

April 21, 2011

Ms. Angela Calvillo
Clerk of the Board of Supervisors
City and County of San Francisco
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

RE: San Francisco Pier 27 Cruise Ship Terminal Project
Fiscal Responsibility and Feasibility

Chapter 29 of the City's Administrative Code requires that certain City projects be subject to a fiscal feasibility review at the Board of Supervisors before the City Planning Department may begin environmental review of the project under the California Environmental Quality Act ("CEQA"). The fiscal feasibility ordinance applies to projects proposed by the City for which (1) the implementation and construction cost exceeds \$25 million, and (2) the project sponsor reasonably estimates that, at the time of filing an application for CEQA review, a portion of the predevelopment, planning or construction costs in excess of \$1 million (excluding City personnel costs) will be paid from public monies.

The Port of San Francisco ("Port") is the sole project sponsor of the proposed cruise ship terminal project at Pier 27, which is a public improvement project ("Project"). The Port is submitting the attached Fiscal Responsibility and Feasibility Report and Resolution for the Project because:

1. The implementation and construction cost of the Project will exceed \$25 million; and
2. Predevelopment costs exceed \$1 million.

Accordingly, the Port respectfully requests a Board of Supervisors determination in the form of the attached draft Resolution that the Project is fiscally responsible and feasible in accordance with the standards of Chapter 29.

The Port and its Commission are very excited about the Project and look forward to presenting the Project to the Board of Supervisors. We will be happy to answer any questions that the Board may have regarding this important City project.

If you have questions, feel free to contact me directly at (415) 274-0401 or John Doll at 274-0639 from my staff.

Sincerely,

Monique Moyer
Executive Director

cc: Port Commission

FISCAL RESPONSIBILITY AND FEASIBILITY REPORT
Administrative Code Chapter 29

1. Project General Description

The Port of San Francisco (“Port”) intends to develop a primary cruise terminal at Pier 27 to replace the existing terminal at Pier 35. The existing terminal at Pier 35 does not have sufficient length, passenger capacity or passenger-handling equipment to accommodate the new, Post-Panamax¹ cruise ships.. Further, the substructure of Pier 35 requires investment to continue to serve as a Port cruise terminal facility. Pier 27 is currently used as a back-up cruise ship berth, but does not have any amenities within the maritime shed.

The Port proposes the development of a new, approximately 88,000 square foot, two-level cruise terminal on Pier 27 that would serve as the primary cruise ship terminal, while the cruise terminal on Pier 35 would be used as a secondary terminal in the event that two or more cruise ships require berthing on the same date². The Port envisions the new, primary Pier 27 Cruise Terminal to be named in the honor of James R. Herman, former Port Commissioner and President of the International Longshore and Warehouse Union³. The James R. Herman cruise terminal would be designed to meet modern ship and operational requirements of the cruise industry and provide an appropriate, welcoming gateway to the City.

As explained below, the Port will build the cruise terminal facility in phases. The Port’s cruise terminal project will include the Northeast Wharf Plaza, an approximately 2.5 acre public open space to be located along the west end of Pier 27, along the Embarcadero Promenade.

Cruise Terminal

The Port is assisted in this public improvement project by the Department of Public Works (“DPW”), which is providing project management assistance, and by a joint design team led by Kaplan, McLaughlin & Diaz Architecture and Pfau Long Architects in association with cruise terminal design consultant, Bermello, Ajamil & Partners (“Design Team”). Under the proposed site plan, the existing Pier 27 maritime shed and a non-historic portion of Pier 29 shed will be demolished.

Passengers departing and arriving in San Francisco would pass through the terminal, which would house ticketing, baggage and a U.S. Customs and Border Protection Area and security operations. The cruise terminal improvements would include installation of new maritime equipment, including a mobile overhead gangway for boarding passengers along the Pier 27 apron. The cruise ship shoreside power infrastructure would be in place to provide electricity to power the ship while in berth, allowing cruise ships to cease running their on-board engines.

The paved triangular area between Pier 27 and 29, referred to as the valley, is proposed as the Ground Transportation Area (“GTA”) for the cruise terminal. The GTA would be approximately 3 acres providing sufficient space to support access, drop-off and exiting by trucks, taxis, buses and passenger vehicles to meet provisioning and passenger loading needs of the cruise terminal. The GTA circulation

¹ Post Panamax refers to a class of ship size with maximum dimension capable of transiting the Panama Canal. When the Panama Canal expansion modifications are completed in 2014, very large Post-Panamax cruise ships will be able to transit the Panama Canal and call on ports along the U.S. west coast.

