

# Bay Area Air Quality Management District

## Budget & Finance Committee Meeting

January 25, 2017



**Gilbert Associates, Inc.**  
CPAs and Advisors

*Relax. We got this.<sup>SM</sup>*

# Contents

	Page
Overview of Audit Deliverables	3
I. Financial Statements	
II. Single Audit	
Communications with Those Charged With Governance	6

## AUDIT DELIVERABLES

---

### I. FINANCIAL STATEMENTS

The audited financial statements and the audit report provide information on all funds and activities under the control of the Board of Directors.

Pages 1-2     **The Independent Auditor's Report on Financial Statements**

The auditor's opinion tells you that we audited your financial statements in accordance with professional standards and that the financial statements and the related disclosures are fairly stated.

### **The Financial Statements**

Pages 3-12     **Management's Discussion and Analysis**

This narrative, written by District management, introduces the financial statements and provides an analytical overview of the District's financial performance for the year.

Pages 13-14     **Government-wide Statements**

The government-wide statements are designed to present the District's financial information from an overall perspective. In contrast to the fund-based statements which look only at the short-term, these statements look at the whole picture, both short and long-term, use a full accrual basis of accounting, and consolidate all funds into one statement.

The government-wide financial statements include:

- **Statement of Net Position**
- **Statement of Activities**

## AUDIT DELIVERABLES (Continued)

---

### I. FINANCIAL STATEMENTS (Continued)

#### Pages 15-18 **Fund-based Statements**

The fund-based statements use a current financial resources focus, which means that they measure whether events or transactions have changed the available resources in the short-term. These fund-based statements continue to be reported using the modified accrual basis of accounting.

#### Pages 19-40 **The Notes to the Financial Statements**

The notes to the financial statements explain the assumptions underlying the financial statements and provide additional information that is not available in the financial statements.

#### **Required Supplementary Information**

Page 41 Schedules of Funding Progress for OPEB

Page 42 Schedule of Changes to the District's Net Pension Liability and Related Ratios

Page 43 Schedule of the District's Contributions

Pages 44-45 Budget and Actual Comparisons

- General Fund
- Special Revenue Fund

#### **Supplementary Information**

Page 47 Transportation Fund for Clean Air (TFCA) Program, Mobile Source Incentive Program, Carl Moyer Program, & Other Programs - Schedule of Expenditures

## II. UNIFORM GUIDANCE AND TRANSPORTATION FUND FOR CLEAN AIR COMPLIANCE AUDIT REPORTS

Page 1      **Schedule of Expenditures of Federal Awards - \$5,544,615**

Page 2      **The Notes to the Schedule of Expenditures of Federal Awards**

The notes to the Schedule of Expenditures of Federal Awards (the Schedule) explain the assumptions underlying the Schedule and provide additional information that is not available in the Schedule.

Pages 3-7      **Auditor's Letters**

The various auditor's letters discuss the scope of the procedures we performed on the internal control structure and compliance with laws and regulations.

Pages 8-9      **Schedule of Audit Findings and Questioned Costs**

This section presents significant deficiencies and findings noted as a result of the audit.

- ⇒ Financial Statements: None
- ⇒ Federal Compliance: None
- ⇒ TFCA Compliance: None

Additionally, this section identifies the District's major federal programs.

Page 10      **Status of Prior Year Findings and Questioned Costs**

This page provides an update on significant deficiencies that were reported in the prior year's audit report.

- ⇒ No findings reported in prior year

# COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

We have audited the financial statements of the governmental activities and each major fund of the Bay Area Air Quality Management District (District) for the year ended June 30, 2016, and have issued our report thereon dated December 20, 2016. Professional standards require that we provide you with the following information related to our audit. We are providing the District's Budget and Finance Committee with information regarding the scope and results of the audit to assist the Committee in overseeing management's financial reporting and disclosure process. This information is intended solely for the use of the Board of Directors, Budget and Finance Committee, and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties. Below we summarize these required communications.

