STAFF REPORT FOR CALENDAR ITEM NO.: 12
FOR THE MEETING OF: November 9, 2017

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Direct the Executive Director to request approval from the City and MTC to use Interim Financing to fund the cost of Base Building Improvements plus an allowance to tenants for the TJPA's market share of the cost of Tenant Improvements necessary for retail/commercial leasing.

EXPLANATION:

Leasing Plan and Schedule
In March 2017, the TJPA Board authorized an Asset Management Agreement (AMA) with a team led by Lincoln Property Company (Lincoln) for the transit center. Lincoln is overseeing the management of the transit center. Lincoln and its team member Colliers International (Colliers) are managing the retail/commercial leasing of the transit center.

In July 2017, the TJPA Board approved a Retail Merchandising Plan (Merchandising Plan), and authorized the team to begin marketing and negotiations for retail/commercial leasing generally consistent with the plan. The peer-reviewed Merchandising Plan presents proposed space assignments based on category for each level in the transit center. The Merchandising Plan anticipates that the TJPA will enter into approximately 35 leases for the approximately 100,000 square feet of leasable retail/commercial space in Phase 1 of the Transbay Program.

The Merchandising Plan contains a schedule for retail/commercial leasing, which describes the number, type, and location of spaces that are expected to open each quarter. It is summarized as:

	Q4 2018	Q1 2019	Q2 2019
Number of retail spaces anticipated to open	13	14	8

The Merchandising Plan makes certain assumptions about the TJPA's delivery of Base Building Improvements and allowances for Tenant Improvements. If the TJPA does not fund these improvements, the schedule for opening retail/commercial spaces is expected to be delayed.

Base Building Improvements
The CM/GC is contracted to deliver the retail/commercial spaces in shell condition. Excluded are the improvements needed in order to create the spaces that will be leased to retailers and commercial operators, because it is not known in advance what the configuration of these spaces will be, in that the market and tenant activity will dictate the eventual buildout of these space. Thus, it was not possible to include these improvements in the CM/GC contract.

The Base Building Improvements will generally include the following: demising walls that create the individual spaces; topping slab that provides a level surface at each built out space in order to install floors and thresholds; mechanical, electrical and plumbing points of connection; electrical and, if needed, gas meters; air conditioning units; and scrubbers and venting shafts for the food spaces. This work will be accomplished under the direction of Lincoln by a general contractor selected through a Request For Proposal (RFP) process. The estimated Base Building Improvement cost is summarized below.

Tenant Improvements

It is necessary for a retail/commercial tenant to make Tenant Improvements to any space it leases. Tenant Improvements vary widely based on the particular requirements of a tenant, but may include things such as partition walls, shelving, counters, installed equipment, lighting and carpeting. The cost of Tenant Improvements likewise varies widely depending on the size of the leased space and the tenant use, typically from less than $100 per square foot to more than $300 per square foot, and from the low tens of thousands of dollars in total cost of improvements to the low millions of dollars in total cost. This work will be either performed by the tenant, or accomplished under the direction of Lincoln by a general contractor selected through an RFP process.

Colliers advises that it is typical in the San Francisco market for landlords and tenants to negotiate a Tenant Improvement allowance in lease agreements. Colliers advises that the market contribution from landlords is an allowance of approximately one-half of the total cost of Tenant Improvements, with the tenant bearing the remainder of the cost. As described above, the Merchandising Plan makes certain assumptions about the TJPA's ability to provide certain Tenant Improvement allowances to certain tenants on a particular schedule to achieve the overall schedule for retail/commercial occupancy and full activation of the facility, and to meet the leasing goals of the Merchandising Plan.

The TJPA does not expect that each tenant would be entitled to a Tenant Improvement allowance of a particular amount; the TJPA team intends to vigorously negotiate the agency's contribution, if any, toward a Tenant Improvement allowance, and would expect greater rent as a result of any contribution the TJPA makes to the cost of such improvements.

