

## MEMORANDUM

February 8, 2008

**TO:** MEMBERS, PORT COMMISSION  
Hon. Ann Lazarus, President  
Hon. Kimberly Brandon, Vice President  
Hon. Rodney Fong  
Hon. Michael Hardeman  
Hon. Stephanie Shakofsky

**FROM:** Monique Moyer  
Executive Director

**SUBJECT:** The Port's 10-Year Capital Plan, FY 2008-17 Update

**DIRECTOR'S RECOMMENDATION:** Information Item – No Action Required

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### Background

As required by the City's Administrative Code 2.30 – 2.31, Port staff updated its comprehensive 10-Year Capital Plan to address the Port's outstanding capital needs which is due to Mayor Gavin Newsom and the Board of Supervisors on March 1, 2008 and is expected to be adopted through Board of Supervisors legislation by May 1, 2008. The Port's internal version of the 10-Year Capital Plan, which accompanies this staff report, is a more detailed version of the Port's draft submission to the City's FY 2008-17 Capital Plan. The schedule of needs and funding sources included with the Port's draft plan submitted to the City is attached to this report.

### Overview

The Port's first 10-Year Capital Plan in Spring 2006 demonstrated the magnitude of the Port's financial challenges and that dramatic, new strategies will be required to allow the Port to fulfill its maritime and land use missions.

Since that time, it has become increasingly clear that the major source of funding to reconnect the City with its waterfront envisioned by the Waterfront Land Use Plan – private equity – was insufficient to the task. Without new public sources of funding, private sector investment in the Port will not succeed in revitalizing the Port and its historic structures.

However, since 2006, Port staff and the Port Commission have been laying the groundwork for a new approach to financing waterfront improvements.

**This Print Covers Calendar Item No. 9D**

This update of the Port's 10-Year Capital Plan for FY 2008-17 includes, on the needs assessment

side, transition to a new database, a capturing of new 10-year renewal costs, and as a part of that process, a new way of looking at the Port’s piers and wharves.

On the financing side, the availability of new resources, including Infrastructure Finance Districts (IFD), a SWL 337 disencumbered from the public trust, and Parks and Open Space General Obligation Bond, have allowed the Port to program, as a baseline, \$461 million in bond monies. Contingencies built around heavier development at SWL 337 push this number as high as \$541 million, over half of one billion dollars.

**Summary of Changes – Needs Assessment**

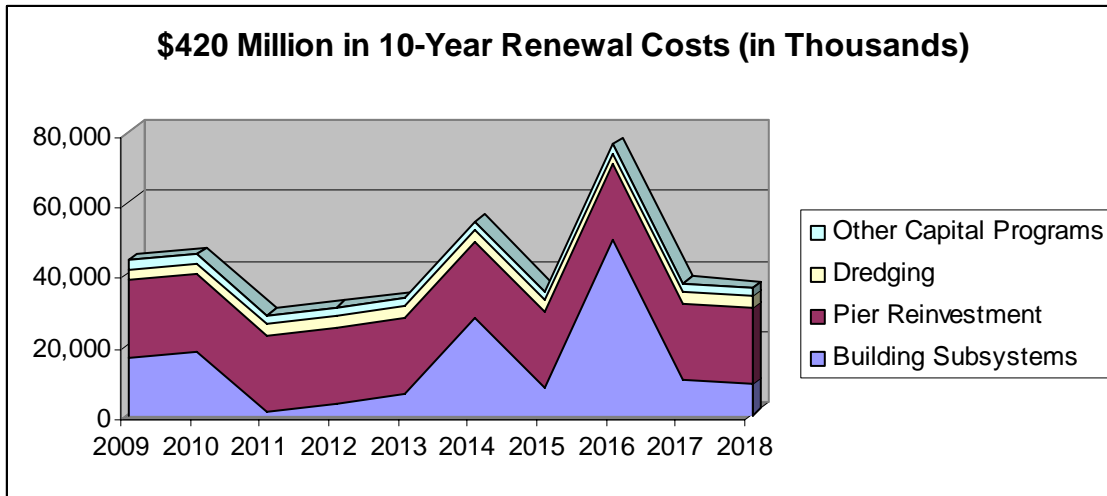
On the expenditure / needs estimate side, the most significant difference between the Port’s FY 2008-17 Capital Plan and the two prior iterations of that plan is that, in addition to the backlog, the Port’s plan now includes costs for 10 years of planned capital renewal. As noted in the Port’s first Capital Plan, we had always planned to include renewal costs in the Port’s 10-Year Capital Plan. Transitioning to the City’s Facilities Renewal and Reinvestment Model (FRRM) accomplished this goal. A detailed breakdown of the Port’s \$1.9 billion in capital need can be found in Appendix A to the FY 2008-17 Capital Plan.

