

**STAFF REPORT FOR CALENDAR ITEM NO.: 18**  
**FOR THE MEETING OF: March 12, 2020**

**TRANSBAY JOINT POWERS AUTHORITY**

**BRIEF DESCRIPTION:**

Contingent upon the approval of issuance of tax allocation bonds (companion Calendar Item # 16): (1) establish a Debt Service Budget as a distinct item separate from the Operating Budget, and adopt Amendment No. 3 to the Fiscal Year 2019-20 Capital Budget and Amendment No. 2 to the Fiscal Year 2019-20 Operating Budget; (2) establish a Tenant Improvements Capital Budget as a distinct capital activity separate from the Phase 1 Capital Budget; (3) approve the reimbursement of Program Reserves in the Phase 1 Capital Budget; (4) amend Board Policy No. 012, Reserve Policy, to establish a Capital Replacement Reserve; and (5) approve contributions to the Fiscal Reserve and Capital Replacement Reserve from anticipated Series 2020 Bonds proceeds and cash on hand.

**EXPLANATION:**

As described in detail in companion Calendar Item #16, the TJPA proposes the issuance of tax allocation bonds (“Series 2020 Bonds”) to refinance the TIFIA Loan, repay all or a portion of the City Financing (as needed), and finance additional costs associated with the construction and design of the Transbay Terminal Project, including, but not limited to, payment of judgment or settlement obligations arising from litigation or other disputes relating to past or future Transbay Terminal Project construction or design activities; establish a capital replacement reserve fund for the Transbay Terminal Project; reimburse the Phase 1 program reserves with such funds reserved for additional costs associated with the construction or design of the Transbay Terminal Project; finance certain Tenant Improvements; fund interest on the bonds; pay the premium for certain municipal bond insurance policies; fund certain reserve funds associated with the bonds; and finance costs of issuance associated with the bonds.

The planned sources and uses of funds related to the TJPA’s proposed Series 2020 Bonds and the City’s proposed third issuance of CFD 2014-1 Bonds are described in the table below.

<b>Planned Sources and Uses of TJPA and City Proposed 2020 Bond Sales <sup>a</sup></b>	
<b>Sources</b>	
Bond Proceeds-TJPA Series 2020 Bonds	318,700,000
Bond Proceeds-City CFD 2014-1 Bonds <sup>b</sup>	76,000,000
<b>TOTAL SOURCES</b>	<b>\$394,700,000</b>
<b>Uses</b>	
TIFIA Loan Principal/Interest	181,800,000
City Financing Principal/Interest <sup>b</sup>	76,000,000
Capital Replacement Reserve <sup>c</sup>	29,000,000
Phase 1 Program Reserve	35,500,000
Tenant Improvements	50,500,000
Cost of Issuance	3,300,000
Debt Service Reserve	18,600,000
<b>TOTAL USES</b>	<b>\$394,700,000</b>

Notes:

- a. Subject to market conditions at the time of sale. Amounts are rounded up to the hundred thousands.
- b. Subject to City approval. To the extent CFD bond issuance not approved and/or proceeds of CFD bond issuance not adequate to pay total outstanding balance, the TJPA understands that City would expect the TJPA to repay the remainder the City Financing with a portion of the net proceeds of the TJPA's Series 2020 Bonds.
- c. Targeted amount could increase up to \$40 million depending on market conditions at the time of sale of the Series 2020 Bonds.

Assuming the TJPA Board approves the issuance of the Series 2020 Bonds, there are a series of necessary steps to implement the effect of the refinance and generation of bond proceeds. As described in detail below, those steps are summarized here and described in detail below:

- (1) Establish a Debt Service Budget as a distinct item separate from the Operating Budget, and adopt Amendment No. 3 to the Fiscal Year 2019-20 Capital Budget and Amendment No. 2 to the Fiscal Year Operating Budget;
- (2) Establish a Tenant Improvements Capital Budget as a distinct capital activity separate from the Phase 1 Capital Budget;
- (3) Approve the reimbursement of Program Reserves in the Phase 1 Capital Budget;
- (4) Amend Board Policy No. 012, Reserve Policy, to establish a Capital Replacement Reserve; and
- (5) Approve contributions to the Fiscal Reserve and Capital Replacement Reserve from anticipated Series 2020 Bonds proceeds and cash on hand.

**1. ESTABLISH A DEBT SERVICE BUDGET, AND AMEND THE FY 2019-20 CAPITAL AND OPERATING BUDGETS**

The Joint Powers Agreement creating the TJPA establishes that the fiscal year of the TJPA begins on July 1 and ends on June 30, and provides the TJPA Board with the authority to adopt an annual or multi-year budget before the beginning of each fiscal year.

In June 2019, the Board adopted the FY 2019-20 Operating Budget, inclusive of debt service, in an amount not to exceed \$38,719,021, and FY 2019-20 Capital Budget in an amount not to exceed \$100,067,175.

Under the TJPA's Board Policy No. 003, Budget Policy, in the event that total revenues are projected to exceed the total annual budget, or if the Executive Director proposes to reallocate more than 10% of the original appropriation for a budget category to another budget category, staff shall recommend to the Board a Mid-Year Supplemental Budget Request.

With the anticipated proceeds from the TJPA's proposed Series 2020 Bonds and proceeds received by the TJPA from the City's proposed third issuance of CFD 2014-1 Bonds, refinance of the TIFIA Loan, repayment of the City Financing, and associated allocations, establishment of a Debt Service Budget, and amendment of the FY 2019-20 Capital and Operating Budgets are required and recommended.

**A. Establish Debt Service Budget as a Distinct Item Separate from the Operating Budget**

The TJPA's FY 2019-20 Operating Budget presents debt service as a line item in that budget. It anticipated payment of interest and base rental payments under the TIFIA Loan and the City

Financing in the amount of \$6,538,828.

Staff recommends that the Board remove the debt service line item from the Operating Budget, establish a separate Debt Service Budget, and amend the amount from what was contemplated in the FY 2019-20 Operating Budget for this new Debt Service Budget. This new budget is to be amended to accommodate the anticipated proceeds of the TJPA’s Series 2020 Bonds and proceeds to the TJPA from the City’s third issuance of CFD 2014-Bonds and additional net tax increment revenues, the subsequent paydown of the TIFIA Loan and the City Financing, the cost of issuance, and the funding of reserve accounts. This amendment would provide expenditure authority to make the refinancing payments and payments related to the cost of the transactions. This amendment would increase the FY 2019-20 Debt Service Budget by \$289,669,568 for an amount not to exceed \$296,239,496. The increase represents a 4409% increase over the original Debt Service Budget for the fiscal year, but accounts for an entire payoff of both the TIFIA Loan and the City Financing, in comparison to the original budget that only anticipated interest and base rental payments. A detailed breakdown follows.

