



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

BOARD OF DIRECTORS
BUDGET AND FINANCE COMMITTEE MEETING

COMMITTEE MEMBERS

CHRIS DALY – CHAIRPERSON
CAROLE GROOM
JENNIFER HOSTERMAN
MICHAEL SHIMANSKY

HAROLD BROWN - VICE CHAIRPERSON
SCOTT HAGGERTY
MARK ROSS
GAYLE B. UILKEMA
BRAD WAGENKNECHT

WEDNESDAY
FEBRUARY 25, 2009
1:30 P.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 28, 2009**
4. **FIRST QUARTER FINANCIAL REPORT – FISCAL YEAR 2008/2009**

J. McKay/4629
jmckay@baaqmd.gov

The financial report for the first quarter of fiscal year 2008/2009 will be presented.
5. **REVIEW OF AIR DISTRICT FINANCIAL AUDIT REPORT 2007/2008**

J. McKay/4629
jmckay@baaqmd.gov

The Committee will receive an update of the financial audit for 2007/2008.
6. **DISCUSSION OF PROPOSED AMENDMENTS TO REGULATION 3: FEES**

B. Bateman/4653
bbateman@baaqmd.gov

The Committee will receive a report from staff regarding the proposed amendments to the Air District's fee schedules.

CLOSED SESSION

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

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 – 1:30 P.M., WEDNESDAY, MARCH 25, 2009, 939 ELLIS STREET, SAN FRANCISCO, CA 94109

10. ADJOURNMENT

CONTACT EXECUTIVE OFFICE - 939 ELLIS STREET SF, CA 94109

(415) 749-5127
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.
- Any writing relating to an open session item on this Agenda that is distributed to all, or a majority of all, members of the body to which this Agenda relates shall be made available at the District's offices at 939 Ellis Street, San Francisco, CA 94109, at the time such writing is made available to all, or a majority of all, members of that body. Such writing(s) may also be posted on the District's website (www.baaqmd.gov) at that time.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
939 ELLIS STREET, SAN FRANCISCO, CALIFORNIA 94109
(415) 771-6000

EXECUTIVE OFFICE:
MONTHLY CALENDAR OF DISTRICT MEETINGS

FEBRUARY 2009

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Regular Meeting <i>(Meets 1st & 3rd Wednesday of each Month) - CANCELLED</i>	Wednesday	18	9:45 a.m.	Board Room
Board of Directors Personnel Committee <i>(At the Call of the Chair)</i>	Wednesday	18	10:00 a.m.	4 th Floor Conf. Room
Board of Directors Climate Protection Committee <i>(Meets 2nd Thursday each Month)</i>	Friday	20	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Legislative Committee <i>(Meets 4th Monday of the Month)</i>	Monday	23	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Budget & Finance Committee <i>(Meets 4th Wednesday of each month)</i>	Wednesday	25	1:30 p.m.	4 th Floor Conf. Room
Board of Directors Mobile Source Committee <i>– (Meets 4th Thursday of each Month)</i>	Thursday	26	9:30 a.m.	4 th Floor Conf. Room

MARCH 2009

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Regular Meeting <i>(Meets 1st & 3rd Wednesday of each Month)</i>	Wednesday	4	9:45 a.m.	Board Room
Board of Directors Personnel Committee <i>(At the Call of the Chair)</i>	Friday	6	9:30 a.m.	4 th Floor Conf. Room
Advisory Council Regular Meeting	Wednesday	11	9:00 a.m.	Board Room
Board of Directors Climate Protection Committee <i>(Meets 2nd Thursday each Month)</i>	Thursday	12	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Regular Meeting <i>(Meets 1st & 3rd Wednesday of each Month)</i>	Wednesday	18	9:45 a.m.	Board Room
Joint Policy Committee	Friday	20	10:00 a.m.	MTC Auditorium 101 8 th Street Oakland, CA 94607
Board of Directors Legislative Committee <i>(Meets 4th Monday of the Month)</i>	Monday	23	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Budget & Finance Committee <i>(Meets 4th Wednesday of each month)</i>	Wednesday	25	1:30 p.m.	4 th Floor Conf. Room
Board of Directors Mobile Source Committee <i>– (Meets 4th Thursday of each Month)</i>	Thursday	26	9:30 a.m.	4 th Floor Conf. Room

