

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
PRESENTATION OF AUDIT RESULTS
TO THE
BUDGET AND FINANCE COMMITTEE**



February 27, 2019



Simpson & Simpson, LLP

AGENDA



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



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Auditor's Required Communications

SAS 114



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

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



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Auditor's Required Communications

SAS 114 (continued)



2. Significant Accounting Policies

- The Air District's significant accounting policies are described in Note 1 to the financial statements and are in accordance with generally accepted accounting principles and consistent with industry practices and standards.
- The Air District adopted the provisions of Governmental Accounting Standards Board (GASB) 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (other postemployment benefits or OPEB), effective for year ended June 30, 2018.
- The application of existing policies was not changed during the year (other than the implementation of GASB 75).
- All significant transactions have been recognized in the financial statements in the proper period.



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Auditor's Required Communications

SAS 114 (continued)



3. *Management Judgments and Accounting Estimates*

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

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



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Auditor's Required Communications

SAS 114 (continued)



3. Management Judgments and Accounting Estimates (continued)

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



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Auditor's Required Communications

SAS 114 (continued)



4. Corrected Misstatements

The one proposed audit adjustment was recorded by the Air District, which was not material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

5. Uncorrected Misstatements

None.

6. Significant deficiencies in internal control

None noted.



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Auditor's Required Communications SAS 114 (continued)



7. No Disagreements or Difficulties with Management

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

8. No Consultations with Other Accountants

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



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Auditor's Required Communications

SAS 114 (continued)



9. *Management Representations*

- We have requested certain representations from management that are included in the management representation letter dated February 13, 2019.



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Audit Results and Highlights of the Basic Financial Statements



1. *Unmodified Opinion*

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

2. *Financial Highlights*

- Government-Wide Financial Statements.
- Governmental Fund Financial Statements.



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



2. Financial Highlights (continued)

A. Government-Wide Financial Statements

- ❑ Beginning net position, as of June 30, 2017, was restated by a negative \$21.5 million for implementation of the new pension accounting standards (*GASB 75*). The net impact of the new accounting principles caused the beginning net position to decline from \$165.96 million to \$144.5 million.
- ❑ Net position as of June 30, 2018 was \$172.3 million (excess of total liabilities plus deferred inflows over total assets plus deferred outflows), an increase of \$27.8 million due to an increase in Restricted Net Position for Air Quality Grants and Projects offset by the restatement noted above.



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



2. Financial Highlights (continued)

B. Government Funds Financial Statements

- ❑ Governmental combined fund balances as of June 30, 2018 increased from last year by \$44.96 million to \$266.2 million. The increase in fund balance is due primarily to an increase in the Air District's Restricted Fund Balance for Air Quality Grants and Projects.
- ❑ The General Fund accounts for all the Air District's financial resources except those required to be accounted for in the Special Revenue Fund. The ending fund balance of \$75 million is carried over to the next fiscal year. Of this amount \$5.3 million was restricted, \$.86 million was nonspendable, and the remaining \$34.1 million was assigned/committed and \$34.7 million was unassigned.



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Audit Results and Highlights of the Single Audit



3. **Government Auditing Standards Opinion**

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

- Compliance
 - No instances of noncompliance noted

4. **Office of Management and Budget (OMB) Uniform Guidance Audit Opinion-Unmodified**

- Compliance
 - No instances of noncompliance noted

- Internal Control Over Compliance
 - No Material weaknesses or significant deficiencies noted.



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Audit Results and Highlights of the Single Audit (Continued)



5. *Schedule of Findings and Questioned Cost*

- No findings or questioned costs noted.

6. *Follow-up on Prior Year Findings*

- No prior year findings or questioned costs noted.



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Questions & Answers



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The image features the letters 'SOS' in a large, bold, dark blue serif font. The letters are highly stylized, with thick strokes and decorative flourishes. They are set against a light blue background that has a subtle gradient. The 'S' is on the left, the 'O' is in the center, and the second 'S' is on the right. The letters are slightly overlapping and have a three-dimensional appearance.

Thank You



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

AGENDA: 5

Bay Area Air Quality Management District

Second Quarter Financial Report Fiscal Year Ending 2019

**Budget & Finance Committee Meeting
February 27, 2019**

**Stephanie Osaze
Finance Manager**



BAY AREA
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Overview

General Fund Reporting on 4th Quarter financial results (July 1, 2018 – December 31, 2018):

- Revenues
- Expenditures
- Investments
- General Fund Balance & Unfunded Liabilities
- Purchasing Report Requirements
- Additional Information from Prior Meeting



BAY AREA
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2nd Quarter Results

Fiscal Year Ending (FYE) 2019

General Fund - Revenues

Major Categories	FYE 2019 Budget	FYE 2019 Actual (as of 12/31/2018)	Percentage of Budgeted Revenues
County receipts	\$33,274,701	\$12,848,493	39%
Permit Fees	\$38,746,963	\$33,312,960	86%
Title V Permit Fees	\$5,810,627	\$5,616,575	97%
Asbestos Fees	\$2,500,000	\$2,193,742	88%
Toxic Inventory Fees	\$506,806	\$298,624	59%
Penalties and Settlements	\$2,750,000	\$1,286,607	47%
Interest Revenue	\$496,796	\$690,297	139%
Miscellaneous Revenue	\$100,000	\$74,824	75%
Total Revenues	\$84,185,893	\$56,322,122	67%



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Revenue Comparison

Prior Year vs. Current Year

Major Categories	FYE 2018 (As of 12/31/2017)	FYE 2019 (As of 12/31/2018)	\$ DIFFERENCE
County receipts	\$12,602,763	\$12,848,493	\$245,731
Permit Fee receipts	\$27,921,937	\$33,312,960	\$5,391,023
Title V Permit Fees	\$4,531,526	\$5,616,575	\$1,085,049
Asbestos Fees	\$1,956,790	\$2,193,742	\$236,952
Toxic Inventory Fees	\$375,639	\$298,624	(\$77,015)
Penalties and Settlements	\$1,121,691	\$1,286,607	\$164,916
Interest Revenue	\$346,519	\$690,297	\$343,778
Miscellaneous Revenue	\$20,794	\$74,824	\$54,031
TOTAL REVENUES	\$48,877,658	\$56,322,122	\$7,444,464



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2nd Quarter Results FYE 2019

General Fund - Expenditures

Major Categories	FYE 2019 Budget	FYE 2019 Actual (as of 12/31/2018)	Percentage of Budgeted Expenditures
* Personnel - Salaries	\$46,656,763	\$20,583,169	44%
* Personnel - Benefits	\$24,824,111	\$10,628,523	43%
Operational Services and Supplies	\$29,676,361	\$9,138,653	31%
Capital Outlay	\$4,656,556	\$2,136,710	46%
** Office Acquisition		\$13,130,123	-
Total Expenditures	\$105,813,791	\$55,617,177	53%
* Consolidated (Includes Special Funds)			
** Acquisition approved using GF Reserves			



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Expenditure Comparison

Prior Year vs. Current Year

Major Categories	FYE 2018 (As of 12/31/2017)	FYE 2019 (As of 12/31/2018)	\$ DIFFERENCE
*Personnel - Salaries	\$18,965,893	\$20,583,169	\$1,617,276
*Personnel - Benefits	\$10,059,540	\$10,628,523	\$568,983
Operational Services and Supplies	\$9,284,686	\$9,138,653	(\$146,033)
Capital Outlay	\$3,244,123	\$2,136,710	(\$1,107,413)
**Office Acquisition		\$13,130,123	\$13,130,123
TOTAL EXPENDITURES	\$41,554,241	\$55,617,177	\$14,062,936

*Consolidated includes Special Funds

** Acquisition approved using GF Reserves



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2nd Quarter Results FYE 2019

Investments

Cash and Investments with County Treasury: (Based on Dec. 2018 Account Balance)

General Fund	\$64,839,756
TFCA	\$99,193,498
MSIF	\$41,031,566
Carl Moyer	\$18,940,093
CA Goods Movement	\$15,077,651
BikeShare	\$1,084,000
TOTAL	<u>\$240,166,564</u>



