

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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May 24, 2013

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: May 29, 2013 Budget and Finance Committee Meeting



TABLE OF CONTENTS

Item	File		Page
2&3	13-0416	Appropriation - \$3,857,224 for the Port of San Francisco – FY 2013-2014	
	13-0415	Public Employment – Amendment to the Annual Salary Ordinance, FYs 2012-2013 and 2013-2014 – Port of San Francisco	1
4	13-0448	Contract Amendment – Port of San Francisco – Pier 27 James R. Herman Cruise Ship Terminal and Northeast Wharf Plaza – Not to Exceed \$11,491,708.....	6
5&6	13-0488	Issuance – Port Revenue Bonds – James R. Herman Cruise Terminal Project – Not to Exceed \$25,300,000	
	13-0482	Appropriation – Port Revenue Bond Proceeds, Surplus Revenues, and Expenditures of Supporting Capital Projects- \$34,722,930 – FY 2012-2013	11

Items 2 and 3
Files 13-0416 and 13-0415

Department:
 Port

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance amends (a) the Annual Appropriation Ordinance to appropriate \$3,857,224 to the Port's FY 2013-14 budget, increasing the FY 2013-14 budget from \$87,817,035 to \$91,674,259, or 4.4%; and (b) the Annual Salary Ordinance to add seven (5.39 FTEs in FY 2013-14) new project-funded positions, including five Pile Workers, one Pile Driver Engine Operator, and one Pile Driver Supervisor I.

Key Points

- The Board of Supervisors approved a resolution in 2011 (Resolution 464-11), adopting a fixed two-year budget for the Airport, Port, and Public Utilities Commission. The Board of Supervisors approved the Port's two-year FY 2012-13 and FY 2013-14 fixed budget in July 2012. The proposed ordinances amend the FY 2013-14 budget to add (a) \$800,000 to pay for debt service on proposed revenue bonds, and \$3,057,224 to fund capital projects; and (b) seven new project-funded positions.

Fiscal Impact

- Sources of funds of \$3,857,224 are (a) \$800,000 due to increased parking revenues and rents for cargo operations; and (b) \$3,057,224 in fund balance. The Port's FY 2011-12 year-end fund balance exceeded projections by \$2.1 million and updated projections of FY 2012-13 year-end fund balance now exceed prior projections by \$1.0 million, making available approximately \$3.1 million to fund the requested supplemental appropriation.
- The Board of Supervisors has previously appropriated \$2,650,000 for the Port's Americans with Disabilities Act (ADA) Transition Plan, roof repair projects, Piers 33-35 repairs and improvements, and pier structure repairs. Approval of the requested supplemental appropriation would increase the appropriation for these projects by \$3,057,224 to \$5,707,224. These projects are included in the Port's Capital Plan.
- The Port has determined that using Port staff rather than contractors to perform pier structure repairs results in a savings to the Port. The requested supplemental appropriation includes \$732,000 to pay for the seven project-funded positions noted above, which is a savings of \$418,000 in FY 2013-14 compared to the original budget for contractors to perform pier structure repairs of \$1,150,000.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Charter Section 9.105 requires Board of Supervisors' approval of Annual Appropriation Ordinance amendments, after the Controller certifies the availability of funds.

Charter Section 9.101 authorizes the Mayor and Board of Supervisors by resolution to determine in an even-numbered fiscal year that the upcoming budgetary cycle shall be a fixed budgetary cycle for some or all City Departments. In a fixed budgetary cycle, the Board of Supervisors does not adopt a new budget for the second fiscal year of the cycle, but may adjust the second-year budget if certain conditions are met.

Background

The Board of Supervisors approved a resolution in 2011 (Resolution 464-11), adopting a fixed two-year budget for the Airport, Port, and Public Utilities Commission. The Board of Supervisors approved the Port's two-year FY 2012-13 and FY 2013-14 fixed budget in July 2012. As shown in Table 1 below, the Port's budget increased by 12% from FY 2011-12 to FY 2013-14 and the number of Full Time Equivalent (FTE) positions increased by 6%.

**Table 1: Port Budget
FY 2011-12 through FY 2013-14**

	FY 2011-12	FY 2012-13	FY 2013-14	Increase/ (Decrease) FY 2011-12 to FY 2013-14	Percent
Administration	\$23,084,714	\$25,973,010	\$26,864,607	\$3,779,893	16%
Engineering & Environmental	4,194,296	4,354,256	4,532,446	338,150	8%
Maintenance	34,793,060	32,353,913	34,174,738	(618,322)	(2%)
Maritime Operations	3,832,466	8,014,541	8,114,627	4,282,161	112%
Planning & Development	2,944,527	4,341,865	3,446,394	501,867	17%
Real Estate & Management	9,903,096	10,436,166	10,684,223	781,127	8%
Total	\$78,752,159	\$85,473,751	\$87,817,035	\$9,064,876	12%
Positions (FTEs)	223.16	235.98	236.98	13.82	6%

Source: Annual Appropriation Ordinance

DETAILS OF PROPOSED LEGISLATION

File 13-0416 amends the Annual Appropriation Ordinance to appropriate \$3,857,224 to the Port's FY 2013-14 budget, as shown in Table 2 below, increasing the FY 2013-14 budget from \$87,817,035 to \$91,674,259, or 4.4%.

