**MEMORANDUM**

January 4, 2019

**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 on the Port's Five Year Financial Plan for Fiscal Year 2019-20 to 2023-24

**DIRECTOR'S RECOMMENDATION:** Information Only- No Action Required

## EXECUTIVE SUMMARY

Under Charter Section 9.119, the City and County of San Francisco ("the City") is required to prepare a five-year financial forecast in every odd fiscal year. The forecast must project expenditures and revenues, propose actions to balance the budget during each year of the plan, and discuss strategic goals and corresponding resources for City departments. The purpose of this item is to provide an update on the Port's Five Year Financial Plan for FY 2019-20 to 2023-24 ("Financial Plan") to allow for Port Commission consideration and feedback. Port staff will return to the Port Commission on February 12, 2019 for final approval of this plan, which staff will then submit to the Mayor's Office.

Overall the Port's financial outlook is strong, with surplus revenues projected for each year of the Financial Plan while meeting the Port's Capital Policy investment requirements and maintaining a 15% Operating Reserve. With a focus on the Port's internal resources, this forecast of fiscal stability assumes continued efforts to control expenses and the benefit of moderate annual revenue growth from ongoing strength in the economy. The Port's concerted effort to deepen its revenue base, through expanding maritime operations, improving facilities to create new leasing opportunities, and implementing development projects, is also critical to revenue generation that will allow the Port to tackle more of its capital need over time. This forecast is the strongest since the first publication of this report in February 2013. This strength reflects concerted efforts by the Port to enhance its assets for revenue generation and control growth in its operating budget. This results in a growing trajectory of net operating revenues that may be dedicated to revenue-generating capital improvements that further enhance the Port's revenue base. This approach, combined with dedicating one-time revenues sources and securing external funding, is critical to addressing a growing portion of the Port's significant capital needs. It is important to note however, that although the forecast supports an increasing capital investment over the five year period, the Port must maintain and enhance this virtuous cycle of revenue-generating capital to fully address the $61.5 million average renewal need identified in the Port's Ten Year Capital Plan.

While the current outlook is very positive, factors that could either negatively impact or further improve the financial forecast are included in Low Case and High Case scenarios. Examples of negative drivers include dampened revenue growth due to an economic slowdown, fewer new or expanded operator and development agreements, and restrictions on Cruise operations due to changing regulations. Alternatively, positive drivers to this outlook include stronger market conditions driving higher rents, the implementation of additional operator and development projects, and more flexibility in Cruise regulations, all of which would deepen the Port's revenue base.

## STRATEGIC OBJECTIVES

The Port's Financial Plan is central to meeting crucial *Stability* objectives of the Port's 2016-2021 Strategic Plan:

- **Adhere to critical Port fiscal policies for maintaining prudent operating reserves** – The Financial Plan includes a 15% Operating Reserve on Port Operating Expenses in each scenario.

- **Increase Port operating revenues to $125 million by 2024** – The Financial Plan forecasts the Port will achieve this revenue objective by FY 2021-22. By FY 2023-24, the end of the Financial Plan, staff project that Port Operating Revenues will reach $132.4 million.

- **Strive to exceed the policy to set aside 25% of net revenue to invest in the repair and replacement capital budget annually** – The Financial Plan applies the Capital Policy requirement to each scenario, meeting the policy requirement through direct capital investments in years two through five of both the Base Case and High Case. The Low Case also meets the policy requirement through a combination of direct investments and by reserving operating revenues for capital in each fiscal year.

- **Target capital reinvestment in Port assets that maintain and improve current and projected financial performance** – The projected Base Case reflects $11.5 million by the fifth year of the forecast in new operating revenues derived from facilities that the Port has or will invest in with the intention of leasing to deepen its revenue base. Without these new income streams, the Port would face difficult tradeoffs to achieve a balanced operating budget. By investing in renewal of its piers, the Port is preserving its historic assets while stabilizing the future of its operations and expanding its financial capacity to address a long-standing structural imbalance wherein the Port Enterprise earns far less than it needs to maintain its facilities.

## PORT FINANCIAL OUTLOOK

The Port Financial Plan for Fiscal Years 2019-20 to 2023-24 makes three projections for the five-year period: Base, Low and High Case scenarios. Each scenario applies inflation assumptions provided by the Controller's Office, meets the Port's Operating Reserve and Capital Policy requirements, and then applies other specific assumptions related to each individual case:

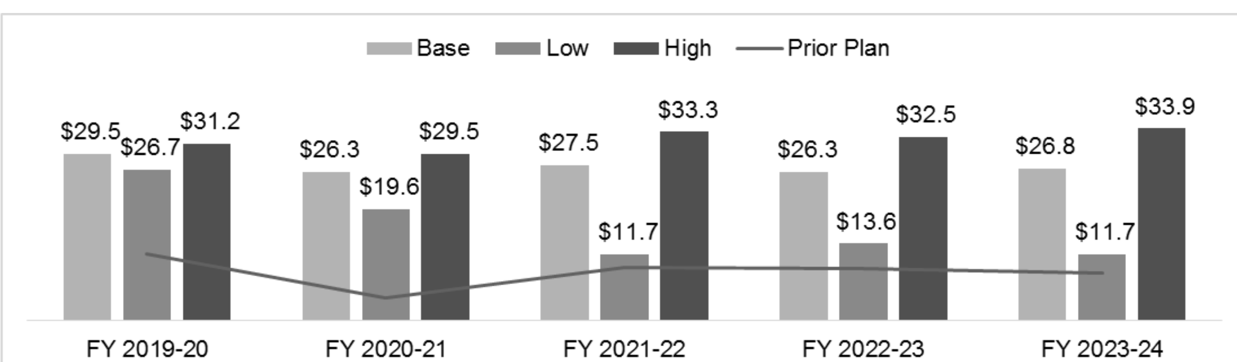
- The *Base Case* represents what is "most likely" based on current economic trends, planned real estate leasing activities, developing maritime operations, and other outcomes from previous Port Commission and delegated decisions.

- The *Low Case* assumes impacts from changing regulatory requirements and an economic slowdown, including reduced percentage rents, slower implementation of real estate leasing, and lower performance in key Maritime business areas including Cruise and Cargo.

- The *High Case* assumes higher rates of growth for existing revenue streams, that new lease and development projects yield stronger revenue performance, and higher performance in key Maritime business areas including Cruise and Cargo.

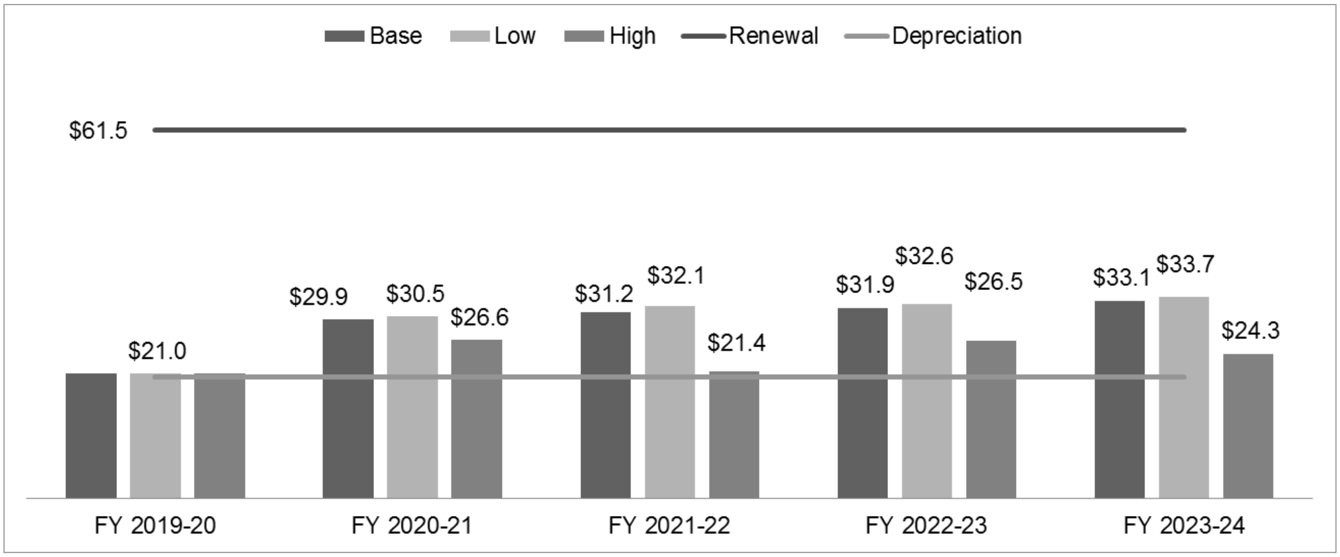
As shown in **Figure 1**, the Base, Low, and High Case scenarios each forecast operating surpluses, limiting the likelihood that the Port will need to make tradeoffs over the next five years to balance its operating needs and Capital Policy requirements. This outlook is significantly stronger than the Port's prior financial forecast, which assumed higher rates of expenditure growth.

