



**BAY AREA HEADQUARTERS AUTHORITY**

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TO: Bay Area Headquarters Authority (BAHA)

DATE: May 3, 2017

FR: Executive Director

RE: BAHA Draft FY 2017-18 Capital and Operating Budgets

Below is an overview of the draft FY 2017-18 BAHA Capital and Operating Budgets. The FY 2017-18 budgets will be presented to the Authority for approval in June.

The FY 2017-18 budget assumes the same tenants from this fiscal year, a continuing vacancy for the larger retail space on the first floor, and new tenancies for Cubic on the third floor and BCDC on the fifth floor.

**Operating Budget**

- The budget forecasts BAHA's operating income of \$13.6 million, operating expenses of \$9.7 million, and an operating surplus of \$3.9 million before depreciation of \$6 million.

**Revenue:**

- The overall revenue budget increased by \$3.4 million as shown in Attachment A, page 1.
- The increase in lease income compared to the prior year of \$2.4 million is due to a full year's rent from Twilio, and Degenkolb Engineers, whereas the prior year's budget had Twilio for 8 months and Degenkolb Engineers for 5 months.
- Once the BCDC and Cubic leases are finalized, the lease revenue will be amended into the budget.
- Assessment fee – shared services. BAHA, ABAG and the Air District will contribute their proportional share of the building common area and shared services fees as detailed in Attachment A, page 3. These proposed amounts have yet to be formally approved by each agency. The amount increased by \$200,000 from the prior year mainly due to new IT service contracts as the original warranties were for a year and will expire.
- Assessment fee – common area. BAHA, ABAG and the Air District will contribute their proportional share of the building common area as detailed in Attachment A, page 3. These proposed amounts have yet to be formally approved by each agency. The amount increased by \$600,000 from the prior year. This is mainly attributable to (1) higher wages for security, (2) repairs and maintenance included an additional journeyman and a 3% increase in the building engineering contract, and (3) an increase in cleaning costs for the building due to higher occupancy.
- Parking services will be provided for agency pool cars, commercial tenants, and limited visitor parking. The budget will not include parking income until the parking pay equipment is installed in 2018.

Expense:

- The overall expense budget before depreciation increased from \$8.7 million to \$9.7 million as shown on Attachment A, page 1.
- Salaries, benefits, and associated overhead decreased by \$635,000. The PYs decreased as the construction and move in of the offices occurred in FY2015-16.
- As property manager, Cushman & Wakefield will receive approximately \$6.6 million for all building operations, including administration for HVAC, janitorial, security, landscaping, window washing and parking garage operations. This is higher by \$1.4 million from the prior year due to additional building engineers, an additional day porter, and higher salaries for security.
- IT services increased by \$317,000 mainly due to IT new service contracts as the warranties were for a year and will expire.
- Depreciation expense increased \$6 million due to the amortization of the tenant improvements of \$1.4 million annually over the life of the lease, an average of 7 years. BAHA's depreciation on the building and leasehold improvements is \$4.6 million.

**Capital Budget**

- The total capital budget (Attachment A, page 4), remains unchanged at \$271 million. The capital budget is summarized as follows:

<b><u>Sources</u></b>	<b><u>\$ millions</u></b>
BATA toll contribution	\$193.3
SPANs debt savings	33.0
Purchase from Air District	34.0
Insurance proceeds	0.3
Tenant improvements from ABAG	1.6
BATA/MTC/SAFE transfers	7.8
TFCA grant and local match	0.4
Reimbursement Air District/PG&E	0.6
Life-to-date project budget	\$271.0
<b><u>Uses</u></b>	
Building Purchase	\$93.0
Building Development	171.8
Staff Costs	5.2
Capital Equipment	1.0
Life-to-date uses	\$271.0
Life-to-date expense	\$267.9
Project Balance	\$3.1

