




MEMORANDUM

October 4, 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: Informational presentation and possible action to request approval of (1) a Supplemental Appropriation of \$20.0 million to fund the stabilization and possible sale of the dry docks No. 2 and Eureka and (2) the Advertisement of a Request for Qualifications for As-Needed Dry Dock Repair, Monitoring, and Demolition Services.

DIRECTOR'S RECOMMENDATION: Approve the Attached Resolution No. 24-51

EXECUTIVE SUMMARY

A shipyard operated at Pier 68/70 for nearly 150 years until 2016 when BAE Systems San Francisco Ship Repair, Inc. ("BAE") sold their right to operate the yard to Puglia Engineering, Inc ("Puglia"). Shortly after the acquisition closed, Puglia sued BAE Systems, alleging that BAE Systems had defrauded Puglia by, among other things, concealing information about the condition of the dry docks and the need for dredging at the Shipyard. The Port received a settlement of \$4.9 million from BAE to restore operations and improve conditions at the shipyard.

In August of 2017 and again in April of 2018, Port staff issued solicitations for a shipyard operator but neither effort resulted in the reactivation of the shipyard. Given these results and the underlying economics of ship repair, the Port has no expectation of reopening the shipyard. Nonetheless, some shipyard equipment remains in place but is

degrading rapidly without reinvestment and regular use. Dry Dock No. 2 and Dry Dock Eureka, both of which are moored at the Pier 68 Shipyard, are of particular concern and present a substantial liability to the Port due to their potential to sink, severe state of disrepair, and massive size (see Condition of the Dry Docks Section below). The cost of environmental remediation and demolition of a sunken dry dock is not known, but Port staff approximates the cost at three to five times greater than the demolition of a floating dry dock.

Port staff has been pursuing the sale of the dry docks pursuant to two Requests for Offers (“RFO”) issued in June of 2023 and February of 2024. Discussions with Desan Shipyard, the sole respondent, are ongoing and staff is optimistic a reasonable agreement is possible. However, due to the ongoing degradation of the dry docks and unpredictable risk of sinking, time is of the essence and staff recommends making immediate targeted investments to stabilize the dry dock to partially mitigate sinking risk while simultaneously pursuing the sale or demolition of the dry dock.

To that end, staff requests approval of:

- A supplemental appropriation of \$20 million to stabilize, sell, demolish, or otherwise dispose of the dry docks, and
- The advertisement of a contract for as-needed dry dock repair, monitoring, and demolition services (staff will seek future Commission approval to award such contracts in accordance with Port policy).

STRATEGIC OBJECTIVE

The stabilization and ultimate sale or demolition of Dry Dock #2 and Eureka Dry Dock will support two goals under the Port’s Strategic Plan.

Equity:

The proposed efforts represent a major step towards removing blight (abandoned equipment) in the Southern Waterfront.

Evolution:

By enabling Port staff to respond to changing industrial conditions (less of a need for major shipyards in the US) and return the Pier 68 shipyard complex to productive use.

Sustainability:

Stabilizing and ultimately removing the dry docks fulfills our role as an environmental steward of the waterfront and protects the Bay.

CONDITION OF THE DRY DOCKS

Dry Dock #2:

Dry Dock #2 is a 900-foot single-section steel floating dry dock constructed by the Bethlehem Steel Corporation in 1970. It is a rigid unit-type dock with continuous pontoon and wing walls with 40 ballast compartments (20 per side).

