



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

AGENDA: 4

Second Quarter Financial Report Fiscal Year Ending (FYE) 2022

**Budget and Finance Committee Meeting
February 23, 2022**

**Stephanie Osaze
Finance Director
sosaze@baaqmd.gov**

Presentation Outcome



Provide a General Fund financial summary for the
Second quarter ending December 31, 2021

Presentation Outline



General Fund Reporting on 2nd Quarter financial results (July 1, 2021 – December 31, 2021):

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

Presentation Requested Action



To receive and file the Second Quarter financial summary report

2nd Quarter Results FYE 2022



Major Categories	FYE 2022 Budget	FYE 2022 Actual (as of 12/31/2021)	Percentage of Budgeted Revenues
County receipts	\$39,335,284	\$12,212,622	31%
Permit Fees	\$39,724,621	\$28,026,678	71%
Title V Permit Fees	\$6,261,936	\$5,632,916	90%
Asbestos Fees	\$4,000,000	\$2,098,968	52%
Toxic Inventory Fees	\$731,737	\$1,682,159	230%
Community Health Impact	\$918,891	\$1,027,362	112%
Criteria Pollutant Toxic	\$1,300,000	\$735,678	57%
Penalties and Settlements	\$2,750,000	\$3,664,428	133%
Interest Revenue	\$1,609,848	\$367,528	23%
Total Revenues	\$96,632,317	\$55,448,339	57%

Revenue Comparison



Prior Year vs. Current Year

Major Categories	FYE 2021 (As of 12/31/2020)	FYE 2022 (As of 12/31/2021)	\$ DIFFERENCE
County receipts	\$9,707,872	\$12,212,622	\$2,504,750
Permit Fee	\$25,539,368	\$28,026,678	\$2,487,310
Title V Permit Fees	\$5,342,282	\$5,632,916	\$290,634
Asbestos Fees	\$2,091,026	\$2,098,968	\$7,942
Toxic Inventory Fees	\$2,275,097	\$1,682,159	(\$592,938)
Community Health Impact	\$0	\$1,027,362	\$1,027,362
Criteria Pollutant Toxic	\$0	\$735,678	\$735,678
Penalties and Settlements	\$1,025,884	\$3,664,428	\$2,638,544
Interest Revenue	\$500,669	\$367,528	(\$133,141)
TOTAL REVENUES	\$46,482,197	\$55,448,339	\$8,966,142

2nd Quarter Results FYE 2022

General Fund - Expenditures



Major Categories	FYE 2022 Budget	FYE 2022 Actual (as of 12/31/2021)	Percentage of Budgeted Expenditures
* Personnel - Salaries	\$56,283,725	\$25,290,051	45%
* Personnel - Benefits	\$29,413,335	\$19,782,719	67%
Operational Services and Supplies	\$32,092,559	\$11,676,480	36%
Capital Outlay	\$5,187,458	\$1,409,588	27%
Total Expenditures	\$122,977,077	\$58,158,838	47%

*** Consolidated (Includes Special Funds)**

Expenditure Comparison

Prior Year vs. Current Year



Major Categories	FYE 2021 (As of 12/31/2020)	FYE 2022 (As of 12/31/2021)	\$ DIFFERENCE
*Personnel - Salaries	\$24,222,686	\$25,290,051	\$1,067,365
*Personnel - Benefits	\$14,476,235	\$19,782,719	\$5,306,484
Operational Services and Supplies	\$11,073,347	\$11,676,480	\$603,134
Capital Outlay	\$1,662,392	\$1,409,588	(\$252,804)
TOTAL EXPENDITURES	\$51,434,659	\$58,158,838	\$6,724,179

***Consolidated includes Special Funds**

2nd Quarter Results FYE 2022

Investments



Cash and Investments with County Treasury:

(Based on Dec 2021 Account Balance)

General Fund	\$108,094,498
TFCA	\$125,602,098
MSIF	\$53,376,272
Carl Moyer	\$70,537,271
CA Goods Movement	\$21,286,051
AQ Projects	\$1,362,240
Vehicles Mitigation	\$6,688,291
TOTAL	<u>\$386,946,721</u>

Fund Balance and Outstanding Liabilities



FUND BALANCES	6/30/2020 Audited	6/30/2021 Unaudited	6/30/2022 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	\$27,432,966	\$29,644,922	\$48,653,025
UNDESIGNATED	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.			
ESTIMATED OUTSTANDING LIABILITIES			
CalPERS Pension Retirement			101,305,734
Other Post Employment Benefits			18,368,386
Certificate of Participation Notes			21,173,770
TOTAL ESTIMATED OUTSTANDING LIABILITIES			\$140,847,890

Purchasing Reporting Requirements



- **Section 4.3 of the Purchasing Procedures states:**
Recurring payments of routine business needs, such as utilities, licenses, office supplies, etc., that are more than **\$100,000** shall be presented in the Quarterly Financial Report.
 - In an effort of full disclosure, list also includes benefit payments.



FYE 2022 Vendor Payments

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

	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

Feedback Requested/Prompt



No action needed



BAY AREA
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AGENDA: 5

Air District Financial Plan Overview

**Budget and Finance Committee Meeting
February 23, 2022**

**Jeff McKay
Chief Financial Officer
jmckay@baaqmd.gov**

Presentation Outcome



The Committee will be updated on the Air District's Financial Plan including the five-year financial forecast. With this information the Committee will be ready to enter the Fiscal Year Ending (FYE) 2023 budget cycle.

Presentation Outline



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

Presentation Requested Action



Information only, no action needed

Plan Purpose



Purpose: Capture and retain Air District pre-budget planning processes in a document

- Forecasts
- Policies
- Investment Options

Plan Purpose (cont.)



- Provides a Five-Year Fiscal Forecast:
Fiscal Year (FY) 2023-2027
- Fourth Year of Implementation
- Living Document (updated annually)