Although the TJPA does not anticipate that it will offer any particular Tenant Improvement allowance in every case, for budgeting purposes the TJPA thinks it is prudent to assume that the TJPA will offer in the aggregate about one-half of the estimated cost of Tenant Improvements as an allowance. The TJPA's market-based allowance for the cost of Tenant Improvements is summarized below.

Summary Costs of Improvements

Item	Cost (est.) ($millions)
Base Building Improvements (Direct Construction Costs)	16.23
Allowance for Tenant Improvements*	12.59

Subtotal Improvements	$ 28.82
Soft costs (architect, etc.)	2.43
AMA CM Fee (3.5%)	1.01
Contingency (10%)	3.23
Total	**$ 35.49**
Total Base Building Improvements	21.16
Total Allowance for Tenant Improvements	14.33
Total	**$ 35.49**

*Excludes build-out of rooftop café in anticipation that the economics of a deal may be structured such that it will be a combination of tenant's contribution plus reduced or free rent. This approach is driven by an estimated cost to build the café site of nearly $2 million (as currently designed) with a revenue generation payback of more than ten years, and confirmation from Colliers that success of other retail is not contingent upon build-out of the rooftop café.

Asset Management Model – Owner Pays for Improvements

The TJPA evaluated several potential deal structures under which an agreement might be reached between the TJPA and a private partner to operate, activate, and maintain the transit center. Under a master lessee model, a public owner provides a long-term leasehold of the full facility to a private sector entity charged with performing most, if not all, operations and maintenance work and responsible for certain costs associated with operations and maintenance and capital improvements (including tenant improvements). Under an asset management model, a public owner hires a private sector entity to execute building maintenance and operations work, as well as lease and manage retail spaces and run programming throughout the facility, for a fee set within their contract; the owner retains responsibility to fund tenant fit out and other capital improvements.

The TJPA released a Request for Proposals (RFP) that assumed a master lessee structure. But to ensure a strong market response and guided by the market's inquiries around potential alternative structures, the RFP allowed respondents flexibility in proposing alternative deal structures and economic terms to the master lessee structure.

The TJPA received proposals from three respondents. Two of the teams (Cushman & Wakefield and Lincoln Property Company) proposed asset management structures, while one team (Young Woo & Associates) proposed a hybrid master lessee structure. As described in detail in the March 2017 report to the Board, under the master lessee structure, Young Woo & Associates would have borne the cost of the base building improvements and the landlord's share of tenant improvements. But in exchange, the master lessee would have retained a substantial amount of the revenues (more than 80%) generated by the facility through the first ten years of operations. Thus, the net annual income to the TJPA was far superior under the asset management structure versus the master lessee structure.

The TJPA opted for a contract with Lincoln that follows the asset manager model, putting the burden of funding improvements on the owner but generating greater retail revenues and reducing the necessary transit operator contributions to annual operating costs.

Cash Flow for Base Building and Allowance for Tenant Improvements

As described above, the TJPA assumes that it requires $16.23 million for Base Building Improvements direct construction costs and, for budgeting purposes, $12.59 million allowance representing the direct costs of TJPA's about one-half share of the aggregate cost of Tenant Improvements, plus an estimated $6.7 million for the asset manager's construction management fee, soft costs such as the architect designing the spaces, and contingency. To meet the Merchandising Plan schedule for full lease up and activation of the facility, the TJPA expects to require the funds for these improvements on the following timeframe:

	Annual Cash Flow (est.) ($millions)			
	FY 17/18	FY 18/19	FY 19/20	Total
Base Building Improvements	10.58	10.58	---	21.16
Allowance for Tenant Improvements	5.73	5.73	2.87	14.33
Total	**$ 16.31**	**$ 16.31**	**$ 2.87**	**$ 35.49**

Potential Funding Sources

A key source of funding for Base Building and Tenant Improvements is likely to be the Interim Financing provided by the City and County of San Francisco (City) and the Metropolitan Transportation Commission (MTC). The TJPA Board approved the Interim Financing in 2016 to fully fund a Phase 1 budget of $2.259 billion. The transaction closed in January 2017; $97 million has been drawn to date. While the maximum debt allowable is $260 million, TJPA's objective is to draw no more than $160 million, which ties with the current project estimate at completion of $100 million less than the budget. If TJPA draws more than $160 million, an additional interest rate cap will need to be procured to meet TIFIA lender requirements.

