MEMORANDUM

February 6, 2015

TO: MEMBERS, PORT COMMISSION
Hon. Leslie Katz, President
Hon. Willie Adams, Vice President
Hon. Kimberly Brandon
Hon. Mel Murphy
Hon. Doreen Woo Ho

FROM: Monique Moyer
Executive Director

SUBJECT: Informational Presentation on Fiscal Year 2015-16 to 2019-20 Five Year Financial Plan

DIRECTOR'S RECOMMENDATION: Informational Item

Executive Summary

Under Charter Section 9.119, the City and County of San Francisco ("the City") is required to prepare a five-year financial forecast in every odd fiscal year that projects expenditures and revenues, proposes actions to balance the budget during each year of the plan, and discusses strategic goals and corresponding resources for City departments. The purpose of this item is to give an overview of the City's Five Year Financial Plan for Fiscal Years (FY) 2015-16 through 2019-20 ("City's Financial Plan") and provide an update on the Port's Five Year Financial Plan for FY 2015-16 – 2019-20 ("Financial Plan") to allow for Port Commission consideration and feedback.

Overall the Port's financial outlook is strong, with surplus revenues projected for each year of the Financial Plan while maintaining a 15% Operating Reserve and meeting the Port's Capital Policy requirements. The strong outlook is due to revenue growth, controlled expenses, and plans to expand the Port's revenue base by leasing vacant facilities and completing capital repairs that will prepare facilities for leasing. However, it is important to recognize that the forecast assumes continuation of a strong economy, which has already benefited from a longer than average upcycle. Should an economic slowdown occur or leasing efforts fall short of the assumptions in the Financial Plan, the Port may face deficits that require tradeoffs between operating and capital needs. Other factors that may challenge the positive financial outlook are (1) rent loss from key

This Print Covers Calendar Item No. 13A

development projects, (2) growing labor costs from wage increases and increases in health benefits and retirement costs, and (3) increasing the staff count.

Strategic Objective

The Port uses the Financial Plan to identify strategies to balance the budget and to ensure that the Port is allocating resources to the following strategic initiatives:

Plan and Implement a Stable Financial Future for the City's Port – As detailed in the updated Capital Plan (see Item 13B) the Port faces $1.1 billion of unmet capital need over the next 10 years. This represents backlog and renewal repairs for which there is no identified funding source. The growing capital backlog is preventing the Port from keeping its assets in a state of good repair. The problem must be resolved so that Port assets continue to promote economic activity and enhance the City rather than become a drain on the General Fund. The Port is beginning to more aggressively tackle this problem by dedicating 25% of operating revenue, instead of 20%, to capital commencing in FY 2017-18 The Port will need to hold down operating expenses and seek efficiencies while expanding the Port's revenue stream to dedicate more resources to capital.

Redevelop and Rehabilitate Aging Waterfront Piers, Wharfs and Seawall Lots – Many of the historic finger piers are dilapidated. Rehabilitation is difficult to finance because the substructures often need significant investment and the regulatory framework requires a set of public benefits and public trust consistent uses. While beneficial to the public, these requirements are expensive and undercut the ability of projects to be financially viable. The Port has sought new public subsidies (such as Infrastructure Financing Districts) and is advancing a strategy of capturing value from the Seawall lots for development of the piers. Developments are planned for Piers 38, 48, 70 and Seawall Lot 337, which will address capital backlog, increase the value of Port lands, and activate the waterfront.

Lead a City Effort to Rebuild the Seawall and Adapt the Port Waterfront and its Seawall and Sea Level Rise – Between 1900 and 2000 the level of San Francisco Bay rose by seven inches. Scientific forecasts predict that water levels could rise another 16 inches or more by 2050. The aging seawall serves a critical role in protecting the integrity of the City's infrastructure and economy. The Port will work with City partners to define options to address the deterioration of the seawall, seismic vulnerabilities, and to prepare for the rising tide. The rising tide will require a public reimaging of the waterfront for 2100 and beyond and is the most significant issue that generations of Port staff and Port Commissions will face.

Preserve and Promote Industrial Maritime – The Port is refining its strategy to pursue maritime opportunities Port-wide, such as car import/export at Pier 80, iron ore export at Pier 96, and continued and expanded ship repair at Pier 70. Piers 27, 35, 45, 50, 70, 80, 92-96 and the Backlands are priority areas to preserve and expand maritime operations and other industrial activities. The Piers 90-96 maritime terminal in the Southern Waterfront offers the largest assemblage of industrial maritime opportunities on Port property. This area is unique in San Francisco as it has the operational capacity and transportation access to support maritime public trust uses and must be managed to recognize and optimize opportunities for maritime shipping and commerce as well as meet the City's light and heavy industrial needs.[1]

Preserve Lands for Maritime Commerce, Industrial Uses, and Class B Office Space – The Port provides a critical resource for industrial uses, warehouses, affordable rental space for small businesses, and non-profits. This role should be maintained, with additional emphasis placed on generating and supporting blue collar jobs as well as attracting types of cargo shipments such as aggregate and asphalt to meet the demands of the City. Notably, no other segment of the City meets these needs for waterside services and there is limited industrial land, also known as Production, Distribution and Repair (PDR) land, elsewhere in the City.

