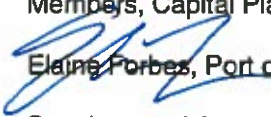




MEMORANDUM

TO: Members, Capital Planning Committee

FROM:  Elaine Forbes, Port of San Francisco, Deputy Director of Administration and Finance

SUBJECT: Supplemental Appropriation Request for the Port of San Francisco

DATE: September 23, 2015

The Port of San Francisco is requesting Capital Planning Committee consideration and approval of a supplemental appropriation totaling **\$25,692,151**, increasing the Port's Fiscal Year 2015-16 Capital Budget from \$12,800,000 to \$38,492,151. The Port Commission approved this supplemental request on September 8, 2015.

As the Capital Planning Committee is aware, the Port does not generate sufficient revenue to keep pace with capital renewal requirements and faces an estimated \$1.1 billion backlog in capital repairs over the coming 10 years. To tackle this problem, the Port Commission adopted a capital policy to allocate a minimum of 20 percent of operating revenue, increasing to 25 percent in FY 2017-18, to capital investment and has a stated policy to invest one-time and surplus revenue in capital projects. This capital supplemental request is consistent with the Port Commission's policy to allocate one-time revenues and net operating income to projects that address repair and replacement needs identified in the 10-year Capital Plan and improve Port revenue for future capital investment.

The project recommendations are consistent with the scoring criteria which Port staff has deployed since 2010 to evaluate capital project requests. A Capital Project Technical Review Committee, comprised of 10 Port staff with representation from each division, reviewed and scored the project submissions based upon their ability to address one or more of these strategic priorities:

- (i) Address a safety, health, code, or regulatory issue or threat to the environment;
- (ii) Significantly reduce potential liability to the Port;
- (iii) Promote commerce, navigation or fisheries;
- (iv) Attract people to the waterfront;
- (v) Promote natural and cultural resources;
- (vi) Preserve existing Port revenues; and/or
- (vii) Generate and/or leverage additional revenues for the Port.

The Port believes the scoring process yields the most strategic capital investments to advance the Port's mission and improve the Port's financial position

As detailed in *Attachment 1 – Budget Summary*, funding for this budget increase is comprised of \$20,819,204 in available Fund Balance, \$4,207,946 from closed out capital projects and \$665,000 from the 2011 Cosco Busan oil spill settlement. These funds are allocated to 16 capital projects that support the Port's key strategic priorities, generate and protect revenue, and/or address repair and replacement

needs identified within the 10-Year Capital Plan. Project names and details are provided in *Attachment 2 – Project Descriptions*.

If you have any questions or need additional information, please contact me at (415) 274-0445 or Meghan Wallace at (415) 274-0426. Your consideration of this request is greatly appreciated.

cc: Brian Strong, Capital Planning Program
Monique Moyer, Port of San Francisco, Executive Director

Attachments

Attachment 1 – Summary of Sources and Uses
Attachment 2 – Project Descriptions

Enclosures

Form 0.10: Request for Supplemental Appropriation
Summary Table: Uses of Funding to Be Allocated
Supplemental Appropriation Ordinance

ATTACHMENT 1:
BUDGET SUMMARY

| FUNDING SOURCES | AMOUNT |
|---|---------------------|
| 1. FY 2014-15, Projected Fund Balance | \$20,819,204 |
| <i>PG&E One-time Payment</i> | 15,275,205 |
| <i>Other Operating Surplus</i> | 5,543,999 |
| 2. Project Close-Outs | \$ 4,207,947 |
| <i>ADA Transition Plan</i> | 700,000 |
| <i>Illinois Street Bridge</i> | 18,875 |
| <i>Pier 45C Development Design</i> | 7,822 |
| <i>Fishermans Wharf, Triangle Parking Lot</i> | 25,961 |
| <i>Ferry Terminal Public Pier</i> | 22,198 |
| <i>Brannan Street Wharf</i> | 779,154 |
| <i>Pier 35 Security & Life Safety Project</i> | 18,526 |
| <i>Pier 33-35 Curb Cut Project</i> | 86,465 |
| <i>FW Harbor Joint Ops Center Building</i> | 60,731 |
| <i>Pier 29 Annex Bldg. Painting Project</i> | 3,100 |
| <i>Pier 45 Fender & Camels Project</i> | 401,386 |
| <i>Pier 70 Building No. 2 Repairs</i> | 300,000 |
| <i>AC34 Improvements</i> | 972,027 |
| <i>AC34 Improvements - Environmental</i> | 109,869 |
| <i>AC34 Improvements - A&E Services</i> | 350,000 |
| <i>Emergency Removal of Drydock #1</i> | 351,833 |
| 3. Cosco Busan Settlement Proceeds | \$ 665,000 |
| Total Sources \$25,692,151 | |

