

## MEMORANDUM

May 18, 2018

**TO:** MEMBERS, PORT COMMISSION  
Hon. Kimberly Brandon, President  
Hon. Willie Adams, Vice President  
Hon. Gail Gilman  
Hon. Victor Makras  
Hon. Doreen Woo Ho

**FROM:** Elaine Forbes  
Executive Director

**SUBJECT:** Informational Presentation on Fiscal Year (FY) 2018-19 through FY 2022-23 Capital Improvement Program

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

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### EXECUTIVE SUMMARY

This item provides an overview of the Port's Fiscal Year (FY) 2018-19 through FY 2022-23 Capital Improvement Program (CIP) to solicit feedback from the Port Commission and the public. The CIP details a strategically-prioritized, \$578 million program of capital projects to renew and enhance San Francisco's waterfront. The Port Commission approved the first two years of the CIP, FY 2018-19 and FY 2019-20, in the form of the Capital Budget on February 27, 2018. The CIP expands upon the Biennial Capital Budget to detail the Port's vision for capital improvements over the next five years. This is a planning document only. The Port Commission makes actual capital budget decisions every other year in the budget process.

The CIP represents a prioritized subset of the much larger capital backlog identified in the Port's Ten-Year Capital Plan. The CIP includes projects that the Port has prioritized and anticipates having the funding and capacity to advance in the next five years. The CIP will guide the Port in financing and delivering capital projects, establishing project timing and priorities. This forward view will allow staff to identify projects eligible for outside funding and for which staff should refine cost estimates to better inform the next Capital Budget. Given that the Port has far fewer capital resources than capital needs, this type of planning is critical.

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The Port will update its five-year CIP every other year, achieving the first two years of the CIP in the Capital Budget. In alternate years, the Port will continue its cycle of biennial updates to the Capital Plan, to define the overarching, longer-term capital need.

## **STRATEGIC OBJECTIVES**

The FY 2018-19 through FY 2022-23 Capital Improvement Program is integral to meeting the Port's stability goal to: *Maintain the Port's financial strength for future generations by addressing the growing backlog of deferred Port maintenance and managing waterfront assets to meet the City's and the Port's long-term goals.* In particular, the five-year program:

- Ensures the Port is investing in facilities to support the needs of our diverse tenant base;
- Targets capital reinvestment in Port assets that maintain and improve the Port's current and projected financial performance;
- Prioritizes projects for staff to seek both traditional and innovative finance solutions; and
- Enables the Port to monitor how it is doing at balancing the need for capital to sustain and maintain piers for revenue with what is appropriate for the public benefit.

## **BACKGROUND**

Historically the Port has used its Capital Budget and the Ten-Year Capital Plan to guide capital expenditure and investment decisions. The Capital Plan helps to educate the public about the magnitude of the Port's capital needs, as well as the limited resources available to address them. The FY 2017-18 to FY 2026-2027 Capital Plan identifies a \$1.5 billion state of good repair (SOGR) investment need, \$910 million, or 61%, of which the Port cannot afford to address in the next ten years.

The Biennial Capital Budget is the Port's tool to allocate funding to improve the health of its capital assets. In order to use limited dollars wisely, Port staff use a deliberative, criteria-based approach to develop the Biennial Capital Budget. Under the guidance of the Port Commission, staff has increased the amount of funding available for capital by more than \$50 million biennially since the 2012 adoption of the Port's capital policy. However the remaining shortfall in funds for SOGR requires the Port to make highly strategic capital investment decisions.

To facilitate strategic analysis and bridge the gap between the distant ten-year time span of the Capital Plan and the immediacy of the two-year Capital Budget, the Port developed its first five-year Capital Improvement Program (CIP). A five-year perspective also allows staff to consider the time span necessary to conceive, design, and deliver capital projects. Unlike the Ten-Year Capital Plan, which identifies the Port's total capital needs regardless of available funding, the CIP programs specific

projects according to the amount of capital funding staff estimates will be available over the next five years. The CIP lays out the Port's vision for addressing as many of the needs identified in the Capital Plan as possible, given limited resources. Notably, several other City agencies implement five-year CIPs, including San Francisco Municipal Transportation Agency and San Francisco International Airport.

## **CIP DEVELOPMENT**

### **Project Selection**

In the fall of 2017 the Port's interdivisional Capital Plan Technical Review Committee scored more than 60 funding requests that staff submitted for possible inclusion in the CIP. The Committee used criteria that weighed a project's importance in addressing safety, keeping Port assets in good repair, enhancing revenue, and advancing the Port's mission. In addition, Finance staff reviewed all projects to determine whether they honored prior commitments, addressed health and safety needs, met imminent leasing needs, improved the Port's project delivery rate, or leveraged Port funds. The CIP before the Port Commission includes the projects that rose to the top through this process.

