CRC Agenda Item No. 3

MINUTES

TRANSBAY TRANSIT CENTER PROGRAM
COST REVIEW COMMITTEE MEETING

Friday, November 17, 2017

1:30 p.m. to 3:30 p.m.

TJPA Office
201 Mission Street, Suite 2100
San Francisco, CA

COMMITTEE MEMBERS

Ben Rosenfield, City and County of San Francisco (CCSF) Controller (Chair)
Steve Heminger, Executive Director of the Metropolitan Transportation Commission (MTC)
Mark Zabaneh, Executive Director of the Transbay Joint Powers Authority (TJPA)

Secretary
Michelle Dea

ORDER OF BUSINESS

1. **Call to Order**

The meeting was called to order at 1:34pm.

2. **Roll Call**

Present: Ben Rosenfield, Mark Zabaneh, Steve Heminger

3. Action Item:
   Approving the Minutes of the August 31, 2017 Meeting

Public Comment: None.

Mr. Heminger motioned to approve the minutes, seconded by Mr. Zabaneh. None opposed. The minutes of the August 31, 2017 meeting were approved.

(Per concurrence from the Committee, items 4, 5, 6 and 7 were called together.)

4. Discussion Item:
   Status Updates from Planning Department and Office of Community Investment and Infrastructure (OCII) on Projects in the Redevelopment Area/Transit Center District

Shane Hart, Project Manager from OCII, presented the item.

Mr. Heminger requested a running total of the estimated Community Facilities District (CFD) bond proceed amounts in the handout for Item 4.

Chair Rosenfield asked Mr. Hart to work with Ms. Sesay on providing additional information in the handout, indicating how many properties it would take to repay the bridge loan at the $150 million level and at the $250 million level. Chair Rosenfield stated that based on his understanding, most of the construction developments needed to help repay the bridge loan are currently under construction.

5. Discussion Item:
   Facility Readiness Update

Martha Velez, TJPA Facility Manager, presented the item.

Mr. Heminger questioned if the transit center is opening in June 2018. Mr. Turchon, TJPA Senior Construction Manager, replied that the current plan is to open in March 2018. Mr. Heminger inquired about whether any retail will open when the transit center is activated in March. Ms. Velez stated that there will be vending machines, coffee carts, food carts and other "pop-ups" when the transit center opens. In addition, there will be planned activities at various parts of the transit center when the building is incrementally opened.

Mr. Heminger asked how much schedule slippage related to retail leasing is expected to occur. Ms. Velez responded that she did not know and that she would discuss why the schedule is stretching out further with the retail broker.

Public comment:
Jim Patrick stated that his business is adjacent to bus stops and cautioned staff against thinking of bus riders as a great market. Mr. Patrick stated that in his experience, bus riders typically want to go from point A to point B and are not shoppers.

6. Discussion Item:
   Program Budget and Construction Status Update (presentation)

Dennis Turchon, TJPA Senior Construction Manager, Ron Alameida, Director of Design and Construction of the Transit Center, and Martha Velez, TJPA Facility Manager, presented the item.

Mr. Heminger asked if Muni is operating next month and whether the public can access the transit center. Mr. Turchon stated that Muni operations will begin on the street level in the Bus Plaza, but the rest of the building is not accessible to the public.

Mr. Heminger inquired about the dates presented in the master schedule and asked if the transit center is being opened floor by floor. Mr. Alameida, replied that the schedule is a reflection of how the facility will be incrementally activated. Mr. Zabaneh added that Substantial Completion would be reached in March 2018 and Final Completion in June 2018. He stated that operations can begin in March and punch list work will be ongoing between March and June. Per Mr.

Zabaneh, operators should plan on starting in March, because the building will be ready at that time.

Mr. Heminger inquired about the percentage shared of operating charges between Muni and AC Transit. Mr. Zabaneh replied that AC Transit's share of the operating charges is approximately 75% and Muni's share is approximately 25%.