| PROPOSED PROJECTS | AMOUNT |
|--|---------------|
| 1. Backlands Project | \$8,500,000 |
| 2. BAE Electrical Service Separation | \$3,000,000 |
| 3. Pier 23 Roof Replacement | \$2,833,151 |
| 4. Pile Removal Strategy, Southern Waterfront | \$2,150,000 |
| 5. Central Basin Dredging, Federal Funding Match | \$2,000,000 |
| 6. Quint Street Lead, Railroad & Roadway Improvements | \$1,480,000 |
| 7. Seawall Study, Additional Funding | \$1,000,000 |
| 8. Northern Waterfront Historic Structures | \$1,000,000 |
| 9. Pier 29 Substructure Improvements | \$730,000 |
| 10. Heron's Head Park Stabilization (Cosco Busan Settlement) | \$665,000 |
| 11. Beltline Building, Phase II, Office & Retail Leasing | \$664,000 |
| 12. Ferry Float Repairs | \$520,000 |
| 13. Ladder/Skylight Retrofit | \$500,000 |
| 14. Pier 70 Sediment Cap | \$300,000 |
| 15. Pier 39 Sediment Investigation | \$250,000 |
| 16. Emergency Capital Funding | \$100,000 |
| Total Uses: \$25,692,151 | |

**ATTACHMENT 2:
PROJECT DESCRIPTIONS**

1. Backlands Project (CPO-923-01, Southern Waterfront), \$8,500,000

Located at Piers 90-96 along Amador Street in the Southern Waterfront, this project is to grade the site, pave a portion of the land, construct a roadway and install solar lighting, fire hydrants, composting restrooms, and a natural based storm water management infrastructure. Improvements will accommodate the site for future leasing opportunities such as construction laydown, vehicle parking and storage types of uses. The project was originally financed with 2010 Port Revenue Bond proceeds, but funds were reallocated to complete the Port's share of the 34th America's Cup improvements.

Based on conservative projections of 60 percent utilization, and monthly parameter rents of \$0.35 per square foot for land, the projected annual income for the facility is \$1.9 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 percent. In addition to the significant financial benefit, the new lay down space and associated industrial activity with activate Port property in the South Waterfront which is an important strategic objective.

2. BAE Electrical Service Separation (CPO-935-02, Southern Waterfront), \$3,000,000

Building 102 at Pier 70 houses electrical equipment that supports the BAE shipyard operations. As the Orton Development Inc. historic rehabilitation project moves forward, it is necessary to create a new service station for the shipyard and mitigate and existing PCB transformer environmental hazard associated with the existing equipment. This project will address regulatory requirements and reduce liability associated with the containment of PCBs on Port property. Additionally, this project is critical for supporting the Port's maritime operations at the BAE shipyard, which generates approximately \$1.6 million annual Port Ship Repair revenue.

3. Pier 23 Roof Replacement (CPO-759-13, Northeast Waterfront), \$2,833,151

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. Replacing the roof will protect the facility from further deterioration and enable Port Real Estate to re-lease the shed at top parameter rates of \$1.25 per square foot per month, generating an annual income of approximately \$1.0 million.

Port staff estimates that without replacing the roof, the Port would only receive about \$0.75 per square foot per month for shed space in the pier due to the condition of the facility. Based on this estimate, the incremental increase in net income generated from the shed portion of the Pier 23 facility (additional revenues less the cost of the new roof) is \$0.7 million over 10 years, with an internal rate of return of 15 percent. 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.

4. Pile Removal, Southern Waterfront (CPO-937-01, Southern Waterfront), \$2,150,000

This project removes deteriorated creosote treated piles and wharf areas that are no longer functional in the Southern Waterfront, ranging from Pier 98 in the south up to Pier 70. In addition to causing blight to the Bayview Community, the creosote on the piles is a mixture of chemicals that pose environmental and health risks. The abandoned wharf areas also pose security risks by allowing waterside access to Port property by vandals and thieves.

The \$2.2 million funding proposal detailed in *Table 1* is part of an overall strategy to address an estimated 267,000 square feet of piles and \$7.2 million funding need for pile removal in the Southern Waterfront. After evaluating the timing of permits to complete work and the availability of alternative funding sources,

Port staff recommends taking immediate action to remove piles within Islais Creek at Piers 82 and 84, at the Pier 98 Lash Terminal and at Pier 90, below the water grain silos structures. This proposal leverages \$181,000 in Coastal Conservancy/ Bay Conservation and Development Commission (BCDC) grant funding to address 13,000 square feet of piles at Piers 82 and 84, while directing \$2.1 million in Port capital funding to address a combined 97,000 square feet of piles at Piers 90 and 98.

