BAY AREA AIR QUALITY MANAGEMENT DISTRICT

BOARD OF DIRECTORS
BUDGET AND FINANCE COMMITTEE MEETING

COMMITTEE MEMBERS

CAROLE GROOM – CHAIR	JOHN BAUTERS – VICE CHAIR
MARGARET ABE-KOGA	DAVID CANEPA
CINDY CHAVEZ	PAULINE RUSSO CUTTER
DAVID HUDSON	TYRONE JUE
KAREN MITCHOFF	MARK ROSS
BRAD WAGENKNECHT	

WEDNESDAY
FEBRUARY 26, 2020
9:30 A.M.

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

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 NOVEMBER 25, 2019**

Clerk of the Boards/5073

The Committee will consider approving the draft minutes of the Budget and Finance Committee Meeting of November 25, 2019.

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

J. McKay/4629
jmckay@baaqmd.gov

The Committee will receive an update on the Air District's Financial Audit Report for Fiscal Year Ending (FYE) 2019.

5. **SECOND QUARTER FINANCIAL REPORT – FISCAL YEAR ENDING (FYE) 2020**

J. McKay/4629
jmckay@baaqmd.gov

The Committee will receive an update on the Air District's financial results for the second quarter of the Fiscal Year Ending (FYE) 2020.

6. **PARTICIPATION AND SELECTION OF A SECTION 115 PENSION TRUST ADMINISTRATOR FOR PREFUNDING AIR DISTRICT'S PENSION OBLIGATIONS**

J. McKay/4629
jmckay@baaqmd.gov

The Committee will receive an update on the participation and selection of a Section 115 Pension Trust Program Administrator for prefunding the Air District's pension obligations.

7. **AIR DISTRICT FINANCIAL PLAN OVERVIEW**

J. McKay/4629
jmckay@baaqmd.gov

The Committee will receive an update on the Air District's Financial Plan.

8. **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.

9. **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)

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 Committee meeting shall be adjourned by the Committee Chair.

CONTACT:

MANAGER, EXECUTIVE OPERATIONS **(415) 749-4941**
375 BEALE STREET, SAN FRANCISCO, CA 94105 **FAX: (415) 928-8560**
vjohnson@baaqmd.gov **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, CA 94105
FOR QUESTIONS PLEASE CALL (415) 749-4941

EXECUTIVE OFFICE:
MONTHLY CALENDAR OF AIR DISTRICT MEETINGS

FEBRUARY 2020

TYPE OF MEETING	DAY	DATE	TIME	ROOM
Board of Directors Climate Protection Committee	**Thursday**	**20**	**9:30 a.m.**	**1st Floor Board Room**
Board of Directors Budget & Finance Committee	**Wednesday**	**26**	**9:30 a.m.**	**1st Floor, Yerba Buena Room #109**
Board of Directors Legislative Committee - CANCELLED	**Wednesday**	**26**	**10:30 a.m.**	**1st Floor Yerba, Buena Room #109**
Board of Directors Stationary Source Committee	**Wednesday**	**26**	**10:45 a.m.**	**1st Floor, Yerba Buena Room #109**
Board of Directors Mobile Source Committee	**Thursday**	**27**	**9:30 a.m.**	**1st Floor Board Room**

MARCH 2020

TYPE OF MEETING	DAY	DATE	TIME	ROOM
Board of Directors Regular Meeting	**Wednesday**	**4**	**9:30 a.m.**	**1st Floor Board Room**
Board of Directors Community and Public Health Committee	**Thursday**	**5**	**9:30 a.m.**	**1st Floor Board Room**
Advisory Council Special Meeting - PM Symposium	**Tuesday**	**24**	**9:00 a.m.**	**Oakland Marriott City Center 1001 Broadway, Oakland CA**
Board of Directors Budget & Finance Committee	**Wednesday**	**25**	**9:30 a.m.**	**1st Floor, Yerba Buena Room #109**
Board of Directors Legislative Committee	**Wednesday**	**25**	**10:30 a.m.**	**1st Floor, Yerba Buena Room #109**
Board of Directors Mobile Source Committee	**Thursday**	**26**	**9:30 a.m.**	**1st Floor Board Room**

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: February 19, 2020

Re: Approval of the Minutes of November 25, 2019

RECOMMENDED ACTION

Approve the attached draft minutes of the Budget and Finance Committee (Committee) meeting of November 25, 2019.

DISCUSSION

Attached for your review and approval are the draft minutes of the Committee meeting of November 25, 2019.

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 November 25, 2019

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

Video Conference Location
Santa Clara County Government Center
Clerk's Conference Room, 10th Floor, East Wing
70 W. Hedding Street
San Jose, California 95110

DRAFT MINUTES

Summary of Board of Directors
Budget and Finance Committee Meeting
Monday, November 25, 2019

1. CALL TO ORDER – ROLL CALL

Budget and Finance Committee (Committee) Chairperson, Carole Groom, called the meeting to order at 9:31 a.m. Director Chavez was participating via videoconference from the Santa Clara County Government Center.

Present: Committee Chairperson Carole Groom; Vice Chair John J. Bauters; and Directors Margaret Abe-Koga, David J. Canepa, Cindy Chavez, Tyrone Jue, Mark Ross, Rod Sinks, and Brad Wagenknecht.

Absent: Directors David Hudson and Karen Mitchoff.

Also Present: None.

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

No requests received.

3. APPROVAL OF THE MINUTES OF APRIL 22, 2019

Public Comments

No requests received.

Committee Comments

None.

Committee Action

Director Canepa made a motion, seconded by Director Wagenknecht, to **approve** the Minutes of April 22, 2019; and the motion **carried** by the following vote of the Committee:

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

4. FOURTH QUARTER FINANCIAL REPORT – FISCAL YEAR ENDING (FYE) 2019

Dr. Jeff McKay, Chief Financial Officer, introduced Stephanie Osaze, Finance Manager, who gave the staff presentation *Fourth Quarter Financial Report: Fiscal Year Ending June 2019*, including: overview; General Fund revenues and expenditures; comparison of prior and current years for revenues and expenditures; investments; fund balance and outstanding liabilities; purchasing reporting requirements; and FYE 2019 vendor payments.

NOTED PRESENT: Director Ross was noted present at 9:34 a.m.

Public Comments

No requests received.

Committee Comments

The Committee and staff discussed how revenue from permit, Title V, and asbestos fees was greater than the budget (due to a one-time adjustment to fee payers' anniversary dates that were adjusted to comply with Air District Rule 12-15), and whether the revenue from those three categories would have fallen short had that one-time adjustment not occurred.

Committee Action

None; receive and file.

5. FIRST QUARTER FINANCIAL REPORT – FISCAL YEAR ENDING (FYE) 2020

Ms. Osaze gave the staff presentation *First Quarter Financial Report: Fiscal Year Ending 2020* including: overview; General Fund revenues and expenditures; comparison of prior and current years for revenues and expenditures; 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 reason for the $4 million difference in cash balances between 4th quarter FYE 2019 and 1st quarter FYE 2020; and how the Air District manages its budget and reconsiders it reserve policy during economic downturns.

Committee Action

None; receive and file.

6. CALIFORNIA EMPLOYERS' PENSION PREFUNDING TRUST (CEPPT) PARTICIPATION AND CONSIDERATION TO RECOMMEND ADOPTION

Dr. McKay gave the staff presentation *California Employers' Pension Prefunding Trust Participation and Consideration to Recommend Adoption,* including: outline; unfunded retirement liabilities; California Public Employees' Retirement System (CalPERS) Pension Retirement Plan; funding and investment options; independent analysis; pension funding options: CalPERS 15 year "Fresh Start," additional payments sent directly to CalPERS, and Section 115 Pension Rate Stabilization program; and recommendations.

Public Comments

No requests received.

Committee Comments

The Committee and staff discussed the differences between CalPERS and Public Agency Retirement Services (PARS) and the anticipated risk tolerance associated with the proposed investment options; which option to use within the Section 115 trust, and the suggestion to have an independent party(ies) present to the Committee on Section 115 trust options; how basis point charge rates are established and what their limitations might be; and how to determine payment to the pension and which source to use.

Committee Action

The consensus of the Committee was to not take action until a further review of options with the Committee.

7. PUBLIC COMMENT ON NON-AGENDA MATTERS

No requests received.

8. COMMITTEE MEMBER COMMENTS / OTHER BUSINESS

None.

9. TIME AND PLACE OF NEXT MEETING

Wednesday, February 26, 2020, Bay Area Air Quality Management District Office, 375 Beale Street, San Francisco, CA 94105 at 9:30 a.m.

10. ADJOURNMENT

The meeting adjourned at 10:14 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: February 19, 2020

Re: Air District Financial Audit Report for Fiscal Year Ending (FYE) 2019

RECOMMENDED ACTION

None; receive and file.

BACKGROUND

Pursuant to the Section II.2.1 of the Administrative Code, the Air District is required to have an annual independent financial audit. The Independent Auditors, Simpson & Simpson, LLP completed the Financial Audit Report of the Air District's Financial Statements for the Fiscal Year Ending (FYE) 2019. The Independent Auditors also completed the Financial Audit Report of the Office of Management and Budget (OMB) Circular A-133 for the FYE 2019.

DISCUSSION

The Air District's independent auditors completed their audit of the Air District's financial records and activities for the year ended June 30, 2019, and issued an "unqualified opinion," or clean opinion, on the financial statements. Attached are the audit reports being presented, along with a brief summary:

1. ***Basic Financial Statements***

   The statements are prepared in conformity with generally accepted accounting principles. The purpose of the statements is to convey financial information to external customers/users. The statements report the Air District's annual operations and demonstrate financial compliance with legal requirements. The report on the basic financial statements is unqualified, with no reportable conditions, no instances of non-compliance, and no financial statement findings noted. While there were no significant deficiencies or material weaknesses, the auditors did communicate some recommendations to strengthen internal controls and operating efficiency.

2. ***Office of Management and Budget (OMB) Circular A-133***

   This report addresses the auditors' consideration of the Air District's internal control over financial reporting, and results of auditor's tests of the Air District's compliance with provisions of laws, regulations, contract and grant agreements, and other areas in accordance with *Government Auditing Standards.* As noted on page 10 and 11 of the Schedule of Audit Findings and Questioned Costs, there was one federal compliance finding followed by staff response to the finding.

A member of the independent audit firm, Simpson & Simpson, LLP, will be at the meeting to present audited reports to the Committee.

BUDGET CONSIDERATION/FINANCIAL IMPACT

None. Funding for the Auditors' report is included in the FYE 2020 Budget.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by:	Stephanie Osaze
Reviewed by:	Jeffrey McKay

Attachment 4A:	Basic Financial Statements with Independent Auditor's Report for the Year Ended June 30, 2019
Attachment 4B:	Single Audit Reports for Year Ended June 30, 2019 (OMB Circular A-133)

BAY AREA AIR QUALITY

MANAGEMENT DISTRICT

Basic Financial Statements
With Independent Auditor's Report

For the Year Ended June 30, 2019

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Basic Financial Statements
For the Year Ended June 30, 2019

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SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
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Independent Auditor's Report

The Board of Directors of
Bay Area Air Quality Management District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of the **Bay Area Air Quality Management District** (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Bay Area Air Quality Management District as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 and the required supplementary information on pages 46 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information on page 53 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Simpson & Simpson

Los Angeles, California
February 3, 2020

This discussion and analysis of the Bay Area Air Quality Management District (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. Please read it in conjunction with the accompanying basic financial statements and notes.

A. Financial Highlights

- During the fiscal year 2018-2019, the District purchased additional office space at 375 Beale Street and a new office building located in the city of Richmond totally approximately $13 million. As of June 30, 2019, a portion of the Richmond location was occupied by the previous owners through a lease back agreement with the District. The District is in the process of remodeling a portion of the unoccupied space and anticipates completion the end of December 2019.

- At the close of the fiscal year 2018-2019, the District's net position is $191,369,654. Total net position includes $51.0 million for net investment in capital assets, $155.9 million for restricted net position and a negative $15.5 million for unrestricted net position.

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the fiscal year 2018-19, increasing the District's overall (net position) by $19.1 million or 11.1%.

- The District's governmental funds reported a total fund balance of $227,885,210; $150,412,565 for the Special Revenue Fund and $77,472,645 for the General Fund. The entire fund balance of the Special Revenue Fund in the amount of $150,412,565 is reserved for air quality grants and projects. The $77,472,645 General Fund balance consists of $29,552,042 representing the assigned fund balance, $5,503,285 restricted, $937,780 committed or nonspendable and the remaining balance of $41,479,538 unassigned.

Table 1 presents the General Fund detail of fund balances as of June 30, 2019, and June 30, 2018.

Table 1. General Fund Balances as of June 30, 2019 and 2018

Category	General Fund June 30, 2019	General Fund June 30, 2018	Increase/ (Decrease)
Fund Balances:			
Nonspendable:			
Prepaid Expenses	$ 937,780	$ 860,802	$ 76,978
Restricted:			
Air Quality Grants and Projects	925,631	1,160,696	(235,065)
Post-Employment Benefits	3,406,018	3,286,872	119,146
Debt service	1,171,636	872,676	298,960
Committed:			-
Self-Funded Worker's Compensation	-	1,000,000	(1,000,000)
Assigned:			-
PERS Funding and Post Employment Benefits	2,000,000	1,000,000	1,000,000
Building and Facilities	209,489	4,668,200	(4,458,711)
Capital Equipment	-	711,100	(711,100)
Air Quality Grants and Projects	22,728,264	18,238,088	4,490,176
Other Assigned	4,614,289	8,441,982	(3,827,693)
Unassigned:	41,479,538	34,725,789	6,753,749
Total Fund Balance	$ 77,472,645	$ 74,966,205	$ 2,506,440

B. Overview of the Financial Statements

This discussion and analysis is designed to serve as an introduction to the District's basic financial statements. The District's basic financial statements have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also includes required and other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District.

B. Overview of the Financial Statements, Continued

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business. They provide information about the activities of the District as a whole and present a longer-term perspective of the District's finances. Government-wide financial statements include the Statement of Net Position and the Statement of Activities.

The Statement of Net Position reports all assets, deferred outflows of resources, liabilities owed by the District, and deferred inflows of resources on a full accrual basis. The difference between the assets held and deferred outflows of resources, and the liabilities owed and deferred inflows of resources, is reported as *Net Position*. The net position total is comparable to total stockholder's equity presented on the balance sheet of a private enterprise. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Net Position as of June 30, 2019 is presented on page 13.

The Statement of Activities reports the net cost of the District's activities by category and is also prepared on a full accrual basis. Under the full accrual basis of accounting, revenues and expenses are recognized as soon as the underlying event occurs, regardless of the timing of the related cash flows. The focus of the Statement of Activities is on the cost of various work programs performed by the District. The statement begins with a column that identifies the total cost of these programs followed by columns that summarize the District's program revenues by major category. The difference between expenses and revenues represents the net cost or benefit of the District's work programs. General revenues are then added to the net cost/benefit to calculate the change in net position. The Statement of Activities is presented on page 14.

All of the District's activities are governmental in nature and no business-type activities are reported in these statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Bay Area Air Quality Management District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. For governmental activities, these statements tell how these services were financed in the short-term and what is left over for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's major funds. The District maintains three governmental funds; the General Fund and Special Revenue Fund.

B. Overview of the Financial Statements, Continued

Governmental Funds

Governmental fund financial statements consist of the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances. Both are prepared using the modified accrual basis of accounting.

Balance Sheets prepared under the modified accrual basis of accounting have a short-term emphasis and, for the most part, measure and account for cash and other assets that can be easily converted to cash. Specifically, cash and receivables that are deemed collectible within a very short period of time are reported on the balance sheet. Capital assets such as land and buildings are not reported in governmental fund financial statements. Fund liabilities include amounts that will be paid within a very short period of time after the end of the fiscal year. Long-term liabilities such as outstanding bonds are not included. The difference between a fund's total assets, deferred outflow of resources, total liabilities, and deferred inflows of resources represents the fund balance. The unassigned portion of fund balance represents the amount available to finance future activities. The District's governmental funds balance sheets can be found on page 15.

The Statement of Revenues, Expenditures, and Changes in Fund Balance include only revenues and expenditures that were collected in cash or paid with cash during the fiscal year or very shortly after the end of the fiscal year. The governmental funds Statements of Revenues, Expenditures, and Changes in Fund Balances can be found on page 17.

Since a different basis of accounting is used to prepare these statements, reconciliation is required to facilitate the comparison between the government-wide statements and the fund financial statements. The reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position is on page 16. The reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities can be found on page 18.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 19 to 45.

Required and Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the District's other post-employment benefit (OPEB) liabilities, retirement pension liabilities held by California Public Employees Retirement System (PERS), general fund and special revenue fund budget comparison schedules, and supplementary information concerning the District's TFCA and Carl Moyer program expenditures on pages 46 to 53.

C. Government-Wide Financial Analysis

The government-wide financial analyses focus on net position and changes in net position of the District's governmental activities. Table 2 below shows a condensed Statement of Net Position as of June 30, 2019 compared to the fiscal year ended June 30, 2018.

Table 2. Statement of Net Position as of June 30, 2019 and June 30, 2018

	Governmental Activities June 30, 2019	Governmental Activities June 30, 2018	Increase/ (Decrease)
Current & Other Assets	$ 324,330,353	$ 261,747,182	$ 62,583,171
Capital Assets	70,696,145	59,241,087	11,455,058
Total Assets	**395,026,498**	**320,988,269**	**74,038,229**
Deferred Outflows of Resources	26,624,823	28,583,434	(1,958,611)
Current Liabilities	96,980,498	44,358,804	52,621,694
Noncurrent Liabilities	125,787,760	128,941,388	(3,153,628)
Total Liabilities	**222,768,258**	**173,300,192**	**49,468,066**
Deferred Inflows of Resources	3,763,409	3,985,073	(221,664)
Net Position			
Invested in Capital Assets	50,980,564	38,757,113	12,223,451
Restricted	155,915,850	148,614,308	7,301,542
Unrestricted net position	(15,526,760)	(15,084,983)	(441,777)
Total Net Position	**$ 191,369,654**	**$ 172,286,438**	**$ 19,083,216**

At June 30, 2019 the District's total assets and deferred outflows of resources exceeded its total liabilities and deferred inflows of resources by $191.4 million, an increase of $19.1 million over the previous fiscal year.

As noted earlier, total net position may serve over time as a useful indicator of the District's financial position. Restricted net position is to be used for specific programs and purposes according to legal terms and conditions. The remaining portion of the District's net position is unrestricted and at the end of the fiscal year had a negative balance of $15.5 million which is mainly due to the implementation of GASB Statement 68 and 75; which requires the District to report its current obligations for Other Post-Employment Benefit and Pension.

C. Government-Wide Financial Analysis, Continued

Table 3 below provides changes in net position for the fiscal year ending June 30, 2019 compared with the fiscal year ended June 30, 2018.

