

MEMORANDUM

July 7, 2017

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

FROM: Elaine Forbes
Executive Director

SUBJECT: Request authorization to issue a Request for Proposals (“RFP”) for the Lease and Operation of the Shipyard located at Piers 68 and 70 and Seawall Lot 349 near 20th Street and Illinois Street, including Dry Dock Eureka and Dry Dock #2 (the “Shipyard”)

DIRECTOR’S RECOMMENDATION: Approve the Attached Resolution

Executive Summary

Port staff seeks authorization from the Port Commission to issue a Request for Proposals (the “RFP”) for the lease and operation of the Shipyard on the terms described in this memorandum, with the goal of entering into a Lease with a new operator that has the experience, economic capacity and knowledge of the U.S. West Coast ship repair commercial market and is qualified to operate and revitalize this important maritime industry at the Port of San Francisco.

Strategic Objectives of the RFP

A successful Respondent will demonstrate an implementable strategy to retain, modernize and operate an important Port asset for the life of the lease. The selection criteria for the Pier 70 dry dock/ship repair facility will be structured to identify the most qualified respondent that presents the greatest opportunity to achieve the following goals to contribute in a substantial way to meeting the *Stability, Renewal, Resiliency, Economic, Vitality, Engagement, Sustainability, and Livability* objectives of the Port’s Strategic Plan:

Stability: A successful Respondent will retain and modernize an important Port maritime asset; maintain continuous operations and employment; create and implement a feasible plan for capital improvements to the facilities including the including the maintenance, renewal, and possible replacement of the current drydocks. Ensure sustainable employment and business opportunities at this vital Port asset.

THIS PRINT COVERS CALENDAR ITEM NO. 11B

Renewal Objectives: Deploy strong operational expertise and skill in maintaining dry docks and heavy industrial equipment to maintain a critical maritime industrial use at the Port.

Resiliency Objectives: Successfully obtain business from the government and commercial ship repairs markets; and optimize the current dynamics of these markets on the West Coast to maximize ship repair business in San Francisco in the face of increased competition and the inherently cyclical nature of the ship repair market.

Economic Vitality Objectives: Support the economic vitality objective by implementing a business plan to pursue ancillary maritime or industrial commercial activities to maintain steady work in the face of periodic softness and cycles in the market for ship repair.

Engagement Objectives: Expand the Port's outreach to underserved communities and implement a workforce training program to attract the next generation of shipyard workers.

Sustainability Objectives: Create and implement a feasible plan for repair, maintenance and capital improvements to the facilities including the renewal/replacement of the current dry docks, ensuring sustainable employment and business opportunities, and maintaining appropriate levels of stewardship with respect to the environment as well as any and all historic assets included in the leasehold.

Livability Objectives: Promote living wage jobs by providing industrial work opportunities in the City.

Background

The Shipyard has operated for nearly 150 years. Ship repair has been a leading San Francisco industry since the Gold Rush and remains one of San Francisco's leading employers of skilled union crafts, employing an average of 250 highly-trained craftspersons year-round that represent twenty-two trades across ten local trade unions. Due to Dry Dock #2, San Francisco's Shipyard has continued this strong maritime tradition as one of only five ship repair yards remaining on America's West Coast that can compete for the maintenance and repair of large-size vessels. The Shipyard is a strategically located facility on the West Coast that supports the growing passenger cruise industry, government and defense fleets, the domestic oil refineries business, and regional Bay Area maritime passenger and harbor service support vessels.

Maritime commerce is a core mission of the Port, and the 2010 Pier 70 Preferred Master Plan includes ship repair as a major sanctioned activity reflected in the land use plan. The ability to provide maintenance, alteration, and repair services for cruise ships, tankers, foreign and domestic bulk carriers and container ships, military vessels and local bay passenger vessels is very critical to sustaining and supporting maritime commerce in San Francisco.

The Port and BAE Systems San Francisco (“BAE SF”) entered into a twenty-year Port Lease (No L-15875) (“Prior Lease”) for the Shipyard commencing on May 1, 2015. BAE Systems Ship Repair, Inc. (“BAE”) the parent of BAE SF and Puglia Engineering, Inc. (“Puglia”) entered into a Purchase and Sale Agreement on or about December 1, 2016 that transferred all BAE SF corporate shares, assets and interests in the Shipyard (including the prior Lease) to Puglia effective January 2017. The Port, by way of a tri-party agreement between BAE SF, Puglia and the Port, consented to the transfer on December 30, 2016.

