

FILE NUMBER: 2025-095

DATE: Tuesday, March 11, 2025

SUBJECT: District Offices Update

DESCRIPTION: Presentation and Update on District Office Buildings, Including Harbor Police Headquarters, Maritime Offices, Port Administration Building, and General Services Building, Recommended Next Steps to Assess the Construction of a New Harbor Police Headquarters Facility, Including an Overview of the Progressive Design-Build (PDB) Project Delivery Method, Potential Funding Strategies, and Discussion on Staff's Plan to Initiate a Request for Qualifications to Identify Professionals Qualified to Design the Proposed New Harbor Police Headquarters Utilizing the PDB Project Delivery Method, with No Fiscal Impact to the District at this Time.

EXECUTIVE SUMMARY:

At the August 13, 2024, Board of Port Commissioner's (Board) meeting, District staff presented a detailed update on the state of its office facilities, including the Harbor Police Headquarters (HPD Headquarters), Port Administration Building, and Maritime Offices. Staff outlined challenges related to aging facilities and stressed the need for long-term solutions. The HPD Headquarters was identified as the most urgent priority due to its condition and need for additional capacity. The Board showed support for exploring redevelopment options, financing strategies, and potential consolidation opportunities.

Staff has identified that the District has the potential to take on a higher debt capacity based on the District's financial history and budget forecasts. This higher debt capacity could be used to fund some long-term solutions to the District's office needs. Furthermore, creative funding strategies could be used to offset the amount of debt required, including public-private partnerships, phased financing, and grant opportunities.

Staff has also conducted an internal analysis to determine the potential costs of redeveloping the HPD Headquarters. These redevelopment costs, in addition to the need for infrastructure improvements on East Harbor Island, fit within the District's potential debt capacity.

Furthermore, the possibility of repurposing unused land from road relocations for revenue-generating uses, such as restaurants, is being explored to support the financing efforts. The District's financial capacity, in connection with any redevelopment projects, are being carefully evaluated to ensure the District remains a financially stable organization.

In comparison to the HPD Headquarters, the Port Administration and General Services Buildings are in better condition with sufficient useful life remaining in the buildings so long as ongoing maintenance is provided. These latter buildings will be addressed on a separate timeline, with a focus on maintaining their useful life, analyzing space and use efficiencies within the buildings, all while exploring long-term options.

The Maritime Offices are also a priority, and interim solutions for staff relocation will be explored while permanent facility solutions are assessed using a \$5 million RAISE planning grant obtained by the District.

Staff proposes utilizing the innovative Progressive Design-Build (PDB) process as a delivery mechanism for the redevelopment of the HPD Headquarters. The PDB approach would streamline project delivery and is intended to ensure cost efficiency while addressing the operational and security needs of the HPD Headquarters facility. Once a design-build entity is selected, subject to Board approval, environmental analysis and permitting requirements will be incorporated during the preconstruction phase as part of the PDB process in order to identify the necessary environmental compliance and mitigation strategies prior to finalizing a Guaranteed Maximum Price contract (GMP) and commencing construction.

Staff is seeking the Board's input on initiating a Request for Qualifications (RFQ) to select a qualified PDB team to design and eventually build the proposed new HPD Headquarters. The RFQ will be structured to align with the PDB approach, allowing for early contractor involvement and phased cost validation. At this stage, initiating the RFQ process will have no fiscal impact to the District.

In conclusion, the District is committed to addressing facility challenges through strategic planning, careful financial management, and innovative funding solutions, ensuring that both immediate and long-term staff needs are met within the District's debt capacity. Further updates and funding requests will be presented as these efforts progress.

RECOMMENDATION:

Receive presentation and update on District staff office facilities and recommended next steps for the construction of a new HPD Headquarters facility, including an overview of the PDB project delivery method, potential funding strategies, and staff's plan to initiate a Request for Qualifications to identify professionals best qualified to design and construct the proposed new HPD Headquarters utilizing the PDB project delivery method, and provide feedback to staff on the same.

FISCAL IMPACT:

There is no fiscal impact associated with the Board's direction to initiate the RFQ process.

Any future funding considerations for the design and construction of the HPD Headquarters will be brought back to the Board for review and approval.

COMPASS STRATEGIC GOALS:

This agenda item supports the following Strategic Goal(s).

- A Port that the public understands and trusts.
- A Port that is a safe place to visit, work and play.
- A Port with an innovative and motivated workforce.

