Date: March 8, 2018

To: ABAG Executive Board
ABAG Finance Committee

From: Executive Director

Subject: **Proposed Modification of Membership Dues**

Executive Summary

Staff requests that the Executive Board consider a modification of the membership dues for county membership in FY 2018-19.

Discussion:

The current fee structure declines as agencies increase in population. The four tiers are:

	Population	$/Capita
First	50,000	$0.21
Second	50,000	$0.20
Next	100,000	$0.14
Above	200,000	$0.10

The largest population agencies are the nine counties whose average rate per capita is $0.11 and $0.12 for fiscal 2018 and 2019, respectively. By comparison, the average city cost per capita is $0.18 and $0.19 for fiscal 2018 and 2019, respectively.

The Contract for Services in section 4.2 (a) states that ABAG "will make best efforts and adopt strategies to identify and secure any additional revenues" to help offset the cost Metropolitan Transportation Commission has inherited in transitioning the ABAG employees to MTC employment. As shown in the attached excerpt from MTC's FY 2017-18 adopted budget, that extra cost amounts to approximately $2 million on an annual basis. The additional cost consists primarily of higher salary rates for the transitioning employees and unfunded pension/OPEB liabilities. In the current budget year, MTC covered those costs with transfers from the toll program and agency reserves.

Part of the discussion on revenue enhancement during the transition was making the new ACFA financing conduit operational, which is in the works. Staff believes another and more immediate option is to modify the dues calculation for counties. Changing the calculation to a flat rate of $0.19 will generate an additional $525,000 in new revenue. This option is simple, direct, immediately available and also puts counties at the same average cost per capita as the current average city cost. A detailed schedule depicting the financial report by county is attached.

Any change to the current dues structure requires approval by both the Executive Board and General Assembly (GA). If the Executive Board agrees to recommend this proposed change to the GA in May, it is ABAG's prerogative as to how it wishes to dispose of the new revenue. If ABAG were to transfer the $525,000 in new revenue to MTC, it would represent a significant "good faith" down payment on the staff consolidation costs described above. If the Executive Board recommends this course of action, it will need to direct staff to adjust ABAG's draft FY 2018-19 budget accordingly to reflect the transfer to MTC.

Steve Heminger

Attachment

Proposed Modification Membership Dues—County
Excerpt from MTC's FY 2017-18 Adopted Budget

Attachment

Proposed Modification Membership Dues—County

	Population 2019	Current Charge 2018	Population Charge 2019	Flat Fee	Total Dues 2019	Change	County Rate	Change
				$ 782			$ 0.19	
Alameda	1,645,359	167,209	$ 177,856	$ 782	$ 178,637	$ 11,428	$ 304,848	$ 126,210
Contra Costa	1,139,513	120,271	127,715	782	128,496	8,225	211,126	82,630
Marin	263,604	39,711	40,892	782	41,673	1,962	48,840	7,166
Napa	142,408	26,132	26,619	782	27,401	1,269	26,385	(1,016)
San Francisco	874,228	95,711	101,419	782	102,200	6,489	161,975	59,774
San Mateo	770,203	86,883	91,107	782	91,889	5,006	142,701	50,812
Santa Clara	1,938,180	195,377	206,881	782	207,662	12,285	359,101	151,438
Solano	436,023	55,994	57,982	782	58,764	2,770	80,785	22,021
Sonoma	505,120	62,362	64,832	782	65,613	3,251	93,587	27,974
County Total	7,714,638	$ 849,650	$ 895,302	$ 7,035	$ 902,337	$ 52,687	$ 1,429,347	$ 527,010
Cities	6,960,160	$ 1,213,921	$ 1,211,392	$ 78,168	$ 1,289,559	$ 75,638	$ 1,289,559	$ -
Total	7,714,638	$ 2,063,571	$ 2,106,693	$ 85,203	$ 2,191,896	$ 128,325	$ 2,718,906	$ 527,010

- 14 Finance, Technology and Administrative Services employees - $1.8 million.

Other Expenses
Other Expenses increased by $2.9 million:

- $1.6 million increase in general operations due to ABAG staff consolidation.
- $200,000 increase in travel and printing due to ABAG staff consolidation.
- $1.1 million increase in computer services. Of that, $342,000 is related to the ABAG staff consolidation and $758,000 is due to software licenses, hosted services and computer hardware.

