

Attachment B to Agenda File No. 2018-0477

PORT OF SAN DIEGO
**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

FISCAL YEARS ENDED JUNE 30, 2018 AND 2017



**PORT of
SAN DIEGO**
Waterfront of Opportunity

PORT OF SAN DIEGO, CALIFORNIA
**COMPREHENSIVE
ANNUAL
FINANCIAL REPORT**

FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

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The San Diego Unified Port District (District) was established on December 18, 1962 in accordance with laws of the State of California. The District operates under the Public Trust Doctrine, which specifies that the waterways and waterfronts are primarily reserved for water-dependent uses such as fishing, cargo activity, bay tours, and recreational access such as hotels and restaurants; as well as environmental and natural-habitat preservation.

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INTRODUCTORY SECTION (UNAUDITED)



THE SAN DIEGO UNIFIED PORT DISTRICT

The San Diego Unified Port District (District) is a regional public agency established in 1962 by an act of the California State Legislature to consolidate management responsibilities for San Diego Bay. This consolidation provides ongoing efficiencies and centralized planning for the tidelands along San Diego Bay.

- The District is an economic engine, creating jobs and dollars for the regional economy through the promotion of maritime trade, tourism, and other commercial activities.
- The District is an environmental steward, preserving and enhancing the natural resources of the San Diego Bay and surrounding tidelands.
- ç The District is a provider of community services, providing public access, public safety, recreation, and community activities along the waterfront for visitors and residents of the region.

A seven-member Board of Port Commissioners governs the District. Board members are appointed to four-year terms by the city councils of Chula Vista, Coronado, Imperial Beach, National City, and San Diego. The San Diego City Council appoints three commissioners, and each of the other member city councils appoints one commissioner. Port Commissioners establish policies that the District staff, under the direction of the President/Chief Executive Officer (CEO), uses to conduct daily operations.

The District's maritime, real estate, parking, and attractions generate billions of dollars for the region's economy and allow the District to operate without the benefit of tax dollars. The District has the authority to levy a tax but has not done so since 1970.

PUBLIC TRUST DOCTRINE

The District is also a trustee of state lands subject to the Public Trust Doctrine, which mandates how California's sovereign lands should be managed. Also known as public trust lands, they include areas that used to be or are still under the bay and other waters. These lands cannot be bought and sold because they are held in the public trust and belong to the people of the State of California. As the trustee of these lands, the District is responsible for carrying out the principles of the Public Trust Doctrine. This includes protecting the environment, promoting the public's enjoyment of these lands, and enhancing economic development for the public's benefit.

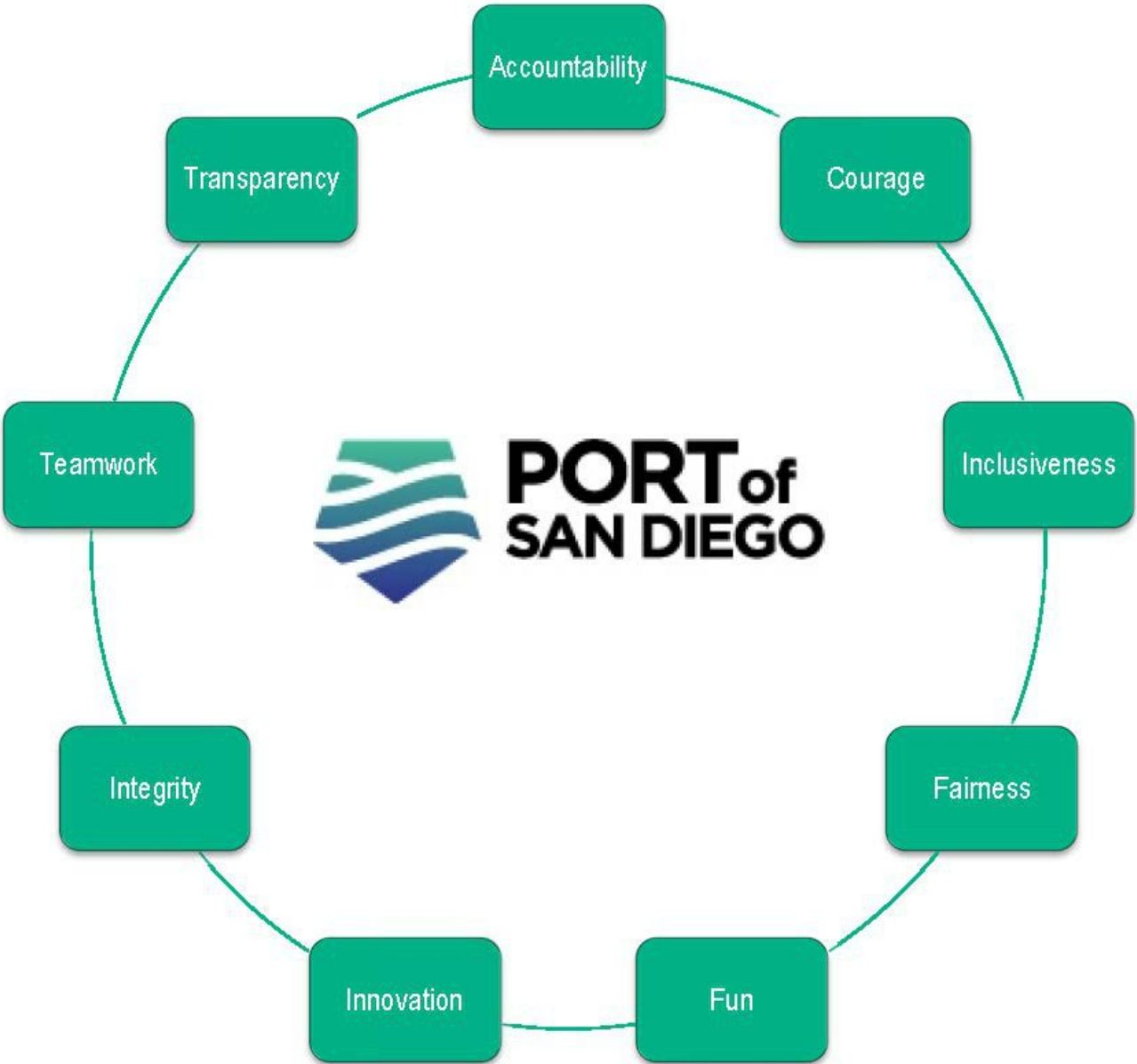
VISION

21st Century Port - We are an innovative, global seaport courageously supporting commerce, community and the environment.

MISSION

The Port of San Diego will protect the Tidelands Trust resources by providing economic vitality and community benefit through a balanced approach to the maritime industry, tourism, water and land recreation, environmental stewardship and public safety.

CORE VALUES





November 21, 2018

To the Board of Port Commissioners and all interested parties:

It is a pleasure to present the Comprehensive Annual Financial Report (CAFR) of the San Diego Unified Port District (District) for the fiscal year ending June 30, 2018. The purpose of this report is to provide the Board of Port Commissioners (BPC), the California State Lands Commission, the public, and other interested parties with reliable information concerning the financial condition and results of operations for the District. The District's Financial Services Department prepared this report following the guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA) and in accordance with the U.S. generally accepted accounting principles (GAAP). Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures in this report, rests with the management of the District.

To the best of our knowledge and belief, this report fairly presents and fully discloses the District's financial position, changes in financial position, and cash flows in accordance with GAAP. On the basis that the cost of internal controls should not outweigh their benefits, the District has established a comprehensive framework of internal controls to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

GAAP requires that management provide a narrative overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

The District requires that an independent certified public accounting firm, selected by the BPC, audit the financial statements on an annual basis. Macias Gini & O'Connell LLP issued an unmodified (or clean) opinion on the District's financial statements for the fiscal year ending June 30, 2018. The independent auditor's report is presented as the first component of the Financial Section of the report.

PROFILE OF THE DISTRICT

The District is a self-funded public corporation and government agency established by the State of California Legislature on December 18, 1962 for the acquisition, construction, operation, maintenance, development, management, and regulation of harbor works and improvements, including rail, water, and air terminal facilities, and tidelands and submerged lands of San Diego Bay, and for the promotion of commerce, navigation, fisheries, and recreation.

In its original form, the District included the San Diego International Airport within its portfolio, but that changed in 2001 with the creation of a separate agency to oversee airport operations and assets. In 2001, the California legislature enacted the San Diego County Regional Airport Authority Act (Airport Authority Act), which established the San Diego Regional Airport Authority (SDCRAA). Effective January 1, 2003, the District transferred all airport operations and certain related assets and liabilities to SDCRAA.

Based on cargo tonnage, the District is considered the fourth largest of 11 California ports and the largest break-bulk (non-container) port in California. The District guides development of 34 miles of San Diego Bay's beautiful, natural waterfront with a diverse portfolio of the world-class commercial real estate, maritime, and public uses, with a focus on transforming into a 21st-century port. Serving as the Navy's unofficial shipyard on the West Coast, the Port consists of a traditional working waterfront of shipyards and boatyards, sport fishing landings, and marine cargo and cruise terminals, along with 16 hotels, 28 marinas, numerous restaurants, tours, and museum attractions. As a public access provider, the District also maintains 22 public parks, three boat launch facilities, and several fishing piers as amenities that attract visitors and enhance the value of our waterfront.

The District generates revenues from three major operations:

- Ç Real Estate - Contributing to the continuous prosperity of the local economy, the District is home to nearly 800 diverse businesses. The District's portfolio derives a significant amount of revenue from tourism-industry businesses including hotels, restaurants, retail, marinas, museums and other attractions, and regional economic drivers such as the San Diego Convention Center and the San Diego International Airport, to name a few. From Real Estate to Aquaculture and Blue Technology, the District invests in major redevelopment and community infrastructure, so businesses have the opportunity to stay competitive in the global marketplace. Through collaboration and access, the District's real estate team strategically works with companies to develop opportunities to grow their businesses, creating vibrant experiences to enjoy and prosper from the District's dynamic waterfront.
- Ç Maritime - The District's maritime operations are the region's gateway to the world, leading the working waterfront of San Diego Bay and facilitating the movement of goods and people, internationally and domestically. With two cargo terminals and two cruise terminals, the District's capital assets lead the local maritime industry as an economic driver. District maritime businesses employ thousands of residents and generate billions of dollars per year for the regional economy. The District takes pride in being a good neighbor, and its maritime team collaborates with member cities and partners to ensure terminal, and cargo projects create a prosperous global economic engine for all while respecting adjacent land uses.
- Ç Harbor Police - Within the District, the Harbor Police Department is responsible for security and service for the San Diego Bay waterfront - air, land, and sea. Harbor Police collaborate with local, state, and federal agencies including the law enforcement agencies for its member cities, the U.S. Coast Guard and Homeland Security. Harbor Police provides protection on the ground for San Diego International Airport, including the use of explosive and narcotic-detecting K-9 officers. With dedicated vessels and police vehicles, Harbor Police officers patrol the coast, marine terminals, and tidelands to deter and prevent crimes like smuggling, terrorism, and human trafficking. A partnership with the U.S. Department of State allows for the sharing of this Department's expertise with selected ports globally.

Board of Port Commissioners

The District's governance is intended to reflect a regional approach to management of the land and water within its jurisdiction. The District is governed by a seven-member BPC appointed by the District's five-member cities (Chula Vista, Coronado, Imperial Beach, National City, and San Diego). The BPC appoints the Chief Executive Officer (CEO), who oversees daily operations for the organization; as well as the General Counsel and the District Auditor. Through resolutions and directives, the BPC sets policies for the District, which are then implemented by the CEO and executive staff.

LOCAL ECONOMY AND OUTLOOK

The national economy grew at a strong pace during the first half of the calendar year 2018 and is poised to mark its 10th year of expansion by the end of the calendar year. Key contributors to the economy's current strength include robust growth in consumer and government spending and partially from the effects of the expansionary fiscal policy driven by the enacted reduction in income taxes earlier in the year. Also, business fixed investment continued its solid growth with energy and technology projects dominating capital outlays. According to Bloomberg Finance, L.P., the economy, as measured by gross domestic product (GDP), is forecasted to grow at an annual average rate of 2.9% for the calendar year 2018. The unemployment rate has been the lowest since 1969 and is anticipated to be around 3.9% by the end of the calendar year 2018. Economic growth, declining unemployment, and a rebound in oil and gas activity are pressuring the inflation rate, which is forecasted to be near 2.5% at the end of calendar year 2018. While the national economy has been robust in 2018, global growth has been slightly softer than expected. (Source: Bloomberg survey of U.S. economic indicators from 79 economists' forecasts, October 2018).

Going forward, the U.S. Economy is poised for continued growth into the calendar year 2019 and gradual softening later in the year. To date, the tariff implementations are creating U.S. disputes with China and the full effect is yet to be seen. However, the recently announced trade agreement between the U.S., Canada, and Mexico has eased some of the overall trade tensions. The U.S. Economy is anticipated to grow at a 2.5% annualized rate in 2019 with an unemployment forecast at 3.6% and inflation expectations at 2.3%. (Source: Bloomberg survey of U.S. economic indicators from 79 economists' forecasts, October 2018).

California's economic growth continues to outperform the national pace through 2018, with its fast-growing technology and innovation sector and strong construction, healthcare, and leisure and hospitality industries as primary economic drivers. The State's economic growth forecast for the calendar year 2019 is trending the national forecast, with slower-paced economic activity and anticipating California's growth rate to be at around 1.8%. (Source: UCLA Anderson School of Management forecast, September 26, 2018). The housing market and the resulting affordability issues and trade disputes with various countries are the most pressing challenges for the State's economy. NAFTA partners and China combined accounted for 34 percent of California's exports in 2017. (Source: Wells Fargo Economic Outlook, August 2018).

San Diego's key industries include life sciences, biomedical, technology, tourism, and hospitality sectors as well as a major military presence. The local Business Outlook Index remains in positive territory through the calendar year 2018. (Source: SD Regional Chamber of Commerce, October 2018). San Diego is a top visitor and convention destinations in the nation. For the third year in a row, Cruise Critic, a renowned cruise guide, has named San Diego as one of the top five cruise destinations in the United States and Canada.

FINANCIAL POLICIES AND LONG-TERM FINANCIAL PLANNING

The District believes that strategic financial discipline is essential for the economic sustainability of any organization to ensure effective operations and sound fiscal health. Performing regular financial reviews and developing timely financial strategies that are aligned with the strategic goals can provide valuable information for the District's management and the BPC decision-making process.

The District reviews the strategic goals during the annual planning process and endeavors to set key performance indicators to measure our performance in achieving these goals.

Established key performance indicators (KPIs) include:

- ☞ Achieve Operating Revenue growth averaging a minimum of 3.0%
- ☞ Accelerate future annual Operating Revenue growth to greater than 3.0%
- ☞ Assist in the creation, development, and scaling of new water-dependent business ventures (Aquaculture and Blue Technology Program)
- ☞ Acquire a minimum of \$5.0 million of grant income annually
- ☞ Ensure that expenditures do not exceed current year revenue and other sources of funds

The District has adopted a comprehensive set of financial policies, including policies related to reserves, budget development, five-year financial forecast, investments, Capital Improvement Program (CIP), and Major Maintenance Program, among others.

Operating Reserves

The District continues to maintain a healthy level of operating reserves to weather significant economic downturns more effectively and manage the consequences of unexpected emergencies. Operating reserves generate investment income, provide a margin of safety and stability to protect the District from exposure to catastrophic events and economic impacts, and provide flexibility to pursue emergent opportunities. The District's BPC Policy No. 117 - Operating Reserve Policy, in general, calls for a cash reserve of 50.0% of budgeted operating and maintenance expenses reduced by certain revenue sources. The balance is established annually upon the adoption of the fiscal year budget. The current operating reserve balance of \$68.3 million is funded at the required policy level. The operating reserve includes a \$20 million minimum required balance established for the purpose of self-insurance against possible losses that could occur as the result of a catastrophic event. For more information, the Operating Reserve Policy can be found in its entirety at <https://www.portofsandiego.org/bpc-policies/2130-bpc-policy-no-117-operating-reserve-policy/file.html>.

Five Year Financial Forecast

Each year, the District updates a Five-Year Cash Flow Forecast (cash flow) which serves as the framework for the development of the annual operating budget. The financial policies are reflected in the cash flow and resources are allocated based on the District's Strategic Milestones adopted by the BPC with a focus on achieving the KPIs.

The following outlines the long-range and financial policies that guide the preparation of the budget:

- ç Revenues and other sources exceed expenses before depreciation and amortization and before capital outlays
- ç The District expenditures authorized in the budget will help stimulate the economy in the San Diego region
- ç Achieve Operating Revenue growth averaging a minimum of 3.0%
- ç Manage growth at a disciplined cost structure
- ç Proactively maintain facilities and infrastructure
- ç Capital investment in the tidelands will provide significant, long-term economic benefits to the region and provide public improvements and infrastructure that will stimulate private investment in the tidelands diversifying the District's revenue streams and creating new jobs and opportunities for the region. Financial policies will enable the District to maintain its sound financial condition so that capital investment in the tidelands may continue.

Capital Improvement Program (CIP)

The BPC has adopted Policy No. 120 - Capital Improvement Program (CIP). The CIP includes projects that enhance maritime terminal operations, public parks, and other District facilities or public amenities. Examples of CIP projects include improvements on the District's marine terminals, improved roadways, public boat ramps, security systems, new parks, and environmental mitigation. CIP projects do not include major maintenance. The policy is intended to facilitate capital development projects and budgets, which are strategically cohesive, ensure clear and consistent treatment of all proposed capital projects on the tidelands, streamline the process, increase efficiency, reduce costs, and improve outcomes. For more information, the policy can be found in its entirety at <https://www.portofsandiego.org/bpc-policies/1431-bpc-policy-no-120-capital-improvement-program-cip/file.html>.

Major Maintenance Program

The BPC has also adopted Policy No. 130 - Major Maintenance Program (MMP). The MMP establishes a policy for the orderly maintenance of the capital assets of the District. The intent is to improve the District's major maintenance process to streamline project selection and funding processes, and to address the repair, operation, maintenance, and development of District infrastructure and facilities. Projects recommended for major maintenance under the program are primarily identified from the District's Asset Management Program (AMP), which uses a scientifically-based methodology to determine which critical assets require repairs or replacements. For more information, the policy can be found in its entirety at <https://www.portofsandiego.org/bpc-policies/5218-bpc-policy-no-130-major-maintenance-program/file.html>.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

Port Master Plan Update

The District has been recognized as an industry leader for its work on an Integrated Planning Initiative that will culminate in an update to the Port Master Plan. The Port Master Plan is a policy document that essentially serves as a blueprint for the development of approximately 6,000 acres of land and water within the District's jurisdiction, but it has never been comprehensively updated since its adoption in 1980, although it has been amended 38 times. Launched in 2013, the Integrated Planning Initiative is a holistic approach to managing and planning the business of the District with a balance of environmental, economic and community interests. To encourage and ensure extensive community input, the District has conducted a series of eight Board workshops, and open houses focused on the Port Master Plan. The District's Integrated Planning Initiative has been recognized as innovative, forward-thinking, and inclusive, with awards from professional planning, environmental, public affairs, and architectural organizations.

Chula Vista Bayfront

The Chula Vista Bayfront (CVB) is a flagship District project that represents decades of public outreach, planning, and development. This monumental project has great momentum, representing one of the last truly significant, large-scale waterfront development opportunities in Southern California. This project is designed with a balance between commercial development, public access, and conservation while serving as an important asset for the San Diego region, the South Bay, Chula Vista residents, and coastal visitors. In FY 2018, the Board approved a Disposition and Development Agreement between the District, the City of Chula Vista, and RIDA Chula Vista, LLC, a key step toward a lease for the anchor resort convention center/hotel; and selected a developer for a new destination RV park. With an anticipated investment of \$1.13 billion for the RIDA project, the CVB project seeks to transform a largely vacant and underutilized industrial landscape of approximately 535 acres into a thriving recreational, residential, and resort destination. When complete, the public will enjoy more than 200 acres of public realm space including parks and open space, a shoreline promenade, walking trails, RV camping, shopping, dining, and more.

Harbor Island

The District is pursuing redevelopment of a large site in a prime location near San Diego International Airport (SDIA). In 2018, the District entered into Exclusive Negotiating Agreements with two developers for the redevelopment of 57 acres of land on the east end of Harbor Island with mixed-use retail, hotels, and open space. The project area was formerly occupied by several rental car companies that relocated to a consolidated rental car center. The anticipated investment is likely to exceed \$1.0 billion. This coastal site offers an unbeatable combination of water access, stunning views, close proximity to SDIA - which served 22 million passengers in 2018 - and foot traffic from existing high-performing restaurants and hotels on Harbor Island.

Central Embarcadero

In FY 2018, the District continued working with its selected developer, 1HWY1, to pursue development of the Central Embarcadero, a prime site of approximately 70 acres of land and water situated between downtown San Diego and the San Diego Bayfront. This ideal location presents a special opportunity for a defining “centerpiece” development and has tremendous potential to become the signature waterfront destination for San Diego. The large-scale, mixed-use project is anticipated to include an observation tower, aquarium, educational center, multiple hotels, retail and office space, improved waterside facilities, parks, promenades, plazas, and more known as Seaport San Diego; the project represents approximately \$1.2 billion in private investment.

San Diego Symphony

In FY 2018, the District certified the Environmental Impact Report and approved both a Port Master Plan Amendment and a binding Letter of Intent with the San Diego Symphony to move forward the Bayside Performance Enhancement Project proposed for Embarcadero Marina Park South.

Restaurant Portfolio

The District moved forward on developing a prime restaurant site located on an over-water platform. In FY 2018, the District approved a lease with The Brigantine for the Portside Pier restaurant development on San Diego's North Embarcadero and moved forward on the demolition of the old building, leading to the commencement of construction on a new restaurant complex, which continues in FY 2019.

Climate Action Plan

As an environmental champion, the District takes a leadership role in implementing compliance with new regulations related to stormwater and water quality. The rising cost of compliance has become a significant cost driver.

Demonstrating its environmental leadership, the District was one of the first ports in the nation to adopt a Climate Action Plan (CAP) in 2013 to establish greenhouse gas (GHG) emissions reduction goals. In FY 2018, the District partnered with SDG&E on a new Energy Management Plan to help meet its Climate Action Plan goals and supported 11 environmental education programs. The Planning & Green Port Division was honored with multiple awards for its Green Business Network environmental analysis, green fleet, and alternative transportation initiatives.

Cargo

In FY 2018, the Tenth Avenue Marine Terminal (TAMT) Redevelopment commenced with work beginning on Phase 1, referred to as the Modernization. The Modernization entails the demolition of antiquated infrastructure including two transit sheds, which is supported by a \$10 million Transportation Investment Generating Economic Recovery (TIGER) grant from the U.S. Department of Transportation. This project is the first phase of a proposed 20-year, market-driven modernization plan for the terminal. An Environmental Impact Report authorizes and guides the physical and business changes to the terminal to increase its service to the community while protecting the neighborhood environment. Additional efforts to support cargo business include a new iteration of "The Special Advantage," a marketing campaign to highlight our capabilities in multiple specialty cargo markets: Refrigerated Containers, Break Bulk, and Dry Bulk.

Terminal modernization and business development efforts at the TAMT resulted in the acquisition of a new trans-Atlantic liner service, G2, that provides regular, predictable capacity for both import and export cargo.

As part of the regional leadership on transportation planning, the District initiated a mobility study of Harbor Drive along the working waterfront. A newly established Maritime Stakeholder Forum provides a collaborative venue for the Port, Port tenants, and other interested persons to discuss and give input on maritime issues.

The District continues to plan for operational improvements at its National City Marine Terminal, where the District's operator, Pasha Automotive Services, continued to import more than 350 thousand vehicles annually. An Environmental Impact Report is ongoing for the National City Balanced Plan. In collaboration with the City of National City and key stakeholders, the Balanced Plan proposes to reconfigure the land uses to optimize recreational, maritime, and commercial uses within the marina district and is the result of a public planning process. It also includes a permanent realignment of the Bayshore Bikeway.

Shipyards and Boatyards

The District serves as the Navy's West Coast shipyard with major shipbuilding and repair capability. Two important District tenants made capital improvements this year. BAE Systems San Diego Ship Repair successfully dedicated a new dry dock, General Dynamics NASSCO began working on a new panel line, and both shipyards hired hundreds of employees continuing strong performance in this sector.

Cruise

The District's San Diego waterfront was chosen as one of five Top Cruise Destinations in the U.S. and Canada by Cruise Critic, the world's leading cruise reviews site and online cruise community, for the third year in a row. Disney Cruise Line unveiled the newly renovated Disney Wonder in San Diego. In FY 2018, approximately 256 thousand cruise passengers visited San Diego, a 4.9% increase over the previous year. The District continues its excellent relationships with established partners such as Holland America Line and Princess Cruises while building new business from Disney Cruise Line and others.

Safety

The District launched the Command Bridge situational awareness tool, which will be used in the Joint Harbor Operations Center to increase the levels of security at the District's Cargo and Cruise ship terminals. The District maintains a 24-hour desk with a security contractor to monitor all Port sensor systems, providing physical access control for our terminals and other sensitive security areas. A wide area view or "WAV" camera was integrated within Command Bridge to give the security operators a live view to most of the Bay.

The District finalized a five-year contract with the Alpha Project in order to provide continuing outreach services to the homeless community. The Harbor Police Department, in coordination with Patrol, Investigations and the Psychological Emergency Response Team (PERT), provides homeless individuals, mentally ill individuals, and those with substance abuse issues opportunities for services, treatment, and housing. As one example, the Harbor Police coordinated hepatitis vaccines to the homeless after a recent outbreak. Additionally, the Harbor Police has partnered with the San Diego City Attorney's Office, which provides one attorney at least one day a week to coordinate the SMART (San Diego Misdemeanants At-Risk Track) program.

Blue Economy Incubator

The District is a leader among ports nationwide in supporting the development of emerging water-dependent technology. Its Aquaculture and Blue Technology Program, established in 2016, assists in the creation, development, and scaling of new water-dependent business ventures along San Diego Bay. With the District's 50-year history on San Diego Bay and mutually beneficial relationships along the waterfront, it is strategically positioned to build a unique Blue Economy Incubator to support entrepreneurship, foster sustainable aquaculture, and help drive blue-technology innovation.

Boat Launch Ramps

The District's Shelter Island Boat Launch facility is believed to be the busiest boat launch ramp in California, with an estimated 50 thousand launches annually. In 2018, the District continued construction on the Shelter Island Boat Launch improvement project, which will make the ramp safer and more navigable. Constructed in the mid-1950s with a single-lane concrete launch ramp, its last major improvement was completed in the mid-1970s when the existing 10-lane boat launch ramp was constructed. The facility is used by recreational boaters from the general public, including small yachts, inboard and outboard motorboats, private fishing boats, fishing tournament boats, and amphibious tour buses. This improvement project was designed with extensive public outreach and is being made possible by \$9.6 million in grant funding from the California Division of Boating and Waterways and the California Wildlife Conservation Board. The project faced significant challenges with the discovery of a large amount of underwater concrete that had to be removed before construction could proceed. In order to ensure public safety, the project team adjusted the timeline to delay its reopening until FY 2019.

Also, in FY 2018, the District celebrated the reopening of the Glorietta Bay Boat Launch Ramp in Coronado following an improvement project.

Waterfront Activation, Arts and Culture

As part of efforts to welcome visitors and residents to experience the San Diego Bay waterfront in FY 2018, the District sponsored more than 70 high-quality visitor-serving events through the Tidelands Activation Program including the Big Bay Boom, the Parade of Lights, and the Holiday Bowl Parade. The District welcomed back Red Bull Air Races and Extreme Sailing. The District's ongoing #Wonderfront campaign encourages people to explore the bay.

The District hosted interactive artist presentations and community events featuring Fern Street Circus. In addition, the District initiated Phase 2 of the San Diego-Coronado Bay Bridge Artistic Lighting Project along with a capital fundraising campaign.

Awards Received by the District

- Ç 2018 Engineering Excellence Merit Award (Moffatt Nichol, Emergency Wharf Repair at North Embarcadero), ACEC California
- Ç 2018 Public Agency of the Year, National Black Contractors Association
- Ç 2018 Communicator of the Year (District Public Information Officer Tanya Castaneda), California Association of Public Information Officers
- Ç 2018 EPIC Award for Community Relations/Participation (PMPU) California Association of Public Information Officials (CAPIO)
- Ç Excellence in Public Information and Communications (EPIC) Awards (PMPU), California Association of Public Information Officers
- Ç 2018 Merit Award (Outstanding Environmental Analysis Document for the San Diego Bay and Imperial Beach Oceanfront Fireworks Display Events EIR), Association of Environmental Professionals (AEP)
- Ç 2018 Award of Excellence - Community Education/Outreach (Port Master Plan Update), American Association of Port Authorities (AAPA)
- Ç 2018 Overall Excellence in Communications - Advertisements (ðWelcome to the Port of Land and Seeð Cruise Campaign), American Association of Port Authorities (AAPA)
- Ç 2018 Environmental Award - Mitigation (Innovative marine debris removal system), American Association of Port Authorities (AAPA)

- Ç 2018 Environmental Award - Stakeholder Awareness, Education & Involvement (Environmental Education Program), American Association of Port Authorities (AAPA)
- Ç 2018 Environmental Award - Environmental Enhancement (Threatened and endangered species stewardship), American Association of Port Authorities (AAPA)
- Ç 2018 Certificate of Achievement for Excellence in Financial Reporting (FY2018 Comprehensive Annual Financial Report), Government Finance Officers Association
- Ç 2018 Marilyn Lassman Golden Dedication Lifetime Achievement Award (Commissioner Robert íDukieî Valderrama), South County Economic Development Council
- Ç 2018 Silver Bernays Award of Excellence - Integrated Communications (with Convention Center for Harbor Drive closure/ Comic-Con), Public Relations Society of America San Diego Chapter
- Ç Many additional awards for environmental initiatives, marketing programs, and community relations and outreach

ACKNOWLEDGMENTS

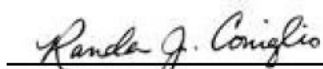
This CAFR represents the District's dedication to provide full disclosure. As a self-funded organization dedicated to public service, the District endeavors to be as transparent as possible in order to provide the public with information about its operations and financial performance. For four years in a row, the District has been honored to receive the prestigious Certificate of Achievement for Excellence in Financial Reporting for its CAFR, most recently for the fiscal year ending June 30, 2017. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial recording. To be awarded a Certificate of Achievement; the District must publish a well-designed and easily understood CAFR that satisfies both GAAP and applicable legal requirements. The preparation of this report could not have been accomplished without support from leadership and the hard work and dedication of District staff.

As financial reporting is a continuing responsibility, the Certificate of Achievement awarded to an organization is valid for one year only. In our assessment, our current CAFR continues to meet the Certificate of Achievement Program's requirements. We respectfully submit this report to the GFOA to determine its eligibility for another certificate.

We thank the many internal staff members who assisted and contributed to the preparation of this report, including the core team within the Financial Services Department and all other departments. Through this report, our organization demonstrates its commitment to fiscal transparency and accountability, and to maintain the District's financial statements in conformance with the highest professional standards.

The success of this organization owes much to its excellent leadership at the Board level. We thank the members of the Board of Port Commissioners for their continued policy direction and guidance in support of the District's strong financial position.

