



**South Coast
Air Quality
Management
District**
Diamond Bar, California



Popular Annual Financial Report Year Ended June 30, 2007



SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

GOVERNING BOARD

June 30, 2007

WILLIAM A. BURKE, Ed.D

Chairman

Speaker of the Assembly Appointee

S. ROY WILSON, Ed.D.

Vice-Chairman

County of Riverside Representative

MICHAEL D. ANTONOVICH

County of Los Angeles Representative

JAN PERRY

County of Los Angeles

Cities Representative

Western Region

BILL CAMPBELL

County of Orange Representative

MIGUEL A. PULIDO

County of Orange

Cities Representative

JANE CARNEY

Senate Rules Committee Appointee

TONIA REYES URANGA

County of Los Angeles

Cities Representative

Eastern Region

RONALD O. LOVERIDGE

County of Riverside

Cities Representative

DENNIS YATES

County of San Bernardino

Cities Representative

GARY OVITT

County of San Bernardino Representative

VACANT

Governor's Appointee

BARRY R. WALLERSTEIN, D.Env.

Executive Officer

A NOTE FROM THE CFO

We are pleased to present the South Coast Air Quality Management District's (SCAQMD) Popular Annual Financial Report (PAFR) for the fiscal year ending June 30, 2007. This report makes our District's finances easier to understand, and is intended to communicate our financial situation in an open and accountable manner.

The PAFR is intended to summarize the financial activities of the District and was drawn from the financial information appearing in the 2007 Comprehensive Annual Financial Report (CAFR). The PAFR is unaudited; however, the financial data presented in the PAFR is derived from the CAFR and is consistent with generally accepted accounting principles.

For more detailed financial information, or information on the District's component unit (SCAQMD Building Corporation which is not included in this document) a copy of the Comprehensive Annual Financial Report is available from Finance or can be viewed on the District's website at www.aqmd.gov.

Questions, comments and feedback regarding this report are encouraged, so please do not hesitate to contact the Chief Financial Officer's office at 909-396-2828 or at rpearce@aqmd.gov.

Respectfully submitted,



Patrick H. Pearce, CGFM
Chief Financial Officer

ABOUT THE DISTRICT

The South Coast Air Quality Management District began operation on February 1, 1977 as a regional governmental agency established by the California Legislature pursuant to the Lewis Air Quality Management Act. The AQMD encompasses all of Orange County and parts of Los Angeles, San Bernardino and Riverside Counties, representing over 16 million residents. It succeeded the Southern California Air Pollution Control District and its predecessor four county air pollution control districts, of which the Los Angeles County Air Pollution Control District was the oldest in the nation, having been formed in 1947.

The AQMD Governing Board is composed of 13 members (one additional member added in January 2008) including four members appointed by the Boards of Supervisors of the four counties in AQMD's jurisdiction, five members appointed by cities in the AQMD's jurisdiction and three members appointed by the Governor, the Speaker of the State Assembly and the Rules Committee of the State Senate, respectively. The members appointed by the various Boards of Supervisors and cities consist of one member of the Board of Supervisors of Los Angeles, Orange, Riverside, and San Bernardino Counties, respectively, and a mayor or member of the city council of a city within Orange, Riverside and San Bernardino Counties. Los Angeles County cities have three representatives, one from the City of Los Angeles and one each from the western and eastern portions of the county.

