

**STAFF REPORT FOR CALENDAR ITEM NO.: 12
FOR THE MEETING OF: February 14, 2019**

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Approval of Fiscal Year 2019-20 Preliminary Operating Projection in the amount of \$31,846,000.

SUMMARY:

The leases with transit operators require that the TJPA Board approve an operating budget projection for the transit center by January for the upcoming fiscal year, in order to assist the transit operators in developing their own annual budgets. The Board continued the Preliminary Operating Projection item from its January 10, 2019 meeting. The proposed Preliminary Operating Projection for FY 2019-20 in the amount of \$31,846,000 is discussed below in further detail. A narrative budget outlook for FY 2019-20 will be presented to the Board in April 2019, the Draft Operating and Capital Budgets for discussion in May, and the Final Operating and Capital Budgets for adoption in June.

EXPLANATION:

The Lease and Use Agreement between the TJPA, AC Transit and the San Francisco Municipal Transportation Authority (SFMTA) requires the TJPA Board to adopt a preliminary operating budget projection by January 31. The Board continued the Preliminary Operating Projection item from its January 10, 2019 meeting. The January presentation included the original FY 2019-20 budget projection that was presented to the Board in June 2018 and to the Primary Tenants working group in September 2018. Since the January meeting, TJPA staff have updated the FY 2019-20 projected budget and discussed the revised expenses and revenues with staff from AC Transit and SFMTA staff, including the General Managers. Three scenarios are presented, in which only the Regional Contribution and Naming Rights revenues vary. All other expenses and revenues are the same between the scenarios.

FY 2019-20 Operating Expenses:

As presented to the Primary Tenants in January and early February, the preliminary projected operating expenses for FY 2019-20 total \$31,846,000, broken down as follows:

Operating Expenses	FY 2019-20 Budget Projection Amount
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
Total Operating Expenses	\$31,846,000

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

Attachment 2 shows the changes for each budget line item from the original projection (from June 2018 and presented in January 2019) to the current estimate. Several expense items have changed from the original projections, as discussed below:

Transit Center Operations and Maintenance (O&M): The transit center will continue to be diligently serviced and attentively cleaned, with an emphasis on systematic preventive maintenance and programmed janitorial and groundskeeping activities. The TJPA’s Asset Manager, Lincoln Properties (LPC) will conduct repair and upkeep at frequencies following typical industry best practices that, in the case of preventive maintenance, follow as closely to original equipment manufacturer recommendations as is practical. The goal of this performance-based facility management model is to achieve a required level of performance, reliability, and appearance while minimizing costs.

TJPA staff has identified savings compared to the preliminary projection presented in January 2019. Discussions with LPC regarding potential savings are ongoing, and will continue throughout the operations of the transit center.

Asset Manager / Park Administration: These costs include park maintenance and programming, park management fee and administration, digital content management and wayfinding systems, and the asset management fee and administration. Fees that are fixed under the Asset Management Agreement are the park management fee and administration and the LPC asset management fee. For the non-fixed costs, TJPA staff has identified savings compared to the preliminary projection presented in January 2019. The park management fee and administration expenses are offset by CBD Park Payments as described in the FY 2019-20 Operating Revenue section of this report.

Leasing Commissions: 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, more of the leasing commissions will be payable in FY 2019-20 than previously projected. Conversely, the amounts due during FY 2018-19 are less than budgeted for the current fiscal year.

Security: Security will include local law enforcement provided by the San Francisco Police Department and private security guards and ambassadors through a contract with Allied Universal. Staffing levels will continue to be sufficient to implement the safety and security concept of operations; deter, respond to, manage and recover from all security or safety events and incidents – natural or human-caused; and manage the Security Operations Center in the transit center. The security model assigns law enforcement primarily to high visibility roving patrols, community policing activities, and response to emergency situations. Standard security

guard services and park ambassador activities would reside with the contract security service, Allied Universal. TJPA staff continue to seek cost savings opportunities that will not impact the overall security of the transit center.

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.

IT / Cybersecurity: IT services include maintenance and management of the IT infrastructure at the transit center by the Asset Management team and cybersecurity under a consultant contract with TJPA. The original preliminary budget forecast included certain IT costs within the Asset Management line item. This report separates these costs into a new line item and combines them with IT costs related to cybersecurity. The cybersecurity contract was mistakenly omitted from the original preliminary budget forecast, which will result in an increase.

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 able to navigate through the facility. 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.

