

MEMORANDUM

March 8, 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 update on the first bond issuance request, in the amount of \$45.8 million, for the \$425 million General Obligation Bond to support Phase I of the Seawall Earthquake Safety and Disaster Prevention Program

DIRECTOR'S RECOMMENDATION: No Action – Informational Only

EXECUTIVE SUMMARY

On November 6, 2018, the citizens of San Francisco passed Proposition A with 82.7% voter approval, authorizing a \$425 million General Obligation Bond known as the Embarcadero Seawall Earthquake Safety Bond (“Seawall Bond”) to support the Seawall Earthquake Safety and Disaster Prevention Program (“Seawall Program”).

The purpose of this item is to provide information regarding the proposed first issuance of the Seawall Bond to allow for Port Commission consideration and feedback. Port staff will return to the Port Commission on March 26, 2019 for final approval of this proposal after seeking approval from the City’s Capital Planning Committee and prior to seeking approval from the Board of Supervisors. Staff is targeting the first bond sale to be completed before June 30, 2019.

The Port is requesting \$45.8 million, plus the costs of issuance, for the first Seawall Bond sale to support the planning and preliminary design phases of the Seawall Program. Work in these phases will include planning, site and geotechnical investigations, risk assessment, alternatives analysis, program development, identification of potential pilot projects, and the San Francisco Waterfront Storm Risk Management Study General Investigation (“Flood Study”) with the United States Army Corps of Engineers (“USACE”), which will analyze flood risks to the Port’s entire jurisdiction from Fisherman’s Wharf to Heron’s Head Park.

THIS PRINT COVERS CALENDAR ITEM NO. 8B

With approval of the first bond sale, funding appropriated to-date for the Seawall Program's \$500 million Phase I will equal \$52.9 million, plus the cost of issuance.

In addition to bond sale proceeds, other Seawall Program sources include \$9.0 million from the City's Revolving Fund, \$4.0 million of Port Capital, \$1.0 million from the Municipal Transportation Agency ("SFMTA") and \$1.0 million from the Planning Department, and a \$5.0 million grant from the California Natural Resources Agency.

The City Attorney has advised the Port that it may request reimbursement for its soft costs up to 20% of the bond issuance. An issuance amount of \$45.8 million will allow the Port to reimburse approximately \$9 million of prior expenditures on the Seawall Program. In this bond sale, the Port will reimburse \$6 million of the City Revolving Fund contribution and a portion of the Port, Planning Department, and SFMTA contributions, totaling \$3.0 million.¹ The Port will retain this \$3.0 million to invest in other non-bond eligible Seawall Program expenses, including funding for the USACE Flood Study that is in the geographic area south of the Embarcadero Seawall and Mission Creek, including portions of Mission Bay and Islais Creek. The Port will reimburse the remaining \$3 million to the City Revolving Fund from the second GO Bond sale.

Staff anticipates returning to the Port Commission in Fiscal Year ("FY") 2020-21 for the second bond sale to complete Preliminary Design and initiate Final Design and Construction of Phase I Projects. The Port will also continue to pursue other state and federal sources to secure full funding for Phase I and the remainder of the Seawall Program.

STRATEGIC OBJECTIVES

The Seawall Bond issuance will support the following goals of the Port's Strategic Plan:

Resiliency – By leading the City's efforts to address threats from earthquakes and flood risk through infrastructure improvements to the Seawall and other Port property.

Stability – By securing external funding sources to address the Port's state of good repair needs. The Seawall Bond is the primary local source for Phase I of the Seawall Program and may be used to leverage federal funding for both short and long-term infrastructure improvements.

BACKGROUND

In 2015, under the leadership of Mayor Lee, the Port launched the Seawall Resiliency Project (later renamed the San Francisco Seawall Earthquake Safety and Disaster Prevention Program), a major City and Port effort to improve earthquake safety and performance of the Embarcadero Seawall, provide near-term flood protection improvements, and plan for additional long-term resilience in the face of sea level rise.

¹ After consulting with the City Attorney, Port staff does not recommend using bond proceeds to reimburse the remaining \$3.0 million of the prior Port, Planning, and SFMTA appropriations to the Seawall Program because staff is not certain that these costs – which include certain general Seawall Program outreach and education activities – are eligible for general obligation bond funding.

Phase I will develop the overall Seawall Program and construct critical improvements to reduce the risk to life safety and sustain emergency response capacity following a major earthquake. Later phases will continue to reduce seismic and flood risk along the Embarcadero Seawall by both strengthening the Seawall and implementing adaptive measures to manage sea level rise. Phase I is currently budgeted at \$500 million with completion targeted for the end of 2026. Subsequent phases will be delivered over the next few decades with a total estimated cost of \$5 billion to fully seismically stabilize the seawall and adapt the shoreline to sea level rise.

