

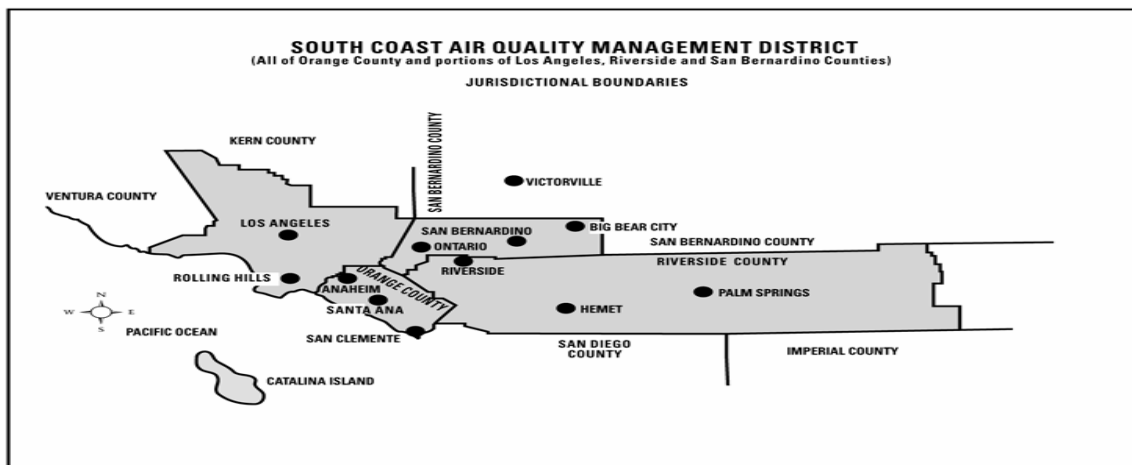
SUMMARY

Preface

This document represents the proposed FY 2017-18 Budget and Work Program of the South Coast Air Quality Management District (SCAQMD). The proposed budget is available for public review and comment during the month of April. Two public consultation meetings are scheduled to discuss the proposed budget and fees changes, one on April 11, 2017 and a second on April 18, 2017. In addition, a workshop for the Governing Board is scheduled on April 21, 2017. A final Proposed Draft Budget and Work Program and Proposed Amended Regulation (PAR) III - Fees, which may include changes based on input from the public and Board, will be presented for adoption at a public hearing on June 2, 2017.

Introduction

The South Coast Air Quality Management District (SCAQMD) 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 SCAQMD encompasses all of Orange County and parts of Los Angeles, San Bernardino and Riverside Counties. It succeeded the Southern California Air Pollution Control District (APCD) and its predecessor four county APCDs, of which the Los Angeles County APCD was the oldest in the nation, having been formed in 1947. The SCAQMD Governing Board is composed of 13 members, including four members appointed by the Boards of Supervisors of the four counties in SCAQMD's jurisdiction, six members appointed by cities in the SCAQMD'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 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 each from the western and eastern portions and one member representing the City of Los Angeles.

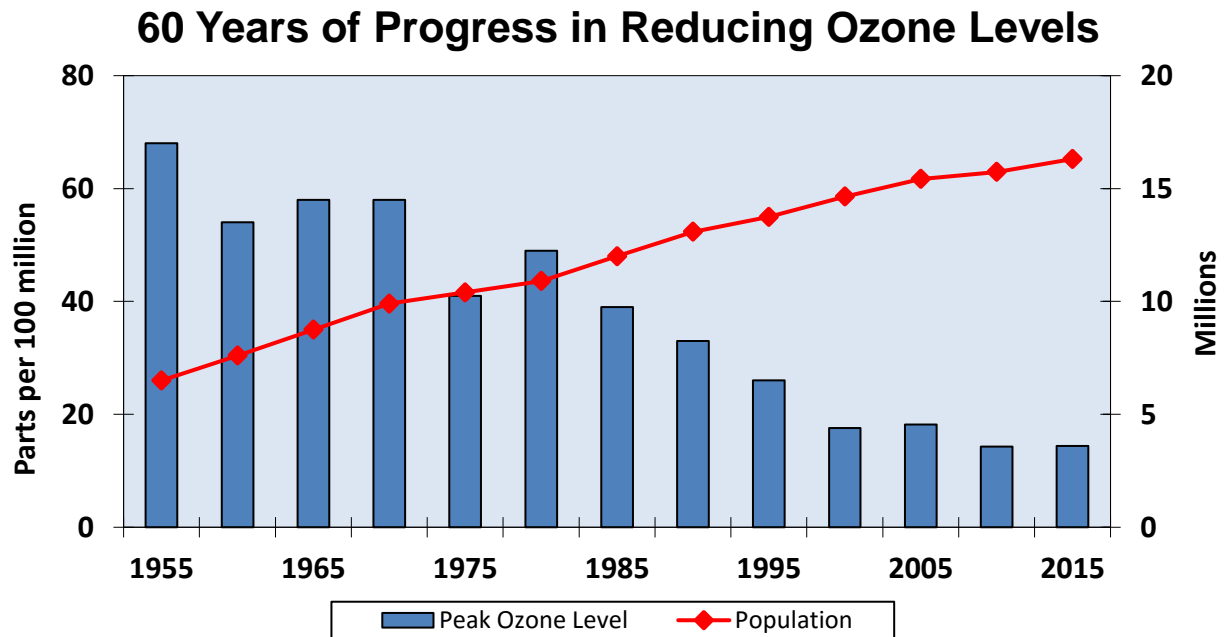


Air Quality History

The South Coast Air Basin has suffered unhealthy air since its rapid population growth and industrialization during World War II. While air quality has improved, the residents of the Basin still breathe some of the most polluted air in the nation.

The 68-year history of the region's air pollution control efforts is, in many ways, one of the world's key environmental success stories. Peak ozone levels have been cut by almost three-fourths since air monitoring began in the 1950s. Population exposure was cut in half during the 1980s alone.

Since the late 1940s when the war on smog began to 2015, the region's population has more than tripled from 4.8 million to 16.9 million; the number of motor vehicles has increased over five-fold from 2.3 million to 13 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.



Mission

The SCAQMD 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. This mission is pursued through a comprehensive program of planning, regulation, education, enforcement, compliance incentives, technical innovation and promoting public understanding of air quality issues. The SCAQMD has implemented a policy of working with regulated businesses to ensure their participation in making the rules which will impact them. This cooperative approach has resulted in greater business support for air that is more healthful to breathe.

To carry out its mission, SCAQMD develops a set of Goals and Priority Objectives which are evaluated and revised annually and presented as part of the budget proposal. The following draft Goals have been established for FY 2017-18:

- I. Ensure expeditious progress toward meeting clean air standards and protecting public health.
- II. Enhance public education and ensure equitable treatment for all communities.
- III. Operate efficiently and in a manner sensitive to public agencies, businesses, the public and SCAQMD staff.

These goals are the foundation for SCAQMD's Work Program. Each goal is supported by multiple activities, which target specific areas of program performance.

Air Quality

Overview

The four-county Southern California region, designated for air quality purposes as the South Coast Air Basin (Basin), has some of the highest air pollution levels in the United States. The federal government has designated seven pollutants that are pervasive enough across the nation to warrant federal health standards, called National Ambient Air Quality Standards (NAAQS). Known as "criteria pollutants," these are: ozone (O₃); nitrogen dioxide (NO₂); particulates (PM₁₀); fine particulates (PM_{2.5}); carbon monoxide (CO); lead (Pb); and sulfur dioxide (SO₂).

