



Air Pollution Control District
San Luis Obispo County

APCD FISCAL PLAN 2022-2026

INTRODUCTION

- ▶ The 2022-2026 Fiscal Plan is the 4th Iteration (2008, 2012 & 2017)
 - ▶ It was developed with assistance and concurrence of the Ad-hoc Fiscal Subcommittee
 - ▶ It addresses the significant revenue loss expected in 2023 with the scheduled closure of the Phillips 66 Refinery
 - ▶ As with previous plans, it evaluates existing and projected future staffing and financial resources of the District, and
 - ▶ It evaluates potential cost reductions and/or revenue enhancements needed to ensure fiscal stability and ongoing capacity to accomplish our mission and mandate



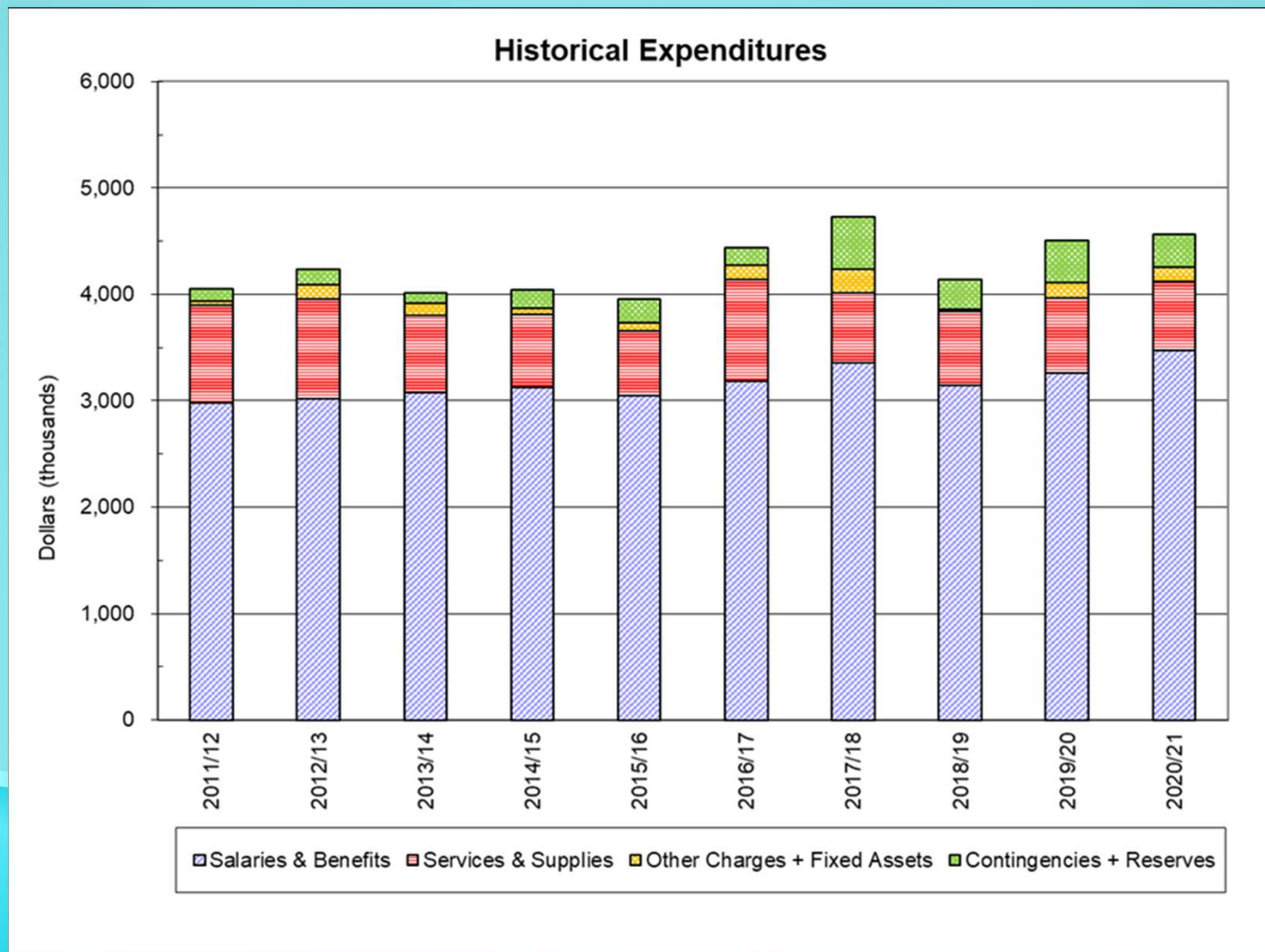
FISCAL POLICIES, GOALS AND OBJECTIVES

- ▶ Fiscal Policies and Procedures
 - ▶ The Plan was developed following all accounting controls, regular financial reporting, annual independent audits, and separate grant funding in separate trust accounts
- ▶ Goals and Objectives
 - ▶ Balanced Annual budget
 - ▶ Maintain reserves at no less than 20% of annual budget
 - ▶ Fund core services and Board priorities
 - ▶ Efficient and cost-effective use of public dollars
 - ▶ Seek diversified revenue stream to enhance fiscal stability
 - ▶ Achieve cost recovery wherever feasible
 - ▶ Use excess reserve funds to moderate fee increases over time



