

Agenda Date: May 20, 2010  
Agenda Placement: Regular  
Estimated Time: 15 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 (FY) 2010-11 Comprehensive Program Summary and Proposed Budget

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### RECOMMENDATION:

1. Receive the Comprehensive Program Summary and Proposed Budget for FY 2010-11;
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 17, 2010.

### DISCUSSION:

#### Public Review and Board Adoption Process

Your Board is requested to hold a public hearing to review the attached proposed APCD budget for FY 2010-11 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 17, 2010.

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 9, 2010. Notice was also published in local newspapers on April 11, 2010. In addition, staff conducted a public workshop on April 20, 2010 to explain the budget, answer questions, and receive input.

#### Proposed Budget Overview

##### *Budgetary Highlights and Major Factors Affecting the FY 2010-11 Budget*

No fee increases are proposed for FY 2010-11 other than a forecasted Consumer Price Index (CPI) adjustment in fees that is authorized by APCD Rule 210. While we have forecasted a CPI of 2.0% for this May proposed budget, based on a 2.1% December 2008 to December 2009 change, it will most likely be different.

Retirement rates have increased from 25.4% of pensionable earnings to 29.7%, an increase of approximately \$182,000 or 3.6% in total salaries and Benefits costs.

We are proposing to maintain current staffing levels. The District has significantly reduced its staff levels over the last several budget cycles in order to align our expenditures with our revenues, and this will be the third year we are proposing a balanced budget without a structural deficit.

The County of Santa Barbara's Cost Allocation, which is comprised of charges for services it provided to us in previous years that are not recovered via direct billings, increased from \$319 to \$60,858. The services provided are primarily County Counsel legal services, Auditor-Controller financial transaction and reporting services, and Treasurer-Tax Collector depository services. Cost allocation charges can swing up or down dramatically depending on a respective service provider's ability to estimate its costs accurately in a given fiscal year. The District has set aside funds from previous years in order to offset the year to year fluctuations in this expense.

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. 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 APCD'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. We do 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.

In FY 2009-10 a 401(h) transfer of \$326,000 was adopted, but we found that due to IRS limitations, we were only able to transfer approximately half of that amount. In response, we are proposing \$174,500 for FY 2010-11. In addition, there is sufficient salary savings available within the 2009-10 budget year to make the 2009-10 contribution and preserve the balance available for future pre-funding.

The peak in the three year reevaluation cycle is behind us and we are entering the lowest or "trough" year during which we will use savings that we accumulated during the higher years to "level" the revenues and match our level of effort, which does not fluctuate as dramatically as the revenue does.

Lastly, we propose acquiring laptops in order to automate the inspection process (a one-time cost of approximately \$9,900) as well as initiating a major overhaul of our compliance database system in order to better track performance metrics and add efficiencies to the inspection process (a one-time cost of \$37,500) both of which we propose funding with discretionary designations.

### *Revenues*

Our proposed revenues of \$7,756,829 represents a decrease of \$426,477 compared to the FY 2009-10 total of \$8,183,306. This is primarily due to the artifact of the trough year in the three year permit reevaluation revenue cycle.

Projected decreases include: reevaluation fees at \$256,800 due to the lowest year in the three year reevaluation cycle, annual emission fees at \$77,500 due to anticipated large source emission reductions, interest at \$89,000 due to reduced interest rate expectations, and reimbursable charges at \$58,096 due to the reduction in reimbursable workload and Carl Moyer grant funds. These decreases, alone, amount to \$481,396 in revenue reductions. While some of the reductions are likely to be permanent, reevaluation fees will cycle back up next year, and both interest earnings and reimbursable workload have the ability to recover in future years.

### *Staffing*

Since FY 2001-02 we have reduced staffing by 10.25 Full Time Equivalent (FTE) positions (or 15.2%) to 50.25 FTE. 50.25 FTE represent a 55.5% reduction from the FY 1992-93 staffing peak of 113.0 positions.

