



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

MONDAY
MARCH 26, 2007
9:00 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 FEBRUARY 28, 2007**

4. **UPDATE ON THE COST RECOVERY STUDY**

B. BATEMAN/4653

bbateman@baaqmd.gov

Staff will provide a status report on the Cost Recovery Study. This is an informational item only.

5. **PROPOSED AMENDMENTS TO DISTRICT'S FEE REGULATION**

B. BATEMAN/4653

bbateman@baaqmd.gov

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

6. **DRAFT BUDGET FOR FISCAL YEAR 2007/2008**

J. MCKAY/4629

jmckay@baaqmd.gov

Staff will present to the Committee the proposed budget for Fiscal Year 2007-08.

CLOSED SESSION

7. **CONFERENCE WITH DISTRICT LABOR NEGOTIATOR -**

District's Representative: Jack P. Broadbent, Executive Officer/APCO

Employee Organization: Bay Area Air Quality Management District Employees' Association

Pursuant to Government Code Section 54957.6, a need exists to meet in closed session to discuss collective bargaining matters.

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 – APRIL 25, 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: March 13, 2007

Re: Budget and Finance Committee Draft Minutes

RECOMMENDED ACTION:

Approve attached draft minutes of the Budget and Finance Committee meeting of February 28, 2007.

DISCUSSION

Attached for your review and approval are the draft minutes of the February 28, 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
9:30 a.m., Wednesday, February 28, 2007

1. **Call to Order:** Chairperson Chris Daly called the meeting to order at 9:32 a.m.

Roll Call: Chris Daly, Chair; Harold Brown, Jerry Hill, Patrick Kwok, Michael Shimansky, Pamela Torliatt (9:45 a.m.).

Absent: Scott Haggerty, Tim Smith, Gayle B. Uilkema.

Also Present: Mark Ross.
2. **Public Comment Period:** The following individual spoke on agenda item 4 regarding the District's financial audit report for fiscal year 2005/2006:

Michael White
Hayward, CA 94541

Mr. White presented a letter to the Committee. The letter is maintained by the District as part of the official record.

3. **Approval of Minutes of January 24, 2007:** Director Kwok moved approval of the minutes; seconded by Director Shimansky; carried unanimously without objection.
4. **District Financial Audit Report for Fiscal Year 2005/2006:** *Staff provided an overview to the Committee on the Financial Audit Report for FY 2005/2006. This is an informational item.*

Jeff McKay, Chief Financial Officer, introduced Gary Caporicci of Caporicci & Larson, CPA's. Mr. Caporicci stated that the Air District has complied with all Government Accounting Standards Board (GASB) requirements. The financial statements and reporting responsibilities for the Air District and Caporicci & Larson were reviewed. Mr. Caporicci summarized the audit procedures and noted that the audit took about 500 hours to complete. The audit results were reviewed, including a comparison of the District's net assets for 2006, 2005 and 2004.

Director Pamela Torliatt arrived at 9:45 a.m.

Mr. Caporicci reviewed the federal grants and Transportation Fund for Clean Air (TFCA) findings and questioned costs. For the current year, no findings on questioned costs were

noted. There was discussion on the District's process of separating funds so that the reporting is more detailed. Director Ross requested staff provide details at a future meeting on the \$5 million increase in salaries and benefits, and on the program distribution.

Committee Action: Director Shimansky moved to accept the audit report; seconded by Director Torliatt; carried unanimously without objection.

5. Second Quarter Financial Report for Fiscal Year 2006/2007: *The financial report for the second quarter of fiscal year 2006/2007 was presented. This is an informational item.*

Mr. McKay presented the second quarter financial report for fiscal year 2006/2007. There was discussion on revenue from Penalties and Settlements. Brian Bunker, Counsel explained that this is an unpredictable revenue stream and that when the revenue is over \$2 million, staff would come back to the Board to discuss using the overage for mitigation grants. Staff was given direction to map where the settlement dollars come from.

Mr. McKay reviewed the General Fund statement of expenditures and the comparison of budget to actual expenditures. The Transportation Fund for Clean Air (TFCA) statement of revenue and expenditures was reviewed. An overview of the fund balances was provided to the Committee.

Committee Action: Director Shimansky moved to accept the report; seconded by Director Hill; carried unanimously without objection.

6. Continuing Update on State-Wide Carl Moyer Audits: *Staff provided an overview to the Committee on the continuing State-Wide Carl Moyer Audits.*

Mr. McKay briefed the Committee on the Carl Moyer audits and reviewed the background on the audits, the purpose, and the status of the audits at the District. Onsite work is complete for the Bureau of State Audits report; the initial onsite work is complete for the Air Resources Board (ARB) audit and they will be onsite for one week beginning April 9th. The District has had an initial meeting with the Department of Finance and the onsite work dates have not yet been determined.

