

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 Presentation on the Port's 10-Year Capital Plan for Fiscal Year 2019-20 to Fiscal Year 2028-29

DIRECTOR'S RECOMMENDATION: Informational Item

EXECUTIVE SUMMARY

Under Administrative Code Section 3.20, the City and County of San Francisco ("the City") is required to prepare a 10-year capital plan in odd numbered years that identifies the City's capital needs and proposes actions to fund that work. The purpose of this item is to provide an overview of the Port's proposed 10-Year Capital Plan for FY 2019-20 to FY 2028-29 and to solicit Port Commission and public feedback.

The Port's 10-Year Capital Plan for FY 2019-20 to FY 2028-29 ("Capital Plan") accompanying this report identifies \$3.5 billion in potential investments, including \$1.7 billion for state of good repair ("SOGR") and \$1.8 billion for enhancements. The Capital Plan identifies \$512.6 million in funding sources for SOGR, leaving a gap of \$1.2 billion in funding need to bring all Port assets into a state of good repair in the next ten years. The Capital Plan identifies a need for \$1.3 billion in enhancements and recognizes a gap of \$54 million on the Seawall Project, for which Port staff are seeking State funding. There is an additional \$584.2 million in potential need identified in the plan for conditional seismic work, an estimated cost for seismic retrofit which would only be required if future plans include an increase occupancy and change the use on the piers.

The Capital Plan highlights the progress the Port has made over the past two years to improve the condition of its assets. This success has been made possible by the Port's multi-faceted approach of dedicating one-time revenue sources and operating

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revenues to capital; securing new external sources of funding; and targeting available funds to strategic projects.

STRATEGIC OBJECTIVES

The Port's 10-Year Capital Plan for FY 2019-20 to 2028-29 is central to meeting crucial *Stability* objectives of the Port's Strategic Plan:

- **Seek traditional and innovative solutions to the Port's capital plan funding gap** – The Capital Plan is essential for understanding the size and nature of the funding gap and lays out a vision for seeking non-Port revenue for resiliency work and public-private partnerships that improve state of good repair, enhance the waterfront, and generate revenue for future capital investments.
- **Step up to, and subsequently exceed, policy to set aside 25% of operating revenue to capital** – The investment of Port revenue in Capital is a key piece of the Port's strategy for addressing its historic backlog of need and has helped the Port achieve many of the accomplishments detailed in the Plan.

BACKGROUND

The Port of San Francisco's 10-Year Capital Plan ("Plan") provides a full inventory of the Port's capital needs and projected funding sources to allow staff to identify and develop strategies for addressing unfunded need. Upon Port Commission approval, staff will submit the final Plan to the City's Capital Planning Committee for inclusion in the Citywide 10-Year Capital Plan.

The Capital Plan continues to provide a solid framework for the Port's investments to maintain and enhance its assets. In addition to spurring capital investments, the Capital Plan allows Port staff to make the case for City engagement on, and investment in, capital needs at the Port that are of citywide-importance, such as the Seawall.

As the following list of highlights illustrates, the Port has had many successes improving its capital assets. Since the last Capital Plan update, the Port has:

- **Completed revitalization of the eight 20th Street Historic Buildings at Pier 70**, some dating back to 1880s, that needed substantial investment to return to active use. The Port selected Orton Development Inc. for a public-private partnership to rehabilitate these buildings for use by office workers, retailers, artists, and manufacturing companies. Orton is completing construction and welcoming tenants into many of the buildings. This project reduced the Port's capital needs by more than \$78 million by addressing SOGR and seismic needs at the eight buildings and further enhancing the structures.
- **Completed entitlement of 68-acres of new mixed income neighborhoods at Mission Rock and Pier 70 and celebrated the start of construction at the Pier 70 Waterfront site.** These projects will build new infrastructure including streets, sidewalks and utilities, rehabilitate historic buildings, create parks and

open space to facilitate public access to the waterfront, construct significant affordable and market rate housing, and create space for artists, local manufacturing and commercial uses. These projects will eliminate nearly \$100 million in Port Capital needs. In addition, the Port secured approval for shoreline special taxes from both developments to protect the waterfront portwide.

