

STAFF REPORT FOR CALENDAR ITEM NO.: 9
FOR THE MEETING OF: April 8, 2021

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Presentation of the budget outlook for TJPA's Fiscal Year 2021-22 (FY 2021-22) operating, debt service, and capital budgets.

SUMMARY:

In accordance with the TJPA's Policy No. 003: Budget Policy, the 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 Phase 2/Downtown Rail Extension (DTX), Tenant Improvements and Base Building finish out, the remaining Phase 1 construction claims closeout work, and a new Capital Improvement Program for the Transit Center.

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 FY 2021-22 period. The planned budget presentation schedule is as follows:

April

- Presentation of budget outlook (this report)

May

- Presentation of draft FY 2021-22 budgets

June

- Adoption of FY 2021-22 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 FY 2021-22 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, TJPA staff presented an FY 2021-22 Preliminary Operating Projection in the amount of \$26.1 million for transit center. This fiscal year's combined budget is oriented on the operations of the transit center, tenant improvements, operations of the TJPA and advancing the Transbay Program, Phase 2/DTX. As Phase 1 activity has reduced to final construction claims closeout, it no longer plays a prominent role as we have achieved full operation. The capital budget will focus on Phase 2/DTX, continuation of preliminary engineering work to advance

Phase 2/DTX to a 30% level, and the tracking of Tenant Improvement/Base Building finish out. Finally, a two-year Capital Improvement Program will be introduced as required and as the transit center has lifecycle maintenance issues to be addressed.

FY 2021-22 Operating Revenues & Funding Sources

The TJPA anticipates the transit center will receive funds through various Intergovernmental Revenues such as Regional Measures 2 and 3, special assessments from The East Cut Community Benefit District, federal assistance from the Coronavirus Response and Relief Appropriations Act of 2021 (CRRSAA) and contributions from AC Transit and SFMTA. Additionally, the transit center will generate operating revenues from retail leases, sponsorship & events, naming rights, advertising, and licensing fees.

Revenue estimates presented with the Preliminary Budget for FY 2021-22 are continuously revised as we work through the budget process and monitor the federal and regional opportunities for relief as well as market adjustments. TJPA expects there to be resetting of the market rate for retail leases and possible adjustments to the overall retail lease proforma. 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.

FY 2021-22 Operating Expenses

The FY 2021-22 operating budget is derived from the administrative oversight of the 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 FY 2021-22 operating budget will include a share of salaries and benefits for most of the TJPA positions: Executive Director, Facility Director (100%), Chief Security Officer (100%), Physical Security Manager (100%), Field Supervisor (100%), Chief of Staff / Board Secretary, Chief Financial Officer, Finance Manager, Accountant II, Accountant, IT Director, Management Analyst, Management Assistant, Communications and Legislative Affairs Manager and Executive Assistant. 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 capital budgets will cover the remaining proportions allocated to Phase 2 and Tenant Improvements, not included in the operating budget.

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 expense, office supplies, equipment and furniture; professional development; meeting expenses; human resources/payroll administration; and IT costs. As with the salaries and benefits budget, these expenses will be apportioned between operating and capital (Phase 2 and Tenant Improvements, as appropriate).

Professional and Specialized Services

The TJPA's operating budget will include line items for security services from Unarmed Contract Security and San Francisco Police Department, and for the asset manager 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, IT / cybersecurity, and Insurance. TJPA expects that overall operating costs will be relatively the same as the Preliminary Budget.

New Initiatives

Wayfinding Enhancements is a focus for FY 2021-22. As a result of the Wayfinding Gap Analysis in 2019, TJPA has a base level plan to begin implementing enhancements. TJPA staff has coordinated with SFMTA and MTC staff to find synergies. Additionally, Staff is seeking funding mechanisms that support the enhancements identified in year 1 of the plan.

FY 2021-22 Debt Service

The debt service is dictated by the bond repayment schedule. The FY 2021-22 debt service will be approximately \$14.4M for principal and interest payments due in October and April paid with net tax increment revenues. The net tax increment revenue is projected to be approximately \$30M. Any amounts of net tax increment received in excess of the required debt service will be used to redeem the subordinate turbo bonds as required by the bond indenture. The net tax increment revenues are pledged to the tax allocation bonds and these funds cannot be used for any operational costs.

