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

Teleconference Location:
575 Administration Drive, Room 100A, Santa Rosa, CA 95403

APPROVED MINUTES

Summary of Board of Directors
Budget & Finance Committee Meeting
1:00 p.m., Wednesday, March 23, 2011

Call to Order - Roll Call: Chairperson Carole Groom called the meeting to order at 1:00 p.m.

Present: Chairperson Carole Groom, Vice Chairperson Ash Kalra, and Directors Scott Haggerty, Eric Mar, Mark Ross, Brad Wagenknecht, and Shirlee Zane *(via teleconference)*

Absent: Directors Harold Brown and Gayle Uilkema

Public Comment Period: There was no public comment.

Executive Officer/APCO Jack Broadbent introduced new Executive Office staff members, Kris Krow, Clerk of the Boards, and Maricela Calvo, Executive Secretary.

Approval of Minutes of February 23, 2011

Committee Action: Chairperson Wagenknecht made a motion to approve the minutes of February 23, 2011; Director Ross seconded the motion; unanimously approved without objection.

Summary of 2011 Cost Recovery and Containment Study

Brian Bateman, Director of Engineering, briefly discussed the need for the Air District to contract with a firm to prepare a Cost Recovery and Containment Study. He reviewed the request for proposal (RFP) and contractor selection process, and introduced Gary Golitz and Gary Tam of Matrix Consulting Group who would present an overview of the methodology used in allocating and estimating costs to various Air District departments and programs.

Mr. Golitz said Matrix was contracted to provide a Cost Allocation Plan and User Fee Study and to research and evaluate the Air District's previous efforts on cost containment and how it could continue to enhance existing strategies. The research included interviews of stakeholders, Air District staff and managers, collection and analysis of information from time and expenditure reports, and analysis of staffing levels, budget documents, process maps and workload information regarding permitting and enforcement.

Mr. Golitz said the Cost Allocation Plan was developed according to general accounting standards and the OMB Circular A-87. He said administrative costs and percentages are based on actual FYE 2010 expenses, and Matrix recommends the plan be updated by Air District staff annually.

In regards to the User Fee Study, Mr. Golitz stated that 62% of costs are recovered through revenues, with an Air District subsidy of $6.8 million annually. He presented current cost recovery percentages from Air District Fee Schedules A through T. He stated there are some under and some above recovery, as there often is no cost recovery for every fee. He recommended a policy be adopted by the Board in terms of guiding staff on the long-term level of cost recovery, as well as a complete update of its User Fee Study on a periodic basis. He suggested 3 to 5 years for fee and rate studies.

Director Zane requested a comparison be provided of guiding principles of similar sized Air Districts, as well as their annual budgets, to which Mr. Golitz said he would provide at a later time.

Mr. Golitz said that the Air District has implemented a number of strategies to contain its costs, including:

- Filling only critical positions/vacancies;
- Maintenance of a 10% vacancy rate;
- Reduction of service and supply budgets;
- Increased employee contribution to retirement accounts;
- Reduction of unfunded liability costs for healthcare obligations.

He indicated that the major initiative is the design, development and implementation of the new production system to replace the legacy permit information management system. He recommended continuing implementation of this system in order to enhance permit processing management, focus on processes of managing caseload and cases, and increase transparency with applicants.

Director Ross questioned and confirmed that the amount of time saved is factored into the production system, and this is also why the User Fee Study requires an annual update. Mr. Broadbent explained that user fees must be continually adjusted to reflect costs, given streamlining efforts of the Air District's web-based programs and efficiencies of operations. The production system and processes must be built to focus resources on impacts that are affected the most, while not ignoring smaller impacts.

Lastly, Mr. Golitz said the Air District should continue to provide tools and resources to applicants, including online/web-based capabilities for permit application submission, data transferring, smart forms, status checks, and other resources.

Committee Comments/Discussion:

Director Kalra thanked staff for the progress made to date, supported the need to increase permitting fees if phased in over a multi-year process, and said improvements to web access and online capabilities will save time while being more user-friendly.

Director Zane requested development of a Board policy on cost recovery in addition to her request for a comparison of guiding principles of other Air Districts.