Mr. Heminger queried as to when the ribbon cutting will occur and when the Rooftop Park is will open to the public. Mr. Zabaneh stated that the ribbon cutting is in March 2018. Ms. Velez stated that the Rooftop Park will be open in late March to early April. Mr. Heminger inquired about the budget implications of spending additional funding to maintain the schedule. Mr. Alameida stated that the project staff has applied more pressure to the contractor and that there is a Construction Manager/General Contractor (CM/GC) contingency within the CM/GC's contract to address some issues. However, in order for the contractor to draw from the CM/GC contingency, the costs need to meet certain criteria.

Chair Rosenfield questioned whether the strategy to incrementally open the transit center would cost more or benefit the project operationally. Chair Rosenfield further asked what challenges the strategy creates financially and operationally. Mr. Alameida stated that there has not been an analysis in those terms and that he believes it is easier to open incrementally. However, Mr. Alameida stated that it is hard to say what the cost impact is.

There was a brief discussion regarding the issue of buses merging on to the Bay Bridge. Mr. Turchon stated that Caltrans' solution includes installation of a flashing beacon on Essex Street and striping modifications. He also stated that Caltrans, AC Transit and the TJPA agree on the solution and that AC Transit has hired Parsons to design the work. Chair Rosenfield questioned whether the TJPA was concerned about the schedule and budget implications. Mr. Turchon stated that placeholders have been budgeted for the flashing beacon and striping work. He also stated that there is a risk element because AC Transit has stated that the work needs to be completed prior to starting bus operations. Mr. Heminger stated that there may be issues with getting the plans stamped and obtaining indemnification from certain parties. Mr. Heminger asked representatives from AC Transit or Caltrans present at the meeting to provide a status. Ms. Morris from AC Transit confirmed that Parsons has been brought onboard and that the work has been designed. Mr. Lee from Caltrans stated that obtaining approval for the concept is a milestone. Hr. Heminger asked if Parsons is expected to be indemnified. Ms. Morris stated that Parsons is not present to respond to the question and that the indemnification issue is definitely a concern. She also noted that although the merge point has been unchanged, there is less visibility.

Public comment

Roland Lebrun asked Mr. Turchon to confirm whether the bollards are fixed or retractable. Mr. Turchon stated there are both types of bollards, but the majority of them are fixed. Mr. Lebrun queried as to who the manufacturer was for the retractable bollards. Mr. Turchon replied that he did not know and can follow up on Mr. Lebrun's question. Mr. Lebrun asked about the materials for the column covers. Mr. Alameida stated that the column covers are made of steel. Mr. Lebrun asked if exposure to corrosion is an issue for the column covers. Mr. Alameida stated that the column covers are cosmetic and that the issues with them are related to fit and finish standards.

7. Discussion Item/Possible Action:
   Funding Sources for Tenant Improvements

Mr. Rosenfield asked whether a decision had to be made for Agenda Item 7 today and when the commitment was needed.

Sara DeBord, TJPA Chief Financial Officer, presented the item. Ms. DeBord stated that in the last TJPA Board meeting, a resolution was passed for the TJPA to request permission from the CRC to approve using City Financing for base building and tenant improvement (TI) necessary to open retail spaces and activate the transit center. Ms. DeBord stated that the order of magnitude is $35 million for the direct cost of base building improvements and an estimated 50% allowance for tenant improvements. There were five options presented to the TJPA Board of different funding scenarios for the TI work. Ms. DeBord stated that Options 3 to 5 would not allow the TJPA to meet merchandising plan objectives and that the TJPA Board's preference was Option 1—to use $35 million in City Financing for the base building and TI allowance. Option 2 was to use $25 million in City Financing and $10 million from the Naming Rights Agreement payments.

Ms. DeBord stated that under Option 1, approximately $35.5 million would be committed in City Financing, bringing the total commitment to just over $180 million. Currently, $141 million in City Financing has been committed, and another $7 million is anticipated to be committed. Per Ms. DeBord, commitments have been reduced since the last CRC Meeting, because of the successful CFD bond sale several weeks prior.

Ms. DeBord stated that Option 1 is also the best option for bus operators because it allows the TJPA to use Naming Rights payments for Operations and Maintenance (O&M) costs for the first couple of years. Under Option 1, operator contributions may not start until fiscal year 2020 (FY20) and Regional Measure 3 (RM3) funding may be available at that time to further offset contributions. For operator budget planning purposes, Ms. DeBord requested the CRC provide an indication of its decision and asked whether the CRC is amenable to Options 1 or 2.