Historical Financial Conditions/Trends



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

Actions Taken During Downturn

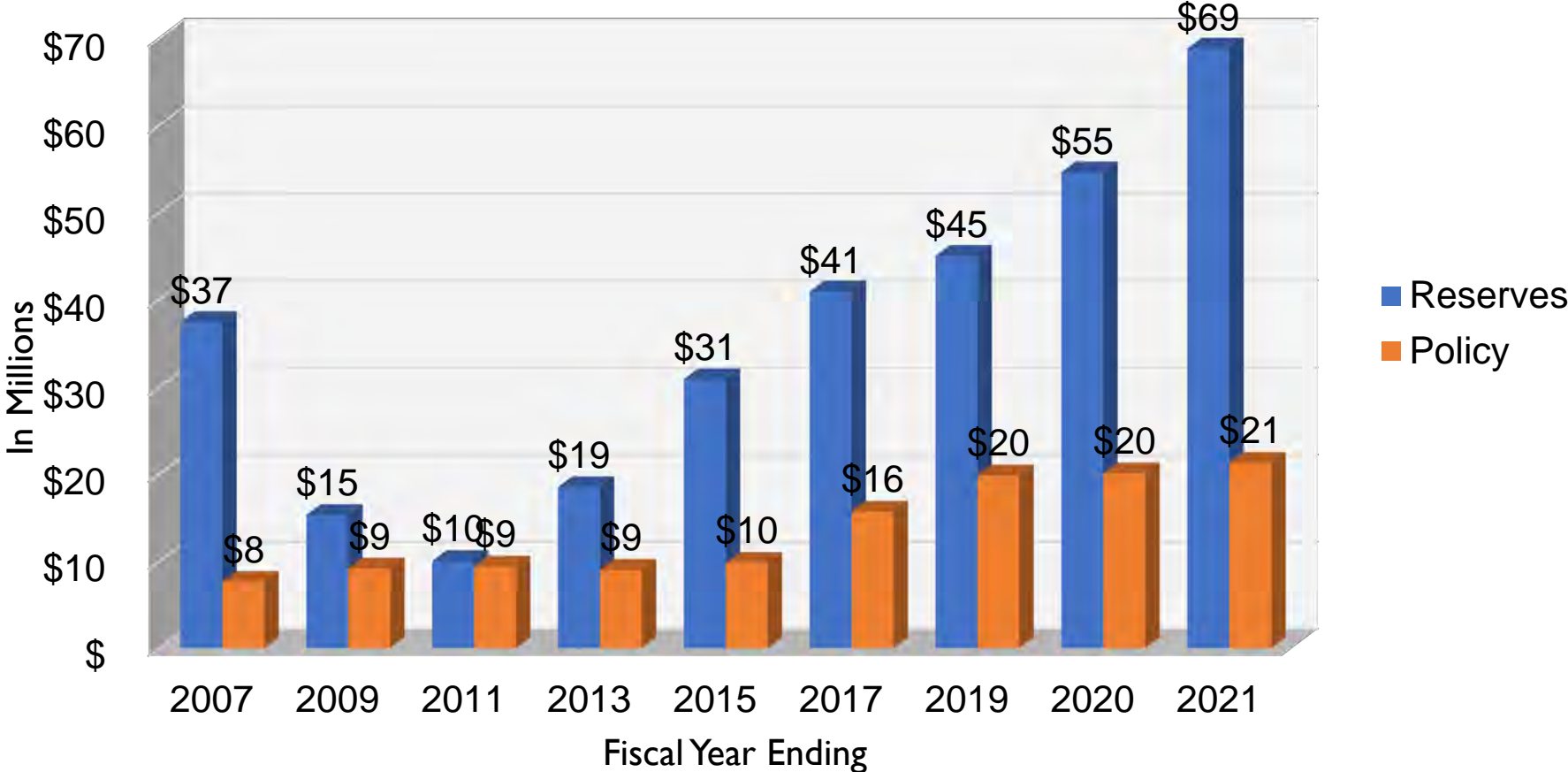


- Use of Reserves
- Reduced Staffing through Attrition
- Postponed Expenditures
- Deferred Capital Investment
- Initiated the Cost Recovery Policy