Respectfully Submitted,



Randa J. Coniglio
President/CEO



Robert DeAngelis
CFO/Treasurer

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the San Diego Unified Port District for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**San Diego Unified Port District
California**

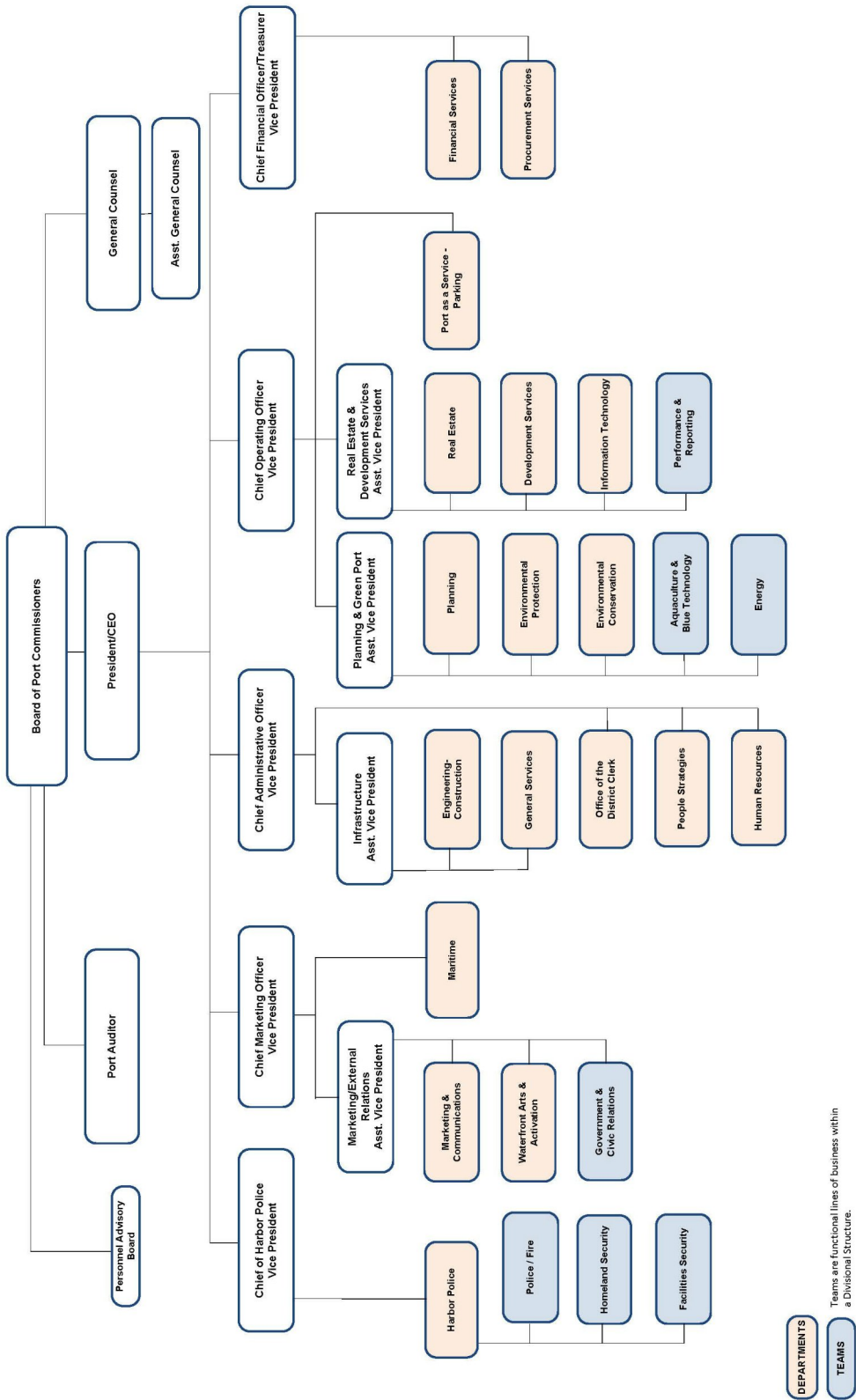
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrell

Executive Director/CEO

DISTRICT ORGANIZATION CHART



CHAIRMAN

Rafael Castellanos
City of San Diego

VICE CHAIRMAN

Garry J. Bonelli
City of Coronado

SECRETARY

Ann Moore
City of Chula Vista

COMMISSIONERS

Dan Malcolm
City of Imperial Beach

Marshall Merrifield
City of San Diego

Michael Zucchet
City of San Diego

Robert "Duke" Valderrama
City of National City

Members of the Executive Leadership Group as of June 30, 2018:

PRESIDENT/CEO

Randa J. Coniglio

GENERAL COUNSEL

Thomas A. Russell

PORT AUDITOR

Robert Monson

ASSISTANT GENERAL COUNSEL

Ellen F. Gross

SENIOR DEPUTY GENERAL COUNSEL

Rebecca Harrington

CHIEF ADMINISTRATIVE OFFICER

VICE PRESIDENT

Karen G. Porteous

CHIEF FINANCIAL OFFICER/TREASURER

VICE PRESIDENT

Robert DeAngelis

CHIEF OF HARBOR POLICE

VICE PRESIDENT

Mark Stainbrook

CHIEF MARKETING OFFICER

VICE PRESIDENT

Vacant

CHIEF OPERATING OFFICER

VICE PRESIDENT

Vacant

ASSISTANT VICE PRESIDENT

Cid Tesoro

ASSISTANT VICE PRESIDENT

Jason Giffen

ASSISTANT VICE PRESIDENT

Job Nelson

ASSISTANT VICE PRESIDENT

Shaun D. Sumner

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FINANCIAL SECTION



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Independent Auditor's Report

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Independent Auditor's Report

To the Honorable Commissioners
of the San Diego Unified Port District
San Diego, California

Report on the Financial Statements

We have audited the accompanying financial statements of the San Diego Unified Port District (District) as of and for the fiscal years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 7(a) and Note 13 to the basic financial statements, effective July 1, 2017, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result of the implementation of GASB Statement No. 75, net position as of July 1, 2017, was restated and reduced by \$92,384,378. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of changes in preservation of benefits (POB) liability and related ratios, schedule of employer pension contributions, and schedule of changes in other postemployment benefits (OPEB) liability and related ratios, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

San Diego, California
November 20, 2018

Management's Discussion and Analysis (Unaudited)

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The financial management of the San Diego Unified Port District (District) offers readers of these basic financial statements this narrative overview and analysis of the financial activities of the District as of and for the fiscal years ended June 30, 2018 and June 30, 2017. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities, and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements and the accompanying notes to the basic financial statements.

Financial Highlights – year ended June 30, 2018

- Ç As of June 30, 2018, the assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$359.8 million.
- Ç Operating revenues for the District were \$172.9 million for fiscal year 2018 compared to \$170.4 million for fiscal year 2017.
- Ç Operating expenses, including depreciation and amortization, for the District were \$198.0 million for fiscal year 2018 compared to \$188.3 million for fiscal year 2017.
- Ç Nonoperating revenues for the District were \$10.6 million for fiscal year 2018 compared to \$6.0 million for fiscal year 2017.
- Ç Nonoperating expenses for the District were \$3.3 million for fiscal year 2018 compared to \$4.8 million for fiscal year 2017.
- Ç Revenues from capital grants and contributions totaled \$8.7 million for fiscal year 2018 compared to \$2.5 million for fiscal year 2017.
- Ç The District's total net position decreased by \$101.6 million (including a restatement of \$92.4 million for Governmental Accounting Standards Board (GASB) Statement No. 75 implementation) during fiscal year 2018 compared to a \$16.1 million decrease in fiscal year 2017.

Financial Highlights – year ended June 30, 2017

- Ç As of June 30, 2017, the assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$461.3 million.
- Ç Operating revenues for the District were \$170.4 million for fiscal year 2017 compared to \$160.3 million for fiscal year 2016.
- Ç Operating expenses, including depreciation and amortization, for the District were \$188.3 million for fiscal year 2017 compared to \$145.9 million for fiscal year 2016, largely due to the accounting adjustment for pension expense per GASB Statement No. 68.
- Ç Nonoperating revenues for the District were \$6.0 million for fiscal year 2017 compared to \$7.9 million for fiscal year 2016.
- Ç Nonoperating expenses for the District were \$4.8 million for fiscal year 2017 compared to \$4.0 million for fiscal year 2016.
- Ç Revenues from capital grants and contributions totaled \$2.5 million for fiscal year 2017 compared to \$1.7 million for fiscal year 2016.
- Ç The District's total net position decreased by \$16.1 million (including a \$24.7 million increase from an accounting adjustment for pension expense in accordance with GASB Statement No. 68 and a restatement of \$1.7 million for GASB Statement No. 73) during fiscal year 2017 compared to a \$20.0 million increase in fiscal year 2016.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which are comprised of the basic financial statements and the notes to the basic financial statements. The statements are organized so the reader can understand the District as a whole and then proceed to provide an increasingly detailed look at specific financial activities. These components are described below.

Basic Financial Statements

The District is comprised of a single enterprise fund. The basic financial statements provide a broad view of the District's operations in a manner similar to a private sector business. The statements provide both short-term and long-term information about the District's financial position, which assist in assessing the District's economic condition at the end of the fiscal year. The basic financial statements are prepared using the flow of economic resources measurement focus and the full accrual basis of accounting, which means they follow methods similar to those used by most private sector companies. The basic financial statements take into account all revenues and expenses connected with the fiscal year even if the cash involved has not been received or paid.

The *Statements of Net Position* present all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Increases or decreases in the District's net position may serve as a useful indicator as to whether the financial position of the District is improving or deteriorating over time.

The *Statements of Revenues, Expenses, and Changes in Net Position* present information showing how the District's net position changed during the two most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (e.g., invoices for goods or services received but for which payment has not yet been made).

The final required financial statement is the *Statements of Cash Flows*. The statements report cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operating, investing, noncapital financing, and financing activities. It also provides answers to such questions as, "Where did cash come from?" "What was cash used for?" and "What was the change in cash and cash equivalents during the reporting period?"

The basic financial statements can be found immediately following this discussion and analysis.

Notes to the Basic Financial Statements

The notes provide additional information and more detail that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found immediately following the basic financial statements.

Financial Analysis

One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of this year's activities?" Net position, which is the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is one way to measure financial health or financial position. Increases or decreases in net position are one indicator of whether the District's financial health is improving or deteriorating over time. The *Statements of Net Position* and the *Statements of Revenues, Expenses, and Changes in Net Position* report information about the District's activities in a way that will help answer this question. These two statements report the District's net position and changes in the District's net position.

Statements of Net Position

To begin our analysis, a summary of the District's *Statements of Net Position* is presented on the following page. The District's net position totaled \$359.8 million at the end of fiscal year 2018, compared to \$461.3 million at the end of fiscal year 2017 and \$477.4 million at the end of fiscal year 2016.

The District's financial position at June 30, 2018, 2017, and 2016 is summarized as follows:

Condensed Statements of Net Position
(Expressed in thousands)

	2018	2017	2016
Current assets	\$ 145,335	\$ 147,026	\$ 136,421
Noncurrent assets	25,943	23,265	20,214
Capital assets	551,862	541,460	546,668
Total Assets	<u>723,140</u>	<u>711,751</u>	<u>703,303</u>
Deferred outflows of resources	<u>28,332</u>	<u>49,704</u>	<u>20,124</u>
Total assets and deferred outflows of resources	<u>\$ 751,472</u>	<u>\$ 761,455</u>	<u>\$ 723,427</u>
Current liabilities	\$ 41,272	\$ 39,300	\$ 34,826
Noncurrent liabilities	340,025	259,717	204,511
Total liabilities	<u>381,297</u>	<u>299,017</u>	<u>239,337</u>
Deferred inflows of resources	<u>10,425</u>	<u>1,122</u>	<u>6,721</u>
Net investments in capital assets	515,619	502,478	504,229
Restricted	8,866	8,326	7,357
Unrestricted	<u>(164,735)</u>	<u>(49,488)</u>	<u>(34,217)</u>
Total net position	<u>359,750</u>	<u>461,316</u>	<u>477,369</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 751,472</u>	<u>\$ 761,455</u>	<u>\$ 723,427</u>

As of June 30, 2018, the District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$359.8 million compared to \$461.3 million as of June 30, 2017 and \$477.4 million as of June 30, 2016. The largest portion of the District's net position represents its investment in capital assets, less the amount of associated debt outstanding. The District uses these capital assets to generate regional economic growth and to provide public safety services and recreational opportunities to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, the funds required to repay this debt are to be provided annually from operations. Refer to Note 11(a)(i) for additional information on the District's Capital Improvement Program (CIP) commitments.

The unrestricted net position was \$(164.7) million as of June 30, 2018, \$(49.5) million as of June 30, 2017, and \$(34.2) million as of June 30, 2016. The negative unrestricted balance reported at June 30, 2018 was primarily due to the implementation of GASB Statement No. 75 and previous implementation of GASB Statement No. 68, while the negative unrestricted balances reported at June 30, 2017 and June 30, 2016 were primarily due to the implementation of GASB Statement No. 68.

Capital Assets

The District's net book value was \$551.9 million as of June 30, 2018, \$541.5 million as of June 30, 2017, and \$546.7 million as of June 30, 2016. The funds used for capital improvements are derived from several sources, including the District's unrestricted funds, federal and state grants, capital contributions from external sources, long-term debt, and current revenue sources.

Capital Assets
(Expressed in thousands)

Description	June 30, 2018	June 30, 2017	June 30, 2016
Nondepreciable assets:			
Land	\$ 252,801	\$ 246,694	\$ 246,689
Construction-in-progress	31,110	22,962	14,277
Depreciable/amortizable assets:			
Land improvements	7,650	7,650	7,650
Buildings and structures	592,004	578,750	577,028
Machinery and equipment	99,391	95,467	88,316
Roads and parking lots	122,534	120,803	120,647
Intangible	4,107	3,779	3,563
Total assets	1,109,597	1,076,105	1,058,170
Accumulated depreciation/amortization	(557,735)	(534,644)	(511,502)
Capital assets, net	\$ 551,862	\$ 541,461	\$ 546,668

Capital Assets – Fiscal year 2018 compared to 2017:

The District invested a total of \$32.0 million in construction-in-progress during fiscal year 2018 (refer to Note 3 for the summary of capital assets activity). Some of these projects were completed and capitalized during the fiscal year.

Following are amounts expended during fiscal year 2018 for some of the major capital projects:

- \$5.3 million, Shelter Island Boat Launch Facility Improvements
- \$5.1 million, Chula Vista Bayfront Goodrich South Campus Demolition
- \$4.9 million, Tenth Avenue Maritime Terminal (TAMT) Transit Shed Demolition and Site Improvements
- \$4.0 million, Chula Vista Bayfront Triangle Parcel Acquisition
- \$1.8 million, Anthony's Fish Grotto Demolition Design
- \$1.5 million, TAMT Pavement Repairs
- \$1.2 million, Chula Vista Bayfront Site Preparation
- \$776 thousand, Broadway Pier Structural Repairs
- \$724 thousand, B Street Pier Escalator Installation
- \$710 thousand, National City Marine Terminal (NCMT) Berth Structural and Mooring Repair
- \$622 thousand, Computer Aided Dispatch
- \$536 thousand, Cruise Ship Terminal Security Enhancement
- \$416 thousand, Imperial Beach Pier Lighting Replacement
- \$391 thousand, TAMT Entry Gate Security Improvements
- \$297 thousand, District Website Redesign
- \$295 thousand, B Street Pier Structural Repairs
- \$278 thousand, National City Marina District Vision Preliminary Plan
- \$274 thousand, Navy Head House Demolition and Site Improvements
- \$254 thousand, San Diego Convention Center Fire Alarm System Improvements
- \$2.6 million, all other capital projects

Capital Assets – Fiscal year 2017 compared to 2016:

The District invested a total of \$14.5 million in construction-in-progress during fiscal year 2017 (refer to Note 3 for the summary of capital assets activity). Some of these projects were completed and capitalized during the fiscal year.

Following are amounts expended during fiscal year 2017 for some of the major capital projects:

- \$5.2 million, NCMT Berth Structural and Mooring
- \$1.3 million, Port Security Grants Projects
- \$1.1 million, Shelter Island Boat Launch Facility Improvements
- \$1.1 million, TAMT Transit Shed 1 Phase II Demolition
- \$759 thousand, Chula Vista Bayfront Master Plan Pre-Design
- \$743 thousand, 2017 Emergency Storm Improvements
- \$578 thousand, B Street Pier - Escalator Installation
- \$472 thousand, Enhanced Planned Maintenance
- \$403 thousand, Playground Structures & American Disability Act Ramp Repairs
- \$279 thousand, Technology Management Program - Compellant Storage Area Network Upgrade
- \$225 thousand, Technology Strategic Plan - Disaster Recovery Mirrored Site
- \$204 thousand, Grape Street Replacement and Repairs
- \$172 thousand, Cesar Chavez Park Lighting
- \$157 thousand, Administration Building Interior Demolition
- \$154 thousand, TAMT Storage Tank Repairs
- \$137 thousand, America's Cup Harbor Improvements - Phase I, North Harbor Drive
- \$137 thousand, Regional Fiber Optic Infrastructure - Phase 4A
- \$129 thousand, TAMT Berths 10-7 and 1 Pavement Repairs
- \$128 thousand, Navy Pier Structural Repairs
- \$1.1 million, all other capital projects

Revenues, Expenses, and Changes in Net Position

While the Statements of Net Position show the change in the District's financial position, the Statements of Revenues, Expenses, and Changes in Net Position provide insight as to the nature and source of the change in financial position. The District's summarized results of operations for the fiscal years ended June 30, 2018, 2017, and 2016 are presented below:

**Condensed Statements of
Revenues, Expenses, and Changes in Net Position**
(Expressed in thousands)

	2018	2017	2016
Operating revenues:			
Real Estate	\$ 97,720	\$ 96,430	\$ 102,747
Port as a Service	16,583	15,227	0
Maritime	39,304	39,214	37,365
Harbor Police	16,192	16,085	16,835
Other operating revenues	3,094	3,409	3,340
Total operating revenues	<u>172,893</u>	<u>170,365</u>	<u>160,287</u>
Operating expenses:			
Direct expenses			
Real Estate	28,609	26,400	27,623
Port as a Service	6,193	6,184	0
Maritime	17,557	17,208	18,334
Harbor Police	40,128	39,201	35,007
Other operating expenses	37,744	35,858	8,267
Depreciation and amortization	23,686	23,447	22,721
General and administrative expenses	44,118	40,040	33,949
Total operating expenses	<u>198,035</u>	<u>188,338</u>	<u>145,901</u>
Income/(loss) from operations	<u>(25,142)</u>	<u>(17,973)</u>	<u>14,386</u>
Nonoperating revenues	10,614	5,968	7,889
Nonoperating expenses	3,339	4,760	3,960
Nonoperating income	<u>7,275</u>	<u>1,208</u>	<u>3,929</u>
Capital grants and contributions	8,685	2,458	1,663
Change in net position	<u>(9,182)</u>	<u>(14,307)</u>	<u>19,978</u>
Beginning net position	461,316	477,369	457,391
Restatement - GASB 73	0	(1,746)	0
Restatement - GASB 75	(92,384)	0	0
Ending net position	<u>\$ 359,750</u>	<u>\$ 461,316</u>	<u>\$ 477,369</u>

The major components of the District's operating revenues include concession fees, land and building leases, Harbor Police and General and Administrative (G&A) cost reimbursements for services provided to the San Diego County Regional Airport Authority (SDCRAA), wharfage, parking fees, storage space rentals, cruise ship passenger and security fees, dockage fees, and citations issued for vehicle code violations.

The District's operating expenses consist primarily of personnel expenses, contractual services, community and environmental support (including municipal services for fire, police, and medical emergency), and maintenance and repairs.

Nonoperating revenues include legal insurance settlements, interest income, grant revenues, asset forfeiture proceeds, reimbursed legal fees, gain/loss from disposal of capital assets, and miscellaneous other nonoperating revenues.

The major component of nonoperating expenses is interest expense.

Capital grants and capital project contributions include Transportation Investment Generating Economic Recovery (TIGER), Department of Parks and Recreation Division of Boating and Waterways, Port Security capital grants, and North Embarcadero Visionary Plan (NEVP) project contributions.

Operating Revenues – Fiscal year 2018 compared to 2017:

(Expressed in thousands)				
	2018	2017	\$ Change Increase (Decrease)	% Change
Real Estate	\$ 97,720	\$ 96,430	\$ 1,290	1.3 %
Port as a Service	16,583	15,227	1,356	8.9 %
Maritime	39,304	39,214	90	0.2 %
Harbor Police	16,192	16,085	107	0.7 %
Other operating revenues	3,094	3,409	(315)	(9.2)%
Total operating revenues	<u>\$ 172,893</u>	<u>\$ 170,365</u>	<u>\$ 2,528</u>	1.5 %

- Ç Real Estate operating revenue of \$97.7 million increased \$1.3 million from \$96.4 million. Concession revenue increased \$1.4 million mainly due to stronger performance by marinas, tidelands hotels, restaurants, and other visitor-serving businesses. The remaining variance was from all other revenue sources.
- Port as a Service operating revenue of \$16.6 million increased \$1.4 million from \$15.2 million. Parking meters increased \$920 thousand mainly due to the implementation of higher parking meter rates in high demand areas and from additional paid parking spaces at Crescent area along North Harbor Drive as well as Spanish Landing. Parking concession increased \$432 thousand primarily from new lease agreements from Harbor Island and Pacific Highway lots.
- Ç Maritime operating revenues of \$39.3 million increased \$90 thousand from \$39.2 million, primarily due to increases from dockage, wharfage, cruise ship passenger fees, and concession revenues. This increase was partially offset by a decrease in fixed rent due to a retroactive rent adjustment in fiscal year 2017.
- Ç Harbor Police operating revenues of \$16.2 million increased \$107 thousand from \$16.1 million due to additional reimbursements from audited true up from prior year police services to SDCRAA.
- Ç Other operating revenues of \$3.1 million decreased \$315 thousand from \$3.4 million. The decrease was primarily due to cost recovery revenue which was recorded to the respective profit centers in fiscal year 2018.

Operating Revenues – Fiscal year 2017 compared to 2016:

(Expressed in thousands)	2017	2016	\$ Change Increase (Decrease)	% Change
Real Estate	\$ 96,430	\$ 102,747	\$ (6,317)	(6.1)%
Port as a Service	15,227	—	15,227	0
Maritime	39,214	37,365	1,849	4.9 %
Harbor Police	16,085	16,835	(750)	(4.5)%
Other operating revenues	3,409	3,340	69	2.1 %
Total operating revenues	<u>\$ 170,365</u>	<u>\$ 160,287</u>	<u>\$ 10,078</u>	6.3 %

- Ç Real Estate operating revenue of \$96.4 million decreased \$6.3 million from \$102.7 million. The decrease was mainly due to parking and parking meter revenue of \$11.9 million being transferred to the newly created Port as a Service profit center. Fixed rent decreased \$1.7 million mainly due to a reduction in lease revenue from car rental tenants and other rental revenue decreased by \$1.5 million due to a right of entry payment received in the prior fiscal year. The decrease was partially offset by an increase in concession revenue of \$8.5 million mainly due to stronger performance by tidelands hotels, restaurants, and other visitor-serving businesses. The remaining variance was from all other operating revenue sources.
- Port as a Service is a new profit center with operating revenue of \$15.2 million previously reported in Real Estate, Harbor Police, and Maritime. Port as a Service was established to manage revenue generation from parking and to explore new revenue sources from advertising and business opportunities.
- Ç Maritime operating revenues of \$39.2 million increased by \$1.8 million from \$37.4 million. Fixed rent revenue increased \$2.1 million mainly due to a retroactive rent increase payment from an industrial tenant. Storage space rental revenue increased \$771 thousand primarily due to an increase in the number of storage days from automobile operations at NCMT. The increases were partially offset by decreases in wharfage revenue of \$659 thousand due to seasonal dip in automobile throughput. Additionally, parking revenue decreased \$393 thousand due to parking revenue transferred to the Port as a Service profit center.
- Ç Harbor Police operating revenues of \$16.1 million decreased \$750 thousand from \$16.8 million primarily from parking citations revenue that was transferred to the Port as a Service profit center.
- Ç Other operating revenues of \$3.4 million increased \$69 thousand from \$3.3 million. The increase was primarily due to higher SDG&E Partnership reimbursement.

Operating Expenses - Fiscal year 2018 compared to 2017:

(Expressed in thousands)	2018	2017	\$ Change Increase (Decrease)	% Change
Direct expenses				
Real Estate	\$ 28,609	\$ 26,400	\$ 2,209	8.4%
Port as a Service	6,193	6,184	9	0.1%
Maritime	17,557	17,208	349	2.0%
Harbor Police	40,128	39,201	927	2.4%
Other operating expenses	37,744	35,858	1,886	5.3%
Depreciation and amortization	23,686	23,447	239	1.0%
General and administrative expenses	44,118	40,040	4,078	10.2%
Total operating expenses	<u>\$ 198,035</u>	<u>\$ 188,338</u>	<u>\$ 9,697</u>	5.1%

- Ç Real Estate operating expenses of \$28.6 million, before depreciation and G&A expense, increased \$2.2 million from the prior fiscal year mainly due to unanticipated costs to contain and prevent the spread of the hepatitis A virus, increased spending for the Coronado Bridge Lighting project, a rise in engineering services for facility assessments, investigations, and land surveying, and increased efforts for the development of Chula Vista Bayfront.
- Port as a Service operating expenses of \$6.2 million, before depreciation and G&A expenses, remains flat in fiscal year 2018.
- Ç Maritime operating expenses of \$17.6 million, before depreciation and G&A expenses, increased \$349 thousand from \$17.2 million. The increase was primarily due to both higher legal expenses related to shorepower and repair expenses for mobile gangways.
- Ç Harbor Police operating expenses of \$40.1 million, before depreciation and G&A expenses, increased \$927 thousand from \$39.2 million. The increase was mainly from pension expense, negotiated annual salary increases, and emergency operation program, partially offset by decreases in telephone and communications, and safety equipment and supplies.
- Ç Other operating expenses of \$37.7 million, before depreciation and G&A expenses, increased \$1.9 million from the prior fiscal year primarily due to increases in pension expense per GASB Statement No. 68, Preservation Of Benefits (POB) expense per GASB Statement No. 73, aquaculture expense, climate mitigation and adaptation plan, and expense related to energy initiatives. The increase was partially offset by an accounting adjustment from Other Postemployment Benefit (OPEB) expenses per GASB Statement No. 75.
- Ç Total depreciation and amortization expenses of \$23.7 million increased \$239 thousand from \$23.4 million.
- Ç G&A expenses of \$44.1 million increased \$4.1 million from \$40.0 million mainly due an increase in personnel expenses including pension, higher legal expenses related to historic environmental insurance policies and recovery program, enhanced marketing/outreach program including bay-wide special events and corporate/community outreach, consulting expenses related to the Harbor Drive multi-modal study and SDCRAA issue as well as higher information technology and telecommunication expenses.

Operating Expenses - Fiscal year 2017 compared to 2016:

(Expressed in thousands)	<u>2017</u>	<u>2016</u>	<u>\$ Change Increase (Decrease)</u>	<u>% Change</u>
Direct expenses				
Real Estate	\$ 26,400	\$ 27,623	\$ (1,223)	(4.4)%
Port as a Service	6,184	0	6,184	0
Maritime	17,208	18,334	(1,126)	(6.1)%
Harbor Police	39,201	35,007	4,194	12.0 %
Other operating expenses	35,858	8,267	27,591	333.7 %
Depreciation and amortization	23,447	22,721	726	3.2 %
General and administrative expenses	40,040	33,949	6,091	17.9 %
Total operating expenses	<u>\$ 188,338</u>	<u>\$ 145,901</u>	<u>\$ 42,437</u>	29.1 %

- Ç Real Estate operating expenses of \$26.4 million, before depreciation and G&A expenses, decreased \$1.2 million mainly due to the transfer of operational expenses for parking facilities to the new Port as a Service profit center. The decrease was partially offset by an increase in various environmental efforts, a rise in various marketing projects, and increased pavement maintenance at various locations.
- Port as a Service was a new profit center in 2017 with operating expenses of \$6.2 million. Expenses include personnel, facility management services, bank and credit card fees, professional services, space rental, and allocated costs.
- Ç Maritime operating expenses of \$17.2 million, before depreciation and G&A expenses, decreased \$1.1 million from \$18.3 million. The decrease was primarily due to lower environmental review services, consulting services for the National City Marina District Balanced Land Use Plan project, crane maintenance, hazardous waste cleanup, and fire system five-year certification inspection costs.
- Ç Harbor Police operating expenses of \$39.2 million, before depreciation and G&A expenses, increased \$4.2 million from \$35.0 million. Approximately \$2.6 million of the increase was from staffing, overtime, retirement expense, workers compensation, and negotiated annual salary increases.
- Ç Other operating expenses of \$35.9 million, before depreciation and G&A expenses, increased \$27.6 million from \$8.3 million. This was primarily due to an increase of \$24.7 million from an accounting adjustment for pension expense per GASB Statement No. 68 largely driven by mortality assumption changes (members living longer than expected), and from an increase in OPEB expenses of \$485 thousand.
- Ç Total depreciation and amortization expenses of \$23.4 million increased \$726 thousand from \$22.7 million.
- Ç G&A expenses of \$40.0 million increased \$6.1 million from \$33.9 million mainly due to a full year of implementation of the new organizational structure, which included the addition of full-time positions and establishment of the new departments.

Nonoperating Revenues, Expenses, and Capital Grants and Contributions - Fiscal year 2018 compared to 2017:

(Expressed in thousands)	2018	2017	\$ Change Increase (Decrease)	% Change
Nonoperating revenues	\$ 10,614	\$ 5,968	\$ 4,646	77.8 %
Nonoperating expenses	\$ 3,339	\$ 4,760	\$ (1,421)	(29.9)%
Capital grants and contributions	\$ 8,685	\$ 2,458	\$ 6,227	253.3 %

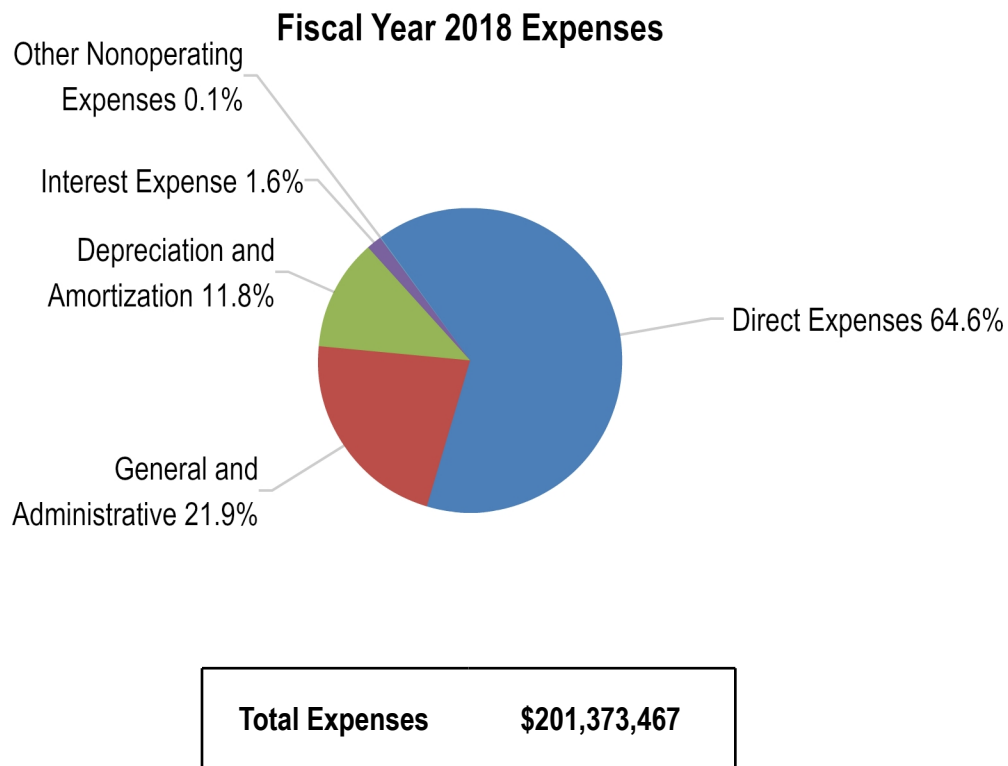
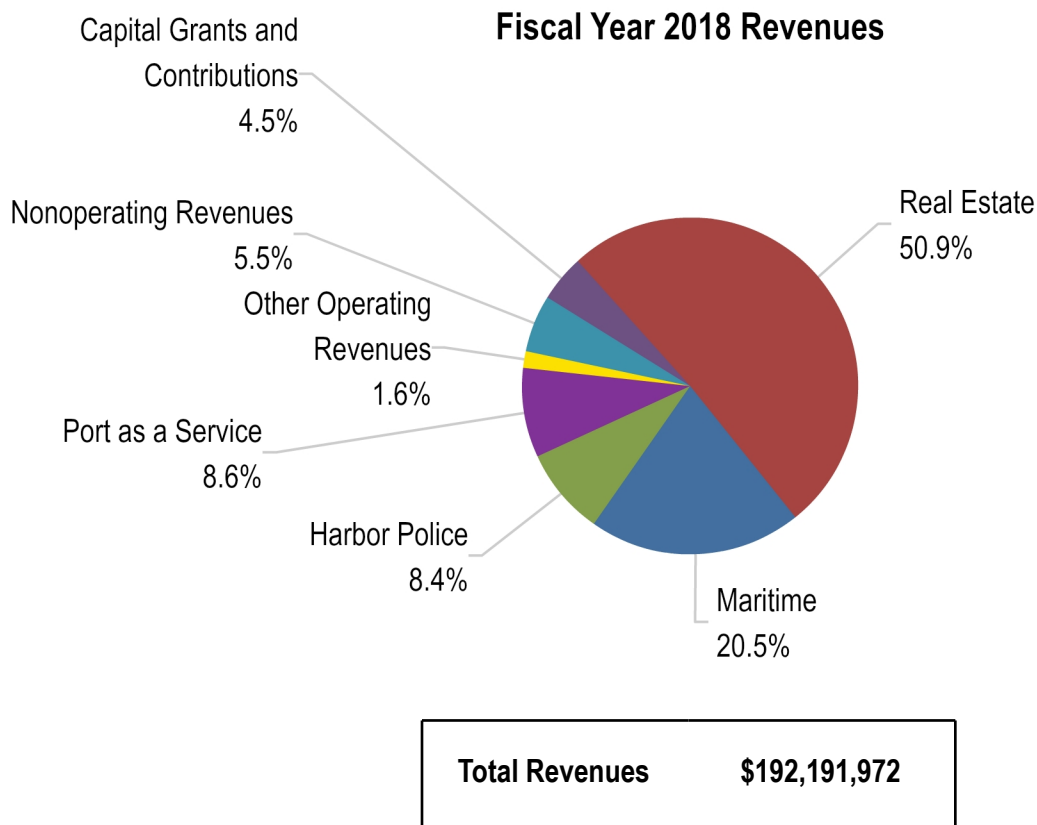
- Ç The District's nonoperating revenues of \$10.6 million, excluding capital grants and contributions, increased \$4.6 million from \$6.0 million. The increase was primarily due to legal settlements, investment interest, and car rental transaction fees.
- Ç Nonoperating expenses of \$3.3 million decreased \$1.4 million from \$4.8 million. The decrease was mainly due to the financial assistance for the Glorietta Bay boat launch ramp improvements and reclassification of previously capitalized projects that both occurred in the prior fiscal year.
- Ç Capital grants and contributions of \$8.7 million increased \$6.2 million from \$2.5 million. The increase was primarily due to grant reimbursements for the TAMT Modernization and Shelter Island Boat Launching Facility projects.

