STAFF REPORT FOR CALENDAR ITEM NO.: 10
FOR THE MEETING OF: January 11, 2018

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:
Approval of Fiscal Year 2018-19 Preliminary Operating Projection in the amount of $54,370,100.

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 proposed Preliminary Operating Projection for FY 2018-19 in the amount of $54,370,100, which is just an initial estimate at this time, is discussed below in further detail. A narrative budget outlook for FY 2018-19 will be presented to the Board in April 2018, the Draft Operating Budget for discussion in May, and the Final Operating Budget for adoption in June.

EXPLANATION:
Three scenarios are presented for the Preliminary Operating Projection, based on preliminary concurrence from the Cost Review Committee (CRC) regarding the use of Interim City Financing for Base Building Improvements/Tenant Improvement Allowances. The CRC has approval authority over the uses of Interim City Financing per the Cost Oversight Agreement entered into between TJPA, City and County of San Francisco, and the Metropolitan Transportation Commission. The Board took action at its November 2017 meeting directing the Executive Director to request that the CRC authorize use of Interim City Financing to cover all Base Building Improvements/Tenant Improvement Allowances, estimated at $21 million and $14 million respectively (total $35 million). At its November meeting the CRC indicated its willingness to approve use of at least up to $25 million for this purpose. The committee will further consider at its next meeting in February whether to approve using Interim City Financing for all or a portion of the remaining $10 million estimated cost. Any portion of the remaining $10 million that does not come from the Interim City Financing would need to come from another source, such as the naming rights payment (Early Naming Rights Payment) to be made when the transit center opens.

The amount estimated for these improvements in FY 2018-19 is approximately $22 million. The first scenario demonstrates use of Interim City Financing for all Base Building Improvements/ Tenant Improvement Allowances. The second scenario assumes using half of the Early Naming Rights Payment for this purpose, and the third scenario shows use of the full amount of the Early Naming Rights Payment for these improvements. A summary of the three scenarios is below:

	Scenario 1	Scenario 2	Scenario 3
Base/Tenant Improvements	$21,799,000	$21,799,000	$21,799,000
Operating Expenses	28,071,100	28,071,100	28,071,100
Contingency	4,500,000	4,500,000	4,500,000
Operating Revenues	36,077,200	36,077,200	36,077,200
Use of Reserves	17,489,159	12,932,809	8,376,459
Other Sources/Contributions	803,742	5,360,092	9,916,442

There is a direct correlation between the amount of operating reserve used and the amount that will need to be covered by other contributions. For demonstrative purposes, the numbers shown above assume use of the full balance of TJPA's operating reserve, including any naming rights payment amount not used for base/tenant improvements. This aggressive assumption is not the most financially prudent in terms of having a reserve available in future years in case of a downturn, and is subject to change as TJPA staff continues to work with the Primary Tenants.

FY 2018-19 Operating Expenses:
The operating expenses, without base/tenant improvements, total just over $28 million, broken down as follows:

	Amount
O&M (Maintenance, Janitorial, Utilities)	$9,840,500
Asset Manager/Park Administration	3,756,500
Leasing Commissions	2,384,800
Security	7,609,300
TJPA Admin & Insurance	4,480,000
Total Operating Expenses	**$28,071,100**

The current Operating & Maintenance (O&M) projection compares very favorably with proposals received during the Asset Manager procurement process:

	Current Projection	Proposals		
		Lincoln Property Co	Cushman & Wakefield	YoungWoo & Assoc
O&M	$9,840,500	$13,200,000	$9,780,000	$11,140,000

It is generally assumed that the transit center will be diligently serviced and attentively cleaned, with an emphasis on systematic preventive maintenance and programmed janitorial and groundskeeping activities. The Asset Manager (Lincoln) 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. As of the end of December, 28 of an estimated 58 requests for proposals for various service contractors have been issued by Lincoln, with the goal of having all contractors on board by end of February 2018, and services commencing as required and/or needed. Further refinement of budget numbers is driven by two factors: complete turnover of operations and maintenance equipment information from the CM/GC, and actual cost projections as provided by the service contractors when hired.

Security is expected to include local law enforcement and private security guards and ambassadors at levels sufficient to secure the building following turnover from the construction contractor; implement the public safety and security concept of operations; deter, respond to, manage and recover from all security or safety events and contingencies; and manage the Security Operations Center in the transit center. The security model assumes that local law enforcement would be assigned primarily to roving patrols, community policing activities, and response to emergency situations. The primary fixed post responsibilities would reside with the contracted security guard service.

The estimate for transit center insurance reflects current market conditions for 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. Market capacity for terrorism coverage may be limited or unavailable at the time the policy is requested, but the preliminary budget projection includes an estimate for this coverage at this time.

TJPA Staff & Administration costs have previously been covered by the capital budget; FY 2018-19 will be the first year that these costs are included in the operating budget. The projected amount of approximately $3 million is based on analysis of staffing costs, historical averages for administrative expenses, and a cost estimate for the information security/cybersecurity consultant currently being procured through an RFP. An estimate of staff time to be spent working on Phase 2 of the Transbay Program is not included as that would be covered with Phase 2 capital funding sources. Also not included are expenses associated with Millennium Tower litigation. If such expenses continue into next fiscal year, they could range from $6-8 million. It is anticipated that at least 30 percent of these costs will be recoverable from insurance companies. Staff will know more when the draft operating budget is presented for consideration this spring.

FY 2018-19 Operating Revenues:
The FY 2018-19 operating budget includes revenues from RM-2 bridge toll funds, Community Benefits District assessments, transit center revenue and small amounts of revenue from a Temporary Terminal lease, additional neutral host DAS fees, and Interim City Financing/Naming Rights proceeds to fund improvements as discussed above.