Citywide Five Year Financial Plan Overview

The City's Financial Plan is required under the City Charter 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.

On December 9, 2014, Mayor Lee introduced his Five Year Financial Plan for Fiscal Years 2015-16 through 2019-20 ("City's Financial Plan") to the Board of Supervisors.[2] The City's Financial Plan shows that the cost of City services are projected to grow by $984.7 million, outpacing the projected $566.9 million increase in General Fund sources by $417.9 million. Employee and Citywide operating costs are the primary drivers for expenditure growth, contributing 35% and 41% of total expenditure growth, respectively.

Despite the need for corrective action, the City is in a much better fiscal position than it was in 2011, when Mayor Lee took office. The City's deficit for FY 2011-12 was projected at $382 million and the unemployment rate was 9.4%. In contrast, the current FY 2015-16 and 2016-17 budget deficits are each below $100 million and unemployment has fallen to 4.4%. According to the City's Financial Plan, San Francisco's employment reached its all-time high in 2013, surpassing the previous peak in 2000. Between 2010 and 2013, San Francisco added more than 70,000 jobs to the local economy. The City's Financial Plan makes the optimistic assumption that the current economic condition will continue; the forecast will worsen, should a slowdown occur.

The Mayor is striving to use the positive economic times to responsibly manage the City's growth so that expenditures align with growing revenues. His fiscal strategies to

[1] See, the City's "Central Waterfront Area Plan," December, 2008 from the Eastern Neighborhoods Plans.

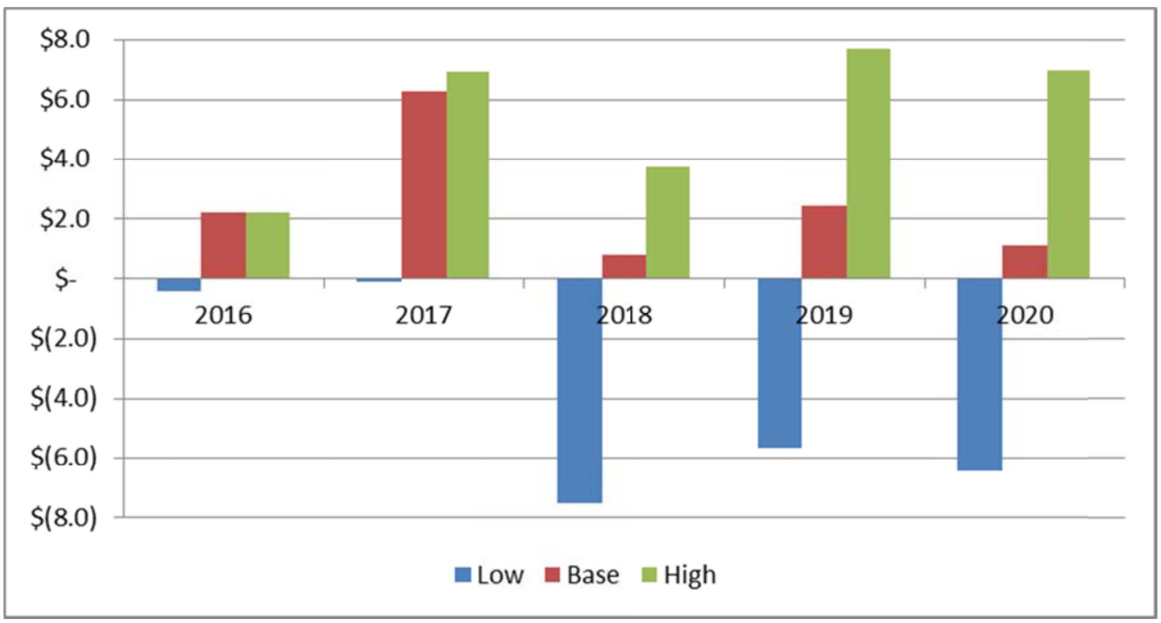
[2] City and County of San Francisco, California, "Proposed Five Year Financial Plan for Fiscal Year 2015-16 through 2019-20," http://sfcontroller.org/modules/showdocument.aspx?documentid=6056, December 9, 2014.

grow the city's budget sustainability are to 1) manage capital spending and restructure debt, 2) manage employee wage and benefit costs, 3) limit non-personnel inflation, 4) increase Department revenues and 5) increase taxes, fees and other revenue.

Port Financial Plan

The Port Financial Plan for Fiscal Years 2015-16 through 2019-20 ("Financial Plan") makes three projections for the five year period: Base, Low and High case scenarios. As detailed below, the *Base Case Scenario* represents what is "most likely" based on current economic trends, planned real estate leasing activities and other outcomes from previous Port Commission decisions. In contrast, the *Low Case Scenario* assumes slower implementation of real estate initiatives that might occur from an economic slowdown, leading to budget deficits in years three through five of the Financial Plan. Finally, the *High Case Scenario* assumes factors from the Base Case Scenario, plus additional revenue resulting from potential Port Commission decisions regarding revenue-generating capital projects and development projects.

