

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



February 26, 2020



*Simpson & Simpson, LLP*

# AGENDA



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



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# Auditor's Required Communications

## SAS 114



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

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



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# Auditor's Required Communications

## SAS 114 (continued)



### 2. *Significant Accounting Policies*

- The District's significant accounting policies are described in Note 1 to the financial statements and are in accordance with generally accepted accounting principles and consistent with industry practices and standards.
- The application of existing policies was not changed during the year.
- All significant transactions have been recognized in the financial statements in the proper period.



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# Auditor's Required Communications

## SAS 114 (continued)



### 3. *Management Judgments and Accounting Estimates*

- ❑ Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ from management's current judgments.
  
- ❑ The most sensitive estimates affecting the financial statements were:
  - Useful life of capital assets used for depreciation.
  - Liabilities for legal claims



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# Auditor's Required Communications

## SAS 114 (continued)



### 3. Management Judgments and Accounting Estimates (continued)

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



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# *Auditor's Required Communications*

## *SAS 114 (continued)*



### **4. *Corrected Misstatements***

There was one proposed audit adjustment recorded by the District, which was material, relating to a legal settlement amounting to \$3.75M.

### **5. *Uncorrected Misstatements***

None.

### **6. *Significant deficiencies in internal control***

None noted.



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# Auditor's Required Communications SAS 114 (continued)



## **7. No Disagreements or Difficulties with Management**

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

## **8. No Consultations with Other Accountants**

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



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# *Auditor's Required Communications*

## *SAS 114 (continued)*



### **9. *Management Representations***

- We have requested certain representations from management that are included in the management representation letter dated February 3, 2020.



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# Audit Results and Highlights of the Basic Financial Statements



## 1. *Unmodified Opinion*

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

## 2. *Financial Highlights*

- Government-Wide Financial Statements
- Governmental Fund Financial Statements



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



## **2. Financial Highlights (continued)**

### **A. Government-Wide Financial Statements**

- ❑ Net position as of June 30, 2019 was \$191.4 million (excess of total liabilities plus deferred inflows over total assets plus deferred outflows), an increase of \$19.1 million due to an increase in Restricted Net Position for Air Quality Grants and Projects and purchase of additional office space at Beale Street and purchase of a new office building in Richmond.



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



## 2. Financial Highlights (continued)

### B. Government Funds Financial Statements

- ❑ Governmental combined fund balances as of June 30, 2019 increased from last year by \$9.6 million to \$227.9 million. The increase in fund balance is due primarily to an increase in the District's Restricted and Assigned Fund Balance for Air Quality Grants and Projects.
- ❑ The General Fund accounts for all the District's financial resources except those required to be accounted for in the Special Revenue Fund. The ending fund balance of \$77.5 million is carried over to the next fiscal year. Of this amount \$5.5 million was restricted, \$.94 million was nonspendable, \$29.6 million was assigned/committed and the remaining \$41.5 million was unassigned.



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# Audit Results and Highlights of the Single Audit



## 3. **Government Auditing Standards Opinion**

- Internal Control Over Financial Reporting
  - No material weaknesses
  - No significant deficiencies
  
- Compliance
  - No instances of noncompliance noted

## 4. **OMB Uniform Guidance Audit Opinion-Unmodified**

- Compliance and Internal Control Over Compliance
  - One instance of noncompliance and significant deficiency in internal control over compliance noted

(20.205 – Highway Planning & Construction)



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# *Audit Results and Highlights of the Single Audit (Continued)*



## **5. Follow-up on Prior Year Findings**

- No prior year findings or questioned costs noted.

## **6. Areas Brought to Management's Attention**

- The management letter is to provide observations during the audit in areas where the internal control procedures can be strengthened.
- The comments were discussed with the individual departments who have agreed to our recommendations and provided management responses for improvements.



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# *Questions & Answers*



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The image features the letters 'SOS' in a large, bold, dark blue serif font. The letters are set against a light blue background. The 'S' is on the left, the 'O' is in the center, and the second 'S' is on the right. The letters are slightly overlapping and have a classic, elegant design.

Thank You





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MANAGEMENT  
DISTRICT

**AGENDA: 5**

# **Second Quarter Financial Report Fiscal Year Ending (FYE) 2020**

**Budget and Finance Committee Meeting  
February 26, 2020**

**Stephanie Osaze  
Finance Manager**

# Overview



## **General Fund Reporting on 2nd Quarter financial results (July 1, 2019 – December 31, 2019):**

- Revenues
- Expenditures
- Investments
- General Fund Balance &  
Outstanding Liabilities
- Purchasing Report

# 2nd Quarter Results Fiscal Year Ending (FYE) 2020



## General Fund - Revenues

Major Categories	FYE 2020 Budget	FYE 2020 Actual (as of 12/31/2019)	Percentage of Budgeted Revenues
County receipts	\$36,186,420	\$17,270,729	48%
Permit Fees	\$38,969,795	\$32,073,083	82%
Title V Permit Fees	\$5,982,811	\$5,218,545	87%
Asbestos Fees	\$3,250,000	\$2,527,539	78%
Toxic Inventory Fees	\$65,000	\$439,386	676%
Penalties and Settlements	\$2,750,000	\$809,355	29%
Interest Revenue	\$979,660	\$701,564	72%
Miscellaneous Revenue	\$100,000	\$278,707	279%
<b>Total Revenues</b>	<b>\$88,283,686</b>	<b>\$59,318,907</b>	<b>67%</b>

# Revenue Comparison



## Prior Year vs. Current Year

Major Categories	FYE 2019 (As of 12/31/2018)	FYE 2020 (As of 12/31/2019)	\$ DIFFERENCE
County receipts	\$13,085,133	\$17,270,729	\$4,185,596
Permit Fee receipts	\$33,278,024	\$32,073,083	(\$1,204,941)
Title V Permit Fees	\$5,616,575	\$5,218,545	(\$398,030)
Asbestos Fees	\$2,193,742	\$2,527,539	\$333,797
Toxic Inventory Fees	\$298,624	\$439,386	\$140,762
Penalties and Settlements	\$1,286,607	\$809,355	(\$477,253)
Interest Revenue	\$692,082	\$701,564	\$9,482
Miscellaneous Revenue	\$86,885	\$278,707	\$191,823
<b>TOTAL REVENUES</b>	<b>\$56,537,671</b>	<b>\$59,318,907</b>	<b>\$2,781,236</b>

# 2nd Quarter Results FYE 2020



## General Fund - Expenditures

Major Categories	FY 2020 Budget	FYE 2020 Actual (as of 12/31/2019)	Percentage of Budgeted Expenditures
* Personnel - Salaries	\$47,094,464	\$22,486,955	48%
* Personnel - Benefits	\$27,022,715	\$13,395,402	50%
Operational Services and Supplies	\$27,278,966	\$14,423,658	53%
Capital Outlay	\$9,404,116	\$3,781,477	40%
<b>Total Expenditures</b>	<b>\$110,800,260</b>	<b>\$54,087,492</b>	<b>49%</b>

**\* Consolidated (Includes Special Funds)**

# Expenditure Comparison



## Prior Year vs. Current Year

Major Categories	FYE 2019 (As of 12/31/2018)	FYE 2020 (As of 12/31/2019)	\$ DIFFERENCE
*Personnel - Salaries	\$20,603,385	\$22,486,955	\$1,883,570
*Personnel - Benefits	\$11,547,743	\$13,395,402	\$1,847,658
Operational Services and Supplies	\$9,259,512	\$14,423,658	\$5,164,146
Capital Outlay	\$2,160,460	\$3,781,477	\$1,621,017
<b>TOTAL EXPENDITURES</b>	<b>\$43,571,100</b>	<b>\$54,087,492</b>	<b>\$10,516,392</b>

**\*Consolidated includes Special Funds**

# 2nd Quarter Results FYE 2020



## Investments

<b>Cash and Investments with County Treasury:</b>	
<b>(Based on Dec 2019 Account Balance)</b>	
General Fund	\$76,302,779
TFCA	\$108,280,696
MSIF	\$43,474,469
Carl Moyer	\$56,491,138
CA Goods Movement	\$8,874,074
BikeShare	\$3,138,014
Vehicles Mitigation	\$3,773,168
<b>TOTAL</b>	<b><u>\$300,334,336</u></b>