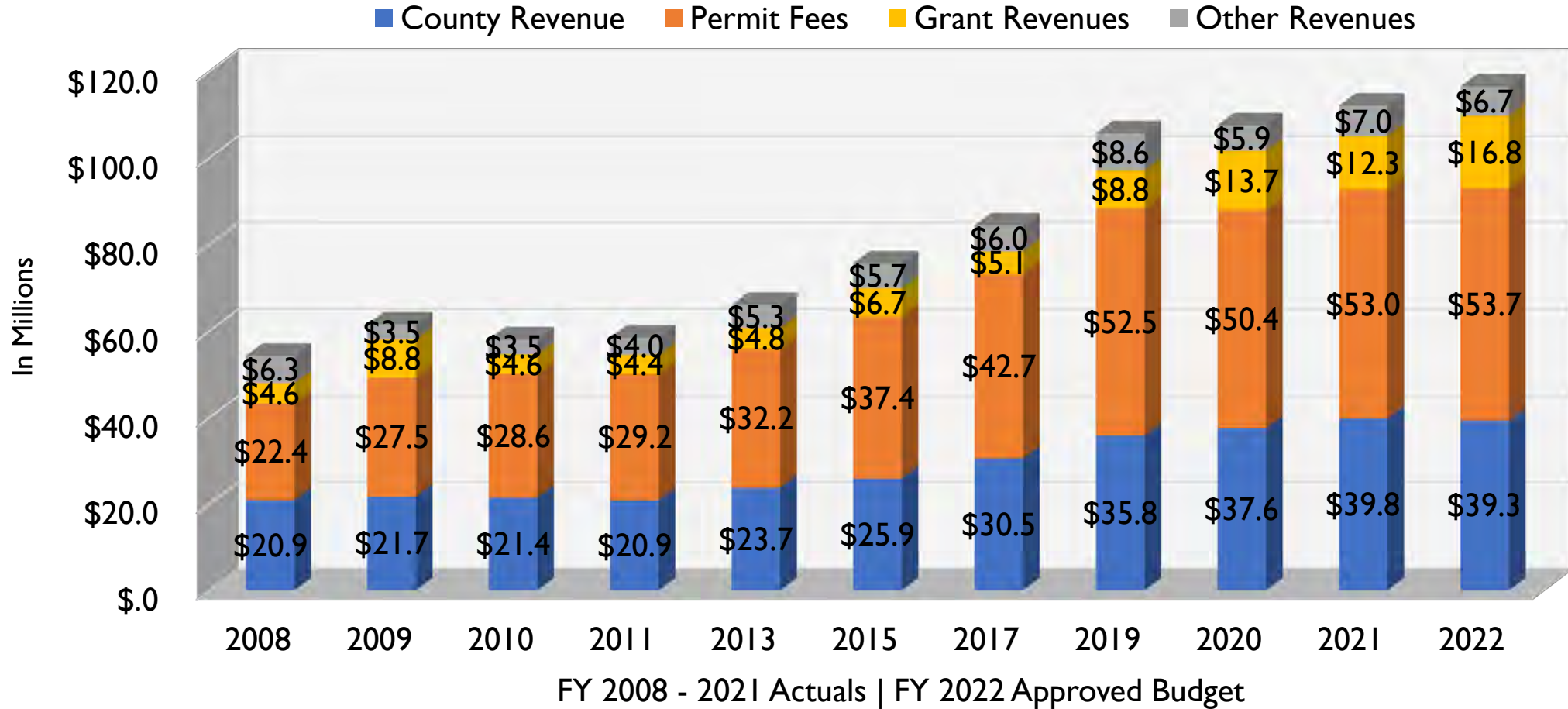
Actual Reserves and Policy



GENERAL FUND RESERVES COMPARED WITH POLICY



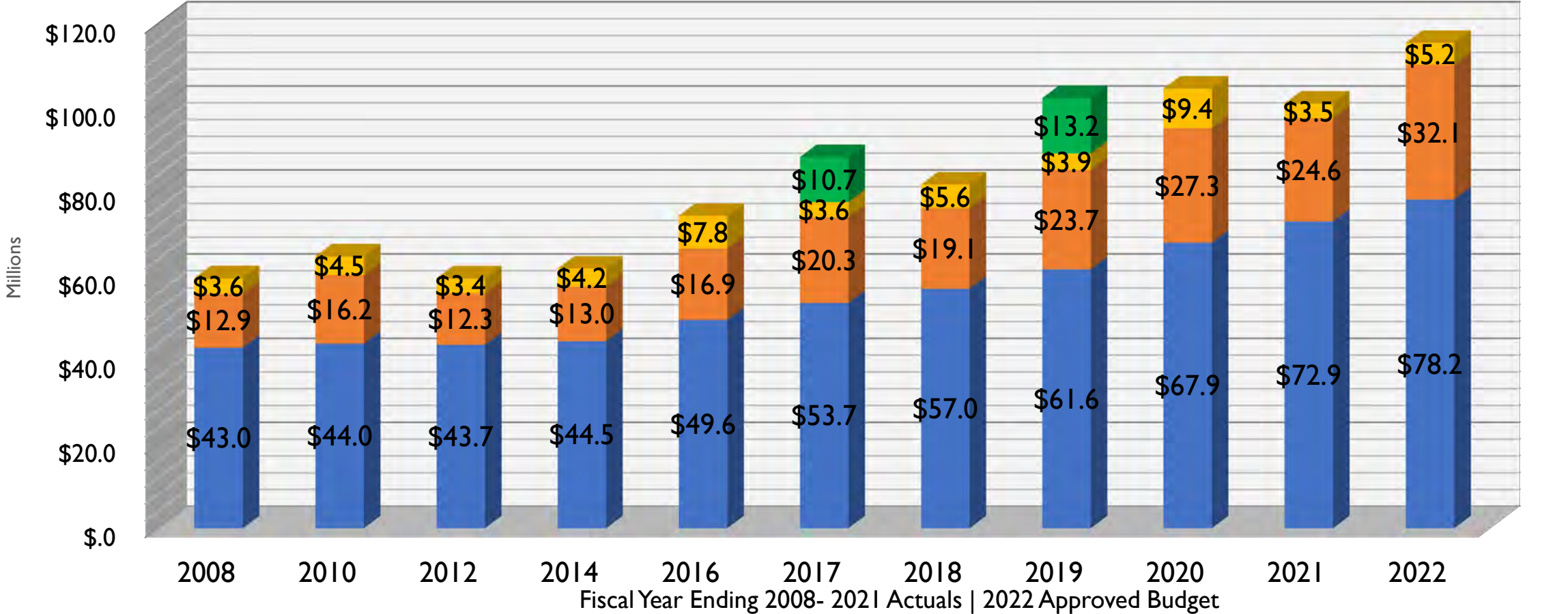
Historical Revenues



Historical Expenditures



■ Personnel
 ■ Services & Supplies
 ■ Capital
 ■ Property Acquisition



Cost Recovery Overview



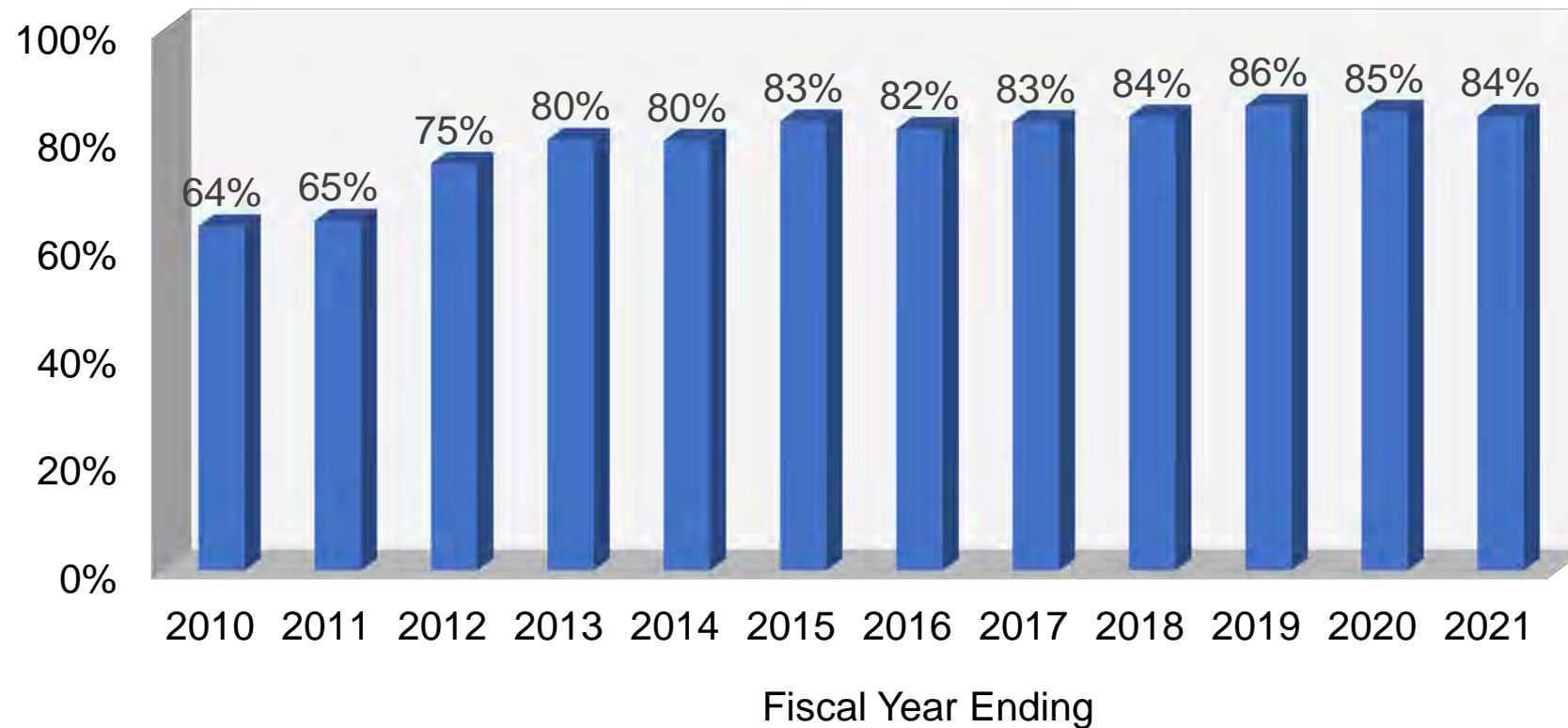
Cost Recovery Policy Established in FYE 2012:

