SLO COUNTY apcd | Air Pollution Control District
San Luis Obispo County

TO: APCD Board of Directors

FROM: Larry R. Allen, Air Pollution Control Officer

DATE: November 14, 2012

SUBJECT: Approval of APCD 2013-2017 Fiscal Plan

SUMMARY

An update to the APCD Five-Year Fiscal Plan has been developed for Board consideration and adoption. The 2013-2017 Fiscal Plan evaluates historical and projected future APCD expenditures and revenue in the context of the adopted Strategic Action Plan (SAP) and current fiscal constraints, and identifies the fiscal strategies needed to ensure the District has sufficient resources to accomplish our mission and mandates into the foreseeable future.

RECOMMENDATION

That your Board consider and approve the proposed APCD Fiscal Plan for 2013-2017, including the recommended strategies in the Table below, and direct staff to develop each of the strategies into an implementable measure for Board consideration and adoption according to the timeline in the Plan.

DISCUSSION

The APCD Board of Directors adopted its first Fiscal Plan in January 2005 to address significant fiscal challenges facing the District at that time due to rising costs and declining revenue. This is the second update of that Plan. The purpose of the Fiscal Plan is to carefully evaluate the existing and projected future staffing and financial resources of the District, and to identify potential cost reductions and/or revenue enhancements needed to ensure fiscal stability and the ongoing capacity to accomplish our mission and mandates.

In preparing the Plan, a thorough analysis of historical revenue and expenditures was conducted, as well as detailed projections of expected future revenue and expenses over the next five years. This analysis was performed in the context of the adopted APCD Strategic Plan and new mandates to be implemented that are known or reasonably foreseeable. Over the last decade, APCD operational expenses have increased an average of 6.7% per year, from \$2.4 million in Fiscal Year (FY) 2002/03 to \$4.0 million in FY 2011/12. This is largely due to annual cost of living, merit, and inequity adjustments to salaries and benefits; rising pension costs; increased workers' compensation insurance; and significant expenditures for several major projects, including outside contractors to assist with the Oceano Dunes

T 805.781.5912 F 805.781.1002 W slocleanair.org 3433 Roberto Court, San Luis Obispo, CA 93401

particulate matter studies and rule development, and a contractor to assist with EIR development for a proposed throughput increase at the refinery. In addition, steadily rising workload demands throughout this period has resulted in increased expenditures for, and greater reliance on, temporary help and student interns to accomplish District priorities without increasing permanent staffing levels.

Revenue is growing at a slower rate, and we are facing the probable closure of the Morro Bay Power Plant in the fall of 2013. These factors combined result in a projected budget deficit of about $200,000 in FY 2013/14, which could grow to about $346,000 in 2016/17 unless mitigated. It is clear that additional, stable sources of revenue are needed to avoid drastic cuts in operations, services and staff in coming years. Measures must be taken now to ensure District revenue and expenses remain in balance over the long term. Staff has worked with your Board's Fiscal Subcommittee to identify and evaluate a number of strategies that, if implemented, would bridge the projected gaps between revenue and expenses. The following table identifies the primary strategies recommended and their projected fiscal benefits:

Fiscal Plan 2013-2017 Strategies Recommended for Adoption	Projected Revenue First Year	Projected Revenue 2016/17	Proposed Start Year
Maximize use of reserves to fill budget gaps each year	$136,000	$213,000	2013/14
Fee schedule for CEQA project review	$35,000	$35,000-38,000	2013/14
Fee for sources conditionally exempt from permit	$10,000	$10,000-11,000	2013/14
Source testing services	$18,4000	$19,000-$20,000	2013/14
Greenhouse gas verification service	$19,000	$19,000-20,000	2013/14
~4% permit renewal fee increase	$69,000	$69,000	2016/17
Additional Strategies Requiring Outside Approval			
Grant programs administration fee increase	$24,500-$65,000	$24,500-$65,000	2014/15

With the exception of the source testing and greenhouse gas verification services, each of the measures listed in the table above would have to be brought back to your Board for individual consideration and adoption prior to implementation. The attached Five-Year Fiscal Plan provides a comprehensive analysis of the District's historical and projected future fiscal trends, as well as detailed descriptions of the recommended strategies and how they will be implemented.

OTHER AGENCY INVOLVEMENT

Staff consulted with the County Auditor-Controller in developing expenditure and revenue projections. Staff also consulted with the California Air Resources Board and Federal Environmental Protection Agency to identify upcoming mandates and new programs that must be implemented with the timeframe covered by the Plan.

FINANCIAL CONSIDERATIONS

The pending closure of the Morro Bay Power Plant could result in significant budget deficits over the next five years, starting at $200,000 in FY 2013/14 and potentially growing to about $346,000 in 2016/17 unless mitigated. Adoption and implementation of the strategies in this Plan will prevent those projected deficits and ensure adequate financial and staff resources are available for District operations over the next five years. All of the strategies proposed except one are within the authority of the Board to adopt and fully implement; a strategy related to grant administration fees requires adoption by the State Legislature to fully implement.

FISCAL PLAN 2013 – 2017

San Luis Obispo County Air Pollution Control District

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FISCAL PLAN 2013-2017

Introduction

The APCD Board of Directors (Board) adopted its first Fiscal Plan in January 2005 to address significant fiscal challenges facing the District due to rising costs and declining revenue. The Plan was then updated in 2007; this is the second update of that plan. The purpose of the Fiscal Plan is to carefully evaluate the existing and projected future staffing and financial resources of the District, and to identify potential cost reductions and/or revenue enhancements needed to ensure fiscal stability and the ongoing capacity to accomplish our mission and mandates.

