



Legislation Text

File #: 2017-0172, **Version:** 1

DATE: June 20, 2017

SUBJECT:

A) RESOLUTION AUTHORIZING THE EXECUTIVE DIRECTOR TO ENTER INTO BLUE ECONOMY AGREEMENTS OR BLUE ECONOMY AGREEMENTS IN SUBSTANTIAL CONFORMANCE THEREWITH, THROUGH THE DISTRICT'S BLUE ECONOMY INCUBATOR WITH:

- 1. SAN DIEGO BAY AQUACULTURE LLC. FOR A 5-YEAR PILOT PROJECT TO DEMONSTRATE SHELLFISH AQUACULTURE NURSERY OPERATIONS AND MANAGE THE FLOATING UPWELLER SYSTEM; AND**
- 2. RED LION CHEM TECH LLC. FOR A 1-YEAR PILOT PROJECT TO DEMONSTRATE COPPER REMEDIATION APPLICATIONS FOR A TOTAL AMOUNT NOT TO EXCEED \$165,000; AND**
- 3. RENTUNDER AB. FOR A 2-YEAR PILOT PROJECT TO DEMONSTRATE A DRIVE-IN BOATWASH TECHNOLOGY FOR A TOTAL AMOUNT NOT TO EXCEED \$140,000; AND**
- 4. SWELL ADVANTAGE LTD. FOR A 1-YEAR PILOT PROJECT TO REFINE DEVELOPMENT OF A SMART MARINA SOFTWARE AND SMART PHONE APPLICATION FOR A TOTAL AMOUNT NOT TO EXCEED \$100,000**

B) RESOLUTION AWARDED A SOLE SOURCE AGREEMENT TO SNOW & COMPANY, INC. FOR THE PURCHASE AND INSTALLATION OF A CUSTOM-MADE FLOATING UPWELLER SYSTEM (FLUPSY) FOR SHELLFISH AQUACULTURE NURSERY OPERATIONS IN AN AMOUNT OF \$351,600 PURSUANT TO BPC POLICY NO. 110 SECTION III.E.

C) RESOLUTION AMENDING THE FY 16/17 BUDGET BY TRANSFERRING \$351,600 FROM THE AQUACULTURE AND BLUE TECHNOLOGY NON-PERSONNEL EXPENSE BUDGET APPROPRIATION TO THE EQUIPMENT OUTLAY BUDGET APPROPRIATION, PURSUANT TO BPC POLICY NO. 90, TO PURCHASE THE FLUPSY

EXECUTIVE SUMMARY:

In 2016 the District established a Blue Economy incubator and strategic investment fund to assist in the creation, development and scaling of new business ventures on San Diego Bay, focusing on aquaculture and blue technology. Since the launch of the Blue Economy incubator, seven proposals were submitted and four were deemed complete and were moved forward for consideration under the incubator four step competitive review process. The review process balanced each proposal's potential financial return on investment; potential social and environmental benefits; and alignment with the District's core mission and Public Trust obligations.

At the May 11, 2017 Board of Port Commissioners (Board) meeting, the Board directed staff to begin negotiating agreements with the four companies selected under the District's Blue Economy incubator competitive review process. Staff has completed negotiating agreements and therefore, recommends the Board authorize the Executive Director and/or her designated representative to enter into Blue Economy Agreements, or Blue Economy Agreements in substantial conformance, for pilot projects with (1) San Diego Bay Aquaculture LLC., to demonstrate shellfish aquaculture nursery operations and operate a FLUPSY for five years (Attachment A); (2) Red Lion Chem Tech LLC. to demonstrate copper remediation applications for \$165,000 for one year (Attachment B); (3) Rentunder AB. to demonstrate the Drive-in Boatwash technology for \$140,000 for two years (Attachment C); and (4) Swell Advantage Ltd. to refine development of a smart marina software application for \$100,000 for one year (Attachment D); using funding through the Blue Economy Incubator for a total amount of \$756,600.

