



PORT OF SAN FRANCISCO WATERFRONT PLAN UPDATE

3/2/2016

PORT BUDGET & FINANCE OVERVIEW

This report provides an overview of the Port's financial planning and budget processes, a fundamental consideration for the Waterfront Plan Update planning effort. The interim and long-term use of Port properties, and their associated revenues and capital improvements directly affect the Port's ability to maintain operations, protect public safety, and implement the goals of the Waterfront Plan.

INTRODUCTION AND RELEVANT REPORTS

Under the San Francisco City Charter and Burton Act¹, the Port does not receive ongoing funding from the City or State. As a result, the Port must support its operations and fund capital improvements from revenues generated from use and management of its properties, and by the creative leverage and use of outside sources of funds. As described further below, Port financial resources are insufficient to meet projected capital needs. This memo is intended to provide a basic understanding of the issues and key source documents that establish the Port's budget and capital planning framework.

Port staff recently prepared an informational presentation on its proposed two-year Operating and Capital Budget for fiscal years 2016-2018, which was approved at the February 23, 2016 Port Commission meeting. This report provides the public with a breakdown of how the Port manages ongoing operations, sets aside revenues for capital improvements that address a balanced set of projects and strategically respond to multiple Port needs and responsibilities.

In addition to the two-year Operating and Capital Budget, the Port has three other key planning documents that support its financial outlook: the Port Facility Assessment, the 10-year Capital Plan; and the 5-year Financial Plan. More detail on each of these documents is provided via the below links, and we welcome the public's review.

[1 | PORT FACILITY ASSESSMENT PROGRAM](#)

[2 | PORT 10-YEAR CAPITAL PLAN](#)

[3 | PORT OPERATING AND CAPITAL BUDGETS](#)

[4 | CITY 5-YEAR FINANCIAL PLAN](#)

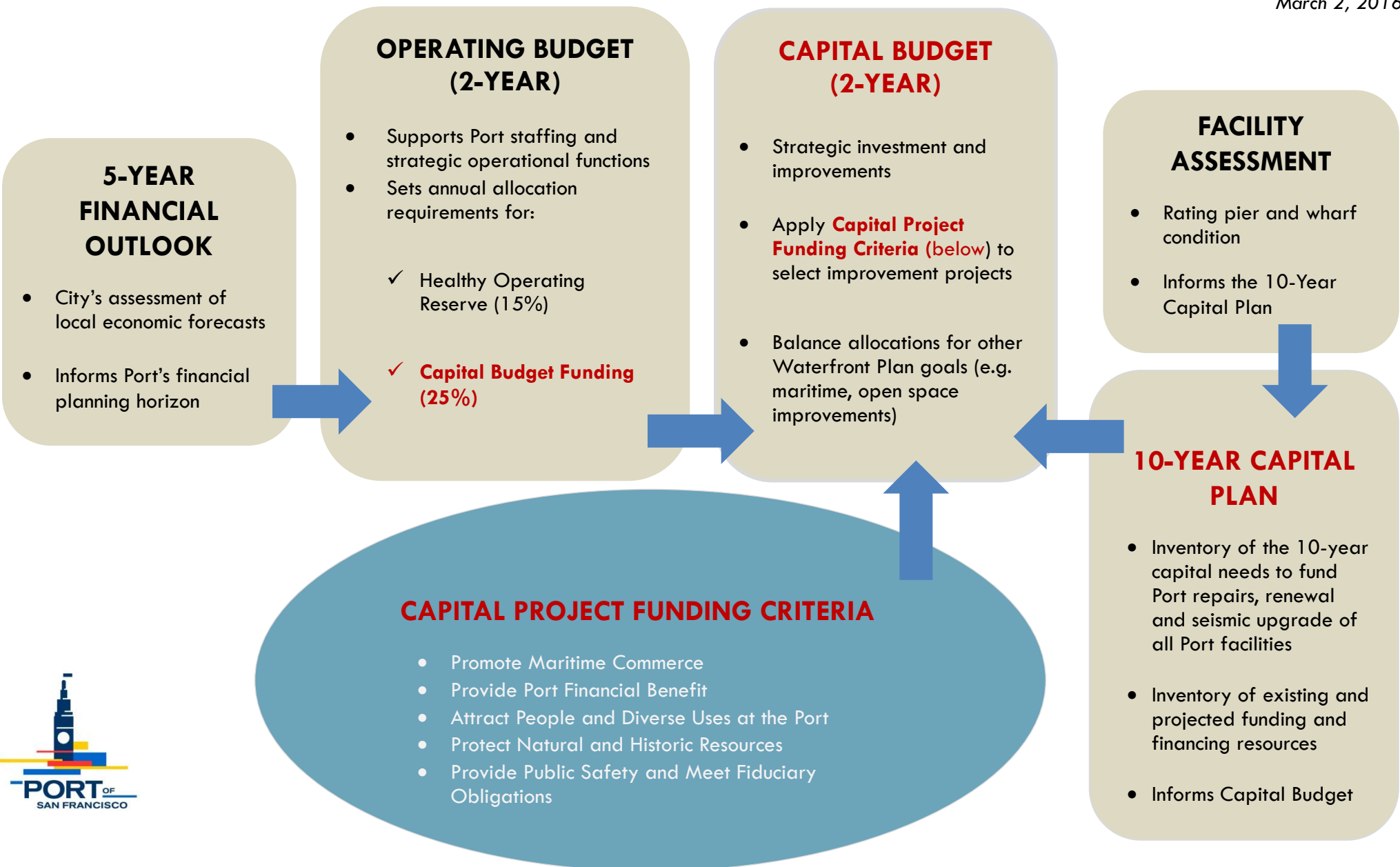
This overview report provides a high-level summary of the planning documents, how they are related, and how each contributes to the Port's financial and budget planning framework. The flowchart on the next page provides a quick reference to illustrate these relationships.

