

MEMORANDUM

May 23, 2019

TO: MEMBERS, PORT COMMISSION
Hon. Kimberly Brandon, President
Hon. Willie Adams, Vice President
Hon. Gail Gilman
Hon. Victor Makras
Hon. Doreen Woo Ho

FROM: Elaine Forbes
Executive Director

SUBJECT: Competitive Solicitation Strategy for Selected Historic Pier Facilities in the Embarcadero Historic District

DIRECTOR'S RECOMMENDATION: No action – Informational Only

EXECUTIVE SUMMARY

The Waterfront Plan Update public process included financial model analysis which demonstrated the Port's limited ability to implement the expensive improvements needed to repair historic pier facilities in the Embarcadero Historic District. This led to development of Embarcadero Historic District Public Trust Objectives (Embarcadero Trust Objectives) and recommendations to include new policies in the amendments to update the Waterfront Plan to support financially feasible historic rehabilitation projects that achieve multiple Public Trust benefits: historic rehabilitation, seismic improvement and pier repairs, maritime uses and berthing, public access, public-oriented uses, and revenue generating uses necessary to finance these improvements and meet project financial feasibility requirements.

More detailed discussion about the Waterfront Plan Working Group public meetings and deliberations on these Embarcadero Trust Objectives recommendations is provided in prior Port Commission staff reports, referenced further below. The Working Group further encouraged the Port to accelerate efforts and better understand the types of public-oriented uses that could be included in well-crafted public-private partnerships, to deliver historic rehabilitation projects that are financially viable and open up piers to allow the public to enjoy the interior architecture and public uses in these historic properties.

THIS PRINT COVERS CALENDAR ITEM NO. 11A

To test interest from small and large operators, the Port issued a Public-oriented Use Request for Interest (RFI) in the summer of 2018 for 14 facilities in the Embarcadero Historic District (the District). Port staff presented the 52 RFI responses it received to the Port Commission on December 11, 2018.¹ Port staff also conducted in-depth analysis and consideration of factors affecting a pier development's potential for success and presented an RFP strategy to the Port Commission on February 26, 2019.² That strategy recommended (1) an initial single Request for Proposals (RFP) solicitation for Piers 19, 19½, 23 and 29 (with Piers 29½ and 31 offered as optional piers) and (2) further targeted due diligence on Piers 38 and 40 and Piers 26 and 28 to determine their potential to meet preliminary financial feasibility tests.

Port Commissioners were concerned that this approach may miss an opportunity to bundle 'better' and 'worse' condition piers together to improve feasibility, or to bundle many or all piers together into a master solicitation.

Since the February 26, 2019 Port Commission meeting, staff have worked to refine the approach to Historic Piers Rehabilitation solicitations. Port staff members have analyzed Piers 26, 28, 38, and 40 and considered different approaches to bringing a partner on board to implement a successful rehabilitation project for those piers.

Port staff have concluded that a single solicitation for Piers 38 and 40 provides the best opportunity in the South Beach area to leverage private investment in these important public facilities, while delivering maximum benefits to the Trust. If successful, the strategy may be tailored to Piers 26 and 28 in a future solicitation.

Staff recommends that the Port Commission direct staff to pursue two solicitations, one for Piers 19, 19½, 23 and 29 (with Piers 29½ and 31 offered as optional piers) and one for Piers 38 and 40. Staff further recommends that these processes be let under overlapping but non-concurrent schedules, such that only one RFP is open for responses at a time but internal processes can run in parallel to reap the schedule benefits of the commonality of approach between the two solicitations.

Subject to Port Commission direction, Port staff anticipates consulting with the Port Advisory Groups on the selection criteria for the potential RFPs, consistent with the RFP solicitation public process set out in the Waterfront Plan Update recommendations. Port staff will incorporate those consultations into its recommendations and then return to the Port Commission at a subsequent meeting seeking action to issue two RFPs to solicit development partners for exclusive negotiations.

