



MEMORANDUM

February 4, 2022

TO: MEMBERS, PORT COMMISSION
Hon. Willie Adams, President
Hon. Doreen Woo Ho, Vice President
Hon. Kimberly Brandon
Hon. John Burton
Hon. Gail Gilman

FROM: Elaine Forbes
Executive Director

SUBJECT: Informational Presentation on the Fiscal Year 2022-23 and 2023-24
Biennial Operating and Capital Budgets, Acceptance and Expenditure of
Federal Stimulus, and Five-Year Capital Improvement Program

DIRECTOR'S RECOMMENDATION: Information Only – No Action Required

EXECUTIVE SUMMARY

This item provides an overview of the Port's proposed Fiscal Year (FY) 2022-23 and FY 2023-24 biennial operating and capital budgets, the five-year Capital Improvement Program, and the acceptance of federal stimulus funding to allow for Port Commission and public feedback. Approval of the budget and acceptance of federal funding are scheduled for the next Port Commission meeting on February 22, 2022.

The COVID-19 pandemic continues to create unprecedented economic pressure on the Port with revenue losses of nearly 40%. While the economy has somewhat recovered from the onset of the pandemic in March 2020, full recovery is anticipated to take five years, with tourism spending expected to return to pre-COVID levels in FY 2025-26.

Under the leadership of the Port Commission, the Port has met these financial challenges by reducing \$60 million in expenses through a combination of expenditure reductions, operating efficiencies, hiring delays, decreases to capital investments, defunding prior capital projects, and use of fund balance. But cuts alone cannot sustain this organization, and in the last year staff has begun to develop and implement economic recovery

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initiatives to restore the Port's financial health.

In December 2021 the Port achieved a critical economic recovery success when the State Lands Commission approved \$56.6 million in federal relief. Port staff anticipates an additional allocation of \$58.2 million for a total of up to \$114.8 million from the federal American Rescue Plan Act (ARPA). These dollars provide the Port with a two-year reprieve. The federal funding will allow the Port to support ongoing operating and capital expenses including basic services such as keeping the Port clean and safe, supporting small businesses, and addressing deferred maintenance during the next two fiscal years.

This funding permits the Port to:

- Restore many of the difficult cuts the Port made in FY 2020-21 and 2021-22, including backfilling vacant positions and restoring equipment and supply budgets;
- Avoid additional budget reductions in the next two fiscal years; and
- Support strategic investment in economic recovery to ensure sustained financial health.

While the Port has successfully controlled operating and capital costs to maintain operations during the pandemic, inflation continues to increase labor and other operating costs. Port staff predicts that even after tourism recovers to pre-pandemic levels, the Port's net operating income will be severely constrained, reducing funds available for capital investment in FY 2024-25 and thereafter.

Therefore, during the two-year respite provided by stimulus funding, the Port must develop and implement mid- and long-term economic recovery initiatives that generate new revenue, create additional operating efficiencies, and identify external funding such as federal and state infrastructure dollars. This work, which will focus on activating the waterfront and attracting and retaining a diverse set of tenants, will bring back Port revenue, realign revenue and expenses, restore its fund balance, and set it on sound economic footing.

Key economic recovery strategies over the next two years include:

- Identify new revenues and savings;
- Retain staffing levels to deliver on key functions;
- Identify programs and policies that drive tenant recovery and new leasing;
- Foster a workplace willing and resourced to evaluate systems and rules that no longer serve the Port; and
- Implement strong financial policies to maintain prudent fund balance.

The focus of this staff report is the FY 2022-23 and FY 2023-24 operating and capital budget. However, in order to provide a comprehensive financial perspective to the Port Commission and public, this staff report presents various interconnected financial items, and is structured as follows:

1. Economic Outlook
2. Strategic Objectives
3. Sources and Uses in the Fiscal Year 2022-23 and 2023-24 Biennial Budget

- a. Ongoing Sources
- b. One-time Sources
 - i. ARPA stimulus
- c. Operating Expenses in FY 2022-23 and 2023-24
- d. Capital Investment
 - i. Five-year Capital Improvement Program
 - ii. Capital Budget in FY 2022-23 and 2023-24
- 4. Required Reserves
- 5. Conclusion

1. ECONOMIC OUTLOOK

The revenue losses associated with COVID-19 are without historical precedent. The Port's revenue portfolio relies heavily on tourism and retail, and as its tenants have suffered losses, and in some cases ceased operating, Port rents have fallen commensurately. Despite significant progress on vaccination levels in San Francisco, COVID variants continue to create significant uncertainty around the timing of a rebound to pre-pandemic levels of tourism.

Using Port revenue data since the pandemic's onset, guidance from the Controller's Office, and input from tenants, Port staff has developed low, base, and high five-year revenue scenarios with the following assumptions:

1. Base Scenario: This case is the most likely scenario and was used as the basis for the proposed budget. This scenario follows the Controller's assumption that tourism spending returns to pre-pandemic levels in FY 2025-26¹. This case also assumes that four vacant restaurant spaces are re-leased and generating revenue by the end of FY 2024-25. This case assumes office rents remain flat as the market adjusts to increased telecommuting, which the Controller estimates to be 15% of office workers.
2. Low Scenario: This represents a worse case, with an additional year for tourism to return to pre-pandemic levels. This case assumed eight restaurants will not reopen (base case assumes four), with a 2.5-year vacancy period for eviction and releasing. This case further assumes telecommuting is more pronounced at 30% of office workers.
3. High Scenario: This represents a better case, with tourism returning a full year earlier. This version assumes the replacement of parking lots with parking meters in FY 2025-26, increasing the net revenue of the lots. This version matches the restaurant assumptions in the base scenario.

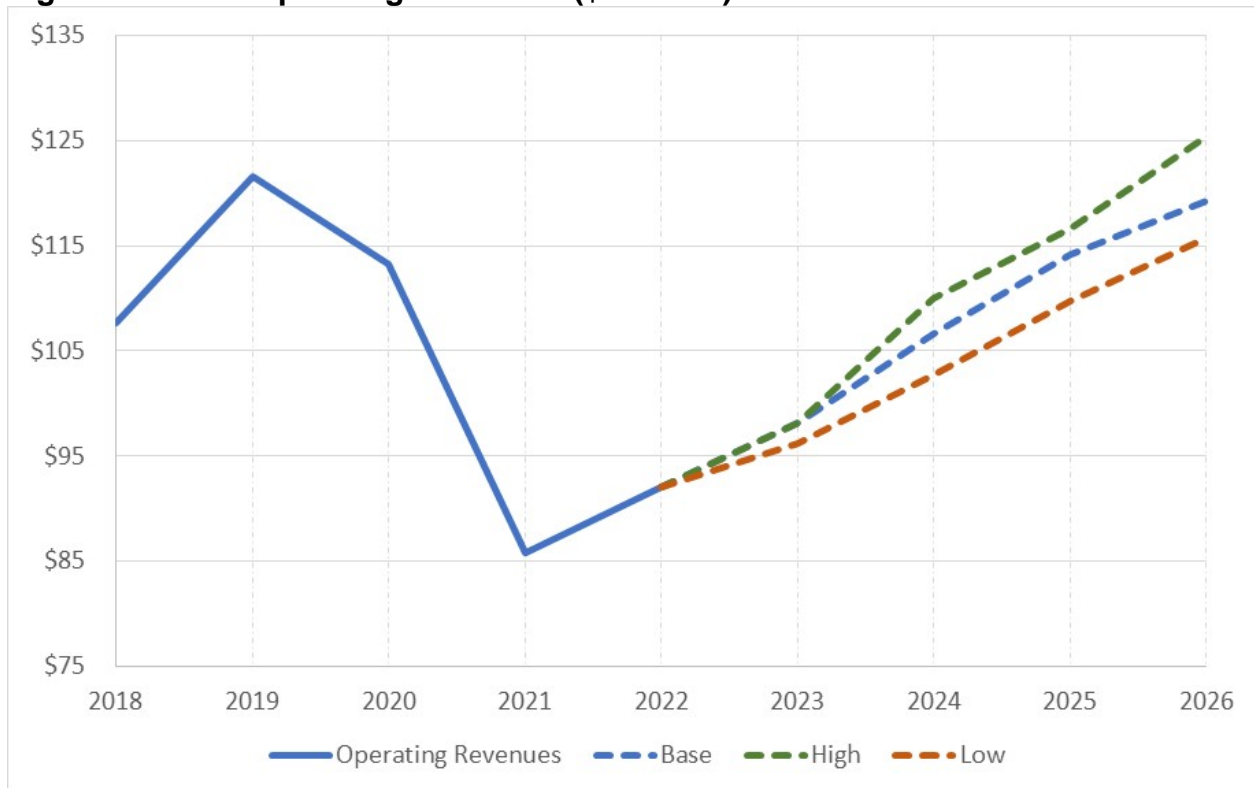
The uncertainty surrounding these forecasts cannot be overstated. Variances beyond the Low to High scenario range are possible if (a) additional COVID variants of concern continue to depress tourism and the return to office, (b) telecommuting becomes even more prominent (beyond the 30% of officer workers assumed in the low forecast), driving