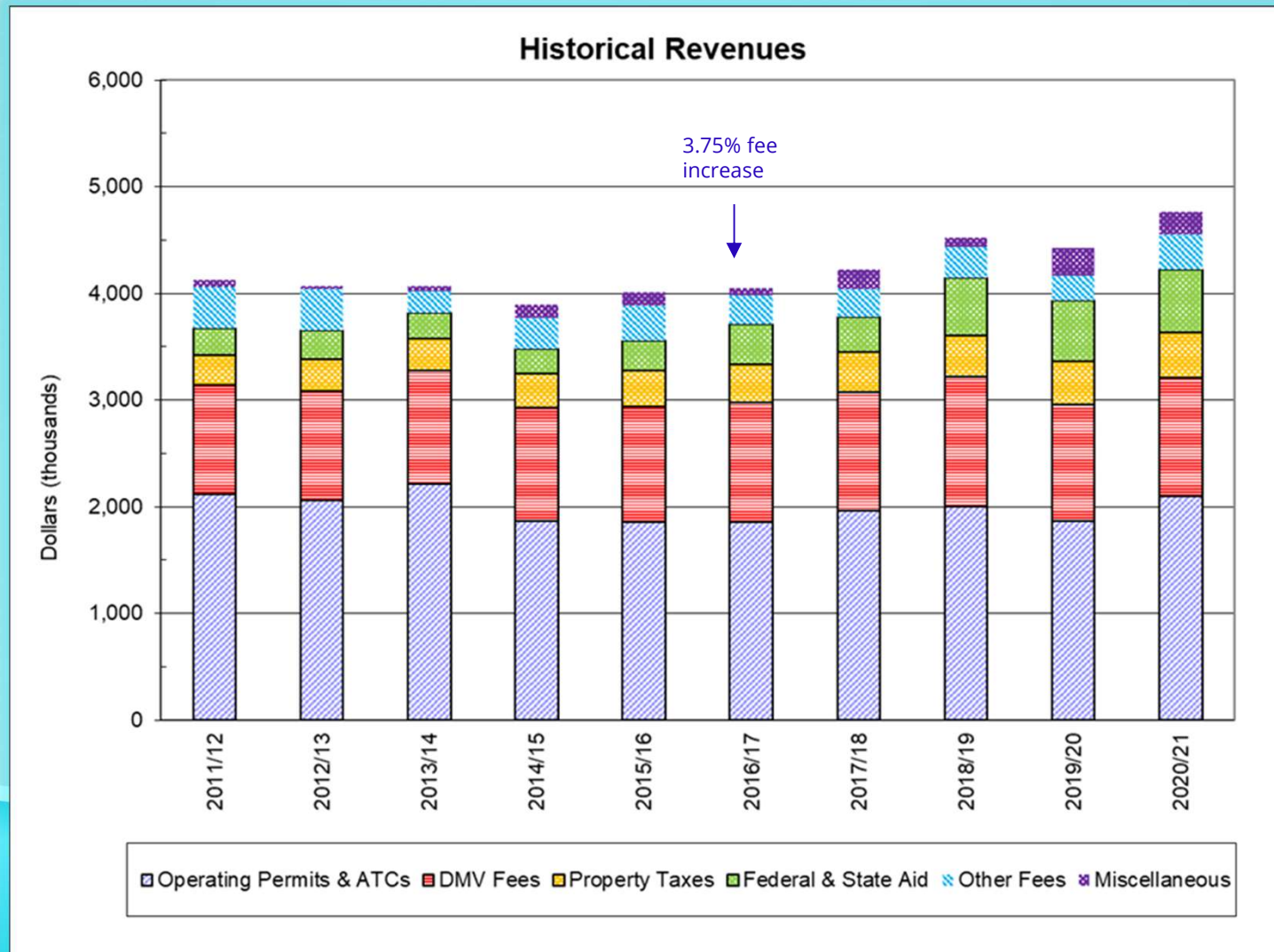
EXPENDITURE TRENDS

APCD operational expenditures have increased by an average of 1.3% per year
\$4.1 million in FY 2011-2012 to \$4.6 million in FY 2020-2021



REVENUE TRENDS

Revenue typically includes 36-38% fees from permitted sources, 18-20% motor vehicle registrations, 7% property taxes, and the balance from various other sources