In conjunction with the Interim Financing, in May 2016, the TJPA Board approved the Cost Oversight Agreement ("Oversight Agreement") with the City and MTC, which established the Cost Review Committee (CRC). The Oversight Agreement provides the CRC authority to approve any expenditure of the proceeds of the Interim Financing before the TJPA may make such expenditure or take any action committing to expend any such proceeds. Any use of Interim Financing proceeds to fund the Base Building and/or Tenant Improvements would thus require the approval of the CRC.

Another potential source of funding for a portion of the estimated cost of improvements is the about $10.1 million in early term payments under the Naming Rights Agreement ("Early Naming Rights Fee"). Under that Agreement, salesforce.com agreed to pay an aggregate escalated fee of more than $110 Million over the 25-year term of the agreement, made up of: $1,010,000 at the time of execution of the agreement; an upfront, lump sum payment of the fee for the first 3 years of the term in the amount of $9,112,700 at the time of commencement of regular passenger bus service and the satisfaction of certain other conditions; and an annual fee of $3,278,181 escalated by 3 percent over the term of the agreement starting in year 4 of the term.

Transit Operator Contribution to Net Operating Cost

Under the terms of AC Transit's 2008 Lease of the Transit Center, AC Transit and any other Primary Tenants are expected to pay an Operating Charge, generally calculated as the Primary Tenant's share of the differential between operating costs and operating revenues in a fiscal year. The share is generally calculated based on a Primary Tenant's proportion of the total Exclusive Use Space at the transit center. The Lease contemplates that a Primary Tenant may sublet portions of its Exclusive Use Space to other transit operators to reduce the Primary Tenant's effective financial burden.

The TJPA anticipates that in the near term the two transit operators that will be Primary Tenants of the transit center will be AC Transit and SFMTA. The TJPA anticipates that AC Transit's share of the Operating Charge will be 78.2% based on AC Transit's exclusive use of the Bus Deck Level of the transit center. AC Transit is expected to reduce its effective obligation, however, through subleases with operators on the Bus Deck such as Greyhound, Amtrak, WestCAT Lynx, and SFMTA. The TJPA anticipates that SFMTA's share of the Operating Charge will be 21.8% based on SFMTA's exclusive use of the Bus Plaza of the transit center. SFMTA is also expected to sublease a portion of the Bus Deck Level from AC Transit, which the TJPA anticipates would equal 4.2% (thereby reducing AC Transit's obligation to 74%). Thus, SFMTA's total share of the Operating Charge is expected to be 26%. To the extent retail revenues are less than what is assumed in the budget, the Operating Charge paid by AC Transit and SFMTA would increase.

Funding Options and Alternatives; Impacts on Retail Revenues and Transit Operator Contributions

The TJPA staff, in consultation with Lincoln and Colliers, have evaluated five funding options and alternatives. The options are summarized in the table below and described in more detail in the narrative that follows, along with a projection of the likely impact of each alternative on retail/commercial revenues and transit operator share of the estimated net operating deficit of the transit center.

Source of Funding	**Option 1**		**Option 2**		**Option 3**		**Option 4**		**Option 5**	
	(based on estimated costs; $millions)									
	Base	TI	Base	TI	Base	TI	Base	TI	Base	TI
Interim Financing	21.16	14.33	21.16	4.23	21.16	0	21.16	0	21.16	0
Naming Rights	0	0	0	10.10	0	10.10	0	5.00	0	0
Retail Tenants	0	14.33	0	14.33	0	18.56	0	23.66	0	28.66
Retail Rent Revenues (est)**	$57.21		$57.21		$54.96		$25.67		$25.16	
Retail Rent Revenues (est) NPV @ 8%**	$32.62		$32.62		$31.58		$12.74		$12.57	