In preparing the Plan, a thorough analysis of historical revenue and expenditures was conducted, as well as detailed projections of expected future revenue and expenses over the next five years. This analysis was performed in the context of the adopted APCD Strategic Action Plan (SAP) and new mandates to be implemented that are known or reasonably foreseeable.

Fiscal Policies, Goals and Objectives

The policies, goals and objectives listed below are intended to guide the fiscal planning process for the District and provide a framework for decision-making in considering expenditure reductions or revenue enhancements:

Policies

The following fiscal management policies will be followed by the District:

- Internal accounting controls will be used to track revenue and expenditures and allow oversight by the County Auditor-Controller.
- Financial status reports will be compiled and presented to the Board at every regularly scheduled Board meeting.
- Annual audits will be performed in accordance with standard accounting principles to verify and ensure that appropriate fiscal management procedures are being followed.
- State and other grant funds received by the District to implement grant programs for local emission reduction projects will be held in trust accounts that are maintained and tracked separately from District operating funds.

Goals and Objectives

The following goals and objectives represent the intended direction for District fiscal management over the next five years:

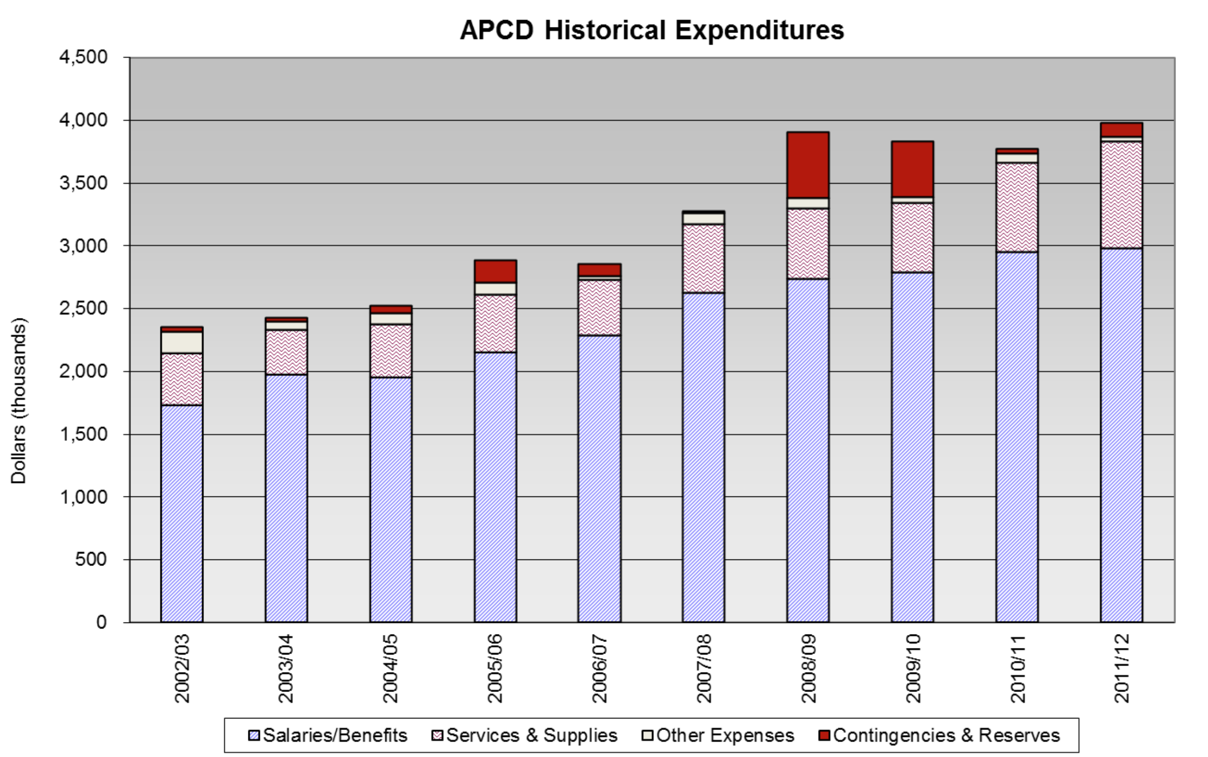
- The budget presented to the Board each fiscal year shall have balanced revenue and expenditures.
- District reserves should be maintained at no less than 20% of the annual budget.
- Proposed budget expenditures should reflect Strategic Action Plan priorities, as well as maintenance of core services and programs.
- Streamlining and productivity enhancement should be ongoing efforts to ensure that public dollars are spent efficiently and cost-effectively.

- A diversified revenue stream should be sought to enhance fiscal stability and reduce reliance on revenue sources subject to economic variability.
- Cost recovery for program implementation should be achieved wherever feasible.
- Revenue enhancement over the period of this plan should be sufficient to meet existing and projected workload needs and offset the anticipated revenue loss from the Morro Bay Power Plant.