Table 3. Statement of Activities for Fiscal Years 2018-19 and 2017-18

	Governmental Activities FY 2018-19	Governmental Activities FY 2017-18	Dollar Increase / (Decrease)	Percentage Increase / (Decrease)
Revenues:				
Program Revenue:				
Charges for services	$ 56,094,102	$ 51,596,011	$ 4,498,091	9%
Operating grants and contributions	81,116,395	53,474,181	27,642,214	52%
Total Program Revenue	137,210,497	105,070,192	32,140,305	31%
General Revenues:				
County Apportionments	35,823,934	33,032,767	2,791,167	8%
Investment income not restricted for a specific program	1,622,927	997,879	625,048	63%
Donated assets	-	-	-	-
Other	502,969	150,958	352,011	233%
Total General Revenues	37,949,830	34,181,604	3,768,226	11%
Total Revenues	**175,160,327**	**139,251,796**	**35,908,531**	26%
Expenses:				
General Government	93,525,653	81,950,526	11,575,127	14%
California Goods Movement Program	7,467,502	399,084	7,068,418	1771%
Vehicle Settlement	162,364			
Debt Service	550,307	482,502	67,805	14%
TFCA/MSIF, CMP, & Other programs:				
TFCA / MSIF & other program distribution	38,262,656	22,224,037	16,038,619	72%
Carl Moyer Program	16,108,629	6,424,173	9,684,456	151%
Total Expenses	**156,077,111**	**111,480,322**	**44,596,789**	40%
Change in Net Position	**19,083,216**	**27,771,474**	(8,688,258)	-31%
Net Position-beginning of year, Restated	**172,286,438**	**144,514,964**	**27,771,474**	19%
Net Position-ending of year	**$ 191,369,654**	**$ 172,286,438**	**$ 19,083,216**	11%

C. Government-Wide Financial Analysis, Continued

Governmental Activities

The objective of the Statement of Activities is to report the full cost of providing government services during the fiscal year. The format also permits the reader to ascertain the extent to which each function is either self-financing or draws funds from the general funds of the government.

The Statement of Activities presents information showing how the District's net position changed during the fiscal year 2018-2019. All changes in net position are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

Governmental functions of the District are predominately supported by fees, property taxes, subvention, grants, and penalties and settlements. The penalties and settlements are one-time revenues which are over and above the regular revenues directly related to the programs. The primary governmental activities of the District are: to advance clean air technology, ensure compliance with clean air rules, develop programs to achieve clean air, develop rules to achieve clean air, monitor air quality, permit review and Special Revenue Fund activities.

At June 30, 2019, the District's governmental activities reported ending net position of $191,369,654, an increase of $19,083,216 in comparison to the prior year. The primary reason is due to increased activities in the following programs: California Goods Movement, Carl Moyer Program and General Government.

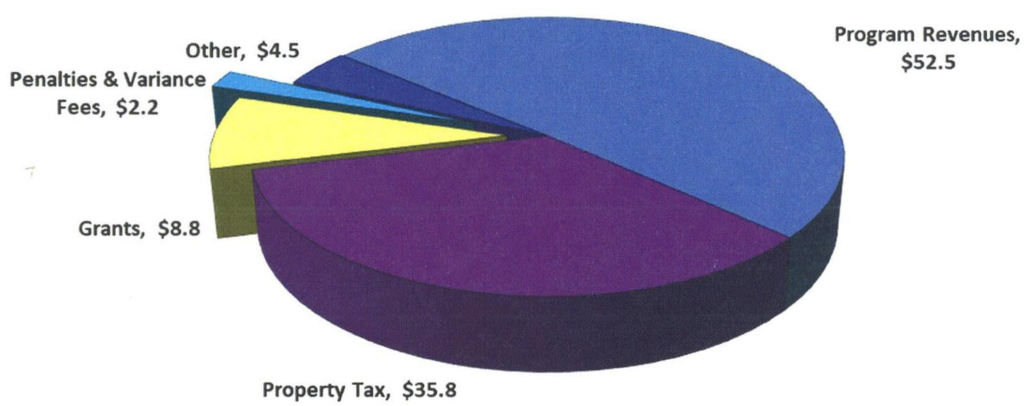
- Overall governmental revenues are $175,160,327; an increase of $35,908,531 from the prior year. Of the $36.0 million increase, approximately $27.6 million relates to grant activities in the California Goods Movement locomotive program, Carl Moyer's Farmer and AB134 Community Incentive programs. The remaining increase of $8.4 million is primary due to County apportionment from higher assessed valuations in the Bay Area and permitting fees related to a change in the anniversary date of some fee payers, resulting in the District capturing an additional four months of fees.

- Overall governmental expenditures are $156,077,111; an increase of $44,596,789 over the prior year. Of this $44.6 million increase, $33.0 million relates to increase in grant activities in TFCA/MSIF and Goods Movement programs. The remaining increase of $11.6 million is the combination of $7.8 million in the General Government Program primary due to a legal settlement, distribution of Climate Protection Grants and continued implementation of the AB 617 program, Technology Implementation Office and Production System.

D. General Fund Financial Analysis

Figure 1 below provides a pie chart of the District's General Fund revenues (net of other financing sources) for fiscal year 2018-2019. The General Fund recognized total revenue of $103,765,746 in fiscal year 2018-19, an increase of $12.3 million over fiscal year 2017-18. This increase is mainly comprised of increased revenues in property tax due to increased economic activities, additional four months of permit fees revenues received due to change in anniversary date for certain fee payers, as well as, an annual increase to the permit fee schedule; grant revenues and other revenues. This increase is offset by reduction in penalties and variance fees. Program Revenues includes: Permit, AB2588, Title V, and Asbestos fees. Program revenues are the largest General Fund revenue source in fiscal 2018-19 ($52.5 million), followed by Property Tax ($35.8 million), Grants ($8.8 million), Penalties ($2.2 million), and Other revenues ($4.5 million).

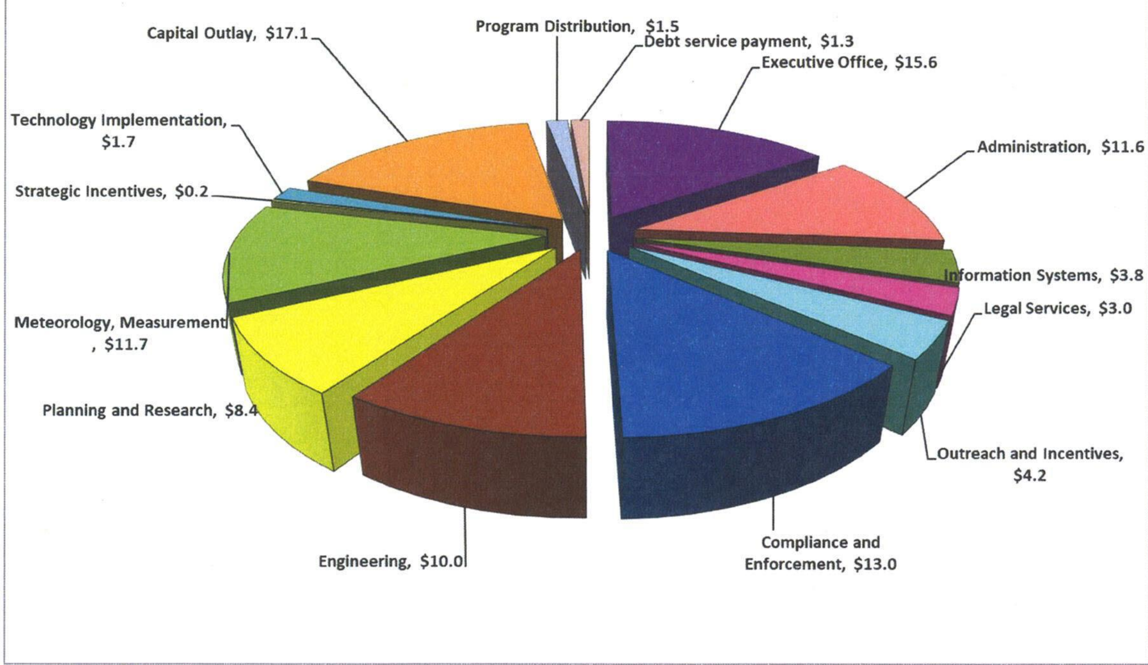
Figure 1. Fiscal Year 2018-2019
General Fund Revenues (Figures in Millions)



D. General Fund Financial Analysis, Continued

Figure 2 below provides a graph of General Fund operating expenditures (net of other financing uses) for fiscal year 2018-19. General Fund operating expenditures totaled $102,970,866 which is an increase of $21,641,672 over fiscal year 2017-18. This increase is a combination of purchased office space at 375 Beale Street and a new facility in Richmond, increased personnel & benefit cost associated with increase in staffing levels and increased professional services across various programs of District and AB 617 implementation. General Fund expenditures represent the District's general government operating costs categorized into the following operating divisions: Compliance and Enforcement ($13.0 million), Engineering ($10.0 million), Administration ($11.6 million), Information Systems ($3.8 million), Meteorology, Measurements and Rules ($11.7 million), Executive ($15.6 million), Planning & Research ($8.4 million), Outreach & Incentives ($4.2 million), Strategic Incentives ($0.2 million), Technology Implementation ($1.7 million) and Legal Services ($3.0 million). Capital Outlay (17.1 million), Debt Service ($1.3 million) and Program Distribution ($1.5 million) are not operating divisions, but rather categories capturing expenditures related to capital assets, COPs financing and special projects, respectively. General Fund operating revenues exceeded operating expenditures by $0.8 million in fiscal year 2018-19.

Figure 2. Fiscal Year 2018-2019
General Fund Expenditures (Figures in Millions)



D. General Fund Financial Analysis, Continued

The General Fund is the operating fund of the District and at the end of the fiscal year, the total fund balance of the General Fund was $77.5 million. The assigned fund balance was $29.6 million, restricted $5.5 million, non-spendable $0.9 million, and the remaining $41.5 million is unassigned. The unassigned fund balance represents 40% of the total General Fund expenditures, while the total fund balance represents 75% of the total General Fund expenditures. The District has available funds for unanticipated emergencies.

The FY 2018-19 amended budget compared to the adopted budget reflect an increase in appropriations of $28.0 million. The changes to the budget were the result of Governing Board actions that allocated additional funding after the budget was adopted and approved appropriations related to multi-year projects and obligations that will carry over to the next fiscal year. The FY 2018-19 actual revenues were above the final budget by $10.3 million resulting from increased economic activities related to property tax receipts, permit related fees and earned interests.

E. Capital Assets

Capital assets include land, buildings, laboratory equipment, air monitoring stations, computers, office furniture and District fleet vehicles. As of June 30, 2019, the District's investment in capital assets was $70.7 million net of accumulated depreciation, an increase of $11.5 million or 19% from prior year. This increase resulted in the purchase of additional office space at Beale Street and purchase of a new office building in Richmond.

F. Long-Term Liabilities

At the end of current fiscal year, the District had total long-term liabilities of $133.9 million. Of this amount, $105.4 million comprises of the District's Net Pension Liability and Net OPEB Liability, while $18.9 million pertains to the District's outstanding Certificate of Participation (COPs). Total Long-Term Liabilities increased from the prior year by $0.8 million or 0.6%, as restated.

G. Economic Factors and Next Year's Budget

The District receives approximately 35% of its General Fund revenue from property taxes levied in nine Bay Area counties and 46% from permit fees charged to local businesses. Consequently, District revenues are impacted by changes in the state and local economy. The District takes a fiscally conservative approach to its budget and it strives to balance its budget within available current revenues. To recover a greater share of the costs of maintaining air quality, the District increased its permitting fees an average of 6% in FY 2019-20. The District continues to focus on long term financial planning to ensure the vitality and effectiveness of its programs and recently prepared a Five-Year Financial Plan to project the District's financial health based on key economic assumptions.

H. Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Stephanie Osaze, Finance Manager, at 375 Beale Street, Suite 600, San Francisco, CA 94105.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Statement of Net Position
June 30, 2019

	Governmental Activities
Assets:	
Cash and cash equivalents	$ 75,255,044
Restricted cash and cash equivalents	229,606,906
Receivables	14,554,357
Due from other governments	3,828,559
Prepaids, deposits, and other assets	1,085,487
Capital assets:	
Non-depreciable	7,198,782
Depreciable	95,527,918
Less: accumulated depreciation	(32,030,555)
Total capital assets, net of depreciation	70,696,145
Total Assets	395,026,498
Deferred Outflows of Resources	26,624,823
Liabilities:	
Accounts payable	2,876,426
Accrued liabilities	1,551,510
Other liabilities	1,223,836
Unearned revenue	86,930,281
Long-term liabilities	
Portion due within one year:	
Legal settlements	3,750,000
Compensated absences	3,620,000
Certificates of participation	400,000
Capital lease obligation	378,445
Portion due after one year:	
Compensated absences	1,460,503
Certificates of participation	18,500,000
Capital lease obligation	437,136
Net pension liability	76,672,223
Net OPEB liability	28,717,898
Total Liabilities	226,518,258
Deferred Inflows of Resources	3,763,409
Net Position:	
Net investment in capital assets	50,980,564
Restricted for:	
Air quality grants and projects	151,338,196
Post-employment benefits	3,406,018
Debt service	1,171,636
Unrestricted	(15,526,760)
Total Net Position	$ 191,369,654

See accompanying notes to basic financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Statement of Activities
Year Ended June 30, 2019

		Program Revenues		Net (Expense)
Functions/programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Revenue and Changes in Net Assets**
Governmental activities:				
Primary government	$ 93,525,653	$55,870,537	$10,502,617	$ (27,152,499)
California Goods Movement Program	7,467,502	-	7,461,455	(6,047)
Vehicle settlement	162,364	223,565	-	61,201
Interest expense	550,307	-	-	(550,307)
TFCA / MSIF, CPM & other programs:				
TFCA / MSIF & other program distribution	38,262,656	-	46,423,007	8,160,351
Carl Moyer Program	16,108,629	-	16,729,316	620,687
Total Governmental Activities	$156,077,111	$56,094,102	$81,116,395	(18,866,614)
General revenues:				
County apportionment				35,823,934
Investment income not restricted for a specific program				1,622,927
Other				502,969
Total General Revenues				37,949,830
Change in Net Position				19,083,216
Net Position – Beginning of Year				172,286,438
Net Position – End of Year				$191,369,654

See accompanying notes to basic financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Balance Sheet
Governmental Funds
June 30, 2019

	General	Special Revenue	Total Governmental
Assets:			
Cash and cash equivalents	$ 75,255,044	$ -	$ 75,255,044
Restricted cash and cash equivalents	4,577,654	225,029,252	229,606,906
Receivables	6,403,850	8,150,507	14,554,357
Due from other governments	3,280,791	547,768	3,828,559
Due from other funds	5,879,988	-	5,879,988
Prepaids, deposits, and other assets	1,085,487	-	1,085,487
Total Assets	96,482,814	233,727,527	330,210,341
Liabilities and Fund Balances:			
Accounts payable	2,261,833	614,593	2,876,426
Accrued liabilities	1,551,510	-	1,551,510
Due to other funds	-	5,879,988	5,879,988
Other liabilities	1,154,836	69,000	1,223,836
Unearned revenue	10,178,900	76,751,381	86,930,281
Total Liabilities	15,147,079	83,314,962	98,462,041
Deferred Inflows of Resources:			
Unavailable revenue	3,863,090	-	3,863,090
Fund Balances:			
Nonspendable:			
Prepaid items	937,780	-	937,780
Restricted:			
Air quality grants and projects	925,631	150,412,565	151,338,196
Postemployment benefits	3,406,018	-	3,406,018
Debt service	1,171,636	-	1,171,636
Committed:			
Self-funded workers' compensation	-	-	-
Assigned:			
Pension and postemployment	2,000,000	-	2,000,000
Building and facilities	209,489	-	209,489
Capital equipment	-	-	-
Air quality grants and projects	22,728,264	-	22,728,264
Other assigned	4,614,289	-	4,614,289
Unassigned	41,479,538	-	41,479,538
Total Fund Balances	77,472,645	150,412,565	227,885,210
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 96,482,814	$ 233,727,527	$ 330,210,341

See accompanying notes to basic financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2019

Total Fund balances - Governmental Funds	$ 227,885,210
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is $102,726,700 and accumulated depreciation is $32,030,555 .	70,696,145
Receivables that will be collected in the following year and therefore are not available soon enough to pay for current period's expenditures and therefore are not reported in the governmental funds.	3,863,090
Long-term liabilities, including legal settlements, compensated absences, COPs liability, and capital lease obligation are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(28,546,084)
Proportionate share of net pension liability and related deferred inflow/outflow of resources are not reported in the governmental funds.	(63,281,442)
Net other post-employment benefits liability and related deferred inflow/outflow of resources are not reported in the governmental funds.	(19,247,265)
Total Net Position - Governmental Activities	$ 191,369,654

See accompanying notes to basic financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2019

	General	Special Revenue	Total Governmental
Revenues:			
TFCA / MSIF DMV fees	$ -	$ 41,791,659	$ 41,791,659
Permit fees	48,023,387	-	48,023,387
County apportionment	35,823,934	-	35,823,934
California Goods Movement	-	7,461,455	7,461,455
Carl Moyer Program	-	16,729,316	16,729,316
Federal grants	4,766,490	2,124,817	6,891,307
Penalties and variance fees	2,165,289	-	2,165,289
Asbestos fees	4,434,539	-	4,434,539
State subvention	1,734,548	-	1,734,548
State and other grants	4,001,579	2,506,531	6,508,110
Portable equipment registration program (PERP)	673,508	-	673,508
Vehicle settlement	-	223,565	223,565
Other revenues	502,969	-	502,969
Interest and investment gain (loss)	1,622,927	-	1,622,927
Special environmental projects	10,445	-	10,445
Total Revenues	103,759,615	70,837,343	174,596,958
Expenditures:			
General government:			
Program distribution	1,490,522	-	1,490,522
Executive office	15,557,089	-	15,557,089
Administration	11,571,906	-	11,571,906
Information systems	3,809,235	-	3,809,235
Legal services	3,021,699	-	3,021,699
Outreach and incentives	4,157,496	-	4,157,496
Compliance and enforcement	13,004,966	-	13,004,966
Engineering	9,972,258	-	9,972,258
Planning and research	8,418,139	-	8,418,139
Meteorology, measurement and rules	11,686,398	-	11,686,398
Strategic incentives division	188,351	-	188,351
Technology implementation	1,670,009	-	1,670,009
TFCA / MSIF & other programs:			
Program distribution	-	28,904,241	28,904,241
Commuter assistance	-	70,115	70,115
Intermittent control	-	1,699,041	1,699,041
TFCA administration	-	1,142,354	1,142,354
Vehicle buy-back	-	4,929,937	4,929,937
Mobile source incentive	-	242,367	242,367
Miscellaneous incentive program	-	210,373	210,373
Regional electric vehicle deployment	-	1,044,346	1,044,346
Enhanced mobile source inspection	-	19,882	19,882
Carl Moyer Program			
Project funding	-	14,810,049	14,810,049
Grant administration	-	1,298,580	1,298,580
California Goods Movement Program & other			
Project funding	-	7,362,858	7,362,858
Grant administration	-	104,644	104,644
Vehicle settlement			
Grant administration	-	162,364	162,364
Debt Service:			-
Principal	768,393	-	768,393
Interest	550,307	-	550,307
Capital outlay	17,104,098	-	17,104,098
Total Expenditures	102,970,866	62,001,151	164,972,017
Excess of Revenues Over Expenditures	788,749	8,836,192	9,624,941
Other Financing Sources (Uses):			
Transfers in	1,717,691	-	1,717,691
Transfers out	-	(1,717,691)	(1,717,691)
Total Other Financing Sources (Uses)	1,717,691	(1,717,691)	-
Net Changes in Fund Balances	2,506,440	7,118,501	9,624,941
Fund Balances, July 1, 2018	74,966,205	143,294,064	218,260,269
Fund Balances, June 30, 2019	$ 77,472,645	$ 150,412,565	$ 227,885,210

See accompanying notes to basic financial statements.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
Year Ended June 30, 2019

Net Changes in Fund Balances - Governmental Funds	$ 9,624,941
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	11,455,058
Repayment on debt principal are reported as expenditures in the governmental funds, but constitute reductions to liabilities in the statement of net position.	768,393
Legal settlements are recognized in the government wide statements as soon as the underlying event has occurred but not until due and payable in the governmental funds.	(3,750,000)
In the statement of activities, compensated absences are measured by the amounts the employees earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	(298,140)
Permit and other miscellaneous fees receivables recognized in the government-wide statements in previous years have been deemed uncollectible and must be written off to expense.	(6,327)
Because certain revenues will not be collected soon enough to be considered "available" revenues for this year.	563,369
Actuarial pension expense is recognized in the government wide statements and actual pension contributions are reclassified in the current year as deferred outflow of resources.	(2,372,380)
Actuarial OPEB revenue is recognized in the government wide statements and actual OPEB contributions are reclassified in the current year as deferred outflow of resources.	3,098,302
Changes in Net Position of Governmental Activities	$19,083,216

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

The Bay Area Air Quality Management District (District) was created by the California legislature in 1955. The District's structure, operating procedures and authority are established by Division 26 of the California Health and Safety Code.

