

**CITY & COUNTY OF SAN FRANCISCO
PORT COMMISSION**

**MINUTES OF THE MEETING
APRIL 11, 2017**

1. CALL TO ORDER / ROLL CALL

Port Commission President Willie Adams called the meeting to order at 2:00 p.m. The following Commissioners were present: Willie Adams, Kimberly Brandon, Leslie Katz, Eleni Kounalakis and Doreen Woo Ho.

2. APPROVAL OF MINUTES – March 28, 2017

ACTION: Commissioner Woo Ho moved approval; Commissioner Kounalakis seconded the motion. All of the Commissioners were in favor. The minutes of the March 28, 2017 meeting were adopted.

3. PUBLIC COMMENT ON EXECUTIVE SESSION

4. EXECUTIVE SESSION

A. Vote on whether to hold a closed session and invoke the attorney-client privilege.

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

At 2:04 p.m. the Commission withdrew to closed session to discuss the following:

- (1) Discussion and vote in open session whether to meet in closed session regarding the following matter pursuant to California Government Code §54957(b) and San Francisco Administrative Code §67.10(d) (Discussion and possible action).

PUBLIC EMPLOYEE APPOINTMENT/HIRING

Title/Description of position to be filled:

- Port Planning Deputy Director
- Senior Deputy Director, Chief Operating Officer

- (2) 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 Item)

- a. Property: Pier 33½, located on the Embarcadero at Bay Street.
Person Negotiating: Port: Mark Lozovoy, Acting Deputy Director, Real Estate
*Negotiating Parties: Queen’s Louisiana Po’-Boy Café, LLC: Troy Reese
- b. 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

5. RECONVENE IN OPEN SESSION

At 3:22 p.m., the Commission withdrew from closed session and reconvened in open session.

ACTION: Commissioner Brandon moved approval to reconvene in open session; Commissioner Woo Ho seconded the motion. All of the Commissioners were in favor.

Commissioner Brandon – The Commission has recessed Closed Session and we will be going back into Closed Session after the Open Session. Regarding the personnel item under Agenda Item 4A, I would like to disclose that the Commission unanimously approved the appointment of Diane Oshima as Deputy Director for Planning and Byron Rhett as Senior Deputy Director, Chief Operating Officer.

Commissioner Adams - Congratulations Diane and Byron.

6. PLEDGE OF ALLEGIANCE

7. ANNOUNCEMENTS – The Commission Affairs Manager 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

Elaine Forbes, Director of the Port - I would like to acknowledge and welcome our new CFO Katie Petrucione. Katie has several decades of City experience and is coming to us from the Rec and Park Department where she has helped the Rec and Park Department get on its feet financially, has drove a lot of investment into our parks, is a very skilled personnel manager. Her team loves her and is very upset with us. We're very happy to have her joining the Port in our Senior Leadership Team.

- Bethlehem Shipyard Museum's 1906 Earthquake Photo Exhibit at Pier 1 – April 14 to May 4, 2017

The Bethlehem Shipyard Museum's 1906 Earthquake Photo Exhibit will be in Pier 1, from April 14th through May 4, 2017. This is an exhibit of the history of the 1906 great earthquake and fire and is put on by the Bethlehem Shipyard Museum in partnership with the San Francisco Museum.

The exhibit will be located in our lobby at Pier 1 and will be open to the public from 8:00 AM to 5:00 PM. The exhibit consists of historic photographs and documents as well as video images of the great earthquake and fire and the recovery efforts. The Bethlehem Shipyard Museum is a not-for-profit organization established by retired staff of Bethlehem Shipyard at Pier 70 of the Central Waterfront.

The organization is dedicated to preserving the shipyards historic legacy through archive work, of historic information, oral histories, photographs and artifacts. This is a great opportunity to learn about the 1906 earthquake and consider the city's vulnerability to future earthquakes. You can learn more at <http://bethlehemshipyardmuseum.org>.

- San Francisco Heritage Soiree – May 13, 2017 at the Ritz Carlton Hotel

The San Francisco Heritage Soiree is scheduled on Saturday, May 13, 2017 at the Ritz Carlton Hotel. Architectural Heritage will hold its annual fundraiser at Landmark No. 167 on Nob Hill from 6:00 PM to midnight. This year's Soiree has the theme of the 50 year anniversary of the summer of love and landmarks from the Haight-Ashbury neighborhood.

This is a unique opportunity to enjoy San Francisco history. It's a black tie affair. The Heritage's mission is to preserve and enhance San Francisco's unique architectural and cultural identity. Heritage is a significant waterfront partner of the Port and has a collaborative relationship on preserving Port property and on planning issues.

- Proposed Port reorganization to further advance Port 2016-2021 Strategic Plan goals and objectives

I'd like to present the Port's proposed reorganization to further advance our Strategic Planning goals and objectives

The Port, as you know, is a very successful Port. We have a great diversity of uses and our waterfront draws over 24 million people to it every year for a variety of activities. We manage 600 leases over our seven and half miles of waterfront property. The richness and diversity of experiences with general public Open Spaces makes our waterfront very unique.

To make and keep this waterfront great requires that our Port staff have a very broad set of responsibilities to promote Maritime commerce and to preserve and enhance the waterfront. Today I will discuss with you a proposed reorganization that I will make to help staff achieve our goals and to help staff achieve goals in a way that is more effective and efficient for us.

We have a strong foundation of planning efforts that drives our goals. In February 2016, we adopted the Port's 2016-21 Strategic Plan which articulates our vision for delivering the Port modern day mission. This plan has seven strategies and 42 objectives. We have 245 employees working to accomplish this very aggressive agenda.

In addition to our Strategic Plan, we have the Waterfront Land Use Plan which is a tool that provides for the long-term vision of how we are to use Port lands and our Capital Plan which is an expression of Port's property needs and funding sources. Together, these planning documents help guide us in what's most important for the waterfront and how to achieve our goals.