Subsequently, in mid-February 2017, Puglia filed an action in California Superior Court suing BAE, alleging misrepresentation and other claims in connection with its purchase of BAE SF and attempted to rescind the transaction. Puglia also named Port as a defendant in that lawsuit. On February 15, 2017, Puglia notified the Port that it intended to discontinue operations and would be taking steps to leave the Shipyard on March 10, 2017.

In an effort to sustain continued use of the Shipyard and retain jobs, in late February, the Port entered into a Tolling and Interim Operating Agreement with Puglia. That agreement expired on May 27, 2017, and Puglia then abandoned the Shipyard. Since May 27th, the Port has been paying all expenses for maintaining the Shipyard in a safe, secure, and steady-state and plans to do so for the next several months while it prepares the site for the next tenant and Shipyard operator. The Port’s development agreement with Orton Development Inc. (ODI) for the adjacent historic buildings along 20th Street provides a mechanism for ODI to perform Port required tasks that assist in the harmonization of utilities and other infrastructure between ODI’s adjacent development and the shipyard. Using this provision, ODI has hired five former Shipyard employees to assist in such efforts and to keep the yard safe and secure during this interim period. Additionally the Port and ODI are hoping to accomplish a significant electrical system upgrade and separation that has been planned as a part of the Port’s 2017/18 capital plan and to demolish and remove two condemned Shipyard buildings, which will create 20,000 square feet of additional work area on the Shipyard premises. ODI is also scoping possible maintenance upgrades for Dry Dock #2 using tradespeople from the Bay Cities Metal Trades Unions that would result in a new certification of Dry Dock #2.

Since May 27, 2017, the Port has been paying all expenses for maintaining the Shipyard in a safe, secure, and steady-state and plans to do so for the next several months while it prepares the site for a new operator. During this period, the Port has also taken steps to remove abandoned hazardous materials from the site, inventory fixtures, equipment and personal property left behind, assess the condition of the buildings and Port’s equipment, including the dry docks, and perform other housekeeping tasks to improve the site.

The Opportunity

The Shipyard includes approximately 14.7 acres of land improved with 18 buildings and 17.4 acres of submerged lands. Additionally, there are significant Port-owned assets, including floating Dry Dock #2, for which a \$5 million capitalization project in 2008

upgraded it to post-Panamax lifting capability; floating Dock Eureka; and a \$5.8 million capitalized 8k ampere Shoreside Power System. For future viability, the Port intends to invest in soon to be completed capitalized projects including a significant electrical system upgrade and power grid separation project; construction of a new 19th Street extension off of Illinois Street to give the yard a protected entrance and minimize conflicts with new tenants in the area; and a Project Partnership Agreement with the U.S. Army Corps of Engineers for the continued dredging of Central Basin –the access way into and out of the shipyard that will need dredging to allow deeper drafting, larger ships to cross. The shipyard is located at Piers 68, 70, and Seawall Lot 349 near 20th and Illinois Street.

Analysis of Recent Shipyard Performance and Market Factors

One of San Francisco's competitive advantages has been the fact that Dry Dock #2 was one of the only docks on the West Coast large enough to repair some of the largest cruise and government ships. For the better part of the last decade the Shipyard generated growing volumes and revenues. However recent entry of a new large dry dock in the Pacific Northwest has increased competition on the U.S. West Coast and has impacted the Northern California "big ship" market, shifting business away from the Shipyard. Additionally, the cyclical nature of the ship repair industry creates peaks and valleys for the Shipyard in terms of need for skilled workers making retention and training of new workers difficult. The RFP will take these factors into account by looking for operator who has ancillary industrial activities and will expand opportunities for a new generation for shipyard workers.

Disclosures and Existing Conditions

The Port will also disclose all building conditions, environmental conditions, and general facility conditions to all potential bidders. In an effort to accurately describe conditions at the Shipyard to prospective Respondents, the Port has hired GHD-Telamon Engineering Consultants, Inc. and Collins Engineers Inc. to perform a thorough engineering assessment of both Dry Dock #2 and Dry Dock Eureka. The resulting reports will provide an in-depth analysis of the operating condition of both dry docks and include underwater analysis of the hull components including ultrasound thickness gauge measurement results. These inspections were performed by a four-person team consisting of one professional engineer diver and three supporting engineer divers. Additionally the Port has hired Moffatt & Nichol Engineering to complete a facility condition inspection and inventory of the current buildings, utilities and equipment of the Shipyard. In terms of dredging, the Port has received bathymetry reports from Anchor Q.E.A. that show water depth under the two dry docks as well as the adjacent berths as of April 2017.

