

CITY & COUNTY OF SAN FRANCISCO PORT COMMISSION

MINUTES OF THE MEETING MAY 22, 2018

1. CALL TO ORDER / ROLL CALL

Commission President Kimberly Brandon called the meeting to order at 2:00 p.m. The following Commissioners were present: Kimberly Brandon, Willie Adams, Gail Gilman, Victor Makras and Doreen Woo Ho.

2. APPROVAL OF MINUTES – April 10, 2018 and May 8, 2018

ACTION: Port Commissioner Adams moved approval; Port Commissioner Makras seconded the motion. All of the Commissioners were in favor. The minutes of the April 10 and May 8, 2018 meetings were adopted.

3. PUBLIC COMMENT ON EXECUTIVE SESSION

4. EXECUTIVE SESSION

- A. Vote on whether to hold a closed session and invoke the attorney-client privilege.

ACTION: Port Commissioner Woo Ho moved approval; Port Commissioner Adams seconded the motion. All of the Commissioners were in favor.

At 2:01 p.m., the Commission withdrew to closed session to discuss the following:

- (1) CONFERENCE WITH LEGAL COUNSEL REGARDING EXISTING LITIGATION MATTER AND POSSIBLE SETTLEMENT (DISCUSSION AND POSSIBLE ACTION)

Discuss existing litigation pursuant to Section 54956.9(a) of the California Government Code and Section 67.10(d)(1) of the City and County of San Francisco Administrative Code.

City and County Of San Francisco by and through its Port Commission, Plaintiff, vs. Affordable Self Storage, Inc., Defendant. (San Francisco Superior Court Case Nos. CUD-18-661315 and CUD-18-661318) (Filed March 12, 2018)

Proposed Action: Approve the negotiated Settlement Agreement with Affordable Self Storage, Inc. (“Affordable Self Storage”), under which Affordable Self Storage will: (i) pay all amounts due in delinquent rent; (ii)

surrender the premises by August 15, 2018; (iii) until that date, comply with all terms and conditions of the Leases and the Settlement Agreement; and (iv) indemnify, release and hold Port harmless for defaults of the Settlement Agreement and claims by Affordable Self Storage or any of its customers. In exchange, Port will: (i) forgive June rent; (ii) pay Affordable Self Storage \$250,000; (iii) provide an additional incentive payment of \$174,374.86 if Affordable Self Storage surrenders before the deadline; and (iv) not pursue the unlawful detainer actions. The Settlement Agreement includes other terms as set forth in the Settlement Agreement on file with the Port Commission Secretary.

(2) CONFERENCE WITH LEGAL COUNSEL AND REAL PROPERTY NEGOTIATOR – This is specifically authorized under California Government Code Section 54956.8. *This session is closed to any non-City/Port representative: (Discussion Item)

a. Property: Railyard an approximately 455,416 square feet of land which comprises the Port's Intermodal Container Transfer Facility (ICTF) including approximately 2,500 square feet of land for an office trailer, bounded by Cargo Way and Amador Street.

Person Negotiating: Port: Peter Dailey, Deputy Director, Maritime, Brendan O'Meara, Maritime Marketing Manager; Byron Rhett, Chief Operating Officer.

**Negotiating Parties: David Gavrich, President of San Francisco Bay Railroad, Michael Caprio, Area President, West Republic Services, Richard Normand Jr., Area Director Business Development, West, Republic Services.

5. RECONVENE IN OPEN SESSION

At 3:20 p.m. the Commissioners withdrew from closed session and adjourned in open session.

ACTION: Port Commissioner Adams moved approval to adjourn closed session and reconvene in open session; Port Commissioner Woo Ho seconded the motion. All of the Commissioners were in favor.

Port Commissioner Adams announced that in closed session, the Port Commission voted to approve the settlement with Affordable Self-Storage, Inc. as described in Agenda Item 4.A(1)

ACTION: Port Commissioner Adams moved approval not to disclose any other items discussed in closed session; Commissioner Gilman seconded the motion. All of the Commissioners were in favor.

6. PLEDGE OF ALLEGIANCE

7. **ANNOUNCEMENTS** – The Port’s Commission Affairs Manager announced the following:

- A. Please be advised that the ringing of and use of cell phones, pagers and similar sound-producing electronic devices are prohibited at this meeting. Please be advised that the Chair may order the removal from the meeting room of any person(s) responsible for the ringing of or use of a cell phone, pager, or other similar sound-producing electronic device.
- B. Please be advised that a member of the public has up to three minutes to make pertinent public comments on each agenda item unless the Port Commission adopts a shorter period on any item.

8. **PUBLIC COMMENT ON ITEMS NOT LISTED ON THE AGENDA**

9. **EXECUTIVE**

A. Executive Director’s Report

- Commendation for Port Commissioner Leslie Katz

Elaine Forbes, Executive Director - Commissioner Katz was appointed to our commission by Mayor Lee back in March of 2011. She served as president of the commission in 2014 and 2015. We're very fortunate to have her. She has so much expertise and passion. She was a member of the Board of Supervisors, an attorney, executive advocate, a not-for-profit and advisory board member. She has a lot of success in designing strategies, policies and legislation that advance civil rights, business development, innovation and community relations.

While she was here at the Port Commission, she oversaw a major marquee period in the Port's trajectory. She helped to celebrate our 150th anniversary in 2013, which was quite a party. Of course, we had the long-awaited construction of the James R. Herman Cruise Ship Terminal at Pier 27. The Brannan Street Wharf project was completed, as was Pier 431/2 promenade and the public realm project on Jefferson Street, adding so many important parks and promenades to our portfolio. We had also the Bayview Gateway park opened.

Commissioner Katz was a huge proponent of the Blue Greenway. We also benefitted from the bay lights on the Bay Bridge and the opening of the Exploratorium at Piers 15 and 17. We've had more people come to the waterfront during her tenure probably than the last 10 years combined. We now manage nearly 600 commercial tenancies. She was a huge advocate along with many of the commissioners on adopting the Port's strategic plan, which guides the work we do and articulates our vision for delivering a modern-day Port mission.

We want to thank her so much for her dedication to our organization. We're going to miss her very much. Thank you, Commissioner Katz.

Brad Benson - Commissioner Katz, I've known you for almost 20 years. First at the Board of Supervisors when I worked for Supervisor Ammiano. You have a real passion and commitment to public policy, and on the civil rights front. But you're also a policy wonk after my own heart. As supervisor, Supervisor Katz carried legislation that required all the utilities in the city to coordinate when they were doing work in the public right of way. It's that passion for public policy and attention to detail that has made you such a great public servant both at the Board of Supervisors and here at the Port Commission. I know you really love the development work that we were working. You're a passionate proponent of the Pier 70 project.

In almost all of your remarks, you went out of your way to say what great work staff were doing and acknowledging all the work that went into these presentations. It was always so good to hear that positive feedback so can't thank you enough for your service. Thank you.

Diane Oshima - Commissioner Katz, it's nice to be able to follow on Brad's remarks because your expertise and passion around public policy extends to the community engagement and the public's involvement in the work that we do in the city and what you've brought to the Port and to the waterfront in this period of time to help with this transition as the Port really opened itself up to the world at large, not just San Franciscans is something that we will always appreciate.

The work that you extended to us in launching the waterfront plan and getting that working group together to truly be inclusive of all corners of the city and the region has really benefitted from your guidance and your counsel.

We wish you well. We know that you've got a lot of new horizons to conquer. We wish you all the best.

David Beaupre, Planning and Environment - I wanted to echo what Brad and Diane said but thank Commissioner Katz for her work on the Blue Greenway and support of all the Blue Greenway projects we've had and her continued commitment to helping us get that system completed. Thank you very much.

Steven Reel, project manager in engineering - Commissioner Katz, I wanted to thank you for your leadership on sea-level rise and climate change. You really challenged Port staff to fully consider sea-level rise and climate change in our projects when leadership was really lacking.

San Francisco and the Port have really benefitted because of the. Brannan Street Wharf, Pier 43, the Beltline projects, Bayview Gateway have all benefitted because you've challenged us to fully consider sea-level rise and climate change. Thank you.

Corinne Woods - I spoke about this at the last meeting. I really appreciated having Leslie on the commission. She did fabulous work. She was very engaged and very passionate about what she did for the Port and very much engaged the public in being part of the solutions for the Port. Thank you, Leslie.

Commissioner Woo Ho - Leslie, I did speak at the last commission meeting. You and I have had some conversations on the telephone but I just want to add to all those other comments and certainly would ditto what the staff has said about all the areas that you've worked very hard and well with the commission.

In addition to having enjoyed working with you on the commission, my husband may have known you a little bit more from his involvement being in government. But I certainly didn't have a chance until we were on this commission.

I have gotten to know you personally. I'm glad that I've made another friend as well through that. There were many areas that you were passionate and you helped us. With our diverse commission, our backgrounds are all different. You certainly added in that diversity in all the areas that the staff has mentioned. Thank you very much for your contribution.

Commissioner Adams - Leslie, you and I were kind of partners in crime on this commission. Do you remember before a commission meeting when Jack would walk around down in those old buildings at Forest City? Rats were running around. It was a rainy, gloomy day. Jack was taking us around and you always wanted to have your feet on the ground. You are a stellar with the LGBT community.

When you were the Commission president, we met with the Port of Oakland director and its officers with Director Forbes at the Port of Oakland. We always got together and had lunch to talk about how the Port of Oakland and the Port of San Francisco could work together. You took the lead on that.

When Director Monique Moyer left, you and Doreen supported us. We had to go through a national and an international search for a new Port director. The commission held tight. You were a part of the glue to make sure that we got the best Port director that we could get and we wined up with Director Forbes. You wanted to make sure the process went right. I want to thank you for that. Your commitment to social issues is commendable. You always felt that the Port's about making money but when we start dealing with issues like homelessness and other issues, you said that the Port also had a social responsibility.

You've always taken a lot of pride that your dad was one of the attorneys for Dr. Martin Luther King. Going all the way back when you were on the board of supervisors, your heart and soul is with San Francisco.

Even when you went to work for the law firm, there were certain clients you wouldn't take because you wanted to be on the commission. You wanted the best for this commission. You gave your heart and soul. I want to personally say thank you for all your hard work and your dedication.

Commissioner Makras - You're a great public servant. Thanks for all that you have done.

Commissioner Gilman - Leslie and I first met when she was on the board. She was the first supervisor I ever spoke to. Just an anecdote, I had blue nail polish at the time. I was 25 years old. I had to call my cousin in D.C. to give me the advice to take it off prior to meeting with you. We've known each other a long time, Leslie. I'm sure we'll continue to find a capacity to serve together. Thank you so much for your service.

Commissioner Brandon - Thank you. Leslie, my friend, I just want to let you know that you have brought so much to the commission. We are going to miss your valued insight and input on so many different areas. You always have something to say, which is absolutely wonderful. But it's always been something that we can learn from or something that you're passionate about. We're really going to miss that. But what I'm really going to miss is, after the pledge, hearing you say some day. Every time we do the pledge, I'm just waiting for it now. I'm really truly going to miss that.

You have been such a great friend and such a pleasure to work with. We're truly going to miss you. We really appreciate your seven years of service. But I know that will not be the end of your service. I know you will continue.

Thank you so much for giving so much to this Port and to all of us. We have a plaque for you. It says, "In appreciation of Leslie Katz, Port Commissioner, for her exemplary stewardship and legendary contributions to the City and Port of San Francisco, March 2011 to May 2018."

Leslie Katz - I'm actually a little bit of a loss of words for the moment. I can't begin to thank all of you enough for your wonderful, kind comments and support. It's kind of funny being on the other side of the dais. It really was like a walk down memory lane, as we were recounting all the projects that have happened. It hardly seems like it was actually a relatively short period of time that all of that has transpired.

I put together a list of people I wanted to acknowledge and thank. Sometimes we don't want to go too long in all the thank yous but I couldn't resist especially as I reflected on all the different projects. I'd sort of held back on saying this but now that I'm not on that side of the dais, I can say it even

more forcefully. The staff at the Port of San Francisco is, bar none, the absolute best in the city. I tried to keep it quiet before because I didn't want them poached.

As I reflect on all the different experiences and we talked about the different projects that we've worked on together, it gave me even a greater insight and appreciation into how much has transpired along the waterfront and what we've done for the people of San Francisco in making this truly a jewel in the city. We haven't talked about the necklace of parklets and parks along the water. But it's anchored by the entire Port and waterfront as that sparkling gem in the center there.

I do want to thank so many of the staff members. Often, they're those staff members that don't get acknowledged, that they're the people that I've worked with and we've all worked with over the years.

I've had a big focus on environmental issues and had the privilege of working with Carol Bach and Richard Berman, Shannon Alford, Kathryn Purcell. When the public comes down to the waterfront, I don't think they've seen all the hard work that's gone into restoring it, to keeping it so pristine and making it accessible to people to enjoy.

Unlike most other ports in the country or even in the world, we have the unique feature of being right up against the vibrant city, yet at the same time, we do have a working Port and we've managed to have that wonderful balance. But the environmental stewardship that goes into that kind of management is really quite something.

