



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

AGENDA: 2

First Public Hearing on the Proposed Air District Budget for Fiscal Year Ending (FYE) 2022

**Board of Directors Special Meeting Budget Hearing
May 5, 2021**

**Jeff McKay
Chief Financial Officer
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Outcome



Conduct first of two required Public Hearings on the FYE 2022 Air District Proposed Budget for public review and comment. Final Action will be taken at the conclusion of the second public hearing scheduled for June 16, 2021

Outline



- Financial History/Trends
- Status of Current Fiscal Year 2020-2021
- Proposed Budget for Fiscal Year 2021-2022
- Next Steps

Requested Action



Conduct first of two required Public Hearings on the FYE 2022 Air District Proposed Budget for public review and comment. Final Action will be taken at the conclusion of the second public hearing scheduled for June 16, 2021



Actions Taken During the Economic Downturn:

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

Financial History

Actual Reserves and Policy Trends



GENERAL FUND RESERVES COMPARED WITH POLICY

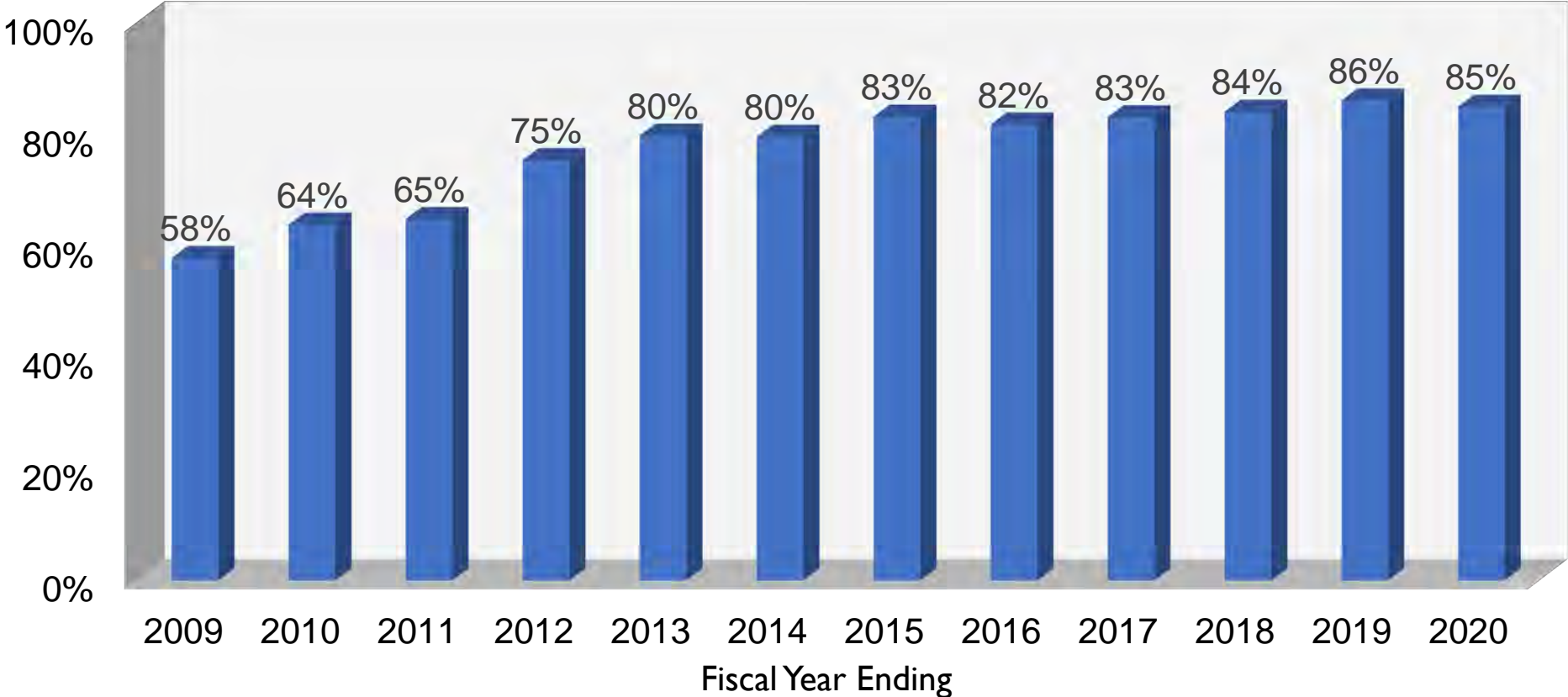


Financial History

Cost Recovery Trends



COST RECOVERY TRENDS USING A 3-YR AVERAGE



Financial History

Fees and Cost Recovery Overview



Cost Recovery Policy Established in FYE 2012:

- Air District can recover 100% of costs through fees
- 85% minimum cost recovery target
- 6% average annual fee increase
- Regulated community gains predictable fees
- Established Budget Advisory Group in 2020

