

Oyster Point Marina

Capital Improvement Projects

Prepared by Jim Pruett, General Manager
San Mateo County Harbor District
April 4, 2022

Introduction:

The San Mateo County Harbor District operates and maintains Oyster Point Marina under a 2018 Agreement with the City of South San Francisco, the owner of said marina. Under the 2018 Agreement, which incorporated the 2011 and 2017 Agreements between the Harbor District and South San Francisco, the District is currently obligated to complete certain capital improvement projects at Oyster Point Marina:

Capital Improvement Projects Required by the Agreements:

1. Replace Docks 12 through 14 at an estimated cost of \$6,701,317.
2. Survey/Replace Docks 1 through 6 at a cost of \$12 to \$14 million.

Capital Improvement Project Required for Safety/Maintenance:

3. Reconfigure entrance ramps for Docks 1 through 6 at a cost of \$1,391,800

The District also has the opportunity to construct a 40,000 square foot commercial building at Oyster Point, and the City is obligated to rent the land to the District for one dollar per year.

Capital Improvement Project- Opportunity:

4. Build a new commercial building at a cost of \$2.1 million.

The estimated cost to complete all four projects is \$23,193,117. The \$23 million is twice the annual revenues for the entire Harbor District, and over 16 times the annual revenue of Oyster Point Marina.

The 2018 Agreement does provide a process in which the District could seek additional funding for capital improvement projects. Section 4.C.iii provides “the City and District agreed to meet and confer if circumstances unforeseen at the time of the Effective Date compel the replacement of capital infrastructure such that it would be unreasonable for the District to bear the sole cost of replacement.”

Here, while the projects were not unforeseen, the cost of said projects have far exceeded the District’s expectations. As a result, the District should request a meeting with the City to confer on the funding for the projects as well as the parameters of the 40,000 square foot commercial building land lease under the 2011 Agreement.

Background:

On December 28, 2018, the City of South San Francisco and Harbor District entered into an agreement (the “2018 Agreement”) concerning the improvement, operation, and maintenance of Oyster Point Marina. The 2018 Agreement revoked and replaced the November 11, 1977 Joint Powers Agreement (last updated on November 27, 1985).

The 2018 Agreement confirms that both the 2011 Agreement and the 2017 Implementation Agreement “remain in effect as per their own terms.”

The original term for the 2018 Agreement is 15 years (December 2018-December 2033), with two additional terms that automatically renew for ten years each, December 2033 to December 2044

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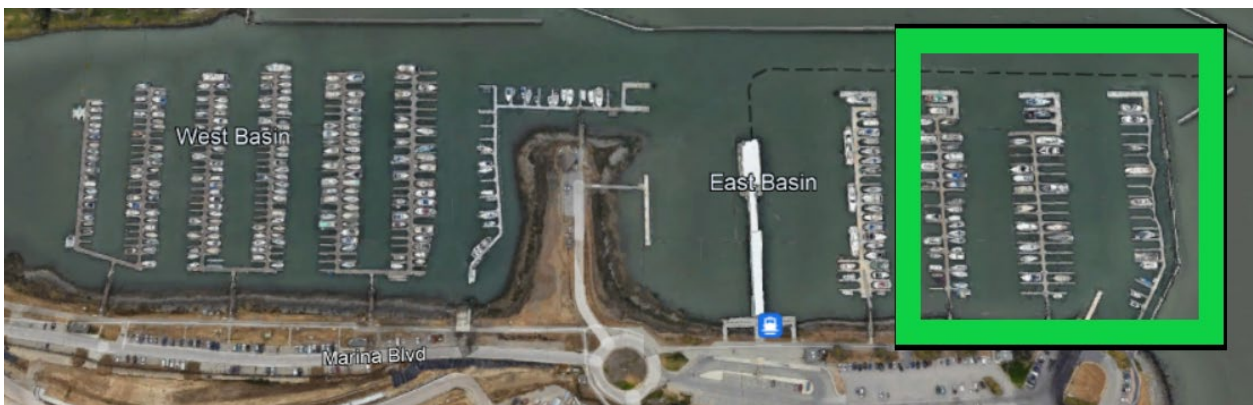
and December 2044 to December 2055, respectfully. Either party may withdraw from the agreement at the renewal periods, provided a notice is provided by the withdrawing party two years prior to the expiration date of the Initial Term or Renewal Term.

