

## MEMORANDUM

August 5, 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:** Informational Presentation Regarding a Potential Transaction Among the City, the Port and Pacific Gas & Electric Co. ("PG&E") Involving:

- City Acquisition of PG&E Shoreline Property within the former Hunters Point Power Plant Property located near 1000 Evans Street and within Assessor's Block/Lot 4580/002
- PG&E Acquisition of Port Paper Streets within the former Hunters Point Power Plant Property located near 1000 Evans Street and within Assessor's Block/Lot 4580/002, including portions of Custer, Davidson and Evans Avenue, subject to a Street Vacation
- PG&E Lease from the Port for 40 Years of a Portion of the Western Pacific Property at the eastern terminus of 25th Street and a portion of Maryland Street (Parts of Assessor's Block/Lot 4301/001 Seawall Lot 356)
- PG&E Sale of Industrial Land Known as the Hoedown Yard at Illinois and 22<sup>nd</sup> Street (Assessor's Block/Lot 4110/008A and 4120/002) to the City or its Transferee

**DIRECTOR'S RECOMMENDATION:** Information Only; No Action Required

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### **EXECUTIVE SUMMARY**

Port, City and PG&E representatives have initiated discussions regarding a potential land transaction between the parties involving four properties. The properties and their role in the proposed transaction are briefly described below, and are shown in **Exhibits 1 and 2**.

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

### **Hunters Point Power Plant Property**

As described in a 2005 Port Commission staff report<sup>1</sup>, PG&E and the Port entered a settlement agreement resolving PG&E's prior encroachment and unauthorized use of this property. Under that agreement, PG&E is required to pay the Port fair market value while it cleans the area to residential standards. PG&E has completed this cleanup. The agreement also requires the Port and PG&E to negotiate in good faith regarding PG&E's long term leasing of a portion of the property, or the lifting of the trust and sale of a portion of the property to PG&E for fair market value.

Under the proposed transaction, the Port would sell a number of paper streets (defined as streets that were mapped but never formally constructed as public streets) to PG&E for fair market value under the procedures authorized by SB 815 (Assemblymember Migden; 2007). As shown in **Exhibit 1**, these Port paper streets include portions of Custer, Davidson and Evans Avenue<sup>2</sup>.

PG&E would sell PG&E-owned land inside the BCDC shoreline band to the City (either the Port or another City agency such as the Recreation and Parks Department), which will allow the City to consolidate under its control a key segment of the San Francisco Bay Trail. Port, Office of Economic and Workforce Development and Recreation and Parks Department staff will meet to formulate a recommendation to the Port Commission and Recreation and Parks Commission regarding future ownership and management of this area.

PG&E is in the process of implementing a "visioning process" for the entire Hunters Point Power Plant site in coordination with the Office of Economic and Workforce Development and the Planning Department. The visioning process, the transfer of the paper streets and the ENA are part of a comprehensive strategy that PG&E is implementing in coordination with the City to prepare the site for redevelopment. The City also owns paper streets located on the site (but outside of the Port's jurisdiction). The City and PG&E are negotiating an exclusive negotiating agreement ("ENA") that will describe the process by which City will transfer the City-owned paper streets to PG&E.

### **Hoedown Yard Relocation**

The Hoedown Yard is an asset of PG&E's natural gas division which is used for truck parking and temporary storage of soils excavated from utility trenches. Port and City staff and PG&E representatives have also been discussing potential sites for relocation of PG&E operations from the Hoedown Yard. As shown on **Exhibit 2**, the Hoedown Yard is located north of 22nd Street along Illinois Street, at the front door to Pier 70.

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<sup>1</sup> <http://sfport.com/ftp/meetingarchive/commission/38.106.4.220/ftp/uploadedfiles/sfport/meetings/supporting/2005/Item%207D%20PG&E.pdf>

<sup>2</sup> The street areas under discussion for sale to PG&E are all located outside of the San Francisco Bay Conservation and Development Commission ("BCDC") 100' shoreline. Public ownership of the 100' shoreline band promotes increased public access, consistent with BCDC policies, and closes gaps in the Bay Trail.

