



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

BOARD OF DIRECTORS
BUDGET AND FINANCE COMMITTEE

COMMITTEE MEMBERS

CAROLE GROOM – CHAIR
JOHN J. BAUTERS
DAVID HUDSON
KATIE RICE

BRAD WAGENKNECHT - VICE CHAIR
DAVID CANEPA
KAREN MITCHOFF

**THIS MEETING WILL BE CONDUCTED UNDER PROCEDURES AUTHORIZED BY
ASSEMBLY BILL 361**

- **THE PUBLIC MAY OBSERVE THIS MEETING THROUGH THE WEBCAST BY
CLICKING THE LINK AVAILABLE ON THE AIR DISTRICT’S AGENDA WEBPAGE
AT**

www.baaqmd.gov/bodagendas

- **THE PUBLIC MAY PARTICIPATE REMOTELY VIA ZOOM AT THE
FOLLOWING LINK OR BY PHONE**

<https://bayareametro.zoom.us/j/89773013316>

(669) 900 6833 or (408) 638 0968

WEBINAR ID: 897 7301 3316

- **THOSE PARTICIPATING BY PHONE WHO WOULD LIKE TO MAKE A
COMMENT CAN USE THE “RAISE HAND” FEATURE BY DIALING “*9”. IN
ORDER TO RECEIVE THE FULL ZOOM EXPERIENCE, PLEASE MAKE SURE
YOUR APPLICATION IS UP TO DATE**

BUDGET AND FINANCE COMMITTEE MEETING AGENDA

WEDNESDAY, OCTOBER 26, 2022

9:30 AM

1. **Call to Order - Roll Call**
2. **Pledge of Allegiance**
3. **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.

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. Members of the public who wish to speak on matters on the agenda for the meeting, will have two minutes each to address the Committee. No speaker who has already spoken on that item will be entitled to speak to that item again.*

CONSENT CALENDAR (Item 4)

4. Approval of the Minutes of April 27, 2022

The Committee will consider approving the draft minutes of the Budget and Finance Committee meeting of April 27, 2022.

PRESENTATION(S)

5. Funding Policy for the Other Post-Employment Benefits (OPEB) and Pension Plans

This is an action item for the Committee to consider recommending the Board of Directors approve the Air District's funding policy for OPEB and pension plans and will be presented by Stephanie Osaze, Director of Finance.

6. California Employers' Pension Prefunding Trust (CEPPT) Investment Policy

This is an action item for the Committee to consider recommending the Board of Directors adopt the following funding allocation and choose investment policy: Direct investments in the Air District's CEPPT 115 Trust account to use investment strategy 2; and allocate Air District's funds to the CEPPT 115 Trust account in 2 tranches: First, following adoption of the recommendation (1st tranche), second, at the end of Fiscal Year (FY) 2023 (2nd tranche). This item will be presented by Leonid Bak, Economist, Executive Office.

7. Pathways to 100 Percent Cost Recovery

This item is informational only and will be presented by Leonid Bak, Economist, Executive Office.

OTHER BUSINESS

8. Public Comment on Non-Agenda Matters

Pursuant to Government Code Section 54954.3

Members of the public who wish to speak on matters not on the agenda for the meeting, will have two minutes each to address the Committee.

9. Committee Member Comments

Any member of the Committee, 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, November 23, 2022, at 9:30 a.m., via webcast, teleconference, or Zoom, pursuant to procedures in accordance with Assembly Bill 361 (Rivas 2021).

11. Adjournment

The Committee meeting shall be adjourned by the Chair.

