



MEMORANDUM

August 5, 2022

TO: MEMBERS, PORT COMMISSION
Hon. Willie Adams, President
Hon. Kimberly Brandon, Vice President
Hon. John Burton
Hon. Gail Gilman
Hon. Steven Lee

FROM: Elaine Forbes 
Executive Director

SUBJECT: Request approval of a proposed lease amendment with Golden Gate Scenic Steamship, doing Business as Red & White Fleet, for a temporary reduction in rent during two (2) six-month periods from November –April during Fiscal Years 2021-22 and 2022-23

DIRECTOR'S RECOMMENDATION: Approve the Attached Resolution No. 22-42

EXECUTIVE SUMMARY

Golden Gate Scenic Steamship Corporation, doing business as Red and White Fleet (R&WF) approached Port staff in 2021 to voice concerns about how the Covid-19 pandemic was affecting R&WF's ability to generate sufficient revenues to meet its rent obligations and perform on the deadlines in the lease to invest \$4.6 million in capital investments. To address these concerns, Port staff is seeking approval to amend the lease to reduce R&WF's monthly Base Rent for two six-month periods during the months of November through April, reflecting the off-season for tourism at Fisherman's Wharf. The Phase I and Phase II Initial Tenant Construction Completion Dates would be delayed to January 31, 2025, and June 30, 2023, respectively. In exchange, the tenant would be obligated to (i) increase its investment for planned tenant improvements by no less than \$50,000 in addition to committing any waived rent to tenant improvements on a dollar-for-dollar basis, and (ii) increase its marketing and promotions to local residents and community groups in order to bring an expanded customer base to its business and the Fisherman's Wharf area.

STRATEGIC OBJECTIVE

The proposed Lease Amendment is expected to contribute in a substantial way to meeting the following objectives of the Port's Strategic Plan:

Productivity:

By supporting Tenant Operations in the Port's Maritime Excursion Business Line.

Stability:

By allowing R&WF reasonable adjustment of the Lease obligations due to market condition changes to allow them to remain stable throughout economic cycles.

By requiring any waived rent to be reinvested in the facility as capital improvements to Port facilities

BACKGROUND

Golden Gate Scenic Steamship Corporation, more commonly known as Red and White Fleet ("R&WF"), is a 124-year-old San Francisco maritime excursion business. In May 2019, the Port and R&WF entered a new lease, L-16547, (the "Lease") for a term of 15-years plus two 5-year options for the Pier 43½ premises located at Fisherman's Wharf. The Lease:

- Raises R&WF's base rent to \$42,768 per month (the highest rate among the Port's excursion tenants); and,
- Requires capital improvements totaling \$4.6 million, over two phases:
 1. Landside work
 2. In-water work, which cannot begin until PG&E completes remediation in the area

At the time of Lease execution, the lease terms and capital investments were consistent with the Port's Maritime Excursion Lease Renewal Policy. Unfortunately, the COVID-19 pandemic struck five months after the Lease was executed, severely impacting R&WF's anticipated revenues during two of the three years since the Lease was signed. Throughout the term of the Lease, R&WF has paid all rent due and remained in good standing both before and throughout the duration of the pandemic.

Figure 1 illustrates base rent and percentage rent, relative to revenue between 2016 and 2021. As shown, base rent was about 2.5% of sales (under the prior lease), then increased to 4.5% under the new lease. The pandemic had a significant impact on sales in 2020 and 2021 sales.

