



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

BOARD OF DIRECTORS
BUDGET AND FINANCE COMMITTEE MEETING

COMMITTEE MEMBERS

CAROLE GROOM – CHAIRPERSON
SCOTT HAGGERTY
MARK ROSS
BRAD WAGENKNECHT

ASH KALRA – VICE CHAIRPERSON
ERIC MAR
GAYLE UILKEMA
SHIRLEE ZANE

WEDNESDAY
DECEMBER 14, 2011
9:30 A.M.

7th FLOOR BOARD 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 OCTOBER 19, 2011**
4. **FIRST QUARTER FINANCIAL REPORT – FISCAL YEAR 2011-12**

J. McKay/4629
jmckay@baaqmd.gov

The Committee will receive an update on the Air District's First Quarter Financial Report.
5. **AIR DISTRICT FINANCIAL OVERVIEW**

J. McKay/4629
jmckay@baaqmd.gov

The Committee will receive an overview of the Air District's financial outlook and strategies employed during the fiscal year end 2012 budget cycle.
6. **UPDATE ON DEVELOPMENT OF A COST RECOVERY POLICY**

B. Bateman/4653
bbateman@baaqmd.gov

The Committee will receive an update on the Air District's development of a Cost Recovery Policy.
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 – AT THE CALL OF THE CHAIR**
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 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 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

DECEMBER 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>	Wednesday	14	9:30 a.m.	Board Room
Board of Directors Special Meeting <i>(Meets 1st & 3rd Wednesday of each Month)</i>	Wednesday	14	10:30 a.m.	Board Room
Board of Directors Executive Committee <i>(At the Call of the Chair)</i>	Monday	19	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Regular Meeting <i>(Meets 1st & 3rd Wednesday of each Month)</i> - CANCELLED	Wednesday	21	9:45 a.m.	Board Room
Board of Directors Mobile Source Committee <i>(Meets 4th Thursday each Month)</i> - CANCELLED	Thursday	22	9:30 a.m.	Board Room

JANUARY 2012

<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> - CANCELLED	Wednesday	4	9:45 a.m.	Board Room
Board of Directors Stationary Source Committee <i>(At the Call of the Chair)</i>	Monday	9	9:30 a.m.	Board Room
Advisory Council Retreat <i>(Meets 2nd Wednesday each Month)</i>	Wednesday	11	9:00 a.m.	Board Room
Board of Directors Executive Committee <i>(At the Call of the Chair)</i>	Thursday	12	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Special Meeting/Retreat <i>(Meets 1st & 3rd Wednesday of each Month)</i>	Wednesday	18	9:45 a.m.	City of San Pablo Maple Hall, Building #4 13831 San Pablo Avenue San Pablo, CA. 94806
Board of Directors Mobile Source Committee <i>(Meets 4th Thursday each Month)</i>	Thursday	26	9:30 a.m.	4 th Floor Conf. Room

FEBRUARY 2012

<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 Regular Meeting <i>(Meets 2nd Wednesday each Month)</i>	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 Mobile Source Committee <i>(Meets 4th Thursday each Month)</i>	Thursday	23	9:30 a.m.	4 th Floor Conf. Room
HL – 12/5/11 (2:40 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: December 10, 2011

Re: Budget and Finance Committee Draft Meeting Minutes

RECOMMENDED ACTION

Approve attached draft minutes of the Budget and Finance Committee meeting of October 19, 2011.

DISCUSSION

Attached for your review and approval are the draft minutes of the October 19, 2011 Budget and Finance Committee meeting.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Maricela Martinez
Reviewed by: Jennifer Cooper

Bay Area Air Quality Management District
939 Ellis Street
San Francisco, California 94109

DRAFT MINUTES

Summary of Board of Directors
Budget and Finance Committee Meeting
Wednesday October 19, 2011

1) Call to Order/Roll call: Chairperson Carol Groom called the meeting to order at 12:15 p.m.

