



# Headquarters Facility Update



**Board of Directors - July 12, 2023**



## Today's Information Item Outline

- Background information on the SamTrans Headquarters Facility (HQ) Project
- Policy and financial considerations
- Potential Board action for consideration at a future meeting

## History of HQ Project

- **March 2019:** HQ facility was discussed at the Board workshop
  - *Functional obsolescence, high operating costs, and deferred maintenance*
- **September 2020:** JLL selected to assist with HQ replacement assessment and possible project implementation
- **August 31, 2021:** HQ Ad-Hoc Committee reviewed development scenarios, including maximum rebuild on-site
- **May 27, 2022:** Board reviews public-private partnership (PPP) scenarios and risk allocation

## **HQ Ad-Hoc Committee**

### **March 7, 2023 Meeting**

- Staff presented concept of acquiring an office building in San Mateo County is worth considering due to changing real estate conditions.
- Ad-Hoc Committee was receptive to this concept and requested staff develop more detailed financial and market information.

### **May 5, 2023 Meeting**

- Upon further review and analysis, staff presented the following:
  - Anticipated future costs of remaining in the existing HQ building
  - Current and future space needs of the agencies
  - Conceptual off-site office space options in San Mateo County
  - Financing options for the HQ

At the May 5, 2023 meeting the HQ Ad-Hoc Committee directed staff to bring proposed next steps forward to the full Board.

## Policy and Financial Considerations

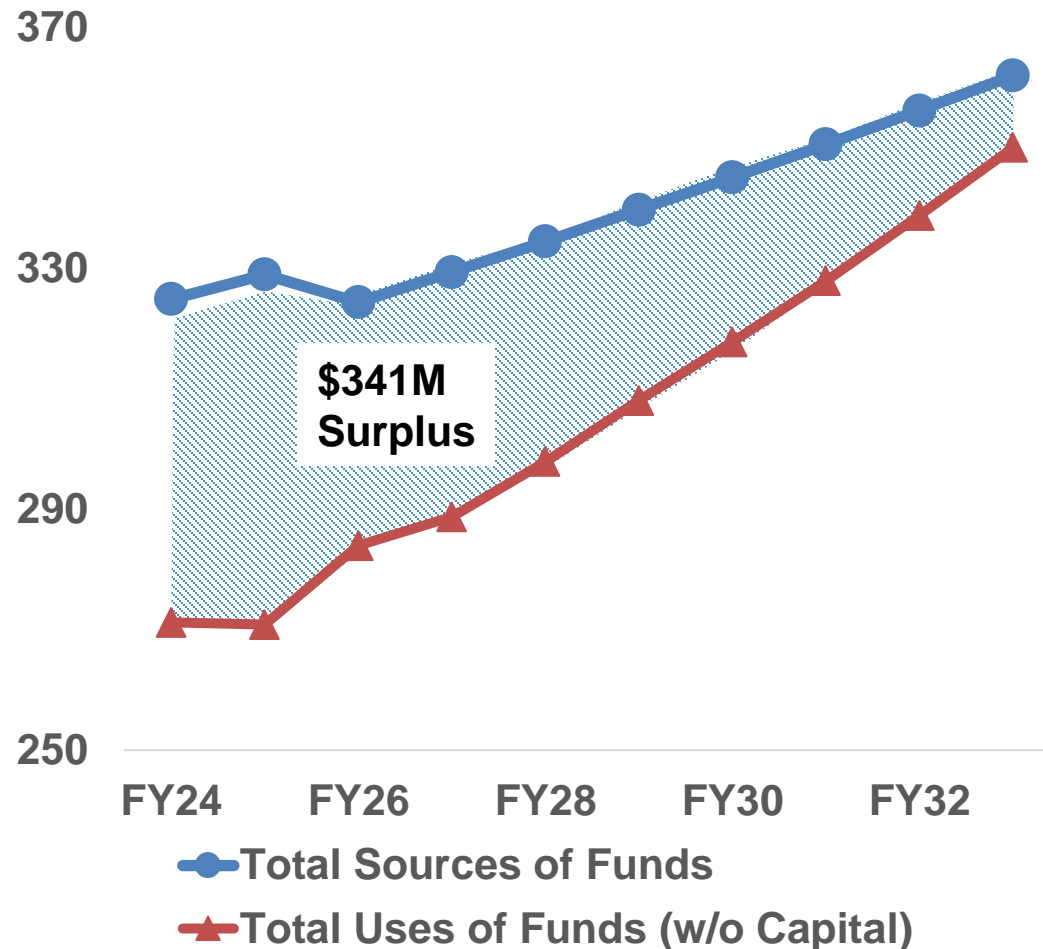
**March 2023**: Board reviewed at the Financial Workshop SamTrans' long-term financial outlook, including significant future capital funding needs, innovative clean transit (ICT) implementation, state of good repair needs, etc.