	FY19-20 Adopted Debt Service Budget	FY19-20 Debt Service Budget Changes	FY19-20 Debt Service Budget Board Amended	% Change from Original Budget
<b>REVENUES</b>				
Bond Proceeds-TJPA TAB	-	203,700,000	203,700,000	0%
Bond Proceeds-CFD-2014-1	-	78,000,000	78,000,000	0%
Net Tax Increment Revenue	6,538,828	7,969,568	14,508,396	122%
Interest Income	31,100	-	31,100	0%
<b>TOTAL REVENUES</b>	<b>6,569,928</b>	<b>289,669,568</b>	<b>296,239,496</b>	<b>4409%</b>
<b>EXPENSES</b>				
TIFIA Interest/Principal	4,293,098	189,769,568	194,062,666	4420%
City Financing Principal/ Interest	2,245,730	78,000,000	80,245,730	3473%
Cost of Issuance	-	3,300,000	3,300,000	0%
Credit Analysis	30,000	-	30,000	0%
Trustee Fees	1,100	-	1,100	0%
Debt Service Reserve	-	18,600,000	18,600,000	0%
<b>TOTAL EXPENSES</b>	<b>6,569,928</b>	<b>289,669,568</b>	<b>296,239,496</b>	<b>4409%</b>

Notes:

- a. Planned bond proceeds subject to market conditions at the time of sale.
- b. Third issuance of City CFD 2014-1 Bonds subject to City approval. Planned bonds proceeds amount and the City Financing repayment amount of \$78 million includes \$2 million from the City’s second issuance of CFD bonds and an assumed \$76 million from a proposed third issuance.

**B. FY 2019-20 Capital Budget Amendment No. 3**

Staff recommends that the Board adopt Amendment No. 3 to the FY 2019-20 Capital Budget<sup>1</sup>, as

<sup>1</sup> Consistent with the Board’s Budget Policy, the Executive Director approved an administrative Amendment No. 1 to the FY 2019-20 Capital Budget on December 6, 2019, and approved an administrative Amendment No. 2 to the FY 2019-20 Capital Budget on March 6, 2020.

described in detail below. The net effect would increase the FY 2019-20 Capital Budget by \$86 million, from \$100,067,175 to \$186,067,175, to accommodate the anticipated new proceeds of the TJPA's Series 2020 Bonds and replace other revenues that had been slated for Tenant Improvements with TJPA Series 2020 Bonds proceeds.

In particular, this Amendment No. 3 would allocate \$35.5 million of the TJPA's Series 2020 Bonds proceeds to the FY 2019-20 Capital Budget for Phase 1 and shift the same amount of bond reimbursements from the City to the FY 2019-20 Capital Budget for Phase 2.

Additionally, this Amendment No. 3 would allocate \$50.5 million of the TJPA's Series 2020 Bonds proceeds to a separate capital project independent of Phase 1 for Base Building Improvements/Tenant Improvements (referred to collectively throughout this report as "Tenant Improvements") (see discussion below). The \$50.5 million is comprised of the \$35.5 million original budgeted cost for Tenant Improvements plus \$15 million for contingency and future or second-generation Tenant Improvements. The separate budget for Tenant Improvements provides for their construction to continue at a different pace so as to not impede the close-out of Phase 1. It also would allow the TJPA to track Tenant Improvements over multiple years.

In light of the additional revenues identified in the annual Phase 1, Phase 2, and Tenant Improvement Capital Budgets, the expenses under proposed Amendment No. 3 would align by shifting \$35.3 million budgeted and actual expenses from the Phase 1 Capital Budget to the Tenant Improvements Capital Budget, reimbursing Phase 1 Program Reserves by \$35.5 million, reserving \$35.5 million in Fiscal Reserve for future Phase 2 uses, and reserving \$15 million in Fiscal Reserve for future Tenant Improvements expenses. A detailed breakdown follows.

