Date: October 12, 2011
W.I.: 1542
Referred by: BATA Oversight
Revised: 02/27/13-BATA

ABSTRACT

BATA Resolution No. 102, Revised

This resolution approves the contribution of funds to the Bay Area Headquarters Authority.

This resolution was revised on February 27, 2013 to increase the contribution of funds from $167,026,515 to $215,450,000.

Discussion of these actions are contained in the Executive Director's Memoranda dated October 6, 2011 and February 6, 2013.

Date: October 12, 2011
W.I.: 1542

Re: Contribution of Funds to Bay Area Headquarters Authority

BAY AREA TOLL AUTHORITY
RESOLUTION NO. 102, Revised

WHEREAS, the Bay Area Toll Authority ("BATA") was created pursuant to Section 30950 of the Streets and Highways Code of the State of California; and

WHEREAS, BATA is a "public agency" within the meaning of Section 6500 of the California Joint Exercise of Powers Act, consisting of Sections 6500 through 6599.3 of the California Government Code, as amended from time to time (the "Joint Powers Act"), and as such may, pursuant to the Joint Powers Act, enter into a joint exercise of powers agreement with one or more other public agencies; and

WHEREAS, the Metropolitan Transportation Commission ("MTC") is the regional transportation planning agency for the San Francisco Bay Area pursuant to California Government Code section 66500 et seq. and is a "public agency" as that term is defined in Section 6500 of the Joint Powers Act; and

WHEREAS, BATA and MTC have entered into a joint exercise of powers agreement, dated September 28, 2011 (the "Agreement") pursuant to the Joint Powers Act pursuant to which a joint powers authority named Bay Area Headquarters Authority (the "Authority") was created to plan, acquire, and develop office space and facilities and undertake related activities by exercising the common powers of BATA and MTC and the powers separately conferred by law upon the Authority; and

WHEREAS, it is to the advantage of BATA and in the public interest of the area and persons served by BATA for BATA to contribute funds to the Authority in accordance with the Agreement in order to assist the Authority in accomplishing the purposes set forth in the Agreement; and

WHEREAS, all acts, conditions and things required by the Constitution and the laws of the State of California to exist, to have happened and to have been performed in connection with the taking of the actions referred to herein and the contribution of funds to the Authority in accordance with the Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and BATA is now duly authorized and empowered, pursuant to each and every requirement of law, to make such contribution to the Authority; now, therefore, be it

RESOLVED, that BATA specifically finds and declares that the statements, findings and determinations of BATA set forth in the preambles above are true and correct; and be it further

RESOLVED, that BATA hereby authorizes a contribution of up to $215,450,000 to the Authority pursuant to Section 7 of the Agreement for purposes of acquiring and developing an office facility at 390 Main Street in San Francisco, California; and further authorizes the Executive Director of BATA and the Chief Financial Officer of BATA, and each of them (each, an "Authorized Representative"), for and on behalf of BATA, to take all necessary actions to assist the Authority in connection with such contribution; and be it further

RESOLVED, that the aforesaid contribution may include a deposit of funds for and on behalf of the Authority in an escrow for the acquisition of property by the Authority; and be it further

RESOLVED, that the Authorized Representatives and the other officers and agents of BATA are hereby authorized and directed to take all further actions necessary and convenient to accomplish the purposes of this resolution and that all actions heretofore taken by the members of BATA, committees of BATA, and officers and agents of BATA with respect to the Agreement and the contributions herein authorized are hereby acknowledged, ratified, and approved; and, be it further

RESOLVED, that this Resolution shall take effect from and after its adoption.

BAY AREA TOLL AUTHORITY

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Amy Rein Worth, Chair

The above resolution, revising and superseding the resolution approved on October 12, 2011 was entered into by the Bay Area Toll Authority at a regular meeting of BATA held in Oakland, California, on February 27, 2013.

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Memorandum

TO: BATA Oversight Committee

DATE: February 6, 2013

FR: Executive Director

W. I.

RE: Resolution No. 102, Revised – Contribution of Funds to the Bay Area Headquarters Authority

Staff seeks approval by the BATA Oversight Committee to refer Resolution No. 102, Revised to the Bay Area Toll Authority (BATA) to increase the BATA contribution to the Bay Area Headquarters Authority (BAHA) for the 390 Main Street project from $167 million to $215 million resulting in a change in the net toll contribution of funds from an estimated amount of $109 million to an estimated amount of $141 million.

Background

At its October 12, 2011 meeting, pursuant to BATA Resolution No. 102, BATA approved an allocation of funds to the Bay Area Headquarters Authority ("BAHA") for the 390 Main Street project, for a total amount of $167 million, which included $93 million for the purchase of the building and $74 million for seismic retrofit and renovation costs.

