



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

AGENDA: 3

**Special Meeting of the Board
of Directors Budget Hearing
May 17, 2017**

**Jeff McKay
Deputy Air Pollution Control Officer**



OUTLINE

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



CURRENT FISCAL YEAR PROJECTIONS FYE 2017

General Fund Budget: \$78 M Budget

As of March 2017:

- Revenues on Target = \$58.3 M
- Expenditures on Target = \$57 M



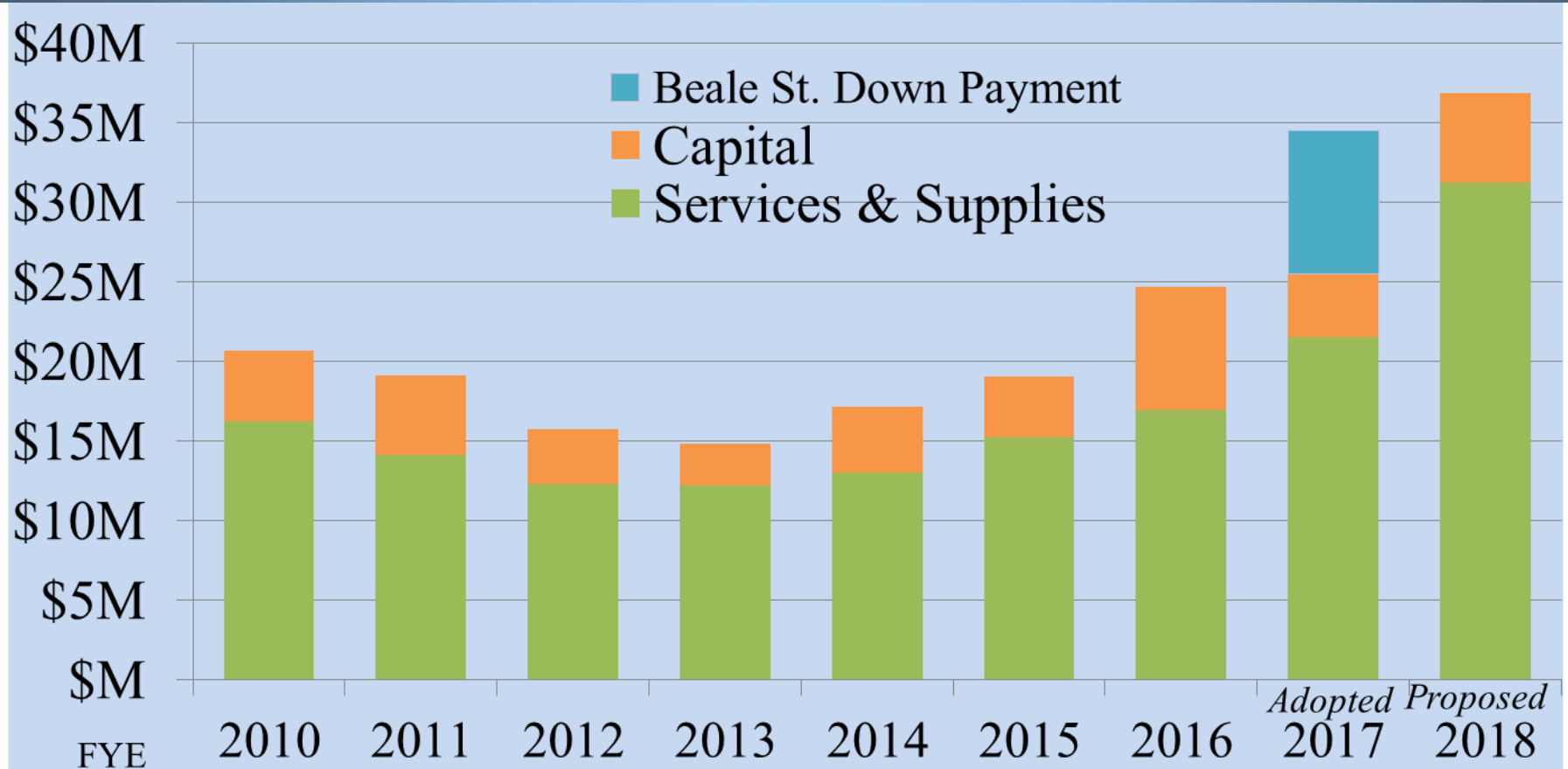
FINANCIAL HISTORY

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



SERVICES & SUPPLIES and CAPITAL (actuals)