¹ Port staff used the Controller's estimates for hotel tax revenue as a proxy for tourism spending. Hotel taxes are based on the number of tourists buying hotel rooms, as well as the price of those rooms. The Controller's estimates show the number of tourists returning in FY2024-25, and hotel taxes recovering a year later in FY 2025-26 when hotel room pricing rebounds to pre-pandemic levels.

down office demand and the commuting customer base for the Port’s monthly parking operations, restaurants, and ferry operators, or (c) broader economic pressures from inflation or other factors prolong the recovery.

Figure 1-1 below reflects historical data and the scenarios described above. This graph excludes the impact of one-time revenue sources such as federal stimulus to better illustrate the impact of COVID on ongoing Port operations. Notably the range between the high and low cases is roughly \$10 million in FY2025-26, suggesting that under any scenario net operating income will be severely constrained, leading to reduced capital funding.

Figure 1-1: Port Operating Revenues (\$millions)



To date, the Port has managed the pandemic recession through a combination of expenditure reductions, decreases to future capital investments, defunding prior capital projects, and use of fund balance. While this approach has maintained critical operations and minimized short term impact to the organization, its impact on Port capital investment is unsustainable in the long term. The Port has a \$1.0 billion state of good repair capital backlog and forecasted need of an additional \$1.0 billion in capital over the next ten years. To ensure the long-term sustainability of its facilities and the revenue they generate, the Port must continue to invest in capital. Similarly, reliance on fund balance, the Port’s sole reserve, as an ongoing tool to support capital and operations is untenable without substantially risking the organization’s bond ratings as well as its ability to withstand additional unforeseen events. Fund balance makes the Port a resilient organization and must be maintained at an adequate level to help the organization weather future crises.

In the face of the challenges identified in the five-year financial outlook, staff began to identify short-, mid- and long-term economic recovery strategies in winter 2021. The allocation of up to \$114.8 million in ARPA federal stimulus funding was the key outcome of this early work, providing staff the time to develop revenue initiatives, find operating efficiencies and seek outside funding for capital investment to restore the Port's financial health.

Other short-term economic recovery initiatives that the Port successfully implemented in the last year include:

- Tenant Recovery: Worked with tenants to recover from the impacts of the pandemic through rent relief.
- Shared Spaces Program: Continued no cost use of Port space for outdoor dining.
- Pilot Mobile Vending Permit Program: Created a program to offer low-barrier entrepreneurial opportunities on the Port.
- Waterfront Activation: Solicited responses from businesses interested in activating Port property through music events, food markets and other community building events.
- Restoration of Cruise Services: Developed a process to safely allow cruise calls, activating the waterfront with 20 cruise calls in the last quarter of 2021.
- Live Crab Sales: Authorized direct-from-vessel sales of live crab to support the commercial fishing fleet and help activate Fisherman's Wharf.
- Consolidation of Port Finance Staff: Reorganized Port finance staff to improve service to business divisions and reduced the number of staff from eight to five.

The financial impact of these measures is reflected in Figure 1-2 which shows the base scenario of the five-year forecast. Most importantly, as the table illustrates, these early economic recovery initiatives allow the Port to rebuild its fund balance to ensure resiliency despite the uncertain financial times.

Figure 1-2: Base Case Fund Balance Forecast through FY 2025-26 (\$millions)²

	Estimated CY	Next Biennial Cycle		Following Biennial Cycle		Outyear
	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>
Starting Fund Balance	50.7	94.7	99.8	105.1	105.1	105.1
<u>Revenues</u>						
Operating Revenues	90.2	98.1	106.6	114.2	119.2	122.3
One-Time Revenue	1.0	7.1	0.0	0.0	0.0	0.0
South Beach Harbor	4.9	5.1	5.2	5.4	5.5	5.7
20th St CFD	0.0	0.3	0.3	0.3	0.3	0.3
Development Recoveries	8.0	8.8	9.4	9.7	10.0	10.3
Supplemental/Defunding ³	38.3	0.0	0.0	0.0	0.0	0.0
ARPA Stimulus	14.0	73.5	27.3			
Total Revenue	156.4	192.9	148.8	129.6	135.0	138.6
<u>Operating Expenses</u>						
Salaries & Benefits	40.2	46.9	48.2	49.7	51.2	52.7
City-wide Overhead	0.9	0.9	0.9	1.0	1.0	1.0
Other Current Expenses	11.6	15.3	15.3	14.8	15.2	15.7
Materials & Supplies	0.9	0.9	0.9	0.9	1.0	1.0
Equipment	0.0	1.0	1.0	1.0	1.1	1.1
Debt Service	6.3	6.3	5.6	5.6	5.6	5.6
Interdept.Work Orders	28.3	30.5	31.3	31.2	32.1	33.1
Programmatic Projects	3.0	3.0	3.1	3.0	3.1	3.2
Development Projects	8.0	8.8	9.4	9.7	10.0	10.3
SBH Operating	3.8	3.9	4.0	4.2	4.3	4.4
Total Operating Expenses	103.0	117.6	119.9	121.0	124.5	128.0
Net Surplus/Deficit	53.4	75.3	29.0	8.5	10.5	10.5
<u>Capital Expenses</u>						
Port	8.3	69.1	22.5	7.3	9.3	9.2
SBH	1.1	1.1	1.2	1.2	1.3	1.3
Total Capital Expenses	9.4	70.2	23.7	8.5	10.5	10.5
Deposit to Fund Balance	44.0	5.1	5.3	0.0	0.0	0.0
Ending Fund Balance	94.7	99.8	105.1	105.1	105.1	105.1

As staff considers mid- and long-term initiatives to restore financial stability, it is encouraged by the Port’s success to date. Every Port division will continue to develop and implement economic recovery actions, focusing on strategic leasing to attract and retain diverse tenants and activate the waterfront, smart financial policies, and other initiatives.