5-YEAR DISTRICT STAFF RESOURCES AND WORKLOAD EXPECTATIONS

▶ Staffing Levels

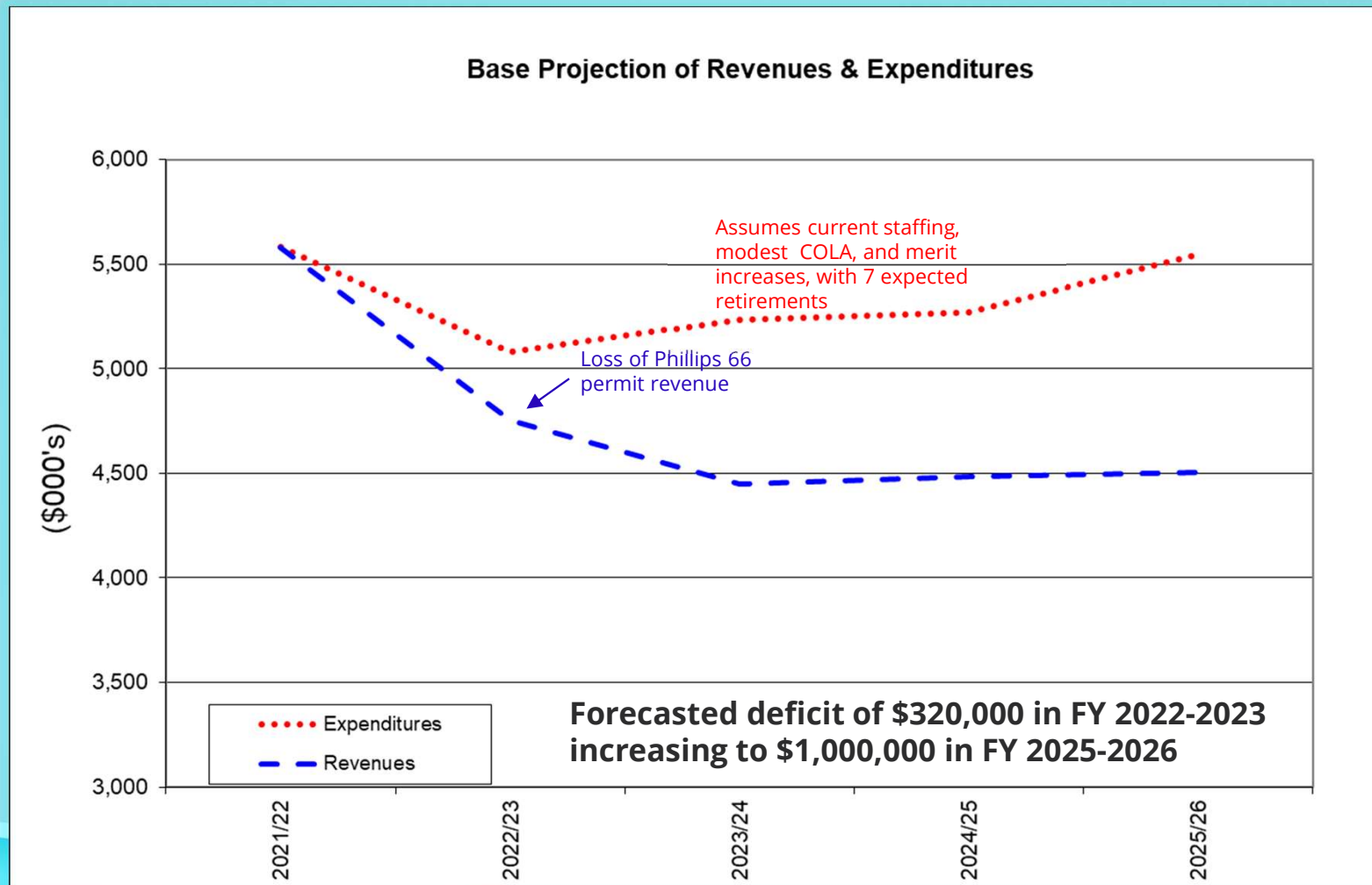
- ▶ Currently employ 21 full time employees (FTE) and 1 temporary part time student intern
- ▶ 22 FTEs allocated in the current budget (1 unfilled AQS position)

▶ Workload Expectations

- ▶ Reduced staffing levels to 1993 levels through streamlining and automation
- ▶ Staff workload has increased dramatically in many program areas
 - ▶ Detailed public facing emission data reporting requirements
 - ▶ State climate action programs
 - ▶ Increased administrative requirements for grant programs
 - ▶ Large increase in State mandated compliance inspections



PROJECTIONS OF FUTURE EXPENDITURES AND REVENUE



STRATEGIES TO ENSURE FISCAL VIABILITY

- ▶ The District has exercised consistent fiscal restraint through streamlining and restructuring, coupled with the implementation of cost control measures for numerous expenditure categories
 - ▶ Further cuts will seriously impede the District's ability to function effectively in accomplishing its mission and complying with state and federal mandates.
- ▶ Additional strategies are required over next 5 years to ensure fiscal health with the closure of the Phillips 66 refinery
 - ▶ Board appointed four of its members to a Fiscal Subcommittee to work with staff in evaluating potential fiscal measures prior to bringing them to the full Board for consideration and approval.