RECOMMENDATION:

- A) Adopt a Resolution Authorizing the Executive Director to enter into Blue Economy Agreements or Blue Economy Agreements in Substantial Conformance therewith, through the District's Blue Economy Incubator with:
- 1) San Diego Bay Aquaculture, LLC. for a 5-year pilot project to demonstrate shellfish aquaculture nursery operations and manage the floating upweller system; and
 - 2) Red Lion Chem Tech, LLC. for a 1-year pilot project to demonstrate copper remediation applications for a total amount not to exceed \$165,000; and
 - 3) Rentunder AB for a 2-year pilot project to demonstrate a Drive-in Boatwash technology for a total amount not to exceed \$140,000; and
 - 4) Swell Advantage, Ltd. for a 1-year pilot project to refine development of a smart marina software application for a total amount not to exceed \$100,000.
- B) Resolution Awarding a Sole Source Agreement to Snow & Company, Inc. for the Purchase and Installation of a Custom-Made Floating Upweller System (Flupsy) for Shellfish Aquaculture Nursery Operations in an amount of \$351,600 pursuant to BPC Policy No. 110 Section III.E.
- C) Resolution amending the FY16/17 budget by transferring \$351,600 from the Aquaculture and Blue Technology non-personnel expense budget appropriation to the Equipment Outlay budget appropriation, pursuant to BPC Policy No.90, to purchase the FLUPSY.

FISCAL IMPACT:

The District's Blue Economy incubator will serve to build a Blue Economy portfolio by leveraging the commitment from a strategic investment fund of \$5.0 million over 5 years, with \$1.0 million budgeted per fiscal year. Funds requested for the first year of the strategic investment in the Blue Economy portfolio, for a total amount of \$756,600, are included in the approved FY 16/17 Budget within the Aquaculture and Blue Technology non-personnel expense accounts. The proposed FY 17/18 budget includes \$1,120,200 also in the non-personnel expense account. Future funding requirements of approximately \$1.0 million per year will be included in the proposed Aquaculture and Blue Tech future fiscal years' budgets and are subject to Board approval. Based on the first cohort of four agreements negotiated, the revenue sharing and royalty structure projected could result in estimated return on investment of \$2.6 million over a five year period.

COMPASS STRATEGIC GOALS:

Advancing the Blue Economy directly aligns with the Public Trust Doctrine, the Port Act, and our COMPASS Strategic Plan. This agenda item supports the following Strategic Goal(s).

- A Port with a healthy and sustainable bay and its environment.
- A Port with a comprehensive vision for Port land and water uses integrated to regional plans.
- A Port that is a safe place to visit, work and play.
- A financially sustainable Port that drives job creation and regional economic vitality.

DISCUSSION:

Blue Economy Incubator

The District established the Blue Economy Incubator to support entrepreneurship, foster sustainable aquaculture and drive blue tech innovation. Traditional incubators typically offer office space and shared administrative services. However, a Port-led Blue Economy incubator will act as a launching pad for innovative ideas by removing barriers to entrepreneurs and providing key assets, and services such as pilot project facilitation, permit-ready infrastructure, entitlements, market access, and strategic funding all in line with the District's Public Trust purposes and economic interests.

The District's Blue Economy incubator will serve to build a Blue Economy portfolio by leveraging the commitment from a strategic investment fund of \$5,000,000 over 5 years, with \$1,000,000 budgeted per fiscal year. The investment fund will focus on shellfish aquaculture and blue technology opportunities, balancing between early stage (pre-revenue), market-ready ventures, and between a mix of high growth and long-term strategic opportunities. Beyond the expected financial return on investment from long-term royalty streams, the Blue Economy incubator will also assist in bringing innovative tenants who can deliver multiple social and environmental benefits to the region. These benefits may include fisheries enhancement, ecosystem restoration, water quality improvement, environmental monitoring, and education and outreach.