**Figure 1: Revenue Surplus/Deficit in Three Scenarios ($ Millions)**. Each scenario projects operating surpluses that exceed the forecast from the Port's prior financial plan.



Given the Port's commitment to invest in capital renewal, the surpluses are rolled into Fund Balance in the subsequent fiscal year for future capital investments. Each scenario assumes the Port will meet the Port's Capital Policy requirement of either directly investing in capital or reserving operating revenues in an amount equal to 25% operating revenues each fiscal year. As shown in **Figure 2**, the Port is projected to keep up with the depreciation rates of its assets, which averages $20.2 million over the five-year forecast period, but it will only partially address the $61.5 million average renewal need identified in the Port's 10-Year Capital Plan.

**Figure 2: Capital Funding by Fiscal Year ($ Millions).**




These outcomes are a direct result of the Port's deliberate effort to control operating expense growth and pursue revenue opportunities derived from investments in facilities and partnerships with developers and operators, most of which are a result of sustained long-term efforts. Such revenue streams are projected to drive revenue growth at rates that outpace expenditure growth, creating revenues in excess of what is required to support operations, resulting in capital resources.

The details of these scenarios are provided below as well in tables as **Attachment 1**.

## BASE CASE SCENARIO

The Base Case Scenario assumes ongoing strength in the economy with moderate revenue growth of 2.5% across all revenue lines, adjusting for Port staff's current knowledge of 1) Port Real Estate and Maritime operations and 2) the timing and value of upcoming leasing and parking opportunities for Port facilities, and 3) impacts from development projects. For the use of funds, citywide inflationary assumptions are applied to personnel expenses and Consumer Price Index ("CPI") assumptions for non-personnel expenditures.

Taking these factors into consideration, net operating surpluses are projected for each year of the Base Case, with an average of $26.5 million annually. This outlook is primarily due to new revenue streams offsetting growing operating expenses. Notably the Port is projected to meet its $125 million Operating Revenue goal by the third year of the Financial Plan, FY 2021-22 ($124.6 million), and reach an all-time high of $132.4 million by the end of the forecast period.

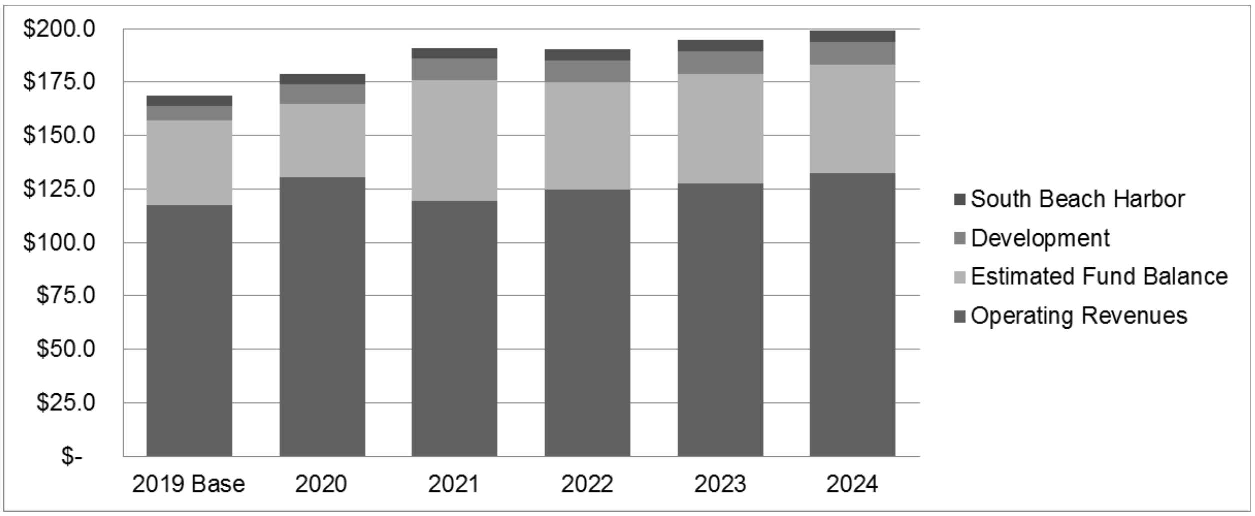
**Table 1: Base Case Scenario ($ Thousands)** – The Port's financial outlook is strong with a net-operating surplus projected for each year of the plan. This forecast allows for $39.5 million additional capital funding compared to the Port's 2018-19 – 2022-23 Capital Improvement Program.

