

MEMORANDUM

September 21, 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: Update on Material Changes to the Port's Biennial Operating and Capital Budgets for Fiscal Year (FY) 2018-19 and FY 2019-20

DIRECTOR'S RECOMMENDATION: Informational Item

EXECUTIVE SUMMARY

On February 27, 2018, through Resolutions No. 18-15 and 18-16, the Port Commission approved the Port's Proposed Biennial Operating and Capital Budgets, respectively, for Fiscal Year (FY) 2018-19 and FY 2019-20. The Port Commission also directed staff to report on any material changes upon final approval of the budget. This memorandum outlines the changes made by the Mayor and Board of Supervisors to the Port's budget, as finalized on August 1, 2018 through the approval of the FY 2018-19 and FY 2019-20 Annual Appropriations Ordinance (AAO).

Overall, the FY 2018-19 budget decreased by \$1.3 million (-0.7%), from \$192.6 million to \$191.3 million, and the FY 2019-20 budget decreased by \$1.7 million (-1.1%), from \$161.3 million to \$159.6 million. These changes reflect adjustments to both the operating and capital budgets over the two fiscal years.

STRATEGIC OBJECTIVES

The final FY 2018-19 and FY 2019-20 biennial operating and capital budgets are integral to implementing the Port's FY 2017-22 Strategic Plan. Funding over the next two years directly aligns with delivery of the Strategic Plan objectives including:

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- *Sustainability:* Consolidation of environmental staff under the Planning and Environment Division will support cross training and collaboration and enable the division to plan for and implement sustainability programs.
- *Resiliency:* Continued funding for the San Francisco Seawall Program will support the Port's work to address the dual threats of earthquake and flooding risk along The Embarcadero for a safer City.
- *Renewal:* Resources for the Waterfront Land Use Plan update and major development projects will help identify and address major renewal needs.
- *Engagement:* Additional resources for the Public Information Office, including plans to fully update the Port's website, will foster proactive Port marketing and media relations.
- *Livability:* Continued partnership with WETA to expand our ferry system network at the Ferry Building and Mission Bay will expand public transit and ease traffic congestion.
- *Economic Vitality:* Funding for numerous capital projects supporting Maritime and Real Estate will encourage economic activity along the entire waterfront;

Consolidation of the Development and Real Estate staff will strengthen asset management and strategic development and leasing initiatives; and

Formalization of the Chief Operating Officer position will align the business objectives of the Maritime and Real Estate & Development divisions.

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

- *Targets capital reinvestment in Port assets to maintain and improve current and projected financial performance* – The recommended capital projects will support revenue stabilization and result in a net revenue benefit of \$26.3 million over the next 10 years (figure is discounted to adjust for inflation). These additional funds meet the Port's goal to increase revenue, will help support growing operating costs and may be reinvested in additional State of Good Repair (SOGR) projects identified in the Port's five-year Capital Improvement Program (CIP) and ten-year Capital Plan.
- *Meets the Port's Capital Policy to invest 25% of operating revenue in capital* – Both fiscal years of the budget far exceed the policy goal, by directly investing and designating net operation revenues equal to 55% and 35% of operating revenues in each respective year. Notably, an average of 26% operating revenues is directly invested in capital over the two fiscal years, exceeding the policy requirement prior to designating revenues for future investments.
- *Adheres to critical Port fiscal policies for maintaining prudent operating reserves* – As in prior years, the budget includes a 15% Operating Reserve for Port Operating Expenses.

While the proposed budget does not meet the Port's long-range revenue objective of \$125 million, Port staff will continue to seek and prioritize capital investments that will preserve and/or grow the Port's revenue base and will prudently manage the operating budget.

OVERVIEW OF CHANGES

As detailed in **Table 1**, from the time of Port Commission approval, the FY 2018-19 budget decreased by \$1.3 million (-0.7%), from \$192.6 million to \$191.3 million, and the FY 2019-20 budget decreased by \$1.7 million (-1.1%), from \$161.3 million to \$159.6 million. This budget reflects adjustments the Mayor and Board of Supervisors made to personnel and non-personnel operating expenditures, as well as to capital spending. In both fiscal years, the budget continues to meet the Port's 15% Operating Expense Reserve and exceeds the Capital Policy requirement.

