

CITY & COUNTY OF SAN FRANCISCO PORT COMMISSION

MINUTES OF THE MEETING DECEMBER 13, 2016

1. CALL TO ORDER / ROLL CALL

At 2:05 p.m., Port Commission President Willie Adams called the meeting to order. The following Commissioners were present: Willie Adams, Kimberly Brandon, and Eleni Kounalakis. Commissioner Katz arrived at 3:45 p.m. Commissioner Woo Ho was on business travel.

2. APPROVAL OF MINUTES

3. PUBLIC COMMENT ON EXECUTIVE SESSION

4. EXECUTIVE SESSION

A. Vote on whether to hold closed session.

ACTION: Commissioner Brandon moved approval; Commissioner Kounalakis seconded the motion. All of the Commissioners were in favor.

At 2:15 p.m., the Commission withdrew to executive session to discuss the following:

- (1) CONFERENCE WITH LEGAL COUNSEL AND REAL PROPERTY NEGOTIATOR – This is specifically authorized under California Government Code Section 54956.8. *This session is closed to any non-City/Port representative: (Discussion Items)
 - a. Property: Pier 38, located at Delancey Street and The Embarcadero
Person Negotiating: Port: Rebecca Benassini, Assistant Deputy Director, Planning and Development
*Negotiating Parties: Pier 38 Partners, LLC: Michael Covarrubias
 - b. Property: AB 4110, lot 1; AB 4052; 4111, lots 3 and 4; also known as the Pier 70 Waterfront Site, a 28 acre site generally bounded by Illinois Street to the west, 20th Street to the north, the Bay to the east and private property to the south (AB 4175), located near the intersection of 22nd Street and Illinois. Also including a City option to purchase privately-owned property comprised of AB 4110, lot 8A and AB 4120, lot 2, an approximately 3 acre parcel bounded by Illinois Street to the west, 22nd Street to the south, and Port property to the north (AB 4110, lot 1) and east (AB 4052).

Person Negotiating: Port: Byron Rhett, Deputy Director, Planning and Development

*Negotiating Parties: Forest City Development CA: Kevin Ratner

5. RECONVENE IN OPEN SESSION

At 3:15 p.m., the Port Commission reconvened in open session.

ACTION: Commissioner Brandon moved approval to adjourn closed session and reconvene in open session. Commissioner Kounalakis seconded the motion. All of the Commissioners were in favor.

ACTION: Commissioner Brandon moved approval to not disclose any information discussed in closed session. Commissioner Kounalakis seconded the motion. All of the Commissioners were in favor.

6. PLEDGE OF ALLEGIANCE

7. ANNOUNCEMENTS – Communications Manager Renee Martin announced the following:

- A. Please be advised that the ringing of and use of cell phones, pagers and similar sound-producing electronic devices are prohibited at this meeting. Please be advised that the Chair may order the removal from the meeting room of any person(s) responsible for the ringing of or use of a cell phone, pager, or other similar sound-producing electronic device.
- B. Please be advised that a member of the public has up to three minutes to make pertinent public comments on each agenda item unless the Port Commission adopts a shorter period on any item.

8. PUBLIC COMMENT ON ITEMS NOT LISTED ON THE AGENDA

9. EXECUTIVE

A. Executive Director's Report

- Commissioner Brandon honored at the SF NAACP for the Professional and Business Award on November 19, 2016

Director Elaine Forbes - On November 19, 2016, Vice President Brandon received a very prestigious award from the San Francisco NAACP for Professional and Business Achievement. The San Francisco NAACP is committed to pursuing diversity and reaching the next generation of civil rights leaders.

It's no surprise that Commissioner Brandon received this award. For those of you who have watched the Commission closely, you know how hard Commissioner Brandon works to ensure our own contracts accrue to local businesses here in San Francisco following the spirit of the LBE Ordinance. She also works very hard to see that our Port activities connect closely with the neighborhoods here in San Francisco and she also mentors Port staff.

I am sure that what you do here on the Commission goes on to the other aspects of your business life. We're very, very proud of you. We're retroactively honoring you today. We want to express our appreciation. We also want to express the appreciation of the larger City family. I have a Proclamation from President London Breed and I'm going to bring it over because President Adams is going to help me.

Commissioner Adams - The City and County of San Francisco Proclamation. In recognition of the San Francisco NAACP Professional and Business Award, Tuesday, December 13, 2016. Whereas, the City and County of San Francisco traditionally recognizes individuals who have demonstrated a strong commitment to excellence and have made a positive difference in the lives of San Franciscans, I am pleased to recognize Kimberly Brandon, Vice President of the San Francisco Port Commission and Wealth Management Morgan Stanley, Senior Vice President.

Whereas, under Commissioner Brandon's leadership, the Port of San Francisco has been instrumental in fostering international trade relationships with Sister Ports including participation in delegations to the People's Republic of China, Vietnam, Argentina, Chile, Ghana and Mexico.

Whereas, a native of San Francisco who has dedicated her career to social justice and economic empowerment, Commissioner Brandon always prioritizes our City's underrepresented communities in citywide community outreach efforts, including promoting diversity in staff hiring and contracting to ensure that the Port is representative of the City and County of San Francisco.

Whereas, Commissioner Brandon's years of experience in celebrating diversity and advancing the quality for our city residents especially in underserved communities makes her a model resident and exceptional recipient of honor from the NAACP.

Whereas, by bringing countless good ideas to light, Commissioner Brandon has been committed and dedicated to addressing the NAACP's mission to ensure the political, educational, and economic quality for everyone. She is an unsung hero who has worked tirelessly to improve our diverse communities in our cities now.

Therefore, on behalf of the City and County of San Francisco, I, London Breed, President of the San Francisco Board of Supervisors, do hereby recognize the breadth of her career and activism on behalf of the San Francisco branch of the NAACP and the entire City. London Breed, President and the San Francisco Board of Supervisors. Tuesday, December 13, 2016.

Next year, Commissioner Brandon will be a 20-year Commissioner and one of the longest serving Commissioners in San Francisco. A true hero.

Commissioner Brandon - Anybody that knows me knows that I don't like the limelight and I don't like the recognition. I just do what I do because I do it from the heart. I really appreciate this. Thank you.

Commissioner Kounalakis - Your service is so important to our city, Commissioner and you do a wonderful job using your experience and your knowledge and almost 20 years of experience on this Commission to deal with very complex and important issues that come before us on a regular basis. "Brava!" to you and thank you for your service and to be continued.

Commissioner Brandon - Thank you.

Commissioner Adams - When I came on the Commission about five years ago, Commissioner Brandon reached out to me, and her life-long partner Tim is here today. Kim is a lady who works very diligently. Twenty years of experience. She's an inspiration to this Commission. She speaks very highly. One of her goals was the development of the Southern Waterfront and now that is starting to take place.

When I think about someone with almost 20 years on the Commission, you've went through three or four Mayors. She's constantly delivering. She's very solid and committed to what she believes in. This year, when I went through the process of Ad Hoc Committee when we were looking for a new Port Director, Kim was my partner. She gave up her whole summer, like I did, in the pursuit of excellence to find a good Director for this Port, for this community and for the people.

I can only thank her for her friendship and her loyalty. She's very honest with me. As you all can see that I'm really outnumbered. I have four women Commissioners and a Port Director so they outnumber me and maybe that's a good balance. I want to thank you. They keep me on top of my game.

Kimberly, I'm so proud of you and thank you for your service. So many people have benefitted from that. Our latest deal was with Pasha and hopefully when that gets up and running, it will be in District 10 and that might be close to 100-125 jobs in the community for District 10 residents. Maybe we'll take guns and we'll take violence and the negative things out a lot of the communities and we'll be able to provide jobs.

Kimberly Brandon, thank you for your vision and pursuing and making sure that we provided jobs and economic empowerment for the community.

Commissioner Brandon - Thank you.

Elaine Forbes - We know that you don't like to be in the limelight because we found out about this by accident. We're glad to be able to do this retroactively. Congratulations.

Commissioner Brandon - Thank you very much.

- Monofilament Fishing Line Recycling Stations

I wanted to let everyone know that on November 21, 2016 the Port had a small press event with activist Judy Irving. She's a film maker known for the Parrots of Telegraph Hill. The press event was to celebrate the Monofilament Fishing Recycling Stations that we installed at key locations along Port property. While it's a small effort, it's very important to wildlife here.