Chair Rosenfield stated that the $35 million request was not included in the original construction budget and forecasts that are currently under discussion. He stated that he did not realize until the meeting that by using $35 million of City Financing and preserving the funding from the Naming Rights Agreement, that operations of the transit center would be free for both bus operators. Chair Rosenfield asked if there would be no lease payments for the entire FY18-19. Ms. DeBord confirmed that that is likely correct if the numbers in the presented scenarios are accurate—they are still very preliminary. Chair Rosenfield stated that using City Financing to avoid payments for a year of operations seems aggressive.

Chair Rosenfield inquired if is standard for the cost of TI to exceed revenue generated from retail. He also stated that previously there were discussions about how some of the TI costs would be refreshed for retailers on an ongoing basis. Ms. Velez stated that Colliers, the leasing broker, projects that the retailer is also contributing 50% on average and that the leases are 10-year leases. She also stated that TI costs would not be refreshed until ten years.

Mr. Heminger stated that under Option 1, AC Transit has a fairly significant contribution (in subsequent years). He asked whether the TJPA Board's request to the CRC was unanimous and whether the AC Transit member in the TJPA Board voted yes. Ms. DeBord confirmed that the vote was unanimous and that the AC Transit member voted yes. Ms. DeBord stated that representatives from AC Transit and SFMTA preferred Option 1. She also stated that based on current expense projections, there would be no operator contributions for FY18 or FY19. In FY20, AC Transit would contribute approximately $5 million and SFMTA would contribute approximately $2 million. Ms. DeBord stated that if funding becomes available from RM3, then the contributions will change.

Chair Rosenfield asked whether revenue from RM3 would become available in FY19-20. Mr. Heminger replied that the commission needs to decide in January whether to place RM3 on the ballot in June. If the decision is approved, there would be $5 million annually starting in January 2019. Chair Rosenfield asked if $2.5 million would become available for half of FY18-19. Mr. Heminger replied affirmatively and asked the TJPA to confirm if the RM 3 funding is in addition to the approximate amount of $5 million annually that the TJPA has been receiving for many years, as well as the $3 million that was recently added. Mr. Zabaneh said yes.

Chair Rosenfield asked if it can be true or reasonable that the cost of the buildout for retail spaces, not including the cost of the building around them, exceeds revenue and not cover the cost of TI in 10 years. Chair Rosenfield stated that based on the Net Present Value (NPV) in the Staff Memo, Option 1 showed a current cost of $35 million ($21 million for base building and $14.3 million for TI allowance), which exceeds the revenue over a 10-year period. Mr. Zabaneh provided reasons for some of the high building improvement costs and stated that the costs are dependent upon the number of retail spaces. He also stated that currently, there are 35 spaces and the costs can change if there are more or less spaces. Mr. Zabaneh added that there is another $14 million collectively in tenant allowances that the tenants are expected to pay. He also stated that the revenue for the transit center is not only generated from retail, but is generated from the Naming Rights Agreement as well. Mr. Zabaneh stated that from a holistic point of view, tenant improvements are needed in order to get advertisement, sponsorship and to activate the park. Mr. Zabaneh stated that he believes the TJPA will break even in ten years.

Mr. Heminger stated that with Options 3, 4 and 5, more of the costs would be passed on to the tenants, which means the TJPA would receive less in leasing contracts. He stated that options 3, 4 and 5 may not necessarily be a bad outcome from the City Controller's point-of-view. Chair Rosenfield stated that that is correct. Mr. Heminger stated that the City took part in funding the project in order to ensure completion of construction. Mr. Heminger also stated that he is uncomfortable leaving the City with costs that were not originally contemplated.

