

Date: May 19, 2016
To: Board of Directors
 Puget Sound Clean Air Agency
Subject: Resolution No. 1344 – Adopting the FY17 Budget

Honorable Members:

In April, the Board approved the calendar year 2017 supplemental assessment (per capita) rate of 81 cents, the method of apportionment (50% population : 50% assessed property value method), and the FY17 Financial Policies. We presented a draft FY17 budget at that time and are now presenting the proposed FY17 Budget for Board adoption.

Comparison to April Draft Budget

We revised the draft budget for new grant revenues, the timing of grant work between fiscal years, grant pass-through expenses and some minor operating expense changes. We have summarized these changes in Table 1 and compared them to the April draft budget.

Table 1	FY17 Budget Comparison - May Proposed v. April Draft		
	FY17 Proposed Budget (May)	FY17 Draft Budget (April)	Change
Revenues	15,686,346	15,018,865	667,481
Expenses	17,086,871	16,455,421	631,450
Net Surplus (Deficit)	(1,400,525)	(1,436,556)	36,031

- Revenues increased \$667k because of the new Ecology grant that supports the ScRAPs program (\$475k), additional woodstove funding (\$110k), and the inter-year revision of the air toxics grant (\$82k).
- The \$631k increase in total expenses is mainly due to additional grant pass-through expenses (\$594k). In addition, we made salary adjustments to two positions that were filled (\$20k), added a computer purchase (\$6k), increased professional fees (\$6k) for a heavier audit year, and adjusted office maintenance (\$4k) and repairs and maintenance (\$1k) expenses.
- The net reduction in the deficit from the draft budget to the current proposed budget is mainly due to the administrative offset from the additional grant funding.

Budget Priorities

In developing our FY17 budget, we considered short- and long-term priorities:

- Keep the momentum in reaching our Strategic Plan goals. Page 2 of the attached budget packet summarizes our Strategic Plan Goals.
- Continue to seek funding and provide internal support for emissions reductions programs in the transportation area.
- Ensure a comprehensive review of our costs before seeking fee program or per capita assessment increases. For FY17, we propose that these fees remain flat.
- Employ our IT resources for the highest priorities – we are supporting our infrastructure stability and updating our Fee program and Air Quality applications in our current plan.
- Maintain the momentum in our Woodstove program in the Smoke Reduction Zone (SRZ) by securing ongoing funding for woodstove replacements and removals.
- Maintain a sufficient level of attainment support in the SRZ.
- Set a target (10% of discretionary fund revenues by FY20) for the General Fund Reserve and begin funding it. See our FY17 Financial Policies (page 16 in the budget packet).

Budget Overview

The enclosed budget packet includes our key budget assumptions (page 3), funding sources and expense charts (pages 4-5) and the detailed budget for FY17 (pages 6-9).

Pages 4 to 5 show where our funding comes from and how it is spent. About one-third of our funding is from the Fees Programs (\$5.4 million) that are self-supporting programs (i.e. compliance activities fund the costs of these programs). Another third of the funding consists of nonrecurring grants (\$5.4 million), primarily for woodsmoke or diesel emission reductions projects. These grants, which approached half of our total funding in past years, have lessened as federal and state grants have decreased. Per capita revenues (18% of total funding) are an important source of funding as they help us deliver our Strategic Plan goals.. Page 22 outlines how these CY2017 revenues will be apportioned by jurisdiction within the four counties.

Over half of the total expenses of \$17.1 million pay for personnel expenses (wages and benefits) for the staffs that are performing the work of the agency - page 10 shows where the staff effort is by function. The majority of the work plan expenses is grant pass-through expense (\$4.4 million), mostly for the purchase of less-polluting equipment, and is completely funded by grants - a smaller amount (\$.6 million) is funded by internal fund balances (civil penalties and per capita).

The agency's fund balances are shown on page 9 and references to the Financial Policies (pages 11-21) direct you to the reserve or use policies for each major fund. Beginning in FY15, all jurisdictions participating in the state retirement fund are required (by GASB 68) to reflect their proportionate share of the state retirement plan's unfunded pension liability – this is shown as the \$5.5 million negative “booking adjustment” at the bottom of the page. While this does not constrict the current use of our funds, it reflects the potential need for increased employer contributions in the future (our projections include increased employer rates of 12.67% in FY18-FY19 compared the current rate of 11.18%).

Long-Term Outlook

A key part of our annual budget process is to project revenues, expenses and fund balances for at least two years beyond the budget year. In April, we discussed the long-term outlook with the Board and the impact that the FY17 budget decisions would have. Table 2 is an update to this projection. The primary changes in FY18-19 from the prior projections are the addition of new grant funds and the resultant administrative coverage (offsets the use of per capita funds). These projections include a 2¢ increase in the per capita rate in FY18 and FY19. We would recommend reducing this to a 1¢ increase per year if projected reductions in our recurring federal and state grants did not occur.

