



BAY AREA HEADQUARTERS AUTHORITY
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Agenda Item 6

TO: Bay Area Headquarters Authority

DATE: November 12, 2014

FR: Executive Director

W. I. 9130

RE: Resolution No. 13, Revised - 375 Beale Street Revised Project Budget and Funding Plan

Staff recommends approval of Resolution No. 13, Revised amending the BAHA budget, subject to the Bay Area Toll Authority’s (BATA) approval of BATA Resolution No. 113, Revised. BATA Resolution No. 113, Revised would transfer non bridge toll revenue generated from the early retirement of the SPANS financing. These funds would increase the 375 Beale Street project by \$33 Million to account for costs associated with the delay of the Drug Enforcement Agency’s (DEA) relocation from 375 Beale Street, advancing landlord work on non-agency floors, agency partner costs, Harrison Street utility undergrounding and Rincon Place landscaping.

Background

At its October 12, 2011 meeting, pursuant to BATA Resolution No. 102, BATA approved an allocation of toll funds to BAHA for the 375 Beale 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.

At the BAHA July 11, 2012 meeting, staff presented initial conceptual designs prepared by Perkins + Will (P+W), BAHA’s architect consultant, to BAHA for its review. The plans included designs for the agency floors on Level 2 (L2) and L6-8, the board room and other public spaces, retail/food service space, and atrium.

At its January 23, 2013 meeting, BAHA approved a revised project budget and funding plan and referred to the Bay Area Toll Authority (BATA) for approval a request to increase BATA’s toll contribution to BAHA from \$167 million to \$215 million. The funding request was approved by BATA at its February 27, 2013 meeting and incorporated into the BAHA budget at the Authority’s February 27, 2013 meeting.

November 2014 –Project Budget and Funding Revisions

Included as Attachment A is a revised project budget and funding plan that accounts for the financial impact of the Drug Enforcement Administration’s (DEA) 11-month delay in relocating from the building.

Additionally, staff is requesting funds for work to prepare the non-agency floors for commercial leasing, design changes requested by and to be reimbursed by our agency partners (MTC, Air

District and/or ABAG), and work that enhances the site for the benefit of the general public. This work is considered to be beyond the base building needs, but staff recommends it be completed concurrently.

The additional cost differential from the January 2013 budget and today’s proposal are summarized below and included in the Revised Cost and Funding Plan in Attachment A:

	Category	Cost	Percent	Description
A	Base Building			
A1	DEA 11-Month Delay	\$11,400,000	35%	<ul style="list-style-type: none"> •McCarthy general conditions (\$6.5M) •Extension of consultant support (\$2.8M) •Insurance (\$0.3M) •Workarounds (\$1.8M)
A2	Project Contingency	\$7,000,000	21%	<ul style="list-style-type: none"> •Additional project contingency (\$7.0M)
A3	Subtotal Base Building Costs	\$18,400,000	56%	
B	New Work Beyond Base Building			
B1	Advance Landlord Work on Non-Agency Floors	\$7,000,000	21%	Brings L2-5 from cold to warm shell: <ul style="list-style-type: none"> •Atrium glass, restrooms, windows previously approved by BAHA (\$3.0M) • MEPF installation on L2-5 (\$4.0M)
B2	Agency Floors	\$5,900,000	18%	<ul style="list-style-type: none"> •Shared Services Assessment/Accenture (\$0.7M) •Expansion to L5 (\$3.0M) •Furniture for previously unprogrammed spaces (\$0.7M) •Revision to diverged IT network (\$1.0M) •Air District L6 change orders (conversion of workstations to offices, high density file systems, specialty room redesign) (\$0.25M)
B3	Public Benefit	\$1,600,000	5%	<ul style="list-style-type: none"> •Utility undergrounding (\$1.1M) •Rincon Place landscape (\$0.5M)
B4	Subtotal New Work	\$14,500,000	44%	
	Total	\$32,900,000	100%	

Table 1: Cost Categories

A. Base Building

These funds are for costs related to completing the base building project to renovate and seismically retrofit the building and install tenant improvements for MTC and its agency partners.

