

**Bay Area Air Quality Management District
939 Ellis Street
San Francisco, California 94109
(415) 749-5000**

APPROVED MINUTES

Summary of Board of Directors
Budget & Finance Committee Meeting
1:30 p.m., Wednesday, February 25, 2009

1. **Call to Order:** Chairperson Chris Daly called the meeting to order at 1:30 p.m.

Roll Call: Chairperson, Chris Daly, Vice Chairperson, Harold Brown; Committee Members Mark Ross, Michael Shimansky, Gayle B. Uilkema and Brad Wagenknecht

Absent: Scott Haggerty

Also Present: Chairperson Pamela Torliatt
2. **Public Comment Period:** There was no public comment.
3. **Approval of Minutes of January 28, 2009:** Director Shimansky moved approval of the minutes; seconded by Director Wagenknecht; carried unanimously without objection.

Item 5 was moved up on agenda for discussion

5. **Review of Air District Financial Audit Report 2007/2008 - Presentation by Katherine Yuen and Chris Hunt; Maze and Associates**

Overview:

The Independent Auditors report confirmed that Air District financial statements present fairly, in all material respects, the financial position of the Air District in conformity with generally accepted accounting principles.

Audit Results:

- Audit did not identify deficiencies in internal control considered to be material weaknesses;
- Air District complied in all material respects with the requirements applicable to each of its major federal programs for the year ending June 30, 2008;
- Schedule of deficiencies identified and discussed.

Committee Comments/Discussion:

Shimansky: Information Systems server security; timeframe to conduct and receive District audit
Hosterman: IS patch and firewall management
Brown: Confirmed District is conducting internal network scan
Torliatt: Suggested timeline for Board adoption of policies
Daly: Supported existing District travel policy

Staff Comments:

Jeff McKay: IS information not compromised; will report back on the District's upcoming internal network scan and recommended drafting policies with timeline for adoption to follow.

Committee Action: Director Wagenknecht made a motion to accept and file the Air District Financial Audit Report 2007/2008 and recommend District staff: 1) update the Committee on the District's upcoming internal network scan; 2) add the San Mateo County Investment Pool to the Quarterly Report, and 3) return to the Committee with a timeline for Board adoption of policies; seconded by Director Brown; carried unanimously without objection.

4. First Quarter Financial Report – Fiscal Year 2008/2009 - Staff Presentation by Deputy APCO Jeff McKay:

GENERAL FUND: STATEMENT OF REVENUE

Comparison of Budget to Actual Revenue

- County receipts totaled \$221,611 (1%) of budgeted revenue.
- Permit Fee receipts were \$11,803,289 (52%) of budgeted revenue.
- Title V Permit Fees were \$1,853,262 (73%) of budgeted revenue.
- Asbestos Fees were \$480,667 (25%) of budgeted revenue.
- Toxic Inventory Fees were \$257,166 (47%) of budgeted revenue.
- Penalties and Settlements were \$768,519 (31%) of budgeted revenue.
- Miscellaneous Revenue receipts were \$8,565 (2%) of budgeted revenue.
- Interest Revenue was (\$1,445,184) which totaled (-101%) of budgeted revenue.

GENERAL FUND BUDGET: STATEMENT OF EXPENDITURES

Comparison of Budget to Actual Expenditures

- Salaries and Benefits were \$9,059,059 (21%) of budgeted expenditures.
- Operational Services and Supplies were \$1,836,393(11%) of budgeted expenditures.
- Capital Outlay was \$155,722 (7%) of budgeted expenditures.

Additional Information:

Fund Balances - healthy undesignated balance of \$6,358,308

Total Fund Balance \$23,951,360

Committee Discussion:

Shimansky: Clarified that the \$3,000,000 Climate Protection funding in 2007 was one-time grant program funding

Torliatt: Clarified forecasting of PERS to be discussed under Agenda Item 6; Regulation 3: Fees

Daly: Recommended updating projections in Quarterly Report

Committee Action: None; informational report only.