Mid and long-term concepts to support activation of the waterfront and the Port’s economic stability include:

- Creation of a staff position to develop a multi-year economic recovery strategy and

² Note the Current Year figures for FY 2021-22 reflect current estimates for year-end actuals as reported to the Controller in the Port’s Six-Month report, not the budgeted amounts shown in Section 3 figures. Similarly, ARPA Stimulus is shown Figure 1-2 above in FY 21-22 but was not previously budgeted so it does not appear in Section 3 figures.

³The Supplemental/Defunding shown in Figure 1-2, previously approved by the Port Commission on April 27, 2021, as part of the FY21-22 supplemental budget appropriation, was an effort to replenish fund balance using funds from lower priority, undefined, significantly underfunded, or completed projects requiring close-out.

- support implementation of strategies across the organization.
- Port funding for tenant improvements to support improvement of Port property and encourage earlier participation by the Port in percentage rent.
- Development of a long-term leasing strategy to re-occupy Port properties, particularly restaurants and retail spaces.
- Continued effort to advance development projects at Piers 38 and 40 and Piers 30-32 and SWL 330, and to pursue development opportunities at additional historic piers.
- Creation of a menu of public events and pop-up opportunities to draw visitors to the waterfront.
- Development of new lay berthing opportunities.
- Collaboration with the terminal operator to attract new types of cargo to Pier 80.
- Formation of a community facilities district over the Orton development at Pier 70 to support maintenance of Crane Cove Park.
- Development of a cost allocation plan to ensure that funding sources outside of the Harbor Fund support their fair share of the Port's administrative overhead.
- Development of tools to build a strong staff, including mentorship and promotional paths and streamlined systems to promote work.
- Development of a strategies to secure infrastructure funding from the federal and state governments to support key Port capital needs.

Between February 2022 and June 2024, Port staff will cultivate these and other economic recovery initiatives to make a meaningful impact on the Port's revenue and operating and capital budgets. Staff expects to significantly improve the five-year outlook with the goal of increasing net operating revenue and reaching the Port Commission's capital policy requirements by the end of the five-year period.

2. STRATEGIC OBJECTIVES

Despite the challenges posed by COVID-19, the proposed FY 2022-23 and FY 2023-24 budgets include actions that advance all seven goals of the Port's Strategic Plan:

1. *Economic Recovery*
 - a. Leveraging stimulus funds to attract and retain tenants, provide a safe and attractive waterfront for tourism, and support communities disproportionately impacted by COVID.
2. *Productivity*
 - a. Funding to improve the maritime cargo terminal at Pier 80.
 - b. Restoration of equipment and materials and supplies budget to pre-COVID levels.
3. *Equity*
 - a. Resources dedicated to implementation of the Racial Equity Action Plan including funding for ongoing Port-wide training for all employees on the root causes and societal sustained practices that created racial inequity and the efforts of the Port to address these inequities.
 - b. New apprenticeships in the Maintenance division to create job ladders

- among the trades.
 - c. A new property manager to supervise and activate public space.
4. *Resilience*
- a. Continued funding for the Waterfront Resilience Program to support planning to address the dual threats of earthquake and flooding risk.
5. *Sustainability*
- a. Includes funds for storm water capture, improvements to sewer infrastructure and a match to a grant to restore the Heron's Head Park shoreline.
6. *Evolution*
- a. With major projects underway at Mission Rock and Pier 70, the Port continues to support ongoing development.
 - b. Development of a reuse plan for the Pier 70 Shipyard.
7. *Engagement*
- a. Resources to support proactive Port marketing of real estate opportunities, community engagement, and media relations.

3. FY 2022-23 and FY 2023-24 BIENNIAL BUDGET

The proposed biennial budget provides mission critical services and capital investments as shown in Figure 3-1 below.

Figure 3-1: Port Sources and Uses

	Budget	Proposed	Change from		Proposed	Change from	
	<u>2021-22</u>	<u>2022-23</u>	<u>Amount</u>	<u>%</u>		<u>2023-24</u>	<u>Amount</u>
Sources							
Operating Revenues	\$78.0	\$98.1	\$20.2	25.9%	\$106.6	\$8.5	8.6%
South Beach Harbor	\$4.9	\$5.1	\$0.2	4.5%	\$5.2	\$0.1	2.9%
Development Recoveries	\$8.0	\$8.8	\$0.8	9.7%	\$9.4	\$0.6	6.9%
20th St CFD	\$0.3	\$0.3	\$0.0	7.9%	\$0.3	\$0.0	2.0%
Ongoing, Subtotal	\$91.1	\$112.3	\$21.2	23.2%	\$121.5	\$9.2	8.2%
Shipyards Power Capacity	\$0.6	\$1.2	\$0.6	101.7%	\$0.0	-\$1.2	-100.0%
Capital Defunding	\$38.3	\$0.0	-\$38.3	-100.0%	\$0.0	\$0.0	
Grants	\$1.7	\$1.0	-\$0.8	-43.3%	\$0.0	-\$1.0	-100.0%
Transfer Land to Fire Department	\$0.0	\$5.0	\$5.0	n/a	\$0.0	-\$5.0	-100.0%
Stimulus	\$0.0	\$73.5	\$73.5	n/a	\$27.3	-\$46.2	-62.9%
One-time, Subtotal	\$40.6	\$80.6	\$40.0	98.5%	\$27.3	-\$53.4	-66.2%
Total Sources	\$131.7	\$192.9	\$61.2	46.5%	\$148.8	-\$44.1	-22.9%
Uses							
Operating Expenses	\$91.6	\$102.0	\$10.3	11.3%	\$103.3	\$1.4	1.4%
Programmatic Projects	\$3.0	\$3.0	\$0.0	-0.1%	\$3.1	\$0.1	4.6%
Development Projects	\$8.0	\$8.8	\$0.8	9.7%	\$9.4	\$0.6	6.9%
South Beach Harbor	\$3.8	\$3.9	\$0.1	3.7%	\$4.0	\$0.1	2.6%
Operating Expenses, Subtotal	\$106.4	\$117.6	\$11.2	10.6%	\$119.9	\$2.2	1.9%
Port Capital Appropriations	\$8.3	\$13.3	\$5.0	60.2%	\$15.0	\$1.7	12.8%
Grant-Funded Projects	\$1.7	\$1.0	-\$0.8	-43.3%	\$0.0	-\$1.0	-100.0%
Stimulus Funded Projects	\$0.0	\$54.8	\$54.8	n/a	\$7.5	-\$47.3	-86.4%
South Beach Harbor	\$1.2	\$1.1	-\$0.1	-5.3%	\$1.2	\$0.0	3.9%
Capital Budget, Subtotal	\$11.2	\$70.2	\$59.0	524.8%	\$23.7	-\$46.6	-66.3%
Fund Balance Contribution	\$13.5	\$5.0	-\$8.5	-63.0%	\$5.3	\$5.3	106.0%
Total Uses	\$131.1	\$192.9	\$61.7	47.1%	\$148.8	-\$44.1	-22.8%

Note that the capital project defunding previously approved by the Port Commission in the FY 2021-22 budget provided a significant one-time source of funds for critical Port operations and restoration of fund balance, but such defundings are not a viable source for continued use and are not proposed to support operations in the proposed biennial budget period.

3a. Ongoing Revenues

The biennial budget is supported by a variety of ongoing sources, most significantly from rents, fees, and fines from use of our property. The figures below reflect the base scenario discussed in the Economic Outlook section above and are the basis of the proposed biennial budget. See Attachment I for details by revenue type.

