

## MEMORANDUM

February 23, 2017

**TO:** MEMBERS, PORT COMMISSION  
Hon. Willie Adams, President  
Hon. Kimberly Brandon, Vice President  
Hon. Leslie Katz  
Hon. Eleni Kounalakis  
Hon. Doreen Woo Ho

**FROM:** Elaine Forbes  
Executive Director

**SUBJECT:** Informational presentation regarding the proposed lease with Golden Gate Scenic Steamship Corporation, located at Piers 43½ in Fisherman's Wharf

**DIRECTOR'S RECOMMENDATION:** Informational only - No action required

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### **Executive Summary**

Golden Gate Scenic Steamship Corporation, more commonly known as Red and White Fleet, is a 124-year old San Francisco excursion tour boat business. Red and White Fleet seeks a long term lease renewal (20 years or more) with the Port. Within the lease area, Red & White Fleet proposes to construct modifications and improvements to its water and shoreside operations. The proposed improvements will enhance the business efficiency of the operations, increase ridership capacity, beautify the site and improve the public and visitor experience.

Red & White Fleet is prepared to invest approximately \$4.6 million into the renovation and expansion of its shoreside and waterside premises at its sole cost. In return for this investment, Red & White Fleet requests a lease term sufficient to amortize the cost of the improvements. The proposed project and tenant's ongoing financial performance falls within the parameters of the Maritime Excursion Lease Renewal Policy, subject to final business terms.

The renewal lease would provide for the greater of guaranteed monthly base rent or percentage rent on gross sales, whichever is higher. In recent years annual gross sales and corresponding revenue to the Port have consistently grown and supports a reinvestment into the site. Red & White Fleet has received numerous awards for its environmental management practices and is actively pursuing alternative renewable fuels and a hybrid vessel to expand its fleet.

**THIS PRINT COVERS CALENDAR ITEM NO. 11A**

## **Strategic Objective**

The proposed Project is expected to contribute in a substantial way to meeting the *economic vitality and stability objectives* of the Port's Strategic Plan.

- *Economic Vitality Objectives:* The proposed Project anticipates the development of a fourth berth at Pier 43½ to accommodate increased bay cruise capacity, supporting the Economic Viability objective designed to expand active water berths.
- *Stability Objectives:* The proposed Project retains an important Port visitor-destination and increases Port revenues from the Site, supporting key Stability objectives aimed at retaining a diversified tenant base and increasing Port revenue.

## **Background**

The predecessor to Red & White Fleet was founded in San Francisco in 1892. The Crowley and Escher families have continuously owned and operated the company located at Pier 43½ in the heart of Fisherman's Wharf. Red & White Fleet provides educational and recreational access to the San Francisco Bay, offering historical tours narrated in 16 languages. Red & White carries approximately 500,000 passengers on over 5000 trips per year under the Golden Gate Bridge and around the San Francisco Bay. These trips provide access to school groups throughout the Bay Area and residents of the Laguna Honda long-term care facility.

Red & White Fleet has received the following noteworthy awards for environmental stewardship:

- State of California's WRAP (Waste Reduction Award Program) for 14 years (every year the program was offered 1999-2012).
- Multi-year recipient of the Bay Area Air Quality Management District's Carl Moyer Program, surpassing all compliance dates for USEPA Tier- rated emission standards.
- A forerunner with the use of alternative fuels, e.g. emulsified fuels, biodiesel, CNG and LH2 applications and studies.
- Member of the Passenger Vessel Association's GreenWaters program.

Red & White Fleet operates a fleet of four vessels for daily bay excursions on a schedule that varies seasonally and is also available to private parties. To serve San Francisco's international visitors, Red & White Fleet offers an audio tour in 16 different languages. Outlined below is the current fleet:

<b>Red &amp; White Fleet Vessel Summary</b>				
<b>Vessel Name</b>	<b>Length</b>	<b>Sightseeing</b>	<b>Seated Buffet Cruises</b>	<b>Reception</b>
M/V Zalophus	124'	600	170	450
M/V Royal Prince	83'	400	120	N/A
M/V Harbor Queen	82'	300	80	N/A
M/V Harbor Princess	82'	300	80	N/A