In addition, the State of California through the California Air Resources Board (CARB) sets ambient air quality standards for these same pollutants. California's standards are in some cases tighter than the U.S. Environmental Protection Agency's (U.S. EPA) standards, reflecting the conclusion on CARB's part that some of the federal standards are not adequate to protect public health in this region. Toxic compounds also are a potential problem. More toxic pollution is emitted into the air in the Basin than in any other region in California. The Basin's large number of motor vehicles and small sources, including small businesses and households using ozone-forming consumer products and paints, compounds the problem.

Air Quality Trends

While our air quality continues to improve, the Basin remains one of the most unhealthful areas in the nation in terms of air quality. Ozone levels have fallen by more than three-quarters since peaks in the mid-1950s. U.S. EPA revised and strengthened the 8-hour ozone NAAQS, effective December 28, 2015, from concentrations exceeding 75 parts-per-billion (ppb) to concentrations exceeding 70 ppb. In 2016, the new 2015 8-hour ozone NAAQS was exceeded in the Basin on 132 days and the former 2008 ozone NAAQS was exceeded on 106 days based on preliminary data. The 2015 ozone NAAQS was exceeded in the Basin on 113 days in 2015, the lowest number ever recorded, and 123 days in 2014. The increase in ozone exceedance days in 2016 is attributed to enhanced photochemical ozone formation through the summer due to persistent weather patterns that limited vertical mixing and warmed the lower atmosphere. While the ozone control strategy continued to reduce precursor emissions from sources in the Basin in 2016, ozone-forming emissions transported from several long-term, large wildfires in southern and central California in the summer may have also played a role in the increase of exceedance days. The maximum observed ozone levels also show some year-to-year variability, but have generally been decreasing over the years. The highest 8-hour ozone level in the preliminary 2016 data was 122 ppb, compared to 127 ppb in 2015 and 110 ppb in 2014. The value from 2014 was the Basin's lowest recorded annual maximum 8-hour ozone concentration to date.

PM_{2.5} levels have decreased dramatically in the Basin since 1999; however, design value concentrations are still above the current annual 24-hour NAAQS. Effective March 18, 2013, U.S. EPA strengthened the annual average PM_{2.5} standard from 15 µg/m³ to 12 µg/m³, while retaining the 24-hour PM_{2.5} NAAQS of 35 µg/m³. In 2016, the 24-hour PM_{2.5} NAAQS was exceeded on 10 days based on preliminary filter data with near-road measurements included. This was a dramatic improvement over the 25 days that exceeded the PM_{2.5} NAAQS in 2015 and the lowest ever recorded in the Basin. While the 2015 PM_{2.5} measurements were strongly influenced by the long-term effects of the drought in California, the 2016 data was influenced by an increase in wintertime storm systems that improved ventilation in the Basin on many days in the winter months when the highest PM_{2.5} concentrations typically occur. The Basin's peak annual average PM_{2.5} level in 2016, 14.0 µg/m³ (preliminary data) was a little higher than the 2015 value, 13.3 µg/m³, which was the lowest annual average since PM_{2.5} monitoring started in 1999. In 2016, quarterly PM_{2.5} averages for the second and third quarters were above normal for recent years, likely due to the impact of smoke transported from numerous fires burning in Southern and Central California during the summer months. However, no days exceeded the 24-hour PM_{2.5} NAAQS in the summer of 2016, except for July 5 due to emissions from Independence Day fireworks.

In 2006, U.S. EPA rescinded the annual federal standard for PM₁₀ but retained the 24-hour standard. U.S. EPA re-designated the Basin as attainment of the health based standard for PM₁₀, effective July 26, 2013. Ambient levels of PM₁₀ in the Basin have continued to meet the federal 24-hour PM₁₀ NAAQS through 2016.

In November 2008, U.S. EPA revised the lead NAAQS from a 1.5 $\mu\text{g}/\text{m}^3$ quarterly average to a rolling 3-month average of 0.15 $\mu\text{g}/\text{m}^3$ and added new near-source monitoring requirements. The Los Angeles County portion of the Basin has been designated non-attainment for lead due to monitored concentrations near one facility. However, starting with the 3-year 2012-2014 design value, the Basin has met the lead standard. A re-designation request to U.S. EPA is pending.

Nitrogen dioxide, sulfur dioxide, and carbon monoxide levels have improved in the Basin and are in full attainment of the NAAQS. In 2007, U.S. EPA formally re-designated the Basin to attainment of the carbon monoxide NAAQS. Maximum levels of carbon monoxide in the Basin have been consistently less than one-third of the federal standards since 2004. In 2010, U.S. EPA revised the NO_2 1-hour standard to a level of 100 ppb and the SO_2 1-hour standard to a level of 75 ppb. In 2016, all sites in the Basin remained in attainment of these NAAQS.

Mandates

The SCAQMD is governed and directed by several state laws and a comprehensive federal law that provide the regulatory framework for air quality management in the Basin. These laws require SCAQMD to take prescribed steps to improve air quality.

Generally speaking, SCAQMD is responsible for stationary sources such as factories and businesses. CARB and U.S. EPA are primarily responsible for motor vehicles. SCAQMD and CARB share responsibilities with respect to area sources. SCAQMD and the Southern California Association of Governments (SCAG) share some responsibilities with CARB regarding some aspects of mobile source emissions related to transportation and land use. Control of emissions from sources such as airports, harbors, and trains is shared by U.S. EPA, CARB and SCAQMD. Without adequate efforts by CARB and U.S. EPA to control emission sources under their sole authority, it is impossible for the region to reach federal clean air standards.

Under State law, SCAQMD must periodically develop and submit to the State an Air Quality Management Plan (AQMP or Plan) demonstrating how the region will achieve State and Federal ambient air quality standards, or at a minimum demonstrate that all feasible measures are being carried out to meet state air quality standards. Each iteration of the Plan is an update of the previous version. To date, the SCAQMD's Governing Board has adopted Plans demonstrating attainment in 1989, 1991, 1994, 1997, 1999 (amendments to the plan adopted in 1997), 2003, 2007 and 2012. The 2016 AQMP was approved in March 2017. Earlier plans in 1979 and 1982 did not show attainment and predicted continued unhealthy air well into this century. Revisions to the annual $\text{PM}_{2.5}$ NAAQS, adopted by U.S. EPA in 2012 to further protect public health, lead to the projected attainment of the new annual $\text{PM}_{2.5}$ NAAQS by 2025. The attainment deadline for the 2006 24-hour $\text{PM}_{2.5}$ NAAQS is 2019. The 2008 federal 8-hour ozone NAAQS has an attainment deadline of 2032. Attainment designations for the 2015 ozone NAAQS are expected to be finalized in 2018, with State Implementation Plan (SIP) attainment demonstrations likely due in 2021 or 2022. Attainment deadlines for the new ozone NAAQS are still pending, but for an extreme non-attainment area such as the Basin, the attainment deadline is 20 years from the effective date of the designation or approximately 2038.

State Laws include:

- California Clean Air Act (AB 2595) requires air districts in California to adopt plans to expeditiously meet state ambient air quality standards. It mandates that SCAQMD's attainment plans meet several specific requirements including:
 - ◆ a 5% per year reduction in emissions (the plan can achieve less than 5% annual reduction if it includes every feasible measure and an expeditious adoption schedule);
 - ◆ Best Available Control Technology (BACT) for new and modified sources;
 - ◆ Best Available Retrofit Control Technology (BARCT) for existing sources.
- Lewis-Presley Air Quality Management Act (SB 151) specifies additional, more stringent requirements for air quality plans in the Basin. It specifies that SCAQMD has responsibility to prepare the plan in conjunction with SCAG, which must prepare the portions of the plan relating to demographic projections, land use, and transportation programs.
- Air Toxics "Hot Spots" Information & Assessment Act (AB 2588) requires facilities that emit significant quantities of pollutants to prepare health risk assessments describing the impact of toxic contaminants on neighboring areas. If SCAQMD determines that the toxic emissions create a significant risk, the public must be notified, and facilities must reduce emissions to below significant levels.
- Tanner Air Toxics Process (AB 1807) requires CARB to adopt air toxic control measures to limit emissions of toxic air contaminants from classes of industrial facilities. Local air districts are required to enforce these regulations or adopt equally or more stringent regulations of their own.

