

RECORD OF MEETING
LANE REGIONAL AIR PROTECTION AGENCY
BUDGET COMMITTEE MEETING
TUESDAY–MAY 3, 2007
Library Meeting Room
Springfield City Hall
225 5th Street, Springfield, Oregon

ATTENDANCE

Board: Don Hampton, Chair–Cottage Grove/Oakridge; John Ahlen–Eugene; Bill Carpenter–At-Large, Springfield; Glenn Fortune–At-Large, General; Robert Houston–At-Large, Springfield; Drew Johnson–Eugene; Earl Koenig–Eugene; David Monk–Eugene; Pat Patterson–Cottage Grove/Oakridge; Dave Ralston–Springfield; Faye Stewart–Lane County; John Woodrow–Springfield (ABSENT: Eric DeFreest–Eugene; Landa Gillette–At-Large, General; Kevin Matthews, Vice-Chair–Eugene; Suzanne Pearce–Eugene; Betty Taylor–Eugene; Kevin Wells–Lane County)

Staff: Merlyn Hough–Director; Merrie Dinteman; Doug Erwin; Max Hueftle; Sally Markos; Kim Metzler; Nasser Mirhosseyeni

1. OPENING: Chair Don Hampton opened the meeting at 11:07 a.m.
2. DISCUSSION OF PROPOSED BUDGET FOR FY 2007/08: Hampton thanked Mirhosseyeni for the executive summary of the budget which he had prepared in response to the committee’s request at the April meeting. He said he though it explained the different sources of income and the expenditures, and that it did an excellent job of highlighting the major differences in the proposed budget from the current budget and explaining why those differences occurred.

Staff explained the general structure of the budget and changes from the current budget, and several subjects were discussed by the committee.

General Structure of the Budget. Mirhosseyeni provided some replacement pages to be inserted into committee members’ copies of the proposed budget document. He explained that the three columns on the right-hand side of the document pages represent the proposed budget figures, the figures approved by the budget committee, and the figures adopted by the board. Following the first budget committee meeting, Mirhosseyeni said, he did not receive any comments or suggested changes from budget committee members. He therefore updated the numbers in the center column prior to this meeting. If the discussion at this meeting were to result in any changes to those numbers, the new figures would be published prior to the hearing date. The blank column on the right side will be filled in after the budget has been adopted by the board.

Hough also pointed out, on the All Funds Summary page, that the beginning fund balance is different this year than it was last year. The figure is much larger this year because of GASB requirements that all assets must be included in the beginning fund balance. Under the old accounting requirements, this balance was cash, only. Under the new GASB requirements, the figure includes cash, plus all assets such as buildings, vehicles, equipment, etc. Hough said he wanted to be sure everyone understands that the figure in that balance does not represent the cash reserve that the auditors have recommended that LRAPA build to provide funds for three to six months of operation. Mirhosseyeni said the cash reserve at the last audit was about six or seven days. That number is expected to increase at the end of the current fiscal year to about a month’s worth of operating cash. Mirhosseyeni commented that the All Funds Summary page does not show a balanced General Fund, in that expenditures are greater than revenues. However, subsequent detail pages show transfers from other funds to balance the General Fund.

Mirhosseyeni said that one of the biggest differences in this year's budget from previous years is that the programs have costed out according to what it actually takes to operate them. He said committee members might see some decreases in some line items; however, those line items are going to be compensated by the programs which are going to assume some of the costs, based on the allocations.

Increase in Employee Compensation. Adjustments in personnel compensation include a 3 percent cost-of-living increase effective July 1, 2007. This amount was determined after doing a comparison with local governments over the past five years. The amount in the benefits for cafeteria plan is also increased by 10 percent to compensate the 15 percent increase projected in the amount employees must pay for health insurance premiums. Hough commented that the budget is similar to what it has been in the past; however, Mirhosseyeni looked at the individual categories in greater detail than before and made adjustments where it seemed appropriate.

