



MEMORANDUM

TO: Members, Capital Planning Committee

FROM: Elaine Forbes, Port of San Francisco, Executive Director

SUBJECT: Port of San Francisco, Proposed Fiscal Year 2018-19 & 2019-20 Capital Budget

DATE: February 26, 2018

The Port of San Francisco is requesting Capital Planning Committee consideration and approval of the Port's proposed **\$36,357,946** Fiscal Year (FY) 2018-19 and **\$19,318,094** FY 2019-20 biennial capital budget, totaling **\$55,676,040**. Additionally, the Port is requesting \$6,750,000 in General Fund support to implement the Port's Seawall Earthquake Safety Program, and \$11,000,000 to support construction of the Mission Bay Ferry Landing Project, bringing the total funding request to **\$73,426,040**. The General Fund requests are contingent loan requests as discussed in more detail below. The Port Commission heard the proposed budget as an informational item on February 13, 2018 and will take final action on the Capital Budget on February 27, 2018. The Port requests that the Capital Planning Committee make their approval of the Port's biennial capital budget contingent upon final approval by the Port Commission.

BACKGROUND

As the Capital Planning Committee is aware, the Port does not generate sufficient revenues to keep pace with its capital renewal requirements and faces an estimated \$1.5 billion state of good repair need over the coming 10 years. To tackle this problem, the Port Commission adopted a capital policy to allocate 25% of operating revenues to capital investment. The Port Commission also has a stated policy to invest one-time and surplus revenue in capital projects. Additionally, Port IFD, which this Committee has recently approved for Mission Rock and the Pier 70 projects, provides a stable source of revenue to address deferred maintenance and construct new public infrastructure.

This capital funding proposal exceeds the Port Commission's policy requirement to invest 25% of operating revenue to capital; over the two-year period, an amount equal to 26% of operating revenues in FY 2018-19 and 2019-20 are directly invested in capital; this number grows to 47% when taking into account the designation for future capital investments. This level of investment is the result of deliberate efforts by the Port to control growth in operating expenses and direct increases in net income to capital. This strategy has the dual benefit of allowing the Port to address critical infrastructure needs and make strategic investments, while protecting the Port from future operating reductions in the event of the next economic down cycle.

To facilitate strategic analysis and bridge the gap between the distant ten-year time span of the Capital Plan and the immediacy of the two-year Capital Budget, this year the Port is developing its first five-year Capital Improvement Plan (CIP). The CIP allows staff to consider the time span necessary to conceive, design and deliver capital projects and will guide the Port's capital work through the current budget cycle and beyond. The CIP lays out staff's vision for addressing as many of the needs identified in the Capital Plan as possible, given limited resources. Staff will present the complete CIP to the Port Commission in April. The first two years of the CIP are presented here as the proposed FY 2018-19 and FY 2019-20

Capital Budget. Going forward, the Port will continue this cycle of updating the ten-year Capital Plan every other year and using that high-level vision to inform biennial updates to the CIP and budget.

PROJECT EVALUATION

The Port's project recommendations are consistent with the process which staff has deployed since 2010 to evaluate capital project requests. The Port convenes a Capital Technical Review Committee consisting of staff from all divisions to renew and evaluate capital proposals. The Committee used the following criteria to determine which projects to recommend to the Executive Director and Port Commission for funding:

- Addresses a safety, health, code, or regulatory issue or threat to the environment;
- Significantly reduces potential liability to the Port;
- Promotes commerce, navigation or fisheries;
- Attracts people to the waterfront;
- Promotes natural and cultural resources;
- Location was identified as a priority based on the nexus of Port's 10-year Capital Plan and the Strategic Plan;
- Improves state of good repair of an existing Port asset;
- Preserves existing Port revenues; and
- Generates additional revenues for the Port.

