

**STAFF REPORT FOR CALENDAR ITEM NO.: 10
FOR THE MEETING OF: January 12, 2023**

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Approval of Fiscal Year (FY) 2023-24 Preliminary Operating Projection in the amount of \$27,319,000.

SUMMARY:

The leases with transit operators require that the TJPA Board approve an operating budget projection for the Salesforce Transit Center by January for the upcoming fiscal year, to assist the transit operators in developing their own annual budgets. The proposed Preliminary Operating Projection for FY 2023-24 in the amount of \$27,319,000, which is an initial estimate at this time, is discussed below in further detail. A narrative budget outlook for FY 2023-24 will be presented to the Board in April, 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 adopt a preliminary operating budget projection by January 31. At this time, staff recommends that the proposed Preliminary Operating Projection for FY 2023-24 decrease from the projection presented to the Board in June 2022 as retail lease revenue and advertising revenue are recovering slower than initially anticipated. To maintain primary tenant contributions at the same level as initially projected and to accommodate higher than anticipated insurance costs, staff is recommending minor adjustments across most budget categories, keeping them at or slightly above current budget levels.

On November 10, 2022, the TJPA Board adopted a Capital Improvement Plan (CIP) policy, directing staff to develop a recommended project list for approval by the Board and a separate CIP capital budget to track revenue and expenditures. With the adoption of this policy, both dedicated capital revenue and capital improvement cost categories that were part of the preliminary operating projection from June 2022 are being removed from the proposed preliminary projection and will be included in the capital budget. Cost categories being removed from the preliminary operating budget projection include capital maintenance, repair and replacement, wayfinding enhancements, and park capital maintenance.

FY 2023-24 Operating Revenues:

The FY 2023-24 operating projection includes reimbursement revenues from Regional Measures (RM) 2 and 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, interest income, as well as fund balance from FY 2021-22. The operating revenues are summarized in the following table:

<u>Reimbursements</u>	
Regional Measure 2	\$8,969,367
Regional Measure 3	3,251,000
Community Benefit District Park Payments	1,620,379
Subtotal Reimbursements	\$13,840,746
<u>Revenues</u>	
Lease and Use Payments	5,050,699
<i>AC Transit (74%)</i>	<i>3,737,517</i>
<i>SF Municipal Transportation Agency (26%)</i>	<i>1,313,182</i>
AC Transit (Bus Storage Facility)	619,500
General Fund Revenues	\$7,775,187
<i>Other Operator Rents</i>	<i>247,365</i>
<i>Naming Rights</i>	<i>3,477,822</i>
<i>Transit Center Rental Retail Revenue</i>	<i>2,500,000</i>
<i>Transit Center Advertising</i>	<i>1,000,000</i>
<i>Transit Center Sponsorship / Events</i>	<i>160,000</i>
<i>Neutral Host DAS Licensing Fees</i>	<i>125,000</i>
<i>Miscellaneous</i>	<i>35,000</i>
<i>Interest Earnings</i>	<i>230,000</i>
Subtotal Revenues	\$13,445,386
<u>Transfer from Fund Balance</u>	\$691,313
TOTAL RESOURCES	\$27,977,445

- TJPA receives an annual allocation of RM-2 bridge toll funds for operations. The projected allocation amount for FY 2023-24 is about \$8.97 million. This includes the continued \$3 million temporary supplemental bridge toll allocation that was approved by the Metropolitan Transportation Commission (MTC) in June 2022. The additional RM-2 support was approved for three fiscal years, starting in FY 2022-23.
- The FY 2023-24 preliminary budget 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. While MTC began the new toll collection on January 1, 2019, MTC is holding all receipts in an escrow account in response to pending lawsuits. These funds will not be released until the lawsuits are fully resolved. Continuing to track expenditures eligible for RM-3 reimbursement allows the TJPA to seek reimbursement if the lawsuits are resolved in MTC's favor.
- The East Cut Community Benefit District (CBD) was formed in 2015 as a special assessment district to fund specified services to improve quality of life in the neighborhood surrounding the transit center, including operation and maintenance of green spaces in the district. Under the CBD Management Plan, the CBD will provide up to 79.18% of the annual budget to operate and maintain the rooftop park. The preliminary projection presented here shows \$1.62M in East Cut CBD contributions, and an additional \$0.17M will be reflected in the Capital Improvement Plan budget, which

combined is a slight increase over the current year budget.