Figure 1. Base Rent and Percentage Rent, Relative to Sales

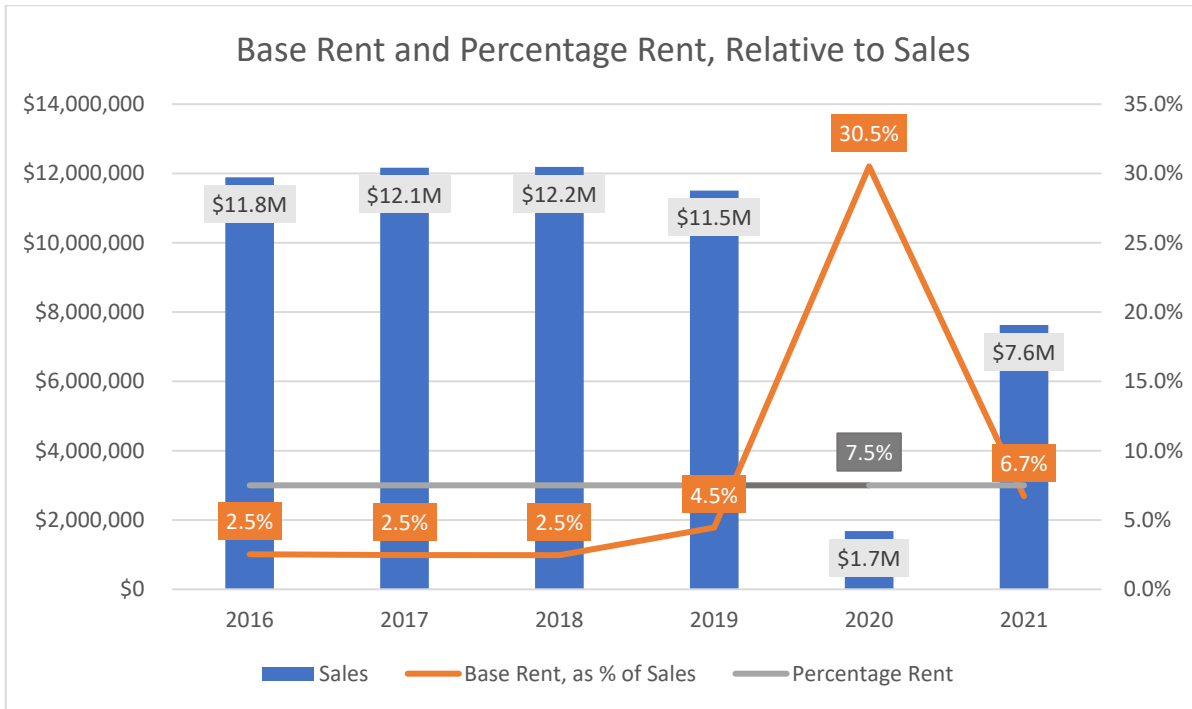
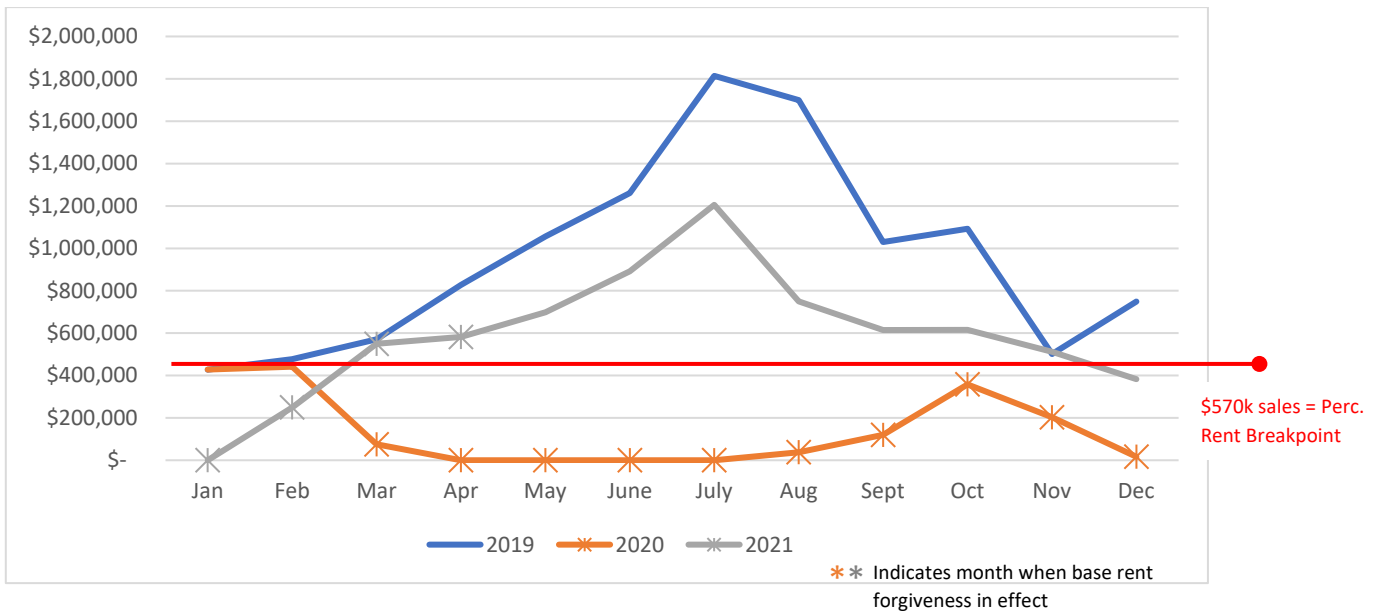


