



Waterfront Plan Working Group

Meeting: March 9, 2016

Finance and Budget Meeting Notes

Members Present: Grant Ballard, Kirk Bennett, Kevin Carroll, Chris Christensen, Jeffrey Congdon, Jane Connors, Jon Golinger, Ellen Johnck, Ken Kelton, Janice Li, Ron Miguel, Stewart Morton, Rudy Nothenberg, Jacquelyn Omotalade, Karen Pierce, Tom Radulovich, Alice Rogers, Jasper Rubin, Cristina Rubke, Peter Summerville, Dilip Trivedi, Anne Turner, Corinne Woods, Dee Dee Workman

Absent: Reid Boggiano, Mike Buhler, Carolyn Horgan, Aaron Hyland, Stephanie Greenberg, Michael Hamman, Earl James, Frank Rescino, Linda Fadeke Richardson, John Tobias.

1. Welcome to Working Group and Public

Rudy Nothenberg, Co-Chair, Working Group

- Welcomed attendees, briefly described evening's program, and introduced interim Port Director Elaine Forbes
- Click this link to view the PowerPoint presentation: <https://sfgov.org/sfport/file/1901>
- Click this link to the meeting video:
http://sanfrancisco.granicus.com/ViewPublisher.php?view_id=183

Elaine Forbes, Interim Port Director

- Introduced herself and thanked the Working Group for their effort and dedication

Responses to Questions

- **Is the Seawall 351 site now grouped in with "undeveloped seawall lots"?** Yes, since the developer has terminated proposed project, the lot will be placed under rubric of "undeveloped seawall lots".
- **Does the Port have an organizational chart to share?** Yes, staff will provide this group with an organizational chart.

Rudy Nothenberg, Co-Chair, Working Group

- Noted that the process timeline has changed and that the next two Working Group meetings will cover resiliency, sea level rise (March 23) and seismic structural study of the seawall (April 13).
- Asked Working Group to accept February 10, 2016 Meeting Notes, which were then accepted.
- Janice Li added that the upcoming resiliency topics were originally scheduled to take place in one meeting but are being separated into two. The June end date to Part 1 will be extended.

Diane Oshima, Assistant Director for Waterfront Planning

- Provided historical context about the relationship between the Waterfront Plan and Port finances
- Public-private partnerships have had transformative effects on the waterfront
- Costs of rehabilitation and enhancements are higher than we expected early in the waterfront planning process
- Today, the Port has utilized a greater range of financial tools which Wallace and Forbes will discuss this evening
- A variety of tools and knowledge can help to realistically address the capital plan and help to further the Port's values
- To guide part 1 of the Waterfront Plan process, we have posed policy questions, "What are the Port's existing and future revenue sources? How does the capital budget process advance Waterfront Plan objectives?"
- In part 2 of the Working Group process we will start to look at priorities and the financial information that you hear today will be useful for this

2. Overview of Port Finance and Budget

Elaine Forbes, Interim Port Director (current) and Chief Financial Officer
Meghan Wallace, Finance and Procurement Manager

Elaine Forbes and Meghan Wallace presented an overview of the Port's finance and budget process. Specifically, the presentation described four key "tools" (i.e. planning and budgeting documents) utilized by the Port to manage Port financial resources and investments, which also were described in a March 2, 2016 Port Budget and Finance Overview briefing paper provided to the Working group and public:

- 10-year Capital Plan;
- 2-year Capital Budget (and associated project funding criteria);
- 2-year Operating Budget; and
- 5-year Financial Plan.

The presentation described the way in which the Port utilizes these tools and the interplay and shared-influence among them, and the strong connection between the Waterfront Plan values and the capital

project funding process. The Port highlighted two recent projects as case-studies, Pier 27 Cruise Terminal & Plaza, and Pier 70 Orton Development Project, to illustrate the variety of funding sources used to revitalize Port property. Both projects significantly reduce the Port's maintenance and capital backlog burden, and deliver enhancements to the public in service of the trust and Waterfront Plan goals.

Key points of the overall presentation include:

- ✓ **Structural Deficit** – Port capital needs far exceed Port revenue production
- ✓ **Conservative financial policies and operating budget management** result in more dollars for capital investment
- ✓ **The Port leverages many outside sources of funds (“OPM”)** for repairs and enhancements; these are real game changers in the Port's financial position
- ✓ **Cash is not the only consideration** – development and private investment reduces the capital backlog, meets Public Trust goals, transforms the waterfront
- ✓ **Interim uses continue to be vital** for sustained operating revenues
- ✓ **Seawall lots are important revenue opportunity sites** to enable capital improvements

A copy of the slide presentation and the background report provided for the meeting can be found at: <http://sfport.com/waterfront-plan-archives>.

Questions [from the Working Group and members of the public] were invited throughout the presentation, briefly summarized below, as answered.

3. Responses to Questions

- **What does it mean to be “in state of good repair”?** The Port's general standard for “State of Good Repair” includes 1) Basic repairs and improvements to existing facilities that support continued leasing and revenue generation; and 2) Infrastructure improvements, including seawall, substructure, and utility repairs that respond to the shared objectives of protecting public safety, improving environmental quality, and responsible stewardship of historic resources along the waterfront.

