

**STAFF REPORT FOR CALENDAR ITEM NO.: 10
FOR THE MEETING OF: January 11, 2024**

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Approval of Fiscal Year (FY) 2024-25 Preliminary Operating Projection in the amount of \$28,075,000.

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 2024-25 in the amount of \$28,075,000, which is an initial estimate at this time, is discussed below in further detail. A narrative budget outlook for FY 2024-25 will be presented to the Board in April 2024, 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 the proposed Preliminary Operating Projection for FY 2024-25 based on current expense and revenue estimates, which is a reduction from the projections shared with the Primary Tenants in September 2023. Consistent with FY 2023-24, capital maintenance, repair, and replacement costs and revenues will be included in a separate capital budget for FY 2024-25.

FY 2024-25 Operating Revenues:

The FY 2024-25 operating projection includes reimbursement revenues from Regional Measure (RM)-2 and RM-3 bridge toll funds and Community Benefit District (CBD) assessments. The one-time Federal COVID relief funds have been fully expended. Revenues are from transit center leases, naming rights, advertising and sponsorships, events and licensing fees, miscellaneous and interest income. Transfers include the use of fund balance and transfers to reserves. The operating revenues are summarized in the following table:

Reimbursements	
Regional Measure 2	\$8,578,000
Regional Measure 3	3,738,000
Community Benefit District Park Payments	1,570,000
Subtotal Reimbursements	\$13,886,000
Revenues	
Lease and Use Payments	\$4,851,000
<i>AC Transit (74%)</i>	<i>3,589,700</i>
<i>SF Municipal Transportation Agency (26%)</i>	<i>1,261,300</i>
AC Transit (Bus Storage Facility)	625,000

General Fund Revenues	\$7,324,000
<i>Other Operator Rents</i>	253,000
<i>Naming Rights</i>	3,582,000
<i>Transit Center Rental Retail Revenue</i>	2,575,000
<i>Transit Center Advertising</i>	250,000
<i>Transit Center Sponsorship / Events</i>	170,000
<i>Neutral Host DAS Licensing Fees</i>	125,000
<i>Miscellaneous</i>	36,000
<i>Interest Earnings</i>	333,000
Subtotal Revenues	\$12,800,000
<u>Transfers to/from Fund Balance and Reserves</u>	\$1,389,000
TOTAL RESOURCES	\$28,075,000

- TJPA receives an annual allocation of RM-2 bridge toll funds for operations. The projected allocation amount for FY 2024-25 is about \$6.18 million. In addition, MTC has provided temporary supplemental bridge toll allocation to support operations prior to full activation of the transit center and to help mitigate the negative revenue impacts of the COVID-19 pandemic. The budget projection includes \$2.4 million in supplemental funding. As noted in MTC’s Programming and Allocations Committee staff report for FY 2023-24, “Staff recommends continuing RM2 operating funding through at least FY2024-25, at which point the need for ongoing RM2 Operating support will be reassessed.”
- The FY 2024-25 budget forecast includes RM-3 funds for the transit center operations based on a percentage of the new toll funds collected. The FY 2024-25 projection of \$3.7 million includes the continuation of MTC’s estimate for FY 2023-24 and an increase based on the third \$1 toll increase to be implemented in January 2025.
- 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 includes \$1.57 million, which is nearly unchanged from the FY 2023-24 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 \$4.85 million.
- FY 2024-25 is the seventh year of the Naming Rights agreement, and the scheduled payment under the agreement is about \$3.58 million.
- Transit center retail revenue is projected to be \$2.58 million based on the executed retail leases. This projection conservatively assumes that tenants will continue to pay their current full or alternate rents through calendar year 2024, with some moving to full rent

in January 2025. Also, the budget assumes that tenants with commencement dates in FY 2023-24 will pay rent for all of FY 2024-25 at alternate rental rates. These projections reflect a continuation of reduced activities in the downtown area related to the pandemic.