Steven, you mentioned sea-level rise. Thank you for that. I know I got a few groans the first time when I introduced it and said I wanted all the staff to start recognizing and addressing sea-level rise in every project. A few people looked at me like wondering what's this crazy commissioner is wanting us to do now but in hindsight, everyone rose to the challenge and has demonstrated the Port's leadership in sea-level rise to the entire Bay Area, not just the City of San Francisco. On that front, thank you to Steven, Lindy Lowe and Rod Iwashita.

Even when I was on the board of supervisors, I had designs on dog parks along the waterfront. Diane Oshima and David Beaupre, thank you for indulging me in making sure that we did have dog parks included in our projects.

One highlight for me that I see every time I head home now is the Bayview Rise project. When I was asked to serve as the Port's representative on the selection committee for that project and what that did in terms of bringing together the community, we really were lucky. The artist that we chose recognized how important the community is and how this project could tell a story.

We got something that's beautiful both day and night. Dan Hodapp, I know you've driven home so many of our art projects along the waterfront here. So I really just want to thank you for making sure that we're creating beautiful opportunities along the water.

Media and special events -- Kirsten Southey, I've not had a chance to work with you quite as much as I have with Renee Dunn Martin. We were actually friends way back long before I got to the board of supervisors. When I joined the commission, she was one of the first people who reached out to me and helped guide me through serving on the commission here.

At Real estate, we have Jay Edwards. Mike Martin, Rebecca Benassini, who have been relatively new addition to the staff and has risen up and just has soared. Although, Mike, it sort of felt like you were a part of our staff for so many years even when you were over in City Hall.

Finance, I remember when Commissioner Woo Ho had this -- I'll quote one of our former mayors -- "audacious goals" of reaching \$100 million in revenue. We've now far surpassed that. But everybody's eyes got big when she mentioned that figure. That was under, initially, guidance from our executive director Elaine Forbes. Now, we have Katie Petrucione who we poached from another department. They're still a little upset about it. Meghan Wallace has just been stellar.

Tom Carter and maintenance, we don't always recognize what goes into ensuring that all the upkeep is so solid here. Tom Carter has really done such an amazing job of overseeing all of that.

We have Manny Pacheco, who is not here today but he makes this Port really run. He does whatever is needed. It just all seems to happen. Don't know how to thank him for always having a smile on his face too every time we saw him.

Then, we have the executive staff. I go back further with Byron Rhett than literally anybody here. The very first governmental role I had was serving with Byron on the citizen's advisory committee for Hunters Point Shipyard when it was just a gleam in all of our eyes. I became friendly with Byron back then. And then, he was my neighbor. Byron, the work that you've done on behalf of the Port really has just been bar none, just unsurpassed excellence.

Peter Dailey, as you said earlier, "We'll always have Shanghai." I guess I better explain that.

Commissioner Woo Ho - What happens in Shanghai stays in Shanghai.

Leslie Katz = As part of the delegation on behalf of the Port of San Francisco, Peter and I along with then Executive Director Moyer represented the city at the Sister Ports Conference in Shanghai. We always were the

envy of all the other ports when we said we were from San Francisco. They were all quite envious.

I've mentioned a few of the others but also want to thank Eileen Malley, I worked. I worked with Eileen before she was appointed as the deputy city attorney for the Port. At the time, Monique Moyer said, "Have you ever heard of her?" I said, "Do not let them change their mind. Make sure she comes over here. She is absolutely extraordinary as an attorney and as a person." I'm also honored to be able to call you a friend now. But as an attorney, I recognize really stellar work when I see it. You have just done such amazing legal work on behalf of the commission so we want to thank you.

Amy, I don't even know where to start. Amy Quesada, the executive secretary for the Port and the Port Commission -- she knows everybody, everything. She makes it look seamless. But I can't even begin to imagine what each one of your days must look like and you do it with a smile. You make it look effortless. But we notice when you're gone. We know what an incredible job you do.

Brad Benson, you actually forgot. When I first ran for the board of supervisors, we did meet when you were on Supervisor Ammiano's staff. But you also helped serve on my what we called the kitchen cabinet on environmental issues when I ran for supervisor. I've always appreciated your friendship and your insight and the work that you've done on guiding so many special projects forward here has just been extraordinary. When I came over to the Port and saw that you were here, I was so excited.

Elaine, also my friend from way back, I can't begin to thank you enough for stepping into the role of executive director and doing it so beautifully with such vision, grace and kindness to the staff and to all the commissioners, really thank you for making it look seamless. But it's so hard to do a transition into a new role like that. You've just risen to the challenge and put your own stamp on the role. You've just done a remarkable job so want to thank you for that.

Our staff is extraordinary, but also the public participation is something that has been really unique, in terms of the level of support that we get from the public. This was mentioned earlier. I was honored to be able to help put together the committee for the waterfront plan update working group. It was quite a feat. Port staff was so involved as we sat down and figured out how to make sure that the entire city is represented on this working group. The work that we're now seeing that's come out of that body reflects how thoughtful and dynamic the people were that participate in that. A great deal of thanks goes to all of those participants.

I can't begin to thank one person in particular enough and that's Corinne Woods. She kept all of us honest as commissioners. She brought issues before us. She was out in the community. She would relay what's happening.

I just thank you for all that you do, all of your insights, the work that you do that often goes unsung. We're singing it loudly today.

To the two new commissioners, you are so lucky to have somebody out in the public like Corinne that will bring these issues to you. So please, when she speaks, better listen.

I was reflecting on the projects. I'm not going to go into great detail but also want to thank all of the people that were involved both from the Port staff and commission side but also the public and the developers at Pier 70 which had its groundbreaking.

I remember going up to Mayor Lee when I first got on the commission . I said, "I know you're kind of excited about the America's Cup. But I think Pier 70 is something that's going to be really extraordinary for the future of the city." And he embraced that project. Here we are seeing what's going to be happening there with Orton Development. That was actually the very first vote I took when I came to the commission was to select Forest City to run that project.

Mission Rock is another one that is going to recognize its role in giving back to all of San Francisco. The Giants are working hard to figure out how they can provide opportunities for the entire community from jobs to places to live and work, to their commitment to 40 percent affordable. That's really an extraordinary project.

The Blue Greenway is always going to be near and dear to my heart. I can't wait to walk along it even more. I already walk down portions of it. So it'll be fun to see it when it's all completely connected. I was just looking at the back end of it from a friend's window just on Saturday and was thinking about how beautiful it will be all the way down through just past Crane Cove Park and past Heron's Head Cove.

The cruise terminal is, again, something that everyone should be proud of. It's one of or if not the greenest, cleanest, most environmentally friendly cruise terminals in the world. We are really a model for others to look at. As I was talking to some people recently about what's going on, I was talking about what's happening and what happened along the San Francisco waterfront here and providing shore power to the ships that come in. That was something that was a huge discussion point at our Sister Ports conferences as well and now, other ports have adopted it. We can all see what an amazing difference it makes in our environment.

Pier 30/32 was the one sore spot. I'd love to see something good happen there some day. I'll say it again -- a floating pier might be the option there now that it's a little bit more feasible. There are so many wonderful things that happen along the waterfront but none of that could really happen without

the incredible stewardship of the people that I served with up here on the commission.

When I first came on board, Commissioner Brandon was the seasoned commissioner. I see just what a legacy she has had and leaves here at the Port. Her wisdom on every project -- when Commissioner asks a question, it is always worth listening to what she's saying. It's always insightful, pointed and adds such value. I learned so much from all three of my former colleagues.

Commissioner Brandon, your insight and guidance and representation of the communities was stellar. Commissioner Woo Ho, I too am also proud to call you my friend. As you say, I knew James, your husband, before. And it was really a treat to get to know you and see your financial insight and very kind hand guiding the Port to its current very strong financial position. But make no mistake, your leadership was behind all of that. So I want to thank you for that.

Brother Adams, my partner in crime, we joined just about the same time and you've become a very dear friend. Your passion, your commitment, your kind words to everyone, your recognition of the broader implication of everything that the Port does to the communities we serve is so important. It's just been an honor and a pleasure to serve with the three of you.

Victor, who is an old friend of mine, and Gail, you are both very lucky to be able to serve with these three. I know and I hope that you will enjoy serving with them as much as I did and that you'll be able to call them friends as well.

I want to thank all of you for all of the comments, guidance, kind words and incredible hard work that you've done over the years. But most of all, I want to thank everyone for your friendship during this time. And you will be sorely missed, but please don't be strangers. Thank you.

- Bayview Gateway Community Art Celebration – May 25, 2018 at 11:30 a.m. at Islais Creek

Elaine Forbes - I have to announce two items that are bringing beautiful art to our waterfront. One is the groundbreaking for the Bayview Gateway community art piece. This will be May 25th at 11:30 at Islais Creek. We'll have the ribbon cutting on the new installation. It's called Islais. It's designed by Cliff Garten. This will be the official welcome gateway to the Bayview community at Third Street and Amador Avenue in the city. The event will take place on the 25th. We encourage you to come out and celebrate with us. I want to thank the partners who helped us make this happen, the Port commissioners, of course, the San Francisco Arts Commission, the Bayview Hill Neighborhood Association, the Southern Waterfront Advisory Committee, the San Francisco voters as it was paid for by the park's GO bond, our

neighbors, friends and specifically on the staff side, David Beaupre, Diane Oshima and Byron Rhett.

- Celebration of San Francisco-Haifa Sister City Sculpture Installation – May 31, 2018 at 11 a.m. at Pier 27

Elaine Forbes - We're very excited about this art ribbon cutting. On May 31st at 11:00 a.m. at Pier 27, we will be having a celebration with our sister city, sister port Haifa to dedicate a piece of art called Point of View. It's a sculpture that synthesizes art and technology.

It's designed by Saron Paz and artist Matthew Passmore. We've had a 45-year relationship with Haifa as a sister port. It brings our waterfront port communities together to explore each other's culture, to exchange friendship and ideas.

We're thrilled that we're going to have this piece of art that commemorates our friendship with the people of Haifa. A big thank you to the San Francisco Arts Commission, the Mayor's Office of Protocol, Matthew Goudeau in particular, the consulate general of Israel and the Pacific Northwest.

I want to thank Dan Hodapp, who has been amazing, and the leasing team who helped to make this a reality.

- S&P Rating

Elaine Forbes - Finally, we had our A rating confirmed by S&P with a stable outlook. The report is in your packet and a very interesting one to read in terms of how the rating agency is viewing our credit. Congratulations to our finance team and to the Port Commission for your sound financial management strategies.

B. Port Commissioners' Report:

Commissioner Adams - First of all, I'd like to thank my fellow commissioners, President Brandon, Commissioner Gilman and Commissioner Makras and Commissioner Woo Ho. I thank the Port staff for being here today at our swearing in and looking forward to another four years especially in a city right now that everything is kind of up in the air. I look forward to the next four years and kind of figure out the direction the city will go in.

I also want to thank Jack from Pier 70 who invited us all. Everybody was there except for Commissioner Woo Ho down at Pier 70 for the Forest City. It was a great event. Mayor Farrell, Supervisor Cohen and a lot of people spoke that was a part of this dream. To see the family come out from Back East and everything was laid out. I think we're on the right path.

It was a great day from San Francisco. Director Forbes said something when she was up there speaking that made me think. She said she had a couple of epiphany. I think she felt Mayor Lee's spirit that day and Jennifer Matz and others. It was just a great day that day at Pier 70. So thank you very much.

Commissioner Brandon - So we are going right into the Port commissioners report. I do want to welcome Commissioner Woo Ho and Commissioner Adams back to the commission. They were reappointed for another four years. They were sworn in prior to this commission meeting. We are very happy to have them back. The Pier 70 groundbreaking was a phenomenal event. It actually happened. It was great. There were a lot of great speakers. Like Commissioner Adams said, everyone was able to make it except for Commissioner Woo Ho who was traveling.

It was a phenomenal event. We are so excited. We can't wait to see the shovels go into the ground. Although, we have pictures of shoveling. I want to thank Jack and Forest City for putting together such a great event. We can't wait to see the results of that project.

10. PLANNING & ENVIRONMENT

- A. Request approval of the Schematic Design for the parks in Phase 1 of Pier 70 Mixed-Use project at the 28-Acre Site (the southeast portion of SWL 349) as consistent with the requirements of the Disposition and Development Agreement with FC Pier 70, LLC, and the Pier 70 SUD Design for Development. (Resolution No. 18-32)

David Beaupre, Planning and Environment - I am joined here today by the Forest City team including Jack Sylvan and Catherine Reilly and their consultants Richard Kennedy from James Corner Field Operations, Jeremy Regenbogen from Macchiato Design, and Charles Chase from Architectural Resources Group.

As Amy stated, we're seeking approval of the Pier 70 28-acre site, phase one park schematic designs as required in the Disposition and Development Agreement. The Pier 70 28-acre site development approvals occurred in the fall of 2017.

The special use district included a design for development, also referred to as a D4D package, which are design controls for the development of the project including all the project open spaces. The disposition and development agreement requires that the project parks go through a public design review process by a newly established design advisory committee, which was appointed by the Port's executive director with input from the San Francisco planning department's executive director, which has been established.

