

CITY & COUNTY OF SAN FRANCISCO PORT COMMISSION

MINUTES OF THE MEETING FEBRUARY 25, 2020

1. CALL TO ORDER / ROLL CALL

Port Commission President Kimberly Brandon called the meeting to order at 2:30 p.m. The following commissioners were present: Kimberly Brandon, Willie Adams, Gail Gilman, Victor Makras and Doreen Woo Ho.

2. APPROVAL OF MINUTES – February 11, 2020

ACTION: Commissioner Gilman moved approval; Commissioner Adams seconded the motion. All of the Commissioners were in favor. The minutes of the February 11, 2020 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: Commissioner Adams moved approval; Commissioner Gilman seconded the motion. All of the Commissioners were in favor.

At 2:32 p.m. the Commission withdrew to closed session to discuss the following:

- (1) 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/non-Port representative: (Discussion Items)

- a. Property: Pier 9

Person Negotiating: Port: Andre Coleman, Deputy Director, Maritime; Mark Lozovoy, Assistant Deputy Director

*Negotiating Parties: Matt Brasler, representing Bay Area Council

Under Negotiations: ___ Price ___ Terms of Payment Both

- b. Property: Pier 40, Bays 4 through 10; South Beach Harbor Dock Slips 59, 61, 63 S02 and S03 – **THIS ITEM WAS CONTINUED TO THE NEXT MEETING**

Person Negotiating: Port: Michael Martin, Deputy Director, Real Estate & Development; Jeff Bauer, Senior Leasing Manager; Crezia Tano-Lee, Manager, Business Strategy
*Negotiating Parties: Kathi Pugh, representing Bay Area Association of Disabled Sailors (BAADS)

Under Negotiations: ___Price ___ Terms of Payment X Both

5. RECONVENE IN OPEN SESSION

At 3:30 p.m., the Commission withdrew from closed session and reconvene in open session.

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

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

Port Commission Affairs Manager announced that Item 4b in closed session has been continued to the next meeting.

6. PLEDGE OF ALLEGIANCE

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

- A. Announcement of Prohibition of Sound Producing Electronic Devices during the Meeting: 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. Announcement of Time Allotment for Public Comments: 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 – Executive Director Elaine Forbes reported the following:

- COVID-19 Update - While there are no confirmed cases in San Francisco, the global situation is changing quite rapidly. Mayor Breed, the Department of Public Health and the Department of Emergency Management declared this local emergency to help us prepare better for the city to coordinate and respond to a potential outbreak. The declaration of a local emergency allows for much faster mobilization of city resources, accelerated emergency planning, streamlined staffing and coordination across the city. It also allows the city to be reimbursed from the state and federal governments.

It raises awareness throughout San Francisco about how everyone can prepare in the event that COVID-19 appears in our community. Also, Santa Clara and San Diego counties have taken the same action, similar declarations to bolster their preparedness. I'd like everyone to note that cruise ships visiting the Port of San Francisco come from domestic locations as well as from Canada and Mexico. The U.S. Coast Guard routinely reviews passenger records to document travel history of the vessel, passengers and crews. The Coast Guard has also issued guidance on reporting passenger symptoms for passengers or crews. Additionally, the Cruise Line International Association has implemented preventative measures for all cruise lines to limit potential exposure.

The federal government has worked to contain the virus. The health department is monitoring hundreds of returning travelers. It's important to remember that the risk of the virus is based on travel history and contacts, not race, ethnicity or culture. To stay up to date, please go to www.sfdph.org. I'll remind everyone that San Francisco and our community and our city government have weathered other types of crises before. The most important thing is to listen and stay up to date, not to panic or worry but to instead stay informed.

There will be more information as the situation evolves. Our mayor is on top of coordinating the city and her departments and working with all that will be providing resources to us. Please stay up to date and informed and know that you will have good information as it's available. Please keep an eye on www.sfdph.org.

10. CONSENT

- A. Request retroactive authorization to modify Construction Contract No. 2820, Downtown Ferry Terminal Gate B Canopy Repair Project, to extend the substantial and final completion date. (Resolution No. 20-09)
- B. Request approval of the Port's Fiscal Year (FY) 2020-21 and 2021-22 Biennial Operating Budget. (Resolution No. 20-10)

ACTION: Commissioner Woo Ho moved approval; Commissioner Gilman seconded the motion. All of the Commissioners were in favor. Resolution Nos. 20-09 and 20-10 were adopted.

11. FINANCE & ADMINISTRATION

A. Request approval of the Port's Fiscal Year (FY) 2020-21 and 2021-22 Biennial Capital Budget. (Resolution No. 20-11)

Katie Petrucione, Port's deputy director for finance and administration – I am here to ask for the commission's approval of the Port's capital budget for fiscal years 2020-2021 and 2021-2022.

Commissioners, you all had a number of questions for me and my staff two weeks ago. In response, we have provided you with additional information to help with your consideration of this budget request. That information includes: a list of all projects that were submitted for consideration in the five-year CIP; a list of currently appropriated capital projects with balances; a more detailed description of the forced-ranking process that staff used to select projects for the CIP; and additional information about the southern waterfront beautification fund.

To address those two final items, I'd like to give you a little more information on how we prioritized projects for inclusion in the five-year capital improvement program, the deputies met as a group to review the projects and we used a forced-ranking process. Forced-ranking means that every single project that we considered we needed to decide whether that project was number one. When we came to the second project, is that project number one? Or is it number two? The third project, is it number one? Number two? Or number three and so on and we made our way through 49 projects and, at the end of that process, came up with a ranked list.

We ranked our life-safety projects first as a group on its own. Then, we reviewed and ranked all of the other projects and considered items such as a project's useful life, whether or not it had the potential to generate revenue, what the return on investment would be, the importance to the Port's public trust, whether or not a project could feasibly be delivered and the urgency of that project.

With regards to the southern waterfront beautification fund, when staff reviewed the allocation to the beautification fund, we realized that the original appropriation request did not include a set-aside for the revenue that we expect that we're going to collect in the southern waterfront over the next two fiscal years. As a result, we revised both the capital budget request and the staff report to assume that there will be an additional allocation of \$2.5 million over the next two years to conform with the Port's southern waterfront beautification policy.

Those are the highlights of the additional information and the changes that we made.

Commissioner Woo Ho - I have no further questions.

Commissioner Makras - I have no further questions. Thank you for all the material that we asked for that was included in the packet.

Commissioner Gilman - I have no questions. Thank you. This is the level of detail that's useful.

Commissioner Adams – I am good. I have no questions. Thanks.

Commissioner Brandon - Katie, thank you so much. I want to thank you and your staff because this is a lot of information. I know it takes a lot to pull it all together. I appreciate you adding the additional charts and responses to the items. I just have a couple of questions. What I was trying to understand is what was previously funded, if all of that has been completed? Or what is still incomplete, or what still needs more funding? We got a lot of charts but it's hard to figure it all out together. We can do a one-off and you can just walk me through that later. What are we this year? Is it \$84,278,877?

Katie Petrucione - Yeah. For fiscal year 2021, we're funding \$53.5 million. In fiscal year 2021-2022, it's \$28.3.

Commissioner Brandon - Table three with the proposed 2021-2022 budget updated, it's \$54,689,000 and \$29,589,000.

Katie Petrucione - The total amount that we are proposing to fund in the next two fiscal years for all appropriated projects is \$84.278 million. That includes an additional \$2.5 million for southern waterfront beautification.

Commissioner Brandon - So the chart on page 14 is the correct one. Attachment one where it has prior appropriations, what period does that cover?

Katie Petrucione - It's over multiple fiscal years. Capital projects are appropriated and they carry over from year to year. The money rolls forward. Because of the transition of the financial system in 2017, it has become somewhat challenging for us to look back prior to fiscal year 2017.

Commissioner Brandon - From this chart, these are projects submitted for capital funding and this could be for the last 10 years. For me, it would be easier if the prior appropriation were for a period certain whether it's the previous year or the last two years so we can understand. What I was trying to figure out is, how did we do last year as far as what was appropriated. What was completed? What still needs to be completed? That was what I was trying to figure out. This sheet leaves more questions than answers.

