

# Bay Area Headquarters Authority (BAHA)

May 27, 2026

Agenda Item 4a - 26-0504

## Bay Area Headquarters Authority (BAHA) Draft Fiscal Year 2026-27 Operating and Capital Budget

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### **Subject:**

An information presentation to the Bay Area Headquarters Authority (BAHA) of the Draft fiscal year (FY) 2026-27 Operating and Capital Budgets.

### **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 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) of the 375 Beale Condominium Corporation.

BAHA's capital budget includes long-lasting large expense 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 and rehabilitation projects, particularly ongoing façade related work. 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. Also, a current tenant, Degenkolb, will not be renewing its lease which expires at the end of January 2027. Annual revenue generated by Degenkolb is approximately \$1.2 million. In FY 2025-26, BAHA entered into a 10-year lease for 9,000 square feet with the Water Emergency Transportation Authority (WETA). This lease agreement will provide over \$400k annually. BAHA also entered into a lease with Verne Labs which will generate approximately \$143k annually.

### **Operating Budget Summary**

The proposed FY 2026-27 budget reflects an operating deficit of \$2.9 million, which will be funded through a draw on operating reserves. Total operating revenue is projected at \$13.6 million, a decrease of 9.0%, primarily due to reduced lease income, offset by the recent new leases and assumed new tenant activity, lower investment income, and reduced assessments. Total operating expenses are projected at \$16.5 million, a 5.0% decrease, driven by reductions in overhead, consultant costs, and general operating expenses.

While cost containment efforts have reduced expenses, operating revenues remain insufficient to fully cover ongoing costs, requiring continued reliance on reserves.

### **Operating Revenue Summary**

The proposed FY 2026-27 budget includes total revenue of \$13.6 million, a decrease of \$1.3 million or 8.9%. Lease income projections are provided by CW with lease revenue projected to decrease by a net \$517k for the fiscal year due to Degenkolb's lease termination in January 2027. This will be offset by a full year of WETA and Verne Labs plus an additional \$395k for assumed future tenant activity. Revenue shared services assessments decrease in proportion to decreased

expenses. Other revenue consists of parking, expenditure reimbursements, and investment income. Investment income is expected to decrease in the operating budget due to lower cash balances and net yield as well as a significant portion of the revenue (\$623k) being moved to capital fund 903 to account for monies that are allocated to that fund.

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

<u>Revenue Source</u>	<u>FY 2026-27 Proposed (000)</u>	<u>Change \$ Increase/(Decrease) (000)</u>	<u>Change % Increase/(Decrease)</u>
Lease Income	\$4,699	\$197	4.4%
Shared services assessment (Fee covers staff, IT services, office supplies and other shared expenses)	\$3,919	(\$700)	(15.2%)
Common area assessments (Fees cover security, janitorial, utilities, administration, and repairs & maintenance)	\$4,341	\$38	0.9%
Other	\$630	(\$868)	(57.9%)
Total	\$13,590	(\$1,333)	(8.9%)

The shared services and common area assessments are separately reviewed and will be presented for approval by the 375 Beale Condominium Corporation Board on June 16, 2026.

**Operating Expense Summary**

The proposed FY 2026-27 budget includes total operating expense, before transfers, of \$16.5 million, a decrease of \$861k or 5.0% from the FY 2025-26 budget. Major operating expense highlights include (in thousands):

<b><u>Operating Expense</u></b>	<b><u>FY 2026-27 Proposed (000)</u></b>	<b><u>Change \$ Increase/(Decrease) (000)</u></b>	<b><u>Change % Increase/(Decrease)</u></b>
Salary, benefits, and overhead	\$3,382	(\$23)	(0.7%)
Professional fees	\$753	(\$369)	(32.9%)
Computer maintenance and services	\$2,171	(\$70)	(3.1%)
Other expenses	\$1,129	(\$364)	(24.4%)
Property Management	\$9,035	(\$35)	(0.4%)
Total	\$16,470	(\$861)	(5.0%)

Salaries, benefits, and overhead are decreasing due to a decrease in BAHA’s indirect cost allocation plan (ICAP) rate, partially offset by a budgeted 3.8% cost of living adjustment (COLA) adjustment, which is pursuant to the Metropolitan Transportation Commission Memorandums of Understanding.

