



BAY AREA  
AIR QUALITY  
MANAGEMENT  
DISTRICT

AGENDA: 3

# Update on Economic Impact of COVID-19

**Budget and Finance Committee  
September 30, 2020**

**Leonid Bak  
Economist**

# Updated Projections – September 2020



Most economists expected in May 2020 the following:

- **United States (US) unemployment rate to hit 17% in June 2020**
- **US Gross Domestic Product (GDP) will change by -32% in 2020 Q2** (compared to 2020 Q1)
- Economic recovery will start in the 2<sup>nd</sup> half of 2020:
  - Current projections are for **+9% in 2020 Q3**
  - And for **+6.9% in 2020 Q4**
- **Full year economic growth is currently estimated to be -6.6% in 2020**

In addition to these, macroeconomic problems,

- **Growing problems in real estate**, as millions are unable to pay their mortgages and rents
- Low interest rates are not helpful to fuel real estate demand when millions are unemployed
- **Leads to increasing inequality**, as eventually cheaper housing will be bought up by investors

# Updated Projections – Sept. 2020 (cont.)



In September 2020, the expectations of economic performance for the US have been revised upward, due to better than expected recovery to date:

- Maximum **unemployment rate peaked at 14.7% in April 2020**; down to single digits in August
- **US GDP did contract by 32% in 2020 Q2**, as forecast
- Recovery likely started in 2020 Q3, also as expected, but is progressing faster
- Current projections center on **+25% in 2020 Q3**
- And for **+12% in 2020 Q4**
- **Full year economic growth is currently estimated to be -4.2% in 2020**

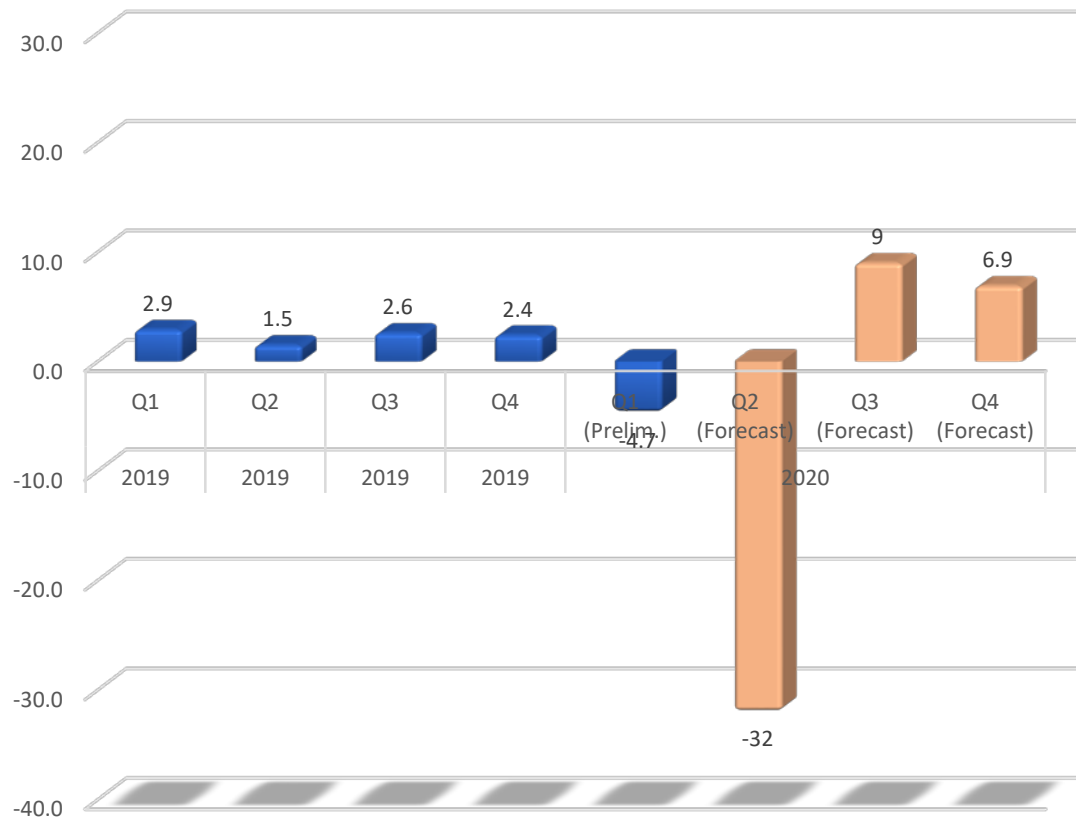
Some macroeconomic risks materialized, others did not:

- **Very active real estate market**, due to high demand (low mortgage rates) and low inventory - despite risks, shifting activity to suburbs/rural areas
- **Risks are being built up for renters**, as evictions protections simply shift deadlines – but no solutions for landlords
- **Inequality is increasing**: lower paid workers in retail and hospitality are affected by jobs losses to a worse degree while the wealthy enjoy unprecedented stock market performance