File 13-0415 amends the Annual Salary Ordinance to add seven (5.39 FTEs in FY 2013-14) new project-funded positions, including five Pile Workers, one Pile Driver Engine Operator, and one Pile Driver Supervisor I.

**Table 2: Sources and Uses of Funds
FY 2013-14**

Sources of Funds	
Parking Fines	\$178,000
Parking Meters	225,641
Parking Stalls	66,000
Cargo Operations	330,359
Fund Balance	3,057,224
Total Sources	\$3,857,224
Uses of Funds	
Debt Service	\$800,000
Americans with Disabilities Act (ADA) Transition Plan	200,000
Roof Repair Project	1,375,224
Piers 33-35 Repairs and Improvements	1,900,000
De-appropriation Other Pier Structure Repairs	(418,000)
Total Uses	\$3,857,224

Funding sources of \$3,857,224 for the requested supplemental are:

- \$800,000 due to increased parking revenues and rents for cargo operations; and
- \$3,057,224 in fund balance.

According to Ms. Meghan Wallace, Port Budget Manager, the Port's FY 2011-12 year-end fund balance exceeded projections by \$2.1 million and updated projections of FY 2012-13 year-end fund balance now exceed prior projections by \$1.0 million, making available approximately \$3.1 million to fund the requested supplemental appropriation.

The requested supplemental appropriation of \$3,857,224 will pay for debt service and capital projects as follows:

- \$800,000 in new debt service for the first year of debt service on a proposed revenue bond issuance in FY 2013-14 of \$25 million to pay for phase two of the Cruise Terminal project and historic pier repairs;
- \$200,000 increase from \$100,000 to \$300,000 for the Port's ADA Transition Plan, including consultant contract costs and initial repairs to noncompliant locations;
- \$1,375,224 increase from \$350,000 to \$1,725,224 for roof repairs to the Pier 35 shed;
- \$1,900,000 increase from \$1,100,000 to \$3,000,000 for substructure repairs to Piers 33 and 35; and
- \$418,000 decrease to pier structure repair projects by replacing \$1,150,000 in construction contracts with \$732,000 in Port labor costs.

FISCAL IMPACT

The Port is requesting appropriation of \$3,857,224, which includes \$800,000 for debt service on proposed revenue bonds, as noted above, and \$3,057,224 to fund capital projects. The Board of Supervisors has previously appropriated \$2,650,000 to the capital projects shown in Table 3 below. Approval of the requested supplemental appropriation would increase the appropriation by \$3,057,224 to \$5,707,224. These projects are included in the Port's Capital Plan. According to Ms. Wallace, the Port has extensive capital needs for the pier and roof repair programs and funds sub-projects within these programs as funding becomes available.

Table 3: Requested Capital Project Funds

PROJECT TITLE	Previously Approved Funds	Requested	Change
PORT ADA TRANSITION PLAN			
Port Labor	0	0	0
Port Materials/Supplies	0	0	0
Consultant Contracts	100,000	300,000	200,000
Construction Contracts	0	0	0
Subtotal, Port ADA Transition Plan	\$100,000	\$300,000	\$200,000
ROOF REPAIR PROGRAM			
Port Labor	0	0	0
Port Materials/Supplies	0	0	0
Consultant Contracts	0	50,000	50,000
Construction Contracts	300,000	1,625,224	1,325,224
Subtotal, Roof Repair Project	\$300,000	\$1,675,224	\$1,375,224
Pier 33/35 SUBSTRUCTURE			
Port Labor	0	0	0
Port Materials/Supplies	0	0	0
Consultant Contracts	0	0	0
Construction Contracts	1,100,000	3,000,000	1,900,000
Subtotal Pier 33/35 Substructure	\$1,100,000	\$3,000,000	\$1,900,000
PIER STRUCTURE REPAIR PROGRAM			
Port Labor	0	732,000	732,000
Port Materials/Supplies	0	0	0
Consultant Contracts	0	0	0
Construction Contracts	1,150,000	0	(1,150,000)
Subtotal, Pier Structure Repair	\$1,150,000	\$732,000	(\$418,000)
Total	\$2,650,000	\$5,707,224	\$3,057,224

According to Ms. Wallace, the Port will use Port staff rather than construction contractors to perform pier structure work, resulting in a FY 2013-14 savings of \$418,000, as shown in Table 3 above. Table 4 below shows the Port's FY 2013-14 labor costs of \$732,000.

