

**STAFF REPORT FOR CALENDAR ITEM NO.: 9
FOR THE MEETING OF: January 13, 2022**

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Approval of Fiscal Year (FY) 2022-23 Preliminary Operating Projection in the amount of \$30,611,000.

SUMMARY:

The leases with transit operators require that the TJPA Board approve an operating budget projection for the transit center by January for the upcoming fiscal year, in order to assist the transit operators in developing their own annual budgets. The proposed Preliminary Operating Projection for FY 2022-23 in the amount of \$30,611,000, which is an initial estimate at this time, is discussed below in further detail. A narrative budget outlook for FY 2022-23 will be presented to the Board in April 2022, the Draft Operating and Capital Budgets for discussion in May, and the Final Operating and Capital Budgets for adoption in June.

EXPLANATION:

The Lease and Use Agreement between the TJPA, AC Transit and the San Francisco Municipal Transportation Agency (SFMTA) requires the TJPA Board to adopt a preliminary operating budget projection by January 31. At this time, staff recommends that the proposed Preliminary Operating Projection for FY 2022-23 increase from the projection presented to the Board in June 2021 and updated projections shared with the Primary Tenants in September 2021. Several revenue categories changed from the earlier projections due to projections in availability of funds, as discussed below.

FY 2022-23 Operating Revenues:

The FY 2022-23 operating projection includes reimbursement revenues from RM-2 and RM-3 bridge toll funds and Community Benefit District (CBD) assessments. Revenues are from transit center leases, naming rights, advertising and sponsorships, events and licensing fees, miscellaneous and interest income. The operating revenues are summarized in the following table:

<u>Reimbursements</u>	
Regional Measure 2	\$5,768,000
Regional Measure 3	3,251,000
Federal Grants - CARES, CRRSAA and ARPA	1,700,000
Wayfinding Request	3,300,000
Community Benefit District Park Payments	1,636,000
Subtotal Reimbursements	\$15,655,000
<u>Revenues</u>	
Lease and Use Payments	7,093,000
<i>AC Transit (74%)</i>	<i>5,248,820</i>
<i>SF Municipal Transportation Agency (26%)</i>	<i>1,844,180</i>

AC Transit (Bus Storage Facility)	577,000
AC Transit Capital Contributions	500,000
General Fund Revenues	\$6,786,000
<i>Other Operator Rents</i>	333,000
<i>Naming Rights</i>	3,377,000
<i>Transit Center Rental Retail Revenue</i>	1,540,000
<i>Transit Center Advertising</i>	1,000,000
<i>Transit Center Sponsorship / Events</i>	250,000
<i>Neutral Host DAS Licensing Fees</i>	125,000
<i>Miscellaneous</i>	35,000
<i>Interest Earnings</i>	126,000
Subtotal Revenues	\$14,956,000
TOTAL RESOURCES	\$30,611,000

- TJPA receives an annual allocation of RM-2 bridge toll funds for operations. The projected allocation amount for FY 2022-23 is about \$5.77 million. The projections are reduced from previous years due to the planned expiration of a temporary supplemental bridge toll allocation to support operations prior to full activation of the transit center. Staff will discuss the continuation of the \$3 million supplemental allocation with MTC staff.
- The FY 2022-23 budget forecast includes RM-3 funds, as the measure was passed by the voters in June 2018. Funds for the transit center are based on a percentage of the new toll funds collected. MTC estimates that approximately \$3.25 million would be available for the transit center in FY 2022-23. However, in response to pending lawsuits related to RM-3, while MTC began the new toll collection on January 1, 2019, MTC is holding all receipts in an escrow account. These funds will not be released until the lawsuits are fully resolved. If the lawsuits are successful, TJPA would not receive RM-3 funds for the transit center operations.
- The East Cut Community Benefits 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. The preliminary projection presented here shows \$1.64M, which is increased slightly over FY 2021-22 to reflect a moderate increase in park activities during the fiscal year and general cost escalation.
- Lease and Use Payments, determined by 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. Based on the preliminary projections, TJPA staff anticipates the contributions needed from the Primary Tenants at about \$7.09M.
- AC Transit Capital Contribution revenues are planned to cover near term minor capital maintenance and equipment replacement needs for the transit center. For FY 2022-23, the contributions are the same as those of FY 2021-22 at \$500K.