# US GDP Forecasts: May and September 2020

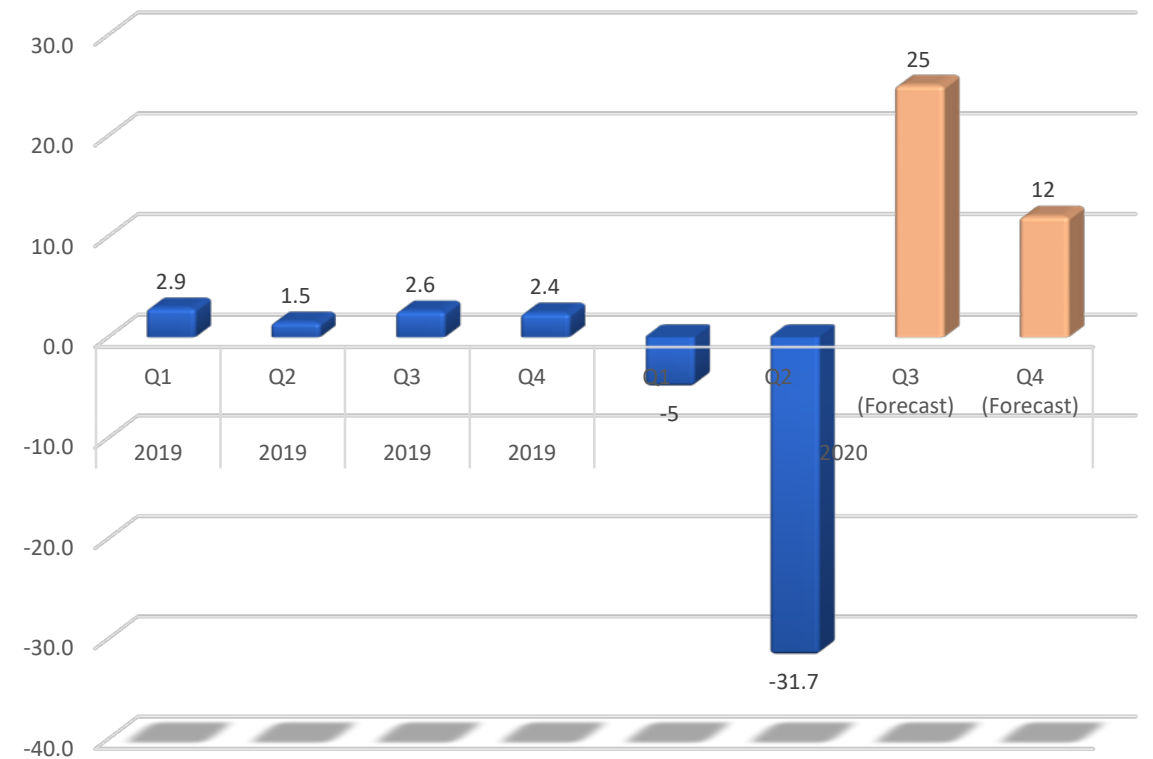


## US GDP - May 2020

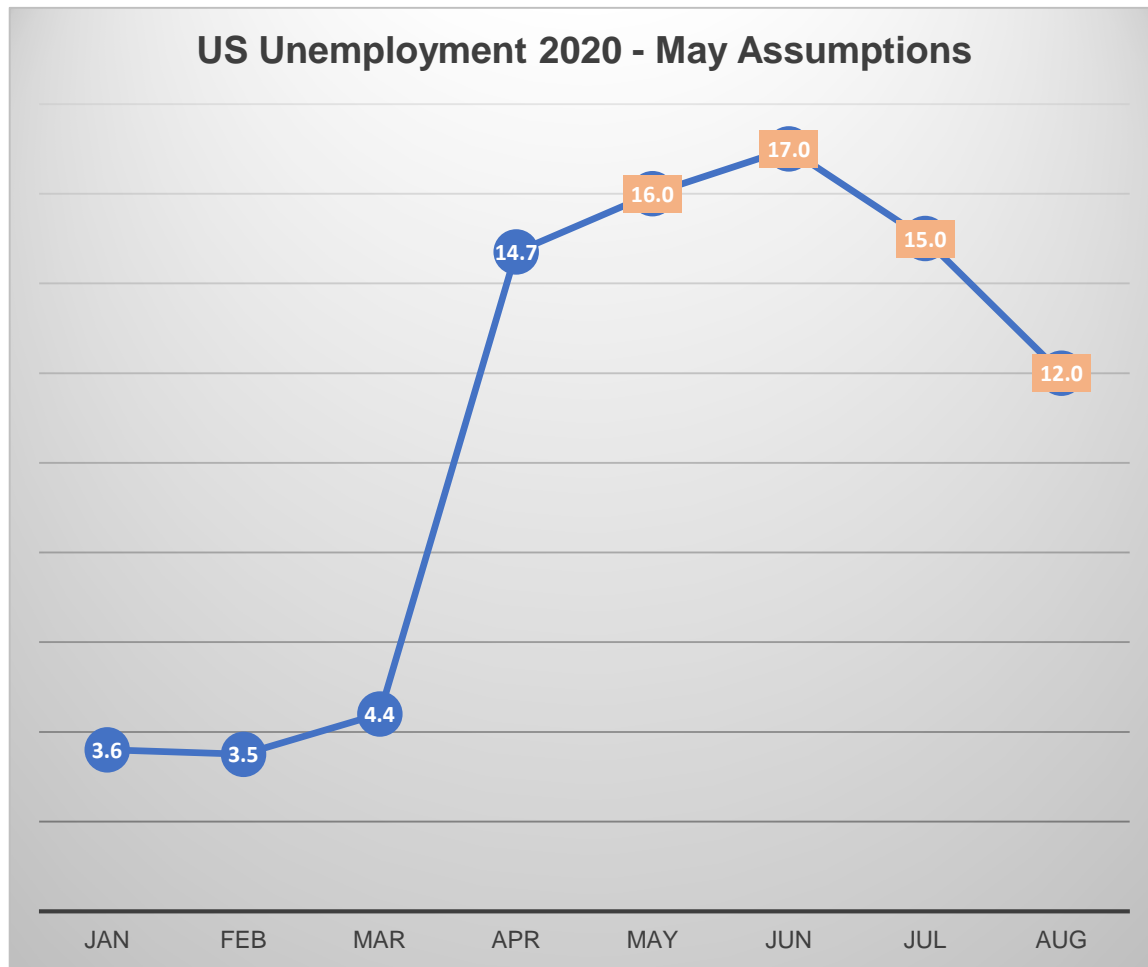


Source: US Bureau of Economic Analysis

## US GDP - September 2020

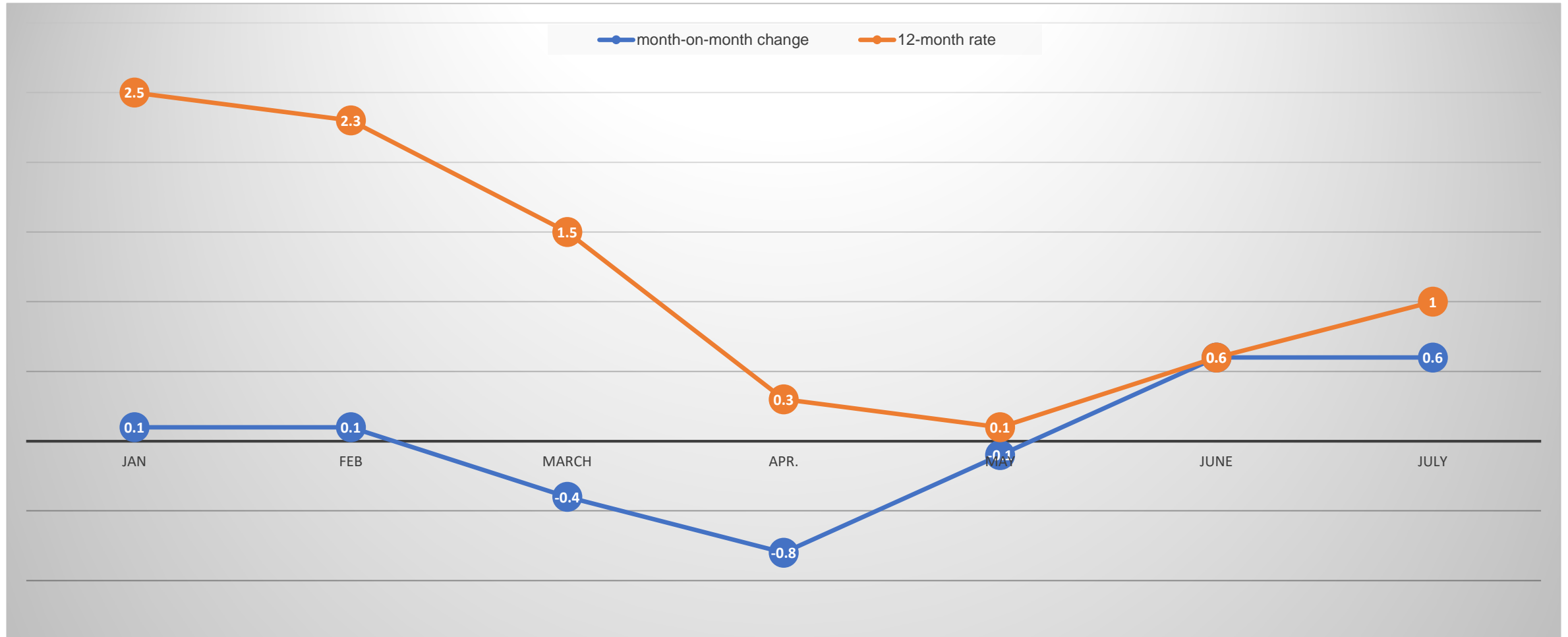


# US Unemployment Forecasts: May and September 2020



Source: US Bureau of Labor Statistics

# US Consumer Price Index (CPI) Inflation: 2020 Monthly Change and Yearly Rate



Source: US Bureau of Labor Statistics

# Select California Economic Indicators



## Projections in April 2020

California unemployment rate in **March\* 2020 is 5.3%**

March 2019 unemployment rate is 4.3%

In March 2020, California state revenue was 1% above projections – showing robust economic growth pre-pandemic, expected significant reductions due to impacts from COVID-19

California inflation (12 month CPI for All Urban Consumers (CPI-U)) in

**April 2020 is 1.3%**

April 2019 inflation (12 month CPI-U) is 3.0%

Total benefits paid out (May 2020): **\$8.9 billion**

# Select California Economic Indicators (cont.)



## Update in September 2020

After peaking at **16.4% in April 2020**, CA unemployment rate is reducing slower than the US average, due to still closed portions of the economy:  