Staffing. Woodrow asked for clarification of the figures in the staffing plan, because the number under "LRAPA FTE Count" is different than the staffing count. Mirhosseyeni explained that the staffing count is not straight FTE because it takes pieces of different staff members' time to complete various portions of the agency's programs. The total staff count is higher than the total FTEs because some of the staff are part-time. Mirhosseyeni said the staffing page of the budget drives the budget for staff, in terms of how everything is allocated and how the salaries are distributed among different projects.

Monk asked about payments to DEQ remote operators. Mirhosseyeni and Hough explained that DEQ has contracts with individuals in remote areas of the state, to provide routine service to DEQ monitoring equipment rather than sending someone out from one of DEQ's offices to do that. The way the state system is set up, it is much easier for LRAPA to take care of payroll for those individuals than it would be for DEQ. DEQ pays to LRAPA the amount of money owed to those individuals, plus 22 percent for fringes. DEQ pays LRAPA enough extra to cover administrative costs to provide this service.

Special Projects Funding. Referring to the financial report for the period ending March 31, 2007, Koenig noted that the budget for the DOE/Regional Ethanol Distribution Project was \$662,425, and the actual spent so far was \$32,000. He asked if the large variance in those numbers is because it is still early in the project. Mirhosseyeni confirmed that not much of that money has been spent, yet, because LRAPA has not yet really begun work on that project.

Mirhosseyeni and Hough explained in more detail what is happening with the Everybody Wins Program. Page 19 in the budget shows cash balances, including \$59,000 for the Everybody Wins Program. Mirhosseyeni said that figures does not include the reserves which are being held, in the event that there are defaults on payments. Hough said staff has viewed Everybody Wins as a several-year program, with the bulk of the costs being incurred during the first year, getting the Auxiliary Power Units installed on the trucks. A grant from EPA has been paying the interest on the loan to the Department of Energy, and the payments received from people who have APUs are going to make the payments on that loan. The nature of the program is that a reserve is built up over the first few years, and that tapers off as funds come in and funds go out. The key variable is what the default rate ends up being. The original plan included a very conservative 10 percent for defaults, and the program has been experiencing a much lower rate than that. The picture at the end of the multiple-year program is expected to be much better than the original projection, but it is important to have that reserve to draw on, because that tapers off over the years of the program. Mirhosseyeni added that a large contributor to that reserve is the tax credits that LRAPA has gotten and will get. The tax credit for Phase I

of the Everybody Wins Program, which has already been received, was \$300,000. The tax credit for Phase II is projected to be about \$600,000 which would bring the reserve closer to the \$1-million LRAPA hopes to reach. Mirhosseyni explained further that the tax credit for the units is 35 percent of the cost of the unit. The tax credit is transferred to a business entity that owes state taxes, and that entity keeps 9.5 percent and gives LRAPA the remaining 25.5 percent of the total 35 percent tax credit.

Monk asked what goes into building the reserve for Everybody Wins to \$1-million, and Mirhosseyni said it will be the tax credits, plus the payments which are coming in from people who have installed the APUs. The original installation cost includes \$1,000 extra per unit, for defaults, which goes directly to the program reserve. Ahlen said it was his understanding that Everybody Wins will eventually be phased out of LRAPA in favor of the larger geographic project taken on by Cascade Sierra Solutions. He asked if the Everybody Wins reserve is anticipated to be used for defaults, or if it is to eventually be returned to LRAPA's General Fund after the completion of that program. Mirhosseyni said whatever is left at the end of Phases I and II will be returned to the LRAPA General Fund reserve. There are costs associated with maintenance of the program during the life of the leases which are being paid. The work load has shifted from the Phase I effort to install the APUs on trucks, to the Phase II monitoring aspect to determine how much the units are being used and where and use that information to calculate estimated emissions reductions and fuel savings. Installing GPS units on the trucks to gather that information is a condition of the EPA grant which is paying the interest on the loan to the Department of Energy. There still needs to be staff to take care of Phase II and to see Phase I through to the end of the last lease. Because there is no funding coming in, the staffing is being paid from the reserves in the fund from the tax credits and lease payments. Whatever is left in the reserve at the end of both phases of the program is what will come back to the LRAPA General Fund reserve.

