



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

AGENDA: 5

Continued Discussion of Proposed Budget for Fiscal Year 2022-2023

**Budget and Finance Committee Meeting
April 27, 2022**

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

Presentation Outcome



The Committee will continue review of the Fiscal Year (FY) 2022-2023 Proposed Budget and consider recommendation to the Board of Directors

Presentation Outline



- Status of Current Fiscal Year 2021-2022
- Financial History/Trends
- Proposed Budget for Fiscal Year 2022-2023
- Next Steps

Requested Action



The Committee will recommend that the Board of Directors:

1. Conduct Public Hearings on the Fiscal Year 2022-2023 Proposed Budget; and
2. Adopt the Fiscal Year 2022-2023 Proposed Budget



Actions Taken During the Economic Downturn:

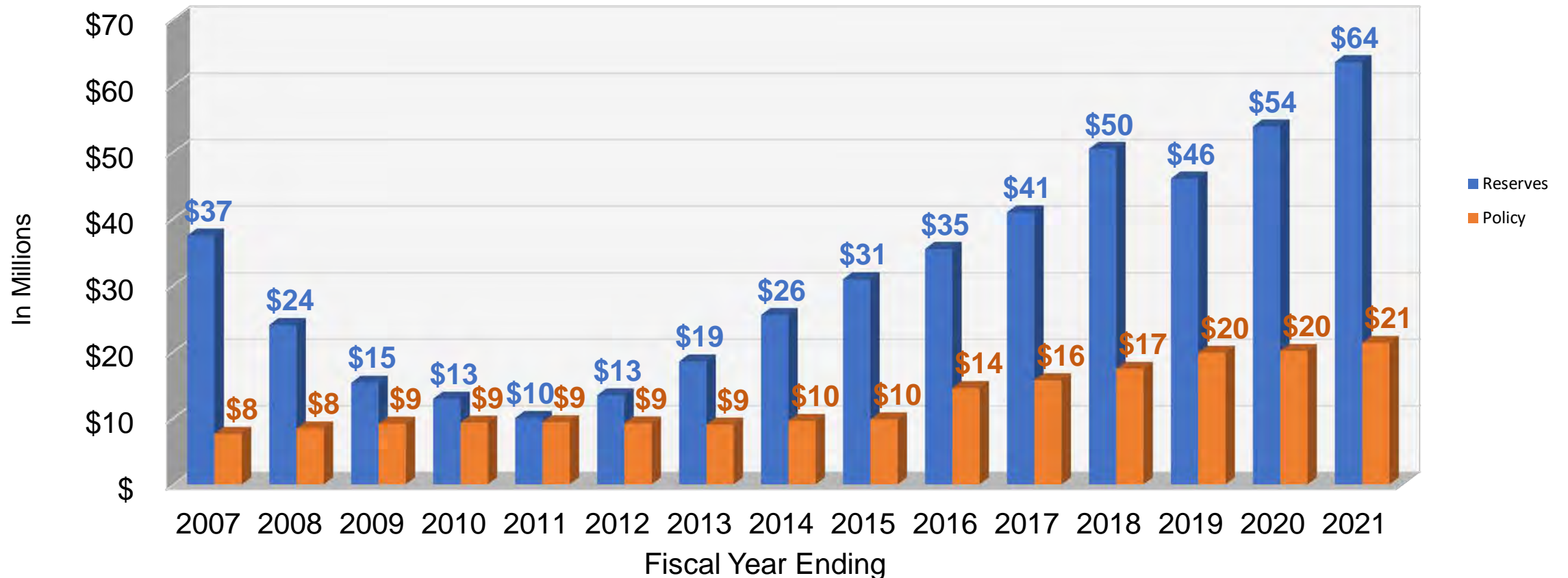
- Reserves Used for General Fund Expenditures
- Vacancies Unfilled (Staff Reduction Through Attrition)
- Postponed Expenditures
- Deferred Capital Investment
- Initiated Cost Recovery Policy
- Continued Funding of Retirement Liabilities

Financial History (cont.)

