

MEMORANDUM

February 23, 2018

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

FROM: Elaine Forbes
Executive Director

SUBJECT Adoption of the Final Mitigated Negative Declaration and the Mitigation Monitoring and Reporting Program for the Alcatraz Ferry Embarkation Project (2017-000188ENV) located at Piers 31-33 on The Embarcadero at Bay Street (Site) pursuant to the California Environmental Quality Act; and

Approval of three transaction documents: (1) a General Agreement between the Port and the National Park Service (NPS) for a thirty-year term with two ten-year options for use of the Site primarily as the embarkation to Alcatraz Island including: (2) a form lease with an initial ferry concessioner to be selected by NPS for site improvements and ferry services including from the Site to Alcatraz Island coterminous with the ferry concession contract; and (3) a lease with the Golden Gate National Parks Conservancy for site improvements and to operate visitor amenities including a visitor-contact station and café for a thirty-year term with two ten-year options coterminous with the General Agreement.

(This action constitutes the Approval Action for the project for the purposes of CEQA, pursuant to San Francisco Administrative Code Section 31.04(h).) (Resolution No. 18-19)

DIRECTOR'S RECOMMENDATION: Approve the attached Resolution

EXECUTIVE SUMMARY

Staff from the Port and the National Park Service (NPS or Park Service) have negotiated the terms and conditions for three transaction documents that will govern the improvement of and long-term operations of the Alcatraz Island Embarkation Site

THIS PRINT COVERS CALENDAR ITEM NO. 13A

Project (the “Project”) located at Piers 31, 31½, and 33 on The Embarcadero at Bay Street (the “Site” shown on Exhibit A, Site Aerial Map).

The Project is anticipated to generate approximately \$34 Million of investment in the Piers 31-33 Site by the ferry concessioner (\$30 Million, including approximately \$5 million in waterside improvements), and the Golden Gate National Parks Conservancy (\$4 Million).

The Project will activate the Pier 31 bulkhead with a café and public restrooms, transform the Pier 33 bulkhead into a visitor-contact station, improve the visitor experience on the open marginal wharf where visitors begin their ferry service to Alcatraz and improve the efficiency of the ferry operations. Improvements to the Site will be made through a lease with a new tenant, the Golden Gate National Parks Conservancy (Conservancy), and through a lease with a new ferry concessioner, to be selected by NPS through its competitive-bid process.

The Project goals are as follows:

- A. Provide an identifiable gateway to Alcatraz Island and the GGNRA;
- B. Create a clear orientation and quality welcoming experience to Alcatraz Island;
- C. Establish a destination point along the Embarcadero;
- D. Ensure efficiency for the site’s various visitor services and ferry operations;
- E. Provide connections to other NPS sites in San Francisco Bay;
- F. Rehabilitate the historic Port structures and tell their stories;
- G. Preserve resources through sustainable strategies; and
- H. Offer a safe and accessible experience for all.

The agreements (“Agreements” or “Transaction Documents”) consist of the following:

1. A General Agreement (GA) between the Port and NPS will be executed with a term of up to 50 years (30 years plus two, 10-year options) for the Alcatraz Island ferry embarkation site on Piers 31, 31½, and 33. The GA designates the Site as the long-term sole visitor contact station and ferry embarkation for public access to Alcatraz Island. The agreement outlines independent and joint obligations, such as NPS selecting and contracting for ferry concession services and the Port entering leases with NPS’s selected operator for ferry concessions and the Conservancy for visitor services and a cafe. The agreement describes capital obligations of the ferry concessioner, the Conservancy, and the Port. The agreement provides for clarity, cooperation and coordination throughout the term between the Port and NPS;
2. A form of lease between the Port and a ferry concessioner (Concessioner) that NPS selects to provide initial site improvements and ferry services; and
3. A lease between the Port and the Conservancy for improvements and operation of visitor amenities including a visitor-contact station and café, consistent with the GA for a 30-year term with two 10- year options.

The Project approvals before the Port Commission represent several years of efforts, led by the Port Commission, Port and City staff, and staff from both the National Park Service and the Conservancy. Based upon the multiple benefits to the Port and the City from implementation of this Project, staff recommend Port Commission approval of the attached resolution.

REFINEMENTS AND ADDITIONS SINCE INFORMATIONAL ITEM

On January 9, 2018, Port staff presented the Project in an informational item to the Port Commission. This report includes all of the information presented in that informational item staff report, as well as refinements which are shown in underline or ~~strike-through~~ formatting and consist primarily of: (1) actions which have been taken since the informational item, (2) additional information which is available due to the publication of the Alcatraz Ferry Service Prospectus; and (3) additional Project and transaction document details - such as a schedule of anticipated improvements by tenant – included to respond to specific requests for more information from the Commissioners.

KEY MILESTONES

On July 12, 2016, the Port Commission approved Resolution No. 16-30 endorsing the Term Sheet and authorizing the Executive Director of the Port, or her designee, to execute the Term Sheet and present the Term Sheet to the Board of Supervisors for its endorsement and a determination that the proposed Project is exempt from competitive bidding requirements pursuant to Administrative Code Section 2.6-1. The July 12, 2016 Staff report can be found at [www.sfport.com/Commission / Agendas and Minutes / Supporting / July 12, 2016 / Item 13A](http://www.sfport.com/Commission/Agendas%20and%20Minutes/Supporting/July%2012,%202016/Item%2013A).

On November 29, 2016 the Board of Supervisors adopted Resolution No.497-16 exempting the Project from the competitive bidding policy set forth in Administrative Code, Section 2.6-1, including (1) a lease for ferry service to Alcatraz Island with a future concessioner selected by NPS and (2) a lease with the Golden Gate National Parks Conservancy. The Board endorsed the Term Sheet, substantially in the form presented to the Board. On December 9, 2016 Mayor Edwin Lee approved the Resolution.

On December 6, 2017, the San Francisco Planning Department published a Preliminary Mitigated Negative Declaration (“PMND”) for the Project, marking the opening of a 30-day public review period. On December 27, 2017, the City of Sausalito (“Appellant”) filed an appeal of the PMND. The concerns cited in the appeal all had to do with potential impacts related the proposed future ferry service from the Embarkation Site at Pier 31½ to Fort Baker, located adjacent to Sausalito.

At the Port Commission meeting on January 9, 2018, Port and NPS staff presented descriptions of the Project to the Port Commission along with the three transaction documents that will guide development of and long-term operations at the site: the General Agreement; the initial Ferry Concession Form Lease; and the Conservancy Lease.

On January 18, 2018, the National Park Service (NPS) released a Prospectus soliciting for proposals to operate Alcatraz passenger ferry service and associated services within Golden Gate National Recreation Area. The term of the new Concession Contract will be for fifteen (15) years. Proposals are due on May 30, 2018. This business opportunity can be found on NPS' website at <https://concessions.nps.gov/goga001-19.html>. This Prospectus website contains links to all relevant contract documentation including the GA and the ferry concession lease form.

On February 22, 2018, the San Francisco Planning Commission, after hearing the appeal and the Planning Department staff's response to the Appellant's issues, sustained the MND with minor modifications. On February 23, 2018, the Environmental Review Officer signed the Final Mitigated Negative Declaration (FMND).

BACKGROUND

Alcatraz Island is part of and managed by the Golden Gate National Recreation Area (GGNRA), a National Park Service unit that includes numerous diverse resources within the San Francisco area, including Fort Mason, Fort Baker, Ocean Beach, and the Presidio. One of GGNRA's most prominent sites is Alcatraz Island which is historically significant as part of early coastal fortification systems and later as a federal prison. Since 1972, the Port of San Francisco has served as the embarkation point for tourists and local residents visiting Alcatraz Island.

Each year more than 1.7 million people visit Alcatraz Island by ferry from Pier 31½ on the northern waterfront, which is the only embarkation point for service to the Island. Between 4,000 and 5,000 people visit Alcatraz Island each day. While there is some seasonal variation, the Alcatraz Island ferry service operates a full daily schedule all year long. The number of visitors is not dependent on ferry capacity, but limited by NPS's ability to provide for an enjoyable experience on island and for the protection of park resources.