Chair Rosenfield stated that he is uncomfortable with having an outstanding loan eight years from now, with costs on the City's accounting books, given that 75% of the costs are borne by an agency outside of the City's government body. Chair Rosenfield stated that he hopes the proposed arrangement will be short term. He also stated that one concept is to approve some amount against the City Financing and specify that if there is an outstanding balance after five years, the City would be paid back over a couple of years. Chair Rosenfield stated that he shared this concept with Ms. DeBord briefly and that the arrangement would alleviate pressure on the operators in the short term. Mr. Heminger asked how the Chair's concept varies from Option 1. Chair Rosenfield replied that the committee would approve Options 1 or 2, but repayment of City Financing would be triggered if the approved amount is not repaid within five years. Mr. Heminger asked what asset would be drawn for repayment. Ms. DeBord stated that the costs can be passed on to operators if the City is not repaid in five years. Chair Rosenfield stated that the TJPA can also take out another loan to repay the City and amortize the loan payments over time.

Mr. Heminger asked if there is a way to vary the options more directly. Mr. Heminger asked if Options 1 and 2 figures can be averaged and applied to FY19. Mr. Heminger referred to his proposed option as Option 1B. Ms. DeBord summarized Mr. Heminger's idea as follows: Use $5 million of the Naming Rights Agreement to cover base building and TI costs, with the remainder coming from City Financing. An agreement would be put in place that if City Financing for that amount is outstanding in five (5) years, the City would be paid back whether the TJPA issues other debt or pass the costs on to operators.

Mr. Zabaneh asked what operators' contributions would be in Ms. DeBord's summary. Chair Rosenfield stated that it would be half of Options 1 and 2. Mr. Zabaneh questioned if AC Transit would pay approximately $15 million over a 5-year period, under the proposed scenario. Mr. Zabaneh stated that the $15 million amount is based on the average of the $18 million total in Option 2 and the $11 million total in Option 1. Ms. DeBord stated that Mr. Zabaneh's understanding was correct. Mr. Zabaneh added that SFMTA would pay $5 million over the 5-year period, averaging the totals of $6 million and $4 million. Mr. Rosenfield asked operators at the meeting to provide comments if there was anything they wished to add.

Mr. Andrichak from AC Transit thanked the TJPA for trying to work out the options for the operators. He stated that the cost in the old terminal was $40,000 per year for AC Transit and that AC Transit did not anticipate the significant increase for the new terminal. He stated that AC Transit does not want to cut services due to the high O&M budget. He also stated that AC Transit would like to eliminate or significantly reduce the O&M cost. Mr. Heminger questioned whether AC Transit can afford Option 1, since Mr. Harper, the AC Transit representative on the TJPA Board, voted for Option 1. Mr. Andrichak stated that Option 1 pushes the costs out to FY20 and that the operators are hoping that RM3 will reduce costs to a reasonable amount in FY20. Mr. Andrichak stated that from the perspective of the AC Transit Board, it is difficult to contemplate costs of $5 million per year for a facility that is not in its district.

Chair Rosenfield stated that the committee does not know all the variables at this time. He stated that although the TJPA would like some direction today, the committee would like to understand how the operating budget implications from AC Transit's perspective, SFMTA's perspective, the TJPA's operating budget and RM3 fit together. He stated that the committee is debating between Options 1 and 2; however, the item that remains open following this meeting is the remaining $10 million of the $35 million estimated cost for TI. Chair Rosenfield asked what issues may arise if the committee is only comfortable with $25 million for base building improvements and discuss how the TI mix gets shared amongst the parties. Chair Rosenfield suggested revisiting this topic in the next meeting, when the operating budgets firm up. Ms. DeBord stated that her understanding is that the committee is agreeing to use City Financing to cover base building improvements and that the TJPA will move forward based on that understanding. She stated that it appears that the TI work does not commence until next spring and that it would be acceptable to continue the discussion at the next CRC meeting in February 2018. Ms. Velez stated that as deals come in, the TJPA will need to know if allowances can be offered. Chair Rosenfield stated that to avoid disrupting the negotiation schedule, the committee can schedule a special meeting in December. Ms. DeBord proposed revising the authorization to be used for some combination up to $25 million for the base building and/or TI, potentially up to $35 million after February 2018. She stated that potentially, the authorization may not reach $35 million, if the full $10 million from the Naming Rights Agreement is used. Chair Rosenfield stated that the proposal seemed reasonable.

Mr. Zabaneh stated that TJPA is presenting on its budget to the TJPA Board in December. Ms. DeBord clarified that the TJPA staff would present a draft fiscal year budget in May, for final approval in June. In December each year, the TJPA staff needs to present a preliminary operating fiscal year budget projection to the TJPA Board, as required by the TJPA's agreement with AC Transit and pending agreement with SFMTA. Ms. DeBord stated that the December preliminary budget projection will be a rough approximation.

