



SAN FRANCISCO PORT COMMISSION

**OCTOBER 11, 2022
MINUTES OF THE MEETING**

MEMBERS, PORT COMMISSION

**HON. WILLIE ADAMS, PRESIDENT
HON. KIMBERLY BRANDON, VICE PRESIDENT
HON. JOHN BURTON, COMMISSIONER
HON. GAIL GILMAN, COMMISSIONER
HON. STEVEN LEE, COMMISSIONER**

**ELAINE FORBES, EXECUTIVE DIRECTOR
CARL NICITA, COMMISSION AFFAIRS MANAGER**

CITY & COUNTY OF SAN FRANCISCO PORT COMMISSION

MINUTES OF THE MEETING October 11, 2022

1. CALL TO ORDER / ROLL CALL

Port Commission President Willie Adams called the meeting to order at 2:00 p.m. The following Commissioners were present: Willie Adams, Kimberly Brandon, Gail Gilman and Steven Lee. Commissioner John Burton was excused.

The Commission Affairs Manager read the Ramaytush Ohlone Land Acknowledgment.

2. APPROVAL OF MINUTES – September 13, 2022

ACTION: Commissioner Gilman moved approval of the minutes. Vice President Brandon seconded the motion. The minutes were approved unanimously.

3. PUBLIC COMMENT ON EXECUTIVE SESSION

No Public Comment.

4. EXECUTIVE SESSION

A. Vote on whether to hold a closed session and to invoke the attorney-client privilege regarding the matters listed below as Conference with Legal Counsel.

ACTION: Commissioner Gilman moved to go into closed session. Vice President Brandon seconded the motion. The motion passed unanimously.

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

(a) Property: Pier 50 Shed B Bulkhead
Person Negotiating: Port: Rebecca Benassini, Deputy Director of Real Estate and Development
Negotiating Parties: Eric Gilliland, Vice President of Operations, Hotaling & Co.
Under Negotiation: ___ Price ___ Terms of Payment X Both
In this executive session, the Port's negotiators seek direction from the Port Commission on factors affecting the price and terms of

payment for a proposed new retail lease at the abovementioned property. The executive session discussions will enhance the capacity of the Port Commission during the public deliberations and actions to set the price and payment terms that are most likely to maximize the benefits to the Port, the City, and the People of the State of California.

(b) Property: Lease No. L- 16141 for Seawall lots 301, 314, 321, 323-324 and Piers 19½ and 29½

Person Negotiating: Port: Rebecca Benassini, Deputy Director of Real Estate and Development

Negotiating Parties: Timothy Downey, Senior Vice President, SP Plus Corporation, representing SP Plus-Hyde Parking Joint Venture.

Under Negotiation: ___ Price ___ Terms of Payment X Both

In this executive session, the Port's negotiators seek direction from the Port Commission on factors affecting the price and terms of payment in an amended lease for the abovementioned property. The executive session discussions will enhance the capacity of the Port Commission during the public deliberations and actions to set the price and payment terms that are most likely to maximize the benefits to the Port, the City, and the People of the State of California.

(c) Property: Seawall Lot 345, located on Terry A. Francois Boulevard at Mariposa Street

Person Negotiating: Port: Rebecca Benassini, Deputy Director of Real Estate and Development

Negotiating Parties: Arvind Patel, St. Francis Marine Center and Ramp Restaurant Company

Under Negotiation: ___ Price ___ Terms of Payment X Both

In this executive session, the Port's negotiators seek direction from the Port Commission on factors affecting the price and terms of payment for rent in a new or amended lease for the abovementioned property. The executive session discussions will enhance the capacity of the Port Commission during the public deliberations and actions to set the price and payment terms that are most likely to maximize the benefits to the Port, the City, and the People of the State of California.

Present: President Willie Adams
 Vice President Kimberly Brandon
 Commissioner Gail Gilman
 Commissioner Steven Lee

Also present: Elaine Forbes, Port Director
 Michael Martin, Assistant Port Director
 Carl Nicita, Commission Affairs Manager

Kimberley Beal , Assistant Deputy Director for Real Estate
Jennifer Gee, Senior Property Manager [present for (a) and (c)]
Don Kavanaugh, Senior Property Manager [present for (b)]
Andre Coleman [present for (c)]
Grace Park, Acting General Counsel
Rona Sandler, Deputy City Attorney

5. RECONVENE IN OPEN SESSION

- A. Possible report on actions taken in closed session pursuant to Government Code Section 54957.1 and San Francisco Administrative Code Section 67.12.

No Report.

- B. Vote in open session on whether to disclose any or all executive session discussions pursuant to Government Code Section 54957.1 and San Francisco Administrative Code Section 67.12.

ACTION: Vice President Brandon moved reconvene in open session without disclosing closed session discussions. Commissioner Gilman seconded the motion. The motion passed unanimously.

6. PLEDGE OF ALLEGIANCE

7. ANNOUNCEMENTS

The 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 and similar sound-producing electronic devices are prohibited at this meeting. The Chair may order the removal from the meeting room of any person responsible for the ringing of or use of a cell phone 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 public comments on each agenda item unless the Port Commission adopts a shorter period on any item. Public comment must be in respect to the current agenda item. For in-person public comment, please fill out a speaker card and hand it to the Port Commission Affairs Manager. For remote public comment, instructions are on the first page of this agenda. During public

comment, the moderator will instruct you to dial *3 to be added to the queue. An audio prompt will signal when it is your turn to speak.

8. PUBLIC COMMENT ON ITEMS NOT LISTED ON THE AGENDA

No Public Comment.

9. EXECUTIVE

A. Executive Director's Report

- Economic Recovery
- Equity
- Resilience
- Key Project Updates

Director Forbes: Good afternoon, President Adams, Vice President Brandon, commissioners, Port staff and members of the public. It sure is good to see a full room here in commission today. I am Elaine Forbes, executive director of the Port of San Francisco.

I'm going to jump right into economic recovery because I have a lot of good news to report. I have a long report, so bear with me. We have just so much that's been happening and so much that will happen to invigorate our waterfront and sustain our emergence from the COVID financial crisis.

We welcome tens of thousands of people to our waterfront with events and intentional activations. And we carry that momentum from summer to early October. And we plan to carry it forward so that our waterfront is a great place for residents and for our visitors.

And as we know, a vibrant and welcoming waterfront is key to our economic recovery. So we're coming off an incredible Fleet Week week. I want to thank the commissioners for joining staff at various events to celebrate our sea services and rich maritime history.

Fleet Week brought many visitors to our shoreline. And they found incredible waterfront experiences. We had a very clean and safe waterfront for Fleet Week. And I just really want to thank our maintenance team, our emergency services group, the maritime team, property managers.

They all contributed to making Fleet Week a really, really great experience. And they went way above and beyond. And our waterfront was truly sparkling this weekend.

And what a month our maritime division had in September. The public can now buy fish directly off the boat year-round for fish and crab. And that's just a

wonderful thing to welcome residents down to the Fisherman's Wharf. And I want to thank the commissioners for your support.

Now, we have Bay Area Council's new floating headquarters. The historic ferryboat Klamath at Pier 9 is open. This historic ferryboat Klamath is a testament of waterfront resurgence and represents a very impressive model of community coming together with fundraising to ensure the city is economically vibrant.

Another first for the Port -- we brought tens of thousands of people to our southern waterfront to Pier 80 to experience renowned musicians and artists at the Portola Music Festival. San Francisco has always been a home for excellent music and culture. And we're proud to have been a contributor.

The promoters of this event intentionally connected with BIPOC community in the southeast in a job fair for employment and with vending opportunities. Local favorites were there like [Auntie April's], Radio Africa Kitchen and Yes Pudding.

Next year, we will work with the festival partners to minimize noise. There were some noise complaints especially in Alameda as noise echoed off the bay. But they did work to minimize noise. And we will work harder next year with a plan.

I'm very proud of our maritime team for thinking innovatively and equitably about how to activate our waterfront. And cruises continue to bring thousands and thousands of visitors to the city. We will have a record-breaking year for cruise calls with expected 119 calls.

In September, we welcomed a cruise ship to Piers 30/32. And this is the first one in over a decade. I want to recognize the commissioners that were here when we built the cruise ship terminal back in 2015. And I want to say that we did not predict that that \$114 million investment would return so quickly, and it has. So I want to thank you for your foresight to invest big in cruise.

Port parks and open spaces are continuing to be well loved and active. With partners and community, we hosted the Sundown Cinema at Crane Cove Park. It was the -- this is the first for our parks.

Our staff who attended observed a really great event that brought a lot of new community families and faces to the waterfront. In many ways, this recent activation and success represents the future and the promise of what our waterfront will be, very vibrant, inviting, innovative and equitable, which brings me to equity.

I'd like to highlight more equitable waterfront activations with our partners. We are looking very forward to hosting the Harvest Festival with the Ferry Building, Foodwise and the city's Human Rights Commission.

This event will be Friday, October 28 through Sunday, October 30. This event is one in a quarterly series of events that celebrates and supports black-owned businesses, building on the success of Juneteenth. We are excited for the Harvest Festival.

Another exciting series of activations we are hosting in partnership with Rec and Park at Heron's Head Park is the [Bee Education] workshop at the EcoCenter. The series began last Saturday on October 8. Our partners intentionally prioritized outreach and attendance of BIPOC residents of Bayview-Hunters Point age 18 and over.

The workshops are led by the [Planet Bee] Foundation and introduced the basics of beekeeping. And we partnered with the city Human Rights Commission again recently and The New School to host Pathways to Parity.

This was a two-day equity-focused event with a call to action for increased access, support and economic inclusion for BIPOC entrepreneurs and business owners. Discussions addressed youth employment. We had some of the nation's most forward-thinking policy experts on transformational economic empowerment strategies and related impacts. They were featured in panel discussions.

Toni Autry of our team and Tiffany Tatum of our team attended. They highlighted our own equity strategies and partnerships including all the work this commission did during the pandemic to support our tenants.

Reminder: 225 tenants totaling \$13.7 million in rent deferral from more than 500 tenants creating a million-dollar zero-interest-loan program to support our LBEs that were financially devastated and enabling waterfront restaurants to create 700 outdoor seats and continue to do business while indoor dining was prohibited.

Our team highlighted our continued work for an equitable recovery with contracting support, tenants, activation and opportunities. We have a lot to be proud of. But we have also work to do ahead. I want to thank Toni Autry and Tiffany Tatum for executing this event on behalf of the Port. And thank you to Toni, again, and to Vice President Brandon for their work on the quarterly event series at the Ferry Building to support black-owned businesses.

Finally, this morning at Mission Rock, we were the site of a major state announcement. The secretary of California Labor and Workforce Development Agency -- she announced \$25 million state investment to remove barriers to women, nonbinary and underserved populations entering building and construction trades.

Mission Rock was chosen for this event because of the Mission Rock Academy where we saw a graduate class into the trades of all women construction

workers, mostly BIPOC women. So that's why this site was chosen. So congratulations to the Giants.

These are all examples of how the Port's DEI program includes the success of our partners who are intentionally committed to getting equity results. Now to resilience, today you have a big item. So I won't say that much.

But I do want to say that we've come a long way on the resilience program. We started with a GO bond as a down payment to the risk of earthquake and flood to our property. With the commission's support on that and with the commission's support on forming a relationship with the Army Corps of Engineers, we moved this program from knowing the risk to really understanding how to prioritize safety improvements.

And now, we're working with the Army Corps after five years of public engagement to refine what our flood plan will be and what our future waterfront will be to protect against rising tides. There will be seven adaptation strategies that you'll hear about today.

These strategies will be utilized to come up with a preferred plan across our waterfront. It won't be picking one strategy. But we'll be picking different strategies at different locations that make the most sense for our future. So this is a very pivotal moment for us.

It's a big transformation this commission has been pushing and preparing for. We have moved from needing funding, needing friends, needing a way to get this done to actually having a real plan on reducing earthquake risk under the bond and now preparing to get a real plan on flood protection with federal government support for the project.

So it's a big, big moment for us in resilience. So congratulations to all. To key projects, I have more resilience progress to share. I'm excited to report that the Heron's Head Park shoreline resilience project has now started construction.

As you know, this project restores and enhances wetlands and upland habitat along the bay shoreline. We also are including community engagement, local job training and green infrastructure activities. So this is a great project for many different reasons. And I'm proud of the engineering division for getting that on the ground.

And in closing to you, commissioners, now with much appreciation and excitement, I would like to recognize Vice President Commissioner Kimberly Brandon. She will be inducted into the San Francisco State University Alumni Hall of Fame and will be celebrated as the alumna of the year on Thursday, October 13th at Chase Center.

And I want to thank you, Commissioner Brandon, for your incredible leadership at this Port Commission for 25 years and your contribution not just to the waterfront but to all of San Francisco for your civic engagement.

And I want to recognize San Francisco State University as being an institution of excellence that makes such a contribution to people's lives and to our progress and to our values in San Francisco. So congratulations to you.

Vice President Brandon: Thank you. And not to mention, four out of our five commissioners are graduates of San Francisco State. [laughter]

Director Forbes: And finally, with a heavy heart, we have sadness. We have a recent death, a passing of Michael Hamman. He was a very strong advocate. And he worked for the Port and in our advisory committees. And he was part of the Bayview community.

He arrived in San Francisco in 1967. One of his first jobs was at the ILWU working on the waterfront. He had a passion for the waterfront and a passion for the Port and a passion for the Bayview community. He was on our SAC for 25 years.

And he was on other various public bodies and work bodies. He had a passion for his own trade which was -- he was a contractor. And he very generously shared his understanding of that trade. He also worked diligently to list the Shipwright's Cottage, San Francisco landmark number 250.

And he was a very gracious person. And he was an artist. And he offered his space for parties and convening. So it's with a heavy heart. We will miss him. And we ask that the meeting be adjourned in his honor. And that concludes my report. Thank you.

No Public Comment on the Executive Director's Report.