Changes in Dollars (in Millions)

FY 2007-16 Total	\$1,446
7.5% Cost Escalation	109
Inclusion of 10 years of Renewal costs	420
Database migration adjustments – reclassification of certain costs	-112
Revised cost estimates (primarily upward revisions at Pier 70)	<u>82</u>
	\$1,945

Whereas the cost estimates for the Port’s prior Capital Plan were driven by the Port’s internally developed Capital Plan Database (CPDB), they are now driven by the City’s FRRM model, a centralized system now used by all City Departments. Most cost estimates were transferred from the CPDB to the FRRM database on a dollar-for-dollar basis, though some projects - primarily building subsystems - were completely re-estimated using the FRRM methodology.

Where in the prior model, all structures were broken down into five categories at most, the FRRM model breaks those same buildings down into a dozen or more subsystems. This will allow the Port to run reports that, for example, predict when all the roofs will need to be replaced over time, allowing Port staff to plan for those replacements. Overall, the addition of \$420 million in renewal costs, consisting of the total amount the Port would need to address new issues that will develop over the next 10 years, can be represented as follows:



Piers as infrastructure: Another significant change brought about by the change in the capital model is that the Port’s piers and wharves are now, for renewal purposes, treated collectively as infrastructure. More like the foundation of a building or a system of utility mains, each of which could last 100 years, an amount of funding is programmed each year to repair or replace what becomes the weakest part of the overall system. The lifespan of individual components is on such a long time frame, that predicting differential wear-and-tear of those components, as well as a specific replacement year, is problematic.

Using a different replacement schedule for each of the Port’s four types of pier substructures, staff settled on a representative number of three-quarters of one percent (0.75%) of the estimated current replacement value of those structures as the annual reinvestment need. Depicted as “Pier Reinvestment” in the graph above, and listed under the “Portwide Annual Programs” in the attached schedule, this works out to be \$21.6 million annually.

**Summary of Changes – Financing Plan**

The most striking difference in the Port’s Financing Plan this year is the level of funding that has become available through bonds, climbing this year to, as a conservative baseline assumption, \$461 million.

Programming for Revenue Bonds totaling \$162.5 million are proposed as follows:

**Port Revenue Bond Projects**

<u>Project</u>	<u>Bond – Base Port Revenues</u>	<u>Bond – Additional SWL337 Lease Revenues</u>	<u>Total Revenue Bond Funding</u>
Agriculture Building	\$10,000,000	-	\$10,000,000
Pier 9	-	\$21,420,000	21,420,000
Piers 19-23	9,000,000	18,580,000	27,580,000
Piers 33 and 35	-	25,000,000	25,000,000
Pier 50	30,000,000	-	30,000,000
Pier 80	30,000,000	-	30,000,000
Pier 90-96 Seawall	8,000,000	-	8,000,000
Misc. Wharves and Aprons	2,500,000	-	2,500,000
Tunnel and Rail Improvements	8,000,000	-	8,000,000
<b>Total</b>	<b>\$97,500,000</b>	<b>\$65,000,000</b>	<b>\$162,500,000</b>

The \$33.5 million in Port open space projects approved by voters on February 5, 2008 are listed in the table below. The Port intends to construct these improvements by FY 2013-14.