| Fiscal Year | 2019 (Current) | 2020 (+1) | 2021 (+2) | 2022 (+3) | 2023 (+4) | 2024 (+5) | Change from Current | % Change |
|---|---|---|---|---|---|---|---|---|
| **Sources** | | | | | | | | |
| Estimated Fund Balance | $ 46,745 | $ 34,389 | $ 56,510 | $ 50,271 | $ 51,360 | $ 50,735 | $ 3,990 | 9% |
| Operating Revenues | $ 118,050 | $ 130,648 | $ 119,576 | $ 124,610 | $ 127,576 | $ 132,377 | $ 14,327 | 12% |
| 1. Leasing | 71,035 | 81,749 | 70,556 | 73,446 | 76,925 | 78,631 | 7,596 | 11% |
| 2. Parking | 23,852 | 21,927 | 22,791 | 23,317 | 22,099 | 24,305 | 453 | 2% |
| 3. Maritime | 20,775 | 24,582 | 23,510 | 24,703 | 25,326 | 26,131 | 5,356 | 26% |
| 4. Other Operating | 2,388 | 2,390 | 2,720 | 3,144 | 3,226 | 3,310 | 922 | 39% |
| South Beach Harbor | $ 4,775 | $ 4,918 | $ 5,041 | $ 5,167 | $ 5,296 | $ 5,429 | $ 654 | 14% |
| Development Projects | $ 7,000 | $ 9,100 | $ 9,905 | $ 10,200 | $ 10,509 | $ 10,824 | $ 3,824 | 55% |
| **Sources, total** | **$ 176,570** | **$ 179,056** | **$ 191,033** | **$ 190,247** | **$ 194,740** | **$ 199,365** | **$ 22,795** | **13%** |
| **Uses** | | | | | | | | |
| 15% Operating Reserve | $ 13,679 | $ 13,417 | $ 13,988 | $ 14,573 | $ 15,195 | $ 15,834 | $ 2,155 | 16% |
| Operating Expenses | $ 91,193 | $ 89,444 | $ 93,256 | $ 97,153 | $ 101,298 | $ 105,560 | $ 14,367 | 16% |
| 1. Employee Wages | 27,686 | 28,083 | 29,098 | 29,964 | 30,867 | 31,792 | 4,105 | 15% |
| 2. Employee Benefits | 12,919 | 13,364 | 14,793 | 16,408 | 18,171 | 19,983 | 7,064 | 55% |
| 3. Non-personnel, Other | 15,581 | 14,127 | 14,562 | 14,998 | 15,452 | 15,917 | 336 | 2% |
| 4. Non-personnel, Work Orders | 18,134 | 18,459 | 18,425 | 19,058 | 19,719 | 20,402 | 2,268 | 13% |
| 5. Fire Boat Operations | 3,668 | 3,753 | 3,940 | 4,137 | 4,344 | 4,561 | 893 | 24% |
| 6. Debt Service | 7,185 | 7,178 | 7,178 | 7,178 | 7,178 | 7,178 | (7) | 0% |
| 7. Programmatic Projects | 6,020 | 4,480 | 5,260 | 5,410 | 5,566 | 5,726 | (294) | -5% |
| South Beach Harbor | $ 4,775 | $ 4,918 | $ 5,041 | $ 5,167 | $ 5,296 | $ 5,429 | $ 654 | 14% |
| 1. Operating Expenses | 3,693 | 3,773 | 3,911 | 4,055 | 4,208 | 4,365 | 672 | 18% |
| 2. Capital Investments | 1,082 | 1,145 | 1,130 | 1,112 | 1,089 | 1,064 | (18) | -2% |
| Development Projects | $ 7,900 | $ 9,900 | $ 10,205 | $ 10,510 | $ 10,829 | $ 11,154 | $ 3,254 | 41% |
| Southern Waterfront Policy | $ - | $ 397 | $ 407 | $ 417 | $ 428 | $ 438 | $ 438 | 100% |
| Capital Policy Budget | $ 38,050 | $ 32,662 | $ 29,894 | $ 31,152 | $ 31,894 | $ 33,094 | $ (4,956) | -13% |
| 1. Capital Improvement Program | 38,050 | 19,008 | 16,465 | 21,355 | 26,454 | 24,266 | (13,784) | -36% |
| 2. Additional Capital | - | 1,965 | 13,429 | 9,798 | 5,440 | 8,828 | 8,828 | 0% |
| 3. Capital Reserve | - | 11,689 | - | - | - | - | 0 | 0% |
| Percent of operating revenues | 32.2% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | -7.2% | -22% |
| **Uses, total** | **$ 155,597** | **$ 150,738** | **$ 152,792** | **$ 158,972** | **$ 164,939** | **$ 171,510** | **$ 15,913** | **10%** |
| **Balance** | **$ 20,973** | **$ 28,318** | **$ 38,241** | **$ 31,275** | **$ 29,802** | **$ 27,855** | **$ 6,882** | **33%** |
| **Annual Net Operating** | $ 25,957 | $ 28,318 | $ 25,613 | $ 26,730 | $ 25,531 | $ 26,048 | | |
| **Accumulated Fund Balance** | | | $ 12,628 | $ 4,545 | $ 4,271 | $ 1,807 | | |

## Funding Sources

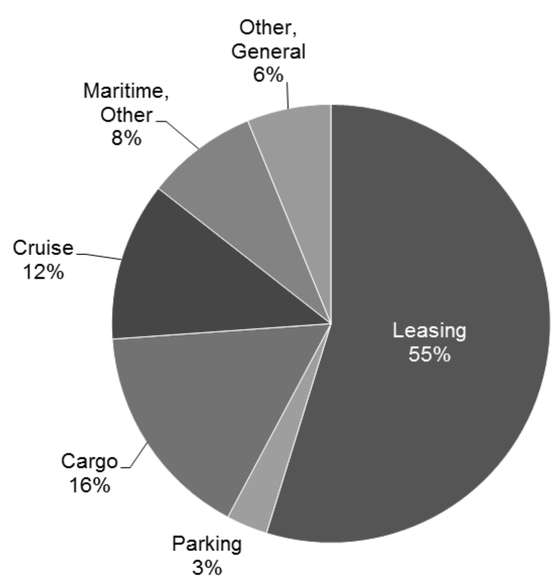
The Port's funding sources include Fund Balance, Operating Revenues, South Beach Harbor Revenues, and Development Recoveries. All funding sources are projected to increase by $22.8 million (13%), from $176.6 million in FY 2018-19 to $199.4 million in FY 2023-24. This change is driven by projected growth in Operating Revenues ($14.3 million), Fund Balance ($4.0 million), recoveries from Development Projects ($3.8 million), and South Beach Harbor fees ($0.7 million).

**Figure 3: Funding Sources ($ Millions) –** Operating Revenues are the primary driver of growth in funding sources, with $14.3 million in total projected growth.




Fund Balance – The Port's Fund Balance is projected to increase by $4.0 million (9%) over the five-year period. Fund Balance is supported by the Port's 15% Operating Reserve, designations of net operating revenues required to meet the Port's Capital Policy, and projected operating surpluses. Growth in this figure is due to the projected increase in net operating revenues, as revenue growth outpaces expenditure growth by an average of $26.5 million annually over the forecast period. These funds are applied to Fund Balance in each subsequent year, allowing for additional capital investments and/or resulting in steady growth in this source as funds accumulate.

**Figure 4: Summary of Changes to Operating Revenue ($ Millions)**




Operating Revenues – Growth in the Port's funding sources is driven by a $14.3 million (12%) increase in Operating Revenues, which are projected to grow from $118.1 million in FY 2018-19 to $132.4 million in FY 2023-24. This growth includes $5.4 million growth in various Maritime business lines; $7.6 million from the Port's leasing portfolio; $0.5 million from Parking; and $0.9 million from other revenues. Notably, this revenue growth is fueled by additional revenue streams from a new parking lot, newly leased facilities, rents from development projects, expanding Maritime operations, and new Special Tax revenues from the Pier 70 Historic Core Community Facilities District ("CFD"). Because of these new funding streams and an assumption of continued strength in the economy, the Port is projected to reach its $125 million annual revenue goal by FY 2021-22.

As detailed in **Attachment 1**, the following operating assumptions support this change:

1. *Commercial/Industrial Rent* – The Port's commercial/industrial rents are projected to increase by $7.6 million (11%), from $71.0 million in FY 2018-19 to $78.6 million in FY 2023-24, with an average annual growth of $1.6 million (2%). This change represents 53% of operating revenue growth and assumes current rent roll with an average annual inflation of 2.5% and the inclusion of $10.0 million revenues projected from the following Real Estate and Development initiatives.

    - **Pier 31½ National Park Service Agreement** – On October 16, 2018, the Port Commission approved a new agreement to commence January 1, 2019 with the National Park Service ("NPS") at Pier 31½ for the Alcatraz Ferry Embarkation. Port staff is working on an agreement that, compared to existing rents from NPS, will generate an additional $0.3 million annually starting in FY 2021-22, reaching $0.8 million net new revenues by FY 2023-24. Notably, the Port's partnership with NPS will also result in $41.5 million improvements at the facility, including a $7.5 million repair to the facility's substructure and $34.0 million of enhancements.

    - **Pier 31 Department of Elections** – The renovation of the historic Pier 31, which includes a new roof, structural improvements, and windows, is planned for completion in FY 2018-19, in preparation for moving the Department of Elections from its current leasehold at Pier 48. While no net new revenues are forecasted from the Department of Elections lease, aside from standard inflation, this change will allow the Port to generate new parking revenues at Pier 48, as described below.

    - **Seawall Lot 324, Teatro ZinZanni Theater and Boutique Hotel** – In the summer of 2016, the Port Commission and the Board of Supervisors endorsed a Term Sheet with Teatro ZinZanni and its financial partner, Kenwood Investments No. 6, LLC, operating together as TZK Broadway, LLC, for the lease and development of a dinner-theater and a maximum 200-room, 40-foot high boutique hotel and an approximately 7,500 square foot privately-financed public park. Environmental approvals are nearly complete, and Port staff anticipates execution of a lease in mid-2019. While the Port will forgo an estimated $0.3 million in parking revenues annually, the site will generate lease revenues of $0.9 million in FY 2019-20 growing to $1.8 million by FY 2023-4 as the development project is completed.

