

Date: May 25, 2017

To: Board of Directors
Puget Sound Clean Air Agency

Subject: Resolution No. 1368 – Approving the FY18 Budget

Honorable Members:

Since January, we have informed the Board of our key assumptions going into the development of the FY18 budget and their impact on our projection period (FY19-20). This month we present a proposed FY18 budget, along with projections, for your consideration. The attached budget document includes key assumptions, the detailed proposed FY18 budget and the sources and uses of funding, the agency organization chart, fund balances, adopted FY18 Financial Policies, and the adopted CY18 per capita schedule by jurisdiction.

Key Assumptions for the FY18 Budget and Projections

While we have been developing the budget this year, we acknowledge the uncertainty surrounding our federal funding and have addressed ways to keep the agency stable.

Our financial policies define stabilization targets for funds in the fee programs, for legal expenses, for unanticipated increases in employer pension contributions, and for potential investment write-offs. Importantly, we expect to fund our General Fund Reserve to its target level by early FY18 from savings against our FY17 budget – this could provide a critical bridge if we have a sudden drop in federal funding.

We made prudent choices in reviewing our staff resources and in FY18 are only planning to replace open positions and to use other options for short-term needs. Major IT development work will tail off in FY18 and term IT developers' terms will end before the conclusion of FY18.

The proposed 1¢ increase in the per capita assessment supports our Strategic Plan deliverables and helps us offset increased personnel costs. While we show an FTE reduction from FY17 to FY18 and again in FY19, personnel costs will increase due to two major cost drivers over which we have minimal control – COLA increases based on projected consumer price indices (CPI) and employer contribution rates for the state pension plan. CPI projections have increased in recent months and pressures are increasing on the employer contributions to the state pension plan.

These assumptions, as well those on pages 3-4 of the budget document, were used to develop the proposed FY18 budget – detailed FY18 budget data is presented on pages 5-8 in the budget document. Below is a summary that highlights the changes from the draft (that you saw in April) to the current proposed budget – federal core grant reallocation, revised cost-of-living (COLA), grant carryover from FY17, minor operating cost adjustments, and changes in term positions:

FY18 Budget - Proposed v. Draft			
	Draft FY18 Budget	Proposed FY18 Budget	
Revenues:			
Federal Core Grant (EPA/Ecology)	944,638	962,689	<i>Increase due mainly to the delay of the federal EPA regional reallocation to FY19</i>
Sec 103 Grant (Ecology)	93,433	93,429	
State Core Grant (Ecology)	662,060	662,054	
Woodstove Grants (Ecology)	81,452	533,142	<i>Added a grant carryover amount for the Woodstove Removal/Repl grant</i>
Transportation and Air Quality Grants/Contracts	344,350	366,600	<i>Several additional grants were awarded to support the Clean Cities program</i>
Federal/State Grants and Contracts	2,125,932	2,617,913	
Per Capita Revenues	3,212,849	3,212,849	
Fee Program Revenues	5,487,690	5,487,690	
Other Contracts/Grants (est)	200,000	200,000	<i>Placeholder estimate for new grants/contracts for woodstoves, diesel emissions reductions, air monitoring</i>
Other Revenues	60,000	60,000	
Total Revenues	11,086,471	11,578,452	
Personnel Expenses	9,722,042	9,686,511	<i>With the release of the April CPI in May, the represented staff COLA came in at 3.3% (v. 2.84% in draft); however, two term employees, who had been extended into FY18, left in May and will not be replaced</i>
Work Plan Expenses	631,180	1,063,880	<i>Increased workplan expenses related to the woodstove grant carryover</i>
Operating & Equipment Expenses	2,307,326	2,325,437	<i>Updated projections for FY17 resulted in increases in several operating expenses for FY18</i>
Total Expenses	12,660,548	13,075,827	
Net Surplus (Deficit)	(1,574,077)	(1,497,375)	
FTEs	73.0	72.8	<i>One grant related term position was extended into FY18 due to carryover grant work. This was offset by two term positions (IT, grant) that ended in late FY17 instead of FY18.</i>

Overall, we believe we built a draft budget that is stable and that keeps us delivering on our Strategic Plan. Our budget year and projections reflect the priorities indicated by the Board over the last several months of budget development and our assessment of risks and opportunities facing the agency:

FY17 Estimate, FY18 Proposed Budget, FY19-FY20 Projection				
	FY17 Estimate	FY18 Proposed	FY19 Projection	FY20 Projection
Federal Core Grant (EPA/Ecology)	947,071	962,689	944,635	924,143
Sec 103 Grant (Ecology)	100,451	93,429	93,432	93,431
State Core Grant (Ecology)	650,455	662,054	662,049	664,627
Woodstove Grants (Ecology)	1,571,055	533,142	83,143	83,143
Transportation & Air Quality Grants/Contracts	5,566,437	366,600	78,500	(0)
Federal/State Grants and Contracts	8,835,469	2,617,913	1,861,759	1,765,344
Per Capita Revenues	3,132,340	3,212,849	3,341,058	3,472,508
Fee Program Revenues	5,487,690	5,487,690	5,597,664	5,704,692
Other Contracts/Grants (est)	-	200,000	1,000,000	1,000,000
Other Revenues	663,500	60,000	360,000	360,000
Total Revenues	18,118,999	11,578,452	12,160,481	12,302,544
Personnel Expenses	9,393,378	9,686,511	9,753,070	10,010,593
Work Plan Expenses	6,584,747	1,063,880	1,247,316	1,102,432
Operating & Equipment Expenses	2,478,296	2,325,437	2,409,979	2,106,875
Total Expenses	18,456,422	13,075,827	13,410,366	13,219,900
Net Surplus (Deficit)	(337,422)	(1,497,375)	(1,249,885)	(917,356)
FTEs	75.0	72.8	70.5	70.5
Breakdown of Net Surplus (Deficit):				
Net Surplus (Deficit) - Fee Programs	(448,745)	(828,179)	(863,332)	(952,270)
Net Surplus (Deficit) - Non-fee Programs	111,322	(669,196)	(386,552)	34,914
Net Surplus (Deficit)	(337,423)	(1,497,375)	(1,249,884)	(917,356)
Funding:				
Net draws from (contributions to) fee reserves	448,745	828,179	863,332	952,270
Net draws from (contributions to) non-fee reserves	(444,426)	373,543	291,744	(111,112)
Draws from civil penalty fund balance	893,104	295,653	394,808	376,198
Civil Penalty Collections	(560,000)	-	(300,000)	(300,000)
Net Draws (Contributions)	337,423	1,497,375	1,249,884	917,356
Fund Balances (fiscal year-end):				
Per Capita (carryover) Fund	615,853	185,267	38,888	0
General Fund Reserve ¹	287,469	483,759	483,759	483,759
Civil Penalty Fund ²	740,143	444,490	349,682	273,484
Diesel Grant Fund	145,366	145,366	(0)	(0)
Discretionary Funds	1,788,831	1,258,881	872,329	757,243
Per Capita - Reserve for second half of calendar year	1,567,843	1,622,727	1,696,051	1,754,177
Fee Program Funds	4,396,207	3,549,189	2,685,856	1,733,586
Equipment Reserve	286,980	171,980	171,980	171,980
Department & Legal Reserves	331,161	250,000	250,000	400,000
Employer Retirement Reserve	265,121	265,121	265,121	265,121
Unemployment Reserve	7,976	92,976	92,976	92,976
Interest Income Fund	67,435	67,435	67,435	67,435
Other Funds	96,480	96,480	96,480	96,480
Funds (before state pension liability)³	\$ 8,808,033	\$ 7,374,788	\$ 6,198,228	\$ 5,338,998
1. We project reaching the General Fund Reserve target (10% of general fund revenues) in FY18 - this will be revisited in the FY19 budget cycle				
2. Projected civil penalty collections are not included in estimated revenues for FY18 budget; however, we have included projected revenues of \$560k for FY17 and annual revenues for FY19-FY20 similar to average historical levels (\$300,000)				
3. We do not have enough information to reliably forecast the state pension liability - the amount for FY16/17 is \$5.3 million (negative fund balance)				

We recommend the adoption of the proposed FY18 budget at the June Board meeting. If you have any questions, please contact me at 206.689.4004 or CraigK@pscleanair.org.

