

Association of Bay Area Governments

General Assembly

June 16, 2023

Agenda Item 7.a.

Proposed FY 2023-24 Operating Budget and Work Program

Subject

Adoption of Resolution No. 11-2023 authorizing the Proposed Fiscal Year (FY) 2023-24 Association of Bay Area Governments (ABAG) Operating Budget and Work Program

Background:

According to Article XI.B of the Association of Bay Area Governments (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 expense, actual and projected, for the current and next fiscal years.

The Executive Board reviews the proposed budget and work program, 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 expenses, subject to the control of the Executive Board.

At its meeting on April 20, 2023, the Executive Director presented the ABAG Finance Committee with the proposed Budget and Work Program for Fiscal Year 2023-24. Staff requested that the Finance Committee recommend Executive Board approval of ABAG Resolution No. 11-2023 authorizing the ABAG Agency Budget for FY 2023-24, including submission to the ABAG General Assembly for final approval. The Executive Board recommended General Assembly adoption of ABAG Resolution No. 11-2023.

The proposed ABAG Work Program for FY 2023-24 includes a summary description of all the programs and projects conducted by ABAG, including highlights of work completed in FY 2022-23 and plans for FY 2023-24. The proposed ABAG Budget for FY 2023-24 includes allocation of revenue and expenses for all ABAG operating funds. The operating funds include, ABAG Administration, ABAG Bay Area Regional Energy Network (BayREN), ABAG San Francisco Estuary Partnership (SFEP) and the San Francisco Bay Trail. The proposed Agency Budgets for FY 2023-24 are balanced as required.

The FY 2023-24 ABAG Finance Authority for Nonprofit Corporations (FAN) and ABAG POWER Publicly Owned Energy Resources (POWER) operating budgets will be presented separately to their respective governing boards.

The ABAG revenue budget is \$68.7 million, which is an overall projected increase of \$23.6 million compared to FY 2022-23. Summarized revenue details include:

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	FY 2022-23 (millions)	FY 2023-24 (millions)
Revenue		
Administration	\$ 3.6	\$ 3.3
BayREN-Energy	26.4	36.6
SFEP	14.8	28.3
Bay Trail Non-Profit	0.3	0.5
Total	\$ 45.1	\$ 68.7

The increase is primarily due to grant funding from the California Public Utilities Commission (CPUC) and the United States Environmental Protection Agency (EPA). In FY 2023-24, BayREN will fund ongoing programs and a new Refrigerant Replacement incentive program. Through the EPA grant, SFEP will fund ongoing boater education, pollution prevention programs, partnerships with coastal cities and wastewater treatment plants focused on resiliency. SFEP also received additional funding from the Water Quality Improvement Fund to advance wetland restoration, water quality improvement and green urban development projects.

There are several revenue highlights to the ABAG budget, including:

- The budget includes dues increase of 10%. While this increase is significant, member dues are still insufficient to fully cover ongoing expenses, including amortization of unfunded pension obligations
- No transfers are budgeted from other funds to balance the various budgets
- Retiree healthcare costs of \$480,000 fully reimbursed from a draw on 115 Trust
- ABAG grant funded programs exceed \$100 million in life-to-date funding
- Nearly 95% of all grant funding goes directly to regional projects
- The \$24 million Regional Early Action Planning (REAP) grant awarded in FY 2019-20 will be fully expended in FY 2023-24

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 2023-24 is \$3.3 million. The proposed budget is balanced. The principal source of revenue is membership dues which will increase to \$2.9 million, up 10% from FY 2022-23. The detailed membership dues schedule is attached (see Attachment B).

ABAG Administration covers all administrative expenses and operating programs, including pension and Other Post-Employment Benefits (OPEB) expenses. While the ABAG BayREN and SFEP programs are grant funded and relatively self-funded, ABAG Administration is dependent on membership dues.

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Unfortunately, even with the proposed increase in membership dues, these levels are unlikely to cover ongoing operating expenses given anticipated increases in unfunded pension amortization costs:

ABAG Administration	FY 2022-23 Approved	FY 2023-24 Proposed	Difference \$
	(Thousands \$)	(Thousands \$)	(Thousands \$)
Revenues & Transfers			
Membership Dues	\$2,592	\$2,851	\$259
Other	587	484	(103)
Transfers	373	-	(373)
Total Revenues & Transfers In	\$3,552	\$3,335	(\$217)
Expenses & Transfers			
Pension	\$1,744	\$1,135	(\$609)
OPEB	587	480	(107)
375 Beale Assessment	98	222	124
BARC (transfer out)	185	188	3
Other	904	1,258	354
Total Expenses & Transfers Out	\$3,518	\$3,283	(\$235)
Operating Surplus/(Deficit)	\$34	\$52	\$18

Revenue exceeds the operating obligations by \$52,000.