² For example, in 2012, the Port of San Francisco will experience 5 days when two or more cruise ships are in port simultaneously.

³ James R. Herman served as President of the Port Commission in 1990 and 1991 and President of the International Longshore and Warehouse Union from 1977 to 1991.

and operation plan includes vehicle queuing space and is proposed to meet all transportation needs off-street, in an effort to remedy traffic congestion and transportation conflicts currently generated from Pier 35 cruise terminal operations impacting The Embarcadero.

In recent years, the Port has received cruise ship calls that have fluctuated between 40 and 80 calls per year, which is expected to continue for the foreseeable future. If a new cruise terminal is constructed, the relationship of the cruise facilities at Pier 27 and Pier 35 would be reversed from current conditions; Pier 27 would become the primary cruise terminal and Pier 35 would serve as a secondary facility. While the annual number of ship calls is expected to remain the same in the future, cruise ship size is growing, holding larger numbers of passengers. The level of improvements and equipment proposed in the Pier 27 cruise terminal would be designed to optimally handle vessels carrying 2,600 passengers (base design load) and would provide some additional capacity at key areas to serve vessels carrying up to 4,000 passengers (peak design load). Additionally, the facility would continue to be used for maritime events, such as Fleet Week, foreign naval diplomatic calls, Tall Ships Festivals and visits by oceanic research vessels and the 34th America's Cup races.

Northeast Wharf Plaza

The proposed Northeast Wharf Plaza would provide an approximately 2.5 acre open space at the western end of Pier 27. Pursuant to the planning policies and objectives in the Port's Waterfront Land Use Plan and San Francisco Bay Conservation and Development Commission's ("BCDC") Special Area Plan ("SAP"), the Northeast Wharf Plaza would be designed to serve as a major waterfront park resource to support passive recreational enjoyment and expansive public views of San Francisco Bay.

The Design Team has developed various design concepts for the Plaza, integrated with the cruise terminal facility and has considered various topographical, material and landscaping treatments and characteristics. The open space would include a "piazza" feature along the western edge of the valley, which would require the demolition of the Pier 27 Annex office building. The historic Pier 29 Beltline Office building would be preserved and integrated within the Plaza design.

The Northeast Wharf Plaza would provide a gathering area for passengers and the general public to view cruise ships when in port, although physical access to the ships would be restricted in accordance with Federal Homeland Security regulations. These regulations would require temporary security fencing along the Pier 27 apron when cruise ships are in berth. When no cruise ships are berthed, fences would be opened to restore public access to the maximum practicable.

Shared Uses

While the cruise terminal would be a permanent facility, the building is designed to accommodate other uses during periods when cruise ships do not call at Pier 27. During these times, the design for the cruise terminal provides for approximately 60,000 square feet of space for shared uses to generate revenues when cruise ships are not berthed. The shared use area, which may extend into the GTA, would accommodate special events, conferences and other public or private gatherings.

In addition, the Project may include limited commercial revenue-producing uses, such as restaurants, that are ancillary to the terminal operations. The public space and commercial components are intended to complement the cruise terminal, but also to thrive independently of cruise terminal operations.

2. Project Purpose and Objectives

Background

In September 2006, Mayor Gavin Newsom appointed a Blue Ribbon Cruise Terminal Advisory Panel to evaluate the necessity of a new cruise terminal and its value to San Francisco and, if determined necessary and valuable, where that terminal should be located based on cost considerations, maritime functionality and potential funding sources. The Port Commission accepted the Advisory Panel recommendations in September 2007 which directed the Port to develop a strategy to build a modern cruise terminal to meet the evolved security and passenger demands of the cruise industry while also allowing for meeting and special event uses when not occupied for cruise purposes. In February 2009, the Port completed a feasibility analysis of Pier 27 and in June 2009, the Port Commission entered into a Memorandum of Understanding with the DPW to help implement the Pier 27 cruise terminal project. In November 2009, the Port Commission authorized Port staff to execute a design contract the Design Team.

Goals and Objectives

The Port desires to develop an exceptional home port cruise terminal that reflects the values of San Francisco residents and the City's leadership, meets international cruise terminal standards, and complies with regulatory requirements, including the Port's commitment to the stewardship of waterfront historic resources within the Embarcadero Historic District.