We have more responsibility than staff. That's what the teeter totter is meant to convey. As a new Director, I've conducted a review of our internal communication and organizational structure and measured it up against our very aggressive agenda in the Strategic Plan. The goal of this is to harness the considerable capabilities, creativity, initiative and hard work of our resourceful staff.

We are a largely successful organization that operates in concert with its mission and excels in many areas. But the department does have more demands than staff resources and staff struggles to prioritize work and feels pressure to do more with less. There are key improvements to our organizational structure that will improve our ability to meet our objectives more effectively and ease pressure on our staff.

The reorganization I am proposing has three key goals. One, better integrate the business units. Create a strategic framework and direction for asset development and management and to broaden the Planning Division's essential services.

This is a reminder of our Strategic Plan that has a very clear mission and vision and seven key goals. This proposed organizational structure supports all seven goals. It has a focus on the fundamental goals that relate to the business units of Renewal, Economic Vitality and Stability.

The current structure which has been in place for several decades has Property Management in three divisions of the organization, Real Estate, Maritime, Planning and Development. Each division has specific goal for the use of Port property and the result has been tremendous. The Port has over 600 leases and we have caused the investment of \$250 million in private investment in Port facilities since 2006. These are very notable accomplishments.

However, because the business units are separated, they do not operate under one unified strategic framework. The structure results in a business model with three distinct and separate business units with different goals and objectives that all impact property. This also results in staff working on separate assignments reducing opportunities to collaborate unless self-initiated or specifically directed by management.

Staff has self-directed integration and has moved over time to an integrated approach to property and asset management. The result is a better use of our property, more diverse and public serving. This is in contrast to the original vision of the 1997 Waterfront Land Use Plan under which the Port would conduct Maritime and interim leasing activities, but turn to private development partners for most major upgrades to Port property.

Increasingly, the Port is undertaking major development and leasing efforts on its own account. This includes our own James R. Herman Cruise Ship Terminal development, Pier 9, the Jamestown Project at Pier 29, Alcatraz Landing and Pasha Automotive at Pier 80. As an example here, the James R. Herman Cruise Ship Terminal which is one of the most fundamental Maritime projects that we've advanced in your term, yet we have Special Events and parking being a major source of revenue, a Real Estate activity.

We have a variety of funding sources causing the project and a public park, a 2.7 acre public park that a GO bond paid for that was managed out of our planning division. So even in this Maritime project, you see the success coming together from Planning & Development and Maritime.

I am proposing an integrated approach to asset management which will reflect what staff has already begun to do with great success. This proposed change would include a Senior Deputy Director, our Chief Operating Officer. You've already noted that will be Mr. Byron Rhett. Development staff will be reassigned to the Real Estate Division and we will have a standalone Planning Division under the direction and leadership of Miss Diane Oshima.

This is a hard to read organizational chart that Amy and I will provide to the Commission and the public for further review. Basically what you are seeing here is the Port Commission reporting to the Mayor and I report to the Port Commission. There's a Directors' Office that includes the Chief Operating Officer. The Chief Operating Officer will be responsible for Maritime, Real Estate and Development. I will be responsible for him, Finance and Administration, Engineering, Maintenance and Planning.

Under this structure the business units are integrated and reporting to the Chief Operating Officer. The benefits here are enormous for us. We can innovate asset development and management and streamline our business processes, leveraging on the considerable talents in each of these divisions for a unified end for our property.

The Planning division serves a very critical and important function for our department. The Planning division will support our business units, in addition to development to the Real Estate and Maritime goals. We'll focus on emerging issues like Sea Level Rise, Water Transportation and will continue to deploy the very highest standards of stakeholder engagement.

There is much work ahead for the Planning group and much guidance that the Planning group will provide us in improving the Port's public realm, in protecting its historic resources, in engaging the public for the Update to the Waterfront Land Use Plan, in working through our policy frameworks and with our regulatory agencies, BCDC, State Lands, etc.

This is a trial period. I am proposing this reorganization today. Staff and I will deploy it and we will fine tune based on how it works and we will come back to you in February through the budget process with a formal proposal for reorganization through the budget. We may find additions that we'd like to add or subtract if it's not working well. I have confidence in this reorganization proposal because this is much as staff is already working today to meet the Port's modern day challenges.

B. Port Commissioners' Report:

Commissioner Katz - Congratulations to our tenant the Giants for winning opening day at the home field yesterday.

Commissioner Adams - I'm going to read a letter that was sent to all the Port Commissioners as an FYI for the public and if Director Forbes would like to comment thereafter. The letter is from Ron Courtney, San Francisco businessman.

"Dear President Adams, there is a serious problem on the Embarcadero from Pier 1 to Pier 35 with unlicensed food vendors. They have no health permits, collect no sales tax, pay no rent to the Port, pay no payroll taxes, no sales permit, no insurance requirements and no real estate requirements. If this is not

stopped now, there will be a proliferation of food vendors by summer. Sincerely, Ron Courtney. San Francisco businessman."

Elaine Forbes - Thank you for the comment. This is an area that we coordinate with the Department of Public Health and the Police Department. It is an area that we've had ongoing enforcement activities and it has been a persistent problem. We will double down on efforts in this area.

Commissioner Adams – I just want to give a quick report on what I've been doing since the last meeting. I just got back yesterday. First I went to Singapore and I got a tour there. Singapore is the second largest Port in the world. I had some meetings with people about what they're doing about Sea Level Rise, earthquakes, infrastructure. One of the things I like about Singapore that they have a lot in common with San Francisco is cruise ships and ferries. Ferries are a big way to get around in Singapore.

From there I attended a conference in Perth, Australia with Labor unions. I also went to the Port there to see what they're doing in the Port of Fremantle. Back in the '80s, Fremantle was one of the first ports in the world to have the America's Cup. They also have a lot of ferries.