Director Ross referred to subsidies on landfills at 26% and questioned why this is low. Mr. Bateman described the amount of time and additional staff efforts that are required because of the California Air Resources Board (CARB)'s new Greenhouse Gas (GHG) reduction measures, while staff efforts at others, like dry cleaners, remain low; all of which will be considered in future policy development and decision-making.

Public Comment: None

Committee Action: None

Fiscal Year Ending (FYE) 2012 Fee Proposal

Brian Bateman, Director of Engineering, gave the staff presentation, noting the Air District fee schedule is reviewed and amended annually as part of budget preparation and is done to recover the reasonable costs of regulating stationary sources. He said fee revenue falls well short of full cost recovery, noting that for FYE 2010, fee revenue recovered just 62% of costs. The gap is filled by county tax revenue.

Mr. Bateman presented a chart of Air District revenue sources, pointing out that the largest portion of revenues are fees at 49%, and the second highest as property tax revenue at 34%. Regarding how fee increases affect cost recovery, he provided examples of a 10% fee increase, a 2% cost increase, and a 5% cost recovery increase, noting that the 10% fee increase only yields a 5% increase in cost recovery.

In not filling the cost recovery gap, the Air District must draw from its reserves. Assumptions made at the January 19, 2011 Board Meeting/Retreat included maintaining the position vacancy rate, reducing the services and supplies budget and capital expenditures with property tax revenue remaining unchanged. He presented a reserve projection table showing a scenario of a 5% per year increase in fee revenue after FYE 2011 and the same table with no fee increases after FYE 2011. The table suggests that the reserve will fall well below the Board's reserve standard of 15% of the General Fund.

Mr. Bateman said draft fee amendments were designed to increase budgeted fee revenue by 5%. However, there is a shortfall between FYE 2011 budgeted and actual fee revenue, as some fees are related to levels of business activity. Actual revenue is tracking 4% lower than projected, and there is projected to be a $1.2 million shortfall by the end of FYE 2011 which will need to be made up in a drawdown of reserves.

Mr. Broadbent added that, at the last meeting, staff also presented a list of and implemented a series of proposed cost reduction measures from the services and supplies budget.

Mr. Bateman said in the next fiscal year, the most prudent approach is to assume declines will continue. In order to meet target revenue, fees will need to be increased more than 5% up to an average of 10% in order to meet budget revenue targets. Staff proposes to use the Matrix schedule with different percentage increases based upon results. Those with no cost recovery gap will be frozen. For others, increases will range from 10% to 14%. He discussed additional fee amendments as follows:

- No change for Schedule M: Major Stationary Source Fees
- 2% increase for Schedule R: Equipment Registration Fees
- New one-time fee of $129 in Schedule R for low-use agricultural diesel engines with an Alternative Compliance Plan (ACP)
- 10% increase in permit application filing fees and permit renewal processing fees
- 10% increase in fees for ACP's that use Interchangeable Emission Reduction Credits (IERCs)
- For Schedule K: Solid Waste Disposal Sites, create separate fees for waste decomposition and material handling processes (fee neutral).

Mr. Bateman then presented a summary of fee schedule changes by schedule, description, and percentage of change. The average cost increase for most small businesses would be $50 or less. Gasoline Dispensing Facilities (GDF's), however, will be approximately $231 because of the staff and resources required to regulate the source category. Collectively, GDF's are a huge source of emissions (30 tons a day of gas vapors). Every single GDF requires 6 to 8 source tests. Staff must evaluate the tests, and inspect stations; fees are therefore higher. Mr. Broadbent noted there has also been a lot of sophistication of equipment added to staff's work in tracking emissions, conducting inspections, and certifications.

Regarding impacts on refineries, Mr. Bateman said staff reviewed the five largest facilities, and fee increases of 4.4% to 7%, or approximately $64,000 to $154,000, are proposed.

Mr. Bateman presented fee comparisons of how the Air District's fees compare to other Air Districts, stating the only true comparison is the South Coast Air Quality Management District (SCAQMD). He described individual fees by source categories, stating the SCAQMD also does not have the same property tax revenue stream as the Bay Area.

Regarding the amendment process, the Air District is in the public comment process and comments are requested by March 25, 2011. A workshop was held on March 14, 2011 and 7 individuals attended; 5 verbal and 3 written comments were received to date and all indicated opposition, mostly citing economic downturn as well as past fee increases and/or compliance costs.

