



MEMORANDUM

January 23, 2026

TO: MEMBERS, PORT COMMISSION
Hon. Gail Gilman, President
Hon. Stephen Engblom, Vice President
Hon. Willie Adams
Hon. Steven Lee
Hon. Ken McNeely

FROM: Michael Martin
Acting Executive Director

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SUBJECT: Informational Presentation on the Port of San Francisco's Proposed Fiscal Year (FY) 2026-27 and FY 2027-28 Biennial Budget Priorities.

DIRECTOR'S RECOMMENDATION: Information Only – No Action Required

EXECUTIVE SUMMARY

The Port of San Francisco manages 7.5 miles of waterfront, serving as a vital economic and public asset for the City and County of San Francisco (City) and State. As an enterprise department operating without General Fund support, the Port relies on its own revenues to maintain public trust lands, invest in critical infrastructure, and provide safe, accessible spaces that drive citywide economic activity.

This item provides an overview of the Port's high-level priorities, policy direction, and financial considerations for the proposed biennial budget for Fiscal Years (FY) 2026-27 and FY 2027-28, which advances the Port's Strategic Plan and aligns with Mayor Daniel Lurie's priorities, as detailed in his budget instructions to City departments. Through targeted operating and capital investments, the budget focuses on the following strategic goals and objectives:

- Exceptional Services – Deliver a safe, clean, and well-managed waterfront; modernize Port operations and systems; maintain strong tenant, community, and financial stewardship.
- Economic Growth and Evolution – Expand and activate the Port’s maritime, real estate, and visitor-serving portfolio to create jobs, support housing and local businesses, reliable public transit, and strengthen the waterfront economy.
- Resilience and Sustainability – Protect waterfront communities and infrastructure from climate, flood, and seismic risks; advance sustainability initiatives; invest in long-term adaptation strategies.
- Equity and Public Engagement – Expand opportunities for residents, workers, and visitors; increase access to waterfront parks and public spaces; foster inclusive engagement and partnerships.

The Port’s biennial budget is developed through a transparent process that includes public review and Port Commission input prior to submission to the Mayor’s Office. This process ensures that public input and Port Commission feedback are incorporated into the proposed budget, reinforcing transparency and accountability.

Port staff will return on February 10, 2026, to present the proposed budget, including funding levels, major changes, staffing impacts, and alignment with the Mayor’s budget instructions.

STRATEGIC OBJECTIVES

The Port’s FY 2026-27 and FY 2027-28 biennial budget advances both the Port’s Strategic Plan and Mayor Daniel Lurie’s priorities, which include:

1. Making the City more affordable and livable for families
2. Ensuring safe and clean streets
3. Stabilizing reliable public transit
4. Transforming our health and homelessness systems
5. Delivering excellent core city services with modern systems and structures
6. Strengthening the City’s economy

Through targeted investments in staffing, services, programs, and capital projects, the budget supports all the Port’s strategic goals and objectives, as detailed below.

See *Attachment I: Alignment of Port Strategic Goals with Mayoral Priorities*.

CITY BUDGET OUTLOOK

The Port's proposed biennial budget is being developed within the context of the City's broader fiscal environment. The City is navigating both structural and cyclical pressures that affect how resources are allocated, requiring careful planning to maintain financial sustainability while continuing to deliver essential services to residents, businesses, and visitors. Understanding these challenges provides important context for the Port's budget priorities and its role in supporting citywide objectives.

Economic Conditions and City Budget Pressures

The City's fiscal landscape is shaped by a combination of structural and cyclical factors that are contributing to a substantial General Fund deficit over the current two-year budget cycle, including:

- Structural budget gaps, driven by expenditures growing faster than ongoing revenues, particularly for personnel and benefits
- Rising costs for core services, including public safety, public health, homelessness services, and transportation infrastructure
- Economic volatility, given reliance on property, sales, and tourism-related taxes
- Growing demand for affordable housing and social services, which continues to exceed available resources
- Inflation and cost-of-living pressures, increasing both operating and capital costs
- Long-term pension and retiree health obligations
- Competing needs for capital investment, including climate and seismic resilience, and modernization of City systems

Late 2024 forecasts projected a cumulative General Fund shortfall of approximately \$876 million across FY 2025-26 and FY 2026-27, with the imbalance expected to grow in later years if unaddressed. More recent estimates place the deficit closer to \$936 million, with long-term projections exceeding \$1 billion due to persistent structural cost drivers.