Commissioners' Discussion on the Executive Director's Report:

Commissioner Gilman: Director Forbes, thank you for that great report and such a great outlook for us as we come out of this pandemic from our cruise-ship calls to all the visitors. The news reported today that we welcomed over one million people this weekend, they said, to San Francisco for Fleet Week and Italian Heritage Month in our neighboring community in North Beach.

So I think that just really shows that we're coming back economically strong. And I did want to say I had the honor to meet many of the admirals and commanders we partner with every day, the head of the Army Corps of Engineers -- I had an opportunity to meet him and so really proud of our work and partnership on resiliency with our federal partners and our military partners to make that all

possible -- and excited to go to the Harvest Festival here at the Ferry Building. That concludes my comments. Thank you.

President Adams: Thank you, Commissioner Gilman. Commissioner Lee?

Commissioner Lee: No comment. Just great weekend. Except for the Blue Angels -- couldn't see anything. [laughs] But the waterfront looked clean and happy and crowded. And traffic was terrible. But hey, shows that everybody's coming out and spending money. And that's good for the small businesses on the Port. And I'm very happy.

President Adams: Thank you. Vice President Brandon?

Vice President Brandon: Elaine, thank you so much for your report. And from your report, we can all see that we are definitely on the road to recovery. And I think that is so wonderful. The past month, the Port has just -- it's like we're at pre-pandemic attendance with the cruise calls and with Fleet Week and with all that we're doing along the waterfront.

I just want to thank the staff because they're just doing such an excellent job at keeping the waterfront clean, safe and welcoming. So thank you. I'm glad to hear about the Harvest Festival. I think that'll be fun. And everybody should try to attend because that'll be great for the Ferry Building and everyone who enjoys our farmer's market.

Wonderful to hear about the \$25 million investment to our women workers. I mean, I think the Mission Rock Academy class of young women was just absolutely -- there was just so much joy and hope for these young ladies' futures. So I think that's a great investment. And I'm really sorry to hear about Michael Hamman. And his family is in my prayers. So thank you for your report.

President Adams: Director Forbes, excellent report. I'd just like to say, Vice President Brandon, thank you for your 25 years of stellar service and being one of the longest-serving commissioners in the City and County of San Francisco.

Your leadership, your guidance -- you wear San Francisco -- you wear the Port of San Francisco on your sleeves. And truly, you're a true patriot. And thanks for all that you're doing and glad that you're going to be inducted into the Hall of Fame. It's good when people are honored while they're alive, not when they're dead. [laughter]

Vice President Brandon: I agree with that.

President Adams: I think everybody in the room agrees with that. You can't smell flowers and you can't hear the words when you're dead. I just wanted to say too that I know the last several years has been tough. I know we've all died a

little bit in this war we've had the last several years here with COVID and stuff like that.

I've heard people say that San Francisco has seen its better days, that San Francisco is not the same city. Well, San Francisco is coming out of it. And things change. In life, there's good days, and there's bad days. But it's good to see that we're going to have 115 bookings.

I'm glad that the noise was too loud over in Alameda. [laughter] That's good. That's who we are. This is a port. Right. That's good. So that means the vibrance is coming back. People are coming back to the waterfront especially to a city that used to have 30 million tourists a year.

So I'm glad to see that. The vibe is coming back. We will be coming out of this new and refreshed and with a new vision. You've got to remember this used to be a city where the average age is 27 years old. So I'm hopeful, grateful. And I know this commission is all on board.

We appreciate the work of you and the staff at the Port. I want to give a shout out to staff in the back. Thank you so much for making this happen. As we go into 2023, let's continue to give it all that we've got for the rest of 2022 and then go into 2023 with a bang.

10. CONSENT

- A. Request approval of a resolution adopting findings under State urgency legislation to allow certain members of this body to attend meetings remotely during the COVID-19 emergency; continuing to allow certain members to attend remotely for the next 30 days; and directing the Commission Affairs Manager to agendize a similar resolution at a Commission meeting within 30 days. (Resolution 22-48)
- B. Request authorization to award Construction Contract No. 2842, Maintenance Dredging 2022-2024, to The Dutra Group, in the amount of \$7,238,750, and authorization for a contract contingency fund of 10% of the contract amount (or \$723,875) for unanticipated conditions, for a total authorization not to exceed \$7,962,625. (Resolution 22-49)
- C. Request approval of a proposed retroactive license with San Francisco Community Fishing Association, a California Non-Profit Corporation, for 2,424 Square Feet of Shed Space and 1,602 Square Feet of non-Exclusive Apron Space at Pier 45 Shed D on a month-to-month basis. (Resolution 22-50)

ACTION: Commissioner Gilman moved approval of the consent calendar. Vice President Brandon seconded the motion.

No Public Comment on the Consent Calendar.

All Commissioners were in favor.

President Adams: Motion passes unanimously. Resolution 22-48, 22-49, 22-50 are adopted. Thank you.

11. WATERFRONT RESILIENCE PROGRAM

A. Informational presentation on the Draft Waterfront Adaptation Strategies.

Adam Varat: Thank you. Good afternoon, commissioners. Adam Varat, deputy program manager for planning for the waterfront resilience program. I'm really excited to be here today to present an update on the waterfront resilience program and specifically our draft waterfront adaptation strategies, which we are rolling out after nine months or more of very hard work with our partners.

So today, I'm going to start by talking about the risks that we're facing, the waterfront resilience program, what we've heard over our previous five years of public outreach and engagement, what we're considering in terms of how to adapt the waterfront and go over the draft waterfront adaptation strategies across the waterfront before concluding with next steps.

So we're at a pivotal moment for this program. We've developed seven high-level draft waterfront adaptation strategies in close collaboration with our interagency partners and the U.S. Army Corps of Engineers and building on the last five years of public outreach and engagement that's informed this program.

These strategies are ready for public feedback with a goal of reaching a draft waterfront adaptation plan -- a preferred plan by next summer. As I mentioned, we've been working very closely with a number of city agencies, Planning Department, the Office of Resilience and Capital Planning, SF Public Works, SF PUC, SF MTA under the Climate SF initiative.

And as well, we have a partnership with the U.S. Army Corps of Engineers to develop a San Francisco waterfront coastal flood study, which I'll say more about now. So we are partnering with the Army Corps of Engineers on a coastal flood study for San Francisco.

Army Corps is a key federal partner in providing both technical expertise and funding for flood-risk reduction and could result through this process in significant federal funding for San Francisco for our coastal flood defenses.

The Port's goals for this program might be broader than the Army Corps' goals, which are focused primarily on coastal-flood-risk reduction. So we may have

additional community benefits such as seismic reliability, open-space access and other things that may be beyond what gets approved in this study.

Those will not be eligible for federal -- for the Army Corps funding through the study. But they will be part of our locally preferred plan. So to move into the risks, as we unfortunately see all too often, we know that climate change is here today and has global impacts across the nation and the world.

We are seeing these same impacts here in San Francisco. As we know, we have long-standing seismic risks that we need to be cognizant of and prepare ourselves for. As well, we have coastal and inland flood risks that we are addressing, inland flood risks meaning both stormwater and rising groundwater.

And that's what we're addressing through the waterfront resilience program and waterfront adaptation strategies as these risks are only going to be increasing over the coming years as sea levels continue to rise.

So this slide is showing the historic shoreline of the city. As you can see, pre-Western development, the city had significant inlets and coves and marshes and creeks coming down to the waterfront. Over time, these inlets have largely been filled in to the shoreline that we know today.

And as sea levels rise, these are the lowest-lying areas. So those are the areas where we're going to start seeing the flooding -- the coastal flooding coming in the soonest in the lowest areas. As well as you well now, we have significant earthquake risk.

Many of those same filled areas are subject to liquefaction, which is when the soil becomes sort of liquid and loses its stability. And you see those in some of the same areas particularly along the waterfront and along the former creek and wetland areas.

This map is showing a combined coastal flooding through the end of this century as well as that inland stormwater, rain and rising groundwater flooding. So this illustrates the complexity of the hazards that we're facing where you have water coming from various directions and needing to keep the coastal water out while allowing the inland floodwaters to drain out to the bay.

And this is some of the challenges that we're looking at and helped shape our strategies. And I'll walk through that right now with the sort of simple set of sort of cartoon drawings. So this is the [scaling] the city today. Over time, sea levels will rise.

If we do nothing, that will cause flooding of low-lying lands and buildings and infrastructure. So we can raise the shoreline to defend against this sea-level rise through seawalls, levees and other things like that.

However, this creates a kind of related risk in which groundwater and stormwater flooding would happen behind the raised shoreline, sort of a bathtub or ponding condition. And one way to address this would be with pumping or storage to reduce the flooding behind the raised shoreline.

So we're really talking about these two related forms of flooding, the inland flooding and the coastal flooding. And if we build kind of our coastal flood defenses at or near the existing shoreline, we have a small coastal flood zone. But we have a larger inland flood zone.

If we build those defenses further inland, we'll have a larger coastal flood zone where we'll have to adapt more of the land to coastal flooding. But we'll have a smaller inland flood zone and reducing a need for pumping and other measures.

So the strategies that you're going to see today rely on a combination of these two types of flooding or addressing these two types of flooding. And any solution that will be endorsed by the City of San Francisco to become our locally preferred plan will aim to address all three of these risks: seismic risks, coastal flooding and inland flooding.

So to speak about the waterfront resilience program, or WRP, this was created in order to take actions to reduce seismic and climate change risks and support a safe, equitable and sustainable and vibrant waterfront.

The boundary of both the waterfront resilience program as well as the flood study with partnership with the U.S. Army Corps of Engineers is the Port's jurisdiction from Heron's Head Park to Aquatic Park. These are the planning areas that we're looking at: Embarcadero, Mission Creek/Mission Bay and Islais Creek/Bayview.

They're very different from a sort of structural, physical as well as social perspective. And it's helpful to think about them independently. We know that there are areas outside of the city -- shoreline areas outside of the Port's jurisdiction that are also in need of adaptation at the shoreline.

And the city has other projects and other plans that are working to adapt some of these areas. For example, the Hunters Point Shipyard/Candlestick Point redevelopment area include sea-level-rise adaptations in its plans as well the India Basin shoreline park and India Basin mixed-use development also consider and adapt the shoreline to sea-level rise in those projects too.

So there are planning efforts happening outside of the boundaries of this study that we wanted to acknowledge are happening through other jurisdictions within the city. We are building on over five years of public outreach and engagement for the waterfront resilience program that has really helped shape through asset mapping and discussions of values and priorities across those kind of three

shoreline areas that I showed earlier about where we should really be prioritizing our focus.

We've done surveys and community-based-organization focus groups over the summer and heard kind of more information and more feedback, specifically an openness to really thinking big and thinking about the different types of strategies that we can be using, a focus on kind of concerns about feasibility, cost and disruption as well as kind of a rehearing interest in really connecting the city and its waterfront.

So those themes have continued to come up, and some new themes have come up as well. All the strategies you see today kind of build on public feedback we've heard to prioritize nature and nature-based solutions, heal the bay and ecology, to expand open spaces and enhance the city's connection to the waterfront across the waterfront and really to center racial and social equity and environmental justice.

We know that environmental justice communities are often hit first and worst by these types of hazards. Some of our lowest-lying areas are within the southeastern communities. And we know we need to address sea-level rise and other hazards in those areas.

So now, to walk through the range of solutions, kind of what we're considering. And this will lead directly into the draft adaptation strategies. So when we talk about the draft adaptation strategies, we're really talking about a mix of construction and policy efforts that will determine where, when and how high to build our coastal flood defenses.

We're talking about what are the physical changes or the measures that are involved. What types of measures are they? Are they seawall? Levees? Where do we incorporate nature-based features? Where is it appropriate to flood proof or do other measures to specific buildings or infrastructure?

And what are the associated policy changes that need to come along with that, whether it's resilient planning and building code, land-use changes or emergency warning systems and other operational changes?

So that's the suite of things that makes up the draft waterfront adaptation strategies that you're going to see today. And we started with these sort of four questions that help us shape kind of how we're thinking about the changes that we could make.

So what if we did not adapt to mitigate the risks? What if we adapted by flood proofing and moving buildings and assets only without building coastal flood structures? What if we addressed flooding at a lower rate of sea-level rise? And what if we addressed flooding at a higher rate of sea-level rise consistent and

recommended by California and local guidance?

And our seven strategies, strategies A through G, align to these different questions. And I'll quickly go through each of these strategies. We're going to take those seven strategies. We're going to go out to the public, get public and community input.

We're also going to be doing technical evaluation and cost estimating and cost-benefit analysis along with our Army Corps partners. And these are going to be used, as Director Forbes mentioned, to develop a draft waterfront adaptation plan by next summer.

As she mentioned, it's not going to be selecting one of the strategies. It's going to be choosing the best elements of each of them and building what we think is the preferred and best strategy from a cost-and-benefit standpoint considering social, economic and environmental impacts and benefits.

So now, I'll go through the seven strategies. There's quite a bit of information here. But I will try to do my best to keep it high level. Bear with me. So we're looking at kind of two major time horizons. As you've heard recently, there are the Embarcadero early projects and other early projects that were presented last month.

Those are immediate changes to improve disaster response and life safety. And when we're looking for the adaptation strategies, we're looking at a midterm adaptation of 2040, by which we see kind of initial significant flooding, and then a longer-term adaptation by 2090.

And in 2040, we're looking at kind of very -- the strategies start to look very similar to one another because the projections of sea-level rise don't vary that much. So we're really just trying to adapt to those kind of more known sea-level rise levels that we need to adapt to.

By 2090, we start to see a bigger range of potential futures. And we start to see a bigger range of strategy solutions. This chart shows the different levels of sea-level rise that we are building to. So you can see in strategies C and D -- these are the lower rate of sea-level-rise strategies.

And strategies E, F and G -- these are the higher rate of sea-level-rise strategies. These are meeting California state and City of San Francisco guidance to build -- adapt to three-and-a-half feet of sea-level rise by 2040 to last until 2090 and then seven feet of sea-level rise by 2090 to last until 2140.