The building of a Blue Economy portfolio directly aligns with the District's core mission to protect the Tidelands Trust resources by providing economic vitality and community benefit through a balanced approach to maritime industry, tourism, water and land recreation, environmental stewardship and public safety. Additionally, the Blue Economy incubator also aligns with the Port Act for the promotion of commerce, fisheries, navigation, and recreation.

Competitive Selection Process

On May 9, 2016, the District launched the Blue Economy incubator inviting, early stage and market-ready ventures that align with the incubator objectives to submit applications and business proposals on a continuous basis (Attachment E). The District received multiple inquiries and seven official proposals, of which, four were deemed complete and were moved forward for consideration under the following four step competitive review process. The proposals selected for review provided the required business plan information for staff to analyze the pilot project feasibility, the financial viability of the proposal, and strategic alignment with the District's core mission, Port Act and Public Trust

purposes.

Step 1 consisted of a cross-departmental team to conduct the due diligence process consisting of District subject matter experts. The objective of the due diligence process is to evaluate if the business proposals are consistent with the core objectives of the incubator. Additionally, the due diligence includes a review of the risks, financial, social, and environmental benefits of the proposals.

Step 2 consisted of a review by the Incubator Committee. This committee is comprised of the District's Chief Financial Officer, Chief Operations Officer, a representative from the General Counsel's Office, Business Director, and Subject Matter Experts. On January 24, 2017, the incubator committee held a face-to-face meeting with the four companies who submitted completed proposals. The Incubator Committee recommended the four proposals be advanced to the next step.

Step 3 consisted of a presentation of proposals advanced by the Incubator Committee to the Board's Blue Economy Investment Ad-Hoc Committee for direction and feedback regarding which proposals should be forwarded to the full Board for consideration. The Blue Economy Investment Ad-Hoc Committee met on March 8, 2017 and March 22, 2017 and directed staff to advance all four proposals to be considered by the full Board.

Step 4 consisted of a staff recommendation to the Board of Commissioners on April 11, 2017, to begin negotiating agreements with all four proposers.

Recommended Pilot Project Proposals

The following pilot projects represent the first cohort of business proposals reviewed and selected under the District's Blue Economy incubator process. The staff on the incubator committee recommends these proposals be advanced since they achieved the best balance of potential return on investment, and potential social and environmental benefits.

- **San Diego Bay Aquaculture LLC. (Formerly Acacia Pacific Aquaculture LLC.) /**
Proposal Submitted on 7/15/16

San Diego Bay Aquaculture (SDA) is a Shellfish Aquaculture development and project management company specializing in growing marine shellfish and seaweed since 2004. SDA's pilot project proposal is to operate and demonstrate an accelerated, year-round shellfish aquaculture nursery operation in the San Diego Bay, using the Floating Upweller Nursery System (FLUPSY) technology. During the proposed 5 years pilot project, SDA will conduct the daily operations of the FLUPSY with staff including a marine biologist manager and technicians. The FLUPSY operations will validate that shellfish nursery operations in San Diego Bay can support a viable new shellfish aquaculture business. SDA's pilot project principals have twelve years of experience in shellfish and seaweed farming, FLUPSY operations and aquafarm ownership.

Staff recommends the Board authorize an agreement with San Diego Bay Aquaculture to operate the FLUPSY for the pilot shellfish aquaculture nursery operations for 5 years. The agreement includes the District investment in the FLUPSY asset in the amount of \$351,600, with the District providing certain permit rights, and use of District-owned property and/or equipment in exchange for a percentage of revenue from the pilot project and other consideration.

Staff is recommending moving forward with the purchase and installation of a custom-made FLUPSY (Attachment G and H). The purchase by a non-competitive proposal/agreement is sought due to the fact that this type of equipment and service is only available from a single source; Snow & Company Inc., Seattle, Washington and is permissible pursuant to Board of Port Commissioners (BPC) Policy No. 110, Section III.E, subject to Board approval. Specifically, each FLUPSY is designed, fabricated and built to specifications at each location used. (See Attachment F for BPC Policy No. 110 Section III.E. single source or sole source justification memorandum.) Additionally staff is also requesting the transfer of \$351,600 from the Aquaculture and Blue Technology budget to the equipment outlay budget to facilitate the purchase of the FLUPSY. The installation of a FLUPSY has independent utility from SDA proposal and represents a key asset for the District in advancing its shellfish aquaculture program. This action will help advance the planning and pre-development work necessary to establish permit-ready infrastructure to support potential shellfish aquaculture in San Diego Bay.