CONTACT:

MANAGER, EXECUTIVE OPERATIONS
375 BEALE STREET, SAN FRANCISCO, CA 94105
vjohnson@baaqmd.gov

(415) 749-4941
FAX: (415) 928-8560
BAAQMD homepage:
www.baaqmd.gov

- 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 Air 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, Suma Peesapati, at (415) 749-4967 or by email at speesapati@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

OCTOBER 2022

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Budget and Finance Committee	Wednesday	26	9:30 a.m.	Webcast only pursuant to Assembly Bill 361
Board of Directors Mobile Source and Climate Impacts Committee	Thursday	27	9:30 a.m.	Webcast only pursuant to Assembly Bill 361

NOVEMBER 2022

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Nominating Committee	Wednesday	2	8:30 a.m.	Webcast only pursuant to Assembly Bill 361
Board of Directors Meeting	Wednesday	2	9:00 a.m.	Webcast only pursuant to Assembly Bill 361
Board of Directors Administration Committee	Wednesday	2	2:00 p.m.	Webcast only pursuant to Assembly Bill 361
Board of Directors Community Equity, Health and Justice Committee	Thursday	3	9:30 a.m.	Webcast only pursuant to Assembly Bill 361

Advisory Council Meeting – CANCELLED AND RESCHEDULED TO DECEMBER 5, 2022 AT 8:30 A.M.	Monday	14	8:30 a.m.	Webcast only pursuant to Assembly Bill 361
---	--------	----	-----------	--

Board of Directors Legislative Committee	Monday	14	1:00 p.m.	Webcast only pursuant to Assembly Bill 361
--	--------	----	-----------	--

Board of Directors Meeting	Wednesday	16	9:00 a.m.	Webcast only pursuant to Assembly Bill 361
----------------------------	-----------	----	-----------	--

Board of Directors Administration Committee - CANCELLED	Wednesday	16	11:00 a.m.	Webcast only pursuant to Assembly Bill 361
---	-----------	----	------------	--

Community Advisory Council Meeting	Thursday	17	6:00 p.m.	Webcast only pursuant to Assembly Bill 361
------------------------------------	----------	----	-----------	--

Board of Directors Stationary Source and Climate Impacts Committee	Monday	21	9:00 a.m.	Webcast only pursuant to Assembly Bill 361
--	--------	----	-----------	--

Board of Directors Budget and Finance Committee	Wednesday	23	9:30 a.m.	Webcast only pursuant to Assembly Bill 361
---	-----------	----	-----------	--

Board of Directors Mobile Source and Climate Impacts Committee– CANCELLED AND RESCHEDULED TO NOVEMBER 28, 2022 AT 9:30 A.M.	Thursday	24	9:30 a.m.	Webcast only pursuant to Assembly Bill 361
---	----------	----	-----------	--

NOVEMBER 2022

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Mobile Source and Climate Impacts Committee	Monday	28	9:30 a.m.	Webcast only pursuant to Assembly Bill 361
Path to Clean Air Community Emissions Reduction Plan Steering Committee	Monday	28	5:30 p.m.	Webcast only pursuant to Assembly Bill 361
MB 10/19/22 – 12:22 p.m.				G/Board/Executive Office/Moncal

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

To: Chairperson Carole Groom and Members
of the Budget and Finance Committee

From: Sharon L. Landers
Interim Executive Officer/APCO

Date: October 26, 2022

Re: Approval of the Minutes of April 27, 2022

RECOMMENDED ACTION

Approve the attached draft minutes of the Budget and Finance Committee meeting of April 27, 2022.

BACKGROUND

None.

DISCUSSION

Attached for your review and approval are the draft minutes of the Budget and Finance committee meeting of April 27, 2022.

BUDGET CONSIDERATION/FINANCIAL IMPACT

None.

Respectfully submitted,

Sharon Landers
Interim Executive Officer/APCO

Prepared by: Marcy Hiratzka
Reviewed by: Vanessa Johnson

ATTACHMENTS:

1. Draft Minutes of the Budget and Finance Committee Meeting of April 27, 2022

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

Budget and Finance Committee Meeting
Wednesday, April 27, 2022

DRAFT MINUTES

Note: Audio recordings of the meeting are available on the website of the Bay Area Air Quality Management District at www.baaqmd.gov/bodagendas

This meeting was conducted under procedures in accordance with Assembly Bill 361. Members of the Committee participated by teleconference.

OPENING ITEMS

1. Call to Order - Roll Call

Opening Comments: As neither the Budget and Finance Committee Chairperson, nor the Vice Chairperson, were present at the beginning of the meeting, Committee Member, John Bauters, called the meeting to order at 9:33 a.m.

