

**STAFF REPORT FOR CALENDAR ITEM NO.: 9  
FOR THE MEETING OF: March 9, 2023**

**TRANSBAY JOINT POWERS AUTHORITY**

**BRIEF DESCRIPTION:**

Presentation of the budget outlook for TJPA's Fiscal Year 2023-24 (FY23-24) 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 Salesforce Transit Center. The capital budget covers the Transbay Program Phase 2/Downtown Rail Extension (DTX), now also known as The Portal, Tenant Improvements and Base Building construction, and the remaining Transbay Program Phase 1 construction claims closeout work. Staff will present a Capital Improvement Plan at the May Board meeting in accordance with the Board approved Capital Improvement Plan Policy No. 021.

**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 FY23-24 period. The planned budget presentation schedule is as follows:

March (in advance of April)

- Presentation of budget outlook (this report)

May

- Presentation of draft FY23-24 operating and capital budgets and 20-Year Capital Improvement Plan

June

- Adoption of FY23-24 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 are scheduled to adopt the FY23-24 annual operating, debt service, capital budgets, and 20-Year Capital Improvement Plan.

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 FY23-24 Preliminary Operating Projection in the amount of \$27.3 million (M) for the transit center. This fiscal year's combined budget focuses on the

operations of the transit center, tenant improvements, operations of the TJPA and advancing The Portal. 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, continuation of preliminary engineering work to advance The Portal, and the tracking of Tenant Improvements and Base Building construction. The draft of the multi-year Capital Improvement Plan will be included with the May presentation.

### **FY2023-24 Operating Revenues & Funding Sources**

The TJPA anticipates the transit center will receive funds through various Intergovernmental Revenues such as Regional Measures (RM) 2 and 3, special assessments from The East Cut Community Benefit District, and contributions from the transit operators, AC Transit and SFMTA. The RM 2 Funding of \$8.97M includes the continued \$3M temporary supplemental bridge toll allocation that was approved for three additional fiscal years starting in FY22-23. Contributions from the transit operators are projected to increase slightly over the FY22-23 budgeted figures. 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 FY23-24 are continuously revised as we work through the budget process and monitor the federal and regional opportunities as well as market adjustments. Advertising and sponsorship revenues could see positive adjustments as traffic through the transit center is expected to increase. With the resolution of RM 3, the Metropolitan Transportation Commission (MTC) is preparing guidance for seeking reimbursement of prior year and current year expenditures. Staff will evaluate potential smoothing of operator contributions from these resources.

### **FY2023-24 Operating Expenses**

The FY23-24 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 FY23-24 operating budget will include a share of salaries and benefits for most of the TJPA positions. Both the total number of TJPA budgeted positions and the staff allocation between operating and capital budgets are slightly modified each fiscal year. 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 capital maintenance and improvements at the Transit Center, The Portal, and Tenant Improvements not otherwise 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, communications, office expenses and supplies, equipment and furniture, professional development, meeting expenses, human resources/payroll administration, and information technology (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 Allied Universal and San Francisco Police Department, and for the asset manager, Lincoln Property Company, who will conduct repair and upkeep. The expenses for operations are encompassed in a number of contracts including asset manager staffing and administration, maintenance, janitorial, utilities, rooftop park maintenance and programming, property management fees, wayfinding and digital content management, security, cybersecurity/IT, and insurance.

#### **FY2023-24 Debt Service**

The debt service is dictated by the bond repayment schedule. The FY23-24 debt service will be approximately \$28.2M 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 \$14.7M. Any amounts of net tax increment received in excess of the required debt service has been used to redeem the subordinate turbo bonds as required by the bond indenture. Staff anticipates the subordinate turbo bonds will be fully redeemed and will present to the Board how the excess net tax increment will help support the delivery of capital improvements and The Portal.

#### 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 Operating and Maintenance (O&M) Reserve. The Emergency Reserve is included in the operating budget for FY23-24. 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. Pending final resolution of RM 3, staff anticipates to fully fund the O&M Reserve this upcoming budget year. The Fiscal Reserve is 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 \$28.8M funded primarily from the 2020 bond sale.

#### **FY2023-24 Capital Funding Sources**

Committed funding sources consist of existing revenues that have already been allocated or are otherwise available. These include Community Facilities District (CFD) Bond proceeds and reimbursements, Prop K allocations from the 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 construction.

The Portal 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 the TJPA. These include future transfers of CFD bonds from the City and future allocations of transportation sales tax grants from the SFCTA. MTC is developing guidance for making RM 3 funds available, including the \$325M programmed to The Portal.

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 FY23-24 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.

### **FY2023-24 Capital Expenditures**

The FY23-24 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 Plan. It 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, and
- Right of way acquisition.

### 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 FY23-24 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 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, and human resources/payroll administration. 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, which includes contracts required for, but not limited to, Program Management/Program Controls (PMPC), 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 The Portal. Securing these land parcels and easements in a timely manner is an essential element of ensuring The Portal construction stays on schedule and budget.

### **FY2023-24 Tenant Improvements**

The Board established a Tenant Improvements Capital Budget in the amount of \$50.5M in FY19-20. 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. As we have experienced delays in construction and retail space rentals due to the COVID-19 pandemic, we assume the tenant improvements will continue until the retail spaces are completely occupied.

### **FY2023-24 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 Plan (CIP) to ensure the state of good repair for the Transit Center. The Board approved Capital Improvement Plan Policy No. 021 on November 10, 2022, which requires staff to develop a 20-year Capital Improvement Plan to ensure that the TJPA's assets remain in a state of good repair given limited resources. The development of the multi-year CIP will include a comprehensive review of the lifecycle costs of the Transit Center facilities, assessment of revenues, and prioritization of needs.

**RECOMMENDATION:** Information only.