**Lincoln/Colliers Effective Rent and NPV Rent net of leasing commissions and TI's over a ten-year period escalated annually at 3%

The tables below demonstrate the net effect on Primary Tenant contributions over the next five fiscal years under each of the options. It is important to note that the numbers are estimates,

based on current operating projections. These projections are preliminary and still very much subject to change based on, among other things, the outcome of Lincoln's procurement of service providers for the transit center and Colliers' leasing efforts. Unlike the current FY18 operating budget, the projections used for this exercise assume a full 12 months of operations at the Temporary Terminal (versus 9 months) and 3 months of ramp-up costs for the Transit Center (versus 3 months of ramp-up plus 3 months of operations). However, they conceptually give a sense of the impact to rents and operator contributions under each scenario.

Option 1 ***($millions)***	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**Total**
Retail Rent Revenues (est.)	-	4.56	6.40	6.59	6.78	**$ 24.33**
AC Transit Contribution	-	-	5.33	3.11	2.74	**$ 11.18**
SFMTA Contribution	-	-	1.87	1.09	0.96	**$ 3.93**

Option 2	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**Total**
Retail Rent Revenues (est.)	-	4.56	6.40	6.59	6.78	**$ 24.33**
AC Transit Contribution	-	6.96	5.33	3.11	2.74	**$ 18.14**
SFMTA Contribution	-	2.44	1.87	1.09	0.96	**$ 6.37**

Option 3	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**Total**
Retail Rent Revenues (est.)	-	4.41	5.77	6.19	6.45	**$ 22.81**
AC Transit Contribution	-	7.07	5.79	3.40	2.99	**$ 19.26**
SFMTA Contribution	-	2.48	2.04	1.20	1.05	**$ 6.77**

Option 4	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**Total**
Retail Rent Revenues (est.)	-	0.14	0.26	2.36	3.30	**$ 6.05**
AC Transit Contribution	-	6.52	9.88	6.24	5.32	**$ 27.96**
SFMTA Contribution	-	2.29	3.47	2.19	1.87	**$ 9.82**

Option 5	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**Total**
Retail Rent Revenues (est.)	-	-	-	0.15	0.23	**$ 0.38**
AC Transit Contribution	-	3.16	10.07	7.87	7.59	**$ 28.69**
SFMTA Contribution	-	1.11	3.54	2.77	2.67	**$ 10.08**

Option 1:
Under Option 1, the TJPA would request that the CRC approve the use of the Interim Financing for the full cost of Base Building Improvements (est. $21.16 million) and the full cost of the allowance for TJPA's 50% share of the Tenant Improvements (est. $14.33 million) on the schedule assumed under the Merchandising Plan. The TJPA would then apply the full amount of Early Naming Rights Fee ($10.1 million) to transit center operating expenses, reducing the net differential assumed in the initial operating budget projections. The retail/commercial tenants

would be expected to contribute a 50% share of the cost of Tenant Improvements (est. $14.33 million).

In addition to the costs noted above, TJPA would need to expend funds to increase the notional amount of the interest rate cap in place for the Interim Financing. While projecting the future cost of an interest rate cap is difficult at best, a rough estimate from TJPA's derivative instruments advisor is that it would cost between $200,000 - $300,000 for the increase to the interest rate cap that would be required under any of the options.

Option 1 is expected to result in the most positive impact on operating revenues and the lowest necessary Operating Contribution from AC Transit and SFMTA. The TJPA's contribution to Tenant Improvement allowance would be consistent with the market and allow the TJPA to secure market rents (as described above, estimated $57.21 million over the term, or $32.62 million in NPV), which directly offset operating costs. The full amount of Early Naming Rights Fee would directly offset facility operating costs. By maximizing revenue, the transit operators' obligation to pay the net operating cost of the facility would be minimized (as described above, net amount estimated $7.21 million in FY20, $4.2 million in FY 21, and $3.71 in FY22).

