



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

BOARD OF DIRECTORS
BUDGET AND FINANCE COMMITTEE MEETING

COMMITTEE MEMBERS

CAROLE GROOM – CHAIRPERSON
HAL BROWN
ERIC MAR
GAYLE B. UILKEMA
SHIRLEE ZANE

ASH KALRA – VICE CHAIRPERSON
SCOTT HAGGERTY
MARK ROSS
BRAD WAGENKNECHT

THURSDAY
APRIL 28, 2011
10:00 A.M.

4TH FLOOR CONFERENCE ROOM
939 ELLIS STREET
SAN FRANCISCO, CA 94109

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 Air 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 MARCH 23, 2011**
4. **THIRD QUARTER FINANCIAL REPORT FOR FISCAL YEAR ENDING (FYE) 2011** J. McKay/4629
jmckay@baaqmd.gov
5. **UPDATE ON PROPOSED FEE AMENDMENTS FOR FYE 2012** B. Bateman/4653
bbateman@baaqmd.gov
6. **CONTINUED DISCUSSION OF FYE 2012 PROPOSED AIR DISTRICT BUDGET AND CONSIDERATION TO RECOMMEND ADOPTION** J. McKay/4629
jmckay@baaqmd.gov
7. **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).
8. **TIME AND PLACE OF NEXT MEETING – WEDNESDAY, MAY 25, 2011 AT 1:00 P.M. AT 939 ELLIS STREET, SAN FRANCISCO, CA 94109**
9. **ADJOURNMENT**

CONTACT EXECUTIVE OFFICE - 939 ELLIS STREET SF, CA 94109

(415) 749-5130
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 Air 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 Air 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

APRIL 2011

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Budget & Finance Committee <i>(At the Call of the Chair)</i>	Thursday	28	10:00 a.m.	4 th Floor Conf. Room

MAY 2011

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Mobile Source Committee <i>(Meets 4th Thursday each Month)</i>	Monday	2	9:30 a.m.	4 th Floor Conf. Room
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 Stationary Source Committee <i>(At the Call of the Chair)</i>	Thursday	5	9:30 a.m.	Board Room
Board of Directors Legislative Committee <i>(At the Call of the Chair)</i>	Monday	9	9:30 a.m.	4 th Floor Conf. Room
Advisory Council Meeting	Wednesday	11	9:00 a.m.	Board Room
Board of Directors Climate Protection Committee <i>(At the Call of the Chair)</i>	Monday	16	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
Board of Directors Budget Hearing <i>(At the Call of the Chair)</i>	Wednesday	18	Immediately following Board Meeting	Board Room
Board of Directors Budget & Finance Committee <i>(At the Call of the Chair)</i>	Wednesday	25	1:00 p.m.	4 th Floor Conf. Room
Board of Directors Mobile Source Committee <i>(Meets 4th Thursday each Month)</i>	Thursday	26	9:30 a.m.	4 th Floor Conf. Room

JUNE 2011

<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 Meeting	Wednesday	8	9:00 a.m.	Board 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 Hearing <i>(At the Call of the Chair)</i>	Wednesday	15	Immediately following Board Meeting	Board Room
Board of Directors Mobile Source Committee <i>(Meets 4th Thursday each Month)</i>	Thursday	23	9:30 a.m.	4 th Floor Conf. Room

JULY 2011

<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	6	9:45 a.m.	Board Room
Board of Directors Stationary Source Committee <i>(At the Call of the Chair)</i>	Thursday	7	9:30 a.m.	Board Room
Advisory Council Meeting	Wednesday	13	9:00 a.m.	Board Room
Board of Directors Regular Meeting <i>(Meets 1st & 3rd Wednesday of each Month)</i>	Wednesday	20	9:45 a.m.	Board Room
Board of Directors Mobile Source Committee <i>(Meets 4th Thursday each Month)</i>	Thursday	28	9:30 a.m.	4 th Floor Conf. Room

HL – 4/25/11 (4:50 p.m.)
P/Library/Forms/Calendar/Calendar/Moncal

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

To: Chairperson Groom and Members of the
Budget and Finance Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: April 28, 2011

Re: Budget and Finance Committee Draft Meeting Minutes

RECOMMENDED ACTION

Approve attached draft minutes of the Budget and Finance Committee meeting of March 23, 2011.

