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
1:00 p.m., Wednesday, February 10, 2010

Call to Order: Chairperson Chris Daly called the meeting to order at 1:00 p.m.

Roll Call: Chairperson Chris Daly; Vice Chairperson Harold Brown; Committee Members Susan Garner, Scott Haggerty, Carole Groom and Eric Mar

Absent: Committee Member Ash Kalra, Mark Ross and Gayle Uilkema

Public Comment Period: There was no public comment.

Approval of Minutes of November 2, 2009:

Committee Action: Director Haggerty moved approval of the minutes of November 2, 2009; seconded by Director Brown; carried unanimously without objection.

Review of Air District Financial Audit Report 2008/2009

Peggy Vande Vooren, Gilbert Associates, Inc., presented the District's Financial Audit Report for 2008/2009, summarized required communications in management's financial reporting and disclosure process, and reviewed the following areas and comments associated with those areas:

Area	Comment
Auditors' Responsibilities under Generally Accepted Auditing Standards (GAAS)	Issued an unqualified opinion on the financial statements for year ended June 30, 2009, and issued unqualified opinions on the OMB Circular A-133 (Single Audit)
Disagreements with Management	None
Management Representations	Requested certain representations which are included in letter from management, dated January 29, 2010
Planned Scope and Timing of the Audit	Performed according to scope and timing, per contract.
Management Consultations with Other Independent Accountants	None
Significant Accounting Policies	Described in Notes to the financial statements. Note 1: District changed accounting policies related to post-retirement healthcare benefits by adopting GASB Statement No. 45. Auditors noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. No significant transactions have been recognized in financial statements in a different period than when transaction occurred.
Serious Difficulties Encountered in Performing the Audit	None

Area	Comment
Other Audit Findings or Issues	None
Management Judgments and Accounting Estimates	Most significant estimates are useful lives and related depreciation of capital assets, the retirement and post-retirement healthcare benefits expenses, and long-term liability for compensated absences. Key factors and assumptions are reasonable in relation to financial statements taken as a whole.
Significant Adjustments or Disclosures not reflected in financial statements	Misstatement detected and corrected by management: Decrease in the General Fund's fund balance and increase in deferred revenue by $520,745. The District recorded three adjustments to prior year's fund balance: 1. Adjustment to remove the OPEB Trust Fund and move assets of $2,724,190 to the General Fund due to the Fund not meeting definition of a fiduciary fund as defined by GASB. 2. The District's second and third adjustments increased the General Fund's and Special Revenue Fund's fund balances by $903,106 and $81,033,409, respectively (related to the TFCA programs). Two passed-on journal entries were not recorded by management: 1. First entry would decrease the Special Revenue Fund's fund balance by $310,817 to account for unrealized losses on funds held in the County's investment pool. 2. Second entry would decrease the General Fund's fund balance by $98,028 to account for estimated claims liability loss reserves.

Committee Comments/Questions:

Chair Daly questioned the difference between Restricted Reserve and an OPEB Trust Fund. Ms. Vande Vooren said a Trust Fund is an actual fund that tracks revenues and liabilities separately, and a restricted fund balance is part of the District's General Fund.

Director Haggerty referred to San Mateo County's loss on investments and called for the need by the Committee to discuss alternative investment options. District Counsel Brian Bunger updated the Committee, stating that the District must remain in the investment pool until monies are returned or a significant loss is incurred, which he believed was currently estimated at 80%.

Chair Daly requested a status report regarding San Mateo County Investment Pool be calendared for the next Budget and Finance Committee meeting.

Ms. Vande Vooren continued, and presented the Financial Statements with Independent Auditors Report, the OMB Circular A-133 and Transportation Fund for Clean Air Compliance Reports and the Management Letter, year ended June 30, 2009.

Chair Daly questioned the auditor's reference of $520,745 in deferred revenue. Mr. Bunger explained that this amount may relate to permit revenue invoiced and not received, as some are businesses that no longer exist or are in or near bankruptcy, and some have simply not paid the outstanding debt. He discussed the District's efforts in pursuing collection through Abatement Orders, Notice of Violations (NOVs) and other means, and what is a relatively high number is reflective of the economy. The new production system should enable the District to more efficiently track and collect outstanding invoices.

Director Brown questioned whether there were any outstanding issues relating to the unfunded liability for retiree health. Mr. McKay reported that the District started funding the liability about 4 years ago and has made progress; $2 million is invested annually into the OPEB to address the $50 million total liability.

There was no public comment.

Committee Action: None; Informational Only.

Second Quarter Financial Report- Fiscal Year 2009-2010

Finance Manager, Linda Serdahl, gave a PowerPoint presentation of the second quarter Financial Report, as follows:

GENERAL FUND: STATEMENT OF REVENUE
Comparison of Budget to Actual Revenue

- County receipts totaled $9,891,047 (49%) of budgeted revenue.
- Permit Fee receipts were $15,966,823 (66%) of budgeted revenue.
- Title V Permit Fees were $2,265,979 (70%) of budgeted revenue.
- Asbestos Fees were $827,397 (63%) of budgeted revenue.
- Toxic Inventory Fees were $405,533 (63%) of budgeted revenue.
- Penalties and Settlements were $377,745 (15%) of budgeted revenue.
- Miscellaneous Revenue receipts were $49,554 (11%) of budgeted revenue.
- Interest Revenue was ($131,969) which totaled 19% of budgeted revenue.

