

**STAFF REPORT FOR CALENDAR ITEM NO.: 11  
FOR THE MEETING OF: April 14, 2016**

**TRANSBAY JOINT POWERS AUTHORITY**

**BRIEF DESCRIPTION:**

Presentation of the budget outlook for TJPA's Fiscal Year 2016-17 (FY16-17) annual capital and operating budgets and the Phase 1 Program budget.

**SUMMARY:**

The Fiscal Year (FY) 2016-17 annual budgets, which cover the period from July 1, 2016 through June 30, 2017, represent the fourteenth full budget year for the TJPA. In accordance with the TJPA's Policy No. 003: Budget Policy, the TJPA will adopt both an operating budget and a capital budget for the upcoming fiscal year. The operating budget reflects the operation of the temporary terminal. The capital budget reflects the engineering and construction work planned for the implementation of the Transbay Transit Center Program.

As an agency formed to build a capital project, the TJPA manages its resources primarily in relation to the multi-year Transbay Transit Center Program capital budgets for Phase 1 and Phase 2. The fiscal year capital budget is an estimate of the activities from the overall 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 activities are funded from resources that generally do not expire, any unspent revenues and funding sources remaining at the end of the fiscal year can be re-programmed for the following fiscal year. The TJPA's fiscal year operating budget projects the costs and revenues for the temporary terminal facility management. The bridge toll funds made available under state law are sufficient to cover the costs of the temporary terminal facility management.

The FY16-17 capital budget will be based on the full \$2,259 million Phase 1 budget that is proposed to be adopted by the Board following the Metropolitan Transportation Commission's (MTC) cost review recommendations. The schedule for this planned budget revision is discussed further below.

**SCHEDULE:**

Per the TJPA Budget Policy, this memo serves as a briefing to the TJPA Board of Directors concerning the budget outlook for the upcoming FY16-17 period. TJPA staff has also included here a high-level briefing on the status of the overall Phase 1 budget. The planned budget presentation schedule is as follows:

April

- Presentation of budget outlook (this report)
- Approval of items related to City financing (separate agenda item)

May

- Presentation of draft FY16-17 capital and operating budgets
- Presentation of draft Phase 1 Revised Baseline Budget
- Approval of RM2 operating allocation request

## June

- Adoption of FY16-17 capital and operating budgets
- Adoption of final Phase 1 Revised Baseline Budget

The May presentation of the proposed annual budgets serves as a public hearing, satisfying the requirements of the TJPA Budget Policy. In June, the Board of Directors is scheduled to adopt the FY16-17 annual capital and operating budgets.

The TJPA Budget Policy also allows for the submission of the budget outlook and the draft budget to the Finance Committee of the TJPA Board. For the past several budget years and continuing for this year, staff is presenting the budget outlook and draft budget to the TJPA Board as a whole in lieu of holding a separate meeting of a Finance Committee of the Board.

### **PHASE 1 PROGRAM BUDGET BRIEFING:**

As noted above, the TJPA manages its resources primarily in relation to the multi-year Transbay Transit Center Program budgets for Phase 1 and Phase 2; the fiscal year capital budget is a “slice” of the program budget based on projected cash flow for the fiscal year timeframe. The history of the Phase 1 Program Budget is as follows.

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 (“bottom-up” approach) 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 rising costs of 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 and included several value engineering measures and deductive alternates to reduce costs.

In February 2014, the TJPA received an updated construction cost estimate from the Construction Manager/General Contractor (CM/GC) based on the 100% construction documents completed in May 2013. The CM/GC's construction cost estimate was reconciled with an updated Engineer's Estimate provided by the project Architect, Pelli Clarke Pelli Architects (PCPA). The reconciled construction cost estimate indicated a total construction cost above the amount in the Baseline Budget. Some of the drivers for the increase in the estimate were scope refinements between the 95% and 100% construction documents, and the active construction market conditions in the San Francisco Bay Area, in general, and the Transbay District, in particular, which was limiting the bidder pool and resulting in increased bid margins beyond what was anticipated in July 2013.

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, changes were made in bidding procedures and procurement methodologies to attract more bidders and reduce bid prices on future trade packages.