Between 1972 and 2005, service to Alcatraz Island was provided from Pier 41. In 2005, the base of operations was moved to Pier 31½ when Hornblower was awarded the Alcatraz concession contract. The existing concession contract expires in May 2019.

Land Use and Planning Context

Alcatraz as a destination is extremely popular and ferry service to the Island is one of the Port's highest revenue-generating uses. The Port and NPS saw the benefits of a more permanent site. In 2014 NPS began a NEPA site selection process that culminated in the selection of Pier 31/33. Through this strategy the Port and the Park Service see several key areas which are targeted for improvement through implementation of the three Agreements summarized in this memorandum. The desired outcomes of the long-term Alcatraz Embarkation Project include:

- **Long-term Embarkation site** provides greater certainty for visitors and surrounding businesses
- **Increased competition for the ferry concession contract**, as bidders will not be required to be existing Port tenants as they were in previous solicitations.

- **Significant new investment in the Site**, by both the Port and the future ferry concessioner, which the Park Service is able to recommend due to the long-term nature of the GA.
- **A unified, high quality experience for visitors**, through the inclusion of the Conservancy as a tenant; the Conservancy is already responsible for interpretation on Alcatraz Island through agreements with the Park Service.
- **Collaborative governance structure** between the Port and Park Service in managing the NPS-selected concessioner/tenant and the Conservancy's visitor services and interpretive retail operations.

PROJECT INFORMATION

Project Location and Existing Site Characteristics

The existing Project site is located at Pier 31½ along the northern end of the Embarcadero and within the Port. Visitors enter the site from the Embarcadero just west of the bulkhead building and adjacent to a tour bus and drop-off area compliant with Federal Accessibility Standards (FAS). The existing ferry embarkation site program is located primarily outdoors utilizing the entire Pier 31½ marginal wharf, and has limited operations space located in the Pier 33 shed. A portion of the Pier 31½ marginal wharf is dedicated to vehicle-parking and contains a sump pump that provides Alcatraz Island waste removal via barge service. The current Ferry Concessioner utilizes the Pier 33 shed area for operations, storage and portable public restrooms.

Currently no portion of the existing ferry embarkation site program is located within the Pier 33 South Bulkhead building, which is under separate lease to another entity until July 2019. The three story bulkhead building is currently occupied by the Alcatraz Café on the ground floor, Alcatraz Cruises administrative office space on the entire mezzanine level and an independent subtenant on the entire 3rd floor. The Pier 31 North Bulkhead had contained the current Ferry Concessioner employee break area and was relocated when Pier 31 was closed to provide for the structural and roof repair project along with the north apron repair. In terms of existing maritime improvements, there is currently one float to accommodate two berths at the existing site.

Visitors currently enter the site, use the stand-alone ticket booth located near the plaza entry, circulate through several small interpretive exhibits, and enter the covered queuing area, which has space for visitors to stand. A pre-boarding area adjacent to the gangway offers seating for those with disabilities. Visitors are guided down the gangway and on to the ferry.

Description of Improvements

The Project will result in the following key enhancements and improvements to the Site:

- **Pier 33 South Bulkhead.** The existing café will be demolished and the majority of the mezzanine level removed and replaced with a two-story welcome center for visitors, including interpretive retail uses. The 3rd floor will be retained and utilized as office space by the ferry concessioner.
- **Pier 33 portion of Shed.** Existing restrooms will be replaced with new restrooms and storage space.

- **Pier 31½ Marginal Wharf.** The mix of auto parking, pedestrian circulation and passenger queueing on the Pier 31½ marginal wharf will be replaced with a large, pedestrian-only plaza to guide ferry passengers through embarkation and debarkation and to also accommodate other visitors seeking to learn more about the Island or just out to enjoy the waterfront plaza. The existing auto parking area and operational area which is comprises approximately 20% of the marginal wharf will be relocated to inside the Pier 31 shed. The reconfigured marginal wharf will provide for an expanded public Civic Center and a newly created Après Tour area for disembarking passengers.
- **Gangways and berths.** The existing single gangway and float which accommodates up to two vessels will be replaced with two gangways and floats to accommodate three berths.
- **Pier 31 North Bulkhead.** The currently vacant north side of the Pier 31 Bulkhead will be restored and improved for café operations.
- **Pier 31 portion of Shed.** Currently vacant portions of the shed will be improved with restrooms and storage space to support café operations in the Pier 31 bulkhead. The limited number of auto spaces will be moved from the marginal wharf inside the shed and bike parking will be provided.

The following specific improvements are planned:

In the Bay:

1. **Expanded Berthing Facilities.** An existing floating dock and gangway will be replaced with two individual docking facilities, each with an ADA-accessible gangway, float, and guide piles, to berth a total of three ferry vessels. This will allow for more efficient berthing for the existing ferry service and potential expanded ferry service to other NPS sites or interpretive ferry excursions.

The landside of the proposed project is characterized by the Project components in three zones: Embarkation, Civic Plaza, and Disembarkation.

At the Pier 31½ pier deck:

2. **Ticketing and Interpretive Exhibit Area.** The queuing area for ticket purchases will be reorganized with the stand alone ticket booth removed and new ticket windows would be constructed at the east façade of the Pier 33 bulkhead building. An interpretive exhibit area, including benches, will be created at the plaza area bound by the ticket window area, the primary queuing area for boarding, and the public restrooms in the Pier 33 shed building.
3. **Primary Queuing Area.** A visitor information desk will be installed near the entryway to the queuing area for ticketed passengers adjacent to the Pier 33 shed building. The queuing area will be reorganized from its current configuration, and the existing canopy structure will be replaced by a concrete canopy structure. Benches and glass panels will be used in places to delineate the queuing area. The glass panels will serve as a wind break and will include opaque or semi-transparent overlays with interpretive information.

4. **Entryway and Civic Plaza.** A public plaza will be created at the center of Pier 31½, extending from the sidewalk at Herb Caen Way to the eastern edge of the pier deck, allowing for Bay views that are now partially obstructed. Stepped seating will be installed at opposite sides of the plaza to provide seating and help organize site circulation. A monument sign similar in design to those found at the Exploratorium (Piers 15/17) and the cruise terminal (Pier 27) will be installed at the Embarcadero entrance. Pedestrian-scale light poles will line the perimeter of the plaza. The new plaza paving will be distinct from the remainder of the deck to define the space, along with the seating and lighting elements.
5. **Secondary Queuing Area and Café.** A secondary queuing area will be provided adjacent to the Pier 31 shed building at the Bay edge. This area will incorporate seating and glass panel elements as described for the primary queuing area. The secondary queuing area will primarily serve the ferry berth used for park interpretive cruises and a proposed future service to Fort Baker. An enclosed seating area will be built adjacent to the secondary queue. Both the secondary queuing area and the seating area will be covered by a single concrete canopy structure.

At the Pier 33 bulkhead and shed buildings:

6. **East Façade Improvements.** New ticket windows will be installed along the east façade, and the façade will be restored, including the historic windows and removal of post-1949 additions.
7. **Interior Renovations.** The bulkhead building interior will be renovated to accommodate exhibits, retail, and a ticket office. The second floor will be mostly demolished except for a small area to create a double height visitor contact station along with a mezzanine level for offices and a mechanical platform. Portions of the shed will be renovated for public restrooms, storage, and site operations. The 3rd floor existing office space is currently highly improved and not likely to require significant renovations.

At the Pier 31 bulkhead and shed buildings:

8. **Interior Renovations.** A café will be constructed within a portion of the ground floor of the bulkhead building. Portions of the shed will be renovated to include public restrooms, public bicycle parking, disabled visitor parking (3 spaces), staff and service parking (10 spaces), and site operations.

