CapMetro

Employee Retirement Plan Update
Board Finance, Audit & Administration Committee

December 9, 2024

Agenda

- Pension Plan Summary
- Valuation Report on Closed Bargaining Employee Pension Plan
  - AON
- Valuation Report on CapMetro Pension Plan for Administrative Employees
  - USI Consulting Group
- 2023 Audit Reports on CapMetro 401K and Pension Plan
  - RSM US
- 2023 Audit Report on Bargaining Employee Pension Plan
  - RSM US

Pension Plan Status Summaries

	Pension Plan for Administrative Employees of Capital Metro	Pension Plan for Bargaining Employees of StarTran, Inc.
Year Created	2005	CapMetro assumed sponsorship in 2004
Active Participants	560	104
Retirees Receiving Benefits	172	583
Assumed Annual Rate of Return	6.75%	6.5%
Return on Market Value of Assets	15.5%	15.6%
Total Liability as of 1/1/24	$75,641,902	$62,989,803
Total Assets as of 1/1/24	$ 59,522,711	$39,904,358
Funded Percentage as of 1/1/24	78.7 %	65.7%
Annual Contribution	$6,550,278	$4,000,000

NOTE: All values are actuarial values as of 1/1/24

Significant Plan Provisions

	Pension Plan for Administrative Employees of Capital Metro	Pension Plan for Bargaining Employees of StarTran, Inc.
Status	Active since 2005	Frozen since 2012
Benefit Formula	1.5% of final average pay times years of service	$60 per month per year of service
Investment Policy Targets	60% equities/40% fixed income, alternatives and cash	65% equities/35% fixed income and real estate
Funding Policy	100% within 20 years	100% or more by 2040
Administrative Committee	5 CapMetro members (retiree, accounting, benefits, executive, employee representative)	3 ATU members/3 CapMetro representatives (CEO office, Finance, Administration)
Early Unreduced Retirement	Rule of 80 (age plus years of service = 80) and 62 years old	22.5 years of service and 55 years old
Disability Benefit	Age 55 and Qualified for SS Disability	15 years of service and Qualified for SS Disability

Retirement Plan for Bargaining Units of StarTran, Inc.

Funding Valuation for 2024 Plan Year as of January 1, 2024 GASB 68 Valuation for the Fiscal Year Ending
September 30, 2024

Reflecting December 31, 2023 Measurement Date

December 9, 2024

Summary Story

Funding Requirements

Funding Ratios		
Asset Basis	**1/1/2023**	**1/1/2024**
Actuarial Value (4 Year Smoothing)	63.35%	65.72%
Market Value	53.77%	61.77%

Contributions[1]				
($ Millions)		**2023**		**2024**
Actuarially Determined	$	4.0	$	4.0
Actual Made/Planned	$	4.0	$	4.0

Funding Requirements

Net Liability (GASB 68 Accounting)				
($ Millions)		**12/31/2022**		**12/31/2023**
Pension	$	29.1	$	23.4

Annual GASB 68 Expense				
($ Millions)		**2023**		**2024**
Pension	$	2.2	$	0.9

[1]Based on funding policy adopted December 17, 2019, the actuarially determined contribution under this policy is the Normal Cost plus the greater of 1) $4 million minus the non-investment administrative expenses incurred during the year, and 2) closed-period 15-year amortization of the Unfunded Actuarial Accrued Liability as of January 1, 2024 with 3% annual increases.

Key Observations for 2024 Valuation

- **Market Value of Assets (MVA)** performed better than assumed 6.50%. The MVA actual return was 15.6% compared to 3.4% on the AVA. The Actuarial Value of Assets earned a lower return because of smoothing and deferred recognition of the 2022 actuarial losses on the MVA.
- **Assumptions:**
  - EROA remained at 6.50% consistent with capital market expectations;
  - Discount rates for Funding and GASB also remained at 6.50%, consistent with EROA;
  - Only assumption changes made were updated interest crediting rate and lump sum conversion rate.
- **Data:** $590k liability gain due to experience in 2023
- **Funding level:** If the plan sponsor contributes $4 million annually per the funding policy and actual plan experience is equal to assumed, the plan would be expected to become fully funded on the actuarially determined contribution basis in 8 years.

