determined in accordance with the Uniform System of Accounts and, to the extent consistent therewith, Generally Accepted Accounting Principles, but do not include:

- (a) Certain excluded taxes (such as sales tax) and other charges.
- (b) Receipts from the financing, sale or other disposition of capital assets and other items not in the ordinary course of the hotel's operations and income derived from securities and other property acquired and held for investment.

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- (c) Receipts from awards or sales in connection with any taking, from other transfers in lieu of and under the threat of any taking, and other receipts in connection with any taking, but only to the extent that such amounts are specifically identified as compensation for alterations or physical damage to the hotel.
- (d) Proceeds of any insurance or sureties, including the proceeds of any business interruption insurance.
- (e) Rebates, discounts, or credits of a similar nature (not including charge or credit card discounts, which shall not constitute a deduction from revenues in determining Total Operating Revenues, but shall constitute an Operating Expense of the hotel).
- (f) Consideration received at the hotel for hotel accommodations, goods and services to be provided at other hotels although arranged by, for or on behalf of, the hotel manager; provided, that such consideration is recognized by such other hotels.
- (g) Consideration received at other hotels for hotel accommodations, goods and services to be provided at the Hotel arranged by, for or on behalf of, such other hotels; provided, that such consideration is recognized by such other hotels.
- (h) Notwithstanding any contrary requirements of Generally Accepted Accounting Principles, all gratuities collected for the benefit of and paid directly to hotel personnel.
- (i) Proceeds of any financing.
- (j) The initial operating funds and working capital loans and any other funds provided by the Commission to the hotel manager whether for hotel Operating Expenses or otherwise.
- (k) Other income or proceeds that do not result from: (i) the use or occupancy of the hotel, or any part thereof, or (ii) the sale of goods, services or other items by or from the hotel in the ordinary course of business.
- (l) Interest earned on funds held in any fund or account under the Hotel Trust Agreement.
- (m) The value of any complimentary rooms, goods or services.
- (n) Refunds to hotel guests of any sums or credits to any hotel customers for lost or damaged items.
- (o) Refunds to parking customers of any sums or credits to any parking customers for lost or damaged items.

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

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

The Commission entered into a Fuel System Lease dated as of September 1, 1997, as amended, with SFO FUEL COMPANY LLC (SFO Fuel), a special purpose limited liability company formed by certain airlines operating at the Airport. The facilities rent payable by SFO Fuel has been pledged and assigned to the bond trustee to secure the repayment of the Commission's San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 2019A and 2019B (the "Fuel Bonds"), which were outstanding in the aggregate principal amounts of \$96.7 million as of June 30, 2023. The Fuel bonds were issued primarily to finance and refinance improvements to the jet fuel storage and distribution system at the Airport. The pledge of the facilities rent will be in effect until the maturity of the Fuel bonds on January 1, 2047. This date may be extended in the event additional bonds (including refunding bonds) with a later maturity are issued.

(9) Leases

Airport as Lessor

As a lessor, the Airport leases terminal space (except for regulated leases), non-terminal buildings, and land to tenants under various operating leases, a majority of which are non-cancellable and terminate at various dates as late as 2053. In total, the Airport recognized lease revenue of \$86.0 million and interest revenue of \$13.3 million for the year ended June 30, 2023, related to these leases. Due to refinements in the methodology for the calculation of the annual payment, \$1.5 million of lease revenue attributable to fiscal year 2021-22 was recorded in fiscal year 2022-23.

Certain provisions of the Airport's leases provide for variable rental payments that are not included in the measurement of the lease receivable. Certain rental agreements with concessionaires specify that rental payments are to be based on a percentage of tenant sales, but no less than a fixed minimum amount. Concession percentage rents in excess of minimum guarantees (to the extent applicable) for the leases subject to GASB Statement No. 87 were approximately \$10.4 million for the year ended June 30, 2023.

Additionally, several leases include terms that allow for an adjustment of the rents to market at determined intervals and at least upon renewal. As a result, variable rent revenue is recognized for the rent increases due to CPI adjustments. During fiscal year 2022-23, the Airport recognized \$1.8 million in total variable lease revenue.

Information about lease revenues and interest revenues recognized during the year ended June 30, 2023, is presented below (in thousands):

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Buildings	\$	83,539	13,274	96,813
Land		<u>2,497</u>	<u>23</u>	<u>2,520</u>
Total Revenue	\$	<u>86,036</u>	<u>13,297</u>	<u>99,333</u>

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Below is a schedule of future principal and interest payment receipts that are included in the measurement of the lease receivable, for each of the five subsequent fiscal years and in five-year increments thereafter as of June 30, 2023 (in thousands):

Fiscal Year(s)	Principal	Interest	Total
2024	\$ 114,523	26,454	140,977
2025	113,953	23,350	137,303
2026	112,953	20,175	133,128
2027	112,262	16,974	129,236
2028	114,649	13,709	128,358
2029 - 2033	306,703	30,988	337,691
2034 - 2038	39,255	4,745	44,000
2039 - 2043	9,265	3,235	12,500
2044 - 2048	10,445	2,055	12,500
2049 - 2053	11,713	725	12,438
	<u>\$ 945,721</u>	<u>142,410</u>	<u>1,088,131</u>

Regulated Leases

Certain regulated leases are subject to external laws, regulations or legal rulings and are exempted from recognition under GASB Statement No. 87, subject to the conditions that:

- (a) Lease rates cannot exceed a reasonable amount.
- (b) Lease rates should be similar for similar situated lessees, and
- (c) The lessor cannot deny potential lessees if facilities are available.

