



**To:** Honorable Mayor Edwin Lee  
**From:** Monique Moyer, Port Executive Director *Monique Moyer*  
**Date:** April 30, 2014  
**Re:** Proposition B, June 2014 Analysis – Port 10-Year Capital Plan

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At the request of the San Francisco Planning Department, Port staff has prepared the enclosed analysis of Proposition B which will be before voters on the June 3, 2014 ballot. This analysis is focused on potential impacts of the measure on the Port's 10-Year Capital Plan ("Capital Plan").

### **Summary of Findings**

In analyzing the impacts of the measure on the Port's Capital Plan, the Port arrived at the following findings:

- It is too early to determine the Capital Plan impact of a voter approval requirement for height increases on current or future Port development projects.
- Public-private development projects represent nearly 43 percent of the total funding identified in the Capital Plan.
- A requirement for voters to approve height increases will likely increase the risk profile of affected waterfront projects, and may increase the cost of developer equity for such projects which could reduce public benefits, Port benefits or project revenues.
- Project sponsors are likely to seek any required voter approval early in project planning to avoid risking too much capital before voters approve height changes.
- Passage of Proposition B may cause project sponsors to redesign projects at lower heights in order to increase the likelihood of obtaining voter approval, which could reduce public benefits and Port benefits or project revenues.
- The Port's industrial southern waterfront comprising 175 acres is largely zoned at 40 feet. Prior development analysis indicates that the low-rise, single-story industrial development in this area is not economically feasible. A voter approval requirement to increase heights could cause this property to remain underutilized

for an extended period.

### Port of San Francisco 10-Year Capital Plan

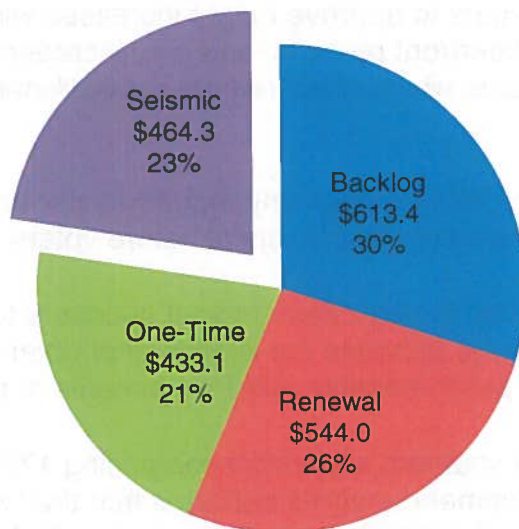
The Port of San Francisco’s 10-Year Capital Plan, which is updated annually, represents the guiding document for the Port’s capital investments, and provides an assessment of capital needs, the investment required to meet those needs, and a plan to finance them.

The current Capital Plan identifies a total need of just over \$1.59 billion over the ten-year period, primarily for deferred maintenance and subsystem renewal work required on Port facilities. This \$1.59 billion need is shown in Figure 1 and includes:

- Estimated \$544.0 million for capital renewal, which represents the amount needed over the next ten years to maintain facilities in a “state-of-good-repair”;
- Estimated \$613.4 million backlog for deferred maintenance and repair of existing facilities; and
- Estimated \$433.1 million for other one-time expenses (e.g. non-cyclical or code-related expenditures).

In addition, the Capital Plan includes \$464.3 million for investments in seismic improvements, which may or may not be required to comply with the Port Building Code during the ten-year period. As such, this conditional seismic expense is itemized separately from the base \$1.59 billion Capital Plan need.

**Figure 1 – Port Capital Need Estimate, 2015-2024  
(\$ millions)**



## Plan of Finance

The Capital Plan, adopted on February 11, 2014, projects total revenues of \$1.14 billion from existing and potentially new sources that could be available during the ten-year period. Such revenue sources could be applied to the \$1.59 billion of capital need. This leaves a funding gap of \$921 million of repair need, and up to \$385.8 million of conditional seismic.

On April 21, 2014, the Golden State Warriors announced plans to move the multi-purpose arena proposal from Piers 30-32 to the former Salesforce site in Mission Bay. This decision reduces identified sources in the Port's Capital Plan from \$1.14 billion to \$976 million (the "Adjusted Plan of Finance"). The \$976 million addresses state of good repair needs in the amount of \$573 million and provides enhancements in the amount of \$403 million. The Adjusted Plan of Finance, which relies on both internally- and externally-generated revenue sources, projects funding for 36 percent of today's projected repair need.