Fund Balance and Unfunded Liabilities

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FUND BALANCES	6/30/2017 Audited	6/30/2018 Audited	6/30/2019 Projected
DESIGNATED: *			
Building Acquisition			7,000,000
Diversity Equity & Inclusion	0	100,000	0
Economic Contingency	16,519,959	17,390,311	19,084,769
IT- Event Response	500,000	500,000	0
Litigation	0	500,000	0
Napa/Sonoma Fireplace Replacement Grant	0	1,000,000	1,000,000
Pension & Post Employment Liability	1600000	1,000,000	1,000,000
Tech- Meterological Network Equipment	131,100	131,100	0
Tech- Mobile Monitoring Instruments	80,000	80,000	0
Technology Implementation Office	0	3,350,000	0
GHG Abatement Technology Study	1,500,000	1,500,000	0
Woodchip Program	0	150,000	0
Woodsmoke Grant	0	1,000,000	1,000,000
Worker's Comp Self -Funding	1,000,000	1,000,000	0
TOTAL DESIGNATED	\$21,331,059	\$27,701,411	\$29,084,769
UNDESIGNATED	20,455,742	14,085,390	16,717,783
Use of Fund Balance	(852,032)	4,253,010	(12,671,400)
TOTAL UNDESIGNATED	\$19,603,710	\$18,338,400	\$4,046,383
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
CERTIFICATE OF PARTICIPATION NOTES (Est. @June 2018)			\$26,956,830



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 2019 Vendor Payments

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

	VENDOR NAME	AMOUNT PAID (July 2018 - Dec 2018)	Explanation
1	Alliant Insurance Services	\$330,020	Various Business Insurance Policies
2	Bay Area Headquarters Authority	\$1,107,768	Shared Services & Common Areas
3	Benefits Coordinators Corp.	\$421,383	Life Insurance Plan & LTD Insurance
4	Berkeley Communications Corp	\$255,348	IT Network Services
5	CA Public Employee Retirement System	\$3,159,785	Health Insurance Plan
6	CA Public Employee Retirement System	\$1,038,931	Retirement Benefits & 457 Supplemental Plan
7	Cubic Transportations Systems	\$207,421	Clipper Transit Subsidy
8	Enterprise Fleet Services	\$245,495	Fleet Leasing and Maintenance Services
9	Hartford Life Ins Co.	\$375,855	457 Supplemental Insurance
10	O'Rorke Inc.	\$278,242	Marketing & Advertising Services
11	Preferred Benefit Insurance AD	\$391,136	Dental Insurance Plan
12	SoftwareOne Inc.	\$343,386	Microsoft Subscription Service
13	Thermo Environmental Instrument	\$183,654	Air Monitoring and Source Test Instrumentation
14	Wang Brother Investment	\$265,895	Richmond Site Lease



Additional Information: Vendor Request for Proposal (RFP)

	VENDOR NAME	AMOUNT PAID (July 2017 - June 18)	Description	RFP Comment
1	Alliant Insurance Services	\$591,802	Various Business Insurance Policies	A
2	Benefits Coordinators Corp.	\$1,009,224	Life Insurance Plan & LTD Insurance	A
3	Bay Area Headquarters Authority	\$1,913,186	Shared Services & Common Areas	B
4	CA Public Employee Retirement System	\$7,297,956	Health Insurance Plan	B
5	CA Public Employee Retirement System	\$3,010,929	Retirement Benefits & 457 Supplemental Plan	B
6	Cubic Transportations Systems	\$446,158	Clipper Transit Subsidy	B
7	Preferred Benefit Insurance AD	\$695,682	Dental Insurance Plan	B
8	Pacific Gas & Electric	\$103,757	Utility services	C
9	SoftwareOne Inc.	\$332,269	Microsoft Subscription Service	C
10	Thermo Environmental Instrument	\$110,194	Air monitoring and source test instrumentation	C

Comment Description:

A Broker performs regular reviews of insurance plans for competitive pricing

B Reviews are performed by Third-Party (Not under District's Authority)

C Limited/Sole-Source



Additional Information: Vendor Request for Proposal (RFP) (cont.)

	VENDOR NAME	AMOUNT PAID (July 2017 - June 18)	Description	RFP Comment
11	Ceridian	\$114,109	Payroll Processing Services	D
12	Direct Mail Center	\$147,084	Public Notice Mailing Services	D
13	Enterprise Fleet Services	\$445,322	Fleet Leasing and Maintenance Services	D
14	Sloan Sakai LLP	\$176,267	Human Resources Consulting Services	D
15	Verizon Wireless	\$211,951	Cell phone services	D
16	Wright Express Universal	\$102,485	Fuel for fleet	D
17	Hartford Life Ins Co.	\$726,500	457 Supplemental Insurance	D
18	BAAQMD Employee Association	\$101,487	Employee Union Dues	N/A
19	CAPCOA	\$700,337	Pass through EPA grants	N/A
	Comment Description:			
D	Service Consistency			
N/A	Not Applicable			



Additional Information: Property Tax by County

County	Adopted Budget FYE 2018	Actual Revenue FYE 2018	%age of Budget
Alameda	5,559,000	5,858,293	105%
Contra Costa	3,596,000	3,671,228	102%
Marin	1,487,000	1,488,043	100%
Napa	1,001,000	1,042,396	104%
San Francisco	4,468,760	5,224,019	117%
San Mateo	4,126,000	4,479,649	109%
Santa Clara	8,988,000	8,969,495	100%
Solano	799,000	832,404	104%
Sonoma	1,494,000	1,467,239	98%
TOTAL	31,518,760	33,032,766	105%



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DISTRICT

Additional Information: Full Time Equivalent (FTE) by General Fund and Grant Fund

FYE 2019 Budgeted FTE

General Fund	365	90%
Grant Fund	40	10%
TOTAL	405	100%

Currently Filled

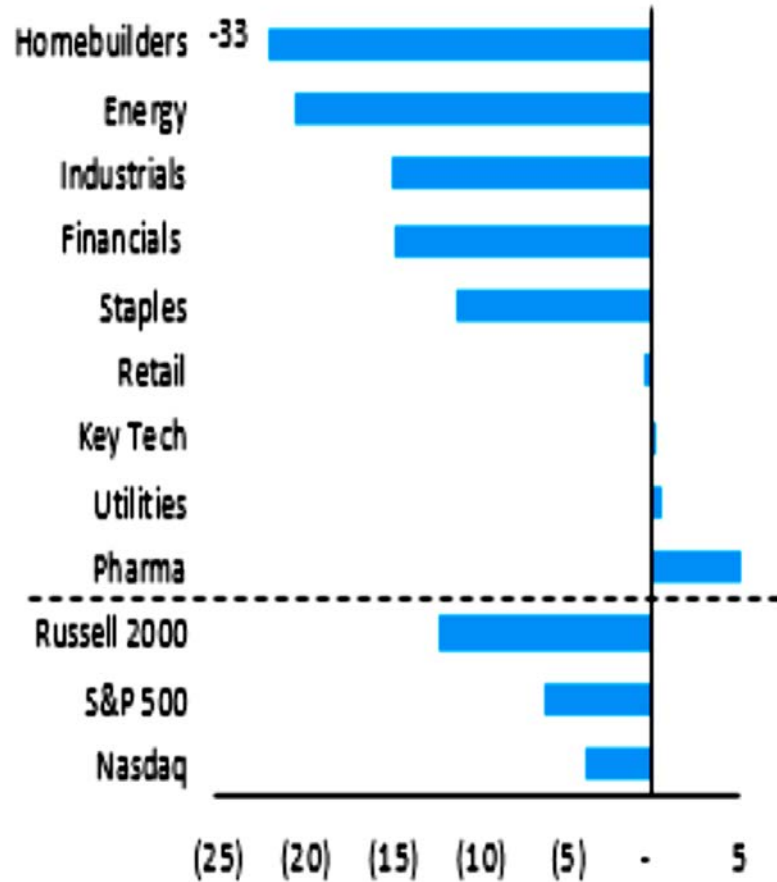
General Fund	321	91%
Grant Fund	30	9%
TOTAL	351	100%