Present: Chairperson Carol Groom, Vice Chairperson Ash Kalra, Directors Eric Mar, Mark Ross, and Brad Wagenknecht.

Absent: Directors Shirlee Zane, Gayle Uilkema, and Scott Haggerty

2) Public Comment Period: There were no public comments.

3) Approval of Minutes of May 25, 2011: Director Ross moved to approve the minutes of May 25, 2011. The motion was seconded by Director Wagenknecht and carried unanimously without objection.

4) Air District Security Contracts

Jack Colbourn, Director of Administrative Services Division, introduced Mary Ann Okpalaugo, Strategic Facilities Planning Manager, who provided a presentation to the Committee detailing the Request for Proposal (RFP) process for Air District Security contracts and identified the contractors selected to provide these services.

Public Comments: None

Committee Member Comments: Director Wagenknecht asked what amount is currently being spent on security.

Ms. Okpalaugo responded that this fee is currently 5% less than what the Air District will be paying.

Director Mar asked which union group represents the security personnel.

Ms. Okpalaugo stated that no union contractors submitted proposals.

Committee Action: Director Kalra made a motion to recommend Board of Directors' approval of contracts to Security Management Group International (SMGI) for front lobby building security and Admiral Security for armed security services in the back of the building on Willow Street. The combined contract amount is not to exceed \$457,000. Director Ross seconded the motion, carried unanimously without objection.

Director Ross exited the meeting at 12:20 pm. No quorum as of this time.

5) District Financial Overview

Jeff McKay, Deputy Air Pollution Control Officer, provided the Committee with a review of the Air District's response to fiscal challenges, strategies employed during the Fiscal Year End (FYE) 2012 budget cycle, and implications of the FYE 2013 budget process.

Discussion focused on reserve funds and unaudited results. In the FYE 2011 budget, the Air District expected to use \$2 million in reserve funds, in the FYE 2012 budget the Air District budgeted to use \$1 million in reserve funds, and in the FYE 2013 budget the goal is to not use reserve funds. In 2011, permit revenues are \$1 million short. The Air District has addressed this by using some cost cutting measures such as reducing services and supplies. The Air District has cut \$200,000 from planning and outreach, \$450,000 from infrastructure, and \$200,000 in software systems.

In regards to the Production System completion, the Air District has funds budgeted in the current year for IRIS and Databank replacement. The Air District will continue to use Trinity Technology Group and Vertigo Software for the completion of this project. The contract amount is for approximately \$375,000 and \$350,000, respectively. These already budgeted contracts will be brought forward to the Board of Directors as a consent calendar item.

The Air District is currently at 12% vacancy positions up from the previously presented 10% vacancy positions. Lastly, reserve draw downs are near target at \$2.3 million versus the \$2 million budgeted.

Public Comments: None

Committee Member Comments: Director Karla commended the Air District for conducting some nimble moves. Director Kalra expressed that 15% reserves is very healthy during these difficult economic times. He also cautioned in cutting back too much of the software and outreach budgets. Director Groom asked if it was still okay to continue having a scaled back enforcement division and what could be expected for next year?

Mr. McKay stated that the Air District is feeling some of the effects of having less enforcement officers. The Air District may see some financial effects.

Committee Action: None

At the request of Chairperson Groom, Agenda item #6 and #7 are deferred to the next Budget and Finance Committee meeting.

8) Committee Member Comments/Other Business: None

9) Time and Place of Next Meeting: At the call of the Chair.

10) Adjournment: The meeting was adjourned at 12:30 p.m.

Maricela Martinez
Executive Secretary

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: November 23, 2011

Re: First Quarter Financial Report – Fiscal Year 2011-12

RECOMMENDED ACTION

None; receive and file.

DISCUSSION

Finance staff will present an update on the Air District’s financial results for the first quarter of fiscal year 2011-12. The following information summarizes those results.

