



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

BOARD OF DIRECTORS' REGULAR MEETING

March 4, 2009

A meeting of the Bay Area Air Quality Management District Board of Directors will be held at 9:45 a.m. in the 7th floor Board Room at the Air District headquarters, 939 Ellis Street, San Francisco, California.

Questions About an Agenda Item

The name, telephone number and e-mail of the appropriate staff person to contact for additional information or to resolve concerns is listed for each agenda item.

Meeting Procedures

The public meeting of the Air District Board of Directors begins at 9:45 a.m. The Board of Directors generally will consider items in the order listed on the agenda. However, any item may be considered in any order.

After action on any agenda item not requiring a public hearing, the Board may reconsider or amend the item at any time during the meeting.

BOARD OF DIRECTORS' REGULAR MEETING A G E N D A

WEDNESDAY
MARCH 4, 2009
9:45 A.M.

BOARD ROOM
7TH FLOOR

CALL TO ORDER

Opening Comments
Roll Call
Pledge of Allegiance
Oath of Office

Chairperson, Pamela Torliatt
Clerk of the Boards

PUBLIC COMMENT PERIOD

Public Comment on Non-Agenda Items, Pursuant to Government Code Section 54954.3
Members of the public are afforded the opportunity to speak on any agenda item. All agendas for regular meetings are posted at District headquarters, 939 Ellis Street, San Francisco, CA, at least 72 hours in advance of a regular meeting. At the beginning of the regular meeting agenda, an opportunity is also provided for the public to speak on any subject within the Board's subject matter jurisdiction. Speakers will be limited to three (3) minutes each.

CONSENT CALENDAR (ITEMS 1 – 5)

Staff/Phone (415) 749-

1. Minutes of February 4, 2009
L. Harper/5073
lharp@baaqmd.gov
2. Communications
J. Broadbent/5052
jbroadbent@baaqmd.gov
Information only.
3. Quarterly Report of Division Activities
J. Broadbent/5052
jbroadbent@baaqmd.gov
Report of Division Activities for the months of October –December 2008
4. Quarterly Report of the Executive Office
J. Broadbent/5052
jbroadbent@baaqmd.gov
A summary of Board of Directors, Hearing Board and Advisory Council meeting activities for the fourth quarter is provided for information only.
5. Consider Authorization to Enter into Contract with Management Partners Incorporated
J. Broadbent/5052
jbroadbent@baaqmd.gov
The Board of Directors will consider authorizing the Chairperson to enter into a contract with Management Partners Incorporated, to establish an approach to facilitate a performance evaluation process for the Executive Officer and Counsel in an amount not to exceed \$23,800.

COMMITTEE REPORTS AND RECOMMENDATIONS

6. Report of the **Climate Protection Committee Meeting** of February 20, 2009
CHAIR: Y. KISHIMOTO
J. Broadbent/5052
jbroadbent@baaqmd.gov
7. Report of the **Legislative Committee Meeting** of February 23, 2009
CHAIR: T. BATES
J. Broadbent/5052
jbroadbent@baaqmd.gov
8. Report of the **Budget and Finance Committee Meeting** of February 25, 2009
CHAIR: C. DALY
J. Broadbent/5052
jbroadbent@baaqmd.gov
9. Report of the **Mobile Source Committee Meeting** of February 26, 2009
CHAIR: S. HAGGERTY
J. Broadbent/5052
jbroadbent@baaqmd.gov

Action(s): The Committee may recommend Board of Directors' approval of the following:

- 1) *Receive and file the 2008 Vehicle Buy Back (VBB) Program Annual Report; and*
- 2) *Recommend the Board of Directors authorize a) an increase in the amount paid, to up to \$1000 per eligible vehicle, and b) an expansion in the range of eligible vehicles for the VBB Program.*

PUBLIC HEARING(S)

10. Public Hearing to consider proposed amendments to Regulation 11; Rule 16: Perchloroethylene and Synthetic Solvent Dry Cleaning Operations; Regulation 8, Rule 17: Petroleum Dry Cleaning Operations; and Regulation 2, Rule 1: Permits, General Requirements; deletion of Regulation 8, Rule 27: Synthetic Solvent Dry Cleaning Operations; and adoption of a Negative Declaration pursuant to the California Environmental Quality Act (CEQA)
B. Bateman/4653
bbateman@baaqmd.gov

In order to reduce the public's exposure to perchloroethylene (Perc) emissions from dry cleaning and water-repelling operations, the California Air Resources Board (ARB) has amended the Airborne Toxic Control Measure (ATCM) for Emissions of Perchloroethylene from Dry Cleaning Operations (Section 93109, Title 17, of the California Code of Regulations). The Bay Area Air Quality Management District (Air District) is required under Health and Safety Code section 39666 to implement and enforce the amended ATCM.

