

MEMORANDUM

July 7, 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 endorsement of Term Sheet between the Port and the National Park Service (NPS), for a Memorandum of Understanding outlining the business terms of an Alcatraz Island Ferry Embarkation site, including: (1) a lease for ferry service to Alcatraz Island with a future concessioner selected by NPS and (2) a lease with the Golden Gate National Parks Conservancy, located at Piers 31-33 on The Embarcadero at Bay Street

DIRECTOR'S RECOMMENDATION: Approve the attached resolution

At its meeting on June 14, 2016, the Port Commission heard an informational presentation regarding the proposed Term Sheet between the Port and the National Park Service (NPS) for a Memorandum of Understanding (MOU). Port staff now request Port Commission endorsement of the proposed Term Sheet.

This staff report further describes the proposed terms between the Port and NPS. Material updates to the June 9, 2016 memorandum are presented herein as underlined text. In particular, updates have been provided related to (1) description of the framework for the MOU and forms of leases; (2) justification for sole source negotiations with NPS and the Golden Gate National Parks Conservancy (Conservancy); and (3) recommendation for approval of the accompanying Resolution endorsing the Term Sheet.

EXECUTIVE SUMMARY

Staff from the Port and the NPS have negotiated a non-binding Term Sheet for a 50 year (30 years plus two 10 year options) Memorandum of Understanding (MOU) for the Alcatraz Island ferry embarkation site and associated retail and café (the “**Project**”) on Piers 31, 31½, and 33 (collectively, the “**Site**” shown on **Exhibit A, Site Aerial Map**).

THIS PRINT COVERS CALENDAR ITEM NO. 13A

The Site is currently used as the embarkation site for tours to Alcatraz Island (Pier 31 ½), retail, restaurant and office use (Pier 33 Bulkhead), and support space for Alcatraz staff (Pier 33 shed). Pier 31 is currently vacant. The MOU envisions a unified and expanded Project at this site, with a new café in the Pier 31 bulkhead, a retail and visitor contact station in the Pier 33 bulkhead, an additional ferry berth at Pier 31 ½ (bringing the total number of berths at the marginal wharf to three), and supportive parking and other uses in portions of the Pier 31 and Pier 33 sheds. The parties will work together to develop a plan to maintain service to Alcatraz Island during construction of the improvements.

Two lease documents are contemplated under the MOU. One would be between the Port and NPS's selected ferry operator for the Alcatraz ferry concession and the other would be between the Port and the Conservancy, a local, non-profit partner to NPS who will buildout and operate or manage the café, retail, and interpretative portions of the Site.

The framework and general function of the MOU and the two leases are as follows:

- The MOU will be between the Port and NPS and will define each party's rights and responsibilities during the term of the agreement. NPS will be responsible for selecting a ferry concessioner through NPS's competitive bid process. The MOU will include two form leases which will be based upon the Port's standard form of lease, subject to specific provisions preempted under Federal law or which are mutually agreed to be waived. The MOU's term will be 30 years with two 10-year options for a total of up to 50 years. The MOU will also address default provisions, liability allocation, premises and use, rent structure, capital improvements, repair and maintenance obligations, cross default provisions, and other pertinent terms with respect to NPS and the anticipated ferry concessioner and the Conservancy leases.
- Upon NPS's selection of the Concessioner, the Port will execute the lease with the Concessioner consistent with the terms outlined in the staff report and the term of the concession contract that NPS grants (the anticipated term of a concession contract of this type is 10 to 15 years with possible short term extension options). At the expiration of the initial NPS Ferry Concession contract, the Port will enter into a new lease on the Port's standard form (again subject to modifications to conform if preempted by Federal law or mutual waivers) with the awarded bidder for a new term anticipated to be 10 years. This process will continue through the term of the MOU and any Concession lease will automatically terminate upon either the termination or expiration of the MOU.
- The other form of lease attached to the MOU will be used to convey real property rights from the Port to the Conservancy. Upon approval of the MOU, the Port will enter into a Port standard form lease with the Conservancy for a 30 year term consistent with the terms outlined in the staff report. In the MOU, the Port and NPS will agree on a process to potentially continue operations of the visitor contact station and café for the remaining 20 years of the MOU agreement term.

The proposed Term Sheet specifies:

- Monthly base rents, generally based on the Port’s parameter rent schedule or on similar leases.
- Percentage rental rates, applied to sales revenue from each component of the Site and based upon independent appraisals, one conducted by the Port and another by NPS.
- Monthly rental rates for office space to be leased in Pier 33 bulkhead, based on the Port’s parameter rent schedule.

Monthly revenue to the Port will equal the greater of base rent or percentage rent plus office rent. Key components are described in **Table 1** below.

Table 1. Selected Rental Rates in the MOU Business Term Sheet, Years 1-30

| Program Component | Key Rental Metric |
|--|---|
| Ferry operations ¹ | 7.50% of adjusted gross Ferry ticket sales ² |
| Ferry retail ¹ | 8.00% of adjusted gross Ferry retail sales ³ |
| Ferry food and beverage (F&B) ¹ | 7.25% of adjusted gross Ferry F&B sales ³ |
| Pier 31 Bulkhead café ¹ | 7.50% of gross sales |
| Pier 33 Bulkhead retail ¹ | 7.50% of gross sales |
| Pier 33 office space | \$3.00 per sq. ft. per month |

¹ Component also has an associated base rental rate. Port will receive the higher of the total percentage rent or total base rent for each month of the lease.

² Adjusted gross Ferry tickets sales mean ticket sales less Conservancy audio tour, Franchise Fee, sales tax, NPS Federal Lands Recreation Enhancement Act Fees, and Angel Island Tram Tour and Park Entrance Fees.

³ Adjusted gross Ferry retail and Ferry food and beverage mean gross sales less NPS Franchise fee and sales tax.

Total revenue to the Port in the first year of stabilization is estimated to be \$2.5 million, after rent credits are deducted and \$3.6 million in the fifth year of stabilization (after rent credits are repaid to the tenant). As a comparison, the current site (with some portions vacant) generated about \$2.2 million in fiscal year 2015-2016.

Staff will seek Board of Supervisors’ endorsement of the Term Sheet following Port Commission endorsement. Once the Term Sheet is endorsed, the parties will negotiate the MOU and forms of leases for the ferry concessioner and the Conservancy. Staff will bring these documents to the Port Commission and then the Board of Supervisors for approval after completion of environmental review under California Environmental Quality Act (CEQA). The ferry operator’s form lease will be attached to NPS’s next released concession bid contract for Alcatraz ferry service (expected in 2017) and the retail and café lease will be provided to the Conservancy for execution.

STRATEGIC OBJECTIVE

The proposed Term Sheet is expected to contribute in a substantial way to meeting the *economic vitality and stability objectives* of the Port's Strategic Plan. As the Project is further defined, staff expects additional Strategic Objectives will also be met.

- *Economic Vitality Objectives:* The proposed Term Sheet anticipates the development of a third berth at Pier 31 ½ to accommodate increased bay cruise capacity, supporting the Economic Viability objective designed to expand active water berths.
- *Stability Objectives:* The proposed Term Sheet retains an important Port visitor-destination and increases Port revenues from the Site, supporting key Stability objectives aimed at retaining a diversified tenant base and increasing Port operating revenue.

BACKGROUND

The Golden Gate National Recreation Area (GGNRA), established as a unit of the NPS in 1972, encompasses more than 80,000 acres of coastal lands in Marin, San Mateo and San Francisco counties. One of GGNRA's most prominent sites is Alcatraz Island which is historically significant as part of early coastal fortification systems and later as a federal prison. Since 1972, the Port of San Francisco has served as the embarkation point for tourists and local residents visiting Alcatraz Island. The ferry service is currently provided by Alcatraz Cruises, LLC, an affiliate of Hornblower Yachts, Inc. under a 10-year concession contract that NPS manages.

Though visitation of Alcatraz Island is managed through a reservation system, the ferry embarkation site is more than just a transit terminus. The embarkation site has the potential to serve as an important gateway and transitional point between the historic San Francisco waterfront and the natural, cultural, and scenic resources of Alcatraz Island and other GGNRA park sites. There is an opportunity to make Alcatraz Island landing a distinct, first-class experience for tourists and local residents.

Each year more than 1.5 million people visit Alcatraz Island by ferry from Pier 31½ on the northern waterfront, which is the only embarkation point for service to the Island. Between 4,000 and 5,000 people visit Alcatraz Island each day. While there is some seasonal variation, the Alcatraz Island ferry service operates a full daily schedule nearly all year long. The number of visitors is not dependent on ferry capacity, but limited by NPS's ability to provide an enjoyable experience at the park site as measured by visitor satisfaction and a continued ability to protect park resources.

Between 1972 to 2005, Red & White and Blue & Gold fleets, under separate contracts to NPS, provided service to Alcatraz Island from Pier 41. In 2005, the base of operations was moved to Pier 31½ when Hornblower was awarded the federally-mandated 10-year concession contract through a competitive process governed by federal law. One condition of the concession contract required Hornblower to lease a Port site, which it secured at Pier 31½, beginning in 1997.

