



Changes to Management Classifications

Finance & Administration Meeting

April 16, 2025

Lisa Baker

Human Resources Director



Presentation Outline

- Classification and Compensation Study Background
- Classification and Compensation Study Update
- Classification Study Findings
- Proposed Management Classifications Changes
- Recommended Action

Classification and Compensation Study Background

Classification Study

- Conducted in response to the 2022 Human Resources Audit
- Outdated classifications
- Goal is to modernize the Air District's classification system, eliminate barriers to employment
- Focus is to align job functions with operational needs, introduce new roles, and optimize efficiency

Compensation Study

- Compensation studies completed in 2017 and 2020
- Goal is to compare market and align with Air District Board of Directors-adopted compensation philosophy

Classification and Compensation Study Update

- Engaged Compensation Connections to perform Air District wide, comprehensive study in December 2023
- Compensation Philosophy adopted by Board of Directors in March 2024
- Classification Study
 - Conducted research, solicited input from leadership on operational needs, with focus on equity and aligning with strategic plan
 - Shared draft represented classifications with the Employees' Association
- Compensation Survey
 - Utilized 12 public sector comparators and three aggregated market compensation reports
 - Next Steps: Finalize compensation survey and share with the Employees' Association

Classification Study Findings

- **Updated Classifications:** Remove inflated and unnecessary minimum qualifications; clarified differences between classification levels
- **New Classifications:** Introduce new classifications to meet evolving needs
- **Revived Classifications:** Update and reintroduce essential classifications in Air Quality Inspection and Monitoring
- **Deleted Classifications:** Remove redundant and outdated class specs to streamline efficiency
- **Retitled Classifications:** Adjust titles for clarity and alignment with responsibilities

Proposed Management Classifications Changes

Legal Classification	Recommendation
Staff Attorney / Staff Attorney Trainee	Revision
Assistant Counsel I/II	Revision
Senior Assistant Counsel (at will)	Revision

Management Classification	Recommendation
Manager I	New Classification
Manager II	Revision
Senior Manager	New Classification

Executive Classification	Recommendation
*Officer	New Classification
*Director	New Classification
Assistant Deputy Executive Officer (at will)	New Classification
Deputy Executive Officer (at will)	Revision

*Note: Classification is separated into its own classification to distinguish the span of control, responsibilities, and work.

Recommended Action

The Finance and Administration Committee recommend to the Board of Directors the following:

1. Adopt new management classifications
2. Revise existing management classifications
3. Delete outdated management classifications

Questions & Feedback

For more information:

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Recommend Candidates for Appointment to the Air District's Hearing Board

Finance & Administration Committee

April 16, 2025

Hyacinth Hinojosa

Deputy Executive Officer

Finance and Administration

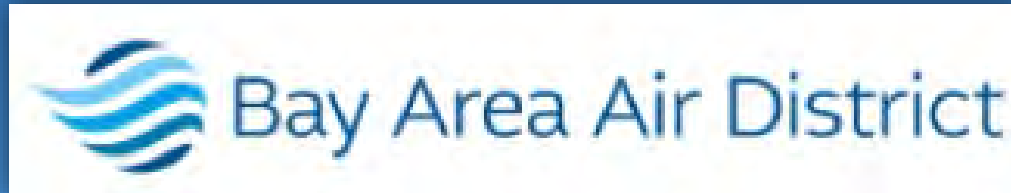


Background

- On March 19, 2025, the Finance and Administration Committee recommended to reappoint the three incumbent members to the Principal Member (Attorney Category), Principal Member (Medical Category), and Principal Member A (Public Category). The Board of Directors approved the recommendation on April 2, 2025.
- On March 19, 2025, the Finance and Administration Committee interviewed four out of six applicants for the Alternate Member (Attorney Category) and Alternate Member A (Public Category) seats.
- On April 2, 2025, an applicant interested in interviewing for both the Alternate Member (Attorney Category) and Alternate Member A (Public Category) seats officially withdrew.
- Today, the Finance and Administration Committee will consider recommendations for the Alternate Member (Attorney Category) and Alternate Member A (Public Category).

