



BAY AREA  
AIR QUALITY  
MANAGEMENT  
DISTRICT

## BOARD OF DIRECTORS BUDGET AND FINANCE COMMITTEE MEETING

### COMMITTEE MEMBERS

JULIA MILLER - CHAIRPERSON  
HAROLD BROWN  
SCOTT HAGGERTY  
PATRICK KWOK  
GAYLE B. UILKEMA

CHRIS DALY - VICE CHAIRPERSON  
ROBERTA COOPER  
JERRY HILL  
MARK ROSS

**THURSDAY  
MAY 5, 2005  
9:45 A.M.**

**4TH FLOOR  
CONFERENCE ROOM**

## AGENDA

1. **CALL TO ORDER - ROLL CALL**
2. **PUBLIC COMMENT PERIOD** (*Public Comment on Non-Agenda Items Pursuant to Government Code § 54954.3*) Members of the public are afforded the opportunity to speak on any agenda item. All agendas for regular meetings are posted at District headquarters, 939 Ellis Street, San Francisco, CA, at least 72 hours in advance of a regular meeting. At the beginning of the regular meeting agenda, an opportunity is also provided for the public to speak on any subject within the Board's authority. Speakers will be limited to three (3) minutes each.
3. **APPROVAL OF MINUTES OF APRIL 6, 2005**
4. **DISTRICT FINANCIAL AUDIT REPORT FOR FISCAL YEAR 2003/2004** **J. McKay/5066**  
[jmckay@baaqmd.gov](mailto:jmckay@baaqmd.gov)  
*A partner from the CPA firm Izabal, Bernaciak & Company will present the Audit Report for FY 2003/2004. This is an information item.*
5. **THIRD QUARTER FINANCIAL REPORT FOR FISCAL YEAR 2004/2005** **J. McKay/4629**  
[jmckay@baaqmd.gov](mailto:jmckay@baaqmd.gov)  
*The Financial Report for the Third Quarter of Fiscal Year 2004/2005 will be presented. This will be an informational item.*
6. **PRESENTATION OF FISCAL YEAR 2005/2006 DRAFT BUDGET** **J. McKay/4629**  
[jmckay@baaqmd.gov](mailto:jmckay@baaqmd.gov)  
*Jeff McKay, Acting Administrative Services Division Director, will present the Draft FY 2005/2006 Budget for discussion and consideration.*
7. **PROPOSED AMENDMENTS TO FEE REGULATION** **B. Bateman/4653**  
[bbateman@baaqmd.gov](mailto:bbateman@baaqmd.gov)  
*The Committee will consider recommending to the Board of Directors that staff proceed with the proposed amendments to the fee regulation.*

**8. COMMITTEE MEMBER COMMENTS/OTHER BUSINESS**

*Any member of the Board, or its staff, on his or her own initiative or in response to questions posed by the public, may: ask a question for clarification, make a brief announcement or report on his or her own activities, provide a reference to staff regarding factual information, request staff to report back at a subsequent meeting concerning any matter or take action to direct staff to place a matter of business on a future agenda. (Gov't Code § 54954.2)*

**9. TIME AND PLACE OF NEXT MEETING – 9:45 a.m. MAY 25, 2005, 939 ELLIS STREET, SAN FRANCISCO, CA**

**10. ADJOURNMENT**

**CONTACT CLERK OF THE BOARD - 939 ELLIS STREET SF, CA 94109**

**(415) 749-4965**  
**FAX: (415) 928-8560**  
**BAAQMD homepage:**  
[www.baaqmd.gov](http://www.baaqmd.gov)

- To submit written comments on an agenda item in advance of the meeting.
- To request, in advance of the meeting, to be placed on the list to testify on an agenda item.
- To request special accommodations for those persons with disabilities notification to the Clerk's Office should be given at least 3 working days prior to the date of the meeting, so that arrangements can be made accordingly.

**Bay Area Air Quality Management District  
939 Ellis Street  
San Francisco, California 94109**

**DRAFT MINUTES**

Summary of Board of Directors  
Budget & Finance Committee Meeting  
9:45 a.m., Wednesday, April 6, 2005

1. **Call to Order:** Chairperson Julia Miller called the meeting to order at 9:45 a.m.

**Roll Call:** Julia Miller, Chair; Chris Daly (9:50 a.m.), Scott Haggerty, Jerry Hill, Patrick Kwok, Mark Ross, Gayle B. Uilkema.