Respectfully submitted,

Craig T. Kenworthy
Executive Director

Attachment

jwc

RESOLUTION NO. 1368

RESOLUTION OF THE BOARD OF DIRECTORS OF THE PUGET SOUND CLEAN AIR AGENCY APPROVING THE BUDGET FOR THE FISCAL YEAR OF 2018 WITH A PER CAPITA RATE OF EIGHTY-TWO CENTS – JULY 1, 2017 TO JUNE 30, 2018

WHEREAS, the Washington Clean Air Act at RCW 70.94.092 requires the budget for the Puget Sound Clean Air Agency to be adopted on or before the fourth Monday in June of each year for the following fiscal year; and

WHEREAS, the Board of Directors has considered and estimated the financial needs for the operation of the Agency during the Fiscal Year of 2018 (July 1, 2017 to June 30, 2018) and determined the revenues needed to meet such financial needs, including the proportion of supplemental income to be paid by the various cities, towns and counties at a per capita rate of eighty-two cents,

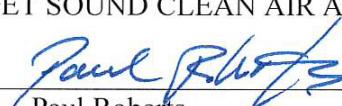
WHEREAS, the Board of Directors does now desire to adopt the budget for the Puget Sound Clean Air Agency for the Fiscal Year of 2018, therefore,

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE PUGET SOUND CLEAN AIR AGENCY:

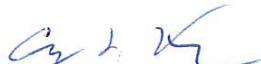
Section 1: The budget for the Puget Sound Clean Air Agency for the Fiscal Year of 2018 (July 1, 2017 to June 30, 2018) including attached Fiscal Year 2018 Budget Documents and financial schedules is adopted as attached hereto and incorporated herein by reference.

PASSED AND APPROVED by the Board of Directors at a regular meeting of the Board on this 1st day of June, 2017.

PUGET SOUND CLEAN AIR AGENCY

By 
Paul Roberts
Chair, Board of Directors

Attest:

By 
Craig T. Kenworthy
Executive Director

Approved as to form:

By 
Jennifer Dold
General Counsel

Puget Sound Clean Air Agency

Fiscal Year 2018

Final Budget

June 1, 2017

Strategic Plan Goals

The agency's Board adopted the 2014-2020 Strategic Plan in February of 2014. The goals and strategies are summarized below and are the driving factors for the FY18 Budget.

1. Protect public health and the environment from air pollution

- 1.1 Meet National Ambient Air Quality Standards
- 1.2 Reduce transportation emissions, especially diesel particulate, in highly impacted locations
- 1.3 Reduce emissions and exposures from wood smoke and outdoor burning
- 1.4 Prevent, reduce and control emissions and exposure from significant stationary sources of air pollution
- 1.5 Characterize and communicate air quality throughout the region, with the active participation of the public
- 1.6 Reduce inequities in air pollution exposure

2. Become the most climate-friendly region in the United States

- 2.1 Reduce emissions of greenhouse gases from transportation

3. Employ the best people, policies, and practices to achieve our work

- 3.1 Attract, retain and inspire exceptional staff
- 3.2 Develop a culture that integrates environmental justice and equity principles into our day-to-day work and decisions
- 3.3 Engage in meaningful dialogue and outreach with all sectors of the public
- 3.4 Build the agency's long-term financial strength and ensure accountability
- 3.5 Be a model of environmental sustainability

Key Assumptions – FY18 Budget

The key assumptions in the agency's FY18 Budget and FY19-20 projections include:

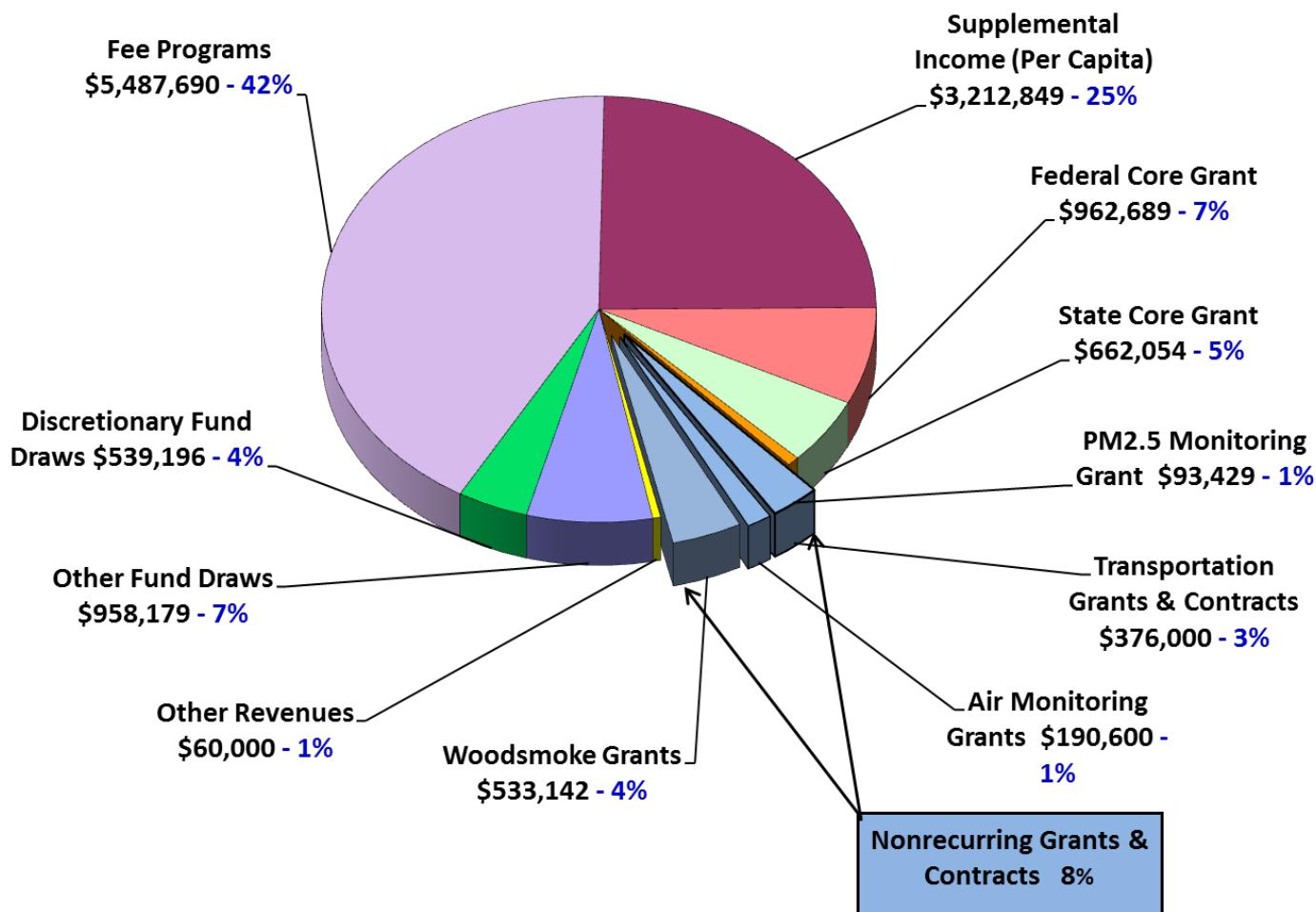
- Supplemental Income (Per Capita) – In April, the Board of Directors adopted a 1¢ increase in the CY18 per capita rate (to 82¢ per capita). We projected modest increases in FY19 and beyond to address inflation assumptions and to support our strategic direction. Total per capita revenues are proposed at \$3.2 million for FY18 with most of the increase due to the 2.2% increase in the four-county population and partially due to the proposed 1¢ increase in the per capita rate. The most recent county population forecasts from the Office of Financial Management will not be available until June 30th; however, indications are that we continue to experience higher than normal population growth – we projected 2% and 1% population growths respectively for FY19 and FY20.
- Federal and State Core Grants – The reduction (2.5% annually or about \$25k per year) in the Federal core grant due to the regional reallocation is included in our forecasted revenues starting in FY19. We expect to receive a larger share of the State Core grant due to population growth in our region and this increase is spread over several years.
- Transportation Grants – Large diesel grants are ending in FY17. We projected \$200k in FY18 and then \$1 million in FY19 and FY20 as placeholders for new grants in the diesel emissions reductions (e.g., VW settlement), woodstove replacement, air monitoring, and climate areas. There is high uncertainty around our eventual share of VW settlement funds, which introduces uncertainty into our overall FY19 and FY20 revenue projections.
- Woodstove Grants – We assumed reduced funding of woodstove replacements/removals since reaching attainment (for federal standards) in the Smoke Reduction Zone.
- Asbestos, Notice of Construction, Operating Permit and Registration Program Fees – We are not proposing fee increases in FY18 but will address fees at each future budget cycle after reviewing projections of fees costs and fund balances.
- Personnel Expenses – We expect increases in costs and other expenses based on salary steps, COLAs, CPI increases, and increased employer contributions to the state retirement fund in FY18-20. The employer rate for contributions to the state retirement fund is expected to increase from 11.18% currently to 12.52% in FY18 and 13.05% in FY19 and FY20 (based on projections from the WA State Actuary).
- Civil Penalty Fund – We did not include civil penalty collections in our FY18 budget year but we did include a conservative estimate of \$300k per year in FY19-20, based on previous years. We anticipated spending between \$300k and \$400k in each year for FY18- FY20 from the civil penalty fund to support activities as defined by the financial policies. This would leave an estimated civil penalty fund balance of about \$444k at the end of FY18.
- General Fund Reserve – We expect to be at the target fund balance of \$484k (10% of general fund revenues) in early FY18.
- Fund balances for the end of FY18 are shown in detail on page 10 – We project fund balances of \$7.4 million (pre-pension adjustment), a decrease of \$1.4 million from the projected end-of-FY17 balances – most of this