CLOSED SESSION

11. Report of the **Personnel Committee Meeting** of February 18, 2009
Public Employee Performance Evaluation (Government Code Section 54957 and 54957.6)
Pursuant to Government Code Section 54957 and 54957.6, the Committee will meet in closed session to conduct performance evaluations of the Executive Officer/APCO and the Counsel.
12. Report of the **Budget and Finance Committee Meeting** of February 25, 2009
Potential Litigation (Government Code Sections 54956.9(b) and 54956.9(c))
Pursuant to Government Code Sections 54956.9(b) and 54956.9(c), a need exists to meet in closed session to discuss potential litigation regarding one matter.
13. **Potential Litigation (Government Code Sections 54956.9(b) and 54956.9(c))**
Pursuant to Government Code Section 54956.9(a), a need exists to meet in closed session to discuss potential litigation regarding one matter.

OPEN SESSION

OTHER BUSINESS

14. Report of the Executive Officer/APCO
15. Chairperson's Report
16. Board Members' Comments
Any member of the Board, or its staff, on his or her own initiative or in response to questions posed by the public, may: ask a question for clarification, make a brief announcement or report on his or her own activities, provide a reference to staff regarding factual information, request staff to report back at a subsequent meeting concerning any matter or take action to direct staff to place a matter of business on a future agenda. (Gov't Code § 54954.2)
17. Time and Place of Next Meeting – 9:45 a.m., Wednesday, March 18, 2009 - 939 Ellis Street, San Francisco, CA 94109
18. Adjournment

CONTACT EXECUTIVE OFFICE - 939 ELLIS STREET SF, CA 94109

(415) 749-5127

FAX: (415) 928-8560

BAAQMD homepage:

www.baaqmd.gov

- To submit written comments on an agenda item in advance of the meeting.
- To request, in advance of the meeting, to be placed on the list to testify on an agenda item.
- To request special accommodations for those persons with disabilities. Notification to the Executive Office should be given at least 3 working days prior to the date of the meeting so that arrangements can be made accordingly.
- Any writing relating to an open session item on this Agenda that is distributed to all, or a majority of all, members of the body to which this Agenda relates shall be made available at the Air District's headquarters at 939 Ellis Street, San Francisco, CA 94109, at the time such writing is made available to all, or a majority of all, members of that body. Such writing(s) may also be posted on the Air District's website (www.baaqmd.gov) at that time.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
939 ELLIS STREET, SAN FRANCISCO, CALIFORNIA 94109
(415) 771-6000

EXECUTIVE OFFICE:
MONTHLY CALENDAR OF DISTRICT MEETINGS

MARCH 2009

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Regular Meeting <i>(Meets 1st & 3rd Wednesday of each Month)</i>	Wednesday	4	9:45 a.m.	Board Room
Board of Directors Personnel Committee <i>(At the Call of the Chair)</i>	Friday	6	9:30 a.m.	4 th Floor Conf. Room
Advisory Council Regular Meeting	Wednesday	11	9:00 a.m.	Board Room
Ad Hoc Committee on Port Emissions <i>(At the Call of the Chair)</i>	Thursday	12	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Regular Meeting <i>(Meets 1st & 3rd Wednesday of each Month)</i>	Wednesday	18	9:45 a.m.	Board Room
Joint Policy Committee	Friday	20	10:00 a.m.	MTC Auditorium 101 8 th Street Oakland, CA 94607
Board of Directors Legislative Committee <i>(Meets 4th Monday of the Month)</i>	Monday	23	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Climate Protection Committee <i>(Meets 2nd Thursday each Month)</i>	Monday	23	Immediately Following Legislative Cme. Meeting	4 th Floor Conf. Room
Board of Directors Budget & Finance Committee <i>(Meets 4th Wednesday of each month)</i>	Wednesday	25	1:30 p.m.	4 th Floor Conf. Room
Board of Directors Mobile Source Committee <i>– (Meets 4th Thursday of each Month)</i>	Thursday	26	9:30 a.m.	4 th Floor Conf. Room

