



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

BOARD OF DIRECTORS
BUDGET AND FINANCE COMMITTEE MEETING

COMMITTEE MEMBERS

CHRIS DALY – CHAIRPERSON
HAROLD BROWN
JERRY HILL
TIM SMITH
GAYLE B. UILKEMA

MICHAEL SHIMANSKY - VICE CHAIRPERSON
SCOTT HAGGERTY
PATRICK KWOK
PAMELA TORLIATT

WEDNESDAY
FEBRUARY 28, 2007
9:30 A.M.

FOURTH FLOOR CONFERENCE ROOM
DISTRICT OFFICES

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 JANUARY 24, 2007**
4. **DISTRICT FINANCIAL AUDIT REPORT FOR FISCAL YEAR 2005/2006**

J. McKay/4629

jmckay@baaqmd.gov

Staff will provide an overview to the Committee on the Financial Audit Report for FY 2005/2006. This is an informational item.

5. **SECOND QUARTER FINANCIAL REPORT FOR FISCAL YEAR 2006/2007**
6. **CONTINUING UPDATE ON STATE-WIDE CARL MOYER AUDITS**

J. McKay/4629

jmckay@baaqmd.gov

The financial report for the second quarter of fiscal year 2006/2007 will be presented. This is an informational item.

7. **OTHER POST EMPLOYMENT BENEFITS (OPEB) RECOMMENDATION**

J. McKay/4629

jbroadbent@baaqmd.gov

The Committee will consider recommending that the Board of Directors' approve staff's recommendation to designate and fund a reserve for "other-than-pension post-employment benefits (OPEB) for Fiscal Year '07-'08, and to transfer \$1.4 million from undesignated reserves to the newly designated reserve fund.

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 – MARCH 28, 2007 - 9:30 A.M. – 939 ELLIS STREET, SAN FRANCISCO, CA 94109**

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

- 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

Memorandum

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

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 14, 2007

Re: Budget and Finance Committee Draft Minutes

RECOMMENDED ACTION:

Approve attached draft minutes of the Budget and Finance Committee meeting of January 24, 2007.

DISCUSSION

Attached for your review and approval are the draft minutes of the January 24, 2007 Budget and Finance Committee meeting.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

**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, January 24, 2007

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

Roll Call: Chris Daly, Chair; Harold Brown, Dan Dunnigan, Jerry Hill, Patrick Kwok, Gayle B. Uilkema (10:00 a.m.)

Absent: Erin Garner, Janet Lockhart, Tim Smith.

Also Present: Mark Ross.

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

3. **Approval of Minutes of December 19, 2006:** Director Brown moved approval of the minutes; seconded by Director Kwok; carried unanimously without objection.

4. **District Financial Overview Fiscal Year 2007-2008:** *Staff presented a summary of the status of the FY 07-08 budget season.*

Jeff McKay, Chief Financial Officer, presented the report and summarized the status of the fiscal year 2007/2008 budget season. Mr. McKay provided an overview on mid-year financial projections, county revenue, fee revenue, expenses, and current uses of reserves.

Mr. McKay discussed the District's unfunded medical liability, including Other Post Employment Benefits (OPEB). The unfunded medical liability must be reported starting fiscal year 2008/2009. A more detailed presentation on this matter will be brought back to the Committee at a future meeting.

There are three Carl Moyer audits being conducted now – Bureau of State Audits, Air Resources Board, and Department of Finance – which were briefly reviewed. Mr. McKay stated that four air districts are being audited. Chairperson Daly requested that this item be kept on the agendas of the next few meetings so that the Committee can be updated on the progress of the audits.

Director Gayle B. Uilkema arrived at 10:00 a.m.