The Bay Area Economy Overview: Economic Growth, Jobs, and Housing

Leonid Bak, Senior Advanced Projects Advisor
Budget and Finance Committee
February 27, 2019

2018: Economy and Market Summary

Performance in 2018: Key US (Sub) Indices



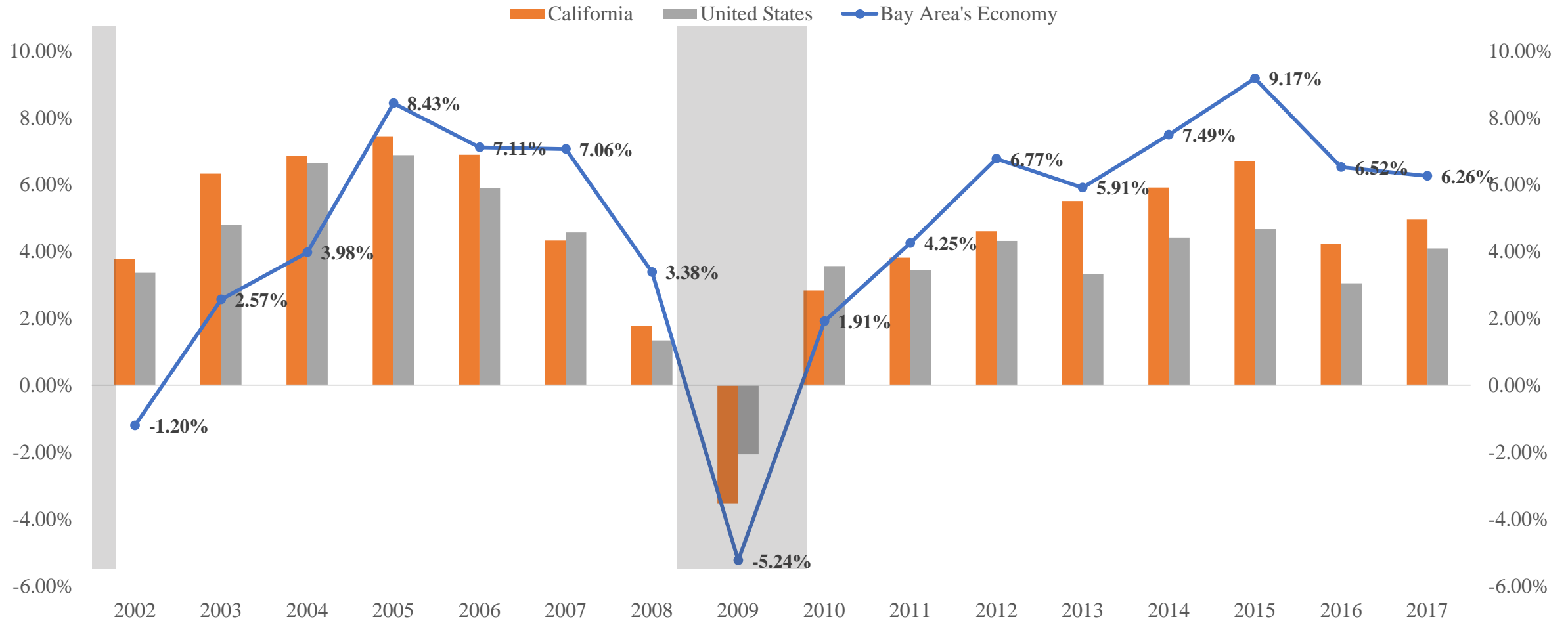
Source: Bloomberg

Average stock share performance within industry:
percent lost ----- gained

- 2018 ended with bear market blues and a stock market roller coaster ride.
- Notable highlights:
 - **International economic developments:**
 - The U.S. – China trade war;
 - Iran deal exit;
 - Brexit fireworks and the Italian budget;
 - OPEC output cuts;
 - **US economic and market highlights:**
 - ballooning U.S. debt ceiling and rate hike drama;
 - revamped NAFTA;
 - iPhone estimates and patent battles;
 - Facebook's Cambridge Analytica scandal and tech downturn;
 - Amazon's new headquarters;
 - cannabis stocks;
 - GE dropped from the Dow (due to lack of demand for turbines – a shift to cleaner energy);
 - the impending collapse of Sears;
 - the government shutdown.

Bay Area's Economic Performance

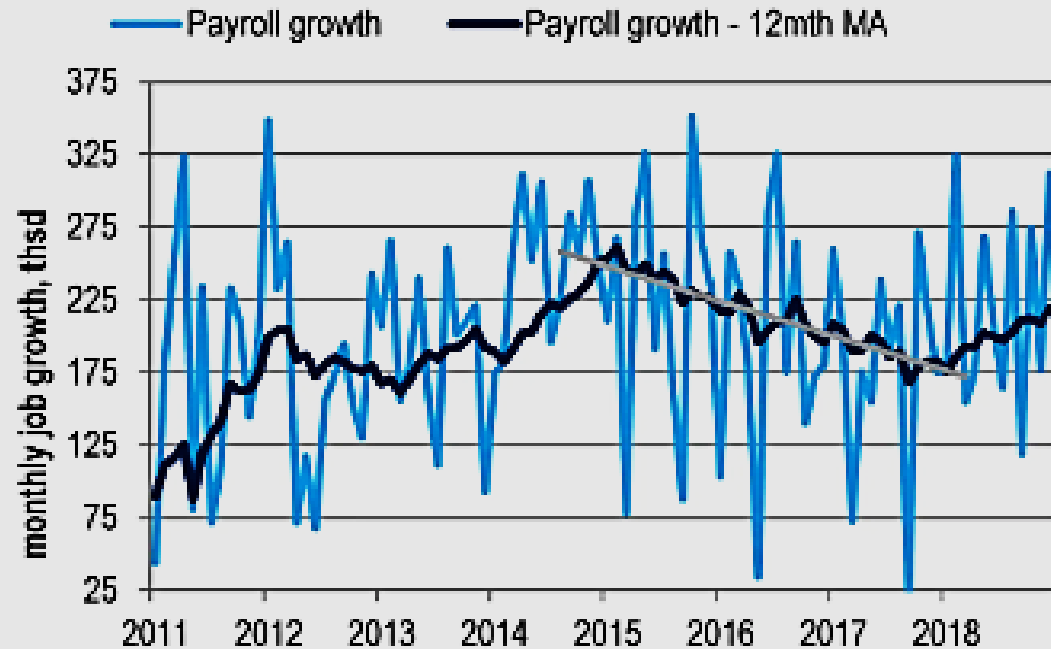
Compared to California and US, 2001 – 2017 – Annual GDP Change



Source: US Bureau of Economic Analysis, BAAQMD
 Shaded areas indicate US economic recessions

