



San Joaquin Valley

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DATE: August 20, 2009

TO: SJVUAPCD Governing Board

FROM: Seyed Sadredin, Executive Director/APCO

RE: **REVIEW AND ASSESSMENT OF THE DISTRICT'S BUDGET AND SPENDING, FUNDED BY WILLIAM AND FLORA HEWLETT FOUNDATION**

BACKGROUND:

The Sierra Nevada Air Quality Group (an environmental consulting firm) has been invited to present the findings and recommendations from their recent review and assessment of the District's budget and spending. The review was funded by the William and Flora Hewlett Foundation to assist the Central Valley Air Quality (CVAQ) Coalition, a partnership of more than 70 community, medical, public health, environmental, and environmental justice organizations in the San Joaquin Valley. Kathryn Phillips, Director, California Transportation and Air Initiative for the Environmental Defense Fund, served as the project manager for this review.

The basic study approach was to evaluate the San Joaquin Valley APCD's budget (revenue and expenditures) on its own merits and in the context of benchmarks established by the study's authors. For comparison purposes the District's performance was compared with four other California air districts. The budget and staffing level for each district are reported by the consultant to be as follows:

Air District	Total 2008-09 Budget in Millions	Staffing
South Coast AQMD	\$229.23	839
Bay Area AQMD	\$167.89	363
San Joaquin Valley APCD	\$137.04	310
Sacramento AQMD	\$31.39	104
Ventura County APCD	\$13.07	53

In performing this review, the consultant developed several benchmarks that were used in comparing the Valley District to the other four districts. The following table summarizes the report's findings with respect to each benchmark.

Summary of Performance Benchmarks

Benchmark	Other 4 Districts Average	Valley District	District Staff Observation
Cost of Control (Salaries and benefits costs per ton of reductions from stationary sources)	\$23,258	\$5,571	Valley Air District is 76% better than the average.
Inspections per Inspector	268	309	Valley Air District is 15% more productive than the average.
Management and Administrative Cost as a percentage of operating budget (includes costs for management, accounting, IT services, personnel, payroll, clerical support)	13.1%	10.4%	Valley Air District's "overhead" is 21% less than the average.
Public Outreach Per Capita Funding	\$0.75	\$0.50	Valley Air District spends \$.25 less per capita than the average.
Public Outreach Qualitative Assessment Score for General Outreach (Max. possible Score=5)	4	4	Valley District's performance is in line with others despite lower per capita expenditure.
Public Outreach Qualitative Assessment Score for Website (Max. possible Score=5)	3.9	4.5	Valley District's performance is better than average despite lower per capita expenditure.
Carl Moyer Grant Program Cost Effectiveness (Dollars spent per ton of reductions)	\$2,900	\$2,100	Valley Air District's program is 26% more cost effective than the average.

DISCUSSION:

The following discussion outlines the report's findings as developed by the consultant. While the District appreciates the high marks given to the Valley Air District's performance, for each benchmark a discussion of other pertinent factors is presented under "District Observations". In our opinion, these are important factors that should be incorporated and their thoughtful consideration in the report would lead to an even higher ranking of the District than reported.

Out of respect for the other districts that were considered in this review, the consultant went to great lengths not to identify them by name. Accordingly, at the request of the consultant and out of respect for the other districts, we also do not identify the other districts in the following discussion.

General Budget Observations:

The report acknowledges that the San Joaquin Valley APCD is the largest air district in California in terms of geographical size, covering a land area of 23,490 square miles, an area larger than a number of states. The report also acknowledges the enormous air quality challenges that are faced by the District and the progress that has been made. The report acknowledges that in the last four years the District's share of incentive grant funding has increased by over 1,000 percent. These incentive funds, also referred to as the non-operating budget, now make up nearly three quarters of the District's budget. With this enormous increase in incentive funding, the District's total 2008-09 budget was approximately \$137 million. At \$35.32 per resident, this represented the highest level of per capita funding amongst the air districts examined in this report. Despite this major increase in grant funding, the consultant reports that during the same period the District's staffing level only increased by 14%.

Benchmark 1 - Stationary Source Control Cost Effectiveness:

Benchmark number 1 is a quantitative measure of a district's expenditures for stationary source control per ton of emissions controlled (the sum of ROG, NOx, and PM2.5) during the four-year period from 2006 through 2009. The salaries and benefits portion of the districts' budgets that were attributed to stationary source control programs constituted the cost of control for this benchmark.

The consultant reports that the average or mean cost per ton of emissions reduced for the four comparison districts was \$23,258 per ton and the cost for the San Joaquin Valley APCD was \$5,571 per ton, or 76 percent better than the four-district average.

District Observations: *The consultant's assessment shows that the Valley Air District has one of the most cost effective stationary source control programs. However, without any further analysis a statement is included in the report that could be seen as an attempt to potentially minimize the District's high marks in this area. The report*

states that it is "possible that the District's stationary source control program had cost advantages because more favorable opportunities for control were available (that is, opportunities for easier, cheaper controls)." An objective analysis would indicate there are two reasons behind the District's exceptional performance with respect to this benchmark. One is the District's operational efficiency and the other is the tough rules that have been adopted by the District's Governing Board. Many District rules were third and fourth generation rules applied to the same category of sources and, therefore, reductions cannot be attributed to "opportunities for easier, cheaper controls". Several independent assessments, including one by the California Air Resources Board reported that the District's rules and regulations were among the most stringent in the state.