A. Capital Improvement Projects Required by the Agreement:

1. Replacement of Docks 12, 13, and 14:

Topic: The District is required by the 2018 Agreement to replace Docks 12, 13, and 14 by December 31, 2024. The District “at its sole cost and expense, is responsible for such replacement...including ramps...”.

Issue: Section 4.A.iii of the 2018 Agreement, the City and Harbor District estimated the project cost to be less than \$5 million. However, estimated costs are now projected to be \$6,701,317.00. This represents a \$1,701,317 funding shortfall.



**Docks 12, 13, and 14
Oyster Point Marina East Basin**

Select Sections from the Agreements:

Section 4.A of the 2018 Agreement: Obligations of the District:

A. *“Replacement of Docks 12, 13 and 14. The Parties agree that Docks 12, 13, and 14 in the east basin, including the docks and ramps, are beyond their useful life and require substantial repair and replacement. The Parties further agree that the replacement of Docks 12, 13 and 14 is a material provision of this Agreement. The District, at its sole cost and expense, is responsible for such replacement and repair of Docks 12, 13, and 14 in the east basin, including the docks and ramps (collectively, the “**Marina Infrastructure Project**”).”*

i.” Project Schedule. The District will take all reasonable steps within its control to complete the Marina Infrastructure Project by December 31, 2024. The City Manager and District General Manager, or their designees, will meet and confer at least once a year to provide status updates on the project schedule.”

ii.” Permits and Approvals. The District is responsible for obtaining all necessary permits and approvals for the Marina Infrastructure Project. The City will cooperate with the District in order to expeditiously obtain approvals by all governing agencies having jurisdiction over the Marina Infrastructure Project.”

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iii. "Total Project Costs. The District estimates that the total anticipated cost for the Marina Infrastructure Project is less than \$5 Million Dollars ("Total Project Costs"). The District will be responsible for timely funding the Total Project Costs in order to complete the Marina Infrastructure Project prior to December 31, 2024."

Section 4.C.iii of the 2018 Agreement, the "Parties agree to meet and confer if circumstances unforeseen at the time of the Effective Date compel the replacement of capital infrastructure such that it would be unreasonable for the District to bear the sole cost of replacement."

Earning Potential of Docks 12, 13, and 14 (as currently configured):

| | 100% of Slips 100% Occupancy | | | 80% of Slips 80% Occupancy | | |
|----------------|------------------------------|-----------------|------------------|----------------------------|-----------------|------------------|
| | Number of Slips | Monthly Revenue | Annual Revenue | Number of Slips | Monthly Revenue | Annual Revenue |
| Dock 12 | 44 | \$15,800 | \$189,600 | 35 | \$12,640 | \$151,680 |
| Dock 13 | 37 | \$19,482 | \$233,784 | 30 | \$15,585 | \$187,027 |
| Dock 14 | 20 | \$10,544 | \$126,528 | 16 | \$8,435 | \$101,222 |
| Totals: | 101 | \$45,826 | \$549,912 | 81 | \$36,660 | \$439,929 |

2022 Master Plan:

This project is defined as a Tier 1 project under the 2022 Master Plan. As a Tier 1 project, the replacement of Docks 12, 13, and 14 are considered a high priority for the District.

Discussion:

The District is required to complete the Marina Infrastructure Project (replacement of Docks 12, 13, and 14 (including the ramps)), by December 31, 2024. This is required by Section 4.A of the 2018 Agreement.

The estimated cost of the project is \$6,701,317. As of the date of this paper, the Board of Harbor Commissioners has approved, and the General Manager has executed, work orders in the amount not to exceed \$786,037 for design, engineering, and permitting of the Marina Infrastructure Project.

At the time the 2018 Agreement was signed, the City and District estimated the Marina Infrastructure Project to cost less than \$5 million, \$1.7 million below the updated estimate.

Section 4.C.iii of the 2018 Agreement provides the parties will meet and confer if circumstances unforeseen at the time of the 2018 Agreement would be unreasonable for the Harbor District to bear the sole cost.

