

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

APPROVED MINUTES

Summary of Board of Directors
Budget and Finance Committee Meeting
Wednesday, February 26, 2020

1. CALL TO ORDER – ROLL CALL

Budget and Finance Committee (Committee) Vice Chairperson, John Bauters, called the meeting to order at 9:30 a.m.

Present: Vice Chair John Bauters; and Directors Margaret Abe-Koga, David Canepa, Cindy Chavez, David Hudson, Tyrone Jue, Mark Ross, and Brad Wagenknecht.

Absent: Committee Chairperson Carole Groom; Director Pauline Russo Cutter, and Karen Mitchoff.

Also Present: Board of Directors Chairperson Rod Sinks

2. PUBLIC COMMENT ON NON-AGENDA ITEMS, PURSUANT TO GOVERNMENT CODE SECTION 54954.3

No requests received.

3. APPROVAL OF THE MINUTES OF NOVEMBER 25, 2019

Public Comments

No requests received.

Committee Comments

None.

Committee Action

Director Wagenknecht made a motion, seconded by Director Canepa, to **approve** the Minutes of November 25, 2019; and the motion **carried** by the following vote of the Committee:

AYES: Bauters, Canepa, Hudson, Jue, Sinks, Wagenknecht.
NOES: None.
ABSTAIN: None.
ABSENT: Abe-Koga, Chavez, Cutter, Groom, Mitchoff, Ross.

NOTED PRESENT: Director Abe-Koga was noted present at 9:31 a.m.

4. AIR DISTRICT FINANCIAL AUDIT REPORT FOR FISCAL YEAR ENDING (FYE) 2019

Dr. Jeff McKay, Chief Financial Officer, introduced Joseph Moussa, Senior Audit Manager of Simpson & Simpson LLP, who gave the presentation *Air District Audit Results for Fiscal Year Ending 2019*, including: agenda; Auditor's required communications - Statement on Auditing Standards (SAS) 114; audit results and highlights of the Basic Financial Statements; and audit results and highlights of the Single Audit.

NOTED PRESENT: Director Ross was noted present at 9:37 a.m.

Public Comments

No requests received.

Committee Comments

The Committee and staff discussed a federal compliance finding that identified the Air District's improper application of an indirect costs rate against payroll charges, and corrective action that Air District will take to address this error; a corrected misstatement relating to a legal settlement that occurred in October 2019; whether other air districts in California retain the services of Simpson & Simpson; and the request for Simpson & Simpson's letter regarding their suggested corrective actions for the Air District.

Committee Action

None; receive and file.

NOTED PRESENT: Director Chavez was noted present at 9:41 a.m.

5. SECOND QUARTER FINANCIAL REPORT – FISCAL YEAR ENDING 2020

Dr. McKay introduced Stephanie Osaze, Finance Manager, who gave the staff presentation *Second Quarter Financial Report – FYE 2020*, including: overview; General Fund revenues and expenditures; revenue and expenditure comparisons (prior year versus current year); investments; fund balance and outstanding liabilities; purchasing reporting requirements; and FYE 2020 vendor payments.

Public Comments

No requests received.

Committee Comments

The Committee and staff discussed the Air District's economic contingency percentage goal; how the Air District determines when a competitive procurement is needed (versus awarding a sole source contract), and the request that the Board be presented with such options in the future; and the request for a history of the Air District's contract with Sloan Sakai Yeung & Wong LLP, a firm used by the Air District's Human Resources Division.

Committee Action

None; receive and file.

6. AIR DISTRICT FINANCIAL PLAN OVERVIEW (OUT OF ORDER, ITEM 7)

Dr. McKay and Leonid Bak, Economist, gave the staff presentation *Air District Financial Plan Overview*, including: Financial Plan overview; historical financial condition/trends; use of reserves during downturn; actual reserves & policy; historical revenues and expenditures; cost recovery overview; fee increases; current financial outlook; current reserves; reserve designations; economic outlook; key economic factors; Bay Area's economic performance compared to California and United States from 2007-2018; financial forecast and summary; five-year financial forecast: key revenue assumptions; Bay Area total annual population growth rates compared with California and United States from 2011-2019; state of the real estate market – California and Bay Area home sales and prices from 2009-2019; unfunded liabilities; and next steps.

Public Comments

No requests received.

Committee Comments

The Committee and staff discussed when the Plan was first developed at the Air District; the request that the Air District tracks income inequality in the Bay Area as a proactive measure, provided that Assembly Bill (AB) 617 funding is further reduced; if and when the Air District should redirect \$4 million of discretionary funds to the CalPERS Pension after reaching its target Other Post Employment Benefits (OPEB) funding level; whether the Air District should accelerate the payment of its \$58 million OPEB obligation; whether the projected annual fee increase from the Air District's Cost Recovery policy (established in FYE 2012) is currently high enough; policy modifications that would be required in order to adjust the rate at which the Air District pays down its unfunded liabilities; whether the Air District's fee revenue may be allocated to AB 617 activities; and the Air District's assumption that there will be no staffing increases over the next five years.

Committee Action

None; receive and file.

7. PARTICIPATION AND SELECTION OF A SECTION 115 PENSION TRUST ADMINISTRATOR FOR PREFUNDING AIR DISTRICT'S PENSION OBLIGATIONS (OUT OF ORDER, ITEM 6)

Dr. McKay gave the staff presentation *Options to Prefund Pension Liabilities – Analysis of Provider Returns and Costs to Invest*, including: outline; CalPERS Pension Retirement Plan; Section 115 Pension Rate Stabilization program pros and cons; impact from investing with Section 115 trusts; overview of Section 115 trust providers: Public Financial Management (PFM) Asset Management, LLC, Public Agency Retirement Services (PARS), and CalPERS; available investment strategies and returns comparison; cost of investment annual fee comparison for Section 115 trust investments; and summary evaluation table.

Public Comments

No requests received.

Committee Comments

The Committee and staff discussed the request for a list of the differences between CalPERS' new prefunding trust option and the pre-existing CalPERS pension plan; whether the Air District's current funding level target of 90% is too high; whether the Air District should adjust the rate at which it pays down its unfunded liabilities, while being mindful of not depleting its reserves; the Air District's anticipated level of collaboration with potential portfolio managers; whether investment risk increases during an economic downturn, and whether there is risk in the Air District leaving its funds with the San Mateo County Treasurer; whether the proposed Section 115 trust options have termination fees or "environmental, social, and governance" investment options; balancing equity and other assets; and whether and how the Air District could change Section 115 trust providers, if desired.

Committee Action

None; receive and file.

8. PUBLIC COMMENT ON NON-AGENDA MATTERS

No requests received.

9. COMMITTEE MEMBER COMMENTS / OTHER BUSINESS

None.

10. TIME AND PLACE OF NEXT MEETING

Wednesday, March 25, 2020, Bay Area Air Quality Management District Office, 375 Beale Street, San Francisco, CA 94105 at 9:30 a.m.

11. ADJOURNMENT

The meeting adjourned at 11:05 a.m.

/s/ Marcy Hirtzka
Marcy Hirtzka
Clerk of the Boards