The Port assesses conditions using a software modeling tool which generates annual updates based on updated inputs, i.e. whether repairs have been performed or not. For example, think of home that needs a new roof every year—a corresponding model would ask us whether the roof was repaired this year. If the answer is “no” then the cost of roof repairs would be added to the grand total of deferred maintenance.

- **Did it take a long time to get into this state of disrepair?** Yes, it has taken the Port's over 150 years of existence to get to this condition. The deferred maintenance load was already significant in 1969, when the Port was transferred to San Francisco pursuant to the Burton Act. The needs of the Port's facilities are projected to escalate over the coming 10 years as they age further.

- **How does the Port manage its general obligation bonds (GO Bonds)?** The City is the issuer of GO Bonds. GO Bonds are backed by the full faith and credit of the City and paid from its general revenues (taxes). The City's GO Bond program provides funding for City infrastructure that supports services to the public, such as parks, fire stations and hospitals.

The Port has received GO Bond funding for Port waterfront parks and open space only, by being included with in City Recreation and Parks GO Bond measures in 2008 (Port received \$33.5 million) and 2012 (Port received another \$34.5 million).

Can the Port extend its participation in City Bond programs? The GO Bond program is managed so that new debt is issued when prior GO bond debt is retired. The City has greater bonding capacity, but limits the GO bond program to avoid raising taxes. The City's Capital Planning Committee plans the schedule for issuing GO Bonds and programs slated to receive funding.

City resilience needs, including seismic strengthening of the Seawall present new public funding demands. The Mayor's operating rule to not increase the taxpayer burden for GO Bond debt might be reconsidered when it comes to addressing Seawall improvements.

- **Are roads like Cargo Way owned by the City or Port or are they more complicated?** Some roads on Portland were improved to City standards and accepted by the City, including maintenance responsibility. Other streets on Port land have not been approved to an acceptable standard, which remain as Port maintenance responsibilities.
- Comment suggesting that the Port should take roads off its ledger to help improve Port financial conditions as well as help with regular road improvements as some Port roads are hard to bike on. For example, Cargo Way is not accepted as a City street as is in poor state of repair. Also City Recreation and Parks may be able to perform Port parks maintenance. Marina Green is an example of a park on public trust land that is maintained by Rec/Park. The more the City can assume the better off the Port will be.
- **How are facility conditions assessed?** Port Engineering staff work with engineering consultants to evaluate facilities and provide condition reports.
- **Are there philanthropic opportunities to provide additional outside funding for Port?** The current budget does not take these into account and the Port has not sought them aggressively, but may consider such opportunities in connection with future parks projects. The Port recently hired a Grants Analyst who will identify and seek out grant and philanthropic opportunities.
- **Regarding Capital Project criteria, what are examples of projects that attract people to the waterfront ?** Primarily open space and public access projects, referenced as enhancements to

Port assets, such as the Ferry Plaza Improvement Project (proposed, Fiscal Year 2016-17). The GO Bond projects all fall under this category. The Pier 27 Beltline Building, Pier 29, Pier 29 ½ and Pier 31 are all revenue-generating capital projects the Port has recently invested in that, once repaired, will be made ready for lease with a predicted amount of cash flow. These investments are great examples of projects that address facility repair needs identified in the Capital Plan while improving the Port's cash flow.

- **Where does environmental remediation/clean-up fit into Port capital project expenditures?** Environmental projects are often highly- ranked under the Capital Project criteria by: 1) reducing Port liability; 2) promoting fisheries if water quality is improved; 3) addressing a health, safety, or threat to the environment; and 4) promoting natural resources, if applicable. Addressing environmental liabilities is part of the Port's custodial duty. A theme of the recent FYs 2016-18 Capital Budget was, in fact, a preponderance of funding for projects that address health and safety related projects, including installation of a new sediment cap off the shoreline of the future Crane Cove Park to prevent the disturbance and release of contaminants as a result of dredging activities at the neighboring ship repair facility.
- **What is the railroad related project recently funded in the Capital Budget?** The Quint Street Lead Track project is funded by a \$2,970,000 federal grant (plus 10% Port matching funds). It rebuilds connection between the Union Pacific/Caltrain mainline and Port cargo terminals and industrial properties south of Islais Creek. The Quint Street Lead is an approximately nine-tenths of a mile long freight rail spur track located on the south side of Islais Creek, just east of Third Street, which will provide improve freight rail access to the Port's terminals.
- **How much of the Port's annual budget goes to repay debt, and what is the Port's outstanding debt balance?** The Port has approximately \$100 million in outstanding debt, repaid as an expense in the Operating Budget of approximately \$7 million per year. The proceeds from this long-term debt paid for various capital improvements, and in that sense are part of the Port's ongoing effort to reduce the backlog of capital repairs needed. Regarding debt incurred specifically for the Cruise Terminal, Port increased the cruise-passenger facility fees by \$6 to cover the debt service related to that project.
- **How can Port prioritize uses on specific sites, such as cruise terminal move to Pier 27 instead of 30-32) without locking in uses that limit flexibility in the Waterfront Plan?** Pier 27 Cruise Terminal illustrates how the right site for development sometimes takes time to be determined. Pier 30-32 was originally considered because of its large size and the fact that it did not require costly dredging. In lean years, the Port's capital budget only covers dredging and basic repairs; the Port seeks to control dredging expenses to free up funds for capital projects. The Port had been seeking a new cruise terminal for 20 years. The Waterfront Plan's maritime policies are permissive and allowed Pier 27 to be improved for a new cruise terminal, although this site still requires dredging.