Figure 3-2 Operating Revenues (\$millions)

	<u>Budget 2021-22</u>	<u>Budget 2022-23</u>	<u>Change from FY2021-22 Budget</u>		<u>Budget 2023-24</u>	<u>Change from FY2022-23 Budget</u>	
			<u>Amount</u>	<u>Percent</u>		<u>Amount</u>	<u>Percent</u>
Maritime	\$19.7	\$22.5	\$2.8	14.1%	\$22.9	\$0.4	15.7%
Real Estate	55.5	72.6	17.2	30.9%	80.8	8.2	48.0%
Other	2.8	3.0	0.2	7.8%	2.8	-0.2	-93.8%
TOTAL	\$78.0	\$98.1	\$20.2	25.9%	\$106.6	\$8.5	42.0%

Maritime Revenues – Maritime tenants (with the exception of cruise operations from March 2020 through September 2021) demonstrated revenue stability during the COVID-19 pandemic. Looking forward, decreases in cargo operations reflect anticipated export volume decreases at the Pier 80 cargo terminal, while increases in cruise revenues reflect the return of cruises to historic levels, at over 100 calls per year. The Port’s capacity for additional cruise calls above and beyond 100 is limited, with its ability to accommodate shore power limited to its primary cruise berth plus 19 cruise calls allowed at Pier 35.

Real Estate Revenues – Growth in parking, excursion, and percentage rents reflect the expected return of tourists and commuters to the waterfront, while more stable revenue sources such as shed, office, and land rent are predicted to maintain current levels.

- Tourism can generally be categorized into three equal spending groups: leisure tourism, business travelers, and conventions. Leisure travel has already begun to rebound, but business travel and conventions (which require years of lead time to plan) will trail. As of December of 2021, the Port has seen increases in tourist activity on the waterfront, but city-wide hotel occupancy has remained fairly flat at less than 50% (where pre-COVID occupancy was nearer to 80%). The Controller’s Office projects that hotel occupancy will return to pre-COVID levels in FY 2024-25, but hotel rates (and therefore overall tourist spending) will remain below pre-COVID levels for another year.
- Parking meter activity on the Port has rebounded quickly, reflecting patterns of travel that have shifted heavily away from transit and into vehicles (BART ridership is at less than 25% of pre-COVID volume, but bridge crossings are at nearly 100%).
- Office, shed, and land rents are predicted to remain flat through FY 2023-24, with any inflationary growth offset by decreasing office demand as telecommuting becomes more common.
- Revenues will also be positively impacted by leasing activities planned as vacancies are filled and staff begin to improve marketing follow-up on tenant leads and dedicate efforts to fill vacancies requiring competitive processes.

South Beach Harbor – South Beach Harbor generates revenue as a full-service marina consisting of 700 slips with concrete docks and Pier 40. Harbor revenues have remained relatively stable through the pandemic, and the proposed budget reflects inflationary increases to berthing fees. Harbor revenues are dedicated to supporting harbor operations and capital investment.

Development Recoveries – The City’s cost to support major development projects such as Mission Rock and Pier 70 are reimbursed by the respective developers. Those recoveries are reflected in the budget as revenue but have a neutral fiscal impact to the Port because

of the direct offset to expenses.

Orton CFD – Port staff expects to form a community facilities district (CFD) at Pier 70 for the Orton development area in time to generate revenue in FY 2023-24. This CFD is a component of the development agreement executed with Orton, but execution of the CFD was delayed due to the pandemic. Approval is subject to future Port Commission and Board of Supervisors approval.

3b. One-Time Sources

Shipyard Power Capacity – The Port and the San Francisco Public Utilities Commission (PUC) entered into an agreement for the Port to use its right to use the shipyard’s high voltage capacity while the PUC builds infrastructure in the area. This short-term agreement which will generate \$1.2 million in the budget, is not anticipated to continue after FY 2022-23.

Capital Defunding – The proposed biennial budget does not include any defunded capital projects as a revenue source. The \$38.3 million defunded executed by the Port Commission as part of the FY 2021-22 Supplemental Appropriation allowed the Port to replenish fund balance while supporting ongoing critical operations. That one-time exercise is not a viable ongoing source and is not included in the proposed budget.

Grants – The budget includes the appropriation of \$1.0 million in grant funding awarded to the Port for the Heron’s Head Park restoration project.

Transfer of Land to the Fire Department – The proposed budget includes \$5.0 million in proceeds from the sale of Port property at 1236 Carrol Avenue in the southern waterfront to the Fire Department to develop as a training site. The amount is subject to subsequent Port Commission and Board of Supervisors approval.

3b-i Stimulus: American Rescue Plan Act

President Biden signed ARPA into law in March of 2021, providing billions in federal stimulus to state and local governments, including \$27 billion for California and \$454 million for the City and County of San Francisco. This program has broad spending eligibility, allowing recipients to pay for the cost of responding to the pandemic and the associated economic losses.

Under the leadership of the Port Commission and in conjunction with the California Association of Port Authorities, Port staff successfully identified \$250 million of the State of California’s ARPA allocation for distribution to California ports to offset pandemic-related economic losses. In November, the State of California, acting through the State Lands Commission, invited ports to apply for ARPA funding in amounts up to their revenue losses in calendar year 2020. The state’s eligibility guidelines largely followed the federal government’s, with expenses from March of 2020 through June of 2024 eligible for reimbursement or payment using ARPA funding. Eligible uses were broadly described in the state’s budget and subsequently expanded and clarified by the State

Lands Commission, and are summarized below⁴:

1. Avoiding Layoffs and Restoring Jobs
2. Generating Economic Growth
3. Restoring Efforts Delayed or Deferred by COVID
4. Helping Communities Disproportionately Impacted by COVID

In December, the State Lands Commission awarded \$136 million to various ports, with the Port of San Francisco receiving \$56.6 million during the first round of ARPA allocations. In order to distribute remaining ARPA funds, the State Lands Commission expects to solicit another round of applications in Spring of 2022. This process will evaluate revenue losses that California ports sustained in calendar year 2021. Staff currently estimates 2021 losses at \$58.2 million⁵, such that the total ARPA award could equal up to \$114.8 million.⁶ Under the state’s ARPA guidelines, all funds allocated to ports must be expended by June 30, 2024. The Port plans to allocate \$14.0 million of stimulus funds to FY 2021-22 expenses and the remaining \$110.8 million to FY 2022-23 and 2023-24.

Figure 3-3: Uses of ARPA Funds by Category (\$millions)

Use Category	FY21-22	FY22-23	FY23-24	TOTAL
1. Avoiding Approximately 50 Layoffs		\$7.2	\$9.0	\$16.2
Direct Layoffs Avoided		5.4	5.4	10.8
Retirements/Vacancies Unfilled During COVID		1.8	3.6	5.4
2. Attracting Businesses and Customers to the Waterfront	11.8	32.8	7.4	52.0
Filling Port vacancies and driving revenue	0.8	12.0	1.6	14.4
Investing in Maritime Tourism and Cargo Operations	2.0	15.0		17.0
Supporting a clean and safe waterfront for tourism	9.0	5.8	5.8	20.7
3. Restoring Investments Delayed/Deferred/Cut due to COVID	1.0	24.4	9.3	34.7
Capital Projects and Critical Capital Resources	1.0	21.1	7.5	29.6
Operating Expenses		3.3	1.8	5.1
4. Helping Communities Disproportionately Impacted by COVID	1.2	9.1	1.6	11.9
Supporting Businesses	0.6	7.5	0.4	8.5
Supporting the Community	0.6	1.7	1.2	3.5
TOTAL	\$14.0	\$73.5	\$27.3	\$114.8

Staff will appropriate this total possible award of \$114.8 million in ARPA funding to the Port’s budget through two separate legislative methods: 1) an accept and expend resolution for \$14.0 million in the current fiscal year, and 2) an accept and expend agreement for the remaining funds that the Board of Supervisors will review in parallel

⁴ The summaries provided above more clearly describe the uses as they relate to the Port of San Francisco. The general categories described in the State’s budget and by the State Lands Commission include: mitigate the negative impacts of COVID, generate economic growth, restore jobs and services, support safe operations, avoid layoffs, support Port operations, restore deferred maintenance or capital investment deferred or delayed, benefit marginalized communities or those which were disproportionately impacted by COVID, and benefit the public.