Monk asked if the budget includes the contract with LCOG to provide the GPS units for the monitoring phase of Everybody Wins. Mirhosseyni said that amount was \$80,000 in the current budget and is the same in the proposed budget, because the total amount of the contract was \$190,000. LRAPA contracted with LCOG for LCOG to produce something which will work to gather the information EPA wants to have about the use of the APUs that have been installed on trucks through Everybody Wins. Mirhosseyni said he believes LCOG has gone through a couple of products so far and, once the final decision is made as to which one to use, LCOG will be paid for the units for the test phase of the monitoring program.

Air Monitoring. Patterson asked if LRAPA will be in a position to do more monitoring out in the field if it is necessary, and Hough said the biggest question mark is the air toxics monitoring because it is the most expensive of the air monitoring that LRAPA does. A lot of the cost is laboratory analysis, whether it is done by a private laboratory in California called Air Toxics or the DEQ laboratory in Portland. With the other types of air monitoring LRAPA does, the agency has been able to free up a monitor when a need has arisen. Hough said staff hopes to set up a monitoring station in the Florence area. The city has had a number of citizens concerned about open burning and slash burning smoke in recent years. The city of Florence has implemented an open burning ban within the city limits. LRAPA would like to monitor there because the agency has not had any background data for that part of the county. Staff would also like to put a nephelometer in at Cottage Grove to complement the data from the filters that are now being collected there and provide real-time particulate data for Cottage Grove.

Title V Fund. Mirhosseyni explained that the Title V revenues projected in the proposed budget include a CPI increase over the current year's revenues from that source. He said the \$480,000 figure in the budget for Title V revenues also includes construction fees which the agency expects to receive. The program costs actually will exceed the program revenues, and LRAPA would depend on reserves of Title V revenue from

the current year to cover that gap. Hough added that there is currently a bill before the Legislature which would increase the base Title V fee. The DEQ's original request was for an increase in fees of 24 percent, to try to catch up with the erosion of FTE available to do that program over the past several years. There is a compromise being considered which would result in a multiple-year increase of something like 8 percent per year increase over three years, for a total increase of 24 percent. Hough said if the Legislature approves that compromise, it may help to make up the shortfall identified in the current budget. Otherwise, staff will draw off the carryover of title V fees from this year. He added that one reason there are carry-over funds is that LRAPA did not have all of its Title V positions filled for the entire year. Mirhosseyni stressed that Title V fees are to be used exclusively for the Title V program, and whatever is not spend in a given year is carried forward into the program for the next year. General Fund includes the federal base grant, the Oregon General Fund allocation, the local contributions, and additional pass-through grants such as the ethanol grant and the bridges program.

Airmetrics Enterprise Fund. Carpenter noted that the Airmetrics budget has dropped substantially in the past couple of years. He said he is concerned about that drop-off in revenue because Airmetrics is a revenue source for the agency. Mirhosseyni responded that Airmetrics sold over 500 samplers in FY 2005/06, making that the best year in Airmetrics' history. The majority of those units were sold to the US military in preparation for the surge they had in Iraq. Sales leveled off in FY 2006/07, and the proposed budget for FY 2007/08 basically reflects the inventory that is built but not yet sold. Carpenter commented that the reserve indicated under "Ending Retained Earnings" for Airmetrics is also down significantly. Mirhosseyni said the difference is what Airmetrics is contributing to the general operation of LRAPA. In FY 2006/07 that contribution will be about \$70,000, and the proposed budget assumes about the same contribution for FY 2007/08. Mirhosseyni explained that the contribution is in the form of allocations to the LRAPA General Fund for salaries for the work done for Airmetrics by LRAPA employees, as well as some indirect costs. Carpenter was still concerned because the proposed budget shows an ending profit of just \$320, and yet Airmetrics is projected to contribute \$70,000 to LRAPA's General Fund. He said that cannot continue for very long before there will no longer be any money. Mirhosseyni responded that if demand for the product goes up, Airmetrics will realize additional profit on the existing inventory. The Airmetrics manager, Jerry Boyum was meeting with a Research & Development person at the time of this board meeting to determine how the product can be improved, which should generate greater interest and more sales.

