

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
9:30 a.m., Wednesday, January 26, 2011

- Call to Order:** Chairperson Carole Groom called the meeting to order at 9:30 a.m.
- Roll Call:** Chairperson Carole Groom, and Directors Eric Mar, Mark Ross, Gayle Uilkema and Brad Wagenknecht
- Absent:** Vice Chairperson Ash Kalra, and Directors Hal Brown, Scott Haggerty, and Shirlee Zane
- Also Present:** Director Pamela Torliatt
- Public Comment Period:** There was no public comment.

Approval of Minutes of December 8, 2010:

Committee Action: Director Wagenknecht made a motion to approve the minutes of December 8, 2010; Director Mar seconded the motion; unanimously approved without objection.

Second Quarter Financial Report – Fiscal Year 2010-11

Finance Manager David Glasser gave the staff report and presented the Second Quarter Financial Report, as follows:

GENERAL FUND: STATEMENT OF REVENUE

Comparison of Budget to Actual Revenue

County receipts	\$	10,916,016	(52%)	of budgeted revenue.
Permit Fee receipts	\$	16,475,921	(65%)	of budgeted revenue.
Title V Permit Fees	\$	2,322,313	(70%)	of budgeted revenue.
Asbestos Fees	\$	907,228	(57%)	of budgeted revenue.
Toxic Inventory Fees	\$	335,616	(50%)	of budgeted revenue.
Penalties and Settlements	\$	814,177	(54%)	of budgeted revenue.
Miscellaneous Revenue	\$	24,778	(20%)	of budgeted revenue.
Interest Revenue	\$	111,869	(41%)	of budgeted revenue.

GENERAL FUND BUDGET: STATEMENT OF EXPENDITURES

Comparison of Budget to Actual Expenditures

Personnel - Salaries	\$	14,518,461	(47%)	of budgeted expenditures.
Personnel - Fringe Benefits	\$	5,933,144	(42%)	of budgeted expenditures.
Operational Services and Supplies	\$	6,625,900	(33%)	of budgeted expenditures.
Capital Outlay	\$	2,282,737	(66%)	of budgeted expenditures.

Cash and Investments in County Treasury:

General Fund	\$24,834,447
TFCA	\$53,466,159
MSIF	\$34,971,102
Carl Moyer	\$8,900,678
CA Goods Movement	\$21,978,791
	<u>\$144,151,177</u>

Investments Held as:

Fixed Income Investments	35% of total investment pool
Short Term Investments	65% of total investment pool

Year End Results - Fund Balances:

	6/30/2009 Audited	6/30/2010 Unaudited	6/30/2011 Projected
Imprest Cash	\$500	--	--
Building and Facilities	1,731,690	1,731,690	4,731,690
PERS Funding	2,300,000	1,900,000	1,500,000
Radio Replacement	75,000	75,000	75,000
Capital Equipment	130,425	130,425	1,219,898
Contingencies	400,000	--	--
Post Employment Benefits	--	--	2,000,000
Worker's Compensation	1,000,000	1,000,000	1,000,000
Economic Uncertainties	9,277,570	7,816,963	130,660
TOTAL SPECIAL RESERVES	\$14,915,185	\$12,654,078	\$10,657,168
UNDESIGNATED	411,797	282,389	411,797

Committee Comments/Discussion:

Director Uilkema cited the decline in special reserves, and Mr. McKay replied that there have been both deliberate and unanticipated drawdowns on reserves due to software system replacement, drops in interest rates, and the Lehman Brothers bankruptcy.

Public Comment: None

Committee Action: None; Informational only.

Air District Financial Overview

Deputy APCO Jeffrey McKay gave the staff presentation and stated that at the last Committee meeting, the District's multi-year outlook was discussed. Information from the first six months of the current fiscal year has been received and he presented an overview of the District's financial position, reporting a \$63.6 million General Fund budget, 363 positions, and reserves that reflect prior Board direction. He reviewed General Fund revenue sources, noting the highest as permit fees (49%) and property taxes (34%). General Fund expenditures are divided up into salary and benefits (65%), services and supplies (24%), CalPERS (8%), and Capital (4%).