Option 1 is also consistent with the assumptions in the Merchandising Plan, and is expected to be the best approach to realizing the TJPA's goals for small, disadvantaged, and local businesses. Lincoln and Colliers have advised that there are several potential advantages to offering a Tenant Improvement allowance in certain cases at the transit center. First, offering an allowance in appropriate cases will enable the TJPA to better attract the tenant mix presented in the Merchandising Plan – small, local, established businesses as well as small, local, emerging businesses (including incubator entrepreneurs). Additionally, the possibility for a Tenant Improvement allowance takes into consideration and mitigates the fact that the transit center is first generation retail space; that is, there is no track record of successful retail operations at the transit center and thus the prospective tenant is taking a business risk in regard to foot traffic, etc. Finally, the appropriate level of the Tenant Improvement allowance supports commanding rents that are expected to eventually lead to a stabilized transit center that is self-sustaining.

Option 2:
Under Option 2, the TJPA would request that the CRC approve the use of the Interim Financing for the full cost of Base Building Improvements (est. $21.16 million) and $4.23 million of the allowance for TJPA's 50% share of the Tenant Improvements. The TJPA would apply the full amount of Early Naming Rights Fee ($10.10 million) to the remainder of the TJPA's share of the allowance for Tenant Improvements. As with Option 1, the retail/commercial tenants would be expected to contribute a 50% share of the cost of tenant improvements (est. $14.33 million).

As described above, in addition to the costs noted above, TJPA would need to expend funds to increase the notional amount of the interest rate cap in place for the Interim Financing.

Option 2 is expected to result in a comparatively positive impact on operating revenues and a comparatively low Operating Contribution from AC Transit and SFMTA. Like Option 1, under this option the TJPA's contribution to Tenant Improvement allowance would be consistent with the market and allow the TJPA to secure market rents (as described above, estimated $57.21

million over the term, or $32.62 million in NPV), which directly offset operating costs. The transit operator's contribution to operating costs of the facility would be greater than under Option 1, however, based on the application of the Early Naming Rights Fee to capital improvements rather than operating costs (as described above, net amount estimated $9.4 million in FY19, $7.21 million in FY20, $4.2 million in FY21, and $3.71 million in FY22).

Like Option 1, Option 2 is also consistent with the assumptions in the Merchandising Plan, and is expected to be the best approach to realizing the TJPA's goals for small, disadvantaged, and local businesses.

Option 3:
Under Option 3, the TJPA would request that the CRC approve the use of the Interim Financing for the full cost of Base Building Improvements (est. $21.16 million). The TJPA would apply the full amount of Early Naming Rights Fee ($10.1 million) to the allowance for the TJPA's 50% share of the Tenant Improvements, and require that the tenants fund the remaining about $4.23 million of the TJPA's share. This tenant contribution would be in addition to the 50% share (est. $14.33 million) that the TJPA already assumes the tenants would fund, for a total estimated contribution from tenants of $18.56 million (about 65% of the estimated total cost of Tenant Improvements).

As described above, in addition to the costs noted above, TJPA would need to expend funds to increase the notional amount of the interest rate cap in place for the Interim Financing.

Option 3 is expected to result in a comparatively negative impact on operating revenues and a comparatively greater Operating Contribution from AC Transit and SFMTA. Based on the shift of a portion of the obligation to fund Tenant Improvements from the TJPA to the tenants, the TJPA would expect a comparative reduction in retail rent revenues (as described above, estimated $54.96 million over the term, or $31.58 million in NPV) through reduced rent and the requirement to offer a period of free rent. None of the Early Naming Rights Fee would be applied to offset operating expenses. The transit operator's contribution to operating costs of the facility would be greater than under either Option 1 or Option 2, based on the reduction in expected rents and the application of the Early Naming Rights Fee to capital improvements rather than operating costs (as described above, net amount estimated $9.56 million in FY19, $7.83 million in FY20, $4.6 million in FY21, and $4.04 million in FY22).

