



MEMORANDUM

June 5, 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: Katharine E. Petrucione DocuSigned by:
Katharine Petrucione
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Acting Executive Director

SUBJECT: Request approval of the Port's Revised Fiscal Year (FY) 2020-21 and FY 2021-22 Biennial Operating and Capital Budgets

DIRECTOR'S RECOMMENDATION: Approve Attached Resolutions

EXECUTIVE SUMMARY

On February 25, 2020, the Port Commission approved the FY 2020-21 and FY 2021-22 biennial operating and capital budgets. On March 16, 2020, the City issued a shelter-in-place order in response to the COVID-19 pandemic and followed up on March 17 with a commercial eviction moratorium. The actions that the City and the State of California have taken to respond to this public health emergency have resulted in significant disruption to San Francisco's economy. Therefore, the revenues that Port staff assumed in its February budget submission must be substantially revised.

As shown in Table 1, Port staff forecasts that the pandemic will significantly reduce revenues during both years of the proposed budget, with a two-year shortfall totaling nearly \$95.0 million.

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Table 1: Forecasted Revenue Shortfall (\$millions)

Operating Revenues	February Budget		Proposed Budget				Shortfall		
	<u>FY20-21</u>	<u>FY21-22</u>	<u>FY20-21</u>	<u>Change</u>	<u>FY21-22</u>	<u>Change</u>	<u>FY20-21</u>	<u>FY21-22</u>	<u>Total</u>
Maritime	\$26.9	\$27.4	\$12.1	-55%	\$19.3	-30%	(\$14.8)	(\$8.1)	(\$22.9)
Real Estate	86.4	89.3	41.8	-52%	66.4	-26%	(44.6)	(22.9)	(\$67.6)
Other	4.3	4.1	2.0	-54%	3.1	-25%	(2.3)	(1.0)	(\$3.4)
Subtotal	\$117.7	\$120.8	\$55.9	-53%	\$88.7	-27%	(\$61.8)	(\$32.1)	(\$93.9)
South Beach Harbor	5.2	5.4	4.9	-6%	4.9	-10%	(0.3)	(0.6)	(\$0.9)
TOTAL	\$122.9	\$126.2	\$60.8	-51%	\$93.6	-26%	(\$62.1)	(\$32.6)	(\$94.7)

In order to balance these revenue shortfalls, Port staff proposes a four-pronged budget approach of (1) reducing operating expenses, (2) decreasing capital appropriations, (3) drawing from fund balance, and (4) defunding prior capital projects which are no longer a priority. Despite these difficult adjustments, the proposed budget maintains essential Port operations, invests in life-safety capital projects, and retains a fiscally reasonable fund balance to address additional unforeseen events. Table 2 below provides an overview of the impact to fund balance.

Table 2: Fund Balance Forecast (\$ millions)

	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>
Starting Fund Balance	\$ 67.0	\$ 64.2	\$ 23.6
<u>Revenues</u>			
Projected Revenues	86.1	55.9	88.7
One-Time Revenue	14.9	0.7	0.1
Capital Project Defunding*	6.3	15.1	0.0
South Beach Harbor	0.0	4.9	4.9
Orton CFD	0.0	0.3	0.3
<u>February Budget</u>			
Operating Expenses	-95.2	-94.0	-95.7
Programmatic Projects	-4.5	-6.7	-6.5
Development Projects	-0.8	-0.1	-0.1
South Beach Harbor	0.0	-4.9	-4.9
Capital Appropriations	-19.0	-53.2	-28.0
<u>Proposed Budget Reductions</u>			
Capital Reductions*	0.0	28.7	21.6
<u>Operating Reductions*</u>	<u>9.4</u>	<u>12.7</u>	<u>10.0</u>
Fund Balance Withdrawal (NOI)*	-2.8	-40.6	-9.6
Ending Fund Balance	\$ 64.2	\$ 23.6	\$ 14.0

*Indicates a component of the four-pronged approach.

