



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

BOARD OF DIRECTORS
BUDGET AND FINANCE COMMITTEE

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JOHN BAUTERS
DAVID HUDSON
KAREN MITCHOFF

BRAD WAGENKNECHT - VICE CHAIR
DAVID CANEPA
MYRNA MELGAR

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

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BUDGET AND FINANCE COMMITTEE MEETING AGENDA

WEDNESDAY, FEBRUARY 23, 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.*

REGULAR AGENDA (Items 4 - 6)

4. **Second Quarter Financial Report - Fiscal Year Ending (FYE) 2022**

This is an informational item only and will be presented by Stephanie Osaze, Finance Director.

5. **Air District Financial Plan Overview**

This is an informational item only and will be presented by Jeff McKay, Chief Financial Officer.

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

This is an informational item only and will be presented by Jeff McKay, Chief Financial Officer.

OTHER BUSINESS

7. 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.

8. 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)

9. Time and Place of Next Meeting

Wednesday, March 23, 2022 at 9:30 a.m., via webcast, pursuant to procedures authorized by Assembly Bill 361.

10. Adjournment

The Committee meeting shall be adjourned by the Chair.

CONTACT:

MANAGER, EXECUTIVE OPERATIONS
375 BEALE STREET, SAN FRANCISCO, CA 94105
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- 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

FEBRUARY 2022

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Stationary Source and Climate Impacts Committee – Cancelled and rescheduled to Monday, February 28, 2022 at 9:00 a.m.	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	Thursday	24	9:30 a.m.	Webcast only pursuant to Assembly Bill 361
Board of Directors Stationary Source and Climate Impacts Committee	Monday	28	9:00 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

MARCH 2022

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Meeting	Wednesday	2	9:00 a.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
Board of Directors Legislative Committee	Monday	14	1:00 p.m.	Webcast only pursuant to Assembly Bill 361
Board of Directors Special Meeting as the Sole Member of the Bay Area Clean Air Foundation	Wednesday	16	8:30 a.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	Wednesday	16	1:00 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

MARCH 2022

Path to Clean Air Community Emissions Reduction Plan Steering Committee	Monday	21	6:00 p.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	Thursday	24	9:30 a.m.	Webcast only pursuant to Assembly Bill 361

HL 2/16/2022 – 12:40 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: Jack P. Broadbent
Executive Officer/APCO

Date: February 23, 2022

Re: Second Quarter Financial Report - Fiscal Year Ending (FYE) 2022

RECOMMENDED ACTION

None; receive and file.

BACKGROUND

None.

DISCUSSION

Staff will present an update on the Air District's financial results for the second quarter of the 2021-2022 Fiscal Year.

BUDGET CONSIDERATION/FINANCIAL IMPACT

None.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Stephanie Osaze

Reviewed by: Jeff McKay

ATTACHMENTS:

1. Attachment A 2nd Qtr Financial Report FYE 2022

The following information summarizes the financial results of the second quarter of the fiscal year ending 2022.

GENERAL FUND: STATEMENT OF REVENUES – Comparison of Prior Year Quarter Actual and Current Year Budget to Actual

REVENUE TYPE	2 nd QTR FY 2021	2 nd QTR FY 2022	FY 2022 - % of BUDGETED REVENUE
County Receipts	\$9,707,872	\$12,212,622	31%
Permit Fee Receipts	\$25,539,368	\$28,026,678	71%
Title V Permit Fees	\$5,342,282	\$5,632,916	90%
Asbestos Fees	\$2,091,026	\$2,098,968	52%
Toxic Inventory Fees	\$2,275,097	\$1,682,159	230%
Community Health Impact	\$0	\$1,027,362	112%
Criteria Pollutant Toxic	\$0	\$735,678	57%
Penalties and Settlements	\$1,025,884	\$3,664,428	133%
Interest Income	\$500,669	\$367,528	23%
Total Revenue	\$46,482,197	\$55,448,339	57%

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

EXPENDITURE TYPE	2 nd QTR FY 2021	2 nd QTR FY 2022	FY 2022 - % of BUDGETED EXPENDITURES
Personnel - Salaries*	\$24,222,686	\$25,290,051	45%
Personnel - Benefits*	\$14,476,235	\$19,782,719	67%
Operational Services / Supplies	\$11,073,347	\$11,676,480	36%
Capital Outlay	\$24,222,686	\$25,290,051	45%
Total Expenditures	\$51,434,659	\$58,158,838	47%
* Consolidated (includes Special Funds)			

CASH INVESTMENTS IN COUNTY TREASURY – Account Balances as of Second Quarter

CASH/INVESTMENTS	2 nd QTR FY 2021	2 nd QTR FY 2022
General Fund	\$63,496,674	\$108,094,498
TFCA	\$122,234,438	\$125,602,098
MSIF	\$49,217,388	\$53,376,272
Carl Moyer	\$79,081,580	\$70,537,271
CA Goods Movement	\$21,134,331	\$21,286,051
AQ Projects	\$1,600,145	\$1,362,240
Vehicles Mitigation	\$2,478,540	\$6,688,291
Total	\$339,243,094	\$386,946,721

FUND BALANCES	6/30/2020	6/30/2021	6/30/2022
	Audited	Projected	Projected
DESIGNATED: *			
Community Benefits			\$3,000,000
Economic Contingency	\$20,082,966	\$21,294,922	\$23,303,025
Pension Liability	\$3,000,000	\$4,000,000	\$4,000,000
Technology Implementation Office	\$3,350,000	\$3,350,000	\$3,350,000
Wildfire Mitigation	\$1,000,000	\$1,000,000	\$2,000,000
AB617 Staffing Contingency			\$6,000,000
Pandemic Contingency			\$7,000,000
Total Designated Reserves	\$27,432,966	\$29,644,922	\$48,653,025
Undesignated Fund Balance	\$26,401,581	\$34,385,565	\$14,877,462
TOTAL DESIGNATED & UNDESIGNATED	\$53,834,547	\$64,030,487	\$63,530,487
TOTAL FUND BALANCE	\$53,834,547	\$64,030,487	\$63,530,487
* Designated Fund Balances are subject to change at Board's discretion.			
OUTSTANDING LIABILITIES			
CalPERS Pension Retirement			\$101,305,734
Other Post-Employment Benefits			\$18,368,386
Certificate of Participation Notes			\$21,173,770
TOTAL OUTSTANDING LIABILITIES			\$140,847,890

VENDOR PAYMENTS

In accordance with provisions of the Administrative Code, Division II Fiscal Policies and Procedures - Section 4 Purchasing Procedures: 4.3 Contract Limitations, the staff is required to present recurring payments for routine business needs such as utilities, licenses, office supplies and the like, more than, or accumulating to more than \$100,000 for the fiscal year. In addition, this report includes all of the vendors receiving payments in excess of \$100,000 under contracts that have not been previously reviewed by the Board. In addition, staff will report on vendors that undertook work for the Air District on several projects that individuals were less than \$100,000, but cumulatively exceed \$100,000.

Below is a list of vendors with cumulative payments made through the second quarter of 2021-22 fiscal year that exceeded \$100,000 and meets the reporting criteria noted above. All expenditures have been appropriately budgeted as a part of the overall Air District budget for The fiscal Year 2021-22.

	VENDOR NAME	AMOUNT PAID (July 2021 - Dec 2021)	Explanation
1	Alliant Insurance Services	\$730,435	Various Business Insurance Policies
2	BAAQMD Employee Association	\$133,714	Employee Union Dues
3	Bay Area Headquarters Authority	\$521,185	Shared Services & Common Areas
4	Benefits Coordinators Corp.	\$568,060	Life Insurance Plan & LTD Insurance
5	CA Public Employee Retirement System	\$4,336,326	Health Insurance Plan
6	CA Public Employee Retirement System	\$3,405,610	Retirement Benefits & 457 Supplemental Plan
7	CAPCOA	\$618,475	Pass through EPA grants
8	Cubic Transportation Systems	\$239,301	Clipper Transit Subsidy
9	Enterprise Fleet Services	\$310,683	Fleet Leasing and Maintenance services
10	EPlus Technology	\$164,565	Cisco computer network equipment warranty
11	P&A Administrative Services	\$104,681	Flexible Spending & Cobra Benefit Services
12	Preferred Benefit Insurance AD	\$326,305	Dental Insurance Plan
13	Robert Half	\$248,931	Temporary Staffing Services
14	Sloan Sakai Yeung & Wong LLP	\$147,047	Human Resources Consulting Services
15	True North Research	\$118,800	Research and Analysis Services
16	Wang Brothers Investment LLC	\$253,007	Richmond Site Lease

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

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

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 23, 2022

Re: Air District Financial Plan Overview

RECOMMENDED ACTION

None; receive and file.

BACKGROUND

None.

DISCUSSION

Staff will present the Air District's annual Financial Plan. The plan is a prelude to the upcoming Fiscal Year 2023 budget and provides an overview of historical financial trends and describes key assumptions and policies. These inputs are used to develop a five-year financial forecast for the Plan.

BUDGET CONSIDERATION/FINANCIAL IMPACT

None.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Stephanie Osaze

Reviewed by: Jeff McKay

ATTACHMENTS:

1. Financial Plan 2022

.