Possible Path to 100% Cost Recovery



- Continuation of Fee increases at the rate employed since the Cost Recovery Policy was adopted (approximately 6% blended rate) would achieve 100% Cost Recovery in approximately 6 years.
 - 100% in 3 years requires 10% annual fee increases
 - Assumes 3% inflation rate
 - Does not include differential treatment of fees

Current Fiscal Year Budget Overview



Actions taken to address COVID-19 Impacts:

- No Increase to the Air District's Existing Fee Schedules
- Projected 15% Reduction in Permit Fee revenue
- Projected 50% Reduction in Asbestos revenue
- Adoption of new fee schedule for Assembly Bill (AB) 617 program
- No increase to Services and Supplies budget for District programs
- Delay building improvements to the Richmond Office
- Use of \$5.2 million (M) of reserves to balance the budget

Current Fiscal Year Budget Overview (cont.)



General Fund 2020-2021 Budget: \$106.5 M

Included Use of Reserves \$5.2 M to balance the Budget

As of March 2021:

- ✓ Permit Fee revenue higher than initial projections
- ✓ Property Tax revenue on target
- ✓ Expenditures on target

Fiscal Year 2021-2022 Proposed Budget Overview



- \$117 M General Fund Budget
- Includes Use of Reserves \$0.5 M
- Continuation of Cost Recovery Policy
- New Fee schedule for Criteria Pollutants and Toxic Emissions Reporting (CTR fee)
- Staffing Level Increase: 415 to 441 Full Time Equivalent (FTE)
- Addresses Retirement Liabilities

Breakdown of \$10.5 M Budget Increase



BUDGETED SOURCES:	\$ (Million)
Increase to Property Taxes	0.6
Increased Revenue from Current Fees	7.7
Proposed Fee Increase	3.0
New Criteria Pollutant and Toxic Fees	1.3
Increase to Penalties/Settlements	1.3
Increase to Interest	0.8
Reduction to Special Fund Transfer	(1.3)
Other	0.4
Total Ongoing Sources	13.6
New Woodsmoke Incentive Grant	1.5
Reduction in Use of Reserves	(4.7)
Total One-time Sources	(3.1)
TOTAL BUDGETED SOURCES	10.5

Breakdown of \$10.5 M Budget Increase (cont.)



BUDGETED COSTS:

19 Additional General Fund Positions with Benefits	3.5
Increase in personnel costs for current authorized positions	1.3
Increase in CalPERS Required Unfunded Pension Payment	1.0
Increase in Capital Expenditures	0.5
Air Monitoring and Technology Program	2.4
Net Increase in Various District Programs (60)	2.5
Total Ongoing Costs	11.1
Vacancy Rate Adjustment from 2% to 5%	(2.6)
Woodsmoke Incentive Program	1.5
Continue Richmond Office Improvement	0.5
Total One-time Costs	(0.6)
TOTAL BUDGETED COSTS	10.5

New Staffing Request General Fund



Work Unit	Number of Staff	Funding Source	Budget Impact
Community Engagement	3	AB 617	\$535,106
Compliance & Enforcement	4	Fees	\$707,491
Engineering	4	Fees	\$777,983
Finance	3	General Fund	\$605,605
Meteorology and Measurement	4	Multiple	\$701,475
Rules	1	Fees	<u>\$189,618</u>
	19		\$3,517,278

