

STAFF REPORT FOR CALENDAR ITEM NO.: 14
FOR THE MEETING OF: May 14, 2015

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Presentation of the budget outlook for TJPA's Fiscal Year 2015-16 (FY15-16) annual capital and operating budgets and the Phase 1 Program budget.

SUMMARY:

In accordance with the TJPA's Policy No. 003: Budget Policy, this memo serves as a briefing to the TJPA Board of Directors concerning the budget outlook for the upcoming FY15-16 period. TJPA staff has also included a briefing on the status of the overall Phase 1 budget. As previously reported to the Board, the planned budget presentation schedule is as follows:

May

- Presentation of budget outlook (this report)
- Presentation of proposed FY15-16 operating budget (attached to RM2 operating allocation request item)

June

- Presentation of draft Phase 1 Revised Baseline Budget
- Presentation of draft FY15-16 capital budget
- Adoption of FY15-16 operating budget
- Adoption of one-month interim FY15-16 capital budget

July

- Presentation and adoption of final Phase 1 Revised Baseline Budget
- Presentation and adoption of final FY15-16 capital budget

EXPLANATION:

As an agency formed to build a capital project, the TJPA manages its resources primarily in relation to the multi-year Transbay Transit Center baseline budgets for Phase 1 and Phase 2. The fiscal year capital budget is the best estimate of the activities from the baseline budget that will occur during the fiscal year timeframe. TJPA budgets conservatively for each fiscal year, meaning that staff aggressively estimates expenditures and their associated revenues. Should expenditures be accelerated beyond these estimates, the fiscal year budget will be amended so long as the amounts are within the capital project's baseline budget. As the activities are funded with resources that generally do not expire, any unspent budget balances at the end of the fiscal year can be re-programmed for the following fiscal year.

In November 2007, the TJPA Board adopted a Baseline Budget for Phase 1 of the Program in the amount of \$1,189,000,000. The budget included the following Program components: (a) right-of-way acquisition; (b) construction of a temporary terminal; (c) demolition of the existing Transbay Terminal and bus ramps; (d) construction of the above-grade bus facilities portion of the new Transit Center and the foundations and other improvements to prepare for future

construction of the below-grade train station (“top-down” approach); (e) construction of bus ramps and bus storage; and (f) design and engineering of the above-listed facilities including the full below-grade rail level component of the Transit Center building. The budget excluded construction of the below-grade train box.

In May 2010, the Board adopted a Revised Baseline Budget, Financial Plan, and construction schedule for Phase 1 of the Program in the amount of \$1,589,000,000, which incorporated the construction of the train box in anticipation of the August 2010 Federal Railroad Administration (FRA) \$400,000,000 American Recovery and Reinvestment Act (ARRA) grant award for the train box.

In July 2013, the Board adopted a Revised Baseline Budget for Phase 1 of the Program in the amount of \$1,899,400,000. This revised budget took into consideration the results of the bids for the Structural Steel trade package and the rising costs of other construction materials and labor as the economy began its recovery from the recession, the cost impacts of incorporation of a risk and vulnerability assessment, increases in soft costs largely due to the schedule extension associated with transfer of the train box to Phase 1, and replenishment of contingencies and reserve. The construction cost estimate included in the revised budget was based on the 95% construction drawings. The budget also assumed a 3.5% escalation rate for construction activities moving forward.

In February 2014, the TJPA received an updated construction cost estimate from the Construction Manager/General Contractor (CM/GC) based on the 100% construction drawings completed in May 2013. This cost estimate was reconciled with the recently updated Engineer’s Estimate provided by the project Architect. The reconciled estimate indicated a total construction cost above the amount in the construction budget. The major drivers for the increase in the estimate are scope refinements between the 95% and 100% construction drawings, and the active construction market conditions in the San Francisco Bay Area in general and the Transbay District in particular which has limited the bidder pool and increased bid margins beyond what was anticipated in July 2013. In the same timeframe, TJPA received bids for the glazing systems, superstructure concrete, and the bus ramp trade packages that exceeded the budget allowances for each of these trade packages. TJPA was thus a victim of its own success, where the Transbay Project catalyzed construction that resulted in higher construction costs for the Project as competition for construction contractors and building materials intensified.