Figure 1: Revenue Surplus/Deficit in Three Scenarios ($ Millions) – The Base Case Scenario presents the "Most Likely" outlook, based upon current economic trends and planned real estate leasing activities. In contrast, the Low and High Case scenarios consider the Port's financial outlook, given negative or positive influences on the Port's revenues.



Base Case Scenario

The Base Case Scenario is consistent with the City's Financial Plan assumptions about the ongoing strength of the economy and growth rates for personnel and non-personnel expenditures. It also reflects Port staff's current knowledge regarding 1) the timing and value of upcoming leasing and parking opportunities for Port facilities, and 2) the revenues from development projects at Pier 38 and Pier 70. As a result of these factors, revenue surpluses are forecasted in each year of the plan. However, the surplus declines in years three through five of the plan due to (1) a growing call on Port revenue to capital investment, (2) rent loss from commencement of key development projects, and (3) growing operating expenses.[3] The details of sources and uses of funds that contribute to these trends are detailed below.

Table 1: Base Case Scenario ($ Thousands) – The Port's financial outlook is strong and meets the Capital Policy requirement of dedicated operating revenues of 25% to capital beginning in FY 2017-18.

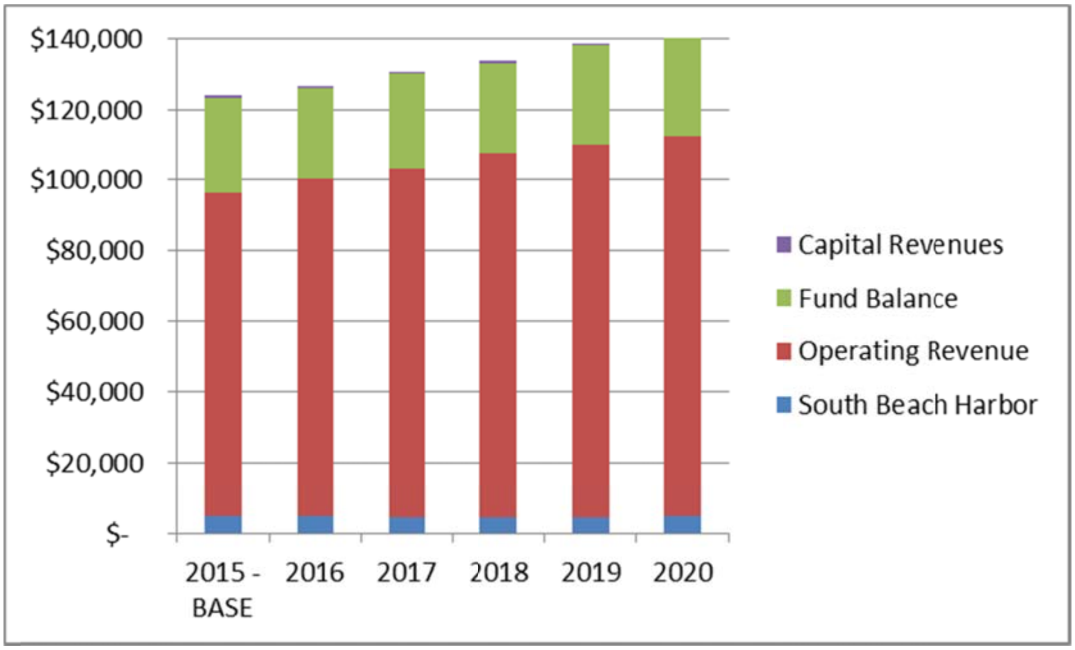
Fiscal Year	2015 (Base)	2016 (+1)	2017 (+2)	2018 (+3)	2019 (+4)	2020 (+5)	Change from Base	% Change
Sources								
Estimated Fund Balance	26,847	25,618	26,857	25,494	27,904	28,393	1,546	6%
Operating Revenues	91,621	95,425	98,752	102,939	105,480	107,490	15,868	17%
Capital Revenues	550	550	550	550	550	-	(550)	-100%
South Beach Harbor	4,876	4,972	4,386	4,516	4,650	4,788	(88)	-2%
Sources, total	**$ 123,895**	**$ 126,565**	**$ 130,545**	**$ 133,499**	**$ 138,584**	**$ 140,671**	**$ 16,776**	**14%**
Uses								
Operating Expenses	83,601	84,936	88,195	90,243	92,614	95,045	11,444	14%
Capital Policy Budget	18,324	22,972	19,750	25,735	26,370	26,872	8,548	47%
1. Capital investments	12,800	12,800	15,470	13,836	15,926	15,538	2,738	21%
2. Designation to Capital	5,524	10,172	4,280	11,899	10,444	11,334	5,810	105%
Percent of operating revenues	20%	24%	20%	25%	25%	25%	5%	25%
South Beach Harbor	4,876	4,972	4,386	4,516	4,650	4,788	(88)	-2%
Operating Reserves	11,308	11,482	11,937	12,208	12,528	12,855	1,546	14%
Percent of operating expenses	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	0.0%	0%
Uses, total	**$ 118,110**	**$ 124,362**	**$ 124,267**	**$ 132,702**	**$ 136,162**	**$ 139,561**	**$ 21,451**	**18%**
Balance	**$ 5,785**	**$ 2,202**	**$ 6,277**	**$ 797**	**$ 2,422**	**$ 1,111**	**$ (4,675)**	**-81%**
KEY ASSUMPTIONS:								
Revenue Assumptions	$ -	$ 618	$ 1,493	$ 2,987	$ 3,572	$ 3,642		
Piers 19 & 23 - Shed Leases	-	495	1,009	1,623	1,655	1,689		
Pier 23 - Office Lease	-	124	253	258	263	268		
Pier 29 - Shed Lease	-	-	-	538	1,097	1,119		
Pier 31 - Shed Lease	-	-	181	465	755	771		
Pier 38 - Bulkhead Development	-	-	50	75	75	75		
Pier 70 - Forest City & Orton	-	-	-	(272)	(580)	(592)		
SWL 337 - "The Yard"	-	-	-	300	306	312		