Katie Petrucione - At the beginning of the staff report, we do note the projects that we completed in fiscal year 2018-19.

Commissioner Brandon - I saw completed projects but it was de-appropriation. I wasn't sure if these were all the projects from last year or if they were the projects from last year that had remaining balances.

Katie Petrucione - On page four of the staff report, we list six projects that we completed in fiscal year 2018-2019.

Commissioner Brandon - What list are they on?

Katie Petrucione - They're just in the text. They're not in a table.

Commissioner Brandon - Got it. So there's no dollar amounts. There's no cost associated but these were the completed projects.

Katie Petrucione – Correct, those are the projects that we completed. The projects that we note on page eight in table one are projects that have been completed over some past period of time, not necessarily in the last fiscal year. We, as finance staff, need to get a little bit better working with our colleagues in the engineering division to go through and close out projects when the projects are completed. Unfortunately, what happens is when a project is complete, the funds aren't necessarily pulled out of the project and closed to fund balance. We need to go through on a regular basis, probably on an annual basis and do that work to close out the funding. The projects that are listed in table one on page eight have likely been complete for some period of time.

Commissioner Brandon - Okay. For us who are not part of the finance staff and do not deal with this on a daily basis and we see it two or three times a year, I think it's easier for us to be able to understand it if we can see a history as well as a projection but really understanding how we're doing with our project. So the projects that we are approving this year, for next year, when and where will we see how those projects progressed? That's what's missing for me. That was what I was trying to get a picture of. How are we doing? Are some of these projects that we're trying to fund previously funded? Or is this new funding? I'm trying to understand the progression. Amador Street sewer and pavement repair, which was appropriated some time ago, is that a project in flux? Or is it in progress?

Katie Petrucione - At some point, I may defer to my engineering colleagues on this. Amador Street is a project that has received multiple tranches of funding over the last five years. In the most recent capital appropriation processes, we were reviewing Amador. It became clear that we are still doing due diligence to understand what the total scope of that project needs to be. We've been working with DPW. It's a sewer-improvement project. As we were having a call for projects and then doing analysis on those projects, it became clear that Amador Street likely will need more money but we don't know yet how much more. So we chose for now not to include additional funding in the budget.

Commissioner Brandon - But that \$7 million is still set aside?

Katie Petrucione - Yes, it is.

Commissioner Brandon - We don't know how long it's been there and we don't know when we're going to use it?

Elaine Forbes - We can analyze how long it's been there. We can analyze how long and what years that there was appropriations to Amador Street. The issue has always been the design on Amador Street. We need to do the sewer differently and the storm-water management differently. This is a project that's been stuck in design for some time. Getting a good design that the Department of Public Works signs off on and even potentially would accept Amador one day as a city street is where we've gotten caught off guard. The design has continued to go on with different types of solutions but the money sitting there is similar to it sitting in fund balance in that, whether it sits in a project or sits in unappropriated fund balance, it has the same result, more or less.

I think what might be useful is to have a capital conversation in an informational item where we give you what you're asking for, which is to look at what was appropriated, what projects we funded last year and how they're going and what projects are still open and not closed. Some of them are new projects from a year or so ago. Some of them will be much older like Pier 35 substructure where we've been thinking about that for years and waiting on an Army Corps match.

We should schedule an informational item to dig into capital. It's a good time to do so because two budget cycles ago you funded a project management office. We've been taking a lot of efforts internally to deliver capital more efficiently with the small staff we have. So it's a good time to update you on the questions you're asking.

Commissioner Brandon - That would be wonderful. With regards to the \$7 million, I'm wondering if whatever we're going to spend this money on, would any of this be taken care of in the RFP that has been put out?

Elaine Forbes - South Beach Harbor has been set up as its own little enterprise within the Port enterprise. These projects are specific to the harbor and their needs for the marina. You're about to get an informational report from the director of that marina. For Pier 40 and 38 RFP, that's a separate process to try to bring in private investment and repositioning of those piers. Resiliency is tackling other issues related to the seawall and flood on the line of the Embarcadero.

These projects are related to providing an A-plus customer service to all the recreational boaters doing maintenance and repair, dredging on the harbor operations itself. We've structured it so the money the harbor owns is the money the harbor spends. They are absolutely part of our family but we've applied the same kind of capital set-aside policies and discipline to make sure that the harbor generates enough revenue to take care of itself.

Commissioner Brandon - Thank you, Katie. I really appreciate this.

ACTION: Commissioner Adams moved approval; Commissioner Gilman seconded the motion. All of the Commissioners were in favor. Resolution Nos. 20-09 and 20-10 were adopted.

12. MARITIME

A. Informational presentation on the Financial and Operational Performance of South Beach Harbor.

Joseph Monroe, South Beach Harbor Manager - I'm here to give you the presentation on the financial performance of South Beach Harbor. South Beach Harbor is a full-service marina consisting of 700 slips. Berthwise, it is the largest in San Francisco and third largest in the bay. We have a guest dock, the south guest dock. We provide commercial access and recreational access as well. Slips consist of 30 feet up to 100 feet.

In 1986, the harbor was constructed and managed by the San Francisco Redevelopment Agency. In 2012, the Port of San Francisco assumed operational responsibility. In 2015, Port Commission approved transfer of assets and operation to the Port. In April 2019, the transfer was finalized then the Cal Boating documents were approved.

Some of the partnerships we have in South Beach Harbor is the South Beach Yacht Club, a 500-member, all-volunteer club. They're known for their great races that they put on each year. They're known to draw up to 40 vessels during the summer. They also provide a nice junior sailing program for the youth and that really helps get our youth out on the water and hopefully provide us with new recreational boaters in the future.

We also do work with the San Francisco Baykeepers. They specialize in outreach and education on keeping the bay clean, which is very important. They also put on an annual parade and a run in which they use harbor facilities. Some of our excursion operators that come down to the harbor are the Commodore Bay Cruises and Events and also Hornblower Cruises.

When we get into South Beach Harbor Pier 40 shed, we have a number of on-shore tenants. Some of those are Spinnaker Sailing and Rendezvous Charters, City Kayak, Westwind Boat Washing, to name a few.

When the Port took over management of the South Beach Harbor Marina and Pier 40 shed, the decision was made to have the Port real estate department take over the tenant leases and management of the property. Some of those improvements have been made over the last few years. We updated and resigned leases with all the onshore tenants. We added a new alarm system with cameras inside and out of the shed. We also divided the shed into bays to provide new space for new businesses along with adding new storage lockers for rent.

Here is a perfect example of some of our public access we have down at the harbor. What you see is the south promenade on the shed. There, it overlooks the harbor, gives you a nice view and you can also see Oracle Park in the view.

If you are looking to the left toward the end, you'll see the Bay Bridge. It definitely provides a nice area for the public to come down and enjoy themselves, also providing benches and things of that nature. If they want to walk out there with their families, they can do that.

We look forward to continuing our BCDC improvements. Some of those include the east apron resurfacing and adding guardrails, so the public can further go around the backend of the Pier 40 shed and enjoy that wonderful view.

Earlier, we were talking about some of those projects that we have in the queue. One of those is the north guest dock. We need to replace this dock. If you were down at the harbor anytime over the last year or so, you'll see that the docks are actually not there. This is an old picture but we hope to add a 350-foot dock while also providing a better commercial landing space for some of those cruise lines like the Commodore and things like that.

Also, we plan on adding a kayak dock for public use. This project is estimated around \$3.5 million. Here's another one of those important projects, the baffle wall. The Port maintenance divers will be taking care of this for us.

We have a lot of those panels that are off level. We need to raise and realign those panels and fill in the gaps to make sure that we get no more seepage of silt and buildup coming from the north side into the south side. Once we do that, that'll decrease the need to dredge, which is something we're also looking at. This project is estimated at around \$300,000.

