

Agenda Date: May 19, 2005
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Continued Item: No

Board Agenda Item

TO: Air Pollution Control District Board

FROM: Terry Dressler, Air Pollution Control Officer

SUBJECT: Fiscal Year 2005-06 Comprehensive Program Summary and Proposed Budget

RECOMMENDATION:

1. Review the attached
 - A.) Comprehensive Program Summary and Proposed Budget for Fiscal Year 2005-06
 - B.) Air Quality Attainment Plan Fee Report
 - C.) Trust Fund Reorganization, and Related Designations and Budget Revisions for Fiscal Years
2003-04 and 2004-05
2. Hold a public hearing to accept comments, and provide direction to staff regarding changes desired by the Board.
3. Schedule a budget adoption hearing for June 16, 2005.

DISCUSSION:

Attachment A - Comprehensive Program Summary and Proposed Budget for Fiscal Year 2005-06

Attached you will find the Comprehensive Program Summary and Proposed Budget for Fiscal Year 2005-06. The format is very similar to last year, and has been patterned after the County budget document. The document includes:

- The Proposed Budget at a Glance
- Major Factors that will affect the Budget and What the Effects Will Be
- Budget Highlights
- 14 Year Staffing Trend
- The APCD Mission
- Strategic Plan Priorities, Goals, and Objectives
- The APCD Organizational Chart

- Major FY 2004-05 Events, Activities, and Accomplishments of the APCD
- Sources and Uses of Revenue
- Detailed Description of Projected Revenue and Expenditures
- Revenue Distribution by Program
- Impact Measures: How we expect to affect air quality
- Division-by-Division Budgets, Accomplishments, and Goals
- Performance Measures: How we measure effectiveness
- Position Control Listing
- Reserve and Designation Summary
- Discretionary Designation Detail
- Projects funded with motor vehicle registration fees

Budget Overview

The proposed FY 2005-06 budget is characterized by our need to implement a long term plan to bring our expenditures in alignment with our revenues. For the last two fiscal years, the APCD's expenditures have been greater than our revenues and we have had to use previously accumulated savings (designations) in order to balance our budgets.

Fiscal Year 2005-06 is the first year of a proposed multi-year plan to stabilize our use of designations and align our expenditures with our revenues. In the proposed FY 2005-06 budget we have reduced our use of contractors by over \$100,000 and have unfunded a full-time Inspection Specialist, a three-quarter time Air Quality Specialist, a half-time Office Technician, and one-half of each of two full-time Air Quality Engineers for a total reduction of 3.25 full time equivalent positions from the Fiscal Year 2004-05 adopted budget.

While the total FY 2005-06 budget of about \$8.485 million represents an increase of approximately \$485,000 over the FY 2004-05 budget, the increase can be attributed to an increase in budgeted clean air grants made possible by increases in the motor vehicle surcharge and the extension of the Moyer Program. No fee revisions are included in the proposed budget except the annual cost-of-living adjustments to fixed fees, which is currently proposed to be 3%, though the final budget will include an updated estimate based on current information at that time.

Revenues

With four notable exceptions, most of our revenue sources are projected to remain relatively stable from our adopted fiscal year budget to FY 2005-06. 1.) A significant increase in revenue from this fiscal year to the next will be in permit reevaluation fees. Permit reevaluation fees are assessed to each permitted source every three years. The three-year permit reevaluation cycle provides a revenue stream that is uneven from year to year; and two of the three years yields substantially higher revenue than the other one year in the cycle. The permit reevaluations scheduled FY 2005-06 will produce more revenue than the next two year's reevaluations. Consequently, based on a projected three-year rolling average, we are proposing to set \$120,000 of this year's revenues aside in designations to save for the projected shortfall in FY 2007-08. 2.) Another notable increase in revenue is the \$2 motor vehicle registration surcharge fee, which was approved by the Board in December 2004. 3.) A notable reduction in Reimbursement Charges revenue for FY 2005-06 is due the correct classification of ITG releases of designation, which were budgeted under Reimbursement Charges for FY 2004-05 and are budgeted under Release of Designation for FY 2005-06 and a significant reduction in proposed reimbursable enforcement effort. 4.) The last notable change is the increase in the Release of Designation. As noted under number three, the

Release of Designation now correctly contains ITG releases of designation amounting to \$498,643 for ITG projects and \$325,755 for \$4 motor vehicle registration surcharge fee supported projects. In addition, there is release of designations of \$145,000 for a one-time payoff of a promissory note with the County of Santa Barbara, \$50,241 for the planned upgrade of the Data Acquisition System server, \$1,812 for ongoing monitoring activities, and \$542,516 for ongoing District operations. FY 2005-06 will mark the first year these designation uses are separately identified in the Budget.