New Staffing Request Grant Funded

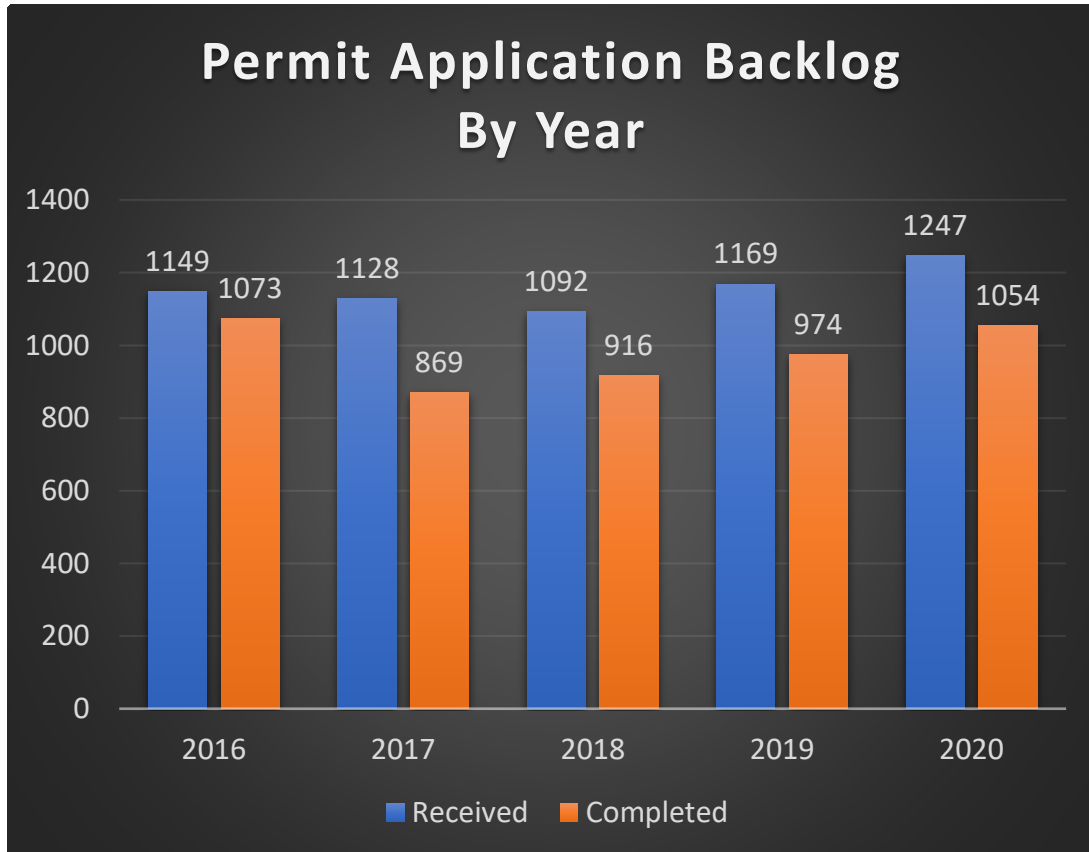


Work Unit	Number of Staff	Funding Source	Budget Impact
Finance	1	Grant	\$162,808
Strategic Incentives	5	Grant	\$914,661
Technology Implementation Office	1	Grant	\$175,386
	7		\$1,252,855

Engineering: Staffing Needs



Need: Issue timely permits and reduce the permit backlog



Total applications in process: 931

- As of 3/22/2021 and excludes Authority to Construct

Staffing resources: Regulation 11-18 and 12-15 only

Fiscal Year	Reg. 12-15 Staff hours	Reg. 11-18 Staff hours
2018	2403	NA
2019	1801	2625
2020	5568	5951

Notes:

- Regulation 12-15 (Petroleum Refinery Emissions Tracking) – Adopted 4/20/2016
- Regulation 11-18 (Facility Risk Reduction) – Adopted 11/15/2017
- In 2020, approximately 6 FTEs were used for 11-18 and 12-15 work

Engineering Division Positions



<u>FTE</u>	<u>Position</u>	<u>Division/Office/Section</u>	<u>Funding</u>	<u>Goal</u> <u>(from prior slide)</u>
4	Manager (1) Engineer (3)	Engineering	Fees	Issue timely permits, reduce the permit backlog and implement mandated programs