The Fishing Line Recycling Stations will help keep our wildlife safe and allow our residents to continue to use the Port as a recreational fishing venue. I'm very proud of the environmental stewardship of this Port and this is just one small example of the work we do. A huge thank you to Tom Carter, Tim Felton and Kirsten Southey and our Maintenance Division who manufactured the Recycling Stations themselves.

- National Park Service Term Sheet receives Board of Supervisors' endorsement - November 29, 2016

On November 29, 2016 the full Board of Supervisors endorsed the Term Sheet for an agreement between the Port of San Francisco and National Park Service for a 30-year Cooperative Agreement and two 10-year Renewals to invest and improve Piers 31-33.

As you know, endorsement is a key milestone in this multi-year effort. The goal is to keep Alcatraz on Port property and develop a much higher caliber facility for the public and we're now well on our way. We expect to be back mid-2017 with two leases for your review. Special thanks to Byron Rhett, Mark Lozovoy, Rebecca Benassini, Jay Edwards and Rona Sandler. We are moving along and progress is swift.

- BAE Systems San Francisco Ship Repair, Inc. proposed sale of lease to Puglia Marine

BAE San Francisco Ship Repair has been a Port tenant since 2005. In 2015, the Port Commission approved a 20-year lease extension. Since 2005, BAE has performed well and ship repair has been a very important business line

for the Port. We have expanded Drydock #2. We have installed shoreside power to reduce pollution.

BAE is a large company and they operate major shipyards in Norfolk, Virginia, and San Diego. Recently, there have been some market changes which have made BAE less competitive and less profitable in San Francisco. Notably, in Portland, Vigor opened up a new shipyard. As a result, BAE has become not profitable and has reached an agreement to sell their operation to Puglia Marine.

Puglia is a small company with facilities in Bellingham and Tacoma, Washington. They do have a 20-year record. They have a very good reputation. Because they're a small company, they believe they will be able to win federal contracts that BAE cannot win due to federal set asides and their overhead is substantially lower than BAE as a small company. They believe they will not face the headwinds that BAE faced here at the shipyard.

They also will honor all the terms of the BAE lease and all the collective bargaining units that are in place for the workers. Port staff is reviewing the Purchase Sale Agreement, doing due diligence now and we will keep the Port Commission and the public abreast of our progress. We are excited about this new chapter in San Francisco Ship Repair.

- California Association of Port Authorities 2016 Annual Meeting - November 29, 2106

The California Association of Port Authorities Annual Meeting was held on November 29, 2016. Peter Dailey and I attended that meeting. The West Coast Port Directors met that day to talk about the priorities of Ports and to ensure that we're rowing in the same direction.

One of the key things that CAPA is doing for California Ports is creating a narrative of all the benefits that the Ports provide to the economy and streamlining the legislative requests both at the State and Federal level. It was a very fruitful meeting and it's very meaningful to have our Port represented among this group to be sure that we're lobbying in our interest.

- Recognition of the retirement of Carolyn Horgan, CEO of Blue & Gold

At this time, the Port Commission would like to recognize and congratulate Carolyn Horgan, the President of Blue & Gold Fleet. Carolyn is retiring at the end of this month after a 40-year career in the San Francisco Bay Maritime Industry. Blue & Gold Fleet is the largest passenger vessel operator in California carrying 3.7 million passengers this year with 97% on-time arrival. I wonder if there's any other public transportation facility that could mark those kinds of on-time percentages.

Carolyn was raised in New York but then she settled in the Bay Area. She is someone who worked her way through the ranks. She began with Crowley Maritime initially answering phones and she was soon promoted to a dispatcher. She coordinated vessel movements, organized crews, supervised maintenance and ensured all the boats ran on time. She joined Blue & Gold in 1997 when they acquired much of Crowley Ferry and Tour Boat Fleet as well as key staff.

In 2012, she became President of Blue & Gold Fleet after working her way through the ranks. Under her leadership, Blue & Gold Fleet operates Ferry Services for cities such as Oakland, Alameda and Vallejo as well as the Water Emergency Transportation Authority. Carolyn is an absolute pleasure to work with. She loves the industry. She is a fierce woman in the Maritime Industry which is always great to see and she is a true friend of the Port. We will miss her terribly and we congratulate her on her retirement. We would like to present her with a bouquet of flowers with Blue & Gold ribbons.

Ellen Johnck, Co-chair of the Maritime Commerce Advisory Committee - I'm pleased to bring some words of tribute from the Maritime Commerce Advisory Committee as well as my own personal thoughts about Carolyn. This is a great day for Maritime with the special recognition from the Commissioners.

Carolyn, when I think of you, many people have a stereotype of the Maritime Industry. A lot of hardscape, infrastructure, metal, concrete, wood, hard lines. But there's a big heart on the waterfront and a lot of charm and you are the embodiment of that. That's my first thought.

The superior performance of the company, the customer service and your dedication to the public and say, "We're going to run these boats on time and we're going to deliver a great product." Which only the Port is basking in, right? The Port can only reflect the glory and the shine of that operation. I want to thank you for your dedication and constant attendance on the MCAC. You have such keen insight and intelligence.

She was there at our Sail In when we went to the Board of Supervisors a couple years ago. You've just been there all the time giving the strength and vigor to our whole Maritime Industry. I want to thank you. I'm going to miss you. I hope we'll see you up and down the Embarcadero...

Veronica Sanchez – I'm offering words of appreciation and thanks on behalf of the Masters, Mates & Pilots and Inland Boatmen Union. You've heard about the statistics on Blue & Gold's standing in terms of number of passengers that it carries and its on-time rate but I would like to add another important statistic in that under Carolyn's tenure at Blue & Gold. It is now one of the largest Union operators at the Port of San Francisco. Currenity, the MM&P alone has 175 employees at Blue & Gold and that ranges from

Captains to the Customer Service reps to the people who work in the Box Office and our sister Union the IBU has the deckhands.

As I speak with our members, they unanimously say Blue & Gold is a Union company today because of Carolyn Horgan, because of her persistence, her commitment to providing employees the best compensation and wages and they owe lots of gratitude to her. Additionally, the crews will say that there are a lot of guys and women who owe their jobs to Carolyn. Because she stands for giving people a second chance which is the embodiment of what Jimmy Herman was always about, giving people a second chance.

She has set example of moving up the ranks in the company from a dispatcher to President. People who started as deckhands are now Captains Blue and Gold has promoted one of the most diverse workforces of people of color that I have seen on this waterfront.

Carolyn has been there as a problem solver for our crews. She's a compassionate person and they respect her. Maritime crews don't respect a lot of people. Especially the Captains, once they're in that wheelhouse, they're in charge but they respect Carolyn and are very grateful.

I wanted to add my own personal thank you and appreciation to her because I've had the privilege of working with her for many of those years. When I was at the Port, I remember picking up the phone and saying, "We need a boat for a public tour to promote the waterfront." She was always there with that boat or just to listen and to be there when we needed to advocate or we needed a Letter of Support. Carolyn, thank you very much.

Monique Moyer - This is my first Commission meeting with you and it's an honor to be on this side of the dais, so thank you for having me. Director Forbes, it's great to be back. First of all, congratulations, Commissioner Brandon, that's outstanding. Really well deserved.

I had to come today to honor and say, "Thank you," to my friend Carolyn from Blue & Gold. You've heard some great things about her, first from Elaine, then from Veronica and of course from our always present Ellen, and we're all wearing red in good luck for you. Not for the holiday, but good luck for you in your next venture. The waterfront, as we all know, while it is full of big personalities, it's also full of quiet, competent small personalities and I would put Carolyn in the latter.

She is someone who has quietly gone about her business and gone about it extraordinarily well for four decades. For many decades, she has been a great partner to everyone. I'm glad Veronica mentioned her partnership with her employees and her colleagues, but she has really moved the needle forward.

She has been there for the Port over and over again, through every situation that has been called upon, whether it has been for fun on Fleet Week or for fun on America's Cup. Or whether it has been for tragedy or whether it has just been in response to a strike at BART or an impact on the Bay Bridge. Those are really long and gruesome hours, but I always found comfort when I would see Carolyn marching by my office day after day in her very quiet pursuit of good health and exercise and probably her key to keeping her cool calm.

I echo those sentiments of the speakers who went before me and all that she has contributed. Carolyn, it has just been such an honor and a privilege to work with you. I thank you for all that you did for me personally, all that you did for the Port tenants and all that you did for the Port staff. But also all that you did for the Bay Maritime community. I wish you happy sails, strong winds behind you and blue sky in front. Good luck.