Actual Reserves and Policy Trends

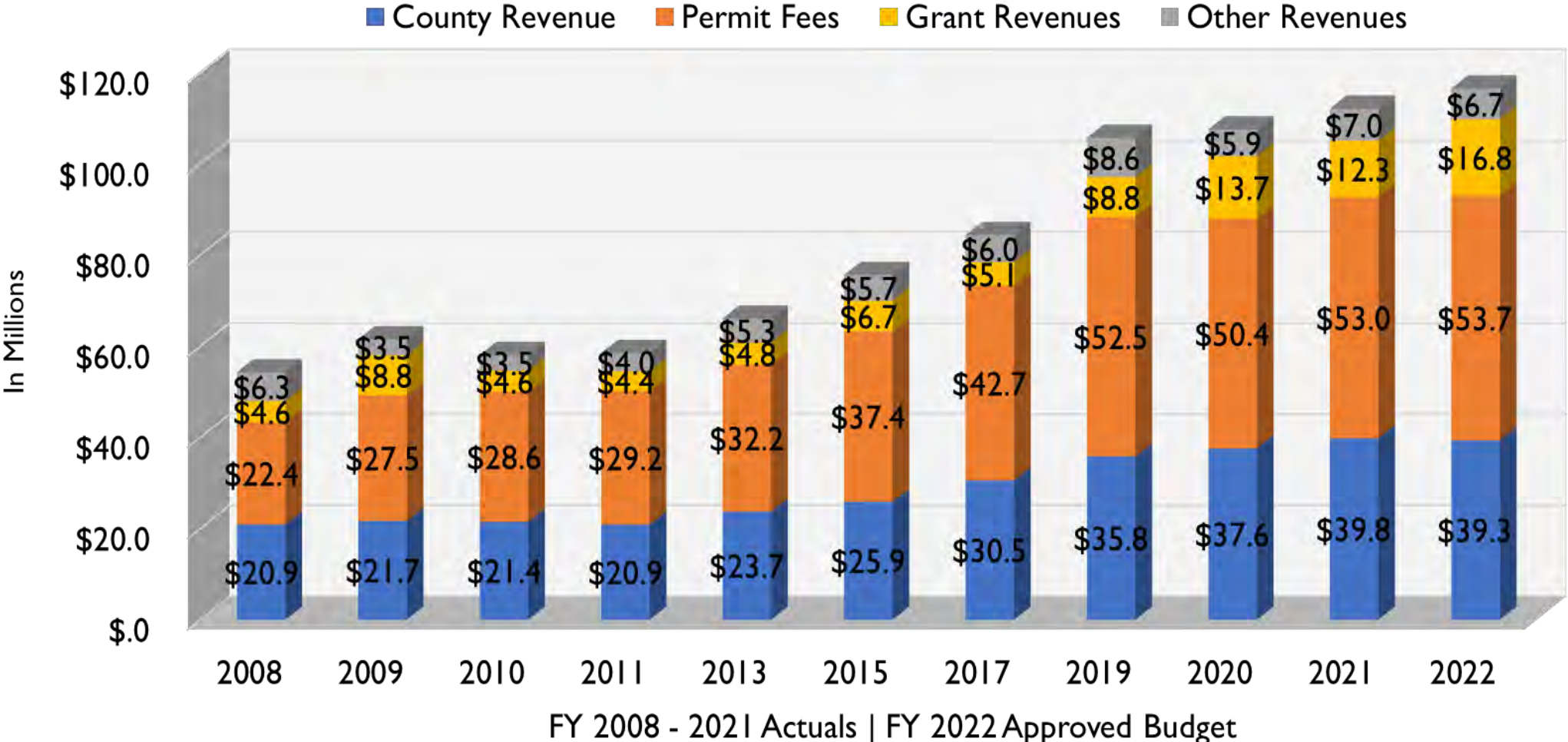


GENERAL FUND RESERVES COMPARED WITH POLICY



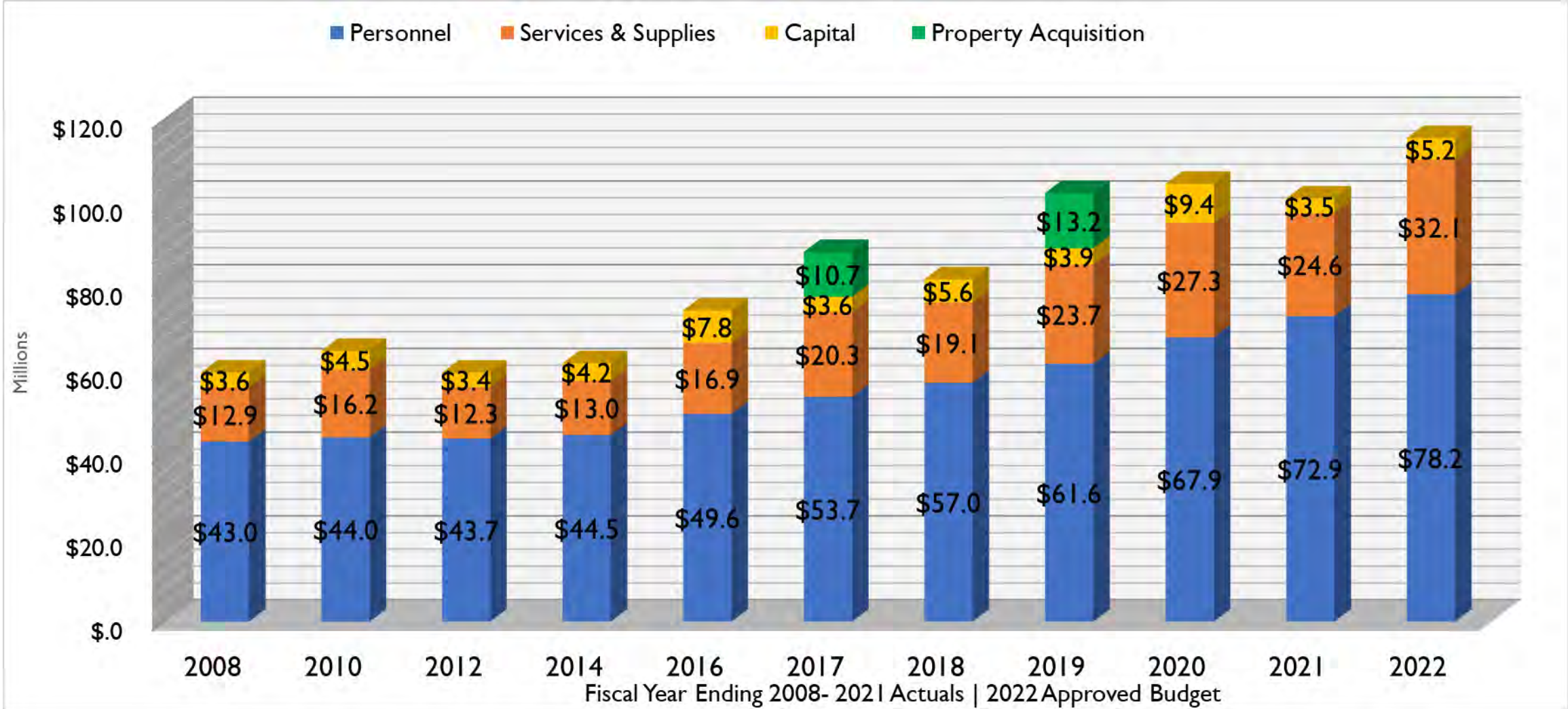
Financial History (cont.)

General Fund Revenue Trends



Financial History (cont.)

General Fund Expenditure Trends



Financial History (cont.)

Staffing Trends



AVERAGE FILLED SEATS BY FISCAL YEAR

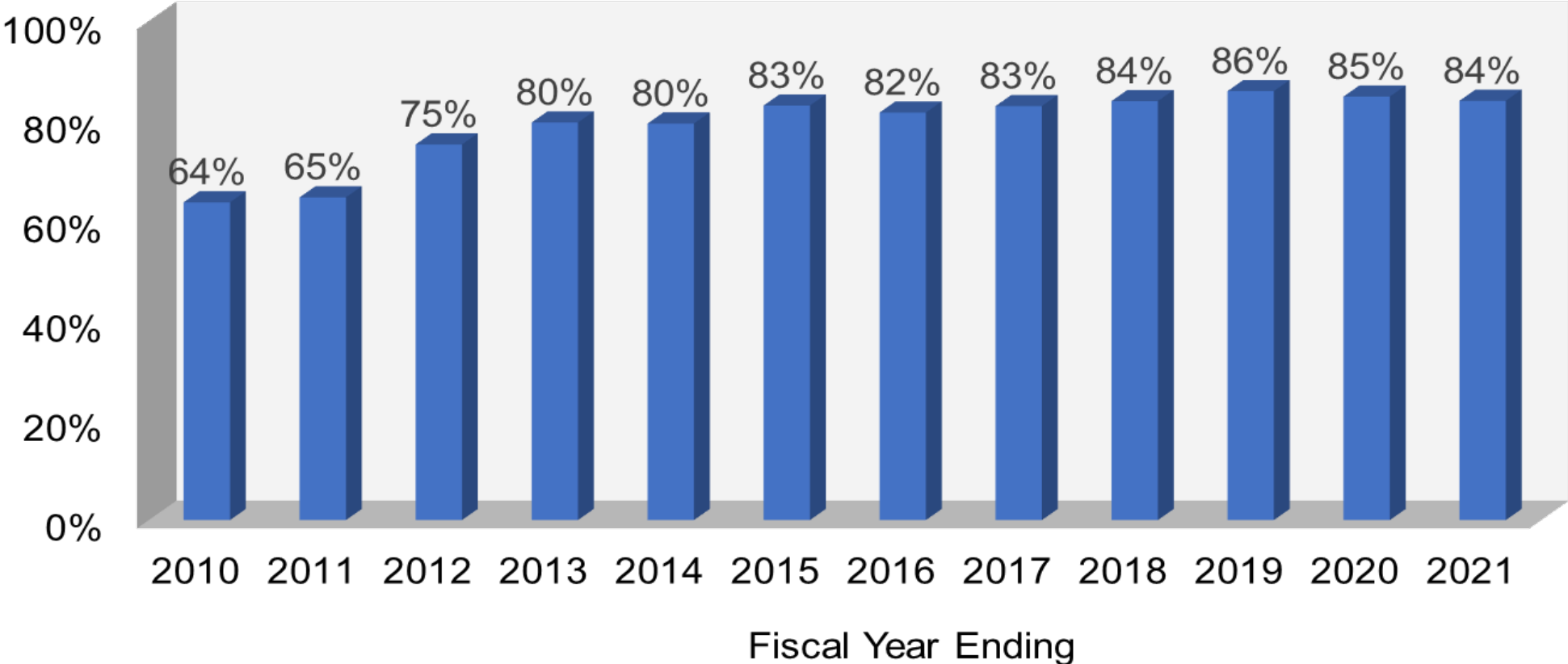


Financial History (cont.)

Cost Recovery Trends



COST RECOVERY TREND USING 3 YEAR AVERAGE



Financial History (cont.)

Fees and Cost Recovery Overview



Cost Recovery Policy Established in FYE 2012:

- 85% minimum cost recovery target
- Regulated community gains predictable fees
- Budget Advisory Group (2nd meeting held on March 14, 2022)
- Cost Recovery Review is underway

Current Fiscal Year Budget Overview



Actions taken in the FY 2021-2022 Approved Budget:

- \$117 Million (M) General Fund Budget
- Includes Use of Reserves of \$ 0.5 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
- Addresses Retirement Liabilities
- Includes 1.5% Cost of Living Adjustment (COLA)

Current Fiscal Year Budget Overview (cont.)



Overall budget projections are on target

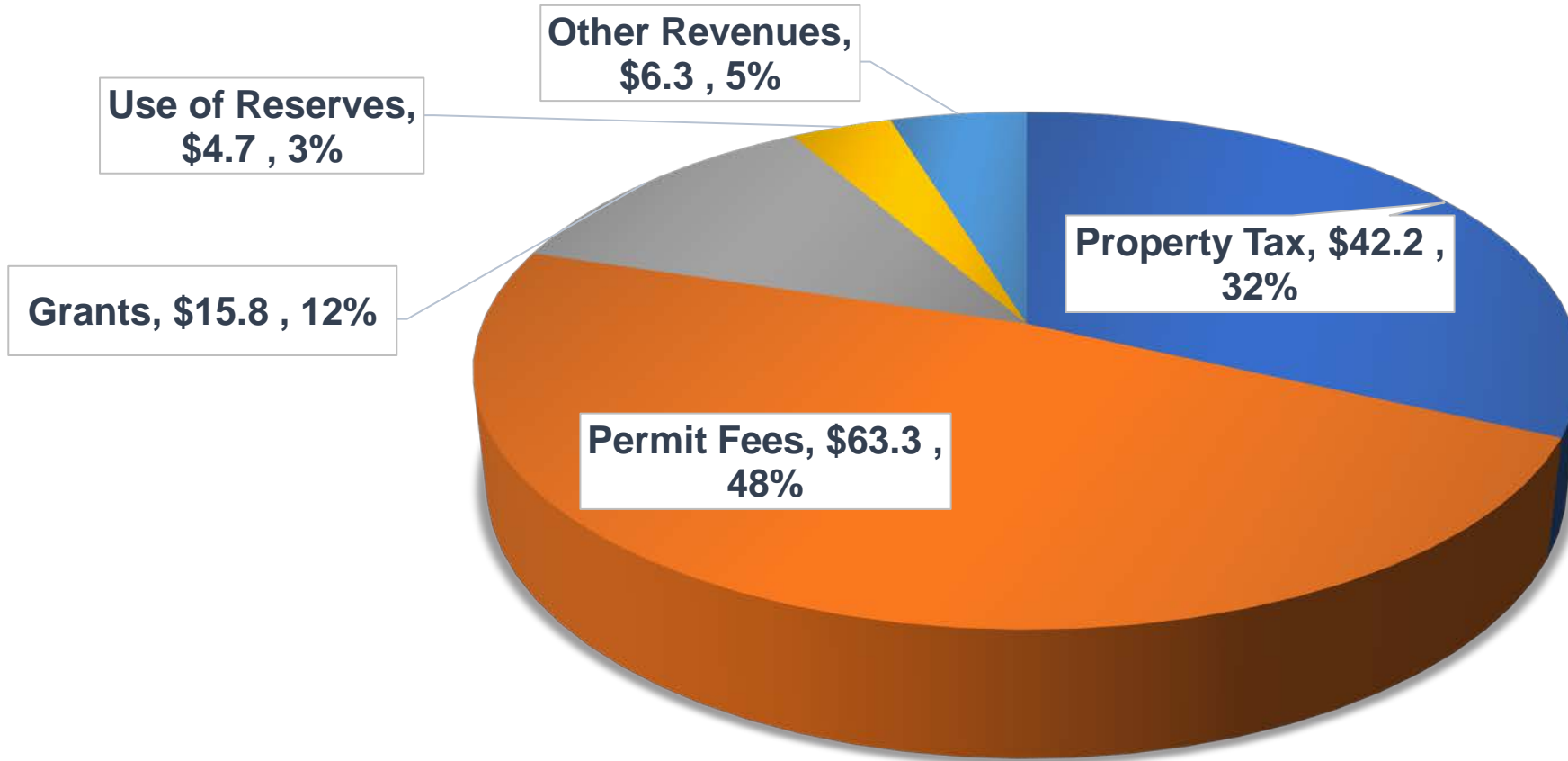
- Permit Fee revenue projections are on target
- Property Tax revenues are holding steady
- Personnel savings due to vacancy

