

MEMORANDUM

October 20, 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: Authorization for the Executive Director to enter into a revised Project Partnership Agreement with the United States Army Corps of Engineers (USACE) for dredging of the Central Basin, with a revised Port matching share of 25%, not to exceed \$2,922,500, towards the initial dredging costs, and a revised additional matching share not to exceed \$1,169,000, or 10% of the initial costs payable over 30 years for future federal dredging of the Central Basin, and an additional 10% contingency of \$409,150, for a total Port project cost not to exceed \$4,500,650, subject to approval of the Board of Supervisors

DIRECTOR'S RECOMMENDATION: Approve Attached Resolution.

EXECUTIVE SUMMARY

The Central Basin serves as the navigational point of entry for the Port's shipyard at Pier 70 ("Pier 70 Shipyard"). Shoaling of the Central Basin increasingly restricts the size of vessel that the Pier 70 Shipyard can service and threatens the economic viability of shipyard operations. In 2009, the Port requested dredging assistance from the United States Army Corps of Engineers ("USACE"), and after a lengthy process, USACE recommended an estimated \$8.97 million federal project to dredge the Central Basin to a depth of 32 feet, and thereafter, to assume maintenance dredging responsibility indefinitely, subject to available federal funds.

On December 13, 2016, through Port Commission Resolution 16-48, the Port Commission authorized the Executive Director to enter into a Project Partnership Agreement with USACE to execute the project to a depth of 32 feet, and the Port sought and received approval from the Board of Supervisors of Ordinance 244-16 authorizing the same.

THIS PRINT COVERS CALENDAR ITEM NO. 10A

In January of 2017, USACE informed Port staff that it had revised its analysis of the project and determined that the preferred alternative was now a dredging of the Central Basin to a depth of 35 feet. The additional dredge volume resulting from increasing the depth from 32 feet to 35 feet increased the total cost of the project from \$8,971,000 to \$11,690,000 for an increase of \$2,719,000, which increases the Port's share of the project, including the addition of contingency funds, from \$3,139,850 to \$4,500,650 for an increase of \$1,360,800. This new project total exceeds the Port's existing authority under Commission Resolution 16-48 and Ordinance 244-16. Previously appropriated maintenance dredging program monies are available to fund the additional \$1,360,800 project cost.

On July 25, 2017 the Port introduced at the Board of Supervisors the proposed amendment to Ordinance 244-16; that amendment has not yet been scheduled for a committee hearing at the Board, awaiting action by the Port Commission.

Port staff seek authorization from the Port Commission to enter into a PPA with USACE with the revised scope for a dredge depth of 35 feet, increasing expenditure authority to match the revised USACE project scope, inclusive of a 10% contingency and, at the Board of Supervisors, amend Ordinance 244-16 to provide the same authority.

BACKGROUND

With many federally-owned and commercial ships receiving service at the Pier 70 shipyard, in October 2009, the Port requested funding assistance from USACE for the Central Basin under its Continuing Authorities Program, Section 107 ("CAP107") for navigation projects in the federal interest. In September 2010, USACE determined there was an apparent federal interest in the Port's Central Basin project, and recommended a formal feasibility study of a federal project to dredge the Central Basin that resulted in a provisional Detailed Project Report recommending a federal deepening and maintenance dredging project for the Central Basin.

In July of 2011, the Port entered into a cost sharing agreement for the formal feasibility study of the Central Basin as a federal CAP107 project. Federal appropriations to the national CAP107 account, from which individual CAP107 projects are funded, were put on hold by Congress in intervening years, and with other competing projects, USACE effectively placed the Central Basin project in suspension until 2015.

In FY 2015-16, the San Francisco Board of Supervisors appropriated funding for the Port of San Francisco to fund a local match to federal funding for the USACE to dredge the Central Basin. In April 2016, the San Francisco District Office of USACE chose its preferred alternative from among 15 alternatives considered for execution of the Central Basin CAP107 project.

At that time, USACE selected a project alternative to dredge the Central Basin to a depth of 32 feet at a total project cost estimated at \$8,971,000, with an estimated \$6,728,260 federal contribution, and which would require the local sponsor, the Port of San Francisco, to contribute a 25% project match, estimated at \$2,242,740. For an

additional match from the Port estimated at \$891,000, or 10% of the cost of the initial deepening dredge, USACE would assume responsibility for all maintenance dredging of the Central Basin indefinitely, subject to the future availability of federal funds, at an estimated benefit of more than \$1.6 million every four years.

