

Overview of

CLEAN AIR

*Title V Financial
Management and Reporting*

**A Handbook for Financial Officers
and Program Managers**

Produced by
Environmental Finance Center
Maryland Sea Grant College
Environmental Protection Agency



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INTRODUCTION

Title V of the Clean Air Act Amendments of 1990 (P.L. 101-549) establishes an operating permit program for stationary sources of air pollution. Title V requires that state agencies and local air programs collect fees from air permit holders to support operation of the permit program. Since the passage of the Clean Air Act, states have been working diligently to address the many challenges associated with the implementation of the Title V program. All states and U. S. territories (6) have submitted operating permit programs to EPA for approval. Most of these programs have been approved.

Among the myriad challenges confronting states in designing and implementing the Title V operating permit program is the need to address associated financial management responsibilities. This document explores the financial challenges air quality agencies face when implementing the Title V program. The goal of the document is to help state, local, and federal air program personnel—especially those with limited financial management experience—to understand the fundamentals of financial management and reporting. It provides an overview of Title V program financial management challenges, discusses generally how states are addressing these challenges, provides state-specific examples of Title V management and reporting practices, and discusses pros and cons of various approaches to financial management.

This overview report was developed to be an introductory guide to key Title V financial management responsibilities — but should not be considered to be formal EPA guidance. The report was developed through a broadly designed interview-survey process that explored the state/local application of general government accounting, budgeting, and financial reporting concepts to the Title V program. The primary target audience for this document includes state and local air quality agencies that are in the process of developing or refining the financial management and reporting aspect of their Title V programs.

The remainder of this report is presented in five sections. The next section provides a brief description of the Title V management challenges as were identified through the research phase of the project. Sections three, four, and five explore the primary financial management challenges. The findings of the study are summarized in the conclusion section of this report.

How Many Air Programs Are There?

There are 56 state (including the District of Columbia and Territories) and 60 local air operating permit programs in the United States. Most states in the U.S. have a single program account for all air program operating procedures, fees, and permits within their state.

In eleven states there are also local air programs. Some states allow these local programs to collect and

distribute their own Title V fees. In other states, however, a state agency collects all Title V fees and distributes them to the local programs. In California, on the other hand, there is no state program at all, and all 34 local permitting authorities submit operating permit programs directly to the EPA.

There are no multi-state Title V permit programs. There are, however, some multi-state boards which discuss certain environmental issues, including air pollution and Title V permits.

**CLEAN AIR ACT
OPERATING PERMITS PROGRAMS**

Region	Number of States/Territories	Number of State Programs	Number of Local Programs
I	6	6	0
II	4	4	0
III	6	6	0
IV	8	8	10
V	6	6	0
VI	5	5	1
VII	4	4	2
VIII	6	6	0
IX	7	7	39
X	4	4	8
Total	56	56	60

STATES WITH LOCAL PROGRAMS

Region	State	Number of Local Programs
IV	Alabama	2
IV	Kentucky	1
IV	North Carolina	3
IV	Tennessee	4
VI	New Mexico	1
VII	Nebraska	2
IX	Arizona	3
IX	California	34
IX	Nevada	2
X	Oregon	1
X	Washington	8

Overview of Title V Program Management Challenges

The introduction of the Clean Air Act Title V Fee Program presented many challenges to state air quality agency personnel, specifically in the areas of financial management and reporting. Historically, these agencies have been involved with the implementation and management of the Section 105 program, funded by federal grants. Conversely, Title V does not provide federal grants to state air quality agencies for program implementation. Instead, the Title V program is designed to be completely self sufficient, relying on fees received from Title V permittees to offset program expenditures. In many cases, the Title V program is the first major fee-based program implemented by state air quality agencies.

Learning to fiscally account for fee-based program revenues and expenditures is the primary challenge facing air quality agencies that have historically dealt primarily with grant-based programs. Further, these agencies must now learn to manage fee-based and grant-based program resources simultaneously. The Title V program requires state air quality agencies to account for Title V resources in a fashion that segregates them from other air quality programs, requiring state agencies to review the methods used to account for program resources.

Based on interviews conducted with state and local air program personnel, the financial management and reporting challenges facing Title V program agencies can be broken down into three categories:

- ***Time Keeping and Cost Allocation.*** As a result of Title V, air quality agencies modified procedures for tracking and distributing labor and non-labor costs among Title V and non-Title V programs. A key challenge these agencies face is addressing the manner in which indirect costs are allocated to these programs.
- ***Accounting Fund Structures and Controls.*** In establishing the Title V program, air quality agencies had to select an accounting fund structure for the Title V program. Different fund structures are recommended for different types of activity by the governmental accounting industry. Also, the fund structure would need to assure the permit program is managed as a segregated set of accounts to assure compliance with the Clean Air Act.

- ***Internal and External Reporting.*** Finally, those agencies implementing the Title V program are developing internal and external reporting procedures for their stakeholders. Assessing the success of the Title V program will rely heavily on the use of sound reporting practices.

These categories follow the natural sequence of actual financial management activities. First, the flow of financial information begins with the initial input of labor cost information in the time keeping process. Next, financial information is organized in the budget and accounting system. Finally, the information is reported in financial and other reports that are generated for internal and external reporting.

CHAPTER 1: TIME KEEPING AND COST ALLOCATION

Introduction

Time Keeping

The ability to accurately track time spent by employees is just as important in the government sector as it is in the private sector. Private sector businesses need to keep track of what their employees are doing — as well as when they are doing it — in order to minimize costs and maximize efficiency. While these goals are also important for governments, sound time keeping procedures also allow government accounting departments and program staff to monitor the labor charges from program to program. Government budgeting and accounting is characterized by strict segregation of the numerous programs.

This same argument holds true for the Title V program. Funds to be used to pay the engineers, managers, and administrative staff for working on Title V tasks must come from the Title V program. The only way to ensure the proper segregation of these labor charges is through the use of an appropriately designed time sheet process. Employees record their time on a daily basis by using different time codes, each of which refers to a unique account to which time is charged. After time sheets are submitted, the

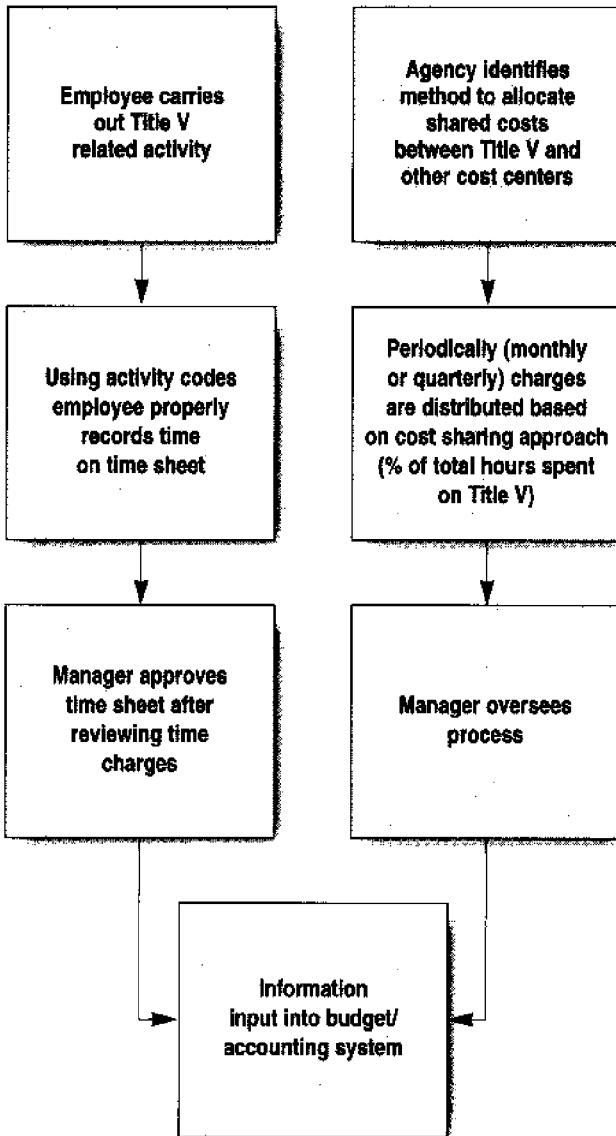
CHAPTER 1: TIME KEEPING AND COST ALLOCATION

total labor hours charged to each project can be calculated, either manually or through a computerized system. Most importantly, this information can then be used by accounting staff and managers alike to monitor the status of Title V, Section 105, or any other specific air quality program.

Cost Allocation

A primary function of any government accounting system is to record accurately revenues and expenditures as they are realized or incurred. Timely recording or posting of account activity is necessary in order to ensure up-to-date accuracy of financial reports that may be scrutinized by a variety of entities. While timeliness is important when measuring the effectiveness of an accounting system, it is also necessary to review the manner in which expenditures are allocated to various revenue sources. The costs of implementing a fee-based program such as Title V should be recovered by the revenues realized through the operation of that same program. In order for this to occur, effective governmental accounting systems need to record all direct and indirect costs associated with program implementation in a manner that allows those costs to be identified or recognized — as a Title V program expense, for example. Once the accounting system has identified the program(s) to which the expense is attributed, the expense can then be allocated, offsetting the corresponding revenue source(s). Figure 1 graphically depicts the flow of information associated with the time keeping and cost allocation process.

FIGURE 1: COST ALLOCATION AND TIME KEEPING ACTIVITY



Allocating Title V Costs

Numerous costs are associated with Title V program implementation, all of which can be allocated in a variety of ways. Direct labor includes those professionals who can attribute all or a portion of their work to the Title V program. Indirect labor includes the administrative and managerial personnel who provide general support for the entire air quality division or department. Direct (non-labor) costs are those costs incurred through the direct implementation of the Title V program. Finally, indirect (non-labor) costs are those costs incurred by the entire air quality division or department that will benefit all air programs. Examples of each of these types of expense are presented below.

Expense Category	Examples
Direct labor	<ul style="list-style-type: none">• Employees responsible for Title V permitting• Air quality engineers conducting permittee inspections
Indirect labor	<ul style="list-style-type: none">• Managers of air quality agencies• Air quality agency administrative support staff
Direct (non-labor)	<ul style="list-style-type: none">• Travel expense to visit Title V permittee• Telephone charges for Title V program tasks
Indirect (non-labor)	<ul style="list-style-type: none">• Office supplies for air quality agency• Utilities for air quality agency

Direct Cost Allocation Overview

Allocating the appropriate direct costs to the Title V program is best accomplished by using time sheets, either manual or automated, that can interact with the government accounting system. With such a system in place, assigning direct costs to various air quality programs is a straightforward process. Air quality department employees fill out time sheets weekly or bi-weekly to reflect the number of hours spent on various tasks. By assigning a unique account charge code to each task, accounting staff are able to track, in detail, the amount of direct labor charged to each air quality program. This information allows accounting departments to reconcile direct labor charges with the Title V program budget and also provides Title V program managers with information on how labor is being distributed across various air quality programs such as Title V, Section 105, and others.

Direct, non-labor charges should be allocated using the same approach. Air quality employees that charge direct expenses, such as travel, to air quality programs can use the same accounting charge code procedures as for direct labor.

Indirect Cost Allocation Overview

Charging indirect labor and non-labor costs to various air quality programs is much more challenging than under the direct cost scenario. In order to maintain efficient and accurate accounting practices, air quality program accountants and managers alike need

to ensure that all indirect costs are recovered, and that they are recovered equitably.

The most practical method of allocating indirect labor costs to Title V and non-Title V programs involves using direct labor charges as an index. Under this framework, indirect labor charges are allocated to Title V and non-Title V programs based on the number of direct labor hours charged to the various air programs. For example, if Title V direct labor charges represent sixty percent of the total direct labor charges within the air quality division, assigning sixty percent of the indirect labor costs to the Title V program is justifiable. It can be assumed that sixty percent of the secretarial and managerial support time is being spent on Title V related tasks under this scenario. Percentage allocations for indirect labor costs can be adjusted weekly or monthly, based on the direct labor charges for that period.

Allocating indirect non-labor costs among Title V and non-Title V is more complicated. As indirect costs are to be shared among a variety of programs, they should be allocated in a manner where the program receiving the greatest benefit from the source of the cost is responsible for the majority of the cost recovery. Unfortunately, this presents a tedious and complicated task for accounting staff. Instead, common practice usually involves the same process as described for indirect labor; as the indirect non-labor costs are allocated based on the percentage direct labor charged to each program. However, some state programs use their own discretion for allocating these

costs, often treating indirect non-labor costs as general overhead and charging to each air quality program equally. State-specific approaches to this type of cost allocation are described in the next section.

State Title V Programs

Accounting personnel from state air quality divisions across the country were contacted in order to determine the common practices regarding cost allocation for Title V and non-Title V programs. The majority of the state air quality agencies interviewed rely on the methods described and recommended in the previous section of this document when tracking time, and allocating and recording costs.