Roll Call:

Present: Directors John Bauters, David Canepa, David Hudson, Karen Mitchoff, and Katie Rice.

Absent: Committee Chairperson Carole Groom and Committee Vice Chairperson Brad Wagenknecht.

2. Pledge of Allegiance

3. Public Meeting Procedure

CONSENT CALENDAR (Item 4)

4. Approval of the Minutes of March 23, 2022

Public Comments

No requests received.

Committee Comments

None.

Committee Action

Director Hudson made a motion, seconded by Director Mitchoff, to **approve** the minutes of March 23, 2022; and the motion **carried** by the following vote of the Committee:

AYES: Bauters, Canepa, Hudson, Mitchoff, Rice.
NOES: None
ABSTAIN: None
ABSENT: Groom, Wagenknecht.

PRESENTATION(S) (Items 5 - 9)

5. 2022 Cost Recovery and Containment Study Update

(OUT OF ORDER, ITEM 8)

Courtney Ramos, Vice President of Matrix Consulting Group, gave the presentation *Cost Recovery and Containment Study Results Overview*, including: outline; background; scope of services; legal frameworks & best practices; methodology; cost recovery - current process; cost recovery - options overview; cost recovery - Option 1; cost recovery - Option 2; cost recovery - Option 3; cost recovery - Option 4; report overview; and key recommendations.

Public Comments

Christine Wolfe, California Council for Environmental and Economic Balance (CCEEB); and Jed Holtzman, San Francisco resident.

Committee Comments

The Committee and staff discussed a Committee member's displeasure with all four options proposed, and the desire to find a more efficient way to recover fees; the number of fee schedules that are at 100% and above cost recovery, versus the number of fee schedules that are below 100%; whether there will be community outreach to receive input and feedback from organizations and businesses; the differences between Options 2 and 4; the need to document how time is spent managing permitted facilities and justifying cost recovery; how current Air District protocols and processes (regarding best practices of business management and documentation) compare to those of other California air districts; the types of business that are affected by the six fee schedules that are currently at 100% or above cost recovery; and the anticipated timeline by which the Air District may be fully staffed.

Committee Action

Although this was not an action item, the consensus of the Committee members present was to recommend Option 2 to the Board. The Committee members also requested that a draft policy, reflecting the staff recommendations on slide 13 of the presentation, and tables of dollar amounts for Options 1 & 2, be brought before the Board.

6. Proposed Amendments to Air District Regulation 3: Fees

(OUT OF ORDER, ITEM 7)

Fred Tanaka, Engineering Division Manager, gave the staff presentation *Amendments to Regulation 3: Fees*; including: outcome; outline; requested action; cost recovery background; proposed changes to fee schedules - Option 1; proposed changes to fee schedules - Option 2; proposed changes to fee schedules; draft fee amendments: proposed changes to fee schedules; schedules not being increased; other proposed amendments - Regulation 2-1 and 2-5 implementation; other proposed amendments - naturally occurring asbestos; impact on large facilities: power plants; impact on large facilities: petroleum refineries; impact on small businesses - renewal fees and impact; rule development schedule; and feedback requested/prompt.

Public Comments

Jed Holtzman, San Francisco resident; Christine Wolfe, CCEEB; and Leah Louis-Prescott, Rocky Mountain Institute.

Committee Comments

The Committee and staff discussed confirmation that this topic will be included in the Fiscal Year Ending (FYE) 2023 Budget, and that the 2022 Cost Recovery and Containment Study will be included in the FYE 2024 Budget; and whether the Air District will recommend moving to 100% cost recovery, compared to 85%.

Committee Action

Although this was not an action item, the consensus of the Committee members present was to recommend Option 1 to the Board.