Table 4: Proposed Labor Costs

	FY 2013-14	
	FTE	Salaries and Fringe Benefits
Pile Worker	3.85	\$500,707
Pile Driver Engine Operator	0.77	104,294
Pile Driver Supervisor I	<u>0.77</u>	<u>110,729</u>
Subtotal, Positions	5.39	715,730
Liability Insurance (approximate)		16,270
Total Project Funding		\$732,000

RECOMMENDATION

Approve the proposed ordinance.

Item 4
File 13-0448

Department:
Port of San Francisco

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would authorize the Executive Director of the Port of San Francisco to execute Amendment 6 to the existing architectural and engineering design agreement with KMD/Pfau Long for the Cruise Terminal project to increase the not-to-exceed amount by \$1,541,708 from \$9,950,000 to \$11,491,708.

Key Points

- The Port is in the process of development of a new cruise terminal at Pier 27 (Cruise Terminal project), which will be completed in two phases with a total estimated cost of \$114,010,711. Phase I of the Cruise Terminal project was completed on February 28, 2013. The Port plans to begin Phase II of the Cruise Terminal project on November 15, 2013 with an estimated completion date of August 30, 2014.
- The Port Commission originally approved the agreement with KMD/Pfau Long in November 2009 after a competitive solicitation to provide architectural and engineering design services and related professional services work for the Cruise Terminal project. The original agreement term was from December 16, 2009 through the end of the project. The original amount was not-to-exceed \$2,419,440.
- The existing agreement, which the Department of Public Works (DPW) administers, has been amended six times as the Cruise Terminal project progressed. The current agreement amount is \$9,950,000, of which \$9,115,144 has been expended to date with a remaining balance of \$834,856.

Fiscal Impacts

- The proposed increase in the agreement's not-to-exceed amount of \$1,541,708 includes \$1,041,708 for engineering and design services during the construction of Phase II of the Cruise Terminal Project and a contingency of \$500,000 due to uncertainties related to services needed for bidding and construction administration and design support for Phase II. The Cruise Terminal Phase I and Phase II budget, approved by the Port Commission in April 2013, includes \$11,491,708 for engineering and design contractual services, consistent with proposed agreement not-to-exceed amount.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

In accordance with Charter Section 9.118(b), City agreements with anticipated expenditures of \$10,000,000 or more, or amendments to such City agreements with anticipated expenditures of more than \$500,000, are subject to approval by the Board of Supervisors.

BACKGROUND

The Port is in the process of development of the new James R. Herman Cruise Terminal at Pier 27 (Cruise Terminal project), which will be completed in two phases. Phase I of the Cruise Terminal project, construction of the core and shell of the Cruise Terminal building, was completed on February 28, 2013. The America's Cup Event Authority began occupying the Cruise Terminal on March 18, 2013 and will continue to do so until October 31, 2013 when the 34th America's Cup events conclude. According to Ms. Meghan Wallace, Budget Manager for the Port, the Port plans to begin Phase II of the Cruise Terminal project on November 15, 2013 with an estimated completion date of August 30, 2014. Phase II consists of completion of the interior of the Cruise Terminal, including the development of an adjacent 2.5 acre waterfront park called the Northeast Wharf Plaza as well as the provision maritime amenities necessary to create a modern cruise ship terminal. The construction drawings for Phase II were completed and submitted for permitting approval by the Department of Building Inspection in early March, 2013. The final permit approval is still pending but is expected to be received in August, 2013.

Table 1 below summarizes the currently estimated \$114,010,711 in total costs of the Cruise Terminal project, by phase.

Table 1: Summary of Total Costs of the Cruise Terminal Project

	Phase I	Phase II	Total
Design, Engineering, Project Management, and Entitlement Costs	\$17,312,615	\$3,945,522	\$21,258,137
Construction	45,367,105	37,817,254	83,184,359
Construction Contingency (9% of total Construction Costs)	3,614,891	3,908,750	7,523,641
Project Contingency ¹ (5.4% of Phase II Construction Costs)		2,044,574	2,044,574
Total	\$66,294,611	\$47,716,100	\$114,010,711

¹ Ms. Wallace advises that the \$2,044,574 Phase II Project Contingency is intended to address uncertainties that could impact the Cruise Terminal project budget. Specific areas of concern pertain to (a) procurement of the gangways, (b) changing power supply needs, (c) increased construction costs due to the local construction climate, and (d) Federal Emergency Management Agency (FEMA) grant availability. With respect to the FEMA grant, the Port has requested an extension of the grant expenditure deadline from May 2013 to September 2014. FEMA has approved this grant extension but final approval awaits the Federal Office of Management and Budget's (OMB) review and approval. Additionally, whether the \$1,000,000 expense for construction of the Customs and Border Protection Offices at the Cruise Terminal is an eligible expense requires FEMA review and approval. If denied, the grant would not reimburse \$750,000 assumed in the project budget.