In addition to the scoring process, staff reviewed all projects to determine if they fell into one or more of the prioritization categories listed below. Staff determined that a project belonging to one of these groups was worthy of prioritization:

- *Honor Prior Commitments*—The project was funded in a previous Capital Budget and additional funds are needed to complete the project due to expanded scope, a new cost estimate, or bids that came in over the approved budget.
- *Address Priority Health and Safety Needs*—The project is legally mandated or failure to complete the scope puts the Port in imminent jeopardy of being legally mandated to do the work.
- *Meet Imminent Leasing Needs*—The project is required to ready a Port facility for a tenant, per an existing or pending lease agreement.
- *Improve Delivery Rate*—The investment will improve capital project delivery capacity.
- *Strategic Investment*—The investment will generate sufficient revenue in the future to justify postponing other capital improvements.
- *Leverage Port Funds*—The project will be funded by non-Port funding sources.

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.

PROPOSED BUDGET

As detailed in *Attachment 1 – Budget Summary*, funding for the proposed biennial budget is comprised of \$54,324,040 in Port sources, including Port revenues, fund balance, and project de-appropriations, \$1,392,000 from South Beach Harbor operating revenues and \$17,750,000 from the City's General Fund.

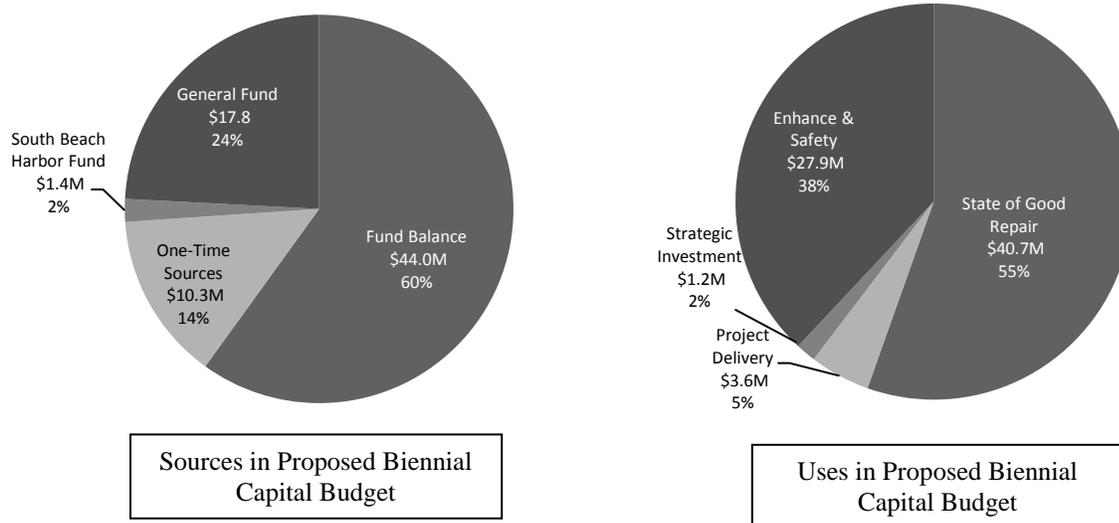
These funds are allocated to 33 capital projects that support the Port's key strategic priorities, generate and protect revenue, and/or address repair and replacement needs identified within the Ten-Year Capital

Plan. Several of the proposed projects reflect targeted reinvestment in Port assets to maintain and improve current and projected financial performance. The recommended capital projects will support revenue stabilization and result in estimated revenue growth of \$33 million over the next 20 years (this figure is the net present value, discounted at 5%).

Notably to the Capital Planning Committee, the Port is requesting \$17,750,000 in General Fund support to implement the Seawall Earthquake Safety Program and Mission Bay Ferry Landing, which have benefits beyond the Port's boundaries and are beyond the Port capacity to fund. Of this funding, \$6,750,000 will enable the Port to continue its work on the planning phase of the Seawall Earthquake Safety Program until the passage of a general obligation (GO) bond, planned for November 2018. Per prior agreement, \$250,000 of the requested funds will come from the Planning Department. The remaining \$6,500,000 would be reimbursed by bond funds, should the November GO bond pass.

The Port is also requesting \$11,000,000 from the General Fund to support the \$35,700,000 construction phase of the Mission Bay Ferry Landing Project. These funds would serve as the one-to-one required match for a Local Partnership Program Competitive Program grant request now under consideration by the California Transportation Commission. Of this request, \$6,000,000 would be reimbursed from development impact fees collected from Port development projects over the next six years. Additionally, the City is currently soliciting contributions toward the project from private parties. If these efforts prove successful, those donations could serve as the grant match and reduce the General Fund need.