The Port has established a set of goals and objectives to build a modern cruise terminal to meet the evolved security and passenger demands of the cruise industry while also allowing for meeting and special event uses when not occupied for cruise purposes. The major objectives for the James R. Herman Cruise Terminal and Northeast Wharf Plaza Project ("Project") include:

- (1) Transform Pier 27 into a year-round cruise terminal that will meet the evolved security and passenger handling demands of the cruise ship industry.
- (2) Develop an efficient facility that will lower the Port's operational costs by the use of effective space planning and equipment to handle passenger circulation and provisioning.
- (3) Configure the cruise terminal in a way that will create opportunities for the Port to allow special event uses when the terminal is not occupied for cruise purposes. The special event uses could result in additional revenue to the Port to support debt payments for the Project and will enhance the City's ability to meet convention business demand.
- (4) Demolish approximately 220,000 square feet of all of the existing Pier 27 shed plus the non-historic portion of the Pier 29 shed. In part, this demolition will create the required open space plaza along The Embarcadero that will serve as a major attraction to visitors and residents and connect the Port's continuity of public spaces along the waterfront.
- (5) Develop a Project that supports the Port's Waterfront Land Use Plan and BCDC Special Area Plan by creating the Northeast Wharf Plaza, a major public open space integrated with public access on Pier 27, promoting public views of the bay that also promotes recreational enjoyment in a maritime district.
- (6) Develop a core and shell terminal building that can be used by the America's Cup Event Authority in 2013 for the running of the 34th America's Cup.

(7) Develop a Project that embodies the City's commitment to sustainability principles by following the guidelines from the U.S. Green Building Council and achieve a LEED certified Silver or better rating and comply with the City's and Port's recently adopted Green Building regulations.

3. Project Delivery

DPW initiated environmental review of the Project under the California Environmental Quality ACT ("CEQA") by engaging Environmental Science Associates to assist in the preparation of a project description. DPW will be implementing an Integrated Project Delivery ("IPD") method to coordinate the services of a Construction Manager/General Contractor ("CM/GC") to offer constructability review and cost estimating services as well as to plan and organize the sequence of construction activities. DPW, Port staff, the Design Team and the CM/GC will work in close collaboration and deliver the Project in a sequence of bid packages. This delivery method has been successfully applied in past projects such as the California Academy of Sciences rebuild project and is also being used on several other complex and high profile public works projects such as the new San Francisco General Hospital Mission Bay campus and the new San Francisco Public Utilities Commission headquarters building on Golden Gate Avenue.

4. Project Work Performed to Date

Facility Program

In April 2010, the Design Team completed a comprehensive Facility Program Statement that included input from multiple stakeholders obtained through a series of workshops. The workshops were aimed at identifying project requirements that will support the operational functions during cruise days, determine the vessel service fleet that will be accommodated, establish the relationship between the terminal and the site amenities, identify spatial adjacencies necessary for optimal efficiencies and form the basis for the construction budget.

Concept Design Options

Based on the Facility Program Statement, on June 30, 2010 the Design Team submitted two conceptual design options to either convert or replace the Pier 27 shed into an operationally efficient cruise terminal that meets evolved security and passenger handling demands of the international cruise industry. Scheme A included a renovation of most of the existing Pier 27 shed while Scheme B proposed demolishing most of the Pier 27 shed and replacing it with a new building. These design options were presented to the Port Commission on July 13, 2010. Based on stakeholder input, the Design Team submitted to the Port Commission an enhanced Scheme B, known as Scheme B2, as its preferred concept option that also would provide a larger baggage area designed to better meet cruise industry standards for the foreseeable future based on increasing vessel size and passenger volumes.

Preferred Concept Design Option

On December 14, 2010, the Port Commission approved the initiation of schematic design work on the preferred conceptual option, known as Scheme B2 that would create a new terminal building. This preferred design scheme is consistent with the Cruise Terminal Advisory Panel's recommendation for a facility that meets the current and future needs of the cruise industry.

Schematic Design

The Design Team has submitted schematic design in late March 2011 and Port staff has requested that a value engineering exercise to align the Port's budget to the project cost. On April 12, Port staff presented to its Commission a strategy to fund the initial phase of the cruise terminal project which included a revised Scheme B2.

34th America's Cup

On December 31, 2010, the City's bid to host the running of the 34th America's Cup was accepted and executed by the America's Cup Event Authority. The bid includes use of Piers 27-29 as the 34th America's Cup village. This use provides funding support from the America's Cup Event Authority for the overall Project costs. Additionally, it provides improved viewing experience of the 34th America's Cup events for the public. As a result of this additional use of Piers 27-29, the Port's Pier 27 Cruise Terminal Project is carefully aligned to the staging of the 34th America's Cup event and requires careful staging of improvements and a compressed Project delivery schedule.

