The California State Auditor released the following report today:

**Metropolitan Transportation Commission**

*The Use of Toll Revenues to Purchase a New Headquarters Building Is Likely Legal, but the Transaction Exposes Toll Payers to Undisclosed Financial Risk*

**BACKGROUND**

The San Francisco Bay Area’s (Bay Area) comprehensive transportation planning agency, the Metropolitan Transportation Commission (transportation commission), joined the Bay Area Toll Authority (toll authority)—responsible for managing and administering toll revenues from the Bay Area’s seven state-owned toll bridges—to create a joint powers authority to plan, acquire, and develop shared office space for them. In October 2011 this joint powers authority—the Bay Area Headquarters Authority (headquarters authority)—purchased a building using toll revenues from the seven state-owned toll bridges. The building is intended to house the transportation commission, toll authority, the Bay Area Air Quality Management District (air district), and the Association of Bay Area Governments, and serve as their regional headquarters. The transportation commission and toll authority’s governing board authorized contributions of more than $167 million in toll revenues toward the estimated $180 million cost of acquiring and preparing the building for occupancy.

**KEY FINDINGS**

Our audit of the acquisition of a new headquarters building revealed the following:

- Although the headquarters authority’s use of toll bridge revenues to purchase a regional headquarters building in San Francisco likely is legally permissible, a court would ultimately decide the legality of the purchase.
- Because the building purchased is more than 497,000 square feet and, at the time it was purchased, exceeded the combined space needs of the entities seeking to colocate by more than 263,000 square feet, the toll authority’s decision to contribute toll revenues to acquire a larger-than-necessary building has been questioned.
- The transportation commission followed a reasonable process to evaluate properties against its search criteria; however, the specified criterion for overall building size, at 350,000 square feet, was roughly twice the amount originally shared with the board.
- The transportation commission’s 30-year projection of the building’s cash flows from net income—in large part generated from the portion of the building planned to be rented out—had some shortcomings.
  - The projection did not discount the value of future cash flows to today’s dollars. We determined that, using the most conservative combination of rental and occupancy rates, cash flows would fall short of repaying contributed toll revenues by $30 million.
- Toll payers may not be fully repaid as originally claimed by the transportation commission.
  - The financial risk of being unable to repay all of the toll revenues significantly increased following the decision to acquire the building—months later the headquarters authority announced plans to convert 101,000 square feet of space into an atrium and building support space, thereby reducing the rentable space and reducing potential income.
  - Two key assumptions that present risk are that the air district would contribute $24 million at the beginning of the project to purchase one floor of the building and that the transportation commission would contribute $19 million—both assumptions remain uncertain.

**KEY RECOMMENDATIONS**

We recommended to the Legislature that, if it believes state law provides the toll authority with too much discretion over its use of toll revenues, it should consider amending state law to more narrowly define how toll revenues that are not immediately needed for bridge maintenance or debt service may be spent or invested. Further, if the Legislature desires more separation between the transportation commission and the toll authority, it can amend state law to require each entity to have its own staff.