DISCUSSION

FISCAL YEAR 2024
BAY AREA AIR QUALITY MANAGEMENT DISTRICT
PRESENTATION OF AUDIT RESULTS
TO THE
FINANCE AND ADMINISTRATION COMMITTEE



April 16, 2025



Simpson & Simpson, LLP

AGENDA



- ❖ Auditor's Required Communication (SAS 114)
- ❖ Audit Results and Highlights of the Basic Financial Statements
- ❖ Audit Results and Highlights of the Single Audit
- ❖ Questions



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Auditor's Required Communications

SAS 114



1. *Our Responsibility under Generally Accepted Auditing Standards (GAAS)*

- Consider internal control to the extent necessary to design an effective and efficient audit approach, not for the purpose of providing assurance on internal control
- Design and implement audit procedures based on our understanding of the District to gain reasonable, not absolute, assurance as to the absence of material misstatements in the financial statements
- Perform tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts
- Opine on financial statements based on our audit



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Auditor's Required Communications

SAS 114 (continued)



2. *Significant Accounting Policies*

- ❑ The District's significant accounting policies are described in Note 1 to the financial statements and are in accordance with generally accepted accounting principles and consistent with industry practices and standards.
- ❑ The application of existing policies was not changed during the year.
- ❑ All significant transactions have been recognized in the financial statements in the proper period.



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Auditor's Required Communications

SAS 114 (continued)



3. *Management Judgments and Accounting Estimates*

- ❑ Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ from management's current judgments.

- ❑ The most sensitive estimates affecting the financial statements were:
 - Useful life of capital assets used for depreciation.



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Auditor's Required Communications

SAS 114 (continued)



3. Management Judgments and Accounting Estimates (continued)

- Deferred outflows/inflows of resources, net pension liability, net OPEB liability/asset, pension expense, and OPEB expense are based on estimates that are prepared by the CalPERS actuary based on information provided by participating employers, and MacLeod Watts, Inc. based on information provided by management.
- ❑ We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.



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Auditor's Required Communications SAS 114 (continued)



4. *Corrected Misstatements*

- During fiscal year 2024, an error correction resulted in adjustments to and restatements of beginning net position and fund balance. It was found that contributions to the CEPPT had been recorded as an expense in the prior period. The account should have been reported as restricted cash and restricted fund balance. The beginning balance has been adjusted in the amount of \$10.2M to reflect the initial funding and activities for the prior period. Refer to Note 15.

5. *Uncorrected Misstatements*

None.



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Auditor's Required Communications SAS 114 (continued)



6. *No Disagreements or Difficulties with Management*

- There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our report on the District's financial statements, nor were there significant difficulties in dealing with management in performing our audit.

7. *No Consultations with Other Accountants*

- To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the past year that was subject to the requirements of AU 625, *Reports on the Application of Accounting Principles*.



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Auditor's Required Communications

SAS 114 (continued)



8. *Management Representations*

- We have requested certain representations from management that are included in the management representation letter dated March 31, 2025.



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Audit Results and Highlights of the Basic Financial Statements



1. *Unmodified Opinion*

- Unmodified opinion with respect to the governmental activities and each major fund.

2. *Financial Highlights*

- Government-Wide Financial Statements
- Governmental Fund Financial Statements



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Audit Results and Highlights of the Basic Financial Statements (Continued)



2. Financial Highlights (continued)

A. Government-Wide Financial Statements

- ❑ Net position as of June 30, 2024, was \$356 million (excess of total assets plus deferred outflows over total liabilities plus deferred inflows), an increase of \$66 million. The primary reason is due to increases in both program revenues and general revenues. Program revenues include grant incentive funds and charges for services mainly relates to permit fees and general revenues includes penalty assessment, property taxes revenues, and investment gains from market fluctuations related to the San Mateo County's investment pool.



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Audit Results and Highlights of the Basic Financial Statements (Continued)



2. Financial Highlights (continued)

B. Government Funds Financial Statements

- ❑ Governmental combined fund balances as of June 30, 2024, increased from last year by \$69 million to \$382 million.
- ❑ The General Fund accounts for all the District's financial resources except those required to be accounted for in the Special Revenue Fund. The ending fund balance of \$173.4 million is carried over to the next fiscal year. Of this amount \$23.4 million was restricted, \$.4 million was nonspendable, \$78.1 million was committed and the remaining \$71.5 million was unassigned.