Under the Host and Venue Agreement ("HVA"), the America's Cup Event Authority is required to demolish the shed at Pier 27 and a portion of the shed at Pier 29, and pay up to \$2 million to relocate shoreside power to a different spot on Pier 27. The City is responsible for building the Cruise Terminal's core and shell by January 2013. This requires Project construction in two phases so that the America's Cup Event Authority can utilize the core and shell of the building as a spectator event center and spectator viewing area and the Pier 27 apron for team hospitality berths for races scheduled in 2013.

Subject to the City's completion and certification of a final environmental impact report for the Project and approval of the Project by the end of 2011, Phase 1 would consist of demolition of the Pier 27 maritime shed, partial demolition of the non-historic portion of the Pier 29 shed, relocation of the shoreside power equipment, and the construction of the core and shell of the Cruise Terminal project. The America's Cup Event Authority will install temporary improvements for the duration of the 34th America's Cup racing events and relinquish the site no later than April 2014.

At the Port's option, the America's Cup Event Authority would be required to return the premises to the Port free of all tenant improvements. The Port would then begin Phase 2 to build-out the remaining portions of the cruise terminal building (e.g., the U.S. Customs and Border Protection areas), install maritime equipment such as the mobile gangway as well as fenders and bollards, and complete improvements to the Northeast Wharf Plaza and the GTA.

5. Project Schedule

The Project has a total duration of approximately six years starting the spring of 2009 when the Port began to work with DPW on the predevelopment phase to establish basic Project parameters such as budget, scope and schedule. Below is list of major milestones.

Table 1: Project Schedule

Milestone	Timeframe
Pre-development	May 2009 – December 2009
Programming	January 2010 – April 2010
Concept Phase	April 2010 – December 2010
Design & Entitlements	January 2011 – January 2012
Phase 1 Construction	January 2012 – January 2013
America’s Cup Use*	January 2013 – April 2014
Phase 2 Construction	May 2014 – October 2014
Cruise Terminal Opening	November 2014

* Although the 34th America’s Cup races are expected to end in October 2013, the HVA stipulates that after the last racing event, the America’s Cup Event Authority has 180 days to remove all temporary improvements on Pier 27.

6. Project Costs

The total project budget based on the revised schematic design for the Cruise Terminal is estimated at approximately \$90,308,846, divided into two phases as illustrated in Table 2 below. The construction costs noted below are based on schematic plans, not detailed design drawings. All the program components required in the final design and engineering phase are not known at this time and any omissions could significantly impact the accuracy of the estimated costs.

Table 2: Estimated Total Project Costs

		<u>Phase 1</u>	<u>Phase 2</u>	<u>Total</u>
Construction Costs		\$36,145,753	\$23,242,500	\$59,388,253
Construction Contingency	15.0%	5,421,863	3,486,375	8,908,238
Other Contingency*		1,222,915	664,850	1,869,765
Total Construction		42,790,531	27,393,725	70,184,256
Design & Engineering, Project Management & Entitlement Costs		14,996,576	4,328,014	19,324,590
Program Contingency		400,000	400,000	800,000
Total Project Costs**		58,187,107	32,121,739	90,308,846

* includes 2% scope gap for CM/CG and preconstruction contingency

** does not include demolition and shoreside power costs which is the responsibility of the America’s Cup Event Authority pursuant to the HVA.

As noted above, the Phase 1 cost allows for a “core and shell” building to be completed for the 34th America’s Cup event. When the Pier 27 site is returned to the Port in early 2014, Phase 2 begins and completes interior improvements as well as the installation of maritime equipment needed for a fully functional cruise terminal. In addition, under Phase 2, the Northeast Wharf Plaza and the GTA would be completed.

7. Sources of Funds

In December 2010, Port staff presented a total budget of \$114,095,757 to the Port Commission. However, as noted above, this budget was not aligned with funding sources. Since that time, Port staff has (1) moved from conceptual to schematic design budget estimates, (2) refined available funding sources, (3) performed a value engineering exercise to identify and integrate cost reductions, and (4) deferred certain Project scope items to Phase 2 to close the funding gap. Given the pressure on the Project schedule driven by Project phasing outlined in the HVA requiring Phase 1 delivery by January 2013, and the opportunity to deliver a legacy cruise terminal Project after the 34th America's Cup, funding of Phase 1 is a high priority of the City and the Port.