Description	FY19-20 Final Capital Budget Amendment 2	Phase 1	Phase 2	Phase 1 Changes	Phase 2 Changes	Tenant Improvement Capital Project	FY19-20 Final Capital Budget Amendment 3
<b>REVENUES</b>							
<b>COMMITTED REVENUES</b>							
Regional Measure 2	179,000	179,000	-	-	-	-	179,000
AB 1171 Bridge Tolls	436,000	436,000	-	-	-	-	436,000
Proposition K San Francisco Sales Tax	20,250	20,250	-	-	-	-	20,250
TIFIA	587,000	587,000	-	-	-	-	587,000
Bond Proceeds	-	-	-	35,500,000	-	50,500,000	86,000,000
Mello-Roos Community Facilities District Bond Reimbusem	63,544,413	63,544,413	-	(35,500,000)	35,500,000	-	63,544,413
Transit Center District Impact Fees-IPIC	850,839	-	850,839	-	-	-	850,839
Lease Income	95,000	95,000	-	-	-	-	95,000
Interest Income	438,000	438,000	-	-	-	-	438,000
Reimbursements by Others (Utilities, Adjacent Properties)	2,799,720	2,799,720	-	-	-	-	2,799,720
<b>Subtotal, Committed Revenue</b>	<b>68,950,222</b>	<b>68,099,383</b>	<b>850,839</b>	<b>-</b>	<b>35,500,000</b>	<b>50,500,000</b>	<b>154,950,222</b>
<b>PLANNED REVENUES</b>							
Transit Center District Impact Fees-IPIC/ RM-3	21,924,953	12,044,000	9,880,953	-	-	-	21,924,953
Proposition K San Francisco Sales Tax	9,192,000	-	9,192,000	-	-	-	9,192,000
<b>Subtotal, Planned Revenue</b>	<b>31,116,953</b>	<b>12,044,000</b>	<b>19,072,953</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,116,953</b>
<b>TOTAL REVENUES</b>	<b>100,067,175</b>	<b>80,143,383</b>	<b>19,923,792</b>	<b>-</b>	<b>35,500,000</b>	<b>50,500,000</b>	<b>186,067,175</b>
<b>EXPENSES</b>							
<b>Salaries, Fringe Benefits, &amp; Admin</b>	<b>2,389,142</b>	<b>1,119,275</b>	<b>1,269,867</b>	<b>(200,000)</b>	<b>-</b>	<b>200,000</b>	<b>2,389,142</b>
<b>Professional Services</b>							
Legal Counsel	9,672,000	9,672,000	-	-	-	-	9,672,000
Financial and Grant Management	575,000	455,000	120,000	-	-	-	575,000
Audits	28,000	28,000	-	-	-	-	28,000
Economic and Real Estate Analysis(Seifel & Concord Group)	50,000	50,000	-	-	-	-	50,000
Community & Public Relations	21,000	10,500	10,500	-	-	-	21,000
Legislative Services	138,625	-	138,625	-	-	-	138,625
Other Intergovernmental Agmts / Consulting Svcs	60,000	30,000	30,000	-	-	-	60,000
<b>Subtotal, Professional Services</b>	<b>10,544,625</b>	<b>10,245,500</b>	<b>299,125</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,544,625</b>
<b>Total Administrative Budget</b>	<b>12,933,767</b>	<b>11,364,775</b>	<b>1,568,992</b>	<b>(200,000)</b>	<b>-</b>	<b>200,000</b>	<b>12,933,767</b>
<b>Professional &amp; Specialized Services</b>							
<b>Engineering &amp; Design Services</b>							
Program Management / Program Controls	4,510,000	750,000	3,760,000	-	-	-	4,510,000
Downtown Extension Preliminary Engineering & Design	12,770,000	-	12,770,000	-	-	-	12,770,000
Downtown Extension Interagency Coordination	300,000	-	300,000	-	-	-	300,000
Transit Center & Ramps Engineering & Design	518,453	518,453	-	-	-	-	518,453
Transit Center Traffic Signals	100,000	100,000	-	-	-	-	100,000
Transit Center Overhead Lines	55,501	55,501	-	-	-	-	55,501
Transit Center Commissioning Agent	60,000	60,000	-	-	-	-	60,000
Public Art Program	42,550	42,550	-	-	-	-	42,550
Other Engineering & Design Services	535,500	134,700	400,800	-	-	-	535,500
<b>Permits and Fees</b>							
Transit Center Building & Ramps Permits & Fees	5,000	5,000	-	-	-	-	5,000
Other Plan Checks / Permit Fees	30,000	15,000	15,000	-	-	-	30,000
<b>Real Estate Services</b>							
Property Management	9,000	-	9,000	-	-	-	9,000
Real Estate Valuation Services	100,000	-	100,000	-	-	-	100,000
<b>Construction Management</b>							
Construction Management Oversight for Transit Center	3,000,000	3,000,000	-	-	-	-	3,000,000
Construction Dispute Resolution Services	200,000	200,000	-	-	-	-	200,000
Construction Management for Bus Storage	39,108	39,108	-	-	-	-	39,108
<b>Construction</b>							
Transit Center Building & Ramps Construction	41,443,276	41,443,276	-	-	-	-	41,443,276
Base Building Improvements / Tenant Improvements	21,842,908	21,842,908	-	(21,842,908)	-	21,842,908	21,842,908
Base Building /Tenant Improvements Expense Transfer	-	-	-	(13,457,092)	-	13,457,092	-
Utility Relocation Construction	15,131	15,131	-	-	-	-	15,131
<b>Transit Center Temporary Closure</b>							
	556,981	556,981	-	-	-	-	556,981
<b>Planning &amp; Environmental Analysis</b>							
Phase 3 Scoping	1,000,000	-	1,000,000	-	-	-	1,000,000
<b>Subtotal, Professional &amp; Specialized Services</b>	<b>87,133,408</b>	<b>68,778,608</b>	<b>18,354,800</b>	<b>(35,300,000)</b>	<b>-</b>	<b>35,300,000</b>	<b>87,133,408</b>
<b>Contingencies</b>							
Fiscal Reserve	-	-	-	-	35,500,000	15,000,000	50,500,000
Program Reserve (Phase 1)	-	-	-	35,500,000	-	-	35,500,000
<b>Subtotal, Contingencies</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35,500,000</b>	<b>35,500,000</b>	<b>15,000,000</b>	<b>86,000,000</b>
<b>TOTAL EXPENSES</b>	<b>\$ 100,067,175</b>	<b>\$ 80,143,383</b>	<b>\$ 19,923,792</b>	<b>\$ -</b>	<b>\$ 35,500,000</b>	<b>\$ 50,500,000</b>	<b>\$ 186,067,175</b>
<b>Difference</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### C. FY 2019-20 Operating Budget Amendment No. 2

Staff recommends that the Board adopt Amendment No. 2 to the FY 2019-20 Operating Budget<sup>2</sup>, as described in detail below, to reflect a net reduction and reallocation of revenues and expenses in the FY 2019-20 Operating Budget that aligns with revised revenue projections, reduces expenses correspondingly with current revenue assumptions, and accommodates the above discussed budget adjustments related to debt service. The net effect would decrease the FY 2019-20 Operating Budget by \$11,350,910 to an amount not to exceed \$25,968,411.

Under the TJPA's Board Policy No. 012, Reserve Policy, the Operating and Maintenance (O&M) Reserve was established to ensure that sufficient operating and maintenance funds are available in the event of unanticipated revenue shortfalls and unavoidable expenditure needs. It is the goal of the TJPA to maintain a balance in the O&M Reserve equal to 25% of the annual budgeted operating and maintenance expenses. This amount will approximate three months of operations and maintenance expenses for the transit center. This level is expressed as a goal to recognize that fund balances may fluctuate from year-to-year due to the normal course of operations. The policy permits expenditure from the O&M Reserve where authorized under the annual Operating Budget approved by the Board; or for other unforeseen circumstances wherein the use of the reserve funds is deemed necessary by the Executive Director, designee, or by the Board of Directors. The policy explains that the TJPA may use funds in the O&M Reserve as working capital to fulfill contractual or other obligations. Under the TJPA's current FY 2019-20 Operating Budget, the O&M Reserve is at 5% or \$1,953,049.

Under Amendment No. 2, staff proposes to use \$1,625,000 of O&M Reserves on an interim basis to fill the funding gap until Regional Measure-3 (RM-3) monies are available. On December 19, 2019 MTC approved a resolution specific to the TJPA that will allow the TJPA the ability to request reimbursement from RM-3 funds in escrow for operating expenses for the FY 2019-20, when the RM-3 litigation is resolved. The balance of the O&M Reserve, after this Amendment No. 2, would be \$328,049 as shown in the table in Section 5 below.

Amendment No. 2 would modify revenues and expenses by reducing a net \$11,350,910 to the FY 2019-20 Operating Budget to an amount not exceed \$25,986,410. The revenue net amount would be accounted for by the an addition of \$50,000 for an State Transit Assistance (STA) grant to support Wayfinding, an addition of \$250,000 from AC Transit Capital Contributions to support minor capital repairs, an addition of \$267,451 in Interest Income, a reduction of (\$6,538,828) to a separate Debt Service Budget (as described above), a reduction of (\$509,033) in Naming Rights to account for the annual revenue recognition amount, a reduction of (\$2,000,000) in Retail Revenue, a reduction of (\$500,000) in Sponsorship and Events, a reduction of (\$1,100,000) in Advertising, a reduction of (\$500,000) in DAS Licensing, a reduction of (\$180,500) in Other Rents and a reduction of (\$590,000) in Sublease income. These reductions generally come as a result of overly optimistic retail scheduling and construction delays preventing timely occupancy by the retail tenants.

Correspondingly, the expenses would have a net reduction of the same amount to maintain a balanced FY 2019-20 Operating Budget. As described above, the debt service expense

---

<sup>2</sup> Consistent with the Board's Budget Policy, the Executive Director approved an administrative Amendments No. 1 to the FY 2019-20 Operating Budget on December 6, 2019.

