

Update on the MTC / ABAG Staff Consolidation Effort

JOINT MTC PLANNING AND ABAG ADMINISTRATIVE COMMITTEE

OCTOBER 28, 2016

Implementation Action Plan Status Report

- Financial Due Diligence
- Legal Due Diligence
- Enterprise Governance Review
- Employee Relations Group
- Human Resource Review
- Next Steps / TimelineSchedule Update



METROPOLITAN TRANSPORTATION COMMISSION

MTC/ABAG Consolidation Due Diligence Analysis

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Major Findings

- **Finding #1:** Current ABAG revenues will not cover existing services without changes in operations (these findings are consistent with the Management Partners financial analysis finding from the Spring of 2016)
- **Finding #2:** Pension costs will increase for both MTC and ABAG staff. The ABAG unfunded liability will stay with ABAG
- **Finding #3:** Retiree health costs will increase with the provision of benefits, but no expected offsetting revenues. Current Trust fund monies will offset current ABAG retiree costs
- **Finding #4:** MTC can close the budget deficit by strategically reducing costs and services
- **Finding #5:** ABAG dependence on grants is not matched by management of those grants—needs to be a major focus when moved to MTC
 - Overhead charged to grants cannot be increased until grants are renewed or replaced
- **Finding #6:** Unable to verify current grant data (balance, ABAG funding, overhead allowance) for grants from the Finance department. Latest data provided by ABAG Finance was from the spring of 2015
- **Finding #7:** ABAG centralized budget and general ledger accounting systems do not provide data sufficient to fully understand the ABAG financial systems (e.g., detailed budget data is not available for the current fiscal year)

Major Recommendations

- Balance revenues and expenses for the ABAG programs
- Develop plan to address unfunded pension and retiree health liabilities
- Implement management controls on ABAG systems

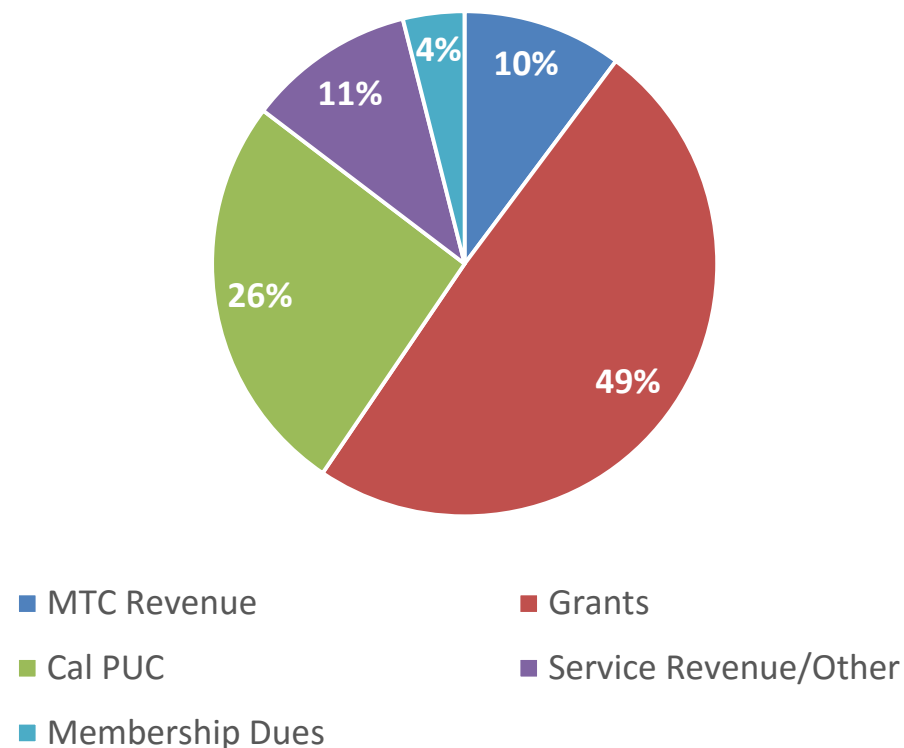
Areas of Analysis

1. Grants
2. Workforce Impacts
3. Unfunded Liabilities
4. Budget Forecast Model

ABAG Revenues | Heavy Reliance on Grants

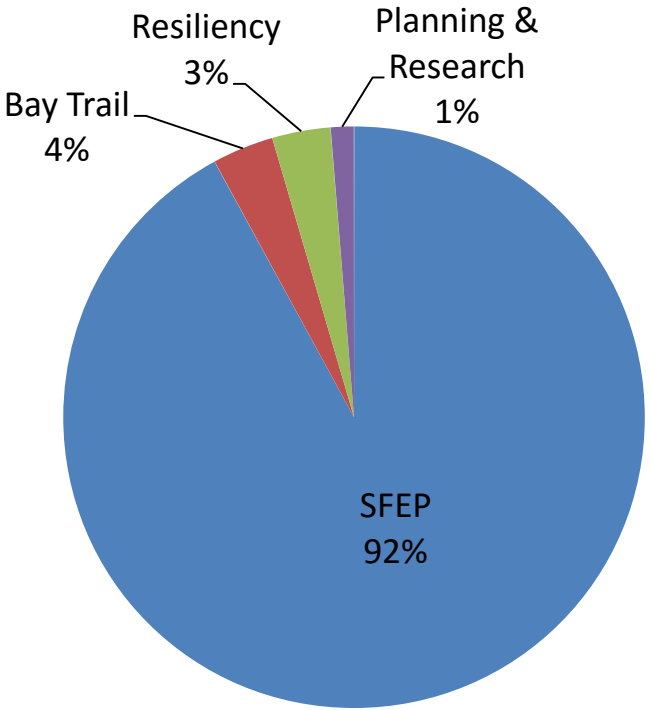
- 85% of ABAG's revenue comes from MTC, the PUC, and other State and Federal grants
- The reliance on grant revenues creates a risk of future funding fluctuations
- Ongoing grant revenues must be sufficient to fund:
 - Program Staff
 - Consulting Costs
 - Administration and Overhead