Analysis of Recent Historical Fiscal Trends

Long-Term Expenditure Trends

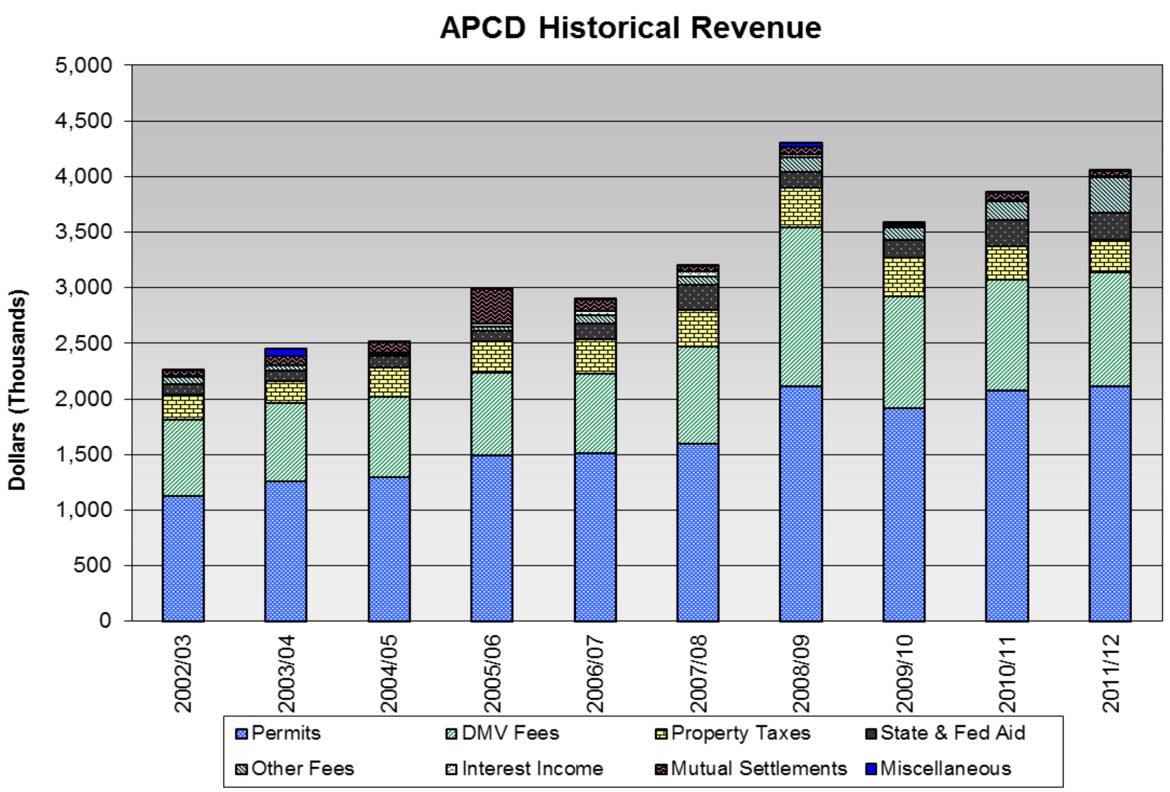
Over the last decade, APCD operational expenses have increased by an average of 6.7% per year, from $2.4 million in Fiscal Year (FY) 2002/03 to $4.0 million in FY 2011/12. This is largely due to annual cost of living, merit, and inequity adjustments to salaries and benefits, rising pension costs, and increased workers' compensation insurance; actual staffing levels did not increase during this period. As shown in the chart, salaries and benefits typically represent between 70-80% of total expenditures and have increased at an annual average of 7.2% over the past ten years. Additionally, the District incurred significant expenditures for several major projects, including outside contractors to assist with the Oceano Dunes particulate matter studies and rule development, and a contractor to assist with EIR development for a proposed throughput increase at the refinery. Other costs, such as countywide overhead, have risen steadily throughout this time at an average annual increase of 12%.



* MOVER grant fund revenue reallocated to District operations and reserves in FY 08/09
* FY s 09/10 - 11/12 omit pass-through expenditures for ConocoPhillips CEQA review

Long-Term Revenue Trends

The chart below shows historical revenue received over the past ten years. Fees from permitted sources typically provide about 45-50% of District revenue. Motor vehicle registration fees add another 25-30%, with property tax contributing 7-10% annually; various other sources make up the balance. Increased District operating costs have been partly offset over this period by a 1.0% average annual increase in vehicle registration revenue and, more significantly, Board approval in FY 2007/08 to reallocate DMV fees previously used for the MOVER grant program to fund District operations; remaining unspent MOVER funds were reallocated to District reserves in FY 2008/09. Periodic adjustments to the APCD permit fee schedule and hourly labor rate have also been implemented to ensure that fees cover District costs for permit services, and that this cost recovery moves toward an equitable allocation among the regulated industries.

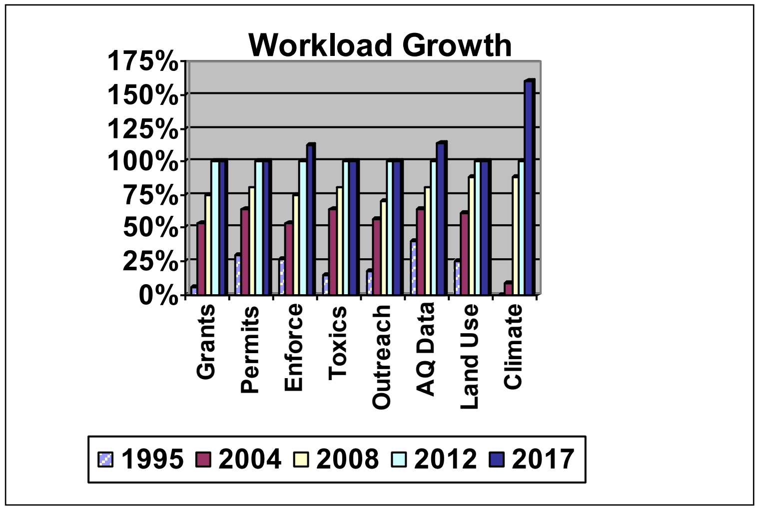


* FY 08/09 DMV fees reflect reallocating MOVER grant fund revenue to District operations & reserves
* FYs 09/10 - 11/12 omit reimbursement revenue from ConocoPhillips CEQA review project

District Staff Resources and Workload Expectations in Next Five Years

In evaluating the District's resource needs over the next five years, the fiscal plan team reviewed staff resources, existing programs and workload, the adopted Strategic Action Plan goals and objectives, as well as new mandates or programs known or expected within that timeframe. The following provides a brief summary of that analysis.