[3] Notably, the Base Case does not reflect a $15.3 million one-time pre-payment of rent from the Pacific Gas and Electric Company in FY 2014-15. The Port Commission will need to determine if those funds should be utilized to create a new revenue stabilization fund or to fund additional capital projects, as proposed in Item 13C.

Funding Sources

The Port's funding sources include fund balance[4], operating revenue, capital revenues and South Beach Harbor revenues. All Funding Sources are projected to increase $16.8 million (14%), starting with a total of $123.9 million in FY 2014-15 and ending with $140.7 million in FY 2019-20,

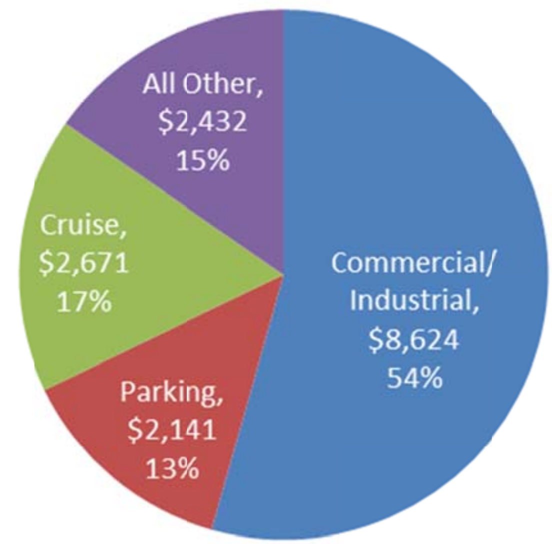
Figure 2: Funding Sources ($ Thousands) – Operating revenues plus South Beach Harbor revenues will exceed $100 million next year, FY 2015-16.



The majority of this growth in funding sources results from *operating revenues*, which are projected to increase by $15.9 million (17%), from $91.6 million in FY 2014-15 to $107.5 million in FY 2019-20, with an average annual growth of $3.2 million (3%) per year. The Port goal to reach $100 million in operating revenue is projected to be achieved in FY 2017-18, or FY 2015-16 if South Beach Harbor revenues are included. This projection is based on current economic trends, annual rent adjustments, and planned leasing opportunities. The following operational sources support this change:

[4] Fund Balance is comprised of expenditure savings and surplus revenues from prior years that is available to budget and spend

Figure 3: Summary of Changes to Operating Revenue ($ Thousands) – Commercial/Industrial Rents, Parking and Cruise represent 85% of the $15.9 million overall growth in operating revenues over the five year projection period.



Total Operating Revenue Growth = $15,868,386

1. *Commercial/Industrial Rent* – The Port's commercial/industrial rents are projected to increase by $8.6 million (18%), from $47.2 million in the first year to $55.8 million in the fifth year, FY 2019-20, with an average annual growth of $1.7 million (4%) per year. This change represents 54% of operating revenue growth and is based on the current rent roll and FY 2013-14 percentage rent collections, with an annual inflation of 2%. Additionally, the increase in commercial/industrial rent assumes that the Port will benefit from the following Real Estate and Planning initiatives.

   - Piers 19, 23 and 29 – These former 34th America's Cup (AC34) venues are all currently vacant and available for leasing as office and warehouse space. Both the Pier 19 shed and the Pier 23 office are on track to be leased out by midyear FY 2015-16. The Pier 23 and 29 sheds are still being evaluated for their use and may not generate revenue until FY 2017-18. The Financial Plan assumes that the office space will be leased for $2.00 per square foot, the Pier 19 and 29 shed space for $1.25 per square foot and the Pier 23 shed for $0.75 per square foot. Together, these facilities are projected to generate an additional $3.1 million in annual revenues by the end of the five year period

   - Pier 31 – The renovation of the historic Pier 31 is planned for completion by July 2016, allowing for assumed revenue generation that same fiscal year, starting at approximately $0.2 million and then increasing to $0.8 million per year by FY 2019-20.

