

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, March 24, 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 Scott Haggerty, Eric Mar, Mark Ross and Gayle Uilkema
- Absent:** Committee Member Ash Kalra, Susan Garner and Carole Groom
- Public Comment Period:** There was no public comment.

Approval of Minutes of February 10, 2010:

Committee Action: Director Ross moved approval of the minutes of February 10, 2010; seconded by Vice Chairperson Brown; carried unanimously without objection.

Discussion of Proposed Budget for Fiscal Year 2010/2011

Deputy APCO, Jeffrey McKay presented the proposed District Budget, stating that the District's General Fund Budget is \$62.4 million, provides for 363 positions, and reserves reflect prior Board direction or \$9 million. He described General Fund revenue sources half of which comprise of permit fees (49%), with the remainder being property tax (34%), and smaller amounts from penalties, interest, grants, and subvention. For General Fund expenditures, salaries and benefits make up about 65%, services and supplies at 24%, CalPERS 8%, and Capital at 4%.

In responding to challenges, the District proposes a pro-active, balanced multi-faceted and multi-year approach to deal with the gap between revenue and expenditures through:

Personnel:

- FTE unchanged from amended FYE 2008 Budget;
- Vacancy count steadily increased – 19 vacancies held and 7 additional vacancies from turnover;
- Teamwork exists between management and labor;
- Leadership development and training

Expenditures (expected to hold for 3 years):

- Services and supplies cut by 12% from prior year;
- Capital spending deferred, such as HVAC and elevators

Fees:

- 5.5% average fee increase in FYE 2011 budget;
- Low rate of cost recovery reduces effectiveness of fee increases

Reserves:

- In prior years, property taxes exceeded budget;
- Those funds available for temporary budget gap;
- Future Year assumptions for reserve projections:
 - Vacancies unfilled
 - Services and supplies and capital unchanged

- Property taxes unchanged
- 5.5% fee increases each year.

Mr. McKay presented assumptions over the next three years, showing the following changes to reserves each year:

- \$ 2.0 million in FYE 2011
- \$ 0.9 million in FYE 2012
- + \$ 0.2 million in FYE 2013

Mr. McKay stated that reserve projections assume continuation of Committee guidance on topics such as paying the proposed budget OPEB in the current year.

In response to a question posed at the last Committee meeting about a breakdown of inspections and how inspectors are deployed in the context of grants work, Mr. McKay presented a table showing the various categories of inspections from FYE 2006 through FYE 2009 for compliance verification inspections by: grants inspections, gasoline dispensing, asbestos demolitions/renovations, auto body shops, dry cleaners, reportable compliance activities, Title V deviations, refineries, and industrial sources.

Staff was also asked to report back on the status of the San Mateo Investment Pool Lehman Brothers loss. Mr. McKay stated that every pool participant shares equally in gains or losses and the bankruptcy resulted in an investment loss. A claim was filed on behalf of the pool in the bankruptcy, the assets are not worthless but tied up in the bankruptcy, and the devalued assets will return to the pool as a gain when distributed in the bankruptcy. Staff recommends continued pool participation which is necessary to see an eventual gain.

In summary, Mr. McKay said staff proposes a balanced budget approach to fiscal challenges with the ability to support core functions and initiatives.

Mr. McKay then presented Table I; consolidated revenue and transfers, Table II; consolidated expenditures, and Table III; general fund expenditures, and provided an explanation of line item year-to-year budget increases, decreases and percentages of changes.

Director Comments/Questions:

Director Haggerty confirmed that the entire investment pool incurred a loss of about \$8 million; the District's loss is approximately \$1.7 million, and that the estimated value through the current settlement process ranges between \$.10 and \$.50 on the dollar and increasing.

Director Ross acknowledged reductions in penalties and settlements, given the current economy and questioned whether maintenance of equipment was associated with penalty activity. Mr. Wee and Mr. Bunker explained that reductions relate more to facilities not running at their full capacity. Equipment typically breaks down or requires added maintenance when at full capacity.

Director Haggerty referred to Table II. He questioned and confirmed that the District's general insurance coverage falls under a special District agency pool and would be reviewed this coming fiscal year.

Director Uilkema confirmed that travel in and out of state is reflective of both District staff and Board Members.

Director Haggerty questioned and confirmed that communications equipment is for deferred replacement of in-house telephones, and that inspector radio systems had been replaced about three years ago.

Director Daly confirmed that the Mobile Source Committee would meet and consider funding for the Lower Emissions School Bus Program, and that the current year funding cycle is included in the District's proposed budget and audit, as well.

