

<b>Item 4</b> <b>Files 10-0920</b>	<b>Department:</b> Port of San Francisco
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objective</b></p> <ul style="list-style-type: none"> <li>• Resolution finding that the Port’s proposed Pier 27 Cruise Ship Terminal Project is fiscally feasible.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• The Port proposes to build a new primary Cruise Ship Terminal on Pier 27 to: (a) maintain current cruise passenger traffic, (b) provide an efficient and modern cruise ship terminal, and (c) accommodate the growing length and passenger capacities of future cruise ships.</li> <li>• The proposed Pier 27 Cruise Ship Terminal Project would be constructed in two Phases to accommodate the use of Pier 27 by the Event Authority during the 34<sup>th</sup> America’s Cup.</li> <li>• As it relates to the five fiscal feasibility criteria established in Chapter 29 of the Administrative Code, the Port’s proposed Pier 27 Cruise Ship Terminal Project: (1) would allow the City to maintain approximately \$31,200,000 in annual general economic activity in San Francisco, which is estimated to generate approximately \$892,000 in annual tax revenues for the City’s General Fund, (2) is estimated to cost a total of \$90,308,846, (3) would be funded by up to \$78,393,200 of potential revenue sources, leaving a funding shortfall of \$11,915,646, (4) is not anticipated to alter the current ongoing operating and maintenance costs for the Port, and (5) would increase the Port’s outstanding debt by \$20,000,000 or 51.3 percent.</li> </ul> <p style="text-align: center;"><b>Fiscal Impacts</b></p> <ul style="list-style-type: none"> <li>• Of the total estimated project cost of \$90,308,846, the Port has identified \$78,393,200 in various potential funding sources, leaving a shortfall of \$11,915,646. The Port is allocating this shortfall to Phase II of the project’s construction, such that Phase I could be completed prior to the City’s obligation to deliver Pier 27 to the Event Authority prior to January 1, 2013.</li> <li>• The Port anticipates eliminating this shortfall by (a) using remaining contingency funds, (b) reducing or eliminating some project components, (c) identifying potential grants, (d) converting potential non-cruise use operating revenues (such as facility rentals and parking revenue) into project funding, or (e) reallocating capital funds from other projects.</li> <li>• \$58,187,107 is needed to fund Phase I of the proposed project, of which \$30,295,257 has been previously appropriated and the remaining \$27,891,850 is subject to future Board of Supervisors approval or internal control of the Port.</li> <li>• \$32,121,739 is needed to fund Phase II of the project. The Port has identified \$20,206,093 potential funding sources, of which \$11,083,150 would be subject to future Board of Supervisors approval or internal control of the Port and the remaining \$9,122,943 would be subject to voter approval.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approval of the proposed resolution is a policy decision for the Board of Supervisors.</li> </ul>	

## MANDATE STATEMENT

Chapter 29 of the City's Administrative Code requires that certain projects be submitted to the Board of Supervisors to find that the plan for implementing and undertaking a project is fiscally feasible<sup>1</sup> and responsible prior to submitting the project to the Planning Department for environmental review if (a) the project is subject to environmental review under the California Environmental Quality Act (CEQA), (b) total project costs are estimated to exceed \$25,000,000, and (c) construction costs are estimated to exceed \$1,000,000.

Chapter 29 specifies five areas for the Board of Supervisors to consider when reviewing the fiscal feasibility of the plan to implement and undertake a project, including the (1) direct and indirect financial benefits to the City, (2) construction cost, (3) available funding, (4) long term operating and maintenance costs, and (5) debt load carried by the relevant City Department. Chapter 29 also limits the definition of "fiscal feasibility" to mean only that the project merits further evaluation and environmental review with the following provision:

"A determination by the Board (of Supervisors) that the plan for implementing and undertaking the project is fiscally feasible and responsible shall not include a determination as to whether the Project Sponsor or other unit of the government of the City and County should approve the project and it is the intent of the Board of Supervisors in requiring the determination to decide only whether the proposed project merits further evaluation and environmental review."

## BACKGROUND

According to Mr. John Doll, Project Manager at the Port, the Port has three berths available to cruise ships, including (a) a primary berth at Pier 35, located between Montgomery and Kearney Streets, which offers a functional but inadequate cruise terminal, (b) a secondary berth at Pier 27, located between Front and Battery Streets, which offers shed space but few of the amenities and capabilities needed to meet current cruise industry standards, but is used if Pier 35 is occupied or is too small for the arriving cruise ship, and (c) a tertiary berth at Piers 30-32, located between Brannan and Bryant Streets, which has no buildings or maritime infrastructure.

