

# Memorandum

**To:** Cost Review Committee

**From:** Ron Alameida, Director of Design & Construction for the Transbay Transit Center, SF Public Works  
 Dennis Turchon, Senior Construction Manager, TJPA  
 Mary Pryor, TJPA Finance Advisor

**Date:** For the Committee Meeting of February 22, 2019

**Re:** Agenda Items 7-10

## **Agenda Item 7 – Update on TJPA Fiscal Year 2018 – 2019 and 2019 – 2020 Operating Budget**

### **FY 2018-19 Operating Budget**

In June 2018, the Transbay Joint Powers Authority (TJPA) Board approved the FY 2018-19 Operating Budget in the amount of \$33,157,050.<sup>1</sup> The budget assumed that the transit center would be operational for 12 months. TJPA staff has reported to the TJPA Board that several expenses and some revenues have been reduced due to the temporary closure of the transit center, as summarized in the table below. The extent of the total changes to the operating budget will depend on when the facility reopens.

Average Monthly Operating Cost				
	FY 2018-19 Budget for Full Operations	Temporary Closure	Difference (closed - open)	Percent Change (closed to open)
<b>Costs</b>				
Temporary Terminal*	-	78,388*	78,388*	
Transit Center				
Transit Center Maintenance	251,208	167,507	(83,701)	-33%
Transit Center Janitorial	214,000	101,083	(112,918)	-53%
Transit Center Utilities	180,067	-	(180,067)	-100%
Park Maintenance and Programming	55,308	-	(55,308)	-100%
Park Management Fee & Admin	66,500	66,500	-	0%
Digital Content Management & Wayfinding Systems	60,808	59,319	(1,489)	-2%
Marketing and Leasing Commissions	232,875	232,875	-	0%
Asset Management Fee & Administration	222,967	222,967	-	0%
Community & Public Relations for Transition	-	-	-	
Security	666,192	470,290	(195,902)	-29%
Insurance	70,000	70,000	-	0%
<b>Total</b>	<b>2,019,925</b>	<b>1,468,928</b>	<b>(550,997)</b>	<b>-27%</b>
Annual Impacted Revenue				
<b>Revenue</b>				
Transit Center Sponsorship/Events	947,400	-	(947,400)	
Transit Center Advertising & Miscellaneous	907,800	-	(907,800)	
<b>Total</b>	<b>1,855,200</b>	<b>-</b>	<b>(1,855,200)</b>	
<b>*Includes Security</b>				

<sup>1</sup> The adopted FY 2018-19 operating budget includes \$2,090,700 for loans servicing fees and interest, to be paid with Net Tax Increment revenue.

TJPA staff have discussed changes to the FY 2018-19 Regional Contributions with AC Transit and SFMTA staff. TJPA intends to request reduced contributions from the operators for FY 2018-19, based on the number of months the facility is open in the year.

In addition to the changes stemming from the temporary closure, changes to the retail leasing schedule have resulted in reductions to Retail Commission payments in FY 2019-20. 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, the amounts due during FY 2018-19 are less than budgeted for the current fiscal year. Conversely, more of the leasing commissions will be payable in FY 2019-20 than previously projected.

TJPA staff have analyzed the changes to the costs and revenues for the current fiscal year, and estimate that less of the O&M Reserve funds will be used in FY 2018-19 than have been budgeted. This results in additional funds being available for the FY 2019-20 operating budget.

### **FY 2019-20 Operating Budget Projection**

#### Operating Costs

At its February 14, 2019 meeting, the TJPA Board approved a preliminary operating budget projection for FY 2019-20, totaling \$31,846,000. Summarized in the following table, this preliminary projection is based on 12 months of transit center operations, and does not include debt service costs.

<b>Operating Expenses</b>	<b>FY 2019-20 Budget Projection</b>
O&M (Maintenance, Janitorial, Utilities)	\$7,868,100
Asset Manager/Park Administration	4,310,300
Leasing Commissions	1,624,900
Security	7,586,500
Bus Storage Facility Security (pass through to AC Transit)	281,000
IT / Cybersecurity	1,084,100
Wayfinding Gap Analysis	100,000
TJPA Admin & Insurance*	5,089,700
Reserves & Contingency	3,901,400
<b>Total Operating Expenses</b>	<b>\$31,846,000</b>

\* TJPA Admin & Insurance does not include debt service costs.