One of the most important parts of this presentation is the financial slide that shows the progression from 2012 and 2013 moving all the way up to where we sit currently. Since the Port of San Francisco assumed management of South Beach Harbor, several steps have been taken to streamline and stabilize the harbor financial situation.

In 2013, we increased the berthing fees by 22 percent. We spread that over three years. We also had Exigis come in and manage our insurance program. We increased the fees and on wait list and also our landing fees. Most importantly, we were able to pay off the balance of a bond debt. Since the Port took over management of South Beach Harbor, we have gone from a net negative of a half a million dollars to a net positive of \$1.4 million while also paying off that bond debt. It's very important that we put those funds back into the harbor and provide a nice harbor for not only our tenants but the public that comes down to the harbor.

Our goal is simple. We want to continue to enhance the harbor while maintaining our status as one of the top marinas in the bay and make sure that the harbor is provided for our tenants and the public for years to come.

Commissioner Gilman - Thank you for the presentation and your great work to move the operations forward that we have positive cash flow going to it. A few

nine months ago, there were some emails to the commissioners around issues about the restroom situation and the public restroom at Pier 40. I was wondering if that had been resolved.

Joseph Monroe - Yes, ma'am. Are we speaking about the restrooms inside the Pier 40 shed or Carmen's?

Commissioner Gilman - I thought it was within the pier shed.

Joseph Monroe - Inside the shed, we have the VIP heads, which require a code or a key for access for those tenants inside.

Commissioner Gilman - Are those adequate for those tenants and they're feeling good about it?

Joseph Monroe - Yes, ma'am.

Commissioner Gilman - Thank you so much for the presentation. I appreciate it. Congratulations again on moving forward to positive cash flow.

Commissioner Woo Ho - Thank you very much. I've seen this as a great journey since we first took it over and all the issues. It seems like it's on a steady path so that's great progress. Thank you very much. I want to correlate because we just went through the capital plan and there was money that was previously spent on South Beach Harbor. You're talking about this \$3.5 million. Looking back at the capital plan, we have \$3.1 million. Part of it also, as I remember when we inherited this, BCDC at the time as I recall the estimated capital improvements that they insisted that we undertake was something like \$10 million.

I'm trying to understand. How much of the BCDC requirement have we met? How much of the proposed new improvements that you mentioned in your deck are part of the BCDC? Or are they in addition to the BCDC to improve the South Beach Harbor?

Elaine Forbes - I'm going to start it and Diane Oshima is going to come up and help us some more. The redevelopment agency had some unmet BCDC requirements related to public access on the breakwater. We've been working with Joe and with BCDC to change that permit requirement to do improvements that would yield us better access and voters better access to the facility. Diane Oshima can come up and give an update on how that process is going. But long and short is we haven't provided public access on that breakwater. We're working with BCDC to change that requirement.

Commissioner Woo Ho - So that's not part of all this funding that we're talking about.

Elaine Forbes - It is not.

Commissioner Woo Ho - Hopefully, that \$10 million overhang is not the same as we thought it was. Is my memory correct, \$10 million?

Elaine Forbes - Yes. That's absolutely correct.

Diane Oshima with the planning and environment division - We are in the midst of a permit amendment request. What we're basically proposing is that we put in more water-recreation-related public access benefits instead of the high-cost pier-apron public access that was required under the redevelopment agency's permit. We are in the process of getting cost estimates for what that would cost, which would be at a much lower cost point than what the original obligation was. Assuming that we can make sure that we have a financing strategy to cover those replacement obligations, our intention is to go forward and to square up our BCDC request.

Commissioner Woo Ho - Is BCDC at this point receptive to our proposals?

Diane Oshima – Yes, They are.

Commissioner Woo Ho - That would be wonderful. You can now answer the numbers that seemed like different numbers. I see here you have \$3.5 million. There's \$3.1 million, what we spent already and then what we have in the capital plan. Are the numbers all squared away, are they the same?

Katie Petrucione - I hope so, commissioner. The numbers that were included in the capital budget that you just approved, we are planning to appropriate over the next two fiscal years \$3.1 million for capital work at South Beach Harbor.

Commissioner Woo Ho - So then, going forward when we look at this income statement or financials right now, the capital improvements are not listed under the expenditures, right? These are just operating expenses and debt service.

Katie Petrucione - That's correct with the assumption that the net falls to fund balance and then is appropriated for capital work as necessary.

Commissioner Woo Ho - Before we get so excited that we have all this extra cash, it's really going to be totally used up.

Katie Petrucione - Yes. The deferred maintenance need at the harbor will more than absorb the \$1.4 or \$1.5 million in net revenue annually.

Commissioner Woo Ho - I don't know that we've made a firm policy decision but we are basically saying whatever we generate in net is being reinvested in South Beach Harbor and not being diverted to any other capital projects. That's a policy that we have adopted. Correct?

Elaine Forbes - That's how the Port is managing the facility. I don't know if you've affirmatively adopted that policy as a commission policy level but that is how

we're managing the harbor. I do believe that, when we discussed taking the facility from the redevelopment agency, we discussed the importance of paying down the debt and investing all net revenues and capital to make sure the facility continued to just be such a good value to the customers.

When we got the facility, it was getting into the life cycle where investment was going to become more critical. We were very eager to pay down the bonds so we would have adequate capital to keep the facility up. I don't think you've adopted a formal policy that net revenue from the harbor supports the capital work at the harbor but that is absolutely how we're managing the operation.

Commissioner Woo Ho - We've always asked periodically to get an update stand alone on how South Beach Harbor operates. It's great to see that we have paid off that loan because that was a millstone around our neck when we inherited this. It's not great to see the negative numbers. We knew that when we inherited it that we were inheriting something negative and to turn it to positive. If we have boats or super yachts that want to come in that are over 100 feet, where do they dock? Since they can't dock at South Beach Harbor, where do they go?

Andre Coleman – The south guest dock can accommodate those vessels at South Beach Harbor. But for superyachts, they have docked at other piers along the waterfront at Pier 15, Pier 35 north. There aren't any berthing conflicts at some of the cruise terminal facilities. We can accommodate larger yachts there and then in the southern waterfront as well at Pier 50 and at the Shipyard.

Commissioner Woo Ho - I don't know whether there's an opportunity for us to continue to attract them. In certain ports that are popular in the Mediterranean, they make a lot of money off docking fees. I don't know if that's an opportunity for us to continue to think about that.

Andre Coleman - We've had some preliminary discussions on it in the southern waterfront.

Commissioner Woo Ho - In the staff report, you mentioned 90 percent occupancy on the slips and there's a waitlist. What is the 10 percent? Is it because you're waiting for people or how does that 10 percent factor in the fact that you've got a long waiting list?

Joseph Monroe - We have about 25 transient slips. We keep those open and as the slip fees rise, we do have some folks that are exiting the harbor. We account for that by people that are exiting the harbor and people coming off the waitlist.

Commissioner Woo Ho - So the 90 percent is really we are at maximum occupancy because the others are all transient slips.

Joseph Monroe - Yes, ma'am.

Commissioner Woo Ho - And we're repricing every year now?

Elaine Forbes - We have. We've set our CPI and we reprice every year. Joe, with his team, has instituted a fee to be on the waitlist to clean up that waitlist because, when we started managing the harbor, there was no cost to be on the waitlist no one ever left. The waitlist was very, very long. With some of the changes in operation, the waitlist is smaller and reflects actual interest. We have slightly more turnover since we've increased the rates to market.

Commissioner Makras - Thank you for the presentation. No questions.

Commissioner Adams - Joseph Monroe, this is the first time I've ever seen you here. Is this your first presentation?

Joseph Monroe - Yes, sir.

Commissioner Adams - You did a good job. I noticed that in my years being a commissioner and everybody on the staff does it that when they get in trouble, they look at Director Forbes. The eyes just move, or they look at Mike Martin.

I appreciate the history. I didn't know at one time that redevelopment had owned it. The history is quite interesting. In your job as the harbormaster, where do you see the Port going especially with the South Beach Harbor? Like Commissioner Woo Ho said about trying to get bigger ships, etc. is that something you think that we could do and make more money?