Diane Oshima - I wanted to take the opportunity to salute these two women of the waterfront, Commissioner Brandon and Carolyn. Commissioner Brandon, you've been the beacon that has guided the Port for all of the improvements and transformation of the Southern Waterfront, the open spaces and the jobs and the way that the community and the Port Commission have been able to work together over the years. Having been there to watch you and to be guided by you, I wanted to express my appreciation for all that you've put into your job here over the years.

Carolyn, I don't think that I can exceed anything that's been described for all of your contributions. All I can say is that in your retirement, I'm glad you're staying on the Waterfront Plan Working Group to teach us and you will keep teaching us. Thank you very much.

Female Speaker - Cheers to Carolyn as she gets ready to retire, it's been 43 years in the Maritime industry since she was first hired.

Who would have known that boats and the water would capture her heart? It was the job of secretary, then dispatcher, where she got her start.

From Red & White Fleet to Blue & Gold, Carolyn continued to learn and thrive, working in a man's world made her come alive.

She's a feisty, determined and strong-willed gal, I'm so very proud to call her my pal.

Her laugh and sunny disposition can light up a room. However, don't cross her as she does not forgive and forget soon.

With great respect, I will bid her adieu; she always brought to light a new perspective, a new point of view.

Carolyn loved the boats, the water and her hard-working crew. Oh yes, she also loved a glass of Chardonnay or two.

Under her watch, Blue & Gold has performed extremely well. It's a testament to Carolyn, her talents and her dedication, I do tell. We will all miss her great sense of humor and sharing a laugh or two, travelling, walking and enjoying her grandkids is now what she's destined to do.

So glad we had the opportunity to work together over the years, I offer my heartfelt congratulations in front of your peers.

Enjoy this new exciting chapter of your life, may it be filled with good health, happiness and not an ounce of strife. Congratulations.

Jay Edwards, Senior Property Manager - Carolyn, on behalf of the Real Estate Division, I can't tell you how many times we've had to give you a call with not always the best news and sometimes, that's part of our job but you've taken it so gracefully. You've always understood. You sat there. You listened. You offered good counsel. You helped us solve problems. You're a true partner in every way, for the Port, for the community.

You served on the Sustainability Committee which I chaired for the Fisherman's Wharf. Community Benefit District. You show up to countless social events. You have such a great team with you. Every time we interact with your organization, we have very positive experiences and we're going to miss that. There's no replacing that, no matter what you do. Thank you so much for everything you've brought to the Port to the City of San Francisco and to our organization.

Patrick Murphy - We've had quite a few events for Carolyn over the last few weeks wishing her fond farewells. From my standpoint for those people who don't know me. I've had a similar upbringing through the company, starting and working my way up. Carolyn and her boss made the decision to put me in charge and I thank her so much for that. The faith that she's put in me to lead the organization going forward. I have big shoes to fill. Carolyn, you have been a mentor, a friend, an educator for every day that I've known you. I've told you last week, I only had two bosses at Blue & Gold. The first one was my father. The second one was, I'll say, my sister. So thank you so much. It has been a wonderful ride and Blue & Gold Fleet is really on the correct course because of you. I can only hope that I can steer that course correctly going forward.

Carolyn Horgan – I, like Commissioner Brandon, don't really like public speaking but I'm just overwhelmed. I want to thank the Port. This has been a great career. I love the waterfront. I work with wonderful people. Pat is going to do an exceptional job, I have no doubt.

Working with the Port, we've always thought of us working together to no end that's why we've worked really well together. I've been so lucky. I've worked with such wonderful people and in such a wonderful industry. Thank you very much.

Commissioner Kounalakis - I'm the newest member of the Port Commission, but it sounds like you're going to be staying involved in the Waterfront Group. So that's great news and I'll be looking forward to seeing you around in your retirement. Thank you for your service.

Commissioner Brandon - I want to say congratulations and you will definitely be missed. Good luck on your retirement.

Commissioner Adams - Carolyn, you're retiring in a blaze of glory and we all owe you a debt of gratitude. Forty-three years is a long time. I don't know if we could ever say thank you but I'm glad that we're all alive today to be able to say that to you. Thank you so much for all that you've done.

The true test of a leader is they leave behind other people the will to carry on. Pat will carry that torch now, he has it. I know you will always be around if we need you for advice. You may retire, but you will never retire from being involved in this Port and this waterfront. This is your life. You have a lot of wisdom and we will always call upon you for your wisdom and your insight. Enjoy your family and thank you so much for everything that you've done. We appreciate it.

- Schedule of Port Commission Meetings for 2017

Elaine Forbes - The last item is the Schedule of Port Commission Meetings for 2017. I wanted to call out that it's attached to the agenda and it lists all of our 2017 meetings. Please take a look and plan accordingly.

B. Port Commissioners' Report:

Commissioner Adams - Colleagues, I'd like to start off. I have a heavy heart today and it's a tragedy that happened on December 2nd regarding the Ghost Ship Warehouse in Oakland that 36 young people lost their lives. There are staff members and part of the staff family that had friends that died in that fire. I've lived a lot of my life. But a lot of those young people were just beginning to live their lives. Last week, Senator Feinstein presented Resolution 637 about the loss of those 36 lives. Our prayers and hearts go out to the family, Mayor Libby Schaaf and the City of Oakland. There's no time to blame. As we reflect today, we will adjourn in their memories. I'd like to have a moment of silence for the 36 victims who perished in that fire on December 2nd. May they rest in peace.

On November 21, 2016 Congressman Jared Huffman visited the Port. We were glad to have him. Director Forbes, Brad Benson, Steven Reel and Daley

Dunham were in the meeting with the Congressman. Congressman Huffman wanted to know what we were doing with Sea Level Rise and Port staff made a presentation and he was really interested, had a lot of input to say about that. He made it clear that the Port is under Leader Pelosi's jurisdiction. He will work with Leader Pelosi and Congressman Garamendi to do what we can do.

Brad and Steven did a great job of explaining and showing him what can happen with Sea Level Rise if we don't get out front. Then we had the opportunity to take him out on a tugboat. We showed him the waterfront and he gave his input. He also talked about us going after more grants. He wants to support the Port of San Francisco, Pier 80. Congressman Huffman is an environmentalist so he cares about the environment. It was good to have him here. I'm hoping in the spring when Director Forbes sends a delegation with the Chamber back to Washington, D.C. that we will lobby on our issues and he understood that. We have to continue to invite our Congressional delegation. I know Director Forbes has an invite to an incoming U.S. Senator Kamala Harris and others to come down to our Port so they can understand the importance of the Port of San Francisco and this region and how we need this money.

We don't know when this new government takes place, what's going to happen but one thing that has been said is they may cut back on grants for Sanctuary Cities. We are a Sanctuary City and we make no apologies about that and so is L.A. and a lot of places.

We're hoping that there's a lot of rhetoric being said, but we need the funding for our Port, for Sea Level Rise. Even though it might be \$2 billion, if there was a disaster and we do nothing about it, we may be looking at \$7 or \$8 billion. We need three or four things on that list and we need to go after it. I wanted to update you on what we're doing as a Commission. We're trying to be proactive. We're not sitting around feeling sorry for ourselves.

The Port of San Francisco has to keep moving forward. Recently Commissioner Katz, Director Forbes and I had lunch with the Port of Oakland Director, and the President and the Vice President of the Board. We even talked about looking at San Francisco and Oakland as a region because we're not in straight competition with them. They are a container port. We're more of a boutique Port that has all type of things but we have to look after our interests in Northern California.

As I said, I don't know what the dynamics of the politics are going to play out in Washington, but I know that for this reason, we have to go out and take care of the things that are vital to the Port of San Francisco. We need infrastructure, whether it's Sea Level Rise and TIGER Grants and whatever we need to do to help our peers that are falling in and look after this region.

We even talked about at some point doing a joint Port Commission meeting with the Port of Oakland and the Port of San Francisco and not looking at each other

as competitors but looking at each other as trying to be on the same page to move forward to have strength and maybe Director Forbes and Director Chris Lytle can sit down with the new Secretary/Treasurer that's coming in Elaine Chao and talk about our issues that are important to Northern California. We've got to be very strong about that. Make no apologies. We have to keep and look after our Port.

