



Port of San Francisco Five-Year Financial Plan

Fiscal Year 2010/11 – Fiscal Year 2014/15

April 23, 2010



Five Year Financial Plan Fiscal Years 2010-11 to 2014-15

Background

The Port of San Francisco is operated as an enterprise department of the City and County of San Francisco. The Port's property is located on the eastern side of San Francisco in Supervisorial districts 3, 6 and 10. The Port's property consists of public tidelands, which are held in trust for the people of California, pursuant to the Burton Act of 1969. As trustee, the Port is required to promote maritime commerce, navigation and fisheries, as well as to protect natural resources and develop recreational facilities for public use.

Port Area • The Port area consists of 7½ miles of mostly contiguous waterfront property adjacent to the Bay, from Hyde Street Pier in the northeast to India Basin in the southeast. The area includes more than 834 acres consisting of 629 acres of landside property and 205 acres of waterside property. The Port owns or has responsibility for the maintenance of a great number of capital assets, including 39 pile-supported pier structures, 80 substructures (of both piers and marginal wharves between piers), 245 commercial and industrial buildings, over 3 miles of streets and sidewalks, and elements of the utility infrastructure that support them, as well as drydocks, cargo cranes and heavy equipment used by the Port's maintenance division.

Port Activity & Employment • The Port is one of the most diverse ports in the nation. Commercial operations on Port property include restaurants, retail shopping, ferry service, commercial fishing, Bay excursions, harbor services, professional sports, bulk and breakbulk cargo, cruise ship calls, ship repair and much more. On an annual basis approximately 22 major public events are held at the Port. The Port estimates that approximately 24 million people visit or pass through the Port's facilities annually.

The Port is landlord to approximately 550 ground, commercial, retail, office, industrial and maritime industrial tenants, at several internally recognized locations such as Fisherman's Wharf, Pier 39, the Ferry Building, and AT&T Park (home of the San Francisco Giants). The majority of tenants at the Port are small to medium sized businesses. Port tenants operate tourism and entertainment venues, food and beverage outlets, concrete batching facilities, land and water transportation services, construction firms, storage facilities, commercial recycling operations, etc. The Port is also home to a sea lion sanctuary, a fleet of historic fishing vessels, a Fisherman's & Seaman's Memorial Chapel, a mechanical museum, an historic submarine, a WW II Liberty Ship, an artist colony, the only sandy beach on the east side of the city, a public boat ramp, a public dock, an expanding collection of waterside parks, an off-the-grid Eco Center, bird sanctuaries and the largest floating ship repair facilities on the Pacific Americas.

Generally, Port tenants account for approximately 9,500¹ private sector jobs not including self-employed workers who are not covered by State unemployment insurance law. Accommodation, Entertainment and Retail jobs represent the greatest share of total Port private sector employment. Technology and Business Services represents the second largest Port private employment and Logistics and Utilities represents the third largest sector.

Port Governance • The Port is governed by a 5-member Board of Commissioners, each of whom is appointed by the Mayor and subject to confirmation by the Board of Supervisors. The Port operates through 7 different divisions with approximately 206 FTEs. The Port is advised by 7 different community advisory committees.

The use of Port property and facilities, the rehabilitation and development of its assets, and its operations are all subject to a number of controls. The controls within which the Port must operate include those imposed by the Port’s Waterfront Land Use Plan, the San Francisco Bay Conservation and Development Commission (through its Seaport and Special Area Plans), the California Environmental Quality Act and other state environmental regulations, the California State Lands Commission (interpreting public trust law), the Burton Act, the Transfer Agreement, the San Francisco Board of Supervisors, the City Charter and Administrative Codes, federal regulation, Port tenants, and community interest groups, and certain Port piers, buildings and other structures are also subject to regulations due to their historic significance. Generally, the Port adheres to the policies, guidance and regulations of 14 separate local, regional, state and federal agencies.

Mission Statement • The Port’s mission statement summarizes the Port’s founding mandate contained in the State of California’s Burton Act:

The Port of San Francisco is a public enterprise committed to promoting a balance of maritime, recreational, industrial, transportation, public access and commercial activities on a safe, secure and self-supporting basis through appropriate management and development of the waterfront for the benefit of the people of the State of California.