- Pier 38 – The Port is preparing for the rehabilitation of the Pier 38 bulkhead. Current negotiations with TMG Pier 38 Partners, LLC would generate gross $0.3 million in rents, but net an annual profit of $75,000 per year after applying rent credits and setting aside an annual $75,000 reserve for potential facility improvements.

- Pier 70 – Moving forward with the Orton Development Inc. and Forest City development projects will impact leases with current tenants located at Pier 70, beginning as early as FY 2017-18. While Port staff is working diligently to relocate tenants if possible, the forecast assumes that Yellow Cab Cooperative, Inc. and Paul's Stores, Inc. leases may need to be terminated due to lack of comparable Port facilities that can meet the tenants' needs. The annual impact of losing those leases is approximately $0.6 million.

- Seawall Lot 337 – The Port Commission recently approved a Seawall Lot 337 Associates LLC pop-up retail space called "The Yard" at Seawall 337. The project is expected to generate $150,000 in new parking revenues and $150,000 of shared sales receipts, beginning in FY 2017-18.

2. *Parking Revenue* – Parking revenues are projected to increase by $2.1 million (11%), from $19.6 million in the first year to $21.7 million in FY 2019-20. This change represents 13% of operating revenue growth, assuming current trends, an existing supply of parking meters and an annual inflation of 2%. The forecast no longer assumes the expansion of meters along Terry Francois Boulevard and Illinois Street, due to a citywide moratorium on new meter installation. This revenue projection also assumes Piers 30-32, 19½ and 29½, the former AC34 venues, will continue to be used for interim parking.

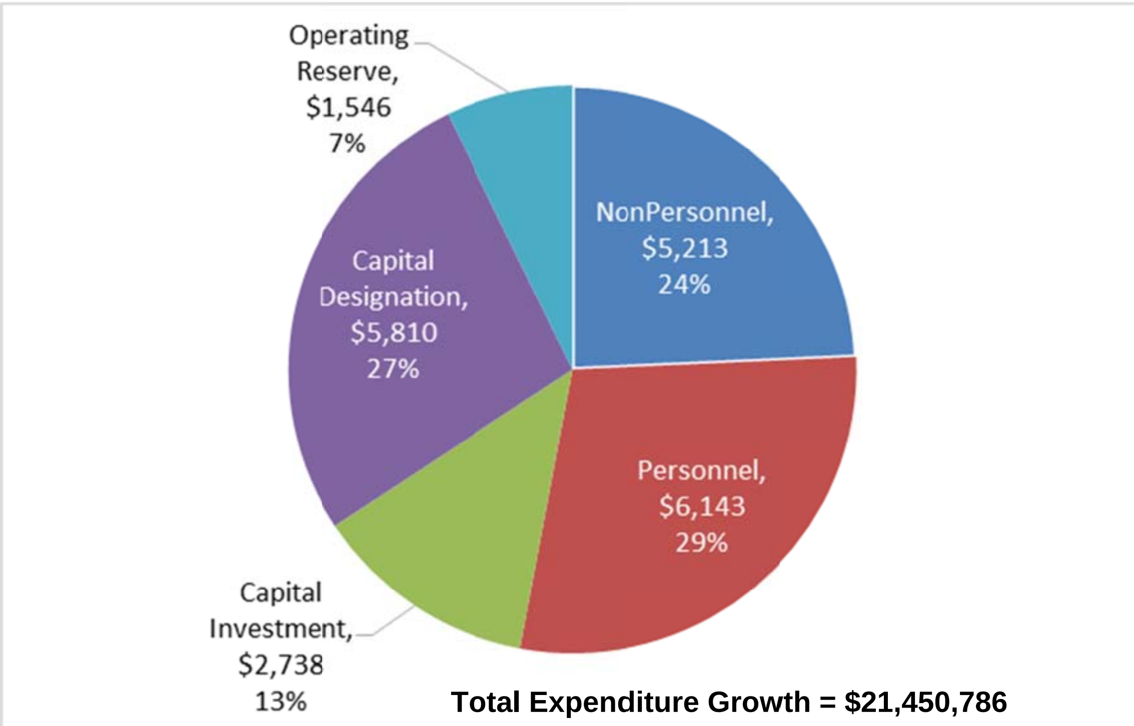
3. *Cruise Revenues* – Cruise revenues are projected to increase by $2.7 million (43%), from $6.2 million in the first year to $8.8 million in FY 2019-20. This change represents 17% of operating revenue growth. Of the change, $1.0 million is due to increased passenger volume, to 293,150, combined with the full implementation of a $6 Passenger Facility Charge increase as of January 1, 2015. Additionally, full operations of special events and parking at Pier 27 are projected to increase revenues by $1.5 million by the end of the five year period.

