

Agenda Date: May 21, 2009
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 2009-10 Comprehensive Program Summary and Proposed Budget

RECOMMENDATION:

1. Receive the Comprehensive Program Summary and Proposed Budget for Fiscal Year 2009-10;
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 18, 2009.

DISCUSSION:

Attached you will find the Comprehensive Program Summary and Proposed Budget for the 2009-10 fiscal year (FY).

Proposed Budget Overview

Budgetary Highlights

No fee increases are proposed for FY 2009-10 other than an estimated Consumer Price Index (CPI) adjustment in fees that is authorized by APCD Rule 210. While we have estimated a CPI of 3% for this May proposed budget, due to volatile economic conditions, it may change considerably.

The latest data available shows an April 2008 to February 2009 CPI of minus 1.4%, and a February to February CPI of 0.0%. In light of this, we anticipate reporting a very low to negative CPI at the June hearing.

We are proposing to reduce staffing levels by 1.0 (or 2.0%) and the District has significantly reduced its staff levels over the last six budget cycles in order to align our expenditures with our revenues. Last year, and again this year, we are proposing a balanced budget without a structural deficit.

Retirement rates have increased again from 24.4% of pensionable earnings to 25.4% an increase of approximately \$39,000. It is important to note that if CPI comes in lower than 3%, retirement costs will decrease proportionately.

In addition to retirement benefits, the APCD provides our retirees a health benefit of either a \$15 health insurance premium offset or a \$4 cash allowance for health costs. This amount is per year of service and received monthly. For instance, a retired APCD employee, after having worked 30 years, would receive a monthly discount of up to \$450 on retirement system provided health insurance, or a \$120 deposit into an individual health savings account.

During the previous fiscal year, the Board adopted a 401(h) retiree health trust in order to comply with Internal Revenue Service (IRS) regulations surrounding the manner in which the retiree health benefits are paid. Once established, the District began paying retiree health benefits on a pay-as-you-go basis at approximately \$50,000 a year.

Paying retiree health benefits on a pay-as-you-go basis is not the most cost effective option, so we are proposing to earmark and gradually transfer a portion of discretionary designations into the 401(h) trust in order to fully fund the retiree health benefits and eliminate the APCD's need to pay the benefits each year through its annual operating budget.

We have preliminarily estimated the amount needed to prefund the retiree health benefit at \$1,180,900, which may change once an actuary delivers its estimate. Prefunding is more cost effective because it will allow the compounded investment earnings of the trust pay approximately 70% of the benefit.

While prefunding will eliminate the ongoing expenditure of \$50,000, the accounting for the transfers will temporarily inflate the operating budget by over \$326,000 for the next four to five years because we cannot transfer the full amount during any one year due to IRS restrictions. We do not consider it an operational deficit, as it is simply moving assets from one savings account to another.

In addition to eliminating annual retiree health benefit costs by prefunding them, we also propose prefunding administrative capital replacement costs by earmarking and transferring discretionary designations into Accumulated Capital Outlay. This will reduce annual administrative capital replacement costs of approximately \$55,000 while ensuring we will have the funds to replace our furniture, vehicles, and equipment when they wear out.

Prefunding of both retiree health and administrative capital replacement through a transfer from discretionary designations into Retiree Health Subsidy and Accumulated Capital Outlay in FY 2008-09 will result in an ongoing annual operational savings of \$105,000 starting in FY 2009-10, reducing our overhead costs by the same amount.

The peak in the three year reevaluation cycle is behind us and we are entering the first of two "trough" years during which we will use savings that we accumulated in the peak year. Also, while the state and federal budgets have passed without reductions in subventions, this source of funding remains precarious.

Lastly, due to the instability of the economy, we ask, as part of the budget resolution, that the Board authorize the Air Pollution Control Officer (APCO) to release discretionary designations during the fiscal year, if necessary, to offset any unforeseen reductions in projected revenues. We received this authorization last year and did not have to exercise it.

Revenues

The proposed revenue total of \$8,299,666 represents a decrease of \$279,488 (or 3.3%) compared to FY 2008-09 of \$8,579,154, even though we have estimated a 3% CPI adjustment in APCD Rule 210 fees.

Projected decreases include evaluation fees at \$64,978 (or 27.1%), reevaluation fees at \$134,400 (or 15.4%), inspection fees at \$22,584 (or 54.7%), source test fees at 7,600 (or 12.1%), interest at \$41,000 (or 15.8%) due to reduced interest rate expectations, reimbursable charges at \$131,373 (or 8.6%) due to the reduction in reimbursable workload, and miscellaneous revenue at \$7,144 (or 37.1%) due to the scheduled reduction of increment fees. The decreases are partially offset by increases in annual emission fees at \$39,779 (or 3.9%), DAS fees at \$10,460 (or 3%), monitoring fees at \$31,829 (or 6.1%), due to the addition of a new meteorological station installed by Venoco, and state portable equipment registration (PERP) fees at \$51,750, which are passed through from the State Air Resources Board.