- Projected 6.4% annual fee increase
- 85% minimum funding target
- Cost Recovery Review is underway
- Regulated community gains predictable fees
- Review if Budget Advisory Group (1st meeting held on January 24, 2022)

Cost Recovery Fee Increases



COST RECOVERY TREND USING 3 YEAR AVERAGE



FYE 2022 Approved Budget Overview



- \$117 Million (M) General Fund Budget
- Includes Use of Reserves of \$.05 M
- Reinstated Amendment to Existing Fee Schedules
- New Fee to recover costs of California Air Resources Board's Criteria Pollutant and Toxics Emissions Reporting Regulation
- 445 Full-Time Equivalent (FTE); includes 4 FTE added in December 2021
- No Increase in Services and Supplies
- Addresses Retirement Liabilities
- Includes 1.5% Cost of Living Adjustment (COLA)

Current Financial Outlook



FYE 2022 General Fund Budget:

- General Fund Budget is \$117 million (M)
- Projected Revenues on target
- Projected Expenditures on target

Current Reserves



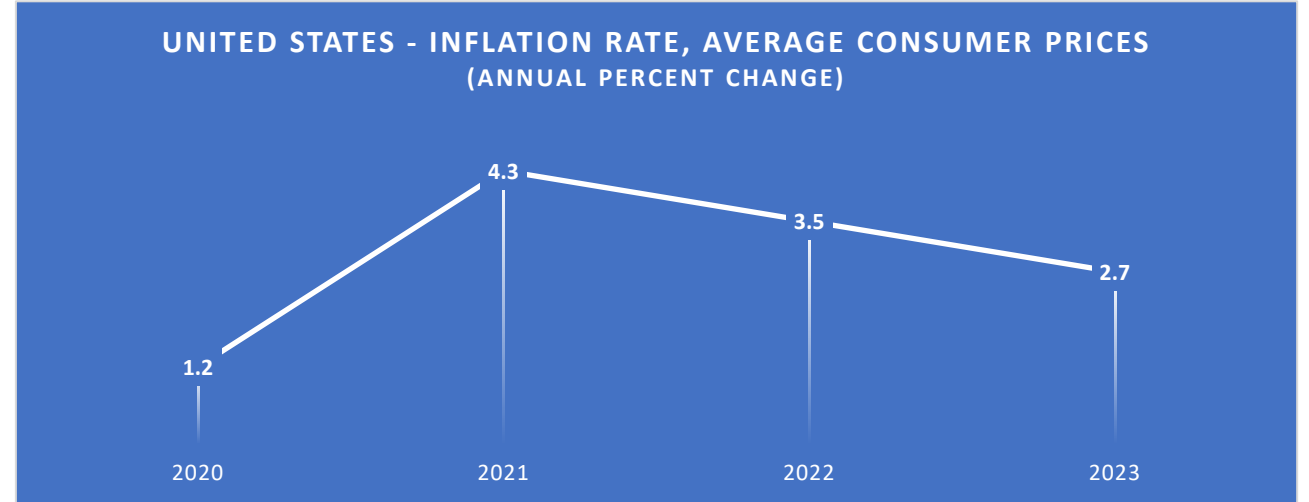
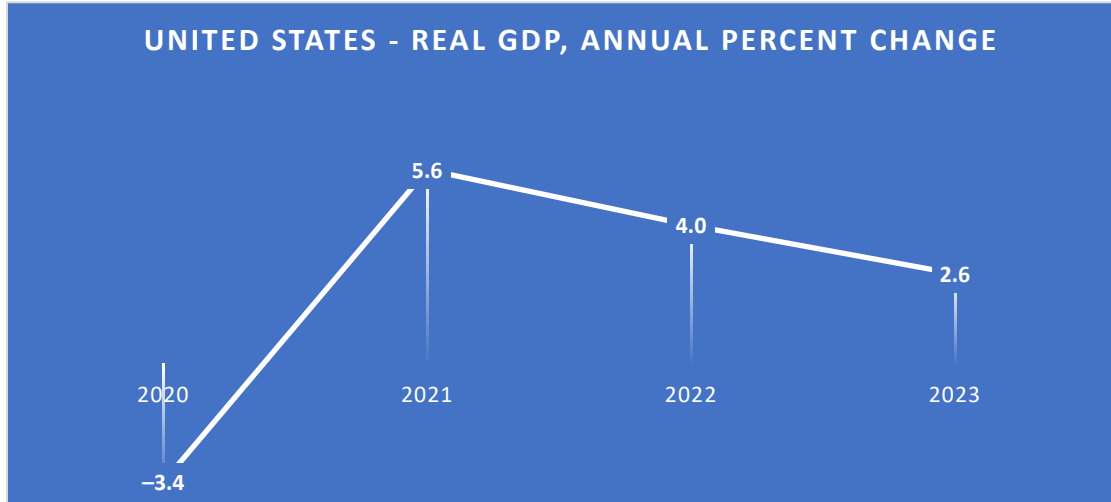
- Total Reserves = \$64 M
- Minimum Policy: 20% of Budget = \$23 M
- Board Reserves Designation excluding the Minimum Policy = \$26 M
- Remaining Available Reserves = \$15 M
- Staff will present recommendations for available reserves as a part of the FYE 2023 Budget presentation

Economic Outlook - Economic Indicators for the United States



Economic growth in the US is expected to moderate over the next few years...

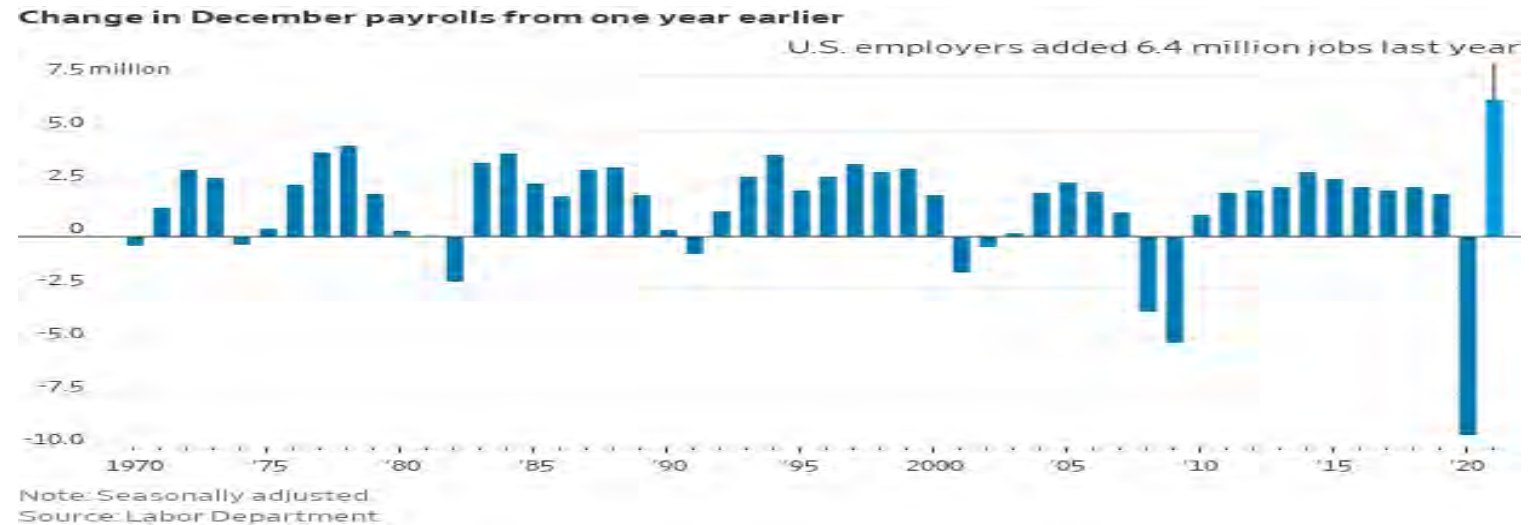
...as US Federal Reserve Bank lifts interest rates to stem historically high inflation