10. CONSENT CALENDAR

- A. Request approval of the Amendments to the 2016 Port Building Code. (Resolution No.16-45)
- B. Request authorization for the Port's Executive Director to enter into a Memorandum of Understanding with the San Francisco Bay Area Water Emergency Transit Authority (WETA) for the planning and project delivery of the Mission Bay Ferry Landing. (Resolution No.16-46)
- C. Request authorization to advertise for competitive bids for Construction Contract No. 2784, Pier 23 Roof Repair Project. (Resolution No.16-47)

ACTION: Commissioner Brandon moved approval; Commissioner Kounalakis seconded the motion. All of the Commissioners were in favor. Resolution Nos. 16-45, 16-46 and 16-47 were adopted.

11. PLANNING & DEVELOPMENT

- A. Informational presentation on Proposed 2017 State and Federal Legislative Priorities.

Daley Dunham, Port Special Projects Manager - I'm here today in follow up to our presentation of September 27, 2016 to lay out the Port's proposed legislative priorities for the coming year, both federal and state.

As an update, in September, we ran through some of our recent accomplishments as well as what we were looking for prospectively. In the interim, we had the Port's federal lobbyist Eve O'Toole and Lauri Hettinger come out and spend a day with staff going over various things at the federal level and how we can move forward helping us craft our proposed legislative agenda.

President Adams, as you mentioned, Congressman Jared Huffman was here in November. Minority Leader Congresswoman Nancy Pelosi's Chief of Staff Robert Edmonson also met with Port staff to review what our activities were looking forward for, at the federal level.

Starting with our proposed state priorities, our focus is on the Seawall and Sea Level Rise. California has shown itself to be a leader in recognizing climate change. Three pieces of legislation fairly recently, setting greenhouse gas

emissions targets, new transportation policies enhancing cap in trade, also dovetailing with greenhouse gases. Most recently setting additional targets out for 2030.

The Port has some existing Infrastructure Financing District (IFD) powers going back to 2005. In 2005, we successfully sought the power to set up these districts which would allow us to capture tax increment for possessory interest tax, where it's like property tax, in order to support historic preservation and infrastructure development for the Port's assets.

In 2010, we successfully sought expanded powers for the Pier 70 area to help facilitate that development, capturing the state's increment of the possessory interest tax which works out to be about a quarter on the dollar.

The project we're looking at for the Seawall, \$2-5 billion to adapt to Sea Level Rise and it's such a big number. Everyone acknowledges that it's going to take efforts at the federal level, state level and local level. In pursuing the state share of tax increment, California has a chance to become a leader in climate adaptation, not just in recognizing Sea Level Rise. As we go out, this would be the first urban area that has current flood risk that we would be asking the state to step in and have an Infrastructure Finance District that has the Seawall itself as an eligible use.

This is really our target. It's new IFD legislation going to Sacramento and going this year. The idea would be, as with the Pier 70 legislation, to capture the state's increment on ERAF and recognizing that this is such a big investment by the state, to show local commitment, we would be reporting to the California Natural Resources Agency for oversight. What we're looking at here to generate the tax increment are the Port's Development Projects.

Mission Rock is going to be the primary generator. In nominal dollars, the contribution is estimated to be \$213 million. Potentially a very big contribution. However, it is based on the growth, the tax increment. We have to do it quickly, otherwise the base year where we start from will lose ground if the development proceeds too far before we're able to get started on this process.

To get there, these are the steps we're looking at. We need to find an author, someone who's willing to carry the bill for us. We do expect that the State Lands Commission and BCDC are going to want to be actively engaged with us. We're expecting to conduct a robust fiscal analysis to demonstrate that the cost of doing nothing is higher than the cost of the state weighing in and contributing the state share of ERAF.

In January, we would like to set briefings with those agencies, the Governor's office and invite key legislative staff, committee staff in Sacramento, legislative staff and give them a full tour of the Seawall and let them know what we're up to, give them the full breadth of our efforts around Sea Level Rise and Sea Level Adaptation.

The Seawall takes most of our push but we do have other things going on. Earthquakes are not just for San Francisco. We're hoping that there will be a seismic safety bond that could be applicable to our Seawall which is a piece of our resiliency infrastructure, not just Sea Level Rise but seismic resilience as well.

The Mission Bay Ferry Landing, a priority of the Mayor's Office. We have two sources of funds that we're chasing after. The first in partnership with the Water Emergency Transit Agency (WETA). Regional Measure 3 funds are funds that are designed to relieve pressure from the Bay Area's bridge systems. To the extent that we can divert passengers to ferries, that's lessening that pressure. We think that we have a good project there, good argument there.

CAP and Trade funds also are designed to reduce greenhouse gas emissions. We're looking to do the same, take cars off the road, and get people into ferries. Lastly we have a housekeeping bill, affordable housing, and some technical amendments that we'd like to take to Sacramento in this next cycle.

Moving onto to the proposed federal agenda. The United States Army Corps of Engineers is where we're looking to for the big pot of money. They've got a lot. It is a lengthy process though. To get General Investigation funding, we have four steps. You have to get authorization to study the problem, then you've got to go ask for money to study the problem. Then you have to get authorization to construct the fix, and then you've got to go ask for money to construct the fix.

These WRDA legislations, the authorizing piece of legislation used to only roll out every seven years. As you can imagine, to get anything done, you're talking about a two decade timeframe. Congress has started to speed this up. Hopefully they're back on track every two years. So that's sort of the pace of things.

There's also a smaller pot of funds that delegates discretion to the local Army Corps of Engineers Commander. These continuous authority programs, we have one of those underway as well with the local district for the Seawall.

We're engaged in exactly that process. With regard to the 103 Project, the Army Corps of Engineers just came out in November with a report saying they agree. There's a federal interest in the project. It's going to save the federal government more money than it will cost them if they execute this project on our behalf. So we're moving forward with them to conduct a formal study and figure out what that project will look like.

In terms of the big pot of funds, the Seawall General Investigation, that four step process I talked about. The first step, getting the authority to study it. Fortunately, we have one of those already. There was a broader Army Corps study from some time back that satisfies that requirement. The next step would be getting funding to study the problem. Anytime there's new money coming for

a new project, they call that a new start in the Army Corps. They're very hard to get.

Without any certainty about when those funds might come on line, and the Army Corps' standard process of spending three years to study a problem, the Port is looking to self-fund that study, move through the process at an accelerated rate. It doesn't save us that much money counting on the funds, but to engage with them to make sure that their review process, that they can take what we hand them at the end of the day and accept it as it is and allow us to move to the next phase which would be to get in to that next WRDA bill to authorize construction dollars.

So that is the plan to be able to be ready for WRDA 2018 or WRDA 2020. The first expedite review of the feasibility study, that's working with the Corps on these other agreements that facilitate their being able to accept what we hand them.

Other sources of federal funds to help contribute to the Seawall issue, National Parks Service and the Internal Revenue Service. This has to do with historic tax credits and eligibility for the Seawall. FEMA has a couple of different sources of funding that allow for work on seismic hazards, reducing the amount of risk in seismic infrastructure.

The Department of Homeland Security Office of Infrastructure Protection, that's new to us. We're looking into it. The name sounds promising. The Department of Transportation has some capability to do low interest loans should we need those.

Lastly, the part of the federal agenda that we're proposing today that doesn't have to do with the Central Basin. You may recall the removal of Pier 36 to facilitate a larger development project. We have another one in the hopper with the Corps, \$5.7 million is what we're asking for. We've advanced that as far as we can so we're hopeful that we can get funding for that project.

We're applying for TIGER Funds for the Mission Bay Ferry Landing, a federal source and another grant source. The FASTLANE program which would be to develop the Southern Waterfront Eco-Industrial Park, Cargo Way is what we're targeting to help facilitate movement of freight goods in the Southern Waterfront. The Port Security Grants which we've made our preference known that those stay Port-only grants and that they don't get diluted by being folded into a larger pot of funds.

That's the proposed agenda as we've put together since the last meeting. The next step would be to get your input, make any adjustments. Then take the product of that to the Mayor's State and Federal Legislation Committee which meets tomorrow. We're hoping you're happy with what we've presented or we can integrate your feedback quickly.

Commissioner Kounalakis - This is really helpful to have this kind of an overview and understanding what the priorities are, what we're working on in terms of our activity in advocating for issues with state and federal government. Thank you for preparing it. It would be great if we had a quarterly update to all these things. It doesn't have to take a long time but this is incredibly important and very helpful, particularly for the Seawall Project.

How exactly does our team work with the City team on advocacy? Are you meeting with them regularly? Is it more of an informal conversation? When there are questions like figuring out who authors legislation at the state level, on the IFD, is that our responsibility? Do they do it? Does the lobbyist? How do you work together?