There are several expense highlights to the ABAG budget, including:

- The pension payment for amortizing the Unfunded Accrued Liability (UAL) decreases by \$609,000 due to the CalPERS approach to amortizing portfolio gains and losses. Based on recent CalPERS performance and the roll-off of previous gains, we anticipate an increase in the required funding against the unfunded accrued liability. Funding of FY 2023-24 pension obligations requires approximately 40% of all membership dues

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- ABAG receives full reimbursement from the California Employers' Retiree Benefit Trust (CERBT) for retiree medical expenses. Therefore, the \$480,000 of retiree health care costs will be covered by a withdrawal from the trust
- ABAG's 375 Beale Assessment increased due to an increase in common area expenses, which include security, janitorial, and shared meeting spaces throughout the headquarter office

While the FY 2023-24 proposed budget is balanced, the long-term implications of the funding shortfall is cause for concern. As costs increase and the primary source of revenue is membership dues, the potential for deficits in the future is likely. ABAG workshops were conducted in October 2022 and March 2023 to discuss the financial challenges and alternatives that might improve short and long-range financial planning which include the following:

- Annual assessment of membership dues in consideration of funding ongoing expenses, pension obligations, and establishing an operating and legal reserve
- Establishing a 115 trust for pension obligations
- Possible sale of interest in 375 Beale, which partially funds outstanding pension obligations and efforts towards building a reserve
- Establishing an operational and legal reserve
- Stabilize and maximize financial position
- Pursue other new 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 \$27 million in active grants. The grants include (in thousands):

	Grant Award	Balance
Regional Early Action Planning (REAP)	\$24,000	\$0
Coastal Conservancy	3,000	100
Total	\$27,000	\$100

The REAP and Coastal Conservancy grants allocate funding to the Metropolitan Transportation Commission (MTC) for staffing costs, pursuant to the Contract for Services executed in July 2017. The grants will be fully expended in FY 2023-24.

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Bay Area Regional Energy Network (BayREN)

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

The recommended FY 2023-24 BayREN budget is \$36.6 million.

The proposed budget is balanced and highlights include:

- Increased funding from the CPUC will provide revenue for ongoing and new activities and projects
- Staffing and overhead costs are approximately 5% of total revenue
- Staffing costs include a proposed 4.5% cost of living adjustment
- Direct incentives are approximately 43% of revenue
- Consultant and professional fees are 51% of revenue

San Francisco Estuary Partnership (SFEP)

The San Francisco Estuary Partnership (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 California Department of Water Resources (DWR).

The proposed budget for FY 2023-24 is \$28.4 million and balanced as presented. The budget is an increase of \$13.6 million from the FY 2022-23 primarily due to increased grant funded project activity. A complete listing of awarded grants is attached and summarized below (in thousands):

	Awarded	Additional FY 2024	Balance
EPA	\$ 11,567	\$ 6,089	\$ 3,452
DWR	49,219	0	11,466
Other	\$ 4,204	\$ 701	\$ 1,647

The estimated grant balance outstanding through FY 2023-24 and beyond is in excess of \$16 million.

The SFEP program highlights include (in thousands):

- \$20,000 for passthrough project funding
- \$3,000 for staffing and overhead (this is transferred to MTC)

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Overall, SFEP will commit approximately 90% 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.

Since the April 20, 2023 Executive Board meeting, the grant and consultant budget for FY 2023-24 increased by \$3.3 million. This reflects ongoing multi-year project expenditures.

San Francisco Bay Trail Non-Profit

The San Francisco Bay Trail is a non-profit corporation that receives grants and donations as part of a larger Bay Trail program. The total budget will be \$240,000, which will be funded by a combination of donations and other revenue.

Resolution No. 11-2023

Staff is requesting approval of ABAG Resolution No. 11-2023 authorizing the Proposed FY 2023-24 ABAG Operating Budget and Work Program and all affiliated funds and entities. Resolution No. 11-2023 includes authorization to administer the budget following approval by the General Assembly. The authorization includes:

- Authorization to carryover and re-budget all grants properly approved and budgeted 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 2023-24 budget.
- 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.

At its April 20, 2023 meeting, the Executive Board referred Resolution No. 11-2023 for the FY 2023-24 Operating Budget to the ABAG General Assembly for adoption.

After the April 2023 Executive Board meeting, staff made updates to the SFEP grant and consultant budget line items to better reflect timing of expenditures for several multi-year projects.

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Recommended Action:

The ABAG General Assembly is requested to adopt ABAG Resolution No. 11-2023 approving the Proposed Fiscal Year 2023-24 Association of Bay Area Governments Operating Budget and Work Program.

Attachments:

- A. Proposed FY 2023-24 Operating Budget
- B. Proposed FY 2023-24 Membership Dues
- C. Resolution No. 11-2023
- D. Proposed FY 2023-24 Budget and Work Program
- E. Presentation: Proposed FY 2023-24 ABAG Operating Budget

Reviewed:



Andrew Fremier