

 **Staff Report**

**TO:** Board of Harbor Commissioners

**FROM:** Steve McGrath, General Manager

**DATE:** October 17, 2018

**SUBJECT:** Oyster Point Marina and Park: Potential New Agreement with South San Francisco

**Recommendation/Motion:**

Receive report. No action is requested.

**Policy Implications:**

None at this time, although the Joint Powers Agreement (JPA) with the City of South San Francisco (SSF) under which the District operates Oyster Point Marina and Park (OPM) will terminate in 2026, and, at this Commission’s direction, discussions have continued regarding a new agreement.

**Fiscal Implications/Budget Status:**

In January 2018, this Commission received a final report from Dornbusch Associates. (Attachment 1) The firm was charged with performing a financial analysis to determine the implications of undertaking Capital Improvement Plan (CIP) investments, and the implications for both the JPA and any potential new agreement.

The report examined several scenarios, with various of levels of occupancy, berth rental rates and capital improvements. The report also reviewed a reduced occupancy scenario, for example in a recession, and the potential for a management contract with the city. The report concluded with two basic recommendations:

Term of any new agreement:

Since the Harbor District would want to be able to benefit from the additional revenue and operating cash flows generated by the investment in new docks and other CIP projects, while fully amortizing its investments over their useful lives, under this scenario we would recommend that the JPA be extended approximately 30 years from the midpoint of the CIP. Since roughly half of the CIP investment occurs prior to FY2021 and half occurs after, we recommend that the CIP be extended to around the year 2050.

**This recommendation is based on the assumption that the JPA termination clause is written the same way as the current JPA.** (Page 39)

The draft agreement anticipates a 15-year term with two 10-year options, which, if executed in 2018, would extend the term to 2053.

Compensation for the District on termination:

**We recommend that the JPA be amended so that, going forward, SMCHD is compensated for the residual value of any investment it makes in real property and personal property assets that would revert to South San Francisco upon termination of the agreement.** The simplest way to determine residual value would be by straight-line depreciation based on installation dates, investment values and the useful lives for different assets described in this report.

With such an amendment, the exact term length of the JPA would not be as critical because SMCHD would be able to receive fair compensation for any investments it makes. For example, a dock replaced five years before the expiration of the JPA would still have 25/30 (83.3%) of its value at JPA expiration, and SSF would compensate SMCHD at that level. (Page 39).

This provision is included in the draft agreement.

**Discussion:**

 In February 2017, this Commission directed staff to work with the City and the Liaison Committee on drafting a new agreement for operation of OPM by the District.

That effort was expanded to incorporate discussion, drafting and agreement on an Implementation Agreement in September 2017.

The Liaison Committee met most recently on April 17, 2018, received a report from City Manager Mike Futrell, and me. The Committee reviewed the basic elements of a potential new agreement and directed staff to continue to develop these for inclusion in an agreement for review by this Commission and the City Council.

This Commission received an update on October 4, 2018, specifically on the progress made on development of a new agreement with City. At that time, staff presented a comprehensive list of issues which have been discussed. (Attachment 2). Staff committed to providing the Commission with another opportunity to discuss, and to review an actual draft agreement. Accordingly, the requested draft is attached to this report as Attachment 3.

It is result of a hard work on both sides, and incorporates several goals of the District:

1. Clarifies that the City is responsible for protection against sea level rise, water quality and landfill subsidence
2. Incorporates the Dornbusch recommendation regarding the term of a new agreement
3. Incorporates the Dornbusch recommendation regarding payment to the District for the depreciated value of our capital assets on termination

Although still in draft form, the General Manager will walk through the fundamental deal points in a presentation and answer any questions the Commission may have about the draft agreement.

**Attachments:**

* Attachment 1 – January 2018 Dornbusch Report
* Attachment 2 – October 4 Staff Report
* Attachment 3 – DRAFT Agreement between South San Francisco and Harbor District