The following summary of the more significant accounting policies of the District is provided to assist the reader in interpreting the basic financial statements presented in this section. These policies, as presented, should be viewed as an integral part of the accompanying basic financial statements.

(a) Reporting Entity

The District's jurisdiction is limited principally to policing non-vehicular sources of air pollution within the Bay Area, primarily industry pollution and burning. Any company wishing to build or modify a facility in the Bay Area must first obtain a permit from the District to ensure that the facility complies with all applicable rules.

The District also acts as the program administrator for Transportation Fund for Clean Air (TFCA) funds and Mobile Source Incentive funds (MSIF) derived from Assembly Bill 434 and Assembly Bill 923, respectively, TFCA and MSIF funding comes from a $4 and $2 surcharge, respectively, on motor vehicles registered within the District's boundaries. TFCA funding may only be used to fund eligible projects that reduce motor vehicle emissions and support the implementation of the transportation and mobile source control measures in the 1994 Clean Air Plan. All projects must fall within the categories listed in State Law (Health and Safety Code Section 44241).

The Health and Safety Code requires the District to pass-through no less than 40% (forty percent) of the TFCA revenues raised within a particular county to that county's eligible, designated Program Manager. The remaining 60% (sixty percent) is for Regional Fund grants and is being allocated to projects on a competitive basis. Projects are evaluated using the District's Board adopted evaluation and scoring criteria. The District may receive reimbursement from TFCA funds, not to exceed 6.25% (six and a quarter percent) of total funds, for administration of the program. TFCA activities are accounted for in the District's Special Revenue Fund.

The District is responsible with regulatory stationary sources of air pollution in seven counties: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, and Santa Clara; and portions of two other counties: Southwestern Solano and Southern Sonoma. The District is governed by a 24 (twenty-four) member Board of Directors that includes representatives from all of the above counties.

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

(b) Government-wide and Fund Financial Statements

The District's basic financial statements consist of fund financial statements and government-wide statements which are intended to provide an overall viewpoint of the District's finances. The government-wide financial statements, which are the statement of net position and the statement of activities, report information on all District funds excluding the effect of interfund activities. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column.

(c) ***Basis of Accounting***

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual, i.e., both measurable and available to finance expenditures of the fiscal period. "Available" means collectible within the current period or soon enough thereafter to pay current liabilities.

The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 (sixty) days after year end, with the exception of revenues related to CMAQ Spare the Air, which are included in revenue if received within seven months after year end.

Expenditures for the governmental funds are generally recognized when the related fund liability is incurred, except debt service expenditures and expenditures related to compensated absences which are recognized when payment is due. Governmental capital asset acquisitions are reported as expenditures in the governmental funds.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place.

Imposed non-exchange transaction revenues result from assessments imposed on non-governmental entities, including individuals (other than assessments imposed on exchange transactions), and the revenues are recognized in the period when use of the resources is required or first permitted. District-imposed non-exchange transactions are the TFCA/MSIF DMV fees, Permit fees, Title V Permit fees, Asbestos fees, Penalties and Variance fees, and Settlements.

Government-mandated non-exchange transactions result from one level of government providing resources to another level of government and requiring the recipient to use the resources for a specific purpose. Voluntary non-exchange transactions result from agreements entered into voluntarily by the parties thereto. Both types of non-exchange transaction revenues are treated in the same manner. Revenues are recognized when all applicable eligibility requirements are met. District transactions of both types include the Carl Moyer program, Lower Emission School Bus program, State Subvention, EPA federal grants, OHS federal grants, CMAQ Spare the Air grants, other grants, California Goods Movement program, Shore Power program, and various agreements with the nine Counties served by the District.

Those revenues susceptible to accrual are taxes, intergovernmental revenues, interest, charges for services, fines and penalties, and license and permit revenues.

Under the modified accrual basis, revenue from exchange and non-exchange transactions must meet both the "measurable" and '·available' criteria to be recognized in the current period. On governmental fund financial statements, receivables that will not be collected within the availability period have been offset with unavailable revenue. Unearned revenue arises when assets are received before the revenue recognition criteria have been satisfied. Grants received before eligibility requirements have been satisfied are recorded as unearned revenue in the governmental fund financial statements (see Note 6).

(d) Fund Accounting

The District's accounting system is organized and operated on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. A description of the activities of the major funds is provided below:

General Fund – The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for the specific purpose of the individual funds.

(e) Cash and Investments

Cash includes amounts in deposits with the San Mateo County Investment Fund (County Pool).

All District-directed investments are governed by Government Code Section 53601 and Treasury investment guidelines. The guidelines limit specific investments to government securities, domestic chartered financial securities, domestic corporate issues, and California municipal securities. The District's securities portfolio is held by the County of San Mateo Treasurer. All District investments are stated at fair value based on quoted market prices.

(f) Receivables

During the course of normal operations, the District carries various receivable balances for taxes. interest, and permitting operations. The District considers receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been provided. If amounts become uncollectible, they will be charged to operations when that determination is made. During the year ending June 30, 2019, management deemed $6,327 of outstanding receivables to be uncollectible.

(g) Short-term Interfund Receivables/Payables

Occasionally, a fund will not have sufficient cash to meet its financial obligations and a cash transfer will be required to enable that fund to pay its outstanding invoices and other obligations. These temporary borrowings between funds are classified as "due from other funds" or "due to other funds" on the governmental funds balance sheet. Interfund balances within governmental activities are eliminated on the government-wide statement of net position.

(h) Capital Assets

Capital assets, which include land, depreciable assets, and construction in progress, are reported in the government-wide financial statements. Such assets are valued at historical cost or estimated historical cost unless obtained by annexation or donation, in which case they are recorded at estimated market value at the date of receipt. The District utilizes a capitalization threshold of $5,000.

Projects under construction are recorded at cost as construction in progress and transferred to the appropriate asset account when substantially complete. Repair and maintenance costs are charged to expense when incurred. Equipment disposed of, or no longer required for its existing use, is removed from the records at actual or estimated historical cost, net of accumulated depreciation.

All capital assets, except land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives.

Assets	Years
Buildings, grounds & improvements	15 - 20
Equipment	5 - 15

(i) Deferred Outflows / Deferred Inflows

In addition to assets, the financial statements report separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of resources that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Conversely, deferred inflows of resources represent an acquisition of resources that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

Contributions made to the District's pension plan after the measurement date but before the fiscal year-end are recorded as a deferred outflow of resources. Additional factors involved in the calculation of the District's pension expense and net pension liability include the differences between expected and actual experience, changes in assumptions, and differences between projected and actual investment earnings. These factors are recorded as deferred outflows and inflows of resources and amortized over various periods. See Note 7 for further details related to these pensions deferred outflows and inflows. In the fund financial statements, the District reports unavailable revenues as a deferred inflow of resources.

(j) Compensated Absences

The District's policies provide compensation to employees for certain absences, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on any special event beyond the control of the District and its employees is accrued as employees earn those benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in a period in which such services are rendered or in which such events take place.

The District's liability for compensated absences is recorded in the Statement of Net Position. District employees are allowed to accrue no more than four hundred and sixty hours of vacation as of the end of the calendar year. In the event of termination, the employees are reimbursed for all accumulated vacation at the time of separation from the District. There are no restrictions regarding the accumulation of sick leave. On termination, employees are not paid for accumulated sick leave, but the accumulated sick leave is counted as service credit by the CalPERS pension plan administered by the State of California

(k) Pensions

The District participates in the Bay Area Air Quality Management District Miscellaneous Plan (the Plan), an agent multiple-employer defined benefit pension plan maintained by the California Public Employees' Retirement System (CalPERS). For purposes of measuring the net pension liability, pension expense, and deferred outflows/inflows of resources related to pensions, information about the fiduciary net position of the Plan, and additions to/deductions from the Plan's fiduciary net position, have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(l) Use of Management Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(m) Net Position / Fund Balance

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

Net Investment in Capital Assets - This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt, if any, that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Position - This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - This category represents net position of the District not restricted for any project or other purpose.

When an expenditure is incurred for purposes for which both restricted and unrestricted net position is available, the District considers restricted funds to have been spent first.

The governmental fund statements utilize a fund balance presentation. Fund balances are categorized as Nonspendable, restricted, committed, assigned, and unassigned.

Nonspendable Fund Balance - This category presents the portion of fund balance that cannot be spent because it is either not in a spendable form or it is legally or contractually required to be maintained intact.

Restricted Fund Balance - This category presents the portion of the fund balance that is for specific purposes stipulated by constitution, external resource providers, or enabling legislation.

Committed Fund Balance - This category presents the portion of the fund balance that can be used only for the specific purposes determined by a formal action (Resolution) of the District's highest level of decision-making authority. For the District, this level of authority lies with the Board of Directors.

Assigned Fund Balance - This category presents the portion of the fund balance that is intended to be used by the District for specific purposes but does not meet the criteria to be classified as restricted or committed. For the District, balances can be assigned by management or through the budget process. Other assigned balance represents amounts intended to be used for a Wood Burning Device, Abatement Technology, Litigation, Technology Implementation Office, Woodchip Program, and the Marin Wildfire Recovery.

Unassigned Fund Balance - This category presents the portion of the fund balance that does not fall into restricted, committed, or assigned and are spendable.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers assigned amounts to be reduced first, before the unassigned amounts.

(n) New Pronouncements

The GASB has issued Statement No. 83, *Certain Asset Retirement Obligations,* effective for periods beginning after June 15, 2018. This addresses accounting and financial reporting for certain asset retirement obligations (AROs) and establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement did not have an impact on the District's financial statements for fiscal year 2018-19.

The GASB has issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for periods beginning after June 15, 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement did not have an impact on the District's financial statements for fiscal year 2018-19.

(2) Cash, Cash Equivalents, and Investments

Cash and Investments

The District pools cash from multiple sources and funds so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

Cash, cash equivalents, and investments as of June 30, 2019, are classified in the accompanying financial statements as follows:

Cash and cash equivalents	$ 75,255,044
Restricted cash and cash equivalents	229,606,906
Total cash, cash equivalents and investments	$ 304,861,950

Cash, cash equivalents and investments as of June 30, 2019 consist of the following:

Cash and investments in San Mateo Pooled Fund Investment Program	$ 300,284,296
Cash, cash equivalents, and investments with fiscal agent	4,577,654
Total cash, cash equivalents and investments	$ 304,861,950

Cash in County Treasury

The District is a voluntary participant in the San Mateo County Investment Fund (County Pool) that is regulated by California Government Code under the oversight of the Treasury of the County of San Mateo (the Treasury). The Treasury is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The Treasury is restricted by Government Code Section 53635, pursuant to Section 53601, to invest in time deposits; U.S. government securities; state registered warrants, notes, or bonds; the State Treasurer's investment pool: bankers' acceptances; commercial paper; negotiable certificates of deposit: and repurchase or reverse repurchase agreements.

The District earns interest on a proportionate basis with all other investors. Interest is credited directly to the District's account on a quarterly basis. The pooled fund is collateralized at 102% by San Mateo County, but not specifically identified to any one depositor or in the District's name.

The District reports its investment in the County Pool at the fair value amount provided by the County. Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed income. This method differs from the fair value method used to value investments in these financial statements in that unrealized gains or losses are not distributed to pool participants.

Investments Authorized by the District's Investment Policy

The table below identifies the investment types authorized for the District by the California Government Code Section 53601 or the Treasury investment policy, which was adopted by the District, whichever is more restrictive. This table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk., and concentration of credit risk.

Except for investments by trustees of Certificates of Participation (COPs) proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from the website at http://ttax.co.la.ca.us/. The table below identifies some of the investment types permitted in the investment policy:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Government Agency / Sponsored Enterprise Securities	7 Years	100%	40%
U.S. Treasury Obligations	7 Years	100%	100%
Asset-Backed Securities	5 Years	20%	5%
Banker 's Acceptances	180 Days	15%	5%
Commercial Paper	270 Days	40%	5%
Negotiable Certificates of Deposit	5 Years	30%	5%
Collateralized Certificates of Deposit	1 Year	15%	5%
Repurchase Agreements	92 Days	100%	100%
Mutual Funds	N/A	10%	5%
Corporate Bonds, Medium-Term Notes & Covered Bonds	5 Years	30%	5%
Local Agency Investment Fund (LAIF)	N/A	Up to the state limit	Up to the state limit

Investments Authorized by Debt Agreements

The District's cash, cash equivalents. and investments with fiscal agent in the General Fund in the amount of $1,171,636 represent funds which are restricted for specific purposes under terms of the debt agreement at June 30, 2019.

Investments of debt proceeds held by the trustee are governed by provisions of the trust agreement rather than the general provisions of the California Government Code or the District 's investment policy.

Derivative Investments

The District did not directly enter into any derivative investments, and the County Pool was not holding derivative investments at June 30, 2019.

Disclosures Related to Interest Rate Risk and Credit Risk

Generally, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law and the District's investment policy limit the District's investments in banker's acceptances, commercial paper, negotiable certificates of deposit collateralized certificates of deposit, and repurchase agreements to the rating of Al/P-1/F- 1 or better by two of the three nationally recognized rating services (Standard & Poor's, Moody's Investors Service, or Fitch Ratings). Corporate securities are required to have a rating of AA or better at the time of purchase, aside from 25% of total corporate securities, which can have a rating of A. U.S. government securities are required to have a rating of AA, long-term, or A-1, short-term, or better by two of the three rating services. Asset-backed securities are required to have a rating of AAA or higher by two of the three rating services.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The District's cash, cash equivalents, and investments were categorized as follows at June 30, 2019:

	Ratings:			
	Moody's	**S&P**	**Maturities**	**Fair Value**
AIG Fixed Annuity	Not Rated	Not Rated	Current	$ 3,406,018
Dreyfus Treasury Securities	Aaa-mf	AAAm	Current	$1,171,636
Investments in San Mateo Pooled Fund Investment Program	Aaa to P-1	AAA to A-1	0.93 Years	300,284,296
Total cash, cash equivalents, and investments				$ 304,861,950

Restricted Cash, Cash Equivalents, and Investments

The District's restricted cash, cash equivalents, and investments are $229,606,906 at June 30, 2019. Included in this restricted balance is $225,029,252 for air quality grants and projects, $1,171,636 for debt service, and $3,406,018 restricted for postemployment benefits.

Fair Value Measurement

GASB 72 requires the District to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level l inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within level 1, which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs.

The investment in San Mateo Pooled Fund Investment Pool is subject to fair value measurement; however, it is not subject to the fair value hierarchy. The Dreyfus Treasury Securities are classified as Level 2 because they are observable but do not have quoted prices in active market. The AIG Fixed Annuity is classified as Level 3 of the fair value hierarchy because it is a contract with AIG related to the restricted portion of OPEB funding and is not available for sale or transfer on any securities exchange.

(3) Receivable

At June 30, 2019, the District had the following accounts receivable:

General Fund:		
Permit and other fees	$ 4,712,419	
County apportionments	899,231	
Interest	424,165	
Other	368,035	
Total General Fund		$ 6,403,850
Special Revenue Fund		
TFCA DMV fees	$ 4,561,468	
MSIF DMV fees	2,262,092	
Interest	1,326,947	
Total Special Revenue Fund		$ 8,150,507
Total Receivables		$ 14,554,357

(4) Interfund Transactions

Current interfund balances (due to/from other funds) arise in the normal course of business and represent short-term borrowings occurring as a result of expenditures which are paid prior to the receipt of revenues. These balances are expected to be repaid shortly after the end of the fiscal year when revenues are received. At June 30, 2019, the General Fund was owed $5,879,988 by the Special Revenue Fund.

With Board approval, resources are transferred from one fund to another. The purpose of the majority of transfers is to move approved administrative revenue charged to restricted programs in the Special Revenue Fund to the General Fund. Interfund transfers for the year ended June 30, 2019 were as follows:

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
General Fund	Special Revenue Fund	$1,717,691

(5) Capital Assets

The District's capital assets were comprised of the following at June 30, 2019:

	Balance at 7/1/2018	Additions	Deletions	Transfers	Balance at 6/30/2019
Nondepreciable Assets:					
Land	$ 1,018,521	$ 2,955,746	$ -	$ -	$ 3,974,267
Construction in progress	1,457,678	3,224,515	-	(1,457,678)	3,224,515
Total nondepreciable assets	2,476,199	6,180,261	-	(1,457,678)	7,198,782
Depreciable assets:					
Building	31,255,951	5,694,254	-	-	36,950,205
Building & grounds	207,868	4,457,711	-	-	4,665,579
Leasehold improvements	2,908,329	-	-	-	2,908,329
Computer and network equipment	10,366,038	236,659	-	-	10,602,697
Enterprise application	23,705,666	1,457,678	-	-	25,163,344
Motorized equipment (vehicle)	426,432	52,717	(68,447)	-	410,702
Lab and monitoring equipment	10,609,924	482,496	-	-	11,092,420
Communication equipment	2,943,055	-	-	-	2,943,055
Furniture	158,950	-	-	-	158,950
Office equipment	419,207	-	-	-	419,207
General equipment	213,430	-	-	-	213,430
Total depreciable assets	83,214,850	12,381,515	(68,447)	-	95,527,918
Building	1,809,148	1,728,880	-	-	3,538,028
Building and grounds	190,771	160,419	-	-	351,190
Leasehold improvements	2,729,847	12,321	-	-	2,742,168
Computer and network equipment	6,301,752	1,167,078	-	-	7,468,830
Enterprise application	3,539,237	1,580,378	-	-	5,119,615
Motorized equipment (vehicle)	167,881	42,274	(45,934)	-	164,221
Lab and monitoring equipment	8,397,664	737,933	-	-	9,135,597
Communication equipment	2,603,278	183,079	-	-	2,786,357
Furniture	150,005	1,197	-	-	151,202
Office equipment	353,397	12,968	-	-	366,365
General equipment	206,982	-	-	-	206,982
Total accumulated depreciation	26,449,962	5,626,527	(45,934)	-	32,030,555
Total depreciable assets, net	56,764,888	6,754,988	(22,513)	-	63,497,363
Total capital assets, net	$59,241,087	$12,935,249	$ (22,513)	$(1,457,678)	$70,696,145

Donated capital assets are recorded at their estimated fair value at the date of donation.

Depreciation expense by function for capital assets for the year ended June 30, 2019, is as follows:

Primary Government:	
Executive	$ 940,717
Administrative services	484,340
Legal services	162,294
Communications Office	74,048
TIO	29,762
Compliance & Enforcement	751,275
Engineering	546,029
Planning	394,135
Meteorology, Measurements & Rules	1,065,669
Information Systems	1,168,651
Strategic Incentives Division	9,607
Total depreciation expense	$ 5,626,527

(6) Unearned / Unavailable Revenue

The governmental fund financial statements report unavailable revenues as a deferred inflow of resources in connection with receivables for revenues that are not available when they are not collectible within the current period or soon enough thereafter to pay for liabilities of the current period. The District reports a liability for unearned revenue in connection with resources that have been received, but not yet earned.