Hough said Carpenter's concern is valid, and there has been a continuing discussion about not becoming dependent on Airmetrics for LRAPA's budget revenue. It is an uncertain market, and most sales these days are overseas (besides the sales to our own military that are used in other countries). The bulk of sales in recent years have been to South Korea and other foreign countries, and there is some indication that that particular market may be becoming saturated. Airmetrics provides replacement parts for existing samplers, as well as filter weighing services; however, the technology of the unit is a few decades old so LRAPA cannot be too dependent on that income.

Koenig asked what the lead time is to ship the product after an order for multiple samplers comes in. Mirhosseyni did not have a specific answer but indicated it is usually done pretty quickly. Hough added that if a large order comes in, Boyum asks air monitoring staff to work over time to meet that demand. Part of the flexibility of this enterprise fund is to be able to respond to those orders by having existing staff work overtime, rather than adding more staff. Carpenter suggested that this might be a topic the board should discuss during the strategic planning process.

Patterson asked if the sampling equipment has remained the same over the years, and Mirhosseyni responded that the sampler has been modified and upgraded. Most recently, new computer boards have improved the MiniVol. Hough added that when the standard for particulate changed from PM10 to PM2.5, the MiniVol was modified to include an inlet head that was specific to PM2.5. When there are improvements, the price is adjusted to cover those costs. Patterson also asked if staff goes back to previous customers to offer the newer versions of the sampler. Mirhosseyni did not have a specific answer to that question, although he said Airmetrics does have return customers who are buying the newer units. He stressed that staff still services the older units, as well, which is also part of the revenue of the program.

Level of State Funding for LRAPA. Patterson asked what the status was of LRAPA's request for additional funding from the State General Fund, through DEQ, and if LRAPA would likely receive more money from that source this year than it has been receiving. Mirhosseyni said the precise level of funding LRAPA will receive from that source is not yet known; however, the Governor's proposed budget included a significant increase in funding for LRAPA. LRAPA staff talked with DEQ staff and were advised that the most official number to use in LRAPA's proposed budget, and what DEQ is proceeding with in its own budget, is the Governor's recommended budget. Monk commented that the amount recommended by the Ways & Means committee is much less than the amount in the Governor's recommended budget and that figure would seem to be closer to reality. Hough responded that the major reductions in Ways & Means on DEQ's budget, compared to the Governor's recommended budget, are in other places that do not affect LRAPA's request. LRAPA is aware that if those funds are not restored in those other areas, it will impact the area of DEQ's budget which does include LRAPA.

Hough said LRAPA has gotten \$45,000 per year from the State General Fund for the past two years, which is the least the agency has received from that source in its history. LRAPA's request for the next biennium was larger than the \$166,000 per year what is now integrated into DEQ's budget. The \$166,000 per year would be a full restoration to historical levels, even when adjusted for inflation and population growth. Hough said the process, so far, has gone well, but the state contribution will not be known, for sure, until the Legislature acts on DEQ's proposed budget.

Stewart noted that, in a worst-case scenario, if LRAPA is not successful in getting the increased funding from the state, and if Lane County is not successful in getting the Secure Rural Schools payments restored by the federal government and is therefore unable to make its contribution to LRAPA, the shortfall to the agency would be about \$240,000. He asked if staff had recommendations of how to make up the difference. Hough said staff has a specific plan if one of those two things happens. If one of those two things happens, there is a new position in the proposed budget which would not be filled. Those savings, in combination with the money in the General Fund reserve, would be enough to be able to handle one of the two shortfall possibilities. If both of those shortfall possibilities happened, staff would need to look at the budget numbers again and make some adjustments. Stewart said it appeared that the only place to make up that shortfall would be in staffing, and Hough agreed that is right.