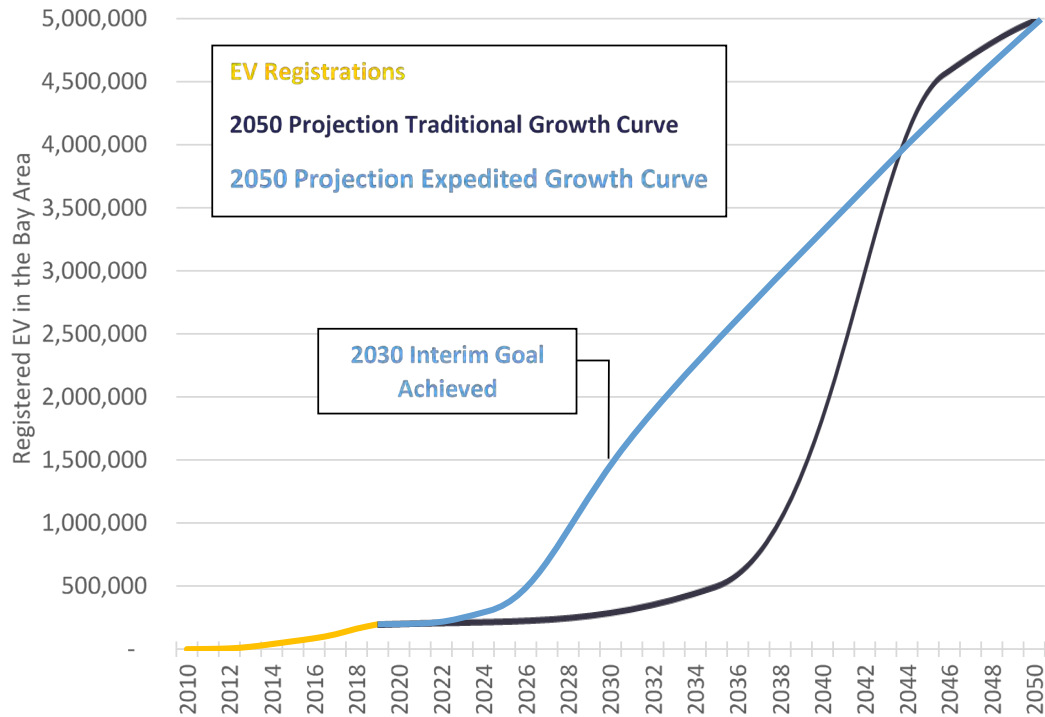
TIO – EVs: Need, Demand, and Growth



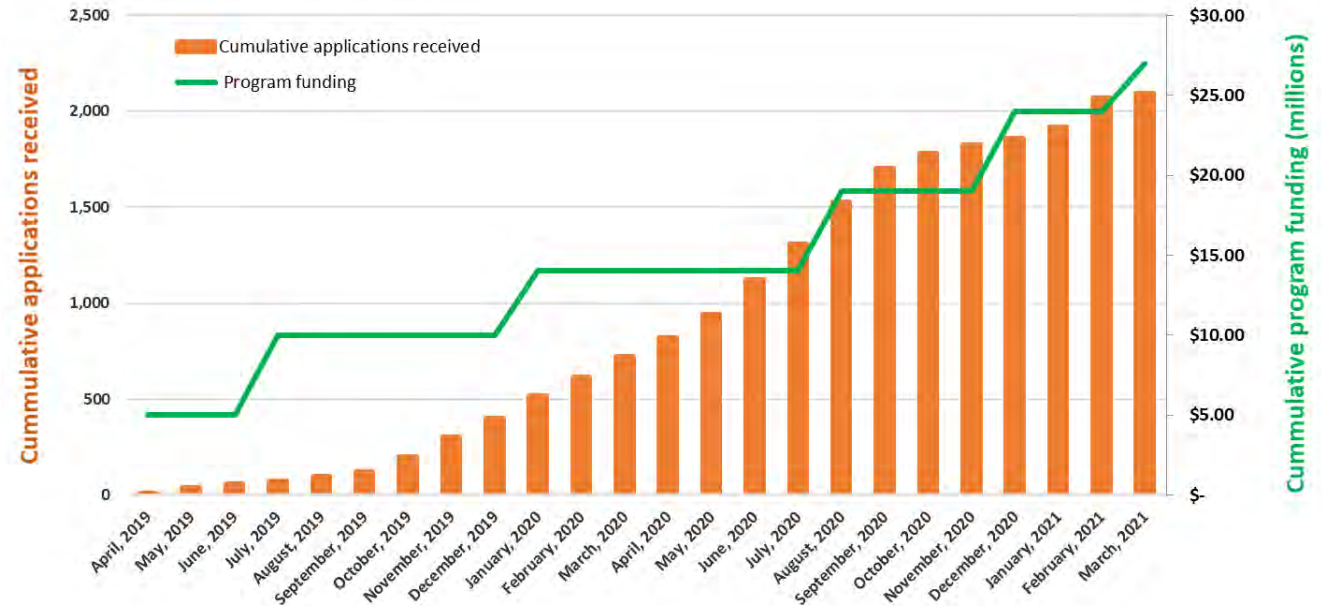
Need: Significant EV adoption needed to reach 2050 goal

Demand and Growth: Growing public interest in EV incentives and increasing program funding