APRIL 2009

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Regular Meeting <i>(Meets 1st & 3rd Wednesday of each Month)</i>	Wednesday	1	9:45 a.m.	Board Room
Advisory Council Regular Meeting	Wednesday	8	9:00 a.m.	Board Room
Board of Directors Climate Protection Committee <i>(Meets 2nd Thursday each Month)</i>	Thursday	9	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Regular Meeting <i>(Meets 1st & 3rd Wednesday of each Month)</i>	Wednesday	15	9:45 a.m.	Board Room

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Stationary Source Committee <i>(Meets 3rd Monday Quarterly)</i>	Monday	20	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Budget & Finance Committee <i>(Meets 4th Wednesday of each month)</i>	Wednesday	22	1:30 p.m.	4 th Floor Conf. Room
Board of Directors Mobile Source Committee <i>– (Meets 4th Thursday of each Month)</i>	Thursday	23	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Legislative Committee <i>(Meets 4th Monday of the Month)</i>	Monday	27	9:30 a.m.	4 th Floor Conf. Room

MAY 2009

<u>TYPE OF MEETING</u>	<u>DAY</u>	<u>DATE</u>	<u>TIME</u>	<u>ROOM</u>
Board of Directors Regular Meeting <i>(Meets 1st & 3rd Wednesday of each Month)</i>	Wednesday	6	9:45 a.m.	Board Room
Advisory Council Regular Meeting	Wednesday	13	9:00 a.m.	Board Room
Board of Directors Climate Protection Committee <i>(Meets 2nd Thursday each Month)</i>	Thursday	14	9:30 a.m.	4 th Floor Conf. Room
Joint Policy Committee	Friday	15	10:00 a.m.	MTC Auditorium 101 8 th Street Oakland, CA 94607
Board of Directors Regular Meeting <i>(Meets 1st & 3rd Wednesday of each Month)</i>	Wednesday	20	9:45 a.m.	Board Room
Board of Directors Legislative Committee <i>(Meets 4th Monday of the Month)</i>	Monday	25	9:30 a.m.	4 th Floor Conf. Room
Board of Directors Budget & Finance Committee <i>(Meets 4th Wednesday of each month)</i>	Wednesday	27	1:30 p.m.	4 th Floor Conf. Room
Board of Directors Mobile Source Committee <i>– (Meets 4th Thursday of each Month)</i>	Thursday	28	9:30 a.m.	4 th Floor Conf. Room

HL – 2/26/09 (8:40 a.m.)
P/Library/Forms/Calendar/Calendar/Moncal

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

To: Chairperson Pamela Torliatt and Members
of the Board of Directors

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 11, 2009

Re: Board of Directors' Draft Meeting Minutes

RECOMMENDED ACTION:

Approve attached draft minutes of the Regular Board of Directors' meeting of February 4, 2009.

DISCUSSION

Attached for your review and approval are the draft minutes of the February 4, 2009 Regular Board of Directors' meeting.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Bay Area Air Quality Management District
939 Ellis Street
San Francisco, CA 94109
(415) 749-5000

Board of Directors' Regular Meeting
February 4, 2009

DRAFT MINUTES

Call To Order: Chairperson Pamela Torliatt called the meeting to order at 9:50 a.m.

Roll Call: Chairperson Pamela Torliatt, Vice Chairperson Brad Wagenknecht, secretary Tom Bates, Harold Brown, Chris Daly, Sue Garner, John Gioia, Carole Groom, Scott Haggerty, Jennifer Hosterman, Yoriko Kishimoto, Carol Klatt, Liz Kniss, Nate Miley, Mark Ross, Michael Shimansky, Gayle Uilkema, Ken Yeager.

Absent: Dan Dunnigan, Jim Spering, Shirlee Zane.

Pledge of Allegiance: Jeffrey McKay led the Pledge of Allegiance.

Public Comments: None.

Proclamation/Commendation:

- Chairperson Torliatt recognized Wayne Nastri, Regional Administrator of the U.S. Environmental Protection Agency for his dedicated service to improving air quality and public health.
- Mr. Nastri thanked the Board; urged their continuance in enforcement, partnerships, communication and outreach.

Calendar Items:

Review Minutes of Board of Directors' meeting January 21, 2009.

Public Hearing on February 18, 2009 to consider proposed amendments:

- Regulation 11; Rule 16: Perchloroethylene and Synthetic Solvent Dry Cleaning Operations.
- Regulation 8, Rule 17: Petroleum Dry Cleaning Operations.
- Regulation 2, Rule 1: Permits, General Requirements.
- Deletion of Regulation 8, Rule 27: Synthetic Solvent Dry Cleaning Operations.
- Adoption of a Negative Declaration pursuant to the California Environmental Quality Act (CEQA).