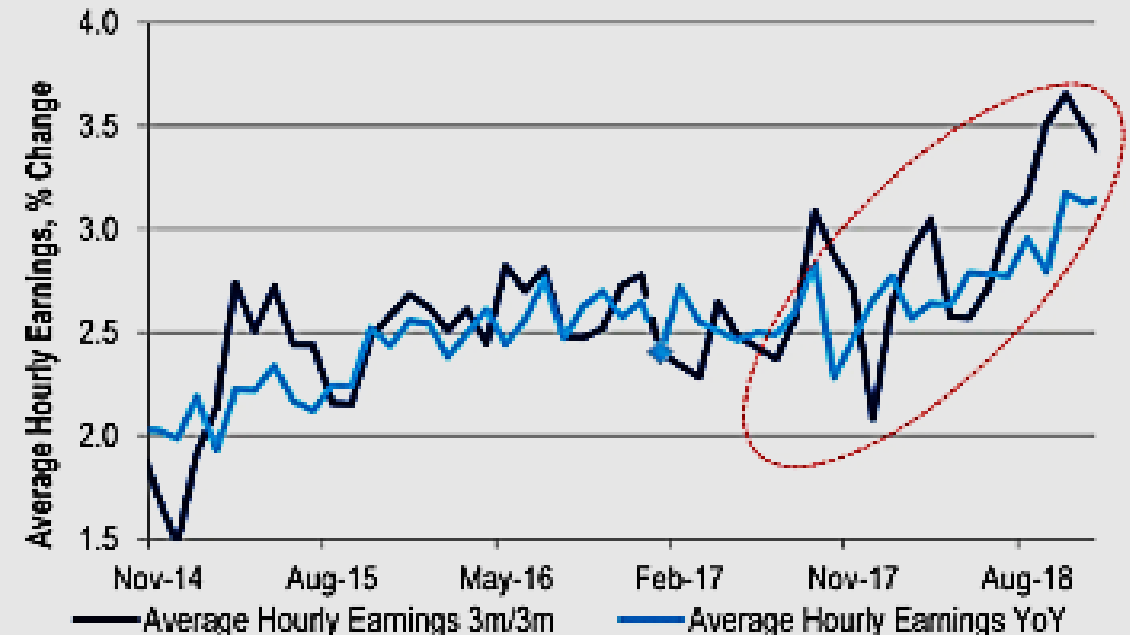
2018 US Economy Summary: Stellar Payroll Growth with Accelerating Wage Growth

Figure 1. Payroll growth continues to trend higher



Source: Citi Research, BLS

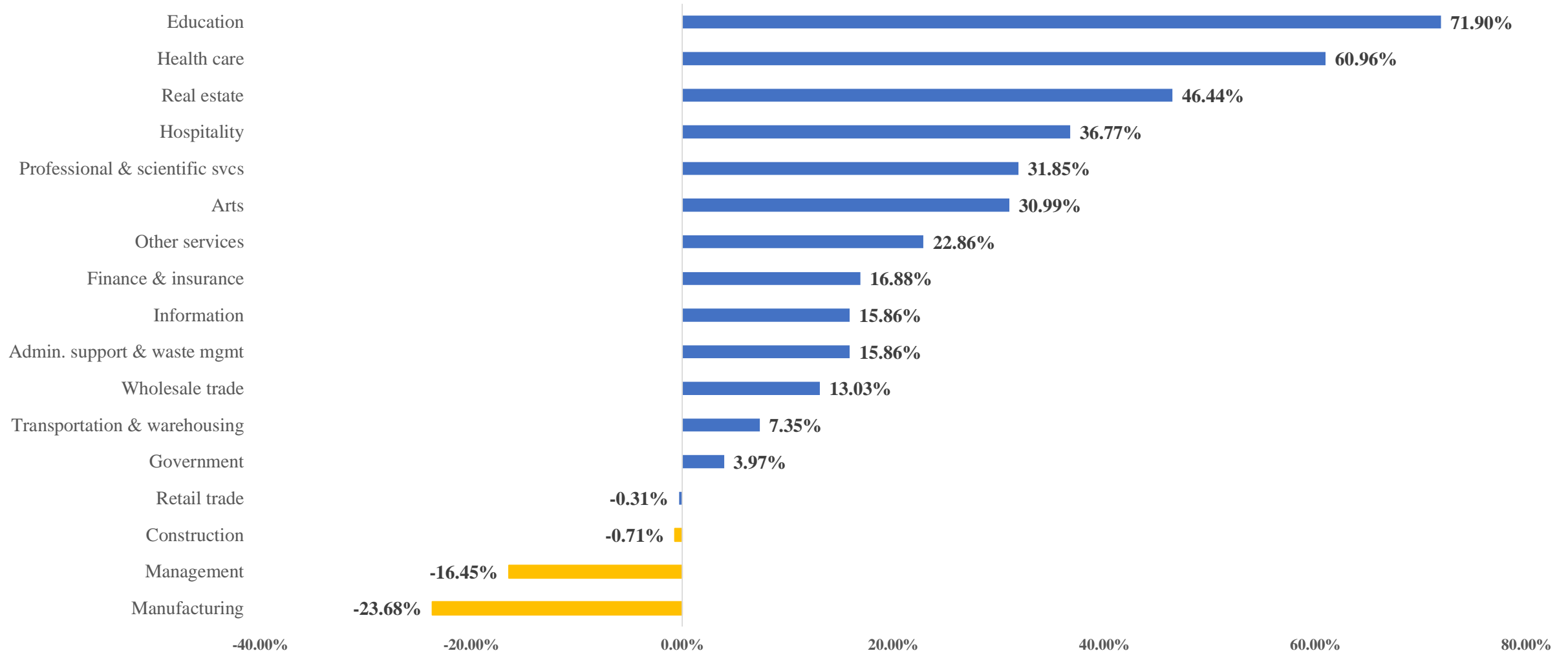
Figure 2. Wage growth still accelerating



Source: Citi Research, BLS

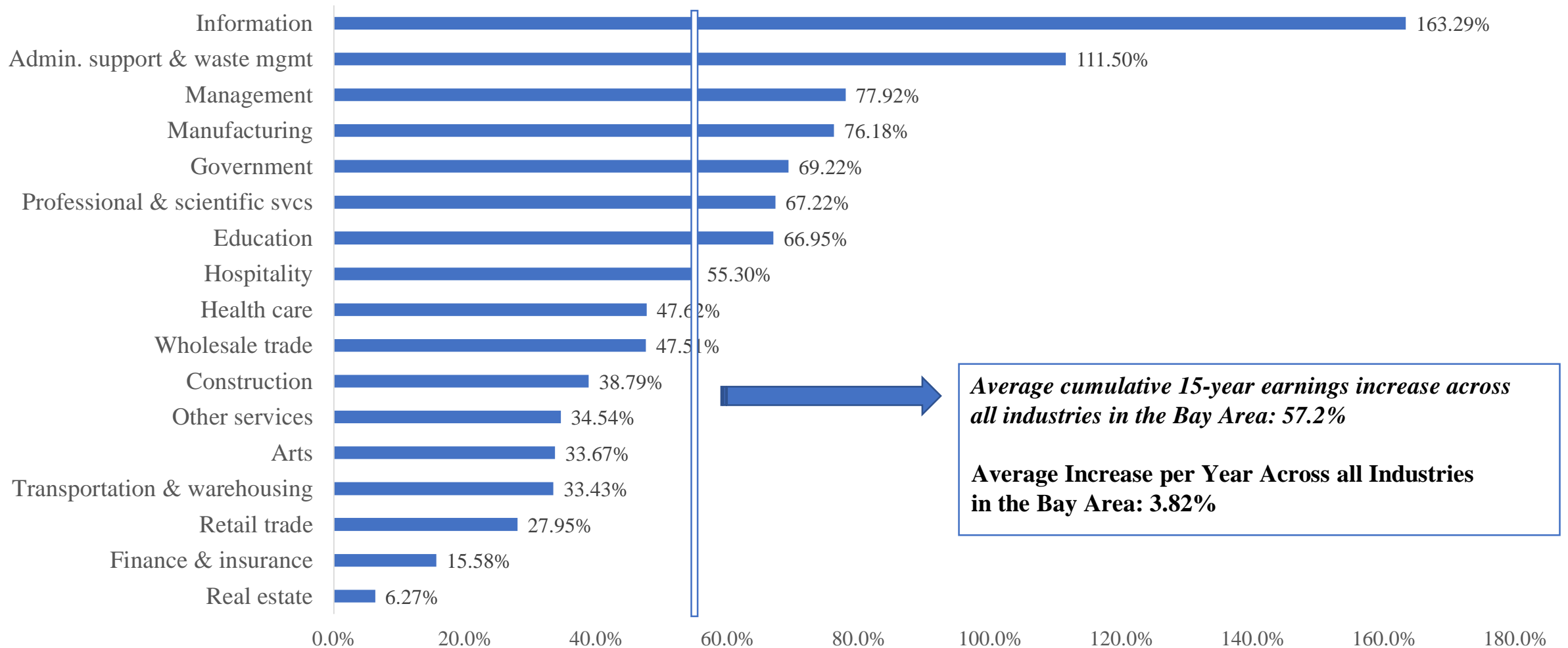
Gainer and Loser Industries in the Bay Area's Changing Jobs Landscape: Cumulative Change in Industry Employment between 2001 and 2016