ABAG FY2017
Revenues by Category



Use of Grants by ABAG | Major Source of Funding

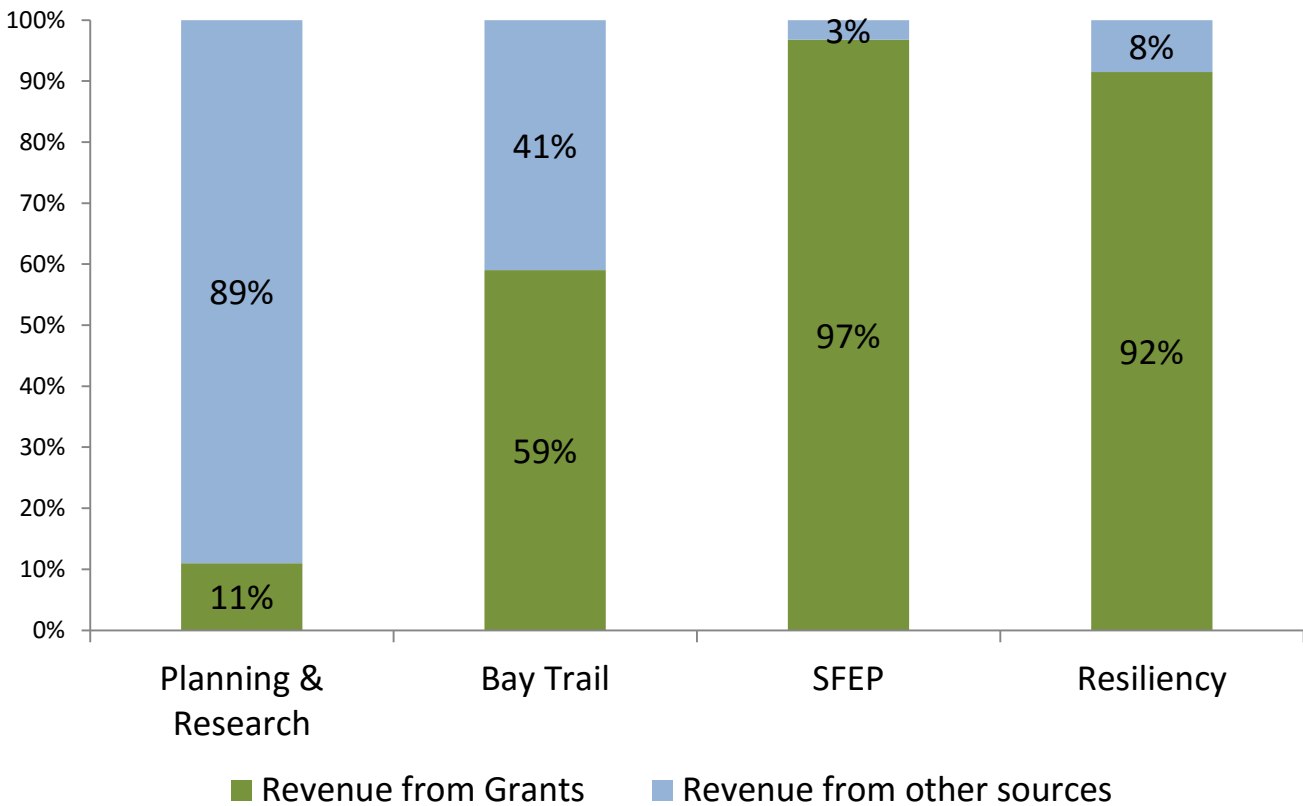
FY16 Grant Revenues* by Program Area



Over 90% of ABAG's Grant revenues support the activities of the SF Estuary Partnership

