

MEMORANDUM

April 21, 2016

TO: MEMBERS, PORT COMMISSION
Hon. Willie Adams, President
Hon. Kimberly Brandon, Vice President
Hon. Leslie Katz
Hon. Eleni Kounalakis
Hon. Doreen Woo Ho

FROM: Elaine Forbes
Interim Executive Director

SUBJECT: Request Approval of 15-Year Exclusive Management Agreement with Two Five-Year Extension Options with Pasha Automotive Services for Pier 80

DIRECTOR'S RECOMMENDATION: Approve Attached Resolution

Executive Summary

Port staff has negotiated a terminal management agreement with potential to transform Pier 80 from an underutilized asset to a thriving marine terminal creating new revenue for the Port and significant economic and employment benefits for the City. Pier 80, San Francisco's primary general cargo terminal, consists of approximately 60 acres of cargo laydown space, two warehouses, four container cranes and four deep water berths. In addition to serving as a cargo terminal, Pier 80 provides the City a vital facility for emergency preparedness and resiliency in the event of a natural disaster.

San Francisco's peninsula location, coupled with inferior intermodal rail services due to limited rail tunnel clearances, stunted the Port's ability to gain any market share in the container shipping market. In 2005, faced with dwindling containerized cargo volumes the Port's marketing focus for Pier 80 shifted to breakbulk cargoes such as newsprint, structural steel, steel coil and various project cargoes. Initially, breakbulk cargo volumes were strong; however, since the economic recession in 2009, volumes in Northern California have steadily declined to a point such that breakbulk cargo alone is not sufficient to operate the terminal at Pier 80. The current terminal operator, Metro Ports, commenced operation of the terminal in September of 2008, just as the worldwide recession began impacting cargo volumes. The Port's current agreement with Metro Ports can be terminated with 30 days' notice and the Port and Metro have mutually agreed to exercise this notice on April 30, 2016 due to a persistent lack of break-bulk cargo business.

THIS PRINT COVERS CALENDAR ITEM NO. 10A

Cargo Stats at Pier 80					
FY 10/11 to FY 14/15					
	<u>FY 10/11</u>	<u>FY 11/12</u>	<u>FY 12/13</u>	<u>FY 13/14</u>	<u>FY14/15</u>
Vessel Calls	20	12	13	10	8
Tonnage	34,049	24,385	18,946	5,982	2,998
Revenue ¹	\$ 1,053,890	\$ 620,272	\$ 477,520	\$ 444,639	\$ 298,154
¹ Includes dockage, wharfage, crane rental, layberth, demurrage and facility rent					

Strategic Objectives:

The proposed agreement deploys several key goals of the 2016-2021 Strategic Plan such as:

RENEWAL

Achieving the Port's maritime and economic purpose by creating the Maritime Eco-Industrial Strategy for southern waterfront lands from Pier 80 to maintain a core area for maritime cargo and industrial uses that are designed and managed compatibly with the Blue Greenway open space network.

LIVABILITY

By promoting living wage jobs at Port businesses.

ENGAGEMENT

By proactively marketing Port maritime and commercial leasing opportunities through a robust multidimensional marketing campaign promoting the Port as a unique "brand".

RESILIENCY

By providing facilities for emergency response to natural disasters.

ECONOMIC VITALITY

By aggressively competing for global cargo shipping business.

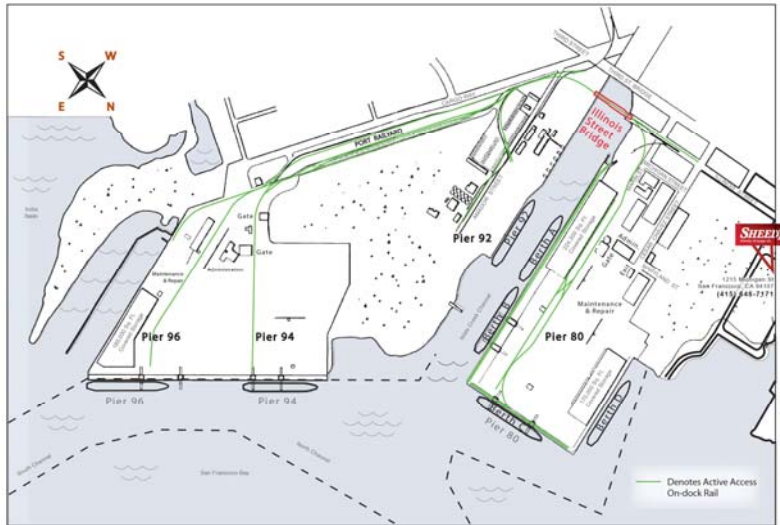
STABILITY

By increasing annual Port revenues to \$125 million and continue to expand ongoing revenue sources.