Regarding the results of the Carl Moyer audits in other air districts, the ARB found that the South Coast is delinquent in fund distribution. The Bay Area District has complied with legal requirements for timing of fund distribution. Jack Broadbent, Executive Officer/APCO, explained that the South Coast had some major projects that were not started and the funding was delayed. The ARB determined that the money should have been dispersed.

Committee Action: The Committee accepted the report.

7. Other Post Employment Benefits (OPEB) Recommendation: *The Committee considered 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.*

Michael Rich, Human Resources Officer, presented the report and introduced John Bartel, the Actuary. Mr. Rich provided an overview of the background on new reporting

requirements for non-pension retiree benefits, a summary of the actuarial study results, the staff recommendation on pre-funding, and the financial impacts of pre-funding.

Staff recommended that the Committee recommend that the Board of Directors approve designating and funding a reserve for “other-than-pension post-employment benefits” (OPEB) for Fiscal Year 2007/2008, and transfer \$1.4 million from undesignated reserves to the newly designated reserve fund.

Mr. Rich stated that staff will explore options for addressing the unfunded accrued liability and present the findings and a recommendation at a future meeting. Mr. Broadbent added that the \$1.4 million is being taken out of the reserves this year and that in future years it will be a line item in the budget.

Committee Action: Director Hill moved the staff recommendation; seconded by Director Shimansky.

Mr. Broadbent presented a memo from the Employees’ Association in support of the staff recommendation on this agenda item. The motion then passed unanimously without objection.

8. **Committee Member Comments/Other Business.** Director Torliatt recommended staff prepare a list of Moyer inter-regional projects in the event funding becomes available as a result of the audits being conducted in other air districts.
9. **Time and Place of Next Meeting:** 9:30 a.m., Wednesday, March 28, 2007 – 939 Ellis Street, San Francisco, CA 94109
10. **Adjournment:** The meeting adjourned at 11:07a.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: March 19, 2007

Re: Cost Recovery Report

RECOMMENDED ACTION:

Receive and file the enclosed report entitled *Bay Area Air Quality Management District 2007 Cost Recovery Study, BAAQMD; March, 2007*.

BACKGROUND

A study of fee revenue, and regulatory program costs, was completed in 2005 for the District by the accounting firm Stonefield Josephson, Inc. (*Bay Area Air Quality Management District Cost Recovery Study, Final Report; March 30, 2005*). The purpose of this Study was to provide the District with guidance and specific recommendations regarding cost recovery from the District's regulatory programs. The study compared the District's costs of program activities to the associated fee revenue, and analyzed how these costs are apportioned amongst fee-payers. In addition, the 2005 Cost Recovery Study provided the District with a documented methodology for analyzing cost recovery that could be used for setting fees and planning budgets in future years.

Staff has recently completed an update to the 2005 Cost Recovery Study based on cost and revenue data gathered over the last two complete fiscal years, FY 2004-05 and FY 2005-06, using the methodology established by Stonefield Josephson, Inc. The results of this 2007 Cost Recovery Study are being used as a tool in the preparation of the FY 2007-08 budget, and for establishing proposed amendments to the District's fee regulation.

The process of completing this updated Cost Recovery Study included review by a Steering Committee comprised of stakeholders representing a variety of business interests and an environmental organization. The report was also reviewed by the independent accounting firm Caporicci & Larson, CPA's.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Brian Bateman
Reviewed by: Peter Hess

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: March 19, 2007

Re: Proposed Amendments to the District's Fee Regulation

RECOMMENDED ACTION:

Staff requests that the Committee recommend to the Board of Directors that staff proceed with proposed amendments to the District's 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. Under State law, the District has the authority to collect fees sufficient to recover the full direct and indirect costs of these programs.

A study of fee revenue, and regulatory program costs, was completed in 2005 for the District by the accounting firm Stonefield Josephson, Inc. (*Bay Area Air Quality Management District Cost Recovery Study, Final Report; March 30, 2005*). This study concluded that fee revenue falls far short of recovering program costs and that, if this cost recovery gap is to be reduced, fees should be increased over a period of time at a rate that exceeds the rate of inflation.

District staff has recently completed an updated cost recovery analysis for the last two complete fiscal years that shows that fee revenue continues to be significantly less than regulatory program costs (*Bay Area Air Quality Management District 2007 Cost Recovery Study, BAAQMD; March, 2007*). For FY 2005-06, the deficit between costs and revenue, after allocation of direct and indirect expenses, was approximately \$18 million. This cost recovery gap is filled by using property tax revenue received by the District from the counties.