Australia is a very beautiful country. On the political front there, they just had a big political revolution in their country whereas, like here, we have Democrats and Republicans. There they have Labor and Liberals. Liberals are the Republicans and Labor are the Democrats. They'd had a big counterrevolution and now the Democrats are back in power and they have a lot of situations where a lot of foreigners are coming in from Indonesia and other countries taking the work of Australians, and they're fighting as Australians to do the right, and to do work in their own country.

Also, I met Bill Shorten who is the opposition. He would be like the Nancy Pelosi. He's running for Prime Minister. Bill came out of the Labor Movement. Some of the things that they're working on is iron ore mining. They're trying to be green and they're trying to be more environmentally correct and they're very interested on what's going on here in America.

One thing that they take pride in is that several years ago, they had a woman, Julia Gillard, she was the first woman Prime Minister of Australia. I had met her. She did a really good job but she got attacked hard by the right wing and basically at the end her own party did her in. I said in America were pulling for women especially for Hillary Clinton. We've never had a woman president. But in England they've had two women Prime Ministers and in Australia, they've had one. One day in the States we will, hopefully, have a woman president.

10. REAL ESTATE

- A. Request approval of a Five (5) Year Lease (No. L-16159) between the Port of San Francisco and IDEO, LP for approximately 26,901 square feet of office space located at the Pier 26 Annex Building, subject to approval by the Board of Supervisors. (Resolution No. 17-18)

Elsa Lamb, Commercial Property Manager for the Port of San Francisco - I'm here to request approval to enter into a five-year lease with IDEO LP under lease number L-16159. IDEO is an award winning global design and innovation consultancy firm. They focus on designing consumer products and are highly sought after as a design thinking firm. Although they are credited for many of their designs, one of IDEO's many successes is they designed Apple's first computer mouse.

IDEO has been a tenant of the Port since 1990s. Their offices are located at Pier 26 Annex which is south of the Ferry Building, north of Pier 28. Pier 26 is approximately 26,900 square feet of enclosed pier space, which IDEO occupies entirely for their general office use and their model-making workshop. Occupancy limitation is 208. The use is a continuation of existing and related uses and therefore not a project that is subject to review by the California Environmental Quality Act, CEQA.

IDEO is seeking a five-year lease with a Right of First Offer. The rental rates for the lease conform to the parameter rent schedule approved by the Port Commission. Because rent revenues under the term of this lease will exceed \$1 million, the lease will require approval by the Board of Supervisors under charter section 9.118.

At the end of the term, the tenant shall have a one-time right to submit a written offer to renew their lease. Should the rent extend \$1 million for the extension period, then we will have to come back to the Port Commission and to the Board of Supervisors for approval again. The Port is required to maintain the substructure roof and the exterior walls of the premises, with the exception of the doors, windows, and a staircase and ramp that is located on the westerly side of the facility which the tenant is required to maintain.

The tenant is responsible for its utilities, maintenance and repairs. This lease achieves the goals and objectives of the Port's Strategic Plan by: (1) promoting economic vitality, by maximizing asset value and income stream to the Port; and (2) by creating stability, by increasing Port revenues and retaining diversified tenant base that will perform through economic cycles.

IDEO is a tenant in good standing pursuant to the Port Commission policy. Therefore, Port staff recommends and hereby requests approval to enter into Lease No. L-16159 with IDEO.

Commissioner Kounalakis - How many people do they have working down there?

Elsa Lamb - The occupancy load is 208. They cannot have any more than that. They do have offices in Palo Alto, which is their other bigger office. I understand that they have met the maximum there because they did come back and ask if we could increase that. We could not be able to, per the Fire Marshal.

Commissioner Kounalakis - Are there any issues of concern so far in terms of how they've been as a tenant?

Elsa Lamb - They've been a wonderful tenant. They're a model tenant for the Port of San Francisco.

Commissioner Brandon - Thank you for the report. What is the rate of their current lease?

Elsa Lamb - The rate of their current lease is below the current one now. They currently are operating under two separate leases. What we've done under this lease is combine both leases into one. They are just under the parameter rent approved for this last year. This is why we're actually renewing their lease so they can actually beat parameter rent and extend their lease.

Commissioner Brandon - The parameter rent, is it at the lower, medium or high end?

Elsa Lamb - It's at the low end.

Commissioner Brandon - Why is that?

Elsa Lamb - I can't remember what the low end is, but they're actually a little above the low end.

Commissioner Brandon - What is that based on? I'm wondering why we're not bringing them to market given the opportunity.

Commissioner Katz - Are you referring to the current lease of the proposed lease?

Commissioner Brandon - I was asking about the current lease and where they are and what the proposed lease is. Right now she's referring to the current lease proposal.

Elsa Lamb - The proposed lease will bring them a little up from where the minimum is, and that's based historically, we've given them 3% increase every year. Even though at one point they may have not reached the maybe current rent, but it's been negotiated in the past.

Commissioner Brandon - Given the opportunity that we have now, why aren't we trying to bring it to market?

Elsa Lamb - It is within market.

Commissioner Brandon - Within, but it's the lower end. Is there something wrong with the building?

Elsa Lamb - There's nothing wrong with the building. The one thing that is coming up is the Seawall Resiliency Project. They would've have had a 10-year lease, but in this case, because of the project, we've limited them to a five-year lease which is why they have the Right of First Offer.

Commissioner Brandon - What are the rent parameters for this space?

Elsa Lamb - Under the lease we're trying to negotiate?

Commissioner Brandon - No, what the parameters are. Not what we're offering them but what the parameters are per square foot.

Elsa Lamb - Unfortunately I did not bring that information with me here today.

Commissioner Brandon - I'm not quite sure I've seen a Right of First Offer.

Commissioner Woo Ho – It's on page three.

Commissioner Brandon - What is the term of the Right of First Offer?