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

5. **Consideration of Recommendation to Add One Employee Position to the Current Fiscal Year Budget in the Grant Programs Section:** *The Committee considered recommending Board of Directors' approval of adding one employee position to the current fiscal year budget in the Grant Programs Section of the Outreach and Incentives Division.*

Jean Roggenkamp, Deputy APCO, introduced the item and stated that the Carl Moyer Program is in its eighth year and that the Program itself has grown. The funding for this Program has significantly increased from \$2.5 million to \$12.5 million, which takes more resources to make sure the funds are allocated properly. Staff is requesting one additional employee position to help with the expanded workload of the Program.

Jack Colbourn, Director of Outreach and Incentives, reiterated that the Moyer Program workload has increased and noted that the auditors are taking up a significant amount of staff time. The staff request is for a Supervising Environmental Planner position that would have the expertise to administer an expanded program. The increase in the percent of revenues to offset staff costs would fund this position.

Ms. Roggenkamp added that one unknown this year is the new set of guidelines that the California Air Resources Board (CARB) has issued. Staff will need to come up to speed on working with the new guidelines.

Staff recommended that the Committee recommend Board of Directors' approval of one additional employee position to the current fiscal year budget in the Grant Programs Section of the Outreach and Incentives Division.

The Committee requested that staff provide detailed information on the amount of the Carl Moyer funding that is allocated for staff.

Committee Action: Director Brown moved the staff recommendation; seconded by Director Hill; carried unanimously without objection.

6. **Committee Member Comments/Other Business.** Director Uilkema commented regarding the announcement at the Climate Protection Summit of the formation of a Climate Protection Foundation and the \$3 million in funds that will be available. Chairperson Daly noted that the Climate Protection Committee has discussed this issue.
7. **Time and Place of Next Meeting:** 9:45 a.m., Wednesday, February 28, 2007 – 939 Ellis Street, San Francisco, CA 94109
8. **Adjournment:** The meeting adjourned at 10:18 a.m.

Mary Romaidis
Clerk of the Boards

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

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

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 26, 2007

Re: District Financial Audit Report for Fiscal Year 2005/2006

RECOMMENDED ACTION:

Informational report. Receive and file.

DISCUSSION

The audit report confirms that the District's financial statements "...present fairly, in all material respects, the financial position of the governmental activities and each major fund of the District as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with generally accepted accounting principles in the United States." The report on the basic financial statements is unqualified with no reportable conditions and no instances of non-compliance, and no financial statement findings noted.

The Report on compliance and on internal control in accordance with government auditing standards states "We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses."

The Report on compliance in accordance with OMB Circular A-133 states "In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006."

There were no findings or questioned costs. The audit report notes that the District responses to two prior year, single audit findings have been implemented. The report also notes that the District response to the prior year TFCA program finding is in progress.

BUDGET CONSIDERATION/FINANCIAL IMPACT:

None.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Jeff McKay

BAY AREA AIR QUALITY MANGEMENT DISTRICT

Memorandum

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

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 26, 2007

Re: Second Quarter Financial Report – Fiscal Year 2006-07

RECOMMENDED ACTION:

Informational report. Receive and file.

DISCUSSION

GENERAL FUND BUDGET: STATEMENT OF REVENUE

Comparison of Budget to Actual Revenue

- County Revenue receipts were \$7,230,352 (39.8%) of budgeted revenue.
- Permit Fee receipts were \$9,720,233 (52.5%) of budgeted revenue.
- Asbestos Fees were \$767,532 (47.4%) of budgeted revenue.
- Title V Permit Fees were \$1,152,402 (49.7%) of budgeted revenue.
- Toxic Inventory Fees were \$273,892 (51.1%) of budgeted revenue.
- Penalties and Settlements receipts were \$2,034,395 (101.7%) of budgeted revenue.
- Interest Income was \$560,597.98 (93.4%) of budgeted revenue.
- Miscellaneous Revenue receipts were \$180,572 (47.2%) of budgeted revenue.

GENERAL FUND BUDGET: STATEMENT OF EXPENDITURES

Comparison of Budget to Actual Expenditures

- Salaries and Benefits were \$ 19,339,866 (50.7%) of estimated expenditures.
- Operational Services and Supplies were \$ 4,285,705 (33.5%) of estimated expenditures.
- Capital Outlay was \$786,802 (27.2%) of estimated expenditures.

