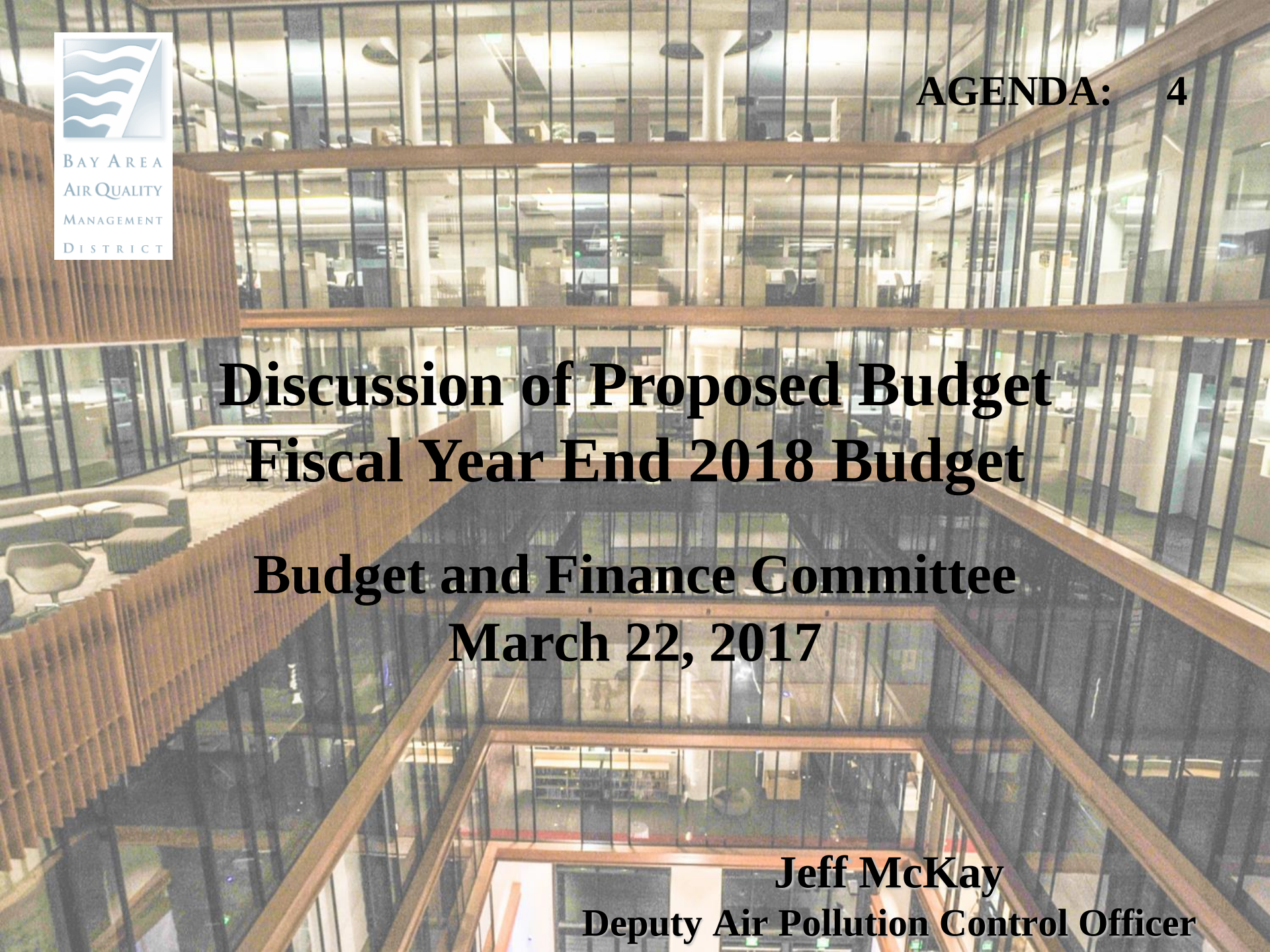


AGENDA: 4

Discussion of Proposed Budget
Fiscal Year End 2018 Budget

Budget and Finance Committee
March 22, 2017

Jeff McKay
Deputy Air Pollution Control Officer

OUTLINE

- Status of Current Year (FYE 2017)
- Proposed Budget for Fiscal Year (FYE 2018)
- Reserves and Unfunded Liabilities Strategies
- Next Steps

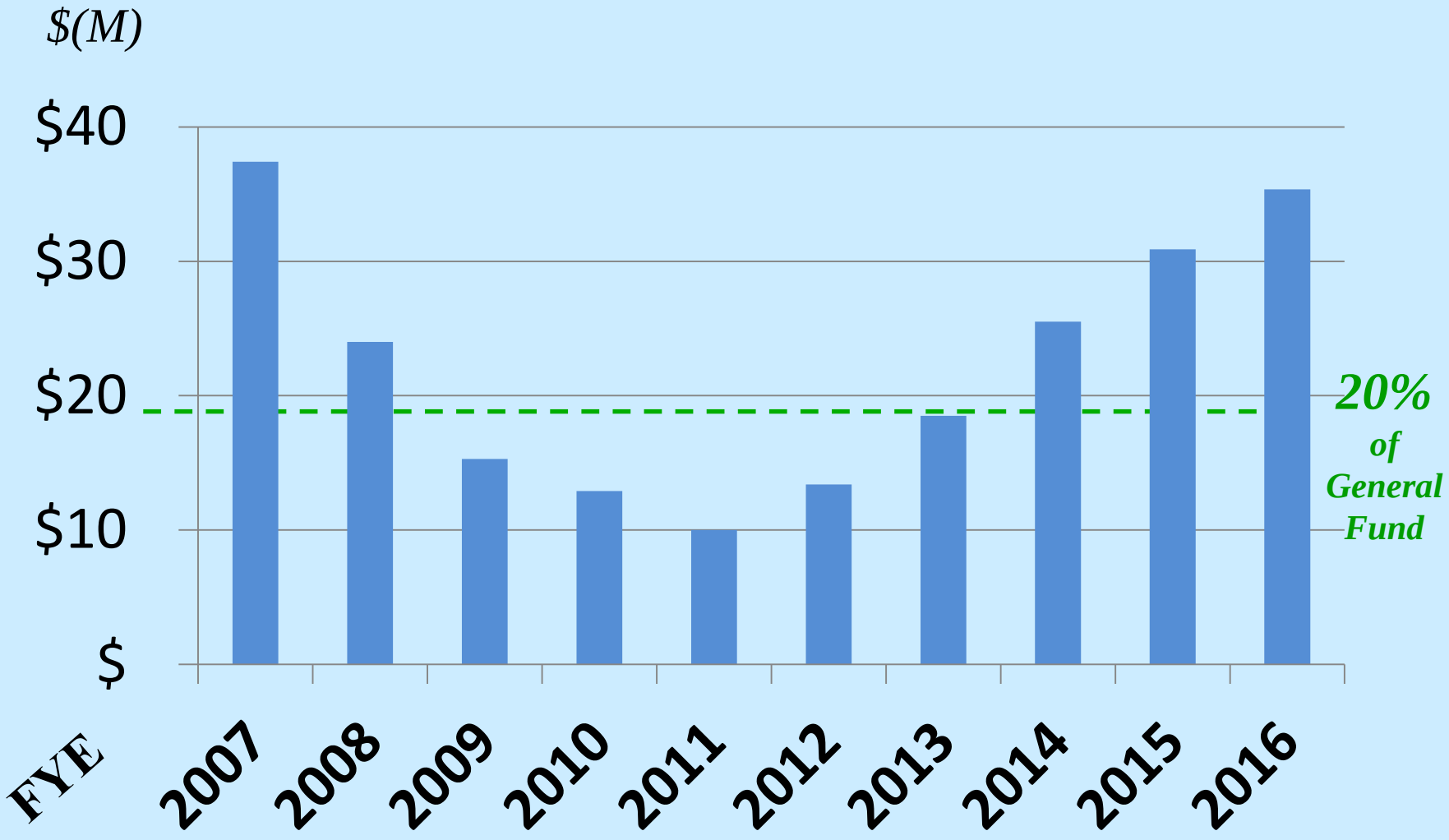
CURRENT FISCAL YEAR PROJECTIONS FYE 2017