The following charts summarize the Port's proposed capital budget. Descriptions of all of the proposed projects are in Attachment 2.



CONCLUSION

The Port's great diversity of uses draws more than 24 million people annually to the waterfront for employment, transportation, education, exploration, entertainment, recreation or simply to enjoy the Bay. The Port is pleased to present this capital proposal to the Capital Planning Committee. With a recommended investment of up to \$73,426,040 over the coming two years, this budget represents the Port's efforts to capitalize on the strong economy by investing in infrastructure to keep San Francisco's waterfront thriving.

While the proposed level of capital investment is impressive relative to historical spending, the Port is aware that its proposed funding does not begin to address the Port's \$1 billion ten-year state of good repair backlog, nor fully address its ten-year \$540 million renewal need. The department continues to use a multi-prong approach to address this gap: 1) prioritizing capital investments with available operating fund balance to maximize its investment level; 2) developing a five-year CIP to develop a strategic

program of upcoming capital projects beyond the two-year budget cycle; and 3) prioritizing projects for inclusion in the biennial capital budget and CIP using a deliberate, criteria-based approach.

If you have any questions or need additional information, please contact me at (415) 274-0445 or Ananda Hirsch at (415) 274-0442. Your consideration of this request is greatly appreciated.

cc: Heather Green and Brian Strong, Office of Resilience and Capital Planning

Attachments

Attachment 1 – Budget Summary

Attachment 2 – Summary Project Descriptions

Attachment 1 – Budget Summary

FUNDING SOURCES	Proposed FY 2018-19	Proposed FY 2019-20	Proposed Two Year Funding Total
Port Sources	\$ 35,275,946	\$ 19,008,094	\$ 54,284,040
South Beach Harbor Operating Revenues	\$ 1,082,000	\$ 310,000	\$ 1,392,000
Total Port Funding Sources	\$ 36,357,946	\$ 19,318,094	\$ 55,676,040
<i>City General Fund -Pending Approval¹</i>	\$ 17,750,000		\$ 17,750,000
Total Non-Port Funding Sources	\$ 17,750,000		\$ 17,750,000
Total Requested Sources	\$ 54,107,946	\$ 19,318,094	\$ 73,426,040
PROPOSED CAPITAL BUDGET			
Fisherman's Wharf:			
Hyde Street Harbor Repair and Improvements	\$ 1,335,000		\$ 1,335,000
Wharf J9 Seawall and Deck Repair Project ²	\$ 2,200,000		\$ 2,200,000
Northeast Waterfront:			
Pie 31 New Fire Standpipe System ³		\$ 676,522	\$ 676,522
Roundhouse 2 HVAC System Improvements ⁴		\$ 105,000	\$ 105,000
Roundhouse Envelope, Security & Common Area Enhancement Project ⁴		\$ 420,000	\$ 420,000
Pier 29 and 31 Substructure Repair ²	\$ 2,852,174		\$ 2,852,174
Pier 29.5 Pump Station & Force Main Upgrade ⁴	\$ 800,000		\$ 800,000
Beltline Building Repairs ⁴	\$ 680,000		\$ 680,000
Pier 19.5 Roofing Project	\$ 668,000		\$ 668,000
Pier 19 North Apron Repair ²	\$ 2,000,000		\$ 2,000,000
Pier 19 & 23 Leasing Improvements ⁴	\$ 2,650,000		\$ 2,650,000
Pier 7.5 Sewer Re-routing to Street ³		\$ 262,500	\$ 262,500
Ferry Plaza & South Beach Area:			
Pier 26 Deluge System Modification & New Fire Standpipe System ³	\$ 952,116		\$ 952,116
Mission Bay Ferry Landing			
- City Contribution — 11,000,000 (requested)	\$ 11,000,000		\$ 11,000,000
Southern Waterfront:			
China Basin Floats & Dry Dock Repair	\$ 670,000		\$ 670,000
Pier 50 Shed B Apron Partial Repair ²		\$ 341,250	\$ 341,250
Pier 70 Shipyard			
Port — 2,000,000; Puglia Standby Letter of Credit— 769,000			
Pier 70 Shipyard Total Funding	\$ 1,769,000	\$ 1,000,000	\$ 2,769,000
Pier 70 Capital Investment	\$ 1,200,000		\$ 1,200,000
Pier 80 Repair Project ²	\$ 650,000		\$ 650,000
Pier 90 Silo Demolition Project	\$ 100,000	\$ 1,050,000	\$ 1,150,000
Amador Street Sewer & Pavement Repair	\$ 3,800,000		\$ 3,800,000
Southern Waterfront Open Space Enhancements	\$ 550,000	\$ 550,000	\$ 1,100,000
Portwide Projects:			
Maintenance Dredging & Sediment Sampling	\$ 2,480,000	\$ 8,180,400	\$ 10,660,400
Seawall Earthquake Safety Program			
- City Contribution — 6,750,000 (requested)	\$ 6,750,000		\$ 6,750,000
Fire Protection Engineer ³	\$ 232,992	\$ 242,311	\$ 475,303
Wood Pile Repair Crew ²	\$ 1,418,985	\$ 1,475,744	\$ 2,894,729
Concrete Pile Repair Crew ²	\$ 2,206,563	\$ 2,294,825	\$ 4,501,388
Dry Docking of Pile Drivers and Barges	\$ 3,700,000		\$ 3,700,000
Port wide Electrical Safety Upgrade ³		\$ 1,155,000	\$ 1,155,000
Project Delivery Team	\$ 1,206,290	\$ 1,254,542	\$ 2,460,832
Contingency Fund	\$ 1,154,826		\$ 1,154,826
Subtotal Proposed Investments	\$ 53,025,946	\$ 19,008,094	\$ 72,034,040
South Beach Harbor Capital Projects			
Pier 40 North Guest Dock Replacement	\$ 1,082,000		\$ 1,082,000
Pier 40 North Guest Dock Kayak Launch		\$ 310,000	\$ 310,000
South Beach Harbor, Subtotal	\$ 1,082,000	\$ 310,000	\$ 1,392,000
Total Proposed Capital Budget	\$ 54,107,946	\$ 19,318,094	\$ 73,426,040