Things to consider for 2025:

- Review asset allocation and **consider de-risking strategy**

Census Data

	January 1, 2023	January 1, 2024
Active Participants		
Number	113	104
Average Age	56.2	57.0
Average Service (eligibility service for early retirement)	16.3	17.1
Account Balances	$1,658,322	$1,528,840
Inactives With Deferred Benefits		
Number[1]	269	248
Average Current Age	58.1	58.4
Inactives Receiving Payment		
Number[2]	573	583
Average Current Age	69.5	69.9
Average Monthly Benefit	$ 695	$ 685
Total Participants		
Number	955	935

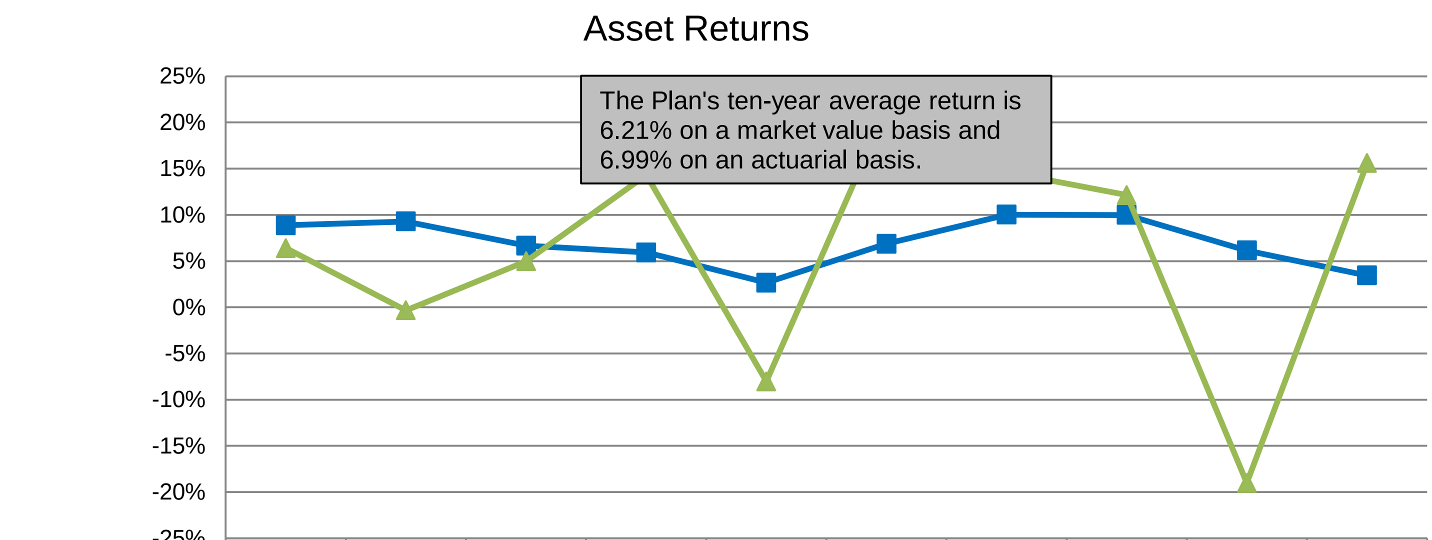
[1] As of January 1, 2023, this includes 22 beneficiaries with deferred benefits. As of January 1, 2024, this includes 24 beneficiaries with deferred benefits.

[2] As of January 1, 2023, this includes 59 beneficiaries receiving payments. As of January 1, 2024, this includes 63 beneficiaries receiving payments.

Market Value of Assets

Changes in Market Value of Assets ($Millions)		
12/31/2022 Value	$ 33.9	
Benefits	- 5.1	
Expenses	- 0.2	Administrative (non-investment) expenses only)
Contributions	+ 4.0	
Return	+ 5.1	15.6% annual return during 2023 net of investment expenses
12/31/2023 Value =	$ 37.7	