Existing Programs and Staff Resources (04/05, 08/09, 12/13, 16/17)

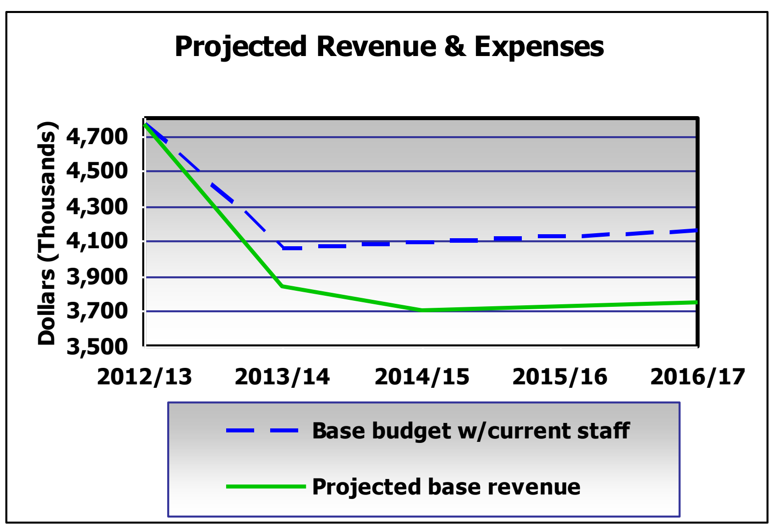


The District currently employs 23.5 permanent, full time equivalent (FTE) staff, plus contract help and interns. These staff implement a wide variety of air quality programs required to meet state and federal mandates and ensure public health protection for all county residents. Our effectiveness in implementing these programs is detailed in the performance measures presented to the Board at budget adoption in July of each year. As shown in the adjacent chart, while staff levels have not increased since 1993, staff workload in many program areas has risen dramatically and is expected to increase further over the next few years. This is due to implementation of new programs, such as climate protection, as well as new requirements for existing programs, such as increased administrative overhead for grant programs and a large increase in compliance inspections required for all the additional facilities and equipment brought under permit in response to new state regulatory requirements enacted over the last decade.

In the process of implementing the Strategic Action Plan first adopted by the Board in 2004 and updated twice since, staff have initiated a wide range of streamlining measures in all program areas to accommodate the continuously rising workload amid increasing budget constraints. These efforts have significantly improved our efficiency, yet staff workload remains excessive and is expected to further increase over the next five years, as shown in the chart above.

Projections of Future Expenditures and Revenue

As identified above, staff workload is currently impacted and expected to increase with recently adopted and anticipated new mandates and programs that must be implemented within the next five years. Despite significant streamlining of operations since the last Fiscal Plan presented to the Board, it will not be possible to fully meet this anticipated workload with existing staffing levels. Thus, an updated 2013-2017 APCD Strategic Action Plan identifies the goals and priorities of most importance for implementation and how to accomplish them with available resources.



Unfortunately, our current revenue base will not fully support existing operations over the next five years, let alone new programs. The chart to the right shows projected revenue and expenditures over the next five years. Expenditure projections assume existing staffing levels with no cost of living adjustments (COLAs), but include scheduled merit increases for those staff not yet at the top step of their career series. The revenue projections assume no permit fee increases and that other revenue will continue to rise at historical levels.

A major component in our revenue projections is the predicted closure of the aging Morro Bay Power Plant sometime in FY 2013/14. As a result, we estimate the current $279,000 in annual permit fees from this source would decline to $139,000 in FY 2013/14 and drop to $0 in FY 2014/15. This revenue loss contributes significantly to a forecasted budget deficit of $200,000 in FY 2013/14, which would grow to about $346,000 in 2016/17 unless mitigated. It is clear that additional, stable sources of revenue are needed to avoid drastic cuts in operations, services and staff in coming years.

Strategies to Ensure Fiscal Viability

Over the past five years the District has exercised consistent fiscal restraint by implementing cost control measures for numerous expenditure categories. As a result, the District's final adopted budget increased by only 3% between FY 2008/09 to FY 2012/13, and we continue to look for ways to contain and/or reduce expenditures. In the face of rising fuel/utilities costs and increased costs for equipment/building maintenance and County services, however, the District finds itself reaching the point of diminishing returns where further cuts will begin to seriously impede our ability to function effectively in accomplishing our mission and complying with State and Federal mandates.

In light of the fiscal projections presented above for the next five years, staff has studied a wide variety of potential strategies to reduce costs and increase revenue to ensure APCD is able to meet its mission and mandates into the future. The Board appointed four of its members to a fiscal subcommittee to work with staff in evaluating these measures prior to bringing them to the Board for consideration and approval. The following describes the criteria used by staff in evaluating potential strategies and presents the most promising future measures recommended by staff and the Board Fiscal Subcommittee for implementation.