Elsa Lamb - The Right of First Offer allows them to make us an offer based on rates that they have to be within the approved parameter rents. They have to prepare the terms for us and then we have to negotiate from that point on. They are preparing a letter of intent to renew their lease with a five year or 10 year term

Commissioner Kounalakis - I assumed that these rates were predetermined by staff. Because I'm the newest person and this is the first time I've seen one of these explicitly for an extension of a rent this way. They're at the end of their lease and they want to renew their lease. How do you make the decision of what the appropriate rent increase for a lease renewal is? Certainly everything in San Francisco seems to have gone up. All the housing prices have gone up. I assume that commercial space and office space are going up too, across the board. When you sit down in a case like this, how do you renegotiate the renewal?

Elsa Lamb - typically I will look to see what other tenants are paying if they're within the same rental rates. We'll compare to see if they're similar in nature as

far as what the space that they occupy and negotiate from there, basically what the market will pull out there.

Commissioner Kounalakis - You look at comparables that are not within the Port.

Commissioner Woo Ho - No, she's saying within the Port.

Elsa Lamb - This is within the Port.

Mark Lozovoy, Acting Deputy Director of Real Estate - We have parameter rents that are set every year. They're going to be reset again this July. This deal basically is in those Commission approved parameter rates.

Commissioner Woo Ho - For last year.

Elaine Forbes - For this year.

Mark Lozovoy - For this year, for this period, these are the current rates that are in effect for us leasing property. This is actually a complete parameter deal. The only reason it's actually here before you is because it achieves a rental revenue of over \$1 million which then goes to the Board of Supervisors, which is unusual because it's actually a parameter deal. We bring it to you, because we have to bring it to the Board. It's one of those very unusual situations.

Elaine Forbes - Just to reiterate what Mark is saying, you all approve a parameter rate schedule for the entire year that sets market rate for Port properties. Real Estate does quite a bit of analysis to say what comparable properties across the street are valued at. We hire a broker. They help us. We set the rates. You approve them.

If we lease space within those parameters, typically they don't come to the Commission. Here the value of the lease is north of \$1 million which requires Board of Supervisors approval, so we're bringing it to you before we bring it to the Board of Supervisors.

Elsa, I think the question Commissioner Brandon is asking is within that parameter band, why did you pick just north of the lower end. Why not higher in the parameter rent schedule? Can you help us understand the rate you're proposing?

Elsa Lamb - We're trying to also look at what all the other tenants are paying within that same area and the same use and trying to keep within that area. Because this is a five-year lease, there's a 3% annual increase every year for this lease.

Elaine Forbes - You set a rate within market, approved by the Commission but it's on the lower end of the scale because it's consistent with other Port leases.

Commissioner Katz - It reminds me of when my mother used to say to me, "If everyone jumped off the bridge, would you jump off too?"

Mark Lozovoy - If it makes you more comfortable, the parameter for this particular property is one of the higher parameter rates.

Commissioner Woo Ho - Why don't you tell us what are they currently paying, and what will they pay under this lease, so we understand the delta? Just dollars.

Elsa Lamb - Unfortunately I didn't bring that information.

Commissioner Adams - We need that information.

Mark Lozovoy - The lease deal that this is under is \$3.15 a square foot. Is that correct?

Elsa Lamb - Yes.

Commissioner Brandon - For Parcel C and D, but A and B are lower.

Mark Lozovoy - Right because that's a different parameter for shed space, or undeveloped space. These are among the higher rates for this type of shed space that we have at the Port if you look at the entire Port.

Commissioner Brandon - My concern is that we have current tenants and we would love to keep our current tenants but we would also like to bring them closer to market than just at the low end of the parameter rent. I know that we make the parameter rent range because some spaces are better than others. This is a Class A space and we're giving them close to low parameter rent. That doesn't make sense. If we're doing it based on our other tenants, we have tenants who have been here for 40-50 years.

Mark Lozovoy - This isn't Class A office space. It's Class C office space at best. It's shed space basically a studio space but this is market rent for this space. When we set our parameters, we set our parameters for market rents. Our parameter rents are market.

Commissioner Adams - I think we're going to wind up having to hold this item over. I don't think we have enough information. I'm going to let all my Commissioners have their say and to have all the information. I know some information you didn't bring. I think it's important to have everything here so we go through and we clearly understand.

Commissioner Katz - I guess piggyback on some of the same questions and concerns as Commissioner Brandon. One, what is the parameter rent range that we have? Is it five cents? Or is it a 25 cent differential? I'd like to have that

information. Second, and maybe I misheard this, but this doesn't seem to be pursuant to any renewal terms that were in the original lease. This is actually a new lease. So there's no reason to say, "since we gave them a 3% rent increase last year, we'll do a 3% this year."

It's irrelevant because it's not based on a prior lease. Because this is a new lease so we start negotiating fresh out. It's not giving them the benefit. We appreciate them being a long-term tenant but there's no obligation that we only raise it 3%. Are we absolutely comfortable that given a parameter rent that we've approved, that it makes sense to give the lowest end of that parameter versus the middle or a higher end just because other tenants are paying less?

We're trying to get everyone up to market rate to the extent possible, that's our obligation here and we have other factors. But it seems to me, if we've come up with a parameter that's market rate, why not negotiate on the higher end of that parameter which isn't all that high as I understand. Is that an effective summation?

Commissioner Woo Ho - I know you feel like you're going through the motion to come here because it's over \$1 million. I think the rationale of when a lease of this size and magnitude comes to us and the Board of Supervisors, it is to have another set of eyes to look at it and see whether it is in the interest of the Port and the City. We need to go back and answer these questions so that we understand fully what we're approving and not just view it as a formality that we have to go through.

I don't want to overstate your case, but it does feel like you're a little bit saying, "Oh, well, these are parameters. Why are you asking all these questions?" I think it is because it is the size of the lease, and we should be careful of the City's assets and the Port's assets because of the size and that we should be looking at it carefully and just having that independent review which is what we're doing here.

Commissioner Brandon - Also, the Right of First Offer. There has to be some terms associated with that. I don't think it can be that they just come back and give us whatever they feel that is appropriate at that time.