- FY 2022-23 is the fifth year of the Naming Rights agreement, and the scheduled payment under the agreement is about \$3.38M.
- Transit center retail revenue is projected to be \$1.54M based on the Board approved and executed retail leases. This projection conservatively assumes that all of the tenants who are currently paying full rent will continue to do so, those tenants who have agreed to commencement dates in FY 2021-22 will pay full rent in FY 2022-23. Also, the budget assumes that those tenants paying partial rents at the end of FY 2021-22 will continue to seek abatements in FY 2022-23, and tenants with commencement dates in FY 2022-23 will pay rent for a portion of the year. The projection further assumes that none of the currently vacant suites will generate any rental income during FY 2022-23. These assumptions are more conservative than the FY 2021-22 budget and preliminary FY 2022-23 budget shared with the Primary Tenants in September, reflecting a continuation of the pandemic and resulting reduced activities in the downtown area.
- Advertising revenue is primarily generated from the digital advertising on the kiosks placed throughout the transit center. The FY 2022-23 projection is \$1M, which is the minimum annual guarantee.
- Sponsorships and Events revenue represents event rentals and branding sponsorship opportunities on the park. It is estimated to be \$250K based on historical revenues generated.
- The preliminary FY 2022-23 budget forecast includes \$125K in Neutral Host DAS which is the minimum annual guarantee.
- Miscellaneous revenues anticipated at \$35K are generated from the pop-up retail, food trucks, and other miscellaneous revenues.
- Interest Income represents the interest earned on operating and unrestricted fund balances, conservatively estimated at \$126K.

FY 2022-23 Operating Expenses:

The preliminary projected operating expenses for FY 2022-23 total just over \$30.61 million, an increase of \$2.08M from FY 2021-22. \$2 million of this increase is attributable to an increase in wayfinding improvements, should revenues be secured for this work. The projected increases in other costs due to contractual requirements and inflation have been mitigated with a reduction in the contingency line item. The operations and maintenance costs are broken down below:

<u>Expenses</u>	
<u>Salesforce Transit Center</u>	
TJPA Administration	2,963,000
Asset Management Fee & Administration	1,639,000
Physical Security	7,353,000
Security Systems	611,000
Cybersecurity/IT	1,831,000
Transit Center General Maintenance	2,500,000
Transit Center Janitorial	1,400,000
Transit Center Utilities	1,700,000
Wayfinding Enhancements	3,300,000
Digital Content Management & Wayfinding Systems	620,000
Capital Maintenance, Repair, Replacement	525,000

Insurance	1,916,000
Bus Storage Facility	577,000
Other Consulting – TI BORP	50,000
<u>Transit Center Sub-Total</u>	\$26,985,000
<u>Salesforce Transit Center Park</u>	
Park Management & Administration	\$300,000
Park Programming	293,000
Park Capital Maintenance	206,000
Park General Maintenance	811,000
Park Janitorial	741,000
Park Utilities	325,000
<u>Park Sub-Total</u>	\$2,676,000
Contingency	950,000
TOTAL EXPENSES	\$30,611,000

TJPA Administration includes the salary and benefits of staff. The salary and benefits are prorated between the operating and capital budgets based on job function and time allocation. Additionally, there are office related and overall program management expenses included in this line item.