- **Piers 19, 23, 29, and 38 Request for Interest** – These four piers, located in the Northern Waterfront and currently absent long-term tenants, were identified in a recent Request for Interest (“RFI”) to attract prospective investors. The Port is now preparing to release Requests for Proposals (“RFPs”) for a select number of these sites to seek new development opportunities.

  The financial forecast assumes that Piers 19, 23, and 38 will be utilized for light storage and Pier 29 for Cruise-Special Events, until one of these sites is identified for long-term development and is vacated for construction in FY 2023-24. Assuming parameter rents for storage and leasing up to 80% capacity by FY 2020-21, these sites would generate an average of $2.7 million annually over the forecast period. This is an assumption only. Port staff will work with the Port Commission and the public on the appropriate strategy for these historic facilities early in 2019.

- **Pier 22½ Fire Station** – The Port is working with the San Francisco Fire Department to establish a new lease agreement for the ongoing use of Pier 22 ½ for Fire Station 35. While negotiations are underway, Port staff estimates the parameter rate for the historic fire house will be $0.3 million annually, beginning in FY 2019-20.

- **Seawall Lot 337, Mission Rock** – With approval for the Mission Rock Development Project at Seawall 337, the Giants’ parking lot will slowly transition into a new neighborhood. As detailed under Parking Revenues, the Port will gradually lose surface parking revenue during the construction period; however, the loss will be largely offset by new rent from the development parcels. Commercial rents from the site are expected to grow from $0.5 million in FY 2021-22 to $2.2 million by FY 2023-24. While the Port will lose an estimated $2.9 million potential parking revenues, as parcels are removed from parking inventory in preparation for development, net income from parking and commercial rents at the site will match forecasted parking projections of $4.7 million by the end of the forecast period.

- **Pier 70, 20$^{th}$ Street Historic Core IFD** – As part of project formation, the Port formed an Infrastructure Financing District (“IFD”) sub-project area over the 20$^{th}$ Street Historic Core development site. The Port staff anticipates the site will begin generating an estimated $0.4 million of tax increment annually beginning in FY 2020-21. The Port expects to use the tax proceeds to support infrastructure improvements to be completed at Pier 70, such as for electrical infrastructure.

- **Pier 70, 20$^{th}$ Street Historic Core** – The Port’s development partner, Orton Development Inc., has nearly completed revitalization of the 20th Street Historic Buildings at Pier 70, some dating back to 1880s. In addition to addressing more than $78 million of renewal and seismic stabilization needs at the eight buildings, and further enhancing the structures, Orton forecasts strong revenues from the leased facilities that will be shared between the developer and the Port. By FY

2020-21, the Port will begin collecting $0.3 million transaction cost and loan repayments from Orton. Additionally, beginning in FY 2021-22, the Port will start collecting an anticipated $1.5 million of participation rent from the site. By FY 2023-24, the Port expects to generate a total of $2.0 million per year from the historic site. The Orton development project is an exciting example of the Port's partnership with a private developer to leverage federal tax credits to renew a vibrant historic neighborhood and help to stabilize the Port's financial outlook over the long-run.

- **Backlands Laydown Space** – In FY 2015-16, the Port funded a capital project to prepare land located at Piers 90-96 along Amador Street for future leasing opportunities such as construction laydown, vehicle parking and storage. Based on a $0.35 per square foot parameter rent, the low end of the current range for unpaved land, and a three-month initial lease-up period, the site will initially generate $1.4 million in FY 2019-20, increasing to $2.1 million by FY 2023-24. With high demand for this space, Port staff is striving to identify the highest and best use to meet revenue potential while fostering the development of Piers 80-96 as an active maritime industrial center.

2. *Parking Revenue* – Parking revenues are projected to increase by $0.5 million (2%), from $23.9 million in FY 2018-19 to $24.3 million in FY 2023-24. While parking demand continues to be relatively strong, revenues will be terminated at several locations due to development.

    - **Seawall Lot 322-1, Mayor's Office of Housing** – On March 11, 2014 the Port entered a Memorandum of Understanding with the San Francisco Mayor's Office of Housing ("MOH") to allow MOH to solicit a developer to enter into a lease with the Port for the development of affordable housing at Seawall Lot 322-1. In July 2018, the Port Commission and the Board of Supervisors approved the project. State Lands Commission approvals followed in August 2018.

      When the long-term ground lease closes, anticipated in spring of 2019, the Port will lose $0.3 million in annual parking revenues from the site. However, MOH will make a one-time $15 million prepayment for the fair market value of the lease that is reflected in lease revenues projected for FY 2019-10.

    - **Seawall Lot 337** – As discussed above, the Port will forgo an estimated $2.9 million over the forecast period in parking revenue as the Giants' parking lot is converted into the new Mission Rock Neighborhood. Fortunately, this loss in revenue will be offset by new lease revenue from the developers, generating $4.6 million in FY 2023-24. This project will generate a significant ongoing revenue stream to the Port, while creating a new, vibrant neighborhood and business center along the waterfront.

    - **Pier 48** – As discussed above, the Department of Elections is preparing to move from its current leasehold at Pier 48 to Pier 31. Upon vacating Pier 48, Port staff intends to utilize the facility for interim parking until the long-term plan for this historic facility is identified. As a low estimate, parking will generate $1.0 million annually over the forecast period, beginning in FY 2019-20.

- **19th / Illinois Parking Lot** – The Port is currently constructing a new parking lot at 19th and Illinois Streets that, once opened in FY 2019-20, is expected to generate $0.5 million in new revenues annually.

- **20th/ Illinois Parking Lots** – As part of the Pier 70 Waterfront Site development project with Brookfield Asset Management Inc. (which acquired Forest City Realty Trust, Inc. in a stock sale), the Port is conducting a land sale of Parcel K-North, which currently serves as a surface parking lot. While the site currently produces $0.5 million in annual parking revenues, the Port will forgo this ongoing source and instead receive an estimated $24 million in land sale proceeds that will be used to pay down developer entitlement costs for the Pier 70 Waterfront Site.

3. *Cargo Revenues* – Cargo revenues are projected to increase by $2.4 million (35%), from $6.8 million in FY 2018-19 to $9.2 million in FY 2023-24. This change represents 17% of total operating revenue growth and assumes steady increases in the transport of automobiles, reaching approximately 75,000 vehicles by FY 2023-24, at Pier 80 by Pasha Automotive. Additional rent is also expected at Pier 94 due to possible expansion of operations, currently under negotiation.

4. *Cruise Revenues* – Cruise revenues are projected to increase by $1.7 million (22%), from $7.8 million in FY 2018-19 to $9.5 million in FY 2023-24. This significant growth assumes a $1 increase, from $18 to $19, with a 3% annual inflation to the Passenger Facility Charge (“PFC”) for passengers embarking and disembarking from Port of San Francisco cruise facilities. Additionally, the Port is working to secure additional cruise calls, which will create significant new revenues between 2019 and 2020. This increase in business will be extremely important for ongoing stability in the Port’s business lines due to proposed new rules from the California Air Resources Board (“CARB”) that, apart from up to five ships, will require all cruise ships to be connected to shoreside power starting in 2021. This change will limit the Port’s ability to accept calls from cruise ships that are not equipped to receive shoreside electrical power. The Base Case assumes the Port will receive 80 calls annually between 2021 and 2024 which is based on an assumption that CARB will implement the new shoreside power requirements and the Port will be limited to 75 calls at Pier 27 and five calls at Pier 35.

   This outlook for Cruise includes $1.3 million annual revenues from Special Events at Pier 27, Pier 29, and Pier 35, with 3% annual growth. Metro has placed a major focus on events branding and marketing, including a new website, new logo and collateral material, advertising campaign, and participation at IMEX, the industry’s premier events trade show. The Metro Events team is also increasing its interface with SF Travel and full participation in their outreach efforts, trade show presence and partnership opportunities. A full-time sales manager joined the San Francisco events team this year to handle all sales functions in coordination with the existing team.

