



MEMORANDUM

October 23, 2020

TO: MEMBERS, PORT COMMISSION
Hon. Kimberly Brandon, President
Hon. Willie Adams, Vice President
Hon. John Burton
Hon. Gail Gilman
Hon. Doreen Woo Ho

FROM: Elaine Forbes
Executive Director

SUBJECT: Informational Presentation Regarding the Pier 70 Shipyard and Memorandum of Understanding with San Francisco Public Utilities Commission

DIRECTOR'S RECOMMENDATION: Information Only – No Action Required

EXECUTIVE SUMMARY

The Shipyard at Piers 68/70 is a unique Port property comprised of 10 acres of land, 17 acres of water parcels, and 18 buildings. It is a capital-intensive, industrial facility currently being operated by Port staff with full responsibility for all operating and capital costs. The Shipyard features two large floating Dry Docks, seven heavy-lift marine cranes, a vast inventory of industrial equipment, tools, and artifacts.

This memorandum describes interim tenanting and operations at the Shipyard and future planning and provides details on a proposed Memorandum of Understanding (MOU) with San Francisco Public Utilities Commission (SFPUC) for temporary use of the Shipyard's excess power supply. The proposed MOU would allow SFPUC to meter and divert up to 5.1 megawatts (MW) of power capacity for up to three years. To compensate the Port for forgoing this power, SFPUC would pay the Port \$1.15 million for the first year of power usage and \$145,000 per month for up to the maximum 3-year term.

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Background

Since 1982 the Port held ground leases with viable commercial ship operators who assumed responsibility for all capital and operating costs and regulatory compliance. Effective May 27, 2017 the last in this successive line of tenant-operators abandoned the facility after notifying the Port that it was filing for bankruptcy. At that time, the average annual rent payments to the Port were \$2.2 million and the average daily employment headcount was 240. As a result of this abandonment, the Port negotiated a settlement agreement with BAE Systems Ship Repair, Inc. for \$5,669,000 that can be and has been used for capital improvements and upgrades to the facility.

As the Port was not equipped to operate and maintain the Shipyard in a steady state, it immediately entered into a Benefits Task Agreement with Orton Development, Inc. ("ODI"), for temporary management of the yard, which was allowed under their Lease Disposition and Development Agreement with the Port. Under this agreement, from May 28, 2017 through May 5, 2019. Port staff focused on marketing the Shipyard as an available, fully functional prime location to over 300 similar operations throughout North America. During this time, it maintained the facility with a staff of six fulltime personnel that ODI managed under Port direction where all legitimate expenses were reimbursed by the Port. The expenses for this operating arrangement averaged \$2.2 million annually while gross revenues to the Port averaged \$96,000: An annual net loss to the Port of over \$2.1 million.

During the period of management under the Benefits Task Agreement, the increased staffing oversaw the successful completion of two capital projects on behalf of the Port that greatly enhanced the marketability of the Shipyard:

- A \$4.3 million electrification project budgeted by the Port that replaced the critical high voltage equipment supplying consistent power to the yard with new units, and that removed, mitigated, and disposed of all identified equipment within the Shipyard containing PCB oil. It was fully activated November 18, 2018
- The demolition, mitigation, and disposal of two red-tagged buildings, removing the life-safety risk and liability from the Port while creating over 25,000 square feet of flexible-use paved open space within the most active area at the Shipyard

During this same period, the Port Commission authorized two Requests for Proposals ("RFP-1" and "RFP-2") for the lease and operation of the entire facility. RFP-1 was issued August 15, 2017 and yielded 3 replies of which only one was deemed responsive. But after review of the full proposal by an approved impartial panel, clarifying discussions with the bidder, and given the outcome of the presentation to the Port Commission, staff reported to the Commission that the sole proposal was determined to be infeasible in terms of having a sustainable ship repair enterprise. RFP-2 was issued April 13, 2018 and yielded two responsive proposals, neither of which was deemed optimal for the Port.

At the Commission Meeting of November 13, 2018, the Executive Director advised the Commission that after staff and consultant review, the lack of reasonable responses to RFP-2 would lead staff to investigate possible market opportunities for other marine industrial uses including possible creative re-use of the floating dry-docks. Subsequently, staff continued to market the facility to similar operators throughout the United States and

received a proposal from EPIC Companies (“EPIC”) on March 11, 2019 and a revised RFP-2 proposal from SUSTAP, LLC (“SUSTAP”) on March 15, 2019.

On June 26, 2019 staff engaged Bay Area Economics (“BAEcon”) to consult on two issues:

- 1) Viability of the West Coast commercial ship repair market and
- 2) Full assessment and review of the proposals received from EPIC and SUSTAP

Unfortunately, EPIC divested their business and withdrew their proposal effective July 17, 2019. And, after eleven months of jointly reviewing four primary data sources of US Navy and Federal forecasts of demand for fleet repairs; two secondary data analyses of west coast and gulf commercial ship repair markets; and analyses of twenty years of historic primary data for San Francisco commercial ship repair activity, the Port accepted both BAEcon’s “Evaluation of Proposal for Operation of Pier 70 Shipyard,” and its “West Coast Market Assessment,” leading staff to reject the SUSTAP bid and to conclude that the best opportunities for future use and growth for this facility were not in sustained full-service ship repair, but through its re-purposing as an industrial marine mixed-use facility.