Such regulated leases at the Airport include:

- (a) The Lease and Use Agreements with certain airlines regarding the use of terminal building and equipment on an exclusive or preferential use basis, among other uses, which expired on June 30, 2023.
- (b) Non-terminal aeronautical buildings and land leases. Based on the airlines' operation needs, an airline may lease terminal space such as office space, ticket counter space, baggage makeup space, baggage claim space, and other operation spaces on a combination of exclusive, preferential, and common use basis. The Commission provides holdrooms on a preferential or common use basis to the airlines and adjusts the preferential assignment from time to time pursuant to the Lease and Use Agreements. For the fiscal year ending June 30, 2023, United Airlines accounted for 46.7 percent of total enplaned passengers at the Airport, followed by Alaska

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Airlines (12.3%), Delta Air Lines (7.9%), and American Airlines (6.3%), with no other airlines accounting for more than 5 percent of enplaned passengers. Non-terminal buildings and lands are leased on an exclusive basis. The Airport has entered new Lease and Use Agreements that became effective on July 1, 2023 and expire on June 30, 2033.

The payments under the Lease and Use Agreements are recalculated at the end of each fiscal year and therefore are variable payments. Total inflow of resources for regulated leases during fiscal year ending June 30, 2023, was \$215.6 million, including approximately \$47.3 million of fixed payments and \$168.3 million of variable payments. The additional exclusive and preferential use payments are the actual billed amount during fiscal year 2022-23, which was adjusted down \$14.5 million during year-end true-up process.

Below is a summary of the total number of regulated leases for fiscal year 2022-23, including which assets are subject to preferential or exclusive use by counterparties:

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

Notes:

(a) Airline-airport use and lease agreements

(b) Includes cargo, fuel, fixed-base facility leases, hangar leases, ground leases, and flight support services lease.

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Lease revenues and interest revenues recognized during the year ended June 30, 2023 for regulated leases is presented below (in thousands):

Expected minimum payments (a)	\$	45,277
Additional fixed payments (b)		<u>2,024</u>
Total fixed payments		47,301
Additional exclusive use payments (c)		127,086
Additional preferential use payments (d)		55,666
Year-end true-ups		<u>(14,465)</u>
Total regulated lease payments	\$	<u><u>215,588</u></u>

Notes:

- (a) Doesn't include airline use and lease agreements, which are recalculated annually and considered variable payments
- (b) Includes additional rent above the expected minimum payments after adjusted by CPI and reappraisals
- (c) Includes AULA exclusive use rental revenues, other regulated leases that were charged by airport's rates and charges rate, and percentage fee revenues above MAG
- (d) Includes AULA preferential use rental revenues

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

	Expected Minimum Payments (a)
FY 2024	\$ 19,286
FY 2025	18,092
FY 2026	5,462
FY 2027	1,644
FY 2028	1,644
FY 2029-2033	8,221
FY 2034-2038	8,221
FY 2039-2043	8,221
FY 2044-2048	6,166
Total	\$ 76,957

Note:

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

Airport as Lessee

As a lessee, the Airport had entered into one lease agreement for the land and building located at 837 Malcolm Rd, Burlingame, CA. The total lease asset and related accumulated amortization at June 30, 2023 is as follows (in thousands):

Lease Asset	\$ 671
Accumulated Amortization	(417)
	\$ 254

A summary of change in the related lease liability during the year ended June 30, 2023, is as follows (in thousands):

	7/1/2022	Additions	Remeasurements	Deductions	6/30/2023	Amounts Due Within One Year
Lease Liability \$	409	-	-	(139)	270	145

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The future principal and interest payments as of June 30, 2023, are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2024	\$ 145	2	147
2025	125	-	125
	\$ 270	2	272

(10) Conduit Debt

On February 26, 2019, the Airport issued San Francisco International Airport Special Facilities Lease Revenue Bonds (SFO FUEL COMPANY LLC), Series 2019A (AMT) and Series 2019B (Federally Taxable) (the "Fuel Bonds"), in an aggregate principal amount of \$125.0 million to refund all of the then-outstanding special facilities lease revenue bonds previously issued by the Commission for the benefit of SFO FUEL COMPANY LLC (SFO Fuel), finance capital improvements to the jet fuel distribution and related facilities at San Francisco International Airport, pay capitalized interest on a portion of the Series 2019A Bonds, make a deposit to a reserve account for the Fuel Bonds, and pay costs of issuance. As of June 30, 2023, the outstanding balance was \$96.7 million. The 2019 Fuel Bonds have a final maturity of January 1, 2047.

SFO Fuel, a special purpose limited liability company formed by certain airlines operating at the Airport, is required to pay facilities rent to the Airport pursuant to a lease agreement between the Commission and SFO Fuel with respect to the on-Airport jet fuel distribution facilities in an amount equal to debt service payments on the Fuel Bonds and any required bond reserve account deposits. The principal and interest on the Fuel Bonds are paid solely from the facilities rent payable by SFO Fuel to the Airport. The lease payments, and therefore the Fuel Bonds, are payable from charges imposed by SFO Fuel on air carriers for into-plane fueling at the Airport and are not payable from or secured by the Net Revenues of the Airport. The Airport assigned its right to receive the facilities rent to the Fuel Bonds trustee to pay and secure the payment of the Fuel Bonds. Neither the Airport nor the City is obligated in any manner for the repayment of the Fuel Bonds other than from the facilities rent received from SFO Fuel. The Fuel Bonds are therefore not reported in the accompanying financial statements.

A summary of change in deferred inflows – capital asset during the year ending in June 30, 2023, is presenting below (in thousands):

	7/1/2022 *	Additions	Deductions	June 30, 2023
Deferred Inflows - Capital Asset \$	106,617	-	(4,352)	102,265

*Restated due to the implementation of GASB 91.

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(11) Subscription-Based Information Technology

The Airport frequently procures IT products and services through the City’s technology marketplace arrangements, which use substantially similar contracts, and issues purchase orders to specify the details of desired products or services. Some purchases that cover a period of multiple years are subject to the provisions of GASB Statement No. 96. There is typically no variable payment. The implementation of GASB Statement No. 96 resulted in recognition of \$2.7 million in a right-to-use asset and a corresponding subscription liability in fiscal year 2022-23.