General Fund Budget: $78 M Budget

As of March 2017:

- Permit Fee revenue on target
- Property Tax revenue slightly higher than projected
- Expenditures on target

DISTRICT RESERVE FUNDS
Audited Values Excluding Building Proceeds



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

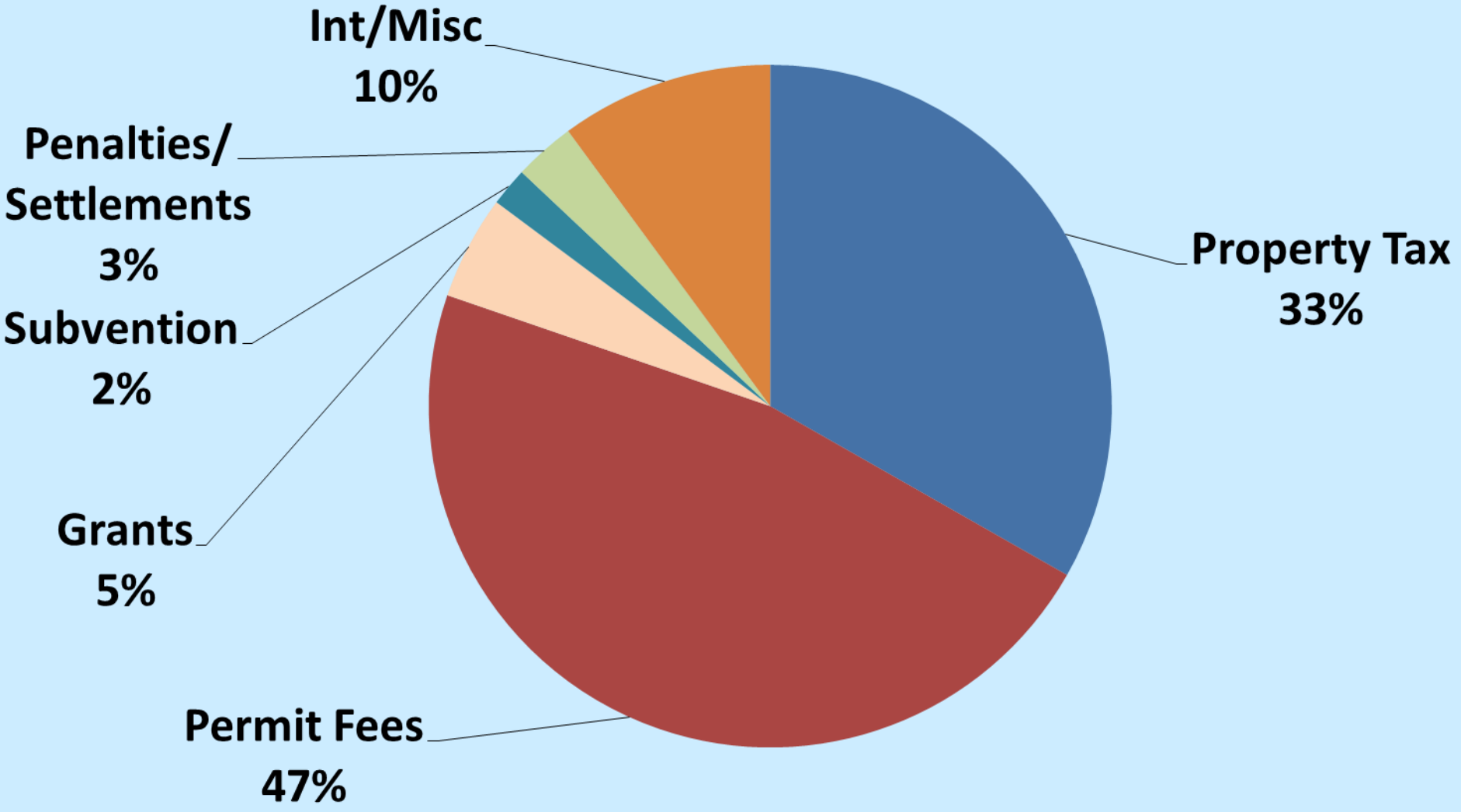
NEXT FISCAL YEAR BUDGET

FYE 2018 PROPOSED BUDGET