Here, the increase in cost represents an increase of 34% of the original maximum estimate of less than \$5,000,000. This significant increase was not anticipated/foreseen in 2018.

The earning potential of Docks 12, 13, and 14 (80% occupancy) is \$36,660 per month, or \$439,929 549,912 annually. Just using the income generated from Docks 12-14, it would take over 15 years to cover the costs associated with the Marina Infrastructure Project.

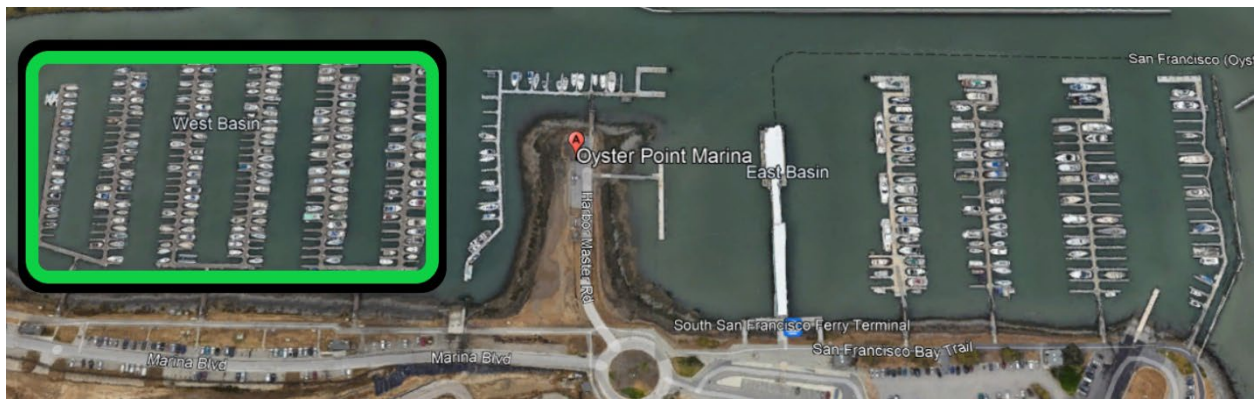
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Staff's Opinion: The significant cost increase was unforeseen and would be unreasonable for the District to bear the additional \$1,701,317.

2. Replacement of Docks 1-6 in the West Marina:

Topic: The 2018 Agreement requires the District to conduct a material conditions survey of Docks 1-6 no later than December 31, 2023. If the survey recommends replacement, the General Manager must place on the Harbor Board Meeting agenda a request for funding for the replacement of said docks.

Issue: The District did not anticipate at the signing of the 2018 Agreement that the cost for dock replacement and dredging would increase by such a significant amount. Thus, the District has not budgeted for, nor does the District have, the \$12 to \$14 million to complete the project.



**Docks 1 through 6
Oyster Point Marina East Basin**

Select Sections of the Agreements:

Section 4.B of the 2018 Agreement provides:

“Replacement of Docks 1-6. No later than December 31, 2023, and sooner if deemed necessary by the District General Manager, the District will commission and obtain a report on the condition of Docks 1-6. Prior to issuing a final report, the District will provide a draft report to the City for its review and comment. If the final report required by this paragraph recommends the replacement of any of Docks 1-6, the District General Manager must prepare and present for Commission approval a plan for the replacement of the docks identified in the report. A failure to approve any such plan will not be considered a Default under this Agreement unless at the time the plan is considered by the Commission, the occupancy rates at the Marina Area are below the threshold set forth in the applicable Operational Performance Indicators, attached hereto as Exhibit D, and incorporated herein. In the event the District does not commence replacement of Docks 1-6 by 2024, then prior to every term extension, the District will commission a new report and present the report to the Commission in the same manner as set forth in this subsection.”

Section 4.C.ii of the 2018 Agreement: “Dredging. The District is responsible for all required dredging and related maintenance activities necessary for the operation of the Marina.”

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Section 4.C.iii of the 2018 Agreement, the “Parties agree to meet and confer if circumstances unforeseen at the time of the Effective Date compel the replacement of capital infrastructure such that it would be unreasonable for the District to bear the sole cost of replacement.”

