



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

BOARD OF DIRECTORS
BUDGET AND FINANCE COMMITTEE MEETING

COMMITTEE MEMBERS

CAROLE GROOM – CHAIR
MARGARET ABE-KOGA
CINDY CHAVEZ
DOUG KIM
KATIE RICE
BRAD WAGENKNECHT

KAREN MITCHOFF – VICE CHAIR
DAVID CANEPA
PAULINE RUSSO CUTTER
LIZ KNISS
MARK ROSS

WEDNESDAY
JANUARY 23, 2019
9:30 A.M.

1ST FLOOR YERBA BUENA ROOM #109
375 BEALE STREET
SAN FRANCISCO, CA 94105

VIDEO CONFERENCE LOCATION
SANTA CLARA COUNTY GOVERNMENT CENTER
CLERK'S CONFERENCE ROOM, 10TH FLOOR, EAST WING
70 W. HEDDING STREET
SAN JOSE, CA 95110

AGENDA

1. CALL TO ORDER - ROLL CALL

PLEDGE OF ALLEGIANCE

PUBLIC MEETING PROCEDURE

The Committee Chair shall call the meeting to order and the Clerk of the Boards shall take roll of the Committee members. The Committee Chair shall lead the Pledge of Allegiance.

This meeting will be webcast. To see the webcast, please visit www.baaqmd.gov/bodagendas at the time of the meeting. Closed captioning may contain errors and omissions, and are not certified for their content or form.

Public Comment on Agenda Items *The public may comment on each item on the agenda as the item is taken up. Public Comment Cards for items on the agenda must be submitted in person to the Clerk of the Boards at the location of the meeting and prior to the Board taking up the particular item. Where an item was moved from the Consent Calendar to an Action item, no speaker who has already spoken on that item will be entitled to speak to that item again.*

2. **PUBLIC COMMENT ON NON-AGENDA MATTERS**

Public Comment on Non-Agenda Items, Pursuant to Government Code Section 54954.3 *For the first round of public comment on non-agenda matters at the beginning of the agenda, ten persons selected by a drawing by the Clerk of the Boards from among the Public Comment Cards indicating they wish to speak on matters not on the agenda for the meeting will have two minutes each to address the Board on matters not on the agenda. For this first round of public comments on non-agenda matters, all Public Comment Cards must be submitted in person to the Clerk of the Board at the location of the meeting and prior to commencement of the meeting.*

Staff/Phone (415) 749-

3. **APPROVAL OF THE MINUTES OF APRIL 25, 2018**

Clerk of the Boards/5073

The Committee will consider approving the draft minutes of the Budget and Finance Committee Meeting of April 25, 2018.

4. **FOURTH QUARTER FINANCIAL REPORT – FISCAL YEAR ENDING (FYE) 2018**

J. McKay/4629

jmckay@baaqmd.gov

The Committee will receive an update on the Air District's preliminary (unaudited) financial results for the fourth quarter of Fiscal Year Ending (FYE) 2018.

5. **FIRST QUARTER FINANCIAL REPORT – FISCAL YEAR ENDING (FYE) 2019**

J. McKay/4629

jmckay@baaqmd.gov

The Committee will receive an update on the Air District's financial results for the first quarter of Fiscal Year Ending (FYE) 2019.

6. **AIR DISTRICT FINANCIAL PLAN OVERVIEW**

J. McKay/4629

jmckay@baaqmd.gov

The Committee will receive a presentation on the Air District's financial plan.

7. **PUBLIC COMMENT ON NON-AGENDA MATTERS**

Speakers who did not have the opportunity to address the Board in the first round of comments on non-agenda matters will be allowed two minutes each to address the Board on non-agenda matters.

8. **COMMITTEE MEMBER COMMENTS / OTHER BUSINESS**

Any member of the Board, or its staff, on his or her own initiative or in response to questions posed by the public, may: ask a question for clarification, make a brief announcement or report on his or her own activities, provide a reference to staff regarding factual information, request staff to report back at a subsequent meeting concerning any matter or take action to direct staff to place a matter of business on a future agenda. (Gov't Code § 54954.2)

9. **TIME AND PLACE OF NEXT MEETING**

Wednesday, February 27, 2019, Bay Area Air Quality Management District Office, 375 Beale Street, San Francisco, CA 94105 at 9:30 a.m.

10. **ADJOURNMENT**

The Committee meeting shall be adjourned by the Committee Chair.

CONTACT:

MANAGER, EXECUTIVE OPERATIONS
375 BEALE STREET, SAN FRANCISCO, CA 94105
vjohnson@baaqmd.gov

(415) 749-4941
FAX: (415) 928-8560
BAAQMD homepage:
www.baaqmd.gov

- To submit written comments on an agenda item in advance of the meeting. Please note that all correspondence must be addressed to the “Members of the Budget and Finance Committee” and received at least 24 hours prior, excluding weekends and holidays, in order to be presented at that Committee meeting. Any correspondence received after that time will be presented to the Committee at the following meeting.
- To request, in advance of the meeting, to be placed on the list to testify on an agenda item.
- Any writing relating to an open session item on this Agenda that is distributed to all, or a majority of all, members of the body to which this Agenda relates shall be made available at the District’s offices at 375 Beale Street, Suite 600, San Francisco, CA 94105, at the time such writing is made available to all, or a majority of all, members of that body.

Accessibility and Non-Discrimination Policy

The Bay Area Air Quality Management District (Air District) does not discriminate on the basis of race, national origin, ethnic group identification, ancestry, religion, age, sex, sexual orientation, gender identity, gender expression, color, genetic information, medical condition, or mental or physical disability, or any other attribute or belief protected by law.

It is the Air District’s policy to provide fair and equal access to the benefits of a program or activity administered by Air District. The Air District will not tolerate discrimination against any person(s) seeking to participate in, or receive the benefits of, any program or activity offered or conducted by the Air District. Members of the public who believe they or others were unlawfully denied full and equal access to an Air District program or activity may file a discrimination complaint under this policy. This non-discrimination policy also applies to other people or entities affiliated with Air District, including contractors or grantees that the Air District utilizes to provide benefits and services to members of the public.

Auxiliary aids and services including, for example, qualified interpreters and/or listening devices, to individuals who are deaf or hard of hearing, and to other individuals as necessary to ensure effective communication or an equal opportunity to participate fully in the benefits, activities, programs and services will be provided by the Air District in a timely manner and in such a way as to protect the privacy and independence of the individual. Please contact the Non-Discrimination Coordinator identified below at least three days in advance of a meeting so that arrangements can be made accordingly.

If you believe discrimination has occurred with respect to an Air District program or activity, you may contact the Non-Discrimination Coordinator identified below or visit our website at www.baaqmd.gov/accessibility to learn how and where to file a complaint of discrimination.

Questions regarding this Policy should be directed to the Air District’s Non-Discrimination Coordinator, Rex Sanders, at (415) 749-4951 or by email at rsanders@baaqmd.gov.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
375 BEALE STREET, SAN FRANCISCO, CALIFORNIA 94105
FOR QUESTIONS PLEASE CALL (415) 749-4941**

**EXECUTIVE OFFICE:
MONTHLY CALENDAR OF AIR DISTRICT MEETINGS**

JANUARY 2019

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Climate Protection Committee <i>(Meets on the 3rd Thursday of every other Month) - CANCELLED</i>	Thursday	17	9:30 a.m.	1 st Floor Board Room
Board of Directors Stationary Source Committee <i>(Meets on the 3rd Monday of every other Month) - CANCELLED</i>	Monday	21	9:30 a.m.	1 st Floor Board Room
Board of Directors Budget & Finance Committee <i>(Meets on the 4th Wednesday of each Month)</i>	Wednesday	23	9:30 a.m.	1 st Floor, Yerba Buena Room #109
Board of Directors Mobile Source Committee <i>(Meets on the 4th Thursday of each Month)</i>	Thursday	24	9:30 a.m.	1 st Floor Board Room

FEBRUARY 2019

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Regular Meeting <i>(Meets on the 1st & 3rd Wednesday of each Month)</i>	Wednesday	6	9:30 a.m.	1 st Floor Board Room
Board of Directors Regular Meeting <i>(Meets on the 1st & 3rd Wednesday of each Month)</i>	Wednesday	20	9:30 a.m.	1 st Floor Board Room
Board of Directors Technology Implementation Office Steering Committee <i>(At the Call of the Chair)</i>	Wednesday	21	9:30 a.m.	1 st Floor Board Room
Board of Directors Legislative Committee <i>(At the Call of the Chair)</i>	Monday	25	9:30 a.m.	1 st Floor Board Room
Board of Directors Budget & Finance Committee <i>(Meets on the 4th Wednesday of each Month)</i>	Wednesday	27	9:30 a.m.	1 st Floor, Yerba Buena Room #109
Board of Directors Mobile Source Committee <i>(Meets on the 4th Thursday of each Month)</i>	Thursday	28	9:30 a.m.	1 st Floor Board Room

MARCH 2019

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Regular Meeting <i>(Meets on the 1st & 3rd Wednesday of each Month)</i>	Wednesday	6	9:30 a.m.	1 st Floor Board Room
Advisory Council Mtg. <i>(At the Call of the Chair)</i>	Monday	11	10:00 a.m.	1 st Floor Board Room
Board of Directors Stationary Source Committee <i>(Meets 3rd Monday of Every Other Month)</i>	Monday	18	9:30 a.m.	1 st Floor Board Room
Board of Directors Regular Meeting <i>(Meets on the 1st & 3rd Wednesday of each Month)</i>	Wednesday	20	9:30 a.m.	1 st Floor Board Room
Board of Directors Climate Protection Committee <i>(Meets 3rd Thursday of Every Other Month)</i>	Thursday	21	9:30 a.m.	1 st Floor Board Room
Board of Directors Budget & Finance Committee <i>(Meets on the 4th Wednesday of each Month)</i>	Wednesday	27	9:30 a.m.	1 st Floor, Yerba Buena Room #109
Board of Directors Mobile Source Committee <i>(Meets on the 4th Thursday of each Month)</i>	Thursday	28	9:30 a.m.	1 st Floor Board Room
HL – 1/17/19 – 11:30 a.m.				G/Board/Executive Office/Moncal

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

To: Chairperson Carole Groom and Members
of the Budget and Finance Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: January 11, 2019

Re: Approval of the Minutes of April 25, 2018

RECOMMENDED ACTION

Approve the attached draft minutes of the Budget and Finance Committee (Committee) meeting of April 25, 2018.