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

2022 FINANCIAL PLAN

GENERAL FUND

FIVE YEAR FISCAL FORECAST: 2023-2027

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INTRODUCTION AND PURPOSE

The Financial Plan (the Plan) is provided as a prelude to the development of the Bay Area Air Quality Management District's (Air District's) annual budget. A key component of the Plan is a description of the current economic environment and its short and long-term anticipated impacts to the Air District's fiscal condition. The Plan provides an overview of historical financial trends and describes key assumptions and policies. These inputs are used to develop a five-year financial forecast. The forecast is not a budget, but rather, a projection of the Air District's financial health based on key assumptions and factors. The forecast can help to flag future challenges and opportunities allowing the Air District to be proactive in planning actions as it develops and adopts a budget for the coming year. Management of fiscal resources enables maintenance of service levels while achieving the Air District's priorities, goals and objectives.

HISTORICAL FINANCIAL CONDITION/TRENDS

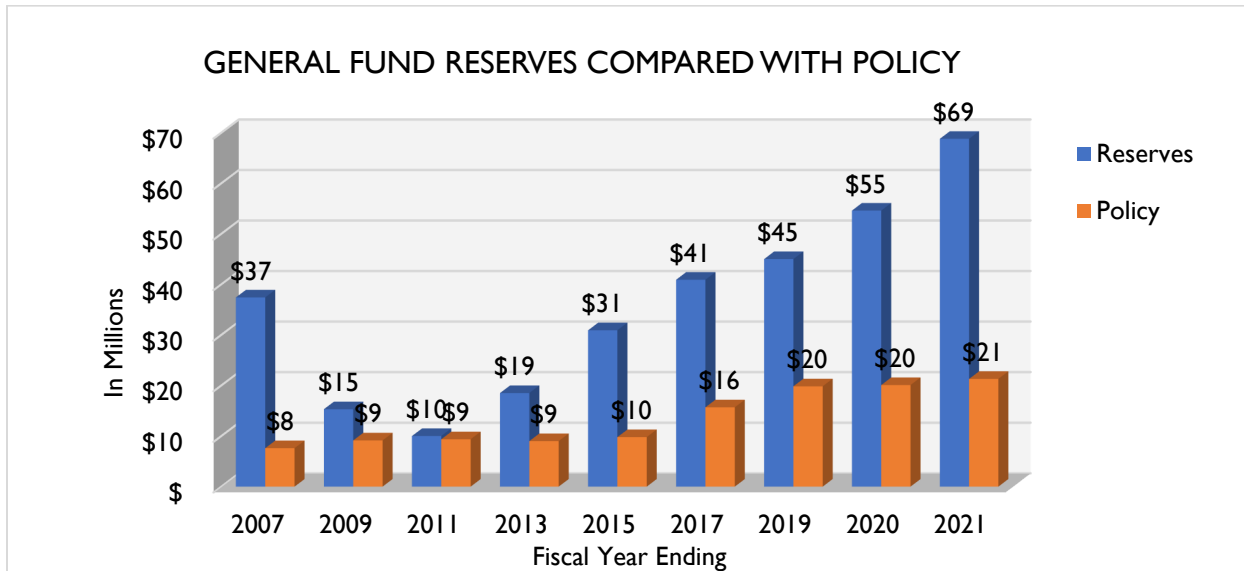
The General Fund is the primary operating fund used to sustain the business of the Air District. It accounts for revenues, expenditures, and reserves. This section provides an overview of the Air District's financial condition and actions taken to address financial challenges since the 2008 recession. The recession caused many local public agencies to lay-off a substantial portion of their work force and even drove some to file bankruptcy. However, through sound fiscal management and a combination of various measures, the Air District was able to minimize service impacts and avoid lay-offs. One measure used to temporarily meet operational needs was a draw down from the General Fund reserves.

HISTORICAL RESERVES

Reserves set aside funds to weather unanticipated economic conditions or the impact of natural events. Reserves are an important measure of financial stability and provide flexibility to temporarily mitigate financial challenges.

Figure 1 illustrates the impact to the General Fund reserve when it was used to meet operational needs during the economic downturn. In 2007 before the economic downturn, reserves were \$37 million, substantially higher than the 2007 reserve policy of 15% of the General Fund Operation Budget. When reserves were used temporarily to meet operating needs, they dipped significantly, almost reaching the minimum reserve policy level of \$9 million in 2011. Since 2011, reserves have been replenished, meeting the current minimum reserve policy of 20% of General Fund Operating Budget. This experience illustrates that while the Air District has a minimum reserve policy, it is important to strive to remain above the policy level to weather events such as the 2008 Great Recession.

Figure 1 General Fund Reserves Compared with Policy



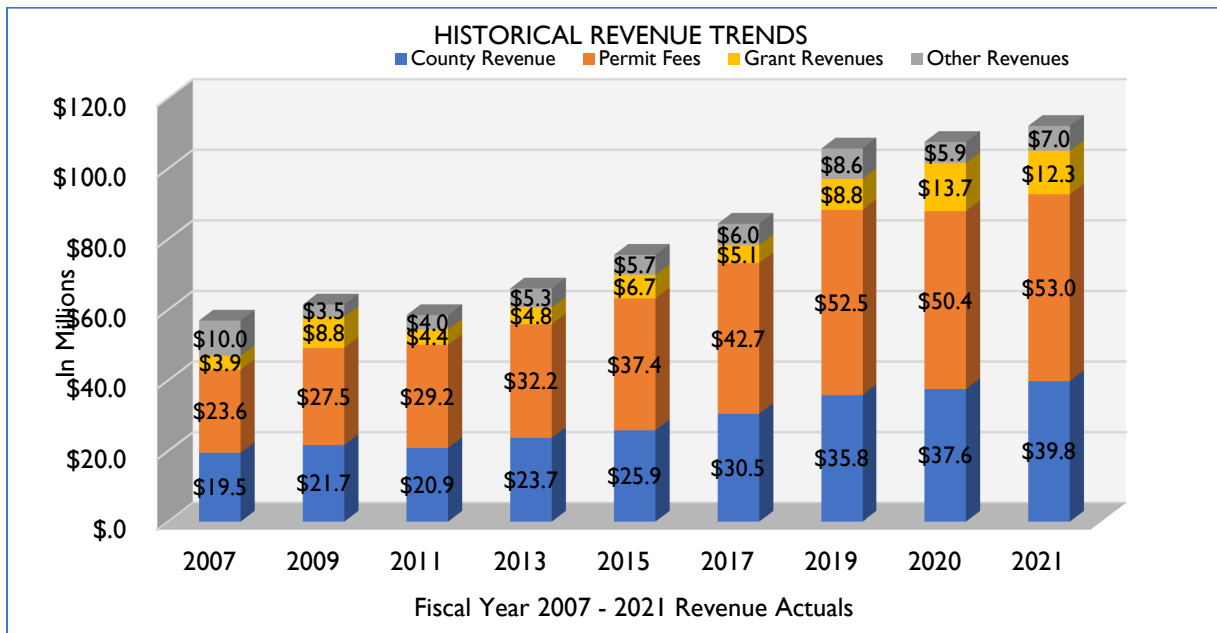
In addition to use of reserves, the following measures were utilized during the 2008 economic downturn:

1. Unfilled Vacancies
2. Postponed Expenditures
3. Deferred Capital Investment
4. Initiated Cost Recovery Policy for Permit Fees

HISTORICAL REVENUES

The General Fund's two major revenue sources are Property Tax and Permit Fees. These two sources generally reflect the Bay Area's changing economic conditions and largely dictate the Air District's ability to control and manage growth. **Figure 2** provides a historical trend of General Fund revenues in the period between 2007 to 2021.

Figure 2 Historical Revenue Trends



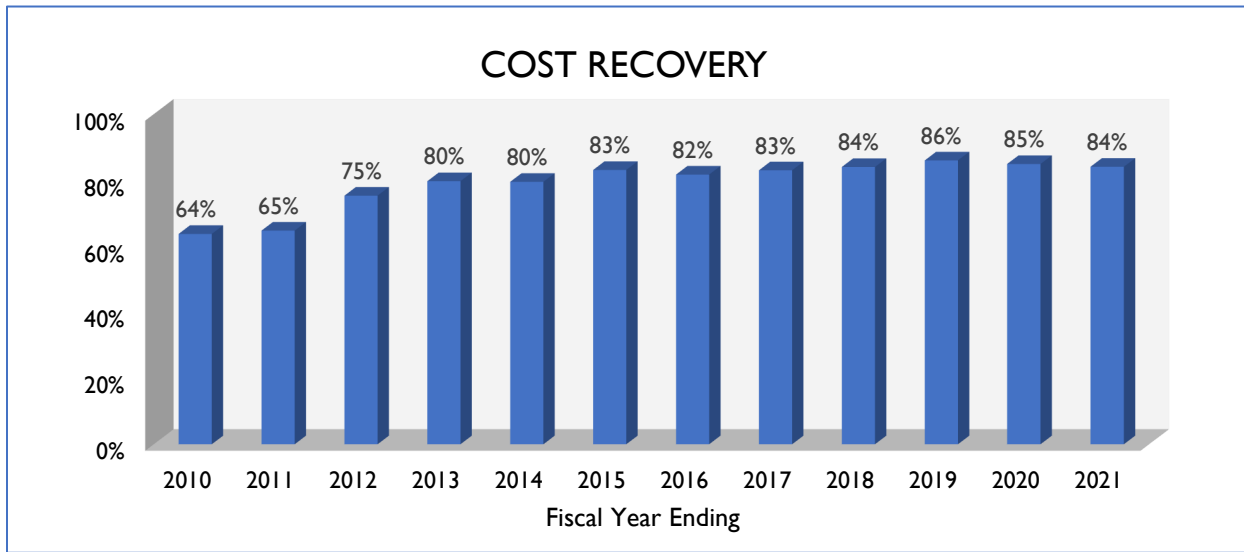
Property Tax is the second largest General Fund revenue source. This source is not controlled by the Air District but is rather administered by the nine Bay Area Counties. It is distributed annually to the Air District using a State law prescribed formula.