6. Discussion of Proposed Amendments to Regulation 3: Fees - Staff presentation by Director of Engineering Brian Bateman:

Aggressive Budgetary Actions (three-year outlook):

- No increase in discretionary expense
- No increase in capital
- No increase in FTE
- Retain vacancies

Optimistic Budgetary Assumptions (three-year outlook):

- Property Tax: -10%
- CalPERS: +12%
- Salary & Benefits: +11%
- Other takeaways (Subvention)

Increased Fees do not equal Increased Cost Recovery:

- COLA fee increase does not increase cost recovery
- Fee increases above COLA only yield ½ equivalent improvement in cost recovery
- If cost recovery drops, fee increases yield less improvement
- 3% cost increase - 10% increase in fees increases cost recovery from 50% to 53%
- 0% cost increase - 10% increase in fees increases cost recovery from 50% to 55%

Background Information:

- The District has the legal authority to assess fees to fully recover the direct and indirect costs associated with implementing and enforcing its regulatory programs;
- Cost Recovery analyses indicate that fee revenue falls well short of program costs
 - In recent years, fee revenue has covered 50% to 60% of program costs
- Cost recovery gap is filled by property tax revenue
- Under State law, permit fee increases are limited to 15 percent in any calendar year

Additional Information:

- Permit fees and property tax represent largest percentage of revenue sources
- In FYE 2012, there will be an imbalance/shortfall of 13% if fees are not increased
- Staff Recommended fee increase will balance revenues and expenses in FYE 2012

Details of Proposed Fee Amendments:

- Amendment will increase overall fee revenue by 9% from revenue projected for the current fiscal year
 - Increase in CPI for Bay Area was 3.3%
 - Additional \$2.5 million in revenue
- Last year's fee amendments increased revenue by \$3 million
 - Included adoption of new GHG Fee Schedule which brought in over \$1 million
- Fee Schedules with the most significant cost recovery gaps will incur the largest fee increases and range from 3%-15%
- FYE 2010 budget will include cost containment measures
- Fees will not be effective until ISR Rule adoption.

Miscellaneous fee schedules:

- Hearing Board Court reporter fees
- Registration fees
- Indirect Source Review Fee, to be considered as part of the Bay Area Clean Air Community Initiative
 - Application filing fee
 - Project Plan Review Fee
 - Mitigation Fee

Examples of Permit Renewal Fee Increases Presented:

- Auto body shops
- Dry cleaners
- Diesel backup generators
- Retail gasoline dispensing facilities
- Refinery fees

Rule Development Schedule:

- Draft Fee regulation amendments issued – January 29, 2009
- Public Workshop – February 23, 2009; written comments requested by March 6, 2009
- Budget and Finance Committee briefing – February 25, 2009
- Public Hearings and Board of Directors' consideration for adoption – April 15 and May 20, 2009 (amendments effective July 1, 2009)

Summary of Fee Workshop held February 23, 2009:

- 9 attendees (WESPA, CCEEB, PG&E, Vallejo School District (2), Town of Corte Madera, Valero gas station owner (2), Chevron gas station owner.
- Workshop Comments:
 - Gas stations have been hit by costs of State EVR requirements, prior fee increases and economic downturn – Should use reserves to balance budget instead of fee increases
 - Both small and larger companies are feeling economic downturn
 - Fee increases do not seem to be doing much to reduce cost recovery gap and emphasized that the District needs to keep costs in line.

Committee Discussion:

Daly: Clarified start of cost recovery occurred approximately 4 years ago.

Ross: Suggested increase to refineries which would assist with economic impacts to smaller businesses; discussed emissions based fee schedule and clarified with staff that small businesses require significant staff time.

Wagenknecht: Effects of ARB Rule and small service station operators.

Groom: Potential closure of auto body shops-inspection fees raised have been raised by cities and counties.

Shimansky: Suggested postponing one year.

Daly: Supported fee increases; District may need to take additional budgetary measures without cost recovery, and cited reduced air quality and staff resources.

Hosterman: Perception issue--suggested option for permittees to pay now or defer payment to next year.

Uilkema: Suggested reduced fee increases or an across-the-board increase of 2%-3%.

Torliatt: Supported fee increases; confirmed cost recovery for 2008 was 54%.

Committee Direction:

The Committee will hear an update on the Fee Schedule following the written comment period. Review and consideration by the Board of Directors regarding Regulation 3: Fees scheduled for April 15 and May 20, 2009.

Committee Action: None; informational report only.

Closed Session: Committee adjourned to Closed Session at 2:51 p.m.

7. **Closed Session: Potential Litigation (Government Code Sections 54956.9(B) and 54956.9(C)):** Pursuant to Government Code Sections 54956.9(b) and 54956.9(c), a need exists to meet in closed session to discuss potential litigation regarding one matter.

Open Session: Committee reconvened regular meeting at 3:01 p.m.; no reportable action taken.

8. **Committee Member Comments/Other Business**

Shimansky: Recommended scheduling morning meetings of the Committee.

Daly: Requested staff poll Committee members as their availability.

9. **Time and Place of Next Meeting:** 1:30 p.m., Wednesday, March 25, 2009 – 939 Ellis Street, San Francisco, CA 94109.

10. **Adjournment:** The meeting adjourned at 3:03 p.m.

Lisa Harper
Clerk of the Boards