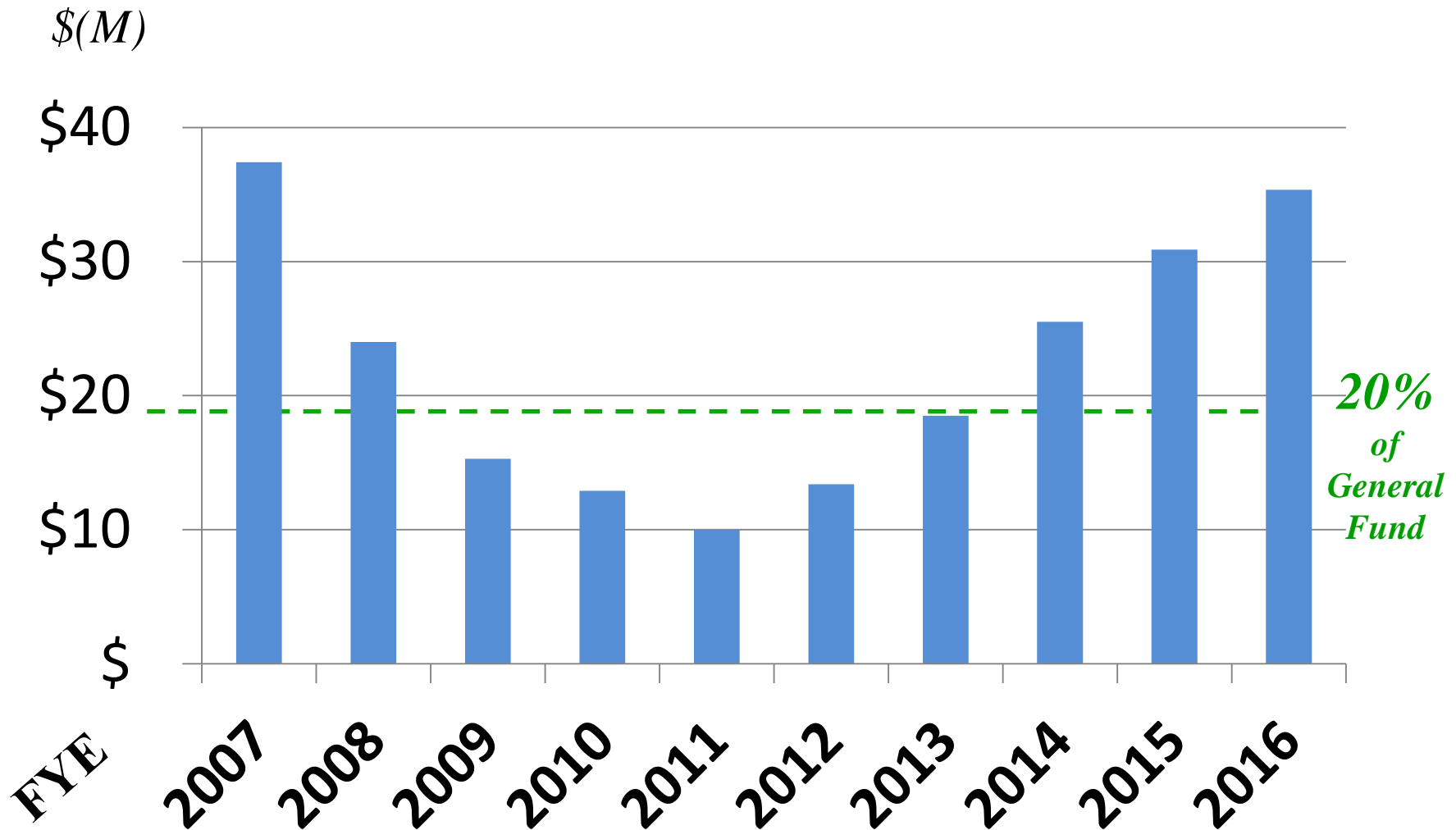


Beale St.								\$9.0	
Capital	\$4.5	\$5.0	\$3.4	\$2.6	\$4.2	\$3.8	\$7.8	\$4.0	\$5.7
Svs & Supplies	\$16.2	\$14.1	\$12.3	\$12.3	\$13.0	\$15.3	\$16.9	\$21.5	\$31.2
Total	\$20.7	\$19.1	\$15.7	\$14.8	\$17.2	\$19.0	\$24.7	\$34.5	\$36.9



