

MEMORANDUM

December 8, 2016

TO: MEMBERS, PORT COMMISSION
Hon. Willie Adams, President
Hon. Kimberly Brandon, Vice President
Hon. Leslie Katz
Hon. Eleni Kounalakis
Hon. Doreen Woo Ho

FROM: Elaine Forbes
Executive Director

SUBJECT: Informational Presentation on the Port's 10-Year Capital Plan for FY 2017-18 to FY 2026-27

DIRECTOR'S RECOMMENDATION: Informational Item

EXECUTIVE SUMMARY

Under Administrative Code Section 3.20, the City and County of San Francisco ("the City") is required to prepare a 10-year capital plan in odd numbered years that identifies the City's capital needs and proposes actions to fund that work. The purpose of this item is to provide an overview of the Port's proposed 10-Year Capital Plan for 2018-2027 and to allow for Port Commission and public feedback. Approval of this item is scheduled for the next Port Commission meeting on January 10, 2017. Upon Port Commission approval, staff will submit the final Plan to the City's Capital Planning Committee for inclusion in the Citywide 10-Year Capital Plan which in turn will be submitted to the Board of Supervisors for final approval.

The Port's 10-Year Capital Plan for FY 2017-18 to FY 2026-27 ("Capital Plan") accompanying this report identifies \$3.3 billion in total potential investments, including \$1.5 billion for state of good repair ("SOGR") and \$1.8 billion for enhancements. The enhancements category consists of \$493.5 million for the new Seawall Resiliency Project, \$733.3 million for other enhancements, and \$561.7 million for conditional seismic improvements.

The Capital Plan identifies \$591.9 million in funding sources for SOGR, leaving a gap of \$900.3 million in funding need to bring all Port assets into a state of good repair in the next 10 years. The Capital Plan anticipates that the Port will complete \$697.6 million in

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enhancements. Most enhancements will be fully funded, with the exception of \$493.3 million for the Seawall Resiliency Project and \$35.7 million for the Mission Bay Ferry Landing—for which staff is working to secure full funding. Conditional Seismic work is not funded in the Capital Plan, given that the work will only be completed in the event that code requirements are triggered and funding is available.

STRATEGIC OBJECTIVES

The Port's 10-Year Capital Plan for FY 2017-18 to 2026-27 is central to meeting crucial *Stability* objectives of the Port's Strategic Plan:

- *Seek traditional and innovative solutions to the Port's capital plan funding gap* – The Capital Plan is essential for understanding the size and nature of the funding gap.
- *Step up to, and subsequently exceed, policy to set aside 25% of operating revenue to capital* – The decline in the total needed to return and maintain all Port assets in a state of good repair is made possible in part by project completions and confirms the soundness of the Port's fiscal strategy.

The Capital Plan also supports and guides capital expenditure and investment decisions to achieve other strategic objectives including:

- *Sustainability*: By highlighting the impact climate change will have on Port assets, particularly the Seawall and under-pier utilities, and underscoring the need for action to mitigate and adapt to sea level rise.
- *Resiliency*: By elevating the conversation about the need for the Seawall Resiliency Project at a City-wide capital planning level.
- *Renewal*: By providing the picture of where we are and what is achievable with current resources in regards to maintaining and enhancing Port capital assets.
- *Engagement*: By providing information to the public on the Port's financial responsibilities.
- *Livability*: By making the case for investing in Capital projects, which create jobs for San Franciscan's in design and construction, and improve overall livability in the City.
- *Economic Vitality*: By helping staff understand the level of investment needed to maintain the assets which are most essential to the Port's economic vitality.

BACKGROUND

The Port Commission and staff use the Capital Plan to support and guide capital expenditure and investment decisions. Upon Port Commission approval, staff will submit the final Plan to the City's Capital Planning Committee for inclusion in the

Citywide 10-Year Capital Plan. Staff utilizes the Port's Capital Plan alongside the Waterfront Land Use Plan, which defines the long-term vision, goals, and values to guide use and improvement of the waterfront. Together the Capital Plan and the Waterfront Plan provide the framework for the Port's Strategic Plan sections related to land use and capital investment.