The FY 2019-20 operating budget projection includes the same activities as the FY 2018-19 budget, with two additions.

- *Bus Storage Facility Security:* Under the Landlord Services Contract agreement with AC Transit dated October 10, 2018, the TJPA will provide security services at the bus storage facility as requested by AC Transit. These services are provided by TJPA's contractor, Allied Universal. AC Transit reimburses TJPA for the actual costs incurred.
- *Wayfinding Gap Analysis:* MTC has requested that TJPA undertake a wayfinding gap analysis following the reopening of the Salesforce Transit Center, in order to ensure that visitors are readily able to navigate through the facility to their destinations. The current budget projection will be updated as the scope is refined with input from the transit tenants. TJPA will seek additional funding for this work.

### Operating Revenue

The FY 2019-20 operating budget includes revenues from a wide variety of sources, as summarized in the following table.

Revenues	FY 2019-20 Budget Projection Scenario 1	FY 2019-20 Budget Projection Scenario 2	FY 2019-20 Budget Projection Scenario 3
Regional Measure 2	8,202,000	8,202,000	8,202,000
Regional Measure 3	1,625,600	1,625,600	1,625,600
CBD Park Payments	1,757,900	1,757,900	1,757,900
Naming Rights	4,928,300	2,057,687	0
AC Transit Regional Contribution	3,873,974	5,998,228	7,520,916
SFMTA Regional Contribution	1,361,126	2,107,485	2,642,484
Transit Center Retail Revenue	2,921,800	2,921,800	2,921,800
Transit Center Sponsorship/Events	614,500	614,500	614,500
Transit Center Advertising / Miscellaneous	2,237,300	2,237,300	2,237,300
Neutral Host DAS Licensing Fees	625,000	625,000	625,000
Other Rents, Sublease	897,800	897,800	897,800
AC Transit for Bus Storage Facility Security	281,000	281,000	281,000
Emergency Fund Balance	500,000	500,000	500,000
O&M Reserve	2,019,700	2,019,700	2,019,700
<b>Total Revenue</b>	<b>\$31,846,000</b>	<b>\$31,846,000</b>	<b>\$31,846,000</b>

TJPA staff has identified Naming Rights revenue that could be included in the operating budget for FY 2019-20 as a means to reduce the funding amounts from AC Transit and SFMTA. The Naming Rights funds, which TJPA has already received, had been planned for the capital costs of tenant improvements. In order to use this revenue for operations, TJPA plans to use Community Facilities District (CFD) Bond proceeds or other capital sources to fund the tenant improvements.

As requested by the AC Transit and SFMTA, the FY 2019-20 budget projection includes three scenarios with different amounts of Naming Rights revenue, as follows:

- *Scenario 1:* Includes the balance of Naming Rights revenue anticipated to be available at the start of the fiscal year. The FY 2018-19 budget includes \$5,194,400 in Naming Rights funds that are anticipated to be spent in that fiscal year.
- *Scenario 2:* Includes \$2,057,687 in Naming Rights revenue, which would maintain the original level of projected contributions from AC Transit and SFMTA that was presented to the Board in January 2019.
- *Scenario 3:* Includes no Naming Rights revenue, in order to demonstrate the potential impact to AC Transit and SFMTA's contribution levels.

#### Budget Schedule

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.

#### Agenda Item 9 – Expenditures and Commitments of Proceeds of the City Financing that Require CRC Approval

##### Commitments

The Cost Review Committee (CRC) has previously given authorization for TJPA to issue commitments (budget appropriations) for various construction, construction administration, and legal costs of up to \$175 million in City Financing proceeds and draws of up to \$145 million. In addition, in April 2018, the CRC authorized the use of up to \$25 million in City Financing proceeds to issue commitments (budget appropriations) for base building and tenant improvements.

