

MEMORANDUM

February 18, 2016

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

FROM: Elaine Forbes
Interim Executive Director

SUBJECT: Request for Approval of the Port's Fiscal Year (FY) 2016-17 and
FY 2017-18 Biennial Operating & Capital Budget

DIRECTOR'S RECOMMENDATION: Approve Attached Resolution

EXECUTIVE SUMMARY

On February 9, 2016, Port staff presented an informational report to the Port Commission on the proposed Fiscal Year (FY) 2016-17 and FY 2017-18 Operating and Capital Biennial Budget. During the meeting, the Port Commissioners asked numerous important questions, the answers to which are provided in a new *Attachment V – Responses to Port Commissioners' Questions*. No additional changes have been made to the report or the budget since the Port Commission's review.

The proposed budget controls operational spending while making significant effort to invest in capital, either through direct spending or by designating net operating revenues to future investment. While the capital investments proposed in the budget are significant relative to historical spending, the increase does not markedly address the Port's \$1.1 billion capital backlog.

RECOMMENDATION

Based on the Port's operating, project and capital needs and the availability of funding sources, Port staff submits the proposed FY 2016-17 and FY 2017-18 Biennial Operating and Capital Budget and recommends the Port Commission approve the proposed budget for submission to Mayor Edwin Lee and the Board of Supervisors. Port staff will return to the Port Commission later this summer to report on the adopted budget and detail for Port Commission approval of significant changes made by staff, the Mayor or the Board of Supervisors.

This Print Covers Calendar Item No. 7A

STRATEGIC OBJECTIVES

The proposed FY 2016-17 & 2017-18 operating and capital budget is integral to meeting the Port's entire FY 2016-2021 Strategic Plan as it allocates resources Port-wide to achieve objectives. Some key examples include:

- *Sustainability*: Changes to position classifications of environmental staff will allow for deeper cross training and collaboration and thus a more robust ability to plan for and implement sustainability programs.
- *Resiliency*: A plan for funding the design of Port's Seawall Repair Project, one of the most critical elements of the Port's infrastructure resiliency.
- *Renewal*: Resources for the Waterfront Land Use Plan update and major development projects at Pier 70 and Seawall Lot (SWL) 337, and staffing for greater activation and maintenance of the Port's necklace of public open spaces and parks.
- *Engagement*: Added resources to the Public Information office to foster proactive Port marketing and media relations.
- *Livability*: Reorganization to accomplish a procurement office which will outreach to Local Business Enterprises for all purchasing and professional services contracting.
- *Economic Vitality*: Funding for numerous projects that support maritime, deep water berths, and design for a new ferry landing.

The proposed budget is central to meeting crucial *Stability* objectives of the Strategic Plan:

- *Target capital reinvestment in Port assets that maintains and improves current and projected financial performance* – The recommended capital projects will support an estimated \$6.4 million in annual revenue at stabilization and \$44.3 million in net revenue over 10 years.
- *Step up to, and subsequently exceed, policy to set aside 25% of operating revenue to capital* – FY 2016-17 dedicates 47% and FY 2017-18 dedicates 34% of operating revenue to capital, far exceeding the policy goal.
- *Adhere to critical Port fiscal policies for maintaining prudent operating reserves* – The budget includes a 15% operating reserve for Port Operating Expenses and funds a new cash reserve for operations of South Beach Harbor & Marina.

While the proposed budget does not meet the long range revenue objective of \$125 million (instead funded at \$103.6 million in FY 2016-17 and \$106.2 million in FY 2017-18), recommended capital investments will increase the Port's revenue base. With the help of these investments, the Port is projected to meet this objective by FY 2024-25.

CITY BUDGET OUTLOOK

The City and County of San Francisco's economy has been very strong in recent years, with an expansion period of 79 months from 2009 to today. Given that the historic average for expansion periods since 1900 is only 48 months, the Controller's Office and Mayor's Office of Public Policy and Finance cautiously expect continued economic growth of 9.5% over the next four years.¹ Even with this positive outlook, expenditure growth is anticipated to outpace revenues due to increased requirements for employer contributions to employee pensions and new voter approved propositions and dedicated operating revenues for specified uses.

As a result of these trends, the Mayor's Office of Public Policy and Finance currently projects General Fund shortfalls of \$99.8 million for FY 2016-17 and \$140.4 million in FY 2017-18, for a cumulative shortfall of \$240.2 million. To address the budget deficit, Mayor Lee directed General Fund departments to submit ongoing savings equal to 1.5% of their General Fund Support for each fiscal year. Enterprise departments were directed to absorb all known cost increases.

As an enterprise department, the Port is required to be self-sustaining. While Port staff recommends requesting \$7.7 million from the City's General Fund to support the initial design of a Seawall Repair Project, the request is consistent with the Mayor's budget instructions, given that the projected deficit assumes an allocation of General Fund monies to support the City's capital program. The Port's project will be reviewed along with other capital requests to determine the best use of General Fund support.

PORT BUDGET OUTLOOK

The proposed budget assumes that growth in the Port's revenues will continue to outpace expenditures. This projection is partly due to a consistent upward trajectory in ground lease rents, percentage rents, parking revenues and cruise calls and passenger volume, as well as from Port staff's conscious efforts to hold down operating expenses. By offsetting new positions and other funding requests with savings in other areas, the budget maximizes net revenues that are then designated to future capital investments. In addition to preventing operating expenditure growth that would force future budget cuts and trade-off decisions in the next economic downturn, this approach results in historically high capital budgets that address many critical needs and support strategic investments.

While operating expenses are controlled, the budget reflects efforts to alleviate strains on Port operations that are being stretched under the weight of our successes. Specific examples of the challenges faced by Port divisions include:

- The now 24+ million visitors a year requires more security, environmental stewardship and maintenance resources;

¹ There have only been four periods of expansion that exceeded the City's current 79 month period of growth since the year 1900.

- Development of the parks networks requires programming and maintenance;
- Activation of Port properties is driving higher permit volumes;
- Major development projects at Pier 70 and SWL 337 require additional engineering and finance resources;
- The Port's absorption of South Beach Harbor has extended Maritime and Maintenance resources; and
- Growth in the capital budget necessitates more project implementation resources.

All of these operational pressures are concurrent with the Waterfront Land Use Plan update, a process which will very likely result in new initiatives that increase demands on operating staff and resources.

Every Port division has stretched to meet the growing demands of an activated and vibrant Waterfront. If the Port did not face a \$1.1 billion capital backlog, the budget proposal would include many new operating positions to match staffing with service demands. Instead, the current budget proposal is limited to six new operating positions, 21 project-funded positions, 16 position changes and 21 reassignments to align resources to growing demands within budget constraints.

In summary, the budget proposal advances the Port's Strategic Plan in the most efficient manner possible and at a pace the Port can afford to sustain in the long term and through the next economic downturn.

BUDGET OVERVIEW

The Port's proposed FY 2016-17 budget is \$151.0 million, including \$91.1 million for Operating expenses, \$34.7 million for Capital, \$13.1 million for the Port's Designation to Future Capital and \$12.1 million to meet the Port's 15% Operating Reserve. This represents a \$1.0 million (0.6%) increase over the FY 2015-16 approved budget that is driven partially by growth in Operating Expenses (\$1.5 million, 1.7%), the Designation to Future Capital (\$2.6 million, 25.3%) and 15% Operating Reserve (\$0.7 million, 5.8%), offset by a decrease in Capital (-\$3.8 million, -10.0%).

The proposed FY 2017-18 budget is \$139.8 million, including \$92.5 million for Operating Expenses, \$20.6 million for Capital, \$14.5 million for the Port's Designation to Future Capital and \$12.2 million to meet the 15% Operating Reserve. This represents a \$11.2 million (-7.4%) decrease from the proposed FY 2016-17 budget as a result of a reduction in Capital (-\$14.1 million, -40.6%), offset by increases in Operating Expenses (\$1.4 million, 1.5%), the Designation to Future Capital (\$1.4 million, 10.9%) and the 15% Operating Reserve (\$0.1 million, 0.8%).

Table 1: Summary of Total Port Sources and Uses (\$ Millions)

	Budget 2015-16	Proposed 2016-17	Change from FY 2015-16		Proposed 2017-18	Change from FY 2016-17	
			Amount	%		Amount	%
Sources							
Operating Revenues	\$ 91.4	\$ 98.8	\$ 7.4	8.1%	\$ 101.3	\$ 2.5	2.5%
Estimated Fund Balance	29.2	45.2	\$ 16.0	54.8%	31.4	(13.8)	-30.5%
South Beach Harbor & Marina	5.0	4.8	\$ (0.2)	-4.0%	4.9	0.1	2.1%
Development Recoveries	3.6	1.6	\$ (2.0)	-55.6%	1.6	-	0.0%
Transbay Payment	0.6	0.6	-	0.0%	0.6	-	0.0%
Ongoing, Subtotal	\$ 129.8	\$ 151.0	\$ 21.2	16.3%	\$ 139.8	\$ (11.2)	-7.4%
PG&E Payment	\$ 15.3	\$ -	\$ (15.3)	-100.1%	\$ -	\$ -	0.0%
Capital Project Defunding	4.2	-	(4.2)	-99.8%	-	-	0.0%
Cosco Busan Settlement	0.7	-	(0.7)	-104.5%	-	-	0.0%
One-time, Subtotal	\$ 20.2	\$ -	\$ (20.2)	-100.0%	\$ -	\$ -	0.0%
Total Sources	\$ 150.0	\$ 151.0	\$ 1.0	0.7%	\$ 139.8	\$ (11.2)	-7.4%
Uses							
Operating Expenses	\$ 76.3	\$ 80.6	\$ 4.3	5.6%	\$ 81.4	\$ 0.8	1.0%
Annual Projects	4.6	4.5	(0.1)	-2.2%	4.5	-	0.0%
South Beach Harbor & Marina	5.0	3.8	(1.2)	-24.0%	4.0	0.2	5.3%
Development Projects	3.7	2.2	(1.5)	-40.5%	2.6	0.4	18.2%
Operating, Subtotal	\$ 89.6	\$ 91.1	\$ 1.5	1.7%	\$ 92.5	\$ 1.4	1.5%
Port Capital Appropriations	\$ 38.5	\$ 33.7	\$ (4.8)	-12.5%	\$ 19.7	\$ (14.0)	-41.5%
South Beach Harbor & Marina	-	1.0	1.0	0.0%	0.9	(0.1)	-6.3%
Capital, Subtotal	\$ 38.5	\$ 34.7	\$ (3.8)	-9.9%	\$ 20.6	\$ (14.1)	-40.6%
	<i>Capital Policy%</i>	<i>54%</i>			<i>34%</i>		
Designation to Future Capital	\$ 10.5	\$ 13.1	\$ 2.6	24.9%	\$ 14.5	\$ 1.4	10.9%
15% Operating Reserve	11.4	12.1	0.7	6.1%	12.2	0.1	0.8%
Designation & Reserve,	\$ 21.9	\$ 25.2	\$ 3.3	15.1%	\$ 26.7	\$ 1.5	6.1%
Total Uses	\$ 150.0	\$ 151.0	\$ 1.0	0.7%	\$ 139.8	\$ (11.2)	-7.4%

In addition to the proposed budget detailed in this report, staff recommends requesting \$7.7 million from the General Fund to support the Port's Seawall Repair Project. While the Seawall is a Port asset that supports the Embarcadero and historic bulkhead buildings and piers, it also provides flood protection to the City's downtown area and critical utility and transportation infrastructure. Repairing the Seawall is a high priority for the City and will serve the Port and neighborhoods adjacent to the Embarcadero for generations to come. If the \$7.7 million funding request is approved through the City's budget process, the Port's FY 2016-17 capital budget will be \$42.4 million – the highest single infrastructure renewal budget in the Port's history.