DISCUSSION

Attached for your review and approval are the draft minutes of the Committee meeting of April 25, 2018.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Marcy Hiratzka
Reviewed by: Vanessa Johnson

Attachment 3A: Draft Minutes of the Committee Meeting of April 25, 2018

AGENDA: 3A – ATTACHMENT

Draft Minutes – Budget and Finance Committee Meeting of April 25, 2018

Bay Area Air Quality Management District
375 Beale Street, Suite 600
San Francisco, California 94105
(415) 749-5073

DRAFT MINUTES

Summary of Board of Directors
Budget and Finance Committee Meeting
Wednesday, April 25, 2018

1. CALL TO ORDER – ROLL CALL

Budget and Finance Committee (Committee) Chairperson, Carole Groom, called the meeting to order at 9:33 a.m.

Present: Committee Chairperson Carole Groom; Vice Chair Karen Mitchoff; and Directors Margaret Abe-Koga, David Canepa, Pauline Russo Cutter, Doug Kim, Katie Rice, Mark Ross, and Brad Wagenknecht.

Absent: Director Cindy Chavez and Liz Kniss.

Also Present: Board of Directors Chairperson, David Hudson

2. APPROVAL OF THE MINUTES OF MARCH 28, 2018

Public Comments:

No requests received.

Committee Comments:

None.

Committee Action:

Vice Chair Mitchoff made a motion, seconded by Director Cutter, to **approve** the Minutes of March 28, 2018; and the motion **carried** by the following vote of the Committee:

AYES: Canepa, Cutter, Groom, Hudson, Kim, Mitchoff, Rice, Ross, and Wagenknecht.
NOES: None.
ABSTAIN: None.
ABSENT: Abe-Koga, Chavez, and Kniss.

NOTED PRESENT: Director Abe-Koga was noted present at 9:35 a.m.

3. CONTINUED DISCUSSION OF FISCAL YEAR ENDING (FYE) 2019 PROPOSED AIR DISTRICT BUDGET AND CONSIDERATION TO RECOMMEND ADOPTION

Dr. Jeff McKay, Chief Financial Officer, gave the staff presentation *Continued Discussion of FYE 2019 Proposed Air District Budget and Consideration to Recommend Adoption*, including: financial history - actions taken during downturn, audited Air District reserves; staffing trend - filled seats; medical retirement – other post-employment benefits (OPEB); California Public Employees’ Retirement System (CalPERS) pension - historical rate of return and funding ratio; FYE 2019 Proposed Budget overview; General Fund revenue sources and expenditures - FYE 2019 Proposed Budget; 2019 proposed budget - recurring revenues and expenditures; reserves designations - FYE 2019 proposed budget; retirement liabilities - local comparisons; OPEB overview; medical retirement plan - funding policy recommendation; CalPERS pension plan retirement overview, funding policy recommendation; alternative asset allocations for discretionary funds; Budget summary FYE 2019; next steps; and recommendations.

Public Comments:

No requests received.

Committee Comments:

The Committee and staff discussed the status of the Bay Area’s promised allocation of Assembly Bill 617 State funding (\$4.8M) for FYE 2017-2018; projected fluctuations in the Air District’s CalPERS retirement obligation; the recommended change to the CalPERS pension plan’s funding policy, in which a twenty-year target would be established to reach 90% funding; alternatives to funding liabilities as they accrue; and pros and cons of different risk tolerance strategies.

Committee Action:

Vice Chair Mitchoff made a motion, seconded by Director Canepa, to recommend the Board **adopt** the FYE 2019 Proposed Budget and **adopt** a funding policy for CalPERS pensions to achieve 90% funding within twenty years; and the motion **carried** by the following vote of the Committee:

AYES: Abe-Koga, Canepa, Cutter, Groom, Hudson, Kim, Mitchoff, Rice, Ross, and Wagenknecht.
NOES: None.
ABSTAIN: None.
ABSENT: Chavez and Kniss.

4. THIRD QUARTER FINANCIAL REPORT – FISCAL YEAR ENDING 2018

Stephanie Osaze, Finance Manager, gave the staff presentation *Third Quarter Financial Report – FYE 2018*, including: overview; General Fund reserves and expenditures; revenue and expenditure comparisons - prior year vs. current year; cash and investments with county treasury;

fund balance and unfunded liabilities; purchasing reporting requirements; and FYE 2018 vendor payments.

Public Comments:

No requests received.

Committee Comments:

The Committee and staff discussed whether certain fee categories tend to track with each other, due to economic activity; whether the Air District works in tandem with the United States Environmental Protection Agency regarding asbestos and lead-based paint removal; the Air District’s Budget carryover process; and the year-to-year differences between total undesignated fund balances.

Committee Action:

None; receive and file.

5. DISCUSSION OF BUDGET PROCESSES FOR FISCAL YEAR ENDING 2020

Dr. McKay gave the staff presentation *Discussion of Budget Processes for FYE 2020*, including: FYE 2020 pre-budget process outline; current pre-budget process; motivations to formalize pre-budget process; FYE 2020 pre-budget process; and financial history - audited Air District reserves (excludes building proceeds).

Public Comments:

No requests received.

Committee Comments:

The Committee and staff discussed benefits and praise of the pre-budget process; the request that staff gives the Committee routine updates and comparisons of internal staff processes, such as future-year modeling, strategic mitigation planning, long-term capital planning, and performance metrics; the level of conservatism of the projections within the Air District’s Strategic Financial Plan; the request for performance metrics with which the Committee can become familiar; and the feasibility of the Air District taking out a loan to achieve the intended 90% funding level.

Committee Action:

None; receive and file.

6. PUBLIC COMMENT ON NON-AGENDA MATTERS

No requests received.

7. COMMITTEE MEMBER COMMENTS / OTHER BUSINESS

None.

8. TIME AND PLACE OF NEXT MEETING

At the call of the Chair.

9. ADJOURNMENT

The meeting adjourned at 10:28 a.m.

Marcy Hiratzka
Clerk of the Boards

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

To: Chairperson Carole Groom and Members
of the Budget and Finance Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: January 11, 2019

Re: Fourth Quarter Financial Report – Fiscal Year Ending (FYE) 2018

RECOMMENDED ACTION

None; receive and file.

DISCUSSION

Finance staff will present an update on the Air District's financial results for the fourth quarter of the 2017-18 Fiscal Year (FY). The following information summarizes those results.

GENERAL FUND BUDGET: STATEMENT OF REVENUES – Comparison of Prior Year Quarter Actual and Current Year Budget to Actual

REVENUE TYPE	4th QTR FY 2017	4th QTR FY 2018	FY 2018 - % of BUDGETED REVENUE
County Receipts	\$30,541,028	\$33,032,767	105%
Permit Fee Receipts	\$33,249,989	\$36,281,869	99%
Title V Permit Fees	\$5,021,094	\$5,439,167	99%
Asbestos Fees	\$4,210,603	\$4,066,794	163%
Toxic Inventory Fees	\$211,380	\$336,389	93%
Penalties and	\$3,335,649	\$4,357,810	158%
Interest Revenues	\$587,340	\$875,267	307%
Miscellaneous Revenues	\$66,895	\$145,893	292%
Total Revenue	\$77,223,979	\$84,535,955	106%

GENERAL FUND: STATEMENT OF EXPENDITURES - Comparison of Prior Year Quarter Actual and Current Year Budget to Actual

EXPENDITURE TYPE	4th QTR FY 2017	4th QTR FY 2018	FY 2018 - % of BUDGETED EXPENDITURES
Personnel - Salaries*	\$37,368,006	\$39,623,206	101%
Personnel - Fringe	\$19,615,494	\$20,792,915	91%
Operational Services /	\$20,025,362	\$19,109,582	61%
Capital Outlay	\$3,923,291	\$5,606,660	99%
Total Expenditures	\$80,932,153	\$85,132,363	86%

*Consolidated (includes Special Funds)

CASH INVESTMENTS IN COUNTY TREASURY – Account Balances as of 4th Quarter

CASH/INVESTMENTS	4th QTR FY 2017	4th QTR FY 2018
General Fund	\$55,167,881	\$67,596,034
TFCA	\$90,039,116	\$96,546,426
MSIF	\$37,544,701	\$42,072,941
Carl Moyer	\$5,758,456	\$19,004,193
CA Goods Movement	\$8,310,419	\$13,878,585
Bike Share	\$1,062,983	\$1,079,280
Total	\$197,883,556	\$240,177,459