We review projections, not only to see the impact of budget year decisions in out years, but also to manage the balancing of revenues and expenses. Our overall deficit is expected to increase from \$.6 million in the FY16 estimate to \$1.4 million because of personnel expense increases of \$.5 million (filling of open positions, two staff returning from leaves of absence, staff overlap for training) and necessary tenant improvements of \$.3 million (cabling, cubical reconfiguration, noise abatement). In FY18-19, the deficit lessens to \$1.1 million – the majority of this is funded by draws from the fee program stabilization reserves since there are no fee increases in the FY17-19 projections. In each budget cycle, we monitor the fee program reserves and costs to determine the timing of any fee increases.

FY16 Estimate, FY17 DRAFT Budget, FY18-19 Projection

Table 2	FY16 Estimate	FY17 PROPOSED BUDGET	FY18 Projection	FY19 Projection
Revenues:				
Federal Core Grant (EPA/Ecology)	946,902	911,316	865,755	822,552
Sec 103 Grant (Ecology)	105,004	105,003	105,005	105,010
State Core Grant (Ecology)	649,897	619,958	632,115	632,229
Woodstove Grants (Ecology)	1,497,320	1,593,310	83,143	83,141
Transportation and Other Grants	3,872,923	3,831,729	770,244	-
Federal and State Grants	7,072,047	7,061,316	2,456,261	1,642,933
Per Capita Revenues	2,895,578	3,132,340	3,214,749	3,329,377
Fee Program Revenues	5,387,690	5,387,690	5,387,690	5,387,690
Other Revenues	570,000	105,000	390,000	390,000
Total Revenues	15,925,315	15,686,346	11,448,700	10,750,000
Personnel Expenses	9,119,937	9,642,187	9,668,536	9,478,170
Work Plan Expenses	5,161,871	4,981,810	946,010	333,300
Operating & Equipment Expenses	2,252,821	2,462,874	1,888,501	1,996,706
Total Expenses	16,534,629	17,086,871	12,503,046	11,808,177
Net Surplus (Deficit)	(609,313)	(1,400,525)	(1,054,346)	(1,058,177)
FTEs	74.7	77.3	73.7	71.8
Breakdown of Net Surplus (Deficit):				
Net Surplus (Deficit) - Fee Programs	(203,756)	(867,270)	(954,726)	(934,730)
Net Surplus (Deficit) - Non-fee Programs	(405,557)	(533,254)	(99,620)	(123,447)
Net Surplus (Deficit)	(609,313)	(1,400,524)	(1,054,346)	(1,058,177)
Funding:				
Net draws from fee reserves	203,756	867,270	954,726	934,730
Net draws from non-fee reserves	181,913	(99,087)	(128,025)	230,490
Draws from civil penalty fund balance	703,644	632,341	527,645	192,957
Civil Penalty Collections	(480,000)	-	(300,000)	(300,000)
Net Draws	609,313	1,400,524	1,054,346	1,058,177
Discretionary Fund Balances (year-end):				
Per Capita (carryover) Fund	376,728	278,853	235,041	5,674
General Fund Reserve ²	40,000	234,983	234,983	234,983
Civil Penalty Fund ¹	1,023,197	390,856	163,211	270,254
Diesel Grant Fund	0	0	0	0
Total	1,439,924	904,693	633,236	510,912

1. Projected civil penalty revenues are not included in estimated revenues; however, we have included projected revenues of \$480k for FY16 (as of mid-April, collections were \$429k) and annual revenues for FY18 and FY19 similar to average historical levels (\$300,000) in the fund balance projections.

2. Levels do not change in this table after FY17 because the financial policy mechanisms to fund the Reserve (interest income and better-than-budgeted-performance) are not projected.

Other Considerations for the FY17 Budget

There are several areas where we made assumptions for the FY17 budget based on the best information that we had available and, if the actuals vary enough from the estimates, we may have budget amendments in July or September. For example, the cost of living adjustment assumption for represented staff was based on CPI forecasts (King County's office of Economic and Financial Analysis) – we will know the actual rate when April 2016 CPI rates are released on May 17th. In addition, we assumed that the federal and state core grants would be reduced from the prior year – we will know more about the final grant awards this summer.

I look forward to discussing the budget with you. If you have any questions beforehand, please contact me at 206.689.4004 or CraigK@pscleanair.org.

Respectfully submitted.



Craig T. Kenworthy
Executive Director

Attachment

jwc

RESOLUTION NO. 1344

RESOLUTION OF THE BOARD OF DIRECTORS OF THE PUGET SOUND CLEAN AIR AGENCY APPROVING THE BUDGET FOR THE FISCAL YEAR OF 2017 WITH A PER CAPITA RATE OF EIGHTY-ONE CENTS – JULY 1, 2016 TO JUNE 30, 2017

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 2017 (July 1, 2016 to June 30, 2017) 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-one 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 2017, 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 2017 (July 1, 2016 to June 30, 2017) including attached Fiscal Year 2017 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 26th day of May, 2016.