- Project expenditures, including contracts currently encumbered, total \$271 million. The remaining balance of \$3.1 million is committed to completing the outstanding open construction items and replacement of a backup generator. There is one half of a staff person in the capital budget to monitor the tenant improvements and leases and outstanding construction items. Further information is included in Attachment A, page 4.
- The FY 2016-17 BAHA Commercial Development Fund (Attachment A, page 5) accounts for the tenant improvement allowances, leasing agent commission obligations and marketing expenses associated with leases. The total budgeted expense in this area is \$20.5 million. To date as of March 2017, \$11.1 million has been expended. Most of the remaining budget balance of \$9.4 million is for the improvements for BCDC and Cubic for \$5.5 million and the final payment for tenant improvement reimbursement requests for Twilio and Degenkolb Engineers for \$3.1 million. We expect BCDC and Cubic to move in the FY 2017-18 year.

**Recommendation:**

This draft budget is presented for the Authority's information. Staff will present the final budget to the Authority for approval in June of this year.



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Steve Heminger

SH:bm  
Attachment

**BAHA Building and Commercial Operations Budget FY2017-18**

	Adopted Budget FY2016-17	Draft Budget FY2017-18	Percent Change	Change in \$ inc (dec)
Revenue:				
Assessment fee - shared services	\$ 1,456,146	\$ 1,655,699	13.7%	\$ 199,553
Assessment fee - common area	3,018,838	3,627,775	20.2%	608,937
Lease income	5,564,578	8,006,770	43.9%	2,442,192
Expense reimbursements	95,607	241,063	152.1%	145,456
Utility reimbursements	57,600	60,000	4.2%	2,400
Total operating income	10,192,769	13,591,307	33.3%	3,398,538
Operating expenses:				
Salaries and Benefits	1,686,365	1,215,096	-27.9%	(471,269)
Overhead	720,530	556,315	-22.8%	(164,215)
Postage meter and Comcast/Direct TV	12,000	12,000	0.0%	-
Supplies	256,000	256,000	0.0%	-
Other expenses	24,044	727,388	2925.2%	703,344
Contractual services	5,249,417	5,901,341	12.4%	651,924
Shuttle services	50,000	-	-100.0%	(50,000)
IT licenses, maintenance	311,000	627,977	101.9%	316,977
Audit/tax prep	60,000	60,000	0.0%	-
Contingency	275,000	275,000	0.0%	-
Insurance	50,000	10,000	-80.0%	(40,000)
Catering	-	5,000	100.0%	5,000
Special Event Setups	-	50,000	100.0%	50,000
Total expense before depreciation	8,694,356	9,696,116	11.5%	1,001,760
Operating surplus before depreciation	1,498,413	3,895,191	160.0%	2,396,778
Depreciation	-	6,060,590	100.0%	6,060,590
Total operating gain (loss)	\$ 1,498,413	\$ (2,165,399)	-244.5%	\$ (3,663,812)

## BAHA Building and Commercial Operations Budget FY2017-18

	Building and Commercial Operations- CW	Condo and Shared Services	BAHA Operating	Total BAHA Operating
Revenue:				
Assessment fee - shared services	\$ -	\$ 1,655,699	\$ -	\$ 1,655,699
Assessment fee - common area	-	3,627,775	-	3,627,775
Lease income	8,006,770	-	-	8,006,770
Expense reimbursements	120,063	-	121,000	241,063
Utility reimbursements	60,000	-	-	60,000
Total operating income	8,186,833	5,283,474	121,000	13,591,307
Operating expenses:				
Salaries and Benefits	-	576,692	638,404	1,215,096
Overhead	-	264,030	292,284	556,315
Postage meter and Comcast/Direct TV	-	12,000	-	12,000
Supplies	-	256,000	-	256,000
Other expenses	727,388	-	-	727,388
Contractual services	2,048,566	3,627,775	225,000	5,901,341
IT licenses, maintenance	-	456,977	171,000	627,977
Audit/tax prep	-	-	60,000	60,000
Contingency	-	25,000	250,000	275,000
Insurance	-	10,000	-	10,000
Catering	-	5,000	-	5,000
Special Event Setups	-	50,000	-	50,000
Total expense before depreciation	2,775,954	5,283,474	1,636,688	9,696,116
Operating surplus before depreciation	5,410,879	-	(1,515,688)	3,895,191
Depreciation	1,460,590	-	4,600,000	6,060,590
Total operating gain (loss)	\$ 3,950,289	\$ -	\$ (6,115,688)	\$ (2,165,399)