The City has a transferable option to purchase the three acre Hoedown Yard from PG&E for \$8,315,302 (“Hoedown Yard Option”), subject to PG&E’s ability to find a replacement site for its current utility operations (temporary soil storage) at the yard. The Hoedown Yard Option expires in June, 2021. See the June 10, 2014 Port Commission staff report on the ZA-1 Transmission Line for further information on the Hoedown Yard Option<sup>3</sup>.

The Pier 70 transaction between the Port and Forest City Development California, Inc. (“Forest City”) relies on rezoning the Hoedown Yard for residential uses (as provided in the proposed Pier 70 Mixed Use Special Use District) and public financing from development of this site to create a new mixed use neighborhood at Pier 70. See Item 11A for more information about the Port-Forest City transaction.

PG&E and Port staff propose a 40 year lease of 2 acres of the Port’s Western Pacific Property, north of Pier 80, as a relocation site for Hoedown Yard operations (see **Exhibit 2**). This relocation will enable the City to perfect its Hoedown Yard Option so the site can be redeveloped consistent with the Pier 70 Mixed Use Special Use District.

## **PROPOSED TRANSACTION**

As described below, various components of the transaction would require Port Commission, Board of Supervisors and California State Lands Commission (“State Lands”) approval after the completion of environmental review under the California Environmental Quality Act (“CEQA”).

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<sup>3</sup><http://sfport.com/ftp/meetingarchive/commission/38.106.4.220/modules/Item%2012B%20Approve%20PG&E%20ZA1%20Embarcadero-Potrero%20Transmission%20Line%20License%2015762%20060514%20clean%20copy-documentid=8196.pdf>

## I. Hunters Point Power Plant



Figure 1 above shows PG&E and Port owned land undergoing environmental remediation to residential standards at the site of the former Hunters Point Power Plant.

### **Port Sale to PG&E of Paper Streets at Hunters Point Power Plant**

The Port owns approximately 0.8 acres of paper streets that are outside of the BCDC shoreline band and bisect the former PG&E Hunters Point Power Plant site (see **Exhibit 1**). Consistent with the City's stated intention in the 2005 Settlement Agreement, Port staff proposes to sell the paper streets to PG&E for fair market value pursuant to SB 815. The parties would conduct an appraisal through the City's Department of Real Estate appraisal pool to determine the current fair market value of the streets.

The streets consist of portions of Evans Avenue, Davidson Avenue, and Custer Avenue that lay within the power plant site. Prior to selling the streets, the Port would have to vacate the subject streets, with a recommendation from the Port Commission and the approval of the Board of Supervisors.

Under SB 815, the California Legislature found that these paper streets are cut off from direct access to San Francisco Bay, are not needed for public access to the waterfront, and are not used, suitable or necessary for navigation or any other public trust purpose other than revenue generation. As a result, the state authorized the sale of these streets, free of the public trust, if State Lands adopts a resolution making certain findings regarding the sale. The Port Commission would be required to deposit the sale proceeds into a separate account in its Harbor Fund to be expended for implementation of the Port's Capital Plan. The Port Commission, the Board of Supervisors and State Lands would all have to approve the sale of these lands.

### **City/Port Acquisition of PG&E Hunters Point Power Plant Shoreline Lands**

Port and City staff proposes to acquire from PG&E approximately 4 acres of nontrust property within the BCDC 100' shoreline band, just south of Heron's Head Park, which was part of the former Hunters Point Power Plant site ("PG&E Hunters Point Power

Plant Shoreline Property” – see **Exhibit 1**). These PG&E lands consist primarily of Board of Tideland Commissioners blocks lying between Burton Act streets owned by the Port.

