

**STAFF REPORT FOR CALENDAR ITEM NO.: 14
FOR THE MEETING OF: April 11, 2024**

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Presentation of the budget outlook for TJPA's Fiscal Year 2024-25 (FY24-25) operating, debt service, and capital budgets.

SUMMARY:

In accordance with the TJPA's Policy No. 003: Budget Policy, TJPA will adopt an operating budget, a debt service budget, and a capital budget for the upcoming fiscal year. The operating budget covers the operations at the transit center. The capital budget covers Caltrain Downtown Extension (DTX), Tenant Improvements, the remaining Phase 1 transit center construction claims closeout work, and capital maintenance, repair, and replacement activities.

SCHEDULE:

Per the TJPA Budget Policy, this memo serves as a briefing to the TJPA Board of Directors concerning the budget outlook for the upcoming FY24-25 period. The planned budget presentation schedule is as follows:

April: Presentation of budget outlook (this report)

May: Presentation of draft FY24-25 budgets

June: Adoption of FY24-25 budgets

The May presentation of the proposed annual budgets serves as a public hearing, satisfying the requirements of the TJPA Budget Policy. In June, the TJPA Board of Directors is scheduled to adopt the FY24-25 annual operating, debt service, and capital budgets.

The TJPA Budget Policy also allows for the submission of the budget outlook and the draft budget to the Finance Committee of the TJPA Board, should such a committee be in place. For the past several budget years and continuing for this year, staff is presenting the budget outlook and draft budget to the TJPA Board as a whole in lieu of holding a separate meeting of a Finance Committee of the Board.

FISCAL YEAR BUDGET DISCUSSION:

In January, the TJPA Board approved the FY24-25 Preliminary Operating Projection in the amount of \$28,075,000 for transit center operations. This fiscal year's budget is oriented on the operations of the transit center, advancing Phase 2 (also known as The Portal), tenant improvements, wayfinding enhancements, and capital maintenance, repair, and replacement necessary to keep TJPA's assets in a state of good repair. As Phase 1 transit center construction activity has reduced to final construction claims closeout, it no longer plays a prominent role in the overall capital budgeting process.

FY24-25 Operating Revenues & Funding Sources

TJPA staff anticipates the transit center will receive funds through various intergovernmental revenues such as Regional Measures (RM) 2 and 3 bridge toll funds, special assessments from

The East Cut Community Benefit District, and contributions from AC Transit and SFMTA. The one-time Federal COVID relief funds have been fully expended. Additionally, the transit center will generate operating revenues from retail leases, sponsorship & events, naming rights, advertising, and licensing fees.

MTC has provided temporary supplemental bridge toll allocation to support operations prior to full activation of the transit center and to help mitigate the negative revenue impacts of the COVID-19 pandemic. With the continuation of this supplemental funding and the implementation of an additional dollar toll under RM 3, the contributions from the transit operators are expected to be slightly less than the FY23-24 budgeted amounts. Staff continue to seek means to increase other revenues and reduce costs to reduce the contributions from the transit operators.

Revenue estimates presented with the Preliminary Budget for FY24-25 are continuously revised as we work through the budget process and monitor market adjustments as well as federal and regional funding opportunities. TJPA expects that previously approved alternate rents for retail leases will continue through calendar year 2024, with some moving to full rents in calendar year 2025. Advertising and sponsorships revenues could see positive adjustments as traffic through the transit center is expected to increase. Finally, we will continue to work closely with federal, regional, and local partners to provide revenues for wayfinding enhancements.

FY24-25 Operating Expenses

The FY24-25 operating expense budget is derived from the administrative oversight of TJPA and full operations of the transit center. It includes expenses of salaries and benefits for TJPA staff, agency administrative expenses, and professional and specialized services.

Salaries and Benefits

The FY24-25 operating budget will include a share of salaries and benefits for most of TJPA positions. Both the total number of TJPA budgeted positions and the staff allocation between operating and capital budgets may be slightly modified. In addition to employee benefits, the benefits line item will include amounts for workers compensation premiums, CalPERS liability payments, and an annual contribution to the OPEB trust. The remaining proportions are allocated to the Phase 2 (DTX / The Portal) budget.

Administrative Expenses

This category includes the expenditures associated with operating TJPA on a day-to-day basis, such as insurance premiums; communications; office expense, office supplies, equipment and furniture; professional development; meeting expenses; and human resources/payroll administration and IT costs. As with the salaries and benefits budget, these expenses will be apportioned between operating and capital budgets.

Professional and Specialized Services

TJPA's operating budget will include line items for security services from Allied Universal and San Francisco Police Department, and for the asset manager, LPC, who will conduct repair and upkeep. The expenses for operations are encompassed in a number of contracts, those contracts being transit center asset manager staffing and administration, maintenance, janitorial, utilities,

rooftop park maintenance and programming, property management fees, wayfinding and digital content management, security, cybersecurity / information technology (IT), and insurance.

Reserves

Reserves are governed by the Board-approved Reserve Policy, which establishes four types of reserves: Emergency Reserve, Fiscal Reserve, Capital Replacement Reserve, and an O&M Reserve. The Emergency Reserve is included in the operating budget for FY24-25. The Emergency Reserve is set at \$500,000 by policy and would be used in extraordinary events such as a natural disaster. The O&M Reserve, also included in the operating budget, is equal to 25 percent of annual budgeted operating expenses. Staff anticipates that the O&M Reserve will be fully funded in FY24-25. The Fiscal Reserve is a part of the capital budget and covers both Phase 1 and Phase 2 of the Transbay Program and Tenant Improvements. The Capital Replacement Reserve is a reserve to address the lifecycle needs of the transit center. This reserve is approximately \$28 million funded from the 2020 bond sale and interest earnings.

