



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

AGENDA: 3

First Public Hearing to Consider Adoption of the Air District's Proposed Budget for Fiscal Year 2024-2025

**Board of Directors Special Meeting Budget
Hearing**

May 1, 2024

**Stephanie Osaze
Director of Finance
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Presentation Outcome



Conduct first of two required Public Hearings on the Fiscal Year 2024-2025 Air District Proposed Budget for public review and testimony.

Final action is expected at the conclusion of the second public hearing scheduled for June 5, 2024.

Presentation Outline



- Budget & Rule Development Schedule
- Budget Highlights
- Financial Forecast & Key Assumptions
- Overview of the Proposed Budget/Service Areas
- Next Steps

Budget and Rule Development Schedule



Description	Date
Public workshop for Regulation 3 amendments	February 15, 2024
Finance and Administration Committee briefing #1	March 20, 2024
Finance and Administration Committee briefing #2	April 17, 2024
First public hearing on Budget & Regulation 3 to receive testimony	May 1, 2024
Written Public Hearing comments on Regulation 3 due	May 17, 2024
Second public hearing on budget and Regulation 3 to consider adoption	June 5, 2024
Budget and fee amendments effective, if adopted	July 1, 2024

Budget Highlights



- Restructured Budget Message
- Executive Officer Message
- Budget in Brief
 - Proposed Budget by Revenue & Expenditure type
 - Proposed Budget by Service Areas
- Proposed Fees and Proposed Budget First Public Hearing Date is aligned

Financial Forecast – FYE 2025 -2029



Five Year General Fund Financial Forecast

	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
REVENUE	Budget	Projected	Projected	Projected	Projected
Property Tax	\$46,306,873	\$48,159,148	\$50,085,514	\$52,088,935	\$54,172,492
Permits/Fees	\$66,980,182	\$73,195,145	\$80,345,698	\$89,343,845	\$99,734,006
Grant Revenues	\$8,517,210	\$3,397,207	\$5,006,779	\$5,056,847	\$5,107,415
AB617 Funding	\$11,985,752	\$11,300,000	\$9,000,000	\$9,000,000	\$9,000,000
Other Revenue	\$9,555,620	\$9,611,176	\$9,667,288	\$9,723,961	\$9,781,200
Transfer from Special Funds	\$1,414,855	\$1,443,153	\$1,472,016	\$1,501,456	\$1,531,486
TOTAL REVENUE	\$144,760,493	\$147,105,830	\$155,577,295	\$166,715,043	\$179,326,600
(Use of)/Transfer to Reserves	(\$9,693,058)	(\$3,494,027)	\$175,491	\$4,977,259	\$11,230,319
EXPENDITURES					
Personnel Expenditures	\$103,606,450	\$109,574,261	\$113,555,696	\$119,054,755	\$124,559,591
Services and Supplies	\$43,652,176	\$37,369,086	\$38,116,468	\$38,878,797	\$39,656,373
Capital Expenditures	\$7,194,925	\$3,656,509	\$3,729,640	\$3,804,232	\$3,880,317
TOTAL EXPENDITURE	\$154,453,550	\$150,599,856	\$155,401,804	\$161,737,784	\$168,096,281
General Fund Reserves					
Beginning Balance	\$84,685,523	\$74,992,465	\$71,498,439	\$71,673,930	\$76,651,189
(Use of)/Transfer to Reserves	(\$9,693,058)	(\$3,494,027)	\$175,491	\$4,977,259	\$11,230,319
Ending Balance	\$74,992,465	\$71,498,439	\$71,673,930	\$76,651,189	\$87,881,508
20% Minimum Reserve Policy	\$28,953,000	\$29,422,000	\$31,081,000	\$32,348,000	\$33,620,000

Key Assumptions – Revenue and Expenditure



Key Expenditure Assumptions

- **Personnel**
 - costs do not assume any new staffing beyond 491, which includes additional 19 FTEs
 - A 3-4% annual general wage adjustment is also projected for the forecast period.
 - 7% vacancy rate in FYE 2025, gradually decreasing to 6%, 2026 and about 5% in 2027-29.
- **Services and Supplies** costs are projected to drop in 2026 to adjust for one-time costs and remain stable, with an inflationary increase of approximately 2-3% for 2027-29.
- **Capital Expenditures** are expected to drop in 2026 to adjust for one-time capital needs and remain level in 2027-2029, with only an inflationary increase.
- **General Fund Reserves** are expected to stay above the minimum policy level.

Key Revenue Assumptions

- **Property Tax** is expected to grow at approximately 4%
- **Permit Fee** revenues will continue to follow the Air District's cost recovery policy to 100%. Revenue is expected to grow approximately 8 to 10% during the forecast period. The projected cost recovery at the end of the forecast period is 89%.
- **Grant Revenues** in the General Fund are expected to drop in 2026 to adjust for one-time EPA grant funding and remain stable through the forecast period.
- **Assembly Bill 617** funding of \$11 million in 2025 and 2026 and \$9.0 million is expected to continue for the next 3 years.
- **Other Revenues** mainly account for penalties, state subvention, and interest income. These revenues are expected to remain stable.

Fiscal Year 2024-2025 Proposed Budget Summary












- \$ 291 M Consolidated Budget, includes \$154 M General Fund Budget
- Use of Reserves includes:
 - \$6.8 M for one-time services and capital costs
 - \$2.9 M as initial staffing investment to support 19 Full-Time Equivalent (FTE), additional \$1 M from penalty assessment
- Continuation of Cost Recovery Policy (up to 15% where applicable)
- 4.5% General Wage Adjustment
- 7% Vacancy Savings
- \$5 M discretionary contributions to Prefund Pension Trust
- Authorize transfers from the Limited-Term Contract Employee (LTCE) Staffing reserve designation to fill limited-term positions

FY 2025 All Funds Budget by Rev/Exp Type

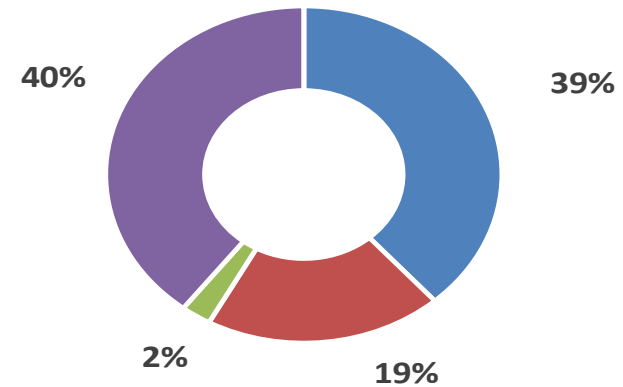
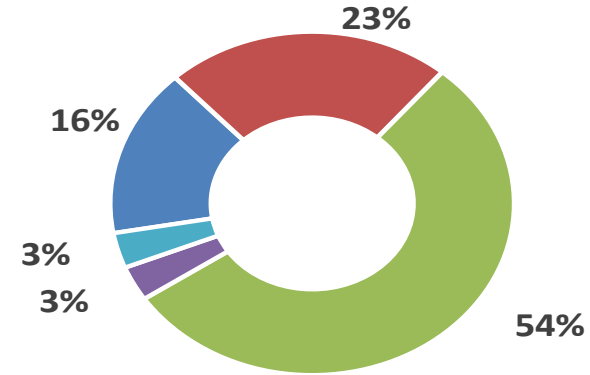


