

**STAFF REPORT FOR CALENDAR ITEM NO.: 10
FOR THE MEETING OF: January 30, 2020**

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Approval of Fiscal Year 2020-21 Preliminary Operating Projection in the amount of \$28,466,578.

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 2020-21 in the amount of \$28,466,578, which is an initial estimate at this time, is discussed below in further detail. A narrative budget outlook for FY 2020-21 will be presented to the Board in April 2020, 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 2020-21 decrease from the projection presented to the Board in June 2019 and updated projections shared with the Primary Tenants in September 2019. Several cost and revenue categories changed from the earlier projections, substantially due to changes in leasing, schedules, and availability of additional funds, as discussed below.

FY 2020-21 Operating Revenues:

The FY 2020-21 operating budget includes reimbursement revenues from RM-2 and RM-3 bridge toll funds, Community Benefits District assessments, and a State Transit Assistance (STA) grant. Revenues are from transit center leases, naming rights, advertising and sponsorships, events and licensing fees, office sublease, miscellaneous and interest income. The operating revenues are summarized in the following table:

<u>Reimbursements</u>	
Regional Measure 2	\$8,448,017
Regional Measure 3	1,625,600
STA (Wayfinding) Grant	50,000
Community Benefit District Park Payments	1,588,067
Subtotal Reimbursements	\$11,711,684
<u>Revenues</u>	
Lease and Use Payments	\$5,395,632
<i>AC Transit (74%)</i>	<i>3,992,768</i>
<i>SF Municipal Transportation Agency (26%)</i>	<i>1,402,864</i>
AC Transit (Bus Storage Facility and Bart Bridge Security)	278,632

Other Operator Rents	218,400
Naming Rights	3,037,567
Transit Center Rental Retail Revenue	3,954,094
Transit Center Advertising	1,953,000
Transit Center Sponsorship / Events	240,000
Neutral Host DAS Licensing Fees	125,000
Office Sublease	349,313
AC Transit Capital Contributions	1,000,000
Miscellaneous	65,000
Interest Earnings	138,256
Subtotal Revenues	\$16,754,894
TOTAL RESOURCES	\$28,466,578

- TJPA receives an annual allocation of RM-2 bridge toll funds for operations. The allocation amount for FY 2020-21 is \$5,448,017 plus an additional \$3 million for a total of \$8.4 million.
- The FY 2020-21 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 2020-21. 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. MTC has issued a letter to the TJPA indicating that eligible costs from FY2019-20 and FY2020-21 would be reimbursed by RM-3 if and when the lawsuits are finalized in MTC's favor. If the lawsuits are successful, TJPA would not receive RM-3 funds for the transit center operations.
- STA Wayfinding Grant provides \$50K for physical signage costs based on the outcome of the Wayfinding Gap Analysis.
- 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. The preliminary projection presented here shows \$1.58M which is increased by 3% above the approved FY19-20 CBD allocation. We are in discussions with the CBD to increase their contribution, so that Park programming can be maintained at the current year's level.
- Lease and Use Payments, determined by 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. Based on the preliminary projections, TJPA staff anticipates the contributions needed from the Primary Tenants remain essentially unchanged from the current fiscal year at \$5.3M.
- When the Naming Rights agreement was entered into in FY17-18, three years of prepayment was received in FY18-19, and thus booked as deferred revenues. The \$3M in FY20-21 is recognizing the third year of deferred revenue in the year in which it was

intended.

- Transit center retail revenue is projected to be \$3.9M based on the Board approved and executed retail leases. This projection conservatively assumes that all of the currently leased spaces are occupied and open for business by December 2020. The previous forecast included overly optimistic assumptions for occupancy dates and fully leasing the facility. As such, it is anticipated that the projected retail revenue will decline from the preliminary budget projection presented previously.
- Advertising revenue is primarily generated from the digital advertising on the kiosks placed throughout the transit center. The FY20-21 projection is based on historical contracts from FY2019-20 and active interest that is anticipated to increase once the retail spaces become occupied. The FY2020-21 projection of \$1.9M of which \$1.25M is guaranteed, includes \$800K more than the FY2019-20 contracts.
- Sponsorships and Events revenue represents event rentals and branding sponsorship opportunities on the park. It is estimated to be \$240K based on historical revenues generated in FY 2019-20.
- The preliminary FY 2020-21 budget forecast includes \$125K in Neutral Host DAS which is the minimum annual guarantee.
- TJPA has subleased its previous office space in 201 Mission. The lease expires March 2021, as such the sublease revenues cover the remainder of the lease term for \$349K.
- AC Transit Capital Contribution revenues had been previously pledged to the TIFIA loan repayment. With the impending refinancing, the Capital Contributions can be redirected to cover near term small capital maintenance and equipment needs for the transit center. For FY2020-21, the contributions have been directed to the operating budget in the same amount as contributed in FY19-20, \$1M.
- Miscellaneous revenues anticipated at \$65K are generated from the pop-up retail, food trucks, and other miscellaneous revenues.
- Interest Income represents the interest earned on operating and unrestricted fund balances, conservatively estimated at \$138K.