GENERAL FUND BUDGET: STATEMENT OF REVENUE

Comparison of Budget to Actual Revenue

- County receipts \$204,828 (1%) of budgeted revenue.
- Permit Fee receipts \$12,302,035 (49%) of budgeted revenue.
- Title V Permit Fees \$2,484,092 (82%) of budgeted revenue.
- Asbestos Fees \$565,582 (32%) of budgeted revenue.
- Toxic Inventory Fees \$259,704 (36%) of budgeted revenue.
- Penalties and Settlements \$904,704 (60%) of budgeted revenue.
- Miscellaneous Revenue \$13,719 (69%) of budgeted revenue.
- Interest Revenue \$ - (0%) of budgeted revenue.

GENERAL FUND BUDGET: STATEMENT OF EXPENDITURES

Comparison of Budget to Actual Expenditures

- Personnel – Salaries \$6,389,220 (21%) of budgeted expenditures.
- Personnel - Fringe Benefits \$3,070,562 (21%) of budgeted expenditures.
- Operational Services and Supplies \$3,109,900 (18%) of budgeted expenditures.
- Capital Outlay \$643,045 (29%) of budgeted expenditures

Cash and Investments in County Treasury:

(Based on the August 2011 Account Balance)

General Fund	\$18,329,049
TFCA	\$57,682,578
MSIF	\$32,668,338
Carl Moyer	\$9,801,212
CA Goods Movement	\$20,206,754
	<u>\$138,687,930</u>

Investments Held as:

(Based on the August 2011 Account Balance)

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

FUND BALANCES

	<u>6/30/2010</u> <u>Audited</u>	<u>6/30/2011</u> <u>Unaudited</u>	<u>6/30/2012</u> <u>Projected</u>
Imprest Cash	\$ -	-	-
Building and Facilities	1,731,690	4,075,756	2,853,950
PERS Funding	1,900,000	1,500,000	1,500,000
Radio Replacement	75,000	75,000	-
Capital Equipment	-	1,219,818	1,219,818
Contingencies	130,425	-	-
Post-Employment Benefits	-	2,000,000	2,000,000
Worker's Compensation	1,000,000	1,000,000	1,000,000
Economic Uncertainties	7,816,963	130,660	130,660
TOTAL SPECIAL RESERVES	<u>\$ 12,654,078</u>	<u>\$ 10,001,234</u>	<u>\$ 8,704,428</u>
UNDESIGNATED	<u>288,477</u>	<u>9,527</u>	<u>411,797</u>
TOTAL FUND BALANCES	<u>\$ 12,942,555</u>	<u>\$ 10,010,761</u>	<u>\$ 9,116,225</u>

VENDOR PAYMENTS

In accordance with provisions of the Administrative Code, Division II Fiscal Policies and Procedures - Section 4 Purchasing Procedures: 4.3 Contract Limitations, staff is required to provide the Board a listing of all of the vendors receiving payments in excess of \$70,000 under contracts that have not been previously reviewed by the Board. Prior Air District practice does not bring payments for recurring routine business costs such as utilities, licenses, office supplies and the like, before the Board, except as part of the Air District budget. The current practice now is to list such payments over \$70,000 in a quarterly financial report. The purpose is to increase the information flow to the Board, to maintain committee efficiency, and to clarify policy.

The following vendor information is provided:

Vendor	Amount Paid	Service Provided
PG&E	\$99,085	Utility

BUDGET CONSIDERATION/FINANCIAL IMPACT

None.

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: November 23, 2011

Re: Air District Financial Overview

RECOMMENDED ACTION

None; receive and file.

DISCUSSION

Staff will review the Air District response to fiscal challenges. The review will include a discussion of the strategies employed during the fiscal year end (FYE) 2012 budget cycle. Possible mid-year budget adjustments will be discussed. Implications for the coming FYE 2013 budget process will also be reviewed.