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Audit Results and Highlights of the Single Audit



3. *Government Auditing Standards Opinion*

- Internal Control Over Financial Reporting
 - No material weaknesses
 - No significant deficiencies

- Compliance
 - No instances of noncompliance noted



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Audit Results and Highlights of the Single Audit (Continued)



4. OMB Uniform Guidance Audit Opinion - Unmodified

- Compliance & Internal Control Over Compliance
 - ❑ One instance of noncompliance and significant deficiency in internal control over compliance identified.
 - ❑ F-2024-001 (Homeland Security Biowatch Program)
 - ❑ S&S identified professional service fees charged by the vendor and paid by the District for eight (8) positions were either not listed or was in excess of the rates established in the Professional Services Contract, Attachment B (“Cost Schedule”).
 - ❑ Questioned Costs - \$9,316.
 - ❑ Corrective Action Plan – The District will seek recovery over the overcharges from the vendor, review FY-25 processed invoices, and implement process changes to ensure submitted invoices align with the terms of the agreement.



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Audit Results and Highlights of the Single Audit (Continued)



4. OMB Uniform Guidance Audit Opinion - Unmodified

- Compliance & Internal Control Over Compliance
 - ❑ F-2024-001 (Homeland Security Biowatch Program) *(continued)*
 - ❑ S&S identified that travel and supply reimbursements were paid to the vendor without the required supporting documentation being submitted and reviewed by the District, as outlined in the contract.
 - ❑ Questioned Costs - None.
 - ❑ Corrective Action Plan – The District obtained all documentation supporting travel and supply reimbursements paid to the vendor in FY-24, concluding it aligned with the contract terms. The District will implement a process by which all documentation is provided and reconciles to the invoice prior to payment processing.



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Audit Results and Highlights of the Single Audit (Continued)



5. Follow-up on Prior Year Findings

- None.

6. Areas Brought to Management's Attention

- The management letter is to provide observations during the audit in areas where the internal control procedures can be strengthened.
- The comments were discussed with the individual departments who have agreed to our recommendations and provided management responses for improvements.



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Questions & Answers



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Thank You



Pension Funding – Background and Status

Finance & Administration Committee

April 16, 2025

Leonid Bak
Economist
Executive Office



Outline

- Define the Terms
- Air District's Pensions Funded Ratio
- Board of Directors (Board) Actions on Pension Stabilization – Timeline
- Background on Policy Options for Unfunded Retirement Liabilities
- Financial Performance: California Employers' Retirement Benefits Trust (**CERBT**)
- Financial Performance: California Employers' Pension Prefunding Trust (**CEPPT**), projected vs actual
- Financial Performance of the California Public Employees' Retirement Fund (**PERF**)
- Summary and Discussion

Define the Terms

California Public Employees' Retirement Fund (PERF)

Supplemental Pension Stabilization Fund – is a Trust organized under Section 115 of the Internal Revenue Code dedicated to prefunding employer contributions to defined benefit pension systems for eligible California public agencies.

Administered by California Employers' Pension Prefunding Trust (**CEPPT**)

Main Pension Fund

The Public Employees Retirement Fund (PERF) provides retirement benefits to State of California, schools and other California public agency employees. The PERF benefits are funded by member and employer contributions and by earnings on investments.

OPEB (Other PostEmployment Benefits) Fund – is a Trust organized under Section 115 of the Internal Revenue Code for California public agencies to jointly prefund future retiree Other Post-Employment Benefits (OPEB) benefits (such as health, vision, dental, and life insurance).

Administered by California Employers' Retirement Benefits Trust (**CERBT**)

Air District's Pension Funded Ratio

Pension Plan Funding Status/Policy

- CalPERS (Pension):**

- Obligation: \$424 M
- Funded: \$303 M
- Unfunded: \$121 M
- Prefund Trust: \$21 M*