The Port faces a substantial backlog stemming from decades of deferred maintenance. Despite increased investments since the 1990's, some historic sheds and structures have not received major maintenance work since as far back as the late 1940's. The 2016 report from Port Engineering Facilities Inspection Program identifies 34 "yellow-tagged facilities" that Port staff recommends repairing in the near future to avoid being blocked from access, and 20 "red-tagged" facilities that have restricted access due to their unsafe, poor structural condition.

The Capital Plan continues to provide a solid framework for the Port's investments to maintain and enhance its assets. In addition to spurring capital investments, the Capital Plan allows Port staff to make the case for City engagement on and investment in capital needs at the Port that are of citywide importance. The strategies the Port has put in place are yielding results including a number of major accomplishments over the last two years:

- Appropriation of the Port's largest Capital Budget ever in fiscal years 2016-17 and 2017-18, totaling \$67 million, largely attributable to Port practice of directing surplus revenue toward capital improvements. This includes \$6.0 million in General Fund and other City department contributions to the Seawall Resiliency Project.
- Execution of the lease with Orton Development for the 20th Street historic buildings and establishment of the first Port Infrastructure Financing District (IFD) to facilitate rehabilitation of the Pier 70 Historic Core and help fund Crane Cove Park Phase 2.
- Award of the first contract for Crane Cove Park Project, Phase 1.
- Completion of the Bayview Gateway, funded by the voter-approved 2008 Clean and Safe Neighborhood Parks General Obligation Bond and Port funds.
- Repair of the Pier 35 bulkhead building.

TEN YEAR CAPITAL NEED

The Port's 10-Year Capital Plan for FY 2017-18 to FY 2026-27 identifies \$3.3 billion in total potential capital investments, including \$1.5 billion in state of good repair and \$1.8 billion in enhancements. The enhancements category consists of \$493.5 million for the new Seawall Resiliency Project, \$733.3 million for other enhancements and \$561.7 million for conditional seismic improvements.

Figure 1: Changes between Capital Plans (\$ millions)

	State of Good Repair				Enhancements				Grand total
	Backlog	Renewals	One-time	Total	Seawall Resiliency	Other Enhancements	Conditional Seismic	Total	
Prior Plan (FY 2016-25)	\$ 569.4	\$ 570.2	\$ 481.3	\$ 1,622.3		\$ 365.8	\$ 475.0	\$ 840.8	\$ 2,463.1
Updated project cost, estimates, completions	\$ (153.3)	\$ (103.9)	\$ (65.8)	\$ (323.0)	\$ 493.5	\$ 367.5	\$ 36.2	\$ 897.2	\$ (286.8)
Leased facility improvements	\$ (22.5)	\$ (3.9)	\$ (5.5)	\$ (31.9)				\$ -	\$ (31.9)
Missed renewals* (FY 2016 & 2017)	\$ 29.1	\$ (56.5)	\$ 27.4	\$ -				\$ -	\$ -
New years nine and ten (FY 2026 & 2027)		\$ 87.8		\$ 87.8				\$ -	\$ 87.8
Escalation (5% annually)	\$ 51.0	\$ 50.2	\$ 37.2	\$ 138.4			\$ 50.5	\$ 50.5	\$ 188.9
Current Plan (FY2018-27)	\$ 473.7	\$ 543.9	\$ 474.6	\$ 1,492.2	\$ 493.5	\$ 733.3	\$ 561.7	\$ 1,788.5	\$ 3,280.7

* Missed pier renewals are captured in the one-time category in the Port and City's asset capital planning tool, FRRM.

Figure 1 summarizes adjustments to the Port's 10-Year investment need for State of Good Repair and Enhancements from the prior plan. Overall, the updated Capital Plan represents a \$118.6 million decrease in need for state of good repair investments and an increase of \$943.6 million for enhancements. These changes are due to the following:

Work Completed – This includes projects undertaken by the Port and by tenants, where the tenant has responsibility for facility maintenance. For example, the Port completed annual maintenance dredging and the Port is wrapping up repairs to the roof at Pier 31.

Updated Cost Estimates – Staff updated project costs and the timing of renewal needs to reflect more recent estimates, where available (e.g., as a result of a more extensive engineering analysis). Such adjustments result in increases and decreases to the need. In the case of Pier 70, the Port's decision to remove some structures that no longer provide utility to the Port or its mission also resulted in updated cost estimates, for example the abandon pier at Pier 70. The Capital Plan shifted to assuming the Port would demolish these selected facilities rather than fully renew them. This resulted in a significant savings.