General Fund Balancing Measures

In response to the projected General Fund shortfall, the Mayor's Office has directed City departments to identify approximately \$400 million in permanent, ongoing savings to the General Fund beginning in FY 2026-27. The current approach emphasizes sustainable savings while preserving essential services. Departments have been asked to focus on:

- Reducing ongoing General Fund expenditures

- Eliminating or restructuring discretionary programs to prioritize core functions
- Eliminating vacant positions and tightly controlling hiring
- Reviewing and reducing non-personnel and contracted service costs
- Reorganizing departmental structures around critical service delivery
- Providing detailed financial and operational information, including analysis of grant-funded and externally supported programs

This strategy reflects a shift firmly away from one-time budget balancing measures toward long-term structural solutions, efficiency improvements, and modernization of City service delivery.

PORT ECONOMIC CONTRIBUTIONS

As highlighted in the *Port's 2025 Impact Report*, the Port is more than a collection of piers, wharves, parks, and maritime facilities. It is a dynamic edge of the City where commerce, recreation, and public life converge—from historic Fisherman's Wharf and the Ferry Building to the evolving Southern Waterfront.

The Port does not receive General Fund operating budget support. Revenues deposited into the Harbor Fund must be reinvested in waterfront operations and capital improvements in accordance with the Burton Act and generally cannot be used to offset City General Fund shortfalls, except to the extent the Port pays for and receives City services. Consistent with prior years, the Port's proposed budget includes approximately \$40 million in work-ordered funds for City services, such as Fire Department fire boat and inspection services, City Attorney legal support, and citywide services through an allocation of overhead costs to the Port (COWCAP).

Although not subject to General Fund reduction targets, the Port contributes directly to the City's fiscal health through the economic activity generated on the waterfront. As one of the most popular places to work, play, and travel in the City, Port property supports visitor spending, business activity, employment, and tax revenues that flow to the City's General Fund. Improvements in the Port's economic activity directly contribute to the City's vibrancy and financial health. The Port's success is inextricably intertwined with the success of our General Fund partner agencies, and as such, Port staff intends to continue engaging with the Mayor's Office during the budget process to find ways the Port's work can help protect the City's ongoing recovery.

Visitor Economy and Waterfront Impact – The Port is a gateway to San Francisco's tourism and visitor economy:

- Fisherman's Wharf, Pier 39, the Ferry Building, and the Embarcadero are among the City's most visited destinations.

- Waterfront activity supports jobs in hospitality, retail, transportation, and small businesses throughout San Francisco.
- Investments in public access, waterfront parks, and visitor amenities enhance the City's appeal and encourage repeat visitation.
- The Port's investments in its cruise business have brought robust tourist spending to the City, even as domestic and international tourism has failed to recover to pre-pandemic levels.

Direct Contributions to the General Fund – Economic activity generated on Port property contributes to the General Fund through multiple revenue streams, including:

- Sales tax revenue generated by visitor spending,
- Possessory interest taxes paid by private tenants on Port property, and
- Cruise activity, with economic studies estimating that each cruise call generates approximately \$1 million in local economic activity, equating to \$85-90 million annually.

Strategic Investments – The Port's budget advances strategic investments and activities that strengthen both the waterfront and Citywide outcomes:

- Maintaining and modernizing revenue-generating assets,
- Supporting maritime and industrial uses that sustain middle-wage jobs,
- Enhancing public access and public spaces to attract visitors,
- Advancing climate resilience and state-of-good-repair projects to protect long-term value in Port and adjacent City assets, and
- Addressing the deterioration of the Port dry docks to reduce Port liability risk while reopening those berths for development of new maritime business