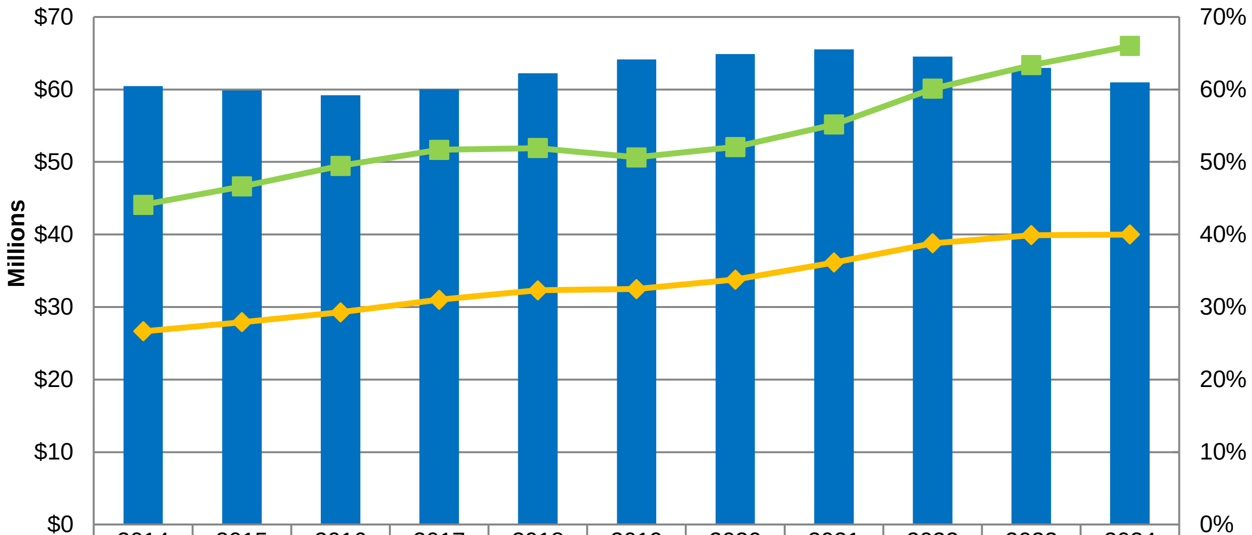
Historical Results: Actuarial vs Market Rates of Return



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Actuarial Value	8.86%	9.28%	6.66%	5.94%	2.66%	6.87%	10.02%	9.99%	6.15%	3.44%
Market Value	6.40%	-0.34%	4.98%	14.33%	-8.03%	21.40%	14.61%	12.14%	-19.02%	15.60%

Historical Results: Actuarial Accrued Liability vs Actuarial Value of Assets Return

Actuarial Value of Assets vs. Accrued Liability as of January 1 (Millions)



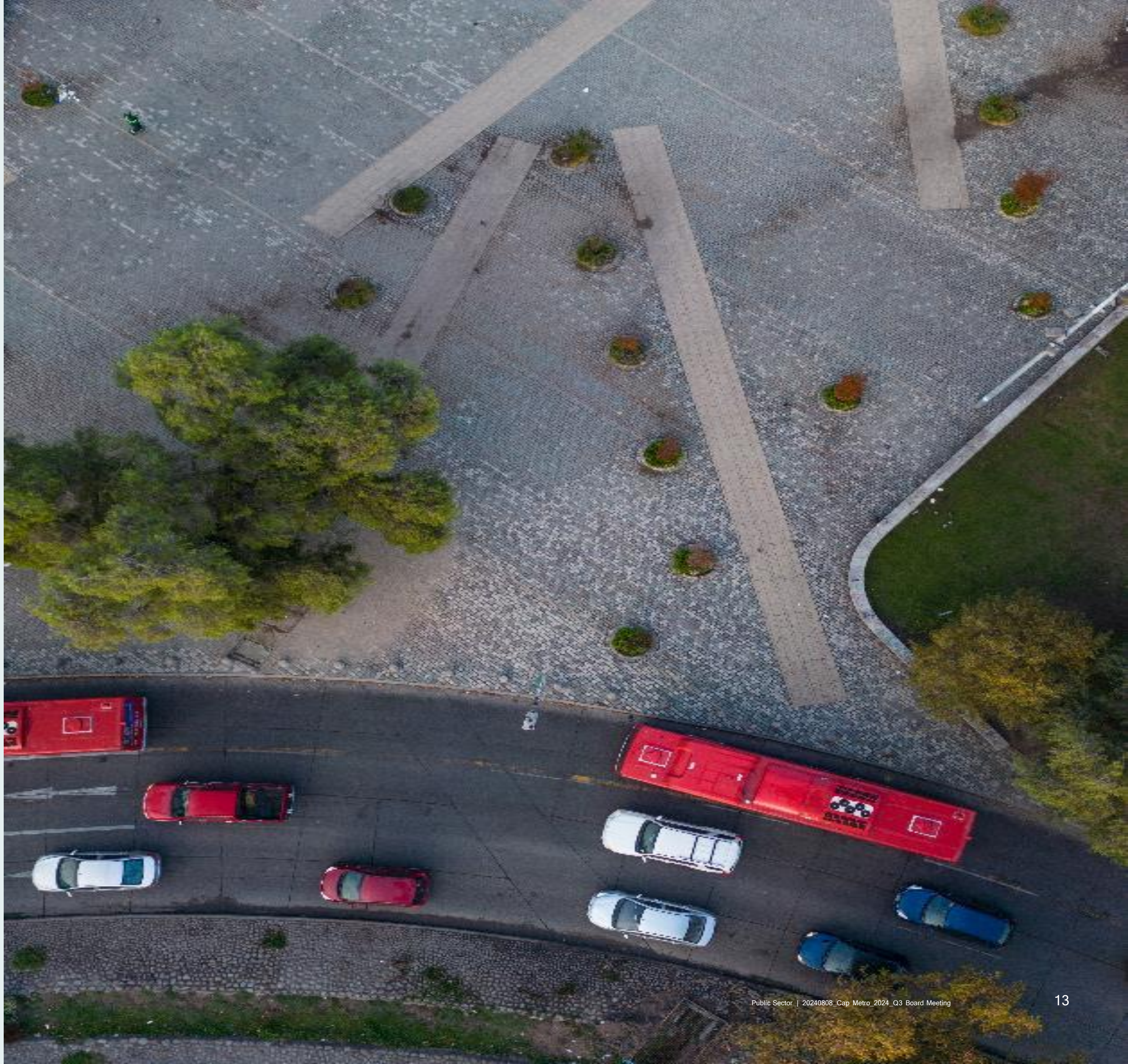
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Accrued Liability	$60	$60	$59	$60	$62	$64	$65	$66	$65	$63	$61
Actuarial Value of Assets	$27	$28	$29	$31	$32	$32	$34	$36	$39	$40	$40
Funded Ratio	44%	47%	49%	52%	52%	51%	52%	55%	60%	63%	66%