is due to the depletion of civil penalties that are being used for lower but ongoing legal expenses and the reduction in the fund balances for the registration and operating permit programs (rising personnel costs).

FY18 Funding Sources and Expenses

The agency has a variety of funding sources. While non-recurring grants have been significant sources of funding the last several years (41% of total funding in FY15, 34% in FY16, 31% in FY17), these will be 8 % in FY18 as a result of planned completion of large programs. Fee revenues are for self-funded programs and comprise \$5.5 million of the total \$13.1 million in total funding for the agency. Per capita (supplemental income) assessments at \$3.2 million, or 25% of total funding, have become a more significant ongoing funding source. Other fund draws of \$1 million are mostly from the Fee programs fund reserves for operations during the fiscal year. Discretionary fund draws are draws from per capita carryover balances and from previously collected civil penalties.

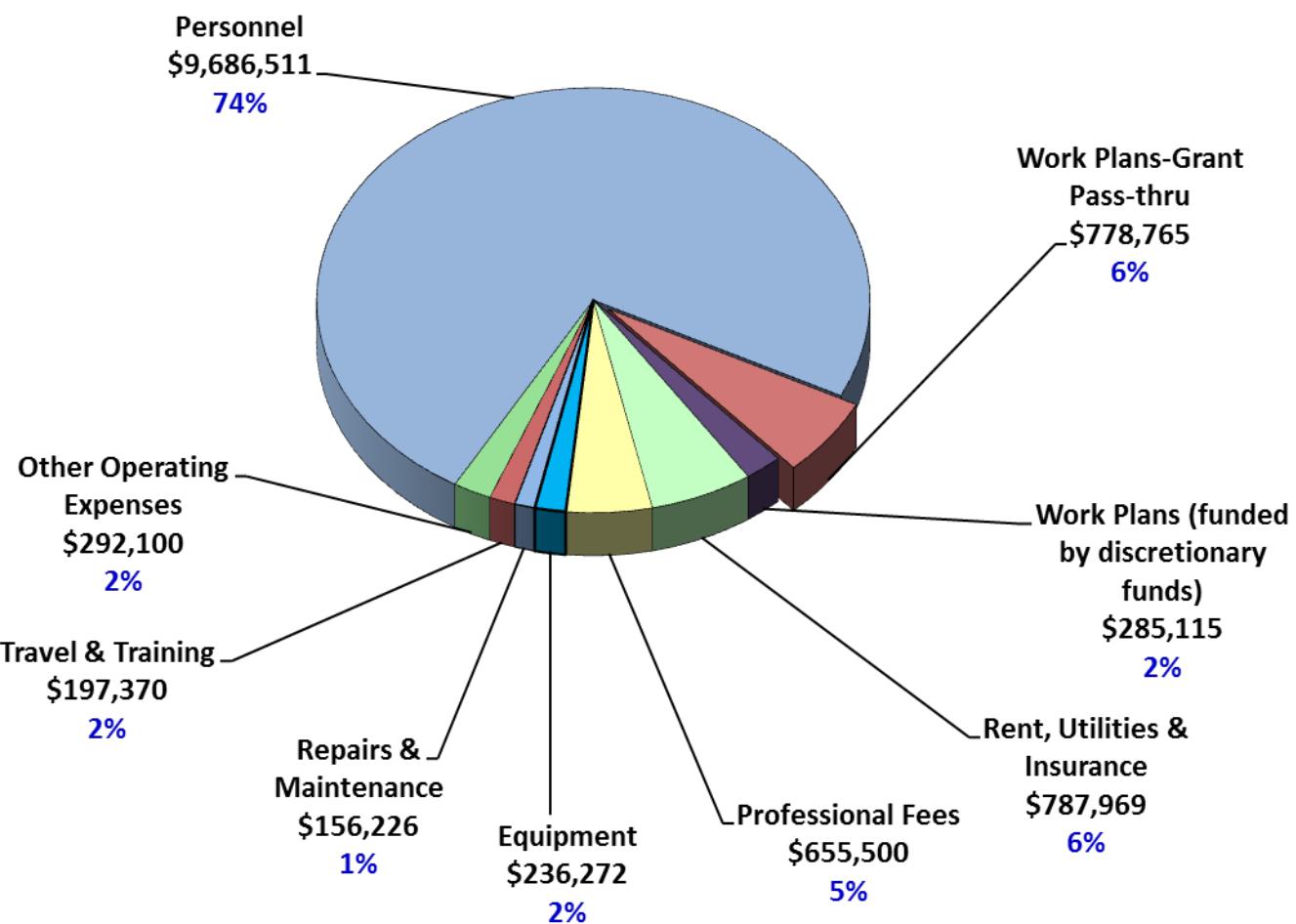
FY18 Budget - Funding Sources



Personnel expenses (\$9.7 million) are our most significant operating expense at 74% of total expenses of \$13.1 million. Despite a reduction in FTEs in FY18, we expect personnel expenses to increase in FY18 due to cost-of-living adjustments and increased employer pension contributions. Work plan grant pass-thru expenses (6% of total expenses) are pass-thru payments to grant partners, beneficiaries or sub-recipients – these expenses will decrease significantly from prior years due to the completion of large programs. The work plan expenses funded by draws from discretionary funds (civil penalty fund balances collected in prior years) are supporting attainment of federal air standards, community engagement, and lab testing matching costs for an air toxics grant.