As described below, the funding plan for Phase 2 includes several proposed non-Port sources which require additional work to secure. Additionally the shared program uses and related revenue generation requires additional work to reliably estimate revenues.

Project funding is expected to be provided through a combination of sources, including the Port revenue bond proceeds and capital budget allocations, plus a variety of other sources, such as an approved FEMA security grant, proceeds from an anticipated 2012 General Obligation bond measure and a future passenger facility charge.

As shown in Table 3, secured funding sources total \$46.5 million, planned funding sources total \$16.5 million, and proposed funding sources total \$22.9 million for a total of \$85.9 million. The phasing of these funds is shown in Table 4.

The revised Scheme B2 design allows for Phase 1 funding, but defers a budget gap of \$11.9 million to Phase 2. Port staff will work to secure the proposed additional funding sources for Phase 2 between now and 2013. Additionally, Port staff will better refine program uses and related revenue generation. Phase 2 may require an incremental approach to Project delivery and may also require value engineering.

However, Port staff has not fully considered the future economic opportunities arising from the cache and prestige of having been the 34th America's Cup Village and both the start and finish lines of the 34th America's Cup Final Match scheduled for September 2013, should the 34th America's Cup project be approved. Port staff is optimistic that securing the proposed funding sources and resolving the \$11.9 million funding gap to Phase 2 of the Project is achievable.

Proposed Funding Sources

2012 General Obligations Bond

The City's adopted 10-Year Capital Plan, for several years, has included a proposed schedule for a second General Obligation bond measure to assist in funding additional waterfront parks. In 2008, with the help of Mayor Gavin Newsom and the Board of Supervisors, voters generously approved Proposition A, which included \$33.5 million in funding for new and enhanced waterfront parks. The City's Capital Planning Committee recommended that the second bond measure for waterfront park improvements move from a 2014 election schedule to November 2012 to allow seamless Project delivery of the Northeast Wharf Plaza at the foot of Pier 27. The Northeast Wharf Plaza is the last major park envisioned in the BCDC's or the San Francisco Waterfront.

Port staff will consult with the Mayor's Office, the Board of Supervisors, the Port Commission, Department of Recreation and Parks staff, and the Capital Planning Committee to formulate the Port's general obligation bond funding request. The Phase 2 Project budget assumes \$9.1 million in proceeds from such General Obligation bond measure, should it be adopted by the voters.

Cruise Operator Contribution

This funding source would be specifically provided for the mobile gangway system which would make the terminal more efficient in getting passengers off and on cruise ships. This \$2.75 million equipment could be funded by the Port’s cruise terminal operator⁴, as part of a negotiation of a long-term contract extension in exchange for such investment into the cruise terminal project.

Table 3: Total Funding Sources

	Port Funds	Other	Total
<i>Secured</i>			
Watermark Sale Proceeds	\$20,000,000		
Series A & B 2010 Port Revenue Bonds*	10,075,089		
Operating Budget – Workorder	220,168		
Capital Budget Appropriation	1,225,000		
Event Authority (“EA”) Appropriation		7,500,000	
FEMA Security Grant		7,500,000	
<i>Subtotal: Secured</i>	\$31,520,257	15,000,000	46,520,257
<i>Planned</i>			
2012 Port Revenue Bond Debt*	\$15,500,000		
Capital Budge Appropriation	1,000,000		
<i>Subtotal: Planned</i>	\$16,500,000		
<i>Proposed</i>			
Repurposing Existing 2010 Debt*	2,500,000		
Reimbursement	-2,500,000		
City Contribution		6,500,000	
2012 General Obligations Bond		9,122,943	
Cruise Operator Contribution		2,750,000	
Passenger Facility Charge		4,500,000	
<i>Subtotal: Proposed</i>	0	22,872,943	
Total Sources	48,020,257	37,872,943	85,893,200
Total Sources w/o EA** Contribution	48,020,257	30,372,943	78,393,200

* Includes interest earnings

** EA means America’s Cup Event Authority provided that the running of the 34th America’s Cup is certified and approved in late 2011.

⁴ The Port’s cruise terminal operator is currently Metro Cruise Services. The operating agreement expires on April 30, 2011. An amendment to agreement is currently under negotiation.