On November 19th, 2016, the San Francisco Planning Department determined that this project is categorically exempt from CEQA pursuant to Section 15304(g). USACE conducted all other environmental review of the project including NEPA, working through the standard processes of DMMO agency oversight for dredging projects.

On December 13, 2016, through Commission Resolution 16-48, the Port Commission authorized the Executive Director to enter into a Project Partnership Agreement with USACE to execute the project to a depth of 32 feet, and the Port sought and received approval from the Board of Supervisors of Ordinance 244-16 authorizing the same.

In January of 2017, USACE informed Port staff that it had revised its analysis of the project and determined that the scope in the National Economic Development interest was now a dredging of the Central Basin to a depth of 35 feet. The additional dredge volume increased the total cost of the project from \$8,971,000 to \$11,690,000 for an increase of \$2,719,000, which increases the Port's share of the project, including the addition of contingency funds, from \$3,139,850 to 4,500,650 for an increase of \$1,360,800. This new project total exceeds the Port's existing authority under Ordinance 244-16.

PROJECT PARTNERSHIP AGREEMENT AND THE PIER 70 SHIPYARD OPERATOR

July 11, 2017 the Port Commission approved Commission Resolution 17-31 authorizing issuance of a Request for Proposal for a new operator of the Pier 70 Shipyard, described in the accompanying staff report, which may be found here <http://sfport.com/file/22981>.

As a matter of Corps process, the PPA must be reviewed and approved at the District (local), Division (regional) and Headquarters offices of USACE, as well as by the Assistant Secretary of the Army for Civil works. The PPA approved by the Port Commission has been approved at the District offices of USACE, but is currently being held by the Division offices pending the results of the P70 shipyard operator RFP process. Port staff continues to be in close contact with USACE regarding the RFP process and any potential changes that could bear on their economic analysis for the project.

REQUESTED AUTHORIZATION

Port staff seeks authorization to enter into the revised Project Partnership Agreement with the United States Army Corps of Engineers for Dredging of the Central Basin for the revised total amount of \$11,690,000, with the Port's share not to exceed \$4,500,650, and to seek an amendment to Ordinance 244-16 from the Board of Supervisors to authorize the same.

Prepared by: Daley Dunham, Special Projects Manager

For: Brad Benson, Director of Special Projects

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

RESOLUTION NO. 17-55

- WHEREAS, The United States Army Corps of Engineers (“USACE”) is responsible for maintaining the authorized navigational depth of all federal channels in the United States through its maintenance dredging program; and
- WHEREAS, The Port of San Francisco (“Port”) shipyard at Pier 70 includes two large floating drydocks and when in operation provides high-paying, skilled employment opportunities in San Francisco; and
- WHEREAS, The Central Basin serves as the navigational point of entry for vessels entering the Pier 70 shipyard and lies within the jurisdictional boundaries of the City and County of San Francisco but outside existing federal navigational channels; and
- WHEREAS, Accumulation of San Francisco Bay mud or “shoaling” in the Central Basin reduces the functional navigational depth of the area, increasingly restricting the size of vessels capable of entering the shipyard, thereby threatening the economic viability of ship repair activity at that location; and
- WHEREAS, The expense of required periodic dredging of the Central Basin is substantial, and not viable in the long term for either a shipyard operator to absorb as an operating cost or for the Port to include in its annual dredge budget; and
- WHEREAS, With many federally-owned ships receiving service at the Pier 70 shipyard, in October 2009, the Port requested funding assistance from USACE for the Central Basin under USACE’s Continuing Authorities Program, Section 107 (“CAP107”), for navigation projects in the federal interest, pursuant to the River and Harbor Act of 1960, Public Law 86-645, Section 107, as amended (33 U.S.C. 577); and
- WHEREAS, In September 2010, USACE determined there was an apparent federal interest in the Port’s Central Basin project, and recommended a formal feasibility study of a federal project to dredge the Central Basin that resulted in a provisional Detailed Project Report recommending a specific federal deepening and maintenance dredging project; and
- WHEREAS, In July 2011, the Port entered into a cost sharing agreement for the formal feasibility study of the Central Basin as a federal CAP107 project, but federal appropriations to the national CAP107 account, from which individual CAP107 projects are funded, were put on hold by Congress in

intervening years, and with other competing projects, USACE effectively placed the Central Basin project in suspension until 2015; and

