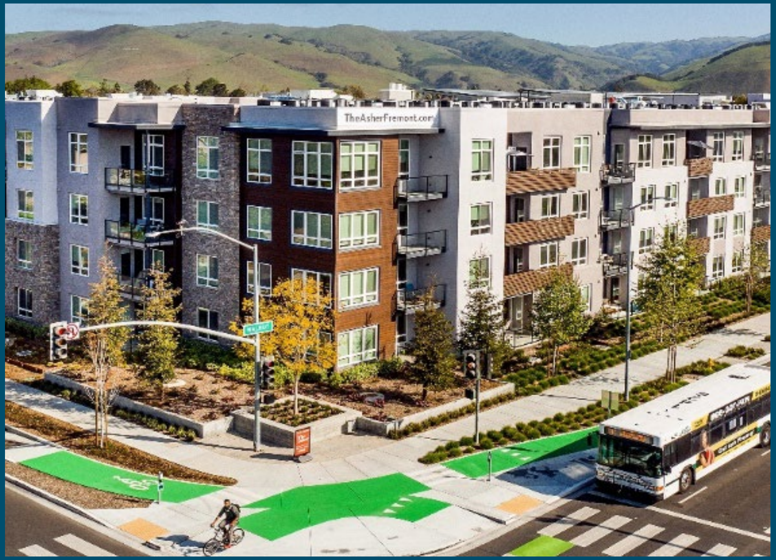


Financial Outlook

Association of Bay Area Governments Executive Board – March 20, 2025

Association of Bay Area Governments
Serving the counties, cities and towns of the Bay Area since 1961

Level Setting

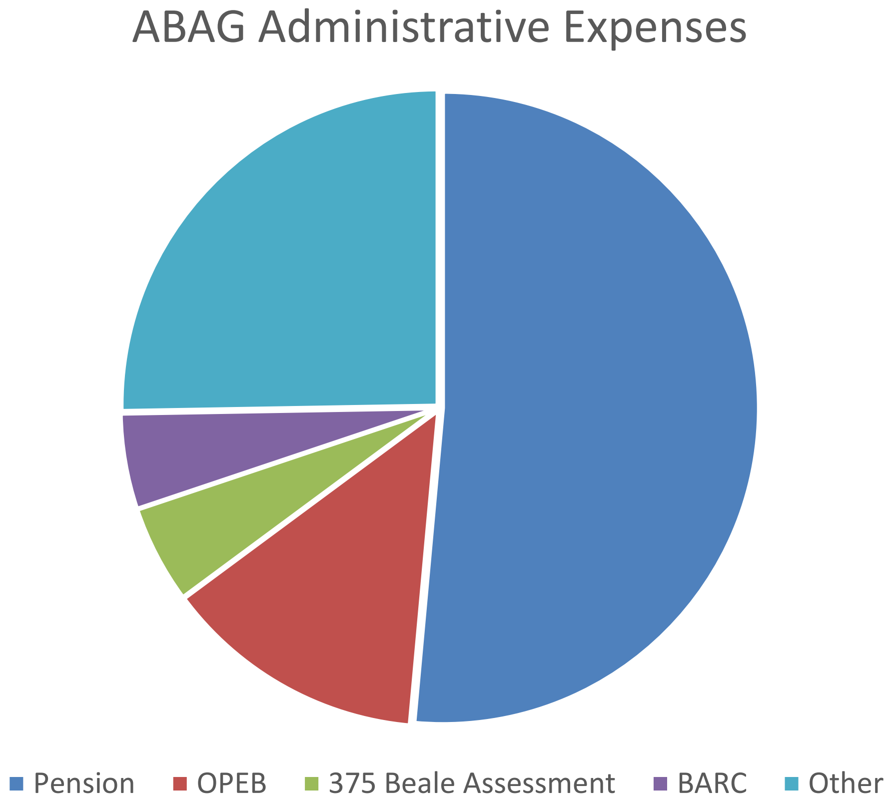
- Much discussion over past several years about the ABAG "Structural Deficit"
- What is a Structural Deficit?
  - A fundamental and continuing mismatch between governmental revenues and governmental expenditures
- Major driver of ABAG structural deficit is amortization of unfunded pension liabilities
- Current budgetary practices obscure the size of this challenge
- ABAG lacks sufficient reserves to provide operational flexibility or address this issue in meaningful way

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 $402,000, not adjusted for other items above, with another $275,000 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
- FY 2025 amortization is approximately 51% of the overall ABAG Administration budget, and about two-thirds of member dues



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, 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)

Addressing the Pension

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 payments to CalPERS
- Terminate CalPERS plan

375 Beale 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 bolster reserves

Addressing the Other Fiscal Challenges

- Continued work on ensuring full cost for providing service to ABAG is covered
  - Proper allocation of staff to support activities (as opposed to project staff)
  - Full reimbursement to MTC for overhead costs
  - Appropriate costing for shared services
- Need to consider strategies to:
  - Create greater cost stability with respect to pensions
  - Address need for operating reserves
  - Provide funding for other ABAG priorities and objectives

Funding the Challenges

- ABAG has steadily increased member dues since FY2023:
  - FY2023 – 6%
  - FY2024 – 10%
  - FY2025 – 10%
- These significant increases have allowed ABAG to satisfy its annual pension obligations but have been insufficient to address the other identified fiscal 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
- In the FY2026 budget, staff will be proposing a specific itemization to identify the portion of dues related to retirement of the pension obligation
- This would allow members to also see the “true cost” of ABAG’s continuing pension obligations and a better way to recognize the value of ABAG’s operations and the cost of supporting them through the non-pension portion of dues