Table 4: Funding Sources by Phase

	Phase 1	Phase 2	Total
<i>Secured</i>			
Watermark Sale Proceeds	\$20,000,000		
Series A & B 2010 Port Revenue Bonds*	10,075,089		
Operating Budget – Workorder	220,168		
Capital Budget Appropriation	1,225,000		
Event Authority (“EA”) Appropriation	7,500,000		
FEMA Security Grant	1,166,850	6,333,150	
<i>Subtotal: Secured</i>	\$40,187,107	6,333,150	46,520,257
<i>Planned</i>			
2012 Port Revenue Bond Debt*	\$15,500,000		
Capital Budge Appropriation	1,000,000		
<i>Subtotal: Planned</i>	\$16,500,000		16,500,000
<i>Proposed</i>			
Repurposing Existing 2010 Debt*	2,500,000	(2,500,000)	
City Contribution	6,500,000		
2012 General Obligations Bond		9,122,943	
Cruise Operator Contribution		2,750,000	
Passenger Facility Charge		4,500,000	
<i>Subtotal: Proposed</i>	\$ 9,000,000	13,872,943	22,872,943
Total Sources	\$65,687,107	20,206,093	85,893,200
Total Sources w/o EA Contribution	\$58,187,107	20,206,093	78,393,200

* For budgeting purposes, the demolition and shoreside power relocation project components are external work outside of the budgeted Project scope and, as a result, future budgets will exclude the proposed \$7.5 million America’s Cup Event Authority contribution as a budget source.

Passenger Facility Charge

Several west coast ports, including the Port of San Diego, have utilized passenger facility charges, a component of their operating tariffs, as a means to offset capital costs of new cruise facilities. This concept is very similar to that used by airports for capital expansion and repair, including San Francisco Airport. Imposition of such charges requires careful consultation with cruise lines to ensure that the Port remains a competitive location for cruise berthing. Port staff is initiating discussions with the Port’s main cruise lines about a potential passenger facility charge to fund a portion of the Project

Port staff is considering a potential passenger facility charge of \$3 per person. Enactment of such passenger facility charge is currently proposed by Port staff as an amendment to the Port’s Operating Tariff No. 5. Port staff estimates that such a passenger facility charge of \$3 would be assessed on approximately 150,000 passengers annually for a levy period of 20 years. Proceeds from such fees could support approximately \$4.5 million in additional bond proceeds to be repaid from this charge.

Strategies to Fund Phase 2 Shortfall

Given a projected shortfall of \$11.9 million in Phase 2, Port staff will be: (1) reviewing economic opportunities at this location that would be revenue generating, including special event use, parking and other commercial opportunities discussed in detail in Section 8 below, (2) developing cost estimates to determine which Project line items can be reduced, (3) identifying other grant funds that the Port could use to fund portions of the Phase 2 project, (4) identifying Project elements that can be deferred to a future date, and (5) reallocating unused funds from other capital projects.

Although the Port has not yet covered the Phase 2 funding gap, the Port is requesting the Board of Supervisors to consider the fiscal feasibility of the entire Project in order for the City to meet its obligation to deliver the “core and shell” of the cruise terminal building to the America’s Cup event Authority by January 2013.

8. Operating & Maintenance Costs

Metro Cruise Services currently serves as the Port’s cruise terminal operator under Non-Exclusive Management Agreement #13562 responsible for operations and maintenance of the existing Pier 35 cruise facility and the back-up facility at Piers 27⁵. The Port anticipates entering into a similar management agreement for stevedoring services at Pier 27.

Based on a comparative analysis performed in 2003, San Francisco had the highest operational costs as compared to other U.S. West Coast cruise ports. Port staff estimated that an average home ported vessel at Pier 35 cost the cruise lines approximately \$160,000 per call which was 52% higher than at the Port of San Diego and 30% higher than at the Ports of Los Angeles and Seattle. In 2010, the Port of San Francisco's costs have increased to approximately \$176,000 per call. Although there is no comparable data regarding the other West Coast ports for 2010, it is assumed that San Francisco still has the highest operational costs. These costs are due to the number of exposed areas requiring security guards and physical constraints of the facility which prevents efficient baggage handling (and in turn requires additional staff time).

High operating costs are a disincentive for cruise lines to visit San Francisco. The envisioned program for the Pier 27 Cruise Terminal Project will provide for a more efficient operation. The Project will result in fewer exposed areas which require security, faster baggage handling through a proposed baggage conveyance system, and faster passenger embarkation and disembarkation through a new overhead gangway system. Furthermore, taxis, buses and privately-operated vehicles will have better access to the cruise terminal because of the Project’s expanded ground transportation area that would take vehicles off of The Embarcadero and allow for quicker drop-off and pick-up of passengers.

