MEMORANDUM

September 13, 2024

TO: MEMBERS, PORT COMMISSION
Hon. Kimberly Brandon, President
Hon. Gail Gilman, Vice President
Hon. Willie Adams
Hon. Stephen Engblom
Hon. Steven Lee

FROM: Elaine Forbes
Executive Director

SUBJECT: Request approval of Consent to Transfer Port Leases L-12839 (Pier 92) and L-13002 (Pier 94) from HBMA Holdings, LLC to Martin Marietta Northern California Aggregates, LLC.

DIRECTOR'S RECOMMENDATION: Approve the Attached Resolution No. 24-39

EXECUTIVE SUMMARY

In October 2021, Martin Marietta Northern California Aggregates, LLC. ("Martin Marietta") acquired HBMA Holdings, LLC ("Hanson") West Region business, including the lease agreements between the Port of San Francisco ("Port") and Hanson. Upon acquisition of Hanson's West Region business, in October 2021 and after, Martin Marietta continued operation of the West Region business without interruption. The operation included payment of rent to the Port and assumption of Hanson's other obligations under two lease agreements with the Port: Lease No. L-12839 and Lease No. L-13002 (each a "Lease", and collectively the "Leases"). However, Hanson and/or Martin Marietta did not obtain the Port's consent to acquire the business prior to the acquisition, as is required by the Port lease agreements.

STRATEGIC OBJECTIVE

The Transfer proposed by Martin Marietta supports three key goals of the Port's Strategic Plan:

THIS PRINT COVERS CALENDAR ITEM NO. 11B

Economic Vitality:
Develop and implement strategies to stabilize the Port's financial position from the COVID-19 pandemic's economic impacts.

Productivity:
Attract and retain tenants to build an economically successful and vibrant waterfront.

Sustainability:
Advance environmental stewardship to limit climate change and protect the Bay.

BACKGROUND

Hanson is a leading supplier of cement, aggregates, ready mixed concrete, and asphalt in North America, with facilities along the west coast of the United States, Mexico, & Canada. Hanson held two lease agreements with the Port: Lease No. L-12839 and Lease No. L-13002 for space within the Port's Eco-Industrial Complex in the Southern Waterfront, at Piers 92 and 94.

Contract No.	Former Tenant	Location	Expiration	Current Monthly Rent
L-12839	Hanson Aggregates	Pier 92	02/29/24	$65,422.52
L-13002	Hanson Aggregates	Pier 94	08/31/23	$130,410.52

Lease No. L-12839 is located at Pier 92 and allowed Hanson to operate a sand reclamation, storage, and distribution facility.

Lease No. L-13002 is located at Pier 94 and is used for the operation of an aggregate handling & distribution facility.

In September 2021, Hanson requested consent to transfer L-12839 & L-13002 to Martin Marietta Northern California Aggregates, LLC. ("Martin Marietta"). However, Port did not consider the correspondence as formal notice of a "request to transfer" and instead requested that Hanson provide the necessary information for Port's consideration of Consent to Transfer as outlined in Sec 21.3 of the Lease Agreement. However, Martin Marietta completed its acquisition of Hanson's West Region business on October 1st, 2021, prior to receiving Port's consent to transfer. Following the completion of the acquisition, Martin Marietta continued operations without interruption, including the assumption of rental payments and fulfillment of Hanson's other obligations under the terms of the Leases.

Port staff vetted documentation provided by Martin Marietta as required under Section 21.3 of the Lease Agreements. Port staff concluded its review in March of 2022. After the 18-month review, the Port then determines the valuation of the Lease Transfer Fee. This determination was completed per the lease terms and was resolved in late 2023. Since that time and for 8 months of 2024 the Port has been in discussions with Hanson and Martin Marietta focused on developing the Consent to Transfer Agreement.

LEASES UNDER DISCUSSION

Pier 94 – L-13002
Lease No. L-13002 for Hanson's Aggregate operations at Pier 94 expired on August 31, 2023, and remains in month-to-month holdover with the Port's consent. Subsequently, Martin Marietta agreed to a closure plan for the location with Bay Area Air Quality Management District (BAAQMD) on September 9, 2023, confirming its intent to cease operations at that location in October 2023.

Martin Marietta has made significant progress in completing its wind-down operations at Pier 94. To do this, they have begun and will continue to, remove all tenant improvements on-site to restore the property to a condition satisfactory and most leasable to the Port. This includes the removal of all onsite equipment, and the leveling of the site to facilitate appropriate drainage and paving of the site to its original condition. Once this is complete, the Port and Martin Marietta have mutually agreed to terminate Lease L-13002.

Pier 92 – L-12839
Lease No. L-12839 for Hanson's sand operations at Pier 92 expired on February 29, 2024, and is currently on month-to-month holdover with the Port's consent. Upon taking operational control of the facility, Martin Marietta undertook a review process of the facility and determined it was interested in making significant investments to modernize the facility. Martin Marietta approached the Port with a proposal for a new facility and lease. However, Port staff noted that due to the outstanding transfer issue with the existing Leases, Martin Marietta was not in good standing and therefore ineligible to enter into a new lease

To facilitate the uninterrupted operation of the Pier 92 facility, Martin Marietta will continue to operate the facility as currently permitted under the terms of Lease No. L-12839, and work with Port Staff to negotiate new terms and conditions and a new lease at the facility. Martin Marietta has submitted an application for CEQA review of its proposed operations at Pier 92, which will include environmental enhancements to the facility.