Under Option 3, Colliers expects that it would be more difficult to meet the goals and objectives of the Merchandising Plan; below-market participation from the TJPA in the cost of Tenant Improvements may make it much more difficult to attract the optimal operators. Lincoln and Colliers advise that not offering any allowance or offering an under-market allowance can potentially lead to several direct adverse effects, including: (1) only attracting well-financed businesses, which tend to be large national/regional chains that are generally not expected to serve the demand from the users of the transit center, and would not be consistent with the TJPA's plan for outreach to local, small, and disadvantaged businesses; (2) being required to accept below-market rents (or even some period of free rent) to offset the tenant's capital expenditure, resulting in diminished operating revenues for the transit center; and (3) the most desirable prospective tenants going to other landlords with second generation (more proven and

already built out) space. Options 4 and 5, discussed below, which significantly reduce the Tenant Improvement allowance below market, are also expected to result in these negative outcomes.

Option 4:
Under Option 4, the TJPA would request that the CRC approve the use of the Interim Financing for the full cost of Base Building Improvements (est. $21.16 million). The TJPA would apply $5 million of the Early Naming Rights Fee toward the allowance for the TJPA's 50% share of the Tenant Improvements, and require that the tenants fund the remaining about $9.33 million of the TJPA's share. This contribution would be in addition to the 50% share (est. $14.33 million) that the TJPA already assumes the tenants would fund, for a total estimated contribution from tenants of $23.66 million (about 83% of the total cost of Tenant Improvements).

Option 4 is expected to result in a comparatively negative impact on operating revenues and a comparatively high Operating Contribution from AC Transit and SFMTA. Compared to Options 2 and 3, a lesser portion of the Early Naming Rights Fee ($5 million rather than $10.1 million) would be applied toward operating costs. But Colliers expects that the retail/commercial rent revenues would significantly decline as a result of the requirement that the tenants bear a significantly greater than 50% share of the cost of Tenant Improvements (as described above, estimated $25.67 million over the term, or $12.74 million in NPV) through severely reduced rent and the requirement to offer a period of free rent.

On balance, the transit operator's contribution to operating costs of the facility under Option 4 would be greater than under either Option 1, 2, or 3, based on the severe reduction in expected rents and the application of a portion of the Early Naming Rights Fee to capital improvements rather than operating costs (as described above, net amount estimated $8.81 million in FY19, $13.35 million in FY20, $8.43 million in FY21, and $7.19 million in FY22).

Under Option 4, Colliers expects that it would be significantly more difficult (and perhaps not possible) to meet the goals and objectives of the Merchandising Plan as a result of the significantly below-market participation from the TJPA in the cost of Tenant Improvements.

Option 5:
Under Option 5, the TJPA would request that the CRC approve the use of the Interim Financing for the full cost of Base Building Improvements (est. $21.16 million). The tenants would be required to fund 100% of the cost of Tenant Improvements with no contribution from the TJPA (est. $14.33 million for TJPA's share; $28.66 million total cost to tenants). This option is most similar to the Young Woo & Associates proposal to enter a hybrid master lease agreement, which the TJPA rejected.

This option is also expected to result in a comparatively negative impact on operating revenues and a comparatively high Operating Contribution from AC Transit and SFMTA. While the full amount of the Early Naming Rights Fee ($10.1 million) would be applied toward operating costs, retail/commercial rent revenues are expected to be severely depressed as a result of the requirement that tenants fund 100% of the cost of capital improvements (as described above, estimated $25.16 million over the term, or $12.57 million in NPV) through severely reduced rent and the requirement to offer a period of free rent.

The transit operator's contribution to operating costs of the facility would be greater than for Options 1-4 due to the severely reduced rent revenues (as described above, net contribution amount estimated $4.27 million in FY19, $13.6 in FY20, $10.64 in FY21, and $10.26 in FY22).

Under Option 5, Colliers expects that it would be impossible to meet the goals and objectives of the Merchandising Plan.

RECOMMENDATION:

On balance, the TJPA team believes that funding Base Building Improvements and the TJPA's market share of Tenant Improvements in the near term will be an overall net financial gain to the transit center and reduce the overall net operating cost of the facility, as well as providing significant other benefits to the transit passengers, workers, residents, and visitors to the transit center.