Actuarially Determined Contribution

($Millions)	2023	2024	
1) Normal Cost	$ 0.2	$ 0.2	Annual benefit accruals are $0. However, Normal Cost includes expected administrative costs
2) Funding Policy Amortization:			
a) $4M – admin expenses	$ 3.8	$ 3.8	Funding policy effective December 17, 2019
b) Amortization of UAAL	$ 1.8	$ 1.8	
c) Funding Policy Amortization, greater of a) and b)	$ 3.8	$ 3.8	
3) Actuarially Determined Contribution	$ 4.0	$ 4.0	

Based on funding policy adopted December 17, 2019, the actuarially determined contribution under this policy is the Normal Cost plus the greater of 1) $4 million minus the non-investment administrative expenses incurred during the year, and 2) closed-period 15-year amortization of the Unfunded Actuarial Accrued Liability as of January 1, 2024 with 3% annual increases.

Assumptions and Methods



Assumptions and Methods for Funding

Assumption	2024 Plan Year
Discount Rate	6.50%
Cost Method	Unit Credit Cost Method
Mortality	Healthy: Pub-2010 General Employees Table projected with Scale MP-2021 Disabled: Pub-2010 General Disabled Table projected with Scale MP-2021
Retirement/Termination Rates for Active Participants	Rates vary by age, sex, and service. See valuation report for more details
Form of Payment for Commencements for Active Participants	Participants are assumed to elect the maximum lump sum distribution available plus a 10 Year Certain and Life Annuity (the Normal Form)
Commencement Age and Form of Payment for Terminated Vested Participants	Earliest eligibility for retirement; payment form assumption same as for active participants.

About This Material

- This material includes a summary of calculations and consulting related to the finances of the Capital Metropolitan Transportation Authority Retirement Plan for Bargaining Units of StarTran, Inc. plan.
- Various topics are addressed, including the following:
  - Preliminary 2024 plan year pension funding valuation results
  - Fiscal 2024 US GASB expense results
- This analysis is intended to assist with the Board's review of the associated issues and options, and its use may not be appropriate for other purposes.
- Unless otherwise noted, the calculations summarized in this report were performed as of January 1, 2024 using plan provisions, assets, actuarial assumptions and methods and personnel information as of January 1, 2024, as summarized in the 2024 actuarial valuation report. Unless specifically noted, our calculations do not reflect changes or events after this date.
- The valuation results are consistent with the Actuarial Standards of Practice, specifically ASOP 4, 27, 35 and 44.
- The actuarial valuation results are based on our understanding of the Texas PRB guidelines for actuarial soundness as adopted on September 28, 2011, Capital Metro's funding policy adopted December 17, 2019, and GASB 68. We believe the methodology used in these calculations conforms to the requirements of those guidelines and accounting statements.
- Experience different than anticipated could have a material impact on the ultimate costs of the benefits. In addition, changes in plan provisions or applicable laws could have a significant impact on cost.