Bond Covenants & Credit Ratings • In February 2010, the Port issued its first “new money” revenue bonds in 25 years. As such, the Port entered into long-term agreements with bondholders that require, among many things, the Port to maintain annual net revenues equal to 130% of annual debt service, maintain a 15% annual operating reserve and maintain a debt service reserve fund. The Port received the following long-term bond ratings:

Moody’s Investors Service, Inc.	A1
Standard & Poor’s Credit Ratings Services	A-
Fitch Ratings	A

¹ From *Quarterly Census of Employment and Wages for San Francisco, 2006*

Strategic Focus & Major Challenges

The Port operates under a broad set of strategic goals reflecting its diverse activities, interests, and value to the Port. Such goals range from protecting and promoting the Port's maritime industries, to attracting residents & visitors to the waterfront, managing the Port with operational and environmental safety and security, etc.

Strategic Focus:

The Port's strategic focus for fiscal years 2010-11 and 2014-15 are as follows:

Strategy #1 Ensure the long-term viability of the Port's 40-year history of passenger cruising by designing, financing and constructing a renewed cruise terminal at Pier 27, including the Northeast Wharf Plaza

A recent economic impact study prepared by Bay Area Economics concluded that the cruise ship industry in San Francisco supports approximately \$31.2 million annually in economic activity and generates 300 jobs within San Francisco. Nearly \$1 million in annual tax revenues is paid directly to the City. The majority of the Port's cruise vessels dock at Pier 35 which has a number of physical and structural deficiencies. Pier 35 is not well-suited to service the Port's current cruise customers and, as passenger counts for new vessels continue to grow, will become unable to serve new classes of cruise vessels.

A new, state of the art, sustainable, multi-use cruise terminal is planned at Pier 27 on The Embarcadero across from Lombard Street. Pier 27 was selected by a Blue Ribbon panel as the most viable location for an upgraded cruise terminal capable of servicing the projected growth in cruise vessel size and passenger volumes. This is a public works project that includes (1) converting the existing pier and maritime shed for use as a primary single berth cruise terminal, (2) constructing the two acre Northeast Wharf Plaza on the western corner of Pier 27 along The Embarcadero edge, (3) creating a viable and efficient vehicular circulation program and (4) building in multi-use functionality to secure revenue-generating activities on non-cruise days. The Port has retained the Department of Public Works as project manager who in turn competitively selected a design team led by the joint venture team of KMD Architects and Pfau Long Architecture in association with cruise terminal design consultant, Bermello Ajamil & Partners.

The Port hopes to conclude design in FY 2010-11 and conclude its entitlement process in FY 2011-12. The Port anticipates construction to commence in FY 2012-13 and conclude in FY 2013-14. The Port's 5-year fiscal plan does not assume any new revenue growth from the Pier 27 terminal project.

Strategy #2 Protect and promote San Francisco as the import/export center for bulk and neo-bulk cargo markets

There are 5 public ports and 1 private port on the San Francisco Bay serving the Bay Area. The Port of San Francisco competes in the bulk and neo-bulk cargo markets. San Francisco's leading cargo is imported construction aggregates shipped in from Canada. The Port also handles neo-bulk cargoes such as steel coils, rebar, structural steel, lumber and project cargoes. San Francisco's construction industry is bolstered through the movement of construction materials

directly in and out of San Francisco by ship, rather than trucking them across the Bay Bridge. The ability to bring such cargoes directly into the Port serves to contain construction prices as well as lessen the number of truck trips and environmental impacts within the City.

San Francisco owns one of the last remaining ocean terminals in the Bay Area handling non-containerized general cargo. The Port must aggressively market the facility to leading shippers with the expectation that cargo volumes will begin to increase as the economy improves. Key targets include a potentially significant opportunity to serve as a national distribution for import automobiles. Additionally, there is strong market interest for exporting iron ore and other raw materials to supply the steelmaking industries in China and other Asian countries. This factor, as well as President Obama's push to double exports in five years, could position the Port to develop infrastructure for the export of bulk commodities. The Port's deep-water berths, freight rail infrastructure and available industrial space are well-suited for supporting this activity.