A1. DEA Delay (\$11.4 Million)

The DEA’s occupancy of the south half of Level 8 prevents BAHA from performing any work in that area or the area below on Level 7, and complicates the work related to refurbishing and replacing building mechanical, electrical, plumbing, and fire protection (MEPF) systems that

serve the entire building. Below is a history of the delays in the DEA’s pending relocation to Pleasanton:

- The January 2013 revised project budget was based on the DEA relocating by April 1, 2014, the date provided by General Services Administration (GSA) in December 2012. This timeframe was the basis for negotiating BAHA’s contracts with its contractors and consultants.
- BAHA’s January 2013 budget included \$4 million for working around the DEA until its move-out. These funds have been used to set up debris and noise containment, allow overtime work, and reroute certain utilities including drains and telecommunication lines.
- In July 2013, after delays in its procurement for new space for the DEA, GSA provided a revised schedule showing the DEA’s relocation delayed to September 2014.
- In May 2014, GSA provided a further revised schedule showing relocation, including decommissioning of the existing laboratory, to be completed by February 1, 2015. BAHA staff projects GSA will not have turned the space over to BAHA until March 1, 2015. This schedule revision moves substantial completion of 375 Beale Street to November 2015 and readiness for agency occupancy to December 2015.

This eleven-month delay of DEA’s departure will have an \$11.4 million impact, as identified in Table 1 above. Of the \$11.4 million, \$9.3 million is related to the extension of contractor’s and consultants’ staff costs, construction General Conditions, and material cost escalations. We will need to spend \$300,000 on the extension of insurance policies held by BAHA. The remaining \$1.8 million is for the contractor to complete specific activities with the tenant in place that otherwise would be done with the building empty of tenants. These include: rerouting electrical systems servicing Level 8 to allow the refurbishment of electrical equipment; installing hoists on the building exterior to allow demolition of the freight elevators and in-fill of slabs; modifying concrete details to accelerate structural work; and other such workarounds.

A2. Project Contingency (\$7.0 Million)

The project started with an \$18 million contingency for design and construction. The contingency has been used as follows:

Use of Contingency	Cost	Notes
Design Contingency	\$9.4M	For additional costs during the development of the design, included in the Guaranteed Maximum Price (GMP).
Owner’s Construction Contingency	\$4.3M	For Owner requested changes, design clarifications and differing site conditions.
Contractor Contingency	\$4.3M	Unspent, but reserved for Contractor’s use. 70% of what is unused is returned to BAHA.
Total	\$18.0M	

Of the \$4.3 million Owner’s Construction Contingency, \$1.5 million in change orders is included in the current GMP and \$2.5 million is pending final negotiation. This item adds a new \$7.0

million contingency to cover risks to the base building project through completion of construction. Examples of risks include: DEA's further delaying its relocation until the expiration of its lease on June 30, 2015; differing site conditions in the DEA's space; and costs to work around contractors for new commercial tenants.

B. New Work Beyond Base Building

A new category is added to the project budget for costs associated with the build-out of non-agency floors for new tenants, to account for agency requested change orders, and other works not related to the base building project. This category will be on-going over the life of the building as new tenants, agency modifications and capital improvements are required to be funded. These costs are expected to be recovered in the form of lease income over time, and are described below.

B1. Landlord Work to Non-Agency Tenant Floors - Cold-to-Warm Shell (\$7.0 Million)

The original project assumed the non-agency floors (half of L2 and L3-5) would be built to a cold shell condition with no horizontal MEPF infrastructure provided on each floor. As new tenants were signed, the build-out of the horizontal infrastructure would be included as part of the lease agreement.