In 2008, the Port's Executive Director and the GGNRA Superintendent began discussions about NPS selecting a permanent embarkation point at the Port. By doing so, the NPS, the Port and the public could avoid the disruption of moving the service each time a new concessioner is selected. Port and NPS staff collaborated to develop a site selection criteria and identified five potential Port properties for a permanent Alcatraz Embarkation location: Piers 19½, 29½, 31½, 41, and 45 Shed A as detailed in a December 3, 2009 informational presentation to the Port Commission.

Port staff in coordination with NPS staff selected Pier 31½ as the preferred Alcatraz Embarkation site and updated the Port Commission in a May 26, 2015 informational presentation. Pier 31½ is part of the Northeast Waterfront area and retail, food and beverage, and ferry service are allowed uses in such area under the Port's Waterfront Land Use Plan, the City Planning Department's Northeastern Waterfront Area Plan, and the Planning Department's Northeast Embarcadero Study issued in June of 2010.

In anticipation of the expiration of the concession agreement in 2016, NPS initiated a process to select a long-term ferry embarkation site. Instead of selecting a concessioner (i.e., ferry operator) that has secured a terminus site in San Francisco, NPS instead intends to select a long-term site with successive 10 to 15-year concession contracts. Such a site would provide NPS with a stable and identifiable ferry terminus to Alcatraz Island. NPS has completed a draft Environmental Impact Study (EIS) under the National Environmental Policy Act (NEPA) to support their site selection process. Pier 31½ is the leading site for NPS's preferred location.

SITE PROGRAM

Compared to the current embarkation site, the proposed Project includes similar uses to those presently on the site (i.e., Alcatraz ferry service, retail, and food and beverage) but those uses will be expanded and reorganized to improve the visitor experience. In addition, a visitor contact station and the expansion from two berths to three (to facilitate a new ferry service for visitors) will be included in the proposed Project. The new ferry service plan is under development but may include cruises around GGNRA in the San Francisco Bay Area.

Current Embarkation Site

The current Alcatraz embarkation site includes: Alcatraz Café in the Pier 33 bulkhead, ticketing and ferry queuing on the Pier 31½ marginal wharf, and parking and restrooms in the Pier 33 shed. Office space in the two upper floors of the Pier 33 bulkhead is leased to office tenants. The Pier 31 bulkhead is vacant.

The current site suffers from a poor and disjointed layout which diminishes the experience of the thousands of people funneled through the site on a daily basis. As stated in NPS's draft EIS, the Pier 31½ No Action Alternative (i.e., the current site) "does not meet the Project's basic program requirements and has deficiencies in providing the desired high-quality visitor experience. The presence of an Alcatraz-themed souvenir shop in the bulkhead building, separate from the NPS concession and not operated by the Park Service, further diminishes the ability of the Park Service to provide a clear sense of

identity and quality experience.”¹ The current site also suffers from substandard, temporary public restroom facilities in the Pier 33 shed. The current ferry concessioner at Pier 31½ and a portion of Pier 33 shed is on a month-to-month lease. The Pier 33 bulkhead lease will expire in 2019.

Proposed Redeveloped Pier 31 – 33 Site

Exhibit B, Proposed Site Plan and **Exhibit C, Renderings** provide an overview of the proposed Project. The Project would bring to fruition a world-class, long-term embarkation site for Alcatraz Island, one of the most popular destinations in San Francisco and the national park system. It includes a visitor contact station and interpretative retail and ticketing in the Pier 33 bulkhead, a casual dining restaurant in the Pier 31 bulkhead, assembly space for ferry service and the ferry service itself on the Pier 31½ marginal wharf, and restrooms, storage, and bike and vehicular parking in portions of Piers 31 and 33 sheds.

The larger site footprint is designed for higher functionality, a quality welcome and orientation, greater access to interpretive material, and enhanced visitor services. The new or enhanced services include separate areas for retail and food and beverage and an additional berth that can accommodate new ferry services. The additional ferry services are under development but may include transportation to other NPS locations as well as interpretive cruises of NPS sites around the bay. Overall, the embarkation site would meet the needs of expected growth in Alcatraz visitation over the next 50 years and provide associated services for the many visitors who are unable to obtain tickets to the Island.

SUMMARY OF TERM SHEET

The purpose of the Term Sheet (attached as **Exhibit D, Term Sheet**) is to set forth the basic terms and conditions on which the Port and NPS agree to further negotiate. These business terms will be refined and set forth in more detail in the MOU, the leases, and related transaction documents. This Term Sheet is subject to the review and endorsement by the Board of Supervisors. After the completion of environmental review under NEPA and CEQA, the MOU, the form leases, and related documents will be brought to the Port Commission and the Board of Supervisors (if required) for their respective considerations for approval.

1. Partnership Structure

The Port and NPS would enter into the MOU that designates Pier 31-33 as the ferry embarkation site for Alcatraz Island and other potential ferry excursions to NPS sites, Pier 33 bulkhead for an Alcatraz visitor contact station, and Pier 31 bulkhead as a casual dining amenity. The MOU would stipulate the term, premises and use, rent structure, capital improvements, repair and maintenance obligations, cross default provisions, and any other pertinent terms, as well as include a form of lease for the ferry concessioner and a form of lease with the Conservancy.

¹ Alcatraz Ferry Embarkation: Draft Environmental Impact Statement, page vii.

NPS, at its sole discretion, would have the right to select a ferry concessioner through a federally-mandated competitive process. Upon the selection of the ferry concessioner, the Port would enter into a lease for a portion of the embarkation site with the concessioner primarily for ferry operations with ancillary on-vessel food and beverages, photo, and visitor support services. The term of this lease would be concurrent with the NPS concession contract term. The Port would also enter into a lease with the Conservancy for retail and café services.

2. MOU Term

The term would be an initial 30 years with two 10 year options to renew at fair market value. The options are exercisable at the discretion of NPS with the exception of unanticipated site or facility deterioration due to sea level rise or other mutually agreed sources described in the MOU that renders the site and operation physically infeasible. In the event of significant sea level rise that may compromise the operational feasibility of the site, the Port and NPS may mutually agree not to exercise the option term. NPS and the Port also have termination rights for catastrophic events.

3. Ferry Concession Contracts and Leases

NPS ferry concession contract and Port ferry concession lease would have coterminous terms, with the ability for the lease to accommodate extensions, provided ferry concessioner is compliant with Port lease. The term of each ferry concessioner contract and lease is expected to be 10 to 15 years.

Ferry concessioner would be responsible for buildout, entitlements and permits for projects for which they are obligated to construct under the concession contract.

4. Conservancy Contracts and Lease

Port and Conservancy would enter into a lease for retail and café uses at the Site. The Conservancy would be responsible for buildout, entitlements and permits for projects for which they are obligated to construct under the Conservancy lease.

5. Premises and Uses

| Location | Use |
|------------------|--|
| Pier 31½ | This proposed site plan would enlarge the existing embarkation footprint to approximately 43,000 square feet of outdoor space on the Pier 31½ marginal wharf deck for visitor circulation, queueing, and staging and allow for replacing the existing gangway with two future parallel floating docks to accommodate three berths. |
| Pier 31 bulkhead | Pier 31 bulkhead would be renovated and managed by the Conservancy, or an operator if approved by the Port, as a café operation that would in part support the ferry service. |

| Location | Use |
|------------------|---|
| Pier 31 shed | A portion of Pier 31 shed would be used by the Ferry Concessioner as maritime storage, public disabled parking and limited employee parking without limiting Port use of the balance of the shed. |
| Pier 33 bulkhead | The ground floor space of the Pier 33 bulkhead would be used as a visitor contact station, ticketing and interpretive retail space that will be operated by the Conservancy or its approved operator. NPS has proposed to remove a portion of the second floor of the bulkhead in order to create a more expansive visitor experience. Part of the second floor would be retained as either administrative space or exhibition space showcasing the GGNRA. The third floor of the Pier 33 bulkhead would be used as administrative office space for the Ferry Concessioner. |
| Pier 33 shed | A portion of Pier 33 shed would be used by the Conservancy for visitor restrooms, storage for the visitor contact station/interpretive retail, public bicycle parking and by the Ferry Concessioner for employee break room, locker rooms and maritime storage. |

6. Ferry Concessioner Monthly Rent Terms

Rent would be the greater of a guaranteed monthly base rent or percentage rent.

Base rent. The ferry operator's initial base rent would be set at \$58,000 per month.²

Percentage rent would equal:

- 7.50% of adjusted gross ferry ticket revenue,³ plus
- 8.00% of gross revenue from retail sales, plus
- 7.25% of gross revenue from ferry food and beverage sales

In addition to these base and percentage rent components, the ferry operator would also provide initial rent of approximately \$13,545 per month for the Pier 33 third floor office space.

Thus, for any given month, the ferry operator would pay initial rent of either \$58,000 in base rent or percentage rent (if greater than base rent) plus \$13,545 in office rent. **Table 2** summarizes these proposed rent terms.