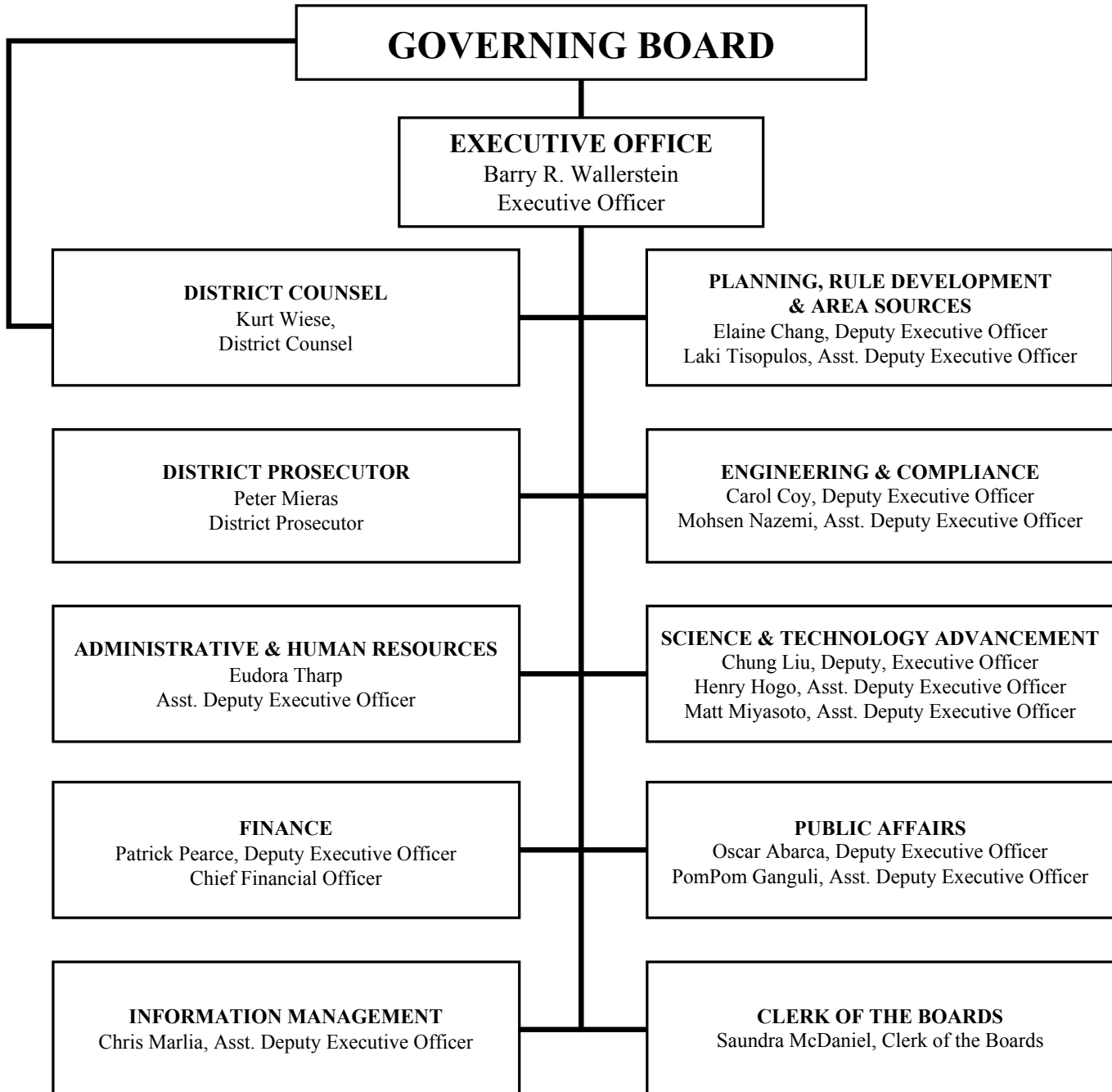
SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