Nonoperating Revenues, Expenses, and Capital Grants and Contributions - Fiscal year 2017 compared to 2016:

(Expressed in thousands)	2017	2016	\$ Change Increase (Decrease)	% Change
Nonoperating revenues	\$ 5,968	\$ 7,889	\$ (1,921)	(24.4)%
Nonoperating expenses	\$ 4,760	\$ 3,960	\$ 800	20.2 %
Capital grants and contributions	\$ 2,458	\$ 1,663	\$ 795	47.8 %

- Ç The District's nonoperating revenues of \$6.0 million, excluding capital grants and contributions, decreased \$1.9 million from \$7.9 million. The decrease was primarily due to the accounting for the gain of \$3.1 million from the land exchange transaction which was recognized in the prior fiscal year. This was partially offset by increases in various nonoperating revenues including legal settlements, investment interest, reimbursed legal fees, and miscellaneous other nonoperating revenue.
- Ç Nonoperating expenses of \$4.8 million increased \$800 thousand from \$4.0 million. The increase was mainly due to financial assistance for the Glorietta Bay boat launch ramp improvements of \$463 thousand and reclassification of previously capitalized projects of \$386 thousand. The remaining variance was from all other nonoperating expense sources.
- Ç Capital grants and contributions of \$2.5 million increased \$795 thousand from \$1.7 million. The increase was primarily due to contributions received for the Coronado Bridge Lighting project of \$400 thousand and grants reimbursement of \$344 thousand.

The following charts show the total District revenues and expenses as percentages by major categories for fiscal year 2018:



Debt Administration

The authority of the District to incur debt is described in Section 29 of the San Diego Unified Port District Act. The District is authorized, by its enabling legislation, to levy property taxes along with its five member cities (Chula Vista, Coronado, Imperial Beach, National City, and San Diego). From 1963 to 1970, the District required a small tax levy to pay debts incurred for improvements accomplished before the formation of the District. Since then, revenues from the principal operational areas have been sufficient to support District operations, service bonded indebtedness, and allow for capital improvements. As a result, no taxes have been levied since 1970.

As part of the airport transfer on January 1, 2003, as described in Note 1(a), the District issued a \$50.0 million promissory note to the SDCRAA and a \$2.4 million note for the Pond 20 real estate. As of June 30, 2013, the Pond 20 Note was paid in full. Under the Airport Transfer Agreement, the \$50.0 million promissory note was unsubordinated and fully negotiable, had an interest rate of the prime rate plus 1.0%, with monthly payments of interest only for seven years, with the principal due and payable beginning on December 31, 2009. The note was amended as a result of a settlement agreement, effective June 1, 2004, between the District and the SDCRAA. The note is now being amortized over a period of 25 years, which commenced January 1, 2006, with a fixed rate of 5.5% per annum; the note remains subordinated to all other bonded indebtedness of the District.

On October 28, 2004, the District issued \$49.5 million aggregate principal amounts of revenue bonds. The issuance consisted of \$23.0 million and \$26.5 million principal amounts for the Series A 2004 Bonds and Series B 2004 Bonds, respectively. The bonds were sold at a premium of \$2.5 million, which netted issuance proceeds of \$52.0 million. The bonds, which are composed of serial and term, are due over 25 years and bear interest rates ranging from 2.0% to 5.25%. Approximately \$47.0 million was used to reimburse the District for the prior payment of costs for certain projects in the completed fiscal year 2003-2007 CIP. The bonds are being repaid using the pledged revenues of the District, as defined in Article 1, Section 1.02 of the indenture related to these bonds.

On November 20, 2013, the District issued \$25.5 million Series A 2013 revenue refunding bonds to advance refund the entire \$26.6 million of the outstanding Series B 2004 Revenue Bonds. The District used the net proceeds to purchase U.S. Treasury State and Local Government Series securities that were deposited in an irrevocable trust to provide for all future debt service and for the Series B 2004 Revenue Bonds redemption on September 1, 2014. As a result, the full amount of the \$26.6 million Series B 2004 Revenue Bonds is considered defeased and the District has removed the liability from its accounts. The advance refunding reduced total debt service payments over the next 16 years by approximately \$2.5 million, and resulted in an economic gain of \$1.7 million (i.e. difference between the present value of the debt service payments on the old and new debt).

On April 9, 2007, the District, the City of San Diego and Centre City Development Corporation, now known as Civic San Diego (CSD) signed an agreement to design and fund the North Embarcadero Visionary Plan (NEVP) Phase I. Under the terms of the agreement and subsequent amendments, the District records its 50% share of costs as a loan advance from CSD. The District is required to pay the greater of \$850 thousand or 50% of Lane Field revenue annually as repayment of the loan advance, and in fiscal year 2014, the District made the first payment of \$850 thousand. The District and CSD also agreed to share the cost of future maintenance and security expenses upon completion of NEVP Phase I and Setback Park/Plaza. In fiscal years 2015 and 2016, under the terms of the agreements, the District and CSD agreed that CSD's 50% share of the estimated maintenance and security costs totaling \$7.8 million be offset against the loan advance by \$4.4 million and \$3.5 million, respectively.

Following is a summary of the District's outstanding notes and bonds payable as of June 30, 2018 and June 30, 2017:

	Balance at June 30, 2017	Increases	Decreases	Balance at June 30, 2018	Amounts Due Within One Year
Notes:					
SDCRAA promissory note	\$ 35,043,779	\$ 0	\$ (1,801,694)	\$ 33,242,085	\$ 1,903,323
Civic San Diego loan advance - NEVP	2,908,930	169,765	(718,071)	2,360,624	745,440
Revenue bonds:					
Series A 2004 bonds payable	5,900,000	0	(1,880,000)	4,020,000	1,980,000
Series A 2004 bonds premium	101,810	0	(45,931)	55,879	0
Series A 2013 bonds payable	25,205,000	0	0	25,205,000	0
Series A 2013 bonds premium	1,859,887	0	(256,503)	1,603,384	0
Total notes and bonds	<u>\$ 71,019,406</u>	<u>\$ 169,765</u>	<u>\$ (4,702,199)</u>	<u>\$ 66,486,972</u>	<u>\$ 4,628,763</u>

	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017	Amounts due within one year
Notes:					
SDCRAA promissory note	\$ 36,749,270	\$ 0	\$ (1,705,491)	\$ 35,043,779	\$ 1,801,694
Civic San Diego loan advance - NEVP	3,594,532	0	(685,602)	2,908,930	718,071
Revenue bonds:					
Series A 2004 bonds payable	7,695,000	0	(1,795,000)	5,900,000	1,880,000
Series A 2004 bonds premium	144,832	0	(43,022)	101,810	0
Series A 2013 bonds payable	25,205,000	0	0	25,205,000	0
Series A 2013 bonds premium	2,108,539	0	(248,652)	1,859,887	0
Total notes and bonds	<u>\$ 75,497,173</u>	<u>\$ 0</u>	<u>\$ (4,477,767)</u>	<u>\$ 71,019,406</u>	<u>\$ 4,399,765</u>

Refer to Note 4 for additional detailed information related to long term liability activity.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all California citizens, taxpayers, stakeholders, and the District's creditors. This financial report seeks to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the San Diego Unified Port District, Office of the District Clerk, P.O. Box 120488, San Diego, California 92112-0488. Or, you may contact the District by phone (619) 686-6206 or by email at publicrecords@portofsandiego.org.

Basic Financial Statements

SAN DIEGO UNIFIED PORT DISTRICT

Statements of Net Position
June 30, 2018 and June 30, 2017

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ASSETS

Current assets:

Cash and cash equivalents	\$ 44,588,857	\$ 43,851,046
Investments	75,416,702	84,630,508
Accounts receivable, net of allowance	23,904,762	17,058,630
Other current assets	1,424,831	1,486,137
Total current assets	145,335,152	147,026,321

Noncurrent assets:

Restricted assets:

Restricted cash and investments:		
Deposits and other miscellaneous	11,524,394	11,390,222
Escrow accounts:		
South Bay Power Plant remediation and other miscellaneous	1,371,034	1,362,629
Workers' compensation collateral	3,322,775	3,316,297
Series 2004 and 2013 Bonds:		
Debt service reserve funds held by trustee	3,391,269	3,377,517
Total restricted assets	19,609,472	19,446,665

Other noncurrent assets:

Cash and investments designated for specific capital projects and commitments	6,297,482	2,178,874
Other noncurrent assets	36,089	1,638,756
Total other noncurrent assets	6,333,571	3,817,630

Capital assets:

Nondepreciable assets:		
Land	252,801,338	246,693,697
Construction-in-progress	31,110,174	22,962,190
Depreciable assets:		
Land improvements	7,650,334	7,650,334
Building and structures	592,003,724	578,750,099
Machinery and equipment	99,391,139	95,466,648
Roads and parking lots	122,533,924	120,802,496
Intangible assets	4,105,368	3,779,151
Total capital assets	1,109,596,001	1,076,104,615
Less accumulated depreciation and amortization	(557,734,651)	(534,643,890)
Capital assets, net	551,861,350	541,460,725
Total noncurrent assets	577,804,393	564,725,020
Total assets	723,139,545	711,751,341

DEFERRED OUTFLOWS OF RESOURCES

Deferred amount on bond refunding	133,590	145,643
Pension contributions made subsequent to the measurement date	17,700,000	14,600,000
Difference between actual and expected experience, assumption changes, and net difference between projected and actual earnings on plan investments for pension	9,734,753	34,549,564
POB contributions made subsequent to the measurement date and impact from assumption changes	763,899	408,303
Total deferred outflows of resources	28,332,242	49,703,510
Total assets and deferred outflows of resources	\$ 751,471,787	\$ 761,454,851

See accompanying notes to the basic financial statements.

SAN DIEGO UNIFIED PORT DISTRICT

Statements of Net Position
June 30, 2018 and June 30, 2017

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LIABILITIES

Current liabilities:

	2018	2017
Accounts payable	\$ 19,341,537	\$ 19,469,276
Accrued liabilities	9,060,446	7,748,565
Current portion of accrued leave	5,425,403	4,985,282
Deposits and other short-term liabilities	2,333,055	2,181,862
Accrued interest payable, Series 2004 and 2013 Bonds	482,646	515,546
Notes payable, current portion	2,648,763	2,519,765
Bonds payable, current portion	1,980,000	1,880,000
Total current liabilities	41,271,850	39,300,296

Noncurrent liabilities:

Liabilities - payable from restricted assets:

South Bay Power Plant remediation and mitigation fees	4,378,534	4,062,629
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Other long-term liabilities:

Notes payable to SDCRAA, net of current portion	31,338,762	33,242,085
Bonds payable, net of current portion	28,904,263	31,186,697
Unearned revenue	6,647,817	6,960,039
Civic San Diego loan advance - NEVP, net of current portion	1,615,184	2,190,859
Other long-term liabilities	248,280	288,625
Accrued leave, net of current portion	1,336,060	1,488,412
Net OPEB obligation - GASB 45	ò	45,533,321
Net pension liability - GASB 68	126,486,965	132,639,262
Net POB liability - GASB 73	2,777,354	2,125,159
Total OPEB liability - GASB 75	136,291,850	ò
Total other long-term liabilities	335,646,535	255,654,459
Total noncurrent liabilities	340,025,069	259,717,088
Total liabilities	381,296,919	299,017,384

DEFERRED INFLOWS OF RESOURCES

Net difference between projected and actual earnings on plan investments and net difference between actual and expected experience - Pension	5,922,711	1,121,737
Changes in assumptions - POB	128,104	ò
Differences between expected and actual experience and impact from assumption changes - OPEB	4,374,196	ò
Total deferred inflows of resources	10,425,011	1,121,737
Total liabilities and deferred inflows of resources	\$ 391,721,930	\$ 300,139,121

NET POSITION

Net investment in capital assets	515,619,351	502,477,653
Restricted for other projects and grants	8,865,501	8,325,624
Unrestricted	(164,734,995)	(49,487,547)
Total net position	\$ 359,749,857	\$ 461,315,730

See accompanying notes to the basic financial statements.

SAN DIEGO UNIFIED PORT DISTRICT
 Statements of Revenues, Expenses, and Changes in Net Position
 Fiscal Years Ended June 30, 2018 and June 30, 2017

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	2018	2017
Operating revenues:		
Real Estate	\$ 97,720,206	\$ 96,430,104
Port as a Service	16,582,851	15,226,785
Maritime	39,304,489	39,214,404
Harbor Police	16,192,019	16,085,476
Other operating revenues	3,093,694	3,409,062
Total operating revenues	<u>172,893,259</u>	<u>170,365,831</u>
Operating expenses:		
Direct expenses:		
Real Estate	28,609,138	26,400,376
Port as a Service	6,193,075	6,184,253
Maritime	17,557,429	17,208,175
Harbor Police	40,127,834	39,200,868
Other operating expenses	37,743,331	35,858,311
Depreciation and amortization	23,685,524	23,447,360
General and administrative expenses	44,118,083	40,039,794
Total operating expenses	<u>198,034,414</u>	<u>188,339,137</u>
Loss from operations	<u>(25,141,155)</u>	<u>(17,973,306)</u>
Nonoperating revenues (expenses):		
Interest income	1,875,492	1,345,670
Settlement income	5,927,807	1,924,795
Net decrease in the fair value of investments	(136,290)	(389,332)
Interest expense	(3,161,542)	(3,398,581)
Financial assistance other	(121,648)	(578,853)
Other nonoperating expenses	(55,863)	(782,911)
Other nonoperating revenues	2,946,840	3,087,566
Nonoperating revenues (expenses), net	<u>7,274,796</u>	<u>1,208,354</u>
Loss before capital grants and contributions	<u>(17,866,359)</u>	<u>(16,764,952)</u>
Capital grants and contributions	<u>8,684,864</u>	<u>2,457,611</u>
Change in net position	<u>(9,181,495)</u>	<u>(14,307,341)</u>
Net position, beginning of year, as previously reported	461,315,730	477,369,390
Cumulative effect of change in accounting principles	(92,384,378)	(1,746,319)
Net position, beginning of year, as restated	<u>368,931,352</u>	<u>475,623,071</u>
Net position, end of year	<u><u>\$ 359,749,857</u></u>	<u><u>\$ 461,315,730</u></u>

See accompanying notes to the basic financial statements.

SAN DIEGO UNIFIED PORT DISTRICT
Statements of Cash Flow
Fiscal Years Ended June 30, 2018 and June 30, 2017

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	2018	2017
Cash flows from operating activities:		
Payments from customers	\$ 166,198,319	\$ 170,447,175
Payments to suppliers	(58,558,090)	(54,976,768)
Payments to employees	(93,615,370)	(83,407,505)
Other receipts	10,014,766	3,668,213
Net cash provided by operating activities	<u>24,039,625</u>	<u>35,731,115</u>
Cash flows from noncapital financing activities:		
Maintenance Fund - Salute to Bob Hope	(3,013)	(10,646)
Mitigation fees	307,500	0
Financial assistance to other governments	(121,648)	(578,853)
Note payments	(2,519,765)	(2,391,092)
Net cash used in noncapital financing activities	<u>(2,336,926)</u>	<u>(2,980,591)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(31,502,100)	(16,879,554)
Proceeds on sale of capital assets	72,453	57,508
Federal/state grants received	8,405,216	1,991,679
Contributions for capital assets	279,648	465,932
Car rental transaction fees	327,754	0
Payment of bond principal	(1,880,000)	(1,795,000)
Interest paid	(3,524,100)	(3,785,869)
Civic San Diego loan advance - NEVP Phase I	169,765	0
Net cash used in capital and related financing activities	<u>(27,651,364)</u>	<u>(19,945,304)</u>
Cash flows from investing activities:		
Purchase of short-term investments	(45,574,071)	(77,556,799)
Maturity of short-term investments	50,535,097	57,413,929
Interest received from investment securities	1,725,450	956,747
Net cash provided by (used in) investing activities	<u>6,686,476</u>	<u>(19,186,123)</u>
Net increase (decrease) in cash and cash equivalents	<u>737,811</u>	<u>(6,380,903)</u>
Cash and cash equivalents, beginning of year	43,851,046	50,231,949
Cash and cash equivalents, end of year	<u><u>\$ 44,588,857</u></u>	<u><u>\$ 43,851,046</u></u>

See accompanying notes to the basic financial statements.

SAN DIEGO UNIFIED PORT DISTRICT
Statements of Cash Flow
Fiscal Years Ended June 30, 2018 and June 30, 2017

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	<u>2018</u>	<u>2017</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Loss from operations	\$ (25,141,155)	\$ (17,973,306)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation and amortization expenses	23,685,524	23,447,360
Settlement income	5,927,807	1,924,795
Other nonoperating activities	4,093,437	2,254,813
Changes in assets, deferred outflows, liabilities, and deferred inflows:		
Accounts receivable	(6,846,132)	501,708
Other current assets	61,306	109,079
Other restricted assets	(6,479)	(511,395)
Deferred outflows of resources	21,371,268	(29,578,633)
Accounts payable	(2,711,787)	3,110,844
Accrued liabilities	1,779,227	257,064
Other long-term liabilities	(7,627,856)	58,208,585
Deposits and other short-term liabilities	151,192	(420,363)
Deferred inflows of resources	9,303,273	(5,599,436)
Net cash provided by operating activities	<u>\$ 24,039,625</u>	<u>\$ 35,731,115</u>
Supplemental disclosure of noncash investing, capital, and financing activities:		
	<u>2018</u>	<u>2017</u>
Additions to capital assets included in accounts payable	\$ 2,613,157	\$ 577,873
Net decrease in the fair value of investments	\$ (136,290)	\$ (389,332)
Capital project write-offs - prior year costs	\$ (14,779)	\$ (735,433)
Bond issue premium 2013 Series A (amortization)	\$ 256,503	\$ 248,652
Bond issue premium 2004 Series A (amortization)	\$ 45,931	\$ 43,022

See accompanying notes to the basic financial statements.

Notes to the Basic Financial Statements

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(1) Nature of Organization and Summary of Significant Accounting Policies

(a) Organization

The San Diego Unified Port District (District), an autonomous public agency, was established on December 18, 1962 in accordance with laws of the State of California for the acquisition, construction, operation, maintenance, development, management, and regulation of harbor works and improvements, including rail, water, and air terminal facilities, and tidelands and submerged lands of the Harbor of San Diego and San Diego Bay, and for the promotion of commerce, navigation, fisheries, and recreation. The District is governed by a seven-member Board of Port Commissioners (BPC) appointed by the District's five member cities (Chula Vista, Coronado, Imperial Beach, National City, and San Diego).

In 2001, the California legislature established the San Diego County Regional Airport Authority (SDCRAA) by enacting the San Diego County Regional Airport Authority Act (Airport Authority Act), California Public Utilities Code Section 170000 et seq. The Airport Authority Act was amended in 2002 and proposed a phased transfer of all airport operations of the District to SDCRAA. Effective January 1, 2003, pursuant to the Airport Authority Act and the MOU dated as of December 31, 2002, the District transferred all airport operations and certain related assets and liabilities to SDCRAA.

(b) Basis of Accounting

The accounting policies of the District conform to accounting principles generally accepted in the United States of America applicable to state and local government agencies and, as such, the District is accounted for as a proprietary fund. The accompanying basic financial statements have been prepared using the flow of economic resources measurement focus and accrual basis of accounting. Under the accrual basis of accounting, revenues are generally recognized when earned and expenses are recognized when incurred.

(c) Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less at the time of purchase.

(d) Investments

Investments are stated at fair value. Valuations are obtained by using quotations obtained from independent published sources.

(e) Accounts Receivable

An allowance for uncollectible accounts receivable has been provided in the amount of \$48 thousand as of June 30, 2018 and \$0 as of June 30, 2017. The amount is based upon management's estimate of accounts that will not be collected. Accounts receivable are carried at original or estimated invoice amount for customers, less an estimate made for doubtful receivables for customers based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions.

(f) Designated Assets

The BPC may designate funds, which they do not consider to be available for general operations. At June 30, 2018, the District has designated funds primarily for the unpaid contractual portion of some capital projects that are currently in progress totaling \$6.3 million compared to \$2.2 million on June 30, 2017. This designation is classified in the accompanying statements of net position as cash and investments designated for specific capital projects and commitments.

Excluded from the above designation are additional commitments against existing cash reserves that have been authorized by the BPC as follows:

- Ç Remaining costs to complete CIP projects funded from existing cash resources total \$18.4 million excluding projects funded by grants, donations, and contributions (see Note 11 (a) i) compared to \$26.6 million in fiscal year 2017).
- Ç Commitments for other specific projects and activities (non-CIP) totaling \$10.0 million compared to \$11.1 million in fiscal year 2017.
- Ç Operating reserves in alignment with BPC Policy No. 117. The policy requires that operating reserves at the end of each fiscal year are equal to six months of budgeted operating and maintenance expenses.

(g) Restricted Assets

Funds are set aside as restricted assets and are not available for current spending, when constraints placed on their use are legally enforceable due to either:

1. Externally imposed requirements by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or,
2. Constitutional provisions or enabling legislation.

The District classifies assets as restricted when the resources that were received or earned contain an explicit understanding between the resource provider and the District that the funds would be used for a specific purpose. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources, as they are needed.

(h) Capital Assets

Capital assets are carried at cost (except for donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement, which are recorded at acquisition value rather than fair value) less an allowance for accumulated depreciation/amortization. Assets acquired under capital leases are amortized over the estimated useful life. Recurring normal maintenance and repair costs are charged to operations, whereas major repairs, improvements, and replacements that extend the assets useful life or service utility are capitalized. The capitalization threshold is \$5 thousand with an expected useful life of greater than one year and depreciation/amortization is computed by use of the straight-line method over the following estimated useful lives:

Land improvements	30 to 40 years
Roads and parking lots	10 to 30 years
Building, water borne structures, and other terminals	10 to 50 years
Automotive and field equipment, furniture, and fixtures	3 to 15 years
Intangible assets	3 to 20 years

(i) Compensated Absences

All employees of the District earn annual leave that is paid upon termination or retirement. Annual leave is accrued and paid at current rates of compensation. Employees earn annual leave at the following rates as of June 30, 2018 and 2017:

Years of Active Service	Annual Accrued Hours (days)	Maximum Accrued Hours (days)
0-5 th	144 hours (18 days)	432 hours (54 days)
6-10 th	184 hours (23 days)	552 hours (69 days)
11-15 th	224 hours (28 days)	552 hours (69 days)
16 th -up	254 hours (31.75 days)	632 hours (79 days)

(j) District Net Position

Net investment in capital assets consists of capital assets, which are net of accumulated depreciation/amortization and further reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets, and deferred outflows of resources.

Restricted net position consists of restricted assets reduced by liabilities related to those assets. Restricted amounts represent limitations imposed on its use, either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, and laws or regulations of other governments.

Unrestricted net position may be used to meet the District's commitments and ongoing obligations.

(k) Revenue Classifications

The District classifies revenue as operating or nonoperating revenues, based on the following criteria:

Operating revenues are derived from the revenue sources that constitute the principal ongoing activities of the District's operations. The major components of the operating revenue sources are provided as follows:

- Ç Real Estate operating revenues are generally derived from flat-fee ground rentals, rental fees based on a fixed percentage of tenant revenues subject to certain minimum monthly fees, and park usage fees.
- Ç Port as a Service operating revenues include parking fees, citations, advertising, concession, and new business opportunities.
- Ç Maritime operating revenues include charges for fixed rents, storage, other rental revenue, passenger fees, cruise ship security charges, dockage, wharfage, and other marine services subject to District tariffs filed with the Federal Maritime Commission. Wharfage revenue is the charge assessed to both inbound and outbound cargo when crossing over District property. Dockage fees are the charges assessed against a vessel for the right to berth at a wharf or pier of the District.
- Ç Harbor Police operating revenues include police services provided to the SDCRAA and expense reimbursements which include cost recovery for services provided.

Nonoperating revenues are from sources related to financing activities and other activities that do not constitute the principal ongoing activities of the District's operations. The major components of the nonoperating revenue sources are reimbursed legal fees, donated revenue, investment income from cash and investments, and legal settlements.

(l) Expense Classifications

The District classifies expenses as operating or nonoperating based on the following criteria:

Operating expenses are from expense sources that constitute the principal ongoing activities of the District's operations. The major components of the District's operating expenses consist of personnel expenses, contractual services, community and environmental support (including municipal services for fire, police, and medical emergency), and maintenance and repairs.

Nonoperating expenses are from expense sources that are related to financing, investing, and other activities that do not constitute the principal ongoing activities of the District's operations. The major components of nonoperating expenses are legal expense and interest expense.

(m) Pension

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's defined benefit pension plan (Plan) administered by San Diego City Employees' Retirement System (SDCERS) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by SDCERS.

(n) Capital Grants and Contributions

The District recognizes capital related grant revenue as capital contributions when a capital grant agreement is approved, all eligibility requirements have been met, and qualifying expenses are incurred. Contributed capital assets are recorded at acquisition value when the donation is received.

(o) Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(p) New Governmental Accounting Standards

The District implemented the following new governmental accounting standards as of July 1, 2017:

- Ç GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by governmental employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. Refer to Note 7, 14, and Required Supplementary Information for additional information related to GASB. No 75 implementation.
- Ç GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address a number of practice issues arising from previously implemented GASB statements. Issues addressed in this statement include blending component units, goodwill, fair value measurement and application, pensions, and other postemployment benefits. There was no impact on the District's financial statements resulting from the implementation of this statement.

- Ç GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in the accounting and financial reporting of in-substance defeasance of debt. The statement also improves the accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. There was no impact on the District's financial statements resulting from the implementation of this statement.

(q) Upcoming Governmental Accounting Standards

GASB has issued several pronouncements that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the District:

- Ç GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to establish criteria for determining the timing and pattern of recognition of certain Asset Retirement Obligations (AROs) and corresponding deferred outflows of resources. This Statement will be effective for the District beginning in fiscal year 2019.
- Ç GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance for identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement will be effective for the District beginning in fiscal year 2020.
- Ç GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows and outflows of resources based on contractual payment provisions. This Statement will be effective for the District beginning in fiscal year 2021.
- Ç GASB Statement No. 88, *Certain Disclosures Related to Debt, including Borrowings and Direct Placements*. The objective of this Statement is to improve information that is disclosed in the footnotes regarding debt, including direct borrowings, direct placements, and other required liability disclosures. This Statement will be effective for the District beginning in fiscal year 2019.
- Ç GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are 1) to enhance the relevance and comparability of information about capital assets and cost of borrowing for a reporting period and 2) to simplify accounting for interest incurred prior to end of a construction period. This Statement will be effective for the District beginning in fiscal year 2021.
- Ç GASB Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*. The objective of this Statement is to improve the consistency and comparability of reporting of a government's majority equity interest in a legally separate entity and improve relevance of financial information for component units. This Statement will be effective for the District beginning in fiscal year 2020.

(2) Cash and Investments, Escrow Accounts, and Funds Held by Trustee

Summary of cash and investments:	2018	2017
Cash and cash equivalents	\$ 44,588,857	\$ 43,851,046
Investments	75,416,702	84,630,508
Restricted cash and investments:		
America's Cup Harbor Parking Facility Fund	1,631,266	1,408,764
Car Rental Transaction Fund	327,754	0
Chula Vista Bayfront Infrastructure Improvement Fund	3,000,000	3,000,000
Mitigation Fund	3,307,500	3,000,000
North Embarcadero Visionary Plan Maintenance Fund	1,059,604	870,750
Refundable Security Deposits	1,592,649	2,485,214
Other	605,621	625,494
Total restricted cash and investments	<u>11,524,394</u>	<u>11,390,222</u>
Designated cash and investments:		
Designated for specific capital projects and commitments	6,297,482	2,178,874
Total cash and investments	<u>\$ 137,827,435</u>	<u>\$ 142,050,650</u>

Cash and investments consist of the following:	2018	2017
Cash on hand, current	\$ 2,500	\$ 2,500
Deposits with financial institutions	2,962,801	3,862,336
Investments	134,862,134	138,185,814
Total cash and investments	<u>\$ 137,827,435</u>	<u>\$ 142,050,650</u>

Investments Authorized by California Government Code and the District Investment Policy

California Government Code § 53600 et seq. and the BPC's Policy 115 (BPC 115), "Guidelines for Prudent Investments," regulate the investment of the District's temporary idle cash. The table on the following page identifies only those investments that are authorized by both California Government Code and BPC 115. The table also identifies restrictions as to investment terms to maturity and maximum allowable investment percentages. While the maximum allowable term to maturity for various investment classes may be five years, BPC 115 limits the portfolio's weighted average days to maturity to three years. At no time during fiscal year 2018 and fiscal year 2017 did the portfolio's weighted average days to maturity exceed three years. Other than the maximum allowable term to maturity, the District's BPC 115 is similar to the restrictions pursuant to California Government Code § 53600 et seq.

		Maximum Allowable Investment	
Investment Types Authorized by California Government Code and BPC 115	Term to Maturity	Total (% of Portfolio)	Any One Issuer (% of Portfolio)
U.S. Treasury Obligations	5 Years	No Restriction	No Restriction
U.S. Agency Obligations	5 Years	No Restriction	No Restriction
Bankers' Acceptances	180 Days	40% Fair Market Value (FMV)	10% FMV
Placement Service Certificates of Deposit	5 Years	30% FMV	FDIC Limit
Commercial Paper ¹	270 Days	15% FMV	10% FMV
Negotiable Certificates of Deposit	1 Year	30% FMV	No Restriction
Medium-term notes - "A" rating	2 Years	30% FMV	5% FMV
Medium-term notes - "AA" rating	3 Years	30% FMV	5% FMV
Repurchase Agreements	1 Year	No Restriction	No Restriction
Reverse Repurchase Agreements	60 Days	10% FMV	No Restriction
Local Agency Investment Fund (LAIF)	n/a	No Restriction	n/a
Joint Powers Authority Pool (JPA)	2 Years	30% FMV	n/a
State Obligations - California and Others	5 years	No Restriction	No Restriction
California Local Agency Obligations	5 Years	No Restriction	No Restriction
Supranational Obligations - "AA" rating ²	5 Years	30% FMV	No Restriction

¹BPC 115 allows up to 30% of A1 or higher rated commercial paper if the dollar-weight average maturity does not exceed 31 days.

²Supranational Obligations include Inter-American Development Bank, International Bank for Reconstruction and Development, and the International Finance Corporation.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that fluctuations in market interest rates will adversely affect the fair value of an investment. In general, an investment with a longer term to maturity has a greater sensitivity to changes in market interest rates than does an investment with a shorter term to maturity.

One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by structuring the maturities to coincide with expected capital investment cash outflows. Investment purchases are further structured so as to mature at fairly regular intervals in order to provide liquidity sufficient for operations. The District uses remaining days to maturity, weighted average days to maturity and duration as methods by which to analyze the portfolio's overall sensitivity to interest rate risk. The District intends to hold callable securities until maturity, however, for disclosure purposes; the District uses the call date as equivalent to maturity date.

The District's investment portfolio is conservatively managed. Although the District is authorized by BPC policy to invest in securities whose fair value would be considered highly sensitive to interest rate risk, the District did not own any specific securities considered highly sensitive. The fair value of the District's position in the external investment pools LAIF and CalTrust (Joint Powers Authority Pool - JPA) is the same as the value of the pool shares as of June 30, 2018 and 2017.

SAN DIEGO UNIFIED PORT DISTRICT

Notes to the Basic Financial Statements

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Information pertaining to the portfolio's overall sensitivity to interest rate risk at June 30, 2018 and 2017 is provided in the following tables:

District Investments		Remaining Days to Maturity			
Investment Type	Fair Value at June 30, 2018	120 Days or Less	121 to 360	361 to 720	721 to 1,080
U.S. Treasury Obligations	\$ 29,679,127	\$ 8,956,277	\$ 14,823,161	\$ 5,899,689	\$ 0
U.S. Agency Obligations	58,586,328	30,847,803	15,894,678	11,843,847	0
Local Agency Investment Fund (LAIF)	32,000,000	0	32,000,000	0	0
Supranational Obligations	4,970,538	1,998,546	2,971,992	0	0
Joint Powers Authority Pool - JPA	9,626,141	0	9,626,141	0	0
Totals:	\$ 134,862,134	\$ 41,802,626	\$ 75,315,972	\$ 17,743,536	\$ 0

District Investments		Remaining Days to Maturity			
Investment Type	Fair Value at June 30, 2017	120 Days or Less	121 to 360	361 to 720	721 to 1,080
U.S. Treasury Securities	\$ 7,985,393	\$ 0	\$ 0	\$ 4,991,720	\$ 2,993,673
U.S. Agency Obligations	78,252,909	48,341,688	18,969,837	7,964,964	2,976,420
Local Agency Investment Fund (LAIF)	30,500,000	0	30,500,000	0	0
Supranational Obligations	5,973,261	0	2,998,788	2,974,473	0
Joint Powers Authority Pool - JPA	9,486,205	0	9,486,205	0	0
Medium Term Notes	5,988,046	0	5,988,046	0	0
Totals:	\$ 138,185,814	\$ 48,341,688	\$ 67,942,876	\$ 15,931,157	\$ 5,970,093

Disclosures Relating to Credit Risk

Credit risk is the risk that the issuer of an investment will not repay its obligation as promised. Credit quality is measured using a rating assigned by a nationally recognized statistical rating organization.

The information presented below identifies the minimum credit rating required by California Government Code, the District's investment policy, and the actual rating as of June 30, 2018 and 2017 for each investment type.