If properly marketed, the Port projects annual cargo shipping revenue of approximately \$4.5 million in 2011, rising to \$5.4 million in 2015, representing approximately 4% revenue growth per year. As one of the key Bay Area ports handling construction materials, San Francisco is positioned favorably to supply major Bay Area infrastructure projects such as the eastern span of the Bay Bridge, Transbay Terminal, California High-Speed Rail project, SFPUC capital projects in San Francisco, Mission Bay Redevelopment project and Doyle Drive reconstruction.

Strategy #3 Ensure the highest possible commercial utilization of Port property to generate sufficient revenue to continue to self-fund the Port's Mission

Commercial leasing accounts for 73.3% of the Port's annual operating revenues. In addition to being a large contributor to the City's tourism industry, the Port also provides affordable rental property to hundreds of small businesses, non-profit organizations and industrial tenants that may otherwise locate outside of the City.

Although diversified in terms of the numbers of users, several categories of Port tenants represent a larger share of Port revenues than do others. Rent from the Port's diversified industrial tenants represent approximately 27% of such revenues. The Port's industrial portfolio consists of over 200 tenancy agreements and represents approximately 50% of all Port real estate lease agreements. These tenants could relocate outside of the Port since their businesses are not water dependent.

As economic conditions continue to improve over the next five years, and the City's 2009 Eastern Neighborhoods Plan is implemented, the Port must strategically respond to "Production Distribution & Repair ("PDR" or "light industrial") needs to capture higher utilization of Port properties in the Southern Waterfront. The Piers 90-96 Backlands contain 23 acres of undeveloped land that can support trucking, industrial and cargo activities. Responding to desires for an Eco-Industrial Park in this area, the Port will continue working with existing tenants and attract new tenants to co-locate industrial uses to enable by-product exchange, incorporate green design and green technologies to foster resource recovery and reduce industrial environmental impacts. The Port is working with the Department of Public Works to design and construct improvements to the Piers 90-96 Backlands using \$8 million in 2010 revenue bond proceeds.

Strategy #4 Attract public and private development partners to restore Port properties for both economic viability and preservation of historic assets

The Port's Waterfront Land Use Plan (Waterfront Plan) was founded on the principle that the Port and City's public investment required to restore the Port's property, including its historic resources, is too costly, and that outside capital is needed to accomplish the goals of the Waterfront Plan. These "public-private partnerships" deliver mixed use development projects restoring historic properties on the waterfront and building on Port vacant land such as the Ferry Building and AT&T Ballpark. Under this model, the Port utilizes competitive processes to select private development partners who bring private equity, real estate and development acumen, and a vision for a mixed use development project. Port adds its expertise taking a lead role in the development process through negotiation of a Lease Development and Disposition Agreement and a Lease and through a series of development approvals, including the Board of Supervisors, the California State Lands Commission and the Bay Conservation and Development Commission.

This model has yielded notable successes, including AT&T Ballpark, the Ferry Building, Pier 1, the Rincon Restaurants and Piers 1½-3-5. Through these efforts, Port staff and the Port Commission have learned a great deal about the combination of uses, including maritime, retail, and office uses, with robust public access, that lead to regulatory approval of historic rehabilitation projects constructed in accordance with Secretary of Interior Standards for Historic Rehabilitation.

In the past several years, the Port has developed additional public finance tools to augment the public-private partnership model. The Port has secured the legislative authorization to form Infrastructure Finance Districts (IFDs) through state legislation and the opportunity to secure funding equivalent to 75% of future local taxes generated at Pier 70 (through November 2008's Proposition D). These are additional tools the Port will deploy to enhance its primary public-private partnership model.

Currently the Port expects to execute a lease with the Exploratorium in 2010 and commencement of construction at Pier 15 shortly thereafter. The Port is in negotiations with private developers for Seawall 351 and Seawall 337. The Port anticipates offering portions of Pier 70 for to secure a private development partner. These projects, when implemented, are expected to generate over \$50 million in state and local taxes and over \$2 billion in regional economic activity. Successful reuse of Pier 70 would fulfill \$545 million of the Port's identified capital repair needs representing over a quarter of all capital repair needs identified in the Port's FY 2011-2020 Ten-Year Capital Plan Update.

