

MEMORANDUM

February 7, 2020

TO: MEMBERS, PORT COMMISSION
Hon. Kimberly Brandon, President
Hon. Willie Adams, Vice President
Hon. Gail Gilman
Hon. Victor G. Makras
Hon. Doreen Woo Ho

FROM: Elaine Forbes
Executive Director

SUBJECT: Informational Presentation on the Port's Fiscal Year (FY) 2020-21 and FY 2021-22 Biennial Operating Budget

DIRECTOR'S RECOMMENDATION: Informational Only

EXECUTIVE SUMMARY

This item provides an overview of the Port's proposed Fiscal Year (FY) 2020-21 and FY 2021-22 biennial operating budget to allow for Port Commission and public feedback. Approval of the budget is scheduled for the next Port Commission meeting on February 25, 2020.

The Port enters the next two fiscal years in a strong position. Port revenues remain healthy, driven by key investments in real estate and maritime that have come to fruition. Port staff continues to seek partnerships to restore and revive the historic piers into public serving and revenue generating destinations. Staff is advancing financing strategies to make Port lands feasible for new waterfront mixed income neighborhoods with strong community benefits and infrastructure investments. Additionally, staff is meeting the challenge to ensure a clean, safe, resilient and equitable Port.

The proposed budget reflects the Port's commitment to prudent fiscal management and economic stability while meeting new organizational needs. This spending plan manages growth in operating expenses while reflecting a commitment to the Port's strategic goals as well as addressing citywide priorities of: 1) clean and safe streets for everyone, 2) healthy and vibrant neighborhoods, and 3) focus on racial and social equity in San Francisco. The budget continues a marked increase in capital investments through both direct spending and by designating net operating revenues for future

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capital needs. The biennial budget also reflects urging from the Controller's Office and Mayor's Office of Public Policy and Finance to control costs and increase revenue to the greatest extent possible to combat the citywide trend of personnel cost growth outpacing revenue projections.

As shown in Table 1 on page 6, The Port's proposed FY 2020-21 budget is \$194.2 million, a \$34.8 million (21.8%) increase from FY 2019-20. This increase is largely driven by a \$33.7 million (167.2%) increase in capital spending attributable to the Mission Bay Ferry Landing, and includes \$112.4 million for operating expenses, \$53.9 million for capital and \$27.2 million for reserves. The proposed FY 2021-22 budget is \$170.4 million, a \$23.7 million (-12.2%) decrease from the proposed FY 2020-21 budget. This includes \$114.0 million for operating expenses, \$28.2 million for capital and \$28.2 million for reserves. While this budget is primarily funded by ongoing sources, staff recommend a total of \$21.5 million in one-time sources to fund the capital budget, and has requested \$5.0 million General Fund contribution to support construction of the Mission Bay Ferry Landing.

STRATEGIC OBJECTIVES

The proposed FY 2020-21 and FY 2021-22 biennial operating and capital budgets are integral to implementing the Port's FY 2019-23 Strategic Plan. Funding over the next two years directly aligns with delivery of the seven goals of the Strategic Plan:

1. Evolution

Actions in the next two years include:

- With major projects underway at Mission Rock and Pier 70, the Port is shifting resources from project entitlement to construction management and operations. Over time, these projects will help address significant facility renewal needs at the Port.
- Implementing Historic Pier Rehabilitation Program with Piers 38 and 40 and Piers 19, 23, 29 and 31. Successful development of the piers will address approximately \$200 million of Port's capital need.
- Waterfront Plan continues to undergo environmental review with completion expected in 2021. The Port is currently using the revised plan to guide its decisions in principle while the CEQA process occurs.
- Opening of Crane Cove Park in fall 2020 and completion of first parks at Pier 70 in 2021 and 2022 continues to expand the Port's network of parks and open spaces.
- Continued partnership with WETA to expand the ferry system network at the Ferry Building and Mission Bay will expand public transit and ease traffic congestion.
- Partnering with the SFMTA to install additional safety measures to the Embarcadero in 2020 as part of its Vision Zero Quick-Build initiative while continuing to progress the Embarcadero Enhancement plan.

2. *Resiliency*

Actions in the next two years include:

- Continued funding for the Waterfront Resilience Program will support planning to address the dual threats of earthquake and flooding risk along the 7.5 mile waterfront.

3. *Engagement:*

Actions in the next two years include:

- Additional resources for the External Affairs team, including plans to fully update the Port's website, will foster proactive Port marketing, community and media relations.

4. *Equity*

Actions in the next two years include:

- New funding to hire a position to support Social Responsibility Manager to drive the Port's equity, diversity and inclusion programs. The analyst will support the development and implementation of the Racial Equity Action Plan, supporting the Mayor's initiative to make the City more diverse and inclusive and the Port's work to advance racial and social equity.
- Resources dedicated to Port-wide training for all employees on the root causes and societal sustained practices that created racial inequity and the efforts of the Port to address these inequities.

5. *Sustainability*

Actions in the next two years include:

- Additional staff resources to support the update and implementation of the Port's Climate Action Plan. Staff will implement a generational multi-billion dollar program to address the impacts of climate change, specifically from sea level rise.

6. *Productivity*

Actions in the next two years include:

- Funding for numerous capital projects including improvements to the paving and fendering at Pier 80 to support the roll on/roll off cargo business, investments in state of good repair at Piers 33, 35 and 45 to support key Port maritime tenants and the secondary cruise terminal and investments in Roundhouse 2 and Pier 29 to enable leasing activity.
- The activation and care for the eight acres of parks and open space that will come online during the two budget years will require maintenance and management. The budget includes 3.0 staff to meet both of these needs. The budget funds a swing shift for the street environmental services unit of the Maintenance Division to ensure cleaner streets and sidewalks for the 24 million annual visitors to the Embarcadero. These additional resources will also allow the Port to shift laborers Monday through Friday to perform additional maintenance of the southern waterfront.

7. *Stability*

Actions in the next two years include:

- Budget includes funding to fully staff the Project Management Office to ensure timely delivery of the Port's capital program.
- Funding to acquire and implement a new asset management system to more efficiently track the Port's facilities, facilitate timely completion of facility maintenance and repairs and support better capital planning. Both fiscal years of the budget far exceed the policy requirement of investing 25% of operating revenue in capital, by directly investing and designating net operation revenues equal to 57% and 33% of operating revenues in each respective year. As in prior years, the budget includes a 15% Operating Reserve for Port Operating Expenses.

While the proposed budget does not meet the Port's long-range revenue objective of \$125 million, ongoing operating revenue continues to grow year after year, increasing from \$106.5 million in FY 2019-20 to \$117.8 million in FY 2020-21, as a result of strong growth in maritime cargo and cruise and the realization of new real estate leasing. Port staff continue to seek capital investments that will preserve and/or grow the Port's revenue base and will continue to prudently manage the operating budget to ensure a conservative balance between revenue and expenditure growth.

CITY BUDGET OUTLOOK

The City and County of San Francisco (City) has enjoyed an extended period of economic expansion. However, in the three most recent fiscal years, growth rates in local taxes have started to decline, and high rates of revenue growth are unlikely to be sustained as the local economy experiences constraints in housing, office space, and transportation. As the City predicts slower revenue growth, the City's increasing personnel costs are placing a higher demand on available resources. Considering these trends, the Mayor's Office of Public Policy and Finance currently projects a cumulative General Fund shortfall of \$419.5 million over FYs 2020-21 and FY 2021-22.

To address the budget deficit, the Mayor's Office of Public Policy and Finance directed General Fund departments to submit ongoing budget savings equal to 2.5% of their General Fund support for each fiscal year for a cumulative 5% savings. Additionally, to control growth in personnel costs the Mayor's Office has instructed all General Fund departments that they may not add any full-time equivalents (FTEs) to the budget. Enterprise departments were directed to absorb all known cost increases by increasing revenues or reducing expenditures. The Mayor did not restrict enterprise departments from adding new FTEs.