According to Mr. Doll, the existing cruise ship facilities at Pier 35 are inadequate because the Pier's length is too short, the substructure is failing, the apron<sup>2</sup> is too narrow, and the shed<sup>3</sup> is too small to accommodate the significantly larger cruise ships currently being built for 1,500 to 3,000 passengers. Mr. Doll advises that the existing cruise ship terminal at Pier 35 cannot

<sup>1</sup> Chapter 29 excludes various types of projects from the fiscal feasibility requirement, including (a) any utilities improvement project by the Public Utilities Commission, (b) projects with more than 75 percent of funding from the San Francisco Transportation Authority, and (c) a project which was approved by the voters of San Francisco.

<sup>2</sup> According to Mr. Doll, the term "apron" refers to the open area available between the side of a pier where a ship is berthed and the nearest building or other obstruction. Mr. Doll explained that wider aprons allow for more efficient loading and unloading of passengers and provisions.

<sup>3</sup> A pier shed is a building located on or near a pier or wharf used for short-term storage of cargo in transit.

accommodate more than 600 passengers at one time and the layout of the Pier 35 terminal is inefficient which contributes to slower loading and unloading times, resulting in higher operating costs for cruise ships. In addition, Mr. Doll advises that Pier 35 does not have a separate area for cruise-related vehicular traffic, such that loading and unloading of cruise passengers often results in significant traffic congestion on the adjacent Embarcadero Roadway.

Mr. Doll advises that the proposed new cruise ship terminal on Pier 27 would: (a) maintain current cruise passenger traffic, (b) provide an efficient and modern cruise ship terminal, and (c) accommodate the growing length and passenger capacities of future cruise ships.

In addition, under the Host City and Venue Agreement for the 34<sup>th</sup> America's Cup, the Port's tertiary cruise ship berth at Piers 30-32 will be transferred to the America's Cup Event Authority under a 66-year lease, such that the Port will no longer have use of this tertiary cruise ship berth as of December 31, 2011. However, Ms. Elaine Forbes, Deputy Director, Finance and Administration for the Port notes that the Event Authority may choose to allow the Port access to Piers 30-32 temporarily after the 34<sup>th</sup> America's Cup event and prior to the Event Authority commencing any long term development construction at the site. If this occurs, the Port could use Piers 30-32 as a temporary cruise terminal until construction commences and the Port returns the property to the Event Authority. In addition, Ms. Forbes advises that it is possible that the Port will retain some access to Piers 30-32 for ship berthing purposes depending upon the Event Authority's development plans. According to Ms. Forbes, the Event Authority has not yet developed a project proposal for the long-term development of Piers 30-32 such that future Port use is not currently known.

On December 14, 2010, the Board of Supervisors approved the Host City and Venue Agreement which provides the terms under which the City will host the 34<sup>th</sup> America's Cup on Port property along the northern waterfront (File 10-1259). Under the terms of that Agreement, the Port must provide a license to the America's Cup Event Authority to use Pier 27 for a total of approximately 16 months including (a) ten months from January of 2013 through the completion of racing events in October of 2013, plus (b) an additional six-months from November of 2013 through April of 2014 to allow time for the Event Authority to remove the temporary improvements and transfer possession back to the Port.

According to Mr. Doll, construction of the proposed Pier 27 Cruise Ship Terminal Project would occur in two Phases, with the time between phases intended to allow for use of Pier 27 to be used by the Event Authority during the 34<sup>th</sup> America's Cup as described above. Therefore, (a) Phase I construction would extend from January of 2012 through December of 2012, (b) Event Authority Use would extend from January of 2013 through April of 2014, and (c) Phase II construction would extend from May of 2014 through October of 2014. Mr. Doll advises that the Department of Public Works (DPW) will be the Project Manager for the Pier 27 Cruise Ship Terminal Project at the Port.

According to Mr. Doll, Phase I construction will include construction of the core and shell of the facility, including passenger circulation improvements, such as escalators and elevators. Phase II construction would complete the interior of the facility, develop an adjacent 2.5 acre waterfront park called the Northeast Wharf Plaza and provide maritime amenities necessary to create a modern cruise ship terminal. Mr. Doll advises that a Construction Manager/General Contractor would oversee this project such that all of the construction subcontractors would be

selected on a competitive basis, in accordance with Section 6.68 of the City's Administrative Code.