	6/30/2017	6/30/2018	6/30/2019
FUND BALANCES	Audited	Audited	Projected
DESIGNATED: *			
Building Acquisition			
Diversity Equity & Inclusion		100,000	
Economic Contingency	\$16,519,959	\$17,390,311	
IT- Event Response	\$500,000	\$500,000	
Litigation		\$500,000	
Napa/Sonoma Fireplace Replacement Grant		\$1,000,000	
Pension & Post Employment Liability	\$1,600,000	\$1,000,000	
Tech- Meteorological Network Equipment	\$131,100	\$131,100	
Tech- Mobile Monitoring Instruments	\$80,000	\$80,000	
Technology Implementation Office		\$3,350,000	
GHG Abatement Technology Study	\$1,500,000	\$1,500,000	
Woodchip Program		\$150,000	
Woodsmoke Grant		\$1,000,000	
Worker's Comp Self -Funding	\$1,000,000	\$1,000,000	
Total Designated Reserves	\$21,331,059	\$27,701,411	\$29,084,769
Undesignated Fund Balance	\$20,455,742	\$14,085,390	\$16,717,783
Use of Fund Balance	(\$852,032)	\$4,253,010	(\$12,671,400)
TOTAL DESIGNATED & UNDESIGNATED	\$40,934,769	\$46,039,811	\$33,131,152
Building Proceeds	\$4,668,200	\$4,668,200	\$209,489
TOTAL FUND BALANCE	\$45,602,969	\$50,708,011	\$33,340,641
* Designated Fund Balances are subject to change at Board's discretion.			
UNFUNDED LIABILITIES (Based on 2017 Actuarial Valuation Report)			
CalPERS Pension Retirement			\$74,654,496
Other Post- Employment Benefits			\$18,840,854
TOTAL UNFUNDED LIABILITIES			\$93,495,350

Vendor Payments

In accordance with provisions of the Administrative Code, Division II Fiscal Policies and Procedures - Section 4 Purchasing Procedures: 4.3 Contract Limitations, staff is required to present recurring payments for routine business needs such as utilities, licenses, office supplies and the like, more than, or accumulating to more than \$100,000 for the fiscal year. In addition, this report includes all of the vendors receiving payments in excess of \$100,000 under contracts that have not been previously reviewed by the Board. In addition, staff will report on vendors that undertook work for the Air District on several projects that individually were less than \$100,000, but cumulatively exceed \$100,000.

Below is a list of vendors with cumulative payments made through the fourth quarter of 2017-2018 Fiscal Year (FY) that exceeded \$100,000 and meets the reporting criteria noted above. All expenditures have been appropriately budgeted as a part of the overall Air District budget for FY 2017-18.

VENDOR NAME	AMOUNT PAID (July 2017 - June 18)	Explanation
1. Alliant Insurance Services	\$591,802	Various Business Insurance Policies
2. Bay Area Headquarters Authority	\$1,913,186	Shared Services & Common Areas
3. BAAQMD Employee Association	\$101,487	Employee Union Dues
4. Benefits Coordinators Corp.	\$1,009,224	Life Insurance Plan & LTD Insurance
5. CA Public Employee Retirement System	\$7,297,956	Health Insurance Plan
6. CA Public Employee Retirement System	\$3,010,929	Retirement Benefits & 457 Supplemental Plan
7. CAPCOA	\$700,337	Pass through EPA grants
8. Ceridian	\$114,109	Payroll Processing Services
9. Cubic Transportations Systems	\$446,158	Clipper Transit Subsidy
10. Direct Mail Center	\$147,084	Public Notice Mailing Services
11. Enterprise Fleet Services	\$445,322	Fleet Leasing and Maintenance services
12. Hartford Life Ins Co.	\$726,500	457 Supplemental Insurance
13. Preferred Benefit Insurance AD	\$695,682	Dental Insurance Plan
14. Pacific Gas & Electric	\$103,757	Utility services
15. Renne Sloan Holtzman Sakai	\$176,267	Human Resources Consulting Services
16. SoftwareOne Inc.	\$332,269	Microsoft Subscription Service

VENDOR NAME (continued)	AMOUNT PAID (July 2017 - June 18) (continued)	Explanation (continued)
17. Thermo Environmental Instrument	\$110,194	Air monitoring and source test instrumentation
18. Verizon Wireless	\$211,951	Cell phone services
19. Wright Express Universal	\$102,485	Fuel for fleet

BUDGET CONSIDERATION/FINANCIAL IMPACT

None; receive and file.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Stephanie Osaze
Reviewed by: Jeff McKay

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

To: Chairperson Carole Groom and Members
of the Budget and Finance Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: January 11, 2019

Re: First Quarter Financial Report – Fiscal Year Ending (FYE) 2019

RECOMMENDED ACTION

None; receive and file.

DISCUSSION

Finance staff will present an update on the Air District’s financial results for the first quarter of the 2018-19 Fiscal Year (FY). The following information summarizes those results.

GENERAL FUND BUDGET: STATEMENT OF REVENUES – Comparison of Prior Year Quarter Actual and Current Year Budget to Actual

REVENUE TYPE	1st QTR FY 2018	1st QTR FY 2019	FY 2019 - % of BUDGETED REVENUE
County Receipts	\$77,801	\$323,817	1%
Permit Fee Receipts	\$20,720,742	\$25,988,911	67%
Title V Permit Fees	\$3,501,509	\$5,023,406	86%
Asbestos Fees	\$1,057,495	\$1,143,535	46%
Toxic Inventory Fees	\$177,329	\$220,209	43%
Penalties and	\$742,678	\$318,023	12%
Interest Income	\$165,228	\$316,663	64%
Misc Revenue	\$4,495	\$37,013	37%
Total Revenue	\$26,447,276	\$33,371,577	40%

GENERAL FUND: STATEMENT OF EXPENDITURES - Comparison of Prior Year Quarter Actual and Current Year Budget to Actual

EXPENDITURE TYPE	1st QTR FY 2018	1st QTR FY 2019	FY 2019 - % of BUDGETED EXPENDITURES
Personnel - Salaries*	\$8,307,733	\$8,980,924	20%
Personnel - Fringe	\$6,907,504	\$8,236,336	32%
Operational Services /	\$2,970,741	\$3,184,581	11%
Capital Outlay	\$1,269,603	\$983,799	21%
Total Expenditures	\$19,455,581	\$21,385,640	20%

*Consolidated (includes Special Funds)

CASH INVESTMENTS IN COUNTY TREASURY – Account Balances as of 1ST Quarter

CASH/INVESTMENTS	1st QTR FY 2018	1st QTR FY 2019
General Fund	\$58,580,658	\$70,817,140
TFCA	\$91,004,558	\$102,212,849
MSIF	\$39,236,744	\$41,937,053
Carl Moyer	\$4,322,486	\$20,392,810
CA Goods Movement	\$8,314,145	\$13,937,851
Bike Share	\$1,069,047	\$1,084,000
Total	\$202,527,637	\$250,381,703

	6/30/2017	6/30/2018	6/30/2019
FUND BALANCES	Audited	Audited	Projected
DESIGNATED: *			
Building Acquisition			
Diversity Equity & Inclusion		100,000	
Economic Contingency	\$16,519,959	\$17,390,311	
IT- Event Response	\$500,000	\$500,000	
Litigation		\$500,000	
Napa/Sonoma Fireplace Replacement Grant		\$1,000,000	
Pension & Post Employment Liability	\$1,600,000	\$1,000,000	
Tech- Meteorological Network Equipment	\$131,100	\$131,100	
Tech- Mobile Monitoring Instruments	\$80,000	\$80,000	
Technology Implementation Office		\$3,350,000	
GHG Abatement Technology Study	\$1,500,000	\$1,500,000	
Woodchip Program		\$150,000	
Woodsmoke Grant		\$1,000,000	
Worker's Comp Self -Funding	\$1,000,000	\$1,000,000	
Total Designated Reserves	\$21,331,059	\$27,701,411	\$29,084,769
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Use of Fund Balance	(\$852,032)	\$4,253,010	(\$12,671,400)
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CalPERS Pension Retirement			\$74,654,496
Other Post- Employment Benefits			\$18,840,854
TOTAL UNFUNDED LIABILITIES			\$93,495,350

Vendor Payments

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Below is a list of vendors with cumulative payments made through the first quarter of 2018-19 Fiscal Year (FY) that exceeded \$100,000 and meets the reporting criteria noted above. All expenditures have been appropriately budgeted as a part of the overall Air District budget for FY 2018-19.

VENDOR NAME	AMOUNT PAID (July 2018 - Sept 2018)	Explanation
1. Benefits Coordinators Corp.	167,101	Life Insurance Plan & LTD Insurance
2. CA Public Employee Retirement System	1,259,205	Health Insurance Plan
3. CA Public Employee Retirement System	565,482	Retirement Benefits & 457 Supplemental Plan
4. Cubic Transportations Systems	121,857	Clipper Transit Subsidy
5. Enterprise Fleet Services	117,060	Fleet Leasing and Maintenance services
6. Hartford Life Ins Co.	207,207	457 Supplemental Insurance
7. Preferred Benefit Insurance AD	211,397	Dental Insurance Plan
8. Thermo Environmental Instrument	149,146	Air monitoring and source test instrumentation

BUDGET CONSIDERATION/FINANCIAL IMPACT

None; receive and file.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Stephanie Osaze

Reviewed by: Jeff McKay

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

To: Chairperson Carole Groom and Members
of the Budget and Finance Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: January 11, 2019

Re: Air District Financial Plan Overview

RECOMMENDED ACTION

None; receive and file.