**July 2020 rate is 13.3%**

Total revenue collections for the three largest taxes — personal income tax (PIT), sales tax, and corporation tax — across April 2020 to July 2020 came in **9 percent (\$4.3 billion) ahead of budget projections** (CA LAO)

Inflation rate (12-month CPI-U) in **June 2020** is similar, at **1.4%**

Total unemployed benefits paid out since March 2020: **\$71.4 billion**



# Bay Area Selected Indicators – September 2020 Update



## Bay Area Jobs Losses – Year to Date, July 2020

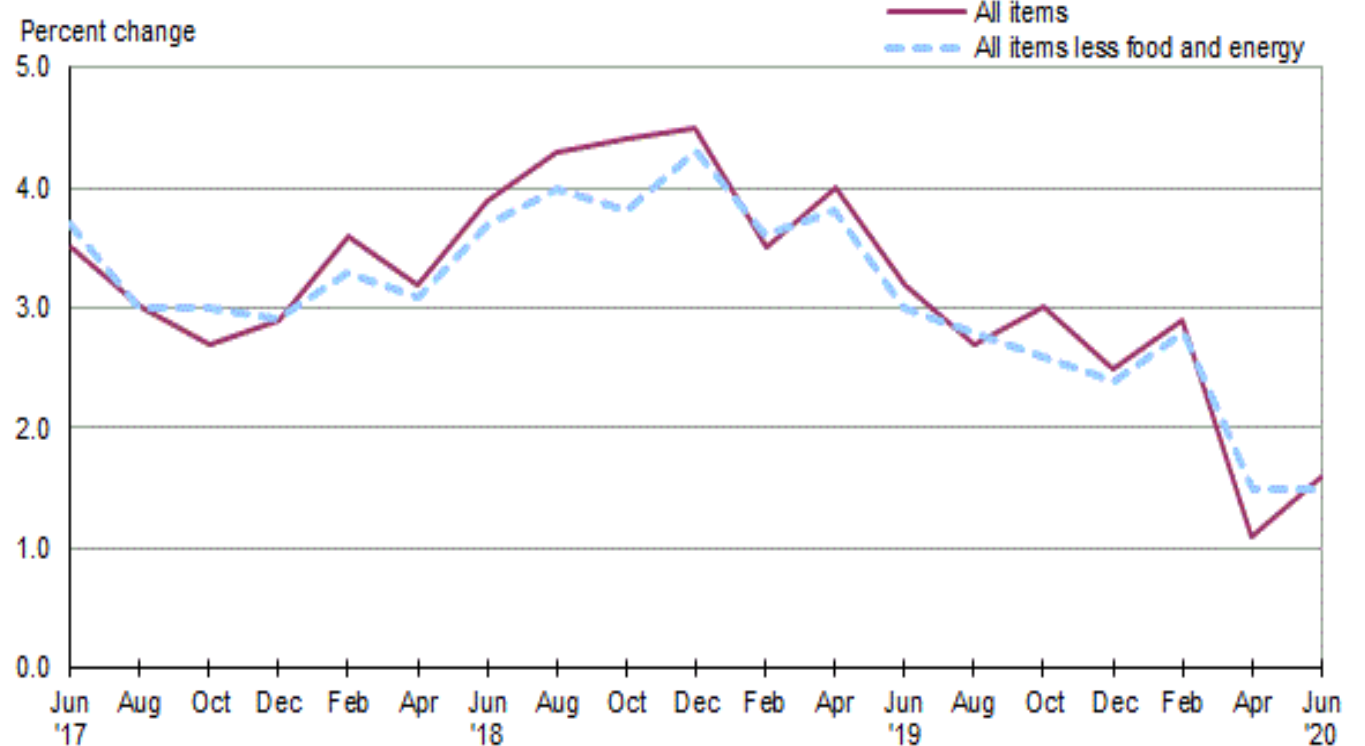
Area	Number of Jobs Lost	Percent of Labor Force
San Jose – Santa Clara	-59,130	-5.2
SF – Oakland - Hayward	-169,000	-6.9

## Bay Area Jobs Losses in Information Sector – Year to Date, July 2020

Area	Number of Jobs Lost	Percent Change
San Jose – Santa Clara	390	-0.4
SF – Oakland - Hayward	1,500	-1.2

Source: US Bureau of Labor Statistics

Chart 1. Over-the-year percent change in CPI-U, San Francisco-Oakland-Hayward, CA, June 2017–June 2020



Source: U.S. Bureau of Labor Statistics.