Fiscal Year 2022-2023 Proposed Budget Overview



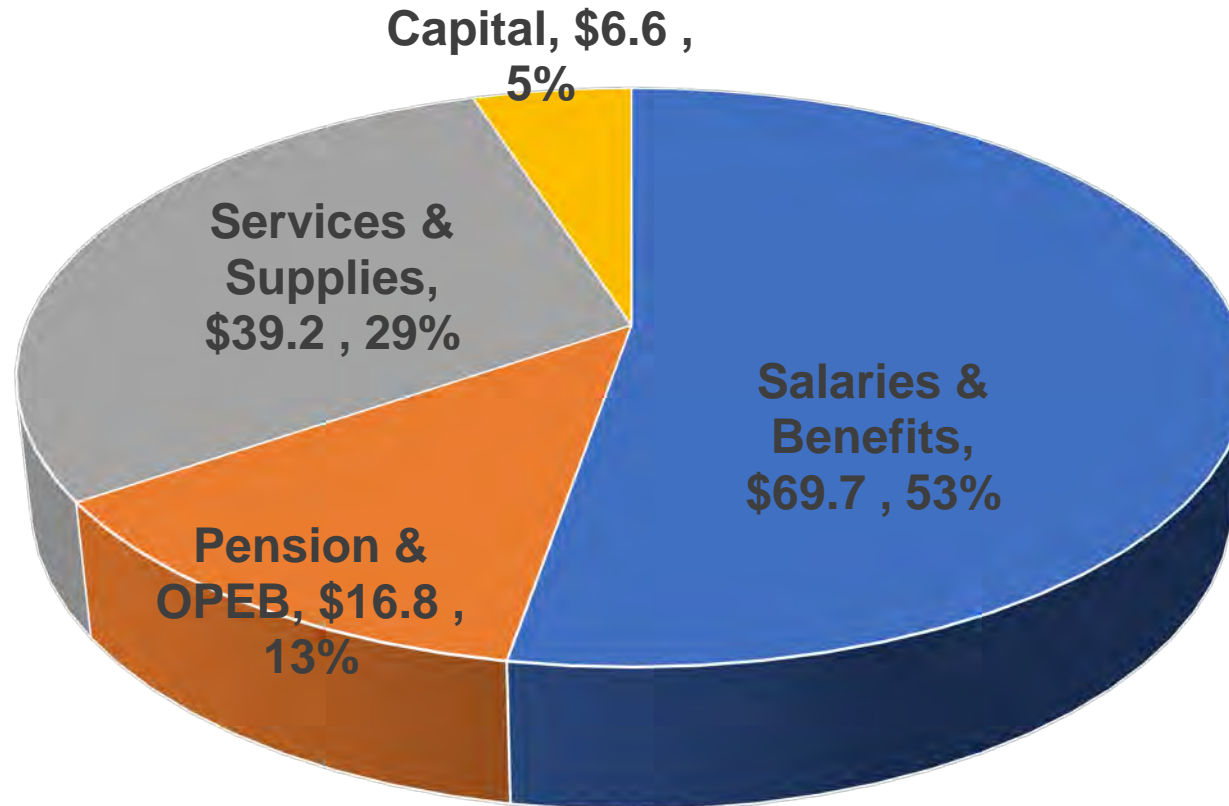
- \$247 M Consolidated Budget
- \$132 M General Fund Budget
- Includes Use of Reserves \$4.7 M
 - \$3.7 M to support James Cary Smith Grants
 - \$1 M to support Capital Expenditures
- Continuation of Cost Recovery Policy (up to 15% where applicable)
- Proposed new fee for overburdened communities
- Staffing Level Increase: 445 to 465 Full Time Equivalent (FTE)
- Addresses Retirement Liabilities

Breakdown of FY 2023 General Fund Revenues



In Millions

Breakdown of FY 2023 General Fund Expenditures



In Millions

Breakdown of \$15.2 M Budget Increase



BUDGETED SOURCES:	\$ (Million)
Increase to Property Taxes	2.8
Increase to Existing Permit Fees	7.1
Proposed new fee for overburdened communities	2.5
Reduction in other revenue	(0.6)
Total Ongoing Sources	11.8
Grant reduction	(0.8)
Increase in Use of Reserves	4.2
Total One-time Sources	(3.4)
TOTAL BUDGETED SOURCES	15.2

Breakdown of \$15.2 M Budget Increase (cont.)



BUDGETED COSTS:	\$ (Million)
Estimated 20 additional General Fund positions with benefits	3.3
Increase personnel costs for existing authorized positions	5.1
Increase in CalPers Required Pension Payment	0.8
Net increase in Various District Programs (61)	2.4
Total Ongoing Costs	11.6
Vacancy Rate adjustment from 5% to 6%	(1.0)
Increase in Grant Expenditures	3.2
Increase in Capital Expenditures	1.4
Total One-time Costs	3.6
TOTAL BUDGETED COSTS	15.2



Recent Staffing Requests

	Current FTE Authorized to Hire	FYE 2022 (On Hold)	FYE 2023 Proposed
Requested	N/A	26	20
Total	419	445	465

FYE 2022 included request for 26 staff: New Staffing Request General Fund (19) On Hold



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

FYE 2022 included request for 26 staff: New Staffing Request Grant Funded (7) On Hold



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

FYE 2023 Proposed 20 New Staff



- 445 authorized budget position, 26 positions are placed on hold pending the results of the management audit
- The Finance Division cannot currently adequately perform some basic functions because of lack of staff
- Proposed 20 additional positions bringing authorized FTE from 445 to 465.
- Needed to support the growth in our mission
- Identifying and filling these new positions will be informed by the management audit and presented to the Committee in FYE 2023
- New positions are supported by increased proposed fees and increased property tax revenues

Alternative Proposed Budget



- The proposed budget includes a 10.9% blended rate increase for permit fees.
- If the Committee does not wish to support the higher fee increase proposed in the budget and prefers to support the 6.4% blended rate for increase in permit fees:
 - Permit Fee revenue would reduce by approx. \$3.3M; and
 - Removal of the 20 new positions will reduce Personnel Costs by \$3.3M

Possible Proposed Budget Options



1. Adopt the Proposed Draft Budget
2. Adopt the Alternative Budget – this will likely require a discussion of agency priorities and cutting back on certain initiatives
3. Adopt the Alternative Budget and wait for the results of the management audit. Then amend the budget to increase fees to fund any additional staffing recommended.

Budget Options: 6.4% vs. 10.9% blended rate

Breakdown of Budget Increases



	10.9% Blended Rate	6.4% Blended Rate
	\$ (Million)	\$ (Million)
BUDGETED SOURCES:		
Increase to Property Taxes	2.8	2.8
Increase to Existing Permit Fees	7.1	3.8
Proposed new fee for overburdened communities	2.5	2.5
Reduction in other revenue	(0.6)	(0.6)
Total Ongoing Sources	11.8	8.5
Grant Reduction	(0.8)	(0.8)
Increase in Use of Reserves	4.2	4.2
Total One-time Sources	3.4	3.4
TOTAL BUDGETED SOURCES	15.2	11.9

Budget Options: 6.4% vs. 10.9% blended rate

Breakdown of Budget Increases (cont.)