Daley Dunham - We stay in close communication with the Mayor's Office. They have staff specifically for state and federal issues. They are sort of owners of the City's lobbying contracts for state lobbying. Generally for something like looking for an author, we would work through the Mayor's Office, consult with them to see if they have ideas around it. We consult with our lobbyist. Generally through the Mayor's Office. We do talk to them directly from time to time, usually though it is connected with the Mayor's Office.

Commissioner Kounalakis - I want to make sure we're firing on all cylinders and maximizing the expertise that's housed here and the members of the Commission who do get out and about in the community. I certainly know that as a Commissioner and as a citizen of San Francisco, these things are so incredibly important that if I ever have the opportunity to engage and to add my support for the things that the city is doing, I certainly would be more than willing to do that. Again, it starts with being informed but I also want to make sure, particularly with the Seawall and particularly in light of the current political environment that is so uncertain, that we're using all of our capabilities that we have at our disposal to work on what's going to be a very challenging but critical piece of infrastructure for San Francisco.

Brad Benson, Director of Special Projects - I wanted to say we would like to take you up on that offer. Particularly at this state level for the state share of tax increment for the Seawall, it is a big ask. California can be a leader in this, but we are going to need your help in communicating that message on up. Thank you for the offer.

Commissioner Brandon - We all agree that we'll be here to help you in whatever way we can because it is so important. Thank you so much Daley for this briefing. I agree with everything Commissioner Kounalakis said that this is such valuable information so not only us, but the public knows what it is we're looking for and what we need and can help us.

The priorities laid out here are good ones and now that we are all aware of them, we can all work together to hopefully make sure we can get funding for these projects.

Commissioner Katz - I also want to thank you both. These are issues near and dear to my heart and I agree with my colleagues. We certainly want to do whatever we can to be of assistance and help as we're out and about. I also think this is really helpful having this report and perhaps we can get an update next quarter on where things stand, where we are with these various matters.

Lastly, as I look at the heavy lifting that's going to be needed with the Seawall and given that it has such a significant impact, positive if you do it right, negative if it's not, on a lot of the companies have now located in sort of the South of Market Area, I wonder if there's some opportunities to also -- I know this is not necessarily part of the legislative agenda -- but it does sort of bring up the need to look at various funding sources.

I wonder if there's some others we might reach out to, i.e. public/private partnership kind of concept, but to get some more support from some of the headquarters that will be based there that will be benefitting from our efforts to shore up the Seawall that will have such a significant impact for them. You might want to get them enrolled in both our legislative advocacy efforts as well as see if there may be some ways that they may help with additional funding.

Brad Benson - That's a great idea, thank you.

Commissioner Adams - Good report guys. I know you guys have been coming quarterly and thank you very much. We know that you are going to dig down into the Corps of Engineers for some money because they're going to have to help us do some heavy lifting and we also may need a bond somewhere down the line. But also, the public that's here and they come out to all these meetings, they're going to be helpful being advocates, talking to everybody, and telling them and ringing the drum beat.

We need to be like Paul Revere, ringing that bell and saying, "Hey, it's coming. Let's get ready for it." Thank you and I look forward to the next quarterly update like Ambassador Kounalakis. This helps us too. I appreciate it. Very well done.

12. MARITIME

- A. Request authorizing the Executive Director to enter into a Project Partnership Agreement with the United States Army Corps of Engineers (USACE) for dredging of the Central Basin, providing access to USACE for that purpose, and waiving applicable competitive bidding and contract requirements, subject to approval of the Board of Supervisors. (Resolution No.16-48)

Daley Dunham, Special Projects Manager – I'd like to discuss the agreement with the Army Corps of Engineers which will allow us to at long last move forward the Central Basin Project with them.

The Pier 70 shipyard is the longest continuously operating shipyard on the West Coast. It employs 250 skilled jobs, 10 Maritime Labor Unions. The very first ship turned out in 1885, 20 years after the assassination of Abraham Lincoln.

The Central Basin is the driveway to the drydock. The navigational point of entry, 32 feet in depth and it has been dredged a couple of times though not very often because it's difficult to dredge economically speaking. Currently it has spots of 26 feet and some spots even more shallow than that and it does limit the size and type of vessel that can be accepted at the shipyard. It is a detriment to business.

Dredging it over time is not economical. It is not something that the shipyard tenant has been able to take on to their books and neither has the Port. It is not itself part of the federal channel, but it is adjacent to the federal channel.

The Continuous Authority Program which I mentioned under the legislative agenda has a couple of different small programs that can be delegated to the district. The 107 program has to do with navigation. In 2009, I wrote for then Executive Director Monique Moyer the first Letter of Request for Assistance to the Army Corps of Engineers under this program and so we're pretty far into it here. It started just under the first years of the Obama Administration.

It took about two years to get through the initial federal interest determination where they decided that it is worth more to the federal government to undertake this project than it is to not do so. In 2011, we executed this cost sharing agreement. Then there were a few years where Congress just didn't appropriate any money to this.

To give you an idea of where the funding comes from, every year there are seven or eight of these different CAP programs that are funded at the national level and then we queue up with other projects in a competitive process. It's taken that long for us to get up to the top of the queue and get ready to get funded. There were a couple years where they just didn't fund it at all. Last year Congress appropriated \$4.5 million for every one of these in the whole country and ours alone is over \$6 million.

The detailed Project Report which the Army Corps produces laid out 15 different alternatives, the way they could dredge this, what depth they could dredge it to, where they're going to dispose of it. They have a very robust process. The upside of it taking so long is they're very thorough during that time. What they selected was about a \$9 million dredge, gets it down to 32 feet. At the end of the day they've determined that for every dollar they spend it's worth \$2.87 back to the federal government.

That's the dredge footprint. That's what we're looking at. You can see some of the high spots there. If you just imagine that ship moved all the way up to the north of that so that it could come straight into the Drydock, it runs out of room.

We're here today, to make this happen, we're down to the very last agreement that we need to execute. It's called the Project Partnership Agreement and we have been accelerating the authorization process with the Board of Supervisors so that we can properly bookend this project that started under the Obama Administration so we'll have authority to execute it before the Obama Administration is officially over.

What we're required to do is give a 25% match for the initial deepening dredge to get it down to 32 feet. After that we make another small contribution, 10% of the initial dredge, and with that, the federal government takes over the channel. It essentially federalizes it and it gets rolled into their standard O&M dredging practices so it is off our books forevermore.

There are a few things that we have to commit to otherwise that are pretty standard. They want to make sure that the shipyard's still going to be there if they're going to be dredging the channel. Easy for us to say yes to. If there are any HazMats there that are discovered along the way, we need to take care of those. Again, not a problem, the dredging has gone through all the same processes that all the rest of our dredging does. The sediment is thoroughly sampled. We know what's there. It's been dredged to that depth before. We don't expect anything unusual.

What we get out of it, it dredges to 32 feet, which is optimal for the shipyard. They take the dredging off our books. The 30-year value of this is about \$20 million. The initial dredge is \$9 million but essentially the annualized cost of maintaining it at that depth is about \$400,000. That's not ours anymore indefinitely. It's the value of this project. It's taken a long time to get here and why we're trying to accelerate it to make sure it gets there.

Speaking of that acceleration, we introduced it at the Board. It has gotten no "No" votes. I came from the Board of Supervisors earlier and it was unanimously approved. We're waiting on the Mayor's signature, pending your approval. We will then have full authority to execute. From there we hand it back to the Army Corps of Engineers and do everything we can to help them accelerate so that it gets executed by the top officer in the Army Corps prior to January 20.

Lastly, we're pretty familiar with dredging here at the Port. When it says that we're waiving the environmental code by ordinance, it causes some concern. To reiterate, all of the permitting, all of the regulation comes from state law. It's going through all the standard processes that we go through when we dredge. It's been thoroughly tested. The Army Corps is taking on NEPA. It's had its CEQA CatEx issued. We're ready to go. We've been working on this one a long time.

Ellen Johnck, Co-chair of the Maritime Commerce Advisory Committee - Congratulations to Port staff for working on this not just since 2009 but way before that when Carl Hanson was running the shipyard. Before Hugh came, we started calling the Army Corps of Engineers' attention to the dredging need in this Central Basin. I am absolutely thrilled that this has reached the pinnacle of where it is today. Because it's so tough to get this money for this kind of project. I heartily endorse your approval of the agreement.