Strategy #5 Provide opportunities for residents of San Francisco and the region as well as visitors to connect with the waterfront through continued creation of public access and open space improvements.

With the adoption of the Port's Waterfront Land Use Plan in 1997, the Port began the process of reconnecting San Francisco with its waterfront. The plan called for the creation of a continuous waterfront walkway linking the various historic resources and adjacent neighborhoods with the 7½ miles of San Francisco bay front. Since plan adoption, the Port has developed the Embarcadero Promenade which links Fisherman's Wharf to South Beach and AT&T Ballpark.

Several major open spaces have been constructed along the promenade including Rincon Park and the Pier 14 pedestrian pier adjacent to the Ferry Building.

In 2000, the Port reached agreement with the San Francisco Bay Conservation and Development Commission on a Special Area Plan (SAP). The SAP focused on areas of the Port to be designated for marine activities. It also indicated where major new public open spaces would be developed. Over the next five years the Port must deliver on the promised open spaces. Specifically, the Port is partnering with The Exploratorium at Piers 15-17 to create 110,000 square feet of public access including a 32,000 square foot plaza. Construction begins this summer.

In addition, Port staff, working with DPW, must complete the designs for the Brannan Street Wharf (65,000 sq. ft.) in South Beach, the Heron's Head Park expansion (2 acres) in the Bay view and the Pier 43 Promenade in Fisherman's Wharf (400 linear ft.) in FY 2010-11. All three projects are funded through 2008 Proposition A General Obligation bond funds and are to be constructed in FY 2010-11. The Port must also move forward with several other projects as part of the Blue Greenway that are in the planning process which will use Proposition A funds.

In addition, four other parks are in the early design phase and the Port must work to start construction before the FY 2014-15. Three are located on Terry Francois Blvd. in Mission Bay and are being developed by the Redevelopment Agency. The Northeast Wharf Plaza is a two acre park in the northern waterfront and must move forward as part of the Pier 27 cruise terminal project.

Strategy #6 Promote environmental sustainability in new development projects and Port operations to protect public health and the environment and to support the commercial and recreational viability of the waterfront

The Port is engaged in ongoing redevelopment of its properties. These types of project typically proceed in phases from site characterization through design and construction, and require adherence to a multitude of environmental, land use, and other regulatory requirements. Redevelopment also offers the opportunity to incorporate cleanup of historic environmental contamination (often referred to as brownfields) as well as leading edge environmental strategies and best management practices in new construction.

San Francisco is a leader in the development of environmental policy and the Port is in a position to implement these policies throughout the waterfront. The Port is developing a green building policy that reflects City policy and requirements, as well as the specific needs and opportunities posed by waterfront development. Green building practices that can be implemented in upcoming development include reuse of existing structures, recycling existing materials, selecting sustainable materials, water and energy efficiency, use of renewable energy, and operational and waste management strategies.

The Port has recent experience implementing such practices and is incorporating these and others into future projects. In 2007, the San Francisco Public Utilities Commission and the Port installed 1292 solar PV panels on the roof of the Pier 96 shed. Funded by the U.S. Environmental Protection Agency, the Bay Area Air Quality Management District and the San Francisco Public Utilities Commission, the Pier 27 shore-side power project will be among the

first clean energy projects for the cruise industry on the west coast. Each ship that connects to the shore-side power system will save approximately 16 tons of fuel and reduce diesel emissions by approximately 140 pounds. Current and anticipated development projects will meet a minimum LEED Silver certification. Reuse of existing structures is among the most effective green building strategies. The Port's anticipated redevelopment of the Pier 70 area offers the opportunity to clean up and rehabilitate dozens of uniquely valuable historic buildings and return them to economically productive and publically accessible use.

The Port is nearly finished with an effort, originating in the City's Climate Action Plan, to identify sources and locations within the 7.5 miles of waterfront where the greenhouse gas emissions are greatest. This offers the opportunity to focus emission reduction efforts efficiently and effectively.

Major Challenges:

Meeting the criteria of the Port's Mission and to continue to serve the City economically and enhance San Francisco's attractiveness, is not without significant challenges. Challenges directly affecting the Port's ability to achieve its Strategic Focus include the following ongoing issues.