# Conclusions



- While very few economists predicted V-shaped recovery in May 2020, September 2020 data does point to improving economic conditions
- Recovery was expected to be slow and painful
  - Currently, the expectation is for an uneven recovery and rebalancing of the labor market
- Change in the focus of the US Federal Reserve (announced in August 2020) from **inflation targeting** to **getting to full employment** will help to fight inequality and improve minority labor force participation



BAY AREA  
AIR QUALITY  
MANAGEMENT  
DISTRICT

**AGENDA: 4**

# **Review Fiscal Year Ending (FYE) 2021 Budget**

**Budget and Finance Committee Meeting  
September 30, 2020**

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

# Background



- FYE 2021 Budget and associated Fees adopted in June 2020
- Basis included uncertain economic projections
- Fee revenue was projected to drop to 85% with no fee changes
- Property Tax revenue was projected to be unaffected
- Board of Directors (Board) elected to:
  - Leave existing fees unchanged (no Cost Recovery Increase)
  - Add a new Assembly Bill (AB) 617 fee (\$1 Million (M) / year)
  - Defer funding of discretionary retirement accounts
  - Use \$5 M from Reserves for operating costs
  - Re-visit decisions later in year

# Outline



- Review of FYE 2021 Budget and Fees
- Discussion of some tools used to deal with economic downturns
- Discussion of modifications to Budget and Fees from pandemic
- Possible changes to those modifications
- Direction for possible action items at next Committee meeting

# Some Key Items Deferred in Budget Process



- Increase the new AB 617 Fee from \$1 M annually
- Add a Criteria Pollutant and Toxics Emissions Fee (\$1.5 M)
- Transfer Designated Other Post-Employee Benefits (OPEB) funds to the trust (\$4 M)
- Increase Fees towards Cost Recovery

# Actions Taken During Downturns



- Reserves Used for General Fund Expenditures
- Vacancies Unfilled (Staff Reduction through Attrition)
- Postponed Expenditures
- Deferred Capital Investment
- Initiated Cost Recovery Policy
- Continued Discretionary Funding of Retirement Liabilities

# FYE 2021 General Fund Proposed Budget Revisions

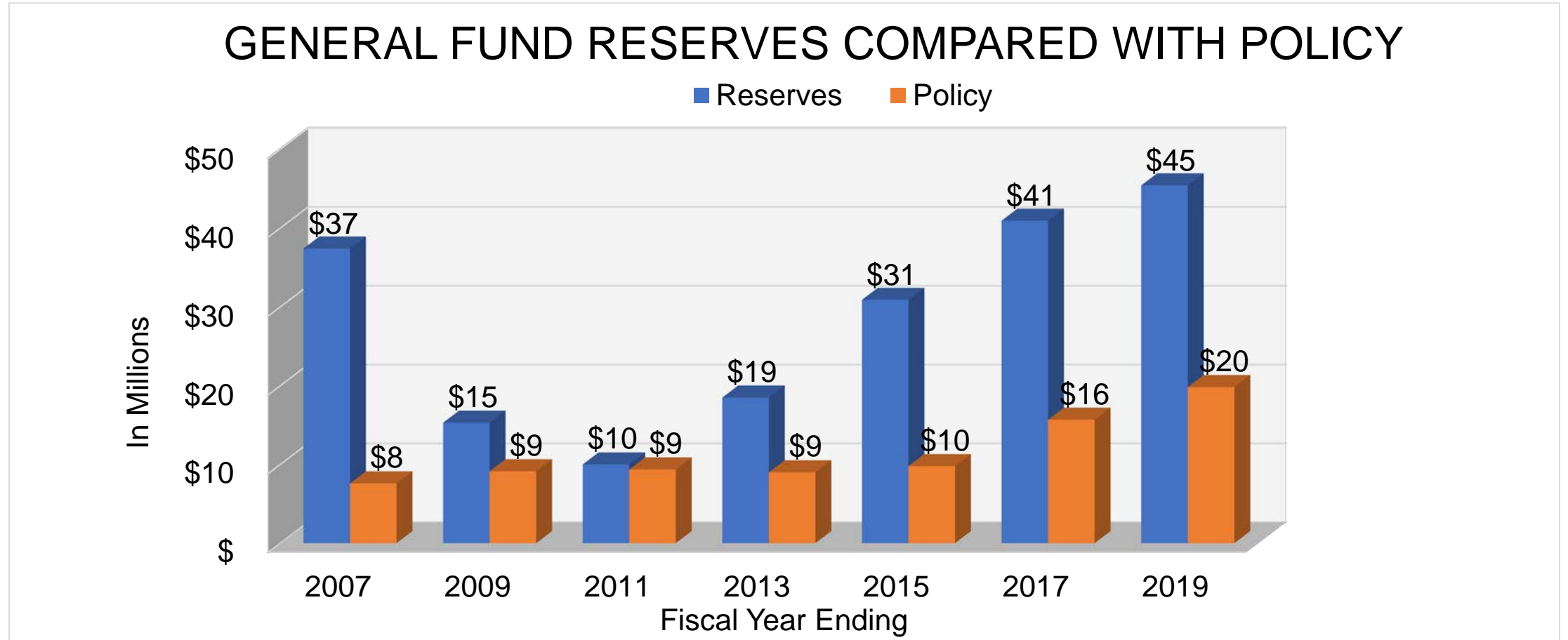


## FYE 2021 General Fund Proposed Budget

	Million (\$M)
<b>Original Revenues</b>	<b>116.1</b>
<b>Original Use of Reserves</b>	<b>6.0</b>
<b>Total Original Revenues</b>	<b>122.1</b>
Reduce Existing Fees	-12.4
Reduce New Fees	-2.7
Reduce Use of Reserves	-0.8
Reduce Other Revenues	-1.2
Increase Use of Grant Sources	1.5
<b>Revised Revenues:</b>	<b>106.5</b>
<b>Original Expenditures:</b>	<b>122.1</b>
Reduce Personnel Costs	-0.1
Reduce Services & Supplies	-9.5
Reduce Capital Costs	-6.0
<b>Revised Expenditures:</b>	<b>106.5</b>