REVENUES AND EXPENDITURES BY TYPE

Revenues		(\$ Millions)	
	Property Taxes	\$46.3	16%
	Permits/Fees	\$67.0	23%
	Grants	\$158.6	54%
	Other Revenue	\$9.6	3%
	Transfer From Reserves	\$9.7	3%
Total Revenues		\$291.1	

Expenditures			
	Salaries & Benefits	\$112.1	39%
	Services & Supplies	\$56.6	19%
	Capital	\$7.2	2%
	Distributions & Transfer	\$115.3	40%
Total Expenditures		\$291.1	

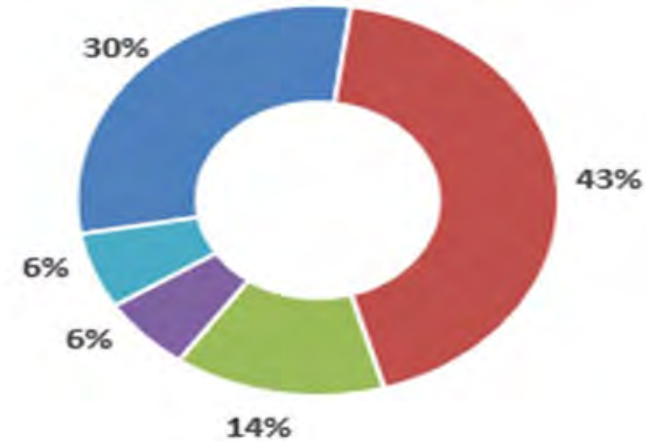
ALL FUNDS



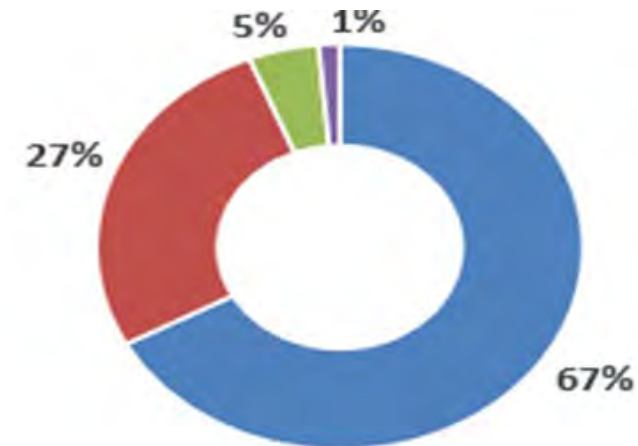
Proposed General Fund Budget By Type



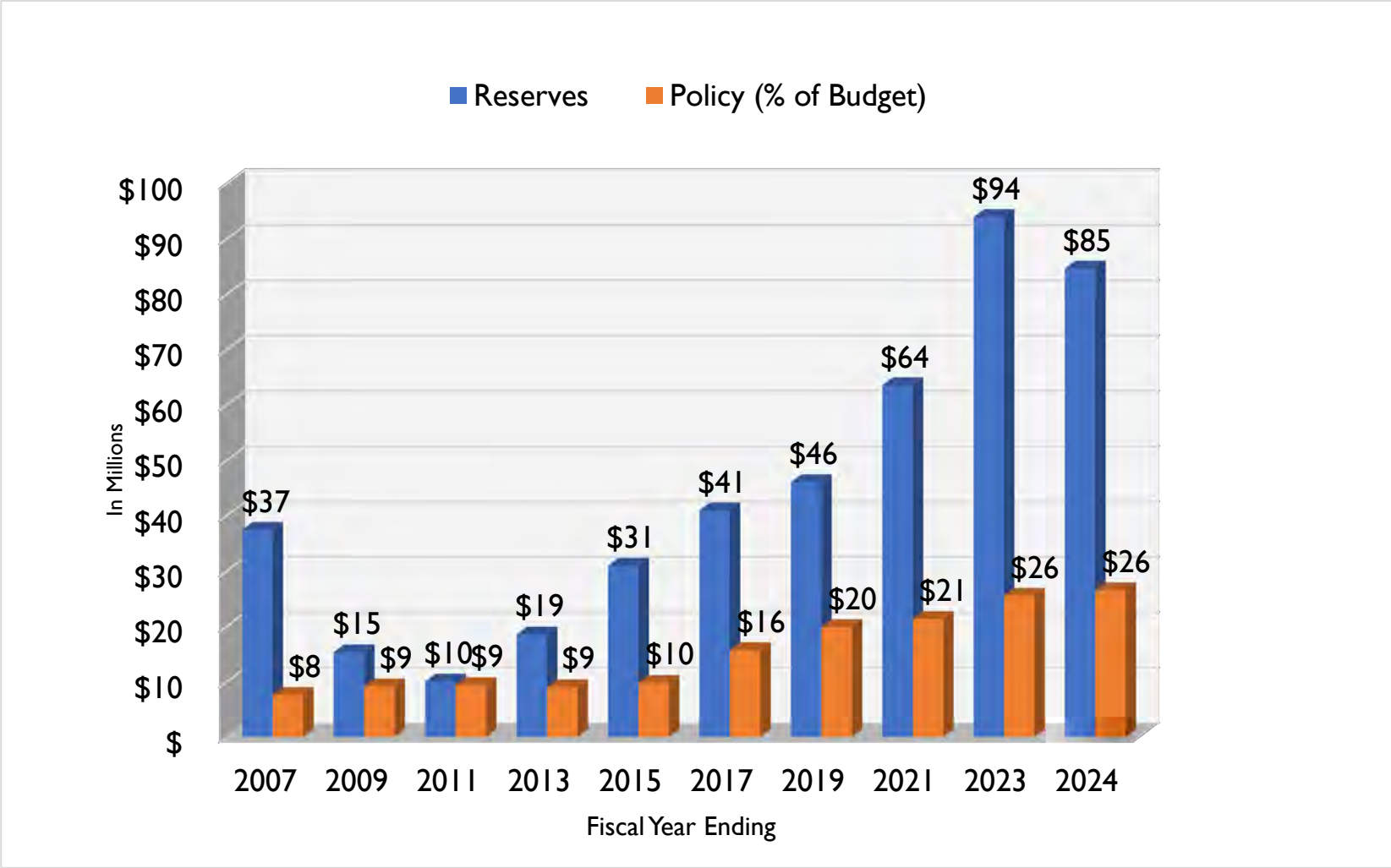
Revenues		(\$ Millions)	
Property Taxes	\$46.3	30%	
Permits/Fees	\$67.0	43%	
Grants	\$21.9	14%	
Other Revenue	\$9.6	6%	
Transfer From Reserves	\$9.7	6%	
Total Revenues	\$154.5		



Expenditures		(\$ Millions)	
Salaries & Benefits	\$103.6	67%	
Services & Supplies	\$41.5	27%	
Capital	\$7.2	5%	
Distributions & Transfer	\$2.1	1%	
Total Expenditures	\$154.5		



Air District's General Fund Reserves: Actual vs. Minimum Policy Requirement



➤ In 2016, Reserve Policy increased from 15% to 20% of the General Fund Budget

➤ Proposed revision to Reserve Policy (25% - 35%) was recommended on March 20, 2024, by the Finance and Administration Committee for Board of Director's approval.

