REVIEW OF MTC DISCUSSION OF THE FINANCIAL IMPACT OF THE TRANSFER OF PLANNERS FROM ABAG TO MTC

The MTC report was prepared and issued without discussion with ABAG Finance personnel and thus; we believe that the report omits some information that lead to different conclusions than those suggested in the MTC report. This review is presented to provide some of the missing information.

Current and Future MTC Expense Comparison

MTC projects that MTC will save $600,000 under the consolidation, but missing from the comparison is the $1.2 million that MTC proposes to pay to ABAG to compensate for the lost revenue ABAG will require to continue the planning activities not transferred to MTC and the other activities ABAG performs through its enterprise units.

Also, the MTC analysis eliminates $700,000 of direct and overhead costs currently incurred by ABAG to support the land use planning activity. These expenses are necessary for the performance of the land use planning function and will not be eliminated by transfer of the Planners from ABAG to MTC.

ABAG Finances

MTC states that ABAG finances are currently precarious. However, ABAG has consistently operated with a balanced budget, and has not experienced an operating deficit within the last five years. The only threat to ABAG's continued financial stability would come from MTC abruptly discontinuing the funding for which they are committed, under the financing agreement adopted in 2013. There was a threat to ABAG's financial stability from a condition attached to the extension of the 2014-15 funding agreement, under which ABAG would have had to refund reimbursements received for services of the Executive Director and Deputy Executive Director for the prior three years. This condition has been removed. The remaining condition to extension of the funding agreement makes reference to questions regarding ABAG's charging of direct and indirect cost. However, MTC is aware that ABAG's cognizant federal agency, the EPA, has audited and approved ABAG's Indirect Cost Allocation Plan and ABAG's procedures for applying direct and indirect costs to federally funded programs. MTC is also aware that Caltrans has confirmed that ABAG is in compliance with federal regulations in following EPA guidelines in its allocation of cost to projects funded by MTC.

MTC references ABAG's $12 million unfunded pension liability as something unique to ABAG and suggests that it is an indication of poor fiscal management. This characterization is inaccurate, as the unfunded pension liability arose from financial forces not controllable by

ABAG and from CalPERS' failure to recommend adequate funding contributions for several years. As a result, ABAG is in concert with most PERS plans in having unfunded liabilities that are being amortized over periods of 6 to 20 years. The ABAG unfunded liability is 34.1 % of the plan's total accrued liability, which compares to MTC's 23.4% unfunded liability, as a percentage total accrued liability.

MTC described the ABAG retiree medical benefits liability (OPEB) of $5 million as under-funded. This is an incorrect description, as the plan was not established with a concept of the actuarial liability being fully funded upon creation of the plan, but with the intention to fund the plan at a rate that would cover current expenses and move to full funding over time. The ABAG unfunded liability is similar to the $11 million unfunded liability that MTC has for it OPEB. As with many of these plans, the escalation of medical cost made ABAG's plan a financial burden and new enrollment to the original plan was terminated in fiscal year 2009-10. The current annual contribution for OPEB of approximately $700,000 is established at a level sufficient to fund current expenses and to provide reserves for future claims. It is projected that the plan will be fully funded by 2022.

MTC states that recording of the unfunded pension liability of $12 million (A requirement of a new governmental accounting standard.) will transform ABAG's unrestricted fund balance to a $9 million deficit. While it is technically true that ABAG's Balance Sheet will show a deficit fund balance, the financial health of ABAG will not have changed, and if ABAG is allowed to continue to operate at its current level, the liability and deficit will be eliminated by 2037.

MTC poses the question of further revelations regarding the FAN embezzlement. The ABAG Executive Director has stated that the FAN embezzlement is limited in its impact to the FAN, and that all other ABAG operations and component entities will not be adversely affected by the embezzlement. This statement remains true as ABAG and FAN proceed with a confidential internal investigation.

ABAG OVERHEAD FAIRLY ALLOCATED ?