DISTRICT RESERVE FUNDS

Audited Values Excluding Building Proceeds





NEXT FISCAL YEAR BUDGET

FYE 2018 PROPOSED BUDGET



OVERVIEW

Proposed Budget for FYE 2018

- \$94.8 M General Fund Budget
- Use of Reserves \$7.8 M
- Incorporates Cost Recovery Policy
- Staff Level: From 347 to 359 FTE
- Addresses Retirement Liabilities
- Includes 2.7% COLA (*pending negotiations*)



FYE 2018 BUDGET INCREASE

Q: \$ 16.8 M increase from 2017 seems large

A: \$ 7.8 M of the increase is use of reserves

- Recurring expense increases are 100% covered by increases in recurring revenues

- One-time expenses are 77% covered by use of reserves and 23% by increases in recurring revenues

- More detail on next two slides.....



BUDGET INCREASE EXPLANATION

(1 of 2)

RECURRING REVENUES:	\$ (Million)
Property Taxes	4.6
Permit Fees	3.8
Penalties/Settlements	0.6
	9.0
RECURRING EXPENSES:	
12 Additional Staff with Benefits	1.9
2.7% COLA & Benefits	1.8
Increase in OPEB Prefunding	1.0
Increase in Pension Prefunding	0.7
Diversity, Equity & Inclusion Office	0.5
Other Services (50 programs)	0.8
	6.7