In order to reduce the public's exposure to perchloroethylene (Perc) emissions from dry cleaning and water-repelling operations, the California Air Resources Board (ARB) has

amended the Airborne Toxic Control Measure (ATCM) for Emissions of Perchloroethylene from Dry Cleaning Operations (Section 93109, Title 17, of the California Code of Regulations). The Bay Area Air Quality Management District (Air District) is required under Health and Safety Code section 39666 to implement and enforce the amended ATCM.

Board Action: Director Brown moved to approve Consent Calendar Items; seconded by Vice Chairperson Wagenknecht; carried unanimously without opposition.

Committee Reports:

Report 4. Ad Hoc Committee on Port Emissions
January 22, 2009
Report given by Chairperson N. Miley

November 17, 2008 committee minutes approved.

Port of Oakland Actions:

- Port Commission met November 19, 2008.
- Postponed \$5 million funding committed to Air District for drayage truck clean up.
- Port Maritime Committee met November 20, 2008.
- Postponed consideration of Maritime Air Quality Improvement Plan (MAQIP), user fees for emission reduction projects, and infrastructure improvements.

Response:

- Executive Officer/APCO, Mr. Broadbent met with Mayor Dellums' staff.
- Board Chairperson Torliatt sent letter to Mayor Dellums.
- Port of Oakland requested return of \$2 million payment.
- Maritime Air Quality Improvement Plan (MAQIP) scheduled for Port Maritime Committee meeting January 29, 2009.
- Air District preparing enforcement of ARB rules applicable to Port operations.

Committee Follow-up:

- Pursue legislation for container fees.
- Meet with Board Members and Commissioners.
- Encourage adoption of Truck Management Plan.
- Support spending \$2 million on shore-side power.
- Move forward with retrofitting trucks and exploring public/private partnerships.

Committee discussed potential litigation in closed session.

Director Uilkema distributed article re Port of Los Angeles proposed fees.

Next Ad Hoc Committee meeting: at the call of the Chair.

Board Comments/Discussions:

Director Miley suggested Ad Hoc Committee report on Port of Oakland Emissions be amended to include a follow-up meeting with Port Commissioners, Port staff and Air District staff to better understand challenges Port is facing, determine short-term actions re air quality. Executive Officer/APCO Mr. Broadbent: meeting is scheduled for February 17, 2009 at 1:00 p.m. at Port of Oakland offices; staff identifying potential projects to utilize the \$2 million.

Board Action: Director Miley moved to approve the report of the Ad Hoc Committee on Port Emissions as amended; seconded by Director Gioia; carried unanimously without opposition.

Report 5. Mobile Source Committee
January 23, 2009
Report by Chairperson S. Haggerty

November 19, 2008 committee minutes approved.

Committee recommended:

- Board of Directors adopts resolution to allow Executive Officer/APCO, Mr. Broadbent to accept up to \$14.5 million in funding from Air Resources Board (ARB) for Year 11, Carl Moyer Program.
- Reserve \$2 million matching funds from District's Mobile Source Incentive Fund.
- Board of Directors' authorization for the Executive Officer/APCO, Mr. Broadbent to execute Grant Agreements for projects up to \$100,000.
- Enter into agreements to institute voucher component to the CMP.
- Execute grants on a "first-come first-served", year-round basis.

Committee received staff update regarding Air District's implementation of the California Goods Movement Bond Program.

Committee recommended Board of Directors' approval to:

- Reserve additional \$3.5 million in Mobile Source Incentive Funds to replace vehicles as part of the Lower Emissions School Bus Program.
- \$1 million Mobile Source Incentive Funds to start Agricultural Assistance Program.

Committee discussed need to re-evaluate Agricultural Assistance Program in June 2009; consider \$1 million funding increase.

Next Mobile Source Committee meeting: Thursday, February 26, 2009.

Board Action: Director Haggerty moved to approve the report and recommendations of the Mobile Source Committee; seconded by Director Gioia; carried unanimously without opposition.

Report 6. Legislative Committee Meeting
January 26, 2009
Report given by Chairperson T. Bates

January 8, 2009 committee minutes approved.