Cumulative Change in Total Employment by Industry (percent change in the number of jobs by industry)

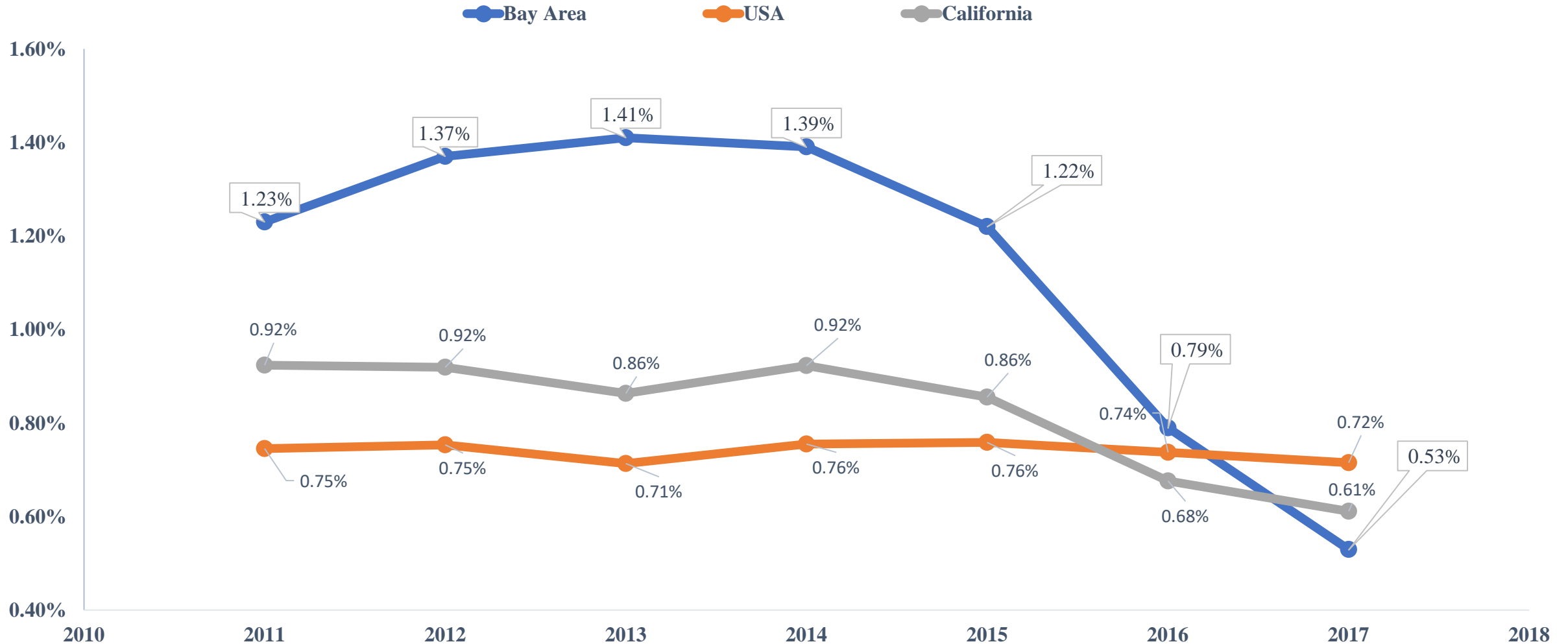


Cumulative Change in Earnings Per Worker by Industry in the Bay Area, 2001 to 2016

Not real wages, but a standardized measure for industry comparison

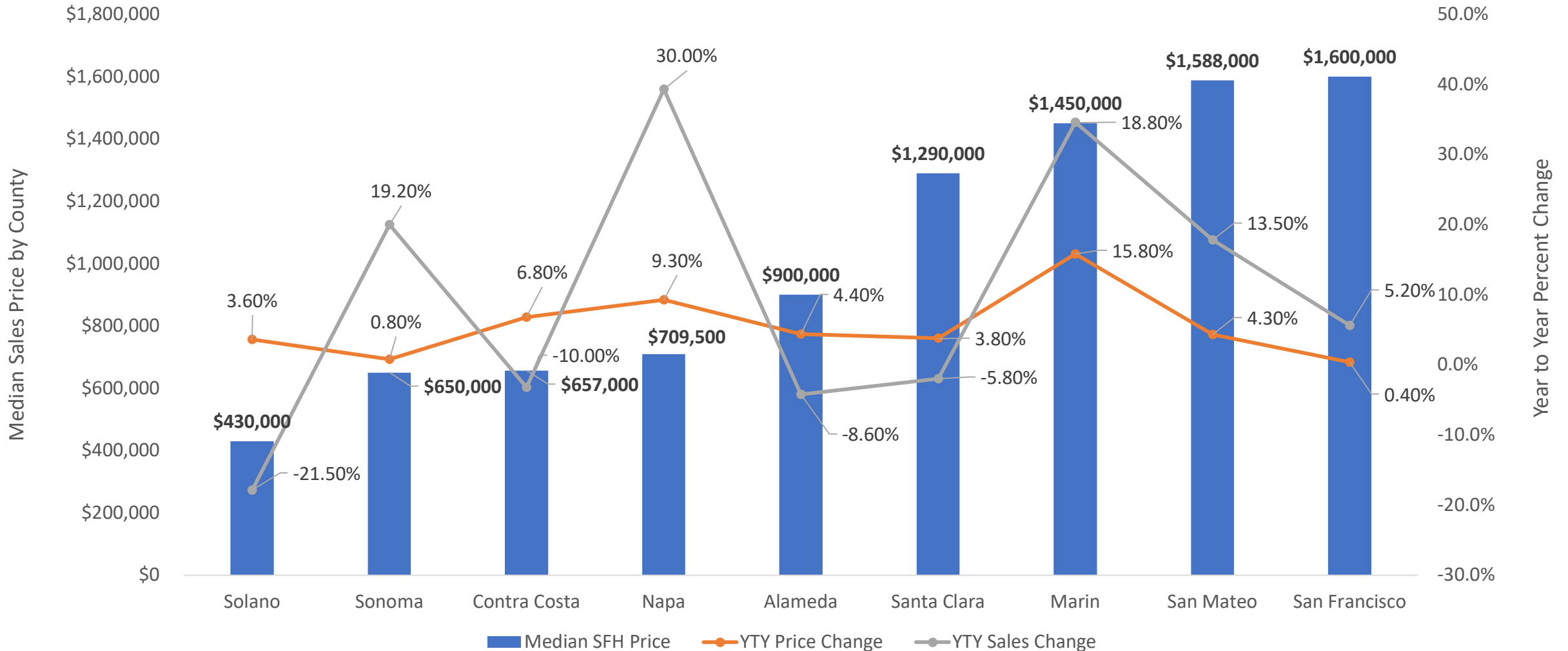


Bay Area Total Annual Population Growth Rates Compared with California and the US, 2010 - 2017



Source: US Census, BAAQMD

Bay Area Single Family Homes - Median Sales Prices and Changes in Sales and Price in Bay Area Counties, 2018