So I'm going to start with strategies A through D and walk through those. Strategy A is our no-action strategy. This strategy takes no actions to reduce flood risks beyond projects that are already approved. This is really a baseline for

comparison of costs and benefits of doing something.

Strategy B is called the nonstructural option. This means not building a coastal flood-defense system, rather moving people and assets away from the risk or using nonstructural measures such as flood proofing or elevating individual assets to reduce the risks and allow the water to go where it wants but reduces the risk.

And this is something that's required by the Army Corps of Engineers as a point of comparison for studying the costs and benefits of other types of actions that we might take. Here's some examples from other Army Corps studies of what some of those actions could look like: flood proofing buildings, raising structures in place, doing buyout programs so that you're moving buildings, having warning systems. These are all nonstructural options.

And then, looking at strategies C and D -- strategy C is built to a lower projection of sea-level rise. It would adapt the shoreline to one-and-a-half feet of sea-level rise by 2040 using structural and nonstructural measures and would not be adaptable further.

So we would be addressing flooding in the lowest-lying areas along the waterfront here to that level. So you can see the sort of dark green line. It's showing where you would need to make interventions to adapt to one-and-a-half feet of sea-level rise.

Strategy D would adapt to the one-and-a-half feet of sea-level rise by 2040 but allow that to be adapted higher by 2090. So in 2040, this is looking exactly like strategy C. And in 2090, it would be adaptable to adapt to three-and-a-half feet of sea-level rise across the whole of the waterfront.

This would require raising the shoreline across the whole waterfront and would require pumping to let the inland flooding out. And it would require raising and elevating the bridges and connecting roads and rail over the creeks.

Now, I'll go into strategies E through G which are all built on the higher rate of sea-level-rise projections. So strategy E looks a little bit like C and D but at a higher level. It preserves a waterfront that looks and functions much as it does today by adapting the shoreline.

This is really responding to public feedback that we keep uses in place and kind of build on the existing shoreline as we have it today. Here again, you can see the green line being where we would build that coastal flood defense system around the entirety of the shoreline including the Port working lands and the creek inlets.

This would require a significant amount of pumping to be able to pump that

stormwater and groundwater out and reduce flooding -- reduce inland flooding. And it would also require raising the bridges and the connecting rail and roads over the creeks because the water continues to flow through the creeks.

In 2090, we would elevate that higher to seven feet of sea-level rise. And I should mention that the Embarcadero -- we would be going -- we would propose to go to seven feet immediately because of the complexity and disruption of dealing with a major construction project along the Embarcadero.

These are vignettes that I'll put through pretty quickly kind of for each of the three areas what this might look like. Here's how this strategy might look along the shoreline of the inner creek of Islais Creek. Here's what it could look like at Mission Bay along Terry Francois Boulevard. And here's what it could look like along the Embarcadero with the Ferry Building in the background.

Strategy F, also to the higher rates of sea-level rise -- we call managing the water. This would create a more active system for managing the flooding by relying on machinery such as tidal gates and pumps.

In 2040, we would build to three-and-a-half feet of sea-level rise -- to adapt to three-and-a-half feet of sea-level rise and seven feet at the Embarcadero. The major distinction here between the previous strategy is the addition of tidal gates at the mouths of the creeks, Mission Creek and Islais Creek.

These would be built to adapt to seven feet of sea-level rise. And they would protect the areas behind the tidal gate. So we would not have to elevate the bridges or roads, would not have to elevate the shoreline on the interior of the creeks.

The tidal gates would require ongoing kind of maintenance and operation over time and would present challenges for sort of the natural flow and habitat in those areas. 2090 -- we would elevate the shoreline to seven feet of sea-level rise. The tidal gates would stay in place.

In the southern waterfront, we would move the coastal flood defense along to Illinois Street and Amador Street. And what that means is that the areas and Port working lands there would need to be adapted in place.

Some of those nonstructural measures that I showed, whether it's flood proofing, elevating sensitive equipment, having emergency operations plans and the like, but they would continue to operate in place with those measures.

Here are some high-level perspectives at Islais Creek. Again, this does not elevate the creek edge. But it does harden and strengthen it to create a sort of artificial lagoon inside of the tidal gate, along Terry Francois and along the Embarcadero which would require a bit more bay fill in this option.

And finally, strategy G, aligning with natural water sheds would adapt the waterfront to seven feet of sea-level rise but work with natural flooding patterns to, in some areas, particularly in the southern waterfront, to flood proof some buildings and infrastructure and move other areas away from the risk.

So again, in 2040, this looks very similar to the other two. We would build to adapt to three-and-a-half feet of sea-level rise along the waterfront. This would buy us time to make more significant changes by the end of the century where we would pull back the line of defense and allow certain districts to flood and accommodate in those districts.

So in Mission Bay, we would create a floodable district with significant changes to buildings, infrastructure, roads, parks and the like. It would be able to be flooded at the ground floor but flood proofed with certain changes.

And along Islais Creek, we proposed to extend the creek channel and allow the water to come in to be a phased, managed retreat over many decades to enable more of a natural flow to Islais Creek. This would require kind of relocation of businesses and jobs in that area. No housing is impacted.

But there would need to be a concerted effort to kind of mitigate the impact on the businesses and the jobs and the people impacted in that area. Here's an example of what that would look like along Islais Creek, that same viewpoint. Here we are in Mission Bay with a sort of floodable district. And at the Embarcadero, what this means is really elevating at the shoreline as opposed to kind of filling out, extending into the bay.

So in terms of next steps, we are presenting to you today. We're about to embark on a significant amount of public outreach and engagement over the fall and winter. We're going to be doing technical analysis and evaluation with our agency and Army Corps partners.

And we'll be coming back in spring with a revised set of strategies heading towards a preferred strategy or draft waterfront adaptation plan, what the Army Corps calls the tentatively selected plan by next summer.

So we have a number of community engagement opportunities coming up. We will have community workshops and meetings, walking tours, District 10 waterfront community mixer. We have a lot of digital engagement tools. We have some interactive story maps with surveys embedded in them.

We'll be presenting to community-based organizations, doing focus groups and other engagement opportunities. We'd love and welcome your participation and happy to follow up on what that could mean.

So we're hoping that you and everyone can join us at all of these upcoming events. And to learn more, you can go to SFPort.com/WRP. Thank you. That concludes my presentation. And I'm happy to answer any questions.

President Adams: Excellent, Adam. I know Brad is with you. Now, let's open it up for public comment.

Public Comment on Item 11A:

Francisco Da Costa: Commissioners, my name is Francisco Da Costa.

President Adams: How are you doing, Mr. Da Costa?

Francisco Da Costa: And I am deep [into] understanding what the gentleman just presented to the commission. I would say, before the year 2035, we will have to deal with a tsunami. And so a tsunami will bring waves up about 35 to 50 feet. And that's what we should be prepared for.

Right now, we all know there's a coming recession. And the cost of building material -- we will have to have at least \$20 billion to address the situation at hand. In the meantime, we can learn from what happened in Florida and some other countries. But the main thing is the tsunami. Thank you very much.

Commissioners' Discussion on Item 11A:

Commissioner Gilman: Adam, thank you so much for the report. I really appreciate it. I just had three minor questions. It was very comprehensive. I'm not an engineer. This is not my field of expertise. So my first question is -- you mentioned on the slide -- you showed other planning efforts for parts of the waterfront that are not in the jurisdiction of the Port.

Candlestick was an illustrative example. Are we collaborating and coordinating with those efforts? Do we have any sort of joint meeting or information or data sharing so that we're all sort of moving in the same direction? I wouldn't want us to choose strategy F and they choose strategy A like as an example.

Adam Varat: Yeah. Thank you, Commissioner. Good question. We are collaborating with them. In fact, just -- I guess it was last week the Port and the waterfront resilience program were at the capital planning committee presenting our proposal.

We're a bit out in front on kind of what the city's standards for reducing flood risk and what elevations to be adapting the city to would be and kind of starting that conversation to make that a citywide conversation so that we are all working from the same standard.

Some of these development projects have been adopted over time. So they've built in kind of the best understanding of sea-level-rise projections at that time. So Mission Rock, Pier 70, Potrero power station and Candlestick -- I believe they are all built to the same level of sea-level-rise adaptations. We are working with them. Yes.

Commissioner Gilman: Okay. So I guess, on the vein of that question, Adam -- so for projects that are not -- you know, most of those projects are not fully completed. If we were to go with adaptation strategy F, would we then compel those private developers to build to that standard?

I guess my concern is that some of that construction is happening now. We know more than we knew then. Maybe you can't answer this question. So I apologize if you can't.

Could there be a scenario where we fortify the waterfront that we're responsible for with an adaptation strategy, those private developments don't, and in 2040 or 2090 they're coming back to the City and County of San Francisco for support?

Adam Varat: I might defer on that to Elaine or others who might know more. But we would be tying in to the high ground created by those projects.

Commissioner Gilman: Okay.

Adam Varat: So those projects would be lasting -- you know, they are built to last pretty far into sea-level rise. Also, some of them have built-in funding mechanisms. I'm not the expert on that. It looks like Brad might know more.

Commissioner Gilman: Okay.

Adam Varat: But yeah. We would be building to tie into those developments. More that you want to say? Okay.

Commissioner Gilman: Okay.

Adam Varat: Yeah.

Commissioner Gilman: And then, just my last question is -- you're doing all this great public engagement and outreach. How will you finally make a decision -- would you make a decision for one adaptation strategy for the whole waterfront areas? Or would you maybe choose a strategy F for the Embarcadero and strategy G for Islais Creek?

Adam Varat: Yeah. They could be mix and match based on the best elements of all of them. They could be mixed and matched within the different geographies like tidal gate is working, but this other feature isn't, you know. We would be

building the best that we could think of.

Commissioner Gilman: Okay. Incredible report. Thank you so much for all of your work and your coordination with the Army Corps of Engineers. I don't have any other questions.

Adam Varat: Thank you.

President Adams: Commissioner Lee?

Commissioner Lee: The only comment I have -- this is very -- it's like watching a movie. Right. What's going to happen in the next 100 years? [laughter] But in case -- knock on wood -- not only just flooding but earthquakes -- and there seems to be a lot of pumping going on here, you know, pumping the water out -- the backwater.

What's the backup plan for electricity? Are there going to be solar or any kind of - - you know, if somehow electricity happens -- the grid goes out and water comes in, what's the backup plan? Is that going to be part of the -- kind of the plan, not just the seawall but maybe, you know, power because of the pumping?

Adam Varat: That's a good question. I don't think we're at that level of detail yet. But it is an important component of kind of how resilient these features are when we get to the point of thinking about how they're built, what the engineering standards are and things like that.

So we're still working to identify even kind of like, well, what's the level of pumping capacity that we need? We can go from there to say, how are we going to generate that power? How much do we need? What are the alternative sources of power? That's an interesting consideration.

Commissioner Lee: All right. Yeah. I think that would be a great addition to the plan.

Adam Varat: Thank you.

President Adams: Are you done, Commissioner Lee?

Commissioner Lee: I'm done.

President Adams: Okay. Thank you. Vice President Brandon?

Vice President Brandon: Adam, thank you so much for this very important presentation. This has really been a historical journey for the Port. And I want to thank all the work that the staff has done to bring us to this point. It's a lot of incredible work. And just think. We just started five years ago. Amazing.

And of course, this could not have been done without the extraordinary partnership we formed with the Army Corps of Engineers and the high priority of Mayor Breed and our partner city agencies. Without them, we would not be in the position where we are planning flood protection for our entire waterfront.

So you guys should really be proud. We do need a vision for how we will adapt to sea-level rise. And I'm glad to see that we are driving towards a draft waterfront adaptation plan that residents and community stakeholders can help shape and support.

The plan will ultimately bring resilience investments and related public benefits to the entire waterfront. The commission stands ready to help as our Port and city staff team engages deeply with the public.

Now, as you said in your report, historically underserved communities particularly in the southeast sector of the city are often first hit and worse -- are often hit first and worse by climate change. So I want to know, how is the Port working to ensure that BIPOC communities are not left behind and that all communities are brought to the table for decision making about the future of our waterfront?

Adam Varat: Thank you. Excellent question. I can speak to the waterfront resilience program. And then, I know that Director Forbes and the Port have been working on the racial equity action plan more broadly.

We are working on an equity roadmap for the waterfront resilience program so that we can ensure that equity -- racial and social equity are kind of imbued throughout the whole program and particularly as it relates to these waterfront adaptation strategies.

The next step is really to be evaluating these both through public feedback but also really thinking about what are the equity implications of doing each of these strategies. So we're building that equity evaluation framework which we would like to bring at a future date perhaps in concert with Port equity updates so that that -- we can then sort of see what the benefits and burdens to BIPOC communities are from each of these different strategies and what's harming people, what's benefitting people, you know, and things like that.

So that will be a robust and central part of our evaluation of these strategies along with the kind of inclusive and robust public outreach and engagement that we're doing focused, you know, significantly on the southern waterfront but also thinking about communities that aren't in the southern waterfront that are often underrepresented and marginalized.

So that will also all be part of the outreach and engagement. And then, the equity

framework will be, you know, a key lens for how we evaluate the strategies.

Vice President Brandon: Thank you. I appreciate that. So who is doing the outreach and community engagement to ensure that we have diversity?

Adam Varat: So we have RDJ and Andrea Baker Consulting as well as InterEthnica doing sort of culturally sensitive outreach, reaching out to community-based organizations in the southern waterfront. We'll have an in-person District 10 waterfront mixer as well as an in-person community meeting in the southeast.

It's going to be then two virtual meetings in all of the neighborhoods. We also have been doing a number of community-based-organization focus groups that's been led by RDJ, Andrea Baker and InterEthnica.

Vice President Brandon: So are they the leader -- the lead consultants that are doing the outreach [in the area]?

Adam Varat: So it's all under our master contract with Jacobs and then our lead engagement consultant, Civic Edge, and then the firms that I just mentioned.