(\$6,538,828) is proposed to be moved to an independent Debt Service Budget, augmented by the TJPA 2020 bond sale. Contingency would be reduced by (\$1,953,049), Marketing and Leasing Commissions (\$1,909,432) would be moved to the proposed independent Capital Budget for Tenant Improvements; Security would be reduced by (\$670,000) due to savings realized from scheduling efficiencies; \$50,000 would be added to support the Wayfinding Gap Analysis in conjunction with the STA grant; and \$250,000 for Asset Repair and Maintenance would be added to account for expenses not initially planned. The following table is provided to illustrate the funding movements described above.

Description	FY19-20 Operations Budget Amendment 1	FY19-20 Operations Budget Changes	FY19-20 Operations Budget Amendment 2	% Change from Amendment 1
<b>REVENUES AND SOURCES</b>				
INTERGOVERNMENTAL REVENUES				
Regional Measure 2	8,201,958	-	8,201,958	0%
Regional Measure 3	1,625,600	-	1,625,600	0%
Community Benefit District Park Payments	1,605,770	-	1,605,770	0%
MTC Grant	-	50,000	50,000	0%
Net Tax Increment Revenue (Debt Service)	6,538,828	(6,538,828)	-	-100%
AC Transit (74%)	3,922,450	-	3,922,450	0%
SF Municipal Transportation Agency (26%)	1,378,158	-	1,378,158	0%
Subtotal, Other Regional Contributions	5,300,608	-	5,300,608	0%
AC Transit Capital Contribution	-	250,000	250,000	0%
<b>Subtotal, Intergovernmental Revenue</b>	<b>23,272,764</b>	<b>(6,238,828)</b>	<b>17,033,936</b>	<b>-27%</b>
OPERATING REVENUES				
Naming Rights	3,546,600	(509,033)	3,037,567	-14%
Transit Center Retail Revenue	3,269,469	(2,000,000)	1,269,469	-61%
Transit Center Sponsorship / Events	614,500	(500,000)	114,500	-81%
Transit Center Advertising & Miscellaneous Revenue	2,064,623	(1,100,000)	964,623	-53%
Neutral Host DAS Licensing Fees	625,000	(500,000)	125,000	-80%
Temporary Terminal Rents	-	-	-	0%
Other Operator Rents	319,500	(180,500)	139,000	-56%
AC Transit (Bus Storage Facility and Bart Bridge Security)	325,165	-	325,165	0%
201 Mission Office Sublease	780,000	(590,000)	190,000	-76%
<b>Subtotal, Operating Revenue</b>	<b>11,544,857</b>	<b>(5,379,533)</b>	<b>6,165,324</b>	<b>-47%</b>
OTHER SOURCES				
Interest Income	-	267,451	267,451	0%
Use of Fund Balance	500,000	-	500,000	0%
Use of Operating & Maintenance Reserve	2,019,700	-	2,019,700	0%
<b>Subtotal, Other Sources</b>	<b>2,519,700</b>	<b>267,451</b>	<b>2,787,151</b>	<b>11%</b>
<b>TOTAL REVENUE AND OTHER SOURCES</b>	<b>\$37,337,320</b>	<b>(11,350,910)</b>	<b>25,986,410</b>	<b>-30%</b>
<b>EXPENSES AND CONTINGENCIES</b>				
Salaries, Fringe Benefits, & Admin	3,630,511	(579,601)	3,050,910	-16%
Debt Service/City Financing Interest	6,538,828	(6,538,828)	-	-100%
Professional Services				
Legal Counsel (City Attorney, Outside Counsel)	303,000	-	303,000	0%
Accounting Software Installation & Maintenance	30,350	-	30,350	0%
Audits	24,000	-	24,000	0%
Credit Rating Analysis	30,000	-	30,000	0%
Trustee Account Services	1,100	-	1,100	0%
Community & Public Relations	9,000	-	9,000	0%
Legislative Services	138,625	-	138,625	0%
Other Intergovernmental Agmts / Consulting Svcs	30,000	-	30,000	0%
<b>Subtotal, Professional Services</b>	<b>566,075</b>	<b>0</b>	<b>566,075</b>	<b>0%</b>
<b>Total Administrative Budget</b>	<b>10,735,414</b>	<b>(7,118,429)</b>	<b>3,616,985</b>	<b>-66%</b>
Contingencies				
Emergency Reserve	500,000	-	500,000	0%
O&M Reserve	1,953,049	(1,953,049)	-	-100%
<b>Subtotal, Contingencies</b>	<b>2,453,049</b>	<b>(1,953,049)</b>	<b>500,000</b>	<b>-80%</b>
<b>Transit Center</b>				
Transit Center Maintenance	2,965,049	-	2,965,049	0%
Transit Center Janitorial	2,505,128	-	2,505,128	0%
Transit Center Utilities	2,182,896	-	2,182,896	0%
Park Maintenance & Programming	531,470	-	531,470	0%
Park Management Fee & Administration	798,000	-	798,000	0%
Digital Content Management & Wayfinding Systems	696,359	-	696,359	0%
Wayfinding Gap Analysis	100,000	50,000	150,000	50%
Marketing & Leasing Commissions	1,909,432	(1,909,432)	-	-100%
Cybersecurity/IT	1,293,671	-	1,293,671	0%
Bus Storage Facility and Bart Bridge Security	325,165	-	325,165	0%
Asset Management Fee & Administration	1,912,483	-	1,912,483	0%
Security	7,222,585	(670,000)	6,552,585	-9%
Insurance	1,706,620	-	1,706,620	0%
Asset Repair and Maintenance	-	250,000	250,000	0%
Transit Center Temporary Closure	-	-	-	0%
<b>Subtotal, Transit Center</b>	<b>24,148,858</b>	<b>(2,279,432)</b>	<b>21,869,426</b>	<b>-9%</b>
<b>TOTAL EXPENSES AND CONTINGENCIES</b>	<b>\$37,337,321</b>	<b>(11,350,910)</b>	<b>25,986,411</b>	<b>-30%</b>
<b>Difference</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	

## **2. ESTABLISH A TENANT IMPROVEMENTS CAPITAL BUDGET**

The TJPA elected to pursue an asset management form of agreement for operation, activation, and maintenance of the transit center, which requires the owner to bear certain costs for capital improvements, such as Tenant Improvements. The TJPA adopted a Merchandising Plan for the transit center, which includes a schedule for retail/commercial leasing that describes the number, type, and location of spaces that are expected to open each quarter and describes efforts to respond to expected market demand for small, disadvantaged, and local retailers. The TJPA anticipates that certain Tenant Improvements will be required to activate the transit center consistent with the Merchandising Plan and secure superior rents from commercial/retail tenants. The TJPA concludes that funding certain Tenant Improvements in the near term will be an overall net financial gain to the transit center and reduce the overall net operating cost of the facility, as well as providing significant other benefits to the transit passengers, workers, residents, and visitors to the transit center. The TJPA anticipated a total estimate of \$35.5 million in Tenant Improvements based on the leasing proforma budget.