**Absent:** Harold Brown, Roberta Cooper.

**Also Present:** Pamela Torliatt (9:51 a.m.), Marland Townsend.

2. **Public Comment Period:** There were none.

3. **Approval of Minutes of March 2, 2005:** Director Hill moved approval of the minutes; seconded by Director Kwok; carried without objection.

4. **Approve Request to Recommend that the Board of Directors Increase FY 2004/05 Budget:** *Staff requested that the FY 2004/05 budget be increased by \$780,000 in program 306 to assist in funding the Spare the Air free morning commute program this summer.*

Teresa Lee, Director of Public Information and Outreach, presented the report and stated that Transportation Fund for Clean Air (TFCA) funding in the amount of \$780,000 is available for the 2005 Spare the Air free morning commute program. Ms. Lee noted that these funds were not used in 2004 due to the limited number of Spare the Air weekdays that occurred.

**Committee Action:** Director Ross moved to recommend the Board of Directors increase the fiscal year 2004/05 budget by \$780,000 in program 306 to assist in funding the Spare the Air free morning commute program this summer; seconded by Director Haggerty; carried unanimously without objection.

5. **Final Report on Cost Recovery Study:** *The Committee received the final report and recommendations from Stonefield Josephson Inc., on the Cost Recovery Study.*

Peter Hess, Deputy APCO, thanked the members of the Steering Committee for the work they had done on the Study. Mr. Hess introduced Nanette Lee Miller, CPA, of Stonefield Josephson, Inc.

Ms. Miller presented the report and reviewed how costs were assessed and the methodology used to allocate direct and indirect costs to individual revenue sources.

Director Chris Daly arrived at 9:50 a.m. and Director Pam Torliatt arrived at 9:51 a.m.

Ms. Miller reviewed and discussed four key findings:

1. Permit and other fee revenue are not sufficient to cover costs of programs related to permitted stationary sources.
2. Property taxes are being used to offset the difference between program costs and permit and other fee revenue.
3. Even if cost of living increases are applied each year to all fees, they will not be sufficient to close the gap that exists between permit fee revenue and permit related costs.
4. The billing codes developed for timesheets are not adequate to fully assess the gap in certain areas.

Ms. Miller highlighted the short-term and long-term recommendations proposed by Stonefield Josephson, Inc. Ms. Miller stated that the Board may want to consider addressing equity issues, such as fairness, reasonableness, and stability. She also suggested that the Air District may want to conduct similar studies on a regular basis to provide continuing assessment of how items are being addressed.

Jack Broadbent, Executive Officer/APCO stated that the Report contains recommendations that staff will review. Staff will then develop policy recommendations that will be brought back to the Board and that would be included in the budget. The Committee discussed property taxes and how they are used to fill in the "gap." Mr. Broadbent noted that the budget will be brought before the Board on May 4<sup>th</sup> and would be referred to the Budget and Finance Committee, which will meet on May 5<sup>th</sup>.

Brian Bunger, Counsel, discussed the statutes covering permit fees.

Board Chairperson Townsend discussed the issue of the property tax revenues received from the cities and counties. He requested that the staff confirm that the money is specifically from property taxes and not from the city or county general fund.

The following individual spoke on this agenda item:

Dennis Bolt  
Western States Petroleum Association

Mr. Broadbent stated that the District staff will be reviewing the recommendations from Stonefield Josephson, Inc. and developing policy recommendations that will be brought before the Board.

**Committee Action:** Accept and file the report entitled *Bay Area Air Quality Management District Cost Recovery Study*, Stonefield Josephson, Inc., March 30, 2005.

- 6. Staff Responses to Consultant's Recommendations from Cost Recovery Study:** *Staff presented responses to the recommendations in the Cost Recovery Study.*

Brian Bateman, Director of Engineering, reviewed the District staff's responses to the recommendations made in the Study by Stonefield Josephson, Inc. Specifically, Mr. Bateman responded to and provided information on the recommendations relating to fees, time accounting, financial accounting, and cost saving measures.

Mr. Bateman reviewed the next steps to be taken:

- Begin to implement the consultant's recommendations.
- Develop a fee proposal for FY 2005/06.
- Track cost recovery on an annual basis.
- Consider adjusting fees on an annual basis to maintain effective stationary source regulatory programs, and to allow property tax revenue to fund other important air quality programs and initiatives.
- Continue to look for ways to increase efficiency and reduce costs while maintaining effective air pollution control programs.

There was discussion of Title V permit fees and the feasibility of increasing them again this year. Staff noted that there are procedures in state law regarding noticing requirements to the facilities and other requirements.