Demographic and Miscellaneous Statistics

<u>Established:</u>	February 1, 1977
<u>Area Covered:</u>	10,743 Square Miles
<u>Counties Included in District:</u>	All of Orange County and parts of Los Angeles, Riverside, and San Bernardino Counties Population: 16,607,472 (In 2006)
<u>Transportation:</u>	Two transcontinental railroads – Burlington Northern Santa Fe and the Union Pacific Six Commercial Airports – Los Angeles International, Burbank, Long Beach, Ontario International, Orange County, and Palm Springs Freeways – Three major interstate freeways including four bypass routes, U.S. 101, and nine State freeway routes Two major adjoining ports – Port of Long Beach and Port of Los Angeles
<u>Number of Registered Vehicles:</u>	12,327,755 (In 2006)
<u>Average Daily Miles Traveled Per Vehicle:</u>	29 (CY 2006 data)
<u>Examples of Stationary Sources of Air Pollution Regulated:</u>	Oil Refineries, power plants, paint spray booths, incinerators, manufacturing facilities, dry cleaners, and service stations
<u>Number of Sources:</u>	Over 28,500 operating locations with approximately 77,000 permits.
<u>Number of Air Monitoring Stations:</u>	36
<u>Full-time Authorized Positions:</u>	835
<u>Key Federal, State, and Local Air Agencies:</u>	EPA Region IX (Environmental Protection Air Agencies: Agency), CARB (California Air Resources Board), CAPCOA (California Air Pollution Control Officer's Association), STAPPA (State and Territorial Air Pollution Program Administrators), ALAPCO (Association of Local Air Pollution Control Officials). There are 35 local air pollution control districts in California.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

Organizational Chart



PROGRAM HIGHLIGHTS

For the Year ended June 30, 2007

Goods Movement & Air Quality Issues

- November 2006 – held meetings to hear the public’s concerns about air pollution at the Ports of Long Beach and Los Angeles as the ports considered adopting and implementing the San Pedro Bay Ports Clean Air Action Plan.
- November 2006 – committed \$36 million over five years --\$7.2 million per year – for a truck fleet modernization program designed to help clean up heavy-duty diesel trucks servicing the ports area.
- Approved \$6 million for the truck fleet modernization program as well as \$6 million for a liquefied natural gas (LNG) port truck program. AQMD is working with the Ports of Long Beach and Los Angeles to implement the LNG truck project.

Draft 2007 Air Quality Management Plan (AQMP)*

- Adopted a comprehensive road map for achieving new and more stringent federal clean air standards including dozens of enhanced pollution control measures on sources from consumer products to oceangoing ships. The AQMP lays out a detailed strategy for meeting the federal fine particulate PM2.5 standard by 2015 and the federal 8-hour ozone standard by 2024.

* The Plan was approved by the California Air Resources Board (CARB) in September 2007 as part of a historic collaborative agreement to better address pollutants from mobile sources.