Sources of Funding for the Cruise Terminal Project

The funding sources for the Cruise Terminal project are summarized in Table 2 below, of which \$23,778,741, or 20.9 percent of the total \$114,010,711 sources of funding for the Cruise Terminal project, have not yet been approved by the Board of Supervisors. The Port introduced a \$34,722,930 supplemental appropriation of Port revenue bonds and other revenues to be considered by the Board of Supervisors on May 29, 2013, of which \$23,778,741 will be allocated to Phase II of the Cruise Terminal Project.

Table 2: Summary of Funding Sources for the Cruise Terminal Project

	Phase I	Approved Phase II Funding	Phase II Pending Board of Supervisors Approval (File 13-0482)	Total
Port Funding				
Port Watermark Sale Proceeds	\$20,134,078	-	-	\$20,134,078
2010 Port Revenue Bonds	\$13,190,699	-	\$2,126,326	\$15,317,025
Port Capital Funding	\$6,323,694	-	\$431,730	\$6,755,424
Port Operating Funding	\$295,905	-	-	\$295,905
Certificates of Participation (COPs)	\$20,584,701	-	\$1,689,074	\$22,273,775
2013 Port Revenue Bonds	-	-	\$19,531,611	\$19,531,611
COPs Savings from Phase I	-	\$464,059	-	\$464,059
Port Funding Subtotal	\$60,529,077	\$464,059	\$23,778,741	\$84,771,877
City Funding				
General Fund Contribution	\$4,900,000	-	-	4,900,000
2012 General Obligation (G.O.) Bonds	-	\$17,000,000	-	\$17,000,000
City Funding Subtotal	\$4,900,000	\$17,000,000	-	\$21,900,000
Other Funding Sources				
America's Cup Organizing Committee		\$800,000	-	\$800,000
FEMA Grants	865,534	5,673,300	-	6,538,834
Other Funding Sources Subtotal	\$865,534	\$6,473,300	-	\$7,338,834
Total Funding	\$66,294,611	\$23,937,359*	\$23,778,741*	\$114,010,711

* Total funding for Phase II is \$47,716,000

Existing Architectural and Engineering Agreement

The Port selected Kaplan, McLaughlin, and Diaz Architects and Pfau Long Architecture, a Joint Venture (KMD/Pfau Long) through a competitive solicitation process to provide architectural and engineering design services and related professional services work for the Cruise Terminal project. The Port Commission originally authorized the award of the existing agreement to KMD/Pfau Long on November 10, 2009 (Resolution No. 09-70) for an initial amount not to exceed \$2,419,440. The term of the original agreement was from December 16, 2009 through the end of the project. The agreement provided for future increases in the not-to-exceed amount for

additional architectural and engineering design services and related professional services work for development of the conceptual and schematic design. The existing agreement, which the Department of Public Works (DPW) administers, has since been amended six times as the Cruise Terminal project progressed. Table 3 below summarizes the six amendments to the existing agreement with KMD/Pfau Long along with the dates of Port Commission approval.

Table 3: Summary of Architectural and Engineering Design Agreement Amendments

	Date of Port Commission Approval	Not-to-Exceed Amount	Increase
Original Amount		\$2,419,440	n/a
Amendment 1	April 12, 2011	4,829,510	\$2,410,070
Amendment 2	July 12, 2011	8,110,903	3,281,393
Amendment 4	December 16, 2011	9,173,292	1,062,389
Amendment 5	April 24, 2012	9,950,000	776,708
Amendment 6 (Subject of Resolution)	December 11, 2012	11,491,708	1,541,708

The Port has transferred \$9,950,000 of funds previously appropriated by the Board of Supervisors to DPW to pay for the existing agreement with \$9,115,144 expended to date and \$834,856 unexpended.

Prior to the proposed Amendment 6, approval of the existing agreement and subsequent 5 amendments were not subject to Board of Supervisors approval because the agreement was less than \$10,000,000. Approval of Amendment 6, with a not-to-exceed amount of \$11,491,708 (See Table 3 above) is subject to Board of Supervisors approval.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Executive Director of the Port of San Francisco to execute Amendment 6 to the existing architectural and engineering design agreement with KMD/Pfau Long for the Cruise Terminal project, which was competitively bid, to increase the not-to-exceed amount by \$1,541,708 from \$9,950,000 to \$11,491,708.