In reaction to increased demand for construction contractors and materials suppliers, TJPA staff developed several mitigation and value engineering measures to reduce construction costs for the upcoming trade packages. At the May 2014 Board meeting, staff presented a mitigation plan to alleviate the impact of the projected construction costs on the Phase 1 budget. The plan proposed the use of Program Reserve and construction contingency to fund bids received that exceed their respective budgets, identified several value engineering measures to reduce the cost of upcoming trade packages, and proposed raising additional funds from sponsorship opportunities. In addition, TJPA retained the services of Leland Saylor Associates to perform a bidder survey, review the bidding manual, and provide recommendations on how to attract more bidders and reduce bid prices on future trade packages.

In response to the Saylor Associates study, the TJPA and the CM/GC

- streamlined the bidding manual requirements;
- reviewed and updated the proposed scope of work for each trade package to ensure that the scopes were consistent with the type of work performed by the trade subcontractors most likely to bid each package;
- reviewed and updated the Small Business Enterprise (SBE) goals for each trade package to ensure that they were still appropriate based on current market conditions and availability of SBE subcontractors, while ensuring that the overall SBE goal for the CM/GC contract of 17% is achieved;
- intensified bidder outreach efforts and improved pre-bid meetings by providing more specific details for the trade package being presented; and
- worked with funding partners to try to improve payment processing times.

TJPA and the design team also revised the design-build packages' (including the glazing and ceiling systems) drawings and specifications to make them more flexible and less complex—and thus more attractive to bidders, without compromising the design standards required to deliver a high quality Transit Center building.

In addition, the TJPA sought and received concurrence from the Federal Transit Administration (FTA) to utilize a collaborative design-assist procurement methodology for several of the specialty trade packages, including the Exterior Awning, Glass Curtain Walls and Skylights, and Metal Ceilings systems to maximize competition and yield the best price by requiring the trade subcontractor to design to budget. Through this design-build methodology, TJPA has reduced the construction costs of these trade packages without sacrificing design integrity and will significantly reduce construction risks because the contractor will be responsible for any design conflicts during construction. By reducing the construction exposure, TJPA is able to reduce the amount of construction contingency required to be budgeted for these trade packages.

Despite the significant aforementioned effort to mitigate construction cost increases, several trade packages came in above budget, which necessitated larger than anticipated uses of the Program Reserve and construction contingency to award. The Program Reserve, set at \$87.5 million in the July 2013 budget, is expected to be fully utilized by the time the remaining trade packages are awarded and a small portion of the construction contingency may also need to be utilized to finalize trade package awards. The remaining Program reserve (after May Board action on recommended awards) is approximately \$3.8 million and current total construction contingency balance (excluding costs of pending unexecuted change orders) is \$65.3 million. Both the Program Reserve and construction contingency should be replenished in order to deliver the project. Below is a summary of the expected additional budget needs based on the draft results of the ongoing risk management update and the reconciled CM/GC estimate. The amount of additional budget will be finalized after the completion of the risk assessment in mid- to late May and receipt of bids for the remaining trade packages in May and June 2015.

Construction Costs

TJPA plans to award seven of the eight remaining trade packages, and the construction services portion of the four design-assist trade packages, by the July 2015 board meeting. The remaining trade package, for the IP Network, is expected to be recommended for award in fall 2016. A Bus Storage construction contract may also be awarded after completion of the design; design is anticipated to be complete in late 2015.

- Award of remaining Transit Center trade packages: The budget for direct costs of the remaining trade packages (after May Board action on recommended awards), with the exception of Rooftop Park, is \$156.31 million and the CM/GC estimate is \$163.56 million. This resulting delta is a projected increase of \$7.25 million.
- CM/GC Cost (fee, CM/GC contingency, bonding): The CM/GC fee, CM/GC contingency, and budgeted bonding costs are based on direct construction of \$910 million. The amount of direct construction is expected to be \$976 million, thus these CM/GC costs increase in proportional amounts as well. This results in a projected increase of \$15.4 million.
- Rooftop Park: The estimate for the Rooftop Park includes all elements above the waterproofing protection slab (soil, hardscape, landscape, electrical, mechanical, plumbing, etc.) and is \$38 million. The landscaping and irrigation scope was issued for bid in February 2015 with bids due June 30, 2015. The mechanical, electrical, and plumbing (MEP) scope for the park is currently being negotiated with the existing MEP trade subcontractors.
- Bus Storage: The current bus storage construction budget, including escalation and design contingency, is \$15.9 million. The Bus Storage construction drawings are 65% complete and the recently refreshed cost estimate based on the 65% drawings is \$19.6 million, resulting in a delta of \$3.7 million.