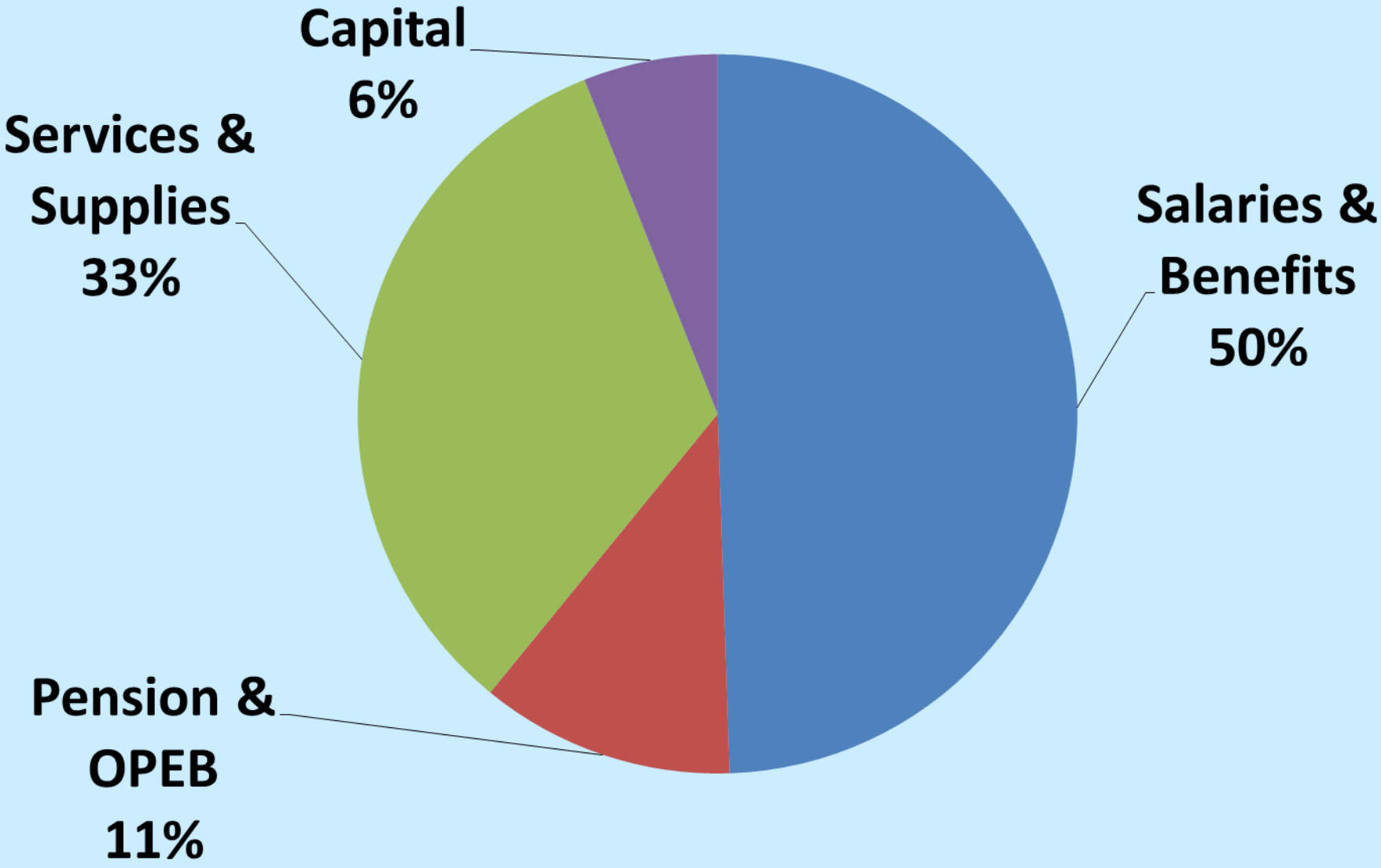
OVERVIEW
Proposed Budget for FYE 2018

- $94.8 M General Fund Budget
- Use of Reserves $7.9 M
- Incorporates Cost Recovery Policy
- Staff Level: From 347 to 359 FTE
- Addresses Retirement Liabilities
- Includes 2.7% COLA *(pending negotiations)*

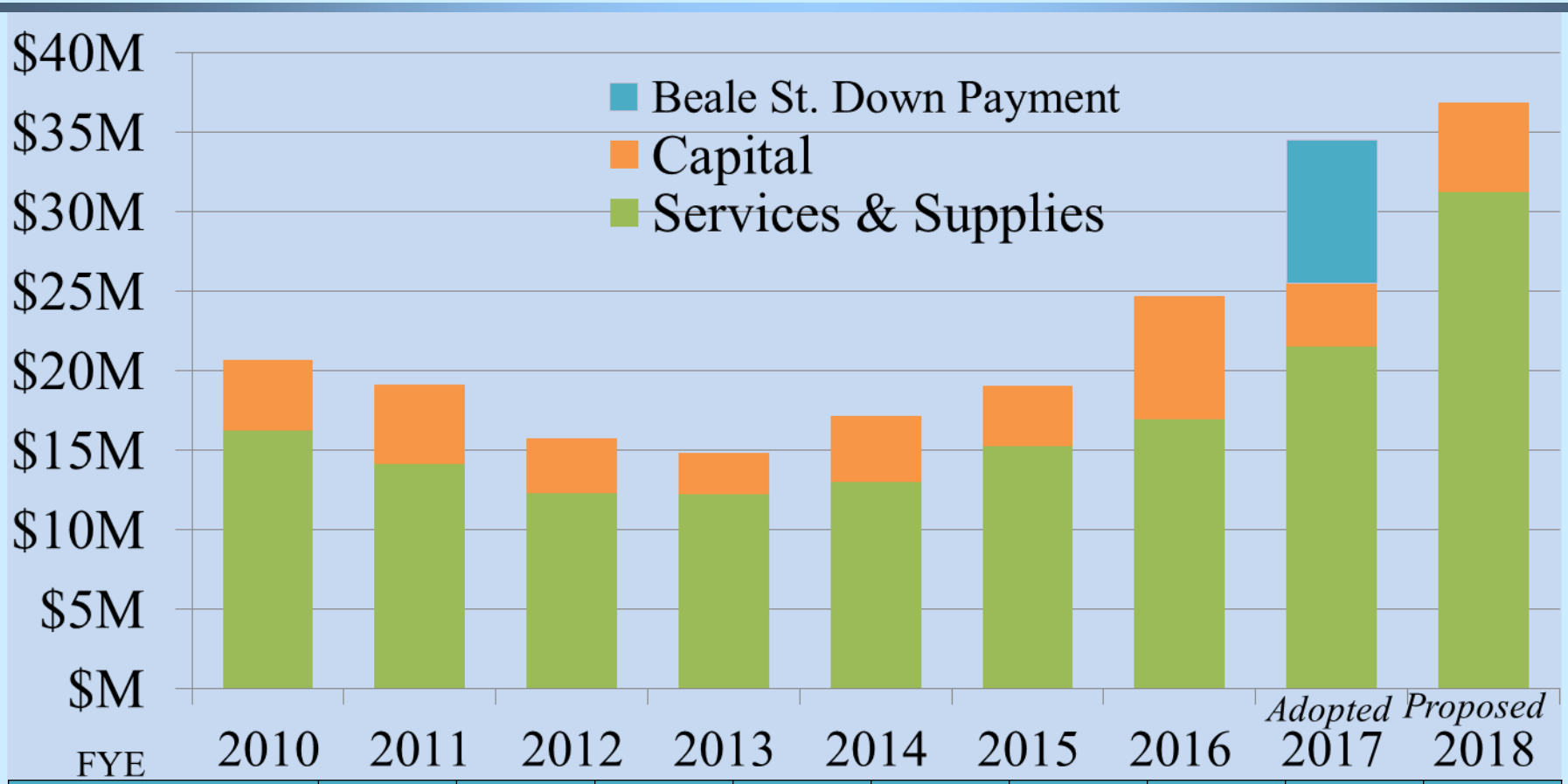
GENERAL FUND REVENUE SOURCES
(FYE 2018 Proposed Budget)