* Note: Excludes MTC revenues & BayREN's PUC funding

FY16 Revenues by Source

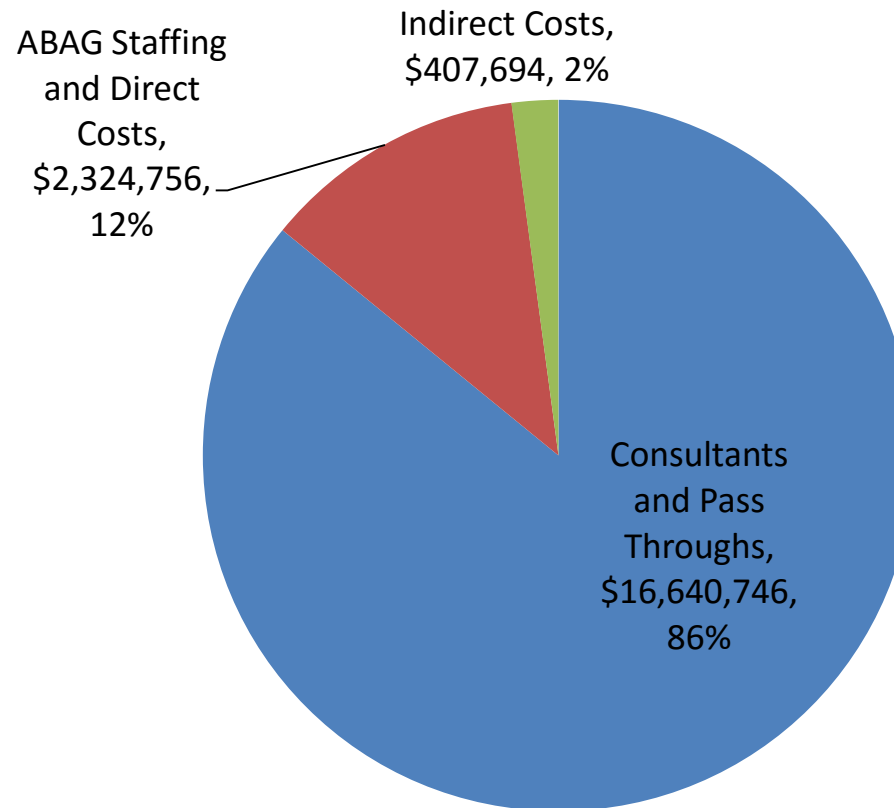


Virtually all SFEP and Resiliency activities are funded through grants

Where Grant Revenues* Go | Funding Conduit for Region

- Only 14% of FY16 grants revenues are allocated to ABAG costs (staffing, direct, and indirect costs).
- Median Consultant/Pass through expenditures amount to 49% of grant revenues
 - Notable exception: Over 93% of Sustainable Communities Planning Grant funds (\$505,000) are allocated to ABAG costs

FY16 Budgeted Grant-Funded Expenses



Source: FY16 OWP Budgets

* Excludes MTC funds

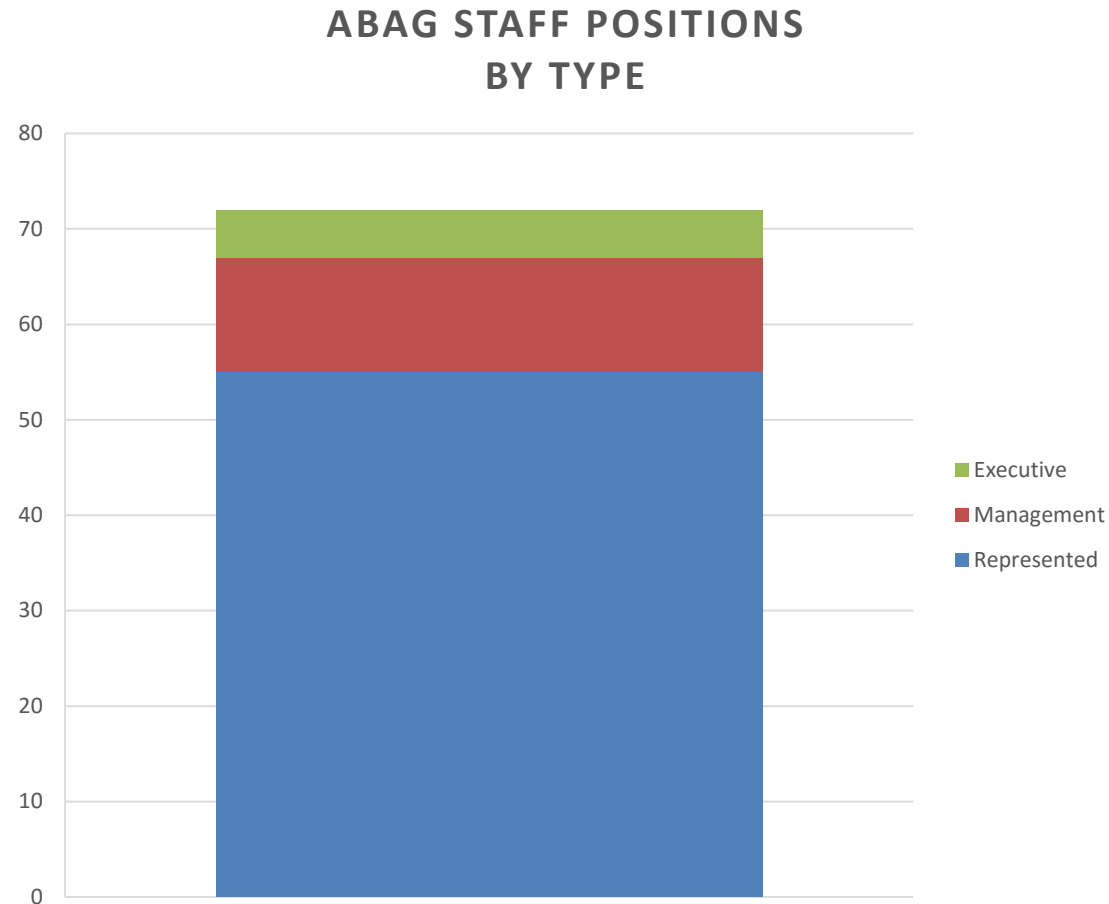
- Current grant contracts **do not allow for modifications to overhead charges** or pass-through budgets—*most contracts run through FY17 or FY18 with some extending to FY20 and beyond*
- **Some state grant contracts preclude reimbursement of indirect costs**, such as non-project specific accounting and personnel services, facilities costs, etc. (State Water Resources Control Board, State Natural Resources Agency)
- **Match obligations are usually met by sub-grantees**
 - Exception: Clean Vessel Education Grant, where ABAG is counting non-reimbursable overhead, volunteer labor, and below-market subcontractor rates towards the \$146,758 match obligation.