FUNDING SOURCES

The Port's proposed FY 2016-17 and 2017-18 budget is supported by a variety of ongoing funding sources, including Operating Revenues, Fund Balance, South Beach Harbor & Marina fees, Development Project Recoveries and an annual payment from the Transbay Cable Company that directly supports capital. While the Port is seeking General Fund support for the Seawall Repair Project, no other one-time sources of funds have been identified for the proposed biennial budget.

The proposed FY 2016-17 budget is \$151.0 million, a \$1.0 million (0.7%) increase over the FY 2015-16 budget. The year over year change in the budget is due to a \$20.2 million (-100.0%) reduction in one-time sources that were exhausted in the FY 2015-16 budget, offset by a \$21.2 (16.3%) increase in ongoing sources.

The proposed FY 2017-18 budget is \$139.8 million, an \$11.2 million (-7.4%) decrease from the proposed FY 2016-17 budget. This change is driven by \$2.5 million (2.5%) growth in Operating Revenues, offset by a \$13.8 million (-30.5%) reduction in Fund Balance.

While Operating Revenues contribute to steady year-over-year growth in funding sources, the proposed budget reflects significant swings in the availability of Fund Balance. As detailed more fully below, this variance is primarily due to the availability of \$11.3 million in prior year operating surplus that Port staff now recommends expending in FY 2016-17 on high priority infrastructure improvements.

Operating Revenues

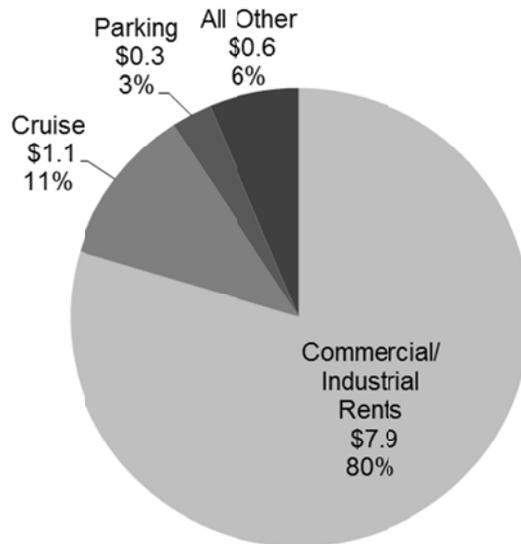
The Port's Operating Revenues include rents, fees and fines related to the Maritime, Real Estate and other smaller revenue-generating operations of the department. As detailed in **Table 2**, Operating Revenues in FY 2016-17 are \$98.8 million, a \$7.4 million (8.1%) increase over the FY 2015-16 approved budget. Operating Revenues in FY 2017-18 are \$101.3 million, a \$2.5 million (2.5%) increase over the proposed budget for FY 2016-17.

Table 2: Summary of Port Operating Revenues (\$ Millions)

	Actual 2014-15	Budget 2015-16	Proposed 2016-17	Change from FY 2015-16		Proposed 2017-18	Change from FY 2016-17	
				Amount	%		Amount	%
Maritime								
Cruise	\$ 5.0	\$ 7.3	\$ 8.4	\$ 1.1	15.1%	\$ 8.4	\$ -	0.0%
Cargo	4.9	5.2	5.2	-	0.0%	5.3	0.1	1.9%
Fishing	2.2	2.3	2.2	(0.1)	-4.3%	2.3	0.1	4.5%
Other Marine	2.3	1.7	1.7	-	0.0%	1.7	-	0.0%
Harbor Services	2.0	2.1	1.9	(0.2)	-9.5%	2.0	0.1	5.3%
Ship Repair	1.9	1.5	1.6	0.1	6.7%	1.7	0.1	6.2%
Subtotal, Maritime	\$ 18.3	\$ 20.1	\$ 21.0	\$ 0.9	4.5%	\$ 21.4	\$ 0.4	1.9%
Real Estate								
Parking	\$ 22.2	\$ 23.4	\$ 23.1	\$ (0.3)	-1.3%	\$ 23.7	\$ 0.6	2.5%
One-time PG&E Payment	15.3	-	-	-	0.0%	-	-	0.0%
Commercial/ Industrial	49.0	46.2	52.6	6.4	13.9%	54.1	1.5	2.8%
Subtotal, Real Estate	\$ 86.5	\$ 69.6	\$ 75.7	\$ 6.1	8.8%	\$ 77.8	\$ 2.1	2.7%
Other								
Permits	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.0	1.3%	\$ 0.8	\$ -	0.0%
Special Events	0.1	0.1	0.1	0.1	100.0%	0.1	-	0.0%
Miscellaneous	0.7	0.2	0.5	0.3	150.0%	0.5	-	0.0%
Interest on Investments	0.7	0.6	0.7	0.1	16.7%	0.7	-	0.0%
Subtotal, Other	\$ 2.3	\$ 1.7	\$ 2.1	\$ 0.4	25.7%	\$ 2.1	\$ -	0.0%
Total	\$ 107.1	\$ 91.4	\$ 98.8	\$ 7.4	8.1%	\$ 101.3	\$ 2.5	2.5%

As shown in **Figure 1**, below, over the two-year period, Commercial/Industrial Rent is the primary driver for Operating Revenue growth, followed by Cruise and Parking, as detailed below.

Figure 1: Major Areas of Revenue Growth from FY 2016-17 and 2017-18 Budget (\$ Millions)



Commercial/Industrial Rents – Port Commercial/Industrial Rents are derived from established lease rates and percentage rent from leasing office, retail, warehouse and industrial property to non-maritime industry tenants.

In FY 2016-17, Commercial/Industrial Rent is expected to increase \$6.4 million (13.9%), for a total of \$52.6 million, and by an additional \$1.5 million (2.8%) in FY 2017-18. While the budget growth in the first year is significant, the change will bring the budget in line with actual revenue performance in FY 2014-15 and projections for FY 2015-16. Just as the economy is performing well throughout San Francisco, the Port is benefiting from growing base rents and percentage rents derived from high visitor volume to Port-tenant businesses. The budget also assumes that the Port will lease currently vacant and under construction facilities, including Pier 19, Pier 23, the Beltline Building at Pier 27 and Pier 31 within the two-year period.

Cruise – Cruise revenue is generated from passenger cruise vessel operations, including dockage and wharfage fees that are charged to cruise ships for berthing at Port facilities as well as the loading and unloading of passengers. Additionally, the Port recovers fees from cruise lines to offset utility charges from use of the shoreside power system at the James R. Herman Cruise Terminal.

Cruise revenues are projected to increase by \$1.1 million (15.1%), for a total of \$8.4 million, in FY 2016-17 and remain flat in FY 2017-18. Wharfage and dockage revenues assume 82 calls and 285,000 passengers each year, while Parking and Special Events are expected to reach full capacity in both fiscal years.²

Table 3: Summary of Cruise Traffic and Revenues

	<u>FY 2015-16</u>	<u>FY 2016-17</u>	<u>FY 2017-18</u>
Cruise Calls	73	82	82
Passenger Volume	261,000	285,000	285,000
Wharfage and Dockage	\$ 5,214,000	\$ 5,616,000	\$ 5,639,000
Shoreside Power	900,000	1,000,000	1,000,000
Special Events	556,000	1,192,000	1,228,000
<u>Parking Revenue</u>	<u>NA</u>	<u>550,000</u>	<u>560,000</u>
Total Cruise	\$ 6,670,000	\$ 8,358,000	\$ 8,427,000

Parking – Revenue from Parking is generated from street parking meters, monthly parking stalls, the rental of parking lot space to management operators, and parking ticket fines. In FY 2016-17 parking revenue is projected to decrease by \$0.3 million (-1.3%), assuming 3% growth from FY 2015-16 projected revenues. Prior projections for parking were particularly high due to the assumption that the Port would install new meters in the Southern Waterfront; those plans have been stalled due to a citywide

² This projection is consistent with the Base Case Scenario reviewed by the Port Commission through the approval of the Cruise Terminal operator agreement.

moratorium on the installation of new meters. In FY 2017-18, revenues are projected to increase by \$0.6 million (2.5%) compared to the proposed budget for FY 2016-17.

Fund Balance

The Port's Fund Balance is used to fund the Capital Budget and maintain the 15% Operating Reserve. Fund Balance accumulates as a result of year-end surplus and designating projected net operating revenue to future capital projects.³

While Operating Revenues contribute to steady year-over-year growth in funding sources, Fund Balance creates significant swings in funding in the biennial budget. Fund Balance is unusually high in FY 2016-17 due to the accumulation of net revenues between FY 2013-14 and 2014-15 that were not appropriated to the capital budget.⁴ Specifically, the FY 2016-17 budget includes \$11.3 million in prior year operating surplus that Port staff recommends expending on high priority infrastructure improvements. Subsequently, in FY 2017-18, Fund Balance will decline by \$13.8 million primarily as a result of expending the \$11.3 million of accumulated funds.

Table 4: Sources of Fund Balance (\$ Millions)

	FY 2016-17	FY 2017-18	Change
15% Operating Reserve, Prior Year	\$ 11.4	\$ 12.1	\$ 0.7
Prior Year Surplus	11.3	-	(11.3)
Projected Operating Surplus	12.0	6.2	(5.8)
<u>Designation to Future Capital</u>	<u>10.5</u>	<u>13.1</u>	<u>2.6</u>
Projected Fund Balance	\$ 45.2	\$ 31.4	\$ (13.8)
Capital Budget*	\$ 33.1	\$ 19.2	\$ (13.9)
<u>15% Operating Reserve</u>	<u>12.1</u>	<u>12.2</u>	<u>0.1</u>
Proposed Uses	\$ 45.2	\$ 31.4	\$ (13.8)

* Fund Balance supported portion only.

As detailed in **Table 4**, above, the outlook for Fund Balance in FY 2016-17 assumes a starting balance of \$22.7 million, including \$11.4 million from the current 15% Operating Reserve and \$11.3 million in prior year operating surplus. For FY 2015-16, Port staff projects a year-end operating balance of \$22.5 million, including an estimated \$12.0 million in expenditure savings and surplus operating revenues and \$10.5 million from the FY 2015-16 Designation to Future Capital. These amounts support an estimated

³ Rather than fund capital projects directly from Operating Revenues, this practice ensures that funds are fully realized before they are committed to capital projects. At the end of the fiscal year, designated revenues are converted to Fund Balance for appropriation in the following year's Capital budget. This methodology adheres to a citywide practice.

⁴ While the Port relies upon Fund Balance to support the 15% Operating Reserve and Capital Budget, the availability of funds can vary year over year depending on 1) the Port's year-end operating surplus, 2) the amount of net revenues Designated to Future Capital in the prior fiscal year budget and 3) whether or not funds are fully allocated in prior years of the budget process.

\$45.2 million in total Fund Balance, \$33.1 million of which will be used to fund the Capital Budget and \$12.1 million to meet the 15% Operating Reserve requirement.

The outlook for Fund Balance in FY 2017-18 assumes a starting balance of \$12.1 million from the current 15% Operating Reserve, plus \$6.2 million in expenditure savings and surplus operating revenues and \$13.1 million from the FY 2016-17 Designation to Future Capital, for a total estimated Fund Balance of \$31.4 million. These funds directly support the proposed \$19.2 million Capital Budget and the \$12.2 million 15% Operating Reserve.

South Beach Harbor & Marina

South Beach Harbor generates revenue as a full service marina, which consists of 700 slips with concrete docks, a 640 foot recreational and commercial Guest Dock, and the Pier 40 Maritime Center.

The proposed budget includes \$4.8 million in FY 2016-17, a \$0.2 million (-4.0%) decrease from FY 2015-16, and \$4.9 million in FY 2017-18, a \$0.1 million (2.1%) increase from the proposed FY 2016-17 budget. These changes reflect annual inflation of berthing rates to fully support the harbor's operating expenses, including staffing, non-personnel expenses and debt service on the facility's Cal Boating loans.