GENERAL FUND EXPENDITURES
(FYE 2018 Proposed Budget)



SERVICES & SUPPLIES and CAPITAL (actuals)



Beale St.								$9.0	
Capital	$4.5	$5.0	$3.4	$2.6	$4.2	$3.8	$7.8	$4.0	$5.7
Svs & Supplies	$16.2	$14.1	$12.3	$12.3	$13.0	$15.3	$16.9	$21.5	$31.2
Total	**$20.7**	**$19.1**	**$15.7**	**$14.8**	**$17.2**	**$19.0**	**$24.7**	**$34.5**	**$36.9**

FYE 2018 PROPOSED FEES

- Sixth year of Cost Recovery Policy
- Average 6.4% Fee increase in FYE 2018 budget
- New Proposed Fee for Reg. 11-18
- Strong involvement by Regulated Community

FYE 2018 FTE STAFFING LEVEL

FYE 2017 Budgeted Positions	347
FYE 2018 Recommended Positions	12
Total Budgeted Positions	359

ADDITIONAL STAFFING

- 12 Positions
  - Communication (1)
  - Enforcement (1)
  - Engineering (3)
  - Executive (2)
  - Information Services (1)
  - Rule Development (2)
  - Planning and Climate (2)

NEW RESERVE DESIGNATIONS

- $3.4 M Technology Implementation Office
- $1.0 M Wood smoke Grants
- $500 K Litigation
- $150 K Wood chipping
- $100 K Workforce Development and Diversity

TECHNOLOGY IMPLEMENTATION OFFICE

- Establish the Air District as a catalyst for innovation in the field of greenhouse gas emissions reduction:
  - ***zero emissions vehicles and smart/connected*** technologies; and
  - ***zero emissions energy generation and efficiency*** technologies
- Request funds from reserves to establish five year revolving loan fund
- Seek matching funding from private industry

FYE 2018 USE OF RESERVES

Use of Reserves of $7,850,000: Multi-year expenditures

- $4.5 M Implementation of Clean Air Plan
- $1.7 M Meteorology Equipment
- $1.0 M Permit Processing & Health Risk Assessment
- $650 K Technology Implementation Office

CLEAN AIR PLAN IMPLEMENTATION

- Implement Clean Air Plan control measures through grant program supporting local GHG reduction strategies
- Build on prior climate grant programs:
  - Planning & innovation grants to local governments & non-profits (2007)
  - Renewable energy/energy efficiency deployment on public buildings near Conoco Phillips refinery (2009)
- Focus on innovation, replicability, co-benefits and leadership
- Desired outcomes include:
  - Accelerated implementation of local climate action plans
  - Investments in disproportionately impacted communities
  - Leveraging efforts of key partners (business, community groups, regional agencies, etc.)
- Seek $4.5 M from reserves to establish the grant program

$1.7 M METEOROLOGY EQUIPMENT

Meteorology Equipment **$1.7 M**

- Ten (10) Telescoping Meteorological Towers
- Two (2) Thermo Scientific 146i Gas Calibrators
- Ten (10) Thermo Scientific 49i Ozone Analyzers
- Two (2) Thermo Scientific 42i Nitrogen Oxide Analyzers
- One (1) Thermo Scientific 48i TLE Carbon Monoxide Analyzer
- Five (5) Community Monitoring Instrument & Infrastructures
- Two (2) Gas Chromatograph Analytical Instruments
- One (1) Construction & Support Equipment
- One (1) Vehicle Replacement

RESERVES POLICY

- Reserves Policy: **20%** of General Fund Budget
  - FYE 2018 Budget of $87 M => **$17 M minimum** (excludes $7.8 M use of fund balance)
  - 2018 Projected Reserves = **$31 M** (includes remaining Building Sale proceeds)

FUND BALANCE & UNFUNDED LIABILITY

FUND BALANCE	6/30/2016 Audited	6/30/2017 Projected	6/30/2018 Projected
DESIGNATED: *			
Economic Contingency	16,519,959	16,614,025	17,390,311
IT- Event Response	500,000	500,000	500,000
Litigation	-	-	500,000
Pension & Post Employment Liability	1,600,000	800,000	440,000
Technology Implementation Office	-	-	3,350,000
Tech- Meterological Network Equipment	417,100	417,100	417,100
Tech- Mobile Monitoring Instruments	450,000	450,000	450,000
GHG Abatement Technology Study	1,500,000	1,500,000	1,500,000
Woodchip Program	-	-	150,000
Woodsmoke Grants	-	-	1,000,000
Workforce Development & Diversity	-	-	100,000
Worker's Comp Self -Funding	1,000,000	1,000,000	1,000,000
TOTAL DESIGNATED	$21,987,059	$21,281,125	$26,797,411
UNDESIGNATED	13,366,286	13,366,286	7,850,000
Use of Fund Balance	-	-	(7,850,000)
TOTAL UNDESIGNATED	$13,366,286	$13,366,286	$0
TOTAL DESIGNATED & UNDESIGNATED	**$35,353,345**	**$34,647,411**	**$26,797,411**
BUILDING PROCEEDS:	4,668,200	4,668,200	4,668,200
TOTAL FUND BALANCE	**$40,021,545**	**$39,315,611**	**$31,465,611**
UNFUNDED LIABILITIES (Based on 2015 Actuarial Valuation Report)			
CalPERS Pension Retirement			59,242,771
Other Post Employment Benefits			32,954,000
TOTAL UNFUNDED LIABILITIES			**$92,196,771**