### **Revenue Picture**

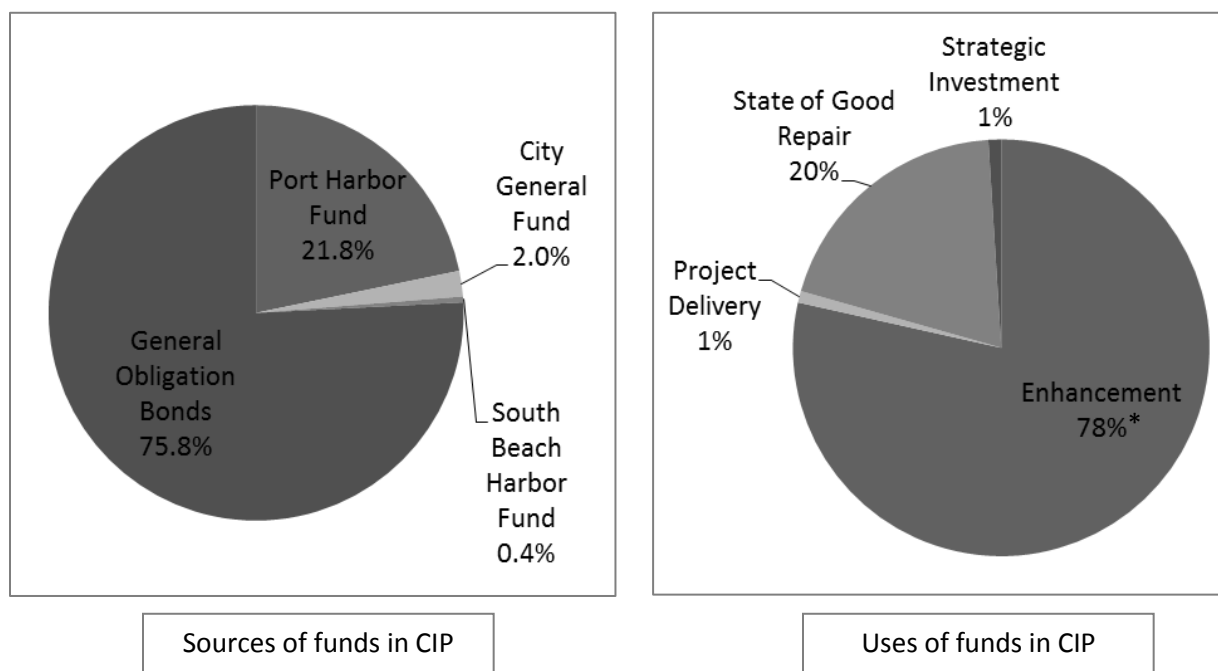
In 2012, the Port Commission adopted a capital policy that designates a minimum of 20% (later to increase to 25%) of operating revenue for capital projects and directs one-time revenue to capital. As a result of the policy, this CIP makes investments that will enable the Port's ongoing success by renewing historic assets for adaptive reuse; improving the Port's financial stability by sustaining and enabling new leases; and contributing to the City's economic vitality and livability by creating space for new business opportunities, jobs, and recreation.

The planned expenditures of internal Port revenue in the five-year CIP outpace the level of investment that staff projected in the last Ten-Year Capital Plan update by \$37 million, nearly 45%. This is due to \$30 million in one-time revenue sources now anticipated and the Port's continued constraint of operating expenditure growth and investment of operating revenues in capital. While this investment level falls short of closing the \$910 million SOGR gap identified in the Capital Plan, it enables significant investments in Port assets.

Given the remaining funding shortfall, it is essential that the Port continue to seek external capital funding opportunities. Potential external funding options fall into three major categories: 1) grants, 2) support from the General Fund and other city sources, including GO Bonds, and 3) development projects. The Port will continue to pursue such sources over the next five years to fill funding gaps on active projects, leverage Port dollars, and advance additional renewals and enhancements. The CIP reflects staff's reasonable expectations for external funding sources that will be secured over the next five fiscal years.

In total, the CIP includes \$578 million in projected revenue from all sources. The pie charts below illustrate the mix of funding sources projected for Port projects and the Citywide projects the Port is delivering (the Seawall Earthquake Safety Program and Mission Bay Ferry Landing).