Technology Advancement

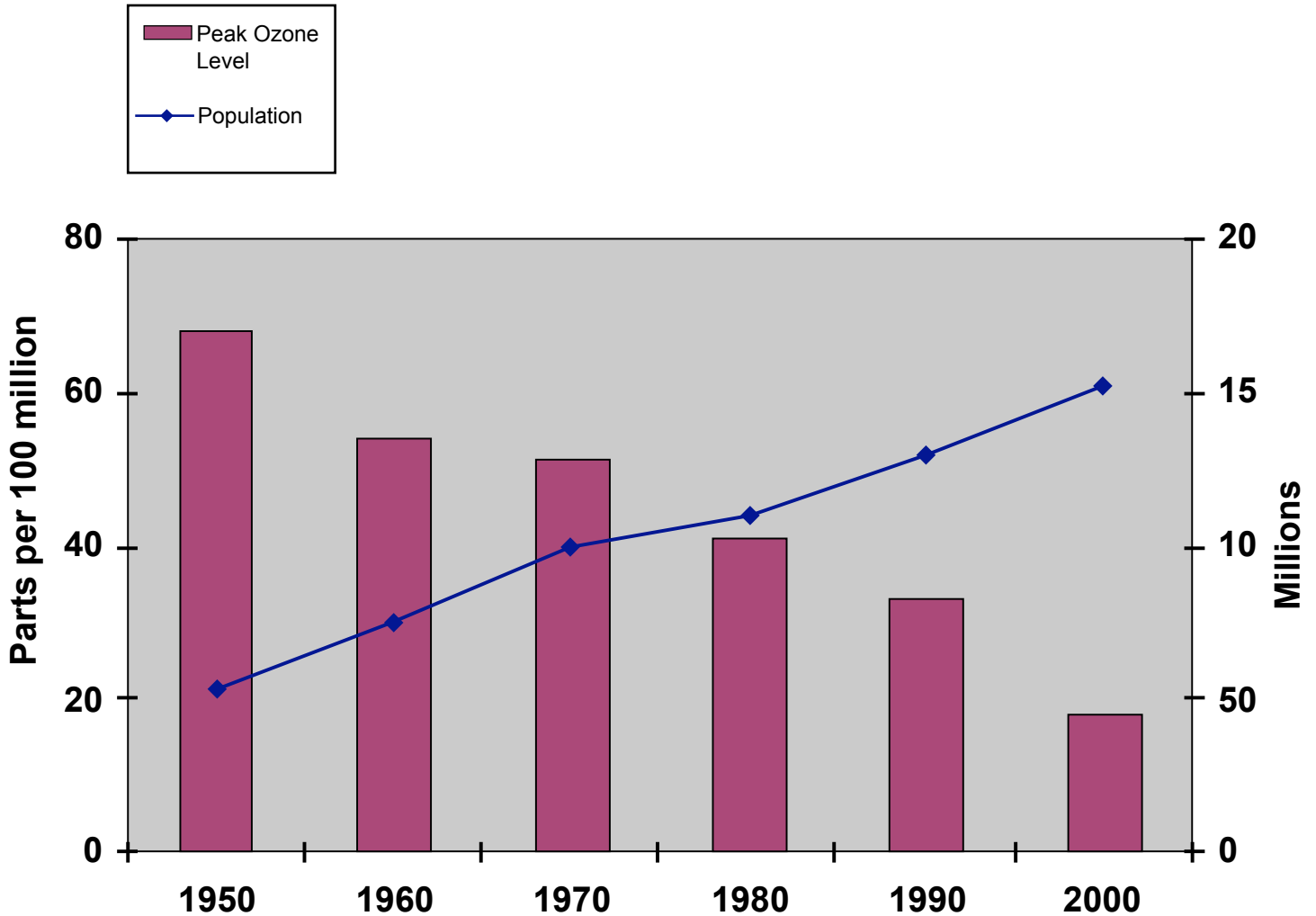
- October 2006 – funded a ground breaking near-zero emission fuel cell and low-emission micro turbine project reducing emissions and energy costs at TST Inc.’s aluminum foundry in Fontana. This is the first use of a fuel cell at a large industrial manufacturing facility in Southern California.
- February 2007 – initiated establishment of a diesel-free school bus fleet in the region by awarding \$3.9 million to help several school districts install natural gas fueling stations and purchase natural gas-powered buses.

Since 2000, AQMD’s Board has been a national leader in adopting policies and providing incentives to replace dirty diesel school buses with alternative fuel models. To date, AQMD has approved \$87 million to purchase 505 new school buses --including 419 CNG and 86 lower-emission diesel models--as well as CNG fueling infrastructure and 2,553 particulate traps to reduce emissions from diesel buses.

Mobile Sources

- January 2007 – Chairman William Burke announced the 2007 Mobile Source Fair Share Initiative to secure greater local authority to regulate mobile sources of air pollution, in close collaboration with the California Air Resources Board (CARB) and US Environmental Protection Agency (EPA).