As Figure 2 illustrates, property tax revenue growth is relatively stable. Unlike permit fees, there is a lag in response to changing economic conditions in the real estate market. In 2009 and 2010 property tax was relatively stable, decreasing slightly in 2011 due to the 2008 recession, with a three-year lag.

Permit Fees are the largest General Fund revenue source and are sensitive to the level of economic activity in the Bay Area. In 2008, permit fees dipped slightly due to the economic downturn. Some of this impact was offset by amending the fee schedule through fee increases, resulting in higher permit fee revenues.

State law authorizes the Air District to assess fees to generate revenue to recover 100% of reasonable costs of regulatory program activities for stationary sources of air pollution. Annually, the Air District can review and amend fees to cover associated costs.

Figure 3 Cost Recovery



In 2010, the Air District was only recovering 64% of its costs. In 2021, the cost recovery level was 84%. This was accomplished using a prescribed formula to review and amend the fee schedule annually pursuant to the adoption of a Cost Recovery Policy. The policy established an 85% minimum cost recovery target. More favorable economic conditions, resulting in higher fees collected by the Air District, and the implementation of the cost recovery policy, permit fee revenue has experienced significant growth since 2010 as shown in **Figure 3**.

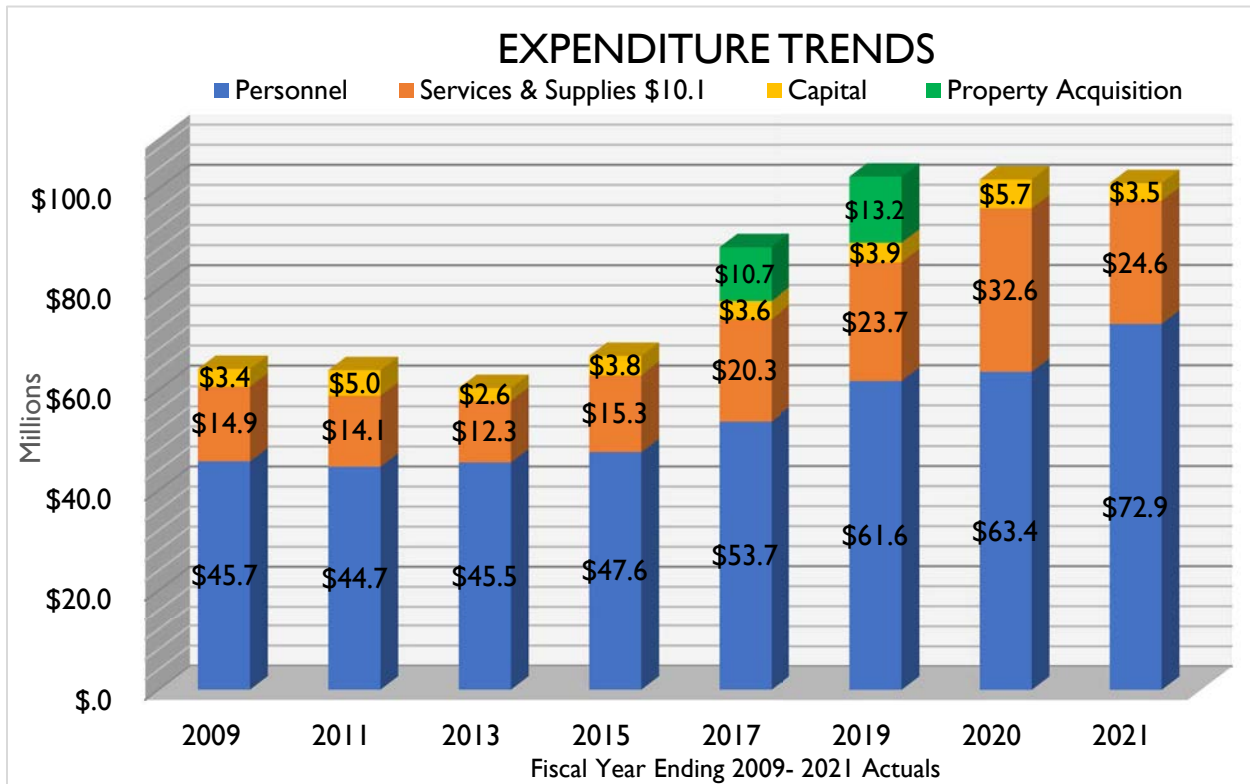
Grant Revenues represents various federal and state grants used to support the air monitoring program and public outreach. This category fluctuates based on available grant funding.

Miscellaneous Revenues include other state funding such as subvention, interest and penalties and settlements and one-time revenues. This category also fluctuates based primarily on the amount and timing of penalties and settlements.

HISTORICAL EXPENDITURES

The General Fund's two major expenditures are Personnel (includes benefits) and Services & Supplies. Figure 4 provides a historical trend of actual General Fund expenditures from 2007 to 2021.

Figure 4 Historical Expenditure Trends



Personnel costs include salaries, taxes and benefits. Benefits includes health premiums, pension and other post-employment benefit contributions. This category dipped slightly in 2011 and remained relatively steady until 2017, when the Air District experienced increased staffing levels and a steep rise in pension contributions to CalPERS. Since 2017, the Air District has been increase staffing levels to meet its demand for the implementation of Assembly Bill 617 and increased workload in other programs.

Services and Supplies costs are primarily contract services, with various office supplies representing the balance. This category fluctuates from year to year. It increased significantly between 2017 and 2019 due to several new and enhanced programs (such as the Clean Air Plan Implementation and Technology Improvement Office Programs); including one-time costs associated with the move to the Air District’s new headquarters. In 2020, the spike in this category resulted from one-time costs associated with a settlement payment and the Air District’s shared costs with Metropolitan Transit Commission (MTC) on the improvements to the first-floor retail space (Temescal) at the Beale Street Headquarters. The agreement will allow the two agencies to share any revenue generated from the retail space.

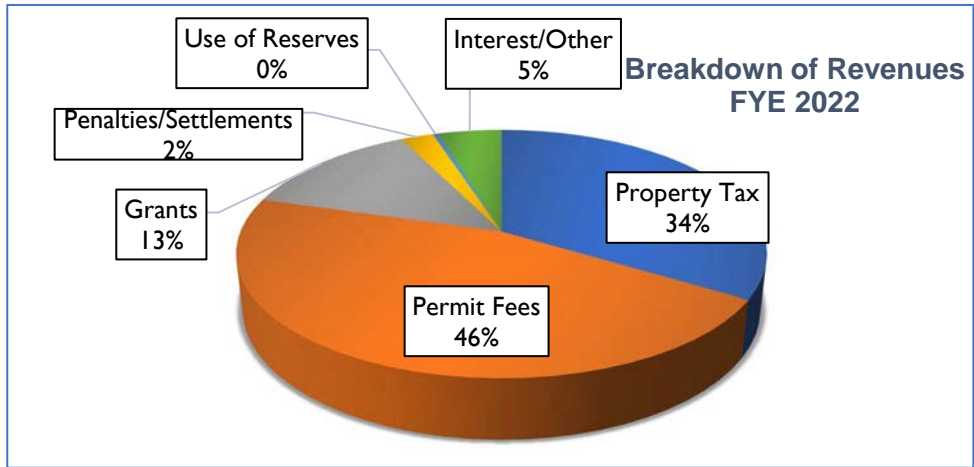
Capital costs fluctuate based on the timing of capital equipment purchase and replacement. Majority of the capital expenditures over the past years are related to the implementation of the Air District’s billing new billing system, New Production System (NPS).

Property Acquisition accounts for purchase of real estate. In 2017, a down payment of \$10.7 million went towards the purchase of the Air District’s Beale Street headquarters. The Air District will continue to make annual payments to pay down its remaining obligation of \$18.1 million. In 2019, the Air District purchased \$4M in additional space at its Beale Street location and acquired a new office building located in Richmond, California for approximately \$9.0M.