There was discussion on changes being implemented on time sheets to better track direct costs of programs. Mr. Hess stated that most air districts are wholly funded by their operating fees. Director Haggerty requested staff prepare a matrix comparing the Air District's fee schedules with those of the South Coast AQMD.

**Committee Action:** Receive and file.

7. **Field Communication System:** *Staff presented the Compliance and Enforcement Division's plan to update and upgrade the field communication system to modernize the two-way radio system and ensure its capabilities are integrated with other communication devices.*

Kelly Wee, Director of Compliance and Enforcement, presented the report and reviewed the following:

- The business uses of the system.
- A communication system overview, including voice, data and the field communication system.
- Annual costs: Two-way radio system (\$85,000); Nextel cell phone (\$65,000); and Nextel Blackberry (\$25,000).
- Fiscal year 2005-2006 capital expenditure.

Mr. Wee stated that a telecommunications consultant has been retained who will assist staff in the preparation of a Request for Proposal (RFP) to replace or upgrade the current system.

**Committee Action:** None. This report provided for information only.

8. **Status Report on Internal Systems and Controls Audit:** *The Committee received a status report on the internal systems and controls audit.*

Jeff McKay, Director of Information Systems, presented the report and stated that the District will initiate a Systems and Control audit on April 25, 2005. Mr. McKay reviewed the key deliverables. A contract has been awarded to Gilbert Associates to perform the audit, which will be completed in two to three months.

**Committee Action:** None. This report provided for information only.

9. **Committee Member Comments/Other Business.** There were none.
10. **Time and Place of Next Meeting:** Chairperson Miller cancelled the April 27, 2005 meeting. The next Committee meeting is scheduled for 9:45 a.m., Friday, May 5, 2005, 939 Ellis Street, San Francisco, CA 94109.
11. **Adjournment:** The meeting adjourned at 11:26 a.m.

Mary Romaidis  
Clerk of the Boards

**Budget and Finance Committee**

**Follow-Up Items for Staff**

**April 6, 2005 Meeting**

1. The Committee requested that staff provide a matrix comparing the Air District's fee schedules with those of the South Coast AQMD.
2. Board Chairperson Townsend requested that the staff confirm that the property tax money received from the counties are specifically from property taxes and not from the city or county general fund.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**  
Interoffice Memorandum

To: Chairperson Miller and Members  
of the Budget and Finance Committee

From: Jeff McKay  
Interim Director of Administrative Services

Date: May 5, 2005

Re: District Financial Audit Report for Fiscal Year 2003/2004

RECOMMENDED ACTION:

Informational report. Receive and file.

DISCUSSION:

The audit report confirms that the District's financial reports' "...present fairly, in all material respects, the financial position of the Bay Area Air Quality Management District as of June 30, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.". The Independent Auditors report shows that an unqualified audit report was issued. The Report on Schedule of Expenditures of Federal Awards states, "...the information ... is fairly presented in all material respects in relation to the basic financial statements taken as a whole." The Report on compliance in accordance with OMB Circular A-133 states "In our opinion, Bay Area Air Quality Management District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004".

BUDGET CONSIDERATION/FINANCIAL IMPACT:

None.

Respectfully submitted

Jeff McKay  
Interim Director of Administrative Services

FORWARDED \_\_\_\_\_

Prepared by: Jeff McKay



**BAY AREA AIR QUALITY MANGEMENT DISTRICT**

Inter Office Memorandum

To: Chairperson Miller and Members  
of the Budget and Finance Committee

From: Jeff McKay  
Interim Director of Administrative Services

Date: May 5, 2005

Re: Third Quarter Financial Report

RECOMMENDED ACTION:

Informational report. Receive and file.

DISCUSSION

GENERAL FUND BUDGET: STATEMENT OF REVENUE

Comparison of Budget to Actual Revenue

- County Revenue receipts were \$8,276,937 (58%) of budgeted revenue. Alameda, San Mateo and Santa Clara counties accounted for the majority of the receipts received.
- Permit Fee receipts were \$14,577,050 (79%) of budgeted revenue.
- Asbestos Fees were \$1,157,486 (89%) of budgeted revenue.
- Penalties and Settlements receipts were \$1,646,712 (82%) of budgeted revenue.
- State Subvention was \$1,730,915 (93%) of budgeted revenue.
- Interest Income receipts were \$255,828 (52%) of budgeted revenue.
- Miscellaneous Revenue receipts were \$ 509,397 (291%) of budgeted revenue.