Mark Lozovoy - Yes, a Right of First Offer, it's not even an option. Because they have always been a good tenant in standing, a tenant that we'd like to keep, we would just entertain them to give us a first offer for the space.

Commissioner Brandon - At current market value?

Mark Lozovoy - If we had other offers that were better, we could move to those other offers.

Commissioner Brandon – What's the value? What's the term? Is it five years?

Elaine Forbes - The Right of First Offer, we give it to the highest offer, but they have a Right of First Offer. It doesn't entitle them to the property.

Commissioner Brandon - So does that mean like now, we would put it out to bid and whoever offered the most for it, we would then let them lease the property? How does that work?

Mark Lozovoy - If they vacated, it would be a vacancy.

Commissioner Brandon - Meaning the Right of First Offer. They would be able to give the best offer, but there would be no other offers because we're just negotiating with them, right?

Elaine Forbes – We're giving it to them at parameter. As we were just discussing, we have 600 some leases in the portfolio. We do not competitively bid leases when they come up if it's a tenant in good standing and they'll pay us market rate which the Commission sets annually in the parameter rent schedule.

I concur we do need to understand what the tenant is paying now. We need to understand the range of the parameter rents and we need to understand why you've settled and are recommending this particular rate in the band of parameter rents and to understand that reflects the fair market value of the property. I agree that there's more information the Commission needs here.

Commissioner Woo Ho - I would add one more thing Elaine. I know that we look at these rent schedules and it's going to be a few months before the new one is set up for next year. The market does change from time to time, and we can't do it for every lease, but when you have a lease of significant size, we should check what the outside market rate is. It doesn't have to be a detailed research. We shouldn't just be comparing to our leases on Port property. We should be comparing to the market because of the size of the lease.

Commissioner Adams - We're going to hold this over. Director Forbes, this thing needs to be reworked. You can tell the Commissioners have a lot of questions.

Commissioner Woo Ho – When does the current lease expire?

Elsa Lamb – There are two leases being combined, one is on a month-to-month holdover and the second is on a five-year term. They have four years.

Commissioner Woo Ho - What we're trying to understand is that by asking to hold over that there isn't an issue.

Commissioner Adams - It's not an issue, is it Mark?

Elsa Lamb - A holdover? No, there's no issue.

Mark Lozovoy - There's no issue. They're month-to-month holders.

Commissioner Adams - Thank you and we'll look forward to seeing you next month.

11. PLANNING & DEVELOPMENT

- A. Request approval of: (1) a 66-year Lease for portions of the South Basin and (2) a coterminous non-exclusive License for pile supported areas adjacent to and west of the South Basin, both with the San Francisco Bay Area Water Emergency Transportation Authority, in connection with the Downtown San Francisco Ferry Terminal Expansion Project, all located generally between the Ferry Building and Pier 14. (Resolution No. 17-19)

Jamie Hurley, Project Manager in the Planning and Development Division - We're seeking your approval for two long-term property agreements for the Downtown Ferry Terminal Expansion Project, a 66-year lease and a companion license agreement.

I'm going to provide an overview of each of these agreements. Last fall, we had an informational presentation on the project followed by an approval of the LDDA and the construction lease. Those two documents will govern WETA's property rights or their ability to construct the project.

These two documents, the lease and the license agreement, will provide WETA with property rights needed to operate the Ferry Terminal facilities upon completion of construction in furtherance of their Strategic Plan which you also had a presentation on last fall.

The lease area is located in the South Basin, south of the Ferry Building. Between the southern edge of Ferry Plaza which is behind us here and extending southwards all the way to the Pier 14 breakwater and it kind of jogs around the portal gates and then the eastern edge is at the end of Pier 14 and across. There are three gates depicted in the project area. The first one is Gate E. That is an existing gate. Gate E was built along with Gate B in the north basin. It was built by the Port and is operated and maintained by the Port today. Then you have two new gates, Gate F here and Gate G.

This is a 66-year lease. It includes about 300,000 square feet of water area and 21,000 square feet of floats and gangways. Under this agreement, WETA will own, operate and maintain these facilities. In exchange for not only building, but also operating and maintaining and being responsible for all costs associated with maintaining these facilities, the Port will not collect any rent or landing fees for these facilities. However, the Port may charge a fee for non-WETA vessels such as excursion vessels which may call on the facilities from time to time.

Continuing with the lease and focusing on Gate E, the agreement calls for control of Gate E to be transferred from the Port to WETA. The facility is in need of refurbishment and WETA has access to federal grant money and so they're going to be covering 80% of the cost for that refurbishment. The Port will be covering 20%. Currently today, without this agreement, the Port is responsible for 100% of that cost were we to take it out of service and refurbish it ourselves.

In terms of the fiscal impact of this arrangement for Gate E, it's a positive outcome for the Port and we estimate based on a five-year history of operating Gates B and Gate E that it will amount to a savings of \$125,000 a year for the Port. Gate B is not part of this project and so it will continue to be operated and maintained by the Port. But we have discussed with them and it does contemplate the potential for Gate B to be similarly transferred from the Port to WETA in the future depending on funding availability and Port needs and WETA needs.

Switching now to the lease agreement, there's an open water basin at the lease area. We call it the Lagoon affectionately. That is going to be filled in as part of this project and there will be a new, raised plaza constructed by WETA. There will be this area that runs in front of the three ferry gates. There will be a new promenade area.

Gate E is going to be relocated slightly eastward of its current position so that it lines up with the new gates so that the Promenade area in front of the gates can be expanded from what it is today. If you go out there today, Pier 2 is where Sinbad's formerly was located and is now BCDC public access but that will need to be demolished as part of this project to create the water area for the lease area.

The Agriculture Building is not part of this project. The Port hopes to renovate the Agriculture Building in the future.