The total subscription asset and related accumulated amortization at June 30, 2023, is as follows (in thousands):

Subscription Asset	\$ 2,697
Accumulated Amortization	<u>(1,385)</u>
	<u>\$ 1,312</u>

A summary of change in the related subscription liability during the year ended June 30, 2023, is as follows (in thousands):

	7/1/2022	Additions	Remeasurements	Deductions	6/30/2023	Amounts Due Within One Year
Subscription Liability \$	<u> </u>	2,697	-	(1,805)	892	671

The future principal and interest payments as of June 30, 2023, are as follows (in thousands):

Fiscal Year	Principal	Interest	Total
2024	\$ 671	23	694
2025	221	5	226
	<u>\$ 892</u>	<u>28</u>	<u>920</u>

(12) Employee Benefit Plans

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

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

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requirements. Benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Replacement Benefits Plan

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

GASB Statement No. 68 and 73 require that the SFERS Plan and RBP reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

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

SFERS Plan

The City is an employer of the plan with a proportionate share of 94.87% as of June 30, 2022 (measurement date), 0.23% increased from prior year. The Airport's allocation percentage was determined based on the Airport's employer contributions divided by the City's total employer contributions for fiscal year 2021-22. The Airport's net pension asset/liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows and pension expense is based on the Airport's allocated percentage. The Airport's allocation of the City's proportionate share was 6.20% as of the measurement date.

Replacement Benefits Plan

The Airport's allocation percentage was determined based on the Airport's total pension liabilities divided by the City's total pension liabilities for fiscal year 2021-22. The Airport's total pension liability, deferred outflows/inflows of resources related to pensions, amortization of deferred outflows/inflows and pension expense is based on the Airport's allocated percentage. The Airport's allocation of the City's proportionate share was 2.47% as of the measurement date.

SFERS Plan Description

The Plan provides basic service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and the Administrative Code are the authorities which establish and amend the benefit provisions and employer obligations of the Plan. The Retirement System issues a

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publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained on the Retirement System's website or by writing to the San Francisco City and County Employees' Retirement System, 1145 Market Street, 5th Floor, San Francisco, CA 94103 or by calling (415) 487-7000.

SFERS Benefits

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

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

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

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

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

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any given year. For members hired on and after January 7, 2012, a Supplemental COLA will only be paid to retirees when the Plan is fully funded on a market value of asset basis and in addition for these members, Supplemental COLAs will not be permanent adjustments to retirement benefits. That is, in years when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

Funding and Contribution Policy

SFERS Plan

Contributions are made by both the City and other participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates varied from 7.5% to 12.0% and 7.5% to 13.0%, as a percentage of gross covered salary in fiscal year 2022-23 and fiscal year 2021-22, respectively. Most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2021 actuarial report, the required employer contribution rate for fiscal year 2022-23 range from 17.85% to 21.35%. Based on the July 1, 2020 actuarial report, the required employer contribution rate for fiscal year 2021-22 range from 19.91% to 24.41%.

Employer contributions and employee contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. The City's proportionate share of employer contributions recognized by the Retirement System in fiscal year ended June 30, 2022 (measurement year) was \$729.6 million. The Airport's allocation of employer contributions for fiscal year 2021-22 was \$47.4 million, and \$52.6 million for fiscal year 2020-21.

At June 30, 2023, the Airport reported \$39.6 million as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as an adjustment to net pension liability/(asset) in the reporting year ended June 30, 2024.

Replacement Benefits Plan

The RBP is and will remain unfunded and the rights of any participant and beneficiary are limited to those specified in the RBP. The RBP constitutes an unsecured promise by the City to make benefit payments in the future to the extent funded by the City. The City paid \$4.5 million replacement benefits in the fiscal year ended June 30, 2023 and Airport's allocation portion for fiscal year FY2022-23 was \$277.4 thousands.

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

SFERS Plan – As of June 30, 2023, the City reported net pension liability for its proportionate share of the net pension liability of the Plan of \$2.6 billion. The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2022 (measurement date), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 using standard update procedures. The City's proportion of the net pension liability for the Plan was based on a projection of the City's long-term share of contributions to the

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pension plan relative to the projected contributions of all participating employers, actuarially determined.

Replacement Benefits Plan – As of June 30, 2023, the City reported total pension liability of \$156 million. The measurement date for the RBP is June 30, 2022. City’s total pension liability for the RPB measurements is based on the total pension liability as of the valuation date, June 30, 2021 rolled forward to June 30, 2022 using standard update procedures.

As of June 30, 2023, the SFO’s proportionate share and net pension liability/ (net pension asset) of each plan were as follows:

	June 30, 2022 (Measurement Date)		June 30, 2021 (Measurement Date)		Change
	SFO Proportionate Share	Share of Net Pension Liability (Asset)	SFO Proportionate Share	Share of Net Pension Liability (Asset)	
SFERS Plan	6.20%	\$ 158,341	6.50%	(158,952)	\$ 317,293
Replacement Benefits Plan	2.47%	3,859	2.31%	5,081	(1,222)
Total		<u>\$ 162,200</u>		<u>(153,871)</u>	<u>\$ 316,071</u>

For the year ended June 30, 2023, the City’s recognized pension expense/(benefit) was \$1.8 million including amortization of deferred outflows/inflows related pension items. The Airport’s allocation of pension expense/(benefit) including amortization of deferred outflows/inflows related pension items was \$(11.3) million. Pension expense/(benefit) increased from the prior year, largely due to the amortization of deferrals. At June 30, 2023, the Airport’s reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

Schedule of Deferred Inflows and Outflows of Resources

**Fiscal Year 2022-23
(in thousands)**

	SFERS Plan		Replacement Benefits Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 39,570	—	—	—
Difference between expected and actual experience	14,453	—	509	488
Changes in assumptions	41,143	12,345	621	834
Net difference between projected and actual earnings on pension plan investments	—	19,683	—	—
Change in employer’s proportion	9,661	2,718	—	1,624
Total	<u>\$ 104,827</u>	<u>34,746</u>	<u>1,130</u>	<u>2,946</u>

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

	SFERS Plan	Replacement Benefits Plan
Year ended June 30:		
2024	\$ (8,460)	(307)
2025	(8,967)	(477)
2026	(21,308)	(654)
2027	69,246	(378)
Total	\$ 30,511	(1,816)

At June 30, 2023, the SFO reported \$39.6 million as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as an adjustment to net pension liability/(asset) in the reporting year ended June 30, 2024.

Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the Total Pension Liability for both SFERS Plan and RBP as of June 30, 2022 (measurement year) is provided below, including any assumptions that differ from those used in the July 1, 2021 actuarial valuation. Refer to the July 1, 2021 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System's website <http://mysfers.org>.

Key Actuarial Assumptions:	SFERS Plan
Valuation Date	June 30, 2021 updated to June 30, 2022
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost
Expected Rate of Return	7.20% net of investment expenses
Municipal Bond Yield	2.16% as of June 30, 2021 3.54% as of June 30, 2022
Inflation	Bond Buyer 20-Bond GO Index, June 24, 2021 and June 30, 2022 2.50%
Projected salary increases	3.25% plus merit component based on employee classification and years of service
Discount Rate	7.40% as of June 30, 2021 7.20% as of June 30, 2022
Administrative Expenses	0.60% of payroll as of June 30, 2021 0.60% of payroll as of June 30, 2022

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	Old Miscellaneous and all New Plans	Old Police & Fire Pre 7/1/75	Old Police & Fire Charters A8.595 and A8.596	Old Police & Fire Charters A8.559 and A8.585
Basic COLA:				
June 30, 2021	2.00 %	1.90 %	2.50 %	3.60 %
June 30, 2022	2.00 %	1.90 %	2.50 %	3.60 %

Changes of Assumptions SFERS Plan – For the measurement period ended June 30, 2022, the discount rate was decreased from 7.40% to 7.20%. The municipal bond yield increased from 2.16% to 3.54%.

Key Actuarial Assumptions	Replacement Benefit Plan
Valuation Date	June 30, 2021 updated to June 30, 2022
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost
Municipal Bond Yield	3.54% as of June 30, 2022
Inflation	Bond Buyer 20-Bond GO Index, June 24, 2021 and June 30, 2022 2.50%
Projected salary increases	3.25% plus merit component based on employee classification and years of service
Discount Rate	3.54% as of June 30, 2022
Administrative Expenses	0.60% of payroll as of June 30, 2022

	Old Miscellaneous	Old Police & Fire	Old Police & Fire Charters	Old Police & Fire Charters
Basic COLA:				
June 30, 2021	2.00 %	1.90 %	2.50 %	3.60 %
June 30, 2022	2.00 %	1.90 %	2.50 %	3.60 %

Changes of Assumptions RBP – For the measurement period ended June 30, 2022, the discount rate and the municipal bond yield increased from 2.16% to 3.54%.

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

The actuarial assumptions used at the June 30, 2022 measurement date was based upon the result of a demographic experience study for the period July 1, 2014 through June 30, 2019 and an economic experience study as of July 1, 2021.

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Discount Rate

SFERS Plan

The beginning and end of year measurements are based on different assumptions and contribution methods that may result in different discount rates. The discount rate was 7.20% as of June 30, 2022 (measurement date).

The discount rate used to measure the Total Pension Liability as of June 30, 2022 was 7.20%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2021 actuarial valuation. That policy includes contributions equal to the employer portion of the entry age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability.

The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining unfunded actuarial liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. The full amortization payment for the 2015 assumption changes is phased in over a period of 5 years. For the July 1, 2016 valuation, the increase in the unfunded actuarial liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014 are amortized over 17-years and 5-years respectively. All amortization schedules are established as a level percentage of payroll so payments increase 3.25% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

While the contributions and measure of actuarial liability in the funding valuation do not anticipate any future Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLAs for current members when they are expected to be granted. For members who worked after November 6, 1996 and before Proposition C passed (Post 97 Retirees), a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the actuarial value of assets. For members who did not work after November 6, 1996 and before Proposition C passed, the market value of assets must also exceed the actuarial liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.50% Supplemental COLA when granted.

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Because the probability of a Supplemental COLA depends on the current funded level of the Retirement System for certain members, an assumption was developed as of June 30, 2022 for the probability and amount of Supplemental COLA for each future year. A full Supplemental COLA will be paid to all retired members, and their beneficiaries, who were retired effective July 1, 2022. The table below shows the net assumed Supplemental COLA for members with a 2.00% Basic COLA for sample years.

**Assumed Supplemental COLA
for Members with a 2.00% Basic COLA**

<u>FYE</u>	<u>96 - Prop C</u>	<u>Before 11/6/96 or After Prop C</u>
2024	0.75%	0.70%
2025	0.75%	0.60%
2026	0.75%	0.60%
2027+	0.75%	0.50%

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

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members for all future years. Projected benefit payments are discounted at the long-term expected return on assets of 7.20% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.54% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2022 is 7.20%.

The long-term expected rate of return on pension plan investments was 7.20%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the SFERS Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	37.0%	4.8%
Treasuries	8.0%	0.6%
Liquid Credit	5.0%	3.5%
Private Credit	10.0%	5.8%
Private Equity	23.0%	7.9%
Real Assets	10.0%	4.7%
Hedge Funds/Absolute Return	10.0%	3.4%
Leverage	-3.0%	0.6%
	100.0%	

Replacement Benefits Plan

The beginning and end of year measurements are based on different assumptions that result in different discount rates. The discount rate was 3.54% as of June 30, 2022. This reflects the yield for a 20-year, tax-exempt general obligation municipal bond with an average rating of AA/Aa or higher. The Municipal Bond Yields are the Bond Buyer 20-Year GO Index as of June 24, 2021 and June 30, 2022. These are the rates used to determine the total pension liability as of June 30, 2022.

The inflation assumption of 2.50% compounded annually was used for projecting the annual IRC Section 415(b) limitations. The actual IRC Section 415(b) limitations published by the IRS of \$245 was used for the 2022 measurement date.

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

On June 30, 2023, City's membership in the RBP had a total of 327 active members and 160 retirees and beneficiaries currently receiving benefits. The Airport has 7 active members and 2 retirees and beneficiaries currently receiving benefits.