The commitments through January 2019 are shown below; they represent a \$2.6 million increase since November 2018, primarily attributable to bus storage construction, base building / tenant improvements, and net reductions in commitments to construction packages.

Scope/Trade Package/Contract	Type <sup>2</sup>	Committed
Transit Center Design Team Construction Admin	NTP	2,676,058
Various Logistics Packages	NTP / CCOs	17,052,657
TG07.2 Superstructure Concrete	CCO	961,995

<sup>2</sup> NTP – Notice to Proceed. CCO – Contract Change Order. RFS – Request for Services.

TG07.3 Miscellaneous Metals	CCOs	133,155
TG07.6 Concrete Topping Slabs/Rails/Joints	NTP	10,558,686
TG08.2 Exterior Awning	NTP	9,646,200
TG08.6 Metal Ceilings	NTP/CCO	4,849,094
TG08.11 Glass Curtain Walls/Skylights	NTP	14,375,033
TG10.3 Heating Ventilation Air Conditioning	NTP/CCO	617,105
TG10.4 Electrical/Communications	NTP	15,483,683
TG12.1 Civil/Sitework at Grade	NTP	5,823,078
TG13.1 Roof Park Landscaping & Irrigation	NTP/CCO	11,518,499
TG13.2 Roofing/Waterproofing	NTP	3,095,754
TG16.0 - Interiors/Finishes	NTP	11,324,678
TG16.8 Fireproofing/Intumescent Spray	NTP	743,341
TG18.1 Bus Ramps	NTP	5,220,650
Enhanced Commissioning	NTP	50,000
WOJV Procurement	CCO	145,189
Physical Security Information Management System	NTP	2,299,209
SFPUC Permanent Power	Power Agreement	1,079,859
Elevator/Escalator Capitalized Maintenance	NTP	406,426
Transit Center Permits and Fees	Other	132,183
Seyfarth Shaw / Jones Day; Constr / Litigation Counsel	RFS	12,053,836
Public Art Program	Artist Contracts	886,550
Bus Storage Construction	NTP	24,769,480
Bus Storage Constr Admin & Constr Management	NTP	528,993
Other Bus Storage costs, incl. permits	Other	130,288
Base Building / Tenant Improvements	Other	4,458,713
<b>Subtotal</b>		<b>\$161,020,392</b>
Issuance Costs	Financing	1,181,314
<b>Total with Issuance Costs</b>		<b>\$162,201,706</b>
<b>CRC Authorizations to Date</b>		<b>\$200,000,000</b>
<b>Available Balance for Commitments</b>		<b>\$37,798,294</b>

In the upcoming months, TJPA anticipates the following commitments of City Financing, including commitments for tenant improvements:

Scope/Trade Package/Contract	Planned Commitment
Construction CCOs	\$10,330,000
Pelli (Warranty Support and Extended CA)	\$287,000

301 Mission Legal (Jones Day and Legal Bench)	\$3,205,694
Base / Tenant Improvements	\$20,541,287
<b>Total Planned Commitments</b>	<b>\$34,363,981</b>
<b>Available CRC Authorized Balance for Commitments</b>	<b>\$37,798,294</b>
<b>Remaining Balance for Commitments</b>	<b>\$3,434,313</b>

The CRC was previously informed that tenant improvement costs were anticipated to be approximately \$35,500,000. This amount is comprised of what is considered landlord's work in delivering a space to a tenant plus an improvement allowance to the tenant. Landlord's work includes installing the slab, mechanical, electrical, plumbing, fire life safety and scrubber (cleans the air from food exhaust) systems. The tenant improvement allowance is market based and varies on a per space basis ranging from \$50 per square foot to \$300 per square foot. However, in that the \$35,500,000 was an educated estimate, the CRC approved \$25,000,000 for a validation of the estimate as leases were signed. Additionally, it was originally contemplated that approximately \$5 million of the Naming Rights funds would be used to finance the improvements. That is no longer the case as the transit operators have asked that these funds be used to fund operations. TJPA staff anticipates using CFD Bond proceeds for the tenant improvements rather than the Naming Rights funds.

