

## MEMORANDUM

November 9, 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 on Proposed Concept for a Request for Interest for Public-oriented Uses and Qualified Developers for Pier Facilities in the Embarcadero Historic District

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

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### Summary

This staff report provides a briefing to the Port Commission on key recommendations that are being developed from the Waterfront Plan Update public process to create new leasing and development strategies to rehabilitate historic pier facilities in the Embarcadero Historic District to achieve stated public trust objectives. Port staff recommends a two-track, Request for Interest (RFI) from public-oriented use operators, and Request for Qualifications (RFQ) from qualified developers to invite market-based ideas and response on possible pier rehabilitation and improvements; this information also would provide insights to the Port and public about the viability of Embarcadero Historic District leasing and development recommendations from the Waterfront Plan Update process. In addition to (and complementary with) the Waterfront Plan Update, the RFI/RFQ would better inform the Port's strategy to move forward on the processes required to achieve needed pier rehabilitation projects in the face of seismic and sea level rise challenges.

On October 25, 2017, Port staff provided a briefing at the Waterfront Plan Working Group (Working Group) meeting regarding the RFI/RFQ in response to an October 9, 2017 San Francisco Chronicle article and prior Working Group meeting discussions and recommendations for new leasing and development strategies for the Embarcadero Historic District, and promotion of opportunities to expand public-oriented uses along the San Francisco Waterfront.

**THIS PRINT COVERS CALENDAR ITEM NO. 13B**

The Working Group will meet on December 6, 2017, with an aim to complete its recommendation for Part 2 of the public process. Port staff will return to the Port Commission to provide an informational presentation of the full set of Working Group recommendations and proposed next steps for an RFI/RFQ for pier facilities in the Embarcadero Historic District.

## **Background**

This staff report focuses on recent public discussions about stewardship of the Embarcadero Historic District, and a Port staff proposal to solicit market-based ideas and information from public-oriented use operators and interested qualified developers, to explore ways to improve and rehabilitate as many historic pier facilities as possible.

The Embarcadero Historic District extends for three miles between Pier 45 in Fisherman's Wharf to Pier 48 at China Basin. Over the last 20 years, the Ferry Building and pier historic rehabilitation projects have opened the San Francisco waterfront to the public while continuing to host a diversity of maritime businesses. Of the Historic District's 20 piers, 15 have not been seismically improved and have major capital needs. These industrial finger piers and bulkheads were built for warehousing and maritime industry from the early 1900's. They continue to be well-suited for modern day production, distribution and repair (PDR) businesses, but require substantial capital investment that exceed Port resources to address deferred maintenance and make seismic improvements to support large numbers of people. The rate of deterioration of these century old facilities further challenges the Port's asset management efforts to maintain stable leasing for ongoing industrial use.

The challenges and desires for the Embarcadero Historic District have been a key focus among the wide variety of policy issues that are being addressed by the Waterfront Plan Working Group in the public process to update the Waterfront Land Use Plan (Waterfront Plan Update). The Working Group is approaching the end of Part 2 of the Waterfront Plan Update public process, to produce Port-wide policy guidance recommendations on issues such as waterfront resilience, environmental sustainability, transportation, maritime industries, land use and development, and public process procedures.<sup>1</sup> This staff report focuses on leasing and development recommendations for the Embarcadero Historic District; Port staff will provide a future Port Commission informational presentation on the full scope of the Part 2 issues after the Working Group concludes determination of all of its policy guidance recommendations.

While keenly aware of the need to work across sectors to address climate change and resilience planning for sea level rise and improvement of the Seawall, the Working Group recognizes the public value and responsibility for stewardship of the Port's

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<http://sfport.com/sites/default/files/Planning/WLUP%20Documents/9.11.17%20Waterfront%20Update%20Part%202%20Summary%20Report.pdf>

historic finger piers, bulkhead buildings and resources in the Embarcadero Historic District. After detailed orientation and public discussions in Part 1 of the public process, and a financial feasibility model analysis focused on leasing and development scenarios for Embarcadero Historic District facilities in Part 2, the Working Group has embraced recommendations that are intended to expand the tools for viable leasing and development of these facilities, within a public trust objective framework.