The District will be embarking on preparing a new District Strategic Plan, and the Plan will include a Capital Improvement Program (CIP):

- Thorough assessment of the long-term future capital needs of the agency
- How needs align with anticipated revenues over a multi-year time horizon
- The CIP is an update to the March 2023 Financial Workshop initial assessment
- Development of the District Strategic Plan will be reviewed with the Board over the course of mid-2023 – mid 2024

## 10-Year Base Projections without Capital (in \$ millions)

- Without including future capital projections, 10-year cumulative surplus is \$341M
- Expenditure growth outpaces revenue growth
- This is not a complete picture without including significant capital costs**

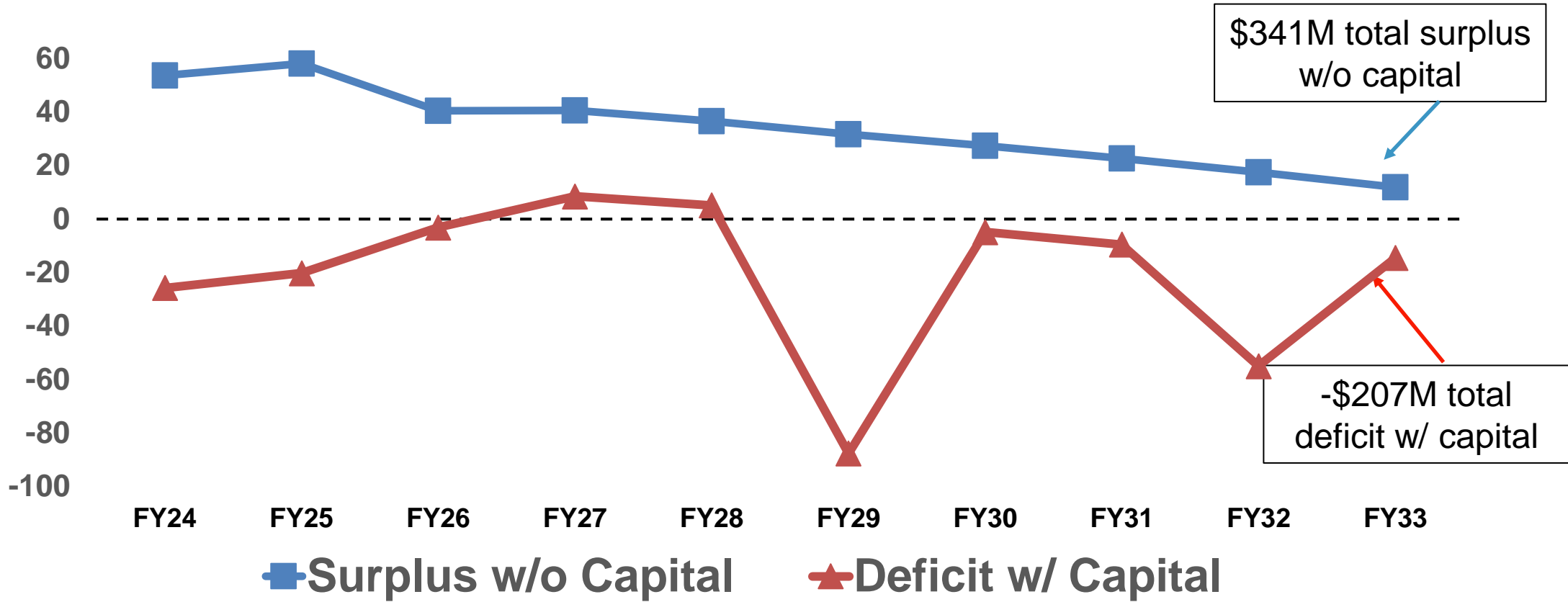


## District Funded Capital Projections (in \$ millions)

	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	Total
Vehicles	\$41	\$13	\$13	\$0	\$0	\$21	\$0	\$0	\$46	\$0	\$135
N Base FCEB Infrastructure	20	11	3	2	0	0	0	0	0	0	36
S Base BEB Infrastructure	3	11	2	4	5	71	6	6	0	0	108
Infrastructure, Technology, Maintenance, Other Projects	16	43	25	25	25	25	25	25	25	25	259
<b>Total</b>	<b>\$79</b>	<b>\$78</b>	<b>\$44</b>	<b>\$31</b>	<b>\$30</b>	<b>\$118</b>	<b>\$31</b>	<b>\$31</b>	<b>\$71</b>	<b>\$25</b>	<b>\$538</b>

- Costs are shown in year of expenditure dollars
- Cost of Vehicles - assume 30% of the cost is paid by sales tax
- Starting FY26, \$25M/year assumed for ongoing regular maintenance and special projects

## Surplus/Deficits Projections (in \$ millions)



- Without additional outside funding, a cumulative **-\$207M** deficit is projected

\*Deficits include \$538M of capital cost +\$10M for additional O&M and energy



## Option 1 – “No Build” Continue to Occupy Current Building

Current building not up to modern standards and will require significant investment in upcoming years.