- A financially sustainable Port that drives job creation and regional economic vitality.

DISCUSSION:

August 13, 2024, Board Meeting

At the August 13, 2024 Board meeting, District staff presented an update on District office facilities that included the HPD Headquarters, Port Administration Building, and Maritime Offices. The presentation covered challenges faced by the District in occupying and managing aging facilities and the recommendation to evaluate long-term solutions. Due to its age, condition, and limited capacity, the presentation explained that the HPD Headquarters has the most urgent need for a solution and staff recommended taking the next steps to assess its redevelopment.

While assessing the redevelopment of HPD Headquarters, staff also recommended exploring the issues and potential solutions for the Port Administration Building and the Maritime Offices. Certain solutions may provide the opportunity for consolidation and co-location, provide opportunities for revenue offsets, or solve other challenges currently faced by the District.

Following staff's presentation, the Board expressed strong support for this initiative, emphasizing the need for timely progress. Members showed particular interest in financing strategies, especially regarding debt and the District's debt capacity. Additionally, the Board encouraged creative solutions for the Port Administration Building and requested that the General Services Building be included in this effort.

Prioritizing HPD Headquarters

HPD Headquarters

Of all District staff departments, the Harbor Police Department has the most urgency to identify a solution to their office needs. Staff recommends a RFQ be initiated to identify professionals qualified for the design and redevelopment of HPD Headquarters utilizing the PDB project delivery method. Further details of the PDB project delivery method are covered in a later section of this agenda.

Soliciting a RFQ has no immediate impact to budget and does not require any immediate funding requests. Once the RFQ process has been completed, staff will return to the Board at a future meeting with a request for funds to be allocated for costs associated with the PDB services for a new HPD Headquarters. This will enable the qualified parties to begin designing a new HPD Headquarters.

Maritime Offices

The existing Maritime Offices are also a priority as the existing offices are failing to adequately support the department's operational needs. The District was successful in obtaining a \$5 million RAISE planning grant which provided funds to be allocated to designing new Maritime Office facilities, also called an operations center.

The RAISE grant supports critical planning efforts for the Tenth Avenue Marine Terminal (TAMT) Phase II Redevelopment, ensuring long-term operational efficiency, safety, and sustainability.

Staff recommends the District continue the process of assessing long-term options for the Maritime Offices through the use of the \$5 million grant. Solutions will need to provide sufficient space for administrative staff to conduct business while also allowing operations staff to be appropriately located at the TAMT. Staff's assessment will balance operational effectiveness with financial sustainability. Staff plans to update the Board on the potential options for the Maritime Offices, estimated timelines, and funding strategies at a later meeting.

In the meantime, as an interim solution, staff is assessing the possibility and feasibility of moving a portion of Maritime staff into areas of the General Services Building. One temporary office trailer will need to remain in place at TAMT to ensure appropriate operations staff are available and onsite. However, the remainder of staff would relocate to the General Services Building, which would allow Maritime staff to access more modern conference rooms and facilities to meet with delegations and other stakeholders. Staff plans to present an update on this proposed temporary solution and any required budget requests at a future meeting.

Port Administration Building

The Port Administration Building is estimated to require approximately \$16 million in major maintenance between FY25 and FY27. However, staff believes that there is sufficient useful life left in the building to continue to occupy it into the future. To confirm this, staff has solicited a scope of work and fee for conducting an assessment on the building to determine its overall condition and remaining useful life. If the report confirms that the building does have sufficient useful life remaining, internal improvements can be made to the building to update the space and solve the immediate staff needs within the building.

Staff are still exploring other long-term options for the Port Administration Building, however, due to the potential cost of HPD Headquarters and EHI Redevelopment infrastructure improvements, staff recommend the Port Administration Building be reviewed on a separate timeline.

General Services Building

The General Services Building is in the best condition compared to the other District staff facilities. The building was newly constructed in 2003 and has more than sufficient useful life remaining. The building also allows staff the possibility of making internal improvements, where necessary, to continue to serve the needs of the inhabiting staff.

Progressive-Design-Build Project Delivery Method

Progressive Design-Build (PDB) is a project delivery method that integrates design and construction teams early, allowing for collaborative planning, real-time cost control, and

risk mitigation. Unlike traditional methods, PDB selects the design-builder based on qualifications rather than the lowest bid, ensuring expertise and efficiency from the start.

