




Agenda Item: H-3
Agenda Date: May 21, 2020
Agenda Placement: Regular
Estimated Time: 30 Minutes
Continued Item: No

Board Agenda Item

TO: Air Pollution Control District Board

FROM: Aeron Arlin Genet, Air Pollution Control Officer 

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SUBJECT: Fiscal Year (FY) 2020-21 Proposed Budget

RECOMMENDATION:

That the Board:

1. Receive the Proposed Budget for FY 2020-21;
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, 2020.

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 2020-21 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, 2020.

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 on April 3, 2020 and notices were either mailed or e-mailed to 722 permit holders on April 3, 2020. Notice was also published in local newspapers on April 5, 2020. In addition, staff conducted a virtual public workshop on April 21, 2020 to explain the budget, answer questions, and receive input.

Major Factors Affecting the FY 2020-21 Budget

The COVID-19 pandemic has brought considerable economic uncertainty to the region. The economic effects of stay-at-home orders and closure of non-essential businesses, along with reduced consumer demand will impact the businesses that the District regulates. On a positive note, unlike cities and counties that rely heavily on sales tax, property tax, and transient occupancy tax to maintain their operations, the District does not. We are fortunate to have permitted sources that serve as essential functions to our communities. While these sources may experience a downturn in activities resulting from the COVID-19 Recession, over the long term they will likely resume activity to full operation, as we have seen in prior recessions.

The attached proposed budget was developed prior to the pandemic and is characterized as a best-case scenario. In response to the current economic uncertainty, the District analyzed potential revenue impacts for the upcoming fiscal year and developed strategies to ensure the agency is able to operate within reduced revenue scenarios. This analysis included a comparison of historical data on facility closure and vehicle registration rates in Santa Barbara County during the Great Recession and applied those historical reduction rates to our projected permit activity, emission fee, and vehicle registration fee estimates. Based on these assumptions, staff estimates a potential reduction in fee revenue of \$350,000 when compared to the draft proposed FY 2020-21 budget that was issued for public review on April 3, 2020 (Attachment A).

In preparation for a worst-case revenue scenario, the District will present changes to the proposed budget at the May Board hearing, to ensure the agency remains fiscally sound with a balanced budget during this economic slowdown. Changes will include elimination of the Deputy Air Pollution Control Officer position, a delay in filling of one vacant Engineering staff position, and reductions in the Services and Supplies category. The District will continue to closely monitor funding sources, the retirement plan, and actual financial results on a continuous basis and will prepare to make timely resource allocation adjustments when warranted. Staff will report back to the Board at the October meeting with the results of FY 2020-21 first quarter revenue and expenditures, and again at the January 2021 Board meeting to determine if any mid-year course corrections are needed.

Proposed Budget Overview

➤ *FY 2020-21 District Budget at a Glance*

In light of the ever-changing economic situation related to COVID-19, staff proposes modifications to the April 3, 2020 version of the budget. At the May 21, 2020 Board meeting, the staff presentation will include a Proposed FY 2020-21 budget of \$14,495,810. This amount is \$1,975,159 higher than the Adopted FY 2019-20 budget amount of \$12,520,651, which is an increase of 15.8%. This increase is largely attributed to two one-time fixed asset purchases; the first is an office building in north county for District staff and the second has to do with relocating the monitoring station in Santa Maria that will be taken over from the California Air Resources Board (CARB). There is also an increase of approximately \$350,000 of re-evaluation revenue, due to the high year of the 3-year re-evaluation cycle. Monitoring fees are also anticipated to increase due to a new monitoring rule (Rule 364). If this rule is adopted by your Board in May, the District will have revenue from an associated one-time fee of approximately \$260,000 and ongoing revenue of about \$67,000.

There is also a continued emphasis to implement grants as pass-through funds. Pass-through funds are received by a recipient government (the District) and distributed to a third party who voluntarily secures emission reductions through grant projects such as the Carl Moyer Program. Pass-through funds have a specified use as defined by enabling legislation, and cannot be used to cover District operations. Pass-through funds represent 31.7% of the District's total budget. To best illustrate the budget that falls within the District's purview to allocate (i.e., a total operating budget of \$9,904,302), tables were included in the budget document for revenues and expenses, with the exclusion of pass-through funds.

No fee increases are proposed for FY 2020-21.

➤ *Operating Revenues*

The proposed operating revenues of \$9,904,302 represents an increase of \$1,784,017 compared to the FY 2019-20 total of \$8,120,284. This is primarily attributed to the increase in use of fund balance to allocate monies towards the Clean Air Fund (\$200,000) and utilization of reserves for the purchase of an office building for District staff in north county (\$1,500,000). The purchase will allow the District to invest in property that will increase in value at a rate greater than what is currently occurring with our pooled cash account, while simultaneously reducing the office rental cost for our current location in Santa Maria. The District will take over ownership of a CARB monitoring site in Santa Maria and additional equipment is budgeted to bring that station up to the District's normal operating specifications. As mentioned in the first section of this board letter, another piece of the increase in the District's operating revenue can be attributed to the high year of the three-year re-evaluation cycle and the new monitoring rule. Lastly, funds have been earmarked to implement the District's new Emergency Response Plan, which includes communication tools and battery backups for the District's critical infrastructure.

➤ *Operating Expenditures*

The FY 2020-21 operating budget of \$9,904,302 represents an increase of \$1,784,017 compared to the FY 2019-20 amount of \$8,120,284. This is primarily attributed to the large one-time fixed asset purchases (\$1,800,000). Cost of living adjustments were negotiated in Fiscal Year 2019-20; the Board is scheduled to consider a cost of living adjustment (COLA) at the June 2020 Board meeting. In anticipation of a Board action, this COLA increase is reflected in the salary range table found in the budget document and is incorporated into the proposed budget numbers.

➤ *Major Efforts during FY 2020-21:*

- Closely monitor financial indicators and revenue trends in response to the COVID-19 Recession.
 - o Report back to the Board in October 2020 and propose any mid-course corrections at the January Board meeting.
- Continue to improve District efficiency and automate permit application forms, input of facility information into emissions inventory, and implement an online complaint system.
- Research and purchase an office building in north county for District staff.
- Complete transfer of ownership and operation of the Santa Maria air monitoring station to the District.
- Continue to implement the Community Air Protection Program.
- Assess countywide trends of PM exceedances and assess strategies to reach the state PM₁₀ standard.

- Lead the Central Coast Clean Cities Coalition's projects to expand use of alternative fuels; accelerate fueling infrastructure through grant and incentive programs.

In addition, other important activities will continue. Such activities include efforts to reduce emissions and educate the public 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 web site.

Finally, to ensure that the District is working effectively, we will 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 staff recommendations and your Board's direction at the May hearing. Once the proposed budget is adopted at the scheduled June Board meeting, an adopted budget document will be published.

ATTACHMENT:

- A. Fiscal Year 2020-21 Proposed Budget