- **Red Lion Chem Tech LLC. / Proposal Submitted on 10/03/16**

Red Lion Chem Tech (Red Lion) is a remediation company specializing in developing environmental solutions to alleviate the impacts of oil spills, flooding or water contaminated by chemical pollutants. Red Lion's pilot project is to conduct a demonstration of adsorbent media filtration (resin technology) designed to remove dissolved copper in seawater. Red Lion has conducted laboratory demonstrations of their resin technology using San Diego Bay water with test results showing up to 85% efficiency in removing copper. The one-year pilot project will demonstrate the efficiency of the Red Lion's resin technology under both a passive (Ballast Flow Through) and active (Pump and Treat Flow Through) filtration systems. The pilot project is also expected to determine the cost-effectiveness and potential baywide scalability of the technology in harbor environments for both the passive and active filtration systems. The company principals have over 30 years of experience assisting in the development and growth of technology start-ups.

Staff recommends the Board authorize an agreement with Red Lion for a pilot project to demonstrate the effectiveness of adsorbent media filtration (resin technology) in removing dissolved copper from seawater for one year. The agreement includes the District investment in the amount of \$165,000, with the District providing certain permit rights, and use of District-owned property and/or equipment in exchange for royalties on the future revenue of Red Lion's technology and other consideration.

- **Rentunder AB - Drive-in Boatwash / Proposal Submitted on 10/28/16**

Rentunder is the manufacturer, seller and operator of the Drive-in Boatwash™ technology. Rentunder's pilot project is to conduct a 2-year demonstration of their technology for in-water hull cleaning. The Drive-in Boatwash consists of driving a boat (sailboat or motor boat up to 53 feet) into an enclosed basin, then mechanically brushing the boat hull with soft scrubbers to assist in reducing copper released into harbors. This pilot project involves the fabrication and installation of Rentunder's Drive-in Boatwash as well as water quality monitoring. Rentunder's principal will be leading the pilot project together with his team of hydraulic experts, and engineers.

Staff recommends the Board authorize an agreement with Rentunder for a 2-year pilot project for the installation and operation of the Drive-in Boatwash technology. The agreement includes the District investment in the amount of \$140,000, with the District providing certain permit rights, and use of

District-owned property and/or equipment in exchange for a percentage of revenue from the pilot project, royalties on revenue from future systems installed in the State of California and other consideration.

- **Swell Advantage Ltd. / Submitted on 11/13/16**

Swell Advantage (Swell) is a technology start-up developing operation support tools for marinas, boat clubs and government waterfronts consisting of an optimization tool and smart phone application. Swell's proposal is to refine, and continue the development of a smart marina mapping tool to automate and optimize dock management application for marinas. The duration of the pilot project is 1 year to improve and demonstrate Swell's technology and smart phone application at a marina in San Diego Bay. Swell Advantage is a technology start-up company, composed of an experienced team of M.B.A., Computer engineer, and marketing and sales.

Staff recommends the Board authorize an agreement with Swell Advantage for a pilot project to refine a smart marina software application for one year. The agreement includes the District investment in the amount of \$100,000 in exchange for royalties on the future revenue of Swell Advantage's technology and other consideration.

Conclusion

Staff recommends the Board authorize agreements under the Blue Economy Incubator with San Diego Bay Aquaculture LLC. for a pilot project to demonstrate and operate the floating upweller system for shellfish aquaculture nursery operations for 5 years; and with Red Lion Chem Tech LLC. for a pilot project to demonstrate copper remediation applications for a total amount not to exceed \$165,000 for 1 year; and with Rentunder AB. for a pilot project to demonstrate a Drive-in Boatwash technology for a total amount not to exceed \$140,000 for 2 years; and with Swell Advantage Ltd. for a pilot project to refine development of a smart marina software application for a total amount not to exceed \$100,000 for 1 year. The total amount of funding not to exceed under the Blue Economy incubator is \$756,600.