DISCUSSION

Staff will present the Air District's first Financial Plan. The Plan is a prelude to the upcoming Fiscal Year 2020 budget and provides an overview of historical financial trends and describes key assumptions and policies. These inputs are used to develop a five-year financial forecast for the Plan.

BUDGET CONSIDERATION/FINANCIAL IMPACT

None.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Jeffrey McKay

Attachment 6A: Draft Air District 2019 Financial Plan



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

2019 FINANCIAL PLAN

GENERAL FUND

FIVE YEAR FISCAL FORECAST: 2020-2024

DRAFT

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INTRODUCTION AND PURPOSE

The Financial Plan (the Plan) is provided as a prelude to the development of the Bay Area Air Quality Management District's (Air District's) annual budget. A key component of the Plan is a description of the current economic environment and its short and long-term anticipated impacts to the Air District's fiscal condition. The Plan provides an overview of historical financial trends and describes key assumptions and policies. These inputs are used to develop a five-year financial forecast. The forecast is not a budget, but rather, a projection of the Air District's financial health based on key assumptions and factors. The forecast can help to flag future challenges and opportunities allowing the Air District to be proactive in planning actions as it develops and adopts a budget for the coming year. Management of fiscal resources enables maintenance of service levels while achieving the Air District's priorities, goals and objectives. This is the first version of the Plan and it is intended to be a dynamic document that will evolve as it is updated annually.

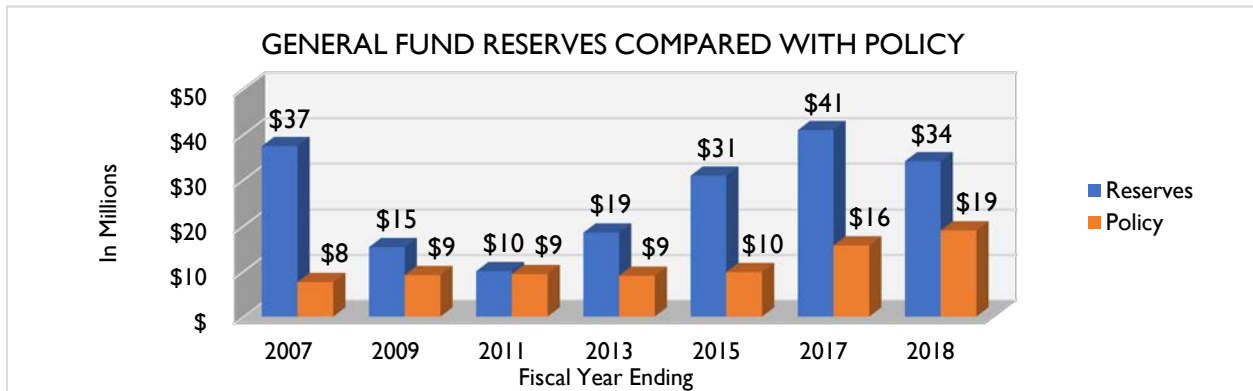
HISTORICAL FINANCIAL CONDITION/TRENDS

The General Fund is the primary operating fund used to sustain the business of the Air District. It accounts for revenues, expenditures, and reserves. This section provides an overview of the Air District's financial condition and actions taken to address financial challenges since the 2008 recession. The recession caused many local public agencies to lay-off a substantial portion of their work force and even drove some to file bankruptcy. However, through sound fiscal management and a combination of various measures, the Air District was able to minimize service impacts and avoid lay-offs. One measure used to temporarily meet operational needs was a draw down from the General Fund reserves.

HISTORICAL RESERVES

Reserves set aside funds to weather unanticipated economic conditions or the impact of natural events. Reserves are an important measure of financial stability and provide flexibility to temporarily mitigate financial challenges. Figure 1 illustrates the impact to the General Fund reserve when it was used to meet operational needs during the economic downturn. In 2007 before the economic downturn, reserves were \$37 million, substantially higher than the 2007 reserve policy of 15% of the General Fund Operation Budget. When reserves were used to meet operating needs, they dipped significantly, almost reaching the minimum reserve policy level of \$9 million in 2011. Since 2011, reserves have been replenished and are almost back to the 2007 levels, meeting the current minimum reserve policy of 20% of General Fund Operating Budget. This experience illustrates that while the Air District has a minimum reserve policy, it is important to strive to remain above the policy level to weather events such as the 2008 Great Recession.

Figure 1 General Fund Reserves Compared with Policy



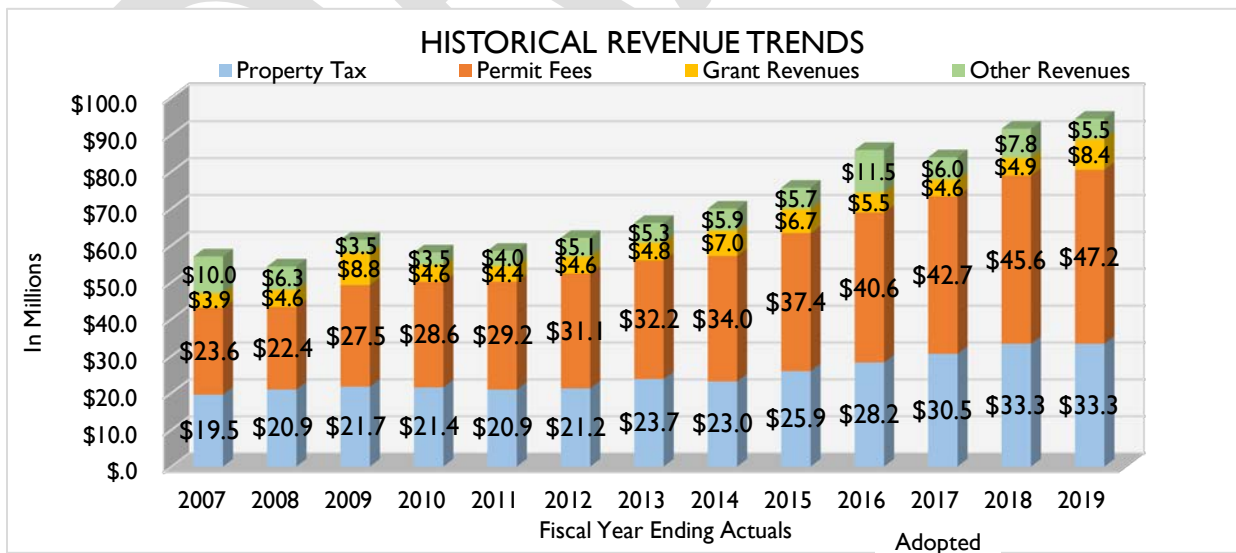
In addition to use of reserves, the following measures were utilized during the economic downturn:

1. Unfilled Vacancies
2. Postponed Expenditures
3. Deferred Capital Investment
4. Initiated Cost Recovery Policy for Permit Fees

HISTORICAL REVENUES

The General Fund’s two major revenue sources are Property Tax and Permit Fees. These two sources generally reflect the Bay Area’s changing economic conditions and largely dictate the Air District’s ability to control and manage growth. Figure 2 provides a historical trend of General Fund revenues over the past ten years (2007-2018) and the 2019 adopted budget.

Figure 2 Historical Revenue Trends



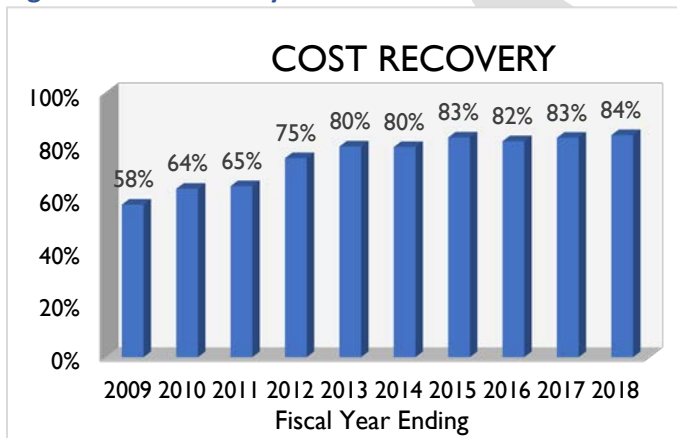
Property tax is the second largest General Fund revenue source. This source is not controlled by the Air District but is rather administered by the nine Bay Area Counties. It is distributed annually to the Air District using a State law prescribed formula.

As Figure 2 illustrates, property tax revenue growth is relatively stable. Unlike permit fees, there is a lag in response to changing economic conditions in the real estate market. In 2011 property tax revenue decreased slightly from \$21.4M to \$20.9M due to the 2008 recession; almost a three-year lag.

Permit Fees are the largest General Fund revenue source and are sensitive to the level of economic activity in the Bay Area. In 2008, permit fees dipped slightly due to the economic downturn. Some of this impact was offset by amending the fee schedule through fee increases, resulting in higher permit fee revenues.