50 Years of Progress in Reducing Ozone Levels

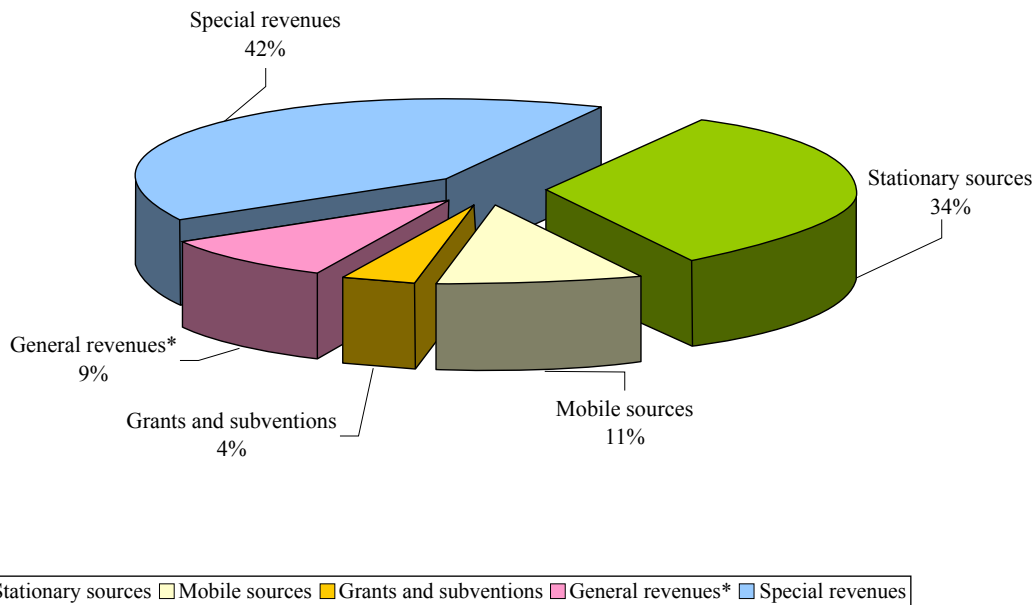


Since the late 1940s when the war on smog began, the region's population has tripled from 4.8 million to over 16 million; the number of motor vehicles more than quadrupled from 2.3 million to 12.3 million; and the area has grown into one of the most prosperous regions of the world. This phenomenal economic growth illustrates that pollution control and strong economic growth can coincide.

FINANCIAL HIGHLIGHTS

Where the Money Came From Our Revenues & Resources

The AQMD is a fee supported agency and does not receive the proceeds from taxes. Excluding special funds revenues, which are restricted in their use, the major revenue source for Governmental Activities is stationary sources, which account for approximately 60 percent of the District's General Fund revenue for the year ended June 30, 2007.



Source	FY 06-07	FY 05-06	FY 04-05	FY 03-04	FY 02-03	FY 01-02
Stationary sources	\$ 75,200,253	\$ 68,792,294	\$ 64,925,373	\$ 61,932,425	\$ 62,835,710	\$ 65,737,827
Mobile sources	23,966,240	20,991,833	14,716,865	10,787,342	10,245,290	10,272,434
Grants and subventions	8,946,833	8,035,387	8,100,573	9,679,283	7,434,924	10,434,312
General revenues*	20,980,257	22,853,273	25,178,600	23,479,027	16,732,092	16,429,959
Special revenues**	92,925,386	94,223,386	87,747,227	60,731,099	81,194,075	118,891,866
Total	\$ 222,018,969	\$ 214,896,173	\$ 200,668,638	\$ 166,609,176	\$ 178,442,091	\$ 221,766,398

