

MEMORANDUM

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TO: Shasta County Air Pollution Control Board
FROM: Richard W. Simon, Director
DATE: November 1, 2016
SUBJECT: Summary Report for Air Quality Management District Funding

In June, 2016, the Air Pollution Control Board (Board) requested information about the funding structure for the Air Quality Management District (District), particularly related to annual fund balance and carry-over funds. This memorandum provides a summary of the district's revenues and expenditures in response to that request.

The district's budget is comprised of five principal sources of revenue and expenditures, which are treated individually below: General Purpose Funds, State Motor Vehicle AB 2766 Funds, Carl Moyer Grant Funds, Carl Moyer TIMBER Grant Funds, and Bus Grant Funds.

- 1) **General Purpose Funds.** General Purpose Funds consist of locally-generated revenues from source permit fees, burn permits, administrative fines, sale of capital assets and other minor fees. General Purpose Funds vary from year to year depending on the number and type of permitted sources, and other variables, but generally represent about 13 percent of the District's annual revenues. These funds can be used for all operational expenditures of the District. Table 1 below shows that from 2008 through 2014, General Purpose Funds have finished each year in the red, but until 2013 have been maintained by prior year carry-over funds. In 2014 and 2015, the carry-over balance had been depleted, so General Purpose revenues had to be supplemented by other District funding (see State Motor Vehicle AB 2766 revenue below). In 2015, the General Purpose Fund finished in the black, thus reducing, but not eliminating, the fiscal year carryover deficit.

TABLE 1 GENERAL PURPOSE FUNDS

GENERAL PURPOSE FUNDS					
FISCAL				YEAR-END	FISCAL YEAR
YEAR-END	REVENUE	EXPENDITURES		BALANCE	CARRYOVER
6/30/2008					\$ 980,419.20
6/30/2009	\$ 554,480.45	\$ 665,967.34		\$ (111,486.89)	\$ 868,932.31
6/30/2010	\$ 528,998.27	\$ 554,919.73		\$ (25,921.46)	\$ 843,010.85
6/30/2011	\$ 307,463.85	\$ 611,098.61		\$ (303,634.76)	\$ 539,376.09
6/30/2012	\$ 289,697.34	\$ 524,657.73		\$ (234,960.39)	\$ 304,415.70
6/30/2013	\$ 256,846.67	\$ 600,606.44		\$ (343,759.77)	\$ (39,344.07)
6/30/2014	\$ 432,899.83	\$ 537,598.60		\$ (104,698.77)	\$ (144,042.84)
6/30/2015	\$ 495,274.01	\$ 463,702.05		\$ 31,571.96	\$ (112,470.88)

The District expects that General Purpose Funds will continue to fluctuate in response to the overall health of the local economy. If the trend of negative year-end balances continues to dominate, as it did between 2008 and 2014, supplemental General Purpose funding will be needed to balance the fund and maintain essential functions of the District including, but not limited to, responding to air quality complaints, conducting regular inspections of regulated sources, integrating and implementing new regulations, and evaluating and monitoring new projects that go through the land use decision process. Options to maintain a balanced General Purpose Fund would include general fund contributions from each jurisdiction served by the District, increasing the permit fees charged for services provided by the District, and/or reducing the services provided by the District.

- 2) **State Motor Vehicle Subvention Program AB2766 Funds.** State Motor Vehicle Subvention Program AB2766 Funds (AB 2766 funds) originate from a fee attached to motor vehicle registrations within the boundaries of the District. AB 2766 funds vary from year to year depending on the number of vehicles registered, but generally represents about 23 percent of the District's annual revenues. AB 2766 funds are to be used in accordance with the criteria and guidelines established by the Air Resources Board, and are intended to support district staff and programs to reduce vehicle emissions and generally comply with the California Clean Air Act, including related planning, monitoring, enforcement and technical studies. Because the programs supported by AB 2766 funds are closely related to many of the on-going activities of the District, the General Purpose Fund and the AB 2766 Fund are kept in the same budget account. In that way, the AB 2766 funds have been used from time to time to supplement the General Purpose Fund when the year-end revenue of the latter falls short. Table 2 below shows that from 2009 through 2015, revenues in the AB 2766 Fund have exceeded expenditures every year, resulting in a growing fiscal year carryover each year. However, in the fiscal year ending June 30, 2016, expenditures in the AB 2766 Fund exceeded revenues resulting in a reduction in the year-end carryover balance.