The license agreement runs concurrently with and is coterminous with the lease. As long as the lease is in effect, the license will be in effect. They need both. The license area includes 38,000 square feet of new pile supported, promenade and plaza areas and WETA will use the license area on a non-exclusive basis for passenger queuing, for passenger circulation and access to and from the ferry gates, and for emergency staging. That's part of WETA's mission.

The license area is designed, engineered and will be built to essential structure standard. The idea being that in the event of a major seismic event that the facility will continue to operate and they can stage evacuees in the license area, particularly in the raised plaza area.

Continuing with the license, upon completion of construction, the Port will take over ownership, management and maintenance responsibilities for the license area. The Port will be responsible for all the costs associated with maintaining

that area. We've estimated those costs at about \$75,000 a year for labor. That's not net new cost to the Port. Port has cost today associated with the area and those costs will be absorbed by existing resources.

This is a non-exclusive license. There are other uses that will take place in the license area. In particular, we would like to see the Farmers Market to expand to the plaza area. Our BCDC permit allows for, on a limited basis and on a trial basis for us to do that, Farmers Market and other Special Events. It will be reviewed after a two-year period, and potentially expanded to allow for more frequent events.

Another use for the entire license area is public access area. We think it is an area that will be very popular, very desirable and people can go there and enjoy their lunch and enjoy the views. That's obviously something very important to BCDC but something very important to the Port as well.

Finally, this license agreement does allow for potential adjustments to the boundaries of the license area, to accommodate two adjacent and important projects: (1) the Agriculture Building which we would like to renovate as soon as we can, and (2) the Seawall Project. If needed, we will come together with WETA and work that out.

I need to point out two minor, non-substantive changes to the resolution. On second page of the resolution which is page eight of the staff report, there are two paragraphs that need to be struck and simply deleted. The first is the paragraph at the very top of page eight. It's simply a repeat of the paragraph that appears on the very bottom of the preceding page seven. We will delete that paragraph.

About in the middle of page eight, there is extra whereas clause that begins, "Whereas any motion to approve --" it's redundant to one that appears further down the page, the second to last whereas clause. We're going to strike that whereas clause as well.

We have representatives from WETA, Nina Rannells, their Executive Director, Kevin Connolly, their Planning Director, and Mike Gougherty, the Project Manager for this project. Dan Hodapp and myself, along with the WETA representatives are here to answer any questions. We're seeking your approval of both of these documents which will allow this facility be operated long into the future. We're very excited to have reached this point.

Commissioner Woo Ho - On the last slide, those are the three new gates, right?

Jamie Hurley - Yes, those are Gates E, F and G.

Commissioner Woo Ho – What about Gate B?

Jamie Hurley – Gate B is at the north end of the Ferry Building.

Commissioner Woo Ho - I understand we are not asking for any rent. How much will they be investing in the project?

Jamie Hurley - The project is approximately \$60 or \$65 million of investment

Michael Gougherty with WETA - Construction cost of the project is approximately \$65 million. For the overall project cost, the investment made by WETA is \$79 million.

Commissioner Woo Ho – The staff report indicates that if we have non-WETA vessels that provide excursions, they can berth at any one of the gates. Is it restricted to certain piers?

Jamie Hurley - They can come to any of these facilities. WETA will charge them a fee. The agreement explicitly allows them only to charge a fee to cover their direct costs. Then the Port is able to charge a fee on top of that based on market.

Commissioner Woo Ho – In one of your slides, you mentioned that Ownership and control of Gate E is transferred from the Port to WETA but the other two are not. What's the rationale?

Jamie Hurley - The other two will be constructed by WETA.

Commissioner Woo Ho - So you're saying when they're constructed, then we would transfer ownership of those too.

Jamie Hurley - We'll never own those. Currently we own Gate E. Gate F and G do not exist currently. WETA's going to build them. They're going to own them. But we need to give them control of Gate E which we currently have and which we built.

Commissioner Woo Ho - On Gate E, we are going to come up with 20% and that's roughly how much?

Jamie Hurley - Correct. That's roughly about \$300,000 based on a total project cost for that of \$1.5 million.

Commissioner Woo Ho - Is that currently in the Capital Budget?

Jamie Hurley – Yes, we have that funded within our Capital Budget.

Commissioner Katz – I just want a little more elaboration in terms of the use of the license on a non-exclusive basis. Logistically, how is that going to work? Will water taxis be allowed to have landings?

Jamie Hurley - No. WETA has exclusive rights to the lease area. It's just the license area, which is the landside facilities, the pile supported deck structures that they'll be sharing. It's a multi-use area for public access, occasional Farmers Market or other Special Events.

Commissioner Katz - So it's not exclusive on the landside, but on the piers it's exclusively for WETA. Is that correct?

Jamie Hurley - Correct. They do have the ability if they decide that they want to allow landings of non-WETA vessels which potentially could include water taxi. I'm not sure that these facilities would be appropriate for that or designed for that but they could do that. They would be able to charge a fee to recover their costs associated with those landings, and the Port could also charge a fee.

Commissioner Katz – With regard to Sea Level Rise and I recognize that has somewhat been accounted for here. As we found, the projections of Sea Level Rise have changed since they were first provided to us. I noted that I thought they were a little overly ambitious at the time and I'm still not sure we haven't seen the last reconfiguration, has any thought been given to floating piers?

Jamie Hurley - The project is designed to allow for some adaptation beyond the Sea Level Rise measures that are built into the project which includes building that new plaza and the new promenade structures approximately three feet above the current elevation. There will be the ability to adapt the gangways and the floats and the connection to the land in the future depending on what happens with Sea Level Rise.

Dan Hodapp with the Planning and Development division - The project is designed for a 50-year life which brings it to 2070 and that puts the deck and the promenades at about 38 inches higher than the existing ferry pier. It's built up to that level. To bring it to the anticipated rise for the year 2100, it needs to go about another foot above that and is handled by a curb on the promenade which is 12 inches tall. Also the gates could be adjusted upward at that time.