December 9, 2024

CAPITAL METROPOLITAN TRANSPORTATION AUTHORITY

RETIREMENT PLAN FOR ADMINISTRATIVE EMPLOYEES 2024 VALUATION SUMMARY

PAUL GIBBONS, FCA

USI CONSULTING GROUP

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Demographic Summary

	January 1, 2023	January 1, 2024
Participant Counts		
Active	498	560
Former Employees Entitled to a Future Benefit	316	345
Retirees and Beneficiaries	163	172
Total Valuation Participants	977	1,077
Valuation Compensation	$ 44,096,190	$ 53,346,593

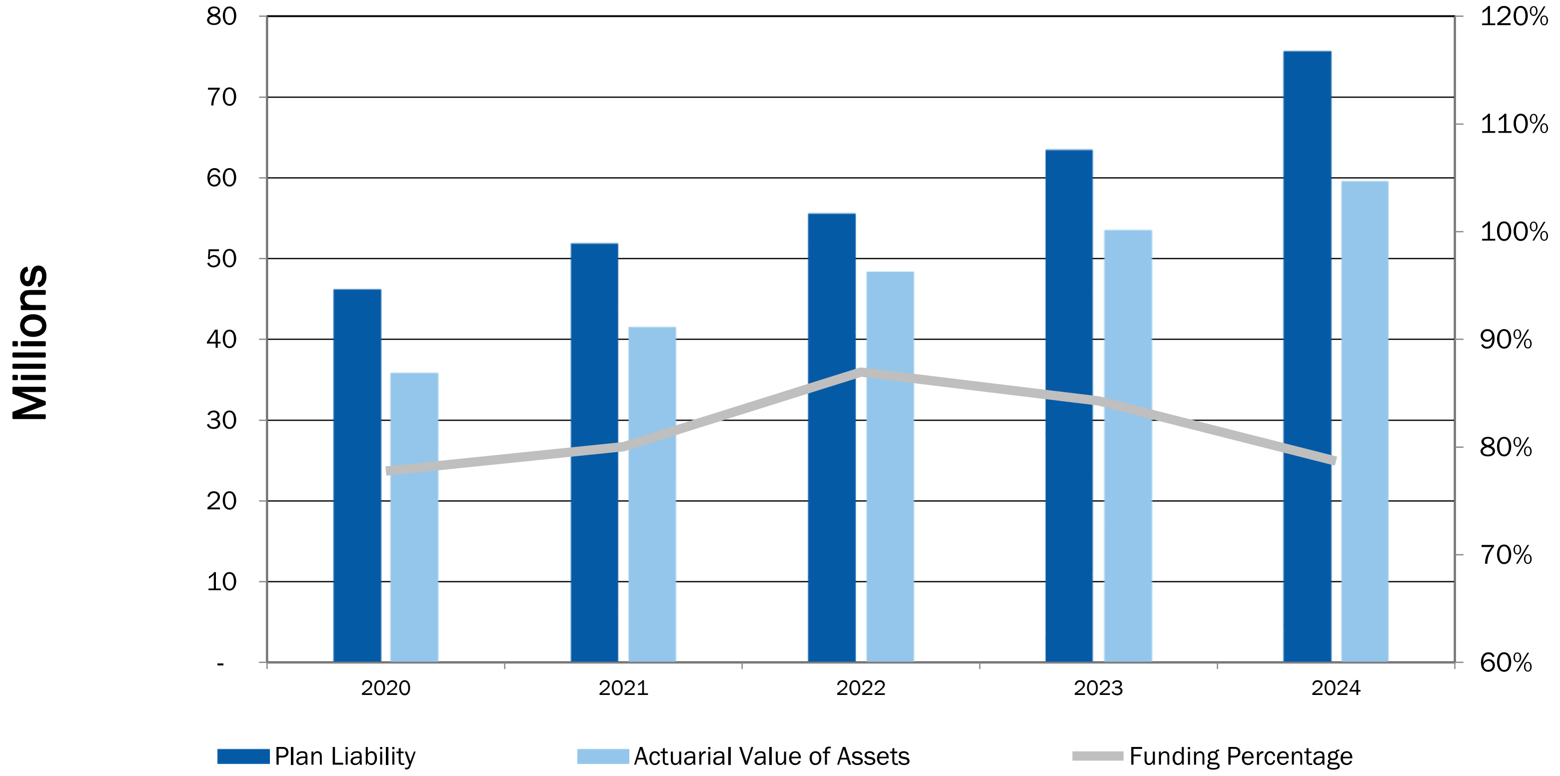
Actuarial Value of Assets

Market Value of Assets				$ 57,495,752
Plan Year Ending	Gain/(Loss)	Unrecognized Portion	Unrecognized Amount	
2023	$ 4,188,875	80%	$ 3,351,100	
2022	(11,846,416)	60%	(7,107,850)	
2021	$ 2,669,398	40%	1,067,759	
2020	3,310,159	20%	662,032	
Total Deferral			$ (2,026,959)	
Actuarial Value of Assets				$ 59,522,711