BUDGET CONSIDERATION/FINANCIAL IMPACT

None.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared 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: December 6, 2011

Re: Update on Development of a Cost Recovery Policy

RECOMMENDED ACTION

None; receive and file.

BACKGROUND

In March 2011, the District's contractor, Matrix Consulting Group, completed an updated Cost Recovery and Containment Study. The Study concluded that fees collected by the District are well below the point of full cost recovery (e.g., for Fiscal Year Ending 2010, fees recovered 62% of program costs). The consultant recommended that the District's Board of Directors "adopt a formalized, District-wide cost recovery policy for the fee services included in this Study. Whenever a cost recovery policy is established at less than 100% of the full cost of providing services, a known gap in funding is recognized and may then potentially be recovered through other revenue sources."

In May 2011, staff discussed with the Budget and Finance Committee its intention to develop a cost recovery policy that would guide the development of future amendments to the District's fee regulation. This policy will be developed based on direction from the Board, and in consideration of input from a Stakeholder Advisory Committee comprised of representatives of fee payers and other stakeholders.

DISCUSSION

A draft cost recovery policy has been developed for the committee's consideration (copy follows). Elements included in the policy include: (1) the District should continue to implement feasible cost containment measures to ensure that the costs of regulatory program activities are reasonable, (2) the District should continue to analyze the extent to which fee revenue recovers the costs of regulatory program activities, and use this information at a fee schedule level to develop appropriate fee amendments, and (3) as a matter of policy, fees should generally be assessed to fully recover regulatory program activity costs (unless the use of tax revenue is identified in specific instances as being appropriate to cover a portion of costs - e.g., small business discounts on permit applications). In order to move towards this goal, the District

should adopt fee amendments over the next five years sufficient to increase overall cost recovery to 90 percent.

At the upcoming Budget and Finance Committee meeting, staff will provide estimates of fee increases that would be needed to reach various levels of cost recovery within a five year period (up to and including the proposed 90 percent), along with estimates of how this would reduce the cost recovery gap in dollar terms.

BUDGET CONSIDERATION/FINANCIAL IMPACT

Adoption of a cost recovery policy by the Board of Directors would assist staff in developing future fee amendments. The financial impacts resulting from implementing the policy would be dependent on the specific policy adopted.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Brian Bateman
Reviewed by: Jeffrey McKay

COST RECOVERY POLICY FOR BAY AREA AIR QUALITY MANAGEMENT DISTRICT REGULATORY PROGRAMS (DRAFT – 11/30/2011)

PURPOSE

WHEREAS, the District has the primary authority for the control of air pollution from all sources of air emissions located in the San Francisco Bay Area, other than emissions from motor vehicles, in accordance with the provisions of Health & Safety Code sections 39002 and 40000.

WHEREAS, the District is responsible for implementing and enforcing various District, State, and federal air quality regulatory requirements that apply to non-vehicular sources.

WHEREAS, the District's regulatory programs involve issuing permits, performing inspections, and other associated activities.

WHEREAS, the District is authorized to assess fees to regulated entities for the purpose of recovering the reasonable costs of regulatory program activities, and these authorities include those provided for in California Health and Safety Code sections 42311, 42364, and 44380.

WHEREAS, the District's fees fall within the categories provided in Section 1(e) of Article XIII C of the California Constitution, which indicates that charges assessed to regulated entities to recover regulatory program activity costs, and charges assessed to cover the cost of conferring a privilege or providing a service, are not taxes.

WHEREAS, the District has adopted, and periodically amends, a fee regulation for the purpose of recovering regulatory program activity costs, and this regulation with its various fee schedules, is used to allocate costs to fee payers in a manner which bears a fair or reasonable relationship to the payer's burden on, or benefits received from, regulatory activities.

WHEREAS, the District analyzes whether assessed fees result in the collection of sufficient revenue to recover the costs of related program activities; these analyses have included contractor-conducted fee studies completed in 1999, 2005, and 2011, and annual District staff-conducted cost recovery updates completed in 2006 through 2010. Each fee study and cost recovery update completed revealed that District fee revenue falls significantly short of recovering the costs of related program activities.