Opportunity:

For the past year, staff has been in dialogue with member companies of the Pasha Group about shifting the marketing focus at Pier 80 primarily to automobile imports and exports. The Pasha Group, headquartered in San Rafael, is a multi-faceted transportation company with shipping services from the U.S. West Coast and Hawaii. Their automotive processing subsidiary, Pasha Automotive Services, hereafter ("PAS") operate import/export facilities in San Diego, Grays Harbor in Washington, and the Port of Baltimore. They are the Port of San Diego's leading maritime tenant. In 1960 George W. Pasha, III opened the first independent automotive port processing in the

country at Fort Mason in San Francisco. The first account is British Motor Car Company, quickly followed by Toyota, General Motors, Opel and Volvo. A body shop was built on Fisherman's Wharf to service, repair, and provide a "showroom ready" product.



A 2009 Cargo and Warehouse Market Analysis prepared for the Port by CBRE Consulting, Inc. and Martin Associates highlighted the potential of the auto import/export for Pier 80, however the subsequent “great recession” and associated turmoil in the auto manufacturing sector limited opportunities for San Francisco. Since then, significant structural changes in the world wide manufacture of autos have reopened and increased market potential for San Francisco.

In 2016, more new cars are imported to California from Mexico than from Japan. Numerous automakers are adding production capacity in Mexico, including General Motors, Ford, Toyota, Honda, Volkswagen, Audi, BMW, Hyundai and Mazda.

By 2020, Mexico is anticipated to build one in four vehicles driven in North America. Many autos manufactured in Mexico are shipped to the U.S. via rail, but short-sea shipping from Mexico to U.S. Ports is a growing transportation mode. Autos are still being imported from Korea, Japan, Europe and China and conversely, electric autos are being manufactured in Northern California and exported around the world.

The Port proposes an Exclusive Marine Terminal Management Agreement with PAS, a subsidiary of the Pasha Group to allow the import and export of vehicles by ship at Pier 80, with on-terminal automobile preparation and detailing services. Vehicles would be transported by truck from Pier 80 to Northern California dealerships. It is anticipated Pier 80 could receive approximately 96 ships per year, shipping approximately 150,000 vehicles. PAS could also manage any project, breakbulk cargo or vessel lay berthing.

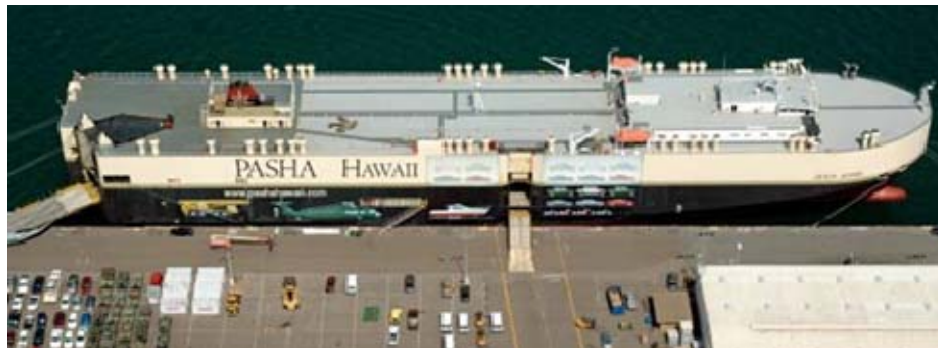
Other West Coast ports involved in international automobile logistics are near capacity and Pier 80 is currently an underutilized facility that can be transformed into a significant economic engine for the southeast portion of the City.

