

Bay Area Air Quality Management District
939 Ellis Street
San Francisco, California 94109
(415) 771-6000

APPROVED MINUTES

Summary of Board of Directors
Budget and Finance Committee Meeting
9:30 a.m., Wednesday, February 22, 2012

1. Call to Order – Roll Call

Chairperson Carole Groom called the meeting to order at 9:30 a.m.

Present: Chairperson Carole Groom; and Directors David Hudson, Eric Mar, Katie Rice, Mark Ross and Brad Wagenknecht.

Absent: Vice Chairperson Ash Kalra; and Directors Scott Haggerty and Shirlee Zane.

Also Present: None.

2. Public Comment Period: None.

3. Air District Financial Audit Report for Fiscal Year Ending 2011

Jeffrey McKay, Deputy Air Pollution Control Officer, introduced David Glasser, Finance Manager of Administrative Services, who made introductory comments and introduced Peggy Vande Vooren, CPA, Shareholder, Gilbert Associates, Inc., who gave a presentation regarding the Air District Financial Audit Report for Fiscal Year Ending 2011, covering both the Financial Statements with Independent Auditor's Report and Office of Budget and Management (OMB) Circular A-133 and Transportation Fund for Clean Air Compliance Reports.

Ms. Vande Vooren noted, regarding slide 5, Communications with Those Charged with Governance, the Corrected and Uncorrected Misstatements noted in the report were not at a level that led to any recommended action and that corrective action, if any, was entirely a management decision at this time.

Director Hudson asked for clarification of the actuarial work done regarding Other Post-Employment Benefits (OPEB). Ms. Vande Vooren responded that the Air District does have liability exposure for a portion of possible claims and does the actuary on OPEB, stating that the exposure is not significant.

Ms. Vande Vooren noted in conclusion that the Air District is considered low risk because of its past performance earning clean reports for the last four years, including fiscal year 2011.

Committee Comments:

Director Wagenknecht asked if the Air District is considering revisiting an actuarial for Workers' Compensation. Mr. Glasser responded that staff's past practice is to have Bartel Associates, LLC, do actuarial assumptions for OPEB and the Air District's pension obligation costs for CalPERS, and suggested including this task as part of their annual work for the Air District. Mr. McKay thanked the Committee for its support of funding OPEB against the previous \$50 million unfunded liability, with no reserves budgeted for this item, and reported that as a result of their support, the Air District's OPEB fund is approximately 25% funded. Ms. Vande Vooren noted that there is not a requirement to fund OPEB but it is best practice and it can affect a credit rating. Mr. Glasser suggested that addressing OPEB is a relatively new focus for local governments and the Air District is a leader in that regard. Ms. Vande Vooren agreed and noted that there is an established phase-in period, adding that progress has been made but that the Governmental Accounting Standards Board is expected to issue an exposure draft soon.

Public Comments: None.

Committee Action: None; informational only.

4. Approval of Minutes of December 14, 2011, and January 25, 2012

Committee Action: Director Ross made a motion to approve the Minutes of December 14, 2011; Director Wagenknecht seconded; carried unanimously without objection.

Committee Action: Director Hudson made a motion to approve the Minutes of January 25, 2012; Director Wagenknecht seconded; carried unanimously without objection.

5. Development of a Cost Recovery Policy

Brian Bateman, Director of Compliance & Enforcement, gave the staff presentation regarding Development of a Cost Recovery Policy, including background information; input received from consultants, public comment and the stakeholder advisory group; elements and comparisons of the initial and revised staff proposals; and a summary of the next steps.

NOTED PRESENT: Director Mar was noted present at 9:58 a.m.

Committee Comments:

Director Ross asked what staff expects in 2017 to which Mr. Bateman replied that all options would be on the table.

Director Hudson inquired about the effective date of the policy, if approved. Mr. Broadbent answered that the adoption of this policy would set in motion changes beginning with the next fiscal year and each year thereafter for four years.

Director Wagenknecht confirmed with Mr. Broadbent that the matter would be brought to the Committee and Board of Directors as a budget item each year. Director Wagenknecht suggested that costs not scheduled for recovery would, in effect, result in taxpayer subsidization of this program and asked what factored into establishing the final numbers as the appropriate ones. Mr. Broadbent replied that the target recovery number was not clearly established at the outset of this project but instead is the result of input to staff from various stakeholders, and relayed that there have been suggestions that the Air District's property tax revenue is implicitly obligated to partially fund the permitting program but that the Board must ultimately decide. Brian Bunger, District Counsel, suggested that there is a general public health benefit of the permitting program, so the use of property tax revenue to pay a portion of the costs is justifiable. Mr. Bateman added that businesses also pay a portion of total property tax revenue, the total percentage of which that can be attributed to business vacillating from region to region with the high average being approximately 15%.