Bay Area Zero-emission vehicle registrations/ projections



CCFA applications received and program funding



Technology Implementation Office Positions



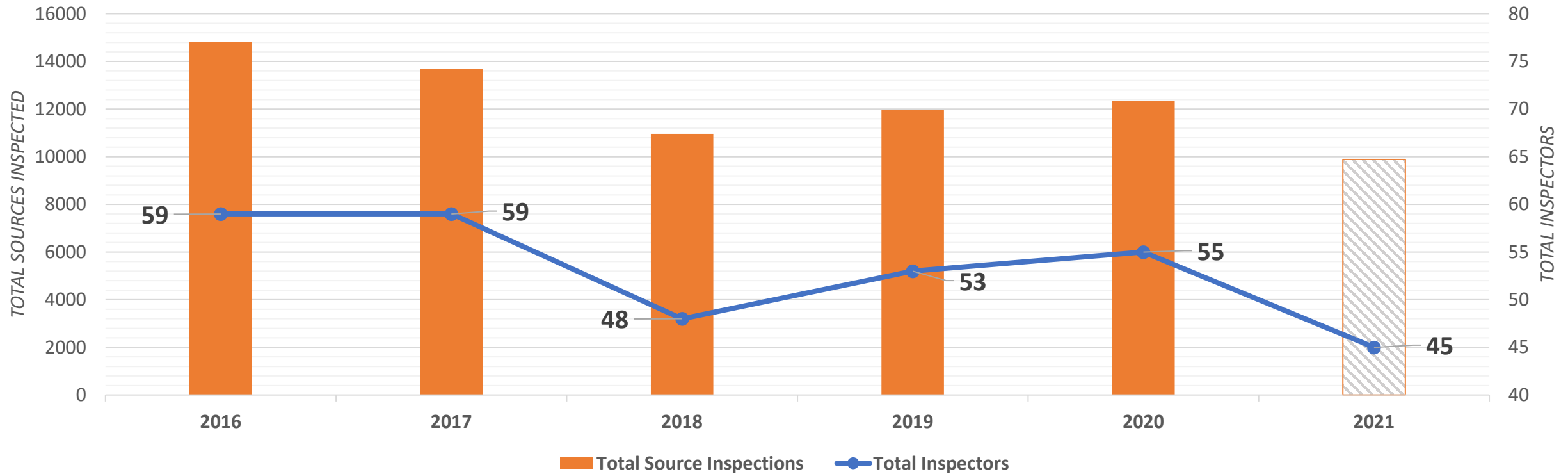
<u>FTE</u>	<u>Position</u>	<u>Division/Office/Section</u>	<u>Funding</u>	<u>Goal</u> <u>(from prior slide)</u>
1	Staff Specialist (1)	Technology Implementation Office (TIO)	Grants	Meet EV Incentive Demand

Compliance & Enforcement: Staffing Needs



Need: Restore previous staffing levels, meet increasing workload, increase inspection productivity