4. *Other Port Revenues* – Other Port revenues represent $2.4 million (15%) of operating revenue growth. These sources include South Beach Harbor, other Maritime (e.g. Cargo, Ship Repair, Fishing, Harbor Services, etc.), transaction payments from developers and other miscellaneous revenues. For revenue growth that is not based upon existing leases or agreements, the Financial Plan assumes annual inflation of 2% in the first year, increasing to 3% ongoing.

Expenditures

The Port's use of funds includes operating expenses, the capital budget and designation to capital, South Beach Harbor expenditures and the operating reserve. These expenditures and reserves total $118.0 million in FY 2014-15 and are projected to increase by $21.5 million (18%), to $139.4 million in FY 2019-2020.

Figure 4: Summary of Changes in Use of Funds ($ Thousands) – Personnel and Non-Personnel Costs drive 53% of cost growth in the Financial Plan. Increasing the designation of operating revenues to capital ensures that the Port will meet its 25% capital policy requirement starting in FY 2017-18.



Operating expenses are projected to increase by $11.4 million (14%), from $83.6 million in FY 2014-15 to $95.1 million in FY 2019-20, with an average growth of $2.3 million (3%) per year. The key drivers of this change include:

1. *Salary/Fringe Inflation* – Salary and mandatory benefit expenses are projected to increase $6.1 million (17%), assuming negotiated labor rates through FY 2016-17 and inflationary increases of 2.75% Consumer Price Index (CPI) thereafter. The projection conservatively assumes current staffing levels across the five year period; any growth in staff would need to be weighed against other operating and capital priorities.

2. *Non-Personnel Inflation* – Non-Personnel expenditures, including materials and supplies, professional services, annual projects and workorders to other City

departments including Fire Boat services, are projected to increase by $5.2 million (10%) primarily due to an assumed 2.75% annual percentage growth rate.

The *capital budget and designation of surplus revenues to capital* are projected to increase by $8.6 million (47%), from $18.3 million in the Base Year to $26.8 million in FY 2019-20. Notably, in FY 2017-18 the Port's Capital Policy will increase the required capital investments from 20% to 25% of operating revenues. This adjustment increases the tradeoff pressures between the operating and capital budgets, forcing further prioritization of capital spending.

1. *Capital Investments* – The capital budget is projected to increase by $2.7 million (21%), from $12.8 million in FY 2014-15 to $15.5 million in FY 2019-20, averaging $17.2 million annually.

2. *Designation of Surplus Revenues to Capital* –The designation to capital is projected to increase by $5.8 million (105%), from $5.5 million in FY 2014-15 to $11.3 million in FY 2019-20, averaging $7.1 million annually. Designating surplus operating revenues to capital is critical to achieving higher capital spending by closing the gap between actual funds available for capital appropriations and the requirement of the Capital Policy.

Low Case Scenario

A Low Case Scenario reflects the possibility of an economic slowdown by reducing Percentage Rent to FY 2010-11 levels,[5] delaying leasing activities for Piers 19, 23 and 29 and assuming less revenue from "The Yard". This scenario also assumes lower Cruise revenues due to fewer cruise calls and passengers, offset by additional events at Pier 27 and parking at Piers 27 and 35.[6] As a result of these changes, average annual operating revenues decline from the Base Case by $4.2 million (4%), resulting in deficits in each year of the forecast period. In the event of such deficits during slow economic times, Port staff would need to identify ways to control operating expenses or find new revenues that are not currently considered for the Financial Plan.

The Port is impacted by the strength of the economy and needs to consider the impact of such Low Case Scenarios. When tourism and maritime industries thrive, the Port's tenants (many of whom are small businesses) benefit from improved sales that are then passed on to the Port in the form of percentage rents. Additionally, a strong economy translates into strong parking revenue, which supports 22% of the Port's operating revenues.

---

[5] FY 2010-11 Percentage Rent was $15.5 million. The forecast assumes that the economic slowdown would begin to occur midway through FY 2015-16, with full impact beginning in 2016-17.

[6] While the volume of special events and parking days may increase at the James R. Herman Cruise Terminal if cruise calls decline, special events and parking generate less revenue.

Table 2: Low Case Scenario ($ Thousands) – In the Low Case, the Port would face a deficit in five years of the forecast. In addition to a loss in revenues resulting from an economic slowdown, the deficits are generated by a growing call on Port revenue to capital investment as the Capital Policy requirement increases to 25% in FY 2017-18.