- TJPA receives an annual allocation of RM-2 bridge toll funds for operations. The allocation amount for FY 2018-19 is $5,026,046 plus an additional $3 million for a total of $8.03 million. Potential additional funding would be available if RM-3 is passed by the voters later this year; it includes $5 million annually for transit center operations.
- The East Cut Community Benefit District (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. Based on the current budget projection for the park, this equates to approximately $1.2 million in FY 2018-19.
- TJPA will continue to collect rent from Greyhound and Amtrak, and other retail/event/advertising income from transit center operations. These are projected to total approximately $3.8 million.
- The vacated Greyhound/Amtrak building at the Temporary Terminal will be leased by an adjacent property developer, generating approximately $350,000 for the year.

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. TJPA staff is working with the various agencies and has provided the Primary Tenant Committee with each agencies' respective proportion of the potential differential. The less than $1 million to 10 million range (depending upon the ultimate tenant improvement funding scenario) in the operating budget is certainly subject to change as TJPA staff continues to diligently work with each transit agency and Lincoln to minimize the impact to each agency's operating budget.

Staff will continue consulting with the transit center Primary Tenants Committee (comprised of AC Transit and SFMTA), and per the TJPA Budget Policy will return to the Board with a draft operating budget in May and a final budget in June, as noted above. A narrative budget outlook that includes discussion of capital expenditures will be provided to the Board in April.

RECOMMENDATION:

Approve the Fiscal Year 2018-19 Preliminary Operating Projection in the amount of $54,370,100.

ENCLOSURES:

1. Resolution
2. FY 2018-19 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 2018-19 Preliminary Operating Projection; and

WHEREAS, These projections will continue to be refined as transit service contractors are hired and operations planning continues; and

WHEREAS, A budget outlook for FY 2018-19 will be presented to the TJPA Board in April 2018, 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 hereby approves the FY 2018-19 Preliminary Operating Projection for the Primary Tenants Committee, 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 January 11, 2018.

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Secretary, Transbay Joint Powers Authority

Transbay Joint Powers Authority
Preliminary Fiscal Year 2018-19 Operating Budget Projections

	Scenario 1	*Scenario 2*	*Scenario 3*
	FY 2018-19 Operating Projections (as of Dec-17)	**FY 2018-19 Operating Projections (as of Dec-17)**	**FY 2018-19 Operating Projections (as of Dec-17)**
OPERATING EXPENSES			
Transit Center Base Building/Tenant Improvements	21,799,000	21,799,000	21,799,000
Transit Center Maintenance	3,370,500	3,370,500	3,370,500
Transit Center Janitorial	2,586,900	2,586,900	2,586,900
Transit Center Utilities	2,287,400	2,287,400	2,287,400
Park Maintenance & Programming	687,500	687,500	687,500
Park Management Fee & Administration	798,000	798,000	798,000
Leasing Commissions	2,384,800	2,384,800	2,384,800
Digital Content Management & Wayfinding Systems	908,200	908,200	908,200
Asset Management Fee & Administration	2,958,500	2,958,500	2,958,500
Security	7,609,300	7,609,300	7,609,300
Insurance	1,480,000	1,480,000	1,480,000
TJPA Staff & Administration	3,000,000	3,000,000	3,000,000
Subtotal, Transit Center	***49,870,100***	***49,870,100***	***49,870,100***
Reserves			
Emergency Reserve	500,000	500,000	500,000
Operating Contingency	4,000,000	4,000,000	4,000,000
O&M Reserve Contributions	-	-	-
Subtotal, Reserves	***4,500,000***	***4,500,000***	***4,500,000***
TOTAL OPERATING EXPENSES	**$ 54,370,100**	**$ 54,370,100**	**$ 54,370,100**
OPERATING REVENUES			
City Financing	21,799,000	17,242,650	12,686,300
Regional Measure 2	8,026,000	8,026,000	8,026,000
Community Benefit District Park Payments	1,188,400	1,188,400	1,188,400
Transit Center Facility Retail Revenue	1,313,500	1,313,500	1,313,500
Transit Center Sponsorship / Events	1,273,900	1,273,900	1,273,900
Transit Center Advertising	1,026,000	1,026,000	1,026,000
Transit Center Naming Rights	-	4,556,350	9,112,700
Neutral Host Distributed Antennae System (DAS)	875,000	875,000	875,000
Greyhound Rent	225,000	225,000	225,000
Temporary Terminal Rents	350,400	350,400	350,400
Subtotal, Operating Revenue	**36,077,200**	**36,077,200**	**36,077,200**
Other Regional Contributions			
AC Transit (74%)	*594,769*	*3,966,468*	*7,338,167*
SF Municipal Transportation Agency (26%)	*208,973*	*1,393,624*	*2,578,275*
Subtotal, Other Regional Contributions	***803,742***	***5,360,092***	***9,916,442***
Other Sources			
Use of Fund Balance	500,000	500,000	500,000
Use of Operating & Maintenance Reserve	16,989,159	12,432,809	7,876,459
Subtotal, Other Sources	***$ 17,489,159***	***$ 12,932,809***	***$ 8,376,459***
TOTAL OPERATING SOURCES	**$ 54,370,100**	**$ 54,370,100**	**$ 54,370,100**

Scenario 1: City Financing used for all Base/Tenant Improvements

Scenario 2: Half of Early Naming Rights used for Improvements

Scenario 3: All of Early Naming Rights used for Improvements

All scenarios assume using full balance of O&M Reserve to offset expenses, for illustrative purposes