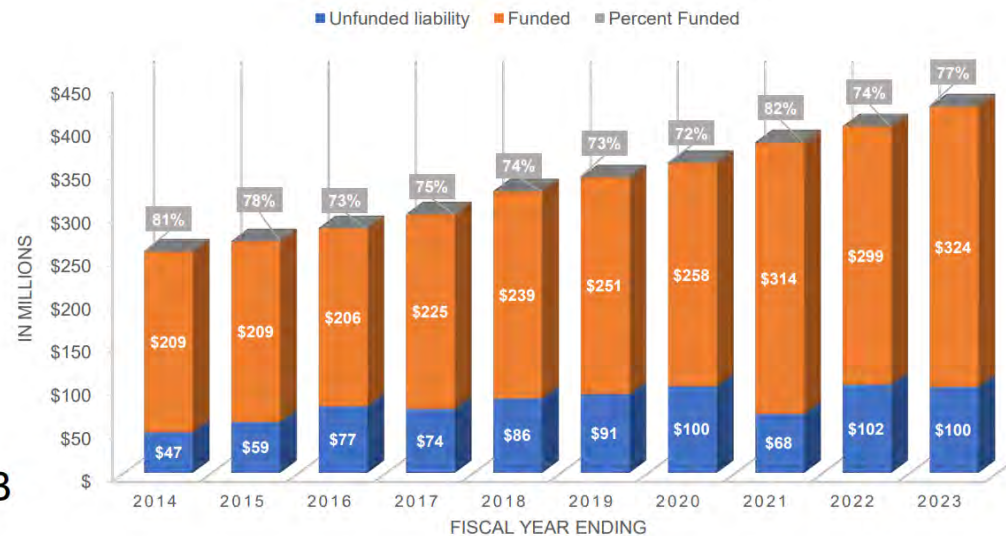
- Funding Policy: 90% Funded Level**

- Current Funding Level at 77%**
- \$1 M Annual Discretionary Funding
- \$4 M Redirect Discretionary Funding from OPEB

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

** includes investment in California Employers' Pension Prefunding Trust
Finance and Administration Committee, March 2025

CALPERS FUNDED STATUS



*** CEPPT ACCOUNT SUMMARY**

- Total contributions to the Trust from 2023 to date = \$20 M
- Total net investment earnings to date = \$1.4M

Funded ratio, as presented on 3/19/2025
Funded ratio will increase due to significantly better market returns in 2024, but may decline in 2025

CalPers: California Public Employees' Retirement System

Board Actions on Pensions Funding

Early 2000s:
Air District is
superfunded

2008: OPEB
funding
compliance –
choice of
CERBT

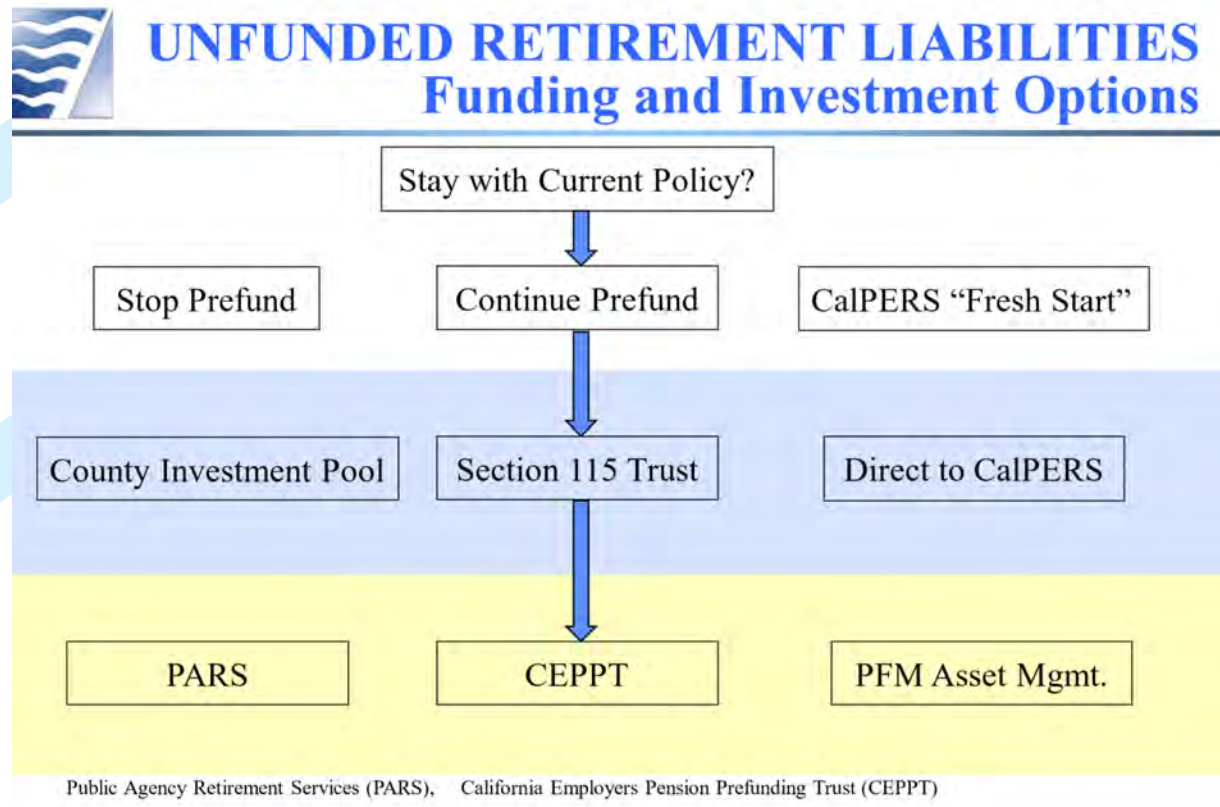
2019: Presentations
to Budget and
Finance
Committee and
Board with options
and
recommendations