- 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 \$5.05M.
- FY 2023-24 is the sixth year of the Naming Rights agreement, and the scheduled payment under the agreement is about \$3.48M.
- Transit center retail revenue is projected to be \$2.5M based on the Board approved and executed retail leases. This projection is more conservative than the five-year projection presented in June and reflects a slower than anticipated downtown recovery, delays in new tenant openings, and continued adjusted rents as tenants finish their tenant improvements and open to the public.
- Advertising revenue is primarily generated from the digital advertising on the kiosks placed throughout the transit center. The FY 2023-24 projection is \$1M and reflects slower than anticipated recovery of downtown activity.
- Sponsorships and Events revenue represents event rentals and branding sponsorship opportunities on the park. It is estimated to be \$160K based on historical revenues generated.
- The preliminary FY 2023-24 budget forecast includes \$125K in Neutral Host DAS licensing fees.
- 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. The preliminary budget projection is higher than the projection presented in June to reflect the significant increase to interest rates.

FY 2023-24 Operating Expenses:

The preliminary projected operating expenses for FY 2023-24 total \$27.32 million, a 2% increase from FY 2022-23 after adjusting for the cost categories that are being moved to the capital improvement plan budget. This modest increase takes into account both having fully spent the federal operating grants and the lower than anticipated retail lease and advertising revenue projection. Staff made every effort to keep transit operator contributions at the same level of initial projections and instead adjusted most cost categories to stay at or slightly above the current year levels.

The proposed preliminary operating budget maintains service levels while keeping a balanced budget. The operations and maintenance costs are broken down below:

<u>Expenses</u>	
<u>Salesforce Transit Center</u>	
TJPA Administration	3,580,000
Asset Management Fee & Administration	1,582,000
Physical Security	7,750,000
Security Systems	889,700
Cybersecurity/IT	1,415,500
Transit Center General Maintenance	3,020,500
Transit Center Janitorial	1,782,000
Transit Center Utilities	1,621,000
Digital Content Management & Wayfinding Systems	602,000
Insurance	2,414,500
Bus Storage Facility	619,500
Other Consulting – TI BORP	34,650
<u>Transit Center Sub-Total</u>	\$25,311,350
<u>Salesforce Transit Center Park</u>	
Park Management & Administration	\$520,000
Park Programming	330,000
Park General Maintenance	559,650
Park Janitorial	255,000
Park Utilities	343,000
<u>Park Sub-Total</u>	\$2,007,650
TOTAL PRELIMINARY OPERATING BUDGET	\$27,319,000
<u>Transfer to Operating and Maintenance Reserve</u>	\$658,445
TOTAL USES	\$27,977,445

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, maintaining current service standards. Systematic preventive maintenance, programmed janitorial, and groundskeeping activities will continue at a level consistent with anticipated traffic through the transit center, at frequencies following typical industry best practices.

Digital Content Management & Wayfinding Systems: This budget maintains the digital and physical signage that is integrated into the transit center.

Insurance: Costs for insurance are anticipated to increase significantly following increases in construction and equipment costs trends. The preliminary projection accommodates an anticipated 10% increase in cost of insurance when compared with FY 2022-23, which will be adjusted based on actual quotes later this quarter.

Park Management, Programming, Maintenance, Janitorial, and Utilities: Park expenses, mostly funded by the CBD contribution, are a prorated share of the transit center utilities, janitorial, and general maintenance. Public programming, landscaping and the contractual park management fee are also included in these costs.

FY 2023-24 Operating Reserves

The reserve policy sets a goal of \$500,000 in Emergency Reserve and 25% of the variable expense budget in Operations and Maintenance (O&M) Reserve, which would amount to \$6.86M based on the FY 2023-24 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 revenues do not perform as expected and is in line with Federal Transit Administration guidelines.

The proposed Preliminary Operating Budget transfers \$658,445 from fund balance as of June 30, 2022, to the O&M reserve, increasing its balance to \$5,781,722 or 21% of the variable expense budget. In addition to the O&M reserve, staff has identified \$4.5 million in expenditures eligible for reimbursement from Regional Measure 3. In the event the pending legal action is resolved in MTC's favor, staff proposes using part of the \$4.5 million reimbursement to fund the O&M reserve to the 25% reserve policy goal.

Per the TJPA Budget Policy and as noted above, a draft operating budget will be presented in May and a final budget in June. 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 2023-24 Preliminary Operating Projection in the amount of \$27,319,000.

ENCLOSURES:

1. Resolution
2. FY 2023-24 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 2023-24 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 2023-24 will be presented to the TJPA Board in April 2023, 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 2023-24 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 12, 2023.