Professional fees include decreasing BAHA’s allocation for temporary staff with a portion of these costs being moved to MTC to better align with their projected duties. Other decreases include 1<sup>st</sup> floor venue management and event planning, space management services, and a proforma review and update as that work was completed.

The budget for general operations expenses is seeing declines in miscellaneous expenses, coffee, signage, meals, office supplies, and parking to better align with actual expense experience.

**Transfers**

Staff propose a \$4.6 million transfer from operating reserves to fund both the \$2.9 million operating deficit and \$1.7 million to fund capital improvements. The FY 2026-27 budget does not include a transfer to BATA for repayment of its building contribution.

With a projected starting balance of \$8.4 million, this transfer is expected to reduce operating reserves to approximately \$3.8 million.

This level of reserves represents a significant reduction in available reserves and may limit BAHA's ability to respond to future operating or capital needs without additional funding strategies.

**Capital Budget**

Staff request a total of \$2.3 million in building improvement projects for FY 2026-27, focused on building improvements, including façade repairs and air handling unit (AHU) upgrades. The projects include (in thousands):

- AHUs 1-4 Eyebrow Install \$591
- Façade Repair & Window Replacement \$1,750

The façade repair program remains the most significant capital driver, with a projected cost of approximately \$20.2 million, of which approximately \$6.8 million remains unfunded following the FY 2026-27 request. This is based on the cost estimate of repairs needed to address recommendations from a façade inspection completed September 2023. This includes enhanced investigation of terrace and cladding components and addressing concrete spalling concerns. \$1.8 million of additional funds is being requested for this program, which reflects a reduction from the original CW proposal of \$3.2 million, achieved by reallocating excess availability from other programs (Agency Space Modification and Agency Infrastructure Improvement) and utilizing life-to-date funding where possible. This project is anticipated to be completed in early 2028.

A funding strategy for the remaining façade costs has not yet been identified and will require further evaluation. This represents a key financial risk to BAHA.

The \$591k for the AHUs (air handling units) 1-4 Eyebrow Install program is for waterproofing that is required for units 1-3 as per the 2024 Reserve Study. The project has been deferred from 2024 to 2026 with inflation applied and will include installation of rain hoods to prevent water intrusion. Note that this project is split evenly between FY 2026-27 and FY 2027-28. The original request for this project was \$1.2 million but was reduced using existing life-to-date funding availability within this program.

CW also requested funds to cover potential lease commissions, tenant improvements, a new media source screen in the main lobby (\$27k), and a replacement of UPS batteries (\$238k) for a total of \$2.0 million. This request has been reduced to account for already existing funds for lease commissions and the Building Improvement program. An additional \$750k will be transferred from Agency Infrastructure Improvement program to cover some of these costs.

### **Funding Challenges and Outlook**

With the absence of structural changes, BAHA will continue to rely on reserves in the near term and will face increasing constraints in funding both operations and capital. Staff and Cushman & Wakefield continue their focus on finding new tenants in a challenging commercial rental market and are taking a closer look at capital maintenance projects to prioritize maintenance of the building and attract new tenants. Executive staff are also actively considering other strategies to address the long-term needs of the building's public agency occupants and how those strategies would align with the continued maintenance of the Bay Area Metro Center as an attractive home for our critical regional agencies.

### **Recommendation:**

This is an information item. Staff will present the final proposed operating and capital budget for approval at the time of the June 24, 2026 meeting.

**Attachments:**

- Bay Area Housing Authority (BAHA) FY 2026-27 Operating and Capital Budget
  - a. Attachment A – Operating Budget
  - b. Attachment B – BAHA Operating by Fund
  - c. Attachment C – Fee Distribution
  - d. Attachment D – Building Development Budget
  - e. Attachment E – Commercial Fund Life-To-Date
  - f. Attachment F – Building Improvement Fund Life-To-Date
- Presentation

  
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