

**STAFF REPORT FOR CALENDAR ITEM NO.: 10
FOR THE MEETING OF: January 30, 2025**

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Approval of Fiscal Year (FY) 2025-26 Preliminary Operating Projection in the amount of \$28,344,000.

SUMMARY:

The leases with transit operators require that the TJPA Board approve an operating budget projection for the Transit Center by January each year to assist the transit operators in formulating their annual budgets. The proposed Preliminary Operating Projection for FY 2025-26 is \$28,344,000, which reflects approximately 2.6 percent increase over the FY 2024-25 budget. This projection is an initial estimate at this time and is discussed in further detail below. A narrative budget outlook for FY 2025-26 will be presented to the Board in April 2025, followed by 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 2025-26 based on current expense and revenue estimates, which is a reduction from the projections shared with the Primary Tenants in September 2024. The following substantive changes from the September preliminary draft budget have been included in this preliminary projection:

- **Extension of Regional Measure (RM)-2 Supplemental Funding** – MTC staff conducted a thorough review of the TJPA’s 5-year operating budget outlook, evaluating the financial necessity of continued supplemental RM-2 funding. It was determined that extending the supplemental funds for an additional three years would effectively mitigate the fiscal burden on transit operators. This recommendation will be presented to the MTC Programming and Allocations Committee in Spring 2025, aiming to alleviate transit operators' financial contributions.
- **Termination of Asset Management Agreement with LPC West Transit Management** In a strategic move to optimize operational efficiency and reduce costs, TJPA exercised its contractual right to terminate the asset management agreement with LPC West. Moving forward, TJPA will assume direct oversight of Transit Center assets through internal staff, existing contractors providing building support such as engineering, custodial, and park management, as well as a Memorandum of Understanding (MOU) with SFMTA for select as-needed services. Additionally, TJPA is in the process of hiring a property manager to support the Facility Director in managing the expanded responsibilities. This transition is anticipated to yield significant savings, contributing to a reduction in the FY 2025-26 budget and the corresponding decrease in transit operator contributions.
- **Updating January Projections Based on FY 2023-24 Actuals** – Following the closure

of FY 2023-24 and the finalization of the audited financial statements, TJPA staff have revised the financial projections for the upcoming period. This updated budget now reflects more accurate, data-driven estimates, ensuring that transit operators receive a precise forecast of their expected contributions.

- Renewal of the Lease and Use Agreement with SFMTA** – The renewal of the lease and use agreement with SFMTA is currently under legal review by the City Attorney’s Office. Upon completion of this review, the agreement will be submitted for approval by the Board of Supervisors, with approval anticipated in April 2025. The SFMTA contribution remains contingent on the formal execution of this agreement.

FY 2025-26 Operating Revenues:

The FY 2025-26 operating projection includes reimbursement revenues from Regional Measure (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, and interest income. Transfers include the use of fund balance and transfers to reserves. The operating revenues are summarized in the following table:

<u>Reimbursements</u>	
Regional Measure 2	8,927,000
Regional Measure 3	4,036,000
Community Benefit District Park Payments	1,640,000
Subtotal Reimbursements	\$14,603,000
<u>Revenues</u>	
Lease and Use Payments	\$5,410,000
<i>AC Transit (74%)</i>	<i>4,003,400</i>
<i>SF Municipal Transportation Agency (26%)</i>	<i>1,406,600</i>
AC Transit (Bus Storage Facility)	655,000
Other Operator Rents	260,000
Naming Rights	3,690,000
Transit Center Rental Retail Revenue	2,673,000
Transit Center Advertising	295,000
Transit Center Sponsorship / Events	297,000
Neutral Host DAS Licensing Fees	125,000
Miscellaneous	36,000
Interest Earnings	300,000
Subtotal Revenues	\$13,741,000
<u>Transfers to/from Fund Balance and Reserves</u>	
	Net \$0
TOTAL RESOURCES	\$28,344,000

- TJPA receives an annual allocation of RM-2 bridge toll funds for operations. The projected allocation amount for FY 2025-26 is about \$6.4 million.
- As previously noted, MTC staff have advised that the allocation of supplemental RM-2 funds will be extended for three years to offset operator contributions. The extension of

the supplemental funds will require allocation approval by the MTC Programming and Allocations Committee in the spring. The projected supplemental allocation amount for FY 2025-26 is \$2.5 million.