Monk asked when the outcome of those two issues would be known, and Stewart said the County's issue should be resolved by the first of June. Hough said it would probably be the end of June before the outcome of LRAPA's request for additional General Fund dollars will be known.

MOTION: Woodrow MOVED that the committee approve the budget, contingent on whether the funding received from the state General Fund and Lane County result in a budget which is within 10 percent of the proposed budget, as presented. Carpenter SECONDED THE MOTION.

Discussion of Motion. Ahlen said this is his second year on the LRAPA Budget Committee, and a question which has come to him during both budget processes is, why it is important for LRAPA to have community involvement in the budget process. He said part of it is just to logistically provide for community input; but also he feels that it is important to be able to make the most of the time that the community is providing. He said one way of doing that is through strategic planning, which he knows is taking place over the next few months. He said that is one way to take the budget numbers and link them to some of the strategic goals, and to find ways to have measurable outcomes, combining both the budget and the mission statement.

Hampton commented that last year there was comment by a budget committee member that LRAPA needed to do a better job of utilizing their website to tell people what they are doing. He said he has not monitored that effort to see what progress has been made. Hough reported that Kim Metzler presented update information on the website at the last advisory committee meeting. That had to do with Supplemental Environmental Projects for which enforcement penalties could be used in lieu of paying a cash penalty. That has recently been added to the agency's website. In the process of bringing that information to the website, Metzler critiqued a number of SEP programs, nationwide, took the best of those and improved upon them, and put that on LRAPA's website.

Metzler said she and other staff have been working to provide better information on the agency's website regarding asbestos. So far, work has centered on providing easier access to the agency's asbestos rules and to the forms and other information used with those rules. Asbestos will have its own section on the website. Other housekeeping changes have been made to the site in an ongoing effort to keep the site current and as useful as possible.

Ahlen said he agrees that LRAPA is doing a much better job this year of providing information to the public, and now is a good time to look at what information is being provided. He said it would be valuable for the public to be able to go to the website and look at the budget and then look at how goals are being implemented and how the agency's efforts are helping to make it successful: what the public is getting for the money in LRAPA's budget.

In considering the motion, Monk said he is concerned that there is a high probability that the agency will come up short on funding from both the state General Fund and Lane County. Monk also asked about Title V. He said he understood that the expenditures for Title V are greater in this proposed budget than the revenues, and that the program will depend partially on reserves from the current budget. Mirhosseyni confirmed that there is \$110,000 in carryover from the current fiscal year to fund the program at the beginning of the next fiscal year. If the Legislature approves the DEQ's requested increase in Title V fees, LRAPA's Title V program in FY 2007/08 will be less dependent on the carryover from FY 2006/07. Monk asked Hough if LRAPA can catch up to a revenue-neutral position on Title V, if the Legislature approves a graduated increase rather than the immediate 24 percent DEQ has requested. Hough said he believes the program can be revenue-neutral. He said LRAPA's program is very similar to DEQ's, and the request DEQ has made are similar to what it would take for LRAPA to balance its Title V program budget. Monk said he sees a lot of planning and emissions inventory work in the budget that he has not seen in the past from his following the agency's budget over the year from "outside." Monk said he sees a lot of revenue being expended for individual staff members who are being asked to do that work, but the work does not seem to happen. He said he is concerned that the planning and emissions inventory work will not happen in the future. He wants to see what the agency intends to accomplish, how much money is spent over the fiscal year, what the end product is for that investment, and that the information be conveyed to the public. Hampton commented that

the agency's annual report sometimes includes information about what the agency's successes and progress have been.

Houston said one of the things his industry is required to do is to put out public surveys to reach the public with whom they deal and find out how their efforts are perceived by those individuals. The survey responses are received and used to try to target areas where they need to improve or to highlight areas where they are doing well. That information is provided on line. Hampton said he knew that LRAPA surveys some clients and asked Metzler to expand on that. Metzler confirmed that LRAPA does have a regular comment process. A card goes out to people with whom the agency deals, such as industries that get permits and others who deal directly with agency staff. Metzler said she believes those comment survey cards go out to everyone except people who receive enforcement actions and civil penalty assessments. The information gathered is used similarly to Houston's description of how his agency's survey information is used. LRAPA also does general surveys of the community, as a whole, every few years. Metzler noted that it is time to do that again.