¹ The Burton Act is the state legislation approved in 1968 that authorized the transfer of waterfront lands from the State to the City and County of San Francisco under the San Francisco Port Commission, to be held in trust and managed for the benefit of the citizens of the State of California.

Port Operations and Capital Investments

Align with Waterfront Plan Values

March 2, 2016



1 | PORT OF SAN FRANCISCO FACILITY ASSESSMENT PROGRAM

The Port's Facility Assessment Program is managed by the Port's Engineering Division staff, to document the condition of over 350 structures, including piers, wharves and buildings. This Program provides key input to inform Port projections of capital needs. Most facilities are approaching 100 years in age, and some are over 100 years old. Because of their age, facility inspection, maintenance and repair requirements impose constant and pressing demands on the Port to protect public health and safety. The associated costs make up almost 60% of the Port's capital improvement needs. The Facility Assessment Program establishes three categories to summarize facility condition, which are depicted in color-coded facility maps: 1) State of Good Repair/Unrestricted Use (green); 2) Load-restricted/At Risk (yellow with green hatching); and 3) Fully Restricted (red).

Based on structural condition, the Facility Assessment Team makes recommendations for load restrictions, barricades and warning signs, and provides advance reports on facilities needing structural repairs to achieve "State of Good Repair" (green) condition. Because most of its revenue is generated from facility leasing, the Port has a custodial and operational motivation to optimize the repair and management of its properties. Where facility maintenance responsibility is assigned to tenants under their leases, the Engineering staff has established protocols for notifying tenants of facility condition assessments. Repairs to facilities for which the Port is responsible are vetted and prioritized for funding through the Port's Capital Budget process.

The Port's Engineering staff provided an informational presentation at the February 9, 2016 Port Commission meeting, to report at-risk facilities, those that have become load-restricted and are recommended for repairs within five years, and a status report on Port actions to respond to previously reported repair needs. The report also includes a list of "red-tagged" or unsafe facilities, and fortunately, there were no new such facilities to report this year. Color-coded maps summarize the condition ratings of all inspected Port facilities. The updated lists include the funding status; most of them are currently unfunded. The facility condition reports are an essential input into the Port's 10-Year Capital Plan, as well as capital budget process.

2 | PORT OF SAN FRANCISCO 10-YEAR CAPITAL PLAN

In accordance with the City's capital planning requirements, the Port prepares a 10-Year Capital Plan (Capital Plan) which is updated every two years; current information is provided in the 10-Year Capital Plan for Fiscal Years 2016 – 2025. The Capital Plan provides the public with a comprehensive inventory of the Port's facility current conditions and capital needs, and available and projected capital resources over the next 10 years.