* *Designated Fund Balances are subject to change at Board's discretion.*

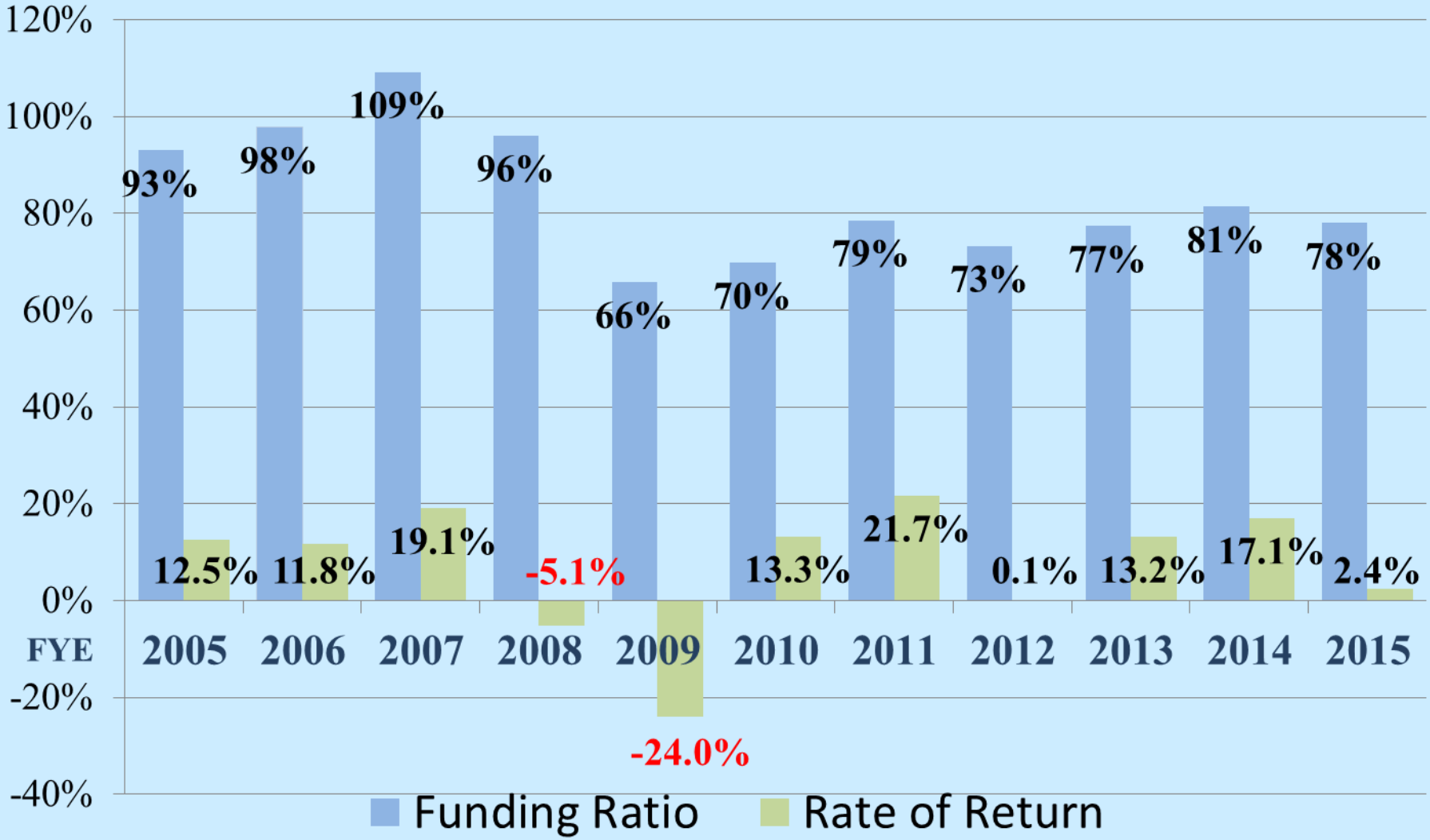
UNFUNDED LIABILITIES

CALPERS PENSION RETIREMENT

CALPERS PENSION
Overview

- CalPERS Retirement (6/30/15 Valuation)
  - $269 M Obligation – 78% Funded
  - $59 M Unfunded
- Funding Policy: 90%
  - No Target Date
  - FYE 2018 Pre-fund: **$1 M**

CALPERS PENSION
Funding Ratio & Rate of Return



CALPERS PENSION
Change In Rate Of Return

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

    FY17/18: 7.375%

    FY18/19: 7.25%

    FY19/20: 7.00%
- **Projected Employer Contribution Rates to increase from 18% to 31% over 5 years**

CALPERS PENSION

Estimated Impact To Rate Of Return

Revised Discount Rates (ROR)	7.375%	7.25%	7.00%	7.00%	7.00%
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
NC Rate	6.918%	**7.4%**	**7.9%**	**8.9%**	8.9%	8.9%
NC - New	$ 2,424,000	$ 2,677,000	$ 2,943,000	$ 3,414,000	$ 3,516,000	$ 3,622,000
UAL Factor	1.00	**1.025**	**1.050**	**1.125**	**1.175**	**1.225**
UAL - New	$ 3,914,000	$ 4,995,000	$ 6,180,000	$ 7,274,000	$ 8,374,000	$ 9,340,000
TOTAL - New	**$ 6,338,000**	**$ 7,672,000**	**$ 9,123,000**	**$ 10,688,000**	**$ 11,890,000**	**$ 12,962,000**
Increase in cost	**0.0%**	**4.1%**	**7.9%**	**17.3%**	**20.7%**	**24.2%**
Revised "Rate"	**18.1%**	**21.3%**	**24.5%**	**27.9%**	**30.2%**	**31.9%**

NC = Normal Cost UAL = Unfunded Actuarial Liability

Note: These are ballpark estimates of the impact of the changes in the Discount Rate.

Full updated projections for your agency will be provided in the Valuation Report at 6/30/16 to be distributed July, 2017.

CALPERS PENSION

Possible Strategy To Address Impact

- Establish Pension Trust Fund through Public Agency Retirement Services (PARS)
- Prefund Pension through Pension Rate Stabilization Trust Fund to smooth rate volatility impacts
- FYE 2018 Proposed Funding: **$1 M**

CALPERS PENSION
Who Is PARS?

- **PARS:** leader in retirement programs for public agencies (30 years)
  - More than 250 OPEB/Pension Trust Clients
  - 2015 established Pension Rate Stabilization Program to enable public agencies to pre-fund retirement obligations
  - Set aside funds to mitigate long-term contribution rate volatility
  - Funds can be assessed at any time to offset contribution rate increase

