



Financial Outlook

Association of Bay Area Governments
Executive Board – April 11, 2025



Association of Bay Area Governments
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Today's Objectives

- Preview next week's Special ABAG Executive Board Meeting re FY2025-26 Administrative Budget
- Discuss value of establishing Section 115 Trust for CalPERS pension obligations
- Provide “deeper dive” on ABAG condominium interest in 375 Beale Street
- Discuss process for further consideration of options

Administrative Budget Fiscal Challenges

- Per CalPERS' 2023 Actuarial Valuation, ABAG's total unfunded accrued liability is \$18 million
- Expected annual contributions of \$2.3 million through 2034
- Meeting pension obligations currently requires over 70% of proposed member dues
- The MTC currently subsidizes shared services costs beyond that required in the Contract for Services
- ABAG's Administrative Budget does not factor in the staffing costs incurred by the MTC in supporting ABAG administrative work

Retained Earning in ACFA/FAN Presents Opportunities

- ABAG FAN currently in “run off” mode with no new deals
- Primary source of revenue is monitoring, recovery, and administrative fees
 - Reserves and future fee revenue exceeds funding needed to maintain operations
- In FY 2025-26, staff proposes ABAG FAN transfer \$160,000 to the ABAG Administration budget
 - Provides additional funding and supports limited increase of membership dues
 - A larger transfer could be used to establish and fund a Section 115 Pension Trust
- A similar action was taken in April 2019 to fund a Section 115 Trust for ABAG’s Other Post-Employment Benefits (OPEB)

ABAG Administration

- Membership dues increased by 3%
- Pension obligations increased by 8%
- \$160 thousand transfer from ABAG FAN
- \$291 thousand deficit funded by anticipated savings in budgeted expenses for FY 2024-25
- Continued financial challenges in future years

ABAG Administration	FY 2024-25 Amendment No. 1	FY 2025-26 Proposed	Difference \$
	(\$000)	(\$000)	(\$000)
Revenues & Transfers			
Membership Dues	\$3,140	\$3,234	\$94
OPEB Trust, Interest & Other Revenue	615	577	(39)
ABAG FAN (transfer in)	-	160	160
Total Revenues & Transfers In	\$3,755	\$3,970	\$215
Expenses & Transfers			
Pension	\$2,139	\$2,316	\$177
OPEB	558	517	(41)
375 Beale Assessment	208	205	(3)
BARC (transfer out)	203	205	2
Insurance	250	279	29
Other	800	739	(61)
Total Expenses & Transfers Out	\$4,158	\$4,261	\$103
Operating Surplus/(Deficit)	(\$403)	(\$291)	\$112

The Underfunded ABAG Pension Plan

- ABAG has a “closed” CalPERS retirement plan for former employees who retired prior to the ABAG/MTC staff consolidation
- As of June 30, 2024, the ABAG pension plan was underfunded by approximately \$17.6 million
- Since June 30, 2024, ABAG has made payments, totaling approximately \$2.1 million with an additional payment of \$2.3 million planned for July 2025
- In FY 2024, the CalPERS performance was above the discount rate assumed for calculating payments (9.3% vs. 6.8% assumed) – this will help moderate future years’ payments (based on CalPERS application of excess return smoothing)
- Returns in FY 2025 and beyond will also affect future years’ payments

The Underfunded ABAG Pension Plan - Options

Several options for addressing ABAG's underfunded pension issues:

- “Do Nothing” - Leave current CalPERS plan in place, with its unknown volatility
- “Traditional” pension obligation financing – taxable loan used to prepay some/all CalPERS liability
- Establish Section 115 Trust – Deposit part/all of current unfunded accrued liability into ABAG controlled trust that can be used to make a portion of payments to CalPERS
- Terminate CalPERS plan

What would a Section 115 Trust do?

A Section 115 Trust for ABAG's pension could help achieve the following objectives:

- Lower the absolute level of contribution required from member dues to fund the annual amortization of the unfunded liability (to the extent that the 115 Trust is funded by means other than member dues)
- Mute dues volatility associated with the variability of CalPERS unfunded liability amortization payments – this can be accomplished by withdrawing less from the 115 Trust when the required payments are relatively lower and withdrawing more when they are relatively higher
- Provide opportunity to retain funds in trust beyond scheduled end of amortization period to address any additional funding shortfalls
- Provide opportunity for investment diversity

375 Beale Street Condominium Interest

- As a means of funding some portion of the currently unfunded pension liabilities, ABAG could consider the sale of its condominium interest in the Bay Area Metro Center
 - ABAG acquired its interest via the sale of the Oakland headquarter office to the Metropolitan Transportation Commission (MTC)
 - ABAG's total investment in the condo interest is \$7 million
- Current interest is 19,091 square feet (17,687 sf on 7th floor, 1,404 sf on 1st floor)
- The condo was most recently appraised in September 2023 at a value of \$6.65 million
- Such a sale would also provide a basis for reducing condominium assessments on a proportional basis
- Sale proceeds could be used to partially fund outstanding pension liability and fund operating and legal reserves

The Bay Area Headquarters Authority (BAHA) and Shared Services

- BAHA is the owner of the Bay Area Metro Center building
- Each of ABAG, the Bay Area Air District, and BAHA own condominium interests (BAHA owns two separate interests)
- Expenses associated with common areas are shared among the condo owners
- ABAG's shared expenses are capped on an annual basis per the terms of the condominium CC&Rs
- The balance of ABAG's shared expenses are effectively borne by the MTC

BAHA Fiscal Challenges

- With the challenges in the San Francisco commercial real estate market, BAHA is unable to maintain full building occupancy
- At the same time, important building infrastructure is requiring expensive maintenance
- This will drive a need for BAHA to work with the condo owners to develop an approach to funding this important work

Key Milestones

- Staff briefing of new MTC leadership
- Facilitated discussions between ABAG leadership and MTC leadership
- Discussions with Air District (as appropriate)
- Consideration of other sale/monetization options (as appropriate)
- Update appraisal
- Develop ABAG policy for use of any funds
- Transact and fund