WHEREAS, In April 2016, USACE chose its preferred alternative (“USACE Preferred Alternative”) from among nine alternatives considered for execution of the Central Basin CAP107 project, and the Port concurred with that selected alternative, which would authorize USACE to dredge the Central Basin to a depth of 32 feet at an initial project cost of \$8,971,000, and requires the “local sponsor,” the Port, to contribute a 25% project match, or \$2,242,740; and

WHEREAS, In order to implement the Central Basin dredging project as part of its CAP107 funding program, USACE previously prepared a Project Partnership Agreement that reflects the USACE preferred alternative and memorializes the respective obligations of the Port and USACE for the project; and

WHEREAS, For this proposed federal project to move forward, the Port as local sponsor must execute the USACE Project Partnership Agreement, which is a federal contract with contract terms and conditions required by USACE procedures and protocols; and

WHEREAS, Under the Project Partnership Agreement, the Port, as property owner, will also retain responsibility for investigating and mitigating any hazardous substances regulated under the federal Comprehensive Environmental Response, Compensation and Liability Act. (42 U.S.C.9601-9675.); and

WHEREAS, On November 29, 2016, the Planning Department determined that the actions contemplated in this resolution and a companion ordinance before the San Francisco Board of Supervisors (“Board of Supervisors”) authorizing the execution of the USACE Project Partnership Agreement comply with the California Environmental Quality Act (California Public Resources Code Sections 21000 et seq.), which determination is on file with the Clerk of the Board of Supervisors in File No. 161286 and is incorporated herein by reference; and

WHEREAS, On December 13, 2016, the Board of Supervisors approved Ordinance 244-16 on final reading (File No. 161286) approving and authorizing the Executive Director of the Port to execute a Project Partnership Agreement with the USACE to allow federal dredging of the Central Basin conditioned upon the Port providing a 25% matching share not to exceed \$2,242,750 for the initial project costs, and the Port providing an additional 10% matching share, not to exceed \$897,100 for federal maintenance dredging of the Central Basin payable over the following 30 years, for a total matching share from the Port not to exceed \$3,139,850; exempting the Agreement from certain requirements of the Environment Code and Administrative Code except to the extent that the Agreement obligates

USACE to satisfy any such requirements; and affirming the Planning Department's determination under the California Environmental Quality Act; and

WHEREAS, In January of 2017, USACE revised its economic analysis of the project and revised the scope of the proposed PPA to dredge the Central Basin to a depth of 35', increasing the project cost to \$11,690,000 and the Port's share to \$4,500,650; and

WHEREAS, Port project staff have included a 10% contingency cost for the project as a guard against future unexpected cost increases; now, therefore, be it

RESOLVED, Subject to Board of Supervisors approval of the Central Basin Ordinance and the Port Executive Director's determination that the USACE Project Partnership Agreement contract terms are highly standardized and that deviation from those terms would result in USACE's rejection of revisions to the Project Partnership Agreement, the San Francisco Port Commission ("Port Commission") hereby approves and authorizes the Port Executive Director to execute the revised Project Partnership Agreement with USACE with terms as generally described in the staff report dated December 9, 2016 and substantially in the form on file with the Port Commission Secretary, to allow federal dredging of the Central Basin, conditioned upon (a) the Port providing a 25% matching share of \$2,922,500 towards the initial project costs, and (b) the Port providing an additional matching share of \$1,169,000, or 10% of the cost of the initial deepening dredge, payable over 30 years, for future federal maintenance dredging of the Central Basin, with an additional 10% contingency of \$409,150, for a total project cost to the Port not to exceed \$4,500,650; and, be it further

RESOLVED, That, the Port Commission hereby authorizes the Port Executive Director to enter into any additions, amendments, or other modifications to the Project Partnership Agreement, and any other documents or instruments in connection with same, that the Port Executive Director determines, following consultation with the City Attorney, are in the Port's and City's best interests, do not materially decrease the Port's and City's benefits or materially increase the Port's and City's obligations or liabilities, and are appropriate and advisable to complete the proposed transaction.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of October 24, 2017.

Secretary