Joseph Monroe - Yes, sir. When we do replace that north guest dock, a portion of that dock can be used for those larger vessels. As far as where I see the harbor and where we're trying to push it, we definitely need to push it in a more technical side, stepping into the future with how we provide service to the customers. If we can do that, especially with the younger crowd coming up, we want to make it easier for them. We want them to be able to come out and enjoy their vessel and make things easier for them whether it's technically when they're dealing with the office or administratively, things of that nature.

Commissioner Adams - The South Beach Harbor partnerships, you mentioned the yacht club, the Giants and Baykeepers and excursion operators. Does this allow kids from the community or schoolkids to come down and have access to the Port and see these things?

Joseph Monroe - Yes, definitely. I highlighted the South Beach Yacht Club. Every year in the summer, the entire summer they have that youth sailing program and they get kids out. I usually go over and speak with them and explain to them what I do because not only do we want folks on the water but we need folks on the technical side as well. Some folks don't know the operation of a harbor or what a harbormaster is so I try to educate them on that.

Commissioner Adams - Thank you and congratulations on your new job.

Commissioner Brandon - Joe, thank you so much for this report. This is extremely encouraging and good to know that the harbor is becoming self-sufficient, not totally but becoming. I want to thank you for all that you've done to make that happen. I have a question regarding the Cal Boating loan. How much longer do we have to pay that?

Katie Petrucione - Many years. we have at least 20 years left on that loan.

Elaine Forbes - Redevelopment took a 45-year term with Cal Boating.

Katie Petrucione - Andre said it will be paid by 2036 so 16 more years.

Commissioner Brandon – That's not as bad. Thank you. Joseph is doing a phenomenal job at South Beach Harbor. Not only is he the harbormaster, he sets up tables and chairs, and he does whatever needs to be done to make everyone happy. I really want to thank you and appreciate your presentation.

13. REAL ESTATE & DEVELOPMENT

- A. Request authorization for staff to enter into a 99-year ground lease for Parcel E2 at the appraised value of \$5,000,000 (185 Maryland Street; Assessor's Block 4116, Lot 008). (Resolution No. 20-07)

Rebecca Benassini - I direct waterfront development projects at the Port. I'm happy to be providing the follow up to the February 11th presentation we had two weeks ago. I want to acknowledge some folks in the audience who may help me answer questions. You'll see me eyeball them for support. Christine Maher from the Port, Raven Anderson, Mike Martin and Annette Mathai-Jackson. I also want to acknowledge Kelly Pretzer, who is here in the audience from Brookfield. We also have Tim Runde, who was the Port's peer-review appraiser on this project and many other Port projects. I'm happy that Tim was able to join us today.

I'm going to go through slides that are going to be a little bit familiar to you from two weeks ago. But I want to point out, as I'm going through the decision or the request we're making of you today, really focus on that action item. We're trying to provide ourselves and the developer the opportunity to transact on a parcel below the strike price, below that down-market delay price. We're trying to speed up transaction on another parcel.

We feel that this is the best path we have. We have a limited set of options that are set out in the Pier 70 framework transaction document. I'll try to keep coming back to the action item that's before you today, as there's a lot of detail that can blur the vision in terms of what you're looking at today.

Here is an overview of the Pier 70 site. Pier 70 is a three-phase project well underway. Construction started in 2018. The horizontal construction started in 2018. We have highlighted for you the seven phase-one parcels. Blue means

office. Yellow means condo or apartment residential. Red means flex cultural. The big red box in the middle is Building 12. It's the only building that's under construction. The two parcels we want to speak with you about today are highlighted in that dark blue. A is at the top of the screen. E2 is at the bottom of the screen.

Both of the sites have undergone quite a lot of design work. E2 is a multi-family residential apartment site. It's about 281 units. Twenty percent of those or about 56 units are affordable to households making 80 percent of the area median income or below. Parcel A is a commercial office building. It has a unique mass timber construction type that is a sort of renewable and more sustainable construction type. It's about 350,000 square feet.

The DDA that governs the entire Pier 70 transaction that we have with Brookfield sets forth the process by which Brookfield has the opportunity to exercise options. Of the 19 parcels at the site, they have the option to lease or buy depending on whether or not it's condo or a leased site 15 of the 19 parcels including Parcel A and Parcel E2.

The option price is set through an appraisal. The joint appraisal is a process that we undergo together. We're in communication with that jointly selected appraiser. The jointly selected appraiser is from a list that was approved with the DDAs. There was a list we came up with the department of real estate and with Brookfield. We jointly selected an appraiser. They are provided appraisal instructions that were also defined in the DDA. The DDA allows the appraiser to go through the process of drafting.

We provide comments back to them, all transparent to one another. We can only communicate so long as we are all on the same email chain or phone call. At the end of that process, the DDA allows the appraiser to set the value. If that value is above what we called the down-market threshold, that's the value generally that we thought each parcel would be worth at approvals. If it's above that threshold, Brookfield can exercise their option, or they can decline their option and we can take it to market.

If it's below that value, then that triggers a decision point for both parties in their sole discretion. That's why we're before the Port Commission because, in our sole discretion, we can take this action. We only come to you with the hard questions. We are here now. We have appraisals for both sites. You can see each site appraised value and its down-market threshold. E2 is shown here. It's down-market threshold was \$11.3 million, appraised value is five. Parcel A, down-market threshold was 12.8. Appraised value is \$66 million.

On an individual basis, we now have a potential down market on one and a very well above market on the other. The total on the right is just for comparison purposes. At approvals, we thought these two parcels might be worth \$24 million. It turns out one appraiser thinks that they're worth \$71 million.

I talked a little bit about what the process is in the DDA but I want to just take a moment to talk about what the appraiser did, in particular for E2 and for A as well. The instructions state that the appraiser must consider at least two approaches to value. One of the approaches to value is called the residual-value analysis. And then, they can select another. They can select a cost approach or a sales-comp approach or another approach that they deem appropriate. They can do more than two as well.

The independent appraiser initially came up with a \$1 million value for E2. We had many, many comments to get it up to \$5 million. Ultimately, it's important to note that in this analysis, the residual value which considers the cost and the value of construction, they came up with a negative \$13.4 million value with that approach. They then also looked at the sales-comp approach. They ultimately selected three land sales that occurred between 2018 and 2019 that were most comparable to the site. Using that analysis, they came up with a value of \$10 million. This is an important bracket exercise that they did. They thought the site is worth somewhere between negative \$13.4 million or \$10 million and they create that bracket. They ultimately decided that taking factors that are particular to the site, that the value should be about \$5 million.

I want to point out that the residual-value analysis where they're looking at construction costs, they're looking at rental rates. They consider all of the important factors. The reason they didn't respond to our comments as much as we wanted them to in going from the \$1 million initial value to the \$5 million they noted was a couple of things. They think that construction costs are going to keep going up. Rental rates, they don't think are going to go up. The 20 percent onsite inclusionary units is somewhat higher than some of the comps that they were looking at.

Also, the Pier 70 CFD tax is not a huge tax but it's relatively unique in San Francisco. The other item with the special taxes that just creates a little bit of risk for the developer is they have to pay on a date certain regardless of whether or not their building is built and occupied. Those are the factors they cited in noting how they were looking at the valuation of both of the approaches. What do we do now?

We considered our paths carefully. The one we are ultimately recommending to you is to transact the parcels together. The reason we came to this is a couple of things. First, we felt that it was really important. These are the first two parcels at Pier 70. We are in a position where time is really money to the Port. It's important to us to get money into this deal and start to create that community that the horizontal construction is beginning to create but it's creating it at a horizontal level. We need that vertical to come out of the ground as well. Having the two parcels together, the office and the housing, was an important policy outcome for us. The other key thing is that, by tying the two parcels together and moving up that high-valued office parcel, they could have transacted in up to 18 months. We moved that all the way up to no more than 180 days. In this case, time is really money for the Port.