The recommendations provide criteria for public trust objectives for historic rehabilitation, capital improvements, maritime, public access and public-oriented uses, and Port revenues. Based on an updated understanding of the extraordinary cost of historic pier repair and rehabilitation, the recommendations recognize the need for more lease term flexibility to amortize capital repairs and improvements, and the rationale for allowing high revenue-generating uses to finance them as part of an overall program that achieves public trust objectives. Attachment 1 provides an excerpt from the Part 2 Report which summarizes the issues and details in the Working Group leasing and development recommendations.

While embracing the responsibility for managing the Port's architectural and maritime resources and heritage, the Working Group recommendations also emphasize the need to protect and expand opportunities for public-oriented uses of all kinds that are inclusive and serve populations of all kinds. Successful projects and leases to date, including AT&T Ballpark, the Exploratorium, and Pilara Museum have demonstrated how recreational, entertainment, and museum and cultural centers offer unique and varying ways to expand and diversify public enjoyment of the waterfront, in addition to traditional restaurants and retail attractions that are recognized trust-consistent uses. Attachment 2 provides further details about desirable types and qualities of public-oriented uses that have been recommended by the Working Group.

It bears noting the real estate market analysis conducted as part of the financial feasibility modelling for the Embarcadero Historic District reflected that public-oriented uses are often unique; those surveyed were low or moderate revenue generators, and/or required philanthropic or non-profit entities as financing partners. Unlike office, industrial and retail uses, the market analysis for public-oriented uses did not produce a complete list of public-oriented use product types. The public and Port need to improve our shared understanding of the economic viability and market reality of these uses, both individually and as part of an overall pier use program that can achieve both public trust and feasibility objectives. The public trust is not advanced if a pier project cannot be financed, just as a financeable pier project will not move forward without addressing the objectives of the trust.

### **Request for Interest Concept**

Given the recommendations coming from the Waterfront Plan Update process, the number of unimproved piers and capital needs in the Embarcadero Historic District, Port staff recommend a two-track solicitation of input: a Request for Interest (RFI) from public-oriented use operators and a Request for Qualifications (RFQ) from qualified developers with access to capital financing for historic rehabilitation. The extent and

rate of facility deterioration and rising tides indicate the need to explore how the Port can step up the pace of pier repair and rehabilitation as part of a strategic leasing and asset management program. This RFI/ RFQ process provides the opportunity to:

- Receive real world feedback to help the Port identify market-based solutions that maximize public serving uses;
- Generate creative and imaginative concepts;
- See new market-based opportunities and approaches to deliver more public oriented uses and test what is possible;
- Understand possible partnering opportunities between maritime and public-oriented use entities and developers;
- Explore the modern place of work through review of PDR, office or other revenue-generating anchor tenants that can subsidize the rehabilitation of pier spaces for public-oriented uses;
- Learn from the public and the Port Commission concepts that should be further explored in a Request for Proposals; and
- Further inform the update the Waterfront Plan

The purpose and focus of the proposed two-track process are described further below and in Attachment 3:

- 1) RFI – to identify market-interest/focus, and types and expanded diversity of uses and operators of maritime and public-oriented uses, including information about rental and capital capacity for associated tenant improvements (i.e. not necessarily funding for pier rehabilitation). Public oriented uses could include arts, museums/cultural facilities, education and academic institutions, maritime, recreational enterprises, assembly and entertainment operators and developers, in addition to retail and restaurants;
- 2) RFQ – to develop a list of qualified developers (private or non-profit) interested in rehabilitating Embarcadero Historic District piers that include maritime and public-oriented uses

The Port used the RFI approach successfully to solicit development ideas for reuse and rehabilitation for Union Iron Works Historic District buildings on 20<sup>th</sup> Street at Pier 70; this ultimately led to selection of Orton Development Inc. as the Port's development partner, which is now completing the rehabilitation of these historic treasures. In the case of the Embarcadero Historic District, given the cost of improvements and potential limits on revenue generation from public-oriented uses, Port staff felt that inviting experienced developers will be needed to finance pier repairs and improvements to support the public-oriented uses and realize other stated public trust objectives. Accordingly, the two-track approach is not only complementary, it is critical to confirming a potential preservation strategy in the face of the limited remaining useful lives of these historic assets.