Funding Plan

In 2016 the City Administrator convened a Seawall Finance Working Group to analyze potential project funding strategies and prepare a set of recommendations. Given the Seawall's vast need, the SFWG realized that the City could not fund the Seawall Program through only local means and considered 48 local, regional, state and federal funding sources. The group's final report, issued in July 2017, organized its recommendations into three areas: primary, secondary and supplementary funding sources. The primary recommendations for the Port and the City to pursue are as follows:

- A. **General Obligation ("GO") Bond** to serve as the primary local funding strategy.
- B. **A Community Facilities District ("CFD")** to fund sea-level rise adaptations and seismic mitigation measures on the Seawall.
- C. **Local Property Tax Increment Revenue** generated from Infrastructure Finance Districts ("IFDs") on new development parcels on Port property.
- D. **State Property Tax Increment Revenue** generated from IFDs from new development on Port property, to be pursued through legislation at the State level.
- E. **State Resilience GO Bond** funding pursued through legislation at the State level.
- F. **U.S. Army Corps of Engineers Funding** at the federal level through the CAP 103 Program (initiated in June 2017) and a General Investigation (initiated in September 2018).

Since the release of the Seawall Finance Working Group report, Port staff has actively pursued each of these sources, achieving particular success with the award of the Congressionally authorized New Start for a General Investigation by the U.S. Army Corps of Engineers, securing a \$5.0 million grant from the State Natural Resources Agency, and receiving voter approval for a local General Obligation Bond measure.

SEAWALL BOND

On April 10, 2018, the Port Commission recommended through Resolution 18-25 that the Capital Planning Committee and Board of Supervisors place a minimum \$350 million Seawall Earthquake Safety GO Bond measure on the November 6, 2018 ballot. The Port Commission further authorized the Executive Director to request an increase

in the GO Bond amount in the event the City’s Controller determined that there was additional bonding capacity available to support the Seawall Program.

The Controller did identify addition bonding capacity for the Seawall Program and the City’s Capital Planning Committee (“CPC”) approved a \$425 million General Obligation Bond measure to support the Seawall. The Board of Supervisors subsequently voted unanimously to place Proposition A on the November 2018 ballot. On November 6, 2018, the citizens of San Francisco passed the proposition with 82.7% voter approval, authorizing a \$425 million Seawall Bond.

While the Seawall Bond is the primary source for Phase I of the Seawall Program, it also represents the local down payment on a \$5 billion program that the City anticipates will be delivered over the next few decades.

First Bond Sale

With the passage of Proposition A, Port staff now recommends moving forward with the first bond sale of \$45.8 million, plus the cost of issuance. As detailed in **Figure 1**, these funds, combined with other Port, City and state funding, will provide \$52.9 million, plus the cost of issuance, to support the planning and preliminary design phases of the Seawall Program through FY 2020-21.

Figure 1: Proposed Funding and GO Bond Issuance Expenditures (\$ millions)

PROGRAM PHASE*	PLANNED ACTIVITIES	PHASE YEARS	SPENDING	CUMULATIVE COST
Vulnerability Study	Vulnerability Study	15/16	\$ -	\$ -
Planning	Project Management & Stakeholder Engagement Planning Services USACE CAP 103/GI	16/17	\$ 0.3	\$ 0.3
		17/18	\$ 4.8	\$ 5.1
		18/19	\$ 14.3	\$ 19.4
Preliminary Design	Project Management & Stakeholder Engagement Environmental Approvals Preliminary Design USACE GI	19/20	\$ 15.0	\$ 34.4
		20/21	\$ 18.5	\$ 52.9
		21/22	\$ 33.2	\$ 86.1
Final Design and Construction	Project Management & Stakeholder Engagement Final Design Design Support Services Construction Management Construction USACE GI	22/23	\$ 111.4	\$ 197.5
		23/24	\$ 92.6	\$ 290.1
		24/25	\$ 92.3	\$ 382.4
		25/26	\$ 92.0	\$ 474.4
		26/27	\$ 25.6	\$ 500.0

Supported by the 1st Seawall Bond Issuance, Port/Planning/SFMTA Funds, and State Grant

*Overlap in phase years is expected

Examples of work funded includes site and geotechnical investigations, advanced earthquake and flood risk assessments, alternatives development and analysis, identification and preliminary design of pilot projects to test viability of subsurface and bayside construction techniques including ground improvements, beginning Preliminary Design and Engineering of Phase 1 Projects including advancement of NEPA/CEQA and permits, and advancing the USACE Flood Study.

As detailed in **Figure 2**, through FY 2018-19 the Port and City have appropriated \$20.0 million in funding to support the Seawall Program. Sources of these funds include the City’s Revolving Fund (\$9.0 million), Port Capital (\$4.0 million), contributions from the SFMTA and Planning Department (\$2.0 million), and a grant from the California Natural Resources Agency (\$5.0 million). Following the first GO Bond issuance, \$6.0 million will be restored to the City’s Revolving Fund and \$3.0 million in Port/Planning Department/SFMTA Seawall Program expenditures will be reimbursed to allow the Port to reallocate those funds to other non-bond eligible Seawall Program costs. The Port will reimburse the remaining \$3 million to the City’s Revolving Fund after the second GO Bond sale.