Mr. Breen briefly discussed I-Bond funding which he confirmed was excluded from this year's budget due to its uncertainty relating to the sale of bonds. Mr. Broadbent added that given the uncertainty, the District

relies on limited term and temporary employees, which is included in the recent approval of the Employees Association contract. In moving forward, internal employees will be utilized to backfill the work, and then positions replaced once funding is received.

Director Uilkema confirmed that State bonds are Proposition 1A funds and are in a special State pool and not impacted by county revenues.

Chair Daly confirmed with staff that the proposed Budget would return to the Committee for further review on April 28, 2010 at which time the Committee would refer it to the Board of Directors for public hearings on May 5 and June 16, 2010. He confirmed with staff that the new Employee Association costs are included within the proposed budget and while initially having to go into Reserves, the budget should be more favorable in future years.

Vice Chair Brown thanked District staff for their work and for presentation of both a comprehensive and easily understood budget document.

There was no public comment.

Committee Action: The Committee's comments and recommendations were recognized, and further discussion will be held during the April 28, 2010 Budget and Finance Committee meeting.

Update on Proposed Amendments to Regulation 3: Fees

Director of Engineering, Brian Bateman, provided a background on the District's authority to assess fees to recover the District's cost of stationary source programs. He said fee revenue fell well short of full cost recovery at only 58% and the cost recovery gap is filled by county revenues. Permit fee increases are restricted to increase not more than 15% per year.

Mr. Bateman presented General Fund Revenue Sources showing the distribution of revenue sources, with permit fees comprising of 49% of the revenue and County property tax at 34%. He reviewed budget challenges of the District as:

Program requirements are increasing due to the increasing number and complexity of federal, state, and District rules and regulations. And, expected revenue has decreased in the area of fees, penalties, grants, and interest. Mr. Bateman then briefly described responses by the District to address budget challenges by reducing expenditures, maintaining vacancies, increasing efficiency, using a modest amount of reserves, and increasing cost recovery fees. He then presented an illustration of the effect of no increase in costs and a 10% increase in fees, which would yield a 6% increase in cost recovery.

Staff proposes a 5% increase in all fees, except for Schedule P which applies to Title V facilities. These are proposed at a 10% increase due to the schedule being low in terms of cost recovery, at 46%. The effect on fee revenue would equal a 5.5% increase from what would otherwise result without a fee increase, and 1.5% increase from FYE 2010 projected fee revenue.

Director Comments/Questions:

Director Haggerty asked staff to provide an example of the lowest and highest fee. Mr. Bateman explained that fees are wide ranging, stating that the lowest is about \$300 and the highest is for a refinery, at about \$2 million.

Mr. Bateman stated there are 97 Title V facilities in the Bay Area, which are the larger, more complex facilities. The average increase in annual permit renewal fees would be 6.4%; the range of increases would be 5.2% to 8.0%; and five refineries' increases range from 5.7% to 6.0%.

Other proposed amendments include:

- Expanding the definition of "small business"
 - Increase gross annual income limit from \$600,000 to \$750,000
 - Small businesses get 50% discount on permit application fees

- Create new “green business” application fee discount of 10%
- Create new application fee discount for attendance at Industry Compliance School
- Move temporary amnesty provision to Regulation 3 and extend applicability to registrations

Director Uilkema requested staff provide estimated increases in annual permit renewal fees for Title V facilities that would result from adoption of proposed amendments to the District’s fee regulation. Mr. Bateman agreed to forward the information.

Mr. Bateman then presented examples of increases in annual permit renewal fees for small businesses, which included gas stations (\$120), dry cleaners (\$61), auto body shops (\$33) and back-up generators (\$57). He then presented Bay Area AQMD and South Coast AQMD fee comparisons which revealed higher South Coast AQMD fees.

Mr. Bateman reviewed public comments received at workshops and verbally and in writing. In conclusion, he reviewed the rule development schedule.

Director Ross confirmed that the speed at which staff can evaluate permits will be enhanced through improved production system capabilities.

Committee Action: None; Informational Only.

Committee Member Comments: Chairperson Daly reminded Directors that only pertinent staff should attend Committee meetings.

Time and Place of Next Meeting: 1:00 p.m., Wednesday, April 28, 2010, 939 Ellis Street, 4th Floor Conference Room, San Francisco, CA 94109

Adjournment: The meeting adjourned at 2:00 p.m.

/s/ Lisa Harper
Lisa Harper
Clerk of the Boards