# Fund Balance and Outstanding Liabilities



FUND BALANCES	6/30/2018 Audited	6/30/2019 Audited	6/30/2020 Projected
DESIGNATED: *			
Building Improvement	0	0	4,000,000
Diversity Equity & Inclusion	100,000	0	0
Economic Contingency	17,390,311	19,084,769	20,082,966
IT- Event Response	500,000	0	0
Litigation	500,000	0	0
Napa/Sonoma Fireplace Replacement Gran	1,000,000	1,000,000	1,000,000
Pension & Post Employment Liability	1,000,000	2,000,000	2,000,000
Tech- Meterological Network Equipment	131,100	0	0
Tech- Mobile Monitoring Instruments	80,000	0	0
Technology Implementation Office	3,350,000	0	0
GHG Abatement Technology Study	1,500,000	0	0
Woodchip Program	150,000	0	0
Woodsmoke Grant	1,000,000	1,000,000	1,000,000
Worker's Comp Self -Funding	1,000,000	0	0
<b>TOTAL DESIGNATED</b>	<b>\$27,701,411</b>	<b>\$23,084,769</b>	<b>\$28,082,966</b>
UNDESIGNATED	18,101,141	22,332,894	17,334,697
TOTAL UNDESIGNATED	<b>\$18,101,141</b>	<b>\$22,332,894</b>	<b>\$17,334,697</b>
<b>TOTAL DESIGNATED &amp; UNDESIGNATED</b>	<b>\$45,802,552</b>	<b>\$45,417,663</b>	<b>\$45,417,663</b>
BUILDING PROCEEDS:	4,668,200	209,489	209,489
<b>TOTAL FUND BALANCE</b>	<b>\$50,470,752</b>	<b>\$45,627,152</b>	<b>\$45,627,152</b>
* Designated Fund Balances are subject to change at Board's discretion.			
<b>OUTSTANDING LIABILITIES</b>			
CalPERS Pension Retirement			86,309,901
Other Post Employment Benefits			18,840,854
Certificate of Participation Notes			26,956,830
<b>TOTAL OUTSTANDING LIABILITIES</b>			<b>\$132,107,585</b>



# Purchasing Reporting Requirements



**Section 4.3 of the Purchasing Procedures states:**

Recurring payments of routine business needs, such as utilities, licenses, office supplies, etc. that are more than **\$100,000** shall be presented in the Quarterly Financial Report.

- In an effort of full disclosure, list also includes benefit payments

# FYE 2020 Vendor Payments



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

	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



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**AGENDA: 6**

# **Options to Prefund Pension Liabilities – Analysis of Provider Returns and Costs to Invest**

**Budget and Finance Committee Meeting  
February 26, 2020**

**Jeff McKay  
Chief Financial Officer**

# Outline



- Background
- Overview of Providers to Prefund Liabilities using Section 115 Trusts
- Comparison of Returns
- Comparison of Costs
- Summary Evaluation Table

# Plan Overview

## CalPERS Pension Retirement Plan



To address the rising unfunded liabilities for Pension, the Board approved:

### **Pension Policy:**

- A target of 20 years to reach a funding level of 90%
- Set aside \$1 million (M) in annual discretionary funds
- As of Fiscal Year Ending (FYE) 2020, set aside is \$3M (three years)
- Identify investment options

# Plan Overview

## CalPERS Pension Retirement Plan



- CalPERS Retirement
  - Obligation: \$326M\*
  - Funded: \$239M (74%)
  - Unfunded: \$86M (26%)
  
- Funding Policy: 90% Funded Level
  - 20 Year Target Date (FYE 2039)
  - \$1M Annual Additional Contribution

\*CalPERS Valuation as of June 30, 2018

# Section 115 Pension Rate Stabilization Program



- Section 115 Pension Rate Stabilization Program (PRSP) is a trust that provides diversified investment options for employers to prefund their future required pension obligation
- Assets in the Trust are expected to grow, to fund future contributions and pay down unfunded actuarial liability (UAL)

# Section 115 Trust (PRSP) Cont.



## PROS

- Irrevocable Trust that can only be used for Pension
- Air District controls assets, but only to pay the Air District's pension liabilities
- Higher yield investment strategies than County Pool
- Assets reduce or eliminate large fluctuations in employer contributions
- Less volatility than the Pension Fund



# Section 115 Trust (PRSP) Cont.



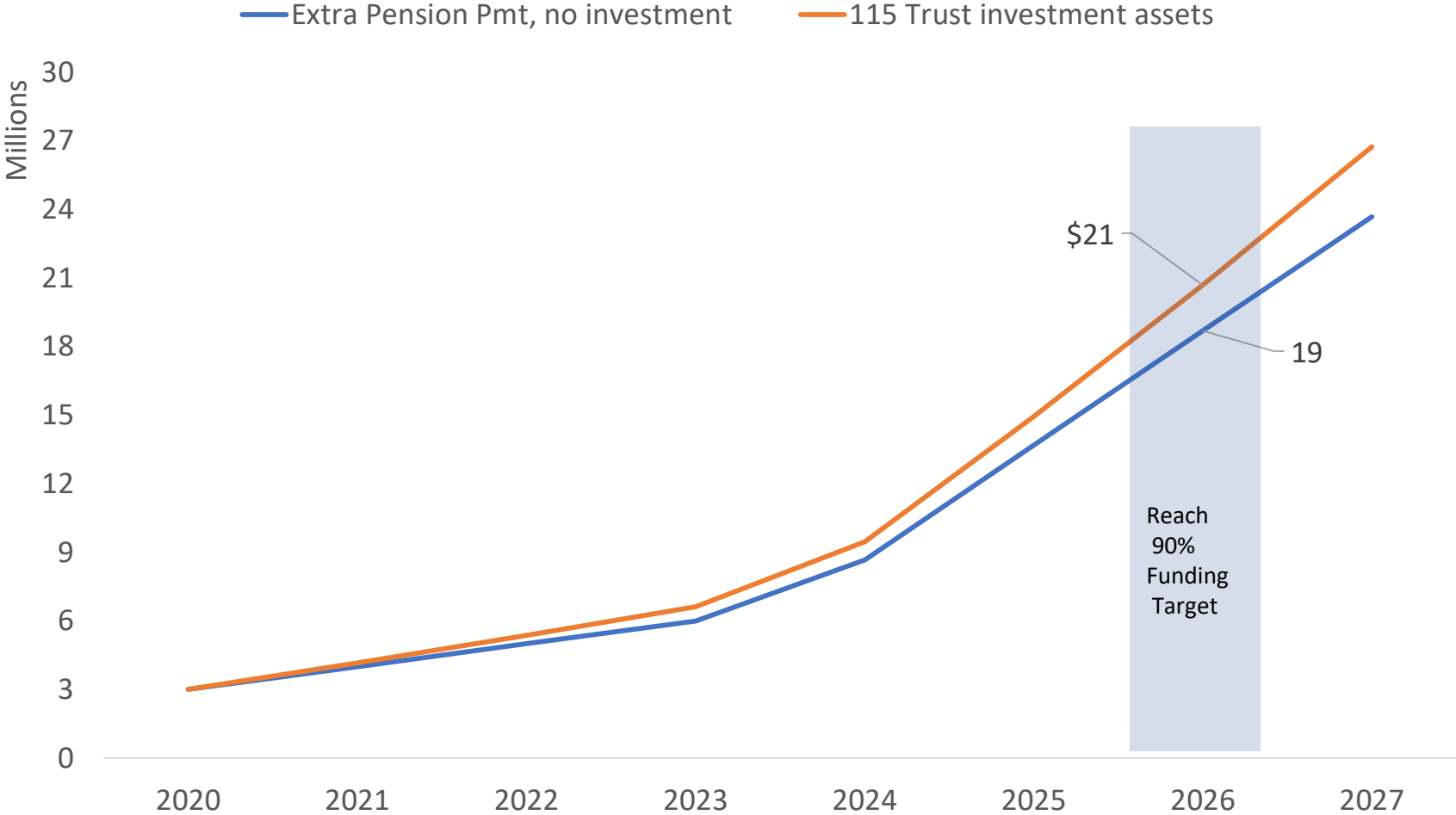
## CONS

- Actual investment returns may deviate from initial projections
- Assets cannot reduce Pension UAL until placed in the Pension Fund