Area	Comments
<p><b>Auditors' Responsibilities under Generally Accepted Auditing Standards (GAAS), Government Auditing Standards, and Uniform Guidance.</b></p> <p>The financial statements are the responsibility of management. As stated in our engagement contract, our responsibility is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.</p> <p>In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Uniform Guidance.</p> <p>As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.</p> <p>Also in accordance with Uniform Guidance, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the OMB Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements</p> <p>.</p> <p>.</p>	<p>We issued unmodified opinions on the financial statements and on the <i>Government Auditing Standards</i> and Uniform Guidance (Single Audit) reports of the District for the year ended June 30, 2016.</p>

<b>Area</b>	<b>Comments</b>
<p><b>Planned Scope and Timing of the Audit</b></p>	<p>We performed the audit according to the planned scope and timing previously communicated to you in our Contract.</p>
<p><b>Difficulties Encountered in Performing the Audit</b></p>	<p>We encountered no significant difficulties in dealing with management in performing and completing our audit. Management and staff were well prepared and cooperative.</p>
<p><b>Disagreements with Management</b></p> <p>For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.</p>	<p>We are pleased to report that no such disagreements arose during the course of our audit.</p>
<p><b>Management Representations</b></p>	<p>We have requested certain representations from management that are included in their letter to us dated December 20, 2016.</p>
<p><b>Management Consultations with Other Independent Accountants</b></p> <p>In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.</p>	<p>To our knowledge, there were no such consultations with other accountants.</p>
<p><b>Significant Accounting Policies</b></p> <p>Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our Contract, we will advise management about the appropriateness of accounting policies and their application.</p>	<p>The significant accounting policies used by the District are described in Note 1 of the financial statements.</p> <p>As described in Note 1 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 72 during the fiscal year ending June 30, 2016. The implementation of GASB Statement 72 had no direct effect on the financial statements.</p> <p>We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.</p>

Area	Comments
<p><b>Management Judgments and Accounting Estimates</b></p> <p>Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and disclosures and because of the possibility that future events affecting them may differ significantly from those expected.</p>	<p>The most sensitive estimates affecting the District's financial statements were:</p> <ul style="list-style-type: none"> <li>• Management's estimate of the valuation of postretirement healthcare benefits expense and liabilities are based on actuarial projections.</li> <li>• Management's estimates of the useful lives of capital assets are based on historical experience and industry standards.</li> <li>• Management's estimate of the net pension liability and related deferred inflows and outflows of resources is based upon the District's CalPERS plan pension amounts as of the June 30, 2015 measurement date. CalPERS calculates the net pension liability by reducing the total pension liability (actuarially-determined by rolling-forward obligations from the June 30, 2014 actuarial valuation using standard update procedures) by the plan's fiduciary net position as of the measurement date.</li> </ul> <p>We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole. In addition, the related financial statement disclosures are neutral, consistent, and clear.</p>
<p><b>Corrected and Uncorrected Misstatements</b></p> <p>Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.</p>	<p>One passed-on journal entry detected as a result of our audit procedures was not recorded by management. Management, with our concurrence, has determined that the effect is immaterial to the financial statements taken as a whole.</p> <ul style="list-style-type: none"> <li>• The entry would decrease the General Fund's fund balance by \$132,236 to account for estimated claims liability loss reserves.</li> </ul>
<p><b>Other Audit Findings or Issues</b></p>	<p>We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention..</p>
<p><b>Required Supplementary Information</b></p> <p>Government Accounting Standards Board (GASB) requires certain supplementary information to accompany the District's basic financial statements to be in conformity with generally accepted accounting principles. Such information has been subjected to limited procedures such as inquiries of management about the methods of preparing the information and comparing the information for consistency with the basic financial statements, however, we do not express an opinion because of the limited nature of our procedures.</p>	<p>The following required supplementary information is required to accompany the District's basic financial statements and subjected to limited procedures, but no opinion has been expressed:</p> <ul style="list-style-type: none"> <li>• Management's Discussion and Analysis</li> <li>• Schedule of Funding Progress - OPEB</li> <li>• Schedule of Changes in the District's Net Pension Liability and Related Ratios</li> <li>• Schedule of the District's Contributions</li> <li>• Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund &amp; Special Revenue Fund</li> </ul>