Subsequent to a competitive Request for Quotes issued in July of 2009, the Port, through the Department of Public Works, selected the joint venture firms of KMD Architects and Pfau Long Architecture in coordination with Bermello Ajamil and Partners to design the proposed Cruise Ship Terminal. The design contractors completed a schematic design in late March, 2011. Final construction drawings are planned to be completed by December 31, 2011. Ms. Forbes advises that the Planning Department is planning to commence environmental review, pursuant to the California Environmental Quality Act (CEQA), upon approval of the subject fiscal feasibility legislation, and is expected to be completed by the end of 2011. Construction is expected to commence in January, 2012, with Phase I construction to be completed by the end of 2012, in time for use by the Event Authority in January, 2013.

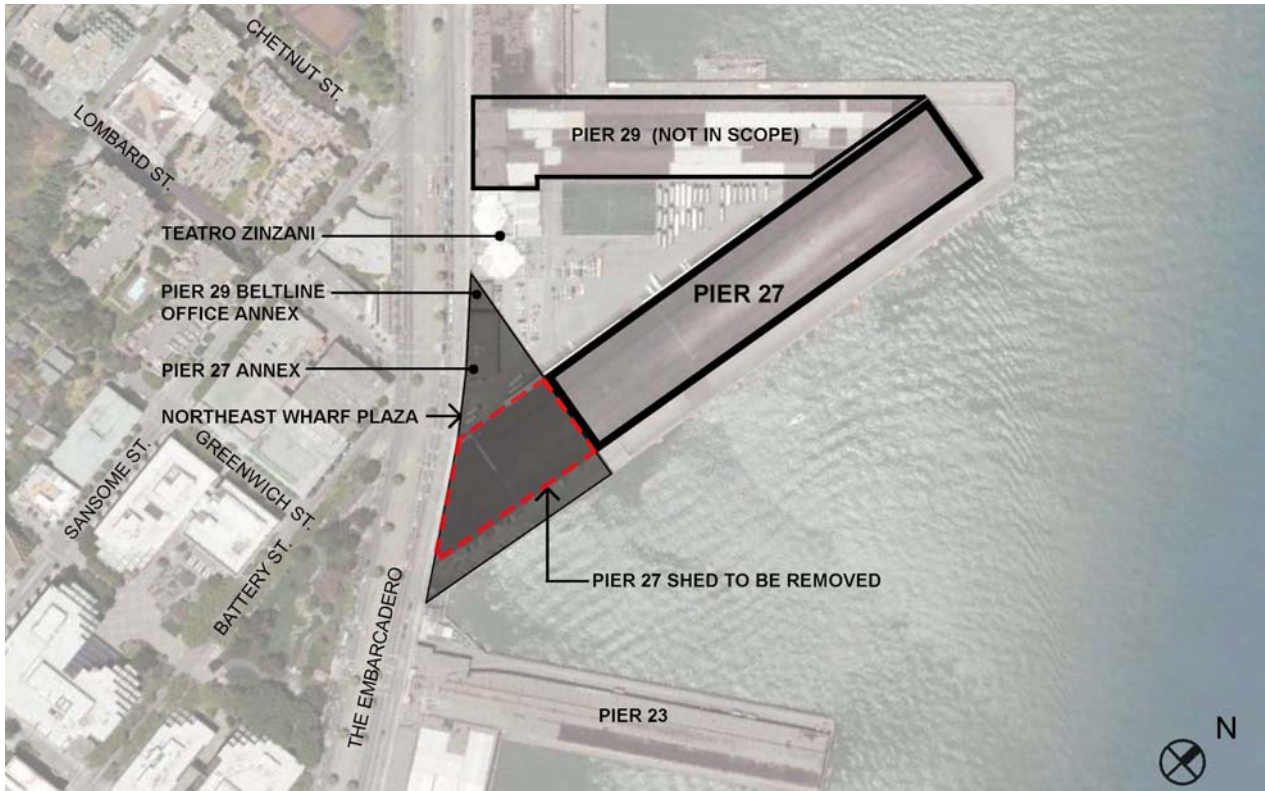
## **DETAILS OF PROPOSED LEGISLATION**

The proposed resolution would find the Port's proposed Pier 27 Cruise Ship Terminal Project to be fiscally feasible, in accordance with Chapter 29 of the City's Administrative Code.