As of June 30, 2019, the various components of unavailable revenue and unearned revenue reported were as follows:

	Unearned Revenue	Unavailable Revenue	Total
General Fund:			
Permits and licenses	$ -	$ 3,863,090	$ 3,863,090
Community Air Protection Program	14,041,990	-	14,041,990
Total General Fund	14,041,990	3,863,090	17,905,080
Special Revenue Fund:			
GMB - Administration	555,724	-	555,724
GMB - On-Road Projects	8,932,835	-	8,932,835
Shore Power Projects	1,475,318	-	1,475,318
TRUs	49,805	-	49,805
Locomotive	6,839,065	-	6,839,065
Carl Moyer Program	51,488,963	-	51,488,963
Carl Moyer Program Administration	2,799,802	-	2,799,802
Low Carbon Project Funding	1,137,659	-	1,137,659
Low Carbon Program Administration	319,907	-	319,907
CEC Project Funding	31,399	-	31,399
Special Projects	3,120,905	-	3,120,905
Total Special Revenue Fund	76,751,381	-	76,751,381
Total Unearned and Unavailable Revenue	$ 90,793,371	$ 3,863,090	$ 94,656,461

(7) Deferred Outflows and Inflows of Resources

District's deferred outflows and inflows of resources as of June 30, 2019 are comprised of the following:

	Deferred Outflows	Deferred Inflows
Changes of assumptions - Pension	$ 8,356,219	$ 1,521,601
Changes of assumptions - OPEB	2,859,294	-
Differences between expected and actual experience - Pension	-	1,691,273
Net differences between projected and actual earnings on plan investments - Pension	571,474	-
Differences between projected and actual earnings on plan investments - OPEB	-	550,535
Pension contributions subsequent to measurement date	7,675,962	-
OPEB contributions subsequent to measurement date	7,161,874	–
Total	$ 26,624,823	$ 3,763,409

(8) Long-Term Liabilities

(a) Certificate of Participation

On November 7, 2013, the District issued $30,000,000 through a private placement of taxable Certificates of Participation (COPs) with Bay Area Headquarters Authority (BAHA) to finance its ownership interest of approximately 75,000 square feet of office space at 375 Beale Street. The COPs were held by the Bank of New York Mellon Trust Company, N.A., as Trustee, in an escrow account until the acquisition of the premises by the District which occurred in May 2017. The escrow account paid interest due during the escrow period, at an annual rate of 0.247%, using proceeds of the COPs. Upon acquisition date, the escrow period ended, and the District began making base rental payments of $100,000 per month beginning July 1, 2017.

The District is subject to mandatory sinking fund account payments as follows:

Payment Date (November 1)	Amount	Payment Date (November 1)	Amount
2019	$ 400,000	2033	$ 700,000
2020	400,000	2034	800,000
2021	400,000	2035	800,000
2022	500,000	2036	800,000
2023	500,000	2037	800,000
2024	500,000	2038	800,000
2025	500,000	2039	900,000
2026	500,000	2040	900,000
2027	600,000	2041	900,000
2028	600,000	2042	1,000,000
2029	600,000	2043	1,000,000
2030	600,000	2044	1,000,000
2031	700,000	2045	1,000,000
2032	700,000		

The District and BAHA had entered into a financing lease/sublease arrangement whereby at the date of acquisition the District leased its office space to BAHA and BAHA subleased office space back to the District to secure payment on the COPs. Under the terms of the agreement, total monthly payments have been predetermined and the amount of such payments that relates to interest will be calculated based on the Adjustable Rate Mode accrued at the Adjusted Interest Rate as provided in the lease/sublease agreement with BAHA. All payments made into the sinking fund are restricted for debt service.

Total payments of principal and interest are structured as follows:

Fiscal Year	Total Annual Payments
2020	$ 1,200,000
2021	1,200,000
2022	1,200,000
2023	1,200,000
2024	1,200,000
2025-2029	6,340,000
2030-3034	6,850,000
2035-2039	6,850,000
2040-2044	6,850,000
2045	1,370,000
	$ 34,260,000

Upon payment of all rental payments under the term of the sublease agreement, the title of the office space will transfer to the District.

(b) Capital Lease

Capital lease is related to hardware, software and services for IT infrastructure located at the new building at 375 Beale Street which includes but is not limited to servers, storage, Voice Over IP, computer networks, and security systems. The capital lease agreement had a total principal amount of $2,300,000 of which the District borrowed $2,275,000 with an annual payment of principal and interest of $399,379 over 6 years. The fair value of fixed assets purchased with the capital lease is $2,275,000. The capital lease expense during the year ended June 30, 2019 was $368,393.

(c) Summary of Long-Term Liabilities

A schedule of changes in general long-term debt for the year ended June 30, 2019, is shown below:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Due Within One Year
Governmental Activities					
Certificates of participation (COPs)	$ 19,300,000	$ -	$ (400,000)	$ 18,900,000	$ 400,000
Compensated absences	4,782,817	3,933,361	(3,635,675)	5,080,503	3,620,000
Capital lease	1,183,974	-	(368,393)	815,581	378,445
Total	$ 25,266,791	$3,933,361	$(4,404,068)	$ 24,796,084	$ 4,398,445

The certificates of participation and long-term portion of compensated absences is liquidated by the General Fund.

Future annual payments on COPs are as follows:

Year Ending June 30	**Certificates of Participation**	
	Principal	**Interest**
2020	$ 400,000	$ 573,500
2021	400,000	561,100
2022	500,000	545,600
2023	500,000	530,100
2024	500,000	514,600
2025-2029	2,800,000	2,321,900
2030-2034	3,500,000	1,825,900
2035-2039	4,100,000	1,221,400
2040-2044	4,800,000	523,900
2045	1,000,000	12,400
	$ 18,500,000	$ 8,630,400

COPs bears a variable interest rate structure with preset interest rate caps. The interest rate is based on an agreed upon spread of 120 basis point or 1.2% plus a commonly used interest rate index published by the Securities Industry and Financial Markets Association (SIFMA). The SIMFA index rate used to calculate the interest rate is determined by the Index Agent on (1) each Index Rate Determination Date determined by the Index Agent, plus (2) the applicable spread of 1.9%; the sum of which is subject to the preset interest rate cap as follows:

Preset Interest Rate Caps structure:	
Year 1-5	3.20%
Year 6-10	4.20%
Year 11-30	5.20%

The District utilized the SIFMA rate as the end of the fiscal year ending June 30, 2019 to calculate the interest based on the predetermined principal payment schedule above.

(9) Operating Leases

Commitments under non-cancelable operating lease agreements for air-monitoring stations, vehicles, and office equipment provide for minimum annual rental payments as follows:

Fiscal Year Ending		Amount
2020	$	1,482,571
2021		733,714
2022		656,079
2023		505,147
2024		356,338
2025-2029		1,075,353
2030-2034		774,770
2035-2039		820,272
	$	6,404,244

Air-monitoring station leases are renewable with minor escalations.

Rental expense for lease agreements above during the year ended June 30, 2019, was $1,583,583.

(10) County Apportionment Revenue

As a result of the passage of Proposition 13 in fiscal year 1979, the District no longer has the power to calculate property tax revenues due for each county. Instead, the District now receives remittances from the counties, which are calculated in accordance with Assembly Bill Number 8. Secured and unsecured property taxes are levied on January l of the preceding fiscal year. Property tax revenues are recognized by the District in the fiscal year they are assessed, provided that they become available as defined in footnote 1(c).

Secured property tax is due in two installments. on November l and March 1 and becomes a lien on those dates. It becomes delinquent after December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent on August 31. The term "unsecured" refers to taxes on personal property other than real estate, land, and buildings. These taxes are secured by liens on the property being taxed.

Property taxes levied are recorded as revenue and receivables in the fiscal year of levy, provided that they are collected within the fiscal year or within sixty days after year end to be consistent with the District's collection period used in the measurement of the collection period for when revenues are considered available.

County apportionment revenue recognized as of June 30, 2019, is as follows:

County		Amount
Alameda	$	6,219,340
Contra Costa		3,937,334
Marin		1,608,627
Napa		1,126,069
Santa Clara		10,194,485
San Francisco		5,369,698
San Mateo		4,876,953
Solano		862,298
Sonoma		1,629,130
Total county apportionment revenue	**$**	**35,823,934**

(11) Pension Plan

Plan Description

All District employees are eligible to participate in the Bay Area Air Quality Management District Miscellaneous Plan (the Plan), an agent multiple-employer defined-benefit pension plan administered by the California Public Employees Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. CalPERS issues a publicly available report that includes a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found online at www.calpers.ca.gov.

Benefits Provided

Benefit provisions under the Plan are established by State statute and District resolution. The benefits are based on members ' years of service, age, final compensation, and benefit formula. The California Public Employees· Pension Reform Act of 2013 (PEPRA) made significant changes to the benefit structure that primarily affect members first hired to perform CalPERS creditable activities on or after January 1, 2013. As a result of PEPRA, the Plan has two benefit structures: 1) CalPERS Miscellaneous Employee "2% at 55" for members first hired prior to January 1, 2013, to perform CalPERS creditable activities (Classic members), and 2) CalPERS Miscellaneous Employee '"2% at 62" for members first hired on or after January 1, 2013, to perform CalPERS creditable activities (PEPRA members). The Plan provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries.

Classic members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits, while PEPRA members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after five years of service. The death benefit is one of the following: The Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan is applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Classic	**PEPRA**
Hiring date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age: minimum	50	52
Monthly benefit, as a % of eligible compensation	2.42%	2.50%
Required employee contribution rates	7.00%	5.50%
Required employer contribution rates	20.158%	20.158%

Employees Covered

At June 30, 2019, the following employees were covered by the benefit terms for the Plan:

Inactive employees or beneficiaries currently receiving benefits	300
Inactive employees entitled to but not yet receiving benefits	90
Active employees	360
	750

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended.

For the year ended June 30, 2019, the contributions to the Plan amounted to $7,675,962.

Net Pension Liability

The District's net pension liability for the Plan of $76,672,223 at June 30, 2019 is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability of the Plan is shown below.

The total pension liability in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Actuarial cost method	Entry-Age Normal
Actuarial assumptions	
Discount rate	7.15%
Inflation	2.50%
Salary increases	Varies by entry age and service
Investment rate of return	7.15% (1)
Mortality rate table (2)	Derived using CalPERS' membership data for all funds
Post retirement benefit increase	Contract COLA up to 2.00% until purchasing power protection allowance floor on purchasing power applies, 2.50% thereafter

(1) Net of pension plan investment and administrative expenses; includes inflation.

(2) The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increases, mortality and retirement dates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change of Assumptions

During the measurement period ended June 30, 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate.

Discount Rate

The discount rate used to measure the total pension liability of the Plan was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.15% discount rate is appropriate, and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15% is applied to all plans in the PERF. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS' staff considered both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	Current Target Allocation	Real Return Years 1 - 10 [a]	Real Return Years 11+ [b]
Global equity	50.0%	4.80%	5.98%
Fixed income	28.0	1.00	2.62
Inflation assets	—	0.77	1.81
Private equity	8.0	6.30	7.23
Real assets	13.0	3.75	4.93
Liquidity	1.0	—	(0.92)
Total	100.00%		

[a] An expected inflation of 2.00% used for this period.

[b] An expected inflation of 2.92% used for this period.

Changes in the Net Pension Liability

The changes in the net pension liability for the Plan are as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a-b)
Balance at June 30, 2018	$ 304,804,251	$ 225,485,533	$ 79,318,718
Changes recognized for the measurement period:			
Service cost	5,588,151	–	5,588,151
Interest on the total pension liability	21,332,712	–	21,332,712
Differences between expected and actual experience	(643,002)	–	(643,002)
Changes of assumptions	(1,997,101)	–	(1,997,101)
Plan to plan resource movement	–	(556)	556
Contributions from the employer	–	6,359,880	(6,359,880)
Contributions from employees	–	2,514,609	(2,514,609)
Net investment income	–	19,071,946	(19,071,946)
Benefit payments, including refunds of employee contributions	(13,197,195)	(13,197,195)	–
Other miscellaneous income (expense)	–	(351,369)	351,369
Administrative expense	–	(667,255)	667,255
Net changes	11,083,565	13,730,060	(2,646,495)
Balance at June 30, 2019	$ 315,887,816	$ 239,215,593	$ 76,672,223

Sensitivity of the District's Net Pension Liability to Changes in the Discount Rate

The following presents the District's net pension liability for the Plan as of the measurement date, calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15%) or 1-percentage-point higher (8.15%) than the current rate:

	1.00% Decrease (6.15%)	Current Discount Rate (7.15%)	1.00% Increase (8.15%)
District's net pension liability	$ 116,166,626	$ 76,672,223	$ 43,589,217

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports. Copies of the CalPERS annual financial report may be obtained from CalPERS Fiscal Services Division, P.O. Box 942703, Sacramento, CA 94229-2703, or by calling (888) CalPERS (225-7377).

Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2019, the District recognized pension expense of $10,837,194 for the Plan. As of June 30, 2019, the District reported deferred outflows and deferred inflows of resources related to the Plan as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 8,356,219	$ 1,521,601
Differences between expected and actual experience	—	1,691,273
Net differences between projected and actual earnings on pension plan investments	571,474	
District contributions subsequent to the measurement date	7,675,962	—
Total	$ 16,603,655	$ 3,212,874

The amounts above are net of outflows and inflows recognized in the 2017-18 measurement period expense.

The $7,675,962 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in future pension expense as follows:

Year ended June 30	Deferred Outflows (Inflows) of Resources
2020	$ 5,543,781
2021	3,501,514
2022	(2,569,224)
2023	(761,254)

Payable to the Pension Plan

The District's contribution for all members to the Plan for the fiscal year ended June 30, 2019 was in accordance with the required contribution rate calculated by the CalPERS actuary. Hence, no payable to the pension plan is recognized for the fiscal year ended June 30, 2019.

(12) Postemployment Benefits – Health and Welfare for Retirees

Plan Description

The District contributes to an agent multiple-employer plan administered by CalPERS. The plan provides medical, dental, vision, and life insurance benefits to eligible retirees. Benefit provisions are established in accordance with the Employee Association Memorandum of Understanding (MOU) for represented employees and as adopted by Board Resolution for all other employees who retire from the District on or after attaining age 50 with at least 5 (five) years of service.

The District established an irrevocable trust to prefund the other postemployment benefit annual required contribution by participating in the California Employers' Retiree Benefit Trust (CERBT) program during the fiscal year ended June 30, 2009. The funds in the CERBT are held in the trust and administered by the California Public Employees' Retirement System (CalPERS).

The CERBT fund, which is an IRC Section 115 Trust, is set up for the purpose of (i) receiving employer contributions to prefund health and other postemployment benefits for retirees and their beneficiaries, (ii) investing contributed amounts and income therein, and (iii) disbursing contributed amounts and income therein, if any, to pay for costs of administration of the fund and to pay for health care costs or other postemployment benefits in accordance with the terms of the District's OPEB plan. The District's Other Postemployment Benefits (OPEB) financial statements will be included in the CalPERS Comprehensive Annual Financial Report (CAFR). Copies of CalPERS' CAFR may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Additionally, the plan maintains a closed group of retirees receiving coverage through a separate life insurance policy with American International Group, Inc. (AIG). The District makes contributions to the AIG Retiree Life Reserve Fund on an annual basis as needed to ensure that Fund's balance is equal to the present value of expected claims for the retirees covered by the policy. The AIG Retiree Reserve Fund can only be applied towards the benefits provided under the program. As of June 30, 2019, the AIG Retiree Life Insurance Fund had a total asset balance of $590,444, making up 1.3% of the total Plan Fiduciary Net Position of $47,004,063. All activities of the AIG Retiree Life Reserve Fund are accounted for in the measurement of the District's net OPEB liability.

Employees Covered

As of June 30, 2017, actuarial valuation, the following current and former employees were covered by the benefit terms under the District's OPEB Plan:

Active employees	334
Inactive employees or beneficiaries currently receiving benefits	219
Inactive employees entitled to, but not yet receiving benefits	2
Total	555

Contributions

The District contributions to the Plan occur as benefits are paid to retirees (pay-as-you-go basis) and/or to the OPEB trust by means of discretionary funding payments as approved by the Board.

The District's actuary also accounts for the implicit subsidy contribution, which exists when premiums charged for retiree coverage are lower than the expected retiree claims for that coverage. In the District's program, the claims experience for active employees and retirees not covered by Medicare is co-mingled in setting premiums rates for some members and gives rise to an implicit subsidy. The implicit subsidy is determined as the projected difference between (a) retiree medical and life insurance claim costs by age and (b) premiums charged for retiree coverage.

For fiscal year 2018-19, the District contributed a total of $7,161,874 to the plan that includes $4,000,000 contributed to the OPEB trust and $559,463 identified as implicit contributions.

Healthcare Reform Act

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, collectively referred to as the Health Care Reform Act of 2010 ("The Act"), were signed into law in March 2010. The Act imposes a 40.00% excise tax on employers that carry "Cadillac healthcare plans" beginning in 2022. The tax is applied to the amount of premium in excess of stated single ($11,850 for ages 55-64 and $10,200 for all other ages) and family ($30,950 for ages 55-64 and $27,500 for all other ages) thresholds. The District's actuary considered the potential additional costs due to excise taxes on high cost plans and these are included in the actuary's valuation of liabilities.

Net OPEB Liability

The District's net OPEB liability of $28,717,899 at June 30, 2019 is measured as the total OPEB liability, less the OPEB plan's fiduciary net position. All information provided is based on the census data, actuarial assumptions, and plan provisions used in the June 30, 2017 actuarial valuation report (dated September 2018), except for the Changes of Assumptions which are reflected in the June 30, 2018 actuarial valuation and noted below. The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	July 1, 2017
Measurement date	June 30, 2018
Actuarial cost method	Entry Age Normal Cost
Discount rate	6.80%
Inflation	2.75% per year
Salary increases	3.25% per year; since benefits do not depend on salary, this is used only to allocate the cost of benefits between service years.
Investment rate of return	6.80%, net of plan investment expenses and including inflation
Mortality improvement	MacLeod Watts Scale 2017 applied generationally.
Healthcare trend rates	Medical plan premiums and claims costs by age are assumed to increase once each year. The Increases over the prior year's levels are assumed to be effective as shown below (Effective January 1):

2018 - Actual	2022 - 6.00%
2019 - 7.50%	2023 - 5.50%
2020 - 7.00%	2024 - 5.00%
2021 - 6.50%	2025 & later - 5.00%

Dental and vision premiums are assumed to increase by 3% per year. The Public Employee's Medical and Hospital Care Act (PEMHCA) Minimum Employer Contribution is assumed to increase at 4.5% per year.

Note: Demographic actuarial assumptions used in this valuation are based on the 2014 experience study of the California Public Employees Retirement System (CalPERS) using data from 1997 to 2011, except for mortality improvement as noted above.

Changes of Assumptions

During the measurement period ended June 30, 2018, the discount rate was reduced from 7.25% to 6.80% based on updated expected return on trust assets published by CalPERS CERBT and reflecting the District's projected future retiree benefit cash flows.

Discount Rate

The discount rate used to measure the total OPEB liability 6.80%. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The long-term expected rate of return on OPEB plan investments was based on CalPERS' expected return for California Employers' Retirement Benefit Trust Strategy 1.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	Target Allocation (1)	1-10 Year Expected Real Rate of Return (2)	11-60 Year Expected Real Rate of Return (2)
Global equity	59.00%	4.80%	5.98%
Fixed income	25.00	1.10	2.62
Treasury inflation protected securities (TIPS)	5.00	0.25	1.46
Real estate investment trusts (REITs)	8.00	3.20	5.00
Commodities	3.00	1.50	2.87
Total	100.00%		

(1) Allocation approved by the CalPERS Board at the May 2018 Investment Committee meeting

(2) Real rates of return come from a geometric representation of returns that assume a general inflation rate of 2.00%.