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

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

<u>Employer</u>	<u>1% Decrease Share of NPL/(NPA) @ 6.20%</u>	<u>Share of NPL/(NPA) @ 7.20%</u>	<u>1% Increase Share of NPL/(NPA)@ 8.20%</u>
Airport	\$ 433,597	158,341	(68,574)

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

<u>Employer</u>	<u>1% Decrease @ 2.54</u>	<u>Measurement Date @ 3.54%</u>	<u>1% Increase @ 4.54%</u>
Airport	\$ 4,577	3,859	3,293

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(b) Other Postemployment Benefits (OPEB)

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

GASB Statement No. 75 requires that reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

Fiscal year 2023

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

The Airport’s proportionate share percentage of the Plan was determined based on its percentage of citywide “pay-as-you-go” contributions for the year ended June 30, 2022. The Airport’s net OPEB liability, deferred outflows/inflows of resources related to OPEB, amortization of deferred outflows/inflows and OPEB expense is based on the Airport’s allocated percentage. The Airport’s proportionate share of the City’s OPEB elements was 6.88% as of the measurement date.

Benefits

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

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

¹ Age 53 with 20 years of credited service, age 60 with 10 years of credited service, or age 65 for Miscellaneous members hired on or after January 7, 2012 under Charter Section 8.603.

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

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

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

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

Contributions

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

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

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

For the fiscal year ended June 30, 2023, the City’s funding was based on “pay-as-you-go” plus a contribution of \$45.2 million to the Retiree Healthcare Trust Fund. The “pay-as-you-go” portion paid by the City was \$215.4 million for a total contribution of \$260.6 million for the fiscal year ended June 30, 2023. The Airport’s proportionate share of the City’s contributions for fiscal year 2022-23 was \$17.9 million.

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

As of June 30, 2023, the City reported net OPEB liabilities related to the Plan of \$3.7 billion. The Airport's proportionate share of the City's net OPEB liability as of June 30, 2023 was \$257.8 million.

For the year ended June 30, 2023, the City's recognized OPEB expense was \$257.0 million. Amortization of the City's deferred outflows and inflows is included as a component of OPEB expense. The Airport's proportionate share of the City's OPEB expense/(income) was \$21.4 million.

As of June 30, 2023, the Airport reported its proportionate share of the City's deferred outflows and inflows of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 17,934	—
Differences between expected and actual experience	5,723	42,915
Changes in assumptions	11,005	—
Net difference between projected and actual earnings on plan investments	4,149	—
Change in proportion	120	8,033
Total	\$ 38,931	50,948

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

Fiscal Year:	
2024	\$ (7,610)
2025	(7,542)
2026	(4,953)
2027	(5,645)
Thereafter	(4,201)
Total	\$ (29,951)

At June 30, 2023, the SFO reported \$17.9 million as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as an adjustment to net OPEB liability/(asset) in the reporting year ending June 30, 2024.

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Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the Total OPEB Liability as of June 30, 2022 (measurement date) is provided below:

Key actuarial assumptions:

Valuation Date	June 30, 2022
Measurement Date	June 30, 2022
Actuarial Cost Method	The Entry Age Actuarial Cost Method is used to measure the Plan's Total OPEB Liability
Healthcare Cost Trend Rates	Pre-Medicare trend starts at 7.74% trending down to ultimate rate of 3.93% in 2076 Medicare trend starts at 7.74% trending down to ultimate rate of 3.94% in 2076 10-County average trend starts at 5.00% trending down to ultimate rate of 3.94% in 2076 Vision and expenses trend remains a flat 3.00% for all years
Expected Rate of Return on Plan Assets	7.00%
Salary Increase Rate	Wage Inflation Component: 3.25% Additional Merit Component (dependent on years of service): Police: 0.50% - 7.50% Fire: 0.50% - 14.00% Muni Drivers: 0.00% - 16.00% Craft: 0.50% - 3.75% Misc: 0.30% - 5.50%
Inflation Rate	Wage Inflation: 3.25% compounded annually Consumer Price Inflation: 2.50% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ending June 30, 2019.

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Non-Annuityants:		Adjustment Factor	
		Male	Female
		<hr/>	
Published Table			
Miscellaneous	PubG-2010 Employee	0.834	0.866
Safety	PubS-2010 Employee	1.011	0.979
Healthy Retirees:		Adjustment Factor	
		Male	Female
		<hr/>	
Published Table			
Miscellaneous	PubG-2010 Employee	1.031	0.977
Safety	PubS-2010 Employee	0.947	1.044
Disabled Retirees:		Adjustment Factor	
		Male	Female
		<hr/>	
Published Table			
Miscellaneous	PubG-2010 Employee	1.045	1.003
Safety	PubS-2010 Employee	0.916	0.995
Beneficiaries:		Adjustment Factor	
		Male	Female
		<hr/>	
Published Table			
Miscellaneous	PubG-2010 Employee	1.031	0.977
Safety	PubG-2010 Employee	1.031	0.977

Change in Assumption – For the measurement date June 30, 2022, the healthcare cost trend rates change as follow:

Healthcare Cost Trend	June 30, 2022 (MD)	June 30, 2021 (MD)
Pre-Medicare	starts at 7.74% trending down to ultimate rate of 3.93% in 2076	starts at 6.74% trending down to ultimate rate of 4.04% in 2075
Medicare	starts at 7.74% trending down to ultimate rate of 3.94% in 2076	starts at 7.24% trending down to ultimate rate of 4.04% in 2075
10-County average	starts at 5.00% trending down to ultimate rate of 3.94% in 2076	starts at 5.50% trending down to ultimate rate of 4.04% in 2075

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

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

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

	<u>1% Decrease</u>	<u>Healthcare Trend</u>	<u>1% Increase</u>
\$	220,515	257,767	303,972