² Note that all monthly or annual base rents are based upon approximate square footages. Base rent in the Lease may be adjusted up or down after Site measurements.

³ The terminology "adjusted gross" ferry ticket revenue means in the context of this MOU: total ferry ticket revenue less audio tour revenue which is a pass-through revenue the ferry operator collects and remits to the Conservancy for the audio tour service; less NPS franchise fee of up to 25.5% of revenue after the audio tour revenue is passed-through, and less other smaller pass-throughs including federal and State landing fees and sales tax.

Table 2. Ferry Concessioner Rent Terms Summary

| Ferry Concessioner | | | | | | | |
|---------------------------------------|---|---|---------------------------|------------------------|---|---------------------------|----------------------------|
| | Base Rent or Percentage Rent | | | | | | Office Rent |
| Premises | | | | | | | |
| <i>Location</i> | Pier 31 | Pier 31 1/2 | Pier 33 | Pier 33 | Pier 33 | Between 31 and 33 | Pier 33 |
| <i>Description</i> | Shed | Marginal Wharf | Bulkhead, ground floor | Bulkhead, mezzanine | Shed | Submerged land | Bulkhead, 3rd floor (1) |
| <i>Use</i> | Maritime Storage, Employee Parking, Public Restrooms | Public assembly for ferry service | Ferry ticketing | Exhibit space | Maritime storage, bike parking, public restrooms | Vessels, floats, ramps | Office |
| <i>Approx. Sq.Ft.</i> | 6,200 | 43,000 | 1,800 | 500 | 6,000 | 60,000 | 4,515 |
| Monthly Rent per Sq.Ft. | \$1.50 | \$0.40 | \$5.00 | \$3.00 | \$1.50 | \$0.20 | \$3.00 |
| Total monthly | \$9,300 | \$17,200 | \$9,000 | \$1,500 | \$9,000 | \$12,000 | \$13,545 |
| Total annually | \$111,600 | \$206,400 | \$108,000 | \$18,000 | \$108,000 | \$144,000 | \$162,540 |
| Rent = Greater of: | All ferry concessioner premises except for office in Pier 33: | | | | | | |
| <i>Monthly base rent</i> | | | | | | | \$58,000 |
| <i>or Percentage rent as follows:</i> | 7.50% of adjusted gross ferry ticket revenue + 8.00% of gross revenue on ferry retail sales + 7.25% of gross revenue on ferry food/beverage sales | | | | | | |
| Plus Office Rent (per month) | | | | | | | \$13,545 |

(1) Bulkhead currently has three floors. Project envisions demolishing second floor.

7. Conservancy Monthly Rent Terms

Rent would be the greater of a guaranteed monthly base rent or percentage rent.

Base rent. The Conservancy's initial base rent would be set initially at \$14,000 per month for the café in the Pier 31 bulkhead and \$13,500 per month for the retail operation in the Pier 33 bulkhead.

Percentage rent would equal:

- 7.50% of gross revenue from food and beverage sales
- 7.50% of gross revenue from retail sales

Table 3 summarizes these proposed rent terms.

Table 3. Conservancy Rent Terms Summary

| Conservancy | | | |
|---------------------------------------|-------------------------------------|--|--|
| | Base Rent or Percentage Rent | | |
| Premises | | | |
| <i>Location</i> | Pier 31 | Pier 31 | Pier 33 |
| <i>Description</i> | Bulkhead, ground floor | Shed | Bulkhead, ground floor |
| <i>Use</i> | Casual dining | Retail and restaurant storage | Visitor contact station, interpretive retail |
| <i>Approx. Sq.Ft.</i> | 2,500 | 1,000 | 2,700 |
| Monthly per Sq.Ft. | \$5.00 | \$1.50 | \$5.00 |
| Total monthly | \$12,500 | \$1,500 | \$13,500 |
| <i>Total annually</i> | \$150,000 | \$18,000 | \$162,000 |
| Rent = Greater of: | | Pier 31 bulkhead | Pier 33 bulkhead |
| <i>Monthly base rent</i> | | \$14,000 | \$13,500 |
| <i>or Percentage rent as follows:</i> | | 7.50% of gross food and beverage sales | 7.50% of gross retail sales |

8. Rental Rate Increases

All base rents will increase annually at 2.5%. Office rent will increase annually at 3.0%. At the end of 30 years, all percentage rents, and office rents will be reset to market value and reset each subsequent 10 years.

9. Rent Credit

The proposed Project envisions a \$20.8 million investment in waterside infrastructure, complete interior rehabilitation, utility upgrade, and exterior building and plaza improvements. Of this amount, the parties have negotiated a rent credit of up to \$3,074,000 in costs for utilities and “cold shell” improvements (e.g., plumbing, electrical, fire sprinklers, and exterior building upgrades). Rent credits must be applied in the first four-years of the lease terms.

10. Port Substructure Capital Investment

The Port has agreed to invest an initial \$5 million into substructure improvements to the Pier 31½ marginal wharf as part of the Port’s capital improvement program. The Port will typically negotiate to include these costs into the tenant’s upfront capital improvement program and consider increasing the term of the lease to amortize the costs. In this case however, federal mandates restrict concession contracts to between 10 and 15 years which do not provide enough time to amortize the cost of the substructure work in addition to the rent credits discussed above.

SOLE SOURCE NEGOTIATION

San Francisco's Administrative Code Section 2.6-1 includes a Board of Supervisors' policy to grant leases of City property or facilities to the highest responsible bidder under competitive bidding procedures. The Board of Supervisors authorized an exemption from competitive bidding for the Exploratorium and Teatro Zinzanni. The Port will request an exemption from competitive bidding requirements for this project due to the following:

- NPS owns and controls Alcatraz Island and is empowered to select a ferry operator.
- NPS has determined that a long-term embarkation site is desirable to improve the quality of the visitor experience.
- The Port must negotiate and reach an agreement with NPS to participate in revenues associated with hosting the Alcatraz embarkation point.
- The ferry operator selection process is competitively bid under Federal rules for bidding.
- Alcatraz Island is one of the top tourist destinations in the City and embarkation from Port property improves the visitor experience.
- Ferry service – particularly with the volumes achieved with transport to Alcatraz Island – is a key maritime tenant type that fulfills the Port's mission for maritime uses on public trust lands and piers.
- The Concessioner and the Conservancy will make significant capital improvements to Port property.
- NPS has partnered with the Conservancy on the Alcatraz ferry embarkation project. The Conservancy is an important fundraising entity, advocate, and educator on issues related to Golden Gate National Recreation Area.
- NPS has presented the development and management of a visitor contact station, retail, and food and beverage by the Conservancy as an integrated opportunity along with the long-term Alcatraz ferry embarkation site.
- The Conservancy is a local nonprofit with a proven track-record of developing and operating memorable and stimulating visitor experiences in nationally- and internationally-renowned destinations including Alcatraz Island cell house tours and Museum Store, Golden Gate Bridge Welcome Center, Crissy Field Center, and Lands End Visitor Center, among others.

CLIMATE ACTION

The MOU will anticipate future Sea Level Rise and provide flexibility through the use of renewal options that will be subject to termination due to undue flooding.

ANALYSIS

The Alcatraz ferry service annual adjusted gross revenue was \$22.0 million in 2012, \$22.4 million in 2013, and \$25.5 million in 2014. Alcatraz demand is steady and its revenue generation should modestly increase over time (limited by the NPS operational principles of ensuring an enjoyable park experience at affordable ticket prices). With the addition of

another envisioned ferry berth for cruises to other federal properties, such as Fort Baker, a new ferry service represents an additional source of revenue over time.

The Port contracted with Seifel Consulting (Seifel), a respected economics firm, to research market comparisons with other iconic ferry operations and with R. Blum and Associates, an MAI-certified appraiser. With assistance from these consultants, staff prepared the following revenue projections and analysis in bringing this Term Sheet to the Port Commission.

1. **The rent structure is on par or higher than comparable recent leases.** Retail, food and beverage, base rents, and office rents reflect rates of recent leases in and around the waterfront. Percentage rent on ferry services – the largest by far of the rental revenue from the Project – will continue at the recently-increased level of 7.5% of adjusted gross receipts. This level is well below the rate achieved by New York City Parks for Statue of Liberty ferry service (8.0% on unadjusted gross revenues) but is consistent with San Francisco Bay Area ferry service percentage rent and above ferry excursion percentage rents found in Southern California.
2. **The Project and deal structure facilitates revenue growth for the Port.** A Port negotiating principle was to ensure that each component of the Project – ferry, retail, food and beverage – met fair market value. Another principle was to ensure that the overall Project exceeded plausible alternatives. **Figure 1** illustrates these alternatives alongside the Project, with a 15-year projection of cashflow to the Port.