The table on page 8 contains a sample of the states contacted and describes their approach to cost allocation.

Time Keeping

Of the state air quality divisions contacted, all but one require the completion of weekly timesheets to provide accounting and program staff with a detailed account of where time is spent during the week. To complete the timesheet, employees must provide the number of (direct labor) hours worked daily on each particular task, each of which identified by its own unique account/charge code. The level of detail in the account/charge code system varies from state to state, but at the very minimum, the Title V program is represented by its own unique identifier. The majority of the time sheet systems in the state air quality agencies

TITLE V COST ALLOCATION AND TIME KEEPING PROCEDURES

State	Cost Allocation	Time Keeping
<i>Maryland</i>	Non-labor costs are allocated to each program (Title V, non-Title V, 105) based on direct labor charges to each program. Maryland's sophisticated MIS (Management Information Systems) allocates these costs based largely on the Program Cost Accounts (PCAs) employees use to charge their time.	Time sheets are used to allocate labor to appropriate accounts. Title V will also use the PCA system, which drives a number of other fiscal reports as well as indirect charges. Time sheet and financial reporting systems are very closely integrated.
<i>Mississippi</i>	Non-labor costs are allocated to each program (Title V, non-Title V, 105) based on direct labor charges to each program.	Pre-printed time sheets are used and interface with MIS by account code. Employees are prevented from charging non-air-related accounts. Title V is only one account code — more detail is desired by department. Summary reports distributed to program managers monthly.
<i>North Carolina</i>	Non-labor costs are allocated to each program (Title V, non-Title V, 105) based on direct labor charges to each program.	Time sheet system will interface with new accounting software. Time tracking began in 1994 and divides staff time into a number of categories, including Title V. Activity codes are used to identify specific tasks charged to under the Title V category.
<i>Oregon</i>	Non-labor costs are allocated to each program (Title V, non-Title V, 105) based on direct labor charges to each program.	The sophisticated on-line accounting system interfaces with the employee time sheet system, using very detailed task codes to reflect employee charges to Title V.
<i>Pennsylvania</i>	Non-labor costs are allocated based on program staffers' recommendations as to the relative percentages that should be charged to Title V & non-Title V. PA is working on a more exact allocation system.	Time sheets are filled in manually, but contain codes corresponding to low-level tasks for the Title V program. Information is entered into MIS and reports are generated showing expended funds per employee, per task, etc.

are computerized and interface with the other management information system(s) (MIS) in place in the state. This relationship among computer systems allows timesheet information, for example the total number of hours charged to Title V for the week, to be immediately reflected in the Title V budget system.

Figure 2 shows an example of a completed time sheet. In this example, the actual codes and sub-codes used to segregate tasks correctly are shown in the first two columns under the "Project" heading. This particular employee has divided his or her time among six unique tasks, necessitating six unique account codes. The first three activities are "NSR" ("New Source Review") subtasks. The last three project functions listed are OPP (Operating Permit Program) activities. The second column lists the operating permit program activity (section code). Based on this information, accounting and program personnel can review the time sheet and know exactly how much time was spent on each task and to what accounts that time should be charged, all without any guesswork. Figure 2 includes the actual pages from the same air quality agency that list and define the appropriate account sub-codes for the state air activities including the Title V Operating Permit Program.

Labor Costs: Direct

Direct labor, those hours dedicated to a specific task, are accounted for using the time sheet system described above. Employees simply enter the number of hours worked and the account code (or sub-code if

FIGURE 2

 LAST, First NAME (Print)

 EMPLOYEE SIGNATURE:

 CERTIFIED BY:

THE FOLLOWING STATEMENT APPLIES
 TO ONLY NON-EXEMPT EMPLOYEES
 I certify that this statement represents the hours worked
 by me each work day and work week of this pay period
 and the pay to which I am entitled for this pay period

PROJECT FUNC. SECT.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	TOTAL
	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	
NSR 014	2.00		4.00					8.00		6.00					1.00	21.00
NSR 024				3.00					1.00		1.00	8.00			3.00	16.00
NSR 034	1.00	5.00							5.00	2.00					4.00	17.00
OPP INS	5.00			4.00					2.00		7.00					18.00
OPP PAR		3.00	4.00		1.00											8.00
OPP EIF				1.00	7.00											8.00
																0.00
																0.00
																0.00
																0.00
V.T.T.																0.00
S.L.T.																0.00
M.I.L.																0.00
A.C.T.																0.00
TOTAL HOURS	8.00	8.00	8.00	8.00	8.00	0.00	0.00	8.00	8.00	8.00	8.00	8.00	0.00	0.00	8.00	88.00

COMP. EARNED																0.00
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applicable.) After the time sheets are submitted and approved, the actual hours are charged to appropriate Title V or non Title V program.

Figure 2 also shows total direct labor charges for an air quality agency employee. The "Total Hours" line displays the total hours charged for the day and period (two weeks in this case), while the far right column "Total" shows the number of hours spent on each particular task.

**AIR QUALITY DIVISION
TIME SHEET BUDGET & ACTIVITY CODES
JUNE 21, 1994**

Operating Permit Program
Function Code OPP

Section Code

(Activity)	Explanation
INS	Facility Inspections and Report Writing/Staff Review
PAR	Operating Permit Application Review
EIF	Emissions Inventory/fee Assessment
REG	Regulation and SIP Development for Stationary Sources
AMM	Ambient Monitoring — See March 24, 1994 budget Chargeable Work Activities for list of activities.
VIS	Visibility Monitoring
CEM	CEMs Certification and Audits
SKT	Stack Tests Witness and Review

CPL	Review of Facility Compliance Reports
SBA	Small Business Technical Assistance Program
EPA	EPA Reporting
FIL	Filing
AQB	Air Quality Advisory Board
BPT	Budget Preparation and Tracking
CMI	Complaint Investigation (Stationary Source)
ENF	Enforcement prior to Filing in Court
ADM	General Administrative Duties. (Reserved for Administrator Secretaries, Program Manager)

New Source Review (NSR) Function Code NSR

Section Code (Project/Activity)

Assigned

Application # A Unique Application number is assigned for each application corresponding to company name and date of application

ADM General Administrative Duties
(Reserved for Program Mgr. and Administrator)

Non Fee Program (EPA 105 Grant and State General Fund)

Function Code
(Budget) 105

Section Code (Activity) and Explanation

AMM	Ambient Monitoring (See March 24, 1994 Budget Chargeable Work Activities for full list of activities)
ASB	Asbestos and Indoor Air
CMI	Complaint Investigation (Not related to stationary sources.)
REG	Regulation and SIP Development (Not related to stationary sources).
BPT	Budget Preparation and Tracking
ENF	Enforcement Activities-including all enforcement actions for asbestos and work after filing in court for stationary sources.
ADM	General Administrative Duties (Reserved for Administrator, Secretaries, and Program Manager)
RAD	Radiological Activities
RSI	Railroad Safety Initiative

Labor Costs: Indirect

For most of the air quality agencies interviewed, the process of allocating indirect labor cost is based on the direct labor tracking system described above. Labor costs for air quality division managers and

administrative support staff that are not directly attributable to a program activity code are allocated based on the percentage of total labor charged to each of the air programs, e.g., Title V, Section 105, etc. Using the employee time sheet system, the total number of direct labor hours charged to each air quality program is calculated along with the percentage that program represents of total direct labor charges. These percentages are then multiplied by the total number of indirect labor hours charged for the same period, resulting in the proper allocation to be charged to each air quality program. Most air quality agencies interviewed rely on their MIS to perform these calculations, while others make the calculations manually.

Non-labor Costs

Direct non-labor costs are allocated and recorded differently from state to state. Some agency staff that were interviewed rely on the time sheet system to track these costs, usually for travel expenditures that are to be charged to a particular program, e.g., a Title V permittee inspection. Other agencies use an independent expense authorization system to approve, pay, allocate, and record direct costs. Regardless of the subtle procedural differences, all agency staff interviewed use an account/charge code to ensure that the direct (non-labor) costs are charged to the appropriate air quality program, a code that usually differs from that used to allocate and record labor charges within the time sheet system. Additionally, all those interviewed relied on their agency's MIS at some level to charge direct costs to the various air program budgets.

As expected, allocating and recording indirect non-labor costs to the various air quality programs presents a greater challenge to the state agencies contacted. As described previously, indirect non-labor costs would best be allocated among various air programs by assessing the amount of benefit or usage each program realizes as a result of incurring the indirect cost. Again, measuring the relative contribution of each indirect expenditure to each air program could present a unacceptable administrative burden as attempts are made to calculate, for example, the amount of air conditioning costs to be charged to the Title V program. Instead, the majority of the state air quality agencies interviewed relied on the direct labor percentage calculation described above in order to allocate their indirect non-labor costs. The remaining states grouped these indirect non-labor costs into an overhead-like category, distributing the costs equally among all of the air quality programs. Again, all state agencies contacted rely on their MIS at some level to allocate, record, and post these costs to the proper air program budgets.

Lessons Learned by Air Quality Agencies

Although the Title V program is relatively new and state and local agencies are just now beginning to implement the accounting procedures necessary to manage the program, a few lessons have been learned that can provide insight for local air quality agencies as they develop their own programs.

Allocation Methods

Generally speaking, the methods used by various air quality agencies to allocate costs among Title V and non-Title V programs have been in use for many years. The use of time sheets and the practice of indexing indirect labor and indirect non-labor costs to direct labor hours has a long history in both public and private sectors. However, most of the agencies contacted expressed the desire for a more exact or detailed approach to indirect cost allocation. While these agencies, for the most part, were unable to offer any suggestions toward efficient improvements, a few of the agencies were in the process of refining their MIS to allow for greater control over indirect cost allocation, using indices in place of or in addition to direct labor hours.

Some air quality agencies also raised concerns over direct non-labor cost allocation practices. While most charges are easily categorized and recorded as Title V, Section 105, etc., some direct charges, especially those shared among programs, are more difficult to allocate. For example, an air quality engineer incurs travel expenses for a trip to visit a Title V permittee. However, on the same trip, that engineer also performs a site visit under the Section 105 program. To which program should the engineer charge the (direct) travel costs? Indirect costs would be allocated based on direct labor hours, but travel expenses are direct costs and must be charged directly to a specific program. In some states, the answer lies in the engineer's own judgement regarding the extent to which

the trip was primarily to conduct one activity or another. Most states have informal policies or practices in place that result in equal sharing of costs between air program budget centers such as the Title V program and the Section 105 grant program. Regardless of the process that states have devised, it is important to point out that these procedures should be formally documented and communicated to EPA Regional Air contacts. Documentation of the practices will help to minimize any misunderstandings regarding cost sharing approaches.

Account/Charge Codes

Many air quality agencies expressed difficulty in implementing the time sheet system with respect to account/charge codes. Interviews with agency accounting personnel indicated that some time sheet systems contain too many codes, sub-codes, sub-sub-codes, etc. for charging tasks under Title V, or non-Title V programs. In these cases, air quality program personnel are sometimes inconsistent with respect to charging time to identical tasks. This problem is aggravated by the fact that few accounting staff persons are required to understand the subtle differences between these often technical tasks and are unable to correct the MIS-coding singlehandedly.

Conversely, about the same number of agencies claim the account/charge codes are not detailed enough, with a few air quality agencies using only one account/charge code for all Title-V-related tasks. This weakness leaves air program managers without

adequate information concerning the specific tasks with which their employees are involved.

Several agencies indicated that they have already modified their activity code lists to facilitate use and achieve more accurate recording of time and expense charges. It should be expected that agencies will continue to modify their activity codes as they gain more experience with the Title V program and identify ways of improving the process.

MIS/Time Sheet System

Many of the individuals interviewed in air quality agencies are currently working to enhance their management information systems (MIS) and to expand the role of MIS in air quality program management. While all of those interviewed employ MIS to some degree, most are moving towards significant system enhancements that will present budget comparison reports, labor distribution reports, and other financial comparisons in real time, taking into account the most up-to-date data in the system. For all of the state air quality agencies, these enhancements include sophisticated interfaces between the MIS accounting/finance modules and the agency's time sheet system, allowing up-to-date information on labor cost allocation among Title V and other air quality programs.

Report Reconciliation/Review

Finally, most of the air quality agencies expressed the need for a more thorough review process with

CHAPTER 2: ACCOUNTING FRAMEWORKS FOR TITLE V PROGRAMS

Government accounting and financial reporting practices differ considerably from those found in the private, commercial sector. Generally accepted accounting principles (GAAP) for government provide strict guidelines concerning the methods used to manage the resources provided by taxpayers. While GAAP standards for business enterprises are designed to provide information needed by investors and creditors, GAAP standards for government are intended to ensure legal compliance as well as security for public resources. In most cases, GAAP standards are accompanied by state accounting rules that must also be followed, resulting in a multi-layered oversight of the government accounting process.