Amendment 6 would provide \$1,541,708 in funding to KMD/Pfau Long for additional services needed for bidding and construction administration and design support for Phase 2 of the Cruise Terminal project, including (a) review of material submittals, (b) responding to public requests for information, (c) field inspection, (d) quality assurance, (e) design review, (f) coordination with regulatory agencies, and (g) permit coordination.

FISCAL IMPACTS

Table 4 below summarizes the requested additional \$1,541,708 increase in the existing agreement's not to exceed amount from \$9,950,000 to \$11,491,708. The proposed increase is consistent with the Cruise Terminal project budget.

Table 4: Summary of Requested \$1,541,708 Increase

Existing Agreement's Not-to-Exceed Amount	\$9,950,000
Construction Administration	1,041,708
Contingency ²	500,000
Proposed Amendment Increase	\$1,541,708
Total Proposed Not-to-Exceed Amount	\$11,491,708

The detailed planned uses of the \$1,041,078 in construction administration, which is the subject of the proposed resolution, have been reviewed and are reasonable. Ms. Wallace advises that any of the current funding sources (see Table 1 above) for Phase II of the Cruise Terminal project may be used to fund the additional \$1,541,708 except for the \$5,673,300 in FEMA grants noted above which are restricted from use due to a conflict between Federal contract rules required by the grantor, FEMA, and the City contracting rules that the Port followed during the bidding process.

RECOMMENDATION

Approve the proposed resolution.

² Ms. Wallace advises the \$500,000 contingency is required due to uncertainties related to services needed for bidding and construction administration and design support for Phase 2.

Items 5 and 6
Files 13-0488 and 13-0482

Department:
 Port

EXECUTIVE SUMMARY

Legislative Objectives

File 13-0482 is an ordinance appropriating \$34,722,930 in FY 2012-13 for the development of the Pier 27 Cruise Terminal Project and the Northern Waterfront Historic Pier Structures Repair Project.

File 13-0488 is a resolution authorizing the issuance of not to exceed \$25,300,000 aggregate principal amount of Port revenue bonds for the purpose of financing the Pier 27 Cruise Terminal Project and the Northern Waterfront Historic Pier Structures Repair Project.

Key Points

- The Cruise Terminal Project budget is \$114,010,711, of which funding of \$90,231,970 has been previously approved by the Board of Supervisors. The balance of \$23,778,741, which would be funded by the proposed ordinance, would fully fund the Cruise Terminal Project.
- The Port proposes implementation of the Northern Waterfront Historic Pier Structure Repair Project in which the Port will renovate and repair historic piers as funds become available. Priority projects include piers designated as America's Cup venues (Piers 19, 19½, 23, 27 and 29) and the Pier 31 shed, superstructure, apron and utilities.

Fiscal Impact

- The proposed ordinance would appropriate revenues of \$34,722,930, including \$25,265,500 in proposed revenue bonds and \$9,457,430 in surplus project funds.
- The proposed ordinance would appropriate expenditures of \$34,722,930, including \$23,778,741 to the Cruise Terminal Project, \$7,111,963 to the Northern Waterfront Historic Piers Repair Project, and \$3,832,226 to debt issuance costs.
- The Port estimates total annual interest cost of 4.53% on the proposed revenue bonds. Based on this interest rate, the Port estimates annual debt service on the proposed bonds of \$1.46 million. Over the 30-year term of the bonds, total estimated principal is \$24,270,500¹ and interest is \$18,996,854, totaling \$43,266,854.
- The Port issued revenue bonds of \$36,650,000 in 2010 and plans to issue revenue bonds of \$24,270,500 in 2013. The City will issue approximately \$38,460,000 in certificates of participation (COPs) in 2013 to pay for Port projects, for total debt of \$99,380,500
- Based on the Port's projections, the Port's debt service coverage ratio (ratio of annual net operating revenues to annual debt service) for previously issued and proposed debt, including revenue bonds and COPs would be approximately 2:94, exceed the 1:50 debt service ratio required by the Port's debt policy.

Recommendation

- Approve the proposed ordinance.

¹ Assumes that total bond issuance is \$24,270,500 with a minimum coupon size of \$5,000 to generate \$24,265,500 (and that \$1,000,000 reserve pending sale is not used).

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Charter Section 9.105 requires Board of Supervisors' approval of Annual Appropriation Ordinance amendments, after the Controller certifies the availability of funds.

Charter Section 9.107(4) and Administrative Code Section 43.12.5 authorize the Port Commission to issue revenue bonds for any Port-related purpose subject to Board of Supervisors approval.

DETAILS OF PROPOSED LEGISLATION

File 13-0482 is an ordinance appropriating \$34,722,930 in FY 2012-13 for the development of the Cruise Terminal Project at Pier 27 and the Northern Waterfront Historic Pier Structures Repair Project.