Staff recommends the Board authorize the agreement with Snow & Company, Inc. pursuant to BPC Policy No. 110 Section III.E., for the purchase and installation of a custom-made Floating Upweller System (FLUPSY) for shellfish aquaculture nursery operations in the amount of \$351,600.

Additionally, staff also recommends authorizing amending the FY16/17 budget by transferring \$351,600 from the Aquaculture and Blue Technology non-personnel expense budget appropriation to the Equipment Outlay budget appropriation, pursuant to BPC Policy No. 90, to purchase the FLUPSY.

General Counsel's Comments:

The Office of the General Counsel has reviewed this agenda sheet and attachments as presented to it and approves them as to form and legality.

Environmental Review:

Pilot Project to Demonstrate Shellfish Aquaculture Nursery Operations and the Floating Upweller System Technology And Associated Resolutions:

The components of the proposed Board actions involving the Pilot Project to Demonstrate Shellfish Aquaculture Nursery Operations and the Floating Upweller System Technology (FLUPSY) and Associated Resolutions are Categorically Exempt pursuant to California Environmental Quality Act (CEQA) Guidelines Sections 15301 (Existing Facilities), 15303 (New Construction or Conversion of Small Structures), and 15306 (Information Collection) because the project would involve the minor alteration of existing public or private structures, would involve the installation of small new equipment and facilities in small structures, and would not result in a serious or major disturbance to an environmental resource. Additionally, no eelgrass is known to be present at the project site, and therefore, the Project would not result in any significant impacts to biological resources. As part of the entitlement process, prior to operation of the Project, staff will be applying for an Army Corps of Engineers (ACOE) Nationwide #48 "Commercial Shellfish Aquaculture Activities" permit. No further action under CEQA is required.

In addition, the proposed Board actions involving the Pilot Project to Demonstrate Shellfish Aquaculture Nursery Operations and the Floating Upweller System Technology and Associated Resolutions allow for the District to administrate its obligations under the Port Act and/or other laws. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the proposed Board actions are consistent with the Public Trust Doctrine.

The Pilot Project involves installation of up to two FLUPSYs and associated dock repairs in an underutilized marina, and is considered a priority coastal-dependent use per Section 30222.5 of the Coastal Act. Additionally, the Project would not interfere with the needs of the commercial fishing industry. In the event the commercial fishing uses do not have adequate space within the Tuna Harbor Marina, the Pilot FLUPSY Project would be relocated and undergo an additional environmental review process on the alternate location. The proposed Board actions are considered "excluded development" pursuant to Section 8.a. (Existing Facilities), 8.c. (New Construction or Conversion of Small Structures), and 8.e. (Information Collection) of the District's Coastal Development Permit (CDP) Regulations; therefore, issuance of a CDP is not required. Please refer to the attached Categorical Determination for additional information (Attachment H).

Pilot Project to Demonstrate Copper Remediation Applications:

The components of the proposed Board action involving the Pilot Project to Demonstrate Copper Remediation Applications is Categorically Exempt pursuant to California Environmental Quality Act (CEQA) Guidelines Sections 15301 (Existing Facilities), 15303 (New Construction or Conversion of Small Structures), 15306 (Information Collection), and 15311 (Accessory Structures) because the project would involve negligible expansion of use beyond that previously existing, would involve the installation of small new equipment and facilities in small structures, would not result in a serious or major disturbance to an environmental resource, and would involve minor modifications to the exterior of the structure and would involve the placement of minor structures. Additionally, no eelgrass is known to be present at the project site, and therefore, the Project would not result in any significant impacts to biological resources. As part of the entitlement process, prior to operation of the Project, staff will be applying for an Army Corps of Engineers (ACOE) ACOE Nationwide #5

“Scientific Measurement Devices” permit. No further action under CEQA is required.