One of the primary differences between government accounting and the private sector is the GAAP-recommended use of fund accounting. According to the Governmental Accounting Standards Board (GASB), a fund is defined as:

A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special

regulations, restrictions, or limitations. (Source: GASB Codification of Governmental Accounting and Financial Reporting Standards, Section 1300)

Simply stated, fund accounting is the practice of separating the record keeping activity of any number of individual funds. A fund can be viewed as a fiscal entity with segregated accounting records used to implement a specific program or activity. A federal grant, for example, might be accounted for in a separate fund. Most state and local governments have relied on fund-based accounting systems for many years in order to administer and manage a variety of different programs.

Understanding fund accounting is very important to the management of Title V permit programs at the state and local program level. The assignment of a specific fund type to the Title V program by a state/local program establishes the expected level of segregation from other state funds; the degree to which the fund is meant to be a self-supporting, business-type enterprise; and the types of reports that will be available for internal and external reporting.

This section is designed to familiarize state and local program managers with fund accounting as it relates to the operation of Title V programs. It provides an explanation of fund types that are available for use by states, describes the accounting approach that states and local programs are now using, and presents criteria for evaluating the need to modify a state's accounting structure.

Types of Funds

In general, governments can choose from generic types of funds to manage programs. These fund types are generally divided into four categories: Government Funds, Proprietary Funds, Fiduciary Funds and Account Groups. Each type of fund has its own characteristics and is used for different government activities and programs.

Figure 3 provides a graphical summary of the organization of government funds.

Government Funds

The largest fund category, government funds are used to account for all general government operations, such as fire and police protection, public works, parks, and recreation. There are five fund types within this category:

1. The *General Fund* is the chief operating fund of a state or local government and is used to account for all program resources that are not accounted for in other funds. The government uses only one general fund, containing the majority of its financial transactions.
2. *Special Revenue Funds* are used to account for finances that are legally restricted or earmarked for specific purposes, such as the state implementation of an

environmental mandate. For example, a federal grant most likely would reside in a fund of this type.

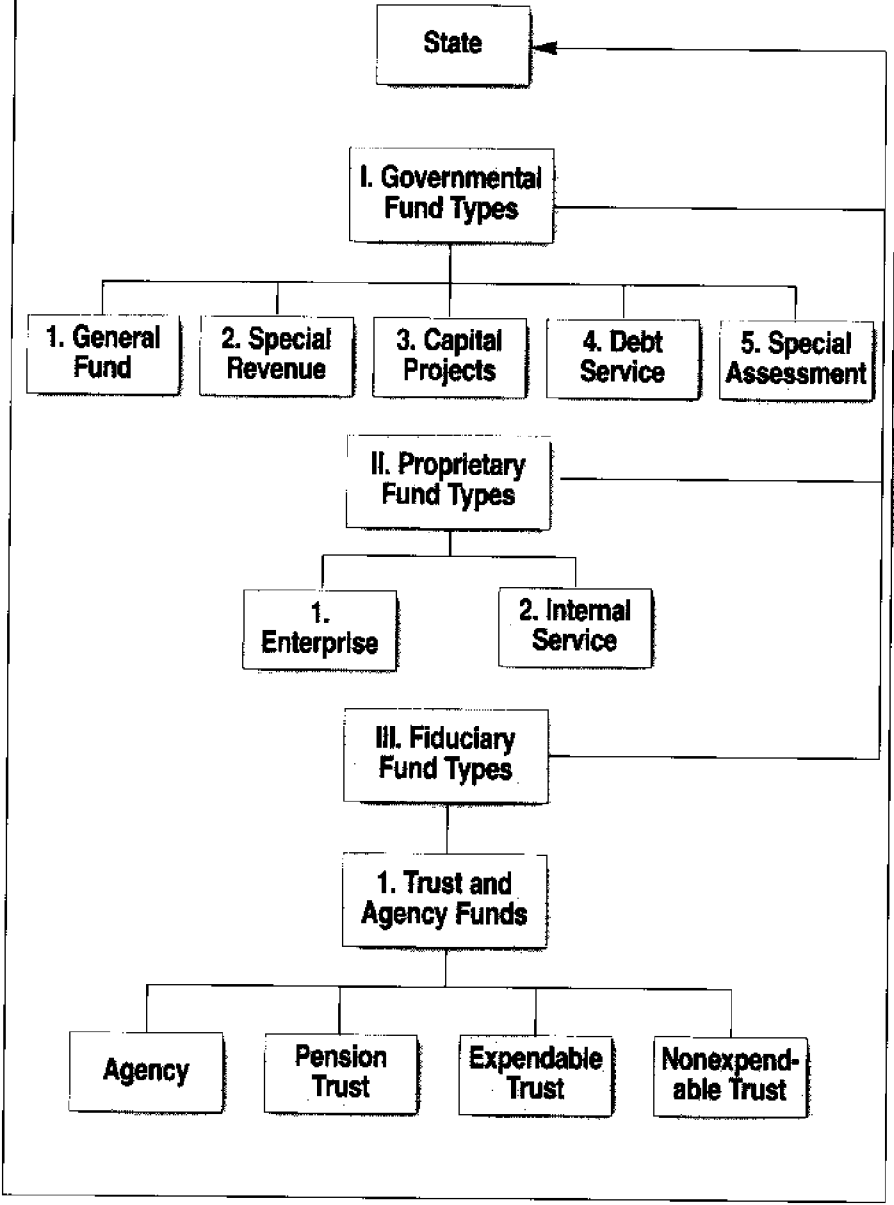
GASB states that special revenue fund types may be used:

to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specific purposes. (Source: GASB Codification of Governmental Accounting and Financial Reporting Standards, Section 1300.104)

It should be noted that the definition of a special revenue fund is permissive, not prescriptive. A special revenue fund *may* be used under government program circumstances described above, but it is not a requirement. Many governments do not use special revenue funds, choosing instead to report (restricted) activities in their general fund. However, the benefits of special revenue fund accounting over that of the general fund will be examined later in this document.

3. *Capital Projects Funds* account for finances used for major capital development. Governments usually prefer to account for these resources in funds separate from other operations.
4. *Debt Service Funds* are used to account for the repayment of government long-term debt, such as major bond issuances.

**FIGURE 3:
FUND ORGANIZATION CHART**



5. *Special Assessments Funds* account for the funding obtained through special assessments for public improvements. For example, after levying a special assessment tax for a new sidewalk, the funds are accounted for here.

Proprietary Funds

In general, proprietary funds are used to account for those government activities and programs that are similar to the private commercial sector, such as a transportation system or water system that receives direct payment for services.

1. *Enterprise Funds* are used to account for activities that are operated much like private sector business enterprises. Governments need to charge users for a variety of public services to recover all or a portion of the costs associated with a particular program or activity. Public utilities are a popular example of an entity fiscally managed within this type of fund.

According to GASB, this type of fund may be used:

to account for operations (a) that are financed and operated in a manner similar to private business enterprises — where the intent of the governing body is that the costs (expenses, including depreciation) of

providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
(Source: GASB Codification of Governmental Accounting and Financial Reporting Standards, Section 1300.104)

The benefits of using enterprise funds to account for the Title V program will be presented in the next section.

2. *Internal Service Funds* account for operations similar to those found in an enterprise fund, but for entities that provide goods and services to other government departments. Government printing and data processing are examples of activities accounted for in these funds.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the government as a third-party trustee or agent. Examples of the funds accounted for include government pension plans and willed assets.

1. *Trust and Agency Funds*

- *Agency Funds* are used to account for non-government assets or assets belonging to another government, such as a county that collects taxes on a county-wide basis.
- *Pension Trust Funds* account for government pension plans
- *Expendable Trust Funds* account for government assets that have been provided to that government via a trust or other agreement. Under expendable trusts, interest and principal may be expended based on the provisions of the agreement. Assets left to the government are often placed in this type of fund.

The use of expendable trust funds to account for Title V program resources will be presented in the next section.

- *Nonexpendable Trust Funds* are similar to expendable trusts, except that only interest earnings may be expended, leaving the original principal intact.

Government Fund Accounting Reports

All of the government funds described above are designed to ensure effective accounting for public monies. In order to test this objective, governments rely on financial reports. Stakeholders, which include tax payers, government accounting departments and program personnel to name a few, have a vested interest in the status of fund resources. The creation of periodic financial reports such as balance sheets, revenue/expenditure statements, budget vs. actual comparisons, etc. provide important information. More specifically, these reports can be used to verify that specific programs, such as Title V, are being implemented efficiently and in accordance with government accounting standards.

As described in the following section, the reports that can be generated and subsequently used to account for the resources of a government program vary slightly based on the specific government fund type used.

Accounting for the Title V Program

State and local air quality agencies are concerned with how Title V resources are managed. First of all, agency managers need to know that the program is being managed in such a way that user fees are covering program costs. They also need to know that Title V staff time and expenses are being covered using Title V resources and, conversely, that non-Title V program expenses are not being recovered through the Title V program. Not only is this information valuable

to the air quality agencies administering the Title V program, but also to a number of other stakeholders, including the Title V permittees, state and local government officials, USEPA, and the general public, each of which has an interest in the efficient and effective operation of the Title V program.

As long as the particular government fund complies with GAAP and state or local requirements, there are no restrictions as to which accounting fund encompasses the Title V program. However, while there are numerous fund types in governmental accounting, only a few can be considered viable for Title V accounting based on the GASB definition of the fund types. In the governmental fund type category, possible candidates include the general fund and a special revenue fund, though it is likely that general fund accounting for a Title V permit program would be considered inappropriate because of the lack of earmarked fund segregation (see below). Capital

**TITLE V PROGRAM ACCOUNTING:
APPROPRIATE GOVERNMENT FUND TYPES**

Fund Category	Fund Type
Governmental Funds	<ul style="list-style-type: none"> • General Fund • Special Revenue Fund
Proprietary Funds	<ul style="list-style-type: none"> • Enterprise Fund
Fiduciary Funds	<ul style="list-style-type: none"> • Expendable Trust

projects, debt service and special assessment funds serve purposes dissimilar to those of the Title V program. In the proprietary fund category, Title V could be accounted for using an enterprise fund, but not an internal service fund. In the fiduciary fund category, a state might adopt an expendable trust fund that could account for the Title V program, but agency funds, pension trust funds and nonexpendable trust funds would not be used. A summary of the fund types eligible to account for the Title V program is shown below:

General Fund

The general fund is comprised of a large number of accounts associated with the general services required by any state or municipality. This fund includes accounts for police and fire protection, parks, public areas, and any other government program or activity that is not accounted for elsewhere in the accounting system. If the Title V program were to be fiscally managed from the general fund, it would be identified as an independent account, separate from other general fund accounts. All revenue and expenditure activity such as permit fees (receipts) and the costs of operating the program (staff salaries, for example) would flow in and out of the Title V account within the general fund. Funds would not flow to or from the Title V account to or from any other general fund account without some sort of legislative approval.

While it would be considered acceptable under GASB to use the general fund to account for the Title V program, it is clearly not the best choice. First of all, Title V program reporting is not as detailed when

using the general fund. Under this scenario, Title V is merely one of a large number of accounts, and while general information on the program's fiscal activity is available through the general fund financial reports, the information is not as robust as it would be under another government accounting fund type.

More importantly, most government general funds do not restrict the movement of resources among the many general fund account groups and accounts. Further, it is a common government accounting practice to reallocate program resources among general fund accounts. Title V resources must be accounted for separately, without interaction between any other accounts. This requirement makes the general fund an unattractive option for Title V accounting.

Of the state air quality agencies interviewed, none uses the government's general fund to account for the Title V program, based on the limitations described above. Appendix A contains illustrative general fund statements that show the types of reports included as part of the general fund process.

The types of general fund reports provided as part of a comprehensive annual financial report include the following:

The statement of revenues, expenditures, and changes in fund balance. This statement reports the financial performance of the entity over the annual reporting period. It is meant to communicate the sources, uses, and balances of current

financial resources used to run general government operations.

The balance sheet. This report is best viewed as a snapshot in time of the entity's financial position. It presents the balance between governmental assets and liabilities and fund equity.

Standard accounting formats include presentation of combining statements that group all sub-funds into a summary report as well as separate statements on component units.

Because Title V is a new program specific illustrations of financial statements are not yet available. In order to illustrate the way the statements will be presented, illustrative general fund financial statements have been included as an appendix to this report.