File 13-0488 is a resolution (a) authorizing the issuance of not to exceed \$25,300,000 aggregate principal amount of Port Revenue Bonds for the purpose of financing capital improvements related to Phase II of the James R. Herman Cruise Terminal Project located at Pier 27 and for improvements to Northern Waterfront Historic Piers; (b) authorizing the Port to cause the preparation of such documents necessary in connection with the issuance of said Port revenue bonds; (c) stating the official intent of the Port to reimburse itself with tax-exempt bonds for expenditures made or to be made for the acquisition, construction or improvement of the project; and (d) authorizing the Port to borrow funds on an interim basis from the City's commercial paper program; and related matters.

FISCAL IMPACT

Appropriation for the Pier 27 Cruise Terminal Project and Northern Historic District Piers (File 13-0482)

The proposed ordinance would appropriate \$34,722,930, which includes \$25,265,500 in proposed revenue bond proceeds (File 13-0488) and \$9,457,430 in other revenues, as shown in Table 1 below.

Table 1
Sources of Funds

2013 Port Revenue Bonds (File 13-0488)	\$25,265,500
Re-appropriation of 2010 Port Revenue Bonds	7,294,910
Re-appropriation of Certificates of Participation (COPs)	1,689,074
Re-appropriation from other Port projects	473,446
Total	\$34,722,930

According to Ms. Meghan Wallace, Port Budget Director, the re-appropriation of 2010 Port revenue bonds, COPS, and other Port capital project funds is possible due to lower than anticipated costs or cost savings from other projects, as follows:

- COPS savings of \$1,689,074 are due to reduced scope for Piers 30 and 32 improvements for the America's Cup team bases;
- Revenue bond savings of \$7,294,910 are due to lower than budgeted contract costs for various pier and Port facility improvements, reduced scope of Piers 30 and 32 improvements, and delays in improvements to Piers 19 and 23 and the Port's backlands project.
- Other Port project savings of \$473,446 are due to availability of Proposition K Sales Tax revenues.

The requested appropriation of \$34,722,930 would be used for the Pier 27 Cruise Terminal Project, the Northern Waterfront Historic Pier Structures Repair Project, and revenue bond issuance and related costs, as shown in Table 2 below.

Table 2
Uses of Funds

Cruise Terminal	\$23,778,741
Northern Waterfront Historic Pier Structures	7,111,963
Subtotal Project Uses	30,890,704
City Services Auditor	41,726
Issuance Costs (File 13-0488)	363,950
Debt Service Reserve (File 13-0488)	2,426,550
Reserve Pending Sale (File 13-0488)	1,000,000
Subtotal Issuance Costs	3,832,226
Total	\$34,722,930

Pier 27 Cruise Terminal Project (\$23,778,741)

The Board of Supervisors approved a resolution in May 2011 (File 10-0920), finding that the Port's proposed Pier 27 Cruise Ship Terminal Project is fiscally feasible. At the time of the finding of fiscal feasibility, the Port estimated total project costs of \$90,308,846, for which the Port had identified funding sources of \$78,393,200, leaving a shortfall of \$11,915,646.

As shown in Tables 3 and 4 below, the current Pier 27 Cruise Terminal Project budget is \$114,010,711, which is \$23,701,865 or 26.2% more than original project estimates of \$90,308,846. According to Ms. Elaine Forbes, Deputy Director of Finance and Administration, the increases in project costs are primarily due to an increase in construction costs because project scope was shifted from the America's Cup Event Authority (ACEA) to the Port, the addition of a gangway and other maritime elements necessary to service cruise calls, new storm water drainage amenities necessary to meet permitting requirement and updated cost estimates for the Northeast Wharf Plaza and other facility improvements. The project soft costs, including design, engineering, project management and entitlements, also increased in order to accommodate the additional scope of construction and permitting requirements. Additionally, a project contingency of \$2 million was added to the budget to address any remaining uncertainties that may impede project completion.

Table 3
Pier 27 Cruise Terminal Project Budget: Sources of Funds

	Phase I	Phase II	Total Secured Funding Sources	Phase II Pending Board of Supervisors Approval (File 13-xxxx)	Total
Port Funding					
Watermark Sale Proceeds	\$20,134,078		\$20,134,078		\$20,134,078
2010 Revenue Bonds	13,190,699		13,190,699	2,126,326	15,317,025
Port Capital Funding	6,323,694		6,323,694	431,730	6,755,424
Port Operating Funding	295,905		295,905		295,905
Certificates of Participation (COPs)	20,584,701		20,584,701	1,689,074	22,273,775
2013 Port Revenue Bonds			0	19,531,611	19,531,611
Phase I Savings		464,059	464,059		464,059
Port Funding Subtotal	60,529,077	\$464,059	60,993,136	23,778,741	84,771,877
City Funding					
General Fund Contribution	4,900,000		4,900,000		4,900,000
2012 G.O. Bonds		17,000,000	17,000,000		17,000,000
City Funding Subtotal	4,900,000	17,000,000	21,900,000	0	21,900,000
Other Funding Sources					
America's Cup Organizing Committee		800,000	800,000		800,000
FEMA Grants	865,534	5,673,300	6,538,834		6,538,834
Other Funding Sources Subtotal	865,534	6,473,300	7,338,834	0	7,338,834
Total Secured/Planned	\$66,294,611	\$23,937,359	\$90,231,970	\$23,778,741	\$114,010,711

The Port has secured funding of \$90,231,970, as shown in Table 3 above. The balance of \$23,778,741 is the subject of the requested supplemental appropriation.