- The FY 2025-26 budget forecast incorporates RM-3 funds for transit center operations, derived from a percentage of the newly collected toll revenues. The preliminary projection of \$4.0 million was based on the continuation of MTC's FY 2024-25 estimate, along with an anticipated increase due to the third \$1 toll increase set for January 2025. However, MTC staff has notified the TJPA of the likely need to revise the RM-3 fund allocation downward in the forthcoming update, which may result in a reduction in revenue in the May draft budget.
- The East Cut CBD was formed in 2015 as a special assessment district to fund services aimed at enhancing the quality of life in the neighborhood surrounding the transit center, including the operation and maintenance of green spaces within the district. Under the CBD Management Plan, the CBD will provide up to 79.18% of the annual budget for the operations and maintenance of the rooftop park. The preliminary projection presented here includes a \$1.6 million reimbursement from CBD.
- Lease and Use Payments, determined by any differential between operating costs and operating revenues, are 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 \$5.4 million.
- FY 2025-26 is the eighth year of the Naming Rights agreement, and the scheduled payment under the agreement is about \$3.7 million.
- Transit center retail revenue is projected to reach \$2.7 million, based on the executed retail leases. This projection accounts for the termination of the Philz Mobile lease and assumes tenants will continue to pay regular and alternate rents through the calendar year 2025, with some transitioning to full rent in January 2026. These projections reflect the continuation of reduced activities in the downtown area due to the pandemic.
- Advertising revenue at the transit center is primarily generated through digital ads on kiosks placed throughout the facility. The center experienced a significant decline in revenue from pre-Covid levels, dropping from \$1.28 million in FY 2019-20 to just \$203,000 in FY 2023-24, largely due to the pandemic's impact on foot traffic and ridership. The FY 2025-26 budget is based on FY 2023-24 actuals adjusted for a 22% year-over-year increased foot traffic and growing interest from multiple advertisers, bringing the total projected revenue to \$295,000.
- Sponsorships and Events revenue encompasses event rentals and branding sponsorship opportunities in the park. In FY 2024-25, TJPA generated approximately \$40,000 from a limited number of co-sponsored events, including Suds Francisco and Rooftop Rhythms. In FY 2025-26, TJPA plans to open a 9,500-square-foot event space in the vacant P-01 restaurant space in Salesforce Park. Rental rates for this space will range from \$2,000 for nonprofit events to \$12,000 for full-space rentals, increasing the estimated revenues to \$297,000. However, if the P-01 space is leased, it will instead generate lease revenue rather than event income.
- The preliminary FY 2025-26 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 \$300,000.

FY 2025-26 Operating Expenses:

The preliminary projected operating expenses for FY 2025-26 total \$28.3 million, an increase of roughly 2.6 percent from FY 2024-25. 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	3,875,000
Asset Management & Administration	742,000
Private Events Management	122,000
Physical Security	7,900,000
Security Systems	756,000
Cybersecurity/IT	1,536,000
Transit Center General Maintenance	4,013,000
Transit Center Janitorial	1,774,000
Transit Center Utilities	1,602,000
Digital Content Management & Wayfinding Systems	361,000
Insurance	2,903,000
Bus Storage Facility	655,000
Transit Center Building Occupancy Resumption Program	34,000
<u>Transit Center Sub-Total</u>	\$26,273,000
<u>Salesforce Transit Center Park</u>	
Park Management & Administration	552,000
Park Programming	375,000
Park General Maintenance	550,000
Park Janitorial	250,000
Park Utilities	328,000
Park Crowd Control	16,000
<u>Park Sub-Total</u>	\$2,071,000
TOTAL EXPENSES	\$28,344,000

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.

Asset Management & Administration: This budget item includes facility management, maintenance, commercial leasing and management, advertising and promotional platform management, and rooftop park and event management.

In 2017, the TJPA entered into an Asset Management Agreement with LPC West Transit Management to oversee these services. However, the TJPA decided to terminate this agreement in December 2024 and assumed direct oversight of Transit Center assets. Since September 2024, TJPA staff have worked closely with LPC to ensure a seamless transition of all relevant contracts, which are now managed directly by the TJPA. These services include stationary engineering support, custodial services, advertising and digital platform management, park and event management, pest control, and other essential operations. This transition has been completed without disruption, ensuring the continued high standards of safety, cleanliness, and service for transit center users, riders, operators, and retail tenants. Additionally, the TJPA is in the process of recruiting a Property Manager to oversee leasing inquiries, manage existing tenants, and optimize revenue for the Transit Center.