Newly Identified Needs – Changes to the enhancement category were largely driven by new needs that are now quantified. The prior Capital Plan noted resiliency improvements to the Seawall as an emerging need; however, this is the first Capital Plan to reflect cost of the \$500 million Seawall Resiliency Project. This plan also now includes the estimated \$42.7 million cost of Mission Bay Ferry Landing.¹

Passage of Time – As each year passes, new systems require renewal and others pass their optimal renewal date and become part of the backlog, if work was not completed. In addition, the plan includes annual escalation of costs, set by the City's Capital Planning Committee, to capture the increasing price of delivering capital projects.

FUNDING PLAN

The Capital Plan identifies that \$1.3 billion in funds will be available during the ten-year plan period. This is a nearly \$450 million increase over the prior plan. The growth in projected revenue stems largely from San Francisco's strong economy, the Port's pursuit of public-private partnership developments, and the Port Commission's policy to set aside a minimum of 20 percent of Port operating revenue each year in the operating budget to fund capital expenditures (increasing to 25 percent in FY 2018-19).

The plan differentiates expenditure of revenue into two categories: 1) capital projects that help maintain the Port's facilities in good repair; and 2) enhancement projects that add value to Port property. The figure below details the breakdown of planned capital expenditures and funding sources.

¹ The Plan categorizes these projects as enhancements to be consistent with the terminology used in the City's Capital Plan. In City parlance, renewals are limited to work that returns an existing facility to its original state of good repair. Any project that enhances a facility's performance, even if that work is considered essential for the proper functioning of the facility in light of today's laws, technologies, and public expectations, that work is an enhancement. For example, to comply with the American's with Disabilities Act, when the City paves an intersection, the City must install curb ramps. This is federally-mandated work, and it is an enhancement in the City's Capital Plan. Similarly, seismic retrofits appear in the enhancements category, as seismic durability was not part of the original construction of older facilities. The Seawall Resiliency Project will result in a Seawall that is more resilient to earthquakes and tidal flooding than it was when first constructed.

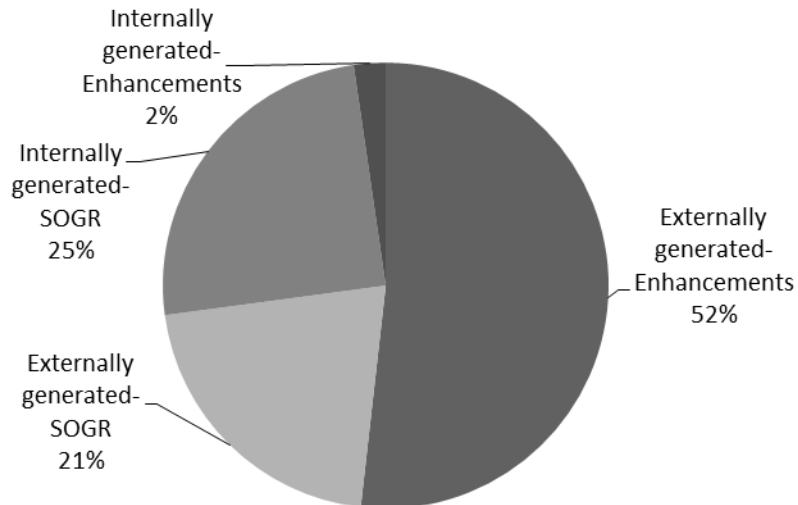
Figure 2: Detailed Sources and Uses of Funds (\$ millions)