The proposed biennial budget also includes a \$10.0 million appropriation dedicated to the Port's economic recovery post COVID-19. While the total impact of the pandemic is not yet known, future economic stability will almost certainly involve new concepts in real estate occupancy and management and require the Port to operate more efficiently. This \$10.0 million fund will provide the Port with the flexibility it needs to respond to this

crisis with research, efficiency improvements, and new revenue generating investments. While Port staff does not currently know exactly how this fund might be used, possible projects include analysis of staffing to ensure that the Port has the correct type and number of staff across the organization, IT system integration to improve the quality and availability of data to support business decision-making, and capital improvements to attract new types of tenants. All expenditures from this fund would be subject to prior approval by the Port Commission.

STRATEGIC OBJECTIVES

Despite the challenges posed by COVID-19, the proposed FY 2020-21 and FY 2021-22 biennial operating and capital budgets include actions which further all seven goals of the Port's Strategic Plan:

1. Evolution

- A \$10.0 million investment in an economic recovery fund, allowing the Port to position itself for long-term economic recovery. Expenditures from the fund would be subject to further approval by the Commission.
- 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 \$200.0 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 accordance with shelter-in-place guidelines to expand the Port's network of parks and open spaces.
- 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

- 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

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

4. *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*

- 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*

- Funding for important life-safety capital projects.
- Rent deferrals related to COVID-19, and approved by the Port Commission in FY 2019-20, will provide eligible existing tenants the flexibility to repay their rent over time and maintain their tenancy, and keep jobs and employment on Port property.

7. *Stability*

- Budget includes funding to 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.

REVENUE REDUCTIONS

In the March Joint Report, the Controller estimated the impact of COVID-19 to the City under two scenarios, a limited impact scenario with a less severe six-month recession followed by a rapid recovery by the end of calendar year 2020, and an extended impact scenario with a deeper six-month recession followed by a long recovery through calendar year 2021. Using selected assumptions from the Controller as well as internal Port data on parking meters and rent collections, Port staff presented a preliminary rent forecast which was presented to the Port Commission on April 24, 2020.

On May 13, the Controller issued an updated Economic Outlook report which entirely eliminated the limited impact scenario and worsened the remaining extended impact scenario. Port staff used the Controller's May Outlook to prepare revised revenue estimates for the FY 2020-21 and FY 2021-22 budget. Staff developed the revenue budget by broadly categorizing each Port revenue source by sensitivity to the COVID-19 public health emergency, then estimating the impact to each category. These categories, as well as other considerations, are described below.

Retail Based Port Revenues: High Sensitivity

Port rent revenues driven by in-person retail transactions (such as restaurants, parking lots, parking meters, and ferry excursions) represented approximately 36% of Port revenues in FY 2018-19 (the last full fiscal year of operations that excludes any impact from COVID-19). The leases with such businesses typically pay the Port an amount of rent that is a percentage of gross sales. As a consequence of COVID-19 and the resulting shelter-in-place requirements, customer traffic to these businesses has either stopped entirely or is significantly reduced. Based on the limited reporting data provided by these tenants, parking meter data, and conversations with major Port retailers, the Port does not anticipate receiving any meaningful levels of revenues from this category of tenants until the shelter in place orders are lifted. Port staff forecasts that rents from this category of tenants will largely follow the City-wide hotel tax¹ trends identified by the Controller in their economic reports issued in March and updated in May.

Cruise Ship Operations: Extraordinary Sensitivity

Cruise ship operations were responsible for 7% of Port revenue in FY 2018-19. All cruise operations have ceased as a result of public health orders, and no date for resumption has been announced. As of this report, approximately two thirds of the 117 cruise calls scheduled in calendar year 2020 have been cancelled. Due to the widespread media coverage of the outbreak aboard cruise ships, including the San Francisco based Grand Princess, the Port anticipates the return of significant levels of cruise related revenues will lag resumption of revenues from the retail-driven category discussed above by roughly six months.

Industrial, Warehouse, Office, and Cargo Revenues: Medium Sensitivity

Approximately 57% of Port revenues in FY 2018-19 came from tenants who are not directly dependent on retail traffic. These tenants include industrial or wholesale operations, warehouse tenants who store equipment or inventory at the Port, office tenants whose workforce is now working remotely, and cargo export operations.

Like all businesses they are susceptible to the larger economic and market impacts from COVID-19 and are certainly suffering, but are not directly dependent on retail traffic to maintain economic activity. Based on rents received in April and May, the Port anticipates roughly 50% of revenues due from this category of tenant will be paid through the end of the fiscal year.