***Internally-generated funding sources*** are those sources that are primarily within the Port's control. Internal fund sources for capital projects are described below, and together are projected to generate \$419.3 million over the next ten years. This equates to 43 percent of the Port's total funding sources, or 26 percent of the Port's total needs:

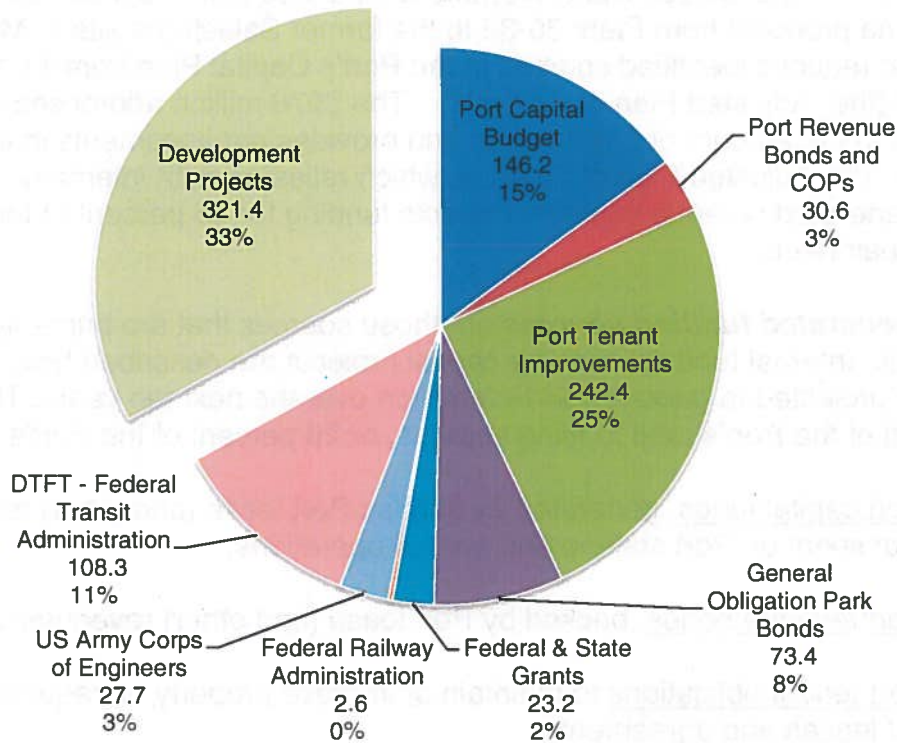
- (1) Port capital funds, generated by surplus Port lease (and other) revenues that are not spent on Port staffing and annual operations;
- (2) Port revenue bonds, backed by Port lease (and other) revenues; and
- (3) Port tenant obligations to maintain or improve property as required under Port tenant leases and agreements.

***Externally-generated funding sources*** represent those sources that require some form of partnership with an external party in order to be realized. The Capital Plan projects \$556.5 million to be externally generated over the next ten years presented in the categories below. These externally generated funding sources equate to 57 percent of the total funding sources identified in the Port's Adjusted Plan of Finance, or 35 percent of the Port's total needs:

- (1) Public-private partnership development projects (see Figure 2 below);
- (2) City general obligation bonds (primarily for parks and open space projects);
- (3) A portion of new property taxes generated by public-private developments within a designated Infrastructure Finance District; and
- (4) Grants from regional, state and/or federal agencies.

Development projects represent 33 percent of the Port’s projected capital funding in the Adjusted Plan of Finance (reduced from 43 percent prior to the Warrior’s move to Mission Bay):

**Figure 2 – Revised Capital Plan, All Funding Sources (\$ millions)**



**Public-Private Development Projects Included in the Capital Plan**

The location and setting of the Port’s land and property assets make them very valuable, but the Port’s land value is constrained by the waterfront regulatory setting and the condition of the Port’s assets.

Through the public-private development process, the Port, City and general public seek to improve the waterfront to support maritime, public open space, environmental restoration, historic preservation, public safety needs and improvements, and to address the challenges of climate change. Developers, private businesses and non-profit entities seek to locate new business, commercial and cultural establishments along the waterfront. Because Port and City resources alone cannot support all waterfront needs, public-private development partnerships play a very important role as a means to delivering more public benefits than can be provided through the other sources described above.