- **Finalized the agreement with the National Parks Service** to keep the Alcatraz embarkation on Port property for the next 50 years, with an investment of \$34 million to maintain and enhance Port piers.
- **Secured overwhelming 83% voter approval on a General Obligation Bond for \$425 million for the Seawall Program.** Also secured a State grant of \$5 million for the Seawall and the Federal allocation of \$1.5 million for a New Start study of flood risk along the waterfront. This New Start appropriation represents the crucial beginning to a process that will culminate in a recommendation to Congress regarding additional federal funding to support shoreline resilience in San Francisco.
- **Completed the Waterfront Land Use Plan (“WLUP”) update** that clarified the public’s interest in historic rehabilitation of the piers and properties in the historic districts and supplies the Port with more tools to provide for such rehabilitation in lease terms.
- **Renewed the restrooms and utilities and installed an ADA lift at Pier 31 and 29½,** buildings that contribute to the Embarcadero Historic District.
- **Improved life-safety conditions** with the installation of fire standpipes at piers 33 and 28. Standpipe systems create easy access points for the Fire Department to connect hoses along the pier, enhancing their ability to fight fires in the Port’s historic piers.
- **Completed \$1.6 million in maintenance on a float at China Basin.** This float is an essential part of the Port’s public water transportation infrastructure; it enables ferry service to events at AT&T Park.
- **Repaired various pier substructures with Port crews** including wharfs J3 and J8. Port crews also removed dilapidated piles along Islais Creek, reaping ecological and aesthetic benefits.

TEN YEAR CAPITAL NEED

The Port’s 10-Year Capital Plan for FY 2019-20 to 2028-29 identifies \$3.5 billion in total potential capital investments, including \$1.7 billion in state of good repair and \$1.9 billion in enhancements. The enhancements category consists of \$484.1 million for the new Seawall Resiliency Project, \$786.4 million for other enhancements and \$584.2 million for conditional seismic improvements.

Figure 1, below, summarizes adjustments to the Port’s 10-Year investment need for State of Good Repair and Enhancements from the prior plan. Overall, the updated Capital Plan represents a \$185.3 million increase in need for state of good repair investments and an increase of \$66.1 million for enhancements.

Figure 1: Changes between Capital Plans (\$ millions)

	State of Good Repair				Enhancements				Grand total
	Backlog	Renewal	One-time	Total	Seawall Resiliency	Enhance-ments	Conditional Seismic	Total	
Prior Plan (FY 2018-27)*	\$722.1	\$543.9	\$226.2	\$1,492.2	\$493.5	\$733.3	\$561.7	\$1,788.5	\$3,280.7
Updated project costs estimates and completions	\$ (0.10)	\$ (28.00)	\$ (19.80)	\$ (47.90)	\$ (9.40)	\$ (38.33)	\$ (2.60)	\$ (50.33)	\$ (98.23)
Leased facility improvements by tenants		\$ (31.60)		\$ (31.60)				\$ -	\$ (31.60)
Development project improvements			\$ (36.70)	\$ (36.70)			\$ (37.97)	\$ (37.97)	\$ (74.67)
Missed renewals (FY 2018 & 2019)	\$ 5.34	\$ (56.95)	\$ 51.28	\$ (0.33)				\$ -	\$ (0.33)
New years nine & ten (FY 2028 & 2029)		\$ 120.83		\$ 120.83				\$ -	\$ 120.83
Escalation (5.75% and 6%)	\$ 87.97	\$ 66.30	\$ 26.73	\$ 181.00		\$ 91.41	\$ 63.03	\$ 154.44	\$ 335.44
Current Plan (FY 2020-29)	\$815.3	\$614.5	\$247.7	\$1,677.5	\$484.1	\$786.4	\$584.2	\$1,854.6	\$3,532.1

* Adjusted to correct categorization of \$248.4 million in missed renewals of substructures from one-time to backlog.

These changes are due to the following:

Work Completed – Staff logged completed projects, which removed them from backlog, renewals, or one-time needs. This includes projects undertaken by the Port and by its tenants, where the tenant has responsibility for facility maintenance. For example, the Port completed annual maintenance dredging, repaired the roof on the building at Pier 23, and modernized the elevator in Roundhouse 2.

Updated Cost Estimates – Staff updated project costs and the timing of renewal needs to reflect more recent estimates, where available (e.g., as a result of a more extensive engineering analysis and routine site assessments, design, or third-party cost estimates performed as part of the Capital Improvement Plan and Capital Budget development). Such adjustments result in both increases and decreases to the identified need.

Passage of Time – As each year passes, new systems require renewal and others pass their optimal renewal date and become part of the backlog, if work was not completed. In addition, the plan includes annual escalation of costs at rates agreed upon by the City’s Capital Planning Committee to capture the increasing price of delivering capital projects and reflects the recent upward trend in construction costs in San Francisco.

FUNDING PLAN

The Capital Plan identifies that \$1.8 billion in funds will be available during the ten-year plan period. This is a \$410 million increase over the prior plan. The growth in projected revenue stems largely from the Port's pursuit of external sources, including public-private partnership developments and state, local, and federal dollars for projects such as Mission Bay Ferry Landing and the Seawall Program.

