

**STAFF REPORT FOR CALENDAR ITEM NO.: 7  
FOR THE MEETING OF: April 9, 2020**

**TRANSBAY JOINT POWERS AUTHORITY**

**BRIEF DESCRIPTION:**

Presentation of the budget outlook for TJPA's Fiscal Year 2020-21 (FY20-21) operating and capital budgets.

**SUMMARY:**

In accordance with the TJPA's Policy No. 003: Budget Policy, the TJPA will adopt both an operating 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/Caltrain Downtown Extension, Tenant Improvements and Base Building finish out, and the remaining Phase 1 construction closeout work.

**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 FY20-21 period. The planned budget presentation schedule is as follows:

April

- Presentation of budget outlook (this report)

May

- Presentation of draft FY20-21 operating and capital budgets

June

- Adoption of FY20-21 operating and capital 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 FY20-21 annual operating 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 February TJPA staff presented an FY20-21 Preliminary Operating Projection in the amount of \$28.4 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, Downtown Extension (Phase 2). As Phase 1 activities has reduced to final construction 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 Phase

2/Caltrain Downtown Extension to a 30% level and the tracking of Tenant Improvement/ Base Building finish out.

### **FY2020-21 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, 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.

Given the current economic environment and the impact that it will have on the next fiscal year, our previous estimates presented with the Preliminary Budget for FY20-21 are in the early stages of revision. TJPA expects there to be a negative impact on all sources of funding with some level of moderation based on the federal stimulus. In particular, retail leasing revenue, advertising, and sponsorships could see a 50% reduction from previous estimates. We will continue to work closely with MTC and our transit partners to backfill lost revenues.

### **FY2020-21 Operating Expenses**

The FY20-21 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 FY20-21 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 Operations Security Manager (100%), Chief of Staff / Board Secretary, Chief Financial Officer, Finance Manager, Financial Reporting Accountant, 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, 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; and 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).

#### 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, LPC, 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 with the exception of insurance. Early indications are showing an increase of 30% over of the last projections due to claims and market conditions.

### **FY2020-21 Debt Service**

As a result of the anticipated Bond Sale in June that refinances the TIFIA loan and repays the City Financing, TJPA expects in FY20-21 that debt service will be approximately \$15.5M for principal and interest payments due in October and April paid with net tax increment revenues. The actual debt repayment schedule will be determined as the offering documents get finalized and presented with the Final Budget. The net tax increment proceeds 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 O&M Reserve. The Emergency Reserve is included in the operating budget for FY20-21. The Emergency Reserve is set at \$500,000 by the 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. It is targeted to be funded at a minimum of \$29M with the successful completion of the 2020 Bond Sale.

As noted above, in February TJPA staff presented an FY20-21 Preliminary Operating Projection in the amount of \$28.4 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 possible increase to operator contributions if federal stimulus is insufficient to cover the expected declines in operating revenue sources but will work to mitigate it to the extent possible.

### **FY2019-20 Capital Funding Sources**

Committed funding sources consist of existing revenues that have already been allocated or are otherwise available. These include funds CFD Bond proceeds and reimbursements, and allocations from San Francisco County Transportation Authority (SFCTA), and the Metropolitan Transportation Commission (MTC) for Phase 2. TJPA will also utilize the remaining proceeds for the completion of Phase 1 of the Transbay Program. Bond sale 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/Caltrain Downtown Extension 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 FY20-21 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.

### **FY2019-20 Capital Expenditures**

The FY20-21 capital budget is derived from the implementation schedule for Phase 1 and Phase 2 of the Transbay 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 FY20-21 budget will include proportionate shares of salaries and benefits for TJPA positions: Executive Director, 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, Financial Reporting Accountant, Accountant, Management Analyst, Management Assistant, Communications and Legislative Affairs Manager, IT Director, and Executive Assistant. Additionally, one new position, Project Director (100%), to lead the delivery of Phase 2 is 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; and human resources/payroll administration. As with the salaries and benefits budget, these expenses will be apportioned between capital (Phase 2 and TI) 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 FY20-21 with legal services being the largest expense. Engineering tasks related to Phase 2/Caltrain Downtown Extension 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.

**FY2020-21 Base Building and 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 \$35.5 million. As we are experiencing 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.

**RECOMMENDATION:** Information only.