Committee Discussions/Considerations:

- Statewide bill requiring all container ports to file Air Quality Improvement Plan with their air district, giving air districts authority to review, approve, disapprove and regulate such plans.
- Committee discussed changes in the size of the Air District Board Directors. Chairperson Bates suggested deferring any recommendation.

Directors: discussed board structure and options; referred issue back to Legislative Committee. Director Kniss requested the Board also revisit this issue.

Board Action: Director Bates moved to direct staff to pursue legislation requiring all container ports to file an Air Quality Improvement Plan with Air Districts and for Air Districts to have authority to review, approve, disapprove and regulate such plans; Vice Chair Wagenknecht seconded the motion; carried unanimously without opposition.

Director Haggerty made a motion to move the item regarding Board size back to the Legislative Committee; Director Klatt seconded the motion; which carried by the following roll call vote: 12-5-4 (No Vote: Garner, Groom, Kniss, Shimansky, Uilkema; Absent: Daly, Dunnigan, Sperring, Zane.

Report 7. Budget and Finance Committee Meeting
January 28, 2009
Report given by Chairperson C. Daly

October 22, 2008 committee minutes approved.

Committee reviewed/discussed:

- Fourth quarter financial report for Fiscal Year 2007-08.
- Air District's financial overview, revenue sources, expenses, challenges, and risk.
- Annual Valuation Report from CalPERS as of June 30, 2007, budget considerations and investment losses in the OPEB Trust Fund.
- Possible increase in employer contribution rates starting FY 2010-2011.

Committee Comments:

- Because EPA will likely designate Bay Area as non-attainment for the revised ozone standard, District staff applied for and received one time award of \$252,370 to develop Photochemical Assessment Monitoring Stations (PAMS) network plus annual award of \$122,500 to operate network. This will allow Air District to further evaluate ozone formation in Bay Area.

Committee Recommended:

- Board of Directors' authorize Executive Officer/APCO, Mr. Broadbent solicit bids and execute agreements for the Production System Project not to exceed \$2,800,000, and transfer corresponding designated reserves to the current year budget.
- Board of Directors' amend FY 2008/2009 budget by increasing Section 105 Environmental Protection Agency (EPA) Grant Revenue by \$374,870, and increase the professional services and capital equipment budget for Air Monitoring (Program 802) to recognize revenue from a U.S. Environmental Protection Agency grant.

Next Budget and Finance Committee meeting: Wednesday, February 25, 2009 at 1:30 p.m.

Board Action: Director Daly made a motion to approve the report and recommendations of the Budget and Finance Committee; Vice Chair Wagenknecht seconded the motion; carried unanimously without objection.

Public Hearing:

Proposed amendments to Regulation 8, Rule 33: Gasoline Bulk Terminals and Gasoline Delivery Vehicles and Regulation 8, Rule 39: Gasoline Bulk Plants and Gasoline Delivery Vehicles, and adoption of a CEQA Negative Declaration.

Senior Air Quality Engineer Guy Gimlen explained amendments:

- To reduce emissions from gasoline transfer at bulk terminals and bulk plants, including episodic emissions by requiring monitoring systems in bulk terminals and improving operating practices in terminals and plants.
- Chairperson Torliatt opened the public hearing at 10:51 a.m.

Public Comments:

Dennis Bolt discussed new leak standards that require shutdowns and disruption of supplies to local gas stations.

Board Action: Vice Chairperson Wagenknecht made a motion to continue the public hearing to March 4, 2009; Director Kniss seconded the motion; carried unanimously without opposition.

Closed Session:

Board of Directors adjourned to Closed Session at 10:54 a.m.

- **POTENTIAL LITIGATION (Government Code Sections 54956.9(b) and 54956.9(c))**
Pursuant to Government Code Sections 54956.9(b) and 54956.9(c), a need exists to meet in closed session to discuss potential litigation regarding two matters.
- **EXISTING LITIGATION (Government Code Section 54956.9(a))**
Pursuant to Government Code Section 54956.9(a), a need exists to meet in closed session with legal counsel to consider the following case(s):
 - A) Duraflame, Inc. v. Bay Area AQMD, Contra Costa County Superior Court, Case No. N09-0102.
 - B) Thomasina Mayfield v. Bay Area AQMD, Michael Rich, et al., San Francisco County Superior Court, Case No. CGC-09-484213.
- **PUBLIC EMPLOYEE PERFORMANCE EVALUATION (Government Code Section 54957 and 54957.6).**

Pursuant to Government Code Section 54957 and 54957.6, the Committee will meet in closed session to conduct performance evaluations of the Executive Officer/APCO and the District Counsel.