A June 2024 visual inspection and report by Heger Dry Dock, Inc. confirmed the critical state of degradation, identifying scores of potential water intrusion points and severe corrosion (see Attachment 1). Major concerns from the report include:

- The side shell of the dock is extremely corroded with extensive holes or torn plating along the length of the dock. Along the east side of the dock, these side shell holes are large, numerous, and near the light draft waterline (the waterline when the dry dock is empty).
- In the dock's current condition, even a minor increase in the dock's light draft waterline will result in a condition that will increasingly submerge large holed-through areas of the dock's hull ultimately leading to the uncontrollable flooding of most (if not all) ballast tanks, thus causing an unacceptably large listing and/or trimming condition and potentially sinking the dock.
- Dock operators must routinely combat leakage into tanks to maintain the dock's current draft as some tanks were noted to have compromised flood valves, discharge piping, or holes in the submerged portions of the hull. In some tanks, the dewatering pumps have failed, and operators are unable to pump these tanks out if flooding does occur.
- The longstanding deterioration of protective coatings on the outboard shell and exposure of this area to saltwater spray is accelerating the rate of hull deterioration. From external visual inspections, it appears new tears are in the process of developing on both sides of the dock near the waterline. If immediate action is not taken, tears will continue to develop and enlarge in areas near the waterline and only further increase the risk of water influx into the associated tanks.

Eureka:

The 528-foot dry dock "Eureka" was built by Pollock-Stockton Shipbuilding in Stockton, California. The dock was completed in July of 1945. The dock is a Frederick Harris design three-piece welded steel sectional dock capable of self-docking. While the Eureka is in better condition than Dry Dock #2 and there is no short-term concern of it sinking, it is also in a state of disrepair and should be sold or disposed of prior to becoming a greater sinking risk.

POTENTIAL COSTS AND RISKS

As described above, these dry docks present immediate environmental and financial risks to the Port. The Port has engaged expert consultants to develop a scope and estimated costs for both interim stabilization repairs and full demolition. With information available from previous studies and projects, Port staff currently approximates that:

- Interim stabilization work, including a draft monitoring system and doubler plate repairs at Dry Dock #2, could cost on the order of **\$5 million**; and

- Full demolition of both dry docks could cost on the order of **\$50 million**, assuming that both docks remain floating.

Port staff will provide consultant estimated costs to the Port Commission when it returns to request approval to award contract(s) for dry dock repair, demolition, and/or related as-needed services.

POTENTIAL SALE OF THE DRY DOCKS

The Port issued two (2) Request for Offers. The first was published in June 2023 and the sole respondent was Desan Shipyards however negotiations were not successful due to significant issues concerning Port requirements. The Port issued a second RFO in February 2024 based on new requirements however there were no respondents to the second RFO. ¹ Desan Shipyards continued to show interest in purchasing both dry docks and provided a more detailed operations plan. Subsequent conversations are promising, however, due to the cost to stabilize and transport the dry docks, Desan has requested a substantial Port contribution towards transaction costs to make the acquisition economically feasible for Desan.

Many open issues must be addressed to sell the dry docks, including:

- Any financial contribution from the Port,
- Permitting and environmental protections,
- Liability and indemnity during the transfer, and
- Availability of a single vessel in the world large enough to carry Dry Dock #2.

Note that any sale would be subject to future approval by the Port Commission (and potentially the Board of Supervisors and Mayor).

SUPPLEMENTAL APPROPRIATION

The proposed \$20 million supplemental appropriation would fund a new capital project to stabilize, sell, and/or demolish the dry dock(s). To fund this appropriation, the Port would (a) withdraw \$18.5 million from its fund balance, reducing the amount on deposit from \$198.8 million (as of June 30, 2024) to \$180.3 million, and (b) appropriate \$1.5 million from the BAE settlement received in 2017.²

Fund balance levels are subject to Port Commission policy set under Resolution 22-58 which requires that fund balance be greater or equal to six months of operating expenses, or \$62.5 million under the FY24-25 budget. The proposed supplemental would reduce the fund balance to approximately 18 months of operating expenses.

¹ Request for Offers #2, advertised in February 2024, was for the sale of Dry Dock #2 and received no offers. However, Desan reached out to indicate they were interested in purchases both Dry Dock #2 and Eureka and not Dry Dock 2 separately.