Upon close of escrow for the purchase of the building in October 2011, BAHA staff commenced work on the seismic retrofit and renovation and awarded contracts to Perkins+Will, ("P+W") for architectural and design work and to McCarthy Builders Inc. ("McCarthy") for preconstruction services, including constructability reviews and cost estimating during design.

Conceptual design plans were presented to BAHA at its July 11 and November 28, 2012 meetings, along with a draft Project Cost and Funding Plan. At its November 28, 2012 meeting, BAHA directed staff to 1) review the project budget and look for ways to reduce the project costs; 2) work with our regional partner agencies to increase non-BATA revenue; and 3) provide a revised project financial proforma with updated assumptions based on the revised cost and revenue picture.

At its January 23, 2013 meeting, BAHA unanimously approved the request to refer the Revised 390 Main Street Cost and Funding Plan (Attachment A) to the Bay Area Toll Authority (BATA) for approval, as summarized below:

		9/2011* Authorized (in millions)	1/2013* Revised Budget	Change* 9/2011 to 1/2013
1	Building Purchase	$93	$93	$0
2	Total Renovation	$74	$107	$33
3	Total Furniture, Fixtures, Equipment, Other	$0	$15	$15
4	**Total Project Cost (1+2+3) or Initial Toll Contribution**	**$167**	**$215**	**$48**
5	Total Deductions from Initial Toll Contribution	($58)	($74)	($16)
6	**Net Toll Contribution (4-5)**	**$109**	**$141**	**$32**

**All amounts are rounded.*

Reasons for Project Cost Increase

Schematic design plans are included as Attachment B. In addition to design changes for an eight-story atrium, the increase in project cost is primarily attributed to the following line items:

- Seismic Retrofit ($10 million):
  While the due diligence reports suggested only a minor retrofit would be required and estimated the cost to be $1.0 million, staff has since verified that the two earlier reports underestimated both the seismic deficiency of the building and the cost of the solution the due diligence report recommended. 390 Main Street will be retrofitted to a Life Safety Standard, which is the typical standard selected for commercial office buildings.

- Existing Tenant Work-Around ($4 million)
  The original budget did not assume any costs for working around the existing tenant, Western Laboratory. Work on the 7th and 8th floors cannot commence until Western Lab has relocated, which staff expects will occur in early 2014.

- Contingency ($3 million)
  The construction contingency was increased to represent approximately 25% of the renovation budget to cover design and construction contingency and escalation.

- Furniture, Fixtures and Equipment ($15 million)
  The revised funding plan anticipates the purchase of new office furniture for all agency work areas, offices and workstations, along with telephone system, WI-FI, multi-media for the board and conference rooms, and other equipment. The plan is to purchase furniture similar in quality to the existing MetroCenter furniture. Sample images are shown in Attachment C.

Proposed Cost Savings:

After the November 28th BAHA meeting, staff reviewed the design for ways to reduce cost without sacrificing critical design features, such as the atrium (needed to bring natural light into the building and reduce the seismic mass) or the public meeting rooms (such as the board room and multi-purpose room). Staff identified savings of $3 million, net of redesign costs, primarily as follows:

- Reduction in the build-out of Floor 2, which was to house the Information Technology staff from the three agencies. The server room will be relocated to Floor 1 and staff will be relocated to space that had been reserved for growth on Floors 6-8. This move allows BAHA to approximately conserve 20,000 square feet of space that can be leased to other tenants.

- Elimination of certain aesthetic finishes on the agency floors, including accent lighting, large graphics on columns, and interior plantings.

The revised design will still achieve the collective goal of creating a regional headquarters that fosters inter-agency initiatives cooperation and initiatives through co-location. The freed up space on Floor 2 also appears to be of sufficient size for the FasTrak® Customer Service Center, which will relocate to 390 Main Street at the same time as the regional agencies.

Additional non-BATA Revenue Contributions:
The revised funding plan includes additional non-BATA contributions as follows:

- The Bay Area Air Quality Management District (BAAQMD) space allocation has been adjusted by 12,500 square feet to account for its actual space requirements which will result in a total contribution change of an additional $5 million. We are now engaged in discussions with Air District staff on a financing structure that will permit them to make their contribution through an interest-bearing loan from BATA in combination with proceeds from the sale of their current building. This financing approach will be subject to subsequent approvals by the BAAQMD and BATA boards.

- MTC staff reached an agreement with ABAG staff for a no-cost exchange of ownership of their MetroCenter space for a similar interest in 390 Main Street. In addition, ABAG will pay $4 million for tenant improvements through increased planning funding from MTC, which appears as an item on the Administration Committee agenda following this meeting. These changes represent a total contribution from ABAG of $7 million and is subject to final approval of the Covenants, Conditions and Restrictions, and the Purchase and Sale Agreement by ABAG's Administrative Committee.