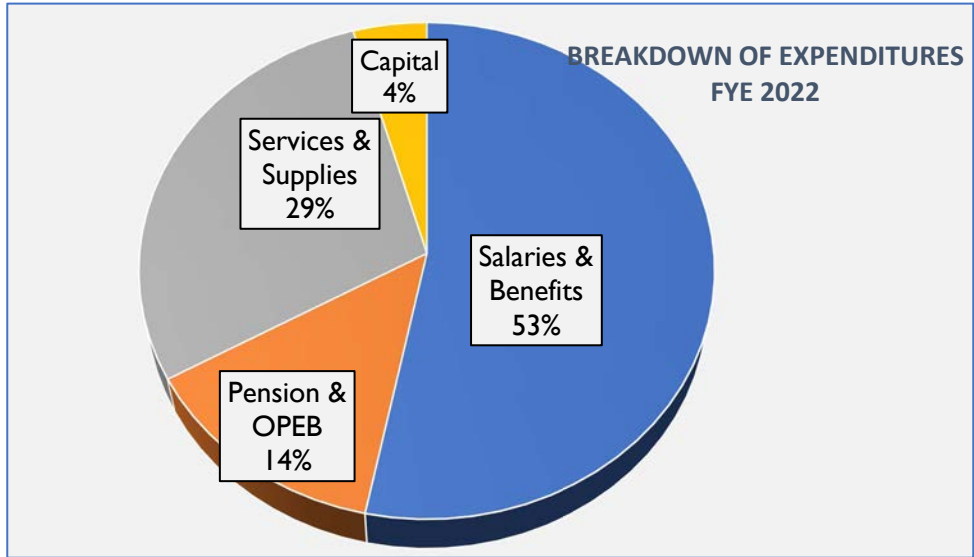
CURRENT FINANCIAL OUTLOOK

Currently, the Air District is in good financial health. The Air District has been able to adopt balanced annual budgets, while establishing and maintaining a healthy General Fund reserve by being fiscally prudent and establishing sound fiscal policies. Figure 5 provide a breakdown of the projected Revenues and Expenditures for the current fiscal year. The Fiscal Year 2022 General Fund Adopted Budget was \$117.0 million, which includes a one-time \$0.5 million transfer from reserves for Richmond Office capital improvements. As a service-driven agency, salaries and benefits (including Pension and Medical) are the largest components of expenditure, representing 65% of the total. The adopted budget increased staffing level from 415 to 441 FTEs, an increase of 26 FTEs over the prior year to address growing demands in grant and core programs. In December 2021, the Board approved 4 additional FTEs to improve the structure and operations of the Legal Department and the Executive Office; increasing the total authorized staffing level to 445 FTEs.

Figure 5 Breakdown of Revenues and Expenditures in FYE 2022



Permit Fees and Property Tax account for 80% of the FY 2022 General Fund Budget. *Current projection is expected to exceed to be on target with projections.*



The two major General Fund Expenditures are Salaries/Benefits and Services/Supplies totaling 82% of the projected budget for the fiscal year ending 2022. *The budget is expected to be on target with projections.*

ECONOMIC OUTLOOK

EXTERNAL TRENDS – UNITED STATES

The US economy finished 2020 with an overall annual decline of 3.4 percent of GDP. The US economy during 2020 was marked by a large and sudden decline due to the novel coronavirus (Covid-19) in Q1(-5.2 percent) and Q2 (-31.2 percent). But the recovery in Q3 and Q4 was similarly large and strong: growth in Q3 was registered at 33.8 percent, slowing in Q4 to 4.5 percent.

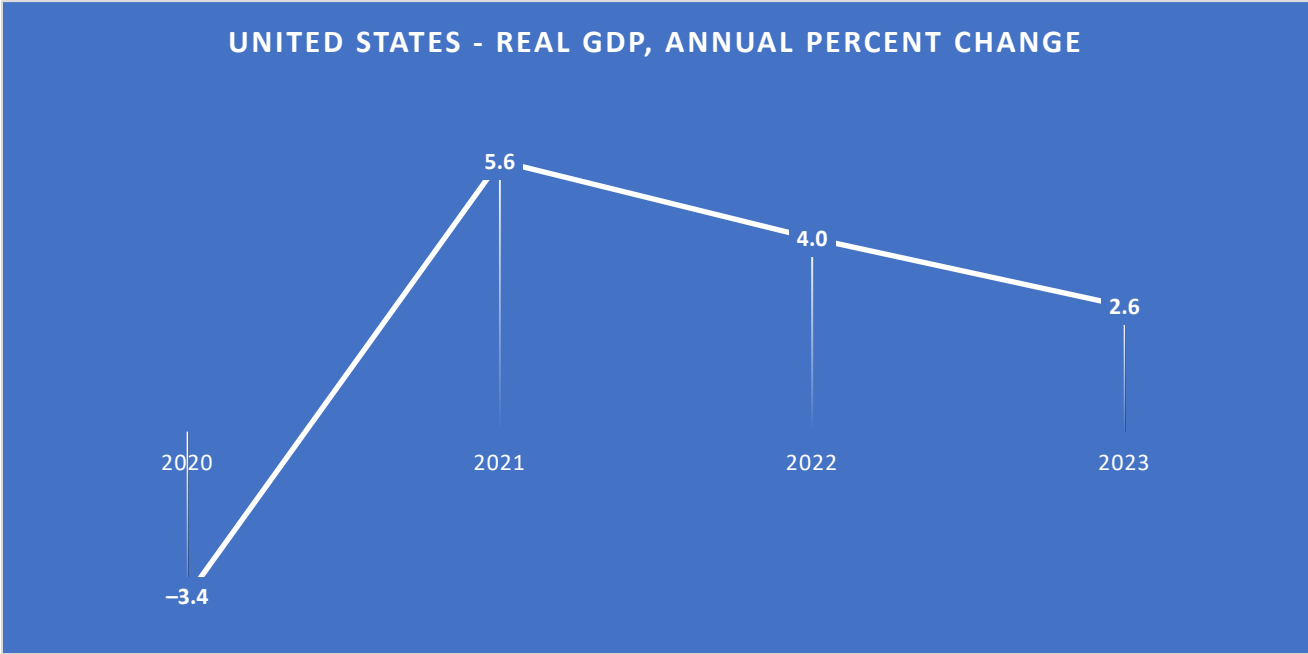
Continued robust pace of the economic recovery in the country during 2021 has been maintained owing both to the supportive fiscal and monetary measures, some of which have been in place since the beginning of the pandemic. Sizable cash transfers as well as generous and lasting unemployment benefits and other federal, state, and sometimes, local supports have led to increased demand for goods. In addition, US Federal Reserve has maintained interest rates at the 0 – 0.25% range, together with sizable asset purchases, which were adopted at the beginning of the pandemic. These measures (support on both fiscal and monetary fronts), while supporting economic activity, have unfortunately led to rapidly increasing inflation. Fears of sustained inflation still abound, as we head into 2022, and even as the Fed promises to hike interest rates by up to four times in 2022.

Overall, the US economy is projected to grow by 5.6 percent in 2021 (final data for 2021 Q4 to be released shortly). For 2022, forecasts of the US economy show a still robust, but somewhat slower economic growth, with GDP expanding by 4.0 percent, slowing further to 2.6 percent in 2023. Inflation and higher consumer prices in the US are expected to stay high for longer than what was initially expected to be few months by both US Fed and the federal Treasury Department. Inflation data in December 2021 registered at a historically high 7.0 percent, compared with December

2020, although average annual inflation was at 4.3 percent in 2021. For 2022, expect still elevated inflation readings, slowly declining in the second half of 2022 and into 2023.

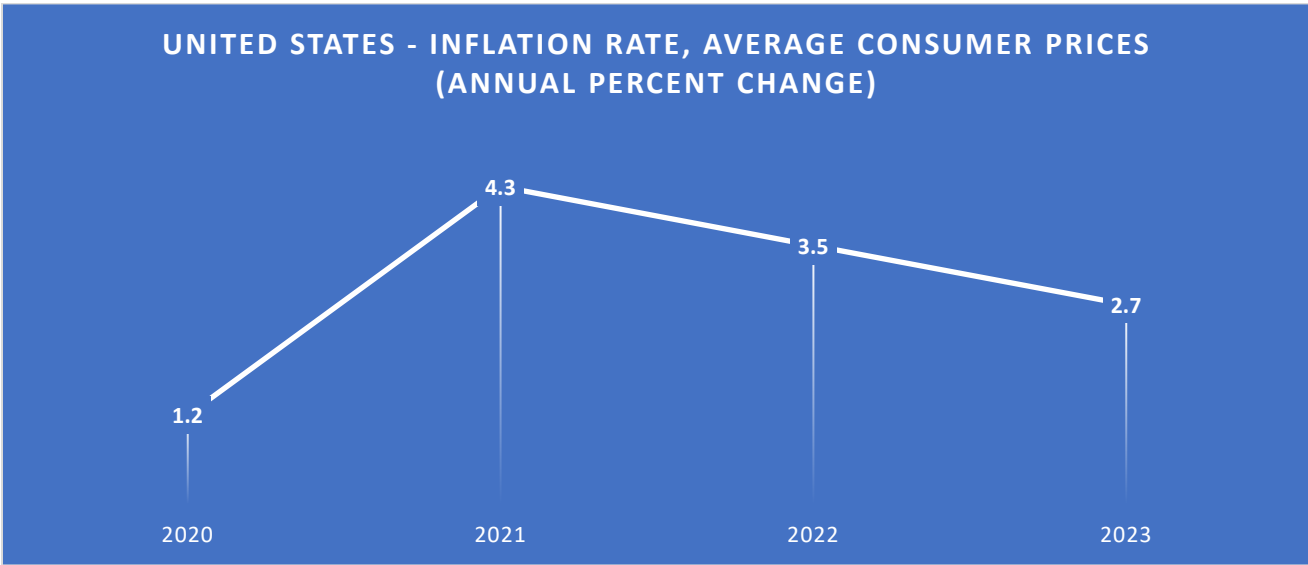
Figure 6 shows US economic performance and inflation over the last couple of years and a forecast out to 2023.

