

STAFF REPORT FOR CALENDAR ITEM NO.: 19
FOR THE MEETING OF: September 13, 2018

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Authorizing the Executive Director to transfer \$15 million from Program Reserve to replenish the construction contingency and cover additional administrative overhead, interest payments, and extended construction administration services with no change to the Phase 1 construction estimate-at-completion, which would remain \$2.159 billion.

SUMMARY:

Staff is requesting approval to transfer \$15 million from Program Reserve, as follows:

Construction Contingency:	\$11.2M
Administrative and Interest Expenses:	\$2.5M
Extended Construction Administration:	\$1.3M
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<i>Phase 1 Capital Costs</i>	<i>\$15 M</i>

The table below show the balance of contingencies and Program Reserve as of the end of June 2018.

	Construction Contingency	CM/GC Contingency	Program Reserve	Total Contingency & Reserve
	in \$ millions			
Baseline Budget Amounts	\$61.8	\$32.5	\$117.0	\$211.3
Contingency Usage Through June 2018	(\$55.8)	(\$16.2)	(\$33.7)	(\$105.7)
Remaining Baseline Budget Amounts (at June 2018)	\$6.0	\$16.3	\$83.3	\$105.6
Total Draws/Addds July 2018	(\$0.6)	(\$0.9)	(\$0.2)*	(\$1.7)
Remaining Balances	\$5.4	\$15.4	\$83.1**	\$103.9

* Program Reserve draw was for Board approved amount for PMPC extended services.

**Program Reserve assumed to include contingencies earmarked for tenant improvements and legal costs related to 301 Mission St.

The following section explains the need for additional budget in each of the areas listed above.

EXPLANATION:

The following Phase 1 capital expenditures have been approved by the Cost Review Committee but require a transfer of \$15 million from Program Reserve, as further explained as follows:

Construction contingency. As merited construction change orders for Phase 1 construction have been processed, the construction contingency balance has been depleted to a level that now requires replenishment to enable the construction team to pay merited changes in addition to resolving disputes in a timely and efficient manner to close out Phase 1.

Construction contingency has been used mainly to cover additional costs associated with the eight TG05 trade packages for general conditions/logistics. These trade packages are for services such as dumpster off-haul, required elevator attendants, and the hoisting of materials and general cleanup of the site not specifically procured through or attributable to one specific trade package. The original budgeted amount for the TG05 trade packages was approximately \$45 million. However, additional scope requirements (such as dumpsters, composite cleanup and storm water protection), which were not originally contemplated in the original budget because of changes in procurement strategy, have been imposed on these packages. Additionally, the services have been extended to accommodate the completion of Phase 1 construction, which is eight months beyond original projections. The actual amount needed is now \$60 million, requiring \$15 million more from construction contingency than was contemplated in the original budget.

All merited change orders related to the TG05 trade packages have been approved by the Cost Review Committee. The transfer of \$11.2 million from Program Reserve will offset the \$15 million encumbered, with the difference being absorbed by the contingency funds.

TJPA interest and administrative expenses. The Phase 1 budget includes interest and other cost estimates associated with the Bridge Loan, a direct loan from Goldman Sachs and Wells Fargo in the amount of \$171 million that closed in January 2015. These estimates included actual Bridge Loan costs and forecasts based on the assumption that the Bridge Loan would be repaid in full with the proceeds from the sale of Parcel F during the summer of 2016. Parcel F did sell, and the Bridge Loan was repaid in full on June 22, 2018. Since the adoption of the Phase 1 budget, the TJPA sold the interest rate cap from the bridge financing for approximately \$3.18 million. The Phase 1 budget did not include interest, commitment fee, closing, or other costs associated with the City Financing, which closed in January 2017. The administrative cost projections have subsequently been updated with actual and forecast costs associated with the City Financing, both at closing and ongoing, through December of 2018. The net change in budgeted interest and related costs is approximately \$2.6 million greater than the 2016 Phase 1 budget.

As construction has progressed for eight months beyond the originally anticipated completion date, administrative and support services for Phase 1 have also been extended and, correspondingly, the associated costs have exceeded the planned budget. These time-dependent costs include TJPA staff salaries and benefits, rent, and other administrative costs. In addition, the change to the start of operations has delayed the transfer of some staffing costs to the operations budget, which is separate from the Phase 1 construction budget. Adjustments for cost savings from other administrative activities result in a net increase of \$2.5 million for total administrative and interest expenses.

Extended construction administration. Pelli Clarke Pelli Architects' (PCPA) Construction Administration Base Services expired on June 22, 2018. This expiration date was established

when the transit center was scheduled to open in December 2017, and the PCPA design contract was budgeted and funded on the basis of the December 2017 opening date. The transit center opened to the public on August 12, 2018; Final Completion is anticipated in mid-October 2018, with miscellaneous closeout items anticipated to continue through December 2018. Services from PCPA will be needed through construction closeout. Staff is requesting \$1.3 million from the Program Reserve to cover PCPA's additional services through December 2018. On August 29, the Cost Review Committee reviewed this request for \$1.3 million.

The above transfer of funds from Program Reserve does not affect the estimate-at-completion for Phase 1, which remains \$2.159 billion.

RECOMMENDATION:

Authorizing the transfer of \$15 million from Program Reserve to replenish the construction contingency and cover additional administrative overhead, interest payments, and extended construction administration services with no change to the Phase 1 construction estimate-at-completion, which would remain \$2.159 billion.

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; and

WHEREAS, As merited construction change orders for Phase 1 construction have been processed, the construction contingency balance has been depleted to a level that now requires replenishment to enable the construction team to resolve disputes in a timely and efficient manner to close out Phase 1; and

WHEREAS, As construction has progressed for eight months beyond the originally anticipated completion date, administrative and support services for Phase 1 have also been extended and, correspondingly, the associated costs have exceeded the planned budget; and

WHEREAS, The current budget projections include interest costs, closing costs, and other fees associated with the City Financing, which are \$2.6 million greater than the 2016 budget; and

WHEREAS, Construction administration services during construction of Phase 1 have been extended to coincide with Phase 1 construction closeout in December 2018; and

WHEREAS, Transferring \$15 million from Program Reserve will replenish the construction contingency and provide funds to cover the costs for additional administrative services; now, therefore, be it

RESOLVED, That the TJPA Board of Directors authorizes the transfer of \$15 million from the Program Reserve.

I hereby certify that the foregoing resolution was adopted by the Transbay Joint Powers Authority Board of Directors at its meeting of September 13, 2018.

Secretary, Transbay Joint Powers Authority