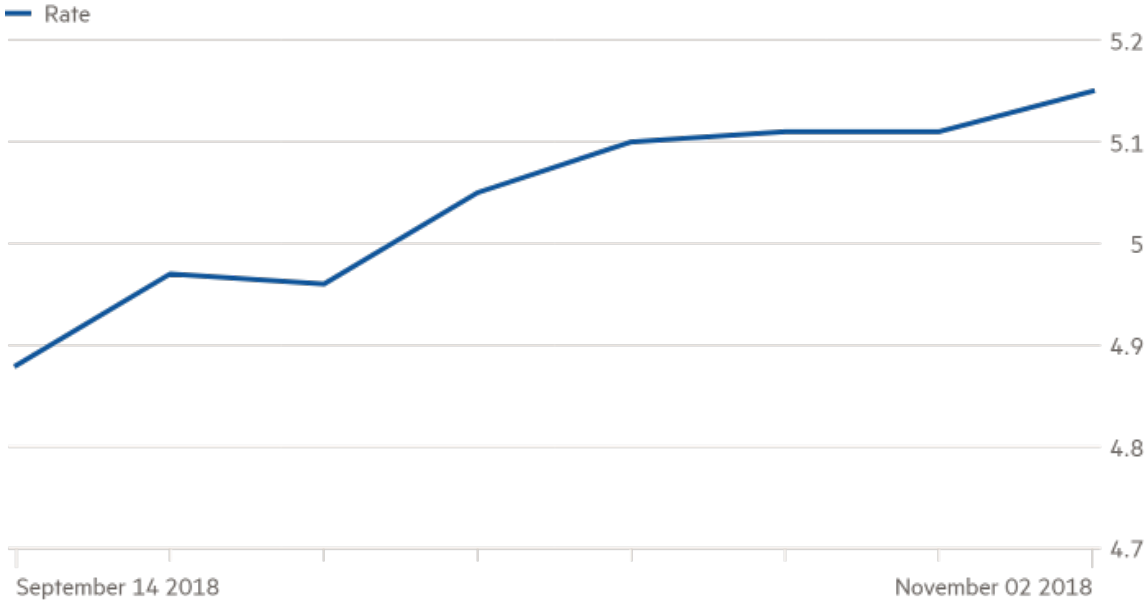


Source: California Association of Realtors, 2018

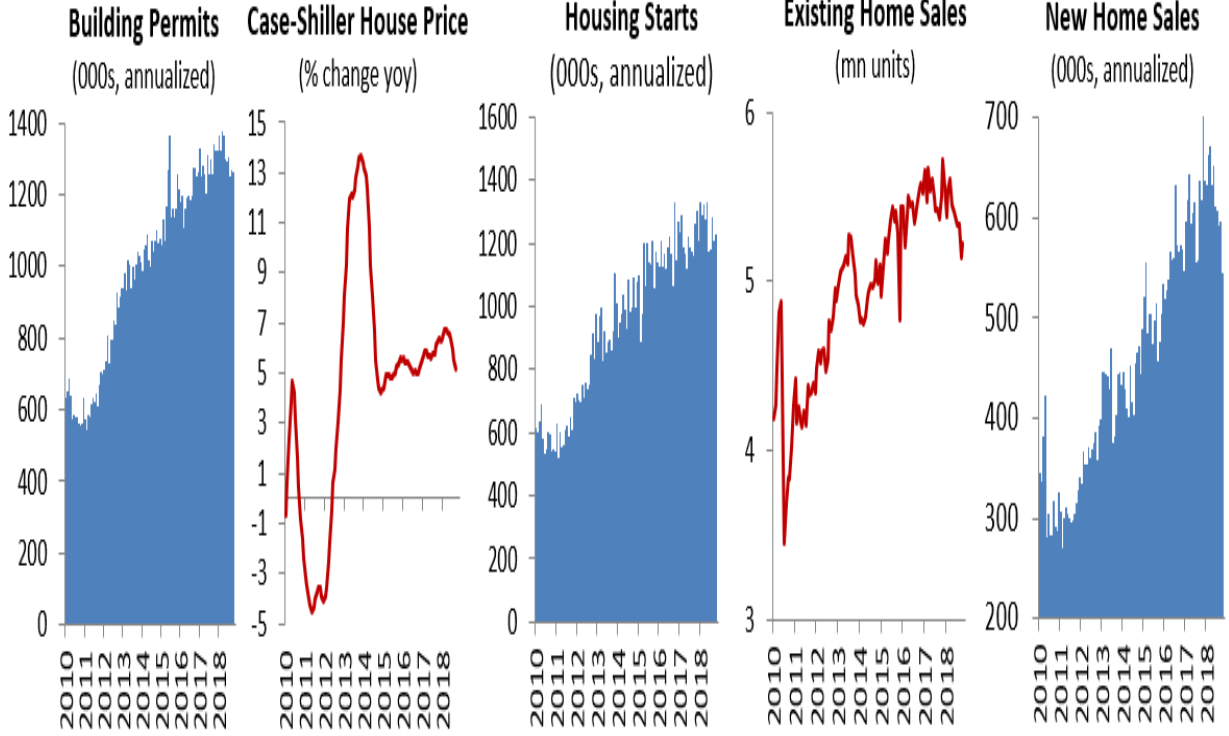
Rising Mortgage Rates Precipitate Fast Dropping Loan and Refinance Applications and Continuing to Cool America's Housing Market

US mortgage rates are climbing

Average rates for 30-year, fixed-rate conforming mortgages



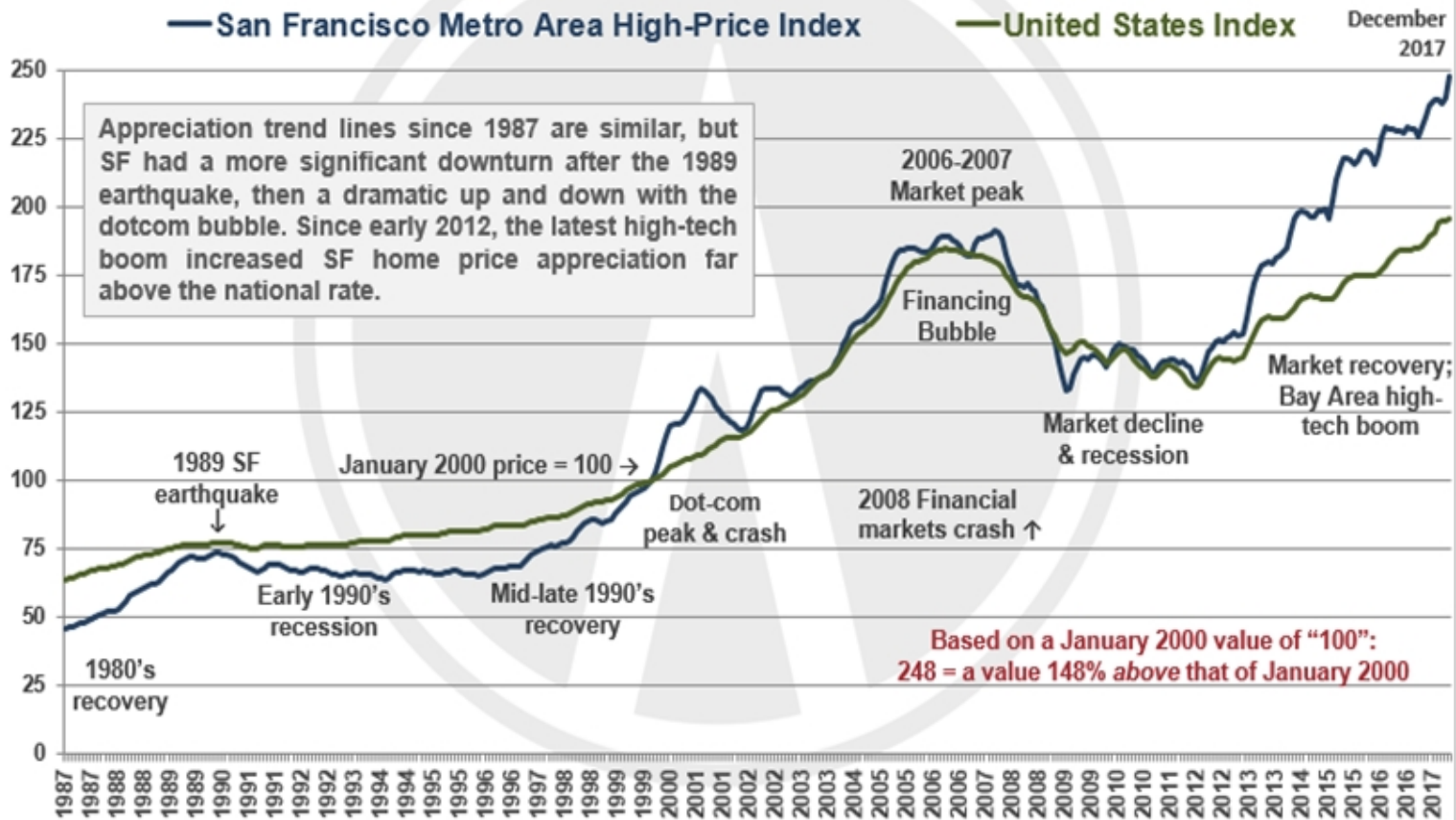
Source: Mortgage Bankers Association
© FT



Source: Bloomberg

CoreLogic S&P Case-Shiller Home Price Index: Appreciation since 1987 United States vs. San Francisco Metro-Area High-Price-Tier Index

Not seasonally adjusted



*The C-S Index 5-county San Francisco Metro Statistical Area includes San Francisco, Marin, San Mateo, Alameda and Contra Costa counties. The Index is published 2 months after the month specified and reflects a 3-month rolling average. The high-price tier reflects the top third of home sales in the SF metro area, which applies to the city of San Francisco better than other tiers.