This staff report is organized as follows:

- I. Strategic Objectives
- II. Background
- III. Solicitation Strategy
- IV. Conclusions and Next Steps

¹ <https://sfport.com/sites/default/files/Documents/Item%2012A%20RFI%20info.pdf>

² <https://sfport.com/sites/default/files/Commission/Item%209A%20-%20Historic%20Piers%20FINAL.pdf>

I. STRATEGIC OBJECTIVES OF THE PIER SOLICITATIONS

A successful solicitation will elicit proposals from highly-qualified development teams including a range of potential public-oriented tenants and other revenue generating uses to implement a financially feasible project. The project's success will be defined by its rehabilitation and maintenance of historic assets, its provision of rehabilitated maritime opportunities, new public access, and new activities and attractions for visitors. If approved and implemented, these projects will impact two of the Port's strategic plan objectives (2019-2023 Strategic Plan):

Productivity: Completed pier rehabilitation projects will make progress on the productivity objective to restore Embarcadero Historic District piers with developer funded improvements, including identifying at least 6 historic piers within the District to be leased and rehabilitated by 2024.

Stability: Successful projects will increase annual revenues, supporting the stability objective of achieving \$125 million in annual revenue.

II. BACKGROUND

The Waterfront Plan Update recommendations developed through the Working Group and stakeholder public process include the Embarcadero Public Trust Objectives ("Embarcadero Trust Objectives") which will guide the rehabilitation and reuse of the Embarcadero Historic Piers. The Embarcadero Trust Objectives seek to achieve the delivery of key Trust objectives including: attracting the public into these incredible historic resources with "public-oriented" uses like arts, cultural, entertainment, recreation, and other activities; rehabilitating and activating key maritime facilities for excursions, berthing, and operational spaces; improving the historic resources with seismic and life safety facility improvements, and requiring that all construction and alterations are consistent with Secretary of the Interior Standards for the rehabilitation of the piers. The Embarcadero Trust Objectives recognize that delivery of important Trust benefits must be part of a financially feasible project which generates fair market rent to the Port; thus the Objectives allow revenue-generating uses to meet these financial feasibility requirements.

February 26, 2019 Port Commission Meeting Recap³

At the February 26, 2019 Port Commission meeting, staff recommended pursuing a Historic Piers Rehabilitation solicitation first for the northern waterfront piers (Piers 19-23 and 29, with option to add 29½ and 31) and to continue investigation of other piers for future solicitation. Port staff provided a summary of the District piers and their prospects for rehabilitation through a public-private partnership during the last Port Commission meeting on this topic. At that time, Port staff's analysis concluded that:

³ Staff report from February 26 may be found here:
<https://sfport.com/sites/default/files/Commission/Item%209A%20-%20Historic%20Piers%20FINAL.pdf>

- 1) Several piers are not suitable for near-term public private partnership solicitations because:
 - a) they provide maritime support space (Pier 45 and 33) or
 - b) new information that will be available in the near-future will inform the future use of the site (air emissions regulations for Pier 35 and Seawall information for Agricultural Building) or
 - c) the pier is fully tenanted and does not have a significant capital backlog (Pier 9).
- 2) Four northern waterfront piers (Piers 19-23, 29, and 29½ -31) are well-positioned for public-private partnership rehabilitation projects as these piers are projected to achieve financial feasibility while delivering multiple Trust benefits.
- 3) Four South Beach waterfront piers (Piers 26, 28, 38, and 40) have barriers to public-private partnership solicitation which Port staff recommended be explored further.

February 26, 2019 Port Commission Meeting – Direction to Staff

Port Commissioners' raised concerns with this approach of beginning with four northern waterfront piers for a solicitation and continuing investigation of South Beach waterfront piers. The concerns raised were centered around whether this strategy: (1) would significantly delay investment in piers not in the initial solicitation and (2) misses an opportunity to pair a worse condition pier with a better condition pier to improve the chances of feasibility or to bundle all piers into a master solicitation.

Port Commission feedback at that meeting included directing staff to explore earlier or concurrent solicitations for the South Beach waterfront piers and to return with results of staff's investigation. The remainder of this staff report summarizes the analysis staff has undertaken on the South Beach piers and the overall solicitation strategy.

III. SOUTH BEACH PIERS EVALUATION

Consistent with the findings summarized above and direction provided by the Commission in February, staff evaluated Piers 26, 28, 38, and 40 for inclusion in a piers solicitation. Staff reviewed (1) the concept of pairing better and worse condition piers together and (2) strategies to advance South Beach waterfront piers for solicitation concurrent with northern waterfront piers.