Cushman and Wakefield, BAHA's leasing agent, has advised BAHA that advancing the work to make the space a warm shell prior to execution of leases makes the space more marketable to prospective tenants, since there would be less work for the tenants to complete, and less time before the space would be ready for occupancy. These costs are typically advanced as a tenant improvement allowance and recouped over the term of the tenant lease.

In June 2014, BAHA authorized the Executive Director to proceed with \$3 million of work to provide certain finishes on the non-agency floors that will be visible from outside the tenant spaces in an effort to create uniformity in finish quality. The work included installing glass in the atrium, replacing defective windows, installing exterior shades, and installing bathrooms on Levels 2-5. Funding for this work was advanced from the project budget to allow the work to proceed while McCarthy was completing the same work on the agency floors. This action would reimburse the Base Building project.

Additional scope that staff proposes be completed is to install horizontal MEPF infrastructure on the non-agency floors. The estimated cost of this work is \$4 million.

B2. Agency Floors (\$5.9 Million)

Projects in this category are beyond the turnkey build-out for MTC, Air District, and ABAG. Work has been requested by the agency(s) with an agreement that inclusion of any new scope is contingent on the reimbursement by the agencies requesting it. Project requests include: redesign costs associated with agency-requested changes to the network configuration, shared costs for Accenture technology consultant costs, MTC's expansion to L5, design changes requested by Air District, and requests for additional furniture beyond the original programmed requirements.

Since the project's initiation in 2009, MTC has grown by approximately 30 employees requiring expansion of agency space to the 5th floor. The 5th floor will be ready for occupancy by summer 2016.

B3. Public Benefit (\$1.6 Million)

In July 2014, BAHA authorized the electrical undergrounding of the overhead power lines on Harrison Street east of Beale Street to Main Street. Funding for this work was advanced from the base building budget, which this action would reimburse.

Rincon Place is a 41-foot-wide strip of land between 375 Beale and the adjacent 201 Folsom. BAHA expects to receive \$250,000 from its insurance claim reimbursement for damages due to the excavation for the Lumina Towers on the adjacent site, which will allow the site to be repaved. BAHA is in discussions with the developer Tishman Speyer to connect the two properties with similar landscaping funded from a joint funding agreement. This project, supported in concept by the City of San Francisco Planning Department, is expected to invigorate this mid-block passage between Main and Beale Streets similar to Mint Plaza, creating an asset for tenants, retailers and the general public.

Funding

The funding plan in Attachment A includes reimbursements BAHA expects to receive from agency partners and other sources. The changes to the funding plan since January 2013 are as follows:

1. Air District's and ABAG's contribution would increase to account for shared services and Air District's requested construction change orders.
2. MTC's contribution is reduced to match the anticipated value of the MetroCenter space upon sale. The Regional Administrative Facility Corporation (RAFC) reserves are removed as they will be expended for MetroCenter capital improvements, and considered in final sale value.
3. Tenant reimbursements increase to account for the cost of the additional landlord work to convert the leased floors from cold to warm shell.
4. Federal Emergency Management Agency (FEMA) funds are no longer available for this project as the FEMA temporarily suspended its Pre-disaster Mitigation Grant program in 2013, when BAHA would have otherwise been eligible, due to lack of funding.

Staff is requesting \$33 million from BATA's non-toll revenue sources, to fund the project increase at its November 19, 2014 meeting. The source of the funding is the balance of \$85 million in interest savings from early defeasement of the SPANS bonds, which financed the State's contribution to the toll bridge seismic retrofit program. This will increase the project budget and BATA's contribution to \$256 million, although the net bridge toll contribution will remain unchanged at \$149 million as in the January 2013 budget (as shown in Attachment A).