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

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

US unemployment rate has come down to 3.9% at the end of 2021, in part leading to accelerating inflation. In the rapidly growing economy, worker shortages have plagued a wide array of employers, leading to wave of rising prices.



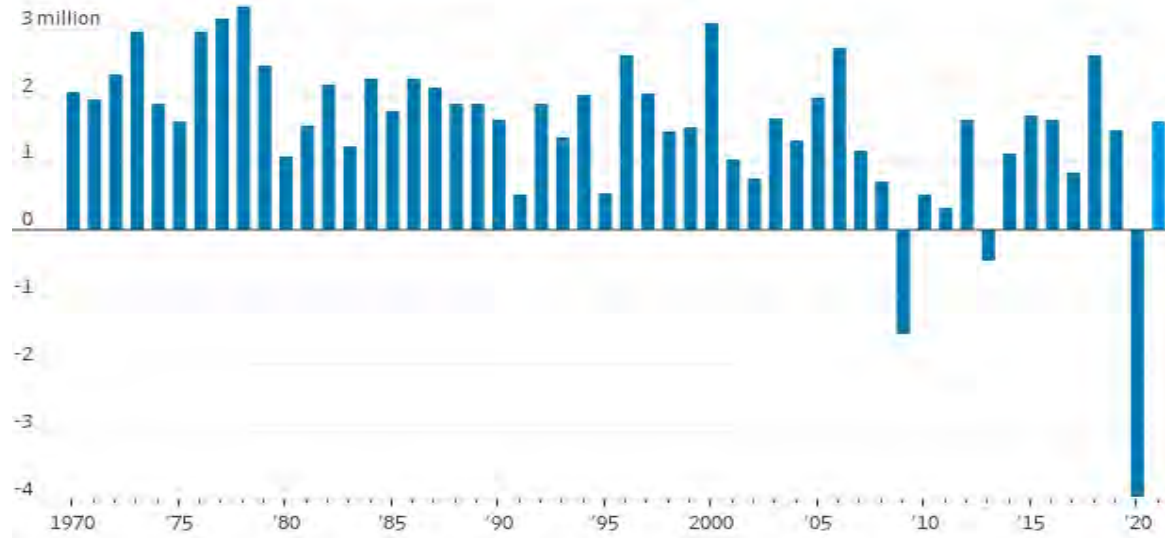
2021: Historic Labor Market Recovery



The total US labor force expanded only by 1.6 million workers in 2021, after losing nearly 5 million in 2020...

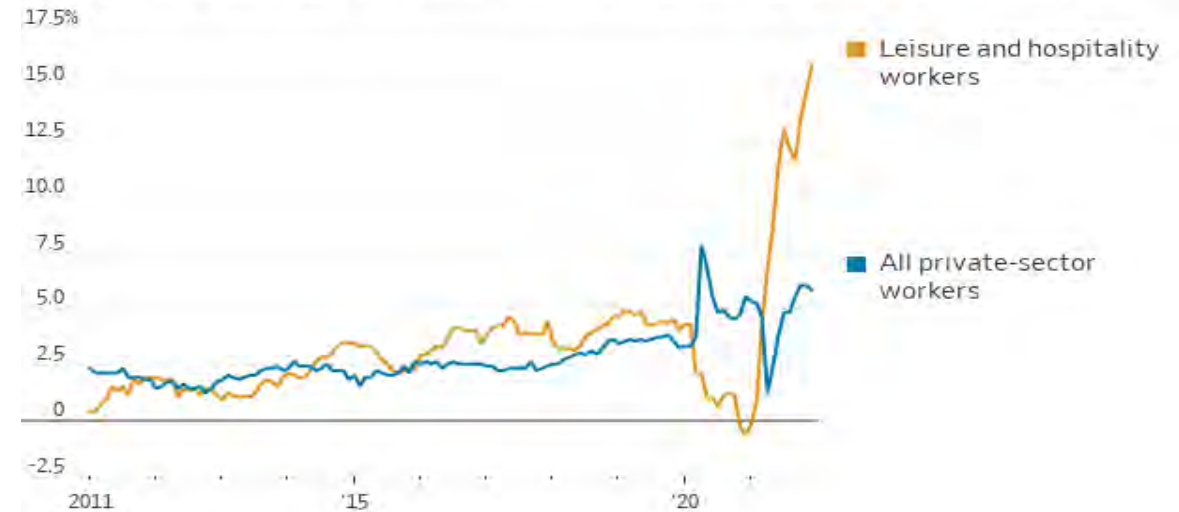
... which led to wage pressures and increases. Abundant jobs and rising wages contribute to fears of persistent inflation and the wage-inflation spiral.