Professional fees of \$655,500 are higher than typical years due to legal expenses related to an ongoing case.

FY18 Budget - Expenses



Puget Sound Clean Air Agency			
FY18 Proposed Budget			
	FY17 Estimate	FY18 Proposed Budget	
Federal Grants:			
105 Grant - Federal Core (EPA/Ecology)	947,071	962,689	<i>Slight increase due to changes in local air agency allocations from Dept of Ecology; assumes that the federal EPA regional reallocation starts in FY19</i>
Sec 103 Grant - PM 2.5 (EPA/Ecology)	100,451	93,429	<i>Slight reduction in funding from Ecology due to a site closure</i>
Natl Assn of Regional Councils (NARC-DOE)	2,250	3,750	<i>Continuation of Dept of Energy funds through the NARC organization</i>
Clean Cities Coalition (WWCCC-DOE)	45,000	45,000	<i>Continuation of Dept of Energy support for the Western Washington Clean Cities Coalition</i>
Clean Fuels Ohio (WWCCC-DOE)	-	7,250	<i>New funding in FY18 - Dept of Energy funds through Clean Fuels Ohio</i>
CALSTART (WWCCC-DOE)	15,000	5,000	<i>Continuation of grant from FY17- Dept of Energy funds through CALSTART</i>
Drayage Truck Replacements (Ecology - EPA portion)	262,080	-	<i>Assumes no new grants after FY17</i>
Drayage Truck Replacements (EPA/DERA))	800,000	25,000	<i>Additional funding for FY18 - truck scrappage program</i>
Air Toxics CHID (EPA)	188,085	190,600	<i>Continuation of Air Toxics grant in Chinatown/International District</i>
Expansion of Woodstove Removal - PAH Grant (EPA/Ecol)	128,000	-	<i>Assumes no new grants after FY17</i>
Port of Seattle ScRAPS 2 - Federal	314,277	-	<i>Program completed in FY17</i>
ScRAPS 3 (CMAQ/WSDOT)	3,272,459	-	<i>Program completed in FY17</i>
Subtotal - Federal Grants	6,074,673	1,332,718	
State Grants:			
State Core (Ecology)	650,455	662,054	<i>Increase due to change in Ecology allocations to local air agencies</i>
SeaTac Ground Support Equip (Ecology)	5,566	-	<i>Completed in FY17</i>
Ecology ScRAPS Support	162,000	80,000	<i>A portion (for filter cleaning) will carry over into FY18</i>
Harbor Craft Grant (Ecology)	-	-	<i>Completed in FY17</i>
Crowley Shore Power (Ecology)	50,000	-	<i>Completed in FY17</i>
Drayage Truck Replacements (Ecology - state portion)	174,720	-	<i>Completed in FY17</i>
FY16/17 Woodstove Repl/Removal (Ecology)	1,359,914	450,000	<i>Carryover into FY18</i>
Wood Smoke Educ & Enf Grant (Ecology)	83,141	83,142	<i>Recurring grant (Ecology)</i>
Subtotal - State Grants	2,485,796	1,275,196	
Contracts:			
ScRAPS 3 (EPA Grant)-Match from Ports	275,000	-	<i>Program completed in FY17</i>
Drive Oregon (WWCCC contract)	-	10,000	<i>New two-year contract with Drive Oregon</i>
Other Contracts/Grants (estimate)	-	200,000	<i>Placeholder estimate for new grants/contracts for woodstoves, diesel emissions reductions, air quality, and other programs</i>
Subtotal - Contracts	275,000	210,000	
Supplemental Income:			
Per Capita - Cities and Counties	3,132,340	3,212,849	<i>2.2% population increase combined with a proposed 1¢ increase in the per capita rate in FY18</i>
Subtotal - Supplemental Income	3,132,340	3,212,849	
Program Fees:			
Asbestos	625,000	625,000	
Notice of Construction	550,000	550,000	
Registration	2,688,690	2,688,690	
Operating Permits	1,624,000	1,624,000	
Subtotal - Program Fees	5,487,690	5,487,690	<i>Assuming no fee increases for Compliance programs</i>
Other Revenues:			
Civil Penalty Collections	560,000	-	<i>Not budgeted</i>
Interest Income	60,000	-	<i>Not budgeted</i>
Clean Cities Coalition	43,500	60,000	<i>Assumes more members' dues for FY18</i>
Subtotal - Other Revenues	663,500	60,000	
Total Revenues	\$ 18,118,999	\$ 11,578,452	

Personnel Expenses:			
Salaries & Wages	6,828,479	6,956,184	1.9% higher due to COLAs (3.3% represented staff and 2.5% managers) but offset by lower FTEs
Benefits	2,564,900	2,730,327	Higher in FY18 - mostly due to assumed increase in projected PERS employer retirement contribution rate
Total Personnel Expenses	9,393,378	9,686,511	
Work Plan Expenses	6,584,747	1,063,880	Fewer grants with pass-thru expenses
Operating Supplies	58,450	58,700	
Professional Services	775,360	655,500	No temp Engineering services in FY18 and lower legal professional fees projected for FY18
Telephone	46,800	47,200	Slight increase
Postage	17,900	17,900	Same
Meetings	8,800	8,800	Same
Travel & Training	113,500	197,370	FY17 budget will be underspent
Transportation	44,100	47,300	Slight increase
Rent & Utilities	686,137	697,564	Rent rate is flat from FY17 but we have higher square footage (basement conference room), higher rents for monitoring sites and utilities projected for FY18
Insurance	86,100	90,405	Typical 5% increase
Repairs & Maintenance	182,626	156,226	Lower monitoring R&M for FY18
Legal Expenses	15,500	22,000	Higher expenses anticipated for services
Printing	11,000	11,000	Same
Merchant & Bank Fees	79,200	79,200	Same
Subtotal - Operating Expenses	8,710,220	3,153,045	
Tenant Improvements	100,000	-	No tenant improvements projected for FY18
Computer & Office Equipment	91,823	86,272	Higher ergonomic equipment purchases in FY17
Vehicles	60,000	95,000	3 vehicles in FY18 - inspection, monitoring and general use EV
Technical/Scientific Equipment	101,000	55,000	Lower monitoring equipment purchases planned for FY18
Subtotal - Equipment	352,823	236,272	
Total Expenses	\$ 18,456,422	\$ 13,075,827	
Net Before Appropriations	\$ (337,422)	\$ (1,497,375)	
Appropriations from (Contributions to) Fund Balances			
Per Capita - Net Draw (Contribution)	(341,822)	243,543	FY18 includes the transfer to the General Fund Reserve from FY17 discretionary expense savings
General Fund Reserve	-	-	
Civil Penalty Collections	(560,000)	-	Collections are not budgeted in FY18
Civil Penalties Draw	893,104	295,653	Lower draw in FY18 due to lower legal fee reserve
Subtotal - Discretionary Funds	(8,718)	539,196	
Diesel Grant Fund - Draw	-	-	
Fee Programs	448,744	828,179	Flat fees means higher draw on reserves for increasing expenses
Equipment Reserve	-	30,000	Draw from equipment reserve to purchase general use electric vehicle
Compliance Reserve	-	-	
Department Reserves	(102,604)	100,000	FY18 - draw from legal reserves for legal expenses
Employer Retirement Fund	-	-	
Other	-	-	
Subtotal - Appropriations (Contributions)	\$ 337,422	\$ 1,497,375	
Net	\$ -	\$ -	