7. Continued Discussion of Proposed Budget for Fiscal Year Ending (FYE) 2023 and Consideration to Recommend Adoption

(OUT OF ORDER, ITEM 5)

Stephanie Osaze, Director of Finance, gave the staff presentation *Continued Discussion of Proposed Budget for Fiscal Year Ending 2022-2023*, including: outcome; outline; requested action; financial history; financial history - actual reserves and policy trends; financial history - General Fund revenue trends; financial history - General Fund expenditure trends; financial history; staffing trends; financial history - cost recovery trends; fees and cost recovery overview; current FY budget overview; FY 2022-2023 Proposed Budget overview; breakdown of FY 2023 General Fund revenues; breakdown of FY 2023 General Fund expenditures; breakdown of \$15.2 million budget increase; recent staffing requests; FYE 2022 included request for 26 staff: new staffing request General Fund (19) on hold; new staffing request Grant Fund (7) on hold; FYE 2023 proposed 20 new staff; alternative Proposed Budget; possible Proposed Budget options; budget options: 6.4% vs. 10.9% blended rate breakdown of budget increases; Capital Budget detail; funding of retirement liabilities; reserves designations; FY 2023 Proposed Budget summary; next steps; and feedback requested/prompt.

Public Comments

Public comments were given by Jed Holtzman, San Francisco resident.

Committee Comments

The Committee and staff discussed concerns that Committee members who do not attend meetings affect quorum; a Committee member's request that staff create policy that will redirect Other Post Employment Benefits (OPEB) funds to pay down pension liability, and the anticipated timeline to pay it down by 2029, based on the current contribution rate; whether the Richmond (Headquarters East) improvements, litigation, and pandemic contingency are anticipated to be ongoing expense for reserves; whether funding for the Technology Implementation Office (TIO) was built into the budget, and a request for the amount of reserves spent on the TIO thus far; whether the Air District is adhering to the suggested guidance of the findings from its management audit, regarding requests for new Full Time Equivalent (FTE) staffing; whether the proposed 20 FTE additional staff positions have previously been requested by staff; and concern that none of the new staffing requests are for the Communication Division or administrative positions.

Committee Action

Director Bauters made a motion, seconded by Director Mitchoff, to recommend the Board conduct Public Hearings on the FY 2022 - 2023 Proposed Budget, **adopt** the FY 2022 - 2023 Proposed Budget, with the understanding that the management audit will allow the Board to work with the Interim Air Pollution Control Officer to select staff augmentations, and the motion **carried** by the following vote of the Committee:

AYES: Bauters, Canepa, Hudson, Mitchoff, Rice.
NOES: None.
ABSTAIN: None.
ABSENT: Groom, Wagenknecht.

8. California Employers' Pension Prefunding Trust (CEPPT) Participation and Recommended Adoption

(OUT OF ORDER, ITEM 9)

Leonid Bak, Senior Advanced Projects Advisor, gave the staff presentation *California Employers' Pension Prefunding Trust (CEPPT) Participation and Recommended Adoption*, including: outcome; outline; requested action; unfunded retirement liabilities; plan overview CalPERS Pension Retirement Plan; unfunded retirement liabilities: funding and investment options; independent analysis; independent analysis: pension funding options; unfunded retirement liability: CalPERS 15 year "fresh start"; investment option: CalPERS 15 year "fresh start"; independent analysis - pension investment options; Section 115 trust vs. baseline scenario (keeping the money in County Pool Account); investment Option 2: additional payments sent directly to CalPERS; investment Option 3; Section 115 Pension Rate Stabilization Program (PRSP); Section 115 trust (PSRP); Section 115 trust: Air District's experience with OPEB; review and summary; and recommendation.

Public Comments

No requests received.

Committee Comments

The Committee and staff discussed the performance of the Section 115 trust track record, and the yearly medium and long term return averages; the Air District's anticipated base annual contribution for the Section 115 trust; the anticipated ending of OPEB coverage, and whether the Air District recommends putting it into the pension fund; whether the CEPPT is a predetermined standard (preset plan); whether there are risk level options for the CEPPT, and whether the Board would be able to select the risk level; the \$5 million set aside for unfunded liabilities for pension, and how the Air District plans to utilize that money; and whether the Board can choose a different Section 115 trust later (outside of CalPERS).

