

## MEMORANDUM

May 4, 2017

**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 Seawall Finance Working Group (FWG)

**DIRECTOR'S RECOMMENDATION:** Informational Item; No Action Required

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### EXECUTIVE SUMMARY

The Seawall Resiliency Project is a once-in-a-generation project that requires an estimated \$500 million investment to address immediate seismic life-safety concerns and upwards of \$5 billion to address long-term seismic stability and adaptation to sea level rise. With an annual capital budget of approximately \$15 million and almost \$1 billion in deferred maintenance identified in its 10-Year Capital Plan, this project is well beyond the Port's financial ability to support through the Harbor Fund. The project is also beyond the means of the City's 10-Year General Obligation Bond program. To address this financial challenge, the City's Capital Planning Program organized a Finance Working Group (FWG) to identify, evaluate, and recommend funding sources that may be pursued to complete this work.

The FWG consists of 11 regular members, including representatives from key City offices and departments including the Mayor's Office, the Board of Supervisors and the Controller's Office. The FWG will advise the Seawall Executive Steering Committee (ESC) and the City's Capital Planning Committee (CPC) on funding strategies to address both the immediate and long-term funding needs of the Seawall Resiliency Project.

This report updates the Port Commission and the public on the process that the FWG has followed thus far in evaluating funding options and the work that is underway to formally prepare recommendations for the ESC and CPC.

**This Print Covers Calendar Item No. 11A**

## **STRATEGIC OBJECTIVES**

The work of the FWG is central to meeting several objectives of the Port's 2016-2021 Strategic Plan:

Financial Stability – By seeking traditional and innovative funding solutions and by maximizing external investment.

Resiliency – By leading the City's efforts to address threats from earthquakes and flood risk through research and infrastructure improvements to the Seawall and Port property.

Engagement – By leading an inclusive stakeholder process to develop a funding strategy for implementation of the Seawall Resiliency Project.

## **BACKGROUND**

Stretching from Fisherman's Wharf to Mission Creek, the Seawall is more than 100 years old and supports historic piers, wharves, and buildings, the Ferry Building and Embarcadero Promenade. The Seawall requires significant improvements to survive the next major earthquake and to address increasing flood risk from sea level rise and climate change. Improvements under consideration include:

- strengthening the ground below the seawall,
- improving the ground landside of the seawall,
- constructing a new seawall,
- strengthening or replacing bulkhead walls and wharves, and
- relocating or replacing critical utilities.

If the City does not make these improvements, it risks an estimated \$25-100 billion in losses if the Seawall were to fail. Losses would likely include both infrastructure and associated economic activity, including BART, Muni, ferry transportation and utility networks. Failure of the Seawall would also likely lead to flooding in the downtown San Francisco neighborhoods that it protects.

### Project Goals

Under the leadership of Mayor Edwin M. Lee, the Port is working to act as quickly as possible to address immediate safety risks and reduce earthquake damage and disruption to critical facilities. The project will also reduce current and future flood risk and create a stable foundation for ongoing sea level rise adaptation. Other important project goals include; enhancing the sustainability of the Embarcadero and Seawall and improving the San Francisco Bay ecosystem; respecting San Francisco's iconic waterfront; and engaging the San Francisco community in the City's first major sea level rise adaptation project.

## Current Funding

The Seawall Resiliency Project has received \$8.0 million through the Fiscal Year (FY) 2016-17 and planned FY 2017-18 budgets to initiate planning. This includes \$1.0 million from the Municipal Transportation Agency, \$1.0 million from the Planning Department, \$3.6 million in Port capital, and \$4.0 million from the City's capital revolving fund.

Additionally, the 10-Year Capital Plan for FY 2018-2027 includes a proposed \$350 million General Obligation Bond measure for the 2018 November election. The 10-Year Capital Plan has been approved by Capital Planning Committee and the Board of Supervisors as of April 28, 2017.<sup>1</sup> Specific Seawall General Obligation Bond legislation, including a companion Seawall General Obligation Bond Report, will be subject to review by CPC, approval by the Board of Supervisors commencing in early 2018, and voter approval. Port staff, in consultation with CPC staff and the Mayor's Office, will develop the Bond Report and work with the City Attorney to develop the proposed legislation for consideration by CPC and the Board of Supervisors.

## **FUNDING STRATEGY**

The City is pursuing a variety of sources for the Seawall Resiliency Project to generate sufficient funding, mitigate risk, and fairly distribute costs.

Funding Need – The likelihood of identifying a single source of funds to address the \$500 million, let alone \$5 billion long-term, project is low and warrants the pursuit of numerous sources. Port staff analysis which informs the Federal and State Legislative Program suggests that local, state and federal sources will be required to fully fund the project. The American Society of Civil Engineers estimates a \$2 trillion shortfall in infrastructure funding nationwide over the next ten years, including an estimated \$15 billion for ports and \$70 billion for levees. With a clear nationwide funding gap, every level of government must prioritize and make tradeoffs in funding decisions, making it difficult to secure a single large-sum source. Furthermore, any federal grant program will require local sources on hand to serve as a match.