5. *Ship Repair* – After completing two requests for proposals to support Pier 70 ship yard operations, the Port has not identified a viable operator. Port staff will present long term options to the Port Commission for the shipyard in early 2019. Notably, there is an interim leasing demand for the site. This projection assumes revenues from interim leasing for auto storage, which will generate an estimated $0.8 million within the five-year forecast and that the long-term plan will be implemented outside of the forecast period.

6. *Other Revenues* – Other Port revenues represent $2.1 million (7%) of operating revenue growth in a variety of business lines that are not projecting significant increases or decreases on their own.

    - **Other Maritime revenues**, such as Harbor Services and Fishing revenue, represent $1.2 million (4%) of operating revenue growth.

    - **Other Port revenues**, including Engineering Permit Fees, Special Events revenues, and other miscellaneous revenues represent $0.9 (3%) of operating revenue growth. For revenue growth that is not based upon existing leases or agreements, the Financial Plan assumes 2.5% annual increases.

    - **Pier 70, Services CFD.** The Port intends to form a CFD over the 20th Street Historic Core parcels as well as Parcel K-North ("PKN") and levy a special tax on tenants to support ongoing maintenance of Crane Cove Park. Port staff anticipates the CFD will be formed in FY 2019-20, with $0.3 million revenues generated from the Historic Core in FY 2020-21 and $0.4 million generated annually from PKN beginning in FY 2021-22, for a total of $0.7 million. These revenues will directly support Crane Cove Park, which is scheduled to open in FY 2020-21. These funds are expected to flow into a specific programmatic project to support service needs within with CFD.

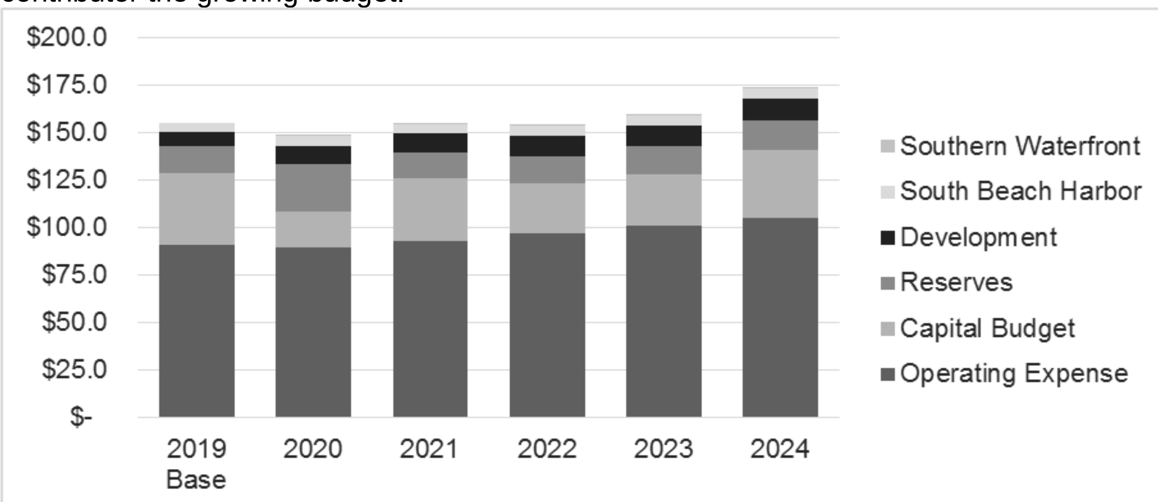
<u>South Beach Harbor</u> – South Beach Harbor revenues are comprised of berthing, parking and other fees collected at the special facility. The facility revenues are projected to increase by $0.6 million (14%), from $4.8 million in FY 2018-19 to $5.4 million in FY 2023-24, assuming CPI on all fees.

<u>Development Recoveries</u> – The Port budgets for personnel and non-personnel expenses required to fulfill its development project obligations, including for the Mission Rock, Pier 70 Waterfront Site, and Teatro ZinZanni projects. In cases where the Port has entered into an Exclusive Negotiating Agreements ("ENA") or formal development agreements, eligible project costs are fully recoverable. These recoveries are projected to increase by $3.8 million (55%), from $7.0 million in FY 2018-19 to $10.8 million in FY 2023-24.

**Use of Funds**

The Port's use of funds includes the Port's Operating Reserve, Operating Expenses, South Beach Harbor expenses, Development Projects, the Southern Waterfront Beautification Policy set aside, and the Capital Budget. These expenditures and reserves are projected to increase by $15.9 million (10%), from $155.6 million in FY 2018-19 to $171.5 million in FY 2023-24. This change is primarily driven by growth in Operating Expenses ($14.4 million), Development Projects ($3.3 million), Operating Reserves ($2.2 million), South Beach Harbor ($0.7 million), and the Southern Waterfront Policy ($0.4 million), offset by a decline in the Capital Budget ($5.0 million).

**Figure 5: Use of Funds ($ Millions)** – Operating Expenses ($14.4 million) is the largest contributor the growing budget.



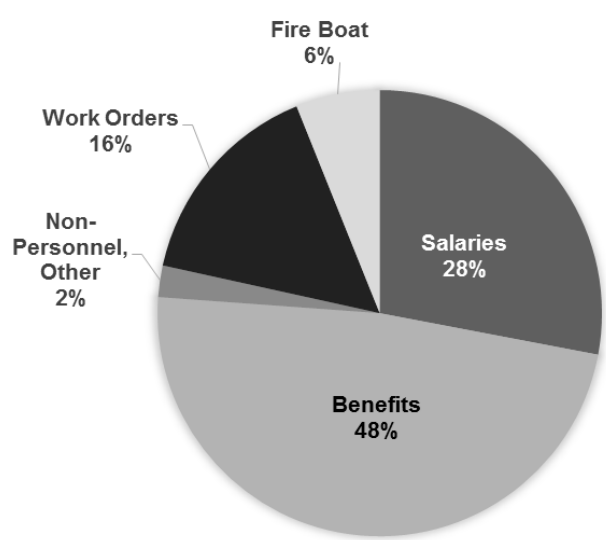

Operating Reserve – The 15% Operating Reserve, which provides the Port fiscal stability in the event of unforeseen events, is projected to increase by $2.2 million (16%), from $13.7 million in FY 2018-19 to $15.8 million in FY 2023-24, proportionally to Port Operating Expenses growth.

Operating Expenses – The Port's Operating Expenses is the largest driver in growth in the use of funds, with a projected $14.4 million (16%) increase, from $91.2 million in FY 2018-19 to $105.6 million in FY 2023-24.

The key drivers of this change include:

1. *Employee Wages* – Personnel salaries are projected to increase by $4.1 million (15%), assuming CPI inflationary increases of 3-3.1% for salaries. While any new positions require close coordination and approval from the

**Figure 6: Summary of Changes in Use of Funds ($ Millions)** – Employee wages and benefits are the largest expenditure growth driver.



Mayor and Board of Supervisors, the Financial Plan assumes one additional position per fiscal year. Recognizing both the availability of funds and growing demands of Port operations on staff, these resources will likely be critical to ensuring the Port can effectively deliver on its mission.

2. *Employee Benefits* – Personnel benefits are projected to increase by $7.1 million (55%), primarily due to high inflation rates for employer contributions to employee retirement, retiree health benefits, and health insurance rates. While some benefit costs grow by CPI, they only represent $0.5 million (8%) of the overall growth. In contrast, the Port's retirement contribution drives $4.9 million (70%) of the total increase due to an average 19% annual inflation. Additionally, health plan costs drive $1.1 million (16%) of the total increase and retiree health plan costs drive $0.4 million (6%) of the total increase to benefits, in both cases due to a 6% annual inflation. As a result of these trends, by the end of the forecast period, the ratio of the cost of Employee Benefits to Employee Wages will have increased by 16%, from 47% to 63%. Aside from limiting new hires, this rate of cost expansion is not within the control of the Port. Instead, the City must continue to manage costs through improvements in the performance of public worker investment funds, bargaining with labor groups, and/or additional Charter amendments.

