MARCH 16, 2021

AGENDA ITEM 6
INFORMATION ITEM

CALIFORNIA ABLE ACT BOARD

CalABLE Self Sustainability Projections – AKF Consulting

Information Item

Background:

In 2020, Staff commissioned AKF to perform an analysis and timeline estimate for CalABLE to reach financial self-sustainability, when program revenue meets or exceeds the program operating costs. These projections will also provide insight into when the program can expect to repay the general fund loans that have supported to operating costs of the program since inception. This report was used as the basis for CalABLE's FY 21-22 Budget Change Proposal (BCP) seeking an annual budget appropriation in lieu of additional loans. Ms. Andrea Feirstein with AKF Consulting will provide analysis of this report. It includes:

- CalABLE Background
- Key Assumptions
- Analysis
- Observations

Attachments:

- Projection Model Overview

California ABLE Act Board

Projection Model Overview

March 16, 2021

Today's Discussion

Section 1.

Background

CalABLE Program Funding

- General Fund Loans ("Loans") have been CalABLE's sole funding source[1]
  - Loans funded implementation and operating expenses to date
  - $5,070,000 in Loans currently outstanding
  - Interest free but principal must be repaid

- Starting FY 2022, Appropriations will replace Loans
  - Will cover excess expenses after revenues
  - Interest free and principal does not need to be repaid
  - Will cap total Loans outstanding at $5,070,000

[1] Excluding the State Administration Fee (0.44%)

Drivers of Projection Analysis

- **Revenue Factors**
  - **Account growth**
  - **Contributions**
  - **State Administration Fees based on Program assets**

- **Operating Shortfall**
  - **Reflects the difference between revenues and expenses**
  - **Covered by Loans to date and Appropriations starting FY 2022**

- **Sustainability**
  - **Point at which operating expenses can be fully paid by Program revenues**
  - **Loan repayments begin when excess revenues are available**

- **Loan Repayment**
  - **Any excess revenues are used to repay Loans until all Loans have been repaid**

Approach to Projection Analysis

- **Objective**
  - **Assess CalABLE's expected growth**
  - **Estimate CalABLE's timing to repay Loans**

- **AKF Consulting Group has modeled projections for -**
  - **Program sustainability**
  - **Eventual Loan repayment**
  - **Assumption driven (i.e., account growth rate, contribution amounts, earnings rates, etc.)**

- **Sensitivity analysis**
  - **Varies annual account growth rates**

- **Projections assist Staff in analyzing future CalABLE growth and viability**

Section 2.

Key Assumptions

Constant Assumptions

- **Analysis Inputs are based upon observed and projected data from key advisors to CalABLE**

		Input	Source
Program Activity	Contributions	$6,000	TIAA
	Annual Redemption Rate	12.45%	
Program Fees	State Admin Fee	0.440%	Current Program Terms
	Investment Option Fee	0.087%	
	FDIC Option Fee	0%	
	Annual Account Fee	$37	
Investments	Market Return	3.50%	Meketa
	Assets in FDIC Option	35%	Staff
Growth in State Expenditures		2.00%	