**Distribution of Condo Area Fees****FY 2017-18**

	Common Area	Shared Services	Total
BAAQMD	\$ 1,437,994	\$ 656,294	\$ 2,094,288
ABAG	174,567	150,433	325,000
MTC	2,015,214	848,972	2,864,186
Total	<u>\$ 3,627,775</u>	<u>\$ 1,655,699</u>	<u>\$ 5,283,474</u>

**FY 2016-17**

BAAQMD	\$ 1,237,723	\$ 604,220	\$ 1,841,943
ABAG	203,909	110,091	314,000
MTC	1,577,206	741,835	2,319,041
Total	<u>\$ 3,018,838</u>	<u>\$ 1,456,146</u>	<u>\$ 4,474,984</u>

<b>BAHA Capital Budget FY 2017-18</b>		<b>LTD Budget Thru FY2016-17</b>	<b>Total Budget FY2017-18</b>	<b>Total LTD BUDGET Thru FY2017-18</b>
<b>Sources</b>				
Insurance proceeds	\$	311,738	\$ -	\$ 311,738
Transfer in from MTC		801,160	-	801,160
Transfer in from SAFE		112,910	-	112,910
Transfer in from BATA		6,906,010	-	6,906,010
Purchase from ABAG		1,600,000	-	1,600,000
Purchase from Air District		34,000,000	-	34,000,000
Reimbursement from Air District		500,000	-	500,000
Reimbursement from PG&E		64,154	-	64,154
TFCA Grant		151,000	-	151,000
Grant Local Match from MTC/BATA		119,000	-	119,000
Grant Local Match from Air District		150,000	-	150,000
SPANs savings		33,000,000	-	33,000,000
Capital Contribution (BATA)		193,310,846	-	193,310,846
<b>Total Transfer In</b>		271,026,818	-	271,026,818
<b>Uses</b>				
Purchase Building	\$	93,000,000	\$ -	\$ 93,000,000
Building Development		137,973,343	(159,176)	137,814,167
Development Contingency		18,824,538	-	18,824,538
Furniture, Fixtures, Equipment		15,000,000	-	15,000,000
Backup Generator and 12V Feed		1,000,000	-	1,000,000
Staff Costs		5,228,937	159,176	5,388,113
<b>Total Usage</b>		271,026,818	-	271,026,818
LTD Actual and Encumbrances as of March 2017				267,936,769
Remining Balance				\$ 3,090,049

BAHA Commercial Development Fund Life To Date FY 2017-18						
Program #	Budget	Tenant Improvements	Commissions	Total	LTD Expense - 3/31/2017	Budget Balance
	Sales Proceeds			\$ 22,139,154		
9135	T.I. Rutherford and Chekene	\$ 1,112,749	\$ 123,181	\$ 1,235,930	\$ 1,235,930	\$ -
9136	Conduent (Xerox)	-	110,975	110,975	110,975	-
9137	T.I. Degenkolb	1,834,670	452,740	2,287,410	1,712,001	575,409
9138	T.I. Twilio	8,338,957	1,836,460	10,175,417	7,665,371	2,510,046
9139	Construction contingency TIs	525,000	-	525,000	-	525,000
9139	Engineering/Architectural	150,000	-	150,000	-	150,000
9140	T.I. Ada's Café	455,000	-	455,000	403,235	51,765
9141	BCDC	5,000,000	80,000	5,080,000	-	5,080,000
9142	Cubic	450,000	44,000	494,000	-	494,000
	Total Tenant Improvements	\$ 17,866,376	\$ 2,647,356	\$ 20,513,732	\$ 11,127,512	\$ 9,386,220
	Marketing			\$ 83,500	\$ 17,065	\$ 66,435
	Building Improvements			\$ 890,000		
	Net			651,922		