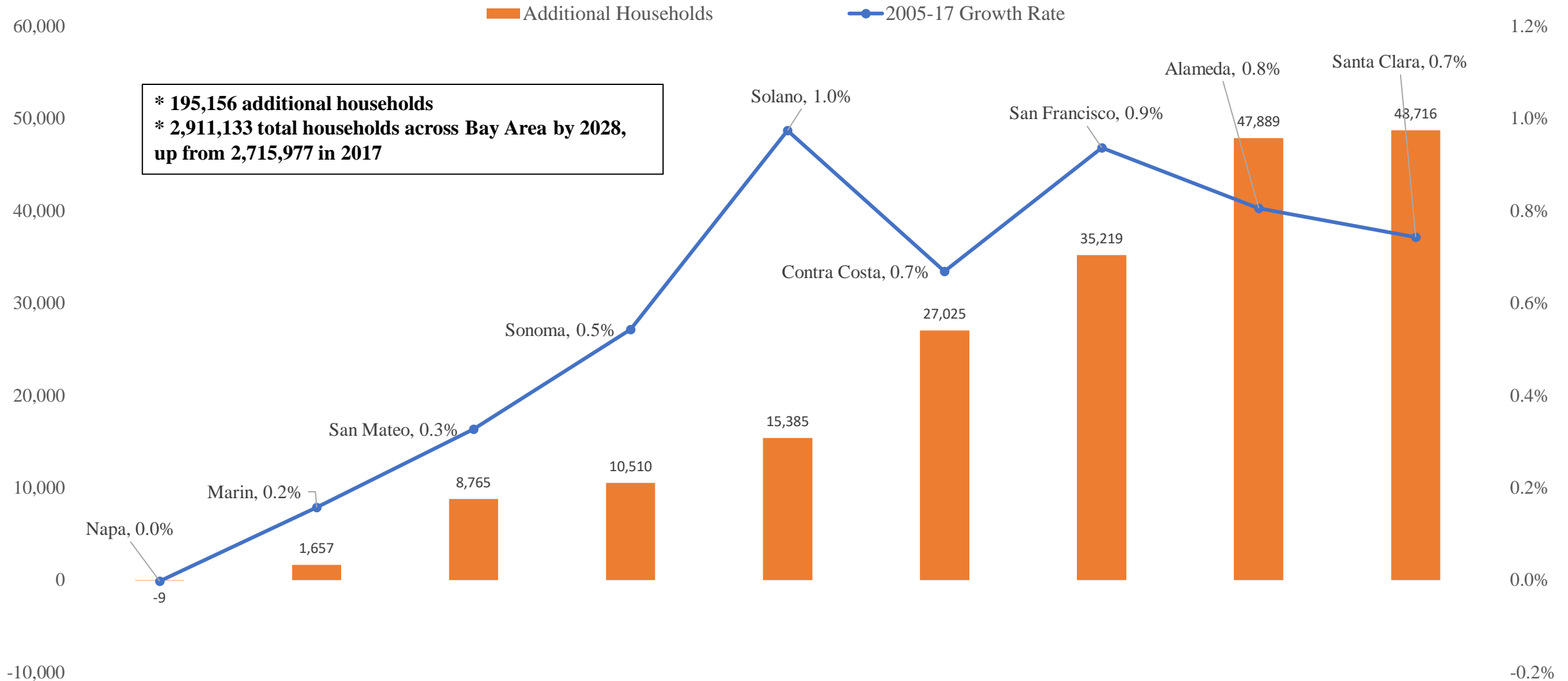


PARAGON
REAL ESTATE GROUP

So, how does the Bay Area Real Estate Market Compare to the United States Average?

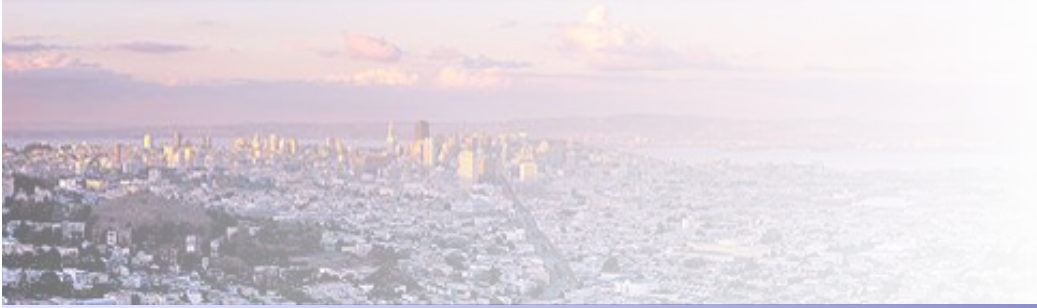
- The area has experienced very high growth in housing prices in the 1990s (dot-com boom), mid-2000s (financial bubble), and the current cycle (2012 – still ongoing).
- The area is now over five times higher than the national median price
- Sharper peaks and lower valleys in real estate prices – compared to the smoother US average – mirror regional economics