State law authorizes the Air District to assess fees to generate revenue to recover 100% of reasonable costs of regulatory program activities for stationary sources of air pollution. Annually, the Air District can review and amend fees to cover associated costs.

Figure 3 Cost Recovery



In 2009, the Air District was only recovering 58% of its costs. In 2018, the cost recovery level was 84%. This was accomplished using a prescribed formula to review and amend the fee schedule annually pursuant to the adoption of a Cost Recovery Policy. The policy established an 85% minimum cost recovery target. Due to better economic conditions and the implementation of the cost recovery

policy, permit fee revenue has experienced significant growth since 2009 as shown in Figure 3.

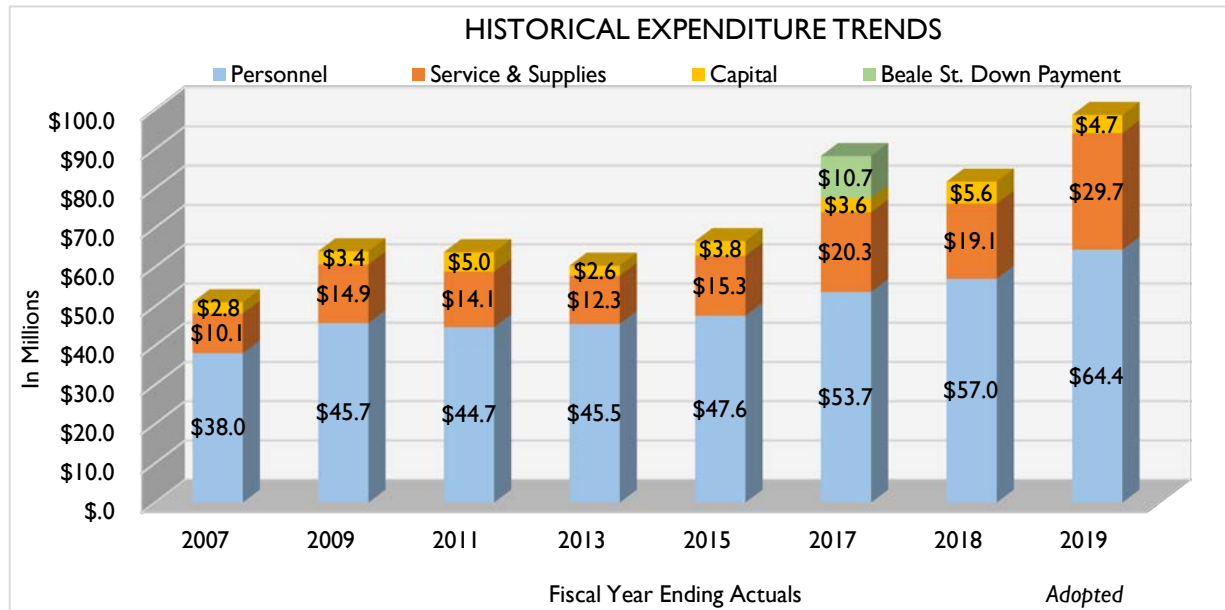
Grant Revenues represents various small federal and state grants used to support the air monitoring program and public outreach. This category fluctuates based on available grant funding.

Miscellaneous Revenues include other state funding such as subvention, interest and penalties and settlements and one-time revenues. This category also fluctuates based primarily on the amount and timing of penalties and settlements.

HISTORICAL EXPENDITURES

The General Fund’s two major expenditures are Personnel (includes benefits) and Service & Supplies. Figure 4 provides a historical trend of actual General Fund expenditures over the past ten years (2007-2018) and the 2019 adopted budget.

Figure 4 Historical Expenditure Trends



Personnel costs include salaries, taxes and benefits. Benefits includes health premiums, pension and other post-employment benefit contributions. This category dipped slightly in 2011 and remained relatively steady until 2017, when the Air District experienced increased staffing levels and a steep rise in pension contributions to CalPERS.

Services and Supplies costs are primarily contract services, with various office supplies representing the balance. This category fluctuates from year to year; and increased significantly in 2017 and 2018 due to several new and enhanced programs (such as the Clean Air Plan Implementation and Technology Improvement Office Programs); including one-time costs associated with the move to the Air District’s new headquarters.

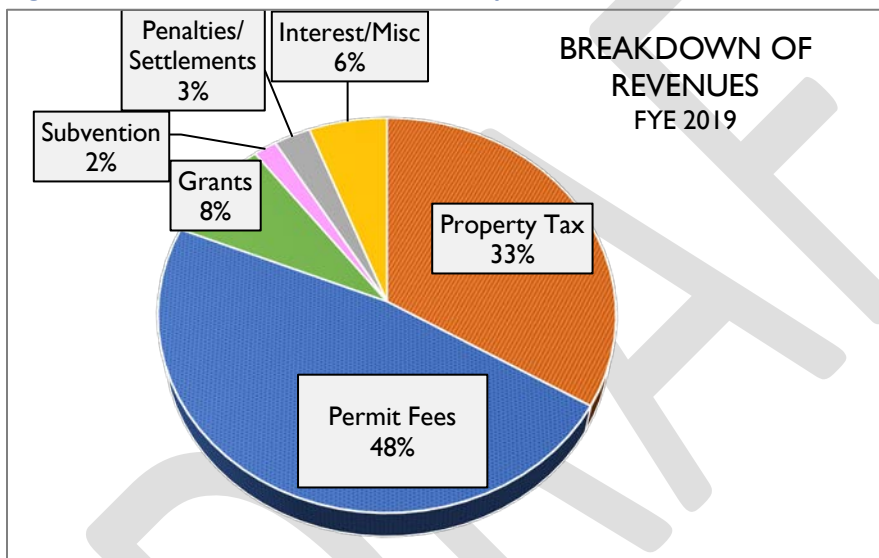
Capital costs fluctuate based on the timing of capital equipment purchase and replacement.

Beale Street down payment of \$10.7 million went towards the purchase of the Air District’s new headquarters in 2017. The Air District will continue to make annual payments to pay down its remaining obligation of \$19.3 million.

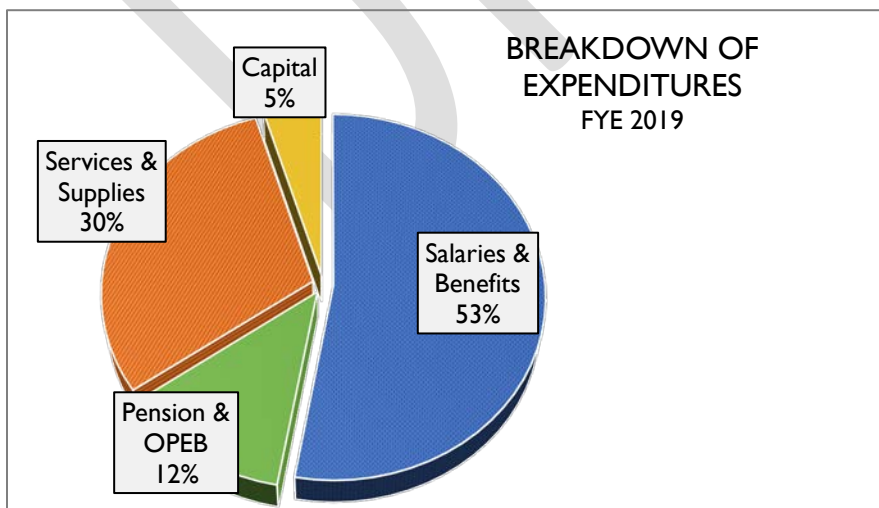
CURRENT FINANCIAL OUTLOOK

Currently, the Air District is in good financial health. The Air District has been able to adopt balanced annual budgets, while establishing and maintaining a healthy General Fund reserve by being fiscally prudent and establishing sound fiscal policies. Figure 5 provide a breakdown of the projected Revenues and Expenditures for the current fiscal year. The Fiscal Year 2019 General Fund Adopted Budget was \$99.2 million; which includes a one-time \$4 million transfer from reserves to implement the Technology Improvement Office (TIO) revolving loan program. As a service-driven agency, salaries and benefits (including Pension and Medical) are the largest components of expenditure, representing 65% of the total. The budget assumes a staffing level of 405 FTEs, an increase of 38 additional FTEs over the prior year, resulting from state mandate in implementing Assembly Bill 617, new regulations and additional grant funding.