To summarize:

Award remaining trade packages (direct costs)	\$7.25M
Additional CM/GC costs	\$15.40M
Rooftop Park	\$38.00M
Bus Storage	<u>\$3.70M</u>
Total	\$64.35M

Programwide Costs

TJPA is currently negotiating an extension of the Construction Management Oversight (CMO) contract, which was awarded in 2010 for a six-year term through June 2016. Based on the current schedule of Transit Center substantial completion by the end of December 2017, the CMO contract should be extended until July 2018. Based on expenditures to-date and remaining effort required until July 2018, the cost of the CMO contract is expected to increase by \$29 million, from a current budget amount of \$46 million to \$75 million. As TJPA's construction representative, the CMO's primary responsibility is to ensure that the CM/GC's work is of the highest quality possible and meets all necessary code requirements. This oversight includes coordinating and providing all special inspections on and offsite. The increase to the overall CMO contract is primarily due to the need for the CMO to conduct significant additional steel

fabrication and welding inspections offsite, required for non-destructive testing under the American Welder Society code, incurred to-date and continuing until completion of the steel installation in the spring of 2016. The budget for CMO services for all special inspections, including steel fabrication and welding inspection, assumed steel fabrication at two facilities working a single shift, at a cost of \$8.8 million. This assumption was developed at the start of the CMO contract services in 2010, prior to award of the structural steel trade package. The structural steel trade subcontractor's fabrication strategy in fact requires fabrication at six separate facilities working up to three shifts per day and in some cases seven days per week. Currently, steel fabrication is taking place at Oregon Iron Works (Portland, OR; Vancouver, WA), XKT (Vallejo, CA), Thompson Metal Fabrication (Vancouver, WA) and Herrick Steel (San Bernardino, CA; Stockton, CA)., The current estimate at completion of all special inspection is \$29 million, an amount of approximately \$20 million over the originally budgeted \$8.8 million.

No other increases are anticipated to be necessary for Programwide or soft costs. All other Programwide and soft costs are trending within budget.

Contingencies and Program Reserve

It is expected that the risk assessment update currently underway, running both a bottom-up Monte Carlo analysis and a top-down FTA methodology, will result in a recommendation to replenish the construction contingency and Program Reserve.

Construction Costs	\$64.35M
Programwide (CMO) Costs	<u>\$29.00M</u>
Subtotal	\$93.35M
Replenish Contingency/Reserve	<u>\$TBD</u>
Total	\$TBD

Funding Plan

The Second Amendment to the TIFIA Loan recognizes the formation of the Mello-Roos Community Facilities District (CFD) and its corresponding authorization to issue bonds as evidence of full funding for Phase 1, satisfying the full funding requirement that is a condition to disbursement of the TIFIA Loan. TJPA worked with Mayor's Office and City staff on this funding plan, and the CFD was signed into law by Mayor Lee on January 20, 2015. TJPA continues to work with the Controller's Office and other City staff on timing of availability of the CFD proceeds. It is possible that construction of the Bus Storage facility would be pushed out in time to match the availability of CFD proceeds, the first large tranche of which is expected in the 2017 timeframe.

The sale of Parcel F may also provide significant funding to TJPA in the short term. Parcel F, a Caltrans Transfer Parcel, is an approximately 30,000 square foot development site fronting on Howard and Natoma Streets between First and Second Streets at the southwest end of the Transit Center, adjacent to the bus ramp. A portion of the property lies over the throat structure of the DTX. Under the Transit Center District Plan, the portion of Parcel F not located over the throat structure has potential for development of an office, residential, or hotel high rise 750 feet in height. The building on Parcel F will connect to the Rooftop Park by a pedestrian skybridge,

similar to the Salesforce and 181 Fremont Towers. Parcel F will be available for development following completion of construction of the bus ramp in 2016. TJPA intends to sell Parcel F at auction in September 2015. A sale of Parcel F would reduce the amount of CFD proceeds needed for Phase 1.