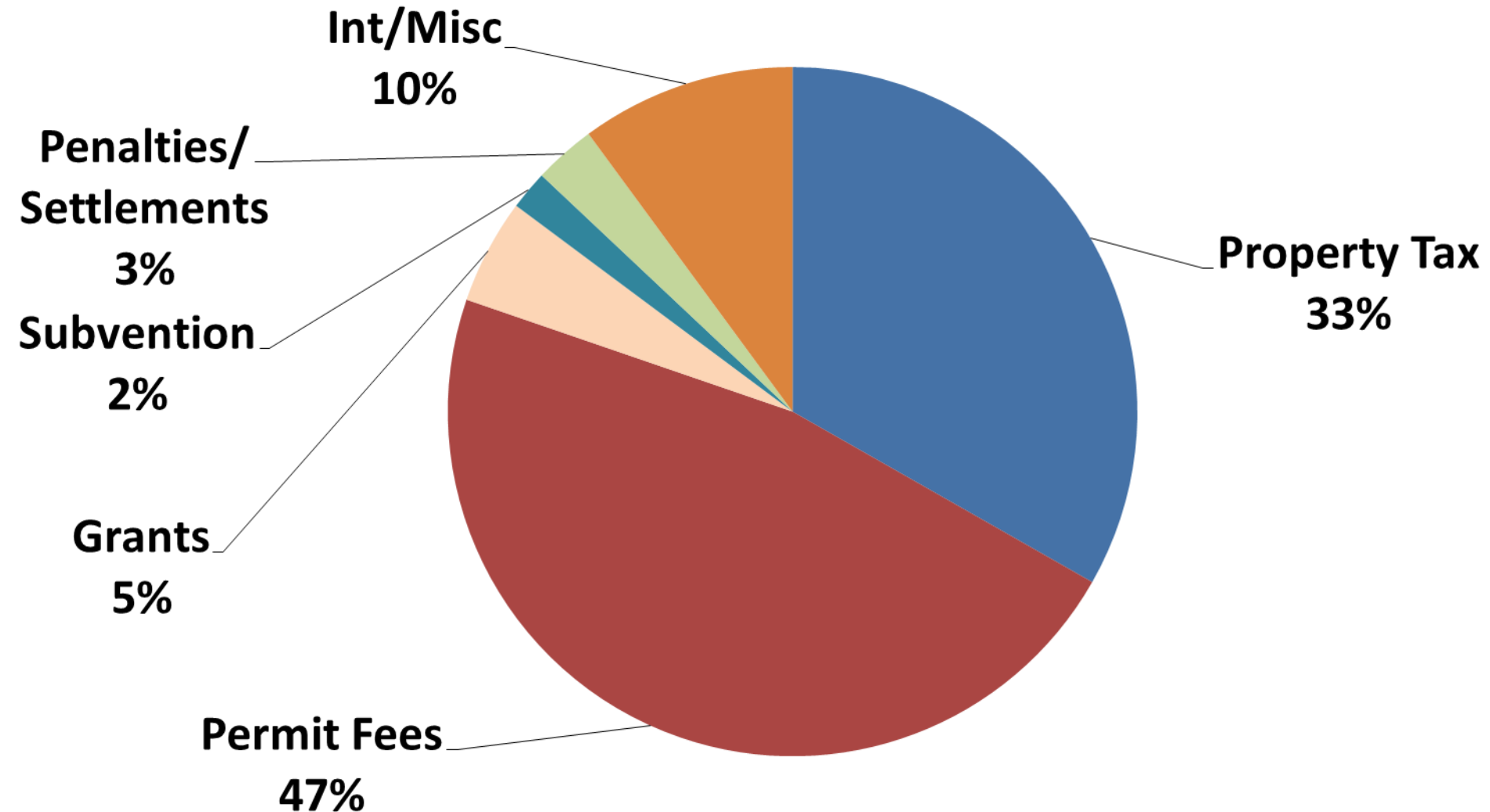
BUDGET INCREASE EXPLANATION

(2 of 2)

ONE TIME REVENUES:	\$ (Million)
Use of Reserves	7.8
	7.8
ONE TIME EXPENSES:	
Records Management System	0.9
Permit Processing & Health Risk Assessment	2.3
Implementation of Clean Air Plan	4.5
Meteorology Equipment	1.7
Technology Implementation Office	0.7
	10.1