According to Mr. Doll, the Port is requesting to construct a new, approximately 85,000 square foot cruise ship terminal at Pier 27 because, unlike the existing facility at Pier 35 discussed above, (a) the length and apron of Pier 27 would accommodate the significantly larger cruise ships currently being built, (b) the more efficient layout of the proposed Pier 27 cruise ship terminal would accommodate greater numbers of cruise ship passengers, resulting in faster disembarking, (c) a ground transportation area and an elevated gangway system would separate passenger and baggage handling, reducing loading and unloading times and improving the operating efficiencies for cruise ships, and (d) the area between Piers 27 and 29 would allow for vehicular traffic, thereby reducing congestion on the Embarcadero during the loading and unloading of passengers. The new Pier 27 Cruise Ship Terminal Project would also provide for a new waterfront park called the Northeast Wharf Plaza, consisting of approximately 2.5 acres of publically accessible open space areas, to be located at the western end of Pier 27.

Mr. Doll noted that after completion of the Pier 27 Cruise Ship Terminal Project, the existing cruise terminal at Pier 35 would serve as a secondary terminal in the event that two cruise ships require berthing at the same time.

The aerial photograph shown below, provided by the Port, identifies the location of Pier 27, the anticipated site of the new Northeast Wharf Plaza, and the area between Piers 27 and 29 which would allow for vehicular traffic.



In accordance with Chapter 29 of the City's Administrative Code, the following sections discuss the Port's proposed Pier 27 Cruise Ship Terminal Project regarding: (1) direct and indirect financial benefits to the City, (2) construction cost, (3) available funding, (4) long term operating and maintenance costs, and (5) debt load carried by the Port.

### Direct and Indirect Financial Benefits

According to Mr. Doll, construction of the proposed Pier 27 Cruise Ship Terminal will allow the City and County of San Francisco to maintain the level of cruise ship traffic at current levels of between 40 and 80 calls<sup>4</sup> per year.

According to a 2008 consulting study conducted by Bay Area Economics for the Port at a cost of \$97,050, cruise ships deliver approximately 200,000 annual visitors to the City, and generate approximately \$31,200,000 in annual general economic activity in San Francisco, primarily from food and beverage sales, other retail sales, sightseeing and transportation. Such economic activity was estimated to generate \$892,000 in annual tax revenues for the City's General Fund, including (a) \$119,000 in Sales Taxes from food, beverage and retail purchases, (b) \$325,000 in Hotel Taxes from overnight passenger stays, and (c) \$448,000 in Parking Taxes from passengers driving to the Port and parking their cars in order to embark on cruises originating in San Francisco.

<sup>4</sup> A call is a specific instance when a cruise ship docks at a specific port.

### Construction Costs

The proposed Pier 27 Cruise Ship Terminal Project is estimated to cost a total of \$90,308,846 over two phases of construction, as shown in Table 1 below.

<b>Cost Category</b>	<b>Phase I</b>	<b>Phase II</b>	<b>Total</b>
Construction	\$36,645,753	\$23,442,500	\$60,088,253
Construction Management	2,833,366	780,553	3,613,919
Design and Other Consulting Services	11,298,557	3,497,861	14,796,418
Environmental Review	544,653	0	544,653
Permits, Fees, Administrative Costs	320,000	49,600	369,600
Contingency (18.13% of Construction) <sup>6</sup>	6,544,778	4,351,225	10,896,003
<b>Total</b>	<b>\$58,187,107</b>	<b>\$32,121,739</b>	<b>\$90,308,846</b>

### Available Funding

The Port has identified a total of \$78,393,200 from nine potential funding sources, to complete Phases I and II, as shown in Table 2 below.

<b>Source</b>	<b>Phase I</b>	<b>Phase II</b>	<b>Total</b>
1 Previously Appropriated Funds	\$30,295,257	-	\$30,295,257
2 Reallocation of Capital Budget Funds	2,225,000	-	2,225,000
3 Federal Emergency Management Agency Security Grant	1,166,850	6,333,150	7,500,000
4 2012 Port Revenue Bonds	15,500,000	-	15,500,000
5 General Fund Contribution	6,500,000	-	6,500,000
6 2012 General Obligation Bond	-	9,122,943	9,122,943
7 Cruise Terminal Operator Contribution	-	2,750,000	2,750,000
8 Passenger Facility Charge	-	4,500,000	4,500,000
9 Use and Subsequent Reimbursement of 2010 Revenue Bond Proceeds	2,500,000	(2,500,000)	-
<b>Total</b>	<b>\$58,187,107</b>	<b>\$20,206,093</b>	<b>\$78,393,200</b>