Leadership in Energy and Environmental Design (LEED) Compliance

The Initial Tenant Improvements by both the Conservancy and the Concessioner must achieve a Leadership in Energy and Environmental Design (“LEED®”) Gold rating, regardless of the applicable minimum square footage threshold under the Port Green Building Standards Code unless the Chief Harbor Engineer grants a waiver of such certification based on the circumstances listed in Section 101.12 of the Port Green Building Standards Code (as may be amended from time to time) and subject to any conditions the Chief Harbor Engineer imposes as a condition to such waiver.

Waterfront Design Advisory Committee (WDAC) Review of the Project

The WDAC reviews Port Projects to ensure that they are consistent with policies and design criteria set forth in the Design & Access Element of the Port’s Waterfront Land

Use Plan. The WDAC with the Bay Conservation and Development Commission's (BCDC) Design Review Board (DRB) reviewed the proposed project on August 7, 2017 and supported the overall layout of program of uses, site elements, and circulation. The WDAC requested changes to site furnishings, greater information on proposed wayfinding and interpretive signage, lighting, and bicycles parking. The Project was subsequently reviewed a second time by the WDAC and DRB on January 22, 2018, resulting in requests for minor design modifications and a conclusion of the review by the WDAC and DRB.

Port Improvements at Pier 31½ Marginal Wharf

As a separate project, the Port will undertake the Pier 31½ marginal wharf work through a contract as discussed below. The Pier 31½ work scope includes specific substructure repairs to the wharf and apron structures, that, once completed will enhance the current and future marine operations and safety. The project is part of a continued effort to maintain and improve Port assets. The Port Repair and Maintenance BCDC permit is covered by a categorical exemption under CEQA.

Compliance with Historic Resource Standards

The project is subject to review for consistency with the *Secretary of the Interior's Standards for the Treatment of Historic Properties* because it is within the *Port of San Francisco Embarcadero Historic District*, and includes alterations to Pier 31 and 33 and the adjacent Pier 31½ marginal wharf. Piers 31, 33 and portions of the adjacent marginal wharf are contributing resources to the historic district and listed on the National Register of Historic Places. Port Commission adoption of the historic district in 2006 included policy requiring that the Secretary Standards apply to all Port and Non-Port projects within the district. Because the project is also subject to environmental review pursuant to the California Environmental Quality Act (CEQA), the project sponsor retained the firm of Anchor QEA who prepared an evaluation of the project's consistency with the Secretary Standards as part of the required CEQA analysis of impacts on historic resources.

Operational Improvements Facilitated by the Project

Visitor demand is expected to grow in line with a general growth in tourism in San Francisco. Park Service modeling forecasts that 7,790 visitors could visit the primary ferry embarkation site per day, or 1.9 million visitors per year, in 2018. These numbers include both ticketed passengers and visitors to the site without tickets, as well as passengers taking part in interpretative park cruises and the potential for limited ferry service to Fort Baker in the future.

The proposed Project will substantially increase the basic visitor services program's functional area and provide additional and improved orientation and exhibition opportunities by the creation of an interpretive welcome center for visitors and expansion of Civic Plaza as compared to existing conditions. The Project is designed to provide a more logical flow for arriving visitors, and enhance the overall visitor experience. Most of the program elements will be in the outdoor areas on the Pier 31½ marginal wharf between Piers 31 and 33, including interpretive and rest areas, ferry queuing, and boat staging. The proposed Project also includes a newly constructed café and welcome center for visitors with sale of interpretive products in the bulkhead buildings.

These improvements will also better accommodate people who are not visiting Alcatraz Island by providing additional information on other recreational options in the park system. The additional berth will provide an interpretive park cruise, charter transportation for Alcatraz special events, and, at some point in the future, limited service to Fort Baker.

Site transportation access and arrival options will be consistent with those of existing conditions. The small existing staff parking area will be relocated inside the Pier 31 shed with FAS-compliant access to the marginal wharf for persons with disabilities. A FAS-compliant drop-off for tour buses and persons with disabilities will continue to be located along the Embarcadero, adjacent to the bulkhead buildings. Visitors on foot will still enter this site from the Embarcadero, between the two bulkhead buildings directly onto the marginal wharf; however, because parking will be removed from the wharf, the entry will expand to encompass the full space between the buildings. Additional pedestrian access will be provided through the bulkhead buildings.

Approval of Issuance of Bid for Pier 31½ Substructure Improvements

On October 24, 2017 the Port Commission approved a Request authorization to advertise for competitive bids for Construction Contract No. 2790, Marine Structural Projects IV, Piers 29 & 31½ Substructure Repair. The Pier 31½ work scope includes specific substructure repairs to the Pier 31½ marginal wharfs and adjacent apron substructures which are currently being used for the Alcatraz Landing Embarkation. The estimated cost to repair the Pier 31½ substructure is funded through the Port Capital Funds through the Pier Repair Fund. The anticipated schedule is to seek award of the contract at the March 13, 2018 Port Commission meeting and to issue a Notice to Proceed shortly thereafter. Substantial Completion is anticipated in May 2019.

STRATEGIC OBJECTIVES

The proposed Project is expected to contribute in a substantial way to meeting the *economic vitality and stability objectives* of the Port's Strategic Plan.

- *Economic Vitality*: The proposed Project anticipates the development of a third berth at Pier 31½ to accommodate increased bay cruise capacity, supporting the Economic Viability objective designed to expand active water berths.
- *Stability*: The proposed Project retains an important Port visitor-destination and increases Port revenues from the Site, supporting key Stability objectives aimed at retaining a diversified tenant base and increasing Port operating revenue.

PROJECT CONSISTENCY WITH THE PUBLIC TRUST

The entire Site is subject to the common law public trust for commerce, navigation and fisheries and the Burton Act statutory trust (collectively, the "Public Trust"). Use of Public Trust lands is generally limited to maritime commerce, navigation, fisheries, water-oriented recreation, including commercial facilities that must be located on or adjacent to water, and environmental stewardship and recreation, such as natural resource protection, wildlife habitat and study, and facilities for fishing, swimming, and boating. Ancillary or incidental uses that promote Public Trust uses or accommodate

public enjoyment of Public Trust lands are also permitted, such as hotels, restaurants, and visitor-serving retail.

The Project has been planned and designed to provide multiple Public Trust benefits delivered via use of the Site as a long-term home for Alcatraz ferry and other maritime excursions, with various visitor-serving amenities including public access space and uses, an interpretive retail center and a restaurant/café serving Alcatraz ferry passengers as well as the general public.

FEDERAL CONTRACTING AND WAGES

NPS has provided the following summary of the wage determination issue that was discussed at the February 13 Port Commission hearing. Port staff has consulted with NPS and other interested parties and reviewed relevant U.S. Department of Labor (“DOL”) publications and confirms agreement with the summary set forth below:

At the informational hearing, Port Commissioners requested more information from NPS about the process to determine minimum wages applicable to the Alcatraz ferry service concession contract. The Commission also received written correspondence from International Organization of Masters, Mates, and Pilots and the Inlandboatmen’s Union inquiring about previous wage determinations for Alcatraz Ferry Service.

The McNamara-O'Hara Service Contract Act of 1965 (“SCA”) requires that service contracts over \$2,500 issued by Federal contracting agencies, such as NPS, contain mandatory provisions regarding minimum wages and fringe benefits, safe and sanitary working conditions, notification to employees of the minimum allowable compensation, and equivalent employee classifications and wage rates. The minimum wage and fringe benefits required are based on either (1) wage determinations specifying the minimum wages and fringe benefits for service employees or (2) if there was an immediately preceding contract whose contractor had a collective bargaining agreement, then within the first two years of the successor contract the wages and fringe benefits in the predecessor contractor’s collective bargaining agreement.

Under the SCA, only the DOL has the authority to issue the required wage determinations. Federal contracting agencies, such as NPS, must apply to DOL using established procedures for the wage determination to be included in any solicitation for a qualifying service contract, must update that wage determination during the solicitation process to reflect any DOL-issued revisions and then every two years during the contract term for certain multi-year contracts (including the Alcatraz concession contract). By requiring that a stand-alone Federal agency, the DOL, acting independently of the Federal contracting agency issue applicable wage determinations, the SCA provides for objectivity and national consistency in the issuance of minimum wages and fringe benefits for service employees.