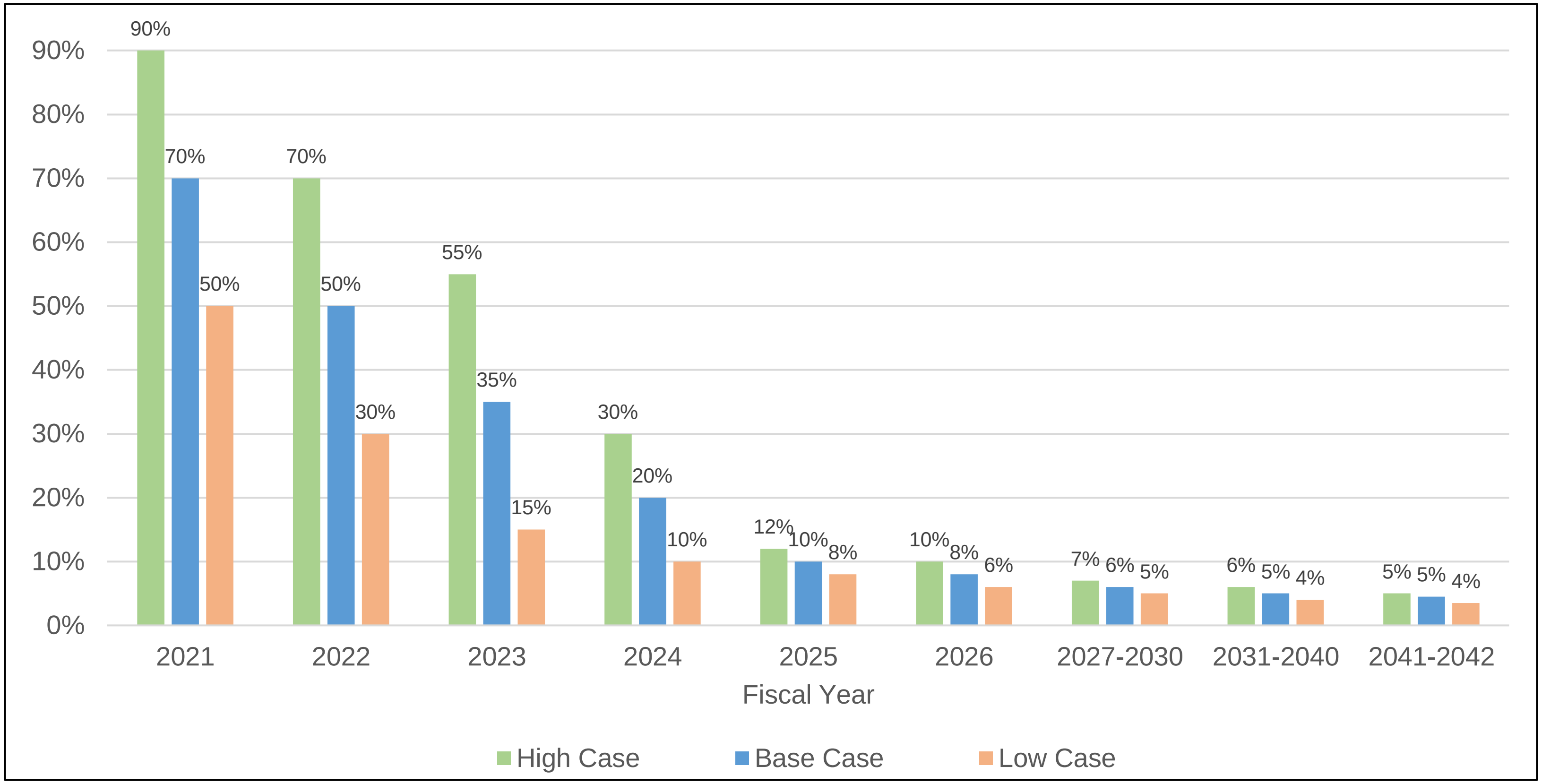
	Fiscal Year	Amount
Outstanding Loans (Interest Free)	2017	$850,000
	2018	650,000
	2019	2,000,000
	2020	1,070,000
	2021	500,000
	Total	$5,070,000

AKF CONSULTING

CalABLE

Account Growth Rate Assumptions

- **Account Growth is a key driver of revenue collection**
- **Sensitivity Analysis offers a range of Projection results based on varying account growth rate assumptions**

