



**Waterfront Plan Working Group
Land Use Subcommittee Meeting**

Meeting Notes: May 24, 2017

Present: Alice Rogers (chair), Larry Beard, Jane Connors, Jon Golinger, Ron Miguel, Stewart Morton, Don Neuwirth, Karen Pierce, Dee Dee Workman

Not Present: Kirk Bennett, Ellen Johnck, Jasper Rubin, Corinne Woods

Other Working Group and Advisory Team Members Present: Linda Fadeke-Richardson, Anthony Veerkamp, Howard Wong

Port Staff: Diane Oshima, Kari Kilstrom, David Beaupre, Rebecca Benassini, Brad Benson, Anne Cook, Norma Guzman, Mark Paez, Byron Rhett

Agency Staff: Reid Boggiano & Sheri Pemberton (State Lands via conference call)

1) May 10, 2017 meeting notes were not available, consideration of acceptance deferred to May 31, 2017 Subcommittee meeting.

2) Consideration of acceptance of Policy Guidance Recommendations for Embarcadero Historic District Leasing and Development

Alice Rogers described that the Policy Guidance Recommendations synthesized the EPS analysis, presentations and discussions on public trust objectives and financial feasibility requirements for leasing and development of Embarcadero Historic District piers from the March 22, April 12, and May 10 Land Use Subcommittees.

Alice opened up Subcommittee discussion to determine acceptability of the Section I Embarcadero Historic District Findings:

- Generally very good, it's an important set of recommendations. Suggest revision to first paragraph to say, "...may call for some flexibility to allow non-trust uses" to be specific about what flexibility means in this context. State Lands staff agreed and clarified that non-trust uses have been allowed in pier development projects only to support historic rehabilitation of piers.

Section II Asset Management Tools Findings comments:

- Clarify that we are agreeing to enable intermediate-term leases in these recommendations? Response: Yes
- Uncomfortable with the typology in Attachment 2 because it could limit other options, and the notion of matching high-cost rehab with high revenue uses. Response: These are test scenarios that were studied to illustrate financial feasibility of three different pier use scenarios (all public-oriented in bulkhead and shed which would require subsidy; a mix of public-oriented in bulkhead plus mix of office/public-oriented use in shed (generates moderate revenue); mix of public-oriented uses in bulkhead and office/high revenue PDR revenue use in shed (generates most revenue). The scenarios are illustrative, not absolute outcomes; actual mix of uses and revenues generated in pier leases will naturally vary.
- Suggestion that Attachment 2 pier scenarios should not be included as policy recommendations.

- Staff should provide more explanation or add text to explain how the EPS pier scenario analysis relates to recommendations for intermediate- and long-term pier leases
- What is the purpose for intermediate-lease terms? Response: The piers are aging and deteriorated conditions drive up costs for pier repairs and tenant improvements that are requiring longer lease terms to amortize capital investments.
- Regarding last sentence in Item II.a, regarding amenities within areas leased for private uses, shouldn't this be required rather than merely considered?
- How about revising language to prioritize amenities for public/community use; you cannot require it in the abstract.
- Public meeting space is at a premium along the waterfront, and should be encouraged. Also provides benefits to developer by being recognized as a public benefit.
- If you recognize this as a public benefit, make sure it benefits public not privatized events.
- Remove "(e.g. meeting or event space)"
- Regarding Item II.b, support pop-up and more active uses in public open space
- Regarding Item II.e, agree that we will need to determine public process for intermediate term leases. What does the reference to reduced use flexibility [in the Public Trust Objectives Matrix] mean? Response: Intermediate lease terms restrict ability to change uses.
- Regarding Item III, the Public Trust Objectives Matrix is not as clear as it could be. Under the lease term column, short-term use flexibility can be positive, however where we have a long lease term for public-oriented projects like the Exploratorium that provide high public trust benefits, that's also a good thing. This should be clarified.
- I don't understand the public trust objectives matrix; it is not helpful to me.
- Others said that the matrix is a helpful tool that clearly lays out the different elements related to public trust compliance. It reflects what the Subcommittee and the Working Group have been discussing through much of the planning process.
- Don't have a problem with the matrix, but have a problem with too many longer lease terms, which could be a problem. The Port should keep a variety of lease terms to provide a more stable lease portfolio.
- Lease term is a factor that applies in multiple contexts: degree of use flexibility, amortization of costs, and mix of lease terms in asset management portfolio. We are mixing public trust objectives with the desires we have for improving the piers. The public trust objectives matrix should be clarified so avoid confusion.
- You need certain term length to get the investment needed for the desired uses. Long-term leases for the trust are valuable; flexibility for the trust is valuable. Long-term leases allow changes in subtenants. Port reviews and approves subleases, which provides flexibility, changes and upgrades even in projects that have a long-term ground lease.
- Staff will work on revisions to improve clarity and understanding of Public Trust Objectives Matrix.