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. The facilities management will conduct repair and upkeep at frequencies following typical industry best practices.

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

Insurance: Using the FY 2024-25 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.

FY 2025-26 Operating Reserves

The FY 2025-26 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 a discussion of capital and operating expenditures will be provided to the Board in April.

RECOMMENDATION:

Approve the Fiscal Year 2025-26 Preliminary Operating Projection of \$28,344,000.

ENCLOSURES:

1. Resolution
2. FY 2025-26 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 2025-26 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 2025-26 will be presented to the TJPA Board in April 2025, 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 2025-26 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 30, 2025.

Secretary, Transbay Joint Powers Authority

FY 2025-26 Preliminary Operating Budget Projection	2024-25 Final Budget	2025-26 Preliminary Budget Projection (September 2024)	2025-26 Preliminary Budget Projection (January 2025)	Variance From September 2024 Projection in \$
Beginning Reserves				
Emergency Reserve	500,000	500,000	500,000	0
O&M Reserve	5,123,277	6,903,746	6,904,000	254
Beginning Balance and Reserves	5,623,277	7,403,746	7,404,000	254
Reimbursements				
Regional Measure 2	8,711,000	6,394,535	8,927,000	2,532,465
Regional Measure 3	3,549,000	4,036,608	4,036,000	(608)
Community Benefit District Park Payments	1,622,129	1,657,440	1,640,000	(17,440)
Subtotal Reimbursements	13,882,129	12,088,583	14,603,000	2,514,417
Revenues				
Lease and Use Payments	4,851,000	8,596,182	5,410,000	(3,186,182)
AC Transit (74%)	3,589,700	6,361,175	4,003,400	(2,357,775)
SF Municipal Transportation Agency (26%)	1,261,300	2,235,007	1,406,600	(828,407)
AC Transit (Bus Storage Facility)	633,000	651,990	655,000	3,010
Other Operator Rents	253,000	259,515	260,000	485
Naming Rights	3,582,000	3,689,622	3,690,000	378
Transit Center Rental Retail Revenue	2,595,000	2,672,850	2,673,000	150
Transit Center Advertising	445,000	445,000	295,000	(150,000)
Transit Center Sponsorship / Events	297,000	297,000	297,000	0
Neutral Host DAS Licensing Fees	125,000	125,000	125,000	0
Miscellaneous	36,000	36,000	36,000	0
Interest Earnings	100,000	100,000	300,000	200,000
Subtotal Revenues	12,917,000	16,873,158	13,741,000	(3,132,158)
Transfers From/(To)				
Transfer From/(To) Fund Balance	2,598,000	336,689	183,000	
Transfer From/(To) Reserves	(1,780,469)	(336,689)	(183,000)	
Subtotal Transfers	817,531	0	0	0
TOTAL RESOURCES		28,961,742	28,344,000	(617,742)
Expenses				
Salesforce Transit Center	27,056,700	26,868,486	26,273,000	(595,486)
TJPA Administration	3,656,000	3,765,680	3,875,000	109,320
Asset Management Fee & Administration	1,284,000	1,322,520	742,000	(580,520)
Private Events Management	118,000	121,540	122,000	460
Physical Security	7,895,000	8,200,000	7,900,000	(300,000)
Security Systems	680,000	695,589	756,000	60,411
Cybersecurity/IT	1,566,000	1,536,039	1,536,000	(39)
Transit Center General Maintenance	3,590,000	4,013,412	4,013,000	(412)
Transit Center Janitorial	1,570,000	1,658,976	1,774,000	115,024
Transit Center Utilities	1,555,000	1,601,650	1,602,000	350
Digital Content Management & Wayfinding Systems	344,000	360,920	361,000	80
Insurance	2,639,000	2,902,900	2,903,000	100
Bus Storage Facility	633,000	655,660	655,000	(660)
Transit Center Building Occupancy Resumption Program	38,000	33,600	34,000	400
Salesforce Transit Center Park	2,048,660	2,093,256	2,071,000	(22,256)
Park Management & Administration	535,600	551,668	552,000	332
Park Programming	389,600	401,563	375,000	(26,563)
Park General Maintenance	563,500	570,059	550,000	(20,059)
Park Janitorial	226,430	226,430	250,000	23,570
Park Utilities	318,530	328,086	328,000	(86)
Park Crowd Control	15,000	15,450	16,000	550
TOTAL EXPENSES	29,105,360	28,961,742	28,344,000	(617,742)
DIFFERENCE		0	0	0
Ending Reserve Amounts				
Emergency Reserve	500,000	500,000	500,000	0
O&M Reserve	6,903,746	7,240,435	7,087,000	(153,435)
Totals	7,403,746	7,740,435	7,587,000	(153,435)
Reserve Percentage	25%	25%	25%	