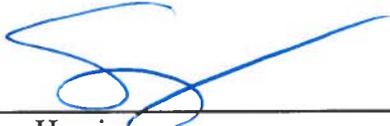
375 Beale Street Appraisal

Market Value	2011 Appraisal	2014 Appraisal
As Is	\$111 Million	\$136 Million
Stabilized	\$166 Million	\$272 Million

375 Beale Street was previously appraised in 2011 to support the purchase price of \$93 million. We recently had the building re-appraised. The “as-is” value of the building went from \$111 million (2011) to \$136 million (2014). The two appraisals also considered the prospective value of 375 Beale after construction and renovation has been completed and market occupancy and cash flow have been achieved. Based on comparable sales and market rents, the estimated stabilized value of the building increased from \$166 million to \$272 million in 2014. As we transition from purchase to occupancy in the building, the focus of value moves from “As Is” to “Stabilized” being the best value metric.

Recommendation:

Staff recommends approval of Resolution No. 13, Revised and the revised Project Budget and Funding Plan from \$223 to \$256 million for the purchase and renovation of 375 Beale Street, subject to BATA approval of BATA Resolution No. 113, Revised.



Steve Heminger

Attachments
SH:tg

Attachment A

375 Beale Street Cost and Funding Plan

11/19/2014

ACCOUNTS FOR DEA MOVING OUT AS LATE AS 6/30/2015

		9/2011 Authorized	1/2013 Revised Budget	11/2014 Revised Budget	Change (1/2013 to 11/2014)
1	Building Purchase	93	93	93	0
2	Renovation				
a	Base Building Renovation	74	107	107	0
b	DEA Relocation Delay	0	0	11	11
c	Additional Contingency	0	0	7	7
sum 2	Total Renovation	74	107	125	18
3	Furniture, Fixtures, Equipment, Other				
a	Technology (Agency-installed)	0	6	6	0
b	Furniture	0	5	5	0
c	Fixtures and Other	0	4	4	0
sum 3	Total Furniture, Fixtures, Equipment, Other	0	15	15	0
4	Total Building Cost (1+2+3)	167	215	233	18
5	Work Beyond Base Building (Running Total)				
a	Advance Landlord Work on Non-Agency Floors (L2-5)	0	0	7	7
b	Agency Change Orders	0	0	6	6
c	Public Benefit	0	0	2	2
d	Staffing and Development Costs*	0	8	8	0
sum 5	Total New Work	0	8	23	15
6	Total BAHA Budget (4+5) = Initial BATA Contribution	167	223	256	33
7	Deductions from Initial BATA Contribution				
a	BAAQMD	24	29	30	1
b	MTC/SAFE	19	19	15	(4)
c	ABAG	0	7	7	0
d	Tenant Reimbursement	15	15	22	7
e	RAFC Reserve	0	1	0	(1)
f	FEMA	0	3	0	(3)
g	SPANS Debt Savings	0	0	33	33
sum 7	Total Deductions from Initial BATA Contribution	58	74	107	33
8	Net Toll Contribution (6-7)	109	149	149	0

Figures expressed in \$1,000,000s

*\$6M of \$8M added in FY2014-15 budget revision in June 2014.

Date: June 25, 2014
W.I.: 9130
Revised: 11/19/2014 – BAHA

ABSTRACT

BAHA Resolution No. 13, Revised

This resolution approves the Budget for FY 2014-15 for the Bay Area Headquarters Authority (BAHA).

Attachment A to this resolution was revised on November 19, 2014 to authorize a \$33,000,000 increase to the BAHA budget for FY 2014-15 for the renovation and capital improvement to the 375 Beale Street building.

Discussion of this Resolution can be found in the Executive Director's Memoranda to BAHA dated June 18, 2014 and November 12, 2014.