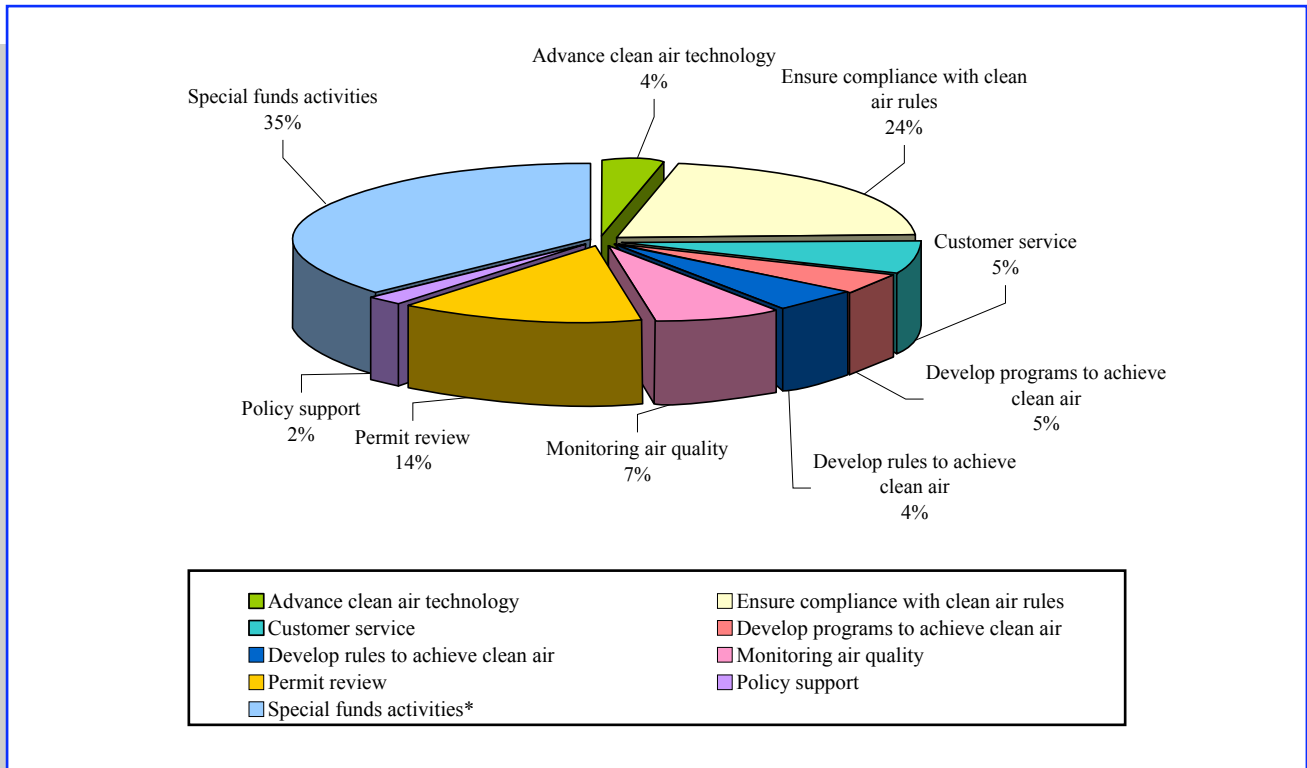
* General Revenues include Penalties/Settlements, Interest, and Grants and Subvention dollars that are not restricted to specific programs.

** Examples include Carl Moyer, Clean Fuels, Lower Emission School Bus, MSRC.

Where the Money Went

Our Expenditures & Services

Excluding the special funds expenditures, which are restricted in their use, the three major expenditure functions for Governmental Activities are Compliance, Permitting, and Air Monitoring. Combined, these account for nearly 70 percent of the District's total General Fund expenditures for the year ended June 30, 2007.



Activity	FY 06-07	FY 05-06	FY 04-05	FY 03-04	FY 02-03	FY 01-02
Advance clean air technology	\$ 7,067,528	\$ 5,808,530	\$ 5,011,874	\$ 7,255,854	\$ 5,933,504	4,509,988
Ensure compliance with clean air rules	42,699,519	36,727,226	37,666,189	38,536,722	33,440,503	33,020,627
Customer service	8,687,842	11,592,984	10,532,066	10,965,904	10,035,584	9,557,298
Customer service	8,721,816	7,811,791	7,106,133	7,910,778	6,213,755	5,654,636
Develop rules to achieve clean air	7,350,795	8,046,177	8,130,305	7,915,483	6,563,362	6,618,208
Monitoring air quality	12,229,451	11,794,227	11,591,430	11,883,527	10,032,083	9,889,813
Permit review	24,508,757	23,191,423	21,403,924	21,408,261	18,937,964	20,714,836
Policy support	3,442,207	2,948,274	2,954,538	2,523,809	2,559,042	2,238,319
Special funds activities*	62,831,313	64,308,902	59,525,817	62,422,513	94,144,240	85,826,567
Total	\$ 177,539,228	\$ 172,229,534	\$ 163,922,276	\$ 170,822,851	\$187,860,037	\$ 178,030,292

* Examples include Carl Moyer, Clean Fuels, Lower Emission School Bus, MSRC.