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Discount Rate

The discount rate used to measure the Total OPEB Liability as of June 30, 2022 was 7.0%. Based on the assumption that plan member contributions will continue to be made at the rates specified in the Charter, it was determined that the Plan's projected fiduciary net position will be greater than or equal to the benefit payments projected for each future period. As such, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The long-term expected rate of return on OPEB plan investments was 7.0% based on expected future returns and historical returns experienced by the Trust Fund. Expected future returns were determined based on 10-year and 20-year capital market assumptions for the Trust Fund's asset allocation. Target allocation for each major asset class and best estimates of geometric real rates of return are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equities		
U.S. Large Cap	28.0%	6.8%
U.S. Small Cap	3.0%	7.4%
Developed Market Equity (non-U.S.)	15.0%	7.5%
Emerging Market Equity	13.0%	8.4%
Credit		
Bank Loans	3.0%	4.0%
High Yield Bonds	3.0%	4.4%
Emerging Market Bonds	3.0%	4.2%
Rate Securities		
Investment Grade Bonds	9.0%	2.4%
Long-term Government Bonds	4.0%	2.8%
Short-term Treasury Inflation-Protected Securities (TIPS)	4.0%	1.9%
Private Markets		
Private Equity	5.0%	10.0%
Core Private Real Estate	5.0%	6.1%
Risk Mitigating Strategies		
Global Macro	5.0%	5.0%
Total	100.0%	

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The following presents the Airport's proportionate share of the City's net OPEB liability calculated using the discount rate, as well as what the Airport's proportionate share of the City's net OPEB liability would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current rate (in thousands):

	1% Decrease 6.0%	Discount Rate 7.0%	1% Increase 8.0%
\$	300,091	257,767	223,043

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

(13) Related-Party Transactions

The Airport receives services from various other City departments that are categorized in the various operating expense line items in the statement of revenues, expenses, and changes in net position. The cost of all services provided to the Airport through the City's work order system totaled approximately \$186.4 million. These services included \$56.9 million in utilities provided to tenants (see note 2m) and the Airport. Included in personnel operating expenses were approximately \$97.2 million related to police and fire services and \$5.5 million in worker's compensation claims. The remaining expenses were categorized as Repair and Maintenance or capitalized with construction projects.

The Lease and Use Agreement with the airlines provides for continuing annual service payments to the City equal to 15.0% of concession revenues (net of certain adjustments), but not less than \$5.0 million per fiscal year. The annual service payments to the City were \$48.7 million in fiscal year 2022-23. The annual service payments are reported as transfers in the statement of revenues, expenses, and changes in net position.

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(14) Passenger Facility Charges

As of June 30, 2023, the FAA has approved several Airport applications to collect and use PFCs (from PFC #2 to PFC #9) in a total cumulative collection amount of \$2.3 billion and the cumulative use amount of \$2.3 billion, with a final charge expiration date estimated to be December 1, 2030. During the fiscal years ended from June 30, 2014 to June 30, 2023, the following changes occurred to the Airport's PFC collection authorizations.

In October 2013, the FAA approved the Airport's fifth PFC application (PFC #5) for \$610.5 million to pay for debt service related costs associated with the reconstruction and reopening of Terminal 2 and Boarding Area D. The earliest charge effective date was January 1, 2017 and was based upon the estimated charge expiration date of PFC #3. The FAA estimated the charge expiration date for PFC #5 to be June 1, 2023. In November 2014, the FAA approved an amendment to PFC #5 that increased the impose and use authority by \$131.2 million from \$610.5 million to \$741.7 million. The estimated expiration date for PFC #5 was changed from June 1, 2023 to October 1, 2024. The Airport worked with the FAA to change the expiration date for PFC #3 and the charge effective date for PFC #5 from January 1, 2017 to November 1, 2013, because PFC #3 was fully collected earlier than originally anticipated due to increased passenger levels.

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

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

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

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

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

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

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PFC collections and related interest earned (loss) for the year ended June 30, 2023, are as follows (in thousands):

		<u>2023</u>
Amount collected	\$	92,341
Interest earned (loss)		<u>7,075</u>
Total	\$	<u><u>99,416</u></u>

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

(15) Customer Facility Charges

A Customer Facility Charge (CFC) is a user fee imposed on rental car users. There are no federal regulations that govern the collection of CFCs, so CFC collection is regulated by each state.

On March 1, 2022, the Airport Commission adopted Resolution No. 22-0031. This resolution allowed for the implementation of a CFC at a rate of \$10.0 per rental car transaction. The CFC was imposed by the Commission in accordance with Sections 50474.21 and 50474.3 of the California Government Code, as they may be amended or supplemented. The Commission started to collect CFCs on July 1, 2022.

CFC collections and related interest earned (loss) for the year ended June 30, 2023, are as follows (in thousands):

		<u>2023</u>
Amount collected	\$	11,441
Interest earned (loss)		<u>(204)</u>
Total	\$	<u><u>11,237</u></u>

Interest earned (loss) on CFC revenues is included in investment income in the accompanying financial statements.

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(16) Commitments, Litigation, and Contingencies

(a) Commitments

Purchase commitments for construction, material, and services as of June 30, 2023, are as follows (in thousands):

Construction	\$	40,615
Operating		47,693
		88,308
Total	\$	88,308

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

In fiscal year 2007-08, these components of the program were finalized, and a new phase was started, with the Airport managing all new noise insulation work directly. In fiscal year 2022-23, the Airport disbursed approximately \$2.4 million in the new phase of the program (\$1.4 million in federal grants and \$1.0 million in Airport funds). As of June 30, 2023, the cumulative disbursements of Airport funds under this program were approximately \$130.0 million.

(b) Security Deposits

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

(c) Litigation

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

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(d) Risk Management

Under the 1991 Master Bond Resolution, the Airport is required to procure or provide and maintain insurance, or to self-insure, against such risks as are usually insured by other major airports in amounts adequate for the risk insured against, as determined by the Airport. The Airport is not required to nor does it carry insurance or self-insure against any risks due to land movement or seismic activity.