At this point, contract commitments for tenant improvements are about \$21,000,000 comprised of executed retail leases, Greyhound/Amtrak space, TJPA offices and common areas. Upcoming anticipated improvements are about \$7,200,000, comprised of four transactions in progress for about 8,500 square feet or about 9% of the Center. The City Financing funds will be programmed to these contracts as the costs are incurred.

The first round of requests for proposals for construction was issued on February 15. It will include Fitness SF, two locations for Philz Coffee, OnSite Dental, Charleys Cheesesteak and Venga Empanadas. Together these leases total about 42,000 square feet of the Center or about 42%. Completion of the landlord's work on these spaces is expected in mid-June. The second round of requests for proposals is targeted for issuance in late April for Per Diem, Tycoon Thai and Foundation Café. Together these leases total about 5,000 square feet or about 5% of the Center.

### Expenditures

To date, TJPA has received and spent \$103,000,000 in City Financing funds. TJPA anticipates that while access to the City Financing funds will be needed for contract commitments, no additional funds will be needed for payments. This is contingent upon the City completing its second issuance of CFD bonds as scheduled by the end of February 2019.

As discussed previously, due to changes in the schedules for both the Transit Center construction project and the bond issuances, the TJPA will be able to discontinue its draws of City Financing funds and instead use CFD Bond proceeds for upcoming project costs. Following discussions with the San Francisco City Controller and Office of Public Finance staff, the TJPA plans to use proceeds from the second CFD Bond issuance for project costs rather than using the full amount of the second bond issuance for repayment of the City Financing, as had been originally planned in 2016. This allows TJPA to limit its draws on the City Financing to \$103,000,000. It is anticipated that the full repayment of the City Financing will occur with the third CFD bond issuance, as originally planned.

## **Agenda Item 10 - Opportunity to Comment on Contracts, Change Orders and Contract Amendments that Require CRC Review**

### Peer Review Panel

As a result of the fissures discovered on September 25, 2018, TJPA staff engaged an independent expert to review the Temporary Shoring System and planned to engage a panel of technical experts to participate in an independent review of the Permanent Reinforcement Fix, the TJPA's findings with respect to the cause of the fissures, and such other related matters as appropriate. On October 4, 2018, the Mayors of the City and County of San Francisco and the City of Oakland urged the Metropolitan Transportation Commission (MTC) to facilitate an independent peer review panel.

On November 8, 2018, the TJPA Board of Directors authorized the Executive Director to execute a Cooperative Agreement with MTC for reimbursement of the peer review panel's fee for an amount not to exceed \$510,000 and a term through April 1, 2019. Since the execution of the Cooperative Agreement, stakeholders including the TJPA Board of Directors, have requested additional but related analyses and investigations that the peer review panel will review. MTC has requested an additional \$500,000 for the following expanded scope of work:

- Extend the duration of active peer review from 12 weeks to 24 weeks.
- Participate in additional interim check-ins and reports to expedite reaching concurrence and conclusion of the review.
- Conduct additional and more extensive reviews, including reviews of search for other areas susceptible to brittle fracture, hanger analysis, and fatigue.
- Addition of technical support from Edison Welding Institute (EWI) to insure credibility of analysis completed by Lucius Pitkin Incorporated (LPI) labs.
- Addition of technical support from Ruby & Associates to assist in overview of the search for other areas susceptible to brittle fracture.

Staff anticipates that the cost incurred by the peer review panel will be paid by the party or parties responsible for the fissures. Thus, TJPA expects to see reimbursement of these costs from the responsible party or parties.

TJPA staff proposes an additional transfer of \$500,000 of Program Reserves, bringing the Cooperative Agreement from \$510,000 to \$1,010,000. This work will be funded with unrestricted assets.

### Construction Management Oversight Services (Agreement No. 09-08-CMO-000):

In June 2010, following a formal Request for Proposals process, TJPA awarded a contract to Turner Construction Company, for Construction Management Oversight (CMO) services for a lump sum amount of \$38,500,000. The CMO agreement included the following services: preconstruction services for the transit center; monitoring and documenting the progress of the CM/GC; providing project communication, documentation, record keeping, cost and schedule management, technical support, environmental monitoring oversight, coordination with other agencies; administration of the CM/GC and demolition contracts; progress reporting; and quality assurance services (testing and inspection). These services are necessary for any construction project, and on a federally funded project must be performed by a contractor that is independent of the contractor performing the construction work.