Program / Project	FY						Plan Total	Backlog DEFERRED
	2018	2019	2020	2021	2022	2023 - 2027		
SPENDING PLAN								
State of Good Repair								
Emergency Facility Repair	0.1	0.1	0.1	0.1	0.1	0.5	1.0	
ADA	0.1	0.1	0.1	0.1	0.1	0.5	1.0	
Dredging	13.0	6.0	6.0	6.0	6.0	30.0	67.0	
Repair / Reinvestment	84.2	107.0	58.6	21.5	38.2	213.3	522.9	
State of Good Repair Subtotal	97.4	113.2	64.8	27.7	44.4	244.3	591.9	900.3
Enhancements								
Parks and Open Space	13.8	12.4	5.4	5.4	5.4	37.8	80.2	
Facility Improvements	3.3	5.6	4.7	4.7	4.6	25.0	47.8	
Development Project Areas	205.0	175.5	42.3	19.7	23.6	28.3	494.4	
Ferry Terminal Expansion Project	26.3	29.3	10.1	-	-	-	65.7	
Seawall Resiliency Project	4.0	-	-	-	-	-	4.0	489.5
Mission Bay Ferry Landing	5.5	-	-	-	-	-	5.5	35.7
Enhancements Subtotal	257.9	222.8	62.5	29.7	33.6	91.1	697.6	
TOTAL	355.3	336.0	127.3	57.4	78.0	335.4	1,289.5	1,425.5
REVENUES								
Internal Funding								
Port Capital Budget	19.8	23.9	19.3	19.3	19.2	104.8	206.2	
Port Revenue Bonds and COPs	1.6	1.7	-	-	-	-	3.3	
Port Tenant Improvements	9.3	32.6	15.2	7.4	5.3	70.2	140.1	
Internal Funding Subtotal	30.6	58.2	34.6	26.8	24.5	175.1	349.7	
External Funding								
General Fund and Other City Sources	7.5	-	-	-	-	-	7.5	
Federal & State Grants	2.0	2.0	2.0	2.0	2.0	10.0	20.0	
US Army Corps of Engineers	7.0	5.7	-	-	-	14.5	27.2	
DTFT - State Proposition 1B	13.3	21.3	10.1	-	-	-	44.7	
DTFT - Local Sources (RM2 and Prop K)	9.1	8.0	-	-	-	-	17.1	
DTFT- Federal	3.9	-	-	-	-	-	3.9	
Park System Renovation and Improvement Bond	14.9	13.4	5.8	5.8	5.8	40.8	86.7	
Development Projects (Including developer investments and public financing)	267.0	227.3	74.8	22.8	45.7	95.0	732.7	
External Funding Subtotal	324.7	277.8	92.8	30.7	53.5	160.3	939.8	
Total	355.3	336.0	127.3	57.4	78.0	335.4	1,289.5	

Overall, the plan reflects a balanced expenditure of funds that aligns with prior plans, with most of the Port's internally generated funding sources directed towards state of

good repair projects. Enhancement projects are funded largely with externally generated revenue.

Figure 3: Sources and Uses of Fund By Percentage of 10-Year Revenue



ADDRESSING DEFERRED NEED

Past Capital Plans spurred the Port Commission to set the Port on a course to focus greater resources on capital projects. While this commitment has grown, the Port's annual Capital Budget from \$9.4 million ten years ago, to an all-time high of \$36.6 million in 2016-17, the Port has not had sufficient resources in any given year to fully address its annual renewal need of approximately \$54 million per year, let alone significantly reduce the substantial backlog of need it has had since the inception of the Capital Plan. Existing and projected funding continues to fall short of need, with \$900.3 million deferred state of good repair and \$529.2 million deferred enhancements.

Figure 4: Deferred Needs (\$ millions)

	State of Good Repair	Enhancements*	Total*
Need	\$ 1,492.2	\$ 1,226.8	\$ 2,719.0
Revenue	\$ 591.9	\$ 697.6	\$ 1,289.5
Unfunded Gap	\$ 900.3	\$ 529.2	\$ 1,429.5
% of Need Unfunded	60%	43%	53%

* Enhancements column and total column exclude conditional seismic, as that is a potential need, not a definite need.

State of Good Repair

Some tested strategies for addressing the Port's deferred maintenance needs have included the following:

Committing Port Revenues – In 2012, the Port Commission adopted a capital policy that designates a minimum amount of operating revenue for capital projects. Pursuant to this policy, a minimum of 20 percent of Port operating revenue is set aside each year in the operating budget to fund capital expenditures. The Port has met or exceeded its capital funding target in its budget every year since the Port adopted the target and anticipates meeting the target in each of the ten years captured in this plan. It is also the Port's practice to allocate one-time and surplus revenues to annual capital expenditures, which helped contribute to the Port's record Capital Budget in fiscal years 2015-2016 and 2016-2017.