PG&E has completed environmental cleanup of the power plant site, including the shoreline, to residential standards and anticipates a *Letter of No Further Action* from the Department of Toxic Substances Control in 2017. Port and City staff propose to acquire the PG&E Hunters Point Power Plant Shoreline Property at fair market value from PG&E for future park purposes, recognizing BCDC constraints regarding the use of the property. The parties would conduct an appraisal through the City’s Department of Real Estate appraisal pool to determine the fair market value of the lands.

Under a Bay Conservation and Development Commission permit, PG&E constructed significant shoreline improvements as part of its remediation of the site.

If the City identifies a nontrust source of funding to acquire the property, The Port Commission would not have approval authority over the City’s acquisition of this site. Port and City staff propose that this site be considered a trust receiver site<sup>4</sup> (“Trust Receiver Site”) to receive the trust from other Port lands that are no longer useful for trust purposes. Any such future trust exchange would be subject to Port Commission, Board of Supervisors and State Lands approval.

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<sup>4</sup> A Trust Receiver Site means land that has value to the public trust for commerce, navigation and fisheries because of its proximity to San Francisco Bay, where the Burton Act and common law trust could be placed on the site at the same time the public trust is removed from other property that is cut off from the Bay and is no longer needed for trust purposes.

## II. Hoedown Yard Relocation



Figure 2 above shows the current Hoedown Yard operation at Illinois & 22<sup>nd</sup> Street (on the left side of the intersection). 22<sup>nd</sup> Street is the planned entryway to the new mixed use neighborhood jointly planned by Forest City Development California, Inc. and the Port.

### **City Option to Purchase Hoedown Yard from PG&E**

The City has a transferable option to purchase the three acre Hoedown Yard north of 22nd Street along Illinois Street from PG&E for \$8,315,302, subject to PG&E finding a replacement site for its current utility operations (temporary soil storage) at the yard. The Hoedown Yard Option expires in June, 2021. Under the proposed transaction, the City or a third party transferee would exercise the Hoedown Yard Option.

The Hoedown Yard is a legacy utility operation at the front door to Pier 70, a 69-acre waterfront property owned by the Port. The Port is currently finalizing a Disposition and Development Agreement with Forest City for the development of a mixed use project on a major portion of the Pier 70 site that will include the creation of new waterfront parks, rehabilitation and reuse of historic maritime buildings, and substantial revenue for the Port's Harbor Fund ("Pier 70 Mixed Use Special Use District Project"). The utility operations at the Hoedown Yard are incompatible with the proposed mixed use project and must be relocated to attract public and private financing for the revitalization of Pier 70.

The Pier 70 Financing Plan anticipates forming an Infrastructure Financing and Revitalization District ("IRFD") over the Hoedown Yard which is projected to generate \$15 million (in 2017 dollars). These revenues will subsidize affordable housing in the Pier 70 Mixed Use Special Use District Project. The Pier 70 Financing Plan also anticipates forming a Community Facilities District ("CFD") over the Hoedown Yard, which will generate funding estimated at \$15.8 million (in 2017 dollars) to (1) build a public park ("Irish Hill Park") on 1½ acres of the Hoedown Yard and (2) fund the City's acquisition of the PG&E Hunters Point Shoreline Property. The CFD will also include an estimated \$300,000 annually in maintenance funding to maintain both Irish Hill Park and



Crane Cove Park. In the future, the CFD over the Hoedown Yard will generate significant funding for shoreline protection anywhere along Port property. The formation of the IRFD and the CFD will be subject to Board of Supervisors approval.

The Hoedown Yard Option directly benefits the Port by removing a major land use impediment to the full economic and public trust benefits from the Pier 70 Mixed Use Special Use District Project. The sale also enables the Port to realize increased revenues to the Harbor Fund through the lease of a replacement site to PG&E (see below). The City will use net proceeds from the sale of the Hoedown Yard, currently projected at up to \$35 million (in 2017 dollars, net of the \$8.3 million Hoedown Yard Option price)<sup>5</sup> to subsidize its HOPE VI very low income housing developments, consistent with the requirements of Board of Supervisors Resolution Nos. 54-14 and 275-14.