TJPA has also released an RFP for sponsorship of various components of the Transit Center. The original proposal due date of April 23 has been extended to maximize participation and provide additional time for interested parties. Finally, TJPA will also continue to apply for grant opportunities that arise, including but not limited to FEMA’s Transit Security Grant Program.

<i>(in millions, YOES)</i>	Committed Funds	Potential Funds
Land Sales	\$510	\$TBD
FRA Grants	\$402.6	
TIFIA/Bridge Loan	\$171	
FTA Grants	\$62.4	
FEMA Grants	\$0.1	\$TBD
Regional Measures 1 & 2	\$197.4	
AB 1171	\$150	
San Francisco Prop K	\$139	
AC Transit Contribution	\$39	
RTIP	\$10.2	
Miscellaneous Local	\$8.7	
One Bay Area Grant	\$6	
San Mateo Sales Tax	\$4.5	
Transit Center District Plan (Mello-Roos)	\$198.5	\$TBD
Sponsorship	-	\$TBD
Total Funds	\$1,899.4	\$TBD

FISCAL YEAR BUDGET DISCUSSION:

The Fiscal Year (FY) 2015-16 annual budgets, which cover the period from July 1, 2015 through June 30, 2016, represent the thirteenth full budget year for the TJPA. The TJPA will adopt both a capital budget and an operating budget. The capital budget reflects the engineering and construction work planned for the implementation of the Transbay Transit Center Program, and the FY15-16 capital budget will be based upon the proposed Phase 1 Revised Baseline Budget. The operating budget reflects the operation of the temporary terminal, and for FY15-16 has already been developed, in consultation with AC Transit. The draft FY15-16 operating budget is attached to the RM-2 operating allocation request that is a separate agenda item at this meeting.

During FY2014-15, TJPA achieved the following:

- Completion of utility relocation construction, with 100% of the utility relocation bid packages set aside for Small Business Enterprises.
- Substantial completion of the shoring wall, buttress, and mass excavation, with bracing being performed after wall placement in all zones of the construction site.

- Continued construction for the Below Grade Structure trade subcontract with the installation of the train box mat foundation; first and second lift foundation walls, columns, and structural walls followed by the Lower Concourse deck; and third lift foundation walls, columns, and structural walls. The final mat foundation pour was completed in October 2014.
- Ongoing fabrication of cast nodes and structural steel for use in the Structural Steel Superstructure trade subcontract. On-site steel erection began at the end of October 2014.
- Completion of the sale of Block 9 for \$43.6 million.
- Voluntary settlement and dismissal of two of the three remaining eminent domain cases, and victory at trial on the precondemnation damages claim and on the fair market value in the third remaining case. Right-of-way acquisition for Phase 1 is now concluded.
- Award of agreements related to the construction of Phase 1 of the Transbay Transit Center program, including the Exterior Awning Design, Glass Curtain Walls and Skylights Design, and Electrical package.
- Nearly 1.4 million craft hours worked on the Transit Center through March 2015, with 65 percent of those work hours performed by Bay Area residents.
- Overall contract awards to Disadvantaged Business Enterprises (DBEs) over the life of the Program of 10.4%, resulting in more than \$71 million in payments to DBE firms. TJPA began tracking SBE participation in 2008, and since that time has awarded an additional 11% of its contracts and subcontracts to non-DBE small businesses, resulting in an additional \$93.6 million in payments to SBE firms on top of the payments to DBE firms.

FY2015-16 Capital Expenditures

The FY2015-16 capital budget is derived from the implementation schedule for Phase 1 and Phase 2 of the Transbay Transit Center Program as adopted by the Board and includes four major expenditure categories:

- Professional and Specialized Services, incorporating a wide array of functions, such as engineering and design services, program management/program controls, assistance from other public agencies, permits and fees, real estate services, construction management, construction, planning and environmental analysis, and administrative services such as legal, financial, and auditing;
- Salaries and Benefits for TJPA staff;
- Administrative Expenses, such as office space rent, office supplies, and professional development and memberships; and
- Other, including reserve funds in accordance with TJPA Policy 012: Reserve Policy.