As an enterprise department, the Port must be self-sustaining. The proposed budget reflects careful management of Port resources, seeking to balance a diverse set of operating priorities, outlined by the strategic plan and articulated by the Mayor, with the need to invest in state of good repair for our facilities, and also control personnel expenses. The budget achieves that goal by absorbing operating expense growth

through revenue increases, while meeting the Port's operating reserve and capital policies. The budget includes recommendations for new permanent positions, partially offset by overtime savings, and programmatic positions which are contingent upon the availability of project funding and do not count towards the citywide position total.

PORT BUDGET OUTLOOK

Port revenues are strong, and this, combined with prudent and conservative financial management policies, have improved the Port's financial position. The recent Moody's update of the Port's outstanding revenue bonds to Aa3 is third party validation of this improvement. In FY 2020-21 and FY 2021-22, the Port's maritime portfolio continues to expand with growth in the cruise and cargo businesses driving increased revenue. Real estate revenue remains steady and new leasing, including leasable space recently built in the Backlands, creates modest growth. Additionally, multi-year strategies to make Port lands feasible for new waterfront mixed income neighborhoods with a plethora of public benefits and infrastructure are paying off. New special tax districts will be formed in the budget years and generate needed revenues to repay developer investment in public infrastructure and pay for the ongoing costs of parks and streets.

While the Port's economic improvement is notable, the organization remains deeply financially constrained. The unfunded capital backlog of \$1.7 billion in the Ten-Year Capital Plan is a key metric that demonstrates the Port does not earn as much as it needs to spend. Since the Port is self-supporting and fully dependent on lease revenues from its properties, failing to carefully manage this structural imbalance could undermine the value and vibrancy of waterfront to the public. Port staff's conscious efforts to hold down operating expenses has enabled historically high capital budgets that address critical needs and strategic investments, but the strain on the organization is clear.

Through strategic investments this budget proposal meets these challenges, provides stability in the face of an evolving economic climate and positions the Port to implement critical projects over the next two years and beyond. Examples of the major opportunities and challenges before the Port include:

Key Opportunities

- Implement the Historic Pier Rehabilitation Program and Piers 30-32 and SWL 330 solicitation process to transform these facilities into public-serving and economic resources for the Port. If the Port secures development partners for these facilities, it will address deferred maintenance and deliver exciting amenities for the South Beach and Northern Waterfront neighborhoods;
- Continue to support the development phase of two new mixed income waterfront neighborhoods at Pier 70 and Mission Rock, including adoption of a framework for activation of the planned parks at Mission Rock. Groundbreaking for the Mission Rock project will occur in spring 2020;
- Continue to develop Piers 80-96 to revitalize maritime assets for new uses and cargo markets. The Port is currently working to expand its dry bulk operations at

Pier 94, and Pier 96 remains an opportunity to further diversify the maritime cargo portfolio.

- Advance the Port's carbon reduction and carbon capture efforts, and implement best practices to support climate change solutions.
- Plan for the future in the Waterfront Resilience Program to reduce seismic and flood hazards to protect the treasured waterfront for future generations. The Embarcadero Seawall Program Multi-Hazard Risk Assessment will be released in spring 2020, guiding development of project alternatives.
- Fund improved transportation options, including the expansion and development of ferry terminals, to increase and diversify visitors to the Port, while providing support in the event of an emergency.

Key Challenges

- The capital backlog of \$1.7 billion remains a significant organizational challenge. The creation of a Project Management Office (PMO) in FY 2018-19, the establishment of a regular facility inspection program, and a capital policy to prioritize strategic investment in facilities holistically together form the Port's strategy to tackle the backlog;
- Growth in cruise calls is strong, but calls at the secondary terminal in FY 2021-22 are capped at 15 calls, flattening potential growth until the Port delivers a secondary clean power source;
- The Pier 70 shipyard remains underused. The Port continues to explore options to activate the shipyard with robust maritime uses and has identified interim uses, but has not yet developed a comprehensive plan for reuse.
- Providing a healthy, clean and safe Embarcadero for the Port's 24+ million annual visitors requires more maintenance resources, security and environmental stewardship. The budget provides additional cleaning, policing and environmental staff resources to meet this challenge.

BUDGET OVERVIEW

The Port's proposed FY 2020-21 budget is \$194.2 million, including \$112.4 million for operating expenses, \$53.9 million for capital and \$27.9 million for reserves. The \$34.8 million (21.8%) increase from the FY 2019-20 budget is made up of growth in operating expenses (\$7.4 million, 8.5%), capital investments (\$33.7 million, 167.2%), and a reduction in reserves (\$6.5 million, -18.9%).

The proposed FY 2021-22 budget is \$170.4 million, including \$114.0 million for operating expenses, \$28.2 million for capital, and \$28.2 million for reserves. The \$23.7 (-12.2%) decrease from the proposed FY 2020-21 budget is driven by \$1.7 million (1.8%) growth in operating expenses and \$0.3 million (1.2%) in reserves, offset by a decline of \$25.6 million (-47.6%) in capital investments.

Table 1: Summary of Total Port Sources and Uses (\$ Millions)