Overview of Proposed Reserve Policy



- The need for a formal reserve policy: Articulate a framework and process
- The appropriate level of reserves: The reserve should be based on an analysis of the types of risk the agency is trying to manage with reserves.
- Government Finance Officer's Association's (GFOA) Fund Balance Target analysis analytical exercise to account for risks and commitments) recommends the Air District maintain an economic contingency reserve fund between 17 and 25 percent of the general fund budget.
- Air District's cash flow analysis indicates a somewhat higher short-term requirement for reserves: operational needs require at least 22 percent to be set aside for reserves (front-loaded at the beginning of the fiscal year)
- A recommended improvement is to set a range for reserves (min/max), instead of minimum required.

Finance and Administration Committee's Recommendations:

1. Allocate a minimum of 25 percent and a maximum of 35 percent of the general fund budget for economic contingency reserve
2. Discuss plan for investment of excess reserves in the current Budget development process

2025 General Fund Reserve Designations



General Fund Reserves (In Millions)	20% Current Reserve Policy	25% Proposed Reserve Policy
Projected Reserves Balance (June 30, 2024)	84.6	84.6
Economic Contingency Designations*:		
AB617 Staffing Contingency	9	9
Reserve Policy (% of Budget)	29	36
Litigation Support Contingency	2	2
	40	47
Long -Term Commitment Designations*:		
Community Benefits	3	3
Limited Term Contract Employee (LTCE) Staffing	1.8	1.8
Schedule X	6.1	6.1
Technology Implementation Office	2.8	2.8
	13.7	13.7
Other Designations *		
Incident Monitoring Program	1	1
Richmond Improvements (HQE)	1	1
Wildfire Mitigation	1	1
Woodsmoke Program (SID)	0.5	0.5
	3.5	3.5
Use of Reserves to Balance the FY 2025 Budget:		
Short-Term Staffing Investment	2.9	2.9
One-time capital & service costs	6.8	6.8
	9.7	9.7
AVAILABLE GENERAL FUND RESERVES	17.7	10.7

- If Proposed Reserve Policy is adopted by the Board, the Reserve Policy increases from 20% to 25% of the GF Budget.
- The proposed reserve policy amount increases from \$29M to \$36M.

*Designations are subject to change at Board's discretion.

Summary of 2025 \$16.6 M Budget Increase



BUDGETED SOURCES COMPARED TO FY 2024 Adopted Budget:		\$ (Million)
Increase to property tax		1.4
Increase to permit fees		3.8
Increase in penalty assessment		1.0
Increase in other revenues		0.5
	Total Ongoing Sources	6.7
Increase in grant revenues		5.4
Increase in use of reserves		4.4
	Total One-time Sources	9.8
	TOTAL BUDGETED SOURCES	16.6
BUDGETED COSTS COMPARED TO FY 2024 Adopted Budget:		\$ (Million)
Increase in 19 New FTEs		3.9
Increase in mid-year staffing for AB 617		1.6
Increase in other personnel costs		7.6
Increase in CalPERS pension payment		1.8
Increase in vacancy savings		(1.2)
	Total Ongoing Costs	13.6
Increase in mid-year LTCEs for AB617		1.4
Increase in one-time services & capital		1.6
	Total One-time Costs	3.0
	TOTAL BUDGETED COSTS	16.6

Capital Considerations by Division



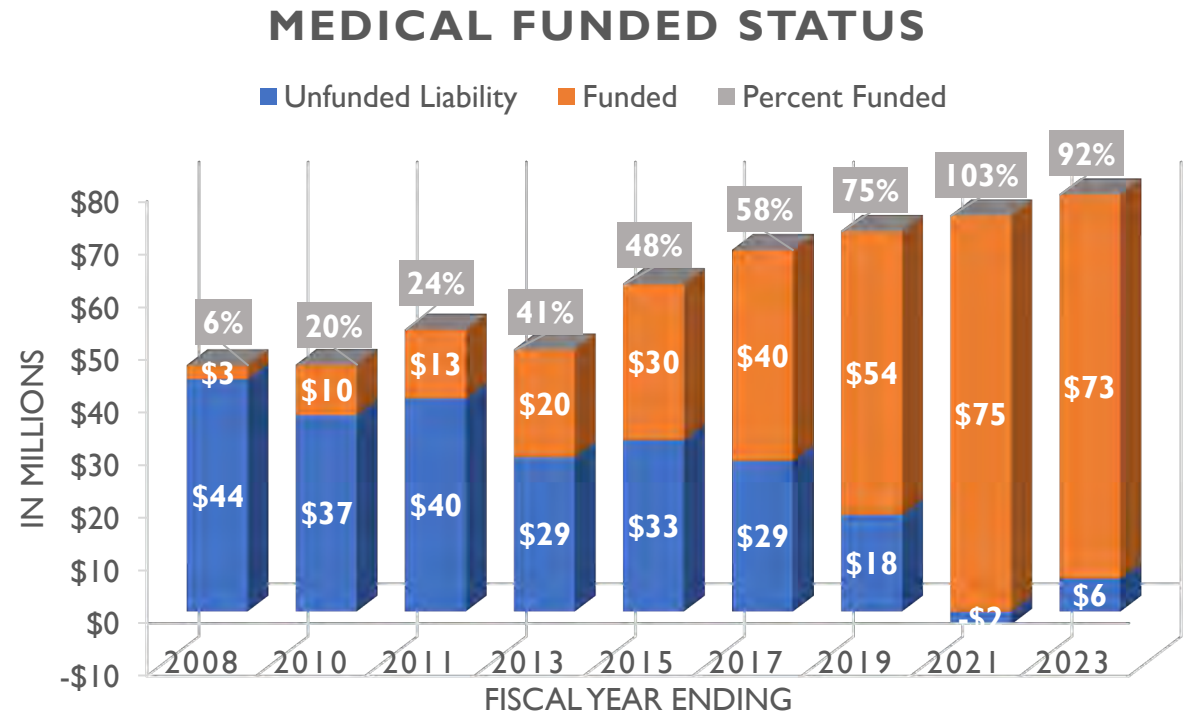
Capital Type	Division	Cost by Division	
Computer & Network	Administrative Division	\$	500,000
Computer & Network	Enterprise Technology Solutions	\$	510,000
Computer & Network	Meteorology & Measurements	\$	263,000
Computer & Network	Strategic Incentives	\$	500,000
Lab & Monitoring Equipment	Meteorology & Measurements	\$	2,181,925
Office Equipment	Enterprise Technology Solutions	\$	100,000
Office Equipment	Meteorology & Measurements	\$	40,000
Production System	Enterprise Technology Solutions	\$	3,100,000
TOTAL COST		\$	7,194,925