The slide before you shows the overall Pier 70 site plan to provide some context. On the north is the Crane Cove Park project, which includes a temporary parking lot, the 19th Street and Georgia Street extensions.

To the east of that is the BAE ship repair. We have the historic core, which are the purple buildings south of 20th Street and buildings 101, 102 and 104, which are on the corners of 20th and Illinois and 20th and Georgia Streets.

We have the 35-acre special use district of which 28 acres is the Forest City site. The Forest City portions of the 28 acre, the high-level land use program is approximately 2,000 residential units, 1.4 million square feet of commercial development, 400,000 square feet of retail, arts and production distribution and repair uses along with eight acres of parks.

I'd like to introduce Richard Kennedy from James Corner Field Operations who is going to provide an overview of all of the parks and a few more details on the schematic design of phase one. Once Richard concludes, I'll have a few closing items.

Richard Kennedy - On behalf of the development and design team, we are very excited to be here to share with you the schematic designs for the Pier 70 parks and open space. We've been involved as landscape architects for the Forest City team, development team since 2013.

We've never lost sight of how extraordinary this project is, this place is in the city and this opportunity to reimagine a new access to this important part of San Francisco's waterfront. The image in front of you is an aerial view of the Pier 70 site.

Our project site is bound by the white outline there. Just for simple orientation, on the right-hand side, you have the ship repair site and the dry docks, Crane Cove in the background to right, background image of Dogpatch neighborhood as well as Potrero Hill, the former Potrero power plant on the left-hand side. Note the finger piers in the foreground of the image, which are an extraordinary existing aspect of the site that we're leveraging into our design.

The one last thing to point out on this image is that the Pier 70 site does stick out as part of the peninsula. This new waterfront and new development actually has an extraordinary position on the waterfront. It sticks out quite far into the Bay and enjoys a fantastic panorama.

We have been involved since the development of D4D plan beginning in 2013 and 2014 in working on curating a mixture of spaces and a mixture of experience that leverage the important industrial and historic qualities of this place.

As we've developed the schematic designs with Forest City and the team, we've maintained that original vision and just worked to build in richness in terms of the

diversity environments, the diversity of kind of experiences that neighborhood residents and new residents can experience here.

The project is arranged around a number of historic buildings. You can see on the top left of this plan the Orton site, buildings 113 to 118 and building 14 around their new piazza project, a very exciting neighbor to our work.

At the very center of our project are three historic buildings: Building 2, Building 12 and Building 21. They become the core of our project. Everything grows outward from that center point.

Our work over the past many months in working closely with Port staff has been developing the schematic designs for these open-space limits. Beginning with the core, the core area around the historic buildings, Buildings 2 and 12, and then growing outward to the waterfront.

The Slipway Commons is the central park of the new district and neighborhood. We have a continuous waterfront park experience running from north to south for the length of the site.

We've been developing the designs for all of these spaces. That said, these spaces here are the first phase parks projects. What's great about the first phase is that it both encapsulates the center and the core component of the project, the historic core but it also creates a park that links that central core out to the waterfront.

On day one, you'll have the social and core of the project but also an experience to get out to the water. I'll now walk you through the key experiences and key places starting with the center. To quickly orient you again, what we call the central space of Building 12 and Market Square areas is defined principally by Building 12, the big historic shed that will remain and be reimagined as a new market hall, a makers' market hall with retail and shops, locally influenced and inspired to have artisans, makers and other shops here as a neighborhood retail destination.

Building 2 will then be a residential building flanking that as a neighbor. So what's going to distinguish this area is the historic Building 12 as this industrial heritage building but also Building 15. What you see in this image here is the frame, the metal truss structure of the historic Building 15, the neighbor of Building 12.

We take the cladding off. It actually works as a trellis that invites people into the neighborhood and frames the views of the bay. So it evokes the industrial history but creates something new as well. It will be a great, memorable and much talked about moment in the city that it evokes the industrial history. Once underneath that frame, you have access to Building 12, this great new marketplace for the whole neighborhood, all of Dogpatch and San Francisco, all inspired by its industrial armature.

On the north side of Building 12 is Market Square. The idea here is it's an open, flexible marketspace where the programs inside Building 12 can spill out and whether it's vendors or a market program, a flea market or a food market, can occupy this space as a very flexible and dynamic space. It's also just a casual and everyday space for residents and neighbors.

Then, from the center outwards, we have the Slipways Commons, or the central park of the new district. What distinguishes this park is that we are inscribing in the center of the park the historic alignment of what we call the Craneway Promenade.

This is one of the old piers where the cranes would migrate from the site outward to the piers and move the templates and metal panels that were assembling ships. That's now being ascribed as the center line of the park, the main promenade and pathway from the center of the project out to the waterfront. That's flanked by a series of spaces, some seating and casual spaces, lounge spaces, garden spaces, dining terraces that face the front of the buildings and then a series of elements that are attractions that bring people together.

This is an image looking down the park out to the bay front. You can see the location of gardens and elements that create a kind of calm and respite within the district, furnishing and seating that's over-scaled to bring a lot of people together to sit together in the park.

You can see Building 21, a historic building, now positioned on a parkland there on the center left. There's a series of elements and attractions that create an episodic sequence of experiences from the inside of the project out to the waterfront.

One of those first elements to encounter is what we call the hull. It's inspired by ship building. This is a historic image of ships made on the Pier 70 site. You can see the metal frame that creates this crescent-shaped hollow. We're turning that into a concept for a social element, a big furnishing element so that it actually evoke the history of the site but also creates something new. So we're creating a big-scale furnishing element that both can serve as a seating element -- so the benches here face the sun -- face the south.

It can be an impromptu performance space, so small performance can leverage the flat area with the seating for spectators. It frames the view. As you walk towards the waterfront, you can step in and have the framed view out to the bay.

But it also is a place to tell this interpretive historic layer about how ships were made here that buttressed the country's World War II effort and beyond. Now, in the background here, you start to see the main element that bookends the park. It's one of three pavilions. Let me call these the viewing pavilions within the waterfront. They're inspired also by the ship-building heritage and the fact that

very large, important ships to our country's wartime history were assembled here. They were massive, large-scale elements.

We want to evoke some of that history and some of that scale and power that comes from that story but also make something that is a lovable element of the new waterfront. So the first of those pavilions is called the Craneway Pavilion at the end of the main Craneway Promenade. It's this long metal frame that just positions and frames the view of the horizon. The background there is extraordinary. You can see the Salesforce Tower in the background left, the Pyramid, the Bay Bridge, Yerba Buena Island and the waterfront of Oakland all captured in this viewing frame.

It's big and impressive and tough but it also has a playful side in that we're hanging swings from the left and right-hand side. These porch swings will hang from the structure. It's a way of making a two-fold thing, something that evokes history and the powerfulness of the Port as a place on the working waterfront of the city but also something that's new for residents and for new experiences on the waterfront.

You can see on this image the terracing that helps us to address sea-level rise, building up the waterfront to a higher elevation, which also addresses sea-level rise but also gives more prospect over the whole bay.

Then, looking back on the other side now of the pavilion, looking back at those terraces that also provide that viewing position with skyline views to the city and the broader bay panorama and the swings that sit and provide that social element for people throughout the day and year.

The next level of design will take into account the more poetic qualities to building lighting and more artistry into the craft of these elements, so they actually can have a very fine and poetic quality to them.

Then, flanking the Slipways Commons and the Craneway Pavilion are the northern and southern waterfront pieces. The northern waterfront is the more green and more casual of waterfronts. It's defined by the Bay Trail that runs north to south and links our project to Crane Cove as well as to the future Potrero power plant site. It's also distinguished by the second pavilion, the northern pavilion called Building 6 Pavilion and then, a long, linear picnic lawn so a green, open lawn terrace, unobstructed views out to the Bay and historic Pier 70 out in the water, a place to step off the Bay Trail and enjoy the view, lay out a blanket, have a picnic, roll a ball and have a good afternoon event out on the eastern waterfront, which often receives more sun and blue skies.

Adjacent to that green picnic area, picnic terraces with fixed picnic tables, so folks can grab a table and enjoy lunch out on the view. Whereas the northern waterfront is the more green and more passive of spaces, the southern waterfront is more about extending the café and retail life of the ground-floor residential programs out into the waterfront.

The Bay Trail extends through this portion of the waterfront flanked by café and dining terraces adjacent to the ground floors of the buildings but also these lounging and picnic areas now enjoying great, unobstructed views of the water so a mix of furnishes from chaise lounges to picnic tables to bar tops enjoying the view of the bay and enjoying the access to now these finger piers that are reimagined for access and proximity to the water.

At the very end of the site, the very southern boundary of the site is 22nd Street. You can imagine just passing through the Building 15 frame and walking out towards the waterfront. The end of the 22nd Street corridor is framed by the third and final pavilion, the 22nd Street pavilion. That's the full width of the right-of-way and it frames the view and draws people out to the edge.

This is a little different in its design. This is designed so that people can sit within it. So there's terraces and seating spaces that are stepped down within the pavilion, so you can have this very quiet, calm, intimate moment of sitting on the edge of the bay looking out at the eastern bay front and enjoying the special moment on San Francisco's edge.

You can also see in this image, which was taken from one of the finger piers. You can see how a shoreline pathway is at the level that connects all finger piers together. So not only do you have the upper Bay Trail experience that runs throughout the whole project. But you have a more intimate, quiet and smaller-scaled series of pathways that link to the historic piers.

The very southern edge of the site, a softer, greener edge of the project with a small ramp that links from the Bay Trail down to the shoreline pathway and the finger piers.

The last layer is that we've talked a lot about the social qualities and the kind of historic heritage elements, built-in richness. One aspect of the details that we're developing is a historic, interpretive master plan and historic interpretation. We're going to be building in information and stories about how Pier 70 was positioned in the city in the detailed development of the project.

This is an overall map that was describing a narrative framework for interpretation across all of Pier 70 with the idea of the green circles being that there might be multiple hubs of information so center points where many stories are told, stories of people that worked here, the stories of the ship building site, the stories of innovation and architectural and industrial architectural development, development of the Port as a landscape.

The red and blue dots are a hierarchy of elements so talking about historic buildings and then other historic and smaller moments that could all be arranged throughout the site. This can be done in many different ways. This is a palette here on the slide of different techniques about how stories can be told from etching in the ground plane, so etching say blueprints of ship buildings and pavements, to signs that could have interpretive panels and more detailed

narrative-based stories to maps and 3D what we call table maps where you have an extrusion of the project at its peak World War II era -- the pavilions itself.

Number five could have text panels inscribed in them that can talk about the Port's history and Pier 70's position so a number of techniques that can just add to the richness.

Not only do you come here and get the great presence of historic buildings now reimagined with new uses, great park spaces and social spaces, but it's the kind of detail that will reward repeat visits where each time you come back, you see and experience something new.

We're quite excited by the work to date. We have much more to go. We do see this as an extraordinary opportunity. We are working very hard to get it right and to make sure that we make this whole waterfront something that is special for the future but it evokes its unique past.

David Beaupre - As previously mentioned, the Port's executive director established a design advisory committee to review the park's design for both the Mission Rock and Pier 70 projects for consistency with their design control. So in this case, for consistency with the design for development, D4D.

The DAC met twice, once in February, once in May, one of which included a joint meeting with the Bay Conservation and Development Commission's design review board. Each meeting was publicly noticed and included distributions to our email list for our Central Waterfront Advisory Group and the interested citizens.

The DAC approved the preliminary schematic designs of all of the parks within the SUD area. The BCDC DRB approved the design for the shoreline parks within their jurisdiction. As well, the DAC approved the schematic designs for phase one.

The DDA also required that Forest City conduct community outreach in addition to the design review meetings. The Port hosted a CWAG meeting where the open-space plans were presented in early April.

Forest City held a separate public meeting in the Dogpatch neighborhood which was attended by over 100 people. So they met the requirements of the DDA. Overall, the design advisory committee and the public seem to be very happy and excited about the project and want to see it move forward quickly. Next steps should you approve phase one would be to come back to the commission in the near future to get approval of the preliminary schematic design of the entire 28-acre site. Subsequently as they move forward with phases two and three, they'll come back to the commission for approval.

Penny Wells - I'm a sea kayaker. I belong to Bay Area Sea Kayakers, which is a local kayaking club with about 600 members. I also am on the advisory committee for the San Francisco Bay Water Trail. The prospect of having a beach with a boathouse, a place where non-motorized boats can launch and land has us pretty excited. When this project is completed, it'll probably be one of the premier sites on the San Francisco Bay Water Trail.

When you see San Francisco from the water, it's a completely different perspective. It's a perspective that is quite wonderful. When this site is finished and people are able to get out on the water in kayaks and on stand-up paddleboards or whatever they've invented to get around in by that time, it's going to be quite magnificent.

It's something that locals as well as visitors will be able to take advantage of to see San Francisco from this perspective. I'd like to thank the Port and commend them for the planning and the work that has gone on so far to make Crane Cove Park a reality.

Elaine Forbes - Just to clarify, Ms. Wells' comments were related to item 11A, which is the Crane Cove Park schematic design.

