



Association of Bay Area Governments (ABAG)

Budget Challenges

ABAG Executive Board
March 16, 2023

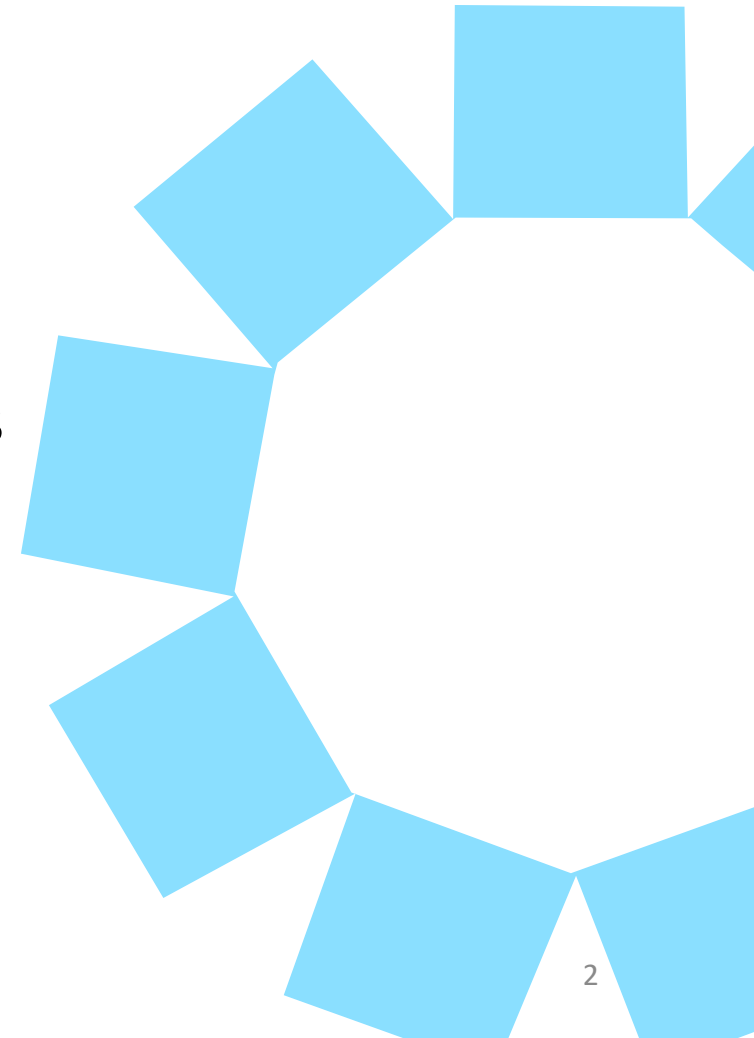


Association of
Bay Area Governments

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Reviewing the October 28 Workshop

- Level setting regarding the ABAG “Structural Deficit”
- Major driver of ABAG structural deficit is amortization of unfunded pension liabilities
- Current budgetary practices obscure the size of this challenge
- ABAG should take steps to address pension liability issues and provide greater transparency and predictability
- ABAG should establish reserves for operational flexibility and any legal exposure



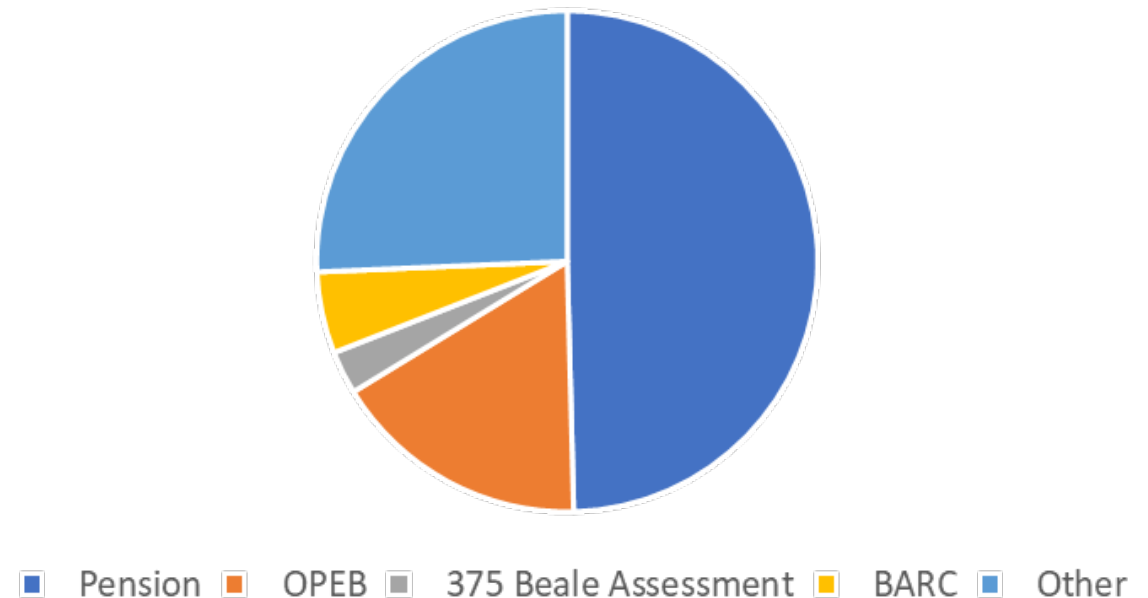
The ABAG Budget (behind the scenes)