¹ Includes \$250,000 from the Planning Department.

² Funding for this capital project will be provided in the Pier Structures Repair Project.

³ Funding for this capital project will be provided in the Utilities Project.

⁴ Funding for this capital project will be provided in the Leasing Capital Improvements.

Attachment 2 – Summary Project Descriptions

State of Good Repair

- Maintenance dredging program to cover routine dredging to maintain depths for vessels in support of maritime commerce, as well as the needed complementary testing of dredge sediments for contaminants. Dredging locations targeted for this budget period include Pier 27, Pier 94/96, and Fisherman's Wharf;
- Pier structure repairs that renew pier substructures and superstructures, including bulkhead buildings and sheds. Funds are anticipated to support:
 - Two pile repair crews—one to repair the substructure of piers with wooden piles (9 FTE) and one to repair those with concrete piles (14 FTE), such as Pier 35;
 - Additional funding for substructure repair and replacement of the Pier 19 North Apron and Wharf J9 Seawall due to higher costs associated with using more durable, advanced materials and methods for these repairs;
 - Additional funding for substructure repairs on Piers 31 and 29, readying space for planned and potential new tenants;
 - Substructure improvements to the Pier 50 Shed B Apron to provide emergency egress for the existing Distillery 209 lease; and
 - Pier 80 cargo terminal improvements to be completed by Pasha Automotive. Per the lease agreement with Pasha, the Port is obligated to reimburse the tenant up to \$2.0 million for the cost of specified improvements to the terminal. Of these funds, \$0.65 million must be paid to the tenant in cash, with the balance provided via rent credits;
- Utility projects to keep utilities such as sewer and power systems in good repair. Funds in this category are anticipated to go toward re-routing the sewer at Pier 7½ for code compliance;
- Pier 19½ roofing repairs, as the roof is past its useful life and leaks;
- Additional funding for planned capital repairs and facility improvements at the Pier 70 Shipyard to ready the space for a new operator. Work is likely to include electrical upgrades and dredging;
- Additional funding for improvements along Amador Street to meet the increased cost of constructing a new forced sewer main and refurbishing the pump station, as well as added scope to complete sewer repairs under the roadway and repave the street;
- Additional funding for repair of the floating docks and pier structure at Hyde Street Harbor—including mechanical and electrical systems—due to scope increases and escalating construction costs;
- Additional funding for the dry-docking and overhaul of the Port's pile drivers and pile barges and China Basin floats due to escalating costs; and
- Additional funding for replacement of the Pier 40 North Guest Dock at South Beach Harbor needed due to an increased cost estimate for work.