# Section 115 Trust (PRSP) Cont.



## Impact from Investing with 115 Trusts



# Section 115 Trust (PRSP) Cont.



Section 115 PRSP Trusts are fairly new (2015) and currently being offered by a few providers

Providers for Section 115 PRSP to government agencies:

- 1. Public Agency Retirement Services (PARS)**
- 2. PFM Asset Management**
- 3. California Employers' Pension Prefunding Trust (CEPPT)**

# Overview of Section 115 Trust Providers



- **PARS, PFM, and CEPPT** are capable of providing the investment services for the Air District; having slightly different investment approaches
- All have similar net investment returns and asset classifications (4% - 5%)
- CEPPT has the lowest fee at 25 basis point

# PFM Asset Management, LLC – General Information



Core business:



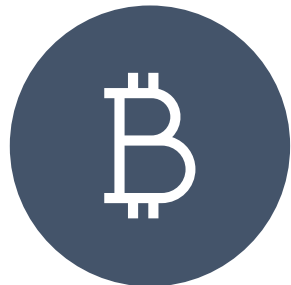
**Investment management and consulting for the public sector**

**(> 90% of revenue from public clients)**



Years of experience:

**44**



Types of investment programs:

**A broad range of (mostly) active, multi-class investment options**



Total number of plans under administration:

**245 investment plans in discretionary assets under management;**

**32 investment plans in non-discretionary assets under advisement**

# PFM Asset Management, LLC – Section 115 Trust Specific Information



Number of Section 115 Trust clients:

**20 Other Post-Employment Benefits (OPEB) clients**  
**Eight (8) pension clients**



Total investment assets amounts under Section 115 Trust:

**\$4.4 billion (as of September 31, 2019)**



Minimum annual fees:

**\$20,000**



Intentions to change fees:  
**Fees do not adjust for the duration of the contract**

# PFM Asset Management LLC – Overview of Investment Returns and Costs



<b>A. Investment Under \$5 million</b>	<b>Investment Returns on portfolios*</b>			<b>Fees Charged</b>		
<b>Available Investment option/strategy</b>	1-year	5-year	10-year	administrative <sup>1</sup>	investment/other	total
<b>Active Portfolios**</b>						
(40% equity/ 60% fixed income) conservative	5.98%	5.51%	N/A	\$5,000 per year	0.45%	0.45% on assets plus \$5,000/year
(60% equity/ 40% fixed income) moderate	4.45%	6.50%	7.99%	\$5,000 per year	0.45%	0.45% on assets plus \$5,000/year
(70% equity/ 30% fixed income) aggressive	3.30%	7.20%	8.76%	\$5,000 per year	0.45%	0.45% on assets plus \$5,000/year
<b>Passive Portfolios***</b>						
(40% equity/ 60% fixed income) conservative	N/A	N/A	N/A	\$5,000 per year	0.35%	0.35% on assets plus \$5,000/year
(60% equity/ 40% fixed income) moderate	4.50%	6.47%	7.78%	\$5,000 per year	0.35%	0.35% on assets plus \$5,000/year
(70% equity/ 30% fixed income) aggressive	N/A	N/A	N/A	\$5,000 per year	0.35%	0.35% on assets plus \$5,000/year

<b>B. Investment \$5 to \$10 million</b>	<b>Investment Returns on portfolios*</b>			<b>Fees Charged</b>		
<b>Available Investment option/strategy</b>	1-year	5-year	10-year	administrative <sup>1</sup>	investment/other	total
<b>Active Portfolios**</b>						
(40% equity/ 60% fixed income) conservative	5.98%	5.51%	N/A	\$5,000 per year	0.45%	0.45% on assets plus \$5,000/year
(60% equity/ 40% fixed income) moderate	4.45%	6.50%	7.99%	\$5,000 per year	0.45%	0.45% on assets plus \$5,000/year
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<b>Passive Portfolios***</b>						
(40% equity/ 60% fixed income) conservative	N/A	N/A	N/A	\$5,000 per year	0.35%	0.35% on assets plus \$5,000/year
(60% equity/ 40% fixed income) moderate	4.50%	6.47%	7.78%	\$5,000 per year	0.35%	0.35% on assets plus \$5,000/year
(70% equity/ 30% fixed income) aggressive	N/A	N/A	N/A	\$5,000 per year	0.35%	0.35% on assets plus \$5,000/year

\*As of September 30, 2019 and net of underlying investment expenses (i.e. average expense ratios).

\*\*The average expense ratio is expected to range from 0.28% - 0.32% depending upon the strategy selected.

\*\*\*The average expense ratio for the passive 60% equity/40% fixed income portfolio was 0.06% as of December 31, 2019.

<sup>1</sup>Trustee/Custody fees paid to Wells Fargo Institutional Trust & Custody.

# PARS (Public Agency Retirement Services) – General Information



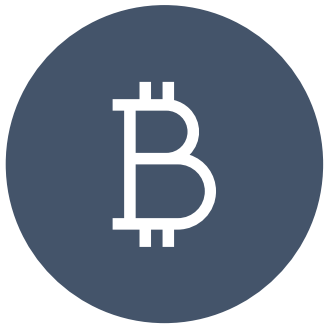
Core business:

**Design and Administration of IRS approved 115 Trusts to prefund OPEB and pension**



Years of experience:

**Over 100 (for investment advisor, Highmark)**



Types of investment programs:

**Pension and OPEB prefunding trusts; alternative to Social Security for part-time employees;**

**Early retirement incentives; supplemental DB/DC plans**



Total number of plans under administration:

**PARS: over 1,000**

**Highmark: 450 accounts with assets under management;**

**3,900 accounts with assets under administration**



# PARS – Section 115 Trust Specific Information



Number of Section 115  
Trust clients:  
**423 agencies**  
**213 – pension**  
**337 – OPEB**



Total investment  
assets amounts  
under Section 115  
Trust:  
**\$3.1 billion**



Minimum annual  
fees:  
**No**



Intentions to change  
fees:  
**No plans at  
present; possible  
fee decrease**

# PARS – Overview of Investment Returns and Costs\*



\$0 - \$10 million	Investment Returns on portfolios			Fees Charged		
	1-year	5-year	10-year	administrative	investment/other	total
Available Investment option/strategy						
conservative	11.05%	4%	4.71%	0.25%	0.35% for assets under \$5 million; 0.25% for assets \$5 -10 million	0.60%
moderate	17.71%	6.39%	7.44%			
aggressive	22.62%	7.90%	9.00%			
Passive Portfolios						
conservative	7.68%	3.60%	4.33%			
moderate	5.48%	5.63%	7.19%			
aggressive	*	*	*			

\* Returns as of December 31, 2019

# CALPERS - California Employers' Pension Prefunding Trust (CEPPT) – General Information



Core business:

**Prefunding tool for the state and local public agencies for their required defined benefit pension contribution**



Years of experience:  
**New program**



Types of investment programs:

**Two (2) passive investment strategies**



Total number of plans under administration:

**Five (5) pending contracts for CEPPT**



# CALPERS - CEPPT– Section 115 Trust Specific Information



Number of Section 115 Trust clients:

**Five (5) pending contracts – pension**

**569 – OPEB**



Total investment assets amounts under Section 115 Trust:

**\$11 billion – OPEB**

**\$5 million - pension**



Minimum annual fees:

**No**



Intentions to change fees:

**Fees may change, have been constant since 2014**

# CALPERS - CEPPT– Overview of Investment Returns and Costs\*



A. \$0 - \$10 million	Investment Returns on portfolios			Fees Charged		
	1-year	5-year	10-year	administrative	investment/other	total
Available Investment option/strategy						
conservative	*	*	*	0.00%	0.25%	0.25%
moderate	*	*	*			
aggressive	*	*	*			
Passive Portfolios						
conservative	13.82%	4.65%	*			
moderate	14.39%	5.48%	*			
aggressive	13.97%	6.06%	7.93%			

\*Returns as of December 31, 2019. Returns shown are for California Employers' Retiree Benefit Trust (CERBT), since CEPPT is a new program, but no significant deviation for CEPPT is expected.