Table 1: Changes to the Port Commission-Approved Budget

	Port		Change		Port		Change	
	Commission 2018-19	Final 2018-19	Amount	%	Commission 2019-20	Final 2019-20	Amount	%
Sources								
Operating Revenues	\$ 102.3	\$ 102.5	\$ 0.2	0.2%	\$ 106.5	\$ 106.7	\$ 0.2	0.2%
Estimated Fund Balance	45.2	43.6	(1.6)	-3.5%	25.2	23.3	(1.9)	-7.5%
South Beach Harbor & Marina	4.7	4.8	0.1	1.5%	4.9	4.9	-	0.0%
Development Recoveries	7.0	7.0	-	0.0%	9.1	9.1	-	0.0%
Transbay Payment	0.6	0.6	-	0.0%	0.6	0.6	-	0.0%
Ongoing, Subtotal	\$ 159.8	\$ 158.4	\$ (1.3)	-0.8%	\$ 146.3	\$ 144.6	\$ (1.7)	-1.2%
Operating Revenue	\$ 15.0	\$ 15.0	\$ -	0.0%	\$ 15.0	\$ 15.0	\$ -	0.0%
General Fund	17.5	16.0	(1.5)	-8.6%	-	-	-	0.0%
Other Departmental Contributions	0.3	0.5	0.2	80.0%	-	-	-	0.0%
State & Federal Grants	-	0.7	0.7	0.0%	-	-	-	0.0%
G.O. Bond Interest Earnings	-	0.7	0.7	0.0%	-	-	-	0.0%
One-time, Subtotal	\$ 32.8	\$ 32.8	\$ -	0.0%	\$ 15.0	\$ 15.0	\$ -	\$ -
Total Sources	\$ 192.6	\$ 191.3	\$ (1.3)	-0.7%	\$ 161.3	\$ 159.6	\$ (1.7)	-1.1%
Uses								
Operating Expenses	\$ 85.8	\$ 85.1	\$ (0.7)	-0.8%	\$ 86.4	\$ 84.9	\$ (1.5)	-1.7%
Programmatic Projects	6.2	6.1	(0.1)	-1.6%	4.6	4.6	-	0.0%
Development Projects	7.5	7.9	0.4	5.3%	9.6	9.9	0.3	3.1%
South Beach Harbor & Marina	3.7	3.7	-	0.0%	4.6	4.6	-	0.0%
Operating, Subtotal	\$ 103.2	\$ 102.8	\$ (0.4)	-0.4%	\$ 105.2	\$ 104.0	\$ (1.2)	-1.1%
Port Capital Appropriations	35.3	35.8	0.5	1.4%	19.0	19.0	-	0.0%
General Fund, Other City Invest.	17.7	16.5	(1.2)	-6.8%	-	-	-	0.0%
Grant-Funded Projects	-	0.7	0.7	0.0%	-	-	-	0.0%
G.O. Bond Project	-	0.7	0.7	0.0%	-	-	-	0.0%
South Beach Harbor & Marina	1.1	1.1	-	0.0%	0.3	0.3	-	0.0%
Capital, Subtotal	\$ 54.1	\$ 54.8	\$ 0.7	1.3%	\$ 19.3	\$ 19.3	\$ -	0.0%
<i>Capital Policy%</i>	<i>55%</i>	<i>55%</i>			<i>40%</i>	<i>40%</i>		
Designation to Future Capital	\$ 21.5	\$ 20.9	\$ (0.6)	-2.8%	\$ 23.1	\$ 23.6	\$ 0.5	2.2%
15% Operating Reserve	13.8	12.8	(1.0)	-7.2%	13.7	12.7	(1.0)	-7.3%
Policy Requirements, Subtotal	\$ 35.3	\$ 33.7	\$ (1.6)	-4.5%	\$ 36.8	\$ 36.3	\$ (0.5)	-1.4%
Total Uses	\$ 192.6	\$ 191.3	\$ (1.3)	-0.7%	\$ 161.3	\$ 159.6	\$ (1.7)	-1.1%

FUNDING SOURCES

Funding sources in the FY 2018-19 budget decreased by \$1.3 million (-0.7%) and decreased by \$1.7 million (-1.1%) in FY 2019-20. These changes reflect adjustments in operating revenues, estimated fund balance, General Fund Support, other departmental contributions, grants, and the recognition of interest earning from General Obligation (GO) Bond proceeds.