DOL periodically reviews wage determinations and, if prevailing wage rates or fringe benefits have changed, will issue revised wage determinations. In addition, any interested party affected by a wage determination may request review and reconsideration. A request for review and reconsideration may be made by a fairly wide

range of interested parties, including not only the contracting agency but also for example prospective contractors and representatives of employees.

Although wage determinations issued by DOL contain wages and fringe benefits for various classes of service employees in a locality, it is possible that the contractor to whom an SCA contract ultimately is awarded may employ a class of service employee which is not listed in the wage determination issued by DOL. If that occurs, the standard labor clauses the SCA requires be included in service contracts provide for a “conforming procedure” for comparing the appropriate level of skill comparison between unlisted classifications and the classifications listed in the wage determination. The DOL standard labor clauses require this conformance procedure to be initiated by the contractor prior to the unlisted employees performing contract work. The contractor also is required to promptly provide a written report on conformance to the Federal contracting agency that in turn reports the conforming action to DOL, which will approve, modify or disapprove the conformance. The future Alcatraz concession contract contains these SCA standard labor clauses, as does the current contract.

Using DOL’s process for requesting SCA wage determinations, NPS obtained from DOL a wage determination in 2016 that is included in the current Alcatraz ferry contract. The 2016 wage determination is for standard occupational classifications that pertain to SCA contracts in general (e.g. Administrative Assistant, \$35.05/hour and Customer Service Representative, \$18.22/hour) as well as a supplemental wage determination for key maritime occupations (Captain, Deckhand, Engineer and General Vessel Assistant) that are not standard occupations and thus are not included in the standard-issue wage determination. The standard-issue wage determination provides minimum hourly wages for the San Francisco-San Mateo region for hundreds of occupational classifications and covers all of the standard occupations DOL customarily issues for federal contracts. Union partners believe that the vast majority of the occupational classifications are not relevant to the Alcatraz contract. The 2016 wage determination for non-standard occupations references special project vessels, tugboats and other coastal vessel harbor tug operations and is Nationwide Applicable on the East, Gulf, West Coasts and Hawaii.

For the future Alcatraz concession contract, NPS included the standard occupational classifications in the prospectus (see Prospectus Exhibit B Attachment 7). NPS is in the process of obtaining a supplemental wage determination for the most commonly used labor classifications for a San Francisco passenger ferry operation (e.g. Master/Captain, Senior Deckhand/Mate, Deckhand, and Able Bodied Seaman) and will amend the prospectus with this document once it is received from DOL prior to the closure of the solicitation period. Notably, however, the contractor to whom the next Alcatraz concession contract ultimately is awarded may employ a class of service employee which is not listed in the wage determination issued by DOL. If so, that will be addressed post-award of the Alcatraz concession contract using the DOL’s conformance process.

In the time since the February 13 Port Commission hearing Port staff has had discussions with representatives of labor organizations, including the Masters, Mates and Pilots and the Inlandboatmen’s Union of the Pacific, and as part of those

discussions shared a draft of the summary text provided by NPS above. In those discussions and in subsequent written correspondence the representatives asserted that NPS had a requirement to request a wage determination at least every two years but did not do so between 2008 and 2016. The representatives also noted that the vast majority of the occupations in the existing wage determination are not relevant to the ferry concession. These factors combined with the fact that wages in the Bay area are significantly higher than in other parts of the country prompted these representatives to advocate strongly for the completion of the supplemental wage determination for the San Francisco passenger ferry service before the conclusion of the solicitation period.

KEY TERMS OF TRANSACTION DOCUMENTS

Three transaction documents ("Transaction Documents") will govern the development and operations of Project. In addition to the terms described in the approved Term Sheet, the Transaction Documents include the key terms described below.

General Agreement:

The General Agreement (GA) which is a partnership agreement between the Port and NPS that designates the Site as the long term sole visitor contact station and ferry embarkation for public access to Alcatraz Island. The GA outlines the independent and joint obligations of the Port and NPS.

NPS Obligations:

- NPS will conduct a solicitation for and award a Ferry Concession Contract with an Initial Ferry Concessioner.
- The initial and each subsequent solicitation for a Ferry Concession Contract must include as part of the information furnished in the Prospectus, a form Ferry Concessioner Lease prepared and approved by Port that the Ferry Concessioner will be required to sign.
- The Initial Ferry Concession Prospectus must include a description of the required Embarkation Site Improvements and a requirement that the improvements shall be completed no later than the date that is five (5) years after the effective date of the Initial Ferry Concession Contract.
- Each Ferry Concession Contract will have a requirement that the Ferry Concessioner operate Interpretive Park Cruises, which may include ferry transportation from the Site to Fort Baker when associated infrastructure improvements at Fort Baker are completed.
- Subsequent to the Initial Ferry Concession Contract, NPS will solicit and contract with successive Ferry Concessioners during the Term in a timely manner.
- Port and NPS agree that, in order to enhance the Visitor Experience, NPS selected the Conservancy to provide the interpretive retail and food and beverage services and other public amenities at the Site and that the Board of Supervisors exempted the Conservancy Lease from the City's competitive bidding process.

- NPS will complete the legally required competitive bid process for selection of a ferry concessioner periodically during the term of the GA and execute a contract, concurrent with the Port's execution of a lease, with the winning bidder.
- NPS is solely responsible for selection of and contracting with operators for the Ferry Concession Contract and Port has no role in the selection, solicitation, and/or award of a contract to a Ferry Concessioner.
- As a federal agency, NPS is unable to indemnify or release the Port absent a specific act of Congress. Port will obtain an indemnity from and be named as an additional insured on the insurance policies of the Ferry Concessioner and the Conservancy and other users of the Site consistent with the Port's standard lease terms. The Port does not indemnify or release NPS and so the parties retain the ability to file claims against the other subject to the terms of the agreement. Each party will provide written notice to the other as soon as it has information that could result in a claim against either party.

Port Obligations:

- Subject to availability of adequate funding (which Port shall use its diligent efforts to secure) as approved and appropriated by the Port Commission and Board of Supervisors, Port will use its diligent efforts to perform improvements to the substructure of the Pier 31½ marginal wharf on a schedule mutually agreeable to the Parties.
- Port is responsible for the maintenance and repair of the Pier 31 marginal wharf substructure, Piers 31 and 33 bulkhead substructure and seawall, and the exteriors of Piers 31 and 33 sheds.
- The aprons and areas of the Pier 31/33 Water Basin outside the leased premises must remain open for safe, unimpeded access to and from The Embarcadero and the leased areas, including for vessel navigation
- Port agrees to enter into a Lease for portions of the Site with the Ferry Concessioner substantially in the form of the lease with no changes other than (A) changes agreed to by the Parties in the sole discretion of each; and (B) to add new Laws and City Requirements effective subsequent to the Effective Date of the GA but prior to the commencement date of the Lease.
- Port agrees to enter into a Lease for portions of the Site with Conservancy substantially in the form lease with no changes other than (A) changes agreed to by Port and Conservancy in the sole discretion of each; and (B) to add new Laws and City Requirements effective subsequent to the Effective Date of this Agreement but prior to the commencement date of the Lease.
- If space within the Site is not available, Port will use diligent efforts to identify adjacent and/or nearby space for the Ferry Concessioner's use for laydown/staging, subject the Ferry Concessioner entering into a Port license or other agreement subject to Port's standard terms and conditions for such agreements and payment of rent as specified in the then-current published Port Commission-approved rental rate schedule; provided that, Port agrees to waive the requirement to pay rent for up to 3,000 square feet of space for up to two (2) years during construction of the Embarkation Site Improvements.