The Port of San Francisco Waterfront Land Use Plan (Waterfront Plan), adopted in 1997, sets the vision and land use policies for Port-owned lands. The Waterfront Plan embraces and promotes a diverse mix of maritime, public, commercial, cultural, and residential uses that draw from the character of San Francisco's colorful neighborhoods and districts. The Waterfront Plan also recognizes the important role that public-private partnership projects play in realizing this character of development, which mix private uses (e.g. retail, restaurants, entertainment, office, and residential) with amenities that are valued by the public (e.g. historic preservation, parks, plazas, access to ferries, water taxis, kayaks, and public art and exhibits).

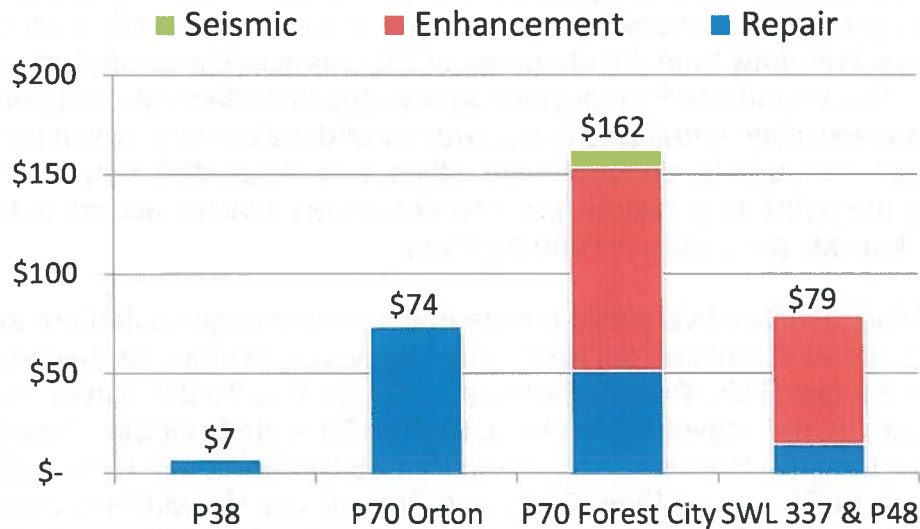
The Capital Plan identifies five public-private development projects that are anticipated to be initiated and/or completed during the next ten years: (1) Pier 38 Bulkhead Building Rehabilitation Project (TMG Pier 38 Partners, LLC), (2) Pier 70 20<sup>th</sup> Street Historic Buildings Project (Orton Development Inc.), (3) Pier 70 Waterfront Site Project (Forest City California, Inc.), (4) Seawall Lot 337 and Pier 48 Rehabilitation Project (Seawall Lot 337 Associates, LLC), and (5) Piers 30-32 and Seawall Lot 330 Multi-Purpose Arena and Mixed Use Project (Golden State Warriors, LLC). As stated above, the Golden State Warriors have relocated their proposed project to Mission Bay. The next update of the Capital Plan will be adjusted accordingly.

Private financing of project elements that provide benefits to the public, whether by reducing the Port's existing backlog of repair needs for its public assets or by producing enhancements that provide direct public benefits, are reflected in the externally-generated funding projections in the Capital Plan. The following types of improvements provided in public-private development projects are included in the Capital Plan:

- (1) New streets, utilities and sustainable infrastructure;
- (2) New and/or expanded waterfront parks and public access;
- (3) Seismic and structural rehabilitation and reuse of historic waterfront buildings;
- (4) Seismic and other repairs to the seawall; and
- (5) Sea level rise adaptation improvements



**Figure 3 – Development Project Allocation of Capital Spending: Seismic, Enhancement, and Repair**



*All amounts in \$ millions*

Public-private development projects equate to \$322 million of funding sources, representing nearly 33 percent of the total funding identified in the Capital Plan, adjusted for removal of the Warriors’ project at Piers 30-32. These development projects would generate revenues applicable to expenditures for state-of-good-repair needs (\$146.2 million), and a combination of enhancements and seismic work (another \$175.2 million). Development projects represent 26 percent of the funding for state-of-good-repair, which totals \$573 million. As such, development projects constitute the second largest funding source for repairs in the ten-year period of the Capital Plan, about the same amount provided from the Port’s own capital budget and revenue bonds. The vast majority of enhancements that are contemplated by the development projects are investments in new, publicly-owned parks and infrastructure, largely to support new neighborhoods planned at Seawall Lot 337 and Pier 70 as well as broader City and regional demand for public open space. In several locations a portion of expenditures will also address seismic conditions.