The Airport has an ongoing loss prevention program, a safety officer, property loss control, and ongoing employee training programs. The Airport has instituted an Enterprise Risk Management Program by implementing a comprehensive risk identification, assessment, and treatment protocol to address key risks that may adversely affect the Airport's ability to meet its business goals and objectives. The Airport carries aviation liability insurance coverage of \$1.0 billion with \$250.0 million in War Perils Liability, subject to a deductible of \$10,000 per occurrence. Immediately following the events of September 11, 2001, insurers canceled the coverage for war, terrorism, and hijacking for all airports, including the Airport. A number of insurers now provide this coverage through the Federal Government Terrorism Risk Insurance Act. However, the scope of the coverage is limited and the premiums are high. Due to these factors, the Commission, in consultation with the City's Director of Risk Management, has elected not to secure such coverage but to purchase War Perils Liability Coverage as part of its aviation liability program.

The Airport also carries commercial property insurance coverage for full replacement value on all facilities at the Airport owned by the Airport, subject to a limit of \$1.0 billion per occurrence subject to a deductible of \$500,000 per occurrence. This policy includes flood coverage up to a \$10.0 million sub-limit. The Airport also carries business interruption and extra expenses insurance up to a \$100.0 million pooled sub-limit.

Additionally, tenants and contractors on all contracts are required to carry commercial general and automobile liability insurance in various amounts, naming the Airport as additional insured. The Airport is self-insured as part of the City's workers' compensation program. From current revenues, the Airport pays losses from workers' compensation claims of Airport employees, the deductible portion of insured losses, and losses from other uninsured risks. The Airport carries public officials and employment practices liability coverage of \$5.0 million, subject to a deductible of \$100,000 per occurrence for Public Officials' and Public Entity Liability matters, and \$250,000 per occurrence for Employment Practices Liability matters. The Airport also carries insurance for excess auto, public employee dishonesty, fine arts, cyber liability, and watercraft liability for Airport fire and rescue vessels, and target range liability for the San Francisco Police Department's firearms range located at the Airport.

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

Balance as of June 30, 2022	\$	2,158
Claim payments		(22)
Claims and changes in estimates		<u>2,136</u>
Balance as of June 30, 2023	\$	<u><u>4,272</u></u>

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

Balance as of June 30, 2022	\$	12,093
Claim payments		(5,455)
Claims and changes in estimates		<u>5,929</u>
Balance as of June 30, 2023	\$	<u><u>12,567</u></u>

(e) Grants

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

(f) Financial Guarantees

The Airport participates in the City and County of San Francisco's contractor development program, previously referred to as the surety bond program, which provides training, support and City-funded surety bond guaranties for local business enterprise (LBE) contractors who want to bid on construction contracts for City departments (including the Airport), but cannot qualify for the required surety bonds on their own. If program parameters are met, the Airport may guarantee the lesser of \$750,000 or 40% of the face amount of the surety bond, which would enable the LBE contractor to bid on Airport construction work. There were no outstanding Airport guaranties under the program as of June 30, 2023.

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Notes to Financial Statements

Year ended June 30, 2023

(g) Concentration of Credit Risk

The Airport leases facilities to the airlines pursuant to the Lease and Use Agreement (see note 2i) and to other businesses to operate concessions at the Airport. For fiscal year ended June 30, 2023, revenues realized from the following source exceeded 5.0% of the Airport's total operating revenues:

United Airlines	26.2 %
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(h) Per- and Polyfluoroalkyl Substances (PFAS)

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

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

In March 2021, the State Board issued the Investigative Orders to Refineries and Bulk Fuel Terminals, which ordered certain facilities, including two facilities located at the Airport, to conduct a one-time sampling effort to determine whether soil, groundwater, surface water, and influent/effluent wastewater were impacted by PFAS. The Airport completed the required testing for these two facilities and submitted the final reports to the San Francisco Bay Regional Water Quality Control Board (the Regional Board) in February and April 2023. The Airport anticipates that additional orders will be issued requiring further testing and/or delineation of the presence of PFAS at the Airport.

The State Board and the Regional Board have not yet established cleanup standards for PFAS or otherwise indicated what actions will be required for PFAS found in soil, sediment, and groundwater exceeding the levels they specify. As of June 30, 2023, it is uncertain whether and to what extent the levels of PFAS discovered at the Airport will trigger a remediation obligation. It is possible that the ultimate costs of remediation and third-party liability for PFAS could be extensive.

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

Notes to Financial Statements

Year ended June 30, 2023

(17) Subsequent Events

A new ten-year 2023 Lease and Use Agreement became effective on July 1, 2023 and is set to expire on June 30, 2033.

On November 15, 2023, the Airport issued \$794.3 million of its Series 2023C and Series 2023D Bonds, for the purpose of refunding \$497.8 million in outstanding commercial paper notes, refunding \$241.8 million in outstanding Series 2013A bonds, funding deposits to a debt service reserve account, and paying costs of issuance. The financial statements reflected the refunded amounts as noncurrent liabilities. Moody's and Fitch assigned credit ratings of "A1" and "A+" to these bonds.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the "Airport"), an enterprise fund of the City and County of San Francisco (the "City") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Airport's financial statements, and have issued our report thereon dated December 22, 2023. As discussed in Note 1, the financial statements present only the Airport and do not purport to, and do not, present fairly the financial position of the City, the changes in its financial position, or where applicable, its cash flows in accordance with accounting principles generally accepted in the United States of America.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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


Crowe LLP

Costa Mesa, California
December 22, 2023

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
THE PASSENGER FACILITY CHARGE PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE; AND REPORT ON THE SCHEDULE OF REVENUES AND EXPENDITURES OF
PASSENGER FACILITY CHARGES

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

Report on Compliance of Passenger Facility Charges

Opinion on Passenger Facility Charge Program

We have audited the Airport Commission, City and County of San Francisco, San Francisco International Airport (the "Airport") compliance with the types of compliance requirements identified as subject to audit in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration ("Guide"), that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2023.

In our opinion, the Airport complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2023.