Management Operating Agreement

PAS will bring its expertise and commercial connections in connecting Pier 80 to the network of automobile manufacturers worldwide. PAS will activate the Pier by commencing the hiring and training of staff, installation of trade fixtures and commerce a robust overhaul of the physical plant. The Port will pay PAS a monthly operating fee to cover basic utility and security costs and both parties will share wharfage, dockage, storage and layberth revenues on a sliding scale. As structured, the Port's share of these revenues will increase as cargo volumes grow and if volume projections are met the Port will see significant returns.

Operation

PAS have advised the Port that cars will arrive on "Ro/Ro" (roll on and roll off) ships that will be literally driven off the ships by members of the International Longshore and Warehouse Union (ILWU). PAS has further advised the Port that they will contract with a stevedore company that is a signatory to the Pacific Coast Longshore and Clerks Agreement and a member of the Pacific Maritime Association to provide ship loading and unloading. Once the autos are unloaded, PAS will undertake an array of processing services including: automated wash, fueling via mobile fuel truck, literature and other throw-in items, installation of accessories including electronics, body styling kits, wheels/tire replacements, retrofit campaigns such as refreshing vehicle computer systems, in-transit damage repair, light paint refinish, pointless dent repair, and polish. PAS will install new paving, striping, automated car wash, paint booth, accessory stalls and lighting including vehicle hoists, and new enclosed areas. Once processed, the autos will be distributed to dealers in Northern California and Nevada.



Employment Opportunities to City Residents

The terminal will employ approximately 50 longshoremen during vessel operations. Port staff and representatives of PAS have collaborated with Mayor Edwin Lee's Office of Economic and Workforce Development (OEWD) to ensure that auto processing job opportunities will be focused on San Francisco residents in the nearby neighborhoods. As automobile processing reaches capacity, it is anticipated that 150 new employees will be hired and trained. These jobs, which can be filled by workers with various skill levels, will enhance economic opportunities particularly in San Francisco's southern neighborhoods. Auto Processing jobs offered by PAS at Pier 80 provide a living wage and family benefits with training and long-term careers. Pasha has worked with OEWD to develop workforce training and job placement services that connect the Bayview neighborhood with employment opportunities at Pier 80. To this end PAS is committing

to enter into an agreement with CityBuild, an employment program under the Workforce Development Division of OEWD. CityBuild will work with PAS in providing screened and qualified workforce comprised of skilled San Francisco residents for all phases of work at the Pier 80 operation with a priority for residents in District 10. PAS have committed to first hire these CityBuild candidates. CityBuild has played a vital role in providing training and employment opportunities to economically disadvantaged San Francisco residents. The commitment outlining PAS's participation is attached to the Terminal Management Agreement and as such is a binding condition of the agreement. Failure to comply would be a material default of the agreement and PAS would be subject to specific penalties.

Agreement

The Port has developed a financial package similar to the Port Commission approved agreement with Metro Ports in 2008. The proposed agreement terms are:

1. Premises: Pier 80, including the four container cranes, Sheds A and D, portions of the yard and vessel berths A, B, C and D.
2. Term: 15 years from its July 1, 2016 with two five-year term extension options. Port and PAS retain the right to terminate the agreement at any time after the end of the third year if Gross Revenues are less than \$1 million per annum.
3. Financial: In consideration for operating the terminal PAS is responsible for utilities, security and operating expenses. The Port will pay PAS a \$50,000 monthly operating fee. PAS will share in Port Gross Revenues (wharfage, demurrage, dockage and storage) as follows:
 - 50% of Port Gross Revenues from the first \$800,000 generated in each Contract Year.
 - 40% of Port Gross Revenues from \$800,001 to \$1,199,999 generated in each Contract Year.
 - 20% of Port Gross Revenues in excess of \$1,200,000 generated in each Contract Year.

The fee structure is shown below with different cargo volume scenarios - 50,000, 100,000 and 150,000 autos handled in a calendar year. In the below pro forma, PAS will participate on a sliding scale from our port tariff revenues: wharfage, dockage, storage and demurrage. Port staff believes these projections below reflect a likely year 1 – year 3 actuals with growth from 50,000 to 150,000 autos as PAS establishes this niche business in a similar fashion to their operations in San Diego and Grays Harbor.