² Of the original \$4.9m settlement, \$2,538,659 remains. Appropriation of \$1.5m would reduce the balance to \$1,038,659.

The proposed \$20 million is estimated to be sufficient to immediately stabilize the dry docks at an approximate cost of \$5 million (subject to refinement when consultant estimates become available), and potentially subsidize the sale of the dry dock(s). Any sale terms, including any subsidy or contribution of Port funds, would be subject to future approval by the Port Commission.

If the sale is not feasible and the Port must pursue full demolition, staff will return to the Commission to request any additional funding needed and additional contract authority for full demolition services.

INTENT TO SOLICIT PROPOSALS

In addition to creating a funding source to address the dry docks, Port staff intends to advertise a Request for Qualifications for as-needed dry dock repair, monitoring, and demolition services. Services under these contracts are intended to provide the interim or emergency repairs to the dry docks needed to mitigate sinking risk and or prepare the dry dock(s) for sale/transport. Contracts are anticipated to include the following terms:

Number of Contracts:	Up to 5
Not To Exceed Amount:	Up to \$20.0 million (cumulative)
Term:	Up to 5 years

Contracts will be awarded based on qualifications and cost, to the extent allowable by law. The Port will work with the Contract Monitoring Division to maximize Local Business Enterprise (“LBE”) participation, including applying the bid discount and subcontracting opportunities, as applicable.

Note award of such as-needed contracts exceeding \$1 million would be subject to future approval by the Port Commission.

NEXT STEPS

	Competitive Solicitation	Supplemental Appropriation
November	Issue RFQ	Introduce at Board of Supervisors
December	Evaluate Responses	Budget and Finance Committee Review
January	Return to Port Commission for Permission to Award Contract(s)	Final Board and Mayoral Approval
February	Award Contracts Begin Work	

RECOMMENDATION

Staff recommends approval of this \$20 million supplemental appropriation and the advertisement for a Request for Qualifications for As-Needed Dry Dock repair, monitoring, and demolition services.

Prepared by:

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**PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO**

RESOLUTION NO. 24-51

- WHEREAS, The shipyard at Pier 68 has been non-operational since 2016 when BAE Systems San Francisco Ship Repair, Inc. sold their rights to operate the yard and paid the Port a settlement of \$4.9 million; and
- WHEREAS, The shipyard includes two dry docks (Dry Dock #2 and the Eureka) which are not certified for operations and have significant deferred maintenance, and the Port has begun discussing potential terms to sell the dry docks to Desan Shipyards after two unsuccessful competitive solicitations as further detailed in the Memorandum to which the Resolution is attached; and
- WHEREAS, While discussions continued, a Port consultant performed an inspection of Dry Dock #2 and found significant corrosion and deterioration that indicates a much higher risk of sinking than previously known; and
- WHEREAS, Port staff now requests a supplemental appropriation of \$20.0 million from the fund balance to create a capital project to minimize the sinking risk of the dry docks and to prepare them for possible sale; and
- WHEREAS, Port staff seeks authorization to issue a request for qualifications for one or more as-needed dry dock repair, monitoring, and demolition contracts in order to stabilize the dry docks and prepare them for possible sale or other disposition; now, therefore be it
- RESOLVED, That the Port Commission hereby authorizes the appropriation of \$18.5 million from the fund balance to the Dry Dock Capital Project; and be it further
- RESOLVED, That the Port Commission hereby authorizes the appropriation of \$1.5 million from BAE settlement; and be it further
- RESOLVED, That the Port Commission hereby authorizes Port staff to issue a request for qualifications (“RFQ”) for as-needed dry dock repair, monitoring, and demolition services; and be it further
- RESOLVED, That the Port Commission authorizes Port staff to take further action to revise the RFQ and appropriation as necessary to achieve the purposes described in this Resolution 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 Port, and are necessary and advisable effectuate the intent of this Resolution.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of October 8, 2024.

Secretary