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Continued Item: Yes

Board Agenda Item

TO: Air Pollution Control District Board
FROM: Terry Dressler, Air Pollution Control Officer
SUBJECT: Adoption of Fiscal Year 2004/2005 Budget

RECOMMENDATION:

- A. Hold a public hearing on and consider proposed final budget for Fiscal Year 2004/2005.
- B. Adopt a resolution (Attachment A which includes Tables A-1 through A-4 and Schedules 13, 14, and 15) to approve the Fiscal Year 2004/2005 APCD Budget.
- C. Adopt a resolution (Attachment B) to delete 4 full-time positions; add 2 full-time positions, and implement a cost-of-living salary adjustment of 2.3% for all positions.

DISCUSSION:

On May 20, 2004, your Board held the first of two required public hearings on the APCD's proposed budget for FY 04/05. The purpose of that hearing was to solicit additional public comment and receive direction from your Board. Prior to that hearing, APCD staff held a public workshop.

The proposed budget, as adjusted since the May hearing, is \$7,999,698. This is a \$170,994 decrease from the current year adopted budget. We are proposing a reduction of two full time equivalent staff positions.

In proposing a balanced budget for FY 04/05, we are relying on approximately \$255,000 increase from FY 03/04 in fund balance and accumulated interest to offset a low year of permit reevaluation revenue. An increase in workers compensation insurance has been offset through the deletion of a division manager position and a reorganization of the APCD management structure.

No fee increases are proposed for FY 04/05 other than the adjustment for the April-to-April Consumer Price Index allowed for in our rules, which is 1.7% for the coming year.

For a detailed explanation of the proposed budget (as well as APCD performance measures, programs, and prior year accomplishments), please refer to the attachment to the May 20, 2004, Board letter entitled “*Santa Barbara County APCD Comprehensive Program Summary and Fiscal Year 2004/2005 Draft Budget*” dated April 16, 2004. That document summarizes our Strategic Plan and the activities of each APCD division, overviews major FY 03/04 accomplishments and FY 04/05 goals, describes proposed revenue and expenditures in detail, presents impact and performance measures to track performance, and includes a position listing. This board letter and its attached resolutions include adjustments to the April 16th *Draft Budget*, which are described below under “Budget Adjustments”. The *Draft Budget* will be modified and printed in final form after your Board’s final action.

Issues raised at the May 20, 2004 Board Hearing

At the May 20th hearing, your Board ask questions regarding the specific elements of the budget and requested that staff address certain issues at final budget hearing. Delineated below are our responses to your Board’s questions and direction:

TSAC Revenue Distribution

It was noted by your Board that the revenue distribution on page 18 of the budget document showed that a portion of the Tobacco Settlement Account revenue had been allocated to permitting activities at the APCD. The designation on the table on page 18 was a data input error. A corrected page 18 is included as Attachment C. It was never our intent to distribute TSAC revenue to any activity other than inspections and compliance as has always been the case.

Resources and Effort Dedication to Marine Shipping Emissions Reductions

Your Board requested that we ensure that our goals to reduce air pollution emissions from marine shipping activities that occur offshore Santa Barbara County be prominently presented in our “*Comprehensive Program Summary and Fiscal Year 2004/2005 Budget.*” On page 36 of the budget document, where we outline our FY 04/05 goals for the Innovative Technologies Program, our effort to reduce Marine Shipping emissions is the first goal under our Clean Fuels Mobile Source Programs Goals. Later in the document, in a table on page 45, we designate projected expenditures on Clean Air Grants, \$100,000 of which will be dedicated to a Marine Shipping Retrofit Program.

We fully acknowledge the increasing affect of Marine Shipping emissions on Santa Barbara County’s air quality. Efforts to reduce such emissions will remain a high priority goal of the APCD for years to come.

Costs of Kids Care for Clean Air Calendar Contest and Green Awards

Your Board asked that we report the costs of the Kids Care for Clean Air Calendar Contest and Green Award programs in which we participate with other agencies as part of our public outreach effort. Each year we budget \$15,000 for the Kids Care for Clean Air Calendar Contest.

In FY 03/04 we actually spent \$13,335 and distributed 7,350 calendars. For FY 04/05 we have budgeted \$2,000 for our participation with four other agencies in the Green Award program. Both of these programs are funded with DMV fee revenue. One of the categorically specified intended uses for DMV funds is to enhance APCD public outreach efforts. Also, savings in DMV fee revenue cannot help fund stationary source related APCD programs such as permitting, compliance, and air toxics.

DMV Fee Revenue Distribution

Your Board requested that we report how much DMV revenue is distributed to salaries in relation to the amount dedicated to outside programs. In the FY 04/05 budget, approximately 66% of the total DMV fee revenue is to be used in house, while 34% is to be dedicated to outside programs, grants, and contractors. We report DMV revenue distribution to the California Air Resources Board (ARB) on an annual basis and the APCD continues to meet ARB's recommendations for the use of DMV funds.