Figure 2 illustrates a comparison of gross revenues by month for 2021 versus 2019, demonstrating the large seasonality variation throughout the year.



ANALYSIS

R&WF’s revenues dropped 85% in 2020 compared to 2019 and remained 34% below 2019 levels in 2021. In the face of this material loss in revenue, R&WF remained engaged

with Port staff on potential tenant relief programs and applied for and received the Port's percentage rent tenant 14-month base rent waiver which covered the period from March 2020 through April 2021. R&WF continued to operate when allowed under the Health Orders. As the pandemic continued, R&WF continued to struggle financially even with the assistance of the Port's Rent Relief Program. In mid-2021, R&WF approached Port staff with concerns about its ability to meet its Lease obligations.

Taking into account R&WF's operating history, Fisherman's Wharf's tourism statistics, sales revenue data, potential impacts on Port revenues and the precedent that would be set by this request/proposal for similarly situated tenants (e.g., Blue & Gold Fleet and Hornblower Cruises), staff is proposing to amend the Lease to allow:

1. Base Rent to be reduced for two six-month periods during the months of November through April for Fiscal Years 2022 and 2023;
2. Delay the completion date for Phase 1 Tenant Construction to January 31, 2025 and delay the completion date for Phase 2 Tenant Construction to no earlier than June 30, 2023;
3. Waive the day-for-day damages authorized under the Lease for the delay in completing construction of the Phase 1 Tenant Improvements; and
4. As a concession for items 1, 2, and 3, R&WF would:
 - a. increase its planned Initial Tenant Improvements to the existing ticket booth structure, substructure and wharf by no less than \$50,000;
 - b. increase its minimum required contribution for Tenant Improvements on a dollar-for-dollar basis for every dollar of Base Rent waived, up to the original Base Rent amount.
 - c. potentially add additional investment in public realm improvements, habitat enhancements, or other mutually agreed upon scopes; and
 - d. develop marketing programs to bring local residents and different customer bases to the waterfront, partnering with educational, non-profit and disadvantaged community organizations. Tenant would be required to report on its activities.

Port staff believes these solutions balance assisting R&WF in moving through the pandemic while protecting the financial benefit of the Lease to the Port.

PROPOSED LEASE AMENDMENTS

Table 1 below summarizes the proposed Lease Amendment Terms

Table 1

Item	Terms
Base Rent	<p>Pay 60% of base rent for up to 12 months maximum reduction in rent of \$289k for the two, low-season periods (Nov-April in 2021-22 and in 2022-2023).</p> <p>Tenant's rent during the 6-month low-season will be \$25,660 per month and remain at \$42,678 for the rest of the year.</p>