Medical Retiree Plan Funding Status & Policy



- **Medical Retirement (OPEB):**
 - Obligation: \$79 M
 - Funded: \$73 M
 - Unfunded: \$6 M

- **Funding Policy: 90% Funded Level**
 - Current Funding Level at 92%*
 - Redirect \$4 M Annual Discretionary Funding to CalPERS Pension after reaching target funding level



Total contributions to the Trust from 2008 to date = \$44 M
 Total net investment earnings to date = \$29 M

* Actuarial valuation funded status decreased from 103% funded in 2021 to 92% in 2023

Pension Plan Funding Status and Policy



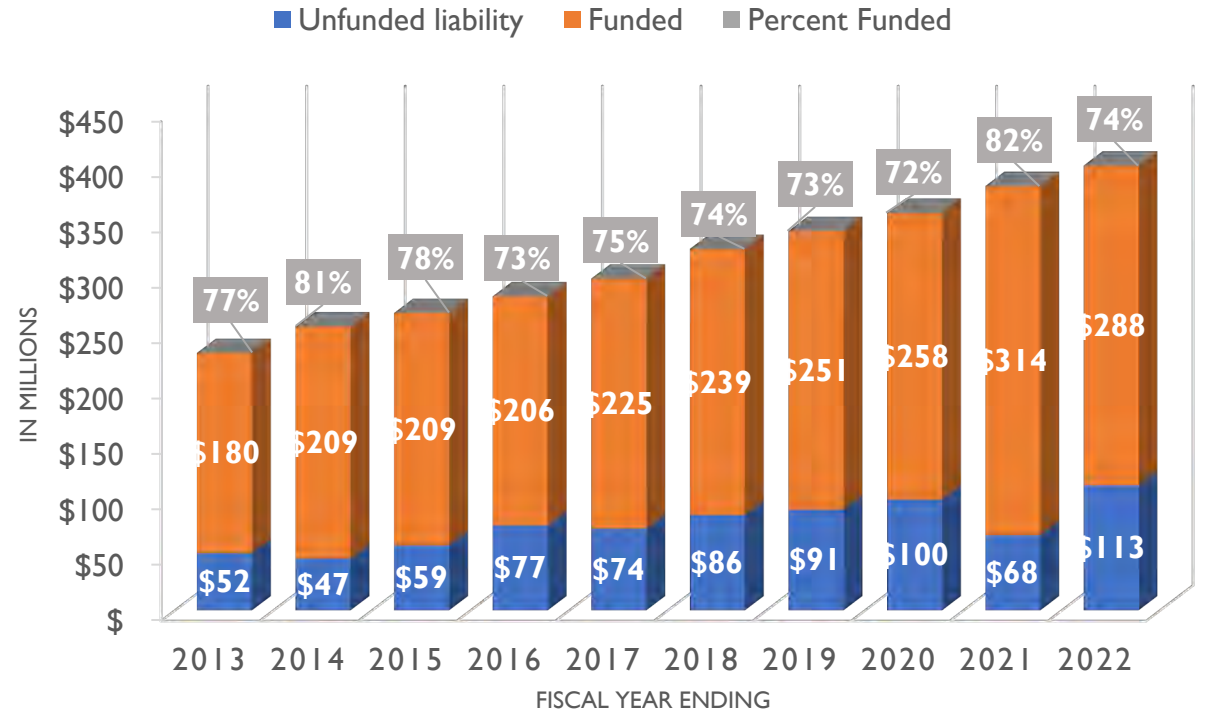
- **CalPERS Retirement (Pension):**
 - Obligation: \$401 M
 - Funded: \$288 M
 - Unfunded: \$113 M
 - Prefund Trust: \$11M*

- **Funding Policy: 90% Funded Level**
 - Current Funding Level at 74%**
 - \$1 M Annual Discretionary Funding
 - \$4 M Redirect Discretionary Funding from OPEB

- **Recommendation:** Allocate \$5 M to Prefund the California Employers' Pension Prefunding Trust

** Includes investment in California Employers' Pension Prefunding Trust (CEPPT)

CALPERS UNFUNDED STATUS



*CEPPT ACCOUNT SUMMARY

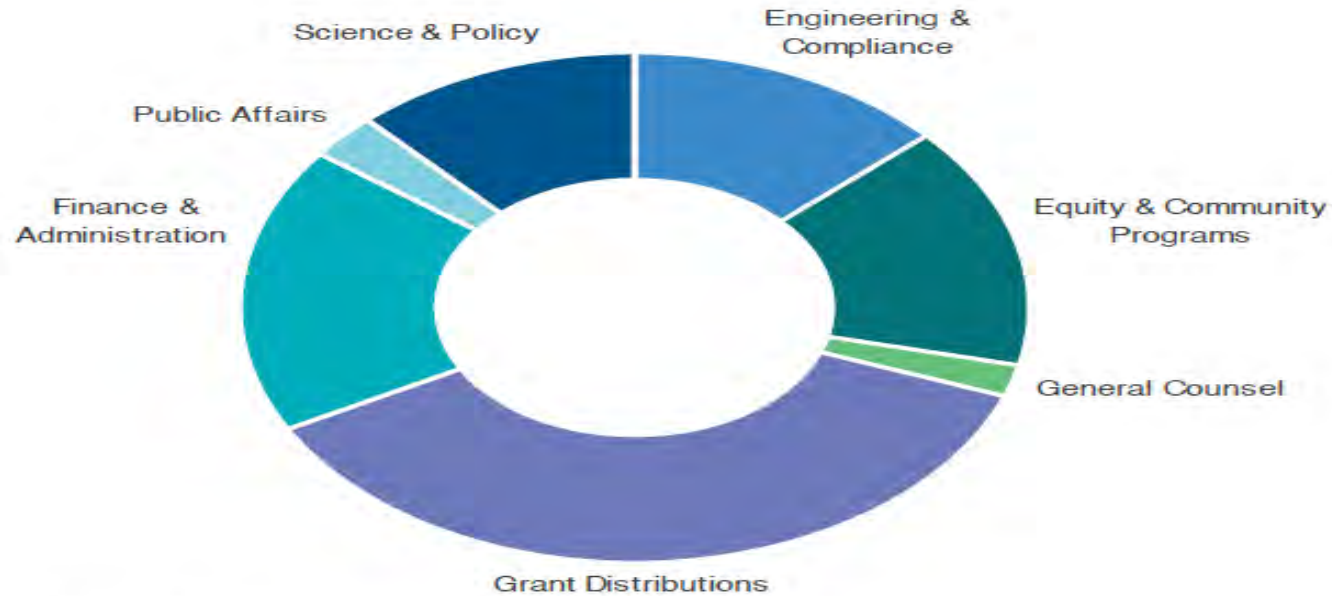
- Total contributions to the Trust from 2023 to date = \$10 M
- Total net investment earnings to date = \$1 M
- Additional contribution being made in FY 2024 = \$5 M

FY 2025 Budget by Service Area



ALL FUNDS

FY 2024-25 Total Expenditures Budget: \$291.1 Million



Expenditures

	Engineering & Compliance	\$38.5	13%
	Equity & Community Programs	\$44.6	15%
	General Counsel	\$5.8	2%
	Grant Distributions/Others	\$106.0	36%
	Finance & Administration	\$53.1	18%
	Public Affairs	\$8.8	3%
	Science & Policy	\$34.4	12%

Total

\$291.1

Service Area: Engineering & Compliance



FY 2024-25 Service Area Expenditures (\$ Millions)



Implement Regulation 11-18 for toxic air contaminants.