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 2017
Proposed Budget

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 FY17 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 – FY17 Budget

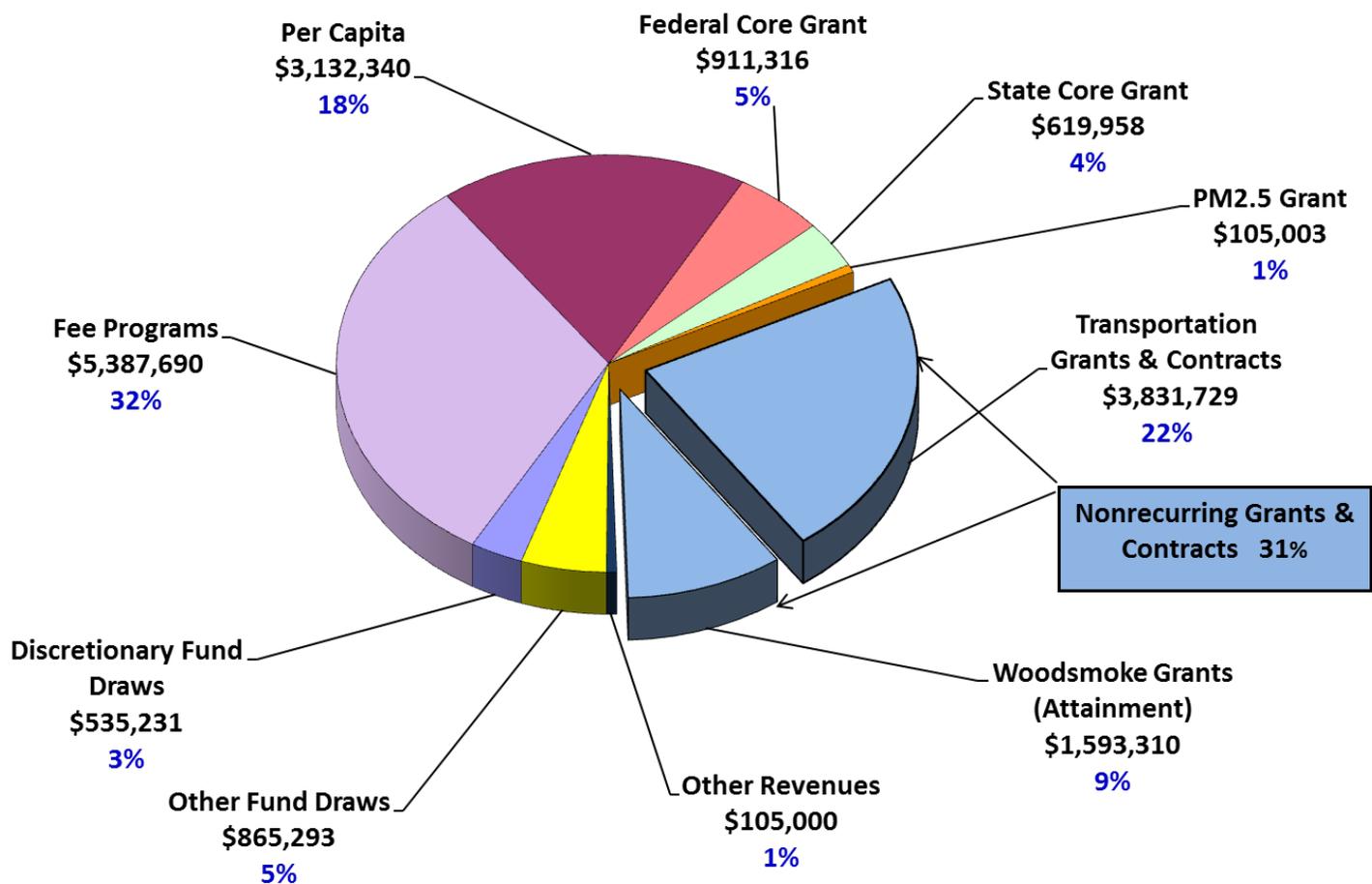
The key assumptions in the agency's FY17 Budget include:

- Attainment (Smoke Reduction Zone) – maintaining about the same level of burn ban enforcement coverage as in FY16, using agency staff, providing a \$1.4 million wood stove program, and maintaining a small outreach budget.
- Per Capita Rate – flat in FY17 and then modest increases in FY18 and beyond to support our strategic direction.
- Federal Core Grant – as a result of the EPA regional reallocation, a reduction of 5% or less each year over eight years starting in FY17 (FY17 will be only 3.75% due to the difference between the federal fiscal year and ours).
- State Core Grant – assuming a 5% reduction in FY17 to be conservative given overall state budget uncertainty.
- Transportation Grants – the ScRAPs 3 (truck scrappage program) grant revenues of \$3.6 million for FY17/18 and several smaller Ecology grants that were confirmed once the state budget was finalized, but no other large grants.
- Personnel Expenses – expected increases in costs and other expenses based on salary steps, COLAs, CPI increases, and increased employer contributions to the state retirement fund in FY18-19. The employer rate for contributions to the state retirement fund remains at 11.18% (same as FY16) for FY17.
- Civil Penalty Fund – anticipate spending between \$500k and \$650k in each year for FY17- FY18 and \$200k in FY19 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 \$380k at the end of FY17, assuming no civil penalty collections in FY17 (the budget year).
- General Fund Reserve – starting FY17 with a fund balance of about \$235k from FY16 interest income (\$40k) and FY16 budget savings (discretionary fund spending) estimated to be about \$195k. Our financial policy target for this fund is 10% of general fund revenues, or about \$470k and our aim is to reach this by FY20.
- Investment in IT – continued investment to support the fee programs applications and air quality database and display.

FY17 Funding Sources and Expenses

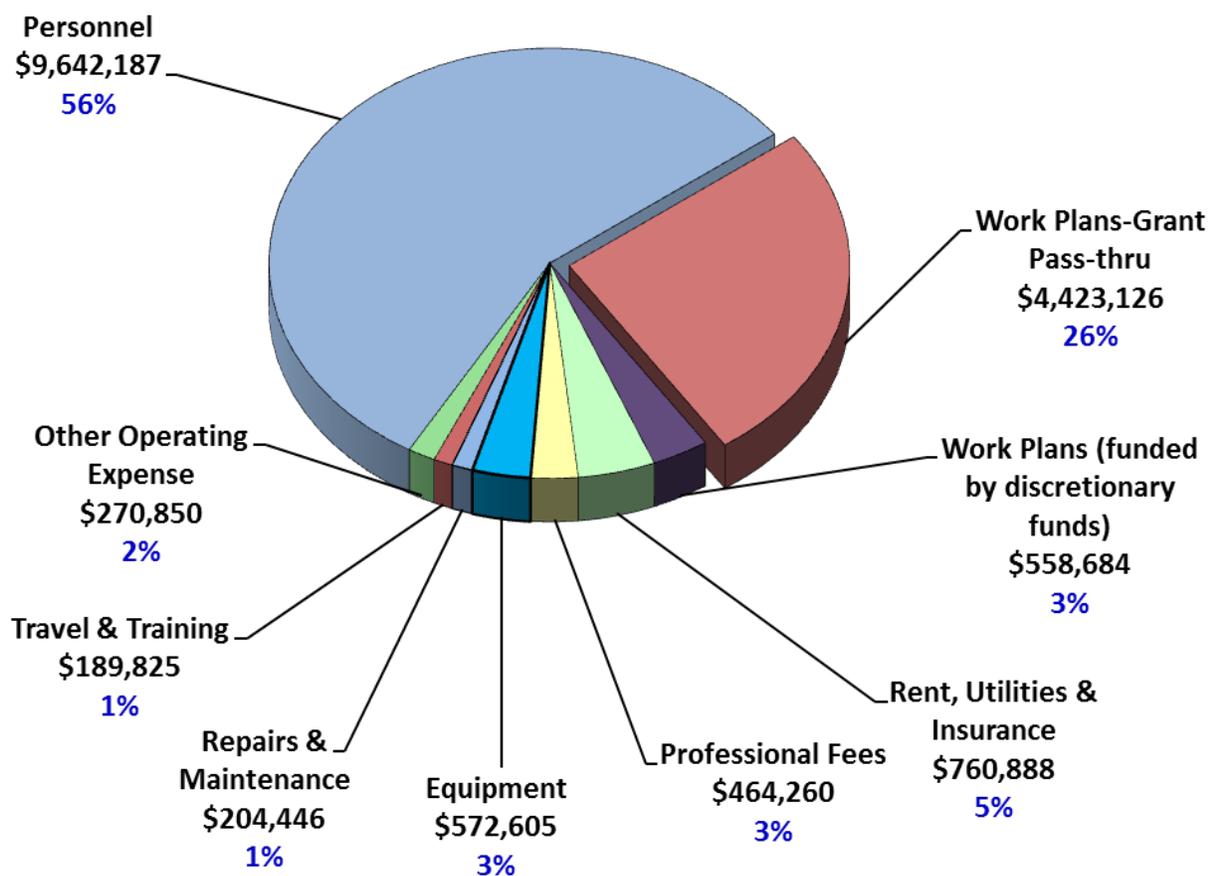
The agency has a variety of funding sources. While non-recurring grants have been significant sources of funding the last several years (41% of total funding in FY15, 34% in FY16), these are now 31% in FY17 as the federal and state granting activities have lessened. Fee revenues comprise \$5.4 million of the total \$17.1 million in funding and are self-funded compliance programs. Per capita (supplemental assessment) revenues at \$3.1 million have become a more significant ongoing funding source. Other fund draws of \$.9 million are mostly from the Fee programs fund reserves for operations during the fiscal year.