WHEREAS, the District's most recently completed fee study (*Cost Recovery and Containment Study, Bay Area Air Quality Management District, Final Report, Matrix Consulting Group, March 9, 2011*) concluded that in Fiscal Year Ending (FYE) 2010, the District recovered approximately 62 percent of its fee-related activity costs, resulting in an under-recovery of costs (i.e., a cost recovery gap), and a subsidy to

fee payers, of approximately \$16.8 million, and that this cost recovery gap resulted despite the implementation of a number of strategies to contain costs.

WHEREAS, cost recovery analyses have indicated that the District's Fee Schedule P: Major Facility Review Fees, which establishes fees for program activities associated with the Title V permit program, has under-recovered costs by an average of \$3.4 million per year over the period FYE 2004 through FYE 2010.

WHEREAS, the District's Board of Directors has recognized since 1999 that the District's cost recovery gap has been an issue that needs to be addressed, and since that time has adopted annual fee amendments in order to increase fee revenue.

WHEREAS, in addition to fee revenue, the District receives revenue from Bay Area counties that is derived from property taxes, and a large portion of this tax revenue has historically been used on an annual basis to fill the cost recovery gap.

WHEREAS, the tax revenue that the District receives varies on a year-to-year basis, and cannot necessarily be relied on to fill the cost recovery gap and also cover other District expenses necessitating, in certain years, the use of reserve funds.

WHEREAS, tax revenue that the District receives, to the extent that it is not needed to fill the cost recovery gap, can be used to fund initiatives or programs that may further the District's mission but that lack a dedicated funding source.

WHEREAS, it may be appropriate as a matter of policy to establish specific fee discounts for small businesses, green businesses, or other regulated entities or members of the public, where tax revenue is used to cover a portion of regulatory program activity costs, and the District's existing fee regulation contains several fee discounts of this type.

POLICY

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Bay Area Air Quality Management District that:

1) Cost Containment –In order to ensure that the costs of its regulatory programs remain reasonable, the District should continue to implement feasible cost containment measures, including the use of appropriate best management practices, without compromising the District's effective implementation and enforcement of applicable regulatory requirements. The District's annual budget documents should include a summary of cost containment measures that are being implemented.

2) Analysis of Cost Recovery – The District should continue to analyze the extent to which fees recover regulatory program activity costs, both on an overall basis,

and at the level of individual fee schedules. These cost recovery analyses should be periodically completed by a qualified District contactor, and should be updated on an annual basis by District staff using a consistent methodology.

3) Cost Recovery Goals – It is the general policy of the District, except as otherwise noted below, that the costs of regulatory program activities be fully recovered by assessing fees to regulated entities. In order to move towards this goal, the District should amend its fee regulation over the next five years, in conjunction with the adoption of budgets for FYE 2013 through FYE 2017, in a manner sufficient to increase overall recovery of regulatory program activity costs to 90%. Amendments to specific fee schedules should also be made in consideration of cost recovery analyses conducted at the fee schedule level, with larger increases being adopted for the schedules that have the larger cost recovery gaps. This includes Fee Schedule P: Major Facility Review Fees, which has been determined to under-recover costs by a significant amount. Newly adopted regulatory measures should include fees that are designed to recover increased regulatory program activity costs associated with that measure, unless the Board of Directors determines that a portion of those costs should be covered by tax revenue. Tax revenue should also continue to be used to subsidize existing fee discounts that the District provides (e.g., for small businesses, green businesses, and third-party permit appeals), and to cover the cost of programs that further the District’s mission but lack a dedicated funding service, such as the District’s wood smoke reduction program.

BE IT FURTHER RESOLVED that this resolution is non-binding in the case of unforeseen financial circumstances, and may also be reconsidered or updated by the District’s Board of Directors.