The Port is striving to build in sound fiscal policies and practices to South Beach Harbor's budget. The proposed biennial budget now includes a 15% operating reserve in each fiscal year to protect the facility's operations in the event of an economic downturn. Additionally, as detailed below, the proposed budget allocates \$1.0 million and \$0.9 million in net revenues to capital improvements over the two fiscal years. The Port will strive to maximize net revenues from the South Beach Harbor budget to support infrastructure repairs and enhancements that may be necessary to sustain a safe and enjoyable facility.

Development Recoveries

In recent years the Port expended operating funds on transaction costs related to development projects, including professional services, legal costs from the City Attorney and outside counsel, Office of Economic and Workforce Development (OEWD) staff time and Planning Department permitting fees. As a result of Exclusive Negotiating Agreements (ENAs) for projects including the Forest City and Orton Development projects at Pier 70, Mission Rock at Sea Wall Lot 337 and Seawall Lot 351, the Port has recovered and will be able to continue to recover transaction costs from developers.

The proposed FY 2016-17 and FY 2017-18 budget includes assumed recoveries of \$1.6 million from developers, a \$2.1 million (-56.9%) reduction from the FY 2015-16 budget. With a matching expenditure budget of \$3.1 million, the adjustment reflects the assumption that the Port will not recover transaction costs related to the Forest City development project. Port staff determined that as long as the Port has available cash flow, the Harbor Fund will reap a larger economic benefit from supporting the project transaction costs and recovering these costs with interest when the project has cash

flow. This approach avoids paying developer return on transaction costs but exposes the Port to some development risk.

OPERATING EXPENDITURES

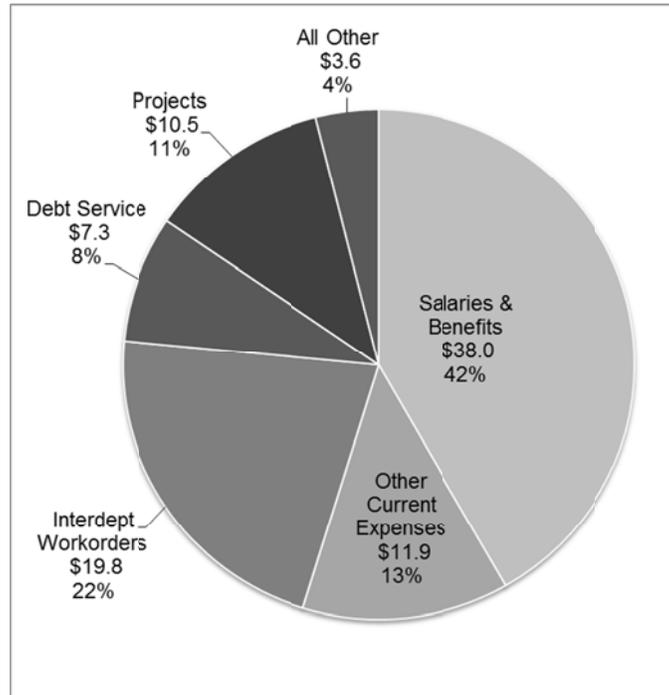
The proposed \$91.1 million FY 2016-17 Operating Budget reflects a \$1.5 million (1.7%) increase over the FY 2015-16 budget. The proposed \$92.5 million FY 2017-18 budget reflects a \$1.4 million (1.5%) increase over the proposed budget for FY 2016-17.

Table 5: Summary of Port Operating Expenditures & Projects (\$ Millions)

	Budget		Change from FY 2015-16		Budget		Change from FY 2016-17	
	<u>2015-16</u>	<u>2016-17</u>	<u>Amount</u>	<u>Percent</u>	<u>2017-18</u>	<u>Amount</u>	<u>Percent</u>	
Salaries & Benefits	\$ 36.2	\$ 38.0	\$ 1.8	5.0%	\$ 39.4	\$ 1.4	3.7%	
City-wide Overhead	0.6	0.6	-	0.0%	0.6	-	0.0%	
Other Current Expenses	11.5	11.9	0.4	3.5%	11.6	(0.3)	-2.5%	
Materials & Supplies	1.6	1.5	(0.1)	-6.3%	1.5	-	0.0%	
Capital Outlay (Equipment)	0.7	1.5	0.8	114.3%	0.6	(0.9)	-60.0%	
Debt Service	7.4	7.3	(0.1)	-1.4%	7.3	-	0.0%	
Interdept Workorders	18.5	20.0	1.5	8.1%	20.6	0.6	3.0%	
Interdept Recoveries	(0.2)	\$ (0.2)	-	0.0%	(0.2)	-	0.0%	
Subtotal	\$ 76.3	\$ 80.6	\$ 4.3	5.6%	\$ 81.4	\$ 0.8	1.0%	
Annual Projects	4.6	4.5	(0.2)	-4.3%	4.5	-	0.0%	
South Beach Harbor	5.0	3.8	(1.2)	-24.0%	4.0	0.2	5.3%	
Development Projects	3.7	2.2	(1.5)	-40.5%	2.6	0.4	18.2%	
Operating, Total	\$ 89.6	\$ 91.1	\$ 1.5	1.7%	\$ 92.5	\$ 1.3	1.5%	

As shown in **Figure 2**, Salaries and Fringe Benefits related to Port personnel and Workorders are the largest components of the Operating Budget, comprising 64% of total expenditures. Over the two-year period, these two expenditure areas are also the primary drivers for growth.

Figure 2: FY 2016-17 Major Expenditure Categories (\$ Millions)



The specific trends behind the expenditure changes in the FY 2016-17 and FY 2017-18 budgets are described below.

Salaries and Fringe Benefits

One of the Port's greatest assets is its staff, which comprises approximately 42% of all costs in the operating budget. Salary and fringe expenditures increase by a total of \$1.8 million (5.0%) in the FY 2016-17 proposed budget and by an additional \$1.4 million (3.7%) in the FY 2017-18 proposed budget. As detailed below, much of the growth is related to the cost of existing staff, but proposed new and substituted positions also contribute to the additional cost and Full Time Equivalent (FTE) count of personnel in the proposed two-year budget.

Existing Employees – The cost of existing personnel increases by \$1.5 million in the FY 2016-17 proposed budget. This change includes \$0.9 million for salaries due to the wage increases that were included in current Memoranda of Understanding. Additionally, a \$0.6 million increase in fringe benefits reflects the cost of maintaining the City's retirement system at the required levels. In FY 2017-18, the cost of existing employees will increase by an additional \$1.3 million, including \$0.6 million for salaries and \$0.7 million for fringe benefits.

Proposed Position Changes – The budget proposal includes 2.16 FTE-net new operating positions (7.12 FTE new, offset by -4.96 FTEs from increased salary savings) to respond to only the most critical needs that could not be accomplished through position substitutions. The budget also includes 21 new project funded positions, 16 position changes, and 21 reassignments. All of these changes result in \$0.4 million and

\$0.1 million in new salaries and fringe benefit expenses related to new and substituted positions, as detailed in *Attachment II – Proposed Position Changes, FY 2016-17 and FY 2017-18*. The proposed positions increase the Port's current FTE count of 268.79 FTEs by 23.16 FTEs, including 2.16 FTEs operating and 21.0 FTEs project-funded, for a new total of 291.95 FTEs.

Operating Initiatives:

The Port has experienced a number of retirements and resignations in key positions and expects more to come. This proposed budget includes position changes (substitutions) to vacant positions and reassignments to 1) meet the growing demands of an activated and vibrant Waterfront, 2) to address under-resourced operating requirements, 3) provide for cross training and broader staff knowledge in critical areas, such as environmental stewardship, and 3) address span of control and classification issues that have emerged overtime as functional areas have grown.

The budget proposal meets the majority of need through position substitutions and reassignments. This reflects management's approach to succession planning which is to cross train, create collaborative work teams, and document processes and procedures to prepare for retirements and resignations, and to capitalize on vacancies with position substitutions to address current needs.

- *New Operations Division* – The evolution of the Waterfront to a vibrant and activated place had put demand on the Port in the areas of (1) safety, security, emergency preparedness, management and responses, (2) business and customer services, (3) on-street and off-street traffic control and parking programs, and (4) Vision Zero Road & Traffic Safety Project; and (5) Special Events Licensing and Management. These areas are currently under resourced and are dispersed throughout the organization. The addition of the seventh Port Division – the Operations Division - will provide the Port with the management and dedicated staff resources necessary to have proper operational controls and organization systems in place for the Port to operate efficiently and respond to the tremendous growth in Waterfront visitors and events.

As a result of this change, 14.64 FTEs will be transferred from the Real Estate, Finance and Administration and Executive Divisions. Also, two new positions are proposed in the budget, including 1.0 FTE 1822 Administrative Analyst to support special events and 1.0 FTE 8603 Emergency Services Coordinator to support Homeland Security initiatives, for a total of 16.64 FTEs.

- *Environmental Staffing* – Environmental positions are imbedded within Engineering, Real Estate, Planning and Development, Maritime and Maintenance so that each functional area has an environmental custodian. Position changes will make the classifications for these positions more similar for cross training and recruitment purposes. This area has historically lacked redundancy in key areas, such as the maritime dredging program and maritime project permitting. The position changes also match growing duties of the lead of the Real Estate environmental program to the job classification. These changes will also provide for mentorship of staff and

should yield further innovations in the Port's fundamental role as environmental stewards of our land and waterside assets.

- *Procurement Consolidation* – With the Port Commission's policy goals related to Local Business Enterprise contracting and procurement and the upcoming changes to the purchasing system, staff proposes a consolidated procurement unit to respond to these needs. Procurement is currently distributed in Finance and Business Services. A centralized procurement group will perform robust outreach to Local Business Enterprises, establish standards for delivery of goods and contracts that meet business needs, and prepare for major system changes. These changes are accomplished through 2 reclassifications and 2 reassignments. Construction contracting will remain the responsibility of Engineering.
- *Maintenance Division Shops* – With the addition of the Cruise Terminal Plaza and Brannan Street Wharf, the Maintenance Division is in need of 1.0 FTE 3417 Gardener. The Maintenance Division also has high demand for additional Electricians; rather than continue to workorder funds to the Department of Public Works, the budget includes 2.0 FTE additional Electricians.
- *Maintenance Division Attrition* – In recent years the Maintenance Division has saved over \$1.0 million in salary and fringe expenses as a result of prolonged position vacancies resulting from staff turnover and prolonged recruitment periods. As a result, the budget includes an increased \$0.7 million (-4.96 FTEs) attrition assumption that will bring the Maintenance Division's total budgeted attrition to 8% of total salaries, which is a common standard in personnel budgeting.⁵ This adjustment plays a critical role in the proposed budget by significantly offsetting additional costs and FTE count associated with other position proposals.

Project-Funded Initiatives:

Rather than add permanent positions to the operating budget, Port staff recommends adding positions that are directly linked to projects that are more temporary in nature and address high priority needs. While the increase in project-funded FTEs (21 total) is substantial, this approach allows the department to flex staffing up and down depending on the availability of project funding.

- *Port's adoption of the City's PeopleSoft Financial system for July 2017* – The Port has run Oracle Financial as a secondary financial system to the City's financial system (FAMIS) for over 20 years. The Port is the only City Department that runs a second financial system. The City has purchased PeopleSoft Financial, a modern integrated financial system that will provide for the General Ledger, budgeting, project accounting, and purchasing. The Port will adopt this new system in July of 2017 and as a result can retire its dependency on Oracle Financials. This change will impact staff throughout the organization and will change business processes and workflow; however, it also presents the opportunity to considerably reduce manual

⁵ Attrition is defined as gradual reduction in work force without firing of personnel, as when workers resign or retire and are not replaced. In budgeting, attrition is used to assume a general volume of vacancies and staff turnover.

entry and manual reconciliation, freeing up staff to perform more reporting and analysis to support data driven decision making. Implementing this project requires both information technology and accounting resources, including 1.0 FTE 1053 Senior IS Business Analyst and 1.0 FTE 0923 Manager II.