¹ The Controller's Office also forecasted City-wide restaurant and retail sales taxes in their report. However, Port staff does not consider that a good proxy for Port restaurants and retail because the Port restaurants and retailers are significantly more dependent on tourism. As such, City-wide hotel tax trends were selected as a better proxy for Port restaurants and retail trends.

Pier 45 Shed C Fire

In addition to the revenue losses due to the COVID-19 pandemic, on the morning of May 24, a major fire destroyed Shed C of Pier 45 in Fisherman's Wharf. As of the writing of this report the full extent of the damage to nearby sheds or the substructure is unknown. Shed C was primarily used as storage for the commercial fishing fleet and their equipment loss will have significant impacts on these tenants. The revenue forecast in the proposed budget assumes that the Port will lose approximately \$100,000 per year due to the Shed C fire.²

Rent Deferral Program

The Port Commission has previously approved a rent deferral program through July 31, 2020, with extensions of that program currently under consideration. The revenue forecast Port staff has developed in the proposed FY 2020-21 and FY 2021-22 budget is a broad economic adjustment based on industry and economic predictions, and does not include any specific adjustments to reflect the current deferral program. As more data becomes available about the deferral program, including the number of tenants who join and ultimately repay back rent, staff will adjust the financial forecast. In accordance with budget instructions issued by the Mayor on May 19, staff will return to the Port Commission in February 2021 with a new budget proposal for FY 2021-22 and FY 2022-23. At that point, staff expects to have enough data regarding rent deferral to accurately reflect its impact in the revenue projections for the next fiscal year.

BUDGET BALANCING MEASURES

The Port is fortunate to have several budget balancing tools available for this biennial budget. Staff proposes to use a combination of operating budget reductions, deferral of capital projects, use of fund balance, and defunding prior capital projects to address reduced revenue in the next two fiscal years.

Reductions to Operating Expenses

Reducing operating expenses is a critical component of sustaining the Port through this pandemic. To develop a proposed expenditure reduction Port finance staff analyzed the expenses of each division, identified essential/non-discretionary expenses, and calculated a savings goal of 50% of the remaining non-essential expenses. Each division then chose which expenses to eliminate, including \$10.0 million (-10.6%) from operating and \$2.7 million (-41.0%) from programmatic projects for FY 2020-21:

- \$4.8 million (-10.3%) savings in salaries and fringe benefits. The Port will save \$1.1 million by removing the new positions originally requested from the budget (this includes the proposed maintenance swing shift of four general laborers,

² The Port's property insurance policy provides coverage for the loss of Port revenues that result from fire (the coverage does not include tenant revenue losses). Rent from Shed C is approximately \$200,000 per year. Port staff assumes two years of revenue loss, with half of that amount being reimbursed during the biennial budgeting period and the remaining half of insurance proceeds afterwards. Notably the \$750,000 deductible included in the Port's insurance was previously appropriated as a placeholder in the case of an unforeseen event.

three truck drivers, and two general labor supervisors, the new parks section supervisor, and the new administrative analyst), solving for these positions by restoring overtime and utilizing substitutions of vacant positions. An additional \$3.7 million in savings is achieved by increased attrition, reducing overtime, and a citywide delay of cost of living salary increases.

- \$1.9 million (-14.0%) savings in non-personnel services. Each division made cuts to their contractual services budgets, including \$1.2 million across divisions in planned use of as-needed professional services, \$0.2 million in reduced licensing fees and tech support, \$0.1 million in reduced security needs at the cruise terminal, \$0.1 million in reduced utilities, \$0.1 million in removal of cushion from rent payment (in case of late fees), \$0.1 million in reduced training funds, and \$0.1 million in sales tax savings.
- \$0.7 million (-41.2%) savings in materials and supplies. Reductions came from Maintenance IT, Business Services and HR.
- \$1.0 million (-92.7%) savings in equipment. Divisions making reductions to equipment include Maintenance, Business Services and IT.
- \$1.4 million (-5.7%) savings in work orders. The Port will save \$0.5 million in reducing its passthrough for shoreside power to the Public Utilities Commission as well as \$0.1 million in reduced need for SFPD and SMFTA support for cruise calls. \$0.3 million in savings is achieved by reducing the Port's revenue transfer to the SFMTA for parking enforcement, as demand is lower due to shelter in place. \$0.3 million in savings is achieved by deleting budget for an additional attorney from the City Attorney work order. Additionally, \$0.1 million is saved from reducing special events SFFD work order support, and \$0.1 million is saved from the Maintenance budget by eliminating an unnecessary DPW work order.
- \$2.7 million (-41.0%) savings is achieved in programmatic projects as follows:
 - \$ 2.3 million in savings from reductions to: IS Strategic Plan (\$1.5 million), Crane Cove Park (\$0.2 million), Facility Maintenance & Repair – Pier 50 (\$0.2 million), Architecture & Engineering Project Planning and Design (\$0.2 million), Miscellaneous Tenant Facility Improvements (\$0.2 million), Facility Maintenance & Repair – Pier 1 (\$0.1 million), Public Access Improvements (\$0.1 million), all offset by \$0.2 increased costs of the Pier 64 cleanup.
 - \$0.4 million in savings by removing the Tree Replacement and Maintenance (\$0.2 million), Sanitary Sewer Management (\$0.1 million), and Pier 80 Underwater Storage Tank Investigation (\$0.1 million) projects.