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 Operations & Maintenance (O&M) Reserve. The Emergency Reserve is included in the operating budget for FY 2021-22. 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. However, the reserve is not fully funded in this budget year as we have had several challenging years that have reduced the available funds. 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 Fiscal Reserve provides working capital and contingency. Use of the Fiscal Reserve requires Board Action. Capital Replacement Reserve is a reserve to address the lifecycle needs of the transit center. This reserve is \$27M funded from the 2020 bond sale.

As noted above, in January TJPA staff presented an FY 2021-22 Preliminary Operating Projection in the amount of \$26.1 million for transit center. Especially in these uncertain times, numbers in the Preliminary Operating Projection continue to be refined prior to presentation of a draft budget in May. Staff has the expectation of a reduction to operator contributions based on federal aid to cover the expected declines in operating revenue sources.

FY 2021-22 Capital Funding Sources

Committed funding sources consist of existing revenues that have already been allocated or are otherwise available. These funds include CFD Bond proceeds and reimbursements, and Prop K allocations from San Francisco County Transportation Authority (SFCTA), Transit Center Impact Fees, and Interest Income for Phase 2. TJPA will utilize the remaining balances of various encumbered funds, insurance reimbursements, and TJPA 2020 Bond proceeds for the completion of Phase 1 of the Transbay Program. TJPA 2020 Bond proceeds will provide funding for Tenant Improvements/Base Building finish-out.

Planned funding sources consist of funds which have not yet been received or drawn upon by the TJPA. These include future transfers of CFD impact fees from the City and future allocations of transportation sales tax grants from the SFCTA. TJPA may also seek Regional Measure 3 funds, depending on the timing of the conclusion of MTC's pending lawsuits and funding needs for Phase 2/DTX work.

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 stimulus 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 FY 2021-22 budget resolution will include language authorizing the 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 on the Capital Improvement Plan.

FY 2021-22 Capital Expenditures

The FY 2021-22 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 Improvement Program and includes three main expenditure categories:

- salaries and benefits for TJPA staff
- administrative expenses
- professional and specialized services, incorporating a wide array of construction and consultant functions

Salaries and Benefits

The 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 the TJPA. The FY 2021-22 budget will include proportionate shares of salaries and benefits for TJPA positions: Executive Director, DTX Project Director (100%), Senior Design & Engineering Manager (100%), Senior Program Manager (100%), Senior Construction Manager (100%), Engineering Manager (100%), Chief of Staff / Board Secretary, Chief Financial Officer, Finance Manager, Accountant II, Accountant, Management Analyst, Management Assistant, Communications and Legislative Affairs Manager, IT Director, and Executive Assistant. Additionally, two new positions,

Engineers (100%), to assist in the delivery of Phase 2 are included. 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 and Tenant Improvements.

Administrative Expenses

This category includes the expenditures associated with operating the 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; human resources/payroll administration; and IT costs. As with the salaries and benefits budget, these expenses will be apportioned between capital (Phase 2 and Tenant Improvements) and operating.

Professional and Specialized Services

As noted above, rather than hire a large in-house staff during design and construction, the 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. We are anticipating the closeout of Phase 1 will occur by the end of FY2 201-22 with legal services being the largest expense. Engineering tasks related to Phase 2/DTX will resume and be included in the budget. Budget expenditures in this category also include contracts required for, but not limited to, tasks such as Program Management/Program Controls (PMPC), Design Engineering, legal counsel, audits, and other financial services.

FY 2021-22 Tenant Improvements

The tenant improvement budget will include line items for base building/tenant improvements that are necessary for the buildout of retail spaces in the transit center. The total cost for these improvements and tenant allowances is currently budgeted at an overall amount of \$50.5 million. As we have experienced delays in construction due to the “shelter in place” orders and the MEP redistribution, we assume the tenant improvements will be completed in the fiscal year although later than originally contemplated. Additionally, we are refining estimates of the overall cost of tenant improvement buildout based on bid proposals from the MEP redistribution and will provide a comprehensive analysis with the draft budget in May.

FY 2021-22 Capital Improvement Program

As a condition of the Lease and Use Agreements with the Transit Operators, TJPA is required to supply a 10-year Capital Improvement Program to ensure the state of good repair for the Transit Center. The TJPA Staff has prepared a two-year capital plan and is actively working to detail out the remaining required years. Items identified are various component parts, glass, doors, etc.

RECOMMENDATION: Information only.