The remaining project areas at Pier 70 and the Pier 90 Grain Silos each require additional staff effort to secure funding and permits. While the permit process for Pier 70 is projected for completion by the end of this fiscal year, the Port may be able to secure external funding sources for this work, including from the Army Corps of Engineers, by fulfilling The Exploratorium's bay fill removal requirements under the terms of their BCDC permit and their lease agreement with the Port for occupation of Piers 15-17, and/or by leveraging Infrastructure Financing District (IFD) financing options. The Pier 90 Grain Silos permitting process has not been initiated yet and may take up to four years to complete. Port staff will keep the Port Commission apprised of progress in securing both the permits and funding necessary to get the projects underway.

Table 1: Pile Removal Strategy, Southern Waterfront

| Pile Location | Islais Creek Piers 82-84 | Pier 98 Lash Terminal | Pier 90 Piles & Wharf | Pier 70 Wharves 6/7/8 | Pier 90 Grain Silos |
|---|-------------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------|
| Primary Team | Maintenance | Maintenance | Contracted | Contracted | Contracted |
| Area Square Footage | 13,000 | 21,000 | 76,000 | 170,000 | 37,000 |
| Removal Budget | | | | | |
| <u>Estimated Removal Cost</u> | <u>\$ 181,000</u> | <u>\$ 150,000</u> | <u>\$ 2,000,000</u> | <u>\$ 5,000,000</u> | <u>\$ 1,500,000</u> |
| <u>Available Funding</u> | <u>\$ 181,000</u> | <u>\$ 150,000</u> | <u>\$ 2,000,000</u> | <u>\$ -</u> | <u>\$ -</u> |
| Coastal Conservancy | 181,000 | - | - | - | - |
| Port, Proposed Funding | - | 150,000 | 2,000,000 | - | - |
| <u>Potential Funding</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,000,000</u> | <u>\$ 1,500,000</u> |
| Port, Future Funding | - | - | - | 507,393 | 1,500,000 |
| The Exploratorium* | - | - | - | 1,159,274 | - |
| WRDA or IFD*^ | - | - | - | 3,333,333 | - |
| Schedule | | | | | |
| <u>Permit Approval</u> | <u>FY15-16 (Q2)</u> | <u>FY15-16 (Q4)</u> | <u>FY16-17 (Q1)</u> | <u>FY15-16 (Q4)</u> | <u>FY19-20 (Q4)</u> |
| <u>Construction</u> | <u>FY15-16 (Q3)</u> | <u>FY16-17 (Q1)</u> | <u>FY16-17 (Q2)</u> | <u>FY17-18 (Q1)</u> | <u>FY20-21 (Q1)</u> |
| * Requires outreach and further approvals | | | | | |
| ^ Water Resources Development Act (WRDA); Infrastructure Financing District (IFD) | | | | | |

5. Central Basin Dredging (CPO-936-01, Southern Waterfront), \$2,000,000

The Central Basin, located offshore from Piers 68 and 70, must be dredged at negative 35 feet at mean lower low water (MLLW) to ensure full operation of the BAE shipyard. Rather than assume the full cost of maintenance dredging, the Port has been working with the United States Army Corp of Engineers (USACE) for several years to facilitate transferring the responsibility to the USACE. The project is now on schedule to go to construction in 2016. The total estimated cost of dredging the Central Basin is \$15.8 million, with USACE providing up to \$10 million and the Port and BAE each providing a match of \$2.9 million. The USACE will then assume all costs for future dredging of the Central Basin, which will require several million dollars of federal funding every decade.

This project is critical for supporting maritime operations. Funding this initial project will provide a long term non-Port financing solution for dredging at the Central Basin. Ensuring that the Central Basin remains properly dredged protects approximately \$0.7 million annual income from Ship Repair.

6A. Quint Street Lead, Additional Funding (CPO-186-02, Southern Waterfront), \$1,000,000

The Quint Street Lead is an approximately nine-tenths of a mile long freight rail spur track connecting the Main Line, owned and operated by the Peninsula Corridor Joint Powers Board (JPB) primarily for Caltrain commuter rail, with the Port of San Francisco cargo terminals and rail yard, located on the south side of Islais Creek, just east of 3rd Street. The planned improvement would increase capacity of the Quint Street Lead and improve its efficiency and safety by raising the class of the track from "Industrial" to "Class 1".