This transaction will require Board of Supervisors approval of a competitive sale of the Hoedown Yard.

### **Port Lease to PG&E of Portion of Western Pacific Property**

To exercise the Hoedown Yard Option and facilitate PG&E's relocation from the Hoedown Yard, PG&E and Port staff propose to lease a 2-acre portion of the Western Pacific Property<sup>6</sup> to PG&E for its gas utility operations<sup>7</sup>.

At the Port's request, the Department of Real Estate conducted an extensive survey of industrial sites in the City that would be suitable for the relocated utility operations (see **Exhibit 3**). The analysis shows that there are no sites of sufficient size available for this use. The Port is the primary owner of available M2 industrial land in the City, and Port staff has identified the Western Pacific Property as the most suitable, available location.

The Port recently signed a terminal operator agreement with Pasha Automotive Services for auto import/export, which includes a right of first offer to expand into most of the Western Pacific Property. Port staff believes that there is sufficient room on the Western Pacific Property to accommodate both a future Pasha expansion and the proposed PG&E lease.

The Port and PG&E propose a fair market value 40 year lease of the site for utility operations, with soil storage enclosed in a removable structure to protect San Francisco

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<sup>5</sup> The projected value of the Hoedown Yard assumes a residential condominium use on the site, which will be permitted under the proposed Pier 70 Mixed Use Special Use District. The projected value assumes market values today, which are subject to change. One of the largest factors in the future value of the Hoedown Yard is the timing of PG&E's proposed enclosure of the Potrero Switchyard, south of 22<sup>nd</sup> Street.

<sup>6</sup> The proposed site is part of an expansion area under Lease L-15831 with Affordable Self Storage. Rent for the past year collected from this expansion area was an estimated \$90,381.

<sup>7</sup> PG&E is a publicly regulated utility which supplies natural gas to the Port and its tenants.

Bay and the surrounding area from dust. Port staff projects the value of this lease at \$5 million, on a net present value basis. Port staff will work with the Department of Real Estate to appraise the property, which will determine the annual rent.

Table 1 below shows the proposed terms of a lease of the 2 acre Western Pacific Property:

<b>Table 1: Proposed Terms for PG&amp;E Lease of 2-Acre Western Pacific Property</b>	
Commencement Date	PG&E shall relocate from the Hoedown Yard no later than January 1, 2020
Use	Uses consistent with current utility operations at the Hoedown Yard, including truck parking and storage of excavated utility soils until these soils can be put back in utility trenches. These activities that are regulated in state and local environmental laws, including the City's Maher Ordinance.
Rent & Security Deposit	Fair market value annual rent based on appraisal, commencing on the Commencement Date, subject to annual escalation, with two months' rent as a security deposit with the Port and an environmental security deposit
Structures	Required enclosure of the soil storage operation in a sprung structure or similar temporary structure, with a PG&E obligation to remove any structures at lease termination
Port Termination Right	Port right to terminate the lease with 2 years notice to accommodate a trust purpose, if the Port identifies other land suitable for PG&E's Hoedown Yard operations acceptable to PG&E
PG&E Termination Right	PG&E right to terminate the lease with 6 months' notice
Operations Plan	The lease will include an Operations Plan setting forth the Port's environmental requirements and governing operations and activities undertaken by PG&E on Port property
Southern Waterfront Community Benefits	PG&E will gift the public improvements that PG&E has made to the PG&E Hunters Point Shoreline property. In addition, PG&E will make site improvements to the Western Pacific Property, including landscaping improvements to the property and adjacent areas

## **ANALYSIS AND FINDINGS**

The proposed transaction resolves multiple property interests and issues between PG&E, the City and the Port in a manner that will significantly benefit the City, the Port and the public trust. The benefits to the trust from the transaction are summarized below.