1. Combining Non-Adjacent Piers into Single Solicitation

The first concern staff sought to evaluate is the concept of combining all piers into a 'master' solicitation or combining selected northern and South Beach piers into a single solicitation. On one hand, this concept of pairing better and worse condition piers into an offering has an advantage of financially improving a worse condition pier which might not attract investment on its own. Staff's experience with solicitation processes

however, indicate that pairing geographically distinct piers together is likely to create difficulties, including:

- **Increased entitlement risk for project spanning more than one waterfront neighborhood.** A project straddling one or more neighborhoods (such as northern and South Beach waterfront areas) has greater entitlement risk than an individual project in a single neighborhood.
- **Lack of construction mobilization scale benefit.** While construction on contiguous sites benefit from a single construction mobilization effort, sites one or more miles from one another would have difficulty sharing staging sites (either on land or in water), materials, and centralized project management.

The ‘master’ piers solicitation concept would face the difficulties noted above in terms of project implementation. In addition, a master solicitation:(1) could limit the bidder pool to firms with resources to undertake such a large project; (2) would not allow the Port to diversify its counterparty risk between multiple development teams with separate sources of capital; (3) could reduce the Port’s negotiating position because the Port would have placed all of its developable piers under a single negotiating contract; and (4) would significantly elevate the negative impacts of a failed process, including the loss of precious time in reaching as many seismic and sea level rise retrofits as possible with the finite time to do so.

While combining better and worse condition piers may improve financial feasibility of an overall project, Port staff’s evaluation of this approach is that this potential benefit is more than outweighed by the risks of such a large offering. Staff recommend that the financial feasibility challenges noted for South Beach at the February 26 meeting instead be met with the approach outlined below.

2. South Beach Waterfront Piers Analysis

About South Beach Piers

Piers 26, 28, 38, and 40 comprise the oldest piers in the District. The typical substructure construction type is caisson piles that were cast in place using cylindrical formwork, rather than driven into the bay mud. These are some of the earliest examples of reinforced concrete pier construction and are the oldest finger piers in the Port. Their age and construction character tends to make these piers more costly to repair.

While the Port has relatively recent cost estimates to repair and upgrade Pier 38 (as an example of typical, South Beach pier costs), the Port’s understanding of the techniques and costs related to Seawall improvements, in this area and throughout the 3-mile stretch, is evolving quickly. A key conclusion from recent Seawall geotechnical investigations indicates that conditions in most of South Beach lend themselves to less costly approaches to improving the Seawall’s seismic performance, as compared with the Northern areas of the Waterfront.

The piers in this area have been the subject of several attempts to execute a public-private partnership, some which resulted in investments and new tenants (Pilara at Pier 24 Annex), others which failed due to a mismatch in available project revenues compared to projected costs (Pier 26 International Women’s Museum and Pier 38 Bulkhead Rehabilitation project), and still others which resulted in major changes to facilities (Pier 36 red-tagged and demolished and Pier 40 bulkhead removed). Currently, Piers 26 and 28 are tenanted for interim storage and office use, Pier 40 is tenanted with South Beach marina support services and storage uses, and Pier 38 is vacant. **Table 1** provides key information about this area of the waterfront.

Table 1. South Beach Waterfront Piers Data

Pier	FY 2017-18 Revenue to Port	Current Tenant Types	Previous Projects Informing Future
Pier 26 (pier + annex)	\$2,249,862	Storage and office	<ul style="list-style-type: none"> 2002: International Museum of Women in negotiations with Port for several years prior to ceasing discussions due to high cost. 2007: Pier 24½ rehabilitated for Pilara gallery.
Pier 28 (pier + annex)	\$716,863	Storage and office	None recent and relevant.
Pier 38	\$0	Vacant	<ul style="list-style-type: none"> 2012: Pier 36 removed to make way for Bryant Street Wharf. 2012: Tenant evicted and facility red-tagged for code violations. 2013-2016: Negotiations for Bulkhead Rehabilitation Project which ultimately failed. 2019: Limited Port capital investments including painting and security.
Pier 40	\$615,252	Water recreation providers, water recreation support, storage, and tenant-related parking office	<ul style="list-style-type: none"> 2009: Redevelopment Agency renovates pier and removes bulkhead & entitles Pier for mixed-use development (not yet implemented). 1986: Redevelopment Agency invest in repairs to support public access, and commercial marina uses.