Figure 6 United States: Economic Growth is Expected to Stay Robust in 2022, slower in 2023...



Source: International Monetary Fund, World Economic Outlook, January 2022 update

...even as consumer prices stay elevated for longer

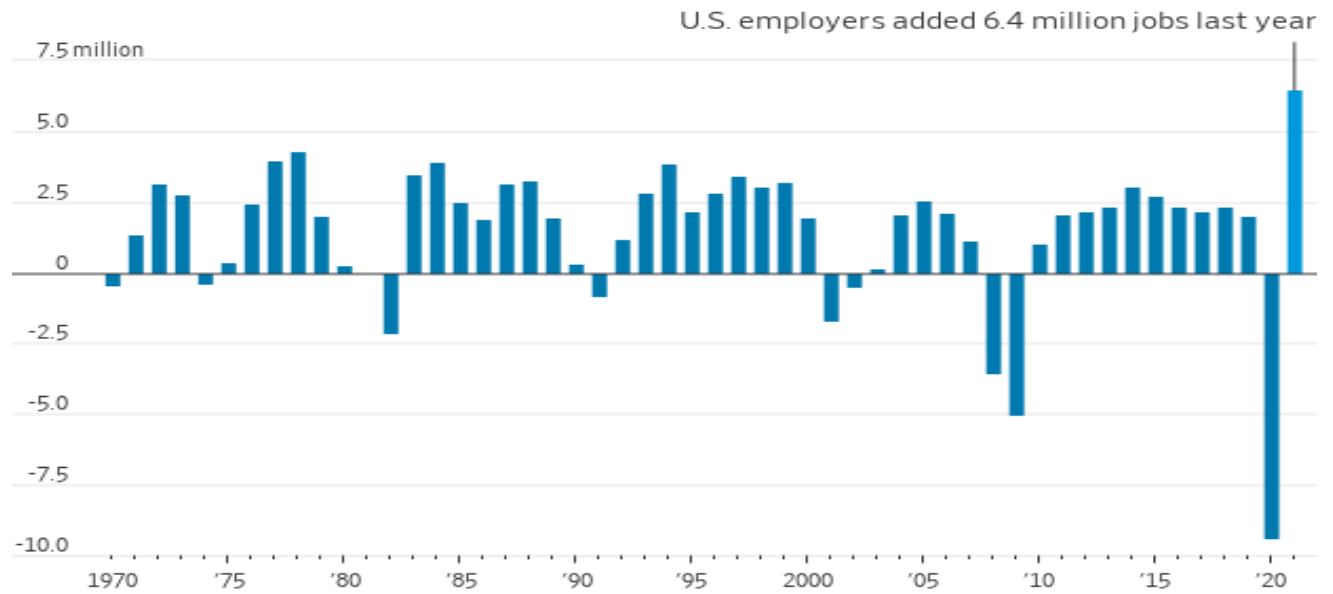


Source: International Monetary Fund, World Economic Outlook, January 2022 update

2021 was also a year of historic gains in the US labor market – US employers added 6.4 million jobs and the unemployment rate has declined to 3.9% of the labor force.

Figure 7 US Labor Market

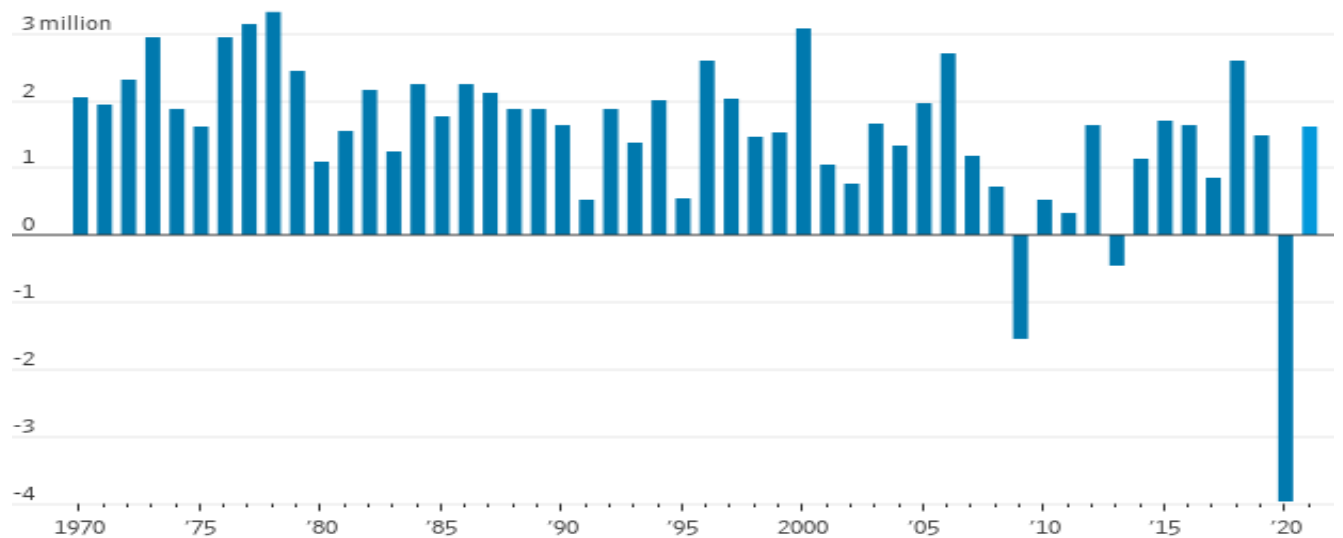
Change in December payrolls from one year earlier



Note: Seasonally adjusted
Source: Labor Department

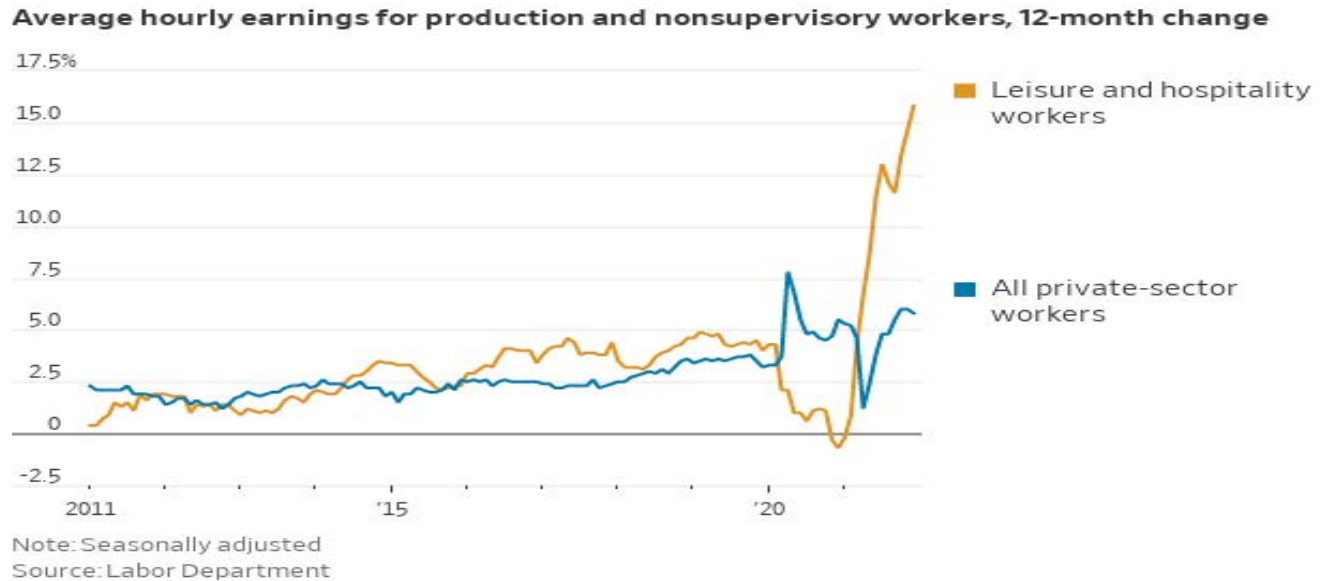
However, it is notable that total US labor force expanded only by 1.6 million workers in 2021, after losing nearly 5 million in 2020.

Change in civilian labor force from one year earlier



Note: Seasonally adjusted; measures change from December to December
Source: Labor Department

The slower expansion in the US labor force has led to wage pressures and increases. Not only are jobs abundant, a record steep rise in wages, contributes to mounting fears of persistent inflation and the potential for the wage-inflation spiral, a phenomenon where higher inflation leads to higher wages, which in turn contribute to even higher inflation.