Date: June 25, 2014

Re: Bay Area Headquarters Authority's Budget for FY 2014-15

BAY AREA HEADQUARTERS AUTHORITY
RESOLUTION No. 13

WHEREAS, the Metropolitan Transportation Commission ("MTC") and the Bay Area Toll Authority ("BATA") have executed a joint exercise of powers agreement dated September 28, 2011 which creates and establishes the Bay Area Headquarters Authority ("BAHA"); and

WHEREAS, the BAHA staff has prepared a proposed budget setting forth the anticipated revenues and expenditures of BAHA for FY2014-15 according to generally accepted accounting principles; now, therefore, be it

RESOLVED, that BAHA approves the FY 2014-15 budget as set forth in Attachment A to this Resolution; and, be it further

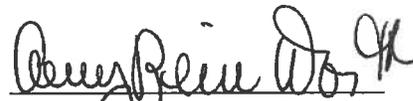
RESOLVED, that the Executive Director or designee may approve adjustments among line items in the BAHA Budget for FY2014-15 providing that there shall be no increase in the overall budget without prior approval of BAHA; and, be it further

RESOLVED, that the Executive Director or designee shall submit written requests to BAHA for approval of consultants, professional services, and expenditures authorized in the BAHA Budget for FY 2014-15; and be it further

RESOLVED, that the Executive Director and Treasurer and Auditor are authorized to carry over and re-budget all funds and contracts properly budgeted in the prior year for which expenditures were budgeted and encumbered and which will take place in FY2014-15; and, be it further

RESOLVED, that the BAHA staff shall furnish BAHA with at minimum, at least quarterly, a financial report to reflect budgeted and actual income, expenditures, obligations for professional and consultant services, and such other information and data as may be requested by BAHA.

BAY AREA HEADQUARTERS AUTHORITY


Amy Rein Worth, Chair

The above resolution was entered into by the Bay Area Headquarters Authority at a regular meeting of the Authority held in Oakland, California, on June 25, 2014.

BAHA BUDGET

	LTD Budget Thru FY2014-15	Amended FY 2014-15	LTD Budget Thru FY2014-15
Revenue:			
Rental Income *	\$2,713,493	\$0	\$2,713,493
Interest Income	0	0	0
Total Revenue	\$2,713,493	\$0	\$2,713,493
Expenses:			
Operating Expenses *	\$0	\$0	\$0
Cleaning Services	92,334	0	92,334
Repairs and Maintenance	714,425	0	714,425
Utilities	964,656	0	964,656
Security	374,040	0	374,040
Total Operating Expenses	\$2,145,455	\$0	\$2,145,455
General & Administration Expenses			
Property Management Fees	\$507,097	\$0	\$507,097
Business Insurance	402,300	0	402,300
Other G & A Expenses	169,230	0	169,230
Total General & Administration Expenses	\$1,078,627	\$0	\$1,078,627
Marketing Expenses	\$158,000	\$0	\$158,000
Total Expenses	\$3,382,082	\$0	\$3,382,082
Net Gain/(Shortfall)	(668,589)	0	(668,589)
Capital Improvement Project Sources			
Transfer in from MTC	\$801,160	\$0	\$801,160
Transfer in from SAFE	112,910	0	112,910
Transfer in from BATA	5,980,072	0	5,980,072
Purchase from ABAG	800,000	0	800,000
Purchase from Air District	30,000,000	0	30,000,000
Capital Contribution (BATA)	185,450,000	33,000,000	218,450,000
Total Transfer In	\$223,144,143	\$33,000,000	\$256,144,143
Uses			
Purchase Building	\$93,000,000	\$0	\$93,000,000
Building Development	91,143,015	33,000,000	124,143,015
Development Contingency	19,050,000	0	19,050,000
Furniture, Fixtures, Equipment	15,000,000	0	15,000,000
Staff Costs	4,077,538	0	4,077,538
Operating Shortfall **	873,590	0	873,590
Total Usage	\$223,144,143	\$33,000,000	\$256,144,143
LTD Actual & Encumbrances as of April 2014	\$165,198,089		\$165,198,089
Remaining Balance	\$57,946,054		\$90,946,054

* : Carried as operating income and expense in prior years. Starting in FY 2013-14 all revenue and expense reflect contribution to project development and completion.

** : Including prior years shortfall of \$205,000