FY17 Budget - Funding Sources



Personnel expenses (\$9.6 million) are our most significant operating expense at 56% of total expenses of \$17.1 million. Work plan grant pass-thru expenses (26% of total expenses) are payments to beneficiaries or sub-recipients to primarily subsidize the purchase of more efficient and less polluting equipment. 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, the woodstove replacement/removal activities in the Smoke Reduction Zone (Tacoma/Pierce County) and lab testing matching costs for an air toxics grant. Rent expense is expected to be 3% lower than the previous year because of the lease renewal (flat rent rate in the first year) and the resetting of the base year for calculating building maintenance expenses.

FY17 Budget - Expenses



FY17 Proposed Budget

	FY17 PROPOSED BUDGET	
Federal Grants:		
105 Grant - Federal Core (EPA/Ecology)	911,316	
Sec 103 Grant - PM 2.5 (EPA/Ecology)	105,003	
Air Toxics CHID (EPA)	249,800	<i>New grant in FY16 - carryover into FY17</i>
PAH Expansion Woodstove	100,000	<i>Additional funding for woodstove program</i>
ScRAPs 3 (CMAQ/WSDOT)	2,458,000	<i>New funding for the ScRAPs 3 program</i>
Subtotal - Federal Grants	3,824,119	
State Grants:		
State Core (Ecology)	619,958	
SeaTac Ground Support Equip (Ecology)	130,250	<i>Carryover grant funds from FY16</i>
Ecology ScRAPs Support	475,655	<i>New funding from the Dept of Ecology to support ScRAPs 3</i>
Harbor Craft Grant (Ecology)	37,600	<i>Carryover grant funds from FY16</i>
FY16/17 Woodstove Repl/Removal (Ecology)	1,410,150	<i>Estimate for woodstove grant funding from the reduced state capital budget</i>
Wood Smoke Educ & Enf Grant (Ecology)	83,160	<i>Recurring grant from Ecology</i>
Subtotal - State Grants	2,756,773	
Contracts:		
ScRAPs 3 (CMAQ/WSDOT)- POS Match	240,212	<i>New funding from the Port of Seattle for the ScRAPs 3 program</i>
ScRAPs 3 (CMAQ/WSDOT) - POT Match	240,212	<i>New funding from the Port of Tacoma for the ScRAPs 3 program</i>
Subtotal - Contracts	480,424	
Supplemental Income:		
Per Capita - Cities and Counties	3,132,340	<i>Revenues in FY17 are based on 81 ¢ per capita rate (flat from previous year)</i>
Subtotal - Supplemental Income	3,132,340	
Program Fees:		
Asbestos	575,000	
Notice of Construction	500,000	
Registration	2,688,690	
Operating Permits	1,624,000	
Subtotal - Program Fees	5,387,690	<i>No fee increases assumed for FY17</i>
Other Revenues:		
Civil Penalty Collections	-	<i>Not budgeted</i>
Interest Income	-	<i>Not budgeted</i>
Clean Cities Coalition	105,000	<i>Member dues and support from the Dept of Energy</i>
Subtotal - Other Revenues	105,000	
Total Revenues	\$ 15,686,346	

FY17 Proposed Budget (cont.)

Personnel Expenses:		
Salaries & Wages	7,041,133	
Benefits	2,601,053	
Total Personnel Expenses	9,642,187	
Work Plan Expenses	4,981,810	<i>New and carryover grants pass-through expenses, work plans for Env Justice, outreach and enhanced burn ban enforcement</i>
Operating Supplies	54,450	
Professional Services	464,260	<i>Increased legal fees (temporary), temp help</i>
Telephone	57,200	
Postage	21,400	
Meetings	6,800	
Travel & Training	189,825	
Transportation	46,300	
Rent & Utilities	674,788	<i>New lease with current building owner goes into effect in Feb 2017 - flat rate from FY16</i>
Insurance	86,100	
Repairs & Maintenance	204,446	
Legal Expenses	20,500	
Printing	11,000	
Merchant & Bank Fees	53,200	
Subtotal - Operating Expenses	6,872,079	
Tenant Improvements	300,000	<i>Cabling, cubicle restructuring and noise abatement</i>
Computer & Office Equipment	91,605	
Vehicles	30,000	<i>One inspection vehicle for replacement of aging fleet</i>
Technical/Scientific Equipment	151,000	<i>Replace old legacy monitoring equipment</i>
Subtotal - Equipment	572,605	
Total Expenses	\$ 17,086,871	
Net Before Appropriations	\$ (1,400,525)	