⁵ Accounting data for the end of 2021 is expected to become available in late February. The delay between the end of the month and accounting data becoming available is typically approximately four – six weeks.

⁶ Because the remaining ARPA funds to be distributed by the State Lands Commission are constrained, future awards are subject to change. If available funds are lower than \$114.8 million, Port staff will decrease expenditures in that same amount after considering input from leadership and the ranking results from the CIP process.

with this biennial budget for FY 2022-23 and FY 2023-24. The Port will use ARPA stimulus funding to support both operating and capital expenditures in the upcoming biennial budget. For the expenditure plan that the Port submitted to the State of California, please see Attachment II.

3c. Operating Expenses

The proposed operating budget would increase the Port’s operating expenses in FY 2022-23 by \$11.2 million and by \$2.2 million in FY 2023-24 as shown in Figure 3-4 below.

Figure 3-4: Proposed Operating Budget Changes (\$millions)

	Budget	Budget	Change from		Budget	Change from	
	2021-22	2022-23	FY2021-22 Amount	Budget Percent	2023-24	FY2022-23 Amount	Budget Percent
Salaries & Benefits	\$41.2	\$46.9	\$5.7	13.9%	\$48.2	\$1.3	2.8%
City-wide Overhead	0.9	0.9	0.0	0.0%	0.9	0.0	0.0%
Other Current Expenses	14.0	15.3	1.3	9.2%	15.3	0.1	0.6%
Materials & Supplies	0.9	0.9	0.0	5.6%	0.9	0.0	-0.1%
Equipment	0.0	1.0	1.0	0.0%	1.0	0.0	0.0%
Debt Service	6.3	6.3	0.0	0.0%	5.6	-0.7	-11.7%
Interdept.Work Orders	28.3	30.5	2.2	7.9%	31.3	0.7	2.4%
OPERATING SUBTOTAL	91.6	102.0	10.3	11.3%	103.3	1.4	1.4%
Programmatic Projects	3.0	3.0	0.0	-0.1%	3.1	0.1	4.6%
Development Projects	8.0	8.8	0.8	9.7%	9.4	0.6	6.9%
SBH Operating	<u>3.8</u>	<u>3.9</u>	0.1	3.7%	<u>4.0</u>	0.1	2.6%
<u>OPERATING TOTAL</u>	<u>\$106.4</u>	<u>\$117.6</u>	<u>\$11.2</u>	<u>10.6%</u>	<u>\$119.9</u>	<u>\$2.2</u>	<u>1.9%</u>

These changes are the cumulative result of:

- \$5.7 million in increased personnel costs
 - \$1.3 million from an anticipated labor cost of living increase. The City will start collective bargaining with the majority of its labor unions in January 2022. The Mayor’s Office has assumed that wages will increase at the rate of inflation – 3.25% for FY 2022-23 and 2.83% for FY 2023-24.
 - \$3.6 million to allow the backfill of approximately 20 positions that became and remain vacant since the onset of the pandemic. Staff will determine which positions to backfill based on divisional needs.
 - \$0.9 million from position changes (see Attachment III) including five new positions:
 - One new 6331 Building Inspector in Engineering to support an anticipated increase in projects funded through stimulus funding and early Waterfront Resilience projects and to address the substantial backlog of encroachment permits.
 - One new 1844 Management Assistant in Engineering to provide administrative support, including administration of as-needed engineering contracts, management of the division’s procurement needs, scheduling meetings and processing invoices. The position will also provide support for the Permit Desk adding redundancy for this key business function.

- Two apprentice positions in Maintenance, including a Gardener Apprentice and a Labor Apprentice, to create training pathways to union positions.
- One new 9395 Property Manager in Real Estate to manage and activate public spaces including parks and mobile sidewalk vending.
- Various substitutions of job classification for existing positions, including:
 - Downward substitution of a project management position in Homeland Security to an Emergency Services Coordinator position to support the Port's disaster management and security efforts including support for the mobile vending permit program.
 - The upward substitution of three 1652 Accountant I to 1654 Accountant II positions to reflect the implementation of PeopleSoft which has increased the complexity of the Port's accounting ledgers, and additional work related to implementation of GASB 87 for Port leases and Port development projects.
 - One upward substitution of an 1824 Principal Administrative Analyst to an 1825 Principal Administrative Analyst II, as part of a reorganization of the finance team which included the reduction of finance positions from eight to five positions which increased administrative efficiency and accomplished net savings.
- \$2.3 million in increased non-personnel costs
 - \$0.6 million from consolidating engineering consulting costs into the operating budget (this cost is offset by a matching reduction in project budgets)
 - \$0.4 million in increased security costs due to the renewal of the security contract to patrol Port property
 - \$0.3 million in increases for additional janitorial and security costs partially offset by savings from successful renegotiation of the Port's Pier 1 office lease.
 - \$1.0 million from restoring equipment and materials and supplies budget to pre-pandemic levels

Services of other City departments, or workorders, remain a significant expense. Figure 3-5 below provides details, with most changes representing minor increases with the exception of the Public Utilities Commission work order to provide shoreside power to cruise ships which was eliminated from the current year budget due to COVID.

Figure 3-5: Workorder Detail (\$millions)

	<u>FY2021-22</u> <u>Budget</u>	<u>Proposed</u> <u>FY2022-23</u>	<u>Change from</u> <u>FY2021-22</u>		<u>Proposed</u> <u>FY2023-24</u>	<u>Change from</u> <u>FY2022-23</u>	
			<u>Amount</u>	<u>Percent</u>		<u>Amount</u>	<u>Percent</u>
Risk Management Svcs (AAO)	\$8.8	\$9.1	\$0.3	2.8%	\$9.1	\$0.0	0.0%
Fire Boat	\$3.8	\$3.8	\$0.0	0.0%	\$3.8	\$0.0	0.0%
City Attorney-Legal Service	\$3.4	\$3.4	\$0.0	0.0%	\$3.4	\$0.0	0.0%
Parking & Traffic	\$2.4	\$2.6	\$0.3	10.4%	\$3.1	\$0.5	18.9%
PUC-Light Heat & Power	\$1.7	\$1.5	-\$0.2	-9.4%	\$1.6	\$0.1	6.7%
PUC-Shoreside Power	\$0.0	\$1.4	\$1.4	100.0%	\$1.5	\$0.0	3.0%
Police Security - General	\$0.9	\$1.0	\$0.1	13.3%	\$1.0	\$0.0	0.0%
HR-Workers' Comp Claims	\$0.8	\$1.0	\$0.2	30.3%	\$1.0	\$0.0	0.0%
Fire Inspection	\$0.8	\$0.8	\$0.0	0.0%	\$0.8	\$0.0	0.0%
Technology Infrastructure	\$0.7	\$0.7	\$0.0	0.0%	\$0.7	\$0.0	0.0%
Purch-Centr'l Shop-AutoMaint	\$0.6	\$0.6	\$0.0	0.0%	\$0.6	\$0.0	0.0%
Police Security - Cruise Calls	\$0.4	\$0.6	\$0.2	64.3%	\$0.6	\$0.0	1.2%
All Other	\$4.0	\$3.9	-\$0.2	-4.1%	\$4.0	\$0.2	3.9%
TOTAL	\$28.3	\$30.5	\$2.2	7.8%	\$31.3	\$0.8	2.6%

3d. Capital Investment

For more than a decade, the Port of San Francisco has used its ten-year Capital Plan to guide its capital investments. The Capital Plan helps to educate the public about the magnitude of the Port’s capital needs, as well as the limited resources available to address them. The FY 2021-22 to FY 2030-31 Capital Plan identifies a \$1.99 billion state of good repair (SOGR) investment need, \$1.49 billion of which is currently unfunded.