- *Engineering Project Implementation* – As the Port's capital budget grows, the Engineering Division faces additional staffing requirements to deliver projects. The proposed budget includes 2.0 FTE project managers to implement high priority capital projects such as the Seawall Repair Project, the Mission Bay Ferry Terminal and other repair and replacement projects that require substantial oversight to support successful completion.
- *Pier Structures Repair Crews* – The proposed two-year Capital Budget includes funding for two new pile crews (15.0 FTEs) to repair concrete pier substructures and two cement masons (2.0 FTEs) to repair superstructures. While the Port currently has two pile crews (one of which was added in FY 2014-15 and is project-funded), these crews address wood pile improvements. The new proposed pile crews will focus on concrete pile substructure areas. Historically the Port contracted out both types of work; however, in recent years the department has achieved significant cost savings by hiring civil service staff to complete these projects. This strategy aims at addressing the maintenance backlog.

Other Operating Expenses

Other Current Expenses – The budget for Other Current Expenses increases by \$0.4 million (3.5%) in FY 2016-17 and then declines by \$0.3 million (-2.5%) in FY 2017-18. The fluctuation is largely due to the inclusion of one-time funding in the Planning & Development Division for the Waterfront Land Use Planning process in FY 2016-17, that is no longer needed in the second fiscal year.

Capital Outlay, Equipment – Funding for Equipment increases by \$0.8 million (114.3%) in FY 2016-17, primarily due to the one-time need for new pier structures repair equipment totaling \$0.9 million. Other specific requests from divisions for FY 2016-17 include replacement vehicles in the Finance & Administration Division (two sedans) and the Maintenance Division (three trucks), in accordance with the Port's Fleet Management Plan filed with the City. Additionally, the Maintenance Division requests one asphalt crack sealer, one ditch witch, one farrow dry ice graffiti remover and two scissor lifts; the Finance and Administration Division requests replacement equipment for ongoing maintenance of Information Technology infrastructure; and the Engineering Division requests one station surveyor, one 25 Horsepower outboard motor and one 5 horsepower electric outboard motor for inspecting piers.

Funding for Equipment declines by \$0.9 million (-60.0%) in FY 2017-18. Proposed equipment includes replacement vehicles in the Finance & Administration Division (two sedans) and Maintenance Division (eight trucks), in accordance with the Port's Fleet Management Plan filed with the City. Additionally, the Finance and Administration Division requests equipment for ongoing maintenance of Information Technology infrastructure.

Debt Service – Debt Service payments decrease by \$0.1 million (-1.4%) in FY 2016-17 and remain flat in FY 2017-18 as part of the payment schedule for the Port’s debt portfolio, including the 2014 Port Revenue Bonds and the 2013 Certificates of Participation.

Workorder Payments – Funding for Workorder Payments increase by \$1.5 million (8.1%) in FY 2016-17 and an additional \$0.6 million (3.0%) in FY 2017-18, as detailed in **Table 6** below.

Table 6: Summary of Interdepartmental Workorders (\$ Millions)

	Budget	Budget	Change from		Budget	Change from	
	<u>2015-16</u>	<u>2016-17</u>	<u>Amount</u>	<u>Percent</u>	<u>2017-18</u>	<u>Amount</u>	<u>Percent</u>
MTA Meter Collection	\$ 1.1	\$ 0.8	\$ (0.3)	-26.6%	\$ 0.9	\$ 0.1	12.5%
MTA Traffic Enforcement	1.1	1.1	-	0.0%	1.2	0.1	9.0%
Police Security	0.4	0.4	-	0.0%	0.4	-	0.0%
Police, Cruise Support	0.1	0.3	0.1	79.2%	0.3	-	0.0%
Insurance & Risk	3.2	3.6	0.4	12.4%	4.0	0.4	11.1%
City Attorney Services	2.4	3.4	1.0	41.2%	3.4	-	0.0%
Fire Boat & Inspection Services	3.3	3.4	0.1	3.0%	3.5	0.1	2.9%
Workers Complensation	0.9	0.9	-	0.0%	0.9	-	0.0%
Public Utilities	2.4	2.5	0.1	4.2%	2.5	-	0.0%
<u>All Other Departments</u>	<u>3.5</u>	<u>3.6</u>	<u>0.1</u>	<u>2.9%</u>	<u>3.5</u>	<u>(0.1)</u>	<u>-3.3%</u>
Workorder Total	\$ 18.5	\$ 20.0	\$ 1.5	8.1%	\$ 20.6	\$ 0.6	2.9%

The notable changes include:

- In FY 2016-17 the Municipal Transportation Agency (MTA) workorder for meter collections declines by \$0.3 million (26.6%) to reflect the completion of the replacement program to IPS meters, offset by growing costs for new meter technologies. Funding remains flat in FY 2017-18 for meter collection services.
- Police Department support for traffic monitoring during cruise calls increases by \$0.1 million (79.2%) in FY 2016-17 and remains flat in FY 2017-18.
- Insurance & Risk costs increase by \$0.4 million (12.4%) in FY 2016-17 and an additional \$0.4 million (11.1%) in FY 2017-18 as a result of inflation in the Port’s insurance premiums. With \$4.0 million in total funding in FY 2017-18, this workorder is the largest in the Port’s budget, representing 4% of the cost of all Operating Expenses.
- City Attorney services increase by \$1.0 million (41.2%) in FY 2016-17, bringing total assumed funding to \$3.4 million in both fiscal years of the budget. This increase

reflects a shift of \$0.9 million from the Port's Waterfront Development Project to the Executive Division budget, with 3% annual inflation.

- Fire Boat and Inspection Services increase by \$0.1 million (3.0% and 2.9%) in both fiscal years of the budget to reflect assumed salary and fringe benefit adjustments related to uniformed staff.
- The Public Utilities Commission workorder increased by \$0.1 million (4.2%) in FY 2016-17, but remains relatively flat in FY 2017-18, as a result of an assumed increase in the utilization of shoreside power services at Pier 27.

Annual Projects

The proposed FY 2016-17 budget for Annual Projects is \$4.5 million, a \$0.2 million (-4.3%) decrease from the FY 2015-16 budget, with no change in FY 2017-18. The reduction in funding is primarily due to shifting environmental project funds to the Planning & Development Division to complete environmental remediation studies.

South Beach Harbor

Operating expenses for South Beach Harbor are \$3.8 million in FY 2016-17, a \$1.2 million (-24.0%) decrease with \$0.2 million (5.3%) growth in FY 2017-18. The change reflects an alignment of the budget with actual performance. Additionally, \$1.0 million and \$0.9 million of the harbor's operating revenues are allocated to capital projects, as detailed below.

Waterfront Development Project

Based upon projected spending for FY 2016-17 and FY 2017-18, the budget includes \$2.2 million in FY 2016-17 and \$2.6 million in FY 2017-18 for transaction costs related to Development Projects including the Forest City development at Pier 70, Mission Rock at Sea Wall Lot 337 and other upcoming projects. This funding level is \$1.5 million (-40.5%) decrease from the FY 2015-16 budget due to reduced projections for spending on various projects such as the Warriors Arena at Piers 30-32 and Seawall Lot 351. Additionally, \$0.9 million of funding was shifted to the Executive Division to consolidate workorder funds to the City Attorney's Office.

General Fund

While not included in the current budget detail, Port staff is optimistic that the City will fund \$7.7 million (80%) of the design costs of the project because the Seawall provides flood protection to portions of the downtown and protects critical utility and transportation infrastructure. The Mayor's Office and the Capital Planning Committee have encouraged Port staff to investigate and present options to improve the seismic performance of the Seawall. Further, the Mayor's Office is leading an effort to develop a funding strategy for the construction of the Seawall Repair Project. The City recognizes that this legacy project reflects a generational investment that will require City, and perhaps State and Federal resources to accomplish.

CAPITAL EXPENDITURES

The proposed \$34.7 million FY 2016-17 Capital Budget reflects a \$3.8 million (-9.9%) decrease from the FY 2015-16 budget and the proposed \$20.6 million FY 2017-18 budget reflects a \$14.1 million (-40.6%) decrease from the proposed FY 2016-17 budget.

While the level of capital investment is impressive relative to historical spending, the increase does not begin to address the Port's \$1.1 billion capital backlog. Annual investments in repair and replacement of the Port's infrastructure should be approximately \$45 million in order to address unfunded facility maintenance over the next 10 years.

Capital Process

Over the past several months the Capital Project Technical Review Committee (Committee) comprised of key Port staff from all Port divisions, reviewed and scored \$83.3 million in capital project funding requests submitted by the Port's divisions using the scoring criteria developed for the ten-year capital plan.

The proposed two year Capital Budget reflects those capital projects that scored the highest, and for which there was no or insufficient third party funding available. The proposed list of capital projects and recommended funding levels were submitted to the Port's Executive Director for adjustment and final approval before submission to the Port Commission for its review and comment.

The Working Group used the following criteria to determine which projects to recommend to the Port Commission for funding:

- (i) Addresses a safety, health, code, or regulatory issue or threat to the environment;
- (ii) Significantly reduces potential liability to the Port;
- (iii) Promotes commerce, navigation or fisheries;
- (iv) Attracts people to the waterfront;
- (v) Promotes natural and cultural resources;
- (vi) Preserves existing Port revenues; and
- (vii) Generates additional revenues for the Port.

Proposed Capital Investments

As detailed in *Attachment III – Capital Project Proposed Funding for FY 2016-17 and FY 2017-18* and *Attachment IV – Proposed Capital Project Details, FY 2016-17 and FY 2017-18*, the proposed budgets fund the following projects.

Maintenance of Existing Systems:

- The Port's maintenance dredging program;

- Three (one existing and two new) pile driving crews to perform substructure repairs of wood and cement piles, including on Pier 29, Pier 33½ and Pier 80;
- Cement mason repair crew (2.0 FTEs) to perform cement repairs on the Port's pier superstructures that is currently contracted to outside vendors;
- Utility infrastructure repairs and capacity upgrades at several Port facilities, including Piers 29½-31, 19, 23 and 29. These repairs will extend the service life of the utility infrastructure and, in several instances, upgrades are needed to support the marketing and leasing of the facilities;
- Renovation of the restroom in the Pier 23 shed for enhanced leasing;
- Repairs to the substructure of the Alcatraz ferry landing site located at Pier 31½ which will be required as part of the Alcatraz Ferry Embarkation Site project, currently under negotiation with the National Park Service (NPS);
- Funding for a new forced sewer main along Amador Street and the refurbishment of the pump station; and
- Funding for the abatement of loose and peeling hazardous lead paint at Pier 26 and repainting of the cleaned surfaces.

Maritime-Specific Infrastructure:

- Funding for the dry-docking and overhaul of the Port's pile drivers and pile barges; and
- Funding to begin the preliminary design and development of specifications, and entitlement of a passenger ferry terminal for Mission Bay.

Facility Enhancement and New Project Initiatives:

- Construction of a new 250 space parking lot at the corner of 19th and Illinois Streets;
- The installation of permanent gates at selected sites in the Northern Waterfront that can be opened and closed during special events and emergencies, thus alleviating the need to rent temporary fencing; and
- Funding for facility improvements that may be needed in order to successfully conclude lease negotiations for certain Port facilities.

Preparation for New Development and Securing External Sources:

- Development of a conceptual design, preparation of CEQA documents and other materials needed for the construction of public open space improvements for Ferry Building Plaza. These would serve to prepare the Plaza for inclusion in an anticipated 2018 City GO bond for neighborhood parks;
- Funding for the removal of derelict piles in the Pier 70 area. This funding would leverage anticipated funds from the Army Corp, and potentially the Exploratorium;

- Funding for the preliminary design and environmental clearance required to construct the critical improvements needed for earthquake safety and flood protection of the Port's northern seawall and related structures. The Port's funding leverages a much larger contribution by the City to this project;
- Homeland security improvements throughout the Port that will also serve as a match to federal grant funding; and
- Funding for the design of a new 20th Street and associated pump station and utility infrastructure, located in the Pier 70 area. These costs are expected to be repaid, with interest, from Pier 70 IFD bonds to be issued in the future.

