

**STAFF REPORT FOR CALENDAR ITEM NO.: 11
FOR THE MEETING OF: April 12, 2018**

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Presentation of the budget outlook for TJPA's Fiscal Year 2018-19 (FY18-19) capital and operating 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 operation of the temporary terminal for the remainder of its operations, and the operations at the transit center. The capital budget covers the remaining Phase 1 construction work planned for the implementation of the Transbay Program, as well as efforts to advance Phase 2/Downtown Rail Extension (DTX).

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 FY18-19 period. The planned budget presentation schedule is as follows:

April

- Presentation of budget outlook (this report)

May

- Presentation of draft FY18-19 capital and operating budgets
- Approval of Regional Measure 2 (RM-2) FY18-19 operating allocation request

June

- Adoption of FY18-19 capital and operating 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 FY18-19 annual capital and operating 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. The fiscal year capital budget is an estimate of the activities from the overall budget that will occur during the fiscal year timeframe. For FY18-19, these activities should include completion and closeout

of Phase 1 construction, and continuation of environmental and preliminary engineering work to advance Phase 2/DTX to a 30% level, assuming that the Supplemental Environmental Impact Report/Statement will be approved by the Board this fiscal year. The operating budget will reflect the planned closure of the temporary terminal, and commencement of full operations at the transit center during the fiscal year.

FY2018-19 Capital Expenditures

The FY18-19 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 FY18-19 budget will include salaries and benefits for the thirteen current TJPA staff members: Executive Director, Senior Design & Engineering Manager, Senior Construction Manager, Engineering Manager, Facility Manager, Chief Security Officer, Deputy Chief Security Officer, Chief of Staff / Board Secretary, Chief Financial Officer, Financial and Systems Accountant/Human Resources Analyst, Financial Reporting Accountant, Accountant, and Executive Assistant. Budget for an administrative analyst and an IT manager will also be included. 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 staff time for Phase 1 and 2; there will also be a line item for TJPA staff and administration in the operating budget.

Administration

This category includes the expenditures associated with operating the TJPA on a day-to-day basis, such as office rent; 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 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. Closeout of construction of the Bus Storage Facility will be included as well. Engineering tasks that are currently underway related to Phase 2/DTX will continue, and be included in the budget.

Budget expenditures in this category also include contracts required for the day-to-day operations of the TJPA, including but not limited to tasks such as Program Management / Program Controls (PMPC), legal counsel, information technology services, audits and other financial services. Interagency agreements with various public agencies including the San Francisco Department of Building Inspection, Public Works, Municipal Transportation Agency (MTA), and Caltrans that are required for the implementation of the Transbay Program will also be included in the FY18-19 budget.

FY2018-19 Base Building and Tenant Improvements

At the January TJPA Board meeting, TJPA staff presented an FY18-19 Preliminary Operating Projection to comply with transit operator lease requirements. The operating projection included a line item for base building/tenant improvements that are necessary for the buildout of retail spaces in the transit center. This line item is being moved to the capital budget and will be included in the construction section. The total cost for these improvements and tenant allowances is currently budgeted at \$35.5 million. Based on current cash flow projections from the transit center asset manager, approximately \$3.7 million will be expended in FY17-18, nearly \$28 million in FY18-19, and the remainder in FY19-20.

The City Financing described below is anticipated to provide at least \$25 million in funding for these costs. Expenditures of the City Financing are controlled by a Cost Review Committee (CRC) made up of representatives from the City and County of San Francisco (City), MTC, and TJPA. Whether to fund the balance of the improvement costs with City Financing is a decision that the CRC is expected to consider later in calendar year 2018. TJPA, AC Transit, and San Francisco MTA strongly support use of City Financing for this purpose. In the meantime, for conservative budget purposes, TJPA staff will present a proposed budget that assumes only the \$25 million, and funds the remainder of these costs with the early revenue from the naming rights agreement with salesforce.com.

