

Agenda Date: May 17, 2007
Agenda Placement: Regular
Estimated Time: 30 Minutes
Continued Item: No

Board Agenda Item

TO: Air Pollution Control District Board

FROM: Terry Dressler, Air Pollution Control Officer

CONTACT: Donald Kendig, CPA, Business Manager (961-8854)

SUBJECT: Fiscal Year 2007-08 Comprehensive Program Summary and Proposed Budget

RECOMMENDATION:

1. Review the Comprehensive Program Summary and Proposed Budget for Fiscal Year 2007-08;
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 21, 2007.

DISCUSSION:

Attached you will find the Comprehensive Program Summary and Proposed Budget for the 2007-08 fiscal year (FY).

Proposed Budget Overview

Budgetary Highlights

The FY 2007-08 budget is characterized by our third year of a long term plan to bring our expenditures in alignment with our revenues. For the last three out of four fiscal years the APCD's expenditures have been greater than our revenues, and we have had to use, in the form of a release of designations, previously accumulated discretionary funds in order to balance our budgets, the balances of which are described in our designations schedules on pages four and five.

We are pleased to report that we have cut our need of designation in half compared to the prior fiscal year, reducing it from an adopted \$560,570 in FY 2006-07 to a proposed \$226,169 in FY 2007-08. It is still necessary that we continue the process of eliminating our use of designations to fund operations, and at the current rate of expenditure, discretionary savings would last about another 10 years.

In the FY 2007-08 budget we have unfunded two Air Quality Engineer II positions and an Inspection Specialist II for a reduction of 3.0 full time equivalent (FTE) positions. The reduction in staff is being accomplished through attrition; however, this is not to say that related workload went away, because the work remains. We will need to reorganize work assignments and priorities in order to continue to achieve mandated goals.

Revenues

No fee increases are proposed for FY 2007-08 other than the estimated 2.5% CPI adjustment in fees that is authorized by APCD Rule 210. In fact, during a number of years between July 1, 1990 and June 30, 2000, the APCD did not raise fees by even the CPI, thereby foregoing 13.75% of compounded fee increases as of fiscal year 2007-08.

With two notable exceptions, our revenue sources are projected to remain relatively stable from our adopted FY 2006-07 budget to our proposed FY 2007-08 budget. The first, reimbursement charges, decrease \$431,558 (or 21.1%) to \$1,611,227 compared to the Adopted FY 2006-07 budget of \$2,042,785 as a result of the completion of the Guadalupe school bus retrofit and the end of the Integrated Waste Management Board (IMWB) contract. The second, is due to the one trough year of our three-year reevaluation fee cycle. Compared to Adopted FY 2006-07 Reevaluation Fees of \$662,322, FY 2007-08 is proposed at \$340,000, a \$322,322 (or 48.7%) reduction. As part of this anticipated dip, we propose releasing, from designations, \$302,287 of reevaluation fees placed in savings in the prior two "peak" fiscal years to even out the revenue fluctuations inherent in the three-year reevaluation fee cycle.

Staffing

There have been significant reductions in staffing over the last several years. The initial reductions were primarily 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 had been relatively stable from July 1, 1999 to June 30, 2004 while our revenue base continued to erode. Staffing reductions from July 1, 2004 to our proposed June 30, 2008 have attempted to bring our expenditures into balance and to close the gap in our operational funding deficit. Further, in light of a detailed analysis of revenue trends and forecasts, it has become clear that corrective action is needed to thwart the continued erosion of revenues needed to support critical staffing levels.

The FY 2006-07 budget reduced positions by 1.5 FTE and the proposed 2007-08 budget reduces positions by an additional 3.0 FTE. As part of the staff reductions, the APCD proposes to upgrade an existing Inspection Specialist III position to Principle Inspection Specialist. In addition to performing typical inspection duties such as enforcement and complaint response, the Principle Inspection Specialist will also handle portions of the emissions testing assignment, and will provide air quality, environmental and safety expertise to projects going through CEQA, systems safety analysis and land use permitting, which were previously accomplished by engineer class staff. The Job Class table, on page 11, outlines the proposed changes, and a revised job class specification for the Principle Inspection Specialist will be presented for adoption at the June budget hearing.

Expenditures

Salaries and benefits decrease modestly by \$59,347 due to our proposed 3.0 FTE position reduction, offset by a negotiated 2% COLA for all employees, a 1.77% retirement rate increase, a \$20 per pay period negotiated health insurance offset increase, step increases, promotions, and a reclassification.

The retirement expense increase (\$69,314) was unanticipated. The increase is due to the ages of recent retirees and new hires, which negatively affected future funding requirement forecasts, compounded by the last year for which the negative investment returns are being realized in the retirement rates. It was originally expected that new hires hired under the District's less costly retirement benefit tier would offset the anticipated "investment loss" increase, however, the average age of the new hires cancelled out potential offsetting reductions.

Services and supplies decreases are primarily due to the reduction of contractor services and the rate of grant disbursement. The other charges reduction primarily reflects the elimination of our contribution to the Clean Air Express, which is necessary due to the reduction in revenues used to fund the administration of our grant programs. The reduction in fixed assets reflects the purchase of the VAFB air monitoring shelter and data loggers for the Data Acquisition system (DAS) in FY 2006-07, which will not be repeated in FY 2007-08.

Lastly, principle and interest payments have been eliminated by the paying off of the note payable to the County of Santa Barbara.

Comprehensive Program Summary Overview

Major accomplishments, events, and highlights during FY 2006-07:

- No exceedances of federal ozone standards
- Seventh year in a row for attainment of one-hour federal ozone standard
- Made progress with EPA, the California Air Resources Board, and other partners to fund the first marine shipping retrofit program
- Issued \$1.2 million in grants to reduce approximately 60 tons of air pollution
- Maintained cooperative working relationship with agricultural community to implement state-mandated permitting of large agricultural sources
- 1,133 inspections and 514 permitting actions in calendar year 2006
- Responded to 135 air pollution complaints in calendar year 2006

Major efforts during FY 2007-08:

- Continue efforts to reduce the emissions from marine shipping
- Implement and administer the Air Toxic Hot Spots program, including risk notification and risk reduction
- Implement State air toxic control measures
- Continue to achieve emission reductions through incentive grant programs
- Develop uncollectible account charge-off policy and procedures for Board approval
- Negotiate memoranda of understanding with all (3) bargaining units
- Ongoing permitting, compliance, and rule development activities
- Develop a long-term deficit reduction plan to present to the Board

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, 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.

Public Hearing

Public Review and Board Adoption Process

Your Board is requested to hold a public hearing to review the proposed APCD budget for FY 2007-08 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 24 and 26 (in Santa Barbara and Santa Maria, respectively) to explain the budget, answer questions, and receive input. At the May hearing, we will present comments that we received at the workshop.

Potential Changes and Corrections to Proposed Budget

The proposed budget will be modified based on your Board's direction at the May hearing and presented for adoption at the June hearing. Other modifications prior to the June adoption hearing will include typographical corrections, 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.

ATTACHMENT:

Fiscal Year 2007-08 Comprehensive Program Summary and Proposed Budget