FY 2025-26 Preliminary Operating Budget Projection

TJPA Board
January 30, 2025



Budget Calendar:

September 2024

- TJPA Submitted Preliminary Operating Budget Projections to Primary Tenants

January 2025

- Board review and approval of Preliminary Operating Budget Projection

January-April

- Staff Development of Operating, Debt Service, CIP, and Capital Budgets

April 2025

- Presentation of Budget Outlook to the Board (Information item)

May 2025

- Presentation to the Board and public hearing of Draft Budgets

June 2025

- Board Review and adoption of FY2025-26 Operating, Debt Service, CIP, and Capital Budgets

Preliminary Operating Budget Projection

Operating Budget Projection	September 2024	January 2025	Difference
Expenditure	\$28,961,742	\$28,344,000	(617,742)
Reimbursement and Operating Revenue	\$20,365,560	\$22,934,000	2,568,440
Transit Operators Contribution	\$8,596,182	\$5,410,000	(3,186,182)
AC transit	6,361,175	4,003,400	
SFMTA	2,235,007	1,406,600	

Highlights:

- ❑ Supplemental RM-2 funding is being extended for additional three years to offset the Operator Contributions – \$2.5 M
- ❑ Projected expenditure decreased by \$618k
 - ✓ Streamlining projection based on FY24 actual and audited expenditure
 - ✓ Termination of Asset Management Agreement with LPC West Transit Management
- ❑ Renewal of the Lease and Use Agreement with SFMTA

Operating Budget Revenue:

Reimbursements	14,603,000
Regional Measure 2	8,927,000
Regional Measure 3	4,036,000
Community Benefit District Park Payments	1,640,000
Revenues	13,741,000
Lease and Use Payments	5,410,000
<i>AC Transit (74%)</i>	<i>4,003,400</i>
<i>SF Municipal Transportation Agency (26%)</i>	<i>1,406,600</i>
AC Transit (Bus Storage Facility and Security)	655,000
Other Operator Rents	260,000
Naming Rights	3,690,000
Transit Center Rental Retail Revenue	2,673,000
Transit Center Advertising	295,000
Transit Center Sponsorship / Events	297,000
Neutral Host DAS Licensing Fees	125,000
Miscellaneous	36,000
Interest Earnings	300,000

Operating Budget Expenditure:

Expenses	28,344,000
Salesforce Transit Center	26,273,000
TJPA Administration	3,875,000
Asset Management Fee & Administration	742,000
Private Events Management	122,000
Physical Security	7,900,000
Security Systems	756,000
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Salesforce Transit Center Park	2,071,000
Park Management & Administration	552,000
Park Programming	375,000
Park General Maintenance	550,000
Park Janitorial	250,000
Park Utilities	328,000
Park Crowd Control	16,000

Operating Reserve:

Operating Reserve	Beginning Balance	Transfer From Fund Balance	Ending Balance
Emergency Reserve	500,000	-	500,000
Operating and Maintenance Reserve	6,904,000	183,000	7,087,000
Total Operating Reserve	7,404,000	183,000	7,587,000
% of Operating Budget	25%		25%

Further Consideration:

- ❑ Adjustment of RM2 and RM3 reimbursements with MTC upcoming projected allocation
- ❑ Allocation of RM2 supplemental funding by MTC Programming and Allocation Committee in Spring 2025
- ❑ Revisit Rental Retail and Advertising revenue for updates and market changes
- ❑ Continue to seek means to reduce operators' contribution

Questions ?

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TJPA

TRANSBAY JOINT POWERS AUTHORITY

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