Collectively, these and other development projects described in the Capital Plan remain the principal drivers of potential waterfront improvements, representing 26 percent of the state-of-good-repair funding (\$146.2 million of \$572.5 million) in this year’s plan and 43 percent of the proposed capital enhancements (\$175.2 million of \$403.3 million) in the ten-year period. Development projects may continue to play a major role in addressing the Port’s remaining unfunded repair needs (\$1.02 billion).

The funding projections reflected in the Capital Plan are predicated on the creation of Infrastructure Finance Districts (IFD), which allow a portion of new property tax revenues from new development projects to be captured by the Port to finance new streets, utilities and other publicly-owned infrastructure. IFD financing is very similar to the tools that were used by the former San Francisco Redevelopment Agency to finance

the conversion of industrial lands in Mission Bay and Rincon Point-South Beach into the mixed use neighborhoods that exist today.

### **Projects Affected by Proposition B**

The initiative measure impacts waterfront property held only by the Port. Privately held waterfront property or waterfront property owned by entities other than the Port, generally located north of Fisherman's Wharf, south of India Basin, and interspersed among the Port's property on the southeast side of the City, are not subject to the initiative measure.

Of the Port's current planned development projects, two sites require a proposed height increase which would require voter approval if Proposition B is adopted: Seawall Lot 337 and the Pier 70 Waterfront Site. The details of these projects are presented in Exhibit 1: Affected Projects. In general, historic rehabilitation projects, such as the Pier 38 Bulkhead Rehabilitation Project or the Pier 70 20<sup>th</sup> Street Historic Buildings Project would not be affected by the proposed measure.

It is too early to determine the ultimate impact of a voter approval requirement for rezoning of height on the two affected Port development sites or future projects, but Port staff makes the following observations:

1. The need for an affirmative vote of the people increases the risk profile of a project, and may increase the cost of developer equity for waterfront projects which in turn could reduce public benefits, Port benefits or revenues of the projects.
2. Project sponsors are likely to seek voter approval early in the project planning stage, in order to avoid spending too much capital on project planning before voters weigh in on proposed height changes.
3. Current or future project sponsors may redesign projects at lower heights in order to increase the likelihood of obtaining voter approval, which could have the effect of reducing public benefits or project revenues and benefits to the Port.
4. The Port's large industrial southern waterfront, including 175 acres at Pier 80 and Piers 94-96 – the largest and most undeveloped area of the Port – is largely zoned at 40 feet. Prior development analysis of the Piers 94-96 Backlands site indicates that the low-rise industrial development dictated by the existing height limit is likely to be economically infeasible in these areas. Accordingly, productive use of these lands may be complicated by a voter approval requirement to increase heights, which could cause this property to remain underutilized for an extended period.