2022 Master Plan:

The replacement of Docks 1 through 6 is defined as a Tier 4 project by the 2022 Maser Plan. As a As a Tier 4 project, the replacement of the Docks are considered a low priority of the District.

Earning Potential for Docks 1 through 6:

| | 100% of Slips 100% Occupancy | | | 80% of Slips 80% Occupancy | | |
|----------------|------------------------------|-----------------|--------------------|----------------------------|-----------------|------------------|
| | Number of Slips | Monthly Revenue | Annual Revenue | Number of Slips | Monthly Revenue | Annual Revenue |
| Dock 1 | 33 | \$9,123 | \$109,476 | 26 | \$7,298 | \$87,581 |
| Dock 2 | 51 | \$14,189 | \$170,268 | 41 | \$11,351 | \$136,214 |
| Dock 3 | 54 | \$15,054 | \$180,648 | 43 | \$12,043 | \$144,518 |
| Dock 4 | 57 | \$15,768 | \$189,219 | 46 | \$12,615 | \$151,375 |
| Dock 5 | 50 | \$16,671 | \$200,052 | 40 | \$13,337 | \$160,042 |
| Dock 6 | 50 | \$17,967 | \$215,604 | 40 | \$14,374 | \$172,483 |
| Totals: | 295 | \$88,722 | \$1,065,267 | 236 | \$71,018 | \$842,112 |

Discussion:

Under Section 4.B, the District has agreed to conduct a condition survey by December 31, 2023. The Board has approved funding to conduct the survey and the District is on schedule to meet this deadline. The 2018 Agreement further states the District will begin construction on replacing Docks 1-6 by 2024. If the District does not replace the docks, the District must conduct additional conditions surveys.

Failure of the Harbor Board to approve funding for the Dock replacement is not, by definition, a material breach of the Agreement.

A recent condition survey conducted by GHD in development of the District Master Plan, found the docks “to be in “serious” to “poor” condition.”

Based on the GHD condition survey, it is highly probable that the full material condition survey of the docks will recommend replacement.

This project is listed as a Tier 4 project in the 2022 Master Plan, and thus a low priority. However, this project scored low in the assessment under the master plan due to no identified funding, the amount of funds required, and the fact it only served the tenants that have a slip on Docks 1 through 6. However, the actual condition of the docks, based on the condition survey, are poor to serious. A rating of “poor is defined as “Widespread advanced deterioration or overstressing

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observed; structure is serviceable with minor loss of structural capacity. Repairs are recommended with moderate priority/urgency.” A rating of “serious” is defined as “Advanced deterioration or overstressing observed; significant loss of capacity with local failures possible. Repairs are recommended with high priority/urgency.”

The estimated cost to replace docks 1-6 is \$12 million to \$14 million (including dredging). The District Annual Budget for 2022/2023 estimates total revenues to be \$12.6 million.

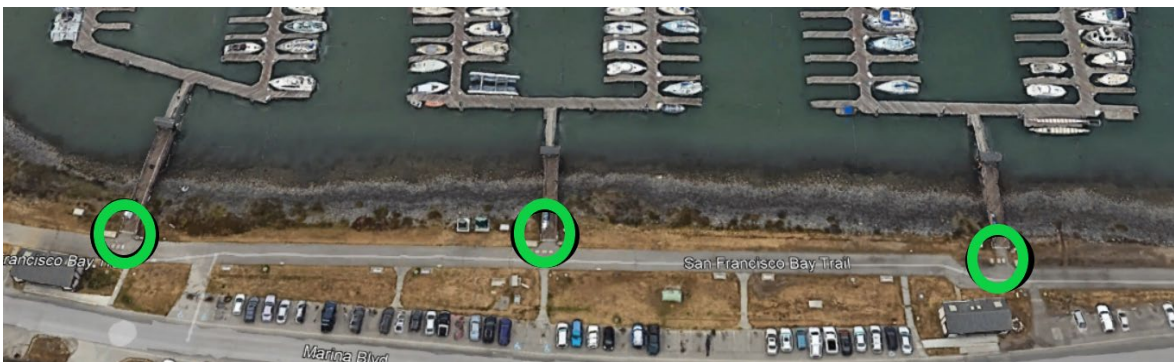
Staff Conclusion: The District did not foresee the sharp increase in costs associated with dock replacements. If the District were to fund the replacement of Docks 1-6, the cost would be more than the total revenues expected in the 2022/2023 Budget. Thus, the District should under Section 4.C.iii of the 2018 Agreement, seek additional funding from the City.