As described in detail above, staff recommends that the Board remove the Tenant Improvements line item from the Capital Budget for Phase 1, and establish a separate Tenant Improvements Capital Budget. Also as described in detail above, staff recommends allocating \$50.5 million of the TJPA's Series 2020 Bonds proceeds to this new Tenant Improvements Capital Budget. The \$50.5 million is comprised of the \$35.5 million original budgeted cost for Tenant Improvements plus \$15 million for contingency and future or second-generation Tenant Improvements.

Staff also recommends allocating \$0.2 million in salaries, benefits, and administration related to such Tenant Improvements. Also, as described above, staff recommends that Marketing and Leasing Commissions (\$1,909,432) be moved from the FY 2019-20 Operating Budget to the Tenant Improvements Capital Budget.

The separate budget for Tenant Improvements provides for their construction to continue at a different pace so as to not impede the close-out of Phase 1. It also would allow the TJPA to track Tenant Improvements over multiple years.

## **3. APPROVE REIMBURSEMENT OF PROGRAM RESERVES IN THE PHASE 1 CAPITAL BUDGET**

As described above, staff recommends that the Board authorize the transfer of \$35.5 million in Series 2020 Bonds proceeds into the Phase 1 Budget to Program Reserves, replacing other revenues previously allocated to Tenant Improvements.

Previous funding and timing constraints required the inclusion of Tenant Improvements costs and the associated funding in the Capital Budget for Phase 1. This inclusion was accommodated by reductions in the Phase 1 Program Reserve.<sup>3</sup>

---

<sup>3</sup> In November 2017, the TJPA Board directed the Executive Director to obtain interim financing from the City and MTC to fund certain costs of Tenant Improvements. On November 17, 2017 the City and MTC (through the Cost Review Committee) agreed to fund \$25 million out of \$35.5 million with the City Financing. In December 2017, the TJPA Board authorized a \$25 million transfer from Program Reserve to a new line item in Base Building Improvements/Tenant Improvements Allowance in the Phase 1 Program Budget. In June 2019, the CRC and the TJPA Board authorized an additional \$10.5 million transfer from Program Reserve to the Phase 1 Program Budget.

Currently the balance in the Phase 1 Program Reserve is \$25.6 million and would be increased to \$61.1 million through this reimbursement of the Program Reserve. This reimbursement would provide greater capacity for Phase 1 closeout activities.

#### **4. AMEND BOARD POLICY NO. 12, RESERVE POLICY, TO ESTABLISH A CAPITAL REPLACEMENT RESERVE**

The TJPA's Board Policy No. 012, Reserve Policy, establishes three types of reserves: Emergency Reserve, Fiscal Reserve, and Operations and Maintenance (O&M) Reserve.

The TIFIA Loan provided for the establishment and funding of a Capital Replacement Reserve Account. After refinance of the TIFIA Loan, staff recommends that the Board continue to plan for future life cycle replacements of major building components by expressly adding a capital replacement reserve to its Reserve Policy. To accomplish this, staff recommends that the Board amend its Reserve Policy to establish an additional reserve category—Capital Replacement Reserve—and identify appropriate general standards for use of the Capital Replacement Reserve and delegation of authority for use of the Capital Replacement Reserve. A redlined version of the current Reserve Policy is attached with the recommended amendments.

#### **5. APPROVE CONTRIBUTIONS TO FISCAL RESERVE AND CAPITAL REPLACEMENT RESERVE**

Consistent with staff's recommendation that the Board amend its Reserve Policy (described in detail above), staff recommends that the Board approve contributions to certain reserve categories from anticipated Series 2020 Bonds proceeds and cash on hand.

As to the proposed new Capital Replacement Reserve, the schedule and funding level provided to TIFIA for this purpose funded this reserve at \$193 million over 30 years. Staff recommends maintaining that funding level. Additionally, staff recommends that the Board fund the Capital Replacement Reserve at a targeted amount of \$29 million and up to \$40 million based on market conditions at the time of the sale, using a combination of cash on hand that was previously committed and bond proceeds generated from the TJPA's Series 2020 Bonds.

The TJPA Board's Reserve Policy also discusses that the Fiscal Reserve may be used as a short-term cash resource for payment to vendors or contractors prior to the receipt of funds from funding partners. The policy explains that it is the goal of the TJPA to maintain a balance in the Fiscal Reserve equal to 15% of the annual budgeted expenses not including Right of Way costs. The policy explains that this amount will approximate 60 days of working capital. The policy provides that the Board of Directors must approve the release of any amount from the Fiscal Reserve or the addition to the Fiscal Reserve above 15%, and that the TJPA Chief Financial Officer and the TJPA Executive Director may authorize the temporary use of cash from the Fiscal Reserve for cash flow purposes.

As described in detail above, the recommended contributions to the Fiscal Reserve from the shifting of funds and the addition of Series 2020 Bonds proceeds would increase the Fiscal Reserve by \$50.5 million representing 50% of the annual budgeted expenses not including Right of Way costs. Staff recommends funding the Fiscal Reserve for these outlined purposes. A detailed breakdown follows.

RESERVES	FY18-19 Year-end	Proposed Additions/ (Subtractions)	Total
<b>Capital Sources</b>			
Fiscal Reserve			
<i>Restricted</i>	-	50,500,000	50,500,000
<i>Phase 1 Program Reserve</i>	25,600,000	35,500,000	61,100,000
Combined Fiscal Reserve	25,600,000	86,000,000	111,600,000
*Capital Replacement Reserve	939,700	29,000,000	29,939,700
<b>Total Capital Reserves</b>	<b>\$26,539,700</b>	<b>\$115,000,000</b>	<b>\$141,539,700</b>
<b>Operational Sources</b>			
Emergency Reserve	500,000	-	500,000
Operations and Maintenance Reserve	1,953,049	(1,625,000)	328,049
<b>Total Operational Reserves</b>	<b>\$2,453,049</b>	<b>(1,625,000)</b>	<b>\$828,049</b>
<b>OVERALL RESERVE POSITION</b>	<b>\$28,992,749</b>	<b>\$113,375,000</b>	<b>\$142,367,749</b>

\* Targeted additional amount could increase up to \$40 million depending on market conditions at the time of sale of the Series 2020 Bonds.