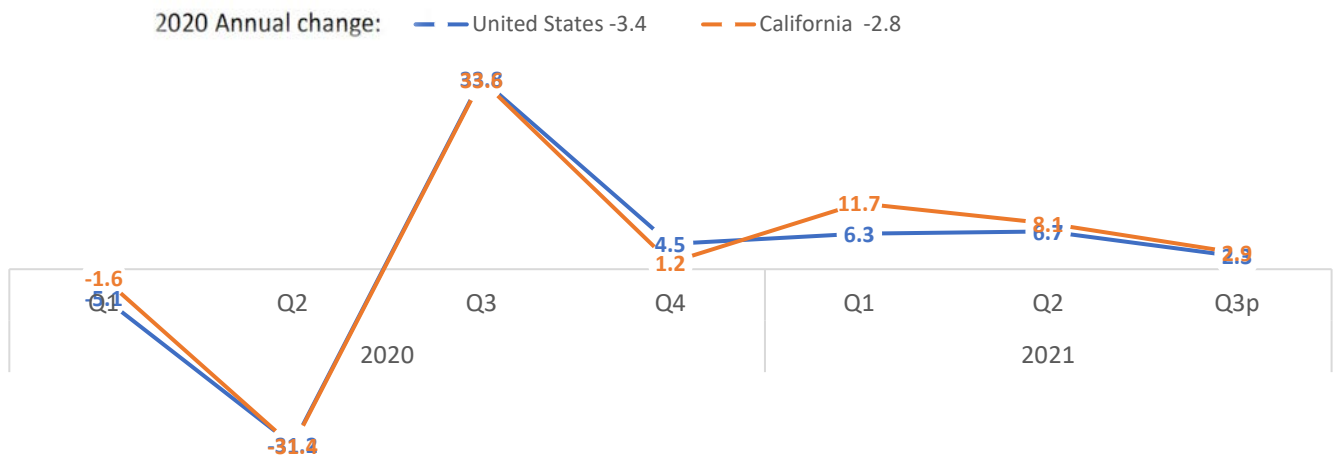
EXTERNAL TRENDS – CALIFORNIA

Risks to the California Economy have been building up even before Covid-19 struck the state. Housing prices made living in California unaffordable for many, resulting in out-migration to cheaper areas of the country. Extended lockdowns have brought many sectors of the economy in California to a standstill. These lockdown measures have been in place longer than in other areas of the country, prompting some fears of California losing its edge and economic competitiveness.

However, as Figure 8 shows, California’s economic performance largely mirrors US economic growth. This is true in part because California is by far the largest contributor state to the US economy, where the state’s total economic output contributes about 14.4 percent of the US total GDP. But California’s economic performance has been quite robust also due to the fact that the state is home to many companies in capital intensive industries, which have done very well financially during the pandemic and resulted in large budget surplus for the state.

There are growing risks to the economic outlook for the state in 2022, where many of the state’s capital intensive companies may not do as well as they did in 2021 because of the shifting conditions and risk tolerance, as the US Federal Reserve raises interest rates.

Figure 8 California’s Economy – Real GDP Change during the pandemic: annualized real GDP change from the preceding period, US and California

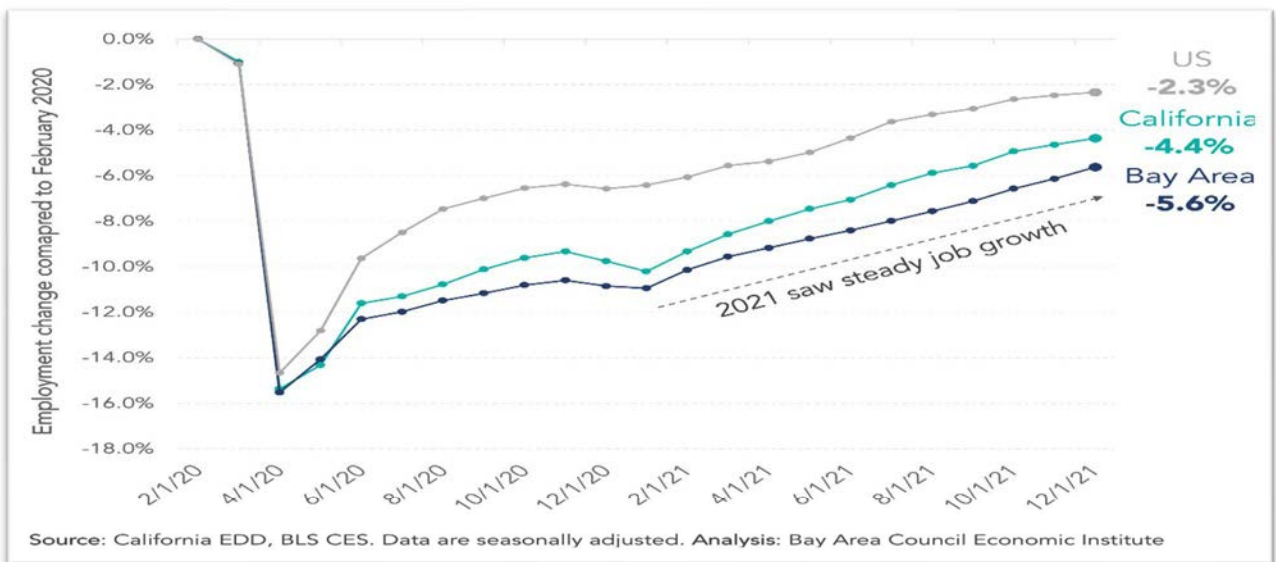


Source: Bureau of Economic Analysis, US Department of Commerce

REGIONAL ECONOMY OF THE BAY AREA

Regional economy in the Bay Area has been slower than California, even though the job market has shown steady growth in 2021. In large part, owing to the work from home arrangements, area’s job market has been slower to recover, compared with other metro areas and the state’s average. As Figure 9 shows, Bay Area’s jobs market is still about 5.6 percent lower than it was pre-pandemic

Figure 9 Comparison of Jobs Recovery in the Bay Area with California and US



Most counties in the Bay Area benefitted from higher real property prices in 2021, both for commercial and residential properties.

As Figure 10 shows, real property assessments increased across the Bay Area at a higher pace than the typical long-run average of 2 percent per year. Although lower than the previous year’s assessment on average and in every county in the Bay Area, the increases are still higher than historical averages. Taking into account latent effects, which are typical with property assessments, and also considering large increases in the Bay Area’s real estate prices, next year’s assessment is likely to be similar or higher than 2020. Based also on recent trends and on expectations of slower, but steady economic growth over the next few years, most likely impact to the Air District’s budget from county property taxes next year will be an increase in the range of +4 percent to +6 percent.

Figure 10 Bay Area County Property Assessments, 2021 – 2022

<i>Aggregate Bay Area Counties Property Assessments</i>		
	<i>Percent Increase Over Prior Year</i>	
	2020-21	2021-22
Alameda	6.8	4.3
Contra Costa	4.9	3.4
Marin	4.6	3.9
Napa	5.3	3.4
San Francisco	7.6	3.6
San Mateo	7.0	4.2
Santa Clara	6.9	4.6
Solano	4.9	3.0
Sonoma	4.6	3.2
<i>Bay Area Average Increase</i>	<i>5.9</i>	<i>3.7</i>

Source: Santa Clara County Assessor’s Annual Report, 2021

FINANCIAL FORECAST

The Air District prepares a Five-Year Financial Forecast for the General Fund to project its long-term financial health based on revenue and expenditure trends, policy decisions, assumptions and expectations. The Five-Year Forecast allows the Air District to assess the current environment and respond to changes.

Table 1 Five-Year General Fund Financial Forecast

Five-Year General Fund Financial Forecast	FYE 2022 Budget	FYE 2023 Projected	FYE 2024 Projected	FYE 2025 Projected	FYE 2026 Projected	FYE 2027 Projected
REVENUES						
Property Tax	\$39,335,284	\$40,897,180	\$42,124,095	\$43,387,818	\$44,689,453	\$46,030,136
Permits/Fees	\$53,678,690	\$56,729,634	\$58,431,523	\$60,184,468	\$61,990,002	\$63,849,413
Grant Revenues	\$6,394,112	\$4,601,447	\$4,637,462	\$4,673,838	\$4,710,577	\$4,747,682
AB 617 Funding	\$9,000,000	\$9,000,000	\$9,000,000	\$9,000,000	\$9,000,000	\$9,000,000
Other Revenues	\$6,745,848	\$6,241,279	\$6,330,128	\$6,420,745	\$6,513,163	\$6,607,418
	\$115,153,934	\$117,469,539	\$120,523,209	\$123,666,870	\$126,903,194	\$130,234,650
Transfer from Special Funds	\$1,361,189	\$1,200,886	\$1,224,904	\$1,249,402	\$1,274,390	\$1,299,878
Use of/(Transfer to) Fund Balance	\$500,000	\$ 1,769,628	\$ 2,123,149	\$ 1,820,689	\$ (100,284)	\$ (500,688)
TOTAL REVENUES	\$117,015,123	\$120,440,053	\$123,871,262	\$126,736,961	\$128,077,300	\$131,033,839
EXPENDITURES						
Personnel & Benefits (net Pension/OPEB)	\$59,173,076	\$63,624,754	\$65,513,307	\$67,377,197	\$69,295,205	\$71,293,179
Retirement Pension (Pension)	\$12,296,429	\$13,566,000	\$17,755,000	\$17,650,000	\$15,970,000	\$15,760,000
Other Post Employment Benefits (OPEB)	\$6,724,299	\$7,490,000	\$3,700,000	\$3,860,000	\$3,990,000	\$4,160,000
Services and Supplies	\$33,633,861	\$30,160,617	\$31,024,339	\$31,853,576	\$32,705,983	\$33,582,226
Capital Expenditures	\$5,187,458	\$5,598,682	\$5,878,616	\$5,996,188	\$6,116,112	\$6,238,434
TOTAL EXPENDITURES	\$117,015,123	\$120,440,053	\$123,871,262	\$126,736,961	\$128,077,300	\$131,033,839

