

# Bay Area Headquarters Authority (BAHA)

June 24, 2026

Agenda Item 4a - 26-0633

## Bay Area Headquarters Authority (BAHA) Resolution No. 50

### Proposed Fiscal Year 2026-27 Operating and Capital Budget

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#### **Subject:**

Adoption of Bay Area Headquarters Authority (BAHA) Resolution No. 50, approving the Proposed fiscal year (FY) 2026-27 Operating and Capital Budget.

#### **Summary of Changes from May draft:**

On May 27, 2026, staff presented the FY 2026-27 Draft Operating and Capital Budget to the Authority as an information item. The proposed budget has been updated to reflect an increase in projected interest revenue across multiple funds totaling \$70,000. This adjustment is driven by an increase in the assumed average interest yield from 3.30% to 3.60%. As a result, the transfer to capital has also been lowered to align with the higher projected interest revenue.

#### **Background:**

The Bay Area Headquarters Authority (BAHA) was established in 2011 through a Joint Exercise of Powers Agreement between the Metropolitan Transportation Commission (MTC) and the Bay Area Toll Authority (BATA), to acquire the property at 375 Beale Street. The building serves as the regional headquarters for MTC, the Bay Area Air Quality Management District (BAAQMD), and the Association of Bay Area Governments (ABAG), each of which holds a condominium ownership interest. In addition to the three owners, private tenants lease office space within the building. BAHA receives operating revenue from the condominium owner assessments and tenant rental income. Day-to-day property management services are provided under contract by Cushman & Wakefield (CW).

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.

A notable challenge in the current and future years is how BAHA will fund ongoing capital maintenance and rehabilitation projects, which includes ongoing façade related work. Historically, capital projects have been financed through a combination of operating surplus and reserves. However, available capital funding is becoming more constrained. BAHA experienced a significant reduction in lease revenue following a lease termination on October 31, 2024, resulting in a decrease of approximately \$0.5 million monthly or \$5.6 million annually. Looking ahead, an additional revenue loss of approximately \$1.2 million annually is anticipated when Degenkolb's lease expires in January 2027. In FY 2025-26, BAHA secured new tenants to partially offset these reductions. A 10-year lease with the Water Emergency Transportation Authority (WETA) will generate over \$0.4 million annually, and a lease with Verne Labs will provide approximately \$0.14 million 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 8.9%, primarily due to reduced lease income, partially offset by new leases and anticipated new tenant activity, lower investment income, and reduced assessments. Total operating expenses are projected at \$16.5 million, a 5.0% decrease, reflecting reductions in overhead, consultant costs, and general operating expenses.

Despite cost containment efforts, operating revenues remain insufficient to fully cover ongoing costs, requiring continued reliance on reserves.

**Operating Revenue Summary**

The proposed FY 2026-27 budget reflects total revenue of \$13.6 million, representing a decrease of \$1.3 million or 8.9% compared to FY 2025-26. Lease income projections, provided by CW, are expected to decrease by a net \$0.5 million during the fiscal year, primarily due to Degenkolb's lease termination in January 2027. This reduction is partially offset by a full year of revenue from WETA and Verne Labs, along with an additional \$0.4 million for assumed future tenant activity. Shared services assessments are projected to decline in proportion with the anticipated decrease in overall expenditures. Other revenue sources include parking, expenditure reimbursements, and investment income. Investment income is expected to decrease in the operating budget as a result of lower cash balances and net yields. Additionally, approximately \$0.7 million of investment income has been reallocated to support capital projects, reflecting funds designated for that purpose.

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

<u>Revenue</u>	<u>FY 2025-26</u> <u>Approved</u> <u>(\$ thousands)</u>	<u>FY 2026-27</u> <u>Proposed</u> <u>(\$ thousands)</u>	<u>Change \$</u> <u>Increase /</u> <u>(Decrease)</u> <u>(\$ thousands)</u>	<u>Change %</u> <u>Increase /</u> <u>(Decrease)</u>
Lease Income	\$4,502	\$4,700	\$198	4.4%
Shared services assessment (Fee covers staff, IT services, office supplies and other shared expenses)	\$4,619	\$3,919	(\$700)	(15.2%)
Common area assessments (Fees cover security, janitorial, utilities, administration, and repairs & maintenance	\$4,304	\$4,341	\$37	0.9%
Other	\$1,498	\$642	(\$856)	(57.2%)
Total	\$14,923	\$13,602	(\$1,321)	(8.9%)

The shared services and common area assessments were separately 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 \$0.9 million or 5.0% compared to the FY 2025-26 budget. Major operating expense highlights include (in thousands):

<b><u>Expense</u></b>	<b><u>FY 2025-26 Approved (\$ thousands)</u></b>	<b><u>FY 2026-27 Proposed (\$ thousands)</u></b>	<b><u>Change \$ Increase / (Decrease) (\$ thousands)</u></b>	<b><u>Change % Increase / (Decrease)</u></b>
Salary, benefits, and overhead	\$3,405	\$3,192	(\$213)	(6.2%)
Professional fees	\$1,122	\$943	(\$179)	(15.9%)
Computer maintenance and services	\$2,241	\$2,171	(\$70)	(3.1%)
Other expenses	\$1,493	\$1,129	(\$364)	(24.4%)
Property Management	\$9,070	\$9,035	(\$35)	(0.4%)
Total	\$17,331	\$16,470	(\$861)	(5.0%)

Salaries, benefits, and overhead are projected to decrease primarily due to a reduction in BAHA’s Indirect Cost Allocation Plan (ICAP) rate and the reclassification of certain temporary staff costs to Professional Fees. Salaries include a 3.8% cost-of-living adjustment (COLA), consistent with the Metropolitan Transportation Commission’s Memorandums of Understanding.

Professional fees are decreasing primarily due to a reduction in BAHA’s allocation for temporary staff, with a portion of these costs shifted to MTC to better align with anticipated responsibilities. Additional decreases reflect the completion of prior-year activities, including first-floor venue management and event planning, space management services, and the pro forma review and update.

General operating expenses are also projected to decline, with reductions in miscellaneous expenses, coffee, signage, meals, office supplies, and parking, aligning the budget more closely with recent spending trends.

### **Transfers**

Staff propose a \$4.5 million transfer from operating reserves to fund both the \$2.9 million operating deficit and \$1.6 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 balance of \$8.4 million, this transfer is expected to reduce operating reserves to approximately \$3.9 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 critical 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 FY 2026-27. 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.

The \$0.6 million 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 (\$30,000), and a replacement of UPS batteries (\$0.2 million) 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 \$0.8 million 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.

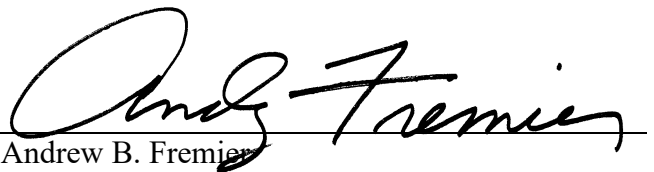
### **Recommendation:**

Staff recommends adoption of Resolution No. 50, approving the BAHA FY 2026-27 Operating and Capital Budget

### **Attachments:**

- Bay Area Headquarters Authority (BAHA) Resolution No. 50, 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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