3. *Non-Personnel Costs* – Non-Personnel expenditures, including materials and supplies, professional services, work orders to other City departments including Fire Boat services, debt service, and facilities maintenance projects are projected to increase by $3.5 million (13%) primarily due to an assumed 3-3.1% CPI and planned payment schedules, such as for debt service. One exception includes a 5% projected inflation rate for insurance premiums, which have historically grown at much faster rates than other expenses. Additionally, this projection includes a new $0.65 million annual expense for park maintenance at Crane Cove Park starting in FY 2020-21.

<u>Development Projects</u> – Overall, Development Project expenditures are projected to increase by $3.3 million (41%), from $7.9 million in FY 2018-19 to $11.2 million in FY 2023-24. This budget covers the cost of personnel and non-personnel expenses required to fulfill its development project obligations, including for the Mission Rock, Pier 70 Waterfront Site, and Teatro ZinZanni projects. These costs are anticipated to grow over time, as developments transition from planning and construction, to ongoing maintenance and administration. While most of these expenses are recoverable, under the terms of ENAs and development agreements, $0.9 million of these costs in FY 2018-19 are supported by Port funds for non-recoverable expenses, such as for exploring new development opportunities.[1] This funding level declines to $0.3 million in FY 2020-21 and thereafter in the forecast.

<u>South Beach Harbor</u> – The South Beach Harbor budget supports all personnel, non-

[1] Staff anticipates such expenses will include professional services expenses associated with initiating development agreements, such as appraisers, real-estate and economic consultants. Maintaining the budget within a project enables staff to track project costs more accurately through completion.

personnel, debt service, and capital improvement costs related to the special facility. The facility budget is projected to increase by $0.7 million (14%), assuming all labor and CPI factors applied to other expenses within the Port budget. This forecast allows for approximately $1.0 million facility renewal investments.

Southern Waterfront Beautification – Notably, of this funding, approximately $0.4 million is set aside for beautification projects in the Southern Waterfront, as required by the Port's Southern Waterfront Beautification Policy. In FY 2018-19 the SWBP requirement was approximately $358,000; adjusting for projected inflation of parameter rents of eligible leases in the Southern Waterfront, this set aside is projected to increase to $405,000 by FY 2023-24. Staff is currently performing an analysis of contributions to the fund that may result in an additional allocation of funding.

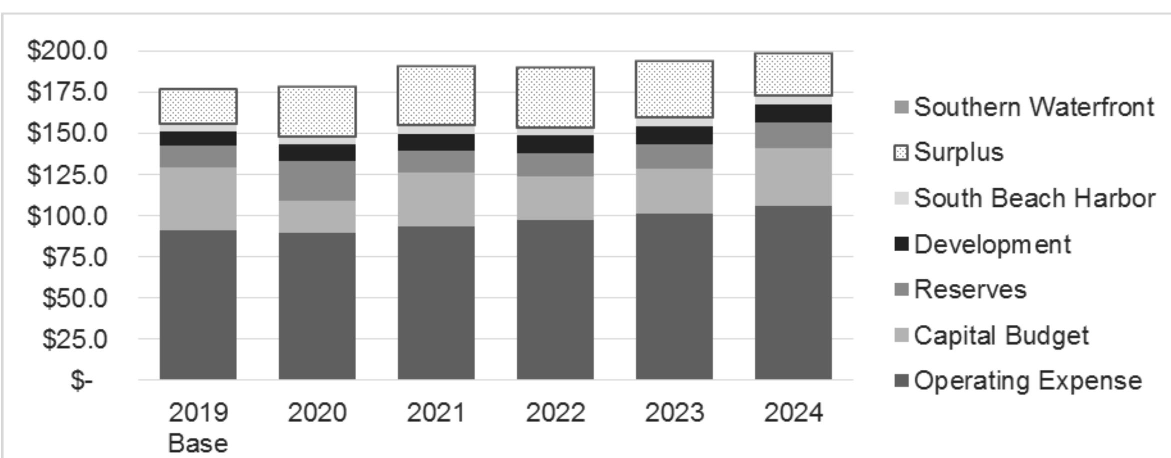
Capital Policy Budget – The Capital Policy Budget reflects the investments required for the Port to meet its Capital Policy, either in the form of direct investments or by designating operating revenues to future capital investments in any given fiscal year.

The Capital Budget is projected to decrease by $5.0 million (-13%), from $38.1 million in FY 2018-19 to $33.1 million in FY 2023-24. This decline is due to an unusually high capital budget in FY 2018-19. Despite these reductions, the Capital Budget in the forecast period is strong compared to Port historical standards, with an annual average of $31.7 million. This funding level is also $39.5 million more than forecasted in the Port's CIP due to an updated outlook of available surplus operating revenues.

**Net Operating Surplus**

While growth in Operating Expenses ($14.4 million) is the largest contributor to the growing budget, the forecast projects a significant net operating surplus over the five-year period, averaging $26.5 million. The total value of these surpluses over time is $132.2 million, all of which will support the Port's Capital Budget and nominal growth in the 15% Operating Reserve.

**Figure 6: Operating Surpluses ($ Millions)** – The total value of operating surpluses over time is $132.2 million.



## LOW CASE SCENARIO

The Low Case Scenario reflects the possibility of an economic slowdown and delays in securing new development and operator agreements, such as for Cruise, Cargo, and the RFI facilities.

Suppressed Revenue Growth – In the event of a cooling economy, revenue growth could slow down to 2.0%, rather than the 2.5% growth rate assumed in the Base Case. This change reduces the overall generation of revenues by an estimated $3.3 million over the five-year forecast.

Reduced Percentage Rent – During the last recession, Port Percentage Rent declined to approximately $15.5 million in FY 2010-11. Port Percentage Rents have recovered by 35% since that time, totaling $20.9 million in FY 2018-19. The Low Case Scenario assumes a similar reduction to Percentage Rents beginning in FY 2019-20, deepening in FY 2021-22, and then gradually recovering into FY 2023-24.[2] This leads to an overall loss of $12.9 million over the five-year period compared to the Base Case.

Delayed Leasing and Development – Assuming a recession would reduce demand for leased space, this scenario reflects delays and lower rents from currently vacant facilities over the five-year period. In this scenario, the Port may not attract investors in any of the RFI sites, resulting in longer durations of interim leasing, but at higher rates of vacancy (60%). This scenario results in $3.3 million less in collected revenues compared to the Base Case.

Cruise – The Low Case Scenario for Cruise assumes no change in the Port's $18 Passenger Facility Charge as well as a reduction of 20 cruise calls in FY 2020-21 due to proposed new CARB restrictions, which may prohibit all but five non-equipped cruise ships from calling in San Francisco. This would reduce overall revenue generation by an average of $1.9 million annually compared to the Base Case.

Cargo – The Low Case Scenario assumes that Pasha would have a lower vehicle volume than anticipated in the Base Case, reducing the forecast from 75,000 to 65,000 autos. This change would decrease Port annual Cargo revenues by $0.3 million annually. Additionally, by not expanding operations at Pier 94, the Port would generate $0.7 million less per year. Overall, this scenario assumes $4.1 million less in Cargo revenues over the forecast period.

Ship Repair – This projection assumes no revenues from the ship yard at Pier 70, either from interim leasing of the site or from docking ships.

[2] FY 2010-11 Percentage Rent was $15.5 million. The forecast assumes that the economic slowdown would begin to occur midway through FY 2020-21, with full impact beginning in FY 2021-22.

Taking these factors into consideration in the Low Case Scenario, operating revenues would be reduced by $34.9 million over the five-year period compared to the Base Case, directly leading to $27.4 million less capital investments. While there are no deficits projected in this scenario, the Port would not meet its $125 million Operating Revenue goal within this forecast period.