To facilitate strategic analysis and bridge the gap between the distant ten-year time span of the Capital Plan and the immediacy of the two-year capital budget, the Port develops a five-year Capital Improvement Program (CIP). Unlike the ten-year Capital Plan, which identifies the Port’s total capital needs regardless of available funding, the five-year CIP programs specific projects according to the amount of capital funding staff estimates will be available over the next five years. The CIP also allows staff to consider the time span necessary to conceive, design, and deliver capital projects. The CIP lays out the Port’s vision for addressing as many of the needs identified in the Capital Plan as possible, given limited resources. The first two years of the five-year CIP are proposed for appropriation through the biennial FY 2022-23 and FY 2023-24 budget.

3d-i. Five-Year Capital Improvement Program

The Port’s Finance staff began development of the CIP by soliciting capital requests from all Port divisions. Project forms included information about the project scope, schedule, budget, return on investment, safety improvements, and the relationship to the Port’s mission. In addition, for the first time, this CIP process specifically required each project sponsor to identify a project’s impact on race equity. Impacts varied from projects with direct impacts such as supporting job opportunities for majority BIPOC workforces or improvements which serve or are adjacent to historically underserved neighborhoods; to

those projects which address important deferred maintenance at Port facilities but may have limited direct equity impacts.

A committee consisting of the deputy director from each Port division, plus analytical support from Finance and the Project Management Office, ranked the projects against one another using the following principles:

- **Honor Prior Commitments**—the project was funded in a previous Capital Budget and additional funds are needed to complete the project due to expanded scope, a new cost estimate, or bids that came in over the approved budget.
- **Address Priority Health and Safety Needs**—the project is legally mandated or failure to complete the scope puts the Port in imminent jeopardy of being legally mandated to do the work.
- **Meet Imminent Leasing Needs**—the project is required to prepare a Port facility for a tenant, per an existing or pending lease agreement.
- **Strategic Investment**—the investment will generate sufficient revenue in the future to justify postponing other capital improvements.
- **Leverage Port Funds without Outside Sources**—the project will be partially or fully funded by non-Port funding sources.

The chart below provides an overview of the Port’s full five-year Capital Improvement Program. The \$208.1 million of work proposed in this CIP is funded through a mix of Port revenue (\$88.3 million), South Beach Harbor revenue (\$6.1 million), federal ARPA stimulus (\$62.3 million), and other external sources (\$51.7 million). As detailed in the table below, the CIP includes funding for both new projects and for some previously appropriated projects requiring additional funds to complete.

Figure 3-6: Sources of Funds for the CIP (\$millions)⁷

	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	TOTAL
Port Harbor Fund	\$13.3	\$15.0	\$20.0	\$20.0	\$20.0	\$88.3
South Beach Harbor Fund	1.1	1.2	1.2	1.3	1.3	6.1
ARPA Stimulus	54.8	7.5	0.0	0.0	0.0	62.3
Grant Fund	1.0	0.0	0.0	0.0	0.0	1.0
General Obligation Bonds	13.9	9.1	7.8	8.0	7.9	46.7
City General Fund	4.0	0.0	0.0	0.0	0.0	4.0
TOTAL	\$88.1	\$32.7	\$29.0	\$29.3	\$29.2	\$208.4

The full CIP with project descriptions, budgets, and schedules is included as Attachment IV to this report. A list of the projects funded is shown in the figure below, with the FY 2022-23 and FY 2023-24 columns representing the biennial Capital Budget.

⁷ The CIP includes all sources of funds, regardless of how they will or have been appropriated. Figures 3-6, 3-7, and 3-8 in this section reflect the full CIP amounts. The proposed FY 2022-23 and FY 2023-24 budget only appropriates all sources in Figure 3-6 above except General Obligation Bond and General Fund support (which only apply to the Waterfront Resilience Program). See Appendix 1 of the Attachment IV for a list of projects and appropriations included in the FY 2022-23 and FY 2023-24 budget.

Figure 3-7: Uses of Funds for the CIP (\$millions)

Project	FY 2022-23	FY 2023-24	FY 2024-25 - FY 2026-27	TOTAL
<i>Southern Waterfront</i>				
Heron's Head Park Shoreline	\$1.5	\$0.0	\$0.0	\$1.5
Pier 80 Piling and Fendering	9.4	0.0	0.0	9.4
Pier 80 Subsidence Rehab	0.8	0.0	0.0	0.8
Pier 90 Silo Demolition Design	1.2	0.0	0.0	1.2
Pile Removal	2.0	0.0	0.0	2.0
Resilient Multi-Modal Cargo Way Pre-Design	3.1	3.1	0.0	6.2
Southern Waterfront Beautification Fund	2.2	2.2	6.7	11.1
Subtotal	20.1	5.3	6.7	32.0
<i>China & Central Basins</i>				
Pier 50 Seismic Assessment and Retrofit Pre-Design	3.8	0.0	0.0	3.8
Pier 64 Sediment Site Cleanup	1.4	0.0	0.0	1.4
Subtotal	5.2	0.0	0.0	5.2
<i>Ferry Plaza/South Beach</i>				
South Beach Harbor	1.1	1.2	3.8	6.1
Subtotal	1.1	1.2	3.8	6.1
<i>Northeastern Waterfront</i>				
Pier 29.5 Office Rehab	0.2	0.0	0.0	0.2
Pier 29.5 Parking Exhaust System	1.5	0.0	0.0	1.5
Pier 9 (Tier 1 FIRPA)	0.0	2.8	2.8	5.7
Roundhouse 2 Building Envelope	8.0	0.0	0.0	8.0
Subtotal	9.7	2.8	2.8	15.4
<i>Fisherman's Wharf</i>				
Aquatic Park	1.2	0.0	0.0	1.2
FW Resilience and Public Realm Planning	0.0	1.6	0.0	1.6
Pier 45 Shed B & D Repairs	0.0	1.7	3.0	4.7
Subtotal	1.2	3.3	3.0	7.5
<i>Portwide</i>				
Contingency	3.7	3.6	7.6	14.8
Crane Barge Purchase	6.5	0.0	0.0	6.5
Enterprise Technology Project	1.5	0.0	0.0	1.5
Facility Inspection and Repair Project Assessments	1.0	1.0	3.0	5.0
Grant Match	2.0	1.0	11.9	14.9
Insurance Deductible	0.8	0.5	1.5	2.8
Ladders and Skylights	1.0	0.0	0.0	1.0
Maintenance Dredging and Sediment Sampling	4.8	0.0	12.8	17.6
Pile Crew	0.8	1.6	0.0	2.4
Project Management Office	1.8	1.8	5.7	9.3
Stormwater Trash Capture	0.5	0.0	0.0	0.5
TI Fund for tenant attraction/retention	7.0	0.0	0.0	7.0
Waterfront Resilience Program	19.4	10.6	28.7	58.8
Subtotal	50.8	20.1	71.3	142.1
Total	\$88.1	\$32.7	\$87.5	\$208.4

3d-ii. Biennial Capital Budget for FY 2022-23 and FY 2023-24

Capital investments in the Port's mission critical and revenue generating assets remain essential despite current revenue constraints (see Attachment V for a list of projects completed, or scheduled for completion, in the current fiscal year). Staff propose the list

of projects described below, and listed above in Figure 3-7, for appropriation in this biennial budget.