## Project Description

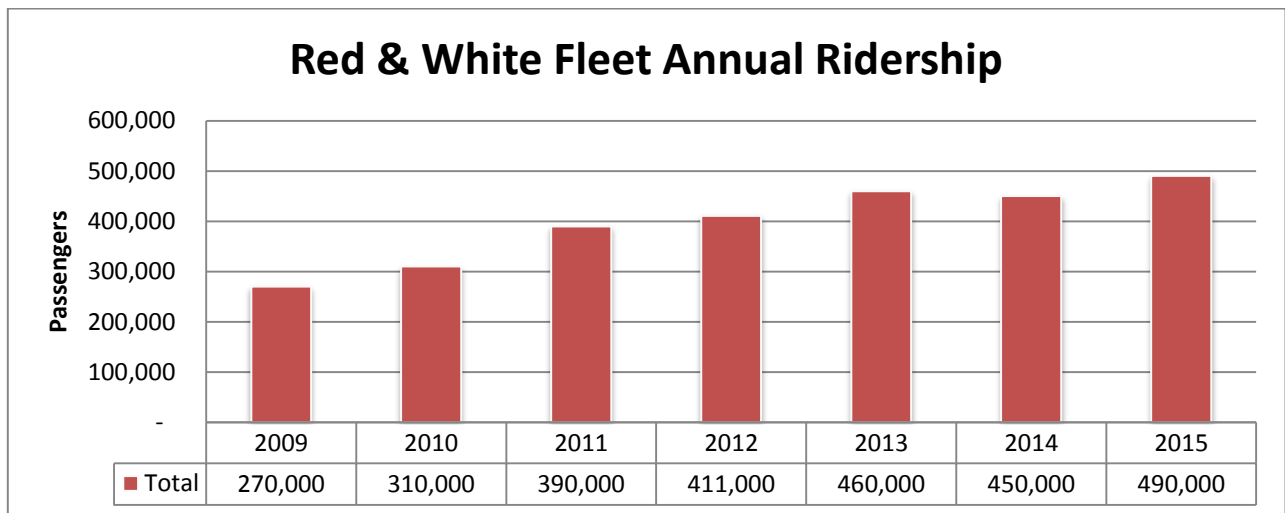
### Current Pier 43½ Site

The current site consists of a portion of the Pier 43½ marginal wharf with berths extending into the Bay. The site is highly visible with an iconic sign depicting a Red and White Ferry. The site is adjacent to the Franciscan Restaurant on the South and the USS Pampanito berthed along the north apron of Pier 45 on the North. The current landside area of the existing lease is approximately 4,430 sq. ft. of primarily open wharf with a small ticket pavilion (430 sq. ft.) and a passenger queuing area to board the vessels. The lease is in need of adjustment to conform to the new public access that the recently completed Pier 43 Promenade project created.

The waterside leased space covers 15,274 sq. ft. comprised of berths for three vessels with two ramps and floats used to board vessels. Since the site includes only three berths, the fourth vessel is kept in a temporary lay berth nearby on the Pier 45 south apron. The berth space has historically been confined but the Pier 43 Promenade Project demolished some of the waterside impediments. (“Existing Site” shown on **Attachment A**)

### Proposed Redeveloped Pier 43½ Site:

The increased volume of visitors to Fisherman’s Wharf, the creation of the new Pier 43 public promenade and growing bay excursion ridership is straining Red & White’s capacity within its current footprint to serve the public efficiently. To meet the increased demand as shown on the attached graph, Red & White Fleet recently added a new fourth vessel which is double the capacity of the two older vessels.



Red & White Fleet proposes to expand both its shoreside and waterside premises. The expansion in the shoreside premises will improve queuing, public access and provide for a slightly larger ticket pavilion. The expansion of the waterside premises and related improvements would allow the Fleet to be kept at one location, improve passenger loading efficiency and provide for long term growth and the ability to accommodate a fourth boat of about 600 passenger capacity.

As a result of the ridership growth and need to improve the operational efficiency of the site, Red & White Fleet engaged an architect, MK Think, who developed plans for Shoreside improvements and a Marine Engineer, CLE, for studies and plans for the Waterside improvements. Based on the initial plans, Red & White Fleet has prepared preliminary cost estimates for its proposed improvements including Waterside improvements of approximately \$3 million and Shoreside improvements of approximately \$1.6 million (not inclusive of contingencies), for a total investment of \$4.6 million. The proposed improvements would be undertaken at Red & White Fleet's expense and are generally as follows:

Waterside:

- Adjust the site's capacity from the current three vessel berths to four by relocating one of its floats 40 ft. east of its current location.
- Remove 8 float guide pilings and reinstall them at the floats adjusted positions.
- Install 8 new fender pilings.
- Install two gangway landings over the water.
- Install two cantilevered walkways, one north of the ticket booth and one walkway east of the eastern passenger gate.
- Replace existing gangways with new gangways.
- Dredge approximately 2,184 cu. yds. of sediment including piling and construction debris from prior adjacent demolition area.