State law also includes the following measures:

- authorizes SCAQMD to adopt market incentives such as the emissions trading program known as RECLAIM as long as the emitters achieve reductions equivalent to command-and-control regulations;
- requires SCAQMD to establish a program to encourage voluntary participation in projects to increase the use of clean-burning fuels;
- requires SCAQMD to adopt and enforce rules to ensure no net emission increases from stationary sources.

Under the Federal Clean Air Act, SCAQMD must develop and submit to CARB for review, followed by submittal to U.S. EPA, an element of the SIP demonstrating how the Basin will achieve the NAAQS. In the case of ozone, the Plan was required to be submitted by November 15, 1994 and for PM10 particulate matter, the Plan was required to be submitted by February 8, 1997. Plans for other pollutants were submitted in earlier years. In 1997, U.S. EPA adopted new NAAQS for PM2.5 and replaced the 1997 1-hour ozone NAAQS with a new standard based on an 8 hour average. The SIPs to attain these federal standards were submitted to U.S. EPA in November, 2007. The SIP to attain the current 2006 24-hour PM2.5 NAAQS was submitted in early 2013. The SIP to attain the 2008 8-hour ozone standard is expected to be submitted in early 2017 following the March 3, 2017 adoption of the 2016 AQMP by the SCAQMD Governing Board.

The Federal Clean Air Act mandates that sanctions be imposed on an area if a suitable Plan is not adopted and approved by U.S. EPA. These sanctions can include loss of key federal funds and

more stringent requirements on new or expanding industries. Specific requirements for SCAQMD's AQMP include stringent requirements plus Lowest Achievable Emission Rate (LAER) and offsets for major new sources. Federal law also requires an operating permit program for major stationary sources, known as Title V, which must be supported by permit fees. In addition, air toxics regulations adopted by U.S. EPA pursuant to Title III must be implemented by SCAQMD.

Air Quality Control

Developing solutions to the air quality problem involve highly technical processes and a variety of resources and efforts to meet the legal requirements of California and federal laws.

Monitoring: The first step in air quality control is to determine the smog problem by measuring air pollution levels. SCAQMD operates approximately 41 monitoring stations throughout the Basin. These range from fully equipped stations that measure levels of all criteria pollutants, as well as some air toxic pollutant levels, to those which measure a specific pollutant in critical areas. These measurements provide the basis of our knowledge about the nature of the air pollution problem and the data for planning and compliance efforts to address the problem.

Pollution Sources: The SCAQMD, in cooperation with CARB and SCAG, estimates the sources of emissions causing the air pollution problem. Nature itself causes a portion of the emissions and must be considered. In general, SCAQMD estimates stationary and natural sources of emissions, SCAG develops the information necessary to estimate population and traffic, and CARB develops the information necessary to estimate mobile and area source emissions using the SCAG traffic data. This data is then consolidated in the AQMP for use in developing the necessary control strategies.

Air Quality Modeling: Using air quality, meteorological and emissions models, SCAQMD planners simulate air pollution to demonstrate attainment of the air quality standards and the impacts of sources to local and regional air quality. Due to the nature of air pollution, air quality models can be very complex. Some pollutants are not emitted directly into the air but are products of photochemical reactions in the atmosphere. For example, VOCs mix with nitrogen dioxide (NO₂) and react in sunlight to form ozone; similarly, nitrogen oxide gases from tailpipes and smokestacks can be transformed into nitrates or particulates (PM_{2.5} and PM₁₀). The planners thus must take into account transport, land use characteristics and chemical reactions of emissions in the atmosphere to evaluate air quality impacts. Using model output, planners can look at different control scenarios to determine the best strategies to reduce air pollution for the lowest cost.

The considerable data required for these analyses is collected on an ongoing basis by SCAQMD staff. Modeling data is prepared and delivered using a geographic information system (GIS). GIS capability is used to prepare and produce data and spatial analysis maps for various needs by SCAQMD including rulemaking and California Environmental Quality Act (CEQA) document development.

Planning: With emissions data and an air quality model in place, planners can develop possible control strategies and scenarios. SCAQMD focuses most of its effort on stationary source controls. As mentioned earlier, strategies to reduce vehicle miles traveled (VMT) are developed primarily by SCAG, while mobile source control standards are developed primarily by CARB.

Once a plan of emission controls to achieve the NAAQS is outlined, SCAQMD is required to hold multiple public meetings to present the proposed control strategies and receive public input. SCAQMD also conducts a socioeconomic analysis of the strategies. SCAQMD maintains an ongoing and independent advisory group of outside experts for both its air quality modeling and socioeconomic assessment methodologies.

To meet federal air quality standards, the AQMPs and SIP submittals, including the 2016 AQMP, called for significant emissions reductions from projected baseline emissions in order to meet the NAAQS by the federal attainment deadlines (2019 for the 2006 24-hour PM2.5 NAAQS, 2025 for the 2012 annual PM2.5 NAAQS, 2023 for the 1979 1-hour ozone NAAQS, 2024 for the 1997 8-hour ozone NAAQS, and 2032 for the 2008 8-hour ozone NAAQS). These combined reductions, while meeting most NAAQS, will still not result in attainment of all California State ambient air quality standards or the revised 2015 8-hour ozone NAAQS. The 2012 AQMP addressed the 24-hour PM2.5 NAAQS. The 2016 AQMP addresses the 2008 8-hour ozone NAAQS and the 2012 annual PM2.5 NAAQS, and demonstrates compliance with the requirements for being a “serious” non-attainment area for the 24-hour PM2.5 NAAQS requirements. SCAQMD will continue to improve the emissions inventories and modeling techniques in order to address the 2015 8-hour NAAQS for the next AQMP revision which has an anticipated adoption in the 2021 or 2022 timeframe.

Rulemaking: The regulatory process, known as rulemaking, takes the concepts of control measures outlined in the AQMP and turns them into proposed rule language. This process involves the following: extensive research on technology; site inspections of affected industries to determine feasibility; typically a year or more of public task force and workshop meetings; in-depth analyses of environmental, social and economic impacts; and thorough review with appropriate Governing Board Committees.

This extensive process of public and policymaker participation encourages consensus in development of rule requirements so that affected sources have an opportunity for input into the rules that will regulate their operations. Once the requirements are developed, the proposed rule, along with an Environmental Assessment and a socioeconomic report, is presented to SCAQMD’s Governing Board at a public hearing. Public testimony is presented and considered by the Board before any rule is adopted. The adopted or amended rules are then submitted to CARB and U.S. EPA for their approval. It is not uncommon for rulemaking to include follow-up implementation studies. These studies may extend one or more years past rule adoption/amendment and prior to rule implementation. Such studies are typically submitted to the Governing Board or appropriate Governing Board Committees.

Enforcement and Education: SCAQMD issues permits to construct and operate equipment to companies to ensure equipment is operated in compliance with adopted rules. Follow-up inspections are made to ensure that equipment is being operated under permit conditions.