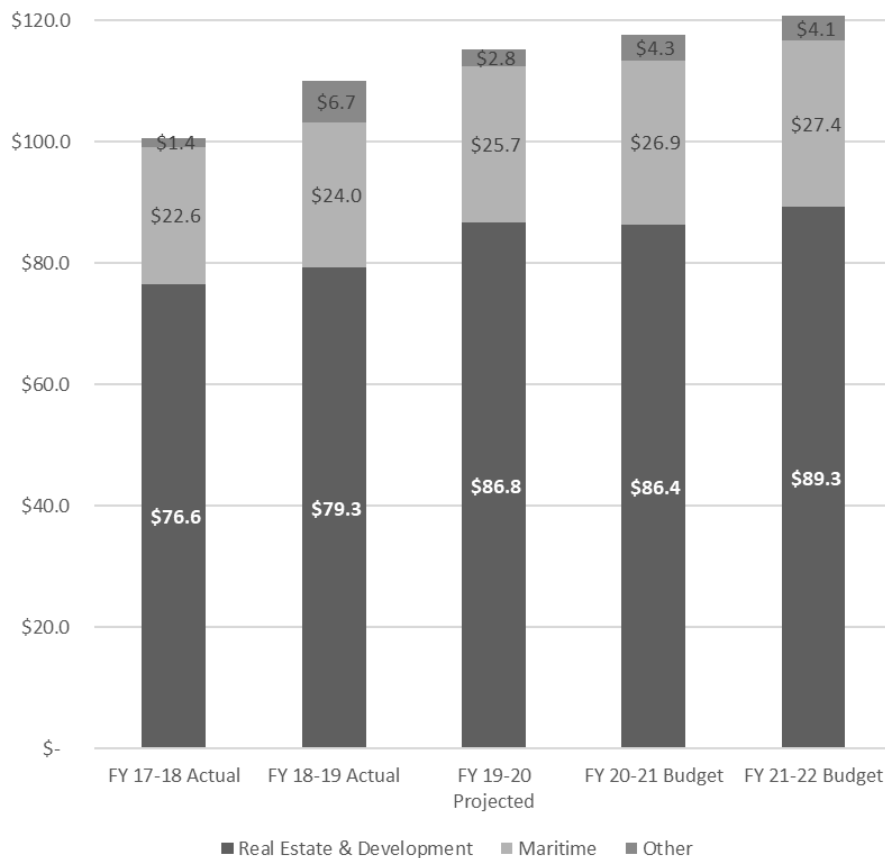
	Budget 2019-20	Proposed 2020-21	Change from FY 2019-20		Proposed 2021-22	Change from FY 2021-22	
			Amount	%		Amount	%
Sources							
Operating Revenues	\$ 106.5	\$ 117.8	\$ 11.3	10.6%	\$ 120.9	\$ 3.1	2.6%
Estimated Fund Balance	23.3	41.4	18.1	77.7%	35.8	(5.6)	-13.5%
South Beach Harbor & Marina	4.9	5.2	0.3	6.1%	5.4	0.2	3.0%
Development Recoveries	9.1	7.9	(1.2)	-13.2%	7.9	-	0.0%
Orton Services CFD	-	0.3	0.3	0.0%	0.3	0.0	3.0%
Transbay Payment	0.6	-	(0.6)	-100.0%	-	-	0.0%
Ongoing, Subtotal	\$ 144.4	\$ 172.6	\$ 28.2	19.5%	\$ 170.3	\$ (2.3)	-1.3%
Operating Revenue	15.0	4.1	(10.9)	0.0%	0.1	(4.0)	-97.1%
Federal Grants	-	0.4	0.4	0.0%	-	(0.4)	-100.0%
Capital Project Defunding	-	17.0	17.0	0.0%	-	(17.0)	-100.0%
One-time, Subtotal	\$ 15.0	\$ 21.5	\$ 6.5	43.6%	\$ 0.1	\$ (21.4)	-99.4%
Total Sources	\$ 159.4	\$ 194.2	\$ 34.8	21.8%	\$ 170.4	\$ (23.7)	-12.2%
Uses							
Operating Expenses	\$ 86.7	\$ 94.0	\$ 7.4	8.5%	\$ 95.7	\$ 1.7	1.8%
Programmatic Projects	4.6	6.7	2.1	46.4%	6.5	(0.2)	-2.9%
Development Projects	9.9	8.0	(1.9)	-19.2%	8.0	-	0.0%
South Beach Harbor & Marina	3.8	3.7	(0.0)	-0.8%	3.8	0.1	2.5%
Operating Expenses, Subtotal	\$ 104.9	\$ 112.4	\$ 7.5	7.2%	\$ 114.0	\$ 1.6	1.4%
Port Capital Appropriations	\$ 19.0	\$ 52.0	\$ 33.0	173.4%	26.7	(25.3)	-48.6%
Grant-Funded Projects	-	0.4	0.4	0.0%	-	(0.4)	-100.0%
South Beach Harbor & Marina	1.1	1.5	0.3	28.8%	1.5	0.1	4.2%
Capital Budget, Subtotal	\$ 20.2	\$ 53.9	\$ 33.7	167.2%	\$ 28.2	\$ (25.6)	-47.6%
Designation to Future Capital	\$ 21.6	\$ 13.8	\$ (7.9)	-36.4%	\$ 13.8	\$ 0.1	0.5%
15% Operating Reserve	12.7	14.1	1.4	10.8%	14.4	0.2	1.8%
Reserves, Subtotal	\$ 34.4	\$ 27.9	\$ (6.5)	-18.9%	\$ 28.2	\$ 0.3	1.2%
Total Uses	\$ 159.4	\$ 194.2	\$ 34.8	21.8%	\$ 170.4	\$ (23.7)	-12.2%

FUNDING SOURCES

The Port's proposed FY 2020-21 and FY 2021-22 budget is supported by a variety of ongoing funding sources, including operating revenues, fund balance, South Beach Harbor fees, and development recoveries. The capital budget is supported by the defunding and re-appropriation of balances from completed and deferred capital projects, totaling \$17.0 million (see "Informational Presentation on the Fiscal Year 2020-21 and FY 2021-22 Biennial Capital Budget", Item 11B). The budget is also supported by three one-time sources, a private gift of \$4.0 million dedicated to the Mission Bay Ferry Landing project and two cost sharing agreements for environmental cleanup at \$0.02 M and \$0.01 M in FY 2020-21 and 2021-22, respectively. Unlike prior years, there are no other projected one-time sources.

The Port has successfully managed its operations to generate consistent year over year growth in actual, projected, and budgeted operating revenues as detailed in **Figure 1**. The FY 2020-21 and FY 2021-22 revenue budget shows strong growth in Maritime revenues, particularly in Cargo, Cruise, and Other Marine lines, and shows the results of strategic investment in Real Estate and Development sources with new leases coming online. Real Estate and Development does, however, face softening parking revenues due to a variety of factors. These challenges urge the Port to continue to identify new revenue sources through investment in interim leasing opportunities at facilities such as Pier 9 and the Roundhouse, and to continue to pursue opportunities such as increased cargo traffic at Pier 80 through Pier 96.

Figure 1: Growth in Operating Revenue: Actuals, Projected, and Budgeted, FYs 2017-18 through 2021-22 (\$ Millions)



Total sources identified in the FY 2020-21 budget are \$194.2 million, a \$34.8 million (21.8%) increase over the FY 2019-20 budget. The year over year change in the budget is due to a \$28.2 million (19.5%) increase in Ongoing Sources and a \$6.5 million (53.6%) increase in one-time sources.

Total sources identified in the FY 2021-22 budget are \$170.4 million, a \$23.7 million (-12.2%) decrease from the proposed FY 2020-21 budget. This change is driven by a

\$2.3 million (-1.3%) decrease in ongoing sources and a \$21.4 million (-99.4%) decrease in one-time sources.

Operating Revenues

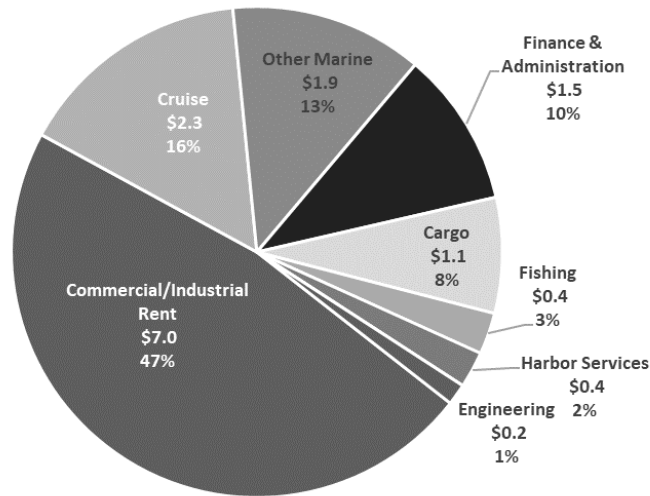
The Port's Operating Revenues include rents, fees and fines related to Maritime, Real Estate and Development, and other smaller revenue-generating operations of the department. As detailed in **Table 2**, Operating Revenues in FY 2020-21 are \$117.1 million, which represents a \$10.4 million (9.7%) increase from the FY 2019-20 approved budget. Operating Revenues in FY 2021-22 are \$120.2 million, a \$3.1 million (2.6%) increase from the proposed budget for FY 2020-21.