Per SB706, local agencies are allowed to use the PDB project delivery method for public works over \$5 million. The authority provided by SB706 to local agencies is currently scheduled to expire on January 1, 2030.

The PDB process is intended to provide for the benefits further described below.

Early Contractor Involvement

SB706 permits the District to select a design-build entity based on qualifications rather than cost alone. The entity would be engaged at the earliest feasible stage to allow for collaboration and input on constructability, risk management, and value engineering before the final design is completed.

Phased Project Delivery

Schedule Incorporates Individually Negotiated Work Packages:

Initial Work Package (Criteria, Validation, and Permitting Phase): The design-build team collaborates closely with the District to refine project requirements, conduct site analysis, and ensure entitlements and environmental compliance under CEQA. This phase also includes preliminary design development, cost modeling, and risk assessment, allowing for iterative refinement of scope, schedule, and budget. The outcome is an agreed-upon project scope and validation of the design approach before proceeding to construction.

Individually Negotiated Work Packages (Design/Construction): Upon completion of the initial work package, and with approval of the Guaranteed Maximum Price (GMP) and necessary permits, the project advances to final design and construction through individually negotiated work packages. The design is further refined as construction begins, allowing for efficiency and flexibility in project execution while maintaining alignment with project goals and budget constraints.

Cost and Schedule Control

Costs are progressively validated throughout the process in an effort to reduce financial uncertainty. The GMP ensures that final pricing is respective to the work package and aligns with budgetary constraints before committing to full construction.

Risk Mitigation & Quality Control

The PDB process allows for continuous risk assessment to preemptively address design and construction challenges. The owner retains greater control over design evolution before formally committing to construction costs.

Integration with CEQA & Permitting

The PDB approach integrates CEQA analysis and environmental compliance early, ensuring that environmental review, permitting, and mitigation strategies are addressed before finalizing the GMP, or any necessary amendment thereto, and subsequent final approval of various project stages.

Redevelopment of Harbor Police Headquarters

District staff have analyzed approximate costs to redevelop the HPD Headquarters. The costs to develop an approximately 70,000 square foot HPD Headquarters facility, with its associated parking structure and ancillary facilities, is estimated to be between \$80 million-\$100 million. This estimate includes total project costs such as permitting, entitlements, demolition and site work, building costs, soft costs, and other contingencies. This construction cost estimate aligns with the per square foot costs of other recently developed police stations in California, ranging between \$1,000 to \$1,500 per square foot.

In addition to this \$80 million-\$100 million estimate, an additional approximately \$20 million is required for the costs associated with the East Harbor Island Redevelopment (EHI Redevelopment) infrastructure improvements, which includes realigning Liberator Way, as conceptualized in the Port Master Plan Update, and which will be the main access point to the redeveloped HPD Headquarters. Staff believes it prudent to realign Liberator Way as part of the HPD Headquarters redevelopment in order to create space for a relocation site, prevent the need for costly temporary facilities, and further advance the EHI Redevelopment efforts. The EHI Redevelopment infrastructure improvements are necessary to unlock EHI redevelopment potential to include revenue generating uses and other public improvements and uses.

Existing District Debt and Potential Funding Capacity

The District currently holds \$36.5 million in debt, with annual payments of \$6.5 million, scheduled to be fully repaid by 2030. Depending on interest rates, Port staff believes that a sustainable debt capacity is estimated between \$120 million and \$150 million, which, at a 5% interest rate, translates to annual payments of \$7.8 million to \$9.8 million.

A third-party analysis suggested the District could theoretically support up to \$300 million in debt while maintaining an acceptable debt coverage ratio. However, staff does not recommend this level due to affordability concerns. The analysis was based on historical underspending and vacancy-related savings, which are not guaranteed in future budgets. Taking on this level of debt would exceed the District's sustainable funding capacity under current budget forecasts.

To address facility funding needs, and in addition to potential traditional borrowing, staff is exploring several creative financing strategies, including:

- **Public-Private Partnerships (P3s)** to leverage external investment in infrastructure;
- **Phased financing/pay-as-you-go (pay-go) options** to align project costs with cash flow; and
- **Federal and state grants** for infrastructure development.

These strategies aim to optimize financial resources while ensuring long-term fiscal sustainability for the District. These strategies are further detailed in the below section.