These proposed operating reductions will have several impacts on the Port including the need to delay the backfill of positions as they become vacant, the elimination of funding for additional staff to enhance cleaning along both the northern and southern waterfront, the reduction of as-needed contract resources, potentially reducing Port staff's ability to respond to emergency engineering and environmental needs, and the elimination of replacement equipment, potentially having an impact on staff's ability maintain Port

property. The reductions will require Port staff to closely manage the operating budget and, potentially, to redistribute non-salary resources such as funding for contractual services across divisions should emergencies arise.

Table 3: Reductions to Operating Expenses from February Budget Submission (\$millions)

	FY 2020-21				FY 2021-22			
	February Budget	Change from February Budget		Proposed Budget	February Budget	Change from February Budget		Proposed Budget
	2020-21	Amount	Percent	2020-21	2021-22	Amount	Percent	2021-22
Salaries & Benefits	\$ 46.5	\$ (4.8)	-10.3%	\$ 41.7	\$ 48.1	\$ (4.3)	-8.9%	\$ 43.8
City-wide Overhead	\$ 0.5	\$ -	0.0%	\$ 0.5	\$ 0.5	\$ -	0.0%	\$ 0.5
Other Current Expenses	\$ 13.3	\$ (1.9)	-14.0%	\$ 11.4	\$ 12.9	\$ (1.5)	-11.4%	\$ 11.4
Materials & Supplies	\$ 1.6	\$ (0.7)	-41.2%	\$ 0.9	\$ 1.6	\$ (0.7)	-42.3%	\$ 0.9
Equipment	\$ 1.0	\$ (1.0)	-92.7%	\$ 0.1	\$ 0.9	\$ (0.9)	-100.0%	\$ -
Debt Service	\$ 6.3	\$ -	0.0%	\$ 6.3	\$ 6.3	\$ -	0.0%	\$ 6.3
Interdept. Work Orders	\$ 24.5	\$ (1.4)	-5.7%	\$ 23.1	\$ 24.8	\$ 0.0	0.1%	\$ 24.8
Operating Expense, Subtotal	\$ 94.0	\$ (10.0)	-10.6%	\$ 84.0	\$ 95.1	\$ (7.3)	-7.7%	\$ 87.8
Programmatic Projects	\$ 6.7	\$ (2.7)	-41.0%	\$ 3.9	\$ 6.5	\$ (2.5)	-39.2%	\$ 3.9
Development Projects	\$ 8.0	\$ -	0.0%	\$ 8.0	\$ 8.0	\$ -	0.0%	\$ 8.0
South Beach Harbor	\$ 3.7	\$ (0.1)	-3.0%	\$ 3.6	\$ 3.8	\$ (0.2)	-5.4%	\$ 3.6
Operating, Total	\$ 112.4	\$ (12.8)	7.2%	\$ 99.6	\$ 113.4	\$ (10.0)	-8.8%	\$ 103.4

Reductions to Capital Appropriations

As with operating reductions, decreasing the Port’s capital investment is another necessary component to enduring the economic fallout from the pandemic. The updated biennial capital budget proposes to reduce \$51.1 million in capital project funding for a capital budget of \$33.2 million, \$25.7 million in FY 2020-21 and \$7.5 million in FY 2021-22. Using the ranked results of the capital project selection process that Port staff completed last fall, Port staff deferred the lower ranking projects and made strategic tradeoffs to significantly reduce the capital budget. Changes are described below, with further details of the revised biennial budget and funding changes shown in Attachment IV.