Investment Type	Fair Value at June 30, 2018	Minimum Rating	Actual Rating					Not Rated
			AAA	AA+	AA	AA-	AAf /S1+	
U.S. Treasury Obligations	\$ 29,679,127	n/a	\$ 0	\$29,679,127	\$ 0	\$ 0	\$ 0	\$ 0
U.S. Agency Obligations	58,586,328	n/a	0	58,586,328	0	0	0	0
Local Agency Investment Fund (LAIF)	32,000,000	n/a	0	0	0	0	0	32,000,000
Supranational Obligations	4,970,538	AA	4,970,538	0	0	0	0	0
Joint Powers Authority Pool - JPA	9,626,141	n/a	0	0	0	0	9,626,141	0
Totals:	\$ 134,862,134		\$4,970,538	\$88,265,455	\$ 0	\$ 0	\$9,626,141	\$32,000,000

Investment Type	Fair Value at June 30, 2017	Minimum Rating	Actual Rating					Not Rated
			AAA	AA+	AA	AA-	AAf /S1+	
U.S. Treasury Securities	\$ 7,985,393	n/a	\$ 0	\$ 7,985,393	\$ 0	\$ 0	\$ 0	\$ 0
U.S. Agency Obligations	78,252,909	n/a	0	78,252,909	0	0	0	0
Local Agency Investment Fund (LAIF)	30,500,000	n/a	0	0	0	0	0	30,500,000
Supranational Obligations	5,973,261	AA	5,973,261	0	0	0	0	0
Joint Powers Authority Pool - JPA	9,486,205	n/a	0	0	0	0	9,486,205	0
Medium Term Notes	5,988,046	A	0	0	1,995,854	3,992,192	0	0
Totals:	\$ 138,185,814		\$5,973,261	\$86,238,302	\$1,995,854	\$3,992,192	\$9,486,205	\$30,500,000

On June 26, 2018, Standard & Poor's affirmed the U.S. credit rating of AA+. Moody's Investors Service affirmed their Aaa credit rating on August 25, 2018, and Fitch Ratings affirmed their AAA ratings on April 5, 2018. Funds held in trustee and fiscal agent accounts as of June 30, 2018 and 2017 met California Government Code minimum credit rating requirements.

Concentration of Credit Risk

The District's investment policy is consistent with the California Government Code with respect to the categorical limitations placed on the amount that may be invested in any one issuer. The District's investment holdings at June 30, 2018 and 2017, grouped by issuer, are identified in the tables below.

Issuer	Investment Type	Fair Value at June 30, 2018	Percentage of Portfolio
United States of America	U.S. Treasury Obligations	\$ 29,679,127	22.0%
Federal Home Loan Bank	U.S. Agency Obligations	8,930,152	6.6%
Federal Home Loan Mortgage Corporation	U.S. Agency Obligations	23,888,587	17.7%
Federal National Mortgage Association	U.S. Agency Obligations	12,887,178	9.6%
Federal Farm Credit Bank	U.S. Agency Obligations	12,880,411	9.6%
CalTRUST Short-Term Fund	Joint Powers Authority Pool - JPA	9,626,141	7.1%
Local Agency Investment Fund	Local Agency Investment Fund (LAIF)	32,000,000	23.7%
International Bank for Reconstruction & Development	Supranational Obligations	4,970,538	3.7%
Totals:		\$ 134,862,134	100.0%

Issuer	Investment Type	Fair Value at June 30, 2017	Percentage of Portfolio
United States of America	U.S. Treasury Securities	\$ 7,985,393	5.8%
Federal Home Loan Bank	U.S. Agency Obligations	18,499,269	13.4%
Federal Home Loan Mortgage Corporation	U.S. Agency Obligations	31,868,703	23.0%
Federal National Mortgage Association	U.S. Agency Obligations	8,922,040	6.5%
Federal Farm Credit Bank	U.S. Agency Obligations	18,962,897	13.7%
Walmart Stores Incorporated	Medium Term Notes	1,995,854	1.4%
Toyota Credit Corporation	Medium Term Notes	3,992,192	2.9%
CalTRUST Short-Term Fund	Joint Powers Authority Pool - JPA	9,486,205	6.9%
Local Agency Investment Fund	Local Agency Investment Fund (LAIF)	30,500,000	22.1%
International Bank for Reconstruction & Development	Supranational Obligations	5,973,261	4.3%
Totals:		\$ 138,185,814	100.0%

Custodial Credit Risk

Custodial credit risk is the risk that investments held by the transaction counterparty may not be recoverable in the event of the failure of the counterparty firm. The District's adopted investment policy states that, "To protect against potential losses by the collapse of individual securities dealers, all securities owned by the District shall be held in safekeeping by a third party bank trust department acting as agent for the District under the terms of a custody agreement executed by the bank and the District. All securities will be received and delivered using standard delivery-versus-payment procedures." The District uses a custodial bank for the receipt and safekeeping of its securities and all securities purchased in fiscal year 2018 and fiscal year 2017 were received using delivery-versus-payment procedures.

California Government Code requires that financial institutions secure local government agency deposits by pledging securities in an undivided collateral pool; the depository holds the collateral. The market value of the securities held in the collateral pool must be greater than or equal to 110.0% of the total amount deposited by the public agencies. A financial institution may also, in accordance with California Government Code, secure the local public agency deposits using first trust deed mortgages; however, the market value of the first trust deed mortgages collateral must be at least 150.0% of the total amount deposited.

All individual securities as of June 30, 2018 and 2017 were held by a third party bank trust department acting as agent for the District under the terms of a custody agreement. Pooled accounts as of June 30, 2018 and 2017 were held by a third party bank trust department acting as agent for each fund under the terms of a custody agreement.

Investments in CalTRUST Investment Pool

The District is a voluntary participant in the Investment Trust of California (doing business as CalTRUST), a Shares of Beneficial Interest program. CalTRUST is a Joint Powers Authority (JPA) authorized by California Government Code sections 53601 and 53635 created for the purpose of pooling local agency assets for investing. The District participates in the CalTRUST short-term account which has a target duration of 0 to 2 years. Authorized securities under this account typically include U.S. treasuries, U.S. agencies, collateralized mortgage obligations, mortgage-backed securities, asset-backed securities, bankers acceptances, commercial paper, certificates of deposit, repurchase agreements backed by 102% U.S. government agencies and treasuries, medium-term notes, and rated money-market mutual funds.

The investment objectives of CalTRUST seek to attain a high level of current income consistent with the preservation of capital. The program is subject to interest rate and credit risk. This is primarily due to interest rate movements and the potential decline of the District's share value in response to events affecting the issuer of any securities or its credit rating. CalTRUST is not registered as an investment company under the Investment Company Act of 1940 (Act) and, accordingly,

is not subject to the provisions of that Act and the rules thereunder, including the protective rules relating to registered money market mutual funds and other types of mutual funds. Funds invested in the CalTRUST short-term fund may be withdrawn with a 24-hour notice.

Local Agency Investment Fund (LAIF)

The District is a voluntary participant in the LAIF that is regulated by the California Government Code under the oversight of the Treasury of the State of California. Funds invested in LAIF may be withdrawn daily up to \$10.0 million. LAIF withdrawals over \$10.0 million require a 24-hour notice.

Escrow Accounts and Funds Held by Trustee

Pursuant to the April 27, 1999 Property Escrow Agreement between the District and Dynegy South Bay LLC (formerly Duke Energy South Bay LLC), the District had \$1.1 million both as of June 30, 2018 and as of June 30, 2017 in a Property Escrow Account with US Bank for decommissioning, dismantling, and environmental remediation of the South Bay Power Plant Site. All of the escrow funds are invested in an Aaa-mf rated Wells Fargo Government Money Market Fund. The Property Escrow Funds may be used by Dynegy solely in connection with the End of Term Actions stated in the Lease Agreement and the Remediation Measures as stated in the Environmental Remediation Agreement.

The District has an amended escrow agreement dated July 27, 1994 with the City of Imperial Beach to provide an escrow fund of \$300 thousand for certain claim costs attributable to District property which may arise from beach clean-up, pier maintenance, and lifeguard services. The escrow funds are invested in a US Bank money market account and had a balance of \$300 thousand as of June 30, 2018 and 2017.

On July 1, 2004 the District established an escrow agreement for Payment Agreement Obligations with National Union Fire Insurance Company of Pittsburgh, PA, on behalf of itself and other member companies of American International Group, Inc., as beneficiary, and the Bank of New York Mellon as escrow agent. The escrow fund was created for the purpose of providing collateral for the District's obligations under any workers' compensation claim. The balance in the escrow account was \$3.3 million on as of June 30, 2018 and 2017, and is invested in the Bank of New York Mellon's Cash Reserve account, an uncollateralized interest-bearing overnight deposit product with daily access. The assets held in this account are part of the escrow agents balance sheet whose long-term deposit rating is AA- and short-term deposit rating is A-1+ from S&P as of June 30, 2018, and AA- and A-1+ from S&P, respectively as of June 30, 2017.

Under provisions of the indenture for the District's Revenue Bonds 2004 Series A and B and the 2013 Refunding Revenue Bonds Series A, the District is required to maintain a Reserve Fund of \$3.4 million with an independent trustee. The District's trustee is US Bank and the funds are invested in the First American Treasury Obligations Fund in accordance with the language in the District's bond documents. The fund invests exclusively in short-term U.S. treasury obligations and repurchase agreements secured by U.S. treasury obligations. The fund had a rating of AAAm from S&P, Aaa-mf from Moody's, and AAAMmf from Fitch as of June 30, 2018 and June 30, 2017.

(3) Capital Assets

Following is a summary of the capital assets activity for the fiscal years ended June 30, 2018 and June 30, 2017:

Capital Assets (Expressed in thousands)				
Description	Balance at June 30, 2017	Increases	Decreases	Balance at June 30, 2018
Nondepreciable assets:				
Land	\$ 246,694	6,107	\$ 0	\$ 252,801
Construction-in-progress	22,962	31,956	(23,808)	31,110
Depreciable/amortizable assets:				
Land improvements	7,650	0	0	7,650
Buildings and structures	578,750	13,849	(595)	592,004
Machinery and equipment	95,467	3,924	0	99,391
Roads and parking lots	120,803	1,731	0	122,534
Intangible	3,779	328	0	4,107
Total assets	<u>1,076,105</u>	<u>57,895</u>	<u>(24,403)</u>	<u>1,109,597</u>
Accumulated depreciation/amortization:				
Land improvements	(6,704)	(208)	0	(6,912)
Buildings and structures	(376,308)	(14,530)	595	(390,243)
Machinery and equipment	(62,882)	(6,030)	0	(68,912)
Roads and parking lots	(87,732)	(2,411)	0	(90,143)
Intangible	(1,018)	(507)	0	(1,525)
Total accumulated depreciation/ amortization	<u>(534,644)</u>	<u>(23,686)</u>	<u>595</u>	<u>(557,735)</u>
Capital assets, net	<u><u>\$ 541,461</u></u>	<u><u>\$ 34,209</u></u>	<u><u>\$ (23,808)</u></u>	<u><u>\$ 551,862</u></u>

Capital Assets

(Expressed in thousands)

Description	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017
Nondepreciable assets:				
Land	\$ 246,689	\$ 5	\$ 0	\$ 246,694
Construction-in-progress	14,277	14,460	(5,775)	22,962
Depreciable/amortizable assets:				
Land improvements	7,650	0	0	7,650
Buildings and structures	577,028	1,722	0	578,750
Machinery and equipment	88,316	7,456	(305)	95,467
Roads and parking lots	120,647	156	0	120,803
Intangible	3,563	215	0	3,778
Total assets	<u>1,058,170</u>	<u>24,014</u>	<u>(6,080)</u>	<u>1,076,104</u>
Accumulated depreciation/amortization:				
Land improvements	(6,480)	(224)	0	(6,704)
Buildings and structures	(362,286)	(14,022)	0	(376,308)
Machinery and equipment	(57,440)	(5,747)	305	(62,882)
Roads and parking lots	(84,739)	(2,993)	0	(87,732)
Intangible	(557)	(461)	0	(1,018)
Total accumulated depreciation/ amortization	<u>(511,502)</u>	<u>(23,447)</u>	<u>305</u>	<u>(534,644)</u>
Capital assets, net	<u>\$ 546,668</u>	<u>\$ 567</u>	<u>\$ (5,775)</u>	<u>\$ 541,460</u>

The District recognized depreciation/amortization expenses of \$23.7 million and \$23.4 million for the years ended June 30, 2018 and 2017, respectively.

(4) Long-Term Debt

(a) Summary of Long-Term Liabilities

Below is a summary of long-term liabilities and their activity for the fiscal years ended June 30, 2018 and 2017:

	Balance at June 30, 2017 as Restated	Increases	Decreases	Balance at June 30, 2018	Amounts Due Within One Year
Notes:					
SDCRAA promissory note	\$ 35,043,779	\$ 0	\$ (1,801,694)	\$ 33,242,085	\$ 1,903,323
Civic San Diego loan advance - NEVP	2,908,930	169,765	(718,071)	2,360,624	745,440
Revenue bonds:					
Series A 2004 bonds payable	5,900,000	0	(1,880,000)	4,020,000	1,980,000
Series A 2004 bonds premium	101,810	0	(45,931)	55,879	0
Series A 2013 bonds payable	25,205,000	0	0	25,205,000	0
Series A 2013 bonds premium	1,859,887	0	(256,503)	1,603,384	0
Total notes and bonds	<u>71,019,406</u>	<u>169,765</u>	<u>(4,702,199)</u>	<u>66,486,972</u>	<u>4,628,763</u>
Other noncurrent liabilities:					
Unearned revenue - Other	164,061	2,160	(5,173)	161,048	0
Unearned revenue - NEVP credits	6,795,978	103,314	(412,523)	6,486,769	0
Total OPEB liability - GASB 75	137,917,699	6,833,757	(8,459,606)	136,291,850	0
Net pension liability - GASB 68	132,639,262	62,773,600	(68,925,897)	126,486,965	0
Net POB pension liability - GASB 73	2,125,159	1,167,113	(514,918)	2,777,354	0
Accrued leave	6,473,694	5,705,254	(5,417,485)	6,761,463	5,425,403
SBPP remediation	1,062,629	11,480	(3,075)	1,071,034	0
Mitigation fees	3,000,000	307,500	0	3,307,500	0
Other long-term liabilities	288,625	0	(40,345)	248,280	0
Total other noncurrent liabilities	<u>290,467,107</u>	<u>76,904,178</u>	<u>(83,779,022)</u>	<u>283,592,263</u>	<u>5,425,403</u>
Total long-term liabilities	<u>\$ 361,486,513</u>	<u>\$ 77,073,943</u>	<u>\$ (88,481,221)</u>	<u>\$ 350,079,235</u>	<u>\$ 10,054,166</u>

SAN DIEGO UNIFIED PORT DISTRICT
Notes to the Basic Financial Statements
Fiscal Years Ended June 30, 2018 and June 30, 2017

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	Balance at June 30, 2016 as Restated	Increases	Decreases	Balance at June 30, 2017	Amounts due within one year
Notes:					
SDCRAA promissory note	\$ 36,749,270	\$ 0	\$ (1,705,491)	\$ 35,043,779	\$ 1,801,694
Civic San Diego loan advance - NEVP	3,594,532	0	(685,602)	2,908,930	718,071
Revenue bonds:					
Series A 2004 bonds payable	7,695,000	0	(1,795,000)	5,900,000	1,880,000
Series A 2004 bonds premium	144,832	0	(43,022)	101,810	0
Series A 2013 bonds payable	25,205,000	0	0	25,205,000	0
Series A 2013 bonds premium	2,108,539	0	(248,652)	1,859,887	0
Total notes and bonds	75,497,173	0	(4,477,767)	71,019,406	4,399,765
Other noncurrent liabilities:					
Unearned revenue - Other	174,707	1,654	(12,300)	164,061	0
Unearned revenue - NEVP credits	7,100,039	87,818	(391,879)	6,795,978	0
Net OPEB obligation - GASB 45	39,946,115	8,791,795	(3,204,589)	45,533,321	0
Net pension liability - GASB 68	80,591,608	76,250,605	(24,202,951)	132,639,262	0
Net POB pension liability - GASB 73	1,746,319	378,840	0	2,125,159	0
Accrued leave	5,887,028	5,706,556	(5,119,890)	6,473,694	4,985,282
SBPP remediation	1,061,139	4,490	(3,000)	1,062,629	0
Mitigation fees	3,000,000	0	0	3,000,000	0
Other long-term liabilities	32,409	289,885	(33,669)	288,625	0
Total other noncurrent liabilities	139,539,364	91,511,643	(32,968,278)	198,082,729	4,985,282
Total long-term liabilities	\$ 215,036,537	\$ 91,511,643	\$ (37,446,045)	\$ 269,102,135	\$ 9,385,047

The District's required debt service payments for the notes and bonds as of June 30, 2018, excluding the bond premium, are as follows:

Years Ending June 30	Principal	Interest	Total Debt Service
2019	\$ 4,628,763	\$ 3,281,725	\$ 7,910,488
2020	4,819,421	3,045,541	7,864,962
2021	4,928,683	2,787,854	7,716,537
2022	4,370,619	2,527,165	6,897,784
2023	4,570,203	2,291,710	6,861,913
2024-2028	26,833,274	7,486,914	34,320,188
2029-2031	14,676,746	897,522	15,574,268
Total	\$ 64,827,709	\$ 22,318,431	\$ 87,146,140

(b) Notes Payable

SDCRAA Promissory Note

As part of the transfer of airport operations and the San Diego International Airport (SDIA) to the SDCRAA on January 1, 2003 and pursuant to the memorandum of understanding (MOU), the District issued a \$50.0 million promissory note to the SDCRAA. The note is being amortized over a period of 25 years with a fixed rate of 5.5% per annum; the note remains subordinated to all other bonded indebtedness of the District and matures in December 2030.

Civic San Diego Advance ñ NEVP Phase I

On April 9, 2007, the District entered into a Joint Exercise of Powers Agreement (JPA) with the City of San Diego and the Centre City Development Corporation, now known as Civic San Diego (CSD), to design and fund phases of the North Embarcadero Visionary Plan (NEVP). The JPA provided that the District and CSD equally share the cost for

the Phase I design, and that costs for subsequent phases shall be agreed upon in an amendment to be approved by the governing body of each party.

On February 28, 2011, a First Amendment to the JPA (First Amendment) was signed with the City of San Diego and the former Redevelopment Agency of the City of San Diego acting through CSD. The First Amendment revised the definition of Phase I and established an estimated total construction cost of \$28.6 million, subject to certain credits to the District for previous work on Broadway Pier and offsets for future maintenance.

According to Section 2, Item 6.1.5.3 of the First Amendment, the District has begun to pay \$850 thousand annually to CSD as repayment of their loan advances. Upon the completion of Lane Field, the District shall pay CSD the greater of \$850 thousand or 50.0% of revenues received from Lane Field. The District may prepay advances anytime.

The NEVP Phase I improvements were completed on October 31, 2014, and in accordance with Section 6.1.3 of the First Amendment, the District has previously applied the NEVP Phase I maintenance credit of approximately \$4.4 million against the loan advances from CSD in recognition of the District's assumption of the maintenance obligations.

On August 21, 2015, the District notified the JPA that the improvements for NEVP Phase I and Setback Park/Plaza were complete, and the District's maintenance and security obligations have begun. The maintenance credit for Setback Park/Plaza was calculated to be \$1.6 million, the security credit for Setback Park/Plaza was \$384 thousand and the security credit for NEVP Phase I was \$1.5 million, totaling approximately \$3.5 million. On April 14, 2016, the CSD notified the District that they agreed to the maintenance and security credits totaling approximately \$3.5 million and accordingly, the District applied the \$3.5 million credit during fiscal year 2016 against the loan advances from CSD.

The District recorded the maintenance and security credits of \$3.5 million as unearned revenue under other noncurrent liabilities beginning in fiscal year 2016.

(c) *Revenue Bonds and Pledge of Revenues*

Series A 2004 Bonds

On October 28, 2004, the District issued \$23.0 million (par value) of Series A Revenue Bonds (Bonds) which are secured by a pledge and lien on net pledged revenues.

The Bonds were issued for a term of 25 years with interest rates ranging from 2% to 5.25%. The proceeds from the sale of the Bonds were used to reimburse the District for certain previous capital expenditures, fund the Bonds' reserve requirement, and finance the costs of issuance.

The Series A 2004 Bonds include serial and term bonds, with mandatory sinking fund requirements. The principal balance for term bonds outstanding on the Series A 2004 bonds as of June 30, 2018 is \$4.0 million and is scheduled to be paid in two payments over the next two years.

Series A 2013 Bonds

On November 20, 2013, the District issued \$25.5 million Series A 2013 revenue refunding bonds to advance refund the entire \$26.6 million of the outstanding Series B 2004 Revenue Bonds that is now defeased and is no longer in the District liability accounts. Series A 2013 Bonds were issued for a term of 16 years with interest rates ranging from 2.0% to 5.0%. Serial bonds range in maturity from \$270 thousand to \$3.1 million, with maturity dates ranging from September 1, 2014 to September 1, 2029. The first payment of \$270 thousand was made on June 30, 2014. The next principal payment will commence on June 30, 2021 for \$2.0 million. Principal payments remaining as of June 30, 2018 total \$25.2 million.

Pledged Revenues

Pledged revenues for the year ended June 30, 2018, totaled \$181.5 million. This represents approximately 94.4% of total District revenues and 474.7% of the remaining Series A 2004 and 2013 Bonds' principal and interest requirements compared to \$174.6 million for the year ended June 30, 2017. Net pledged revenues for the year ended June 30, 2018 totaled \$31.6 million, which represents 944.8% of the Series A 2004 and 2013 Bonds' annual principal and interest requirements of \$3.3 million. Net pledged revenues for the year ended June 30, 2017 totaled \$33.2 million, which represents 991.4% of the Series A 2004 and 2013 Bonds' annual principal and interest requirements of \$3.4 million.

(d) Unearned Revenue

Unearned Revenue includes NEVP maintenance and security credits as mentioned in Note 4(b) Civic San Diego Advance ñ NEVP Phase I. The District accounts for recognized revenue on the 50.0% Civic San Diego share of maintenance and security costs as the costs are incurred over a 30 year period in accordance with the terms of the First Amendment. Unearned revenue - NEVP credits as of June 30, 2018 is \$6.5 million.

The District also accounted for recognized revenue on maintenance expenses for other maintenance funds for artworks such as the Unconditional Surrender, Bob Hope, and Pacific Spirit. Unearned revenue - Other as of June 30, 2018 is \$161 thousand.

(e) Accrued Leave

All employees of the District earn annual leave that is paid upon termination or retirement. The accrued leave of \$6.8 million is based on compensation rates as of June 30, 2018.

(f) South Bay Power Plant Site Demolition and Remediation

Pursuant to the Asset Sale Agreement between the District and SDG&E, the District acquired the South Bay Power Plant (Plant) in April 1999, and the Plant was subsequently leased to Duke Energy South Bay, LLC (Duke South Bay).

In May 2006, the BPC adopted a resolution granting consent to transfer ownership of Duke South Bay to LS Power Generation, LLC (LS Power), at the request of Duke Energy Americas, LLC the parent company of Duke South Bay. One of the conditions included is that Duke Capital, LLC the guarantor of Duke South Bay obligations to the District, has acknowledged and agreed the 'Duke Guarantees' (the Lease Guaranty dated April 1, 1999, the Environmental Remediation Guaranty dated April 22, 1999, and the Guaranty of Contract and Permit Rights Assignment and Property Escrow Agreement dated April 22, 1999, each made by Duke Capital, LLC in favor of the District) shall remain in effect until such time as the District grants its consent for the release of said Duke Guarantees.

In November 2006, the BPC consented to LS Power's merger with Dynegy Inc. (Dynegy). The merger included a transfer of control of the equity interests in LSP South Bay from LS Power to Dynegy. The Duke South Bay guarantees have remained in effect since the Dynegy transaction.

Also in fiscal year 1999, the California State Legislature appropriated \$15.0 million to assist the District in mitigating environmental and community issues associated with the Plant, which the District deposited into a property escrow account, and together with their earnings are to be used for the 'End of Term Actions' as described in the Lease, including decommissioning, demolition, and remediation of the Plant facility and site. The balance in the property escrow account after drawdown and income on investments as of June 30, 2018 and 2017 were \$1.1 million and \$1.1 million, respectively. This amount is reported in the Statements of Net Position as restricted assets.

Costs associated with decommissioning and demolition of the Plant, in excess of amounts available in the escrow account, are the responsibility of Dynegy. Dynegy and SDG&E have allocated responsibilities between themselves for the cost and performance of the environmental remediation of the Plant and site. Pursuant to the lease document

and other agreements, Dynegy is required to decommission, dismantle, remove the facility and improvements, and return the Plant site free and clear of all structures and improvements.

On February 2, 2013, the above ground superstructure for the Plant was demolished. Dynegy completed the decommissioning of the Plant and removal of below ground foundations and improvements in 2016.

The California Department of Toxic Substances Control (DTSC) is the lead agency for the environmental investigation and remediation of the Plant site. SDG&E entered into a Consent Agreement with DTSC in 2006 for cleanup of Solid Waste Management Units (SWMUs) at the Plant site. Most of the SWMUs at the site have been investigated and remediated; however, there remain areas of the site that still require environmental work in order to obtain final closure from DTSC. As part of this process, DTSC will also require a site-wide human health and ecological risk assessment to ensure that the site is adequately remediated for the intended future use of the property by the District.

(g) Mitigation Fees

In fiscal year 2016, the District recorded a \$3.0 million fee under a MOU with the California Coastal Commission and Lane Field Development. The fee is for the purposes of establishing lower cost overnight visitor accommodations at appropriate locations on tidelands with the City of San Diego. The Coastal Commission requires that the funds be used within five years of payment after which any remaining balance may be transferred to another entity that can provide low cost accommodations within the San Diego County Coastal Zone.

In fiscal year 2018, the District recorded an additional \$307 thousand fee from LFN Developers, LLC for the purposes of establishing lower cost overnight visitor accommodations. If a program is not established within five years of the receipt of funds, the District may enter a MOU with the California Coastal Commission and transfer the fee to the California Commission's funds for lower cost over night visitor accommodation. In no event are the fees to be used for anything other than lower cost visitor serving accommodations.

(5) Defined Benefit Pension Plan

Plan Descriptions

The District's defined benefit pension plan (Plan), administered by San Diego City Employees' Retirement System (SDCERS), provides retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. SDCERS is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City of San Diego, the District, and the San Diego County Regional Airport Authority (SDCRAA). The Group Trust is administered by a Board of Administration. The District's Plan is a qualified governmental pension plan under Sections 401(a) and 414(d) of the Internal Revenue Code and is integrated with the federal Social Security program. The Board of Administration issues a publicly available financial report that includes financial statements and required supplementary information for SDCERS. The financial report may be obtained by writing to the San Diego City Employees' Retirement System, 401 West A Street, Suite 400, San Diego, California 92101, or by calling (619) 525-3600. The report is also available online at www.sdcers.org.

Benefits Provided

The Plan provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members, who must be public employees and beneficiaries. Benefits for Classic Members are based on years of credited service, equal to one year of full time employment. General Classic Members are eligible to retire at age 55 after 20 years of creditable service or at age 62 after five years of creditable service. Safety Classic Members are eligible to retire at age 50 after 20 years of creditable service or at age 55 after five years of service. Safety Members hired after January 1, 2010 are eligible to retire at age 55 with five years of service (excludes five year permissible purchased service), or any age with 30 years of service with the District. Safety Members hired after January 1, 2013 are eligible to retire at age 50 with five years of service. All members are eligible for non-Industrial disability benefits after ten years of service credit. The death benefit is one of the following: non-industrial death before eligible to retire, non-industrial death after eligible to retire, and industrial death benefit. The cost of living adjustment is applied based on changes in Consumer Price Index, to a maximum of 2% per year.

Non-sworn employees hired after January 1, 2009 will be automatically enrolled in a defined benefit plan after five years of service. This Plan has a set benefit percentage for each year of service, and increases by 0.25% every five years thereafter. The District pays 100% of this cost. These employees can contribute to a 457(b) plan and their contributions are matched by the District up to 4% in a 401(a) plan. Employees determine how their contributions are invested based on a line-up of mutual funds and target date funds. The District match increases starting with the 16th year of service to an amount up to 6%.

Effective January 1, 2013, new District employees who are deemed to be "New Members" under the California Public Employees' Pension Reform Act (PEPRA) will be subject to a number of plan provisions including a change in the contribution percentage.

(a) GASB Statement No. 68 Disclosures

Plan Benefits

The Plan's provisions and benefits in effect at June 30, 2018, are summarized as follows:

	General		
	Prior to January 1, 2009 (General)	On or after January 1, 2009 (Miscellaneous) ¹	On or after January 1, 2013 (PEPRA) ²
Hire date			
Benefit formula	3.0% @ 60	0.75% to 1.5% @ 62	0.75% to 1.5% @ 62
Benefit vesting schedule	5 years service	10 years service	10 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	55 ñ 62	55 ñ 62	55 ñ 62
Monthly benefits, as a % of eligible compensation	2.0% to 3.0%	0.75% to 1.5%	0.75% to 1.5%
Required employee contribution rates	9.99%	0% ¹	50% of Normal Cost
Required employer contribution rates	58.48%	9.05%	N/A ²

¹For employees hired on or after January 1, 2009, the Member is a participant for purposes of establishing reciprocity, but does not begin earning service credit until the first day of their sixth year of employment. Miscellaneous members are not required to contribute to the plan.

²For employees hired on or after January 1, 2013, the Member is a participant for purposes of establishing reciprocity, but does not begin earning service credit until the first day of their sixth year of employment; as a result, the actuarial valuation has not yet reflected the contribution rates for members hired on or after January 1, 2013. PEPRA members will be subject to a number of plan provisions including requirement to pay at least 50% of the normal cost with no offset.

	Safety		
	Prior to January 1, 2010	On or after January 1, 2010	On or after January 1, 2013
Hire date			
Benefit formula	3.0% @ 50	3.0% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 ñ 55	50 ñ 55	50 ñ 57
Monthly benefits, as a % of eligible compensation	2.5% to 3.0%	2.5% to 3.0%	2.0% to 2.7%
Required employee contribution rates	13.22%	13.22%	11.91%
Required employer contribution rates	65.07%	65.07%	13.17%

Employees Covered

Based on the SDCERS actuarial valuation as of June 30, 2017, the following employees were covered by the benefit terms of the Plan:

	<u>General</u>	<u>Safety</u>
Inactive employees or beneficiaries currently receiving benefits	455	122
Inactive employees entitled to but not yet receiving benefits	234	40
Active employees	248	119
Total	<u>937</u>	<u>281</u>

Contributions

Section 0800, Division 8 of the Amended and Restated San Diego Unified Port District Retirement Plan and Trust requires the District to contribute to the Plan on behalf of the members, a percentage of compensation of all members. The Participation and Administration Agreement of the Group Trust requires member contributions to be actuarially determined to provide a specific level of benefit. Based upon the advice of the actuary, SDCERS will periodically determine and adopt by rule the required contributions separately for general members (including miscellaneous) and safety members. The weighted contribution rates for fiscal years 2018 and 2017, determined by the June 30, 2016 and June 30, 2015 actuarial valuations, respectively, are as follows:

	<u>2018</u>	<u>2017</u>
General Members	9.48%	9.55%
Safety Members	13.07%	13.09%

Classic member contribution rates, as a percentage of compensation, vary according to age at entry, benefit tier level, and certain negotiated contracts that require the District to pay a portion of the employees' contributions, which is referred to as the "offset."

All or part of the member contribution rate is subject to potential offset. For employees hired prior to October 1, 2006, the offset rates, expressed as a percentage of compensation, are 8.8% for safety employees, 8.5% for management employees, and 7% for all other employees. For general employees hired on or after October 1, 2006, the offset rates are 7.5% for management employees and 6% for all others. For the fiscal years 2018 and 2017, the District paid employee contribution offsets of \$2.1 million and \$2.3 million, respectively. Employees hired after January 1, 2009, other than safety, are not eligible to participate in the defined benefit plan until the completion of five years of service and do not have any offset.

Effective January 1, 2013, new members under PEPRA are required to pay at least 50% of the normal cost with no offset.

For fiscal years 2018 and 2017, the contributions made by the District to the Plan are as follows:

	<u>2018</u>	<u>2017</u>
Contributions - employer (estimate)	\$ 17,700,000	\$ 14,600,000
Contributions - employee (paid by employer)	\$ 2,104,470	\$ 2,287,740

Based on the June 30, 2016 and June 30, 2015 actuarial valuations, the fiscal years 2018 and 2017 employer's actuarially determined weighted contribution rates expressed as a percentage of compensation are as follows:

	<u>2018</u>	<u>2017</u>
General Members	50.65%	40.08%
Safety Members	54.75%	48.99%

Net Pension Liability

The District's net pension liability as of June 30, 2018 is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability as of June 30, 2018 is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability are shown below.

Actuarial Assumptions - The total pension liability in the June 30, 2017 and June 30, 2016 GASB 67/68 actuarial valuations were determined using the following:

<u>Description</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Valuation Date	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2017	June 30, 2016
Actuarial cost method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial assumptions:		
Discount rate	6.75%	7.00%
Inflation	3.05%	3.05%
Cost-of-living adjustment	1.90%	1.90%
Projected salary increase	3.05% ¹	3.05% ¹
Investment rate of return	6.75% ²	7.00% ²
Mortality	0.02% to 13.54% ³	0.02% to 13.54% ³

¹ Plus merit component based on employee classification and years of service.

² Net of investment expenses.

³ Mortality: All active member and healthy retired members follow mortality tables based on the CALPERS January 2014 Experience Study, projected 20 years from the 2009 base year using a variation of Scale MP-2015 from the Society of Actuaries. Further details of the mortality rate can be found in the SDCERS June 30, 2017 actuarial valuation report.

Change in Assumptions - In September 2016, the SDCERS Board adopted select economic and demographic assumptions for the plan, based on the results of a full experience study covering the period July 1, 2010 through June 30, 2015. Additional assumptions, based on an economic experience study, were presented to the SDCERS Board in November 2015. Both studies were performed by the actuarial consulting firm Cheiron. A full description of the assumptions used can be found in the June 30, 2017 SDCERS San Diego Unified Port District GASB 67/68 report.