Committee Action

Director Hudson made a motion, seconded by Director Rice, to do the following:

1. Adopt a resolution to authorize the Air District to participate in the California Employers' Pension Prefunding Trust with the lowest risk profile;
2. Delegate the Air Pollution Control Officer/Executive Officer and Chief Financial Officer with authority to request disbursements and;
3. Authorize the Executive Officer to execute the California Employers' Pension Prefunding Trust legal and administrative documents on behalf of the Air District.

The motion **carried** by the following vote of the Committee:

AYES: Bauters, Canepa, Hudson, Mitchoff, Rice.
NOES: None.
ABSTAIN: None.
ABSENT: Groom, Wagenknecht.

9. Third Quarter Financial Report - Fiscal Year Ending (FYE) 2022

(OUT OF ORDER, ITEM 6)

Ms. Osaze gave the staff presentation *Third Quarter Financial Report Fiscal Year Ending (FYE) 2022*, including: outcome; outline; requested action; third quarter results FYE 2022 - revenue comparison; third quarter results FYE 2022 - General Fund - expenditures; expenditure comparison; third quarter results FYE 2022 - investments; fund balance and outstanding liabilities; purchasing reporting requirements; FYE 2022 vendor payments; and feedback requested/prompt.

Public Comments

None.

Committee Comments

The Committee and staff discussed the cost of the Air District's portion of 375 Beale Street, and whether there have been any changes in operating costs.

Committee Action

None; receive and file.

OTHER BUSINESS

10. Public Comment on Non-Agenda Matters

No requests received.

11. Committee Member Comments

Director Bauters thanked the Air District's Executive Office staff for their service in observance of Administrative Professionals' Day.

12. Time and Place of Next Meeting

The original date and time of the Committee's next meeting was to be Wednesday, May 25, 2022, at 9:30 a.m. After the meeting adjourned the next Committee meeting was scheduled for Wednesday, October 26, 2022, at 9:30 a.m., via webcast, teleconference, or Zoom, pursuant to procedures in accordance with Assembly Bill 361 (Rivas 2021).

13. Adjournment

The meeting adjourned at 12:03 p.m.

Luis Espino
Acting Clerk of the Boards

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

To: Chairperson Carole Groom and Members
of the Budget and Finance Committee

From: Sharon L. Landers
Interim Executive Officer/APCO

Date: October 26, 2022

Re: Funding Policy for the Other Post-Employment Benefits (OPEB) and Pension Plans

RECOMMENDED ACTION

The Committee will consider recommending the Board of Directors approve the Air District's funding policy for OPEB and pension plans.

BACKGROUND

As part of the Fiscal Year Ending (FYE) 2023 Budget process, the Board directed staff to provide a formal policy on the Air District's retirement plan for both Other Post Retirement Benefits (OPEB) and the CalPERS Pension plan. The OPEB plan is administered by the California Employers' Retiree Benefit Trust (CERBT) and the pension plan is administered by the California Employers' Pension Prefunding Trust (CEPPT). The purpose of this policy is to clearly outline the overall funding goals and the approach that the Air District will take to achieve those goals.

DISCUSSION

In 2008, the OPEB plan trust was established and over the years, the Air District has made payments of up to \$4 million in annual discretionary contributions to its CERBT account. As of the most recent actuarial valuation report provided by the Air District's independent actuaries in April 2022, the OPEB plan is fully funded, exceeding the Air District's funded target policy level of 90%. As a result of being fully funded, the Board approved the \$4 million discretionary contributions for the FYE 2023 Budget to be redirected toward its pension plan which will be invested into the Air District's CEPPT account.

In May 2022, the pension trust was established through the California Employers' Pension Prefunding Trust (CEPPT) and will operate similarly to the CERBT, whereby annual discretionary contributions will be invested in the CEPPT account to fund these long-term benefits to achieve a minimum 90% funded target level. Since 2018, the Board has designated \$1 million annually as a part of the annual budget process and as of the fiscal year ending June 30, 2022, a total of \$5 million has accumulated in the General Fund's Pension Liability Designated Reserves.

The policy will formalize the Air District's current practice of making annual discretionary contributions and outline the overall goals to ensure these obligations for pension and OPEB retirement benefits are being funded in a financially prudent manner.