Other Commitments and Requirements:

- Funding for the services of a Fire Protection Engineer to assist the Port's Fire Marshall and the Port in the assessment, fire alarm system review, and contracting of repairs and enhancement to the Port's life safety, and water-based fire protection systems;
- Open space and alternative energy projects that meet guidelines outlined in the Port's lease agreement with Transbay Cable; and
- The funding for the second phase of a sediment cap to contain the contaminated soils that lie along the shoreline and offshore of the planned Crane Cove Park.

South Beach Harbor:

- Repair of the structurally damaged baffle wall located on the South side of Pier 40;
- Repair of the end-tie docks located at the marina.

The proposed projects do not include any further pile removal work in the Southern Waterfront. The FY 2015-16 capital budget includes \$2.2 million to undergo pile removal at Piers 88 and 92; however the permit approval project is expected to take several years before staff can recommend funding the removal of grain silos at Pier 92.

CLIMATE CHANGE

As discussed above, the proposed capital budget for FY 2016-17 includes a project to initiate design and permitting for critical repairs to the Port's northern waterfront seawall. The repairs will address the seismic resiliency of the seawall, and will likely include adaptation measures for rising water levels in the San Francisco Bay. These improvements will be critical for protecting the City's downtown neighborhoods adjacent to the Embarcadero as well as utility and transportation infrastructure in the area.

NEXT STEPS

Comments, input and feedback from the Port Commission and the public are welcomed and appreciated. Following Port Commission approval, staff will submit the budget to Mayor Edwin Lee's Budget Office for inclusion in the Mayor's Proposed Budget to the

Board of Supervisors in May 2016. The Board of Supervisors will review and finalize the FY 2016-17 and FY 2017-18 budgets by August 1, 2016. Staff will update the Port Commission on major changes that were made to the budget subsequent to Port Commission approval.

Pursuant to City Policy, the Port is preparing its two-year budget for FY 2016-17 and FY 2017-18. Although the second year of the budget will be fixed upon adoption this summer, Port staff may bring a supplemental appropriation to the Port Commission, Mayor and Board of Supervisors in 2017 if there are new sources and a need to increase operating or capital spending in FY 2017-18 that staff cannot foresee at this time. Otherwise, staff will work within the approved funding resources and will dedicate their time to updating the Port's Five Year Financial Plan and 10 Year Capital Plan.

CONCLUSION

The Port's proposed FY 2016-17 and FY 2017-18 Biennial Operating and Capital Budget reflects a \$1.0 million (0.7%) overall increase in the first year and a \$11.2 million (-7.4%) decrease in the second year. While Operating Expenditures are growing moderately the budget does realign staff resources to address growing demands. The primary fluctuations in the budget are due to more capital spending in the first year of the budget in an effort to spend down available fund balance on capital infrastructure. Additionally, the Port will request a \$7.7 million General Fund contribution to the Seawall Project; if such a request is approved it would increase FY 2016-17 capital to a new unprecedented level of \$42.4 million.

Prepared by: Meghan Wallace, Finance & Procurement
Manager, Finance and Administration

and

Lawrence Brown, Financial Analyst
Finance and Administration

For: Elaine Forbes, Deputy Director
Finance and Administration

Attachments:

- I. Fiscal Year 2016-17 and Fiscal Year 2017-18 Budget Detail
- II. Proposed Position Changes
- III. Capital Project Proposed Funding for FY 2016-17 and FY 2017-18
- IV. Proposed Capital Project Details, FY 2016-17 and FY 2017-18
- V. Responses to Port Commissioners' Questions

**PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO**

RESOLUTION NO. 16-08

WHEREAS, The Port Commission staff has developed a proposed Port Fiscal Year 2016-17 and Fiscal Year 2017-18 Biennial Operating and Capital Budget (“Biennial Operating and Capital Budget”); and

WHEREAS, The proposed Biennial Operating and Capital Budget includes projected revenues of \$105,690,083 in Fiscal Year 2016-17 and \$108,380,164 in Fiscal Year 2017-18; and

WHEREAS, The proposed Biennial Operating and Capital Budget includes projected available fund balance of \$45,213,000 in Fiscal Year 2016-17 and \$31,397,000 in Fiscal Year 2017-18; and

WHEREAS, The proposed Biennial Operating and Capital Budget includes total projected operating expenses of \$91,093,691 in Fiscal Year 2016-17 and \$92,430,339 in Fiscal Year 2017-18; and

WHEREAS, The proposed Biennial Operating and Capital Budget includes total projected capital expenses of \$34,622,029 in Fiscal Year 2016-17 and \$20,627,281 in Fiscal Year 2017-18; and

WHEREAS, Pursuant to Port policy, the proposed Biennial Operating and Capital Budget includes an unappropriated operating reserve equal to 15% of operating expenses of \$12,096,000 in Fiscal Year 2016-17 and \$12,203,000 in Fiscal Year 2017-18; and

WHEREAS, Pursuant to Port policy, the proposed Biennial Operating and Capital Budget designates operating revenues to address projects in the 10-Year Capital Plan including \$13,091,362 in Fiscal Year 2016-17 and \$14,516,544 in Fiscal Year 2017-18; and

WHEREAS, For the Biennial Operating and Capital Budget Port staff recommends the allocation of \$34,622,029 in Port funding for Fiscal Year 2016-17 for the following capital projects:

1. Northern Waterfront Historic Structures Repair Project
 - a. *Pier 29½-31 Utilities Upgrade & Improvements*
2. Mission Bay Ferry Terminal Project
3. Pier 70 Infrastructure Plan and Implementation Project
 - a. *20th Street Project*

4. SF Bay Fill Project
 - a. *Pier 70 Pile Removal*
5. Southern Waterfront Open Space Enhancements/Alternative Energy
 - a. *Crane Cove Sediment Cap, Phase II*
 - b. *Transbay Cable Lease*
6. Amador Street Sewer and Street Project
7. Dredge Materials Testing – Fiscal Year 2016-17 Program
8. Maintenance Dredging – Fiscal Year 2016-17 Program
9. Port Seawall Study and Improvements
10. Pier Structures Repair Project, Phase II
 - a. *Pier 26 Lead Hazard Abate & Painting Project*
 - b. *2nd Pile Driving Crew*
 - c. *Cement Mason Crew*
11. Utilities Project
 - a. *Pier 33 Fire Sprinkler System Project*
 - b. *Pier 29 Utility Upgrade & Improvements*
 - c. *Pier 23 Utility Upgrade & Restroom Renovation*
 - d. *Pier 19 Utility Upgrade & Improvements*
 - e. *Fire Protection Engineer*
 - f. *Funding for Misc. Projects*
12. Leasing Capital Improvement Project
13. Homeland Security Enhancements
14. Facility Improvements for Crowd Control
 - a. *Northern Waterfront Gate Installation Project*
15. Port Waterfront Support Assets Repair and Replacement Project
 - a. *Dry Docking of the Pile Drivers & Pile Barges*
16. Public Access and Signage Improvement Project
 - a. *Variable Message Signs*
17. SF Port Marina Repairs and Upgrade Project
 - a. *Harbor Baffle Wall Repairs; and*

WHEREAS, For the Biennial Operating and Capital Budget, Port staff recommends the allocation of \$20,627,281 in Port funding for Fiscal Year 2017-18 for the following capital projects:

1. Ferry Building Plaza Improvements
2. Mission Bay Ferry Terminal Project
3. Public Parking Lot Improvement Project
 - a. *19th & Illinois Street Parking Lot*
4. Southern Waterfront Open Space Enhancements/Alternative Energy
 - a. *Transbay Cable Lease*
5. Dredge Materials Testing – Fiscal Year 2017-18 Program
6. Maintenance Dredging – Fiscal Year 2017-18 Program
7. Pier Structures Repair Project, Phase II
 - a. *Alcatraz Ferry Embarkation Site Repairs*
 - b. *2nd Pile Driving Crew*
 - c. *Cement Mason Crew*
8. Homeland Security Enhancements
9. SF Port Marina Repairs and Upgrade Project
 - a. *Marina End-Tie Dock Repairs; and*

WHEREAS, Staff has designated each of the capital projects identified above as a high priority; and

WHEREAS, The proposed Biennial Operating and Capital Budget is described in greater detail in the staff's memorandum to the Port Commission, dated February 18, 2016, accompanying this Resolution and on file with the Secretary of the Commission; and

WHEREAS, Staff recommends that the Port Commission approve the proposed Biennial Operating and Capital Budget; and

WHEREAS, Staff recommends that the Port Commission approve a \$7.7 million General Fund request to support the Port Seawall Study and Improvements Project for the repair of the seawall, which will be reviewed by the Mayor's staff and Capital Planning Committee as part of the process for identifying and funding the City's highest priority projects; and

WHEREAS, The proposed Operating and Capital Budget must also be approved by Mayor Edwin Lee and the Board of Supervisors; and

WHEREAS, The proposed capital projects must also be approved by the City's Capital Planning Committee; now therefore, be it

- RESOLVED, That the Port Commission hereby approves the Fiscal Year 2016-17 and Fiscal Year 2017-18 Biennial Operating and Capital Budget as proposed by staff; and, be it further
- RESOLVED, That staff is directed to submit the proposed Operating and Capital Budget to Mayor Edwin Lee and the Board of Supervisors for their review and approval; and, be it further
- RESOLVED, That staff is directed to submit the proposed capital projects to the City's Capital Planning Committee; and, be it further
- RESOLVED, That the Port Commission hereby authorizes the Executive Director to make such changes to the Biennial Operating and Capital Budget that the Executive Director deems to be in the Port's best interest; and, be it further
- RESOLVED, That after the Biennial Operating and Capital Budget has been approved by Mayor Lee and the Board of Supervisors, staff is directed to return to the Port Commission to report on any material changes to the Biennial Operating and Capital Budget.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of February 23, 2016.

Secretary

**ATTACHMENT I –
Operating Budget Details,
FY 2016-17 and FY 2017-18**

**ATTACHMENT II –
Proposed Position Changes,
FY 2016-17 and FY 2017-18**

**ATTACHMENT III –
Capital Projects Proposed Funding,
FY 2016-17 and FY 2017-18**

FUNDING SOURCES	Proposed Funding FY 2016-17	Proposed Funding FY 2017-18	Proposed Two Year Funding Total
Port Fund Balance	\$ 33,667,000	\$ 19,744,000	\$ 53,411,000
South Beach Harbor Operating Revenues	929,175	856,312	1,785,487
Total Funding Sources	\$ 34,596,175	\$ 20,600,312	\$ 55,196,487
<i>City General Fund - Pending Approval</i>	<i>\$ 7,700,000</i>	<i>\$ -</i>	<i>\$ 7,700,002</i>
Total Requested Sources	\$ 42,296,175	\$ 20,600,312	\$ 62,896,489

PROPOSED CAPITAL PROJECTS

Northeast Waterfront:

Alcatraz Ferry Embarkation Site Repairs	\$ -	\$ 5,000,000	\$ 5,000,000
Pier 33 Fire Sprinkler System Project	850,000	-	850,000
Pier 29½-31 Utility Upgrade & Improvements	1,470,000	-	1,470,000
Pier 29 Utility Upgrade & Improvements	850,000	-	850,000
Pier 23 Utility Upgrade & Restroom Renovation	1,440,000	-	1,440,000
Pier 19 Utility Upgrade & Improvements	350,000	-	350,000
Variable Message Signs	600,000	-	600,000

Ferry Plaza Area

Ferry Building Plaza Improvements	-	1,300,000	1,300,000
-----------------------------------	---	-----------	-----------

South Beach Area

Pier 26 Lead Hazard Abatement & Painting Project	350,000	-	350,000
Mission Bay Ferry Terminal Project	1,500,000	1,970,000	3,470,000