	10.9% Blended Rate	6.4% Blended Rate
	\$ (Million)	\$ (Million)
BUDGETED COSTS:		
Estimated 20 additional General Fund positions with benefits	3.3	-
Increase personnel costs for existing authorized positions	5.1	5.1
Increase in CalPers Required Pension Payment	0.8	0.8
Net increase in Various District Programs (61)	2.4	2.4
Total Ongoing Costs	11.6	8.3
Vacancy Rate adjustment from 5% to 6%	(1.0)	(1.0)
Increase in Grant Expenditures	3.2	3.2
Increase in Capital Expenditures	1.4	1.4
Total One-time Costs	3.6	3.6
TOTAL BUDGETED COSTS	15.2	11.9

Capital Budget Detail



<u>Description</u>	<u>PGM</u>	<u>Amount</u>
One (1) Air Quality Analyzer	802	655,000
One (1) Air Quality Analyzers - PM2.5 equipment	802	129,517
One (1) Air Quality Analyzers - Schedule X equipment	802	450,000
Three (3) Source Test Analyzers	804	60,000
One (1) Multi Test Program Field Testing Van	804	60,000
One (1) PM Van Custom Equipment and Build Out	804	40,000
One (1) Lab & Monitoring Equipment (Picarro G2401)	807	90,000
One (1) Volatile Organic Compounds Monitor	810	20,000
One (1) Instrumentation for Particulate Matter Speciation (Metals)	810	185,000
One (1) Instrumentation for Particulate Matter Speciation (EC/OC)	810	75,000
One (1) Optical Gas Imaging Camera	403	100,000
Phase 2 HQE build out for Meterology & Measurement staff	707	500,000
Leasing of Additional Vehicles	710	50,000
Design & POC for IT Infrastructure Datacenter Refresh	726	400,000
Replacement of End-of-Life Network Components	726	500,000
Communication Equipment	726	200,000
Public Permitting & Compliance Systems	125	3,047,660
Total Capital Expenditures		6,562,177

Funding of Retirement Liabilities



- **Medical Retirement (OPEB):**

- Obligation: \$73 M
- Funded: \$75 M (103%)
- Surplus: (\$2M)

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

- Current Funding Level at 103%*
- **Redirect \$4 M Annual Discretionary Funding to CalPERS Pension after reaching target funding level**

- **CalPERS Retirement (Pension):**

- Obligation: \$358 M
- Funded: \$258 M (72%)
- Unfunded: \$100 M (28%)

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

- 90% Target Date (FYE 2029)**
- \$1 M Annual Discretionary Funding
- \$4 M Redirect Discretionary Funding from OPEB

*Based on 2021 actuarial valuation

** Based on 2020 actuarial valuation

Reserves Designations



General Fund Reserves (In Millions)	
Reserves Balance at June 30, 2021	64.0
<u>Less Designations:</u>*	
AB617 Staffing Contingency	-7.6
Community Benefits	-3.0
Economic Contingency (20% of Budget)	-25.5
Litigation	-3.0
Pandemic Contingency	-4.0
Pension Liability	-4.0
Richmond Improvements (HQE)	-5.0
Technology Implementation Office	-3.4
WildFire Mitigation	-2.0
Total Designations	-57.5
<u>Less Use of Reserves:</u>	
Use to Balance FY 2022 Budget	-0.5
Use to Balance FY 2023 Budget	-4.7
Total Use of Reserves	-5.2
AVAILABLE GENERAL FUND RESERVES	1.3
<i>*Designations subject to change at Board's Direction</i>	

Fiscal Year 2022-2023 Proposed Budget Summary



- \$132 M General Fund Budget
- Includes Use of Reserves \$4.7
- Amend Fee Schedule based on Proposed Fee increase
- New Fee for overburdened communities
- Budgeted Position Increase to 465 FTE
- \$5 M Annual Contribution to Pension

Next Steps



- **NEXT STEPS:**
 - April 27, 2022- Committee refers proposed budget to the Board of Directors
 - May 4, 2022- 1st Public Hearing on Proposed Fees and Budget
 - June 15, 2022 – 2nd Public Hearing and Adoption of the Proposed Fees and Budget

Feedback Requested/Prompt



Request the Committee recommend that the Board of Directors:

1. Conduct Public Hearings on the Fiscal Year 2022-23 Proposed Budget; and
2. Adopt the Fiscal Year 2022-23 Proposed Budget



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AGENDA: 6

Third Quarter Financial Report Fiscal Year Ending (FYE) 2022

Budget & Finance Committee Meeting
April 27, 2022

Stephanie Osaze
Director of Finance
sosaze@baaqmd.gov

Presentation Outcome



Provide a General Fund financial summary for the Third quarter ending March 31, 2022

Presentation Outline



General Fund Reporting on the 3rd Quarter Financial Results (July 1, 2021 – March 31, 2022):

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

Presentation Requested Action



None. Informational only.

3rd Quarter Results FYE 2022



Major Categories	FYE 2022 Budget	FYE 2022 Actual (as of 03/31/2021)	Percentage of Budgeted Revenues
County receipts	\$39,335,284	\$23,074,260	59%
Permit Fees	\$39,724,621	\$33,864,929	85%
Title V Permit Fees	\$6,261,936	\$6,156,708	98%
Asbestos Fees	\$4,000,000	\$3,170,213	79%
Toxic Inventory Fees	\$731,737	\$1,184,867	162%
Community Health Impact	\$918,891	\$1,136,154	124%
Criteria Pollutant Toxic	\$1,300,000	\$981,619	76%
Penalties and Settlements	\$2,750,000	\$4,265,511	155%
Interest Revenue	\$1,609,848	\$436,609	27%
Total Revenues	\$96,632,317	\$74,270,869	77%

Revenue Comparison



Prior Year vs. Current Year

Major Categories	FYE 2021 (As of 03/31/2021)	FYE 2022 (As of 03/31/2022)	\$ DIFFERENCE
County receipts	\$22,631,738	\$23,074,260	\$442,522
Permit Fee	\$35,297,532	\$33,864,929	(\$1,432,604)
Title V Permit Fees	\$4,797,828	\$6,156,708	\$1,358,880
Asbestos Fees	\$3,046,389	\$3,170,213	\$123,824
Toxic Inventory Fees	\$1,269,361	\$1,184,867	(\$84,494)
Community Health Impact	\$0	\$1,136,154	\$1,136,154
Criteria Pollutant Toxic	\$0	\$981,619	\$981,619
Penalties and Settlements	\$1,518,623	\$4,265,511	\$2,746,888
Interest Revenue	\$500,669	\$436,609	(\$64,060)
TOTAL REVENUES	\$69,062,141	\$74,270,869	\$5,208,728

3rd Quarter Results FYE 2022

General Fund - Expenditures



Major Categories	FYE 2022 Budget	FYE 2022 Actual (as of 03/31/2021)	Percentage of Budgeted Expenditures
* Personnel - Salaries	\$55,235,337	\$38,232,802	69%
* Personnel - Benefits	\$30,461,723	\$23,964,193	79%
Operational Services and Supplies	\$32,092,559	\$18,722,346	58%
Capital Outlay	\$5,187,458	\$2,186,648	42%
Total Expenditures	\$122,977,077	\$83,105,989	68%

*** Consolidated (Includes Special Funds)**

Expenditure Comparison

Prior Year vs. Current Year



Major Categories	FYE 2021 (As of 03/31/2021)	FYE 2022 (As of 03/31/2022)	\$ DIFFERENCE
*Personnel - Salaries	\$36,149,108	\$38,232,802	\$2,083,693
*Personnel - Benefits	\$18,539,288	\$23,964,193	\$5,424,905
Operational Services and Supplies	\$17,415,016	\$18,722,346	\$1,307,329
Capital Outlay	\$3,022,554	\$2,186,648	(\$835,906)
TOTAL EXPENDITURES	\$75,125,967	\$83,105,989	\$7,980,022

***Consolidated includes Special Funds**

3rd Quarter Results FYE 2022

Investments



Cash and Investments with County Treasury:

(Based on Mar 2022 Account Balance)

General Fund	\$99,319,031
TFCA	\$125,249,984
MSIF	\$55,217,042
Carl Moyer	\$68,843,706
CA Goods Movement	\$21,325,610
AQ Projects	\$3,244,845
Vehicles Mitigation	\$23,582,385
TOTAL	<u>\$396,782,602</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
Certificate of Participation Notes			21,173,770
TOTAL ESTIMATED OUTSTANDING LIABILITIES			\$122,479,504

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 - March 2022)	Explanation
1	Alliant Insurance Services	\$730,435	Various Business Insurance Policies
2	BAAQMD Employee Association	\$159,184	Employee Union Dues
3	Bay Area Headquarters Authority	\$2,250,353	Shared Services & Common Areas
4	Benefits Coordinators Corp.	\$862,204	Life Insurance Plan & LTD Insurance
5	CA Public Employee Retirement System (Heath)	\$6,575,363	Health Insurance Plan
6	CA Public Employee Retirement System (Retirement)	\$5,515,096	Retirement Benefits & 457 Supplemental Plan
7	CAPCOA	\$619,325	Pass through EPA grants
8	Ceridian Corp	\$124,361	Payroll Processing Services
9	Comcast Cable Communications	\$134,609	Internet data services
10	Cubic Transportation Systems	\$347,531	Clipper Transit Subsidy
11	Denovo Ventures, LLC	\$142,570	Financial application JD Edward services
12	Enterprise Fleet Services	\$450,846	Fleet Leasing and Maintenance services
13	Pacific Gas & Electric	\$135,256	Utility services
14	EPlus Technology	\$164,565	Cisco computer network equipment warranty
15	P&A Administrative Services	\$235,803	Flexible Spending & Cobra Benefit Services



FYE 2022 Vendor Payments

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

	VENDOR NAME	AMOUNT PAID (July 2021 - March 2022)	Explanation
16	Pacific Gas & Electric	\$135,256	Utility services
17	Preferred Benefit Insurance AD	\$480,550	Dental Insurance Plan
18	Robert Half, Inc.	\$470,308	Temporary Staffing Services
19	Sloan Sakai Yeung & Wong LLP	\$202,744	Human Resources Consulting Services
20	Thermo Environmental Instrument	\$104,623	Equipment purchase and maintenance
21	True North Research	\$118,800	Survey and Analysis Services
22	Verizon Wireless	\$157,544	Cell phone services
23	Wang Brothers Investment LLC	\$384,749	Richmond Site Lease

Feedback Requested/Prompt



No action needed.