Challenge #1 The Port's portfolio consists of aged infrastructure exacerbated by deferred maintenance

The majority of the Port's infrastructure is more than 75 years old and is heavily impacted by the marine environment and general wear & tear. The Port has calculated a cost of \$2.1 billion to adequately repair its portfolio. However, the Port has only identified \$688 million in potential funding sources to address these issues. In the Port's 5-year Fiscal Plan, the Port anticipates spending an annual average of \$9.5 million in operating revenues on maintenance and capital plans. Maintenance challenges for the Port tend to be related to the need to replace the piles supporting the piers and the aprons that surround the pier sheds. These parts of the piers tend to degrade most rapidly because they are repeatedly exposed to wet-then-dry conditions due to tidal and storm movement of the Bay waters. Unfortunately, the Port has already lost 15 piers completely. Additionally, over the past five years, the Port has had to condemn two piers when the piles became deteriorated to such an extent that it would be unsafe for the Port's tenants to continue to use the piers. Numerous other piers have been subject to severe weight restrictions thereby limiting their revenue generation. As the Port's "challenged" properties continue to deteriorate and are taken off-line, it will be critical for the Port to either repair these facilities or create other new areas that will replace lost revenue-sites.

Challenge #2 The Port's tenants are susceptible to and impacted by changes in economic conditions

The Port does not offer a singular service or product such as safety protection or water. While the Port's contributions to the City's economy are numerous, the demand for Port facilities is fairly elastic and susceptible to negative changes in the Bay Area economy. The Port's ability to adhere to its strategies is reliant on its ability to generate the revenues to fund them. Challenging economic conditions have a direct impact on the revenues of Port tenants and therefore the Port itself.

Port vacancy rates have closely followed rates of vacancy in the City real estate market. The more dramatic swings can be attributed to large Port properties coming onto or off of the market, whether because of completion of construction or renovation, or because of temporary or long-term closure of facilities in need of renovation. Further, when large properties such as Piers 27, 29, and 31 have been scheduled for development, there is typically less leasing activity because the Port is only able to offer short lease terms to prospective tenants.

Challenge #3 Costs to maintain, repair, beautify and enhance Port facilities are high

Given the age of most of the Port's infrastructure and its location over water, costs to maintain, repair, beautify and enhance Port facilities are greater than costs of equivalent landside facilities. As a result, the Port's limited dollars do not buy as much improvement as they would landside. While the historic and cultural value of many of the Port's buildings are a great asset, removal of hazardous materials and restoration to applicable standards for historic preservation make them much more costly to maintain, repair and reuse. Additionally, the high cost basis often results in a disincentive for existing tenants to perform improvements or for developers to make investment in the Port's infrastructure. At those properties that are being redeveloped (such as the Pier 27 cruise terminal or the Pier 15 Exploratorium project), significant tenant revenues will be disrupted and/or lost during construction and as a result of the new use as existing tenants are permanently displaced from these facilities. The Port will make every effort to retain current tenants and find them replacement space, but in some cases some tenants unfortunately will have to relocate off of Port property.

Challenge #4 Freight Rail infrastructure serving the Port is inadequate to serve cargo growth

One of the Port's key targets for cargo movement is a potentially significant opportunity to serve as a national distribution for import automobiles. However, in order to secure such an importer, the Port will need to move automobile cargo inland via efficient and expedient rail service. Currently, there is inadequate rail infrastructure serving the Port for such cargo, including rail tunnel clearance on the Union Pacific Railroad peninsula line just south of its cargo terminals. Additionally, plans for Caltrain electrification and/or California High Speed Rail services are proposed to limit allowable heights for railed cargoes.