We're accruing about a \$1.4 million return on the amount of money that Brookfield has spent on the horizontal. The faster we can get money into the deal the better. It also allows us to start bonding. We need to sign VDDAs in order to get those CFD bonds going. We also avoid the consequence of down-market delay on these two parcels. If we are able to tie them together and sign this letter that would require them to exercise their option within 120 days, then they would not be able to call down-market delay in the documents. If they call down-market delay on these two parcels, then the timing of A and E2 would be suspended until we have an appraisal that's above that down-market threshold for E2. The one drawback of this is that the E2 land value is lower than the Port expected at approvals.

We tried to make this pill a little easier to swallow by moving up the A parcel and ensuring that they will transact on it. They have to exercise the option in 120 days, close on the parcel in an additional 60 days, up to 180 days total. We considered very seriously the alternative path. This is a little bit of a game-theory process. We also have the alternative set forth here, which is we can dispute the E2 appraisal. If we dispute, we could also dispute the A appraisal and Brookfield could do the same.

That then sets up a process of arbitrated appraisals where two additional appraisals are brought on board. If they're close with one another, we're done. If they're not close with one another, we have a third appraiser who breaks the tie. That third appraiser can determine what the actual value is. And then, that's the final appraisal, no more appeals. That could result in one good outcome, and that is that we would get a higher value on E2. That would be what we are seeking in doing that dispute.

There are drawbacks. We don't know how much higher the new appraisal might come in or if it would come in higher at all. We think, based on our conversations with our appraisal consultant who's here today, that it is unlikely to get up to the \$12 million value. Even if it did, we would lose out on the value we've created by putting two parcels together because A would be closing on its normal timeline of potentially up to 18 months. So we would lose out on that value. We might gain something in an E2 value. We might lose something by losing that time benefit that we have in the deal before you today, which is moving A up. Of course, that's just a general delay in the project.

It would delay the housing units coming online. Time is money for the Port. We looked at this seriously. I like to roll the dice like anybody else. But to us, the two paths, one created too much uncertainty and the other one created more of a certain path where at least we have the opportunity for both of these parcels to head to the finish line together.

This slide sums up a little bit about what I just said. The valuation rationale for taking this path is that we followed the process in the DDA. We worked very hard to try to get the values up. The appraiser, who looked at both parcels, used a

very similar approach on both parcels. The outcomes rationale is that the deal we've tried to put together for your consideration is gaining us a lot of outcomes we want, two parcels going at once instead of one and then another one being very uncertain, speeds up the office closing which is a value to the Port of about \$6.5 million relative to how long they could take to close. That's a clear financial benefit for the Port.

We also ensure that the apartment parcel isn't left behind. If things went through the dispute process and they didn't reach the down-market delay threshold of the \$12 million for E2, then the office parcel could potentially go and E2 would lag until the appraisal came up. Overall, we thought the alternative path could potentially cost us money. It had some uncertain benefits that rely on how the appraisal process comes out.

The request for the Commission is to approve the resolution. The resolution would allow the Port to offer Brookfield the option to transact on E2 below the down-market threshold. It would provide us the opportunity to deliver the balanced office and residential start to phase-one vertical development should Brookfield choose to exercise the option. If we get that approval today, this is the process that would go forward. We'd offer the option in exchange for speeding up parcel A. We'd link the two options together, so they couldn't transact just on A without E2.

If they elect to exercise the option, 120 days from now we'd enter those contracts. Within 60 days, we'd have to close on those leases. If that 120-day mark comes along and they don't exercise both options, then both parties revert to the existing rights that they have in the documents today. We would be in likely a dispute scenario. We'd still get to roll the dice then.

Commissioner Makras - I've got a couple of handouts. President Brandon, I am happy to share my views of the agreement both in terms of strengths and weaknesses at the time that we are asked to inject our oversight to the development agreement. This is the first opportunity to do so. We are acting in the interest of the public now and in a future none of us will live to see. We cannot focus on the immediate term or failure to give weight to the long-term represented in our decision today. Pier 70 and the development agreement the San Francisco Port entered into with Brookfield Properties is a project that I support. I will honor and oversee implementation of the development agreement from time to time as required by the agreement. I will not support a 99-year lease at \$9 million fee-simple value. I will support a 99-year lease at \$28.2 million fee-simple value. I believe \$28.2 million is the fair market value for Parcel E2 at Pier 70. What is being asked of us today is to approve a per-unit value at \$32,000 when comparables are valued at \$100,000 per unit. What we are being asked to do today is to approve a land transaction at \$5 million when the true value is approximately \$28.2 million.

I believe a weakness in the agreement was the decision to accept a fully prepaid ground lease for parcel E2. I believe a better disposition of the parcel would have been a standard lease with annual rent payments, a rent schedule on a fixed

term for 30 years to allow the developer to fully pay off a standard 30-year loan then implement a market-rental value with escalating rents in accordance with land value adjusted from time to time, like every five years or 10 years. This would yield the Port a more indexed value, would create a cash flow for the San Francisco Port and would yield substantially more money over a 99-year lease. If we were to set a land value at \$28.2 million and take a simple 3 percent annual return, we will yield \$846,000 annually. Over a 10-year period, our income would be \$8.4 million. In 99 years, without any rent increase, our lifetime income would exceed \$83 million. With some rent increases, it can well exceed \$100 million. I do not support taking \$5 million, as is suggested by the appraiser, in exchange for foregoing \$8.4 million over the next 10 years or \$100 million over the lifetime of this lease. Let me share my view in another way.

If we were to get \$846,000 in annual rent, we can debt service over \$20 million of our capital project each 30 years. So this cash flow can effectively pay for over \$60 million in capital projects over the life term of this lease. This is a much better use of Parcel E2 at Pier 70 than a one-time payment of \$5 million. I will share a few facts that support the value of Parcel E2 at Pier 70 at \$28.2 million.

I submit for your review 22 sales of entitled projects that have sold in San Francisco. These are sales in 2017, 2018 and 2019. I put all of my weight on the five sales that took place in 2019 for the sole purpose of this evaluation. The prior years are secondary consideration. The five sales are large parcels ranging in unit count from 118 to 418 units. Parcel E2 at Pier 70 is a 282-unit entitled project. Sales of these parcels range from \$10 million to \$78 million. The per-unit price range is \$54,000 to \$233,000 per unit rounded off to the nearest thousand dollars. I believe the best comparable for Parcel E2 of these five is Pier 70, Parcel K North, which the Port of San Francisco sold for \$24 million or \$95,000 per entitled unit, and 14 Otis, which sold for \$40 million or \$95,000 per entitled unit.

For a point of reference only, I submit for your review 13 sales of entitled projects sold in Oakland. That's page two of what I handed out. These are sales for 2017, 2018 and 2019. I put my weight on seven sales that took place in 2018 and 2019. The seven parcels are sales of large parcels ranging in unit count from 130 units to 450 units. The sale of these parcels range from \$7 million to \$42 million. The per-unit range is \$49,000 a unit to \$93,000 a unit, again rounded off to the nearest thousand dollars. The comparables on face value demonstrate the appraisal before us is inferior. Who would ever believe that an appraisal for a San Francisco-approved project was appraised for less than a similar-size project in Oakland?

In support of my belief for a \$28.2 million value, I refer you to the market value of the leasehold interest section of the appraisal. That is the second handout that I provided. On page 144 of the appraisal, the appraiser uses a land value at exactly \$28.2 million value or \$100,000 a unit. Their own statement of value in this section of the appraisal supports my conclusion of value for Parcel E2 at Pier 70 at \$28.2 million. I do not believe we or the public would be best served

by accepting an appraisal that is not based on market or comparable values. I would encourage the commission to reject this appraisal.

Commissioner Brandon - Rebecca, would you like to respond?