Changes in the OPEB Liability

The changes in the net OPEB liability for the plan are as follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a-b)
Beginning Balance at June 30, 2018	$ 68,562,695	$ 40,028,423	$ 28,534,272
Changes recognized for the measurement period			
Service cost	1,581,585		1,581,585
Interest on the total OPEB liability	4,980,026		4,980,026
Change of assumptions	3,506,193		
Benefit payments	(2,908,537)	(2,908,537)	-
Contributions - employer		6,817,699	(6,817,699)
Net investment income		3,139,604	(3,139,604)
Other expenses - administrative expense		(73,126)	73,126
Net changes	7,159,267	6,975,640	183,627
Balance at June 30, 2018	$ 75,721,962	$ 47,004,063	$ 28,717,899

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following table illustrates the impact of interest rate sensitivity on the Net OPEB Liability of the District if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate for fiscal year ended June 30, 2019:

	1.00% Decrease (5.80%)	Current Discount Rate (6.80%)	1.00% Increase (7.80%)
Net OPEB liability	$ 37,571,705	$ 28,717,899	$ 21,274,355

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rate, for measurement period ended June 30, 2019:

	1.00% Decrease	Trend Rate (1)	1.00% Increase
Net OPEB liability	$ 22,943,695	$ 28,717,899	$ 35,002,635

(1) Refer above to actuarial assumptions for health trend rates.

OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2019, the District recognized OPEB expense of $3,098,302. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 2,859,294	$ —
Difference between expected and actual earnings on OPEB plan investments	—	550,535
District contributions subsequent to the measurement date	7,161,874	—
Total	$ 10,021,168	$ 550,535

Amounts recognized in the deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the OPEB expense as follows:

Year ended June 30	Deferred Outflows (Inflows) of Resources
2020	$ 469,953
2021	469,953
2022	469,953
2023	627,202
Thereafter	271,698

(13) Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District manages and finances these risks by purchasing commercial insurance and has a $1,000 to $10,000 deductible for general and special property liability with limits of $10 million and $350 million, respectively.

The District has had no significant reductions in insurance coverage from the previous year, nor have settled claims exceeded the District's commercial insurance coverages.

As of June 30, 2019, the District had no material claims outstanding for general liability or for workers' compensation cases.

(14) Commitments and Contingencies

The District is subject to litigation arising in the normal course of business. In the opinion of the District's Attorney, there is no pending litigation which is likely to have a material adverse effect on the financial position of the District.

The District receives Federal and State grant funds. The amounts, if any, of the Districts grant expenditures which may be disallowed upon audit by the granting agencies cannot be determined at this time, although the District expects any such amounts to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Required Supplementary Information
Schedule of Changes in the Net OPEB Liability and Related Ratios*
For the Year Ended June 30, 2019
(unaudited)

	2017-2018	2018-2019
Total OPEB Liability		
Service cost	$ 1,531,801	$ 1,581,585
Interest on the total OPEB liability	4,722,673	4,980,026
Changes of assumptions	-	3,506,193
Benefit payments	(2,600,577)	(2,908,537)
Net change in total OPEB liability	3,653,897	7,159,267
Total OPEB liability – beginning	64,908,798	68,562,695
Total OPEB liability – ending (a)	$ 68,562,695	$ 75,721,962
Plan fiduciary net position		
Contributions – employer	$ 6,600,577	$ 6,817,699
Net investment income	3,304,360	3,139,604
Benefit payments	(2,600,577)	(2,908,537)
Administrative expense	(17,180)	(73,126)
Net change in plan fiduciary net position	7,287,180	6,975,640
Plan fiduciary net position – beginning	32,741,243	40,028,423
Plan fiduciary net position – ending (b)	40,028,423	47,004,063
Net OPEB liability – ending (a) - (b)	$ 28,534,272	$ 28,717,899
Plan fiduciary net position as a percentage of the total OPEB liability	58.4%	62.1%
Covered – employee payroll	$ 35,433,438	$ 37,405,253
Net OPEB liability as percentage of covered – employee payroll	80.53%	76.78%

* Fiscal year 2017-18 was the first year of implementation, therefore only two years are shown.

See accompanying independent auditor's report.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Required Supplementary Information
Schedule of Contributions - OPEB*
For the Year Ended June 30, 2019
(unaudited)

	2017-2018		2018-2019	
Actuarially determined contribution	$	6,081,000	$	5,655,362
Contributions in relation to the actuarially determined contributions		6,817,699		7,161,874
Contribution deficiency (excess)	$	(736,699)	$	(1,506,512)
Covered - employee payroll	$	37,405,252	$	40,734,161
Contributions as a percentage of covered employee payroll		18.23%		17.58%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions are as follows:

Valuation date	6/30/2015	7/1/2017
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percentage of pay	Level percentage of pay
Amortization period	10 years	8 years
Asset valuation method	CERBT - 5-year smoothed market AIG Fund - contract value	Market value of assets
Inflation	3.00%	2.75%
Healthcare cost trend rates	Non-Med - 2015: Actual; 2016: Actual; 2017: 7.0%; 2018: 6.5%; 2019: 6.0%; 2020: 5.5%; 2021+: 5.0% Medicare - 2015: Actual; 2016: Actual; 2017: 7.2%; 2018: 6.7%; 2019: 6.1%; 2020: 5.6%; 2021+: 5.0%	Medical Premium Increase - Effective January 1: 2018: 8.00%, 2019: 7.50%, 2020: 7.00%, 2021: 6.50%, 2022: 6.00%, 2023: 5.50%, 2024: 5.00%, & later: 5.00% Dental and vision premiums are assumed to increase by 3% per year. The PEMHCA Minimum Employer Contribution is assumed to increase at 4.5% per year. Life insurance premiums are assumed to remain fixed at current levels in all future years.
Salary increases	3.25%	3.25% per year; used to determine amortization payments if developed on a level percent of pay basis
Investment rate of return	7.25%	7.25%
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Fully generational with Scale MP-2014 modified to converge to ultimate improvement rates in 2022 for pre and post-retirement mortality	The representative mortality rates were those published by CalPERS in their 2014 study, adjusted to back out 20 years of Scale BB to central year 2008.

* Fiscal year 2017-18 was the first year of implementation, therefore only two years are shown.

See accompanying independent auditor's report.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Required Supplementary Information
Schedule of Changes in the Net Pension Liability and Related Ratios *
California Public Employees' Retirement System (CalPERS) – Miscellaneous Plan
For the Year Ended June 30, 2019
(unaudited)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Total Pension Liability					
Service Cost	$ 4,509,169	$ 4,405,494	$ 4,402,254	$ 5,251,175	$ 5,588,151
Interest on total pension liability	18,144,590	19,019,896	19,929,495	20,568,801	21,332,712
Changes in assumptions	—	(4,479,434)	—	16,314,523	(1,997,101)
Differences between expected and actual experience	—	(1,508,680)	(584,236)	(2,082,303)	(643,002)
Benefit payments, including refunds of employee contributions	(9,459,410)	(10,371,769)	(11,526,958)	(12,131,353)	(13,197,195)
Net change in total pension liability	13,194,349	7,065,507	12,220,555	27,920,843	11,083,565
Total pension liability – beginning	244,402,997	257,597,346	264,662,853	276,883,408	304,804,251
Total pension liability – ending (a)	257,597,346	264,662,853	276,883,408	304,804,251	315,887,816
Plan fiduciary net position					
Contributions – employer	3,815,653	4,268,315	5,253,802	5,682,917	6,359,880
Contributions – employee	2,622,951	2,372,392	2,502,885	2,429,913	2,514,609
Net investment income	31,178,442 (1)	4,871,767	1,102,999	22,856,288	19,071,946
Plan to plan resource movement	—	—	—	—	(556)
Benefit payments, including refunds of employee contributions	(9,459,410)	(10,371,769)	(11,526,958)	(12,131,353)	(13,197,195)
Other miscellaneous income (expense)	—	—	—	—	(667,255) (2)
Administrative expense	—	(236,125)	(127,831)	(305,553)	(351,369)
Net change in plan fiduciary net position	28,157,636	904,580	(2,795,103)	18,532,212	13,730,060
Plan fiduciary net position – beginning	180,686,208	208,843,844	209,748,424	206,953,321	225,485,533
Plan fiduciary net position – ending (b)	208,843,844	209,748,424	206,953,321	225,485,533	239,215,593
Net pension liability – ending (a) - (b)	$ 48,753,502	$ 54,914,429	$ 69,930,087	$ 79,318,718	$ 76,672,223
Plan fiduciary net position as a percentage of the total pension liability	81.07%	79.25%	74.74%	73.98%	75.73%
Covered – employee payroll	$ 32,010,647	$ 33,133,499	$ 34,119,169	$ 35,433,438	$ 37,405,253
Net pension liability as percentage of covered – employee payroll	152.30%	165.74%	204.96%	223.85%	204.98%

(1) Net of administrative expenses.

(2) During Fiscal Year 2017-18, as a result of Governmental Accounting Standards Board Statement (GASB) No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions (GASB 75), CalPERS reported its proportionate share of activity related to postemployment benefits for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75.

Additionally, CalPERS employees participate in various State of California agent pension plans and during Fiscal Year 2017-18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68).

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2017 and June 30, 2016 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

* Fiscal year 2014-15 was the first year of implementation, therefore only five years are shown.

See accompanying independent auditor's report.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Required Supplementary Information
Schedule of Contributions - Pension *
California Public Employees' Retirement System (CalPERS) – Miscellaneous Plan
For the Year Ended June 30, 2019
(unaudited)

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Actuarially determined contribution	$ 4,268,315	$ 5,365,344	$ 5,685,584	$ 6,407,096	$ 7,675,962
Contributions in relation to the actuarially determined contributions	(4,268,315)	(5,365,344)	(5,685,584)	(6,407,096)	(7,675,962)
Contribution deficiency (excess)	$ —	$ —	$ —	$ —	$ —
Covered – employee payroll	$ 33,133,499	$ 34,119,169	$ 35,433,438	$ 37,405,253	$ 40,734,161
Contributions as a percentage of covered – employee payroll	12.88%	15.73%	16.05%	17.13%	18.84%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions are as follows:

Valuation date	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016
Actuarial cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll
Asset valuation method	Actuarial value of assets	Market value of assets	Market value of assets	Market value of assets	Market value of assets
Inflation	2.75% compounded annually	2.75% compounded annually	2.75% compounded annually	2.75% compounded annually	2.75% compounded annually
Salary increases	Varies by entry age and service	Varies by entry age and service	Varies by entry age and service	Varies by entry age and service	Varies by entry age and service
Payroll Growth	3.00%	3.00%	3.00%	3.00%	3.00%
Investment rate of return	7.50% net of pension plan investment and administrative expenses; includes inflation.	7.50% net of pension plan investment and administrative expenses; includes inflation.	7.50% net of pension plan investment and administrative expenses; includes inflation.	7.50% net of pension plan investment and administrative expenses; includes inflation.	7.00% net of pension plan investment and administrative expenses; includes inflation.
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
	Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.	Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.	Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.	Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.	Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

* Fiscal year 2014-15 was the first year of implementation, therefore only four years are shown.

See accompanying independent auditor's report.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual	Final Budget
	Original	Final	(Budgetary Basis)	Positive (Negative)
Revenues:				
Permit fees	$ 38,346,963	$ 38,346,963	$ 40,950,674	$ 2,603,711
Title V permit fees	5,810,627	5,810,627	6,597,440	786,813
Asbestos fees	2,500,000	2,500,000	4,434,539	1,934,539
Penalties and variance fees	2,750,000	2,750,000	2,123,615	(626,385)
Hearing board fees	8,000	8,000	41,674	33,674
State subvention	1,726,553	1,726,553	1,734,548	7,995
AB 2588 income	506,806	178,035	475,273	297,238
Miscellaneous	100,000	100,000	502,969	402,969
Federal grant -EPA	1,523,921	1,523,921	2,473,732	949,811
Federal grant - DHS	1,171,805	1,171,805	1,218,490	46,685
CMAQ Spare The Air	885,000	885,000	1,074,268	189,268
Other grants	4,800,000.00	4,800,000	4,001,579	(798,421)
Portable equipment registration program (PERP)/Inspection Fees	400,000	400,000	673,508	273,508
Interest/Investment	496,796	496,796	1,622,927	1,126,131
County apportionment	33,274,701	33,274,701	35,823,934	2,549,233
Special environmental projects	-	-	10,445	10,445
Total revenues	94,301,172	93,972,401	103,759,615	9,787,214
Expenditures:				-
Executive office	13,972,653	16,652,867	15,557,089	(1,095,778)
Administration	13,273,773	14,298,660	11,571,906	(2,726,754)
Information systems	5,774,577	6,038,872	3,809,235	(2,229,637)
Legal services	3,308,911	3,379,573	3,021,699	(357,874)
Communication & Outreach	4,006,980	5,234,209	4,157,496	(1,076,713)
Compliance and enforcement	15,529,081	15,642,567	13,004,966	(2,637,601)
Engineering	12,832,020	13,104,888	9,972,258	(3,132,630)
Planning and research	8,059,428	13,378,988	8,418,139	(4,960,849)
Meteorology, Measurement and Rules	15,213,804	14,808,432	11,686,398	(3,122,034)
Strategic incentives division	532,024	540,899	188,351	(352,548)
Technology Implementation Office	3,076,211	4,866,735	1,670,009	(3,196,726)
Program Distribution		3,171,945.17	1,490,522	(1,681,423)
1% Vacancy Savings	(1,934,850)	(1,934,850)	-	1,934,850
Total current expenditures	93,644,612	109,183,785	84,548,068	(24,635,717)
Capital outlay	5,691,775	9,577,591	17,104,098	7,526,507
Debt Service: Principal	-	-	768,393	768,393
Debt Service: Interest	-	-	550,307	550,307
Total expenditures	99,336,387	118,761,377	102,970,866	(15,790,511)
Excess of Revenues Over Expenditures	(5,035,215)	(24,788,976)	788,749	25,577,725
Other Financing Sources				
Transfers in	483,697	483,697	1,717,691	1,233,994
Total other financing sources	483,697	483,697	1,717,691	1,233,994
Net Change in Fund Balance	$ (4,551,518)	$ (24,305,279)	2,506,440	$ 26,811,719
Beginning Budgetary Fund Balance			74,966,205	
Ending Budgetary Fund Balance			$ 77,472,645	

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Special Revenue Fund
Year Ended June 30, 2019

	Budgeted Amounts Original	Budgeted Amounts Final	Actual (Budgetary Basis)	Final Budget Positive (Negative)
Revenues:				
TFCA/MSIF DMV fee	$ 36,794,164	$ 88,028,404	$ 34,673,158	$ (53,355,246)
Carl Moyer Program	15,409,032	17,957,574	16,729,316	(1,228,258)
Other grants/funding	7,797,267	7,797,267	2,506,531	(5,290,736)
Federal grants	-	-	2,124,817	2,124,817
California Goods Movement	150,000	11,240,214	7,461,455	(3,778,759)
Vehicle settlement	-	-	223,565	223,565
Total revenues	60,150,463	125,023,459	63,718,842	(61,304,617)
Expenditures:				
TFCA/MSIF & Other Programs				
Program distribution	30,165,447	78,746,432	28,904,241	(49,842,191)
Intermittent control	1,908,398	3,389,062	1,699,041	(1,690,021)
TFCA administration	1,301,126	1,352,070	1,142,354	(209,716)
Miscellaneous Incentive Program	323,204	482,293	210,373	(271,920)
Regional Electric Vehicle Deployment	1,642,323	2,048,133	1,044,346	(1,003,787)
Enhanced Mobile Source Inspection	288,339	291,211	19,882	(271,329)
Mobile source incentive	559,699	559,699	242,367	(317,332)
Vehicle Buy-Back	7,297,060	8,263,766	4,929,937	(3,333,829)
Commute Assistance	256,000	256,000	70,115	(185,885)
CMP				
Project Funding	14,447,996	16,986,054	14,810,049	(2,176,005)
Grant administration	961,036	971,520	1,298,580	327,060
California Goods Movement Program:				
Project Funding		10,677,384	7,362,858	(3,314,526)
Grant administration	562,830	562,830	104,644	(458,186)
Vehicle settlement				
Grant administration			162,364	162,364
Total expenditures	59,713,458	124,586,454	62,001,151	(62,585,303)
Excess of Revenues Over Expenditures	437,005	437,005	1,717,691	1,280,686
Other Financing Uses				
Transfers out	(483,697)	(483,697)	(1,717,691)	$ (1,233,994)
Total other financing uses				
Net Change in Fund Balance	$ -	$ -	-	
Beginning Budgetary Fund Balance				
Ending Budgetary Fund Balance			$ -	

Budgetary Principles

Through the budget process, the Board of Directors sets the direction of the District. The annual budget assures the most efficient and effective use of the District's economic resources and establishes the priority of objectives that are to be accomplished during the fiscal year.

The annual budget covers the period from July 1 to June 30 and is a vehicle that accurately and openly communicates these priorities to the community, businesses, vendors, employees, and other public agencies. In addition, it establishes the foundation of effective financial planning by providing resource allocation, performance measures and controls that permit the evaluation and adjustment of the District's performance.

The District follows these procedures in establishing the budgetary data reflected in the basic financial statements:

a) The Board of Directors adopts an annual budget by resolution prior to July 1 of each fiscal year. The annual budget indicates appropriations by fund and by program. The Board of Directors may also adopt supplemental appropriations during the year. At the fund level, expenditures may not legally exceed appropriations. The Air Pollution Control Officer (APCO) is authorized to transfer budgeted amounts between divisions and programs within any fund.

b) Budgets are adopted on a basis that is consistent with Generally Accepted Accounting Principles (GAAP) with the exception of recognition of certain revenue, as discussed below. Annual appropriated budgets are adopted for the General and Special Revenue funds.

c) Supplementary budgetary revenue and expenditure appropriations were adopted by the Board of Directors during the fiscal year. These supplemental appropriations have been included in the Budgeted Amounts - Final column of the Budgetary Comparison Schedules.

Reconciliation to the Statement of Revenues, Expenditures, and Changes in Fund Balances

The District's budgetary basis is consistent with Generally Accepted Accounting Principles (GAAP), with the exception of certain revenues that are recognized when earned in the GAAP-basis financial statements but deferred until expended on the budgetary basis. Revenues in the Budget and Actual schedules have been presented on the budgetary basis to provide a more meaningful comparison of actual results with the budget. The following is a reconciliation between revenues on the budgetary basis and the GAAP basis reflected in the statement of revenues, expenditures, and changes in fund balance.