- **How do short- and long-term maintenance needs figure into the Port's budget planning?** The Port does examine the cost of maintaining the facilities over time, and analyzes whether the Port or its operator/tenants can perform the maintenance most economically. Example: at cruise terminal, operator can deliver security most cost-effectively; Port can maintain gangways most cost-effectively. Some new planned improvements, such as Crane Cove Park and Mission Bay Ferry Landing, will increase the Port's annual operating costs for maintenance and capital needs for dredging. Port staff is evaluating a variety of options for funding new expenses related to new open spaces, such as through the formation of Community Financing Districts (CFDs) and working with other City departments to implement programming.
- **What is the Port's annual budget for maintenance, and is there a sophisticated way of programming routine maintenance?** In the most recent budget the Port's budget for Maintenance was approximately \$20 million. While it is the largest Port Division, the work of approximately 130 employees is spread across the 7.5 miles of waterfront properties and pulls on the work of a wide variety of trades. The Port uses Oracle Enterprise Asset Management System to pro-actively schedule maintenance on regular cycles, so the current approach to facility maintenance is less reactive.
- **What does it mean to be an Enterprise Agency?** As an enterprise agency of the City, the Port receives no money from the City General Fund to fund regular operations. Like a business enterprise, the Port must support its operations with revenue generated by its properties and related operations.
- **The Burton Act restricts the use of Port property for City purposes, but does it prohibit the City from accepting or taking-on maintenance responsibilities?** No, the Burton Act does not prohibit the City from accepting certain roadways, for example. And the City can contribute to parks construction on Port property.
- **How does the Port of San Francisco differ from other ports?** The Port of San Francisco is unique because of its diversity of maritime and non-maritime business lines, vs. most other ports which focus on specific maritime industries and related uses. San Francisco has a broad portfolio of maritime uses, as well as broad portfolio of light industrial, retail, restaurant, and office uses that tie into the City's tourism and office base. The Port was able to survive the economic downturn because of this diverse economic base, whereas traditional cargo-oriented ports took a big revenue hit due to decreased cargo shipments.
- **When is the Cruise Terminal at Pier 27-29 expected to break-even?** The Port's 5-year forecast does not predict a break-even position for the cruise terminal; short by (\$800k)/year now. As special events increase, the forecast reduces that to (\$200k)/year. Pier 35 (the older cruise-landing facility) is still part of the Port's cruise operations, and the cost of dredging both sides of that pier is increasingly costly, but necessary when 2 or 3 ships are in port simultaneously

- **Are there opportunities for the Port to acquire additional assets at, say, Hunters Point?** The Port's jurisdiction ends at Heron's Head Park; Hunter's Point is a separate entity with development plans of its own. There are relatively few remaining development opportunity sites on Port property, including: cargo terminal backlands (low investment; good return); a few piers including 19-23 and 31; and seawall lots, which have good revenue potential.

4. Finance/Budget related questions for future consideration

Rudy Nothenberg asked the Working Group to identify any finance or budget related information that would be of particular value to the forthcoming policy discussions in Part 2 of the Update planning process. Working Group members suggested the following:

- A comprehensive list of "OPMs" (other people's money or funding sources outside of the Port) including: what they are (public and private); what it takes to get them; any existing barriers to obtaining them; and any conflicts that might arise from the Port seeking each source of funding
- Identify challenges to City's acceptance of some Port streets, utilities, parks
- Is there a predictive model that could inform the future better?
- Identify leased assets for which the lease-revenue does not cover the renewal cost of the asset.
- Identify the biggest capital and maintenance "hogs", and analyze the cost/benefit trade-offs
- Identify current dredging volumes and locations; more analysis of these costs and purposes
- Interested in discussing more progressive ideas around dredging and sea level rise; major opportunities for dredge spoils to be reused for shoreline protection rather than disposal
- How difficult is it to find a medium-term tenant that will assume pier maintenance responsibilities?
- Explore other Ports or models for funding capital improvements, ie Public Bonds, or a General Obligation bond for the Port. Give people a chance to support new funding sources for the waterfront
- Analyze existing projects to understand revenue potential/limitations for future projects
- Consider hiring staff that specializes in grants and find sources of OPM
- Circulate Port Commission staff reports that provide substantive information on these topics
- Consider further increases to cruise passenger fees (to achieve break-even on the project)

5. Next Steps

- Next Working Group meeting @ March 23, 2016, 6-8 pm @ Pier 1, on Sea Level Rise.