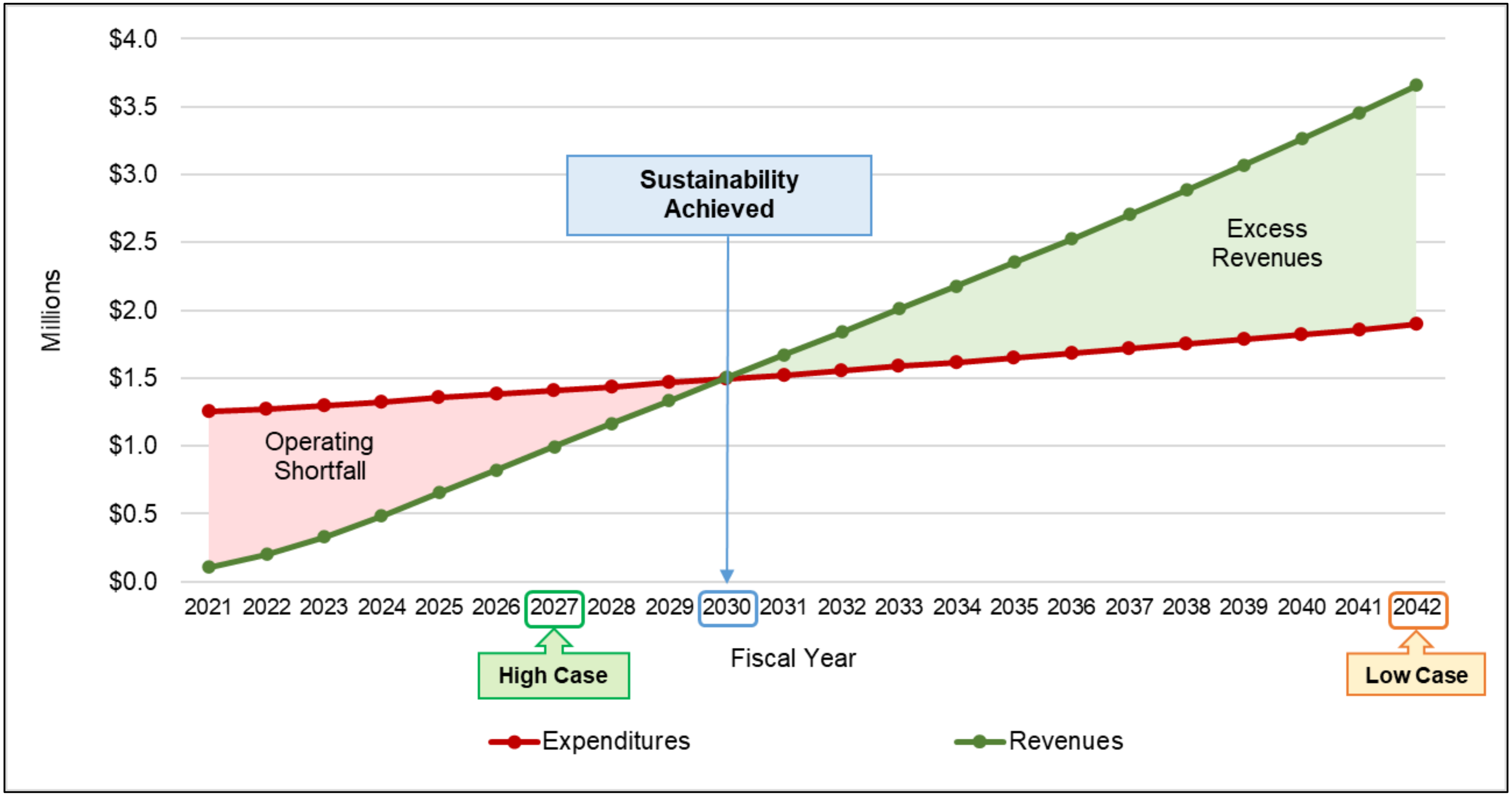


Section 3.