MTC states that MTC planning funds represent only 15% of all ABAG revenue. This statement is made to establish a basis for the assertion that MTC planning is allocated a disproportionate share of ABAG overhead. This statement is misleading, as it is based on ABAG's total revenue of $26 million, which includes $12 million of pass-through funds. The correct comparison is to compare MTC planning funds to the true ABAG revenue of $14 million. *Pass-through funds are funds such as the BayREN energy conservation rebates paid to property owners who make energy saving improvements to their property.* The correct calculation shows MTC planning funds of $3.9 million to be 28% of total ABAG revenue.

MTC states that MTC funding source absorbs 74% of “distributed” overhead, and this computation is made to support the argument that ABAG overhead is unfairly allocated. However, this concept of “distributed “ overhead is not valid for this purpose as it looks only at overhead distributed to MTC as a percentage of overhead recovered by ABAG Agency Management. The correct comparison is to compare the overhead charged to MTC to ABAG’s total overhead cost. ABAG’s Indirect Cost Allocation Plan, which MTC has reviewed, clearly shows that total overhead is $3.2 million, and the overhead allocated to MTC funding is $1.2 million. This is 38%, not 74%.

MTC states that MTC is assessed overhead at 45%, while Enterprise funds are assessed at 24%. Actually, all enterprises and programs serviced by ABAG are assessed at the same EPA approved indirect cost rate of 44.95%. The single exception in the application of the overhead rate occurs with the San Francisco Estuary Partnership (SFEP), for which overhead costs are specifically tracked as services are provided. The overhead charged to SFEP is lower than that charged to other projects because SFEP is not housed in the Metro Center and it receives substantial administrative support from the State Water Resources Control Board.

<u>ABAG Pension Liability: Independent Review</u>

The statement by MTC that ABAG’s PERS and OPEB costs will be reduced proportionate to the reduction in payroll is correct for current costs, but it ignores the impact on ABAG of having to fund the fixed cost of the $12 million unfunded pension liability and the OPEB actuarial liability of $5 million. Until fiscal year 2015-16, the amortization of the unfunded pension liability was computed as a percentage of estimated payroll, and the dollar amount would rise or fall proportionately with increases and decreases in payroll costs. Beginning in FY 2015-16, amortization is set at a dollar amount, which for FY 2015-16 is $1,085,876. This payment is billed to ABAG monthly as a fixed amount of $90,490. Thus if transfer of Planners were to reduce ABAG’s payroll 25% from $7.0 million to $5.25 million, the amortization of the $12 million unfunded liability would remain at $1,085,876, effectively increasing the rate from 15.5% of payroll to 20.7% of payroll.

In order for the transfer of Planners from ABAG’s payroll to not adversely impact ABAG’s ability to maintain full funding of its pension liability, MTC would need to provide an immediate one-time contribution of $3 million to reduce the unfunded pension liability.

Similarly, ABAG has an Actuarial Accrued Liability for its Retiree Healthcare Plan of $4.7 million, which is being amortized as part of ABAG’s annual payroll expense of $7 million. If ABAG’s payroll is reduced 25%, an immediate one-time payment of $1.2 million would be required in order to avoid an adverse impact on ABAG’s ability to honor this commitment to its approximately 61 active and retired employees, who have earned benefits provided by this plan.

Continued ABAG Funding

MTC has significantly underestimated the impact of the transfer of Planners by ignoring the fixed cost nature of the $12 million Unfunded Pension Liability and the $4.7 million Actuarial Accrued Liability for its Retiree Healthcare Plan. MTC also dismisses the $600,000 budget shortfall it admits will occur under its plan, by saying it is just 2% of ABAG’s budget. ABAG’S operating budget is $14 million, and will drop to approximately $11 million under the MTC proposal; thus the $600,000 short fall would be 5.5% of the revised ABAG budget.

Also, the MTC analysis does not provide for any decline in membership dues that may be expected if ABAG loses it responsibility for land use planning. Nor does the MTC analysis address the detrimental effect of the reduced infrastructure on ABAG’s ability to retain its current grants and enterprise activities.