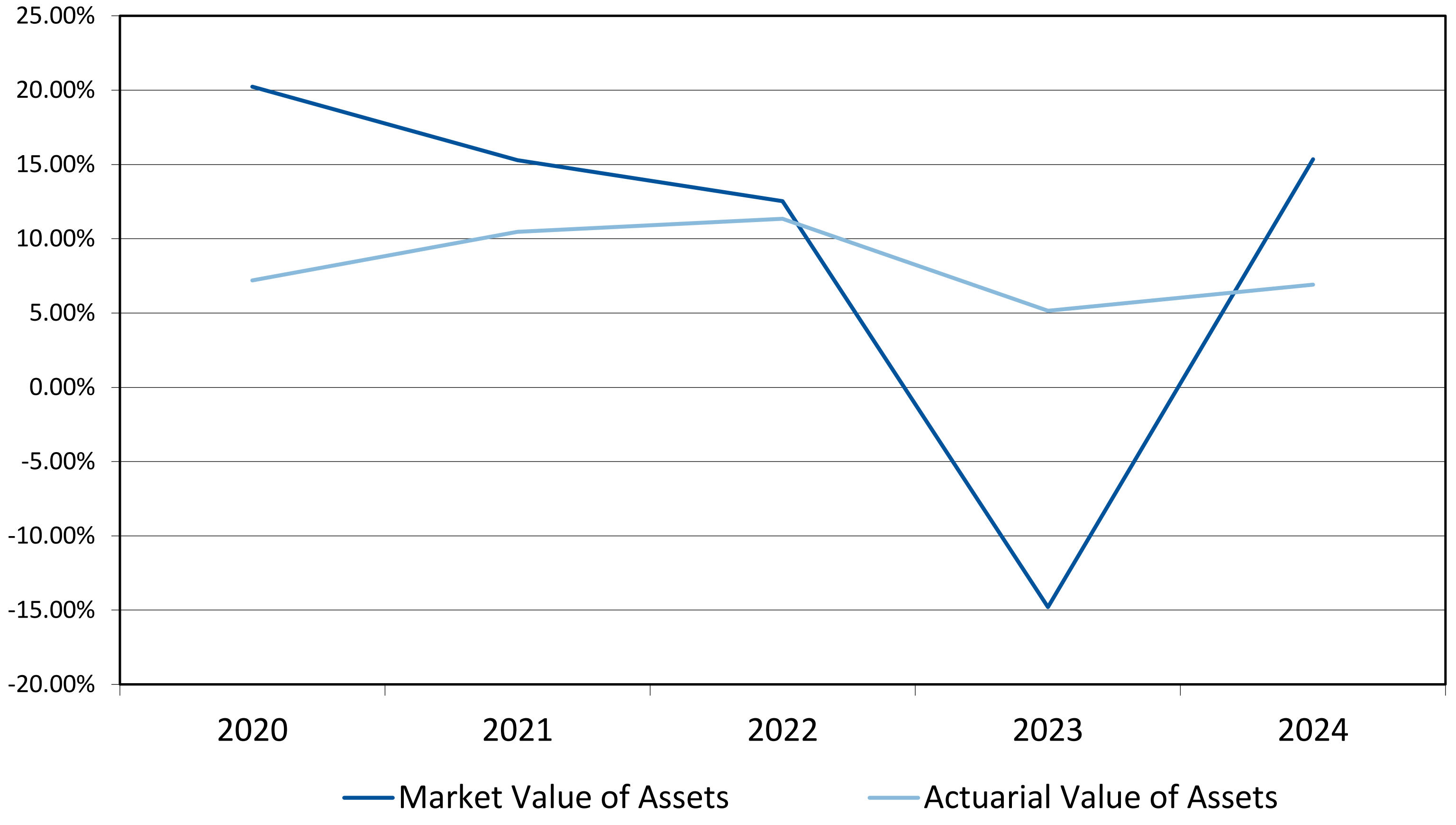
Contribution Determination

	January 1, 2023	January 1, 2024
Actuarial Accrued Liability	$ 63,497,267	$ 75,641,902
Actuarial Value of Assets	(53,512,742)	(59,522,711)
Unfunded Actuarial Liability	$ 9,984,525	$ 16,119,191
Contribution Determination		
Normal Cost	$ 3,840,778	$ 4,907,887
Amortization	727,202	1,130,956
Interest	308,339	407,622
Provision for Administrative Expenses	99,961	103,813
Annual Contribution	$ 4,976,280	$ 6,550,278
Percent of Valuation Compensation	11.3%	12.3%

Historical Plan Liability, Assets, and Funding Percentage



Historic Return on Assets



Accounting Summary

	December 31, 2022	December 31, 2023	December 31, 2024 Est.
Discount Rate	6.75%	6.75%	
Total Pension Liability	$ 65,990,000	$ 75,640,000	
Net Fiduciary Position	(47,790,000)	(57,500,000)	
Net Pension Liability	$ 18,200,000	$ 18,140,000	
Pension Expense			
Service Cost	$ 4,300,000	$ 4,640,000	$ 5,540,000
Interest Cost	3,790,000	4,380,000	5,020,000
Expected Asset Return and Expenses	(3,570,000)	(3,230,000)	(3,690,000)
Net Deferred (Inflows)/Outflows	750,000	(1,270,000)	(1,390,000)
Pension Expense	$ 5,270,000	$ 4,520,000	$ 5,480,000

Valuation Assumptions

- Discount Rates and Future Compensation Increases
  - Funding – 6.75% and 7.00% for 2023 and 2024, and 4.00% thereafter
  - Accounting – 6.75% and 7.00% for 2023 and 2024, and 4.00% thereafter
- Mortality
  - Funding – ERISA prescribed rates for single employer plans
  - Accounting – Pri-2012 white collar with improvement scale 2021
- Retirement Rates
  - Age 60-61: 5%
  - Age 62-64: 10%
  - Age 65: 50%
  - Age 66-69: 15%
  - Age 70: 100%
- No Disability Rates Assumed

Valuation Assumptions (cont'd)

- Turnover Rates
  - <1 Year of service: 17%
  - 1 Year of service: 14%
  - 2 years of service: 12%
  - 3 Years of service: 9%
  - 4 Years of service: 6%