FY18 Fund Balances

Agency fund balances at fiscal year-end (June 30th) are a combination of reserves defined in our Financial Policies (pgs. 13-22) and funds committed for the following fiscal year. For example, fees for the Registration and Operating Permit programs are billed in November for the calendar year beginning in January. At June 30th, these fund balances include six months' worth of revenues committed to the second half of the calendar year (or the first half of our new fiscal year) as well as financial policy stabilization reserves.

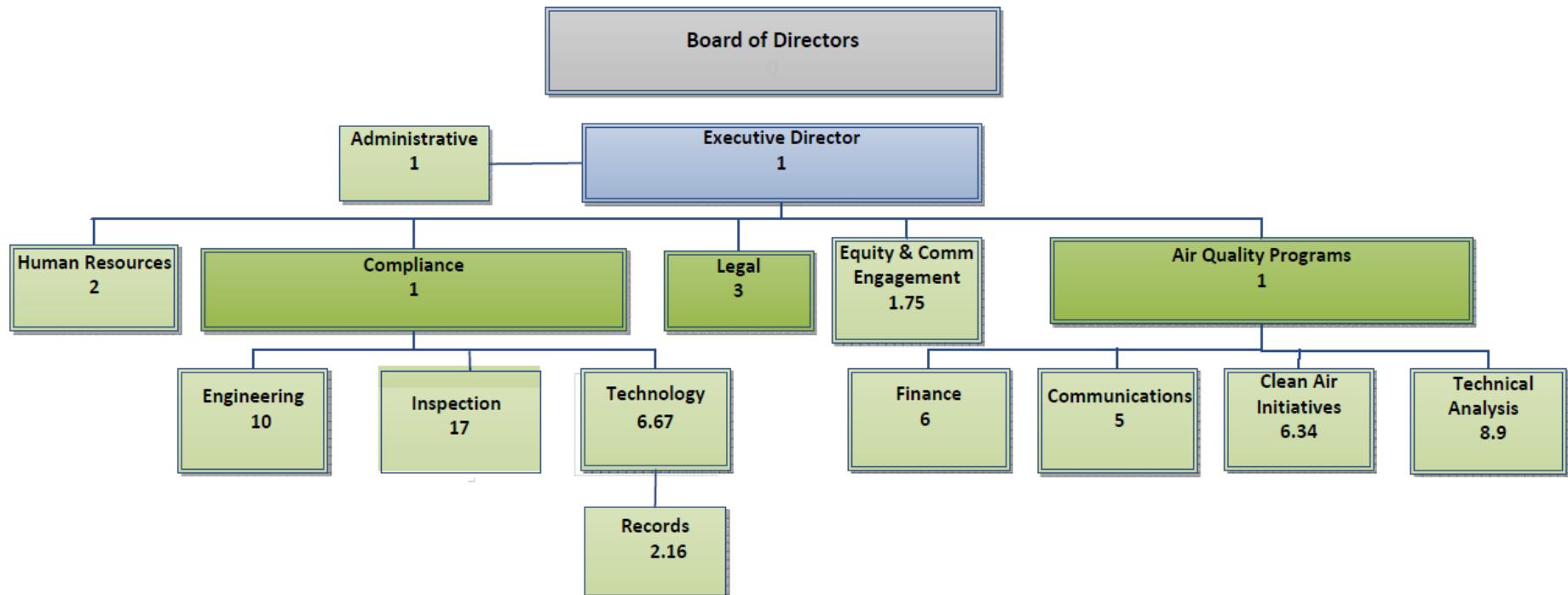
In fiscal year 2015, the agency complied with new Government Accounting Standards Board requirements regarding the recognition of each government's portion of a state retirement plan's unfunded pension liability. This resulted in our reporting a "negative" fund balance of \$5.5 million for our portion of the pension liability. The liability is an estimate of the net assets (investments and future earnings) and liabilities (projected retirement payouts) and is reviewed by the state actuary each year.

The schedule of funds on the next page shows all of the funds and their projected balances at fiscal year-end (June 30th, 2018).

FY18 Proposed Budget - Fund Balances at Fiscal Year-End

	FY16 Actual Ending Balance	FY17 Estimated Ending Balance	FY18 Proposed Budget	See Financial Policy Section	Comments
Per Capita Carryover	709,784	615,853	185,267	II.B.1.	<i>Carryover of per capita funds - funds a following year deficit</i>
General Fund Reserve	51,716	287,469	483,759	IV.B.4	<i>Funded by interest income thru FY17 and by fiscal year budget savings (discretionary fund expenses) - the target balance is reached in FY18</i>
Civil Penalties	1,073,247	740,143	444,490	II.D.	<i>FY18 spending from these previously collected penalties supports the specific uses as described in the FY18 Financial Policies</i>
Subtotal - Discretionary	1,834,747	1,643,465	1,113,516		
Per Capita	1,342,220	1,567,843	1,622,727	II.B.1.	<i>Reserve for second half of calendar year - 50% of the calendar year billings</i>
Civil Penalties - Committed	48,900	30,036	30,036	II.D.	<i>These are fund balances from settlements that are committed to specific uses</i>
Diesel Grant Fund	145,366	145,366	145,366		<i>This fund may be used for diesel or other projects</i>
Asbestos	466,690	462,632	477,835	II.B.2.	<i>The stabilization reserve target for this fund is approximately \$310k</i>
Notice of Construction	242,192	323,870	385,027	II.B.2.	<i>The stabilization reserve target for this fund is approximately \$244k</i>
Registration	2,416,358	2,173,020	1,819,729	II.B.2.	<i>The FY18 ending balance includes reserves for the balance of calendar year 2018 (\$1.5 million); in addition, it includes the stabilization reserve of \$.3 million (target is \$.7 million)</i>
Operating Permits	1,719,711	1,436,684	866,599	II.B.2.	<i>The FY18 ending balance includes reserves for the balance of calendar year 2018 (target is \$1.0 million); it does not include a stabilization reserve (target is \$.5 million)</i>
Equipment Reserve	286,980	286,980	171,980	Appendix 2	<i>This reserve is for unplanned equipment or software requirements during the fiscal year</i>
Department/Division Reserves	231,161	231,161	250,000	IV.B.3.	<i>Includes \$200k for the Compliance Division reserve and \$50k for other non-fee department reserves</i>
Legal Reserve	(2,604)	100,000	-		<i>This reserve is funded at the beginning of each fiscal year - for FY18, it is funded to \$250k and expected to be spent down by \$250k - we are expecting legal expenses to continue into FY20 related to an ongoing case</i>
Employer Retirement Reserve	265,121	265,121	265,121	II.E.	<i>This balance is reserved for future employer rate increases for the Public Employee's Retirement System (PERS)</i>
Clean Cities Coalition	15,034	15,034	15,034	II.C. & IV.E.	<i>Clean Cities Coalition is funded by member dues, Dept of Energy support, grants and agency per capita revenues.</i>
Unemployment Reserve	7,976	7,976	92,976	IV.B.5.	<i>This is a new fund in our FY18 financial policies for use in funding the agency's self-insured unemployment claims</i>
Interest Income Fund	67,435	67,435	67,435	II.E.	<i>This balance is reserved for future investment pool losses; interest income is not budgeted but, for FY18, will be transferred to the Unemployment Reserve</i>
Other Funds	51,410	51,410	51,410		<i>Miscellaneous general funds</i>
Subtotal - Balance before Pension Fund Recognition	\$ 9,138,696	\$ 8,808,033	\$ 7,374,788		
Pension Fund	(5,272,599)	(5,272,599)	(5,272,599)		<i>This fund is the recognition of the agency's proportionate share of the state retirement pool's net pension liability for external reporting purposes (required by GASB 68) - this will be adjusted at each fiscal year end</i>
Total Balance at June 30th	\$ 3,866,097	\$ 3,535,434	\$ 2,102,190		