Financial Operations

Revenues • The Port of San Francisco is an enterprise department, and as such, receives no revenue from taxes, instead it must generate all its operating funds and the majority of its capital funding through Port operations. The Port's revenue sources fall into three main categories:

1. Maritime
2. Real Estate
3. Other

Port operating revenues are derived from real estate and maritime operations. Real estate revenues, which are made up of ground leases and other short and long-term leases of Port property to non-maritime industrial, commercial, retail, office and other business enterprises, are projected to comprise approximately 78.5% per annum of Port operating revenues in the next 5 years. Maritime revenues, which are derived from cargo shipping (dry and liquid bulk cargo, and break bulk cargo), dry dock and ship repair services, passenger cruise ship activities, warehousing, harbor services, commercial fishing and other miscellaneous maritime activities, are projected to comprise approximately 18.4% per annum of Port operating revenues. The bulk of Port revenues are rental revenues derived from long-term leases of Port facilities, providing a practical constraint on the Port's ability to increase annual revenues absent tenant turnover or capital investment in the creation or improvement of rental facilities. Other sources of funding available to the Port, used primarily for capital projects, include grants, Port Commission revenue bond proceeds, City general obligation bond proceeds, Infrastructure Financing District bond proceeds, tax increment revenue, tenant contributions and developer partner equity.

Expenses • The Port's Operation and Maintenance Expenses include the following costs: personnel, office expenses, utility costs, materials and supply costs, discretionary expenses, litigation expenses, payments made to the City for services of other City departments, and other general operating expenses. Any repair and maintenance activity of the Port relative to its facilities that does not extend the useful life and/or expand productive capacity of a capital asset is charged to operating expense.

Reserve Policy • In February 2008, the Port Commission adopted Resolution 08-12 which directs the Port to annually budget a 15% operating reserve defined as a percent of operating expenses.

Capital Plan • All of the piers currently in use by the Port or Port tenants were originally constructed around 100 years ago. Of those, only nine have been rehabilitated since 1950, including AT&T Ballpark, the Ferry Building, Pier 1, Piers 1½, 3 & 5, Pier 27, Pier 39, Pier 45, Pier 48, and Pier 80. Most of the buildings atop the Port's piers are 40 to 100 years old, making many of them historically significant structures.

The FY 2011-20 update of the Port's 10-year capital plan identifies a total need of approximately \$2.1 billion, primarily for deferred maintenance and seismic upgrade work required on Port facilities. Of the \$2.1 billion in total need, the Port has identified a total of \$688 million in funding including: Port tenant obligations, the Port's annual operating budget, revenue bonds, development projects, Infrastructure Financing District bonds, General Obligation bonds, and the Water Resources Development Act of 2007. The largest element of the Port's Plan is the

rehabilitation and redevelopment of the heavily blighted Pier 70 area, with an estimated need of approximately \$650 million for that area.

The Port has developed policy options to address the unfunded portion of its plan including use of grant funds, tax increment financing and potential private development options. In November 2008, San Francisco's voters approved Proposition D which provides an option for the Board of Supervisors to capture general fund money equal to up to 75% of the payroll and hotel tax increment generated by future Pier 70 development to help fund Pier 70's immense public infrastructure and improvements.

As the Port focuses on delivery of revenue bond and general obligation bond funded projects over the next five years of the Plan, it is clear that the Port must leverage currently available sources of land-based finance (revenue bonds, infrastructure financing districts, community facility districts) with other sources of public and private funding to gap-finance its projects. This strategy will strengthen the Port's balance sheet in preparation for major projects at SWL 337 and Pier 70 that will require the Port to take on substantial new debt envisioned by the Capital Plan. Toward that end, Port staff is aggressively pursuing federal funding, including \$20 million in U.S. Army Corps of Engineers funding authorized by Congress in the Water Resources Development Act but not yet appropriated to specific projects. The Port is also pursuing state funding in the form of AB 1199, a bill that would permit an IFD at Pier 70 to capture the state's share of tax increment at Pier 70.

The Port's recent ability to utilize the public resources of Infrastructure Finance Districts and other tax increment financing facilitated by Proposition D, private development on SWL 337 enabled by SB 815, inclusion of Port parks in a City General Obligation Bond, and federal funding of waterfront projects constitutes a beginning to a more financially sound and sustainable Port of San Francisco.