Figure 5 Breakdown of Revenues and Expenditures in FYE 2019



Permit Fees and Property Tax account for 81% of the FY 2019 General Fund Budget. *The budget is expected to be on target with projections.*



The two major General Fund expenditures are Salaries/Benefits and Services/Supplies totaling 83% of the projected budget for the fiscal year ending 2019. *The budget is expected to be on target with projections.*

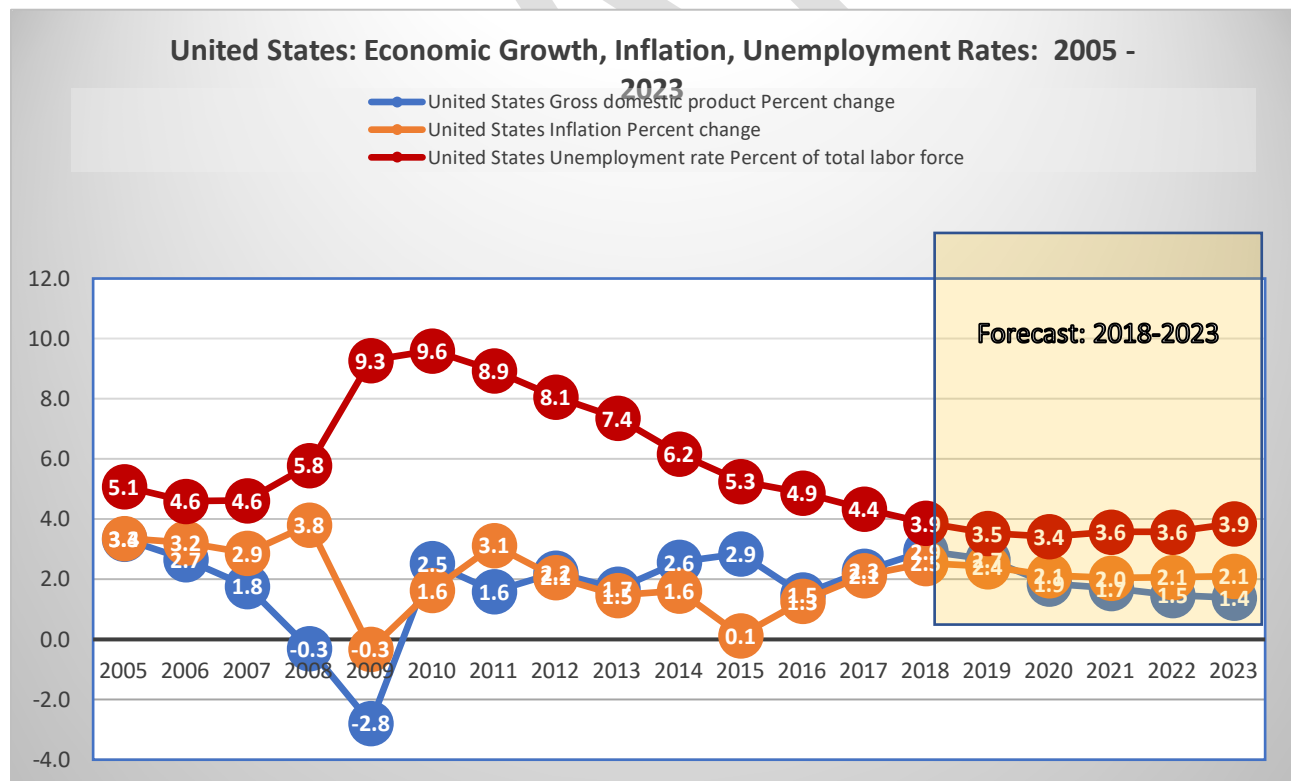
ECONOMIC OUTLOOK

EXTERNAL TRENDS – UNITED STATES

2018 was the first time since 2014 that the US economy registered sustained increases in back-to-back quarters, when the national economy grew by 4.2% in Q2 and 3.5% in Q3. The average economic growth in the first half of 2018 is 3.2%, with the full year growth expected at 3%, the first full-year economic growth of 3% since 2005 (the blue line in the graph below). The US economy is on pace to grow faster than in 2015, when it grew by 2.9% per year. A mild slowdown, to a 2.7% annual growth from 3% in 2018, is expected in 2019. The economy is currently expected to continue cooling off down to 2.2% in 2020. The US Federal Reserve projects a long-run average economic growth of about 2% per year, with about 2% inflation rate.

Measured differently, by the current dollar spending in the economy, growth momentum is also robust: nominal GDP - real growth plus quality adjusted inflation - rose a robust 7.4% in Q2, lifting its year-over-year growth to 5.4%, the strongest since 2006. However, looking further ahead, most economists agree that economic growth in the United States should slow down to about 1.4% by 2023, with many economists predicting a possible recession around 2021-22.

Figure 6 United States: Economic Growth, Inflation, Unemployment Rates 2005 - 2023



Source: International Monetary Fund, World Economic Outlook Database

Consumer spending, stronger exports, and strong business investment were key drivers behind the strong economic growth numbers in 2018.

Consumer inflation, while on a growing path, has been relatively benign. It increased above the US Federal Reserve’s long-run policy target of 2.0% in 2017 and 2018. However, the Federal Reserve expects inflation to return to a long-run average of about 2.1% by 2020. Economists revised their forecasts lower, following the weaker-than-expected trade and inventory data.

EXTERNAL TRENDS – CALIFORNIA

In California, similar to the nation, economic growth in the recent years has been robust, as shown in Figure 7.

Figure 7 California – Quarterly Real GDP Growth in 2014 through 2018 Quarter 1



Source: Bureau of Economic Analysis, US Department of Commerce

California’s Legislative Analyst’s Office (LAO) forecasts further steady expansion in personal income for 2018 and on to 2022. The most recent update projects the state economy to grow by 2.1% in 2018 and 2.7% in 2019 (CA LAO, The 2018-19 May Revision, LAO Economic Outlook).

Employment in the state is projected to remain steady, expanding by 1.4% in both 2018 and 2019. LAO noted that the state’s unemployment rate (4.2 percent as of March 2018) is the lowest it has been in decades. With low and falling unemployment, economists generally expect wages and prices to continue rising. However, LAO data also shows that the lower unemployment rate may be at least partially connected to slowing population growth, which has been declining gradually from 0.7% per year in 2017 to 0.6% by 2022. Although recent wage and price growth in general has not been as high as many economists had expected given the low unemployment, wage and price growth remains an important unpredictable risk indicator in the state’s economy. The state of California depends heavily on Capital Gains for its tax revenues. Capital Gains receipts are far

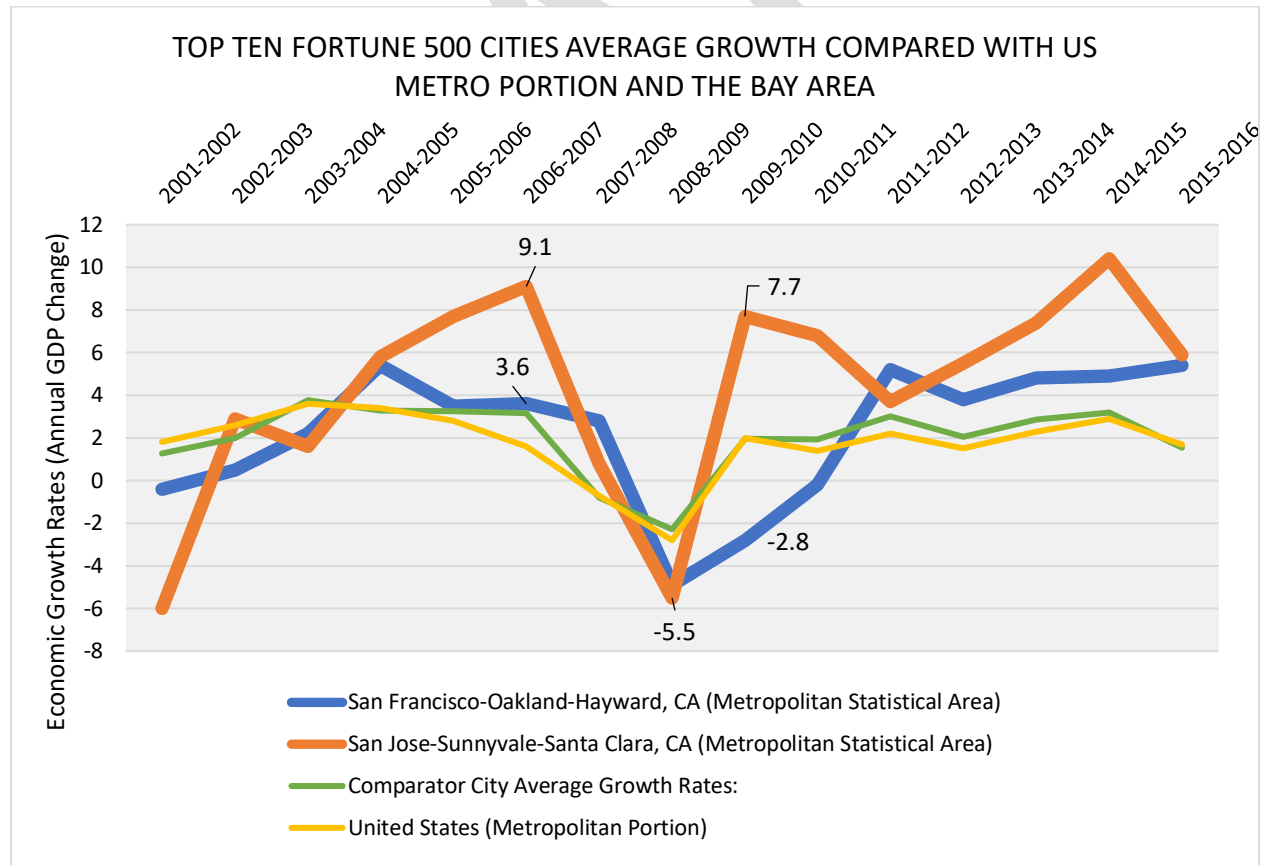
more dependent than wages on stock market performance and other factors that will inevitably suffer cyclical drops.