Technical Innovation: In the late 1980s, SCAQMD recognized that technological innovation, as well as rule enforcement, would be necessary to achieve clean air standards. Thus the Technology Advancement Office was created to look for and encourage technical innovation to reduce emissions. The California State Legislature supported this effort by providing a \$1 surcharge on every DMV registration fee paid within the Basin. These funds have been matched at a ratio of approximately three-to-one with funds from the private sector to develop new technologies such as low-emission vehicles, low-NO_x burners for boilers and water heaters, zero-pollution paints and solvents, fuel cells and other innovations.

An additional \$4 vehicle registration fee was authorized by the state legislature in 1990. These fees are administered through SCAQMD with \$1.20 going to SCAQMD for mobile source emissions reductions, \$1.60 subvented directly to cities and counties to support their air quality programs, and \$1.20 to the Mobile Source Reduction Review Committee (MSRC). The MSRC is an outside panel established by state law whose function is to make the decisions on the actual projects to be funded from that portion of the revenue.

Public Education: In the end, SCAQMD's efforts to clean up the air will be successful only to the extent that the public understands air quality issues and supports and participates in our cleanup effort. Thus, SCAQMD strives to involve and inform the public through the Legislative and Public Affairs office, public meetings, publications, the press, and public service announcements.

Budget Synopsis

The SCAQMD's annual budget is adopted for the General Fund for a fiscal year that runs from July 1 through June 30 of the following year. The period covered by the FY 2017-18 budget is from July 1, 2017 to June 30, 2018. The General Fund budget is the agency's operating budget and is structured by Office and account. The accounts are categorized into three Major Objects: Salaries and Employee Benefits, Services and Supplies, and Capital Outlays. The budget is supplemented with a Work Program which estimates staff resources and expenditures along program and activity lines. A Work Program Output Justification is completed for each Work Program which identifies performance goals, measureable outputs, legal mandates, activity changes and revenue categories.

The annual expenditure and revenue budget for the General Fund is adopted on a modified accrual basis. All annual expenditure appropriations lapse at fiscal year-end if they have not been expended or encumbered. Throughout the year, budget amendments may be necessary to accommodate additional revenues and expenditure needs. Any amendments due to budget increases or transfers between expenditure accounts in different Major Objects must be approved by SCAQMD's Governing Board. They are submitted to the Governing Board for

approval at a monthly Board meeting in the format of a board letter which documents the need for the request and the source of funding for the expenditure. Budget amendments resulting from transfers between expenditure accounts within the same Major Object are approved at the Office level.

SCAQMD does not adopt annual budgets for its Special Revenue Funds. Special Revenue Funds are used to record transactions applicable to specific revenue sources that are legally restricted for specific purposes. All transactions in Special Revenue Funds are approved by the Governing Board on an as needed basis.

Budget Process

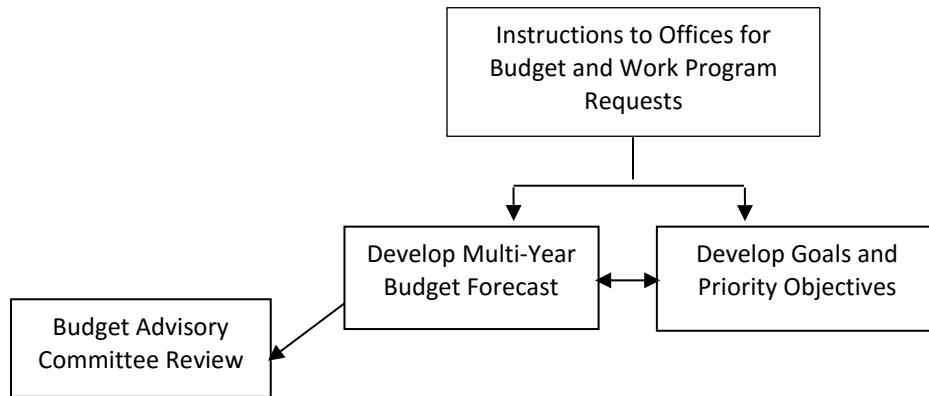
The SCAQMD budget process begins with Executive Officer issuing instructions and guidelines to the Offices. Under the guidance of the Executive Officer, the Chief Operating Officer and the Chief Administrative Officer, the Offices also begin establishing Goals and Priority Objectives for the fiscal year. The proposed annual budget and multi-year forecast is then developed by the Offices, Finance, Executive Council, and the Executive Officer based on the Goals and Priority Objectives as well as guidelines issued by the Executive Officer. Each Office submits requests for staffing, select Salary accounts, Services and Supplies accounts, and the Capital Outlays account. The remaining salary and benefit costs are developed by Finance. Capital expenditure requests are reviewed by an in-house committee who prioritizes the requests. Revenue projections are developed by Finance based on input received from the appropriate Offices and incorporating any proposed changes to the fee schedules. This information is integrated into an initial budget request, including a top-level multi-year forecast, and then fine-tuned under the direction of the Executive Officer to arrive at a proposed budget. The public, business community, and other stakeholders have several opportunities to participate in the budget process, up to and at the budget adoption hearing by the Governing Board, including:

- two meetings of the Budget Advisory Committee whose members include various stakeholder representatives
- two public consultation meetings to discuss proposed amendments to Reg III - Fees and to discuss the proposed budget
- a public hearing on the Proposed Draft Budget and Work Program and Proposed Amended Regulation (PAR) III - Fees

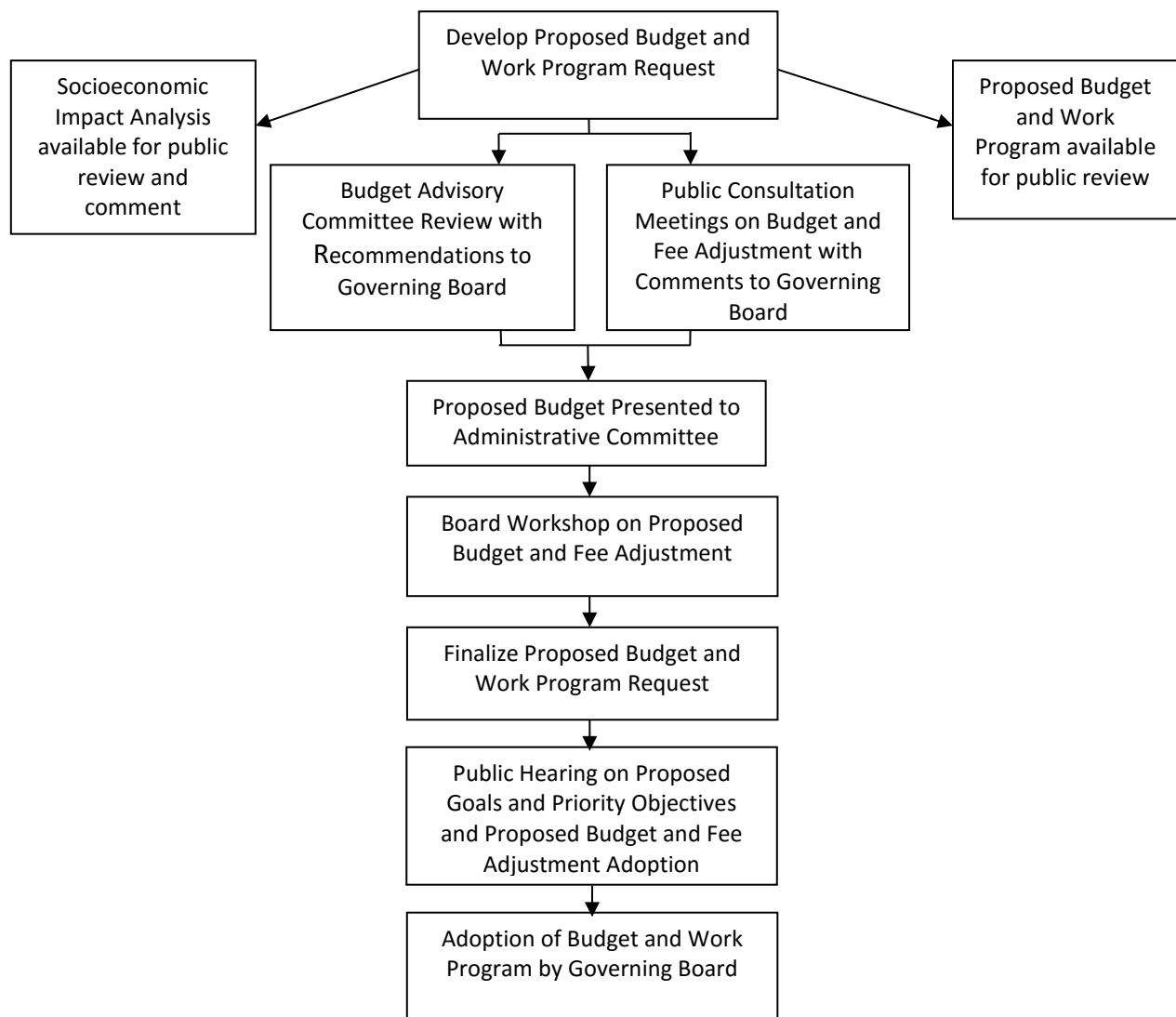
The proposed budget is presented to SCAQMD's Governing Board at a budget workshop and to SCAQMD's Administrative Committee. Any public comments and Budget Advisory Committee recommendations are also submitted to the Governing Board by April 15 of each year. The final proposed budget, including final fee schedules, is adopted by the Governing Board and is in place on July 1 for the start of the new fiscal year.