Southern Waterfront:

19th & Illinois Street Parking Lot	-	2,100,000	2,100,000
20th Street Project	3,900,000	-	3,900,000
Pier 70 Pile Removal	2,800,000	-	2,800,000
Crane Cove Sediment Cap, Phase II	2,681,000	-	2,681,000
Amador Street Sewer & Street Project - Add'l Funding	2,800,000	-	2,800,000
Southern Waterfront Open Space Enhancements	550,000	550,000	1,100,000

Portwide Projects:

Maintenance Dredging & Dredge Testing FYs 2016-17 & 2017-18 Program	6,300,000	7,100,000	13,400,000
Seawall Study and Improvement Proj - Add'l Funding			
- Port Contribution — \$2,000,000			
- City Contribution — \$7,700,000 (Requested)			
Total Seawall Project Add'l Funding	2,000,000	-	2,000,000
Fire Protection Engineer	400,000	-	400,000
Utilities Project – Add'l Funding for Misc. Projects	200,000	-	200,000
Leasing Capital Improvement Project – Add'l Funding	500,000	-	500,000
Homeland Security Enhancements – Add'l Funding	250,000	250,000	500,000
2nd Pile Driving Crew - Funding for FYs 2016-17 & 2017-18	950,000	1,050,000	2,000,000
Cement Mason Crew - Funding for FYs 2016-17 & 2017-18	406,000	424,000	830,000
Northern Waterfront Gate Installation Project	120,000	-	120,000
Dry Docking of the Pile Drivers & Pile Barges	2,400,000	-	2,400,000
Subtotal Proposed Project Funding - Port	\$ 33,667,000	\$ 19,744,000	\$ 53,411,000

South Beach Harbor Capital Projects

Harbor Baffle Wall Repairs	724,400	-	724,400
Marina End-Tie Dock Repairs	204,775	856,312	1,061,087

South Beach Harbor, Subtotal **\$ 929,175** **\$ 856,312** **\$ 1,785,487**

Total Proposed Capital Project Budget **\$ 34,596,175** **\$ 20,600,312** **\$ 55,196,487**

**ATTACHMENT IV –
Proposed Capital Project Details,
FY 2016-17 and FY 2017-18**

The capital projects and association funding levels that Port staff is proposing to the Port Commission for its consideration are described below:

1. *Alcatraz Ferry Embarkation Site (Pier 31½ Substructure) Repairs (FY 2017-18, \$5,000,000)*

A recently completed investigation of the substructure of the Alcatraz ferry landing site indicates that the marginal wharf is in poor condition with some major cracks, spalls, and signs of corrosion which has limited its load capacity. Additionally, the in-fill wharf at Pier 31½ is in need of repairs.

The repairs of these facilities will be required as part of the Alcatraz Ferry Embarkation Site project which is currently under negotiation with the National Park Service (NPS). This project will bring the substructure of Pier 31½, the marginal wharf and the immediately adjacent substructure areas into a state of good repair and allow for the long term use of the site as an embarkation for the Alcatraz Ferry. These improvements will both preserve existing revenues and provide for the additional revenue generation.

2. *Variable Message Signs (FY 2016-17 - \$600,000)*

This project provides funding for the purchase and installation of three permanently mounted Variable Message Signs (VMS) along the Embarcadero Roadway to provide roadway, traffic, or event information. The signs will provide information to motorists that will help them to make quick and appropriate decisions in response to roadway and traffic conditions.

Port staff is requesting \$600,000 at this time to install one sign in the area of Piers 1-5. Staff believes that a VMS in this location has the greatest potential to alleviate traffic congestion along the Embarcadero, especially during days when a cruise ship is in port at either Pier 27 or Pier 35. Port staff will review less expensive alternatives.

3. *Homeland Security Match Funding (FY 2016-17 - \$250,000; FY 2017-18 - \$250,000)*

This project provides funding for Homeland Security improvements throughout the Port including, improved fencing, barricades, as well as security cameras, communications, and networking systems. Over the past several years, the Port has received several federal and state grants to fund much of the security and operations improvements along the waterfront. Many of these grants require local match funding (typically 20% - 25% of the project total) as a condition of the grant award.

This funding supports local funding matches for existing grant awards and future grants which the Port expects will likely be awarded during this period.

4. *Pier 33 Fire Sprinkler System Project (FY 2016-17 - \$850,000)*

Pier 33 is an un-sprinklered facility that currently has no fire protection devices ((i.e., fire hose cabinets, standpipes, or fire sprinklers). A new fire water service and a standpipe system to provide water outlets along the exterior of the building for the fire department's use are currently under design. This system is expected to be completed by the end of calendar 2016. This project would fund the installation of a fire sprinkler system for the facility which would provide fire suppression for the building's interior spaces. This project will help to protect the building occupants and limit property damage in the event of a fire.

5. *Second Pile Crew for the Port's Maintenance Department (FY 2016-17 - \$950,000; FY 2017-18 - \$1,050,000)*

In FY 2014-15, the Port brought onboard a second, capital project funded, pile repair crew to supplement its 11 person pile repair staff. This additional staff has allowed to Port's maintenance to address the backlog of large capital repair projects. The Port's pile crews have completed or substantially completed projects at Piers 26, 28, 31, 64 and 94 and Wharf J-8. Additionally, experience has shown that the Port's maintenance department can perform the needed repairs at considerable cost savings compared to contracting out this work. As an example, inclusive of the labor cost, the project-funded pile crew was able to complete the repairs of the Pier 19 south apron for approximately 44% of the original budgeted \$3.0 million cost of the project.

This project will provide funding for this capital pile crew for FYs 2016-17 and 2017-18. During this time period the Port's pile crews are expected to begin repairs to the aprons at Piers 19 north and Piers 23 south, repairs to Wharf J-9 and pile removal in the southern Waterfront.

6. *Pier 19 Utility Upgrade and Improvements (FY 2016-17 - \$350,000)*

This project provides the necessary repairs and capacity related improvements to the utility infrastructure servicing Pier 19. Existing utility systems are old and in some instances are operating significantly beyond their useful lives. As time continues, these utilities will become increasingly unreliable and create health safety hazards.

The repairs and improvements will include bringing under-pier utilities above deck, and replacing existing non-compliant lighting with energy efficient LED lighting and controls that comply with the City Green Building Ordinance. The repairs and improvements will also support the Real Estate department's effort to lease up the Pier 19 shed which currently is largely vacant.

Based on conservative projections including a 70% utilization rate, a 50/50 split between shed storage uses, and PDR type uses, monthly parameter rents of \$1.50 per square foot for storage and \$2.25 per square foot for PDR type uses; the facility is projected to generate an additional \$1.37 million annually. Assuming a two year lease-up period, initial annual operating costs of approximately \$144,000, and an inflation factor of 3% annually, the improved facility is projected to generate \$12.9

million in net income (additional revenues less annual operating costs and the cost of the utility improvements) over 10 years. This corresponds to an internal rate of return on the Port's investment of 233%.

7. *Pier 29 Utility Upgrade and Improvements (FY 2016-17 - \$850,000)*

The repairs of the damage caused by the fire in July of 2012 at Pier 29 led to some significant upgrades to the facility. However, these improvements did not fully address the utility distribution system which is inadequate to support the Real Estate department's lease up plans for the facility.

This project would provide the electrical power, sewer and water line distribution system needed to prepare the Pier 29 shed for PDR uses or other industrial multi-tenancies anticipated for the facility.

Based on a 75% utilization rate for the shed, and a monthly parameter rent of \$1.50 per square foot for storage, which is very conservative given the potential for higher rate PDR uses; the facility is projected to generate an additional \$1.35 million annually. Assuming a two year lease-up period, initial annual operating costs of approximately \$212,000, and an inflation factor of 3% annually, the improved facility is projected to generate \$11.4 million in net income (additional revenues less annual operating costs and the cost of the utility improvements) over 10 years. This corresponds to an internal rate of return on the Port's investment of 100%.

8. *Dry-Docking and maintenance of the Port's Pile Drivers and Pile Barges (FY 2016-17 - \$2,400,000)*

In FY 2005-06 the Port provided \$655,000 in funding for the maintenance, overhaul, repair and/or replacement of the Port's vessels and other waterfront support equipment. At that time, the Port's piledrivers and pile barges again need to be dry-docked and serviced.

A recent vessel condition survey and appraisal undertaken by the Port's marine insurers determined that the Port's 2 pile barges and 2 pile drivers are long overdue for dry docking, and are in need of major maintenance. As part of the dry-docking the hulls of the vessels will be sandblasted, repaired and painted. In addition, zinc anodes will be installed to prevent corrosion of the hulls. Without major maintenance these vessels may become uninsurable, or may have to be removed from service.

9. *Seawall Study and Improvements (FY 2016-17 - \$2,000,000 Port; FY 2016-17 \$7,700,000 General Fund Request)*

The Northern Waterfront seawall and adjoining marginal wharf that run along The Embarcadero from Fisherman's Wharf southwest to Mission Bay constitute the City's primary flood control system along the Bay waterfront. To date, \$1.5 million has been provided to do a comprehensive study of the condition of the Port's seawalls and marginal wharfs, and improvements to address seawall rise. Funding was also provided to forecast the economic impacts of seawall failures, and prioritizing projects

for early and longer term implementation in alignment with San Francisco's Resilient City Objectives.

\$9.7 million in funding is now needed to undertake a preliminary design and environmental clearance required to construct the most essential improvements needed for earthquake safety and flood protection of the Port's northern seawall and related structures. Given the importance that the northern waterfront seawall plays in flood protection for the City, Port staff has been in conversations with City's Controller and Budget Director regarding a sizable contribution from the City for the funding of this work, and has a tentative agreement in principal for \$7.7 million contribution. The Port would be responsible for funding the remaining \$2.0 million needed.

It is currently estimated it would cost an additional \$90.3 million complete the final design and construction of these improvements. Port staff is working with the Mayor's Office of Public Policy and Finance to identify a financing plan to complete this project through construction.

These improvements are needed to improve the safety of the seawall and its related structures, and to limit the damage and disruption from a seismic event.

10. *Pier 23 Utility Upgrade and Improvements (FY 2016-17 - \$1,440,000)*

This project provides funding for a complete renovation of the restrooms in the Pier 23 shed, and for necessary repairs and capacity related improvements to the utility infrastructure servicing Pier 23. The existing restroom in the shed is obsolete, and has not been operational for over 10 years. In addition, there is no women's restroom in the shed. The facility's existing utility systems are old and in some instances are operating significantly beyond their useful lives.

The repairs and improvements funded by this project will support the Real Estate Division's effort to lease up the Pier 23 shed which currently is largely vacant. The project will also bring the under-pier utilities above deck, and replace existing non-compliant lighting with energy efficient LED lighting and controls that comply with the City Green Building Ordinance.

Based on a 70% utilization rate for the shed, and a monthly parameter rent of \$1.25 per square foot for storage; the facility is projected to generate an additional \$948 thousand annually. Assuming a two year lease-up period, initial annual operating costs of approximately \$161,000, and an inflation factor of 3% annually, the improved facility is projected to generate \$7.0 million in net income (additional revenues less annual operating costs and the cost of the utility improvements) over 10 years. This corresponds to an internal rate of return on the Port's investment of 47%.

11. *Amador Street Sewer and Pavement Improvements (FY 2016-17 - \$2,800,000)*

This project provides funding for:

- (i) Installation of a new forced sewer main along Amador Street and the refurbishment of the Amador Street pump station (Phase I)
- (ii) Improvements to the existing gravity sanitary sewer system (Phase II);
- (iii) Repairs to the existing stormwater sewer system and outfalls (Phase III);
- (iv) Repairs to the roadway base and installation of a payment overlay (Phase IV)

Design for this project was previously funded at \$1,150,000 and work has started on a conceptual design. Sufficient funding remains to complete the design of the forced main sewer and pump station. This project is for the construction work.