APRIL 2009

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Regular Meeting <i>(Meets 1st & 3rd Wednesday of each Month)</i>	Wednesday	1	9:45 a.m.	Board Room
Advisory Council Regular Meeting	Wednesday	8	9:00 a.m.	Board Room
Board of Directors Climate Protection Committee <i>(Meets 2nd Thursday each Month)</i>	Thursday	9	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Regular Meeting <i>(Meets 1st & 3rd Wednesday of each Month)</i>	Wednesday	15	9:45 a.m.	Board Room
Board of Directors Budget & Finance Committee <i>(Meets 4th Wednesday of each month)</i>	Wednesday	22	1:30 p.m.	4 th Floor Conf. Room
Board of Directors Mobile Source Committee <i>– (Meets 4th Thursday of each Month)</i>	Thursday	23	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Legislative Committee <i>(Meets 4th Monday of the Month)</i>	Monday	27	9:30 a.m.	4 th Floor Conf. Room

VJ – 2/13/09 (10:25 a.m.)

P/Library/Forms/Calendar/Calendar/Moncal

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 9, 2009

Re: Budget and Finance Committee Draft Meeting Minutes

RECOMMENDED ACTION:

Approve attached draft minutes of the Budget and Finance Committee meeting of January 28, 2009.

DISCUSSION

Attached for your review and approval are the draft minutes of the January 28, 2009 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
(415) 749-5000**

DRAFT MINUTES

Summary of Board of Directors
Budget & Finance Committee Meeting
9:30 a.m., Wednesday, January 28, 2009

1. **Call to Order:** Chairperson Chris Daly called the meeting to order at 9:30 a.m.

Roll Call: Chairperson, Chris Daly, Vice Chairperson, Harold Brown; Committee Members Yoriko Kishimoto, Mark Ross, Michael Shimansky and Brad Wagenknecht

Absent: Scott Haggerty and Gayle B. Uilkema
2. **Public Comment Period:** There was no public comment.
3. **Approval of Minutes of October 22, 2008:** Director Shimansky moved approval of the minutes; seconded by Director Ross; carried unanimously without objection.
4. **Fourth Quarter Financial Report:** *The Committee received a report on the fourth quarter financial report for Fiscal Year 2007-08.*

Deputy APCO, Jeff McKay, presented the Fourth Quarter Report for FY 2007/08 and the comparison of budget to actual revenue, as follows:

- County Revenue receipts were \$20,878,005 (105%) of budgeted revenue;
- Permit fee receipts were \$18,039,435 (92%) of budgeted revenue;
- Title V Permit fees were \$1,800,001 (104%) of budgeted revenue;
- Toxic Inventory fees were \$552,445 (103%) of budgeted revenue;
- Penalties and settlements were \$3,084,812 (137%) of budgeted revenue;
- Miscellaneous Revenue receipts were \$82,602 (18%) of budgeted revenue.

He then presented a comparison of budget to actual expenditures:

- Salaries and benefits were \$42,984,398 (101%) of budgeted expenditures;
- Operations Services and Supplies were \$12,376,258 (55%) of budgeted expenditures;
- Capital Outlay was \$3,008,925 (52%) of budgeted expenditures.

Mr. McKay noted that prior Board of Directors' approval targeted the Air District's special reserves at 15% of the total operating budget, and an additional \$6,363,862 currently exists in undesignated reserves. Mr. McKay confirmed that the final audit would be presented at the next Committee meeting and that the undesignated reserve would continue to be shifted into the Economic Uncertainties special reserve fund.

Committee Action: None; informational report only.

5. Air District Financial Overview: *The Committee received an update of the Air District's financial overview.*

Deputy APCO, Jeff McKay, gave an overview of the Air District's financial picture, outlining current budget revenue and expenses, fiscal challenges, risks, and responses, with recognition that early adjustments are suggested and made as new information becomes available.

Mr. McKay presented a breakdown of revenue sources: Permit Fees (45%); County Property Tax (33%); Federal Grants (6%), Other (4%); State Subvention (3%); CMAQ (3%) and Indirect Grant Costs (2%). He compared revenue and expenses and said fiscal challenges ahead include a softening of property tax by 10%, an increase in CalPERS contributions by 12% and cost of living adjustment (COLA) increases for salaries and benefits of 11%. He then presented general fund expenses, stating that salary and benefits were largest at 62%, CalPERS at 8%, Capital at 4% and Service and Supplies at 26%.

Mr. McKay said the Air District is already assuming some relatively strong measures by holding services and supplies and capital expenditures flat. Additionally, the Air District is not adding FTE's, not filling existing vacancies unless they are critical positions, and by using this scenario, it is estimated there will be a 10% shortfall imbalance in the fiscal year ending 2012.