<b>Area</b>	<b>Comments</b>
<p><b>Supplementary Information</b></p> <p>With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.</p>	<p>The supplementary information identified below is presented for purposes of additional analysis and is not a required part of the financial statements and in our opinion is fairly stated in all material respects in relation to the financial statements as a whole.</p> <ul style="list-style-type: none"> <li>• Transportation Fund for Clean Air (TFCA) Program, Mobile Source Incentive Program, Carl Moyer Program &amp; Other Programs – Schedule of Expenditures</li> </ul>



# Bay Area Air Quality Management District

---

BAY AREA  
AIR QUALITY  
MANAGEMENT  
DISTRICT

**Budget & Finance Committee Meeting**  
January 25, 2017

**Second Quarter Financial Report**  
**Fiscal Year Ending 2017**

**Stephanie Osaze**  
**Finance Manager**



# OVERVIEW

---

## **General Fund Reporting on 2nd Quarter financial results (July 1, 2016 – December 31, 2016):**

- Revenues
- Expenditures
- Investments
- General Fund Balance & Unfunded Liabilities
- Purchasing Report Requirements



# 2nd Quarter Results FYE 2017

## General Fund - Revenues

Major Categories	FYE 2017 Budget	FYE 2017 Actual (as of 12/31/2016)	Percentage of Budgeted Revenues
County receipts	\$26,869,727	\$9,368,886	35%
Permit Fees	\$33,489,586	\$23,338,734	70%
Title V Permit Fees	\$4,687,437	\$3,516,484	75%
Asbestos Fees	\$2,600,000	\$2,114,919	81%
Toxic Inventory Fees	\$392,953	\$220,884	56%
Penalties and Settlements	\$2,200,000	\$2,313,493	105%
Interest Revenue	\$200,000	\$117,230	59%
Miscellaneous Revenue	\$150,000	\$64,024	43%



# Revenue Comparison

## Prior Year vs. Current Year

Major Categories	FYE 2016 (As of 12/31/2015)	FYE 2017 (As of 12/31/2016)	\$ DIFFERENCE
County receipts	\$ 10,715,794	\$ 9,368,886	\$ (1,346,908)
Permit Fee receipts	\$ 24,271,513	\$ 23,338,734	\$ (932,779)
Title V Permit Fees	\$ 3,661,749	\$ 3,516,484	\$ (145,265)
Asbestos Fees	\$ 1,905,610	\$ 2,114,919	\$ 209,309
Toxic Inventory Fees	\$ 245,472	\$ 220,884	\$ (24,588)
Penalties and Settlements	\$ 5,082,455	\$ 2,313,493	\$ (2,768,962)
Interest Revenue	\$ 178,177	\$ 117,230	\$ (60,948)
Miscellaneous Revenue	\$ 54,867	\$ 64,024	\$ 9,157
<b>TOTAL REVENUES</b>	<b>\$ 46,115,638</b>	<b>\$ 41,054,654</b>	<b>\$ (5,060,983)</b>



# 2nd Quarter Results FYE 2017

## General Fund - Expenses

Major Categories	FY 2017 Budget	FYE 2017 Actual (as of 12/31/2016)	Percentage of Budgeted Expenditures
* Personnel - Salaries	\$ 37,229,701	\$ 18,031,742	48%
* Personnel - Fringe Benefits	\$ 19,342,599	\$ 10,556,796	55%
Operational Services and Supplies	\$ 21,538,490	\$ 8,415,521	39%
Capital Outlay	\$ 3,965,934	\$ 1,714,298	43%
<b>Total Expenditures</b>	<b>\$ 82,076,724</b>	<b>\$ 38,718,357</b>	<b>47%</b>
* Consolidated (Includes Special Funds)			



# Expenditure Comparison

## Prior Year vs. Current Year

<b>Major Categories</b>	<b>FYE 2016 (As of 12/31/2015)</b>	<b>FYE 2017 (As of 12/31/2016)</b>	<b>\$ DIFFERENCE</b>
*Personnel - Salaries	\$ 17,560,317	\$ 18,031,742	\$ 471,425
*Personnel - Fringe Benefits	\$ 10,340,740	\$ 10,556,796	\$ 216,056
Operational Services and Supplies	\$ 9,097,380	\$ 8,415,521	\$ (681,859)
Capital Outlay	\$ 4,339,071	\$ 1,714,298	\$ (2,624,773)
<b>TOTAL EXPENDITURES</b>	<b>\$ 41,337,509</b>	<b>\$ 38,718,357</b>	<b>\$ (2,619,151)</b>
*Consolidated includes Special Funds			