- No staff or overhead cost is billed to the ABAG Administration budget
 - Staff and overhead costs are charged to the various programs, but do not represent full cost of services provided to ABAG across the breadth of its programs
- Many staff who provide substantial direct service to ABAG are charged to the larger MTC overhead budget
- Portions of MTC allocated overhead charges are being retained within ABAG to balance Administration budget and the SFEP Conference program
- Assessment of appropriate charges for shared services needs to be revisited, consistent with provisions of the 375 Condo CC&Rs
- “True” Administration budget deficit likely around \$175,000, not adjusted for other items above, with another \$180,000 of MTC overhead funds supporting the SFEP conference

Unfunded Pension Liabilities are the Primary Driver of the Structural Deficit

- While all current ABAG staff are MTC employees (and therefore part of the MTC CalPERS plan), ABAG has obligations with respect to the closed ABAG plan
- This plan has a substantial unfunded liability, the amortization of which demands substantial annual funding
- FY2023 amortization is approximately 50% of the overall ABAG Administration budget, and about two-thirds of member dues

ABAG Administrative Expenses



The Underfunded Pension Plan

- ABAG has a “closed” CalPERS retirement plan for former employees who retired prior to the ABAG/MTC merger
- As of June 30, 2021, the ABAG pension plan was underfunded by approximately \$11.8 million
- Since the 2021 valuation, ABAG has made two payments, totaling approximately \$3.3 million
- Unfortunately, in FY2022, the CalPERS performance was substantially below the discount rate assumed for calculating payments (-6.1% vs. +6.8% assumed)
- While not yet disclosed, it is likely that the 1st quarter of FY2023 has continued to produce negative returns for the pension plan
- These negative returns more than offset the last two payments made by ABAG

Addressing the Challenges

- Need to develop full cost for providing service to ABAG
 - Proper allocation of staff to support activities (as opposed to project staff)
 - Full reimbursement to MTC for overhead costs
 - Appropriate costing for shared services
- Staff is addressing this need and will return with more information at a later date
- Need to consider strategies to:
 - Create greater cost stability with respect to pension
 - Address need for reserves
 - Develop approach to fully funding these needs

Addressing the Pension

Several options for addressing ABAG's underfunded pension issues:

- “Do Nothing” - Leave current CalPERS plan in place, with its unknown volatility
- Pension Obligation Financing (current CalPERS plan) - taxable loan to fund part/all of current unfunded accrued liability (funds provided to and invested by CalPERS)
- Pension Obligation Financing (Section 115 Trust) - taxable loan to fund part/all of current unfunded accrued liability into ABAG controlled trust that can be used to make payments to CalPERS
- Pension Obligation Financing (terminate plan) – taxable loan to fund termination of CalPERS plan

375 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
- Current interest is 19,091 square feet (17,687 sf on 7th floor, 1,404 sf on 1st floor)
- Such a sale would also provide a basis for reducing condominium assessments on a proportional basis
- Sale proceeds could also be used to establish important working capital and legal reserves

Funding the Challenges

- The 6% increase in member dues for FY2023 represents a good step in the right direction toward funding the challenges
- While this is a good step, it is insufficient given the scale of the challenges
- Sale of all or a portion of the condominium interest would help address (but not solve) the current fiscal need and would reduce ongoing costs associated with condominium ownership
- Apart from member dues, there is no currently identifiable source of ongoing funding to address these challenges
- Staff recommends a specific “carve-out” to identify the portion of dues related to retirement of the pension obligation (whether current amortization or debt service)
- This would allow members to also see the “true cost” of ABAG’s continuing operations and understand the value of such operations relative to the cost of supporting them through that portion of dues

Staff Recommendations

- Direct staff to enter into discussions regarding the sale of the ABAG condominium interest in 375 Beale Street, and return to the ABAG Board with a final recommendation of terms, and proposal for allocation of sale proceeds
- Direct staff to enter into discussions with regard to a taxable loan from MTC to ABAG to allow ABAG to address its pension obligations (through some combination of CalPERS prepayment and/or establishment of a Section 115 trust – final allocation to be determined at approval of any loan by ABAG)
- Direct staff to include a dues increase of 10% for Fiscal Year 2023/2024 in the proposed budget presented to the ABAG Finance Committee and the ABAG Executive Board at their April 2023 meetings, and to present an approach for separately presenting dues calculations for costs associated with the amortization of the unfunded pension liabilities and for costs of continuing ABAG operations
- Direct staff to continue working through and beyond the ABAG and MTC budget processes to better identify those areas in which MTC financial support is being used to address the ABAG Administrative Budget and to return with options for addressing the need for such support