The current staffing levels continue to present the significant 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 and compliance, inspection, air monitoring, air toxics, interagency review, and financial reporting.

### *Expenditures*

Our FY 2010-11 operating budget of \$9,491,145 represents a decrease of \$492,207 compared to FY 2009-10 of \$9,983,352, which is primarily attributed to reducing the retiree health prefunding from \$326,000 to \$174,500, a \$306,000 reduction in DMV \$2 grants volume, salary savings from anticipated staffing turnover, and a \$94,500 reduction in fixed assets due to completion of 3 inspector vehicle purchases, offset by a more than \$182,000 retirement cost increase.

### *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 APCD’s Comprehensive Annual Financial Reports (CAFRs).

For FY 2010-11 we propose a use of discretionary reevaluation cycle designation of \$593,645 that we accumulated during the previous higher years to “level” the revenues. We also propose a use of discretionary operational activities designation of \$108,258 for one time expenditures, more specifically County Cost Allocation charges at \$60,858, compliance database system upgrades at \$37,500, and laptops for inspector field use at \$9,900.

### Comprehensive Program Summary Overview

#### *Major Accomplishments, Events, and Highlights during FY 2009-10:*

- Only six exceedances of the federal 8-hour ozone standard in calendar year 2009<sup>1</sup>.
- Only five exceedances of the state one-hour ozone standard in calendar year 2009.
- Only 10 exceedances of the state 8-hour ozone standard in calendar year 2009.
- Installed real-time particulate monitors in Goleta and Lompoc.
- Completed the second round of emissions testing for the marine container vessel retrofit program.
- Maintained a cooperative working relationship with agricultural community during implementation of an APCD registration program for agricultural engines.
- Performed 1,370 inspections and 650 permitting actions in calendar year 2009.
- Responded to 157 air pollution complaints in calendar year 2009.
- Issued \$849,359 in clean air grants.

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<sup>1</sup> In January 2010 the Environmental Protection Agency proposed to strengthen the 8-hour “primary” ozone standard, designed to protect public health, to a level within the range of 0.060-0.070 parts per million (ppm).

*Major Efforts during FY 2010-11:*

- Complete the 2010 Clean Air Plan and obtain Board of Directors and ARB approval of the Plan.
- Monitor EPA guidance on new standards, particularly EPA's reconsideration of the 8-hour federal ozone standard and determine appropriate actions in order to comply.
- Monitor ARB guidance on the state ozone standard and determine appropriate actions in order to comply.
- Track implementation of AB 32 and SB 375.
- Continue efforts to quantify the emissions from marine shipping.
- Refine and update countywide emission inventory for greenhouse gases.
- Develop and adopt new and revised rules as required by the Clean Air Plan. These rules include, but are not limited to, Rule 321 (solvent degreasers), Rule 330 (surface coating metal parts) and Rule 337 (aerospace parts).
- Relocate the Santa Ynez monitoring station if a suitable location is secured.
- Obtain EPA approval of our 2009 Annual Air Monitoring Network Plan.
- Obtain Board approval of a new off-road vehicle replacement program.
- Consolidate ECD's reporting tools for tracking and reporting of permit and compliance data to address multiple data requests from internal and external customers.
- Implement new State and Federal climate control regulations.
- Streamline the field inspection reporting process by implementing paperless systems.

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 ensure 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.

Anticipated Adjustments to the Proposed Budget for June

The proposed budget will be modified based on your Board's direction at the May hearing and updated financial schedules will be presented for adoption at the June hearing.

Other modifications to the financial schedules will include an update for the CPI fee adjustment based on the final April-to-April consumer price index figures and the incorporation of any updated information about cost or revenue, an additional release of discretionary operational activities designation for one-time, non-pensionable, employee benefits subject to reaching agreement via collective bargaining.

Once the proposed budget is adopted, an adopted budget document will be published incorporating the adopted financial schedules, and any changes to programs and activities.

**ATTACHMENT:**

Fiscal Year 2010-11 Comprehensive Program Summary and Proposed Budget