Annual Inspection Productivity vs. Annual Inspection Staff Levels



Compliance & Enforcement Positions

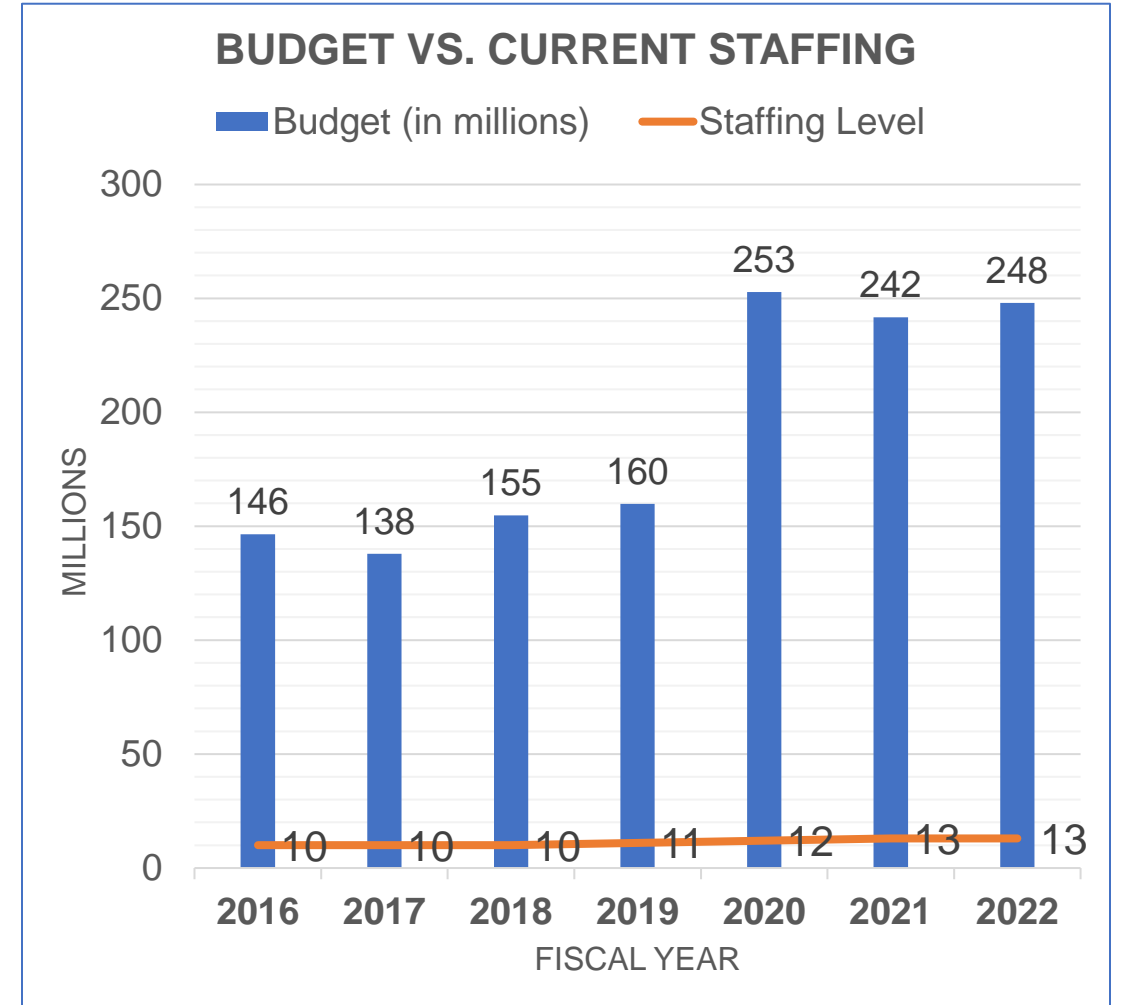
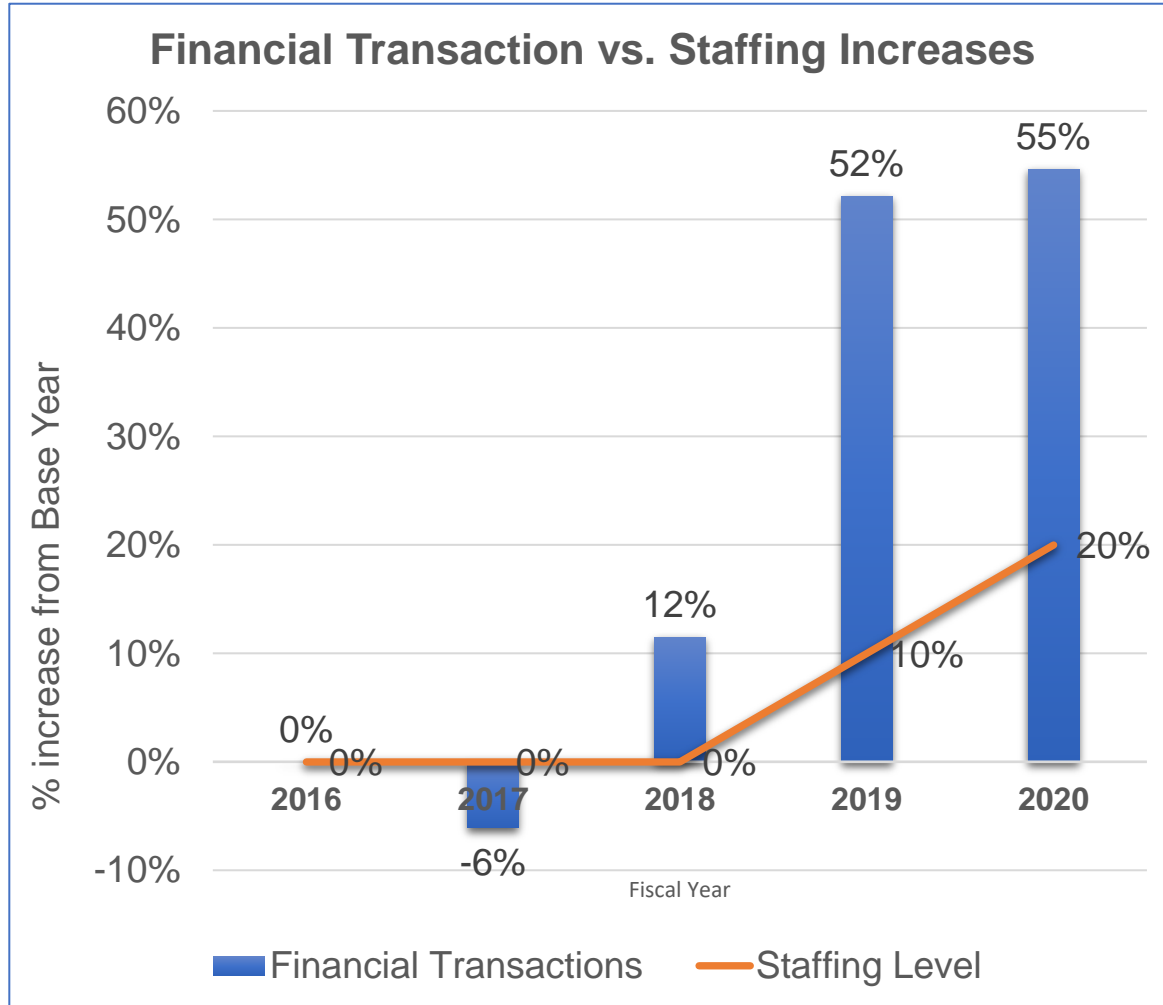


<u>FTE</u>	<u>Position</u>	<u>Division/Office/Section</u>	<u>Funding</u>	<u>Goal</u>
4	Senior Engineers (2) Air Quality Inspector I/II (2)	Compliance & Enforcement	Fees	Enhanced Source Investigations/Audits

Finance: Staffing Needs



Need: Meet increasing workload, service delivery demands and statutory timelines



Finance Division Positions



<u>FTE</u>	<u>Position</u>	<u>Division/Office/Section</u>	<u>Funding</u>	<u>Goal</u> <u>(from prior slide)</u>
1	Specialist	Finance	Grants	Meet Service Delivery Demands and Statutory Timelines
3	Officer (1); Specialist (2)	Finance	General Fund	Meet Service Delivery Demands and Statutory Timelines

Community Engagement Staffing Augmentation (cont.)