# Available Investment Strategies and Returns Comparison



CalPERS/CERBT 2019 Investment Results*				PFM - 2019 Investment Results^				PARS – 2019 Investment Results Across Portfolios*			
<i>Investment up to \$10 million</i>	Investment Returns on portfolios			<i>Investment up to \$10 million</i>	Investment Returns on portfolios			<i>Investment up to \$10 million</i>	Investment Returns on portfolios		
Available Investment option/strategy	1-year	5-year	10-year	Available Investment option/strategy	1-year	5-year	10-year	Available Investment option/strategy	1-year	5-year	10-year
<b>Active Portfolios</b>				<b>Active Portfolios</b>				<b>Active Portfolios</b>			
conservative	N/A	N/A	N/A	conservative	5.98%	5.51%	N/A	conservative	12.39%	4.55%	5.34%
moderate	N/A	N/A	N/A	moderate	4.45%	6.50%	7.99%	moderate	18.78%	6.73%	7.85%
aggressive	N/A	N/A	N/A	aggressive	3.30%	7.20%	8.76%	aggressive	22.62%	7.90%	9.00%
<b>Passive Portfolios</b>				<b>Passive Portfolios</b>				<b>Passive Portfolios</b>			
average net return for conservative portfolios	13.82%	4.65%	N/A	average net return for conservative portfolios	N/A	N/A	N/A	average net return for conservative portfolios	7.34%	4.09%	4.97%
<i>S3 Benchmark</i>	13.77%	4.39%		average net return for moderate portfolios	4.50%	6.47%	7.78%	average net return for moderate portfolios	5.08%	5.48%	7.54%
average net return for moderate portfolios	14.39%	5.48%		average net return for aggressive portfolios	N/A	N/A	N/A	average net return for aggressive portfolios	N/A	N/A	N/A
<i>S2 Benchmark</i>	14.29%	5.17%		<i>S1 Benchmark</i>	13.82%	5.71%	7.69%				

\* Results as of December 31, 2019

^ Results as of September 31, 2019

# Cost of Investment Annual Fee Comparison for Section 115 Trust Investment



Provider	Administrative fees	Investment/other fees	Total Fees
<b>PARS</b>	0.25%	0.35%	0.60%
<b>PFM</b>	\$20,000 min. \$5,000	0.40% average (0.35% for passive portfolios; 0.45% for active portfolios)	2.5% - 0.5%*
<b>CalPERS/CEPPT</b>	0.25%	-	0.25%

\*PFM: decreasing fees, based on total investment amount: from 2.5% for \$1M to 0.5% for \$5M because of the fixed \$20,000 minimum charge. For the Air District's \$3M initial investment, total fees would be 0.83%.

# Summary Evaluation Table



Evaluation Criteria	PFM	PARS	CEPPT
<b>+ Positive Marks</b>	+ flexibility with investment options	+ flexibility with investment options	+ a public agency
<i>(depending on priorities, could be positive or negative)</i>	+ active portfolio management	+ active portfolio management	+ passive portfolio management
		+ large and diverse number of clients	+ large number, all public agencies as clients
			+ excellent current experience with CERBT (OPEB funds)
			+ lowest cost
<b>- Negative Marks</b>	- Highest cost	- Limited passive investment options	- Limited options to re-balance investment portfolio
	- Mandatory minimum fees		- Limited choice of investment classes
			- Benchmark investing





BAY AREA  
AIR QUALITY  
MANAGEMENT  
DISTRICT

**AGENDA: 7**

# **Air District Financial Plan Overview**

**Budget and Finance Committee Meeting  
February 26, 2020**

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

# Financial Plan Overview



- **Purpose:** Capture and retain Air District pre-budget planning processes in a document
  - Forecasts
  - Policies
  - Investment Options

# Financial Plan Overview (cont.)



- Provides a Five-Year Fiscal Forecast: Fiscal Year (FY) 2021-2025
- Second Year of Implementation
- Living Document (updated annually)

# Financial Plan Overview (cont.)



- Historical Financial Condition/Trends
- Current Financial and Economic Outlook
- Financial Forecast
- Unfunded Liabilities
- Financial Policies

# Historical Financial Condition/Trends



- Historical Reserves
  - Use of Reserves During the Downturn
- Historical Revenue Trends
  - Covers two largest Revenue Sources
  - Cost Recovery Trends & Policy
- Historical Expenditure Trends

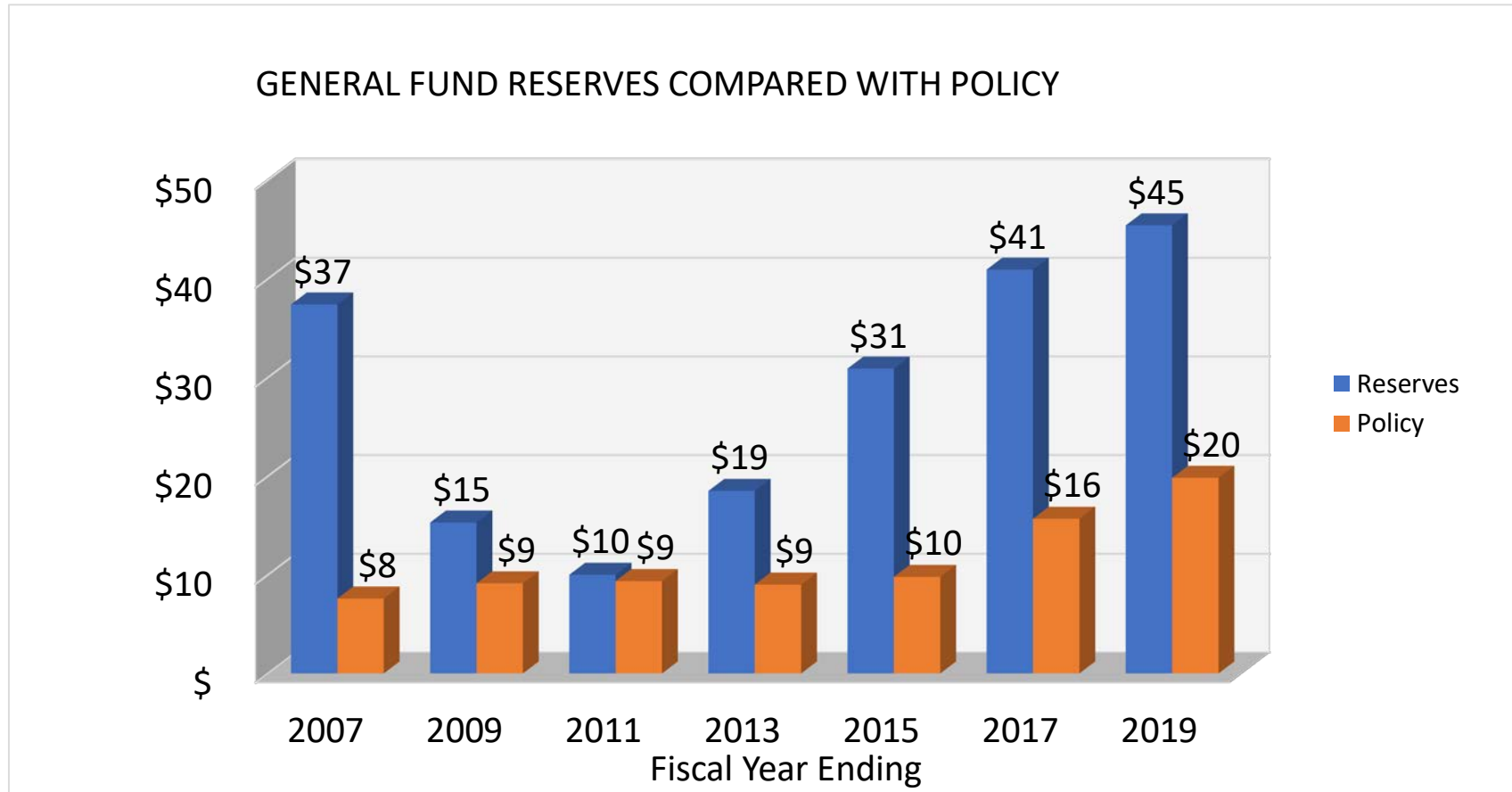
# Reserves: Use of Reserves During Downturn