The most significant project removed from the prior biennial budget approved in February by the Port Commission is Mission Bay Ferry Landing (\$29.0 million). Due to the Port’s altered financial situation, lending Port funds to the project while waiting for reimbursement from the Metropolitan Transportation Commission³ is no longer possible. In April, the Port Commission approved the award of a dredging and site preparation contract for Mission Bay Ferry Landing using existing appropriations, but actual construction on the project will be deferred until Regional Measure 3 (RM3) funds become available.

³ Regional Measure 3 (RM3) is 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. 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.

Other major capital deferrals include:

- Pier 80 improvements including a Berth-C Fendering upgrade to handle the largest class of vessels and avoiding risk of large vessel damage (\$1.1 million) and grading project (\$5.0 million) which will re-grade a flood prone area to prevent high water intrusion and direct rainwater to improved storm drains,
- Facility Inspection Program Repair Assessments (FIRPA)⁴ projects with large budgets and scopes including:
 - Pier 33 projects that will repair timber bases and truss frames, install fire sprinklers, patch spalling concrete and replace the bulkhead roof (\$3.0 million),
 - Pier 35 projects to repair plaster façade at North Bulkhead building, repair column bases, replace fire sparkler heads, and repair deteriorated concrete piles (\$7.3 million), and
 - Pier 45 Shed B, D, and Substructure projects to patch loose spalling concrete on Sheds B and D and Pier 45 pile repairs (\$1.2 million)⁵;
- Further FIRPA facility condition analysis of critical facilities (\$1.6 million),
- Hiring and maintaining a Port-staffed pile repair crew to perform repairs on Port piers (\$1.6 million),
- Reductions to the South Beach Harbor capital investment due to reduced revenues from the harbor (\$.8 million)
- A portion of Southern Waterfront Beautification Fund⁶ appropriations designated to support open space projects, wetland restoration, pier removal, public art, and historic preservation in the Southern Waterfront will be deferred (\$4.8 million).

Port staff anticipate that these projects will be funded in future fiscal years as the economy recovers and revenues increase. As a project allocation governed by a specific Port Commission policy, the Southern Waterfront Beautification Fund will be funded first as the Port's ability to allocate net revenue to capital returns.

The proposed reduction to the biennial capital budget will increase the Port's deferred maintenance backlog, eliminate the next round of FIRPA condition assessments and potentially delay construction of Mission Bay Ferry Landing if the pending litigation of RM3 is not resolved in a timely manner. Additionally, contributions to the Southern Waterfront Beautification Fund will be delayed. Staff anticipates that some of these capital reductions will be offset by the allocation of a significant portion of the Economic Recovery Project to fund capital improvements designed to facilitate leasing in a post-COVID-19 world.

⁴ The first round of Facility Inspection Program Repair Assessments (FIRPA) in 2019 resulted in extensive data on ten Port facilities, outlining the work necessary to bring each facility to a state of good repair. Critical life safety repairs on three of the facilities and funding for future FIRPA facility were originally funded in the capital budget, but will be deferred to FY 2022-23.

⁵ This project does not impact the area damaged in the Pier 45 Shed C fire.

⁶ Southern Waterfront Beautification Fund proposed appropriations in February included \$4.4 million in FY 2020-21 and \$4.4 million in FY 2021-22.

Fund Balance Withdrawals

Under the guidance of the Port Commission, the Port has long used a conservative approach to financial management. This has helped the Port generate a significant fund balance of nearly \$67.0 million, a critical tool for stabilizing the Port during this time of crisis. The two practices that have contributed to this balance are the annual requirements to dedicate (a) 15% of revenues to an operating reserve, and (b) 25% of expenses to capital investment in the current year or dedicated to future investment (see Required Reserves and Designations section below).

The proposed biennial budget is forecasted to reduce fund balance to \$14 million at the conclusion of Fiscal Year 2021-22, or roughly two months of essential expenses which is the minimum reserve amount recommended by the Government Finance Officers Association.