DISCUSSION

Attached for your review and approval are the draft minutes of the March 23, 2011 Budget and Finance Committee meeting.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Kristina Perez-Krow
Reviewed by: Rex Sanders

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

DRAFT 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.

Committee Comments/Questions:

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.

Public Comment: 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.

Lisa Harper
Clerk of the Boards

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

To: Chairperson Groom and Members
of the Budget and Finance Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: April 12, 2011

Re: Third Quarter Financial Report for Fiscal Year Ending (FYE) 2011

RECOMMENDED ACTION

None; receive and file.

DISCUSSION

Finance staff will present an update on the District’s financial results for the third quarter of FYE 2011. The following information summarizes those results.

GENERAL FUND BUDGET: STATEMENT OF REVENUE

Comparison of Budget to Actual Revenue

• County receipts	\$11,783,050	56% of budgeted revenue
• Permit Fee receipts	\$20,628,974	82% of budgeted revenue
• Title V Permit Fees	\$2,686,849	81% of budgeted revenue
• Asbestos Fees	\$1,333,318	84% of budgeted revenue
• Toxic Inventory Fees	\$470,708	70% of budgeted revenue
• Penalties and Settlements	\$1,404,127	94% of budgeted revenue
• Miscellaneous Revenue	\$32,446	27% of budgeted revenue
• Interest Revenue	\$161,174	59% of budgeted revenue

GENERAL FUND BUDGET: STATEMENT OF EXPENDITURES

Comparison of Budget to Actual Expenditures

• Personnel – Salaries	\$21,491,807	70% of budgeted expenditures
• Personnel - Fringe Benefits	\$8,942,811	63% of budgeted expenditures
• Operational - Services and Supplies	\$10,387,495	43% of budgeted expenditures
• Capital Outlay	\$3,138,653	87% of budgeted expenditures

Cash and Investments in County Treasury:

General Fund	\$17,804,625
TFCA	\$57,541,017
MSIF	\$33,628,038
Carl Moyer	\$9,296,864
CA Goods Movement	\$23,992,568
	<hr/>
	<u>\$142,263,112</u>

Investments Held as:

Fixed Income Investments	45% of total investment pool
Short Term Investments	55% of total investment pool

FUND BALANCES

	<u>6/30/2009</u> <u>Audited</u>	<u>6/30/2010</u> <u>Audited</u>	<u>6/30/2011</u> <u>Projected</u>
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	1,219,818
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
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TOTAL SPECIAL RESERVES	<u>\$14,915,185</u>	<u>\$12,654,078</u>	<u>\$10,657,168</u>
UNDESIGNATED	<u>411,797</u>	<u>288,477</u>	<u>411,797</u>
TOTAL FUND BALANCES	<u><u>\$15,326,982</u></u>	<u><u>\$12,942,555</u></u>	<u><u>\$11,068,965</u></u>

BUDGET CONSIDERATION/FINANCIAL IMPACT

No impact on Fiscal Year 2010/2011 budget.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: David Glasser
Reviewed by: Jack M. Colbourn

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

To: Chairperson Groom and Members
of the Budget and Finance Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: April 18, 2011

Re: Update on Proposed Fee Amendments for Fiscal Year Ending (FYE) 2012

RECOMMENDED ACTION

None; receive and file

BACKGROUND

Staff provided the Budget and Finance Committee with a summary of staff's proposed fee amendments for FYE 2012 at the committee meeting held on March 23, 2011.

The proposed fee amendments were designed to increase fee revenue from FYE 2011 budgeted levels by 5 percent. With this increase in fee revenue, and implementation of cost containment measures included in the proposed FYE 2012 budget, staff expects that reserve funds would not need to be drawn-down below minimum levels that the Board has deemed to be appropriate.