Based on the new cruise terminal design plan, Port maritime staff expects more efficient baggage and passenger handling will result in greater cost savings allowing San Francisco to be more competitive with other West Coast ports. The Port expects that this new operational plan will reduce costs by approximately 25%. By making the Pier 27 terminal more competitive, the Port may attract more cruise ships to San Francisco. An increase in terminal revenue in conjunction with new net revenue associated with the Project is expected to offset the cost to dredge the berth and maintain the new public plaza in the future.

⁵ On the rare occasion Piers 35 or 27 are unavailable, cruise ships can berth at Piers 30-32 with Metro Cruise Services providing terminal operation services. However, due to the lack of any amenities on Pier 30-32, which is currently used as a parking lot, it is only used as a tertiary location.

9. Yearly Revenue-Generating Uses

The Port has considered additional uses that are envisioned to generate on-going revenue to the Port, serve as a community benefit and/or activate the Northeast Wharf Plaza so that it can be used year-round. These estimates stated below are preliminary and there is a wide range of variation of future new net revenue to the Port. Accordingly, the economic analysis of these uses will be updated throughout the design process to better predict the new net revenue flow to Port.

Special Event Use

Special event use is subordinate to cruise terminal operations. In recent years, cruise ship calls have fluctuated between 40 and 80 calls a year and will likely remain the same for the future. Within this range, most ships will berth at Pier 27 and some will berth at Pier 35⁶. Given a range of one to three days of exclusive use required for each call, the cruise industry could occupy as many as 240 days a year, or 66% of all available time at Pier 27. Availability for special events will be dependent on the needs of the cruise industry.

While the cruise terminal design has not been finalized, space within the terminal can also be used for meetings and special events on non-cruise days. The designated terminal areas do not require additional investment for special event use. The most marketable space would be the passenger waiting room and the baggage lay-down area could also be effectively used either together with or separately from the waiting area. It is also conceivable that a user would rent the ground transportation area either in conjunction with rental of the indoor spaces or as stand-alone event space.

Assuming about 40 events a year, the Design Team believes that a “best-estimate” projection of annual net revenue might be approximately \$929,988 per year, depending on the number of Pier 27 cruise calls and security requirements restricting availability. The estimated range of annual net revenue is \$453,478 to \$1,645,231.

Parking

The new construction of the terminal building will be narrower thereby increasing the footprint between Piers 27 and 29. This increased footprint allows for expanded parking and vehicular circulation in the ground transportation area of the valley area. The Design Team projects a “best estimate” of approximately \$210,320 per year. The estimated range of annual net revenue is \$56,000 to \$364,320.

Commercial Leasing

Current lease revenue generated at Pier 27 may be reduced if current tenants are not able to be re-located within Port property. The Design Team has considered the feasibility of approximately 10,000-20,000 square feet of new food and beverage space whose primary purpose is to enliven the public plaza throughout the year. As an interim solution, leasing of spaces within the Plaza for movable carts and kiosk stalls could be accomplished, assuming that basic utilities are provided. Optimistically, annual revenue is estimated at up to \$10,000 a year.

The “best estimate” for new net annual revenue of the three revenue-generating uses, described below, is approximately \$1,140,308 with a range of between \$499,478 and \$2,019,551.

⁶ Very few ships are anticipated to use the tertiary cruise ship berth at Pier 30-32. Notably, Pier 30-32 is included in the facilities to be leased to the America’s Cup Event Authority under long term leases such that after the transfer the Port will no longer have the ability to berth cruise ships at Pier 30-32.

10. Environmental Review Process

CEQA review will be conducted by the City's Planning Department and the City's Planning Commission will consider the environmental impact report prepared for this Project. To meet the Project and the 34th America's Cup schedules, the CEQA process will commence after the Board's fiscal feasibility review and is anticipated to be completed by the end of 2011.

11. Coordinating with Regulatory Agencies

The Project will be presented for review and public comment regularly to the Port Commission, as well as at public meetings with waterfront advisory groups, community and waterfront stakeholders and regulatory agencies. The project will require many regulatory approvals including BCDC. The Port anticipates the Project will require amendments to BCDC's Special Area Plan ("SAP"), a part of the San Francisco Bay Plan, as well as a BCDC major permit. Accordingly, Port and BCDC staff are working in close coordination to evaluate existing policies, solicit early direction and conduct public outreach to help shape and review a concept design for the cruise terminal and Northeast Wharf Plaza which will help determine the scope of BCDC SAP amendments. Public workshops will be scheduled to review and comment on the design progress.

