

375 Beale Condominium Corporation

June 4, 2024

Agenda Item 3b - 24-0697

375 Beale Condominium Corporation FY 2024-25 Operating Budget and Assessments

Subject:

A request that the Board approve the 375 Beale Condominium Corporation (“375 Beale Condo”) FY 2024-25 Operating Budget and the common area and shared service operation assessments. The proposed budget is \$9.7 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.

Fiscal Year 2024-25 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 2024-25, total assessment for Common Area expense is proposed to be \$4.9 million, an increase of \$281k or 6.1%. The proposed increase is primarily due to increases in janitorial services, utilities, security services, administrative costs, 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 2024-25, the proposed assessment is \$4.8 million, an increase of \$705k, or 17%. The proposed increase is driven by increased costs for staff and overhead and information technology services and hybrid

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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 2024-25 assessment is capped at \$410,057. Without the cap, the total amount of ABAG's assessment would have been \$880,627. BAHA is responsible for the portion of ABAG's assessment that is in excess of this cap, which is \$470,570.

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. Staff have been working with owners to evaluate an additional assessment for ongoing capital repair and maintenance and capital improvement projects. Staff anticipates returning to this Board later this year for an amendment that includes funding for these ongoing capital costs.

Recommendation:

Staff recommends that the Board approve the attached Operating Budget for FY 2024-25.

Attachment:

- Attachment A - 375 Beale Condominium Corporation FY 2024-25 Operating Budget
- Attachment B - 375 Beale Condominium Corporation FY 2024-25 Operating Budget Presentation

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