Mitigating Risk – As with any financial portfolio, diversification instills more confidence through the reduction of risk. Seeking numerous funding options reduces the risk of the project stalling in the event a preferred funding source falls through. Most funding options under consideration by the FWG require significant work on the part of Port and other City staff to secure buy-in and commitment of funds at the state and federal levels. For example, in the case of a G.O. Bond voter approval is required.

Equitable Distribution – The seawall benefits many constituencies, but to varying degrees. The FWG's funding plan of diverse sources can help distribute costs proportionally.

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<sup>1</sup> If the \$350 million bond measure is approved by voters, GO Bond proceeds would reimburse the revolving fund, for a net increase of \$346 million to the project budget.

## FINANCE WORKING GROUP

The City has a track record of organizing finance working groups to develop funding strategies for major infrastructure initiatives. A recent example includes the Streets Bond Working Group that analyzed the funding needs of San Francisco streets and ultimately supported the case for a General Obligation Bond measure in 2016.

The Finance Working Group is comprised of 11 members that regularly attend the meetings, including representatives of the Port, Mayor's Office, Board of Supervisors, Controller's Office, City Administrator's Office, Office of Economic and Workforce Development, and the Municipal Transportation Agency, as well as a private financial consultant. The FWG is analyzing potential financing mechanisms and will prepare a specific set of proposals or recommendations for the Capital Planning Committee to consider for financing the project. The FWG is meeting between November 2016 and May 2017 and will make a formal recommendation to the Seawall Executive Steering Committee followed by the City's Capital Planning Committee in June and July 2017. Port staff will provide the Port Commission with final recommendations in late summer/early fall.

Beginning in November 2016, the FWG held a series of 10 sessions to apply a structured evaluation framework to determine which funding sources the City should pursue to complete the Seawall Resiliency Project. Key components of the evaluation framework are as follows:

Funding Options – As reflected in **Attachment 1**, FWG members compiled a list of over 40 diverse funding options that fall under eight general categories ranging from federal, state, regional, and local. Local funding options fall under more specific categories, including user fees, taxes, and value-capture tools.

Scoring Criteria – As reflected in **Attachment 2**, the FWG developed a set of scoring criteria to establish a common framework for evaluating the wide variety of funding sources. The working group members sought a balanced set of criteria that considered the potential size of sources, alignment of timing to the project, complexity to administer, as well as the political tradeoffs and likelihood of accessing funds. Another important criterion related to the equity and cost burden of a given funding source – the group sought sources that have a proportional allocation of cost to benefit to the end-user and that are not regressive and will not shift an undue burden to lower-income communities.

Backgrounder and Scoring Template – The group prepared one-page scoring sheets for each funding source that included a one-half page background summary and listed the scoring criteria with scoring options ranging from weak to strong.

Evaluation Process – The FWG held working sessions to apply the evaluation system. After first holding an overview discussion on a given funding option, the group reviewed the scoring criteria, discussing key benefits and issues and, ultimately, providing each member the opportunity to fill out their own scoring sheet. These scoring sheets were then gathered and the scores were compiled, with a final average score being applied for each criterion by funding source.

## **NEXT STEPS**

The FWG completed its initial evaluation and scoring of funding options and is now conducting further analysis, where needed. The group will complete its final recommendations in the form of a report by the end of May, for release to the Seawall Executive Steering Committee, the Capital Planning Committee, and the Port Commission. Staff seeks early feedback from the Port Commission and the public at this point, prior to moving forward with the final stages of this process.

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**ATTACHMENT 1:** SFWG List of Funding Strategies