Financial Feasibility

The February 26, 2019 staff report summarized the results of a 2017 financial feasibility report conducted by the Port’s consultants for the Waterfront Plan Update. The preliminary analysis – which was aimed at evaluating the financial challenges and opportunities of rehabilitating piers to increase, to the extent possible, the areas where the public could enjoy the facilities – found that northern waterfront piers generally could support a mix of uses while South Beach piers are more costly to rehabilitate and required almost exclusively high-revenue generating uses to achieve feasibility. Port staff updated the underlying financial assumptions in the 2017 study to reflect 2019

conditions (inflated construction costs, up-to-date rental market data, reduced value of historic tax credits resulting from December 2017 tax reform, and increased costs to reduce vulnerability to Seawall risks). These updates did not change the conclusion for northern waterfront piers (though more high-revenue generating uses are required for feasibility), but did change the results for South Beach piers, with the proforma indicating a negative value, even with a very high proportion of interior space dedicated to high revenue uses.

In order to develop a financially viable South Beach solicitation, Port staff recommend two techniques:

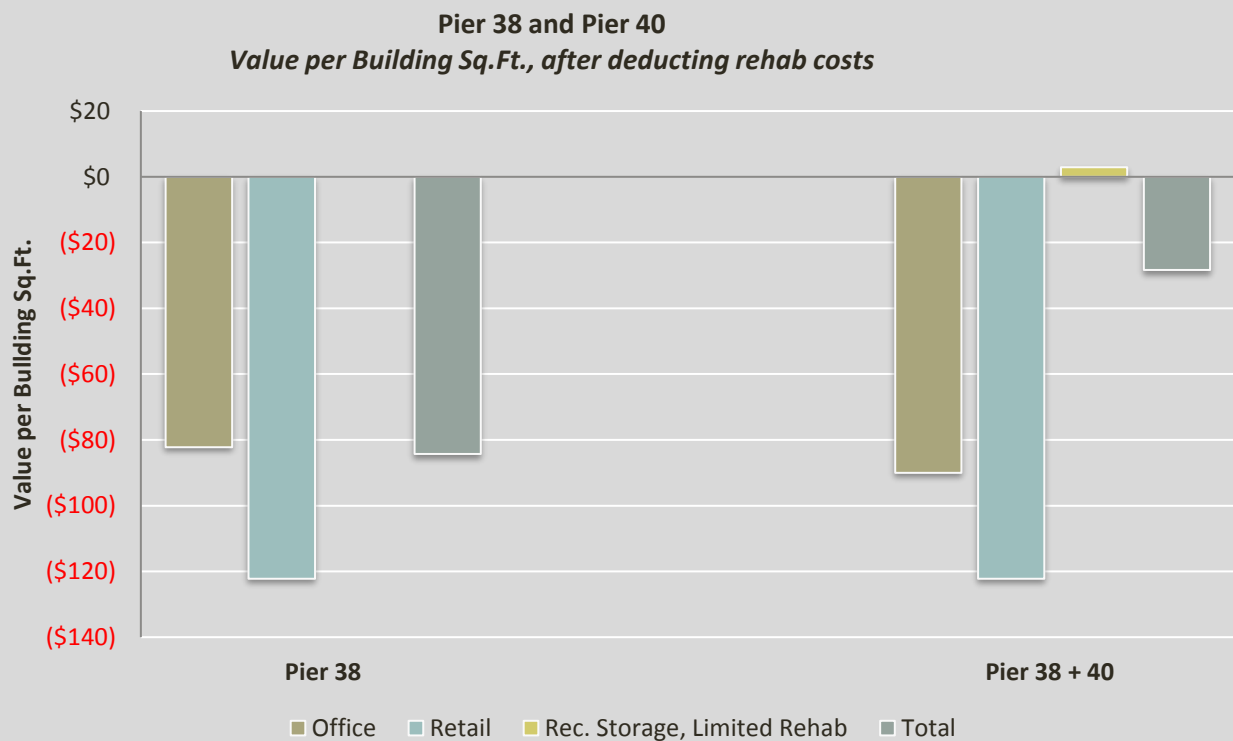
1. **Delay action on Pier 26 and Pier 28 – Both piers are in relatively poor condition and current use generates significant revenue to Port .** Together, Piers 26 and 28 generate almost \$3 million to the Port each year in rental income. With the financial feasibility of rehabilitation projects at these sites returning negative values, it would be difficult to devise a project approach where a private partner could both finance rehabilitation costs and maintain the Port's cashflow from these facilities.
2. **Combine Pier 38 and Pier 40 into a single solicitation.** Pier 38 represents a prime opportunity for soliciting for private partners. A previous solicitation for a portion of Pier 38 received respondent interest and Pier 38 also received significant interest from RFI respondents. At the same time that Pier 38 received long-term lease interest, the Port has had limited success in securing interim tenants for the facility. While Pier 38 alone does not achieve financial feasibility (based upon the preliminary analysis⁴ mentioned above), the combination of Pier 38 and Pier 40, offered in a flexible solicitation could achieve financial feasibility and deliver specific and desired Trust benefits, including a significant amount of improved pier aprons for maritime excursions, berthing, and operations, and/or public access, improvements to the water recreation facilities Pier 40 currently provides, maritime synergies with the neighboring South Beach Marina and significant investment in the two historic structures to facility greater public access to these facilities. It is important to stress that this recommendation does not seek to change the key role Pier 40 plays in providing space for water recreation and Harbor support services. If Port Commissioners are supportive of this approach, staff will engage key community and tenant constituencies to develop a balanced approach to site investment.