**G.O. Bond Park Funding**

<u>Port Area</u>	<u>Proposed Park</u>	<u>Project</u>	<u>G.O. Bond Funding</u>
Fisherman's Wharf	Pier 43 ½ Park	Pier 43 ½	\$9,000,000
South Beach	Brannon Street Wharf Park	Brannon St. Wharf	3,000,000
China Basin	Bayfront Park	Blue Greenway Project	21,000,000
Southern Waterfront	Crane Cove Park		
	Warm Water Cove Park		
	Islais Creek		
	Heron's Head Park Entrance		
<b>Total:</b>			<b>\$33,500,000</b>

The Port’s Infrastructure Finance District Bonds, now substantially larger than in the previous iterations of this report, have been proposed as follows:

**Infrastructure Finance District Bond Projects**

<b>Project</b>	<b><u>Tax Increment</u> <u>IFD Bond</u></b>	<b><u>Additional</u> <u>SWL337 Tax</u> <u>Increment IFD</u> <u>Bond</u></b>	<b><u>Total IFD</u> <u>Bond Funding</u></b>
Piers 27-31	\$60,000,000	-	\$60,000,000
Pier 70 – Infrastructure	40,000,000	-	40,000,000
Pier 70 – Environmental	30,000,000	-	30,000,000
Pier 70 – Open Space	20,000,000	-	20,000,000
Pier 70 – Piers and Wharves	50,000,000	-	50,000,000
Pier 70 – UIW Building	-	\$45,000,000	45,000,000
Islais Creek	-	4,000,000	4,000,000
Blue Greenway	-	16,000,000	16,000,000
<b>Total</b>	<b>\$200,000,000</b>	<b>\$65,000,000</b>	<b>\$265,000,000</b>

**Financing Plan SWL 337 Contingencies**

Heavier development at SWL 337 has the potential to increase the Port’s bond revenues by as much as \$80 million. Under the scenario where the Port realizes \$8 million annually from both revenues and the IFD, which would equate to \$40 million more than the Port’s current baseline assumption, the Port would consider directing that funding as follows:

Increased Lease Revenue

- Additional funding to Piers 19-23 - \$20 million (for a total of \$38.6 million)

Increased IFD Revenue

- Portwide seawall repairs - \$20 million

Under the scenario where the Port realizes \$10 million annually from both revenues and the IFD, -- \$80 million more than the Port’s current baseline-- the Port has preliminarily programmed that additional funding as follows:

Increased Lease Revenue

- Additional funding to Piers 33 / 35 - \$12 million (for a total of \$37 million)
- Historic wharf repairs at Fisherman’s Wharf - \$8 million

Increased IFD Revenue

- Amador Street and Backlands Infrastructure - \$15 million
- Pier 52 Historic Rail Ferry Repairs - \$5 million

## Conclusions

In 2005, the Port's Capital Plan seemed like (at best) a decades-long solution to a waterfront problem that developed over decades or (at worst) an exercise in futility. Suddenly, it appears that the Port is poised to pursue dramatic new open space improvements and new strategies to preserve historic piers within the next five years.

In 2005, the Port won passage of SB 1085, permitting the establishment of Infrastructure Financing Districts on Port property, allowing the capture of future property tax increment. And in 2007, the Port won passage of SB 815, lifting "public trust" use restrictions on four of the Port's seawall lots (337, 328, 330, and 347S), the largest of which – Lot A in Mission Bay – is approximately 14 acres.

Development of a portion of Lot A free of public trust use restrictions promises to yield the most significant increase in rental income and capital investment the Port has seen in many years. SB 815 requires that net proceeds from leasing be spent on preservation of historic resources on Port property or waterfront open space pursuant to the San Francisco Bay Conservation and Development Commission (BCDC) Special Area Plan for the San Francisco Waterfront.

The combination of these tools (SB 1085 and SB 815) will allow the Port to leverage development of Lot A into improvements throughout the waterfront. Consensus regarding the final development plan for Lot A and an expenditure plan for a Southern Waterfront Infrastructure Financing District (including Lot A) will yield these improvements as early as FY 2013-14.