Grants | Overall Findings

- Under the current system, individual project managers oversee ongoing grants monitoring, invoicing, and lifecycle disbursement with **little oversight or direction from ABAG Management or Finance team**
- There is **no standardized data reporting or collection system** beyond the annual OWP budget reporting process.
 - PFM was able to confirm outstanding ABAG vs. pass-through balances only for SFEP grants. Such data is not readily available for other ABAG grants
 - PFM was not able to confirm whether grant revenues have been sufficient to cover the actual direct costs incurred in project implementation

Current ABAG Workforce Composition

- ABAG currently has 72 authorized employee positions
- A majority of these positions (55) are represented positions
- Twelve positions are program managers
- Five positions comprise the executive management team



Modeled Plan of Action

Employees

- All ABAG employees become MTC employees
 - Salary and benefits at MTC levels
 - Retiree Health care to all ABAG employees with years of service credit

Organizations

- ABAG remains separate agency and contracts with MTC for program services
- ABAG maintains assets and liabilities
- ABAG maintains OPEB trust for retiree health payments

Workforce Pay and Benefit Differences

Pay

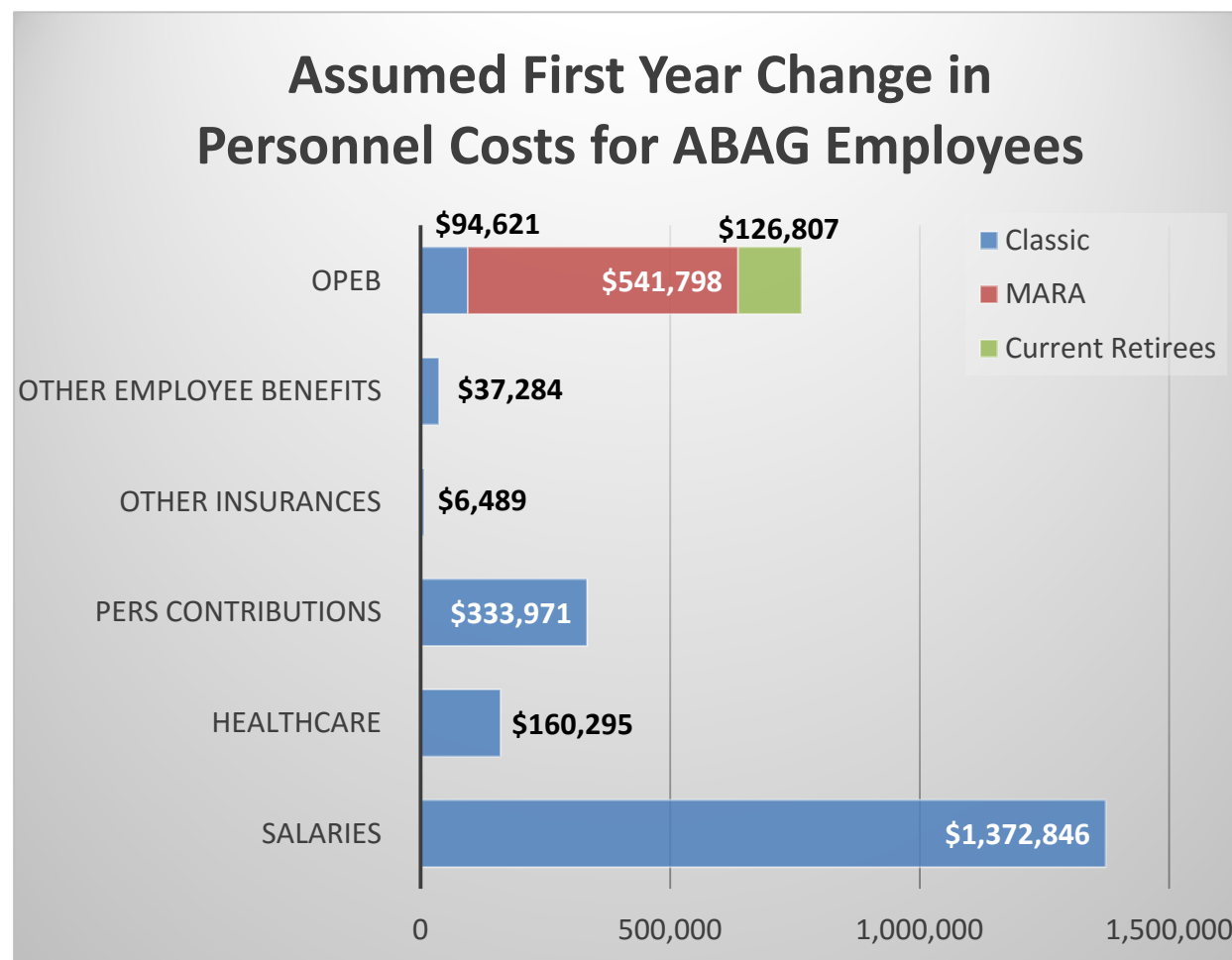
- MTC has overall higher pay scales than ABAG
 - Differences vary by position
 - Recommended compensation is not a part of the financial due diligence analysis
- Increased pay directly impacts pension costs

Benefits

- MTC does not pay into social security
- MTC has a 3% pension COLA, while ABAG's has a 2% COLA
- Similar insurance benefits in both agencies
- Retiree health much better overall at MTC—New for half of ABAG employees