Criteria Used to Select and Evaluate Potential Strategies

The criteria used to develop and rank the implementation strategies identified in this section are shown below for both expenditure reductions and revenue enhancements:

Criteria for Expenditure Reductions:

- Public health protection must be maintained at a level consistent with state and federal mandates
- Any cuts made must be balanced, ensure essential services are retained, and must align with priorities in the Strategic Action Plan
- Cuts should be real, feasible and within APCD 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 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
- Diversity of the revenue stream should be expanded beyond traditional sources

Strategies Recently Adopted

Tier Two Pension Plan: On November 16, 2011, the Board adopted an agreement with the San Luis Obispo County Pension Trust (Pension Trust) to participate in a Tier Two Pension Plan. This proactive move by the APCD to help control escalating employee pension costs was ahead of many local cities and most local special districts. It was estimated that long-term cost savings to the District would be approximately 7-10% of payroll per year, once all current employees under the Tier One Plan retired and new employees were placed into the Tier Two Plan. In the meantime, savings of nearly 5% would be immediately realized by the District for all new employees, because they would be excluded from required contributions for a pension obligation bond related to the Tier One Plan.

More recently, on September 12, 2012, Governor Jerry Brown signed AB 340 into law, the Public Employee Pension Reform Act (PEPRA). Effective January 1, 2013, this law makes substantial changes to pension costs and benefits for current and future employees, including new pension formulas that increase the retirement age and reduce benefit factors; limits on the compensation used to calculate pension benefits; and a requirement for employees to contribute at least 50% of the normal cost to fund pension benefits. The Pension Trust is currently analyzing the ramifications of this new law and will provide the District with its results when their analysis is completed.

Labor Negotiation Philosophy: The APCD Board has indicated its desire to forego granting any cost of living adjustment (COLA) increases for staff for the next few years. Additionally, prior to the passage of AB 340 discussed above, the Board had already expressed its intention to share any future pension cost increases 50/50 with employees. These assumptions were incorporated into the baseline fiscal projections in the chart above.

Potential Strategies for Adoption

In reviewing potential fiscal strategies in the context of SAP priorities and existing and future mandates, it was clear any reduction in staff would jeopardize our ability to accomplish the mission and mandates of the District. Indeed, as discussed earlier, current staffing levels are inadequate to accomplish all SAP priorities at present or to meet new state requirements expected in the next five years. In addition, numerous strategies to reduce operational costs apart from staff reductions have already been implemented over the past two Fiscal Plan update cycles. Thus, the APCD Fiscal Team and Board Fiscal Subcommittee focused on identifying reasonable and feasible revenue enhancement measures, with a continuing objective to achieve full cost recovery for District implementation of reimbursable programs and operations. The following identifies the most promising strategies under consideration and their potential fiscal impacts.

Utilize District Reserves: This is a short-term fix to fund budget gaps expected to occur before more significant long-term funding sources are developed and fully implemented. Reserve funds are maintained for use in the event of emergencies and unexpected expenditures, as well as planned future capital expenditures. Under Board direction, the District has worked hard at conserving resources and funding over the past several years to build our reserves for short-term use in anticipation of the power plant closure. The District currently maintains total reserves of approximately $1.8 million, about 38% of our annual budget.

Proposal: After the other proposed revenue strategies are adopted by the Board and implemented, use funds from the District's General and Designated Reserves to fill budget shortfalls up to FY 2016/17, when it is anticipated other funding measures will be fully implemented. Reserves levels would not be depleted below 20% of budget.

Estimated Annual Revenue: A total of $850,000 could be utilized through FY 2016/17. The specific amount of General and Designated Reserve funds used by District operations in any given year will vary depending on how well the other adopted fiscal strategies perform.

Develop Cost Recovery Mechanism for CEQA Review on Small and Medium Projects: Historically, a large portion of staff costs during CEQA project review have been funded by existing DMV fee revenue. However, DMV revenues have remained relatively flat while District operating costs continue to rise. At the same time, state mandates have significantly increased District responsibilities and requirements in new and existing program areas beyond CEQA review without accompanying funding. As a result, DMV revenues are now used to cover costs for a wide variety of District programs and are no longer adequate to support District costs for CEQA review. Projects subject to District CEQA review have also increased in complexity, requiring more staff resources. Large projects generally require disproportionate amounts of staff time to evaluate and track as they move through the land use permitting and construction process; this often involves working closely with the project consultant on the air quality analysis, meetings with developers to formulate appropriate mitigation, and ongoing coordination with involved parties as the project is implemented. For oversight on very large industrial or urban development projects, the Board has authorized the District to enter into Memorandums of Agreement with applicants to ensure full cost recovery. However, unlike other city and County departments that review and comment on CEQA projects, we currently have no direct reimbursement mechanism for the significant staff time spent in reviewing and tracking the large number of smaller projects referred to us by the County and local cities. Staff proposes establishing a fee structure to be collected by the County and cities and distributed to the District to help reimburse our costs in reviewing and tracking projects subject to CEQA.

Proposal: Authorize the District to assess service charges for CEQA project review, based on project size and relative complexity. Smaller projects could take as little as two hours for desk reviews (about $200 each), with larger projects taking as long as 10-40 hours for review, computer modeling, defining and tracking mitigation measures, and more involved participation in meetings and public hearings throughout the planning process ($1,000-4,000 each).

Estimated Annual Revenue: Approximately $35,000 beginning in FY 2013/14, depending on the mix of projects received for review.

Fee for Sources Conditionally Exempt from Permit: Historically, the District has issued written permit exemptions for emission sources that require periodic tracking in order to verify they remain below the permit emission threshold. A business voluntarily submits an application and staff evaluate whether an exemption is appropriate. If so, an exemption letter with recordkeeping and reporting requirements is issued to the source. Subsequently, these sources require periodic review by the District to ensure they continue to meet the requirements of their exemption status. Currently, there is no fee collected for this service.