In addition, the proposed Board action involving the Pilot Project to Demonstrate Copper Remediation Applications allows for the District to administrate its obligations under the Port Act and/or other laws. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the proposed Board action is consistent with the Public Trust Doctrine.

Finally, the proposed Board action is considered an “excluded development” pursuant to Section 8.a. (Existing Facilities), 8.c. (New Construction or Conversion of Small Structures), and 8.e. (Information Collection) of the District’s Coastal Development Permit (CDP) Regulations; therefore, issuance of a CDP is not required. Please refer to the attached Categorical Determination for additional information (Attachment I).

Pilot Project to Demonstrate a Drive-In Boatwash Technology:

The components of the proposed Board action involving the Pilot Project to Demonstrate a Drive-In Boatwash Technology is Categorically Exempt pursuant to California Environmental Quality Act (CEQA) Guidelines Sections 15301 (Existing Facilities), 15303 (New Construction or Conversion of Small Structures), 15306 (Information Collection), and 15311 (Accessory Structures) because the project would involve negligible expansion of use beyond that previously existing, would involve the installation of small new equipment and facilities in small structures, would not result in a serious or major disturbance to an environmental resource, and would involve minor modifications to the exterior of the structure and would involve the placement of minor structures. Additionally, no eelgrass is known to be present at the project site, and therefore, the Project would not result in any significant impacts to biological resources. As part of the entitlement process, prior to operation of the Project, staff will be applying for an Army Corps of Engineers (ACOE) ACOE Nationwide #5 “Scientific Measurement Devices” permit. No further action under CEQA is required.

In addition, the proposed Board action involving the Pilot Project to Demonstrate a Drive-In Boatwash Technology allows for the District to administrate its obligations under the Port Act and/or other laws. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the proposed Board action is consistent with the Public Trust Doctrine.

Finally, the proposed Board action is considered an “excluded development” pursuant to Section 8.a. (Existing Facilities), 8.c. (New Construction or Conversion of Small Structures), and 8.e. (Information Collection) of the District’s Coastal Development Permit (CDP) Regulations; therefore, issuance of a CDP is not required. Please refer to the attached Categorical Determination for additional information (Attachment J).

Pilot Project to Refine Development of a Smart Marina Software and Smart Phone Application:

The proposed Board action does not constitute a “project” under the definition set forth in California Environmental Quality Act (CEQA) Guidelines Section 15378 because it will not have a potential to result in a direct or indirect physical change in the environment and is, therefore, not subject to CEQA. No further action under CEQA is required.

In addition, the proposed Board action allows for the District to implement its obligations under the

Port Act and/or other laws. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the proposed Board action is consistent with the Public Trust Doctrine.

Finally, the proposed Board action does not allow for “development,” as defined in Section 30106 of the California Coastal Act, or “new development,” pursuant to Section 1.a. of the District’s Coastal Development Permit Regulations. Therefore, issuance of a Coastal Development Permit or exclusion is not required.

Equal Opportunity Program:

Due to limited known subcontracting opportunities, no Small Business Enterprise goal was established for this opportunity.

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Attachment A:	San Diego Bay Aquaculture LLC - Agreement
Attachment B:	Red Lion Chem Tech LLC - Agreement
Attachment C:	Rentunder AB - Agreement
Attachment D:	Swell Advantage Ltd. - Agreement
Attachment E:	Incubator Application Instructions
Attachment F:	BPC Policy No. 110 Section III.E. Sole Source Justification Memorandum
Attachment G:	FLUPSY Purchase Agreement
Attachment H:	FLUPSY Services Agreement
Attachment I:	FLUPSY Pilot Project - CEQA and Coastal Determinations
Attachment J:	Copper Remediation Pilot Project - CEQA and Coastal Determinations
Attachment K:	Drive-In Boatwash Pilot Project - CEQA and Coastal Determinations