Shoreside:

- Replace the current 430 sq. ft. ticket booth facility with a 580 sq. ft. ticket booth which will include a four window ticket counter, a cash handling office/staff support room and an employee, ADA compliant restroom and break room.
- Public access: Redesign circulation and queuing for the tour boat riding public and general pedestrian public.

**Lease Summary and Recent Financial Performance**

Red & White Fleet has been operating under the existing lease since May, 1975 which expired in July 2015 and is currently operating on a month-to-month basis. The lease provides for the Port to receive the greater of guaranteed monthly base rent or percentage rent. Current monthly Base Rent is approximately \$25,000 and is adjusted periodically per increases in the CPI. Percentage rent is currently set at 7.5% of Gross Sales for ferry excursions and a schedule for ancillary retail sales ranging from 8.5% to 10%. Percentage rent for all categories was recently increased to reflect current market conditions.

Based on the Annual Gross Sales and Percentage Rent Revenue table below, Red & White Fleet has consistently increased its Annual Gross Sales over the past 4½ years and the resulting percentage rent payable to the Port. Percentage Rent has exceeded Base Rent by a significant amount in each quarter.

Red & White Fleet Sales & Rent FY13 - Present					
Fiscal Year	Reported Gross Sales	Base Rent	Perc. Rent	Total Rent Paid	
2013	\$ 8,219,085	\$ 216,859	\$ 580,285	\$ 797,144	
2014	\$ 9,197,695	\$ 222,711	\$ 650,907	\$ 873,618	
2015	\$ 10,561,571	\$ 287,081	\$ 746,539	\$ 1,033,620	
2016	\$ 11,599,578	\$ 294,976	\$ 762,455	\$ 1,057,431	
2017 (1st Half)	\$ 6,847,004	\$ 147,847	\$ 520,428	\$ 668,275	
<b>Total</b>	<b>\$ 46,424,933</b>	<b>\$ 1,169,473</b>	<b>\$ 3,260,615</b>	<b>\$ 4,430,088</b>	

### Maritime Excursion Lease Renewal Policy

In April 2010, the Port Commission adopted by Resolution 10-16 the Maritime Excursion Lease Renewal Policy as a way to protect maritime and excursion uses at the Port. The policy is intended to ensure that maritime excursion leases are equitably administered, are fairly valued, generate revenues to the Port and serve San Francisco residents and visitors. There are a number of requirements, conditions and obligations outlined in the policy and the policy is attached as **Attachment B**.

Port staff believes that the policy serve as the basis for entering into a lease renewal at Pier 43½ with Red & White Fleet instead of offering the site in a competitive bid and seeks Port Commission confirmation of this policy decision.

### Climate Action

The Project will anticipate future Sea Level Rise and provide on-site adaptation measures as reasonably needed to protect from flooding.

### Next Steps

Since the project will involve a larger dock footprint in the Bay and the reconstruction of the ticket booth along the San Francisco waterfront, several regulatory approvals are needed for the Project. At this early stage, these have been identified as possibly including:

- **The Planning Department** - Environmental review under the California Environmental Quality Act (CEQA) including a Historic Resource Evaluation (HRE) review
- **Dredge Material Management Office** – Review of dredged material by participating agencies
- **San Francisco Bay Conservation and Development Commission (BCDC)** – Possible Design Review Board (DRB) review and BCDC permit
- **Port of San Francisco** – Possible Waterfront Design Advisory Committee (WDAC) review held jointly with BCDC’s DRB and Port Building Permit
- **Regional Water Quality Control Board** – Water Quality Certification
- **Army Corps of Engineers** – Nationwide Permit with informal consultation with National Marine Fisheries Service/Fish and Wildlife Service

Red and White Fleet submitted an environmental review application to the Planning Department. Red and White Fleet and the Port have started discussions informally with BCDC and plan to submit a BCDC application soon. Other regulatory agency applications will follow.

Port staff seeks comment, input and guidance from the Port Commission on Red & White Fleet's proposed lease renewal and project. It is anticipated that a term sheet will be finalized in March and a new lease will be prepared for the Port Commission approval following environmental review.

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**ATTACHMENTS**

Attachment A: Site Plan

Attachment B: Maritime Excursion Lease Renewal Policy

Attachment C: Proposed Project Renderings