

Association of Bay Area Governments

Finance Committee

April 15, 2021

Agenda Item 6.a.

Operating Budget and Work Program

Subject: Approval of Resolution 05-2021 approving the Proposed ABAG Agency Budget and Work Program for Fiscal Year 2021-22

Background: According to Article XI.B of the ABAG Bylaws, at least 45 days prior to the annual meeting of the General Assembly, the Executive Director submits to the Executive Board a proposed budget and work program, including annual membership fee and assessment schedules, summary of revenue and expenditures, actual or projected, for the preceding, current, and next fiscal years.

The Executive Board reviews the proposed budget, amending as necessary, and submits them to the General Assembly for review and adoption.

The Executive Board monitors the execution of the budget and work program and the Executive Director manages all expenditures, subject to the control of the Executive Board.

At its meeting on April 15, 2021, the Executive Director will present the ABAG Finance Committee with the proposed Budget and Work Program for Fiscal Year 2021-22. Staff requests that the Finance Committee recommend Executive Board approval of ABAG Resolution No. 05-2021 authorizing the ABAG Agency Budget for FY 2021-22, including submission to the ABAG General Assembly for final approval. The proposed Agency Budgets for FY 2021-22 are balanced as recommended.

The proposed ABAG Budget for FY 2021-22 includes allocation of revenue and expenses for all ABAG operating funds. The operating funds include, ABAG Administration, ABAG BayREN, ABAG Estuary Partnership and the San Francisco Bay Trail. ABAG revenue includes the recommended level of membership dues for FY 2021-22. There will be a budget presented for ABAG FAN and ABAG Power which will be presented separately to their respective JPA governing boards.

Association of Bay Area Governments

Finance Committee

April 15, 2021

Agenda Item 6.a.

Operating Budget and Work Program

The overall ABAG budget is \$40 million, down from \$62.6 million for FY 2020-21. Details include:

Revenue	FY 2020-21 (millions)	FY 2021-22 (millions)
Administration	\$ 3.4	\$ 3.1
Bay REN-Energy	23.5	23.9
Estuary Partnership	35.7	12.8
Bay Trial Non-Profit	<u>0.0</u>	<u>0.2</u>
Total	\$ 62.6	\$ 40.0

The change is a reduction in grant revenue scheduled for FY 2021-22 as prior year grants are spent down and completed. There are several highlights to the ABAG budget, including:

- Upfront PERS payment saving \$50,000
- ABAG has fully funded its OPEB liability
- ABAG receives full reimbursement for retiree medical expenses
- ABAG grant funded programs now exceed \$100 million in life-to-date funding
- Nearly 90% of all grant funding goes directly to regional projects
- The \$24 million REAP grant awarded in FY 2019-20 still has a balance of \$23 million for programming in FY 2021-22

ABAG will still face issues with increasing costs, particularly pension obligations, which will have to be addressed as we work to improve long-term financial stability.

ABAG Administration

The recommended ABAG Administration Budget for FY 2021-22 is \$3.9 million, including transfers. The proposed budget is balanced before depreciation costs, but not without a transfer from prior year fund balance. The principal source of revenue is membership dues which will increase to \$2.45 million, up 2% from FY 2020-21. The detailed membership dues schedule is attached. (Attachment B)

Association of Bay Area Governments

Finance Committee

April 15, 2021

Agenda Item 6.a.

Operating Budget and Work Program

ABAG Administration covers all administrative expenses and responsibility for all ABAG operating programs, including pension and OPEB expenses. While the ABAG BayRen and Estuary Partnership programs are grant funded and relatively self-funded, ABAG Administration is dependent on membership dues. Unfortunately, membership dues are falling short of total expenses:

	Revenue (000)	Expense (000)	Transfers (000)
Total	\$ 3,057	\$ 3,217	\$ 669
Membership Dues	2,448		
OPEB Reimbursement	559		
Interest Revenue	50		
PERS		1,614	
OPEB		550	
BEALE Assessment		367	
Audit		173	
Insurance		170	
Other		343	
MTC			530
BARC			139

Even excluding depreciation, revenue falls short of total operating obligations by over \$828,000. This shortfall will be covered with transfers from ABAG special revenue funds as well as prior year fund balance. Transferring overhead from grant programs is perfectly appropriate but can be an unreliable source of income for financial planning purposes.

While the FY 2021-22 recommended budget is balanced through interfund and fund balance transfers, the long-term implications of the funding shortfall is cause for concern. As costs increase and

Association of Bay Area Governments

Finance Committee

April 15, 2021

Agenda Item 6.a.

Operating Budget and Work Program

the primary source of revenue -- membership dues -- is limited, the potential for severe deficits in the future is quite possible. ABAG should consider some financial alternatives that might improve long-range financial planning:

- Restructure dues to be certain all core operating costs and MOU agreements (MTC and BARC) are funded
- With taxable interest rates at all-time lows, consider refinancing the outstanding pension obligation
- Other new revenue sources

While staff does not have a ready-made list of new, available revenue sources, when new programs are developed that include new funding sources, such as new grants tied to the enhanced housing initiative, we should consider supplementing the administrative revenue base.