Puget Sound Clean Air Agency – FY18 Budget – Organization Chart



Full-Time Equivalent Employees		
FY17 Est	FY18 Proposed Budget	Change from Prior Year
75.0	72.8	<2.2>

• Term positions ended at the end of FY17 - this will be offset by one open position in FY17 that will be filled in FY18.

Fiscal Year 2018 – Adopted Financial Policies

I. Planning Policies

A. Balanced Budget

As required by RCW 70.94.092, on or before the fourth Monday in June of each year, the Board of Directors adopts a budget for the following fiscal year (July 1 – June 30). The budget is a balanced budget, and contains adequate funding and provides for staff sufficient to carry out the provisions of all applicable resolutions and regulations related to air pollution reduction, prevention and control.

The Board takes action to amend the budget when unanticipated funding is received such as grants, or in the event of other significant unforeseen events that may affect the budget.

B. Multi-Year Planning

Sound fiscal management and planning are important to the health of the agency. To this end, the agency engages in multi-year planning each year to assess and evaluate items such as the financial implications of current and proposed operating and capital budgets, the fund balance, financial policies, issues related to state and federal funding, the agency's vision and strategic plans, and other foreseeable trends and issues that may affect the future of the agency. Strategic plans may include vision statements, multi-year strategies and annual work plans. The information developed during long-range planning is used in preparing the annual budget.

C. Asset Inventory

To safeguard agency assets purchased with public funds and to ensure adequate internal controls are maintained, the agency inventories and assesses the condition of all major capital assets. Agency assets are used only for agency business purposes. (See Appendix 1, Asset Capitalization and Inventory Procedures).

Asset inventory information is used to plan for the ongoing financial commitments and future needs of the agency.

II. Revenue Policies

A. Revenue Diversification

To the extent feasible, the agency maintains a diversified and stable revenue system to improve its ability to handle fluctuations in any individual source of funding. The agency does not rely solely on state and federal funds and consistently seeks additional sources of revenue.

B. Per Capita and Fee Revenues

1. *Per Capita (Proportion of Supplemental Income)* - Cities, towns and counties are required by state law to contribute annually to the agency's operations. RCW 70.94.093 stipulates various methods

for determining the proportion of supplemental income of this per capita revenue. During the annual budget process, the Board determines which method to use. In addition, the Board annually reviews the amount of the per capita assessment, considering such factors as the rate of inflation compared with the rates of population growth and/or assessed valuation of property, the agency's revenue needs for programs and/or equipment that cannot be fully supported by other funds, whether or not programs requiring funding are mandatory, and appropriate equitable factors. For each annual budget, the budget amount of Per Capita revenues (Supplemental Income) will be determined by combining 50% of the prior calendar year per capita assessment amount along with 50% of the budget calendar year amount.

2. Fee-Based Revenues - Revenues collected for a specific fee-based program are retained within that program in the general fund balance. Fees collected for one fee-based program cannot be spent on a different program. Annual increases may be adopted to ensure that each program remains self-supporting in current and future years and that fee reserve fund balances are retained. Fees may also include temporary surcharges to reflect technological advances or mandated requirements for a specific program.

Fee-based programs are self-supporting and as required by law, the amount of the fees may only cover the cost of administering the program. See RCW 70.94.151 (registration fees), 70.94.152 (notice of construction fees), and 70.94.162 (operating permit fees).

C. Use of Funds

1. Use of One-Time and Unpredictable Revenues - To the extent feasible, the agency uses one-time revenues for one-time expenditures and unpredictable revenues for a specific purpose and not to finance ongoing programs or operations.

2. Federal Section 103 Funds - These funds are provided by EPA to pay for a specific project. Currently, the Federal Section 103 grant pays for the costs contained in the agency's annual contract with the Department of Ecology for PM2.5 monitoring.

3. Federal Section 105 Funds (Base Grant) - These funds support activities required by EPA through the grant agreement for the federal priorities that are not supported by fees. This includes protecting human health by reducing emissions of PM2.5, ozone, and other criteria and toxic air pollutants; and characterizing the health consequences of air pollution, collecting data that has the greatest benefit for public health, and increasing the public understanding of the health effects and costs of pollution.

4. Other Grants (Special Project or Sub-Recipient) - When the agency receives grant funds for specific projects, staff time and operational expenses necessary to administer the grants are normally charged against the grants.

5. State Wood Stove Account Funds - The state wood stove funds are required to be spent on wood stove education and enforcement. The education program may include raising awareness of impaired air quality burn bans, the effects of wood stove emissions on health and air quality, methods of achieving better efficiency and emission performance from wood stoves, which wood

stoves are approved by Ecology, or the benefits of replacing inefficient wood stoves with new stoves. The enforcement program may include air quality monitoring, developing air quality forecast products, and enforcement of impaired air quality burn bans.

6. *State Grant (Core)* - The highest priority for these funds is to implement state requirements not covered by fees, the federal Section 105 grant or the wood stove account funds. This includes managing indoor and outdoor burning regulations and burn bans, and working with fire departments and other partners to help people understand outdoor burning restrictions, where applicable, and cleaner alternatives to yard debris disposal where burning is still allowed.

7. *Local Supplemental Income (Per Capita)* - The highest priority for these funds is to address local and state priorities not paid for by other sources of funds. This includes, but is not limited to, elements of the agency strategic plan not funded by other sources, for example environmental justice, climate protection, policy advocacy, regional transportation planning or support for the Western Washington Clean Cities Coalition.

8. *Western Washington Clean Cities Coalition (Coalition) Dues and Support Grant Income* – The Coalition receives annual voluntary dues from Coalition members. In addition, the Department of Energy provides funding through an annual cooperative agreement and the agency contributes funding from per capita revenues. The funds from all of these sources support the operations of the Coalition by covering personnel and program costs necessary to accomplish program goals.

D. Civil Penalty Revenues

As a result of its compliance activities, the agency receives civil penalty revenues. To ensure the agency is not perceived as assessing civil penalties to support its operations, revenue from civil penalties collected goes directly to a separate fund to be used in accordance with Section III B. of this policy. In preparing budgets, the agency does not include an amount of projected civil penalty revenue for the next fiscal year, but does include expenditures of civil penalty revenues, in accordance with this policy, previously received.