- Port will deliver premises to the Ferry Concessioner generally as follows: all parcels except the Pier 33 South Bulkhead building upon full Lease execution and, subject to the conditions such as Force Majeure, the Pier 33 South Bulkhead building in 2019. Once the Ferry Concessioner completes the required Embarkation Site Improvements on the Pier 33 South Bulkhead building, the Ferry Concessioner Lease will terminate as to certain portions of the Pier 33 South Bulkhead building and that space will be added to the Conservancy Lease.
- Port will deliver premises to the Conservancy generally as follows: Pier 31 bulkhead upon full Lease execution and portions of the Pier 33 South Bulkhead building after the Ferry Concessioner completes the required Embarkation Site Improvements on the Pier 33 South Bulkhead building.

Joint Obligations:

- The GA is for a thirty year term with two extension options for ten (10) years each exercisable by NPS.
- Prior to the extension option being exercised the extension period rent will be adjusted per the GA based upon a fair market value appraisal process.
- For each successive solicitation, the Port's form lease will be included in NPS's solicitation package and the Ferry Concessioner will be required to sign the lease without material modification.
- The Parties agree to cooperate each at its own cost, to do or cause to be done, all things reasonably necessary or advisable to carry out the purposes of this Agreement, including the execution and delivery of any additional documents.
- The GA provides both parties with various rights to terminate the Agreement during the Initial or any Extension Term with advance written notice. Such termination rights for one or both parties are provided under the following limited circumstances that may impact the Site and/or Alcatraz Island: climate change/sea level rise or other catastrophic events (either party); conditions that render the Site unusable as an Embarkation Site (either party); closure of or suspension of visits to Alcatraz island for one (1) year or more for reasons within the control of NPS or its Agents (Port in its sole discretion); if the Park Service terminates the Ferry Concession Contract (NPS only); an event of Force Majeure extends beyond four (4) years (either party).
- The GA provides the parties with a clear path to Dispute Resolution, including but not limited to non-binding mediation, in order to avoid more severe remedies such as termination.

Ferry Concession Form Lease:

A form of lease with an initial ferry concessioner to be selected by NPS for the construction of required initial site improvements and ferry services consistent with the GA including from the Embarkation Site to Alcatraz Island for a term coterminous with the initial ferry concession contract between Park Service and Concessioner. The initial lease will be for a term of 15 years, consistent with the recently issued Prospectus.

- The lease will be between the Port and the future NPS selected Ferry Concessioner.

- The lease will become effective and expire on the same dates as the NPS Ferry Concession Contract, including extensions (a maximum term of twenty (20) years under current federal law).
- The Ferry Concessioner will provide excursions to Alcatraz Island; other Bay cruises that include a potential landing at Fort Baker and/or other GGNRA parks or substantive interpretive materials regarding the NPS and its parks; and ancillary occasional Special Events.
- The lease shall become effective on the date of award of the Ferry Concession Contract which will occur only after completion of any Congressional notifications, the expiration of any waiting periods required and execution of the Ferry Concession Contract by NPS.
- Port will deliver possession of the overall Site in two phases. Phase I Delivery - Estimated as the “effective date” of the Ferry Concession Contract as defined by the Ferry Concession Contract. The initial phase of the Premises consists of shed and office space; submerged land; and space on the Marginal Wharf comprised of the following and as depicted in Exhibit B: Parcel A Submerged land: approximately 60,000 sq. ft.; Parcel B Pier 31½ Marginal Wharf and plaza: approximately 43,890 sq. ft. of pier-supported outdoor space; and Parcel C Pier 31 Shed: approximately 5,300 sq. ft. of non-contiguous shed space; and Parcel D Pier 33 Shed: approximately 4,062 sq. ft. of shed space; and Parcel D-1 Pier 33 Shed: approximately 1,240 sq. ft. of shed space. Parcels A-D will remain in the Premises for the Term of the Lease.
- Phase II Delivery - Estimated Commencement Date: August 1, 2019: Phase II will consist of a total of approximately 13,775 square feet of retail and office space in the Pier 33 South Bulkhead Building as described below. Parcel E Pier 33 South Bulkhead Building: 1st Floor: approximately 4,612 sq. ft. of on the first floor; and Parcel F Pier 33 South Bulkhead Building 2nd Floor: approximately 4,555 sq. ft. on the second floor; and Parcel G Pier 33 South Bulkhead Building 3rd Floor: approximately 4,612 sq. ft. on the third floor. As of the Phase II Commencement Date, **Exhibit B-1** showing the Phase II Premises will be added to this Lease as part of the Premises without further action by the parties.
- Embarkation Site Improvements will include demolition/construction of significant portions of the Phase II Premises and construction of an approximately 992 square foot mezzanine to replace the second floor. Upon Completion of the Embarkation Site Improvements to the Pier 33 South Bulkhead Building as described below and written notice by Port (“Pier 33 South Bulkhead Building Completion Date”), Tenant shall surrender Parcel D-1, and approximately 3,280 sq. ft. on the first floor and the entire second floor mezzanine of the Pier 33 South Bulkhead Building. Tenant shall surrender and deliver the relevant property to Port strictly in compliance with the conditions and specifications in the Work Letter, including without limitation, the Scope of Development, (including the Schematic Design and Drawings,). Acceptance of such surrender and conditions shall be in Port’s sole discretion. As of the Pier 33 South Bulkhead Building Completion Date, this Lease will terminate as to such portions of the Premises and **Exhibit B-2** will replace and supersede **Exhibit B-1** in its entirety without further action by the parties.

- The remainder of the Pier 33 South Bulkhead Building will remain under this Lease, consisting of: Parcel E-1 Pier 33 South Bulkhead Building: 1st Floor: approximately 1,382 sq. ft. of space on the first floor; and Parcel G Pier 33 South Bulkhead Building 3rd Floor: approximately 4,612 sq. ft. of office space.
- The final premises shall consist of approximately 119,250 sq. ft. as depicted in **Exhibit B-2**.
- The initial Phase I monthly Base Rent will be approximately \$43,600. Base Rent for the final premises shall be approximately \$64,345. All square footages and related Base Rent will be subject to re-measurement upon completion of each phase. Base Rent for office space will increase by 3% annually and Base Rent for all other space will increase by 2.5% annually.
- In addition to the monthly Base Rent specified above, Tenant shall pay monthly Percentage Rent of:
 - (i) 7.50% of Gross Ticket Revenue minus the NPS Concession Franchise Fee; PLUS
 - (ii) 8.00% of Gross Ancillary Revenue minus the NPS Concession Franchise Fee; PLUS
 - (iii) 7.25% of Gross Food and Beverage Revenue minus the NPS Concession Franchise Fee.
- The NPS franchise fee deducted from the above revenue types will be no greater than 25.5%, regardless of the actual amount of the franchise fee paid to NPS.
- As previously described in detail, Tenant must complete the following: waterside improvements, including new ferry barges, docks and associated infrastructure; Pier 31½ Marginal Wharf deck surface and visitor amenities; Pier 33 Shed visitor restrooms; Pier 31 bulkhead restrooms; interior improvements in the Pier 31 and Pier 33 Sheds; Pier 33 South Bulkhead Building ticketing area improvements; and demolition of a portion of the 2nd floor of the Pier 33 South Bulkhead Building and construction of a mezzanine area no later than the 5th anniversary date.
- NPS estimate the costs of Embarkation Site Project Improvements to be approximately \$30 million for the ferry concessioner. Tenant shall be entitled to a rent credit in a maximum amount of \$2,520,000 for the Embarkation Site Improvements. Once the improvements are completed, certain portions of the property will be turned over to the Conservancy.
- Upon Completion of the Initial Tenant Improvements, Tenant shall be eligible for the rent credit amounts shown above amortized on a straight line basis over a 48-month period starting upon Completion of each phase yielding equal monthly amounts to be taken at a rate of seventy percent (70%) of the total monthly Rent due.
- Tenant shall have a one-time right of first refusal to use additional aprons in the Water Basin for lay berthing at standard rates set by the Port Commission for a period of up to the term of the lease. Otherwise, the aprons and water basin must remain open for safe, unimpeded vessel navigation and routine Port maritime uses as depicted in **Exhibit B-3**.