Compensation Changes | Significant Increases for MTC

- Overall personnel expenses will **increase \$2.6M per year** with the move to MTC
- Salaries (*recommendations to come from Koff & Associates, MTC's HR consultant*), pension contributions, and OPEB are the primary cost drivers
- OPEB is shown in three parts: 1) \$95K for classic employees, 2) \$540K for MARA employees, and 3) \$120K for employees with retiree health
- MTC pension costs for existing employees are also expected to rise 0.5% of salary with the addition of ABAG staff



Baseline Budget Forecast | Revenue Assumptions

Grants

■ **MTC Funding**

- **FHA, FTA, and TDA** revenues escalate at 2.1% per year
- All **other MTC funding** sources (STA, bridge tolls, and contract revenues) are held flat

■ **Federal Grants**

- Homeland Security and miscellaneous grants held flat
- EPA held flat after reduction to expected ongoing grants
- East Bay Brownfield Assessment adjusted for actual revenues per Planning Director

■ **State Grants**

- DWR winds down through FY20, assumed wind down through FY23 at same rate of reduction
- PUC grant held flat—contract through FY25
- Delta Stewards Council held at FY17 levels
- Coastal Conservancy grant expires in FY18

Other Revenue

■ **Contracts** with outside agencies

- Grow with increases in personnel and operating costs—assume ABAG charges full cost recovery

■ **Service Programs**

- JPAs—assumes continued payment at FY17 levels for administrative services
- Conference Services grow with cost of conferences
- Other revenue either no growth or grow at CPI

■ **Membership Dues** increase at CPI

Baseline Budget Forecast | Expense Assumptions

Personnel Costs

- **Salaries** grow at 2.6% per year
- All **benefits** at MTC rates
 - Health care grows at 5% to 7% per year from the MTC OPEB valuation
 - Worker's comp/unemployment/Medicare grow with salary costs
 - No social security costs
- **Pension costs for ABAG employees**
 - Normal cost at 10.6%--accounts for higher pension COLA at MTC
 - Unfunded liability as shown in the ABAG valuation
- **Pension costs for current MTC employees**
 - Increase from 10.1% to 10.6% of salary due to lower average entry age for ABAG employees

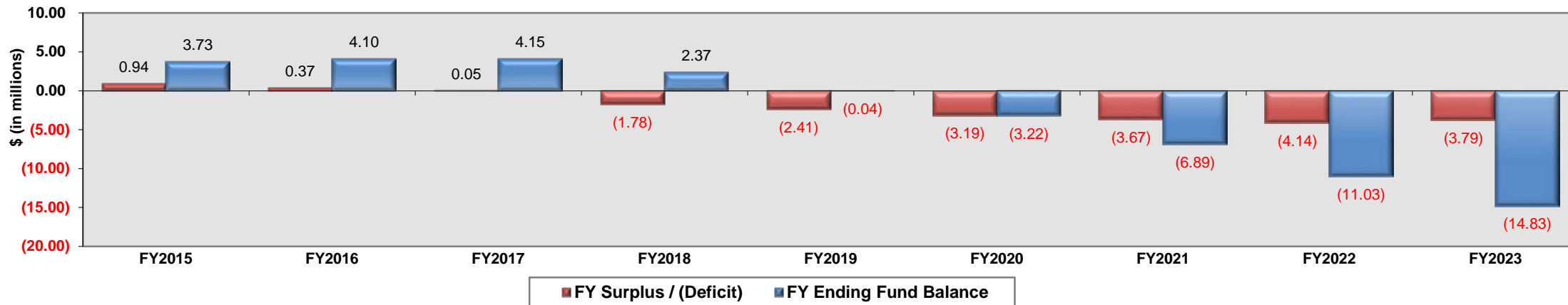
Non-Personnel

- **Technical Consultants** tied to revenue levels. Remain in budget model at FY17 funding ratio (e.g., 98% of grant used for "Technical Consultants")
- **Other Consultants** grow at CPI
- **Pass Through Expenses** are reduced as funding expires
- **Operating Costs**
 - Base costs grow at CPI
 - If grant source is reduced or eliminated, associated personnel costs remain in place
 - BayRen retrofits tied to PUC grant revenue

Budget Projections | Baseline Model Results

- The Baseline model assumes:
 - All ABAG staff positions transfer to MTC
 - All revenues and expenses for both MTC and ABAG are included in the budget forecast
 - Grant expenses track with revenues at same proportion as included in the FY17 budget
- The results of the Baseline model show that the consolidation could put significant financial pressure on MTC unless adjustments are initiated—projected cumulative **\$15M deficit by FY23**
- Management Partners estimated 16.1% reduction in personnel and other costs is needed to balance the ABAG budget

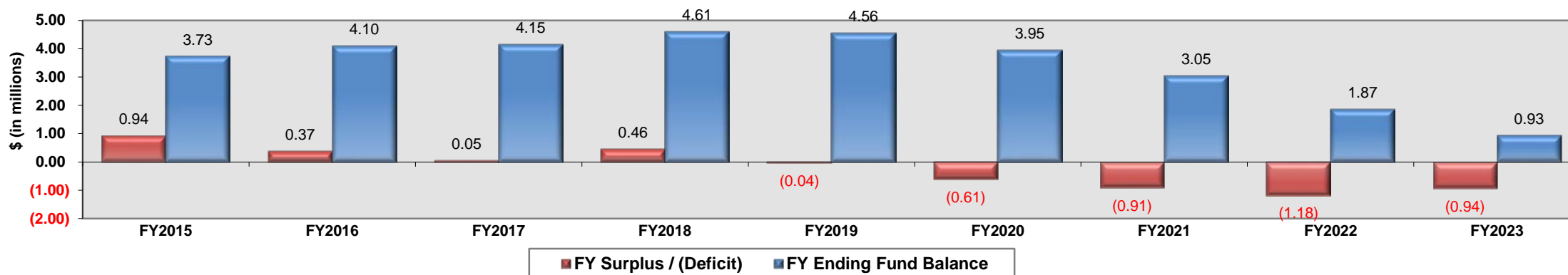
Baseline Forecast Model –Program Cost Moving ABAG Staff to MTC