Items which have caused revenue to decline or not materialize in the General Fund include property taxes which have been flat and reduced capital investment in the Bay Area which affects permit fees. The District is seeing at the 6-month point that it has a good handle on property tax projections and believes they will be \$200,000 above what was budgeted. Grant revenue is CARB-dependent. Staff expects permit fees to be less than budgeted by \$1.1 million and penalties to be less than budgeted by \$100,000, leaving total reduced revenue compared to budget of \$1.0 million.

Mr. McKay then discussed implications to reserves. He has brought forward consistent charts over time which show expected reserves if the District hits its budgets, and this includes fee increases and improved cost recovery. If the \$1 million affects reserves at the end of the coming fiscal year, the District would dip below the 15% reserve target of the General Fund budget approved by the Board.

Mr. McKay stated the District will continue to maintain its vacancy rate which is now at 10%, will continue to review its services and supplies budget.

In response to Director Wagenknecht, the prior year budget was cut and the District maintained the lower dollar amount for the current year. Mr. McKay noted that staff would also review existing encumbrances or purchase orders which may be canceled, and if not successful, reserves can be considered.

In summary, there are known challenges to the current year budget, there may be additional risks which may increase the gap further, and Mr. McKay reviewed previously stated responses. Future years require continued maintenance of vacancies, services and supplies held at a reduced level, and reductions in the cost recovery gap. In addition, at the next meeting staff will provide a presentation from auditors of the prior fiscal year.

Committee Comments/Questions:

Director Ross: referred to computer system and efficiencies, and he asked when these would take place. Mr. McKay said the District is already seeing some of the benefits. Some of the underlying infrastructure has been completed and on-line registration has occurred. With less staff time and greater efficiency to the public, applicants are able to go on-line and register for certain permits. In terms of shutting down old systems and bringing on new systems, there will be an initial learning period, and the District will get a better feel of reductions in staffing.

Director Wagenknecht referred to reductions in the cost recovery gap, which is difficult given current economic times. He asked for an explanation of what is needed to address the gap. Mr. McKay said cost recovery was at 58% from the last study done several years ago. A consultant has been brought in to revisit this study and staff will be making a presentation to describe details of costs, cost recovery, and fee schedules and how some may meet and/or not address related services. He clarified that the District is currently subsidizing 42% of its activity.

Chairperson Groom said the prior year vote of the Board to raise fees by only 5% rather than 10% was very close and she agreed the decision will be a tough one.

Director Mar referred to budgeted projections of reserve funds which he noted were dropping, and questioned reasons for the trend. Mr. McKay said in the past, reserves have varied quite a bit. Approximately 15 years ago they were non-existent and the Board and staff addressed building them back up. He noted there was a time that property values had gone up rapidly. Capital improvements were also taken on at that time and then the litany of downward trends occurred. Staff has recommended that rather than taking a single year wrenching approach, a multi-year approach be adopted to gradually address improvements. Careful modeling shows that with a 5% cost recovery, reductions in services and supplies, and maintaining vacancy rates occurs over a number of years, the trend will begin to drift back up. He noted there was also some discussion about setting a higher minimum target for reserves.

Director Wagenknecht requested an update of the District's OPEB liability. Mr. McKay said in January 2008, the District's unfunded liability was \$40-\$50 million with no funding in place. The Board took action, recommended setting aside \$2 million every year, and the OPEB liability is now \$35 million with \$10 million in funds. The District is 20% funded and if this continues over 10-20 years, the system will be fully funded. He agreed this is a good example of taking measured steps to get to a positive outcome. The District's pension fund has a value of \$165 million and the District is 90% funded, although there is a question of whether earning assumptions by CalPERS are reasonable at 7 3/4% which include earned estimates of 3-4.5% annually over inflation.

Director Ross questioned and confirmed that the District does not have a public pension reserve contingency, but one could be created. Mr. McKay indicated that the budget cycle is the time when reallocation is done from reserves, and staff could bring forward a line item to address such risks.

Director Uilkema voiced concern with State takings from all agencies, noting that unless unallocated reserve funds are earmarked, they are in jeopardy. She suggested discussing protective measures and asked that immediate notification be given if funds are in jeopardy of being transferred to the State.

Public Comment: None

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 10:07 a.m.

LS/ Lisa Harper

Lisa Harper
Clerk of the Boards