

**STAFF REPORT FOR CALENDAR ITEM NO.: 12
FOR THE MEETING OF: January 10, 2019**

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Approval of Fiscal Year 2019-20 Preliminary Operating Projection in the amount of \$29,832,213.

SUMMARY:

The leases with transit operators require that the TJPA Board approve an operating budget projection for the transit center by January for the upcoming fiscal year, in order to assist the transit operators in developing their own annual budgets. The proposed Preliminary Operating Projection for FY 2019-20 in the amount of \$29,832,213, which is an initial estimate at this time, is discussed below in further detail. A narrative budget outlook for FY 2019-20 will be presented to the Board in April 2019, the Draft Operating and Capital Budgets for discussion in May, and the Final Operating and Capital Budgets for adoption in June.

EXPLANATION:

The Lease and Use Agreement between the TJPA, AC Transit and the San Francisco Municipal Transportation Authority (SFMTA) requires the TJPA Board to adopt a preliminary operating budget projection by January 31. At this time, staff recommends that the proposed Preliminary Operating Projection for FY 2019-20 remain unchanged from the projection presented to the Board in June 2018 and shared with the Primary Tenants in September 2018. Several cost and revenue categories are anticipated to change from the preliminary projection, substantially due to changes in the leasing schedule and the temporary closure of the Transit Center, as discussed below.

TJPA staff will meet with the Primary Tenants on January 18, 2019 to discuss the current projections, and a revised Preliminary Operating Projection will be presented to the Board in February.

FY 2019-20 Operating Expenses:

As presented to the Primary Tenants in September, the preliminary projected operating expenses for FY 2019-20 total just over \$29.8 million, broken down as follows:

Operating Expenses	Amount
O&M (Maintenance, Janitorial, Utilities)	\$7,975,500
Asset Manager/Park Administration	4,639,100
Leasing Commissions	331,600
Security	7,868,500
IT / Cybersecurity	444,000
TJPA Admin & Insurance	4,754,900
Reserves & Contingency	3,818,600
Total Operating Expenses	\$29,832,200

Several expense items are likely to increase from these preliminary projections, as discussed below:

Leasing Commissions: The TJPA's Asset Manager, Lincoln Properties (LPC), has recently updated the projected leasing schedule for the transit center. Using actual and projected lease signing dates and move-in dates, LPC has reforecast the timing of the leasing commission payments. The reforecast indicates that while the total value of the leasing commissions has increased slightly (due to longer lease terms in some instances), the timing of the payments has shifted out in time. Therefore, more of the leasing commissions will be payable in FY 2019-20 than previously projected. Conversely, the amounts due during FY 2018-19 are less than budgeted for the current fiscal year.

Transit Center Operations and Maintenance: The transit center will be diligently serviced and attentively cleaned, with an emphasis on systematic preventive maintenance and programmed janitorial and groundskeeping activities. LPC will conduct repair and upkeep at frequencies following typical industry best practices that, in the case of preventive maintenance, follow as closely to original equipment manufacturer recommendations as is practical. The goal of this performance-based facility management model is to achieve a required level of performance, reliability, and appearance while minimizing costs.

TJPA staff anticipates that savings may be attainable compared to the preliminary projection presented here. Discussions with LPC regarding the potential savings are underway. With the closure of the transit center, the TJPA currently has limited information about actual transit center variable operations costs from which to develop more refined estimates. As the budget development process continues into the Spring, TJPA staff anticipates further updating the estimates based on actuals after the transit center reopens.

Security: Security will include local law enforcement provided by the San Francisco Police Department and private security guards and ambassadors through a contract with Allied Universal. Staffing levels will continue to be sufficient to implement the safety and security concept of operations; deter, respond to, manage and recover from all security or safety events and incidents – natural or human-caused; and manage the Security Operations Center in the transit center. The security model assigns law enforcement primarily to high visibility roving patrols, community policing activities, and response to emergency situations. Standard security guard services and park ambassador activities would reside with the contract security service, Allied Universal.

IT: IT services include maintenance and management of the IT infrastructure at the transit center by the Asset Management team and cybersecurity under a consultant contract with TJPA. The original preliminary budget forecast included certain IT costs within the Asset Management line item. This report separates these costs into a new line item and combines them with IT costs related to cybersecurity. The cybersecurity contract was mistakenly omitted from the original preliminary budget forecast, which will result in an increase.