	Special Revenue Fund
Revenues - Budgetary Basis	$ 63,718,842
Revenue recognition adjustments	7,118,501
Revenues - GAAP Basis	$ 70,837,343

SUPPLEMENTARY INFORMATION

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Transportation Fund for Clean Air (TFCA) Program,
Mobile Source Incentive Fund Program & Other Programs
Schedule of Expenditures
Year Ended June 30, 2019

Programs	Salaries and Benefits	Services and Supplies	Program Distribution	Total
Program distribution	$ -	$ -	$ 28,904,241	$ 28,904,241
Intermittent control	601,801	1,097,240	-	1,699,041
TFCA administration	968,552	173,802	-	1,142,354
Miscellaneous Incentive Program	138,751	71,622	-	210,373
Regional Electric Vehicles	672,302	372,044	-	1,044,346
Enhanced Inspection Program	8,800	11,082	-	19,882
Commute Assistance	70,115	-	-	70,115
Vehicle Buy-Back	28,360	4,901,577	-	4,929,937
Mobile source incentive	195,467	46,900	-	242,367
Total expenditures	$2,684,148	$ 6,674,267	$ 28,904,241	$ 38,262,656

BAY AREA AIR QUALITY
MANAGEMENT DISTRICT

Single Audit Reports

For the Year Ended June 30, 2019

(With Independent Auditor's Reports Thereon)

S&S

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Single Audit Reports
For the Year Ended June 30, 2019

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SIMPSON & SIMPSON
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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors of the
Bay Area Air Quality Management District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Bay Area Air Quality Management District** (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 3, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Simpson & Simpson

Los Angeles, California
February 3, 2019

S&S

SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors of the
Bay Area Air Quality Management District

Report on Compliance for Each Major Federal Program

We have audited the **Bay Area Air Quality Management District's** (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal* Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal* Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is disclosed in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the District's is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated February 3, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Simpson & Simpson

Los Angeles, California
February 3, 2020

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Grantor or Pass-Through Entity ID Number	Passed Through to Subrecipients	Program Cluster Expenditures	Total Federal Expenditures
U.S. Environmental Protection Agency:					
Air Pollution Control Program Support	66.001	A00905618			$ 174,752
Air Pollution Control Program Support	66.001	A00905619	$ 629,513		1,948,004
Subtotal CFDA 66.001			629,513		2,122,756
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034	PM99T08001-9			205,408
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034	PM99T08001-B			50,330
Community Scale Air Toxics Ambient Monitoring	66.034	XA99T70701			95,238
Subtotal CFDA 66.034					350,976
National Clean Diesel Assistance	66.039	DE-99T42401	1,399,750		1,405,580
National Clean Diesel Assistance	66.039	DE-99T81801	334,168		334,168
Subtotal CFDA 66.039			1,733,918		1,739,748
Subtotal Direct Program					4,213,480
Total U.S. Environmental Protection Agency					4,213,480
U.S. Department of Homeland Security:					
Homeland Security Biowatch Program	97.091	2006-ST-091-2			1,218,491
Subtotal Direct Program					1,218,491
Total U.S. Department of Homeland Security					1,218,491
U.S. Department of Transportation:					
Passed through California Department of Transportation:					
Highway Planning and Construction	20.205	CML-6297 (003)		47,176	
Highway Planning and Construction	20.205	CML-6297 (007)		358,501	
Highway Planning and Construction	20.205	CML-6297 (008)		1,027,091	
Highway Planning and Construction	20.205	CML-6297 (009)		26,568	
Subtotal Expenditures - Highway Planning and Construction Cluster					1,459,336
Subtotal Pass-Through Program					1,459,336
Total U.S. Department of Transportation					1,459,336
Total Expenditures of Federal Awards			$ 2,363,431	$ 1,459,336	$6,891,307

See accompanying independent auditor's report and notes to schedule of expenditures of federal awards.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

1. General

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs of the Bay Area Air Quality Management District (the District) for the year ended June 30, 2019. The District's reporting entity is defined in Note l of the District's basic financial statements. Expenditures of federal awards received directly from federal agencies, as well as expenditures of federal awards passed through other governmental agencies, are included in the SEFA.

2. Summary of Significant Accounting Policies

Basis of Accounting - Funds received under the various grant programs have been recorded within the general fund and the special revenue fund of the District. The accompanying SEFA is presented using the modified accrual basis of accounting for expenditures that are accounted for in the general fund and the special revenue fund, which are both governmental funds, as described in Note l of the District's basic financial statements.

Relationship to Financial Statements - Federal award expenditures reported in the accompanying SEFA agree, or can be reconciled, in all material respects, to amounts reported in the District's basic financial statements.

Catalog of Federal Domestic Assistance (CFDA) - The CFDA numbers included in the accompanying SEFA were determined based on the program name, review of grant or contract information, and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

3. Pass-through Entities' Identifying Numbers

When federal awards are received from a pass-through entity, the SEFA indicates, if assigned, the identifying grant or contract number that has been assigned by the pass-through entity.

4. Indirect Cost Rate

The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Section I - Summary of Auditor's Results

Financial statements:

1. Type of auditor's report issued:	Unmodified
2. Internal control over financial reporting:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weaknesses?	None noted
3. Noncompliance material to financial statements noted?	None noted

Federal Awards:

4. Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
5. Type of auditor's report issued on compliance for major programs:	Unmodified
6. Identification of major programs:	

CFDA Number	Name of Federal Program
66.039	National Clean Diesel Assistance
	U.S. Department of Transportation – Highway Planning and Construction Cluster:
20.205	Highway Planning and Construction

7. Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516?	Yes
8. Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
9. Auditee qualified as a low-risk auditee?	Yes

Section II – Financial Statement Finding

No matters were reported

Section III – Federal Award Findings and Questioned Costs

Program Identification

Finding Reference Number:	**2019-001**
Federal Program Title, Awarding Agency, Pass-Through Entity, Catalog of Federal Domestic Assistance (CFDA) Number, and Award Number:	Highway Planning and Construction, U.S. Department of Transportation, California Department of Transportation, CFDA No. 20.205, Contract No. CML-6297 (003, 007, 008, & 009) (Significant Deficiency)
Compliance Requirement:	Cost Principles

Criteria

2 CFR section 200.19 defines the cognizant agency for indirect costs as the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under this part on behalf of all Federal agencies. The cognizant agency for indirect cost is not necessarily the same as the cognizant agency for audit.

2 CFR section 200.416(b) describes the application of indirect costs to Federal awards by stating: individual operating agencies (governmental department or agency), normally charge Federal awards for indirect costs through an indirect cost rate. A separate indirect cost rate(s) proposal for each operating agency is usually necessary to claim indirect costs under Federal awards.

The Air District's cognizant agency is the U.S. Environmental Protection Agency (EPA).

The Air District entered into a Negotiation Agreement with the EPA on October 3, 2018 for a fixed indirect cost rate of 68.12% for the effective period of July 1, 2018 through June 30, 2019.

The EPA stated that the basis for the application of the indirect cost rate is on direct salaries and wages which does not include fringe benefits.

The Air District submitted to California Department of Transportation (Caltrans) the Negotiation Agreement with the EPA for the use of the 68.12% indirect cost rate on the federal program which it applies against direct payroll charges.

Condition

As part of our compliance review over indirect costs, we selected a sample of payroll expenditures charged to the program along with the corresponding indirect costs to ascertain that the Air District properly applied the indirect cost rate in accordance with the terms of the Negotiation Agreement with the EPA.

In our sample of three (3) employees representing 98% of payroll expenditures charged to the program, we noted that the Air District improperly applied the indirect cost rate against payroll charges which included fringe benefits in the basis for the application of the indirect cost rate.

As the identified error was applied to payroll expenditures for all employees charged to the program, we sampled the remaining six (6) employees.

Condition *(continued)*

Total exceptions amounted to $37,092 of indirect costs overcharged to the program as a result of incorrectly including fringe benefit in the basis for the application of the indirect cost rate out of a population of $126,798 of indirect costs charged during the fiscal year.

Our sample was a statistically valid sample.

Cause and Effect

District staff submitted several invoices to Caltrans staff for review, approval and payment under the grant. The District believed the invoices clearly indicated the method used in calculating administrative costs including direct, fringe and indirect costs. The District assumed that the payment of these disbursement requests implied that the methodology and documentation provided in the invoices were acceptable to Caltrans and met the requirements for reimbursement.

Questioned Costs

The total cost related to the above-mentioned condition amounted to $37,092.

Recommendation

We recommend the District strengthen its controls over the application of indirect cost charges.

Views of Responsible Officials, Planned Corrective Action, and Contact Information

The District recognizes the issue and agrees to repay an agreed upon amount for the overcharges that were reimbursed by Caltrans in Fiscal Year 2019. District staff will make changes to our indirect cost methodology for future grants to prevent this problem from reoccurring in future grant disbursements. Finally, District staff will work with Caltrans to resolve this finding and make every effort to improve communication on disbursement requests and program requirements in the future.

Name: Stephanie Osaze
Title: Finance Manager
Telephone: (415) 749-4771

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Schedule of Prior Year Findings and Questioned Costs
For the Year Ended June 30, 2019

Section II – Financial Statement Finding

There were no audit findings in the prior year.

Section III – Federal Award Findings and Questioned Costs

There were no audit findings in the prior year.

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: February 19, 2020

Re: Second Quarter Financial Report – Fiscal Year Ending (FYE) 2020

RECOMMENDED ACTION

None; receive and file.

DISCUSSION

Finance staff will present an update on the Air District's financial results for the second quarter of the Fiscal Year Ending (FYE) 2020. 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	**2nd QTR FYE 2019**	**2nd QTR FYE 2020**	**FYE 2019 - % of BUDGETED REVENUE**
County Receipts	$13,085,133	$17,270,729	48%
Permit Fee Receipts	$33,278,024	$32,073,083	82%
Title V Permit Fees	$5,616,575	$5,218,545	87%
Asbestos Fees	$2,193,742	$2,527,539	78%
Toxic Inventory Fees	$298,624	$439,386	676%
Penalties and Settlements	$1,286,607	$809,355	29%
Interest Income	$692,082	$701,564	72%
Misc. Revenue	$86,885	$278,707	279%
Total Revenue	$56,537,671	$59,318,907	67%

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

EXPENDITURE TYPE	2nd QTR FYE 2019	2nd QTR FYE 2020	FYE 2019 - % of BUDGETED EXPENDITURES
Personnel - Salaries*	$20,603,385	$22,486,955	48%
Personnel - Fringe	$11,547,743	$13,395,402	50%
Operational Services /	$9,259,512	$14,423,658	53%
Capital Outlay	$2,160,460	$3,781,477	40%
Total Expenditures	$43,571,100	$54,087,492	49%

* Consolidated (includes Special Funds)

CASH INVESTMENTS IN COUNTY TREASURY – Account Balances as of 2nd Quarter

CASH/INVESTMENTS	2nd QTR FYE 2019	2nd QTR FYE 2020
General Fund	$70,817,140	$76,302,779
TFCA	$102,212,849	$108,280,696
MSIF	$41,937,053	$43,474,469
Carl Moyer	$20,392,810	$56,491,138
CA Goods Movement	$13,937,851	$8,874,074
AQ Projects	$1,084,000	$3,138,014
Vehicles Mitigation		$3,773,168
Total	**$250,381,703**	**$300,334,336**

FUND BALANCES	6/30/2018 Audited	6/30/2019 Audited	6/30/2020 Projected
DESIGNATED: *			
Building Improvement			4,000,000
Diversity Equity & Inclusion	100,000		
Economic Contingency	$17,390,311	$19,084,769	$20,082,966
IT- Event Response	$500,000		
Litigation	$500,000		
Napa/Sonoma Fireplace Replacement Grant	$1,000,000	$1,000,000	$1,000,000
Pension & Post Employment Liability	$1,000,000	$2,000,000	$2,000,000
Tech- Meteorological Network Equipment	$131,100		
Tech- Mobile Monitoring Instruments	$80,000		
Technology Implementation Office	$3,350,000		
GHG Abatement Technology Study	$1,500,000		
Woodchip Program	$150,000		
Woodsmoke Grant	$1,000,000	$1,000,000	$1,000,000
Worker's Comp Self -Funding	$1,000,000		
Total Designated Reserves	$27,701,411	$23,084,769	$28,082,966
Undesignated Fund Balance	$18,101,141	$22,332,894	$17,334,697
TOTAL DESIGNATED &	**$45,802,552**	**$45,417,663**	**$45,417,663**
Building Proceeds	$4,668,200	$209,489	$209,489
TOTAL FUND BALANCE	**$50,470,752**	**$45,627,152**	**$45,627,152**
* Designated Fund Balances are subject to change at Board's discretion.			
OUTSTANDING LIABILITIES			
CalPERS Pension Retirement			$86,309,901
Other Post- Employment Benefits			$18,840,854
Certificate of Participation Notes			$26,956,830
TOTAL OUTSTANDING LIABILITIES			**$132,107,585**

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 second quarter of FYE 2020, that exceeded $100,000 and meet the reporting criteria noted above. All expenditures have been appropriately budgeted as a part of the overall Air District budget for FYE 2020.

	VENDOR NAME	AMOUNT PAID (July 2019 - Dec 2019)	Explanation
1	Alliant Insurance Services	$573,567	Various Business Insurance Policies
2	Bay Area Headquarters Authority	$1,245,106	Shared Services & Common Areas
3	Benefits Coordinators Corp.	$537,133	Life Insurance Plan & LTD Insurance
4	CA Public Employee Retirement System	$3,224,970	Health Insurance Plan
5	CA Public Employee Retirement System	$7,926,374	Retirement Benefits & 457 Supplemental Plan
6	Cubic Transportation Systems	$277,074	Clipper Transit Subsidy
7	Enterprise Fleet Services	$316,169	Fleet Leasing and Maintenance services
8	EPLUS Technology	$101,235	Cisco computer network equipment warranty
9	Hartford Life Ins Co.	$380,993	457 Supplemental Insurance
10	Office Team	$170,831	Temporary Staffing Services
11	Preferred Benefit Insurance AD	$404,764	Dental Insurance Plan
12	Sloan Sakai Yeung & Wong LLP	$114,523	Human Resources Consulting Services
13	Wang Brothers Investment LLC	$243,760	Richmond Site Lease

BUDGET CONSIDERATION/FINANCIAL IMPACT

None.

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: February 19, 2020

Re: Participation and Selection of a Section 115 Pension Trust Administrator for Prefunding Air District's Pension Obligations

RECOMMENDED ACTION

None; receive and file.

BACKGROUND

As part of the Fiscal Year Ending (FYE) 2019 Budget process, the Board directed staff to conduct an independent analysis of strategies and consider options for pre-funding pension liability. The Air District worked with an independent consulting firm, NHA Advisors, to identify investment options and identify strategies to pay down the long-term liabilities for the Other Post-Employment Benefits (OPEB) and Pension Plans.

DISCUSSION

On November 25, 2019, staff provided a presentation of Section 115 options and staff's recommendations, based on the results of the independent analysis. The Committee requested additional information be provided at the next Committee meeting. Staff will present the additional information at the February 26, 2020 meeting.

BUDGET CONSIDERATION/FINANCIAL IMPACT

In the FYE 2018 and FYE 2019 Adopted Budgets, the Board set aside $1 million annually for prefunding the pension obligation. The decision on investment vehicle was postponed, pending staff recommendations and Board approval. Upon Board approval, a total set aside of $3 million will be invested in a Section 115 Trust program; $2 million from the General Fund's Designated Fund Balance and $1 million from the FYE 2020 Adopted Budget; respectively. All funds placed into the irrevocable trust fund can only be used to pay for retirement obligations.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: <u>Stephanie Osaze</u>
Reviewed by: <u>Jeff McKay</u>

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: February 19, 2020

Re: Air District Financial Plan Overview

RECOMMENDED ACTION

None; receive and file.

DISCUSSION

Staff will present the Air District's 2020 Financial Plan. The Plan is a prelude to the upcoming Fiscal Year Ending 2021 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 7A: Draft Air District 2020 Financial Plan

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

2020 FINANCIAL PLAN

GENERAL FUND

FIVE YEAR FISCAL FORECAST: 2021-2025

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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.

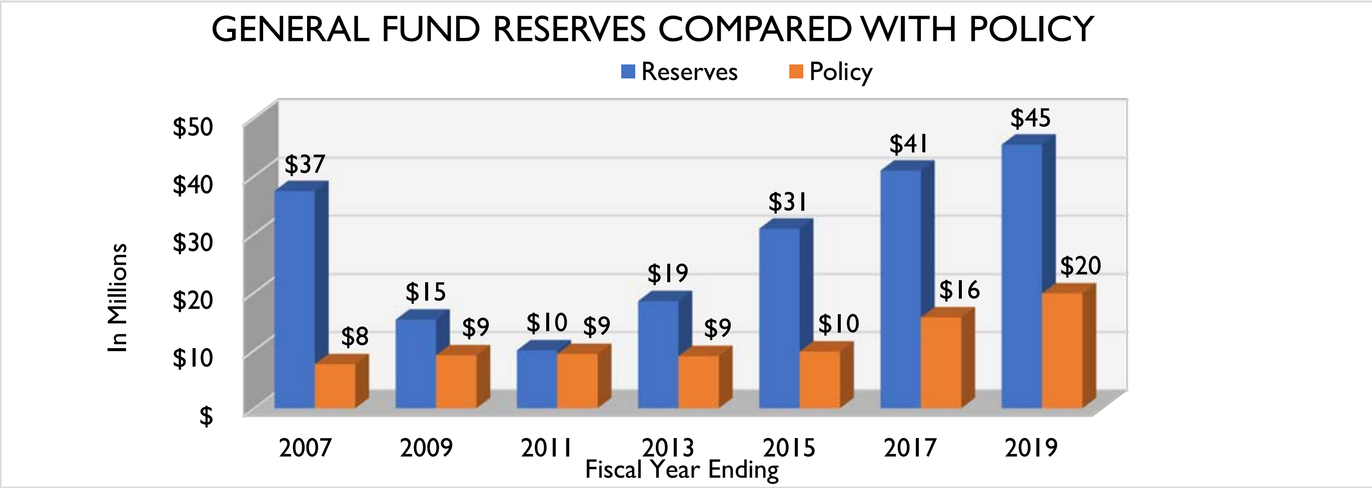
HISTORICAL FINANCIAL CONDITION/TRENDS

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 temporarily 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



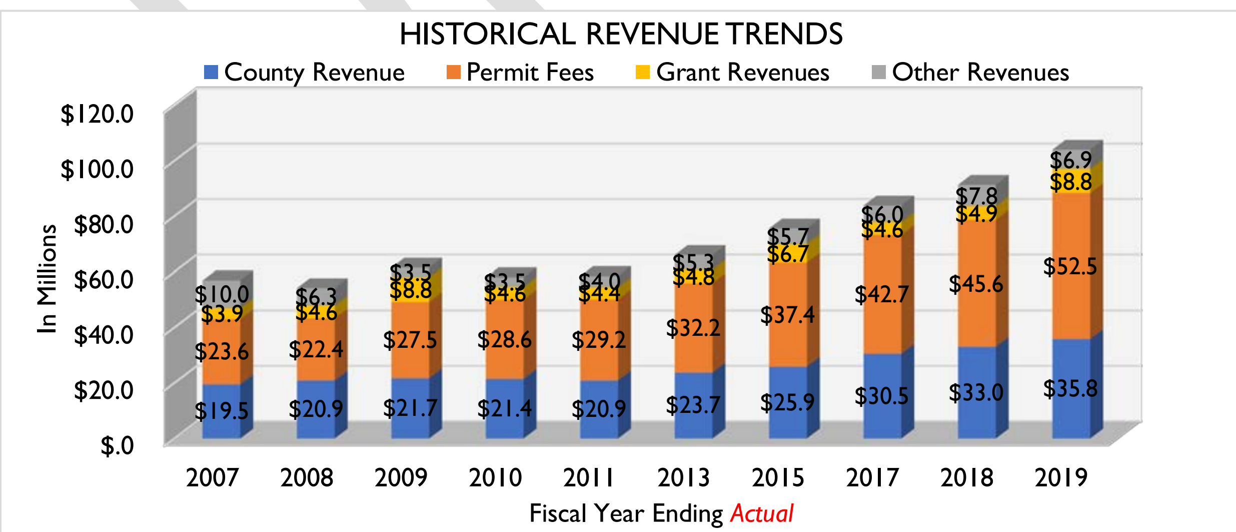
In addition to use of reserves, the following measures were utilized during the economic downturn:

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 in the period between 2007-2019.