# Actual Reserves & Policy (Excludes Building Proceeds)

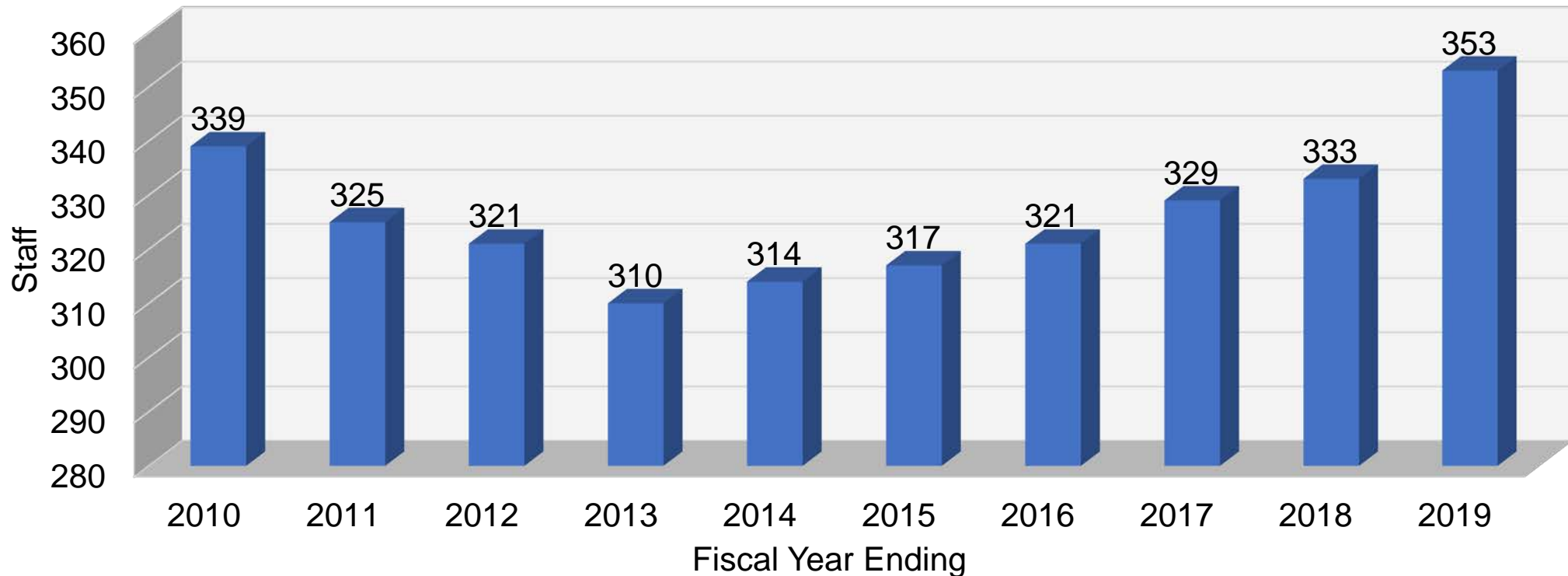


# Staffing Trend-Filled Positions

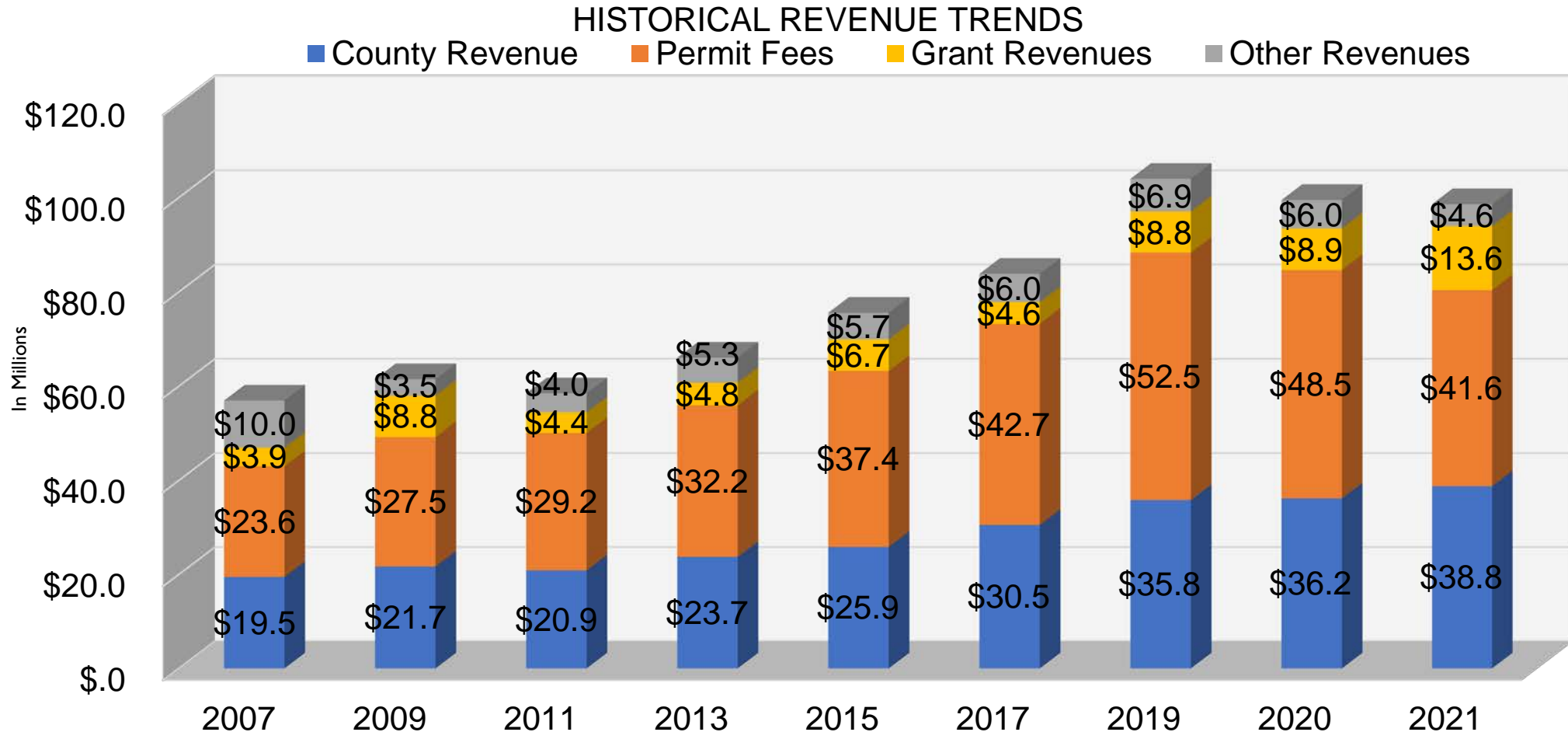


In November 2019, staff requested an additional 10 positions, bringing total approved to 415 Full-Time Equivalent (FTE)