- Advertising revenue is primarily generated from the digital advertising on the kiosks placed throughout the transit center. The FY 2024-25 projection is \$250,000, which is based on current advertising revenues. This is a substantial change from the budgeted amounts in previous years, which have not been realized due to industry-wide trends to reduce advertising in downtown areas and the reduced use of the transit center due to the pandemic.
- Sponsorships and Events revenue represents event rentals and branding sponsorship opportunities on the park. It is estimated to be \$170,000 based on historical revenues generated.
- The preliminary FY 2024-25 budget forecast includes \$125,000 in Neutral Host DAS which is the minimum annual guarantee.
- Miscellaneous revenues anticipated at \$36,000 are generated from various activities and transactions not listed above.
- Interest Income represents the interest earned on operating and unrestricted fund balances, estimated at \$333,000.
- AC Transit Capital Contribution revenues to cover near term minor capital maintenance and equipment replacement needs for the transit center will be included in the separate Capital Maintenance, Repair, and Replacement budget.

FY 2024-25 Operating Expenses:

The preliminary projected operating expenses for FY 2024-25 total just over \$28 million, an increase of less than 2 percent from FY 2023-24. The projected increases in costs due to contractual requirements and inflation have been mitigated with reductions in other costs including streamlining some contract expenses. The operations and maintenance costs are broken down below:

<u>Expenses</u>	
<u>Salesforce Transit Center</u>	
TJPA Administration	\$3,859,000
Asset Management Fee & Administration	1,328,000
Physical Security	7,941,000
Security Systems	882,000
Cybersecurity/IT	1,574,000
Transit Center General Maintenance	3,388,000
Transit Center Janitorial	1,570,000
Transit Center Utilities	1,493,000
Digital Content Management & Wayfinding Systems	640,000
Insurance	2,757,000
Bus Storage Facility	625,000
Transit Center Building Occupancy Resumption Program	35,000
<u>Transit Center Sub-Total</u>	\$26,092,000

<u>Salesforce Transit Center Park</u>	
Park Management & Administration	\$536,000
Park Programming	340,000
Park General Maintenance	575,000
Park Janitorial	226,000
Park Utilities	306,000
<u>Park Sub-Total</u>	\$1,983,000
TOTAL EXPENSES	\$28,075,000

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. 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.

Transit Center Maintenance, Janitorial, and Utilities: The transit center will be diligently serviced and attentively cleaned. 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.

Digital Content Management & Wayfinding Systems: This budget includes licenses and content development for the digital and physical signage that is integrated into the transit center.

Insurance: Using the FY 2023-24 actuals, costs for insurance are projected to increase using market adjustments recommended by the TJPA's insurance broker. The insurance cost estimate will be updated as additional pricing information becomes available.

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 included in these costs, along with the contractual park management fee.

Capital Maintenance, Repair, and Replacement: Capital costs such as wayfinding improvements and capital maintenance will be included in the separate Capital Maintenance, Repair, and Replacement budget. This budget anticipates the repairs or maintenance that exceeds \$5,000 per

instance.

FY 2024-25 Operating Reserves

The FY 2024-25 budget includes fully funding the operating reserve at the policy goal of 25% of the operating budget. A reserve of this amount is equal to 3 months of operating revenue which provides a contingency in the event that revenues do not perform as expected or costs exceed the budget projection.

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 2024-25 Preliminary Operating Projection in the amount of \$28,075,000.

ENCLOSURES:

1. Resolution
2. FY 2024-25 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 2024-25 Preliminary Operating Projection presented herewith; and

WHEREAS, The TJPA is committed to identifying means to increasing revenues and reducing costs to minimize the payments from the Primary Tenants under the Lease and Use Agreements; and

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

WHEREAS, A budget outlook for FY 2024-25 will be presented to the TJPA Board in April 2024, 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 2024-25 Preliminary Operating Projection for the Primary Tenants Committee, noting that the projection is preliminary in nature and will continue to be refined.

I hereby certify that the foregoing resolution was adopted by the Transbay Joint Powers Authority Board of Directors at its meeting of January 11, 2024.