**Table 2: Updated Low Case Scenario ($ Thousands)** – This scenario assumes lower revenue growth as the result of an economic slowdown. Operating deficits will need to be addressed, either through expenditure reductions or identifying new revenue opportunities.

| Fiscal Year | 2019 (Current) | 2020 (+1) | 2021 (+2) | 2022 (+3) | 2023 (+4) | 2024 (+5) | Change from Current | % Change |
|---|---|---|---|---|---|---|---|---|
| **Sources** | | | | | | | | |
| Estimated Fund Balance | $ 46,745 | $ 34,389 | $ 52,779 | $ 45,337 | $ 48,235 | $ 43,302 | $ (3,443) | -7% |
| Operating Revenues | $ 118,050 | $ 126,938 | $ 114,903 | $ 116,516 | $ 117,746 | $ 123,743 | $ 5,693 | 5% |
| 1. Leasing | 70,485 | 80,799 | 68,703 | 68,749 | 70,715 | 74,019 | 3,534 | 5% |
| 2. Parking | 23,852 | 21,927 | 22,684 | 23,116 | 21,800 | 23,904 | 52 | 0% |
| 3. Maritime | 20,775 | 21,822 | 20,808 | 21,531 | 22,042 | 22,561 | 1,786 | 9% |
| 4. Other Operating | 2,388 | 2,390 | 2,708 | 3,120 | 3,188 | 3,259 | 871 | 36% |
| South Beach Harbor | $ 4,775 | $ 4,918 | $ 5,016 | $ 5,117 | $ 5,219 | $ 5,323 | $ 549 | 11% |
| Development Projects | $ 7,000 | $ 9,100 | $ 9,905 | $ 10,200 | $ 10,509 | $ 10,824 | $ 3,824 | 55% |
| **Sources, total** | **$ 176,570** | **$ 175,345** | **$ 182,603** | **$ 177,169** | **$ 181,709** | **$ 183,192** | **$ 6,623** | **4%** |
| **Uses** | | | | | | | | |
| 15% Operating Reserve | $ 13,679 | $ 13,417 | $ 13,966 | $ 14,550 | $ 15,172 | $ 15,812 | $ 2,133 | 16% |
| Operating Expenses | $ 91,193 | $ 89,444 | $ 93,106 | $ 97,003 | $ 101,148 | $ 105,410 | $ 14,217 | 16% |
| 1. Employee Wages | 27,686 | 28,083 | 28,948 | 29,814 | 30,717 | 31,642 | 3,955 | 14% |
| 2. Employee Benefits | 12,919 | 13,364 | 14,793 | 16,408 | 18,171 | 19,983 | 7,064 | 55% |
| 3. Non-personnel, Other | 15,581 | 14,127 | 14,562 | 14,998 | 15,452 | 15,917 | 336 | 2% |
| 4. Non-personnel, Work Orders | 18,134 | 18,459 | 18,425 | 19,058 | 19,719 | 20,402 | 2,268 | 13% |
| 5. Fire Boat Operations | 3,668 | 3,753 | 3,940 | 4,137 | 4,344 | 4,561 | 893 | 24% |
| 6. Debt Service | 7,185 | 7,178 | 7,178 | 7,178 | 7,178 | 7,178 | (7) | 0% |
| 7. Programmatic Projects | 6,020 | 4,480 | 5,260 | 5,410 | 5,566 | 5,726 | (294) | -5% |
| South Beach Harbor | $ 4,775 | $ 4,918 | $ 5,041 | $ 5,167 | $ 5,296 | $ 5,429 | $ 654 | 14% |
| 1. Operating Expenses | 3,693 | 3,773 | 3,911 | 4,055 | 4,208 | 4,365 | 672 | 18% |
| 2. Capital Investments | 1,082 | 1,145 | 1,130 | 1,112 | 1,089 | 1,064 | (18) | -2% |
| Development Projects | $ 7,900 | $ 9,900 | $ 10,205 | $ 10,510 | $ 10,829 | $ 11,154 | $ 3,254 | 41% |
| Southern Waterfront Policy | $ - | $ 395 | $ 403 | $ 411 | $ 419 | $ 428 | $ 428 | #DIV/0! |
| Capital Policy Budget | $ 38,050 | $ 31,734 | $ 28,726 | $ 29,129 | $ 29,437 | $ 30,936 | $ (7,114) | -19% |
| 1. Capital Improvement Program | 38,050 | 19,008 | 16,465 | 21,355 | 26,454 | 24,266 | (13,784) | -36% |
| 2. Additional Capital | - | 1,965 | 10,088 | - | - | - | 0 | 0% |
| 3. Capital Reserve | - | 10,762 | 2,173 | 7,774 | 2,983 | 6,669 | 6,669 | 0% |
| Percent of operating revenues | 32.2% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | -7.2% | -22% |
| **Uses, total** | **$ 155,597** | **$ 149,808** | **$ 151,447** | **$ 156,770** | **$ 162,300** | **$ 169,168** | **$ 13,571** | **9%** |
| **Balance** | **$ 20,973** | **$ 25,537** | **$ 31,157** | **$ 20,399** | **$ 19,409** | **$ 14,024** | **$ (6,949)** | **-33%** |
| **Annual Net Operating** | $ 20,973 | $ 25,537 | $ 18,920 | $ 11,018 | $ 12,877 | $ 10,905 | (10,067) | -48% |
| **Accumulated Fund Balance** | $ - | $ - | $ 12,236 | $ 9,381 | $ 6,532 | $ 3,119 | 3,119 | 100% |

## HIGH CASE SCENARIO

The High Case Scenario reflects the Base Case, with the inclusion of improved expenditure and revenue projections. The following assumptions in the High Case Scenario lead to $13.6 million in additional net operating revenues and $2.8 million addition capital investments compared to the Base Case over the five-year period:

Enhance Revenue Growth – In the event of a continuously strong economy, revenue growth could follow CPI, averaging 3.0%, rather than the 2.5% growth rate assumed in the Base Case. This change increases the overall generation of revenues by an estimated $3.6 million over the five-year forecast.

RFI Site Development – In the event the Port secures a development partner for two piers within the forecast period, interim rents would be lower within the forecast period. Assuming one pier enters construction in FY 2022-23 and another in FY 2023-24, the Port would lose $3.8 million in rents as a tradeoff for generating a long-term solution to facility renewal needs.

Cruise – Currently only one berth at the Port of San Francisco (Pier 27) is equipped to provide shoreside electricity to cruise ships. An additional $0.5 million in Cruise revenues may be generated annually if CARB allows five additional, for a total of 10 cruise ship calls at a non-electrified terminal. The CARB regulations are still in draft form as of this writing, but the indication seems to be favorable for this allowance.

Cargo, Pier 96 – The High Case Scenario assumes that Pasha could increase its vehicle volume by 10,000 from 75,000 to 85,000. This change would increase Port annual Cargo revenues by $0.3 million. An additional auto import/export operation at Pier 96 and an expansion of cargo operations at Pier 94 would generate $1.4 million per year. Overall, this outlook would generate $5.9 million overall over the five-year period.

Ship Repair – This projection includes revenues from interim leasing at Pier 68 as well as dockage from berthing a ship at the yard for storage. This change improves revenues from the shipyard by $2.3 million over the forecast period.