Vice President Brandon: Okay. You mentioned -- and then, I saw in the staff report there was a race-and-social-equity assessment that would be conducted. What is that?

Adam Varat: That's what I was just mentioning, the sort of equity evaluation assessment that we would be doing to assess kind of how the strategies are working from a race-and-social-equity standpoint.

Vice President Brandon: So we'll do the assessment?

Adam Varat: We'll be working on that. We have a group of kind of equity practitioners and leaders from across the city agencies. And we're also going to be doing kind of focus groups. But yeah. We'll be doing that with our consultant team and with the kind of equity -- we have an equity working group that involves kind of the equity leads from various agencies including the Port.

Vice President Brandon: Okay. So how will all this be incorporated into the decision-making process?

Adam Varat: Yeah. We're going to be going from here to developing kind of revised, narrowed-down strategies and then ultimately to a draft preferred adaptation plan. So we're going to be incorporating, you know, hearing all the public feedback and doing our best to reflect that along with the technical evaluation.

It will be coming back to the Port Commission. It will be going to other city bodies and commissions as well as kind of the central Board of Supervisors and mayor to have a sort of ultimately city-preferred plan.

So that will be the process. As staff, we'll be bringing our sort of best evaluation and options that we can and then hearing the feedback from the public and from the decision makers.

Vice President Brandon: And will our advisory committees be a part of this process --

Adam Varat: Absolutely.

Vice President Brandon: -- or engaged?

Adam Varat: Absolutely. We'll be [crosstalk] them as well.

Vice President Brandon: Great. Because they are a great resource.

Adam Varat: Yeah. Thank you.

Vice President Brandon: Thank you again. A lot of work has gone into this and to have gotten here so fast. I really, again, want to say how much I appreciate our relationship with the Army Corps and all of the support that they have given us throughout the process, the engagement, the investment.

I mean, we would not be anywhere near where we are without them. And this is a city project and very excited that the Port is in the leadership position on this project. And I know we have the right team in place to make it extremely successful so definitely looking forward to you coming back next year --

Adam Varat: Thank you so much.

Vice President Brandon: -- if not before. Thank you.

President Adams: Adam, Brad, what can I say? This is like a pretty meticulous report. But this is almost like a masterpiece. This is a massive undertaking. Right. What I really like is that we are on the offense. We are out front on this. We're not waiting until something happens.

I had an opportunity with Vice President Brandon and Director Forbes to go to New Orleans after what happened down there when they had all the flooding. And it was billions and billions of dollars to -- and the things that they had to do. And to know that we're out front, I'm just really impressed, the methodical steps that you're taking.

I appreciate Vice President Brandon asking about the community involvement and the interaction. This is a historical time for the Port of San Francisco for something like this -- I won't be on the commission when this project, I'm sure, is at hand. Right. [laughter] None of us up here probably will be.

But to be a part of this on the ground level -- thank you and your work. I know it is a lot of time. And this is not glamorous. A lot of time, our community -- they don't understand it. But the younger generations and generations to come will benefit for this.

And I hope that you understand, for all the work that you're putting in, it's appreciated. But right now, it's tedious work. It's not glamorous work. Right. It's like being on the team. And you may not be the quarterback, but you're the guard that blocks for the quarterback. You don't get the recognition.

We up here -- we appreciate it. And I know the community appreciate it. So I just want to personally say thank you both and the whole team. Thank you. Ton of kudos, right. You're going big or going home. Thank you. [laughter] All right. Carl, next item, please.

12. REAL ESTATE & DEVELOPMENT

- A. Informational presentation providing an update on the Lease Disposition and Development Agreement with TZK Broadway, LLC, for the proposed mixed-use development that includes a 192-room hotel, a dinner-theater space for Teatro ZinZanni, and 14,000-square-foot public open space and ancillary uses at Seawall Lots 323/324 and portions of unimproved Vallejo and Davis Street right-of-ways on the west side of The Embarcadero.

Ricky Tijani: Good afternoon, President Adams and commissioners. My name is Ricky Tijani. I'm with the real estate and development division of the Port. I'll be making this presentation. Josh Keene and Rebecca Benassini are here to assist me with any question you may have at the end of this presentation.

This slide provides an overview of my presentation. The purpose of today's presentation is to provide you with an update on this important project designed to achieve multiple objectives including preservation and enhancement of music and cultural venue, in this case Teatro ZinZanni, and also to achieve some of the Port's strategic objectives.

Port staff and the developer had wanted this project to start construction last year. But COVID-19 caused a delay -- more on this later. The LDDA provide protections for the Port and the developer. And as such, TZK is very motivated to make this project a reality ASAP.

Towards the end of my presentation, I will invite TZK representative Jay Wallace to make a few comment to end this presentation. As part of the background, the site here consists of Seawall Lots 323 and 324 and the two adjacent [street stop] to be vacated.

The location is at Broadway and the Embarcadero. And it has easy access to all modes of transportation. The area of the site -- or the land area is approximately 59,000 square feet. And the current use is office parking operation.

The project background and strategic objectives -- Teatro ZinZanni is a former Port tenant that was in good standing that operated a very popular dinner theater on a portion of Piers 27 and 29 from 2009 through 2011.

In 2011, to accommodate the 34th America's Cup, the Port and Teatro mutually terminated the Teatro lease and identified a portion of Seawall Lot 324 as a potential relocation site. Teatro formed a development team, TZK, and met Port preconditions that eventually enabled the Board of Supervisors in 2015 to exempt Teatro from the city competitive solicitation process.

From 2015 through 2019, under an ENA, TZK pursued required land-use entitlement. In September 2019, the Port Commission approved the LDDA. And in January 2020, the Board of Supervisors approved the [formal] lease.

Port-TZK LDDA and lease -- the key LDDA terms include a schedule of performance stating what tasks TZK must complete before the Port will allow escrow to close on the lease and [the site] possession pass on to TZK.

The LDDA also provide for one year to close escrow. That would be from September 2020 to September 2021, or one year, to close escrow and start construction and provided up to four three-month extension options and subject to a \$25,000 extension fee.

The LDDA also provide for situations where, if TZK is unable to perform due to circumstances beyond its control -- COVID-19 is one of those circumstances. It essentially moved the close of escrow from September 2021 to September 2023. That is a two-year delay.

The lease and its terms are detailed in [unintelligible] report and will be executed at the close of escrow. COVID-19 impacts on San Francisco hotels, year 2020 -- as detailed in the staff report on this item, COVID-19 impacted many business operations including this development.

The key impact on the San Francisco hotel business are shown on this slide. Hotels, you know, were prohibited from accommodating nonessential travelers. Tourism declined seriously so were visitors due to shelter in place.

Average daily rate plummeted from \$320 to \$85. And occupancy declined from an average of 90 to 22 percent. Some hotel even closed temporarily. And construction on some of them were postponed. So there was total cessation of financing for new hotel, particularly for the construction component.

With this [project cessation] of hotel construction financing, TZK evoke the LDDA force majeure provision. Force majeure allows for the [tolling] of time period when a party cannot perform due to conditions beyond their control. And as we know, the primary driver for hotel and their revenue is booking the room and staying in hotel which were practically shut down between March to December 2020.

This draft on this page is illustrating graphically the impact of COVID-19 on the hotel industry. Average occupancy, as I indicated earlier, dropped from 90 to just 22 percent. So on this graph here, the average daily rate is that red line. And you can see to the left it's showing 80 percent.

And on top is the occupancy -- sorry. It's the other way around -- the occupancy in 2019 is at 90 percent. So those level were the level from 2019. And you can see -- this wiggle line on the bottom is showing the impact of COVID-19, how it drops both the ADR and the occupancy.

[Towards] August this year 2020, you could see how those ADR and occupancy are inching up, which is part of the recovery to bring us back to where hotel industry will be able to find financing. So these averages are recovering. ADR and occupancy are projected to return to normal level by year 2023 or 2024.

Accomplishments achieved to date -- TZK has been working hard on this project to advance it. They've gone through CEQA. All of this is listed on this slide. In the interim [is they're probably] working on obtaining building permits. And he's working with his financial advisor on financing.

TZK current plan is to complete the building-permit process and find financing by July 2023 to close escrow. Now, in terms of staff analysis and prognosis of this development, this graph here is showing the ADR, average daily rates, of hotels and occupancy that are reported to be trending positively.

Many commercial real estate advisor are monitoring the market and providing periodic updates. An example is the -- is in this snippet shown on this slide from Marcus and Millichap 2022 media report on hotel in San Francisco Bay Area.

ADR and occupancy are trending up for many reason, as detailed in the staff report. So the first arrow here is showing that the ADR has increased by 38 percent for that 12-month period, which is from May last year to the May of this year -- likewise, occupancy.

Construction activity is indicating to be trending downward but not for long because, once lending with reasonable terms return, that construction will continue. Now, in terms of prognosis, the profile of this project will lead to its success.

It has only 192 rooms. It's in great location. It has entertainment element. And its closest comparable at the Embarcadero and Mission is doing great. So we expect this hotel to do way better. And of course, San Francisco's economy is recovering.

So this slide is showing the next steps. We expect groundbreaking to be the next major update for the Port Commission. We are counting on that. A quick note though about this project expected benefits -- they include the 14,000-square-foot public open space which is privately funded.

It includes a 17 percent LBE goal, which they are moving towards achieving, local-hire program -- 30 percent by trade and new jobs along the waterfront [unintelligible] program and, of course, increased revenue to the Port and the city.

So I will now invite Jay to come up here and make some few remarks. After his remarks, that will conclude our presentation. Thank you.

President Adams: Thank you, Ricky. Welcome, Jay.

Jay Wallace: Hello, commissioners, Mr. President, commissioners, Jay Wallace, TZK Broadway. Nice to see you live and in person. I don't have much to add other than to tell you that we are still fully committed to the project.

We're moving forward. We spent the last year and a half with Rod Iwashita -- I hope I got that right. I sometimes say it wrong -- and his team on the building permit. Ricky Tijani and Josh and Rebecca continue to be great advocates and help on the project.

Financing has been a challenge, as you can imagine. The interest rates are crappy. We're in a tough time globally. But we remain committed. And we are seeing a little bit of movement. So our optimism is growing by the day. And we're convinced and committed to get it done the way Ricky described it.

Really happy to answer any questions but just wanted you to know that we're here. We're standing. We're ready to go. And we certainly haven't given up. And we won't. So the new hotel and theater will be on the waterfront sometime soon.

President Adams: Thanks, Jay. Now, let's open it up for public comment.

Public Comment on Item 12A.

Cynthia Gomez: Good afternoon, Port commissioners. This is Cynthia Gomez, research analyst with Unite Here Local 2. We are the union representing hospitality workers. And we can confirm that the developer of the Teatro ZinZanni hotel continues to be a model partner.

As most Port commissioners currently present have heard, this developer came to us early on in the process with -- and worked with us to sign an agreement that will guarantee that, when those hotel workers eventually come to exist, they will enjoy a neutral process by which to decide if they wish to be represented by a union.

These agreements are model agreements that we believe should serve as a model for anyone seeking to bring a hotel to San Francisco. And we very much look forward to seeing this hotel come online. Thanks very much.

Commissioners' Discussion on Item 12A:

Commissioner Lee: Well, I know it's been tough especially opening a hotel. But I really miss this venue. You know, I've been an entertainment commissioner formally for 10 years. I was wondering what happened to it and when it was going to come back.

You know, raising money during a pandemic was tough. I guess the question I have is, are you guys still on track, you know, with your financing, raising the capital? Because I think the city does need another venue like this in conjunction of creating more jobs.

President Adams: Come on up and hit the mic, Jay.

Commissioner Lee: I kind of got stuck in the same position when COVID hit and construction stopped. I kind of understand that, with the shortage of supply and labor and -- since you're just now starting, costs are going to be probably a lot more than what you anticipated. But how are you doing on that end of it to hit your goal of closing escrow and everything? Does that look pretty good still?

Jay Wallace: I would like to say that it looks pretty good, no promises, no guarantees. The financing world is very difficult. But there's a lot of interest. A lot of the assumptions that we made back in 2018, '17 when we were moving the process forward obviously are out the window.

We lost the two years. But as Ricky indicated, ADRs and occupancy are roaring back. We probably don't think that they're going to see the 2019 peaks quite as early as Ricky mentioned in 2023.

But by 2024, when the hotel is opening, we're anticipating that we will have the ADR and occupancy rates that would have justified the hotel's existence. So we're very optimistic. You know, we continue to work -- talk to banks and lenders every day.

I'm out at the site showing it off all the time. It shows well. So as Ricky Tijani said, our location is our best asset. And we continue to promote that every single day.

Commissioner Lee: Is the number of the investment group private? Or is it all -- are you relying on banks to pur --

Jay Wallace: Well, we have -- you know, it's a combination. The capital stack is varied from private equity, common equity, preferred equity, mezz debt and construction lending. So we have to put together the capital stack. It's \$160 million project at this point.

So it's a complicated financial model. But there's plenty of interest. And we're continuing to work hard to put it all together and bring home the project -- complete the project for the Port and for the City of San Francisco.

Commissioner Lee: And then, on the venue itself, it'll be strictly for the show? Or would that also be a part of the hotel to be used as a function room?

Jay Wallace: Yes. It will be -- the theater will be housed there. The hotel -- we'll use it from time to time for weddings and so on and so forth. It's been b -- you know, in the olden days when ZinZanni was on the Port, they would do buyouts all the time. So those kinds of things will continue to happen.

We've also, you know, paid attention to the fact that times do change. So we hope to be able to use the theater with ZinZanni's approval and the activities -- you know, for other venues as well, maybe small music, magic shows, theater shows, other things that could go in there as well, a multi-use entertainment venue.

Commissioner Lee: Great. Well, look forward to it. If you need any additional help on the -- let me know.

Jay Wallace: Okay. Will do. Thank you. Appreciate that, commissioner.

President Adams: You done, Commissioner Lee?

Commissioner Lee: I'm done.