Director Rice asked if other air management districts are collecting 100% of costs and what the justification might be for the difference. Mr. Bateman responded in the affirmative, clarifying that the Air District's operational costs are very different from most of the districts in the state and that our fees are comparatively very low. Director Rice followed up to inquire whether the Air District fell behind to which Mr. Broadbent replied in the affirmative, then provided a brief history of the topic and a rough outline of what the budget proposal will include when presented to the Committee.

Director Rice asked if staff sees higher fees as a deterrent to compliance. Mr. Bunger answered that it does not seem to be the case but late fees are computed in a way that the data is difficult to interpret and reported that a fix is in the works, after which there may be additional information.

Director Ross and Mr. Bateman discuss projected industry property tax payments and the assumed cost of living adjustment of 2% per year for four years. Mr. Broadbent noted that the 2% increase is fixed pursuant to a memorandum of understanding with the employees' association. Mr. Ross said that he is looking at all cost of living increases, not just those tied to salary. Mr. Bunger suggested that salary is the single largest expense for the Air District and, therefore, the most reliable indicator. Mr. Bateman suggested that the property tax revenue stream appears to have flattened out but that he cannot speculate about its future direction. Messrs. McKay, Broadbent and Bunger and Directors Ross and Hudson discussed the history and future of the real estate market in the Bay Area and speculated about its effect on property tax revenue.

Director Mar thanked Mr. Bateman for his work and expressed his concern regarding the increases not being aggressive enough and the long-lasting effects of that decision.

Director Rice indicated that the predictability aspect of the policy resonates with the parties but notes Director Mar's comment and suggested that if property taxes were not used on cost recovery there are plenty of other programs it could go towards that result in public health benefits.

Public Comments:

Bill Quinn, Vice President, California Council for Environmental and Economic Balance (CCEEB), addressed the Committee, specifically to relay to the Committee that the CCEEB membership seek predictability and commended the 85% cost recovery goal, noting that the fact that the Air District enjoys property tax revenue suggests that some of this revenue should be applied to various Air District programs, including cost recovery. Mr. Quinn closed by asking that the Committee take the matter back up in four years rather than taking periodic action automatically, noting that 85% cost recovery will result in significant increases for CCEEB's members, and by asking that Air District staff work to accelerate its permit review process due to its mutual benefit to the parties.

Director Ross suggested that the cost recovery target be amended to 87.5% over four years but that a review be set for two years from implementation.

Director Wagenknecht asked how to go about expediting the permit review process. Mr. Broadbent replied that permitting activity seems to be increasing but the budget shortfall and resulting staff vacancies make it particularly challenging to engage within the confines of the current budget. Director Wagenknecht followed up to ask if the implementation of the Production System will help to which Mr. Broadbent replied in the affirmative but that it is running behind its initial implementation timeline and over its initial budget, noting that the Executive Committee will be briefed on the progress of the Production System. Director Wagenknecht noted his recollection that staff initially suggested the Air District would be able to process gas station permits in two days. Mr. Broadbent confirmed the recollection and indicated that staff is working internally on how to address the upswing in permit applications in light of the delayed production system.

Director Hudson commended the policy and the stability it will provide, suggesting however that the cost recovery target should be 100% with a lower number being a likely eventuality rather than making it an initial target, noting that changes in cost of living, public perception and the establishment of appropriate initial goals are each aspects that should be taken into account as the Air District works to avoid falling behind as it did in the past. Mr. Broadbent suggested that the Committee and Board of Directors are unable to bind future Boards and that this policy will serve only to set a precedent for future work that may very well occur annually.

Committee Action:

Director Ross made a motion to approve the Cost Recovery Policy, as amended to provide 87.5% cost recovery over four years with a 2-year review; Director Mar seconded; carried over the objection of Director Groom, noting that the Air District asked for stakeholder input and received it in the form of 85% cost recovery.

Director Ross noted that this matter will be debated and voted upon by the Board of Directors.

Mr. Broadbent clarified that the annual increase under the amended policy will be an approximately 6.7% increase per year for four years.

Director Ross moved to rescind the motion to approve the Cost Recovery Policy, as amended to provide 87.5% cost recovery with four years with a 2-year review; Director Mar seconded; carried unanimously without objection.

Director Hudson made a substitute motion to approve the Cost Recovery Policy, as presented by staff but amended to provide a 2-year review; Director Wagenknecht seconded; carried over the objections of Directors Mar and Ross.

6. **Committee Member Comments/Other Business:** None.
7. **Time and Place of Next Meeting:** Wednesday, March 28, 2012, at Bay Area Air Quality Management District Office, 939 Ellis Street, San Francisco, CA 94109 at 9:30 a.m.
8. **Adjournment:** The meeting adjourned at 10:39 a.m.

151 Sean Gallagher
Sean Gallagher
Clerk of the Boards