Figure 1. Project and Illustrative Alternatives – Projected Revenue to Port



Figure 1 includes:

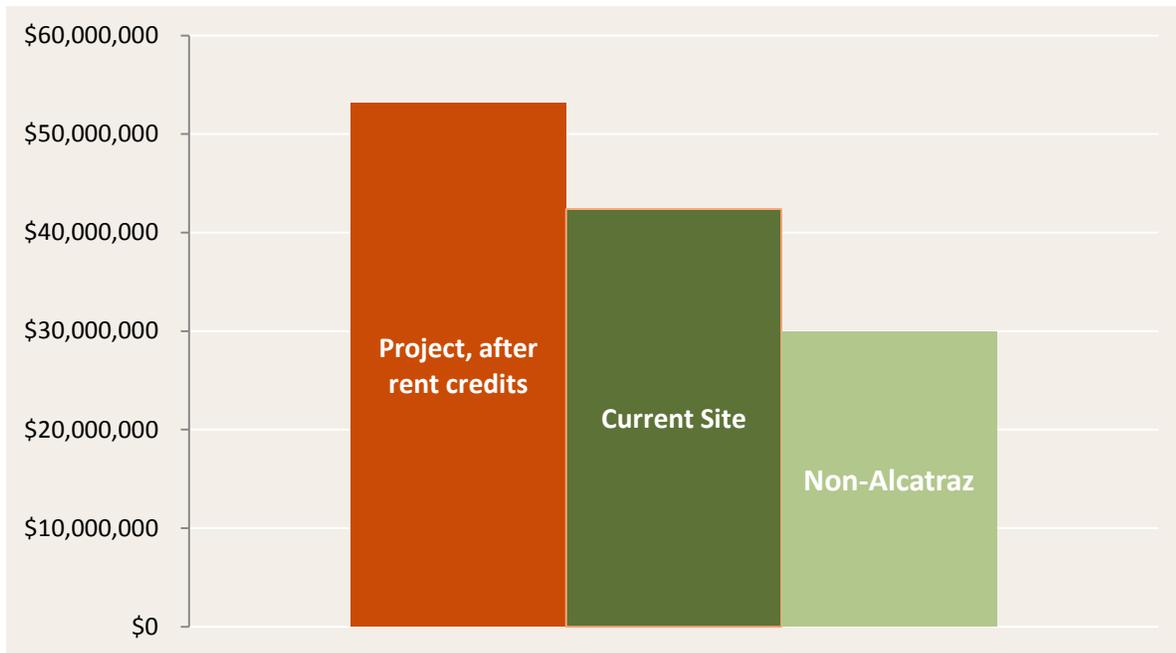
- Non-Alcatraz anchored site.** This alternative assumes the Alcatraz ferry moves off of Port property and the Site is occupied by a bay cruise ferry and ancillary retail and restaurant uses. It produces the lowest estimated Site revenue.
- Current site.** This projection is based on current site operations.
- Project.** The two lines at the top of the chart reflect estimated Project revenues. Year 0 reflects current site revenues and Year 1 reflects the first year of stabilized operations.⁴ The top line reflects gross Port rent. The second line from the top reflects gross rent, less anticipated rent credits in years 1 to 4.

The revenue projection for the Project, after deducting rent credits, dips slightly below the Current site alternative for years 1 and 2 (because of the rent credits) and then increases to appreciably above the Current site lease revenues in years 5 and beyond. The Project provides higher Port revenues and significant investment in the Site (\$20.8 million from tenants and \$5 million from the Port).

Figure 2 provides this similar comparison in net present terms (calculated for 30 years with a 6 percent discount rate). The net present value (NPV) of: Project revenues to the Port total \$53 million (after rent credit deductions); Current site revenues are estimated at \$43 million in NPV; and Non-Alcatraz NPV of revenues total \$26 million.

⁴ This reflects a simplification of the likely reality, which is anticipated to include more than a year of construction on different parts of the site. However, ferry service to Alcatraz is anticipated to continue uninterrupted during construction so years 1 and 2 revenues from the Project are projected to include a stable source of rental revenue.

Figure 2. Project and Illustrative Alternatives – Net Present Value of Revenue to Port
30 years, 6% discount rate



APPROVAL PROCESS

If the Port Commission endorses the Term Sheet and directs staff to seek Board of Supervisors' exemption from competitive bidding policy for the Project, staff will direct a consultant to prepare a fiscal feasibility study (in compliance with Chapter 29 of the Administrative Code and seek Board of Supervisors' endorsement of the Term Sheet, an exemption from the competitive bidding requirement, and a finding of fiscal feasibility. Then, NPS and the Port will continue due diligence, complete environmental evaluation, complete negotiation of the MOU, form leases and other transaction documents, if any, and seek Port Commission and Board of Supervisors' approval of the final transaction documents described in this Memorandum.

The Board of Supervisors' review of the Term Sheet is consistent with the recommendations of the 2004 Management Audit of the Port by the Board of Supervisors' Budget Analyst as a means of providing the Board of Supervisors with an "early read" on Port development projects and provides additional public hearings where public comments on the project may be heard.

If the Port Commission and the Board of Supervisors endorse the Term Sheet, Port staff will move forward with project review and negotiation of transaction documents for the project. Throughout this process, there will be numerous opportunities for public comment and review of the proposed project.

Endorsement of the proposed Term Sheet does not commit the Port Commission to approve any project, enter into an MOU or lease with NPS's operators or the Conservancy or take any other action. The Port will not take any discretionary actions in connection with this Project until it has reviewed and considered environmental documentation prepared in compliance with the California Environmental Quality Act (CEQA)

CONCLUSION AND RECOMMENDATION

The Port is strongly motivated to retain and improve upon the Alcatraz Island embarkation and visitor contact station at Piers 31-33 because this Project:

- maintains a maritime activity that is the Port's core mission;
- attracts one of the highest volume of visitors of any attraction in the City and local residents to the waterfront;
- generates revenue at fair market value to the Port for its on-going need to invest in Port infrastructure;
- enhances the existing gateway to Alcatraz Island through site upgrades that would better create a clear NPS identity and provide a high quality visitor experience;
- represents an investment of valuable waterfront infrastructure and renovation of the historic Piers 31 and 33 bulkheads and shed;
- maintains, without disruption, ferry operations to Alcatraz Island; and
- supports adjacent retail partners along the Port's northern waterfront.

With no comparable use to Alcatraz ferry service, Port staff recommend that the Port Commission (1) support an exemption from the competitive bidding policy for this Project and, if Board of Supervisors grants such an exemption, (2) direct staff to negotiate an MOU with NPS for the proposed Project. The MOU shall be subject to the Port Commission's approval.

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Real Estate

ATTACHMENTS

- Exhibit A: Site Aerial Map
- Exhibit B: Piers 31-33 Proposed Project Site Plan
- Exhibit C: Piers 31-33 Proposed Project Renderings
- Exhibit D: Term Sheet

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

RESOLUTION NO. 16-20

- WHEREAS, Charter Section B3.581 empowers the Port Commission with the authority and duty to use, conduct, operate, maintain, manage, regulate and control the lands within Port jurisdiction; and
- WHEREAS, The Golden Gate National Recreation Area (GGNRA), established as a unit of the National Park Service (NPS) in 1972, encompasses more than 80,000 acres of coastal lands in Marin, San Mateo and San Francisco counties. One of GGNRA's most prominent sites is Alcatraz Island which is historically significant as part of early coastal fortification systems and later as a federal prison and
- WHEREAS, Since 1972, the Port of San Francisco has served as the embarkation point for tourists and local residents visiting Alcatraz Island; and
- WHEREAS, NPS is empowered by the federal government to issue a bid prospectus and to select a ferry concessioner through a competitive process every 10 to 15 years; and
- WHEREAS, The Port has periodically negotiated leases with ferry concessioners for embarkation locations to Alcatraz Island, with the embarkation point moving from Pier 41 to Pier 31 ½ as different ferry companies with leaseholds along Port property have been selected through the NPS ferry-bid process; and
- WHEREAS, The Port and NPS share a common goal of enhancing the Alcatraz visitor experience through significant investments in landside and waterside capital improvements – to improve the ease of movement of the more than 1.5 million visitors each year – and in interpretative installations and site amenities including food, retail, and restrooms; and
- WHEREAS, Alcatraz Island, access to which is controlled by NPS, is a one-of-a-kind visitor destination, attracting thousands of people each day to the waterfront and providing revenues roughly double the amount the Port would expect for a similar use not associated with Alcatraz Island; and
- WHEREAS, In 2008, the Port's Executive Director and the GGNRA Superintendent began discussions about NPS selecting a permanent embarkation point at the Port, lease such site directly from the Port and sublease it to its concessionaires. By doing so, the NPS, Port and the public could be spared the disruption of moving the service each time a new concessioner is selected; and