The following flow charts represent the major milestones and processes that take place in the development of the SCAQMD budget:

Preliminary Budget Process



Annual Budget Process



Budget Timeline	
Budget packages distributed to Offices	Dec 7, 2016
Budget submissions received from Offices	Jan 13, 2017
Budget Advisory Committee meeting	Jan 20, 2017
Proposed budget available for public review	April 5, 2017
Budget Advisory Committee meeting on proposed budget and PAR III - Fees	April 6, 2017
Public Consultation Meetings on proposed budget and PAR III - Fees	April 11, 2017; April 18, 2017
Public comments and Budget Advisory Committee recommendations submitted to Governing Board	April 14, 2017
Governing Board Budget Workshop	April 21, 2017
Budget presented to Administrative Committee	May 12, 2017
Public Hearing & Governing Board adoption of budget and PAR III - Fees	June 2, 2017

Proposed Budget & Work Program

Budget Overview

The budget for FY 2017-18 proposes expenditures of \$149.9 million and revenues of \$147.5 million, using prior year revenues to supplement FY 2017-18 projected revenues. To compare against prior years, the following table shows SCAQMD's amended budget and actual expenditures for FY 2015-16, adopted and amended budgets for FY 2016-17 and proposed budget for FY 2017-18.

Description	FY 2015-16 Amended	FY 2015-16 Actual	FY 2016-17 Adopted	FY 2016-17 Amended¹	FY 2017-18 Proposed
Staffing	803	-	813	815	825.25
Revenue/Transfers In	\$141.3	\$134.4	\$136.4	\$143.5	\$147.5
Program Costs/Transfers Out	\$147.8	\$138.7	\$141.5	\$150.2	\$149.9

¹ Includes Board approved changes through March 2017

This budget reflects a decrease of approximately \$0.3 million in expenditures from the FY 2016-17 amended budget and a \$8.4 million increase in expenditures from the budget adopted for FY 2016-17. The increase in expenditures from the FY 2016-17 adopted budget can be attributed to increases in retirement, salaries associated with new positions, contractual costs, and capital outlays. The FY 2017-18 proposed budget includes 825.25 positions, an increase of 10.25 positions over the FY 2016-17 amended budget. This increase in positions will augment enforcement, monitoring and analysis, rulemaking, and communications efforts. Four positions are funded by mobile source-related incentive programs such as Clean Fuels, Carl Moyer, and

Prop 1B as well as by Air Toxics revenue. The 0.25 FTE is to provide three months of critical overlap and to provide service continuity before the Assistant Deputy Executive Officer of Information Management retires.

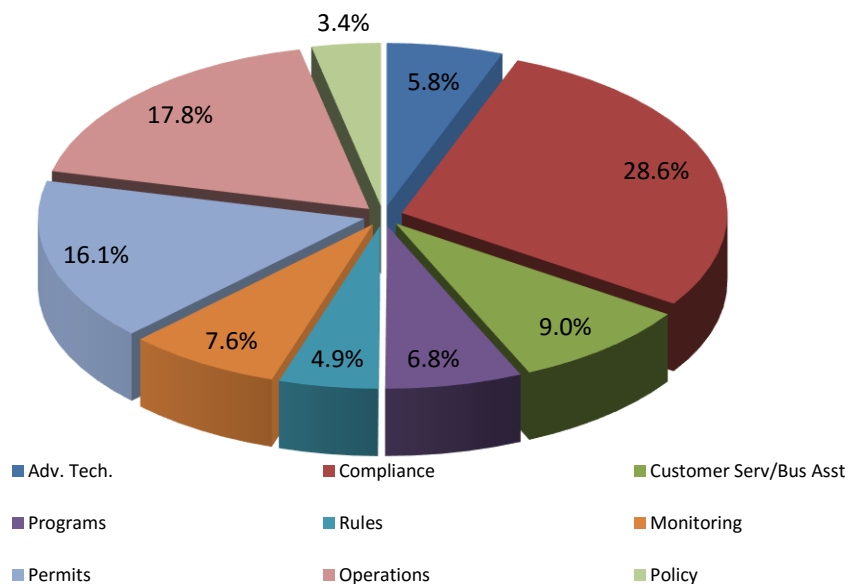
Expenditures

Work Program

SCAQMD expenditures are organized into nine Work Program Categories: Advance Clean Air Technology; Ensure Compliance with Clean Air Rules; Customer Service and Business Assistance; Develop Programs to Achieve Clean Air; Develop Rules to Achieve Clean Air; Monitoring Air Quality; Operational Support; Timely Review of Permits; and Policy Support. Each category consists of a number of Work Programs, or activities, which are classified according to the nature of the activity being performed.

Each Work Program ties to the goals and objectives of the agency and identifies resources, performance measures/outputs and legal mandates. A complete description of each program category along with a detailed work program sort by program is included in the Work Program section. The pie chart that follows represents the budgeted expenditures by Program Category for FY 2017-18.

Work Program Category Expenditures



The following table compares SCAQMD Work Program expenditures by category for the FY 2016-17 adopted budget and FY 2017-18 proposed budget.

Work Program Categories	FY 2016-17 Adopted Budget	FY 2017-18 Proposed Budget
Advance Clean Air Technology	\$ 7,093,418	\$ 8,661,899
Ensure Compliance with Clean Air Rules	43,314,046	42,802,490
Customer Service and Business Assistance	12,217,648	13,437,515
Develop Programs to Achieve Clean Air	10,419,982	10,184,322
Develop Rules to Achieve Clean Air	6,387,801	7,354,657
Monitoring Air Quality	10,458,169	11,398,567
Operational Support	25,899,412	26,747,503
Timely Review of Permits	20,952,521	24,151,356
Policy Support	4,784,698	5,140,597
Total	\$ 141,527,695	\$ 149,878,906

Account Categories

The following table compares the FY 2016-17 adopted budget and the FY 2016-17 amended budget to the proposed budget for FY 2017-18 by account category. The FY 2016-17 amended budget includes the Board-approved mid-year adjustments through March 2017.