Ensure robust enforcement against polluters.

Develop Targeted Inspection Policy for overburdened areas.

Update Incident Response Policy for better coordination.

Integrate Environmental Justice into permitting.

Execute Permit Process Improvement Plan for better service.

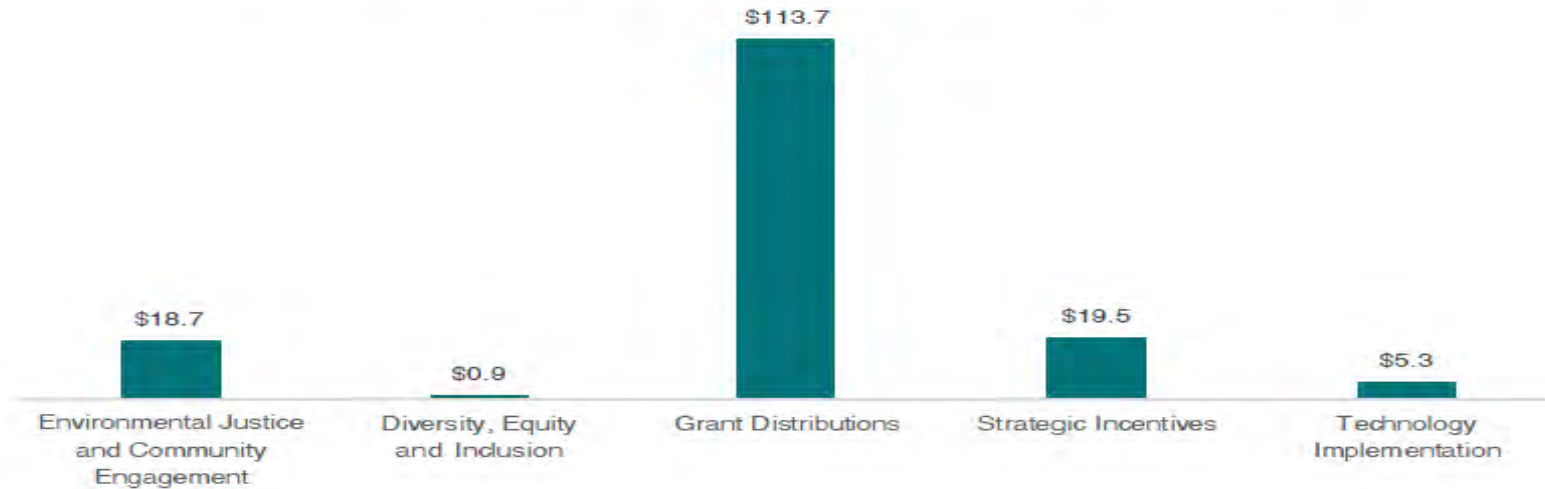
10 additional FTE for Engineering and Compliance & Enforcement

Expenditures	FY 2022-23 Actuals	FY 2023-24 Approved	FY 2023-04 Amended	FY 2024-25 Proposed	FY 2024-25 Change	FY 2024-25 FTE
Compliance and Enforcement	\$15.3	\$17.7	\$17.8	\$21.0	\$3.2	99
Engineering	\$12.4	\$15.3	\$16.6	\$17.5	\$2.2	79
Service Area Total	\$27.7	\$33.0	\$34.4	\$38.5	\$5.5	178



Service Area: Equity and Community Programs

FY 2024-25 Service Area Expenditures (\$ Millions)



Expenditures	FY 2022-23 Actuals	FY 2023-24 Approved	FY 2023-04 Amended	FY 2024-25 Proposed	FY 2024-25 Change	FY 2024-25 FTE
Environmental Justice and Community Engagement	\$5.6	\$15.0	\$18.8	\$18.7	\$3.8	17
Diversity, Equity and Inclusion	\$0.5	\$0.9	\$1.0	\$0.9	\$0.0	3
Grant Distributions	\$55.9	\$110.3	\$94.3	\$113.7	\$3.4	
Strategic Incentives	\$7.8	\$15.5	\$16.4	\$19.5	\$4.0	33
Technology Implementation	\$3.2	\$4.0	\$7.0	\$5.3	\$1.3	11
Service Area Total	\$73.0	\$145.6	\$137.5	\$158.1	\$12.5	64

Allocate \$35M for upgrading equipment in VW program for impacted communities.

Propose \$30M for zero-emission projects, with 80% for priority communities.

Incentivize landscapers to switch to zero-emissions tech.

Collaborate with CARB to update incentive program guidelines.

Establish fund to remediate emissions from ocean vessels in impacted areas.

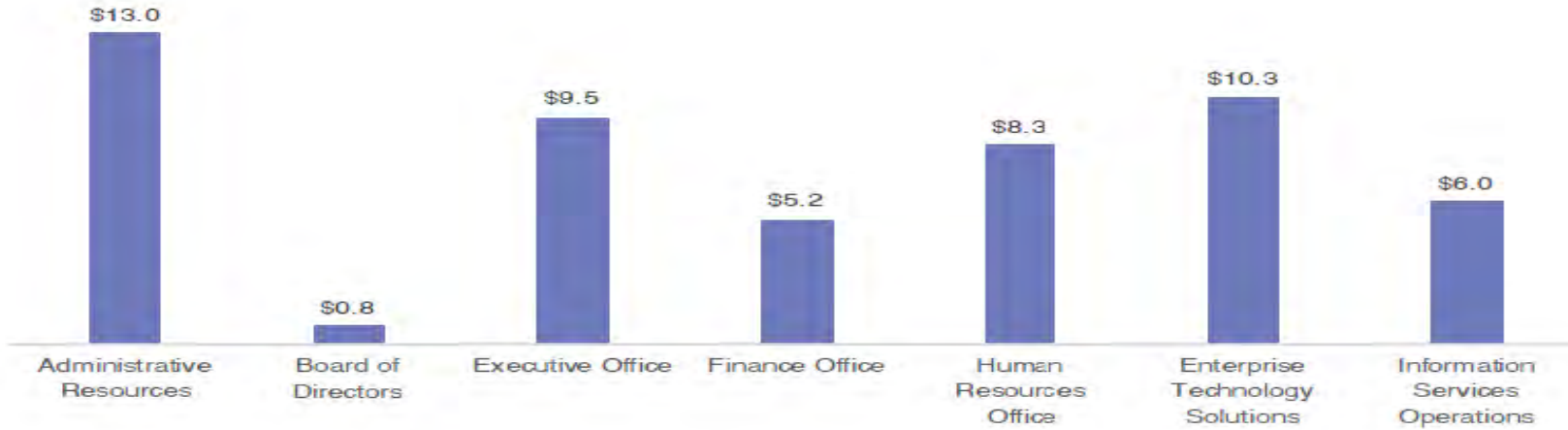
Allocate \$2M for woodsmoke reduction, prioritizing affected communities.