**RECOMMENDATION:**

Contingent upon the approval of issuance of tax allocation bonds (companion Calendar Item #16):

1. Establish a Debt Service Budget as a distinct item separate from the Operating Budget, and adopt Amendment No. 3 to the FY 2019-20 Capital Budget and Amendment No. 2 to the Fiscal Year 2019-20 Operating Budget;
2. Establish a Tenant Improvements Capital Budget as a distinct capital activity separate from the Phase 1 Capital Budget;
3. Approve the Reimbursement of Program Reserves in the Phase 1 Capital Budget;
4. Amend Board Policy No. 012, Reserve Policy, to Establish a Capital Replacement Reserve; and
5. Approve Contributions to the Fiscal Reserve and Capital Replacement Reserve

**ENCLOSURES:**

1. Resolution re Establishment of a Debt Service Budget, and amendments of the FY 2019-20 Capital and Operating Budgets
2. Resolution re Establishment of Tenant Improvements Capital Budget and Reimbursement of Program Reserve
3. Resolution re Amendment to Board Policy No. 012, Reserve Policy, and Contributions to Capital Replacement Reserve
4. Board Policy 012, Reserve Policy (clean and redlined versions)

**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 responsible for the financing, designing, developing, construction, and operation of the Transbay Transit Center Program; and

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

WHEREAS, The TJPA Board of Directors approved the annual Operating Budget and related appropriations, inclusive of debt service, for FY 2019-20 in an amount not to exceed \$38,719,021 on June 13, 2019; and

WHEREAS, The TJPA Board of Directors approved the annual Capital Budget and related appropriations for FY 2019-20 in an amount not to exceed \$100,067,175 on June 13, 2019; and

WHEREAS, Consistent with the TJPA Board of Directors policy, the Executive Director approved an administrative Amendment No. 1 to the FY 2019-20 Operating Budget on December 6, 2019; and

WHEREAS, Consistent with the TJPA Board of Directors policy, the Executive Director approved an administrative Amendment No. 1 to the FY 2019-20 Capital Budget on December 6, 2019; and

WHEREAS, Consistent with the TJPA Board of Directors policy, the Executive Director approved an administrative Amendment No. 2 to the FY 2019-20 Capital Budget on March 6, 2020; and

WHEREAS, The TJPA Board of Directors has reviewed and considered the proposed establishment of a Debt Service Budget as a distinct item separate from the Operating Budget, FY 2019-20 Capital Budget Amendment No. 3, and FY 2019-20 Operating Budget Amendment No. 2; now, therefore, be it

RESOLVED, That the TJPA Board of Directors approves the establishment of a Debt Service Budget as a distinct item separate from the Operating Budget and approves such FY 2019-20 Debt Service Budget in an amount not to exceed \$296,239,496; and approves the FY 2019-20 Operating Budget Amendment No. 2 and the FY 2019-20 Capital Budget Amendment No. 3, making all necessary transfers and budget delineations; and, be it

FURTHER RESOLVED, That the TJPA Board of Directors approves the transfer of CFD Reimbursements in the amount of \$35,500,000 to the Fiscal Reserve for future Phase 2 uses; and approves contributions of \$15,000,000 to Fiscal Reserve for future Tenant Improvements expenses.

I hereby certify that the foregoing resolution was adopted by the Transbay Joint Powers Authority Board of Directors at its meeting of March 12, 2020.

\_\_\_\_\_  
Secretary, Transbay Joint Powers Authority

**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 responsible for to the financing, designing, developing, construction, and operation of the Transbay Transit Center Program (“Transbay Program”); and

WHEREAS, The TJPA elected to pursue an asset management form of agreement for operation, activation, and maintenance of the transit center, which requires the owner to bear certain costs for capital improvements, such as base building improvements and tenant improvements (collectively, “Tenant Improvements”); and

WHEREAS, The TJPA adopted a Merchandising Plan for the transit center, which includes a schedule for retail/commercial leasing that describes the number, type, and location of spaces that are expected to open each quarter and describes efforts to respond to expected market demand for small, disadvantaged, and local retailers; and

WHEREAS, The TJPA anticipates that certain Tenant Improvements will be required to activate the transit center consistent with the Merchandising Plan and secure superior rents from commercial/retail tenants; and

WHEREAS, The TJPA concludes that funding certain Tenant Improvements in the near term will be an overall net financial gain to the transit center and reduce the overall net operating cost of the facility, as well as providing significant other benefits to the transit passengers, workers, residents, and visitors to the transit center; and

WHEREAS, The TJPA anticipated a total estimate of \$35.5 million in Tenant Improvements based on the leasing proforma budget; and

WHEREAS, On December 14, 2017, the TJPA Board authorized the transfer of \$25 million in the Phase 1 Budget from Program Reserve to the line item for Base Building Improvements/Tenant Improvement Allowances, to be funded with the City Financing; and

WHEREAS, On June 13, 2019, the TJPA Board authorized the transfer of \$10.5 million in the Phase 1 Budget from Program Reserve to the line item for Base Building Improvements/Tenant Improvement Allowances, to be funded with City Financing; and

WHEREAS, A separate Tenant Improvements Capital Budget would facilitate the closeout of the Phase 1 budget and monitoring of future tenant improvement activities over multiple years; and

WHEREAS, Staff recommends allocating a total of \$50.5 million of the TJPA’s bonds proceeds to this new Tenant Improvements Capital Budget, which is comprised of the original budgeted amount of \$35.5 million plus \$15 million for contingency and future or second-generation Tenant Improvements; and

WHEREAS, Staff recommends replacing the other revenues previously allocated to Tenant Improvements with the bonds proceeds; now, therefore, be it

RESOLVED, That the TJPA Board of Directors authorizes the transfer of \$35.5 million in bonds proceeds into the Phase 1 Budget to Program Reserves, replacing other revenues previously allocated to the line item for Base Building Improvements/Tenant Improvement Allowances; and, be it

FURTHER RESOLVED, That the TJPA Board of Directors approves the establishment of a Tenant Improvement Capital Budget as a distinct item, and approves such Tenant Improvement Capital Budget in an amount not to exceed \$50.5 million.

I hereby certify that the foregoing resolution was adopted by the Transbay Joint Powers Authority Board of Directors at its meeting of March 12, 2020.

---

Secretary, Transbay Joint Powers Authority

**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 responsible for the financing, designing, developing, construction, and operation of the Transbay Transit Center Program; and

WHEREAS, Pursuant to the Joint Powers Agreement creating the TJPA, dated April 4, 2001 (Agreement), the TJPA has the authority to exercise all powers necessary and proper to carry out the provisions of the Agreement; and

WHEREAS, The TJPA adopted a Reserve Policy in conformance with federal, state and other legal requirements on October 27, 2006; and

WHEREAS, The TJPA adopted a revised Reserve Policy that, among other things, established an Operating and Maintenance Reserve on September 9, 2010; and

WHEREAS, The TJPA adopted a revised Reserve Policy to include a target funding level for the Operating and Maintenance Reserve equal to twenty-five percent of the annual operations and maintenance budget on November 9, 2017; and

WHEREAS, The TJPA federal TIFIA Loan provided for the establishment and funding of a Capital Replacement Reserve Account. After refinance of the TIFIA Loan, staff recommends that the Board continue to plan for future life cycle replacements of major building components by expressly adding a capital replacement reserve to its Reserve Policy; and

WHEREAS, Staff recommends revisions to the Reserve Policy to establish a Capital Replacement Reserve, and to set forth the appropriate general standards for use of the Capital Replacement Reserve and delegation of authority for use of the Capital Replacement Reserve; and

WHEREAS, Staff recommends initial funding of the Capital Replacement Reserve at a targeted amount of \$29 million and up to \$40 million based on market conditions at the time of sale of the Series 2020 Bonds, using a combination of cash on hand and bonds proceeds; now, therefore, be it

RESOLVED, That the TJPA Board adopts the revised Reserve Policy identified as Board Policy No. 012 in the form presented to the Board; and, be it

FURTHER RESOLVED, That the TJPA Board approves the contributions from bonds proceeds and cash on hand to make the initial funding of the Capital Replacement Reserve in a targeted amount of \$29 million and up to \$40 million.