CRITERIA USED TO SELECT AND EVALUATE POTENTIAL STRATEGIES

► ***Criteria for Expenditure Reductions:***

- Public health protection must be maintained at a level consistent with state. and federal mandates.
- Must ensure state essential services are retained and aligned with priorities adopted by the Board.
- Cost reductions must be real, feasible and within APCD's ability to implement independently and not contingent on authority or actions by other agencies.
- Essential facilities, infrastructure, and equipment must be maintained at reasonable levels.

► ***Criteria for Revenue Enhancements:***

- New revenue sources should be long-term, justifiable and sustainable.
- Full cost recovery for district program implementation should be a priority.
- Fees should keep pace with inflation and must be equitable and reasonable to support public health protection.
- Use of excess reserves should be used to smooth any rate increase over time.

STRATEGIES

▶ *Recommended Strategies*

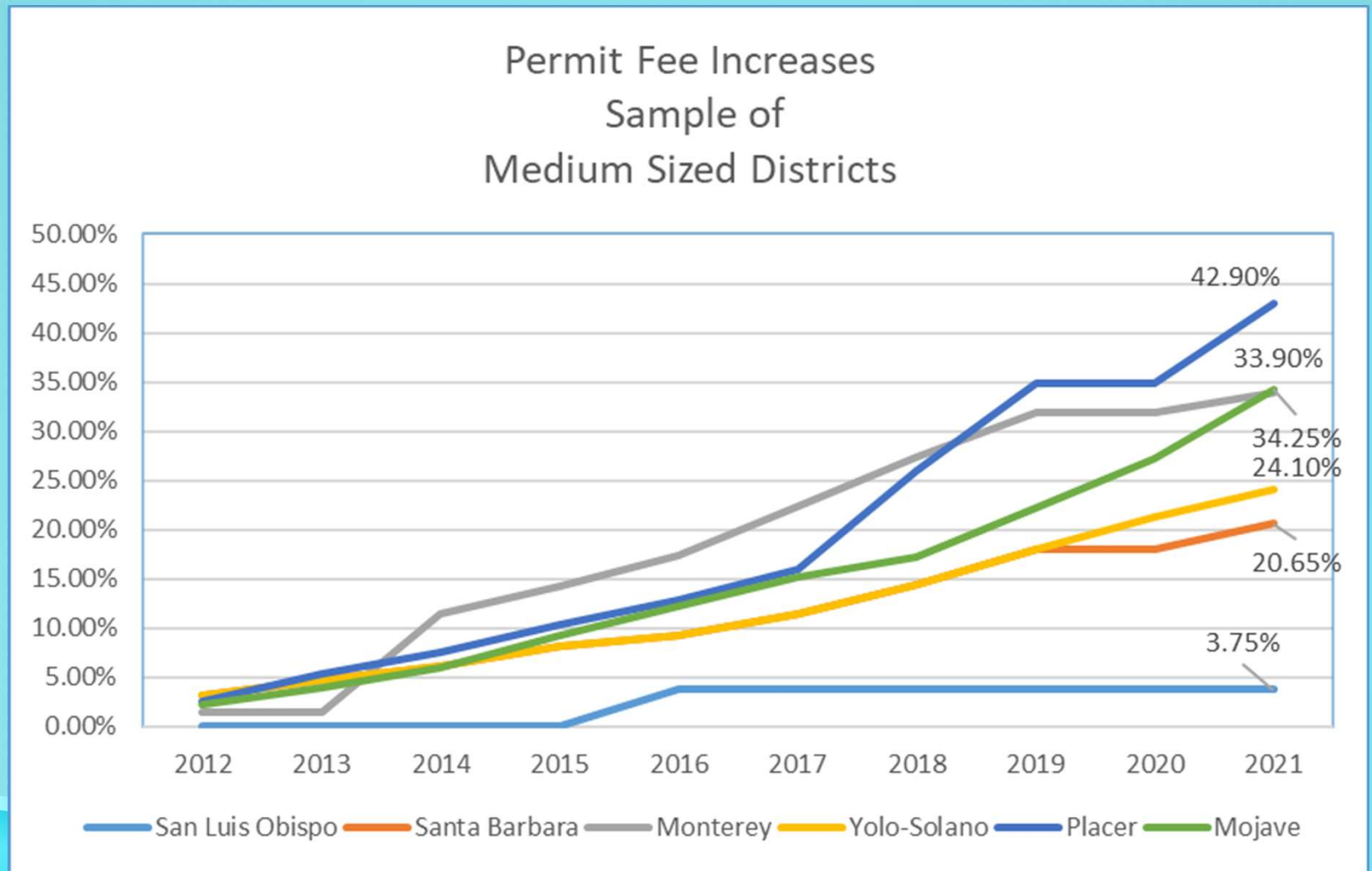
▶ **Staff reduction**

- ▶ Eliminate a Vacant AQS III position: Reassign critical tasks and streamline certain project reviews
- ▶ **Estimated Cost Savings:** A total of about \$734,000 in salary savings would be realized through FY 2025-2026.