Staffing

For the FY 2009-10 budget, we propose unfunding a vacant Air Quality Engineer I/II position due to a reduction in our reimbursable workload. As it is difficult to anticipate whether an entire position's worth of reimbursable work will cease, a contractor on payroll budget is proposed not to exceed \$40,000, and will be used only if and when the workload develops.

Since FY 2000-01 we have reduced staffing by 9.5 Full Time Equivalent (FTE) positions (or 14.1%) 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 present a significant challenge of continuing to comply 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

The FY 2009-10 operating p total of \$10,092,524 represents an increase of \$757,820 (or 8.1%) compared to FY 2008-09 of \$9,334,704, which is primarily attributed to COLAs of approximately \$119,000, step increases, retirement rate increases of approximately \$69,000, prefunding retiree health benefits at \$326,000, increased Innovative Technology Group grants at approximately \$115,000, fixed asset purchases of \$136,950, and contractors on payroll not to exceed \$50,000, which is offset by unfunding an Air Quality engineer I/II saving approximately \$100,000, a reduction in County cost allocation charges of approximately \$26,000, and lower liability insurance cost forecasts saving approximately \$10,000.

Discretionary Designations

The Government Finance Officers Association (GFOA) recommends a minimum of 15% of revenues be set aside in designations (or \$1,244,950 for FY 2009-10). Based on the combined discretionary designations of \$2,529,647, the APCD has discretionary designations of \$1,284,697 above the 15% recommended level. Given APCD's funding sources, we believe 25% would be a more prudent reserve target, which would be \$2,074,917. The APCD has discretionary designations of \$454,730 above that target.

We are proposing to consolidate three smaller discretionary designations (contingency, insurance deductible, and special investigations) into three broad categories (strategic reserve, reevaluation cycle, and operational activities). Strategic reserve will encapsulate the GFOA's recommended 15% minimum and cover extreme emergencies and business interruptions. Reevaluation cycle will encapsulate the peaks and valleys of the three year permit reevaluation revenue cycles. Operational activities will encapsulate the year over year fluctuations in operational funding surpluses and deficiencies.

Comprehensive Program Summary Overview

Major accomplishments, events, and highlights during FY 2008-09:

- Only four exceedances of the new federal 8-hour ozone standard in 2008, which did not change our attainment status.
- Only four exceedances of the state one-hour ozone standard, which did not change our attainment status.
- 12 exceedances of the new state 8-hour ozone standard in 2008, for which we remain non-attainment.
- Completed the second round of emissions testing for the marine container vessel retrofit program.
- Coordinated with County Fire and Public Health Departments to advise the public during air quality episodes created by smoke and ash from the Gap and Tea Fires.
- Performed 1,562 inspections and 588 permitting actions in calendar year 2008.
- Responded to 223 air pollution complaints in calendar year 2008.
- Issued \$1,284,456 in clean air grants, thereby reducing over 30 tons of air pollution.

Major efforts during FY 2009-10:

- Obtain USEPA approval of the 2007 Clean Air Plan.
- Initiate development of the 2010 Clean Air Plan to comply with state planning requirements.
- Utilize the Integrated Data System emission inventory module for collection and calculation of Greenhouse Gas emissions from stationary sources, as well as refine and update the countywide emission inventory for greenhouse gases.
- Continue efforts to quantify the emissions from Marine Shipping.
- Develop and adopt new and revised rules as required by the Clean Air Plan and SB 656 Mandates. These rules include, but are not limited to, Rule 321 (Solvent Degreasers), Rule 330 (surface coating metal parts), Rule 337 (aerospace parts), and particulate matter control rules identified in the SB 656 Process.
- Install a real-time particulate matter (PM10) monitor at the Goleta monitoring station.
- Relocate the Santa Ynez monitoring station if a suitable location is secured.
- Implement and administer the Air Toxic Hot Spots (ATHS) program, including risk notification and risk reduction requirements of significant risk sources, website maintenance, public meetings, preparation of updated risk assessments, and oversee implementation of risk reduction plans for significant risk facilities to confirm that the necessary reductions have occurred.
- Undertake a major effort under ATHS program to screen the potential health risk from all agency regulated stationary diesel engines. Require significant risk sources to perform refined HRAs.

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.

Public Review and Board Adoption Process

Your Board is requested to hold a public hearing to review the proposed APCD budget for FY 2009-10 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 18, 2009.

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 10, 2009. Notice was also published in local newspapers on April 12, 2009. In addition, staff conducted two public workshops on April 21 and 23, 2009 (in Santa Barbara and Santa Maria, respectively) to explain the budget, answer questions, and receive input.

Potential Changes and Corrections to the Proposed Budget

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 cost-of-living fee adjustment based on the final April-to-April consumer price index figures and the incorporation of any updated information about cost or revenue.

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

ATTACHMENT:

Fiscal Year 2009-10 Comprehensive Program Summary and Proposed Budget