1 additional FTE for Strategic Incentives

Service Area: Finance & Administration



FY 2024-25 Service Area Expenditures (\$ Millions)



Modernize IT infrastructure for resilience.

Implement Grants Management system for efficient grants.

Launch new performance management system.

Conduct comprehensive real estate strategy.

Provide technology assets for community communication.

Enhance My Air Online systems for efficiency.

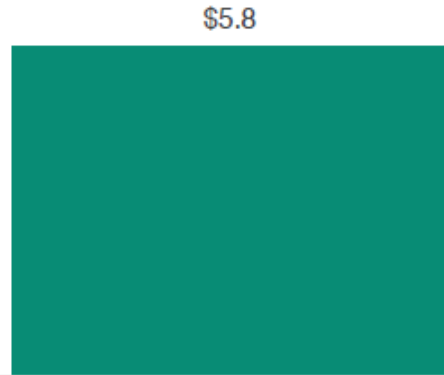
4 Additional FTE in HR, IT & ADMIN

Expenditures	FY 2022-23 Actuals	FY 2023-24 Approved	FY 2023-04 Amended	FY 2024-25 Proposed	FY 2024-25 Change	FY 2024-25 FTE
Administrative Division	\$8.7	\$12.6	\$13.5	\$13.0	\$0.4	15
Board of Directors	\$0.5	\$1.2	\$1.2	\$0.8	(\$0.4)	0
Executive Office	\$8.2	\$9.0	\$10.1	\$9.5	\$0.5	25
Finance Office	\$4.5	\$5.1	\$5.3	\$5.2	\$0.1	18
Human Resources Office	\$11.5	\$7.5	\$7.7	\$8.3	\$0.8	10
Enterprise Technology Solutions	\$8.1	\$8.8	\$12.1	\$10.3	\$1.5	9
Information Services Operations	\$2.8	\$6.8	\$7.8	\$6.0	(\$0.8)	16
Service Area Total	\$44.3	\$50.9	\$57.7	\$53.1	\$2.1	93

Service Area: General Counsel



FY 2024-25 Service Area Expenditures (\$ Millions)



General Counsel

Expenditures	FY 2022-23 Actuals	FY 2023-24 Approved	FY 2023-04 Amended	FY 2024-25 Proposed	FY 2024-25 Change	FY 2024-25 FTE
General Counsel	\$4.4	\$5.2	\$5.9	\$5.8	\$0.7	17
Service Area Total	\$4.4	\$5.2	\$5.9	\$5.8	\$0.7	17

Assess penalties for full legal consequences.

Enhance enforcement in overburdened communities.

Provide legal support for community plans.

Assist in civil rights compliance in permitting.

Establish Environmental Justice Fellowship Program.

Support compliance in permitting program.

1 additional FTE for Legal Services

Service Area: Public Affairs



FY 2024-25 Service Area Expenditures (\$ Millions)



Communicate air quality incidents to media.

Forge partnerships with counties for messaging.

Implement Public Notification Tool for incidents.

Expand Spare the Air messaging on TikTok.

Conduct Air District rebranding.

Develop internal communications program

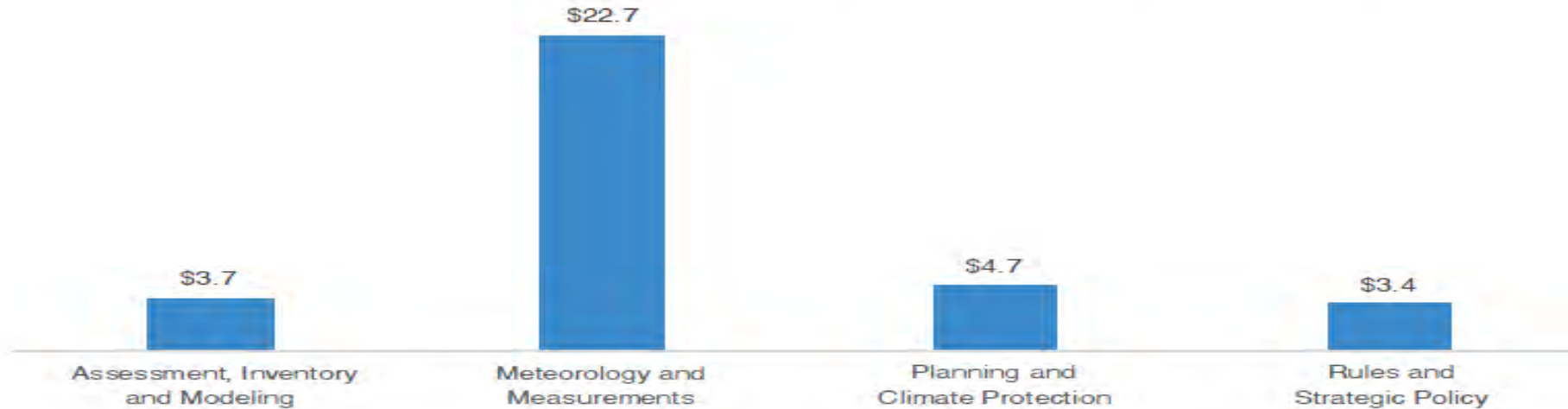
1 Additional FTE for Communications

Expenditures	FY 2022-23 Actuals	FY 2023-24 Approved	FY 2023-04 Amended	FY 2024-25 Proposed	FY 2024-25 Change	FY 2024-25 FTE
Communications	\$5.6	\$6.7	\$9.5	\$6.3	(\$0.4)	11
External Affairs	\$0.7	\$1.1	\$1.4	\$1.8	\$0.7	3
Legislative and Government Affairs	\$0.6	\$0.7	\$0.7	\$0.7	\$0.1	2
Service Area Total	\$6.9	\$8.5	\$11.6	\$8.8	\$0.4	16

Service Area: Science & Policy



FY 2024-25 Service Area Expenditures (\$ Millions)



Complete rulemaking for emission reduction.

Develop control strategies for impacted areas.

Develop health risk methodology.

Conduct community-partnered monitoring projects.

Review monitoring network for accuracy.

Develop new particulate matter measurement network.