Secretary, Transbay Joint Powers Authority

FY 2024-25 Preliminary Operating Budget Projection	FY23-24 Budget FINAL	FY24-25 Preliminary Budget Projection (September 2023)	FY24-25 Preliminary Budget Projection (January 2024)	Difference From September 2023 Projection in \$'s	Difference From September 2023 Projection in %
Beginning Reserves					
Emergency Reserve	500,000	500,000	500,000	0	0%
O&M Reserve	5,123,277	6,907,436	6,907,000	(436)	0%
Beginning Balance and Reserves	5,623,277	7,407,436	7,407,000	(436)	0%
Reimbursements					
Regional Measure 2	8,404,025	8,612,953	8,578,000	(34,953)	0%
Regional Measure 3	2,700,000	2,700,000	3,738,000	1,038,000	38%
Community Benefit District Park Payments	1,566,952	1,604,000	1,570,000	(34,000)	-2%
Subtotal Reimbursements	12,670,977	12,916,953	13,886,000	969,047	8%
Revenues					
Lease and Use Payments	5,050,699	5,226,388	4,851,000	(375,388)	-7%
AC Transit (74%)	3,737,517	3,867,527	3,589,700	(277,827)	-7%
SF Municipal Transportation Agency (26%)	1,313,182	1,358,861	1,261,300	(97,561)	-7%
AC Transit (Bus Storage Facility)	619,500	625,000	625,000	0	0%
General Fund Revenues	7,775,187	7,728,292	7,324,000	(404,292)	-5%
Other Operator Rents	247,365	253,185	253,000	(185)	0%
Naming Rights	3,477,822	3,582,157	3,582,000	(157)	0%
Transit Center Rental Retail Revenue	2,500,000	2,575,000	2,575,000	0	0%
Transit Center Advertising	1,000,000	750,000	250,000	(500,000)	-67%
Transit Center Sponsorship / Events	160,000	170,000	170,000	0	0%
Neutral Host DAS Licensing Fees	125,000	125,000	125,000	0	0%
Miscellaneous	35,000	36,050	36,000	(50)	0%
Interest Earnings	230,000	236,900	333,000	96,100	41%
Subtotal Revenues	13,445,386	13,579,680	12,800,000	(779,680)	-6%
Transfers From/(To)					
Transfer From/(To) Fund Balance	1,513,381	2,150,000	1,500,000	(650,000)	-30%
Transfer From/(To) Reserves	1,784,159	(203,378)	(111,000)	92,378	0%
Subtotal Transfers	3,297,540	1,946,622	1,389,000	(557,622)	-29%
TOTAL RESOURCES	29,413,903	28,443,255	28,075,000	(368,255)	-1%
Expenses					
Salesforce Transit Center	25,650,770	26,417,755	26,092,000	(325,755)	-1%
TJPA Administration	3,697,000	3,881,850	3,859,000	(22,850)	-1%
Asset Management Fee & Administration	1,582,000	1,660,000	1,328,000	(332,000)	-20%
Physical Security	7,733,000	7,964,990	7,941,000	(23,990)	0%
Security Systems	828,429	759,000	882,000	123,000	16%
Cybersecurity/IT	1,546,565	1,675,000	1,574,000	(101,000)	-6%
Transit Center General Maintenance	3,173,746	3,200,000	3,388,000	188,000	6%
Transit Center Janitorial	1,789,260	1,835,000	1,570,000	(265,000)	-14%
Transit Center Utilities	1,630,120	1,641,000	1,493,000	(148,000)	-9%
Digital Content Management & Wayfinding Systems	602,000	605,000	640,000	35,000	6%
Insurance	2,414,500	2,535,225	2,757,000	221,775	9%
Bus Storage Facility	619,500	625,000	625,000	0	0%
Transit Center Building Occupancy Resumption Program	34,650	35,690	35,000	(690)	-2%
Salesforce Transit Center Park	1,978,974	2,025,500	1,983,000	(42,500)	-2%
Park Management & Administration	520,000	535,600	536,000	400	0%
Park Programming	330,000	339,900	340,000	100	0%
Park General Maintenance	547,354	557,000	575,000	18,000	3%
Park Janitorial	247,740	253,000	226,000	(27,000)	-11%
Park Utilities	333,880	340,000	306,000	(34,000)	-10%
Contingency	0	0	0	0	
TOTAL EXPENSES	27,629,744	28,443,255	28,075,000	(368,255)	-1%
DIFFERENCE	1,784,159	0	0	0	
Ending Reserve Amounts					
Emergency Reserve	500,000	500,000	500,000	0	0%
O&M Reserve	6,907,436	7,110,814	7,019,000	(91,814)	-1%
Totals	7,407,436	7,610,814	7,519,000	(91,814)	-1%
Reserve Percentage	25%	25%	25%	0%	0%