Physical Security and Security Systems: Security includes local law enforcement provided by the San Francisco Police Department and private security guards through a contract with Allied Universal. Staffing levels will continue to be sufficient to implement the safety and security concept of operations; deter, respond to, manage and recover from all security or safety events and incidents – natural or human-caused; and manage the Security Operations Center in the transit center. The security model assigns law enforcement primarily to high visibility roving patrols, community policing activities, and response to emergency situations. Standard security guard services reside with the contract security service, Allied Universal. Security Systems includes funding for the various contracts such as Fire Life Safety contract and the software systems used to maintain the Security Operations Center.

Cybersecurity / IT: IT services include maintenance and management of the IT infrastructure at the transit center by the Asset Management team and cybersecurity services under a reseller contract with TJPA.

Transit Center Maintenance, Janitorial, and Utilities: The transit center will be diligently serviced and attentively cleaned, with an emphasis on increased COVID sanitation. Systematic preventive maintenance, programmed janitorial, and groundskeeping activities will continue at a reduced level based on anticipated traffic through the transit center. LPC will conduct repair and upkeep at frequencies following typical industry best practices and that maximizes the reduced traffic.

Capital Maintenance, Repair, and Replacement: This budget anticipates the repairs or maintenance that exceeds \$5,000 per instance, generally due to vandalism, overuse, misuse, and abuse. Examples of repairs or maintenance that would fall in this category are restroom door

replacements, large panel glass replacement, sliding door replacement, digital equipment replacements, metal etching in elevators, spray paint removal, net barrier repairs, etc.

Wayfinding: This budget maintains the digital and physical signage that is integrated into the transit center.

Insurance: Using the FY 2021-22 actuals, costs for insurance are projected to increase using historical average market adjustments.

Park Management, Programming, Maintenance, Janitorial, and Utilities: Park expenses, generally covered by the CBD contribution, are a prorated share of the transit center utilities, janitorial, and general maintenance. Also, the programmed activities that are generally free to the public are encompassed in these costs, along with the contractual park management fee.

FY 2022-23 Operating Reserves

Limited operating reserves will be available at the start of FY 2022-23. The reserve policy has a goal of 25% of the operating budget, which would amount to \$7.65M based on the FY 2022-23 Preliminary Operating Projection. A reserve of this amount is equal to 3 months of operating revenue which allows for sufficient working capital and a small cushion in the event that revenues do not perform as expected. The FY 2022-23 budget projection includes an estimated reserve of \$5.62M or 18% of the operating budget. The reserve projection will be updated as the current fiscal year progresses, using actual receipts and expenses in the current fiscal year as the basis for the next year's starting reserve balance.

Per the TJPA Budget Policy, a draft operating budget will be presented in May and a final budget in June, as noted above. A narrative budget outlook that includes discussion of capital and operating expenditures will be provided to the Board in April.

RECOMMENDATION:

Approve the Fiscal Year 2022-23 Preliminary Operating Projection in the amount of \$30,611,000.

ENCLOSURES:

1. Resolution
2. FY 2022-23 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 Transbay Program; and

WHEREAS, Pursuant to the Joint Powers Agreement creating the TJPA, dated April 4, 2001, 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 projection 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 Fiscal Year 2022-23 Preliminary Operating Projection presented herewith; and

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

WHEREAS, A budget outlook for FY 2022-23 will be presented to the TJPA Board in April 2022, 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 2022-23 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 13, 2022.