3) Discussion of [EPS Economic Feasibility Analysis of public-oriented uses and presentation of pier hotel use scenario](#), presented by Rebecca Benassini, Port Assistant Deputy Director of Development. Presentation described examples of different recreation and public-oriented business models, Recreation and Parks Department RFP responses for public-oriented uses for Palace of Fine Arts, and EPS financial feasibility analysis of hotel development scenarios for

Embarcadero Historic District piers (for a pier in good condition and one in worse condition, during strong vs. average economic market conditions).

Public oriented uses (comments)

- Excellent presentation, but Pilara Gallery at Pier 24 is also a good example of cultural use. Rebecca will add that example to slide presentation.
- Pier 24 (Pilara) spent \$444/s.f. , \$12 million, with 10 year lease + 5 year option to amortize costs and it did not include full seismic repairs. To include substructure repairs, the cost would have been est. \$700/sf and would need a longer lease term to amortize the investment. Pilara Foundation had access to private funds to finance the improvements.

Hotel use. Alice asked whether conditions have changed such that hotels could be considered in the Port's toolkit. If so, Port would have to consider whether/how to approach Prop H.

Questions

Would a hostel be considered a hotel under Prop H? Yes, most likely.

What about floating hotel on a vessel? Not likely permitted by BCDC if permanently moored and dependent on landside infrastructure, because the use would then be treated as Bay fill.

What is timeline for a hotel project? A hotel pier project would require a long-term lease (66 yrs.)

Are hotel development costs greater than other uses to construct and operate? Could people afford it? EPS analysis assumes higher development costs for hotel compared to office or other uses, but revenue also is high, especially for good condition pier in a strong real estate market. Room rates assumed were similar to Argonaut (in Fisherman's Wharf) and Hotel Vitale (Mission & Embarcadero).

Do we know how much money is left-over from hotel project to fund other waterfront projects? We could figure out leftover revenue, in the abstract, based on cost and revenue estimates in the model. Hotel taxes also are a potential revenue stream that could go to a Port/waterfront public benefit (not the project), but also would require voter approval.

Palace of Fine Arts was most interesting in that 2 top proposals included hotels, but sponsors ultimately did not pursue concept due to historic preservation challenges/interior facing rooms.

Are you sure pier sheds can accommodate hotel? Carey and Company, historic architects, and Site Lab looked carefully at large pier interior spaces and historic features. Windows, cargo doors and raised roof monitors all provide light access.

Do you know how much revenue is generated by Ventura County hotels in Coastal Commission jurisdiction? Most of those hotels are not on trust lands and are not good examples; they aren't analogous to the unique historic pier context in San Francisco, where cost of rehabilitation is very high.

Comments

- Appreciate getting the information about hotel use for the policy discussion. Hotels on a poor condition pier appear to need historic tax credits to be feasible; that's analogous to cultural/recreation uses needing private funds or fundraising to be feasible.
- Text of Prop H (handed out at meeting): State Lands allows hotels as a trust use, but Prop H prohibits hotels on piers and in the BCDC 100-foot shoreline band (all piers; not seawall lots).
- Dilemma is the cost of the piers and what tools and resources can be brought to support them. Prop H was passed 30 years ago; we're looking for solutions to pier rehab for the

next 10-20 years. Hotel might be an opportunity for Port; hotel developers can undertake the seismic upgrades and public process; it's a trust use; there are a lot of piers to rehabilitate. Maybe revenue from hotel is earmarked for a recreational or other community benefit.

- Don't agree with revisiting a use that voters didn't want in 1990.
- Hotel is a 24/7 use exposed to earthquake risk.
- Location is important: Can visualize the benefit of reusing a historic resource as a hotel, and locations where it would be great and others where it wouldn't. -Difficult to separate that thought from the ballot-process required.
- Voter opinions about the waterfront have changed, as reflected in the Mission Rock project (and 8 Washington). Port would have to carefully consider the cost and effort required to change Prop H.
- Prefer not include hotel in Plan until the voters say they want it. Currently, pier hotels are illegal.
- Prefer to have all revenue uses in the Port's toolkit, including hotel, but not sure if there will be citizen support for revenue uses. We have a lot of public access here, underwritten by office and other revenue uses.
- Seawall lot hotel might be more acceptable, like Teatro Zinzanni.
- Preservation community has discussed this issue, and believes hotels should be considered. Perhaps designate one or two specific locations and take away the stigma of many hotels on waterfront.

Hotel discussion will be continued at May 31 Land Use Subcommittee meeting, to allow people who aren't here to chime in, along with public use criteria discussion. If we have time, we will start seawall lot discussion.