## **Actions taken during the Downturn:**

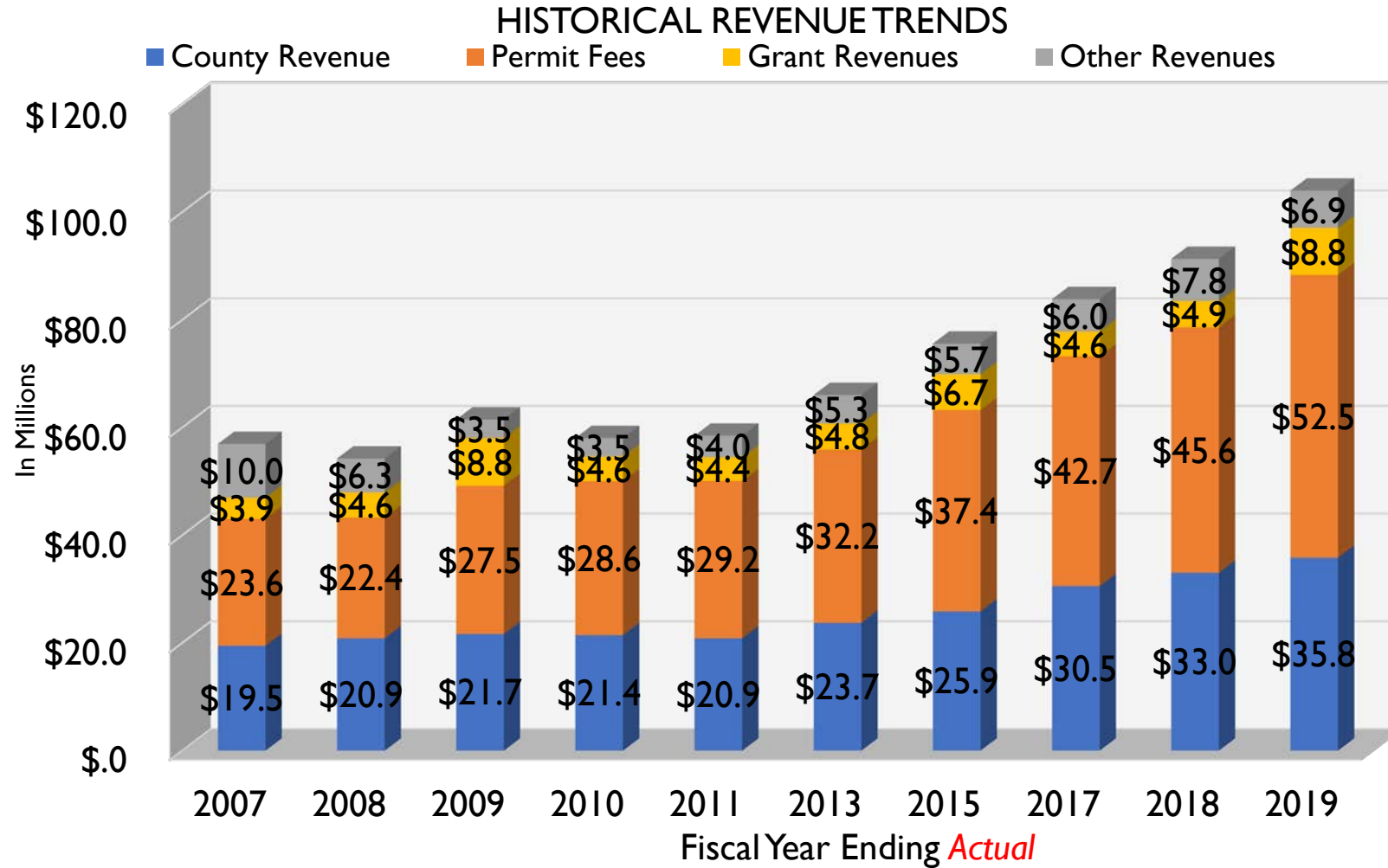
- Use of Reserves
- Reduced Staffing through Attrition
- Postponed Expenditures
- Deferred Capital Investment
- Initiated the Cost Recovery Policy

# Actual Reserves & Policy



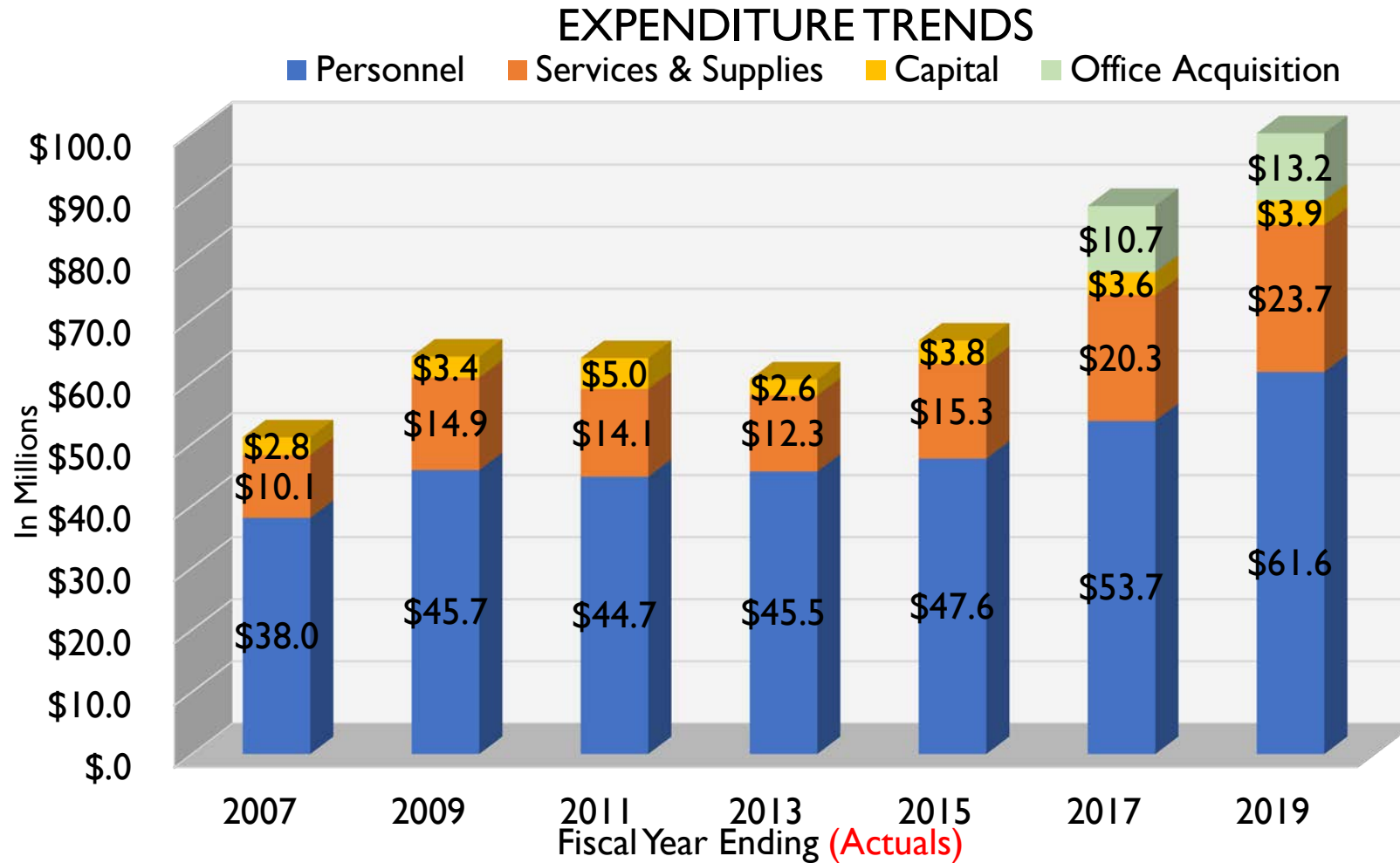
In 2016, Policy change from 15% to 20% of General Fund Budget