BAY AREA  
AIR QUALITY  
MANAGEMENT  
DISTRICT

## 2nd Quarter Results FYE 2017

<b>Cash and Investments with County Treasury:</b> ( Based on the Dec 2016 Account Balance)	
General Fund	\$63,975,487
TFCA	\$84,300,652
MSIF	\$34,418,112
Carl Moyer	\$6,232,847
CA Goods Movement	\$8,958,517
BikeShare	\$1,061,153
<b>TOTAL</b>	<b><u>\$198,946,769</u></b>





BAY AREA  
AIR QUALITY  
MANAGEMENT  
DISTRICT

# Fund Balance and Unfunded Liabilities

<b>FUND BALANCES</b>	<b>6/30/2015 Audited</b>	<b>6/30/2016 Audited</b>	<b>6/30/2017 Projected</b>
Reserve for Capital Equipment Contingency	1,000,000	1,360,000	860,000
Reserve for Economic Contingency	10,114,309	15,159,959	15,754,025
Reserve for IT-Desktop Equipment	500,000	-	-
Reserve for IT- Event Response	500,000	500,000	500,000
Reserve for Pension & Post Employment Liability	1,800,000	1,600,000	800,000
Reserve for Tech- Meteorological Network Equipment	417,100	417,100	417,100
Reserve for Tech- Mobile Monitoring Instruments	450,000	450,000	450,000
Reserve for GHG Abatement Technology Study	-	1,500,000	1,500,000
Reserve for Worker's Comp Self -Funding	1,000,000	1,000,000	1,000,000
Total Designated Reserves	\$ 15,781,409	\$ 21,987,059	\$ 21,281,125
Undesignated Fund Balance	15,122,475	13,366,286	13,366,286
<b>TOTAL RESERVES</b>	<b>\$ 30,903,884</b>	<b>\$ 35,353,345</b>	<b>\$ 34,647,411</b>
Building Proceeds	14,168,200	4,668,200	4,668,200
<b>TOTAL FUND BALANCE</b>	<b>\$ 45,072,084</b>	<b>\$ 40,021,545</b>	<b>\$ 39,315,611</b>
<b>UNFUNDED LIABILITIES (Based on 2015 Actuarial Valuation Report)</b>			
CalPERS Pension Retirement			59,242,771
Other Post Employment Benefits			32,954,000
<b>TOTAL UNFUNDED LIABILITIES</b>			<b>\$ 92,196,771</b>



# Purchasing Reporting Requirements

---

- **Section 4.3 of the Purchasing Procedures states:**

Recurring payments of routine business needs such as utilities, licenses, office supplies etc. that are more than **\$100,000** shall be presented in the Quarterly Financial Report.

- In an effort of full disclosure, list also includes benefit payments.



# FYE 2017 Vendor Payments

## **Cumulative Vendor Payments in Excess of \$100,000 without Board Review**

	<b>VENDOR NAME</b>	<b>AMOUNT PAID (July-Dec 2016)</b>	<b>Explanation</b>
1	Alliant Insurance Services	\$434,067	Various Business Insurance Policies
2	Benefits Coordinators Corp.	\$430,708	Life Insurance Plan & LTD Insurance
3	CA Public Employee Retirement	\$2,385,929	Health Insurance Plan
4	CA Public Employee Retirement	\$6,017,400	Retirement Benefits & 457 Supplemental Plan
5	CAPCOA	\$643,742	Pass through EPA grants
6	Cubic Transportations Systems	\$205,582	Clipper Transit Subsidy
7	Employee Benefit Specialists	\$177,831	Medical & Dependent Care Flexible Spending Plan
8	Enterprise Fleet Services	\$264,658	Fleet Leasing and Maintenance services
9	Hartford Life Ins Co.	\$291,006	457 Supplemental Insurance
10	Preferred Benefit Insurance AD	\$333,295	Dental Insurance Plan