Account Description	FY 2016-17 Adopted Budget	FY 2016-17 Amended Budget	FY 2017-18 Proposed Budget
Salaries/Benefits	\$ 114,841,998	\$ 114,927,674	\$ 119,860,494
Insurance	1,317,400	1,362,400	1,317,400
Rents	462,973	576,462	498,154
Supplies	2,630,504	3,391,594	2,777,621
Contracts and Services	8,989,091	12,762,460	10,515,792
Maintenance	1,420,861	1,727,108	1,687,193
Travel/Auto Expense	852,960	1,034,937	864,520
Utilities	2,213,288	2,140,448	2,213,288
Communications	701,000	759,260	702,000
Capital Outlays	850,000	4,046,251	1,950,717
Other	1,053,128	1,276,927	1,302,213
Debt Service	6,194,492	6,194,492	6,189,514
Total	\$ 141,527,695	\$ 150,200,013	\$ 149,878,906

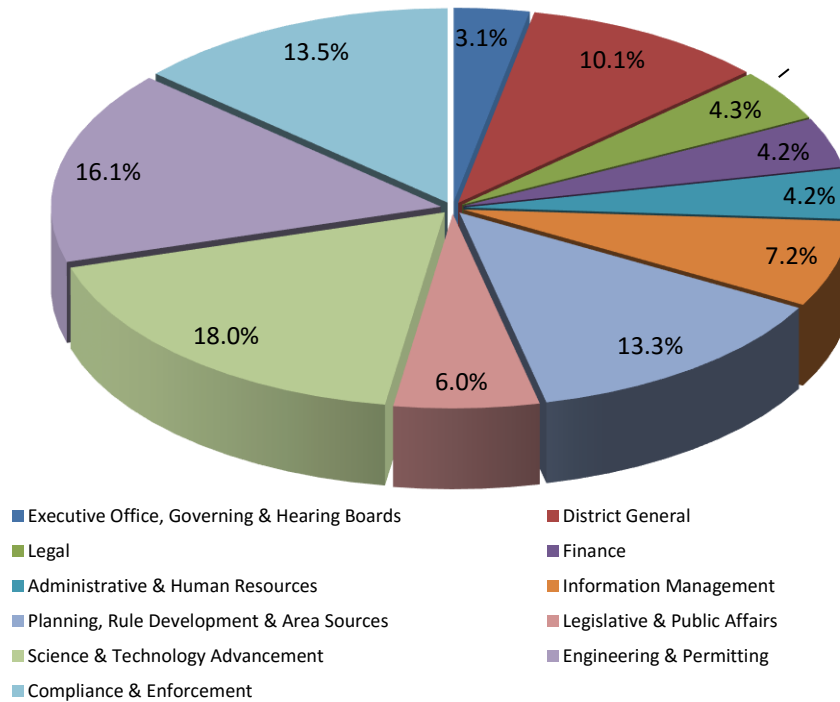
As mentioned previously, the proposed budget for FY 2017-18 represents an approximately \$0.3 million decrease in expenditures from the FY 2016-17 amended budget. The FY 2016-17

amended budget includes mid-year increases associated with the purchase of air monitoring and analysis laboratory instruments, field platforms and software, development of online permitting modules, strategic consulting for the AQMP, development of a web-based application system for the Enhanced Fleet Modernization Program, the pursuit of environmental justice interests and policies, and grant related expenditures offset by revenue.

Office Categories

The following pie chart represents budgeted expenditures by Office for FY 2017-18.

Expenditures by Office

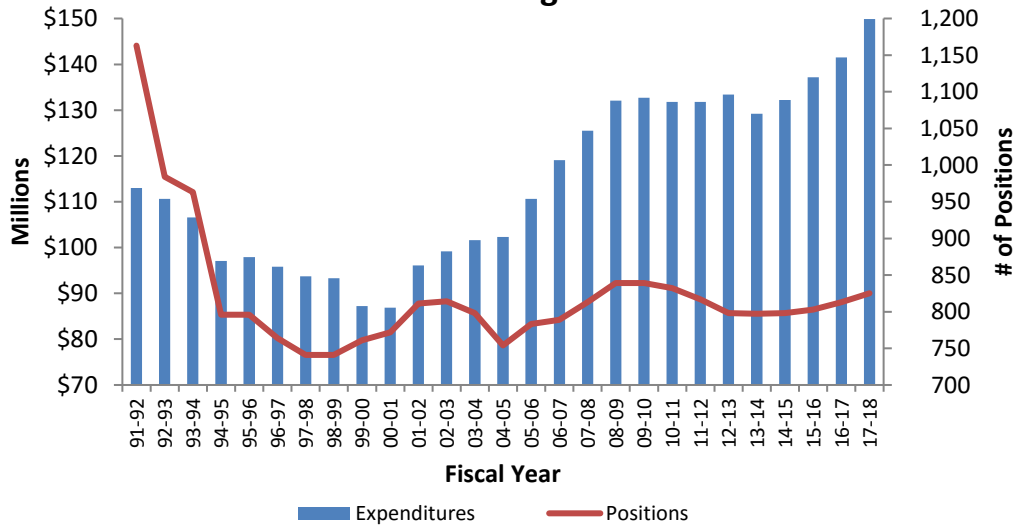


Budget Changes

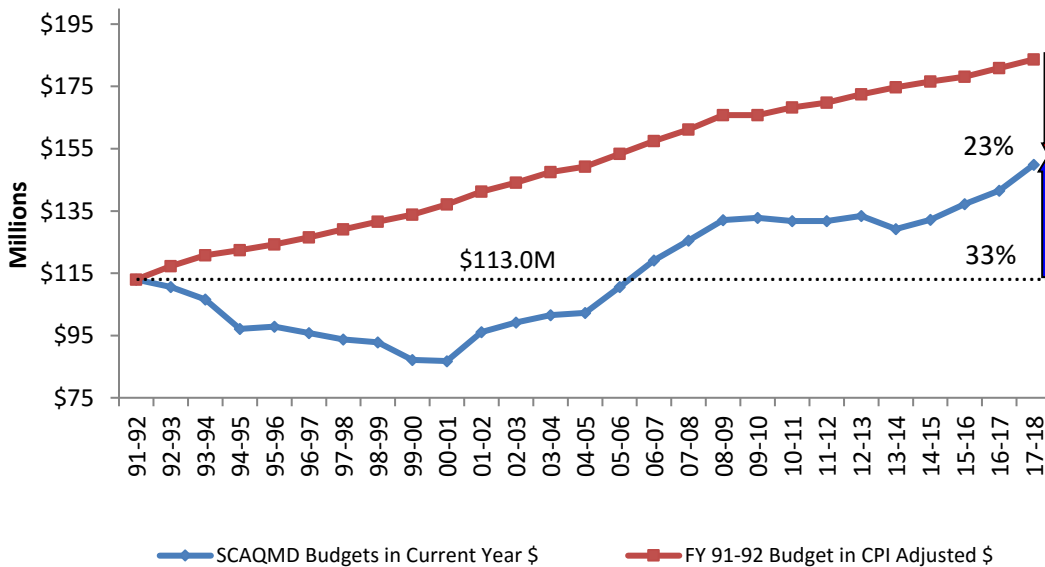
Over the years, SCAQMD has focused on streamlining many of its operations while still meeting its program commitments, despite new federal and state mandates and increased workload complexity. The focus has been on reducing expenditures in the Major Object of Services and Supplies and maximizing the efficient use of staff resources to enable select vacant positions to remain vacant, be deleted or be unfunded. This effort has resulted in reduced program costs and is reflected in the following charts showing SCAQMD’s staffing and budget levels starting in FY 1991-92 when staffing was at 1,163 FTEs. The proposed budget for FY 2017-18 reflects a staffing level of 825.25 FTEs. This level is 29% (337.75 FTEs) below the FY 1991-92 level. The FY 2017-18

proposed budget is 33% higher when compared to the FY 1991-92 adopted budget of \$113 million. After adjusting the FY 1991-92 adopted budget for CPI over the last 26 years, the FY 17-18 proposal is 23% lower.