2007-2009: The
Great Recession
– heavy losses in
the California
PERF; Air District
sees sizable
unfunded
liabilities

2018: Sought
independent
analysis to
address
pensions
unfunded
liabilities

2022: Started
contributing
to Board-
approved
CEPPT Fund

Background on Policy Options for Unfunded Retirement Liabilities - 2019



Budget and Finance Committee Meeting, November 2019

Based on independent analysis, staff solicited Board input on a range of policy options for 3 key areas:

1. Should the Air District continue prefunding for unfunded retirement liabilities?

If yes,


2. What is a choice instrument to prefund?

And,

3. What is a choice administrator to invest with?

Background on Policy Options for Unfunded Retirement Liabilities, cont.

Positives to establishing a Section 115 Trust:
+ **5% annual yield** vs. less than 1% for the SM County Treasury;
+ **Flexibility** over timing to shift to PERF;
+ **Air District control** over assets



**INVESTMENT OPTION 3:
Section 115 Trust (PRSP) Cont.**


PROS

- Irrevocable Trust that can only be used for Pension
- Air District controls assets, but only to pay the Air District's pension liabilities
- Higher yield investment strategies than County Pool
- Assets reduce or eliminate large fluctuations in employer contributions
- Less volatility than the Pension Fund

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Negatives to establishing a 115 Trust :

- **Uncertain** investment returns; and,
- **assets in 115 Trust** have to be in PERF to count against unfunded liabilities.



**INVESTMENT OPTION 3:
Section 115 Trust (PRSP) Cont.**

CONS

- Actual investment returns may deviate from initial projections
- Assets cannot reduce Pension UAL until placed in the Pension Fund

Based on the three Investment Options:

Staff recommends the Air District establish a Section 115 Trust for the additional pension contributions.

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Based on this analysis, the Board agreed to:

1. Establishing a **115 Trust**; and,
2. **Selecting CEPPT** as Administrator

Budget and Finance Committee Meeting, November 2019

Financial Performance: California Employers' Retiree Benefit Trust (CERBT)

CalPERS Prefunding Programs

CERBT Account Summary

As of March 21, 2025	Strategy 1
Initial contribution <small>(4/30/2008)</small>	\$2,800,000
Additional contributions	\$41,000,000
Disbursements	(\$0)
Investment earnings	\$41,645,462
CERBT expenses	(\$580,574)
Total assets	\$84,864,888
Money-weighted annualized net rate of return <small>(4/30/2008 – 3/24/2025 = 16.9 Years)</small>	6.90%

CERBT agreement effective date: 3/26/2008



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CERBT (OPEB) Summary

- Air District has contributed approximately \$43 million to CERBT
- Investment returned on that contribution is about \$42 million
- Annualized rate of return is 6.9%