Table 2: Summary of Port Operating Revenues (\$ Millions)

	Budget 2019-20	Projected 2019-20	Change from FY 2019-20 Budget		Change from FY 2019-20 Projected		Proposed 2020-21	Change from FY 2020-21 Budget		Proposed 2021-22
			Amount	Percent	Amount	Percent		Amount	Percent	
MARITIME										
Cargo	\$ 7.0	\$ 8.3	\$ 0.9	13.0%	\$ (0.4)	-5.1%	\$ 7.9	\$ 0.2	2.7%	\$ 8.1
Ship Repair	-	-	\$ -	0.0%	\$ -	0.0%	-	\$ -	0.0%	-
Harbor Services	1.9	2.1	\$ 0.3	14.7%	\$ 0.2	8.2%	2.2	\$ 0.1	3.0%	2.3
Cruise	8.0	9.5	\$ 2.2	28.0%	\$ 0.8	8.5%	10.3	\$ 0.0	0.3%	10.3
Fishing	2.4	2.7	\$ 0.3	13.1%	\$ 0.0	1.6%	2.8	\$ 0.1	2.9%	2.8
Other Marine	2.0	3.1	\$ 1.8	92.4%	\$ 0.6	19.9%	3.8	\$ 0.1	1.7%	3.8
		\$ -								
Total Maritime	\$ 21.4	\$ 25.7	\$ 5.6	26.1%	\$ 1.2	4.7%	\$ 26.9	\$ 0.4	1.7%	\$ 27.4
REAL ESTATE										
Commercial/Industrial	\$ 61.7	\$ 64.8	\$ 4.6	7.5%	\$ 1.6	2.4%	\$ 66.3	\$ 2.4	3.5%	\$ 68.7
Parking	21.2	22.0	\$ (1.1)	-5.4%	\$ (1.9)	-8.8%	20.1	\$ 0.6	2.8%	\$ 20.6
							\$ -			\$ -
Total Real Estate	\$ 83.0	\$ 86.8	\$ 3.5	4.2%	\$ (0.4)	-0.5%	\$ 86.4	\$ 2.9	3.4%	\$ 89.3
ALL OTHER										
Asset Management	\$ 0.4	\$ 0.4	\$ 0.0	1.2%	\$ 0.0	7.8%	\$ 0.4	\$ 0.0	2.5%	\$ 0.4
Facilities Maintenance	0.2	-	\$ 0.0	2.5%	\$ 0.2	0.0%	0.2	\$ 0.0	2.5%	\$ 0.2
Engineering	0.8	1.5	\$ 0.2	25.2%	\$ (0.5)	-31.2%	1.0	\$ 0.0	0.0%	\$ 1.0
Finance & Administration	0.9	0.9	\$ 1.8	191.1%	\$ 1.8	191.1%	2.7	\$ (0.3)	-9.5%	\$ 2.4
Planning	-	-	\$ -	0.0%	\$ -	0.0%	-	\$ -	0.0%	\$ -
Executive	0.0	-	\$ (0.0)	-100.0%	\$ -	0.0%	-	\$ -	0.0%	\$ -
Total All Other	\$ 2.4	\$ 2.8	\$ 1.9	81.3%	\$ 1.5	55.1%	\$ 4.3	\$ (0.2)	-5.5%	\$ 4.1
SUBTOTAL	\$ 106.7	\$ 115.3	\$ 11.0	10.3%	\$ 2.4	2.0%	\$ 117.7	\$ 3.1	2.6%	\$ 120.8
South Beach Harbor	\$ 4.9	\$ 4.9	\$ 0.3	6.1%	\$ 0.3	6.1%	\$ 5.2	\$ 0.2	3.0%	\$ 5.4
GRAND TOTAL	\$ 111.6	\$ 111.6	\$ 11.3	10.1%	\$ 11.3	10.1%	\$ 122.9	\$ 3.3	2.7%	\$ 126.2

As shown in **Figure 2**, over the two-year period, the major driver of revenue growth is commercial/industrial rents, followed by cruise, other marine, and finance & administration revenues (interest on investments).

Figure 2: Drivers of Operating Revenue Growth in FYs 2020-21 and 2021-22 (\$ Millions)



Revenue Growth:

Commercial/Industrial Rents – Port Commercial/Industrial Rents are received for leasing office, retail, warehouse and industrial property to non-maritime tenants. This includes percentage rent from retail tenants.

In FY 2020-21, Commercial/Industrial rent is expected to increase \$4.6 million (7.5%), for a total of \$66.3 million, and by an additional \$2.4 million (3.5%) in FY 2021-22 for a projected total of \$68.7 million. The increase over the two-year period (\$7.0 million, 47% of total operating revenue growth) is associated with steady growth in commercial and industrial base rents, percentage rent, and revenue from new leases.

Notably, the largest factor in projected Commercial/Industrial Rents is anticipated leasing at facilities currently being improved or planned for development in the near future. Tenants are slated to move in at Piers 19 and 23, Pier 31, Pier 48, the Roundhouse, and the Pier 94 Backlands laydown space; the budget also includes increased rent from the San Francisco Police Department at Pier 96, generating an estimated \$7.1 million and \$7.9 million in FY 2020-21 and FY 2021-22, respectively. This revenue is contingent, on Port staff’s ability to complete funded capital improvements, identify prospective tenants, and complete new lease or development agreements for these facilities.

Cruise – Cruise revenue is projected to increase by 28.0% due to the Port’s success in expanding the number of cruise calls in FY 2020-21 from 83 to 105.

Revenue is generated from passenger cruise vessel operations, including dockage and wharfage fees that are charged to cruise ships for berthing at Port facilities as well as passenger facility fees for the loading and unloading of passengers. Additionally, the

Port recovers fees from cruise lines to offset utility charges for use of the shoreside power system at the James R. Herman Cruise Terminal.

The budget projects that cruise revenues will increase by \$2.2 million (28.0%), for a total budget of \$10.3 million in FY 2020-21. This significant growth assumes 22 additional cruise calls, from 83 calls in FY 2019-20 to 105 calls in FY 2020-21. Additionally, the Port Commission approved a \$1 increase in the passenger facility charge (PFC), from \$18 to \$19, beginning January 2020. The growth in FY 2020-21 will be somewhat tempered by proposed new rules from the California Air Resources Board, which will require all cruise ships to be connected to shoreside electrical power starting in 2021, with an exception of up to 19 calls. This change will limit the Port's ability to accept calls from cruise ships that are not equipped to receive shoreside electrical power, reducing the number of calls which limits growth in FY 2021-22 and keeps revenues at a flat \$10.3 million. Port staff is working to identify a second shoreside power option, or alternative clean power source for our secondary cruise facility, but at this time the budget does not assume a second clean power option and limits the second cruise facility at Pier 35 to 19 calls. The increase of \$2.3 million over two years accounts for 16% of operating revenue growth.

Other Marine – This revenue category consists of ferries, water taxis, ceremonial and idle ship berthing, and miscellaneous marine-related tenants. Estimates include the dockage of three US Department of Transportation Maritime Administration vessels (or “MARAD vessels”) at fixed annual rent of \$0.5 million through 2024 and assumes a new agreement with similar terms after that. This category estimates a revenue increase of \$1.8 million (92.4%) for FY 2020-21, and an additional \$0.1 million (1.7%) for FY 2021-2022. This growth (\$1.8 million) is the result of the reclassification of layberthing from other revenue lines in the budget.

Interest on Investments – Interest income is expected to increase to \$2.4 million in FY 2020-21 (\$1.8 million, 291.7%) based on an average operating cash balance of \$157 million and an average interest rate of 1.50%. The FY 2021-22 income is expected to decrease from FY 2020-21 by \$0.3 million (-11.2%) due to an updated cash balance of \$139 million and an average interest rate of 1.50%. Staff updated this revenue line to reflect actual interest earnings realized by the Port in the last two fiscal years.

Cargo – Cargo revenue derives from cargo shipping operations and related rents, including dockage fees charged to vessels berthed along Port property, wharfage fees from the loading and unloading of cargo from vessels, crane rental fees for the use of Port cranes for loading and unloading operations, rent from leasing of Port property to tenants with cargo operations, and demurrage charged to store autos or other cargo activities at Port facilities.

Cargo is performing very well under the Port's partnership with Pasha Automotive, and revenue is projected to increase by \$0.9 million (13.0%) to \$7.9 million in FY 2020-21, and another \$0.3 million (2.7%) to \$8.1 million in FY 2021-22; this \$1.1 million increase

over two years accounts for 8% of operating revenue growth. The projection assumes steady increases in the transport of automobiles at Pier 80 by Pasha Automotive.