The current forced sewer main and pump station are very old and frequently breaks causing backed-up drains in tenant spaces. A new line and refurbished pump station will provide for more dependable service.

12. *Fire Protection Engineer (FY 2016-17 - \$400,000)*

This capital work-order to the Fire Department will support a Fire Protection Engineer position to design, implement and inspect critical fire suppression systems. The Engineering Division has a backlog of work in this area. This project will address this backlog and provide reliable fire suppression systems to the Port's wood framed piers and other assets.

13. *Pier 29½ - 31 Utility Upgrade and Improvements (FY 2016-17 - \$1,470,000)*

At its January 12, 2016 meeting, the Port Commission authorized staff to award a construction contract to repair the roof and the structural elements, and replace the windows at the Port's Pier 29½ - 31 facility (Port Commission Resolution 16-02). As described the staff report accompanying the resolution, the utility improvements for the facility will be bid as funding allows.

Port staff is now requesting \$1,470,000 in funding to complete the utility repairs and improvements needed to implement the Real Estate Division's leasing plan for the facility including the lease out of the Pier 31 shed to the Department of Elections, and the lease-out of 6,000 square feet of currently vacant office space in Pier 29½. The additional funding will also address parking ventilation deficiencies identified in the front of the facility, and provide for energy efficient LED lighting and controls that comply with the City Green Building Ordinance.

Based on the lease-out of the Pier 31 shed at a monthly parameter rent of \$1.25 for storage; and the lease-out of the Pier 29½ office space; the facility is projected to generate an additional \$1.3 million annually. Assuming a one year lease-up period for the office, initial annual operating costs of approximately \$203,000, and an inflation factor of 3% annually, the improved facility is projected to generate \$18.5 million in net income (additional revenues less annual operating costs and the full cost of the

improvements to the facility, [utilities roof and structural repairs]) over the estimated 25 life of the improvements years. This corresponds to an internal rate of return of 9% on the Port's total \$8 million plus investment in the facility.

14. *Concrete Pile Crew for the Port's Maintenance Department (\$0)*

This project is to two new pile crews (15.0 FTEs) to the Maintenance Division with the specific purpose of repairing concrete pier substructures. While project-funded positions are being requested, no additional funding is required for the crew, given that project funds are already available for specific pier structures. For example, Pier 29 and Pier 35 both contain concrete substructures and balances of funding available. Rather than utilize those funds by contracting out the substructure work, Port staff hopes to achieve significant savings and establish a system for completing the majority of the department's substructure repairs in-house by the Maintenance Division.

15. *Cement Crew for the Port's Maintenance Department (FY 2016-17 - \$406,000; FY 2017-18 - \$424,000)*

This project will fund the in-house cement repairs of pier shed superstructures. This proposal includes funding for 2.0 FTEs Cement Masons as well as necessary materials and supplies.

16. *Pier 26 Lead Hazard Abatement and Painting Project (FY 2016-17 - \$350,000)*

The South side of Pier 26 contains badly deteriorated lead paint that if not addressed will create an environmental and human health hazard. The project would include removing loose and peeling lead paint (abating) and priming by a certified abatement contractor. The Port's Maintenance department would then apply top coats of paint to the primed surfaces.

Abating the lead paint on South side of Pier 26 will also help the Port remain in compliance with state storm water regulations and the City's lead paint ordinance.

17. *Maintenance Dredging and Dredge Testing (FY 2016-17 - \$6,300,000; FY 2017-18 - \$7,100,000)*

This project will fund the Port's dredging activities. It will fund dredging at Piers 27, 35, and 80, 94/96 and other berths as needed. Also included is \$500,000 in funding per year for the testing of sediments to be dredged for chemical and biological contaminants. Results of the testing are used to determine the proper disposal site for the dredged material.

Maintenance dredging is necessary for the continued operation of Port maritime facilities. Dredging keeps berths and channels at navigable depths, including sites where the Port has contractual obligations with shipping lines and operators.

18. *Crane Cove Park Sediment Cap, Phase 2 (FY 2016-17 - \$2,681,000)*

In conjunction with the construction of the first phase of the Crane Cove Park project a sediment cap will be constructed to cap contaminated sediments that lie just offshore from the planned Park (the phase 1 cap). Construction of sediment cap to contain contaminated sediments that lie to the East of the Phase 1 cap was originally planned as part of the Phase 2 Crane Cove Park construction. Pursuant to the lease between the Port Commission and BAE Systems San Francisco Ship Repair, BAE has informed the Port that they intend to begin using Berth 3W the Fall of 2017. Tugs operating at Berth 3W will likely disturb the nearby contaminated sediments, thereby necessitating earlier delivery of the sediments cap.

Port staff is requesting \$2.68 million in funding to cap the contaminated soils along the shoreline between Slipway 4 in the planned park and BAE's leased boundary. This project will help to control and mitigate environmental contamination of the Bay in advance of when BAE begins using Berth 3W.

19. *Ferry Building Plaza Improvements (FY 2017-18 - \$1,300,000)*

The Port-BCDC Working Group has identified Ferry Building Plaza as a possible improvement to become part of the BCDC permit amendment needed for the Pier 27 cruise terminal project. The amendment is necessary to relieve the Port of its obligation to remove portions of Pier 23.

This project would provide funding for the development of a concept design, the preparation of CEQA documents, and the preparation of detailed design and construction documents for public open space improvements to Ferry Building Plaza. The project would prepare the Ferry Building Plaza for inclusion in an anticipated 2018 G.O. bond for neighborhood parks.

20. *Port Utility Project – Miscellaneous Utility Projects (FY 2016-17 - \$200,000)*

This project provides funding for necessary utility repair and capacity related improvements to the utility infrastructure servicing various Port facilities. Utilities include electric power, lighting, telephone, gas, HVAC, electronic security, water, sewer and drainage service.

Port staff is requesting \$200,000 to address unanticipated urgent utility repairs and improvements, repairs to the Port's fire protection systems identified by the fire protection engineer, and other miscellaneous utility needs.

21. *Mission Bay Ferry Terminal Project (FY 2016-17 - \$1,500,000; FY 2017-18 - \$1,970,000)*

This project provides funding for the conceptual design of a two berth passenger ferry terminal to be located in Mission Bay. With the assistance of an outside consultant, Port Engineering recently completed a study to determine the most feasible location for a ferry terminal in the Mission Bay area, and a preliminary estimate of costs. Three

locations have been identified as feasible. The Port and the City will partner to find an external funding source for construction.

Estimated costs of the ferry terminal range from \$35 million to \$44 million based on which of the three locations determined as feasible is selected. Staff is now requesting \$3.5 million over the next two years to begin the process of preparing preliminary designs, developing specifications, and obtaining entitlement for the project. The total estimated cost for design of this project is \$6.7 million. More detailed design and construction will be undertaken as additional funding is secured.

22. *Pier 70 Pile Removal (FY 2016-17 - \$2,800,000)*

The proposed \$2.8 million funding provides a local match to a total \$8.2 million project to collaborate with the United States Army Corps of Engineers to remove dilapidated piles from wharves 6, 7 and 8 at Pier 70. The Army Corps has an interest in removing the pile field due to potential navigation hazards that could result from released debris from the area. Port staff is working with federal staff to detail the scope of the project. Upon approval, the Port would need to be ready with the 1/3 local match requirement.

In addition to cleaning up the shoreline surrounding the Pier 70 development area, efforts to remove the piles from wharves 6-8 may be used to help the Port and our partners meet fill removal requirements established by the Bay Conservation and Development Commission.

23. *20th Street Project (FY 2016-17 - \$3,900,000)*

The project provides funding for the design of a new 20th Street running from Illinois Street to Louisiana Street. Included in the project are designs for the following elements: (i) reconstruction of the existing street with new sidewalks and parking lanes, (ii) a new 20th Street pump station to serve the Pier 70 area, (iii) new utility infrastructure, and (iv) potential relocation of Building 103, and alteration to Building 107 at Pier 70.

20th Street is the historic entrance to the Pier 70 site. Forest City currently plans to rebuild 20th Street in the later phases of its proposed project, to coincide with planned development of commercial office buildings along 20th Street, perhaps in the mid-2020s. It is in the Port's interest for the Port and City to undertake a rebuild of 20th Street and the 20th Street Pump Station. This project would allow the Port to determine the timing and design of 20th Street on a schedule that makes sense for Pier 70.

The total cost of the new 20th Street, pump station and utility infrastructure to be \$24.0 million inclusive of the \$3.9 million in design costs. It is anticipated that these costs, will be repaid, with interest, from Pier 70 Infrastructure Financing District bonds to be issued at a later date. The internal rate of return on the Port's investment is targeted at 11%.

24. *19th and Illinois Street Parking Lot Project FY 2017-18 - \$2,100,000*)

This project provides funding for a design and construction of a new 250 space parking lot to be located at the corner of 19th and Illinois Streets. The parking lot will serve the parking needs of both the immediate neighborhood and the planned new Golden State Warriors Pavilion and will also generate new revenues for the Port.

Based on projection prepared by Impark, a new parking lot at this site is projected to generate \$516,000 in new revenues annually for the Port. Assuming a 3% annual growth rate, the lot is projected to generate \$3.5 million in net income (additional revenues less annual operating costs and the 4.21 million cost of the project) over 10 years. This corresponds to an internal rate of return on the Port's investment of 25%.

25. *Leasing Capital improvement Project (FY 2016-17 - \$500,000)*

As part of lease negotiations with Port tenants, or potential tenants, it is sometimes necessary for the Port to make certain improvements to a facility in order to conclude lease negotiations. This project provides funding for capital improvements needed as part of the leasing process. Improvements financed may include, but are not limited to, electrical and plumbing upgrades, roof repairs, HVAC, structural improvements, ADA upgrades, paving, and fencing.

This project helps to make the Port more competitive with private sector landlords that have ready access to capital for improving property for leasing.

26. *Northern Waterfront Gate Installations (FY 2016-17 - \$120,000)*

This project provides funding for the installation of permanent gates at select locations in the Northern Waterfront that can be opened and closed for special events and emergencies. Locations of the gates will be based on suitable structure for mounting and operational needs. Candidates include the Pier 45 valley entrance, the entrance to Wharf J-3, Leavenworth/Richard Henry Dana Way at Cioppino's, Hyde Street at the FW Joint Operation Center building, and the entrance to Pier 7.

This project will eliminate the repeated installation of temporary fencing used to secure strategic alleys and piers for special events and emergencies. Temporary fencing is difficult and dangerous to move and can cause injuries to employees during, installation and removal. In addition, it takes significant manpower to transport and install/uninstall gates.

27. *South Beach Harbor Marina End-Tie Dock Repairs (FY 2016-17 - \$230,629; FY 2017-18 - \$883,281)*

The end-ties of all seven docks at the South Beach Harbor marina are in various states of disrepair, and, in certain instances, they are unusable to berth larger boats.

This project would fund the design and repair of all of the end-tie docks at the marina. This project was identified as a priority repair in a conditions survey and conditions assessment and cost estimate that was prepared in March of 2014.

28. *South Beach Harbor Baffle Wall Repairs (FY 2016-17 - \$724,400)*

This project provides funding for the repair of the baffle wall located on the south side of Pier 40. This baffle wall is structurally damaged which is allowing silt to enter the South Beach Harbor marina which is reducing water depths in the marina. Without an intact baffle wall to keep out the silt, harbor depths will continue to decline. This, in turn, will require significant dredging of the harbor in order to maintain the minimum navigable depths required for continued use of the marina.

ATTACHMENT V
Responses to Port Commissioners' Questions
At the February 9, 2016 Informational Presentation

Commissioner Brandon

1. Why did the City Attorney work order increase by over 40%?

As a result of an administrative shift of the City Attorney work order funds from an annual project budget to the regular operating budget, the Operating Expense work order reflects an increase of over 40%. Overall, the year-over-year growth in the City Attorney work order on a consolidated basis is only 3%, from \$3.3 million to \$3.4 million.