Grant Administration

The administrative fund has nearly \$29 million in active grants. The grants include (in thousands):

	Award	Balance
EPA	\$600	\$268
REAP	24,000	23,563
Coastal Conservancy	<u>4,100</u>	<u>3,746</u>
Total	\$28,700	\$27,577

The REAP grant has already allocated \$3.5 million to MTC for staffing costs, the balance is available for programming in FY 2021-22. There are two grants, the EPA and one Coastal Conservancy grant that will expire in FY 2020-21 so staff will have to monitor the spending to utilize the entire grant before it expires.

Association of Bay Area Governments

Finance Committee

April 15, 2021

Agenda Item 6.a.

Operating Budget and Work Program

BayRen-Energy

The Bay Area Regional Energy Network (BayRen) facilitates energy efficiency projects to residents and communities throughout the Bay Area. BayRen is generally a grant funded program with major funding through the California Public Utilities Commission (CPUC).

The recommended FY 2021-22 BayRen budget is \$23.9 million. There is a slight increase in grant funding from \$23.5 million to \$23.9 million from FY 2020-21 to FY 2021-22 respectively. Highlights include:

- Staffing and overhead costs are approximately 5% of total revenue
- Direct incentives are approximately 43% of revenue
- Passthrough projects are 32% of revenue
- The fund will make an overhead transfer of \$150,000 to support ABAG Administration

Approximately 75% of all program grant revenue will go directly to project expenditures. The proposed budget is balanced as recommended.

San Francisco Estuary Partnership (SFEP)

The SFEP was created as part of a national program to protect, enhance, and restore the San Francisco Estuary. SFEP is funded through a series of grants, primarily through the State Department of Water Resources (DWR).

The total recommended budget for FY 2021-22 is \$12.8 million and balanced as presented. The budget is a reduction of \$23 million from the FY 2020-21 budget as previously awarded grants are in the process of being spent down. A complete listing of awarded grants is attached and summarized below (in thousands):

	Awarded	Additional FY 2022	Balance
EPA	\$ 7,559	\$ 690	\$ 2,055
DWR	\$ 54,210	\$ 1,807	\$ 24,091
Other	\$ 2,597	\$ 2,126	\$ 2,197

Association of Bay Area Governments

Finance Committee

April 15, 2021

Agenda Item 6.a.

Operating Budget and Work Program

The estimated grant balance outstanding through FY 2022 and beyond is in excess of \$28 million.

The SFEP program highlights include (in thousands):

- \$9,500 for passthrough project funding
- \$2,800 for staffing and overhead
- Transfer of \$150 in overhead to support ABAG Administration.
- Transfer in of \$400 from MTC

Overall, SFEP will commit approximately 75% of program funding directly to project expenses. While the budget is balanced as presented, the program still requires a slight transfer from MTC to meet overhead costs not included in previous grants. We expect this subsidy to phase out as the grants are spent down and completed.

San Francisco Bay Trail

The San Francisco Bay Trail is a non-profit corporation that receives grants and donations as part of a larger Bay Trail program. The fund received a donation of \$166,000, the majority of which will be spent on a study during FY 2021-22. The total budget will be \$173,480, which will be funded by a combination of the donation and other revenue.

Resolution 05-2021

Staff is requesting approval of ABAG Resolution No. 05-2021 authorizing the FY 2021-22 Operating Budget for ABAG and all affiliated funds and entities. Resolution No. 05-2021 includes authorization to administer the budget following approval by the Executive Board and General Assembly. The authorization includes:

- Authorization to carryover and re-budget all carryover grants and funds properly approved in previous budgets
- Authorization to carryover and re-budget all contracts and expenses properly approved and budgeted in previous budgets
- Authorization for the Executive Board to approve all contracts and expenses incorporated in the adopted FY 2021-22 budget.

Association of Bay Area Governments

Finance Committee

April 15, 2021

Agenda Item 6.a.

Operating Budget and Work Program

- Authorization for the Executive Board to amend the adopted budget for any new and additional revenue sources, including appropriate additional expenses
- Authorization for the Executive Director to approve all contracts \$200,000 and below, provided the funds are available and included in the adopted budget
- Authorization for the Chief Financial Officer to correct any obvious errors in the drafting, presentation, and publishing of the adopted budget

Staff requests that the Finance Committee recommend approval of ABAG Resolution No. 05-2021 approving the FY 2021-22 Operating Budget for ABAG and authorization to submit the Budget to the General Assembly for approval.

Issues:

None

Recommended Action:

The ABAG Finance Committee is requested to recommend that the Executive Board forwards and recommends ABAG General Assembly adoption of ABAG Resolution No. 05-2021—Approval of the Association of Bay Area Governments Fiscal Year 2021-22 Operating Budget.

Attachments:

- A. Proposed Operating Budget FY 2021-22
- B. Proposed Membership Dues FY 2021-22
- C. Resolution No. 05-2021
- D. Proposed Budget and Work Program
- E. Presentation

Reviewed:



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