FY 2020-21 Operating Expenses:

The preliminary projected operating expenses for FY 2020-21 total just over \$28.4 million, a decrease from previous projections. The costs have been held closely to the current costs with a few additions as broken down below:

<u>Expenses</u>	
TJPA Administration	\$4,617,793
Asset Management Fee & Administration	1,863,606
Security	6,858,588
Transit Center General Maintenance	2,965,049
Transit Center Janitorial	2,611,018
Transit Center Utilities	2,182,896
Cybersecurity/IT	1,693,671
Park Maintenance & Programming	622,796
Park Management Fee & Administration	798,000
Digital Content Management & Wayfinding Systems	696,359
Wayfinding Enhancements	50,000

Marketing & Leasing Commissions	0
Bus Storage Facility and Bart Bridge Security	278,632
Insurance	1,850,000
Capital Maintenance, Repair, Replacement	1,128,170
Contingency / Use of Fund Balance	250,000
TOTAL EXPENSES	\$28,466,578

TJPA Administration includes the salary and benefits of staff. The salary and benefits are prorated between the operating and capital budgets based on job function and time allocation. Additionally, there are office related and overall program management expenses included in this line item. The administration budget has increased from the current year due to the Transbay Program Phase 1 close-out and the transit center being placed in full operations.

Security: Security includes 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 reside with the contract security service, Allied Universal.

Transit Center Maintenance, Janitorial, and Utilities: 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.

Cybersecurity / 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 FY20-21 budget includes additional costs for maintaining systems that had been previously warrantied or licensed under the capital construction.

Park Management, Programming, and Maintenance: Park expenses, generally covered by the Communities Benefits District contribution, are a prorated share of the transit center utilities, janitorial, and general maintenance. Also, the programmed activities that are generally free to the public are encompassed in these costs, along with the contractual park management fee. For FY 2020-21 maintenance contracts for the landscaping and the fountain are included.

Wayfinding: This budget anticipates the costs of physical signage as a result of the wayfinding gap analysis that is underway in the current year. It is supported by a specific grant from MTC.

Leasing Commissions: In FY 2020-21 marketing and leasing commissions have been removed from the operating budget and will be capitalized within the Tenant Improvement budget

supported by the TJPA 2020 bonds.

Insurance: Based on the FY 2019-20 actuals, costs for insurance are anticipated to increase as the market recovers from the large number of natural disasters over the past five years. This estimate is 8% more than the current premium. 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.

Capital Maintenance, Repair, and Replacement: In previous budgets, these costs had not been included due to lack of data. However, after initial operations, the asset manager has sufficient data to support this budget line item. This budget anticipates the repairs or maintenance that exceed \$5,000, per instance, generally due to vandalism, overuse, misuse, and abuse. Examples of repairs or maintenance that would fall in this category are restroom door replacements, large panel glass replacement, sliding door replacement, digital equipment replacements, metal etching in elevators, spray paint removal, net barrier repairs, etc.

FY 2020-21 Operating Reserves

Limited operating reserves will be available at the start of FY 2020-21. The reserve policy has a goal of 25% of the operating budget, which amounts to \$7M for the FY 2020-21 Operating Budget. A reserve of this amount is equal to 3 months of operating revenue which allows for sufficient working capital and a small cushion in the event that revenues do not perform as expected. FY 2018-19 and FY 2019-20 have seen the reserves diminished due to the extended closure of the transit center, revenue lag from retail delays, and Board action. It is anticipated the available reserves for FY 2020-21 will be \$760,229 or 3% of the operating budget.

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 2020-21 Preliminary Operating Projection in the amount of \$28,466,578.

ENCLOSURES:

1. Resolution
2. FY 2020-21 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 2020-21 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 2020-21 will be presented to the TJPA Board in April 2020, 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 hereby approves the FY 2020-21 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 30, 2020.