Budget Forecast Scenario #1 | Alternative Model Results

- Scenario #1 includes:
 - Increase JPA reimbursements to match staffing cost increases
 - Reduce personnel costs (e.g. vacancies, management redundancies) and other operating expenses by 15% (as indicated in Management Partners financial analysis)--\$2.3M in FY18 growing to \$2.5M in FY23
- These changes improve net revenue, but do not remove budget deficit
- Deficit of less than \$1M—and cumulative fund balance reduction of \$3.7M—in FY23

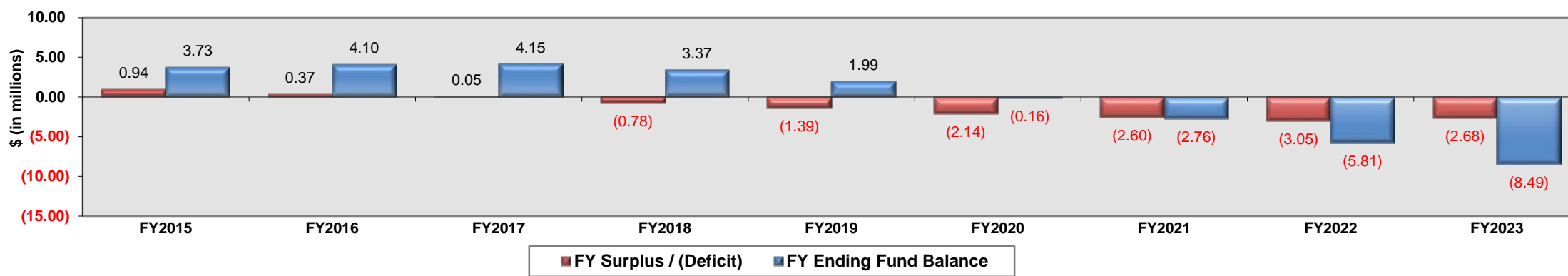
MTC/ABAG Consolidation [Scenario #1](#) Budget Forecast
Increase JPA Fees/Reduce Operating Expenses



Budget Forecast Scenario #2 | Alternative Model Results

- Scenario #2 includes:
 - Increase of revenue of approximately **\$1 million** (with annual inflation adjustment)
 - Revenue options: 1) Dues increase/formula adjustment; 2) Enterprise fee increases; 3) New product for services; 4) Other
- Revenue increase will not eliminate the projected deficit in net revenues for ABAG programs—projected to be \$2.7M in FY23
- By FY23, the fund balance is projected to have a deficit of \$8.5M

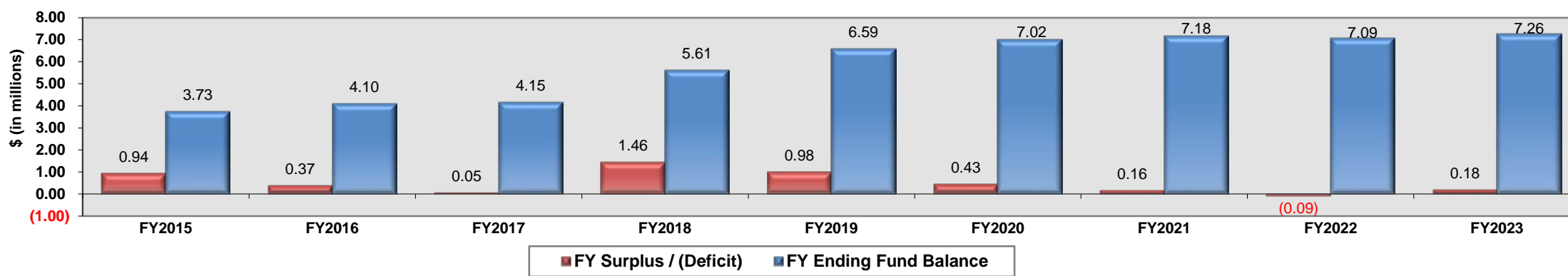
MTC/ABAG Consolidation [Scenario #2](#) Budget Forecast
Increase Revenues by approximately \$1 million



Budget Forecast Scenario #3 | Alternative Model Results

- Scenario #3 includes:
 - Revenue increase of approximately \$1 million (increases annually by inflation)
 - Reduce personnel (e.g. vacancies, management redundancies) and other costs by 15%
- The combination of these changes can eliminate the deficit in FY18 and preserve ABAG's fund balance in each projected year, with the exception of FY22—keeping the fund balance at over \$7M