## ACTUAL STAFFING LEVELS

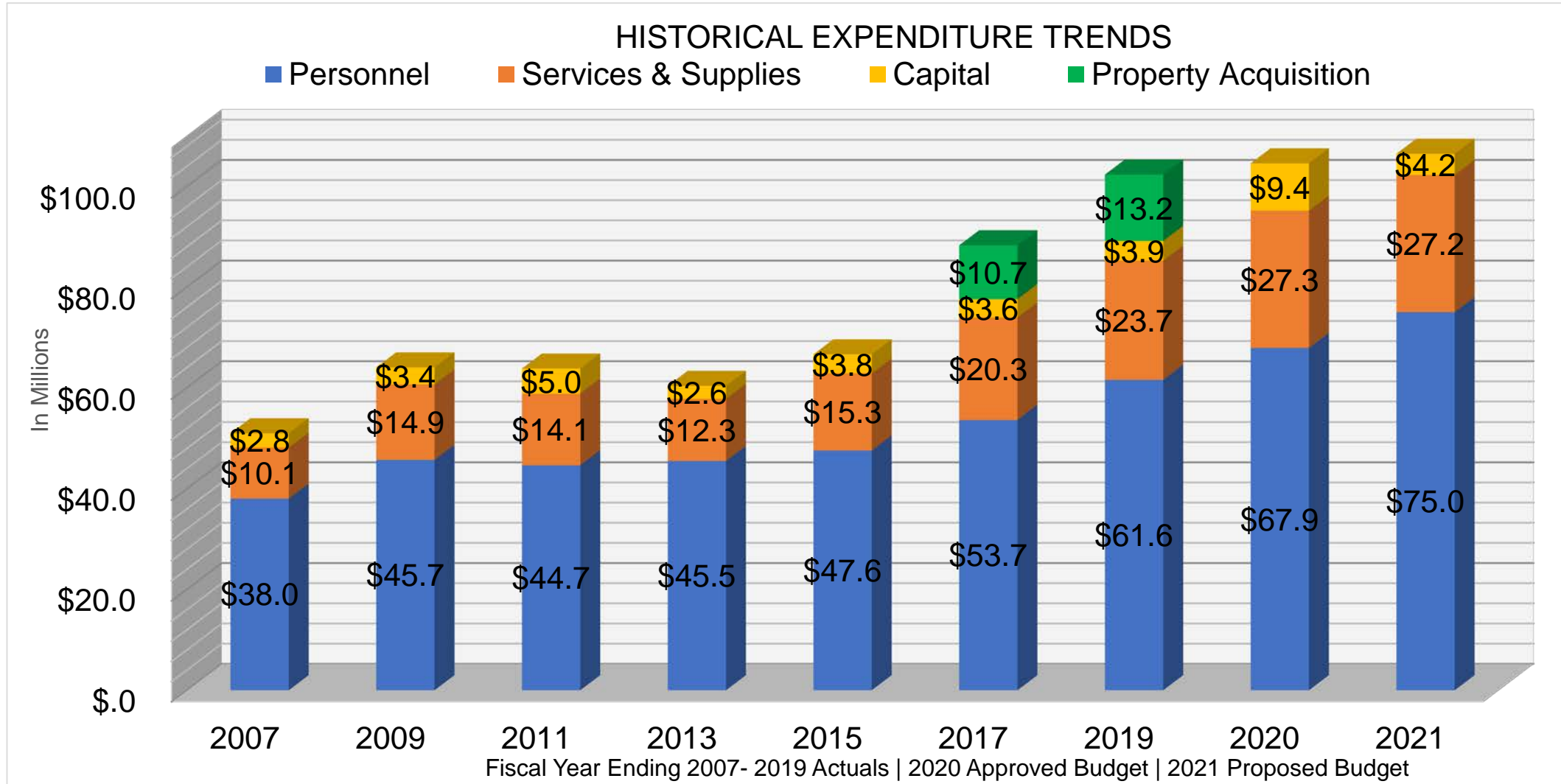


# General Fund Revenue Trend



FYE 2007 - 2019 Actual | FYE 2020 Approved Budget | FYE 2021 Proposed Budget

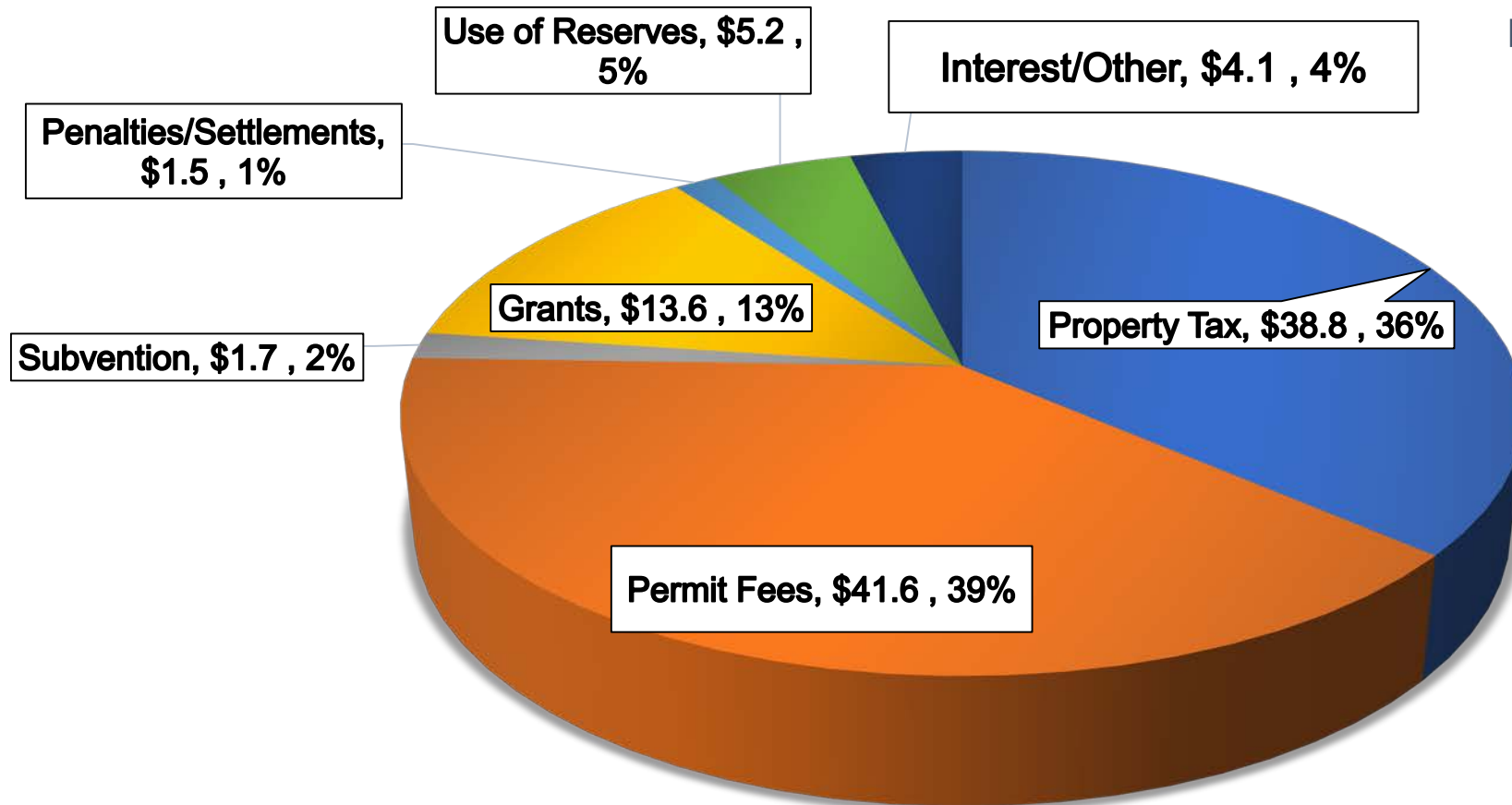
# General Fund Expenditure Trend



# General Fund Revenue Sources FYE 2021 Budget



Breakdown of Revenues  
FYE 2021 (in Millions)



■ Property Tax ■ Permit Fees ■ Subvention ■ Grants ■ Penalties/Settlements ■ Use of Reserves ■ Interest/Other