Mr. Zabaneh stated that the TJPA would like to let operators know by December 2017 how much operating costs to set aside in their budgets. Mr. Heminger asked if the operators are in the same budget cycle as the TJPA and questioned whether Mr. Zabaneh was referring to the FY18-19 budget. Ms. DeBord stated that AC Transit has indicated that it did not need the budget in December and that SFMTA needs budget information each fall. Chair Rosenfield stated that he can discuss the budget with SFMTA.

Ms. Velez stated that the operating budget projection that AC Transit will see in December is an estimate. She also stated that TJPA will have clarity in the April to May timeframe, based on hard numbers. Mr. Zabaneh asked Mr. Andrichak when AC Transit submits its budget to the AC Transit Board. Mr. Andrichak stated that AC Transit submits its budget in April.

Chair Rosenfield reiterated that there is no formal action by the Committee on this agenda item and that the Committee has only provided an indication.

Public comment:
Mr. Lebrun stated that the record would show that he has been talking about the retail for three to four years, but his comments have been ignored, initially by the previous management. Mr. Lebrun stated that retail would have been organized differently, had staff sought after early input from a retail master lessee. He stated that it was indicated that bus riders may not have as much disposable income as potential high speed rail riders might have. Mr. Lebrun expressed his concerns about issuing ten-year leases. He stated that although his prediction was incorrect in 2013 when he stated high speed rail would be here in 2018, he thinks it is possible to have rail in the transit center in the next five years. Mr. Lebrun recommends having a maximum five-year

retail lease, with the potential for a one-year extension and an understanding that leases would be re-assessed if rail arrives at the transit center.

Mr. Patrick stated that he agrees with Mr. Lebrun and thinks that a ten-year retail lease is really a long lease. He opined that with a shorter lease, there would be more revenue from leases in year 6. Mr. Patrick stated that there would be more passengers, more activities, and the terminal will have settled down at a later time. He recommended going in cheap now and more expensive later, because 10 years is a long time.

Mr. Lebrun stated that in an ideal world, the retail should be subsidizing the transit riders.

8. Action Item:
   Expenditure and Commitment of Proceeds of the City Financing that Require CRC Approval

Sara DeBord, TJPA Chief Financial Officer, presented the item.

Ms. DeBord stated that, putting the discussion of tenant improvement costs aside, the TJPA does not need an additional authorization for commitments of City Financing and requested for an authorization to increase cash draws up to $140 million

Public comment: None.

Chair Rosenfield motioned to increase the authorized expenditures of City Financing up to $140 million, seconded by Mr. Zabaneh and none opposed. The authorization to expend up to $140 million in City Financing was approved.

9. Discussion Item/Possible Action:
   Opportunity to Comment on Contracts, Change Orders and Contract Amendments that Require CRC Review

Mr. Heminger noted that two of the items in the committee's packet were discussed earlier today regarding the on-ramp.

Public Comment: None.

10. New Business
    - Agenda for Next Meeting

Chair Rosenfield stated that the agenda for the next meeting will be the same as today's meeting.

11. **Public Comment**

Jim Patrick requested for more public information on the Railyard Alternatives and I-280 Boulevard Feasibility (RAB) Study. Chair Rosenfield stated that the Cost Review Committee's scope is limited to administering the City Financing for Phase 1 and suggested Mr. Patrick obtain more information from the TJPA Board or the Planning Commission.

12. Adjourn
The meeting was adjourned at 3:20pm.

The Ethics Commission of the City and County of San Francisco has asked us to remind individuals that influence or attempt to influence local legislative or administrative action may be required by the San Francisco Lobbyist Ordinance [Campaign and Gov't Conduct Code, Article II, Chapter 1, § 2.100, et seq.) to register and report lobbing activity. For more information about the Lobbyist Ordinance, please contact the Ethics Commission at 25 Van Ness Avenue, Suite 220, San Francisco, CA 94102, telephone (415) 252-3100, fax (415) 252-3124 and web site: www.sfethics.org.