- WHEREAS, Port staff, based on site criteria developed in conjunction with NPS staff, identified the following five potential Port properties for a permanent Alcatraz Embarkation location: Piers 19½, 29 ½, 31½, 41, and 45 Shed A as detailed in a December 3, 2009 informational presentation to the Port Commission; and
- WHEREAS, NPS completed a draft Environmental Impact Study under the National Environmental Policy Act to support its site selection process and Port staff in coordination with NPS staff selected Pier 31 ½ as the preferred Alcatraz Embarkation site and updated the Port Commission in a May 26, 2015 informational presentation; and
- WHEREAS, Pier 31½ is part of the Northeast Waterfront area and retail, food and beverage, and ferry service are allowed uses in such area under the Port's Waterfront Land Use Plan, the City Planning Department's Northeastern Waterfront Area Plan, and the Planning Department's Northeast Embarcadero Study issued in June of 2010; and
- WHEREAS, NPS has developed a conceptual project ("Project") for Alcatraz ferry service and amenities within the bulkheads and portions of the sheds of Piers 31 and 33 and the Pier 31½ marginal wharf (the "Site"); and
- WHEREAS, The Site is currently operated for ferry service to Alcatraz Island and supporting food and beverage and the Project would expand existing uses to include a visitor contact station and ancillary retail uses; and
- WHEREAS, NPS controls Alcatraz Island and is empowered to select a ferry operator and NPS has determined that a long-term embarkation site is desirable to improve the quality of the visitor experience; and
- WHEREAS, NPS has partnered with the Golden Gate National Parks Conservancy ("Conservancy") - a local nonprofit dedicated to conservation of GGNRA lands through public education, historic interpretation, public access, and capital improvements- as part of its long-term plan for Alcatraz Embarkation site; and
- WHEREAS, The Conservancy is a local nonprofit with a proven track-record of developing and operating memorable and stimulating visitor experiences in nationally- and internationally-renowned destinations including Alcatraz Island cell house tours and Museum Store, Golden Gate Bridge Welcome Center, Crissy Field Center, and Lands End Visitor Center, among others; and
- WHEREAS, The shared vision of a unified visitor experience - from site entrance and orientation, to ferry embarkation, to Alcatraz Island and jailhouse – requires specialized knowledge of and experience in historic interpretation and education, and

WHEREAS, As set forth in Administrative Code Section 2.6-1, the Board of Supervisors' policy is to approve only such proposed leases involving City property or facilities that departments have awarded to the highest responsible bidder under the competitive bidding procedures, except where competitive bidding is impractical or impossible; and

WHEREAS, Access to Alcatraz Island and an embarkation site with a visitor contact station and retail and food and beverage amenities presents an important opportunity to provide public serving, cultural, historic and other significant public benefits to the people of the City, the entire Bay Area region and beyond, including an opportunity for a significantly improved one-of-a-kind waterfront destination that will achieve public access objectives for the Site while adding an attractive mix of uses and destinations along the waterfront; and

WHEREAS, NPS and Port staff have negotiate, on a sole source basis, the Term Sheet attached as **Exhibit D** to the Memorandum to the Port Commission dated July 7, 2016 (the "Term Sheet"), which sets forth the essential terms upon which the Port and NPS will negotiate in good faith to reach agreement on a final Memorandum of Understanding ("MOU") regarding the Project and two forms of leases that will be attached to the MOU – one with the NPS-selected concessioner for ferry service and the other with the Conservancy for a visitor contact station, retail, and food and beverage uses; and

WHEREAS, Port and NPS acknowledge that the Term Sheet is not itself a binding agreement that commits the Port or NPS to proceed with the approval or implementation of the Project and that the Project will first undergo environmental review under the California Environmental Quality Act ("CEQA") and will be subject to public review in accordance with the processes of the Port Commission and Board of Supervisors, other City departments and offices, and other government agencies with approval over the proposed Project before any entitlements and other regulatory approvals required for the Project will be considered; and now, therefore be it

RESOLVED, That retaining the high-revenue generating, maritime Alcatraz embarkation use on Port property is a priority for economic and visibility reasons, with no similar use able to attract the number of visitors and economic activity generated by the internationally-known Alcatraz Island; and be it further

RESOLVED, That achieving the Port's goal of retaining the Alcatraz embarkation site on Port property requires negotiating directly with NPS and NPS's selected partner, the Conservancy, Port Commission directs staff to seek a determination that the proposed Project is exempt from competitive bidding requirements pursuant to Administrative Code, Section 2.6-1 with respect to the possible transaction with NPS, the Conservancy, and a to-

be-selected by NPS ferry concessioner for development of the Site; and, be it further

RESOLVED, That the Port Commission hereby endorses the Term Sheet and authorizes the Executive Director of the Port, or her designee, to execute the Term Sheet and present the Term Sheet to the Board of Supervisors for their endorsement and for consideration of a finding that the Project is fiscally feasible and responsible under San Francisco Administrative Code Chapter 29 (the “Fiscal Feasibility Finding”); and be it further

RESOLVED, That if the Board of Supervisors endorses the Term Sheet and finds that the Project is fiscally feasible, the Port Commission authorizes the Executive Director of the Port, or her designee, to work with the Planning Department and NPS to undertake review of the Project under CEQA and negotiate the terms and conditions of the MOU and form leases, with the understanding that the final terms and conditions of the MOU and form leases negotiated between Port staff and NPS will be subject to the approval of the Port Commission and as applicable, the Board of Supervisors and the Mayor; and be it further

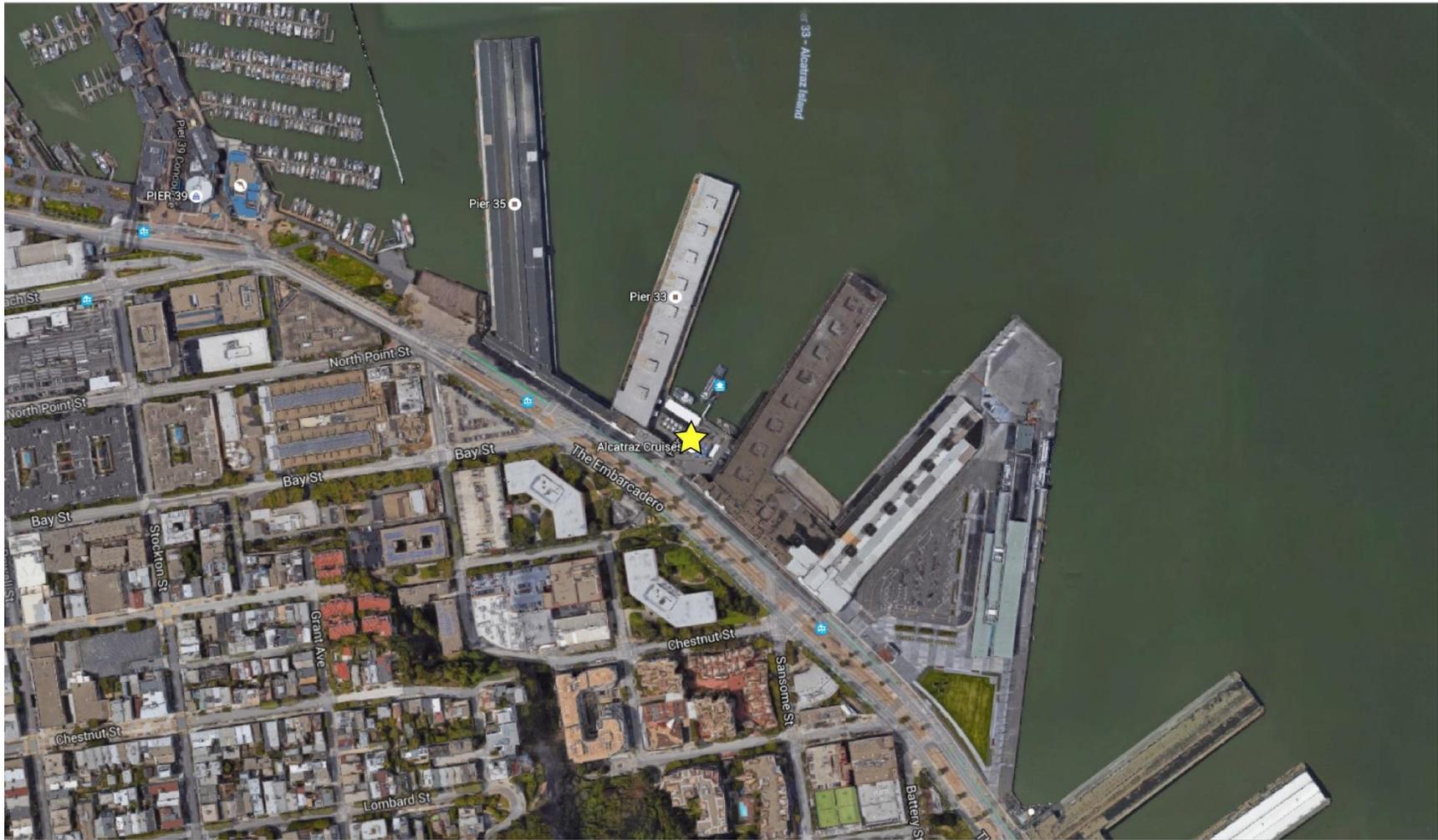
RESOLVED, That the Port Commission’s endorsement of the Term Sheet and direction to Port staff does not commit the Port Commission or the City to approve a final MOU, implement the Project, or grant any entitlements to NPS, nor does endorsement of the Term Sheet foreclose the possibility of considering alternatives to the proposal, imposing mitigation measures, or deciding not to grant entitlement or approve or implement the Project, after conducting and completing appropriate environmental review under CEQA, and while the Term Sheet identifies certain essential terms of a proposed transaction with the Port, it does not set forth all of the material terms and conditions of any final agreement; and be it further

RESOLVED, That the Port Commission will not take any discretionary actions committing the Port to implement the Project, and the provisions of the Term Sheet are not intended and will not become contractually binding on the Port unless and until the Port Commission and the Planning Commission have reviewed and considered environmental documentation prepared in compliance with CEQA for the Project and the Project has been approved.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of July 12, 2016.

