

Agenda Date: May 19, 2016
Agenda Placement: Regular
Estimated Time: 20 Minutes
Continued Item: No

Board Agenda Item

TO: Air Pollution Control District Board

FROM: Aeron Arlin Genet, Air Pollution Control Officer

CONTACT: Kristina Aguilar, CPA, Administrative Manager (961-8813)

SUBJECT: Fiscal Year (FY) 2016-17 Proposed Budget

RECOMMENDATION:

1. Receive the Proposed Budget for FY 2016-17;
2. Hold a public hearing to accept comments and provide direction to staff regarding changes desired by the Board; and
3. Schedule a budget adoption hearing for June 16, 2016.

DISCUSSION:

Public Review and Board Adoption Process

Your Board is requested to hold a public hearing to review the attached proposed District budget for FY 2016-17 and to provide the public with the opportunity to comment. A second public hearing must be held to adopt the budget and it is requested to be set for the next regularly scheduled Board meeting on June 16, 2016.

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. The proposed budget was posted on the internet and notices were mailed to all permit holders on April 8, 2016. Notice was also published in local newspapers on April 10, 2016. In addition, staff conducted a public workshop on April 19, 2016 to explain the budget, answer questions and receive input.

Proposed Budget Overview

➤ *FY 2016-17 District Budget at a Glance*

The Proposed FY 2016-17 budget of \$9,487,159 is \$854,357 lower than the Adopted FY 2015-16 budget of \$10,341,516, which is a decrease of 8.3%.

➤ *Budgetary Highlights and Major Factors Affecting the FY 2016-17 Budget*

Each year the budget process begins with the programming of revenues. After revenues are forecasted, expenses including salaries and benefits are programmed to equal revenues. The FY 2016-17 revenue decrease is primarily a result of the Plains All American oil pipeline shutdown (approximately \$500,000) and the downturn in petroleum industry activity (approximately \$200,000). With this decrease in revenue, the following strategies were incorporated to develop a balanced budget.

The District is proposing to temporarily decrease current staffing levels by 4.0 FTE. As such, salaries and benefits are proposed to decrease from the prior year to 43.0 FTE. This reduction will be a savings of approximately \$450,000 for the next fiscal year. The District does anticipate this reduction in workforce to only be temporary until the pipeline is back online, oil & gas activity increase and the revenue stream begins to materialize.

The cyclical nature of reevaluation fees revenue is entering the low-year of its 3-year cycle this fiscal year. The cycle has a high, high-mid, and low budget year. Having entered the low-year of the cycle, reevaluation fee generation will be \$327,181 less than the prior FY 2015-16 (the high-mid-year) of \$991,463. Within the 3-year cycle, the District deposits a portion of revenue into savings during the high and high-mid years and withdraws during the low year. This fiscal year (the low-year) the District will withdraw \$240,639 from the reevaluation cycle fund balance.

In FY 2009-10 your Board adopted a prefunding plan for retiree health benefits, which is a more cost-effective option than a pay as you go basis. At that time, the Board further adopted an earmarking and gradual transfer of a portion of discretionary designations (totaling \$1,180,900) to the 401(h) trust in order to eventually fully fund the retiree health benefits and eliminate the District's need to pay the benefits annually out of its operating budget. While prefunding will eliminate this ongoing expenditure, the process of making annual transfers will temporarily inflate the operating budget. The District does not consider this release of designation an operational deficit, as it is transferring assets from one savings account to another, and will cease when complete. The District is proposing to transfer \$242,080 during FY 2016-17.

No fee increases are proposed for FY 2016-17 other than a 1.1% Consumer Price Index (CPI) adjustment in fees that is authorized by District Rule 210.

➤ *Revenues*

The proposed revenues of \$7,742,640 represents a decrease of \$1,034,564 compared to the FY 2015-16 total of \$8,777,204. This is primarily due to the oil pipeline shutdown, the decline in petroleum industry activity and the cyclical nature of reevaluation fees.

➤ *Staffing*

The current staffing levels present the management challenge of complying with existing and new state and federal mandates while maintaining a high level of service in major program areas such as rule development, planning, permitting, compliance, inspection, air monitoring, air toxics, interagency review and financial reporting. Despite the rise of mandated requirements, the staffing levels will decrease to 43.0 FTE to help offset the budget deficit due to the loss of revenue. The 4.0 FTE positions being unfunded are currently vacant, and as such no layoffs will occur with this temporary reduction.

➤ *Expenditures*

The FY 2016-17 operating budget of \$9,487,159 represents a significant decrease from FY 2015-16, which is primarily attributed to:

- Salaries & Benefits – the decrease is primarily attributed to reducing the District’s staff by 4.0 FTE. The reduction to staffing levels are only temporary and will be reinstated once the pipeline is back online. The decrease is slightly offset by a 2% COLA effective half way through the fiscal year that was negotiated through the bargaining process and approved by your Board in 2015.
- Services & Supplies – the decrease of \$281,316 is primarily attributed to a line-by-line review of expenditures to bring costs down to meet forecasted revenues. Based on that analysis the District was able to decrease several items including small equipment, memberships, office expenses, software, business travel & training, special department expense, and professional services. The District also reduced its one-time projects to help offset the budget deficit.
- Other Charges – a decrease of \$768 is primarily due to anticipated contributions to other agencies being lower than the prior year.
- Fixed Assets – there is an increase of \$18,000 that is due to the need to purchase air quality monitoring instruments and equipment for \$93,000 and two new vehicles for compliance and monitoring for \$60,000. Funds for these purchases come from prior year savings that are earmarked specifically for acquiring these assets.

➤ *Discretionary Designations*

Discretionary designations, not funded by categorical revenues or for specific and presently quantifiable purposes, under new financial reporting guidelines, are lumped together as “Unassigned” fund balance in the District’s Comprehensive Annual Financial Reports (CAFR).

For FY 2016-17 the District is proposing to draw from the Operational Activity fund designation for a few one-time projects: lawnmower scrap incentive program, new exhibit at The Wolf Museum of Exploration and Innovation in Santa Barbara, and portable air sensor project with local schools. These projects combined total \$111,200.

➤ *Major Efforts during FY 2016-17:*

- Efficiency improvements and process streamlining: online payment processing, web-based permit application process, review of cost-effective advances in monitoring technologies.
- Start collective bargaining process with employee organizations on the one-item reopener.
- Enhance interagency coordination on compliance programs.
- Present recommended changes to our New Source Review Rules.
- Support the introduction of alternative fueled vehicles and infrastructure in the region.
- Complete the 2016 Ozone Plan Update and develop and adopt new and revised rules as required by the Plan.
- Seek solutions for local greenhouse gas mitigation measures.
- Secure and implement maximum funding for Clean Air Grants.

In addition, other important core activities will continue. Such activities include efforts to reduce emissions and increase public awareness through extensive outreach programs. Examples of these efforts include, issuing permits, conducting inspections of permitted equipment, publishing newsletters, improving computer automation services and enhancing our website.

Finally, to ensure that the District is working effectively, we monitor success through impact and performance measures and use the information to improve the District's effectiveness and efficiency. These impact measures are included in the attached budget document.

Anticipated Adjustments to the Proposed Budget for June

The proposed budget will be modified based on your Board's direction at the May hearing. Once the proposed budget is adopted, an adopted budget document will be published.

ATTACHMENT:

Proposed Budget Fiscal Year 2016-17