B. Capital Improvement Project Required for Safety:

1. Entrance Ramps Docks 1-6. West Basin:

Topic: The three dock landings that service Docks 1 through 6 in the east side marina are flooded/inundated during plus tide events, otherwise know as King Tides. The Oyster Point Development project elevated the entire westside land area, not including the remainder parcel running on the south side of the west basin, to include the landings for docks 1-6. Currently, the ramps from the new elevation down to the dock landings. An area subject to flooding during King Tides.

Issue: The District did not anticipate at the 2018 signing that the entrance ramps would have to be raised at District Costs. Thus, the District has not budgeted for, nor does the District have the \$1.3 million to complete the project.



Selected Sections of the Agreements:

Section 4.C of the 2018 Agreement, the District is responsible for the operation and maintenance of the Marina Area, the East Landside, the Marina Serving Facilities in the West Landside.

Section 2 of the 2018 Agreement:

“Marina Area: The Marina Area is that area generally located between the northern mean high water mark and extending to the northerly edge of the breakwater, as shown on Exhibit A. The Marina Area comprises:

- A. An approximately 428-berth recreational boat marina spread over:*

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- I. 6 public dock strings (Docks 1 through 6) and one reserved Dock*
 - ii. 4 dock strings (Docks 11, 12, 13 and 14) and a guest dock*
 - iii. A Ferry Terminal operated by the San Francisco Bay Area Water Emergency Transportation Authority (WETA) under a long-term lease agreement with the District (WETA Lease);*
 - iv. Ramps leading to the above referenced Docks.*
- B. Fuel utility lines, fueling docks and fueling station;*
C. Boat launch ramp;
D. Fishing pier.

Section 5.D of the 2018 Agreement, the City is solely responsible for monitoring and protecting against landside inundation caused by sea level rise.

Section 5.E. of the 2018 Agreement the City is solely responsible for monitoring and protecting against landside inundation caused by landfill subsidence.

Section 4.C.iii of the 2018 Agreement, the “Parties agree to meet and confer if circumstances unforeseen at the time of the Effective Date compel the replacement of capital infrastructure such that it would be unreasonable for the District to bear the sole cost of replacement.”

Exhibit A 2018 Agreement



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2022 Master Plan:

The reconfiguration/replacement of the three dock landings that serve Docks 1 through 6 in the west marina of the Oyster Point Marina is a Tier 1 project under the 2022 Maser Plan. As a Tier 1 project, this project is a high priority for the District.

Discussion:

Under Section 4.C of the 2018 Agreement, the District is responsible for the operation, maintenance, and replacement (if necessary) of Docks 1-6 and the ramps leading to said docks. The landings are flooded as a result of sea level rise and/or landfill subsidence. The City is responsible, under Section 5.D and 5.E to protect the landing areas of the docks against flooding caused by sea level rise and/or landside subsidence. The flooding mainly takes place during King Tide events.

The City has indicated they have met their obligation under the agreement by raising the Bay Trail to an elevation that is not flooded during King Tides.

The Harbor District is responsible for the floating stock, to include placing the landing of the ramps on the elevated grade provided by the City.

The estimated cost for this project is 1,391,800.

Staff's Conclusion: The three ramp entrances for Docks 1-6 are the District's responsibility. The City provided an elevated area to attach our ramps to. It is now the District's responsibility under the agreement to construct and install new ramp landings on the new elevated area to prevent them from flooding.

C. Capital Improvement Projects- Opportunity

1. 40,000 Square Foot Commercial Building at Oyster Point Marina

Topic: The 2011 Agreement is recognized by both the City and District in the 2018 Agreement as valid as to its terms. As such, the 2011 Agreement provides the City will lease to the District for one dollar per year, an area large enough for the District to build a 40,000 square foot commercial building.