Insurance: Based on the FY 2018-19 actuals, costs for insurance are anticipated to increase from the preliminary projection presented here. The TJPA's insurance will continue to provide all-risk

and terrorism coverage for basic insurance against damage and loss of use resulting from most insurable events, with the exception of flood and earthquake.

FY 2019-20 Operating Revenues:

The FY 2019-20 operating budget includes revenues from RM-2 and RM-3 bridge toll funds, Community Benefits District assessments, neutral host DAS fees, sublease revenue, and transit center revenue including rents, events, and advertising, as summarized in the following table:

Revenues	Amount
Regional Measure 2	8,202,000
Regional Measure 3	1,625,600
CBD Park Payments	1,173,100
AC Transit Contribution	5,998,200
SFMTA Contribution	2,107,500
Transit Center Retail Revenue	5,036,600
Transit Center Sponsorship/Events	1,034,000
Transit Center Advertising / Miscellaneous	2,672,800
Neutral Host DAS Licensing Fees	125,000
Other Rents, Sublease	907,400
Emergency Fund Balance	500,000
O&M Reserve	450,000
Total Revenue	\$29,832,200

- TJPA receives an annual allocation of RM-2 bridge toll funds for operations. The allocation amount for FY 2019-20 is \$5,201,957 plus an additional \$3 million for a total of \$8.2 million.
- The FY 2019-20 budget forecast includes RM-3 funds, as the measure was passed by the voters in June 2018. Funds for the transit center are based on a percentage of the new toll funds collected. MTC estimates that \$1,625,000 would be available for the transit center in FY 2019-20. However, in response to pending lawsuits related to RM-3, MTC began the new toll collection on January 1, 2019, but is holding all receipts in an escrow account. These funds will not be released until the lawsuits are fully resolved. If the lawsuits are successful, TJPA would not receive RM-3 funds for the transit center operations.
- The East Cut Community Benefit District (CBD) was formed in 2015 as a special assessment district to fund specified services to improve quality of life in the neighborhood surrounding the transit center, including operation and maintenance of green spaces in the district. Under the CBD Management Plan, the CBD will provide up to 79.18% of the annual budget to operate and maintain the Rooftop Park, including the cost of park ambassadors. The preliminary projection presented here and to the Primary Tenants in September includes approximately \$1.2 million. Revised projections indicate that approximately \$1.5 million may be available in the upcoming year.
- Based on its updated leasing schedule, LPC will update the anticipated transit center retail revenue. The previous forecast included overly optimistic assumptions for occupancy dates. As such, it is anticipated that the projected retail revenue will decline from the preliminary budget projection presented here in that the timing of revenue will shift out in time. In addition, the temporary closure is expected to have further impacts on the timing of the revenue.

- Several operating revenue sources depend on a substantial “ramp-up” time to fully mature. Due to the temporary closure of the transit center, the ramp-up will begin upon the reopening. The previous revenue projections had assumed that almost a year of the ramp-up would have occurred by the start of FY 2019-20. LPC and its subconsultants, Biederman Redevelopment Ventures (BRV) and Pearl Media, are assessing the impact of the closure on park sponsorship and events revenue, advertising income, and other miscellaneous income including from pop-up retail and food trucks.
- The preliminary FY 2019-20 budget forecast includes \$125,000 in Neutral Host DAS revenues. In addition to the \$125,000 minimum annual guarantee, TJPA staff anticipates at least one additional carrier may sign during the year, which would bring additional operating revenue. The payment schedule with Boingo Wireless includes payments of \$500,000 within thirty days of the third and fourth carrier signings.
- TJPA will continue to collect rent from Greyhound and Amtrak. The projected rental income will be updated based on finalized leases and move-in dates.
- Upon moving into the transit center, the TJPA will be able to sublease its current office space. The estimated revenue projection will be updated following discussions with prospective subtenants, which are anticipated to occur in the next few months.

Any differential between operating costs and operating revenues is anticipated to be covered by the transit operators utilizing the facilities, per the lease agreements with each operator. In the FY 2018-19 operating budget, the Board authorized the use of much of TJPA’s operating reserves to reduce the contributions from transit operators in the current fiscal year. As a result, limited operating reserves will be available at the start of FY 2019-20.

Staff will consult with the transit center Primary Tenants (AC Transit and SFMTA) in the upcoming weeks regarding the latest details for the budget projections and their respective contributions for FY 2019-20. Based on the preliminary adjustments discussed above, TJPA staff anticipates that larger contributions would be needed from the Primary Tenants.