<sup>5</sup> According to Ms. Forbes, the cost of the Pier 27 shed demolition and the relocation of shoreside power currently located at Pier 27 is required to be performed by the Event Authority as an obligation of the Host City and Venue Agreement and therefore considered a project cost of the 34<sup>th</sup> America's Cup. Therefore, such work is excluded from the Pier 27 Cruise Ship Project to ensure that the cost of such work is not double counted. Because this work is the responsibility of the Event Authority and not the Port, the Port does not have reliable estimates of the cost of such work; however, at the time of the negotiation on the terms of the Host City and Venue Agreement, the Port estimated the cost of the Port demolishing the Pier 27 shed and relocating shoreside power at \$7,500,000.

<sup>6</sup> Ms. Forbes advises that the 18.13 percent contingency is the result of three separate contingencies added together. According to Ms. Forbes, DPW, the Project Manager for this Project, applied an initial standard 15 percent construction contingency. Second, when DPW uses Construction Management or General Contractor agreements, which will be used for this Project, DPW adds an extra two percent contingency to cover potential scope gaps between trade contracts. Finally, a \$400,000 standard contingency was added in case DPW needs to hire a consultant not originally anticipated. For example, a historical consultant was recently added to the Project. If the historical consultant fees increase as DPW works through the approval process, the contingency would be used to cover these additional fees.

- (1) Previously Appropriated Funds:** \$30,295,257 for the proposed Pier 27 Cruise Ship Terminal Project was previously appropriated by the Board of Supervisors in the Port's FY 2009-2010 Budget, including (a) \$20,000,000 paid from a developer, San Francisco Cruise Terminal, LLC, to the Port for excess profits earned on the completed separate project, the Watermark Condominiums<sup>7</sup>, (b) \$10,075,089 in previously appropriated proceeds from the prior issuance of 2010 Port Revenue Bonds, and (c) \$220,168 in Port commercial operating revenues from various sources, including property rental, parking fees, and maritime fees. As shown in Table 2 above, all \$30,295,257 would be allocated to Phase I.
- (2) Reallocation of Capital Budget Funds:** According to Ms. Forbes, the Port intends to shift \$2,225,000 of existing capital project funds that are not currently needed from other Port capital projects to the Pier 27 Cruise Ship Terminal Project, including (a) \$1,125,000 from the Port's capital project to replace aging floating fenders<sup>8</sup> and (b) \$1,000,000 from the Port's FY 2012-2013 annual repair and replacement capital project budget, which would be subject to future approval by the Board of Supervisors. Mr. Doll noted that the floating fender replacement project would be delayed from the original start date in FY 2012-2013 to FY 2013-14 as a result of such a reallocation and the reallocation of \$1,000,000 from the Port's FY 2012-2013 repair and replacement project budget would result in less funds being available for other, at this point undetermined, Port capital projects. As shown in Table 2 above, all \$2,225,000 would be allocated to Phase I.
- (3) Federal Emergency Management Agency Grant:** Ms. Forbes stated that in January of 2010, the Port was awarded a \$7,500,000 grant from the Federal Emergency Management Agency (FEMA) to fund security improvements included in the Port's proposed Pier 27 Cruise Ship Terminal Project. This grant is subject to future acceptance and expenditure approval by the Board of Supervisors. Ms. Forbes advises that the Port anticipates submitting a resolution to request such approval in July of 2011. As shown in Table 2 above, of the total \$7,500,000 FEMA grant, \$1,166,850 would be expended in Phase I and the remaining \$6,333,150 would be expended in Phase II because Phase I would only include the soft costs and wiring improvements while Phase II would include the full costs to construct a Border Patrol office.
- (4) 2012 Port Revenue Bonds:** The Port anticipates issuing, subject to Board of Supervisors approval, approximately \$16,400,000 of additional Port Revenue Bonds in 2012<sup>9</sup>, including \$15,500,000 for the Pier 27 Cruise Terminal Project. Ms. Forbes stated that the interest rates and annual debt service on these 2012 Port Revenue Bonds have

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<sup>7</sup>According to Ms. Forbes, as part of the development agreement between the Port and the San Francisco Cruise Terminal, LLC, San Francisco Cruise Terminal, LLC was granted development rights to build the Watermark Condominiums at 501 Beale Street (across from Piers 30 and 32) in exchange for constructing a new cruise ship terminal at Piers 30 and 32. However, San Francisco Cruise Terminal, LLC did not construct the cruise terminal, and, under the terms defined in the development agreement, San Francisco Cruise Terminal, LLC, was required to pay the Port a portion (determined by a formula in the development agreement) of the profits earned on the Watermark Condominium project totaling \$20,000,000.