**Exhibit 1: Summary of Current Port Waterfront Projects  
that Would Be Affected by Proposition B**

|  | <b>SWL 337 &amp; Pier 48 Project</b>   | <b>Pier 70 Waterfront Site</b>   | <b>Pier 70 Illinois &amp; 20th Street</b>  | <b>Total</b>   |
|--|--|--|--|--|
| <p><b>Total Development Program</b><br/>Note: Both Seawall Lot 337 and the Pier 70 Waterfront contemplate a flexible zoning approaches within a fixed overall development program.</p> | <p><b><u>SWL 337</u></b></p> <ul style="list-style-type: none"> <li>• 3.5 million SF development</li> <li>• 650-1,300 housing units</li> <li>• up to 1.7 million SF of Class A office and R&amp;D space (would reduce to accommodate more residential)</li> <li>• 150,000-250,000 SF of retail space</li> <li>• Accessory parking</li> </ul> <p><b><u>Pier 48 (1)</u></b><br/>181,200 SF light industrial use (proposed tenant is Anchor Brewing), including 10,000 SF of retail</p> | <ul style="list-style-type: none"> <li>• 3.25 million gross square feet (GSF)</li> <li>• 950-2,000 housing units</li> <li>• up to 2.25 million GSF of Class A office and R&amp;D space (would reduce to accommodate more residential)</li> <li>• 400,000 GSF of retail and arts and innovation space</li> <li>• Accessory parking</li> </ul> | <ul style="list-style-type: none"> <li>• Approximately 215 residential units on the Illinois &amp; 20th Street parcel</li> <li>• 7,700 SF of retail</li> </ul> |  |
| <b>Open Space</b>  | 8 acres of new publicly accessible parks and open spaces, including new 5 acre China Basin Park  | 7 acres of new publicly accessible parks and open spaces, including new 4.5 acre Waterfront Park   | Unknown  | Approximately 15 acres of new open space   |
| <b>Total Housing Units</b>   | 650-1,300 units  | 950-2,000 units  | 215 units  | 1,600-3,300 units  |
| <b>New Affordable Housing (2)</b>  | <ul style="list-style-type: none"> <li>• Minimum 15% inclusionary on-site for residential; fee-out for condominiums</li> <li>• 98-196 affordable units, depending on the total residential units</li> </ul>  | <ul style="list-style-type: none"> <li>• Minimum 15% inclusionary on-site for residential; fee-out for condominiums.</li> <li>• 170-400 affordable units with 80/20 bonds, depending on the total residential units</li> </ul>   | <ul style="list-style-type: none"> <li>• Minimum 15% inclusionary on-site for residential; (assumed) fee-out for condominiums.</li> </ul>                      | 268 – 596 affordable units + offsite fees (see affordable housing fees under Development Fees below) |

|                              | <b>SWL 337 &amp; Pier 48 Project</b>  | <b>Pier 70 Waterfront Site</b>   | <b>Pier 70 Illinois &amp; 20th Street</b>  | <b>Total</b>   |
|------------------------------|---|--|--|--|
| <b>Historic Preservation</b> | <ul style="list-style-type: none"> <li>Rehabilitation of Pier 48 which is contributing resources to the Embarcadero Historic District</li> <li>Port project proceeds to fund rehabilitation of other piers in the Embarcadero Historic District (pursuant to SB 815 - Senator Carole Migden)</li> </ul> | <ul style="list-style-type: none"> <li>Rehabilitation of Buildings 2, 12 and 21 which are contributing resources to the proposed Pier 70 Historic District</li> <li>Tax increment and Port project proceeds to fund rehabilitation of other Pier 70 historic resources (pursuant to AB 418 - Assemblymember Tom Ammiano and AB 1199 - Assemblymember Tom Ammiano)</li> </ul> |  | <ul style="list-style-type: none"> <li>Pier 48</li> <li>Buildings 2, 12 and 21 at Pier 70</li> <li>Ongoing funding streams for the Port's historic finger piers and Pier 70</li> </ul> |
| <b>Maritime</b>              | Apron improvements to Pier 48; new personal watercraft entry point to the Bay   | Port project proceeds to fund Pier 70 Shipyard (pursuant to AB 418 and AB 1199)  |  | Rehabilitation of one pier resulting in 3 berths for a range of maritime uses  |
| <b>Jobs</b>                  | <ul style="list-style-type: none"> <li>10,100 direct, indirect and induced construction jobs</li> <li>11,100 direct, indirect and induced permanent jobs</li> </ul>   | <ul style="list-style-type: none"> <li>14,300 direct, indirect and induced construction jobs</li> <li>18,000 direct, indirect and induced permanent jobs</li> </ul>  | 300 direct and indirect jobs   | <ul style="list-style-type: none"> <li>24,700 direct, indirect and induced construction jobs</li> <li>29,100 direct, indirect and induced permanent jobs</li> </ul>                    |
| <b>Sustainability</b>        | <ul style="list-style-type: none"> <li>Designed to address sea level rise</li> <li>Type 1 Eco-District</li> <li>LEED Gold Buildings</li> <li>Stormwater controls</li> </ul>   | <ul style="list-style-type: none"> <li>Designed to address sea level rise</li> <li>Type 1 Eco-District</li> <li>LEED Gold Buildings</li> <li>Stormwater controls</li> </ul>  | <ul style="list-style-type: none"> <li>LEED Gold Buildings</li> <li>Stormwater controls</li> </ul> |  |
| <b>Development Fees</b>      |   |  |  |  |
| Affordable Housing (3)       | \$32,729,000  | \$50,607,000   | \$10,288,000   | \$93,624,000   |

