

Bay Area Headquarters Authority (BAHA)

May 22, 2024

Agenda Item 4a - 24-0574

Draft FY 2024-25 Operating and Capital Budgets

Subject:

An informational presentation to the Authority of the draft FY 2024-25 Bay Area Headquarters Authority (BAHA) Operating and Capital Budget.

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 St. This property was intended to establish a regional headquarters for MTC, the Bay Area Air Quality Management District (BAAQMD), and the Association of Bay Area Governments (ABAG). BAHA, BAAQMD, and ABAG have ownership interest in the building, in the form of a condominium corporation (375 Beale Condominium Corporation). 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, 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.

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 current tenant's lease ending on October 31, 2024, BAHA will see a \$466.5k/month (or \$5.6M/year) reduction in lease income. Options may include scaling back of capital projects or special assessments to the condominium owners.

Operating Budget Summary

The draft budget for FY 2024-25 shows an operating deficit of \$0.5 million, before transfers to the capital budget. Overall revenue is expected to be \$18.3 million, down 7.3% from the FY 2023-24 budget. Operating revenue is down primarily due to reduced lease income. The previously mentioned tenant lease ending results in a \$3.7M reduction in lease income for FY 2024-25. Budgeted total operating expenses are estimated at \$18.8 million, excluding transfers, up 6.8% from the FY 2023-24 budget. The increase in expenses is primarily driven by security and hybrid telepresence technology upgrades, and hybrid space planning projects. The draft budget for FY 2024-25 results in a \$508 thousand operating deficit which will be funded by a draw from operating reserves.

Operating Revenue Summary

The draft FY 2024-25 budget includes total revenue of \$18.3 million, a decrease of \$1.4 million, or 7.3%. Lease income projections are provided by CW, and due to tenant occupancy decreasing, lease income is expected to decline by \$3.7 million. Shared services assessment and common area assessment revenue is increasing, in proportion to increased expenses. Other revenue consists of parking, expenditure reimbursements, and investment income. Other revenue is budgeted to increase significantly due to projected investment returns in the Local Agency Investment Fund.

A summary of the operating revenue is shown below (in thousands):

<u>Revenue Source</u>	<u>Draft FY 24-25 Budget (000)</u>	<u>% Increase</u>	<u>\$ Change (000)</u>
Lease Income	\$6,428	(36.7%)	(\$3,722)
Shared services assessment (Fee covers staff, IT services, office supplies and other shared expenses)	\$4,847	17.9%	\$736
Common area assessments (Fees cover security, janitorial, utilities, administration, and repairs & maintenance)	\$4,925	6.1%	\$281
Other	\$2,092	153.4%	\$1,267
Total	\$18,292	(7.3%)	(\$1,438)

The shared services and common area assessments will be separately reviewed and approved by the 375 Beale Condominium Corporation Board.

Operating Expense Summary

The draft FY 2024-25 budget includes total operating expense, before transfers, of \$18.8 million, an increase of \$2.7 million or 6.8% from the FY 2023-24 budget. Major operating expense highlights include (in thousands):

<u>Operating Expense</u>	<u>Draft FY 24-25 Budget (000)</u>	<u>% Increase</u>	<u>\$ Change (000)</u>
Salary, benefits, and overhead	\$3,110	25.4%	\$631
Professional fees	\$1,347	25.6%	\$430
Computer maintenance and services	\$2,132	(12.7%)	(\$311)

Other expenses	\$1,710	0.1%	\$1
Property Management	\$10,509	4.4%	\$439
Total	\$18,808	6.8%	\$1,190

Salaries, benefits, and overhead are increased due to staff dedicated to shared services operations. Contractual services include increasing space management consulting costs, legal and professional costs, Backnet infrastructure, BAHA/BAMC network professional services, and Audio-Visual/ IT consultants for the Temezcal event space. 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. IT Licenses and Maintenance increases are driven by hybrid room and telepresence improvements. Property Management increases reflect increased costs that C&W require to support the building, including cleaning, security, repairs and maintenance, administrative costs, and utilities.

Transfers

Staff proposes a \$10.1 million transfer of general reserves to capital reserves, in recognition of existing capital requirements for the building. This budget proposes no FY 2024-25 transfer to BATA with respect to repayment of its building contribution.

Capital Budget

Staff is requesting a total of \$10.2 million in building improvement projects for FY 2024-25. The projects include (in thousands):

- IT Improvement Project \$985
- Agency Space Modification Planning \$2,000
- Agency Infrastructure Improvement \$404
- C&W Building Improvement Projects \$898
- Façade Repair & Window Replacement \$5,131
- Lease Commissions \$750

The \$985k requested for IT improvement projects includes funding for switch and blade replacements (\$492k), ongoing Backnet projects (\$403k), and other IT projects (\$90k).

The \$2.0M requested for agency space modification allows for the continued design, construction, furniture, and lighting needed to adapt to the hybrid work environment.

The \$898k requested by Cushman & Wakefield as part of their building management responsibilities includes EV charging stations replacement, epoxy ceiling and floor of Beale garage, VFD partial replacement, fire electrical pump/control replacement, jockey pump/control replacement, waterproofing, and supporting staff.

The \$404k requested for agency infrastructure improvement includes supporting staff and contingencies.

The \$5.1M 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.

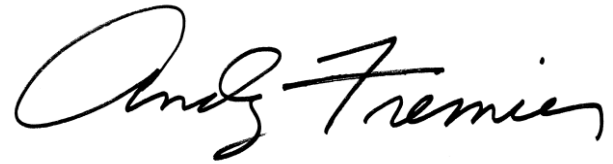
In order to fund the capital request, staff recommends drawing from BAHA's reserves, leaving an estimated balance of \$1.7 million. Staff will work with 375 Beale Condo owners to consider an assessment to retroactively fund capital maintenance projects and façade repairs since FY 2023-24, potentially recovering \$9.8 million of proposed budget through a budget amendment later this year. 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:

This is an informational item. Staff will present the final proposed operating and capital budget for approval at the June 26, 2024, regular meeting.

Attachment:

- A. Draft FY 2024-25 BAHA Operating and Capital Budget
- B. Draft FY 2024-25 BAHA Operating and Capital Budget Presentation

A handwritten signature in black ink that reads "Andrew B. Fremier". The signature is written in a cursive, flowing style.

Andrew B. Fremier