The change in these assumptions resulted in a \$15.0 million increase in the net pension liability (NPL). There were no changes in benefits during the year. Included in the 2018 pension expense is half of the total increase to the NPL for fiscal year 2018, \$7.5 million, as well as \$17.9 million from fiscal year 2017, half of that year's increase. The other half of the fiscal year 2018 increase, \$7.5 million, is included in deferred outflows and is expected to be recognized in fiscal year 2019 pension expense.

Discount Rate - The discount rate used to measure the total pension liability was 6.75% for the June 30, 2017 and 7.00% for the June 30, 2016 measurement dates. The actuarial opinion used to determine the discount rate assumed that the employees will continue to contribute to SDCERS at the current rates and the District will continue its historical practice of contributing to SDCERS based on an actuarially determined contribution, reflecting a payment equal to

annual Normal Cost, an amount necessary to amortize the remaining Unfunded Actuarial Liability, annual expected administrative expenses, and the amount needed to avoid negative amortization, if any. Based on those assumptions, the pension plans' net position was projected to be greater than or equal to the benefit payments projected for each future period. Therefore, the discount rate of 6.75% for fiscal year 2018 was applied to all periods of projected benefit payments to determine the total pension liability.

The table below reflects best estimates of long-term expected real rates of return and nominal rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2017 and June 30, 2016. Expected returns are based on observable information in the equity and fixed income markets and consensus estimates for major economic and capital market inputs, such as earnings and inflation, and where necessary, judgment-based modifications are made to these inputs. These rates of return are net of investment expenses.

**Target Asset Allocation and Rates of Return
as of June 30, 2017**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rates of Return</u>	<u>Long-Term Expected Nominal Rates of Return</u>
U.S. Equity	21.0%	4.4%	6.7%
Non - U.S. Equity	15.0%	5.2%	7.5%
Global Equity	5.0%	5.0%	7.3%
U.S. Fixed Income	22.0%	1.3%	3.5%
Emerging Market Debt	5.0%	3.7%	6.0%
Real Estate	11.0%	3.1%	5.3%
Private Equity & Infrastructure	13.0%	6.2%	8.5%
Opportunity Fund	8.0%	4.3%	6.6%
Total	100.0%		

**Target Asset Allocation and Rates of Return
as of June 30, 2016**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rates of Return</u>	<u>Long-Term Expected Nominal Rates of Return</u>
U.S. Equity	21.0%	4.5%	6.7%
Non - U.S. Equity	15.0%	5.5%	7.8%
Global Equity	5.0%	5.1%	7.3%
U.S. Fixed Income	22.0%	0.9%	3.0%
Emerging Market Debt	5.0%	3.7%	5.9%
Real Estate	11.0%	3.6%	5.9%
Private Equity & Infrastructure	13.0%	6.6%	8.8%
Opportunity Fund	8.0%	4.4%	6.6%
Total	100.0%		

Changes in the Net Pension Liability

Changes in the Net Pension Liability as of measurement date June 30, 2017 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2016	\$ 500,595,201	\$ 367,955,939	\$ 132,639,262
Changes in the year:			
Service cost	8,112,462	ò	8,112,462
Interest on the total pension liability	34,526,302	ò	34,526,302
Differences between actual and expected experience	4,459,946	ò	4,459,946
Changes in assumptions	15,009,560	ò	15,009,560
Contribution - employer	ò	14,747,532	(14,747,532)
Contribution - employee (paid by employer)	ò	2,287,740	(2,287,740)
Contribution - employee	ò	1,296,999	(1,296,999)
Net investment income	ò	50,593,626	(50,593,626)
Benefit payments	(23,090,401)	(23,090,401)	ò
Administrative expenses	ò	(665,330)	665,330
Net changes	39,017,869	45,170,166	(6,152,297)
Balance at June 30, 2017	<u>\$ 539,613,070</u>	<u>\$ 413,126,105</u>	<u>\$ 126,486,965</u>

Source: SDCERS GASB 67/68 Report with a measurement date of June 30, 2017

Changes in the Net Pension Liability as of measurement date June 30, 2016 were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2015	\$ 450,385,398	\$ 369,793,790	\$ 80,591,608
Changes in the year:			
Service cost	7,647,969	ò	7,647,969
Interest on the total pension liability	32,102,235	ò	32,102,235
Differences between actual and expected experience	(2,243,475)	ò	(2,243,475)
Changes in assumptions	35,813,469	ò	35,813,469
Contribution - employer	ò	14,400,000	(14,400,000)
Contribution - employee (paid by employer)	ò	2,422,241	(2,422,241)
Contribution - employee	ò	1,277,360	(1,277,360)
Net investment income	ò	3,859,875	(3,859,875)
Benefit payments	(23,110,395)	(23,110,395)	ò
Administrative expenses	ò	(686,932)	686,932
Net changes	50,209,803	(1,837,851)	52,047,654
Balance at June 30, 2016	<u>\$ 500,595,201</u>	<u>\$ 367,955,939</u>	<u>\$ 132,639,262</u>

Source: SDCERS GASB 67/68 Report with a measurement date of June 30, 2016

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the District, as of the measurement dates June 30, 2017 and June 30, 2016, calculated using the discount rate, as well as what the District's net pension liability would be if it was calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

Net Pension Liability	1% Decrease 5.75%	Discount Rate 6.75%	1% Increase 7.75%
June 30, 2017	\$194,530,333	\$126,486,966	\$70,485,097
Net Pension Liability	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
June 30, 2016	\$194,893,201	\$132,639,261	\$81,289,052

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the issued SDCERS financial reports.

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the years ended June 30, 2018 and June 30, 2017, the District recognized pension expense of \$38.2 million and \$31.8 million, respectively. At June 30th, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 17,700,000	\$ 0	\$ 14,600,000	\$ 0
Difference between expected and actual experience	2,229,973	0	1,524,112	1,121,737
Changes in assumptions	7,504,780	0	17,906,734	0
Net differences between projected and actual earnings on plan investments	0	5,922,711	15,118,718	0
Total	\$ 27,434,753	\$ 5,922,711	\$ 49,149,564	\$ 1,121,737

Deferred outflows of resources related to contributions subsequent to the measurement date in the amount of \$17.7 million at June 30, 2018 will be recognized as a reduction of the net pension liability during the year ended June 30, 2019. The deferred outflows and deferred inflows of resources related to pensions at June 30, 2018 will be recognized as pension expense as follows:

Year Ending June 30	Pension Expense
2019	\$ 6,272,501
2020	\$ 2,685,336
2021	\$ (245,061)
2022	\$ (4,900,734)
2023	\$ 0
Thereafter	\$ 0

Payable to the Pension Plan

The District had no outstanding annually determined contributions payable to the pension plan for the year ended June 30, 2018.

(b) Preservation of Benefits Plan (POB Plan)

The POB Plan is a qualified governmental excess benefit arrangement (QEBA) under Code Section 415(m)(3), which was created by Congress to allow the payment of promised pension benefits that exceed the Code Section 415(b) limits (and therefore cannot be paid from a qualified retirement plan). As required by federal tax law, the POB Plan is unfunded within the meaning of the federal tax laws. The District may not pre-fund the POB Plan to cover future liabilities beyond the current year as it can with an IRC Section 401(a) pension plan. SDCERS has established procedures to pay for these benefits on a pay-as-you-go basis, which is funded by the District. For purposes of disclosure requirements under GASB Statement No. 67, the District considers the POB Plan to be an arrangement that allows payment of benefits earned under the pension plan and does not consider the POB Plan to be a separate defined benefit plan.

For fiscal years 2018 and 2017, the District paid \$248 thousand and \$260 thousand, respectively, in benefits above 415(b) limits for the POB Plan. The number of participants in any given year for the POB Plan is determined by the number of pension plan participants who exceed the current year's section 415(b) limitations as calculated by SDCERS' actuary. The maximum annual participant payment from a defined benefit plan for calendar year 2018 was \$220 thousand and calendar year 2017 was \$215 thousand. For non-safety members, the limit is adjusted downward depending on the age of the participant when benefits began.

Pension Liability

The District's Preservation of Benefits (POB) pension liability as of June 30, 2018 is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the pension liability are shown below.

Actuarial Cost Method and Assumptions - The total pension liability in the June 30, 2017 and June 30, 2016 GASB 73 actuarial valuation was determined using the following actuarial assumptions:

Description	As of June 30, 2017	As of June 30, 2016
Valuation Date	June 30, 2016	June 30, 2015
Measurement date	June 30, 2017	June 30, 2016
Actuarial cost method	Entry-Age Actuarial Cost Method	Entry-Age Actuarial Cost Method
Actuarial assumptions:		
Discount rate	3.58%	2.85%
Cost-of-living adjustment	1.9-2.0%	1.9-2.0%
Projected salary increase	3.05% ¹	3.05% ¹
Mortality - Healthy	0.09% to 13.54% ²	0.09% to 13.54% ²
Mortality - Disabled	0.17% to 13.54% ³	0.17% to 13.54% ³

¹ Plus merit component based on employee classification and years of service.

² Healthy retired members follow the CALPERS Mortality Tables, projected 20 years from 2009 base year using a variation of scale MP-2015, with a 10% increase to healthy retired female rates. Further details of the mortality rate can found in the SDCERS' June 30, 2017 actuarial valuation reports.

³ Disabled retirees follow the CALPERS Work Related Disability Mortality Table, projected 20 years from 2009 base year using a variation of scale MP-2015. Further details of the mortality rate can found in the SDCERS' June 30, 2017 actuarial valuation reports.

Change in Total Pension Liability

Changes in the Total Pension Liability (TPL) as of the measurement date June 30, 2017 were as follows:

POB Plan	Increase (Decrease)
	Total Pension Liability
Balance at June 30, 2016	\$ 2,125,159
Changes in the year:	
Service cost	77,315
Interest on the total pension liability	58,000
Differences between actual and expected experience	1,031,798
Changes in assumptions	(256,209)
Benefit payments	(258,709)
Net changes	652,195
Balance at June 30, 2017	\$ 2,777,354

Changes in the TPL as of the measurement date June 30, 2016 were as follows:

POB Plan	Increase (Decrease)
	Total Pension Liability
Balance at June 30, 2015	\$ 2,019,887
Changes in the year:	
Service cost	9,503
Interest on the total pension liability	72,730
Changes in assumptions	296,607
Benefit payments	(273,568)
Net changes	105,272
Balance at June 30, 2016	\$ 2,125,159

During the measurement year ending June 30, 2017, the TPL increased by approximately \$652 thousand, primarily due to a \$1.0 million actuarial loss. The actuarial loss is a result of four active members' benefits projected to be over the 415(b) limit at retirement but whose benefits were not projected to be over the limit last year. Also, the 2015 415(b) limitation of \$210 thousand was expected to increase for 2016 with assumed inflation; however, the 2016 limitation remained the same as 2015. As a result, more projected benefits are expected to be paid from the POB than were assumed in the last valuation.

An increase in the discount rate from 2.85% to 3.58% decreased the TPL by \$256 thousand. There were no changes in benefits during the year.

The TPL as of June 30, 2017 is based upon the same membership data, actuarial methods, and plan provisions as were used in the actuarial valuation as of June 30, 2016, which are summarized in the Actuarial Valuation Report for SDCERS - San Diego Unified Port District as of June 30, 2016. The TPL as of June 30, 2017 is based on a roll-forward of the TPL as of June 30, 2016, but also incorporates a discount rate based on the June 29, 2017 Bond Buyer GO 20-Year Municipal Bond Index.

Sensitivity of the Pension Liability to Changes in the Discount Rate - The following presents the pension liability of the District, as of the June 30, 2017 and June 30, 2016 measurement dates, calculated using the discount rate, as well as what the District's pension liability would be if it was calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

POB Plan Pension Liability	1% Decrease 2.58%	Discount Rate 3.58%	1% Increase 4.58%
June 30, 2017	\$3,140,190	\$2,777,354	\$2,489,178
POB Plan Pension Liability	1% Decrease 1.85%	Discount Rate 2.85%	1% Increase 3.85%
June 30, 2016	\$2,286,055	\$2,125,159	\$1,988,761

For the years ended June 30, 2018 and June 30, 2017, the District recognized POB Plan pension expense of \$671 thousand and \$231 thousand, respectively, and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018 POB Plan		2017 POB Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 248,000	\$ 0	\$ 260,000	\$ 0
Difference between actual and expected experience	515,899	0	0	0
Changes in assumptions	0	128,104	148,303	0
Total	<u>\$ 763,899</u>	<u>\$ 128,104</u>	<u>\$ 408,303</u>	<u>\$ 0</u>

Deferred outflows of resources related to contributions subsequent to measurement date in the amount of \$248 thousand at June 30, 2018 will be recognized as a decrease to the pension liability during the year ended June 30, 2019. The deferred outflows and deferred inflows of resources related to pensions at June 30, 2018 will be recognized as pension expense as follows:

Year Ending June 30	Pension Expense
2019	\$387,795
2020	0
2021	0
2022	0

(6) Employees' Deferred Compensation Plan (Plan)

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457(b). The Plan, available to the District's employees who are eligible for benefits, permits them to defer a portion of their salary until future years. The District, at its discretion, can make employer contributions to the Plan.

The deferred compensation is not available to employees until termination, retirement, total disability, death, or unforeseeable emergency. Employees may borrow from their account but must repay the borrowed amount with interest.

The Plan is administered by the District and contracted to an unrelated financial institution. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are held in trust for employees.

As such, employee assets held in IRC Section 457 plans are not the property of the District and are not subject to the claims of the District's general creditors. In accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, employee assets are not reflected in the District's basic financial statements.

(7) Other Postemployment Benefits (OPEB)

Plan Description and Benefits Provided

In addition to pension benefits described in Note 5, the District has a defined benefit plan that provides medical, dental, and life insurance coverage to all eligible current and retired employees. The OPEB Plan is considered a single-employer plan, as it is used to provide OPEB to the employees of only one employer. Separate financial statements are not issued for the District's OPEB plan.

General (Non-Sworn) employees hired prior to January 1, 2009 and Sworn Harbor Police employees hired prior to January 1, 2010 are eligible to receive medical, dental, and life insurance coverage. General (Non-Sworn) employees hired on or after January 1, 2009 and Sworn Harbor Police employees hired on or after January 1, 2010 are eligible to receive an employer-funded Health Reimbursement Account (HRA) to pay for health-care-related expenses. The HRA will be managed by a third-party administrator and funded through a trust. The trust will not be activated until the actuarially determined annual required contribution reaches \$100,000.

(a) GASB Statement No. 75 Disclosures - Fiscal Year 2018

Eligibility for Benefits

All full-time employees are eligible for these benefits as retirees if they retire from active employment with the District. This means that they must meet the eligibility requirements of the defined benefit pension plan, summarized in the table below. In addition, all employees hired on or after October 1, 2006 must have at least 10 years of District service to be eligible for retiree health benefits.

<u>Employee Group</u>	<u>Date of Hire</u>	<u>Eligibility at the Earlier of</u>
Safety (Sworn)	Hired prior to October 1, 2006 (Medical, dental, basic life benefits)	<ul style="list-style-type: none"> • Age 50 and 20 years of service • Age 55 and five years of service
	Hired on or after October 1, 2006 and prior to January 1, 2010 (Medical, dental, basic life benefits)	<ul style="list-style-type: none"> • Age 50 and 20 years of service • Age 55 and five years of service • 10 years of District service required for retiree health benefits
	Hired on or after January 1, 2010 (HRA benefit)	<ul style="list-style-type: none"> • Age 55 and five years of service • 30 years of District service (any age) • 10 years of District service required for retiree health benefits
All others (Non-Sworn)	Hired prior to October 1, 2006 (Medical, dental, basic life benefits)	<ul style="list-style-type: none"> • Age 50 and 20 years of service • Age 55 and five years of service
	Hired on or after October 1, 2006 and prior to January 1, 2009 (Medical, dental, basic life benefits)	<ul style="list-style-type: none"> • Age 55 and 20 years of service • Age 62 and five years of service • 10 years of District service required for retiree health benefits
	Hired on or after January 1, 2009 (HRA benefit)	<ul style="list-style-type: none"> • Age 55 and 25 years of service • Age 62 and 10 years of service • 10 years of District service required for retiree health benefits

Employees Covered

Per the Actuarial Valuation, as of July 1, 2017, the following current and former employees were covered by the benefit terms under the OPEB Plan:

<u>Employee Group</u>	<u>Date of Hire Criteria/Plan</u>	<u>Active Employees</u>	<u>Inactive Employees (Retirees) Currently Receiving Benefit Payments</u>
Safety	Prior to January 1, 2010 - Regular	88	75
	On or after January 1, 2010 - HRA	54	0
General	Prior to January 1, 2009 - Regular	233	237
	On or after January 1, 2009 - HRA	189	0
Total		564	312

Total OPEB Liability and OPEB Expense

To determine the total OPEB liability and OPEB expense, the District retained Sunlin Consulting, LLP, to prepare the biennial actuarial valuation, in accordance with the parameters of GASB Statement No. 75. Based on the latest Actuarial Valuation, as of July 1, 2017, and a subsequent Actuarial Disclosures report, issued on July 26, 2018, total OPEB liability as of July 1, 2017, the valuation date, was \$137.9 million, in accordance with GASB Statement No. 75 requirements. Total OPEB liability as of June 30, 2018, the measurement date, is \$136.3 million, based on the liability as of the valuation date rolled forward to the measurement date using standard update procedures. In 2018, total OPEB liability was reduced by \$1.6 million. The District recognized the following OPEB expense and contributions for fiscal year 2018:

	2018
OPEB Expense	\$ 6,104,724
Contributions - employee (paid by employer)	\$ 3,356,377

The contribution requirements of the District and Plan members (if any) are established by the District's Board. For the years ended June 30, 2018 and 2017, the District funded benefits on a "pay-as-you-go" basis and elected not to pre-fund its OPEB obligation.

The implementation of GASB Statement No. 75, which replaces GASB Statement No. 45 in fiscal year 2018, brought about significant changes in the reporting of OPEB, including the immediate recognition of Unfunded Actuarial Accrued Liability (UAAL). Additionally, significant changes in required assumptions, such as the use of the Entry Age Cost method to determine UAAL versus using the Projected Unit Credit Cost method, and the use of 20-year tax-free municipal bond index for the discount rate. As a result of these changes in reporting requirements, the District is reporting total OPEB liability of \$136.3 million, compared to the fiscal year 2017 UAAL of \$99.5 million. Please refer to Note 14. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* for additional detailed information.

The District's total OPEB liability for the OPEB Plan is measured as of June 30, 2018, using an annual valuation date of July 1, 2017, based on GASB Statement No. 75 rolled forward to June 30, 2018 using standard update procedures.

The changes in the total OPEB liability for the OPEB Plan are as follows:

	Total OPEB Liability
Balance at June 30, 2017	\$ 137,917,699
Changes recognized for measurement period:	
Service cost	1,882,229
Interest	4,951,528
Differences between expected and actual experience	(1,158,603)
Changes in assumptions	(3,944,626)
Benefit payments	(3,356,377)
Net Changes	<u>(1,625,849)</u>
Balance at June 30, 2018	<u>\$ 136,291,850</u>

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation, and the historical pattern of sharing benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with a long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The July 1, 2017 valuation was rolled forward to determine the June 30, 2018 total OPEB liability, based on the following actuarial cost method and assumptions:

<u>Actuarial Cost Method:</u>	Entry Age
<u>Actuarial Assumptions:</u>	
Discount Rate	3.85%*
Salary Increases	3.5%
Mortality Rate	Society of Actuaries RP 2014 Mortality Table projected to 2021 with Scale BB
Healthcare Trend Rate	Initial rate of 7.0% reduced to 5.0% within four years reflecting medical price inflation

*Discount rate is based on the Bond Buyer 20-Bond General Obligation Index

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Health Care Cost Trend Rates

The following presents the total OPEB liability if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate for the measurement period ending June 30, 2018:

	1% Decrease (2.85%)	Current Discount Rate (3.85%)	1% Increase (4.85%)
Total OPEB Liability	\$159,652,273	\$136,291,850	\$117,715,271

The following presents the total OPEB liability if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate for the measurement period ending June 30, 2018:

	1% Decrease (6.0% decreasing to 4%)	Current Healthcare Cost Trend Rates (7.0% decreasing to 5%)	1% Increase (8.0% decreasing to 6%)
Total OPEB Liability	\$115,670,893	\$136,291,850	\$162,309,964

Amortization of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The District reported deferred inflows of resources of \$4.4 million for the fiscal year ended June 30, 2018 as a result of differences between expected and actual experience and impact from assumption changes. The amortization treatment for deferred outflows and inflows of resources will be straight-lined over the expected average remaining service lifetime (EARS�) of all members that are provided with benefits (active and retired) as of the beginning of the measurement period.

At June 30, 2018, the District reported deferred inflows of resources related to OPEB as follows:

	Deferred Inflows of Resources
Differences between expected and actual experience	\$ (993,088)
Changes in assumptions	(3,381,108)
Total	\$ (4,374,196)

Amounts reported as Deferred Outflows and Deferred Inflows of Resources will be recognized in OPEB expense as follows:

Year Ending June 30:	OPEB Expense
2019	\$ (729,033)
2020	(729,033)
2021	(729,033)
2022	(729,033)
2023	(729,033)
2024	(729,031)
2025	0

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

(b) GASB Statement No. 45 Disclosures - Fiscal Year 2017

OPEB Cost and Net OPEB Obligation

To determine the Unfunded Actuarial Accrued Liability (UAAL) and the Annual Required Contribution (ARC) of the employer, the District retained Sunlin Consulting, LLP, to prepare the actuarial valuation bi-annually in accordance with the parameters of GASB Statement No. 45. Based on the actuarial report issued on April 27, 2017, the UAAL as of July 1, 2016 was \$99.5 million and the ARC for the fiscal year ended June 30, 2017 was \$9.8 million. The District recognized \$8.8 million as OPEB expense for the year ended June 30, 2017. Of this amount, \$3.2 million was the total contributions made in 2017. In 2017, a total of \$5.6 million was added to the net OPEB liability.

The following table shows the components of the District's annual OPEB cost, the amount actually contributed to the OPEB Plan, and changes in the District's net OPEB obligation for the year ended June 30, 2017:

	2017
Annual required contribution	\$ 9,767,346
Interest on net OPEB obligation	1,797,575
Adjustment to annual required contribution	(2,773,126)
Annual OPEB cost (expense)	8,791,795
Contributions made	(3,204,589)
Increase in net OPEB obligation	5,587,206
Net OPEB obligation at beginning of year	39,946,115
Net OPEB obligation at end of year	\$ 45,533,321

The District's annual OPEB cost, the percentage of annual OPEB cost contributed during the year to the Plan, and the net OPEB obligation for 2017 was as follows:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 8,791,795	36%	\$ 45,533,321

Funded Status and Funding Progress

The following table summarizes the District's OPEB Plan funded status as of the actuarial valuation dated as of July 1, 2016.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2016	\$ 0	\$99,506,861	\$(99,506,861)	0.0%	\$44,910,716	221.6%

The required annual contribution and unfunded liability was determined as part of the July 1, 2016 actuarial valuation that assumes: (a) 4.5% investment rate of return, and (b) annual healthcare cost increase ranging from an initial rate of 7.0% to an ultimate rate of 5.0% over a four year period. The valuation was performed using the projected unit credit and the UAAL is being amortized over 22 years on a level dollar basis.

(8) Risk Management

The District is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of, assets; errors and omissions; injuries to, and illnesses of, employees; and natural disasters. The District maintains a comprehensive Risk Management Program, which includes risk transfer, loss prevention, loss control, and claims administration. The District purchases excess liability, police professional liability, public officials liability, workers' compensation liability, employment practices liability, property insurance, fiduciary liability, crime/public employee dishonesty, marine protection and indemnity, and automobile liability, as well as other miscellaneous insurance coverage. The District's coverage includes a variety of self-insured retentions or deductibles. The District's self-insured retentions or deductibles as of June 30, 2018, were as follows:

Self-Insured Retentions/Deductibles

(as of June 30, 2018)

Coverage	
Excess liability	\$ 1,000,000
Workers' compensation	\$ 500,000
Employment practices liability	\$ 250,000
Police professional liability	\$ 250,000
Public officials liability	\$ 250,000
Property insurance	\$ 100,000
Cyber liability	\$ 50,000
Pollution liability*	\$ 50,000
Fiduciary liability	\$ 25,000
Terrorism Liability	\$ 25,000
Crime/public employee dishonesty	\$ 5,000
Marine protection and indemnity/Hull & Machinery	\$ 5,000
Automobile liability (hired auto physical damage)	\$ 1,000
Foreign property & liability	\$ 1,000

*Pollution liability was specifically purchased for the Pacifica Land Exchange transaction.

Since July 1, 2004, the District has participated in a loss-sensitive workers' compensation program with a \$500 thousand per claim deductible. The District is required to fund an escrow account that is held as security in the unlikely event the District fails to meet its required obligations. As of June 30, 2018 and 2017, the escrow account amount was \$3.3 million each year, respectively. The escrow account is not drawn upon for the deductible payments. There have not been any

significant reductions in insurance coverage from the prior year and settled claims have not exceeded coverage for each of the last three years.

As of June 30, 2018 and 2017, the District recorded \$4.7 million and \$4.1 million, respectively for workers' compensation claims liabilities, which include anticipated future expenses on open workers' compensation claims based on estimates provided by the District's workers' compensation carrier. The insurance carrier determines the reserves required to pay for future liabilities by estimating the probable ultimate cost for the life of each claim, including consideration of any incremental claim adjustment expenses. This is done by estimating the three categories of exposure on each claim: temporary or permanent disability, medical expenses, and legal and other associated claims expenses; however, the District's ultimate exposure is limited to the amount of the deductible for each claim as identified in the above table. These reserves are adjusted as the claim develops over time. While the ultimate losses incurred are dependent on future developments, District management believes that the accrued liability is adequate to cover such losses. Changes in the District's claims liabilities for the years ended June 30, 2018 and 2017 were as follows:

Year Ended June 30	Claims Liability at Beginning of Period	Claims Incurred During the Period, and Changes in Estimate	Claims Payment	Claims Liability at End of Period
2017	\$ 2,902,548	\$ 2,300,378	\$ (1,118,408)	\$ 4,084,518
2018	\$ 4,084,518	\$ 1,909,363	\$ (1,331,167)	\$ 4,662,714

(9) Lease Revenues

A substantial portion of the District's land and water and some of its facilities, including marine terminal facilities and office and commercial space, are leased to tenants. The Port Act prohibits transfer of land ownership to the lessee and the leases are accounted for as operating leases. The majority of lease agreements are not cancelable and permits the District to periodically adjust rents. In addition, many of these leases are secured by letters of credit, which totaled approximately \$4.1 million and \$3.1 million at June 30, 2018 and 2017, respectively. In the normal course of operations, it is expected that all significant expiring leases will be renewed or replaced by similar agreements.

The District leases its land and facilities on both a fixed (i.e., flat) and variable (i.e., percentage) basis. Percentage rentals are received on the basis of percentages of sales and are protected by stipulated minimum annual guarantees. Such percentage rentals totaled approximately \$79.4 million in 2018 and \$77.8 million in 2017. Both numbers exclude the minimum annual guarantees for the marine terminal facilities which are accounted for in wharfage revenue. Rentals received under flat rate leases, including marine terminal facilities, totaled approximately \$35.3 million in 2018 and \$36.0 million in 2017.

Stipulated minimum rents under non-cancelable operating leases having initial or remaining terms of more than one year are as follows:

Year Ending June 30	
2019	\$ 83,846,603
2020	82,247,202
2021	81,290,805
2022	80,130,160
2023	77,940,560
Thereafter	2,109,260,460
Total	\$ 2,514,715,790

Future rents were determined based on minimum rents stipulated under the leases up to the lease expiration date (table above reflects terms through fiscal year 2082) assuming that options to extend, for some marine terminal tenants, will be

exercised. However, these rents may increase or decrease based on the periodic lease rental reviews, at which time new rents may be established.

The estimated book value of capital assets leased to others at June 30, 2018 and 2017 consist of the following:

Book Value of Leased Capital Assets and Accumulated Depreciation			
	2018		2017
Land	\$	126,043,404	\$ 143,915,907
Land Improvements		4,904,431	4,904,431
Building and Structures		339,592,619	327,385,107
Equipment		20,670,686	20,340,105
Roads and Parking Lots		52,205,635	51,842,217
		<u>543,416,775</u>	<u>548,387,767</u>
Less accumulated depreciation		(307,815,512)	(295,410,309)
Net book value of leased capital assets	\$	<u>235,601,263</u>	\$ <u>252,977,458</u>

(10) Lease Commitments

(a) Administration Building Parking Lot

The District leases the northeast portion of the property used for its administration building parking lot from the California Department of Transportation (Caltrans), the property owner since 1984. The lease term is for ten years commencing on July 1, 2013. The rental rates are subject to adjustment every five years by negotiating a fair market lease rate agreed upon by both parties. If a fair market lease rate cannot be agreed upon, the adjustment will be determined by using the Consumer Price Index (CPI). The District and Caltrans agreed that the monthly rent would be \$1,780 or \$21,360 annually.

(b) San Diego County Regional Airport Authority Employee Parking and Visitor Lot

The SDCRAA is sub-leasing a portion of the former General Dynamics (GD) leasehold to the District for use as an employee and visitor parking lot. The lease is for 66 years commencing January 1, 2003. The rent is based on the same square foot rental rate determined for the entire former GD property leased from the District to the SDCRAA. Rental increases are determined by appraisal, review, and negotiation. The District and SDCRAA agreed that the monthly rent would be \$12,074 plus a \$381 cost recovery for electricity for a total monthly rent of \$12,455 or \$149,460 annually.

(c) Submerged Land Adjacent to 880 Harbor Island Drive, San Diego Bay

The District leases approximately 0.3 acres of submerged land in the bed of San Diego Bay from the California State Lands Commission (CSLC). The submerged land is adjacent to 880 Harbor Island Drive. The lease is for 40 years commencing June 28, 2010. The annual amount to be paid for the first year is \$3,000. In years two and three, a minimum annual rent of \$6,000 per year is to be applied against 3.8% of the District's gross income from gross sales generated by the sublease of the premises in excess of the minimum annual rental. Year four and forward the minimum annual rent increases to \$12,009 per year. Beginning in the fifth year and every fifth year thereafter, CSLC also reserves the right to modify the minimum rental amount owed by applying the percentage change of the CPI over the prior five year lease period to the current minimum annual rent owed for such period. In fiscal year 2016, CSLC notified the District that the minimum annual rent has been increased from \$12,009 to \$13,077. In fiscal year 2018, the rental adjustment based on the 3.8% of the District's gross income from gross sales generated by the sublease of the premises in excess of the minimum annual rental was \$6,062.

(d) Tide and Submerged Lands in San Diego Bay in the Cities of San Diego, Coronado, and National City

The District leases approximately 108 acres of tide and submerged lands in multiple locations in the cities of San Diego, Coronado, and National City from the CSLC for the purposes of statewide public benefit including but not limited to commercial and recreational navigation, and existing industrial marine terminal facilities. The lease is for 28 years commencing July 1, 1997. The annual amount to be paid is a minimum annual rent of \$10,000 or the total of the following, whichever is greater: (1) 10.0% of District's gross income from operated moorings; and (2) 25.0% of the District's gross income from revenues generated by subleases on the leased premises. Annual rent of \$100 for the operation of a maintenance access road will remain fixed during the term of the lease. In fiscal year 2014, CSLC notified the District that the minimum annual rent was increased from \$10,000 to \$14,965.

(e) Westerly Corner of Sassafras Street and Pacific Highway known as 3045 Pacific Highway

The District leases approximately 20,100 square feet of land located at the westerly corner of Sassafras Street and Pacific Highway from Caltrans for the purpose of operating attended parking lots for tideland activities by a current District tenant. The lease term is for eight years commencing on September 1, 2015. The rental rates are subject to a 3% increase every other year. The rental rate is subject to adjustment review every five years by negotiating a fair market lease rate agreed upon by both parties. The District and Caltrans agreed that the monthly rent would be \$2,098 or \$25,176 annually in the first year, with a 3% increase every other year.

(f) Corner of Sassafras Street and Pacific Highway known as 3275 Pacific Highway

The District leases approximately 56,100 square feet of land located at the corner of Sassafras Street and Pacific Highway from Caltrans for the purpose of operating attended parking lots for tideland activities by a current District tenant. The lease term is for eight years commencing on September 1, 2015. The rental rates are subject to a 3% increase every other year. The rental rate is subject to adjustment review every five years by negotiating a fair market lease rate agreed upon by both parties. The District and Caltrans agreed that the monthly rent would be \$9,032 or \$108,384 annually in the first year, with a 3% increase every other year.

Future rent payments under the above operating lease agreements as of June 30, 2018 are as follows:

<u>Years Ending June 30</u>	
2019	\$ 346,030
2020	348,631
2021	352,174
2022	352,882
2023	356,531
2024-2028	914,062
2029-2033	870,036
2034-2038	882,310
2039-2043	895,811
2044-2048	910,662
2049-2053	815,111
2054-2058	747,300
2059-2063	747,300
2064-2068	747,300
2069-2073	74,730
Total	<u>\$ 9,360,870</u>

Total rental expenses for the above mentioned operating leases for the fiscal years ended June 30, 2018 and 2017, were approximately \$363 thousand and \$362 thousand, respectively.