Rebecca Benassini - Thank you for the comments. I've distributed some of the materials to some of the folks that are here today to help me out if they have comments in digesting the information. The one comment I think it's important to make is that it was a very interesting calculation of what we might get and what we might do with the money. The commission might recall that the structure of the deal requires that all of the leases are prepaid while Brookfield has outstanding developer capital. Brookfield has about \$100 million of investment they've put into the site in horizontal construction that includes some of their return that's been accruing. So every lease until that is paid off has to be prepaid, a 99-year prepaid lease. All of the money from that prepaid ground lease goes in to repay that horizontal construction cost. So that isn't an option, unfortunately, under these transaction terms. They invested the money in the horizontal in order to be repaid through the vertical and then through subsequent CFD bonds. On the valuation, if I could pause for a moment and we hear other comments while I confer with others to look at the comps and see whether or not there's any response that we can provide.

Commissioner Woo Ho - This is not an easy transaction. Commissioner Makras has pointed out something in isolation in terms of his technical analysis. We appreciate that he went to the great extent of his research. When I have reviewed this project and looked at it holistically of what we are gaining in terms of tying the two parcels together, as I recall from last time when we talked about it, the difference in value at that time was made up in terms of the timing of the closing of the escrow that the Port would make up in terms of from a cash basis. So from a value basis, I'm not in a position to debate with the experts because I'm not an appraiser myself. We have had obviously both the Port, Brookfield and a third party. We would ask the consultant to comment to help us respond to some of the comments. We've worked on this project. The concern that I would have is that, if we were to not accept this amount in terms of the value, what does it do to the transaction. Brookfield is here. They can tell us what they would do. Will it endanger the continued development timeline of this project, which has been something we've worked on for a long time?

It's a very important project. It's one of the key projects of the Port along with Mission Rock in terms of the whole development. There are some consequences that I think we have to think about holistically. While I'm not going to debate whether \$5 million is right or wrong, what I did see in the presentation and in the staff report is the fact that the other parcel is coming in higher than what we had anticipated and helps to offset. Unless we can say that that offset is insufficient, I think that we are economically not worse off in this transaction though there may be some we cannot go back and change the terms of the prepaid leases that Rebecca has just mentioned. We have to look at the transaction holistically. Are we going to move this development forward and tying the two transactions

together help us to get back on track? Or are we going to now jeopardize what the future is? Are we jeopardizing the future of the development if we do reject this appraisal?

Elaine Forbes - What we're asking you to do is to allow us to transact the housing or apartment parcel below the strike price. That strike price was developed to protect ourselves because we did not want the developer to move forward with projects if the market was so bad or, down-market delay, the market wasn't ripe for development. That strike price is important to protect the Port and make sure that we want the developer to transact, and the economics are working. We're not asking for you to approve the appraisal. The appraisal process is set forth in the agreement, the LDDA. We have a certified third-party appraiser who has done two types of analysis, residual land value and comps, to conclude that the value is \$5 million. What we're asking is to be able to transact below that strike price of \$11.3 million. We're asking you to do that because we want Brookfield to deliver housing and office in the first phase. The same appraiser using the two forms of analysis concluded that the office was \$66 million, and the strike price is four times less than that.

Rebecca Benassini – It is five times the strike price. It's 12.7.

Elaine Forbes – It's \$12.7 million. When we were able to negotiate also a reduction in the closing costs, when we look at it on balance with office coming in so high and the housing coming in below the strike price, we find our way to say we prefer and recommend strongly a phase that delivers both parcels and that the economics for the Port is preserved or preferred here because it is in the Port's interest that we move the projects forward and transact because we are holding and paying a 18 percent return for the developer's cost for infrastructure and soft costs. That is why we're asking that you give us authority to transact with Brookfield below the strike price on E2. As Rebecca has described, in addition to preserving the Port's economic interest in the project, it preserves a really important policy goal, which is to deliver this apartment, with 20 percent affordability. We want to get the housing in the ground.

Tim Runde – My role in this process was not to appraise the property but to provide review of the appraisal that was completed. This is a complicated assignment. It's not as simple as a simple land appraisal. There probably isn't any such thing as a simple land appraisal. It's the hardest thing to get right in the world. To Commissioner Makras' point, I started in the same place, frankly. It's like you can't have land worth zero or near zero. That just doesn't make sense. I've been appraising the Bay Area real estate for 30 years. I've never seen a market where all the fundamentals are so strong and yet a type of project is not financially feasible but rental housing right now in San Francisco is not financially feasible. Almost no one is going forward with it unless they have legacy projects, have other reasons for doing it. It just doesn't pencil out. Most of the sites that are now trading, if they are for residential, are trading for condominiums. Pretty much the only residential projects that are feasible are very high-end, luxury condos. As an appraiser, I put my hat on and go, well, that means the highest

and best use of this property just changed. It should be a condo site. Well, that may be the case or you hold it until the rental market is better. The problem is we don't have that option here. Number 1, we're locked into a rental project. Number 2, we're locked into a rental project that has to do BMR on site. That's more expensive than paying the in-lieu fee in most cases. Number 3, we have an onerous BMR requirement of 20 percent of the units at 80 percent of the AMI. Now, compared to one of the two comps that they had on there which was 13.5 percent at a 55 percent AMI, based on my calculations that's about a \$10,000 cost to the project. Number 4, we have the special tax, which was mentioned as it's not that big a deal. If you do the math on it, it's about a \$35,000 hit to the value of the property compared to everything else in the market that doesn't have that. Taken together, the BMR and the special tax requirement knocks about \$40,000, \$45,000 off of the value. If you start at this \$100,000 benchmark for a market-rate unit, you get down to the \$55,000 range pretty quickly. Then, you knock off the leasehold value because it's not a fee-owned project. It can't be. Suddenly, you get down to this \$10 million range or so. Now, is \$5 million the right number? I don't know. Is it within the range of reasonableness for this project given all the complexity of it? I think it is.

I'll be honest. I don't like residual approaches. I don't like developer approaches. In fact, in a lot of places in certain court jurisdictions, you're not allowed to use developer-residual approaches for land valuation. Why? Because there's so many variables in play. It can be either intentionally or unintentionally manipulated. I'm not saying any of that happened here. I think that the appraisers did a very competent job. We had a lot of back and forth productive from all parties involved in this in trying to figure out what's the right number but when you come up with a land residual that points to a significantly value on the land, it says right away we're not going forward with this.

Even though I don't like it, the market uses land-residual approaches, return-on-cost analysis all the time to value these things and decide if they're going to go forward. They can't get financing. The loan committees won't approve it if it doesn't meet minimum thresholds. The thresholds that the appraisers used in this case are reasonable. They are within the margin. If anything, they're somewhat conservative, meaning that they're actually giving a benefit of the doubt to the land value by the land-residual approach.

If this were a site that was not in this particular situation where it had to be a prepaid ground lease, had to be rental, had the higher BMR requirement, all these other factors, you could simply sit and wait. You could say, we'll just park on it for a while and wait. Or we'll pursue different kinds of entitlements. We don't have that option here. The only option you have is you either go forward with it now, or you wait until later which in San Francisco for 30 years, land values have only gone up except for one property type. They've actually started to crater a bit for multi-family residential because the BMR requirements are getting onerous. For all types of real estate, costs are significantly outpacing the escalations in rental rates. Rental rates are now flattening out. More units are coming online that are getting absorbed in San Francisco. Vacancy is starting to push up a little

bit. The concessions are coming up on these, and the rents are going nowhere the last two years for rental not just in San Francisco but throughout the Bay Area because I work in Silicon Valley as well. It's the same thing happening there.

In fact, last year, rents went down a little bit, 0.3 percent in Santa Clara County. It occurred to me the other day we may be at a point where rental housing is not viable or feasible in San Francisco without some sort of a subsidy. That means that, if you have to build rental, maybe your land isn't worth anything in terms of a market-value analysis. That seems a little bit hard for me to understand but it does seem to be where the market is at. If you keep having 6-7 percent or 5-7 percent construction-cost increases every year and rents are starting to flatten out or maybe only going up 2 percent a year and the projects were marginally feasible before, they're not going to be feasible going forward. It's entirely possible that we may not see a time where market-rate, multi-family housing on a rental basis makes financial sense. I'm not saying that's the case for sure because we may have a downturn that may change the dynamics of the construction trades and all that. But for the foreseeable future, I don't see any relief in sight for this disparity between cost and rent. Why are the rents not growing faster? We've reached an affordability threshold. There's only so many high-paying tech jobs that are going to pay \$3,000 for a studio or \$4,000 or \$5,000 for a two bedroom.