# Historical Revenues





# Historical Expenditures



# Cost Recovery Overview



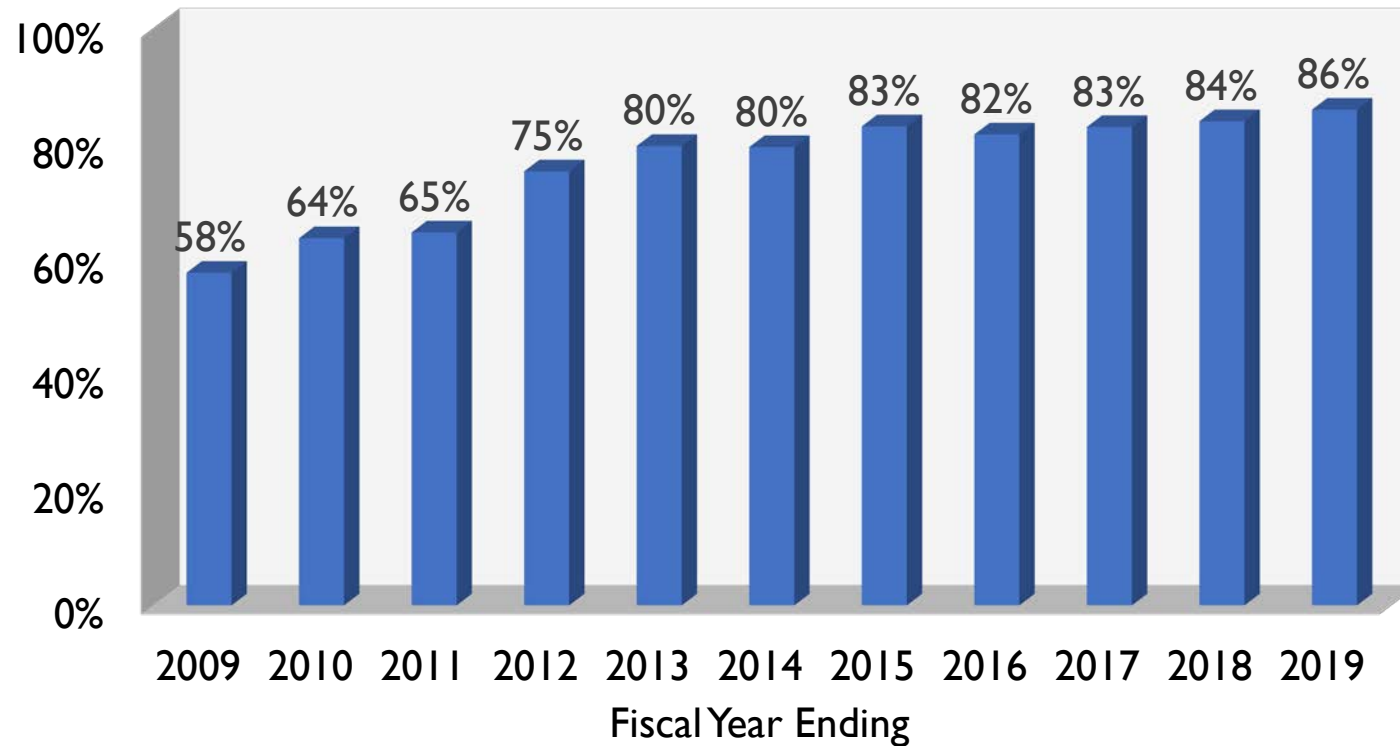
## Cost Recovery Policy Established in Fiscal Year Ending (FYE) 2012:

- Projected 6.4% annual fee increase
- 85% minimum funding target
- Regulated community gains predictable fees
- Created Budget Advisory Group (1<sup>st</sup> meeting held on January 27, 2020)

# Cost Recovery: Fee Increases



## COST RECOVERY



\*Cost Recovery Policy established in 2012

# Current Financial Outlook



## FYE 2020 General Fund Budget:

- General Fund Budget is \$104 million (M)
- Projected Revenues on target
- Projected Expenditures on target

# Current Reserves



- Board Approved Use of Reserves in FYE 2020:
  - Richmond Office Renovation = \$4M
- Minimum Policy: 20% of Budget = \$20M
- Reserves above Minimum Policy = \$25M
- Total Reserves = \$45M

# Reserve Designations



*Reserves may be expended over a period of years)*

*(Funds not encumbered - could be changed at the Board's discretion)*

<b>Probable Reserve Designations</b>	
	<b>\$M</b>
<b>Balance at June 30, 2019</b>	<b>45</b>
<b><u>Less: Designations</u></b>	
Napa/Sonoma Fireplace Replacement Grants	1
Pension Liability	2
Woodsmoke Grants	1
Revolving Loan Program	3
Richmond Tenant Improvement	10
<b>Economic Contingency (20% of Budget)</b>	<b>20</b>
<b>Total Designations</b>	<b>37</b>
<b>Less: Legal Settlement</b>	<b>3</b>
<b>AVAILABLE GF RESERVES</b>	<b>5</b>

# Economic Outlook



## **This Section of the Plan Covers:**

- External Trends - United States
- External Trends - California
- Regional Economy - Bay Area