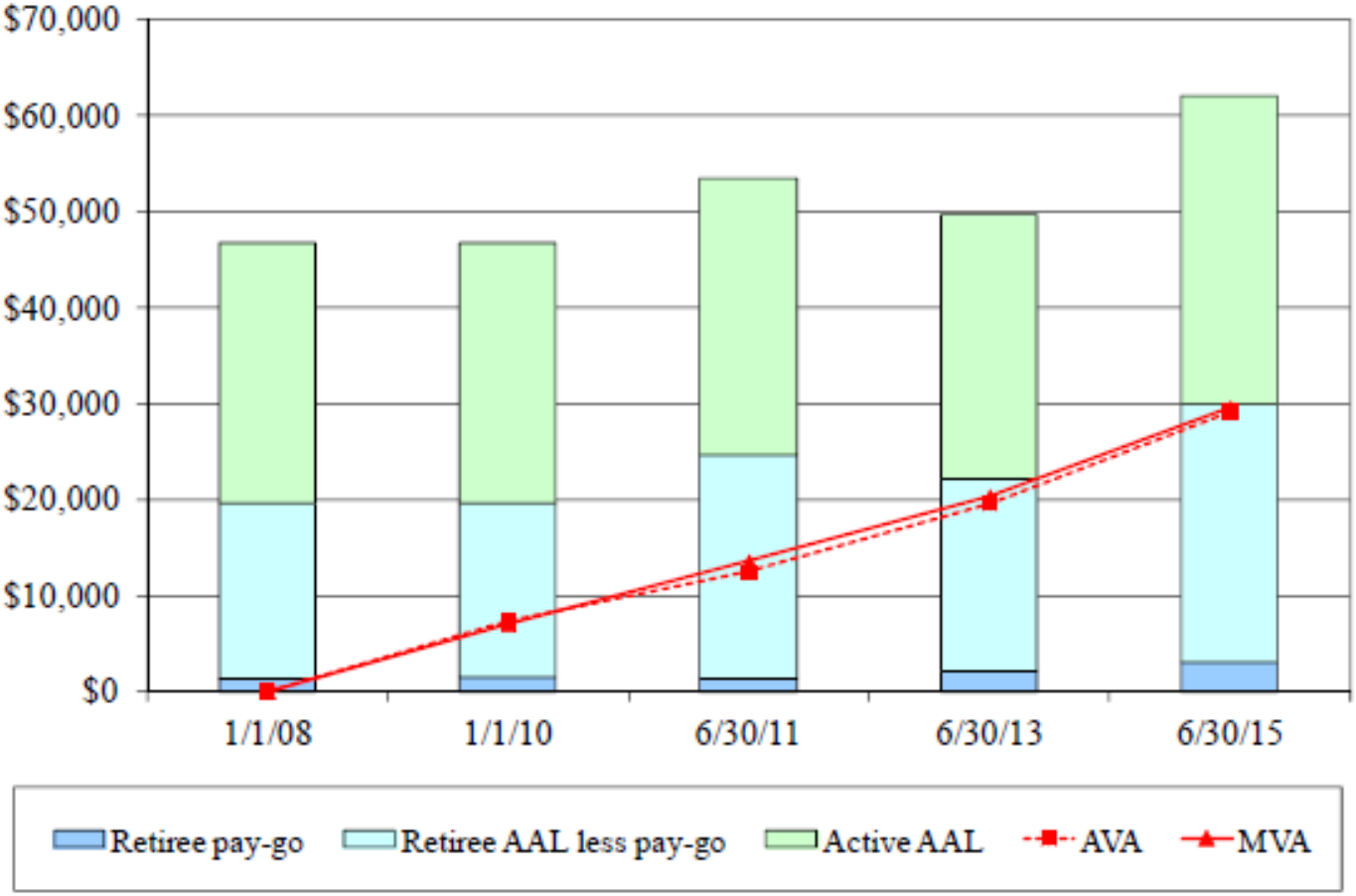
CALPERS PENSION
Possible Trust Implementation Steps

- **Board Approval of Pension Trust by Resolution**
  - **April 26:** Recommendation of Resolution to the Board
  - **May 3:** Board considers approval of Resolution
  - **June 21:** Approval of funds to the Trust Fund (as a part of the Budget Adoption)

UNFUNDED LIABILITIES

OTHER POST RETIREMENT BENEFITS (OPEB)

OPEB
RETIREMENT MEDICAL



OPEB OVERVIEW

- OPEB Medical (6/30/15 Valuation)
  - $62 M Obligation – 47% Funded
  - $33 M Unfunded
- Funding Policy: 90% Funding Level
  - No Target Date
  - FYE 2018 Proposed Pre-Fund: **$4 M**
  - Consider diversifying investment with PARS

OFFICE BUILDING OBLIGATIONS

- 375 Beale projected Acquisition date: **April 2017**
  - Contribution of $9 M; reducing obligation to $21 M
  - Monthly Mortgage Payment (COP) is $100,000
  - Condominium Expenses
- Possible Subsequent purchase: $4 M for 10,000 sq. ft.

BUDGET SUMMARY
FYE 2018

- Budget balanced
- Use of Reserves of $7.9 M
- Budgeted positions increased to 359
- Other Post-Employment Benefits (OPEB):
  - Contribution increased to $4 M
- CalPERS Pension Pre-funding
  - Contribution of $1M (to PARS Pension Trust?)

NEXT STEPS

- April 19 – 1st Public Hearing on Proposed Fees
- April 26 – Committee refers FYE 2018 Proposed Budget to the Board
- May 17 – 1St Public Hearing on Budget
- June 21– 2nd Public Hearing & Adoption on Proposed Fees & Budget

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

AGENDA: 5

Proposed Amendments to Regulation 3, Fees

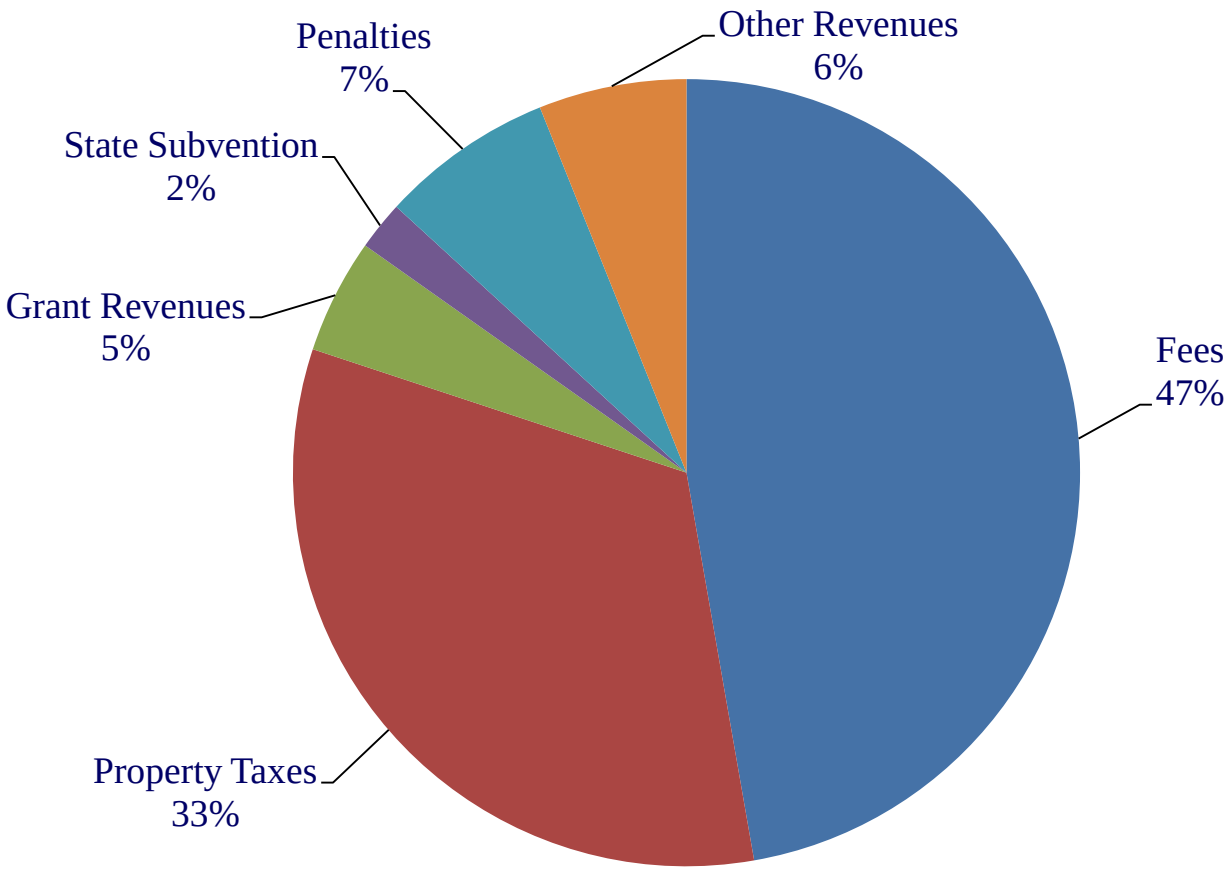
Budget & Finance Committee
March 22, 2017