- Additional contribution changes are $1 million in capital reserves currently being held for the MetroCenter building and $3 million in FEMA grant monies if available, to offset seismic retrofit costs. BAHA is in the process of applying for FEMA eligibility.

Proforma
Attachment D includes a revised project financial proforma and will be discussed in further detail at the BATA Oversight Committee meeting.

Recommendation
Staff requests that this Committee refer Resolution No. 102, Revised to the Authority for approval.

Steve Heminger

SH:tg
Attachments
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Attachment A
Revised 390 Main: Cost and Funding Plan Comparison
1/10/13

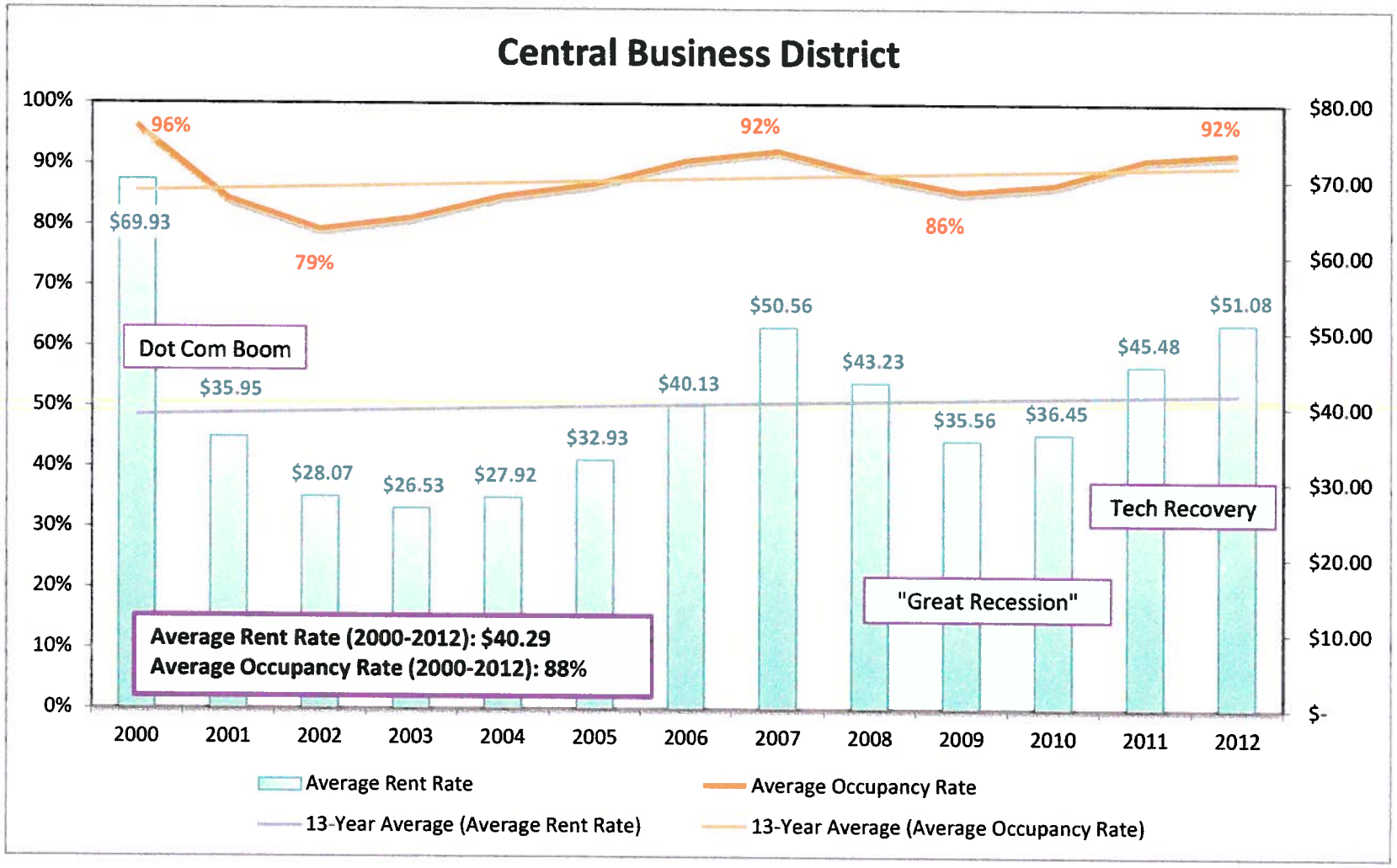
		9/2011 Authorized	11/2012 Draft Forecast	1/2013 Revised Budget	Change (9/2011 to 1/2013)
1	**Building Purchase**	**93**	**93**	**93**	**0**
	Renovation				
	Seismic	1	11	11	10
	Shell and Core	32	30	30	(2)
	Agency Tenant Improvements on L1-L2 and L6-L8	25	36	33	8
	Atrium	0	3	3	3
	A/E and Consultant Support Fees	1	8	8	7
	Contingency	15	18	18	3
	Existing Tenant Work-around	0	4	4	4
2	**Total Renovation**	**74**	**110**	**107**	**33**
	Furniture, Fixtures, Equipment, Other				
	Technology (Agency-installed)	0	6	6	6
	Furniture	0	5	5	5
	Fixtures and Other	0	4	4	4
3	**Total Furniture, Fixtures, Equipment, Other**	**0**	**15**	**15**	**15**
4	**Total Cost (1+2+3) = Initial Toll Contribution**	**167**	**218**	**215**	**48**
	Deductions from Initial Toll Contribution				
	BAAQMD	24	24	29	5
	MTC/SAFE	19	19	19	0
	ABAG	0	4	7	7
	Tenant Reimbursement	15	15	15	0
	RAFC Reserve	0	1	1	1
	FEMA	0	3	3	3
5	**Total Deductions from Initial Toll Contribution**	**58**	**66**	**74**	**16**
6	**Net Toll Contribution (4-5)**	**109**	**152**	**141**	**32**