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AGENDA: 7

Amendments to Regulation 3, Fees

**Budget & Finance Committee Meeting
April 27, 2022**

**Fred Tanaka
Manager, Engineering Division
ftanaka@baaqmd.gov**

Presentation Outcome



Update Budget & Finance Committee on Proposed Regulation 3
(Fees) Amendments

Presentation Outline



- Cost Recovery Background
- Proposed Fee Amendments
- Rule Development Schedule
- Questions

Presentation Requested Action



None - Informational Only

Cost Recovery Background



- Air District has authority to assess fees to recover the reasonable costs from fee-based programs.
- Board of Directors set goals to improve cost recovery levels.
- The overall cost recovery trends are:
 - FYE2011: 65.0%
 - FYE2019: 86.0%
 - FYE2020: 84.5%
 - FYE2021: 83.7%
- Cost recovery is not a static target.

Cost Recovery Background (cont.)



Cost Recovery Impacts – Revenue

- New fees and fee changes
- Facilities, sources, emissions and operational changes
- Number of notifications and applications

Cost Recovery Impacts – Expenses

- New and enhanced programs/rules
- Efficient use of resources
- Shifts in priorities
- Staffing levels

Cost Recovery Background (cont.)



Typical Work in Fee-Based Programs – Direct Costs

- Permitting and notification programs
- Compliance and Enforcement of permitted and registered facilities
- Compliance assistance to permitted and registered facilities
- Source Testing at permitted facilities
- Rule development for regulated industries
- Emissions inventory from permitted and registered facilities
- Other (e.g., Regulation 11-18 Health Risk Assessments)

Cost Recovery Background (cont.)



California Health and Safety Code Section 41512.7

Existing permit fees may not be increased by more than 15 percent on a facility in any calendar year.

Proposed Changes to Fee Schedules – Option 1



- Increase any fee schedule recovering less than the fully recovered rate and administrative fees by 15%.
 - Considers impacts looking forward.
 - There is no increase on schedules with a cost recovery rate of at least 110%.
- Estimated budget increased by \$6.5 million compared to projected FYE2022 revenues
- This option has a blended fee schedule increase of **10.9 percent**
- **The FYE2023 proposed budget is based on this scenario.**

Proposed Changes to Fee Schedules – Option 2



Alternative: Traditional cost recovery:

- Analyzes revenue and cost by fee schedule.
- Looks back based on a 3-year average.
- Does not account for work backlog.
- Does not factor in future needs.

Based on the recovery rate and using recommendations from the 2018 Cost Recovery & Containment Study.

- Estimated budget is increased by \$3.1 million compared to projected FYE2022 revenues.
- This option has a blended fee schedule increase of **6.4 percent**.

Proposed Changes to Fee Schedules



Option 1	Proposed budget	10.9% blended fee schedule increase
Option 2	Alternative	6.4% blended fee schedule increase

Draft Fee Amendments: Proposed Changes to Fee Schedules



Revenue from Fee Schedule	Percent Change in Fees	Alternative: Schedule Increases Based on Cost Recovery Rate**	Proposed budget: Maximum Increase Allowed
95 – 110% of costs	4.1% increase (CPI-W*)	M, P	
85 – 94% of costs	7% increase	B, E	
75 – 84% of costs	8% increase	T	
50 - 74% of costs	9% increase	F, G1, G2, G3, G4, H	
Less than 50% of costs	15% increase	A, K, N, S, V, W	A, B, E, F, G1, G2, G3, G4, H, K, M, N, P, S, T, V, W

* The annual Consumer Price Index for Bay Area Urban Wage Earners and Clerical Workers (CPI-W) increase.

** 2018 Matrix Consulting Group Cost Recovery & Containment Study recommendations.

Schedules Not Being Increased



Fees and fee schedules that are not proposed for increase:

- Section 3-307 – Transfers (of Permits)
- Schedule C – Stationary Storage Tanks of Organic Liquids: Except the base Risk Assessment Fee (RAF)
- Schedule D – Gasoline Transfer at Gasoline Dispensing Facilities (GDFs) Bulk Plants and Bulk Terminals: Except the RAF for existing GDFs
- Schedule I – Permitted Dry Cleaners
- Schedule L – Asbestos Operations

Schedules Not Being Increased (cont.)



Fees and fee schedules that are not proposed for increase:

- Schedule Q – Excavation of Contaminated Soil & Removal of Underground Storage Tanks
- Schedule R – Equipment Registration Fees
- Schedule U – Indirect Source Review Fees
- Schedule X – Major Stationary Source Community Air Monitoring Fees



Other Proposed Amendments - Regulation 2-1 and 2-5 Implementation

Regulation 2 (Permits), Rules 1 (General Requirements)

Regulation 2, Rule 5 (New Source Review for Toxic Air Contaminants)

The key changes that impact workload in an overburdened community:

- Public notice requirements for applications that require a Health Risk Assessment (HRA)
- Additional work to ensure compliance with amended New Source Review (NSR) for Toxic Air Contaminants (TACs) requirements including HRAs, source test review and compliance verification
- Programming system changes and tools (e.g., OBC map)

Other Proposed Amendments - Regulation 2-1 and 2-5 Implementation (cont.)



Proposals

- Remove the reference to “Schools” in existing Section 3-318: Public Notice Fees. Applicants are charged based on actual costs.
- Charge an additional application fee of \$1,000 if a Health Risk Assessment is required in an OBC.
- Charge a 15% OBC renewal fee for each permitted facility located in an OBC capped at \$250,000.
 - There are approximately 2,400 facilities in OBCs.
 - Estimated to increase the budget by \$2.4 million.

Other Proposed Amendments - Naturally Occurring Asbestos



Schedule S: Naturally Occurring Asbestos – Geologic evaluation

Before an Asbestos Dust Mitigation Plan (ADMP) is submitted, an applicant may need a geologic evaluation to determine if the project is exempt.

- Currently this work has never been charged a fee.
- The Air District is proposing a fee to recover costs for this work.

Level of effort and proposed fees

Description	Hours of work	Proposed fee
Evaluation	16	\$3,200
Field inspection (if needed)	≈4	Per hour fee already in Schedule S

Impact on Large Facilities: Power Plants



	Annual Permit Fee Increase/Decrease (Fiscal Year Ending)							
	2021, % fee change			2022, % fee change			2023, <u>Projected</u> % fee change	
	Predicted	Actual	2021 Renewal fee	Predicted	Actual	2022 Renewal fee	Alternative	Proposed budget
Crockett Cogen*	5.7	-3.6	\$257,000	9.1	11.2	\$289,000	7.0	15.0
Delta Energy	5.7	16.7	\$530,000	9.2	12.6	\$608,800	22.5	31.7
Gateway Station	5.7	10.0	\$390,000	9.3	NA	Not yet invoiced in FYE2022	22.5**	31.6**
Los Medanos	5.7	14.2	\$460,000	9.4	NA	Not yet invoiced in FYE2022	22.3**	31.5**

*Not in an OBC

** Based on projected 2022 permit renewal fees – Updated from 3/23 Budget & Finance Meeting

Impact on Large Facilities (cont.): Petroleum Refineries



Annual Permit Fee Increase/Decrease (Fiscal Year Ending)

	2021, % fee change		2021 Renewal fee	2022, % fee change		2022 Renewal fee	2023, <u>Projected</u> % fee change	
	Predicted	Actual		predict ed	actual		Alternative	Propose d budget
Chevron	5.2	8.7	\$4.0 million	6.1	-5.9	\$3.8 million	11.7	17.7
Martinez Refining Co.	6.2	10.4	\$3.9 million	6.9	3.4	\$4.0 million	11.8	17.8
Phillips 66	6.6	6.0	\$2.1 million	8.1	18.7	\$2.4 million	16.0	22.5
Tesoro	5.9	1.3	\$2.9 million	6.2	-11.7	\$2.6 million	14.9	21.2
Valero*	6.5	7.9	\$2.5 million	6.9	7.5	\$2.7 million	6.1	12.9

*Not in an OBC

Impact on Small Businesses – Renewal Fees & Impact



Facility Type	Current fee	Alternative: No OBC fee	Alternative: w/ +15% OBC fee	Proposed budget: No OBC fee	Proposed budget: w/ +15% OBC fee
Backup Engine* (Sch. B)	\$382	\$405 6%	\$464 21%	\$439 15%	\$502 31%
Gas Station** (Sch. Da)	\$2,707	\$2,717 0.4%	\$3,108 15%	\$2,729 1%	\$3,121 15%
Auto Body Shop (Sch. E)	\$815	\$870 7%	\$995 22%	\$938 13%	\$1,072 32%
Coffee Roaster (Sch. F)	\$643	\$695 8%	\$795 22%	\$739 13%	\$845 31%

*Minimum fee – Permit fees are greater for larger engines.

**Common configuration with 6 islands with 3-triple product nozzles

Rule Development Schedule



Budget Advisory Group (BAG) meeting #1	January 24, 2022
Public workshop	February 17, 2022
Budget Advisory Group meeting #2	March 14, 2022
Written workshop comments due	March 18, 2022
Budget & Finance Committee briefing	March 23, 2022
Budget & Finance Committee briefing	April 27, 2022
Board of Directors first public hearing to receive testimony	May 4, 2022
Written Public Hearing comments due	May 25, 2022
Board of Directors second public hearing to consider adoption	June 15, 2022
Proposed fee amendments effective	July 1, 2022

Feedback Requested/Prompt



None

Questions?