GENERAL FUND BUDGET: STATEMENT OF EXPENDITURES

Comparison of Budget to Actual Expenditures

- Salaries and Benefits were \$23,072,801 (71%) of estimated expenditures.
- Operational Services and Supplies were \$7,335,728 (80%) of estimated expenditures.
- Capital Outlay was \$637,981 (18%) of estimated expenditures.

TFCA FUND: STATEMENT OF INCOME AND EXPENDITURES

- Total Revenue was \$2,219,093 (36%) of estimated revenue and expenditures.
- Salary and Benefits were \$1,089,409 (70%) of estimated expenditures.
- Operational Services and Supplies were \$1,129,684 (25%) of estimated expenditures.

BUDGET CONSIDERATION/FINANCIAL IMPACT

No impact on current year budget.

Respectfully submitted,

Jeff McKay  
Interim Director of Administrative Services

FORWARDED \_\_\_\_\_

Prepared by: Jeff McKay

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**

Interoffice Memorandum

To: Chairperson Miller and Members  
of the Budget and Finance Committee

From: Jeff McKay  
Interim Director of Administrative Services

Date: April 27, 2005

Re: Draft Budget for Fiscal Year 2005/2006

RECOMMENDED ACTION:

The Executive Officer/APCO requests that the Budget and Finance Committee review the Budget for FY 2005/2006 and make any recommendations for further discussion at the May 25, 2005 Budget and Finance Committee meeting. This will allow staff the necessary time to make the changes for a second review by the Committee and the first public hearing date set for June 1, 2005.

BACKGROUND:

At the May 4, 2005 regular Board of Directors' meeting, the Fiscal Year 2005/2006 Preliminary Budget document will be referred to the Budget and Finance Committee for review and recommendations. Additional copies will be available at the Committee meeting.

DISCUSSION:

Staff will present the proposed budget for Fiscal Year 2005/2006. The proposed budget is balanced with the inclusion of a \$1.3 million transfer in from undesignated reserves. General Fund Revenues, Transfers-In from Designated Reserves for PERS Funding, Production System Funding, Building and Facilities Funding, and Capital Equipment Funding along with TFCA Indirect Cost Recovery and TFCA Revenues and Mobile Source Incentive Indirect Cost Recovery and Revenues are \$56.9 million. Proposed consolidated expenditures are \$58.2 million. Proposed capital requests are \$1,027,440 and there is a proposed 7.43 FTE increase, 3.12 of which are in the General Fund.

Staff will publish, prior to May 1, 2005, a notice to the general public that the first of two public hearings on the budget will be conducted on June 1, 2005 and that the second hearing will be conducted on June 15, 2005. Staff requests that the Budget and Finance Committee complete its review and take action on the proposed budget at the May 25, 2005 Budget and Finance Committee meeting. This will allow staff the necessary time required to amend, if necessary, the budget for the first public hearing to be held on June 1, 2005.

BUDGET CONSIDERATION/FINANCIAL IMPACT:

The proposed consolidated budget for FY 2004/2005 is \$58,170,998.

Respectfully submitted

Jeff McKay  
Interim Director of Administrative Services

Prepared by: Jeff McKay

FORWARDED \_\_\_\_\_

**BAY AREA AIR QUALITY MANGEMENT DISTRICT**  
Inter Office Memorandum

To: Chairperson Miller and Members  
of the Budget and Finance Committee

From: Brian Bateman  
Director of Engineering

Date: April 27, 2005

Re: Proposed Amendments to District Fee Regulation

RECOMMENDED ACTION:

The Committee will consider recommending to the Board of Directors that staff proceed with the proposed amendments to the fee regulation.

BACKGROUND

The District collects fees to pay for the costs of implementing and enforcing regulatory programs to reduce air pollution from stationary sources. A study of fee revenue, and regulatory program activity costs, was recently completed for the Air District by the accounting firm of Stonefield Josephson, Inc. (*Bay Area Air Quality Management District Cost Recovery Study, Final Report; March 30, 2005*). The Cost Recovery Study concluded that, on an overall basis, existing fee revenue is far less than the regulatory program activity costs. The Cost Recovery Study recommends that, if this revenue gap is to be reduced, fees should be increased by more than the Cost of Living Adjustments.

District staff has drafted amendments to the fee regulation for the upcoming fiscal year (FY) 2005-06 that are consistent with the results and recommendations of the Cost Recovery Study. The draft fee amendments would increase revenue for FY 2005-06 by approximately \$2 million, representing an increase in overall fee revenue of about 10.5 percent. (For reference, there was a 1.4 percent increase in the annual Consumer Price Index for the California Bay Area from calendar year 2003 to 2004, as reported by the California Department of Industrial Relations, Division on Labor Statistics and Research).