Fishing – Fishing revenue derives from fishing vessels and fish processing operations and includes dockage, wharfage, and rent. Dockage is estimated based on actual occupancy rates, projections for fishing tours in the next year, and annual inflation. Wharfage is estimated based on a percentage of passengers on sport fishing boats. Lastly, Rent is received from fishing equipment storage locker leases. Revenues from these business areas are projected to increase by \$0.3 million in FY 2020-21 and \$0.3 million in FY 2021-22, accounting for 3% of projected revenue growth over the two-year period.

Permit Revenue – Building permit revenue can be variable as it is highly dependent on large construction projects on Port property. In FY 2018-19, permit revenue was well above typical levels due to construction for waterfront development projects at Pier 70 and Mission Rock. While the majority of this permitting work is being performed by the Department of Building Inspection, Port staff is also performing permitting tasks for which the Port will collect revenue. The \$1.0 million in both FY 2020-21 and FY 2021-22 reflects a conservative estimate of fees to be captured by the Port.

Harbor Services – Harbor Services includes tugboat operators, bar pilots and other ship service providers. Effective January 2020, the San Francisco Bar Pilots' rent has increased by 24% to \$1.4 million annually, increasing their budgeted revenue by \$0.3 million (14.7%) in FY 2020-21 and by an additional \$0.1 million (3.0%) in FY 2021-22.

Revenue Losses/Adjustments:

Parking – Port parking revenue is generated from street parking meters, monthly parking stalls, rent from Port parking lots managed by parking operators, and parking ticket fines.

In FY 2020-21, parking revenue is expected to increase by \$1.1 million (-5.4%) for a total of \$20.1 million and then increase by \$0.6 million (2.8%) to \$20.6 million. The major drivers of this loss are declines in parking rent, which is falling due to the closure of lots to enable development, and in parking citation revenues, which are declining due to greater enforcement, higher fines that incentivize proper payments at meters, and improved technological amenities (i.e. pay-by-phone and meters that accept credit cards). The drop in citation revenues is consistent with trends observed by the SFMTA citywide. After the year one reduction, the Port expects parking revenue to stabilize and then increase by 2.8% annually.

Fund Balance

The Port uses its Fund Balance to fund the capital budget and maintain the 15% Operating Reserve. Fund Balance accumulates as a result of year-end surpluses and designating projected net operating revenue to future capital projects.¹

While operating revenues contribute to steady year-over-year growth in funding sources, fund balance creates significant swings in funding due to variances in one-time sources. Fund balance is unusually high, at \$41.4 million, in FY 2020-21 due to high capital designations included in the FY 2018-19 and FY 2019-20 operating budgets (\$20.9 and \$23.6 million respectively) and the accumulation of net revenues in FY 2018-19 that were not appropriated to the capital budget. While still high, the second year of the budget reflects a decline in fund balance, to \$35.8 million, due to the spend down of prior year balances.

South Beach Harbor

South Beach Harbor generates revenue as a full-service marina consisting of 700 slips with concrete docks, a 640-foot recreational and commercial guest dock, and the Pier 40 Maritime Center.

The proposed South Beach Harbor budget includes \$5.2 million in FY 2020-21, a \$0.3 million (6.1%) increase from FY 2019-20, and \$5.4 million in FY 2021-22, a \$0.2 million (3.0%) increase from the proposed FY 2020-21 budget. These changes reflect annual inflation of berthing rates (reflecting CPI) to fully support the harbor's operating expenses, including staffing, non-personnel expenses and debt service on the facility's Cal Boating loans.

The Port has built sound fiscal policies and practices into South Beach Harbor's budget. The proposed budget allocates net operating revenues to capital improvements, including \$1.6 million in direct capital investments in both FYs 2020-21 and 2021-22. Any unallocated net operating revenues are designated to future capital in FY 2021-22. The Port will continue to maximize net revenues from the South Beach Harbor budget to support infrastructure repairs and enhancements necessary to sustain a safe and enjoyable facility. The FY 2020-21 budget includes dredging for South Beach Harbor in order to maintain this revenue source.

Development Recoveries

The Port is a party to Development and Disposition Agreements (DDAs) with developers, including Brookfield for the Waterfront Site Project at Pier 70 (Brookfield acquired previous developer Forest City) and Mission Rock Partners (a partnership

¹ Rather than fund capital projects directly from operating revenues, this practice ensures that funds are fully realized before they are committed to capital projects. At the end of the fiscal year, designated revenues are converted to Fund Balance for appropriation in the following year's capital budget. This methodology adheres to a citywide practice.

between the SF Giants and Tishman Speyer) for the Mission Rock Project at Seawall Lot 337. Under these agreements, developers reimburse the Port for eligible project-related expenses, to prevent any impact on the Port's budget. This arrangement facilitates the Port's goals for growth and infrastructure investment along the waterfront while allowing the Port to maintain prudent levels of operating staff and expenditures.

After a period of increases in resources (including staff, professional services, and interdepartmental services) associated with the start of both projects, the Port's development-related expenses and recoveries have begun to stabilize. With development well underway, the Port has been providing services and oversight for both projects including planning, design, permitting, and construction management. The Port anticipates maintaining similar expenses and revenues for development projects as they continue with construction of Phase I and begin later phases. The Port will continue to recover reimbursements from the developers for all eligible costs in order to keep the projects' impact on the Port's operating budget neutral.

The proposed FY 2020-21 budget includes assumed recoveries of \$7.9 million from developers, a \$1.2 million (-13.2%) decrease from the FY 2019-2020 budget. This decrease is due to the elimination of recoveries associated with significant one-time expenses for early development project costs. The FY 2021-22 budget maintains assumed recoveries of \$7.9 million. These levels of spending and associated recoveries reflect the stabilization of resources, including Port staff, consultants, interdepartmental coordination agreements, and interdepartmental work order agreements, necessary to support the major development projects. The Port will only recover funds from the developers as is needed to cover actual expenses.

Orton Services CFD

The Port intends to form a Community Facilities District (CFD) at the Orton Development site by June 2020. After formation, the Orton CFD is projected to generate \$0.3 million annually in ongoing services taxes starting in FY 2020-21 and increasing at the rate of CPI (estimated 3%) each year after. The Port will use revenues the district generates both within and nearby the Orton site, with most funds allocated to the ongoing maintenance and operations of Crane Cove Park which is scheduled to open in Spring 2020.

One-Time Sources

The proposed budget includes \$21.5 million in FY 2020-21 in one-time sources. There are minimal one-time sources anticipated in FY 2021-22 (\$0.1 million). This represents a \$6.5 million (43.6%) increase from FY 2018-19 and \$21.4 million (-99.5%) reduction in the next fiscal year. Rather than rely on uncertain funding to support the Port's operating budget, these one-time sources are allocated to capital.

Capital Project De-appropriation

Port finance staff diligently analyzed all past and current capital projects to determine status and funding need. Seventeen million dollars will be re-appropriated by defunding completed projects with remaining balances, reducing specific projects to only their required funding level, and re-appropriating funds currently committed to deferred projects. The full list is detailed in the capital budget staff report (see Item 11B, Capital Budget staff report).

Private Gift

A private donation in the amount of \$4.0 million will support construction of the Mission Bay Ferry Landing project in FY 2020-21. The donor has asked to remain anonymous.

General Fund Support

Based upon recent bid information for MBFL, Port staff are not confident that the Port can deliver the project with currently budgeted construction funding. Costs have increased due primarily to the need to dredge and cap the site as a result of contamination from a defunct fuel terminal at Pier 64, which is adjacent to the MBFL. In February 2020 the Port entered into a six-party cost sharing agreement to investigate the contaminated sediments at Pier 64. Port staff anticipates that the investigation will take approximately six months to complete and that it will provide detailed information about the site and the contaminated sediments. At the conclusion of the investigation in summer 2020, the six parties and the Regional Water Quality Control Board, the responsible regulator, will use that information to develop a remediation plan. The Port hopes to negotiate an extension of the cost sharing agreement to address the remediation. This remediation cost sharing agreement would cover reimbursement for a portion of the dredge and capping work at Mission Bay Ferry Landing.