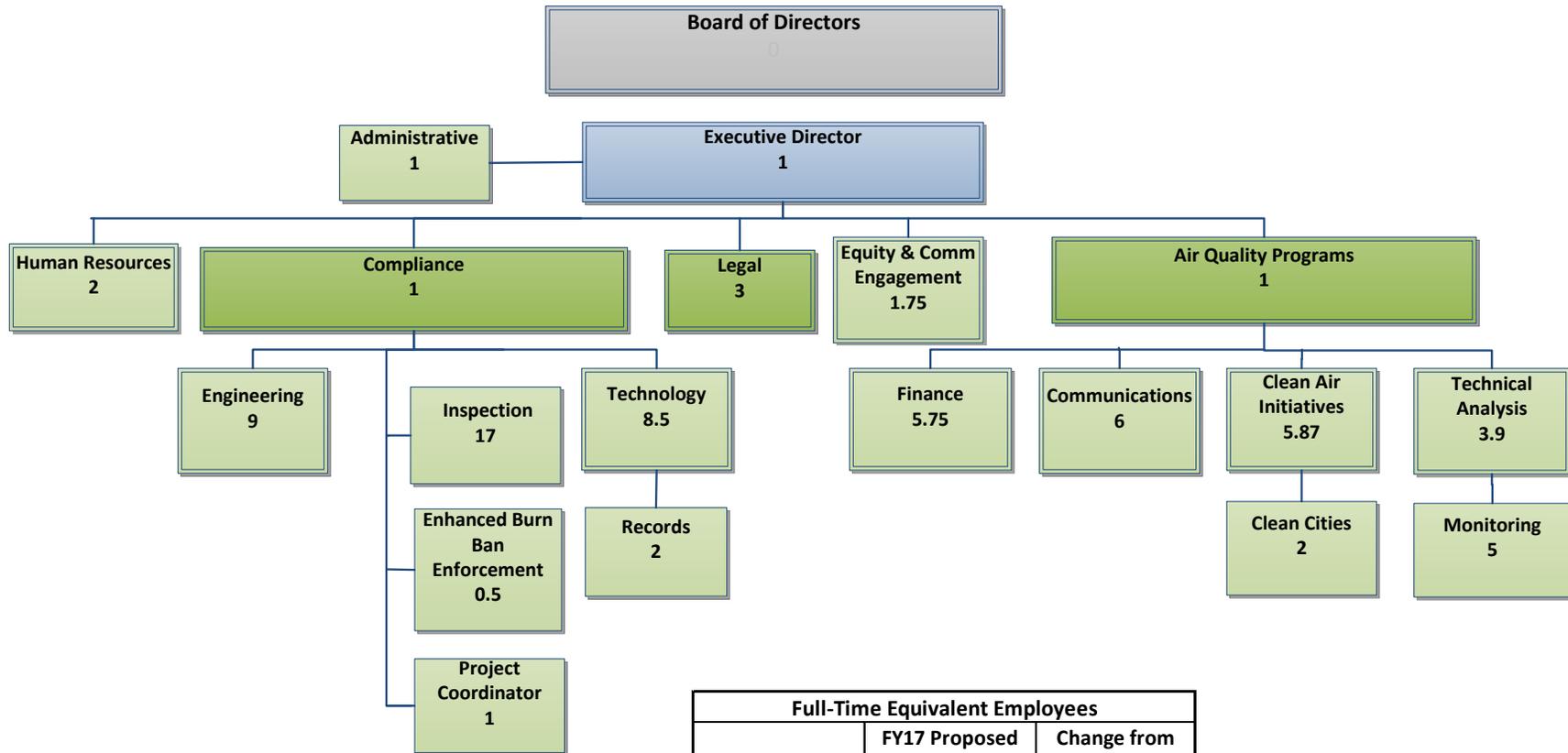
FY17 Proposed Budget (cont.)

Appropriations from (Contributions to) Fund Balances		
Per Capita - Net Draw (Contribution)	(109,109)	
General Fund Reserve	-	
Civil Penalty Collections	-	<i>Not budgeted</i>
Civil Penalties Draw	644,341	<i>Draw on civil penalty collections from previous years</i>
Subtotal - Discretionary Funds	535,231	
Fee Programs	867,270	
Department Reserves	(50,000)	<i>Includes funding the legal reserve to \$250k</i>
Other	48,023	
Subtotal - Appropriations (Contributions)	\$ 1,400,525	
Net	-	
FTEs	77.27	
Year-End Fund Balances		
Per Capita Carryover	290,853	
General Fund Reserve	234,983	
Civil Penalties	378,856	
Discretionary Funds	904,693	
Diesel Grant Fund	0	
Total Discretionary & Diesel Fund	\$ 904,693	