Special Revenue Fund

The decision to select one particular fund type over the others has been primarily credited to historic precedent. Grant-funded programs and activities, such as the Section 105 program, have been accounted for by state and local governments through special revenue funds as common practice for many years. While the Title V program does not involve the management of federal grants, many air quality agencies have viewed Title V as a "sister program" of sorts to the Section 105 program. Subsequently, Title V resources have been managed through the same government accounting fund type — the special revenue fund — as

the Section 105 program. In nearly all state and local air programs contacted, the Title V program is managed within a special revenue fund.

Special revenue funds are the backbone of government accounting structures, as most governments operate numerous special revenue funds to implement a variety of programs and activities. As stated previously, special revenue funds account for financial resources, often in the form of federal grants, that are in some way restricted or ear-marked for a specific government purpose. The permit fees that flow into the state Title V programs are restricted just as a federal grant would be, even though these funds originate from private sector permittees and not the federal government. Because Title V revenues may not be used for any purpose other than the implementation and management of the Title V program, a special revenue fund is an appropriate accounting entity. All revenues and expenditures flowing in and out of the Title V special revenue account are used solely for that program and may not be co-mingled with any other special revenue fund without state legislative approval.

Governments may also account for Title V resources using a Title V account *within* an existing special revenue fund. Under the scenario described above, the Title V program is accounted for through the management of its *own* special revenue fund. Conversely, governments may account for Title V simply as an account within a special revenue fund possessing similar restrictions, such as a Clean Air special revenue fund that accounts for resources for

Title V and non-Title V programs. In this situation, Title V (account) resources are restricted for use only within Title V programs and may not be transferred outside of the fund without state legislative approval. This structure is often used for agencies in which the Title V program is not large enough to justify segregation into a separate fund.

With only one exception, all state air quality agencies interviewed use the special revenue fund to account for the Title V program. Most of the agencies account for Title V by utilizing a separate special revenue fund (Title V only), while the remaining use a separate Title V account within an existing (multi-program) special revenue fund. Appendix A presents illustrations of special revenue fund reports. Because they are part of the general fund, they are presented both as a component of the combining statements for the general fund and as individual special revenue funds.

Enterprise Fund

Enterprise funds are used to account for governmental programs and activities that are similar in nature to private sector commercial transactions. Services that require a cash outlay from the purchaser, as opposed to those services provided via tax revenues, are generally accounted for within enterprise funds. Good examples of these business-like services are public transportation systems and public utilities. Although Title V programs could fall into this category, no states are currently using an enterprise fund structure for Title V programs. Pending changes by

the accounting regulators may, however, change this in the near future.

The Government Accounting Standards Board (GASB) is in the process of modifying the requirements for the use of enterprise funds. Due out in mid-1997, the new requirements will encourage a broader use of enterprise funds for self-supporting activities. If the new requirements are passed by GASB, it is possible that Title V programs would need to be classified as enterprise funds by states to be in full compliance with GAAP. GASB language as now drafted is as follows:

Business-type activities should be reported as proprietary (enterprise) funds. To provide more consistency among governments, the circumstances under which enterprise accounting may or should be used are revised as follows:

Any activity that charges a fee to users for its services may be reported using enterprise fund accounting and financial reporting. An activity is required to be reported using enterprise fund accounting and reporting if any one of these criteria is met:

- a. The activity issues debt that is secured solely by a pledge of the net revenue from fees and charges of the activity.*
- b. State or local laws or regulations require that the activity recover the costs of providing services, including capital use charges or debt service, with fees and charges.*

- c. ***The pricing policies of the activity establish fees and charges designed to recover the costs of providing services, including capital use charges or debt service. (Source: Preliminary Views of the Governmental Accounting Standards Board on Major Issues Related to Governmental Financial Reporting Model: Core Financial Statements, June, 1995)***

Because Title V permittees pay fees directly to the Title V program's administering air quality agency, as opposed to paying for the government program via income taxes or other sources, the program acts much like a commercial enterprise. Thus, an enterprise fund may ultimately be the structure used for Title V fee programs.

Enterprise fund accounting includes the use of financial reports that are not found under other government fund accounting scenarios, providing information to stakeholders from a more business-like perspective. Specifically, enterprise fund accounting features "Statement of Cash Flows" reports that would be useful in showing the movement of resources in and out of the Title V program. Accounting statements provided as part of an enterprise fund are included as part of Appendix A.

Expendable Trust

Expendable trusts are employed by governments to account for resources provided to the government under a trust agreement for implementation of a specific objective. These resources are often in the form of gifts or donations to the government, but have also historically taken the form of federal grants. As opposed to a non-expendable trust, both principal and interest of expendable trust resources can be expended in accordance with the trust agreement.

Title V resources can be accounted for under an expendable trust structure. While the Title V program does not provide any gifts or direct grants to be entrusted to the state governments, the program does result in revenue generation through permittee fees. These fees become the resources of the trust and can be expended only to implement the Title V program.

One of the state air quality agencies interviewed uses an expendable trust to account for the Title V program.

Summary: Pros and Cons of Title V Accounting Structure Alternatives

While the four government fund options discussed may be used for the Title V program, some are clearly better than others. The table below summarizes the strengths and weaknesses of each option for use in the Title V program.

Fund Type	Strengths	Weaknesses	Reports	Usage by Agencies Interviewed
General Fund	Easily implemented; all states have general funds in place.	Funds can be moved from one account to another with ease — a violation of Title V guidelines.	Statement of revenues, expenditures, and changes in fund balance; balance sheets; budget vs. actual.	None
Special Revenue Fund	Funds are segregated. Generally requires legislative or gubernatorial approval to move to between funds.	Creates another reporting entity; many states have numerous special revenue funds. Does not report on cash flows.	Statement of revenues, expenditures, and changes in fund balance; balance sheets; budget vs. actual.	All states but one (16 of 17)
Enterprise Fund	Behaves much like a commercial business enterprise. Emphasis is balancing resources with expenses. Higher implied level of segregation. Allows cash flow reporting.	Generally not used for small programs such as Title V.	Statement of revenues, expenditures, and changes in fund balance; balance sheets; budget vs. actual; statement of cash flows.	None
Expendable Trust Fund	Funds are segregated for specific purpose. Provides same reports as enterprise fund accounting.	Not originally intended for fcc-based programs, historically used for federal grants.	Statement of revenues, expenditures, and changes in fund balance; balance sheets; budget vs. actual; statement of cash flows.	One agency (1 of 17)

Criteria for Evaluating the Need to Modify an Agency's Title V Accounting Structure

As most state and local air programs are just beginning to work with accounting procedures for the Title V program, few have had the opportunity to assess whether or not the selected accounting structure (fund type) is acceptable in terms of meeting the requirements of the program itself and providing accounting staff and Title V program managers with information needed to accurately monitor costs.

In order to assess the adequacy of the Title V accounting program, air programs should ask the following questions:

- Does the current accounting structure ensure that Title V resources are being managed and reported on independently of all other non-Title V programs?
- Do accounting managers within the state or local agency foresee any possibility that Title V funds could be transferred to another account for unauthorized use? If so, which fund structure within the agency provides the highest level of protection from transfers?
- Does the current accounting structure allow for the creation of reports that are meaningful to air quality agency managers and other stakeholders such as permittees and USEPA?

- Is the current accounting structure flexible enough to allow changes in reporting procedures — for example, to correct any inadequacies?

The answers to these questions may indicate that a change in accounting structures is necessary in order to manage the Title V program more effectively.



CHAPTER 3: MANAGEMENT REPORTING AND TRACKING

Introduction

Managerial reporting is one of the most important activities in both the private and public sectors. The presentation of current, accurate information to the stakeholders of a private business or government program can literally make the difference between bankruptcy for the private business or program ineffectiveness for a government agency.

Many academics and business leaders alike agree that information is the most important resource in any entity, private or public. For example, a manufacturing business needs information on how costs are allocated among different products, just as Title V program managers are interested in identifying how program personnel spend their time among Title V and non-Title V programs. These examples reflect the need for "internal" reporting — providing information to those within the organization.

Similarly, information is required by those outside the organization that have an interest in the success of the program. A bank is not going to loan a business millions of dollars without first taking a look at the financial position of the operation. Similarly, stakeholders in the Title V program including permittees, the state legislature, and the federal government need

to know that financial resources are being used as intended by the U.S. Congress in the Clean Air Act. These two examples show the necessity of “external” reporting — providing information to stakeholders outside of the organization.

This section represents the third of the three steps in the natural sequence of financial management and reporting activities. Internal and external reporting logically follows the activities that occur in the first two steps. To recap, the first step involves gathering the accounting information via tools such as time sheets and recording the direct and indirect labor and non-labor costs as they are incurred. The second step entails introducing the cost information to the particular government fund put in place to manage the Title V program. Once the information has been gathered and posted to the fund, it is time to put that information to work in the form of financial reports for internal and external usage.

Step 1: Gather time keeping/cost allocation information

Step 2: Post information to Title V accounting fund

Step 3: Develop internal and external financial reports

Internal Reporting

Internal reporting procedures allow important program and accounting information concerning the Title

V program to be disseminated throughout the air program. This sharing of information accomplishes several important objectives, including: (1) it allows program and accounting personnel to understand the status of the Title V program in a timely manner, and (2) it helps identify those areas of the Title V program in need of modification or improvement. This second point is significant as the Title V program is quite new and its constant improvement will require the sharing of information throughout the administering agency.

The Financial Reporting System

As described above, financial reporting represents the third of three main steps to the financial management and reporting process. Subsequently, the activity that occurs in this final step is a function of what happens in the first two. Most financial reporting systems are set up to provide a standard set of budget and financial statement reports for internal users, based on the type of governmental accounting fund in use. For example, if the Title V program is accounted for as a special revenue fund, the standard reports accessible via the accounting system include balance sheets, statements of revenues, expenditures and changes in fund balance, and budget versus actual reports. The reports, usually generated monthly, are based on (1) the information provided through recordation of permit fee receipts, time sheet and cost allocation practices and (2) the type of government fund in use for Title V accounting. Because of governmental accounting standards, all air programs have the ability to create these reports through their accounting systems, showing Title V-specific information. Some have the

ability to access the information on line. Appendix A shows examples of the types of standard reports that can be generated through the government financial reporting system.

Specialized Financial Reporting

The reports described in the previous section are very important to the air program staff, providing information concerning Title V fund account balances and actual expenditures and revenues to date. Interviews conducted with air program staff revealed, however, that reports customized to fit various individual needs of the users beyond those offered by a traditional reporting system can also be extremely useful. For some agencies, these specialized reports include:

- Summaries of Title V obligations and encumbrances
- List of permittees and fee revenues generated
- Account balances by object code

Specialized reports such as these are extremely useful to air program managers as they implement a new program such as Title V for two main reasons. First, the nature of a fee-based program involves constant monitoring of the balance of revenues and expenditures, necessitating up-to-date information on permit fee revenues and labor cost allocation, for example. In order to recognize whether or not the permit fees are adequately offsetting program expenditures, a specialized level of reporting is needed. Second, specialized reports

can be used to monitor internal performance characteristics of the Title V program itself. The amount of direct labor spent per Title V permittee, for example, may be useful information to Title V managers as would a summary of Title V indirect cost allocation.

While most of the agencies interviewed desire the ability to generate custom reports, few are able to accomplish this objective with their current management information systems (MIS). For many states, generating customized reports entails submitting a formal request to the accounting or MIS department that describes the financial information requested. Delivery of the report can take up to two weeks in some cases, often resulting in information that is too dated to be of much use. A few states, however, have sophisticated MIS in place that allow a large variety of specialized financial reports to be generated on-line, in real time. In these cases, the financial reports reflect the most up-to-date information possible.

The state of Wyoming provides a good example of the usefulness of customized financial reports. Three different financial reports are generated by Wyoming's MIS. Each of the reports displays accounting information not contained in the standard special revenue fund reports described in the previous section. Wyoming's system provides another filter to the data, subsequently giving Title V program managers detailed information on the status of their fee-based program. The first page of the system includes a Summary of Obligations representing the costs with the amount expended or encumbered, and the remain-

ing balance. The last line of the first page shows the Title V fees that are available to cover these costs. This information is crucial to managers of a fee-based program, as it provides cash flow information. The last two financial reports present detailed information on Title V permit program expenditures, again, information that is more detailed and more useful than the standard special revenue fund reports.

Summary: Internal Reporting

In order to effectively manage resources, Title V agencies need access to different types of internal reports: those general purpose statements that are available through the government fund accounting system, and specialized financial reports that can be created by Title V managers to provide detailed information lacking in the general purpose reports. Generating customized financial reports is best accomplished through the use of a sophisticated MIS that can provide the detailed information on-line.

Interviews of air program personnel yielded the following general information regarding internal reporting:

- Most Title V programs are incorporated into state environmental department-wide general purpose financial statements (balance sheets, statements of revenues and expenditures, etc.) on a regular basis, via their government fund accounting systems. Financial reports specific to the Title V fund can be requested by state or local permit program managers.