Minimum Qualifications

At a minimum, Respondents will be required to have ten years' experience of continuous operation of a shipyard and dry dock facility similar in size and capacity to the Shipyard and must demonstrate the operational expertise and financial capacity to ensure continuous operations and employment in San Francisco.

Selection Process

The following criteria will be used in the evaluation of each Respondent that meets the Minimum Qualifications:

Restoring Ship Repair Operations, Dry Dock Certification, Continuous Operations and Employment, Business Plan, and Capital Investment Plan

- 40 points
- Ten-Year financial pro forma with projected sales, revenue to the Port, expenses and net income, with a demonstrated ability to fund continuing operations from the cash flow generated by the operation

Experience and Financial Strength

- 25 points
- Documented experience operating a full-service shipyard
- Annual gross revenue for the latest 10 years of operation
- Source of funds for the initial capital investment (cash, loan types)

Workforce Plan Training and Strategies

- 20 points
- Respondent's Workforce Plan and Strategies must describe in detail a program for Workforce Development and training
- Respondent's Local Business Utilization Plan, including Local Business Enterprises (LBE) professional and service providers hired by Respondent for the design, permitting and construction phases and/or maintenance, janitorial, suppliers and vendors

Proposed Minimum Rent and Participation Rent

- 15 points
- Proposed base rent
- Proposed participation rent

Port staff in conjunction with our expert consultants and community constituents, will serve as an evaluation panel to review the submittals of each Respondent based on the minimum qualifications and selection criteria. Port staff will independently investigate the qualifications of Respondents and conduct interviews with members of qualified Respondent's teams. Selected teams will be required to make a public presentation before a public meeting at the Port Commission. The Port Commission will make the final selection and award the opportunity.

Subject to Port Commission approval and upon successful completion of negotiations with the most qualified Respondent, Port staff anticipates entering into a lease for the Shipyard. The following are Key Lease Terms that will be described in the proposed

RFP:

Premises	The proposed premises are shown in Attachment 1. Respondents can propose to use all or a portion of the premises and the RFP will be structured to incentivize an efficient land use plan.
Use	Shipyards operations and other fabrication consistent with marine repair/construction operations.
Lease Term	Ten years with a potential option to extend at the Port's sole discretion. Respondents can propose a longer term and/or extension options (typically 3 to 5 years).
Monthly Rent	The RFP will include a minimum monthly rent based on utilized square footage. Respondents can offer the minimum or a higher amount.
Participation Rent	Proposed by Respondents. The Port expects to participate in gross revenues and sales of the business.
Rent Escalations	3% annually or as proposed by Respondents.
Maintenance and Repairs [for buildings or for Port's equipment including cranes, dry docks, and 8K ampere shore side power system]	Sole responsibility of tenant. All buildings leased must be maintained and/or upgraded as needed for functional use. Regular joint inspections of the premises, buildings and Port's equipment, including the dry docks will be required.
Financial Guarantees/Security	The successful Respondent must provide adequate financial assurances to guarantee performance through minimum net worth requirements or a corporate guarantee or similar mechanism(s) to ensure its ability to implement and sustain its business plan over the term of the lease. In addition, the standard Port financial deposits will be required to cover rent and environmental risks.
Insurance	Successful Respondent is required to comply with all insurance requirements recommended by the City's Risk Manager based on review of the proposed lease. In addition to insurance coverage required the agreement will require the Successful Respondent to maintain primary property insurance for Port's

	Equipment and other properties being insured as well as an umbrella/excess insurance policy with limits of no less than \$20 million.
Capital Investment	Respondents will describe plans for refurbishment and should propose capital investment strategies to address the revitalization of the facilities (i.e. dry docks and buildings.)
Climate Change and Sea Level Rise	Respondent must be prepared to adapt its operations and its planned improvements for the Shipyard to address expected impacts from sea level rise/climate change.
Workforce Training Programs	Respondent must expand the Port's outreach to underserved communities and implement a workforce training program to attract the next generation of shipyard workers.
Labor Plan and Employment Strategy	Traditionally ship repair has generated significant employment in San Francisco. A primary objective of the RFP is for Respondents to generate and maintain continuous job opportunities at the Shipyard. Respondents must outline their plan and strategies.
Form Lease Provisions	A form lease will be included in the RFP and will include Port's standard provisions regarding compliance with laws, required City and Port requirements, liability and indemnity, hazardous materials, transfer, sea level rise, repair and maintenance, and Southern Waterfront Beautification Policy.