REGIONAL ECONOMY OF THE BAY AREA

Regionally, the Bay Area economy has performed remarkably well, growing by about 4.3% annually between 2014 – 2017. The Bay Area economy has been a leader in the United States in growth of GDP per capita. The very high productivity of about \$80,000 per person owes much to the high concentration of technology industries in the area.

However, even though the economy has become more diverse in recent years, many non-technology industries actually support the high technology industries (for example, both finance and manufacturing are tied to the performance of the high-tech sector). This concentration of industries focused on one area (technology) leads to an uneven and unpredictable economic performance for the entire region, with sharper peaks during times of economic growth and lower valleys in a recession – compared to other, more economically diversified regions, not dependent on a single industry.

Figure 8 Top 10 Fortune 500 Cities Average Growth Compared with US Metro Portion and the Bay Area



Source: Bureau of Economic Analysis, US Department of Commerce

FINANCIAL FORECAST

The Air District prepares a Five-Year Financial Forecast for the General Fund to project its long-term financial health based on revenue and expenditure trends, policy decisions, assumptions and expectations. The Five-Year Forecast allows the Air District to assess the current environment and respond to changes.

Table 1 Five-Year General Fund Financial Forecast

Five-Year General Fund Financial Forecast							
	FYE 2018 Unaudited Revenues &Transfers	FYE 2019 Adopted Revenue & Transfers	FYE 2020 Projected Revenue & Transfers	FYE 2021 Projected Revenue & Transfers	FYE 2022 Projected Revenue & Transfers	FYE 2023 Projected Revenue & Transfers	FYE 2024 Projected Revenue & Transfers
REVENUE							
Property Tax	\$33,032,766	\$33,274,701	\$34,993,800	\$36,803,534	\$38,340,726	\$39,593,091	\$41,425,774
Permits/Fees	45,592,051	\$47,172,397	\$49,460,183	\$51,398,441	\$53,414,780	\$55,512,384	\$57,694,565
Grant Revenues	4,170,943	\$3,580,726	\$3,607,684	\$3,634,912	\$3,662,412	\$3,690,187	\$3,718,240
AB 617 Funding	\$711,433	\$4,800,000	\$4,800,000	\$4,800,000	\$4,800,000	\$4,800,000	\$4,800,000
Other Revenues	7,818,852	\$5,473,349	\$5,492,289	\$5,511,623	\$5,531,333	\$5,551,426	\$5,571,911
	<u>\$91,326,044</u>	<u>\$94,301,173</u>	<u>\$98,353,956</u>	<u>\$102,148,509</u>	<u>\$105,749,251</u>	<u>\$109,147,089</u>	<u>\$113,210,489</u>
Transfer from Special Funds	669,048	\$849,835	\$866,832	\$884,168	\$901,852	\$919,889	\$938,287
Transfer from / (to) Fund Balance	\$ (10,249,361)	\$4,000,000	(\$391,786)	(\$881,629)	(\$816,389)	(\$528,598)	(\$1,143,721)
TOTAL REVENUE	\$81,745,731	\$99,151,008	\$98,829,002	\$102,151,049	\$105,834,714	\$109,538,380	\$113,005,055
EXPENDITURES							
Personnel & Benefits	44,775,537	\$49,162,537	\$50,632,016	\$52,164,950	\$53,765,793	\$55,438,735	\$57,164,503
Retirement Pension	6,031,187	\$8,587,259	\$10,081,609	\$11,093,611	\$12,013,329	\$12,788,279	\$14,941,425
Other Post Employment Benefits	6,222,764	\$6,655,465	\$7,325,240	\$7,713,212	\$7,952,422	\$8,249,654	\$8,847,501
Services and Supplies	\$19,109,584	\$30,089,191	\$26,885,208	\$27,079,100	\$27,798,277	\$28,541,574	\$29,305,481
Capital Expenditures	\$5,606,659	\$4,656,556	\$3,904,930	\$4,100,176	\$4,304,893	\$4,520,137	\$4,746,144
	<u>\$81,745,731</u>	<u>\$99,151,008</u>	<u>\$98,829,002</u>	<u>\$102,151,048</u>	<u>\$105,834,714</u>	<u>\$109,538,379</u>	<u>\$113,005,055</u>
TOTAL EXPENDITURE	\$81,745,731	\$99,151,008	\$98,829,002	\$102,151,048	\$105,834,714	\$109,538,379	\$113,005,055

Table 1 shows the FYE 2019 adopted General Fund Budget, with the projected budgets for the next five years. Overall, projected revenues slightly exceed projected expenditures for FYE 2020-2024; showing an operating surplus ranging from \$391K in FYE 2020 to \$1.1M in FYE 2024. All operating surplus are added to the General Fund Reserves projected balance. There are several key assumptions in developing the revenue and expenditure projections for the Five-Year Financial Forecast.

KEY REVENUE ASSUMPTIONS

1. **Property Tax** continues to grow as the Bay Area experiences robust construction and housing markets. The five-year forecast assumes continued growth of approximately 4% in revenues for year 2020 and 2021; thereafter, only a 3% inflationary growth in years 2022 through 2024.
2. **Permit Fee** revenues are expected to increase annually by approximately 4% during the five-year forecast as a result of the Air District's Cost Recovery policy, which allows the Air District to increase its fee schedule to recover costs for permit related activities. The current cost recovery level of 84% is expected to drop in the current year due in part to the new and enhanced program costs. Projections suggest attainment of the 85% cost recovery policy level

before the end of the five-year forecast, as new and enhanced programs are fully implemented, and costs begins to level out.

3. **Grant Revenues** remain stable based on current funding with no expected new grants anticipated through 2024.
4. **Assembly Bill 617** funding of \$4.8 million from the State continues for the next 5 years.
5. **Other Revenues** mainly account for penalties, State subvention, and interest income. These revenues are expected to remain stable.

KEY EXPENDITURE ASSUMPTIONS

1. **Personnel** costs are projected to increase for the five-year period with a 3% annual cost of living adjustment, a slight increase in health premiums, and the filling of some open positions. No increase in staffing level (other than the filling of open positions) is anticipated for the next 5 years.
2. **Retirement Pension** costs are rising due to recent discount rate reduction by CalPERS and escalating unfunded liability payments. The forecast assumes implementation of the Air District’s approved policy to make discretionary payments to CalPERS to reduce the unfunded actuarial liability (UAL).
3. **Other Post-Employment Benefits (OPEB)** for retiree medical benefits are projected to be approximately 100% funded by FYE 2024. After that, the \$4.0 million in discretionary funding will shift towards the CalPERS Pension Plan to reduce the UAL.
4. **Services and Supplies** costs are projected to level off, assuming only an inflationary increase of approximately 2-3%.
5. **Capital Expenditures** are expected to remain level, with only an inflationary increase.
6. **General Fund Reserves** are used to fund one-time costs, and to cover temporary revenue shortfalls. The Air District purchased additional space at 375 Beale and an East Bay facility in 2018 using approximately \$15 million from the reserves. Reserves are expected to stay above the minimum policy level ensuring continuation of the Air District’s operations, should another economic downturn occur.

UNFUNDED LIABILITIES

The Air District currently provides a retirement pension benefit plan through the California Public Employee Retirement Systems (CalPERS), and contracts with California Employers’ Retiree Benefit Trust (CERBT) to prefund its OPEB obligations. As of the most recent valuation dates (2017), the Air District’s unfunded liabilities are as follows:

	Liability	Funded	Unfunded	% Funded
Pension	\$399 M	\$224 M	\$75 M	75%
OPEB	\$59 M	\$40 M	\$19 M	68%

PENSION RETIREMENT BENEFITS

The Air District provides a defined benefit pension plan to eligible retirees and employees through the California Pension Employee Retirement System (CalPERS). There are two separate retirement formulas provided to employees:

1. Classic Employees. For its Classic employees, the Air District has a “2.5% at 55” plan; under which employees retiring at age 55 will receive 2.5% of their single highest year of “regular” pay for each year of service. Classic employees are those hired by a local agency before January 1, 2013 or were hired from another CalPERS agency with a break in service of six months or less. The plan receives both employer and employee normal cost contributions. As of date, the employee normal rate is 7% of the employee salary and the employer rate is 7.259% of employee salary.
2. PEPRA Employees. Effective January 1, 2013, the Public Employees’ Pension Reform Act (PEPRA) created a new retirement tier benefit formula to reduce costs and liabilities for state and local agency members in the CalPERS system. Employees hired after January 1, 2013 are considered PEPRA employees and have a “2.0% at 62” plan; under which employees retiring at age 62 will receive 2.0% of the average of their three highest years of regular pay for each year of service. As of date, the employee normal rate is 5.5% of the employee salary and the employer rate is 5.7% of employee salary.