District staff has contacted the members of the Cost Recovery Steering Committee to arrange a meeting in order to engage in additional dialogue on the details of the study.

DETAILS OF DRAFT FEE AMENDMENTS

The draft fee amendments would increase fees, beginning on July 1, 2005, as follows:

1. The following Fee Schedules, which the Cost Recovery Study indicates have the largest revenue gaps (i.e., costs exceeding revenue by more than 50 percent for the period July 1, 2001 – June 30, 2004), would be **increased by 15 percent**:

Schedule A: Hearing Board  
Schedule D: Gasoline Transfer at Gasoline Dispensing Facilities, Bulk Plants and Terminals  
Schedule E: Solvent Evaporating Sources  
Schedule F: Miscellaneous Sources  
Schedule G1: Miscellaneous Sources  
Schedule H: Semiconductor and Related Operations  
Schedule I: Dry Cleaners  
Schedule K: Solid Waste Disposal Sites  
Schedule P: Major Facility Review Fees (Title V)

2. The following Fee Schedules, which the Cost Recovery Study indicates have less significant revenue gaps (i.e., costs exceeding revenue by between 15 and 50 percent for the period July 1, 2001 – June 30, 2004), would be **increased by 5 percent**:

Schedule B: Combustion of Fuels  
Schedule G2: Miscellaneous Sources  
Schedule N: Toxic Inventory Fees

3. The following Fee Schedules, which the Cost Recovery Study indicates have no revenue gaps (for the period July 1, 2001 – June 30, 2004), would **not be increased**:

Schedule C: Stationary Containers for the Storage of Organic Liquids  
Schedule G3: Miscellaneous Sources  
Schedule G4: Miscellaneous Sources  
Schedule L: Asbestos Operations  
Schedule Q: Excavation of Contaminated Soil and Removal of Underground Storage Tanks

4. The fees in Schedule M: Major Stationary Source Fees, would be **increased by 15 percent**. This will partially compensate for emissions inventory reductions at affected facilities, which have resulted in decreasing fee revenue from this emissions-based fee schedule.

5. The following administrative fees would be **increased by 5 percent**:

Section 3-302: New and modified source filing fee  
Section 3-309: Duplicate permit fee  
Section 3-311: Banking filing fee and withdrawal fee  
Section 3-312: Regulation 2, Rule 9 Alternative Compliance Plan fee  
Section 3-327: Permit to Operate renewal processing fee

6. The following fees would be created or amended:

- A new fee would be added for an application to renew an Authority to Construct. This activity requires a BACT and offset review by District staff, but there is currently no fee for this activity. The fee would be equal to one half of the initial fee for each new and modified source.
  - A new fee would be added for a Potential to Emit (PTE) demonstration requested by a facility. This activity requires detailed emissions calculations to be made, or reviewed, by District staff for each source at a facility, but there is currently no fee for this activity. The fee for a PTE demonstration would be \$50 per source evaluated, not to exceed a total of \$5000 per facility.
  - The fee for a Health Risk Screening Analysis (HRSA) would be increased. The District has separately proposed to update and enhance its Air Toxics New Source Review program, which will require more complex HRSAs to be prepared by District staff. The fee would represent a \$272 increase for permit applications for new and modified sources that require an HRSA. The fee would also be applicable to other provisions in District regulations (e.g., a request for demonstration of permit exemption under Regulation 2-1-316) under which a facility requests that the District prepare or review an HRSA for a facility.
  - The permit fees for refinery flares would be increased. In recent years, the District has significantly increased its regulatory activities for refinery flares with the adoption of a refinery flare monitoring rule, and the proposal of a refinery flare control rule. The draft fee amendments would move refinery flares subject to Regulation 12, Rule 11: Flare Monitoring at Petroleum Refineries, from Schedule G-1 to the higher-cost Schedule G-3.

## NEXT STEPS

A public workshop to discuss the draft fee amendments is scheduled for May 6, 2005. Staff will take into consideration the comments of the affected parties made during the workshop and subsequent public comment period in finalizing the final fee proposal. Staff anticipates that proposed fee rule amendments will be presented to the Board of Directors for adoption on June 15, 2005, with an effective date of July 1, 2005.

Respectfully submitted,

Brian Bateman  
Director of Engineering

FORWARDED \_\_\_\_\_

Reviewed by: Peter Hess