**ATTACHMENT 2:** SFWG Funding Source Evaluation Criteria

## ATTACHMENT 1

### SFWG List of Funding Strategies

Strategy Category	High-Level Considerations	Specific Strategies
A. State Strategies	<ul style="list-style-type: none"> <li>• Well understood</li> <li>• Requires outreach</li> <li>• Requires political capital</li> <li>• Significant revenue potential</li> </ul>	<ol style="list-style-type: none"> <li>1. State Resilience G.O. Bond</li> <li>2. State Share of Property Tax Increment</li> <li>3. Incorporate into Pier Rehab Projects</li> <li>4. Geologic Hazard Abatement Districts (GHADs)</li> </ol>
B. User Fees	<ul style="list-style-type: none"> <li>• Mostly well understood</li> <li>• Public/partner willingness concerns</li> <li>• Limited revenue potential</li> </ul>	<ol style="list-style-type: none"> <li>5. Surcharge on Event Tickets</li> <li>6. Transit Pass Transfer Fee</li> <li>7. Increase Ferry Charges</li> <li>8. Cruise Ticket Surcharge</li> </ol>
C. Federal Strategies	<ul style="list-style-type: none"> <li>• Uncertain feasibility, requires outreach</li> <li>• Requires significant political capital in uncertain political environment</li> <li>• Significant revenue potential</li> </ul>	<ol style="list-style-type: none"> <li>9. Hazard Mitigation Grants</li> <li>10. National Foundation Grants</li> <li>11. Historic Tax Credits</li> <li>12. Federal Transportation Funding</li> <li>13. USACE – General Investigation</li> <li>14. USACE – CAP 103 Program</li> <li>15. DHS Office of Infrastructure Protection</li> </ol>
D. Taxes & Fees (Transportation)	<ul style="list-style-type: none"> <li>• Mostly well understood</li> <li>• Some fees already slated for other transportation purposes</li> <li>• Limited revenue potential</li> </ul>	<ol style="list-style-type: none"> <li>16. Commuter Transportation Tax</li> <li>17. Vehicle License Fee Increase</li> <li>18. Tax/Fee on Auto Sales</li> <li>19. Tax/Fee on Marina Uses</li> <li>20. Transit Impact Development Fee</li> <li>21. Increased Parking Revenues</li> </ol>
E. Value Capture	<ul style="list-style-type: none"> <li>• Mostly well understood, can be complicated/costly to execute</li> <li>• Some require heavier lift with the public than others</li> <li>• Significant revenue potential</li> </ul>	<ol style="list-style-type: none"> <li>22. G.O. Bonds</li> <li>23. Assessment District</li> <li>24. CFD/Mello-Roos</li> <li>25. Port IFD</li> <li>26. IRFDs</li> <li>27. Sale/Lease Increment of Port Assets</li> <li>28. Insurance Value Capture/Resilience Bonds</li> </ol>
F. Taxes & Fees (General)	<ul style="list-style-type: none"> <li>• Well understood</li> <li>• Regressive and public willingness concerns</li> <li>• Significant revenue potential</li> </ul>	<ol style="list-style-type: none"> <li>29. Sales Tax Increase</li> <li>30. Parcel Tax</li> <li>31. Real Estate Transfer Tax Increase</li> <li>32. Utility User Tax Surcharge</li> <li>33. Business License Tax Surcharge</li> </ol>
G. Regional Strategies	<ul style="list-style-type: none"> <li>• Well understood</li> <li>• Uncertain feasibility, requires outreach</li> <li>• Requires political capital</li> <li>• Significant revenue potential</li> </ul>	<ol style="list-style-type: none"> <li>34. RM3- Bridge Tolls</li> <li>35. Cap &amp; Trade Program Funding</li> <li>36. Regional Gas Tax</li> <li>37. Congestion Pricing</li> <li>38. Tax/Fee on Rental Cars</li> </ol>
H. Other Local/Regional Strategies	<ul style="list-style-type: none"> <li>• Some somewhat understood, others less so</li> <li>• Limited revenue potential</li> <li>• Labor intensive to set up and administer</li> </ul>	<ol style="list-style-type: none"> <li>39. Business Gross Receipts Tax Surcharge</li> <li>40. Hotel Assessment</li> <li>41. Infrastructure Trust Bank</li> <li>42. Green/Climate Bonds</li> <li>43. Environmental Impact Bonds</li> <li>44. Advertising</li> <li>45. Naming Rights</li> <li>46. Public Private Partnerships</li> <li>47. Philanthropy</li> <li>48. Pension Plan Investment</li> </ol>

**ATTACHMENT 2:**  
SFWG Funding Source Evaluation Criteria

Criteria	Description
1. Source of Funds	<ul style="list-style-type: none"> <li>• City vs. non-City source – Federal, State, Regional</li> </ul>
2. Revenue Generating Potential	<ul style="list-style-type: none"> <li>• \$ Value</li> <li>• Minimum and maximum available</li> <li>• Volatility of repayment source</li> </ul>
3. Cost of Funds	<ul style="list-style-type: none"> <li>• \$ Value</li> <li>• How costly strategies might be to implement</li> </ul>
4. Long Term Sustainability	<ul style="list-style-type: none"> <li>• Short term vs. long term funding</li> <li>• Is there an expiration date on the funding source?</li> <li>• Is the funding source renewable or can it only be used once?</li> </ul>
5. Flexibility of Funds	<ul style="list-style-type: none"> <li>• What can \$ be used for</li> </ul>
6. Timing	<ul style="list-style-type: none"> <li>• Timeframe for implementation process</li> <li>• Timing for bonding capacity</li> </ul>
7. Competing /Tradeoffs for Other City Needs	<ul style="list-style-type: none"> <li>• Connection between funding tool and Seawall</li> <li>• Will use of a certain funding strategy on the Seawall limit its use on future City projects, including Phase II of Seawall Project?</li> </ul>
8. Political Feasibility at State/Federal Level	<ul style="list-style-type: none"> <li>• Likelihood of passage at the state and federal level</li> </ul>
9. Political Feasibility at Local/Regional Level	<ul style="list-style-type: none"> <li>• Likelihood of passage at the local and regional level</li> <li>• Voter approval needed?</li> </ul>
10. Administrative Complexity	<ul style="list-style-type: none"> <li>• Ease of implementation</li> </ul>
11. Equity/Cost Burden	<ul style="list-style-type: none"> <li>• Proportional allocation based on additional benefit above the baseline benefit to everyone</li> <li>• Regressive vs. progressive</li> <li>• Geographic connection of those paying to waterfront</li> <li>• Business vs. residential</li> </ul>