

375 Beale Condominium Corporation

June 22, 2023

Agenda Item 3b - 23-0779

375 Beale Condominium Corporation FY 2023-24 Operating Budget and Assessments

Subject:

A request that the Board approve the 375 Beale Condominium Corporation (“375 Beale Condo”) FY 2023-24 Operating Budget and the common area and shared service operation assessments. The proposed budget is \$8.8 million, and the budget is balanced as proposed.

Background:

In June 2017, Bay Area Headquarters Authority (BAHA), the Bay Area Air Quality Management District (BAAQMD), and the Association of Bay Area Governments (ABAG) formed a nonprofit mutual benefit organization, 375 Beale Condo, to manage the condominium interest at the Bay Area Metro Center. The three agencies also established a Declaration of Covenants, Conditions and Restrictions (CC&Rs), which governs the policy and operating guidance for 375 Beale Condo.

On May 24, 2023, staff presented a draft FY 2023-24 Operating and Capital Budget to BAHA, including an estimate of assessment fees to 375 Beale Condo. The budget proposed for adoption by 375 Beale Condo presented below includes a correction to the assessment fees presented to BAHA on May 24th and is consistent with what is being proposed to BAHA for adoption on June 28, 2023. Should BAHA adopt a budget with changes from that proposed, staff will return to this Board at a later date to present a recommendation for a budget amendment.

Fiscal Year 2023-24 Operating Budget Summary

Common Area:

Common area assessments are used to provide services that all building tenants receive benefit from, such as security, janitorial services, utilities, administration, and repair and maintenance services. In FY 2023-24, total assessment for Common Area expense is proposed to be \$4.6 million, an increase of \$553K or 13.5%. The proposed increase is primarily due to increases in janitorial services, utilities, security services, insurance, and repairs and maintenance costs.

Shared Services:

Shared service assessments are used to provide services that benefit the three condo owners, such as Information Technology (IT) services and upgrades, office supplies, conference room improvements, and other expenses shared amongst the Condo owners. In FY 2023-24, the proposed assessment is \$4.1 million, an increase of \$930K, or 29%. The proposed increase is driven by increased costs for information technology services and hybrid telepresence technology upgrades in shared conference rooms, and hybrid space planning projects to better facilitate a hybrid workspace.

Assessment Calculation:

The assessment is split amongst BAHA, ABAG, and the BAAQMD based on the Total Agency Space Rentable Square Feet (RSF) table in Exhibit B of the Condo's Declaration of CC&Rs. The detailed breakdown of the calculation is attached. As provided in the CC&Rs, ABAG's FY 2023-24 assessment is capped at \$408,378. BAHA is responsible for the portion of ABAG's assessment that would be in excess of this cap, which is \$383,052.

Issues:

In addition to the operating expenses, the building has ongoing capital repair and maintenance needs that have not been included in the assessment calculation, as well as infrastructure upgrades that will benefit the condo owners and make the building more marketable in an extremely competitive commercial real estate market. While BAHA has relied on rental income to support capital repair and maintenance costs, this is becoming increasingly challenging as existing tenants chose not to renew their leases and vacancy rates in downtown San Francisco continue at historic highs. In the coming months, staff will analyze options for funding ongoing capital repair and maintenance and capital improvement projects, including adding capital repair and maintenance costs to the annual assessments or assessing a one-time or on-going capital project assessment. Staff anticipates returning to this Board later this year for approval of an approach to funding ongoing capital costs.

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Recommendation:

Staff recommends that the Board approve the attached Operating Budget for FY 2023-24.

Attachment:

- Attachment A - 375 Beale Condominium Corporation FY 2023-24 Operating Budget
- Attachment B - 375 Beale Condominium Corporation FY 2023-24 Operating Budget Presentation

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Derek Hansel

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