Commissioner Woo Ho - Thank you very much. That was very helpful to hear that. You have given some important background substance to the analysis of understanding how we got to the \$5 million. I still stand in terms of believing that this project needs to move forward. We need to look at it holistically. We may not be technically totally correct, as you said, very hard to predict the future but it's a question of whether we want to move forward or not. I vote to move forward.

Commissioner Gilman - I absolutely think we need to move this project forward. I'm aware of hundreds and hundreds of residential units that are permitted and waiting. Folks I know in the for-profit development community are not moving forward with residential rental due to a variety of reasons, one, our inclusionary requirements to construction costs, which I in the analysis I see in the industry, I don't see those going down. I do think it's critical that we move forward and that we capitalize on a strong office component right now to make that possible.

The questions I had are just more for my own knowledge. I wanted to check in since I wasn't here when we approved the DDA. I wasn't on the commission. I'm assuming the phasing is part of that DDA. The phasing cannot be changed.

Rebecca Benassini - That's correct. It can only be changed by coming back to the commission.

Commissioner Gilman - When you say mid-term versus near-term, I'm curious what mid-term means and if we anticipate seeing this as an issue for Building 2.

Rebecca Benassini - Very good question. The near term are buildings that are either in construction, Building 12, or have approved designed associated with that and that's E2 and A. We expect Building 2 and D to come next. They have begun design on both of those buildings. One is a condominium. One is an apartment. Then the longer-term parcels, one is controlled by MOHCD. They're beginning the RFP process to bring a developer on board. C2B is the longest-term condominium in that we know that Brookfield is eager to move forward to get the whole phase complete. I put it in that category because it doesn't have a design associated with it. I view it as sort of the next term of parcels but they're all part of phase one.

Commissioner Gilman – Does mid-term mean that you're going to be back to the commission in six months? 12 months? 18 months? My question is, if the market is having such a downturn, are we going to see the same problem with Building 2 where it has no office to anchor it and that building would be at risk?

Rebecca Benassini - Very good question. We anticipate Building 2 and D and C2A-2D to come this year. For C2A, MOHCD is working hard on the RFP. We'd expect they'd have a developer onboard soon and, then, C2B, maybe towards the end of the year. But your point is well taken. We may have a similar problem with Building 2. We'd expect we'd come to some sort of creative solution with Brookfield, but we don't know what. We don't know yet until we do that appraisal.

Commissioner Woo Ho - I want to address because it's looking like, why did we agree to prepaid leases? I think we used the concept of prepaid lease value both with Mission Rock and this project. At that time, that was an innovation that we used and that was to help us. Of course, it depends on where the market is in a cycle. But that was to help us, as I recall conceptually, to give the Port greater value so that we could offset against the developer's capital and return.

Elaine Forbes - Yes.

Commissioner Woo Ho - We should not forget that concept because if we hadn't used that, then we could just use the normal lease value. But at the time, it appeared that that was a way for us to offset being able to pay back the developer's return faster. So that was an economic value to the Port. Am I correct?

Elaine Forbes - Absolutely right. Yes.

Commissioner Woo Ho - I think we do not forget that concept. That's the reason we did it. I think we started with Mission Rock. Correct?

Elaine Forbes - Absolutely true. We're talking about the challenges of transacting and difficulties in the deal but there's actually a lot of value and benefits in the deal you approved. One is that we can be having this conversation to transact an apartment in this economy when no one else can do so. We're able, because this project is on public land, to look at the office plus the apartment and make a

decision to go forward with both. The CFD taxes that we're concerned about holding back value, those taxes are critical for us to repay infrastructure and provide sea-level-rise protection. Furthermore, Port staff is incentivized more than any party to transact quickly because we want to see the projects move forward, so we can repay the developer investment.

There are many things about this transaction, while we're struggling with this phase today, that are incredibly innovative. We are able to be in the marketplace when other private-sector, similarly situated parties are just not able to do so. Absolutely, the prepaid concept was to maximize the Port's ability to pay back the developer quickly to get out of the 18 percent return. There are multiple sources of revenue to the Port from this transaction, rent but also the taxes as well. I did appreciate your comment in remembering why we chose prepaid leases.

Commissioner Gilman - Do you anticipate a similar problem when we come back with Building 2 and Building D, that the valuation for Building D will be out of whack and much higher because condominiums are what people can build, and the rental housing is going to be lower? R

Rebecca Benassini - We're looking at that right now. I don't want to get too far ahead of myself. In bringing this deal to you, we're looking down the road at the next couple of parcels and trying to be forward thinking.

Commissioner Gilman - Is there an affordability requirement on Building 2?

Rebecca Benassini - Yes. All of the rental at Pier 70 have a 20 percent inclusionary requirement.

Commissioner Gilman - With an average AMI of 80?

Rebecca Benassini - Yes.

Commissioner Gilman - This is a complex deal. I really appreciate the remarks from our third-party appraiser. Thank you for laying the groundwork of what the market is doing. I do want to tell my other commissioners that I have a lot of friends in the for-profit real-estate-rental market. No one is moving forward on their transactions due to the climate. Most people are sitting on their entitled properties right now. I am very supportive of us moving this forward.

Commissioner Adams - First of all, I want to thank Commissioner Makras for his presentation. For me, I told Director Forbes and I told President Brandon my whole issue was that it was the lack of conversation prior to coming to the public. I had an issue with that. I was very frustrated with that. Sometimes, we jump a couple steps ahead. To me, I don't think that that was right because, as commissioners, we have an obligation to the public. Sometimes, we just get out ahead of ourselves. When we held this thing over, I listened to the \$28 million. I met with Mike last Friday. We talked and we walked through this issue. I was

very frustrated because I told Mike that's not a lot of money. We talked about it. He was very honest about where it's at right now for the value. I can appreciate what Commissioner Makras said. We could get \$28 million but in this situation, we're not going to. We just have to make the best out of it. That's kind of how it is right now. It's how the world is now with the coronavirus. A lot of things have just happened now and the economy, a lot of things. That's how it is. I'm going to support it because last week Commissioner Woo Ho really dug down into it. I was starting to understand it. It's both pieces together. I'm for affordable housing. I'm in favor of supporting this. I appreciate the guy that came up and laid out a couple other things that I got a clearer vision of it. It's painful. As a Port, this is our job and our business as commissioners. It is what it is. I don't know if some at point that it'll get better but I'm going to go ahead and support this.

Commissioner Brandon - Rebecca, thank you so much for this presentation. I know a lot of work has gone into this. I know that there are a lot of questions. I just want to say how happy I am that we have commissioners that ask questions, that really want to know what it is we're doing and why we're doing it. Thank you for the work that you put into this in looking at this. As everyone has said, it's a complicated project. It's a complicated deal. We are extremely lucky that the office environment is doing so well and that we have that little hedge. As Tim said, when you think about it, how does that much land have a value of a million dollars? How is that even possible? The fact that we were able to get up to \$5 million, I think that's wonderful. If I thought we could get anywhere past the \$11 million, I might say let's hold this over. At this point, it's been gone over with a fine-tooth comb and this is where we are. If we want to move forward, then we need to do something now.

With regards to the mid-term phase, the next phase, you should bring it to the Commission sooner rather than later because, if it's a discussion like we've had over this one, it's going to take time to find a resolution. It can't be that we're losing money by not moving forward. Be prepared for the next round to come to us sooner rather than later, whenever the appraisal is done and whenever we need to start negotiating. Right, I will support this moving forward.

ACTION: Commissioner Woo Ho moved approval; Commissioner Gilman seconded the motion. Four of the Commissioners were in favor. Commissioner Makras cast the dissenting vote. Resolution No. 20-07 was adopted.