Change in civilian labor force from one year earlier



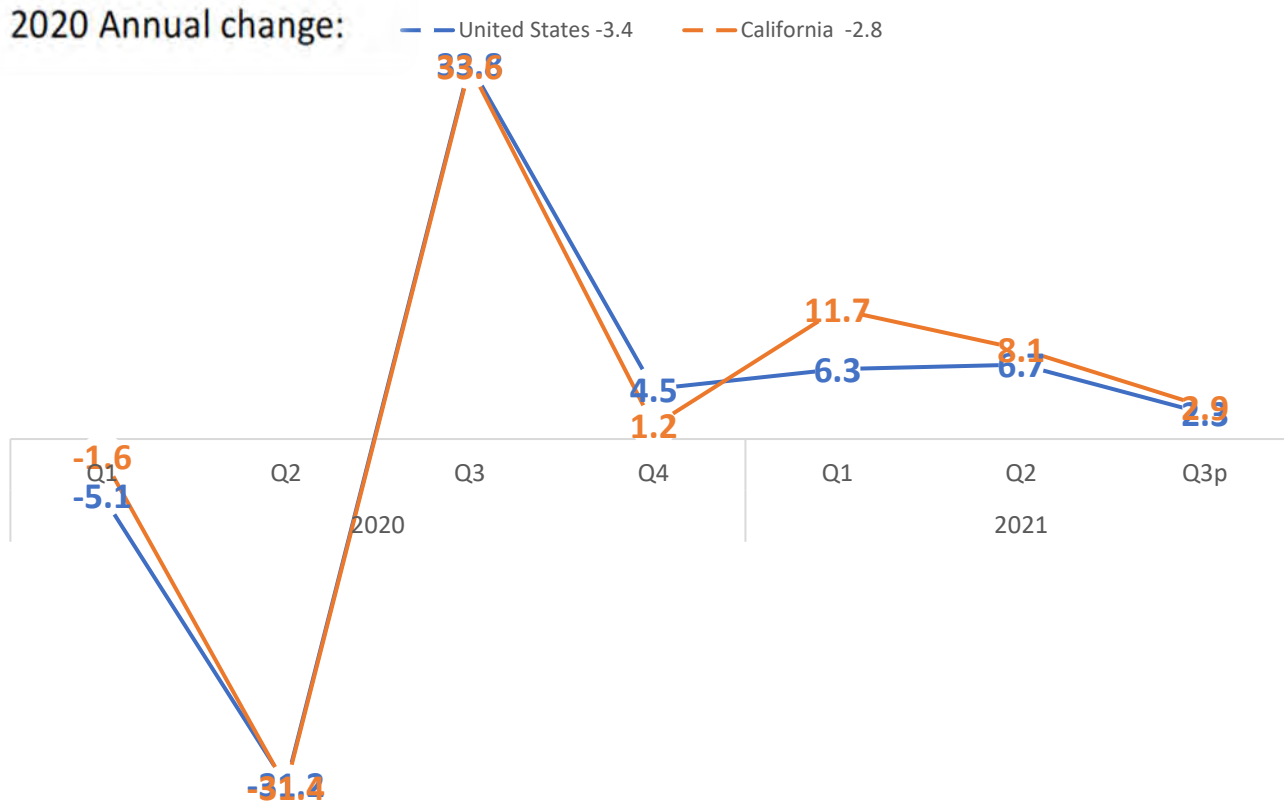
Note: Seasonally adjusted; measures change from December to December
Source: Labor Department

Average hourly earnings for production and nonsupervisory workers, 12-month change



Note: Seasonally adjusted
Source: Labor Department

Economic Outlook – Economic Growth in California

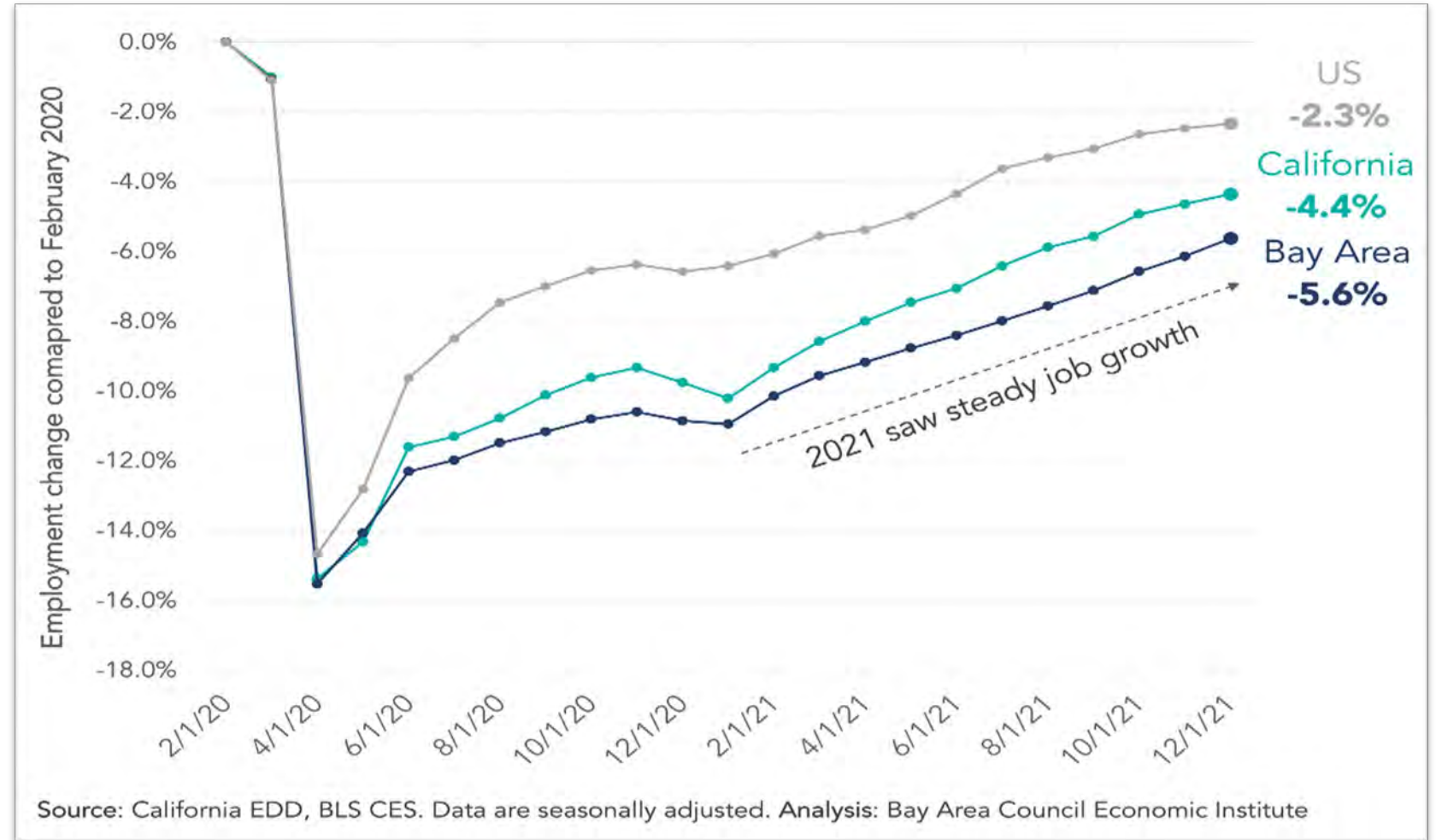


- California’s economic performance largely mirrors US economic growth.
 - ❖ California is the largest contributor state to the US economy
 - ❖ California’s robust economic performance in 2021 is explained by the state housing many companies in capital intensive industries, which have done very well financially during the pandemic and resulted in large budget surplus for the state.
- Growing risks to the economic outlook for the state in 2022:
 - ❖ the state’s capital intensive companies may have a different fortune in 2022, as the US Federal Reserve lifts interest rates