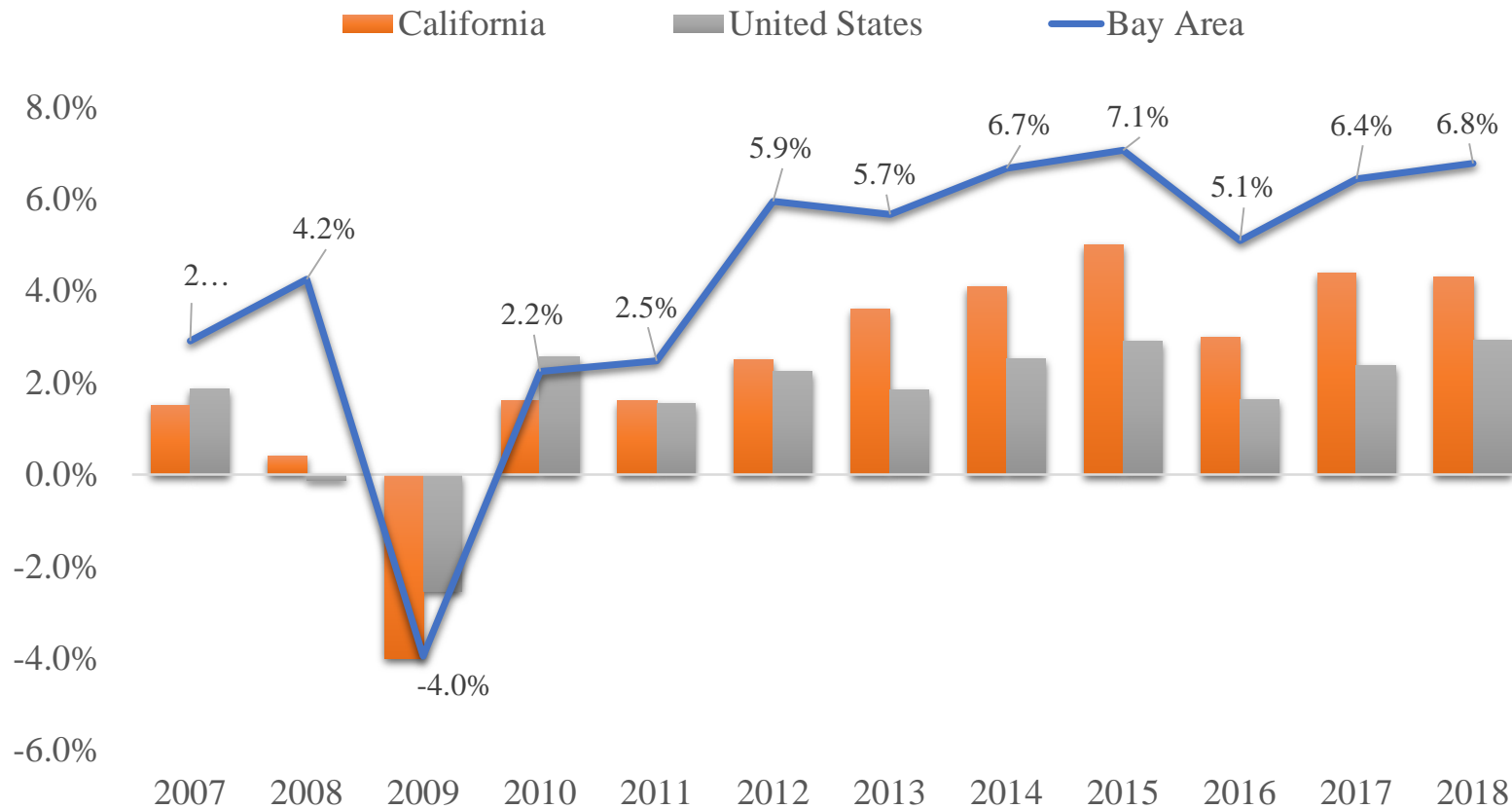
# Key Economic Factors



- External Trends - United States:
  - 2019 Gross Domestic Product (GDP) is 2.3%, signifying stable growth
  - Barring unexpected developments, full-blown recession may now not take place, rather a slowdown – low, but stable growth expected in short to medium-term
- External Trends – California:
  - Bay Area has performed exceptionally well in 2018
    - Santa Clara County fastest growing in the US large counties, at 10.2% in 2018
  - But excessive high technology concentration in the Bay Area
    - Leads to volatile economic performance
  - Out-migration is a growing concern in the Bay Area in 2019



# Bay Area's Economic Performance Compared to California and US, 2007-2018 – Annual GDP Change



# Financial Forecast



- Five year General Fund (GF) Financial Forecast
- Forecast long term GF Revenues and Expenditures based on:
  - Revenue & Expenditure Trends
  - Current Financial Policies
  - Key Economic & Financial Assumptions

# Forecast Summary



- The Forecast is cautiously optimistic showing a positive fiscal outlook over the next five (5) years
- Some of the **Key Assumptions** driving the results are:
  - Assembly Bill 617 State Funding continues
  - Cost Recovery Policy of 85% continues
  - No Staffing increase (415 Full Time Employees)
  - Continue Funding OPEB & Pension

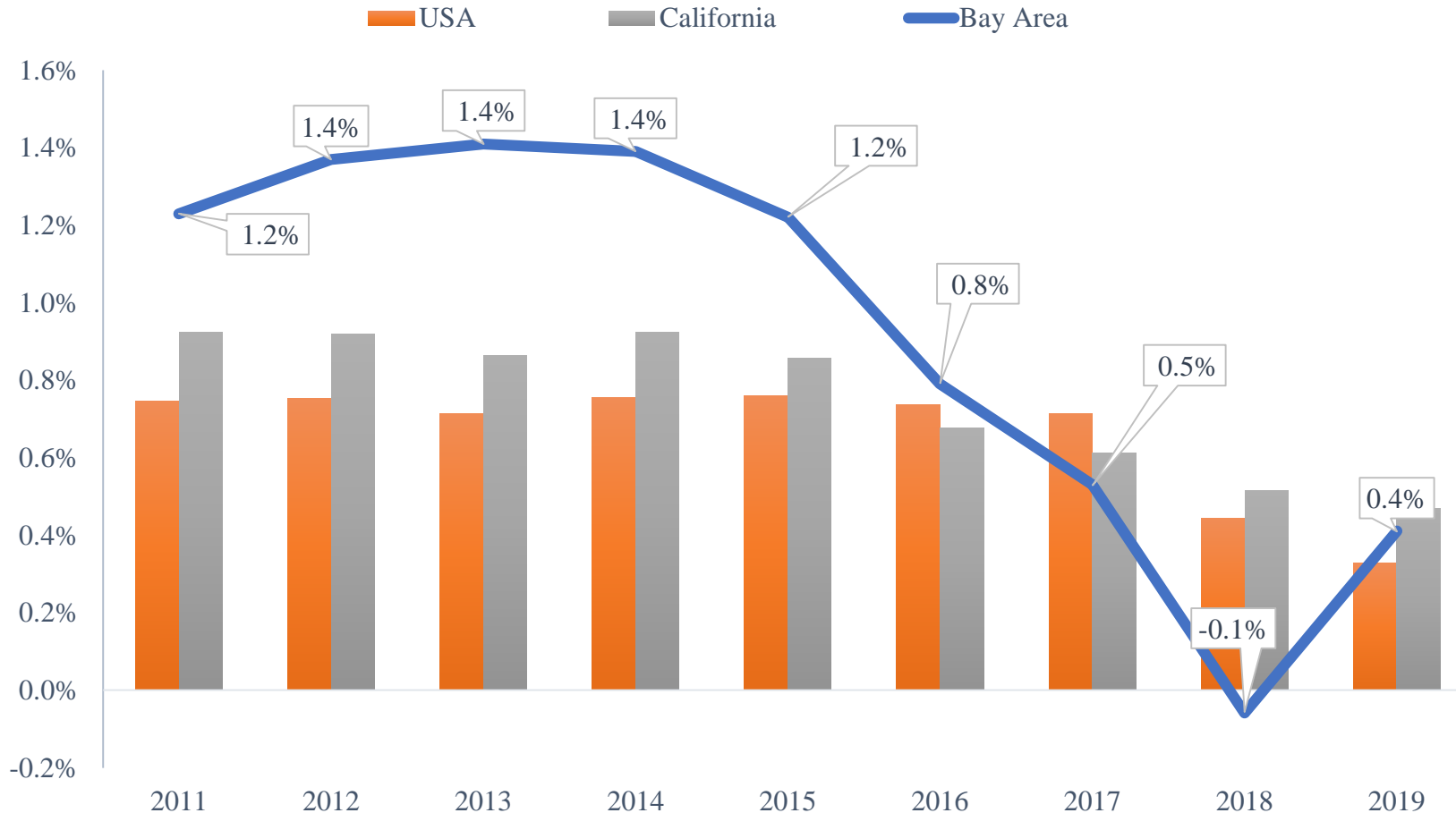
# Five Year Financial Forecast: Key Revenue Assumptions