TRANSFER FEE ANALYSIS

The following table details the current monthly rental rate the Port is receiving in addition to the remaining term of the Leases at the time of the acquisition:

LEASEHOLD INTEREST

Contract No.	Former Tenant	Monthly Rent	Lease Rent PSF	Expiry	Term Remaining in Month	Leasehold Value
L-12839	Hanson Aggregates	$ 65,422.52	$0.34	2/29/24	28	$ 1,831,830.56
L-13002	Hanson Aggregates	$130,410.52	$0.34	8/31/23	23	$ 2,999,441.96
Total						**$4,831,272.52**

Leasing opportunities at the Port are generally guided by the Port's Parameter Rental Rate Schedule, as adopted by the Port Commission. Under the Parameter Rate Schedule in effect at the time of the acquisition (FY2023), the Port noted the locations and property types associated with the Leases were set at a monthly market rate of $0.40 PSF. This rate represents the minimum value under which the Port would lease the space at the time of the acquisition. The table below provides a comparison of the leased premises to these rates:

MARKET RENT							
Contract No.	**Sq Ft**	**Rate PSF**	**Market Rent**	**Current Rent**	**Monthly Difference**	**Vacancy Period**	**Market Value In Excess**
L-12839	194,130	$0.40	$77,652.00	$65,422.52	$12,229.48	28	$342,425.44
L-13002	387,240	$0.40	$154,896.00	$130,410.52	$24,485.48	23	$563,166.04
Total					**$36,714.96**		**$905,591.48**

Based on this analysis, the Port of San Francisco understands the market value of leases with similar use and terms to be $5,736,864.00 while the Leasehold interest for the existing leases is $4,831.272.52. Therefore, there is a market value in excess of the leasehold value of $905,591.48, which, under the terms of the Leases is due to the Port upon full execution of the Consent to Transfer Agreement.

STAFF ANALYSIS

Staff performed a thorough analysis of Martin Marietta's financial solvency and operating practices and has determined Martin Marietta to be a reputable organization within the aggregate materials industry. Martin Marietta's investment in its aggregate processing & distribution operations at Pier 92 provides a robust anchor tenant for the Port's Maritime Eco-Industrial Complex. As of Fiscal Year 2023, Martin Marietta accounts for nearly 15% of the Port's Maritime revenue and 24% of dry-bulk cargo movement by volume.

Pursuant to Section 21.4 of each Lease, Tenant must pay the Port a transfer fee which, collectively equals Nine Hundred Five Thousand Five Hundred Ninety-One and 48/100 Dollars ($905,591.48). The consent to transfer agreement requires payment of the transfer fee on or prior to the effective date of the consent, which is subject to Port Commission approval. Resolving the transfer issues will allow Martin Marietta to enter into negotiations with Port as a tenant in good standing and provide a stable foundation for its future long-term investment.

RECOMMENDATION

Port staff recommends that the Port Commission approve the attached resolution authorizing Port to consent to the transfer of Port Leases L-12839 & L-13002 from HMBA Holding, LLC to Martin Marietta Northern California Aggregates, LLC.

Prepared by: Demetri Amaro, Business Development Manager
Maritime

For: Andre Coleman, Deputy Director
Maritime

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 24-39

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

WHEREAS, Hanson Aggregates Mid-Pacific, Inc., a Delaware Corporation, entered into that certain Lease No. L-12839, dated October 6, 1999, for the operation of a sand reclamation, storage, and distribution facility including the use of a barge and conveyor system; and

WHEREAS, Hanson Aggregates Mid-Pacific, Inc., a Delaware Corporation, entered into that certain Lease No. L-13002, dated August 26, 2000, for the operation of a bulk aggregate storage, and distribution facility including the use of a barge and conveyor system; and

WHEREAS, HBMA Holdings LLC, a Delaware limited liability company, and Lehigh Southwest Cement Company, a California corporation agreed to sell all of their equity interests in Hanson Aggregates Mid-Pacific, Inc. (collectively, “Hanson”) to Martin Marietta Materials, Inc., a North Carolina corporation (“Martin Marietta”) (the “Transfer”) effective October 1, 2021 (the “Transfer Date”);

WHEREAS, the Leases required Hanson to obtain Port’s prior written consent to the Transfer; and

WHEREAS, Hanson did not obtain Port’s consent at the time of Transfer and now requests Port’s retroactive consent to the Transfer pursuant to that certain “Consent to Transfer”; and

WHEREAS, Port Staff recommends approval of the Transfer and transfer fees detailed in the Staff Report and accompanying this resolution; now therefore be it

RESOLVED, The Port Commission hereby approves the terms of the proposed Consent to Transfer on the terms and conditions described in the memorandum accompanying this resolution with Hanson and Martin Marietta; and be it further

RESOLVED, That the Port Commission authorizes the Executive Director or her designee, to enter into any additions, amendments, or other modifications to the Consent to Transfer that the Executive Director, in consultation with the City Attorney, determines are in the best interest of the Port, do not materially increase the obligations or liabilities of the Port or materially decrease the public benefits accruing to the Port, and are necessary and advisable to complete the transaction and effectuate the purpose and intent of this Resolution, such determination to be conclusively evidenced by the execution and delivery by the Executive Director of any such documents.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of September 17, 2024.

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Secretary