Pier 80 Fees Structure Analysis

FEES STRUCTURE	
Annual Operator Payment	\$ 600,000
Share of Port Gross Revenues	
800,000	50%
801,000-1,199,000	40%
1,200,000+	20%

50,000 autos annually

Annual Port Gross Revenue	\$ 1,600,000
Revenue Share at 50%	\$ 400,000
Revenue Share at 40%	\$ 160,000
Revenue Share at 20%	\$ 80,000
Total Operator Revenue Sharing	\$ 640,000
Annual Operator Fees	\$ 600,000
Total Annual Operator Payment	\$ 1,240,000
Port Net Revenue	\$ 360,000

100,000 autos annually

Annual Port Gross Revenue	\$ 3,200,000
Revenue Share at 50%	\$ 400,000
Revenue Share at 40%	\$ 160,000
Revenue Share at 20%	\$ 400,000
Total Operator Revenue Sharing	\$ 960,000
Annual Operator Fees	\$ 600,000
Total Annual Operator Payment	\$ 1,560,000
Port Net Revenue	\$ 1,640,000

150,000 autos annually

Annual Port Gross Revenue	\$ 4,800,000
Revenue Share at 50%	\$ 400,000
Revenue Share at 40%	\$ 160,000
Revenue Share at 20%	\$ 720,000
Total Operator Revenue Sharing	\$ 1,280,000
Annual Operator Fees	\$ 600,000
Total Annual Operator Payment	\$ 1,880,000
Port Net Revenue	\$ 2,920,000

1. Maintenance:

PAS shall be responsible to keep the Facility in a neat, clean, safe and orderly condition, including fire sprinklers, rolling and man doors.

Port Responsibility: container cranes, railroad and crane trackage, yard lighting (except bulbs) dredging, and fendering.

2. Additional Services:

PAS shall maintain sufficient personnel, equipment, and contracted services in order to provide a level of customer service equal to or exceeding other West Coast auto processing terminals. PAS will hire a stevedore company to undertake full responsibility for receipt, handling, loading, discharging, storage, transporting and delivery of cargo in connection with vessels landing at the facility. They will also supply security guard staffing for compliance with the appropriate Facility Security Plan (FSP) required by the Marine Transportation

Security Act of 2002 (MTSA) guidelines, including any amendments or changes to the FSP during the term of this agreement.

3. Environmental Security Deposit:
The Port's policy concerning Environmental Risk Management in the amount of \$10,000 adopted by the Port Commission on November 6, 2007.
4. Security Deposit:
The Port will require a security deposit in the amount of \$100,000.
5. Capital Improvements:
PAS will be responsible for installation of any required trade fixtures for the processing of the import/export of automobiles including car wash racks, paint booths, mechanic lifts or pits, and computer systems.

Pier 80 has several deferred capital repairs that need to be addressed in order to adequately market and operate the facility. These items include leveling portions of the yard substructure, upgrading storm drains, paving and painting sheds. Some areas of the pier have sunk creating ponding during high tides. These capital costs are estimated at approximately \$4 million.

PAS has committed to paying for 50% of necessary capital improvements as detailed above. The Port will pay for 50% of these improvements by reimbursing a maximum of 50% monthly Port net revenues after total operating payment. There is a cap of \$2 million inclusive of \$650,000 in previously approved capital budget to make rail and yard improvements at Port cargo piers and these funds could be used to accelerate completion of the work.

Community

The Port has worked in concert with the City, Bayview-Hunters Point communities, including the Port's own Southern Waterfront and Maritime Commerce Advisory Committees to maintain a strong base for maritime and industrial uses in southeast San Francisco. Since 2001, the Port has worked to align maritime cargo business opportunities with complementary industries that improve the environment and community character, produce local jobs, and support investments in new parks and waterfront public access. The Port has completed a Pier 80-96 Maritime Eco-Industrial Center Strategy and Plan that has guided over \$88 million in public and private investments to date, which together promotes reuse, resource management, and environmental stewardship and community benefits. The focus of this Port Eco-Industrial Center Strategy is to:

- *Market Port terminals for ocean-borne cargoes and adjacent lands for business activities that foster synergies with industries in the Port Eco-Industrial Center; and promote resource recovery, reuse and exchange;*
- *Provide economic development opportunities for local and minority businesses and residents within the community;*

- *Conduct Port and Port tenant operations in a manner that minimizes impacts or improves environmental conditions in the area; and*
- *Provide or complement public realm and open space improvements that realize the Blue Greenway; and invest and improve transportation access to the site.*

This proposed agreement fits squarely within the goals and objectives of the Port's Eco-Industrial Strategy.