TABLE 2 MOTOR VEHICLE SUBVENTION PROGRAM AB2766 FUNDS

AB2766 FUNDS					
FISCAL					
YEAR-END	REVENUE	EXPENDITURES	YEAR-END	FISCAL YEAR	
			BALANCE	CARRYOVER	
				\$ 1,029,632.62	
06/30/2009	\$ 524,946.16	\$ 502,275.89	\$ 22,670.27	\$ 1,052,302.89	
06/30/2010	\$ 505,898.57	\$ 351,060.51	\$ 154,838.06	\$ 1,207,140.95	
06/30/2011	\$ 486,148.94	\$ 441,101.13	\$ 45,047.81	\$ 1,252,188.76	
06/30/2012	\$ 522,227.07	\$ 365,695.58	\$ 156,531.49	\$ 1,408,720.25	
06/30/2013	\$ 527,183.97	\$ 366,701.39	\$ 160,482.58	\$ 1,569,202.83	
06/30/2014	\$ 515,053.80	\$ 322,287.68	\$ 192,766.12	\$ 1,761,968.95	
06/30/2015	\$ 508,974.38	\$ 384,578.72	\$ 124,395.66	\$ 1,886,364.61	
06/30/2016	\$ 511,768.38	\$ 591,049.73	\$ (79,281.35)	\$ 1,807,083.26	

As indicated in Table 2 and as noted in the text above, the fiscal year ending June 30, 2016, shows a reduction in the year-end carryover balance for AB 2766 Funds for the first time in several years. This is due to the District's effort to more precisely track, and shift program priorities toward, AB 2766 expenditures and charge them directly to that fund. This effort will likely result in further reductions in the AB 2766 Fund's annual carryover. However, the District anticipates that this may also help to improve the General Purpose Fund's year-end balance.

Items 3 and 4 below are on-going major State of California grant programs that are designed to achieve a specific emissions-reduction goal by direct funding to eligible recipients. Item 5 is an additional direct state grant that was discontinued after 2014. These, along with a couple of minor state grant programs, represent about 64 percent of the

District's annual revenues. These funds are strictly controlled and can only be used for the specific purpose of the grant. These are not funds over which the District or the Board have discretion, nor do they contribute to any non-grant-related operations of the District. The District has successfully served as the implementing agency for the two continuous programs (items 3 and 4) for many years, and successfully implemented the third program (item 5) which has since ended. In each case, the grant includes funds that pass from the state to the recipient through the District, and funds that compensate the District for administering the grant, or for performing other specific duties locally. The three major grant programs are summarized below. In general these programs are kept in an unearned revenue account until the expenditure is executed, so in any given year the year-end balance may be positive or negative, depending on when in the cycle the revenues and expenditures occur. As the major component of the District's budget, the status of these and the other minor grant programs will have a direct bearing on the annual revenue and expenditures balance.

- 3) **Carl Moyer Memorial Air Quality Standards Attainment Program Funds.** The Carl Moyer Memorial Air Quality Standards Attainment Program Fund (Carl Moyer) provides incentive funding to encourage owners to trade in eligible older model, higher polluting, diesel engines (primarily off-road construction and agricultural equipment engines) and purchase newer, cleaner engines for the same purpose.

TABLE 3 CARL MOYER PROGRAM FUNDS

CARL MOYER GRANT AND ADMINISTRATION FUNDS					
FISCAL YEAR- END	REVENUE	EXPENDITURES	YEAR-END BALANCE	FISCAL YEAR CARRYOVER	
06/30/2009	\$ 384,802.00	\$ 90,000.00	\$ 294,802.00	\$ 294,802.00	
06/30/2010	\$ 431,369.63	\$ 294,802.00	\$ 136,567.63	\$ 431,369.63	
06/30/2011	\$ 93,123.00	\$ 291,809.49	\$ (198,686.49)	\$ 232,683.14	
06/30/2012	\$ 326,573.73	\$ 370,308.24	\$ (43,734.51)	\$ 188,948.63	
06/30/2013	\$ 290,099.00	\$ 80,261.00	\$ 209,838.00	\$ 398,786.63	
06/30/2014	\$ 390,565.00	\$ 586,792.77	\$ (196,227.77)	\$ 202,558.86	
06/30/2015	\$ 395,194.73	\$ 453,699.84	\$ (58,505.11)	\$ 144,053.75	
06/30/2016	\$ 238,854.00	\$ 116,319.96	\$ 122,534.04	\$ 266,587.79	