I hereby certify that the foregoing resolution was adopted by the Transbay Joint Powers Authority Board of Directors at its meeting of March 12, 2020.

---

Secretary, Transbay Joint Powers Authority

---

# TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 012

Category: Financial Matters

---

## RESERVE POLICY

### I. Introduction

The purpose of this policy is to set forth appropriate levels of financial reserves to mitigate current and future financial risks, such as revenue shortfalls or unanticipated expenses, ~~and~~ short-term cash shortages and to ensure that sufficient funding is available for periodic major maintenance and lifecycle costs, and to set forth the purposes and procedures for and by which the reserve funds may be used for the payment of services or goods.

The Transbay Joint Powers Authority (TJPA) will create ~~three~~four reserves as follows:

1. **Emergency Reserve** is to be used in extraordinary events such as natural disasters or calamities, and unforeseen liabilities caused by Local, Regional, State and Federal legislative actions
2. **Fiscal Reserve** is to be used as working capital.
3. **Operating and Maintenance Reserve** is to ensure that sufficient operating and maintenance funds are available in the event of unanticipated revenue shortfalls and unavoidable expenditure needs.
4. Capital Replacement Reserve is to ensure that sufficient funds are available to pay for all reasonably necessary periodic major maintenance and lifecycle expenditures.

All reserves will be funded from eligible revenue sources including but not limited to (1) gains on sale of real property, (2) interest and investment earnings, (3) lease and other operating income, (4) net tax increment revenues to the extent that costs are eligible to be funded in compliance with the restrictions contained in the ~~Transbay Redevelopment Plan~~Pledge Agreement and (5) other funds designated for reserve purposes.

### II. Objectives

The objective of the reserve policy is to help insulate the TJPA from fiscal crisis, provide a positive cash balance, enhance short term and long term financial health to help achieve the highest credit ~~and bond~~ ratings, and to promote long term financial stability by establishing clear and consistent reserve policy guidelines.

### III. General Standards & Delegation of Authority

- A. Emergency Reserve:** The Emergency Reserve may be used in an emergency situation with the Board of Directors' approval. Emergency situations may include, but are not limited to, extraordinary events such as natural disasters or calamities, and unforeseen liabilities caused by Regional, State and Federal legislative actions. The Emergency Reserve shall be set at five hundred thousand dollars (\$500,000). The Board of Directors must approve the release or addition of any amount from/to the Emergency Reserve. In the event that the Board of Directors' cannot convene in time to respond to an emergency situation, two of the four following TJPA positions may approve the use of the Emergency Reserve: 1) Chair of the Board, 2) Vice Chair of the Board, 3) Executive Director, 4) Chief Financial Officer.
- B. Fiscal Reserve:** There are often times when an agency experiences disparity between the availability of financial resources and when actual payments are due. The Fiscal Reserve may be used as a short-term cash resource for payment to vendors or contractors prior to the receipt of funds from funding partners. A commitment from the funding partners must be in place prior to the temporary "borrowing" of cash from this reserve. It is the goal of the TJPA to maintain a balance in the Fiscal Reserve equal to fifteen percent (15%) of the annual budgeted expenses not including Right of Way costs. This amount will approximate 60 days of working capital.

The Board of Directors must approve the release of any amount from the Fiscal Reserve or the addition to the Fiscal Reserve above 15%. The TJPA Chief Financial Officer and the TJPA Executive Director may authorize the temporary use of cash from the Fiscal Reserve for cash flow purposes.

- C. Operating and Maintenance Reserve:** The Operating and Maintenance (O&M) Reserve is established to ensure that sufficient operating and maintenance funds are available in the event of unanticipated revenue shortfalls and unavoidable expenditure needs. The Board shall annually establish the Operating and Maintenance Reserve amount for the following fiscal year. It is the goal of the TJPA to maintain a balance in the Operating and Maintenance Reserve equal to 25% of the annual budgeted operating and maintenance expenses. This amount will approximate three months of operations and maintenance expenses for the Transit Center. This level is expressed as a goal to recognize that fund balances may fluctuate from year-to-year due to the normal course of operations. All available carryover funds may be allocated to this Reserve Fund annually until the reserve reaches the maximum 25% of adopted budget operating appropriations. Whenever reserve funds are used, the reserve shall be replenished as soon as possible.

Expenditures from the Operating and Maintenance Reserve funds must meet at least one of the following criteria:

- Necessary for the safety or security of the public or the facility;
- Required by the Lease and Use Agreements with operators or other agreements or contracts entered into by the TJPA;

- Authorized under the annual Operating and Maintenance budget approved by the Board; or
- Other unforeseen circumstances wherein the use of the reserve funds is deemed necessary by the Executive Director, designee, or by the Board of Directors.

In addition to the expenditures described above, the TJPA may use funds in the Operating and Maintenance Reserve as working capital as described in section III B to fulfill contractual or other obligations. To the extent possible, the use of these funds as working capital should not result in the Operating and Maintenance Reserve balance dropping below two months of direct operating and maintenance costs. The use of the Operating and Maintenance Reserve funds as working capital must be authorized by the Executive Director or designee.

**D. Capital Replacement Reserve:** The Capital Replacement Reserve was initially established as a condition of the TJPA’s execution of its 2010 TIFIA Loan and the accompanying Collateral Agency and Account Agreement. The Capital Replacement Reserve is expected to pay for future periodic major maintenance and lifecycle costs. A Capital Asset Management Plan will detail the required funding of the Capital Replacement Reserve and scheduled uses of the Capital Replacement Reserve funds to pay for anticipated periodic major maintenance and lifecycle costs. The TJPA Chief Financial Officer and the TJPA Executive Director may authorize the use of funds from the Capital Replacement Reserve to pay for ~~unanticipated~~nonscheduled ~~reasonably required~~ periodic major maintenance and lifecycle costs as and if such needs arise. The expenditures funded by the Capital Replacement Reserve must be eligible per the Pledge Agreement.

#### **IV. Internal Controls**

In no case shall the implementation of this policy be inconsistent with the TJPA’s procurement, budget, or internal accounting control policies. The TJPA Chief Financial Officer shall assure that internal accounting controls are followed as required by Board Policy No. 007, “Internal Accounting Control Policy”.