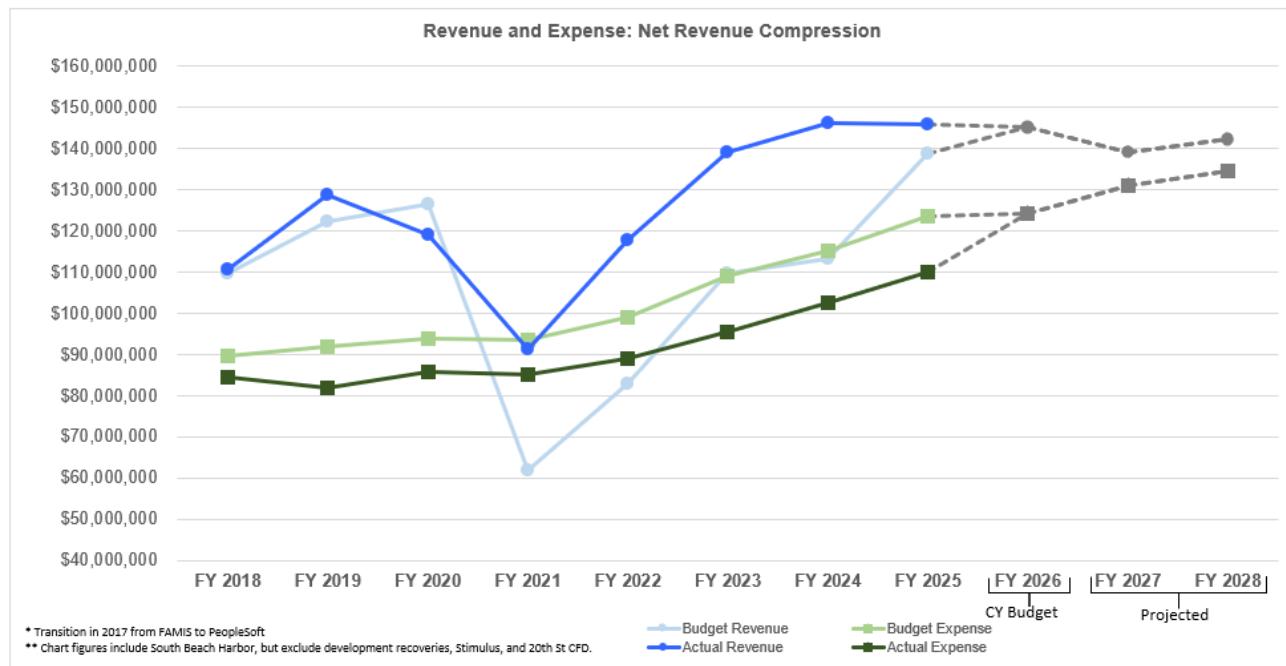
Through these investments and activities, the Port grows its financial sustainability while directly supporting the City's economic recovery and fiscal stability, reinforcing its role as both steward of state trust lands and partner in San Francisco's long-term success.

POR T BUDGET OUTLOOK

While the Port operates as an enterprise department supported by its own revenues, the Harbor Fund is subject to many of the same structural and cyclical pressures affecting the City's General Fund. As illustrated in **Figure 1**, these pressures, most notably the impacts of the COVID-19 pandemic 2020-2023, have contributed to a long-term pattern of revenue volatility alongside steadily rising operating costs, creating the potential for structural gaps if not carefully managed.

The Port's fiscal outlook for FY 2026-27 and FY 2027-28 remains generally stable but constrained as the Port maintains a conservative posture in revenue growth. Following the recent post-pandemic recovery period, operating revenues are projected to level off, reflecting moderation in real estate and maritime activity, timing-related program transitions, and increased reliance on temporary interest earnings rather than sustained underlying growth. At the same time, operating expenditures continue to rise, driven primarily by personnel costs, interdepartmental services, and other core operating obligations.

Figure 1: Port Budget vs. Actuals - Historic Trends and Projections



The decline in net operating revenues results in Figure 1 illustrates a decline in funding that is available for reinvestment in capital, reserves, and long-term asset maintenance. This becomes particularly challenging in longer-term projections, as the rate of growth in expenditures continues to exceed revenue growth. While these projections are purposely and prudently conservative, these trends underscore the need for disciplined expenditure management, and targeted strategic investments to maintain financial stability while advancing the Port's long-term priorities, including preserving strong cash reserves and addressing the Port's approximately \$1.9 billion capital backlog.