- Most Title V agencies expressed the need for more specialized internal financial reports.
- A few agencies have the ability to generate detailed, specialized financial reports by using sophisticated MIS; the remaining must submit formal requests for such customized reports and sometimes must wait weeks to receive them.

As air programs begin to identify areas for improving their implementation of the Title V program, the variety and detail of internal reports will most likely increase.

External Reporting

External reporting is the practice of providing information to entities outside of a business or agency. For various reasons, stakeholders like to be kept informed as to the financial status of a public or private entity. For the Title V program, stakeholders that may wish to review the administering agency's financial reports include Title V permittees, state legislatures, or USEPA.

Title V External Reporting Status

In general, external reporting procedures for the Title V program have yet to be developed for a couple of reasons. First, as the Title V program is relatively new, states have been concentrating on designing and implementing the program itself. In order for external reporting to be meaningful, Title V program administrators first need to get the program established and

develop measurement criteria that stakeholders will find useful. Secondly, Title V stakeholders have yet to place external reporting demands on the air programs. Stakeholders, Title V permittees in particular, appreciate the fact that the program is still under development and agency personnel are concentrating on implementation for the time being.

Governmental Reporting Procedures

Any description of external reporting responsibilities for government agencies would be incomplete without mentioning the CAFR. The Comprehensive Annual Financial Report (CAFR) is a detailed report that encompasses the fiscal activity of every fund and account group used by the government. The National Council on Governmental Accounting (NCGA) requires completion of a CAFR each year to provide very detailed accounting information to a wide audience. In addition to the information concerning government accounting activity for the year, the CAFR also presents other general and statistical information. A key characteristic of the CAFR is that it presents audited financial statements for the state or local government.

Through the structure of government fund accounting and management information systems, accounting information on the Title V program is provided to upper levels of the governmental entity. This information is then summarized and becomes part of the CAFR. In most cases, the Title V-specific information is not readily identifiable in this report, even though many Title V programs are accounted for

in their own special revenue funds. While the CAFR presents information on all special revenue funds, most Title V programs are far too small in comparison to other funds to be listed separately. Subsequently, the Title V accounting information is buried within another special revenue fund summary.

External Oversight Committees

As mentioned above, typical external reporting techniques have yet to materialize for the Title V program. However, many agencies have formed external (third-party) oversight committees to help monitor the fee-based Title V program from a multiple-stakeholder perspective. These committees will most likely be the impetus to the development of external reporting procedures. A number of the agency personnel interviewed have set up these committees, which are composed of Title V permittees, state legislators, and other regulatory representatives. The mission of the oversight committees is to help the Title V administering agency develop a program that addresses the needs of all stakeholders, one of those needs being the access to information.

To restate, stakeholders have yet to put pressure on Title V agencies for external reporting. As the Title V program takes shape, stakeholders will become more interested in receiving up to date program information such as:

- Current fee levels
- Costs associated with program implementation

- Expenditure and revenue reconciliation
- Various performance indicators

Simply stated, the stakeholders, especially those that have mobilized into forming oversight committees, will want to know where their fees are going and how efficiently they are being used to administer the fee-based Title V program.

External Reporting: Measuring Performance

A challenge that will face Title V agencies as they develop external reporting procedures is identifying and measuring program performance criteria. Once Title V programs are implemented and underway, it is safe to assume stakeholders will soon be demanding financial and performance-based reports. Title V stakeholders may desire performance-based reports that answer questions such as:

- How many labor hours does it take to implement the Title V program for each permittee?
- How many days does it take to review a Title V permit?
- Are Title V-related labor and other costs decreasing or increasing over time compared to workload?

The air programs must take great care when developing their external reporting program, as the applicability of cost and performance data may vary widely across the Title V program. For example, a report showing the relationship between the total number of

permittees and the annual cost of Title V program implementation may provide misleading information as the required amount of labor hours (cost) may vary among Title V permittees.

For the most part, the benefits of performance tracking outweigh the potential pitfalls described above. States should work hard to develop external reporting processes that provide meaningful measures of performance, while still meeting the needs of Title V stakeholders.

External Reporting: New York as Example

The State of New York's Department of Environmental Conservation develops an annual report for the New York State Operating Permit Program (Title V). Selected portions are included in Appendix B. The New York report is a useful example of external reporting in practice. Presented each year to the New York State Legislature, the Governor and the Office of the State Comptroller (stakeholders), the report summarizes the Title V program's activity and includes both fiscal and performance-based criteria, such as the estimated versus actual costs of program implementation, the average number of permits issued annually, as well as future fiscal year projections.

Summary: External Reporting

Most agencies are in the process of implementing and refining their Title V programs and have not yet addressed external reporting. However, based on the

interviews conducted, the following similarities have been identified:

- Stakeholders such as permittees and regulatory agencies have not yet demanded external reporting from the Title V agencies as the program continues to be implemented.
- Governmental fund accounting systems support external reporting to be used for the Comprehensive Annual Financial Report (CAFR). However, due to the relatively small size of the Title V program, it is rarely identified in the CAFR.
- Some agencies have organized oversight committees to provide feedback to Title V-administering agencies. These committees will be the driving force in the creation of external reports for stakeholders in those states.
- Agencies will need to begin to develop external reporting to respond to requests from stakeholders.

CONCLUSION

The Clean Air Act Title V Operating Permit Program presents new requirements for state and local air quality agencies. Most of these requirements are a challenge to agencies that have historically managed grant-based programs such as Section 105. Fee-based programs need special considerations in terms of time keeping, cost allocation, accounting fund type selection, and reporting.

This study found that state and local air programs are making great strides in addressing the many financial management challenges associated with the Title V program. However, because the program is beginning the implementation phase, it is likely that state and local programs will need to adjust the financial management of the program as they gain more experience.

Conditions in the three primary financial management activities identified in the study are as follows:

1. Time Keeping and Cost Allocation

- Air quality agencies must refine procedures for tracking labor and non-labor costs among Title V and non-Title V programs. Of those interviewed, all but one agency utilize time sheets to record labor costs incurred for Title V and non-Title V programs. Some of these systems are very sophisticated and interact with the management information system (MIS) to generate detailed reports.

- These agencies must also address the manner in which indirect costs are allocated to these programs. All individuals interviewed have procedures in place to record and allocate indirect labor and non-labor costs to appropriate Title V and non-Title V program accounts. State and local programs would benefit from documenting these procedures if they have not done so.

2. Accounting Fund Structures and Controls

- Air quality agencies must review their accounting structures and assess whether the current procedures are adequate for managing the resources of a fee-based program or if new accounting methods are required for program efficiency and/or compliance with Title V requirements.
- All agencies interviewed are currently employing acceptable methods of accounting for Title V resources independently of non-Title V programs. All but one of the agencies interviewed rely on special revenue accounts for Title V program management, while the remaining agency accounts for Title V via an expendable trust fund. Agencies should be aware that government accounting regulators may impose a fund definition that would necessitate a change in the Title V fund structure — changing Title V to an enterprise fund. Such a change will result in financial

reports for Title V that more closely reflect the fact that the Title V program is user fee supported.

3. Internal and External Reporting

- Agencies are challenged with identifying the financial data they require in internal program reports to manage the program. While the budget process will provide regular reporting on encumbrances against account codes, other detailed information will be available through the accounting system to evaluate costs and revenues on a regular basis.
- Many state and local programs have yet to become adept at manipulating the accounting system to provide management information. However, where programs are further along in implementation, it seems that internal tracking information is more readily available.
- External reporting is an area that, to a great extent, has not developed at the state and local level. As the programs move from the start-up period to the operation period, interests in providing external information will increase. While there are difficulties in overly simplistic performance measures that do not consider the normal variability of individual activities, the development of useful summary performance information is a worthwhile endeavor that Title V programs should undertake.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 100 101 102 103 104 105 106 107 108 109 110 111 112 113 114 115 116 117 118 119 120 121 122 123 124 125 126 127 128 129 130 131 132 133 134 135 136 137 138 139 140 141 142 143 144 145 146 147 148 149 150 151 152 153 154 155 156 157 158 159 160 161 162 163 164 165 166 167 168 169 170 171 172 173 174 175 176 177 178 179 180 181 182 183 184 185 186 187 188 189 190 191 192 193 194 195 196 197 198 199 200 201 202 203 204 205 206 207 208 209 210 211 212 213 214 215 216 217 218 219 220 221 222 223 224 225 226 227 228 229 230 231 232 233 234 235 236 237 238 239 240 241 242 243 244 245 246 247 248 249 250 251 252 253 254 255 256 257 258 259 260 261 262 263 264 265 266 267 268 269 270 271 272 273 274 275 276 277 278 279 280 281 282 283 284 285 286 287 288 289 290 291 292 293 294 295 296 297 298 299 300 301 302 303 304 305 306 307 308 309 310 311 312 313 314 315 316 317 318 319 320 321 322 323 324 325 326 327 328 329 330 331 332 333 334 335 336 337 338 339 340 341 342 343 344 345 346 347 348 349 350 351 352 353 354 355 356 357 358 359 360 361 362 363 364 365 366 367 368 369 370 371 372 373 374 375 376 377 378 379 380 381 382 383 384 385 386 387 388 389 390 391 392 393 394 395 396 397 398 399 400 401 402 403 404 405 406 407 408 409 410 411 412 413 414 415 416 417 418 419 420 421 422 423 424 425 426 427 428 429 430 431 432 433 434 435 436 437 438 439 440 441 442 443 444 445 446 447 448 449 450 451 452 453 454 455 456 457 458 459 460 461 462 463 464 465 466 467 468 469 470 471 472 473 474 475 476 477 478 479 480 481 482 483 484 485 486 487 488 489 490 491 492 493 494 495 496 497 498 499 500 501 502 503 504 505 506 507 508 509 510 511 512 513 514 515 516 517 518 519 520 521 522 523 524 525 526 527 528 529 530 531 532 533 534 535 536 537 538 539 540 541 542 543 544 545 546 547 548 549 550 551 552 553 554 555 556 557 558 559 560 561 562 563 564 565 566 567 568 569 570 571 572 573 574 575 576 577 578 579 580 581 582 583 584 585 586 587 588 589 590 591 592 593 594 595 596 597 598 599 600 601 602 603 604 605 606 607 608 609 610 611 612 613 614 615 616 617 618 619 620 621 622 623 624 625 626 627 628 629 630 631 632 633 634 635 636 637 638 639 640 641 642 643 644 645 646 647 648 649 650 651 652 653 654 655 656 657 658 659 660 661 662 663 664 665 666 667 668 669 670 671 672 673 674 675 676 677 678 679 680 681 682 683 684 685 686 687 688 689 690 691 692 693 694 695 696 697 698 699 700 701 702 703 704 705 706 707 708 709 710 711 712 713 714 715 716 717 718 719 720 721 722 723 724 725 726 727 728 729 730 731 732 733 734 735 736 737 738 739 740 741 742 743 744 745 746 747 748 749 750 751 752 753 754 755 756 757 758 759 760 761 762 763 764 765 766 767 768 769 770 771 772 773 774 775 776 777 778 779 780 781 782 783 784 785 786 787 788 789 790 791 792 793 794 795 796 797 798 799 800 801 802 803 804 805 806 807 808 809 810 811 812 813 814 815 816 817 818 819 820 821 822 823 824 825 826 827 828 829 830 831 832 833 834 835 836 837 838 839 840 841 842 843 844 845 846 847 848 849 850 851 852 853 854 855 856 857 858 859 860 861 862 863 864 865 866 867 868 869 870 871 872 873 874 875 876 877 878 879 880 881 882 883 884 885 886 887 888 889 890 891 892 893 894 895 896 897 898 899 900 901 902 903 904 905 906 907 908 909 910 911 912 913 914 915 916 917 918 919 920 921 922 923 924 925 926 927 928 929 930 931 932 933 934 935 936 937 938 939 940 941 942 943 944 945 946 947 948 949 950 951 952 953 954 955 956 957 958 959 960 961 962 963 964 965 966 967 968 969 970 971 972 973 974 975 976 977 978 979 980 981 982 983 984 985 986 987 988 989 990 991 992 993 994 995 996 997 998 999 1000

APPENDIX A

Excerpted from **Governmental Accounting, Auditing and Financial Reporting** (Government Finance Officers Association).

GENERAL FUND

The general fund is used to account for resources, traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund.

