



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

BOARD OF DIRECTORS
BUDGET AND FINANCE COMMITTEE MEETING

COMMITTEE MEMBERS

CAROLE GROOM – CHAIRPERSON
SCOTT HAGGERTY
ERIC MAR
MARK ROSS
SHIRLEE ZANE

ASH KALRA – VICE CHAIRPERSON
DAVE HUDSON
KATIE RICE
BRAD WAGENKNECHT

WEDNESDAY
MARCH 28, 2012
9:30 A.M.

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

TELECONFERENCE LOCATION
575 ADMINISTRATION DRIVE, ROOM 100A
SANTA ROSA, CA 95403

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, and on the Air District's website www.baaqmd.gov 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 FEBRUARY 22, 2012**
4. **SUMMARY OF STAFF FEE PROPOSAL FOR FISCAL YEAR ENDING (FYE) 2013**
B. Bateman/4653
bbateman@baaqmd.gov

Staff will provide an overview of proposed amendments to District Regulation 3: Fees that, if adopted, would become effective July 1, 2012 (the beginning of the upcoming FYE 2013). A summary of public comments received to date on the fee proposal will also be provided.

5. **DISCUSSION OF PROPOSED BUDGET FOR FISCAL YEAR ENDING (FYE) 2013**
J. McKay/4629
jmckay@baaqmd.gov
The Committee will discuss the proposed budget for Fiscal Year Ending 2013.
6. **UPDATE ON PRODUCTION SYSTEM REPLACEMENT OF DATABANK** **J. McKay/4629**
jmckay@baaqmd.gov

The Committee will receive an update on the replacement of the Air District legacy Databank system with the new Production System.

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, April 25, 2012, Bay Area Air Quality Management District Office, 939 Ellis Street, San Francisco, California 94109 at 9:30 a.m.

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

MARCH 2012

<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>) - CANCELLED AND RESCHEDULED TO THURSDAY, MARCH 29, 2012	Thursday	22	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Budget & Finance Committee (<i>Meets the 4th Wednesday Each Month</i>)	Wednesday	28	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Personnel Committee (<i>At the Call of the Chair</i>)	Wednesday	28	11:00 a.m.	4 th Floor Conf. Room
Board of Directors Mobile Source Committee (<i>Meets 4th Thursday each Month</i>) - CANCELLED	Thursday	29	9:30 a.m.	4 th Floor Conf. Room

APRIL 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
Advisory Council Regular Meeting (<i>Meets 2nd Wednesday each Month</i>)	Wednesday	11	9:00 a.m.	Board Room
Board of Directors Executive Committee (<i>Meets 3rd Monday of each Month</i>)	Monday	16	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Climate Protection Committee (<i>At the Call of the Chair</i>)	Monday	16	10:30 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 & Finance Committee (<i>Meets the 4th Wednesday Each Month</i>)	Wednesday	25	9:30 a.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

MAY 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	2	9:45 a.m.	Board Room
Advisory Council Regular Meeting <i>(Meets 2nd Wednesday each Month)</i>	Wednesday	9	9:00 a.m.	Board Room
Board of Directors Regular Meeting <i>(Meets 1st & 3rd Wednesday of each Month)</i>	Wednesday	16	9:45 a.m.	Board Room
Board of Directors Executive Committee <i>(Meets 3rd Monday of each Month)</i>	Monday	21	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Stationary Source Committee <i>(Meets 3rd Monday Every Other Month)</i>	Monday	21	10:30 a.m.	4 th Floor Conf. Room
Board of Directors Budget & Finance Committee <i>(Meets the 4th Wednesday Each Month)</i>	Wednesday	23	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Mobile Source Committee <i>(Meets 4th Thursday each Month)</i>	Thursday	24	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Public Outreach Committee <i>(Meets Quarterly at the Call of the Chair)</i>	Thursday	31	9:30 a.m.	4 th Floor Conf. Room

MM – 3/21/12 (2:35 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: March 15, 2012

Re: Budget and Finance Committee Draft Meeting Minutes

RECOMMENDED ACTION

Approve attached draft minutes of the Budget and Finance Committee meeting of February 22, 2012.

