

Bay Area Headquarters Authority (BAHA)

May 24, 2023

Agenda Item 3a - 23-0682

Draft FY 2023-24 Operating and Capital Budgets

Subject:

An informational presentation to the Authority of the draft FY 2023-24 Bay Area Headquarters Authority (BAHA) Operating and Capital Budget.

Background:

BAHA was established in 2011 pursuant to 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 established a regional headquarters for MTC, the Bay Area Air Quality Management District (BAAQMD), and the Association of Bay Area Governments (ABAG). These three entities have ownership interest in the building, in the form of a condominium corporation, 375 Beale Condominium Corporation (Condo Corporation). In addition to the three owners, private tenants lease office space in the building. BAHA receives operating revenue via assessments 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 incurred 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 exclusively related to shared use amongst the three condominium owners. Some of these items include expenses for kitchen pantries, phone booths, 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 of the Condo Corporation.

The capital budget includes cost for longer-lived capital assets, 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. Surpluses are a result of current year revenue exceeding current year expenses, and reserves are a result of accumulated prior year surpluses. As the San Francisco commercial rental market continues to be difficult for property owners, BAHA may well see reductions in rental income and occupancy in the coming years, requiring a shift in methods to fund capital projects. Special assessments to the three condominium owners may be required in order to fund necessary building system maintenance and capital replacement.

Operating Budget Summary

The proposed budget for FY 2023-24 shows an operating surplus of \$2.2 million, before transfers to the capital budget. Overall revenue is expected to be \$19.8 million, up 7.9% from the FY 2022-23 budget. Operating revenue is up primarily due to increases in shared services assessments, proportional to shared service expense increases (described below). Total operating expenses are estimated at \$17.6 million, excluding transfers, up 12% from the FY 2022-23 budget. The increase in expenses is primarily driven by Information Technology (IT) upgrades, such as security and hybrid telepresence technology upgrades, property management, and hybrid space planning projects. Further detailed changes are described below. The proposed budget for FY 2023-24 is balanced as presented.

Operating Revenue Summary

Total FY 2023-24 proposed revenue is \$19.8 million, an increase of \$1.4 million, or 7.9%. Lease income projections are provided by CW; due to tenant occupancy decreasing, lease income is expected to decline by \$494K. 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>FY2023-24 Draft Budget (in millions)</u>	<u>% Increase</u>	<u>\$ Change (000)</u>
Lease Income	\$10.1	(4.6%)	(\$494)
Shared services assessment (fee covers staff, IT services, office supplies and other shared expenses)	4.2	32.7%	\$1,039
Common area assessments (fees cover security, janitorial, utilities, administration, and repairs & maintenance)	4.7	13.8%	\$564
Other	0.83	70%	\$485
Total	\$19.8	7.9%	\$1,450

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

Operating Expense Summary

Total operating expense, before transfers, for the proposed FY 2023-24 budget is \$17.6 million, an increase of \$1.9 million or 11.9% from the FY 2022-23 budget. Major operating expense highlights include (in thousands):

<u>Operating Expense</u>	<u>FY 2023-24 Draft Budget (in millions)</u>	<u>% Increase</u>	<u>\$ Increase (000)</u>
Salary, benefits, and overhead	\$2.5	11%	\$252
Other contractual services	0.54	19.7%	\$89
IT Licenses and Maintenance	2.4	44.4%	\$751
Other expenses	2.1	(8.8%)	(\$201)
Property Management	10.1	10.9%	\$986
Total	\$17.6	11.9%	\$1,877

Salaries, benefits, and overhead are increased due to staff dedicated to shared services operations. Contractual services include increased legal and professional costs, including pro-forma reviews, architectural and engineering services, and Audio-Visual/ IT consultants for the Temazcal event space. IT Licenses and Maintenance increases are driven by security initiatives, hosted services, and hybrid room and telepresence improvements. Other expenses are primarily driven by shared conference space furniture and equipment and signage replacement and installation to better facilitate a hybrid workspace, and temporary employees to support those efforts. The decrease in this line is due to moving the budget for lease commissions to the capital budget to better correlate with multi-year leases. Property Management increases reflect increased costs that CW require to support the building, including cleaning, security, repairs and maintenance, and administrative costs.

Transfers

Staff proposes transfers to the capital fund of 1) \$2.2M from budgeted operating surplus, and 2) \$13.3M from operating reserves, in recognition of existing capital requirements for the building. This budget proposes no FY 2023-24 transfer to BATA with respect to repayment of its building contribution.

Capital Budget

Staff is requesting a total of \$14.1 million in building improvement projects for FY 2023-24. The projects include (in thousands):

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|--------------------------------------|---------|
| • Agency Infrastructure Improvement | \$8,500 |
| • IT Improvement Project | \$1,655 |
| • Agency Space Modification Planning | \$750 |
| • Contingency | \$50 |
| • CW Building Improvement Projects | \$2,407 |
| • Lease Commissions | \$750 |

The \$2.4 million requested by Cushman & Wakefield as part of their building management responsibilities includes capital repair and maintenance work such as soundproofing walls, waterproofing, security system replacements, parking gate control replacements, amenity updates, and flooring upgrades/replacement.

Current capital project requests exceed available funding from the operating surplus (\$14.1M vs \$2.2M), requiring a draw from operating reserves of \$13.3M. Such a draw would leave a projected operating reserve balance of \$8.6M. In FY 2023-24, staff will work internally and with staff of BAAQMD to identify funding of ongoing capital repair and maintenance projects and plan for different income scenarios in light of projected reduced tenant income. Budget staff are working with Cushman & Wakefield and internal capital project managers to prioritize projects based on available funding (reserves and budgeted surplus). A final proposed capital budget will be presented to the Authority at the June 28th, 2023 meeting.

Recommendation:

This is an informational item. Staff will present the final proposed operating and capital budget for approval at the June 28, 2023, regular meeting.

Attachment:

- A. Draft FY 2023-24 Bay Area Headquarters Authority (BAHA) Operating and Capital Budget
- B. Draft FY 2023-24 Bay Area Headquarters Authority (BAHA) Operating and Capital Budget Presentation



Andrew B. Fremier