Issue: The main issue is the 2011 Agreement states the construction of the new commercial building will be the responsibility of the District. Estimated cost to construct a new 40,000 square foot two story building is \$2.1 million.

Second Issue is the 2011 Agreement expires on November 11, 2026.

Selected Sections of the Agreement:

Section 7.2 of 2011 Agreement: Office/Commercial Space. *“Provided that the Phase 1C Improvements have been completed, the City will lease to the District for one dollar per year an adequate amount of space in the area designated in Exhibit D to allow the District to sublease the property and construct up to 40,000 square feet of commercial harbor-related uses as specified in the Oyster Point Specific Plan with a FAR based on a two story structure platform. The lease term shall terminate November 11, 2026, provided that the parties agree that the lease term may be*

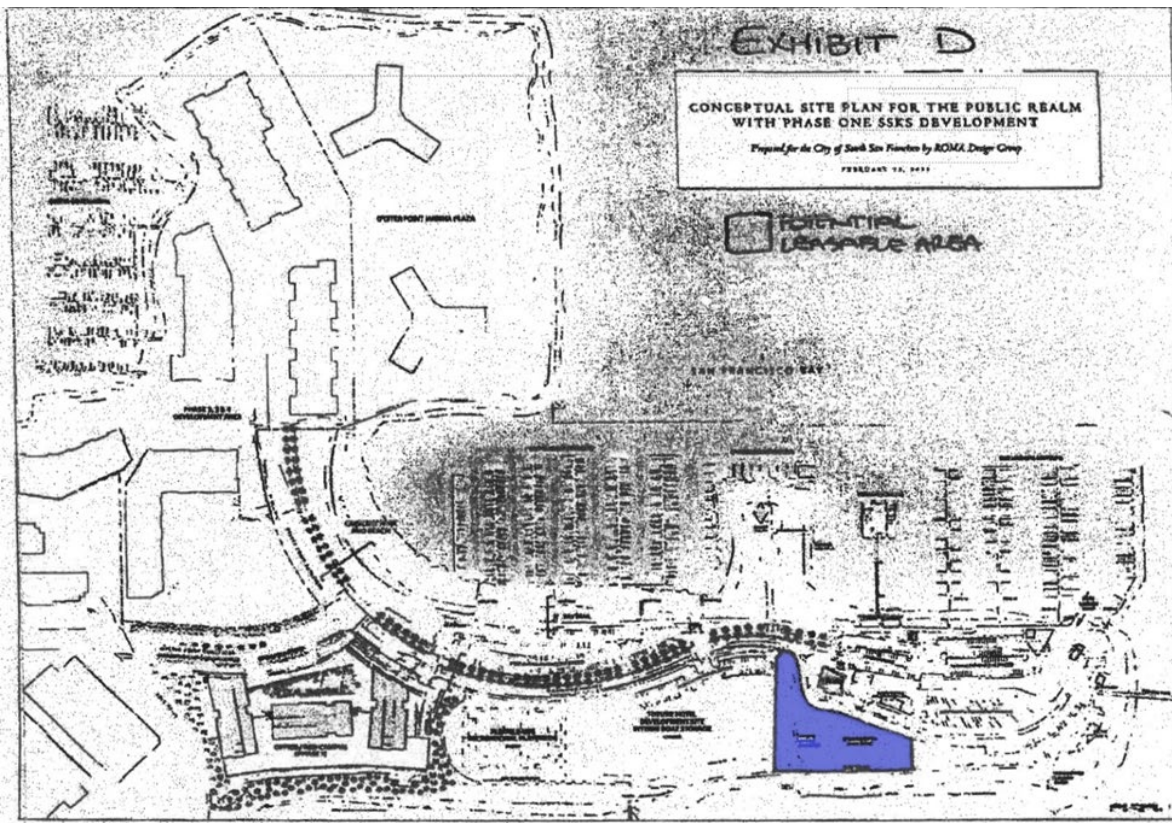
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extended by mutual consent if the District proposes a use that is consistent with the Oyster Point Specific Plan including the design guidelines therein and provided that the City and District agree on the revenue sharing for the lease revenues received after November 11, 2026. District or its sublessees shall be responsible for all costs associated with obtaining permits for and constructing the building and tenant improvements within the leased area. Any proposed use shall obtain any necessary land use entitlements from the City and any other regulatory agency with jurisdiction over the area. City agrees that if the Bay Conservation and Development Condition imposes a requirement for [for] replacement recreational/open space, City will agree that the new recreation/open space constructed as part of the Oyster Point Specific plan may be identifies and used as replacement recreational/open space. District shall pay all utility costs, maintenance costs, custodial services and applicable taxes for the permanent office lease space during the term of the lease.”