Table 1 shows the projected 2022 Adopted General Fund Budget, with the projected budgets for the next five years. Overall, projected expenditures slightly exceed projected revenues for FYE 2022 to account for proposed use of \$0.5 million of reserves for Richmond Office Capital Improvements. The FYE 2023-2025 shows projected expenditures being higher than projected revenues; showing use of reserves to cover the projected gap of \$1.7M to \$2.1M during this period. The FYE 2026 and 2027 shows projected expenditures decreasing slightly in the retirement pension category, resulting in an operating surplus in those two years. All operating surplus are added to the General Fund Reserves projected balance. There are several key assumptions in developing the revenue and expenditure projections for the Five-Year Financial Forecast. *These assumptions are expected to change during the FYE 2023 budget process.*

KEY REVENUE ASSUMPTIONS

1. **Property Tax** is expected to grow at a slower rate given the current economic conditions. The Bay Area housing market prices continues to grow which has led to higher property assessments in 2021. The five-year forecast assumes continued growth of approximately 3.4% in revenues for year 2023 and a 3% inflationary growth in years 2024 through 2027.
2. **Permit Fee** revenues may increase by approximately 5% in year 2023 mainly from the increased to existing fees schedules based on a 4.1% fee increase based on CPI index. The Air

District did not experience any negative impacts of permit revenues from COVID-19, permit revenues remain stable. The increase is projected to grow by 3% thereafter during the five-year forecast because of the Air District's Cost Recovery policy, which allows the Air District to increase its fee schedule to recover costs for permit related activities. The average cost recovery level of 85% is expected to slightly drop in the next year due in part to the new and enhanced program costs. Projections suggest attainment of the 85% cost recovery level to remain during the five-year forecast, however, these projections could change based on the results of the management audit and cost recovery study recommendations.

3. **Grant Revenues** are shown as stable through 2027. However, changes to this assumption would be unsurprising.
4. **Assembly Bill 617** funding of \$9.0 million from the State continues for the next 5 years.
5. **Other Revenues** mainly account for penalties, State subvention, and interest income. These revenues are expected to remain stable.

KEY EXPENDITURE ASSUMPTIONS

1. **Personnel** costs are projected to remain at current 445 authorized FTEs. *This is likely to change in the budget process as the Air District continues to address staffing needs for core programs.* A 3% annual cost of living adjustment is also projected for the five-year period to account for a slight increase in health premiums, and the filling of some open positions. This projection assumes a 3% vacancy rate through 2026, gradually decreasing to 2% by 2027.
2. **Retirement Pension** costs are rising due to recent discount rate reduction by CalPERS and escalating unfunded liability payments. The forecast assumes implementation of the Air District's approved policy to make discretionary payments to CalPERS to reduce the unfunded actuarial liability (UAL).
3. **Other Post-Employment Benefits (OPEB)** for retiree medical benefits are projected to reach District's 90% funded policy goal by FYE 2024. After that, the \$4.0 million in discretionary funding will shift towards the CalPERS Pension Plan to reduce the UAL.
4. **Services and Supplies** costs are projected to level off, assuming only an inflationary increase of approximately 2-3%.
5. **Capital Expenditures** are expected to remain level, with only an inflationary increase.
6. **General Fund Reserves** are used to fund one-time costs, and to cover temporary revenue shortfalls. Reserves are expected to stay above the minimum policy level ensuring continuation of the Air District's operations, should another economic downturn occur.

OUTSTANDING LIABILITIES

The Air District currently provides a retirement pension benefit plan through the California Public Employee Retirement Systems (CalPERS), and contracts with California Employers' Retiree Benefit Trust (CERBT) to prefund its OPEB obligations. As of the most recent valuation dates, the Air District's unfunded liabilities are as follows:

	Liability	Funded	Unfunded	% Funded
Pension	\$358 M	\$258 M	\$100 M	72%
OPEB	\$72 M	\$54 M	\$18 M	75%

PENSION RETIREMENT BENEFITS

The Air District provides a defined benefit pension plan to eligible retirees and employees through the California Pension Employee Retirement System (CalPERS). There are two separate retirement formulas provided to employees:

1. Classic Employees. For its Classic employees, the Air District has a “2.5% at 55” plan; under which employees retiring at age 55 will receive 2.5% of their single highest year of “regular” pay for each year of service. Classic employees are those hired by a local agency before January 1, 2013 or were hired from another CalPERS agency with a break in service of six months or less. The plan receives both employer and employee normal cost contributions. As of date, the employee normal rate is 7% of the employee salary and the employer rate is 8.966% of employee salary.
2. PEPRA Employees. Effective January 1, 2013, the Public Employees’ Pension Reform Act (PEPRA) created a new retirement tier benefit formula to reduce costs and liabilities for state and local agency members in the CalPERS system. Employees hired after January 1, 2013 are considered PEPRA employees and does not meet the definition of a classic member have a “2.0% at 62” plan; under which employees retiring at age 62 will receive 2.0% of the average of their three highest years of regular pay for each year of service. As of date, the employee normal rate is 6.75% of the employee salary and the employer rate is 8.51% of employee salary.

Figure 11 CALPERS Funding History

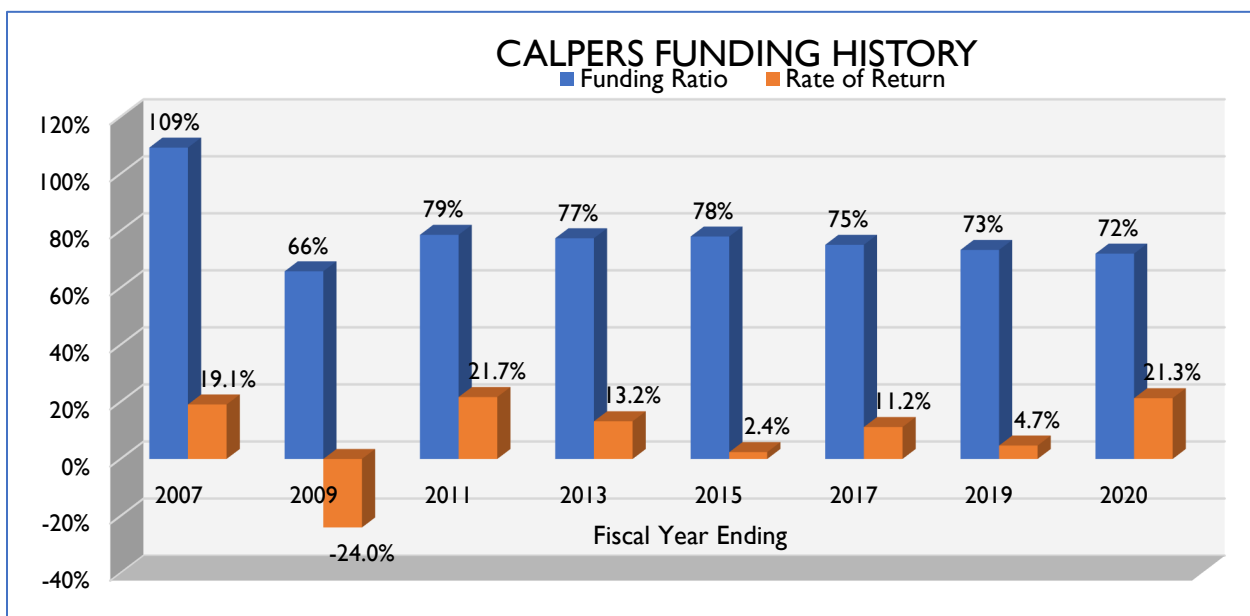
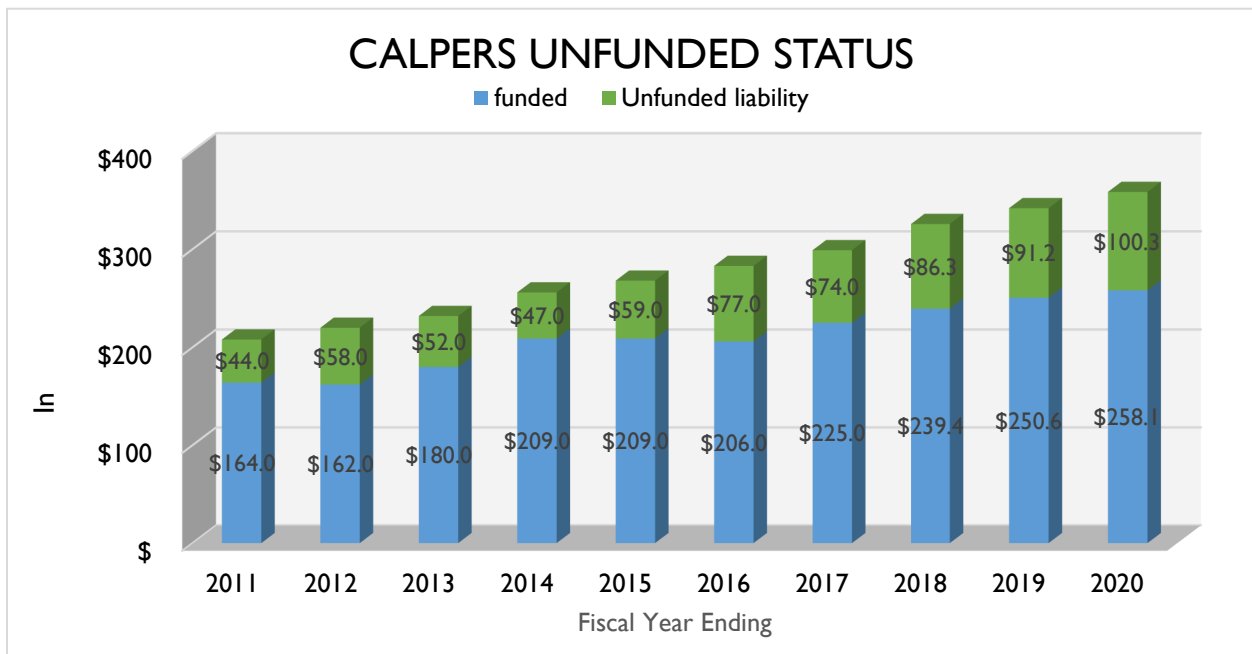