FY17 Proposed Budget - Fund Balances

	Actual FY15 Ending Balance	Est FY16 Ending Balance	FY17 Proposed Budget Ending Balances	See Financial Policy Section	Comments
Per Capita Carryover	134,504	376,728	290,853	II.B.1.	<i>Carryover of per capita funds - this helps to cover a following year deficit</i>
General Fund Reserve	-	40,000	234,983	IV.B.4	<i>Funded by interest income and by fiscal year budget savings (discretionary fund expenses)</i>
Civil Penalties	1,246,841	1,023,197	378,856	II.D.	<i>FY17 spending from this fund supports uses as described in the FY17 Financial Policies</i>
Subtotal - Discretionary	1,381,345	1,439,924	904,693		
Per Capita	1,342,220	1,553,357	1,578,980	II.B.1.	<i>Reserve for second half of calendar year</i>
Civil Penalties - Committed	48,900	48,900	48,900	II.D.	<i>These are fund balances from settlements that are committed to specific uses</i>
Diesel Grant Fund	561,414	0	0		<i>This fund will be exhausted at FYE16</i>
Asbestos	304,450	331,458	322,649	II.B.2.	<i>The stabilization reserve target for this fund is approximately \$290k</i>
Notice of Construction	257,540	54,920	95,913	II.B.2.	<i>The stabilization reserve target for this fund is approximately \$228k</i>
Registration	2,427,754	2,262,594	1,814,803	II.B.2.	<i>The FY17 ending balance includes reserves for the balance of calendar year 2017 (\$1.6 million); in addition, it includes the stabilization reserve of \$.2 million (target is \$.7 million)</i>
Operating Permits	1,681,594	1,707,239	1,255,575	II.B.2.	<i>The FY17 ending balance includes reserves for the balance of calendar year 2017 (\$1.0 million); in addition, it includes a stabilization reserve of \$.3 million (target is \$.5 million)</i>
Equipment Reserve	280,980	286,980	286,980	Appendix 2	<i>The FY17 balance includes \$120k for monitoring and scientific equipment and \$167k for general equipment (computer, etc.).</i>
Department/Division Reserves	122,246	250,000	250,000	IV.B.3.	<i>Includes \$200k for the Compliance Division reserve and \$50k for other non-fee department reserves</i>
Legal Reserve	9,124	-	50,000		<i>The reserve for this is \$250k (funded at the beginning of each fiscal year) - we are expecting legal expenses to continue in FY17 related to an ongoing case</i>
Employer Retirement Reserve	265,654	265,654	265,654	II.E.	<i>This balance is reserved for future employer rate increases for the Public Employee's Retirement System (PERS)</i>
Clean Cities Coalition	22,637	66,654	18,631	II.C. & IV.E.	<i>Clean Cities Coalition is funded by member dues, King County and City of Seattle support and agency per capita revenues.</i>
Unemployment Fund	28,050	28,050	28,050		<i>No change is anticipated for this fund.</i>
Interest Income Fund	50,159	50,159	50,159	II.E.	<i>This balance is reserved for future investment pool losses; interest income is not budgeted but is transferred to the General Fund Reserve</i>
Pension Fund	(5,508,978)	(5,508,978)	(5,508,978)		<i>Recognition of the agency's proportionate share of the state retirement pool's net pension liability for external reporting purposes - this will be adjusted at each fiscal year end after we have access to reports from the Dept. of Retirement Systems</i>
Other Funds	37,788	37,788	37,788		<i>Miscellaneous general funds</i>
Total Fund Balance at June 30th	3,312,876	2,874,700	1,499,798		

Puget Sound Clean Air Agency – FY17 Budget – Organization Chart



Full-Time Equivalent Employees		
FY16 Est	FY17 Proposed Budget	Change from Prior Year
74.7	77.3	2.6
<ul style="list-style-type: none"> • Two employees (IT and Engineering) are back in FY17 from leaves of absence in the prior year • We are planning an overlap for a retiring employee in Records to provide training for their replacement in FY17 • An employee (Equity & Community Engagement) hired partway through FY16 is in the FY17 budget for the whole year 		

Fiscal Year 2017 – Puget Sound Clean Air Agency 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. In its financial planning, the agency does not rely on state and federal funds as a stable source of revenue 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 but are not supported by fees. This includes protecting human health by reducing emissions of PM2.5, ozone, and other criteria 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 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, Sponsorships and Support Contract Income* – The Coalition receives annual voluntary dues and sponsorship income from Coalition members. In addition, the Department of Energy provides funding through an annual support contract and the agency contributes some funding from per capita revenues. The funds from these sources are used to support the operations of the Coalition by partially 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 FY16 only, the interest income and investment recaptures are transferred to the General Fund Reserve balance.

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, monthly 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 the accrued 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 Operating Permit and Registration 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.

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. This reserve is funded from interest income, investment recaptures (from previous investment losses) and other discretionary (unrestricted) funds resulting from better-than-planned budget performance. 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.

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.

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 tag 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 Account

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 capital equipment reserve account that helps fund the following types of purchases:

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

Principles

General

- The account balance should reflect a prudent amount of funds necessary to pay for the intended use.
- The account balance is \$100,000 plus the amounts accumulated for air monitoring/scientific equipment and applications and for the Agency Telephone system replacements.
- The Board may adjust account balance limits during the Agency's annual budget process.
- Expenditures from the reserve account is normally made to:
 - Fund large non-routine capital expenditures (e.g. profiler, telephone system)
 - Meet high priority needs not envisioned during the budget process
- The reserve account 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.