APCD Role in *101 in Motion*

The APCD, SBCAG, MTD, Caltrans, the County of Santa Barbara and the Cities of Carpinteria, Santa Barbara and Goleta are signatories to the Highway 101 Corridor Implementation Plan Memorandum of Understanding. The purpose of the MOU is to clarify the roles and responsibilities of the parties in the development of the *101 in Motion* project which includes a comprehensive public involvement and public education effort aimed at obtaining consensus for a long-range vision to address congestion on Highway 101 from Winchester Canyon to the Ventura County line.

The APCD is participating in this effort directly through representation on the *101 in Motion* Technical Advisory Group or TAG which provides technical direction to the consultant team, Consensus Planning Group/Parsons Brinkerhof, and technical advice to the South Coast Subregional Planning Committee, a subcommittee of the SBCAG Board of Directors. The TAG has monthly meetings with the consultant team and reviews products produced by the consultants.

APCD's role in *101 in Motion* is to provide technical support and air quality expertise during the development and evaluation of improvements to the highway including the possible widening of 101, as well as improvements on other corridor roads, projects that facilitate use of alternative modes including bikes, transit and passenger rail, and changes in local land use policies.

Budget Adjustments

The budget proposed at the May 20th hearing has been modified as follows. These adjustments are included in Tables A-1 through A-4. (See the "FY 2004/2005 Adjustments" column.)

Revenue adjustments:

- Updated information on consumer price index changes has been incorporated into the revenue estimates. Fixed fee revenue estimates have been adjusted to reflect a consumer

price index change of 1.7% rather than the previously estimated 2%. The net effect of this change is to decrease projected revenue by \$6,726.

- Projected “Reimbursement for District Services” and “Environmental Impact – AQAP” revenue has been decreased by \$2,022 and \$834 respectively.
- “Fund Balance” has been increased by \$10,690 to offset the decreases in revenue.

Expenditure adjustments:

- Adjustments to projected services and supplies expenditures were made to offset \$18,000 increase in fixed asset expenditure to cover potential vehicle replacement.
- Total projected expenditures increased by \$1,108.

Job Class Table changes:

- The Job Class Table has been adjusted to reflect a cost-of-living salary adjustment of 2.3%.
- The Job Class Table has been corrected to reflect 58.75 full time equivalent positions.

FY 05/06 Outlook

During the budget process we look ahead beyond the next fiscal year for advance planning purposes.

Revenue for FY 05/06 is expected to be similar to that for FY 04/05 with the principal exception of Re-Evaluation Fees which are expected to increase by approximately \$260,000. This is part of the normal three-year permit re-evaluation cycle. Tobacco Settlement funds have been reduced to \$35,000 for FY 04/05 and we expect further reductions in this source of revenue in future years.

On the expenditure side, we expect that trend to remain stable into the foreseeable future. However, as you have seen with this year’s budget, we expect there to be year to year fluctuations in revenue, which, while relatively small, would affect the stability of staffing levels if not equalized over time. To that end, we intend to recommend that your Board establish a reserve fund that would be used to mitigate the effects of year to year revenue fluctuations.

For many years the APCD has maintained revenue fund 1961. This fund has been used to hold deposits from sources under reimbursable fee arrangements with the APCD, the ITG trust fund, equipment replacement reserves from monitoring and computer equipment, some emission related fees, and interest that accumulated from APCD deposits over several years. Some of the deposits in this fund are over 10 years old. Furthermore, the County Auditor-Controller has recommended that we handle these deposits differently than we have in the past. We are currently working with Bob Geis on a plan to distribute these funds into various funds and designations and as part of that process we will also develop a proposed reserve plan.

Conclusion

Despite some unforeseen cost increases and the realization of a periodic decrease in one of our revenue streams, we have been able to submit a balanced budget to your Board for FY 04/05 by cutting some costs and reorganizing the APCD management structure.

Due to year to year variability in both the number of permit reevaluations conducted by the APCD and variability in the fees for individual permits, there is one year in the three-year cycle that produces less revenue than the other two years, which produced a reduction in revenue for FY 04/05.

As has happened throughout California to both private companies and government agencies, we will see an increase in our workers compensation insurance rates. We will also be required to increase our contributions to the employee retirement system. As we expected, in fiscal year 2004/2005 we will experience a decrease in Tobacco Settlement fund revenue.

In order to address the increase in expenditure and decrease in revenue, we propose to delete a division manager position and reorganize the APCD management structure. Early in the next fiscal year we plan to bring a long term reserve plan to your Board for approval. We intend that this reserve fund will mitigate the effects of future year to year revenue fluctuations and stabilize our facilities costs over the long term.

In the last year we have been designated as attainment for all the federal air quality health standards and continue to make progress toward the more protective state standards. We moved into new offices in Santa Barbara and Santa Maria, a move that we hope will improve our efficiency and customer service.

In the coming year we will face new challenges as we update our Clean Air Plan for achieving the State ozone standard, continue to work with our partners to reduce Marine Shipping emissions, implement new State requirements related to air toxic emissions, implement new state mandated permitting requirements for large agricultural sources, and analyze particulate matter control measures. While adjusting to these new challenges we will continue to operate the ongoing programs that implement the Clean Air Mission.

We value and appreciate the support and encouragement that your Board has continued to give to our mission. Your approval of the proposed budget will be another step in the journey toward improved air quality for the people of Santa Barbara County.

Attachments

CC: R. Geis, County Auditor-Controller