DISCUSSION

Attached for your review and approval are the draft minutes of the February 22, 2012 Budget and Finance Committee meeting.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Sean Gallagher
Reviewed by: Jennifer C. Cooper

Attachment

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

DRAFT 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.

Sean Gallagher
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: March 19, 2012

Re: Summary of Draft Fee Amendments for Fiscal Year Ending (FYE) 2013

RECOMMENDED ACTION

None; receive and file.

BACKGROUND

Staff develops amendments to the District's fee regulation as a part of the budget preparation process. On March 7, 2012, the Board of Directors adopted a Cost Recovery Policy that established a goal of increasing fee revenue sufficient to achieve 85 percent recovery of regulatory program activity costs by the end of FYE 2016. Staff estimates that, in order to achieve this goal, fee revenue will need to be increased by 6.4 percent per year over the next four years (assuming that costs increase by 2 percent per year).

DISCUSSION

Staff has prepared draft fee amendments that would increase fee revenue by approximately 6.4 percent from what would otherwise result without a fee increase. Consistent with the Cost Recovery Policy, draft amendments to specific fee schedules were made in consideration of cost recovery analyses conducted at the fee schedule-level, with larger increases being proposed for the schedules that have larger cost recovery gaps.

Existing fee schedules would be amended as follows:

- (1) no change for fee schedules that are recovering greater than 96 percent of costs,
- (2) 5 percent increase for fee schedules that are recovering 85 to 95 percent of costs,
- (3) 7 percent increase for fee schedules that are recovering 70 to 84 percent of costs,
- (4) 9 percent increase for fee schedules that are recovering less than 70 percent of costs.

Several fees that are administrative in nature (permit application filing fees, alternative compliance plan fees, and permit to operate renewal processing fees) would be increased by 7 percent. A new fee would be added for inspection of sites required to have an Asbestos Dust Mitigation Plan, and a new annual renewal fee would be added for boilers, steam generators and process heaters subject to Schedule R: Equipment Registration Fees. Finally, the amendments would clarify late fees for lapsed permits to operate.

Staff will provide the committee with additional details regarding the draft fee amendments at the committee meeting on March 28, 2012. A summary of public comments received to date, including those received at a public workshop held on February 28, 2012, will also be provided.

BUDGET CONSIDERATION/FINANCIAL IMPACT

The draft fee amendments would increase fee revenue in FYE 2013 by an estimated \$1.85 million from revenue that would otherwise result without a fee increase. Fee revenue estimates will be included in the draft FYE 2013 budget.

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: March 16, 2012

Re: Discussion of Proposed Budget for Fiscal Year Ending (FYE) 2013

RECOMMENDED ACTION

The Executive Officer/APCO requests that the Budget and Finance Committee review the Proposed Budget for FYE 2013, and make any recommendations for further discussions to be held during the April 25, 2012 Budget and Finance Committee meeting. This will allow staff the necessary time to make the changes for the second review by the Committee and the first public hearing date set for May 16, 2012.

BACKGROUND

At the March 21, 2012 Regular Board of Directors meeting, the FYE 2013 Proposed Budget document was referred to the Budget and Finance Committee for review at the Committee's March 28, 2012 meeting.

DISCUSSION

Staff will present the proposed budget for FYE 2013. The proposed budget is balanced, without the use of any reserves. The proposed budget includes 2 new full-time equivalent (FTE) positions.

Staff will publish, prior to March 31, 2012, a notice to the general public that the first of two public hearings on the budget will be conducted on May 16, 2012 and that the second hearing will be conducted on June 6, 2012. Staff requests that the Budget and Finance Committee complete its review and take action on the proposed budget at the April 25, 2012 Budget and Finance Committee meeting. This will allow staff the necessary time required to amend, if necessary, the budget for the first public hearing to be held on May 16, 2012.

BUDGET CONSIDERATION/FINANCIAL IMPACT

The proposed consolidated budget for FYE 2013 is a balanced 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: March 21, 2012

Re: Update on Production System Replacement of Databank

RECOMMENDED ACTION

None; receive and file.

DISCUSSION

Following the recent transition of Gasoline Dispensing Facilities from Databank to the new Production System, staff will review the next phases of transition from Databank. The review will include both timelines and the associated budget.

BUDGET CONSIDERATION/FINANCIAL IMPACT

None.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Jeffrey McKay