TFCA FUND: STATEMENT OF INCOME AND EXPENDITURES

- Total Revenue was \$3,882,344 (35.6%) of estimated revenue and expenditures.
- In keeping with TFCA Fund requirements, expenditures must equal revenue.
- Salary and Benefits were \$808,810 (36.1%) of estimated expenditures.
- Operational Services and Supplies were \$ 3,073,534 (33.1%) of estimated expenditures.

FUND BALANCES

FUND BALANCES	6/30/2005 Audited	6/30/2006 Audited	6/30/2007 Projected
SPECIAL RESERVES			
Reserve for Imprest Cash	\$1,200	\$1,200	\$500
Reserve for Building and Facilities	\$2,894,175	\$2,693,550	\$1,810,315
Reserve for PERS Funding	\$3,500,000	\$3,500,000	\$3,100,000
Reserve for Radio Replacement	\$3,500,000	\$3,500,000	\$75,000
Reserve for Climate Protection			\$3,000,000
Reserve for State Ozone Modelling Plan	\$350,000	\$0	\$0
Reserve For Production System	\$500,000	\$250,000	\$1,250,000
Reserve for Prior Year Adjustments	\$15,000	\$15,000	\$15,000
Reserve For Capital Equipment	\$378,000	\$130,425	\$130,425
Reserve For Encumbrances	\$1,760,075	\$2,466,145	\$2,466,145
Reserve For Contingencies	\$400,000	\$400,000	\$400,000
Reserve For Workers Comp Sel Fund	\$1,000,000	\$1,000,000	\$1,000,000
Reserve for Multi-year Appropriations	\$1,522,796	\$1,552,141	\$1,552,141
TOTAL SPECIAL RESERVES:	\$15,821,246	\$15,508,461	\$14,799,526
UNRESERVED:			
Undesignated	\$8,991,610	\$12,934,168	\$11,934,168
TOTAL FUND BALANCES	\$24,812,856	\$28,442,629	\$26,733,694

BUDGET CONSIDERATION/FINANCIAL IMPACT:

No impact on Fiscal Year 2006/2007 budget.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Jeffrey McKay

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

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

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 26, 2007

Re: Continuing Update on State-Wide Carl Moyer Audits

RECOMMENDED ACTION:

Informational report. Receive and file.

BACKGROUND:

In March of 2006, Senator Dean Florez requested that Bureau of State Audits (BSA) conduct a performance audit focused on how air pollution control and air quality management districts manage programs designed to distribute Carl Moyer Program funding. In particular, the audits are to investigate and compare practices at four air districts: South Coast, San Joaquin, Sacramento and the Bay Area Air Quality Management Districts. The request followed adoption of AB923 which ensured that the Moyer program will be funded at a level of at least \$140 million per year.

The request cited three key areas to be addressed:

- The efficiency and equity of the application process
- The effectiveness of project selection and funding distribution in achieving maximum emissions reduction and public health protection
- The availability and quality of public information and public outreach about the program to ensure participation.

DISCUSSION:

After the request from Senator Florez, the California Air Resources Board (ARB) initiated a separate audit of the Carl Moyer program. In addition, ARB requested that the Department of Finance (DOF) conduct a third, concurrent audit. Each of these three entities (BSA, ARB, DOF) will issue separate audit reports. The current status of these audits is shown in the table below.