CalPERS, CERBT & CEPPT Account Update, March 27, 2025



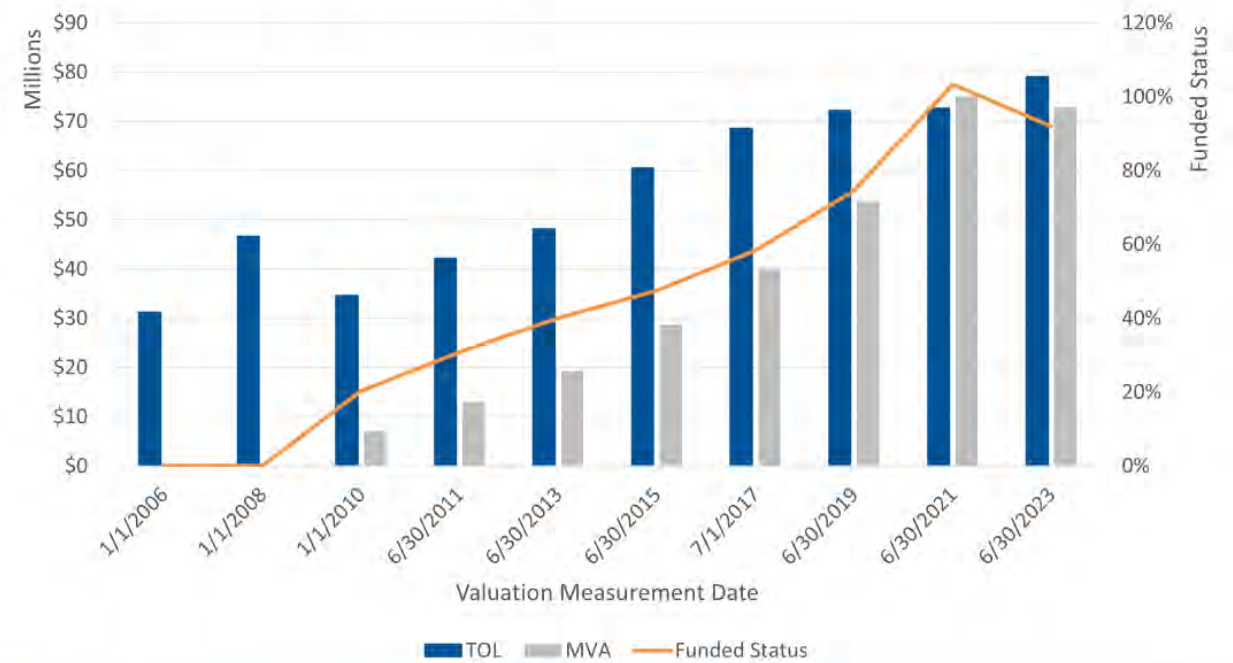
Financial Performance: California Employers' Retiree Benefit Trust (CERBT), cont.

CERBT (OPEB) Timeline

- 2008 - OPEB plan trust established
- Air District made payments of up to \$4 million in annual discretionary contributions until 2022
- April 2022 - OPEB plan is fully funded
- 2022 - Board redirects the \$4 million to pension plan into the Air District's CEPPT account

CalPERS Prefunding Programs

Funded Status Comparison



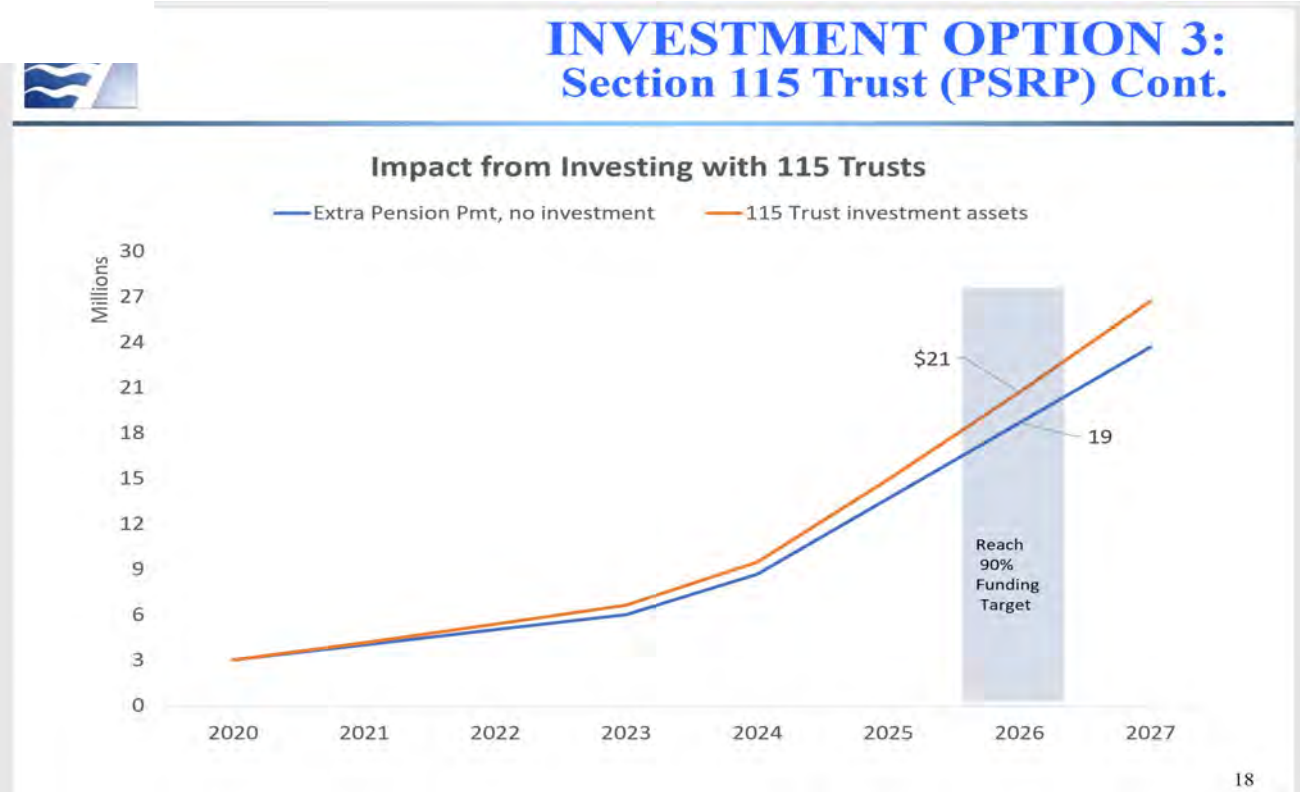
CalPERS, CERBT & CEPPT Account Update, March 27, 2025