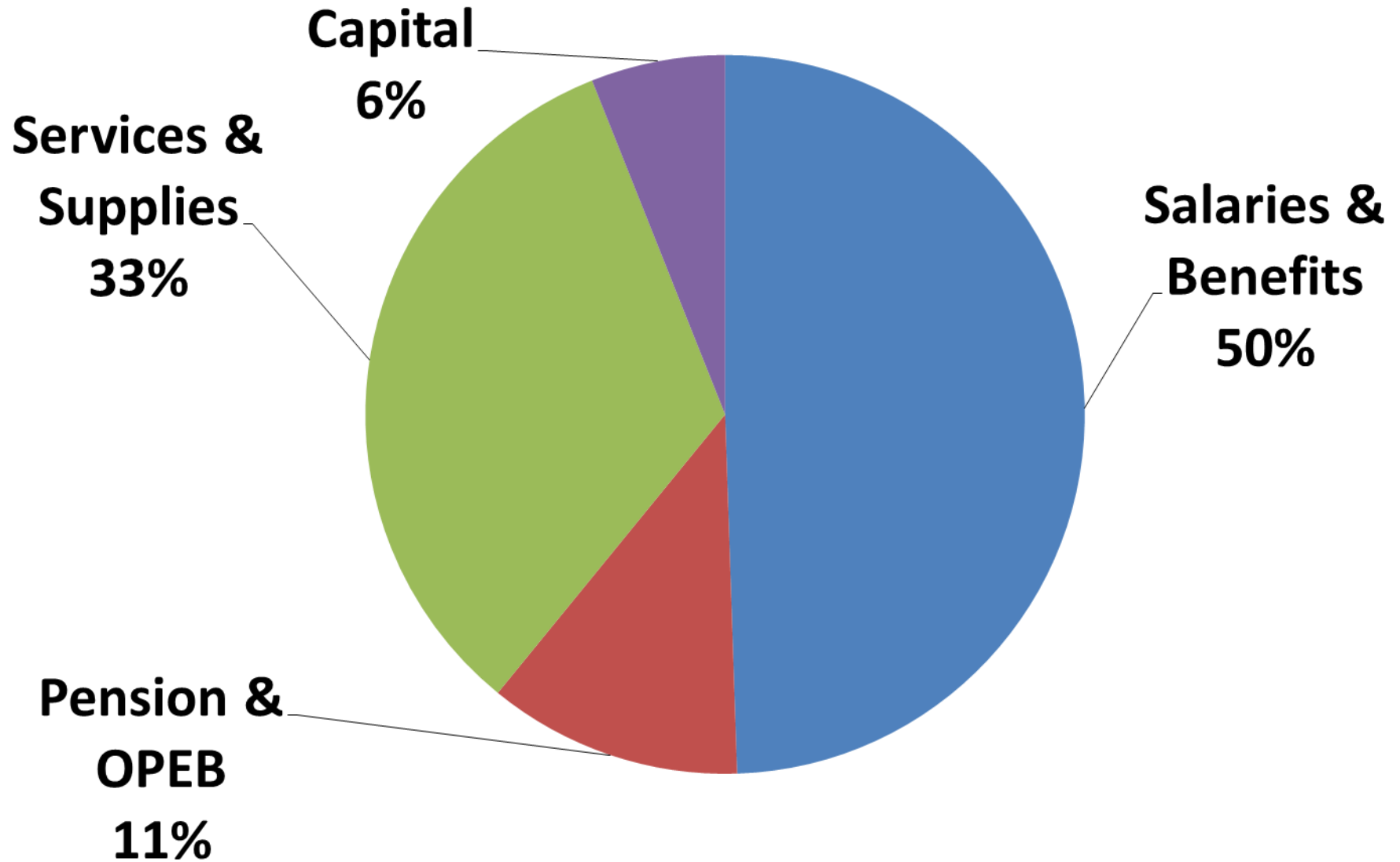


GENERAL FUND REVENUE SOURCES (FYE 2018 Proposed Budget)





GENERAL FUND EXPENDITURES (FYE 2018 Proposed Budget)





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

NEW POSITIONS	<i>Communication</i>	<i>Enforcement</i>	<i>Engineering</i>	<i>Executive</i>	<i>Information Services</i>	<i>Rule Development</i>	<i>Planning</i>	<i>FTE Total</i>
Air Quality Engineer I			1					1
Air Quality Inspector I		1						1
Assistant Manager							1	1
Database Specialist			1					1
Health Officer				1				1
Information Systems Manager					1			1
Principal Air Quality Engineer							1	1
Public Information Officer II	1							1
Staff Specialist II				1				1
Supervising Air Quality Engineer			1					1
Senior Air Quality Engineer						2		2
FTE Total	1	1	3	2	1	2	2	12



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



PERMIT PROCESSING and HEALTH RISK ASSESSMENT

- Efforts regarding regulations 11-18, 12-15, 12-16 and 13-1 are diverting resources from core engineering functions
- Regulatory workload expected to peak over the next two years, then decline
- Requesting \$1M from reserves to address this short-term staffing increase



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



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	6/30/2018 Projected
DESIGNATED: *	
Economic Contingency	17,390,311
IT- Event Response	500,000
Litigation	500,000
Pension & Post Employment Liability	440,000
Technology Implementation Office	3,350,000
Tech- Meterological Network Equipment	417,100
Tech- Mobile Monitoring Instruments	450,000
GHG Abatement Technology Study	1,500,000
Woodchip Program	150,000
Woodsmoke Grants	1,000,000
Diversity, Equity & Inclusion	100,000
Worker's Comp Self -Funding	1,000,000
TOTAL DESIGNATED	\$26,797,411
UNDESIGNATED	7,850,000
Use of Fund Balance	(7,850,000)
TOTAL UNDESIGNATED	\$0
TOTAL DESIGNATED & UNDESIGNATED	\$26,797,411
BUILDING PROCEEDS:	4,668,200
TOTAL FUND BALANCE	\$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