Staffing

As we reported in last year's budget Board letter, the APCD staffing has been significantly reduced over the last decade. The reductions in staff from 1992-93 to 2000-01 were the result of reductions in revenue. Some of the revenue reductions were associated with reductions in workload and some were not. Reductions in revenue that result from reductions in permitting and compliance activities are coincident with reductions in workload. However, reductions in revenue produced by reductions in air pollution emissions achieved through compliance with rules and permit conditions do not necessarily coincide with reductions in workload. In fact, more often than not, most emission reductions achieved by regulations actually increase the need for permitting and compliance related work in order to ensure that the emission reductions continue to be achieved and that all regulated companies are treated equitably. Furthermore, until we achieve and successfully maintain all air quality health standards, attainment planning workload remains fairly steady regardless of fluctuations in emissions related revenue. With that said, staffing stabilized from 2000-01 to 2004-05; however, the relationship between ongoing revenues and expenditures were not fully analyzed until the 2004-05 Fiscal Year, as part of implementation of Government Accounting Standards Board (GASB) Pronouncement No. 34. This has resulted in the proposed reduction of 3.25 FTEs and future staffing reductions forecasted for the next few years. We plan to achieve these reductions through attrition.

Expenditures

With three notable exceptions, most of our expenditures are projected to remain relatively stable from our adopted fiscal year budget to FY 2005-06. 1.) Salaries and benefits decrease by approximately a net \$75,000 due to the above staffing reductions. The saving realized by staffing reductions is offset by a proposed increase in COLAs of 2% and merit increases for applicable staff. Retirement rates are stable. The anticipated retirement rate increases from the Retirement Systems' delayed recognition of market losses have been offset by retirements in FY 2004-05. Provided the Retirement System continues to receive its above 8% returns, delayed recognition of market losses and retirement rate increases are expected to occur for at least another year. We anticipate retirements in 2005-06 will continue to keep the retirement rate stable. 2.) Services and supplies increase by approximately a net \$262,000 due to the addition of grant programs from the \$2 motor vehicle registration surcharge fees. The increase is offset by a \$100,000 reduction in contractor assistance and other cost cutting activities in other areas (such as training and travel). It is also important to note that of the \$2.859 million proposed in FY 2005-06, \$1.208 million (or 14.5%) is passed through to the community in the form of grants. 3.) A notable increase to Principle is the result of proposing to pay of the note payable with the County of Santa Barbara.

Program Overview

Major accomplishments, events, and highlights during FY 2004-05 have included:

- No exceedances of one-hour federal ozone standard for the fourth year in a row.
- Sixth year in a row for attainment of one-hour federal ozone standard.
- Santa Barbara County designated as an attainment area for the federal eight-hour ozone standard.

- Made progress with EPA, the California Air Resources Board, and other partners to fund the first marine shipping retrofit program.
- Issued grants to reduce 50 tons of air pollution.
- Established cooperative working relationship with agricultural community to implement state-mandated permitting of agricultural sources.
- 1,343 inspections and 549 permitting actions in calendar year 2004.
- Response to 256 air pollution complaints in calendar year 2004.

Major efforts during FY 2005-06 will include:

- Commence development of the 2007 Clean Air Plan.
- Continue our marine shipping initiative with the goal of facilitating the retrofit of at least one vessel that traverses our coastline and participate in efforts to influence legislation and treaties aimed at reducing the emissions from marine vessels.
- Continue working with the local agricultural community to implement the state and federal requirements for agricultural source permits, including outreach on SB700.
- Continue and augment grant programs to reduce air pollution.
- Continue the efficiency of our permit system by integrating it into our facility database, including the automation of small-source permits.
- Implement new Airborne Toxic Control Measure requirements for stationary diesel engines

In addition, other important activities will continue. Such activities include efforts to reduce emissions, to educate the public, and to obtain feedback from our customers. Examples of these efforts include, issuing permits, conducting inspections of permitted equipment, publishing bimonthly newsletters, conducting customer surveys, improving computer automation services, and enhancing our web site.

Finally, to make sure that we are working effectively, we monitor our success through impact and performance measures and use the information to improve our effectiveness and efficiency. These impact measures are included in the attached Budget Document.

Attachment B - Air Quality Attainment Plan Fee

One of the major accomplishments of FY 2004-05 was the adoption of the 2004 Clean Air Plan, which documents our compliance with applicable triennial update and revision requirements associated with the state ozone standard. The adoption of this plan concluded a year-long process of technical analysis, public review, and interagency coordination. Rule 210 (Fees) requires a triennial report to your Board summarizing the work performed on air quality plans in the preceding three years, the work planned, and the continued adequacy and necessity of the fee charged for this work. This report is presented in Attachment B and is supplemented by the discussion of the air quality planning effort contained in the *Proposed Budget* document mentioned above.