Interim Uses and Reuse

Since taking control of the Shipyard operation in May 2019, staff immediately engaged in locating interim rent tenants for vacant office space, under-utilized shed and storage facilities, and available paved open space throughout the yard while reducing operating expenses by limiting utilities and services to isolated and underutilized areas and reducing staff. None of the interim rent agreements, of which there are currently four, require modification or a change of use, and each can be terminated in ninety days or less. After accounting for \$495,712 operating costs, these interim leases have resulted in the Shipyard’s positive net revenue status of \$459,989 in fiscal year 2019/2020. Current interim tenants include:

- Anderson Enterprises (Royal Motors)
- The Dutra Group
- Matson Navigation
- Marine Express

Port staff has initiated discussion and is contemplating creative reuse of the 10 acre facility as a multi-purpose maritime complex that would incorporate multiple marine businesses involving heavy and light industrial uses true to the Public Trust principles. Staff has contacted over half a dozen entities such as barge operators, ship management companies, a marine exploration vessel builder, a maritime salvage company, and an excursion and small water transit vessel operator, as well as related educational institutions and training programs that can teach the skills required for a future career in maritime commerce. Staff remains engaged in discussions with these enterprises regarding the best utilization of shipyard lands and piers that can accommodate each and all.

Proposed Temporary Power MOU with SFPUC

In March 2019, Port staff was approached by SFPUC’s Power Enterprise group and began

discussions about temporarily sourcing a large portion of power (5.1 megawatts at peak usage) currently reserved for the Shipyard based on years of historic use as a full-service commercial ship repair facility. Twelve megawatts of power have traditionally been supplied to the Shipyard's primary power substation of which 5.5MW of power was agreed to be dedicated to the ODI Historic Core development in 2016, leaving 6.5 MW of power available for Shipyard functions. SFPUC has a commitment to supply up to 5.1 MW of consistent, reliable energy to these areas that are vital to Southern Waterfront development:

- Completion of Phase I construction of Brookfield Properties' Pier 70 development
- SFPUC's 20th Street sewage pump station
- The artists currently residing in the Port's Noonan Building
- Phase I construction of the Mission Rock development
- SFPUC's Mariposa Street sewage pump station

SFPUC intends to provide electrical service to Mission Rock and Pier 70, which service would have required the SFPUC to construct certain infrastructure, including primary switchgear, at SFPUC's sole cost and expense. In lieu of constructing such infrastructure, SFPUC proposes to temporarily use Port's reserve capacity to provide electric service through "New Electric Service Facilities", conduits and other electrical infrastructure from the Shipyard power to the power customers. Under this proposal, the Port will temporarily forgo this capacity to service Port or its tenants and in exchange SFPUC will pay Port \$1,150,000 for the use of this capacity for one year from the effective date of the MOU. If SFPUC uses Port's reserve capacity for more than one year from the effective date, SFPUC will pay Port \$145,000 per month until SFPUC is no longer using this capacity, with a six (6) month advance notice and for an overall term not to exceed three (3) years. The permanent power solution is the completion and electrification of SFPUC's Bay Corridor and Transmission Project (BCTD). This project is under construction and is anticipated to be electrified towards the end of 2021. SFPUC has requested that the MOU be for up to 3 years in case of project delays. For each month that SFPUC needs to use Shipyard power after the initial year, the payment to the Port is about 150% the cost per month of the initial year. This term of the MOU incentivizes SFPUC to maintain their BCTD project schedule.

By making this commitment to source power to SFPUC, the Shipyard will be left with a maximum allocation for peak usage of 1.1 MW which will be sufficient to serve the needs of the Shipyard's current interim tenants plus potential future interim tenants; as meets requirements for layberthing; and is sufficient power for maintaining the Shipyard in a safe and steady state.

Additionally, with the slowdown in economic growth and activity resulting from our current pandemic state, staff believes this temporary power limitation will benefit the Port as the Shipyard will remain a net revenue positive facility through the term of the SFPUC MOU while allowing yard conditions to be improved, prepared, and better positioned for developing a long term reuse plan.

Next Steps

Pending the outcome of this informational presentation and guidance from the Commission, Port staff anticipates:

- 1) completing an MOU with SFPUC by the end of October and returning to the Port Commission with an MOU approval action item
- 2) the select pruning/disposition of the Shipyard's vast inventory through the City's surplus property and auction process
- 3) explore opportunities and building alliances with state and local educational institutions for the purpose of creating job training/maritime education programs
- 4) explore maritime opportunities to include marine exploration vessel builder, the centralization of harbor services, maritime fleet management companies and marine salvage companies

Port staff seeks comment, input, and guidance from the Port Commission regarding the strategic objectives and timing for creative re-purposing of the Shipyard premises and attributes. Port staff looks to incorporate the feedback from the Port Commission and intends to return to a future Port Commission meeting with a more defined re-use plan for the Shipyard premises.

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