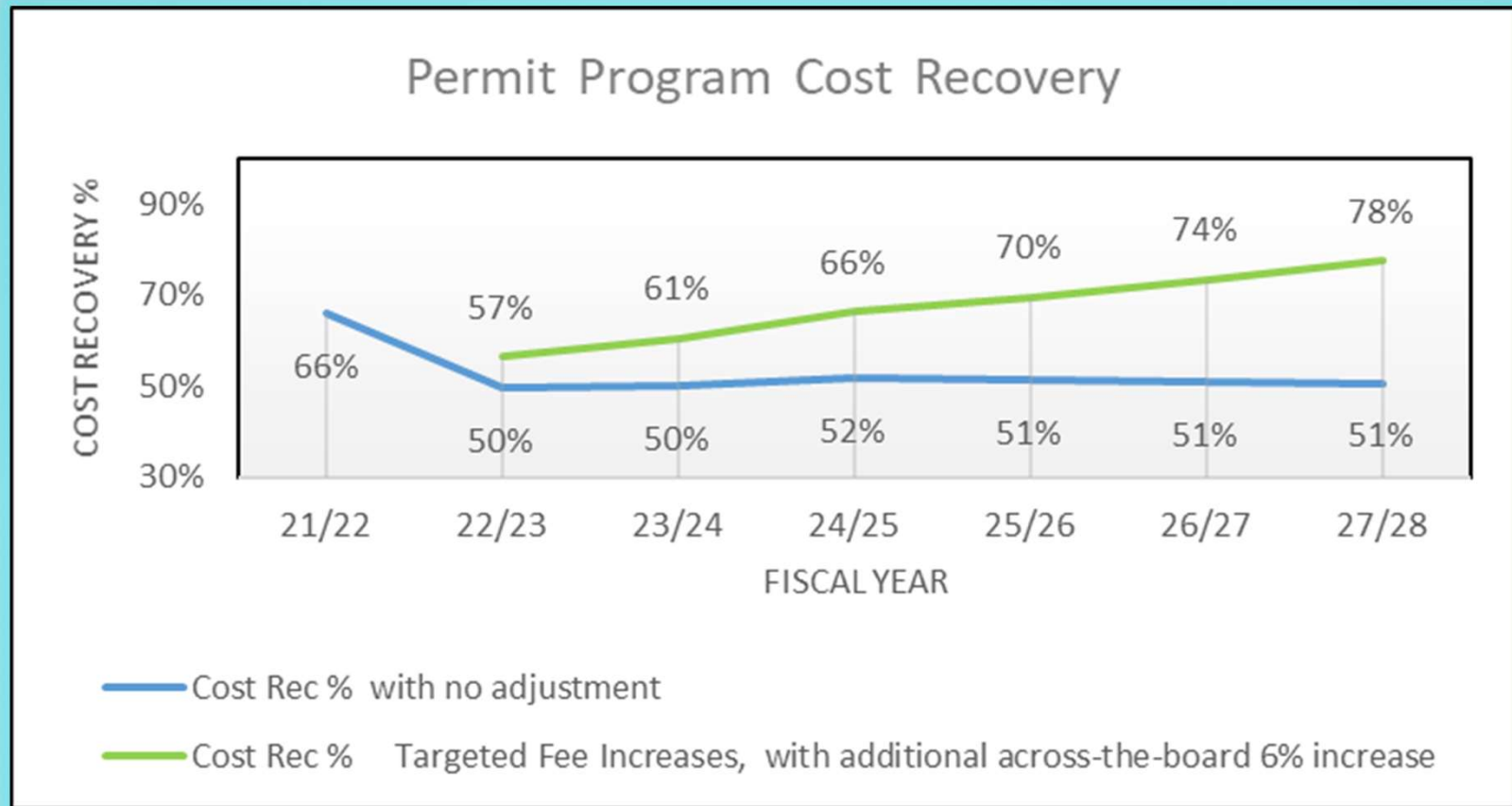
▶ **Permit Program Cost Recovery (Requires separate Board Hearing in 2022)**