Commissioner Katz - Great presentation. I know a lot of hard work went into it so I look forward to seeing the results.

Commissioner Brandon - Congratulations to everyone involved in this. This is absolutely wonderful and hopefully we can find more funding like this.

Daley Dunham - Congratulations to you too. I didn't get to say that earlier.

Commissioner Kounalakis - I agree, it's tremendous. I think Ellen said it earlier, it's a great time for Maritime today. This is terrific news so thank you for all of your hard work and what a great boon for the Port and for the City.

Commissioner Adams - Great work guys. Thank you.

ACTION: Commissioner Brandon moved approval; Commissioner Katz seconded the motion. All of the Commissioners were in favor. Resolution No. 16-48 was adopted.

13. ENGINEERING

A. Informational presentation on Contract 2762R, Roof & Structural Repair Project at Pier 31.

Wendy Proctor, Senior Architect for the Port of San Francisco - I'm Project Manager for the Pier 31 Roof & Structural Repair Project. I'd like to provide an update on the project and to advise you on a budget and time impacts due to additional unanticipated critical repairs.

This project rehabilitates a 98-year-old asset and an important resource to the Embarcadero Historic District. The project supports our Strategic Plan Goal Renewal. This underutilized site will soon house the Department of Elections, the National Park Service and continue to have public parking.

The Notice to Proceed for the project was March 7, 2016 and the substantial completion was planned to be October 2nd with final completion on December 1st. We're anticipating substantial completion to be closer to December 23, 2016. During construction a number of unanticipated critical repairs were found which is impacting the budget and the schedule and at this time, the project is 95%

complete. The current anticipated substantial completion will be December 23rd, weather permitting. We're experiencing a lot of rain at this time.

The facility was last roofed in 1946, 70 years ago. The shed superstructure has suffered significant deterioration from extended water intrusion and was red-tagged in early 2009. At that time, Port Maintenance installed Port engineered designed shoring which held the building in place until the repair project was able to commence.

The project is providing living wage jobs for San Francisco Local Business Enterprises. The project supports our Strategic Plan Goal Livability. The General Contractor, Roebuck Construction and three of the project sub-contractors performing roofing, window and structural repair work are certified LBE contractors located in the 94124 zip code area providing 87% local participation of the contract amount.

The percentage amount will increase once the project is complete. It's worth noting that prior to this project, Roebuck Contractors for this project successfully completed three other Port projects on time and on budget.

Some examples of the additional unforeseen dry rot. We had a number of additional beams, ledgers, posts that required repair and replacement once the deck was uncovered, a number of these were additional to what was observed during the site investigation was found. Special ordering of the materials impact the schedule. Additional materials and associated labor also impact the costs.

This project uses best practices for construction which supports our goal of Sustainability. The contractor is reusing wood timbers that are still in good condition on the roof deck and also that reduces construction waste. Wood members that are in good condition but could not be reused are being made available to lumber recyclers.

Some of the work that was found is truss repairs. This is one of the subcontractors that's a local LBE doing the truss repair work on site. We had one major truss repair designed and then we had three additional truss repairs.

In this drawing is the document that's being used by our construction management team who's doing a fantastic job tracking very diligently each member that was part of the contract and what was additional to the contract so that we are working very collaboratively with the contractor to track what's additional, what's part of the contract, getting credits where due so that we're really minimizing the additional cost and time.

In short, we have about 43 additional beams, 12 additional column and 10 additional diagonal braces that were found beyond the anticipated design. Also, once the roofing material was removed, we found that the deck surface was much more uneven than we had ever seen on any other project that we had

done before with the Port due to the extended time between the last roofing and this roofing. That required that we put in a retrofit board which provides a leveling surface to put the new roof on and that was an additional cost and material.

Once the roofing material was removed, we found some areas where concrete had spalled. There was an inverted corner that had to be repaired and there was some signs that were hung off the back of the building that had split the concrete a little bit that had to be repaired.

Once the roofing material was removed, we found an expansion joint that wasn't readily observable and that required a special flashing detail which will be custom made and it was also not on the original drawings. Once the roofing material was removed, we found that there was dry rot on the two towers that flank each side of the arch on the roof side of those towers. We had to rebuild the backs of those and repair the deck underneath it. We also have rerouted the water so it won't settle there anymore.

In Pier 29½ due to some settlement in that area, we had a gap that was revealed that had to be filled in with custom cut boards. Inside Pier 29 underneath that, we found more columns to be out of plumb than we had initially anticipated and had to stabilize those in place so we can continue to use that facility for public parking.

Lastly, when we removed the roofing material, it revealed a large sagging area. When we investigated what was underneath, we saw that one of the trusses inside Pier 29 had been run into by a piece of equipment and bent the metal bar and separated it from its truss.

The area was sagging and since it was under the area where we were doing the roofing work because we had to go beyond the expansion joint that area needed to be repaired. All these added a little time, a little bit of material, labor, and special ordering required.

The project is near completion and the contractor's been very collaborative with us and due to this unforeseen work, it is anticipated that we'll be completing the work at the end of December, weather permitting. Our additional costs are approximately \$4.7 over the 10% contingency. After the final determination of our budget and our schedule, we will be returning to you with a request for an extension of time beyond the 10% and an additional increase of contract cost.

Commissioner Brandon - Thank you for your report. When we first bid this, how close was the next bidder or the distance between the bids when we received this one? I know we asked, "Are we sure that this could come in on time and under budget?" I'm just wondering if we had selected another bidder, if there was some close proximity, would this still be an issue?

Wendy Proctor - Yes, absolutely, because the contractor's bidding on the contract documents. Generally, the contractor won't give their work away for free. These are uncovered conditions that weren't in the contract documents. If there's additionally ledger beams, etc. that are discovered because the deck is being removed, there is no way that would be a bidding issue. That would be on the contractor's side.

Elaine Forbes - In answer to your first question, neither Wendy or I remember how the bids came in on Pier 31 in terms of the pricing of the second place bidder but we can provide that information to you.

Commissioner Brandon - So the total change orders are \$863,000?

Wendy Proctor - We have a total change order process to date of \$563,000.. We'll have an additional \$300,000 approximately.

Commissioner Brandon - And this is because of what we didn't foresee.

Wendy Proctor - Correct. It's very difficult when we go into the facilities to anticipate every repair. Because often, especially with the roofing, when you take the material off, we can't take the roof off to do the investigation when we're doing the design so the contractor does it. The concrete spalling is revealed or additional dry rot is almost always revealed.

Commissioner Kounalakis - That's a great report. On your summary about the history of this project, it said the shed was red-tagged in 2009. Does replacing the roof change the status of the shed being red-tagged or is it other things as well?

Wendy Proctor - Often a roof is combined with a Structural Repair Project because of the age of our facilities. Not all of them, like the one Pier 23 that's on the agenda today also. It is a 1936 facility and it doesn't have the level of water intrusion because it was roofed in 1976 or so. This one, along with Pier 33 that we did 10 years ago, those projects have to go hand-in-hand with structural repairs. Because they are all wood structures so they tend to have areas where there's a confluence of a horizontal to a vertical where water will sit and get in there and there'll be dry rot.

Elaine Forbes - In answer to your question, it will remove the red tag.

Commissioner Kounalakis - That's great news. So this is going to end up beginning to earn income fairly soon.

Elaine Forbes - Yes. There's already a Leasing Plan. Wendy went through some of the future tenants. The Department of Elections which is a City agency, National Park Service and there may be other tenants as well.

Wendy Proctor - The public parking will be back in place imminently. It should be in place by December 19, 2016.

Commissioner Katz – It's always disheartening when we see the little change orders exceeding what we'd anticipated but certainly understandable. When we select a bidder on these projects, do we have a way of determining how they charge us on the change orders? In other words, often our projects do see increased costs because these are such old buildings and there's so many hidden surprises. We often select a lower bidder, but do we have any way of corralling in how much we get charged when unforeseen circumstances increase the cost?

Wendy Proctor - What we do is we have a way of bidding the project, which we did on this project. We provided an allowance amount for unforeseen, that was specific for unforeseen dry rot. We tried to anticipate a reasonable amount for that. When we negotiated the additional amounts of dry rot beyond when we exceeded that amount. For this project we had an allowance of \$150,000 specific to dry rot repair. When we exceeded that amount, those continued dry rot repairs were negotiated at that rate, which is a better rate than it would be if it was a straight change order based on the contracting that's used.

Commissioner Katz - Thank you. It's exciting that we'll be having this back online soon.