BUDGET CONSIDERATION/FINANCIAL IMPACT

Funding for both the OPEB and pension plans within this policy will be included in the annual Air District's budget for consideration.

Respectfully submitted,

Sharon L. Landers
Interim Executive Officer/APCO

Prepared by: Stephanie Osaze
Reviewed by: Damian Breen

ATTACHMENTS:

1. BAAQMD OPEB and Pension Funding Policy 2022

BAAQMD OPEB AND PENSION FUNDING POLICY

PENSION AND OTHER POST EMPLOYMENT BENEFITS FUNDING POLICY

PURPOSE:

This policy formalizes the Air District's current practice of prefunding its Other Post-Employment Benefits (OPEB) and Pension obligations. The Air District is committed to honoring its pension and OPEB obligations by funding these long-term obligations in a financially sound manner. The purpose of this funding policy is to outline the overall funding goals for both the OPEB and PENSION plans and the Air District's approach to achieving those goals. The Board of Directors (Board) may revoke or amend this policy in the best interests of the Air District.

OVERVIEW

The Air District currently provides a medical retiree benefit known as Other Post-Employment Benefits (OPEB) and retirement pension to its employees. To address these long-term obligations, the Air District established two separate section 115 trust accounts to prefund these long-term obligations. In 2008, the Air District created the California Employers' Retiree Benefit Trust (CERBT) for its OPEB plan and in May 2022, created the California Employers' Pension Prefunding Trust (CEPPT) for its pension plan. Both CERBT and CEPPT are irrevocable trusts under the California Public Employees' Retirement System (CalPERS) and the trust funds can only be used to pay the OPEB and pension costs.

BENEFITS OF PREFUNDING LONG TERM OBLIGATIONS

1. Generate investment income from the Air District's contributions to pay for required pension contributions and retiree medical premiums
2. Reduce future Air District's cash flow requirements and budget dependency with investment income
3. May help the Air District during lean financial times to offset pension and medical retirement costs

I. FUNDING OBJECTIVES AND GOALS FOR OPEB PLAN

The Air District's funding objective for OPEB is to accumulate sufficient assets to fully fund the retiree healthcare benefits that Air District's retired employees received throughout retirement. To meet this objective, the Air District will strive to meet the following funding goals:

1. On an annual basis, the Air District will continue the discretionary \$4.0 million contribution to the OPEB plan over the required payment per section I.2 below.
2. On an annual basis, the Air District will budget and pay the retiree current benefit payments for the current year's budget. This payment is known as Pay-As-You-Go and is paid directly to the healthcare plans for premiums that must be made on behalf of retirees.
3. The Air District will strive to maintain a minimum 90% funded level in the trust by making discretionary contributions to the CERBT account. On an annual basis, the Air District will determine the discretionary contribution amount (up to the \$4.0 million) to invest into the CERBT account:
 - a. If the OPEB plan is fully funded at 100 % or higher, the Air District would redirect and invest the \$4.0 million per section I.1 to the CEPPT pension account.
 - b. If the Air District encounters a fiscal hardship or the OPEB plan becomes super-funded, funds in the trust may be used to pay the retiree premium payments, at the Board's discretion.

II. FUNDING OBJECTIVES AND GOALS FOR PENSION PLAN

The Air District's funding objective for its pension plan is to fund the actuarially determined contributions for employees and retirees to ensure promised pension benefits can be paid to all Air District's retired employees throughout retirement. To meet this objective, the Air District will strive to meet the following funding goals:

1. On an annual basis, the Air District will continue the discretionary \$1.0 million contribution to the pension plan over the required payment per section II.2 below.
2. On an annual basis, the Air District will budget and pay its annual required pension contribution payments to CalPERS. The annual required contribution includes the normal cost for active employees and a portion of the unfunded liability payment as determined by CalPERS.
3. The Air District will strive to achieve a minimum 90% funded target level for the pension plan by making its annual required contribution payments to CalPERS and invest discretionary contributions to the CEPPT account. On an annual basis, the Air District may invest up to the \$5.0 million in discretionary contributions into the CEPPT account. The \$5.0 million discretionary contribution includes both the \$1.0 million per section II.1 above and the \$4.0 million per section I.3a above.
 - a. If the pension plan is funded at 100% or higher, no funding is required, and the Air District may redirect any discretionary contribution budget at the Board's direction.