Mr. Bateman concluded his presentation discussing the Air District's rule development schedule:

- May 4, 2011 – public hearing to consider adoption, except for fees for non-permitted sources (receive testimony only)
- June 15, 2011 – public hearing to consider adoption of fees for non-permitted sources;
- July 1, 2011 – proposed effective date of fee amendments

Committee Comments/Questions:

Director Wagenknecht confirmed that proposed increases range from 5% to 14% depending upon a given fee schedule, and he reviewed with Mr. McKay the effects a 5% increase has on total fee recovery, the existence of permit revenue reductions, and anticipation for an improved economy.

Director Haggerty noted the importance of the Air District showing that it is containing costs. He asked that staff reflect fee increases by actual dollars and not by percentages, stating that in many instances, the increase is minor and is a reflection of the cost of doing business.

Directors Kalra, Mar, and Ross agreed, were opposed to the Air District subsidizing fees, agreed that 5% increases do not result in cost recovery, and cited Air District efficiencies that will make operations more productive.

Chairperson Groom said she did not like raising fees, as businesses collectively are impacted from all sectors. However, the future work of the agency is in jeopardy if the gap does not start to close soon. Last year, the Board agreed to a 5% increase and lost ground. She also voiced disappointment in low attendance at the workshop.

Public Comment: None

Committee Action: None

Discussion of Proposed Budget for FYE 2012

Jeff McKay, Deputy APCO, gave an overview of the proposed FYE 2012 Budget, noting the Air District has a $61.1 million general fund budget, with 363 positions, and reserves still reflect Board direction above 15% of the general fund budget. He presented the proposed FYE 2012 budget revenue sources chart comprising of 52% in permit fees; 34% in property tax, 6% in grants, 3% in subvention, 2% in penalties, 1% in reserves, and 0% in interest and miscellaneous. He then presented the general fund expenditures chart, showing salary and benefits at 66%, services and supplies at 23%, CalPERS at 8% and capital at 3%.

As discussed in previous meetings, Mr. McKay said the Air District continues to take a pro-active, balanced, multi-faceted and multi-year approach in responding with personnel costs, expenditures, fees and reserves.

Regarding addressing personnel costs, Mr. McKay said total FTE has remained unchanged since 2008 and has increased the vacancy rate against the FTE count. There are currently 38 vacancies unfilled (over 10% of the workforce) positions. There is teamwork between labor and management, as well as leadership development and training of staff.

The Air District's service and supply budget decreased by 7% from the prior year, and capital expenditures are significantly being deferred.

In January 2009, staff projected a 10% fee increase would be needed to maintain the same level of supplies and staffing. Mr. McKay said staffing levels and services and supplies have decreased, the low rate of cost recovery reduces effectiveness of fee increases, and in the proposed budget there is a 10% overall proposed increase in fees.

Mr. McKay presented a chart showing that from 2010 to 2012, the services and supplies budget reduced from $16.6 to $13.8 million, and Capital expenditures from $2.8 to $2.1 million.

Mr. McKay presented trends in cost cutting for the Planning and Outreach Divisions which include deferred modeling system upgrades, reduced technical assistance for local climate action plans, reduced technical assistance for mobile source measures, reduced media buys for Spare the Air Programs, reduced youth outreach, and reduced event sponsorship.

The Air District has deferred HVAC and other costs, and will be trending down its information technology infrastructure and maintenance by $1 million over the next five years.

Mr. McKay presented projections on how reserves would respond, noting that for FYE 2011, the drawdown is $2 million. Staff projects the need for a $1 million drawdown in the proposed FYE 2012 Budget. Maintaining the same 5% fee increases in FYE 2013 and FYE 2014, the reserves will not be drawn down in FYE 2014.

<u>Committee Comments/Questions:</u>

Committee Members discussed the outreach and successes of the Spare the Air programs, the potential loss of $1.7 million from state subvention, and the Governor's proposed elimination of redevelopment agencies. Committee Members voiced their support in addressing the reserve standard using a recommended phased approach.

<u>Public Comment:</u> None

Committee Action: None

Committee Member Comments: None

Time and Place of Next Meeting: Thursday, April 28, 2011 at 11:00 a.m.

Adjournment: The meeting adjourned at 2:19 p.m.

/S/ Lisa Harper
Lisa Harper
Clerk of the Boards