### **Favorable Public Response**

Port staff has presented the proposed transaction at both the Central Waterfront Advisory Group on July 20, 2016 and the Southern Waterfront Advisory Committee on



August 31, 2016. Members of both groups were generally supportive of the proposed transaction. Port staff will conduct further public outreach, including to members of the Dogpatch Neighborhood Association.

### **Removes Pier 70 Development Constraint**

The City's exercise of the Hoedown Yard Option is a critical step in the process of developing a new, mixed use neighborhood at Pier 70. The Pier 70 Mixed Use Special Use District Project, which will be facilitated by a public trust exchange authorized by AB 418, includes rehabilitation and reuse of maritime industrial buildings in the Union Iron Works Historic District listed on the National Register of Historic Places and the development of new waterfront parks in an area of the City that historically has had extremely limited public access to San Francisco Bay.

The present use of the Hoedown Yard is a key obstacle to the Port realizing the full economic and public trust benefit potential from major private investment in Pier 70. This obstacle can be removed only if the City or a third party transferee exercises the Hoedown Yard Option, which in turn requires that PG&E be provided a replacement site for its utility operations. The Department of Real Estate's analysis indicates that there is no suitable private land available for this use (see **Exhibit 3**). The only suitable and available replacement site in the City is the proposed relocation site on the Western Pacific Property.

The Hoedown Yard is the gateway to the proposed Pier 70 Mixed Use Special Use District Project. Relocating the soil operations from the Hoedown Yard to the relocation site will allow mixed use residential and commercial development consistent with the proposed Pier 70 Mixed Use Special Use District, providing an inviting gateway to Pier 70 that will add value to the future mixed use development of the site.

### **Creates a New Public Park with a Children's Playground**

The Hoedown Yard will include a 1½ acre City-owned children's playground ("Irish Hill Park") on a portion of the Hoedown Yard, and provide public financing proceeds to build the park and to maintain Irish Hill Park and Crane Cove Park.

### **Subsidizes Affordable Housing at Pier 70**

If the Board of Supervisors approves the IRFD and CFD over the Hoedown Yard, this public financing strategy will generate an estimated \$15 million in property tax increment to subsidize affordable housing and special taxes to pay for a children's playground on part of the site.

### **Makes Economic Use of Port Property**

The proposed PG&E utility operations are uses consistent with utility uses that the Burton Act authorizes. The proposed 40 year lease would include rent based on appraised fair market value (with an estimated net present value of approximately \$5 million), a significant increase in revenue for the Harbor Fund. The site is currently leased periodically as an expansion area under Lease L-15831, with estimated annual revenues of \$90,000. The allowed use of the relocation site under the proposed lease – truck parking and storage of excavated utility soils until these soils can be put back in

utility trenches – is consistent with the surrounding industrial uses in the area. In addition, the Port could terminate the lease if the site were to become needed for maritime purposes in the future. The City would need to identify other land suitable for PG&E’s Hoedown Yard operations acceptable to PG&E. The proposed lease would not interfere with any current trust uses and would significantly increase trust revenues from this otherwise underutilized site.

### **Places Shoreline under Public Ownership, Potentially Subject to the Trust**

The City’s acquisition of the four acre PG&E Hunters Point Shoreline Property would consolidate public ownership of the shoreline and open this area for the first time in nearly a century to public access. The site lies between Heron’s Head Park<sup>8</sup> to the northeast and India Basin shoreline park to the south. Once transferred to the City, the entire shoreline band at the former plant site will be in public ownership, providing a crucial missing link in the Bay Trail in southeastern San Francisco. This property is an ideal Trust Receiver Site for the trust from other Port lands that are no longer required for trust purposes.