TJPA Administration and Insurance: Based on the FY 2018-19 actuals, costs for insurance are anticipated to increase from the preliminary projection presented in January. The TJPA's insurance will continue to provide all-risk and terrorism coverage for basic insurance against damage and loss of use resulting from most insurable events, with the exception of flood and earthquake. Costs related to TJPA Administration have not changed since the preliminary projection presented in January. The TJPA Administration category does not include debt service costs or fees, which will be estimated this Spring during the annual budget approval process.

Reserves and Contingency: The TJPA Reserve Policy establishes three types of reserves: Emergency Reserve, Fiscal Reserve, and an O&M Reserve. The Emergency Reserve is set at \$500,000 by the policy and would be used in extraordinary events such as a natural disaster. If needed, it would be funded with existing unrestricted fund balance. The O&M Reserve and the Fiscal Reserve have similar purposes – ensuring that sufficient funds are available in the event of unanticipated funding shortfalls and/or unavoidable expenditures; thus, just one line item for operating expense contingency has been included in the preliminary operating budget. It has been set at 15 percent of the transit center variable operating budget line items, and excludes the TJPA Administration line item as a budgetary cost savings measure. To the extent that the O&M Reserve is not used, the amount of Regional Contributions from AC Transit and SFMTA would decrease.

FY 2019-20 Operating Revenues:

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

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
Total Revenue	\$31,846,000	\$31,846,000	\$31,846,000

RM-2 and RM-3 Bridge Tolls: TJPA receives an annual allocation of RM-2 bridge toll funds for operations. The allocation amount for FY 2019-20 is \$5,201,957 plus an additional \$3 million for a total of \$8.2 million. The FY 2019-20 budget forecast includes RM-3 funds, as the measure was passed by the voters in June 2018. Funds for the transit center are based on a percentage of the new toll funds collected. MTC estimates that \$1,625,000 would be available for the transit center in FY 2019-20. However, in response to pending lawsuits related to RM-3, MTC began the new toll collection on January 1, 2019, but is holding all receipts in an escrow account. These funds will not be released until the lawsuits are fully resolved. If the lawsuits are successful, TJPA would not receive RM-3 funds for the transit center operations.

Community Benefit District (CBD) Park Payments: The East Cut CBD was formed in 2015 as a special assessment district to fund specified services to improve quality of life in the neighborhood surrounding the transit center, including operation and maintenance of green spaces in the district. Under the CBD Management Plan, the CBD will provide up to 79.18% of the annual budget to operate and maintain the Rooftop Park, including the cost of park ambassadors. The preliminary projection presented in January included approximately \$1.2 million. Revised projections based on correspondence with the East Cut CBD indicate that approximately \$1.75 million is anticipated to be available in the upcoming year.

Naming Rights: 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 SFMCTA. The Naming Rights funds had been planned for the capital costs of tenant improvements. In order to use this revenue for operations, TJPA will require the authorization of additional City Financing funds from the Cost Review Committee (CRC). TJPA will request this authorization at the upcoming CRC meeting, currently scheduled for February 22, 2019. The draft budget presented to the Board in May will reflect the action taken by the CRC.

The three FY 2019-20 budget projection scenarios include 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.

Regional Contributions from AC Transit and SFMTA:

Any differential between operating costs and operating revenues is anticipated to be covered by the transit operators utilizing the facilities, per the lease agreements with each operator. The three budget projection scenarios include the following amounts for the Regional Contributions and Naming Rights:

Source	Scenario 1	Scenario 2*	Scenario 3
Naming Rights	4,928,300	2,057,687	0
Regional Contributions			
AC Transit (74%)	3,873,974	5,998,228	7,520,916
SFMTA (26%)	1,361,126	2,107,485	2,642,484
Total	\$10,163,400	\$10,163,400	\$10,163,400

* Maintains original level of projected contributions from AC Transit and SFMTA that was presented to the Board in January 2019.

Transit Center Retail Revenue: Based on its updated leasing schedule, LPC has updated the anticipated transit center retail revenue for FY 2019-20. The previous forecast included optimistic assumptions for occupancy dates. The current leasing schedule shows that the availability of lease revenue will shift out in time. As such, the projected retail revenue has declined from the preliminary budget projection presented in January. However, the leasing forecast indicates that the overall rental income at full occupancy will, at least, meet the original pro forma projections. The reduction in the FY 2019-20 budget is due to the timing of the start of rental payments, not a reduction in total rental income at full occupancy.