Secretary, Transbay Joint Powers Authority

FY20-21 Preliminary Operating Budget	FY19-20 Approved Budget	FY20-21 Projected Budget (June 2019)	FY20-21 Intial Preliminary Budget (September 2019)	FY20-21 Final Preliminary Budget (January 2020)
Reimbursements				
Regional Measure 2	8,201,958	8,384,000	8,384,000	8,448,017
Regional Measure 3	1,625,600	1,625,600	1,625,600	1,625,600
STA (Wayfinding) Grant	0	0	0	50,000
Community Benefit District Park Payments	1,605,770	1,653,943	1,653,943	1,588,067
Subtotal Reimbursements	11,433,328	11,663,543	11,663,543	11,711,684
Revenues				
Lease and Use Payments	5,300,608	6,439,790	14,067,492	5,395,632
<i>AC Transit (74%)</i>	<i>3,922,450</i>	<i>4,765,445</i>	<i>10,409,944</i>	<i>3,992,768</i>
<i>SF Municipal Transportation Agency (26%)</i>	<i>1,378,158</i>	<i>1,674,345</i>	<i>3,657,548</i>	<i>1,402,864</i>
AC Transit (Bus Storage Facility and Bart Bridge Security)	325,165	334,920	334,920	278,632
Other Operator Rents	319,500	339,000	159,750	218,400
Naming Rights	3,546,600	0	0	3,037,567
Transit Center Rental Retail Revenue	3,269,469	5,695,100	4,104,304	3,954,094
Transit Center Advertising	2,064,623	3,404,300	1,953,000	1,953,000
Transit Center Sponsorship / Events	614,500	1,119,700	663,000	240,000
Neutral Host DAS Licensing Fees	625,000	125,000	125,000	125,000
Office Sublease	780,000	0	0	349,313
AC Transit Capital Contributions	0	0	0	1,000,000
Net Tax Increment (<i>Moved to Separate Budget</i>)	6,538,828	0	0	0
Miscellaneous	0	390,000	91,200	65,000
Interest Earnings	0	0	50,000	138,256
Subtotal Revenues	23,384,293	17,847,810	21,548,666	16,754,894
Transfers From/(To)				
Transfer From Fund Balance	2,519,700	1,381,700	1,097,999	0
Subtotal Transfers	2,519,700	1,381,700	1,097,999	0
TOTAL RESOURCES	37,337,321	30,893,053	34,310,208	28,466,578
Expenses				
ADMIN	3,689,586	4,879,273	4,879,273	4,617,793
Asset Management Fee & Administration	1,912,483	2,675,600	2,568,606	1,863,606
Security	7,222,585	7,439,263	7,872,829	6,858,588
Transit Center General Maintenance	2,965,049	3,691,000	4,135,487	2,965,049
Transit Center Janitorial	2,505,128	2,724,400	3,797,176	2,611,018
Transit Center Utilities	2,182,896	2,292,400	2,103,390	2,182,896
Cybersecurity/IT	1,293,671	1,332,481	2,172,481	1,693,671
Park Maintenance & Programming	531,470	1,079,100	1,155,386	622,796
Park Management Fee & Administration	798,000	798,000	798,000	798,000
Digital Content Management & Wayfinding Systems	696,359	751,600	696,359	696,359
Wayfinding Enhancements	100,000	0	0	50,000
Marketing & Leasing Commissions	2,623,952	331,600	750,215	0
Bus Storage Facility and Bart Bridge Security	325,165	334,920	334,920	278,632
Insurance	1,499,100	1,063,416	1,546,086	1,850,000
Debt Service (<i>Moved to Separate Budget</i>)	6,538,828	0	0	0
Capital Maintenance/ Repair/ Replacement	0	0	0	1,128,170
Contingency / Use of Fund Balance	2,453,049	1,500,000	1,500,000	250,000
TOTAL EXPENSES	37,337,321	30,893,053	34,310,208	28,466,578
DIFFERENCE	0	0	(0)	0
Ending Reserve Amounts				
Emergency Reserve	500,000	500,000	346,502	500,000
O&M Reserve	2,585,000	2,585,000	0	260,229
Restricted Fund Balance (Naming Rights)	1,381,700	0	0	0
Unassigned/Unrestricted Fund Balance	272,845	272,845	0	0
Totals	4,739,545	3,357,845	346,502	760,229
Reserve Percentage	17%	11%	1%	3%
Variable Expense Budget	27,247,444	29,795,053	33,212,208	27,368,578