⁴ The Port retained a consultant team to develop preliminary financial feasibility testing as part of the Waterfront Land Use Plan update process. Those analyses are static residual land value estimates – meaning the land value which remains after comparing total capitalized revenue with total costs. Port staff will retain a team to assist with more detailed, cash flow analyses, if directed to continue preparing for solicitations. This dynamic cash flow analyses will be more accurate in accounting for the timing of costs and revenue. This is an important distinction and relevant to the Pier 38 and Pier 40 analysis, where the Port has a revenue-generating asset which may be leveraged as investments in Pier 38 are made initially.

Figure 1 illustrates preliminary financial feasibility results. As shown, the addition of Pier 40 does not achieve feasibility in this modeling exercise. However, the combination of the two piers provides several levers Port staff members believe could alter the results and achieve feasibility, including:

- Intensifying surface parking lot which fronts Pier 40.
- Intensifying space usage in Pier 40, based in part on the work the former Redevelopment Agency completed to entitle a mixed-use project in the Pier 40 shed.
- Right-sizing the investment in pier facilities to match financial feasibility. The Figure 1 model exercise focused on extensive rehabilitation costs. Port staff intend to bring refinements to this approach both through additional consultant work and through the solicitation process.

Figure 1. Preliminary Financial Feasibility Analysis of Uses; Pier 38 and Pier 38 + Pier 40
 While neither analysis results in a positive value, the inclusion of additional Pier 40 square feet improves feasibility sufficient for Port staff to recommend continuing with solicitation preparation for the South Beach Piers.



*Note that Water Recreation & Support use is not expected to require the same level of rehabilitation costs as office or retail uses and therefore results in a slightly positive value.

3. Recommended Solicitation Strategy

Recommended Strategy #1: Pursue RFPs for South Beach Piers and for Northern Piers

Based upon the analysis done to date and input from the Port Commission and stakeholders, staff recommends two initial clusters of Historic Pier rehabilitation projects as follows: 1) Piers 19, 19½, 23 and 29 (with Piers 29½ and 31 offered as optional piers) (“Northern Piers”) and 2) Piers 38 and 40 (“South Beach Piers”). Staff recommends that a project encompassing Piers 26 and 28 (“Rincon Piers”) be considered in future years, based upon a strategy that incorporates the lessons from the initial two clusters.

Recommended Strategy #2: Overlapping but Staggered Release of Solicitations

Port staff recommends that the RFPs be released in a staggered manner such that only one RFP is open for responses at one time, but issuing the second RFP as soon as the selection is made on the first so that unsuccessful proposers could choose to participate in the second process. A staggered process will allow maximum participation by potential bidders and will allow robust participation by interested stakeholders including the Port’s CAC’s.