Commissioner Adams - I just wanted to say thank you very much. I appreciate it and thank you.

14. FINANCE

A. Informational presentation on the Port's 10-Year Capital Plan for Fiscal Year 2018-2027.

Ananda Hirsch, Capital Manager at the Port - Like the rest of the City, the Port updates the 10-Year Plan every two years. It's before you today as an information item. We'll come back to you and seek approval on January 10, 2017. With your approval it will be integrated into the Citywide Plan which ultimately goes to the Board of Supervisors for approval.

Before I look ahead to the coming 10 years, I want to take a brief moment to go over some Capital accomplishments from the two years between this and the prior plan. With the Commission's approval, this is the largest Capital Budget ever at the Port, which has been largely attributable to the Port's practice of directing surplus revenue toward Capital improvements.

We also have approval on the first IFD for the Port which will help facilitate rehabilitation of Pier 70's historic core public infrastructure. Other accomplishments include work on the historic Pier 35 bulkhead building and

shed including work on two elevators and addressing water intrusion there. The opening of the Bayview Gateway Project made possible largely with General Obligation Bond dollars for Parks improvements.

The Capital Plan is divided into two main categories of need - State of Good Repair, and Enhancements. On the State of Good Repair side, there are three main categories, the Backlog which represents deferred renewal work. The Renewals which are the work that ideally would happen over the coming 10 years. And a category for onetime costs where we capture code compliance issues and non-cyclical needs.

The 10-Year State of Good Repair need for the Port is projected at about \$1.5 billion, that's down from \$1.6 billion in a prior plan and changes come from a few different factors. One is work completed by the Port and Port tenants. The other are updated cost estimates from our Engineering Department which can increase or decrease costs reflected in the plan and finally, the passage of time.

There are Renewal Projects for the interim two years. If those didn't happen, they've moved into the Backlog and costs are escalated annually. They were escalated at 5% each year, consistent with the City's Capital Plan. We turn to the other half of the need equation and we look at Enhancements.

The Enhancements similarly are broken into three categories – (1) Seawall Resiliency Project; (2) Broader Enhancements to Port facilities; (3) Conditional Seismic. Conditional seismic may or may not be required depending on whether a change use or major rehabilitation would trigger new building code requirements. If we include that number, the total enhancement need is about \$1.8 billion.

That's a decent change from the prior plan. Again, for three reasons. Updated cost estimates include things like Development Projects which are now envisioned to spend more and make greater enhancements so there's an increase there and also the newly identified needs. That passage of time and the cost of doing business increasing over time.

If we take the Enhancement need and State of Good Repair need together, and include that potential conditional seismic need, we get to a grand total of about a \$3.3 billion need over the next 10 years. This Capital Plan is the first time we've incorporated a value associated with the Seawall Resiliency Project.

We've added \$500 million for the 8- to 10-Year Project to significantly improve earthquake safety and performance of the Embarcadero Seawall, provide near-term flood protection improvements, and plan for additional long-term resiliency and adaptation of the Northern Bayfront. In addition, we've added the Mission Bay Ferry Landing which is captured in the Enhancements column and the Port staff continue to work to secure full funding for both projects.

Turning from the need to the available resources. In this 10-year Plan we project \$1.3 billion in funding to be available. That includes about \$350 million from internal sources, the vast majority towards State of Good Repair improvements. The \$940 million in external sources are largely dedicated to Enhancements, but they also make an important contribution to State of Good Repair nearly equaling in dollar value the internal funds directed toward that important work.

The internal sources are primarily the Port Capital Budget and Port tenant improvements. There's a small portion for Port revenue bonds and COPs. This represents expenditure of previous issuances in that category.

On the external source, development projects are the primary contributors. This category includes developer investments and the public finance associated with development projects. About a third of those development dollars are going towards State of Good Repair work and the rest were Enhancements.

There is a significant funding gap as there has been in prior plans. We have about a total revenue of \$1.3 billion and a combined need of as much as \$3.3 billion. If we pull out the unfunded conditional, which may or may not be needed, we have projected revenue sources for about half of the total need. It's about 40% of State of Good Repair that we have funding for and about 60% of the Enhancement need.

On the Enhancement side, the Capital Plan generally in the past has included only Enhancements for which we've had revenue. But in this plan, we've added the Mission Bay Ferry Landing and the Seawall because they're of such importance to the Port and the whole City family and so that's where we see some of the gap on the Enhancement side.

Recently Port staff have had some conversations about what can we do with our limited resources to deal with the backlog and stretch our dollars as far as possible in terms of State of Good Repair. These fall into three broad categories. One is to increase funding sources. The other is to use existing dollars more efficiently and finally to decrease our responsibilities.

In the category of increasing funding sources, this may include work like seeking additional external funding, and we hope to improve our capacity to do this by starting to plan out our priorities for which we will seek external funding sources, something we hope to do through a new five year Capital Improvement Program (CIP).

Ways to increase funding sources, we've talked about pursuing more pre-paid leases to have money now to spend on these important renewals. In the area of using existing dollars more efficiently, this could include things like getting Pier 31 roof done sooner because if we wait, they get more expensive.

In the area of decreasing our responsibility, we have talked about exploring things like transferring responsibility. Something we heard about a bit more with Central Basin. It could also take the form of looking to other City departments who might have more expertise in certain kinds of facilities that we have, such as Parks, and seeing if there's a role for them in long-term maintenance of some of those facilities.

Finally, pursuing additional public/private partnerships which have a great ability to both contribute to State of Good Repair work happening and also in some cases, the developer has taken on longer-term maintenance responsibility so it's moving some of that responsibility off of the Port.

Commissioner Kounalakis - That was very comprehensive and very useful, also really very well laid out. It was really very clear.

Commissioner Brandon - It was very clear and very well laid out. I appreciate this. The good news is, we have \$1.3 billion and we only need \$2.

Elaine Forbes - Sounds better doesn't it?

Commissioner Brandon - It sounds so much better. Thank you, this was wonderful.

Commissioner Katz - Likewise, thank you. It was very clear and appreciate all the work that obviously went in to making it, it's not easy to make it as clear as you did. Thank you, it's much appreciated. I agree, the numbers are a little less daunting than they have been in the past. So the glass is half full I guess.

I appreciate the efforts to look at the alternative sources and figuring out ways, and that's been something that the staff across the board have been really focused on and it obviously shows. I think there's a number of opportunities. I look forward to seeing if there's other ways we can try to put a further dent in these numbers by looking at other partners and options.

Commissioner Adams - When I was looking at you out there in the audience, I thought you were someone's daughter. You look so young.

At any rate, excellent work. I'd never seen you before, but you present very well. It was excellent work.

Commissioner Kounalakis - It's a sign of getting older when the staff looks younger and younger. That's all. Terrific report, thank you.

Commissioner Katz - I think it was a backwards compliment meant to say that it was such a tremendous presentation.

Commissioner Adams - Great work, thank you.

B. Informational presentation on the Port's Fiscal Year 2018-2022 Five-Year Financial Plan.

Meghan Wallace, Port's Finance and Procurement Manager - I'm very proud to have Ananda on board with our staff. I'm here to follow up on the Capital Plan with our Five-Year Financial Plan. I'll be back in January requesting final approval of this plan. I'll walk through a City outlook, talk about the details of what was assumed in the Port's plan, talk about some strategies to consider moving forward.

First of all, the City is required by charter to prepare a Five-Year Financial Plan on every odd Fiscal Year. This year the City is preparing to release a Citywide Plan tomorrow. There were specific details that guided departments on their preparation of individual plans. Some of them are starting with the assumption that the economy continues to be strong, but it's tempered from the prior plan which we're seeing enormous revenue growth as a City and that goes for the Port as well. Employee benefits are major driver of expense citywide that recent actuarial data show that employees are just living longer so departments really have to start putting away higher rates of contributions to employee pensions. So that's a rate of growth of 20% approximately per year.

Additionally for health costs, both for our current employees and for retired employees, we're looking at 9% and 7% annual inflation. Other personnel costs just as the City, they're coming in higher than they were in the prior Financial Plan. Previously, the Consumer Price Index was around 2.75%, pretty well below 3% relatively speaking and now they're averaging out about 3%.

In the Port financial overview, I applied those City assumptions to the Port's financial outlook. In the base case, I assumed moderate revenue growth. There are Port specific details that we applied with regard to leases and growth in specific business areas. I ended up applying the citywide assumption for personnel and non-personnel costs.