Additional financial risks include subvention withholding which has occurred before and is likely. Given this scenario, it is estimated there will be a 13% shortfall in 2012. He said it is also possible that some property tax could be re-directed, as well as the possibility of large facilities closing which would impact permit fees.

Committee Members confirmed there would be future presentations made at upcoming Committee meetings, discussed appropriate reserve levels and the 15% target, the importance of making incremental changes and utilizing reserves to address isolated incidents. The Committee briefly discussed the more significant, longer term commercial property tax reductions, confirmed there was current utilization of resources through redeployment of staff on an as-needed basis, and requested staff provide information on the total amount of potential loss from the 5% administration fees from Carl Moyer, I-Bond, and other grant fund programs. Committee Members also voiced interest in forwarding a letter to the State relating to subvention and potential legislation which would increase the 5% fees used to administer programs.

Committee Action: None; informational report only.

6. Annual Valuation Report from CalPERS: *The Committee received an update of the Annual Valuation Report from CalPERS.*

Director of Administration, Michael Rich, provided an update of the Annual Valuation Report from CalPERS as of June 30, 2007. He reviewed contribution projections from the District's Actuary, John Bartel, and discussed budget considerations and investment losses in the OPEB Trust Fund. Due to poor investment returns and budget implications from pension plan losses, it is expected there will be an increase in employer contribution rates starting in FY 2011-2012.

Committee Members discussed losses from investments and its impact on employees and the organization, long-term projections, and the less precise projections of forecasting out 10 years.

Committee Action: None; informational report only.

7. **Production System Project Funding:** *The Committee considered recommending Board of Directors' approval to authorize the Executive Officer/APCO to solicit bids and execute agreements for the Production System project not to exceed \$2,800,000.*

Deputy APCO, Jeff McKay, presented the status of the Production System Project funding, stating that in the previous meeting the Committee had granted the second and final half of funding to be moved from undesignated to designated reserves. He presented the timeline presented in 2006, reported hitting the halfway point in November and being \$200,000 under budget, and said staff is now requesting that money be moved and for \$2.8 million to be expended from designated reserves.

Committee Action: Director Brown made a motion to recommend Board of Directors' approval to authorize the Executive Officer/APCO to solicit bids and execute agreements for the Production System project not to exceed \$2,800,000; Director Kishimoto seconded the motion; carried unanimously without objection.

8. **Amend FY 2008/2009 Operating Budget:** *The Committee considered recommending Board of Directors' approval to amend the FY 2008/2009 Budget to recognize revenue from a U.S. Environmental Protection Agency grant.*

Air Monitoring Manager, Eric Stevenson, reported that the Air District expects that the Bay Area will be designated non-attainment for the new ozone standard of 75 parts per billion, and anticipates that a plan will need to be prepared to include ozone modeling. Staff applied for and has been awarded a one-time grant of \$252,370 from the EPA and along with an annual award of \$122,500, grant funds will be used to prepare such a plan and fund photochemical stations in order to better understand ozone formation and data required for ozone modeling and model validation. Therefore, staff requests that the Committee consider recommending Board of Directors' approval to amend the budget to increase Air Monitoring Budget by \$374,870.

Committee Members confirmed that the one gas chromatograph for the current Livermore station and one each for the new sites will better ascertain what emissions go outside of the Air District.

Committee Action: Director Shimansky made a motion to recommend Board of Directors' approval to approval to amend the FY 2008/2009 Budget by increasing the Section 105 Environmental Protection Agency (EPA) Grant Revenue by \$374,870, and correspondingly increase the professional services and capital equipment budget for Air Monitoring (Program 802); Director Brown seconded the motion; carried unanimously without objection.

9. **Committee Member Comments/Other Business:** Chairperson Daly requested an update be provided at the next meeting regarding the San Mateo County Investment Pool.
10. **Time and Place of Next Meeting:** 9:30 a.m., Wednesday, February 25, 2009 – 939 Ellis Street, San Francisco, CA 94109

11. **Adjournment:** The meeting adjourned at 10:37 a.m.

Lisa Harper
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 10, 2009

Re: First Quarter Financial Report – Fiscal Year 2008-09

RECOMMENDED ACTION:

Informational report. Receive and file.

DISCUSSION

GENERAL FUND BUDGET: 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.