Environmental Review

PAS will continue handling ocean-borne cargoes at Pier 80 which is consistent in use and intensity of the existing use and with past cargo activities at Pier 80 and is not a project that requires further review under the California Environmental Quality Act.



Environmental Operations Plan

The PAS Terminal Agreement will include provisions for PAS to develop an Environmental Operations Plan. The Operations Plan will set forth the Port's environmental requirements and will govern all operations and activities undertaken by PAS and all of their Agents and Invitees conducting activities on Port venues.

Summary

Over the past decades, Pier 80's cargo operation has been challenging. Shifting cargo handling technologies, a decline of the West Bay manufacturing base, limited rail connections and worldwide macro-economic downturns have resulted, in spite of the Port's best efforts, in an underutilized ocean terminal. Over the last two years, Port staff has engaged with the PAS, organized labor and other stakeholders to explore the transformation of this pier into an active, lucrative maritime industrial complex. A Port of San Francisco commissioned "Maritime Cargo Market Analysis" foresaw the opportunity that autos could mean for San Francisco cargo operations. It estimated that an initial throughput of 115,000 autos would yield about 406 total jobs and \$3.9 million in annual tax payment to State and local governments. The Port is balancing our financial risk with the rewards of an active marine terminal creating new Port revenue and economic benefits to the community.

Recommendation

Port staff requests that the Port Commission approve the proposed operating agreement with Pasha Automotive Services for management of the Pier 80 cargo terminal upon those terms and conditions described above, and upon such terms which do not materially alter the rights or obligations of the parties, or compensation due.

Prepared by: Peter Dailey
Deputy Director, Maritime

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

RESOLUTION NO. 16-16

WHEREAS, Section B3.581 of the Charter of the City and County of San Francisco empowers the Port Commission with the power and duty to use, conduct, operate, maintain, manage, regulate and control Port area of the City and County of San Francisco; and

WHEREAS, the Port holds in trust and subject to its lawful disposition certain maritime Facilities located at the Cargo Terminal at Pier 80 (hereinafter "Pier 80 Cargo Facility") situated in the City and County of San Francisco; and

WHEREAS, a new cargo terminal manager, Pasha Automotive Services, desires to provide terminal management services at the Pier 80 cargo facility; and

WHEREAS, Pier 80 serves as San Francisco's primary general cargo terminal and has seen declining breakbulk and neo-bulk cargo levels; and

WHEREAS, upon maturity, the Pier 80 auto terminal will employ several hundred employees with family benefits and living wage jobs; and

WHEREAS, Automobile imports and exports are a growing market in California; and

WHEREAS, the Port and Pasha Automotive Services have negotiated the terms of an exclusive management agreement (Agreement) as described and referenced in the staff memorandum accompanying this resolution; now, therefore be it

RESOLVED, That the Port Commission approves the Agreement on the terms described in the attached Memorandum dated April 21, 2016 accompanying this Resolution and authorizes the Executive Director to take such actions (including the execution of the agreement on terms consistent with those described in the attached Memorandum) as she deems necessary and advisable, in consultation with the City Attorney, to effectuate this approval and the purpose and intent of this Resolution; and, be it further

RESOLVED, That the Port Commission authorizes the Executive Director or her designee to enter into any additions, amendments or other modifications to the Agreement that the Executive Director, in consultation with the City Attorney, determines are in the best interest of the Port, do not materially increase the obligations or liabilities of the City or Port or materially decrease the benefits to the City or Port, and are necessary or advisable to complete the transactions which the Agreement 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 or her designee of the Agreement, and any such amendment thereto.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of April 26, 2016.

Secretary