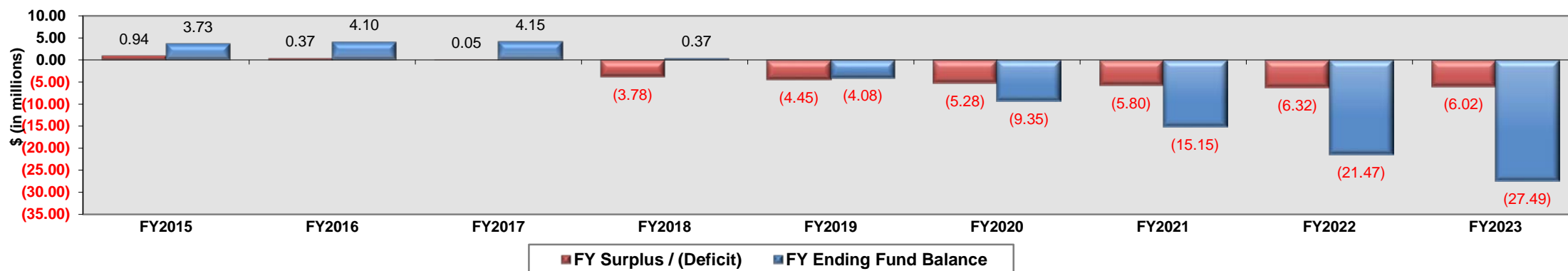
MTC/ABAG Consolidation [Scenario #3](#) Budget Forecast
Increase Revenues by approximately \$1 million / Reduce Operating Expenses



Budget Forecast Scenario #4 | Alternative Model Results

- Scenario #4 includes:
 - Removal of membership dues from Baseline forecast
- Ongoing membership dues are critical for the continuation of key ABAG programs
- Elimination of membership dues would increase year-end deficit by approximately 58.7% from the Baseline in FY23—increasing the cumulative deficit to \$27.5M

MTC/ABAG Consolidation Scenario #4 Budget Forecast
No Membership Dues





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**MTC/ABAG Consolidation
Due Diligence Analysis**

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Areas of Focus – Legal Due Diligence

1. ABAG Grant Funding
2. Compensation and Benefits/Employment
3. ABAG Enterprises

Key Takeaway – No legal impediment to staff consolidation

ABAG Grants – Legal Overview

- **Assignment**

Group 1 (freely assignable): 14 grants aggregating to \$16,697,248

Group 2 (assignable with grantor consent): 17 grants aggregating to \$93,956,238

Group 3 (not assignable): two grants aggregating to \$717,692

- **Termination**

15 grant agreements in the aggregate amount of \$82,828,627 provide the grantor with the ability to terminate on short notice without cause

- **Expiration**

22 grant agreements, aggregating to \$79,344,127, expire within 1-3 years

Employment/Compensation & Benefits

General

- Employees subject to technical termination of employment from ABAG will need to be hired by MTC
- ABAG employees have certain benefits that are collectively bargained; will need to address union benefits as part of the integration
- Existing benefit plans and arrangements sponsored by ABAG will need to be wound up following the consolidation
- ABAG employees will move onto MTC benefit plans

CalPERS

- ABAG and MTC have separate contracts with CalPERS, but both are covered employers
- After consolidation, new MTC employees will
 - maintain their existing benefit earned while at ABAG; and
 - be covered by the MTC contract with CalPERS (i.e., receive benefits going forward based on the MTC contract with CalPERS)
- Upon retirement, CalPERS will calculate both benefits and aggregate the two to determine the retiree's ultimate benefit

ABAG Enterprises

1. **PLAN – Pooled Liability Assurance Network**
Provides pooled liability and other insurance
2. **SHARP – Shared Agency Risk Pool**
Provides pooled workers' compensation insurance
3. **POWER – Publicly OWned Energy Resources**
Pooled natural gas purchasing
4. **BayREN – Bay Area Regional Network**
Partners with utilities to provide energy efficiency improvements
5. **FAN – Finance Authority for Nonprofit Corporations**
Issues bonds on behalf of members to finance public and private projects
6. **BayTrail – The San Francisco Bay Trail**
Maintains and oversees approx. 500 miles of interconnected public trails around the San Francisco Bay
7. **SFEP – San Francisco Estuary Project**
Advances wetlands restoration for federally-designated “nationally significant estuary” under National Estuary Program
8. **SFBRA – San Francisco Bay Restoration Authority**
Raises and allocates resources for the restoration, enhancement, protection, and enjoyment of wetlands and wildlife habitat in the San Francisco Bay

ABAG Enterprises – Governance

- Most but not all enterprises are separate legal entities
 - Three joint powers authorities (SHARP, POWER, FAN)
 - Two associations governed by MOU or other less formal structure (BayREN, SFEP)
 - Two corporations (PLAN*, Bay Trail)
 - One created by statute (SFBRA)
- As a legal matter, ABAG's role in governance is slightly different for each enterprise
- ABAG has historically taken a lead role in running the enterprises, in addition to providing most or all staffing support