Secretary

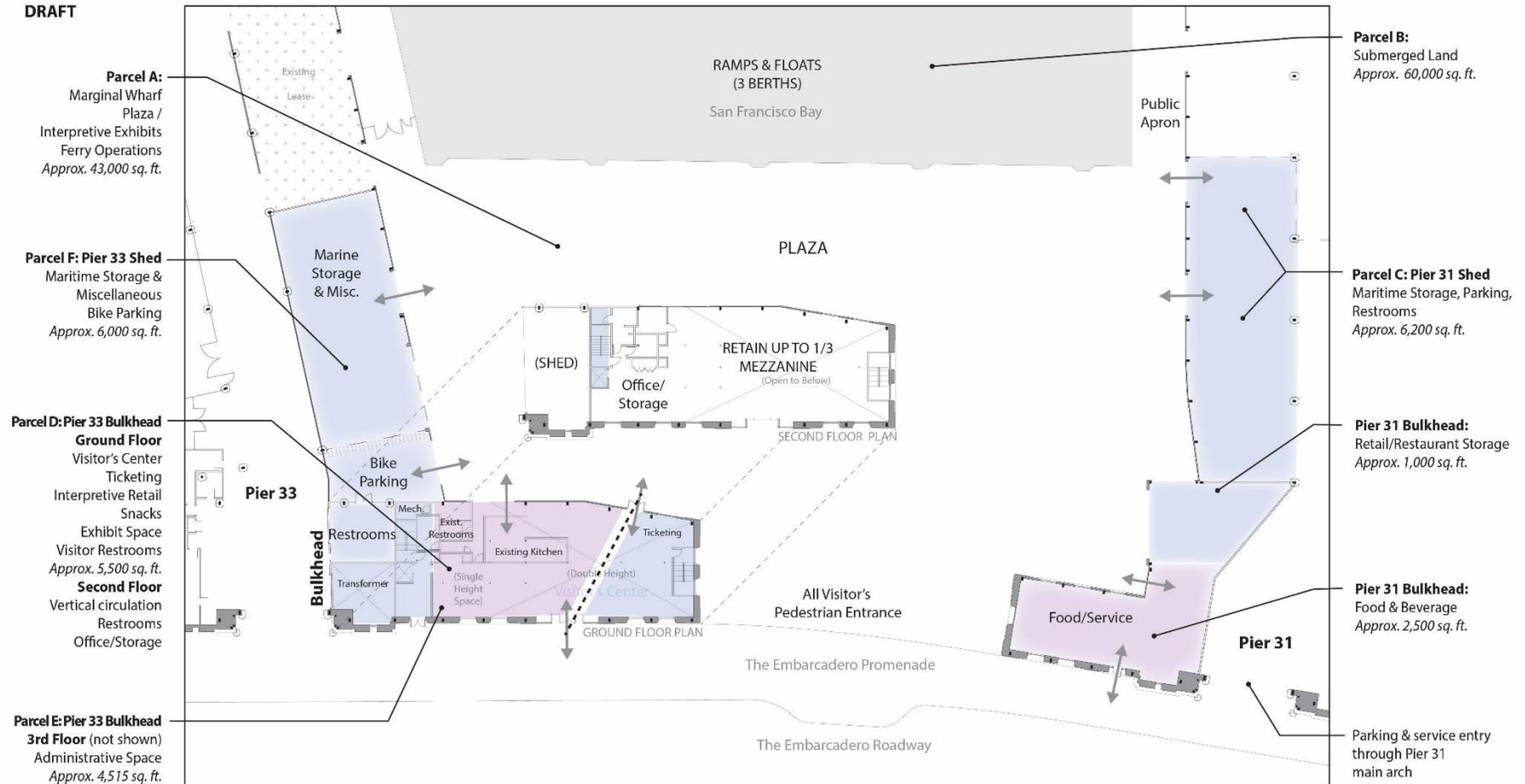
Exhibit A: Site Aerial Map



Alcatraz Embarkation Site indicated by star.

Exhibit B: Piers 31-33 Proposed Project Site Plan

DRAFT



Concept Diagram Port of San Francisco

October 21, 2015

G:\02-Northeast Waterfront Projects\Pier 31.5 Hornblower, Alcatraz\Graphics\Site Plans-Updated\SITE PLAN_10-21-15.ai

National Park Service

FERRY SERVICES CONCESSIONER

CONSERVANCY

Exhibit C: Piers 31-33 Proposed Project Renderings



From The Embarcadero

From the ferry



Exhibit D. Term Sheet

Port / NPS Summary of Business Terms Alcatraz Ferry Embarkation

Partnership Structure:

- Port and National Park Service (NPS) will enter into a Memorandum of Understanding (MOU) that designates Pier 31 ½ as the ferry embarkation site for Alcatraz Island and other potential ferry excursions to NPS sites, Pier 33 bulkhead for an Alcatraz visitor contact station, and Pier 31 bulkhead as a casual dining amenity.
- The MOU will include the respective obligations of Port and NPS regarding the Alcatraz Ferry Embarkation, including the term, default provisions, liability allocation, any applicable City requirements (unless in conflict with applicable federal laws or mutually agreed to be waived subject to Port Commission and Board of Supervisors' approval) and other terms generally included in such agreements. The MOU also will stipulate the premises and use, rent structure, capital improvements, repair and maintenance obligations, cross default provisions, and any other pertinent terms for the ferry concessioner and Golden Gate National Parks Conservancy (Conservancy) leases as further outlined below.
- Attached to the MOU will be a form lease for the ferry concessioner, to be selected by NPS as described in the MOU, and a form of lease for the Conservancy. The Conservancy is uniquely qualified to operate and manage the visitor contact center and casual dining facility.
 - Port will enter into an initial 10 year or longer lease with the NPS-selected ferry concessioner for a ferry operation with ancillary food and beverage on vessel, photo, and visitor support services. The NPS will issue the concession prospectus with the form lease attached and the Port and concessioner will sign the lease without modification. Port and concessioner may propose non-material modifications to the lease which shall be subject to NPS approval. The concessioner will not offer food and beverage on land. The Port shall provide for extensions of the ferry concessioner's lease consistent with any extensions of an NPS concession contract, and will enter into subsequent lease agreements with future/successive ferry concessioners over the term of the MOU. The initial form lease will be attached to the MOU.

- Each lease with a ferry concessioner will include provisions in the standard Port retail lease and successive leases will be subject to City requirements in effect at the time of lease execution, subject to federal law. If standard Port lease terms or City requirements then in effect would violate federal law if included in the lease, or if they are mutually agreed to be waived subject to Port Commission and Board of Supervisors approval, changes to standard lease terms may be made with approval of NPS, Port, and Board of Supervisors, if required.
- The Port will enter into a 30 year lease with the Conservancy to operate a visitor contact station, including interpretive retail, interpretive exhibits, visitor experiences, and food and beverage services. The initial form lease will be attached to the MOU. The lease will include provisions in the standard Port retail lease. If standard Port lease terms or City requirements would violate federal law if included in the Conservancy lease, changes to standard lease terms may be made with approval of NPS, Port, and Board of Supervisors, if required.

MOU Terms:

- The term will be thirty (30) years with two ten (10) year options to renew; the term will commence after obtaining approval of the MOU by the Port Commission and Board of Supervisors upon a date agreed to by the parties.
- Options are exercisable at NPS's discretion. Port and NPS will have the ability to terminate the MOU or any options to renew due to climate change/sea level rise impacts or as mutually agreed in the MOU. Port and NPS will also have the ability to terminate the MOU or any options to renew for catastrophic events.
- For the purposes of any rent increases, Year 1 will commence upon the respective commencement dates of the applicable Port lease with the ferry concessioner and the Conservancy.
- All base rents noted in the sections below are applicable for Years 1-30, with fixed annual increases specified.
- All percentage rents in the sections below are applicable for Years 1-30. Every 10 years thereafter, percentage rent shall be reviewed for fair market value. The parties will clearly define this review process in the MOU.
- Lease commencement for any portion of the premises currently occupied is subject to the existing tenants' vacating the premises along with removal of

personal property per the terms of the existing leases. The Port will make reasonable efforts to ensure tenants surrender their premises in a timely manner such that the overall premises are available upon lease termination, but shall not be liable for delays due to a tenant's failure to vacate.