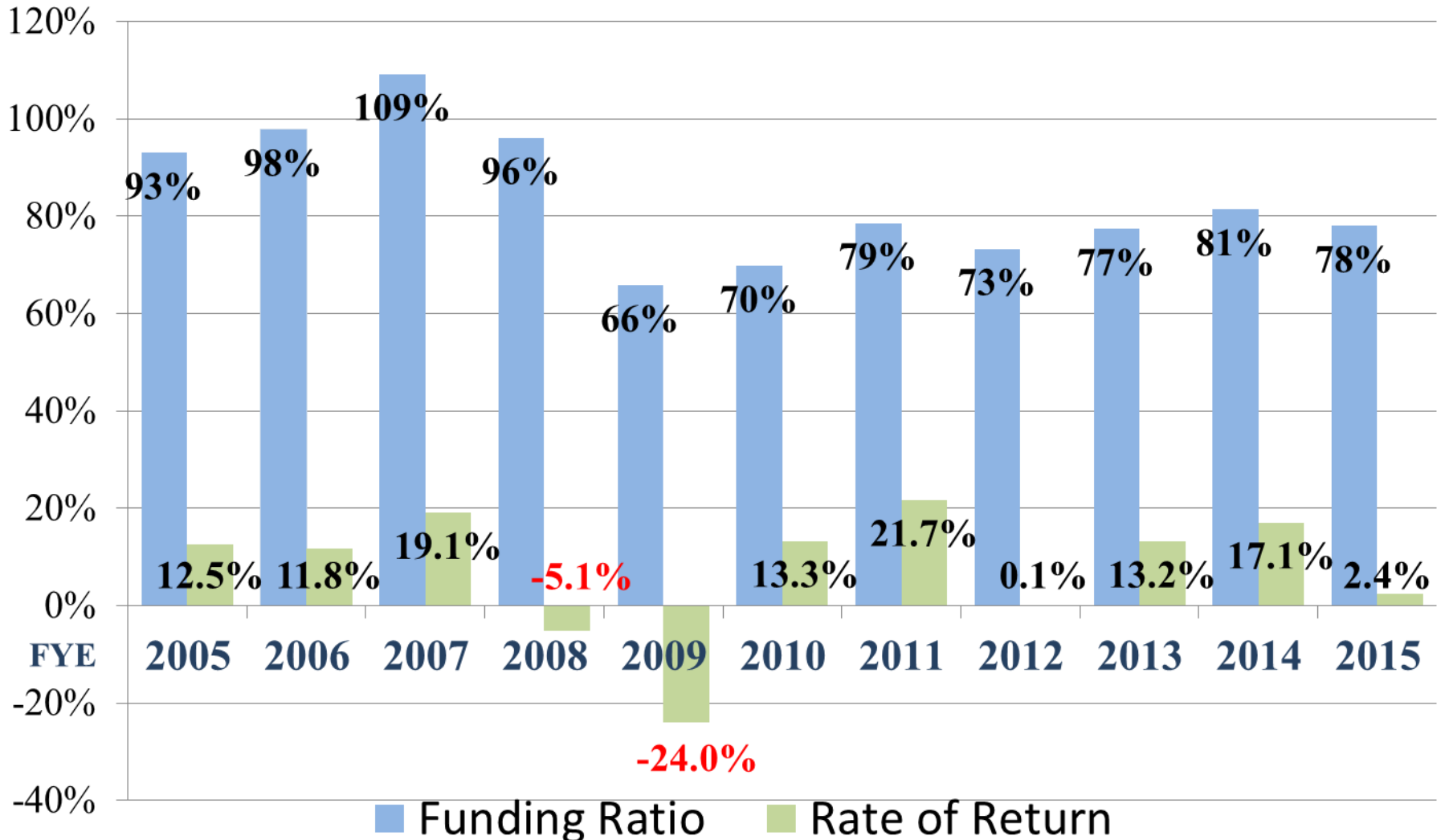
- CalPERS Retirement (6/30/15 Valuation)
 - \$269 M Obligation – 78% Funded
 - \$59 M Unfunded