Ongoing Sources

Overall, Ongoing Sources decreased by \$1.3 million (-0.8%) in FY 2018-19 and \$1.7 million (-1.2%) in FY 2019-20 due to the following factors:

Operating Revenues – Operating Revenues increased by \$0.2 million (0.2%) in both FY 2018-19 and FY 2019-20 due to an increase in anticipated facilities maintenance expenditure recoveries from the Department of the Environment.

Estimated Fund Balance – Use of Fund Balance decreased by \$1.6 million (-3.5%) in FY 2018-19 and \$1.9 million (7.5%) in FY 2019-20. Of this amount, \$1.0 million was reduced in each fiscal year to proportionally adjust for reductions to the Port's Operating Expenses. Additionally, \$1.0 million was reduced in FY 2018-19 and \$0.9 million in FY 2019-20 to balance the budget after Board of Supervisors adjustments and interdepartmental work order adjustments.

South Beach Harbor – Revenue projections from operations and South Beach Harbor increased by \$0.1 million (1.5%) in FY 2018-19 due to minor inflationary forecast adjustments.

One-Time Sources

Overall, the changes to one-time sources budgeted for FY 2018-19 resulted in a net zero change due to the factors below. No changes were made in FY 2019-20.

General Fund – The Port requested \$6.5 million for the Seawall Program and \$11.0 million for the Mission Bay Ferry Landing Project, for a total of \$17.5 million. While the Port received \$11.0 million in total funding for the MBFL project, only \$5.0 million was funded for the Seawall Program, resulting in \$1.5 million (-8.6%) reduction in General Fund Support.

Other Departmental Contributions – Work order funding for capital increased by \$0.25 million (80%) due a new contribution from the City's Capital Planning Program to support improvement work at Jefferson Street in Fisherman's Wharf.

State Grants – The budget now reflects a \$0.65 million grant award anticipated from a Proposition 1 grant from the Coastal Conservancy in FY 2018-19 to support the Crane Cove Park project. In the event of a final grant award, staff will return to the Port Commission requesting approval to accept and expend funds. No further action of the

Board of Supervisors is required due to the inclusion of these funds in the final Annual Appropriations Ordinance (AAO) for FY 2018-19.

Bond Interest Earnings – Port staff identified \$0.7 million of interest earnings from General Obligation (GO) and Port Revenue bond proceeds, including \$0.5 million from GO Bond proceeds and \$0.2 million from Port Harbor Fund Revenue Bond proceeds.

USE OF FUNDS

The Use of Funds in the FY 2018-19 budget decreased by \$1.3 million (-0.7%) and the FY 2019-20 budget decreased by \$1.7 million (-1.1%). These changes reflect expenditure adjustments to operating, capital, and the Port's policy requirements related to capital spending and the operating reserve.

Operating Expenses

Operating Expenses decreased by \$0.7 million (-0.8%) in FY 2018-19 and \$1.5 million (-1.7%) in FY 2019-20. These decreases result from Port staff administrative adjustments and, most principally, from the Mayor's and Board of Supervisors' review of the budget. The largest changes came from the Board of Supervisors' cuts to personnel, non-personnel, materials and supplies, and equipment.

Personnel – Salary and Fringe expenses decreased by \$0.7 million (-1.7%) in FY 2018-19 and \$0.2 million (-0.4%) in FY 2018-19. This reduction was due partially to Citywide labor adjustments to salary and fringe calculations in the Mayor's Phase. Additionally, in the Board of Supervisor's Phase, the budget was reduced due to increases in Salary Savings and the rejection of two position substitutions. Specifically, the Budget and Legislative Analyst rejected 1) the substitution of an 1824 Principal Administrative Analyst to an 1825 Principal Administrative Analyst II in the Maritime Division and 2) the substitution of a 5312 Survey Assistant to a 5316 Chief Surveyor, instead changing the position to a one-level increase to a 5314 Survey Associate.