In an historic first time ever contribution of public tax dollars to the Port, Proposition A on the February 2008 San Francisco Ballot was approved by a margin of 71.66% (Yes) to 28.34% (No), meaning that \$33.5 million in waterfront open space projects approved by the Port Commission in the FY 2007-08 Capital Plan are, indeed, funded.

There are still considerable issues to be addressed in the Pier 70 area and other areas around the City's waterfront. However, the Port's newfound ability to utilize these new public resources constitutes a real beginning on the road to a financially sound and sustainable Port of San Francisco.

However, further changes to law and the Port's financing strategy are required: the City and the Port need to develop plans for financing a new Cruise Terminal. We know that the State of California needs to begin contributing to its interests, as defined by the public trust and the BCDC Special Area Plan, along the San Francisco waterfront. The federal government likewise has an interest in removing threats to navigation posed by rotting Port facilities near navigation channels. And the Port needs the support of the City's elected family to enact some of the financing strategies described in the FY 2008-09 Capital Plan. While these changes may be difficult to achieve, Port staff are energized to pursue these and other solutions that will eliminate waterfront blight and create a 21<sup>st</sup> century waterfront.

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## Port Facilities and Infrastructure

Facility / Program Needs Facilities, by Region	Projected 10-Year Additional Need					Total 10- Year Need		
	Backlog	2009	2010	2011	2012		2013	2014-18
Fisherman's Wharf	74,700	8,059	838	241	611	1,952	14,813	102,114
Northeast Waterfront	323,872	6,098	6,672	487	339	0	25,735	383,181
Ferry Building Area	72,785	0	611	234	0	643	8,185	82,438
South Beach	282,440	263	2,388	0	607	3,201	3,829	292,708
China Basin	121,138	133	1,644	0	0	0	4,562	127,475
Southern Waterfront	598,439	851	5,880	23	1,704	0	84,214	692,111
Portwide Misc.(Equipment, ADA Plan)	8,227	0	4,371	0	0	0	0	12,598
Subtotal:	1,482,589	16,402	22,484	985	3,281	5,796	141,118	1,672,825
<b>Portwide Annual Programs</b>								
Dredging		3,225	3,225	3,225	3,225	3,225	16,125	32,250
Facility Condition Survey		323	323	323	323	323	1,615	3,230
Emergency Facility Repair		1,075	1,075	1,075	1,075	1,075	5,375	10,750
Special Area Plan - Open Spaces		1,014	1,014	1,014	1,014	1,014	5,070	10,140
Pier/Wharf Substructure Reinvestment		21,800	21,800	21,800	21,800	21,800	108,000	216,000
Subtotal:		27,237	27,237	27,237	27,237	27,237	138,185	272,370
<b>Total Additional Need:</b>		<b>43,639</b>	<b>49,721</b>	<b>28,202</b>	<b>30,498</b>	<b>33,033</b>	<b>277,303</b>	
<b>Total Cumulative Need:</b>	1,482,589	1,526,238	1,575,959	1,604,161	1,634,659	1,667,692	1,944,995	
<b>Funding Sources</b>								
Port Tenant Responsibility							71,014	71,014
Port Operating Budget		8,762	8,762	8,762	10,000	10,000	50,000	86,286
Port Revenue Bonds		40,000	40,000	60,801	115,168	23,000	42,000	162,500
Development Projects								176,069
Infrastructure Finance District		11,167	11,167	11,167	60,000	205,000	0	285,000
General Obligation Bonds							0	33,501
<b>Total Additional Funding:</b>		<b>19,929</b>	<b>120,830</b>	<b>135,097</b>	<b>127,500</b>	<b>238,000</b>	<b>163,014</b>	
<b>Total Cumulative Funding:</b>		<b>19,929</b>	<b>140,759</b>	<b>275,856</b>	<b>403,356</b>	<b>641,356</b>	<b>804,370</b>	
<b>Balance:</b>		<b>(1,506,309)</b>	<b>(1,435,200)</b>	<b>(1,328,305)</b>	<b>(1,231,303)</b>	<b>(1,026,336)</b>	<b>(1,140,625)</b>	