Enhancements and Safety Improvements

- Utility projects to enhance the safety and operations of systems such as sewer and power systems. Funds in this category are anticipated to support:
 - Improving electrical safety at locations Port wide;
 - Continued support of a Fire Protection Engineer to assist the Port's Fire Marshall and the Port in the assessment, fire alarm system review, and contracting of repairs and enhancement to the Port's life safety, and water-based fire protection systems; and

- Fire safety projects such as removing the non-working deluge system at Pier 26 and installing a fire standpipe system and installing a new fire standpipe system at Pier 31;
- Planning and design to demolish all existing landside structures and 80,000 square feet of dilapidated timber wharf at the Pier 90 grain silo facility, which has become a life safety hazard and ongoing maintenance and security expense;
- Lease preparation projects that facilitate new interim lease opportunities through facility upgrades and enhancements. In anticipation of pursuing a new tenant, or as part of lease negotiations, the Port must occasionally make improvements to a facility. Improvements may include, but are not limited to, electrical and plumbing upgrades, roof repairs, HVAC, structural improvements, ADA upgrades, paving, and fencing. Locations currently identified for improvements include:
 - Beltline building improvements, including state of good repair work and safety and ADA access improvements;
 - Roundhouse 2, where HVAC system improvements are needed for tenant health and safety and other work, like roof and window repairs, is required to revitalize the building and improve its market value;
 - Pier 29.5, where utilities need to be brought above deck to reduce the chance of waste leaking into the Bay, and enable separating the utility service of Pier 31, the location of the new Alcatraz embarkation site; and
 - Piers 19, 19 ½ and 23, where anticipated work includes installation of: a fire protection standpipe system, a backflow preventer, and a new exhaust system to enable the use of the shed for parking;
- Continued planning and preliminary design of the Seawall Earthquake Safety Program and construction of the Mission Bay Ferry Landing;
- Investment of Southern Waterfront Open Space funds in Crane Cove Park, as planned for in the project's approved budget; and
- Investment in a public kayak launch at the Pier 40 North Guest Dock, a new public amenity at South Beach Harbor.

Project Delivery

- Increasing the Port's capacity to deliver capital projects by funding a new Project Management Office (5 FTE, including project managers and a Senior Administrative Analyst). This investment is based on a consultant-led analysis of the Port's current project delivery capacity and procedures and recommendations for how to improve the Port's efficiency. The new team will provide overall capital program management and each project manager will have a portfolio of projects that they are responsible for driving from inception to close out. With the support of the analyst, this new team will also provide the capacity and skills to enhance the Port's project delivery procedures and practices of collecting, analyzing, learning from, and reporting on project data. The PMO will allow the Port to increase significantly the number and dollar amount of projects that it completes annually; and
- Project reserve to address project budget increases that arise for reasons such as: unforeseen site conditions that exceed project contingencies or San Francisco's bidding environment, in which the Port and other agencies now often receive bids 25-50% over the engineer's estimate.

Strategic Investment

- An upfront investment in the Pier 70 Forest City Project. Under the Disposition and Development Agreement between FC Pier 70 LLC ("Forest City") and the Port for the 28-Acre Site, the Port Commission has the right to invest capital in lieu of or in conjunction with developer capital invested by Forest City. In exchange for this capital investments, the Port will earn a 10% annual return. The proposed budget includes \$1.2 million toward the Pier 70 Investment. These funds will be combined with the existing project balance for a total investment of \$6.5 million. While a larger capital contribution would generate even greater return to the Port, staff has balanced this level of investment with other renewal and life-safety needs that are funded through the proposed capital budget.