Analysis

Sustainability (Base Case)

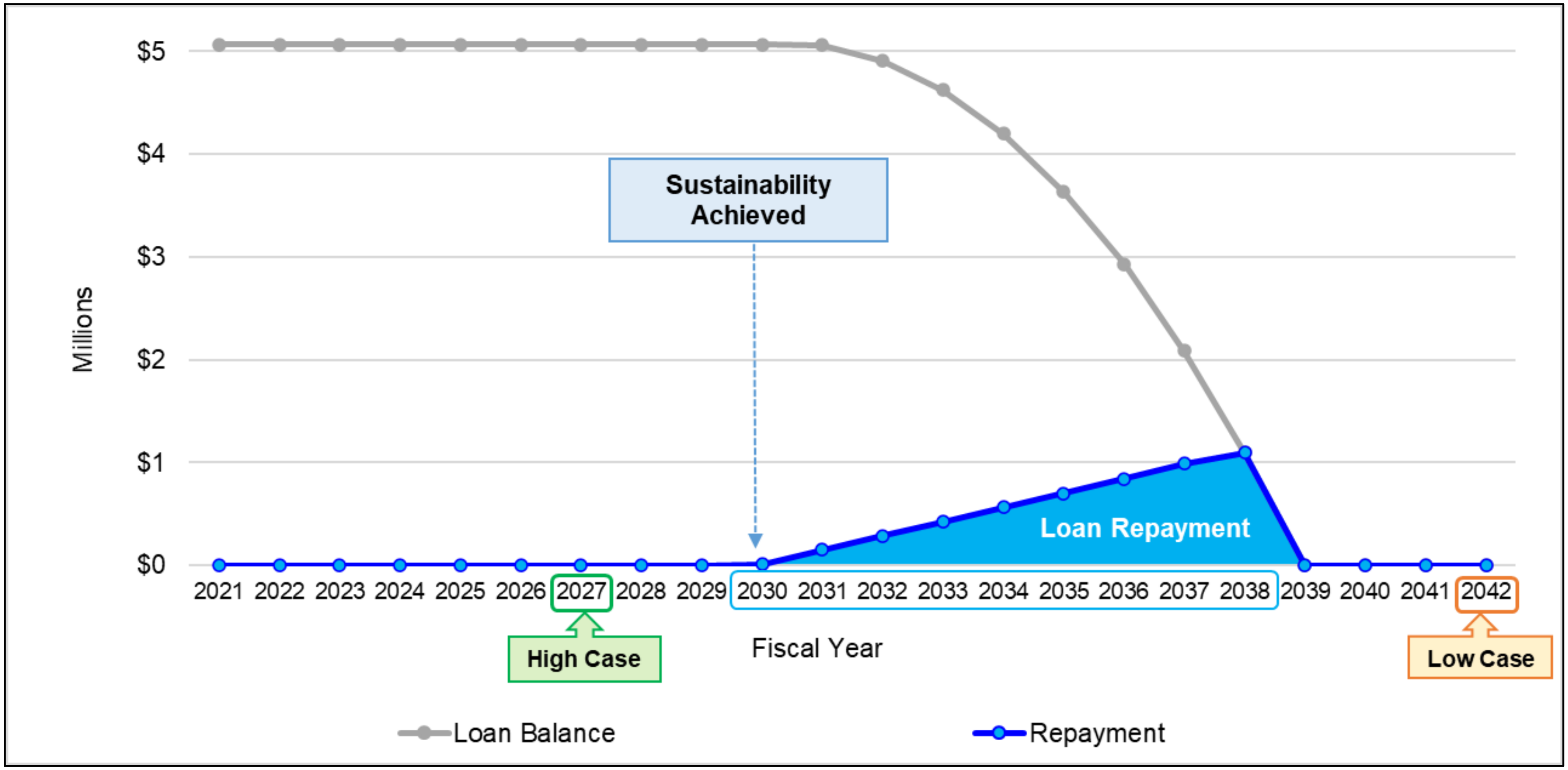
- **CalABLE will achieve Sustainability in FY 2030[1,2]**
- **Once self-sustainable, CalABLE will no longer need funding from the State**



[1] Sustainability expected in Fiscal Years 2027 and 2042 for the High and Low Cases, respectively
[2] Based on case assumptions

Loan Repayment (Base Case)

- **Appropriations cap total Loans at $5,070,000**
- **Loan repayment can begin when CalABLE is self-sustainable (expected FY 2030)**
- **Full loan repayment is expected in FY 2038[1]**