- **Goal: Effective implementation of new and expanded programs**
 - Implement new **equity initiatives**
 - Ensure adequate geographic coverage throughout region
- **New or Enhanced Programs Driving the Request**
 - Community Advisory Council
 - Staff training in equity and Environmental Justice
 - **AB 617** expansion into additional communities
 - Community Engagement Guidelines including Youth Strategy

Community Engagement Positions



<u>FTE</u>	<u>Position</u>	<u>Division/Office/Section</u>	<u>Funding</u>	<u>Goal (from prior slide)</u>
3	Staff Specialist (3)	Community Engagement	AB 617 Implementation Grant	Equity Initiatives AB 617

Rules Division

Staffing Augmentation (cont.)



- **Particulate Matter Strategies:** Implement new strategies to reduce particulate matter
 - **Response to the Advisory Council:** Evaluate strategies to reduce particulate matter from various sources, such as residential wood burning, commercial cooking, and dust sources.
- **New or Enhanced Programs Driving the Request**
 - Advisory Council Particulate Matter Reduction Strategy Report

Rules Division Positions



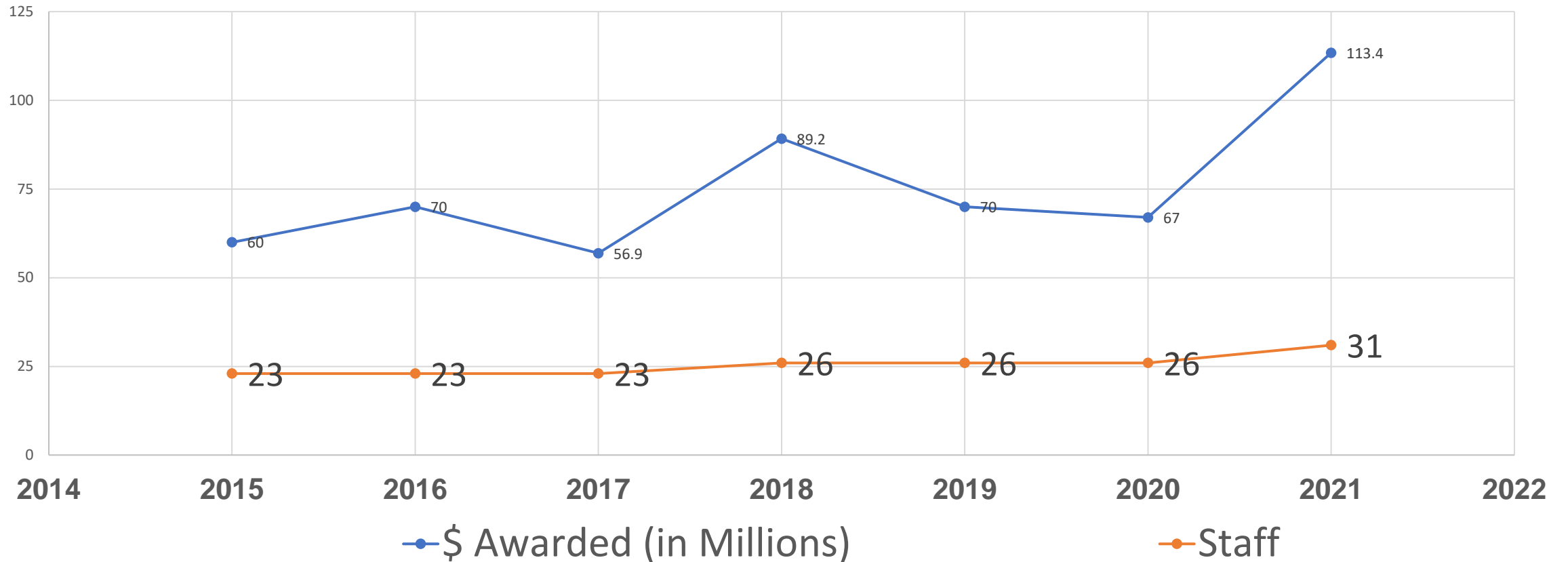
<u>FTE</u>	<u>Position</u>	<u>Division/Office/Section</u>	<u>Funding</u>	<u>Goal</u> <u>(from prior slide)</u>
1	Senior Air Quality Engineer (1)	Rules Division	Fees	Particulate Matter Strategies

Strategic Incentives Division Staffing Needs (cont.)