(11) Commitments and Contingencies

(a) Commitments

As of June 30, 2018, the District had significant commitments for capital expenditures and other matters as described below:

- i. Capital Improvement Program (CIP): Beginning in fiscal year 1992, the BPC approved a five-year CIP for the development of certain capital outlay projects. Each project in the plan is reviewed and authorized by the BPC in accordance with Board Policy No. 120, Capital Improvement Program. The CIP is renewed every five years, and annually the program is reviewed and revised as appropriate. On August 8, 2017, a resolution was approved establishing a new five-year CIP for fiscal year 2019-2023 which includes the remaining projects and funds from the fiscal year 2014-2018 CIP. As of June 30, 2018, the remaining cost to complete CIP projects which were approved to be funded from existing cash resources, excluding projects funded by grants, donations, and contributions, was \$18.4 million compared to \$26.6 million as of June 30, 2017. The \$18.4 million excludes \$1.6 million of matching funds to complete the Tenth Avenue Marine Terminal (TAMT) Modernization Project partially funded by the Transportation Investment Generating Economic Recovery (TIGER) Discretionary Grant program.

Funds have been designated for the unpaid contractual portion of CIP projects that are not funded by grants, donations, or contributions. The designated funds are classified in the accompanying statements of net position as cash and investments designated for specific capital projects and commitments with a total balance of \$6.3 million.

- ii. Fire, Police, Emergency Medical, and Lifeguard Services: The District entered into contracts with the five member cities for annual fire, police, and emergency medical services on the non-taxpaying tidelands that cover services from July 1, 2012 through June 30, 2021. These agreements have an annual escalation based on San Diego County Consumer Price Index (CPI), except for years when the District's actual percentage increase in operating revenues are less than the CPI, which will be based on the index change from the prior calendar year. Additionally, the District contracts with the City of Imperial Beach for lifeguard services on the non-taxpaying tidelands. The combined cost for these services was \$7.9 million for fiscal year 2018 compared to \$7.7 million for fiscal year 2017. In addition, the District has a contract with the City of Imperial Beach for tidelands maintenance services at a cost of \$984 thousand for fiscal year 2018 and \$964 thousand for fiscal year 2017.

(b) Contingencies

As of June 30, 2018, the District was subject to contingencies arising from legal and environmental matters as described below:

- i. Environmental Matters: The District owns, in public trust, tidelands and submerged lands in and around San Diego Bay. Much of that land is leased to private and public operators through various rental agreements for uses that are consistent with the Port Act. The operations of some of those tenants have resulted in discharges to the environment requiring regulatory action. Administrative agencies such as the San Diego County Department of Environmental Health Services (DEH) and the California Regional Water Quality Control Board, San Diego Region (RWQCB) issue enforcement orders to regulate activities and to assess and remediate contamination. These enforcement efforts sometimes include discussions with the District and consideration of adding the District to regulatory orders regulating cleanup obligations irrespective of whether the District caused the discharge at issue.

In addition, the District's leases and operating agreements with its tenants typically include provisions requiring the tenant/operators to comply with all laws, including laws strictly prohibiting discharge to the environment and related contamination, and indemnify the District for any damage to property or losses to the District as a result of the tenant's operations. The leases and operating agreements typically require the District to be named as an

additional insured under certain insurance policies of the tenant/operators. According to the District's legal counsel, when environmental claims are asserted against the District, the District not only vigorously defends them but also seeks contribution and/or indemnity from the responsible parties, including the tenant/operators and any applicable insurers. The District's legal counsel can neither predict the net exposure to the District with respect to these matters nor the probability or remoteness of any outcome. However, the District believes that the recoveries discussed above will be sufficient to reduce the District's financial responsibility for any pollution remediation known as of the date of the financial statements to amounts not considered to be material to the financial statements of the District.

- (a) **Former Campbell Shipyard:** This matter involves industrial contamination from shipyard activities, which impacted the land, groundwater, and sediments at the site. In 1995, the RWQCB issued a Cleanup and Abatement Order (CAO) that named Campbell Industries, a former District tenant, and its parent, Marine Construction and Design Company. The cleanup has been completed and the District is implementing the long-term Monitoring and Reporting Program.
- (b) **Shelter Island Yacht Basin (SIYB):** In 1996, the SIYB portion of San Diego Bay was placed on the Clean Water Act section 303(d) list of impaired waters due to elevated levels of dissolved copper in the water column. A Total Maximum Daily Load (TMDL) study was conducted for the site and found that the majority of the copper was attributed to boat hull paint. The TMDL requires a 76.0% overall reduction of residual copper loading to SIYB over a 17-year staged compliance schedule period. The TMDL identified the District, the SIYB marina owners/operators, persons owning boats moored in SIYB, and SIYB underwater hull cleaners as accountable for the discharges of copper from boat hull antifouling paints to the waters of the SIYB.

The District has been actively involved in alternative hull coatings research, education and outreach, and policy development. These efforts are intended to directly or indirectly reduce copper loading into the SIYB. The District and the tenants of the SIYB cooperatively developed the SIYB Dissolved Copper TMDL Implementation Plan to obtain TMDL compliance and describe the Best Management Practices that may be implemented in order to achieve a reduction.

In 2011, the RWQCB named the District as a responsible party in an investigative order requiring sampling and monitoring of the SIYB. The District continues to comply with the terms of the Investigative Order. At this time, the District is unable to estimate the likely outcome of these actions or the range of potential costs. The District and other TMDL parties have reached the TMDL interim loading reductions and are evaluating how to achieve the additional reductions required by 2022.

- (c) **Pepper Oil:** The District is involved in litigation over environmental contamination at and around 2300 Tidelands Avenue, National City, which the District leases to the Pepper Oil Company and its affiliate, Southern California Truck Stop. The California Department of Toxic Substance Control (DTSC) has found that soils at the property contain contaminants of concern, including volatile organic compounds, polychlorinated biphenyls (PCBs), and metals. DTSC has also found PCBs and free product through a groundwater investigation. The District, Pepper Oil, and Southern California Truck Stop are also working with DTSC to address this property contamination. Site investigations are ongoing.

The District filed its complaint against Pepper Oil, Southern California Truck Stop, and several affiliated entities in January 2013, alleging claims for nuisance, trespass, contribution, indemnity, and breach of contract, among others. Defendants have asserted counterclaims against the District, alleging that the District is liable for contamination existing in and around the property. The parties are currently engaged in discovery.

On March 30, 2017, Pepper Oil and Southern California Truck Stop amended their cross-complaint to name San Diego Wood Preserving as a defendant based on its former operation of an adjacent wood treatment facility. San Diego Wood Preserving answered and filed cross complaints against all parties. Discovery is ongoing.

The District's share of liability cannot be reasonably estimated at the present time. The District will likely seek insurance reimbursement for any liability imposed upon the District.

- (d) **Laurel Hawthorn Central Embayment (LHCE):** In June 2014, the RWQCB issued an Investigative Order directing the District, the SDCRAA, and General Dynamics to conduct a sediment chemistry investigation in an area of San Diego Bay defined by the RWQCB as LHCE. The LHCE is located between the US Coast Guard facility and Solar Turbines, bound by imaginary lines projecting from Laurel and West Hawthorn Streets.

The RWQCB issued the order to fill a data gap. Previous sampling conducted by SDCRAA from a 42-inch storm water outfall that discharges to the LHCE demonstrated elevated levels of metals, polychlorinated biphenyls (PCBs), and polycyclic aromatic hydrocarbons (PAHs). This outfall conveys storm water from portions of the San Diego International Airport, the former General Dynamics Lindbergh Field Plant, Pacific Highway, and upland properties owned by the City of San Diego. Based on these sampling results, the RWQCB concluded that an initial assessment of sediment chemistry is needed to determine the extent and magnitude of pollutants and to determine if additional assessment and/or cleanup are required. The RWQCB also found that jet fuel (PAHs) and brake pad residuals (metals) from the airport, PCB and metals from the former General Dynamics site are some of the likely sources of wastes discharged to the LHCE. The RWQCB named the District, SDCRAA, and General Dynamics as potentially responsible parties.

The order requires the District, SDCRAA, and General Dynamics to submit a sediment chemistry assessment work plan sufficient to delineate the extent of sediment contamination within the LHCE by September 18, 2014, conduct sampling for a list of pollutants including PCBs, PAHs, and metals, and complete an analysis report. The District and other responsible parties fulfilled the order's requirements with the submittal of a final report in April 2015.

RWQCB has indicated that they intend to issue one or more additional Investigative Orders to evaluate sediment contamination in the Laurel Hawthorn Embayment to the District, SDCRAA, General Dynamics, the City of San Diego, Solar Turbines, and Navistar.

The District's share of liability cannot be reasonably estimated at the present time. The District will likely seek insurance reimbursement for any liability imposed upon the District.

- (e) **Sunroad Marina:** In 2012, the District received an Investigative Order from the RWQCB to investigate possible impairment of sediment in the Sunroad Marina located in the East Basin of Harbor Island, which the District completed in 2013. The report showed sediment in some areas of the Sunroad Marina site was potentially impaired. In 2015, the RWQCB responded to the investigation report and requested the District either complete a risk assessment, remedial action plan or stressor identification study to resolve the potential impairment. The District presented a proposed study work plan to the RWQCB in 2015. The estimated study cost was \$52,000. The District is waiting on a response from RWQCB before proceeding with the proposed plan. The District's potential liability cannot be reasonably estimated at the present time. The District will likely seek insurance reimbursement for any liability imposed upon the District.
- (f) **Mouth of Chollas Creek:** On October 26, 2015, the RWQCB issued an Investigative Order directing the District, Caltrans, City of La Mesa, City of Lemon Grove, City of San Diego, NASSCO, and the US Navy to conduct an investigation of bay sediments within the mouth of Chollas Creek, which the RWQCB defined as an "approximately 24.9 acre" area "bounded on the east by the weir located downstream of the Belt Street Bridge, on the north side by the NASSCO pier, and to the south by Naval Base San Diego Pier 1 extending to the end of the piers." The order lists the District as a secondary discharger. On June 20, 2018, the RWQCB sent a letter confirming that the Dischargers had complied with all Investigative Order directives and that the RWQCB is evaluating how the results of the investigation can be used to continue improving water quality in this area of San Diego Bay and the rest of the Chollas Creek watershed.

The District's potential liability for this matter cannot be reasonably estimated at the present time. The District will likely seek insurance reimbursement for any liability imposed upon the District.

- (g) **Naval Training Center (NTC) Boat Channel:** The Navy Boat Channel was formerly part of the larger NTC which underwent Base Realignment and Closure (BRAC) beginning in the early 1990s. At that time, the NTC was transferred to the City of San Diego, except for Navy Boat Channel which had unresolved sediment contamination issues. In 2015, the Navy contacted the District and indicated that it may seek a portion of its sediment investigation and remediation costs from the District due to the District's prior operation of the airport, which is adjacent to the Navy Boat Channel, as well as the SDCRAA and City of San Diego. The District's share of liability cannot be reasonably estimated at the present time. The District will likely seek insurance reimbursement for any liability imposed upon the District.
- (h) **Tenth Avenue Marine Terminal Sediment Investigative Order:** The RWQCB issued a sediment Investigative Order to the District and the City of San Diego to assess potential impacted sediments and sources of sediment contamination in the vicinity of the Tenth Avenue Marine Terminal on August 4, 2017. The District is meeting Investigative Order requirements. The District's potential liability for this matter cannot be reasonably estimated at the present time. The District will likely seek insurance reimbursement for any liability imposed upon the District.
- (i) **South Bay Power Plant:** The District purchased the South Bay Power Plant from SDG&E through an Asset Sale Agreement in 1999. The South Bay Power Plant was then operated by Duke South Bay and subsequently by Dynegy from 2000 to 2014. Pursuant to the Asset Sale Agreement, SDG&E agreed to remediate contamination except for areas underlying the assets that continued to be operated by Duke South Bay and Dynegy. Duke South Bay and Dynegy were responsible for demolition and decommissioning of the remaining power plant assets (which has been completed) and are also responsible for remediating certain contamination in those areas. Duke South Bay and Dynegy also entered into several guarantee agreements with the District related to, among other things, their environmental obligations.

In 2006, the California Department of Toxic Substances Control entered into a Consent Agreement with SDG&E to cleanup waste management units at the site. The California Department of Toxic Substances Control has indicated that it will require additional investigation and potentially additional remediation at certain portions of the site.

In late 2016, SDG&E sent the District a letter demanding reimbursement for costs associated with its investigation and remediation. Discussions are ongoing among SDG&E, the District, and the Department of Toxic Substances Control regarding the extent of additional work required to address any remaining environmental issues at the South Bay Power Plant site. The District and SDG&E are in the process of finalizing a cost sharing agreement. The District, Duke and Dynegy have also engaged in discussions regarding remaining contamination issues. Legal and professional services for this matter for fiscal year 2019 are anticipated to cost approximately \$340 thousand. The District's total potential liability for this matter cannot be reasonably estimated at the present time.

- (j) **National City Marine Terminal Notice of Violation:** The District received a written notice of violation from the San Diego Coastkeeper and the Coastal Environmental Rights Foundation for alleged violations of the Industrial General Permit at the National City Marine Terminal in September 2016. Since this time, at the District's request, the RWQCB has processed a notice of termination of the Industrial General Permit formerly held by the District for the facility due to the fact that the District does not operate the National City Marine Terminal, which is instead operated by Pasha Automotive Services under a long-term Terminal Operator Agreement. Discussions regarding liability are ongoing. The District's potential liability for this matter cannot be reasonably estimated at the present time.
- ii. The District has been named as a defendant in a lawsuit filed by property owner SLPR, LLC in February 2006. The complaint alleges that dredging in the San Diego Bay performed by the District and the Army Corps of

Engineers compromised the integrity of the rip-rap barrier and pool wall located on the plaintiff's Coronado Bay front property. One neighboring property owner joined the lawsuit in late 2007, making similar claims. The District denies liability and intends to vigorously contest any liability or claims. The District was successful in the first phase of the trial which confirmed the location of the mean high tide line is at the location used by the District and the City of Coronado since the judgement in the case of *Spreckels v. The City of Coronado (1931)*. The likelihood of an unfavorable outcome is presently unknown as expert discovery for the second phase of the trial has not been completed. However, a finding of significant liability against the District should be low. If liability is determined against the District, potential exposure could range in the millions of dollars, but should be covered by available insurance, except any attorney's fees awarded relative to an inverse condemnation cause of action.

- iii. The District successfully defended three lawsuits filed by San Diego Navy Broadway Complex Coalition. The first lawsuit filed in November 2013 and the second filed in March 2014 were consolidated by the court. The third lawsuit was filed in June 2015. All complaints allege that the District violated the California Environmental Quality Act and the California Coastal Act when it approved the Port Master Plan Amendment for the San Diego Convention Center and Hilton Hotel expansion projects. The court ruled in favor of the District in all the lawsuits. The petitioner has filed an appeal in the consolidated lawsuit and the District filed a cross-appeal on a procedural issue. On December 6, 2017, the record on appeal was filed with the Court of Appeal. The matter has been fully briefed and the parties are awaiting a date for oral argument. A decision is anticipated within 90 days after oral argument. The amount cannot be reasonably determined at the present time.
- iv. The District has certified claims against it and is named as a defendant in certain other legal actions arising from occurrences and transactions conducted in the ordinary course of business, including without limitation, contract disputes, personal injury matters, and employment claims. The District's legal counsel has indicated that it is not currently possible to estimate the amount or range of potential loss to the District related to each of these matters. Therefore, to the extent possible, a reasonable estimate of the potential aggregate liability has been recorded in the District's basic financial statements as of June 30, 2018 and June 30, 2017 for these claims and lawsuits.

(12) GASB Statement No. 72, Fair Value Measurement and Application

The District began the fair value measurement and application of GASB Statement No. 72 during fiscal year 2016. This statement establishes a hierarchy for ranking the quality and reliability of information used to determine fair values of certain assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The District utilizes the market approach as a valuation technique in the application of GASB Statement No. 72 for its investment portfolio. This method uses prices and other relevant information generated by market transactions involving identical or comparable assets or group of assets.

The District categorizes its fair value measurements for the investment portfolio within the fair value hierarchy established by generally accepted accounting principles. The hierarchy provides three levels of the fair value with the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurement); valuations based on inputs (other than quoted prices included within Level 1) that are observable either directly or indirectly (Level 2 measurement); and, valuations that have significant unobservable inputs (Level 3 measurement). The investments in LAIF and CalTrust are not subject to fair value hierarchy.

The District has the following recurring fair value measurements as of June 30, 2018 and June 30, 2017:

Asset Type:

- ☐ U.S. Treasury Obligations of \$29.7 million and \$8.0 million as of June 30, 2018 and June 30, 2017, respectively, are classified as Level 2 of the fair value hierarchy. These investments are typically traded in the secondary market and are valued by a pricing service using available market information and pricing models and methodologies such as benchmark curves, benchmarking of like securities and bid, mean and ask evaluations.

- Ç U.S. Agency Obligations of \$58.6 million and \$78.3 million as of June 30, 2018 and June 30, 2017, respectively, are classified as Level 2 of the fair value hierarchy. These investments are typically traded in the secondary market and are valued by a pricing service using available market information with processes such as matrix pricing and option adjusted spread pricing models and methodologies.
- Ç Supranational Obligations of \$5.0 million and \$6.0 million as of June 30, 2018 and June 30, 2017, respectively, are classified as Level 2 of the fair value hierarchy. These investments are typically traded in the secondary market and are valued by a pricing service using available market information with similar quality, maturity, or, use analytical models which may incorporate spreads, interest rated data and market/sector views.
- Ç The District had no Medium Term Notes holdings as of June 30, 2018. Medium Term Notes of \$6.0 million as of June 30, 2017 are classified as Level 2 of the fair value hierarchy. These investments are typically traded in the secondary market and are valued by a pricing service using available market information with processes such as option adjusted spread pricing models and methodologies.

(13) GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions

Effective July 1, 2017, the District implemented GASB Statement No. 75 which requires the recognition of the entire total Other Postemployment Benefits (OPEB) liability, and changes in actuarial methods and assumptions for a more comprehensive measure of OPEB annual expense, disclosures of deferred outflows of resources and deferred inflows of resources. Previously, under GASB Statement No. 45, an OPEB liability was recognized to the extent to which the actuarially required contribution (ARC) was not funded. Upon implementation of GASB Statement No. 75, an OPEB liability is recognized as benefits are earned. Please refer to note 7 for additional information.

The increase in total OPEB Liability of \$136.3 million as of June 30, 2018 was determined using an annual valuation date as of July 1, 2017 rolled forward to June 30, 2018 using standard update procedures. The increase in liability of approximately \$90 million between the two fiscal years was primarily due to the following required change in actuarial methods and reporting requirements in accordance with GASB Statement No. 75:

- Ç Immediate recognition of the full unfunded accrued actuarial liability adds approximately \$60 million
- Ç Change in the actuarial cost method from Projected Unit Credit to Entry Age adds approximately \$18 million
- Ç Use of the 20 year Muni-Bond Index adds approximately \$10 million
- Ç Normal accrual of benefits adds approximately \$2 million

The implementation of GASB Statement No. 75 resulted in a restatement of Net Position of \$92.4 million in fiscal year 2018, as shown below and presented as a separate line in the Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year ended 2018.

GASB Statement No. 75
Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions
Calculation of Prior Period Adjustment to Beginning Net Position

Description	Amount
OPEB Liability on the basis of GASB 75 as of July 1, 2017	\$ 137,917,699
Less OPEB Obligation on the basis of GASB 45 as of July 1, 2017	(45,533,321)
Total adjustment to 2018 beginning net position	<u>\$ 92,384,378</u>

Required Supplementary Information (Unaudited)

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**Schedule of Changes in Net Pension Liability and Related Ratios
 Last Ten Fiscal Years***

	Measurement Date			
	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
<u>Total Pension Liability</u>				
Service cost	\$ 8,112,462	\$ 7,647,969	\$ 7,968,724	\$ 8,387,418
Interest (includes interest on service cost)	34,526,302	32,102,235	30,611,374	29,357,390
Changes of benefit terms	ò	ò	ò	ò
Differences between actual and expected experience	4,459,946	(2,243,475)	4,572,336	ò
Changes in assumptions	15,009,560	35,813,469	ò	ò
Benefit payments, including refunds of member contributions	(23,090,401)	(23,110,395)	(21,775,473)	(18,762,842)
Net change in total pension liability	39,017,869	50,209,803	21,376,961	18,981,966
Total pension liability - beginning	500,595,201	450,385,398	429,008,437	410,026,471
Total pension liability - ending	\$539,613,070	\$ 500,595,201	\$ 450,385,398	\$ 429,008,437
<u>Plan Fiduciary Net Position</u>				
Contributions - employer	\$ 14,747,532	\$ 14,400,000	\$ 16,886,481	\$ 16,595,566
Contributions - member (paid by employer)	2,287,740	2,422,241	ò	ò
Contributions - member	1,296,999	1,277,360	1,309,360	1,541,907
Net investment income	50,593,626	3,859,875	12,063,813	53,655,565
Benefit payments, including refunds of member contributions	(23,090,401)	(23,110,395)	(21,775,473)	(18,762,842)
Administrative expenses	(665,330)	(686,932)	(691,003)	(728,497)
Net change in plan fiduciary net position	45,170,166	(1,837,851)	7,793,178	52,301,699
Plan fiduciary net position - beginning	367,955,939	369,793,790	362,000,612	309,698,913
Plan fiduciary net position - ending	\$413,126,105	\$ 367,955,939	\$ 369,793,790	\$ 362,000,612
Net pension liability - ending	\$126,486,965	\$ 132,639,262	\$ 80,591,608	\$ 67,007,825
Plan fiduciary net position as a percentage of the total pension liability	76.56%	73.50%	82.11%	84.38%
Covered employee payroll	\$ 33,684,615	\$ 33,512,411	\$ 33,272,693	\$ 34,528,283
Net pension liability as a percentage of covered employee payroll	375.50%	395.79%	242.22%	194.07%

Notes to Schedule:

Benefit Changes: There were no changes to benefit terms specific to the plan.

Change in Assumptions: In 2016, the \$35.8 million increase was driven by the changes in demographic and economic assumptions with the largest increase coming from changes in mortality assumption (members living longer than expected).

*Required supplementary information is intended to show information for ten years; additional information will be displayed as it becomes available.

Source: SDCERS GASB 67/68 Report with measurement dates of June 30, 2017, June 30, 2016, June 30, 2015, and June 30, 2014.

**Schedule of Changes in Preservation of Benefits (POB) Liability and Related Ratios
 Last Ten Fiscal Years***

	Measurement Date	
	June 30, 2017	June 30, 2016
<u>Total Pension Liability - POB</u>		
Service cost	\$ 77,315	\$ 9,503
Interest (includes interest on service cost)	58,000	72,730
Differences between actual and expected experience	1,031,798	0
Changes in assumptions	(256,209)	296,607
Benefit payments, including refunds of member contributions	(258,709)	(273,568)
Net change in total pension liability	652,195	105,272
Total pension liability - beginning	2,125,159	2,019,887
Total pension liability - ending	\$ 2,777,354	\$ 2,125,159
Covered employee payroll	\$ 33,684,615	\$ 33,512,411
Total pension liability as a percentage of covered employee payroll	8.25%	6.34%

Notes to Schedule:

Unlike the Defined Benefit Pension Plan, a qualified IRC Section 401(a) pension plan, the District may not accumulate assets in trust to offset Preservation of Benefits plan liabilities. Therefore, the balances shown above represent total pension liability rather than net pension liability as it is shown with Defined Benefit Pension Plan.

Benefit Changes: There were no changes to benefit terms specific to the plan.

Changes in Assumptions: There were changes in assumption.

*Required supplementary information is intended to show information for ten years; additional information will be displayed as it becomes available.

Source: Preservation of Benefits Plan - San Diego Unified Port District GASB 73 Reports with measurement dates of June 30, 2017 and June 30, 2016.

Schedule of Employer Pension Contributions
Last Ten Fiscal Years

(Expressed in thousands)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined/ Required contribution	\$ 17,700	\$14,600	\$14,400	\$14,300	\$13,900	\$13,200	\$12,600	\$11,500	\$ 7,200	\$ 7,300
Contributions in relation to the actuarially determined contribution	17,700	14,600	14,400	14,300	13,900	13,200	12,600	11,501	7,201	7,340
Contribution deficiency/ (excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (1)	\$ (1)	\$ (40)
Covered-employee payroll	\$ 34,388	\$33,685	\$33,512	\$33,273	\$34,528	\$35,873	\$34,632	\$39,165	\$40,370	\$38,635
Contributions as a percentage of covered- employee payroll	51.47%	43.34%	42.97%	42.98%	40.26%	36.80%	36.38%	29.37%	17.84%	19.00%

Notes to Schedule:

Valuation date: June 30, 2016

Timing: Actuarially determined contributions are calculated based on the actuarial valuation performed at the beginning of the prior fiscal year.

Key Methods and Assumptions Used to Determine Contributions (for the most recent fiscal year):

Actuarial cost method:	Entry-Age Normal Cost Method
Asset valuation method:	Expected Value Method
Amortization method:	Level Percent Closed
Discount rate:	7.00%
Amortization growth rate:	3.05%
Salary increases:	3.05% plus merit component based on employee classification and years of service
Cost-of-living adjustments:	1.9%
Mortality:	Healthy retired members use the RP2000 Combined Mortality table (male and female). For Safety female members, rates are set forward one year.

A complete description of the methods and assumptions used to determine contribution rates for the year ending June 30, 2018 can be found in the June 30, 2016 actuarial valuation report.

Source: SDCERS GASB 67/68 Report with a measurement date of June 30, 2017

**Schedule of Changes in Other Postemployment Benefit (OPEB) Liability and Related Ratios
Last Ten Fiscal Years***

	<u>Measurement Date</u>
	<u>June 30, 2018</u>
<u>Total OPEB Liability</u>	
Service cost	\$ 1,882,229
Interest	4,951,528
Differences between actual and expected experience	(1,158,603)
Changes in assumptions	(3,944,626)
Benefit payments	(3,356,377)
Net change in total OPEB liability	(1,625,849)
Total OPEB liability - beginning	137,917,699
Total OPEB liability - ending	<u>\$ 136,291,850</u>
 Covered employee payroll	 \$ 50,200,904
 Total OPEB liability as a percentage of covered employee payroll	 271.49%

Notes to Schedule:

Benefit Changes: There were no changes to benefit terms specific to the plan.

Change of Assumptions: The \$3.9 million was driven by a change in discount rate assumption from 3.60% to 3.85%

*Required supplementary information is intended to show information for ten years; additional information will be displayed as it becomes available.

Source: Sunlin Consulting Actuarial Valuation with a measurement date of July 1, 2018 and Sunlin Valuation update letter dated, July 26, 2018.

The District has established procedures to pay these benefits on a pay-as-you-go basis and does not accumulate assets in trust to offset OPEB liabilities. Therefore the balances shown above represent total OPEB liability rather than net OPEB liability.

There are no assets in the OPEB plan, therefore the following information is not available:

- Ç The OPEB plan's fiduciary net position
- Ç The net OPEB liability
- Ç The OPEB Plan's fiduciary net position as a percentage of the total OPEB liability
- Ç The OPEB Plan's fiduciary net position as a percentage of covered-employee payroll

STATISTICAL SECTION (UNAUDITED)

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This section of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the basic financial statements and notes to the basic financial statements shows about the District's overall financial health.

	<u>Page</u>
Financial Trends	98
These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	
Revenue Capacity	100
These schedules contain information to help the reader assess the District's most significant revenue sources from Real Estate, Port as a Service, Maritime, and Harbor Police.	
Operating Information	108
These schedules contain information about the District's operations and resources to help the reader understand how the District's financial report relates to the services the District provides and the activities it performs.	
Debt Capacity	113
These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.	
Demographic and Economic Information	115
These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports and underlying records for the relevant year.

(Expressed in thousands)

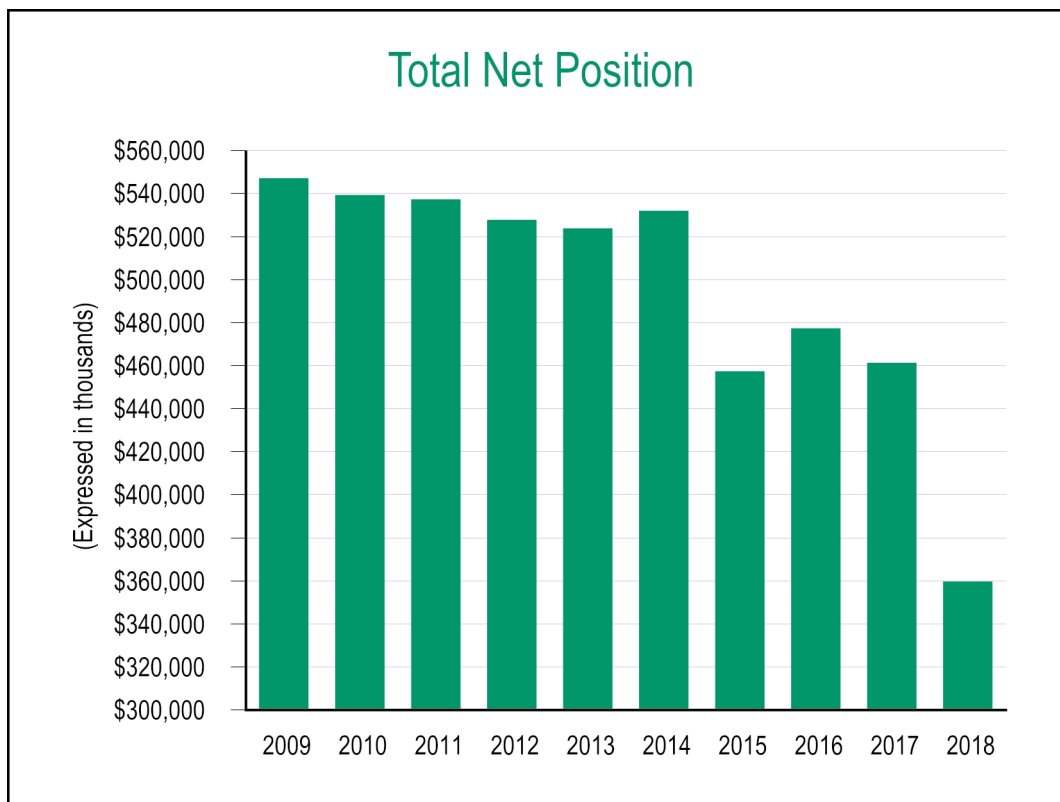
Fiscal Year	Net Investments in Capital Assets	Restricted	Unrestricted	Total Net Position
2009	\$ 413,928	\$ 29,163	\$ 103,970	\$ 547,061
2010	427,013	26,759	85,450	539,222
2011	439,531	19,202	78,600	537,333
2012 ¹	460,701	12,872	54,211	527,784
2013 ¹	474,797	3,436	45,494	523,727
2014	490,021	4,122	37,870	532,013
2015 ²	507,624	4,787	(55,020)	457,391
2016	504,229	7,357	(34,217)	477,369
2017 ³	502,478	8,326	(49,488)	461,316
2018 ⁴	515,619	8,866	(164,735)	359,750

¹In 2014, the District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, by restating the financial statements for 2012 and 2013. The restatement reflects the District's expensing of unamortized bond issue costs.

²In 2015, the District's unrestricted net position was (\$55.0) million which includes a restatement of net position of \$83.7 million due to the implementation of GASB Statement No. 68.

³In 2017, the District's unrestricted net position was (\$49.5) million including a \$24.7 million increase from an accounting adjustment for pension expense in accordance with GASB Statement No. 68 and a restatement of \$1.7 million for GASB Statement No. 73.

⁴In 2018, the District's unrestricted net position was (\$164.7) million which includes a restatement of net position of \$92.4 million due to the implementation of GASB Statement No. 75.



(Expressed in thousands)

	2009	2010	2011	2012 ¹	2013 ¹	2014	2015 ²	2016	2017 ³	2018 ⁴
Operating revenues:										
Real Estate	\$ 78,536	\$ 71,560	\$ 80,904	\$ 79,782	\$ 82,604	\$ 89,282	\$ 95,940	\$ 102,747	\$ 96,430	\$ 97,720
Port as a Service	ò	ò	ò	ò	ò	ò	ò	ò	15,227	16,583
Maritime	40,694	37,604	34,033	33,090	33,469	34,480	35,265	37,365	39,214	39,304
Harbor Police	12,464	12,934	13,190	15,639	15,313	17,203	14,729	16,835	16,085	16,192
Other operating revenues	2,816	2,511	3,240	2,225	3,884	4,807	3,631	3,340	3,409	3,094
Total operating revenues	134,510	124,609	131,367	130,736	135,270	145,772	149,565	160,287	170,365	172,893
Operating expenses:										
Direct expenses:										
Real Estate	21,191	26,704	26,512	34,656	33,186	31,280	27,782	27,623	26,400	28,609
Port as a Service	ò	ò	ò	ò	ò	ò	ò	ò	6,184	6,193
Maritime	23,243	22,338	19,031	20,612	20,448	21,573	18,002	18,334	17,208	17,557
Harbor Police	32,974	33,043	35,407	31,458	33,756	32,623	31,081	35,007	39,201	40,128
Other operating expenses	11,732	2,502	1,830	75	1,123	5,151	9,685	8,267	35,858	37,743
Depreciation and amortization	18,117	18,511	19,267	19,096	18,935	19,597	21,218	22,721	23,447	23,686
General and administrative expenses	31,428	30,902	31,357	34,600	35,951	30,729	31,561	33,949	40,040	44,118
Total operating expenses	138,685	134,000	133,404	140,497	143,399	140,953	139,329	145,901	188,338	198,034
Income/(loss) from operations	(4,175)	(9,391)	(2,037)	(9,761)	(8,129)	4,819	10,236	14,386	(17,973)	(25,141)
Nonoperating revenues/(expenses):										
Interest income	5,518	2,672	1,678	1,127	627	694	700	759	1,346	1,875
Settlement income	1,166	128	2,623	5	6	356	593	1,425	1,925	5,928
Net inc/(dec) in the fair value of invest.	1,117	(259)	(392)	(349)	(206)	166	(37)	92	(389)	(136)
Interest expense	(4,702)	(4,576)	(4,564)	(4,396)	(4,206)	(3,998)	(3,816)	(3,518)	(3,398)	(3,162)
Financial assistance other	(5,983)	(206)	(2,163)	(3,330)	ò	ò	ò	(10)	(579)	(122)
Convention Center expansion support	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)	ò	ò	ò	ò
Other nonoperating expenses	(1,043)	(456)	(205)	(80)	(78)	(96)	(11,706)	(433)	(782)	(56)
Other nonoperating revenues	3,371	3,759	4,741	4,007	986	1,281	8,359	5,615	3,085	2,947
Nonoperating income/(loss)	(5,056)	(3,438)	(2,782)	(7,516)	(7,371)	(6,097)	(5,907)	3,930	1,208	7,274
Capital grants and contributions	5,347	4,990	2,930	8,339	11,443	9,564	4,781	1,662	2,458	8,685
Change in net position	(3,884)	(7,839)	(1,889)	(8,938)	(4,057)	8,286	9,110	19,978	(14,307)	(9,182)
Beginning net position	550,948	547,061	539,222	537,333	527,784	523,727	532,013	457,391	477,369	461,316
Restatement	(3)	ò	ò	(611)	ò	ò	(83,732)	ò	(1,746)	(92,384)
Ending net position	\$ 547,061	\$ 539,222	\$ 537,333	\$ 527,784	\$ 523,727	\$ 532,013	\$ 457,391	\$ 477,369	\$ 461,316	\$ 359,750

¹In 2014, the District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, by restating the financial statements for 2012 and 2013. The restatement reflects the District's expensing of unamortized bond issue costs.