Interim Secretary, Transbay Joint Powers Authority

FY 2022-23 Preliminary Operating Budget Projection	FY21-22 Budget Amendment 1	FY22-23 Preliminary Budget Projection (September 2021)	FY22-23 Preliminary Budget Projection (January 2022)	Difference From Sept. 2021 to 2022	Difference From Jan. 2022 to 2022 in %
Beginning Reserves					
Emergency Reserve	500,000	500,000	500,000	0	0%
O&M Reserve	1,954,346	5,123,277	5,123,277	0	0%
Beginning Balance and Reserves	2,454,346	5,623,277	5,623,277	0	0%
Reimbursements					
Regional Measure 2	8,122,468	5,768,000	5,768,000	0	0%
Regional Measure 3	1,625,600	3,251,000	3,251,000	0	0%
Federal Grants - CARES, CRRSAA and ARPA	3,287,474	0	1,700,000	1,700,000	N/A
Wayfinding Request	1,000,000	3,300,000	3,300,000	0	0%
Community Benefit District Park Payments	1,588,067	1,636,000	1,636,000	0	0%
Subtotal Reimbursements	15,623,609	13,955,000	15,655,000	1,700,000	12%
Revenues					
Lease and Use Payments	4,473,637	7,383,000	7,093,000	(290,000)	-4%
AC Transit (74%)	3,310,491	5,463,420	5,248,820	(214,600)	-4%
SF Municipal Transportation Agency (26%)	1,163,146	1,919,580	1,844,180	(75,400)	-4%
AC Transit (Bus Storage Facility)	560,000	577,000	577,000	0	0%
AC Transit Capital Contributions	500,000	500,000	500,000	0	0%
General Fund Revenues	8,007,284	8,196,000	6,786,000	(1,410,000)	-17%
Other Operator Rents	323,314	333,000	333,000	0	0%
Naming Rights	3,278,181	3,377,000	3,377,000	0	0%
Transit Center Rental Retail Revenue	2,194,562	2,950,000	1,540,000	(1,410,000)	-48%
Transit Center Advertising	1,000,000	1,000,000	1,000,000	0	0%
Transit Center Sponsorship / Events	220,000	250,000	250,000	0	0%
Neutral Host DAS Licensing Fees	500,000	125,000	125,000	0	0%
Miscellaneous	365,000	35,000	35,000	0	0%
Interest Earnings	126,227	126,000	126,000	0	0%
Subtotal Revenues	13,540,921	16,656,000	14,956,000	(1,700,000)	-10%
Transfers From/(To)					
Transfer From Reserves/Fund Balance	0	0	0	0	N/A
Transfer (To) Reserves/Fund Balance	(630,040)	0	0	0	N/A
Subtotal Transfers	(630,040)	0	0	0	N/A
TOTAL RESOURCES	28,534,490	30,611,000	30,611,000	0	0%
Expenses					
Salesforce Transit Center	24,088,711	26,985,000	26,985,000	0	
TJPA Administration	2,876,224	2,963,000	2,963,000	0	0%
Asset Management Fee & Administration	1,591,556	1,639,000	1,639,000	0	0%
Physical Security	7,298,670	7,353,000	7,353,000	0	0%
Security Systems	592,927	611,000	611,000	0	0%
Cybersecurity/IT	1,777,363	1,831,000	1,831,000	0	0%
Transit Center General Maintenance	2,265,792	2,500,000	2,500,000	0	0%
Transit Center Janitorial	1,282,050	1,400,000	1,400,000	0	0%
Transit Center Utilities	1,580,128	1,700,000	1,700,000	0	0%
Wayfinding Enhancements	1,300,000	3,300,000	3,300,000	0	0%
Digital Content Management & Wayfinding Systems	602,000	620,000	620,000	0	0%
Capital Maintenance, Repair, Replacement	510,000	525,000	525,000	0	0%
Insurance	1,842,000	1,916,000	1,916,000	0	0%
Bus Storage Facility	560,000	577,000	577,000	0	0%
Other Consulting - TI BORP	0	50,000	50,000	0	0%
Title VI and Translations	10,000	0	0	0	0%
Salesforce Transit Center Park	2,820,179	2,676,000	2,676,000	0	
Park Management & Administration	613,153	300,000	300,000	0	0%
Park Programming	284,250	293,000	293,000	0	0%
Park Capital Maintenance	200,000	206,000	206,000	0	0%
Park General Maintenance	787,754	811,000	811,000	0	0%
Park Janitorial	619,150	741,000	741,000	0	0%
Park Utilities	315,872	325,000	325,000	0	0%
Contingency	1,625,600	950,000	950,000	0	0%
TOTAL EXPENSES	28,534,490	30,611,000	30,611,000	0	0%
DIFFERENCE	0	0	0	0	0%
Ending Reserve Amounts					
Emergency Reserve	500,000	500,000	500,000	0	0%
O&M Reserve	2,584,386	5,123,277	5,123,277	0	0%
Totals	3,084,386	5,623,277	5,623,277	0	0%
Reserve Percentage	11%	18%	18%		
Variable Expense Budget	28,534,490	30,611,000	30,611,000		