To address this potential shortfall in the MBFL budget, staff has requested \$5.0 million from the General Fund through the Capital Planning Commission for MBFL construction. The Port has submitted a request for these funds to the Capital Planning Committee, which will evaluate this project alongside other City department requests. Once the CPC determines how to invest the General Fund capital allocation for FY 2020-21, approved funding levels will be included in the Mayor's Budget and will undergo consideration by the Board of Supervisors. (See the Capital Budget Item 11B for additional information about Mission Bay Ferry Landing.)

OPERATING EXPENSES

The proposed \$112.4 million FY 2020-21 operating budget reflects a \$7.5 million (7.2%) increase over the FY 2019-20 budget. The proposed \$114.0 million FY 2021-22 budget reflects a \$1.6 million (1.4%) increase from the proposed budget for FY 2020-21. This budget includes general operating expenses, which support the core day to day

operations of the Port, programmatic projects, development projects, and South Beach Harbor operations.

Port staff worked to control operating expenses in the next two fiscal years while funding key strategic investments including an increase to maintenance staffing, creating a new swing shift to achieve the citywide priority of clean streets along the Embarcadero, adding a new park section supervisor to support the department's expanded park maintenance operations, as well as funding for a new enterprise asset management system to manage maintenance work orders, and funding for activities to support racial and social equity efforts.

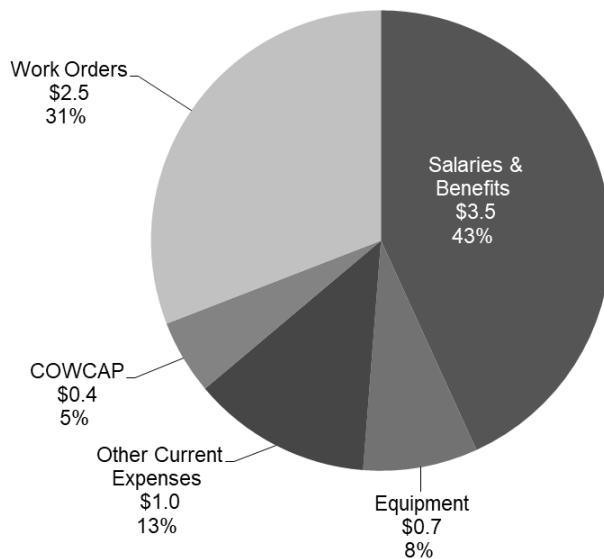
Table 5: Summary of Port Operating Expenditures & Projects (\$ Millions)

	Budget 2019-20	Change from FY 2019-20 Budget		Budget 2020-21	Change from FY 2020-21 Budget		Budget 2021-22
		Amount	Percent		Amount	Percent	
Salaries & Benefits	\$ 43.0	\$ 3.5	8.2%	\$ 46.5	\$ 1.6	3.4%	\$ 48.1
City-wide Overhead	\$ 0.1	\$ 0.4	611.8%	\$ 0.5	\$ -	0.0%	\$ 0.5
Other Current Expenses	\$ 12.3	\$ 1.0	8.5%	\$ 13.3	\$ (0.4)	-2.9%	\$ 12.9
Materials & Supplies	\$ 1.6	\$ 0.0	0.1%	\$ 1.6	\$ 0.0	2.0%	\$ 1.6
Equipment	\$ 0.4	\$ 0.7	178.3%	\$ 1.0	\$ (0.1)	-11.8%	\$ 0.9
Debt Service	\$ 7.2	\$ (0.8)	-11.6%	\$ 6.3	\$ -	0.0%	\$ 6.3
Interdept. Work Orders	\$ 22.2	\$ 2.5	11.5%	\$ 24.8	\$ 0.6	2.3%	\$ 25.3
Operating Expense, Subtotal	\$ 86.7	\$ 7.4	8.5%	\$ 94.0	\$ 1.7	1.8%	\$ 95.7
Programmatic Projects	\$ 4.6	\$ 2.1	45.1%	\$ 6.7	\$ (0.2)	-2.9%	\$ 6.5
Development Projects	\$ 9.9	\$ (1.9)	-19.2%	\$ 8.0	\$ -	0.0%	\$ 8.0
South Beach Harbor	\$ 3.8	\$ (0.0)	-0.8%	\$ 3.7	\$ 0.1	2.5%	\$ 3.8
Operating, Total	\$ 104.9	\$ 7.5	7.2%	\$ 112.4	\$ 1.6	1.4%	\$ 114.0

Operating Expenses – General

As shown in **Figure 3**, salaries and fringe benefits related to Port personnel and Work Orders are the largest components of the Operating Expenses, comprising 49.8% and 26.1% of total expenditures in FY 2020-21, and 50.6% and 26.3% in FY 2021-22, respectively. Over the two-year period, personnel costs are the primary driver for growth, followed by growth in work orders.

Figure 3: FY 2020-21 Drivers of Expenditure Growth (\$ Millions)



The specific trends behind the expenditure changes in the FY 2020-21 and FY 2020-21 budgets are described below.

Salaries and Fringe Benefits

One of the Port's greatest assets is its staff, which comprises approximately 50% of all operating expenses. Salary and fringe expenditures increase by a total of \$3.5 million (8.2%) in the FY 2020-21 proposed budget and by an additional \$1.6 million (3.4%) in the FY 2021-22 proposed budget. As detailed below, much of the growth is related to the cost of existing staff but proposed new and substituted positions also contribute to the additional cost.

Existing Employees – The cost of existing personnel increases by \$2.2 million (5.2%) in the FY 2020-21 proposed budget. This change includes \$1.0 million for salaries due to the wage increases guaranteed by collectively bargained Memoranda of Understanding. Additionally, a \$1.2 million increase in fringe benefits reflects the cost of maintaining the City's retirement system at the required levels. In FY 2021-22, the cost of existing employees increases by an additional \$1.2 million (2.7%), including \$1.0 million for salaries and \$0.2 million for fringe benefits.

Proposed Position Changes – The budget proposal includes 12.0 position substitutions, 2.0 reassignment and 11.0 new FTE. The new FTE meet the Mayor's budget instructions while allowing the Port to adapt to evolving needs and growing responsibilities. Twelve position substitutions reflect operational changes that have occurred over the last two fiscal years to meet the organization's needs. The budget includes -3.0 FTEs net in project funded positions, the result of 11.0 FTEs new and 14.0

FTEs deleted, reflecting needs in Waterfront Resilience, Development, the IS Strategic Plan, and Crane Cove Park operations, and the deletion of unnecessary project positions. These off-budget positions have no fiscal impact. These changes result in \$1.2 million additional in new personnel expenses in FY 2020-21 and \$1.6 million in FY 2021-22, due to ramped up staffing in the second fiscal year, as detailed in *Attachment IV – Proposed Position Changes, FY 2020-21 and FY 2021-22*.

The proposed changes seek to maximize Port staff resources and reflect the Port's evolving operational needs. New permanent positions include:

- New Street Environmental Services Unit Swing Shift – The Maintenance Division has identified a need for additional staffing to better maintain the Embarcadero from Pier 40 to Fisherman's Wharf. This proposal includes 9.0 FTE including laborers, truck drivers and two laborer supervisors to perform trash collection, mechanical street sweeping and sidewalk power washing seven days a week (up from five days a week). This cost is offset in part by overtime savings. This proposal will result in an improved experience for the 24 million annual visitors to the Embarcadero as well as the Port's tenants, ferry passengers and San Francisco residents. The additional staff will also allow the Maintenance Division to shift laborers Monday through Friday to support additional maintenance of the southern waterfront.
- New Park Section Supervisor – The gardening staff in the Maintenance Division has doubled in the last decade, growing from 2.0 FTE in FY 2010-11 to the proposal for 4.0 in FY 2020-21. The Port needs a Park Section Supervisor who is an expert in horticulture to manage this staff as effectively as possible to deliver well maintained Port parks and open spaces, meeting the Mayor's policy goal of healthy and vibrant neighborhoods.
- New Administrative Analyst in External Affairs – The Port is currently recruiting for a 0923 Social Responsibility Manager position with the responsibility of developing and implementing a Racial Equity Action plan, supporting the Port's Economic Impact Policy, supporting diversity in contracting, enhancing workforce development efforts and a variety of other initiatives. This analyst position will provide administrative and analytical assistance to the Social Responsibility Manager and the Deputy Director of External Affairs.

