

**STAFF REPORT FOR CALENDAR ITEM NO.: 10  
FOR THE MEETING OF: April 11, 2019**

**TRANSBAY JOINT POWERS AUTHORITY**

**BRIEF DESCRIPTION:**

Presentation of the budget outlook for TJPA's Fiscal Year 2019-20 (FY19-20) 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 the remaining Phase 1 construction closeout work for the implementation of the Transbay Program, as well as efforts to advance Phase 2/Caltrain Downtown Extension.

**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 FY19-20 period. The planned budget presentation schedule is as follows:

April

- Presentation of budget outlook (this report)

May

- Presentation of draft FY19-20 operating and capital budgets

June

- Adoption of FY19-20 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 Board of Directors is scheduled to adopt the FY19-20 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:**

As an agency formed to build a capital project, the TJPA has managed its resources primarily in relation to the multi-year Transbay Program capital budgets for Phase 1 and Phase 2. With the opening of the transit center and closeout of the Phase 1 capital project, this fiscal year's budget is oriented on the operations of the transit center and operations of the TJPA. The capital budget will focus on Phase 1 completion/closeout and Phase 2 will be a continuation of preliminary engineering work to advance Phase 2/Caltrain Downtown Extension to a 30% level.

## **FY2019-20 Operating Revenues & Funding Sources**

The TJPA anticipates that the operating costs for the transit center will be funded through the following sources:

- Naming Rights
- Regional Measures 2 and 3
- Special assessments from The East Cut Community Benefits District
- Retail leases,
- Sponsorship/events,
- Advertising revenues
- Licensing fee from the neutral host distributed antennae system provider
- Greyhound and Amtrak rents
- Bus Storage Facility Security
- Contributions from transit operators for any differential between operating costs and operating revenues

## **FY2019-20 Operating Expenses**

The FY19-20 operating budget is derived from the administrative oversight of the TJPA and full operations of the transit center.

It includes the following expenditure categories:

- salaries and benefits for TJPA staff
- administrative expenses
- professional and specialized services,
- debt service

### Salaries and Benefits

The FY19-20 operating budget will include a share of salaries and benefits for eleven of the sixteen TJPA positions: Executive Director, Facility Manager (100%), Chief Security Officer (100%), Deputy Chief Security Officer (100%), Chief of Staff / Board Secretary, Chief Financial Officer, Financial and Systems Accountant/Human Resources Analyst, Financial Reporting Accountant, Accountant, IT Director, Contract Compliance Officer 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 budget will cover the remaining proportions for Phase 1 and 2 not included in the operating budget.

### 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 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 1 and 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 following expense categories for operations are encompassed in the contracts for the transit center:

- asset manager staffing and administration
- maintenance
- janitorial
- utilities
- rooftop park maintenance and programming
- property management fees
- digital content management
- leasing commissions
- security
- IT / cybersecurity
- Insurance

### Debt Service

In 2017, the City closed on a lease-backed certificates of participation financing with Wells Fargo and MTC for the benefit of TJPA (City Financing). The amount of the financing is not-to-exceed \$260 million; TJPA has drawn \$103 million to-date and does not currently expect to draw the full amount. To date the TJPA has repaid \$25M through its share of the CFD bond reimbursements. As the City issues additional CFD bonds, TJPA will use its reimbursements towards repayment of the City Financing.

Additionally, interest and commitment fees, in the form of base rental and additional rental, are paid quarterly from TJPA to the City to the lender. The source of funds for these payments is the net tax increment proceeds that TJPA receives from the former state parcels. The net tax increment proceeds are pledged towards the TIFIA loan and the City Financing; these funds cannot be used for project costs at this time while such debt is outstanding.

An estimate of the interest and fee amounts for FY19-20 will be included in the operating budget as an operating expense. Additionally, the debt expenses from FY18-19 will be reclassified to the operating budget as the debt expenses are self-sustaining and of an operational nature. This will have no net impact on the operators as it fully funded with tax increment revenues.

### Reserves

Reserves are governed by the Board-approved Reserve Policy, which establishes three types of reserves: Emergency Reserve, Fiscal Reserve, and an O&M Reserve. With the shift from construction to operations, the Emergency Reserve is included in the operating budget for FY19-20. 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; thus, just one line

item for Operating Contingency will be included in the proposed operating budget, and if needed would be funded with existing O&M Reserve funds.

The goal under the policy is to maintain an O&M Reserve equal to 25 percent of annual budgeted operating expenses however, the reserve is not fully funded in this budget year as we are transitioning.

As noted above, in February TJPA staff presented an FY19-20 Preliminary Operating Projection in the amount of \$31.8 million for transit center. Numbers in the Preliminary Operating Projection continue to be refined prior to presentation of a draft budget in May.

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

Committed funding sources consist of existing revenues that have already been allocated or are otherwise available. These include the balances of grants from Federal Transit Administration, San Francisco County Transportation Authority (SFCTA), and the Metropolitan Transportation Commission (MTC). TJPA will also utilize the remaining proceeds from the following sources: state parcel land/easement sales, the 2015 bank bridge loan, the 2017 City Financing, the federal TIFIA loan. Completion of Phase 1 of the Transbay Program is fully funded with committed funding sources.

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. The continuation of Phase 2/Caltrain Downtown Extension work is dependent upon the release of the previously allocated Prop K funds and commitments of planned funds. 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 program as opportunities arise, including applying for new grants. 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 FY19-20 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 FY19-20 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 FY19-20 budget will include proportionate shares of salaries and benefits for thirteen of the sixteen 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, Financial and Systems Accountant/Human Resources Analyst, Financial Reporting Accountant, Accountant, Contract Compliance Officer, IT Director, and Executive Assistant. 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 1 and 2.

### 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 1 and Phase 2) 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, the majority of which is related to construction. Construction activities include the work of the Construction Manager / General Contractor (CM/GC) and the CM/GC's lower-tier subcontractors as well as the Construction Management Oversight (CMO) consultant. In addition, the transit center design team provides construction administration services. We are anticipating the closeout of Phase 1 will occur by the end of FY19-20. 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), legal counsel, audits, and other financial services.

### **FY2019-20 Base Building and Tenant Improvements**

The capital 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 \$35.5 million. The FY19-20 assumes the tenant improvements will be completed in the fiscal year.

**RECOMMENDATION:** Information only.