- B. Request approval of Port-related transaction documents for the California Barrel Company LLC (CBC) mixed-use project located on the former Potrero Power Station site bounded by 23rd, Illinois and 22nd Streets and San Francisco Bay, including Port of San Francisco shoreline and adjacent lands referred to as portions of Seawall Lot 349, Pier 72 and 23rd Street, including: (1) consent to Development Agreement between the City and CBC; (2) approval of lease with CBC to use Port lands for public parks and open space and publicly accessible ways, including an option to impress a public trust easement on privately owned shoreline land and a portion of 23rd Street leading to the shoreline; (3) delegation of authority to Port's Executive Director to enter into one or more Memoranda of Understandings with various City agencies, including the San

Francisco Public Utilities Commission, the San Francisco Public Works Department and the Department of Building Inspection, relating to each agency's role and responsibility; and (4) adoption of environmental findings, including a mitigation monitoring and reporting program and a statement of overriding considerations, pursuant to the California Environmental Quality Act. (Resolution No. 20-12)

David Beaupre with real estate and development - I'm joined here today by the Potrero Power Station team, Enrique Landa, Erin Epperson and Tina Chang and also joined by city staff and Port staff including Jon Lau from Office of Economic and Workforce Development, Mike Martin. I also want to show my appreciation for Eileen Malley, Carol Bach and Rona Sandler who have been extremely helpful in pulling this together.

I was in front of the commission at the last commission meeting two weeks ago. I want to give a brief presentation on the Port's role in the project, the location and the plan and then the actions that you'll be taking today. The Potrero Power Station is located south of the Pier 70 project that you just were considering. It's in a 29-acre site, mixed-use development, in many aspects very similar to the Pier 70 special-use-district project. Within the 29-acre project site, there are several different owners: the blue, which is the primary portion of the site is owned by California Barrel Corporation, part of the Potrero Power Station team; the purple, which includes 23rd Street. The areas along the shoreline are the Port projects which are subject to this approval today.

There are some other areas including the red area, which will be essentially Craig Lane, which is an alleyway that splits the property both between Potrero Power Station and Port land, also a part of the approval today. As discussed last week, the land-use plan is a mixed-use project. The yellow is the residential with approximately 2,600 units. The blue is the commercial office, life science and lab space, approximately 1.5 million square feet. The hatched area is either hotel or residential at about 240,000 square feet. There's about 100,000 square feet of ground-floor retail spread throughout the building and approximately five acres of parks illustrated in green including those on the Port property.

The Potrero team at the last commission meeting covered all of the community and Port benefits. Obviously, housing is a big one on the site. There are several community facilities planned. There are the parks and the extension of the Blue Greenway, transit, childcare and, of course, jobs.

The approvals today include: a consent to the development agreement along with the city and the developer; approval of the lease, which comes with an option to impress the public trust on the area outlined in yellow, which is both a portion of 23rd Street and additional shoreline parks; delegation to the executive director to enter into an MOU with other city agencies regarding permitting; and then, of course, adoption of the environmental findings consistent with CEQA.

Cynthia Gomez, research analyst with UNITE HERE Local 2 - We are the hotel and hospitality workers union. We are in support of this mixed-use project, commonly known as the Potrero Power Station. In particular, hotel use is contemplated at this project and a very creative use of some of the building elements of the decommissioned power station. We have signed an agreement with the project sponsor regarding the jobs at this eventual hotel, specifically a guarantee for a fair and neutral process for the eventual hotel workers if they wish to be represented by a union. Agreements such as these continue to create a path for the hard-working people in the hospitality industry to fight for respect and dignity on the job, affordable healthcare benefits, a dignified retirement and a living wage. We speak in support of this project today. We ask that you grant all the necessary approvals for it.

Keith Goldstein - I am the chair of the Eastern Neighborhoods CAC. I'm a Potrero Boosters board member. I've also been president of the Potrero Dogpatch Merchants Association for the last 230 years. I've lived on Potrero Hill for 45 years. A couple of weeks ago, I sat at the planning commission where they listened to this project. There are about 50 community members that spoke in support of this project. It was quite inspirational. There was nary a voice in dissent. It was something I've not seen before. This was because of the remarkable community outreach that the developers have undertaken. I would often walk around the neighborhood and see the developers chatting with any member of our community. They'd have these office hours in our local hubs and coffee shops where anybody could come and chat to them and talk about their concerns. They listened to them. We would typically expect such a project of a waterfront, the Bay Trail, the green space, tremendous affordable housing, 2,600 units, 30 percent affordable is fantastic. It's what we all ask of everybody in our neighborhood. They're actually coming through with so many of them low-level of income. The preservation of Building A, the wonderful bi] building, I've been a masonry contractor in the city for over 40 years. I didn't expect them to preserve that building because it is tremendously expensive to do that. The homeless prenatal program, coming up with ideas like this that went beyond what we would normally expect housing for homeless prenatal, two childcare centers, a 25,000-square-foot YMCA. This is a tremendous project for our waterfront, for our community and for the whole city. I hope you feel the same way.

Bruce Huie - I'm a Dogpatch resident. I live three blocks from the project site. I've been in Dogpatch for 18-plus years. Keith and I have the Eastern Neighborhood CAC together. We are both in support of this project. I don't want to go over the details because Keith has done a great job of enunciating them. But the community around the project actually supports this not only for us but also for the neighborhoods to the south as we look toward developing more of the waterfront as a whole.

Commissioner Woo Ho - We had a very impressive presentation already last week and I don't have that many questions going forward and have seen the site previously and actually was out at Pier 70 just with Andre and Commissioner Brandon. We did look over and see your site, which is right next door. We were actually looking at the Orton Development rehabilitation. They're all together. It

was impressive to see. It would be wonderful to see how that whole neighborhood will come together. It does seem like it is coming together. There's a lot of collaboration and planning together. Based on our previous conversation and given that this project is not within our purview, but I'm going to ask it out of curiosity in terms of the fact that there's a lot of residential housing coming up and the affordability has been mentioned, 30 percent, whether there's going to be any concerns similar to what we just went through, the discussion of whether this can move forward because of the situation with multi-family housing development and the market right now.

Jon Lau, Office of Economic Development - We've tried to address the uncertainty of the market conditions in a number of ways. One is there's a 30-year term, which is a long period of time for one of these development agreements. Secondly, the program is balanced within residential and commercial, with over 1.5 million square feet of office and/or life science in the entitlement as well as up to 2,600 residential unit with the inclusion of the PG&E property. We feel there's room to be flexible and respond to market conditions. We've actually placed a mechanism in this agreement that ensures, if the market is only there for building office for a time, that there's still a BMR requirement that accrues and is owed at certain points to the city with that office development. Given almost certain uncertainty in the future, we've tried to bake in certain kind of basic parameters in terms of city benefit and BMR in a market that exists as it does now at least for housing and life science.

Commissioner Woo Ho - It sounds like you're taking a flexible approach. We're obviously not here to examine all your numbers because we're just talking about slivers of Port property. Given the very heated discussion that we just had earlier, it's just a concern about how this project is addressing the same issue.

Commissioner Gilman - The presentation was wonderful last time. Great to see you back here for an action item. I support it.

Commissioner Makras - No questions. I'll be supporting it.

Commissioner Adams - Commissioner Woo Ho, you heard about the heated debate. We're just getting ready for the presidential debate tonight. This is just the prelim to what's going to be happening tonight down in South Carolina. I'm good with it. I support it.

Commissioner Brandon - David, thank you for the presentation. I don't think much has changed since the last presentation. But I just want to say how excited I am about this project and the fact that it has almost a billion dollars in community benefits. I think that's phenomenal. I, too, will support this.

ACTION: Commissioner Makras moved approval; Commissioner Woo Ho seconded the motion. All of the Commissioners were in favor. Resolution No. 20-12 was adopted.

14. NEW BUSINESS

Elaine Forbes - On new business, we will be scheduling an informational to go over the capital budget of last year and our achievements as well as open projects for discussion. Is there any other new business?

15. ADJOURNMENT

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

Port Commission President Brandon adjourned the meeting at 5:15 p.m.