Attachment C - Trust Fund Reorganization, and Related Designations and Budget Revisions for Fiscal Years 2003-04 and 2004-05

On October 21, 2004, 10 of the 13 members of your Board received a presentation on the need to transfer and designate monies in compliance with Government Accounting Standards Board Pronouncement No. 34. Along with this action, is the adoption of related budget revisions in order to accomplish this. A 4/5 vote was needed, so a minimum of 11 members had to agree and vote to approve this item. We have not had 4/5 attendance at subsequent meetings and are presenting the trust fund

reorganization and related budget revisions and resolutions, as part of the annual budget adoption process, so that a simple majority may adopt the proposal. This item will need to be heard and adopted along with the proposed budget for FY 2005-06. The original Board letter and attachments are presented in attachment C. The 2003-04 CAFR and Single Audit reports will be included in the June budget adoption package as they are contingent on the adoption of the budget revisions.

Hold a public hearing to accept comments, and provide direction to staff regarding changes desired by the Board

Public Review and Board Adoption Process

Your Board is requested to hold a public hearing to review the proposed APCD budget for FY 2005-06 and to provide the public with the opportunity to comment. A separate public hearing must be held to adopt the budget. As required, the proposed budget was made available to all fee payers and to the general public at least 30 days in advance of this hearing. Notices were mailed to all permit holders and published in local newspapers. In addition, staff conducted two public workshops on April 26 and 29 (in Santa Barbara and Santa Maria, respectively) to explain the budget, answer questions, and receive input. At the May 19 hearing, we will summarize any comments that we received at the workshop.

We received the following questions and comments from representatives of the oil & gas industry and Vandenberg Air Force Base (VAFB). We received questions regarding the index used for the annual fixed fee CPI adjustments, retirement rates and forecasted increases, reevaluation revenue fluctuations, GASB 34 and resulting designations, our deficit stabilization plan, our service levels amidst staffing reductions, and funding from represented cities and County.

The CPI, as cited in Rule 210, is based on the California Revenue and Taxation Code definition, section 2212, and means the percentage change from April 1 of the prior year to April 1 of the current year in the California Consumer Price Index for all items, as determined by the California Department of Industrial Relations. We are proposing a 3% CPI, but the rate is subject to change once it is published late May or early June. As mentioned earlier, we forecast stable retirement rates over the next one to two years with gradual rate decreases following. Reevaluation revenue fluctuations are addressed by implementing a three-year rolling average calculation that designates revenues from “peak” years and releases those designations in “lean” years. Under GASB 34, the improved reporting of savings in the form of designations better identifies categorical and discretionary savings as well as how much it is being increased or decreased in any given year. Our deficit stabilization plan is outlined on page five of the Proposed Budget Document under *Designation Usage Stabilization Plan*. Representatives expressed questions and concerns about service levels. At present, we are confident service levels will exceed industry standards and we will speak more to the topic as part of our budget presentation and the hearing process. All representatives cited past efforts to obtain funding from the represented cities and County and asked us to pursue this funding option. We clarified that the law surrounding this possibility is elective by the Board and would need to be at the will of the Board.

Lastly, oil and gas representatives predicted the eventual withdrawal of oil platforms from the Santa Barbara County coast will require us to revisit our fee structure so APCD is viable after the withdrawal.

Potential Changes and Corrections to Proposed Budget

Potential Changes

The proposed budget will be modified based on your Board's direction and presented for adoption at the June 16 hearing. Other modifications prior to the adoption hearing include an update of the cost-of-living fee adjustment based on the final April-to-April consumer price index figures and incorporation of any updated information about cost or revenue.

Corrections

Also, at least four corrections will be made: 1.) Page 3, under expenditure changes, \$8.2 million should be \$8.485 and \$200,000 should be \$485,000, 2.) Page 15, under the "Emissions reduced through grant funding." impact measure the FY 2004-05 goal should be 150 tons, instead of 50, and the FY 2004-05 Est. Act. should be 75 tons instead of 50, 3.) Page 27, under significant changes, \$2,258,265 should be \$3,258,265, and 4.) Page 33, under the "NOx and ROC reductions from ITG projects." recurring performance measure the FY 2004-05 goal should be 150 tons, instead of 50, and the FY 2004-05 Est. Act. should be 75 tons instead of 50.

ATTACHEMENTS:

- A. Fiscal Year 2005-06 Comprehensive Program Summary and Proposed Budget
- B. Air Quality Attainment Plan Fee Report
- C. Trust Fund Reorganization, and Related Designations and Budget Revisions for Fiscal Years 2003-04 and 2004-05

Attachment A

Fiscal Year 2005-06 Comprehensive Program Summary and Proposed Budget