Southern Waterfront Projects

Heron's Head Shoreline Restoration (\$1.5 million)

The existing shoreline on the south side of the park is experiencing severe erosion and consequently discharges sediment into San Francisco Bay. This project will stabilize the shoreline, improve habitat and biodiversity, and include sea level rise adaptation as possible.

Pier 80 Piling and Fendering (\$9.4 million)

This project will replace the current fender system – oversized tires hung from aging and deteriorating marine pilings – with new pilings and procure/install three-foot-tall buckling-type rubber cone fenders along the 1,200-foot east-facing berth. This will reduce the operational constraints of the current Roll-on/Roll-off (Ro/Ro) vessels at Pier 80 (terminal) and provide flexibility for additional vessel classes at the terminal.

Pier 80 Subsidence Rehabilitation (\$0.8 million)

This project funds a study to determine the preferred approach to dealing with the uneven surface at the Pier 80 cargo terminal. The results of the study will guide future capital requests. When complete, this project will enable the port's terminal operator the opportunity to increase international trade while creating efficiencies in the exporting of domestically produced automobiles from the Port of San Francisco.

Pier 90 Silo Demolition Design (\$1.2 million)

The Pier 90 silos, formerly used to store grain, have been unused since 1989. The proposed project scope includes design of the demolition of all existing landside structures, to remove the vacant silo, and eliminate a life-safety hazard and ongoing maintenance and security expense. After design, additional funding will be requested for the actual demolition work. This restores a project that was previously defunded due to COVID-19.

Pile Removal (\$2.0 million)

This project will remove deteriorated creosote treated piles and wharf areas that are no longer functional in the Southern Waterfront. Port staff has completed pile removal at Islais Creek (2019) and North Apron of Pier 19 (2017) and will prioritize pile removal based on water and safety hazards. This restores a project that was previously defunded due to COVID-19.

Resilient Multi-Modal Cargo Way Pre-Design (\$6.2 million)

The Resilient Multi-Modal Cargo Way Design project will improve Cargo Way consistent with the City's Better Streets guidelines and provide flood protection to inland areas. Through additional City department and community engagement, the goal of this funding request is to develop a plan and 35% design for a Resilient Multi-Modal Cargo Way with CEQA and NEPA clearance, and to position this project for future state and federal funding which may offset some of the total estimated project cost of \$30-50 million.

Southern Waterfront Beautification Fund (\$4.4 million)

Appropriation in accordance with the Port Commission's Southern Waterfront Beautification Fund policy. Available funds will be used for projects in the Southern Waterfront with a specific focus on open space, wetland restoration, pier removal, public art, and historic preservation.

China & Central Basins Projects

Pier 50 Seismic Assessment and Retrofit Pre-Design (\$3.8 million)

This project funds initial planning and other pre-design work for seismic improvements to the drive aisle and Sheds A through D at Pier 50. This work is the initial step in a multi-year process to design, estimate, fund, and construct work at Pier 50. When complete, seismic improvements to Pier 50 will ensure that Port staff can fulfill their disaster response and recovery role following a major earthquake.

Pier 64 Sediment Site Cleanup (\$1.4 million)

After identifying sediment contamination at Pier 64, the Port and Responsible Parties performed a sediment investigation and submitted a report of findings to the Regional Water Quality Control Board (Water Board) in February 2021. Discussions with the Water Board to date indicate it will require additional evaluation of sediment contamination and submittal of an addendum to the sediment investigation report to support the final remediation plan. Once the plan is approved, the Port will enter into negotiations with the Responsible Parties to share the cost of remediation.

Ferry Plaza/South Beach Harbor Projects

South Beach Harbor (\$2.3 million)

South Beach Harbor is a full-service marina consisting of 700 slips, a recreational and commercial guest dock, the Pier 40 Maritime Center and South Beach Park. This project will improve various assets within the South Beach Harbor area. Current projects include baffle wall, pre-dredge sediment, and improvements to Pier 40. The Pier 40 improvements, which are required by the Bay Conservation and Development Commission (BCDC), include work on the north guest dock, kayak float, east apron public access improvements, jib joist replacement, relocation of existing hoist, and BCDC application fees.

Northeastern Waterfront Projects

Pier 29.5 Office Rehabilitation (\$0.2 million)

The Pier 29.5 office building is a two-story building that is currently vacant. The rehabilitation of this office space is required prior to leasing. This project will repair the sheetrock damage in the lobby and both floors, remove hazardous material, as well as improve the entrance and staircase in the lobby accessed from the Embarcadero. Once fully leased this office building could potentially increase revenue by approximately \$160,000 annually.

Pier 29.5 Parking Exhaust System (\$1.5 million)

The San Francisco Fire Department has mandated installation of a new ventilation system to continue using Pier 29.5 for parking. To preserve the historic fabric of the facility, a new ventilation system will be installed utilizing existing roll-up door openings and windows to mount exhaust fans that will increase air circulation within Piers 29.5 and 31 bulkheads. The project will also include installation of Carbon Monoxide sensors to operate the fans.

Pier 9 (Tier 1 FIRPA) (\$2.8 million)

The 2019 Facility Inspection Repair Project Assessment (FIRPA) study identified several urgent life safety and deferred maintenance repair needs at Pier 9. This project will address those needs with repairs to the substructure piles and beams, and concrete spalling along the parapets.

Roundhouse 2 Building Envelope (\$8.0 million)

Roundhouse 2 is a four-story partially occupied office building. The project is intended to enhance and revitalize the Roundhouse building, address its current state of disrepair, and increase the leasing potential of the space. This project includes work to correct deficiencies in the fire-rated construction of HVAC shafts, replace the roof, repair windows for water intrusion, and replace the building's solarium.

Fisherman's Wharf Projects

Aquatic Park (\$1.2 million)

To address bacteria issues at beaches throughout the Bay Area, the Water Board recently amended the San Francisco Basin Water Quality Control Plan (Basin Plan). The Water Board determined that Aquatic Park has been impaired with fecal indicator bacteria and has required the Port to inspect and repair the sewer lines within one quarter mile from the Aquatic Park shoreline and within Port jurisdiction by 2025.

Fisherman's Wharf Resilience and Public Realm Planning (\$1.6 million)

In the last two years, Fisherman's Wharf has experienced a series of economic and infrastructure challenges. The COVID 19 pandemic has had a significant impact on the tourism-dependent businesses in the area. Pier 45, a hub for the commercial fishing industry and site of many Fisherman's Wharf visitor serving attractions, suffered a fire in 2020 that destroyed Shed C. The recent Waterfront Resilience Program Multi-Hazard Risk Assessment revealed seismic risks throughout much of Fisherman's Wharf, including older wood structures. Together, these events suggest that the Port must reinvest in and reinvigorate the Wharf. This work will begin to outline a plan and determine community interest in an effort to attract new investment to the area to improve the public realm, enhance the resilience of Fisherman's Wharf and support businesses and workers.