The Project will be presented to the San Francisco Planning Commission as part of the CEQA EIR process. Informational briefings may also be scheduled for the San Francisco Planning Commission and Historical Preservation Commission, given the importance of the Project and its location within the Embarcadero National Register Historic District. The Port also works in close coordination with the California State Lands Commission to manage projects to comply with public trust requirements under the Burton Act and the public trust doctrine.

12. Benefits of the Project to the City and County of San Francisco

As part of the Cruise Terminal Advisory Panel deliberation process, an economic consultant, Bay Area Economics, was commissioned to study the benefits of a new cruise terminal to San Francisco. This 2008 study, entitled "Port of San Francisco, Economic Impact Study," identified economic benefits from expenditures by the cruise lines, passengers and crew. This study determined that the Port has potential to gain additional market share if it could continue to market itself as a cruise home port and destination, build relationships with cruise lines, and improve its facilities to handle larger ships by developing a new terminal at Pier 27. Bay Area Economics concluded that it could create approximately \$29.4 million⁷ annually in direct economic activity. If indirect and induced economic impacts are included, then a total of \$42.2 million in total economic activity is produced, creating a total of 408 jobs within San Francisco. Dividing total impacts (\$42.2 million) by the direct impacts (\$29.4 million) yields a citywide multiplier of approximately 1.43. Thus, every dollar that the cruise industry spends within San Francisco generates \$1.43 in total economic activity. This projection supports the generation of 410 jobs within the City. In addition, the industry generates approximately \$900,000 annually in direct tax revenues that accrue to the City's General Fund.

Regionally, Bay Area Economics estimated \$43.4 million in direct impacts and \$66.9 million in total impacts. This yields a regional economic multiplier of 1.55, or every dollar that the cruise industry spends within the region generates \$1.55 in total economic activity. Under this scenario, the cruise industry would support approximately 470 jobs in the Bay Area.

⁷ All Bay Area Economics numbers represent 2008 dollars and have not been escalated.

It should be noted that the recent BAE Ship Repair Systems/Princess Cruise Lines joint \$5 million investment enlarged the drydock facilities at Pier 70. This improvement allows the largest cruise ships in the world to be repaired and maintained in San Francisco and provides an incentive for cruise lines to call in San Francisco not only for periodic drydock work, but potentially as a home port for passenger service. The Port has already experienced additional cruise ship berthing as a result of having the Pier 70 facilities. These state-of-the-art ship repair facilities are expected to continue to promote cruise calls at the Port of San Francisco, especially Pier 27, and, in the reciprocal, to result in visiting cruise ships scheduling repairs at Pier 70.

Finally, each cruise ship call at the Port of San Francisco generates significant work for members of the International Longshore and Warehouse Union, truck drivers, supply companies and harbor service providers. Drydock work for a cruise vessel at the Pier 70 shipyard creates thousands of hours for skilled union jobs, utilizing ten different marine trades, making it one of the City's largest generators of blue collar employment.

In brief, the Pier 27 cruise terminal Project provides economic benefits to the City and County of San Francisco both in terms of economic activity and direct tax revenue, preserves and promotes maritime employment, and supports San Francisco's tourism industry. The Pier 27 cruise terminal will also be a community asset by providing meeting and special event space on non-cruise days. Development of a new primary cruise terminal with a major waterfront public plaza will solidify and enhance the achievements already made on San Francisco's waterfront.

13. Conclusion

The proposed cruise terminal development is a crucial project not only for the Port, but also for the City and County of San Francisco. For the Port, part of its core mission is to preserve and promote maritime commerce. The cruise business represents one of the last major maritime activities still thriving in San Francisco. Through this Project, there will be substantial economic benefit, directly and indirectly, to San Francisco. The Project preserves and produces maritime employment.

The Port envisions a new primary cruise terminal that will enhance the City's reputation as a world class, waterfront city and tourist destination. The public improvements will have a regional public benefit, by attracting cruise passengers, meeting planners, waterfront tourists and neighborhood residents.

Exhibits:

- A. Schematic Terminal Plan
- B. Phase 1 Site Plan
- C. Phase 2 Site Plan
- D. Terminal Renderings
- E. Board of Supervisors Resolution