

**Bay Area Air Quality Management District
939 Ellis Street
San Francisco, California 94109
(415) 749-5000**

APPROVED MINUTES

Summary of Board of Directors
Budget & Finance Committee Meeting
9:30 a.m., Wednesday, February 27, 2008

- 1. Call to Order:** Vice-Chairperson Michael Shimansky called the meeting to order at 9:33 a.m.

Roll Call: Harold Brown, Chair, Chris Daly (9:35 a.m.), Yoriko Kishimoto (9:36 a.m.), Mark Ross, Michael Shimansky, Tim Smith, Pamela Torliatt, Gayle B. Uilkema (9:38 a.m.).

Absent: Scott Haggerty.

Also Present: Board Chair Jerry Hill.
- 2. Public Comment Period:** There were none.

Chairperson Daly arrived at 9:35 a.m.
- 3. Approval of Minutes of December 12, 2007:** Director Hill moved approval of the minutes; seconded by Director Smith; carried unanimously without objection.

Director Kishimoto arrived at 9:36 a.m.
- 5. District Financial Audit Report for Fiscal Year 2006/2007:** *The Committee received an overview of the Financial Audit Report for FY 2006/2007.*

Mr. Gary M. Caporicci, CPA, CGFM Senior Partner provided the Committee with an overview of the Air District Audit Report.

Mr. Caporicci highlighted the following:

Air District's Responsibilities include the following:

 - Air District Financial Statements;
 - Adopting Sound Accounting Policies;
 - Providing Reasonable Accounting Estimates;
 - Establishing and Maintaining Internal Controls;
 - Preventing and Detecting Fraud; and
 - Providing Accurate and Complete Financial Reporting

Director Uilkema arrived at 9:38 a.m.

Audit results included the following:

- No disagreements with Air District management;
- No material weakness in Internal Controls; and
- Issue audit reports and communication to the Board of Directors and Management

Audit recommendations were as follows:

- 2004 LESBP program not completed;
- Capital Asset Policies and Procedures;
- Purchasing and Accounts Payable;
- Workers Compensation Claims Log;
- Improve Payroll Process Internal Control; and
- Computer Controls: Disaster Preparedness and Change Passwords

These should be considered only as recommendations.

Mr. Caporicci concluded his presentation.

Upon discussions, Chairperson Daly noted that this report is just an informational item.

Committee Action: This was an information item and the Committee accepted the report.

4. Second Quarter Financial Report – Fiscal Year 2007/2008: *The Committee received an overview for the second quarter financial report of fiscal year 2007/2008.*

Mr. Colburn introduced the item topic and introduced Ms. Linda Serdahl, Finance Manager as Ms. Serdahl presented the second quarter financial report.

Ms. Serdahl presented the general fund statement of revenue which included the following:

- County receipts total \$9,808,563 (49.44%) of budgeted revenue;
- Permit fee receipts were \$11,101,478 (56.86%) of budgeted revenue;
- Title V permit fees were \$1,291,297 (56.84%);
- Asbestos fees were \$904,898 (52.04%) of budgeted revenue;
- Toxic inventory fees were \$366,348 (68.48%) of budgeted revenue;
- Penalties and settlements were \$924,549 (41.09%) of budgeted revenue; and
- Miscellaneous revenue receipts were \$36,277 (8.15%) of budgeted revenue

The general fund statement of expenditures showed the following:

- Salaries and benefits were \$19,650,560 (49.27%) of budgeted expenditures;
- Operational services and supplies were \$5,097,624 (23.81%) of budgeted expenditures; and
- Capital outlay was \$938,480 (18.57%) of budgeted expenditures

The TFCA fund statement of income and expenditures showed the following:

- Total revenue was \$5,490,394 (14.89%) of budgeted revenue and expenditures;
- In keeping with TFCA fund requirements, expenditures must equal revenue;
- Salary and benefits were \$516,761 (24.52%) of budgeted expenditures; and
- Operational services and supplies were \$4,973,633 (13.12%) of budgeted expenditures

Ms. Serdahl noted that the Fund Balances are in good shape, and that the Air District has healthy reserves and healthy undesignated reserves.

Ms. Serdahl concluded her presentation.

Director Daly asked about the penalties and settlements and if anything was noted for the third quarter. Mr. Bunger responded that the information arrives at various times and confirmed that the third quarter is stronger than the second quarter.

Chairperson Daly requested hearing staff proposals for designating some of the undesignated reserves.

Mr. Colburn informed the Committee that staff will return and provide information on the matter of reserves, providing the history and the reserves going forward which will tie into the next budget cycle.

Committee Action: Chairperson Daly noted that this was an informational item only.

6. Discussion of Proposed Amendments to Regulation 3: Fees: *The Committee received a report from staff regarding the proposed amendments to the Air District fee regulations.*

Mr. Broadbent provided the Committee with an introduction on the item before introducing Brian Bateman, Director of Engineering. Mr. Broadbent stated that his discussion would cover some of the proposed activities fee amendments that were held at a previous workshop. Mr. Broadbent brought to the Committee's attention that the cost recovery fee efforts will continue. Mr. Broadbent also noted that the new fee that has been proposed to cover the costs of the Air District's Greenhouse Gas activities has raised controversy.