Benchmark 2 - Inspections per Inspector:

Benchmark number 2, the number of facility inspections carried out on an annual basis by district inspectors, provides a measure of the efficiency of a key component of an air district's compliance program. This benchmark looks at the number of facilities inspected annually in each of the five districts.

The consultant reports that the San Joaquin Valley APCD's inspection ratios were consistently the second highest among the districts studied. For the study period, the Valley Air District was 15% more productive than the average.

District Observations: *The District's productivity is impressive given the large geographic area covered by the District and the long distance travel that is required in the Valley. A more appropriate number to use for counting inspections, however, would be the number of devices inspected rather than the number of facilities as used in this report. The number of devices inspected is more indicative of the workload that is involved. Otherwise, inspecting an oil production facility with hundreds of devices would count as only one inspection and be given the same weight as inspecting a small facility with only one device. This is especially true given the Valley's unique definition of facilities, where a number of facilities that would count as multiple facilities in the other districts, would only count as one in the Valley. We suggested that the number of devices be used, but the consultant could not accommodate this request since some of the other districts in this review did not track the number of devices inspected. The District would have the highest inspection efficiency if the number of devices inspected had been used.*

Benchmark 3 - Management and Overhead Costs:

Benchmark number 3 provides a measure of the cost-efficiency of managing and administering the San Joaquin Valley APCD program for the five budget years studied. This benchmark compares the costs of the executive office, top-level managers, and administrative support activities (such as fiscal, clerical, and information services) with operating program costs for each district.

The consultant reports that in the four years for which complete data exists, the San Joaquin Valley APCD's management and administrative costs as a percentage of the total operating budget have been lower than the average or mean costs for the other four districts. In fact, for the latest budget year reviewed (2008-09), the consultant reports that at 10.1%, the District's overhead was 26% below the other districts average.

District Observations: *The District appreciates the finding that the Valley Air District has one of the lowest overhead rates calculated in this report. However, we believe that a more careful assessment would actually show that the District has the lowest overhead rate. The consultant reports that two districts had slightly lower overhead costs than the Valley Air District. District D is reported to have an overhead rate of 9.6%, and the District C is reported to have an overhead rate of 8% compared to the Valley Air District's overhead rate of 10.1% for 2008-09. Similar overhead rates are reported for the other four budget years examined. The study contains errors that if corrected, would show that the Valley Air District's overhead is in fact the lowest.*

First, District D utilizes a unique methodology in reporting their operating budget. The consultant's methodology required that the operating budget figures exclude pass-through funds (e.g., incentive grants). The figures used for District D's operating budget erroneously include pass-through funds. Therefore, District D's actual operating budgets are significantly lower than those reported and used in consultant's calculations here. The consultant included some adjustments to the reported operating budgets, but their numbers still include millions of dollars of pass through funds. Also, District D utilizes the County for their accounts payable at an annual cost of \$150,000. If these corrections are made District D's overhead will be higher than the calculated overhead rate for the Valley Air District.

The administrative and management costs used by the consultant for District C are much lower than those reported in the published budgets for District C. For instance, if the published budget figures for District C are used, for budget year 2008-09 the overhead rate for District C would at least be 11.3% to 13.7% even if management and clerical costs for specific programs such as permitting and compliance are ignored. Those costs were included for the Valley District in the consultant's calculated overhead rates.

Additionally, District A already reported to have the highest overhead rate, also utilizes the County for a number of administrative tasks including personnel, legal, payroll, fleets, purchasing, and general services. District A pays the County \$230,000 for these services. None of these costs were included in the consultant's calculation of District A's overhead rate. This correction, if made, will further increase the average overhead rate attributed to the other four air districts.

Another metric that can be used as a measure of overhead cost is the ratio of management and administrative personnel (i.e. management, legal, clerical, information technology, accounting and payroll, purchasing, fleets, maintenance) to total staffing. As illustrated below, the Valley Air District has the lowest management and administrative staffing ratio, even when compared with the districts that receive administrative support from their respective counties.

District B	39.50%
District D	27.90%
District C	27.00%
District A	24.50%
San Joaquin Valley APCD	22.90%

Regardless of which metric is used, the District's low overhead is even more remarkable when considering the geographic size of the District. At 23,490 square miles, the Valley Air District is larger than a number of states and is the largest air district in the state. To provide adequate service, this requires that the District maintain three offices. Having three offices demands added administrative and management resources. Despite that, the District has one of the lowest overhead costs throughout the state.

The consultant's methodology also did not consider the districts' total budget. It only focused on the operating budgets in calculating overhead rate for this benchmark. For the Valley Air District, nearly 75% of the budget is made up of incentive funds that require significant administration and management resources.

Benchmark 4 - Public Outreach:

Benchmark number 4 has both quantitative and qualitative aspects. The consultant reports that the San Joaquin Valley APCD public outreach expenditures were between \$.50 and \$.52 per person for the final four years of the study. During the same time period, the average expenditure by the other four districts averaged from \$.62 to \$.75.

As for the qualitative benchmarks, the study looked at a number of factors for general outreach and the Valley Air District was given a score of 4 out of 5. For its website the Valley Air District received a score of 4.5 out of 5.

The report recommends that the District examine the Bay Area AQMD and Sacramento Metropolitan AQMD's teacher training programs to expand its current pilot program. The report also points out the need for quantifying air quality benefits achieved from public outreach.

District Observations: *We are pleased with the report's findings that show that despite a lower expenditure per capita, the Valley Air District ranks high when it comes*