- ▶ Fair share fee increases on specific polluting specific equipment to address their disproportionately low-cost recovery
- ▶ Adjust hourly rate charged for engineering evaluation and permit process to reflect changes in labor costs and actual cost incurred by the District in evaluating permits
- ▶ Annual permit fee increases not to exceed 6% annually and a CPI adjustment applied annually thereafter for all fee categories

HISTORICAL FEE INCREASES



PERMIT PROGRAM COST RECOVERY PROJECTIONS



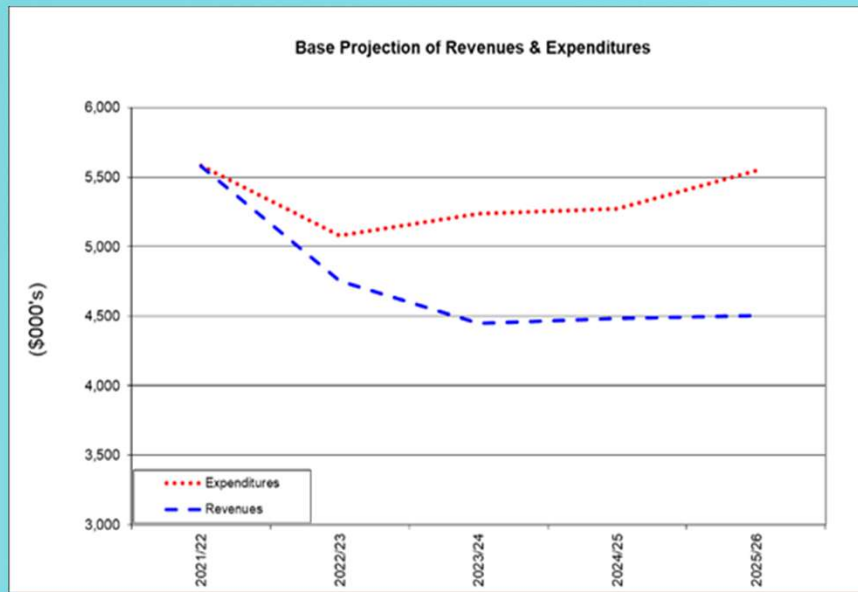
RESERVE USE STRATEGIES

- ▶ **Use reserves to fund cost of:**
 - ▶ Retiring employee leave payouts
 - ▶ Facility maintenance projects
 - ▶ Short term offset permit revenue
- ▶ Allows the proposed permit program changes to gradually improve the rate and equity of permit program cost recovery over time.
- ▶ **Estimated Revenue:** A total of about \$742,000 used from FY 2023-2024 through FY 2025-2026;
 - ▶ FY 2023-2024 \$288,000
 - ▶ FY 2024-2025 \$170,000
 - ▶ FY 2025-2026 \$284,000
- ▶ Remaining reserves estimated to end at about 40% of budget, well above the 20% of budget policy established by the Board.

SUMMARY OF RECOMMENDED STRATEGIES

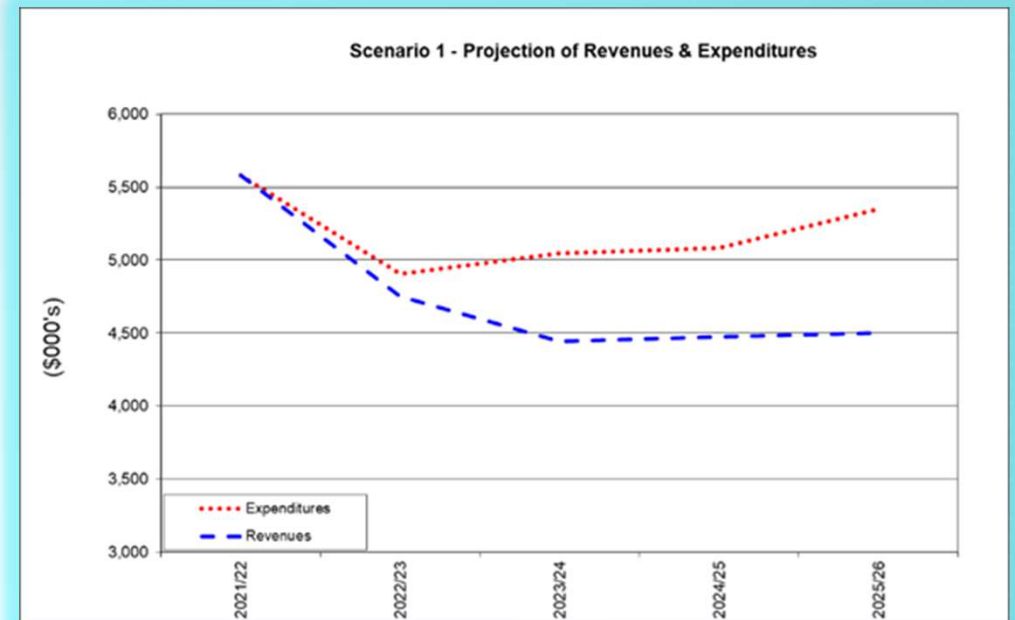
| Fiscal Plan 2022-2026 Recommended Strategies | Projected Year 1 Cost Savings | Projected Savings 2025-2026 | Proposed Start Year |
|---|--|--|--------------------------------|
| Eliminate Air Quality Specialist-III position | \$176,000 | \$190,000 | 2022-2023 |
| | Projected Year 1 Revenue | Projected Revenue 2025-2026 | Proposed Start Year |
| Rule 302 comprehensive restructuring | \$111,000 | \$120,000 | 2022-2023 |
| Use of Salary Reserve to fund retiree leave payouts | \$121,000 | \$95,000 | 2023-2024 |
| Rule 302 CPI provision & combined permit fee/CPI maximum increase of 6.0% | \$95,000 | \$447,000 | 2022-2023 |
| Use of Reserves to fund remaining budget gaps | \$167,000 | \$189,000 | 2023-2024 |