### **Gives Port Fair Market Value for Surplus Paper Streets**

As the legislature has already found, the portions of Evans Avenue, Davidson Avenue, and Custer Avenue lying outside of the BCDC 100’ shoreline band are not needed for any trust purpose and provide no benefit to the Port other than revenue generation. The sale of the streets to PG&E, the owner of those adjoining lands, will allow the Port to realize that value, and, in accordance with SB 815, the proceeds will be dedicated to implementing the Port’s Capital Plan, which the legislature has declared to be a matter of statewide importance.

### **Brings Closure to Previous Disputes with PG&E over the Unauthorized Use of Port Property**

The sale of public trust lands underlying paper streets on the Hunters Point Power Plant site outside of the shoreline band to PG&E provides the long term solution to the PG&E encroachment dispute addressed by the settlement agreement described above.

### **Port Strategic Plan**

The proposed transaction furthers the Port’s 2016-21 Strategic Plan by promoting:

*Renewal* – By prioritizing a new neighborhood at Pier 70, including a new Irish Hill Park, and by extending the Blue-Greenway in the Port’s Southern Waterfront.

*Engagement* – By engaging the Central Waterfront Advisory Group and the Southern Waterfront Advisory Group in transformative land use changes that will improve both neighborhoods.

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<sup>8</sup> Heron’s Head Park is a waterfront park and natural area owned by the Port that is home to the Eco-Center, an environmental education center.

*Livability* – By funding affordable housing at Pier 70 and in the City’s HOPE VI rebuild projects.

*Resiliency* – By funding future shoreline protection improvements through a CFD Special Tax on the Hoedown Yard.

**Trust Benefits**

These transactions with PG&E would provide significant benefits to the trust by:

1. increasing the net acreage of lands in the trust by almost 3 acres;
2. acquiring a missing link in the public ownership of the shoreline;
3. maximizing the economic value to the trust from the Port’s surplus paper streets that are not necessary for the public trust or Burton Act trust purposes;
4. making economic use of under-utilized industrial land; and
5. removing an impediment to the Pier 70 Mixed Use Special Use District Project that will provide tremendous value to the trust in the form of trust improvements and revenues.

The Burton Act authorizes the Port to enter into leases for up to 66 years for the construction and operation of all “utilities...incidental, necessary or convenient for the promotion and accommodation of commerce and navigation” (Section 3.1), and for “all commerce and industrial purposes.” (Section 3.2). The proposed Western Pacific Parcel lease is to PG&E, a public utility that provides natural gas to the Port and its tenants. This industrial use is necessary to the utility’s operations. The site is historically and currently used for industrial purposes. The lease will assist the Port in realizing the economic and public trust benefits to the Port from the Pier 70 Mixed Use Special Use District Project.

For the reasons described above, Port staff believes that the proposed transaction is authorized under applicable statutes.

**NEXT STEPS**

Subject to further direction from the Port Commission, Port staff recommends the following schedule for proposed transaction:

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|-----------------|---|
| August, 2017    | Initiate appraisals for the subject properties under joint appraisal instructions reviewed by the State Lands   |
| September, 2017 | Initiate CEQA environmental review of the proposed transaction and initiate vacation of the portions of Custer, Davidson and Evans outside of the BCDC shoreline band |

Late 2017,  
Early 2018

Seek Port Commission, Board of Supervisors and State Lands approval of the transaction, including Port Commission and Board of Supervisors consideration of proposed CEQA findings and Board of Supervisors consideration of the proposed street vacation.

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**Exhibit 1:** Hunters Point Power Plant Land Transfers

**Exhibit 2:** Hoedown Yard Relocation, including Proposed 40 Year Lease of Western Pacific Property

**Exhibit 3:** Department of Real Estate Industrial Broker Report

**Exhibit 1:  
Hunters Point Power Plant Land Transfers**

**Exhibit 2:  
Hoedown Yard Relocation,  
including Proposed 40 Year Lease of Western Pacific Property**

**Exhibit 3:**  
**Department of Real Estate Industrial Broker Report**