Changes in Expenditure Budget FY 1991-92 through FY 2017-18



Inflation Impact on SCAQMD Budgets FY 1991-92 through FY 2017-18



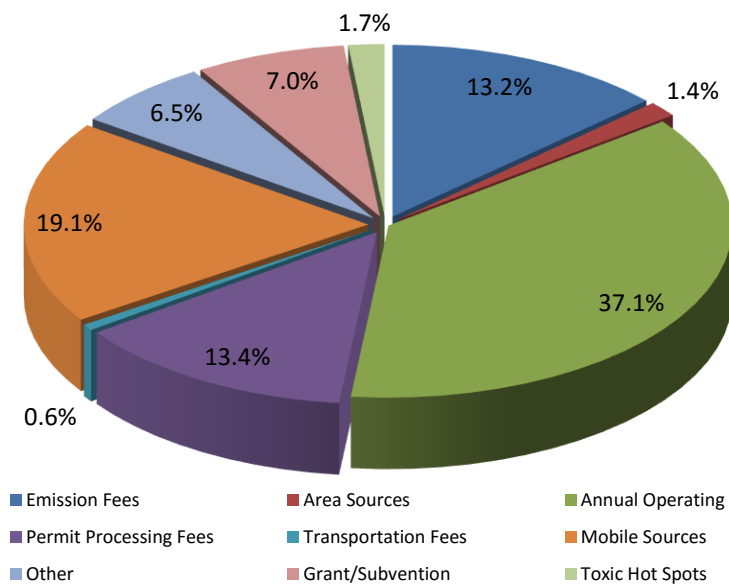
CPI adjustment based on California Consumer Price Index for the preceding Calendar Year

Revenues

Revenue Categories

Each year, in order to meet its financial needs, the SCAQMD Governing Board adopts a budget supported by a system of annual operating and emission fees, permit processing fees, toxic “hot spots” fees, area sources fees, source test/analysis fees, and transportation plan fees. In FY 2017-18, these fees are projected to generate approximately \$100.1 million or about 68% of SCAQMD revenues; of this \$100.1 million, \$92.7 million or 63% of SCAQMD’s revenues are from stationary sources. Other sources, which include penalties/settlements, Hearing Board fees, interest, and miscellaneous income, are projected to generate approximately 6% of total revenues in FY 2017-18. The remaining 26% of revenue are projected to be received in the form of federal grants, California Air Resource Board (CARB) subvention, and California Clean Air Act motor vehicle fees. Beginning with its Fiscal Year 1978-79 Budget, the SCAQMD became a fee supported agency no longer receiving financial support from property taxes. The FY 2017-18 proposed revenue budget includes a proposed CPI fee adjustment of 2.5%, an additional 16% increase to Title V annual operating permit renewal and permit processing fees to more fully recover Title V program costs, and a 4% increase to non-Title V annual operating permit renewal and permit processing fees to better align program costs with revenue.

Revenues by Major Category



The following table compares the FY 2016-17 adopted revenue budget and the FY 2016-17 amended revenue budget to the proposed revenue budget for FY 2017-18. The FY 2016-17 amended revenue budget includes Board-approved mid-year changes through March 2017.

Revenue Description	FY 2016-17 Adopted Budget	FY 2016-17 Amended Budget	FY 2017-18 Proposed Budget
Annual Operating Emission Fees	\$ 19,859,100	\$ 19,859,100	\$ 19,480,550
Annual Operating Permit Renewal Fees	48,565,400	48,565,400	53,493,420
Permit Processing Fees	16,771,480	16,771,480	19,693,540
Portable Equipment Registration Program	1,277,420	1,277,420	1,200,000
Area Sources	2,549,180	2,549,180	2,152,500
Grant/Subvention	10,362,130	13,295,493	10,397,650
Mobile Sources	25,724,780	28,245,999	28,199,250
Transportation Programs	860,520	860,520	861,360
Toxic Hot Spots	2,619,510	2,769,510	2,488,380
Other ¹	7,350,970	7,357,610	7,471,470
Transfers In	505,790	1,980,422	2,072,190
Total	\$ 136,446,280	\$ 143,532,134	\$ 147,510,310
¹ Includes revenues from Interest, Lease Income, Source Testing, Hearing Board, Penalties/Settlements, Subscriptions, and Other.			

Over the past two decades, total permit fees (including permit processing, annual operating permit, and annual emissions based fees) collected from stationary sources has increased by about 29% from \$66.8 million in FY 1991-92 to \$86.3 million (estimated) in FY 2016-17. When adjusted for inflation however, stationary source revenues have decreased by 24% over this same period.

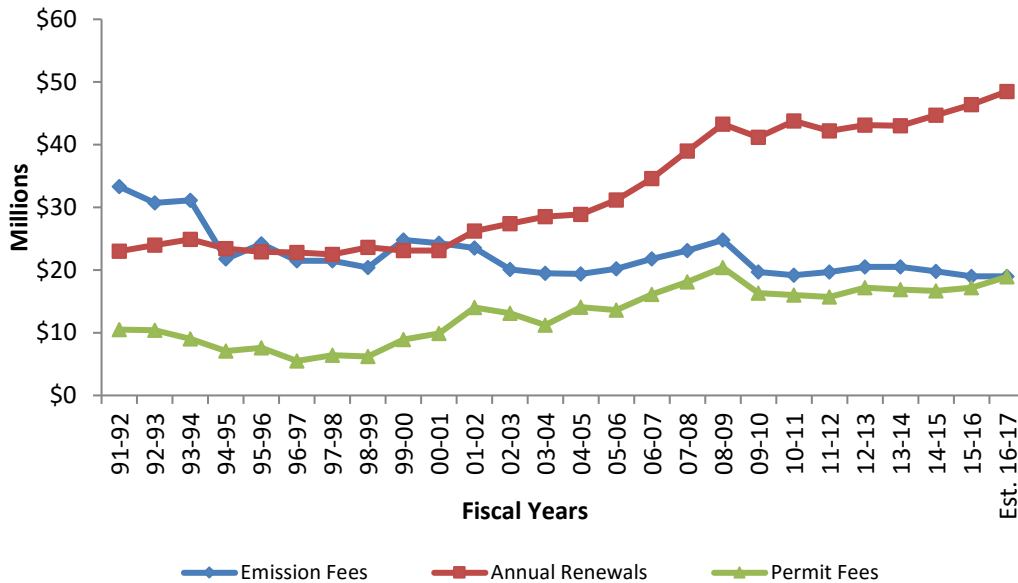
Mobile source revenues that are subvented to the SCAQMD by the Department of Motor Vehicles (DMV) are projected to increase slightly from the FY 2016-17 budgeted amounts based on vehicle registration information from the DMV and recent revenue received. In addition, this category reflects reimbursements of incentive programs (Clean Fuels, Carl Moyer, and Prop 1B) whose contract activities and revenues are recorded in special revenue funds outside the General Fund. These incentive program costs incurred by the General Fund are reimbursed to the General Fund from the various special revenue funds (subject to any administrative caps) and are reflected under the Mobile Source revenue category.