Governmental Financial Condition and Activity

Net assets may serve over time as a useful indicator of the AQMD's financial position. At the close of the most recent fiscal year, the AQMD's assets exceeded liabilities by \$302.3 million.

Table 1 presents a condensed Statement of Net Assets (in thousands) as of June 30, 2007.

	Net Assets
	<u>FY 2006-07</u>
Current and other assets	\$ 364,757
Prepaid pension assets	46,736
Capital assets	50,795
Total assets	<u>462,288</u>
Long-term liabilities outstanding	118,201
Other liabilities	41,771
Total liabilities	<u>159,972</u>
Net Assets:	
Invested in capital assets, net of related debt	11,165
Restricted for:	
Pension assets	1,926
Special projects/programs	280,755
Unrestricted	8,470
Total net assets	<u>\$ 302,316</u>

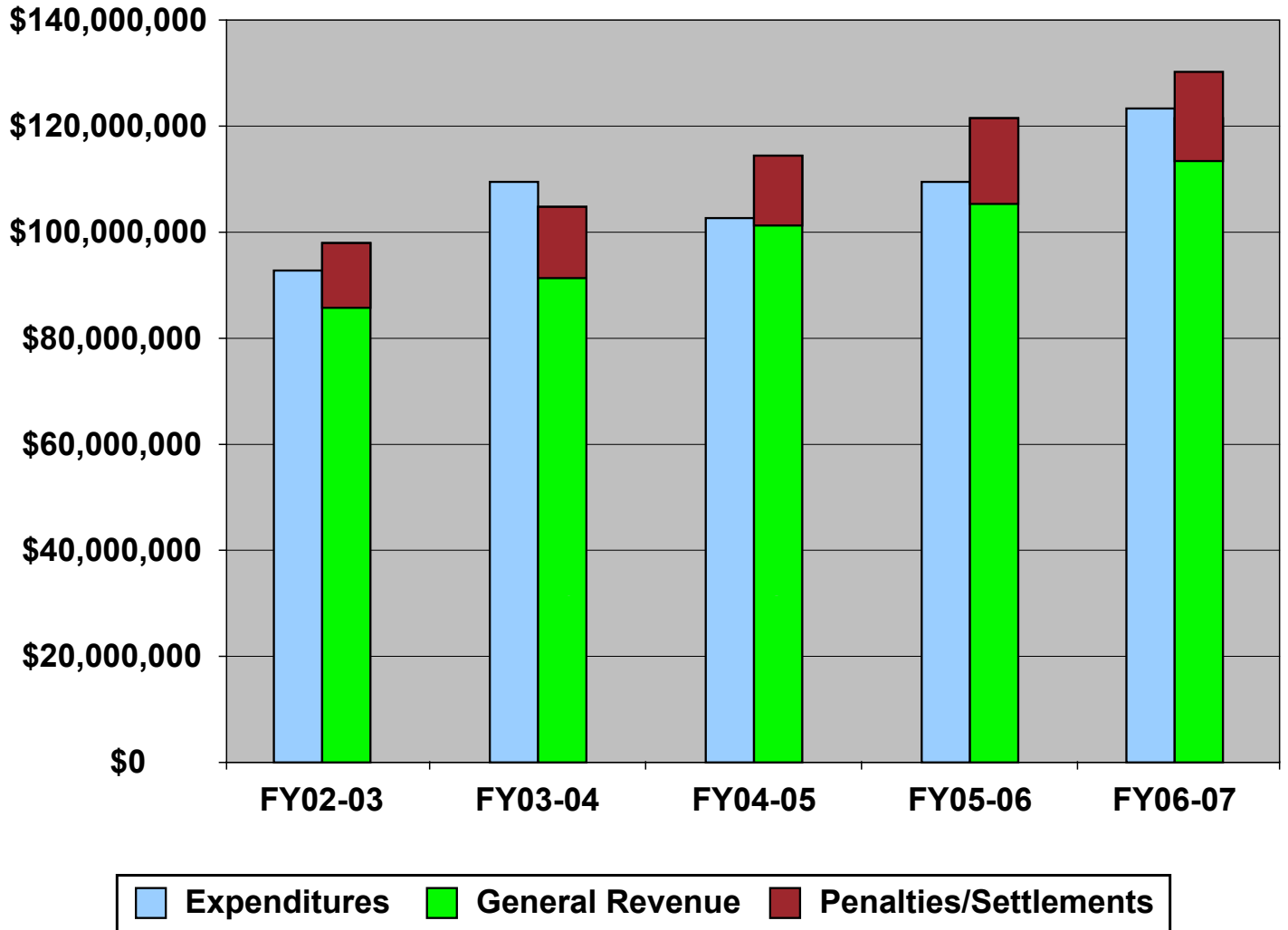
Table 2 is a condensed Changes in Net Assets schedule (in thousands) for the fiscal year ending June 30, 2007.