Commissioner Gilman - I just wanted to commend the team on a couple of points that I think are worth noting. So many times today particularly here in San Francisco, we've moved away from open spaces and parks actually having areas where people can activate. As someone who lives close to the Embarcadero now, I love the idea of the pavilion. I just really wanted to commend that. All of the seating, benching ways that folks from all walks of life, all financial means could come and equally enjoy this open space and park and maybe not have to rely on just spenders or buying things from your retail clients, that families can come and picnic, that folks have the historical and educational component.

I just really wanted to say I view those components as a model of how I would like to see other parks or other projects here at the Port move forward so that we have use for everyone regardless if they're coming in from the community right there and it's their backyard because they have the fortunate ability to live at Pier 70 or if they're coming in from Dogpatch or Hunters View or other parts of the city. I wanted to commend the design team on that, particularly the seating, benching places for people to recreate was really nice design.

Commissioner Woo Ho - Thank you. It's a wonderful report, nice to see how you've really integrated the industrial design very innovatively and taken in consideration the history of the site and its value to San Francisco. I'm very excited to see that part. I did take a tour of the Orton site with Mike Martin and Elaine Forbes. As we were walking around Building 113 and 18, we were commenting on the plaza. While the two are obviously separate but from the public's point of view, it's like you're going to be walking through the spaces as if it's flowing one to the other. It's one of the things that was interesting.

We asked about the greenery and said that there were some restrictions, or the historic preservation didn't want to see any greenery on the walls of the buildings. It looked a little bit stark to me at least, I mean all that corrugated sort of iron.

I just wondered, how are you going to coordinate so the flow between the two projects looks like it's integrated? We understand there are two different sponsors, developers here but from the public's point of view, they sort of flow into each other and to make sure that there is a sense of design that works together.

David Beaupre - We have been coordinating with Orton. I'd like to address the first issue on the greening. You're correct. There is a balance of the amount of new greening we can put on the site because of the designation as a National Register Historic District.

One of the character-defining features was that the district lacks greenery because of its industrial nature. We worked closely with Forest City on the balancing of how much greening is appropriate.

At some point in times, we thought it may have been tipping the scale but we're at a point where we have a good balance that meets the needs of the district but also provides comfort for the visitors to the parks.

Commissioner Woo Ho - I love the greenery. I was just surprised that they were saying that they couldn't do very much with it. So I hope you continue to press on that because it makes it more inviting. It's rigid and cold is the feeling I felt.

David Beaupre – As it relates to the connectivity, one of the design themes that field operations in Forest City developed from the early onset was to have a place of continuing the theme of these small corridors that connect the various spaces in the mosaic of open spaces that they have.

If you look at how the Pier 70 Forest City plan connects with Orton, there still is a connection from the machine shop courtyard, or the piazza that Orton calls it, to the Market Square, through the passage between Building 2 and Building 12, from the atrium of 113 into the courtyard off of 20th Street, through Building 12 or even walking down Louisiana Street and connect 21st Street.

Commissioner Woo Ho - Forest City's building 2, is it going to look into the piazza of Orton. Is that correct? You want a view that, when people look down, it's going to be inviting.

Richard Kennedy - To build on what David was describing, one of the great charms of the Pier 70 site will be all the different ways that you can walk through and find your way from the district out to the waterfront. Because of the historic buildings, you can't just apply a straightforward grid. So there's this built-in variation, built-in labyrinth quality. So for example, being able to walk through the

Orton site, the big white building with the new atrium as a passage and a sneak shortcut through the project will be one of the special moments. There's a small passage between Building 2 and Building 12 that will be an accessible route of discovery. The space between Building 2 and D is at the center, another passage. That network and being able to meander through and not just on main streets is going to be a special aspect of the project. At the same time, the streets are also the familiar way of walking, navigating.

The Forest City team is developing all of the streets. 21st Street and Louisiana that skirt the Orton site will be built as part of the Forest City project and making sure it's all connected. Thirdly, we have seen the Pier 70 site as a mosaic, all the different spaces, the courtyards and park spaces.

One of the ideas that we have developed a collection of furnishing attractions within the parks is that we're trying to create multiple stages for activity. The Market Square is an activity space for the Building 12 programs to extend out as well as any community events.

You can see it's relatively commensurate or about half the size of the piazza. The piazza is more wide and open, but it has a different function. The programs that are using those buildings are going to be occupying that space.

As a collective, I think there's a lot of strength. You have some big open spaces. You have some that have some trees that make more intimacy. We have a lot of furnishing and big social elements that bring people together. The collective works together especially given all different ways that you can navigate and connect through the site. This whole notion of a labyrinth and meander, the streets being the main way of connecting through and stitching it all together so it feels like one place but then building on the richness that each place that you find can offer something a little different, different scales, different opportunities for experience.

Commissioner Makras – I want to echo Commissioner Gilman's comments. I'm just delighted what we're doing with this space that really gives the public the maximum upfront. The developer should be commended for that. It's usually the opposite. They want to do something that brings in a lot of money fast to help make the project work. They are giving the community everything upfront and that's wonderful to see. Congratulations.

Commissioner Adams - Very thoughtful, very meticulous work, great presentation. I'm in support. Thank you.

Commissioner Brandon - David and Richard, thank you so much for a great presentation. I want to echo my fellow commissioners and commend Forest City and the team for putting so much thought into the open-space piece of this project and doing it in the beginning in the first phase, which is absolutely wonderful. We look forward to you coming back with phase two and phase three. You've put a lot of thought into this. I really like the design.

ACTION: Port Commissioner Adams moved approval; Port Commissioner Gilman seconded the motion. All of the Commissioners were in favor. Resolution No. 18-32 was adopted.

11. ENGINEERING

- A. Request authorization to execute a modification to Construction Contract No. 2740, Crane Cove Park Surcharge and Site Preparation Project, to increase the contract scope and amount by the sum of \$272,277 and to extend the substantial completion date. (Resolution No. 18-33)

Steven Reel - Welcome, Commissioner Gilman and Commissioner Makras. I'm the project manager in the engineering division. This item is to request authorization to execute a final contract change order to construction contract 2740, Crane Cove Park surcharge and site preparation. With me today are representatives of Shimmick Construction, Mr. Trace Porter, the executive sponsor, and Mr. Chad Hummel, the project manager, who are available for questions if needed.

Crane Cove Park will be a major new open space in the Union Ironworks National Historic District at Pier 70. The project includes the seven-acre park, the new 19th Street and Georgia roadways, renovation of building 49 and a new 19th Street parking lot.

Planning work started in 2010, design work in 2011 and construction in November of 2016. Opening is anticipated for December of 2019. The overall budget is \$36.7 million; 25.9 million is from the 2008 and 2012 Clean and Safe Neighborhood Parks general obligation bonds.

At the end of my presentation, I will provide a status update on the overall project. Contract 2740, the subject of this item is the first of five construction contracts that will deliver the overall project. A budget of \$5.66 million was established for this contract, all funded from the 2008 parks general obligation bond.

The purpose is to prepare the site of the former shipyard for the park. Contract scope includes building demolition, site cleanup and demolition of miscellaneous site structures, utility shutoff and decommissioning, importing fill and constructing the permanent embankment for the future 19th Street, surcharging portions of the site to pre-consolidate and strengthen the underlying bay-mud and weak-fill soils, dismantling and storing the historic cranes and constructing new crane foundations and anchoring the gantry towers.

Bids for the contract were opened on August 31, 2016. Shimmick Construction was the low bidder coming in at \$4,110,000, \$1,550,000 below the engineer's estimate and \$1,017,000 below the second lowest bidder.

The commission awarded the contract on September 13, 2016. A notice to proceed was issued on November 16, 2016. This photo is from the site kickoff meeting, which was a monumental day for the project.

The Port hired the San Francisco Public Works to provide construction management and site inspection services. AECOM, the designer, provided design-support services. Port engineering and planning divisions provided oversight and project management.

Change orders are part of every construction project. During construction, staff issued three change orders for additional work totaling \$407,516.69. In addition, staff has negotiated a proposed fourth and final change order for additional work in the amount of \$272,276.74 bringing the proposed final contract total to \$4,789,793.43, or 116.5 percent of the original contract amount and extending the duration from 181 days to 350 days.

Each of the change orders contains multiple proposed change-order items that were identified as additional and necessary work. The scope and estimated amount of each proposed change order was agreed upon.

The work was completed by the contractor and monitored by Public Works inspectors. The final amounts were verified by Public Works construction management team and by Port staff.

The reasons for change orders include: unforeseen conditions at 9.73 percent, design errors and omissions at 3.9 percent, Port requests for additional work at nearly 4 percent and quantity adjustments at a negative 1 percent.

The site was a former shipyard for over 100 years. Existing records were sparse. Unforeseen conditions were not unexpected. But it was surprising just how much was different when we started scraping the surface. Examples include: the discovery of rail, asphalt and concrete slabs that were covered by soil and gravel requiring demolition prior to mobilizing drain equipment that you can see in this photograph and subsequent import of additional soil to backfill the area; discovery of unusually thick concrete slabs up to six-feet thick in the slipway area during demolition, which required additional demolition effort, disposal and import and placement of soil to fill the areas; existing pile-supported crane runway structures that did not match the record drawings and necessitated redesign of the new crane foundations including additional reinforcing and concrete.

In this case, expensive drilling equipment was on the way to the site. The team completed the additional demo and redesign work quickly to avoid costly standby time and to allow the drilled-pier installation to proceed without additional costs.

All contracts have some amount of design errors and omissions. Costs are controlled when the team comes together quickly to find appropriate solutions

and allow work to move ahead. While 3.9 percent for E&O is toward the higher end of industry standards, AECOM did step up and resolve issues quickly and effectively.

Port staff requested additional work totaling almost 4 percent including importing and placing additional fill and a gravel berm for shoreline protection and improved site protection stabilization measures that became necessary due to the unsuccessful bid of contract two in late August of 2017.

To summarize, the approved and proposed change order amounts are for the work that staff deemed was necessary and additional to the contract. Work has been completed. Time and materials have been verified by Public Works construction management staff and documented to the satisfaction of Port staff.

The overall proposed contract amount is within the established budget at \$870,266 below the engineer's estimate and \$337,207 below the second lowest bidder, representing a good value and outcome for this contract. In addition, staff is requesting an additional 169 days in contract duration for the extra work. The extra work was necessary and effectively managed to minimize time impacts. Therefore, liquidated damages are not warranted.

In addition, the extra time is not impacting park delivery because of the delay caused by the failed bid for contract two. The proposed final contract local business enterprise participation with this change order will be 30.05 percent versus the contract monitoring division goal established of 24 percent and the original contract participation of 24.47 percent.

This is a good outcome and supports our livability strategic goal of increasing the proportion of funds spent with LBE firms. Also of note is that women-business-owned enterprises account for the bulk of local business enterprise subcontractor work.

In conclusion, Port staff request authorization to execute a final change order modification to construction contract number 2740, Crane Cove Park surcharge and site preparation project to increase the contract scope and amount by the sum of \$272,277, to extend the substantial completion date from 181 calendar days to 350 calendar days and to increase the time limit for final completion of the contract to a maximum of 60 days after adoption of the proposed resolution should you adopt it.

The commission expressed interest in a comparison of Crane Cove Park costs versus other park projects. This comparison shows the overall budget for Crane Cove Park is approximately \$4.3 million per acre compared to a low of \$1.5 million and a high of \$20.2 million per acre for other Port and city parks.

The total soft costs are estimated at 19 percent, which is on the low end of the 15 to 31 percent range for other parks. In response to the failed bid of contract two last August, we have moved forward by simplifying the contract, by

separating out Building 49 into its own contract, eliminating bid alternates for restoration of the cranes, restoration of utility racks and installation of the playgrounds and value engineered the design of the entry plaza, 19th Street gardens and landscaping.

In addition, we've embarked on a broad outreach campaign both calling and emailing prospective bidders both prime and subcontractors. The revised contract two is now advertised. It was advertised on May 15, 2018.

The engineer's estimate is \$17,543,000. A pre-bid meeting is scheduled on Thursday, May 24th at the San Francisco Public Utilities Commission Contractors Assistance Center in Hunters Point. Bids are due in early June. we are expecting award at the commission in July. Contract three, Building 49 and Crane Tower has met abatement, will be advertised next month. Contract four, Building 49 improvements, we are finalizing the design with bidding anticipated in July of 2018.

Contract five, 19th Street and Georgia Street, we are finalizing design with bidding anticipated this winter. Finally, we've hired a new project manager, Erica Peterson, who will take over as project manager for Crane Cove and give the project the time it needs as I transition onto to the seawall program full time.

Corinne Woods - I've been involved in the Pier 70 project for a long time. Dating back 2006, I've been working with David Beaupre on implementing Mayor Newsom's Blue Greenway vision. The Crane Cove Park is a really important piece of the Blue Greenway. It not only gives us a pedestrian and bicycle connection along the waterfront from Mission Bay parks to the main park in Pier 70 on down to the Potrero power plant site. But it also gives us one of very few water access points for human-powered boats. Most of the waterfront down there is too rough or too turbulent to encourage human-powered boating. We have it in Mission Creek. We've got it right at Pier 52.