Pier 45 Shed B & D Repairs (\$1.7 million)

The 2019 FIRPA study recommended significant work to address deferred maintenance at Sheds B and D at Pier 45. Work to be completed with this project

includes repairs and upgrades to the roof, parapet coping, concrete façade, windows, metal doors, and egress doors.

Port-wide Projects

Contingency Fund (\$7.2 million)

With supply-chain issues and labor shortages, construction costs have risen significantly and have created uncertainty in project budgets. The Port uses the Contingency Fund to supplement budgets on essential projects when bids come in high, but are deemed reasonable, or when unforeseen site conditions or other challenges arise that exceed a project's budgeted contingency. The Contingency Fund also serves as a source to address urgent projects and needs that arise after the biennial budget is adopted.

Crane Barge Purchase (\$6.5 million)

This project will design and build a new 150' crane barge (pile driving barge) affixed with a 200-ton crane to support pier repair projects for the next 50 years. The new crane barge is a generational purchase that will be large enough to handle steel pipe and concrete piles which outperform wood pile and are much safer for the aquatic environment. The new barge will allow the Port to make seismic and structural repairs to our facilities due to the increased reach and lifting capacity. The engine on the crane will also meet all modern bay area air quality standards to reduce pollution in the environment.

Enterprise Technology Project (\$1.5 million)

This project provides additional funding for the procurement and implementation of a new asset management system. The Port's existing enterprise asset management system, which functions as the work order system for the Maintenance division, has become obsolete and is no longer supported by the vendor. Implementation of a new system will enhance asset management functionality for the entire organization and will greatly improve the Maintenance division's work order system. This project will also allow the Port to finally retire its Oracle-based financial software, freeing IT resources to support other technology needs including data governance, tracking and reporting, document management, integration of systems such as GIS and PropWorks to maximize their functionality, and implementation of collaborative work tools including SharePoint. This restores a project that was previously defunded due to COVID-19.

Facility Inspection and Repair Project Assessments (\$2.0 million)

The Facility Inspection and Repair Project Assessment (FIRPA) is a long-term and on-going program to determine the current state of each Port facility and the resources required to bring the facility into a state of good repair. Staff will use FIRPA to review a number (i.e., five to ten) of Port facilities every year until all major facilities have been evaluated with the goal of assessing every Port facility approximately every ten years. This effort provides critical data to support the Port's capital planning efforts as well as other facility prioritization analysis.

Grant Match (\$3.0 million)

The Port regularly applies to the federal and state governments for grants which require a local match. This project will meet two needs – it will support grant match requirements and will also support pre-application work, such as cost benefit studies, often required to obtain grants.

Insurance Deductible (\$1.3 million)

Property insurance markets are in crisis due to the compounding impacts of climate change and business interruption claims resulting from COVID-19. As a result of these market wide impacts, as well as the Pier 45 fire in May 2020, the Port's insurance deductible has increased from \$750,000 to \$10.0 million. The Port intends to accumulate funds over time, to ensure sufficient funding to cover the deductible in case of future losses.

Ladders and Skylights (\$1.0 million)

The aging ladders and skylights on shed roofs present a safety risk for Port maintenance staff when working on the roofs. This project would improve or replace the most degraded ladders and skylights throughout the waterfront, reducing the safety risk to Port employees. This restores a project that was previously defunded due to COVID-19.

Maintenance Dredging and Sediment Sampling (\$4.8 million)

Routine dredging of Port berths is required to maintain depths for vessels in support of maritime commerce, including cruise and cargo operations. This project includes pre-dredge testing of sediment required by regulatory agencies to determine the appropriate disposal or re-use option for the sediments. It also includes sending dredged sediments to beneficial re-use such as wetlands restoration (i.e., Montezuma Wetlands Restoration in Solano County) when feasible.

Pile Crew (\$2.4 million)

These funds will be used to hire and maintain a Port-staffed pile worker crew to perform capital repairs on Port piers. The crew will consist of seven pile workers, one supervisor, and one crane operator. The Port's analysis indicates that completing pier repairs with Port crews is more cost-effective than having the work done by a contractor. However, finding and hiring skilled professionals for the work can be a challenge. If the Port is unable to fill all needed positions, budgeted funds will be used to put as many planned pier repair projects out to bid as budgets allow. This restores a project that was previously defunded due to COVID-19.

Project Management Office (\$3.6 million)

This funding supports the Port's Project Management Office (PMO) staff. The PMO manages all Port capital projects and is responsible for driving those projects from inception to construction close out. The PMO staff will play an integral role in the expenditure of ARPA funded capital projects by June 2024.

Stormwater Trash Capture Installation (\$0.5 million)

This project will perform the field verification and mapping needed to ultimately install full trash-capture devices in the Port's municipal separate storm sewer system area. There are approximately 543 stormwater inlets in the area, and the Port's

Municipal General Stormwater Permit requires the devices to be installed prior to 2030. This project will fund the initial phases of the work, with the full project costs including procurement and installation estimated at \$2.8 million.

Tenant Improvement Fund for Tenant Attraction/Retention (\$7.0 million)

This project is an economic recovery initiative and will allow the Port to fund tenant improvements on par with private-sector landlords. Historically, the Port has relied on tenants to finance these needed improvements, then reduced their rent to offset the improvement costs. This has the impact of discouraging small and local businesses that might not have the cash or credit to finance such improvements and also reduces rent that the Port receives from these lease agreements. This will make the spaces more attractive to a variety of tenants, speed-up leasing, decrease vacancy, and increase revenue.

Waterfront Resilience Program (\$3.1 million Harbor Funds)⁸

Port capital funds to support the Waterfront Resilience Program, specifically costs ineligible for General Obligation Bond funding including some Port labor and consultant expenditures.

4. REQUIRED RESERVES

The Port Commission has adopted two policies relevant to the proposed budget:

1. Capital investment must equal or exceed 25% of operating revenues, and
2. Operating reserves must equal or exceed 15% of operating expenses.

As a result of the economic crisis caused by the COVID-19 pandemic, the FY 2021-22 budget did not meet the capital investment policy requiring 25% of operating revenue to be set aside for capital. The proposed FY 2022-23 and FY 2023-24 budget meets the 25% investment requirement thanks to the availability of ARPA funding, with 37% investment averaged across both years of the biennial budget⁹.

Port Commission policy also requires that the Port maintain an operating reserve of at least 15% of annual expenses. Fund balance, which serves as the Port's operating reserve is estimated to have \$90 million at the beginning of the biennial budget period, or approximately 90% of annual operating expenses of \$101 million in FY 2022-23.

5. CONCLUSION

The financial uncertainty created by the COVID-19 pandemic is substantial and makes the Port's revenue forecasts subject to significant variance. Port staff will continue to closely monitor economic indicators and revenues throughout the coming fiscal years

⁸ Note the CIP total Waterfront Resilience Cost includes a request for support from the General Fund as well as the previously approved General Obligation bonds. Those sources are not included here as they will not be appropriated through the proposed budget.

⁹ Due to the ARPA expense deadline of June 2024, all ARPA funded capital projects are included in FY 2022-23 in order to maximize the time available to use funding. Therefore, the capital investment percentage more reasonably considered as an average across both years of the biennial budget.

and will adjust expenditures as needed. Additionally, over the next two years, Port staff will use the reprieve granted by the federal stimulus funding to develop and implement a suite of economic recovery measures to ensure the Port's future financial stability.

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Attachments:

- I. Operating Revenue Detail
- II. Stimulus Submission to State Lands Commission
- III. Positions Changes
- IV. Five-year Capital Improvement Program
- V. FY2020-21 Completed Capital Projects