Creative Funding Strategies

Grant Opportunities:

District staff are exploring and, where appropriate, pursuing grant opportunities from federal and state infrastructure programs and other sources to help secure funds to pay for the project. The District was also successful in obtaining a \$5 million RAISE planning grant which provided funds for designing terminal improvements, including concepts for maritime offices as part of a front gate realignment.

Repurposing Unused Land

Efficiencies in new building design as well as the potential to build vertically may free up space for revenue generating commercial uses, particularly on EHI where the HPD Headquarters is proposed to be redeveloped. For instance, realigning Liberator Way results in a larger HPD Headquarters land parcel. Building efficiencies could result in a portion of the larger land parcel to be repurposed for other uses such as a restaurant.

Any repositioned land could generate additional rental revenue that can be used to help service the annual debt payments related to the HPD Headquarters redevelopment.

Phased Financing

The District could use phased financing/pay-go options to align project financing with cash flows. For instance, it is likely that the EHI Redevelopment infrastructure improvements are required to be constructed prior to when any EHI parcels can be redeveloped for revenue producing uses. Funding of these EHI associated improvements could be phased prior to the funding of the HPD Headquarters, allowing the District's annual debt payment to remain sustainable and allow for additional flexibility once the District's current debt is paid off in 2030.

Furthermore, a phased financing approach would allow for design of and entitlement of the new HPD Headquarters while not incurring debt service payments for HPD Headquarters construction in the early years.

By using creative funding strategies, the District can strategize methods that allow for HPD Headquarters and EHI Redevelopment infrastructure improvements to be funded well within recommended District debt levels.

Conclusion

The redevelopment of the HPD Headquarters remains a top priority. With the Board's support, staff will take the next steps to initiate the RFQ process to identify professionals who are best qualified to undertake this project utilizing the PDB project delivery method in accordance with SB706.

Staff will also continue the process of assessing long-term solutions available for the Maritime Offices through the use of the \$5 million grant, while also planning for interim solutions for Maritime staff.

As part of these efforts, staff will evaluate potential solutions and explore funding strategies that balance the District's debt capacity with creative funding options, including grants, Public-Private Partnerships, and repurposing unused land.

Through careful financial planning and collaborative efforts, District staff believes this approach will help meet both immediate and long-term facility needs in a fiscally responsible manner. Staff plans to return to the Board with additional updates and requests for funding as these efforts progress.

General Counsel's Comments:

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

Environmental Review:

The presentation and update on District office buildings, discussion of next steps and staff's plan to issue an RFQ, does not constitute an approval of a project under the definition set forth in CEQA Guidelines Sections 15352 and 15378 because there is not a commitment to a definite course of action and no direct or indirect changes to the physical environment would occur. CEQA requires that the District adequately assess the environmental impacts of projects and reasonably foreseeable activities that may result from projects prior to the approval of the same. Any project developed as a result of the presentation and discussion requiring the District or the Board's discretionary approval resulting in a physical change to the environment would be analyzed in accordance with CEQA prior to such approval. CEQA review may result in the District, in its sole and absolute discretion, requiring implementation of mitigation measures, adopting an alternative, including without limitation, a "no project alternative" or adopting a Statement of Overriding Consideration, if required. The exercise of this discretion is in no way limited by this presentation and discussion. Therefore, no CEQA review is required at this time.

The presentation and discussion of next steps and staff's plan to issue an RFQ complies with Section 35 of the Port Act which allows for the Board to do acts necessary and convenient for the exercise of its powers. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the presentation and discussion are consistent with the Public Trust Doctrine.

This presentation and discussion of next steps and staff's plan to issue an RFQ 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 (CDP) Regulations because there will not be, without limitation, a physical change, change in use or increase the intensity of uses. Therefore, issuance of a CDP or exclusion is not required at this time. However, development within the District requires processing under the District's CDP Regulations. Future development would remain subject to its own

independent review pursuant to the District's certified CDP Regulations, Port Master Plan (PMP), and Chapter 3, as applicable, and Chapter 8 of the Coastal Act. The exercise of the District's discretion under the District's CDP Regulations is in no way limited by this presentation and discussion.

Diversity, Equity, and Inclusion:

This agenda sheet has no direct impact on District workforce or contract reporting at this time.

PREPARED BY:

Jesus Puebla
Capital Project Manager, Engineering-Construction

Christian de Manielle
Department Manager, Real Estate