**Figure 1: Capital Improvement Program, Sources and Uses**



\*Note: 83% of the funds in the enhancement category are for the Seawall Earthquake Safety Program.

## PROGRAM OF PROJECTS

Record levels of investment in capital over the next five years will enable the Port to renew and improve many waterfront assets by investing \$578 million in 40 projects. Highlights of the program include state of good repair work that will protect historic piers by replacing leaking roofs and upgrades to electrical systems to protect Port assets and Port staff who maintain them. The CIP also funds strategic enhancement projects with benefits stretching well beyond the waterfront, including the Seawall Earthquake Safety Program. Finally, to ensure Port staff is able to deliver these important investments, the CIP funds a Project Management Office to enhance the Port's project delivery capacity.

The chart below provides an overview of the Port's full five-year capital program, including prior appropriations, the funds reasonably anticipated in the CIP, and the outstanding need on CIP projects. As detailed in the table, the CIP includes funding for both new projects and for some previously appropriated projects requiring additional funds to complete. If the Port succeeds in securing the remaining funds needed for CIP projects, Port staff will complete or advance \$874 million in renewal and enhancements

to the waterfront in the next five years. The attached CIP report details the external funding sources staff will pursue to fulfill the remaining need on projects as well as target completions dates for all projects.

**Table 1: Five-Year Capital Program**

<b>Five-Year Capital Program Snapshot</b>				
	<b>Prior Appropriations</b>	<b>CIP Proposed Funding (all sources)</b>	<b>Remaining Need on CIP Projects</b>	<b>Total</b>
Port projects under way	\$163,000,000*	\$36,000,000		\$199,000,000
New Port projects initiated in CIP		\$109,000,000	\$23,000,000	\$132,000,000
<b>Sub-total, Port projects</b>	<b>\$163,000,000</b>	<b>\$145,000,000</b>	<b>\$23,000,000</b>	<b>\$331,000,000</b>
Citywide projects under way	\$16,000,000	\$433,000,000	\$94,000,000	\$543,000,000
<b>Total, Port &amp; citywide projects</b>	<b>\$179,000,000</b>	<b>\$578,000,000</b>	<b>\$117,000,000</b>	<b>\$874,000,000</b>

\*Represents total project budgets, including funding already spent and encumbered on active projects.

The following table details all of the projects in the CIP, organized by their geographic location along the waterfront. Funds appearing in the committed column are internal and external sources.

**Table 2: Capital Improvement Program, List of Projects**

<b>Project</b>	<b>End date</b>	<b>Prior Funding</b>	<b>Committed in CIP</b>	<b>Remaining Need</b>	<b>Total Budget</b>
<b><i>Fisherman's Wharf</i></b>					
Hyde Street Harbor Repair & Improvements	Winter 2020	\$965,000	\$1,335,000		\$2,300,000
Wharf J9	Summer 2022	\$2,200,000	\$2,200,000		\$4,400,000
<b><i>Northeastern Waterfront</i></b>					
Beltline Building	Fall 2019	\$668,000	\$680,000		\$1,348,000
Pier 7.5 Sewer Re-routing to Street	Spring 2020		\$262,500		\$262,500
Pier 19 N. Apron	Fall 2020	\$1,567,997	\$2,000,000		\$3,567,997
Pier 19.5 Roofing	Summer 2018		\$668,000		\$668,000
Pier 19 & 23 leasing Improvements	Spring 2019		\$2,650,000		\$2,650,000
Pier 26 Deluge System Modification & New Fire Standpipe	Winter 2020		\$952,116		\$952,116
Pier 27 Public Art	Winter 2020		\$330,000		\$330,000
Pier 29 & 31 Substructure	Winter 2020	\$9,584,188	\$2,852,174		\$12,436,362