Mr. Bateman noted that he would cover four topics which included:

- Background
- Details of proposed fee amendments
- Examples of permit renewal fee increases
- Rule development schedule

The Air District has the legal authority to assess fees to fully recover the direct and indirect costs associated with implementing and enforcing its regulatory programs.

Mr. Bateman stated that a few years ago, the Air District had an accounting firm come and do an assessment and analysis of how the fee revenue relates to the costs of running the regulatory programs. He also noted that in each year since the study was conducted, staff has

completed a similar analysis using the same methodology that was used by the Air District consultants.

For the last two complete fiscal years, fee revenue does not cover the program costs.

- FYE 2006 – 53%; Revenue Gap \$17.7 million; and
- FYI 2007 – 58%; Revenue Gap \$16.5 million

Air District staff believes that the cost recovery gap should be reduced for the following reasons:

- Gap is filled by property tax revenue; and
- Fees must be increased by more than the annual cost of living adjustments to narrow the cost recovery gap

Details of the proposed fee amendments will include:

- Similar to fee amendments adopted last year, with the addition of a new greenhouse gas fee schedule;
- Would increase overall fee revenue by 12.4 percent from revenue projected for the current fiscal year; and

Revenue from amendments to existing fee schedules:	\$1.9 million
Revenue from new greenhouse gas fee schedule:	<u>\$1.1 million</u>
Overall increase in fee revenue:	\$3.0 million

- Increase in CPI for Bay Area was 3.2 percent for the last 2 calendar years
- Would target the Fee Schedules with the most significant cost recovery gaps for the largest fee increases

The amendments to the fee schedule include:

- 15 Percent Increase
 - Fee Schedules that have the largest revenue gaps (i.e., revenue is < 40 % of costs);
- 9 Percent Increase
 - Fee Schedules that have large revenue gaps (i.e., revenue is 55 to 70 % of costs);
- 6 Percent Increase
 - Fee Schedules that have less significant revenue gaps (i.e., revenue is 70 to 85 % of costs);
- 3 percent increase
 - Fee Schedules that have minor revenue gaps (i.e., revenue is 85 to 100 % of costs);
- and
- No increase
 - Fee Schedules that have no revenue gap

Mr. Bateman continued that the refineries have sources that are in a number of the above noted categories. As an example schedule T is a major facility review fee which includes the Title V fee schedule.

Chairperson Daly asked about the rate of closing the gap, how many years would it take before the Air District has 90 plus percent cost recovery? Mr. Bateman stated that the Air District is moving at a reasonable pace, considering some of the legal constraints in terms of increasing fees.

Other Proposed Amendments include:

- New Registration Fees
 - Agricultural diesel engines
 - \$120 initial registration fee
 - \$80 annual renewal fee

 - Non-halogenated solvent dry cleaning machines
 - \$180 initial registration fee
 - \$120 annual renewal fee

Facilities Subject to Greenhouse Gas Fees include:

- Petroleum refineries – 50% of fees;
- Power plants – 33% of fees;
- Landfills – 8% of fees;
- Cement plant – 4% of fees; and
- Others – 5%

The recent workshop included 40 attendees, mostly industry representatives and several others provided comments during the workshop. Almost all of the comments that were received on the overall fee proposal have been on the new GHG fee schedule and most have been in opposition.

Mr. Broadbent addressed the Committee stating that this is the first time that a fee has been developed for GHG emissions. As a result, there was a great deal of press attention. ARB staff understands that the Air District is implementing this and they are supportive, and there have been legal discussions between Mr. Bungler and their legal counsel. The intent is to strictly cover the Air Districts costs and to make sure that the Air District has the opportunity to recover those costs that are being incurred by staff.

The rule development schedule includes:

- Draft fee regulation amendments issued
 - January 31, 2008

- Public Workshop
 - February 25, 2008
 - Written comments requested by March 7, 2008

- Committee Briefings
 - Budget & Finance: February 27, 2008
 - Climate Protection: March 13, 2008

- Public Hearings and Board of Directors consideration for adoption
 - April 16 and June 4, 2008
 - Amendments would be effective July 1, 2008

Director Uilkema requested a copy of the chart with the fees for landfills; and Mr. Bateman responded that he would provide her with a copy.

Mr. Bateman concluded his presentation.

Committee Action: None, this was an informational item.

7. **Committee Member Comments/Other Business.** Director Torliatt requested an analysis of what the cost would be to have Universal Single Payer Healthcare at the Air District, brought back to the Committee.
8. **Time and Place of Next Meeting:** 9:30 a.m., Wednesday, April 23, 2008 – 939 Ellis Street, San Francisco, CA 94109
9. **Adjournment:** The meeting adjourned at 11:05 a.m.

/s/Vanessa Johnson
Vanessa Johnson
Acting Clerk of the Board