Secretary, Transbay Joint Powers Authority

FY 2023-24 Preliminary Operating Budget Projection	FY22-23 Budget Amendment 1	FY23-24 Preliminary Budget Projection (September 2022)	FY23-24 Preliminary Budget Projection (January 2023)	Difference From September 2022 Projection in \$'s	Difference From September 2022 Projection in %
Beginning Reserves					
Emergency Reserve	500,000	500,000	500,000	0	0%
O&M Reserve	5,123,277	5,123,277	5,123,277	0	0%
Beginning Balance and Reserves	5,623,277	5,623,277	5,623,277	0	0%
Reimbursements					
Regional Measure 2	8,468,000	8,969,367	8,969,367	0	0%
Regional Measure 3	3,251,000	3,251,000	3,251,000	0	0%
Federal Grants - CARES, CRRSAA and ARPA	1,800,000	0	0	0	0%
San Francisco Proposition AA (Wayfinding)	300,000	0	0	0	0%
Wayfinding Request	3,000,000	1,000,000	0	(1,000,000)	-100%
Community Benefit District Park Payments	1,728,000	1,786,657	1,620,379	(166,278)	-9%
Subtotal Reimbursements	18,547,000	15,007,024	13,840,746	(1,166,278)	-8%
Revenues					
Lease and Use Payments	4,580,000	5,050,699	5,050,699	0	0%
AC Transit (74%)	3,389,200	3,737,517	3,737,517	0	0%
SF Municipal Transportation Agency (26%)	1,190,800	1,313,182	1,313,182	0	0%
AC Transit (Bus Storage Facility)	590,000	619,500	619,500	0	0%
AC Transit Capital Contributions	500,000	500,000	0	(500,000)	-100%
General Fund Revenues	7,552,000	8,321,187	7,775,187	(546,000)	-7%
Other Operator Rents	239,000	247,365	247,365	0	0%
Naming Rights	3,377,000	3,477,822	3,477,822	0	0%
Transit Center Rental Retail Revenue	2,500,000	2,900,000	2,500,000	(400,000)	-14%
Transit Center Advertising	1,000,000	1,250,000	1,000,000	(250,000)	-20%
Transit Center Sponsorship / Events	150,000	160,000	160,000	0	0%
Neutral Host DAS Licensing Fees	125,000	125,000	125,000	0	0%
Miscellaneous	35,000	35,000	35,000	0	0%
Interest Earnings	126,000	126,000	230,000	104,000	83%
Subtotal Revenues	13,222,000	14,491,386	13,445,386	(1,046,000)	-7%
Transfers From/(To)					
Transfer From/(To) Fund Balance	0	0	691,313	691,313	N/A
Transfer From/(To) Reserves	0	0	0	0	0%
Subtotal Transfers	0	0	691,313	691,313	N/A
TOTAL RESOURCES	31,769,000	29,498,410	27,977,445	(1,520,965)	-5.2%
Expenses					
Salesforce Transit Center	28,636,000	27,241,960	25,311,350	(1,930,610)	-7%
TJPA Administration	3,297,000	3,682,350	3,580,000	(102,350)	-3%
Asset Management Fee & Administration	1,582,000	1,661,100	1,582,000	(79,100)	-5%
Physical Security	7,731,000	7,967,010	7,750,000	(217,010)	-3%
Security Systems	868,000	911,400	889,700	(21,700)	-2%
Cybersecurity/IT	1,381,000	1,450,050	1,415,500	(34,550)	-2%
Transit Center General Maintenance	3,144,000	3,126,400	3,020,500	(105,900)	-3%
Transit Center Janitorial	1,782,000	1,871,100	1,782,000	(89,100)	-5%
Transit Center Utilities	1,621,000	1,702,050	1,621,000	(81,050)	-5%
Wayfinding Enhancements	3,300,000	1,000,000	0	(1,000,000)	-100%
Digital Content Management & Wayfinding Systems	602,000	632,100	602,000	(30,100)	-5%
Capital Maintenance, Repair, Replacement	510,000	500,000	0	(500,000)	-100%
Insurance	2,195,000	2,084,250	2,414,500	330,250	16%
Bus Storage Facility	590,000	619,500	619,500	0	0%
Other Consulting Services	33,000	34,650	34,650	0	0%
Salesforce Transit Center Park	2,183,000	2,256,450	2,007,650	(248,800)	-11%
Park Management & Administration	520,000	546,000	520,000	(26,000)	-5%
Park Programming	317,000	332,850	330,000	(2,850)	-1%
Park Capital Maintenance	200,000	210,000	0	(210,000)	-100%
Park General Maintenance	567,000	559,650	559,650	0	0%
Park Janitorial	247,000	259,350	255,000	(4,350)	-2%
Park Utilities	332,000	348,600	343,000	(5,600)	-2%
Contingency	950,000	0	0	0	0%
TOTAL EXPENSES	31,769,000	29,498,410	27,319,000	(2,179,410)	-7%
			2%	26,809,000	
DIFFERENCE	0	0	658,445	658,445	N/A
Ending Reserve Amounts					
Emergency Reserve	500,000	500,000	500,000	0	0%
O&M Reserve	5,123,277	5,123,277	5,781,722	658,445	13%
Totals	5,623,277	5,623,277	6,281,722	658,445	12%
Reserve Percentage	19%	18%	21%	3%	18%
Variable Expense Budget	27,519,000	28,498,410	27,319,000	(1,179,410)	-4%