Revenues:	
Program Revenues:	<u>FY 2006-07</u>
Fees and charges – stationary sources	\$ 75,200
Fees and charges – mobile sources	23,966
Operating grants and subventions	8,947
Restricted special revenue sources	92,925
CNG fuel sales	143
General Revenues:	
Grants and subventions – not restricted to specific programs	2,962
Penalties and settlements	13,211
Interest	3,571
Other revenues	1,237
Total revenues	<u>222,162</u>
Expenses:	
Advance clean air technology	7,068
Ensure compliance with clean air rules	42,699
Customer service	8,688
Develop programs to achieve clean air	8,722
Develop rules to achieve clean air	7,351
Monitoring air quality	12,229
Permit review	24,509
Policy support	3,442
Special funds activities	62,831
Other expenses	225
Total expenses	<u>177,764</u>
Increase (decrease) in net assets, before transfers	<u>44,398</u>
Transfers	<u>(28,804)</u>
Increase (decrease) in net assets	<u>\$ 15,594</u>

- The assets of AQMD exceeded its liabilities at the close of the most recent fiscal year by \$302.3 million (net assets). Of this amount, \$8.5 million (unrestricted net assets), may be used to finance the AQMD's day-to-day operations.
- The AQMD's long term debt decreased by \$7.2 million or 6.1% of the long term debt outstanding.
- The AQMD made a \$10 million prepayment on its Unfunded Actuarial Accrued Liability (UAAL) to San Bernardino County Employees' Retirement Association and executed a Guaranteed Investment Contract (GIC) and Escrow Agreement for \$19.1 million to defease a portion of its current debt service on Pension Obligation Bonds from one-time penalty/settlement money.
- The largest portion of the AQMD's net assets (93%) represents resources that are subject to external restriction on how they may be used. The revenue in special revenue funds is restricted to expenditures for specific purposes such as Carl Moyer, Clean Fuels, Lower Emission School Bus, etc. Approximately 4% of the AQMD's net assets reflects its investment in capital assets used by AQMD (e.g. land, buildings, equipment, and vehicles) less any related debt used to acquire those assets that is still outstanding.
- The net assets for governmental activities increased by \$15.6 million during the current fiscal year. Most of the increase represents receipt of state grants from the Carl Moyer SB 1107 program in FY 2006-07.
- Program revenue increased by \$9 million, largely due to annual operating fees and a further refinement of non-specific Mobile Source revenue that supports Clean Air Act Activities. General revenue decreased by \$1.9 million, which can be attributed to the decrease in Penalties & Settlements, offset by increases in Interest and Other Revenues.

Budget Surplus/Deficit – 5 Year look

(Excludes Special Revenues/Expenditures)



Revenues have exceeded expenditures in four out of the last five years due to several significant one-time penalties and settlements for air pollution violations.



MISSION STATEMENT

“The South Coast AQMD believes all residents have a right to live and work in an environment of clean air and is committed to undertaking all necessary steps to protect public health from air pollution with sensitivity to the impacts of its actions on the community and businesses.”

GOALS

- I. Ensure expeditious progress toward meeting clean air standards and protecting public health.
- II. Ensure equitable treatment for all communities.
- III. Operate efficiently and in a manner sensitive to businesses