Revenues from the federal government, (Environmental Protection Agency, Department of Homeland Security, and Department of Energy) are projected to stay flat in FY 2017-18 from FY 2016-17 budgeted levels reflecting little change in the amount of federal dollars from one-time and on-going grants in support of air quality efforts. However, it is recognized that actual revenues may be impacted by federal funding priorities in the form of lower grant revenue

received through U.S. EPA grants. State Subvention funding is expected to remain at the current level (reduced approximately 35% from FY 2001-02) for FY 2017-18.

The following graph tracks actual stationary source revenues by type of fee from FY 1991-92 (when CPI limits were placed on SCAQMD fee authority) to estimated revenues for FY 2016-17

Stationary Source Fees



Debt Structure

Pension Obligation Bonds

These bonds were issued jointly by the County of San Bernardino and the SCAQMD in December 1995. In June 2004 the SCAQMD went out separately and issued pension obligation bonds to refinance its respective obligation to the San Bernardino County Employee’s Retirement Association for certain amounts arising as a result of retirement benefits accruing to members of the Association.

The annual payment requirements under these bonds are as follows:

Year Ending June 30	Principal	Interest	Total
2018	\$ 3,432,798	\$ 3,756,716	\$ 7,189,514
2019	3,553,110	3,637,290	7,190,400
2020	3,686,640	3,503,982	7,190,622
2021	3,840,443	3,353,106	7,193,549
2022-2024	11,796,881	3,653,994	15,450,875
Total	\$ 26,309,872	\$ 17,905,088	\$ 44,214,960

Fund Balance

The SCAQMD is projecting an Unreserved Unassigned Fund Balance for June 30, 2018 of \$21,402,928 in addition to the following Reserved and Unreserved Designated Fund Balances for FY 2017-18.

Classification	Reserves/Unreserved Designations	Amount
Committed	Reserve for Encumbrances	\$ 7,723,000
Nonspendable	Reserve for Inventory of Supplies	80,000
	Unreserved Designations:	
Assigned	For Enhanced Compliance Activities	883,018
Assigned	For Other Post Employment Benefit (OPEB) Obligations	2,952,496
Assigned	For Permit Streamlining	2,288,385
Assigned	For Self-Insurance	2,000,000
Assigned	For Unemployment Claims	80,000
Total Reserved & Unreserved Designations		\$ 16,006,899

Reserves represent portions of the fund balance set aside for future use and are therefore not available for appropriation. These funds are made-up of encumbrances which represent the estimated amount of current and prior years' unperformed purchase orders and contract commitments at year-end; and inventory which represents the value at cost of office, computer, cleaning and laboratory supplies on hand at year-end.

Unreserved Designations in the fund balance indicate plans for use of financial resources in future years. The Designation for Enhanced Compliance Activities provides funding for inspection/compliance efforts. The Designation for Other Post Employment Benefit Obligations (OPEB) provides funding to cover the current actuarial valuation of the inherited OPEB obligation for long-term healthcare costs from the County of Los Angeles resulting from the consolidation of the four county Air Pollution Control Districts (APCDs). The Designation for Permit Streamlining was established to fund program enhancements to increase permitting efficiency and customer service. The SCAQMD is self-insured for general liability, workers' compensation, automobile liability, premises liability, and unemployment.

Long-Term Projection

The SCAQMD continues to face a number of challenges in the upcoming years, including continued higher operating costs due to increased retirement costs and the need for major infrastructure improvement projects for an aging headquarters building while meeting air quality goals, permit processing targets, and growing program commitments. A primary uncertainty continues to be the degree of fluctuations the financial markets will take over the next few years

which will determine the performance of our retirement investments and other investments. Another uncertainty is any legislative action that may impact the level of federal and state funding from grant awards and subvention funds. Cost recovery within the constraints of Prop 26 is a third uncertainty as SCAQMD strives to balance program operating expenses with revenues collected from fees. In order to face these challenges, SCAQMD has a five year plan in place that provides for critical infrastructure improvement projects, maintains a stable vacancy rate in order to maximize cost efficiency, better aligns program revenues with costs, and strives to keep the percentage of unreserved fund balance to revenue within the Governing Board mandate of 20%. The following chart, outlining SCAQMD’s financial projection over this time period, shows the agency’s commitment to meet these challenges and uncertainties while protecting the health of the residents within the SCAQMD boundaries and remaining sensitive to business.

Fiscal 2016-17 Estimate and Five Year Projection						
(\$ in Millions)						
	FY 16-17 Estimate	FY 17-18 Proposed	FY 18-19 Projected	FY 19-20 Projected	FY 20-21 Projected	FY 21-22 Projected
STAFFING		825.25	825	825	825	825
REVENUES/TRANSFERS IN*	\$140.0	\$147.5	\$151.5	\$151.1	\$151.6	\$152.8
EXPENDITURES/TRANSFERS OUT	\$145.2	\$149.9	\$151.5	\$151.1	\$152.1	\$152.8
Change in Fund Balance	-\$5.2	-\$2.4	\$0.0	\$0.0	-\$0.5	\$0.0
UNRESERVED FUND BALANCE (at year-end)	\$32.0	\$29.6	\$29.6	\$29.6	\$29.1	\$29.1
% of REVENUE	23%	20%	20%	20%	19%	19%
*Includes projected CPI fee increase of 2.5% for FY 2017-18 with an additional 16% for Title V annual operating permit renewal and permit processing fees and an additional 4% for non-Title V annual operating permit renewal and permit processing fees, a CPI of 2.6% for FY 2018-19 with an additional 16% for Title V annual operating permit renewal and permit processing fees and an additional 4% for non-Title V annual operating permit renewal and permit processing fees, a CPI of 2.4% for FY 2019-20 and 2.3% for FY 2020-21 and FY 2021-22.						

As part of the Five Year Projection, SCAQMD details out projected building maintenance and capital outlay improvement projects for its headquarters building. These projects are outlined in the following chart. In addition, the Infrastructure Improvement Fund has been created with unanticipated one-time revenues from the General Fund for many of the capital outlay building improvement projects. The projects proposed from the Infrastructure Improvement Fund include upgrading the Energy Management System, finish replacing the centrifugal chillers and cooling towers, and replacing the Liebert air conditioning units in the Computer Room.

GENERAL FUND POTENTIAL BUILDING MAINTENANCE and CAPITAL OUTLAY PROJECTS FY 2017-18 through 2020-21
Refurbish Restroom and Copy/Coffee Room Sinks and Counter Tops
Renovate Irrigation and Upgrade Controllers
Repaint Building Interior
Refurbish/Replace Restroom Side Panels
Replace Cooling Towers (2) and Chillers (2)
Replace Liebert AC Units - Computer Room (6)
Replace Gaylord Air Scrubbers (2) - Cafeteria
Covert Pneumatic Controls to Direct Digital Controls
Replace Aging Kitchen Equipment
Recoat Roofing Surface - District Headquarters
Repair Parking Log and Repaint Parking Stalls and Curbs
Repair and Re-coat Parking Structure Deck
Replace VCT Tiles (Various Areas)
Repaint and Wallpaper Conference Center
Replace Air Handler Fan Walls
Upgrade Energy Management System
Replace Ceiling Tiles - Various Floors
Convert Fluorescent Office Lighting to LED
Upgrade Electric Vehicle Charger and Support System
Replace Carpet – Floors 3 & 4
Replace Roof – Child Care Center
Renovate Third Floor North
Modernize Elevator Equipment