BAY AREA  
AIR QUALITY  
MANAGEMENT  
DISTRICT

# Overview of Current Fiscal Year Ending 2017

## Budget and Finance Committee

### January 25, 2017

3 7 5 B E A L E S T R E E T

**Jeff McKay**  
**Deputy Air Pollution Control Officer**

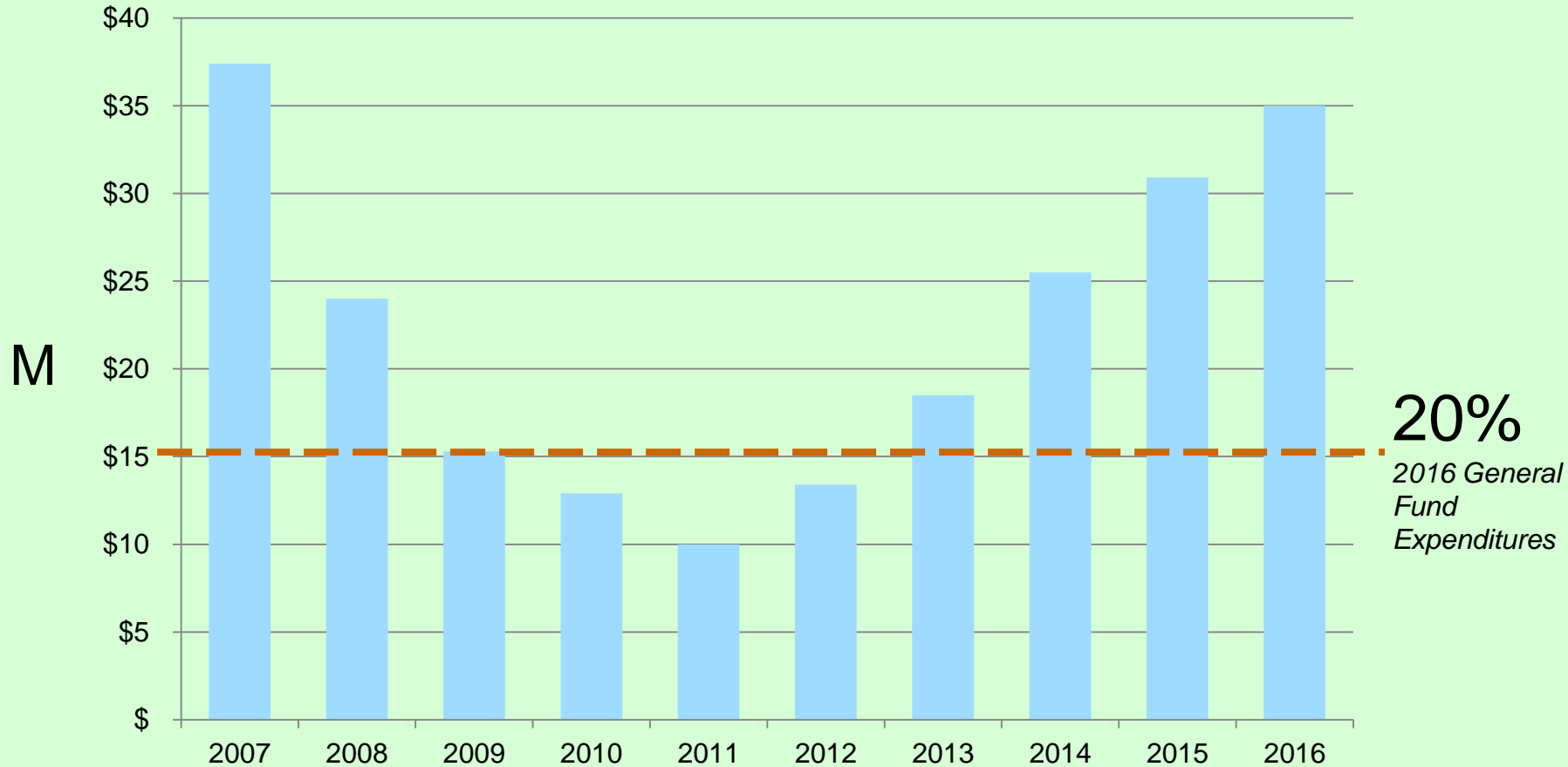
WELCOME  
AIR QUALITY  
MANAGEMENT DISTRICT