As reflected in past and in this current Capital Plan, existing and projected funding falls short of need. The 2016-2025 Capital Plan estimates a total need of \$1.6 billion to improve facilities to a State of Good Repair (green) condition, plus an additional \$476 million for conditional seismic work for a total of \$2.1 billion. The Capital Plan includes a plan to fund nearly \$854 million of the \$2.1 billion need, mostly through funding sources outside of the Port's Capital Budget. These estimates do not include repair of the City's seawall, which may require up to \$500 million to address immediate seismic and safety issues and roughly \$5 billion over the next decade for substantial fortification. The Plan predicts a backlog of \$1.13 billion in FY 2025 because of the shortfall in funding sources.

Because capital needs exceed resources, the projects and investments in the Capital Plan have been guided by criteria and considerations that the Port Commission believes strike a balance among diverse public interests as reflected in the Waterfront Land Use Plan, respond to basic public safety and environmental needs, and optimize resources that address its fiduciary responsibilities. They include:

- General repairs and improvements to existing facilities that support continued leasing and revenue generation;
- Infrastructure improvements, including substructure, and utility repairs that respond to the shared objectives of protecting public safety and improving environmental quality, responsible stewardship of historic resources;
- Investments in waterfront parks and public open space that meet public trust needs and acknowledge the increasing role of Port lands in addressing City economic and quality of life objectives;
- Strategic waterfront improvements that leverage private investment to support City policies and transform the waterfront, while reducing the Port's capital liability and enhancing land value.

3 | PORT OPERATING AND CAPITAL BUDGETS

In 2009, San Franciscans approved Proposition A which allows the City to implement a two-year budget cycle. The Port now prepares two-year Operating and Capital Budgets, which has advanced financial planning. The Port Operating Budget accounts for all Port expenses and revenues, including facility leasing, personnel and debt service expenses, and an Operating Reserve. In light of the information from the Facility Assessment Program and 10-Year Capital Plan, the Port Commission is well aware that facility repair funding has historically been too low to adequately address capital needs. Of particular concern is the serious deterioration of Port facilities to the point of being unsafe and unusable. Accordingly, in 2012 the Port Commission adopted a Capital Policy that sets a minimum capital investment requirement equal to 20% of its operating revenue, increasing to 25% in fiscal year 2017-18, which represents a starting point to expand and stabilize the Capital Budget.

The Port Capital Budget allocates funds to a variety of improvements, including pier structure repair projects (e.g. substructure, roof repairs, ADA requirements), maintenance dredging, utility, open space, greening and alternative energy improvements. All capital budget funding proposals undergo review against a criteria and scoring system to determine which projects should be funded in the Capital Budget. The Capital Budget review criteria align with the goals of the Waterfront Plan.

Step 1 Review Criteria:

- Does the project address a code or regulatory issue?
- Does the project significantly reduce potential liability to the Port?
- Does the project promote commerce, navigation or fisheries?
- Does the project attract people to the waterfront?
- Does the project protect natural or cultural resources?

Step 2 Review Criteria:

- What is the payback period, if 10 years or less?
- What is the financial benefit to the Port over the life of the improved asset?

Prioritization Category: Any projects that fall into one or more of the below categories may be worthy of separate consideration:

- Is the project required to address an emergency, defined as an immediate threat to human health or the environment?
- Is the project legally mandated by a regulatory order or legal judgment?
- Is the project substantially matched by outside funding sources?

4 | CITY 5-YEAR FINANCIAL PLAN

One other new Charter provision approved as part of Proposition A is a requirement for the City to prepare a Five-Year Financial Plan. The City's Financial Plan is required to present forecasted expenditures and revenues during the five-year period, propose actions to balance revenues and expenditures during each year of the plan, and discuss strategic goals and corresponding resources for City departments. The Financial Plan includes discussion of major financial and operational issues for the City's largest General Fund departments, and all of the Enterprise departments, including the Port.

Port staff updated the Five-Year Financial Plan for Fiscal Years 2015 – 2020, as described in a Port Commission staff report, dated February 6, 2015. The Financial Plan presents a five-year base case budget outlook that projects a total budget increase of \$16.8 million. This improvement is derived primarily from a projection of revenue growth that is associated with the ongoing strength of the economy. Even with the projected increase in funding sources, the Port will continue to face common challenges that confront many City departments: balancing the need to address growing operating costs with maintenance of aging infrastructure.

The Port's financial planning process has helped Port staff identify the strengths and weaknesses in the Port's budget and, in turn, improved efforts to make strategic investments in operations and infrastructure. Furthermore, this additional assessment and fine-tuning has improved the biennial budget process to better ensure that ongoing spending aligns with long-term goals.