Professional and Specialized Services

Budget expenditures would include contracts required for the day-to-day operations of the TJPA, including but not limited to tasks such as payroll and benefits administration, Program Management / Program Controls (PMPC), legal counsel, public relations, information technology services, and audits. Construction activities are also included in the Professional and Specialized Services section of the budget. This includes the Construction Manager / General Contractor (CM/GC) and the CM/GC's construction subcontractors as well as Construction

Management Oversight (CMO) work. Engineering tasks that are currently underway related to the Caltrain Downtown Extension, the Transit Center and related facilities would continue. In addition, work related to the planning and preparation for the sale of property would be ongoing. Interagency agreements with various public agencies including the San Francisco Department of Building Inspection, Planning Department, Department of Public Works, Municipal Transportation Agency, Office of Community Investment and Infrastructure, and Caltrans that are required for the implementation of the Transbay Transit Center Program will also be included in the FY2015-16 budget.

Salaries and Benefits

The FY2015-16 budget will include salaries and benefits for the thirteen current TJPA staff members and a potential additional staff position.

Administration

Expenditures related to administrative activities including office rent, equipment and supplies, communications, professional development/memberships, and other routine expenses are included in the Administration section of the TJPA budget.

Reserve Funds

In accordance with the TJPA Policy 012: Reserve Policy, the FY2015-16 capital budget will include an emergency reserve and a fiscal reserve. (The Operating and Maintenance Reserve is included in the annual operating budget.) The Reserve Policy establishes an emergency reserve of \$500,000. The fiscal reserve is a working capital fund, or short-term cash resource for payment to vendors or contractors prior to the receipt of cash from funding partners. The fiscal reserve, according to policy, will not exceed fifteen percent of the budgeted expenditures, less the cost of real estate acquisition. The fiscal reserve will be funded with available unrestricted revenues after the emergency reserve has been funded.

FY2015-16 Capital Revenues

As staff anticipates seeking and receiving funding allocations throughout the fiscal year, the budget will be presented with “Committed” and “Planned” revenues.

Committed revenues consist of existing revenues that have already been allocated. These include existing Federal Railroad Administration (FRA), Federal Transit Administration (FTA), Regional Measure 1 (RM-1), Regional Measure 2 (RM-2), AB 1171 Bridge Toll, San Francisco Proposition

K (Prop K) sales tax, and AC Transit pass-through contribution allocation balances; land sales proceeds from sales of state parcels; proceeds from the close of the interim financing; reimbursement from others including utilities and adjacent properties; and lease and interest/investment income.

Planned revenues consist of those funds which have not yet been allocated to or received by the TJPA, including land sales revenues from the sale of land that will not have closed by July 1, 2015. As discussed above, staff will continue to seek new funding for the program as opportunities arise, including the sale of Parcel F, marketing of sponsorship opportunities, and applying for new grants.

In some cases, the TJPA's funding partners require that funding applications be approved by the TJPA Board. Others do not include this requirement. As such, and as in all previous budget resolutions, the FY2015-16 budget resolution may include language authorizing the TJPA's Executive Director to apply for, accept, and expend grant funds for Board approved expenditures that will be outlined in the annual budget.

FY2015-16 Operating Expenditures

The TJPA's operating budget includes the following expenditures related to the temporary terminal:

- Temporary terminal facility management contract;
- Security;
- Parking Control Officers for traffic management;
- Utilities;
- Insurance;
- Portion of AC Transit's operating costs at the temporary terminal; and
- Operating and Maintenance Reserve.

The AC Transit operating costs and the operating reserve fund will be established in accordance with the Lease and Use Agreement with AC Transit. The FY2015-16 operating budget has been developed, in consultation with AC Transit, and totals \$5.02 million. The details of the proposed operating budget are included in the RM-2 operating fund request also on the Board agenda.

FY2015-16 Operating Revenues

The TJPA anticipates that the operating costs for the temporary terminal will be funded through Regional Measure 2 bridge toll funds, a small advertising contract, and rent from Greyhound and Amtrak.

RECOMMENDATION: Information only.