GENERAL FUND BUDGET: STATEMENT OF EXPENDITURES
Comparison of Budget to Actual Expenditures

- Salaries and Benefits were $20,711,531 (47%) of budgeted expenditures.
- Operational Services and Supplies were $6,764,366 (29%) of budgeted expenditures.
- Capital Outlay was $2,492,959 (37%) of budgeted expenditures.

Investment Balances
Cash and Investments in County Treasury:

General Fund	$ 30,394,461
TFCA	$ 54,314,815
MSIF	$ 34,743,565
Carl Moyer	$ 18,244,463
CA Goods Movement	$ 14,547,565
	$152,244,869

Investments Held as:

Fixed Income Investments	34% of total investment pool
Short Term Investments	66% of total investment pool

Additional Information:
Fund Balances – Undesignated balance of $6,358,308
Total Fund Balance - $23,951,360

Committee Comments/Questions:

Director Haggerty requested an explanation of decreased penalty revenues. Mr. Bunger responded that the District is not experiencing the numbers of NOVs issued historically over the past few years. Staff noted that larger facilities have implemented more sophisticated Environmental Management Systems (EMS). Also, permit condition violations are not occurring as often because facilities are operating at reduced volumes.

Director Haggerty requested that inspection information be broken down over the last five years by numbers of inspections, types of inspections and types of inspectors.

Ms. Roggenkamp noted that significantly more inspections are being done at the Port of Oakland than originally anticipated, there are some limited term employees who process the paperwork for grants, and there are safety protocols and training that inspectors must have for hazardous materials and how the District performs these types of functions are addressed in budget projections.

Mr. McKay added that professional services are part of reductions in services and supplies and the District is managing its shortfalls by managing the vacancy rate.

Committee Action: None; Informational Only.

Air District Financial Overview

Deputy APCO, Jeffrey McKay, gave an update on the financial status, general fund revenue sources, general fund expenditures, and discussed financial challenges in the current fiscal year, as follows:

Property Taxes will decrease by 8% in Accordance Assembly Bill No.15, in the amount of:	- $1.6 Million
Budgeted grant revenue will not be realized, resulting in General Fund encroachment in the amount of:	- $2.2 Million
Permit Fees will Decrease in the amount of:	- $1.0 Million
Penalties will Decrease in the amount of:	- $1.0 Million
Interest will Decrease in the amount of:	- $0.4 Million
Property Tax will Increase in the amount of:	+$1.0 Million
Total	- $5.2 Million

Mr. McKay noted that the budgeted grant revenue encroachment of $2.2 million is presented most pessimistically and this could be improved by $500,000.

The following actions to be taken:

• Excess Vacancies (beyond budget) – estimated at:	+ $1.5 M
• Reduce Services and Supplies by 10%:	+ $1.2 M
• Securitize 8% Property Tax Decrease	+ $1.6 M
• Total	$4.3 M

Director Comments/Questions:

Director Garner confirmed with Mr. McKay that the District would reduce services and supplies, securitize 8% property tax decrease, and noted that General Fund expenditures comprise of 62% salary and benefits, 26% services and supplies, which includes professional services and contractors, paper and supplies. Director Garner questioned the sorts of cuts to achieve a balanced budget. Mr. McKay stated that he and Jean Roggenkamp meet with staff to cut 10% across the board in all departments. Ms. Roggenkamp added that cuts are made so as not to disrupt essential services and cause too much of an impact.

Mr. McKay noted that the Board's direction is to maintain 15% of the General Fund budget, or $9 million in reserves. The District's total fund balance at the end of the year is estimated to be $13 million which remains beyond the targeted amount. In going forward, staff proposes to maintain vacancies, reduce service and supplies expenditures, implement fee increases to address the cost recovery gap, and maintain cautious stewardship of reserves.

Director Garner questioned if there was a cap where vacancies from attrition becomes disruptive to the organization, or would backfilling positions become necessary. Mr. McKay reported that the District would maintain vacancies and its services and supplies budget beyond the current budget. Regarding fees, the District is currently only at 50% cost recovery. The District cannot accomplish its mission at this level and will need modest decreases in the gap and staff will suggest a 5% fee increase for the coming year, which will only decrease the gap by about 1%. He summarized by stating cautious stewardship of reserves will be in place for items not absolutely necessary, and he restated the actions to be taken as described earlier to maintain excess vacancies, reduce services and supplies, securitize property tax decrease, and allow for modest reductions in the cost recovery gap.

Director Garner noted that current vacancies were 24 FTE which was through attrition. Going forward, she questioned the District's strategy to continue to accept attrition or cap vacancies if it becomes disruptive to the organization. Mr. McKay said there are a targeted number of vacancies beyond the current vacancy and there is always turn-over. He stated that the District is a 363 FTE organization; there are currently 24 vacancies and the maintenance of vacancies is targeted at 16 FTE.

There was no public comment.

Committee Action: None; Informational Only.

Committee Member Comments: None

Time and Place of Next Meeting: At the Call of the Chair

Adjournment: The meeting adjourned at 1:39 p.m.

/s/ Lisa Harper
Lisa Harper
Clerk of the Boards