The plan differentiates expenditure of revenue into two categories: 1) capital projects that help maintain the Port's facilities in good repair; and 2) enhancement projects that improve a facility beyond its original condition, or create new public infrastructure.

Figure 2 details the breakdown of planned capital expenditures and funding sources.

Overall, the plan reflects a balanced expenditure of funds that aligns with prior plans, with most of the Port's internally generated funding sources directed towards state of good repair projects, as this is the most flexible source available to the Port and can cover work that is less often a match for external sources. Enhancement projects are funded largely with externally generated revenue.

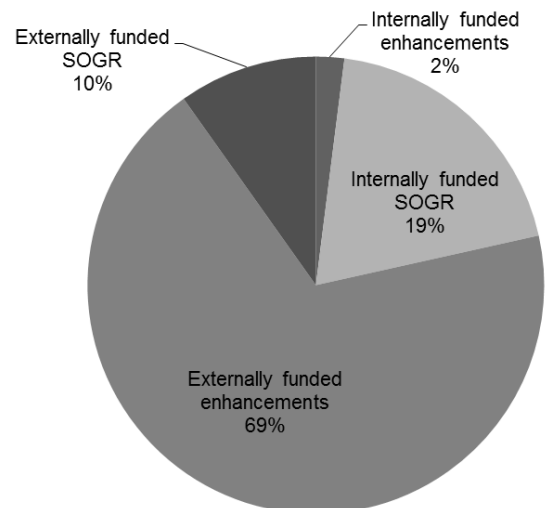
Figure 2: Detailed Sources and Uses of Funds (\$1,000's)

All figures in \$1,000s							
Program / Project	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025 - 2029	Plan Total
SPENDING PLAN							
State of Good Repair							
Emergency Facility Repair	100	100	100	100	100	500	1,000
ADA	100	100	100	100	100	500	1,000
Dredging	15,180	5,869	8,008	7,956	8,000	40,000	85,013
Repair / Reinvestment	62,153	49,808	29,891	50,725	63,233	169,775	425,585
State of Good Repair Subtotal	77,533	55,877	38,099	58,881	71,433	210,775	512,598
Enhancements							
Parks and Open Space	9,619	5,550	5,550	5,550	15,725	32,375	74,369
Facility Improvements	4,164	4,187	4,967	5,767	4,289	23,146	46,520
Development Project Areas	155,282	197,978	110,073	57,636	40,824	54,317	616,110
Ferry Terminal Expansion Project	10,320					-	10,320
Seawall Resilience Project	12,500	13,000	73,000	90,400	90,400	150,800	430,100
Mission Bay Ferry Landing	39,100	-				-	39,100
Enhancements Subtotal	230,985	220,715	193,590	159,354	151,238	260,637	1,216,519
TOTAL	308,518	276,592	231,689	218,234	222,671	471,412	1,729,117
REVENUES							
Port Capital	20,200	16,465	22,502	26,453	19,105	104,028	208,753
Port Capital, Seawall	-	-	-	-	2,000	8,000	10,000
Port Tenant Improvements	15,997	7,869	5,634	11,692	37,052	75,023	153,267
Internal Funding Subtotal	36,197	24,334	28,136	38,145	58,157	187,051	372,020
Seawall External Funding	12,500	13,000	73,000	90,400	88,400	142,800	420,100
MBFL External Funding	38,600						38,600
Downtown Ferry Terminal Funding	10,320						10,320
Orton IFD Tax Increment		340	340	340	340	1,700	3,060
Neighborhood Parks and Open Space Bonds	10,399	6,000	6,000	6,000	17,000	35,000	80,399
Federal & State Grants	2,000	2,000	2,000	2,000	2,000	10,000	20,000
US Army Corps of Engineers	8,160	4,540	-	-	-	14,500	27,200
Development Projects (Including developer investments and public financing)	190,342	226,378	122,213	81,349	56,774	80,361	757,417
External Funding Subtotal	272,321	252,258	203,553	180,089	164,514	284,361	1,357,097
TOTAL	308,518	276,592	231,689	218,234	222,671	471,412	1,729,117

STRATEGIC APPROACH TO NARROW THE GAP

The Port is home to many historic resources, including the bulkhead buildings and finger piers along The Embarcadero and the shipyard warehouses and facilities at Pier 70. Caring for the Port's many aging, historic structures, while adhering to the Port's public trust mission, presents a challenge. The Port's need for capital investments has historically outpaced available funding, leaving a substantial backlog and requiring strategic decisions about how to best manage the Port's aging assets. As document in Figure 4, this Plan again forecasts a gap between need and available funding.