COWCAP – The Port's contribution to COWCAP decreased by \$0.2 million (100%) in both fiscal years due to the Controller's Office analysis that the Port contributed more than its share of citywide services in prior fiscal years.

Other Current Expenses – Other current expenses increased by less than \$0.1 million (-0.6%) in FY 2018-19 and decreased by \$0.3 million (-1.3%) in FY 2019-20. Key adjustments include: (i) decreased equipment funding, (ii) decreased materials and supplies and entertainment funding, both due to rejection by the Board of Supervisors' Budget and Legislative Analyst, which were offset by (iii) increases in taxes, licenses, and permits in the Planning & Environment division due to increased projections for FY 2018-19. Port staff does not believe these reductions will impact operations.

Work Orders – Interdepartmental service requests increased by \$0.2 million (24.3%) in FY 2018-19 and \$0.4 million (24.7%) in FY 2019-20. The most significant work order changes include:

- *Fire* – The Port’s work order with the Fire Department covers the operations of the fire boat, special events permitting, fire protection staff, and plan review services. The work order was increased by \$0.4 million in both fiscal years due to escalating personnel costs and Citywide COWCAP adjustments.
- *City Planning* – The Port’s work order to City Planning increased by \$0.1 million per fiscal year to allow for Planning personnel assistance for waterfront land use planning and development projects.
- *Controller’s Office Audits* – The Port’s Audits work order increased by \$0.1 million per fiscal year; the amount of this work order is determined based on the size of the department’s budget, per the City Charter.
- *Office of Contract Administration* – Due to the projected need for additional administrative support services from the Office of Contracts Administration (OCA), the budget increased by \$0.2 million in FY 2016-17 and \$0.2 million in FY 2017-18.
- *Public Utilities Commission* – The Port’s Work Order to the PUC for utilities was reduced based upon the PUC’s projection of Port need, decreasing \$0.3 million per fiscal year.
- *Real Estate* – The Port’s Work Order to Real Estate was reduced based upon projected need for the Port to access real estate services contracts, decreasing \$0.1 million per fiscal year.

Programmatic Projects

Annual project expenditures were reduced by \$0.1 million (-1.6%) due to the Board of Supervisors’ cuts to the Enterprise Technology budget in FY 2018-19 and remained unchanged in FY 2019-20.

Development Projects

Development project expenditures increased by \$0.4 million (5.3%) in FY 2018-19 and \$0.3 million (3.1%) in FY 2019-20 to allow for an updated expenditure forecast. The increased expenditures are recoverable from the Port’s development projects.

Capital Expenses

Capital Expenditures increased overall by \$3.3 million (6.1%), from \$54.1 million to \$57.4 million, in FY 2018-19. No changes were made in in FY 2019-20.

Port Capital – Funding for Port Capital projects increased by \$0.5 million (1.4%) due to the inclusion of a new \$0.25 million Resiliency Planning project to evaluate flood and seismic vulnerabilities in the Southern Waterfront and the inclusion of a new work order funded project to support improvements on Jefferson Street. Notably, the Port also shifted \$2.0

million from a sediment cap project that is not an immediate need to higher priority investments, including \$1.1 million to the Seawall Resiliency Project to adjust to a lower General Fund contribution than anticipated, and \$0.9 million to the Capital Contingency Project that the Port will use to adapt to the high bid environment and other unforeseen issues. Staff also moved \$0.5 million from the China Basin Floats project to the Roundhouse Leasing project due to a change in project approach for the floats and the anticipated revenue benefit from the Roundhouse.

Table 2: Summary of Capital Changes

Port Commission Approved	\$	35,275,946
Major Changes	\$	500,000
Seawall Program	\$	1,100,000
Capital Contingency	\$	924,055
Sediment Cap Project	\$	(2,024,055)
Roundhouse Leasing	\$	467,000
China Basin Floats	\$	(467,000)
Resiliency Planning & Improvements	\$	250,000
Jefferson Street	\$	250,000
Final Budget	\$	35,775,946

Citywide Investments – As described above, the final budget included \$1.25 million (-6.8%) less in General Fund Support than anticipated in the Port’s proposed budget. The Port offset this reduction with a \$1.1 million increase in its own funding for the Seawall Program.