<sup>8</sup> A fender is a cushioning device used on the side of a vessel or dock to absorb impact or friction.

<sup>9</sup> Ms. Forbes advises that this estimate of debt issuance is a preliminary estimate and may be subject to change.

not yet been estimated, due to market fluctuations until the anticipated issuance dates. However, the Port estimates that existing Port revenues are sufficient to support debt service for at least \$15,500,000 in Port Revenue Bonds. As shown in Table 2 above, the entire \$15,500,000 is anticipated to be expended in Phase I.

- (5) **General Fund Contribution:** As shown in Table 2 above, the Port anticipates a future contribution of \$6,500,000 from the City's General Fund, subject to separate approval by the Board of Supervisors. As discussed previously by the Budget and Legislative Analyst in the report accompanying the resolution to approve the Host City and Venue Agreement (File 10-1259), \$6,500,000 was initially anticipated to be needed for the Cruise Terminal Project and was therefore included in the estimated total City costs of hosting the 34<sup>th</sup> America's Cup. However, as shown in Table 2 above, additional Port and other sources of funding beyond this initial \$6,500,000 will be needed to complete the Cruise Terminal Project. The Budget and Legislative Analyst notes that the America's Cup Organizing Committee (ACOC) has committed to raising \$32,000,000 to offset the City's costs of hosting the 34<sup>th</sup> America's Cup, which if raised, could potentially offset this \$6,500,000 City General Fund contribution. As shown in Table 2 above, the entire \$6,500,000 General Fund contribution is allocated to Phase I.
- (6) **2012 Parks General Obligation Bond:** Ms. Forbes stated that the Port, together with the Recreation and Park Department, intends to submit a proposition to the voters of San Francisco, subject to approval by the Board of Supervisors, to issue a yet-to-be determined amount of General Obligation bonds in 2012 in order to finance various park projects. Ms. Forbes stated that this bond issuance would include \$9,122,943 to fund the additional amenities for the Port's new public waterfront plaza, including improved pavement, landscaping, seating, and lighting for the proposed Pier 27 Cruise Ship Terminal Project. Ms. Forbes noted that similar bonds for improvements to RPD and Port parks were approved by the voters in 2008 under Proposition A: The Clean and Safe Neighborhood Park Bond Proposition. Ms. Forbes however also notes that the proposed 2012 Parks General Obligation Bond, subject to a 2/3 majority vote by San Francisco voters, is uncertain but that \$9,122,943 is exclusively tied to construction of the Port's new public waterfront plaza, which would be adjacent to the new Cruise Ship Terminal, and could be delayed from the proposed project if necessary, until the Port identifies other funding sources for this public amenity. As shown in Table 2 above, the entire \$9,122,943 is allocated to Phase II.
- (7) **Cruise Terminal Operator Contribution:** According to Mr. Doll, similar to the existing agreement the Port has to provide cruise terminal operating services at the current primary cruise ship terminal at Pier 35, the Port anticipates entering into a new operating agreement for operation of the proposed new Pier 27 Cruise Ship Terminal<sup>10</sup>. Mr. Doll stated that the Port would include, as a requirement under such a Pier 27 cruise terminal operating agreement, a contribution of \$2,750,000 from the operator to fund the installation of a mobile gangway system which would provide for the more efficient

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<sup>10</sup> According to Mr. Doll, agreements for maritime functions are not subject to Board of Supervisors approval under Appendix B of the San Francisco Charter, such that any new agreement for cruise terminal operations would not be submitted to the Board of Supervisors for approval.



loading and unloading of passengers. Mr. Doll advises that the Port will be able to find a cruise terminal operator willing to pay the \$2,750,000 since the installation of the mobile gangway system benefits the operator directly. However, Mr. Doll advises that if that is not the case, the Port would not install the mobile gangway system. As shown in Table 2 above, the \$2,750,000 Cruise Terminal Operator Contribution is allocated to Phase II.