Figure 3: Sources and Uses of Funding by Percentage of 10-Year Revenue



The Port has risen to this challenge with a multi-faceted approach entailing dedicating one-time sources and an annual minimum of 25 percent of operating revenues to capital; securing new external sources of funding for capital needs and non-revenue generating projects; and targeting available funds to strategic projects. Details on these strategies follow.

Figure 4: Deferred Needs (\$ millions)

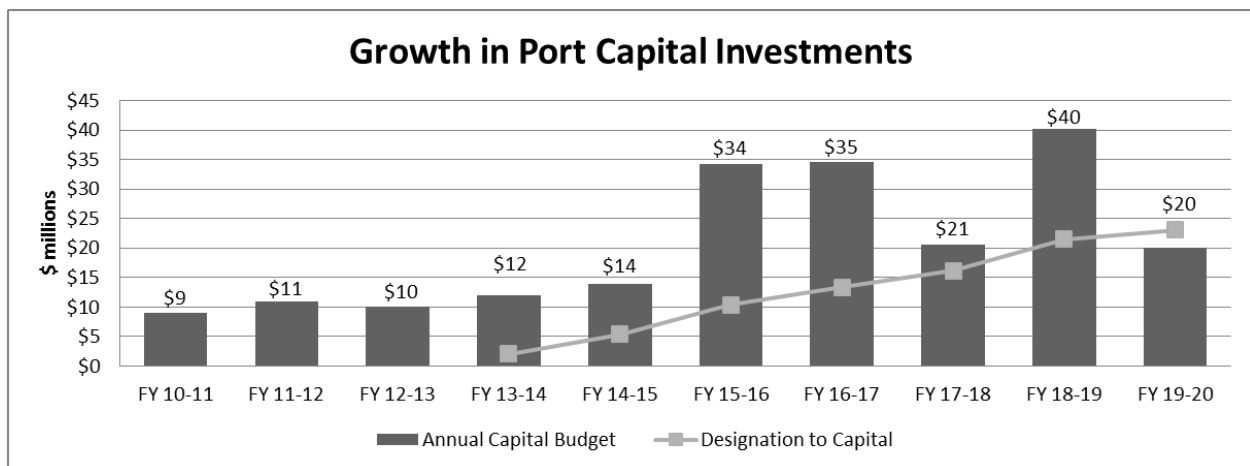
	State of Good Repair	Enhancements*	Total
Need	\$1,677.5	\$1,270.5	\$2,948.0
Revenue	\$512.6	\$1,216.5	\$1,729.1
Unfunded gap	\$1,164.9	\$54.0	\$1,218.9
% need unfunded	69%	4%	41%

*Total Enhancement need is \$1,854.6 million. This chart excludes \$584.2 million in conditional seismic need, as that work is only pursued as facility uses change and revenue becomes available.

Committing Port Revenues –
In 2012, the Port Commission

adopted a capital policy that designates a minimum amount of operating revenue to support capital projects. Pursuant to this policy, a minimum of 25 percent of Port operating revenue is set aside annually with the goal of providing a stable and growing source to fund capital expenditures. The Port has met or exceeded its capital funding target in its budget every year since the Port adopted the policy and anticipates meeting the target throughout the Capital Plan period. It is also the Port’s practice to allocate one-time and surplus revenues to annual capital expenditures. Thanks to this policy, the Port has experienced several years of record capital budgets, enabling increased investment in state of good repair work, most of which maintains or expands revenue generation. The larger capital budget years charted in Figure 5 are the result of the dedication of one-time revenues and surplus revenue to capital. The surpluses resulted from a mix of growth in revenues and lower-than-budgeted operating expenses.

Figure 5: Port’s Capital Budget and Designation to Capital Over Time¹



¹ Note that revenue designated to capital in one fiscal year is collected that year and available to budget to capital in the subsequent year.

Capital Improvement Program – For more than a decade, the Port of San Francisco has used its Capital Plan to guide capital investments and its biennial Capital Budget to allocate funding to specific projects. To bridge the gap between the distant ten-year time span of the Capital Plan and the immediacy of the two-year Capital Budget and facilitate strategic analysis, the Port developed its first five-year Capital Improvement Program (CIP) for FY 2018-19 through 2022-23. This five-year perspective also allows staff to consider the time span necessary to conceive, design, and deliver capital projects. 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.