On October 8, 2013 in Resolution 13-14 the Port Commission authorized the Executive Director to accept and expend a \$2.97 million grant from the U.S. Department of Transportation's Federal Railroad Administration's (FRA) Rail Line Relocation and Improvement (RLR) Grant Program to rebuild the Quint Street Lead Track. At that time, the total estimated cost of the Project was \$3.3 million, requiring a 10 percent Port match of \$330,000. It was recognized that any additional expense shall be borne by the Port as Grantee. Now, with completion of 30 percent design, it is clear that the project will cost an additional \$1.0 million to construct. Moving from planning level cost estimates to 30% design cost estimates results in more detail about the project components and is the reason for the increase. Failure to provide the additional funding will jeopardize the \$2.97 million grant and completion of the project.

Despite the growing cost, it is notable that the Port's contribution will leverage three times its amount in federal funding. Additionally, completion of the rail upgrades is strategic for improving capacity to Maritime cargo operations and, in turn, will enhance the competitiveness of the Port's cargo facilities.

6B. Quint Street Lead, Roadway Repairs (CPO-186-02, Southern Waterfront), \$480,000

Reconstruction of the tracks will necessitate repaving approximately one-third of the street width; however, the entire road is in deteriorated condition. The proposed funding increase will be used to repave the remainder of the street width for three blocks. This scope of work was included in the original project design, but became a bid alternate contingent upon the approval of additional funding after construction estimates came in higher than originally budgeted.

7. Seawall Study and Repairs (CPO-756-01, Portwide), \$1,000,000

Funded in the FY 2014-15 Capital Budget, the Port is currently underway with a \$0.5 million project to complete the initial phase of a comprehensive study of the condition of the Port seawalls and marginal wharfs, their capacity to withstand seismic events, and improvements needed to address sea level rise. Additional funding is required to complete the study, and to implement the study's findings.

Specifically, the additional project funding now requested will make it possible to complete a multi-hazard assessment of the northern waterfront seawall, marginal wharves and bulkhead buildings that will consider condition, earthquakes and climate change risks associated with the infrastructure. The project may also include: forecasting the economic impacts of seawall failures; prioritizing projects for early and longer term implementation in alignment with SF's Resilient City Objectives; undergoing the design and construction of early implementation projects; and developing funding strategies for longer term projects.

The key strategic priorities that will be met by completing this work include reducing potential liability of the Port and protecting historic Port infrastructure in the event of a large earthquake or other natural disaster.

8. Northern Waterfront Historic Structures (CPO-930-02, Northern Waterfront), \$1,000,000

Due to a less competitive bidding environment, which is driving up construction costs, Port staff recommends providing an additional contingency for completion of the Northern Waterfront Historic Pier Structures projects. This will allow staff to proceed with completion of the Beltline Building, Pier 29

substructure improvements and the Pier 31 structure and roof repairs in the event that construction costs exceed the current estimated amounts.

9. Pier 29 Substructure (CPO-778-30, Northern Waterfront), \$730,000

Pier 29 is ideally located between the Port's new James R. Herman Cruise Terminal with approximately 300,000 annual passenger visits and the Alcatraz Island Embarkation with approximately 1.5 million annual passenger visits. In addition to a high volume of visitors, Pier 29 is in the vicinity of several large office complexes including Levi Plaza with thousands of office workers located across the Embarcadero. To accommodate both visitors and local workers, the Pier 29 bulkhead provides an opportunity for unique food and beverage, artisan crafts, locally made products and innovative showrooms for the San Francisco Bay Area's unique products and goods.

While the Pier 29 bulkhead was rebuilt following the 2012 fire, leasing out the facility requires limited substructure repairs to extend the leasable life of the bulkhead from 10 to at least 20 years. This funding request will be combined with \$2.0 million in available project funding that will meet the estimated \$2.7 million funding requirement. Bringing the entire pier substructure into a state of good repair will require further investment in the future.

Based on an assumed monthly parameter rent of \$3.00 per square foot over 20,000 square feet as well as a one year lease-up period and a 3 percent vacancy rate, the projected annual income for the facility is \$0.6 million when fully leased. The total estimated net income will be \$3.2 million over the first 10 years, with an internal rate of return of 23%.