- b. If the Air District encounters fiscal hardship or the plan becomes super funded, the funds in CEPPT may be used to pay its annual required contribution payment to CalPERS.

POLICY REVIEW

Funding medical and pension retirement obligations requires long-term planning. The Air District should review the policy at a minimum every five years to determine if changes to this policy are needed due to material changes in plans, the assets in the Trusts, or in the Air District's finances.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

To: Chairperson Carole Groom and Members
of the Budget and Finance Committee

From: Sharon L. Landers
Interim Executive Officer/APCO

Date: October 26, 2022

Re: California Employers' Pension Prefunding Trust (CEPPT) Investment Policy

RECOMMENDED ACTION

Consider recommending to the Board of Directors that the Board adopt the following funding allocation and choose investment policy:

- Direct investments in the Air District's CEPPT 115 Trust account to use investment strategy 2.
- Allocate Air District's funds to the CEPPT 115 Trust account in 2 tranches:
 - Following adoption of the recommendation (1st tranche)
 - At the end of Fiscal Year (FY) 2023 (2nd tranche).

BACKGROUND

The Air District provides a defined-benefit pension to its retirees through California Public Employees Retirement System (CalPERS). Funding of CalPERS pensions relies on three sources: employee contributions, employer contributions, and investment returns (which vary per the performance of financial markets).

DISCUSSION

Out of 2 CEPPT investment strategies, even though both are quite conservative from the investment perspective, Strategy 2 has a portfolio with a lower allocation to equities and a higher allocation to bonds. Historically, funds with a lower percentage of equities have displayed less price volatility and less fluctuation of value, i.e., lower risk. Therefore, CEPPT investment strategy 2 is recommended, given its lower assumed risk and fluctuation.

BUDGET CONSIDERATION/FINANCIAL IMPACT

Since 2018, the Board has approved as a part of the annual District budget, \$1 million annually towards pre-funding pension obligation. The decision on the investment vehicle was postponed pending staff recommendations and Board approval. Upon Board approval, a total of \$10 million will be invested in the CEPPT program; \$5 million from the designated pension funds in the General Fund reserves, and \$5 million from the FYE 2023 Adopted Budget, respectively. All funds placed into the irrevocable trust fund can only be used to pay for retirement obligations.

Respectfully submitted,

Sharon L. Landers
Interim Executive Officer/APCO

Prepared by: Leonid Bak
Reviewed by: Stephanie Osaze

ATTACHMENTS:

None

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

To: Chairperson Carole Groom and Members
of the Budget and Finance Committee

From: Sharon L. Landers
Interim Executive Officer/APCO

Date: October 26, 2022

Re: Pathways to 100 Percent Cost Recovery

RECOMMENDED ACTION

None; receive and file.

BACKGROUND

On July 12, 2021, the Air District entered into a contract with the Matrix Consulting Group to evaluate the Air District's Cost Recovery and Containment practices and policy for fee-based activity. This study included evaluating the concept of reaching 100% cost recovery from fee-based programs. The current Cost Recovery Policy was adopted by the Board of Directors on March 7, 2012. The policy established goals of increasing fee revenue sufficient to achieve at least 85% recovery of regulatory program costs.

DISCUSSION

On April 27, 2022, Matrix consultant presented the results of the Cost Recovery Study and provided some potential options to achieving 100% cost recovery, as well, as other key recommendations, which are outlined in the report. The Committee directed staff to recommend a policy for achieving 100% cost recovery. This is the first of two presentations; staff will present additional information to the Committee on a couple of the options outlined in the Matrix study to help inform and guide the development of a policy of reaching 100% cost recovery.

BUDGET CONSIDERATION/FINANCIAL IMPACT

None.

Respectfully submitted,

Sharon L. Landers
Interim Executive Officer/APCO

Prepared by: Leonid Bak and Jody MacKenzie
Reviewed by: Damian Breen and Stephanie Osaze

ATTACHMENTS:

None