Recommended Strategy #3: Greater Definition for Northern Piers RFP and More Flexibility for South Beach Piers RFP

The planning-level financial feasibility analysis indicates that the Northern Piers provide a clear opportunity to deliver several types of Trust benefits. Port staff recommend that the RFP for the **Northern Piers** reflect this ability with RFP criteria like the following:

- Early public-oriented activation strategy for Pier 29
- Abundant and diverse spaces for public/visitors and maritime & water dependent uses
- Rehabilitation of historic structures to Secretary of Interior Standards and significant investment (meet or exceed Port Code) in seismic and life safety upgrades for the facilities
- Community engagement commitment, plan, and experience
- Experience implementing projects over water and in seismically active areas
- Financially feasible project with market rent and participation rent to Port

Recognizing the more limited financial resources that may be available from a **South Beach Piers** development project once relatively high repair costs are considered, Port staff recommend a more flexible RFP approach, with criteria like the below:

- Enhancement of water recreation offerings at Pier 40 and improvements to Pier 38 aprons

- Activating uses where the public is welcomed into the facilities, at appropriate facility locations
- Maximum rehabilitation possible within a financially feasible project, consistent with Secretary of Interior Standards and investment in seismic and life safety upgrades for the facilities
- Community engagement commitment, plan, and experience
- Experience implementing projects over water and in seismically active areas
- Financially feasible project with market rent and participation rent to Port

Strategy #4: Order of RFPs (no recommendation)

As part of this item, Port staff is seeking Port Commission direction on the RFP release ordering. If Port Commissioners do not wish to provide input on ordering, staff recommends discussing the release ordering with community stakeholders and returning with a recommendation.

To assist the Port Commission’s discussion, the following provides an overview of each Pier cluster.

Northern Piers

These Piers are in better condition and have the highest likelihood of success from a financial feasibility standpoint, based on current information. It is important to note that the current financial feasibility model carries a cost to reduce seismic Seawall risk which is not yet attuned to Northern Piers’ site specific conditions. The estimate will be refined during this calendar year.

These Piers also received the highest interest from the RFI respondents with the greatest diversity of proposed uses including interest from arts & culture entities, makers, recreational enterprises, and live entertainment. The Northern Piers RFP represents a larger project, with about 450,000 square feet of existing building square footage and project costs that could total \$450 million. These Piers are located in an area which draws local, regional, national, and international visitors to the waterfront. The surrounding neighborhood has indicated support historic preservation projects and uses which encourage public-accessibility to historic facilities.

South Beach Piers

These Piers are among the oldest along the Waterfront and are in moderate to poor condition, creating financial feasibility challenges. Repeating the caveat mentioned above, it is important to note that the South Beach financial feasibility model carries a cost to reduce seismic Seawall risk which is not yet attuned to South Beach Piers’ site specific conditions. The estimate will be refined during this calendar year.

Combining Pier 38 with Pier 40 into a single development opportunity within a flexible RFP strategy improves financial feasibility enough to achieve a financially positive project. This area of the waterfront attracts more local and regional foot traffic and Pier 38 received notable interest from RFI respondents, though not as much as some of the

northern piers. The financial feasibility considerations noted above for these Piers may limit the pool of development partners, though other factors such as flexibility of RFP criteria and potential neighborhood support for a rehabilitation project which activates Pier 38 and improves offerings at Pier 40 will likely also affect the respondent pool.

IV. CONCLUSIONS AND NEXT STEPS

As detailed above, the competitive solicitation for historic pier development proposals is a key step that builds off the productive dialogues fostered by the Waterfront Plan Update and the RFI. If executed with thoughtfulness and care, the Port's RFP strategy will generate stakeholder support and investor interest and set up a clearer path through negotiations, regulatory reviews and approvals. Feedback from the Port Commission is critical in the further refinement of the proposed approach in anticipation of seeking Port Commission direction to issue the first RFP. Subject to the Port Commission's direction, Port staff intends to pursue the following next steps:

- Bring this presentation, focused on RFP criteria to the affected Port advisory group(s), consistent with the Waterfront Plan Update recommendations which call for ongoing, meaningful engagement between Port Commission, Port staff and Port Advisory Committees and public.
- As part of the community outreach effort, and in preparation for the request for action from the Port Commission, assemble staff and consultant team for the RFP process.
- Incorporate feedback from the Commission and the public and return to the Port Commission with an action item to authorize issuance of the RFPs to the Port Commission and the sequence of releasing the RFP.
- If the RFP issuance is approved, draft and Issue the RFP, incorporating the process recommendations under the Waterfront Plan Update.

Prepared by:	Michael Martin Real Estate & Development	Diane Oshima Planning & Environment
	Rebecca Benassini Real Estate & Development	David Beaupre Real Estate & Development

For: Elaine Forbes
Executive Director