This is a really wonderful, protected area. The fact that we're doing so much to encourage water access may be why it's a little more expensive. The dirt under the water is probably not terribly clean like it is everywhere else. Staff has done a tremendous job in controlling costs and getting this project done. I encourage you to support it all the way because it is a critical piece of Pier 70. It's a critical piece to the Blue Greenway. Thank you.

Bo Barnes - I'm the president of Kayaks Unlimited, the steward for the Islais Creek Park location on the San Francisco Bay Water Trail. Until this park is built, we're the gem of the water trail in the San Francisco area. The GGNRA took upon themselves to make a world-class area at Crissy Field. I'm a water man. I'm also a wind surfer but mainly a kayaker now.

I've been going to meetings since 2006. It's been a long time. It's so close. I'm just excited. The location, as Corinne said, is the key. As GGNRA realized that Crissy Field was a world-class wind area, this is just the opposite. This is a

world-class, protected, safe area for new boaters, instruction for boaters whether they're dragon boaters, outrigger canoers, kayaks -- this is the place. This will be the gem of Northern California just as Mission Bay in San Diego is the gem for down south. This is an exciting thing. I would hope that David and company has a good thing going. They'll keep the cost within your realm.

May Aguiar - I serve as the southeast area manager for the San Francisco Parks Alliance. I'm here today to speak in support of Crane Cove Park because, besides bringing much needed open space for the Dogpatch neighborhood and the future Pier 70 neighborhood, Crane Cove Park also will replace a fenced-off and inaccessible area with direct connection to the public with the waterfront.

While our organization shares concerns with the increased costs and your desire to see this important project finalized, we also recognize that construction costs have escalated over the past few years. This has been seen all over city agencies. For instance, the recreation parks department reports that bids exceed estimates by 20 to 40 percent. The construction costs of a park restroom alone doubled the price since 2011. For too long, the city's southeastern waterfront has been disconnected from the public with a lack of pedestrian access and trail connectivity.

Crane Cove Park will address these issues and bring us a step closer to the realization of the software Blue Greenway. I know that this has been a very long process but we should keep in mind that we are just a year away from completion. It's fundamental that the elements and vision by the Dogpatch community are fully incorporated to this project.

Commissioner Woo Ho - I think that we are all and have always been very much in favor of Crane Cove Park. It is a unique location. We do understand its value and importance not only to the existing neighborhood but obviously what's going to change and happen at Pier 70 and with the Orton Development.

The questions have been raised not just with this change order, which I understand the explanation in terms of unforeseen circumstances. But we're seeing that there will be at least another four contracts being awarded to complete the park.

We, as the commissioners, do have some sense of responsibility to make sure that the balance of what we get in terms of the cost versus the benefit. We do understand the benefit. We are totally in support of it and that we have to be very careful because this is an open space.

There's no revenue to be generated so there's no payback for us. We have to be very careful of our investment. and I hear what the gentleman and what Penny had to say in terms of the uniqueness of this park in providing water recreation. But I would ask the staff to look very carefully and not at just the contract that we're looking at today but all the other contracts. Are we asking for perfection in

that park or can we find a good balance that helps us to also maintain our fiscal responsibility here to keep our expenses under control?

It's not just a question of what has happened with construction costs in the city. It probably is related to the design of what we want in that park. We have to figure out a good balance. I wouldn't want to give up and just say let's just accept that costs have gone up, and that's what it's going to cost us because \$36 million, as we saw in the comparisons already, the highest amount that we're spending on any single park in the Port system.

This is not the end. David or Steven, do you have any idea what the total cost of this is going to be? While we haven't awarded those contracts, do we have any idea of what the total will be?

Steven Reel - Well, we're managing right to the budget.

Commissioner Woo Ho - You're managing to the budget on this so far but you have more contracts.

Steven Reel – It's \$36.7 million. The amount we had set aside for this contract we're going to come in under. So we'll have a little bit extra. Contract two, our bids came in much higher. That was a failed bid.

Commissioner Woo Ho - That's right. I recall.

Steven Reel - The proof going forward is going to be what happens with the rebid of contract two that's on the street right now. We took two measures that we think are important. One, we think there was some savings in the design. So we did some value engineering of the park particularly around the plaza.

Two, we did not get enough bidders. We did not get competition on that first bid. There were no serious bidders. We need serious bidders in order to come in close to our estimate.

We're hoping that we attract three, four, five bidders that are going after this project. We've simplified it in hopes of getting that. In terms of what will we spend when we're done, I expect that we'll spend our full allotment for the project.

Commissioner Woo Ho - What I'm saying is have we looked at the value of the design to make sure that, while we're hoping to meet all of our objectives in terms of open space and providing recreational access to water, etc. which we all are in support of but it's a question of how we do it. We have lots of excellent input from the community and our own team in terms of making sure that we're doing it in the most economical way.

David Beaupre - We did some value engineering to the design of the plaza, which hopefully will bring the cost down. In recognizing that we aren't able to get

everything else we wanted, we've eliminated certain items from the design and bid package as well. We are cutting back where we can. I also just want to reinforce that the \$36 million is a large budget. It is a large investment in the park but we're delivering more than just a park. We're delivering two new roadways, 19th and Georgia Street, which provide access to the shipyard operations, provide better connectivity to Forest City, provide better connectivity for Orton. There's two new roadways as a part of that project. We're building a new parking lot to support the needs of Pier 70 in the parking area. So while we always call it a park, it's important to recognize that there's a roadway. There's a parking lot. We're also doing some remedial work in the shoreline, a sediment cap.

Commissioner Makras - I'm supportive of it.

Commissioner Gilman - I had one quick question as a new commissioner. Is there a risk because you are re-putting out bid two? I heard what you said but as someone who is in residential construction, we're all having a hard time getting folks to bid on things. Everyone is at capacity. Is there a risk the project could stall or not move forward if you don't get what you're looking for in bid two?

Steven Reel - There is certainly a risk. It's a tough bidding climate. There are certain trades that are really difficult. Those are centered around the building industry for the most part. We have a better shot at heavy civil and park construction than building construction right now.

When we put contract two out the first time, we did not get competitive bidding. I think it was not perhaps the right mix of work. There was a lot of risk. Contractors looked at this project. They said, this is messy, a lot of different subs. There's a lot of risk there. I don't need to do this right now. I have plenty of other work. By simplifying that package, we got rid of the alternates. We know we can't afford to do the cranes right now. That's a unique sub. We took Building 49 out. That will be its own package hopefully that a building contractor would bid on, not a heavy civil. We think that mix gives us the best opportunity we can to get competitive bidding and to be able to award this contract. But there's certainly a risk. It's a tough climate.

Commissioner Gilman - Thank you so much. I wanted to make sure we stay within budget, as my fellow commissioner said, but also that we live up to the commitment we've made to this community to see this come to fruition and be a waterway access.

Commissioner Adams - Steven and David, I like this presentation. I appreciate the questions of my fellow commissioners. I'm in support of it. The main thing for me is that this is going to provide a better quality of life for the citizens of San Francisco. They're the ones that are the shareholders of this commission and of this Port. I am in support of that. I know we're staying on budget. Sometimes, things go a little bit of that, but I'm really looking forward to the final product.

As a city and for the citizens of San Francisco, we'll all gain. I want to thank the public, Corinne and others, for coming out and speaking on that issue. I really like it when you engage the community, take the time from your busy schedule to come out here and talk to us and tell us what you're thinking. Corinne, it doesn't matter if it's something that you support, if it's something that's good for this city or whatever, you come out and support it. We love for you to continue to be the conscience of this commission. Thank you.

Commissioner Brandon - David and Steven, thank you so much for this presentation. This is a large project. I am in full support of this park being built. I'm not quite sure I'm totally committed to how we're building it and the cost that it's taking to build and that the price keeps going up. It does keep going up. I know you say we have a \$36.7 million budget, but we don't have \$36.7 million in funding. We don't necessarily have to spend that amount if we don't have to. This might be a perfect time with two new commissioners to get an update on the project to just see what it is we're spending \$36.7 million on, to see the total scope of work.

I have a couple of issues. One is that we're on our fourth amendment and it's just now coming to the commission. In the future, if we get to the second amendment, most likely before the third, there needs to be some kind of update to the commission. If there's some significant change in a contract, you needed to bring it to the commission's attention instead of just keep spending and then bring it to us. Luckily, this is a small amount but this is a huge project. This is a quarter of the cost.

The other issue I have is this is yet another multimillion-dollar project on the southern waterfront with less than 2 percent going to MBEs. With these proposed amendments, it goes down to less than 1 percent. There may not be anything we can do about that legally. But every time I see it, I'm going to bring it to everyone's attention that, once again, we're at less than 1 percent contracting with MBEs. For that, I cannot support this.

Commissioner Makras - I'm going to oppose with you symbolically.

ACTION: Port Commissioner Adams moved approval; Port Commissioner Gilman seconded the motion. Three of the Commissioners were in favor; Commissioners Brandon and Makras cast the dissenting votes. Resolution No. 18-33 was adopted.

12. REAL ESTATE & DEVELOPMENT

- A. Request approval of First Amendment to Lease L-13550 with Boudin Properties, Inc., located at 160 Jefferson Street, to provide for two (2) extension options of ten (10) years each, for an aggregate term until June 30, 2065, subject to Board of Supervisors' approval. (Resolution No. 18-34)

Mike Martin, Real Estate and Development - Commissioners Brandon, Adams and Woo Ho, you've all been on a long road with us with this interesting proposal and proposition in terms of dealing with one of our highest performing tenants and our highest performing Fisherman's Wharf tenant who came to us seeking to do an extension well before the expiration date of their current lease term. That was intended for them to continue to manage their project-related debt in a way going forward that would hopefully continue to allow them to operate and perform as well as they have up to date.

This work over the several months we've worked with you allowed us to sharpen our thinking about what it is that the Port needs to get out of these relationships. How do we share in the value of conferring this kind of an extension? I wanted to thank our consultants from Seifel Consulting and C.H. Elliott and Associates who helped us drill down on what the possibilities were to grow the capital investment in this facility in addition to the state of good repair that's already required under the lease.

I want to thank our tenant, Boudin Properties. They were represented by Lou Giraud at the last meeting and Mark Briggs at this meeting for rolling up their sleeves with us and trying to think hard about what their business plans were and how they could intersect with what the Port was hoping to get out of this extension. We've created something that is a win-win for both sides. We're excited to run through that with you today again in hopes of seeing your approval of this resolution. So with that, I want to hand it over to Jay Edwards, the senior property manager for the northern waterfront. Jay has done yeoman work on this. I'm really appreciative. I'm excited to hear your reaction to the presentation today.

Jay Edwards, senior property manager - First of all, I want to congratulate the commissioners for their re-appointment and to welcome Commissioner Makras and Commissioner Gilman. I look forward to working with you closely.

We'd like to congratulate Boudin for being the oldest continuous operating business in San Francisco. That's quite a legacy. We are very proud to have them as one of our marquee tenants in the Fisherman's Wharf area. They are a tremendous driver of visitors, locals that come to participate in their facility that was constructed in 2005. It's a two-story new building that houses a ground floor café, a retail center. There's a demonstration bakery, a bakery that actually produces wholesale goods for the entire San Francisco. Boudin Bistro is located upstairs. It is a full-service restaurant with a banquet area. There's also a historical museum. It's quite a lively facility. It's multi-purpose. It's really been a big draw for San Franciscans and visitors.

In 2005, they invested about \$30 million. This was not an inexpensive venture. It showcased their talents there at a multi-use facility. They made quite an investment into this property. They've continued to make additional investments as time has progressed. When they opened up, they were roughly at \$13 million.

Within a little over 10 years, they've doubled their sales to almost \$27 million. So by all accounts, they're extremely successful at what they've done.

They have a really good pulse for what happens in the wharf. It's a type of experience people do enjoy when they come to the wharf. Out of that \$27 million, the Port earns \$1.6 million which mostly is comprised through the percentage rent. They pay us about \$500,000 of base rent. There's another million dollars in percentage rent. So their success has meant an increased revenue for the Port. We'd like to continue to see that happen.

They had a 40-year lease, which is a good, long period of time but there was no option to extend. It was a firm term and then, it would just expire. Through a lot of discussions with Boudin and their management and their ownership, they've been anxious to continue to reinvest into the property.

They are our top performer in the Fisherman's Wharf area and probably one of the top performers in the city in terms of their revenues. That \$27 million is very impressive. We have a fine roster of other tenants here. There's nothing against our other partners but they are clearly performing at an absolutely magnificent pace.

As a premise for bringing this item here to the commission, we did want to just remind commissioners of the retail leasing policy that was implemented in 2011. That gave us and our partners the foundation for being able to go ahead and try to either reinvest in their property with either an extension or through renewal with an existing tenant without having to go through a bid process. This was well within our retail leasing policy.

In terms of other policy considerations, we've been looking at how to incentivize our valued tenants to keep reinvesting in their businesses? How do we make sure that those investments are going to be revenue producing or extend the useful life of the asset? It's really been a good exercise for us and our partners to evaluate these type of opportunities.