2 additional FTE for Rules and Meteorology & Measurements

Expenditures	FY 2022-23 Actuals	FY 2023-24 Approved	FY 2023-04 Amended	FY 2024-25 Proposed	FY 2024-25 Change	FY 2024-25 FTE
Assessment, Inventory and Modeling	\$4.9	\$3.8	\$4.0	\$3.7	(\$0.1)	18
Meteorology and Measurements	\$15.7	\$19.5	\$20.4	\$22.7	\$3.2	72
Planning and Climate Protection	\$4.7	\$4.5	\$5.5	\$4.7	\$0.2	21
Rules and Strategic Policy	\$2.5	\$2.5	\$3.0	\$3.4	\$0.9	12
Service Area Total	\$27.8	\$30.3	\$32.9	\$34.4	\$4.2	123

FY25 New 19 FTE Cost Considerations



Division	New FTE	Annual Cost
Compliance & Enforcement	5	\$952,745
Engineering	5	\$1,094,412
HR, Admin, IT	4	\$698,707
General Counsel	1	\$290,125
Meteorology & Measurement	1	\$206,562
Communications	1	\$260,744
Rules	1	\$260,744
Strategic Incentives	1	\$206,562

Total \$3,970,601

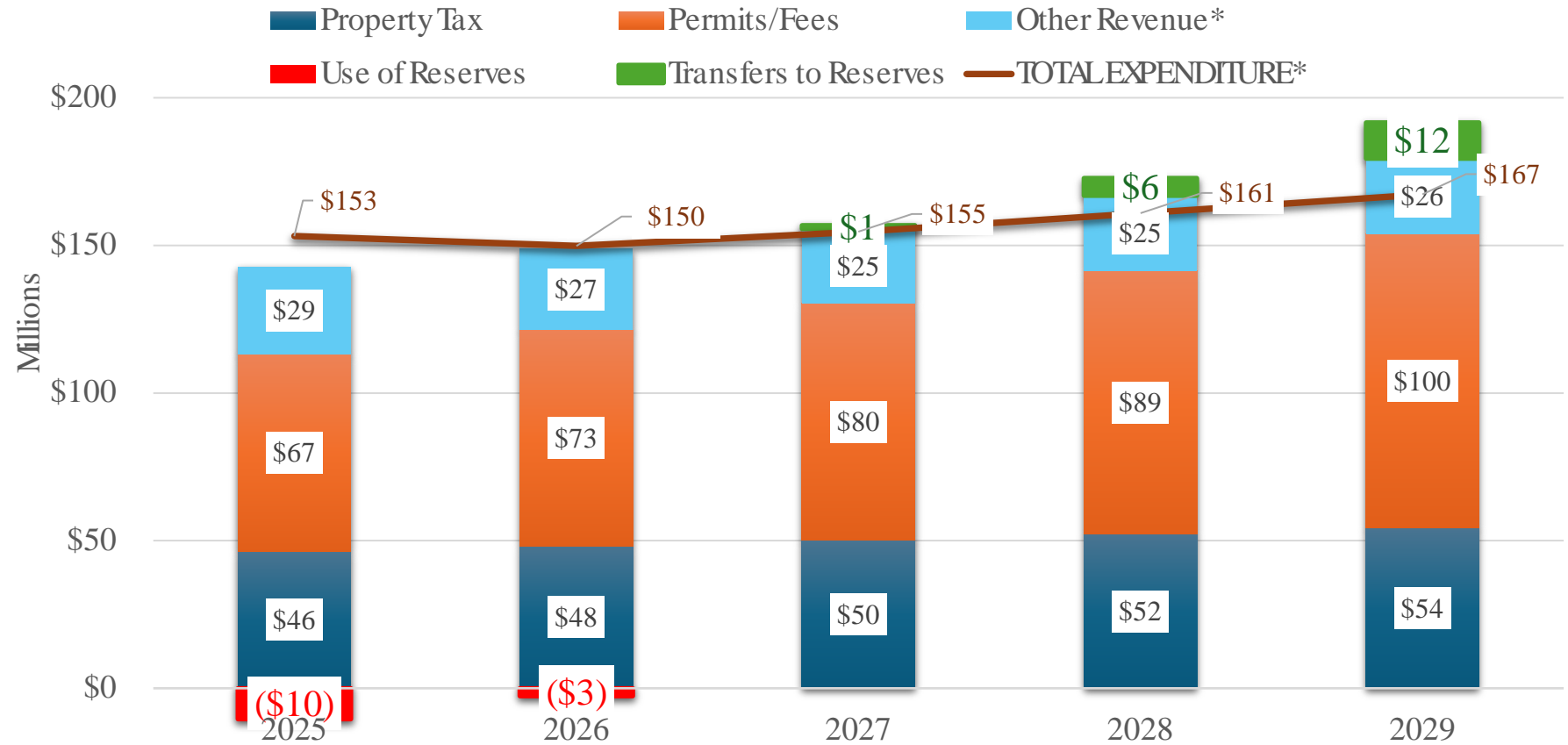
Projected Funding to Support Additional Positions



FY25-29 Budget - 5 Year Forecast

Using the 5-Year Forecast:

- Cost of 19 additional FTEs will be covered by limited use of Reserves for FY 2025 and FY 2026
- Steady increase in property tax and permit revenues will begin to support the cost of the additional 19 FTEs beginning FY 2027