Section 2 of the 2018 Agreement: *“the 2011 Agreement and the 2017 Implementation Agreement remain in effect as per their own terms.”*

Section 4.C of the 2018 Agreement: *“The District is responsible for the operation and maintenance of the Marina Area, the East Landside, the Marina Serving Facilities in the West Landside, and the Fueling Infrastructure, including any portion that may be in the West Landside.”*

Section 2 of the 2018 Agreement: *“the 2011 Agreement and the 2017 Implementation Agreement remain in effect as per their own terms.”*



**Exhibit D
2011 Agreement**

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Under Section 9 of the 2018 Agreement:

If the lease for the building ends as detailed in the agreement, the City would be responsible to reimburse the District for the fixed asset using the following formula:

$$D=A \times(B/C)$$

A= Actual cost paid by District to construct the building.

B= Remaining useful life of existing building.

C= Initial useful life of the building.

2022 Master Plan:

The construction of a 40,000 square foot commercial building at Oyster Point Marina scored as a Tier 4 project in the 2022 Master Plan.

Discussion:

Under the 2018 Agreement, which incorporated the 2011 Agreement, the District can lease space from the City at Oyster Point, indicated in blue in the above graphic (Exhibit D of the 2011 Agreement). The City is obligated to lease said space to the District, for one dollar per year to build, at District cost, a 40,000 square foot commercial building. The District would then retain all revenue generated from leasing the building until November 11, 2026. After this date, the City and District are required to agree to a revenue sharing plan.

At this point, under the current agreement that expires on November 11th, 2026, it does not make good business sense to invest \$2.1 million in the construction of a new building.

However, if the District were to renegotiate with the City to extend the initial term of the lease to a term of 15 years, with two automatic lease renewal options of ten years each, the construction of the building could be beneficial to the District. A cost benefit analysis would need to be conducted to confirm.

If the cost benefit analysis were favorable, the District could finance the construction of the building with relative ease, using the income from the building to pay the loan.

If the District builds a new commercial building, and the building is turned over to the City, the City would pay the District for the value of the building based on the formula:

$$D=A \times(B/C)$$

A= Actual cost paid by District to construct the building.

B= Remaining useful life of existing building.

C= Initial useful life of the building.

For example, if in 20 years the District turns over the building to the City and the remaining useful life is 30 years, based on a 50 year initial useful life and an original construction cost of \$2.3 million, the City would pay the District: \$1,380,000.

While the Project scored as a Tier 4 project under the Master Plan, this project could greatly benefit the district through increased revenue. Again, it would have to be shown by a positive cost benefit analysis.

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Staff Conclusion: Unless the 2011 Agreement can be re-negotiated to extend the time period for the one dollar per year lease, it may make sense to build the commercial building.

D. Revenue/Expenses:

1. Slip Fees: The District has collected an average (FY2017/2018-FY2020/2021) of \$1,278,320.00 per year in slip fees, with an average total revenue of \$1,524,090.75 per year. Slip fees represent 83% of total revenue at Oyster Point Marina.

| | FY17/18 | FY18/19 | FY19/20 | FY20/21 | 4yr Average | Diff. btwn FY20/21 & FY17/18 |
|------------|-------------|-------------|-------------|-------------|-------------|------------------------------|
| Slip Rev. | \$1,326,254 | \$1,306,884 | \$1,251,039 | \$1,229,303 | \$1,278,320 | (\$96,951) |
| Total Rev. | \$1,582,464 | \$1,604,298 | \$1,446,601 | \$1,463,000 | \$1,524,091 | (\$119,464) |

As indicated above, the revenue from slips is increasing, but still below FY2017/2018. This is mainly due to vessel owners departing due to the construction at Oyster Point. As the construction comes to a completion, it is expected revenues from slip rentals will increase.

