

MEMORANDUM

March 9, 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: Request authorization to issue a second Request for Proposals (“RFP2”) for the Lease and Operation of the Shipyard located at Piers 68 and 70 and Seawall Lot 349 near 20th Street and Illinois Street, including Dry Dock Eureka and Dry Dock #2 (the “Shipyard”)

DIRECTOR’S RECOMMENDATION: Approve the Attached Resolution

Executive Summary

Last Summer, Port staff issued a Request for Proposals (the “RFP1”) for the lease and operation of the Shipyard with the goal of entering into a Lease with a new operator that had the experience, economic capacity and knowledge of the U.S. West Coast ship repair commercial market and is qualified to operate and revitalize this important maritime industry at the Port of San Francisco. The Port Commission approved the issuance of RFP1 on July 11, 2017 by its Resolution 17-31. RFP-1 was issued on August 15, 2017, and the Port’s website and outreach program were activated on that date. Responses were due on September 29, 2017.

The Port received only one responsive proposal from Vigor Industrial LLC, an Oregon limited liability company (“Vigor”). The Port also received letters from Bay Ship & Yacht, and Mare Island Drydock LLC showing some interest in the opportunity, but neither submitted a responsive proposal. Vigor made a brief presentation to the Port Commission at the November 14, 2017 Port Commission Meeting. Based on analysis of the financial and operational terms of Vigor’s proposal, clarifying discussions with Vigor, and the outcome of the presentation to the Port Commission, staff decided to reject the proposal and seek a new Request for Proposals. To implement this decision, Port staff sent letters to the entities noted above, and placed a notice on the Port’s website on December 15, 2017. The Port Commission and the public were notified through the Executive Director’s Report at the January 9, 2018 Port Commission meeting.

THIS PRINT COVERS CALENDAR ITEM NO. 9A

In an effort to reposition and elicit more interest in the offering, Port staff analyzed the proposal and letters received under RFP1 and feedback from market participants and other stakeholders. Port staff now seeks authorization from the Port Commission to issue a new Request for Proposals (the “RFP2”) for the lease and operation of the Shipyard on the terms described in this memorandum, with the goal of entering into a Lease with a new operator that has the experience, economic capacity and knowledge of the U.S. West Coast and Bay Area ship repair commercial markets and is qualified to operate and revitalize this important maritime industry at the Port of San Francisco. The changes between RFP1 and RFP2 are summarized below under “Key Revised RFP2 Terms”

Strategic Objectives of the RFP

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

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

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

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

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

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

Sustainability Objectives: Create and implement a feasible plan for repair, maintenance and capital improvements to the facilities including the

renewal/replacement of the current dry docks, ensuring sustainable employment and business opportunities, and maintaining appropriate levels of stewardship with respect to the environment as well as any and all historic assets included in the leasehold.

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

Background

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

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

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

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

In an effort to sustain continued use of the Shipyard and retain jobs, in late February, the Port entered into a Tolling and Interim Operating Agreement with Puglia. That agreement expired on May 27, 2017, and Puglia then abandoned the Shipyard. Since May 27th, the Port has been paying all expenses for maintaining the Shipyard in a safe,

secure, and steady-state and plans to do so for the next several months while it prepares the site for the next tenant and Shipyard operator.

Subsequently, the Port reached agreement on a settlement with BAE in the amount of \$4.9 Million in January 2018. The settlement and RFP1 were approved at the same July 11, 2017 meeting. The Port received an additional \$769,000 for the Puglia Letter of Credit in December, 2017.

The Port's development agreement with Orton Development Inc. (ODI) for the adjacent historic buildings along 20th Street provides a mechanism for ODI to perform Port required tasks that assist in the harmonization of utilities and other infrastructure between ODI's adjacent development and the shipyard. Using this provision, ODI has hired five former Shipyard employees to assist in such efforts and to keep the yard safe and secure during this interim period. Additionally the Port and ODI have commenced a significant electrical system upgrade that has been planned as a part of the Port's 2017/18 capital plan and demolition and removal of two condemned Shipyard buildings which will create 20,000 square feet of additional work area on the Shipyard premises.

The Opportunity

Historically, the Shipyard included approximately 14.7 acres of land improved with 18 buildings and 17.4 acres of submerged lands. Additionally, there are significant Port-owned assets, including floating Dry Dock #2, for which a \$5 million capitalization project in 2008 upgraded it to post-Panamax lifting capability; floating Dock Eureka; and a \$5.8 million capitalized 8k ampere Shoreside Power System. For future viability, the Port is investing in capitalized projects including a significant electrical system upgrade and power grid separation project; construction of a new 19th Street extension off of Illinois Street to give the yard a protected entrance and minimize conflicts with new tenants in the area; and a Project Partnership Agreement with the U.S. Army Corps of Engineers for the continued dredging of Central Basin – the access way into and out of the shipyard that will need dredging to allow deeper drafting, larger ships to cross.