<b>Project</b>	<b>End date</b>	<b>Prior Funding</b>	<b>Committed in CIP</b>	<b>Remaining Need</b>	<b>Total Budget</b>
Pier 29.5 Pump Station & Force Main Upgrade	Winter 2020		\$800,000		\$800,000
Pier 31 New Fire Standpipe System	Winter 2021		\$676,522		\$676,522
Pier 35 Exterior Wall Repairs	Fall 2021		\$1,146,600		\$1,146,600
Pier 35 Roof Repair	Fall 2021		\$5,163,526		\$5,163,526
Roundhouse Envelope, Security & Enhancement Project	Spring 2021		\$1,735,283		\$1,735,283
Roundhouse 2 HVAC System Improvements	Spring 2023		\$4,028,246		\$4,028,246
<b><i>Ferry Plaza/South Beach</i></b>					
Pier 40 North Guest Dock Kayak Launch	Spring 2021		\$310,000		\$310,000
Pier 40 North Guest Dock Replacement	Spring 2020	\$1,538,310	\$1,082,000		\$2,620,310
Pier 40 End Ties A, C & E	Winter 2023		\$1,146,821		\$1,146,821
<b><i>China &amp; Central Basins</i></b>					
China Basin Floats & Dry Dock Repair	Summer 2021		\$601,033		\$601,033
Mission Bay Ferry Landing	Winter 2020	\$6,970,000	\$11,000,000	\$24,700,000	\$42,670,000
<b><i>Southern Waterfront</i></b>					
Amador Street Sewer And Pavement Repair	Spring 2020	\$4,414,000	\$3,800,000		\$8,214,000
Crane Cove Park*	Winter 2020	\$30,787,648	\$4,328,306	\$4,000,000	\$39,122,899
Heron's Head Park Improvements	Fall 2019		\$1,500,000		\$1,500,000
Heron's Head Shoreline Restoration	Summer 2020	\$665,000		\$1,665,000	\$2,330,000
Pier 50 Shed B Apron Partial Repair	Fall 2020		\$341,250		\$341,250
Pier 70 Capital Investment	Ongoing	\$5,300,000	\$1,200,000		\$6,500,000
Pier 70 Shipyard Improvements	Winter 2019	\$3,000,000	\$2,769,000		\$5,769,000
Pier 80 & 96 Crane Demolition	Spring 2023		\$1,823,259		\$1,823,259
Pier 80 Repair Project	Pending Pasha		\$650,000		\$650,000
Pier 90 Silo Demolition Project	Spring 2025		\$16,164,396		\$16,164,396

Project	End date	Prior Funding	Committed in CIP	Remaining Need	Total Budget
<b>Portwide</b>					
Contingency Fund	Ongoing		\$4,824,106		\$4,824,106
Maintenance Dredging and Sediment Sampling	Fall 2020		\$32,494,415		\$32,494,415
Dry Docking of Pile Drivers & Barges	Spring 2019	\$2,968,187	\$3,700,000		\$6,668,187
Fire Protection Engineer	Ongoing		\$727,307		\$727,307
Pier Repair Fund: Concrete Pile Repair Crew	Ongoing		\$6,888,007		\$6,888,007
Pier Repair Fund: Wood Pile Repair Crew	Ongoing		\$7,685,681		\$7,685,681
Portwide Electrical Safety Upgrade	Ongoing		\$3,797,693		\$3,797,693
Project Delivery Team	Ongoing		\$3,765,556		\$3,765,556
Seawall Earthquake Safety Program	Summer 2027	\$8,700,000	\$422,100,000	\$69,200,000	\$500,000,000
Shoreline Resiliency Planning	Summer 2019		\$250,000		\$250,000
Waterfront Parks	TBD		\$18,000,000	\$17,000,000	\$35,000,000
<b>Total</b>		<b>\$79,328,330</b>	<b>\$578,428,797</b>	<b>\$116,565,000</b>	<b>\$774,329,072</b>

\* Total need for Crane Cove Park includes \$4,000,000 in philanthropic funds the Port will seek for additional recreational enhancements at the Park.

### Investments Initiated Beyond the Biennial Capital Budget Period

Staff provided summaries of the projects initiated in the first two years of the CIP to the Port Commission in February 2019. The projects below are those in the CIP that will be recommended for initiation in FY 2020-21 through 2022-23.

#### State of Good Repair

- Invest in Pier 35, the Port's alternate cruise terminal, to preserve the building and extend its life by repairing wood sidings, windows, and other damage on the building's exterior and to re-roof the shed.
- Repair Pier 40 end ties at South Beach Harbor to bring them into a state of good repair and allow larger boat moorage at the end of the Pier 40 docks.
- Demolish the four cranes at Pier 96, which are no longer needed for Port operations. Without removal, the cranes represent an ongoing maintenance expense to the Port and present a potential health and safety hazard.

The attached CIP report includes detailed descriptions of these and all other CIP project scopes, schedules, and funding plans.

## **NEXT STEPS**

Staff welcomes comments, input, and feedback from the Port Commission and the public for integration into the CIP report. When the City finalizes the FY 2018-19 and FY 2019-20 Capital Budget, staff will make any necessary adjustments to projects in those years of the CIP and will then publish the final CIP report. The document will be available to the public on the Port's website and Commissioners will receive printed copies.

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and

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Attachment 1: FY 2018-19 through FY 2022-23 Capital Improvement Program