2. Salaries: Salaries for Oyster Point Marina average \$1,545,266, growing from \$1,368,366 in FY2017/2018 to \$1,762,686 in FY2020/2021. Representing a \$394,220 increase.

| | FY17/18 | FY18/19 | FY19/20 | FY20/21 | 4yr Average | Diff. btwn FY20/21 & FY17/18 |
|----------|-------------|-------------|-------------|-------------|-------------|------------------------------|
| Salaries | \$1,368,366 | \$1,306,684 | \$1,625,372 | \$1,762,586 | \$1,545,266 | \$394,220 |

3. Operating Costs: Operating cost (not including salaries) has decreased. In FY2017/2018, the operating cost were \$714,028, in FY2020/2021 they were \$658,596, representing a \$55,432 difference in operating costs.

| | FY17/18 | FY18/19 | FY19/20 | FY20/21 | 4yr Average | Diff. btwn FY20/21 & FY17/18 |
|-------------------------------|-----------|-----------|-----------|-----------|-------------|------------------------------|
| Operating Cost (w/o Salaries) | \$714,028 | \$729,024 | \$633,018 | \$658,596 | \$683,666 | (\$55,432) |

4. Revenue/Expenses: Total revenues less total expenses has grown from a -\$499,930 in FY2017/2018, to \$1,013,299 in FY2020/2021, representing a \$513,369 increase in loses at Oyster Point Marina.

| | FY17/18 | FY18/19 | FY19/20 | FY20/21 | 4yr Average | Diff. btwn FY20/21 & FY17/18 |
|-----------------------------------|-------------|-------------|---------------|---------------|-------------|------------------------------|
| Total Revenue less Total Expenses | (\$499,930) | (\$549,465) | (\$1,380,000) | (\$1,013,299) | (\$860,773) | \$513,369 |

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5. Bad Debt Write Off: The District has steadily increased the amount of bad-debt write offs at Oyster Point Marina. In FY2017/2018 bad debt write offs equaled \$27,052, FY2020/2021 it was \$60,195, representing a \$33,143 difference (loss in revenue).

| | FY17/18 | FY18/19 | FY19/20 | FY20/21 | 4yr Average | Diff. btwn FY20/21 & FY17/18 |
|--------------------|------------|------------|------------|------------|-------------|------------------------------|
| Bad-Debt Write Off | (\$27,052) | (\$37,142) | (\$34,075) | (\$60,195) | (\$39,616) | \$33,143 |

E. Revenue Opportunity:

1. Slip Fees: The District has maintained, on average, a 75% occupancy rate at Oyster Point Marina. With 408 available slips at Oyster Point Marina, the District has on average had 102 empty slips. The average rate per month for a slip is \$274.50. With 102 empty slips, at \$274.50 per month, that represents an approximate opportunity of \$27,999.00 per month, or \$335,988 per year lost.

Maintaining 100% occupancy is unrealistic. The eight quarter Bay Area Occupancy Rate for marinas is 82%. Given that, of the 408 slips, the District should aim to maintain at least 334 slips. Currently we are maintaining 306 slips on average, a difference of 28, or \$7,686 per month or \$92,232 per year.

2. Commercial Building: The 40,000 sq ft commercial building has the potential to bring in significant revenue for the District. But, as discussed above, the Harbor District would first have to construct the building.

F. Other Considerations:

Funding from South San Francisco:

1. As required by the 2011 Agreement, and acknowledged in the 2017 Agreement, the City/Redevelopment Agency paid \$2.6 million to the District for dock improvements and wave attenuators.
2. As required by Section 9 of the 2011 Agreement, and acknowledged in the 2017 Agreement, the Redevelopment Agency paid the District \$31,173.17 to reimburse District costs incurred in negotiating the 2011 Agreement.
3. In 2022/2023 the City will repave the upper and lower parking lots in the east landside area as well as landscape the east landside area. (Within the District's O&M area). Approximate cost is \$5 million.