#### **V. Reporting Requirements**

The financial records of the TJPA will segregate the Fiscal Reserve, Emergency Reserve ~~and~~ O&M Reserve, and Capital Replacement Reserve by recording activity in a separate account. The TJPA shall incorporate the budgeted and actual Reserve amounts into the quarterly financial reports submitted to the TJPA Board of Directors. The reports will include additions or approved releases of the Reserves and the period ending balances.

#### **VI. Reserve Policy Review**

TJPA's Reserve Policy shall be adopted by resolution of the TJPA Board of Directors. This policy shall be reviewed annually by TJPA Staff and Chief Financial Officer. Any modifications to this policy must be approved by resolution of the TJPA Board.

---

# TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 012

Category: Financial Matters

---

## RESERVE POLICY

### I. Introduction

The purpose of this policy is to set forth appropriate levels of financial reserves to mitigate current and future financial risks, such as revenue shortfalls or unanticipated expenses, short-term cash shortages and to ensure that sufficient funding is available for periodic major maintenance and lifecycle costs, and to set forth the purposes and procedures for and by which the reserve funds may be used for the payment of services or goods.

The Transbay Joint Powers Authority (TJPA) will create four reserves as follows:

1. **Emergency Reserve** is to be used in extraordinary events such as natural disasters or calamities, and unforeseen liabilities caused by Local, Regional, State and Federal legislative actions
2. **Fiscal Reserve** is to be used as working capital.
3. **Operating and Maintenance Reserve** is to ensure that sufficient operating and maintenance funds are available in the event of unanticipated revenue shortfalls and unavoidable expenditure needs.
4. **Capital Replacement Reserve** is to ensure that sufficient funds are available to pay for all reasonably necessary periodic major maintenance and lifecycle expenditures.

All reserves will be funded from eligible revenue sources including but not limited to (1) gains on sale of real property, (2) interest and investment earnings, (3) lease and other operating income, (4) net tax increment revenues to the extent that costs are eligible to be funded in compliance with the restrictions contained in the Pledge Agreement and (5) other funds designated for reserve purposes.

### II. Objectives

The objective of the reserve policy is to help insulate the TJPA from fiscal crisis, provide a positive cash balance, enhance short term and long term financial health to help achieve the highest credit ratings, and to promote long term financial stability by establishing clear and consistent reserve policy guidelines.

### III. General Standards & Delegation of Authority

- A. Emergency Reserve:** The Emergency Reserve may be used in an emergency situation with the Board of Directors' approval. Emergency situations may include, but are not limited to, extraordinary events such as natural disasters or calamities, and unforeseen liabilities caused by Regional, State and Federal legislative actions. The Emergency Reserve shall be set at five hundred thousand dollars (\$500,000). The Board of Directors must approve the release or addition of any amount from/to the Emergency Reserve. In the event that the Board of Directors' cannot convene in time to respond to an emergency situation, two of the four following TJPA positions may approve the use of the Emergency Reserve: 1) Chair of the Board, 2) Vice Chair of the Board, 3) Executive Director, 4) Chief Financial Officer.
- B. Fiscal Reserve:** There are often times when an agency experiences disparity between the availability of financial resources and when actual payments are due. The Fiscal Reserve may be used as a short-term cash resource for payment to vendors or contractors prior to the receipt of funds from funding partners. A commitment from the funding partners must be in place prior to the temporary "borrowing" of cash from this reserve. It is the goal of the TJPA to maintain a balance in the Fiscal Reserve equal to fifteen percent (15%) of the annual budgeted expenses not including Right of Way costs. This amount will approximate 60 days of working capital.

The Board of Directors must approve the release of any amount from the Fiscal Reserve or the addition to the Fiscal Reserve above 15%. The TJPA Chief Financial Officer and the TJPA Executive Director may authorize the temporary use of cash from the Fiscal Reserve for cash flow purposes.

- C. Operating and Maintenance Reserve:** The Operating and Maintenance (O&M) Reserve is established to ensure that sufficient operating and maintenance funds are available in the event of unanticipated revenue shortfalls and unavoidable expenditure needs. The Board shall annually establish the Operating and Maintenance Reserve amount for the following fiscal year. It is the goal of the TJPA to maintain a balance in the Operating and Maintenance Reserve equal to 25% of the annual budgeted operating and maintenance expenses. This amount will approximate three months of operations and maintenance expenses for the Transit Center. This level is expressed as a goal to recognize that fund balances may fluctuate from year-to-year due to the normal course of operations. All available carryover funds may be allocated to this Reserve Fund annually until the reserve reaches the maximum 25% of adopted budget operating appropriations. Whenever reserve funds are used, the reserve shall be replenished as soon as possible.

Expenditures from the Operating and Maintenance Reserve funds must meet at least one of the following criteria:

- Necessary for the safety or security of the public or the facility;
- Required by the Lease and Use Agreements with operators or other agreements or contracts entered into by the TJPA;

- Authorized under the annual Operating and Maintenance budget approved by the Board; or
- Other unforeseen circumstances wherein the use of the reserve funds is deemed necessary by the Executive Director, designee, or by the Board of Directors.

In addition to the expenditures described above, the TJPA may use funds in the Operating and Maintenance Reserve as working capital as described in section III B to fulfill contractual or other obligations. To the extent possible, the use of these funds as working capital should not result in the Operating and Maintenance Reserve balance dropping below two months of direct operating and maintenance costs. The use of the Operating and Maintenance Reserve funds as working capital must be authorized by the Executive Director or designee.

**D. Capital Replacement Reserve:** The Capital Replacement Reserve was initially established as a condition of the TJPA's execution of its 2010 TIFIA Loan and the accompanying Collateral Agency and Account Agreement. The Capital Replacement Reserve is expected to pay for future periodic major maintenance and lifecycle costs. A Capital Asset Management Plan will detail the required funding of the Capital Replacement Reserve and scheduled uses of the Capital Replacement Reserve funds to pay for anticipated periodic major maintenance and lifecycle costs. The TJPA Chief Financial Officer and the TJPA Executive Director may authorize the use of funds from the Capital Replacement Reserve to pay for nonscheduled periodic major maintenance and lifecycle costs as and if such needs arise.

#### **IV. Internal Controls**

In no case shall the implementation of this policy be inconsistent with the TJPA's procurement, budget, or internal accounting control policies. The TJPA Chief Financial Officer shall assure that internal accounting controls are followed as required by Board Policy No. 007, "Internal Accounting Control Policy".

#### **V. Reporting Requirements**

The financial records of the TJPA will segregate the Fiscal Reserve, Emergency Reserve O&M Reserve, and Capital Replacement Reserve by recording activity in a separate account. The TJPA shall incorporate the budgeted and actual Reserve amounts into the quarterly financial reports submitted to the TJPA Board of Directors. The reports will include additions or approved releases of the Reserves and the period ending balances.

#### **VI. Reserve Policy Review**

TJPA's Reserve Policy shall be adopted by resolution of the TJPA Board of Directors. This policy shall be reviewed annually by TJPA Staff and Chief Financial Officer. Any modifications to this policy must be approved by resolution of the TJPA Board.