Cost Recovery and Containment Study Results Overview

BAY AREA AIR QUALITY MANAGEMENT DISTRICT



Presentation Outline

- ◆ Background
- ◆ Scope of Services
- ◆ Legal Framework & Best Practices
- ◆ Methodology
- ◆ Cost Recovery – Current
- ◆ Cost Recovery – Options
- ◆ Report Overview
- ◆ Key Recommendations

Background

◆ Purpose

- To review and verify current cost recovery calculation methodology
- Determine options for achieving 100% cost recovery
- Reassess fee calculation every 5 years by external entity per best management practices
- Ensure compliance with all legal regulations (Prop 26, 218, and CA Health and Safety Code)

◆ Background

- Study commenced in August of 2021
- Met with Air District staff and external stakeholders to discuss current processes and issues

Scope of Services

◆ **Cost Allocation Study:**

- Identify and review existing indirect support centers.
- Ensure current metrics are reflective of indirect support services.

◆ **Cost Recovery Study:**

- Evaluate billcodes to ensure that they account for all direct and indirect time.
- Review current fee schedules to document total direct and indirect cost associated with regulated activities.
- Assess new production system capabilities and opportunities for improvement.
- Document current fee schedule calculation process.
- Be in compliance with best management practices of reevaluating every 5 years.

Legal Frameworks & Best Practices

- ◆ **Ensures compliance with State and local laws (i.e., Prop. 26):** Regulatory fees and charges must be based upon reasonable regulatory costs:
 - Costs do not need to be calibrated to the benefit each individual fee payor receives
 - Costs are not measured on individual basis but rather collectively.
- ◆ ***Aligns with Government Finance Officers Association (GFOA) best practices:***
 - Calculate the full cost of providing a service in order to provide a basis for setting the charge or fee.
 - Adopt formal policies regarding cost recovery
 - Conduct cost analysis every 3 to 5 years.

Methodology

- ◆ **Staff Interviews:** Met with key air district staff to understand current regulated activities.
- ◆ **Data Collection:** Collected Air District specific billcode and expenditure information.
- ◆ **Stakeholder Input:** Conducted focus group meetings with industry and community members to understand needs and concerns.
- ◆ **Indirect Program Review:** Reviewed programs to ensure all activities were categorized appropriately as fee and non-fee.
- ◆ **Cost Recovery Calculation:** Evaluated fee schedule cost recovery calculation against industry standards.
- ◆ **Analysis:** Provide recommendations on opportunities for improvement.

Cost Recovery – Current Process

- ◆ Annually calculate fee-related direct and indirect costs.
- ◆ Assign these costs to fee schedules based upon total time billed to the fee schedules.
- ◆ Average the direct and indirect costs from the last three years to arrive at new total cost.
- ◆ Average the revenue from the last three years by fee schedule to arrive at new total revenue.
- ◆ Calculate the cost recovery based upon 3-year average.
- ◆ Complies with Proposition 26 and Health & Safety Code.
- ◆ **Current fee-related recovery = 84%** for the Air District overall.

Cost Recovery – Options Overview

- ◆ **Project objective:** Achieve 100% Overall Cost Recovery
- ◆ Four different options were evaluated based upon individual fee schedules and overall Air District cost recovery:

#	Option Description (Based on Individual Fee Schedule Cost Recovery)	# of Years to Overall 100% Cost Recovery
1	<ul style="list-style-type: none">• Less than 110% = 15% Increase• 110%+ = 0% Increase	5
2	<ul style="list-style-type: none">• Less than 100% = 15% Increase• 100%+ = 5% (CPI-W) Increase	5
3	<ul style="list-style-type: none">• Less than 85% = 15% Increase• 85%+ = 5% (CPI-W) Increase	10+
4	<ul style="list-style-type: none">• 15% Increase to All Fee Schedules	2

→ **These scenarios assume no changes in staffing levels, priorities, workload, or reduction of existing backlog.**

→ **Some fee schedules still take 10+ years to get to 100%.**

Cost Recovery – Option 1

- ◆ Fee schedule increases are based upon following:
 - Cost recovery Less than 110% = 15% Increase
 - Cost recovery Greater than 110% = 0% Increase
- ◆ Cost recovery timeline: 5 years (assuming no staffing, workload, or backlog changes).
- ◆ Applies the 15% increase to fee schedules recovering less than the 110% to help account for significant deficits in other fee schedules to cover the cost of Air District's regulatory activities.
- ◆ Does not assume any revenue increase for any fee schedules greater than the 110% average cost recovery.

Cost Recovery – Option 2

- ◆ Fee schedule increases are based upon following:
 - Cost recovery Less than 100% = 15% Increase
 - Cost recovery Greater than 100% = 5% Increase
- ◆ Cost recovery timeline: 5 years (assuming no staffing, workload, or backlog changes).
- ◆ Requires significant increases on those fee schedules that are already more than 100% cost recovery.

Cost Recovery – Option 3

- ◆ Fee schedule increases are based upon following:
 - Cost recovery Less than 85% = 15% Increase
 - Cost recovery Greater than 85% = 5% Increase
- ◆ Cost recovery timeline: More than 10 years (assuming no staffing, workload, or backlog changes).
- ◆ Takes a more conservative approach by only significantly increasing all fee schedules that are less than 85% by the full 15%.
- ◆ Still applies a fee increase to all fee schedules, rather than the current approach of no fee increases for fee schedules recovering greater than 100%.

Cost Recovery – Option 4

- ◆ A 15% fee increase across the board to all fee schedules, regardless of current cost recovery level.
- ◆ Cost recovery timeline: 2 years (assuming no staffing, workload, or backlog changes).
- ◆ Results in fee schedules that are more than 100% cost recovery increasing revenue enough to offset the deficit from the lower cost recovery fee schedules.
- ◆ Still in compliance with Proposition 26, as the overall regulatory revenue does not exceed the reasonable costs of regulatory activity.

Report Overview

- ◆ Verified and showed calculations for existing cost recovery results.
- ◆ Identified 16 overall opportunities for improvement (recommendations) for the Air District relating to both cost recovery and cost containment strategies.
- ◆ Of those recommendations, the following slide identifies key recommendations based upon:
 - Stakeholder input and concerns
 - Air District staff interviews
 - Standards of cost recovery analysis
 - Board identified goals and objectives

Key Recommendations

- ◆ The method of reporting time spent on activity impacting more than one fee schedule at a singular facility should be better documented.
- ◆ Develop a standardized document outlining the Air District's methodology for establishing cost recovery by Fee Schedule.
- ◆ Include a response with the fee regulation annually stating that the Air District's fees are "regulatory" and therefore in compliance with Prop 26.
- ◆ Consider implementation of Option #2 to move closer towards 100% cost recovery in 5 years.
- ◆ When new fees are tied to staffing resources they should be adopted together.
- ◆ Results of management audit should be incorporated into future cost recovery analysis.

Questions



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

AGENDA: 9

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

**Budget and Finance Committee Meeting
April 27, 2022**

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

Presentation Outcome



The Committee will be updated on the Air District's consideration to recommend adoption and participation in California Employers' Pension Prefunding Trust (CEPPT).

Presentation Outline



- Background
- Overview of Pension Plan
- Independent Analysis
- Staff Recommendation
- Next Steps

Presentation Requested Action



Consider recommending the Board of Directors to:

- Adopt a resolution to authorize the Air District to participate in CEPPT;
- Delegate the APCO/Executive Officer and Chief Financial Officer with authority to request disbursements and;
- Authorize the Executive Officer to execute the CEPPT legal and administrative documents on behalf of the Air District.

Unfunded Retirement Liabilities



- Pension
- Medical

PLAN OVERVIEW

CalPERS Pension Retirement Plan



To address the rising unfunded liabilities for Pension, the Board approved:

Pension Policy:

- A target of 17 years to reach a funding level of 90%
- Set aside \$1 million (M) in annual discretionary funds
- As of Fiscal Year Ending (FYE) 2022, set aside is \$5M (five years)
- Identify investment options

PLAN OVERVIEW

CalPERS Pension Retirement Plan (cont.)