Five Year Forecast

Fiscal Years 2010/11 – 2014/15

REVENUE AND EXPENSE FORECAST
FISCAL YEARS 2010/11 THRU 2014/15
(in thousands)

	Budget <u>09/10</u>	Budget <u>10/11</u>	Budget <u>11/12</u>	Forecast <u>12/13</u>	Forecast <u>13/14</u>	Forecast <u>14/15</u>
Sources						
Estimated Fund Balance	\$16,723	\$18,564	\$20,550	\$18,500	\$18,500	\$18,500
Revenue						
Maritime	12,232	12,004	13,103	13,842	14,084	14,311
Real Estate	49,845	53,083	54,181	56,281	60,689	63,078
Other	1,800	1,810	2,064	2,265	2,530	2,663
General Obligation Bonds	13,557	16,217	-	-	-	-
Port Revenue Bonds	-	-	59,458	-	-	-
Interest Earnings Restricted for Capital Projs.	1,623	-	-	-	-	-
Total Sources	<u>\$95,780</u>	<u>\$101,679</u>	<u>\$149,356</u>	<u>\$90,888</u>	<u>\$95,803</u>	<u>\$98,552</u>
Uses						
Operating Expense	\$54,785	\$58,603	\$61,190	\$62,713	\$64,436	\$66,484
Total Debt Service	\$4,703	\$3,075	\$3,077	\$7,240	\$7,196	\$7,146
Annual Projects	\$4,213	\$4,712	\$3,400	\$3,500	\$4,500	\$4,500
Revenue Funded Capital Appropriations	\$9,600	\$9,557	\$12,543	\$7,200	\$9,000	\$9,000
Bond funded Capital Appropriations	\$13,557	\$16,217	\$59,458	\$0	\$0	\$0
Unappropriated Operating Reserve	<u>\$8,922</u>	<u>\$9,514</u>	<u>\$9,689</u>	<u>\$10,236</u>	<u>\$10,671</u>	<u>\$11,421</u>
Total Uses	<u>\$95,780</u>	<u>\$101,679</u>	<u>\$149,356</u>	<u>\$90,888</u>	<u>\$95,803</u>	<u>\$98,552</u>
Unappropriated Operating Reserve as a Percent of Operating Expense	15%	15%	15%	15%	15%	16%

Five Year Revenue Assumptions Fiscal Years 2010/11 – 2014/15

Cargo

Revenue assumes that the Port's stevedoring company, Metro Ports, will continue as terminal operator at Pier 80, break-bulk volumes will be down in FY 2010-11 and increase slowly through FY 2014-15. Revenue sharing payments to Metro Ports included as an expense from FY 2010-11 and revenue is budgeted at gross level.

Vessel revenues for existing tenants handling sand/aggregate and tallow are based on lease minimums.

Cargo Facilities Rent reflects FY 2010-11 budgeted tenancies with scheduled increases and CPI adjustments assumed at 0.50% for FY 2011-12, 1% for FY 2012-13, 2% for FY 2013-14 and FY 2014-15. Two major leases require market rate adjustments in FY 2012-13 and revenue assumes an increase to parameter rate.

Ship Repair

Rent revenue consists of lease "base rent" with stepped increases effective January 2013 and includes no percentage rent overage payments. The Ship Repair lease provides for \$3 million in credits over ten years against percentage rent overages for tenant improvements to the drydock. Gross yard revenues projected at \$40 million annually. Business is subject to subcontracting issues and government contracts.

Harbor Services

Rents are based on existing tenancies adjusted for scheduled increases with one tenant increasing by \$600,000 in FY 2011/12. Dockage is variable and assumed to be flat through 2014-15.

Cruise

Cruise revenues reflect anticipated declines in FYs 2010-11 and 2011-12 with improvement in calls and passengers in FY 2012-13. Revenue assumes Pier 35 will remain the primary cruise terminal through 2015.

Fishing

It is assumed that the Pier 45 and other fish processing spaces will continue to be fully occupied. For budget years after FY 2010-11, CPI adjustment is assumed at 0.50% for FY 2011-12, 1% for FY 2012-13, 2% for FY 2013-14 and FY 2014-15. Because of the impact of regulatory issues that have shortened or closed fishing seasons, fish dockage reflects current berthing levels with only increase from annual Port tariff CPI adjustment.

Other Marine

This revenue category is composed of ferries, boatworks, marinas, ceremonial and idle ship berthing (Marad ships) as well as miscellaneous layberth activity. Dockage revenues include three Marad vessels through calendar 2014 and continued layberth activity. Rent revenues are based on existing tenancies and for budget years after FY 2010-11, CPI adjustment is assumed at 0.50% for FY 2011-12, 1% for FY 2012-13, 2% for FY 2013-14 and FY 2014-15. Pier 38

Maritime Recreation Center is included at minimum rent. Landing fees assume a 15% increase in July 2010 and July 2011.