FY24-25 Debt Service

The debt service is dictated by the bond repayment schedule. The FY24-25 debt service will be approximately \$15.5 million for principal and interest payments due in October and April paid with net tax increment revenues. The subordinate turbo bonds were fully repaid in October 2023. The net tax increment revenue is projected to be approximately \$27 million. Any amounts of net tax increment received in excess of the required debt service will be provided to TJPA. The net tax increment proceeds are pledged to the tax allocation bonds and these funds cannot be used for any operational costs.

FY24-25 Capital Funding Sources

Committed funding sources consist of existing revenues that have already been allocated or are otherwise available. These include funds CFD Bond proceeds and reimbursements, Prop K allocations from San Francisco County Transportation Authority (SFCTA), RM 3 bridge tolls allocated by MTC, Transit and Intercity Rail Capital Program (TIRCP) funds allocated by the State, and interest income for Phase 2. TJPA will utilize the remaining balances of various encumbered funds, insurance reimbursements, settlement receipts, and other miscellaneous sources for the completion of Phase 1 of the Transbay Program. TJPA 2020 Bond proceeds will provide funding for tenant improvements.

The Phase 2 capital budget is a plan which depends on the availability of external funding sources to complete the activities. Planned funding sources consist of funds which have not yet been received or drawn upon by TJPA. These may include future allocations of transportation sales tax grants by SFCTA, RM 3 funds allocated by MTC, and other discretionary funding opportunities.

Staff will continue to seek new funding for the Transbay Program as opportunities arise, including applying for new grants and capturing Federal and/or State infrastructure opportunities. In some cases, grantors require that funding applications be approved by the TJPA Board. Others do not have this requirement. As such, and as in all previous budget resolutions, the FY24-25 budget resolution will include language authorizing TJPA's Executive Director to apply for, accept, and expend grant funds for Board-approved expenditures that are outlined in the budget.

For the Transit Center Capital Improvement Program for lifecycle maintenance, AC Transit Capital Contributions and Capital Replacement Reserves will be utilized in accordance with the Lease and Use agreements to fund major replacements identified and approved in the Capital Improvement Plan.

Wayfinding enhancements in FY24-25 will be funded through \$1,000,000 from federal community project funds secured thanks to Speaker Emerita Nancy Pelosi.

FY24-25 Capital Expenditures

The FY24-25 capital budget is derived from the implementation schedule for Phase 1 and Phase 2 of the Transbay Program, Tenant Improvements and the newly added Capital Maintenance, Repair and Replacement plans, and includes four main expenditure categories:

- Salaries and benefits for TJPA staff
- Administrative expenses
- Professional and specialized services, incorporating a wide array of construction and consultant functions
- Right-of-way acquisition

Salaries and Benefits

TJPA's strategy has been to keep its in-house staffing level small, and to use its staff to manage contractors who undertake a variety of tasks on behalf of TJPA. The FY24-25 budget will include proportionate shares of salaries and benefits for TJPA positions. In addition to employee benefits, the benefits line item will include proportionate amounts for workers compensation premiums, CalPERS liability payments, and an annual contribution to the OPEB trust. The capital budget will cover staff time for Phase 2 (DTX / The Portal).

Administrative Expenses

This category includes the expenditures associated with operating TJPA on a day-to-day basis, such as insurance premiums not attributable to operations; communications; office supplies, equipment and furniture; professional development; meeting expenses; and human resources/payroll administration. As with the salaries and benefits budget, these expenses will be apportioned between capital and operating.

Professional and Specialized Services

As noted above, rather than hire a large in-house staff during design and construction, TJPA utilizes contractors to provide services in support of the Transbay program. As a result, the largest category in the capital budget is professional and specialized services, which includes contracts required for, but not limited to, tasks such as Program Management/Construction Management (PMCM), Design Engineering, right of way-related professional services, legal counsel, audits, and other financial services.

Right of Way Acquisition

This category includes acquiring land parcels and easements necessary for the future construction of Phase 2 (DTX / The Portal), as well as the professional services necessary to

support the acquisition processes. Securing these land parcels and easements in a timely manner is an essential element of ensuring that construction stays on schedule and budget.

Wayfinding

Wayfinding enhancements continue to be a focus for FY24-25. As a result of the Wayfinding Gap Analysis in 2019, TJPA has a base level plan and has begun implementing enhancements. TJPA staff has coordinated with SFMTA and MTC staff throughout the design processes. Wayfinding enhancements in FY24-25 will be funded through \$1,000,000 from federal community project funds secured thanks to Speaker Emerita Nancy Pelosi.

Tenant Improvements

The tenant improvement budget will include line items for base building/tenant improvements that are necessary for the build-out of retail spaces in the transit center. In March 2020, the TJPA Board approved a total multi-year budget of \$50.5 million for tenant improvements. Approximately \$4 million will remain unexpended as of the start of FY24-25.

Capital Maintenance, Repair, and Replacement

Activities necessary to keep TJPA's assets in a state of good repair are included in the Capital Maintenance, Repair, and Replacement budget. Expenditures will primarily be related to Information Technology (IT), security systems, and the transit center building and park.

Capital Improvement Plan (CIP)

Under the TJPA's CIP Policy, staff will prepare a plan to maintain TJPA's assets in a state of good repair, identify projects that would enhance TJPA's assets, and allocate scarce resources based on the criteria established under the CIP Policy.

RECOMMENDATION: Information only.