Pursuing Additional Revenue – Securing outside funding from grant programs, other governmental sources, and public-private partnerships is key to addressing the Port’s capital need and to support non-revenue generating enhancements such as parks and open-space. The Port’s pursuit of such sources is paying off, as external sources make up nearly 80% of the project Capital investment over the next ten years. Also, the diversity of external sources secured by the Port has grown in recent years to include new Special Use Districts, a special tax for shoreline resiliency, and a new \$425 million General Obligation Bond for the Seawall Program.

Highlight: Special Use Districts – To afford necessary public infrastructure and make development projects feasible, the Port and its partners have sought to take full advantage of Special Use District public financing tools, including Infrastructure Financing Districts and Community Facilities Districts. These tools reduce the need for higher-risk and higher-cost developer capital investments and improve Port-developer revenue-sharing potential by controlling financing expenses with lower interest rates. Additionally, these sources are designed to protect the City’s General Fund and the Port’s Harbor Fund; in the event that there is a failure to pay debt service on bonds issued to finance the districts, bondholders will have recourse to lease or public financing revenues from the project rather than from the General Fund or Harbor Fund.

The Port has made great advances in recent years to increase the role Special Use Districts play in Port public-private partnerships. The Port Commission and the Board of Supervisors formed the first Port IFD over the Orton project in 2016, with new sub-areas added in 2018 for the Pier 70 Waterfront Site and the Mission Rock projects.

These tools are critical to the Port’s ability to share in future revenue streams generated through the Orton, Forest City and Mission Rock development projects. By deepening the Port’s revenue base, these development projects are a critical strategy to address the capital backlog in the future.

Highlight: Embarcadero Historic Piers Request for Interest – The Port Commission-adopted policies that guide the WLUP update provide the Port additional tools to rehabilitate finger piers and generate revenue for other capital needs. Key among the new recommendations is direction to deliver public trust objectives – including a newly-defined “public-oriented” type of use- as part of financially feasible projects. In addition, the recommendations provide the Port the ability to lease facilities for longer terms,

subject to enhanced public review, to amortize high pier construction costs, capital improvements, and historic preservation.

Acting on these recommendations, the Port is assessing the viability of financially feasible public-oriented market-based concepts for the 13 remaining under-improved Embarcadero Historic District piers and the Agriculture Building. To gather information about the viability of and range of public-oriented concepts, the Port issued a Request for Interest to invite ideas and response from potential tenants and developers. The Port's desired outcome is to achieve the most pier upgrade and activities that invite the public as is financially feasible. The right approach to maximize public trust values for the restoration of the historic finger piers will vary from facility to facility.

Buildings in the RFI include the bulkhead and sheds at Piers 35, 31, 29, 23, 19 and 26, 28, 38 and 40. The facilities and underlying substructures in the RFI represent approximately \$250 million of the Port's state of good repair needs. While the actual scope of working undertaken for any projects that result from this effort will depend on the lease details, intended use, and portion of the facility being used, developments at any of these piers have the potential to reduce the Port's needs in future Capital Plans and will revitalize historic piers by leveraging external revenue for capital repairs and enhancements.

CONCLUSION

Thanks largely to a strong economy and the Port Commission's commitment to focusing resources on capital projects, this plan projects a \$1.8 billion investment in capital over the next ten years. The Port's Capital Budget for fiscal year 2018-2019 was a record high for the agency and more than double the Port's capital investment of ten years ago. The majority of this investment maintains the Port's existing assets in a state of good repair. At the same time, development projects like those at Pier 70 are leveraging external revenue to renew and enhance some of the Port's most vital historic resources, opening up former industrial areas to the public and breathing new life into the waterfront.

Additionally, other recent successes have put the Port on a strong path to protect and improve capital assets. First, through the Seawall Earthquake Safety Program and shoreline resilience the Port is taking a proactive approach to risk—planning for and addressing earthquake and sea level rise with the support of local, private, state, and federal funding—and using the effort to protect and enhance existing assets. Second, the Port hopes that its assessment of public-oriented concepts at the 13 remaining under-improved Embarcadero Historic District piers and the Agriculture Building will achieve meaningful pier upgrades with activities that invite the public in. Such projects would be a boon to the community, while likely reducing the Port's capital needs through external funding.

NEXT STEPS

Port staff welcomes and appreciates comments, input and feedback from the Port Commission and the public. Port staff will return to the Port Commission at its next regularly scheduled meeting on February 12, 2019 with a request to approve the proposed 10-Year Capital Plan for FY 2019-20 to FY 2028-29.

Prepared by: Ananda Hirsch, Capital Manager, Finance and Administration Division

and

Meghan Wallace, Finance and Procurement Manager, Finance and Administration Division

For: Katharine Petrucione, Deputy Director
Finance and Administration Division

ATTACHMENT 1: 10-Year Capital Plan for FY 2019-20 to 2028-29