Basis for Opinion on Passenger Facility Charge Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Airport's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Airport's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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

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

Report on Schedule of Revenues and Expenditures of Passenger Facility Charges

We have audited the financial statements of the Airport as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Airport's financial statements. We issued our report thereon dated December 22, 2023, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the financial statements. The accompanying schedule of revenues and expenditures of passenger facility charges is presented for purposes of additional analysis as required by the Guide and is not a required part of the financial statements. Such information is the responsibility of management and, except for that portion marked "unaudited," was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, schedule of revenues and expenditures of passenger facility charges is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.


Crowe LLP

Costa Mesa, California
December 22, 2023

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

Schedule of Passenger Facility Charge Revenues and Expenditures

Year ended June 30, 2023

(In thousands)

	Passenger Facility Charge revenues	Interest earned	Total revenues	Expenditures on approved projects	Revenues over (under) expenditures on approved project
Program to date as of June 30, 2022 (Unaudited)	\$ 1,572,417	35,931	1,608,348	(1,123,240)	\$ 485,108
Fiscal year 2022 – 23 transactions:					
Reversal passenger facility charges accrual	(8,394)	-	(8,394)	-	(8,394)
Quarter ended September 30, 2022	22,039	1,551	23,590	-	23,590
Quarter ended December 31, 2022	17,294	2,245	19,539	-	19,539
Quarter ended March 31, 2023	20,557	3,136	23,693	-	23,693
Quarter ended June 30, 2023	24,614	4,122	28,736	-	28,736
Unrealized loss on investments	-	(3,979)	(3,979)	-	(3,979)
Passenger facility charges accrual	16,231	-	16,231	-	16,231
Total fiscal year 2022 – 23 transactions	92,341	7,075	99,416	-	99,416
Program to date as of June 30, 2023 (Unaudited)	\$ 1,664,758	43,006	1,707,764	(1,123,240)	\$ 584,524

See accompanying independent auditor's report and notes to schedule of passenger facility charge revenues and expenditures.

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

Notes to Schedule of Passenger Facility Charge Revenues and Expenditures
Year ended June 30, 2023

(1) General

The accompanying schedule of Passenger Facility Charge (PFC) revenues and expenditures includes activities related to applications 02-02-C-00-SFO, 03-03-C-01-SFO, 11-05-C-01-SFO, 18-08-C-00-SFO and 21-09-C-00-SFO of the PFC program of the Airport Commission, City and County of San Francisco, San Francisco International Airport (the Airport). The level of PFCs authorized, charge effective dates, and approved collection amounts of the Airport's PFC program are as follows:

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

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

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

SAN FRANCISCO INTERNATIONAL AIRPORT
 SCHEDULE OF PASSENGER FACILITY CHARGES FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2023

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Passenger Facility Charge Audit Guide for Public Agencies

Internal control over major federal programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiencies identified not considered to be material weaknesses?

_____ Yes X None reported

Type of auditor's report issued on compliance with the Passenger Facility Charge Audit Guide for Public Agencies:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Passenger Facility Charge Audit Guide for Public Agencies?

_____ Yes X No

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
THE CUSTOMER FACILITY CHARGE PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE; AND REPORT ON THE SCHEDULE OF REVENUES AND EXPENDITURES OF
CUSTOMER FACILITY CHARGES

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

Report on Compliance of Customer Facility Charges

Opinion on Customer Facility Charge Program

We have audited the Airport Commission, City and County of San Francisco, San Francisco International Airport (the "Airport") compliance with the types of compliance requirements described in the California Civil Code Chapter 1.5 (commencing with Section 1939.01) to Title 5 of Part 4 of Division 3, and California Government Code Section 50474.1 through Section 50474.3 ("CFC Code"), that could have a direct and material effect on its customer facility charge program for the year ended June 30, 2023.

In our opinion, the Airport complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its customer facility charge program for the year ended June 30, 2023.

Basis for Opinion on Customer Facility Charge Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Airport's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Airport's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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

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

Report on Schedule of Revenues and Expenditures of Customer Facility Charges

We have audited the financial statements of the Airport as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Airport's financial statements. We issued our report thereon dated December 22, 2023, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the financial statements. The accompanying schedule of revenues and expenditures of customer facility charges is presented for purposes of additional analysis as required by the CFC Code and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, schedule of revenues and expenditures of customer facility charges is fairly stated in all material respects in relation to the financial statements as a whole.


Crowe LLP

Costa Mesa, California
December 22, 2023

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

Schedule of Customer Facility Charge Revenues and Expenditures

Year ended June 30, 2023

(In thousands)

Revenues:	2023
Customer facility charges	\$ 11,441
Investment income (loss)	(204)
Total revenues	<u>11,237</u>
Expenditures:	
Total expenditures	-
Expenditures over revenues	\$ <u>(11,237)</u>

See accompanying independent auditor's report and notes to schedule of customer facility charge revenues and expenditures.

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

Notes to Schedule of Customer Facility Charge Revenues and Expenditures
Year ended June 30, 2023

(1) General

California Government Code Section 50474.21 and Section 50474.3 permit an airport sponsor to require rental car companies to collect from a renter a Customer Facility Charge (CFC) to finance, design, and construct consolidated airport rental car facilities; to finance, design, construct, and operate common-use transportation systems that move passengers between airport terminals and those consolidated car rental facilities, and acquire vehicles for use in that system; and to finance, design, and construct terminal modifications solely to accommodate and provide customer access to common-use transportation systems. The fees designated as a CFC shall not otherwise be used to pay for terminal expansion, gate expansion, runway expansion, changes in hours of operation, or changes in the flights arriving or departing from the airport.

SFO began imposing a CFC of \$10.00 per rental contract on July 1, 2022.

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

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

SAN FRANCISCO INTERNATIONAL AIRPORT
SCHEDULE OF CUSTOMER FACILITY CHARGES FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2023

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

California Civil Code Chapter 1.5 (commencing with Section 1939.01) to Title 5 of Part 4 of Division 3, and California Government Code Section 50474.1 through Section 50474.3 ("CFC Code")

Internal control over major federal programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiencies identified not considered to be material weaknesses?

_____ Yes X None reported

Type of auditor's report issued on compliance with the CFC Code:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the CFC Code?

_____ Yes X No