Last June, the Board adopted amendments to the District's fee regulation for FY 2006-07 that enabled the District to address increasing regulatory program activity costs, and move toward more complete cost recovery. In order to address fee equity issues, the District's individual Fee Schedules were amended based on the magnitude of the cost recovery gap identified in the Cost Recovery Study.

PROPOSED FEE AMENDMENTS FOR FY 2007-08

Staff has prepared proposed fee regulation amendments for the upcoming FY 2007-08 that would continue to implement the recommendations of the 2005 Cost Recovery Study by increasing fees in a manner similar to last year's fee amendments. Under this proposal, individual Fee Schedules would be increased by 15 percent, 5 percent, or 3 percent based on the magnitude of the Schedule's cost recovery gap (averaged over the last three complete fiscal years). Fee Schedules without cost recovery gaps would not be increased. Fees that are administrative in nature would be increased by 5 percent.

Several other amendments are also proposed as follows:

1. Reduce the minimum base fee assessed under Schedule N: Toxic Inventory Fees. This change is proposed because the District has now issued permits to most diesel backup generators and will begin to assess Toxic Inventory Fees for them as required under State law. As a result, the number of facilities paying fees under Schedule N will increase significantly so that the minimum fee can be decreased.
2. Increase the permit fees for compost operations that require District permits (i.e., facilities with throughputs of biomass equal to greater than 500 tons per year) to more appropriately recover the District's costs associated with these sources by listing compost operations in Schedule G1 (compost operations are currently treated as miscellaneous sources under Schedule F).
3. Increase the permit fees for refinery flares subject to Regulations 12-11 and 12-12 by 50 percent to more appropriately recover the District's costs associated with these sources.
4. Create new registration fees for commercial charbroilers that will be regulated under the proposed new District Regulation 6, Rule 2: Commercial Cooking Equipment.
5. Create new fees for operations that require an Asbestos Dust Mitigation Plan to be approved by the District under the State Airborne Toxic Control Measure for Construction, Grading, Quarrying, and Surface Mining Operations.

The staff proposal would result in an overall increase in fee revenue of about \$1.4 million from revenue levels projected for the current fiscal year, representing an increase of about 6 percent (for reference, there was a 2.9 percent increase in the annual Consumer Price Index for the California Bay Area from calendar year 2005 to 2006, as reported by the California Department of Industrial Relations, Division on Labor Statistics and Research). Staff will recommend that the proposed fee amendments be made effective on July 1, 2007.

Staff will provide the committee with additional details regarding the proposed fee amendments, and their impact on affected facilities, at the committee meeting on March 26, 2007.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Brian Bateman
Reviewed by: Peter Hess

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: March 15, 2007

Re: Draft Budget for Fiscal Year 2007/2008

RECOMMENDED ACTION:

The Executive Officer/APCO requests that the Budget and Finance Committee review the Budget for FY 2007/2008 and make any recommendations for further discussions to be held during the April 25, 2007 Budget and Finance Committee meeting. This will allow staff the necessary time to make the changes for the second review by the Committee and the first public hearing date set for May 16, 2007.

BACKGROUND:

At the March 21, 2007 regular Board of Directors' meeting, the Fiscal Year 2007/2008 Preliminary Budget document will be formally referred to the Budget and Finance Committee for review at the Committee's March 26, 2007 meeting. Additional copies will be available at the Committee meeting.

DISCUSSION:

Staff will present the proposed budget for Fiscal Year 2007/2008. The proposed budget is balanced. General Fund Revenues Transfers-In from Designated Reserves for PERS Funding, along with TFCA Indirect Cost Recovery and TFCA Revenues and Mobile Source Incentive Indirect Cost Recovery and Revenues are \$67.6 million. Proposed consolidated expenditures are \$67.6 million. Proposed capital requests are \$2,659,743. The proposed budget includes a proposed staff increase of 2.4 FTE.

Staff will publish, prior to April 16, 2007, a notice to the general public that the first of two public hearings on the budget will be conducted on May 16, 2007 and that the second hearing will be conducted on June 6, 2007. Staff requests that the Budget and Finance Committee complete its review and take action on the proposed budget at the April 25, 2007 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 May 16, 2007.

BUDGET CONSIDERATION/FINANCIAL IMPACT:

The proposed consolidated budget for FY 2007/2008 is \$67,638,770 and is a balanced budget without drawing from undesignated reserves.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Jeff McKay