Transit Center Sponsorship/Events: Several operating revenue sources depend on a substantial “ramp-up” time to fully mature. Due to the temporary closure of the transit center, the ramp-up will begin upon reopening. The previous revenue projections had assumed that almost a year of the ramp-up would have occurred by the start of FY 2019-20. LPC and its park programming subconsultant, Biederman Redevelopment Ventures (BRV), has assessed the impact of the closure on park sponsorship and events revenue. As such, the current projections indicate a reduction from the original projection.

Transit Center Advertising / Miscellaneous: As noted above, the temporary closure of the transit center has delayed the ramp-up period for some revenue streams. The revenue forecasts from LPC and its digital content subconsultant, Pearl Media, include reductions in advertising income. Other miscellaneous income including from pop-up retail and food trucks is similarly impacted.

Neutral Host DAS Revenue: The preliminary FY 2019-20 budget forecast includes \$125,000 in Neutral Host DAS revenues. In addition to the \$125,000 minimum annual guarantee, TJPA staff anticipates at least one additional carrier may sign during the year, which would bring additional operating revenue. The payment schedule with Boingo Wireless includes payments of \$500,000 within thirty days of the third and fourth carrier signings.

Other Rents, Sublease: TJPA will continue to collect rent from Greyhound and Amtrak for their use of the transit center. The projected rental income will be updated based on finalized leases and move-in dates. Upon moving into the transit center, the TJPA will be able to sublease its current office space. The estimated revenue projection will be updated following discussions with prospective subtenants, which are underway.

AC Transit for Bus Storage Facility Security: As noted previously, AC Transit and the TJPA have entered into an agreement for AC Transit to reimburse TJPA for security costs related to the Bus Storage Facility. This revenue corresponds to the actual costs incurred for this work.

Emergency Fund Balance: Per the TJPA's Reserve Policy, the annual operating budget includes \$500,000 in fund balance revenues to cover the emergency reserve.

O&M Reserve: In its approval of the FY 2018-19 operating budget, the TJPA Board authorized the use of much of TJPA's operating reserves to reduce the contributions provided by AC Transit and SFMTA in the current fiscal year. As a result, limited operating reserves were projected to be available at the start of FY 2019-20. However, with the temporary closure of the transit center, TJPA staff anticipates that more reserve funds would be available at the start of FY 2019-20. The amount of O&M reserve funds shown in the current FY 2019-20 budget projection assumes that the O&M reserve would again be limited to 7.5 percent of the operating costs, which is less than the 25 percent goal in the Board-approved Reserve Policy.

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.

RECOMMENDATION:

Approve the Fiscal Year 2019-20 Preliminary Operating Projection in the amount of \$31,846,000.

ENCLOSURES:

1. Resolution
2. FY 2019-20 Preliminary Operating Projection

**TRANSBAY JOINT POWERS AUTHORITY
BOARD OF DIRECTORS**

Resolution No. _____

WHEREAS, The Transbay Joint Powers Authority (TJPA) is a joint powers agency responsible for the planning, design, construction, operation and management of the new Transbay Transit Center Program; and

WHEREAS, Pursuant to the Joint Powers Agreement creating the TJPA, dated April 4, 2001 (Agreement), the TJPA Board of Directors (TJPA Board) has the authority to adopt an annual or multi-year budget; and

WHEREAS, The TJPA Board is required to approve a preliminary operating budget for the transit center Primary Tenants Committee by end of January each year for the coming fiscal year; and

WHEREAS, The TJPA Board has reviewed and considered the FY 2019-20 Preliminary Operating Projection; and

WHEREAS, These projections will continue to be refined as operations in the new transit center continue; and

WHEREAS, A budget outlook for FY 2019-20 will be presented to the TJPA Board in April 2019, a draft operating budget for discussion in May, and a final operating budget for adoption in June; now, therefore, be it

RESOLVED, That the TJPA Board of Directors hereby approves the FY 2019-20 Preliminary Operating Projection, noting that the projection is preliminary in nature and will continue to be refined.

I hereby certify that the foregoing resolution was adopted by the Transbay Joint Powers Authority Board of Directors at its meeting of February 14, 2019.