Vehicles

The account reserves funding for replacing Agency vehicles used by the Inspection and Air Monitoring staff.

Air Monitoring/Scientific Equipment and Applications

The account reserves funding for replacing capital equipment that supports the Agency's air monitoring and meteorological data collection activities.

The account's goal is to maintain its existing balance of \$120,000.

Computer Systems Equipment

The account reserves funding for replacing capital equipment that supports the Agency's computer systems network infrastructure and computer hardware, and agency activities related to air quality forecasting conducted by the University of Washington.

Office Equipment and Tenant Improvements

The account reserves funding for making office structural changes or large-scale furniture purchases, as part of general office operations, resolving ergonomic issues or as part of an office remodel or relocation.

Puget Sound Clean Air Agency CY2017 Per Capita Assessment

CITY/COUNTY:	KING	Amount	CITY/COUNTY:	PIERCE	Amount
Algona		\$ 2,253	Auburn (Part)		\$ 6,166
Auburn (Part)		\$ 46,539	Bonney Lake		\$ 13,278
Beaux Arts Village		\$ 490	Buckley		\$ 2,758
Bellevue		\$ 165,806	Carbonado		\$ 340
Black Diamond		\$ 3,355	Du Pont		\$ 7,282
Bothell (Part)		\$ 22,340	Eatonville		\$ 1,643
Burien		\$ 32,641	Edgewood		\$ 6,734
Carnation		\$ 1,248	Fife		\$ 8,823
Clyde Hill		\$ 6,406	Fircrest		\$ 4,288
Covington		\$ 12,450	Gig Harbor		\$ 8,389
Des Moines		\$ 19,424	Lakewood		\$ 35,984
Duvall		\$ 5,416	Milton (Part)		\$ 4,082
Enumclaw		\$ 7,510	Orting		\$ 4,255
Federal Way		\$ 58,974	Pacific (Part)		\$ 434
Hunts Point		\$ 2,563	Puyallup		\$ 27,418
Issaquah		\$ 33,695	Roy		\$ 453
Kenmore		\$ 17,756	Ruston		\$ 761
Kent		\$ 87,311	South Prairie		\$ 245
Kirkland		\$ 84,497	Steilacoom		\$ 4,257
Lake Forest Park		\$ 11,328	Sumner		\$ 9,438
Maple Valley		\$ 17,597	Tacoma		\$ 129,370
Medina		\$ 9,624	University Place		\$ 20,729
Mercer Island		\$ 36,697	Wilkeson		\$ 270
Milton (Part)		\$ 653	Total Incorporated Pierce County		\$ 297,397
Newcastle		\$ 10,672			
Normandy Park		\$ 6,021	CITY/COUNTY:	SNOHOMISH	Amount
North Bend		\$ 5,341	Arlington		\$ 12,803
Pacific (Part)		\$ 3,864	Bothell (Part)		\$ 15,626
Redmond		\$ 67,140	Brier		\$ 4,968
Renton		\$ 74,340	Darrington		\$ 798
Sammamish		\$ 54,566	Edmonds		\$ 34,782
Sea-Tac		\$ 23,511	Everett		\$ 77,094
Seattle		\$ 677,221	Gold Bar		\$ 1,200
Shoreline		\$ 42,712	Granite Falls		\$ 2,035
Skykomish		\$ 139	Index		\$ 105
Snoqualmie		\$ 11,786	Lake Stevens		\$ 19,634
Tukwila		\$ 21,276	Lynnwood		\$ 27,655
Woodinville		\$ 12,436	Marysville		\$ 40,887
Yarrow Point		\$ 2,894	Mill Creek		\$ 15,628
Total Incorporated King County		\$ 1,700,492	Monroe		\$ 11,561
			Mountlake Terrace		\$ 14,204
CITY/COUNTY:	KITSAP	Amount	Mukilteo		\$ 18,552
Bainbridge Island		\$ 24,968	Snohomish		\$ 6,816
Bremerton		\$ 22,206	Stanwood		\$ 4,506
Port Orchard		\$ 8,977	Sultan		\$ 2,816
Poulsbo		\$ 7,388	Woodway		\$ 1,890
Total Incorporated Kitsap County		\$ 63,539	Total Incorporated Snohomish County		\$ 313,560
Unincorporated King County		\$ 194,489	Incorporated King County		\$ 1,700,492
Unincorporated Kitsap County		\$ 111,708	Incorporated Kitsap County		\$ 63,539
Unincorporated Pierce County		\$ 243,816	Incorporated Pierce County		\$ 297,397
Unincorporated Snohomish County		\$ 232,962	Incorporated Snohomish County		\$ 313,560
Total Unincorporated Counties:		\$ 782,975	Total Incorporated Counties:		\$ 2,374,988
Total CY2017 Prop Share of Support:		\$ 3,157,963			