FY 2022-23 Preliminary Operating Budget Projection

January 13, 2022



Budget Calendar

- September 2021: Preliminary Operating Budget Projections to Primary Tenants
- **January 2022: Board review and approval of Preliminary Operating Budget Projection**
- January – April 2022: Staff development of Operating, Debt Service and Capital Budgets
- April 2022: Board information item on Budget Outlook
- May 2022: Board presentation and public hearing of Draft Budgets
- June 2022: Board review and adoption of Operating, Debt Service and Capital Budgets

Highlights

- Preliminary Operating Projection: \$30.61M
- RM-2: End of the 5-year contribution of \$3M per year for the Transit Center's start-up. Staff has requested for an extension of the funding due to the ongoing pandemic.
- RM-3: Litigation not yet resolved
- Primary tenants' contribution projected to be increased due to uncertainty of RM-2 funding
- Retail rental revenue conservatively projected, reduction offset by one-time Federal grants
- Operating expense projections consistent with the 3-year projection presented in June 2021

Revenues

<u>Reimbursements</u>	
Regional Measure 2	\$5,768,000
Regional Measure 3	3,251,000
Federal Grants - CARES, CRRSAA and ARPA	1,700,000
Wayfinding Request	3,300,000
Community Benefit District Park Payments	1,636,000
Subtotal Reimbursements	\$15,655,000
<u>Revenues</u>	
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<i>Transit Center Rental Retail Revenue</i>	<i>1,540,000</i>
<i>Transit Center Advertising</i>	<i>1,000,000</i>
<i>Transit Center Sponsorship / Events</i>	<i>250,000</i>
<i>Neutral Host DAS Licensing Fees</i>	<i>125,000</i>
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<i>Interest Earnings</i>	<i>126,000</i>
Subtotal Revenues	\$14,956,000
TOTAL RESOURCES	\$30,611,000

Expenses

<u>Expenses</u>	
<u>Salesforce Transit Center</u>	
TJPA Administration	2,963,000
Asset Management Fee & Administration	1,639,000
Physical Security	7,353,000
Security Systems	611,000
Cybersecurity/IT	1,831,000
Transit Center General Maintenance	2,500,000
Transit Center Janitorial	1,400,000
Transit Center Utilities	1,700,000
Wayfinding Enhancements	3,300,000
Digital Content Management & Wayfinding Systems	620,000
Capital Maintenance, Repair, Replacement	525,000
Insurance	1,916,000
Bus Storage Facility	577,000
Other Consulting – TI BORP	50,000
<u>Transit Center Sub-Total</u>	\$26,985,000

Expenses

Salesforce Transit Center Park	
Park Management & Administration	\$300,000
Park Programming	293,000
Park Capital Maintenance	206,000
Park General Maintenance	811,000
Park Janitorial	741,000
Park Utilities	325,000
<u>Park Sub-Total</u>	\$2,676,000
Contingency	950,000
TOTAL EXPENSES	\$30,611,000

Further Considerations

- Further Reduction Unlikely
- Revenue Refinements
 - RM-2 and RM-3
 - Federal Grants: ARPA funding as a one-time substitute of lower rental retail revenue
 - Rental Retail Revenue: Timing of tenants' opening and increase in business activities
- Expense Refinements
 - Ongoing exploration of leveraging external fund sources to augment the Transit Center's wayfinding program
 - Decrease in Park Management Fees and Administration: more cost-effective management



Questions?

TJPA
TRANSBAY JOINT POWERS AUTHORITY

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