NAME OF GOVERNMENT GENERAL FUND

Comparative Statements of Revenues, Expenditures
and Changes in Fund Balances
For the fiscal years ended December 31, 19X4 and 19X3
(amounts expressed in thousands)

	19X4	19X3
Revenues:		
Taxes:		
Property	\$14,133	\$13,886
Sales	6,642	5,253
Franchise	4,293	4,126
Licenses and permits	2,041	1,820
Intergovernmental	5,770	4,469
Charges for services	2,300	2,335
Fines	808	521
Interest	623	476
Contributions	145	—
Payments in lieu of taxes	365	314
Drug forfeitures	75	—
Total revenues	37,195	33,200
Expenditures:		
Current:		
General government	4,232	3,844
Public safety	13,438	13,150
Highways and streets	3,735	3,389
Sanitation	3,726	3,404
Culture and recreation	5,899	6,167
Debt service:		
Principal	15	—
Bond issuance costs	150	—
Total expenditures	31,195	29,954
Excess of revenues over expenditures:	6,000	3,246

	19X4	19X3
Other financing sources (uses):		
Operating transfer in-electric fund	1,576	—
Operating transfers out:		
Debt service fund	(3,327)	(3,331)
Pipeline construction fund	(1,210)	—
Component unit	(25)	—
CDBG revitalization project fund	(63)	—
Capital leases	140	—
Sales of general fixed assets	5	—
Total other financing sources (uses)	(2,094)	(3,331)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses		
	3,096	(85)
Fund balances, January 1	1,807	1,892
Residual equity transfers out—fleet management fund	(45)	—
Fund balances, December 31	\$ 4,858	\$ 1,807

The notes to the financial statements are an integral part of this statement.

**NAME OF GOVERNMENT
GENERAL FUND**

Comparative Statements of Revenues, Expenditures and
Changes in Fund Balances – Budget and Actual
For the fiscal years ended December 31, 19X4 and 19X3
(amounts expressed in thousands)

	19X4			19X3		
	Budget	Actual	Variance Favorable (unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Taxes:						
Property	\$14,007	\$14,133	\$ 126	\$13,844	\$13,886	\$ 42
Sales	5,900	6,642	742	5,198	5253	55
Franchise	4,312	4,293	(19)	4,124	4,126	2
Licenses and permits	1,827	2,041	214	1,503	1,820	317
Intergovernmental	5,661	5,770	109	5,395	4,469	(926)
Charges for services	2,158	2,300	142	2,095	2,335	240
Fines	810	808	(2)	487	521	34
Interest	555	623	68	520	476	(44)
Contributions	—	145	145	—	—	—
Payments in lieu of taxes	345	365	20	314	314	0
Drug forfeitures	—	75	75	—	—	—
Total revenues	35,575	37,195	1,620	33,480	33,200	(280)
Expenditures:						
Current:						
General Government						
Council	110	92	18	94	113	(19)
Commissions	86	64	22	71	63	8
Manager	490	505	(15)	426	414	12
Attorney	380	387	(7)	216	206	10
Clerk	275	250	25	247	237	10
Personnel	356	304	52	274	249	25
Finance and admin.	904	868	36	846	830	16
Other—unclassified	2,256	1,762	494	1,884	1,732	152
Total general gov't.	4,857	4,232	625	4,058	3,844	214
Public safety:						
Police	6,513	6,354	159	6,026	5,801	(775)
Fire	6,040	6,031	9	5,521	5,415	106
Inspection	1,092	1,053	39	970	934	36
Total public safety	13,645	13,438	207	12,517	13,150	(633)
Highways and Streets:						
Engineering	814	796	18	777	762	15
Maintenance	3,052	2,939	113	2,681	2,627	54
Total highways & Sts.	3,866	3,735	131	3,458	3,389	69
Sanitation	3,848	3,726	122	3,426	3,404	22
Culture & recreation	5,950	5,899	51	5,477	6,167	(690)

	19X4			19X3		
	Budget	Actual	Variance Favorable (unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Dept. service:						
Principal	—	15	(15)	—	—	—
Bond issuance costs	150	150	0	—	—	—
Total debt service	150	165	(15)	—	—	—
Total expenditures	32,316	31,195	1,121	28,936	29,954	(1,018)
Excess of revenues over expenditures	3,259	6,000	2,741	4,544	3,246	(1,298)
Other financing sources (uses):						
Operating transfers in	1,576	1,576	0	—	—	—
Operating transfers out:						
Debt service fund	(3,400)	(3,327)	73	(3,350)	(3,331)	19
Pipeline constr.fund	(1,300)	(1,210)	90	—	—	—
Component unit	—	(25)	(25)	—	—	—
CDBG revitalization proj.	—	(63)	(63)	—	—	—
Capital leases	—	140	140	—	—	—
Sales of gen. fixed assets	34	5	(29)	—	—	—
Total other financing sources (uses)	(3,090)	(2,904)	186	(3,350)	(3,331)	19
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses						
	169	3,096	2,927	1,194	(85)	(1,279)
Fund balances, January 1	1,807	1,807	0	1,892	1,892	0
Residual	(60)	(45)	15	—	—	—
Fund balances, Dec 31	\$ 1,916	\$ 4,858	\$ 2,942	\$ 3,086	\$ 1,807	\$(1,279)

The notes to the financial statements are an integral part of this statement.

**NAME OF GOVERNMENT
GENERAL FUND**

Comparative Balance Sheets
December 31, 19x4 and 19x3
(amounts expressed in thousands)

	19X4	19X3
Assets	\$3,097	\$ 557
Cash and cash equivalents	2,091	1,226
Investments		
Receivables (net of allowances for uncollectibles):		
Interest	92	48
Taxes:		
Property	86	74
Property—interest and penalties	11	4
Liens	25	19
Sales	830	800
Accounts	72	59
Intergovernmental:		
Federal	—	150
County	215	127
Due from other funds:		
Transportation fund	—	38
Water and Sewer fund	65	193
Fleet management fund	8	—
Due from component unit	12	—
Interfund receivables:		
Fleet management fund	8	—
Management information systems fund	24	—
Inventories	39	37
Advances to other funds:		
Fleet management fund	32	—
Management information systems fund	46	50
Total assets	6,753	3,382

	19X4	19X3
Liabilities and fund balances		
Liabilities:		
Accounts Payable	887	874
Compensated absences	225	201
Contracts payable	67	151
Due to other funds:		
Pipeline construction fund	335	—
Water and sewer fund	37	21
Fleet management fund	47	—
Management information systems fund	57	98
Deferred revenue:		
Interest	—	48
Property taxes	24	75
Interest and penalties-property taxes	10	3
Tax liens	25	19
Federal government	181	85
Total liabilities	1,895	1,575
Fund balances:		
Reserved for encumbrances	320	211
Reserved for senior recreation program	145	—
Reserved for drug enforcement	75	—
Reserved for advances	78	50
Unreserved, undesignated	4,240	1,546
Total fund balances	4,858	1,807
Total liabilities and fund balances	6,753	3,382

The notes to the financial statements are an integral part of this statement.



**NAME OF GOVERNMENT
SPECIAL REVENUE FUNDS**

Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
For the fiscal year ended December 31, 19x4
(With comparative totals for the fiscal year ended December 19x3)
(amounts expressed in thousands)

	Trans- portation	Parks Main- tenance	CDBG Revitali- zation	—Totals—	
				19x4	19x3
Revenues:					
Motor fuel tax:	729	—	—	729	355
Alcoholic beverage tax	799	—	799	651	
Intergovernmental	100	—	338	438	28
Interest	77	39	—	116	70
Donations	—	149	—	149	239
Total revenue	906	987	338	2,231	1,343
Expenditures:					
Current:					
Highways and streets	742	—	—	742	—
Economic and physical Development	—	—	401	401	28
Culture and Recreation	—	1,001	—	1,001	605
Total expenditures	742	1,001	401	2,144	633
Excess (deficiency) of revenues over (under) expenditures	164	(14)	(63)	87	710
Other financing source:					
Operating transfer:					
General fund	—	—	63	63	5
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	164	(14)	—	150	71
Fund balances, January 1	744	480	5	1,229	514
Fund balances, December 31	908	466	5	1,379	1,229

The notes to the financial statements are an integral part of this statement.

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Transportation Fund — This fund is used to account for the government's share of motor fuel tax revenues and special state grants that are legally restricted to the maintenance of state highways within the government's boundaries.

Parks Maintenance Fund — This fund is used to account for private donations and alcoholic beverage tax revenues (approved by voters in 19X3) that are specifically restricted to the maintenance of the government's parks.

CDBG Revitalization Project Fund — This fund is used to account for the community development block grant that is funding the revitalization project for substandard housing in the government's jurisdiction.



**NAME OF GOVERNMENT
SPECIAL REVENUE FUNDS**

Combining Balance Sheet
December 31, 19x4
(with comparative totals for December 31, 19x3)
(amounts expressed in thousands)

	Trans- portation	Parks- Main- tenance	CDBG Revitali- zation	—Totals—	
				19x4	19x3
Assets					
Cash and cash equivalents	65	146	—	211	188
Investments	1,174	403	—	1,577	1,144
Interest receivable	1	1	—	2	12
Cash-restricted	—	—	4	4	—
Intergovernmental receivable restricted	—	—	19	19	5
Total assets	1,240	550	23	1,813	1,349
Liabilities and fund balances					
Liabilities:					
Accounts payable	332	84	—	416	82
Due to other funds-general fund ..	—	—	—	—	38
Liabilities payable from restricted assets	—	—	18	18	—
Total liabilities	332	84	18	434	120
Fund balances:					
Reserved for encumbrances	353	8	5	366	159
Unreserved, undesignated	555	458	—	1,013	1,070
Total fund balances	908	466	5	1,379	1,229
Total liabilities and fund balances	1,240	550	23	1,813	1,349

The notes to the financial statements are an integral part of this statement.

ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises — where the intent of the government's council is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the government's council has decided that periodic determination of net income is appropriate for accountability purposes.

Water and Sewer Authority Fund — This fund is used to account for the activities of the Water and Sewer Authority (a blended component unit of the NAME OF GOVERNMENT).

Electric Fund — This fund is used to account for the activities of the government's electric distribution operations.

**NAME OF GOVERNMENT
ENTERPRISE FUNDS**

Combining Balance Sheet
December 31, 19X4
(With comparative totals for December 31, 19X3)
(amounts expressed in thousands)

	Water and Sewer Authority	Electric	— Totals —	
			19X4	19X3
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 1,366	\$ 4,253	\$ 5,619	\$ 4,121
Cash with fiscal agent	123	—	123	—
Investments	14,610	1,795	16,405	8,879
Interest receivable	409	51	460	435
Accounts receivable (net of allowance for uncollectibles)	2,621	1,378	3,999	3,551
Due from other funds:				
General fund	37	—	37	39
Fleet management fund	2	—	2	—
Inventories	308	637	945	930
Total current assets	19,476	8,114	27,590	17,955
Restricted assets:				
Customer deposits	1,543	188	1,731	1,375
Revenue bond operations and maintenance account	1,294	—	1,294	1,023
Revenue bond construction account	18,542	—	18,452	—
Revenue bond current debt service account	3,706	—	3,706	1,380
Revenue bond future debt service account	737	—	737	523
Revenue bond renewal and replacement account	1,632	—	1,632	1,165
Total restricted assets	27,454	188	27,642	5,466
Deferred charges	568	—	568	469
Fixed assets:				
Land	604	451	1,055	1,055
Buildings and system	20,928	7,043	27,971	19,817
Accumulated depreciation—buildings and system	(2,476)	(3,013)	(5,489)	(4,769)
Improvements other than buildings	1,250	—	1,250	1,250
Accumulated depreciation— improvements other than buildings	(342)	—	(342)	(188)
Machinery and equipment	104,283	1,094	105,377	104,761

	Water and Sewer Authority	Electric	Totals	
			19X4	19X3
Accumulated depreciation— machinery and equipment	(14,723)	(558)	(15,281)	(13,429)
Construction in progress	7,118	—	7,118	—
Fixed assets (net of accumulated depreciation)	116,642	5,017	121,659	108,407
Total assets	\$164,140	\$13,319	177,459	132,387
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable	\$ 1,237	\$1,130	\$ 2,367	\$ 2,281
Compensated absences payable	374	16	390	378
Retainage payable	536	—	536	—
Due to other funds:				
General fund	65	—	65	193
Fleet management fund	17	—	17	—
Management info. sys. fund	5	—	5	14
Intergovernmental payable	—	—	—	11
Matured bonds payable	68	—	68	—
Matured interest payable	55	—	55	—
Accrued interest payable	1,045	—	1,045	1,100
General obligation bonds payable—current	1,480	—	1,480	1,360
Capital leases payable—current	23	—	23	—
Total current liabilities	4,905	1,146	6,051	5,337
Current liabilities payable from restricted assets:				
Customer deposits payable	1,543	188	1,731	1,375
Revenue bonds payable	1,484	—	1,484	530
Accrued interest payable	1,331	—	1,331	448
Total current liabilities payable from restricted assets	4,358	188	4,546	2,353
Noncurrent liabilities:				
General obligation bonds payable (net of unamortized discounts)	30,818	—	30,818	23,798
Revenue bonds payable (net of unamortized discounts)	31,975	—	31,975	8,580
Capital leases payable	78	—	78	—
Total noncurrent liabilities	62,871	—	62,871	32,378
Total liabilities	72,134	1,334	73,468	40,068

	Water and Sewer Authority	Electric	Totals	
			19X4	19X3
Equity:				
Contributed capital:				
Government	4,033	—	4,033	803
Customers	14,062	—	14,062	13,854
Developers	35,241	3,138	38,379	34,293
Intergovernmental	5,588	—	5,588	5,588
Total contributed capital	58,924	3,138	62,062	54,538
Retained earnings:				
Reserved for revenue bond operations and maintenance	1,294	—	1,294	1,023
Reserved for revenue bond current debt service	891	—	891	402
Reserved renewal and replacement	1,632	—	1,632	1,165
Unreserved	29,265	8,847	38,112	35,191
Total retained earnings	33,082	8,847	41,929	37,781
Total equity	92,006	11,985	103,991	92,319
Total liabilities and equity	\$164,140	\$13,319	\$177,459	\$132,387

The notes to the financial statements are an integral part of this statement.