<u>Proposal</u>: Authorize the District to charge a triennial fee of $300 to cover the annual tracking and review of these sources. This ultimately saves affected businesses the much higher cost of an annual operating permit while recovering the District's costs for providing this beneficial service.

<u>Estimated Annual Revenue</u>: Up to $10,000 per year, beginning in FY 2013/14.

<u>Source Testing Services</u>: The District maintains a combustion analyzer and a hydrocarbon analyzer that could be used to provide a lower cost option for testing services for our permit holders that require testing. Currently, these tests are performed infrequently by District staff due to time constraints. With the anticipated loss of the Morro Bay Power Plant, Engineering and Compliance staff will save an estimated 160 hours per year that could be used to expand this service. Each test would be assessed a base fee of around $400 per test for equipment costs and calibration gas supplies, plus about five hours of staff time at the District's hourly rate of $115 per hour; total cost to the facility would likely be about $1,000 per test or less. These sources, which mostly have engines and boilers, currently pay contractors from outside the County to perform the required testing at costs typically exceeding $1,500. This service would be offered on a voluntary basis as a cost savings for our permit holders. Assuming the base fee offsets the District's equipment costs, this service could generate an additional $18,400 per year.

<u>Proposal</u>: Offer source testing services to permitted sources when the Morro Bay Power Plant shuts down.

<u>Estimated Annual Revenue</u>: Approximately $18,400 per year, beginning in FY 2013/14, or when the power plant shuts down.

<u>Greenhouse Gas Verification Service</u>: State law requires larger greenhouse gas (GHG) emitters to enter a CAP and Trade program that requires their GHG emissions be annually verified by a certified independent verifier. Local sources subject to this requirement typically contract with consultants from outside the County to perform this service. Currently, two District engineers are certified GHG verifiers and could provide this service at a rate much less expensive than these outside consultants charge. This service would be offered as a voluntary cost savings for our permit holders.

<u>Proposal</u>: Offer GHG inventory verification services to existing permitted sources, subject to staff availability.

<u>Estimated Annual Revenue</u>: Up to $19,000 per year, beginning in FY 2013/14 *(165 hrs/yr @ $115/hr)*.

<u>Moderate Fee Increase on Permitted Sources</u>: Permit fees are adopted by the Board and constitute about 45-50% of total District revenue. Currently, the two largest emission sources in San Luis Obispo County contribute about 40% of all stationary source fees collected, but do not actually require that proportion of District staff time to permit and monitor for compliance. As such, fees for most smaller sources under permit do not fully recover the actual proportion of District costs associated with overseeing compliance on those sources; they are essentially being subsidized by the larger sources. As discussed earlier, operation of the Morro Bay Power Plant after Calendar Year 2013 is unlikely, which will result in lost fee revenue of $279,000 per year.

State law allows a maximum 15% increase in fees each year. Prior to the recent recession, permit fees were typically adjusted annually according to the Consumer Price Index, historically between 3-5%, with periodic higher adjustments to specific source categories to approach full cost recovery. However, despite rising operational costs, over the past four years only one fee increase of 5.7% has been proposed and adopted to limit financial burdens on local businesses during these difficult economic times. The economy is now improving, but recovery is still slow for many businesses, so any fee increases considered in the near future need to be carefully considered for their impacts on the local economy.

<u>Proposal</u>: No increase in permit fees until FY 2016/17. At that time, a fee increase of about 4% will be needed to provide better cost recovery and begin moving toward improved equity among all regulated sources. Coupled with the other strategies recommended above, a 4% fee increase in FY 2016/17 should be adequate to balance the District's budgets through FY 2016/17. With this Plan, fees on existing sources should remain unchanged for the next four years until this is brought back to the Board for final adoption and implemented.

<u>Estimated Annual Revenue</u>: Additional $69,000 in FY 2016/17.

<u>Increase Administration Fee for State-Funded Emission Reduction Grant Programs</u>**:** The District devotes substantial resources to administer its Carl Moyer and AB 923 grant programs. Each year, these grant programs offer significant financial incentives to local businesses, schools and other entities for early compliance with upcoming State regulations. For example, in FY2011/12, the District was authorized to award $766,000 in grant funds directly to local entities; in FY 2010/11 and FY 2009/10, the authorized grant awards were $770,000 and $849,000, respectively. Under current State statutes for the Carl Moyer and AB 923 grant programs, air districts are allowed to utilize a certain percent of the total grant funds to cover administrative costs associated with managing the incentive programs. Carl Moyer allows 10% of the total grant award to be used for administrative costs, which typically equals about $32,000 per year; AB 923 allows 5% of the total award, which usually equals about $24,500 per year. However, an analysis of the District's expenses shows that a 15% administration fee is a more appropriate rate to recover the District's total costs for providing these beneficial programs. New legislation is necessary to increase the allowable level of administration fees, as well as extend the sunset date for both grant programs.

<u>Proposal:</u> Work with local legislators and the CAPCOA Legislative Committee to propose and adopt legislation to extend the life of the Carl Moyer and AB 923 grant programs beyond 2014 and increase the administration rate for both programs to 15%. If 15% is deemed unrealistic for both programs, attempt to have the AB 923 administration fees increased to match the Carl Moyer's 10% rate.

Estimated Annual Revenue: An increase in Carl Moyer administration fees from the current 10% to 15% would result in an additional $16,000 per year; an increase in AB 923 administration fees from the current 5% to 15% would result in an additional $49,000 per year. An increase in AB 923 administration fees from the current 5% to 10% (consistent with Carl Moyer) would result in an additional $24,500 per year.