While the Port is currently in a strong cash position because of deliberate savings during and following the pandemic, upcoming capital investments are projected to draw down excess reserves, and future capital spending is expected to decline substantially. Improving net operating income is therefore critical to maximizing resources dedicated to state-of-good-repair needs and ensuring those funds are invested strategically to support both Port and Citywide objectives.

Accordingly, the Port is focusing on initiatives designed to strengthen the operating revenue outlook over time, including growth in cruise activity, implementation of updated leasing delegated authority provisions to bring new tenants online more quickly, and targeted investments in growing the Port's Blue Economy tenant portfolio. Through these actions, the Port will continue to play an active role in maintaining a safe, clean, and vibrant waterfront while safeguarding its long-term financial sustainability.

POR T BUDGET PRIORITIES

Against the larger fiscal and citywide context, the Port's FY 2026-27 and FY 2027-28 biennial budget prioritizes investments that maintain a safe, welcoming, and economically vibrant waterfront. Funding supports the delivery of exceptional core services, operational modernization, resilience and sustainability, inclusive public access, and engagement with residents, tenants, and visitors. These priorities directly advance the Port's Strategic Goals while reinforcing Mayor Lurie's vision for a safe, thriving, and equitable San Francisco.

Exceptional Services: A Safe, Well-Managed, and Efficient Waterfront

Recognizing that people are the heart of the city, the Port ensures the waterfront is secure, accessible, and well-maintained for residents, tenants, and visitors. Operational modernization is advancing through initiatives such as the Port Modernization Technology Project and PermitSF, which improve service delivery and efficiency. Investments in staffing, regulatory compliance, and financial management ensure responsible stewardship of Port resources, enabling reliable and high-quality services that support citywide safety and well-being. Examples include:

- Adequately staffing the Maintenance Division to support day-to-day cleaning and ongoing maintenance of the public realm and Port facilities.
- Maintaining safety and security through on-site staff and coordination with City partners, such as SFPD and the Fire Department.
- Administering leases, engaging with tenants, and managing revenue to sustain financial and operational stability.
- Upgrading permitting, asset management, and operational systems to improve efficiency and responsiveness.
- Strengthening tenant and community relationships while sustaining financial performance.

Economic Growth and Evolution: Supporting Jobs, Tourism, and Local Businesses and Improving Affordability

Strengthening the waterfront economy is essential to the Port's financial sustainability and its contribution to citywide recovery. The Port advances San Francisco's economic recovery by creating vibrant waterfront destinations that benefit residents and visitors alike. Through waterfront leasing, maritime activity, and cultural programming, the Port generates jobs and strengthens the local economy. Major initiatives, such as Fisherman's Wharf Forward and new housing at Seawall Lot 330, Mission Rock, and Pier 70, contribute to affordability, community vibrancy, and sustainable citywide growth. Examples include:

- Stabilizing and growing revenue-generating maritime and real estate assets to support the Port and City's economies while maximizing net operating income.
- Activating waterfront destinations and public spaces, such as arts and cultural events, to attract tourism and community engagement.
- Partnering with transportation agencies, including the SFMTA and San Francisco Bay Ferry, to improve mobility, parking, and visitor access.
- Advancing major initiatives, including Fisherman's Wharf Forward; delivering new housing, including affordable housing, at Seawall Lot 330, Mission Rock, and Pier 70.
- Establishing new leasing policies that align better with market practices to expedite the leasing process.
- Supporting maritime business development for cruise and growing the Port's Blue Economy footprint.

Resilience and Sustainability: Protecting Waterfront Communities and Assets

The Port protects people, infrastructure, and the natural environment by addressing climate, flood, and seismic risks, ensuring that waterfront communities and assets remain safe and sustainable. Initiatives such as fleet electrification and water quality improvements modernize operations while supporting resilient maritime and waterfront industries, reinforcing the city's long-term environmental and economic health. The biennial budget advances state-of-good-repair, risk mitigation, and sustainability investments that safeguard infrastructure, support environmental performance, and ensure continuity of essential waterfront services. Examples include:

- Advancing state-of-good-repair projects across piers, bulkheads, and utilities.
- Addressing urgent flood and seismic risks, including dry dock stabilization.
- Supporting environmental sustainability, including zero-emission fleet transitions, water quality improvements, and biodiversity protection.