Bay Area Housing Needs: Household Growth Forecast by County, 2018 - 2027





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AGENDA:7

Air District Financial Plan Overview

**Budget and Finance Committee Meeting
February 27, 2019**

**Jack P. Broadbent
Executive Officer/APCO**



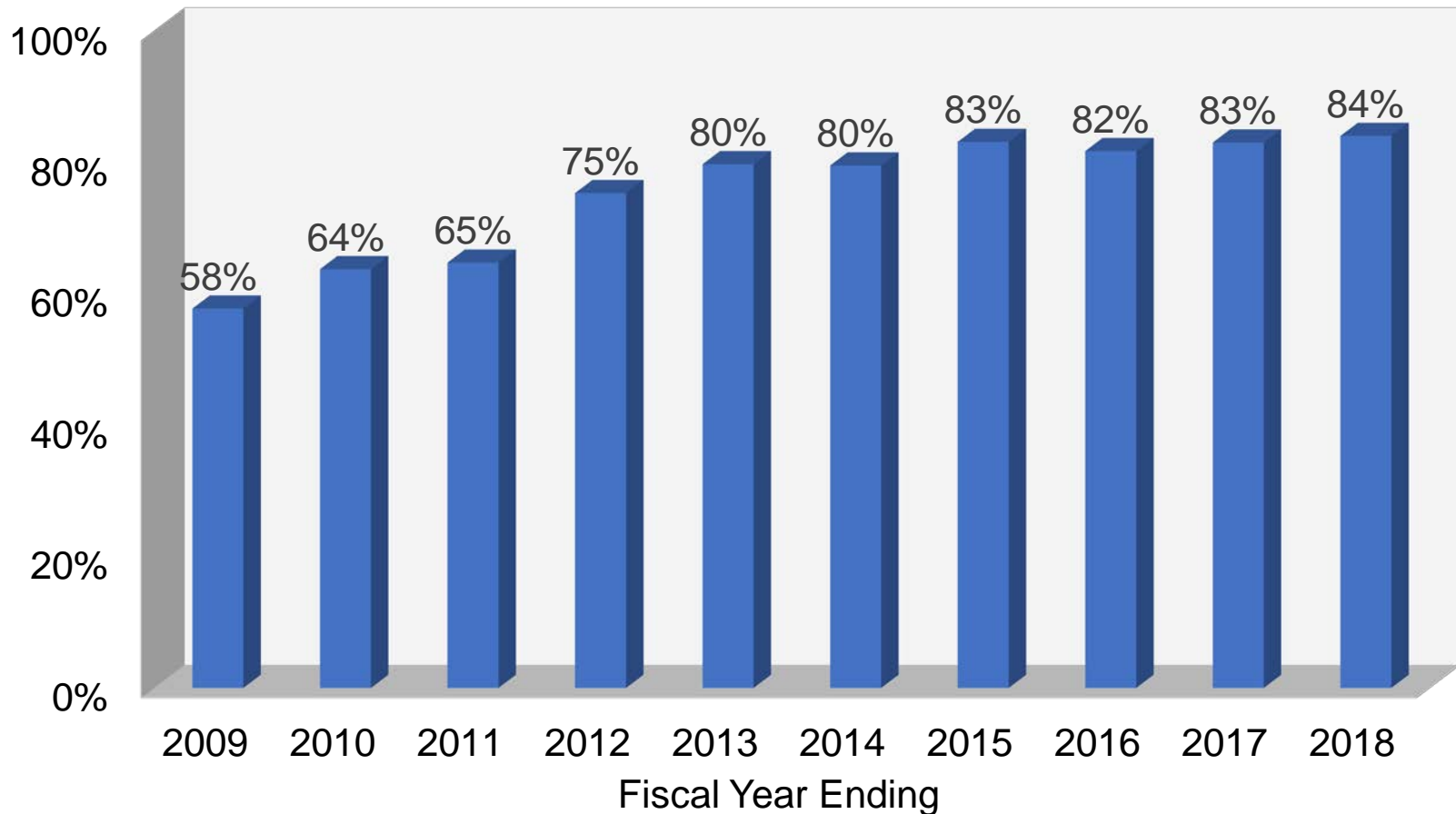
Cost Recovery Overview

Cost Recovery Policy Established in Fiscal Year Ending (FYE) 2012:

- Projected 6.4% annual fee increase
- 85% minimum funding target
- Regulated community gains predictable fees
- Updated Cost Recovery Study

Cost Recovery: Fee Increases

COST RECOVERY



Cost Recovery Policy established in 2012



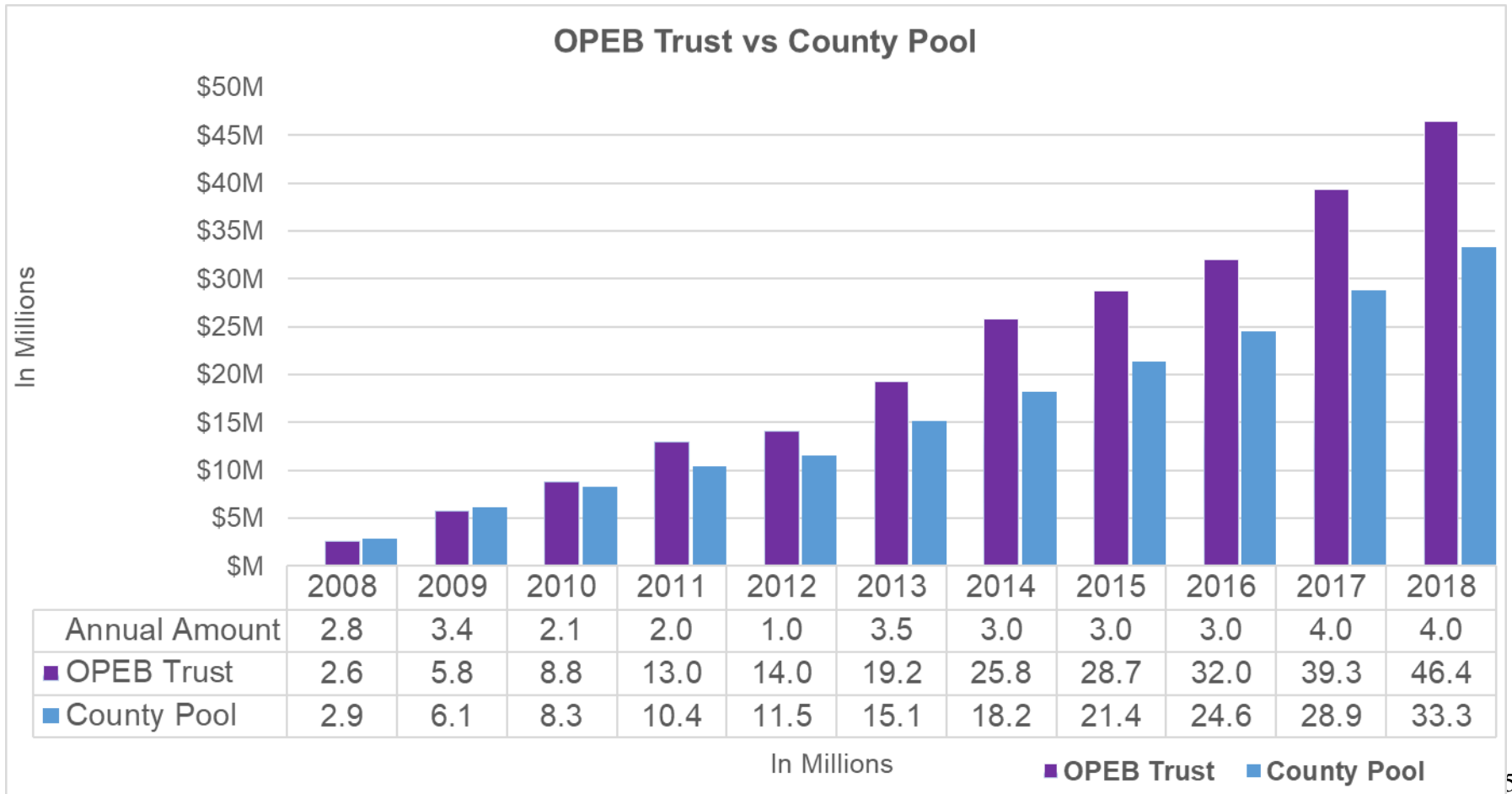
Unfunded Liabilities: Other Post-Employment Benefits (OPEB)

- **Medical Retirement (OPEB):**
 - Obligation: \$58M
 - Funded: \$40M (68%)
 - Unfunded: \$18M (32%)

- **Funding Policy: 90% Funded Level**
 - Three Year Target Date (FYE 2022)
 - \$4M Annual Discretionary Funding
 - Redirect \$4M Discretionary Funding to CalPERS Pension after reaching target funding level

Additional Information: OPEB Trust vs. County Pool

NET INVESTMENT SAVINGS = \$13.1 M





Unfunded Liabilities: Pension Retirement

- **CalPERS Retirement:**

- Obligation: \$299M
- Funded: \$224M (75%)
- Unfunded: \$75M (25%)

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

- 20 Year Target Date (FYE 2039)
- \$1M Annual Discretionary Funding
- \$4M Redirect Discretionary Funding from OPEB

Community Health Protection Program (AB 617) Implementation Costs

	FY 2017/18		FY 2018/19 (through 2/16/19)	
	Total	Covered by State Grant	Total	Covered by State Grant
Staff Costs	\$782,471	\$375,551	\$1,927,617	\$1,927,617
Contracted Services	\$0	\$0	\$621,520	\$621,520
Capital Costs	\$0	\$0	\$550,000	\$550,000
Totals	\$782,471	\$375,551	\$3,099,137	\$3,099,137

- State AB 617 Grant of \$4.8 million became available 3/1/2018
- Balance of State AB 617 grant as of 2/16/2019 = \$1,325,312

- **March 22, 2019:** Presentation of the FYE 2020 Proposed Budget & Proposed Fee Regulation Amendments
- **April 24, 2019:** Committee Refers FYE 2020 Proposed Budget to Board of Directors