Fiscal Year	2015 (Base)	2016 (+1)	2017 (+2)	2018 (+3)	2019 (+4)	2020 (+5)	Change from Base	% Change
Sources								
Estimated Fund Balance	26,847	25,618	24,243	20,822	23,065	24,092	(2,755)	-10%
Operating Revenues	91,621	92,811	94,080	98,100	101,179	103,144	11,522	13%
Capital Revenues	550	550	550	550	550	-	(550)	-100%
South Beach Harbor	4,876	4,972	4,386	4,516	4,650	4,788	(88)	-2%
Sources, total	**$ 123,895**	**$ 123,951**	**$ 123,259**	**$ 123,987**	**$ 129,444**	**$ 132,024**	**$ 8,129**	**7%**
Uses								
Operating Expenses	83,601	84,936	88,195	90,243	92,614	95,045	11,444	14%
Capital Policy Budget	18,324	22,972	18,816	24,525	25,295	25,786	7,462	41%
1. Capital investments	12,800	12,800	12,857	9,163	11,087	11,237	(1,563)	-12%
2. Designation to Capital	5,524	10,172	5,959	15,362	14,207	14,549	9,024	163%
Percent of operating revenues	20%	25%	20%	25%	25%	25%	5%	25%
South Beach Harbor	4,876	4,972	4,386	4,516	4,650	4,788	(88)	-2%
Operating Reserves	11,308	11,482	11,937	12,208	12,528	12,855	1,546	14%
Percent of operating expenses	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	0.0%	0%
Uses, total	**$ 118,110**	**$ 124,362**	**$ 123,333**	**$ 131,493**	**$ 135,087**	**$ 138,474**	**$ 20,364**	**17%**
Balance	**$ 5,785**	**$ (411)**	**$ (74)**	**$ (7,505)**	**$ (5,643)**	**$ (6,450)**	**$ (12,235)**	**-211%**
KEY ASSUMPTIONS:								
Revenue Assumptions	$ -	$ (2,642)	$ (3,650)	$ (2,313)	$ (1,180)	$ (1,146)		
Piers 19 & 23 - Shed Leases	-	-	495	1,009	1,623	1,655		
Pier 23 - Office Lease	-	-	124	253	258	263		
Piers 27 & 35 - Cruise	-	(647)	(470)	(461)	(451)	(442)		
Pier 29 - Shed Lease	-	-	-	538	1,097	1,119		
Pier 31 - Shed Lease	-	-	181	465	755	771		
Pier 38 - Bulkhead Development	-	-	50	75	75	75		
Pier 70 - Forest City & Orton		-	-	(272)	(580)	(592)		
SWL 337 - "The Yard"	-	-	-	150	153	156		
FY 2010-11 Percentage Rents	-	(1,995)	(4,030)	(4,070)	(4,111)	(4,152)		

High Case Scenario

The High Case Scenario reflects the Base Case, with the inclusion of higher Cruise volume, new revenues from proposed capital projects and revenue impacts from development projects that are currently in the planning stages. As a result of these changes, average annual operating revenues increase from the Base Case by $2.1 million (2%). This scenario demonstrates great possibilities for the Port to fully meet the Capital Policy requirements and generate an average of $5.5 million revenue surpluses in each year of the Financial Plan that will directly support capital investment.

Table 3: High Case Scenario ($ Thousands) – This scenario reflects the Base Case, plus additional revenues resulting from higher Cruise volume, new revenue-generating capital investments and the net impact of development initiatives.

Fiscal Year	2015 (Base)	2016 (+1)	2017 (+2)	2018 (+3)	2019 (+4)	2020 (+5)	Change from Base	% Change
Sources								
Estimated Fund Balance	26,847	45,101	26,857	26,314	30,776	31,602	4,754	18%
Operating Revenues	91,621	95,425	99,572	105,811	108,688	110,988	19,367	21%
Capital Revenues	550	550	550	550	550	-	(550)	-100%
South Beach Harbor	4,876	4,972	4,386	4,516	4,650	4,788	(88)	-2%
Sources, total	**$ 123,895**	**$ 146,048**	**$ 131,364**	**$ 137,191**	**$ 144,665**	**$ 147,378**	**$ 23,483**	**19%**
Uses								
Operating Expenses	83,601	84,936	88,195	90,243	92,614	95,045	11,444	14%
Capital Policy Budget	18,324	42,455	19,914	26,453	27,172	27,747	9,423	51%
1. Capital investments	12,800	32,283	15,470	14,655	18,799	18,747	5,947	46%
2. Designation to Capital	5,524	10,172	4,444	11,798	8,373	9,000	3,476	63%
Percent of operating revenues	20%	44%	20%	25%	25%	25%	5%	25%
South Beach Harbor	4,876	4,972	4,386	4,516	4,650	4,788	(88)	-2%
Operating Reserves	11,308	11,482	11,937	12,208	12,528	12,855	1,546	14%
Percent of operating expenses	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	0.0%	0%
Uses, total	**$ 118,110**	**$ 143,845**	**$ 124,431**	**$ 133,421**	**$ 136,964**	**$ 140,435**	**$ 22,325**	**19%**
Balance	**$ 5,785**	**$ 2,202**	**$ 6,933**	**$ 3,771**	**$ 7,701**	**$ 6,943**	**$ 1,158**	**20%**
KEY ASSUMPTIONS:								
Revenue Assumptions	$ -	$ 1,023	$ 1,820	$ 3,310	$ 3,901	$ 3,967		
Piers 19 & 23 - Shed Leases	-	495	1,009	1,623	1,655	1,689		
Pier 23 - Office Lease	-	124	253	258	263	268		
Piers 27 & 35 - Cruise	-	405	328	324	319	315		
Pier 29 - Shed Lease	-	-	-	538	1,097	1,119		
Pier 31 - Shed Lease	`	-	181	465	765	780		
Pier 38 - Bulkhead Development	-	-	50	75	75	75		
Pier 70 - Forest City & Orton		-	-	(272)	(580)	(592)		
SWL 337 - "The Yard"	-	-	-	300	306	312		
Proposed Capital Projects	$ -	$ -	$ 809	$ 1,569	$ 2,382	$ 2,454		
Pier 23 - Roof Repair	-	-	193	301	402	414		
Backlands - Lay Down Space	-	-	616	1,269	1,980	2,039		
Development Projects	-	-	-	1,296	858	1,100		
Pier 31 1/2 - National Park Service	-	-	-	1,896	1,953	2,011		
SWL 322-1 - MOH Housing	-	-	-	-	(795)	(811)		
SWL 337/ Pier 48 - Mission Rock	-	-	-	(600)	(300)	(100)		