- **Annual operating costs:** Estimated annual operating costs in the current building are approximately *\$500,000 greater than a newer building*. Difference may grow to *~\$2 million by 2027*, depending on projected annual cost escalations.
- **Future anticipated capital costs:** Architecture and engineering firms (Group4 and Bureau veritas) assessed building systems conditions and recommended capital improvement costs to address major systems in the building. The firms’ estimated \$49 million in costs over the next 10 years and another \$24 million in years 11 to 20.

In light of the building’s current configuration, this investment would have a limited impact on enhancing the efficiency of the district’s workspace.

## Option 2 – Rebuild a New Building on Current Site

Replacement of the HQ was previously expected to be accomplished through a Public Private Partnership (P3). The reduced demand for office space makes the P3 process currently infeasible. We would likely go for a traditional ***Design-Bid-Build*** process:

- Finalizing builder solicitation process and documents
- Implementing community engagement/entitlement plan
- Leasing temporary space and moving employees out of HQ
- Demolishing the existing building (completely or to the concrete core and shell)
- Constructing a new HQ building
- Moving employees back into the new HQ building

This option is estimated to be complete no earlier than 2028.

## Option 3 – Acquire a New Building

Changed local office market makes this scenario more attractive. This includes the following parameters, which have been vetted with consultants and staff:

- **Cost:** Total capital outlay not to exceed \$136 million. Costs include acquisition, tenant improvements, moving, project management, and all other expenses.
- **Location:** In San Mateo County and less than ½ - to ¾-mile walk to BART and/or Caltrain
- **Size:** SamTrans, TA, and JPB spaces needs range from 95-109,000 square feet

If the Board approves this option, then:

- **Offer:** All offers would be reviewed by the HQ Ad-Hoc committee prior to the submission to the owner.
- **Purchase:** Execution of any purchase agreement would be contingent upon the completion of due diligence and formal Board approval.

## HQ Building Option Costs (\$M)

OPTIONS	ESTIMATED CAPITAL COST	TOTAL PROJECT COST (WITH FINANCING)	SOURCE
1. CONTINUE TO OCCUPY CURRENT BUILDING	73.17	121.97	GROUP4 / BUREAU VERITAS REPORTS
2A. REBUILD A NEW BUILDING ON CURRENT SITE	150.0	263.47	JLL ESTIMATE, APRIL 2023
2B. MODERNIZE BUILDING ON CURRENT SITE	130.0	226.63	
3. ACQUIRE A NEW BUILDING	136.0	237.68	JLL ESTIMATE, APRIL 2023

(\* ) ALL FINANCING OPTIONS ASSUME A 4.5% FIXED INTEREST RATE, A 30-YEAR TERM, AND A \$15.0 MILLION DOLLAR DOWN PAYMENT

## Other Scenarios Also Considered

Staff and JLL studied other potential scenarios for the building that were rejected as infeasible and have not been carried forward as recommended options

- **Build on Vacant Property Near Transit:** JLL and staff believe it is extremely unlikely that vacant land proximate to a Caltrain and/or BART station would become available soon. Construction costs would also make this option significantly more expensive than the other options.
- **Leasing Options:** This option is considered less desirable than other options in light of the marginal potential initial cost savings and medium- to long-term cost risk.

## Staff Capacity to Execute Project

Ad-Hoc Committee discussed the issue of staff resources to carry out the project. Staff proposes the following to secure necessary resources:

- **Real Estate Broker**: A broker could be secured by early August 2023.
- **Financing**: Staff is actively working with the District's Financial Advisor on financing scenarios.
- **Tenant Improvement Planning**: JLL's current contract could provide support to design and construct tenant improvements.
- **Employee Relocation Support**: Staff would identify consultant resources to assist with move(s).

## Next Steps

Board input on the three options at today's meeting is important.

Depending on that input, staff is prepared to bring an action item recommending an option to the Board on August 2, 2023.

# Questions / Discussion / Board Input