Premises, Use and Tenant:

- Ferry Concessioner Premises are described below and summarized in **Table D1**:
 - Pier 31 shed – approximately 5,000 sq. ft. to be used as maritime storage, employee vehicular parking.
 - Pier 31 shed – approximately 1,200 sq. ft. public restrooms.
 - Pier 31 ½ marginal wharf – approximately 43,000 sq. ft. to be used as public assembly for ferry service.
 - Pier 33 bulkhead (south) – approximately 1,800 sq. ft. for ticketing on the first floor. Port agrees that the concessioner may demolish a portion of the 4,515 square feet 2nd floor and retain a mezzanine area (of approximately 500 square feet although the actual square footage shall be determined by mutual agreement between the Port, NPS and the Concessioner) subject to applicable historic preservation standards. This area is under a current lease that expires in 2019. Upon expiration and surrender by the current tenant, this area will be added to the MOU and the Concessioner's lease.
 - Pier 33 Shed – approximately 6,000 sq. ft. for NPS Ferry Concessioner maritime storage, bike parking and public restrooms.
 - Submerged land – approximately 60,000 sq. ft. to be used for vessels, floats and ramps.
 - Pier 33 bulkhead (south) approximately 4,515 sq. ft. office space on the third floor

Table D1. Ferry Concessioner Premises

| Item* | Pier 31 | Pier 31 | Pier 31 1/2 | Pier 33 | Pier 33 | Pier 33 | Between 31 and 33 | Pier 33 | Total |
|------------------------------|-----------------------------------|------------------|-----------------------------------|------------------------|---------------------|---|--------------------------|---------------------|---------------|
| Component | Shed | Shed | Marginal Wharf | Bulkhead, ground floor | Bulkhead, mezzanine | Shed | Submerged land | Bulkhead, 3rd floor | |
| Use | Martime Storage, Employee Parking | Public restrooms | Public assembly for ferry service | Ferry ticketing | Exhibit space | Martime storage, bike parking, public restrooms | Vessels, floats, ramps | Office | |
| Approx. Sq. Ft. | 5,000 | 1,200 | 43,000 | 1,800 | 500 | 6,000 | 60,000 | 4,515 | |
| Total Building Sq.Ft. | | | | | | | | | 62,015 |
| Total Submerged land | | | | | | | | | 60,000 |

* Some areas of the premises will not be available when the MOU is expected to be executed (e.g., Pier 33 bulkhead); these premises will be added once the Port regains control of the site from the existing tenant.

- Conservancy Premises:
 - Pier 31 bulkhead – approximately 2,500 sq. ft. casual dining restaurant to be operated directly by Conservancy or a Conservancy subcontractor which shall be subject to Port consent), with operator to be defined in the MOU.
 - Pier 31 shed - approximately 1,000 sq. ft. as retail and restaurant storage.
 - Pier 33 bulkhead (south) - approximately 2,700 sq. ft. on 1st floor for a visitor contact station and interpretive retail directly related to Alcatraz and the NPS mission to be operated by the Conservancy.
 - Pier 31 ½ marginal wharf – some outdoor dining square footage adjacent to the Pier 31 bulkhead is being contemplated by the parties and will be defined in the MOU.

Table D2. Conservancy Premises

| Item | Pier 31 | Pier 31 | Pier 33 | Total |
|------------------------------|---------------------------|-------------------------------------|--|--------------|
| Component | Bulkhead, ground floor | Shed | Bulkhead, ground floor | |
| Use | Casual dining | Retail and restaurant storage | Visitor contact station, interpretive retail | |
| Approx. Sq.Ft. | 2,500 | 1,000 | 2,700 | |
| Total Building Sq.Ft. | | | | 6,200 |

*All square footages are approximate and subject to final site plan.

Base and Percentage Rent

- Ferry Operations – Base Rent
 - Ferry operations include ticket sales and charters to all destinations. (Alcatraz, Park Cruise, other NPS sites.) The Ferry Concessioner shall initially operate two berths and will build a third berth planned to be operational by approximately 2020, subject to all necessary permitting and regulatory approvals.
 - Rent shall be the greater of the guaranteed monthly Base Rent or Percentage Rent, calculated and paid to the Port monthly.
 - Initial Base Rent shall be set as approximately \$58,000 per month (or \$696,000 per year) escalated by 2.5% annually.
 - Base rent will be suspended during periods when Alcatraz Island closes for reasons outside of NPS’s control to visitors for more than one day and to the extent the interruption is not covered by concessioner’s insurance, such as in the event of a federal government shutdown. Percentage rent will remain in effect.
 - Base Rent will be in effect upon delivery of premises by Port and will be calculated as follows:
 - Pier 31 Shed – \$7,500 (5,000 sq. ft. x \$1.50 per ft. / mo.) \$90,000 annually
 - Pier 31 Shed restrooms - \$1,800 (1,200 sq. ft. x \$1.50 per ft. / mo.) \$21,600 annually
 - Pier 31 ½ marginal wharf – \$17,200 (43,000 sq. ft. x \$0.40 per ft. / mo.) / \$206,400 annually
 - Pier 33 Bulkhead - \$9,000 (1,800 sq. ft. x \$5.00 per ft. / mo.) / \$108,000 annually

- Pier 33 Bulkhead 2nd Floor mezzanine - \$1,500 (500 sq. ft. x \$3 per ft. / mo.) \$18,000 annually
- Pier 33 Shed – \$9,000 (6,000 sq. ft. x \$1.50 per ft. / mo.) \$108,000 annually
- Submerged land – \$12,000 (60,000 sq. ft. x \$.20 per ft. / mo.) \$144,000 annually

If construction of the initial improvements results in interruptions to ferry service, the parties will agree on a waiver for Concessioner from base rent for a period of time to be defined in the MOU.

*All Base Rents are based on approximate square footages that are subject to the final site plan.

- Ferry Concessioner – Percentage Rent

- **7.50% of Adjusted Gross Revenue from Ferry Service**

- Adjusted Gross Revenue from Ferry Service Defined as Gross Receipts for Ferry Service less:
 1. Sales taxes
 2. Conservancy audio and interpretive tours revenue
 3. NPS Federal Lands Recreation Enhancement Act (FLREA) Fees
 4. Angel Island Tram Tour and Park Entrance Fees
 5. NPS Concession Franchise Fees, capped at 25.5% of Gross Receipts for Ferry Service less items 1 through 4 above.⁵
The future NPS Concession Franchise Fee deduction to Gross Revenue shall remain capped at no greater than 25.5% throughout the initial 30 year term of the MOU.
- 7.5% of Adjusted Gross Revenue from Ferry Service for Years 1 - 30.

- **7.25% of Adjusted Gross Revenue from Ferry Food and Beverage**

- Food & Beverage sales on-board all ferry vessels less the NPS Concession Franchise Fee deduction and less sales tax. The concessioner may only offer food and beverage sales on-board the vessels.
- The future NPS Concession Franchise Fee deduction to Gross Revenue shall remain capped at no greater than 25.5% of the Adjusted Gross Revenue throughout the initial 30 year term of the MOU.

⁵ Throughout the Term Sheet, the NPS Franchise Fee will be defined as 25.5% of the gross revenues less all applicable “pass-through” payments such as sales tax and park entrance fees, as defined in each department. The NPS Franchise Fee deduction will be capped at not more than 25.5% of gross revenues less these defined pass-throughs for years 1-30 of the MOU.

- Rent shall be the greater of guaranteed monthly Base Rent or Percentage Rent, paid to the Port monthly.
- 7.25% of Gross Receipts on all food and beverage sales generated from waterside ferry operations through Years 1 - 30.
- **8.00% of Ferry Concessioner Ancillary Revenue**
 - Ancillary Revenue shall be all other forms of revenue including but not limited to charter transportation for special events and photo sales. Ancillary revenue shall exclude Ferry ticket sales and Food & Beverage sales. Ancillary gross receipts shall be less the NPS Concession Franchise Fee deduction and less sales tax.
 - Rent shall be the greater of guaranteed monthly Base Rent or Percentage Rent, paid to the Port monthly.
 - 8.00% of Gross Receipts for other all other retail revenue (photo concession, special events, etc.) for Years 1 - 30.
- Ferry Concessioner Additional Monthly Rent
 - Ferry Concessioner shall pay as additional monthly Rent for the 3rd floor of the Pier 33 Bulkhead, approximately \$13,545 per month escalated by 3.00% annually (4,515 sq. ft. x \$3.00 per ft. / mo.). Rent to commence upon delivery of the premises by the Port to the Concessioner vacant.

Table D3 summarizes the Base Rent, Percentage Rent, and Additional Rent for the Ferry Concessioner.