So it will be built so it can adapt to that future level. The site enjoys some protection in that there is a breakwater and part of the impact of Sea Level Rise is the wave action on top of the water level as well. So it has some advantage in that area. It does take into the account the possibility to adapt for further into the future than 2070.

Commissioner Brandon - Thank you for the presentation. Can you give me an example of a non-WETA vessel that might use the facility?

Jamie Hurley – A dinner cruise run by Hornblower for example. For some reason they wanted to use these facilities, they would have the ability to do that.

Commissioner Brandon - What is a WETA vessel?

Jamie Hurley – WETA has operating agreements with Blue & Gold. Those would be considered WETA vessels even though they're operated by Blue & Gold. I believe they have vessels that they operate by their own agency.

Michael Gougherty - They're the largest, newest, best-looking boats in the Bay. Really easy to find. It's a term we defined in the lease agreement. It's any vessel owned by WETA or a vessel owned or otherwise leased by WETA that's in WETA service. So this is scheduled WETA service, those are WETA vessels. It could be boats that we own or boats that we lease through a contract operator.

Commissioner Brandon - What is the current revenue that we get from Gate E?

Jamie Hurley - I didn't bring those exact figures. But I can tell you and I mentioned in the presentation that we currently have negative net revenues to the tune of about \$120,000 a year. The revenues we do collect are less than the costs that we incur associated with that facility by about \$125,000.

Commissioner Brandon - For Gate E.

Jamie Hurley - For Gate E and similar situation with Gate B. So the two of them together, the net loss or the net subsidy if you will is \$250,000 a year based on a five-year history of those costs and revenues.

Commissioner Kounalakis - This is really exciting and I see in the staff report there's an expectation it's going to start construction fairly soon?

Jamie Hurley - Yes, these documents have already been approved by the WETA Board as of last Thursday at their Board meeting. This is the final approval needed, the construction lease and the LDDA which have already been approved by both agencies. That was done in the fall. The construction fence you'll start seeing going up this weekend or Monday. Construction can begin probably three weeks after that. The groundbreaking ceremony scheduled for Thursday, May 11, 2017.

Commissioner Kounalakis - That's really exciting. I have some questions related to the costs that we may incur and what the ongoing responsibilities of the Port are. I'm looking at the public access map because it shows the perimeter clearly. All of those purple areas, are they going to be maintained by WETA over time?

Jamie Hurley - Are you referring to the license agreement?

Commissioner Kounalakis – Yes, I'm referring to the license agreement.

Jamie Hurley - Within the license area, as shown in the presentation and also in the staff report as Exhibit B, that's a pile supported deck that will be constructed by WETA. They have responsibility for certain Ferry Terminal specific improvements that would be located within that license area including the

canopy structure. They'll have photovoltaic panels on top and they'll be used for weather protection for ferry passengers. They may have signage integrated into them. Those will be maintained by WETA.

There's a potential for a ticketing kiosk to be located within the license area that will also be maintained by WETA but otherwise the Port will have responsibility. It will basically be for cleaning, power washing, for trash removal, etc.

Commissioner Kounalakis - So in those public access areas where you have the Granite Plaza and the East Promenade? All those areas in terms of maintaining them, keeping them clean, that's the responsibility of the Port?

Jamie Hurley - Correct.

Commissioner Kounalakis - Do we have any estimate of what all of this is going to cost the Port with the huge increase in pedestrian use of these areas?

Jamie Hurley - We did an estimate of the number of labor hours, number of person hours it would take to perform the various duties associated with maintaining these facilities such as trash removal, cleaning of the surfaces. There's a small storm water drainage planter area that will need to be watered occasionally. We estimated the number of hours. We worked with Tom Carter to come up with how many hours and salary. We estimated that it's 0.5 FTE, which is approximately 20 hours a week that would be required to maintain this area.

Commissioner Kounalakis - In terms of the delta of what it costs us now versus what it's going to cost us in labor, it's hard to believe it's just 20 hours of work. There will be a lot of people waiting in line. There's probably going to be more trash. You've got this amphitheater. They're going to build the amphitheater but if pieces of it break, or things need to be repaired, aren't we going to be responsible for fixing all that?

Jamie Hurley - We will be responsible for the substructure. Beyond the warranty period of the improvements, we will be responsible for making repairs should they be required. Again, this is going to be designed and built to sort of state of the art, essential structure standard, very high quality materials.

Commissioner Kounalakis - But still, there was no estimate done of what the ongoing maintenance of all of these things that are going to be built are, that the Port will be responsible for?

Jamie Hurley - Beyond the impact on the Operating Budget which we mentioned, we estimated at \$75,000 per year but that's not all net new costs, can be absorbed by existing resources. We haven't tried to estimate what happens if something gets broken. Over the life of the agreement, the Port will incur some cost but the Port incurs cost today associated with this area.

Commissioner Kounalakis - It's not an amphitheater. It's just open space.

Jamie Hurley - It's a raised plaza. I'm not sure I would call it an amphitheater. There's seating and steps that you could sit on to enjoy your lunch but it's a flat plaza structure with steps on two sides.

Commissioner Kounalakis - Will we control the use of the granite plaza for special purposes?

Jamie Hurley - Yes, we will be able to program it occasionally for Special Events, for Farmers Market. We have limitations on the number of events we can do per our BCDC permit but that would be at the Port's discretion as long as those events do not interfere with WETA's ability to operate the Ferry Terminal. We would have the events outside of the peak commute hours.

Commissioner Kounalakis - It'll be exciting to see all the construction beginning out there.

Commissioner Adams - Jamie, good presentation. I remember the last one you gave was at the James Herman Cruise Terminal last year. Maybe somebody from WETA should come up, maybe Nina? You should come up because I agree with Commissioner Kounalakis. This is going to be a full time job. Twenty hours a week might not be sufficient as we have 5-6 million tourists a year. We're going to have all kinds of people down there. This is going to be a full time job, not part time, to keep up with the maintenance and other stuff like that. Don you agree?