FY 2024-25 Preliminary Operating Budget Projection

January 11, 2024



Budget Calendar

- September 2023: Preliminary Operating Budget Projections to Primary Tenants
- January 2024: Board review and approval of Preliminary Operating Budget Projection
- January – April 2024: Staff development of Operating, Debt Service and Capital Budgets
- April 2024: Board information item on Budget Outlook
- May 2024: Board presentation and public hearing of Draft Budgets
- June 2024: Board review and adoption of Operating, Debt Service and Capital Budgets

Highlights

- Preliminary Operating Projection: \$28.075 million
- Retail rental revenue and advertising revenue conservatively projected
- RM-3 contribution increased based on additional \$1 toll on 1/1/2025
- FY24-25 is last year of supplemental RM-2 funding; may request an extension
- Primary tenants' contribution reduced from FY23-24 budget and September estimate
- Anticipated increase in insurance costs
- Cost reductions from streamlining activities and negotiations with contractors

Revenues

<u>Reimbursements</u>	
Regional Measure 2	8,578,000
Regional Measure 3	3,738,000
Community Benefit District Park Payments	1,570,000
Subtotal Reimbursements	\$13,886,000
<u>Revenues</u>	
Lease and Use Payments	4,851,000
<i>AC Transit (74%)</i>	<i>3,589,700</i>
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<i>Naming Rights</i>	<i>3,582,000</i>
<i>Transit Center Rental Retail Revenue</i>	<i>2,575,000</i>
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Subtotal Revenues	\$12,800,000
<u>Transfers to/from Fund Balance and Reserves</u>	1,389,000
TOTAL RESOURCES	\$28,075,000

Expenses

<u>Expenses Salesforce Transit Center</u>	
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Asset Management Fee & Administration	1,328,000
Physical Security	7,941,000
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Transit Center Utilities	1,493,000
Digital Content Management & Wayfinding Systems	640,000
Insurance	2,757,000
Bus Storage Facility	625,000
Other Consulting	35,000
<u>Transit Center Sub-Total</u>	\$26,092,000

Expenses

Salesforce Transit Center Park	
Park Management & Administration	536,000
Park Programming	340,000
Park General Maintenance	575,000
Park Janitorial	226,000
Park Utilities	306,000
Park Sub-Total	\$1,983,000
TOTAL EXPENSES	\$28,075,000

Operating Reserves

<u>Operating Reserves</u>	Beginning Balance	Transfer from Fund Balance	New Balance
Emergency Reserve	500,000		500,000
Operating and Maintenance Reserve	6,908,000	111,000	7,019,000
<u>Operating Reserves Sub-Total</u>	7,408,000		7,519,000
O&M Reserve Percentage (as % of Variable Expense Budget)	25%		25%

Further Considerations

- Revenue Refinements

- RM-2 and RM-3 based on actual bridge toll receipts
- Rental Retail and Advertising Revenue based on market conditions
- Continue to seek means to reduce operator contributions

- Expense Changes

- Ongoing efforts to streamline Transit Center operations



Questions?

TJPA
TRANSBAY JOINT POWERS AUTHORITY

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