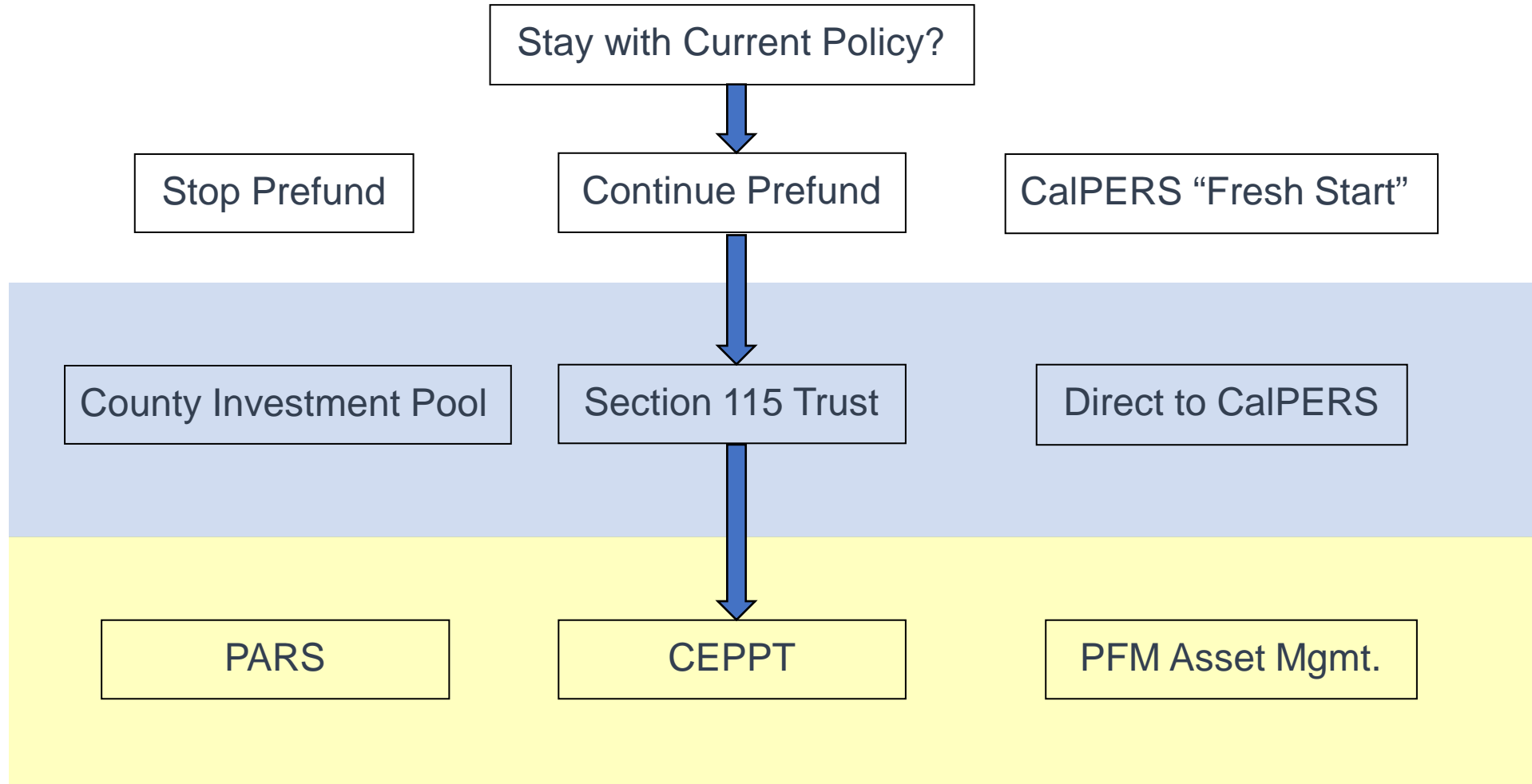
- CalPERS Retirement
 - Obligation: \$358 M*
 - Funded: \$258 M (72%)
 - Unfunded: \$100 M (28%)

- Funding Policy: 90% Funded Level
 - 17 Year Target Date (FYE 2039)
 - \$1 M Annual Additional Contribution, faster with higher contribution

*CalPERS Valuation as of June 30, 2020. Valuations are typically done with a two-year lag.

UNFUNDED RETIREMENT LIABILITIES

Funding and Investment Options



Public Agency Retirement Services (PARS), California Employers Pension Prefunding Trust (CEPPT)

Independent Analysis



An Independent Financial Advisor was hired in 2019 to identify investments options & strategies on how to pay down long-term liabilities for the CalPERS Pension.

- Review the Air District's current funding policies and make funding recommendations
- Identify strategies and investment options to pay down these long-term liabilities

INDEPENDENT ANALYSIS

Pension Funding Options



Alternative Investment Policy: CalPERS “Fresh Start”

Option 1:

Pay only required contributions for Pension

Option 2:

Continue current policy to prefund Pension
(Creates \$20M to \$35M savings depending on assumptions)

Option 3:

Use a CalPERS 15 year “Fresh Start” amortization
(Creates \$20M to \$35M savings depending on assumptions)

UNFUNDED RETIREMENT LIABILITY

CalPERS 15 Year “Fresh Start”



A CalPERS “Fresh Start” is when multiple amortization bases are collapsed to one base and amortized together over a new funding period

INVESTMENT OPTION: CalPERS 15 Year “Fresh Start”



PROS

- Payments are applied directly to the unfunded liability

CONS

- Funds are controlled by CalPERS, subject to the same market volatility risk as the CalPERS investment rate of return
- No earned interest on any additional payments
- Air District locked-in to new payment schedule

INDEPENDENT ANALYSIS

Pension Investment Options



Investment Options for the additional pension contributions:

Option 1:

Continue to invest funds in the County Investment Pool
(low investment returns)

Option 2:

Send additional discretionary contributions directly to CalPERS to paydown unfunded liability

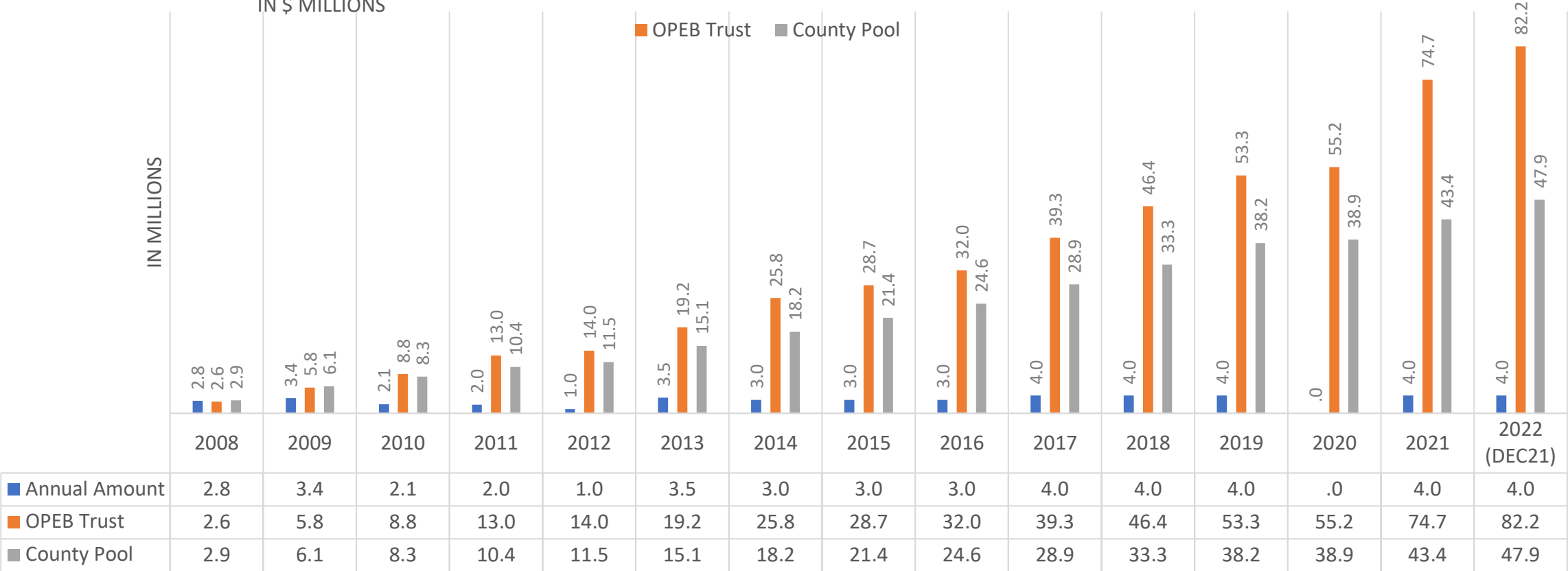
Option 3:

Send additional contributions to a Section 115 Pension Rate Stabilization Program (PRSP)



Section 115 Trust vs. Baseline Scenario (keeping the money in County Pool Account)

OPEB TRUST VS COUNTY POOL



INVESTMENT OPTION 2: Additional Payments Sent Directly To CalPERS



Air District sends annual payments directly to CalPERS to pay against the unfunded liability.

PROS

- Payments are applied directly to the unfunded liability

CONS

- Payments will not reflect immediately
- Funds are controlled by CalPERS, subject to the same market volatility risk as the CalPERS investment rate of return
- No earned interest on the additional payments

INVESTMENT OPTION 3: Section 115 Pension Rate Stabilization Program



- Section 115 Pension Rate Stabilization Program (PRSP) is a trust that provides diversified investment option for employers to prefund their future required pension obligation
- Assets in the Trust are expected to grow to fund future contributions and pay down unfunded actuarial liability (UAL)

INVESTMENT OPTION 3: Section 115 Trust (PRSP) (cont.)



Section 115 PRSP Trusts are fairly new (2015) . The market for this instrument has evolved from being offered by a few providers to becoming more mainstream.

Main providers for Section 115 PRSP to government agencies:

1. Public Agency Retirement Services (PARS)
2. PFM Asset Management
3. California Employers' Pension Prefunding Trust (CEPPT)

INVESTMENT OPTION 3: Section 115 Trust (PRSP) (cont.)



PROS

- Irrevocable Trust that can only be used for Pension
- Air District controls assets, but only to pay the Air District's pension liabilities
- Higher yield investment strategies than County Pool
- Assets reduce or eliminate large fluctuations in employer contributions
- Less volatility than the Pension Fund

INVESTMENT OPTION 3: Section 115 Trust (PRSP) (cont.)



CONS

- Actual investment returns may deviate from initial projections
- Assets cannot reduce Pension UAL until placed in the Pension Fund

Based on the three Investment Options:

Staff recommends the Air District establish a Section 115 Trust for the additional pension contributions.

INVESTMENT OPTION 3: Section 115 Trust (PSRP) (cont.)