We think we have a package that is in front of you that does both incentivize our operator, provides specific benefits to the Port and allows us to move ahead on potentially some extension options.

The proposed business term is to extend for two options of 10 years each starting in 2045 to 2055. There would be a second option contingent on the first option being exercised from 2055 to 2065. That would also allow us to continue with our base rent. It's really a good formula.

The base rent ratchets it up to 70 percent of the preceding three-year sales. Based on this success, their base rent is going to be increasing. It's going to actually be doubling. Right away, a very good benefit by a good clause that's already in the lease. What's been proposed through a lot of discussion with our consultants, with our partner Boudin, is to have a fair market value reset during

those option periods. Those would be collared between 6 and 7 percent. Their existing percentage rent is 6.5 percent on their food and beverage. The other terms would remain the same in the lease.

That lease has served us well here for the last 13 years. It's a well-put-together lease. We've had a good operating history with Boudin. In order to earn those extensions, they do have to make these investments. This is a significant investment of \$2 million before 2025. That's \$2 million into improvements that will either improve the financial performance or extend the asset value of the facility. That's for the first option.

The second option is the same. There will be a million dollars of corresponding investment during the extension term. So that's \$2 million upfront to get the option and then an additional million dollars while that option term is in effect. That's \$3 million for each option, \$6 million for these two options. They'll be in verifiable capital improvements that improve the financial performance and extend the asset's useful life.

We have a robust amendment that we put together in the last 30 days since we saw each other last. We have an amendment that outlines that and gives us very good protection before and after. In return, Boudin has agreed to increase their participation percent by 20 percent from the 10 to the 12 percent and that's participation above the adjusted basis. We feel we have a really strong business proposal here.

We had asked our consultants, Seifel and associates with Colin Elliott to look at the opportunities in conjunction with Boudin. How do we put the throughput in the output of the facility? It's now limited future growth. In some ways, we have utilized the facility to its maximum. They need to make improvements to improve the delivery and several different item areas. We've done some analysis that we'll show you that's going to generate additional income. As an example, these are potential projects that we have discussed. These are not necessarily the final projects. These are the projects that we have jointly come up with that could improve not only their ability to serve more diners but also enhance the existing experience for many of their current diners.

There were four projects that were analyzed by Seifel and Elliott associates very robustly. They've come back with these potential projects that would generate the capital investment and that would generate projected sales based on that investment.

For CEQA purposes, we really did not get into this project or that project because that would require another layer of regulatory approvals. These are things we want to keep flexible to because this is a very dynamic retail market we're in. Things are changing rapidly. We want our partner to be able to change as things progress in the next couple years. We did look at three financial scenarios on what happens if we don't proceed with this.

Scenario 1, the existing lease would run through its course. Then, we would basically have the tenant in place on an interim basis. There would be no capital investment and probably no corresponding increase in the sales and maybe even a decrease.

Scenario 1A is even a little more dire, i.e. the tenant would vacate and we'll have to find another Boudin, which is not easy to do. There would be downtime. There would be capital expense. There would be many expenses incurred by the Port. We've analyzed that scenario too.

Then, we've analyzed the proposal that we have in front of you and those are shown on these graphs. As you can see, scenario 2 is much more financially beneficial because it does allow Boudin to keep that revenue curve going upward. You see the ratcheting of the percentage rent compared to the base rent. As those sales grow, our minimum base rent grows. Our downside is protected and we benefit in the upside.

Scenario 1 shows a very flat line of revenue. The percentage rent stays even to that as well. Under this next graph, we show the scenario 1A where we would actually lose Boudin as a marquee tenant. We've estimated some actual loss of revenue because that happens quite often in that replacement period and also the ramp-up time a new tenant would need and that would even be if they could even get those existing sales numbers.

Under those three scenarios, we like scenario two for Port and its future in the long run. We did some additional value analysis, a nominal and net present value analysis. You can see it's pretty robust returns for the Port.

That brings us to our final recommendations. We've projected 30 to 35 percent net present value of the proposed lease extension at a very good return for money that our partner, Boudin, is investing. It does allow us to continue on with our good partnership and enables them to continue to make these investments in their property and serve San Francisco's locals and visitors for many years. We are going to share in those future proceeds. We've increased that amount.

I'd like to thank our city attorney, Rona Sandler, for all her good work. She started us out at scratch. It's not easy to do these agreements in 30 days. She did a wonderful job. We had very good input from Boudin's attorney, Coblentz. They are well known in the real estate industry. We've crafted a very fair amendment that allows us to both win and have our tenant continue on for many, many years.

Commissioner Gilman - I want to thank staff for the presentation. It was very informative. My understanding is that staff has been working on this for quite a while and received input from the commission at the April meeting and has been working diligently with Boudin. I'll be supportive but I want to thank you for the presentation. The diligence in positioning the Port and its asset in the best light for return on investment.

Jay Edwards - Thank you, commissioner.

Commissioner Makras - I support direct negotiations for certain leases and particularly with an anchored tenant because of the traffic and business that they bring to the neighborhood. Taking care of quality tenants in any shopping center in any region is smart business. The recommendation is smart negotiations and smart business.

Commissioner Woo Ho - We've been through many discussions. I'm very supportive of this. We've done a good job. We've ended up in a good place for both the Port and Boudin's. We look forward for them to being very successful going forward. I would like to take a visit sometime down there.

Jay Edwards - We'll arrange that.

Commissioner Adams - I want to thank the staff for continuing to go back and negotiate. In the beginning, we weren't there. I felt like a car salesman was trying to sell us on something. The more staff went back and continued and you were listening to what the commission had to say, I felt we finally got there. You guys worked as hard as you could work to get there.

I felt as a commissioner that, at some point, Lou would probably sell it. But I wanted to make sure, no matter who Lou sells it to in the future, that the Port would be protected. I think you guys have done that. To Commissioners Makras and Gilman, another concern we had was what about the rest of the leases with restaurants? When are they going to come forth and say, "Me too. Me too"? Maybe this is a blueprint for us with them and we're going to have to make some adjustments because somebody else might come and say, we know what you did for Boudin's. Scoma may ask for the same thing. This gives us a good path to go down in how to negotiate moving forward. I'm supportive.

Commissioner Brandon - Thank you. Jay, Mike, thank you so much for this presentation for the fourth time. You guys have done a great job. From where we started to where we ended, this is absolutely wonderful. Thank you so much for your patience with us and for bringing this to us.

ACTION: Port Commissioner Adams moved approval; Port Commissioner Makras seconded the motion. All of the Commissioners were in favor. Resolution No. 18-32 was adopted.

13. FINANCE & ADMINISTRATION

A. Informational Presentation on Fiscal Year (FY) 2018-19 through FY 2022-23 Capital Improvement Program.

Ananda Hirsch, capital manager with the Port's finance and administration division – I'm here to present to you on the Port's first-ever five-year capital improvement program. This is a new tool for the Port that nests within a few

other existing tools. It's a complement to the Port's capital plan which is the document that supports and guides the Port Commission's capital expenditure and investment decisions.

That document tells us where we are and what is achievable in terms of managing and enhancing the Port's capital assets. It also is a complement to the waterfront plan, which is the vision and policy document that guides where we want to go over the long term in terms of enhancing the public waterfront.

Finally, it fits in with the strategic plan which lays out how we will get there over the next five years. Historically, the Port has maintained a 10-year capital plan and a two-year budget.

This year, we've introduced the five-year capital improvement program to help us think more strategically about our program and pipeline of capital projects, acknowledging that it can take longer than two years to conceive of, design and deliver capital projects and that it's nice to see where we're going as well as what we're doing in the immediate timeframe. This is a guiding document for staff. This document identifies what would be our optimal investment in infrastructure if we had all of the resources we needed to get all of our assets into a state of good repair. It looks at how much revenue you project having and illustrates that we have a shortfall. This motivates us to think strategically about how we use our limited dollars. We see the five-year CIP helping us do that.

As this chart shows, our most recent update to the 10-year capital plan was done last year. We do that every other year. It identified a \$1 billion shortfall in our ability to meet our capital needs.

I was before the commission in February talking about our two-year capital budget. This document laid out our \$73.4 million vision for the capital projects that we will fund over the next two years. This continued a trend at the Port of investing well and more in capital. It was a 13 percent increase over the prior two-year budget. Despite that commitment, if we look to the chart at the right, you'll see that we still are unable to meet the goals laid out in the capital plan for our renewal investment.

We still need to think very strategically about what we find. That two-year capital budget as well as the five-year CIP were developed through a project-selection process that the Port has used for capital budgeting for several years now where an interdivisional team works together and uses a deliberative criteria-based approach to select projects which are then vetted with the executive director and come before the commission. That's how we got to the two-year budget.

We use that same process to select the projects in the out years of the CIP as well. As you'll see, we have big plans. The first column shows that we have \$179 million of capital projects that have already had funds appropriated and are underway. In this five-year CIP, we envision spending an additional \$578 million to advance those projects as well as a host of new projects. The big row to note

there is the citywide projects row and that captures the Mission Bay Ferry Landing Project as well as the Seawall Earthquake Resiliency Program. That's why that number is the size that it is.

The third column, the remaining needs on CIP projects, represent dollars where we have specific projects we believe are good candidates for outside funding sources that we will be pursuing. That includes things like the Heron's Head Shoreline Improvement Project as well as the Seawall Earthquake Safety Program.

If we're able to secure those funds over the next five years, the Port will advance \$874 million of capital projects. Diving into what's behind those numbers a bit -- looking at the sources and uses projected over the five-year period, you'll note that the largest source are general obligation bonds. That is thanks largely to the proposed \$425 million bond for the seawall project. If we look at the uses, you'll note that the enhancements is the largest slice of the pie. That is because the city categorizes any project that brings it above its original condition as an enhancement. That includes earthquake improvement. The seawall project is considered an enhancement under the city's approach to capital planning that's why that wedge is that large.

When we talked previously about the budget, commissioners wanted to think about how this related to what was in our capital plan. In this chart, I wanted to step back and look and see, how are we doing in terms of Port investments in capital compared to what we thought we would be able to do when we did our last 10-year plan update.

If we compare the five-year period and the expenditures of Port revenue, we are projecting being \$36 million ahead, doing better than we thought we would at the last plan we developed and that's due largely to the Port's commitment of one-time revenue sources to capital.

In the five-year period, we're anticipating one-time sources from the sale of the Ferry Building and from the affordable housing credit from the mayor's office of housing. That's largely driving that number.

There are more than 40 projects in the CIP in great detail in that document. I will not go through all of them with you but just touch on a few highlights. Years one and two were presented to the commission previously when I was here with the budget. But some highlights of those funded work includes leasing improvements for the Beltline Buildings that we can get some tenants into that space as well as some very much needed state-of-good-repair work such as improvements to the sewer system serving the Amador Street tenants as well as repaving that street that gets a lot of heavy truck use.

We also are funding the Port's first project management office. As I noted, we had a continued commitment to investing in capital. We've been very fiscally constrained and not added staff as we've added those funds. This year, with

some help from consultants, we recognized that some additional staffing resources would be key to helping deliver all of these projects that we're funding.

Looking ahead to the out years of the CIP in years three and five, we see continued leasing improvements such as work to the HVAC system at Roundhouse 2 as well as a host of state-of-good-repair improvements to roofs, continuing to have Port crews available to repair substructures throughout the Port as well as enhancements.

The CIP anticipates there will be a new general obligation bond for parks that will again include waterfront parks, enabling us to continue to expand our open space and the Blue Greenway.

Just throwing in a brief project update because we did discuss the southern waterfront pile removal when I was here previously talking about the budget -- wanted to share a couple of photos from the crews. Port crews have commenced taking out piles from Islais Creek at the end of April. Since then, they've removed more than 200 piles. They anticipate being finished on the south side of the creek by mid-June. The crews will be shifting back to spending more time on Pier 92 and the apron repair there. They will be intermittently continuing this work and anticipate that all of the piles will be out of Islais Creek by the end of the year. That was a bit of good news.

Finishing off with a visual representation of where the projects are anticipated across the Port over the next five years, you'll note that the largest category are Port-wide projects and that includes things such as the Seawall Earthquake Safety Program as well as the pile removal crews who will do work at multiple locations across the waterfront.

Again, this is a guiding document for staff. It's not a new funding commitment by the commission. We've already discussed, and you've already approved the two-year capital budget. We're here today really to solicit any public comment or commission feedback so that we can integrate it into this document.

We'll make any final changes we need to as the budget goes through the rest of the city process. Then, we will have a finished report that will be available to the public online. We will have some limited print copies that will be available to Port commissioners.

Commissioner Woo Ho - Thank you, Ananda. This is great that you have developed this so that we don't have just the two and the 10 year and that we have something to bridge. This also gives you a great chance. I thank you for of thinking through and making this presentation which is easier to even understand than the written report. I think that's very important.

In terms of one of our charts on the sources and uses, you mentioned the Port harbor funds were roughly 21.8 percent. I understand the categories in the

general obligation bonds. We're assuming that because we don't have all those bonds in place yet. This is assuming what's going on the ballot. Is that correct?