Jaime Williams
Director of Engineering

Presentation Outline

1. Cost Recovery Background
2. Draft Fee Amendments
3. Public Comments Received
4. Rule Development Schedule

Revenue Sources - FYE 2016



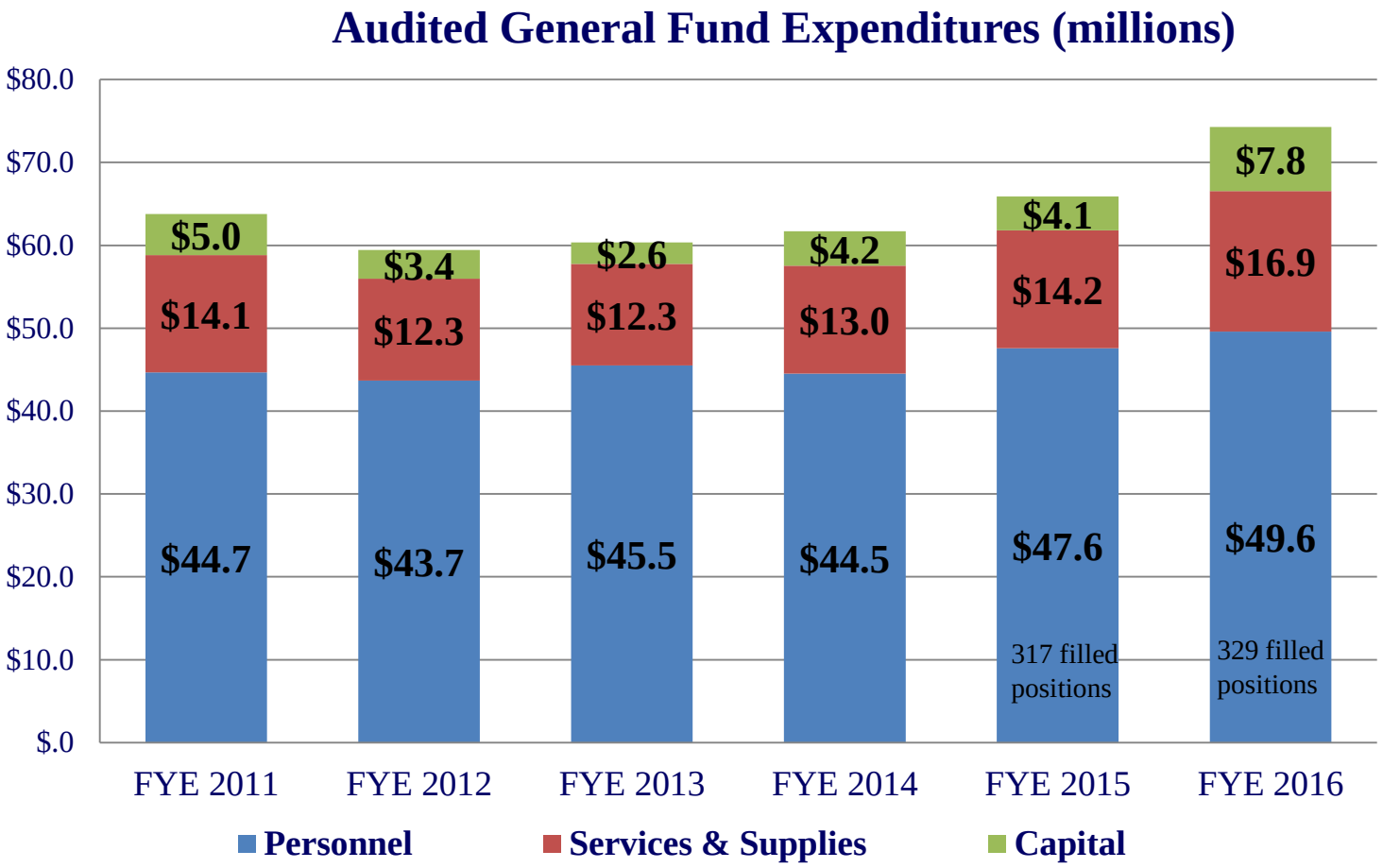
Cost Recovery Background

- District has authority to assess fees to recover the reasonable costs of regulating stationary sources
- General policy to fully recover costs of regulatory program activities
- Set goal of increasing cost recovery to 85% over four years FYE 2013 through FYE 2016
- Fee amendments will be made in consideration of cost recovery analyses conducted at the fee schedule-level
- District will implement feasible cost containment measures

Trends in Cost Recovery

- Fee revenue falls short of overall full cost recovery
  - FYE 2011: Cost recovery = 65%
  - FYE 2012: Cost recovery = 75%
  - FYE 2013: Cost recovery = 80%
  - FYE 2014: Cost recovery = 80%
  - FYE 2015: Cost recovery = 83%
  - FYE 2016: Cost recovery = 82%
  - *FYE 2017: Cost recovery = 82% Projected*
- Cost recovery gap is filled by county tax revenue

Trends in Cost Cutting



FYE 2018 Proposed Fees

- Sixth year of Cost Recovery Policy
- Average 6.4% Fee increase in FYE 2018 budget
- New Fee Schedule
- Strong involvement by Regulated Community

Proposed Changes to Fee Schedules

Revenue from Fee Schedule	Change in Fees	Fee Schedules
95 – 100% of costs	2.7% increase (CPI-W)*	M, U
85 – 95% of costs	7% increase	F, G3, T
75 – 84% of costs	8% increase	D, P
Less than 75% of costs	9% increase	A, E, G1, G2, G4, H, I, K, R, S, V

* The annual Consumer Price Index for Bay Area Urban Wage Earners and Clerical Workers (CPI-W) increased 2.7% from 2015 to 2016

Proposed Changes to Fee Schedules

- **Fee Schedules with 2.7% increase**
  - Schedule M: Major Stationary Source Fees
  - Schedule U: Indirect Source Fees
- **Fee Schedules with 7% increase**
  - Schedule F: Misc. Sources (storage silos, abrasive blasting)
  - Schedule G-3: Misc. Sources (metal melting, cracking units)
  - Schedule T: Greenhouse Gas Fees
- **Fee Schedules with 8% increase**
  - Schedule D: Gasoline Transfer at Gasoline Dispensing Facilities, Bulk Plants & Terminals
  - Schedule P: Major Facility Review Fees