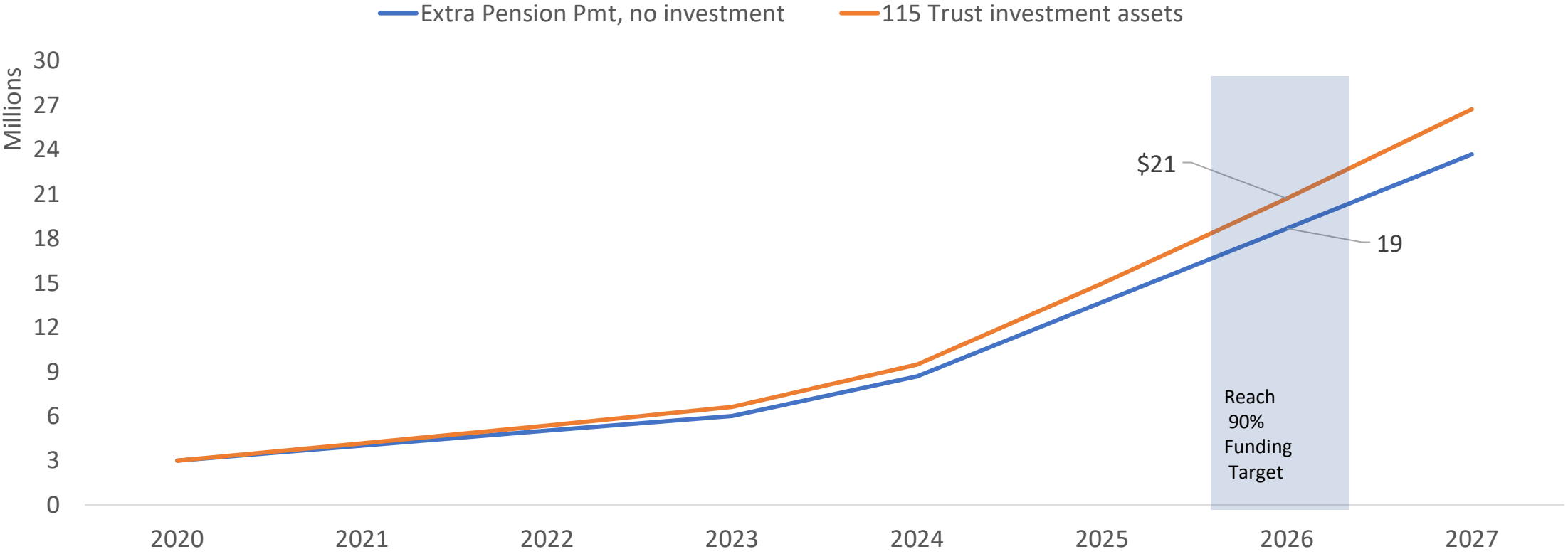
- PARS, PFM, and CEPPT are capable of providing the investment services for the Air District; having slightly different investment approaches
- All have similar net investment returns and asset classifications (4% - 5%)
- CEPPT has the lowest fee at 25 basis point

Recommended Investment Option for Pension is the CEPPT 115 Trust Plan.

INVESTMENT OPTION 3: Section 115 Trust (PRSP) Cont.



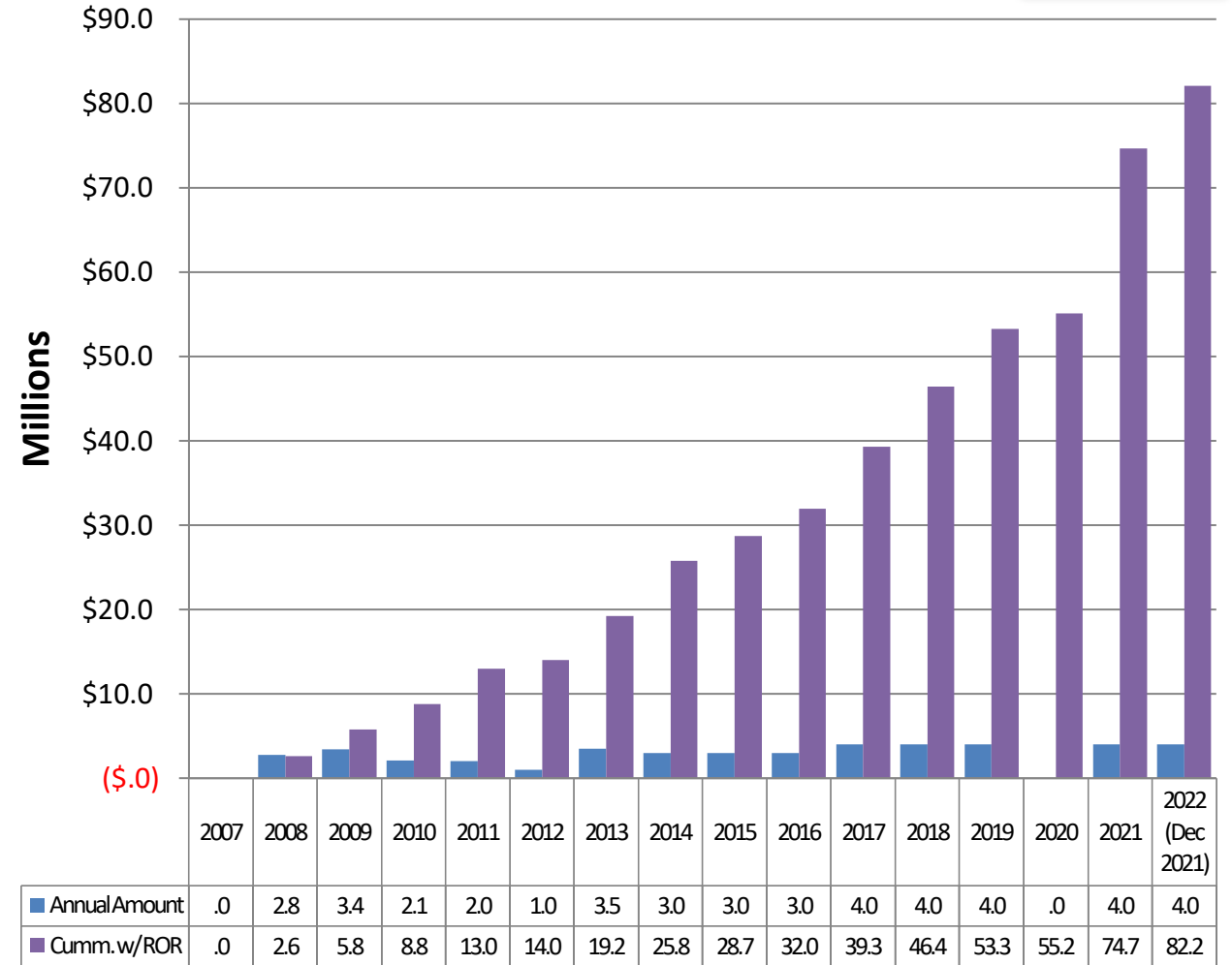
Impact from Investing with 115 Trusts



Section 115 Trust: Air District's Experience with OPEB



Fiscal Year	Contribution Amount	Cumulative Investment return/loss	Balance
2007	\$ -		
2008	\$ 2,800,000	\$ (2,800,000)	\$ 2,640,999
2009	\$ 3,400,000	\$ (6,200,000)	\$ 5,799,167
2010	\$ 2,100,000	\$ (8,300,000)	\$ 8,798,637
2011	\$ 2,000,000	\$ (10,300,000)	\$ 13,011,601
2012	\$ 1,000,000	\$ (11,300,000)	\$ 14,037,301
2013	\$ 3,500,000	\$ (14,800,000)	\$ 19,245,243
2014	\$ 3,000,000	\$ (17,800,000)	\$ 25,805,187
2015	\$ 3,000,000	\$ (20,800,000)	\$ 28,717,955
2016	\$ 3,000,000	\$ (23,800,000)	\$ 32,000,795
2017	\$ 4,000,000	\$ (27,800,000)	\$ 39,344,172
2018	\$ 4,000,000	\$ (31,800,000)	\$ 46,437,621
2019	\$ 4,000,000	\$ (35,800,000)	\$ 53,292,543
2020		\$ (35,800,000)	\$ 55,151,489
2021	\$ 4,000,000	\$ (39,800,000)	\$ 74,724,789
2022 (*)	\$ 4,000,000	\$ (43,800,000)	\$ 82,153,593
	\$ 43,800,000		Net Investment Return of \$38.3M



Review and Summary



- The Pension plan funded status:
 - Currently, the plan is 72% funded
 - \$100 million is unfunded
 - 17 years to reach 90% funded level with a \$1 million set aside; sooner with a PRSP/115 Trust and higher contribution
- Selection of a 115 Trust to prefund Pension:
 - Positive Air District's experience with OPEB 115 Trust
 - Both brings closer funding level date and reduces Air District's contributions

Review and Summary (cont.)



- Select CalPERS CEPPT to be the plan Administrator for the 115 Trust
 - Lower fees under CalPERS umbrella
 - Competitive returns, given that investments managed by Wall Street investment banks, not CalPERS

Recommendation



Consider Recommending the Board of Directors:

- Adopt a resolution to authorize the Air District to participate in the California Employers' Pension Prefunding Trust (CEPPT) Program administered by the California Public Employees Retirement System (CalPERS) to Pre-fund Pension Obligations;
- Delegate the Executive Officer/APCO and the Chief Financial Officer with Authority to Request Disbursements; and
- Authorize the Executive Officer/APCO to execute the CEPPT legal and administrative documents on behalf of the Air District, to take any necessary additional actions to maintain the Air District's participation in the Program, and to maintain compliance with any relevant regulation issued, or as may be issued.