**Table 3: High Case Scenario ($ Thousands)** – This scenario reflects continued strength in the economy and additional revenues resulting from improved operations, and the net impact of development initiatives.

| Fiscal Year | 2019 (Current) | 2020 (+1) | 2021 (+2) | 2022 (+3) | 2023 (+4) | 2024 (+5) | Change from Current | % Change |
|---|---|---|---|---|---|---|---|---|
| **Sources** | | | | | | | | |
| Estimated Fund Balance | $ 46,745 | $ 34,389 | $ 58,588 | $ 54,972 | $ 61,062 | $ 66,097 | $ 19,353 | 41% |
| Operating Revenues | $ 118,050 | $ 132,851 | $ 121,927 | $ 128,445 | $ 130,406 | $ 134,733 | $ 16,683 | 14% |
| 1. Leasing | 71,035 | 82,891 | 71,294 | 74,415 | 76,661 | 77,660 | 6,625 | 9% |
| 2. Parking | 23,852 | 21,927 | 23,135 | 23,760 | 22,654 | 24,974 | 1,122 | 5% |
| 3. Maritime | 20,775 | 25,642 | 24,765 | 27,100 | 27,824 | 28,735 | 7,960 | 38% |
| 4. Other Operating | 2,388 | 2,390 | 2,734 | 3,170 | 3,266 | 3,365 | | |
| South Beach Harbor | $ 4,775 | $ 4,918 | $ 5,069 | $ 5,221 | $ 5,379 | $ 5,541 | $ 766 | 16% |
| Development Projects | $ 7,000 | $ 9,100 | $ 9,905 | $ 10,200 | $ 10,509 | $ 10,824 | $ 3,824 | 55% |
| **Sources, total** | **$ 176,570** | **$ 181,258** | **$ 195,489** | **$ 198,838** | **$ 207,356** | **$ 217,196** | **$ 40,627** | **23%** |
| **Uses** | | | | | | | | |
| 15% Operating Reserve | $ 13,679 | $ 13,417 | $ 13,865 | $ 14,267 | $ 14,688 | $ 15,120 | $ 1,441 | 11% |
| Operating Expenses | $ 91,193 | $ 89,444 | $ 92,430 | $ 95,115 | $ 97,918 | $ 100,798 | $ 9,605 | 11% |
| 1. Employee Wages | 27,686 | 28,083 | 29,098 | 29,964 | 30,867 | 31,792 | 4,105 | 15% |
| 2. Employee Benefits | 12,919 | 13,364 | 14,549 | 14,982 | 15,433 | 15,896 | 2,977 | 23% |
| 3. Non-personnel, Other | 15,581 | 14,127 | 14,562 | 14,998 | 15,452 | 15,917 | 336 | 2% |
| 4. Non-personnel, Work Orders | 18,134 | 18,459 | 17,842 | 18,446 | 19,077 | 19,728 | 1,594 | 9% |
| 5. Fire Boat Operations | 3,668 | 3,753 | 3,940 | 4,137 | 4,344 | 4,561 | 893 | 24% |
| 6. Debt Service | 7,185 | 7,178 | 7,178 | 7,178 | 7,178 | 7,178 | (7) | 0% |
| 7. Programmatic Projects | 6,020 | 4,480 | 5,260 | 5,410 | 5,566 | 5,726 | (294) | -5% |
| South Beach Harbor | $ 4,775 | $ 4,918 | $ 4,849 | $ 4,928 | $ 5,006 | $ 5,085 | $ 310 | 7% |
| 1. Operating Expenses | 3,693 | 3,773 | 3,718 | 3,816 | 3,917 | 4,021 | 329 | 9% |
| 2. Capital Investments | 1,082 | 1,145 | 1,130 | 1,112 | 1,089 | 1,064 | (18) | -2% |
| Development Projects | $ 7,900 | $ 9,900 | $ 10,205 | $ 10,510 | $ 10,829 | $ 11,154 | $ 3,254 | 41% |
| Southern Waterfront Policy | $ - | $ 398 | $ 411 | $ 423 | $ 436 | $ 449 | $ 449 | 100% |
| Capital Policy Budget | $ 38,050 | $ 33,213 | $ 30,482 | $ 32,111 | $ 32,602 | $ 33,683 | $ (4,367) | -11% |
| 1. Capital Improvement Program | 38,050 | 19,008 | 16,465 | 21,355 | 26,454 | 24,266 | (13,784) | -36% |
| 2. Additional Capital | - | 1,965 | 14,017 | 10,756 | 6,148 | 9,417 | 9,417 | 0% |
| 3. Capital Reserve | - | 12,240 | - | - | - | - | 0 | 0% |
| Percent of operating revenues | 32.2% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | -7.2% | -22% |
| **Uses, total** | **$ 155,597** | **$ 151,290** | **$ 152,241** | **$ 157,354** | **$ 161,478** | **$ 166,290** | **$ 10,693** | **7%** |
| **Balance** | **$ 20,973** | **$ 29,968** | **$ 43,248** | **$ 41,484** | **$ 45,879** | **$ 50,906** | **$ 29,933** | **143%** |
| **Annual Net Operating** | $ 20,973 | $ 29,968 | $ 28,786 | $ 32,598 | $ 31,732 | $ 33,156 | 12,183 | 58% |
| **Accumulated Fund Balance** | | | $ 14,462 | $ 8,887 | $ 14,146 | $ 17,750 | 17,750 | 100% |

## STRATEGIC CONSIDERATIONS

Overall, the Port's current financial outlook is positive, projecting operating surpluses each fiscal year and meeting the Capital Policy requirements through direct investments in both the Base and High cases. Making the forecast a reality will require the Port to focus on several key factors:

Deepening the Revenue Base – Unlike prior financial plans that reflected declining operating surpluses as expenditure growth outpaced growth in revenues, during this forecast period new sources of revenue buttress the Port's revenue base and allow sources to consistently outpace uses. The Port's deliberate efforts to reposition its assets for revenue generation, including expanding maritime operations, improving facilities to create new leasing opportunities, and implementing development projects, will stabilize the operating budget and support capital improvements to the Port's facilities over time. However, to achieve the stability projected in this plan, the Port must continue to apply staff and resources to successfully execute the revenue strategies outlined above.

Project Delivery and Strategic Investments – As the Port prioritizes funding for capital renewal projects, averaging $28.9 million annually in the Base Case, it must increase its rate of project delivery. To that end, the Port is currently forming a Project Management Office within the Engineering Division to mobilize resources to support higher rates of delivery. In addition to expanding the Port's capacity to deliver capital projects, the Port will continue to use public/private partnerships to deliver capital improvements to Port facilities. Additionally, the Port is exploring alternative project delivery methods such as best value and Construction Manager/General Contractor.

Leveraging Special Use Districts – The Port is becoming increasingly familiar with the formation and implementation of Infrastructure Financing District ("IFD") sub-project areas and CFDs. Funds from these districts will be critical to financing the Mission Rock and Pier 70 Waterfront Sites. As the Port pursues development opportunities it should continue to consider establishment of additional IFD sub-project areas and CFDs where the creation of property tax increment and/or special taxes may make projects financially feasible and the value of the project to the City is greater than the use of City tax dollars for required public infrastructure.

Strengthen Fiscal Practices – The Port's robust fiscal practices of maintaining a 15% Operating Reserve, dedicating one-time sources to Capital, and prioritizing 25% Operating Revenues for Capital have prepared the organization to meet financial emergencies and prioritized funding to address the Port's $1.2 billion State of Good Repair backlog. These practices have also met its credit rating agencies' expectations that the organization will attempt to offset risk, sustaining the Port's excellent credit rating. To further the Port's efforts in this area, Port staff will continue to analyze its policies to determine if any changes are needed as the Port prepares to move into the next decade.

**CONCLUSION**

The Port's Five Year Financial Plan for FY 2019-20 to 2023-24 reflects a very strong financial outlook that includes surplus revenues in each year of the Base, Low and High Case scenarios. Port Staff recognizes that the current Financial Plan relies upon the creation of new revenue streams from new and expanded leasing, development, and maritime operations. Without these sources, growth in Operating Expenses narrows in on growth in Operating Revenues, limiting the Port's ability to address its facility renewal needs. For these reasons, the Port must continue to identify efficiencies in the cost of operations and pursue additional opportunities that deepen its revenue base.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|---|---|
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| | And |
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| For: | Katharine Petrucione, Deputy Director, Finance and Administration Division |


**ATTACHMENT 1:** Port Five Year Financial Plan for Fiscal Year 2019-20 to 2023-24, Base, High and Low Case Scenarios