Despite these significant efforts to mitigate construction cost increases, several trade packages came in above budget, which necessitated using a larger than anticipated amount of the Program Reserve and construction contingency to award several trade packages. The TJPA awarded these packages throughout 2014 and 2015 utilizing Program Reserve, construction contingency and remaining construction budget. In particular, in July 2015, in order to maintain the construction schedule, the TJPA utilized budget allocated for yet-to-be-awarded trade packages to award a select number of trade packages identified by the CM/GC as schedule-critical.

TJPA has conducted multiple risk assessments, in coordination with its federal funding partners, and from July to September 2015, the MTC conducted a cost and risk review in coordination with the City and County of San Francisco and the San Francisco County Transportation Authority. MTC ultimately recommended a budget increase of \$360 million based on risk modeling done by both MTC and TJPA.

In November 2015, the Board adopted an Interim Revised Baseline Budget for Phase 1 of the Program in the amount of \$2,064,400,000. This interim increase of \$165 million was based on the then-anticipated proceeds from the sale of Parcel F. The increase allowed for the award of the remaining trade packages planned to be awarded in 2015 and partial replenishment of the construction contingencies and Program Reserve keeping the project moving forward on schedule.

Construction Costs	\$102.2M
Contingencies and Program Reserve	<u>\$ 62.8M</u>
Total	\$165.0M

In June 2016, following approval of the requisite financing (which is the subject of a separate agenda item), the Board will be presented with the Final Revised Baseline Budget for Phase 1 for adoption, in the amount of \$2,259,400,000. Staff proposes to apply the remaining recommended \$195 million budget adjustment across three Baseline Budget categories as follows:

Construction Costs	\$ 52.0M
Programwide Costs (Construction Management Oversight)	\$ 10.9M
Contingencies and Program Reserve	<u>\$132.1M</u>
Total	\$195.0M

Below is a summary of the total proposed budget adjustments to the 2013 Baseline Budget.

	Nov. 2015	June 2016	Total
Construction Costs	\$102.2M	\$ 52.0M	\$154.2M
Programwide Costs (CMO)	\$ 0.0M	\$ 10.9M	\$ 10.9M
Contingencies and Program Reserve	<u>\$ 62.8M</u>	<u>\$132.1M</u>	<u>\$194.9M</u>
Total	\$165.0M	\$195.0M	\$360.0M

Further details on the adjustments and a complete Phase 1 Program Budget will be presented to the Board at the May meeting.

**FISCAL YEAR BUDGET DISCUSSION:**

As noted above, the FY16-17 annual budgets, which cover the period from July 1, 2016 through June 30, 2017, represent the fourteenth full budget year for the TJPA. The TJPA will adopt both a fiscal year 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 FY16-17 capital budget will be based upon the proposed Phase 1 Revised Baseline Budget. The operating budget reflects the operation of the temporary terminal, and will be developed in consultation with AC Transit.

**FY2016-17 Capital Expenditures**

The FY16-17 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 No. 012: Reserve Policy.

### Professional and Specialized Services

Construction activities comprise the majority of the Professional and Specialized Services section of the budget. This includes the Construction Manager / General Contractor (CM/GC) and the CM/GC's lower-tier 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 as well. Budget expenditures in this category also include contracts required for the day-to-day operations of the TJPA, including but not limited to tasks such as Program Management / Program Controls (PMPC), legal counsel, information technology services, audits and other financial services, and payroll and benefits administration. Interagency agreements with various public agencies including the San Francisco Department of Building Inspection, Department of Public Works, Municipal Transportation Agency, Office of Community Investment and Infrastructure, Planning Department, and Caltrans that are required for the implementation of the Transbay Transit Center Program will also be included in the FY16-17 budget.

### Salaries and Benefits

The FY16-17 budget will include salaries and benefits for the twelve current TJPA staff members and potential additional staff positions.

### 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 No. 012: Reserve Policy, the FY16-17 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.

### **FY2016-17 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 2015 Bridge Loan 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 received or drawn upon by the TJPA, including revenues from land sales that have not yet closed as well as proceeds from the TIFIA Loan and City financing. Additional sales tax, bridge toll and AC Transit contributions expected to be allocated during the fiscal year would also be included in planned revenues. Staff

will continue to seek new funding for the program as opportunities arise, including 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 FY16-17 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.

### **FY2016-17 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 FY16-17 operating budget will be developed in consultation with AC Transit.

### **FY2016-17 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.