President Adams: Okay. Thank you. Commissioner Gilman?

Commissioner Gilman: Thank you, Ricky. And Jay, I have a question for you. Sorry. Thank you for this report. I'm super excited. As you know, I've always been a strong supporter of this project and bringing the theater back. And you have definitely lived up, at least from my observation as a North Beach resident, to your community engagement efforts and commitment to being part of the commu --

I just had one question. It was with the staff report. So it might be a tag team also with Ricky. It was still listing your construc -- it showed us a schedule from September of 2020 to September of 2022. And it was showing your construction costing flat.

So construction and pre-development is \$142 million, and you just said \$160 million. So is that accounting for the fact that construction has gone up?

Jay Wallace: Yes. That's the --

Commissioner Gilman: So the staff report is just not correct.

Jay Wallace: The staff report is -- I won't say it's incorrect. But it probably should be clarified that the --

Commissioner Gilman: Okay.

Jay Wallace: -- the truer construction-cost estimate today is closer to \$161 million, \$162 million than it is \$142 million.

Commissioner Gilman: Okay. I just wanted that clarification.

Jay Wallace: Yes.

Commissioner Gilman: I appreciate that. And good luck getting that financing. I was just going to be surprised if it had stayed flat with everything. We know about steel and pricing and supply chain issues.

Jay Wallace: Construction costs went crazy between 2020 and 2022. They have started to maybe dip a little bit.

Commissioner Gilman: Okay.

Jay Wallace: But labor and commodities costs are -- inflationary pressures have been very extreme. So we're motivated to get this going as quickly as possible to stop that bleed, if you will.

Commissioner Gilman: Yeah. Okay. And you still think you can get construction done in two years?

Jay Wallace: Yes. I think that part is easy. I shouldn't say it's easy. Nothing's easy. But that is doable. It's probably 18 to 24 months. So it could be shorter than 24 months.

Commissioner Gilman: Thank you so much. I look forward to the groundbreaking and getting your capital together. Thank you.

Jay Wallace: Yeah. Thank you.

President Adams: You good?

Commissioner Gilman: Mm-hmm.

President Adams: Okay.

Ricky Tijani: President Adams, can I just make a quick comment?

President Adams: Go ahead.

Ricky Tijani: Commissioner Gilman, the reason we have that total development cost flat in there is because [they have a lot] that goes into the number that we're showing. So if the number goes north like he indicated to 160, that's almost a \$20 million increase.

We would need to see the other side of the thing, the sources of fund to cover it which means that we will more or less be going back to say we want to open this up to [account] for that. So we were just showing what you saw when we approved it.

If there's any changes before we close, it's a requirement under the LDDA that the sources and uses of fund need to be balanced not only for us, but the lender will not even allow [them] to close a deal. So we didn't want to get into all those things because the number will change.

Commissioner Gilman: Thank you so much, Ricky. I assumed, before we closed escrow, you'd be coming back with harder numbers. It was just -- I just heard -- I heard Mr. Wallace say that. And I noted in the report, so I was just trying to figure it out for this informational.

Ricky Tijani: All right.

Commissioner Gilman: So I'm super excited it's moving forward. It's going to be a great addition to the waterfront.

Ricky Tijani: All right. Thank you.

President Adams: Done Commissioner Gilman? Okay. Vice President Brandon?

Vice President Brandon: Ricky, thank you so much for the presentation and the update on this item. Sticking with Commissioner Gilman's -- so will the -- Jay, do you think the operational costs will stay the same? Or do you think those will go up too?

Jay Wallace: Operational costs -- you know, labor costs have gone up, you know, two years later. So yes, indeed, labor costs have gone up. But we are seeing that the ADR, average daily rate, and the revenue per available room, the RevPAR, indicators as well as occupancy -- you know, San Francisco started in the summertime to have some travel come back.

And it was a strong summer for those hotels that have already been built. Ricky mentioned correctly that the Hotel Vitale, which is now called the 1, had a very strong summer with astronomical higher ADR rates than anybody had anticipated. I think they're now charging somewhere in the \$500-a-room night.

So there's optimism. As you know, Commissioner Brandon, you've seen lots of these deals. It's a jigsaw puzzle every day of the pro forma and the inputs and the outputs. But we are committed to getting it done. We know we can accomplish it. We just have to have some help from the lending community to loosen up and release some dollars and get started on that basis.

Vice President Brandon: Thank you. Is Teatro ZinZanni -- are they still in operation?

Jay Wallace: Y -- well, they're opening up a brand-new show in Seattle as we speak. They have great presales. They got hurt bad by the recession because entertainment was closed, as Commissioner Lee can attest. All of us know that for a fact.

But they're back. And they're roaring up in Seattle and very excited. Norm Langill, the director/producer of Teatro ZinZanni -- some of you may remember -- sends his best wishes and is looking forward to bringing a great show back to San Francisco.

Vice President Brandon: Thank you. Well, I really appreciate getting an update on this item. I'm really keeping my fingers crossed and knocking on wood that this time next year we're in construction and that we have a hotel coming up on that lot that's been looking for a hotel for at least as long as I've been on the commission.

So I'm so happy that we're still working with you and really encourage you to ask the Port staff for help wherever you need it to be able to get that shovel in the ground. Thank you, Jay.

President Adams: Ricky and the whole team and Jay, I just want to say I think my fellow commissioners have all been on point. I really appreciate the patience that you've shown. You've been very measured in trying to get this done. I appreciate, Jay, your commitment to labor. That's important.

San Francisco is a union labor town. And we need this venue on our waterfront. And I have been to ZinZanni in Seattle many times. And I know you know Joe Toro. So I talk to Joe quite often. I just want us to continue just to be patient.

Let this commission know how we can help. We've got some heavy lifting to get it done. We'll get it done. And this will just add to the splendor of our great waterfront. This will be that -- one of the missing pieces of this crown jewel that we have on our waterfront that this waterfront -- you know, we need that kind of entertainment.

We need that kind of vibe. And we appreciate it. Like I said, please don't give up. If something comes up, come to this commission. We want to help you and -- to a person on this commission and the staff. We're all committed to seeing this getting done. Thank you.

- B. Informational presentation regarding a proposed new lease with Autodesk, Inc., a Delaware corporation ("Autodesk"), for approximately 30,590 square feet of office space and unimproved shed space located at Pier 9 for a term of 12-months with one 12-month option to extend, subject to Board of Supervisor's approval.

Don Kavanagh: Good afternoon, President Adams, Vice President Brandon and commissioners. I'm Don Kavanagh, senior property manager for the Port. And I'm making this informational presentation about a new/renewal lease for Autodesk at Pier 9.

The current terms of the lease that expires in January of '23 are shown here. Of note is there's a TI credit for almost \$30,000 for improvements that they made at the beginning of their term. They made almost \$3 million in improvements.

What they're leasing is space in the Pier 9 for the technology center which has many different components and mechanical devices that do different technological things. They've invested a lot of money in the space.

In addition to the lease, there are a couple of other associated agreements. One is a license for about 6,600 square feet of solar panels on the roof of Pier 9. And the other is a maintenance agreement for the public-access area, which you're

probably aware of, that look like the barnacle seating structures. And Autodesk pays the Port \$3,000 a month for the Port to maintain that.

So we have a proposed new lease which is in draft form. It's pretty close. What it does is it increases the rent to current parameter rents, which causes quite a bump. And we're adding the access -- the maintenance fee -- we're including that as well.

So the increase in rent is fairly significant from -- I think it was -- \$54,000 -- \$51,000 to almost \$124,000 a month. So that's why we're bringing this matter to your attention because, under the terms of the one-year renewal, that will exceed \$1 million. And if they exercise their one-year option, that'll produce revenue in excess of \$3 million.

And then, the other thing we're doing is we're -- assuming this lease is approved, we're going to terminate the solar-panel license. We're going to terminate the maintenance agreement and incorporate both of those terms into the new lease, so we don't have three leases to administer.

Autodesk also has three other leases. But they're not part of this parcel or this presentation. However, I would like you to know that we're renegotiating those to be coterminous with this new lease. So that's -- do you want to add?

So that's really the extent of the proposal at this point. We would welcome questions. And we intend to bring this back to the commission for approval once we finalize it with Autodesk.

No Public Comment on Item 12B.

Commissioners' Discussion on Item 12B:

Commissioner Gilman: Thank you so much for this informational. I just want to say I think it's super smart to have a coterminous for all the other leases. So I just want to support us doing that as much as possible with legacy leases for anyone, particularly for office. I just think it makes it easier for us.

I'm fully supportive of rolling in the maintenance fee and the solar fee too, so you have less to administer. And I guess I'll just say nice -- I mean, I know it's a parameter rent. We didn't come up with it particularly for them but nice for us that it's almost 100 percent increase on parcel B and about a s -- unless I did my math wrong, about a 60 percent increase on parcel A. So I'm supportive of the item.

Don Kavanagh: Thank you.

President Adams: Thanks, Commissioner Gilman. Commissioner Lee?

Commissioner Lee: I don't have any comments. It makes sense. I think it's a good lease, good tenant. We need more of those. [laughs] Find some more. Thank you.

President Adams: Thank you, Commissioner. Vice President Brandon?

Vice President Brandon: Don, thank you so much for the presentation. Autodesk has been a great tenant. I'm happy that they're staying with us for maybe a couple more years if not longer. So I support this. Thank you.

Don Kavanagh: Thank you.

President Adams: I'm supportive also, Don. Don, I think this might be one of the first times I've met you. This is the first time --

Don Kavanagh: Yeah.

President Adams: -- I've really seen you present. And I just wanted to say I really appreciate your presentation --

Don Kavanagh: Thank you.

President Adams: -- and your calmness. You got right to the point, nice and short and sweet. So -- [laughter] thank you. Carl, next item, please. But thank you.

Don Kavanagh: Thank you. Thank you, commissioners.

C. Informational presentation on the proposed development and multi-use lease of Building 49 located within Crane Cove Park by the YMCA of San Francisco.

Jamie Hurley: Good afternoon, commissioners. Jamie Hurley, with the Port's real estate and development team, to give you a presentation on this item. Just in terms of the outline, what I'm going to be discussing today -- I'll revisit how this project aligns with the Port's strategic plan, go over a bit of background and timeline on this project.

And then, we'll get into kind of the meat of the presentation which will be talking about the key lease terms that have been negotiated between the parties and then a review of the community benefits and the diversity, equity an inclusion plan.

At that point, I'll community have a representative from the YMCA come up to the podium and do that part of the presentation. And then, we'll talk about, you know

-- summarize and talk about next steps.

So again, in terms of strategic plan -- and this is -- we've been sort of consistently talking about these four particular strategic-plan goals as where this project fits in. So those are evolution, engagement, equity and productivity.

Looking kind of backwards, you know, this is a timeline that provides a review of where we've been. So we started this project almost two years ago -- about two years ago with a community outreach process which then led into a request-for-proposals-project process.

Through that RFP process, this commission did award the YMCA of San Francisco this lease opportunity back in October of 2021 so just almost a year ago.

And since then, we've been sort of parallel tracking the lease negotiations with the Y with further due diligence mainly by the YMCA but also working in conjunction with Port engineering in particular to understand what really was required in terms of further improvements to the buildings to be able to execute their program and their vision for the building.

So that's really been what we've been doing over the last nine months or so, 10 months and to get to this point today. Then, what we plan to do is to spend the next six to eight weeks finalizing a lease and then bringing that back to you for approval.

This lease will also be subject to Board of Supervisors' approval due to the length -- the amount of term.

Just at a real high-level overview of what the project is, in addition to the YMCA of San Francisco, there are two subtenants that are part of the team and will occupy portions of the building. And those are Dogpatch Paddle, which will be operating an aquatic center in part of the building, and Daily Driver, which is -- you might know them from -- they have an outpost in the Ferry Building.

They also have their main facility nearby this site on Third Street. So they're known for their bagels and their cream cheese and such. So they'll be doing sort of grab-and-go food. So together, you know, the program would be focused on fostering community through holistic wellness, watersports, educational experiences and with a particular commitment to new and underserved communities of the bay.

Again, we'll talk more about the community benefits a little bit later. This is sort of an overhead site-plan view of how the space would divvy up between the three tenants that I just mentioned. So Daily Driver would occupy a fairly small part of the building in the southwest corner of the building closest to Illinois Street.

The central part of the building, about 4,000 square feet, would be occupied by the YMCA of San Francisco. And then, sort of the eastern portion of the building closest to the bay and closest to the beach will be occupied. And that's about 2,000 square feet. That would be the aquatic center.

In terms of the investment, it's quite substantial. It's going to be -- so the all-in budget for the baseline improvement -- scope of improvements is \$5-plus million, as you can see on the top line of this slide. In addition, the YMCA has identified about a million dollars' worth of what they believe are necessary seismic improvements to the building.

We've been meeting with them. We've met a couple times with our engineering staff with their consulting structural engineering staff. And I think the Port's position -- we also agree -- that it's a good idea to perform that seismic work.

And I'm going to talk a little bit further about that in another slide. But if you add in those two things, you know, the total budget is north of \$6 million. And the tenant -- you know, sort of the -- what we've been talking about with the tenant is that they are really committed to at least a \$5 million project.

And that sort of leads into this slide which gives you the lease term because, with such substantial cost comes the need to amortize those costs over a long period of time. So the term that we negotiated with YMCA would be an initial 10-year term and then a series of tenant extension options.

So there would be four five-year options followed by two two-year options, bringing the total possible term, if they were to exercise all of those options, to 34 years and nine months. That nine months is to cover the construction of the project and, again, the note here that the tenant is committed to \$5 million at least in tenant improvements.

In terms of revenue stream to the Port, rent to the Port, the initial year-one base rent would be \$93,500 per year, about \$8,000 per month. That amount of base rent would increase 3 percent each year for that initial 10-year term.

And then, during the extension options, that annual escalation would vary based on CPI and would be collared at a minimum of 1 percent and a maximum of 4 percent. The lease that we've negotiated also includes a participation-rent or percentage-rent component for the for-profit subtenants, the two subtenants.