Equity and Public Engagement: Inclusive Access and Community Partnerships

Reflecting the Mayor's commitment that every San Franciscan should benefit from the city's recovery, the Port fosters equitable access and inclusive engagement across its waterfront. The biennial budget supports investments that expand opportunities for residents, youth, and workers, while public spaces, small business support, and community partnerships ensure diverse voices inform decision-making. These efforts strengthen community trust, reinforce social equity, and contribute to a thriving, shared waterfront experience. Examples include:

- Expanding public access to parks, open space, and waterfront amenities.
- Supporting ferry infrastructure and mobility improvements to enhance connectivity.
- Strengthening community engagement, advisory committees, and tenant coordination.
- Modernizing asset management, real estate, and permitting systems to increase transparency and efficiency.

BUDGET PROCESS

This is the first of two public meetings intended to support a transparent biennial budget development process that includes public review and Port Commission input prior to submission to the Mayor's Office. Key steps in 2026 include:

| | |
|---------------------------|---|
| January 27 th | Initial public meeting to review high-level priorities, policy direction, and financial considerations |
| February 10 th | Second public meeting to present the proposed budget, including funding levels, major changes, staffing impacts, and alignment with Mayor's Budget Instructions |
| February 23 rd | Submission of the proposed biennial budget to the Mayor's Office |
| February 24 th | Port Commission consideration and approval of the final budget for submission ¹ |
| April 20 th | Capital Budget presentation to the Capital Planning Committee (tentative date) |
| May 1 st | Introduction of Mayor's May department budgets to the Board of Supervisors |

¹ Staff will work with the Mayor's Budget Office to address any Port Commission and public feedback provided after budget submission.

As noted above, the next public meeting is February 10, 2026.

CONCLUSION

The Port's FY 2026-27 and FY 2027-28 biennial budget advances the Port's Strategic Plan while aligning with Mayor Daniel Lurie's priorities, focusing on delivering exceptional services, supporting economic growth, enhancing resilience and sustainability, and promoting equity and public engagement. Through targeted operating and capital investments, the budget ensures a safe, vibrant, and financially sustainable waterfront that benefits residents, tenants, visitors, and the broader San Francisco economy.

Comments, input, and feedback from the Port Commission and the public are welcome to help shape the proposed budget. Port staff will return on February 10, 2026, to present the full proposed budget, including funding levels, major changes, staffing impacts, and alignment with the Mayor's budget instructions. This next meeting provides an important opportunity for Port Commissioners and the public to review detailed information and offer guidance prior to the budget's submission to the Mayor's Office.

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Finance and Administration

ATTACHMENT I: Alignment of Port Strategic Goals with Mayoral Priorities

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| Port Goal | Mayor Priorities | Alignment Notes |
|-------------------|--|---|
| Economic Vitality | 1) Affordable and livable communities 2) Safe and clean streets 3) Modern, effective service delivery 4) Strengthening the city's economy | Port financial stabilization and portfolio growth support economic vibrancy, public safety through security investments, and modern systems that directly advance these priorities. |
| Evolve | 1) Affordable and livable communities 2) Strengthening the city's economy | Investments in parks, ferry transit, and the visitor experience improve waterfront livability while driving economic activity and visitation. |
| Engagement | 1) Affordable and livable communities 2) Safe and clean streets 3) Modern, effective service delivery | Public outreach, tenant coordination, and transparency strengthen community trust, safety, and effective service delivery. |
| Resilience | 1) Safe and clean streets 2) Modern, effective service delivery 3) Strengthening the city's economy | Climate adaptation, infrastructure investment, and operational resilience protect public safety, ensure service continuity, and support economic stability. |
| Sustainability | 1) Affordable and livable communities 2) Strengthening the city's economy | Environmental stewardship, climate mitigation, and sustainable operations enhance long-term livability and protect the waterfront as a durable economic asset. |
| Equity | 1) Affordable and livable communities 2) Safe and clean streets | Equitable access to public spaces, transportation, and economic opportunity ensures the waterfront serves all residents and visitors safely and inclusively. |