- Port will maintain and repair: the substructure of the Pier 31 Marginal Wharf; the substructure of the Pier 31 and Pier 33 bulkhead buildings; the Seawall; and the exterior of Sheds 31 and 33 (including roof, but excluding exterior roll up doors, doors and windows). Tenant shall be responsible for all other maintenance and repair obligations. Under certain circumstances, Tenant may perform Port's obligations in exchange for rent credits.
- The Port reserves the rights to enter and use the Premises as needed for the purpose of inspecting, repairing, and rebuilding the Seawall and/or to terminate the Lease as needed due to the Seawall repair project.
- Tenant required to implement flood protection measures as determined to be necessary by the Chief Harbor Engineer (CHE) to protect the Site and public health and safety from a significant risk of flooding or other damage resulting from climate change or sea level rise.
- In the event that the Port/NPS Agreement is terminated under the Port/NPS Agreement due to issues with Alcatraz Island, and (a) no Event of Default, and (b) Tenant has Completed the Embarkation Site Improvements; then, Port may elect in its sole discretion to either: (i) terminate this Lease and pay Tenant a portion of the Improvements Costs for the Embarkation Site Improvements under the terms and conditions specified in Lease based on the expected term of the Ferry Concession Contract and this Lease; or (ii) offer Tenant an extension option to continue this Lease until the earliest of the following events: (A) the original expiration date of the Ferry Concession Contract; (B) NPS chooses another party as a Ferry Concessioner; or (C) the date the Embarkation Site Improvements are amortized.
- All city requirements are contained in the Lease and none of the requirements "conflict with federal law" including non-discrimination, local hire, prevailing wages, HCAO.
- Except as otherwise provided, the lease is on the Port's standard form lease for visitor-serving retail operations, including as-is provisions, compliance with laws (including historic preservation requirements), subleasing; Port's right to terminate, damage and destruction and eminent domain, defaults and remedies (subject to coordination with NPS under the General Agreement), indemnity and exculpation, Hazardous Materials, insurance, management covenants, and financial guarantees, including contractor's bonds.

Golden Gate National Parks Conservancy Lease:

A lease with the Golden Gate National Parks Conservancy for initial and ongoing site improvements and to operate visitor amenities including a visitor contact station and café consistent with the GA for a 30-year term with two 10-year options.

- Port will deliver possession of the Premises in two phases. The initial phase of the Premises consists of approximately 3,760 sq. ft. of retail and storage space as depicted in **Exhibit B**. Phase I Premises has an estimated commencement date of October 1, 2018. The Initial Ferry Concessioner will perform improvements to the Phase II Premises prior to Port's delivery to Tenant. Upon the Initial Ferry Concessioner's Completion of the required improvements as

defined and described in the Initial Ferry Concessioner's Lease, Port shall deliver the following additional Phase II parcels to Tenant, as depicted in **Exhibit B-1**

- The lease term is 30 years with two 10-year extension options (options available only if GA is extended and concurrent with the GA). With its extension option notice, the Conservancy must submit to Port a capital investment and improvement plan outlining its proposal for refurbishment of the restaurant and interpretive retail space during the Extension Term. At a minimum, the Plan shall include the scope of work for tenant improvements, a binding performance schedule, the estimated cost of such improvements, a financial projection pro-forma and evidence of adequate financing to implement the Plan based on the Port's Retail Leasing Policy. The Plan will be subject to Port's approval in its reasonable discretion.
- **Base Rent:** The initial Phase I monthly Base Rent will be approximately \$15,300. Base Rent for the final premises shall be approximately \$38,146. All square footages and related Base Rent will be subject to re-measurement upon completion of each phase. Base Rent will increase by 2.5% annually.
- **Percentage Rent:** In addition to the monthly Base Rent specified above, beginning on each of the Phase I Rent Commencement Date and Phase II Rent Commencement Date, Tenant shall pay monthly Percentage Rent in an amount equal to the difference between (i) the percentage rent for such calendar month and (ii) the Base Rent for such calendar month in any month in which the percentage rent exceeds the Base Rent. "Percentage Rent" shall be equal to 7.50% of the total monthly Gross Revenue.
- The Conservancy anticipates entering into a series of subleases over the term of the lease for the restaurant operations, potentially generating Excess Rent as defined in the lease. Tenant shall pay all such Excess Rent, less subleasing expenses, as Additional Rent. Allowable subleasing expenses include leasing commissions; certain tenant improvements, and a Conservancy management fee, all subject to a cap. Conservancy shall be entitled to retain from the payment of Excess Rent an amount of up to one percent (1%) of its Gross Revenues from a Sublease for the sole purpose of re-investing in future tenant improvements (including hard and soft costs) other than the Initial Tenant Improvements, improvements in the Capital Investment and Improvement Plan or any other maintenance and repair obligations or improvements required under the Lease.
- Improvements including the build-out of the Pier 31 bulkhead cafe; and in a later phase the Pier 33 visitor contact station/interpretive retail center. Port and NPS estimates the costs of initial Tenant Improvements to be approximately \$3.7 million. Tenant shall be entitled to a rent credit of \$554,000 for the Initial Tenant Improvements. Tenant must complete the Initial Tenant Improvements no later than the First (1st) anniversary of each of the two phases.
- Upon completion of the Initial Tenant Improvements, and subject to the conditions of the Lease, Tenant shall be eligible for the rent credit amounts shown above amortized on a straight line basis over a 48-month period starting upon Completion of each phase yielding equal monthly amounts to be taken at a rate of seventy percent (70%) of the total monthly Rent due.

- Port will maintain and repair: the substructure of the Pier 31 Marginal Wharf; the substructure of the Pier 31 and Pier 33 bulkhead buildings; the Seawall; and the exterior of Sheds 31 and 33 (including roof, but excluding exterior roll up doors, doors and windows). Tenant shall be responsible for all other maintenance and repair obligations.
- The Port reserves the rights to enter and use the Premises as needed for the purpose of inspecting, repairing, and rebuilding the Seawall and/or to terminate the Lease as needed due to the Seawall repair project.
- Tenant required to implement flood protection measures as determined to be necessary by the Chief Harbor Engineer (CHE) to protect the Site and public health and safety from a significant risk of flooding or other damage resulting from climate change or sea level rise.
- All city requirements are contained in the Lease and none of the requirements “conflict with federal law” including non-discrimination, local hire, prevailing wages, HCAO.
- Except as otherwise provided, the lease is on the Port’s standard form lease for visitor-serving retail operations, including as-is provisions, compliance with laws (including historic preservation requirements), subleasing; Port’s right to terminate, damage and destruction and eminent domain, defaults and remedies (subject to coordination with NPS under the General Agreement), indemnity and exculpation, Hazardous Materials, insurance, management covenants, and financial guarantees, including contractor’s bonds and all current City requirements.

CLIMATE ACTION

Due to the long term nature of the agreements, the Port and NPS have agreed that the GA may be terminated due to climate change/sea level rise or other catastrophic events at the Site or Alcatraz that pose a risk to public health and safety.

In addition both the Ferry Concessioner and the Conservancy may be required to implement flood protection measures determined to be necessary by the Chief Harbor Engineer (CHE) to protect the Site and public health and safety from a significant risk of flooding or other damage resulting from climate change or sea level rise. Such measures may include: (1) temporary public access closures, sandbagging or similar temporary measures to minimize the risks associated with wave overtopping of the pier apron; (2) waterproofing or relocation of utility infrastructure from underneath the pier to minimize the risk of water or wastewater discharges to San Francisco Bay; and/or (3) short perimeter flood walls, but would not include raising first floor elevations or regional improvements such as breakwater or levee improvements. If the CHE determines conditions continue to pose a threat to public health and safety, Port may terminate a lease.