Separately, I looked at a low case and highest case scenarios that consider what if we finally hit an economic downturn? We've had a very long growth period so an economic downturn is somewhat expected in the near future. I assumed that would hit our revenue projections particularly. In the high case I tried to assume just the best case.

As you can see from the graph, the base and high cases are very strong and we can feel good about assuming those cases. In the event of an economic downturn, we see some pretty sharp drops and deficits.

This graph depicts the base case. The top of the chart reflects our expenditures in blue. Light blue shows projected surpluses. Red and gold indicates our revenues and so this is actually a balanced budget. It's saying that our gold or

new initiatives on Port revenue streams are actually helping boost the operating surpluses and those surpluses we actually put away to Capital each year.

Having that additional surplus is important for having the base case achieve an average \$17 million Capital Budget. I have to highlight the third year of revenues in the plan, achieve \$125 million. That's both operating revenues in South Beach Harbor and that is a strategic goal for the Port to achieve \$125 million in revenues.

I want to emphasize up front that not only is it great that we're projecting to achieve that goal so soon, but it's critical given the rate of growth on our expense side, if it hadn't been for these new revenue streams, we would actually be seeing some shortfalls even in the base case.

This helps depict where our revenue growth is coming from. The chart shows base case growth. If we didn't bring any new facilities such as Pier 31 online, which is projected to generate more than \$1 million once it's leased and filled and operating, our base case growth would be much smaller. These new initiatives on the right highlight the kind of the diversity of our income stream and these are the things that are boosting our outlook.

We have everything from Pasha and growth in Pasha to bringing the backlands on board in the Southern Waterfront. We're projecting up to \$4 million by the fifth year of the financial plan coming from the backlands and new pier leases and interim parking. This is the Northern Waterfront historic facilities, bringing them online. This is Piers 19 all the way to 31. We have a good deal of new lease revenue coming from that area.

It shows the revenue growth and how we're using that money. Personnel salaries and benefits are capturing a great deal of that expenditure growth. Non-personnel and work orders are smaller slice that's driven primarily by the CPIs, just regular inflation. But the designation to capital is also important to recognize.

This is really linked to our revenue growth based upon the capital policy where we've committed to spending 25% of our operating revenues on capital, either spending it outright in our Capital Budget or putting it away through this designation. This funding identified in this pie chart shows how much we need to spend in the five-year window in order to meet that capital policy.

In the low case, expenses would greatly exceed revenues in most years of the plan. In the event of an economic downturn, our percentage rents are the most vulnerable and we could potentially not initiate leasing in our Northern Waterfront facilities.

What is not shown in this graph is that this assumes our commitment to achieving our Capital Policy, so we would actually still sustain a pretty strong Capital Budget of over \$15 million on average, but that's because based upon

the Capital Policy, we've committed to putting away at least 25% of operating reserves even if that means making cuts on the operating side.

On the high side, if we assumed savings on the labor and enhanced revenues from doing even better on our initiatives that we could see a better outlook. All of those projected surpluses are assumed in the Capital Plan to go into our Capital Program.

Finally, thinking about how we're going to make investments moving ahead. I wanted to touch upon both the debt versus PAYGO. Because that's something that came up when staff brought you the Municipal Debt Policy and our Capital Improvement Plan.

First of all, debt versus PAYGO. We have a debt capacity of approximately \$120 million. But staff advised that we didn't believe that we could actually absorb that additional debt service in our operating budget. As you can see from the base, low and high cases, particularly because of the Capital Policy, we're making a commitment to have a PAYGO program. We don't have the additional money in our ongoing projections to be able to take on over \$9 million of additional debt service per year.

Looking at the base case, we found that we could reasonably increase our debt service by up to \$2 million per year which would generate approximately \$24 million in additional debt proceeds that we could commit to our Capital Program. It's important to think about those tradeoffs, particularly risks associated with the low case that if we took on that additional debt, we would just run that much closer to running into an operating deficit.

One of the best ways staff believes to protect ourselves from that is making sure that if we did pursue a debt issuance, that we were committing those funds to programs or projects that would generate enough revenue to offset the additional cost and looking at the return on investment over the life of that project.

Finally, for the Capital Improvement Plan, the idea is to lay out a Five-Year Plan of projects. The detail, not only phases of projects and help us understand what the potential revenue streams or risk to current revenue streams are with specific facilities, but thinking about where opportunities for going after grants, public/private partnerships, other external dollars that could enhance the work that we do and build a robust Capital Plan.

Commissioner Katz - Again, very clear. I know it's so hard to predict how the economy's going to go. We've certainly had a lot of surprises of late. Is there anything you think we should be paying particular attention to or be prepared for that you haven't included in the report?

Meghan Wallace - I tried to capture all elements of both revenues and expenditures. I think that being able to rely upon the City's Financial Plan

assumptions while I put this together adds a nice level of comfort on the expenditure side. I had no idea that our pension costs would be so high at this point. The Controller's Office serves as a wonderful guiding post for all of this. As a result, it's the revenue side where we need to keep an eye and not only try to meet our goals in terms of completing projects and generating revenues that are projected here, but actively trying to find new projects that can help deepen our revenue base. It creates this cycle that we then need to have the Capital dollars in place to make that investment. If anything, it's trying to stick to the goals laid out here in terms of timing of when we bring facilities online.

Commissioner Kounalakis – This is such a succinct and well-prepared summary. It's also very good to see that there is the capacity for more debt if necessary, to know that buffer is there. Great job, great presentation. It's generally pretty heartening to see the financial profile of the Port.

Commissioner Brandon - Thank you Meghan, this is wonderful. Very well laid out, very easy to read. I'm hoping for the high case, that we have most of our properties leased out and making money for us. Did you say you wanted to meet \$125 million in three or five years?

Meghan Wallace – Three years. That's what I'm projecting we will hit.

Commissioner Brandon - Where do you think we'll be in five years?

Meghan Wallace - In five years, approximately \$133 million.

Commissioner Katz - I remember back when Commissioner Woo Ho was hoping to hit \$100. It wasn't that long ago.

Meghan Wallace - Yes, it's a new day.

Commissioner Adams - Meghan, once again, great work. Very meticulous. This is very great news and thank you for this in-depth report. Thank you so much.

Commissioner Katz – It occurred to me as we're looking at best and worst case scenarios. In terms of increasing our debt, and maybe this isn't something we can do, given that the cost of that is lower now and it's likely going to increase, is there a scenario where we can lock in anything at current lower rates? Would that make sense?

Meghan Wallace - That would be something that we could talk to our financial advisors about. Yes, the interest rates are projected to grow. But I think that pending identifying projects that would capture the return on investment on a short order, we would want to particularly lay out the Capital Improvement Plan and strategize and hone in on those projects that would get us the farthest in terms of issuing debt as opposed to using our own PAYGO program.

15. NEW BUSINESS

Commissioner Adams - Colleagues, do you have anything for the forward calendar, because Commissioner Katz has a special point of privilege. She'd like to speak a couple minutes about the Ghost Ship Warehouse.

Elaine Forbes - I did record a request that the legislative team come back quarterly. We'd already been planning for updates, but you specifically asked for a status report on where the initiatives listed today are and we'd be happy to provide that next quarter.

Commissioner Katz - I apologize, I wasn't here during our moment of silence for the victims of the Ghost Ship tragedy in Oakland. On a macro level when I first heard about it, it was certainly tragic. We all know so many wonderful artists and dynamic young people. Unfortunately a few days later I realized it had hit a little closer to home with a family friend had perished in the fire. A really bright young man that had so much ahead of him and he's an embodiment of the kind of wonderful, young people that were lost in that tragedy.

Again, I hate to say but there but for the grace of whatever, we could be there. I know many years ago we took a lot of flak when we shut Pier 38 down quickly but it struck me that we acted appropriately as soon as we learned of all the extension cords and poor electrical systems there. It shows how it really could happen at any place, anywhere. We all have to be vigilant in taking care of those that are more vulnerable in terms of needing to find inexpensive places for their art to live and other things. It's incumbent upon all of us to recognize opportunities that we have to take care of those that are more vulnerable. My heart goes out to all the families and friends of those that perished in this fire.

16. ADJOURNMENT

ACTION: Commissioner Brandon adjourned the meeting in memory of the 36 lives lost in the tragic Oakland fire on December 2, 2016. Commissioner Katz seconded the motion. All the Commissioners were in favor.

Port Commission President Willie Adams adjourned the meeting at 5:30 p.m.