Figures expressed in $1,000,000s

Attachment D

Net Return Excluding Residual Building Value

- Total project cost $218 million
  - Net BATA Project contribution of $141 million
- Rentable space and Net operating income (NOI) adjusted for atrium space
- Follows BSA Model:
  - NOI discounted by 4.30% to get Net Present Value (NPV)
  - No provision is made for residual building value
- Mid-point scenarios yield return in range of 84-90%

Rental Rate	Building Occupancy Rate 70%	80%	85%	87%
$ 32.40				
NOI	$148,729,002	$171,777,258	$183,301,386	$187,911,037
NPV (4.30%)	$85,301,616	$98,646,187	$105,318,472	$107,987,386
Project Cost (net)	($141,000,000)	($141,000,000)	($141,000,000)	($141,000,000)
Surplus / (Deficit)	($55,698,384)	($42,353,813)	($35,681,527)	($33,012,613)
NPV Return on Proj	60%	70%	75%	77%
$ 35.40				
NOI	$163,755,552	$188,263,728	$200,517,816	$205,419,451
NPV (4.30%)	$94,459,644	$108,686,134	$115,799,379	$118,644,677
Project Cost (net)	($141,000,000)	($141,000,000)	($141,000,000)	($141,000,000)
Surplus / (Deficit)	($46,540,355)	($32,313,866)	($25,200,621)	($22,355,323)
NPV Return on Proj	67%	77%	82%	84%
$ 38.40				
NOI	$178,782,102	$204,750,198	$217,734,246	$222,927,865
NPV (4.30%)	$103,617,672	$118,726,081	$126,280,285	$129,301,967
Project Cost (net)	($141,000,000)	($141,000,000)	($141,000,000)	($141,000,000)
Surplus / (Deficit)	($37,382,327)	($22,273,918)	($14,719,714)	($11,698,032)
NPV Return on Proj	73%	84%	90%	92%
$ 41.40				
NOI	$193,808,652	$221,236,668	$234,950,676	$240,436,279
NPV (4.30%)	$112,775,701	$128,766,028	$136,761,192	$139,959,258
Project Cost (net)	($141,000,000)	($141,000,000)	($141,000,000)	($141,000,000)
Surplus / (Deficit)	($28,224,299)	($12,233,971)	($4,238,807)	($1,040,742)
NPV Return on Proj	80%	91%	97%	99%
$ 44.40				
NOI	$208,835,202	$237,723,138	$252,167,106	$257,944,693
NPV (4.30%)	$121,933,729	$138,805,975	$147,242,099	$150,616,548
Project Cost (net)	($141,000,000)	($141,000,000)	($141,000,000)	($141,000,000)
Surplus / (Deficit)	($19,066,271)	($2,194,024)	$6,242,099	$9,616,548
NPV Return on Proj	86%	98%	104%	107%
$ 53.53	Market 12 / 12 (SOMA)			
NOI	$ 254,566,002	$ 287,896,962	$ 304,562,441	$ 311,228,633
NPV (4.30%)	$ 149,804,661	$ 169,360,881	$ 179,138,991	$ 183,050,235
Project Cost (net)	($141,000,000)	($141,000,000)	($141,000,000)	($141,000,000)
Surplus / (Deficit)	$8,804,662	$28,360,882	$38,138,991	$42,050,235
NPV Return on Proj	106%	120%	127%	130%

Market & Vacancy Rates