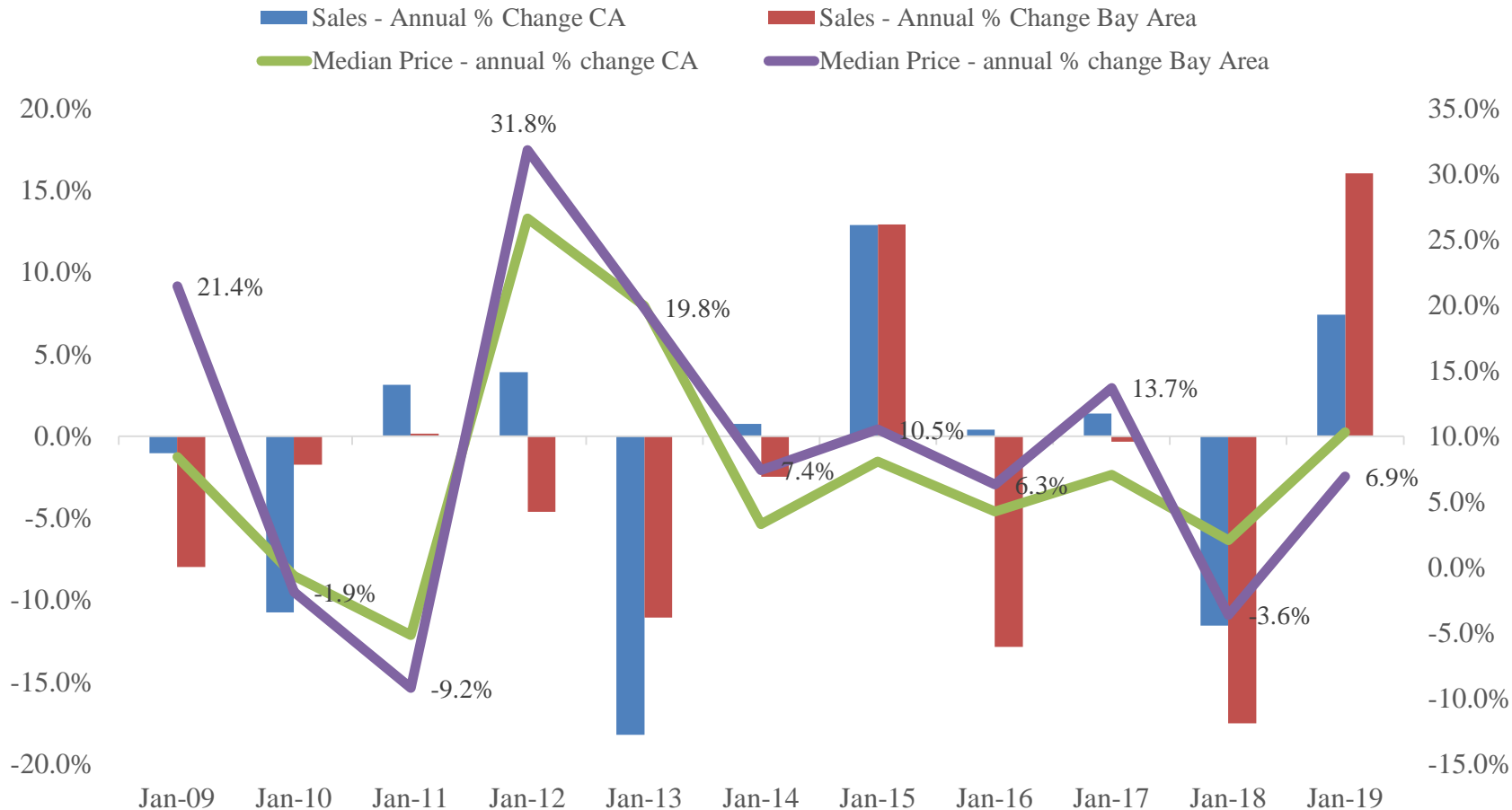
The top two (2) revenue sources are Property Tax and Permit Fees, which make up approximately 80% of total projected GF Revenues

- **Property Tax** is driven by changes in assessed property values for all nine (9) Bay Area Counties
  - Current growth averaging 7% annually over the past three (3) years, the forecast assumes 4% increases for the next two (2) years and an increase of 3% or less through year five (5)

# Bay Area Total Annual Population Growth Rates Compared with California and the US, 2011 - 2019



# State of the Real Estate Market – California and Bay Area: Home Sales and Prices, 2009 - 2019



# Five-Year Financial Forecast: Key Revenue Assumptions (cont.)



**Permit Revenues** are determined by the fees incurred for providing permitting related services to the regulated communities of the nine (9) Bay Area Counties

- Annual revenue increases averaged 6.5% over the past three (3) years, due to strong economic conditions

# Five-Year Financial Forecast: Key Revenue Assumptions (cont.)



## Permit Revenues (continued):

- Forecast assumes a conservative increase of 3.4% over the next two (2) years and slows to a 2% annual increase through year five (5)

**Current Cost Recovery level** ranges between 83% and 85% over the next five (5) years as vacancies are filled



# Five-Year Financial Forecast: Key Expenditure Assumptions



Top two expenditures are Personnel and Services/Supplies, which make up approximately 91% of the Projected General Fund Expenditures

**Personnel** costs include benefits, such as salaries, health, vision, dental, life insurance, as well as, pension & OPEB costs. Forecast assumes:

- 5% increase in first year; 3% annual increase over the remaining four (4) years of the five-year plan
- 5% vacancy savings is projected in the first three (3) years with savings gradually declining to 3% in the last two (2) years as vacancies are filled
- No increase in authorized budget positions

# Five-Year Financial Forecast: Key Expenditure Assumptions (cont.)



**Services/Supplies** covers a variety of technical and professional services required for operational needs, regulatory mandates and community outreach. Forecast assumes:

- A modest inflationary increase of 2-3% annually over the five-year plan

# Five-Year Financial Forecast



<b>Five-Year General Fund Financial Forecast</b>					
	<b>FYE 2021</b>	<b>FYE 2022</b>	<b>FYE 2023</b>	<b>FYE 2024</b>	<b>FYE 2025</b>
	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
<b>REVENUES</b>					
Property Tax	\$38,068,720	\$39,830,290	\$41,355,602	\$42,569,740	\$43,810,016
Permits/Fees	\$50,811,014	\$52,808,986	\$54,393,808	\$55,589,099	\$56,738,482
Grant Revenues	\$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
Other Revenues	\$6,043,858	\$6,074,062	\$6,104,858	\$6,136,259	\$6,168,253
	<b>\$103,805,448</b>	<b>\$107,626,013</b>	<b>\$110,798,070</b>	<b>\$113,270,339</b>	<b>\$115,723,743</b>
Transfer from Special Funds	\$1,128,329	\$1,150,896	\$1,173,914	\$1,197,392	\$1,221,340
Transfer from / (to) Fund Balance	<b>\$5,131,394</b>	(\$1,389,126)	(\$1,082,051)	(\$402,651)	(\$216,351)
<b>TOTAL REVENUES</b>	<b>\$110,065,171</b>	<b>\$107,387,783</b>	<b>\$110,889,933</b>	<b>\$114,065,080</b>	<b>\$116,728,732</b>
<b>EXPENDITURES</b>					
Personnel & Benefits (net Pension/OPEB)	\$54,115,729	\$55,755,723	\$57,470,895	\$59,266,053	\$61,118,145
Retirement Pension	\$11,762,844	\$12,852,507	\$13,399,617	\$15,202,385	\$17,137,304
Other Post Employment Benefits (OPEB)	\$7,713,212	\$7,952,422	\$8,249,654	\$6,847,501	\$4,711,067
Services and Supplies	\$24,940,813	\$25,017,930	\$25,670,106	\$26,344,498	\$27,037,339
Capital Expenditures	\$11,532,572	\$5,809,200	\$6,099,660	\$6,404,643	\$6,724,876
	<b>\$110,065,171</b>	<b>\$107,387,783</b>	<b>\$110,889,933</b>	<b>\$114,065,080</b>	<b>\$116,728,732</b>
<b>TOTAL EXPENDITURES</b>	<b>\$110,065,171</b>	<b>\$107,387,783</b>	<b>\$110,889,933</b>	<b>\$114,065,080</b>	<b>\$116,728,732</b>

# Unfunded Liabilities: OPEB



- **Medical Retirement (OPEB):**
  - Obligation: \$58M
  - Funded: \$40M (68%)
  - Unfunded: \$18M (32%)
  
- **Funding Policy: 90% Funded Level**
  - Two-Year Target Date (FYE 2022)
  - \$4M Annual Discretionary Funding
  - Redirect \$4M Discretionary Funding to CalPERS Pension after reaching target funding level

# Unfunded Liabilities: Pension Retirement



- **CalPERS Retirement:**
  - Obligation: \$325M
  - Funded: \$239M (74%)
  - Unfunded: \$86M (26%)
  
- **Funding Policy: 90% Funded Level**
  - 90% Target Date (FYE 2026)
  - \$1M Annual Discretionary Funding
  - \$4M Redirect Discretionary Funding from OPEB

# Next Steps



- **March 19, 2020:** Budget Advisory Group Meeting to discuss FYE 2021 Proposed Budget & Proposed Fee Regulation Amendments
- **March 25, 2020:** Presentation of the FYE 2021 Proposed Budget & Proposed Fee Regulation Amendments
- **April 22, 2019:** Committee Refers FYE 2021 Proposed Budget to Board of Directors