Table 1: City Attorney Workorder Adjustments

	FY 2015-16	FY 2016-17	Change	% Change
Operating Workorders	\$ 2.4	\$ 3.4	\$ 1.0	42%
<u>Waterfront Development Project</u>	<u>0.9</u>	<u>-</u>	<u>(0.9)</u>	<u>-100%</u>
Total	\$ 3.3	\$ 3.4	\$ 0.1	3%

In FY 2015-16 \$900k of the work order was budgeted within the “Waterfront Development Project”; for FY 2016-17 and FY 2017-18, staff recommends shifting the funds out of the project and into the Operating Work Order budget. This consolidation ensures that the Port will have sufficient work order funds for the City Attorney, in the event that more legal time is dedicated to either development projects or non-development project caseloads.

2. How are the Waterfront Development Project recoveries set up?

In prior years of the budget the Waterfront Development Project included \$3.7 million in total funding that was fully offset by reimbursements from developers. In the proposed budget, the project size has gone down by \$1.6 million as a result of 1) few development projects underway, 2) shifting \$900,000 City Attorney work order costs to the Operating Expense work order budget.

Additionally, Port staff advises that the Port should fund transaction costs related to the Forest City development project. Given that resources are available in the Operating Budget to cover \$1.5 million in net new costs to the Port, the Port would benefit in making an investment in the project that will greatly improve the economic benefit to the Port once the Forest City project is fully underway

Table 2: Waterfront Development Project Expenses & Recoveries

	Budget 2015-16	Budget 2016-17	Change Amount
Project Expenses	\$ 2,827,245	\$ 2,150,000	\$ (677,245)
City Attorney, Project	\$ 900,000	\$ -	\$ (900,000)
Total Project Expenses	\$ 3,727,245	\$ 2,150,000	\$ (1,577,245)
Total Reimbursement	\$ (3,727,245)	\$ (1,550,000)	\$ 2,177,245
Project Balance	\$ -	\$ 600,000	\$ 600,000
Change to City Attorney, Operating		\$ 900,000	\$ 900,000
Net Change to Port Contributions		\$ 1,500,000	\$ 1,500,000

3. What projects were defunded to support \$4.2 million of the FY 2015-16 capital budget supplemental? Does anything need to be restored?

On February 10, 2015 through Resolution 15-06, the Port Commission authorized the reallocation of \$4.2 million from 16 previously approved projects that were completed under budget, completed with other funding sources, or completed with an alternative funding source. Port staff advises that no funding needs to be restored to these projects.

Table 3: Defunded Capital Projects, \$4.2 Million

	Reallocation of Capital Project Savings	\$ 4,207,946	
CPO680	ADA Transition Plan	\$ 700,000	See explanation below *
CPO687	Illinois Street Bridge	\$ 18,875	Project completed.
CPO717	Pier 45C Development Project	\$ 7,822	Reduced scope of work completed.
CPO728	Triangle Parking Lot	\$ 25,961	Project completed.
CPO739	Ferry Terminal Public Pier	\$ 21,198	Project completed.
CPO765	Brannan Street Wharf	\$ 745,000	Project completed.
CPO767	Pier 35 Security & Life Safety Project	\$ 18,526	Project completed.
CPO777	Pier 33-25 Curb Cut Project	\$ 86,456	Project completed.
CPO783	FW Harbor Joint Ops Center Bldg.	\$ 60,731	Project completed.
CPO784	Pier 29 Annex Bldg. Painting Project	\$ 3,100	Project completed.
CPO787	Pier 45 Fender & Camels Project	\$ 401,386	Project completed with other funding.
CPO792	Pier 70 Building No. 2 Repairs	\$ 300,000	Project not required.
CPO927-01	AC34 Improvements - Master	\$ 1,031,790	Project completed.
CPO927-09	AC34 - Improvements - Environmental	\$ 85,268	Work completed.
CPO927-11	AC34 - Improvements - A&E Services	\$ 350,000	Funding never utilized.
CPO755	Disposal of Drydock No. 1	\$ 351,833	Surplus funding - project completed.

**In 2004, the Port Commission adopted an ADA transition plan. Almost all of the projects identified in that plan have now been completed, with the exception of improvements to 501 Caesar Chavez which are currently on hold pending a larger plan for the facility. The \$700,000 comes from securing alternative sources from some ADA improvements, such as the G.O. parks bond for Blue Greenway improvements, projects coming in under budget, and from the budget for 501 Caesar Chavez improvements.*

4. Has the Pile Removal Strategy been fully funded and, upon completion, will all derelict piles be removed from the Southern Waterfront?

All pile removal projects are fully funded with the exception of the Pier 90 Grain Silos, which is still underway with permitting.

- The Port Commission approved \$2.2 million in the FY 2015-16 capital budget part of a multi-source effort to address derelict piers and piles in the Southern Waterfront. The capital funding is earmarked to remove **Pier 90 piles and wharf** and the **Pier 96 Mooring Pier**.
- The Port will utilize an \$181,000 Coastal Conservancy grant and Port operating funds to remove **Piers 84-88**. Port Finance and Engineering conferred and are in agreement that removal of these piers is fully funded.
- The Proposed Budget includes a request for \$2.8 million to serve as a local match to potential Army Corps of Engineers funding to remove **Wharves 6/7/8 at Pier 70**. The Port is working to obtain Federal U.S. Army Corp funding for this project.
- The **Pier 90 Grain Silos** remain unfunded due to the long permit process that is required; Port staff will include a funding request to remove those grain silos when permitting is closer to completion, most likely for the FY 2019-20 capital budget.

Table 4: Pile Removal Strategy

Location	Estimated Cost	Funded	Proposed Budget	Future Request	Status
Pier 90 Piles & Wharf	\$ 2,000,000	\$ 2,000,000	\$ -	\$ -	To be contracted
Pier 96 Mooring Pier	\$ 150,000	\$ 150,000	\$ -	\$ -	To be completed by Port Maintenance
Piers 84-88	\$ 181,000	\$ 181,000	\$ -	\$ -	To be completed by Port Maintenance
Pier 70 Wharves 6,7,8	\$ 2,800,000	\$ -	\$ 2,800,000	\$ -	Local match to USACE 66% funding
<u>Pier 90 Grain Silos</u>	<u>\$ 1,500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,500,000</u>	<u>Permitting process underway</u>
Total	\$ 6,631,000	\$ 2,331,000	\$ 2,800,000	\$ 1,500,000	

Commissioner Woo Ho

5. Does the Port collect fees from developer permits?

Yes, Port Engineering does generate revenue for developers' permit fees and those amounts are built into the budget projections. The FY 2016-17 budget includes \$774,000 in total Permit Fee revenues, which is 3% growth from FY 2014-15 actual revenues that included \$76,737 collected from the development projects. As detailed in Table 4, the Port has generated \$150,985 in permit fees from major development projects since FY 2012-13.

Table 5: Permit Fees from Major Developers

Development	FY12-13	FY13-14	FY14-15	FY15-16	Grand Total
Forest City - Pier 70	\$ -	\$ 2,077	\$ 5,122	\$ 14,555	\$ 21,754
Orton - Pier 70	\$ 313	\$ 15,431	\$ 24,633	\$ 16,593	\$ 56,970
Giants - SWL 337	\$ -	\$ -	\$ 46,983	\$ 25,279	\$ 72,262
Grand Total	\$ 313	\$ 17,507	\$ 76,737	\$ 56,428	\$ 150,985

6. How does the current year revenue projection compare with the proposed FY 2016-17 budget?

The proposed FY 2016-17 Operating Revenue budget reflects an 8.1% increase over the FY 2015-16 budget and 2.2% increase over projected current year revenues.

Table 6: Summary of Operating Revenue Trends

	FY 2015-16			FY 2016-17	FY 2017-18
	Budget	Projected	Adjusted*	Budget	Budget
Operating Revenues	\$ 91,380,000	\$ 98,399,753	\$ 96,724,753	\$ 98,818,106	\$ 101,366,639
% of FY 2015-16 Budget		107.7%	105.8%	108.1%	110.9%
% Prior Year				102.2%	102.6%
<i>* Less one-time payment from Dagget Street, \$1.7M</i>					

Compared to the December 2015 Financial Snapshot report that was issued by Port Accounting to Senior Management on January 28, 2016, which identified \$52.7 million cash receipted as of December 2015, Port's staff's projections for the current year and the proposed budget may appear low. Using a straight line methodology, the Port might expect to earn \$105.4 million this fiscal year. However, Port staff advises that such performance is not expected, given the one-time \$1.7 million payment for Daggett Street, an annual \$1.4 million for the Transbay Cable that was already completed in the first half of the fiscal year and seasonality impacts of various Port business lines.

Table 7: Comparison of Operating Revenue Projections

FY 2015-16 Budget	December Actuals	Mid-Year Projections	December Straightline
\$ 91,380,000	\$ 52,711,000	\$ 98,399,753	\$ 105,422,000
	58%	108%	115%
		One-Time	\$ (1,675,000)
		Annual Payment	\$ (1,400,000)
		Seasonality/Other	\$ (5,622,247)
		Adjusted Projection	\$ 96,724,753
			106%

7. Please provide a P&L for South Beach Harbor. What are the future projections for the facility's budget?

In the five year horizon South Beach Harbor is expected to generate sufficient net revenues to support a capital maintenance program ranging between \$880-980k per year. In the first year of the budget funds are set aside to create a new 15% operating reserve.

Table 8: South Beach Harbor P&L, FY16-17 through FY 2020-21

	BUDGET			FORECAST	
	<u>FY 16/17</u>	<u>FY17/18</u>	<u>FY18/19</u>	<u>FY19/20</u>	<u>FY20/21</u>
Operating Revenues	\$ 4,771,977	\$ 4,913,525	\$ 5,059,320	\$ 5,209,488	\$ 5,364,162
Operating Expenses	\$ 3,324,924	\$ 3,917,730	\$ 4,126,869	\$ 4,242,661	\$ 4,362,126
<u>Operating Reserve Additions*</u>	<u>492,023</u>	<u>112,514</u>	<u>17,052</u>	<u>17,425</u>	<u>18,007</u>
Total Uses	\$ 3,816,947	\$ 4,030,244	\$ 4,143,921	\$ 4,260,086	\$ 4,380,133
Capital Budget (Net Revenue)	\$ 955,029	\$ 883,281	\$ 915,399	\$ 949,402	\$ 984,029
<i>15% Operating Reserve Balance</i>	<i>\$ 492,023</i>	<i>\$ 604,537</i>	<i>\$ 621,588</i>	<i>\$ 639,013</i>	<i>\$ 657,020</i>
<i>% of Operating Expenses</i>	<i>15%</i>	<i>15%</i>	<i>15%</i>	<i>15%</i>	<i>15%</i>

** First year is the highest due to establishment of the reserve; every year thereafter reflects annual maintenance to maintain a balance equal to 15% of operating expenses.*

Commissioner Katz

8. Do we have staff expertise in the areas of sea level rise and seeking federal funds for adaptation?

The Port has Engineering and Environmental Planner staff that is very familiar with issues related to sea level rise. Additionally, a new Grant/Budget Analyst is coming on board in February who has direct experience with soliciting grants; seeking grant opportunities related to sea level rise adaptation will certainly be within his scope of work. Port staff is also in the process of applying to participate in the Mayor's Senior Fellow program, which would assign mid-career professional from the private sector to help strategize around financing the seawall renewal project including aspects of adapting to sea level rise.

9. Has staff considered what facilities the Port is responsible for maintaining that tenants may be willing to take on?

The capital plan breaks down facilities into Port and Tenant responsibility as does our PropWorks System. The capital budget generally includes only projects that are Port responsibility. The Capital Planning Technical Review committee screens projects for whether a tenant is responsibly to perform. The Committee also reviews for external sources.