Figure 9 CALPERS Funding History

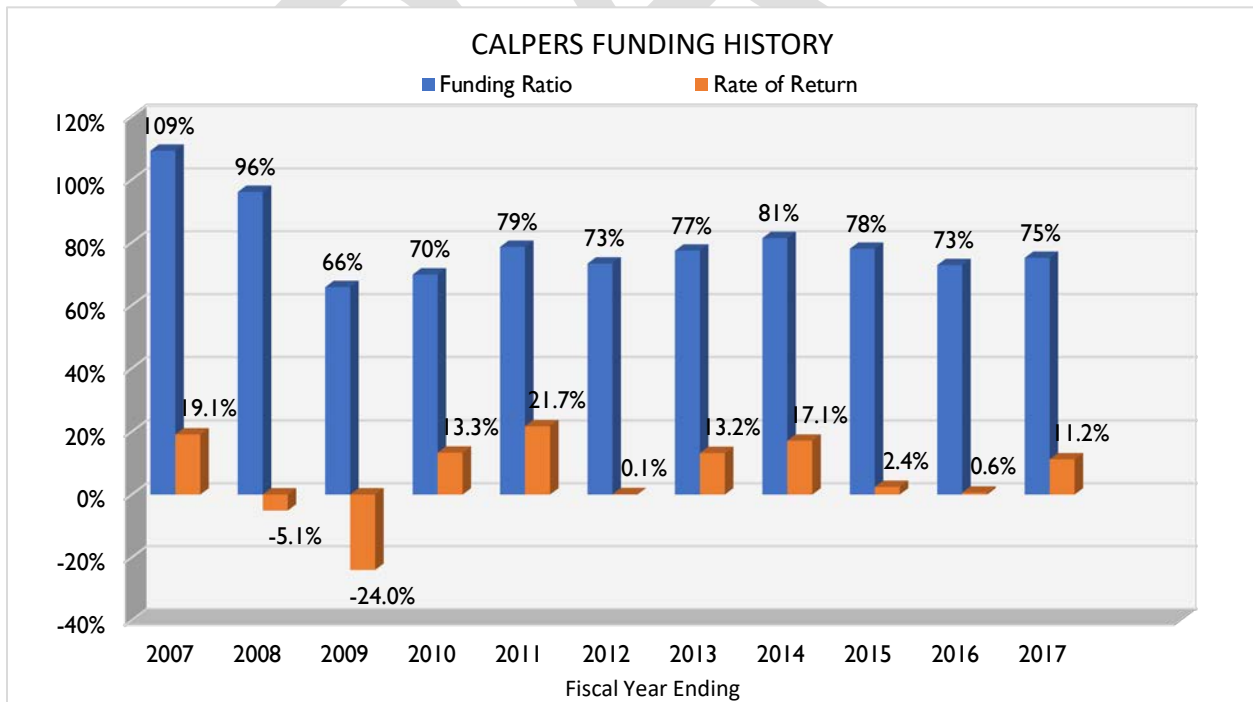
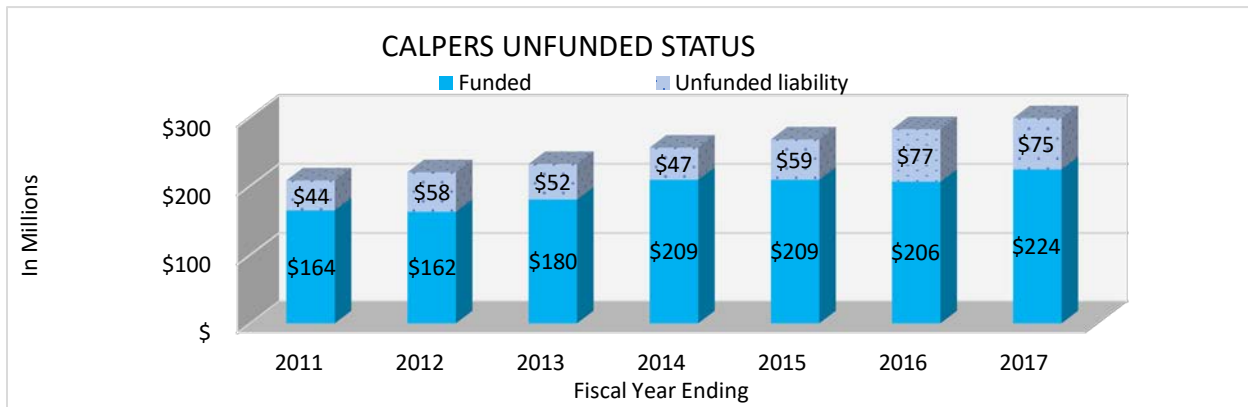


Figure 9 provides a historical rate of return and funding status of the Air District’s pension plan with CalPERS. In 2007, the plan was “super-funded” and required no employer or employee

contributions. In 2008 and 2009, at the beginning of the economic downturn, the plan experienced negative returns which reduced the funded status to as low as 66%. As a result, the plan became underfunded and a large unfunded liability is now being recognized. Not only were the annual contributions for the Air District and employees normal cost reinstated, but the Air District as the employer had to make additional contributions towards closing the gap for this significant unfunded liability.

Figure 10 CALPERS Unfunded Status

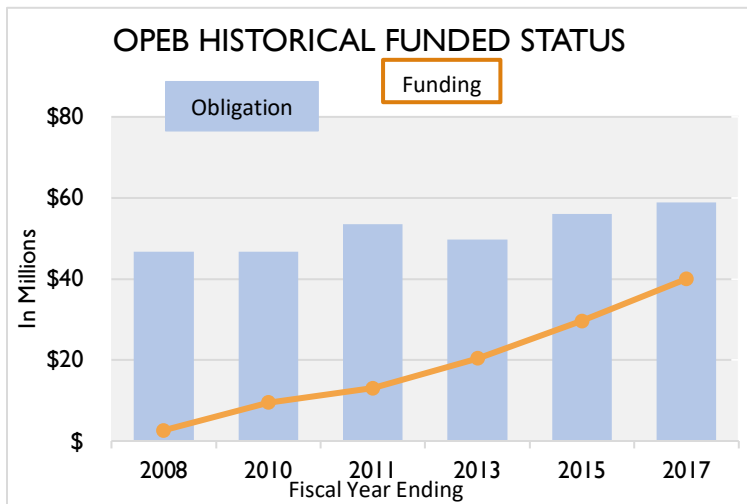


The 2017 actuarial valuation report shows a total funded obligation of \$224 million; leaving an unfunded liability of \$75 million shown in Figure 10. The total required employer contribution for fiscal year 2019 is estimated at \$8.2 million, which includes the \$4.9 million UAL payment. The Air District plans to address the unfunded liability pursuant to the Pension policy noted in the Financial Policies Section of this document.

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

In addition to pension, the Air District provides continuation of medical, dental, vision, and life insurance coverage to its retired employees. These benefits vary based on retirees' date of hire, years of PERS service, and coverage level selected. Figure 11 below shows the funding history for the Air District's OPEB Plan based on the most recent actuarial valuation report dated June 30, 2017.

Figure 11 OPEB Historical Funded Status



Prior to 2008, the Air District made annual “pay as you go” payments. These payments only covered the current benefit payments due and payable. They did not account for the dollars required to fund the plan for current plan members and past vested plan members. While employers are not required to fund the plan, it was strongly recommended that these benefits should be funded as they are earned.

In 2008, the Air District Board approved a plan to start prefunding OPEB and over the last 10-years, these annual discretionary contributions took the plan from 0% funded in 2008 to 68% funded in 2017. Based on the most recent actuarial valuation; the plan’s unfunded liability is estimated at \$19 million. The Air District plans to continue \$4.0 million discretionary funding pursuant to the OPEB policy noted in the Financial Policies Section of this document.

ALTERNATIVE STRATEGY FOR PENSION LIABILITIES

The Air District’s current unfunded liabilities for both the OPEB and Pension plans total \$94 million. As a part of the FYE 2019 Budget, the Board adopted a 90% funding target for both plans.

District’s Current Policy was approved by the Board in June 2018. It will be possible to shift the \$4 million in discretionary funds from OPEB once the 90% funded target is reached. Those funds can then be directed to further pay down the unfunded liability in the CalPERS Pension Plan.

CalPERS 15-year Fresh Start Option would lock the Air District into a fixed payment schedule with no flexibility to reduce the annual payments during difficult budget years. Annual costs would be similar to the current policy.

Further analysis of these and other pending CalPERS options will be completed in late 2019.

Financial policies provide a shared understanding of how the Air District will develop its financial practices and manage its resources. These policies were established by prior Boards using best practices and industry standards to guide the Air District's decision-making process. Listed below are Board approved financial policies.

1. Reserve Policy

In 2016, the Air District amended its reserve policy, raising it from 15% to 20% of General Fund operating budget. The Air District's minimum reserve balance of 20% of the General Fund Operating Budget is intended to address financial emergencies, litigations and one-time operating and capital needs.

2. Cost Recovery Policy

In 2012, the Board approved a Cost Recovery Policy providing for annual amendments to the fee schedules. The annual fee schedule amendments are intended to achieve an 85% cost recovery goal.

3. Pension Policy

In 2016, the Board adopted a policy setting a target funding level of 90%. In 2018, this policy was revised to establish a target date of 20 years to reach a 90% funding level. It also designated \$1 million annually to accelerate funding of the liability. As a part of this action, the Air District will identify alternative investment options for the \$1 million in annual discretionary funding, and present to the Budget and Finance Committee before the end of 2019.

4. Other Post-Employment Benefit (OPEB) Policy

In 2008, the Board approved prefunding of its OPEB plan through a 115-trust with the California Employers Retirement Benefit Trust (CERBT). The Air District discretionary contributions have accelerated through the years and as a result, the current annual discretionary funding is \$4 million. In 2016, the Board approved a policy to set a target funding level of 90%, with no target date. In 2018, the policy was revised to achieve target funding in 3 years. Upon reaching the full funding level, the \$4 million discretionary funding may be redirected to the CalPERS pension plan.