Need: Meet increasing workload, service delivery demands, and statutory timelines

Project \$ vs. Staffing



Strategic Incentives Division Positions



<u>FTE</u>	<u>Position</u>	<u>Division/Office/ Section</u>	<u>Funding</u>	<u>Goal</u> <u>(from prior slide)</u>
1	Manager (1)	Strategic Incentives	Grants	AB 617 Communities Systems Development Regulatory and Grant Deadlines New Funding Sources and Projects
3	Staff Specialists (3)	Strategic Incentives	Grants	AB 617 Communities Regulatory and Grant Deadlines New Funding Sources and Projects
1	Assistant Staff Specialist	Strategic Incentives	Grants	Systems Development Regulatory and Grant Deadlines New Funding Sources and Projects

Meteorology and Measurement Staffing Augmentation (cont.)



- **Goals:**
 - **Monitoring Requirements:** Meet federal and state requirements; improve monitoring network to address current needs
 - **Required for Air District Functions:** Ensure accurate permitting and support enforcement of existing regulations; technical analyses and data to support rule development
 - **Community Support:** Communities have improved understanding of air quality and emissions from sources in their communities
- **New or Enhanced Programs Driving the Request**
 - Staff were previously diverted to AB 617, improving outdated monitoring data systems and other programs

Meteorology and Measurement Positions



<u>FTE</u>	<u>Position</u>	<u>Division/Office/Section</u>	<u>Funding</u>	<u>Goal</u> <u>(from prior slide)</u>
1	Air Quality Instrument Specialist	Air Monitoring Operations	Multiple	Monitoring Requirements
1	Air Quality Laboratory Technician	Laboratory	Fees	Monitoring Requirements
1	Principal Air Quality Instrument Specialist	Source Test	Fees	Required for Air District Functions; Community Support
1	Senior Air Quality Specialist	Ambient Air Quality Analysis	Multiple	Monitoring Requirements; Community Support

Management Audit



- Staff will initiate a Request for Proposal for a management audit to examine how staff resources are deployed in certain areas that require staff increases.

Funding of Retirement Liabilities



- **Medical Retirement (OPEB):**

- Obligation: \$72 M
- Funded: \$54 M (75%)
- Unfunded: \$18 M (25%)

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

- Three-Year Target Date (FYE 2025)
- **\$4 M Annual Discretionary Funding**
- Redirect \$4 M Discretionary Funding to CalPERS Pension after reaching target funding level

- **CalPERS Retirement (Pension):**

- Obligation: \$341 M
- Funded: \$250 M (73%)
- Unfunded: \$91 M (27%)

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

- 90% Target Date (FYE 2030)
- **\$1 M Annual Discretionary Funding**
- \$4 M Redirect Discretionary Funding from OPEB

Community Benefit Funding



- The proposed Community Benefit Fund would provide monetary resources for projects in impacted communities to reduce exposure to air pollution and address public health impacts.
- Similar to California Air Resources Board (CARB) Community Air Grants Program but not restricted to Assembly Bill 617 communities
- The Air District will fund the Community Benefit Fund with the initial \$1M...
- ...After which an estimated \$500,000 per year in penalty fees will be directed to the Community Benefit Fund.

Pandemic Contingency Reserves



- Staff will review the need for the \$10 Million Pandemic Contingency Reserve Designation during each quarterly report to the Administration Committee Meeting.

Reserves Designations



GENERAL FUND RESERVES	
	\$M
Reserves Balance at June 30, 2020	54.0
<u>Less: Designations</u> *	
Community Benefits	-1.0
Pension Liability	-3.0
Woodsmoke Grants	-1.0
Revolving Loan Program	-3.4
AB 617 Staffing Contingency	-6.0
Pandemic Contingency	-10.0
Economic Contingency (20% of Budget)	-23.3
Total Designations	-47.7
<u>Less: Use of Reserves</u>	
Use to Balance FY2021 Budget	-5.2
Use to Balance FY2022 Budget	-0.5
Total Use of Reserves	-5.7
AVAILABLE GENERAL FUND RESERVES	0.6
<i>* Designations subject to change at Board's Direction</i>	

Fiscal Year 2021-2022 Proposed Budget Summary



- \$117 M General Fund Budget
- Includes Use of Reserves \$0.5 M for Richmond Improvements
- Amend Fee Schedule based on Proposed Fees
- New Fee Schedule for CTR
- Budgeted Position Increase to 441 FTE
- \$4 M Annual Contribution to OPEB
- \$1 M Annual Contribution to Pension

Budget Adoption Steps



- May 5, 2021- 1st Public Hearing on Proposed Budget
- June 16, 2021 – 2nd Public Hearing and Adoption of the Proposed Fees and Budget

Feedback Requested/Prompt



No requested action at this time. The Board will conduct Second Public Hearing for adoption of the FYE 2022 Proposed Budget on June 16, 2021.