Projected RFP Schedule

- Business Outreach Ongoing
- Port Commission Request to Issue RFP July 11, 2017
- Issue RFP July 2017
- Pre-Proposal Conferences/Site Visit August 2, 2017
- Deadline for Submission of Questions August 4, 2017
- Submission of proposals August 16, 2017
- Evaluation of proposals August 17-31, 2017
- Respondent Presentations September 26, 2017
- Port Commission selection, award and lease approval October 10, 2017
- This schedule is an estimate and may vary

Advertising

Subject to Port Commission authorization, Port staff will advertise the RFP opportunity on the Port and Office of Contract Administration websites. Port staff will send copies of the RFP to interested parties compiled through industry market research. The Port will host a pre-bid conference to review the RFP, answer respondent questions, and provide a networking opportunity for both potential bidders and prospective LBEs. The pre-bid conference will be followed by a site tour. In addition, the RFP will be advertised using the following resources:

- San Francisco African American Chamber of Commerce
- Hispanic Chamber of Commerce of San Francisco
- Chinese Chamber of Commerce, San Francisco
- LGBT Chamber of Commerce, San Francisco (Golden Gate Business Association)
- San Francisco Chamber of Commerce
- San Francisco Business Times
- Board of Supervisors Neighborhood Outreach Advertising Newspapers
- SPUR
- District 10 Board of Supervisor's Office
- San Francisco Office of Small Business
- #@SFPORT
- The Port of San Francisco Facebook
- @SFPORT Digital Magazine
- Maritime Publications
- Direct Mail to North American Shipyard Operators

Recommendation:

Port staff recommends that the Port Commission authorize the issuance of a Request for Proposals ("RFP") for the Lease and Operation of the Shipyard as described in this Memorandum.

Prepared by: Jeffrey A. Bauer, Senior Leasing Manger
Gerry Roybal, Maritime Marketing Manager

For: Peter Dailey, Deputy Director
Maritime
Michael J. Martin, Deputy Director
Real Estate and Development

**PORT COMMISSION
CITY & COUNTY OF SAN FRANCISCO
RESOLUTION NO. 17-31**

WHEREAS, Charter Section B3.581 empowers the Port Commission with the power and duty to use, conduct, operate, maintain, manage, regulate and control the Port area of the City and County of San Francisco; and

WHEREAS, the Port wishes to issue a Request for Proposals (“RFP”) for the Lease and Operation of the Shipyard located at Piers 68 and 70 and Seawall Lot 349 near 20th Street and Illinois Street, including Dry Dock Eureka and Dry Dock #2, (the “Shipyard”); and

WHEREAS, the opportunity consists of a lease for the Shipyard which includes approximately 14.7 acres of land with numerous buildings, 17.4 acres of submerged land, and Port-owned equipment, including cranes, Dry Dock #2, the Dry Dock Eureka and a Shoreside Power System; and

WHEREAS, the qualifications, criteria and process for selecting the most qualified Respondent(s) are summarized in the Memorandum to the Port Commission dated July 7, 2017; and

WHEREAS, any lease would require approval of the Port Commission; and

WHEREAS, issuance of an RFP does not commit the Port to proceeding with any lease, and the Port cannot approve a lease until after environmental review has been completed in compliance with California Environmental Quality Act; now, therefore be it

RESOLVED, That the Port Commission authorizes Port staff to offer the opportunity for the lease and operation of the Shipyard, through an RFP consistent with Port and industry standards and for the uses and under the terms and conditions set forth in the Memorandum to the Port Commission dated July 7, 2017; and, be it further

RESOLVED, That the Port Commission authorizes Port staff to take further actions in connection with the RFP as necessary to achieve the purposes described herein; and, be it further

RESOLVED, Port staff will return to the Port Commission to share the RFP results and seek award of the RFP.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of July 11, 2017.

Secretary