ASSOCIATION OF BAY AREA GOVERNMENTS  
AIR QUALITY MANAGEMENT DISTRICT  
AIR POLLUTION CONTROL COMMISSION

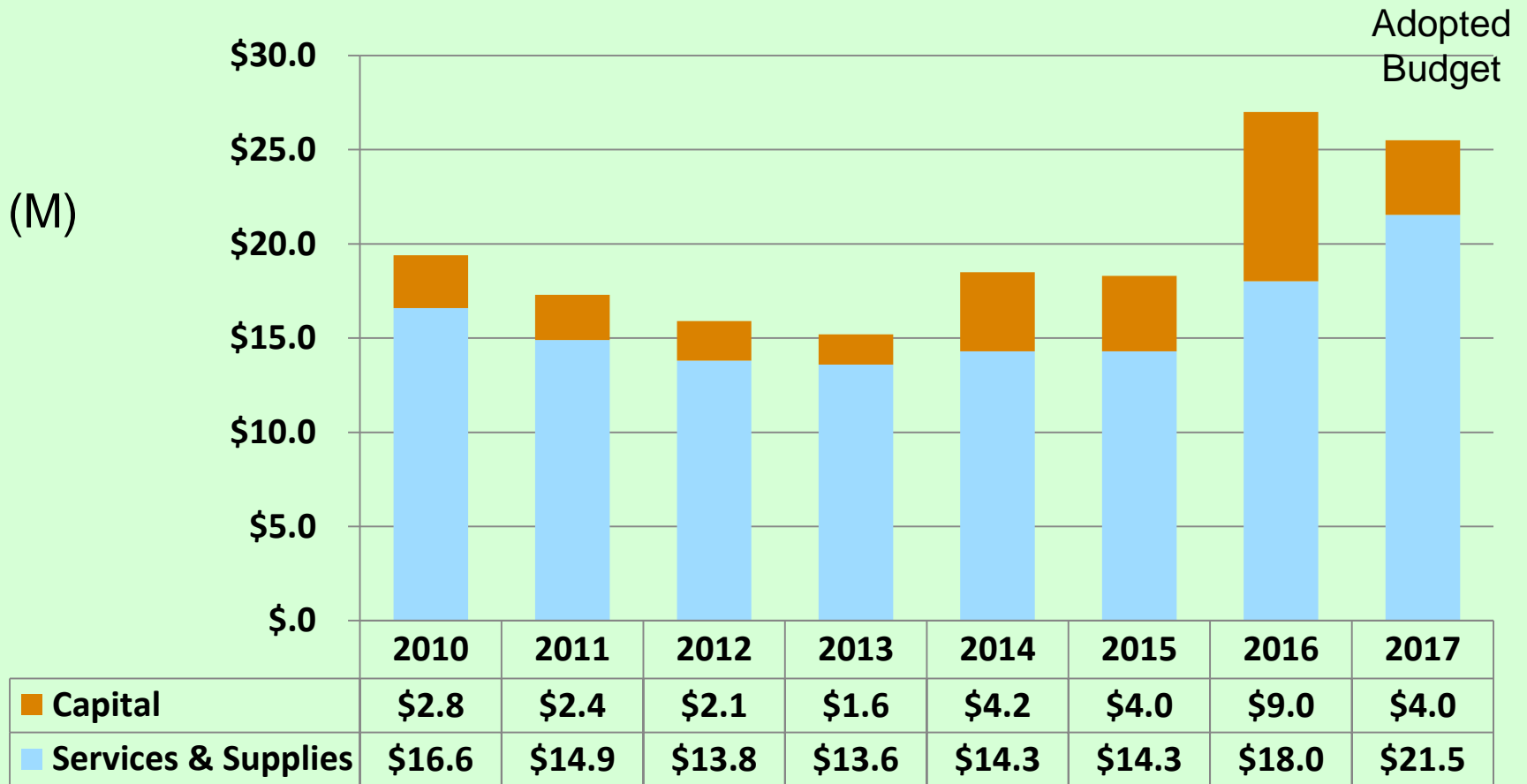
# OUTLINE

- Recent Financial History
- Topics for the FYE 2018 Budget Process

# RECENT FINANCIAL HISTORY DISTRICT RESERVE FUNDS – AUDITED VALUES



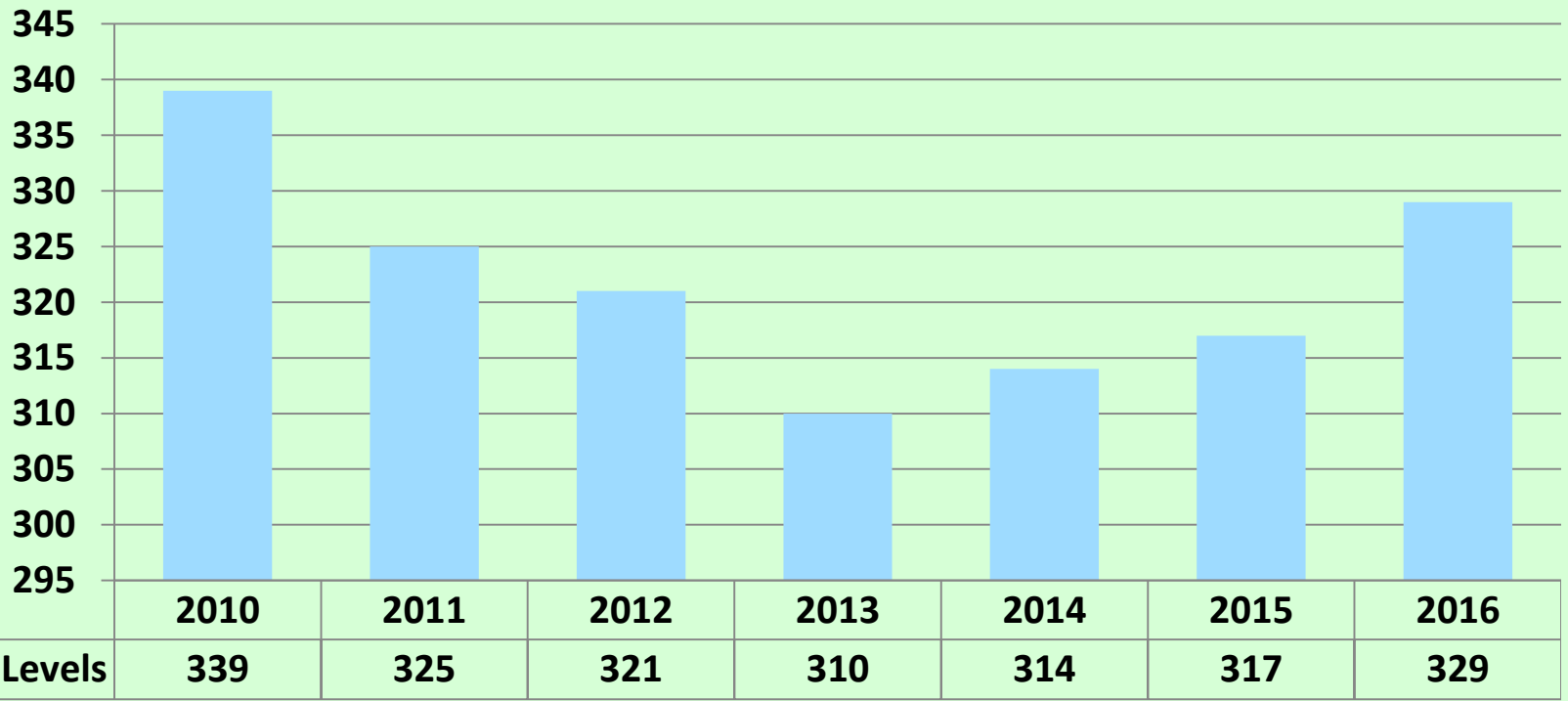
# RECENT FINANCIAL HISTORY ACTUAL EXPENDITURE TRENDS



# RECENT FINANCIAL HISTORY CURRENT VACANCY RATE & STAFFING TREND

As of December 2016

Budgeted Positions	Vacancies	Percentage
347	21	6%





# RECENT FINANCIAL HISTORY ACTIONS TAKEN DURING DOWNTURN

- Reserves Used for General Fund Expenditures
- Vacancies Unfilled (Staff Reduction Through Attrition)
- Postponed Expenditures
- Deferred Capital Investment
- Initiated Cost Recovery Policy
- Continued Funding of Retirement Liabilities