Strategy Recommendations and Implementation Schedule

Based on evaluation of individual measures and direction from the Board Fiscal Subcommittee, the following table identifies the strategies proposed for adoption along with estimated implementation timelines:

Fiscal Plan 2013-2017 Strategies Recommended for Adoption	Projected Revenue 1st Year	Projected Revenue 2016/17	Proposed Start Year
Max use of reserves to fill budget gaps each year	$136,000	$213,000	2013/14
Fee schedule for CEQA project review	$35,000	$35,000-38,000	2013/14
Fee for sources conditionally exempt from permit	$10,000	$10,000-11,000	2013/14
Source testing services	$18,400	$19,000-$20,000	2013/14
Greenhouse gas verification services	$19,000	$19,000-20,000	2013/14
~4% permit renewal fee increase	$69,000	$69,000	2016/17
Additional Strategies Requiring Outside Approval			
Grant programs administration fee increase	$24,500-$65,000	$24,500-$65,000	2014/15

Adoption of the fiscal strategies recommended above will help ensure that District staffing and financial resources remain adequate to accomplish the highest priority state mandates, Strategic Action Plan measures and other Board adopted goals and objectives through FY 2016/17. Except for the source testing and GHG verification services, each of the measures listed above would have to be brought back to the Board for individual consideration and adoption prior to their implementation.

The charts below show the projected effect of implementing the recommended strategies. Chart 1 shows the gap between revenue and expenses projected over the next five years without implementing any of the recommended strategies.

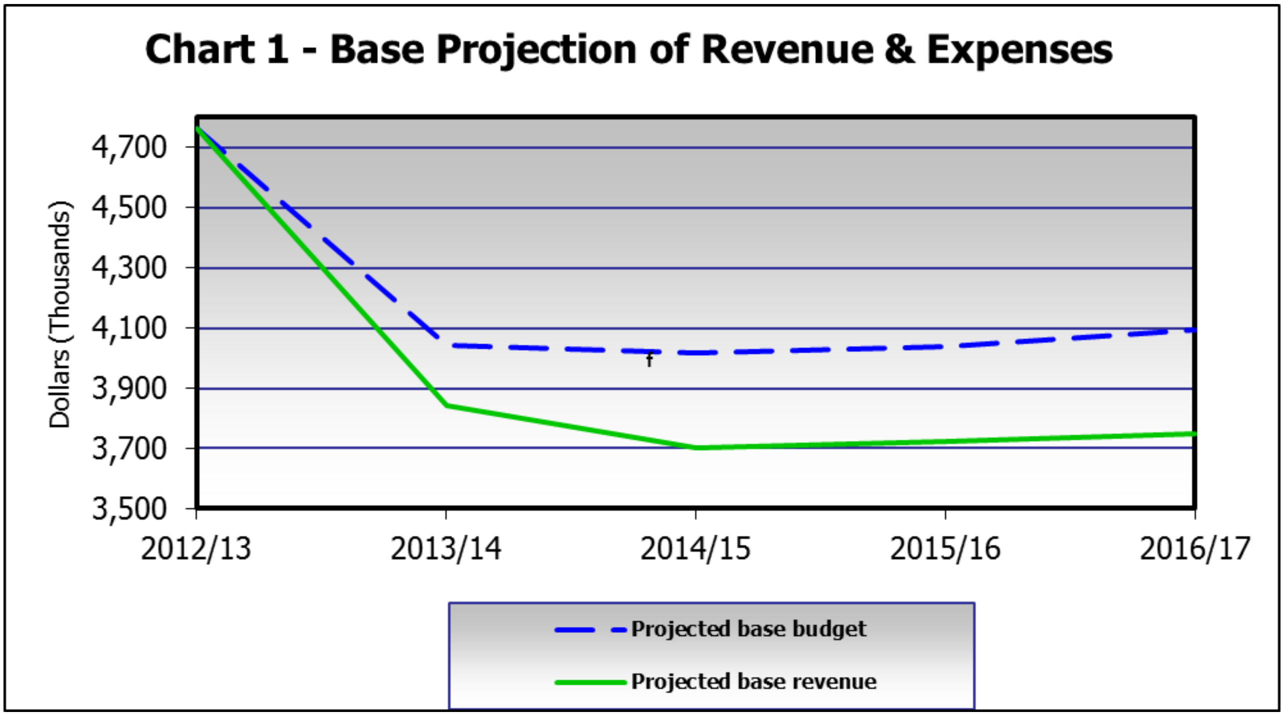
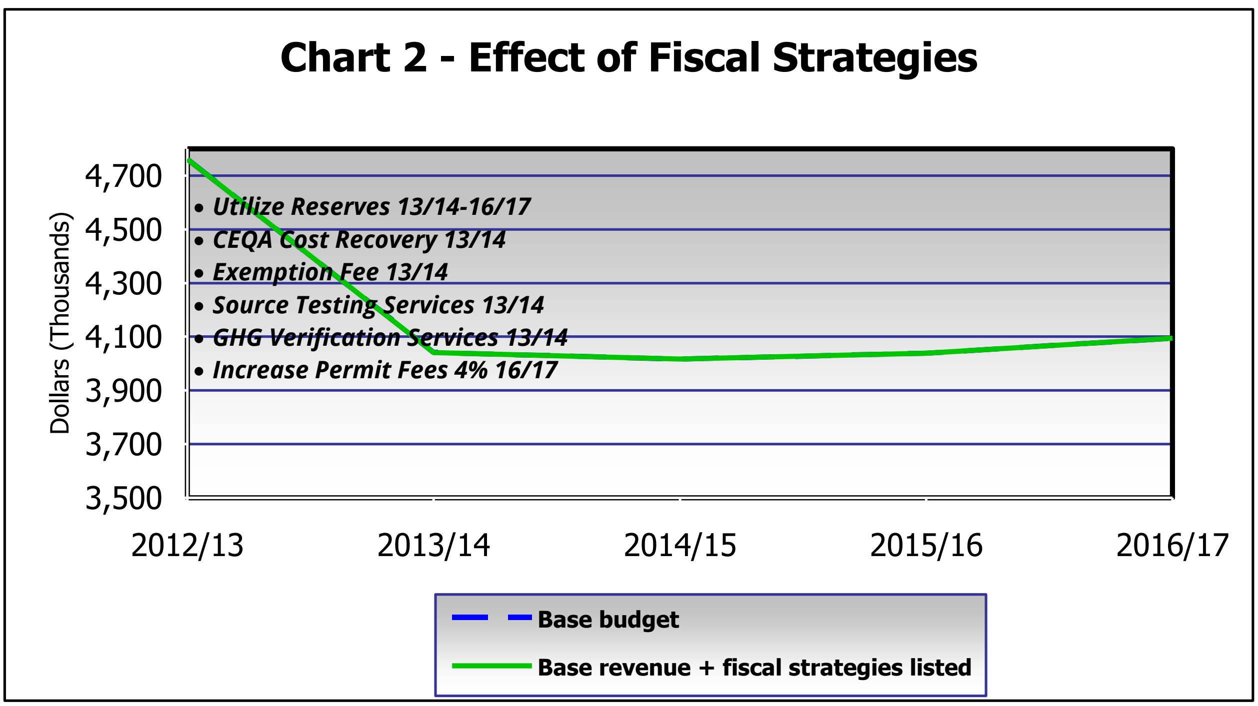