The budget also reflects reassignments of staff and minor restructuring to match an evolving organization. These changes include:

- New Resilience Division – As the Waterfront Resilience Program grows to 10.0 FTE and ramps up the rollout of the program, it has functionally become its own team reporting to the Waterfront Resilience Director.
- Realignment within the Executive Division – Some organizational realignment within Executive reflects the growing responsibilities of the division, including the expansion of Communications to External Affairs and changes to the reporting structure. The Communications section has been realigned to External Affairs, with

the Communications Manager, Legislative Affairs Manager, and Social Responsibility Manager reporting to the Director of External Affairs.

Other Operating Expenses

Other Current Expenses – The budget for Other Current Expenses increases by \$1.0 million (8.5%) in FY 2020-21 and then declines by \$0.4 million (-2.9%) in FY 2021-22. The fluctuation is largely due to the professional services needs in accounting, communications, and real estate and development, some of which are one-time expenses in FY 2020-21, as well as the growing cost of services including security, janitorial and pest control.

Equipment – Funding for Equipment increases by \$0.7 million (178.3%) in FY 2020-21. Specific requests for FY 2020-21 includes new and replacement trucks for the Maintenance Division consisting of four new trucks for new labor crews, which will help support the new swing shift and operations at Crane Cove Park, and the replacement of two older service trucks and one bucket truck for elevated work by the electrical shop. Additionally, the budget includes a new lawn mower and utility vehicle for Crane Cove Park, sidewalk cleaning pressure washer, the replacement of boat motors and aluminum work boats, a new Radius Master, a tool used in sheet metal work, replacement of a lathe, and the replacement of a telescoping forklift.

The budget request also includes two replacement sedans for the Pier 1 vehicle pool as well as funding for an electric vehicle charging station to comply with the City's mandate to phase out all gasoline powered sedans in favor of electric vehicles. Additionally, the budget includes network hardware including five replacement NetApp filer heads, five replacement NetApp disk shelves and a replacement Cisco 3850 distribution switch to support the Port's computer network and ensure that the organization will be able to recover from a natural or manmade disaster.

Funding for equipment decreases by \$0.1 million (-11.8%) for FY 2021-22. The second fiscal year's request includes four replacement utility trucks and four replacement electric trucks, six replacement electric motors and two replacement aluminum work boats, and a replacement hydraulic piledriving impact hammer.

Debt Service – The Port's debt service payments decrease by \$0.8 million (-11.6%) for FY 2020-21, due to lower interest rates and the refinancing of the 2010 Revenue Bonds. The budgeted amount remains flat at \$6.3 million in FY 2021-22. This supports the payment schedule for the Port's debt portfolio, including the 2014 and 2020 Port Revenue Bonds and the 2013 Certificates of Participation.

Work Order Payments – Funding for work order payments increases by \$2.7 million (10.6%) in FY 2020-21, and an additional \$0.7 million (2.8%) in FY 2021-22, as detailed in **Table 6** below.

Table 6: Summary of Interdepartmental Work Orders (\$ Millions)

	Budget FY 2019-20	Change from FY 2019-20		Proposed FY 2020-21	Change from FY 2020-21		Proposed FY 2021-22
		Amount	Percent		Amount	Percent	
Risk Management (AAO)	\$ 3.9	\$ 0.4	9.4%	\$ 4.2	\$ 0.4	8.5%	\$ 4.6
City Attorney	3.4	0.3	9.0%	3.7	0.0	0.2%	3.7
SFMTA Parking & Traffic	2.2	0.6	25.3%	2.7	0.2	7.3%	2.9
PUC – Light, Heat & Power	2.4	0.4	18.6%	2.8	(0.0)	-1.1%	2.8
SFPD Police Security	0.7	0.6	83.7%	1.3	0.0	0.6%	1.3
SFPW – Street Cleaning	0.3	-	0.0%	0.3	-	0.0%	0.3
SFFD Fire Boat	3.8	(0.0)	-1.2%	3.7	0.1	2.7%	3.8
SFFD Fire Inspection	0.7	0.1	15.4%	0.8	(0.0)	-0.8%	0.8
Department of Real Estate	0.1	0.0	28.3%	0.2	-	0.0%	0.2
OEWD – Special Events	-	0.1	0.0%	0.1	-	0.0%	0.1
Workers' Compensation	0.9	0.0	2.8%	0.9	-	0.0%	0.9
Environment	0.1	0.0	0.0%	0.1	-	0.0%	0.1
All Other	4.1	0.2	3.7%	4.3	0.0	1.2%	4.3
Total	\$ 22.4	\$ 2.7	10.6%	\$ 25.1	\$ 0.7	2.8%	\$ 25.5

The notable changes include:

- Police Security – The Port added an additional work order to the Police Department in FY 2019-20 for a bike patrol along the Embarcadero. This new work order, in addition to rising personnel expenses and additional staffing for the increased number of cruise calls, leads to an increase of \$0.6 million (83.7%) in FY 2020-21 and remaining flat in 2021-22.
- SFMTA Parking & Traffic – The Port work orders funding for parking meter maintenance and parking enforcement to SFMTA. The budget for parking enforcement has been underfunded in recent years, which requires an increase of \$0.6 million (25.3%) in FY 2020-21 and \$0.2 million (7.3%) in FY 2021-22 to reflect actual costs.
- PUC Light, Heat & Power – The cost of shoreside plug-in for cruise ships will go up in the coming fiscal years due to an increase of cruise calls. The PUC Light, Heat, & Power work order will increase by \$0.4 million (18.6%) in FY 2020-21, and level off in FY 2021-22 due to the reduced number of calls projected.
- Risk Management – The work order to the Risk Management Office, under the Department of Administrative Services, is projected to increase by \$0.4 million in both FYs 2020-21 and 2021-22 (9.4% and 8.5%, respectively) to reflect the growing cost of the Port’s existing insurance portfolio. Notably, the Executive Director has asked staff to work with the Risk Management Office in FY 2020-21 to reevaluate the Port’s insurance needs in an effort to rein in this ever-growing expense.

- Fire Boat and Inspection – While the cost of operating the Fire Boat remains relatively flat, the cost of fire inspection staffing is growing by roughly \$0.1 million (15.4%) in FY 2020-21 due to both citywide personnel expense trends and increased inspection needs from the Port. Both work orders remain flat in FY 2021-22.
- City Attorney – The work order to the City Attorney will increase by \$0.3 million (9.0%) to fund a new 8177 Attorney position to support development projects. The added \$0.3 million will be eligible for reimbursement.

Programmatic Projects

Formally known as “Annual Projects”, Programmatic Projects reflect operating activities that cannot be defined by a specific spending category (e.g. professional services, or materials and supplies). By placing funds in a project, staff has the flexibility to spend funds in whatever manner necessary to successfully deliver their programs. While most of these projects are budgeted for specific fiscal years, some projects span multiple years and do not close out until the program is completed.