Table D3. Ferry Concessioner Base Rent, Percentage Rent, and Additional Monthly Rent

| Item* | Pier 31 | Pier 31 | Pier 31 1/2 | Pier 33 | Pier 33 | Pier 33 | Between 31 and 33 | Pier 33 | Total |
|---|-----------------------------------|------------------|-----------------------------------|------------------------|---------------------|---|------------------------|---------------------|------------------|
| Component | Shed | Shed | Marginal Wharf | Bulkhead, ground floor | Bulkhead, mezzanine | Shed | Submerged land | Bulkhead, 3rd floor | |
| Use | Martime Storage, Employee Parking | Public restrooms | Public assembly for ferry service | Ferry ticketing | Exhibit space | Martime storage, bike parking, public restrooms | Vessels, floats, ramps | Office | |
| Approx. Sq. Ft. | 5,000 | 1,200 | 43,000 | 1,800 | 500 | 6,000 | 60,000 | 4,515 | |
| Rent type per sq.ft./month | Base \$1.50 | Base \$1.50 | Base \$0.40 | Base \$5.00 | Base \$3.00 | Base \$1.50 | Base \$0.20 | Office \$3.00 | |
| total per month | \$7,500 | \$1,800 | \$17,200 | \$9,000 | \$1,500 | \$9,000 | \$12,000 | \$13,545 | |
| total per year | \$90,000 | \$21,600 | \$206,400 | \$108,000 | \$18,000 | \$108,000 | \$144,000 | \$162,540 | |
| Total Base Rent per Month * | | | | | | | | | \$58,000 |
| Total Base Rent per Year * | | | | | | | | | \$696,000 |
| Total Additional Office Rent per Month * | | | | | | | | | \$13,545 |
| Total Additional Office Rent per Year * | | | | | | | | | \$162,540 |
| Percentage Rent Across all Concessioner Premises, Excluding 3rd Floor Bulkhead | | | | | | | | | |
| 7.50% on Ferry Tickets • 7.25% on Ferry Food/Bev • 8.00% on All other Ferry Revenue | | | | | | | | | |

*Rents applicable upon delivery of premises by Port to Concessioner.

- Conservancy Base and Percentage Rent (Pier 31 Bulkhead / Pier 33 Bulkhead)
 - Rent shall be the greater of guaranteed monthly Base Rent or Percentage Rent, paid to the Port monthly.
 - Rent will be in effect upon delivery of premises by Port.
 - The parties will agree on a waiver for Conservancy from base rent during construction of initial improvements and to the extent operations are interrupted, for a period of time to be defined in the MOU.
 - Base rent will be suspended during periods when Alcatraz Island closes for reasons outside of NPS's control to visitors for more than one day and to the extent the interruption is not covered by insurance, such as in the event of a federal government shutdown. Percentage rent will remain in effect.
 - Base rent will be phased in during operational ramp-up as follows:
 - 70% of effective base rent during first full year of operation.
 - 85% of effective base rent during second full year of operation.

- 100% of effective base rent during third full year of operation.
- Percentage rent shall be based on gross sales reported monthly less sales tax. No other deductions shall apply unless noted in the MOU.
- **Pier 31 Ground Floor**
 - Initial Base Rent for Pier 31 ground floor shall be set as approximately \$14,000 per month (or \$168,000 per year) escalated by 2.50% annually. This rent includes two components:
 - Pier 31 Bulkhead: \$12,500 / mo. (2,500 sq. ft. x \$5.00 per ft. / mo.) \$150,000 annually
 - Pier 31 shed – \$1,500 (1,000 sq. ft. x \$1.50 per ft. / mo.) \$18,000 annually
 - 7.5% of Gross Receipts on all food and beverage sales generated from land side operations for Years 1- 30.
- **Pier 33 Bulkhead Ground Floor**
 - Initial Base Rent for Pier 33 Bulkhead ground floor shall be set as approximately \$13,500 per month (or \$162,000 per year) escalated by 2.5% annually.
 - 7.5% of Gross Receipts on all retail sales generated from land side operations for Years 1- 30.

*All Base Rents are approximate and subject to final site plan.

Table D4. Conservancy Base Rent and Percentage Rent

| Item | Pier 31 | Pier 31 | Total, Pier 31 | Pier 33 |
|---|------------------------|-------------------------------|--|--|
| Component | Bulkhead, ground floor | Shed | | Bulkhead, ground floor |
| Use | Casual dining | Retail and restaurant storage | | Visitor center, interpretive retail |
| Approx. Sq.Ft. | 2,500 | 1,000 | | 2,700 |
| Rent type | Base | Base | | Base |
| <i>per sq.ft./ month</i> | \$5.00 | \$1.50 | | \$5.00 |
| <i>total per month</i> | \$12,500 | \$1,500 | | \$13,500 |
| <i>total per year</i> | \$150,000 | \$18,000 | | \$162,000 |
| Total Base Rent per Month * | | | \$14,000 | \$13,500 |
| Total Base Rent per Year * | | | \$168,000 | \$162,000 |
| Percentage Rent Conservancy Premises | | | 7.50% of all gross sales from premises | 7.50% of all gross sales from premises |

*Rents applicable upon delivery of premises by Port to lessee.

Capital, Maintenance and Repair Responsibility

- **Port Capital, Maintenance and Repair Responsibility**
 - Port to invest approximately \$5,000,000 for Pier 31 marginal wharf substructure repair/upgrade, per the scope of work as outlined in the Port's substructure consultant's report. Repairs to be made as mutually agreed upon in the MOU.
 - Port is responsible for the maintenance and repair of the Pier 31 marginal wharf substructure, Piers 31 and 33 bulkhead substructure and seawall, and the exteriors of Piers 31 and 33 sheds.

- **NPS Ferry Concessioner Capital, Maintenance and Repair Responsibility**
 - NPS Concessioner is responsible for the construction, maintenance and repair to ferry barges, docks and associated waterside infrastructure, marginal wharf deck surface, Pier 33 visitor restrooms, Pier 33 ticketing, interior of the Pier 31 and 33 sheds, the Pier 31 bulkhead restrooms including all ferry and related uses. Concessioner shall be responsible for all maintenance and repairs to the Pier 33 interior and exterior of the Bulkhead including exterior windows and doors.
 - The parties will agree on a reasonable schedule of performance for all improvements to be completed by the Concessioner and the MOU will reflect that schedule.
 - Concessioner is responsible for site operations, including utilities, janitorial services, waste management / disposal and security for its premises.
 - All new utilities must be installed above deck in order to access and repair due to anticipated Sea Level Rise.
 - Concessioner shall be provided a maximum of \$2,520,000 in rent credits for direct and indirect costs. Rent credits shall be applied to monthly base or percentage rent on a straight line basis over the initial 4 years of the lease and subject to verification of work performed.

- **Conservancy Capital, Maintenance and Repair Responsibility:**
 - Conservancy is responsible for the construction, maintenance and repair as follows: Pier 31 interior bulkhead improvements including exterior windows, doors and roof, interior of shed buildings within its premises; the build out of the Pier 31 bulkhead restaurant use including exterior windows doors and roof (only in the event of modifications or penetrations to the roof in order to install any equipment associated with Conservancy's use); and the Pier 33 visitor contact station / interpretive retail center tenant improvements.

- The parties will agree on a reasonable schedule of performance for all improvements to be completed by the Conservancy and the MOU will reflect that schedule.
- Conservancy is responsible for site operations, including utilities, janitorial services, waste management / disposal and security for its premises.
- All new utilities shall be installed above deck in order to access and repair due to anticipated Sea Level Rise.
- Conservancy shall be provided \$554,000 in rent credits for direct and indirect costs. Rent credits shall be deducted from monthly rent over the initial 4 years of the term of the Conservancy lease and subject to verification of work performed.

Terms subject to:

All terms and conditions are subject to Port Commission, Board of Supervisors and all other regulatory approvals, including but not limited to the Bay Conservation and Development Commission (BCDC), and U.S. Army Corps of Engineers (ACE). While this term sheet summarizes certain essential terms of the MOU and other related transaction documents, it does not set forth all of the material terms and conditions of those documents. This term sheet is not intended to be, and will not become, contractually binding on the Port, City, or NPS and no legal obligation will exist unless and until the parties have negotiated, executed and delivered mutually acceptable agreements based upon information produced from the National Environmental Protection Act (NEPA)/California Environmental Quality Act (CEQA) environmental review processes and on other public review and hearing processes and subject to all applicable governmental approvals.

The Port, the City, and NPS retain the absolute discretion before action on the Project by the Port Commission, the Board of Supervisors, the Mayor, the Planning Commission, or any other government agency, as applicable, to mutually agree to (i) make such modifications to the transaction documents and the Project as may be necessary to mitigate significant environmental impacts, (ii) select other feasible alternatives to avoid significant environmental impacts, (iii) balance the benefits against any significant environmental impacts prior to taking final action if such significant impacts cannot otherwise be avoided, or (iv) determine not to proceed with the Project.

If as a result of the environmental review or other public approval process there are any proposed material modifications to the transaction documents or the terms specified herein that are not acceptable to the parties in their respective sole discretion, then there shall not be deemed to be any understanding of the parties to proceed with the Project under the principles outlined in this term sheet.