Chart 2 below shows the projected effect of implementing all recommended strategies. As shown, implementing these strategies is expected to be sufficient to fund District operations at the current staff and operational level through FY 2016/17.



Summary

Projections of revenue and expenditures over the next five years show that costs will rise faster than revenue, potentially resulting in significant budget deficits in future years, particularly given the pending closure of the Morro Bay Power Plant. At the same time, the District is facing a burgeoning workload to meet the requirements of existing and expected state mandates. Current staffing and financial resources will not be sufficient to meet these expectations. Implementation of the strategies identified in this Plan will serve to balance District revenue and expenses over the long term while maintaining staff at a level needed to accomplish critical state and federal mandates and Board-directed priorities identified in the District's Strategic Action Plan.

Appendix 1 – Other Fiscal Strategies Evaluated by Staff

The strategies in the table below were evaluated by staff in developing the 2005 & 2009 Fiscal Plans adopted by the Board. A * marks those strategies that have already been implemented; A ** marks those strategies proposed for implementation in this updated Plan.

Potential Fiscal Strategies Evaluated by Staff in 2005 and 2009
* Allow for credit card payment of permit fees and civil penalties *(in process)*
* Decrease activities where we can't recover costs; increase cost recovery for other programs (grants, small permitted sources)
* Allocate all interest earned from grant fund accounts to district operations to cover grant administration costs
* Allocate a 15% management fee on all non-state funded grants to cover cost of administration
** Work with County and cities to implement cost recovery mechanism for CEQA review on small and medium-sized projects
Charge a per capita fee to all local jurisdictions for air quality services as authorized in H&SC
Discontinue County support of computer network; contract with private firm for retainer and hourly service rate.
* Service vehicles based on mileage rather than time since last service
Service vehicles at private low cost service center rather than County Fleet Services
Hire personnel management agency to administer payroll and benefits at a rate less than the County
* Contract with independent Counsel for legal services instead of County Counsel
* Discontinue the MOVER grant program
* Require permits and fees for backyard and agricultural burning to recover costs of administering program
* Charge for APCD review of projects with Naturally Occurring Asbestos
Make Ag Burn Permits good for 2 or more years to reduce administrative costs
* Discontinue bottled water service and use water filter on kitchen refrigerator
Close office one day/month with staff off on voluntary leave without pay
Change office schedule to 9/80 with every other Friday off to save costs on utilities and admin
Estimate cost savings for several alternate work schedules e.g. 32 hr/wk, 30 hr/wk, 20 hr/wk. If cost effective ask for staff volunteers to work reduced schedules on a temporary basis
Offer voluntary time off without pay. Time can be taken off either as consecutive days (e.g. 2 week "vacation"), or as a reduced schedule (e.g. 35 hr work week, 1 day off every other week, etc.)
*Reduce overnight travel to attend ARB, CAPCOA, and other agency meetings – participate by conference call when possible
* Eliminate weekend standby duty to save standby and overtime costs
* Institute policy to reduce paper waste by printing less; review all documents on-line, save important e-mails electronically, etc.
* Let each employee know how much their phone usage costs each month (and possibly their ranking in expense as compared to the other employees) as a way to increase awareness and encourage more cost effective use of phone.
Rent out part of APCD office building
* Apply for grants for computer and air monitoring hardware, software and office equipment upgrades
Charge permit holders travel expense for re-test or " extra support" needed beyond typical renewal activities
* Defer refilling retiring receptionist position for at least one year
Explore implementation of an indirect source rule that recovers permit fees from new development
* Permit Winery Fermentation process
Permit Ornamental Flower greenhouse heaters to recover oversight costs
*Track all staff time involved in NOVs, Mutual Settlements, etc. and recover all costs. If settlement or violation is minor, consider a warning system instead of NOV to save staff time to process with minimal recovery.
Consider a benefit dinner, concert or silent auction or other fundraising event
Charge a small fee for auditorium use to outside groups and organizations
Market and sell APCD Office Information System software to other agencies and sources