

Bay Area Headquarters Authority (BAHA)

June 25, 2025

Agenda Item 4a - 25-0887

Bay Area Headquarters Authority (BAHA) Resolution No. 049.

BAHA Proposed Fiscal Year (FY) 2025-26 Operating and Capital Budget

Subject:

Staff requests adoption of Bay Area Headquarters Authority (BAHA) Resolution No. 49, approving the BAHA Proposed Fiscal Year (FY) 2025-26 Operating and Capital Budget.

Summary of Changes from May Draft:

On May 28, 2025, staff submitted the draft FY 2025-26 Operating and Capital Budget to the Authority as an information item. The proposed budget includes an updated cost-of-living adjustment which resulted in a \$6,042 reduction in salaries, benefits and overhead costs and a \$4,483 reduction in the shared services assessment.

Background:

The Bay Area Headquarters Authority (BAHA) was established in 2011 by a Joint Exercise of Powers Agreement between the Metropolitan Transportation Commission (MTC) and the Bay Area Toll Authority (BATA), with the intent of purchasing the property at 375 Beale Street. This property established a regional headquarters for the MTC, the Bay Area Air Quality Management District (BAAQMD), and the Association of Bay Area Governments (ABAG). BAHA, BAAQMD, and ABAG have condominium ownership interest in the building. In addition to the three owners, private tenants lease office space in the building. BAHA receives operating revenue via assessments received from the condominium owners, and rental income from the tenants. BAHA contracts with Cushman & Wakefield (CW) to provide professional day-to-day property management for the building.

The BAHA operating budget is composed of 1) common area and 2) shared services expenses. Common area expenses are those provided for the benefit of the entire building, such as water, sewer, garbage, electrical, heating and air conditioning, telephone lines, lighting, and gas. Shared Services expenses are the portion of the building costs that are provided for shared use amongst the three condominium owners. Some of these items include expenses for kitchen

pantries, copy/print rooms, Information Technology (IT) support and equipment storage rooms, conference, and Board rooms. The condominium owners are charged separate assessments for the common area and shared services costs, based on square footage ownership of the common and shared areas, as described in the Declaration of Covenants, Conditions and Restrictions (CC&Rs).

BAHA's capital budget includes long-lasting big-ticket items, such as technology upgrades and building maintenance/improvements. A challenge in the current and out years is how BAHA will fund ongoing capital maintenance projects. The current method for funding capital projects is a combination of utilizing operating surplus and operating reserves. In previous years, BAHA has experienced operating surpluses but with a lease termination ending on October 31, 2024, BAHA saw a \$466,500/month (or \$5.6 million/year) reduction in lease income. BAHA is in the process of negotiating a 10-year lease for 9,000 square feet with the Water Emergency Transportation Authority (WETA). This lease agreement would provide \$4.1 million over the life of the lease term. Tenant improvement costs are projected at \$220,000 which includes design and construction. Other options to cover capital costs may include scaling back capital projects or special assessments of the condominium owners.

Operating Budget Summary

The proposed budget for FY 2025-26 shows an operating deficit of \$2.4 million before transfers to the capital budget. Overall revenue is expected to be \$14.9 million, down 18.3% from the FY 2024-25 budget. Operating revenue is down primarily due to reduced lease income from the previously mentioned lease termination, lower interest revenue, and reduced assessments. Budgeted total operating expenses are estimated at \$17.3 million, excluding transfers, down 7.6% from the FY 2024-25 budget. The decrease in expenses is primarily driven by a decline in CW's projected costs for operating 375 Beale Street as well as a reduction in costs related to the hybrid conference room rollout and audio visual (A/V) support. The proposed budget for FY 2025-26 results in a \$2.4 million operating deficit which will be funded by a draw from operating reserves.

Operating Revenue Summary

The proposed FY 2025-26 budget includes total revenue of \$14.9 million, a decrease of \$3.3 million or 18.3%. Lease income projections are provided by CW, and due to a lease termination in October 2024, lease income is expected to decline by a net \$1.9 million. Projected lease income also includes \$337,5000 from the new potential lease. Shared services assessment and common area assessment revenue are decreasing, in proportion to decreased expenses. Other revenue consists of parking, expenditure reimbursements, and investment income. Other revenue is expected to decrease significantly due to lower cash balances and net yield. A summary of the operating revenue is shown below (in thousands):

<u>Revenue Source</u>	<u>FY 2025-26</u> <u>Proposed</u> <u>(000)</u>	<u>Change \$</u> <u>Increase/(Decrease)</u> <u>(000)</u>	<u>Change %</u> <u>Increase/(Decrease)</u>
Lease Income	\$4,502	(\$1,925)	(30.0%)
Shared services assessment (Fee covers staff, IT services, office supplies and other shared expenses)	\$4,619	(\$198)	(4.1%)
Common area assessments (Fees cover security, janitorial, utilities, administration, and repairs & maintenance)	\$4,304	(\$621)	(12.6%)
Other	\$1,498	(\$595)	(28.4%)
Total	\$14,923	(\$3,339)	(18.3%)

The shared services and common area assessments are separately reviewed and were approved by the 375 Beale Condo Board on June 9, 2025.