Phase I of the Cruise Terminal Project, which constructed the core and shell of the Cruise Terminal building, was completed on February 28, 2013 at a cost of \$66,294,611, as shown in Table 4 below. Pier 27 and the Cruise Terminal serve as an America's Cup venue from March 2013 through October 2013.

Phase II of the Cruise Terminal Project, which constructs the interior of the Cruise Terminal and the adjacent Northeast Wharf Plaza, will begin in November 2013 with an estimated completion date of August 30, 2014. Funding for the Phase II budget of \$47,716,100, shown in Table 4 below, consists of \$23,937,359 of previously-secured funds (see Table 3 above) and \$23,778,741 in funds included in the requested supplemental appropriation.

According to Ms. Wallace, the total proposed supplemental appropriation of \$34,722,930 will provide \$23,778,741 to fully fund the Cruise Terminal Project.

Table 4
Pier 27 Cruise Terminal Project Budget: Uses of Funds

	Phase I - Actual	Phase II Budget	Subtotal
Construction Contract	\$45,367,105	\$37,817,254	\$83,184,359
Construction Contingency (9%)	3,614,891	3,908,750	7,523,641
Subtotal, Construction	48,981,996	41,726,004	90,708,000
Design, Engineering, Project Management & Entitlement	17,312,615	3,945,522	21,258,137
Total Uses	66,294,611	45,671,526	111,966,137
Project Contingency (5.4%) ²	0	2,044,574	2,044,574
Total Uses	\$66,294,611	\$47,716,100	\$114,010,711

Northern Waterfront Historic Pier Structure Repair Project (\$7,111,963)

The Port proposes implementation of the Northern Waterfront Historic Pier Structure Repair Project in which the Port will renovate and repair historic piers as funds become available. The Port proposes to use taxable revenue bonds to pay for the Pier Repair Project, for which the piers will be leased to private tenants. According to the May 10, 2013 Port memorandum, the Port has not developed specific proposals or budgets for renovation of the piers, and will submit specific projects to the Port Commission for review and approval when the proposed revenue bonds are issued in the fall of 2013.

Priority projects for the Northern Waterfront Historic Pier Repair Project are:

- Improvements to piers designated as America's Cup venues (Piers 19, 19 1/2 , 23, 27 and 29) for lease to private tenants after the conclusion of the America's Cup; and
- Repair of the Pier 31 shed superstructure, apron and utilities for lease to light industrial tenants.

Port Revenue Bonds (File 13-0488)

The Port requests authorization to issue not-to-exceed \$25,300,000 in revenue bonds to partially pay the costs of the Phase II Cruise Terminal Project and Northern Waterfront Historic Pier Structure Repair Project.

Table 5 below shows the Port's bond issuance and related costs of \$3,790,500 of the not-to-exceed \$25,300,000 in revenue bonds. Debt issuance costs include rating agency fees, costs of services provided by financial advisers, legal counsel, underwriters, and other costs. The reserve pending sale provides flexibility to address any changes in market conditions at the time of the sale of the revenue bonds.

² Ms. Wallace advises that the \$2,044,574 Phase II Project Contingency is intended to address uncertainties that could impact the Cruise Terminal project budget. Specific areas of concern pertain to (a) procurement of the gangways, (b) changing power supply needs, (c) increased construction costs due to a more local construction climate, and (d) Federal Emergency Management Agency (FEMA) grant availability. With respect to the FEMA grant, the Port has requested an extension of the grant expenditure deadline from May 2013 to September 2014. FEMA has approved this grant extension but final approval awaits the Federal Office of Management and Budget's (OMB) review and approval. Additionally, whether the \$1,000,000 expense for construction of the Customs and Border Protection Offices at the Cruise Terminal is an eligible expense requires FEMA review and approval. If denied, the grant would not reimburse \$750,000 assumed in the project budget.