ENVIRONMENTAL AND REGULATORY REVIEW

A final Environmental Impact Statement (EIS) was released in January 2017 as required by the National Environmental Protection Act (NEPA). Golden Gate National

Recreation Area completed the Record of Decision (ROD) for the Alcatraz Ferry Embarkation Plan/Environmental Impact Statement on January 11, 2018. As the project is also subject to the California Environmental Quality Act (CEQA), the San Francisco Planning Department published a Preliminary Mitigated Negative Declaration (PMND) for the Project on December 6, 2017. The required 30-day public review period ended on January 5, 2018, with an appeal filed by the City of Sausalito on December 27, 2017 as noted above. After considering the appeal, the PMND was upheld by the Planning Commission on February 22, 2018 and the Final Mitigated Negative Declaration was signed by the Environmental Review Officer on February 23, 2018.

A number of regulatory approvals are also required including permits from the Bay Conservation and Development Commission (BCDC), the U.S. Army Corps of Engineers (USACE), and the Regional Water Quality Control Board (RWQCB). Port staff will coordinate with NPS and the Conservancy on preparing the permit applications and seeking approvals over the course of the next 12-18 months. As described above, the project was reviewed by the WDAC and BCDC's DRB on August 7, 2017, and again on January 22, 2018, as part of the BCDC permit application process. These regulatory approval processes are ongoing and will involve a collaborative effort by Port, NPS, and Conservancy staff.

ANALYSIS OF THE TRANSACTION

Since endorsement of the Term Sheet, Port and NPS staff have negotiated proposed transaction documents implementing the Term Sheet and collaborated with City Planning and BCDC on Project design and environmental review. Port staff has also coordinated with Port Engineering to deliver the Pier 31½ substructure repair and with Port Maritime to maximize continued availability of berths within the Piers 31-33 water basin.

The key benefits of the proposed transaction are described below.

- 1) Long-term retention of:
 - a) One of the highest revenue operations on Port property.
 - b) A high-profile and important maritime operation on Port property.
 - c) One of the highest volume operations on Port property, which attracts more than one million visitors to the waterfront, providing positive economic benefits to complementary businesses.
- 2) Significant private investment in Port property of approximately \$30 million.
- 3) Activation of a currently vacant Bulkhead and creation of a unified site.
- 4) Opportunity for revenue upside through the expansion of services to include a new Park Cruise excursion.

The Port contracted with Seifel Consulting (Seifel), a respected economics firm and with R. Blum and Associates, a MAI-certified appraiser. With assistance from these consultants, staff prepared the following revenue projections and analysis in bringing

the Term Sheet to the Port Commission. The below analysis has not changed since the endorsement of the Terms Sheet in 2016.

1. **The rent structure is on par or higher than comparable recent leases.** Retail, food and beverage, base rents, and office rents reflect rates of recent leases in and around the waterfront. Percentage rent on ferry services – the largest by far of the rental revenue from the Project – will continue at the recently-increased level of 7.5% of adjusted gross receipts. This level is .5% below the rate achieved by New York City Parks for Statue of Liberty ferry service (8.0% on unadjusted gross revenues) but is consistent with San Francisco Bay Area ferry service percentage rent and above ferry excursion percentage rents found in Southern California.
2. **The Project and deal structure facilitates revenue growth for the Port.** A Port negotiating principle was to ensure that each component of the Project – ferry, retail, food and beverage – met fair market value. Another principle was to ensure that the overall Project exceeded plausible alternatives. **Figure 1** illustrates these alternatives alongside the Project, with a 15-year projection of cash flow to the Port.

Figure 1. Project vs. Illustrative Alternatives – Projected Revenue to Port



Figure 1 includes:

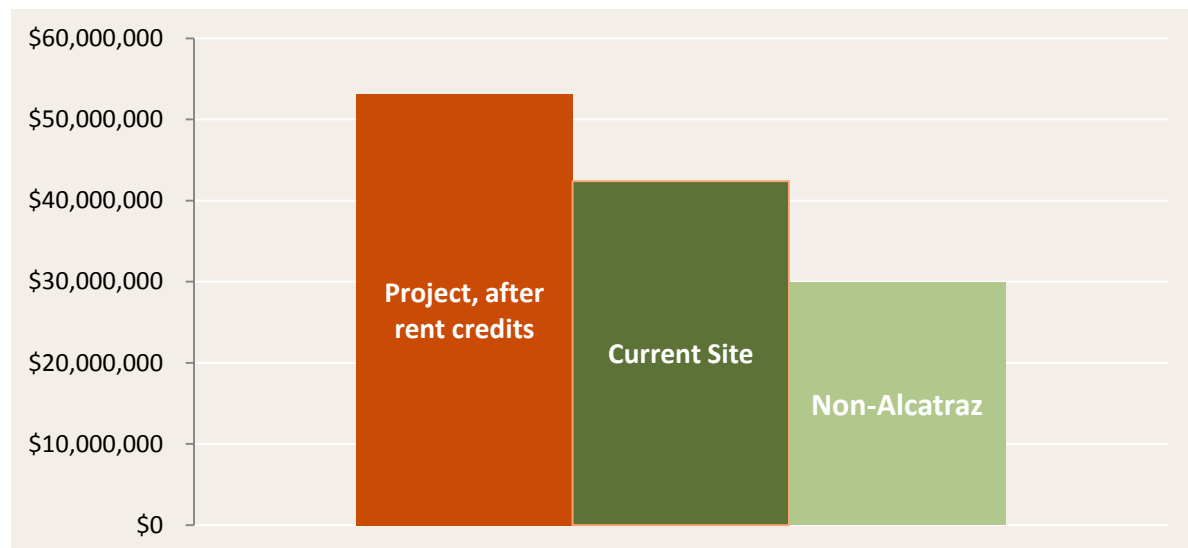
- a. **Non-Alcatraz anchored site.** This alternative assumes the Alcatraz ferry moves off of Port property and the Site is occupied by a bay cruise ferry and ancillary retail and restaurant uses. It produces the lowest estimated Site revenue.
- b. **Current site.** This projection is based on current site operations.
- c. **Project.** The two lines at the top of the chart reflect estimated Project revenues. Year 0 reflects current site revenues and Year 1 reflects the first year of stabilized operations.¹ The top line reflects gross Port rent. The second line from the top reflects gross rent, less anticipated rent credits in years 1 to 4.

The revenue projection for the Project, after deducting rent credits, dips slightly below the Current site alternative for years 1 and 2 (because of the rent credits) and then increases to appreciably above the Current site lease revenues in years 5 and beyond. The Project provides higher Port revenues and significant investment in the Site (\$30 million from tenants and \$5.7 million from the Port).

Figure 2 provides this similar comparison in net present terms (calculated for 30 years with a 6 percent discount rate). The net present value (NPV) of: Project revenues to the Port total \$53 million (after rent credit deductions); Current site revenues are estimated at \$43 million in NPV; and Non-Alcatraz NPV of revenues total \$26 million.

Figure 2. Project vs. Illustrative Alternatives – Net Present Value of Revenue to Port

30 years, 6% discount rate



¹ This reflects a simplification of the likely reality, which is anticipated to include more than a year of construction on different parts of the site. However, ferry service to Alcatraz is anticipated to continue uninterrupted during construction so years 1 and 2 revenues from the Project are projected to include a stable source of rental revenue.

It is also important to note two compromises the Port has made in pursuing the proposed transaction:

- 1) The Port will not select a ferry tenant for the Pier 31½. Rather, under the GA, NPS would conduct its mandated competitive process to select the Alcatraz ferry concessioner and the selected operator from that process would be the recipient of both the Alcatraz Concession Contract and the Port's lease. NPS is the controller entity for Alcatraz Island and the only way for the Port to retain the Alcatraz Embarkation Site on Port property over the long-term is to rely upon NPS's competitive process to select the Tenant.
- 2) The proposed lease for the retail and café portions of the Site operated by the Conservancy is for a term concurrent with the GA, for 30 years plus 2 10-year options if the GA is extended for that period. The Port generally prefers more frequent turnover of these types of leases. The Conservancy's unique role as NPS's nonprofit partner and as the primary entity which interprets the Alcatraz Island experience for the public set it apart from the Port's typical approach to visitor-serving food and beverage and retail.