STEP BY STEP ANALYSIS OF STRATEGIES



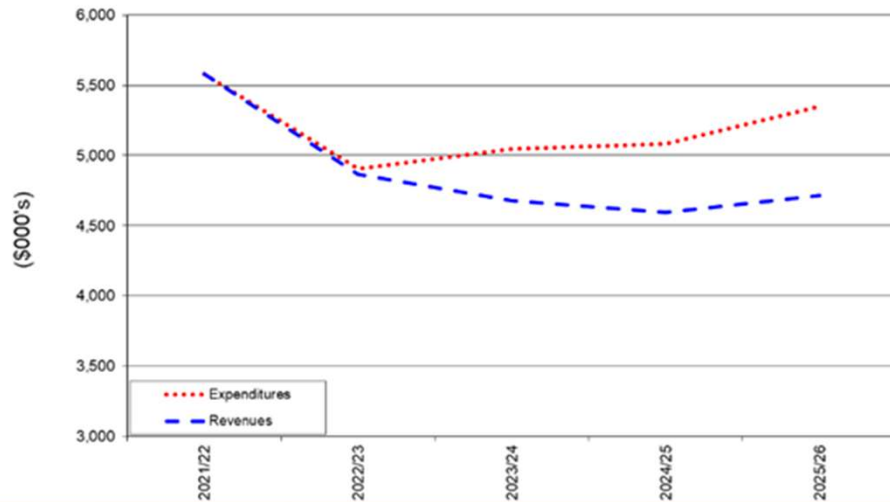
Illustrates gap between revenue and expenses projected over 5 years with no action

Step 1
Reduction of an AQS-III Position



REVENUE CHANGES

Scenario 2 - Projection of Revenues & Expenditures



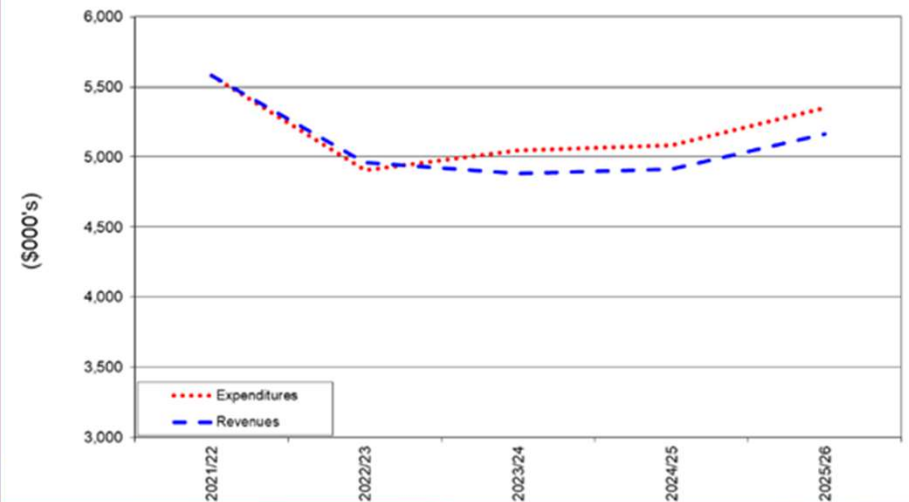
Step 2

Shows Step 1 plus the projected effect of a comprehensive restructuring of Rule 302 and using Salary Reserves to fund leave payouts for retirements anticipated during this period.