E. Interest Income Revenues

Unless otherwise provided in this section, the agency allocates earned interest income revenues to all fund cash accounts every month based on the cash in each fund at the end of the month, with the exception of certain grant funds due to audit restrictions.

For FY18, if the General Fund Reserve is funded at its target, the interest income and investment recaptures (from previous investment losses) during the year will be transferred to the Unemployment Reserve. If the General Fund Reserve is not funded to target, interest income and investment recaptures (from previous investment losses) will continue to be allocated to the General Fund Reserve.

III. Expenditure Policies

A. Operating/Capital Expenditures

The agency periodically compares actual expenditures to budget and decides upon any actions needed to bring the budget into balance. To this end, quarterly financial statements are prepared for and reviewed by agency management, and quarterly financial information is provided to the Board of Directors.

B. Civil Penalties

Revenue from civil penalties collected may be expended only for the purposes described in this policy. These purposes include support for:

- establishing and maintaining strategic partnerships;
- promotional and outreach activities (to include communication tools, services and materials) that support our vision;
- efforts to address inequities in air pollution exposure
- community-focused air quality characterization or improvement projects;
- voluntary and incentive-based programs that produce quantifiable climate, toxics or criteria pollutant benefits; and
- atypical or unusual legal expenses.

Such projects are budgeted annually based on the agency's objectives and the availability of previously collected funds. The agency may also use a portion of a specific civil penalty to reimburse a fee-based program where there are extraordinary costs associated with a particular enforcement action. Also, the

agency may negotiate non-financial civil penalty settlements, such as requiring in-kind support or direct education and outreach activities as Supplemental Environmental Projects.

C. Debt Issuance

As authorized by RCW 70.94.091, the agency may levy additional taxes in excess of the constitutional and/or statutory tax limitations for any authorized purpose.

IV. Fund Balance Policies

A. Contingency Account

The agency maintains a contingency account that would be used in the event the agency was forced to close its doors permanently. The account includes funds to pay any agency obligations for employees at retirement and other legally required amounts. The agency maintains sufficient funds in this account to meet these obligations to the extent such obligations are reasonably foreseeable. The contingency accounts are reviewed each year as part of the budget process.

This account shall include funds sufficient to cover one hundred percent of the potential excess compensation owed to the Washington State Department of Retirement Systems for PERS 1 retirees, one hundred percent of the potential liability for accrued employee vacation and any potential liability for one-third of accrued employee sick leave.

B. Stabilization Accounts

The agency maintains a prudent level of financial resources to strive to protect against the need to reduce service levels or raise fees due to temporary revenue shortfalls, unforeseen one-time expenditures, or cash flow needs. Funds that have been set aside for future or special use are set aside in the designated funds balance. This includes the Clean Air Act Reserve Accounts, Capital/Equipment Reserve Accounts, Department Reserve Accounts and General Fund Reserve. The stabilization accounts are reviewed each year as part of the budget process.

1. *Clean Air Act Reserve Accounts* - Each fee-based program has a separate reserve account and these fee reserve balances are reviewed on an annual basis. For the Asbestos and Notice of Construction programs, the reserve balance should be approximately 50% of the annual cost of the program. For the Registration and Operating Permit programs, the reserve balance should be approximately 25% of the annual cost of the program. A portion (\$200,000) of the fee program fund balances is reserved as the Compliance Division Reserve for unanticipated expenses relating to fee program work that occurs during a fiscal year. This reserve will be replenished by appropriate fee funds each year.

2. *Capital Equipment Reserve Account* - To the extent practical, the agency budgets for routine capital equipment needs each year through current revenues rather than use of funds in reserve accounts. However, the agency maintains a capital equipment reserve account (see Appendix 2) to minimize fluctuations due to large or unanticipated capital purchases and because the agency does not have the ability to borrow funds from other entities.

A plan for reimbursement of the funds must be submitted prior to withdrawal of the funds. The Board may adjust account balance limits during the Agency's annual budget process. Surplus income from the sale of assets is transferred to the reserve unless the equipment was funded with grant funds with certain restrictions.

3. Department/Division Reserves - The agency maintains a small reserve account for each department. These reserves are for unanticipated expenses relating to particular departmental work that occurs during the fiscal year. The presence or use of the reserve accounts does not in any way lessen or eliminate the need for appropriate planning by each department during the annual budget process. The amounts for each reserve will not exceed the amount originally established for the account and will be reviewed each year as part of the budget process. The accounts will be replenished each year by appropriate funding sources for each department.

4. General Fund Reserve – This reserve is established for non-fee program related items such as unanticipated items in the budget fiscal year, emergency funding for deferred maintenance, insurance deductibles in the event of a major loss, bridge funding for inter-grant periods, and as an additional offset for inter-month negative cash balances. The targeted balance for this reserve is 10% of the general fund revenues (composed of per capita revenues, the federal core grant and the state core grant), targeted to be reached by FY2020. If necessary, this reserve is funded or replenished from interest income, investment recaptures (from previous investment losses) and other discretionary (unrestricted) funds resulting from better-than-planned budget performance (see section II.E.). The Board must approve withdrawals from the general fund reserve, as part of the annual budget or through a budget amendment. The approval must include a plan for reimbursing the reserve.

5. Unemployment Reserve – The agency operates on a reimbursement basis with the Employment Securities Department (ESD) rather than paying quarterly unemployment taxes. The agency has minimal control over the timing, duration and amount of unemployment charges. The purpose of this reserve is to provide for unemployment expenditures. The amount of this reserve will be assessed as needed and funded accordingly.

For FY18, the reserve will be funded by transferring \$85,000 from the Equipment Reserve from funds that we have determined are in excess of the needs for unplanned equipment replacements. If, at the beginning of FY18, the General Fund Reserve is funded to the target level, interest income earned and investment recaptures (from previous investment losses) during FY18 will transfer to the Unemployment Reserve as additional funding.

C. Civil Penalty Account

The revenue collected from civil penalties goes directly to the Civil Penalty Account to be used in accordance with Section III B. of this policy. In preparing annual budgets, the agency only includes expenditures of civil penalty revenues previously received. The balances in this account may be used to offset periodic negative inter-month cash balances created by grant-related receivable balances.

D. Clean Cities Coalition Account

The account is to be used in the event of a disruption in revenues associated with the Coalition. The target balance is \$30,000 and will be reviewed as needed.

Appendix 1 – Asset capitalization and inventory procedures

Categories of Assets, Risk Ratings, Frequency of Physical Inventory, Capitalization Amount.

Category	Risk(loss) Rating	Capitalization Amount	Frequency of Physical Inventory
Transportation Equipment	High	\$5,000	1 year
Computer Equipment	High	\$5,000	1 year
Communication/ Audio visual Equipment	High	\$5,000	1 year
Site/Shop Equipment	Medium	\$5,000	2 years (Odd FY)
Lab Equipment	Low	\$5,000	2 years (Odd FY)
Office Furniture	Low	\$5,000	2 years (Even FY)
Leasehold Improvements	Low	\$5,000	2 years (Even FY)

Capitalization of Assets

The Agency follows the Federal Common Rule of property management requirements for the acquisition, management and disposition of capitalized assets. At this time, the threshold amount is \$5,000. Assets under this threshold will be tagged, inventoried and tracked but not listed on the Agency financial statements as capital assets.