|   | <b>SWL 337 &amp; Pier 48 Project</b>  | <b>Pier 70 Waterfront Site</b>  | <b>Pier 70 Illinois &amp; 20th Street</b>   | <b>Total</b>   |
|---|---|---|---|--|
| Transit   | \$18,364,000  | \$28,074,000  | \$102,000   | \$46,540,000   |
| Child Care  | \$1,424,000   | \$2,423,000   | \$0   | \$3,847,000  |
| <b>Port Harbor Fund (4)</b>                             | Projected \$1.56 billion in base rent (no less than \$3.5 million annually) plus participation rent over 4 phase development with 75 year lease terms<br>NPV of \$133,000,000                                       | Projected \$6.9 billion from various project sources (including participation rent) over 4 phase development with 99 year lease terms<br>NPV of \$153,000,000   | Value of Illinois & 20 <sup>th</sup> Street is used to pay for Waterfront Site predevelopment costs (est. \$20 mil) | Base and participation rent with a projected net present value of \$286 million to the Port's Harbor Fund  |
| <b>Port Capital Needs (5)</b>                           | <ul style="list-style-type: none"> <li>\$14,300,000 for Pier 48 state-of-good-repair improvements</li> <li>\$64,600,000 for enhancements (parks, streets, and utilities) and non-Pier 48 seawall repairs</li> </ul> | <ul style="list-style-type: none"> <li>\$51,300,000 for state-of-good-repair (Buildings 2, 12 and 21)</li> <li>\$110,600,000 for enhancements (parks, streets, and utilities) and seismic-related work</li> </ul> |   | <ul style="list-style-type: none"> <li>\$65,600,000 in state-of-good repair</li> <li>\$175,200,000 in enhancements and seismic improvements</li> </ul> |
| <b>City General Fund Annual Revenues</b>                | \$10,720,000  | \$15,347,000  | \$332,000   | \$26,399,000   |
| <b>Other City Dedicated Revenue Annual Revenues (6)</b> | \$2,323,000   | \$2,558,000   | \$92,000  | \$4,973,000  |
| <b>Property Tax Annual Revenues (7)</b>                 | \$8,453,000   | \$10,776,000  | \$618,000   | \$19,847,000   |

**Sources:**

"Seawall Lot 337 and Pier 48 Development Project, Findings of Fiscal Feasibility," Economic and Planning Systems, Inc. March 8, 2013

"Pier 70 Waterfront Site and Illinois Street Parcel Development Projects, Findings of Fiscal Feasibility," Economic and Planning Systems, Inc. May 21, 2013

Item 8B Ten-Year Capital Plan FY 2015-2024 Port Commission Staff Report, February 11, 2014 Meeting

Item 11A Seawall Lot 337 and Pier 48 Term Sheet Port Commission Staff Report, February 26, 2013 Meeting

Item 10A Pier 70 Waterfront Site Term Sheet Port Commission Staff Report, May 28, 2013 Meeting

**Notes:**

1. Development of Pier 48 is not expected to be affected by Proposition B. Calculations of taxes, fees and jobs in this table include both Seawall Lot 337 and Pier 48.
2. Affordable units are affordable to residents making 55% of Area Median Income, based on Proposition C, which requires that 15% of units on publicly-owned property are affordable (as opposed to 12% for private property).
3. Includes both Jobs-Housing Linkage Fees charged to commercial uses and off-site fees in lieu of inclusionary, on-site affordable housing units charged to residential uses.
4. Projections of rent for the Seawall Lot 337 development and the Pier 70 Waterfront Site development are complicated by 1) deal structures that allow the Port to participate in project success in multiple ways, and 2) multiple phase development over 15-20 years, with very long-term leases (75 years at SWL 337, and 99 years at Pier 70). The net present value (NPV) calculations of rent are perhaps the best way to understand the value of these potential agreements to the Port's Harbor Fund.
5. Includes direct project-related investment in Port facilities; excludes future revenue streams that are dedicated by law (SB 815 or AB 418) to Port capital needs that fall outside the ten year planning window for the Port's Ten-Year Capital Plan.
6. Other City Dedicated Revenue Annual Revenues means 80% of the Parking Tax (which accrues to the San Francisco Municipal Railway), the Public Safety Sales Tax, and the SF County Transportation Authority Sales Tax.
7. Subject to Board of Supervisors approval, property tax revenues shown in this row are likely to be captured by an Infrastructure Financing District to pay for project-related infrastructure and public improvements.