Capital Defunding

Similar to the capital reductions to the February budget discussed above, defunding prior capital appropriations which remain unspent is a significant source of cash needed for the Port to stabilize operations during the pandemic. Port staff has targeted a reduction of \$15.1 million from unspent prior appropriations, that will be the subject of a future supplemental appropriation subject to Port Commission and Board of Supervisors approval. Staff anticipates returning to the Port Commission in the fall for approval.

FACILITATING ECONOMIC RECOVERY

Despite the difficult reductions included in the revised FY 2020-21 and FY 2021-22 budget, it also includes a \$10.0 million appropriation to support all aspects of the Port's economic recovery. This is a significant dedication given the difficult revenue forecast, but a necessary one if the Port is to have the ability improve its operations and pivot to new ideas and concepts in real estate and leasing that are not yet known. In the next three months Port staff will develop goals and objectives for long term economic recovery and will then create an action plan for expenditure of the Economic Recovery Project funds. All \$10.0 million would be placed on a reserve and remain subject to further commission approval before expenditure. These funds are proposed to be appropriated in a new Port Economic Recovery Project.

BUDGET OVERVIEW

As shown in Table 4 below, the Port's proposed FY 2020-21 budget is \$125.7 million, including \$99.6 million for operating expenses (including South Beach Harbor), \$26.1 million for capital and no allocation to reserves. The \$68.5 million (-35.1%) decrease from the February FY 2020-21 budget is made up of savings in operating expenses (\$12.8 million, -11.4%), capital investments (\$29.0 million, -52.6%), and a reduction in allocation to reserves (\$27.9 million, -100%).

The proposed FY 2021-22 budget is \$111.3 million, including \$103.7 million for operating expenses (including South Beach Harbor), \$7.5 million for capital, and no allocations to

reserves. The \$60.5 (-35.2%) decrease from the February FY 2021-22 budget is driven by savings of \$10.2 million (-9.0%) in operating expenses, \$22.0 million (74.5%) in capital investments, and \$28.2 million (-100%) in allocation to reserves. See Attachments I-III for details.

Table 4: Summary of Total Port Sources and Uses (\$millions)¹

	February 2020-21	Proposed 2020-21	Change from February FY 2020- 21 Budget		February 2021-22	Proposed 2021-22	Change from February FY 2021- 22 Budget	
			Amount	%			Amount	%
Sources								
Operating Revenues	\$ 117.8	\$ 55.9	\$ (61.9)	-52.6%	\$ 120.9	\$ 88.7	\$ (32.2)	-26.6%
Estimated Fund Balance	42.6	38.7	\$ (3.9)	-9.2%	37.1	9.4	\$ (27.7)	-74.7%
South Beach Harbor	5.2	4.9	\$ (0.4)	-7.0%	5.4	4.9	\$ (0.5)	-9.7%
Development Recoveries	7.9	7.9	\$ -	0.0%	7.9	7.9	\$ -	0.0%
Orton Services CFD	0.3	0.3	\$ -	0.0%	0.3	0.3	\$ -	0.0%
Transbay Payment	-	-	\$ -	0.0%	-	-	\$ -	0.0%
Ongoing, Subtotal	\$ 173.8	\$ 107.6	\$ (66.2)	-38.1%	\$ 171.6	\$ 111.1	\$ (60.5)	-35.2%
Operating Revenue	\$ 4.1	\$ 0.7	(3.5)	-83.2%	\$ 0.1	\$ 0.1	-	0.0%
Federal Grants	0.4	0.4	-	0.0%	-	-	-	0.0%
Capital Project Defunding	17.0	17.0	-	0.0%	-	-	-	0.0%
One-time, Subtotal	\$ 21.5	\$ 18.1	\$ (3.5)	-16.0%	\$ 0.1	\$ 0.1	\$ -	0.0%
Total Sources	\$ 195.4	\$ 125.7	\$ (68.5)	-35.1%	\$ 171.7	\$ 111.3	\$ (60.5)	-35.2%
Uses								
Operating Expenses	\$ 94.0	\$ 84.0	\$ (10.0)	-10.6%	\$ 95.7	\$ 88.2	\$ (7.5)	-7.8%
Programmatic Projects	6.7	3.9	(2.7)	-41.0%	6.5	3.9	(2.5)	-39.2%
Development Projects	8.0	8.0	-	0.0%	8.0	8.0	-	0.0%
South Beach Harbor	3.7	3.6	(0.1)	-3.0%	3.8	3.6	(0.2)	-5.4%
Operating Expenses, Subtotal	\$ 112.4	\$ 99.6	\$ (12.8)	-11.4%	\$ 114.0	\$ 103.7	\$ (10.2)	-9.0%
Port Capital Appropriations	\$ 53.2	24.5	(28.7)	-54.0%	\$ 28.0	6.4	(21.6)	-77.3%
Grant-Funded Projects	0.4	0.4	-	0.0%	-	-	-	0.0%
South Beach Harbor	1.5	1.2	(0.3)	-18.9%	1.5	1.2	(0.4)	-25.1%
Capital Budget, Subtotal	\$ 55.1	\$ 26.1	\$ (29.0)	-52.6%	\$ 29.5	\$ 7.5	\$ (22.0)	-74.5%
Designation to Future Capital	\$ 13.8	\$ -	\$ (13.8)	-100.0%	\$ 13.8	\$ -	\$ (13.8)	-100.0%
15% Operating Reserve	14.1	-	(14.1)	-100.0%	14.4	-	(14.4)	-100.0%
Reserves, Subtotal	\$ 27.9	\$ -	\$ (27.9)	-100.0%	\$ 28.2	\$ -	\$ (28.2)	-100.0%
Total Uses	\$ 195.4	\$ 125.7	\$ (68.5)	-35.1%	\$ 171.7	\$ 111.3	\$ (60.5)	-35.2%