Carpenter asked if staff plans to have an alternate budget available at the June 7 board meeting, which would lay out what the differences would be if the worst-case scenario occurs and requested funding from the state and Lane County do not materialize. Hough said if the Title V increase is approved by the Legislature, that will help to offset any shortfall from the other two sources by offsetting the LRAPA General Funds that are being used to help balance the Title V budget in the proposed budget document. He said his understanding is that, as long as the budget is within 10 percent of what is approved by the budget committee, the board can adopt it without having to come back to the budget committee. Mirhosseyni added that, if the Title V increase were denied, and the state and Lane County funding did not materialize, the whole budget process would need to be reopened, if those losses resulted in a difference of more than 10 percent from what is proposed. Mirhosseyni said the proposed budget includes some contingencies, to use the General Fund reserve and not fill the intended new position. Those contingencies would allow the agency to adopt a balanced budget under a worst-case scenario regarding Title V, state General Fund and Lane County revenues. Mirhosseyni went on to say that the county contribution is about 2 percent of the total budget, as is the state General Fund contribution. Those two things together would be less than 10 percent. Hough also added that, while the county contribution has the potential to be all or none, the state contribution would still be \$45,000 as it has been for the past few years.

Hampton commented that a budget is a "snapshot in time," meaning that the revenue picture could look very different in a few months. In addition, the budget is an authorization to spend up to the amounts specified. The agency is not required to spend the entire amount that is budgeted, and adjustments could be made during the year if the revenues received are not as anticipated in the budget.

Ralston asked for legal clarification regarding what would happen if Lane County could not make a contribution for FY 2007/08. Staff member Dinteman said that one year the county made only a token contribution of \$2,500. The other participants discussed the situation and allowed the county to make that small contribution that year, contingent on their making a full contribution the following year. The county retained its seat on the LRAPA board, the agency continued to operate as usual during the year with the low contribution, and the full contribution was made the following year. Ralston asked if that was a legal opinion, and Dinteman said the agency's practice at that time was to always have legal counsel present at board meetings, and legal counsel had voiced no objection to the arrangement. Ralston then asked what would happen if the county were to decide not to participate in LRAPA at all any more. He said it would then be clear that they would lose their seat on the board, and there would be other legal concerns about what it would take to maintain the agency without county participation. He said he believed he already has answers

to that question; however, he wanted to be sure the board understands that it could be looking at some other decisions, down the road, depending on what the county does.

Monk said he does not believe the county does not want to have representation on this board; however, it is an interesting question. He then asked Hough about an earlier part of this discussion regarding Title V. Monk said Hough had said that General Funds would be used for the Title V program to offset potential loss of revenue from the county or the state, but he thought Mirhosseyni had said Title V would be funded at the beginning of the fiscal year by carryover funds from its own fund. Hough said Mirhosseyni was correct but that his point was that General Funds are more flexible and could be used to fill a gap in Title V funds if necessary. Monk commented that the agency would not want to use General Funds to offset Title V because, by law, that program is supposed to pay for itself. Mirhosseyni confirmed that point.

Woodrow called the question.

VOTE: The motion was approved by unanimous vote. All committee members present at this meeting voted to approve the motion. In addition, Hampton said he had word from Eric DeFrest and Landa Gillette, both of whom said they were in favor of approving the proposed budget for adoption by the board. (The only people who did not vote or send word of their preference were Kevin Matthews, Suzanne Pearce, Betty Taylor and Kevin Wells.)

3. ADJOURNMENT: The meeting adjourned at 12:47 p.m. This was the last scheduled meeting of the LRAPA Budget Committee for 2007.

NASSER MIRHOSSEYNI
BUDGET OFFICER

NM/MJD