Due to a shortfall between budgeted and actual fee revenue resulting from decreased levels of business activity and emissions, fee rates will need to be increased by an average of 10 percent to reach the revenue target included in the proposed FYE 2012 budget. This assumes that fees related to facility activity levels will not significantly rebound in FYE 2012, which staff believes is a reasonable assumption because: (1) although the Bay Area is experiencing a cyclical economic rebound, there are downside risks that could slow the recovery (e.g., if oil prices remain elevated and/or job creation is slowed by layoffs in the public sector), (2) facility permit renewal fees are based on activity levels from the preceding year, so there is a time difference between when increased activity levels occur and when increased fee revenue is received, (3) some of the recent decreases in emissions-based fees are due to permanent decreases in emissions resulting from regulatory requirements, (4) permit applications for major new power plants have historically been a major contributor to permit application fee revenue, but no such applications are expected to be submitted in FYE 2012 as four new major power plants have been permitted or are in the final stages of being permitting in the Bay Area in the last year, and a permit application for a fifth proposed plant has already been submitted with permit fees paid. If facility activity-based fee revenue should rebound in FYE 2012 beyond current expectations, this can be taken into consideration in developing fee amendments for the FYE 2013 budget cycle.

The specific fee increases being proposed were based on the results of the recently completed 2011 Cost Recovery and Containment Study prepared by Matrix Consulting Group. Existing fee schedules would be amended as follows:

- (1) no change for fee schedules that are recovering greater than 89% of costs;
- (2) a 2% cost of living increase in registration fees (all of which have been established in recent years based on considerations of cost recovery);
- (3) a 10% increase in:
 - a) fee schedules that are recovering 70 – 89% of costs; and
 - b) other administrative fees such as permit application filing fees;
- (4) a 12% increase in fee schedules that are recovering 50 – 69% of costs; and
- (5) a 14% increase in fee schedules that are recovering less than 50% of costs.

DISCUSSION

Staff has not made any substantive changes in the fee proposal since the last committee meeting. At the April 28, 2011 Budget and Finance Committee meeting, staff will provide the Committee with a brief review of the proposal, along with an update on additional public comments received. The public hearing to consider adoption of the portions of the proposed fee amendments that apply to permitted sources has been scheduled for May 4, 2011. A second hearing to consider adoption of the portions of the proposed fee regulation that apply to non-permitted sources has been scheduled for June 15, 2011.

BUDGET CONSIDERATION/FINANCIAL IMPACT

The draft fee amendments are expected to increase fee revenue in FYE 2012 by approximately 5% from FYE 2011 budgeted levels, or \$1.54 million. This revenue has been included in the proposed FYE 2012 Budget. Even with these fee increases, the Air District will likely need to make relatively modest use of its reserve funds in FYE 2012.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Brian Bateman
Reviewed by: Jeffrey McKay

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

To: Chairperson Groom and Members
of the Budget and Finance Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: April 12, 2011

Re: Continued Discussion of Fiscal Year Ending (FYE) 2012 Proposed District Budget
and Consideration to Recommend Adoption

RECOMMENDED ACTION

Consider recommending Board of Directors adoption of the proposed FYE 2012 Budget.

BACKGROUND

At the March 16, 2011 regular Board of Directors Meeting, the FYE 2012 Proposed Budget Document was referred to the Budget and Finance Committee for review at the Committee's March 23, 2011 meeting.

DISCUSSION

Staff presented the proposed budget for FYE 2012 at the March 23, 2011 Budget and Finance Committee Meeting. The proposed budget is balanced utilizing the following accounts: a) General Fund Revenues, b) Transfers-In from the Reserve for Economic Uncertainties, c) TFCA Revenues, d) Indirect Cost Recovery and, e) Mobile Source Incentive Revenues totaling \$72.4 million. Proposed consolidated expenditures are \$72.4 million, excluding grant program distributions. Proposed capital requests are \$2.1 million. The proposed budget does not include an FTE increase.

Prior to April 11, 2011, staff published a notice to the general public that the first of two public hearings on the budget will be conducted on May 4, 2011 and that the second hearing will be conducted on June 15, 2011.

BUDGET CONSIDERATION/FINANCIAL IMPACT

The proposed consolidated budget for FYE 2012 is \$72,360,101 and is a balanced budget with the inclusion of \$895,000 from the Reserve for Economic Uncertainties.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: David Glasser
Reviewed by: Jack Colbourn