10. Heron's Head Park Stabilization (CPO-656-07, Southern Waterfront), \$665,000

Ongoing erosion presents risk to physical integrity of Heron's Head Park, which is a Port asset. Additionally this erosion could eventually become an enforcement risk due to discharge of sediment to San Francisco Bay. This project request is for the full amount of \$665,000 designated for this purpose in the Cosco Busan oil spill settlement. These funds will enable staff to fully scope out the project through engineering design and permitting. When design is complete and ready for construction, Port will have a better estimate of construction cost, and will seek grant funding for construction. Grants for habitat conservation projects are generally more readily available for "shovel-ready" projects with engineer's cost estimate (included in design scope or work). Alternatively, construction could be implemented in phases based on availability of Port and/or outside source of funds.

11. Beltline Building, Phase II (CPO-930-03, Northern Waterfront), \$664,000

As part of the James R. Herman Cruise Terminal complex at Piers 27 and 29, the currently vacant Beltline Building is positioned to be an excellent retail opportunity site that serves cruise passengers, park visitors, tourists and residents walking along the Embarcadero. Phase I of the Beltline Building project is underway, with the construction of a new public restroom on the pier-side of the facility. This second-phase project supports miscellaneous upgrades to the property in anticipation of leasing the building through a Request for Proposal (RFP) process. Providing shell improvements to the facility would provide the basic infrastructure necessary to allow future lessees to be responsible for their own tenant improvements. Examples of the improvements that are contemplated in this request include ADA ramps and elevator, upgrades to the exterior stairs, relocating a utility closet, new electric service, a new sewer line and historic feature repairs including to windows and door frames.

Based on an assumed monthly parameter rent of \$5.00 per square foot over 1,096 square feet of retail space on the first floor and \$3.00 per square foot over 4,600 square feet of office space on the second floor, as well as a one year lease-up period and a 3 percent vacancy rate, the projected annual income for the facility is \$0.1 million when fully leased. The total estimated net income will be \$0.2 million over the first 10 years, with an internal rate of return of 15%.

12. Ferry Terminal Float Repairs (CPO-785-01, Northern Waterfront), \$520,000

Dry dock and completely refurbish two China Basin Ferry Terminal Floats located next to the AT&T ballpark. The China Basing ferry terminal floats were installed in 1999 and the builder's recommendation

to dry dock and refurbish the equipment within ten years is now four years overdue. Ensuring ongoing safe performance for this high-volume Giants ballpark ferry service is important to the Port's maritime transportation mission.

13. Ladder/Skylight Retrofit (CPO-778-32, Portwide), \$500,000

This project funding is an initial investment in OSHA-compliant ladders for roof access to all Port buildings that do not currently have ladders as well as OSHA-compliant guards to unprotected skylights on Port rooftops. Employee safety is of critical importance.

14. Pier 70 Sediment Cap (CPO-794-03, Southern Waterfront), \$300,000

This project is a voluntary cleanup effort to protect human and aquatic health by capping contaminated sediments just offshore from the planned Crane Cove Park. Three-quarters of the sediment cap will be constructed as part of the Crane Cove Park shoreline improvements; however, this funding is required to complete the remaining one-quarter of the cap area that falls outside of the current park scope and budget. Completion of this sediment cap will prevent potential regulatory action by the Regional Water Quality Control Board.

15. Pier 39 Sediment Investigation (CPO-760-02, Northeast Waterfront), \$250,000

The Regional Water Quality Control Board formally requested the Port conduct a sediment investigation at Pier 39 to assess the extent and potential source(s) of a polyaromatic hydrocarbon (PAH) contamination in the area.¹ The Port is currently conducting a limited sediment investigation to establish potential source(s) of the PAH detected in the sediment. This project will fund a more detailed follow-up investigation to determinate the extent and depth of the contamination.

16. Emergency Capital Funding (CPO-619-01, Portwide), \$100,000

This project provides funding for unforeseen capital projects which are of an urgent or emergency nature. Emergency projects are those that: (i) adversely affect health and safety if not done immediately; (ii) are required by law to be completed immediately; or (iii) will have a serious adverse impact on Port assets if not done immediately. Funding is also provided for disaster response and recovery.

Recently the Port's property insurance deductible increased from \$500,000 to \$750,000. The emergency capital project funding is currently \$708,000, a level that is insufficient to cover this higher deductible. Port staff is requesting \$100,000 in additional funding to bring the emergency capital project to \$808,000, the minimum level considered adequate by Port management for disaster response and other urgent and/or emergency needs. Not having sufficient available funding to address disaster response and recovery, and emergency projects in a timely manner could have a serious negative impact on the Port and its operations.

¹ PAHs are both natural to the environment and man-made as a result of burning products like coal, oil, gas, and garbage without completing the burning process. PAHs are a concern because they can persist in the environment. See, <http://www.epa.gov/osw/hazard/wastemin/minimize/factshts/pahs.pdf>.