Grant Funded – The FY 2018-19 budget now includes an additional \$0.65 million for the Crane Cove Park project. This expenditure reflects an anticipated grant from the Coastal Conservancy.

Interest Earning Projects – GO Bond and Revenue Bond interest earnings funded a \$0.7 million in FY 2018-19 increase to the Crane Cove Park project.

Reallocation of Bond Proceeds – In addition to the budget adjustments described above, staff worked with the Mayor’s Office to reallocate \$2.5 million in GO and Port Revenue bond proceeds between projects. As detailed in **Table 3**, this amount includes \$1.1 million in revenue bond proceeds that was moved from the completed Pier 27 Cruise Terminal project to Crane Cove Park. Additionally, \$1.4 million in GO Bond proceeds was moved from one delayed and six closed projects to Heron’s Head Park (\$0.33 million), the Pier 27 Public Art Project (\$0.35 million), and to Crane Cove Park (\$0.75 million). Notably, an additional \$1.17 million in GO Bond proceeds will be made available to Heron’s Head Park in the next 2012 Parks Bond sale, bringing the total investment in the park to \$1.5 million.

Table 3: Reallocation of Bond Proceeds

Defunded Projects	Explanation	Heron's Head Park*	Pier 27 Public Art	Crane Cove Park	Total
<u>Pier 27 Cruise Terminal</u>	Project completed	\$ -	\$ -	\$ 1,095,000	\$ 1,095,000
	<i>Revenue Bonds, Subtotal</i>	\$ -	\$ -	\$ 1,095,000	\$ 1,095,000
Islais Creek Improvements	Funded to design	\$ 330,000	\$ -	\$ -	\$ 330,000
Pier 27, Northeast Wharf Plaza	Project completed	\$ -	\$ 350,000	\$ -	\$ 350,000
Tulare Park	Project deferred	\$ -	\$ -	\$ 67,278	\$ 67,278
CEQA Review & Permitting	Project completed	\$ -	\$ -	\$ 133,460	\$ 133,460
Blue-Greenway Signage	Project completed	\$ -	\$ -	\$ 70,567	\$ 70,567
Pier 43 Bay Link Trail	Project completed	\$ -	\$ -	\$ 476,924	\$ 476,924
	<i>Parks Bond, Subtotal</i>	\$ 330,000	\$ 350,000	\$ 748,229	\$ 1,428,229
	Total Reallocation:	\$ 330,000	\$ 350,000	\$ 1,843,229	\$ 2,523,229

Policy Requirements

The Port has a policy to hold a 15% operating reserve that is proportional to operating expenses. Additionally, the capital policy allows the Port to use its Designation to Future Capital, a set aside of net operating revenues, to meet the requirement to invest percentages of operating revenues to capital in amounts equal to or greater than 25% in FY 2018-19 and FY 2019-20.

Designation to Future Capital – The Designation to Future Capital decreased by \$0.6 million (-2.8%) in FY 2018-19 and increased by \$0.5 million (2.2%) in FY 2019-20 to reflect the Port’s budgeted net income. With these changes, the Port’s budget includes capital investments and reserves equal to 51% of operating revenues in FY 2018-19 and 40% in FY 2019-20.

15% Operating Reserve – The Port’s 15% Operating Reserve decreased by \$1.0 million (-7.2%) in FY 2018-19 and \$1.0 million (-7.3%) in FY 2018-19, directly in proportion to reductions made to operating expenses in the Mayor and Board phases of the budget process.

CONCLUSION

On August 1, 2018, the Mayor signed the AAO, which decreased the Port’s budget by \$1.3 million (-0.7%) in FY 2018-19 and reduced the Port’s budget by \$1.7 million (-1.1%) in FY 2019-20. These changes are due to technical adjustments to both the operating and capital budgets; reductions made to the operating budget through the Board phase of the budget process; and adjustments to the capital budget through further conversations with the Mayor’s Office and Capital Planning Program and Controller’s Office through the budget process. Despite these reductions, staff is confident that the budget will meet the Port’s capital and operating needs over the next two fiscal years.

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