  - 5+ Years of service: 6% below age 35 falling to 4% age 50
- Funding Method is Entry Age Normal Level % of Salary
- All other assumptions and methods used in this presentation for funding and GASB Accounting will be available in Appendix B of our 2024 valuation report.

CAPITAL METRO TRANSPORTATION AUTHORITY RETIREMENT PLANS

FY 2023 Audit Results

Report to the Finance, Audit and Administration Committee

RSM

Members of the Capital Metro Finance,
Audit and Administration Committee

We are pleased to present this report related to our 2023 audit of Capital Metropolitan Transportation Authority Retirement Plan for Administrative Employees; Retirement Plan for Bargaining Unit Employees of StarTran, Inc.; and the Savings and Retirement Plan's (the Plans) financial statements. Our report shares the results of our audit work as required by professional standards alongside other meaningful insights, which we believe will help you in executing your oversight responsibility for the Company's financial reporting process.

It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the Plans and Capital Metropolitan Transportation Authority (Capital Metro).

This report is intended solely for the information and use of the Members of the Capital Metro Finance, Audit and Administration Committee and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

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Executive summary

Audit status

- The 2023 audits are completed.
- We issued unmodified opinions on the financial statements of the Plans.

Significant changes to the planned audit strategy

- There were no significant changes to the planned audit strategy and communicated to the Finance, Audit and Administration Committee.

Significant risks

We did not identify other significant risks subsequent to those we communicated to you in our report dated June 4, 2024.