FY 2023-24 Preliminary Operating Budget Projection

January 12, 2023



Budget Calendar

- September 2022: Preliminary Operating Budget Projections to Primary Tenants
- January 2023: Board review and approval of Preliminary Operating Budget Projection
- January – April 2023: Staff development of Operating, Debt Service and Capital Budgets
 - Development of Capital Improvement Plan
- April 2023: Board information item on Budget Outlook
- May 2023: Board presentation and public hearing of Draft Budgets
 - Draft Capital Improvement Plan
- June 2023: Board review and adoption of Operating, Debt Service and Capital Budgets
 - Adoption of Capital Improvement Plan

Highlights

- Preliminary Operating Projection: \$27.32M
- Retail rental revenue and advertising revenue recovering slower than initially anticipated
- Anticipated increase in insurance costs following increases in construction and equipment costs
- Primary tenants' contribution remain as projected in September. Contributions are higher than FY2022-23 primarily due to fully spending federal COVID relief grants.
- Adoption of a Capital Improvement Plan (CIP) policy allows to focus operating budget on Operations. Capital cost categories and revenue will be reflected in new CIP budget.

Revenues

<u>Reimbursements</u>	
Regional Measure 2	8,969,367
Regional Measure 3	3,251,000
Federal Grants - CARES, CRRSAA and ARPA	0
Community Benefit District Park Payments	1,620,379
Subtotal Reimbursements	\$13,840,746
<u>Revenues</u>	
Lease and Use Payments	5,050,699
<i>AC Transit (74%)</i>	<i>3,737,517</i>
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<i>Transit Center Advertising</i>	<i>1,000,000</i>
<i>Transit Center Sponsorship / Events</i>	<i>160,000</i>
<i>Neutral Host DAS Licensing Fees</i>	<i>125,000</i>
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<i>Interest Earnings</i>	<i>230,000</i>
Subtotal Revenues	\$13,445,386
<u>Transfer from Fund Balance</u>	691,313
TOTAL RESOURCES	\$27,977,445

Expenses

<u>Expenses</u>	
<u>Salesforce Transit Center</u>	
TJPA Administration	3,580,000
Asset Management Fee & Administration	1,582,000
Physical Security	7,750,000
Security Systems	889,700
Cybersecurity/IT	1,415,500
Transit Center General Maintenance	3,020,500
Transit Center Janitorial	1,782,000
Transit Center Utilities	1,621,000
Digital Content Management & Wayfinding Systems	602,000
Insurance	2,414,500
Bus Storage Facility	619,500
Other Consulting – TI BORP	34,650
<u>Transit Center Sub-Total</u>	\$25,311,350

Expenses

Salesforce Transit Center Park		
Park Management & Administration	\$520,000	
Park Programming	330,000	
Park General Maintenance	559,650	
Park Janitorial	255,000	
Park Utilities	343,000	
	Park Sub-Total	\$2,007,650
TOTAL EXPENSES		\$27,319,000

Operating Reserves

<u>Operating Reserves</u>	Beginning Balance	Transfer from Fund Balance	New Balance
Emergency Reserve	500,000		500,000
Operating and Maintenance Reserve	5,123,277	658,445	5,781,722
<u>Operating Reserves Sub-Total</u>	5,623,277		6,281,722
O&M Reserve (as % of Variable Expense Budget)	18.8%		21.2%



Questions?

TJPA
TRANSBAY JOINT POWERS AUTHORITY

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