Inventory System

The Finance Department maintains an inventory system that includes tagging, inventorying and tracking agency equipment and capitalized assets. The system includes the asset purchase date, amount or current valuation, manufacturer description, asset identification number, department assignment, asset location, physical inventory date, and future surplus disposition.

Physical Inventory of Assets – Capitalized and Non Capitalized

The Manager of Finance and Purchasing schedules a physical inventory of department assets with each department manager. This inventory is based on risk ratings, the value of the item and probability of theft and/or misuse. Each department completes a physical inventory of the department assets by the end of the fiscal year.

Tagging of Assets

Assets are identified with a permanent tag that provides accurate agency and category identification. Assets purchased with federal funding are also identified with a permanent tag and an additional reference in the Asset Tracking System to indicate title to the equipment. The Finance Department keeps asset tags and assigns a tag to each department after each purchase.

Sale or Surplus of Assets

The Board of Directors must approve by resolution a list of capitalized assets scheduled for sale, surplus and disposal.

Appendix 2 – Capital Equipment and Software Applications Reserve

Purpose

We strive to meet our routine capital equipment needs each year from current revenues. To minimize fluctuations in the need for revenues due to large or unanticipated capital purchases, and because the Agency does not have the ability to borrow funds from other entities, a capital equipment reserve account is included in our finance management system. The purpose of this policy is to describe how this reserve account is derived and used.

The Agency maintains a reserve account that helps fund the following types of purchases:

- Vehicles
- Air Monitoring/Scientific Equipment and applications
- Computer Systems and applications
- Office Machines and Tenant Improvements

Principles

General

- The reserve target should reflect a prudent amount of funds necessary to pay for the intended use. The target is \$170,000 which includes amounts previously accumulated separately for air monitoring/scientific equipment and applications and for the Agency Telephone system replacements but no longer needed to be earmarked in the balance.
- The Board may adjust account balance limits during the Agency's annual budget process.
- Expenditures from the Capital Equipment Reserve are normally made to:
 - Fund large non-routine capital or applications expenditures Meet high priority needs not envisioned during the budget process
- The reserve is not funded by federal or state grant dollars.

Withdrawals

- The Board must approve withdrawals that exceed \$50,000 from the reserve account, as part of the annual budget or through a budget amendment.
- The Executive Director may approve withdrawals from the reserve account in the amount of \$50,000 or less.
- When funds are withdrawn from the reserve account in any amount the responsible manager must provide a written schedule for reimbursing the account and identify the source of the funds for the reimbursement.

Supplemental Income (Per Capita Assessment)

The Washington State Clean Air Act, at RCW 70.94.093, requires that the Board of Directors of the Agency:

1. Shall select a method of determining the apportionment of supplemental income based on one of the following: 1) the population method (Method 1), which allocates the per capita fees to each jurisdiction based on their respective populations; 2) the assessed value method (Method 2), which allocates the per capita fees to each jurisdiction based on their respective share of the total assessed property values; or 3) the 50:50 method (Method 3), which blends the population and assessed value methods in allocating the per capita fees to jurisdictions; and,
2. Shall certify by the fourth Monday in June of each year the share of the Agency's supplemental income budget that shall be paid in the next calendar year by each city and county located in the Agency's jurisdictional area.

At the April Board meeting and after previous discussions, the Board of Directors adopted the supplemental income (per capita) rate of 82¢ and the 50:50 method (Method 3) of apportioning the total assessment. The overall per capita assessment revenues will increase by \$110k, from \$3,157,963 in CY2017 to \$3,267,733 in CY2018. Two-thirds of this increase is due to the 2.2% population increase in the four-county jurisdiction (King, Pierce, Snohomish and Kitsap) and one-third of the increase will be the result of the 1¢ rate increase.

The FY18 budgeted supplemental income of \$3,212,849 reflects only six months' of the \$110k increase because the agency's fiscal year ends June 30th and, therefore, we only budget half of the calendar year increase.

The table on the following page shows the supplemental income (per capita) by jurisdiction using 82¢ as the rate and applying the 50:50 method of apportionment. The agency issues notifications to each of the jurisdictions every year in June regarding the next calendar year's assessment.

CITY/COUNTY:	KING	Amount
Algona	\$ 2,366	
Auburn (Part)	47,683	
Beaux Arts Village	472	
Bellevue	172,978	
Black Diamond	3,432	
Bothell (Part)	22,983	
Burien	33,752	
Carnation	1,361	
Clyde Hill	6,569	
Covington	12,862	
Des Moines	20,089	
Duvall	5,493	
Enumclaw	7,662	
Federal Way	60,611	
Hunts Point	2,600	
Issaquah	35,271	
Kenmore	18,341	
Kent	89,427	
Kirkland	86,883	
Lake Forest Park	11,463	
Maple Valley	17,844	
Medina	9,786	
Mercer Island	38,037	
Milton (Part)	677	
Newcastle	10,862	
Normandy Park	6,056	
North Bend	5,487	
Pacific (Part)	3,916	
Redmond	68,523	
Renton	76,880	
Sammamish	59,074	
Sea-Tac	24,112	
Seattle	717,576	
Shoreline	43,463	
Skykomish	141	
Snoqualmie	11,754	
Tukwila	21,498	
Woodinville	12,524	
Yarrow Point	2,983	
Total Incorporated King County	\$ 1,773,491	

CITY/COUNTY:	PIERCE	Amount
Auburn (Part)	\$ 6,369	
Bonney Lake	13,746	
Buckley	2,915	
Carbonado	365	
Du Pont	7,237	
Eatonville	1,695	
Edgewood	7,058	
Fife	9,059	
Fircrest	4,407	
Gig Harbor	9,092	
Lakewood	36,768	
Milton (Part)	4,279	
Orting	4,460	
Pacific (Part)	415	
Puyallup	28,385	
Roy	460	
Ruston	857	
South Prairie	253	
Steilacoom	4,314	
Sumner	9,671	
Tacoma	133,093	
University Place	21,193	
Wilkeson	288	
Total Incorporated Pierce County	\$ 306,379	

CITY/COUNTY:	SNOHOMISH	Amount
Arlington	\$ 12,936	
Bothell (Part)	15,602	
Brier	5,103	
Darrington	813	
Edmonds	35,903	
Everett	79,184	
Gold Bar	1,226	
Granite Falls	2,060	
Index	109	
Lake Stevens	20,447	
Lynnwood	28,233	
Marysville	41,660	
Mill Creek	15,875	
Monroe	12,089	
Mountlake Terrace	14,587	
Mukilteo	18,827	
Snohomish	7,056	
Stanwood	4,566	
Sultan	2,930	
Woodway	2,006	
Total Incorporated Snohomish County	\$ 321,212	

CITY/COUNTY:	KITSAP	Amount
Bainbridge Island	\$ 25,884	
Bremerton	23,008	
Port Orchard	9,248	
Poulsbo	7,668	
Total Incorporated Kitsap County	\$ 65,808	

Unincorporated King County	\$ 192,776	Incorporated King County	\$ 1,773,491
Unincorporated Kitsap County	115,019.0	Incorporated Kitsap County	65,808
Unincorporated Pierce County	251,609.3	Incorporated Pierce County	306,379
Unincorporated Snohomish County	241,439.0	Incorporated Snohomish County	321,212
Total Unincorporated Counties:	\$ 800,843	Total Incorporated Counties:	\$ 2,466,890

Total CY2018 Prop Share of Support: **\$ 3,267,733**