Figure 2: Program Funding (\$ millions)

Fiscal Year	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23-27
Funding Sources								
Port Capital	\$2.9		\$1.1					\$10.0
City Revolving Fund	\$1.0	\$3.0	\$5.0	(\$6.0)		(\$3.0)		
SFMTA Contribution	\$0.5	\$0.5						
Planning Dept Contribution	\$0.5	\$0.3	\$0.3					
State Sources			\$5.0					
2018 General Obligation Bond			\$45.8			\$250.0		\$129.2
Other Funds*								\$54.0
Total Planned Sources	\$4.9	\$3.8	\$57.2	(\$6.0)	\$0.0	\$247.0	\$0.0	\$193.2
Cumulative Sources	\$4.9	\$8.7	\$65.8	\$59.8	\$59.8	\$306.8	\$306.8	\$500.0
Current Funding								
First Bond Sale (ex. cost of issuance)								

*Pending

Planning, Engineering and Environmental Services Contract

On April 24, 2017, the Port issued a request for proposals for planning, engineering and environmental services for the Seawall Program, with submittals due in June 2017. Port staff completed the Planning, Engineering, and Environmental Services RFP evaluation and selected CH2M HILL Engineers, Inc. (now Jacobs Engineering) as the most-qualified consulting firm to provide the planning, engineering, and environmental services. By Resolution 351-17, the Board of Supervisors authorized the Port to enter a contract with CH2M HILL Engineers for \$39,984,714 to provide these services with a contract term of ten years.

Both the RFP and the contract envisioned that the Port might add future flood control work with USACE to the contract, but the initial contract did not include scope or budget for this work. On June 11, 2018, USACE released its FY 2018-19 Workplan for supplemental funding of civil works and other projects across the United States, including a “new start” appropriation to study flood risk management of San Francisco’s waterfront. The Port has since entered into an agreement with the USACE to study flooding along the entire Port waterfront, including the Embarcadero Seawall for the

next four years. To accommodate this greatly expanded scope of work, as well as address increased geotechnical and planning work for the Seawall Program, the Port intends to negotiate a contract amendment with Jacobs. Port staff will seek Port Commission, Civil Service Commission and Board of Supervisors approval of this contract amendment within the coming months. A portion of this added scope, which is expected to occur between now and FY 2020-21, would be funded by the proposed bond sale.

BOND SALE SCHEDULE

The tentative schedule for the first GO Bond issuance is:

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| November 6, 2018 | Proposition A, for the Embarcadero Seawall Earthquake Safety Bond, passed with 82.7% yes vote. |
| March 12, 2019 | Port staff to provide an informational update to the Port Commission on the 2018 Seawall Bond and the Port's intentions to seek approval of a first bond issuance of \$45.8 million, plus the costs of issuance, from CPC and the Board of Supervisors. |
| March 25, 2019 | Port staff seeks approval from CPC to move forward with the first Seawall Bond issuance. |
| March 26, 2019 | Port staff seeks recommendation from the Port Commission that the Board of Supervisors approve the first Seawall Bond issuance of \$45.8 million, plus the costs of issuance. |
| April 2, 2019 | Port staff introduces ordinance and resolution to the Board of Supervisors requesting authorization for the first Seawall Bond issuance. |
| June 2019 | Board of Supervisors approval |
| June 2019 | First Seawall Bond issuance |

BOND ACCOUNTABILITY

Managing General Obligation Bond proceeds will require the Port to provide regular reporting to the City. Concurrent with the introduction of legislation at the Board of Supervisors requesting approval of the first Seawall GO Bond sale, the Port will submit a Bond Accountability Report to the Board outlining the proposed uses of bond funds and the expected expenditure schedule. Once the first GO Bond sale is complete, the Port will be required to provide quarterly updates on the expenditure of the funds to the Citizens General Obligation Bond Oversight Committee.

CONCLUSION

The Seawall Earthquake Safety and Disaster Prevention Program is a critical effort to improve the infrastructure that supports the City's northern waterfront. This first bond issuance of \$45.8 million, plus the costs of issuance, will support completion of the Planning Phase, initiate Preliminary Design, support the USACE General Investigation, and identify proposed pilot projects that will test of the Seawall Program, allowing the Port to develop and evaluate alternatives and prioritize Phase I projects based on the evaluation.

Prepared by:

Carlos Colón,
Seawall Program Administrator

Meghan Wallace, Finance & Procurement
Manager, Finance and Administration

For:

Steven Reel,
Seawall Program Manager

Katharine Petrucione, Deputy Director
Finance and Administration

Brad Benson,
Waterfront Resilience Director