TJPA staff currently anticipates bringing a revised operating budget projection to the Board at its February meeting. Per the TJPA Budget Policy, a draft operating budget will be presented in May and a final budget in June, as noted above. A narrative budget outlook that includes discussion of capital and operating expenditures will be provided to the Board in April.

RECOMMENDATION:

Approve the Fiscal Year 2019-20 Preliminary Operating Projection in the amount of \$29,832,213.

ENCLOSURES:

1. Resolution
2. FY 2019-20 Preliminary Operating Projection

**TRANSBAY JOINT POWERS AUTHORITY
BOARD OF DIRECTORS**

Resolution No. _____

WHEREAS, The Transbay Joint Powers Authority (TJPA) is a joint powers agency responsible for the planning, design, construction, operation and management of the new Transbay Transit Center Program; and

WHEREAS, Pursuant to the Joint Powers Agreement creating the TJPA, dated April 4, 2001 (Agreement), the TJPA Board of Directors (TJPA Board) has the authority to adopt an annual or multi-year budget; and

WHEREAS, The TJPA Board is required to approve a preliminary operating budget for the transit center Primary Tenants Committee by end of January each year for the coming fiscal year; and

WHEREAS, The TJPA Board has reviewed and considered the FY 2019-20 Preliminary Operating Projection; and

WHEREAS, These projections will continue to be refined as operations in the new transit center continue; and

WHEREAS, A budget outlook for FY 2019-20 will be presented to the TJPA Board in April 2019, a draft operating budget for discussion in May, and a final operating budget for adoption in June; now, therefore, be it

RESOLVED, That the TJPA Board of Directors hereby approves the FY 2019-20 Preliminary Operating Projection for the Primary Tenants Committee, noting that the projection is preliminary in nature and will continue to be refined.

I hereby certify that the foregoing resolution was adopted by the Transbay Joint Powers Authority Board of Directors at its meeting of January 10, 2019.

Secretary, Transbay Joint Powers Authority

Transbay Joint Powers Authority
Preliminary Fiscal Year 2019-20 Operating Budget Projections

	FY 2019-20 Operating Projections	Anticipated Changes before Final Budget Adoption
OPERATING EXPENSES		
<i>Transit Center</i>		
Transit Center Maintenance	3,104,900	Potential savings
Transit Center Janitorial	2,645,000	Potential savings
Transit Center Utilities	2,225,600	Potential savings
Park Maintenance & Programming	683,600	
Park Management Fee & Administration	798,000	
Digital Content Management & Wayfinding Systems	751,600	Potential savings
Marketing & Leasing Commissions	331,600	Likely increase
Asset Management Fee & Administration	2,405,868	Potential savings
Security	7,868,500	Potential savings
IT / Cyber Security	444,000	Likely increase
Insurance	865,200	Likely increase
TJPA Staff & Administration	3,889,745	
Subtotal, Transit Center	26,013,613	
<i>Reserves</i>		
Emergency Reserve	500,000	
Operating Contingency	3,318,600	
O&M Reserve Contributions	-	
Subtotal, Reserves	3,818,600	
TOTAL OPERATING EXPENSES	\$ 29,832,213	
NON-OPERATING REVENUES		
Regional Measure 2	8,202,000	
Regional Measure 3	1,625,600	Potential reduction
Community Benefit District Park Payments	1,173,100	Likely increase
201 Mission Office Sublease	578,300	Potential increase
Subtotal, Non-Operating Revenue	11,579,000	
OPERATING REVENUES		
AC Transit (74%)	5,998,228	
SF Municipal Transportation Agency (26%)	2,107,485	
Subtotal, Other Regional Contributions	8,105,713	Likely increase
Transit Center Retail Revenue	5,036,600	Likely reduction
Transit Center Sponsorship / Events	1,034,000	Likely reduction
Transit Center Advertising & Miscellaneous Revenue	2,672,800	Likely reduction
Neutral Host DAS Licensing Fees	125,000	Likely increase
Naming Rights	-	
Temporary Terminal Rents	-	
Other Operator Rents	329,100	Likely increase
Subtotal, Operating Revenue	17,303,213	
OTHER SOURCES		
Use of Fund Balance	500,000	
Use of Operating & Maintenance Reserve	450,000	Potential increase
Subtotal, Other Sources	\$ 950,000	
TOTAL OPERATING SOURCES	\$ 29,832,213	

Note: Loan servicing fees and interest, and tax increment funds used to pay these costs, are not included