Bay Area's Labor Market Trends

- Bay Area's job market has shown steady growth in 2021, although recovery is still incomplete and trailing both California and US average recovery.
- In large part owing to the work from home arrangements, Bay Area's job market has been slower to recover



Real Estate and Property Taxes in Bay Area Counties



- Despite high office and retail vacancy rates and still unresolved commercial property issues, due to COVID-19, increases on the residential side continue to compensate these negative impacts in the short term.
- Real property assessments increased across the Bay Area for 2021-22, higher than the typical long-run average of 2% per year, but lower than 2020-21.
- Based on recent trends, most likely impact to the Air District's budget from county property taxes for the next year's budget will be an increase in the range of +4 percent to +6 percent

<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>	5.9	3.7

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

Financial Forecast



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

Forecast Summary



- The Forecast is cautiously optimistic showing a positive fiscal outlook over the next five years
- Some of the **Key Assumptions** driving the results are:
 - Assembly Bill 617 State Funding continues
 - Cost Recovery Policy of 85% continues
 - Staffing remains at 445 Full Time Employees
 - Continue Funding Other Post-Employment Benefit (OPEB) and Pension
- ***These assumptions may change during the budget process***

Five-Year Financial Forecast

Key Revenue Assumptions



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

- Annual revenue increases averaged 6.6% over the past three years, due to strong economic conditions
- Forecast assumes a 5% increase in revenue for FYE 2023 based on the CPI, and conservative increase of 3% over the next four years of the plan
- **Current Cost Recovery level** ranges between 85% and 87% over the next five years as vacancies are filled

Five-Year Financial Forecast

Key Expenditure Assumptions



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

- 3% annual increase over the five-year plan
- 3% vacancy savings is projected in the first four years with savings gradually declining to 2% in the last year as vacancies are filled
- No Staffing increase in authorized budget positions

Five-Year 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

Unfunded Liabilities-OPEB



- **Medical Retirement (OPEB):**
 - Obligation: \$72 M
 - Funded: \$54 M (75%)
 - Unfunded: \$18 M (25%)
- **Funding Policy: 90% Funded Level**
 - Target Date (FYE 2023) based on current valuation
 - \$4 M Annual Discretionary Funding
 - Redirect \$4 M Discretionary Funding to CalPERS Pension after reaching target funding level

Unfunded Liabilities-Pension



- **CalPERS Retirement:**
 - Obligation: \$358 M
 - Funded: \$258 M (72%)
 - Unfunded: \$100 M (28%)
- **Funding Policy: 90% Funded Level**
 - 90% Target Date (FYE 2029) based on current valuation
 - \$1 M Annual Discretionary Funding
 - \$4 M Redirect Discretionary Funding from OPEB

Next Steps



- **March 14, 2022:** Budget Advisory Group Meeting to discuss FYE 2023 Proposed Budget and Proposed Fee Regulation Amendments
- **March 23, 2022:** Presentation of the FYE 2023 Proposed Budget and Proposed Fee Regulation Amendments
- **April 27, 2022:** Committee Refers FYE 2023 Proposed Budget to Board of Directors

Feedback Requested/Prompt



- No Action Requested
- With this information, the Committee is ready to enter the FYE 2023 budget cycle.



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AGENDA: 6

Additional Information on Investment Advisor for Section 115 Trust

**Budget and Finance Committee Meeting
February 23, 2022**

**Jeff McKay
Chief Financial Officer
jmckay@baaqmd.gov**

Presentation Outcome



The Committee will be updated with additional information on selecting investment advisor for Section 115 Trust.

Presentation Outline



- Comparison of returns to benchmarks
- Comparison of investment managers
- Comparison of investment costs
- CEPPT (CalPERS) organizational structure

Presentation Requested Action



Informational only, no action needed.

Section 1: Comparison of Returns to Benchmarks



- Most appropriate strategies for the Air District's investment goals are medium to long-term
- Because the returns or investment strategies are rarely similar or even close across companies, efforts are made to compare returns in the middle/center strategies, also known as “moderate” strategies
- Focus on the 40-60% equity allocation strategies

Section 1: Comparison of Returns on Moderate Investment Strategy



Investment Advisor	RETURNS: 1-Year	3 Year	5 Year	10 Year
PFM[^]	15.63%	10.35%	9.42%	9.14%
<i>PFM's benchmark</i>	<i>13.44%</i>	<i>9.33%</i>	<i>8.73%</i>	<i>8.39%</i>
CalPers (CERBT)*	10.63%	12.03%	9.46%	7.90%
<i>CalPers benchmark</i>	<i>10.45%</i>	<i>11.82%</i>	<i>9.14%</i>	<i>7.57%</i>
PARS[~]	15.94%	9.54%	8.93%	8.72%
<i>PARS' benchmark</i>	<i>15.32%</i>	<i>9.40%</i>	<i>8.73%</i>	<i>8.63%</i>

Notes:

[^]PFM's Strategy/Benchmark is based on the PFM Multi Asset Class: 50:50 (consisting of 33% Russell 3000, 17% MSCI ACWI ex US, 50% Barclays Aggregate)

*CalPers CEPPT is based on CalPers CERBT strategy 2, which is similar in its allocation to CEPPT strategy 1. CERBT strategy 2 consists of the following elements: Global Equity: 40% (+/- 5%) MSCI ACWI IMI Index; Fixed income: 43% (+/- 5%) Bloomberg Barclays Capital Long Liability Index; Global Real Estate: 8% (+/-5%) FTSE EPRA/NAREIT Developed Liquid (Net); Treasury Inflation Protected Securities (TIPS): 5% (+/- 3%) Bloomberg Barclays US TIPS Index (Series L); and Liquidity: 0% (+/- 2%) 91-Day Treasury Bill

[~]PARS returns are based on the "Moderate" strategy: 48.4% equity; 47.6% fixed income; and 4.03% cash

Section 2: Comparison of Investment Managers



CalPers/CEPPT – **State Street Global Advisors (SSGA)** manages both CEPPT and CERBT investment trust assets. SSGA maintains investment portfolios, CalPers provides performance benchmarks for asset classes.

Passive investment management by SSGA (“index investing”).

PFM – **Principal Financial Group** (formerly, Wells Fargo Institutional Retirement and Trust Services – Principal bought WFIRT in July 2019). Principal maintains portfolios;

active investment management by PFM.

PARS – partners with **HighMark Capital Management** and **US Bank**. PARS monitors plan compliance, administration, coordination

Mostly ***active investment management***.