Figure 11 provides a historical rate of return and funding status of the Air District’s pension plan with CalPERS. In 2007, the plan was “super-funded” and required no employer or employee contributions. In 2008 and 2009, at the beginning of the economic downturn, the plan experienced negative returns which reduced the funded status to as low as 66%. As a result, the plan became underfunded and a large unfunded liability is now being recognized. Not only were the annual contributions for the Air District and employees normal cost reinstated, but the Air District as the employer must make additional contributions towards closing the gap for this significant unfunded liability. The 2020 rate of return was 21.3% and the Air District’s plan is 72% funded.

Figure 12 CALPERS Unfunded Status

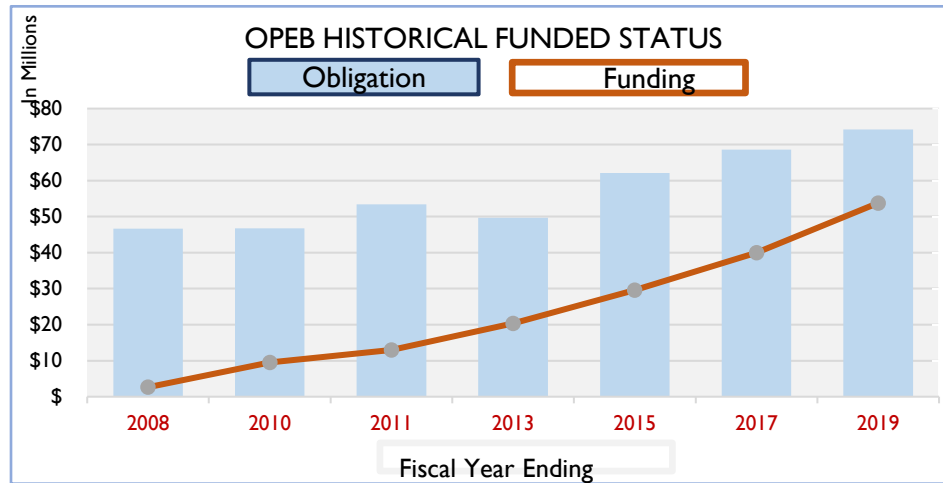


The 2020 actuarial valuation report shows a total funded obligation of \$258 million: leaving an unfunded liability of \$100 million shown in Figure 12. The total required employer contribution for fiscal year 2021 was \$10.7 million, which includes the \$6.3 million UAL payment. The Air District plans to address the unfunded liability pursuant to the Pension policy noted in the Financial Policies Section of this document.

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

In addition to pension, the Air District provides continuation of medical, dental, vision, and life insurance coverage to its retired employees. These benefits vary based on retirees’ date of hire, years of PERS service, and coverage level selected. Figure 13 below shows the funding history for the Air District’s OPEB Plan based on the most recent actuarial valuation report dated June 30, 2019. An actuarial valuation report is prepared every other year, the valuation report is currently underway for the period dated June 30, 2021.

Figure 13 OPEB Historical Funded Status



Prior to 2008, the Air District made annual “pay as you go” payments. These payments only covered the current benefit payments due and payable. They did not account for the dollars required to fund the plan for current plan

members and past vested plan members. While employers are not required to fund the plan, it was strongly recommended that these benefits should be funded as they are earned.

In 2008, the Air District Board approved a plan to start prefunding OPEB and over the last 10-years, these annual discretionary contributions took the plan from 0% funded in 2008 to 75% funded in 2019. Based on the most recent actuarial valuation; the plan’s unfunded liability is estimated at \$18 million. The total employer contribution for fiscal year 2020 was \$6.8 million, which includes the \$4.0 million discretionary funding pursuant to the OPEB policy noted in the Financial Policies Section of this document.

ALTERNATIVE STRATEGY FOR PENSION LIABILITIES

The Air District’s current unfunded liabilities for both the OPEB and Pension plans total \$109 million.

District’s Current Policy was approved by the Board in June 2018. It will be possible to shift the \$4 million in discretionary funds from OPEB once the 90% funded target is reached. Those funds can then be directed to further pay down the unfunded liability in the CalPERS Pension Plan.

In an effort, to address the unfunded liabilities for pension, staff has recommended several investment options which was presented to the Budget & Finance Committee (Committee) in late 2020. Staff anticipates the Committee will take up this item again will refer to the Board its recommendation in 2022.

CERTIFICATION OF PARTICIPATION NOTES (COPS)

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

acquisition, the Air District prepaid \$10.7M towards the purchase, leaving the remaining balance to be paid annually.

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

Predetermined payments:	
<u>Year</u>	<u>Annual Payments</u>
1-10	\$1.2 Million
11-30	\$1.37 Million

30-Year variable rate structure with preset interest rate caps:	
<u>Year</u>	<u>Caps</u>
1-5	3.20%
6-10	4.20%
11-30	5.20%

The interest rate is based on Securities Industry and Financial Market Association (SIFMA) rate plus 1.2%. The estimated principal and interest payments remaining is \$21,173,770 based on the June 30, 2021 SIFMA rate.

FINANCIAL POLICIES

Financial policies provide a shared understanding of how the Air District will develop its financial practices and manage its resources. These policies were established by prior Boards using best practices and industry standards to guide the Air District’s decision-making process. Listed below are Board approved financial policies.

1. Reserve Policy

In 2016, the Air District amended its reserve policy, raising it from 15% to 20% of General Fund operating budget. The Air District’s minimum reserve balance of 20% of the General Fund Operating Budget is intended to address financial emergencies, litigations and one-time operating and capital needs.

2. Cost Recovery Policy

In 2012, the Board approved a Cost Recovery Policy providing for annual amendments to the fee schedules. The annual fee schedule amendments are intended to achieve an 85% cost recovery goal.

3. Pension Policy

In 2016, the Board adopted a policy setting a target funding level of 90%. In 2018, this policy was revised to establish a target date of 20 years to reach a 90% funding level. It also designated \$1 million annually to accelerate funding of the liability. As a part of this action, the Air District will identify alternative investment options for the \$1 million in annual discretionary funding, and present to the Budget and Finance Committee before the end of 2022.

4. Other Post-Employment Benefit (OPEB) Policy

In 2008, the Board approved prefunding of its OPEB plan through a 115-trust with the California Employers Retirement Benefit Trust (CERBT). The Air District discretionary contributions have accelerated through the years and as a result, the current annual discretionary funding is \$4 million. In 2016, the Board approved a policy to set a target funding level of 90%, with no target date. In 2018, the policy was revised to achieve target funding in 3 years. Upon reaching the full funding level, the \$4 million discretionary funding may be redirected to the CalPERS pension plan.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

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

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 23, 2022

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

RECOMMENDED ACTION

None; receive and file.

BACKGROUND

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

DISCUSSION

On November 25, 2019, staff provided a presentation of Section 115 options and staff's recommendations, based on the results of the independent analysis. On February 26, 2020, staff presented additional information on the investment options with the three suggested providers. Staff will present additional information at the February 23, 2022 meeting.

BUDGET CONSIDERATION/FINANCIAL IMPACT

Since 2018, the Board, through the budget process, approved \$1 million annually for pre-funding pension obligations. As of today, a total of \$5 million has been set aside for this purpose; \$4 million from the Air District's Designated Reserves and \$1 million from the FYE 2022 Adopted Budget.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Leonid Bak and Stephanie Osaze
Reviewed by: Jeff McKay