Elaine Forbes - We do know. We had an estimate. We worked with Tom Carter to perform an estimate. Right now we're subsidizing the two gates to the tune of about \$250,000 per year. The new costs we're taking on are substantially less than our current subsidy. I know that's not a perfect answer, but it's substantially less than our current subsidy.

We have new big belly trash cans that alert us when they're full and not full. We have scheduled trash pickup which is very efficient because we know when those trash containers are open. We sweep before there's anyone out there in the wee hours of the morning and in the wee hours of the evening. That cycle's not going to change.

We have done an estimate. We haven't done an estimate of the capital costs of the facility as it ages over time, or the amphitheater and the questions Commissioner Kounalakis was asking about. But we do estimate those operating expenses at half FTE. We did some diligence on that question.

Commissioner Adams - Nina, being the Executive Director of WETA, is there anything that you would like to interject? Because this is a project with the Port and WETA working hand in hand, right?

Nina Rannells - I'm excited to be here today and can't wait for construction. I think as the memo says, we've been working on this for eight years together in partnership. We're taking what you started and we're going to construct the next phase and take responsibility for that water side, that ferry side, that financial responsibility by upgrading and refurbishing Gate E which needs it and has needed it for years. Then expanding on it and taking responsibility for managing, and maintaining and rehabilitating and replacing that water side.

It's a true partnership. We appreciate Executive Director Forbes and all of your support over the years. This will be the hub of our regional ferry system expansion services. We already operate Alameda and Oakland and Vallejo services here and look forward to expanding to Treasure Island and possibly Redwood City and Berkeley and a variety of other places over the years.

Commissioner Adams - Napa.

Commissioner Woo Ho - I had a question and I appreciate all the discussion in terms of the amount of increased pedestrian traffic. Since we're refurbishing first, and then we're going to be adding down the line the other two piers. What is the plan in terms of how the capacity of ferry traffic increases in terms of number of people, since we know the number one issue in San Francisco and everybody's mind is traffic congestion. When will we see some relief as more capacity comes on with ferries? How many more people will you eventually take on? I imagine it's in phases because this project is in phases.

Nina Rannells - It all depends on how quickly we're able to roll out expansion services.

Commissioner Woo Ho - At least your estimate. I know there's lots of approvals and all the other things, but in terms of what you hope to achieve.

Nina Rannells - We currently carry 10,000, and another 20? It depends on which year you're talking about.

Commissioner Woo Ho - When would we start to see that relief?

Nina Rannells - Once we build the facilities.

Commissioner Woo Ho - What's the schedule for construction and completion?

Nina Rannells - For the new terminal, it will happen over the next two years.

Commissioner Woo Ho - If we eventually get progress reports, I would suggest providing us more information so we can see the benefits that are coming to the city in terms of this. Because we're all very excited as Commissioner Kounalakis mentioned. We should be very excited. This is something that we've looked forward to for a long time. If we could start translating it in terms of what the tangible benefits are for the city and for both sides of the Bay. It would be nice to

be able to say we're seeing how that contribution's going to come through the increased ferry service.

Nina Rannells - Our first new service is from Richmond and we are out to bid on constructing a new terminal there and that would be the first add of services that would come into San Francisco and that's going to start next summer or fall. Maybe that helps give you a little context. Then it will depend on how much money we have and can put together to expand terminals in other places around the Bay.

Commissioner Woo Ho - How much of the federal money that you've already referenced in your deck, how much of that is in hand now and how much do you still have to secure?

Nina Rannells - We have the full funding to build the Gates F and G.

Commissioner Kounalakis - I am so excited to see this come under construction. It's really going to change the face of this part of the waterfront. It's going to allow more people who want to get around by ferry to do so. I was here after the game. We walked down to get something to eat at the Ferry Building and there was a long line of people who were waiting to get on the Alameda ferry and there was no shelter. I said to my husband, "Well, the line probably moves really fast as soon as the boat comes." He says, "Yes, but if you're at the end of it, you don't know if you're going to get on."

And so increasing the capacity for more people to know that it's a reliable mode of transportation for them. One of the things that I've been hearing is that the way people are looking at dealing with traffic in San Francisco is not about increasing capacity on the roadways because you really can't do that. It's about finding completely different alternatives for how people get around the Bay Area. There used to be a lot more ferry traffic even 50-60 years ago on the Bay than there is now.

It's a really pleasant way to get around if you're not a person who's prone to sea sickness. It's a way that people used to enjoy getting around and it's this wonderful underutilized opportunity. With this project, it can really have the ability to entirely change the way that people are moving from different parts of the Bay Area and to do it in a way that's pleasant and fun and beautiful.

I think it's terrific. I certainly rely on our Executive Director's assurances that relative to incurring additional costs for the Port, this has been examined. It's clear that there are cost savings associated with it, thank you. And whatever additional new kinds of costs are fully understood and we're prepared to take them on. Thank you for being here, for the great presentation and I look forward to being there for the big groundbreaking.

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

12. NEW BUSINESS

Elaine Forbes - I have jotted down that we are going to schedule for down the road a progress report on ferry ridership and capital improvements. For the next calendar, IDEO will be continued and Real Estate staff will provide more detailed information about the current rates, parameter rent schedule and will provide validation for the proposal based on market conditions.

13. ADJOURNMENT

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

Port Commission President Adams adjourned the open session at 4:40 p.m.

At 5:33 p.m., the Commission reconvened in open session.

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

ACTION: Commissioner Brandon moved approval to not disclose anything discussed in Closed Session. Commissioner Kounalakis seconded the motion. All of the Commissioners were in favor.

ACTION: Commissioner Woo Ho moved approval to adjourn the meeting. Commissioner Katz seconded the motion. All of the Commissioners were in favor.

Port Commission President Adams adjourned the meeting at 5:35 p.m.