**NAME OF GOVERNMENT
ENTERPRISE FUNDS**

Combining Statement of Revenues, Expenses and Changes in Retained Earnings
for the fiscal year ended December 31, 19X4
(With comparative totals for the fiscal year ended December 31, 19X3)
(amounts expressed in thousands)

	Water and Sewer Authority	Electric	Totals	
			19X4	19X3
Operating revenues:				
Charges for sales and services:				
Water sales	\$ 9,227	—	\$ 9,227	\$ 7,588
Sewer charges	5,671	—	5,671	4,344
Tap fees	1,521	—	1,521	1,155
Electric sales	—	15,250	15,250	15,110
Total operating revenues	16,419	15,250	31,669	28,197
Operating expenses:				
Costs of sales and services	6,997	10,772	17,769	16,879
Administration	3,137	1,482	4,620	4,342
Depreciation	2,436	318	2,754	2,597
Total operating expenses	12,570	12,573	25,143	23,818
Operating income	3,849	2,677	6,526	4,379
Nonoperating revenues (expenses):				
Intergovernmental	350	46	396	172
Interest revenue	1,753	523	2,276	2,357
Interest expense	(3,439)	—	(3,439)	(2,765)
Bond issuance costs	(25)	—	(25)	(10)
Loss on sales of fixed assets	(10)	—	(10)	—
Total nonoperating revenues (expenses)	(1,371)	569	(802)	(246)
Income before operating transfers	2,478	3,246	5,724	4,133
Transfer (to) other funds:				
General fund	—	(1,576)	(1,576)	—
Net income	2,478	1,670	4,148	4,133
Retained earnings, January 1	30,604	7,177	37,781	33,648
Retained earnings December 31	\$33,082	\$ 8,847	\$41,929	\$37,781

The notes to the financial statements are an integral part of this statement.

**NAME OF GOVERNMENT
ENTERPRISE FUNDS**

Combining Statement of Cash Flows
For fiscal year ended December 31, 19X4
(With comparative totals for fiscal year ended December 31, 19X3)
(amounts expressed in thousands)

	Water and Sewer Authority	Electric	— Totals —	
			19X4	19X3
Cash flows from operating activities:				
Cash received from customers	\$16,151	\$15,097	\$31,248	\$27,364
Cash paid to suppliers	(5,813)	(10,558)	(16,371)	(16,064)
Cash paid for quasi-external transactions	(1,202)	—	(1,202)	—
Cash paid to employees	(3,117)	(1,903)	(5,020)	(4,338)
Net cash provided by operating activities	6,019	2,636	8,655	6,962
Cash flows from noncapital financing activities:				
Transfer to general fund	—	(1,576)	(1,576)	—
Subsidy from federal grant	350	46	396	172
Net cash provided (used) by noncapital financing activities	350	(1,530)	(1,180)	172
Cash flows from capital and related financing activities:				
Proceeds from general obligation bonds	8,423	—	8,423	—
Proceeds from revenue bonds	34,150	—	34,150	—
Principal payments—bonds	(11,170)	—	(11,170)	(1,885)
Principal payments—capital leases	(12)	—	(12)	—
Interest paid	(2,310)	—	(2,310)	(2,887)
Proceeds from sales of fixed assets	5	—	5	—
Purchase of fixed assets	—	(494)	(494)	(1,637)
Capital lease obligation down payments	(6)	—	(6)	—
Construction (including capitalized interest costs)	(11,396)	—	(11,396)	—
Contributed capital	4,294	—	4,294	6,744
Net cash provided (used) by capital and related financing activities	21,978	(494)	21,484	335
Cash flows from investing activities:				
Proceeds from sale of investments	1,568	2,038	3,606	2,987
Purchase of investments	(23,860)	(2,276)	(26,136)	(9,896)
Interest received	1,347	593	1,940	2,316
Net cash provided (used) by investing activities	(20,945)	355	(20,590)	(4,593)

	Water and Sewer Authority	Electric	Totals	
			19X4	19X3
Net increase (decrease) in cash and cash equivalents	7,402	967	8,369	2,876
Cash and cash equivalents, January 1 (including \$8,611 in restricted accounts)	2,698	3,474	6,172	3,296
Cash and cash equivalents, December 31 (including \$188 in restricted accounts)	\$10,100	\$ 4,441	\$14,541	\$ 6,172

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Water and Sewer Authority	Electric	Totals	
			19X4	19X3
Operating income	\$ 3,849	\$ 2,677	\$ 6,526	\$ 4,379
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	2,436	318	2,754	2,597
(Increase) in accounts receivable	(508)	(153)	(661)	(40)
Increase in due from other funds	—	—	—	(11)
(Increase) in allowance for uncollectible accounts	213	—	213	110
(Increase) decrease in inventories	153	(168)	(15)	(100)
Increase in customer deposits	233	12	245	84
Increase (decrease) in accounts payable	133	(47)	86	(34)
(Increase) in amounts payable related to equipment purchase	(374)	—	(374)	—
Increase (decrease) in compensated absences payable	15	(3)	12	(2)
Increase (decrease) in inter-governmental payables	(11)	—	(11)	4
Increase (decrease) in due to other funds	(120)	—	(120)	5
Total adjustments	2,170	(41)	2,129	2,583
Net cash provided by operating activities	\$ 6,019	\$ 2,636	\$ 8,655	\$ 6,962
Noncash Investing, Capital and financing Activities				
Borrowing under capital lease	101	—	—	—
Contributions of fixed assets from government	3,230	—	—	—
Purchase of equipment on account	374	—	—	—

The notes to the financial statements are an integral part of this statement.

TRUST AND AGENCY FUNDS

Trust funds are used to account for assets held by the government in a trustee capacity. Agency funds are used to account for assets held by the government as an agent for individuals, private organizations, other governments and/or other funds.

Senior Citizens' Transportation Fund — This fund is used to account for donations that are received pursuant to a trust agreement that restricts the use of those donations to providing subsidies for senior citizens' transportation to special government sponsored events.

Perpetual Care Fund — This fund is used to account for principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the community cemetery.

Public Safety Employees Retirements System Fund — This fund is used to account for the accumulation of resources for pension benefit payments to qualified public safety employees.

Deferred Compensation Fund — This fund is used to account for assets held for employees in accordance with the provisions of Internal Revenue Code Section 457.

**NAME OF GOVERNMENT
TRUST AND AGENCY FUNDS**

Combining Balance Sheet
December 31, 19X4
(With comparative totals for December 31, 19X3)
(amounts expressed in thousands)

	Expendable	Non-	Pension	Agency	Totals	
	Trust	Expendable	Trust		19X4	19X3
	Senior	Perpetual	Public	Deferred		
	Citizens'	Care	Safety	Compensation		
	Transportation		Employees			
Assets						
Cash and cash equivalents	\$ 11	\$ 231	\$ 33	\$ 18	\$ 293	\$ 87
Investments	41	1,752	14,335	1,198	17,327	15,394
Interest receivable	6	82	346	—	434	163
Total assets	\$ 58	\$ 2,066	\$ 14,714	\$ 1,216	\$ 18,054	\$ 15,644
Liabilities and fund balances						
Liabilities:						
Accounts payable	\$ 7	\$ 13	\$ 18	—	\$ 38	\$ 36
Deferred compensation benefits payable	—	—	—	1,216	1,216	900
Total liabilities	7	13	18	1,216	1,254	936
Fund balances:						
Reserved for perpetual care	—	1,102	—	—	1,102	1,102
Reserved for employees retirement system	—	—	16,802	—	16,802	14,248
Unreserved, undesignated	51	951	(2,106)	—	(1,104)	(642)
Total fund balances	51	2,053	14,696	—	16,800	14,708
Total liabilities and fund balances	\$ 58	\$ 2,066	\$ 14,714	\$ 1,216	\$ 18,054	\$ 15,644

The notes to the financial statements are an integral part of this statement.

**NAME OF GOVERNMENT
SENIOR CITIZENS' TRANSPORTATION
EXPENDABLE TRUST FUND**

Comparative Balance sheets
December 31, 19X4 and 19X3
(amounts expressed in thousands)

	19X4	19X3
Assets		
Cash and cash equivalents	\$ 11	\$ 16
Investments	41	33
Interest receivable	6	2
Total assets	\$ 58	\$ 51
Liabilities and fund balances		
Liabilities:		
Accounts payable	\$ 7	\$ 2
Fund balances:		
Unreserved, undesignated	51	49
Total liabilities and fund balances	\$ 58	\$ 51

The notes to the financial statements are an integral part of this statement.

NAME OF GOVERNMENT
SENIOR CITIZENS' TRANSPORTATION
EXPENDABLE TRUST FUND

Comparative Statements of Revenues, Expenditures
and Changes in Fund Balances for fiscal years ended
December 31, 19X4 and 19X3
(amounts expressed in thousands)

	19X4	19X3
Revenues:		
Interest	\$ 6	\$ 2
Donations	82	52
Total revenues	88	54
Expenditures:		
Current:		
General government	86	29
Excess of revenues over expenditures	2	25
Fund balances, January 1	49	24
Fund balances, December 31	\$ 51	\$ 49

The notes to the financial statements are an integral part of this statement.

**NEW YORK STATE OPERATING PERMIT PROGRAM
1995 ANNUAL REPORT**

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FISCAL REPORT

Operating Permit Program Fee

Beginning in 1994, Title V facilities were required to pay the tonnage based OPP fee, pursuant to section 72-0303 of the ECL. OPP fees collected are deposited in the OPP Account of the Clean Air Fund established by State Finance Law. Non-Title V sources continue to pay Air Quality Control Program fees that are deposited to the Environmental Regulatory Account established in 1983.

Both the federal Act and the NYSCACA require fee revenues sufficient to cover all reasonable direct and indirect costs required to develop, administer and enforce the State's Title V permit program. Once EPA approves the State's plan for delegation of the Title V program to the State, Title V/OPP fees can only be used to fund Title V permit program activities. Prior to approval, Title V activities can be funded from any sources available to the State. For fiscal years 1994/95 and 1995/96, the DEC's Title V workload has been funded from the General Fund, the Utility Regulatory Account, Federal Funds and the OPP Account.

In 1994/95, Title V activities constituted 35% of the DEC's air program effort, however the OPP Account only paid for 26% of DEC's air program costs. It is anticipated that as newly authorized positions funded from the OPP Account are filled during 1995/96, the amount expended from the OPP Account will approach 100% of the Title V program cost. Many of the employees who will be recruited to the new OPP jobs will be transferring from existing positions currently funded by the Section 105 federal grant. Section 105 funds may not be used for Title V costs once federal approval of the OPP is obtained. Those grant funds are expected to be reduced accordingly by the federal government.

The State legislation requires that commencing January 1, 1994 and annual thereafter, the Department use a formula to calculate the fee per ton of emissions that subject sources are required to pay and that the calculation and fee be established as a rule through publication in the Environmental Notice Bulletin. The fee is calculated by dividing the current State fiscal year appropriation for the OPP by the total tons of emissions of regulated air contaminants from sources subject to the OPP during the prior calendar year, with consideration given to any surplus or deficit in the OPP Account of the Clean Air Fund, any loan repayment from the Mobile Source Account of the Clean Air Fund and the rate of collection of bills issued for the fee. The fee is limited to a maximum fee of \$25 per ton, increased by the percentage, if any, by which the Consumer Price Index (CPI) exceeds the CPI for the prior year. Based upon this ceiling, the 1994 fee was \$25.69 and the 1995 fee was \$26.44.