[1] Full repayment expected in Fiscal Years 2033 and 2055 for the High and Low Cases, respectively

Impact of Appropriations (Base Case)

- Appropriations will cover Shortfalls until Program is self-sustainable
  - Enables CalABLE to repay all Loans in FY 2038

- Without Appropriations, Loans would cover future Shortfalls
  - Additional $4,953,890 in Loans would be required until Program is self-sustainable
  - Total Loans required would double and extend time to full repayment to FY 2042

	Appropriations	Loans
Loan Balance through FY 2021	$5,070,000	
Total Operating Shortfall	$4,953,890[1]	
Cumulative Loan Principal	$5,070,000	$10,023,890[2]
Year of Full Loan Repayment	2038	2042[3]

[1] Reflects projected Total Operating Shortfall for Fiscal Years 2022 to 2030 for the Base Case
[2] Cumulative Loan Principal expected to be $3,185,654 and $10,677,891 for the High and Low Cases, respectively
[3] Full Repayment expected in Fiscal Years 2034 and 2065 for the High and Low Cases, respectively

Section 4.

Observations

Observations of Base Case Analysis

- CalABLE is in the early growth phase
  - Using assumed account growth, sustainability is expected in FY 2030
  - Prior to FY 2030, external funding is required to cover Operating Shortfalls

- Appropriations will enhance CalABLE's financial status
  - Will cover $4,953,890 of Operating Shortfalls between FY 2022 and FY 2030
  - No additional Loans will be required

- CalABLE can repay all Loans in FY 2038
  - Starting FY 2030, excess revenues will be applied to repay outstanding Loans
  - Starting FY 2038, State Administration Fees can be reduced or applied to Program enhancements

- Based on projections, Staff can strategize for Program growth, including
  - Staff outreach
  - Marketing firm engagement
  - Financial literacy, etc.

AKF Legal Disclosure

Pursuant to Municipal Securities Rulemaking Board ("MSRB") Rule G-42, on Duties of Non-Solicitor Municipal Advisors, Municipal Advisors are required to make certain written disclosures to clients and potential clients which include, among other things, Conflicts of Interest and Legal or Disciplinary events of AKF and its associated persons.

Conflicts of Interest

Compensation

AKF represents that in connection with the issuance of municipal fund securities, AKF receives compensation from its client issuers for services rendered on an hourly, retainer or fixed fee basis. Consistent with the requirements of MSRB Rule G-42, AKF hereby discloses that such forms of compensation may present a potential conflict of interest regarding AKF's ability to provide unbiased advice regarding a municipal fund security transaction. This potential conflict of interest will not impair AKF's ability to render unbiased and competent advice or to fulfill its fiduciary duty.

Other Municipal Advisor Relationships

AKF serves a wide variety of clients that may from time to time have interests that could have a direct or indirect impact on the interests of other AKF clients. For example, AKF serves as Municipal Advisor to other municipal fund securities clients and, in such cases, owes a regulatory duty to such clients just as it will with the entity receiving this presentation, if hired. These other clients may, from time to time and depending on the specific circumstances, have competing interests. In acting in the interests of its various clients, AKF could potentially face a conflict of interest arising from these competing client interests. AKF fulfills its regulatory duty and mitigates such conflicts by dealing honestly and with the utmost good faith with all clients.

If AKF becomes aware of any potential or actual conflicts of interest after this disclosure, AKF will disclose the detailed information in writing to the client or obligated person in a timely manner.

Legal or Disciplinary Events

AKF does not have any legal events or disciplinary history on its Form MA and Form MA-I, which includes information about any criminal actions, regulatory actions, investigations, terminations, judgments, liens, civil judicial actions, customer complaints, arbitrations and civil litigation. You may electronically access AKF's most recent Form MA and each most recent Form MA-I filed with the Securities and Exchange Commission at the following website: www.sec.gov/edgar/searchedgar/companysearch.html. If any material legal or regulatory action is brought against AKF, AKF will provide complete and detailed disclosure to its clients, thereby allowing each client to evaluate AKF, its management and personnel.