Commercial/Industrial

Commercial/Industrial rents are based on existing tenancies. CPI assumption for annual base rental are 0.5% in FY 2010-11, 1% in FY 2011-12, 2% in FY 2012-13, FY 2013-14 and FY 2014-15. Waterfront development opportunities such as Piers 15-17, the Pier 27 Cruise Terminal, Backlands and Pier 19 are considered for the Five-Year Plan. The Exploratorium project at Piers 15-17 is projected to start construction in July 2010. Pier 27 Cruise Terminal construction is projected to start in January 2012. Most of the current tenancies at Pier 27 are anticipated to be able to relocate to other Port facilities. Trans Bay Cable is anticipated to go operational in FY 2010-11. As a result, the incremental annual revenue increase will be \$1,000,000. Overage rents for FY 2010-11 are anticipated to decrease by 16% compared to FY 2008-09 actual and projected to remain flat in FY 2011-12, then gradually increase by 2% in the subsequent years.

Parking

Revenue reflects significant increases between 20% - 37% for the upcoming years. CPI increase of 0.5% is included in FY 2010-11 budget. For budget years subsequent to FY 2010-11, CPI assumption is the same as Commercial/Industrial for all applicable leases. Effective January 2010 and April 2010, two new parking operators will assume operations at SWLs 301, 314, 321, 322-1, 323 and 324. As a result, parking revenue budget is anticipated to increase by \$1,414,000, or 20% in FY 2010-11 compared to FY 2009-10. Parking Meter revenue is forecast to increase by 26% compared to FY 2008-09 actual as a result of the new parking meter program. The new parking meter program permits flexible pricing based on parking demand.

Special Events

Revenue is derived from special events held in various Port facilities. Revenue is expected to remain stable based on demand for waterfront locations for events.

Miscellaneous Services

This revenue is variable. Projection is based on recent trends with no increase.

Facility Improvements

This category includes revenue from facility damage, tenant services, permits and miscellaneous repairs. The revenue estimate includes an increase in FY 2011-12 driven by increased building permit revenues. Construction activity is projected to increase as the local economy improves with the projected easing of the current recession.

Negotiation Fees

The fees are paid by developers for the exclusive right to negotiate on Port development projects. The revenue is projected to decline as the larger projects are already underway.

Interest & Services Charges

Interest revenue is derived from projected cash balances and spend down schedules consistent with the Port's Capital Budget. Interest rate assumptions are developed by Port financial staff based on present economic trends.

Five Year Expense Assumptions Fiscal Years 2010/11 – 2014/15

Salaries & Fringe Benefits

Salaries assume an overall salary increase of 2% annually. Fringe benefits are projected to increase 4% annual.

Other Operating Expenses

Assumes an annual inflation rate of 3%.

Materials and Supplies

Assumes an annual inflation rate of 3%.

Equipment

Based on the 10 year vehicle replacement plan for cars and light trucks at \$450,000 per year as well as the replacement of one major maintenance vehicle every 3 years at \$250,000. An additional \$75,000 is projected in each year for all other equipment needs.

Debt Service

Based on the current debt repayment schedules for the Port's Revenue Bonds, Series 2010, and the California Department of Boating and Waterways loan. In February 2010, the Port issued \$36.7 million in Revenue Bonds Series 2010 A & B and anticipates issuing \$59.5 million in additional revenue bonds in 2012.

Services of Other Departments

Assumed to increase by an annual inflation rate of 3%, with the exception of the following departments:

Fire Department	Assumes 8% annual inflation
PUC	Assumes 4% annual inflation
Police	Assumes 8% annual inflation

Interdepartmental Recovery

Recovery of costs for providing services to other City Departments, primarily specialized maintenance services.

Revenue Transfer Out

Funding for DPT to provide PCO enforcement services. Assumes 5% annual inflation.

Organization

The Port's high level organization chart of operational staffing is as follows:

Port of San Francisco