**(8) Passenger Facility Fees:** Ms. Forbes stated that most cruise ship terminals on the West Coast charge cruise passengers a fee to offset the capital cost of new cruise ship terminal projects. San Francisco does not currently charge any cruise passenger fees. However, the Port charges wharfage fees of \$12 per passenger to cruise ships, which would not be impacted by the proposed new passenger facility fees. Ms. Forbes estimates that a passenger facility fee of \$3 per passenger would result in sufficient revenue to issue and pay debt service on \$4,500,000 in additional Port Revenue Bonds. According to Ms. Forbes, in accordance with the City's Charter, such a passenger facility fee would not be subject to Board of Supervisors approval. However, the issuance of \$4,500,000 in Port Revenue Bonds would be subject to future approval by the Board of Supervisors. As shown in Table 2 above, the entire \$4,500,000 is allocated to Phase II.

**(9) Use and Subsequent Reimbursement of 2010 Revenue Bond Proceeds:** Ms. Forbes stated that the Port intends to use \$2,500,000 in previously issued and appropriated funds from a 2010 issuance of Port Revenue Bonds to allocate to Phase I of the proposed Pier 27 Cruise Ship Terminal Project. However, such funds would need to be reimbursed from the issuance of the proposed 2012 Parks General Obligation Bonds discussed above, subject to the approval of the voters of San Francisco. As shown in Table 2 above, the expenditures would be made in Phase I and the subsequent reimbursement of the 2010 Port Revenue Bonds would be completed in Phase II.

As shown in Table 2 above, the Port has identified \$78,393,200 in existing and projected funding sources, or \$11,915,646 less than the estimated project cost of \$90,308,846. As shown above by comparing Tables 1 and 2, in order to complete Phase I of the project prior to the Pier 27 delivery date to the America's Cup Event Authority of January 2013, the Port would fully fund the projected \$58,187,107 Phase I project. However, a comparison of Tables 1 and 2 above also shows that although the cost of Phase II is \$32,121,739, the Port has identified only a total of \$20,206,093 for Phase II and is proposing to allocate the entire funding shortfall of \$11,915,646 to Phase II. Mr. Doll noted that allocating the entire shortfall to Phase II (a) allows the City to meet its contractual deadline to deliver Pier 27 under the Host City and Venue Agreement, and (b) provides the Port additional time prior to the beginning of Phase II construction in May of 2014 to eliminate the projected funding shortfall.

### **Long Term Operating and Maintenance Costs**

As discussed above, the Port has an existing agreement with Metro Cruise Operators to provide cruise ship terminal operation services to cruise ships berthed at Pier 35. Under the terms of this agreement, which expires on April 30, 2011, Metro Cruise Operators (a) pays the Port fees averaging \$13,750 per month for the right to sell cruise terminal services to cruise lines, and (b)

is required to maintain the interior of the existing primary cruise ship terminal at Pier 35<sup>11</sup>. Ms. Forbes advises that the Port is currently negotiating with Metro Cruise Operators to extend that agreement through the 34<sup>th</sup> America's Cup. The Port believes that this is necessary because Metro Cruise Operators has the local experience to meet the space planning challenges the 34<sup>th</sup> America's Cup will create due to decreased availability of piers but increased cruise ship traffic in conjunction with the racing events. As discussed above, the Port anticipates issuing a new agreement for similar cruise ship terminal operation services at Pier 27. According to Mr. Doll, the Port anticipates that the terms would be similar to the existing agreement with Metro Cruise Operators, and the new operator would be required to operate and maintain the terminal, such that the Port would not incur any additional maintenance costs as a result of the proposed Pier 27 Cruise Ship Terminal Project.

Other operating costs which the Port incurs include (a) dredging, (b) renovation of mooring systems, (c) maintenance of pier substructures, (d) utility infrastructure costs, (e) Police Department security and traffic control, (f) promotion and advertising, (g) restrooms, and (h) lighting and emergency power generators at secondary pier facilities such as Piers 30-32 and currently Pier 27. Ms. Forbes advises that total Port costs are not anticipated to change significantly from current levels, although the location of the spending will shift from the current primary Pier 35 cruise terminal to the proposed new Pier 27 location.

### **Debt Load of the Port**

According to Ms. Forbes, the Port currently has approximately \$38,983,184 in outstanding Port Revenue Bond debt and other debt. As shown in Table 2 above, the anticipated issuance of (a) \$15,500,000 of 2012 Port Revenue Bonds, and (b) \$4,500,000 of Revenue Bonds resulting from the creation of a Passenger Facility Fee, for a total of an additional \$20,000,000 of Port Revenue Bonds, would increase the Port's debt load from \$38,983,184 to \$58,983,184, an increase of 51.3 percent. The issuance of these new Port Revenue Bonds would be subject to Board of Supervisors approval. Ms. Forbes advises that the Port has assured the rating agencies that the Port plans to keep their average debt service coverage of total annual revenues to total annual debt costs above 2.0. The Port currently estimates that their current annual debt service ratio is at least 3.32 such that there is some room for additional debt issuance. The Port also anticipates new revenues from parking meters, the backlands project,<sup>12</sup> and the creation of new office space at Pier 33<sup>13</sup> which can potentially be used as additional debt service coverage for the proposed \$20,000,000 in new debt.