So if they exceed their base-rent share or their share of base rent, if their revenue -- if 6 percent of their revenues exceed that, then we will get that revenue -- that additional percentage-rent revenue. So it's 6 percent of gross revenues for the subtenants.

And then, I mentioned the construction of nine months. And we propose to abate their rent during that construction period. In terms of tenant maintenance and repair obligations, it's very simple. The tenant is going to be responsible for everything in the building including the public restrooms that will serve not only the facility and patrons of the three businesses occupying the facility but to the public at large and particularly those visiting Crane Cove Park.

In exchange for taking on that responsibility, that maintenance responsibility, we have offered to provide them with a rent credit of \$2,000 per month in the initial year. And then, that credit would go up at the same rate as the base rent.

Then, getting back briefly to improving the seismic resiliency of the building -- so the way that we are framing this and the way that we have negotiated it with the tenant is that it's -- if we mutually agree that the work should be carried out, this structural improvement again with an estimated cost of a million dollars, that we will split that cost 50/50 subject to a maximum of \$500,000 for the Port's share.

And again, preliminarily, our review of the analysis that the YMCA has done on this, we agree that this work would be a real benefit to the building, you know, in terms of preserving this historic resource and also in terms of enhancing the life-safety component of it.

Just to kind of summarize, you know, the main components of this -- you know, by year five of the lease -- again, the investment in the building that we're looking at, at least five and possibly up to like \$6.4 million invested in the building.

And then, in terms of rent to the Port, depending on that percentage-rent component and depending on whether we elect to go forward with the seismic work, we're looking at somewhere between \$67,000 and \$125,000 annually in rent to the Port.

And then, I mentioned the publicly accessible restrooms maintained by the YMCA, again, a real benefit we think and something that we know that the public is very interested in. And then, the facility itself -- it'll offer food and beverages. It'll offer water recreation, lessons, rentals. And it'll offer a community wellness facility.

And there's a lot of community benefits that go into that. And again, I'll bring up the YMCA in a moment. I'm going to mention real briefly the next steps after today. Again, we want to spend the next six to eight weeks finalizing the lease before bringing it back to you for approval.

And then, we also will review this lease with the Southern Waterfront Advisory Committee at an upcoming meeting of theirs before we bring it back to you for approval. And then, we'll bring it back to you, and it'll also go to the Board of Supervisors, as I mentioned. So with that, I want to introduce Takija Gardner

from the YMCA to talk about community benefits.

Takija Gardner: Thank you. Well, hello, commissioners. It's an honor to be here to talk about this amazing project that we are so excited about. As Jamie mentioned, I'm Takija Gardner with the YMCA but also serving as one of the leads for this particular project.

The mission of the YMCA of San Francisco is to build healthy, equitable and sustainable communities for all generations. We're guided by our vision of building strong communities where you can be, belong and become.

In fulfilling our mission and vision, the Y aims to: champion an accessible, connected, resilient and just Bay Area; enhance individual, staff, family and community health and wellbeing; open pathways to social and economic mobility; expand opportunities for all ages and life stages; and advance a safe, collaborative and sustainable future.

The Y has prioritized diversity, inclusion as well as equity consistently for over a decade. Through engagement of a consultant in late 2020, the Y has developed together with its board and community an equity and antiracism strategy with eight areas of focus.

The Y, along with Dogpatch Paddle, Daily Driver, are aligned with the Port's diversity and equity goals which are evident in our diverse uses and community benefits. The Y serves over 30,000 households each year through our wellness offering.

Thirty-five percent of our members receive financial assistance of subsidy for our gym memberships. But it's important for us to note that no one is turned away for an inability to pay. We do offer free memberships to our community members as well as daily passes for those who are intended to just receive services for one day.

With 14 branches and over 100 sites, the Y looks to attract a diversity of citywide and regional users. Our membership-for-all model allows access to all Y facilities regardless of their home branch.

Crane Cove members, therefore, will have access to a myriad of health-and-wellness opportunities in all of our Y facilities including six pools. Because of our nationwide membership, we've expanded this opportunity.

Members may visit any participating YMCA in the United States as well as Puerto Rico at no additional cost. The Y's wellness center at Building 49 is also expected to be an anchor for youth and community programming through local CBO partnerships.

The Y is really seen as a bridge builder. So not only do we want to ensure that our members, our communities have access, but we partner with agencies and community-based organizations to ensure that they also have access to this valuable asset.

We are looking to partner with Dogpatch Paddle, as Jamie indicated, and this is an incredible opportunity when we're talking about the maritime and ensuring that we are accessing watersports. By partnering with Dogpatch Paddle, we are opening new opportunities for watersports access to underserved communities, as we are providing a diverse component of fitness and recreation activities for holistic offerings.

Since Crane Cove Park opened, Dogpatch Paddle has been the de-factor watersports operator and guardian of the community seeking safe and healthy outdoor activities on the cove. They also provide summer and afterschool programs.

As it relates to our parks and open spaces, our contribution to Crane Cove Park will activate and enliven the experience of visitors, completing the original vision that you all set forth for the Port. The programming available for our combination-with-service partners include concessions through Daily Driver. And it is also poised to bring community benefits to life on the cove.

We are also committed to maintaining the public restrooms, as Jamie indicated. Our investment of over \$5 million in the Port's asset will stimulate new community jobs. That is important for us to ensure that people who live and serve the community also have those opportunities for employment.

We're also looking to support with the generation of revenues for not only the Port but for the surrounding businesses. Thank you. And we welcome any questions you may have.

President Adams: Thank you.

Jamie Hurley: I think I'll just close. And I just wanted to mention, kind of in keeping with Takija's talk about community benefits, that this lease will be subject to the southern waterfront community benefits and beautification policies.

So 6.5 percent of the Port lease revenues will be dedicated to that fund. And then, there's a variety of ways in which the YMCA and their partners will support the goals of that policy. And I think she touched on a lot of that in her remarks. So that concludes the presentation. Thank you, commissioners. We look forward to your questions.

Public Comment on Item 12C:

Tamara Hicks: Hi. My name is Tamara Hicks. I am the owner of Daily Driver. We are on Third Street. We make amazing organic bagels. And we make cream cheese with milk that comes down from our farm and our neighbor's farm up in Marin.

My husband and I have had a farm for 20 years. And I'm a clinical psychologist. And much of that operation is about bringing youth and educating people about our local food systems. We have also like had a foot in Potrero Hill for 20 years.

So when the opportunity came up to start Daily Driver and create this maker space -- you can see all of the cheese being made there and all the bagels being made. So when the Y approached us about partnering, it just seemed like a really amazing opportunity for us to like do more in Dogpatch in the central waterfront.

And we really feel like we have matched values. I have to say this has been a very inspiring -- I came to think thinking like what's this going to be about. Thank you for all the work that you do for the Port. I actually was like moved to tears a couple times today.

It just reminded me how much I love San Francisco and just so appreciative of the work that you do for the city. I don't know I'm emotional. [laughter] But this has been very inspiring. And I thank you guys and all the staff and the commissioners for the work that you do for the Port.

And we're super excited to be part of the vibrancy of Crane Cove that's already been started. It makes me so happy whenever I go by and see people out there with their families and enjoying it. So we're very excited to be a part of that. Thank you.

President Adams: Thank you, Tamara Hicks, for your heroic work in our community. Is there any more public comment in the room? Any more public comment in the room? Jenica will provide instructions now for remote participants.

Commissioners' Discussion on Item 12C:

Commissioner Lee: You know, partnering with the YMCA is such a great thing. I've known them for years especially they have -- in Chinatown and here -- Embarcadero. And to have a small business like your Daily Driver there -- so my question to you, are you going to offer any classes to make these bagels for the community?

I mean, I think that would be an extra added benefit because, you know, a small business, especially us small-business guys, you know, we try to do anything to help the community and bring more people for training and -- especially the job

market is so tough.

So it'd be great to see some classes maybe at your place and the people that come to the Y. And it's a good revenue driver for the Port too because the Y is such a national organization. So I applaud whoever got this together but fully in support of this project. Thank you.

President Adams: Thank you there, Commissioner Lee. Commissioner Gilman?

Commissioner Gilman: Similarly, I think it's going to be a love fest. We've been excited since the Y won the award in the RFP. And it's so exciting to see you coming in to Crane Cove Park and Daily Driver and the paddle folks. So I'm super excited about this.

I've seen firsthand, as someone who worked in the Tenderloin for over 20 years, what the Y can really do to anchor an organization and to help and uplift youth and same with what they do in Chinatown so very excited about this and want to commend you again on the fact you don't turn away young adults or youth who need to access services at the Y regardless of ability to pay.

I look forward to a community party where we all eat bagels and cream cheese and look at the waterfront and then go work it off by working in the gym. So thank you so much. We're so excited for you to come to Crane Cove Park.

President Adams: Thank you, Commissioner Gilman. Vice President Brandon?

Vice President Brandon: Jamie and Takija, thank you so much for the presentation. I've always been a big fan of the Y including when I got to serve with Takija at the Bayview Y for a couple months when she first became executive director before she moved on to higher pastures.

I think this is a great opportunity. I think it's going to bring a lot of excitement and people to the southern waterfront, to Crane Cove Park, to have the site activated and actually have tenants there that will bring more people, more activation, a lot of exercise, a lot of good food to the southern waterfront will be absolutely wonderful.

I just have one question and just trying to understand. I know that the Y will be the master tenant and then two subtenants. So do the subtenants pay rent to the Y? Or are they just paying percentage rent and th -- go ahead.

Jamie Hurley: Yeah. No. It's a great question. Yes. The YMCA will be responsible for paying all of the base rent. So the subtenants will pay the Y. And then, the Y will pass through their portion of the base rent to the Port.

So the way that it'll work with the percentage rent is, you know, there will have to be a calculation, you know, based on their reported gross revenues to figure out, you know, does 6 percent of the gross revenues for the two subtenants -- is that higher than their portion of the total base rent that is due to the Port?

If so, that'll trigger percentage rent being paid. But at a minimum, we'll get the base rent that I mentioned. It's about \$8,000 a month. And that'll be paid by the Y. They'll be responsible for collecting that and paying it, you know, on behalf of their tenants.

Vice President Brandon: So I guess I'm trying to figure out -- so the Y is the master tenant.

Jamie Hurley: Correct.

Vice President Brandon: And then, we have two subtenants. For some reason if something doesn't work out with one of the subtenants, then it will be up to the Y to replace those subtenants? Or how does that work?

Jamie Hurley: Yeah. I think we would need to work together on that. You know, we will need to consent to any subtenant or sublease. So this is a long-term lease, I mean, if they were to exercise all of their options. So it certainly is a possibility that there will be a need to replace one or both of the subtenants at some point in the future potentially. And we'll just need to work together to ensure that the overall --

Vice President Brandon: So the Y would be responsible --

Jamie Hurley: Cor --

Vice President Brandon: -- for those subtenants. But we would have to approve --

Jamie Hurley: Correct.

Vice President Brandon: -- whatever. Okay.

Jamie Hurley: That's correct.

Vice President Brandon: I just wanted to understand the concept of how it all works together. But I think, starting out, these are three great tenants that are going to really do a great job activating Crane Cove Park in the area. So thank you.

Jamie Hurley: Thank you.

President Adams: Is that it?

Vice President Brandon: Mm-hmm.

President Adams: This speaks to our social conscience and our commitment to community. I know the Port -- you know, we run a business. But this is a part of our mission statement. And it speaks directly to our community, to young people, elderly people and everybody in between.

This is something that really makes my heart like leap with joy because this is something that we have an opportunity to do something. And it inspires people. These are sometimes some of the stories you never hear.

And I just really appreciate the work and the work that you're doing. Thank you so much. You're one of those unsung heroes. And we appreciate it. And the next generation and all of us will benefit [gravely] for it. Thank you. Carl, next item, please.

Jamie Hurley: Thank you, commissioners.

- D. Informational Presentation for Port to Enter into Agreement to Purchase Non-Potable Water from Mission Rock Utilities for China Basin Park and other Port-accepted Areas of the Mission Rock Site at Seawall Lot 337, Bound by China Basin Channel, Third Street, Mission Rock Street, and San Francisco Bay.

Phil Williamson: Thank you, Carl. Good evening, President Adams, Vice President Brandon, commissioners. I'm Phil Williamson, project manager with the Port's real estate and development team. I am pleased to be before you this evening for the second informational presentation on the Mission Rock recycled water purchase agreement.

You may recall we presented a high-level overview of the project's recycled-water components back in March of this year. Tonight, I will be covering the first portion of the presentation and then handing the podium over to Josh Keene to bring you up to speed and up to date on our negotiations with the project team.

This slide provides a quick update of the project and where we are today. As you know, if you pass the site or just in general, construction is happening on all four of the phase-one parcels. We completed the foundation for parcel F a couple weeks ago. And we'll start to see the vertical process and the erection of steel start on that site in the next couple weeks.

And all other parcels are currently underway in construction, anticipating occupancy of the site to begin in the middle of next year. China Basin Park, as

you know, is also under construction and targeting completing in the middle of 2023.

Of note, the project is doing all this work and staying within the budget that you approved in 2019 despite rising construction costs and, of course, the increase in interest rates of late.

The project continues an upward trend toward meeting its 20 percent LBE goal and is extremely active in encouraging and nurturing businesses to become involved in helping to build the Mission Rock project.

Dating back to the initial RFP in 2008, the Mission Rock project has set a high bar for sustainability. The developer is fully committed to this core project value, as evidenced by the sustainability and infrastructure plans approved by the commission in 2018.

In 2019, you approved a revised phase-one budget that did not include the recycled-water infrastructure but rather gave your support for the formation of a private, not-for-profit utility entity, Mission Rock Utilities, or MRU, opening a pathway for a private-operator model, allowing for financing outside of the project's limited public finance dollars.