Because Option 1 is expected to result in the most positive impact on operating revenues and the lowest necessary Operating Contribution from AC Transit and SFMTA, and because it would position the TJPA to deliver a fully-activated facility consistent with the Merchandising Policy, staff recommends that the Board direct the Executive Director to proceed with Option 1. Consistent with Option 1, at the next regular CRC meeting (scheduled for November 17), TJPA staff would request that the CRC approve the expenditure of Interim Financing on the full cost of Base Building Improvements and the TJPA's 50% share of Tenant Improvements.

If the CRC declines to approve Option 1, then TJPA staff recommends that the TJPA Board direct the staff to proceed with Option 2 and request that the CRC approve the expenditure of Interim Financing on the full cost of Base Building Improvements and the net portion of the TJPA's 50% share of Tenant Improvements after applying the full amount of the Early Naming Rights Fee.

Regardless of whether Interim Financing and/or Early Naming Rights Fees are applied to the cost of Base Building and Tenant Improvements, the use of Program Reserve from the Phase 1 Capital Budget is required. TJPA staff will propose to transfer Program Reserve to a new Base Building/Tenant Improvement budget line in an item presented to the TJPA Board for approval at its December 2017 meeting.

ENCLOSURES:

1. Resolution

TRANSBAY JOINT POWERS AUTHORITY
BOARD OF DIRECTORS

Resolution No. _____________

WHEREAS, The Transbay Joint Powers Authority (TJPA) is a joint powers agency organized and existing under the laws of the State of California to design, build, and operate the Transbay Transit Center Program ("Transbay Program"); and

WHEREAS, The TJPA elected to pursue an asset management form of agreement for operation, activation, and maintenance of the transit center, which requires the owner to bear certain costs for capital improvements, such as base building improvements and tenant improvements; and

WHEREAS, The TJPA adopted a Merchandising Plan for the transit center, which includes a schedule for retail/commercial leasing that describes the number, type, and location of spaces that are expected to open each quarter and describes efforts to respond to expected market demand for small, disadvantaged, and local retailers; and

WHEREAS, The TJPA anticipates that certain Base Building Improvements and an allowance for the TJPA's market share of Tenant Improvements will be required to activate the transit center consistent with the Merchandising Plan and secure superior rents from commercial/retail tenants; and

WHEREAS, The TJPA concludes that funding Base Building Improvements and the TJPA's market share of Tenant Improvements in the near term will be an overall net financial gain to the transit center and reduce the overall net operating cost of the facility, as well as providing significant other benefits to the transit passengers, workers, residents, and visitors to the transit center; and

WHEREAS, After analyzing various options for funding the cost of Base Building Improvements and the TJPA's market share of Tenant Improvements, the TJPA concludes that utilizing the Interim Financing provided by the City and County of San Francisco (City) and the Metropolitan Transportation Commission (MTC) for these costs would result in the most positive impact on operating revenues and the lowest necessary Operating Contribution from the transit center's Primary Tenants, Alameda-Contra Costa Transit District (AC Transit) and the San Francisco Municipal Transportation Agency (SFMTA), and would position the TJPA to deliver a fully-activated facility consistent with the Merchandising Policy; now, therefore, be it

RESOLVED, That the TJPA Board of Directors directs the Executive Director to proceed with efforts to secure approval to use the Interim Financing provided by the City and MTC for the cost of Base Building Improvements and the TJPA's market share of Tenant Improvements, and otherwise to proceed with applying the full amount of the early term payment under the Naming Rights Agreement to the TJPA's market share of Tenant Improvements and secure approval to use the Interim Financing for the cost of Base Building Improvements and the remaining cost of the TJPA's market share of Tenant Improvements; and, be it

FURTHER RESOLVED, That the TJPA Board of Directors authorizes the Executive Director to take all actions and execute all documents as he deems reasonably necessary to implement and effectuate the above approval.

I hereby certify that the foregoing resolution was adopted by the Transbay Joint Powers Authority Board of Directors at its meeting of November 9, 2017.

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Secretary, Transbay Joint Powers Authority