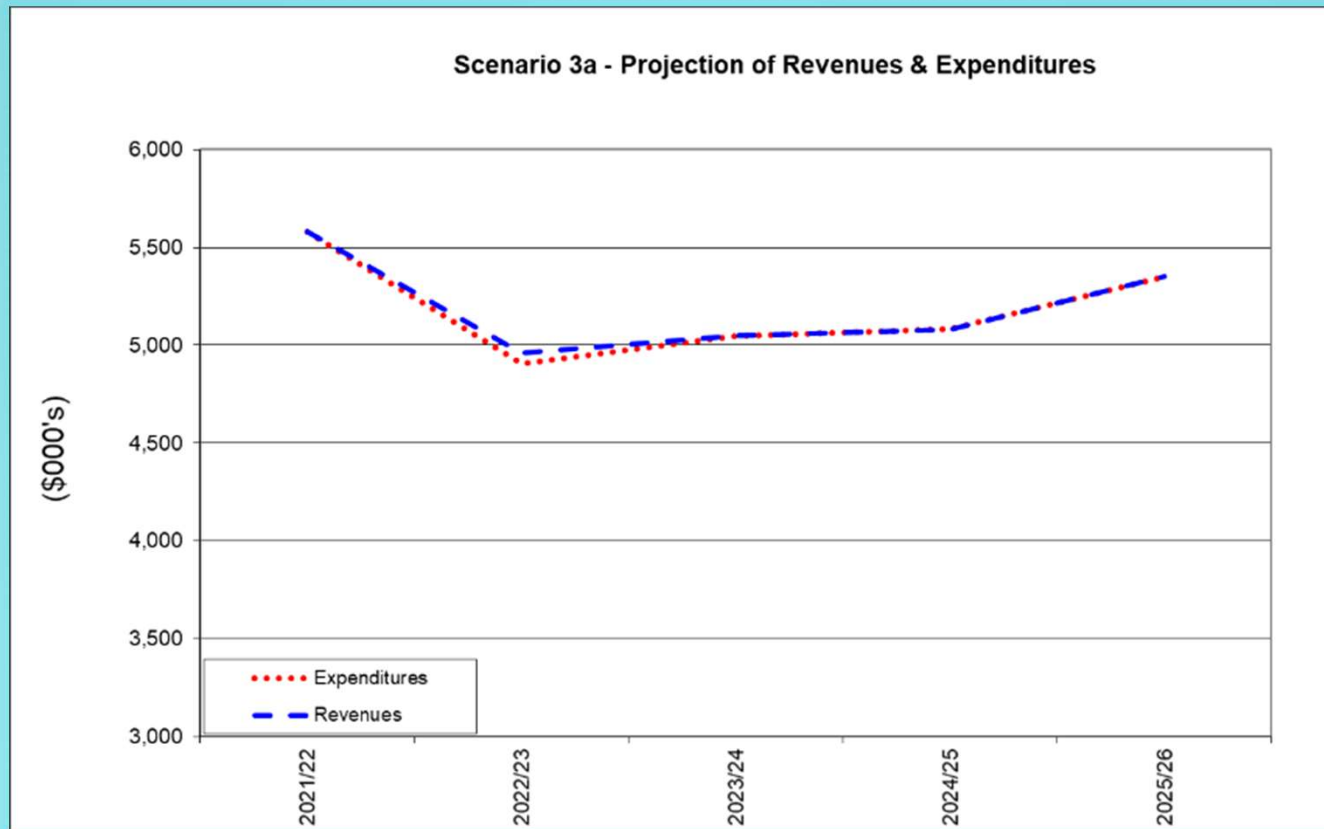
Step 3

Shows the affect of adding a 6.0% annual fee increase

Scenario 3 - Projection of Revenues & Expenditures



PROJECTION WITH ALL STRATEGIES



Step 4

Shows Scenario 3 plus the projected effect of using reserves to fund the remaining budget gaps for FY 2023-24 through FY 2025-26. Budgets are fully balanced and reserves remain healthy.



CONTINGENCY MEASURE

If a significant, unexpected ongoing increase in costs or decrease in revenues occurs that cannot be addressed by identified strategies, an available contingency measure is available for consideration

- ▶ ***Per Capita Fee for local jurisdiction***

- ▶ CH&SC §40701.5 requires inadequately funded air districts, whose expenses are not fully met by other sources of revenue, to charge a per capita fee to all jurisdictions with a seat on the District Board
- ▶ Consider assessment of a \$1.00 per capita fee on all jurisdictions in the county with a seat on APCD Board, to be collected annually. The fee could be implemented gradually over time and would be adjusted annually by the CPI.
- ▶ **Estimated Revenue:** Approximately \$282,000 per year, adjusted based on population and current annual CPI.



SUMMARY

- ▶ The proposed fiscal plan is designed to minimize both expenditures and fee increases without using a jurisdiction based per-capita fee.
- ▶ It addresses significant fee losses from the closure of the Phillips 66 Refinery, as well as other projected cost increases
- ▶ It ensures the District can maintain programs as required to meet critical state and federal mandates and Board directed priorities
- ▶ It projects a balanced budget through the life of the Plan