Port staff proposes the following vacant or other facilities with significant capital repair needs for inclusion in this RFI/RFQ process: Piers 45 Shed A, Pier 35 (maintaining secondary cruise ship berth operations), Pier 33 (pier shed only), Pier 31 (pier shed

only), Pier 29½, Pier 29 (pier shed only), Pier 23, Pier 19½, Pier 19, Pier 26, Pier 28, Pier 38, Pier 40 (maintaining water recreation uses).

As described in Attachment 3, the proposed RFI/RFQ process would allow the Port Commission and public to receive market-based responses and answers to questions such as:

- What types of maritime and public-oriented uses can effectively utilize Embarcadero Historic District piers and enhance the maritime and public experience on the waterfront?
- What rental rates and capital funding can public-oriented uses contribute to the overall project?
- What are comparable public-oriented projects and business plans that have been successfully implemented in other locations?
- Which piers are more or less desired for different types of uses?

Port staff provided a briefing about the RFI/RFQ at the October 25, 2017 Working Group meeting, following a San Francisco Chronicle article by J.K. Dineen on October 9, 2017. Attachment 4 includes the article and a Port response letter to Mr. Dineen on October 11, 2017. The Working Group meeting discussion reflected a shared interest in producing leasing strategies that are effective, which should include input and response from the real estate and development sector, and businesses that focus on public-oriented uses and attractions. There is recognition of the opportunity for new types of partnerships between businesses that provide public-oriented uses and developers with experience crafting unique public-private developments and experiences.

With the policy values and objectives framed by the Working Group, Port staff believes the time is ripe to find out whether the direction and expectations reflected in these recommendations could be realized to spur more investment in the Embarcadero Historic District. This kind of real-world feedback will help identify market-based solutions that maximize public-serving uses in the rehabilitation of our historic piers, which will allow the Port to keep Port and other public funds available for different maintenance and shoreline protection efforts on Port properties that do not have these market-based opportunities. The proposed RFI/RFQ would provide a laboratory for ideas and would require further review and discussion by the Port Commission and public of the responses resulting from this two-track approach. The RFI/RFQ process also may identify more severe feasibility issues than we realize, which may point to consideration of the trade-offs and/or public sources to achieve historic rehabilitation, before the Waterfront Plan is updated and amended. Port staff proposes the following steps:

- 1) Port staff review of best practices in RFI processes.
- 2) Public/community input on RFI/RFQ objectives

- 3) Port Commission authorization to issue RFI/RFQ, and direction on Review Panel of RFI/RFQ responses
- 4) Implement media and outreach campaign
- 5) Receive RFI/RFQ responses
- 6) Review Panel scores both sets of responses
- 7) Port Commission hearing on responses, consideration of any short-lists for the two tracks, next steps regarding any selection or second proposal phase, including direction on partnering of public-oriented sue partners and developers.

No pier project would move forward on the basis of a response to this RFI/RFQ process alone. All would require further action after further consultation with stakeholders and public hearing at the Port Commission. These discussions also should include timelines associated with the different choices and options, and will assume ongoing short-term leasing in pier and bulkhead buildings under existing policies, to maintain use of facilities and revenue generation that would not be in conflict with these longer-term efforts.

Port staff would like to express a special note of thanks to Jennifer Lucchesi, Executive Officer, and Reid Boggiano of the State Lands Commission staff. They have dedicated a great deal of time in staff-to-staff discussions, and collaboration in the development of the Working Group recommendations. Their knowledge and experience in past Port developments, and availability to the Working Group and public has built a strong foundation of trust and education to support our shared interest in the Port's success in public trust stewardship of the San Francisco waterfront.

## **NEXT STEPS**

Port staff welcomes Port Commission comments to this proposed concept and process to provide direction on next steps for the RFI/RFQ. The Working Group will meet on Wednesday, December 6, 2017, with a desire to complete its review and acceptance of the last open issues in the Part 2 Recommendations. Port staff will provide a Port Commission briefing on the entirety of the Part 2 process and recommendations, which may include Port Commission authorization to prepare the RFI/RFQ process.

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## **ATTACHMENTS**

- 1 Working Group Recommendation Details for Embarcadero Historic Piers  
Leasing and Development
- 2 Working Group Land Use Subcommittee Public-Oriented Use  
Recommendation Memo
- 3 Embarcadero Historic District Pier RFI/RFQ Concept
- 4 October 9, 2017 SF Chronicle and October 11, 2017 Port Response Letter