The original agreement had a term of six years with options to extend for an additional three one-year periods. Between July 2014 and April 2018, five contract amendments were issued, summarized in the table below:

<u>Date</u>	<u>Modification No.</u>	<u>Description</u>	<u>Amount</u>	<u>Cumulative Total</u>
6/10/2010	Original Contract		\$ 38,500,000	
7/1/2014	Amendment No. 1	Revised Appendix B, Calculation of Charges	\$ 7,480,000	\$ 45,980,000
7/9/2015	Amendment No. 2	Amended Article 5, Compensation	\$ -	\$ 45,980,000
9/10/2015	Amendment No. 3	Amended Article 5, Compensation	\$ 11,200,000	\$ 57,180,000
6/9/2016	Amendment No. 4	Extended contract duration by two years, revised overhead and maximum billing rate, revised fee.	\$ 15,320,000	\$ 72,500,000
4/12/2018	Amendment No. 5	Extend contract duration by one year	\$ 2,500,000	\$ 75,000,000
TBD	Amendment No. 6	Extend services and duration by one year	\$ 3,000,000	\$ 78,000,000

Staff proposes an addition of \$3,000,000 and an extension of one year for Amendment No. 6 to Turner Construction Company (“Turner”) due to: (1) the Girder Remediation effort at Fremont Street, the associated review of the girders at First Street and the review of other structural components at the Project; (2) delays to Substantial Completion and Final Completion of the Project; and (3) the recent filing of lawsuits by the Construction Manager/General Contractor (CM/GC) against the TJPA necessitating additional support by Turner. Execution of Amendment No. 6 will increase the total contract amount from \$75,000 to \$78,000, with a contract expiration date of June 30, 2020. TJPA anticipates funding this work with CFD Bond proceeds, with the exception of any work related to the girder remediation effort or other tasks related to the fissures, remediation, or peer review panel efforts. These activities will be funded with land sales proceeds or unrestricted assets.

#### Construction Change Orders above the \$250,000 Threshold and/or to be funded with City Financing

##### General Closeout items not related to Bus Storage or Transit Center construction contracts:

##### Various COR Items – \$250,000

This closeout budget consists of various scope items that are unrelated to Ghilotti Construction Company’s or Webcor/Obayashi’s construction contracts and have been found after substantial completion of the transit center and bus storage facility. The scopes were identified as essential after operations had commenced, due to security or Americans with Disabilities Act (ADA) requirements. It has been determined that the best course of action in light of the closeout status of the two construction contracts, was to engage TJPA’s asset manager, Lincoln Property Company (LPC), to manage and implement various contracting methods to perform the essential scopes of work. In general, the description of the items to be covered are as follows: Additional security fencing, south of Harrison street to deter the public from walking to the Bus Storage Facility, channelizers on the Fremont street off-ramp, the Mayor’s Office on Disability items (such as signage and railings) identified throughout the Transit Center post-opening, gutter extensions for the canopies on the roof park and finally, the internet connectivity between the Bus Storage Facility and the Security Operations Center. This request to the committee is for a Not-to-Exceed (NTE) amount of \$250,000 and draw down will be reported to the CRC in subsequent meetings. The proposed fund source for this work is CFD bond proceeds.

### **Transit Center**

There are no new requests for change orders related to the transit center. Construction Change Orders (CCOs) continue to be issued against previously reviewed and approved budgets for the transit center. In follow-up to the previously authorized amount of \$17,414,000 by the CRC for closeout CCOs, please refer to the attachment that provides a ledger and brief description of each CCO drawing down on the authorization.

### **Bus Storage Facility (BSF)**

There are no new requests for change orders related to the bus storage facility. CCOs continue to be issued against the previously authorized \$3,365,905.

The attached change order logs provide further detail on all CCOs presented to the CRC to-date.