# General Fund Reserves



Reserves Policy: 20% of  
General Fund Budget

FYE 2021 Budget of \$106 M  
= \$21 M

FYE 2021 Projected Reserve  
Designations = \$27 M

FYE 2021 Available Reserves  
= \$6 M

Probable Reserve Designations *	
	\$M
<b>Balance at June 30, 2019</b>	<b>45</b>
<b><u>Less: Designations</u></b>	
Pension Liability	2
Woodsmoke Grants	1
Revolving Loan Program	3
<b>Economic Contingency (20% of Budget)</b>	<b>21</b>
<b>Total Designations</b>	<b>27</b>
<i>*Designations subject to change at Board's Direction</i>	
<b><u>Use of Reserves in FY 2020 and 2021</u></b>	
Legal Settlement	3
Richmond Facility Improvements	4
<b>To Balance FY2021 Budget</b>	<b>5</b>
<b>Total Use of Reserves</b>	<b>12</b>
<b>AVAILABLE GF RESERVES</b>	<b>6</b>

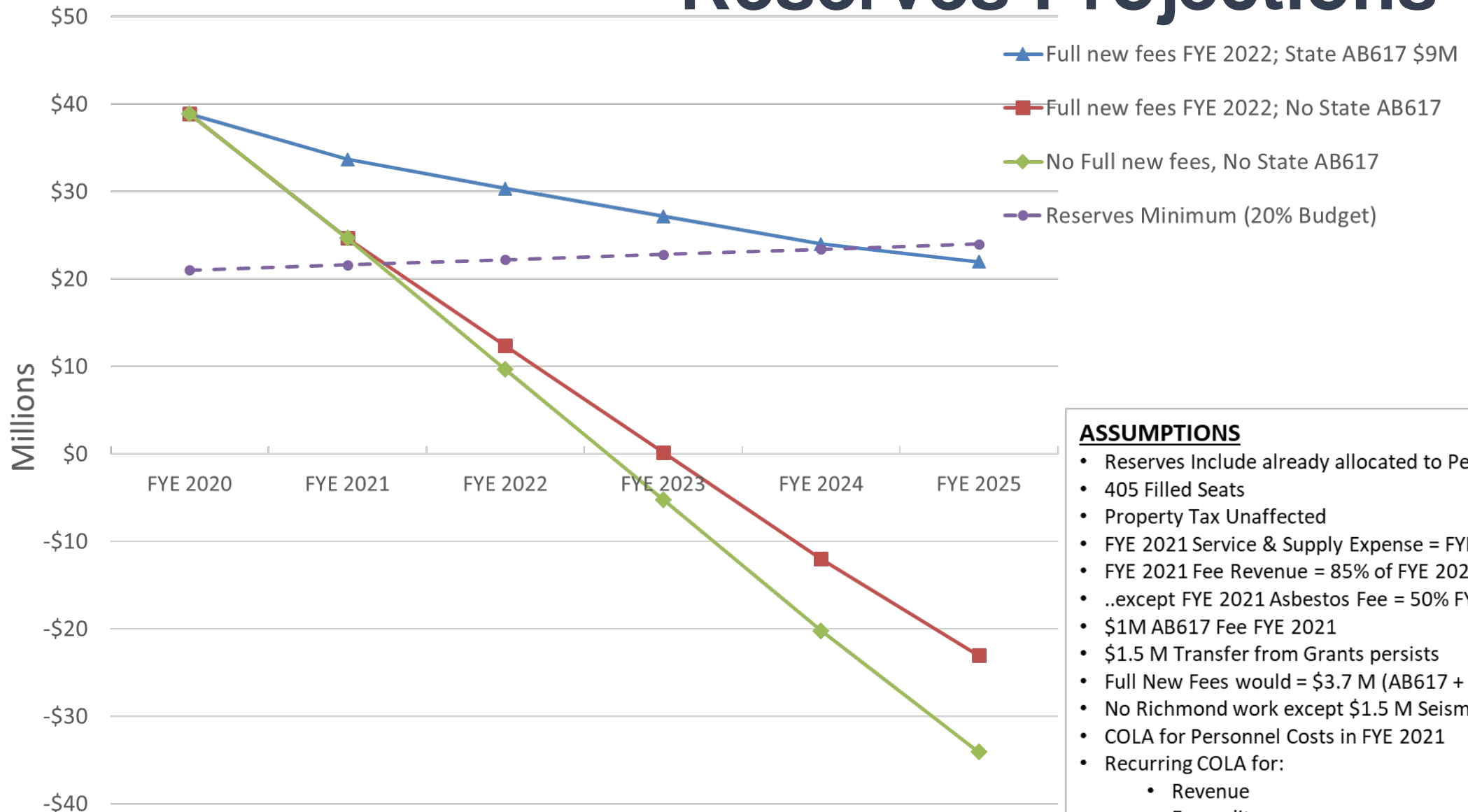
# Reserves Projections Assumptions



## ASSUMPTIONS

- Reserves Include already allocated to Pension and TIO Loans
- 405 Filled Seats
- Property Tax Unaffected
- FYE 2021 Service & Supply Expense = FYE 2020
- FYE 2021 Fee Revenue = 85% of FYE 2020 Fee Revenue...
- ..except FYE 2021 Asbestos Fee = 50% FYE 2020 Asbestos
- \$1M AB617 Fee FYE 2021
- \$1.5 M Transfer from Grants persists
- Full New Fees would = \$3.7 M (AB617 + CTR)
- No Richmond work except \$1.5 M Seismic
- COLA for Personnel Costs in FYE 2021
- Recurring COLA for:
  - Revenue
  - Expenditure

# Reserves Projections



## ASSUMPTIONS

- Reserves Include already allocated to Pension and TIO Loans
- 405 Filled Seats
- Property Tax Unaffected
- FYE 2021 Service & Supply Expense = FYE 2020
- FYE 2021 Fee Revenue = 85% of FYE 2020 Fee Revenue...
- ..except FYE 2021 Asbestos Fee = 50% FYE 2020 Asbestos
- \$1M AB617 Fee FYE 2021
- \$1.5 M Transfer from Grants persists
- Full New Fees would = \$3.7 M (AB617 + CTR)
- No Richmond work except \$1.5 M Seismic
- COLA for Personnel Costs in FYE 2021
- Recurring COLA for:
  - Revenue
  - Expenditure