- 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



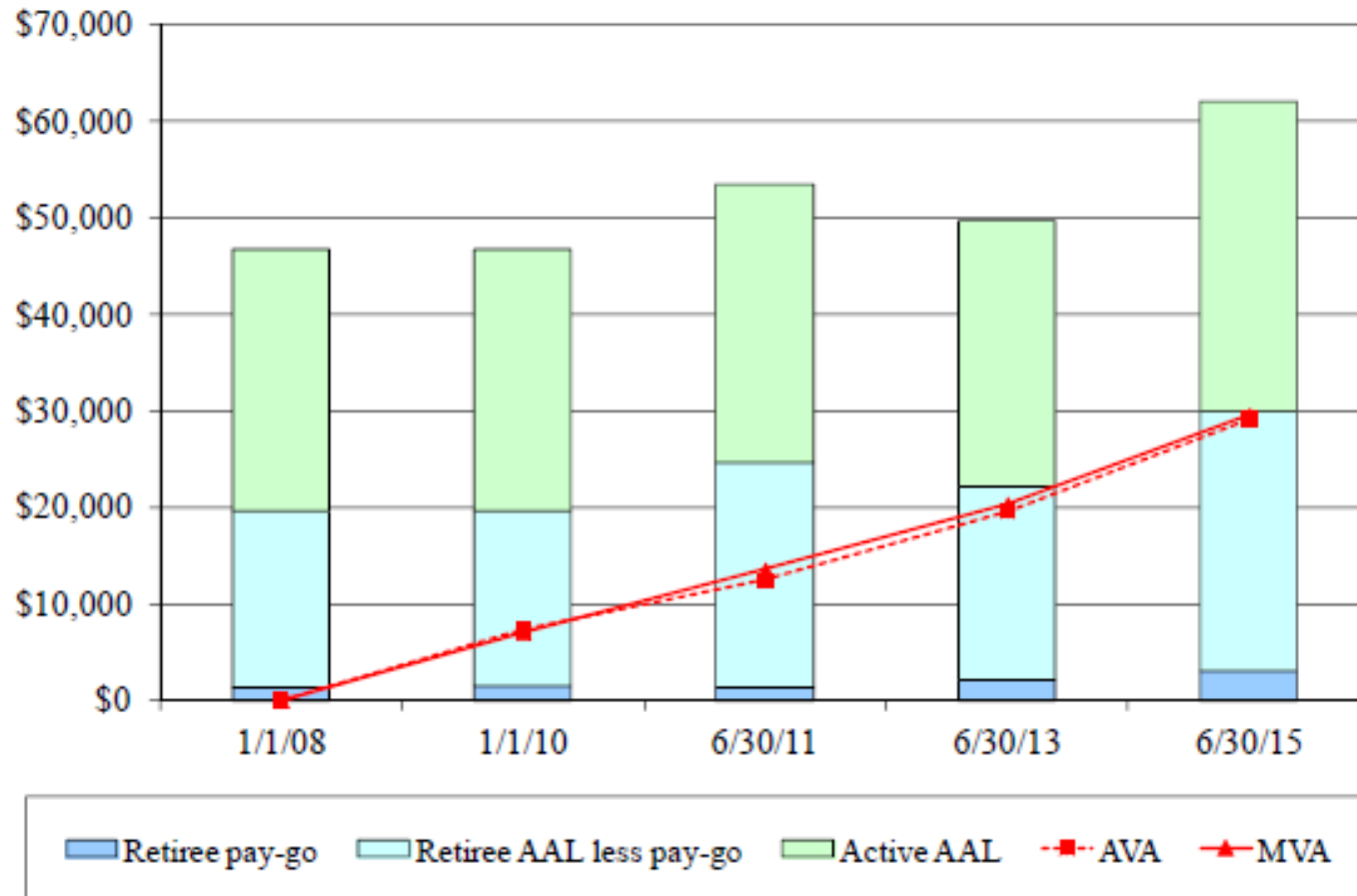
UNFUNDED LIABILITIES

OTHER POST RETIREMENT BENEFITS (OPEB)



OPEB RETIREMENT MEDICAL

Historical Funded Status
(000's Omitted)



AAL = Actuarial Accrued Liability

AVA = Actuarial Value Assets

MVA = Market Value Assets



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



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
- Pension Pre-funding
 - Contribution of \$1 M



BUDGET SCHEDULE

- April 19 - Held 1st Public Hearing on Proposed Fees
- April 26 - Budget & Finance Recommends Budget
- May 17 - 1st Public Hearing on Proposed Budget
- June 21 - 2nd Public Hearing & Adoption of:
 - 1. Proposed Fees**
 - 2. Proposed Budget**