Pursuing Additional Revenue – Port staff utilizes several approaches to increase revenue dedicated to capital, including entering into new public-private partnership developments, completing revenue generating renewal and enhancement projects, and pursuing additional grants and local and regional funding.

Utilizing Port Crews for Pier Repairs – Repairing the substructure of Port piers is highly specialized work and very few contractors bid on such projects. Staff analysis has shown that having Port crews perform under-pier renewal work is the most affordable delivery method available, in part because when crews find unforeseen conditions, they can remobilize to other Port projects while engineers revise plans. In the most recent Capital Budget, the Port funded two crews to work on piers with wooden piles and one crew to work on piers with cement piles.

While these strategies have helped grow the capital budget and efficiently use existing resource in recent years, Port staff continues to seek new opportunities to further reduce the gap between needs and available resources by seeking new revenue and budgeting strategically.

Enhancement Projects

Seawall Resiliency Project – The Seawall Project is the largest contributor to the unfunded need for enhancements. The Port and City have committed \$9.6 million for the initial phase of the \$500 million dollar project, with \$5.6 million scheduled prior to this 10-year plan period and \$4.0 million identified for fiscal year 2017-18, leaving a \$489.5 million need. The Port and City are developing a funding strategy that may include seeking voter approval for a local general obligation bond, seeking the State share of tax increment from the Mission Rock development project Infrastructure Financing District, and working with the US Army Corps of Engineers to identify a flood control project under the authority of the Water Resources Development Act. This variety of funding sources aims to spread the cost of the project across a range of constituencies that have an interest in preserving infrastructure that supports a National

Historic District, major transit routes that serve millions daily, and embarkation sites that will be critical for the City's recovery in the event of a major earthquake.

Mission Bay Ferry Landing – The estimated project cost is between \$32.5 and \$42.7 million depending on the location selected. Design and permitting phases of work are funded in this Capital Plan at \$7.0 million, with \$1.5 million scheduled prior to this 10-year plan period and \$5.5 million identified for FY 2017-18. Staff is pursuing the following potential funding sources: local funds for transportation, private contributions, and state and federal transportation grants. The Port is entering into MOUs with the Bay Area Water Emergency Transportation Authority (WETA) to establish roles and responsibilities for the construction of the project as well as for the details and cost of ongoing operations, which WETA will bear.

CONCLUSION

Thanks largely to a strong economy, the Port Commission's commitment to focusing resources on capital projects, and our public private partnerships, this plan projects \$1.3 billion investment in capital over the next ten years. The Port's Capital Budget for fiscal year 2016-2017 was a record high for the agency and is going largely to state of good repair. At the same time, development projects like those at Pier 70 are renewing and enhancing some of the Port's most vital historic resources, opening up former industrial areas to the public and breathing new life into the waterfront.

The Port's need for capital investments continues to outpace available funding, leaving a substantial backlog and requiring strategic decisions about how to best manage the Port's many aging assets. At the end of that period the Port will still face a state of good repair need of \$900.3 million and potentially another \$561.7 million in conditional seismic work. In this period, the Port will also work with the City to complete the funding plan for two priority enhancement projects, the Seawall Resiliency Project and Mission Bay Ferry Landing.

To make progress on narrowing the gap between the capital need and available resources, the Port will pursue two main courses of action. First, with the guidance of the Waterfront Land Use Plan and the Port's internal process for developing a criteria-based capital budget, the Port will continue to strategically choose where to invest. Second, the Port will continue to explore ways to address its unfunded needs, including building partnerships to attract new sources of funds.

NEXT STEPS

Port staff welcomes and appreciates comments, input and feedback from the Port Commission and the public. Port staff will return to the Port Commission at its next regularly scheduled meeting on January 10, 2017 with a request to approve the proposed 10-Year Capital Plan for FY 2017-18 to FY 2026-27

Prepared by: Ananda Hirsch, Capital Manager, Finance
and Administration Division

and

Meghan Wallace, Finance and Procurement
Manager, Finance and Administration
Division

For: John Woo, Acting Deputy Director,
Finance and Administration Division

ATTACHMENT 1: 10-Year Capital Plan for FY 2017-18 to 2026-27