FUND BALANCES

	<u>6/30/2007</u> <u>Audited</u>	<u>6/30/2008</u> <u>Audited</u>	<u>6/30/2009</u> <u>Budgeted</u>
Imprest Cash	\$ 500	\$ 500	\$ 500
Building and Facilities	1,731,690	1,731,690	1,510,315
PERS Funding	3,100,000	2,700,000	2,300,000
Radio Replacement	75,000	75,000	75,000
Climate Protection	3,000,000		
Production System	1,250,000	2,800,000	1,250,000
Capital Equipment	130,425	130,425	130,425
Contingencies	400,000	400,000	400,000
Worker's Compensation	1,000,000	1,000,000	1,000,000
Economic Uncertainties	7,709,028	8,755,437	9,112,133
TOTAL SPECIAL RESERVES	<u>\$ 18,396,643</u>	<u>\$ 17,593,052</u>	<u>\$ 15,778,373</u>
Appropriation - Production System	<u>\$ 152,141</u>	<u>\$ -</u>	<u>\$ -</u>
UNDESIGNATED	<u>13,996,404</u>	<u>6,358,308</u>	<u>9,293,299</u>
TOTAL FUND BALANCES	<u>\$ 32,545,188</u>	<u>\$ 23,951,360</u>	<u>\$ 25,071,672</u>

BUDGET CONSIDERATION/FINANCIAL IMPACT:

No impact on Fiscal Year 2008/2009 budget.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Linda J. Serdahl, CPA, CFE

Reviewed 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 10, 2009

Re: Air District Financial Audit Report for Fiscal Year 2007/2008

RECOMMENDED ACTION:

Informational report. Receive and file.

DISCUSSION

The Independent Auditors' Report confirms that the Air District's financial statements "...present fairly, in all material respects, the respective financial position of governmental activities, each major fund, and the aggregate remaining fund information of the Air District as of June 30, 2008, and the respective changes in the financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America." The report on the basic financial statements is unqualified with no reportable conditions, no instances of non-compliance, and no financial statement findings noted.

The Report and internal control over financial reporting and on compliance was performed in accordance with *Government Auditing Standards* states that "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 Air 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, 2008."

The Report on Compliance with the Transportation Fund for Clean Air (TFCA) indicated that the Air District complied with the applicable provisions of Assembly bill 434 (AB434) and Health and Safety Code Sections 44220 through 44242, and that for items not tested, nothing came to the auditor's attention to indicate that the District had not complied with the applicable provisions of AB434.

Further, there were no findings or questioned costs in the current or prior year for the Federal Programs listed on the *Schedule of Expenditures of Federal Awards*.

BUDGET CONSIDERATION/FINANCIAL IMPACT:

None.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Linda J. Serdahl
Reviewed by: Jeffrey M. 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 9, 2009

Re: Discussion of Proposed Amendments to Regulation 3: Fees

RECOMMENDED ACTION:

None. This item is for information only.

BACKGROUND

The Air 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 Air 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 Air 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 program costs are much greater than fee revenue 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.

Due to increases in fees adopted by the Board of Directors since the 2005 Cost Recovery Study was completed, the gap between program costs and fee revenue has decreased. Nonetheless, a significant cost recovery gap still exists. This cost recovery gap is filled by using property tax revenue received by the Air District from the counties.

For the upcoming Fiscal Year Ending (FYE) 2010, District staff is preparing a budget that incorporates a number of cost containment measures that address the fiscal challenges that the Air District and other public agencies face. In order to prepare a balanced budget without compromising the Air District's core programs and initiatives, however, a decrease in the cost recovery gap is necessary.

PROPOSED FEE AMENDMENTS FOR FYE 2010

Staff has prepared proposed fee regulation amendments for the upcoming fiscal year that would increase overall fee revenue by an estimated \$2.5 million, which represents a 9 percent increase. This would continue to reduce the cost recovery gap, although at a lower rate from the fee amendments adopted for the current fiscal year, which represented a 14 percent increase in fee revenue. Staff will consider the need for more aggressive fee increases in future budget cycles.

In order to address fee equity issues, the Air District's individual Fee Schedules would be amended based on the magnitude of the cost recovery gap determined at the fee schedule level. Under this proposal, individual Fee Schedules would be increased by 3, 6, 9, 12, or 15 percent based on the magnitude of the Schedule's cost recovery gap. Fee Schedules without cost recovery gaps would not be increased. Fees that are administrative in nature would be increased by 6 percent.

Staff will provide the committee with additional details regarding the proposed fee amendments, at the committee meeting on February 25, 2009. A summary of comments received at a public workshop scheduled for February 23, 2009, will also be provided.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Brian Bateman
Reviewed by: Jeffrey Mckay