REQUIRED RESERVES AND DESIGNATIONS

As a result of the economic crisis caused by the COVID-19 pandemic, the proposed FY 2020-21 and FY 2021-22 budget does not meet the following three budgetary practices:

the capital investment policy requiring 25% of operating revenue to be set aside for capital, (2) the practice allocating an operating reserve equal to 15% of operating expenses, and (3) the Southern Waterfront Beautification Fund set aside of rents generated in the Southern Waterfront. Given the unprecedented revenue losses due to the pandemic, funding these policies is not possible without reducing the Port's ability to

¹ The Capital Defunding amount of \$17 million shown in FY20-21 above is the combination of (a) \$6.3 million in actual cash reductions which are expected to transfer in FY19-20 as shown in Table 1 which shows impacts to fund balance, and (b) \$10.7 million in budget reallocations in FY20-21 which do not impact fund balance.

maintain essential operations, make life-safety capital investments, or flexibly respond to the post COVID-19 economy. Once the economic future becomes reasonably more predictable, staff will present a plan to the Commission to rebuild fund balance, restore the capital program and repay the amounts that would have otherwise been allocated to the Southern Waterfront Beautification Fund.

CONCLUSION

The uncertainty surrounding this public health crisis is substantial and makes the revenue forecasts underlying this budget subject to significant variance. As such Port staff will closely monitor economic indicators and revenues throughout the coming fiscal year and will make adjustments to expenditures as needed.

Additionally, the Port usually has a “closed” two-year budget with only very limited changes in the second year. Due to the pandemic, the Mayor will require all departments to submit a full budget request for FY 2021-22 with updated revenue and expenditure assumptions in February 2021. This will allow Port staff to develop the next biennial budget with better information about revenue and adjust use of fund balance and operating and capital expenditures accordingly.

Prepared by:

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For:

Katharine E. Petrucione
Acting Executive Director and
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. Capital Appropriations

⁷The Capital Defunding amount of \$17 million shown in FY20-21 above is the combination of (a) \$6.3 million in actual cash reductions which are expected to transfer in FY19-20 as shown in Table 1 which shows impacts to fund balance, and (b) \$10.7 million in budget reallocations in FY20-21 which do not impact fund balance.

**PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO**

RESOLUTION NO. 20-28

- WHEREAS, In November 2009, the voters of San Francisco approved Proposition A which amended Section 9.100 of the San Francisco Charter to require the City to adopt a new rolling two-year budget cycle; and
- WHEREAS, On November 1, 2011 under File No. 11-1009, "Resolution adopting a fixed two-year budgetary cycle for the Airport, the Port, and the Public Utilities Commission, defining terms, and setting deadlines," the Board of Supervisors determined that the Port must adopt a fixed biennial budget; and
- WHEREAS, On February 21, 2020 the Port Commission approved the Fiscal Year 2020-21 and Fiscal Year 2021-22 Biennial Budget in Resolution 20-10; and
- WHEREAS, On March 16, 2020, the City issued a shelter-in-place order in response to the COVID-19 pandemic and followed up on March 17, 2020 with a commercial eviction moratorium; and
- WHEREAS, The actions that the City and the State of California have taken to respond to this public health emergency have resulted in significant economic dislocation in San Francisco and have significantly changed the projected revenues assumed in the biennial budget approved by the Port Commission in Resolution 20-10; and
- WHEREAS, Port Commission staff has developed a Revised Fiscal Years 2020-21 and 2021-22 Biennial Operating Budget ("Biennial Budget") to account for such significant changes in projected revenues, as described in detail in the staff memorandum to the Port Commission, dated June 5, 2020, accompanying this Resolution and on file with the Secretary of the Commission; and
- WHEREAS, Staff recommends that the Port Commission approve the revised Biennial Budget; and
- WHEREAS, The revised Biennial Budget must also be approved by Mayor London Breed and the Board of Supervisors; and, now therefore, be it
- RESOLVED, That the Port Commission hereby approves the Fiscal Year 2020-21 and Fiscal Year 2021-22 Biennial Budget as proposed by staff and as described in the staff memorandum to the Port Commission, dated June 5, 2020, accompanying this Resolution and on file with the Secretary of the Commission; and be it further

- RESOLVED, That staff is directed to submit the revised Biennial Budget to Mayor London Breed and the Board of Supervisors for their review and approval; and, be it further
- RESOLVED, That the Port Commission hereby authorizes the Executive Director to make such changes to the Biennial Budget that the Executive Director deems to be in the Port's best interest, and, be it further
- RESOLVED, That after the Biennial Budget has been approved by Mayor London Breed and the Board of Supervisors, staff is directed to return to the Port Commission to report on, and receive Port Commission approval for any material changes to the Biennial Budget.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of June 9, 2020.

Secretary

**PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO**

RESOLUTION NO. 20-29

- WHEREAS, On February 21, 2020 the Port Commission approved the Fiscal Year 2020-21 and Fiscal Year 2021-22 Capital Budget in Resolution 20-11; and
- WHEREAS, On March 16, 2020, the City issued a shelter-in-place order in response to the COVID-19 pandemic and followed up on March 17, 2020 with a commercial eviction moratorium; and
- WHEREAS, The actions that the City and the State of California have taken to respond to this public health emergency have resulted in significant economic dislocation in San Francisco and have significantly changed the projected revenues assumed in the biennial capital budget approved by the Port Commission in Resolution 20-11; and
- WHEREAS, The Port Commission staff has developed a revised Fiscal Year 2020-21 and Fiscal Year 2021-22 Biennial Capital Budget (“Capital Budget”) to account for such significant changes in projected revenues, as described in detail in the staff to the Port Commission, dated June 5, 2020, accompanying this Resolution and on file with the Secretary of the Commission; and
- WHEREAS, Staff recommends that the Port Commission approve the proposed capital projects and the revised Capital Budget; and
- WHEREAS, The revised Capital Budget must also be approved by Mayor London Breed and the Board of Supervisors; and
- WHEREAS, The proposed capital projects must be approved by the City’s Capital Planning Committee; now therefore, be it
- RESOLVED, That the Port Commission hereby approves the Fiscal Year 2020-21 and Fiscal Year 2021-22 Capital Budget as proposed by staff and described in greater detail in the staff memorandum to the Port Commission, dated June 5, 2020, accompanying this Resolution and on file with the Secretary of the Commission; and, be it further
- RESOLVED, That staff is directed to submit the revised Capital Budget to Mayor London Breed and the Board of Supervisors for their review and approval; and, be it further
- RESOLVED, That the Port Commission hereby authorizes the Executive Director to make such changes to the Capital Budget that the Executive Director deems to be in the Port's best interest; and, be it further

RESOLVED, That after the Capital Budget has been approved by Mayor Breed and the Board of Supervisors, staff is directed to return to the Port Commission to report on any material changes to the Capital Budget.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of June 9, 2020.

Secretary