Table 5
Bond Issuance Costs

Project Funding	\$21,475,000
Issuance Costs	363,950
Debt Service Reserve	2,426,550
Reserve Pending Sale	<u>1,000,000</u>
Subtotal Reserves & Issuance Cost	3,790,500
Total	\$25,265,500

Annual Debt Service

The Port estimates an interest rate of 4.53% on the proposed revenue bonds. Based on this interest rate, the Port estimates annual debt service on the proposed bonds of \$1.46 million. Over the 30-year term of the bonds, total estimated principal is \$24,270,500³ and interest is \$18,996,854, totaling \$43,266,854.

The Port previously issued \$36,650,000 in revenue bonds in 2010 to finance improvements to Piers 19, 23,33, 35 and 50; construction of Phase I of the Cruise Terminal Projects, and other Port projects. The City will issue approximately \$38,460,000 in certificates of participation (COPs) to pay for Phase I of the Cruise Terminal Project and other projects related to the America's Cup venues.⁴ If the proposed resolution is approved, the Port plans issuance of approximately \$24,270,500⁵ in revenue bonds in 2013, for total debt of \$99,380,500.

According to the Port's debt policy, the Port should (a) maintain a debt service coverage ratio (ratio of annual debt service to net operating revenues) of at least 1:50; and (b) an operating reserve equal to 15% of the annual operating expenditure budget. Based on the Port's projections, the Port's debt service coverage ratio for previously issued and proposed debt, including revenue bonds and COPs, would exceed the 1:50 debt service ratio, as shown in Table 6 below⁶.

Table 6
Debt Service Coverage Ratio FY 2013-14 through FY 2017-18

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Net Revenue	\$21,874,051	\$22,717,371	\$21,182,866	\$21,182,866	\$21,182,866
Annual Debt Service	\$6,553,972	\$7,216,530	\$7,209,251	\$7,209,835	\$7,209,979
Debt Service Ratio	3.34	3.15	2.94	2.94	2.94

Passenger Facility Charge and Port Bonding Capacity

The Port proposes to implement a Passenger Facility Charge at a future date to partially pay for the Cruise Terminal Project debt service. The Port currently imposes a \$12 per passenger charge

³ Assumes that total bond issuance is \$24,270,500 including a minimum coupon amount of \$5,000 to generate \$24,265,500 (and that \$1,000,000 reserve pending sale is not used).

⁴ The COPS would pay back commercial paper used to fund the projects.

⁵ Does not include \$1,000,000 for the reserve pending sale.

⁶ The Port's Five Year Financial Plan for FY 2013-14 through FY 2017-18 projects an annual operating reserve of 15%.

to cruise ships for dockage and other services. According to the Port's May 10, 2012 memorandum to the Port Commission, the Port proposes to add a Passenger Facility Charge of \$6 per passenger to the existing charge, resulting in a total charge of \$18 per passenger to the cruise ships. The proposed \$18 charge per passenger would be higher than other West Coast Ports except for Seattle, which charges \$18.12 per passenger.

According to Port estimates, the pending \$6 Passenger Facility Charge would generate an estimated \$1.2 million in additional annual revenues to the Port, which would be used as a source to pay the \$1.46 million annual debt service.

According to Ms. Forbes, if the Port implements the proposed Passenger Facility Charge, the Port would have remaining bonding capacity of \$47.6 million after the issuance of the proposed revenue bonds.⁷

Revenue Bonds and Commercial Paper

The Port does not plan to issue the revenue bonds until the fall of 2013. The proposed resolution authorizes the Port to prepare the documents, such as the bond official statement, that are necessary to issue the bonds. According to the Director of Public Finance, the resolution delegates authority to the Port Executive Director and Port Commission to finalize the bond documents prior to selling the revenue bonds.

Prior to issuance of the proposed revenue bonds, the Port will use commercial paper, issued by the City's Office of Public Finance, to pay for Cruise Terminal and Northern Waterfront Historic District Pier Repair projects to be funded by the proposed revenue bonds. The Office of Public Finance plans to submit legislation to the Board of Supervisors in July 2013 to approve the use of the commercial paper.

Certificates of Participation

In April 2012 the Board of Supervisors approved issuance of \$45,000,000 in COPs to pay for Port capital projects (Resolution 152-12), including \$20,584,701 (see Table 3 above) for Phase I of the Cruise Terminal Project. The Office of Finance has not yet issued the COPs. According to the Director of Public Finance, the City will issue the COPs in the summer of 2013, subject to approval by the Board of Supervisors of future legislation authorizing a jurisdictional transfer of Pier 27 from the Port to the City's General Services Agency Real Estate Division⁸.

RECOMMENDATION

Approve the proposed ordinance (File 13-0482) and resolution (File 13-0488).

⁷ The Port determines bonding capacity based on net revenues to service debt, as calculated pursuant to the Port's bond indenture, exceeding debt payments by at least a 2:1 ratio.

⁸ According to the Director of Public Finance, the City must have jurisdiction over Pier 27 because the City's credit rating is being used to issue the COPS.