Item	Terms
Additional Capital Investment Requirements	<p>Any base rent waived to be matched in increased capital improvements for site.</p> <p><i>Note that percentage rent performance exceeding base rent breakpoint could mean Port may not end up waiving any base rent.</i></p>
In-Lieu of Liquidated Damages	<p>Tenant to add \$50,000 to capital improvement minimum investment required in exchange for providing additional time for the investment in lieu of the \$100 per day liquidated damages charge.</p> <p>Additional investments may be made in public realm improvements, habitat enhancements, or other mutually agreed upon scopes.</p>
Phase 1 Improvements	<p>Phase I Initial Tenant Improvements Completion Date to be postponed from January 31, 2022 to January 31, 2025, providing three additional years to complete Phase I Landside Construction.</p> <p>During Phase I, Tenant to consult with Port’s Waterfront Resilience Program to ensure their improvements coordinate with and do not conflict adaptation plans under consideration.</p>
Phase 2 Improvements	<p>Phase II Initial Tenant Improvements Completion Date to be delayed to no earlier than June 30, 2023. PG&E Remediation is unlikely to be completed before this date, and is required for R&WF to initiate Phase II</p>
Cross-Marketing and Promotions	<p>Tenant will be required to develop marketing programs and promotions with other legacy businesses to attract local business by offering discounts to residents, nonprofit organizations, local school groups and disadvantaged community groups, to diversify the Fisherman’s Wharf customer base and increase gross revenues. Tenant will be required to provide quarterly reports of its activities.</p>

RECOMMENDATION

R&WF continues to be a valued Port tenant. Throughout the pandemic, R&WF communicated with Port staff continuously, operated when allowed under the Health Orders, and suffered financially due to Covid-19. Port staff believe the proposed solution balances providing assistance to the Tenant to recover from the pandemic and recognizes the important and long-standing partnership between our organizations along with the efforts that R&WF has made to weather the pandemic. Port staff recommends that the Port Commission approve the attached resolution authorizing staff to amend lease L-16547.

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Assistant Deputy Director, Leasing

For: Rebecca Benassini,
Deputy Director, Real Estate & Development

Attachments: Attachment 1

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

RESOLUTION NO. 22-42

- WHEREAS, Charter Section B3.581 empowers the Port Commission with the power and duty to use, conduct, operate, maintain, manage, regulate and control the Port area of the City and County of San Francisco; and;
- WHEREAS, Port and Golden Gate Scenic Steamship Corporation, more commonly known as Red and White Fleet (“Tenant”), entered into that certain Port Lease L-16547, dated May 31, 2019 under which Tenant leases real property known as Pier 43½ located at Fisherman’s Wharf (the “Lease”); and;
- WHEREAS, Port and Tenant now wish to agree on an amendment to the Lease, per the terms of the Lease Amendment on file with the Commission Secretary (the “Lease Amendment”); and;
- WHEREAS, The Lease Amendment shall reduce the Base Rent payable during 2 six month low-seasons, from November 2022 through April 2023 and November 2023 through April 2024, to \$25,660 per month, and
- WHEREAS, Any rent conceded during the low-season shall be matched dollar-for-dollar with additional capital investment in Port facilities, and
- WHEREAS, The Phase I Completion Date shall be extended to January 31, 2025; and will postpone the Phase II Completion Date to no earlier than June 30, 2023; and
- WHEREAS, Tenant will be required to develop marketing programs and promotions with other legacy businesses to attract local business by offering discounts to residents, nonprofit organizations, local school groups and disadvantaged community groups, to diversify the Fisherman’s Wharf customer base and increase gross revenues, providing quarterly reports of its activities; and]
- WHEREAS, Port Staff has negotiated the terms of a Lease Amendment, all as more particularly described in the Memorandum to the Port Commission dated August 5, 2022;now, be it
- RESOLVED, That the Port Commission approves the terms of the Lease Amendment and authorizes the Executive Director or her designee to execute such Lease Amendment in substantially the same form on file with the Port Commission Secretary; and, be it further
- RESOLVED, that the Port Commission authorizes the Executive Director to enter into any additions, amendments or other modifications to the Lease Amendment that the Executive Director, in consultation with the City Attorney, determines, when taken as a whole, to be in the best interest of the Port, do not materially

increase the obligations or liabilities of the City or the Port, and are necessary or advisable to complete the transactions which this Resolution contemplates and effectuate the purpose and intent of this Resolution, such determination to be conclusively evidenced by the execution and delivery by the Executive Director of such documents.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of August 9, 2022.

Secretary