The Budget and Legislative Analyst notes that the \$9,122,943 in 2012 Parks General Obligation Bond would not impact the debt load of the Port because General Obligation Bonds are supported by Property Taxes that would be paid by all property owners, if approved by San Francisco voters.

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<sup>11</sup> Section 8.1 of the Port's agreement with Metro Cruise Operators states "the Management Contractor also shall be responsible for maintenance and repair of the following areas of the facility..." and lists various categories of the interior of the cruise terminal such as walls, ceilings, floors, lighting, fences, gates and doors, electrical systems, rest rooms, heating and air conditioning, plumbing, interior office space, and security systems.

<sup>12</sup> The backlands is a parcel of undeveloped and unfinished land at the southeast end of Port property, near Pier 92 and Hunters Point which is currently vacant. The Port is projecting to generate revenues from leasing that space.

<sup>13</sup> The Port plans to make minor improvements to Pier 33 to enable the leasing of new office space.

## FISCAL IMPACTS

### **The Port currently projects a funding shortfall for the Pier 27 Cruise Ship Terminal Project of \$11,872,943.**

As shown in Tables 1 and 2 and discussed above, the Port has identified \$78,393,200 in potential funding sources to meet the estimated project cost of \$90,308,846, creating a funding shortfall of \$11,915,646.

Ms. Forbes advises that the Port anticipates eliminating any remaining shortfalls prior to the beginning of Phase II construction in May of 2014 by (a) using remaining funds from the \$6,544,778 budgeted construction contingency included in Phase I after construction has been completed, (b) reducing or delaying some components of the project scope, (c) identifying new potential grants such as those specific for stormwater and for Leadership in Energy & Environmental Design (LEED)<sup>14</sup> aspects of the project, (d) developing a mechanism to convert potential non-cruise use operating revenues (such as facility rental or parking revenue) into project funding, or (e) the reallocation of additional capital funds from other lower priority projects to the Pier 27 Cruise Ship Terminal Project which are not maritime related. Ms. Forbes advises that, if unsuccessful at eliminating the projected funding shortfall, the Port would use the core and shell of the Cruise Terminal that will be completed in Phase I and use any funds the Port is successful in receiving to build the best Cruise Terminal possible with such limited funds, with plans of completing the entire scope of the Project at a future date in additional phases.

### **Various Identified Funds Have Yet to be Approved**

\$58,187,107 is needed to fund Phase I of the proposed project. Of this total, as shown in Table 2 above, \$30,295,257 has been previously appropriated. The remaining \$27,891,850 is subject to future Board of Supervisors approval or internal control of the Port.

As shown in Table 1 above, an estimated \$32,121,739 is needed to fund Phase II of the Cruise Terminal Project. The Budget and Legislative Analyst also notes that, of the \$20,206,093 identified in Table 2 above for Phase II, \$11,083,150 would also be subject to future Board of Supervisors approval or internal control of the Port. The remaining \$9,122,943 (\$20,206,093 less \$11,083,150) would be subject to voter approval and outside of the control of the Board of Supervisors or the Port. While the Port is optimistic that San Francisco voters would approve a 2012 General Obligation Bond measure by more than a 2/3 vote, based on prior approval of the 2008 Clean and Safe Park Bonds, Ms. Forbes noted that the requested 2012 General Obligation Bonds would fund the Northeast Wharf Plaza, which would not be a functioning part of the

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<sup>14</sup> LEED is an internationally recognized green building certification system, providing third-party verification that a building or community was designed and built using strategies intended to improve performance in metrics such as energy savings, water efficiency, CO<sub>2</sub> emissions reduction, improved indoor environmental quality, and stewardship of resources and sensitivity to their impacts.

Cruise Ship Terminal. Therefore, if voters did not approve this future General Obligation Bond, construction of the Northeast Wharf Plaza could be delayed until other funds are identified, without directing impacting on the completion of the Cruise Ship Terminal.

## **RECOMMENDATION**

Approval of the proposed resolution is a policy decision for the Board of Supervisors.