Analysis of Recent Shipyard Performance and Market Factors

One of San Francisco's competitive advantages has been the fact that Dry Dock #2 was one of the only docks on the West Coast large enough to repair some of the largest cruise and government ships. For the better part of the last decade the Shipyard generated growing volumes and revenues. However recent entry of a new large dry dock in the Pacific Northwest has increased competition on the U.S. West Coast and has impacted the Northern California "big ship" market, shifting business away from the Shipyard. Additionally, the cyclical nature of the ship repair industry creates peaks and valleys for the Shipyard in terms of need for skilled workers making retention and training of new workers difficult. RFP2 will take these factors into account by seeking responses that may address ancillary lines of business (e.g. industrial fabrication activities, small craft repair, vessel husbandry) with the goal of expanding opportunities for a new generation for shipyard workers.

Disclosures and Existing Conditions

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

Minimum Qualifications

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

Key Revised Terms under RFP2

Smaller Footprint

The updated RFP will include a smaller footprint in order to reduce a new operator's maintenance and repair costs of buildings not required for the operation of a shipyard. Under RFP2, the premises will be defined as all the buildings and land areas within the prior shipyard footprint, except for buildings 36, 6 and 111 which may be available to be added to the premises at the respondent's election. If any of such buildings are not added, the final lease will address the Port's access needs, if any, for buildings adjacent to but not included in the lease premises. [updated attached map]

Potential Port capital and financial support

The Port is in the process of improving the site for future operations including an Electrification/separation project and the demolition of Building 38. In addition under RFP2 Port staff proposes offering to pursue a \$3.5 Million initial future dredge under Dry Dock #2 and piers to further aid in the restoration of ship repair activities at the earliest possible date. The Port may conduct maintenance dredging going forward.

Potential asset transfer

Based on the feedback regarding shipyard feasibility received during and after the RFP1 process, the Port is interested in exploring creative structures to raise capital for needed improvements at the shipyard. In particular, the Port proposes inviting proposals

from respondents relating to the use of shipyard assets or the leasehold to secure financing in order to reduce the overall cost of capital for the operation. The Port would review such proposals on the basis of their ability to ensure rapid and durable restoration of ship repair operations at the site. Accordingly, any such proposal must be justified through a commitment to a robust minimum business requirement, structured to ensure and demonstrate that the transaction supports continued operations at the shipyard. The Port expects that favorable financing would include lender rights as to the security; the Port is willing to negotiate such rights so long as Dry Dock #2 (or replacement equipment financed by the operator) must remain at the site and in operation throughout the term of the lease.

Port staff also proposes inviting proposals that include the lease, repair and operation of the Dry Dock Eureka or its immediate transfer. Any resale or scrap value after such a transfer will be shared by successful respondent and the Port. As noted above, Dry Dock #2 must remain activated and remain on the premises for the duration of the lease.

Respondents proposing any of the asset transfer concepts above should include analysis of the potential financial benefit such strategy as compared to the use of equity or other sources.

Expansion of potential ancillary uses

In order to expand the potential business lines that would aid in project feasibility, Port staff proposes inviting Respondents to propose a broader range of other ancillary activities, including lay berthing, vessel husbandry or ferry /excursion vessel repair.

Selection Process

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

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

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

Experience and Financial Strength

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

Workforce Plan Training and Strategies

- 20 points
- Workforce Plan and Strategies must describe in detail a program for Workforce Respondent's Development and training programs

- Respondent’s Local Business Utilization Plan, including Local Business Enterprises (LBE) professional and service providers hired by Respondent for the design, permitting and construction phases and/or maintenance, janitorial, suppliers and vendors

Proposed Minimum Rent and Participation Rent

- 15 points
- Proposed base rent
- Proposed participation rent

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

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

Use	Shipyard operations and other fabrication consistent with marine repair/construction operations. Respondents may propose other ancillary industrial fabrication activities, lay berthing, vessel husbandry or ferry /excursion vessel repair.
Lease Term	Ten years with a potential option to extend at the Port’s sole discretion. Respondents can propose a longer term and/or extension options (typically 3 to 5 years).
Monthly Rent	Respondents may propose a rent structure.
Potential Port capital and financial support	The Port is in the process of improving the site for future operations including an Electrification/separation project and the demolition of Building 38. The Port will expend \$3.5 Million initial future dredge under DD#2 and Piers.
Potential asset transfer:	Invited as part of a proposal to pursue creative structures to raise capital for needed improvements at the shipyard.