²In 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, with new pension reporting requirements for employers. The implementation of GASB 68 restates the net position to give retroactive effect.

³In 2017, the District implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The implementation of GASB 73 restates the net position to give retroactive effect. Other operating expenses includes a \$24.7 million increase from an accounting adjustment for pension expense in accordance with GASB Statement No. 68.

⁴In 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions*, which replaces the requirements under GASB Statement No. 45 and improves accounting and financial reporting for Other Postemployment Benefits (OPEB). The implementation of GASB 75 restates the net position to give retroactive effect.

Operating Revenues by Segment ñ Last Ten Fiscal Years

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(Expressed in thousands)

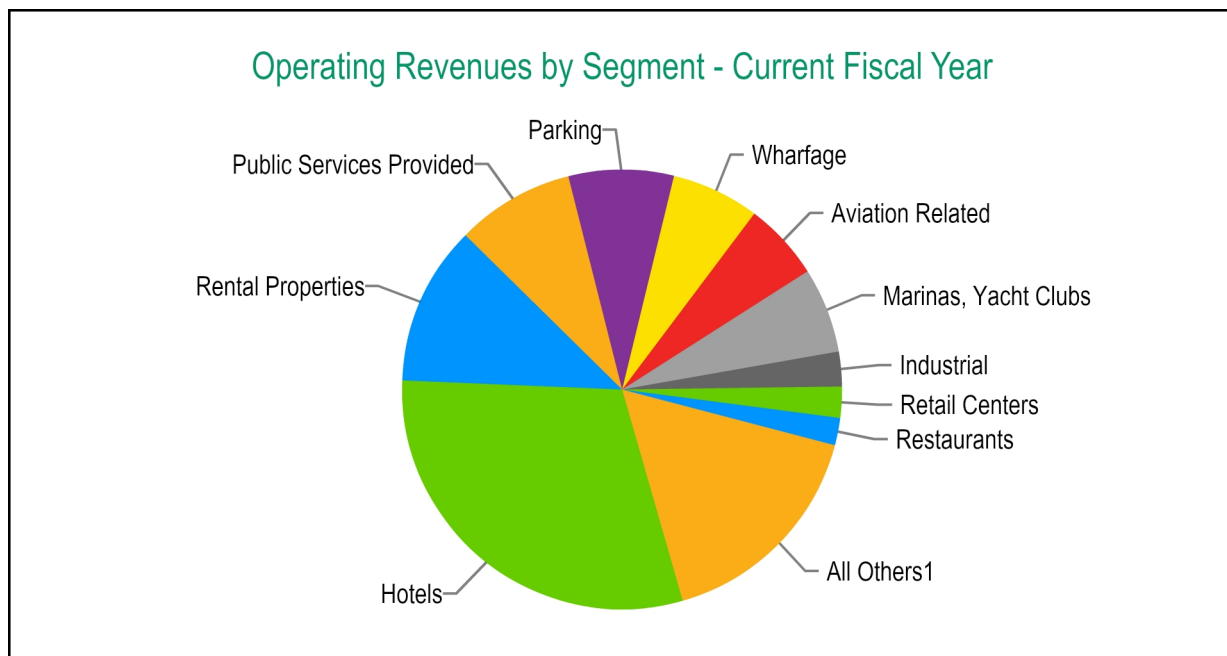
Segment	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Hotels ¹	\$ 32,323	\$ 25,125	\$ 30,866	\$ 32,824	\$ 33,667	\$ 37,700	\$ 40,739	\$ 45,198	\$ 53,818	\$ 54,505
Rental Properties	18,141	15,499	15,585	15,439	16,191	17,101	16,900	18,321	20,961	19,646
Public Services Provided ²	11,550	11,567	12,130	14,200	13,922	15,309	13,427	15,610	15,534	15,712
Parking	8,989	8,690	7,303	7,532	8,598	10,082	12,151	13,431	13,806	14,937
Wharfage	9,839	9,723	9,755	10,867	11,270	11,535	12,078	12,223	11,564	11,856
Aviation Related	11,488	11,504	11,503	11,564	11,053	10,575	10,469	10,420	10,184	10,182
Marinas, Yacht Clubs ³	8,735	8,116	8,099	8,736	9,216	8,529	9,482	10,245	11,229	11,701
Industrial	4,270	5,379	10,439	6,008	6,023	5,919	5,579	4,452	4,541	4,776
Retail Centers	3,119	2,867	3,053	3,491	3,604	3,815	3,928	4,009	4,114	4,170
Restaurants ⁴	2,540	2,627	2,560	2,316	2,326	2,888	3,097	3,332	3,568	3,647
Dockage	2,676	2,553	2,404	1,967	1,938	1,920	2,083	2,393	2,152	2,460
Passenger Fees	4,964	4,756	2,422	1,554	1,289	1,133	1,167	1,264	1,390	1,702
Citations	284	307	322	373	395	794	1,144	1,009	1,027	1,029
Passenger Security Charges	3,078	3,066	1,841	1,174	989	999	1,006	804	997	999
Piers & Floats	93	84	86	128	89	97	111	150	187	214
Grant Revenue	489	932	628	873	846	959	0	0	0	0
Other	11,932	11,814	12,371	11,690	13,854	16,417	16,204	17,426	15,293	15,357
Total	\$134,510	\$124,609	\$131,367	\$130,736	\$135,270	\$145,772	\$149,565	\$160,287	\$170,365	\$172,893

¹All hotel leases include restaurants and six hotel leases include marinas.

²Includes police services to San Diego County Regional Airport Authority (SDCRAA).

³Not included are marinas under hotel operations or under a restaurant lease.

⁴The District has nine direct restaurant agreements, not included are restaurants in hotels, marinas, and retail centers.

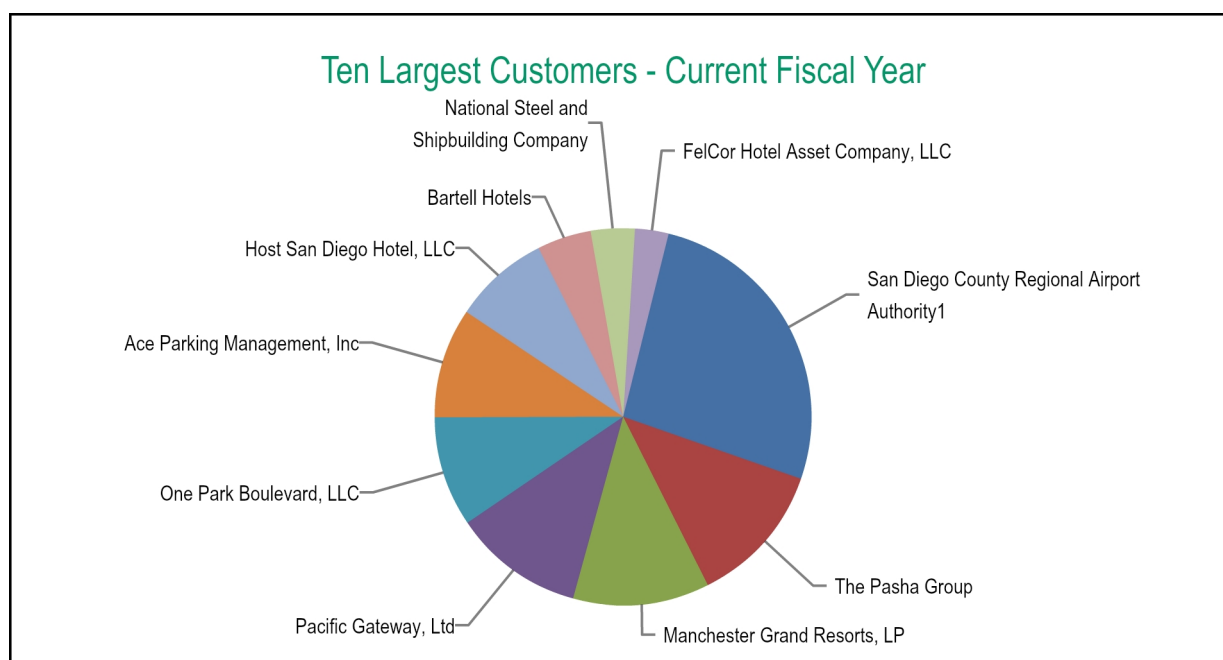


¹All Others segment includes Dockage, Passenger Fees, Passenger Security Charges, Grant Revenue, Citations, Piers & Floats, and Other.

(Expressed in thousands)

Customer	2009	%	Customer	2018	%
San Diego County Regional Airport Authority ¹	\$ 24,659	18.3%	San Diego County Regional Airport Authority ¹	\$ 28,268	16.3%
The Pasha Group	9,746	7.3%	The Pasha Group	13,077	7.6%
Manchester Grand Resorts, LP	9,208	6.9%	Manchester Grand Resorts, LP	12,536	7.3%
Pacific Gateway, Ltd	8,128	6.0%	Pacific Gateway, Ltd	11,982	6.9%
Carnival Cruise Lines, Inc.	7,195	5.4%	One Park Boulevard, LLC	10,088	5.8%
Host San Diego Hotel, LLC	6,477	4.8%	Ace Parking Management, Inc	10,076	5.8%
Ace Parking Management, Inc	5,689	4.2%	Host San Diego Hotel, LLC	8,779	5.1%
Holland America Line, Inc	3,314	2.5%	Bartell Hotels	4,954	2.9%
National Steel and Shipbuilding Company	3,016	2.2%	National Steel and Shipbuilding Company	4,042	2.3%
Bartell Hotels	2,947	2.2%	FelCor Hotel Asset Company, LLC	3,089	1.8%
Total Ten Largest Customers	80,379	59.8%	Total Ten Largest Customers	106,891	61.8%
Other	54,131	40.2%	Other	66,002	38.2%
Total Operating Revenues	<u>\$ 134,510</u>	<u>100.0%</u>	Total Operating Revenues	<u>\$ 172,893</u>	<u>100.0%</u>

¹Includes reimbursements for airport police services.



¹Includes reimbursements for airport police services.

(Expressed in thousands)

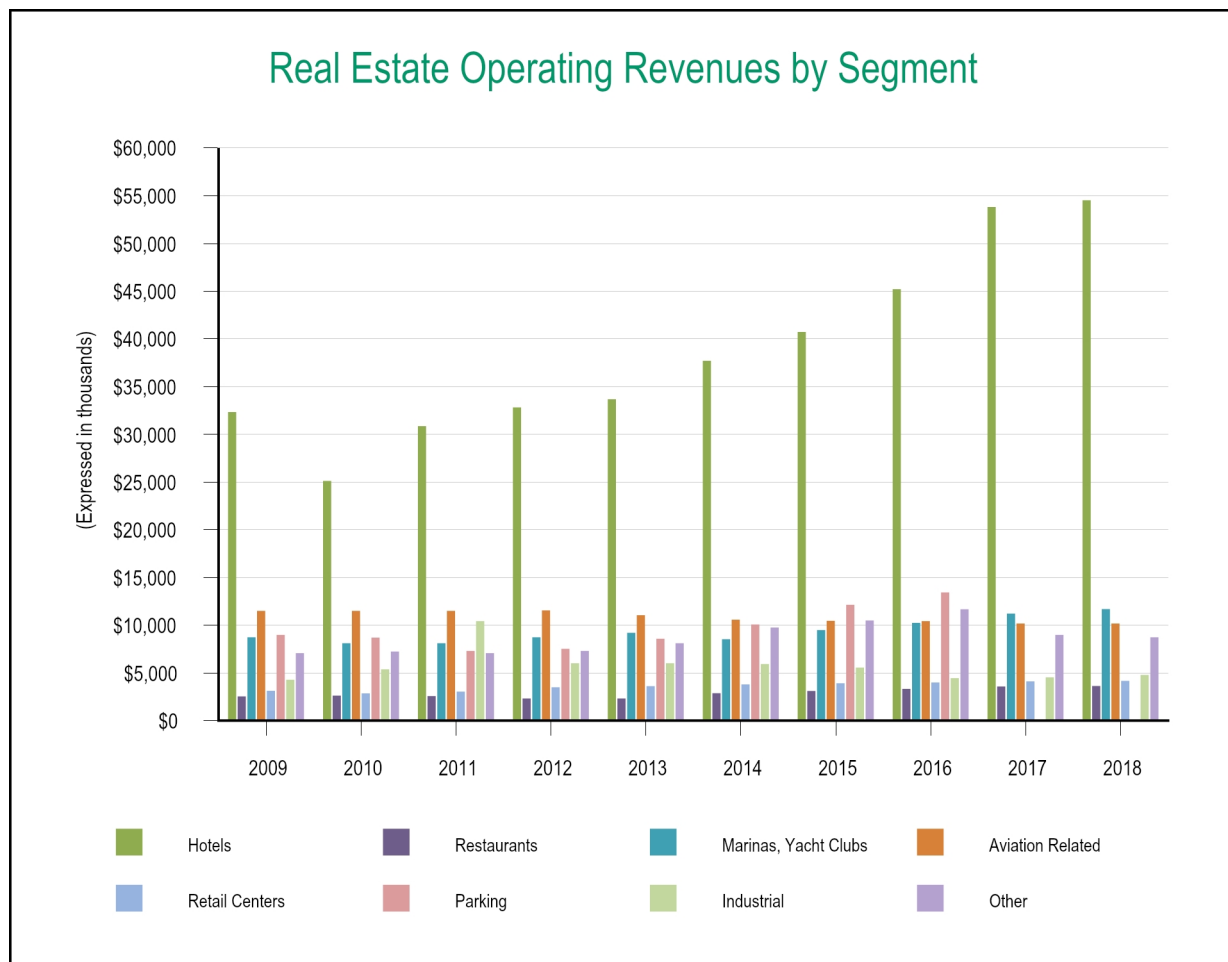
Segment	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Hotels ¹	\$ 32,323	\$ 25,125	\$ 30,866	\$ 32,824	\$ 33,667	\$ 37,700	\$ 40,739	\$ 45,198	\$ 53,818	\$ 54,505
Restaurants ²	2,540	2,627	2,560	2,316	2,326	2,888	3,097	3,332	3,568	3,647
Marinas, Yacht Clubs ³	8,735	8,116	8,099	8,736	9,216	8,529	9,482	10,245	11,229	11,701
Aviation Related	11,488	11,504	11,503	11,564	11,053	10,575	10,469	10,420	10,184	10,182
Retail Centers	3,119	2,867	3,053	3,491	3,604	3,815	3,928	4,009	4,114	4,170
Parking ⁴	8,989	8,690	7,303	7,532	8,598	10,082	12,151	13,431	—	—
Industrial	4,270	5,379	10,439	6,008	6,023	5,919	5,579	4,452	4,541	4,776
Other	7,072	7,252	7,081	7,311	8,117	9,774	10,495	11,660	8,976	8,739
Total	\$ 78,536	\$ 71,560	\$ 80,904	\$ 79,782	\$ 82,604	\$ 89,282	\$ 95,940	\$102,747	\$ 96,430	\$ 97,720

¹All hotel leases include restaurants and six hotel leases include marinas.

²The District has nine direct restaurant agreements, not included are restaurants in hotels, marinas, and retail centers.

³Not included are marinas under hotel operations or under a restaurant lease.

⁴Parking Operations were transferred out of Real Estate and into Port as a Service-Parking in fiscal year 2017.



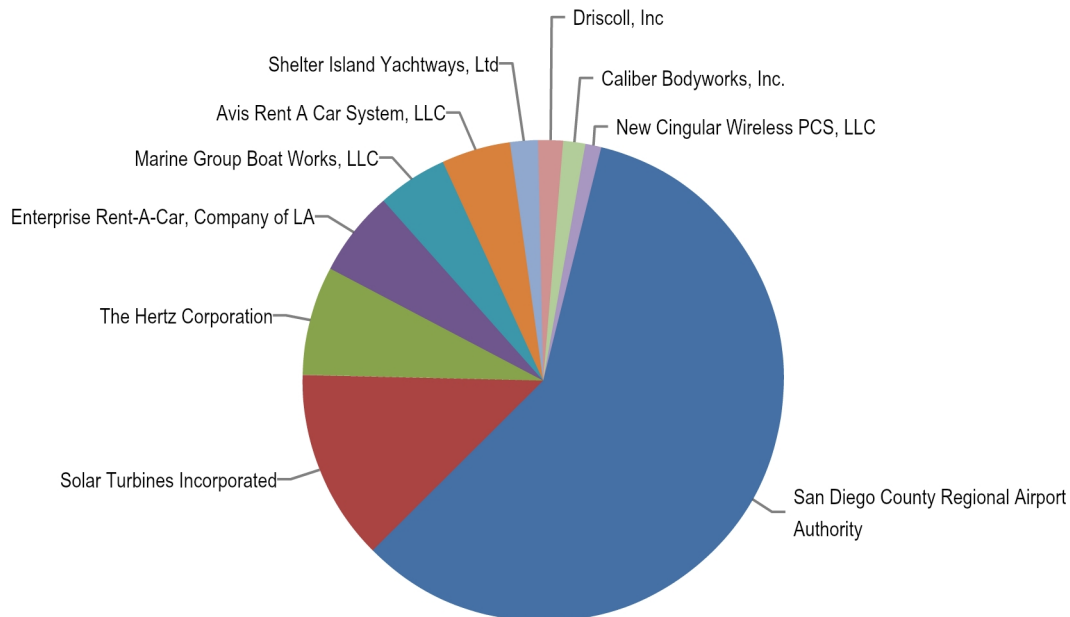
Real Estate Ten Largest Fixed Rent Tenants – Current Fiscal Year and Nine Years Ago

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(Expressed in thousands)

Tenant	2009	%	Tenant	2018	%
San Diego County Regional Airport Authority	\$ 11,338	53.0%	San Diego County Regional Airport Authority	\$ 10,176	51.4%
Solar Turbines Incorporated	1,741	8.1%	Solar Turbines Incorporated	2,229	11.3%
The Hertz Corporation	1,085	5.1%	The Hertz Corporation	1,272	6.4%
Marine Group Boat Works, LLC	925	4.3%	Enterprise Rent-A-Car, Company of LA	997	5.0%
Vanguard Car Rental USA Inc. dba National Car Rental	788	3.7%	Marine Group Boat Works, LLC	817	4.1%
Avis Rent A Car System, LLC	704	3.3%	Avis Rent A Car System, LLC	802	4.0%
Newport Beach Sales & Leasing dba Budget Rent-A-Car	703	3.3%	Shelter Island Yachtways, Ltd	325	1.6%
San Diego Yacht Club	508	2.4%	Driscoll, Inc	291	1.5%
Metropolitan Life Insurance Company dba Park and Ride	466	2.2%	Caliber Bodyworks, Inc.	257	1.3%
Driscoll, Inc	326	1.5%	New Cingular Wireless PCS, LLC	187	0.8%
Total Ten Largest Fixed Rent Tenants	18,584	86.8%	Total Ten Largest Fixed Rent Tenants	17,353	87.4%
Other Fixed Rent	2,825	13.2%	Other Fixed Rent	2,454	12.4%
Total Real Estate Fixed Rent	\$ 21,409	100.0%	Total Real Estate Fixed Rent	\$ 19,807	99.8%

Real Estate Ten Largest Fixed Rent Tenants - Current Fiscal Year



Real Estate Ten Largest Percentage Rent Tenants -

Current Fiscal Year and Nine Years Ago

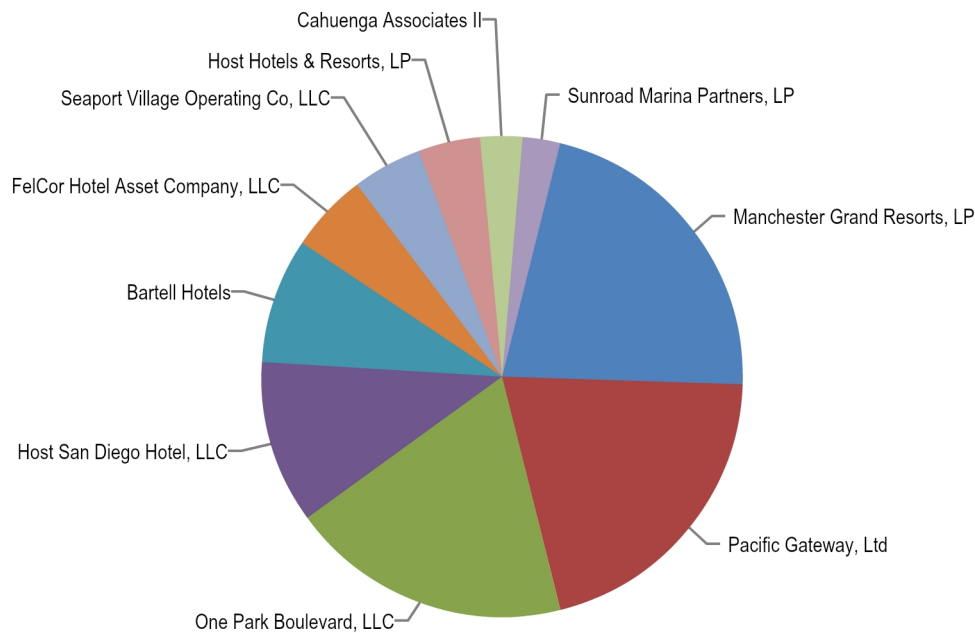
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(Expressed in thousands)

Tenant	2009	%
Manchester Grand Resorts, LP	\$ 9,207	19.1%
Pacific Gateway, Ltd	8,128	16.9%
Host San Diego Hotel, LLC	4,963	10.3%
Bartell Hotels	2,889	6.0%
Seaport Village Operating Co, LLC	2,396	5.0%
FelCor Hotel Asset Company, LLC	2,279	4.7%
Host Hotels & Resorts, LP	1,514	3.1%
Cahuenga Associates II	1,398	2.9%
One Park Boulevard, LLC	1,398	2.9%
HIW Associates	1,117	2.3%
Total Ten Largest Percentage Rent Tenants	35,289	73.3%
Other Percentage Rent	12,868	26.7%
Total Real Estate Percentage Rent	<u>\$ 48,157</u>	<u>100.0%</u>

Tenant	2018	%
Manchester Grand Resorts, LP	\$ 12,536	16.3%
Pacific Gateway, Ltd	11,939	15.5%
One Park Boulevard, LLC	10,963	14.2%
Host San Diego Hotel, LLC	6,347	8.2%
Bartell Hotels	4,880	6.3%
FelCor Hotel Asset Company, LLC	3,082	4.0%
Seaport Village Operating Co, LLC	2,703	3.5%
Host Hotels & Resorts, LP	2,416	3.1%
Cahuenga Associates II	1,642	2.1%
Sunroad Marina Partners, LP	1,467	1.9%
Total Ten Largest Percentage Rent Tenants	57,975	75.2%
Other Percentage Rent	19,137	24.8%
Total Real Estate Percentage Rent	<u>\$ 77,112</u>	<u>100.0%</u>

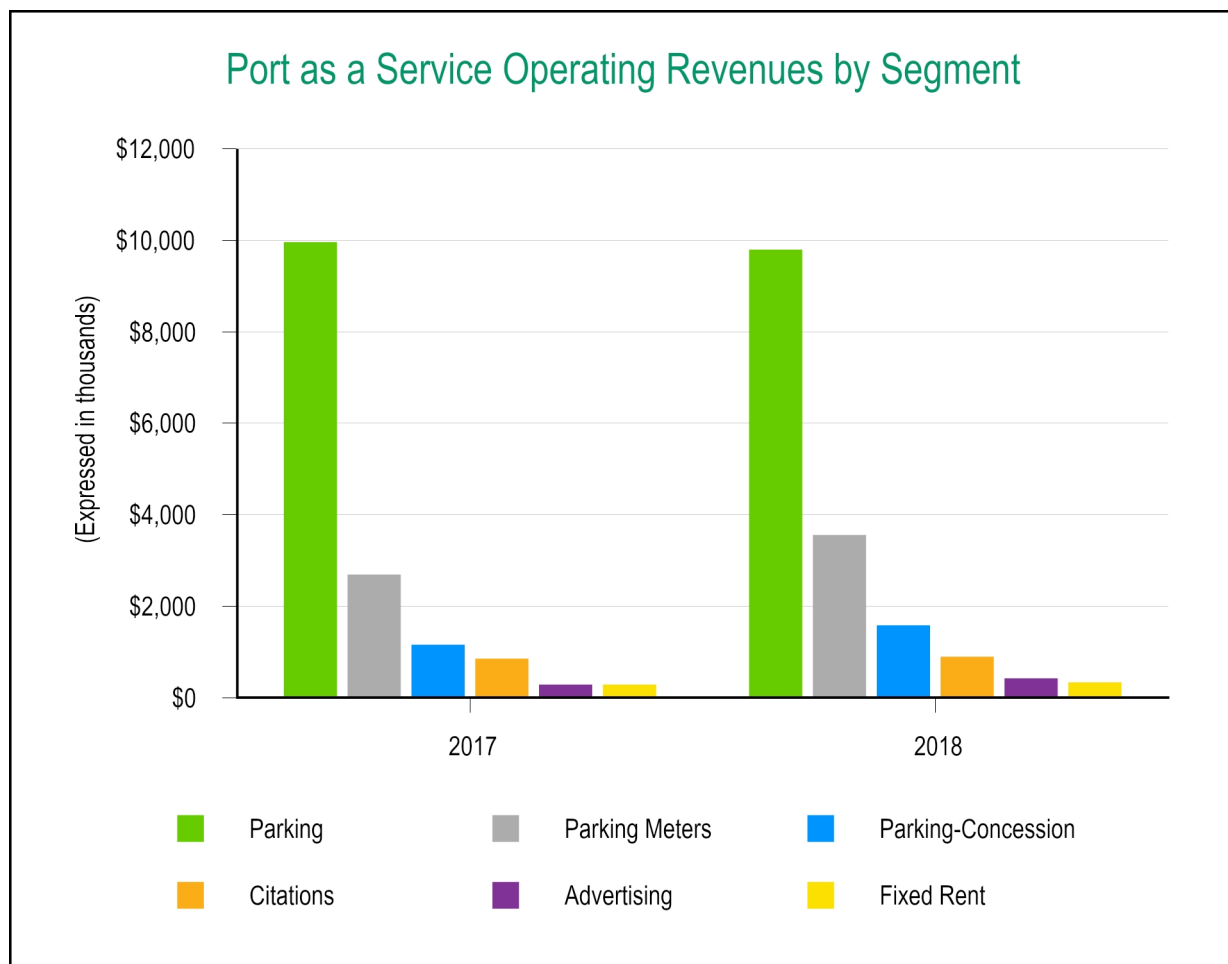
Real Estate Ten Largest Percentage Rent Tenants - Current Fiscal Year



(Expressed in thousands)

Segment	2017	2018
Parking	\$ 9,960	\$ 9,796
Parking Meters	2,692	3,556
Parking-Concession	1,154	1,585
Citations	852	892
Advertising	286	419
Fixed Rent	284	334
	<u>\$ 15,228</u>	<u>\$ 16,582</u>

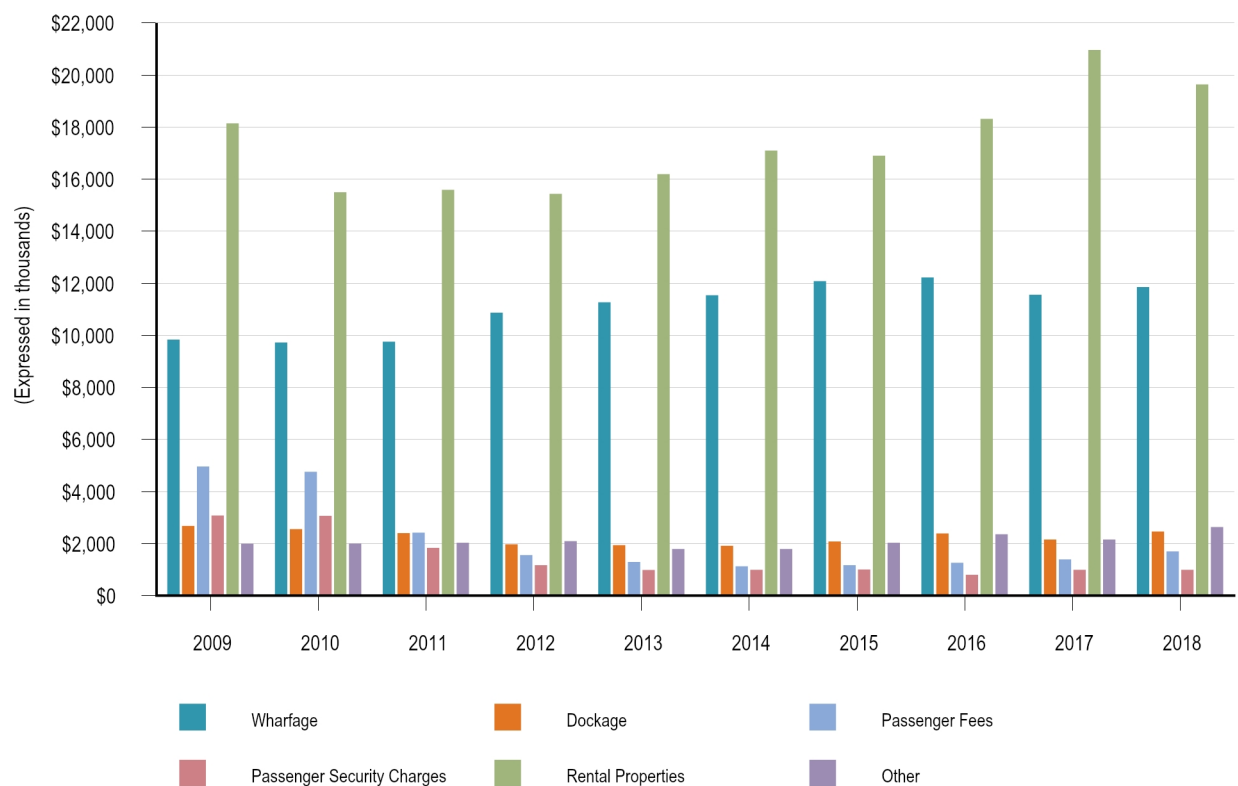
*Fiscal Year 2017 was the first year of Port as a Service, therefore only two years are shown.