- 4) **Carl Moyer TIMBER Grant Funds.** The Carl Moyer TIMBER grant funds (TIMBER) program is similar to the Carl Moyer program described above, but specifically and exclusively targets log trucks. The program has been running since 2014. The acronym stands for Truck Improvement/Modernization Benefiting Emission Reductions. This is a voucher program providing incentive funding up to \$60,000 per voucher to replace 2006 or older diesel engine log trucks with 2010 or newer models. The Shasta County Air Quality District has been awarded the largest share of funding of all participating districts and has had great success with the program.

CARL MOYER TIMBER PROGRAM FUNDS

CARL MOYER TIMBER GRANT AND ADMINISTRATION FUNDS					
FISCAL YEAR-END	REVENUE	EXPENDITURES	YEAR-END BALANCE	FISCAL YEAR CARRYOVER	
06/30/2014	\$ 1,000,000.00	\$ 572,041.24	\$ 427,958.76	\$ 427,958.76	
06/30/2015	\$ 2,533,242.00	\$ 1,265,546.52	\$ 1,267,695.48	\$ 1,695,654.24	
06/30/2016	\$ 816,367.00	\$ 751,746.94	\$ 64,620.06	\$ 1,760,274.30	

- 5) **State Lower-Emission School Bus Program Funds.** The State Lower Emission School Bus Program (School Bus fund) provided funding for new school buses and older buses retrofitted with modern emission control systems. The District participated in the program until 2014, with the last expenditures in 2015.

BUS GRANT AND ADMINISTRATION FUNDS					
FISCAL					
YEAR-END	REVENUE	EXPENDITURES	YEAR-END BALANCE	FISCAL YEAR CARRYOVER	
06/30/2009	\$ 810,000.00	\$ 25,435.00	\$ 784,565.00	\$ 784,565.00	
06/30/2010	\$ 1,297,209.00	\$ 654,724.71	\$ 642,484.29	\$ 1,427,049.29	
06/30/2011	\$ 2,113,944.00	\$ 1,382,581.52	\$ 731,362.48	\$ 2,158,411.77	
06/30/2012		\$ 2,114,038.48	\$ (2,114,038.48)	\$ 44,373.29	
06/30/2013	\$ 481,401.90	\$ 12,480.20	\$ 468,921.70	\$ 513,294.99	
06/30/2014	\$ 42,330.50	\$ 548,524.00	\$ (506,193.50)	\$ 7,101.49	
06/30/2015	\$ -	\$ 7,101.49	\$ (7,101.49)	\$ (0.00)	

Summary and Implications for Participating Agencies

The District operates on a combination of five primary funding sources: General Purpose Funds, State Motor Vehicle AB 2766 Funds, Carl Moyer Grant Funds, Carl Moyer TIMBER Grant Funds, and Bus Grant Funds. These funds vary from year to year depending on the local economy and State of California grant program funding. The District and Board have discretion over approximately 13 percent of the total annual budget in the form of General Purpose Funds, with the remaining 87 percent tied to specific grants or other restricted state funds. The General Purpose Fund and the AB 2766 Fund have been used together to support the District's overall air quality improvement programs and general operations. Going forward, the District will focus more on the programs under the AB 2766 guidelines and charge those qualifying expenditures directly to the program. This will likely result in reducing the AB 2766 fiscal year carryover, however, it may also potentially improve the negative year-end balance of the General Purpose Fund, which since the recession has driven down that fund's yearly carryover from \$980,419 in 2008 to <\$144,043> in 2014. The District will closely monitor the overall budget and specific funds as described in this report to determine if intervention from participating agencies would be necessary to maintain the District's essential functions. Options to be considered would include general fund contributions from the agencies served by the District to maintain the General Purpose Fund, increasing fees charged for District services, and/or reducing the services the District provides to the region.