Secretary, Transbay Joint Powers Authority

Transbay Joint Powers Authority
Preliminary Fiscal Year 2019-20 Operating Budget Projections

	FY 2019-20 Operating Projection Scenario 1	FY 2019-20 Operating Projection Scenario 2	FY 2019-20 Operating Projection Scenario 3	FY 2019-20 Operating Projection as of Jan-19	Comparison with Operating Projection Presented Jan-19
OPERATING EXPENSES					
<i>Transit Center</i>					
Transit Center Maintenance	3,080,000	3,080,000	3,080,000	3,104,900	(24,900)
Transit Center Janitorial	2,583,900	2,583,900	2,583,900	2,645,000	(61,100)
Transit Center Utilities	2,204,200	2,204,200	2,204,200	2,225,600	(21,400)
Park Maintenance & Programming	683,600	683,600	683,600	683,600	-
Park Management Fee & Administration	798,000	798,000	798,000	798,000	-
Digital Content Management & Wayfinding Systems	720,700	720,700	720,700	751,600	(30,900)
Wayfinding Gap Analysis	100,000	100,000	100,000	-	100,000
Marketing & Leasing Commissions	1,624,900	1,624,900	1,624,900	331,600	1,293,300
Asset Management Fee & Administration	2,108,000	2,108,000	2,108,000	2,405,868	(297,868)
Law Enforcement Security	2,440,100	2,440,100	2,440,100	2,440,100	-
Security	5,146,400	5,146,400	5,146,400	5,428,400	(282,000)
Cyber Security / IT	1,084,100	1,084,100	1,084,100	444,000	640,100
Insurance	1,200,000	1,200,000	1,200,000	865,200	334,800
TJPA Staff & Administration (not including debt service)	3,889,700	3,889,700	3,889,700	3,889,745	(45)
Subtotal, Transit Center	27,663,600	27,663,600	27,663,600	26,013,613	1,649,987
<i>Bus Storage Facility</i>					
Security (Pass-Through)	281,000	281,000	281,000	-	281,000
Subtotal, Bus Storage Facility	281,000	281,000	281,000	-	281,000
<i>Reserves</i>					
Emergency Reserve	500,000	500,000	500,000	500,000	-
Operating Contingency	3,401,400	3,401,400	3,401,400	3,318,600	82,800
O&M Reserve Contributions	-	-	-	-	-
Subtotal, Reserves	3,901,400	3,901,400	3,901,400	3,818,600	82,800
TOTAL OPERATING EXPENSES	\$ 31,846,000	\$ 31,846,000	\$ 31,846,000	\$ 29,832,213	\$ 2,013,787
NON-OPERATING REVENUES					
Regional Measure 2	8,202,000	8,202,000	8,202,000	8,202,000	-
Regional Measure 3	1,625,600	1,625,600	1,625,600	1,625,600	-
Community Benefit District Park Payments	1,757,900	1,757,900	1,757,900	1,173,100	584,800
201 Mission Office Sublease	578,300	578,300	578,300	578,300	-
Subtotal, Non-Operating Revenue	12,163,800	12,163,800	12,163,800	11,579,000	584,800
OPERATING REVENUES					
AC Transit (74%)	3,873,974	5,998,228	7,520,916	5,998,228	varies by scenario
SF Municipal Transportation Agency (26%)	1,361,126	2,107,485	2,642,484	2,107,485	varies by scenario
Subtotal, Other Regional Contributions	5,235,100	8,105,713	10,163,400	8,105,713	varies by scenario
Naming Rights	4,928,300	2,057,687	-	-	varies by scenario
Transit Center Retail Revenue	2,921,800	2,921,800	2,921,800	5,036,600	(2,114,800)
Transit Center Sponsorship / Events	614,500	614,500	614,500	1,034,000	(419,500)
Transit Center Advertising & Miscellaneous Revenue	2,237,300	2,237,300	2,237,300	2,672,800	(435,500)
Neutral Host DAS Licensing Fees	625,000	625,000	625,000	125,000	500,000
Temporary Terminal Rents	-	-	-	-	-
Other Operator Rents	319,500	319,500	319,500	329,100	(9,600)
AC Transit (for Bus Storage Facility Security)	281,000	281,000	281,000	-	281,000
Subtotal, Operating Revenue	17,162,500	17,162,500	17,162,500	17,303,213	(2,198,400)
OTHER SOURCES					
Use of Fund Balance	500,000	500,000	500,000	500,000	-
Use of Operating & Maintenance Reserve	2,019,700	2,019,700	2,019,700	450,000	1,569,700
Subtotal, Other Sources	\$ 2,519,700	\$ 2,519,700	\$ 2,519,700	\$ 950,000	\$ 1,569,700
TOTAL OPERATING SOURCES	\$ 31,846,000	\$ 31,846,000	\$ 31,846,000	\$ 29,832,213	\$ 2,013,787

Note: Loan servicing fees and interest, and tax increment funds used to pay these costs, are not included