Ananda Hirsch - That is correct. It assumes sort of reasonably expected funds. It does include that bond.

Commissioner Woo Ho - It's not what we have at this point but what we're assuming going forward.

Ananda Hirsch - We believe that it is likely enough that we should plan for it.

Commissioner Woo Ho - On the out years on the next page where you have Port investment exceeding projects, we are not going to be doing that much better. We had some excess capital that came out that we were able to reinvest. But it looks like your trend line is not showing that's going to be very strong going forward in the projection you're showing us or the forecast that you're showing us right now. Is that correct? I'm misreading this actual investment greater than projection -- you're going to some investment greater. In terms of all the other things that are sitting in the pipeline, in some cases, we actually found some extra projects that we were able to fund more than you projected. But we don't have that leeway, it looks like, in this projection going forward. Am I reading that correctly?

Elaine Forbes – Yes, that's what staff is projecting at this point. In the prior couple of years, we've had a lot of one-time sources. Ananda pointed out that we have a policy to spend one-time sources on capital. We've done supplemental appropriations to spend more of capital money than we'd anticipated. At this point, we don't show those kinds of trends. We show tightening and constraint in the forecast. Meghan Wallace's presentation is going to speak more in depth to that.

Commissioner Woo Ho - We have to keep thinking because we're not showing anything that's naturally coming up as an unexpected source so the pressure remains.

Ananda Hirsch - Indeed.

Commissioner Woo Ho - You're still sitting in a pressure cooker but thank you very much for the report. It's good to see this periodically, so we know where we're headed and where the pressures are. It has to be tied with what Meghan is going to tell us in a minute.

Commissioner Gilman - I just want to say thank you for the report.

Commissioner Adams - On page 11, you talked about the geographic distribution of investments. I guess what it's saying is the southern waterfront and northern waterfront are going to be the two biggest.

Ananda Hirsch - Yes.

Commissioner Brandon - Ananda, thank you so much for this report. This is exciting. If we can fund almost a billion dollars of projects in the next five years, that would be incredible. That would be absolutely wonderful. I'm happy that we are going to have a project management office and a team to manage all of our projects. That'll be a great addition. It was so wonderful to see the piles removed. Thank you so much for this presentation.

B. Informational Presentation on Trends and Implications of the Port's Audited Financial Statements and Future Financial Projections.

Meghan Wallace, the finance and procurement manager at the Port - I'm here today to provide staff analysis on the Port's financial performance. I was last before you in February when I presented on the proposed budgets for Fiscal years 2018-19 and '19-20. While the budget story at that time was largely positive with growing revenues, controlled expenses, large investments in capital, Commissioner Woo Ho requested that we try to take the financial statement perspective of applying the income statement and balance sheet lenses to our forecast over the coming two years.

Today, I'm going to try to provide that vantage point. In that effort, I'm going to cover four key areas. First, I'm going to look at five years of historic financial performance comparing fiscal years 2013 through 2017 from our audited financial statements. I will provide an overview of the Port's financial projections for the current year and the next two fiscal years as proposed in the budget. As part of that outlook, I'll look at major risks and opportunities that the various business lines within the Port are keeping a close eye on.

Finally, I want to go over some key strategies that staff is keeping in mind in thinking about ways that we can continue to improve our financial outlook. In this discussion, it's important to note that this conversation is tied to the stability goal within the Port's strategic plan. It is the foundation for the five other goals within the strategic plan.

By taking measures to protect the Port in the event of unforeseen circumstances and maximizing our resources, we're making sure that the Port is supporting efforts to address these other strategic efforts, notably the renewal goal at the end in line with Ananda's presentation.

First, I want to provide the historical review. Before I go into those trends, I want to note that the Port's financial statements are audited annually. They are historical in nature and provide the means to look back at the Port's financial position and the annual operations that change that financial position in any given year. The most recent audit was covered for the years of June 30, 2017 as well as 2016. Our auditors issued a clean opinion on our financial statements.

Commissioner Woo Ho - And this is accrual accounting, which is not what you normally are tracking which is cash accounting.

Meghan Wallace - That's right. This is a new ballgame for me. It was a good lesson for budget manager. Looking at the change in position over the last five years, looking back at 2013, this chart can help show -- the green portions of the columns indicate the net position at the beginning of the fiscal year whereas the blue portions represent the change in that net position that year. The orange line represents the position at the end of the year. You can see the trends by looking at that orange line. Between 2013 and 2017, the Port's net position did increase by \$27 million over that period of time.

Four out of those five years actually showed positive trends. 2015 notably was a year that the Governmental Accounting Standards Board, or GASB, required San Francisco to reflect liabilities related to employee pensions and post-employment retirement benefits. That had a major impact on our net position that year. But by 2016, the Port actually recovered very much primarily because of GO bond proceeds that we received for our parks. That was the year that we had some large expenditures related to Crane Cove Park.

We were able to use bond proceeds to improve that asset so that ultimately moved our position up. But by 2017, there was very little change in our net position. This chart shows the drivers behind the annual change in any given year. As I noted, while the Port's net position grew by over \$27 million in that five-year period, that change varied year over year.

Some key trends that went through there was growth in operating expenses so that's something that's not new. We've talked a lot about that, about how operating costs grow over time. However, that was paired with sources so both operating revenues as well as non-operating revenues. While our operating revenues grew steadily over that five-year period, something that our financial statements reflected that I wouldn't necessarily record on the budgetary basis was these non-operating sources or grants and contributions to capital that have a little bit more of a lumpy effect over time.

As I noted, in 2016, that was the year that we caught up in our net position. There's a nice, significant gap between our operating expenses and our sources. That gap represents that increase to our net position. But by 2017, our expenses have caught up. This is the reverse effect where we are seeing those revenues and sources align. They're much closer, whereas we're striving for more of a gap. We want to see more net sources to help move us forward.

Commissioner Woo Ho – Or said another way, your revenues are growing slower than your expenses, which is not a good trend.

Meghan Wallace - That's right. We're seeing that by 2017. Looking ahead, I applied the same methodology, the same structure in the forecast as I did in the historic figures. What we're seeing looking forward is that the net position is

projected to decline within this period. I was looking at the current year and the two budget years so applying that budget-year perspective to the financial statements. We're projecting a \$25 million decrease in our net position. This annual decline is driven by growth in operating expenses, applying depreciation and applying liabilities related to pensions and post-employment benefits.

I will note that this includes funding sources from the seawall and the Mission Bay Ferry Landing project. However, those are held neutral in this projection because we have sources and uses. So they don't hurt or benefit this outlook.

By 2020, the perspective gets a little bit better. You can see that little orange bump up in the last column. That indicates growth in our net position. But as you'll see in the next slide, it's largely due to non-operating sources that we expect to flow in.

So here in this chart, you can see again the orange line represents sources that we're assuming in our forecast whereas the green represents expenses. You can see that, in 2018 and 2019, we're actually expecting to see declines in our net position where expenses are growing at a faster rate than sources. But by 2020, we have a bump up where we have more sources than uses because we're expecting to have GO bond proceeds flow into the Port and because we're able to capitalize those expenses, it feels like a benefit.

It is actually growing our net position at that time. Overall, because of the years 2017 through 2019 where we're falling behind a bit, where expenses are growing at a faster rate than the sources that we have in those years, you would see a reduction in our overall net position in those years.

Risks and opportunities -- I want to highlight that I worked closely with maritime and real estate staff, tried to pick their brains about what are they seeing as risks and opportunities.

We see that those really are a risk from a financial statement perspective. Even though the budget does not reflect the pension liabilities and the post-employment -- post-retirement benefits the same way the financial statements do, we're seeing GASB require governments to roll these liabilities into our forecast.

We're expecting some more changes to come through and they won't be smooth. They're expected to be lumpy. Some years will feel harder than others. From a forecast level, I can't predict when that will happen but I would see that as an impact to our net position.

Meghan Wallace - The recession is, of course, the other big unknown. When will it come? As I covered in the budget presentation, we're expecting it. We have had nine years of growth. This is one of the longest periods of economic expansion in history. Everybody in the city is looking for signs of an economic

slowdown. I'll talk about that and looking at how a recession would impact various business lines within the Port.

Starting with the good news first, we are projecting growth in our cargo business. Pier 80 is doing very well. Over the last two years, it's doubled in business but there's still opportunity out there.

Maritime staff and Pasha are working very closely together to expand business at Piers 80 as well as 94 and 96. There is opportunity there that could further improve our forecast for cargo. That being said, during a recession, there would be contracting demands for automobiles as well as dry goods, aggregate materials that come through our Port that supports the construction industry. If there is contraction there, we would likely feel some decline in our own revenues.

Cruise - In the long term, we are seeing growth in the size of ships that are being built and we're trying to prepare for those to come. Within this two-year window however, we believe that they're already booking. We feel reasonably comfortable with our current estimates of passengers and cruise calls. A recession is the thing that would change our outlook at this point.

During the last recession, there was a decline in the number of passengers that were booking trips. We may get a similar number of cruise calls if the cruise lines can't adjust their schedules based upon demand. But our reliance on the passenger facility charge would certainly draw down revenues for the Port. The upside is that, if the number of cruise calls were to decline in the event of a recession, there would be more opportunities and time availability for special events. It's nice to know that we potentially have that as an additional revenue stream in the event of a downturn. Just hope that people are continuing to book events.

Lastly, for maritime ship repair, with the RFP that's out on the street, we're all really hopeful that we'll get a new operator in there and be able to cover the operating expenses that we, as the Port, are currently covering to keep the facility in a steady state, keep it open or at least in keeping people employed, all these good things. But if an operator doesn't come online, we have to look hard at what those costs are and how the Port is going to move to figure out ongoing maintenance needs like security as well as capital needs out of that facility.

For real estate, percentage rents are one of the first obvious things that you could see flex in the event of a recession. As people are potentially going out less, spending less money, that those leases that we have both on the retail and restaurant side but also on the parking side could generate lower revenues for the Port.

This is a risk for us. Additionally, delayed leases is a risk from the budgetary's perspective. We did assume that there would be new leases coming online over the next two fiscal years to support our revenue projections in the budget. If we

don't get those facilities online and leased out on time, we could see ourselves falling short of our targets. Additionally in the budget, we are assuming two one-time sources, as Ananda mentioned in the prior item.

We have \$15 million assumed in each fiscal year. There's a potential upside and a downside there. They could come in higher than we had estimated. But they could also not happen or come in lower. We are keeping a watchful eye on how those two items progress.

Lastly, for parameter rents, real estate does believe that the market would support an increase to our parameter rents and that, would improve our financial outlook in the next two years.

We talked about mitigating risks and enhancing opportunities. Controlling our operating expenses is the more obvious thing that we can do within our budget. But it's a difficult balancing act that we play at the Port because we have growing demands, services that we're trying to provide. We need people and contracts. We need to spend money in order to deliver those things.

We work hard to control our operating costs. Nonetheless since 2014-15, the budget has grown by 47 percent. We have been controlling our costs because half of that growth has been absorbed by our designation to capital. We started off in our first year with just over \$5 million of net revenues appropriated in the budget as being reserved for capital. Now, in the proposed budgets, we're looking at over \$20 million. We are trying to control those costs not only to prioritize capital but to protect ourselves in the event of an economic downturn.

We aren't adding tons of FTEs to our budget, entering into long-term contracts that bind us in the event of needing to contract and adapt to changing times. In terms of our budget and the forecast for expenditures, some big expenses that we are building in that are strategic in nature are getting the CEQA approval for the Waterfront Land Use Plan, having one year of shipyard operations covered and investing in IT systems.

One thing that we haven't talked a lot with the commission and staff about is a nexus study that we're performing to look at the Port's contributions payments through interdepartmental work orders, making sure that we're paying our fair share, not overpaying and aligning our payments to the level of services that we're getting out of those agreements with other departments.

S&P has just recently determined an A rating for the Port's credit ratings and with a stable outlook. Fitch already made this assessment earlier in the year. One of the great things that the Port has going for itself that supported those ratings is the diversity of our revenue. Even though we talk about risk in the event of an economic downturn, the number of business lines that could be affected -- it's also the diversity of those business lines that make us strong, that they will be impacted in different ways. It allows us to adapt in the event of an economic downturn or having any one business line fall out of business.

Port staff knows that we already have good diversity in our revenues. But we want to continue to do more. We are actively talking about how can we get more money from business lines that we already have. Where else should we be looking to generate more revenue? Or in the case of fees for services that we provide, how do we make sure that we're recovering our costs?

Maximize external funding is something that we've talked a lot about over the years. In the terms of the CIP and the 10-year capital plan, we all know that having external funding is critical to be able to deliver particularly enhancements to the waterfront.

To the extent that we treat the seawall program as an enhancement as opposed to state of good repair, this chart helps show that we are seeking external funds to deliver those programs that the Port on its own cannot both address our renewal needs and state of good repair of our facilities and take care of enhancements.