Multi-Year Federal Grants
Approximately $155 million in new STP grants and $106 million in new CMAQ grants for multiple programs will be added in FY 2017-18 bringing the total grant program under management to $317 million. Grants are budgeted on a life-to-date basis and as such only the new funding is subject to the annual budget approval process. The life-to-date budget for the multi-year federal grants is included in Attachment B.

Capital Projects
Capital projects are also budgeted on a life-to-date basis. The proposed FY 2017-18 budget includes capital expenditures of $200,000 for improved records management. The Hub Signage capital budget will increase by $1.1 million to reflect the work related to the Real Time Sign Enhancement.

Clipper®
Clipper® is an Enterprise Fund operated by MTC. The Clipper® operating and capital budgets for FY 2017-18 are shown in Attachment C. However, as an enterprise, Clipper®'s revenues and expenses do not flow through MTC.

The Clipper® operating expenses are projected to be $32.4 million:

- $28.2 million for Clipper® operations
- $1.4 million for staff costs
- $2.8 million for customer outreach/education

Total life-to-date Clipper® capital program budget of $267 million will increase by $2.5 million in FY 2017-18.

MTC/ABAG Staff Consolidation – Financial Consequences
As previously shared with the Commission as part of the financial due diligence, the MTC/ABAG staff consolidation is not without financial consequences for MTC. Table 3 on the following page summarizes the FY2017-18 budget impact. The financial result of the MTC budget before including the ABAG costs was a small net surplus of roughly $225,000. After including the full ABAG consolidation staff costs, the budget shows a deficit of just under $770,000 - a swing of nearly $1 million. It is important to note that the deficit would have been closer to $2.4 million if

not for two important mitigations: 1) the savings associated with management redundancies ($0.6 million) and 2) the transfer of toll funding to cover the overhead costs for the San Francisco Estuary Program ($1.1 million).

Table 3

	MTC	ABAG	Total
Revenues			
TDA (Sales tax)	$ 11,950,000	$ 1,300,000	$ 13,250,000
Interest/Other	530,000	0	530,000
Planning grants	9,980,033	1,372,716	11,352,749
Transfers	17,905,925	5,854,947	23,760,872
State & Local Funding	4,980,850	0	4,980,850
Total Operating Revenue	**$ 45,346,809**	**$ 8,527,663**	**$ 53,874,472**
Expenses			
Salaries/ Benefits	$ 23,509,719	$ 5,632,953	$ 29,142,672
Other Expenses	5,964,531	1,817,495	7,782,026
Ops Subtotal	29,474,250	7,450,448	36,924,698
Contractual	15,647,340	2,068,166	17,715,506
Total Operating Expense	**$ 45,121,590**	**$ 9,518,614**	**$ 54,640,204**
Surplus/Deficit	**$ 225,219**	**$ (990,951)**	**$ (765,732)**

Budget Uncertainties

The FY 2017-18 budget makes assumptions about two issues of uncertainty that are atypical of past MTC budgets. The first has been the source of much discussion – the long-term financial effects on MTC and ABAG of the implementation of MTC Resolution 4210, which would integrate the ABAG staff within MTC. The second issue is the long-term effects of the CalPERS rate adjustments. A bit more detail is provided below on these topics.

- *MTC/ABAG Future Relationship:* With the signing of the ABAG CS, Resolution 4210 is fully established. There is still remaining longer-term uncertainty about the financial effects of the ABAG staff consolidation. As MTC begins its post consolidation operations, it will have to obtain a new actuary report, new CalPERS information for the additional new employees, and review the current and future grant and contract agreements. This could result in changes to the retirement and OPEB liability for the consolidated staff structure under MTC.

- *CALPERS Retirement Rates*: The second uncertainty lies with the future of CalPERS retirement rates. Agencies have been provided information on the impact of lowering the discount rate from 7.5% to 7.0% over a three-year period effective July 1, 2018. After the three-year ramp-up, MTC's normal costs will increase by up to 3% annually and the unfunded actuarial liability would go up 3%, 3%, and 9% during the three-year ramp-up. After three years, the unfunded actuarial liability will go up by 5% annually. There is no