# FYE 2018: PREVIEW OF TOPICS FOR THE BUDGET PROCESS

## FYE 2018 BUDGET TOPICS

# FYE 2018 BUDGET TOPICS HIGHLIGHTS

- Fill Needed Vacant Positions
- Continued Efforts to Reach Cost Recovery
- Unfunded Liabilities
- Capital Costs of new and enhanced programs
- MOU expires June 2017
- Cost of Living Increase (2.7%)

# FYE 2018 BUDGET TOPICS

## UNFUNDED LIABILITIES

### Prefunding CalPERS Retirement

- **CalPERS Retirement:**
  - \$269M Obligation: 78% Funded
- **Funding Policy:** 90% Funding Level
  - No Target Date
  - FYE 2017 Pre-fund: \$280K

# FYE 2018 BUDGET TOPICS

## CALPERS: DISCOUNT RATE

- **2016 Rate of Return: 0.6%**
  - Lower Discount Rate to 7% over 3 years

FY17/18: 7.375%

FY18/19: 7.25%

FY19/20: 7.00%

# FYE 2018 BUDGET TOPICS

## CALPERS CONTRIBUTION RATE

- **Change in Method for Employer Rate**

- Beginning FY2017-18

1. Employer Normal Cost Rate = 6.918%

2. Employer Payment of Unfunded Liability = \$3,914,124

- **Employee Rate:**

- Classic = 7.0%    PEPRA= 5.5%

# FYE 2018 BUDGET TOPICS

## CONTRIBUTION RATE HISTORY

Fiscal Year	Employer Paid	Employee Paid (Classic)	Employee Paid (PEPRA) Effective 1/1/2013
2006	17.72%	0.0%	0.00%
2007	16.77%	0.0%	0.00%
2008	17.11%	0.0%	0.00%
2009	16.72%	0.0%	0.00%
2010	16.15%	0.0%	0.00%
2011	16.16%	0.0%	0.00%
2012	16.03%	2.0%	0.00%
2013	13.97%	4.5%	6.25%
2014	11.98%	7.0%	6.25%
2015	13.12%	7.0%	6.25%
2016	14.75%	7.0%	6.25%
2017	16.06%	7.0%	5.50%
<b>2018*</b>	<b>6.92%</b>	<b>7.0%</b>	<b>5.50%</b>

\*Additional \$3.9M Employer Payment of Unfunded Liability

# FYE 2018 BUDGET TOPICS

## UNFUNDED OPEB LIABILITIES

- **OPEB Medical**

- \$62M Obligation: 47% Funded

- **Funding Policy: 90% Funding Level**

- No Target Date

- FYE 2017 Pre-fund: \$3M



# FYE 2018 BUDGET TOPICS

## SELECTED POSSIBLE DEMANDS ON RESERVE FUNDS

- Future Use in Economic Downturn
- Unfunded Liabilities
- Technology Implementation Office
- Temporary Staff in Engineering
- Records Management System
- Wood smoke Incentives
- Climate Grants

# FYE 2018 BUDGET TOPICS

## FUND BALANCE DIVERSIFICATION

- **Independent Review & Recommendations for General Fund Balance: **March 2017****
  - Review Asset Allocation based on best practice

# FYE 2018 BUDGET TOPICS

## COST RECOVERY

- Cost Recovery Policy implemented in FYE 2013
  - Projected 6.4% annual fee increase
  - Regulated community gains predictable fees
  - Update Cost Recovery Study (TBD)

# FYE 2018 BUDGET TOPICS

## NEW OFFICE BUILDING OBLIGATIONS

- 375 Beale Street projected acquisition date:  
**First Quarter 2017**
  - Contribution of \$9M; reducing obligation to \$21M
  - Possible subsequent purchase - \$4M for 10,000 sq. ft.

# FYE 2018 BUDGET TOPICS NEXT STEPS

- **March 15** – Board Refers Budget to the Committee
- **March 22** – Committee receives Proposed Budget & Proposed Fee Presentation
- **April 26** – Committee refers Budget Recommendations to the Board