Mission Bay Ferry Landing is another great example where we're actively pursuing external funds to be able to deliver that project. We have a lot of good examples of that. I already noted the seawall and the Mission Bay Ferry Landing Project where we are looking for external funds. We've had a lot of great success with delivering renewal projects. The Pier 70 historic core and waterfront site -- \$200 million is being addressed in renewal. State of good repair is being addressed through those projects.

The Exploratorium -- I didn't quite have the number to include it in the presentation. But between state of good repair and enhancements, \$200 million was being invested into that location.

The next stage of this is the RFI that we are trying to put out for 13 historic piers along the waterfront. Finance staff evaluated the positive impact that improvement of those facilities could have on the 10-year capital plan -- \$300 million that we could potentially address through that work and that's real opportunity. We haven't talked about that before how that could roll through and greatly shift our forecast in the capital plan. A real critical strategy is not just getting other people's money into our facilities but pairing that with an ongoing revenue stream.

I know that the Port Commission has pushed staff to do that when we're looking at Forest City and Mission Rock projects. We need to continue to do that for all of these opportunities.

Lastly, I want to touch upon prioritization of capital delivery. We've talked about this real strong effort to put money into our capital program. With a strong economy, one-time sources, the designation to capital, our investments in the capital budget have grown. But we didn't staff up and put the resources in place. There are other unknowns such as timing of permitting that have delayed our delivery of projects.

What this chart shows is from our balance sheet. Our assets have grown over time. But the orange indicates current and other assets, which is where our cash balances reside and that has been accumulating. We need to make sure that we're converting that money into investments in our assets so that we're preserving our existing revenues as well as expanding.

Project management office - we've talked about that as critical to be able to turn over more projects each year. Thinking about different contracting tools that make sure that we're maximizing our dollar as well as time, trying to do things quickly and as cost effectively as possible.

The public/private partnerships are an example of how you can do that by partnering with developers and tenants to try to deliver larger projects. They potentially can turn around a lot more than the Port could do on its own.

In conclusion, this was a good lesson for me. The budget and financial statements clearly do show different outlooks. It's an important exercise to have gone through, recognizing the cash versus non-cash liabilities and in a lot of ways, they're aligned. But there are things that we need to keep a close eye on the non-cash basis as well. We are doing things to implement our financial strategies with the project management office, nexus study, RFI.

In closing, I want to note that this was a shorter exercise. It was looking at two years ahead. But this winter, I will be coming back with a five-year financial plan that will be doing a deeper dive in the different business lines looking at our future leasing. I'll continue to apply some of these principles from our financial statements.

Commissioner Adams - I really appreciate that. Sometimes we have to have these come to Jesus meeting whenever we talk about the finances and where we're going. It's like a portfolio that we have. We have strengths. Then, we have weaknesses. That's why you don't put all your eggs in one basket. I'll just throw out a couple things. Like on the cruise business, I believe that we've been growing every year. But I think we're still maybe another five or six years away. I'd like to see us get up to a million. I think maybe we did 300,000. But it's going to take time with the cruise business.

I don't know what's going to happen with the shipyard. I'm not sure Pasha has grown as fast as we thought they were going to grow. We've had to have patience. But we've had to have strength in real estate and partnerships like we do at Forest City and Orton.

At some point, we might have to look at maritime and maybe go in a different direction and looking at how we change and maybe how we improve as we monitor it. I don't think it's ever going to be as strong as real estate. But we want that maritime component. I think it's really important. We have to be honest with

ourselves. We may have to realign or find a different direction to go to boost and how we reorganize maritime and how to put it into perspective.

It's sobering when you hear everything but I'm confident, and I also realize that we don't have the luxury of Seattle. They have the port and the airport. They get revenue from the airport. Portland has that, and so does the Port of Oakland. We're a very small boutique port. We're doing the best we can with what we've got. I understand that because I know Commissioner Woo Ho and Commissioner Brandon, they're numbers people.

I think we can make some progress. I realize that it's going to take a little longer in some areas but I'm confident we will get through that. We have to update our piers, spending billions of dollars to take on this seawall. We've got some challenges ahead of us. We've got some good times ahead of us too. I'm very realistic about that. Thank you for the presentation. It's a lot to digest but we're going to be okay. I've got that feeling. We'll work through those.

Commissioner Gilman - As the newest kid on the block, it's a lot to take in. Thank you for your work. I don't know if there's any way in the future to get some of these materials ahead of time to look at so that we can give more thoughtful comments. That's just more a suggestion but not necessary. I'm going to let the other two commissioners who have been here for much longer than me ask you questions and comment.

Commissioner Woo Ho - This is a strategic milestone today for you to give this presentation. I want to thank you for taking the time, Elaine and Meghan and whoever else worked with you and Katie too because I did request this. One of the reasons to look at it from the audited financial statements is to maintain the rating.

The trend line that you see now by looking at it this way is the way S&P is going to look at this two years from now. We have to understand how they're going to look at us. If this trend line was to continue not really, not that we're not going to, but we are going to monitor it. If we did not monitor it, we could see our bond rating change and it could go down. That's why we have to look at this perspective very importantly. We have to understand both the government cash budgeting process. We have to understand the rating world and in terms of public finance and accrual accounting and I think this is a great down payment.

I have to commend you all for doing this. I really appreciate it. I know it was not something that you were jumping with joy to do. I know it was a lot of work but going forward, we can continue to dive deeper into some of the trends because it's not so much to report this went up, that went down. It's more to understand why is it going up? What are the things that are going up or down? What should we be concerned with in terms of a financial strategy? Because your primary responsibility in terms of what you do every day is to monitor the budget.

We're certainly fine. We know that we maintain and monitor our budget. We do the budgeting process very well but this is kind of like peeling the onion. This is understanding the relationship between the income statement and the balance sheet. It's important to be able to understand that so that the third-party perspective, which we also have to maintain with the rating agencies, is maintained in the best possible way. We had the capital policy, which is the operating discipline that we do have that we put 20 percent aside.

We know that the 20 percent policy is not going to pay for the capital pipeline but it's very important to have that discipline. That's a great thing that we put in place but we now need to have that strategic discipline of looking at things in the longer term and more broadly outside of our own operations, in terms of where are we going to find the funding to maintain the Port and some of these projects. You've got to operate on two different lines. We've nailed the operating discipline but we now have to figure out the strategic and get better at that over time.

When you look at it the next time and you look at longer term, we've worked on a number of major projects. We all expect that some of these projects are going to kick in in the future. They're not kicking in necessarily in the very short term. We are giving away a lot of rent credits and investment upfront. At some point, some of these projects that we've been working, it would be nice to be able to project when that is going to turn the tide for us and bring in more revenue.

At this point, we're allowing them to invest. We're helping them to invest. We're investing with them through rent credits, etc. Over time, that's going to come back to us. I just don't know when that is. It would be nice to know when in the future. Are we talking 10 years from now? 15 years from now? Some of these things have a very long timeline. As Leslie Katz mentioned earlier, we put the \$100 million. I am optimistic along with Commissioner Adams that in the long term, these things will work out.

The next goal is when are you going to get to 150? When are you going to get to 200? You have to have that vision that you can see that coming because if you do it year by year, it's an inch by inch. You're not going to get there. You have to think in terms of what are the leaps forward that you can make?

I understand the expense, which is obviously on accrual basis. I would like to know the crossover with the budget side. Is it when you actually have to pay out on the pension side? Do you budget for that or because in accrual accounting, it's on the balance sheet. It's a cash item for you. You're actually paying out but it doesn't show in your budget.

Meghan Wallace - That's correct.

Commissioner Woo Ho - That's one thing for us to realize because that's going to be a bigger number. You're actually paying it out in cash. It's not showing up in your budget but it's certainly going to affect your audited statements.

Meghan Wallace - The only thing that shows up in the budget is our contribution to the city's contribution.

Commissioner Woo Ho - We're all concerned that pension payouts are going to be greater than what funding is available. Everybody is worried about that in this country. It's a certain thing where your liability is greater. I'm not saying that we have an issue but understanding that would be important. As an example, today we tactically looked at a project and I want to support that.

As we keep looking for sources, managing project expense is important for us and if we can find any reserve as a result of that, that's important. That's another one of the disciplines that you just have to put in place. I'm not talking about any specific number. You also have reserved project money that's sitting in cash right now.

Meghan Wallace - That's right. It's reflected as an asset.

Commissioner Woo Ho - I understand you don't manage your cash management at the Port. You give it to the treasurer. Is that correct?

Meghan Wallace - That's right.

Commissioner Woo Ho - Normally, in any company, if you were managing your own treasury function, you would try to figure out how you could get the most return on your cash that's idle but we can't really do much about it because you give it to the treasurer. You just hope that they're doing the best for you in terms of the return there because it seems like we're sitting on quite a bit of money that we haven't deployed.

Meghan Wallace - Keep in mind that they're also trying to generate a return for the city.

Commissioner Woo Ho - We get our fair share, don't we?

Meghan Wallace - Yes. Their strategies for investment will be for a citywide benefit. They're not ignoring the Port. We're folded into their larger strategies for investment.

Commissioner Woo Ho - I would suggest a couple things in terms of in the future when we look at this. There are some core revenues. We have the one-time revenues which we all know PG&E makes a payment, or we've had a couple of those large-time payments. If you can separate what the operating line is for the core revenues versus the one-time and then, what are your core operating expenses, not your one-time expenses. But the pension line gives me a lot of pause and a little bit of concern in terms of what that's going to mean to the Port in the long run.

Meghan Wallace - The staff report provides more of those details. I was hesitant to dive in that deep but you can see the operating and maintenance lines and then details for depreciation and then various non-operating components.

Commissioner Woo Ho – This leads into my next point because depreciation and amortization is really a non-cash item in accrual accounting. We'd like to see eventually more of a cash flow operating statement. I think that would be helpful to understand. You sort of achieved that with your budgeting because it's cash based but it's not truly a cash flow statement. This gives us a lot to think about. It's not just saying is it good or bad. It's more for us to think about how to manage the Port's finances strategically and to be better at it and to understand some of the implications of it.

If our net position, which is equivalent to shareholder's equity in a private enterprise, is going down, that would be a concern. We need to figure out how can we reverse that trend? This is a great report. The challenge is for all of you to continue to think about what it's telling you. Would you agree, Elaine?

Elaine Forbes - I absolutely agree. For a new area, Meghan, you did an excellent job this evening. To apply a specific project to the principles we heard today, Crane Cove Park is \$36 million budget, four of which is Port, and the rest are outside sources. We need to manage that project very carefully because we may be able to achieve savings that we could deploy to other parks and open space where we don't want to spend Port capital. That's one example of ways in which we need to think strategically about every investment we make.

I agree that it's much more to think about what this report is telling us and how to react to it and to continue to evolve in the way in which we manage our own finances and seek other sources because the other sources have been the game changers for us because, when we look at all the charts and graphs we're seeing, we're not going to pull ourselves out of our capital backlog.

It is the other sources of funding that make a big dent in that liability side of the capital backlog. I do continue to think these financial management strategies have gotten us far more of our own sources, the sources we completely control. Those are also game changers. Even though it's much smaller money, it makes a big difference in the enterprise.

Commissioner Woo Ho - You and I talked about this a long time ago, Elaine, the Port's balance sheet values the assets at historical value. There is no updating of the value of the real estate that we own, which is in the normal, for-profit world, there would be a revaluation to the current market value. The only way that we get that value is when you do a development project. That's another thing for you to consider in terms of figuring out the balance sheet of the future as some of these things come on stream, like Pier 70, like Mission Rock. We will be able to revalue some of those assets. Am I not correct?

Elaine Forbes - Some of them. Those that are under long-term lease and then will be fully depreciated over the lessee's term, we don't get to record. Some things we record, assets we own but things that are fully depreciated within lease term we don't record. But we can speak to that when we come back again.

Commissioner Woo Ho - I always felt like the Port's balance sheet is undervalued for that reason because, if it was on there 100 years ago at a dollar, it's still on the balance sheet as a dollar. We know that that's not the truth.

Commissioner Woo Ho - I'm just saying because we don't have a chance to update the value because of government accounting, etc.

Elaine Forbes - Because of government accounting rules, that's correct.

Commissioner Woo Ho - Private sector accounting would definitely bring that asset up to current market values. Our assets are undervalued, that means our net position is also undervalued. I appreciate the work you did as you said, you did it for me. I want to commend you all for this report.

Commissioner Brandon - Thank you, Meghan. This was great, a lot of detail. Thank you so much for putting this together because the charts and graphs really make it a little easier to follow because it's a lot of information. This report was very sobering. We're very lucky that we have such a diversity in funding streams so that if one funding source is down, the other is up. Hopefully, we just keep going. We're definitely going in the right direction. I want to thank you for putting this together. Congratulations to the finance team for our A rating. That is absolutely phenomenal.

14. NEW BUSINESS

Commissioner Brandon - I asked for an update to our Crane Cove Park funding. What are we doing with our \$36 million and our funding sources?

Elaine Forbes – We will give you an update.

15. ADJOURNMENT

ACTION: Port Commissioner Adams moved approval to adjourn the meeting; Port Commissioner Gilman seconded the motion. All of the Commissioners were in favor.

Port Commission President Commissioner Brandon adjourned the meeting at 6:20 p.m.