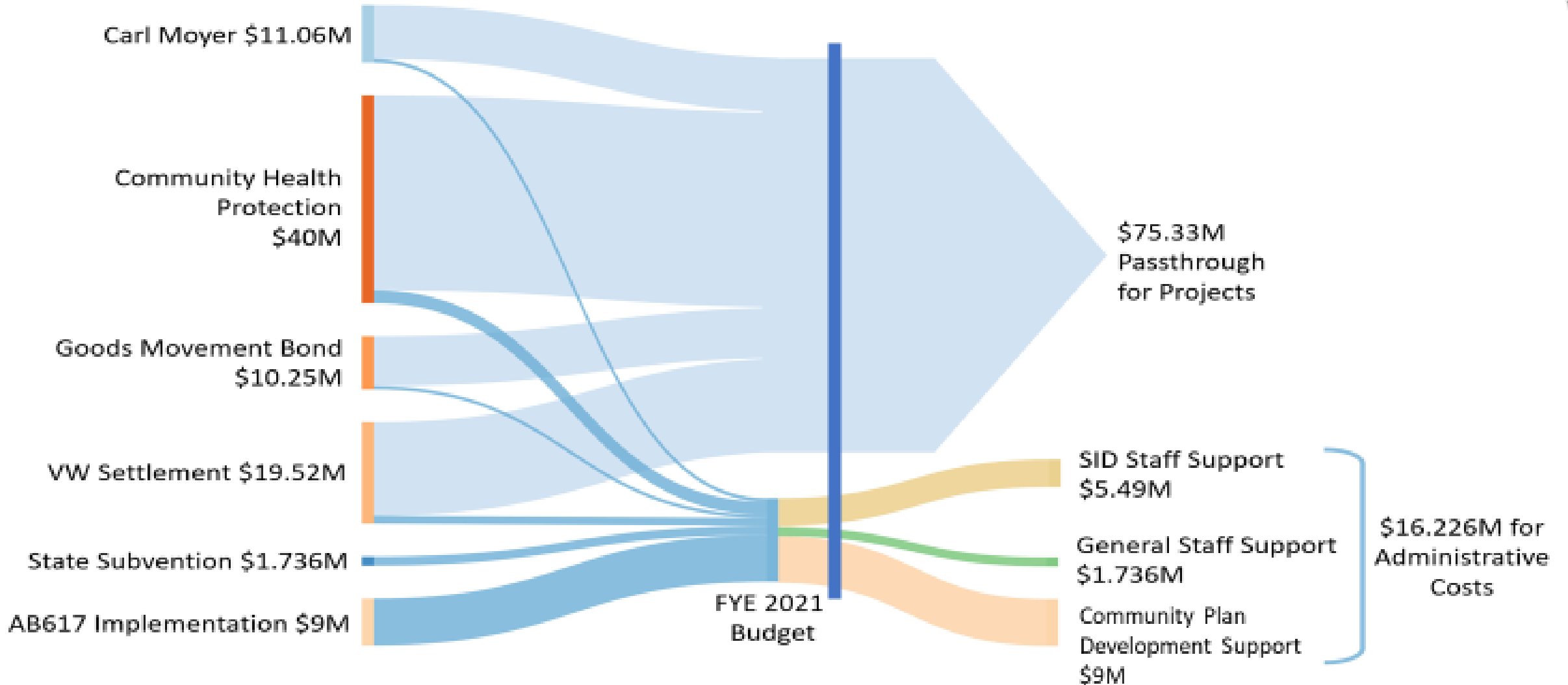
# FYE 2021 Adopted Budget Summary



- Budget Balanced with Use of \$5 M from Reserves
- 405 of 415 Budgeted Positions
- No Amendment to Existing Fee Schedules
- New Fee Schedule: AB 617, \$1M / year
- No Increase in Services and Supplies
- Includes 3.1% Cost of Living Adjustment (COLA)
- \$1 M Annual Contribution for Pension (designated but deferred funding)
- \$4 M Annual Contribution for OPEB (designated but deferred funding)



# State Revenues in FYE 2021



# Clean Air Protection Program Implementation Grants



17CAPP3: \$4.8 million – fully expended



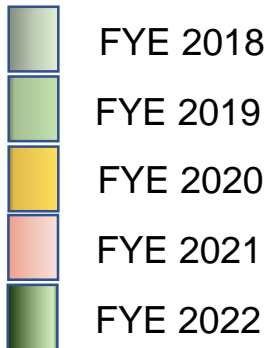
Full expenditure during 2<sup>nd</sup> Quarter FYE 2021

18CAPP3: \$10.0 million



Grant Funds Available for expenditure until April 2021

BAAQMD Budget Year



19CAPP3: \$9.0 million



Grant Funds available for expenditure until April 2022

Full expenditure (forecasted) by 1<sup>st</sup> Quarter FYE 2022

# AB 617 Community Health Impact Fee



- We are tasked with implementing the California Air Resources Board's (CARB) AB 617 "Community Air Protection Program" in the Bay Area
- To distribute these costs, we first looked at weighted toxic emissions and unadjusted prioritization scores
- A more equitable way to distribute these costs is by percentage of annual permit/registration renewal fees, which are largely emissions based

# Criteria Pollutant and Toxics Emissions Reporting (CTR) Regulation Fee



- As part of AB 617, CARB recently adopted a new regulation for the reporting of criteria air pollutants and toxic air contaminants for stationary sources
- We are tasked with implementing the new regulation in the Bay Area and \$1.5 M per year is needed
- To distribute these costs, we are basing this fee on the number of sources at each facility, since the costs are commensurate with the number of sources at each facility

# CTR Regulation Fee (cont.)



- Fees based on the number of sources at each facility up to a maximum of \$50,000 per year
- Each facility subject to the CTR Regulation shall pay a fee of:

Number of Permitted Sources per Facility	\$ per Permitted Source
1 to 4	25
5 to 9	75
10 to 14	150
15 to 19	200
20 to 24	250
25 and greater	300

# Cost Recovery Background



- Air District has authority to assess fees to recover the reasonable costs of regulating stationary sources
- Board of Directors set goal of increasing cost recovery to a minimum of 85%
- Fee amendments will be made in consideration of cost recovery analyses conducted at the fee schedule-level
- Filling vacancies and new/enhanced programs reduce cost recovery
- Cost recovery has gone from 65% in 2011 to 86% in 2019

# Pre-Pandemic Fee Proposal – 6.4% Blended Fee Increase



Revenue from Fee Schedule	Change in Fees	Fee Schedules
95 – 110% of costs	3.1% increase* (CPI-W*)	B, D, E, F, M
85 – 94% of costs	7% increase	G3, P
75 – 84% of costs	8% increase	T
50 - 74% of costs	9% increase	G2, H, I, N
Less than 50% of costs	15% increase**	A, G1, G4, K, S, W

\*The annual Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) increase from 2018 to 2019.

\*\*2018 Matrix Consulting Group Cost Recovery & Containment Study recommendation.

Note: For Schedules D and E, 3.1% increase is proposed, although cost recovery would have allowed a 7-9% increase. Schedule D covers gas stations and Schedule E covers autobody shops, many of which are small businesses.



# Actions Deferred in Budget Process



- Increase the new AB 617 Fee from \$1 M
- Add a Criteria Pollutant and Toxics Emissions Fee (\$1.5 M)
- Transfer Designated OPEB funds to the trust (\$4 M)
- Increase Fees towards Cost Recovery (Up to \$2.5 M)

# Some Possible Actions



	<u>All Facilities</u>	<u>Exclude D, E, I</u>
<b>New CTR Fee</b>	\$1.5 M	\$1.2 M
<b>Increase New AB617 Fee from \$1 M</b>	TBD	NA
<b>Increase existing fees by CPI (3.1%) ....or....</b>	\$1.3 M	\$1.2 M
<b>Increase existing fees for Cost Recovery (blended 6.4%)</b>	\$2.5 M	\$2.2 M