Figure 2 Historical Revenue Trends



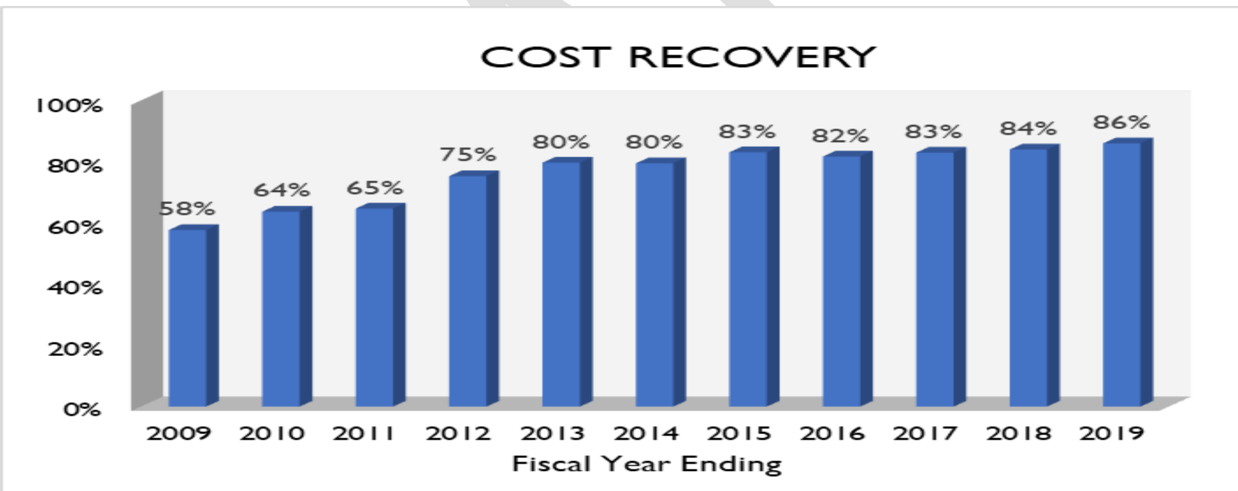
Property Tax is the second largest General Fund revenue source. This source is not controlled by the Air District but is rather administered by the nine Bay Area Counties. It is distributed annually to the Air District using a State law prescribed formula.

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 2009 and 2010 property tax was relatively still stable but decreased slightly in 2011 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 2019, 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.

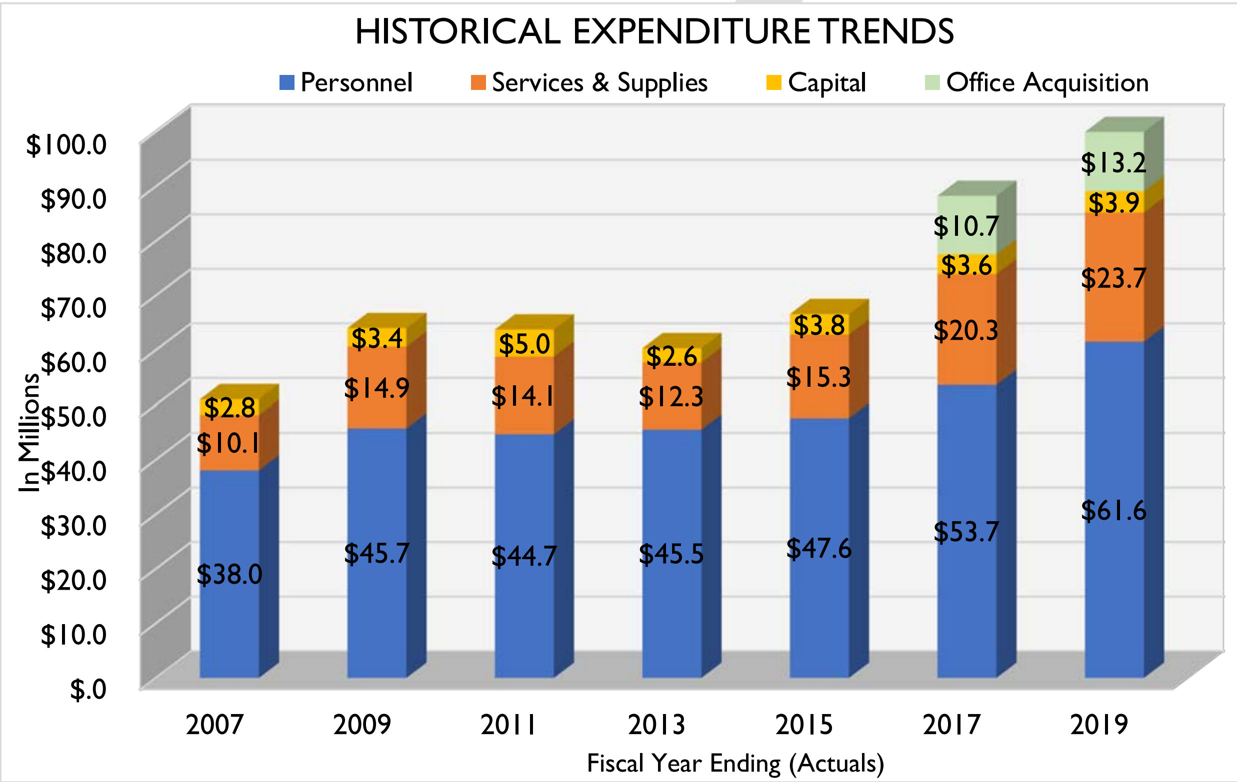
Grant Revenues represents various small federal and state grants used to support the air monitoring program and public outreach. This category fluctuates based on available grant funding.

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 from 2007 to 2019.

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. Since 2017, the Air District has increased staffing levels to meet its demand for the implementation of Assembly Bill 617.

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.

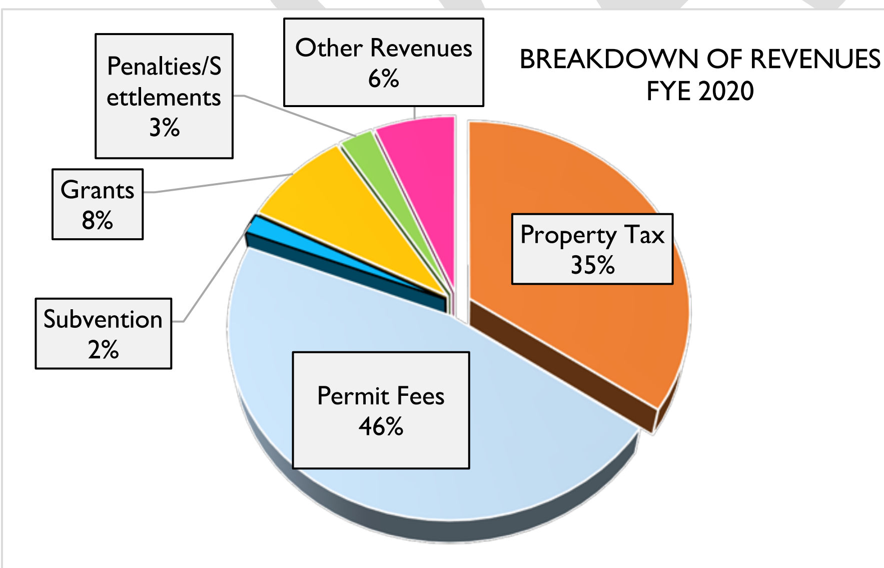
Capital costs fluctuate based on the timing of capital equipment purchase and replacement.

Property Acquisition accounts for purchase of real estate. In 2017, a down payment of $10.7 million went towards the purchase of the Air District's Beal Street headquarters. The Air District will continue to make annual payments to pay down its remaining obligation of $19.3 million. In 2019, The Air District purchased $4M in additional space at its Beale Street location and acquired a new office building located in Richmond, California for approximately $9.0M.

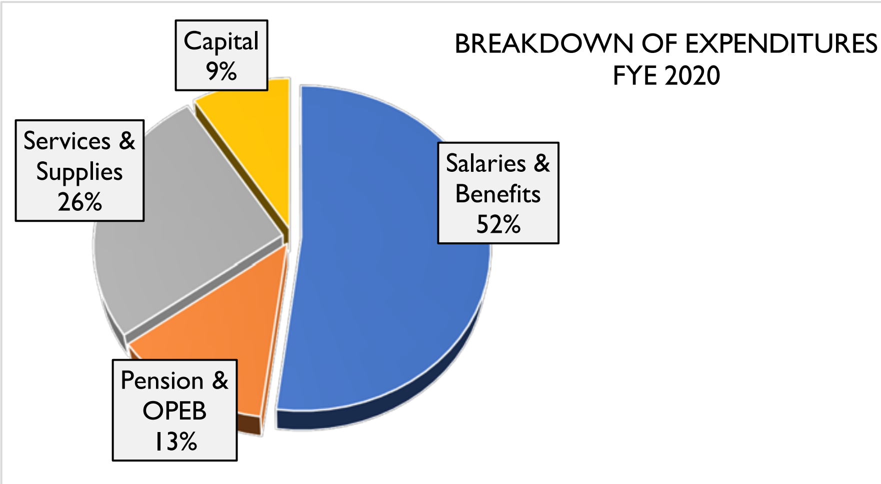
CURRENT FINANCIAL OUTLOOK

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 2020 General Fund Adopted Budget was $104.6 million; which includes a one-time $4 million transfer from reserves for improvements to recently acquired Richmond facility. As a service-driven agency, salaries and benefits (including Pension and Medical) are the largest components of expenditure, representing 65% of the total. The adopted budget maintained a staffing level of 405 FTEs, no increase in FTEs over the prior year. However, during the current fiscal year, ten additional staff were approved by the Board resulting from additional state funding for implementing Assembly Bill 617; increasing staffing level to 415 FTEs.

Figure 5 Breakdown of Revenues and Expenditures in FYE 2020



Permit Fees and Property Tax account for 81% of the FY 2020 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 78% of the projected budget for the fiscal year ending 2020. *The budget is expected to be on target with projections.*

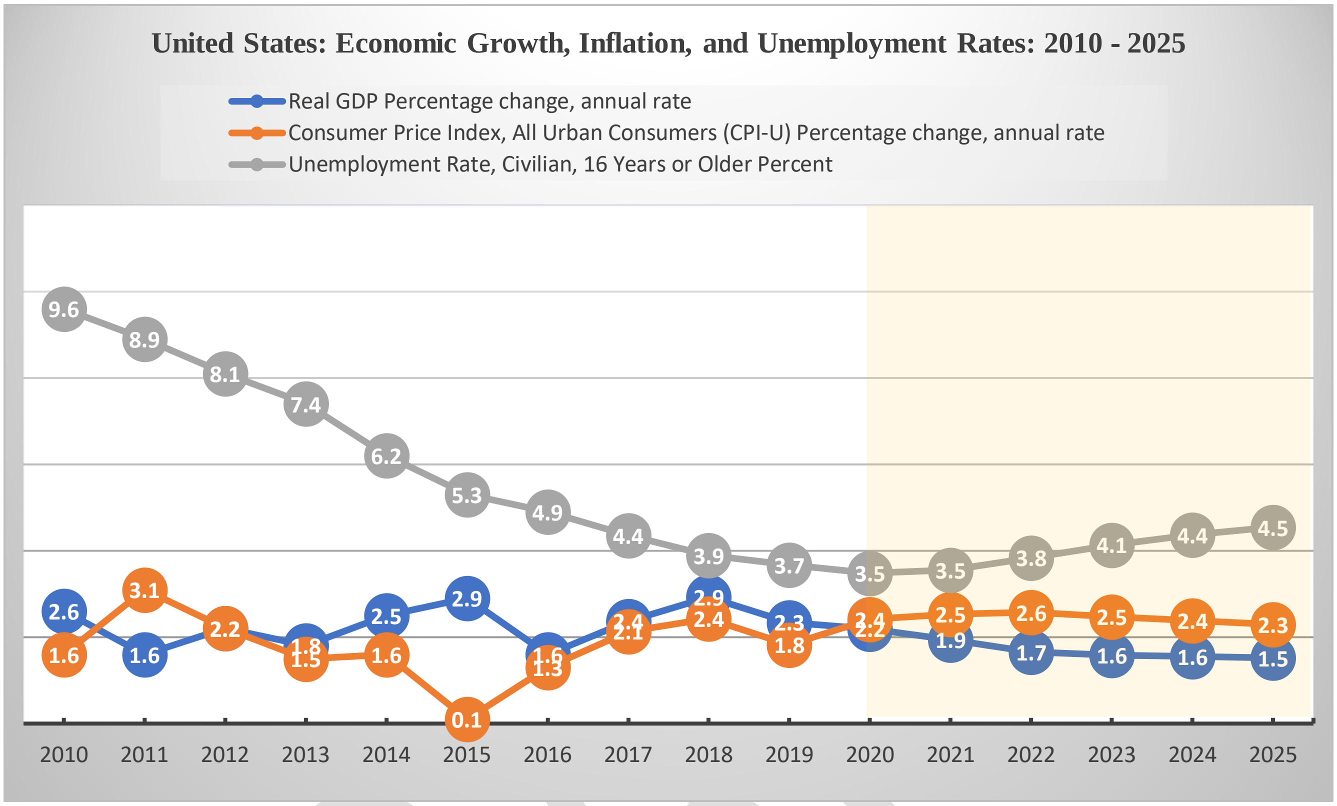
ECONOMIC OUTLOOK

EXTERNAL TRENDS – UNITED STATES

The U.S. economy headed into 2020 on solid footing, with growth settling back to the roughly 2% pace that has prevailed during the decade-old economic expansion. Gross domestic product—the value of all goods and services produced across the economy—rose at a seasonally and inflation-adjusted annual rate of 2.3% in 2019. The economy's expansion last quarter reflected a higher trade contribution, lower consumer spending, a contraction in business investment, and a pickup in the housing market. Economists expect that if global growth picks up, trade tensions ease, and Boeing's 737 Max returns to the air, and barring other unforeseen circumstances, 2020 should be better for the United States than 2019 was.

At the beginning of 2019, a recession was widely expected, given a considerable slowdown in real estate markets at the end of 2018/early 2019 because of the rising interest rates. However, the Federal Reserve Bank of the United States has decreased interest rates three times in order to prevent a recession. These interest rate cuts led to stabilizing economic growth and record-low unemployment rates in the country, but fears that inflation would spiral out of control have not become real. Figure 6 shows US economic performance over the last decade and a forecast out to 2025.

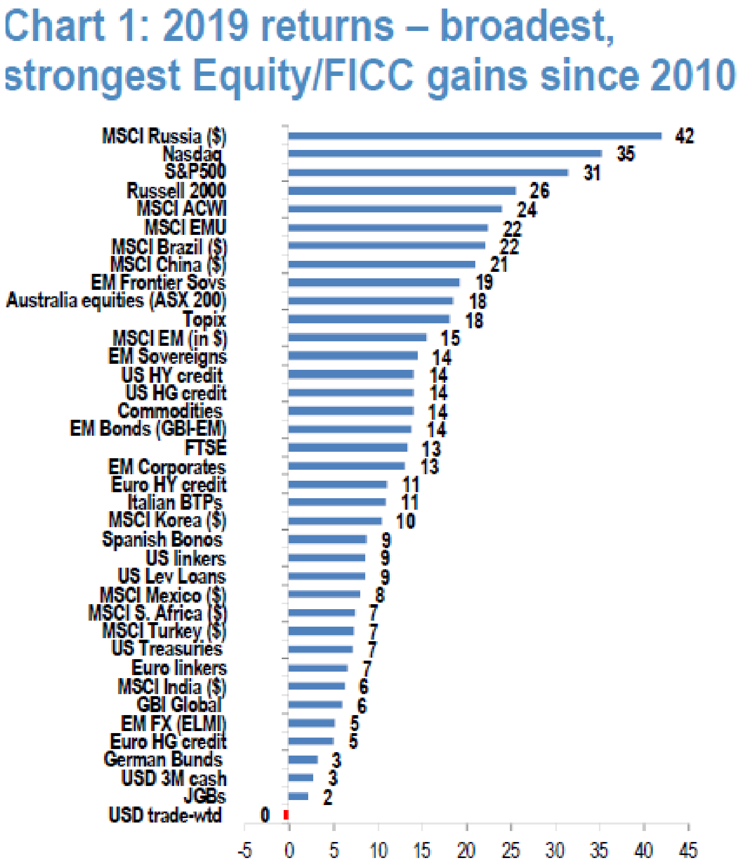
Figure 6 United States: Economic Growth, Inflation, Unemployment Rates 2010 - 2025



Source: Congressional Budget Office, International Monetary Fund

Interest rate cuts by the US Federal Reserve Bank, combined with expanding economy, led to historically spectacular stock market performance. US stock markets delivered some of the strongest returns in the world while in a low-risk environment: the tech-heavy Nasdaq posted a 35% annual return to investors, while the S&P 500 index grew by 31% over 2019. As Figure 7 (below) indicates, every sector of the economy grew, with the Bay Area's tech giants now driving over 20% of returns on the S&P 500 index, owing to their fast growth.

Figure 7 Analysis of Stock Market Returns in 2019



2019 S&P 500 Return Attribution

Sector	Weight at start of 2019	2019 return	Basis points of S&P 500 return
Info Tech	20 %	50 %	1012 bp
Financials	13	32	428
Comm Services	10	33	331
Health Care	16	21	324
Cons. Discretionary	10	28	278
Industrials	9	29	270
Cons. Staples	7	28	205
Utilities	3	26	88
Real Estate	3	29	86
Materials	3	25	67
Energy	5	12	63
S&P 500	100 %	31 %	3149 bp

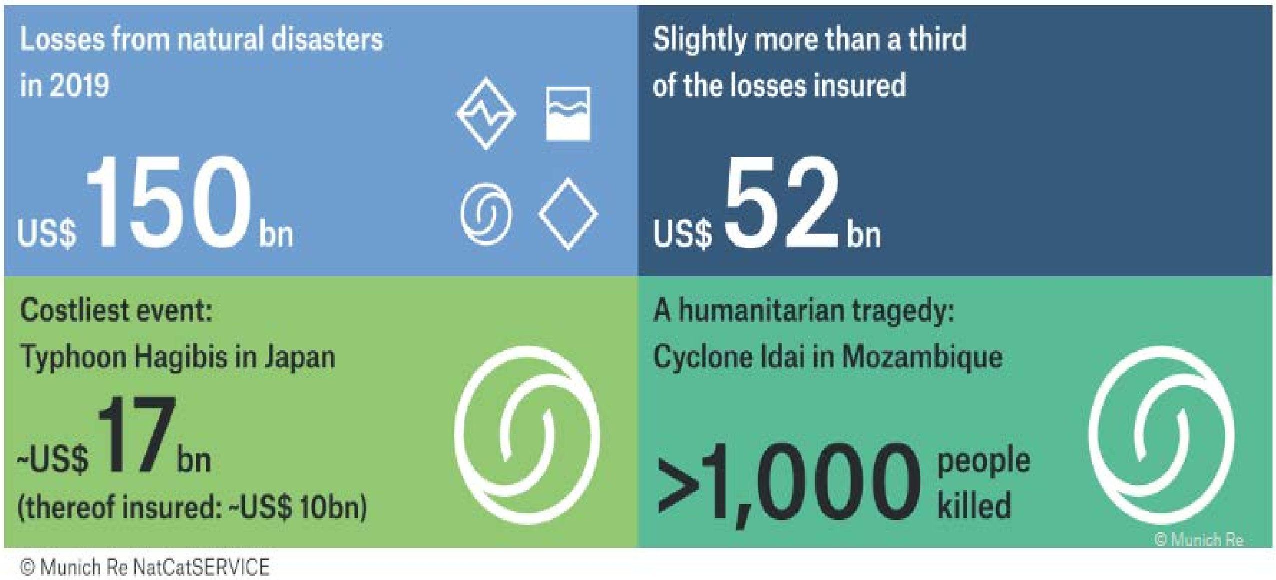
Source: JP Morgan Source: Goldman Sachs

Worldwide Climate Change Impact on the Economy

Worldwide, natural catastrophe losses in 2019 amounted to around $150 bn, in line with the inflation-adjusted average of the last 30 years, according to Munich Re, a German-based global re-insurance company.

As shown in Figure 8 (below), of the total 2019 worldwide losses, only $52 bn (or 35% of the total losses) were insured. In terms of human lives lost, there were about 9,000 deaths due to 820 natural catastrophe events in 2019, compared to 15,000 deaths in 2018 and 52,000/year average over the past 30 years.