Financial Performance: California Employers' Pension Prefunding Trust (CEPPT), Projected vs. Actual

Decision to prefund pensions liabilities in 2022 via a 115 Trust was based on:

1. *a positive experience with CERBT;*
2. *on projections of net gain of around \$2 million...*

... and the actual performance of CEPPT turned out to be right on target, just as projected!



Presentation to the Budget and Finance Committee, 11/19/2019

CalPERS Prefunding Programs

CEPPT Account Summary

	As of March 21, 2025	Strategy 2
Initial contribution <small>(12/28/2025)</small>		\$5,000,000
Additional contributions		\$15,000,000
Disbursements		(\$0)
Investment earnings		\$1,845,921
CEPPT expenses		(\$62,657)
Total assets		\$21,783,264
Money-weighted annualized net rate of return <small>(12/28/2022 - 3/21/2025 = 2.23 Years)</small>		7.04%

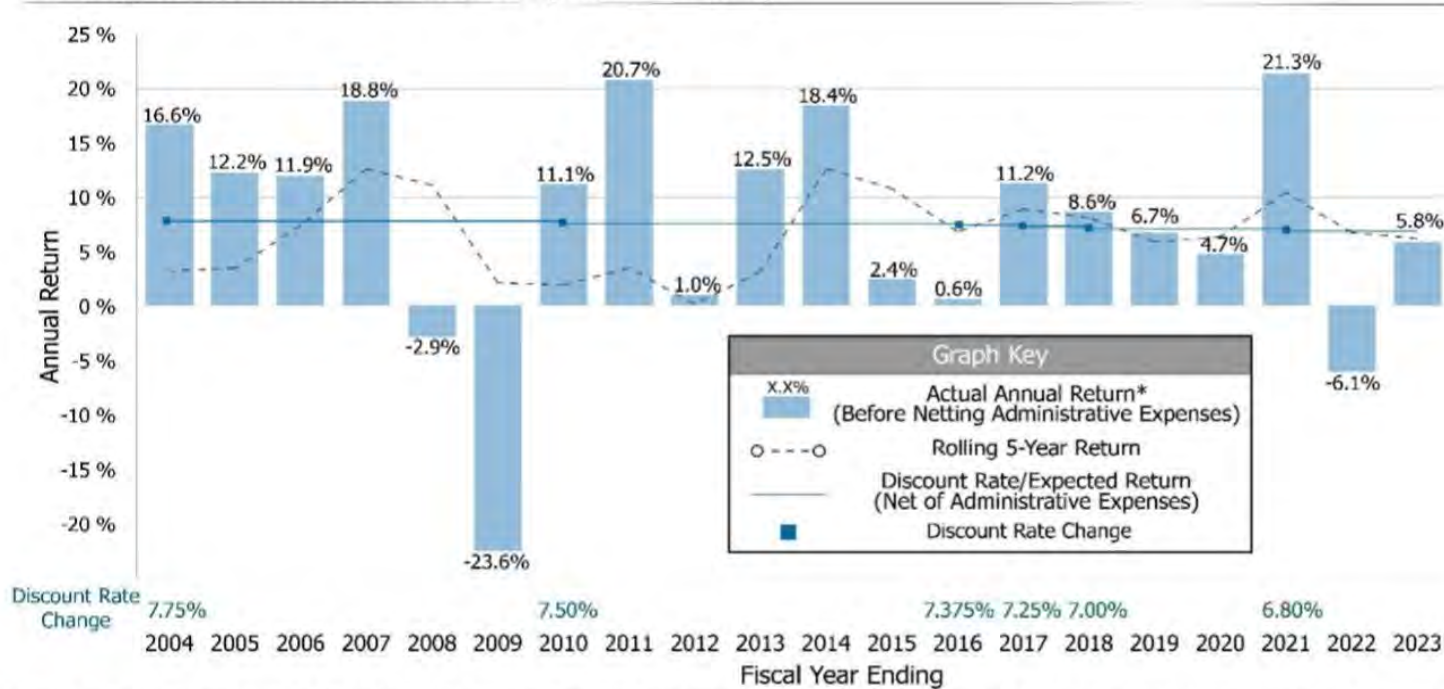
CEPPT agreement effective date: 8/2/2022