(Expressed in thousands)

Segment	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Wharfage	\$ 9,840	\$ 9,723	\$ 9,755	\$10,867	\$11,270	\$11,535	\$12,078	\$12,223	\$11,564	\$11,856
Dockage	2,676	2,553	2,404	1,967	1,938	1,920	2,083	2,393	2,152	2,460
Passenger Fees	4,964	4,756	2,422	1,554	1,289	1,133	1,167	1,264	1,390	1,702
Passenger Security Charges	3,078	3,066	1,841	1,174	989	999	1,006	804	997	999
Rental Properties	18,141	15,499	15,585	15,439	16,191	17,101	16,900	18,321	20,961	19,646
Other	1,996	2,007	2,026	2,089	1,792	1,792	2,031	2,361	2,151	2,641
Total	\$40,695	\$37,604	\$34,033	\$33,090	\$33,469	\$34,480	\$35,265	\$37,366	\$39,215	\$39,304

Maritime Operating Revenues by Segment



Maritime Ten Largest Fixed Rent Tenants –

Current Fiscal Year and Nine Years Ago

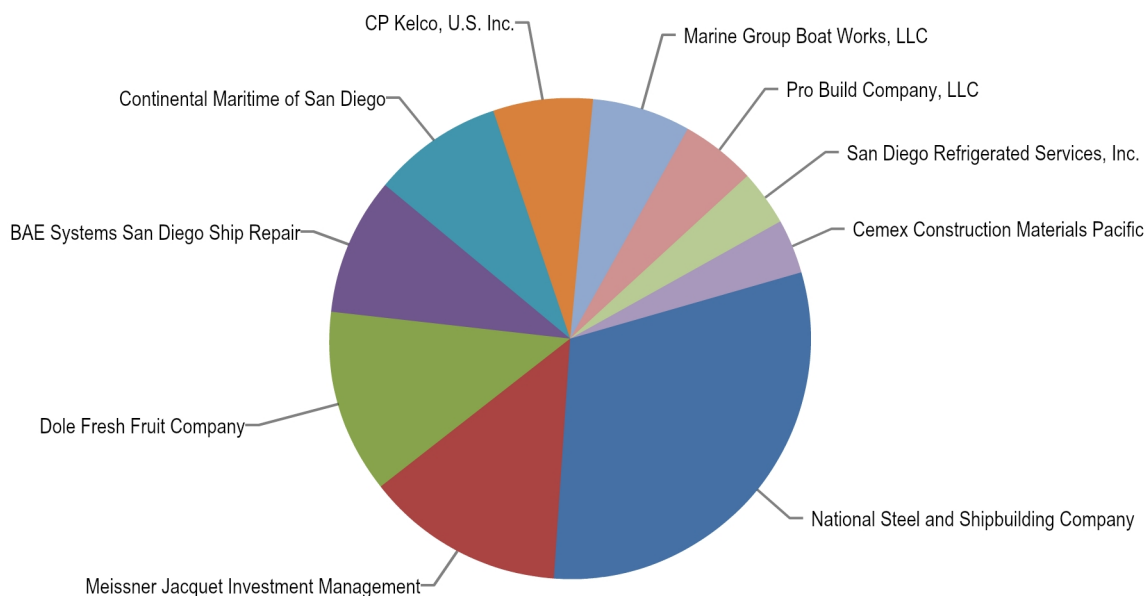
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(Expressed in thousands)

Tenant	2009	%
National Steel and Shipbuilding Company	\$ 2,981	20.7%
Meissner Jacquet Investment Management	2,401	16.7%
Dole Fresh Fruit Company	1,650	11.5%
Dixieline Lumber Company	1,114	7.7%
Continental Maritime of San Diego	1,053	7.3%
BAE Systems San Diego Ship Repair	958	6.7%
CP Kelco, U.S. Inc.	660	4.6%
Knight & Carver Yachtcenter, Inc.	626	4.4%
Cemex Construction Materials Pacific	487	3.4%
Weyerhaeuser Company	284	2.0%
Total Ten Largest Fixed Rent Tenants	12,216	85.0%
Other Fixed Rent	2,164	15.0%
Total Maritime Fixed Rent	<u>\$ 14,380</u>	<u>100.0%</u>

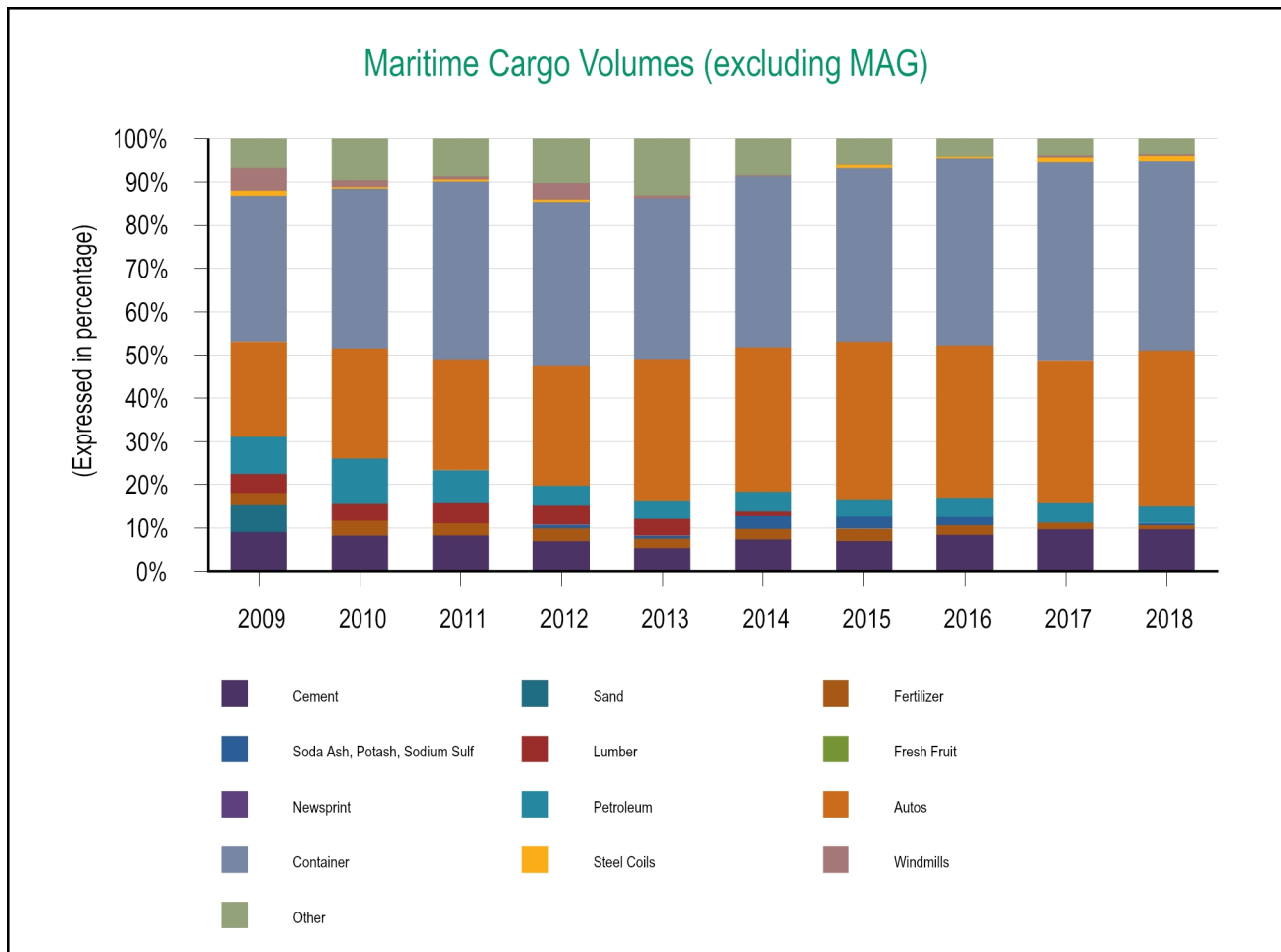
Tenant	2018	%
National Steel and Shipbuilding Company	\$ 3,948	26.3%
Meissner Jacquet Investment Management	1,730	11.5%
Dole Fresh Fruit Company	1,596	10.6%
BAE Systems San Diego Ship Repair	1,196	8.0%
Continental Maritime of San Diego	1,137	7.6%
CP Kelco, U.S. Inc.	867	5.8%
Marine Group Boat Works, LLC	854	5.7%
Pro Build Company, LLC	653	4.3%
San Diego Refrigerated Services, Inc.	482	3.2%
Cemex Construction Materials Pacific	473	3.1%
Total Ten Largest Fixed Rent Tenants	12,936	86.1%
Other Fixed Rent	2,087	13.9%
Total Maritime Fixed Rent	<u>\$ 15,023</u>	<u>100.0%</u>

Maritime Ten Largest Fixed Rent Tenants - Current Fiscal Year

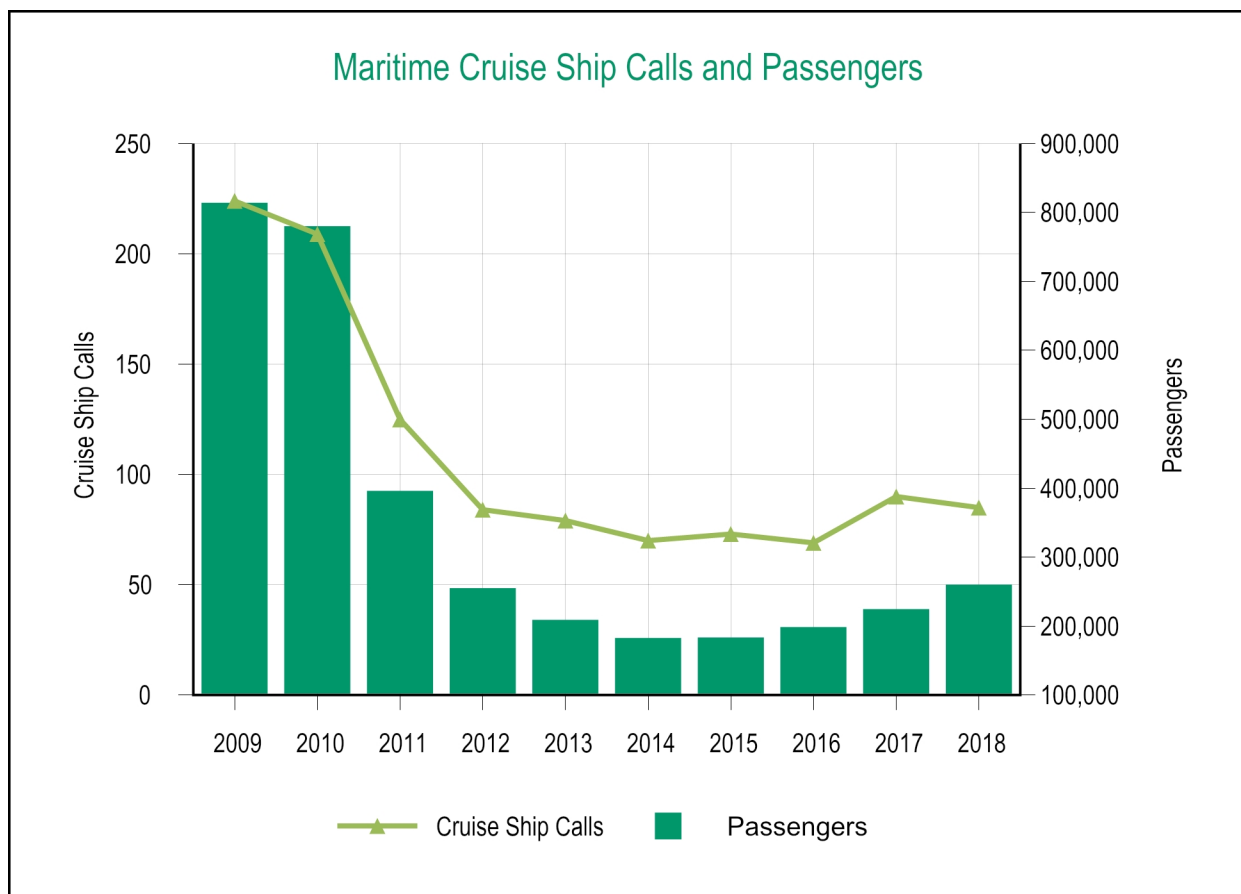


(Expressed in metric tons)

Cargo	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Cement	160,590	127,679	122,233	115,962	88,618	121,218	123,646	158,709	176,772	181,708
Sand	114,537	—	—	—	—	—	—	—	—	—
Fertilizer	46,849	54,478	41,494	50,917	36,503	41,304	50,279	42,244	29,175	18,333
Soda Ash, Potash, Sodium Sulf	—	—	—	14,928	10,897	51,570	49,589	36,359	—	9,257
Lumber	80,146	63,994	72,645	77,188	65,344	17,701	—	—	—	—
Petroleum	153,589	162,225	111,078	75,806	71,822	74,003	71,582	84,044	86,919	75,990
Autos	394,569	401,375	379,821	468,786	545,001	556,954	649,725	670,847	601,246	680,598
Container	604,841	580,822	617,289	640,586	621,921	660,586	717,085	823,560	847,906	828,603
Steel Coils	20,400	5,546	6,732	9,849	43	—	13,253	6,811	19,604	23,217
Windmills	94,101	25,106	10,763	68,541	15,360	3,942	627	37	8,235	7,201
Other	121,384	150,015	129,487	172,800	219,577	140,966	106,759	79,333	72,244	68,917
Total Cargo	1,791,006	1,571,240	1,491,542	1,695,363	1,675,086	1,668,244	1,782,545	1,901,944	1,842,101	1,893,824
Minimum Annual Guarantee (MAG)	1,028,467	1,306,058	1,338,920	1,224,974	1,007,575	996,412	953,280	971,669	947,903	1,116,645
Total Cargo with MAG	2,819,473	2,877,298	2,830,462	2,920,337	2,682,661	2,664,656	2,735,825	2,873,613	2,790,004	3,010,469



Fiscal Year	Cruise Ship Calls	Passengers
2009	224	813,822
2010	209	779,721
2011	125	396,018
2012	84	254,774
2013	79	208,812
2014	70	182,693
2015	73	183,136
2016	69	198,399
2017	90	224,453
2018	85	259,937



Harbor Police Operating Revenues by Segment - Last Ten Fiscal Years

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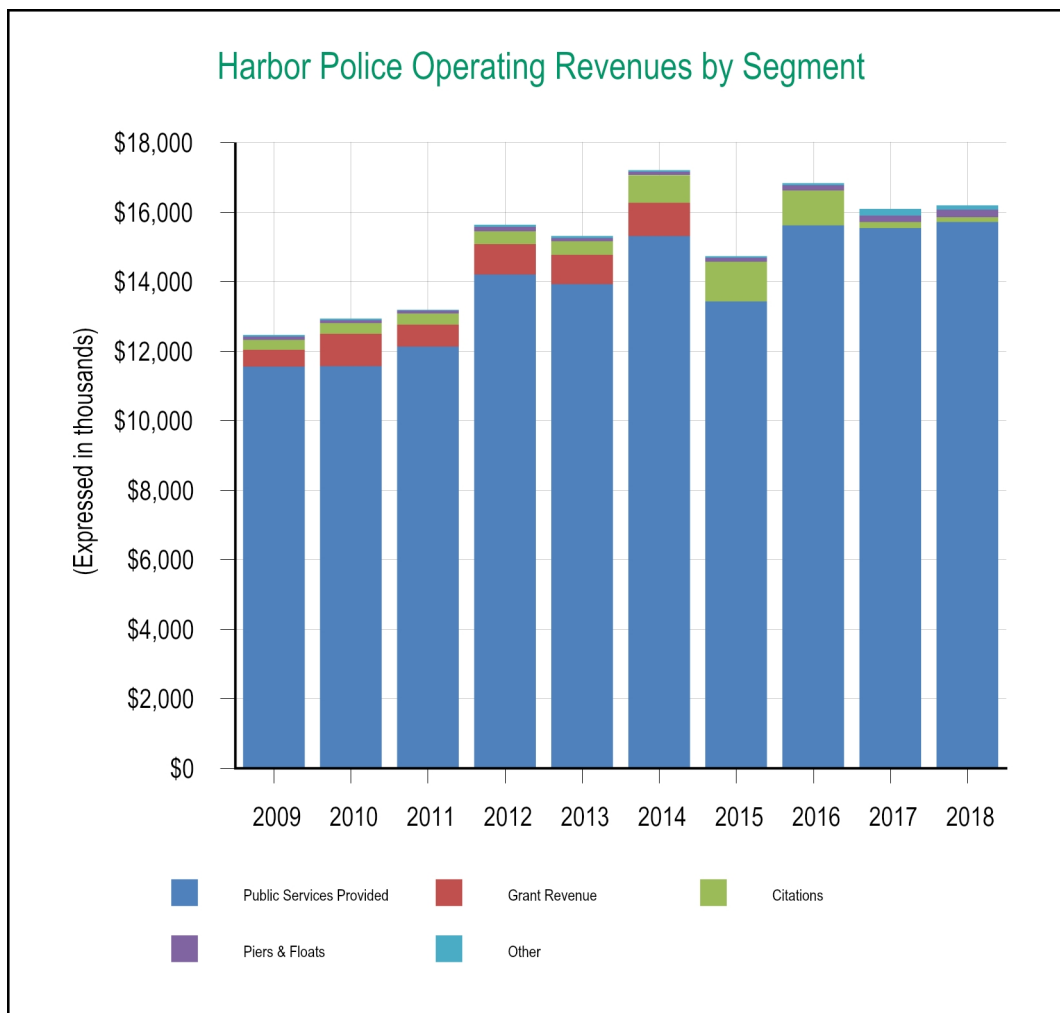
(Expressed in thousands)

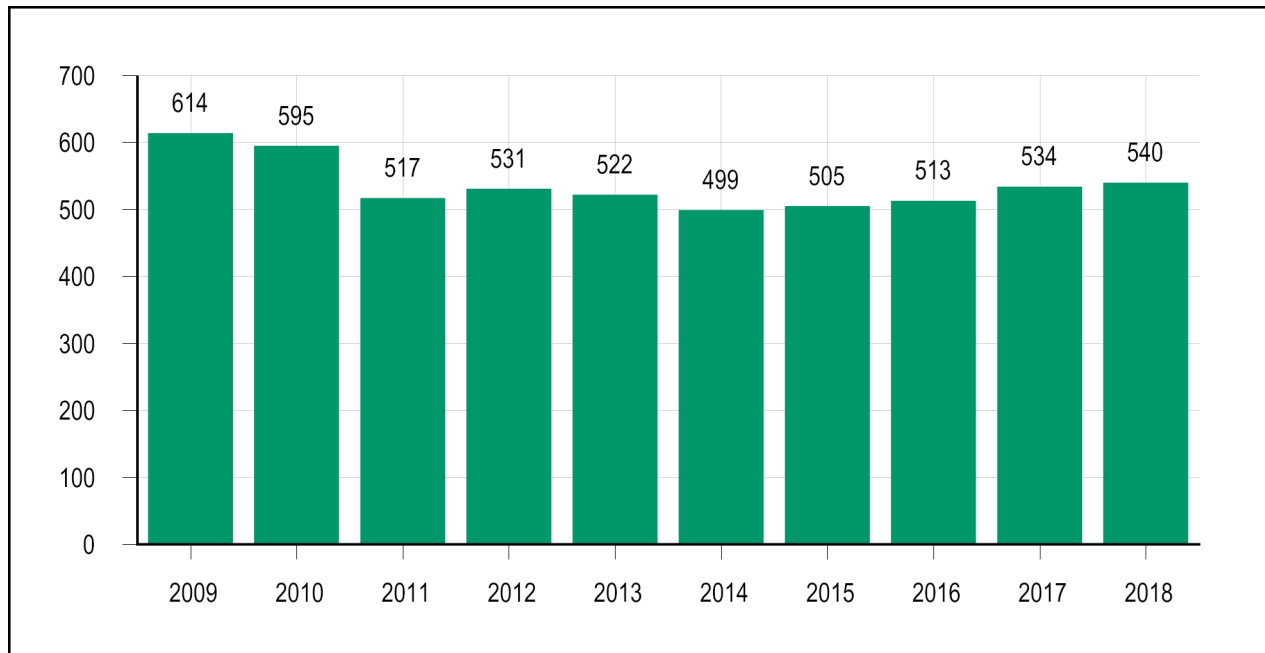
Segment	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Public Services Provided ¹	\$ 11,550	\$ 11,567	\$ 12,130	\$ 14,200	\$ 13,922	\$ 15,309	\$ 13,427	\$ 15,610	\$ 15,534	\$ 15,712
Grant Revenue ²	489	932	628	873	846	959	—	—	—	—
Citations ³	284	307	322	373	395	794	1,144	1,009	175	137
Piers & Floats	93	84	86	128	89	97	111	150	187	214
Other	48	44	24	65	61	44	47	66	189	129
Total	\$ 12,464	\$ 12,934	\$ 13,190	\$ 15,639	\$ 15,313	\$ 17,203	\$ 14,729	\$ 16,835	\$ 16,085	\$ 16,192

¹Police services provided to SDCRAA (excluding G&A cost reimbursements).

²Grant revenue was reclassified to nonoperating revenues in fiscal year 2015.

³Parking Citations was moved to Port as a Service - Parking department in fiscal year 2017.





This chart reflects the number of regular full-time employees at June 30th of each fiscal year.

Total Land and Water	
District's Jurisdiction:	
Land - Estimated (in acres)	2,468
Water - Estimated (in acres)	3,534
Leased Area:	
Leased Land - Estimated (in square feet)	76,799,986
Leased Water- Estimated (in square feet)	32,944,498
Leased Buildings - Estimated (in square feet)	5,638,263
Leased Piers - Estimated (in square feet)	130,466
Public Safety	
Stations	1
Sub-stations	3
Sworn Officers	139
Number of Calls	62,132
Traffic Citations	2,238
Parking Citations	29,906
Arrests	2,268
Number of Parks	
	22
Total Acreage	148
Parking (number of short-term and long-term spaces)	
Navy Pier	386
B Street Pier	220
Hilton Garage	1,834
Convention Center Garage	1,859
Imperial Beach	71
Metered (throughout District)	1,033
Pay Stations (Spanish Landing)	219
Unmetered (throughout District)	2,625
Tenant Operated (TUOPs) (long-term spaces):	
Harbor Island Lot	620
Pacific Highway Corridor Lots	1,347
Number of Cargo Terminals	
	2
National City Marine Terminal:	
Size (in acres)	125
Number of Berths	7
Wharf (in linear feet)	4,925
Warehouse Capacity (in square feet)	325,761
Tenth Avenue Marine Terminal:	
Size (in acres)	96
Number of Berths	8
Wharf (in linear feet)	4,347
Storage Facilities:	
Cold Storage (in million cubic feet)	6
Warehouse Capacity (in square feet)	600,000
Number of Cruise Terminals	
	2
B Street Cruise Ship Terminal:	
Size (in acres)	9.1
Wharf (in linear feet)	2,400
Number of Berths	5
Broadway Pier Cruise Ship Terminal:	
Size (in acres)	3.1
Wharf (in linear feet)	2,135
Number of Berths	5

(Expressed in thousands)

Description	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Pledged Revenues ¹	\$ 140,754	\$ 125,401	\$ 133,350	\$ 133,385	\$ 132,702	\$ 145,141	\$ 152,377	\$ 163,551	\$ 174,623	\$ 181,457
Operating and Maintenance Expenses ²	(124,681)	(113,795)	(108,826)	(114,155)	(115,988)	(114,368)	(120,774)	(124,741)	(141,377)	(149,860)
Net Pledged Revenues - Senior Debt	<u>\$ 16,073</u>	<u>\$ 11,606</u>	<u>\$ 24,524</u>	<u>\$ 19,230</u>	<u>\$ 16,714</u>	<u>\$ 30,773</u>	<u>\$ 31,603</u>	<u>\$ 38,810</u>	<u>\$ 33,246</u>	<u>\$ 31,597</u>
Senior Debt Service ³										
Principal	\$ 1,255	\$ 1,305	\$ 1,360	\$ 1,420	\$ 1,490	\$ 1,840	\$ 1,650	\$ 1,725	\$ 1,795	\$ 1,880
Interest	2,208	2,159	2,105	2,010	1,949	1,822	1,729	1,630	1,559	1,464
Total Senior Debt Service	<u>\$ 3,463</u>	<u>\$ 3,464</u>	<u>\$ 3,465</u>	<u>\$ 3,430</u>	<u>\$ 3,439</u>	<u>\$ 3,662</u>	<u>\$ 3,379</u>	<u>\$ 3,355</u>	<u>\$ 3,354</u>	<u>\$ 3,344</u>
Senior Debt Coverage Ratio	4.64	3.35	7.08	5.61	4.86	8.40	9.35	11.57	9.91	9.45

¹Pledged Revenues are calculated pursuant to the first and second supplemental indentures for Series 2004 and Series 2013 Revenue Bonds.

²Operating and Maintenance Expenses are calculated pursuant to the first and second supplemental indentures for Series 2004 and Series 2013 Revenue Bonds.

³Senior Debt Service is calculated pursuant to the first and second supplemental indentures for Series 2004 and Series 2013 Revenue Bonds.

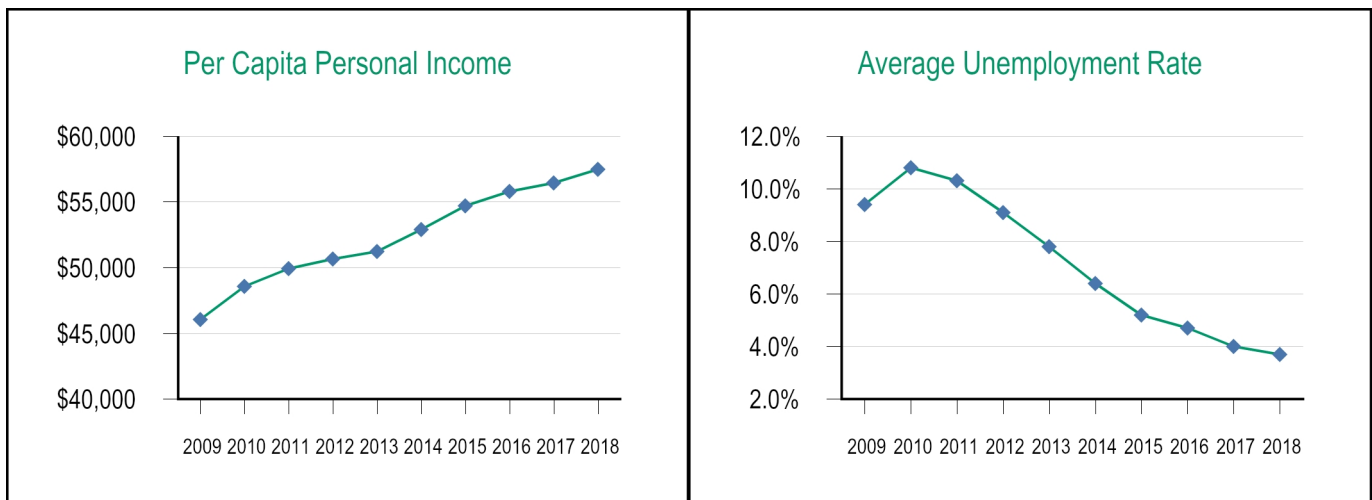
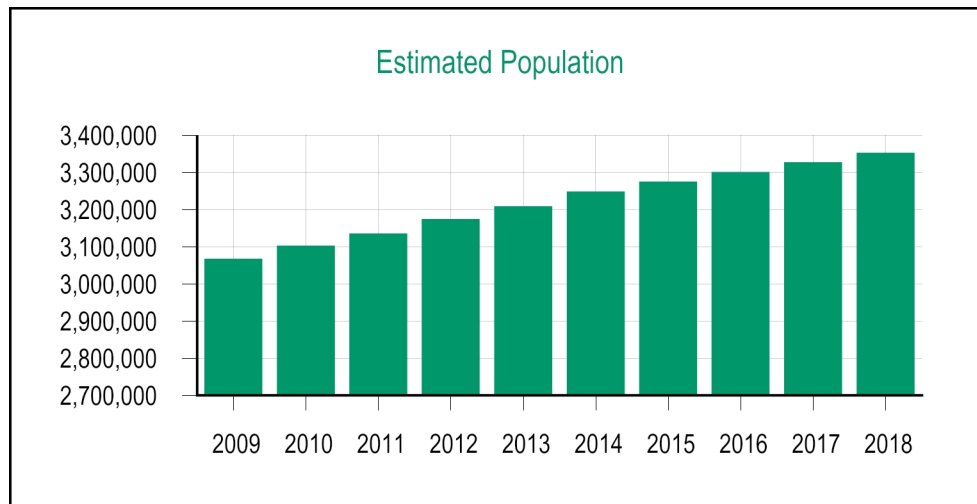
(Expressed in thousands)

Fiscal Year	Revenue Bonds	Notes ¹	Capital Leases	Total Debt	Percent of Personal Income ²	Per Capita ²
2009	\$ 46,431	\$ 48,098	\$ 2,698	\$ 97,227	0.07%	\$ 32
2010	44,979	46,589	2,508	94,076	0.06%	30
2011	43,468	44,610	1,931	90,009	0.06%	29
2012	41,909	42,914	1,273	86,096	0.05%	27
2013	40,293	45,474	646	86,413	0.05%	27
2014	39,061	48,243	—	87,304	0.05%	27
2015	37,156	46,033	—	83,189	0.05%	25
2016	35,153	40,344	—	75,497	0.04%	23
2017	33,067	37,953	—	71,020	0.04%	21
2018	30,884	35,603	—	66,487	0.03%	20

¹Includes the San Diego County Regional Airport Authority (SDCRAA), Pond 20, and Civic San Diego notes.

²Refer to the Demographic and Economic Statistics table for further detail on population and per capita information.

Calendar Year	Estimated Population ¹	Personal Income (billions) ¹	Per Capita Personal Income ¹	Average Unemployment Rate ²
2009	3,067,544	139.6	46,047	9.4%
2010	3,102,852	136.6	48,566	10.8%
2011	3,135,806	145.7	49,938	10.3%
2012	3,174,446	152.7	50,670	9.1%
2013	3,208,946	157.8	51,223	7.8%
2014	3,248,547	167.1	52,889	6.4%
2015	3,275,084	175.9	54,708	5.2%
2016	3,300,891	184.2	55,797	4.7%
2017	3,327,564	192.5	56,437	4.0%
2018	3,352,564	202.8	57,473	3.7%



Sources:

¹California Department of Transportation San Diego County

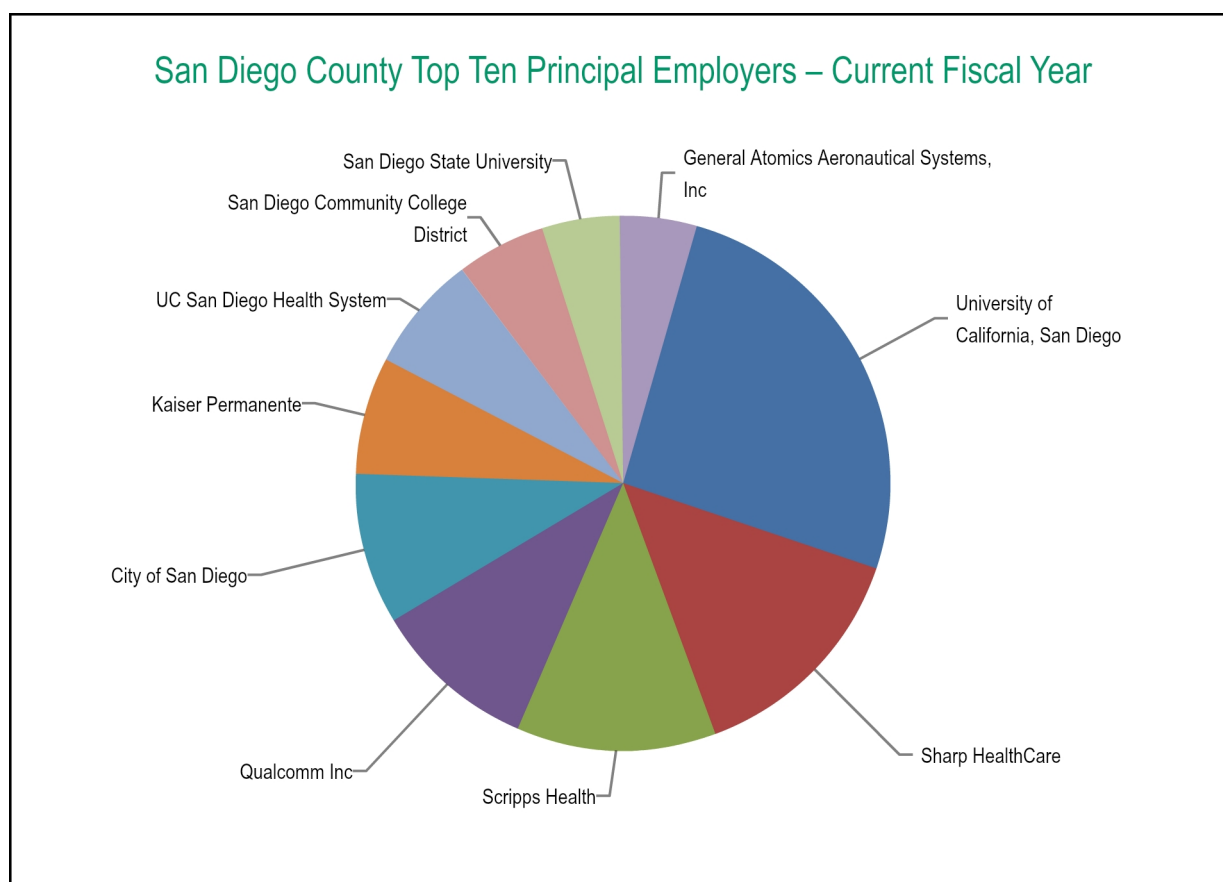
The 2017 and 2018 population, per capita personal income, and total personal income are estimates by the California Department of Transportation.

²California Employment Development Department (March 2017 Benchmark).

San Diego County Top Ten Principal Employers – Current Fiscal Year and Nine Years Ago

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2009				2018			
Employer	Local Employees	Rank	%	Employer	Local Employees	Rank	%
Federal Government	41,600	1	3.28%	University of California, San Diego	32,524	1	2.18%
State of California	41,600	2	3.28%	Sharp HealthCare	17,962	2	1.20%
University of California, San Diego	29,337	3	2.31%	Scripps Health	15,238	3	1.02%
County of San Diego	16,505	4	1.30%	Qualcomm Inc	12,600	4	0.84%
San Diego Unified School District	14,555	5	1.15%	City of San Diego	11,544	5	0.77%
Sharp HealthCare	14,400	6	1.14%	Kaiser Permanente	8,965	6	0.60%
Scripps Health	12,622	7	1.00%	UC San Diego Health System	8,923	7	0.60%
City of San Diego	11,087	8	0.87%	San Diego Community College District	6,817	8	0.46%
Qualcomm Inc	9,859	9	0.78%	San Diego State University	5,921	9	0.40%
Kaiser Permanente	7,618	10	0.60%	General Atomics Aeronautical Systems, Inc	5,888	10	0.39%
Total Industry Employment in San Diego County (Year 2009): 1,268,500				Total Industry Employment in San Diego County (Year 2017): 1,495,200			



Sources:

San Diego Business Journal Book of Lists (Year 2009 – as of Jan 1, 2009 and Year 2018 – as of July 1, 2017)

Total Industry Employment - California Employment Development, Labor Market Information, March 2017 Benchmark – Years 2009 and 2018



Financial Services Department

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