Proposed Changes to Fee Schedules

➢ Fee Schedules with 9% increase

- Schedule A: Hearing Board Fees
- Schedule E: Solvent Evaporating Sources
- Schedule G-1: Misc. Sources (glass manufacturing, soil remediation)
- Schedule G-2: Misc. Sources (asphaltic concrete, furnaces)
- Schedule G-4: Misc. Sources (cement kilns, sulfur removal & coking units, acid manufacturing)
- Schedule H: Semiconductor and Related Operations
- Schedule I: Dry Cleaners
- Schedule K: Solid Waste Disposal Sites
- Schedule R: Equipment Registration Fees
- Schedule S: Naturally Occurring Asbestos Operations
- Schedule V: Open Burning

Proposed Fee Schedules with No Increase

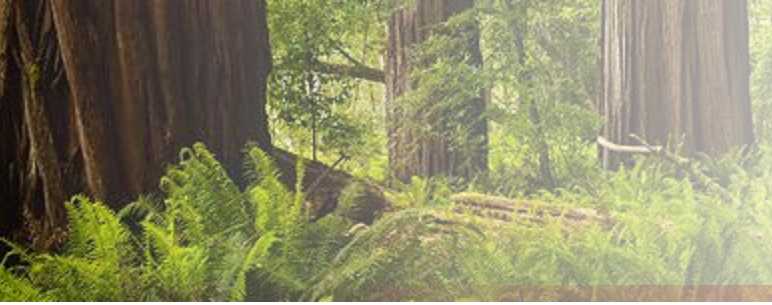
- **Fee Schedules with no increase**
  - Schedule B: Combustion of Fuels
  - Schedule C: Stationary Containers for the Storage of Organic Liquids
  - Schedule G-5: Miscellaneous Sources
  - Schedule L: Asbestos Operations
  - Schedule N: Toxic Inventory Fees

Regulation 11, Rule 18
Rule Development Underway

- Reduction of Risk from Air Toxic Emissions at Existing Facilities
- Proposed to ensure TAC emissions from existing facilities do not pose an unacceptable health risk to people living and working nearby.
- Proposed Rule 11-18 will require submittal of Facility-Wide HRAs and Risk Reductions Plans that will require assessment, review, and approval by Air District staff.
- Air District estimates that up to 1,000 facilities will be impacted by this rule.

Regulation 11, Rule 18 Facility-Wide HRA Fees

- These fees would only become effective upon Board adoption of proposed Regulation 11, Rule 18.
- These fees would be charged only upon submittal of facility-wide HRAs required pursuant to Regulation 11, Rule 18.
- These fees help recover the Air District's costs for facility-wide Health Risk Assessments required pursuant to proposed Regulation 11, Rule 18.



Regulation 11, Rule 18 Risk Reduction Plan Fees

- These fees would only become effective upon Board adoption of proposed Regulation 11, Rule 18.
- These fees would be charged only upon submittal of Risk Reduction Plans required pursuant to Regulation 11, Rule 18.
- These fees help recover the Air District's costs for review and approval of Risk Reduction Plans required pursuant to proposed Regulation 11, Rule 18.
- The Risk Reduction Plan fees will range from a minimum of $1,500 to a maximum of $32,000 per facility.

Other Proposed Amendments

Schedule A: Hearing Board Fees (Table I)

- Revisions to include diesel exhaust particulate matter in the schedule of toxic air contaminants subject to excess emissions fees.

Schedule H: Semiconductor and Related Operations

- Revisions to directly calculate the fee based on gross throughput of organic solvent processed.

Schedule N: Toxic Inventory Fees

- Update the "slope factor" to recover current costs and higher ARB AB2588 annual fees for FYE 2017.

Other Proposed Amendments (cont'd)

- A new fee equal to the Risk Assessment Fee to help recover the costs for each HRA scenario above three in any new or modified source permit application in Section 3-302.
- Delete fees for Duplicate Permits and Duplicate Registrations in Section 3-309.
- Change all Regulation 3 references of "health risk screening analysis" to "health risk assessment."
- Correct a few minor typographical errors.

Impact on Small Businesses

- Proposed FYE 2018 fee increases:

Facility Type	Facility Description	Fee Increase	Total Fee
Gas Station	10 multi-product gasoline nozzles	$263	$3,614
Dry Cleaner (permitted)	One machine: 1,400 lb/yr Perc emissions	$39	$666
Dry Cleaner (registered)	One machine: 800 lb/yr VOC emissions	$19	$225
Auto Body Shop	One spray booth: 400 gal/yr paint	$46	$622
Back-up Generator	One 365 hp engine	$2*	$332

* Represents a 2.7% increase in the Permit Renewal Processing Fee.

Impact on Large Facilities: Petroleum Refineries

	Annual % Permit Fee Increase (Fiscal Year Ending)					Current Permit Fee (in millions)
	2014	**2015**	**2016**	**2017**	***2018 Projected***	
Chevron	3.4	12.1	9.3	14.7	13.1	$3.64
Shell	1.2	12.4	5.8	15.0	15.0	$3.12
Phillips 66	1.2	9.3	3.4	14.6	13.9	$1.59
Valero	7.2	8.4	11.9	15.0	15.0	$1.87
Tesoro	5.5	13.0	21.7	13.3	15.0	$2.42

Impact on Large Facilities: Power Plants

	Annual % Fee Increase (Fiscal Year Ending)					Current Permit to Operate Fee
	2014	**2015**	**2016**	**2017**	***2018 Projected***	
Delta Energy	13.5	16.9	12.6	4.8	3.7	$ 459,600
Los Medanos	11.3	15.0	15.0	4.8	3.5	$ 326,900
Gateway	3.3	15.0	19.8	4.5	3.6	$ 320,300
Crockett Cogen	2.1	15.0	11.5	7.9	3.5	$ 222,700

Public Comments

- February 22, 2017 Public Workshop
  - One attendee plus webcast audience
- Comments received to date
  - CCEEB and Valero Refinery
    - Request for more information on cost and fee estimates for Rule 11-18
    - Request for more information on cost assessment and cost containment efforts
  - American Petroleum and Convenience Store Association (APCA)
    - Request for justification for increase in Fee Schedule D

Rule Development Schedule

- **February 22, 2017**
  - Public workshop
- **March 15, 2017**
  - Written comments due
- **March 22, 2017**
  - Budget & Finance Committee briefing
- **April 19, 2017**
  - Board of Directors first public hearing to receive testimony only
- **June 21, 2017**
  - Board of Directors second public hearing to consider adoption
- **July 1, 2017**
  - Proposed effective date of fee amendments