	<p>Any such proposal must come with a robust minimum business requirement, structured to ensure and demonstrate that the transaction supports continued operations at the shipyard. The Port is open to providing appropriate lender rights, but Dry-dock 2 (or replacement equipment financed by the operator) must remain at the site and in operation throughout the term of the lease.</p> <p>The Drydock Eureka may be transferred immediately. Any resale or scrap value will be shared by successful respondent of the Port.</p> <p>Respondents proposing such an asset transfer should include analysis of the potential financial benefit of utilizing asset-backed borrowing instead of equity.</p>
Participation Rent	Proposed by Respondents. The Port expects to participate in gross revenues and sales of the business.
Rent Escalations	3% annually or as proposed by Respondents.
Maintenance and Repairs for buildings or for Port's equipment including cranes, dry docks, and 8K ampere shore side power system	Sole responsibility of tenant. All buildings leased must be maintained and/or upgraded as needed for functional use. Regular joint inspections of the premises, buildings and Port's equipment, including the dry docks will be required.
Financial Guarantees/Security	The successful Respondent must provide adequate financial assurances to guarantee performance through minimum net worth requirements or a corporate guarantee or similar mechanism(s) to ensure its ability to implement and sustain its business plan over the term of the lease. In addition, the standard Port financial deposits will be required to cover rent and environmental risks.
Insurance	Successful Respondent is required to comply with all insurance requirements recommended by the City's Risk Manager based on review of the proposed lease. In addition to insurance coverage required the agreement will require the Successful Respondent to maintain primary property insurance for Port's

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

Projected RFP Schedule

- Business Outreach Ongoing
- Port Commission Request to Issue RFP March 13, 2018
- Issue RFP March 2018
- Pre-Proposal Conferences/Site Visit on or around April 24, 2018
- Deadline for Submission of Questions May 11, 2018
- Port to post answers to question on website: May 25, 2018

- Submission of proposals June 15, 2018
- Evaluation of proposals July 13, 2018
- Respondent Presentations August 14, 2018
- Port Commission selection, award and lease approval TBD
- This schedule is an estimate and may vary

Advertising

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

- San Francisco African American Chamber of Commerce
- Hispanic Chamber of Commerce of San Francisco
- Chinese Chamber of Commerce, San Francisco
- LGBT Chamber of Commerce, San Francisco (Golden Gate Business Association)
- San Francisco Chamber of Commerce
- San Francisco Business Times
- Board of Supervisors Neighborhood Outreach Advertising Newspapers
- SPUR
- District 10 Board of Supervisor's Office
- San Francisco Office of Small Business
- #@SFPORT
- The Port of San Francisco Facebook
- @SFPORT Digital Magazine
- Direct Mail to North American Shipyard Operators
- Add placement in Seaports Magazine
- Other Maritime Publications
- The Marine Log/TRANSAS Shipyard contracts database
- The Pacific Maritime magazine Annual Shipyard Review for 2018, and
- U.S. Census statistics on Industrial maritime operators and Marine fabricators

Recommendation:

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

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

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

RESOLUTION NO. 18-22

- WHEREAS, Charter Section B3.581 empowers the Port Commission with the power and duty to use, conduct, operate, maintain, manage, regulate and control the Port area of the City and County of San Francisco; and
- WHEREAS, the Port issued an initial Request for Proposals for the Lease and Operation of the Shipyard located at Piers 68 and 70 and Seawall Lot 349 near 20th Street and Illinois Street, including Dry Dock Eureka and Dry Dock #2, (the “Shipyard”) but staff rejected all responses in favor of issuing a new solicitation with revised terms to improve project feasibility; and
- WHEREAS, the Port now wishes to issue a new Request for Proposals (“RFP2”) for the Lease and Operation of the Shipyard; and
- WHEREAS, the opportunity consists of a lease for the Shipyard which includes approximately 14.7 of land with numerous buildings, 17.4 acres of submerged land, and Port-owned equipment, including cranes, Dry Dock #2, the Dry Dock Eureka and a Shoreside Power System; and
- WHEREAS, the qualifications, criteria and process for selecting the most qualified Respondent(s) are summarized in the Memorandum to the Port Commission dated March 9, 2018; and
- WHEREAS, any lease would require approval of the Port Commission; and
- WHEREAS, issuance of an RFP2 does not commit the Port to proceeding with any lease, and the Port cannot approve a lease until after environmental review has been completed in compliance with California Environmental Quality Act; now, therefore be it
- RESOLVED, That the Port Commission authorizes Port staff to offer the opportunity for the lease and operation of the Shipyard, through an RFP2 consistent with Port and industry standards and for the uses and under the terms and conditions set forth in the Memorandum to the Port Commission dated March 9, 2018; and, be it further
- RESOLVED, That the Port Commission authorizes Port staff to take further actions in connection with the RFP2 as necessary to achieve the purposes described herein; and, be it further

RESOLVED, Port staff will return to the Port Commission to share the RFP2 results and seek award of the RFP.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of March 13, 2018.

Secretary