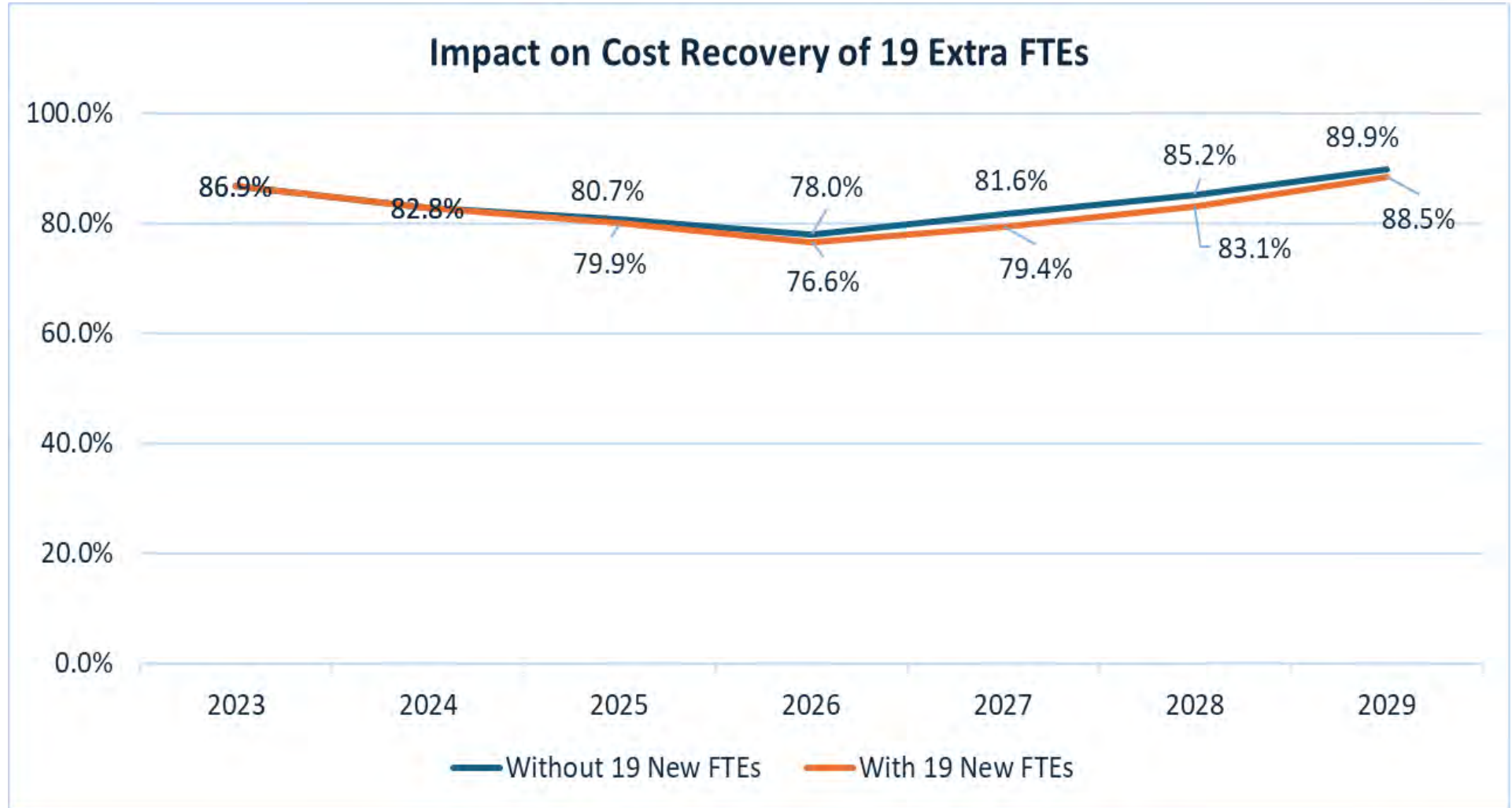


(\$50)

Impact of Cost Recovery with the 19 New FTEs



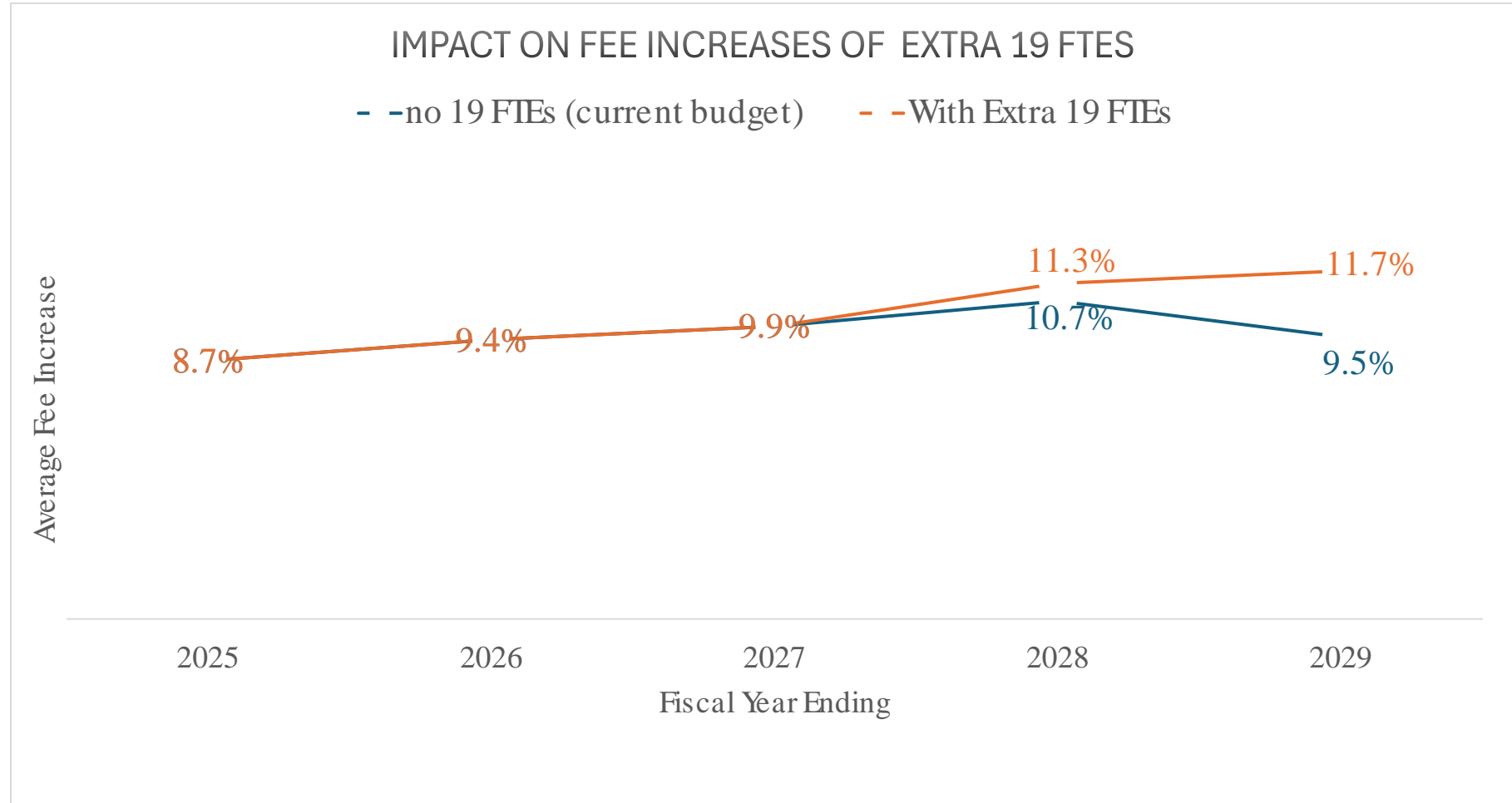
- Cost Recovery slightly dips between 1% - 2% annually



Impact on Fee Increases with 19 New FTEs (cont.)



- Impact on Average the Fee increases is expected to remain relatively the same until 2028 and 2029



Other FYE 2025 Staffing Adjustments



Division/Office	Reclassification	Annual Impact
Communication Office	1	(76,040)
DEI	1	(42,904)
Enterprise Technology Solutions	1	6,409
Executive Office	1	(8,738)
Finance	1	(32,534)
Human Resources Office	1	20,737
Information System	1	-
Rules & Strategic Policy	1	22,197
Meteorology & Measurement	2	(12,399)
		Total Cost Savings = (\$123,272)

* The table has been updated to reflect staffing changes made subsequent to the Finance & Administration Committee meeting, leading to a \$3k decrease in cost savings.

Next Steps



- No requested action at this time.
- The Board of Directors will conduct Second Public Hearing for adoption of the FYE 2025 Proposed Budget on June 5, 2024.