Operating Expense Summary

The proposed FY 2025-26 budget includes total operating expense, before transfers, of \$17.3 million, a decrease of \$1.4 million or 7.6% from the FY 2024-25 budget. Major operating expense highlights include (in thousands):

<u>Operating Expense</u>	<u>FY 2025-26 Proposed (000)</u>	<u>Change \$ Increase/(Decrease) (000)</u>	<u>Change % Increase/(Decrease)</u>
Salary, benefits, and overhead	\$3,405	\$343	11.2%
Professional fees	\$1,122	(\$225)	(16.7%)
Computer maintenance and services	\$2,241	\$110	5.1%
Other expenses	\$1,493	(\$217)	(12.7%)
Property Management	\$9,070	(\$1,439)	(13.7%)
Total	\$17,331	(\$1,428)	(7.6%)

Salaries, benefits, and overhead are increasing due to one additional IT staff supporting shared services, an increase in the indirect cost allocation plan (ICAP) rate, and a planned 2.8% cost of living adjustment (COLA) adjustment, which is pursuant to the Metropolitan Transportation Commission Memorandums of Understanding. The new A/V Coordinator position is needed to support users and maintain audio-visual systems on floors 1, 2, 5, 6, 7, and 8 at the Bay Area Metro Center (BAMC) in conference rooms and other shared services spaces. Multimedia technology has rapidly increased over the past 2 years and the BAMC has many conference rooms with Logitech video conferencing now in place greatly increasing the complexity of the available technology which requires constant testing, maintenance, and cleaning to be usable by staff. Broadcast systems have also experienced rapid growth. There is now a second broadcast control room and three broadcast-ready spaces on the first floor, capable of simultaneous

broadcasts. This work is currently performed or overseen by one Senior Broadcast and Multimedia Manager.

Professional fees include decreasing hybrid space management costs, legal and professional costs, BAHA/BAMC network professional services, BAHA 1st floor venue management/event planning, and BAHA pro-forma review and update. Computer maintenance and services increases are driven by overall vendor price increases and additional licenses needed for increased staff. Property Management cost decreases reflect C&W being more prudent when looking at the actual expenses needed to support the building, including cleaning, security, repairs and maintenance, administrative costs, and utilities. Other expenses are primarily driven by shared conference-space furniture and equipment and signage replacement and installation to better facilitate a hybrid workspace, catering and supplies.

Transfers

Staff proposes a \$10.8 million transfer of general reserves to fund both the \$2.4 million operating deficit and \$8.4 million to fund capital improvements. The FY 2025-26 budget does not include a transfer to BATA for repayment of its building contribution.

Capital Budget

Staff requests a total of \$8.4 million in building improvement projects for FY 2025-26. The projects include (in thousands):

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| • IT Improvement Project | \$1,286 |
| • Agency Space Modification Planning,
Level 1 Public Space Modifications, and
AHUs 1-4 Eyebrow Install | \$2,600 |
| • Agency Infrastructure Improvement | \$653 |
| • C&W Building Improvement Projects | \$712 |
| • Façade Repair & Window Replacement | \$2,382 |
| • T.I. WETA | \$220 |
| • Lease Commissions | \$500 |

The \$1.3 million requested for IT improvement projects includes funding A/V hardware replacements (\$410k), a BAHA reserve study (\$464k), A/V technical support (\$150k), additional A/V equipment (\$20k), Backnet project (\$140k), and additional IT support (\$102k).

\$2.6 million is being requested for agency space modifications for the design, construction, furniture, and lighting needed for 1st floor space modifications. Offsetting this request is \$4.1 million being transferred from this program to cover \$3.1 million in costs for level 1 public space modifications and \$1 million for the air handling unit (AHU) 1-4 eyebrow install.

The \$712k requested by CW as part of their building management responsibilities includes waterproofing, lighting replacement, fire sprinkler riser replacement, variable frequency drive (VFD) partial replacement, fire electrical pump/control replacement, pump chiller and cooling tower replacements, and supporting staff.

The \$653k requested for agency infrastructure improvement includes supporting staff and contingencies.

The \$220k requested for tenant improvements for potential new WETA lease.

The \$2.4M requested for façade repair and window replacements is based on the cost estimate of repairs needed to address recommendations from a recently completed façade inspection. This also includes enhanced investigation of terrace and cladding components and addressing concrete spalling concerns.

To fund the capital request, staff recommends drawing from BAHA's operating reserves, leaving an estimated operating reserve balance of \$9.5 million. Staff is working with 375 Beale Condo owners to consider an assessment to retroactively fund capital maintenance projects and façade repairs, potentially recovering \$15.1 million. Future year budgets will continue to be challenging as the commercial rental market in San Francisco adapts to significantly lower occupancy levels. Staff and Cushman & Wakefield continue their focus on finding new tenants and are taking a closer look at capital maintenance projects to prioritize maintaining the building and attracting new tenants.

Recommendation:

Staff recommends adoption of Resolution No. 49, approving the BAHA FY 2025-26 Operating and Capital Budget.

Attachments:

- Bay Area Housing Authority (BAHA) Resolution No. 49, FY 2025-26 Operating and Capital Budget
 - a. Attachment A – Operating Budget
 - b. Attachment B – Fee Distribution
 - c. Attachment C – Building Development Budget
 - d. Attachment D – Commercial Fund Life-To-Date
 - e. Attachment E – Building Improvement Fund Life-To-Date
- Presentation



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