Auditors	Status/Dates
Bureau of State Audits	Onsite work complete.
Air Resources Board	Initial Onsite Meeting Complete. Will be onsite for one week beginning March 19
Department of Finance	Initial Onsite Meeting Complete. Will be onsite for one week beginning March 19

BUDGET CONSIDERATION/FINANCIAL IMPACT:

None.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Jeff McKay

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

To: Chairperson Daly and Members
of the Budget & Finance Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 28, 2007

Re: Recommendation to Designate and Fund a Reserve for “Other-Than-Pension Post-Employment Benefits” (OPEB)

RECOMMENDATION:

Consider recommending that the Board of Directors approve staff’s recommendation to designate and fund a reserve for “other-than-pension post-employment benefits” (OPEB) for Fiscal Year ’07-’08, and to transfer \$1.4 million from undesignated reserves to the newly designated reserve fund.

BACKGROUND

New accounting rules for government agencies will require that the District begin reporting financial liabilities from certain retirement benefits known as “other-than-pension post-employment benefits,” or OPEB for short. The new reporting requirements will apply to the District beginning with Fiscal Year ’08-’09. Staff has worked with an actuarial consulting firm, Bartel Associates, to identify the District’s financial liability for retiree benefits including medical, dental, vision and life insurance. Staff has also studied the option of beginning to pre-fund those benefits, which heretofore have not been pre-funded, and has concluded that pre-funding the benefits would likely result in significant savings over the long term.

DISCUSSION

The Governmental Accounting Standards Board (GASB) rules requiring disclosure of unfunded financial liabilities from OPEB do not require that an agency begin pre-funding benefits. However, government employer experience with pre-funding pension benefits through the CalPERS system, for example, demonstrates that pre-funding can substantially reduce the cost of providing retiree benefits, primarily due to investment returns on money set aside for pre-funding. For example, approximately 80% of the pension payments paid by CalPERS are from investment returns on contributions made by employers.

The District has not pre-funded any of its OPEB to date and has been funding the benefits on a “pay-as-you-go” basis. An actuarial study conducted last year indicates that the District has an unfunded accrued liability for OPEB of approximately \$48 million. The annual cost of pre-funding the District’s OPEB on a prospective basis (i.e., without addressing the liability accrued to date) is approximately \$2.3 million per year. Both of these figures assume a discount rate (rate of return on investment) of 4.5%, which is considerably less than, for example, the actuarially assumed rate of return used by

CalPERS for employer contributions to pension benefits; CalPERS assumes they will get a 7.75% rate of return on employer contributions to pre-fund pension benefits.

CalPERS has recently decided to act as a pre-funding administrator for OPEB. CalPERS member agencies have the option of making contributions to CalPERS to pre-fund their OPEB, similar to how member agencies make contributions to CalPERS to pre-fund pension benefits. While there are alternatives to using CalPERS as a funding administrator, using CalPERS would amount to a turn-key solution for pre-funding.

After reviewing the District's financial situation along with the actuarial information on accrued liability and normal (prospective) costs, staff recommends that the District designate a reserve and set aside the "normal cost" for FY '07-'08, and to defer addressing the unfunded accrued liability until at least FY '08-'09. In the interim staff will explore options for addressing the unfunded accrued liability, which may include issuing pension obligation bonds. This approach maintains flexibility for future decision making, while taking a conservative, preliminary first step toward pre-funding OPEB.

If the District were to pre-fund the "normal cost" of OPEB it would require annual contributions of approximately \$1.4 million, assuming a rate of return on investments of 6.75%. Staff believes that 6.75% is a conservative assumption if CalPERS is the funding administrator, based on CalPERS actuarially assumed rate of return on investment for pre-funding of pension benefits, which is currently 7.75%. Also, CalPERS has historically met or exceeded its assumed rate of return on investments. Accordingly, staff is recommending \$1.4 million as an appropriate amount to set aside in a designated reserve for FY 07-08.

Staff has prepared a slide presentation and will have the actuarial consultant present to go into more detail on the actuarial study, funding options, and to answer questions.

BUDGET CONSIDERATION/FINANCIAL IMPACT:

The recommended action would result in a transfer from undesignated reserves to a newly designated reserve fund in the amount of \$1.4 million for FY 07-08.

Respectfully Submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Michael Rich
Reviewed by: Jeff McKay