CalPERS, CERBT & CEPPT Account Update, March 27, 2025

Is Transferring a Lump Sum to the Public Employees Retirement Fund (PERF) Now a Good Option?

History of Investment Returns (2004 - 2023)



* As reported by the Investment Office with a 3-month lag on private equity and real assets and without any reduction for administrative expenses.

CalPERS, CERBT & CEPPT Account Update, March 27, 2025

12.0% per year based on the most recent Asset Liability Management study. The realized volatility is a measure of the risk of the portfolio expressed as the standard deviation of the fund's total monthly return distribution, expressed as an annual percentage. Due to their volatile nature, when looking at investment returns, it is more instructive to look at returns over longer time horizons.

History of CalPERS Compound Annual Rates of Return and Volatilities					
	1 year	5 year	10 year	20 year	30 year
Compound Annual Return	5.8%	6.1%	7.1%	7.0%	7.5%
Realized Volatility	-	9.5%	7.8%	8.4%	8.8%

- **CalPERS 10-year Performance** shows a compound annual return of **7.1%** (compared with the projected 10-year **5%** for our CEPPT 115 Trust return; and **3.9%** currently (varies, depending on interest rate) for SM Treasury

However, realized 10-year volatility for CalPERS is much higher than for CEPPT

- Potential losses in a bad markets year could make contributions meaningless, little to no impact on unfunded liabilities

Summary: Options to Reduce Unfunded Liabilities

Unfunded Pension Liability



San Mateo County Treasury

Additional Contributions and/or No change in current policy – Section 115 Trust - CEPPT

Transfer Lump Sum directly to CalPERS

- + **Air District's Reserves Account:** Reversible, use not exclusive to pensions
- + **Capital Preservation** Option: No/Low Risk
- - **Low/Very Low** Investment Return, generally between 1-3% p.a., depending on interest rates

- + **Grow** an asset
- + **Flexibility** to transfer any amount in down market
- + **Subsidize** to counter low market returns
- + **Dollar Cost Averaging:** transfer to PERF a fixed amount based on performance, e.g. for every \$5mil., transfer \$1 mil
- - **Lower** Investment Return than CalPERS, but lower volatility

- + **Higher Return**
- + **Choice of a Specific Liability** to Address
- - **Higher volatility** carries most risk for loss, leaving unfunded liability little changed

Discussion

Current Funding Policy, adopted in 2022:

Budget and pay the annual required pension payments to CalPERS

Continue \$1M annual discretionary contributions to the pension trust account

If applicable, redirect and invest up to \$4M annual discretionary contributions designated for OPEB to the pension trust account

Strive to maintain minimum 90% funding plan level

If CalPERS pension plan becomes 100% funded; redirect discretionary contributions at Board's discretion

In case of a fiscal hardship or pension is super funded, Board may elect to use the funds in the trust to pay required pension payments to CalPERS

Questions for Discussion:

1. Does the policy need revision?
2. Should prefunding be increased?
3. What would be an acceptable amount to prefund?
4. Which prefunding option?

Questions?

For more information:

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