- Audit adjustments or uncorrected misstatements
- During our audit, we did not identify audit adjustments or uncorrected misstatements.

- Deficiencies in internal control
- We did not identify a material weakness or significant deficiency required to be reported.

Understand the client

Risk assessment

Further audit procedures

Evaluation

Delivery

RSM

Accounting policies and practices

The following required communications summarize our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Matter to Report	Yes	No	
Changes to the planned scope and timing of the audit		✓	We have issued a separate communication dated June 4, 2024, regarding the planned scope and timing of our audit and identified significant risks.
Accounting policies and practices			
Preferability of accounting policies and practices		✓	Under accounting principles generally accepted in the United States of America, management may select among alternative accounting practices in certain circumstances. In our view, in such circumstances, management has selected the preferable accounting practice
Adoption of, or change in, accounting policies		✓	Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Company. The Plans did not adopt any significant new accounting policies nor change any significant accounting policies during the current period.
Significant accounting policies		✓	We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.
Significant unusual transactions		✓	We did not identify any significant unusual transactions.

Required Communications

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events.

Valuation of investments

Accounting policy

All investments of the Plans are valued at fair value based on quoted market prices, except for the Lincoln Stable Value Fund, a group fixed annuity contract valued at amortized cost. The annuity contract is held by the Administrative Pension Plan and the 401k Plan.

Management's estimation process

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Investments in mutual funds are reported at fair value based on the quoted price per share of the fund. The Lincoln Stable Value Fund is reported at amortized cost.

Basis for our conclusion on the reasonableness of the estimate

We tested the fair value of the investments and concluded that the valuation methods and estimates are reasonable

Net pension liability

Accounting policy

Capital Metro contributes to the Capital Metro Retirement Plan for Administrative Employees (DB Plan), a single-employer employee retirement plan. As the Plan Sponsor, Capital Metro measures the net pension asset/liability based on approved demographic and economic assumptions. The DB Plan disclosed the net pension liability in the notes to the financial statements.

Management's estimation process

The pension liability was measured as of December 31, 2023. This calculation is prepared by an independent actuarial company engaged by Capital Metro, and Capital Metro's management reviewed and considered the appropriateness of the assumptions.

Basis for our conclusion on the reasonableness of the estimate

We obtained the DB Plan's actuarial valuation report, and we confirmed that the reported balances agreed with the actuarial report. We tested the significant assumptions and conclusions for reasonableness and tested the underlying data for completeness and accuracy. We concluded the estimates used by management are reasonable.

Audit adjustments and uncorrected misstatements

Audit adjustments

There were no audit adjustments made to the original trial balance presented to us to begin our audit.

Uncorrected misstatements

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Matter to Report	Yes	No	
Observations about the audit process			
Significant issues discussed with management		✓	No significant issues arising from the audit were discussed or the subject of correspondence with management.
Disagreements with management		✓	There were no disagreements with management.
Significant difficulties encountered in performing the audit		✓	We did not encounter any significant difficulties in dealing with management during the audit.
Consultations with other accountants		✓	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Difficult or contentious matters that required consultation		✓	We did not encounter any significant and difficult or contentious matters that required consultation outside our engagement team.

Independence

Shared responsibilities: AICPA independence

The American Institute of Certified Public Accountants (AICPA) regularly emphasizes that auditor independence is a **joint responsibility** and is managed most effectively when management, audit committees (or their equivalents), and audit firms work together in considering compliance with AICPA independence rules. For RSM to fulfill its professional responsibility to maintain and monitor independence, management, the Capital Metro Finance, Audit and Administration Committee and RSM each play an important role.

Our responsibilities

- AICPA rules require independence both of mind and in appearance when providing audit and other attestation services. RSM is to ensure that the AICPA's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
- Maintain a system of quality management over compliance with independence rules and firm policies.

The Company's responsibilities

- Timely inform RSM, before the effective date of transactions or other business changes, of the following:
  - New affiliates, directors, or officers.
  - New beneficial owners of the Plans which have significant influence.
  - Change in the Plans structure impacting affiliates.
- Provide necessary affiliate information, such as new or updated investment structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
- Understand and conclude on the permissibility, prior to the Plans and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with RSM.
- Not entering into relationships resulting in close family members of RSM covered persons, temporarily or permanently acting as an officer, director, or person in an accounting or financial reporting oversight role at the Plans.

THE POWER OF BEING UNDERSTOOD
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RSM

Aaron

One of the
RSM team

Thank you

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Thank you!