FY2018-19 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), as well as AC Transit pass-through contributions. 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, and the Community Facilities District (CFD) bond issuance plus CFD impact fees. In addition, TJPA receives reimbursement for some costs from other parties including utilities and adjacent properties, and is earning lease and investment/interest income. 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. Continuation of Phase 2/DTX work is dependent upon commitments of planned funds.

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 FY18-19 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.

FY2018-19 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). 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 FY18-19 will be included in the capital budget.

As the City issues additional CFD bonds, TJPA will use its share of the proceeds towards repayment of the City Financing.

FY2018-19 Operating Expenses

The TJPA's operating budget will include line items for the following expenses related to the temporary terminal:

- facility management, security and utilities
- additional operating support for AC Transit's increased operating costs at the temporary terminal (additional supervisors required as pedestrians must cross through bus paths of travel to access certain loading zones)
- Parking Control Officers for traffic management in the vicinity of the temporary terminal
- insurance

It is anticipated that the temporary terminal will be closed early in the fiscal year. The operating budget will include the following expense categories for operations at the transit center:

- transit center operations and maintenance (O&M), including asset manager staffing and administration, janitorial, maintenance, and utilities
- rooftop park maintenance and programming
- property management fees
- security
- insurance
- TJPA staff and administration
- reserves

The O&M category will be broken into detail for the budget proposals presented in May and June. 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, 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.

Security includes San Francisco Police (SFPD) and private security guards and ambassadors under the contract with Allied Universal. Security levels will be 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. The security model assumes that SFPD 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.

FY2018-19 Operating Revenues & Funding Sources

The TJPA anticipates that the operating costs for the temporary terminal will be funded through RM-2 bridge toll funds and rent from Greyhound and Amtrak for as long as their operations continue at the temporary terminal. Following cessation of operations at the temporary terminal, a lease of the southern end of the facility (Block 2) to an adjacent property developer would generate approximately \$29,000 monthly. The RM-2 funds will total just over \$8 million; it is expected that only a small amount will be needed for temporary terminal operations and the remainder can be utilized for transit center operations. If RM-3 is approved by the voters later this year, an additional \$5 million in bridge toll funds should be available in the latter part of the fiscal year.

In addition, the following sources will be included in the operating budget to cover transit center costs:

- special assessments from The East Cut Community Benefits District for rooftop park O&M
- lease, sponsorship/event, and advertising revenues generated by the transit center
- licensing fee from the neutral host distributed antennae system provider
- Greyhound and Amtrak rents
- contributions from transit operators for any differential between operating costs and operating 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. In previous fiscal years, the Emergency and Fiscal Reserves were included in the capital budget. These are not the reserves included in the Program capital budget, such as Program Reserve or construction contingencies, and they have never been tapped into. With the expected shift from construction to operations, the Emergency Reserve was included in the operating budget for FY17-18, and will be again for FY18-19. 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.

Given current schedule considerations, at this point in FY17-18 TJPA staff does not anticipate utilizing O&M Reserve funds to cover FY17-18 operating costs; this is made possible in part due to the MTC allocation of an additional \$3 million in RM-2 operating grant funds during the fiscal year. The O&M Reserve balance is expected to be approximately \$8.9 million at the end of FY17-18. Some of this balance may be used towards FY18-19 operating expenses, but TJPA staff would not recommend using the full amount—the goal under the policy is to maintain an O&M Reserve equal to 25 percent of annual budgeted operating expenses.

As noted above, in January TJPA staff presented an FY18-19 Preliminary Operating Projection in the amount of \$54.4 million, including \$21.8 million for transit center base building and tenant improvements necessary for the lease out of retail. Three scenarios were presented, depending upon how much of the City Financing can ultimately be used for these improvements. As previously stated, these improvement costs will be moved to the capital budget, and the amount above \$25 million to be funded with City Financing is an issue still under consideration by the CRC. Depending upon the scenario, the Preliminary Operating Projection showed transit operator contributions ranging from a total of less than \$1 million to just under \$10 million for the fiscal year. Numbers in the Preliminary Operating Projection continue to be refined prior to presentation of a draft budget in May.

RECOMMENDATION: Information only.