Figure 8 Analysis of Worldwide Climate Change Impacts



Source: Munich Re

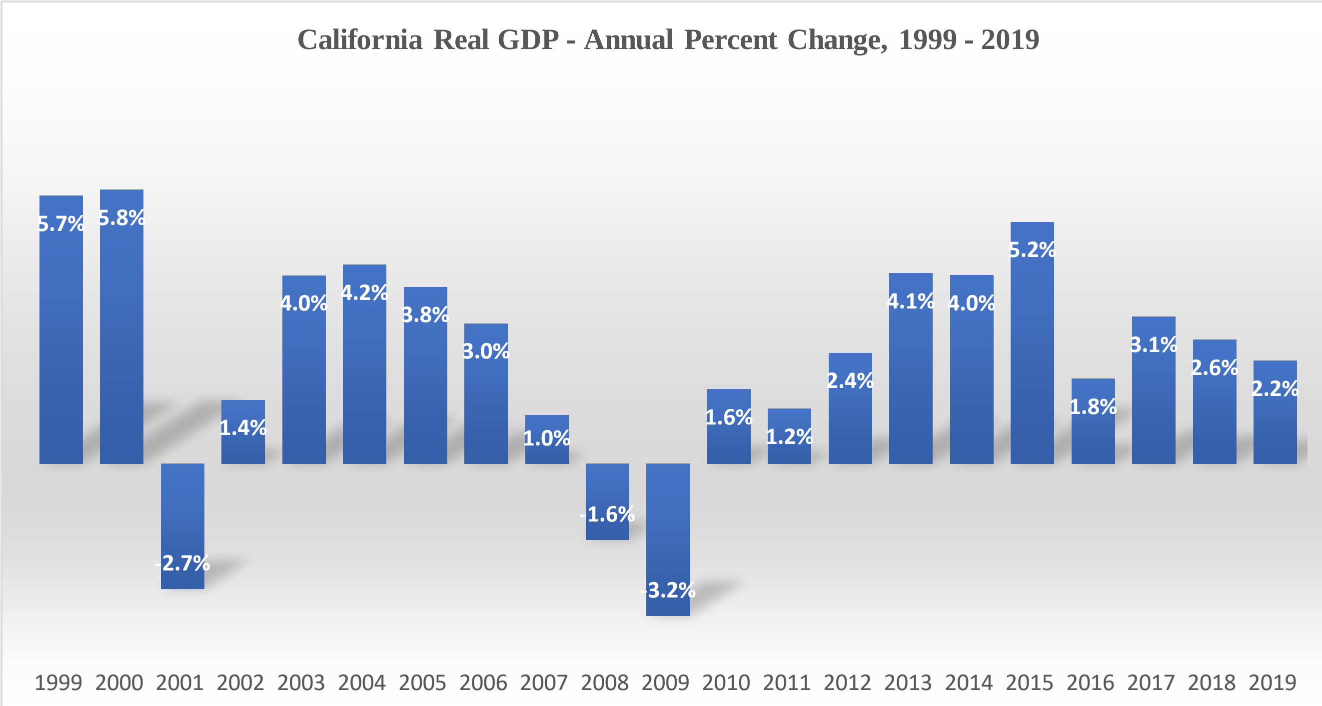
EXTERNAL TRENDS – CALIFORNIA

According to the California's Legislative Analyst's Office (LAO), the state's economy is poised to continue growing, but at a slower pace than in recent years. The analysts expect that California's housing markets may rebound somewhat, largely in response to low and falling mortgage interest rates, and especially if the lower rates trajectory becomes more entrenched – unlike a slump in housing observed through much of 2019. However, notable risks to the economic outlook in 2020-21 have increased compared to recent years.

Some aspects of impacts to the State economy, according to analysts are harder to predict – such as changes in stock market and real estate prices or trade shifts. While uncertain, LAO gauges the risk to this year's economic performance is higher than in the previous years. They point to the buildup of risks and the weakening in economic activity in the state judging by the data on housing markets, trade activity, new car sales, and business startup funding. However, the data do not point to a recession in the near term.

According to the LAO, the state has sufficient reserves to cover operating deficits under a typical post-WWII recession, even assuming the downturn began midway through the budget year. However, the finding does not suggest that the state is fully prepared to weather any possible recession.

Figure 9 California's Economy – Real GDP Growth between 1999 - 2019



Source: Bureau of Economic Analysis, US Department of Commerce; State of California Department of Finance

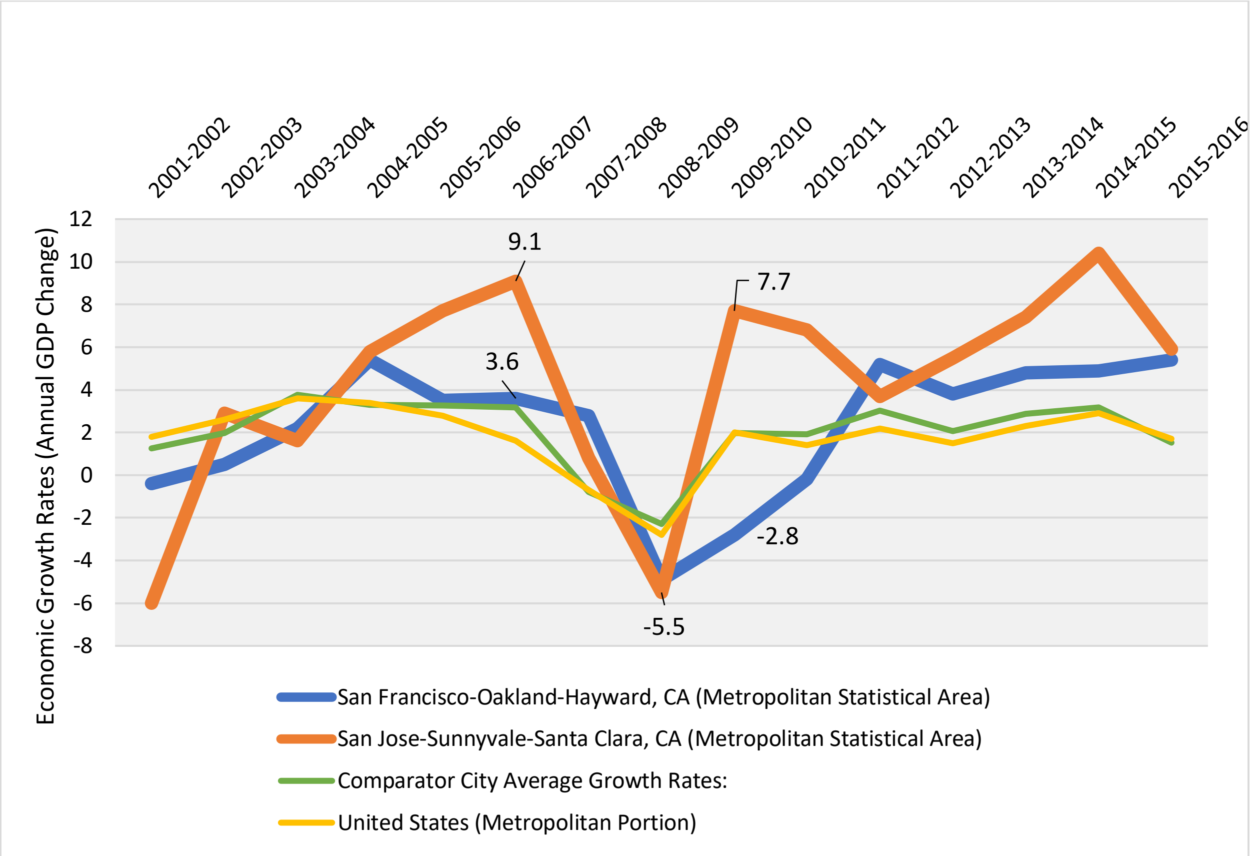
REGIONAL ECONOMY OF THE BAY AREA

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, it continues to rely heavily on technology sector. To this end, many non-technology industries expand in the Bay Area by supporting 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.

2019 marked an important shift in the sentiment towards technology companies. Even as stock markets and valuations hit records, several of the Bay Area technology companies were characterized by the markets as failing in their initial public offering, or public listing on the stock exchange. Companies such as Uber, Lyft, had a poor start of their shares being publicly traded, in addition to failing to list on the stock exchange altogether by WeWork – reflecting both unrealistic expectations of companies' management as well as loss of trust by the investors. This shift in investor sentiment should not affect the established technology leaders in the Bay Area, such as Google, Apple Facebook, Tesla, but it does show growing investor concerns with startups, which are unable to produce a profitable and sustainable path forward.

Figure 10 Top Fortune 500 Cities – Comparison of Economic Growth with 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 2020 Adopted	FYE 2021 Projected	FYE 2022 Projected	FYE 2023 Projected	FYE 2024 Projected	FYE 2025 Projected
REVENUES						
Property Tax	$36,186,420	$38,068,720	$39,830,290	$41,355,602	$42,569,740	$43,810,016
Permits/Fees	$48,456,606	$50,811,014	$52,808,986	$54,393,808	$55,589,099	$56,738,482
Grant Revenues	$4,051,341	$4,081,855	$4,112,675	$4,143,802	$4,175,240	$4,206,992
AB 617 Funding	$4,800,000	$4,800,000	$4,800,000	$4,800,000	$4,800,000	$4,800,000
Other Revenues	$6,014,260	$6,043,858	$6,074,062	$6,104,858	$6,136,259	$6,168,253
	$99,508,627	$103,805,448	$107,626,013	$110,798,070	$113,270,339	$115,723,743
Transfer from Special Funds	$1,106,205	$1,128,329	$1,150,896	$1,173,914	$1,197,392	$1,221,340
Transfer from / (to) Fund Balance	$4,000,000	$5,131,394	($1,389,126)	($1,082,051)	($402,651)	($216,351)
TOTAL REVENUES	**$104,614,832**	**$110,065,171**	**$107,387,783**	**$110,889,933**	**$114,065,080**	**$116,728,732**
EXPENDITURES						
Personnel & Benefits (net Pension/OPEB)	$51,681,324	$54,115,729	$55,755,723	$57,470,895	$59,266,053	$61,118,145
Retirement Pension	$9,812,280	$11,762,844	$12,852,507	$13,399,617	$15,202,385	$17,137,304
Other Post Employment Benefits (OPEB)	$6,390,512	$7,713,212	$7,952,422	$8,249,654	$6,847,501	$4,711,067
Services and Supplies	$27,278,966	$24,940,813	$25,017,930	$25,670,106	$26,344,498	$27,037,339
Capital Expenditures	$9,404,116	$11,532,572	$5,809,200	$6,099,660	$6,404,643	$6,724,876
	$104,567,198	$110,065,171	$107,387,783	$110,889,933	$114,065,080	$116,728,732
TOTAL EXPENDITURES	**$104,614,832**	**$110,065,171**	**$107,387,783**	**$110,889,933**	**$114,065,080**	**$116,728,732**

Table 1 shows the projected 2020 Adopted General Fund Budget, with the projected budgets for the next five years. Overall, projected expenditures slightly exceed projected revenues for FYE 2020 and 2021 to account for one-time capital costs for improvements to Headquarters West (Richmond Office). FYE 2022-2025 shows projected revenues slightly exceed projected expenditures; showing an operating surplus ranging from $1.3M to $216K during this period. 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 2021 and 2022; thereafter, only a 2-3% inflationary growth in years 2023 through 2025.
2. **Permit Fee** revenues are expected to increase by approximately 4% in year 2021 and 2022 and by 2-3% thereafter 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 average 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 84% cost recovery policy level before the end of the five-year forecast, as implementation of new and enhanced programs continues, and costs begins to level out.

3. **Grant Revenues** remain stable based on current funding with no expected new grants anticipated through 2025.
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 in FYE 2021 to account for the 10 additional FTEs approved in December 2019. A 3% annual cost of living adjustment is also projected for the five-year period to account for 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 FYE 2022-2025. This projection assumes a 6% vacancy rate in 202, gradually decreasing to 3% by 2025.
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 reach District's 90% funded policy goal by FYE 2025. 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 $13 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.

OUTSTANDING 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, the Air District's unfunded liabilities are as follows:

	Liability	Funded	Unfunded	% Funded
Pension	$325 M	$239 M	$86 M	74%
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 8.225% 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 6.0% of the employee salary and the employer rate is 6.05% of employee salary.

Figure 11 CALPERS Funding History

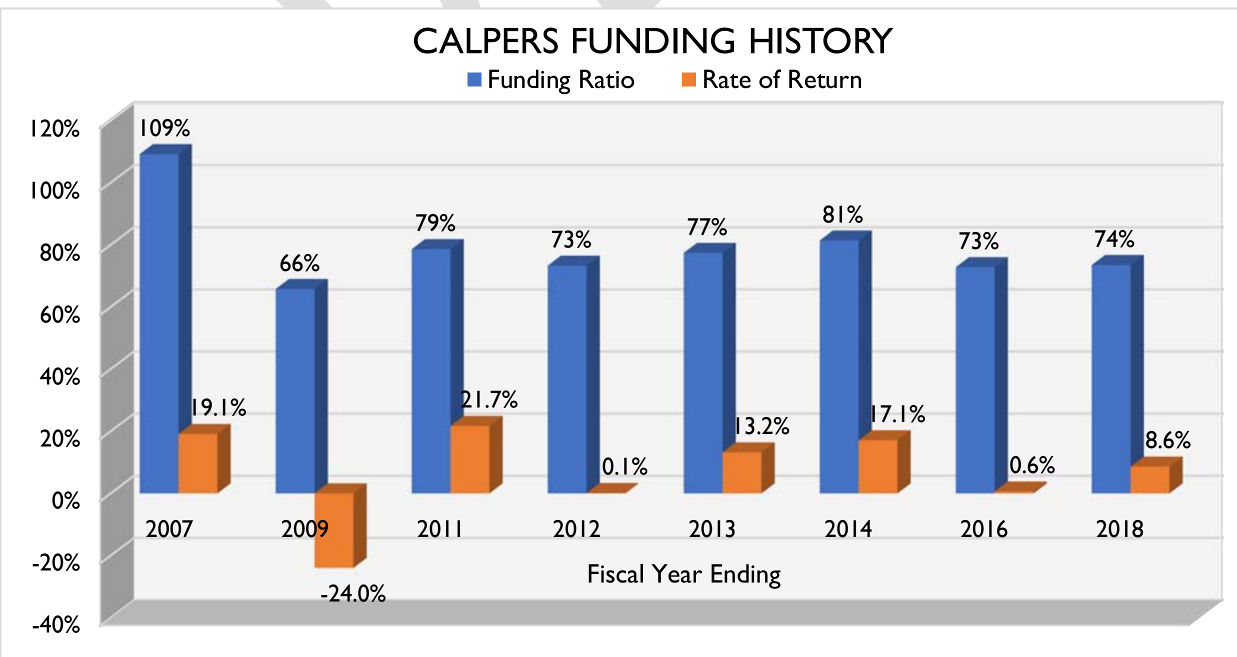
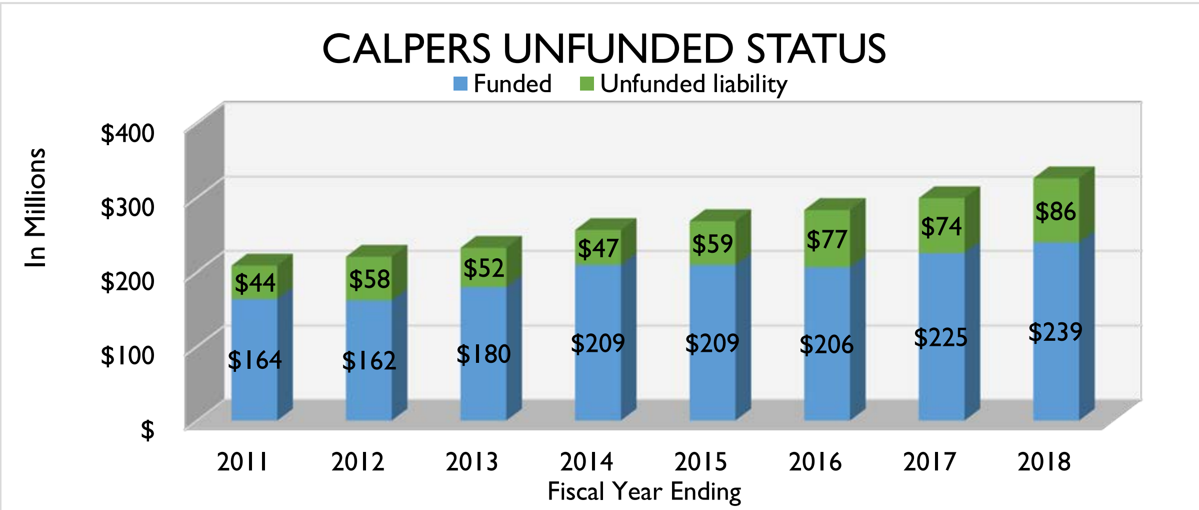


Figure 11 provides a historical rate of return and funding status of the Air District's pension plan with CalPERS. In 2007, the plan was "super-funded" and required no employer or employee contributions. In 2008 and 2009, at the beginning of the economic downturn, the plan experienced negative returns 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 7 CALPERS Unfunded Status

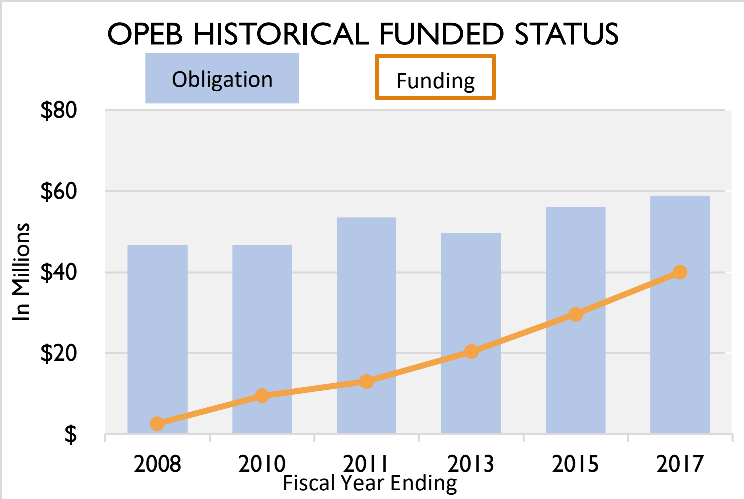


The 2018 actuarial valuation report shows a total funded obligation of $239 million; leaving an unfunded liability of $86 million shown in Figure 7. The total required employer contribution for fiscal year 2019 was $7.2 million, which includes the $4.9 million UAL payment. The Air District plans to address 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 8 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 8 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 $105 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.

In an effort, to address the unfunded liabilities for pension, staff has recommended several investment options which will be presented to the Board in early 2020.

CERTIFICATION OF PARTICIPATION NOTES (COPS)

In 2013, the Air District issued $30M COPs to finance its new headquarters at 375 Beale Street in partnership with Metropolitan Transportation Commission (MTC) through a private purchase with Bay Area Headquarters Authority (BAHA). In May 2017, the Air District closed escrow and acquired approximately 75,000 square feet of office space. As a part of this acquisition, the Air District prepaid $10.7M towards the purchase; leaving a remaining $19.3M in COPs.

Under the terms of the financing lease/sublease agreement between BAHA and the Air District, total monthly payments have been predetermined. The total annual payments and interest rate caps to pay down the COPs are as follows:

Predetermined payments:

Year	Annual Payments
1-10	$1.2 Million
11-30	$1.37 Million

30-Year variable rate structure with preset interest rate caps:

Year	Caps
1-5	3.20%
6-10	4.20%
11-30	5.20%

FINANCIAL POLICIES

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.