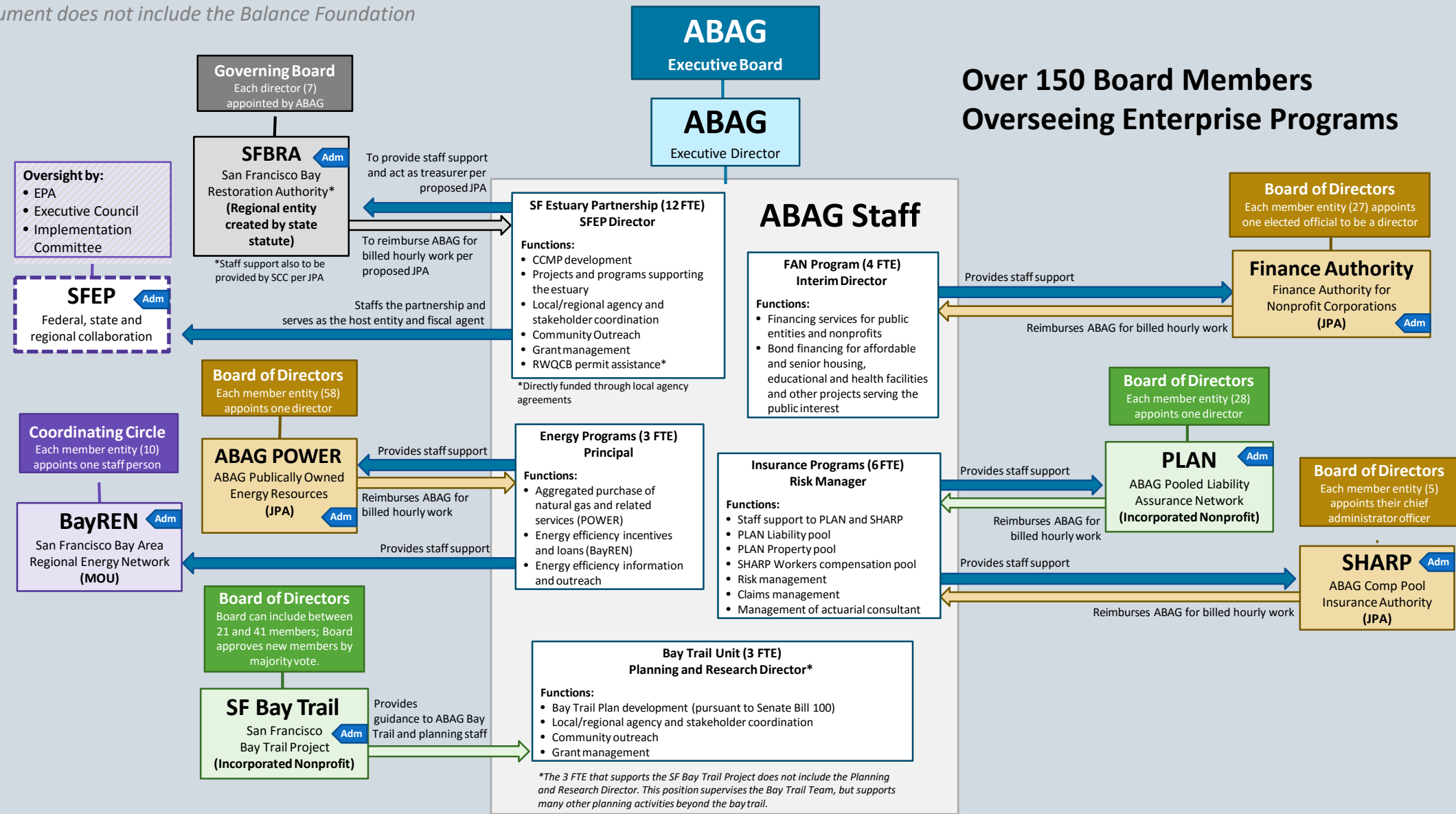
*PLAN itself is not a separate legal entity, but ABAG and the other member insureds have appointed PLAN Corp to administer the program

ABAG Enterprises – Consolidation with MTC

- Expectation is that staff currently providing support for enterprises will continue to do so
- MTC and ABAG may provide in Services Contract that MTC directs and “stands in the shoes” of ABAG without changing current legal documents or governance structures
- Alternatively, governance for some or all of the enterprises may be changed
 - Could create a direct control/reporting relationship between the enterprises and MTC’s Board/senior staff, such that MTC would have, and be assured of maintaining, direct influence over the functioning of the enterprises
 - Could also clear up “dual capacity” appointments in which, at the moment, governing documents provide in many cases that ABAG senior staff (ED, Finance Director) automatically serve as senior staff to enterprises
 - Affords opportunity to clean up governance documents with benefit of years/decades of experience
 - Requires cooperation of members to convene meetings and amend governance documents
 - Because SFBRA is statutorily created, governance change would require action by State Legislature

ABAG Enterprise Programs Governance Structure Summary

Document does not include the Balance Foundation



Employee Relations Group

Comprised of MTC/ABAG Exec Management, HR teams, and representatives of ABAG SEIU and MTC CSR

■ **Four meetings to date:**

- 7/8 — Kick-off with Chair Cortese and President Pierce
- 8/8 — Classification and Compensation Study Scope Review
- 9/27 — Koff & Associates Phase 1 Findings
- 10/27 — Due Diligence Update

Human Resource Due Diligence

- Koff & Associates preparing a comparative analysis of MTC and ABAG classifications and benefits.
- Purpose - to assess the similarities and differences in the duties and responsibilities as well as knowledge, skills, and abilities, and competencies between the classifications of each agency for position leveling

Human Resource Due Diligence Status

- **September/October:**

- Initial Meetings with Employee Relations Group, HR & Project Team
- Orientation Meetings with Employees
- Position Description Questionnaire Completion & Review

- **October/early November**

- Employee & Supervisor Interviews
- Draft Class Concepts
- ERG, HR, Management Review

- **Late November: Final Report and Recommendations**

Next Steps / Timeline

■ November/December

- Continue Due Diligence
- Continue Development of Contract for Services
- Extend ABAG Funding Agreement through March 2017

■ January

- MTC/ABAG Executive Board consider approval of the Contract for Service and MOU

■ February/March

- ABAG Employee Transition to MTC