The proposed FY 2020-21 budget for Programmatic Projects is \$6.7 million, a \$2.1 million (45.1%) increase from the FY 2019-20 budget, with a reduction of \$0.2 million (-2.9%) in FY 2021-22. The increased funding for the first budget year is primarily due to funding to procure and implement a new asset management system. The Port’s existing enterprise asset management system, which functions as the work order system for the Maintenance division, has become obsolete and is no longer supported by the vendor. Implementation of a new system will enhance asset management functionality for the entire organization and will greatly improve the Maintenance division’s work order system. This project will also allow the Port to finally retire its Oracle-based financial software, freeing IT resources to support other technology needs including data governance, tracking and reporting, document management, integration of systems such as GIS and PropWorks to maximize their functionality, and implementation of collaborative work tools including SharePoint. Additionally, the budget includes \$0.3 million in funding per year for contractual services for racial and social equity and economic impact policy work and \$0.6 million per year for operations and maintenance at Crane Cove Park, offset by the \$0.3 million per year from the Orton Services CFD. Maintenance of Crane Cove Park will initially be partially supported by the Harbor Fund. Staff anticipates that a second CFD (Parcel K North) will be established in FY 2022-23 and will fund the remaining maintenance need for the park.

South Beach Harbor

Operating expenses for South Beach Harbor are \$3.7 million in FY 2020-21, showing no increase from FY 2019-20, and \$4.6 million in FY 2021-22, a \$0.1 million (2.5%) increase. Net operating revenues of \$1.5 million per year are allocated to capital projects in FY 2020-21 and FY 2021-22 respectively, as detailed below.

Waterfront Development Project

Based upon projected spending, the budget includes \$8.0 million in FY 2020-21 to implement the Port's obligations under the Development and Disposition Agreements (DDAs) and Exclusive Negotiating Agreements (ENAs) related to the Brookfield (formerly Forest City) development at Pier 70, Mission Rock at Sea Wall Lot 337, Teatro Zinzanni at Seawall Lot 324, and other upcoming projects. This funding level is a \$1.9 million (-19.2%) decrease from the FY 2019-20 budget due to the elimination of significant one-time expenses associated with the early phases of the Pier 70 and Mission Rock projects in FY 2019-20 offset by an increased workload associated with the construction phase of development. The budget remains \$8.0 million for FY 2021-22. The difference between development project expenses (\$8.0 million) and recoveries (\$7.9 million) is due to the assumption that the vast majority of costs will be eligible for reimbursement. However, the Port has recovered all expenses associated with the waterfront development projects to date.

CAPITAL EXPENDITURES

With several years of sustained strong revenues and the Port's policy to set aside 25% of operating revenues for capital, this capital budget continues a trend of substantial capital investment by the Port. The proposal sustains the Port's commitment to spending the majority of the capital budget on projects that keep Port facilities in a state of good repair and safe for tenants and visitors and also includes funding to improve capital project delivery and deepen the Port's revenue base through facility improvements.

As described in full detail within Item 11B, the proposed capital budget is \$53.9 million in FY 2020-21 and \$28.2 million in FY 2021-22. These funding levels represent a \$33.7 million (167.2%) increase from FY 2019-20 and a \$25.6 million (-47.6%) decrease from FY 2020-21. This fluctuation in programming is primarily one-time project cost for the Mission Bay Ferry Landing (\$25.0 million).

The primary funding source for the Mission Bay Ferry Landing construction budget is a \$25 million allocation from Regional Measure 3 (RM3), a bridge toll increase passed by Bay Area voters in June 2018. RM3 is currently being litigated and the funds are not yet available for project use. The two lawsuits challenging RM3 were dismissed by the Superior Court in spring 2019. The cases are pending at the California Court of Appeals. They have been briefed and are currently pending oral arguments. The Metropolitan Transportation Commission (MTC), the administrator of RM3 funding, is optimistic about the outcome, however there is a risk that the state will not prevail in the litigation.

To avoid delay of RM3 projects, MTC has agreed to issue a "Letter of No Prejudice" (LONP) to implementing agencies, allowing an agency to move forward with a specific scope of work, using non-RM3 funds, and retaining RM3 eligibility for that scope. Upon successful resolution of the RM3 litigation, the implementing agency would be eligible to

be reimbursed by RM3 funds. The Port and WETA will apply for a LONP for Mission Bay Ferry Landing from MTC in April.

To allow the Mission Bay Ferry Landing project to advance, the Port proposes to appropriate \$25 million of Port Capital in the FY 2020-21 budget. This appropriation would occur after MTC issues an LONP for the project. The Port anticipates awarding a construction contract for the Mission Bay Ferry Landing in early 2021. At that point, staff expects to have more information about the status of the RM3 litigation. Prior to committing the \$25 million in Port Capital to the construction contract, staff will request that the Port Commission make an affirmative decision to expend the funds on the MBFL project. Staff believes that this approach gives the Port the flexibility to move forward with the project but allows the Port Commission to make a considered decision with additional information about the potential risk of a Port Capital investment.

RESERVES

The proposed budget includes two key reserves, including a designation to future capital and the 15% operating reserve. These reserves total \$27.9 million, a \$6.5 million (-18.9%) decrease from FY 2019-20. Funding is then increased by \$0.3 million (-1.2%) for a total of \$28.2 million in FY 2021-22.

NEXT STEPS

Comments, input and feedback from the Port Commission and the public are welcomed and appreciated. In accordance with the City Charter, staff will submit the budget to the Mayor and Controller's Office on February 21, 2020 and then return to the Port Commission for final approval on February 25, 2020. If the Commission requests any changes at its February 25th meeting, Port staff will work with the Mayor's Office to reflect those changes in its budget submission. Subsequently, the Port's budget will be included in the Mayor's Proposed Budget to the Board of Supervisors in May 2020. The Board of Supervisors will then review and finalize the FY 2020-21 and FY 2021-22 budgets by August 1, 2020. Staff will update the Port Commission on any major changes made to the budget during Mayoral and Board of Supervisors review.

Pursuant to City Policy, the Port is preparing its two-year budget for FY 2020-21 and FY 2021-22. Although the second year of the budget will be fixed upon adoption this summer, Port staff may bring a supplemental appropriation to the Port Commission, Mayor and Board of Supervisors in 2021 if there are new sources and a need arises to increase operating or capital spending in FY 2021-22. Otherwise, staff will work within the approved funding resources and will dedicate their time to updating the Port's five-year Financial Plan and ten-year Capital Plan.

CONCLUSION

The proposed FY 2020-21 and 2021-22 operating budget is \$194.2 million and \$170.4 million respectively, reflecting a \$34.8 million (21.8%) overall increase from FY 2019-20

and a \$23.7 million (-12.2%) reduction from the proposed FY 2020-21 budget. The primary fluctuations in the budget are due to additional capital spending in the first year of the budget allocating available fund balance to capital infrastructure. Additionally, the budget includes one large one-time source, a \$17.0 million in capital defunding and de-appropriation, allowing the Port to meet its strategic objective of stability by allocating funding to projects that will address deferred maintenance and generate revenue.

The Port's proposed FY 2020-21 and 2021-22 biennial operating budget reflects the Port's commitment to prudent fiscal management and economic stability while meeting new organizational needs. This spending plan manages growth in operating expenses while reflecting a commitment to the Port's strategic goals and to addressing citywide priorities of clean and safe streets for everyone, healthy and vibrant neighborhoods, and focus on racial and social equity in San Francisco. The budget also continues a marked increase in capital investments through both direct spending and by designating net operating revenues for future capital needs.

Prepared by: Nate Cruz, Finance Director, Finance and Administration

and

Margaret Doyle, Senior Budget Analyst, Finance and Administration

For: Katharine Petrucione, Deputy Director Finance and Administration

Attachments:

- I. Fiscal Year 2020-21 and Fiscal Year 2021-22 Budget Overview
- II. Operating Revenues
- III. Operating Expenses by Division
- IV. Proposed Position Changes