Proposed Capital Projects

As detailed in Item 12C, Port staff recommends funding two revenue generating capital projects that would impact the financial forecast by approximately $7.2 million over the five year window. In addition to balancing the budget for each fiscal year, the remaining surplus would be designated for additional capital investment.

1. *Pier 23 Roof Repair* – After a one-time capital investment of $2.8 million, this project would generate an additional $0.4 million annually. Pier 23 was last roofed in 1971 and has deteriorated to the point where repairs are no longer cost effective. Ongoing leaks are contributing to dry rot of the wooden structural components of the building, which leads to the deterioration of the structural integrity of the facility that, in time, will require major structural repairs at much higher costs. The facility could be leased out in its current condition at approximately $0.75 per square foot, but would need to be repaired in the near future. Such repair could result in having to vacate pier areas. Replacing the roof before leasing will protect the facility from further deterioration, ensure continuous usage for the next decades and enable Port Real Estate to re-lease the shed by an additional $0.50 per square foot per month, to top parameter rates of $1.25 per square foot per month. In addition to the financial benefit, this project protects a historic resource in the core of the Embarcadero Historic District from substructure damage that a leaking roof will cause.

2. *Backlands Project* – After a one-time capital investment of $8.5 million to grade and partially pave the land, construct a roadway and install other infrastructure, the Backlands site will accommodate construction laydown, vehicle parking and storage types of uses. Based on conservative projections of 60% utilization, and monthly parameter rents of $0.35 per square foot for land, the projected annual income for the facility will be $2.0 million when fully leased. Assuming a three year lease-up period, the project is estimated to generate $8.6 million in net income (net revenues from the project area less the cost of the capital improvements) over 10 years, with an internal rate of return of 21%. In addition to the significant financial benefit, the new lay down space and associated industrial activity will activate Port property in the Southern Waterfront.

Development Projects

Other potential impacts to the Port's revenues are the major development initiatives which are underway. While these projects are not included in the Base Case of the Financial Plan because they are still under development, it is important to understand the impact that they would have on the five year forecast.

1. *Pier 31½ National Park Service Agreement* – The Port is currently negotiating terms for leasing the facilities at Pier 31½ for a possible National Park Service/Operator agreement for the landing to Alcatraz, assuming the National Park Service secures entitlements in the next 48 months. Port staff is working to have an agreement in place for FY 2017-18, which would generate approximately $2.0 million by FY 2019-20.

2. *Seawall Lot 322-1 Mayor's Office of Housing Low Income Development* – The Port entered into a Memorandum of Understanding with the San Francisco Mayor's Office of Housing ("MOH") to allow MOH to solicit a developer to enter into a lease with the Port for the development of affordable housing at Seawall Lot 322-1. If the development occurs, the Port will lose approximately $0.8 million in annual revenues that are currently generated from a parking lot at that site.

3. *Giants Development at Seawall Lot 337* – If the San Francisco Giants' Mission Rock project is approved, the Port will lose approximately $0.6 million of surface parking percentage rent revenue during the construction period of the first buildings (FY 2017-18). Then, as new parcels are created and rent from each development parcel is brought online, the revenue loss will decrease. Ongoing revenues will continue to improve with inflation and increased demand.

Conclusion

The Port's Five Year Financial Plan for FY 2015-16 through 2019-20 reflects a strong financial outlook that includes surplus revenues in each year in the Base Case and High Case scenarios. Port Staff recognizes that the current Financial Plan relies heavily upon strong revenue growth that runs the risk of falling short of projections, particularly in the event of an economic slowdown. It is for that reason that the Port must continue to identify and pursue opportunities for additional revenue generation. While there are a variety of key leasing and development initiatives on the horizon, the focus also must be on projects that deepen the Port's revenue base to support both growing operational demands and the critical repair and replacement requirements of the Port's infrastructure.

Prepared by:	Meghan Wallace, Budget Manager Finance and Administration
For:	Elaine Forbes, Deputy Director Finance and Administration