Section 3: Comparison of Costs



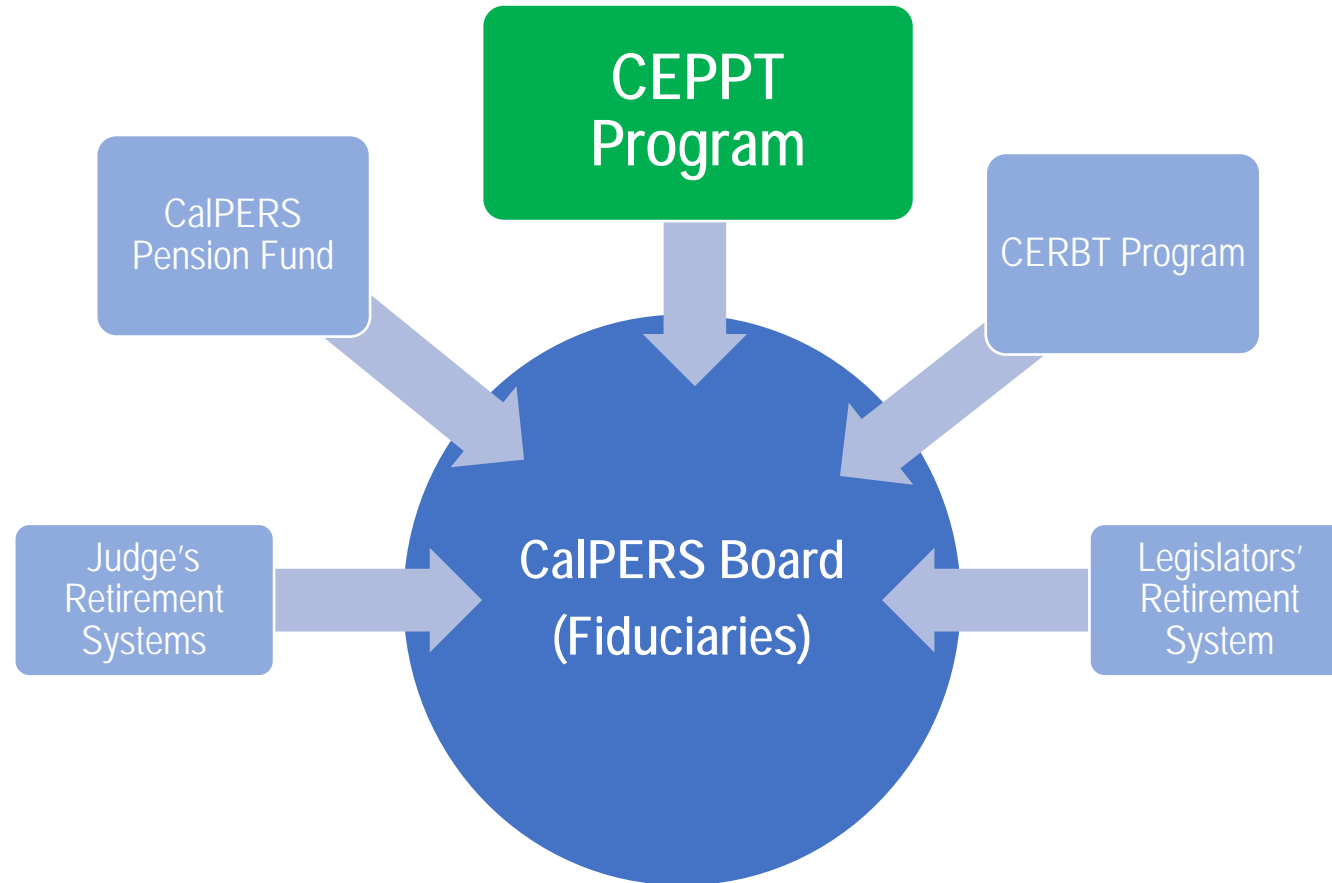
How Investment Advisors Compare on Costs to Invest

	PARS	PFM	CalPERS CEPPT
Under \$5M	0.60%	0.40%	0.25%
\$5M - \$10M	0.50%	0.40%	0.25%
\$10M	0.50%	0.40%	0.25%
\$10M-\$15M	0.40%	0.40%	0.25%
\$15M - \$20M	0.30%	0.40%	0.25%
\$20M	0.30%	0.40%	0.25%
\$50M	0.25%	0.25%	0.25%
\$100M	0.20%	0.25%	0.25%
\$100M+	0.20%	0.25%+	0.25%

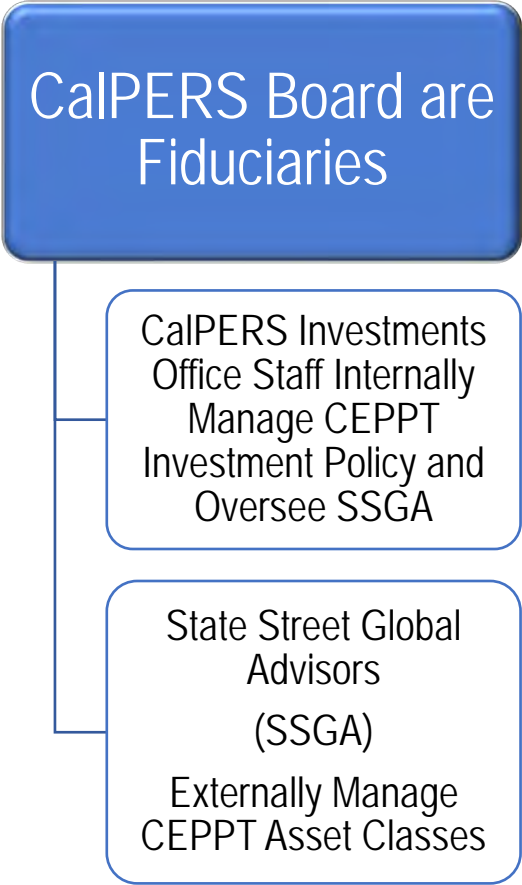
Section 4: Organizational Structure of CEPPT within CalPers



CalPERS Board are Fiduciaries of Separate Programs



CEPPT Fiduciaries and Investment Managers



CEPPT Investment Management



- CalPERS Board accepts investment fiduciary responsibility
- CalPERS Board approves investment policy recommendations from CalPERS Investment Office (INVO) staff supported by external investment consultants
- CEPPT investment policy compliance and daily cash flow transactions managed by INVO staff
- SSGA externally manage CEPPT asset classes
- INVO staff oversee SSGA's external management efforts

CEPPT Investment Risk



Investment risk is managed through:

- Broad diversification of assets
- Board approved investment policy
- Performance measured against objective public benchmarks
- Oversight by independent external investment consultants, CalPERS CFO and CalPERS Office of Enterprise Risk Management

What Happens if the Air District Closes the 115 Trust?



No restrictions from the 3 Advisors if the Air District were to choose to close the Section 115 trust

- Upon notification of intention to close the account, portfolio and monies would be available in the custody account for use by the District for pension expenses.
- The only restriction is once money is invested in the trust it **MUST** be used to fund pension expenses, i.e, pay contributions to CalPERS
- Notice period to close the account/transfer funds varies: PARS, PFM: 30 days notice; CEPPT: 150 days with Board approval

Feedback Requested/Prompt



- No Action Requested