Staff recognize these compromises and judge them to be fair ones, in light of the benefits described above (among them, investment in Site and retention of high-revenue and high-visibility use for 30-plus years) that will accrue to the Port and to the visitors to the Waterfront who will enjoy a significantly improved plaza, retail and café amenities, and ferry embarkation site.

TIMELINE / NEXT STEPS

Upon approval by the Port Commission, staff will submit the GA and Conservancy Lease for Board of Supervisors (BOS) approval. Under Charter Section 9.118(c), as maritime leases, neither the initial Ferry Concession form lease nor subsequent ferry concessioner leases will require BOS approval. Subsequent Ferry Concession leases will conform to the requirements of the GA and will include the then-current standard terms and conditions in the Port's form lease for similar operations. These leases will also include all then-applicable City Requirements (unless they conflict with federal law or are waived). Subsequent Ferry Concession leases will not require Port Commission approval, provided there are no material changes to the above-described terms.

The form of lease for the Concessioner is attached to NPS's concession contract prospectus for Alcatraz ferry service which was released on January 18, 2018. The solicitation, award and transition process is expected to take approximately 16 months, with an effective date of May 1, 2019 for the new concession contract. The Ferry Concession lease will become effective at the same. The Conservancy lease will be fully executed and effective after BOS approval in March/April 2018; the Conservancy is expected to take possession on October 1, 2018.

They key project milestones are summarized below; dates shown are estimates only and subject to change.

- NPS released Prospectus for new ferry concession contract: **1/18/2018**
- Final Mitigated Negative Declaration (FMND) issued by San Francisco Planning Department **2/23/2018**
- National Parks Conservancy signs Port lease: **2/26/2018**
- Port Commission Approval of Transaction Documents: **2/27/2018**
- Introduction to Full Board – **March/April 2018**
- Board Committee – **March/April 2018**
- Board Approval - **March/April 2018**
- Mayor Signs Resolution – **March/April 2018**
- Prospectus solicitation period ends: **5/31/2018**
- Conservancy takes possession for Phase I: **10/1/2018**
- Conservancy completes Phase I construction: **10/1/2019**
- Bid evaluation process, award, Congressional notification, and contract transition: **6/1/2018 – 4/30/2019**
- Concession Contract and Lease Effective Dates: **5/1/2019**
- Concession Construction Period: **10/1/2019 – 12/1/2023**
- Conservancy Phase II construction: **4/1/2020 – 12/1/2023**
- Site becomes completely built out: **2024**

CONCLUSION AND STAFF RECOMMENDATION

Following Port Commission and Board of Supervisors' endorsement of a Term Sheet in July, 2016, Port staff concluded negotiations with the National Park Service on a set of Transaction Documents that will facilitate a major maritime project, namely the creation of a permanent Alcatraz Embarkation Site located at Piers 31, 31½ and 33. This Project entails significant capital upgrades to Port maritime and commercial facilities at the Site, and will enable the Port and the National Park Service to deliver an enhanced visitor experience to Alcatraz Island visitors, along with enhanced public access for all visitors to the Embarkation Site, for many years to come.

Port staff recommends approval of the Alcatraz Embarkation Site project as described in this staff report and further recommends the Port Commission take the following actions through adoption of the attached Resolution:

- Adopt FMND and the Mitigation Monitoring and Reporting Program for the Alcatraz Ferry Embarkation Project attached to the Resolution;
- Approve the General Agreement (GA) between the Port and NPS;
- Approve the form of lease with the initial ferry concessioner (Concessioner) that NPS selects to provide initial site improvements and ferry services;
- Approve the lease with the Conservancy for improvements and to operate visitor amenities including a visitor contact station and café.

If approved the NPS and Conservancy transaction documents will be forwarded to the Board of Supervisors for final approval.

Prepared by: Jay Edwards, Senior Property Manager
Real Estate & Development

James Hurley, Project Manager
Real Estate & Development

Rebecca Benassini
Asst. Deputy Director
Real Estate & Development

For: Michael Martin
Deputy Director
Real Estate & Development

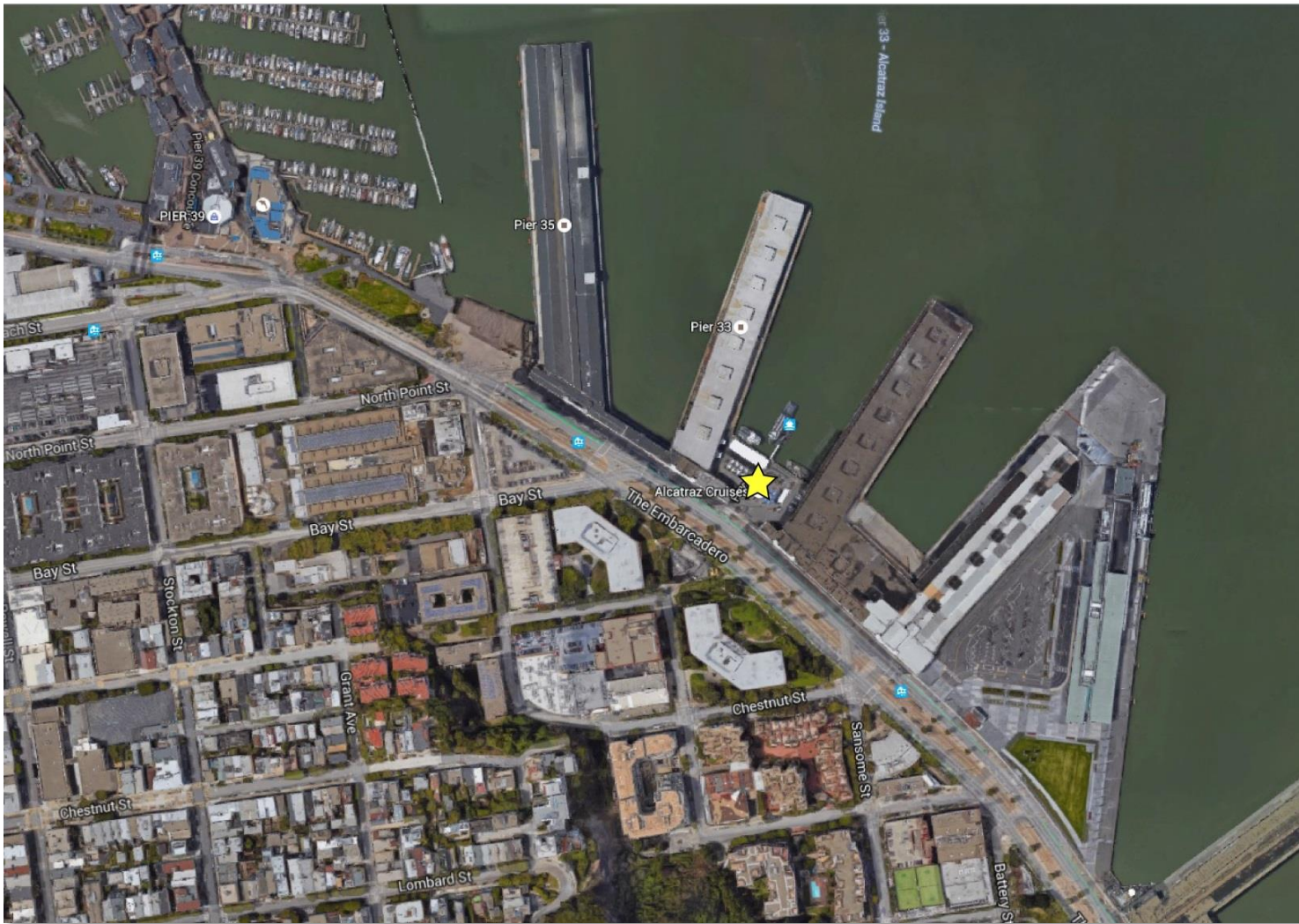
Byron Rhett
Port Chief Operating Officer

ATTACHMENTS

Exhibit A: Site Aerial Map

Exhibit B: Parcel Maps

Exhibit A: Site Aerial Map



Alcatraz Embarkation Site indicated by star

Exhibit B: See Attached Parcel Maps