This slides shows the many prongs of the Mission Rock sustainability strategy. This evening, we're focusing on water and specifically the infrastructure and the agreements needed to reach our goal of using 100 percent non-potable water for all the project's non-potable water needs.

Not atypical for Mission Rock, we are leading by example. And we note that the city is updating its climate action plan to include a new chapter on water that focuses on the multiple facets of water use including water recycling and wastewater treatment.

As mentioned, the commission voiced its support for the formation of Mission Rock Utilities by resolution in 2019. MRU has been formed and has secured financing to construct and operate the Mission Rock water recycling system.

And the system includes piping in the project streets and a water treatment plant now being constructed in parcel B, which you see behind parcel A on Third Street there.

My last slide of the evening is literally a flow chart depicting the project's wastewater treatment system. In high-level summary, the system collects wastewater from the project's buildings, treats it onsite at parcel B and then distributes the treated water back to the buildings, the parks and the open spaces for all the non-potable purposes including irrigation, cooling-tower water and toilet use.

The PUC provides the project with potable water for all potable water needs including sinks, showers, restaurant kitchens and drinking fountains. The potable water can be directed to meet non-potable uses if it's needed for that purpose.

I'd now like to invite Josh to come forward to the podium to discuss the status of the agreements we're negotiating with Mission Rock Utilities. Josh?

Josh Keene: Thanks, Phil. Thanks, Phil. Good evening, commissioners. Josh Keene, assistant deputy director of development. Before I go into more of the specifics of this agreement itself, I just want to kind of piggyback off what Phil said where we are looking at this Mission Rock blackwater water treatment system -- the recycling system as really a model of sustainability and aligning with the policy to manage California's long-term drought conditions.

It'll be one of the largest blackwater recycling facilities in San Francisco. And when fully built out, which means serving all the customers throughout Mission Rock in all the phases, it will be treating upwards of 64,000 gallons of blackwater each day. So that's the used potable water that's been consumed and stays on the system.

And that's going to save up to 43,000 gallons of potable water per day or a total of 13.9 million per year. So from a sustainability side, those are real numbers. And the reason I bring that up is that only happens on a district scale.

What makes this unique is it's not just one building. It's not just one park. It's a collection, a community of properties that are kind of all in this together. And the reality is the way that works -- and you'll see this as we go through this -- it's more expensive upfront in a lot of ways.

And actually, as customers come online, as they're phased in, it will become less. So the burden will actually spread going forward. So the emphasis on the district is really important here. So as Phil kind of already started to indicate, the purpose of this agreement is actually for us to have a contract with Mission Rock Utilities who is the owner of the facility and will be hiring the operator for the Port to purchase the water needed for its non-potable uses.

Predominantly, that's going to be for irrigation at the park and for the paseos, these other open-space, non-street, kind of pedestrian right-of-ways that the Port will be accepting and owning. Irrigation is a lot less in those areas. But there will be planters and whatnot. But the management of the park is the predominant use. It will also be used though for public toilets and whatnot.

The vertical customers, which are going to be the parcels A, B, G and F that we've seen in the Visa building and the residential and the life-science building, they're going to use the non-potable water generated on site for flushing all of its

toilets, its irrigation and things like this.

So that's how all the non-potable is reduced is by creating non-potable water for those purposes. So talked about it on the large scale -- from a Port side, we're actually anticipating that we will be able to save -- or to recycle 1.5 million gallons of water per year just in phase one because the predominant number of the Port's improvements are all being done in phase one, which is all of China Basin Park for the most part.

The second phase of that will come on later. So actually, we're a little bit frontloaded here in the phase one where we will -- from day one, would be almost saving 1.5 million gallons per year. That will increase a little bit up to 1.9 million.

So we're a pretty strong user upfront. That will go down on a percentage basis as more customers come online. I want to clarify one thing. This agreement, while we're going to execute this early -- we're taking it through Port Commission, hope to be going to the Board of Supervisors in early 2023 because of the term -- it will actually be signed and executed. But it will not take place until we accept the park.

So right now, Mission Rock partners, as our development partner, has control of the park. But once it's done, they're going to give us the park. And now, we have this agreement to purchase water so that we are able to buy the water we need to fulfill our needs. And I'll get more to that in a second.

I do want to say that the term on this -- this is a long-term relationship. This is a 30-year term on the agreement to purchase water. That does tie into the fact that there is private financing on this for the bonds that are necessary to construct the facility.

So we have a 30-year term on there for that purpose. We could extend that -- the Port can -- going forward into the future. So I'll go to the next slide real quick and just talk about how the cost of the structure works where we're really looking at two expenses, once that's called a capacity charge and one that's called a flow charge.

You can think of these as a fixed expense and a variable expense. So the fixed expense is going to be the items like the debt service, maintenance, you know, insurance, things like this that are just costs whether or not the facility is running.

And then, there's this flow charge or a usage charge that'll actually be -- as the Port buys its water, this is what it's actually paying for. I do want to say, as you skip down a little bit, these numbers are pretty high. You're looking at a number for the fixed expenses of about \$550,000 per year.

The usage itself is a lot less. That's down to \$65,000 per year. These are estimates, of course, because the point of this is that Mission Rock Utilities will be operating this at the actual cost. So there is no profit. There is no markup as far as that goes.

So these costs will actually just be passed on directly on a pro-rata basis to the Port and to all of its other customers. So that's the note on here where we say that the cost to operate this is fully funded by payments from its customers.

So this is one contract with MRU. And MRU has another one with the vertical parcels itself -- directly itself with them. And they're going to be doing the same thing. So these are all kind of in this together. I made a note earlier that the capacity charges in particular will decrease in future phases.

One nuance of this deal -- and part of it is because the nature of the Port [and a] municipal agency is we actually have an annual cap on our expenditures and our obligations per year. We don't know what the costs are going to be. But we've estimated those.

And the Port, basically to make sure that the harbor fund is not encumbered in any way, we've capped our liability in any given year. So that amount will be appropriated in the budget as necessary.

However, I want to clarify we're hoping that we never even need to spend a dollar as far as it goes because -- I believe everyone is familiar -- we're intending to enter into a long-term lease for the management of the park with an affiliate of Mission Rock Partners, not Mission Rock Utilities.

So we're negotiating that agreement now. That would also expectedly go to the Board of Supervisors. But what we will do -- and that would also come into place at the time of acceptance so that the Port -- as soon as the Port accepts the park, it would come out of the master lease.

But then, the park tenant would step in to operate on day one. What we would also do in that agreement is we would assign the obligations under this agreement to the park tenant. So essentially, we would never potentially even take over this agreement.

We would take our rights to purchase and our obligations and assign it to that tenant on day one. So as the final fallback on this -- and where this gets really important to us is, you know, the parks lease may never happen. Or the parks lease could terminate before this agreement terminates or anything like that.

But this is a large obligation to buy this water. It's a big annual expense. But it was contemplated in the formation of the Mission Rock CFD because there's special taxes that are actually going to be generated starting next year for the

operation of the park that's going to be built out plus the utilities and the water purchase associated with that.

So what that is is it's basically a guaranteed revenue stream that comes to the Port if the Port needs it. And the Port would only need it if the Port's actually managing the park itself and therefore has these obligations to purchase it.

So it kind of sits in waiting until the time the Port actually does need it. We call it a springing service tax or contingent special service tax. And I mentioned that is not money that hits the harbor fund. That's a separate source that's actually paid by the vertical parcels.

So there is a backup if we don't enter into this parks lease. And just as a comparison point, that special tax generates fully -- upon full completion of the project will be up to \$2.75 million. On day one, it's estimated to be over \$1.3 million. So that would be for managing the park plus -- let's call it up to \$650,000 of purchase obligations.

The annual cap that we have will increase at the same rate as the special service tax. So we will always have enough special -- we'll always have a proportion of the special service tax to cover this water-service obligation. And then, the rest will be used to manage the park.

So there's a lot in those four slides as far as that goes. And we also have -- it's a very technical agreement. I do want to simplify it though. It is really a cost-based agreement. So it's what the cost is on a percentage share. And it's backstopped by the special services tax to not encumber the harbor fund.

So that's a long way of explaining what we've really been negotiating is those protections to make sure that it's there. That's part of the nuance. We didn't have an agreement that worked in this way. So those mechanisms are all in place.

We are finalizing that draft now -- agreement that's consistent with this. We could be ready to go to the Port Commission this year for approval on this. We're looking for feedback today from you all. It's well underway under construction.

I believe it's supposed to be up and running later this year in a test phase, which is a huge accomplishment for the team. Carl, do we have -- I believe we have Maggie Kadin from Mission Rock Partners on the line also. Do we have anyone calling in?

Maggie Kadin: Hi, Josh.

Josh Keene: Okay.

Maggie Kadin: Yes. I'm here.

Josh Keene: Great. We have Maggie Kadin from Mission --

Maggie Kadin: And we have Michael --

Josh Keene: -- Michael Ahern. And Michael Ahern -- he represents Ever-Green Energy. And they are essentially going to be the operators through Mission Rock Utilities. So they can give you explanations about recycled water, how it works. Any questions you have about the technical structure of the deal or the negotiation, Maggie is happy to probably answer that. But otherwise, I'm up here too.

President Adams: Okay. All right. Did Maggie have something she wanted to say? No? Okay.

Josh Keene: Yeah. I think she's just available if you have questions.

President Adams: Okay. Well, Phil, Josh, Maggie, you triple-teamed this one. So that was good. You guys -- you didn't leave anything left on the plate. Okay. At this time, let's open up for public comment. Is there any public comment in the room? Seeing none. At this time, Jenica will provide instructions now for remote participants.

No Public Comment on Item 12D.

Commissioners' Discussion on Item 12D:

Commissioner Gilman: Well, first of all, very impressive. Thank you for the lesson on recycled water and blackwater. Yeah. Wow. I just want to make sure I'm understanding though the finance part of it. So there's going to be this utility, and it's set up. And it's doing this amazing environmental work to save us all water.

Josh Keene: Yeah.

Commissioner Gilman: Because we have possession of the park, we are in an agreement with it. But we will actually never spend a dime of Port money on it unless for some reason we're managing the park because we're going to contract someone to manage the park. And they're going to have access to this special tax that you spoke about.

Josh Keene: Well, there's t -- yes and no. So the first answer would be yes. If we have a park tenant, the intention would be to assign all the obligations to that tenant. However, if it's a park tenant that's an affiliate of Mission Rock Partners, which is what we are intending because obviously there's synergies with it, we would not spring the special service tax.

They would instead -- and Maggie, correct me if I'm wrong. They would intend to manage the park, its special events plus its operations of the park plus the purchase of the recycled-water obligations.

They would just assess direct dues to the vertical parcels rather than the special service tax. So it's kind of an equivalency. But it's money that -- that would never come to the Port directly. The special service tax would.

Commissioner Gilman: So the special service tax is a backup in case for some reason -- I don't know -- Mission Rock has a meltdown. They can no longer deal with the park anymore. And we have to take responsibility for it. We then can kick this tax into gear to protect us from the financial obligation.

Josh Keene: That's correct.

Commissioner Gilman: Okay. You answered my questions. I'm all good. Thank you.

President Adams: Commissioner Lee?

Commissioner Lee: I really don't have any comments or questions. I think, you know, recyclable -- the treatment water is the way to go for the future as long as it pays for itself, you know, how we can at least break even on this thing. The special tax thing helps.

But I'd just like to see how it goes. It does make sense. A lot of buildings are doing it. They're recycling their water through whatever treatment. I've seen them come up in new buildings. So I look forward to see -- it's still kind of in process. Right. We have to [get a] tenant. Hopefully, it pays off. But I think this is the way to go for the future. Thank you.

Josh Keene: Thank you for that. Yes, you're correct. It is the way to go. Legislation in the city has been passed to support this. The 12C recycled water ordinance from a few years ago was to apply to specific projects like this.

The reality is not every project is able to comply with that. So we actually made a purposeful statement back in 2019. We have to make this work. We go forward with it. So we are a little bit of an early leader here, which has some costs, some risks. But it's kind of what San Francisco does in general especially when it comes to sustainability and the future of this.

I mean, it's consistent with other things we've been talking about today with resiliency, sea-level rise and community benefits. The environmental sustainability and leadership is kind of --

Commissioner Lee: It always costs more in the f -- you know, now. And then, it pays off in the future in the long run. I mean, it's like any business.

Josh Keene: Yeah.

Commissioner Lee: So I'm all in support of that.

President Adams: Thanks, Commissioner Lee. Vice President Brandon?

Vice President Brandon: Is there any risk to the Port?

Josh Keene: Some risk to the Port I guess could be if the whole system fails and goes underwater and collapses. It could. But we're not -- that would be probably an indirect risk to the Port on some level because it would be more a failure of the whole system.

I think the risk is pretty limited because of special service tax and the assignment. It's hard to say if there's any risk. But I think we've done as much as we can to mitigate the risk.

Vice President Brandon: Just for general knowledge, can you tell us the benefit of potable versus non-potable water?

Josh Keene: Well, the reality is pota -- so potable is the water supplied by the PUC as far as it goes. And it's pulled in. And Michael Ahern, please -- free to corre -- or expand upon this when I'm done. But it's kind of clean, treated water that's gone through its own process of what we think of as Hetch Hetchy water almost -- comes in.

It's delivered. And typically, once it's used, it goes into the bay or goes out somewhere. And it's not used on site. So what we're doing is spending the money to -- instead of having to pull 1.5 million gallons of new water, it's really an avoidance purchase of having to bring in that 1.5 million for our potable uses.

We're treating it with the existing water on site. So that's one of the biggest drivers also for cost, just so everyone's familiar. That's just coming in direct, goes away and goes into the bay. This is coming in as potable water for drinking water, for other uses. But then, it's being treated.

What's happening with this system is it's taking that water or runoff from rainwater and treating it and including the blackwater in there. And that's what's really different is it's not just recycling rainwater that gets diverted to irrigation. It's taking all the water generated from the site including the blackwater.