Clean Air Compliance Act Reporting Requirements

The NYSCACA specifies the fiscal information that this report must contain. These are as follows; the actual direct and indirect costs and revenues received in State fiscal year (SFY) 1994/95; SFY 1995/96 estimates for direct and indirect costs, revenues and the year end balance of the Clean Air Fund's OPP Account; SFY 1996/97 projections for direct and indirect costs and tonnage of pollutants that will be subject to OPP fees; and finally, a recommendation on an adjustment to the fees to assure adequate funding during future fiscal years. Each of these requirements is addressed under subheadings below.

Cost figures provided in this report are actual or projected expenditures between April 1 and March 31 for a given State fiscal year. Expenditure figures rather than appropriations are used in this report since expenditures provide more accurate reflection of actual program costs. Appropriations only reflect the level of spending the Legislature has authorized in a particular year, and authorized funds may not be disbursed in that year. A legislative appropriation is usually based on anticipated revenues. If actual revenues generated by the OPP fees are less than the appropriation, the full appropriation cannot be spent. Expenditures may be made against a prior year's appropriations, current year appropriations or a reappropriation depending on when the liability was incurred.

State Fiscal Year 1994/95

The actual direct and indirect costs of the OPP in SFY 1994/95 were \$10,687,799. This amount includes expenditures by the Departments of Environmental Conservation, Health, Economic Development, and the Environmental Facilities Corporation. A detailed summary is included in Figure 1. The sources of funds for the program were OPP Account \$7,413,029 with the balance coming from the General Fund, Federal Funds, and the Utility Regulatory Account. Total revenues received by the OPP account during SFY 1994-95 were \$11,084,735. Revenues included fees, interest and penalties.

State Fiscal Year 1995/96

The estimated direct and indirect costs of the OPP in SFY 1995/96 are \$13,653,881. This amount reflects expenditures by the Departments of Environmental Conservation, Health, Economic Development, and the Environmental Facilities Corporation. A detailed summary is included in Figure 2.

Revenues anticipated to be received in SFY 1995-96 total \$10,427,629. This amount is based on emission tonnage billing of 453,320 tons times a per ton fee of \$26.44 minus a 13% uncollectible figure. This revenue estimate does not in-

clude any additional funds that may be collected from prior year fees, penalties and interest.

DEC estimates that the balance in the OPP Account at the end of SFY 1995/96 will be \$4,564,498. This estimate is based on:

Beginning balance	\$7,711,618
Anticipated revenues	\$10,427,629
Projected expenditures	\$13,653,881
Ending balance	\$4,485,366

State Fiscal Year 1996/97

The estimated direct and indirect costs of the OPP in SFY 1996/97 are \$14,590,658. This amount reflects projected expenditures by the Departments of Environmental Conservation, Health, Economic Development and the Environmental Facilities Corporation. A detailed summary is included in Figure 3.

Under current legislation, revenues estimated to be received in SFY 1996/97 total \$10,522,530. This amount is based on an emission tonnage billing of 430,000 tons times a per ton fee of \$27.19 minus a 10% uncollectible figure. The fee of \$27.19 is the maximum allowed by the ceiling currently prescribed in the NYSCACA.

Recommended Fee Adjustment

The 1996/97 appropriations requested by DEC for the OPP represent no further enhancement. Rather, the request is merely for the full annual value of the program levels authorized on a part-year basis by the 1993/94 and 1994/95 budgets. DEC is making no recommendation for an adjustment at this time.

**FIGURE 1:
1994-1995 OPERATING PERMIT ACTUAL COSTS**

Category	Personal Service	Fringe Benefits	Nonpersonal Service	Capital	Total
Direct Program Costs					
Environmental Conservation	4,234,341	1,253,520	985,050	343,708	6,816,619
Health	448,686	137,836	116,543	0	703,065
Economic Development	222,649	68,398	441,716	0	732,763
Environmental Facilities Corp.	0	0	556,853	0	556,853
Total Direct Costs	4,905,676	1,459,754	2,100,162	343,708	8,809,300
Indirect Program Costs					
Environmental Conservation					1,716,141
Health					150,736
Economic Development					111,622
Environmental Facilities Corp.					0
Total indirect costs					1,878,499
Total Operating Permit Program Costs					10,687,799

ASSUMPTIONS:

DEPARTMENT OF ENVIRONMENTAL CONSERVATION:

Direct costs were based on Time and Activity records including adjustments made by supervisory staff. It was determined that 35% of Air staff time was devoted to Operating Permit Program activities in SFY 1994-95. This percentage was applied to the total Air expenditure in SFY 1994-95. Indirect costs were calculated at 31.8% of personal service and fringe benefit costs and reflect costs associated with agency operations, auxiliary support staff and other state overhead responsibilities.

Departments of Health and Economic Development: Reports containing expenditure information were provided to DEC by these agencies.

**FIGURE 2:
1995-96 OPERATING PERMIT ESTIMATED COSTS**

Category	Personal Service	Fringe Benefits	Subtotal	Nonpersonal Service	Capital	Total
Direct Program Costs						
Environmental						
Conservation	4,476,601	1,399,833	5,876,434	1,879,788	1,500,000	9,256,222
Health	249,579	78,043	327,622	15,312	0	243,934
Economic						
Development	403,345	126,126	529,471	613,731	0	1,143,202
Environmental						
Facilities Corp.	0	0	0	1,040,614	0	1,040,614
Total Direct Costs	5,129,525	1,604,002	6,733,527	3,549,445	1,500,000	11,782,972
Indirect Program Costs						
Environmental Conservation				1,754,116	0	1,754,116
Health				97,795	0	97,795
Economic Development				18,998	0	18,998
Environmental Facilities Corp				0	0	0
Total Indirect Costs				1,870,909	0	1,870,909
Total Operating Costs	5,129,525	1,604,002	6,733,527	5,420,354	1,500,000	13,653,881

ASSUMPTIONS:

Environmental Conservation:

Personal Service expenditures reflect actual carry-in from 1994-95 plus 12 month projected expenditures for 66 positions carried over from 1994-95 and 3 month projected expenditures for 42 direct positions to be filled during the current fiscal year.

Funding for 11 positions from SFY 1994-95 and 8 positions from SFY 1995-96 that are assigned to the Division of Regulatory Services and other support offices is shown under the indirect Program costs heading.

Nonpersonal service expenditures reflect actual carry-in from 1994-95 projected 12 month disbursements against 1995-96 appropriations (88% of planned in 12 month period).

Capital expenditures assume 100% of planned amount.

Environmental Facilities Corporation

Nonpersonal service expenditures reflect actual carry-in from 1994-95 plus projected 12 month disbursements against 1995-96 appropriations. (88% of planned in 12 month period).

Fringe Benefits/Indirect:

Fringe benefits for all agencies are calculated at 31.27% of personal service

Indirect costs for Environmental Conservation and Health are calculated at 29.85% of personal service and fringe benefits.

Indirect costs for Economic development are 4.71% of personal service.

**FIGURE 3:
1996-97 OPERATING PERMIT ESTIMATED COSTS**

Category	Personal Service	Fringe Benefits	Subtotal	Nonpersonal Service	Capital	Total
Direct Program Costs						
Environmental						
Conservation	5,210,708	1,629,388	6,840,096	1,929,032	1,000,000	9,809,128
Health	249,579	78,043	327,622	75,312	0	402,934
Economic						
Development	399,366	124,882	524,248	558,296	0	1,082,544
Environmental						
Facilities Corp.	0	0	0	1,000,000	0	1,000,000
Total Direct Costs	5,859,653	1,832,313	7,691,966	3,602,640	1,000,000	12,294,606
Indirect Program Costs						
Environmental Conservation				2,041,769	0	2,041,769
Health				97,795	0	97,769
Economic Development				156,488	0	156,488
Environmental Facilities Corp				0	0	0
Total Indirect Costs				2,296,052	0	2,296,052
Total Operating Costs ...	5,859,653	1,832,313	7,691,966	5,898,692	1,000,000	14,590,658

ASSUMPTIONS:

Planned expenditures for all agencies reflect projected carry-in amounts against 1995-96 appropriations plus 99% of requested personal service and 88% of non-personal service appropriations.

Capital expenditures are estimated at 1,000,000.

FRINGE BENEFITS/INDIRECT:

Fringe benefits for all agencies are calculated at 31.27% of personal service.

Indirect costs for all agencies are calculated at 29.85% of personal service and fringe benefits.

STATE FISCAL YEAR 1994/95 DETAILS AND PROJECTIONS

The NYSCACA requires DEC to report the number of Operating Permit applications on which final action was taken in the previous fiscal year with details on average review time per permit, number of person hours spent per permit and the number of complete permit applications filed. Since the State did not have a federally approved OPP in effect in SFY 1994/95, no Title V permits were reviewed or issued and actual data on average review time per permit is not available. However, the Department has projected, to the extent possible, the minimum number of permit reviews that will be necessary to implement the program over the next five years. These are reflected in Figure 4.

**FIGURE 4:
PROJECTED NUMBER OF PERMITS
SUBJECT TO REVIEW IN ORDER TO IMPLEMENT TITLE V**

Permit Type	Permits to be reviewed over the next 5 years	Average Review Time* (days/permit)
Existing major facilities	876	40
Nox and VOC Reasonable Achievable Technological Cont. (RACT) permit modifications	200	15
Title V General Permits	150	10
New source review (Title I) includes PSD reviews, netting/trading permit modifications	100	80
Known MACT (Section 112) sources	150**	30
Capping out of Title V and RACT	9650***	1

* This time represents estimated technical review time by Division of Air staff only. Specific permit applications could take considerably more or less time depending on the size and complexity of the facility. Also the review time does not include that required by Division of Regulatory Affairs to process and issue permits.

** The numbers in the table are estimates of the effort required to review permits for six categories of sources for which MACT standards have been adopted by EPA. There are 174 categories for which MACT standards are ultimately required to be developed. As new MACT standards are promulgated there will be a significant increase in both the number of facilities that require permits and the effort necessary to review those permits.

*** This includes the approximately 6000 New York City sources that will need modifications to their permits in order to cap out of Title V.



OTHER INVOLVED AGENCIES

The NYSCACA does not specifically require that the activities of other involved agencies be reported. However, the Department of Health, Department of Economic Development and the Environmental Facilities Corporation were asked to report so that the direct costs of the fiscal portion of this report could be determined. Expenditures reported by those agencies have been included in this report. Their submissions to DEC are included as appendices to this report.

The Environmental Finance Center is part of the Coastal and Environmental Policy Program (CEPP) and is hosted by the Maryland Sea Grant College.

About CEPP

The Coastal and Environmental Policy Program is a non-degree granting program composed of the University of Maryland Sea Grant Program, the School of Public Affairs, the College of Agriculture, the School of Law, and the Center For Environmental and Estuarine Studies. CEPP provides informational, educational and research policy analysis and technical problem-solving assistance.

About Sea Grant

The National Sea Grant Program encourages wise stewardship of our marine resources through research, education, outreach and technology transfer. Maryland Sea Grant is one of twenty-nine Sea Grant programs across the country — part of a national partnership supported jointly by state and federal funds, from the National Oceanic and Atmospheric Administration.

About the EFC

With support from the U.S. Environmental Protection Agency (EPA) and the Maryland Sea Grant College Program, the Environmental Finance Center (EFC) was created to train, provide assistance and act in an advisory capacity to state and local governments on issues related to environmental finance.

The Center promotes a comprehensive and integrative look at environmental finance from a strategic management perspective that suggests that sound environmental practices encompass a broad spectrum of activities. Activities such as needs assessments, issue prioritization, identification of relevant environmental regulations and compliance issues, development of capital facilities plans, identification of revenue sources, and community participation are precursors to securing funding that form part of the EFC's holistic approach.

To find out more about the Environmental Finance Center visit our web page: <http://www.mdsg.umd.edu/MDSG/EFC/index.html>

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TITLE V OF THE CLEAN AIR ACT

One of the most important benefits of the new Title V operating permits program of the Clean Air Act is that the program itself will ensure that adequate resources are available for its administration. By collecting fees from stationary air pollution sources in exchange for permits which regulate levels of emissions, states and localities can achieve a number of desired goals:

- Use revenues generated by those regulated to monitor, enforce, and report on stationary air emissions
- Create incentives for those sources to reduce emissions by forcing permit holders to internalize the costs of emitting air pollutants
- Begin to track air pollution control requirements and performance so it becomes easier to manage programs across media, such as air, water, and land

If revenues generated from a program go to support other state efforts, then not only will the program suffer from lack of resources, but those paying the permit fees will not receive the level of service that they are paying for.

This handbook identifies ways a state or local air program agency can collect, segregate, and account for Title V fees so that they are not commingled with other efforts.



ISSUES IN ENVIRONMENTAL FINANCE



Environmental Finance Center ■ University of Maryland System
<http://www.mdsg.umd.edu/MDSG/EFC/index.html>