So potable is used for the things like drinking. Potable can really be used for anything. But it's a little bit -- it's a limited resource. Right. Recycled water,

technically we could generate as much as we need from the non-u -- from the used potable water.

Vice President Brandon: So that --

Michael Ahern: I think that last statement, Josh, is the perfect framing of it. It's making sure that we are only using the limited resource for the things we have to use it for. And we're using that recycled water for purposes -- where we can continually reuse it and reuse it.

Vice President Brandon: Got it. So because of this treatment process, that's why it costs more than potable water?

Josh Keene: That would be -- that's one way to say it. Yes. On a basic level, the cost is much more intensive than what the PUC does to treat it at the original source because we're recycling it. I do want to clarify. One of the biggest drivers though is there's the capital financing of this infrastructure as a portion of this.

So that was originally contemplated. It could have been part of our phase-one budget and approvals. But the project actually saved significant money by running this outside of the project. Rather than putting it through the typical development project that would have an 18 percent return and everything like that, all of that is avoided because of this structure.

Vice President Brandon: Great. That's [good to know].

Josh Keene: So there is a higher price point. But if you factor that in, it's less because of the cost it would have been if it was in the project.

Vice President Brandon: Okay. Thank you.

Commissioner Lee: One more comment -- this would help because we have a drought as well. Right. So this would definitely relieve a lot of pressure from, you know, if we don't get rain in the future, I'm sure. Right.

Josh Keene: Well, yeah. If you really start thinking about when we have to make discretionary choices, watering of lawns and irrigation is usually one of the first to go over other priority needs -- basic needs.

So this system kind of gives it -- even despite restrictions, non-potable water -- there's no real reason you'd have to put a restriction on non-potable water use. The potable water, we're trying to conserve. Non-potable is not really the case there because we're creating the non-potable.

Commissioner Lee: Right.

Josh Keene: Yeah.

Commissioner Lee: Thanks.

President Adams: Thank you. I just was going to say my colleagues asked all the questions I was concern -- I got all the answers. Great presentation and looking forward to you coming back. Thank you very much.

Josh Keene: Thanks. I know it was a little technical. So thanks for staying with us.

President Adams: No. It was good. Thank you very much.

Commissioner Gilman: Very enthusiastic about it.

President Adams: Carl, next item, please. You see I've got water in my hand right here. [laughter]

Commissioner Lee: It's drinkable. [laughter]

13. FINANCE & ADMINISTRATION

- A. Informational presentation on financial matters including a proposed amendment to the Port's operating reserve policy.

Nate Cruz: Hi, commissioners. My name is Nate Cruz. I'm the acting deputy director of finance administration. I'm here tonight to talk to you about some financial matters, specifically our debt-coverage policies and our operating-reserve policy.

There has been a lot of happy news today about the recovery and how well things are going and coming back, especially on the heels of fleet week. But for the context of this presentation, I think it's useful to go back to July of 2020 through June of 2021. That's fiscal year '21. Right.

That was the first fiscal period that we were entirely in COVID. We were just getting out of shelter in place. We didn't have a vaccine yet. And the Port's revenues were really, really hurt. Right. And as a result of the lack of the tourism and the shelter-in-place orders, our revenues went way down.

We lost money that year. And that had lots of ramifications to our operations. We had to halt a lot of capital projects and cut some services. We maintained all the mission-critical stuff. But it also had some ramifications to our debt and how the rating agencies look at us. So we're going to get into that a little bit more.

So we're back in time, right, fiscal year '21. So as part of our contract with our

bond holders, there's scores and scores of requirements on everybody including this thing called a debt-coverage requirement.

And there's two specific tests. One is that we make enough operating income in a year -- and that's revenues less expenses -- such that the operating income is greater than or equal to one times our annual debt payment amount. Right. We have enough profit at the end of the year, so to speak, to pay our debt bill. It's pretty simple.

The second test is a little bit of a nuance. You take all that operating income. But now, you add in our fund balance. That's that savings account that we dipped into to get through COVID. We can add our fund balance to that number.

And that combined amount needs to be equal to or greater than 1.3 times the annual debt-service amount. So you can see on the right -- and it's a little too small. But there's a red oval on the bottom. That's an excerpt from our fiscal '21 financial statement.

And in that year, we lost, according to the financial statements, about \$44 million. And because of that, we failed that first test. Right. We had negative income. That does not exceed the debt-service amount. We failed that test.

However, we do carry a pretty healthy fund balance. We dipped into it. But it's still pretty good. And that fund balance -- the scale of it helped us pass that second test. So we passed the second test. Now, it's important to note that we saw all this coming very early on in the fiscal year.

We alerted the rating agencies and the bond markets that, look, this -- we have never seen these conditions before. But we're forecasting at this point we don't think we're going to pass the coverage requirement.

We did that because it's important. But it's important to also note that this is not a default. There are a number of requirements in our contract to bond holders. But there are seven particular things that are like big -- default with a capital D and have some financial ramifications.

This is not one of them. We made all of our debt-service payments on time and in full. But the failure of the coverage test one time does have some obligations, primarily that we have to hire a consultant to help us improve that ratio.

So after the numbers came in and it was clear that we did indeed not pass our coverage test, we hired a consultant. And the consultants find -- their research sort of coincided with when we were preparing the budget.

So a lot of their efforts were included in our budget. But we didn't have the official findings yet. So that's some of the timing of why we're coming to you today. But

the consultant's findings could be categorized in these three categories.

I put them in these categories, not the consultant. But the first is to adjust our leasing practices as the market recovers, to phase our rent credits as market conditions improve. I know real estate is already doing that. And we've ended, I believe, almost all the rent-credit programs except for the office sector, which is still definitely struggling with the slow return to the office.

The second suggestion was to consider rent increases in sectors that were less impacted by COVID. The Port Commission recently approved parameter rents which sort of brought our rent schedule back into what the market would bear.

So this category of suggestions is more of an ongoing effort. And we will continue to adjust as the market adjusts. The second category is interagency savings. A significant portion of our expenses is to pay other city agencies for their services.

Some specific recommendations came out about the fire department and the city attorney's office. And we've begun conversations with those departments to see if there's some efficiencies to be had there. That's a longer-term conversation that we hope to reflect in future budgets.

But right now, we're just in sort of staff-level conversations. The last category is just about internal financial practices, specifically one of them about reviewing how we categorize expenses as either capital or operating.

Operating expenses affect that coverage calculation. Capital expenses do not. So they suggested we take a very fine sharp pencil to make sure that we're categorizing things in the right buckets so that we're appropriately reflecting the coverage.

And we're already doing that. We're about to embark on closing our financial statements for fiscal year '22. And we've got some new practices in place [that ought to] reflect these suggestions. The second suggestion under this third category was to use stimulus to offset operating expenses. That would also improve our coverage ratio.

That has already been included in the budget that you approved and the Board of Supervisors approved. So we've already kind of put that in the bank so to speak.

And the last suggestion is to consider changing the test itself. This one, I'm not sure has much of a -- is much of an opportunity for us. We're a fairly small issuer amongst tax-exempt revenue sort of authorities.

There's parking operators and other ports. And the coverage test that we have is fairly standard in the market. It's understood. Bond buyers get it. It doesn't require any special explanation. The act of making our test an anomaly in the

market would narrow the number of buyers who might buy our bonds. And that could cost us money too.

So we're going to look at this. We're already talking to financial advisors about this. But this one requires some more homework before we decide to engage with it. Okay.

So the second financial matter to talk about is our operating reserve amendment. In 2008, the Port Commission wisely adopted a policy requiring us to set aside a reserve of 15 percent of operating expenses.

We used -- that fund balance I referenced earlier is that reserve. And we've far exceeded that 15 percent every year. Fifteen percent really only gets us almost to two months of expenses. That's not -- it doesn't really give us enough running room to come up with solutions.

So we've always managed it much, much more in excess of the 15 percent. During COVID, we did get down to about 50 percent. But that's improving because of the recovery and the receipt of stimulus. So what we're proposing here and with the assistance of an FA who did some research into what some of our sister agencies are doing with their reserve policies, we're proposing to increase the requirement to 50 percent.

So in an emergency, that would give us enough time to really identify solutions, to come to you with a supplemental appropriation if we need to or to pursue stimulus options if they're out there.

So it sort of matches the requirement to our practice and buys us an appropriate amount of time. This is also sort of a homework assignment that Commissioner Woo Ho gave us in finance before she left as we approved the last budget.

I'm sorry I couldn't bring this back to her in time. But this is also sort of part of her legacy. So those are the two matters I wanted to bring to you today. And I'm happy to answer any questions that you have.

President Adams: Thanks, Nate Cruz. I like the way you presented yourself there. At this time, let's open it up for public comment. Is there any public comment in the room? Seeing none. Jenica will provide instructions now for remote participants.

Commissioners' Discussion on Item 13A.

Commissioner Lee: Well, I mean, it is what it is. Right. I mean, COVID killed everybody -- everybody's revenue. We're just trying to do our best to try to catch up. I think streamlining and doing what you're doing is what, I guess, we're supposed to be doing.

So I guess just have to wait and see after you guys do your streamlining and checking with the departments and things what you can cut. I mean, I think our job is right now to try to bring everything back and try to bring revenue.

We know that your job is to try to balance the books. So I mean, great report. I mean, it's to be expected. Especially in the business world, we know. So welcome to your new job. [laughter] Welcome to balancing the books for us.

Nate Cruz: Thank you.

President Adams: Thanks, Commissioner Lee? You done?

Commissioner Lee: I'm done.

President Adams: Okay. Thanks, Commissioner Lee, for your comments. Commissioner Gilman?

Commissioner Gilman: Nate, thank you for a really comprehensive report and really appreciate how you broke it all down for us. I definitely support raising our reserve requirement to 50 percent. I just had an odd question. Maybe it's just me.

But for five years, I've been wanting to ask this question. You sort of opened the door for me. So I'm going to ask it. So in spaces I've worked and in real estate, we call it a reserve. We don't call it a fund balance. Why are you using that terminology instead of just calling it an overall reserve?

Nate Cruz: You know, I don't know why the terminology is what it is. It's, I think, what we think of sort of in the public sector. In other government positions I've had outside of the Bay Area, we called it a fund balance.

Commissioner Gilman: Okay. So it's --

Nate Cruz: It's a good question Yeah.

Commissioner Gilman: -- [public sector] term. Okay. Because --

Nate Cruz: Yeah. But it serves that same function of -- if you've got an emergency, that's the pile of money you can dip into to --

Commissioner Gilman: And then, I'm assuming, in accounts that are restricted like maritime fund or others, they carry their own fund balances?

Nate Cruz: We carry one consolidated fund balance. And we're restricted by the overall Port mission and the restrictions on how we use those funds that

we've generated in the Port jurisdiction.

Commissioner Gilman: Okay. Thank you.

Nate Cruz: Sure.

Director Forbes: I think I might know the answer to that question. I think it's because governments think of everything in terms of the fund. So we are the enterprise fund. That's the Port, the harbor fund. So we think of what is the balance of our harbor fund rather than reserve.

Commissioner Gilman: Right. Exactly.

Director Forbes: So I think that's the government lingo.

Commissioner Gilman: Okay. I've always wanted to ask that. And since you used that word interchangeably in your presentation, I thought it was the perfect time to ask. Thanks.

President Adams: Thank you. Vice President Brandon?

Vice President Brandon: Nate, thank you so much for this presentation. So happy that things -- no matter how things are, you make them seem like they're not that bad. [laughter]

Nate Cruz: I'm hiding a lot inside during COVID especially.

Vice President Brandon: So I really appreciate your presentation. And I think the good news out of this is that we hired a consultant. And they gave us some great recommendations. You know, I think it's great to increase our operating reserve to hopefully be prepared for -- that we don't have a next time -- but the next time. You're doing a great job. Thank you, Nate.

President Adams: Nate, you seem -- which I like -- you're very confident and very comfortable up there at the mic. You explained everything very articulately. Thanks for stepping up as acting. Two questions I have -- is inflation -- because, sometimes, I feel we're in a recession. I'm not quite sure sometimes.

I kind of think it. I think they said in Washington, if you have two bad quarters, you're in a recession. I know we're going into the midterms. But will inflation or a recession affect us in any kind of way?

Nate Cruz: Certainly. I'll take the question -- two separate parts. For inflation, you know, wages are certainly the biggest part of our annual operating expenses. So to the extent that labor MOUs incorporate inflation adjustments, those have a very direct and significant impact on our operating expenses.

A lot of other organizations that have a heavy debt profile like the airport perhaps with a lot of variable-rate debt, fluctuations in inflation that might change the debt-service payments that they would need to make -- those can also be significant.

We're somewhat insulated from that. We have no variable-rate debt. It's all very fixed. Inflation also hurts us on the construction side. All the capital projects that we're trying to deliver -- I mean, before all of this, construction costs were escalating faster than the general inflation rate.

That seems to not -- I don't know what's happening in the current market. But lately, it's been -- the trend has continued. And that continues to pressure our ability to deliver capital projects.

The recession question I think is the scarier one for me. You know, what the real estate market does if there's major shifts in demand for office space or tourism changes and people's discretionary dollars to come to San Francisco and enjoy this amazing amenity that we have to offer, as that diminishes, that's going to really impact our ability to raise revenue as well.

So there's a lot of exposure and risk. You know, when we come to you with financial projections certainly lately, there is a huge degree of uncertainty in those projections. So I think what you pointed out are two real things that we keep an eye on in finance to try to look at fund balance or other solutions to mitigate those risks.

President Adams: Thanks, Nate. Good job. Keep it moving. Carl, next item, please.

14. NEW BUSINESS

President Adams: I just want to thank the audio crew in the back for staying late. Staff, thanks, everybody, for staying late. It's been a long day. Thank you.

15. ADJOURNMENT

ACTION: Vice President Brandon moved to adjourn the meeting in memory of Michael Hamman. Commissioner Gilman seconded the motion. All commissioners were in favor.

President Adams: Meeting is adjourned 6:12 p.m.