Open Session:

Board of Directors reconvened at 11:54 a.m. Chairperson Torliatt stated that no reportable action was taken in Closed Session.

Other Business:

Executive Officer/APCO Report:

Winter 2008-2009 PM_{2.5} Season.

- 11 days of PM_{2.5} standard exceedances.
- 10 Wintertime Spare the Air Alerts.
- Staff plans a review of the entire program and report back to Committees.

Four (4) County Health Officers invited to speak on questions designed to highlight impacts of air quality and public health in CARE communities at Advisory Council meeting February 11, 2009.

Chairperson Torliatt's Report:

- February 18, 2009 Regular Board meeting cancelled.
- Climate Summit tentatively scheduled for May 4, 2009.

Board Comments:

Director Uilkema reported out on her trip the Air & Waste Management Association's conference in San Diego on Vapor Intrusion.

Time and Place of Next Meeting: 9:45 a.m., Wednesday, March 4, 2009
939 Ellis Street, San Francisco, CA 94109

Adjournment: Meeting adjourned at 12:03 p.m.

Lisa Harper
Clerk of the Boards

Edited by Kathleen Wilson

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

To: Chairperson Pamela Torliatt and Members
of the Board of Directors

From: Jack P. Broadbent
Executive Officer/APCO

Date: January 27, 2009

Re: Board Communications Received from February 4, 2009 through March 3, 2009

RECOMMENDED ACTION:

Receive and file.

DISCUSSION

A list of Communications directed to the Board of Directors received by the Air District from February 4, 2009 through March 3, 2009, if any, will be at each Board member's place at the March 4, 2009, Regular Board meeting.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Memorandum

To: Chairperson, Pamela Torliatt and Members
of the Board of Directors

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 23, 2009

Re: Report of Division Activities for the Months of October 2008 – December 2008

ADMINISTRATION AND INCENTIVES DIVISION – M. RICH, DIRECTOR

The Administration Division was reorganized in November and now includes the human resources and business office functions. The Division continues to report to the Executive Officer/APCO.

Human Resources Office

Implementation of an online job application system was completed during this quarter and became operational on January 1, 2009. The system is a hosted solution that does not use District computer servers or require internal technical support.

Business Office

A request for proposal was issued to identify a vendor to perform a strategic space planning analysis. The analysis will aid in decision-making on options for addressing workspace needs given the maintenance and repair challenges encountered at the District Office building at 939 Ellis Street. In the short term, staff has focused on elevator reliability and succeeded in reducing the number and frequency of breakdowns significantly.

COMPLIANCE AND ENFORCEMENT – K. WEE, DIRECTOR**Enforcement Program**

On October 7, 2008 Transbay Container Terminal at the Port of Oakland received two citations for excessive truck idling. At the Asbestos NESHAP Coordinators meeting in San Luis Obispo on October 22nd and 23rd, Staff received information about abrasive blasting materials that contain asbestos. On October 22nd staff attended a community meeting coordinated by the Santa Clara Planning Department to help answer questions about Lehigh Southwest Cement Company's (formerly Hanson Permanente Cement) quarry reclamation plan, air pollution emissions, truck diesel emissions, dust, and other concerns. During the months of November and December, staff investigated 755 wood smoke complaints and conducted wood smoke surveillance during 5 Wintertime *Spare the Air* Alerts. Staff processed 353 wood smoke informational packets and 74 wood

smoke Warning Letters regarding the Winter *Spare the Air* Alerts. Staff investigated 10 odor complaints alleging Pacific Steel Casting on November 7th that resulted in a public nuisance citation.

Compliance Assurance Program

Staff attended the CAPCOA Vapor Recovery Meeting on October 16th and 17th and received information about a newly certified Enhanced Vapor Recovery system, the additional time above ground storage tanks will be provided to meet new requirements, and the status of CARB enforcement actions on a system vendor for faulty nozzles. Staff participated in the monthly Trucker Work Group meetings this quarter at the Port of Oakland. Staff reviewed the Flare Minimization Plan annual updates for all the refineries and determined all the updates were complete and ready for public comment. Staff updated and posted August through October '08 refinery flare monitoring data and graphs to the District website. In October, 2008, Staff conducted a Chrome Plating ATCM field compliance evaluation with ARB staff.

Compliance Assistance Program

Staff produced three (3) Compliance Advisories regarding: new Nitrogen Oxide and Carbon Monoxide emission limits for natural-gas fired water heaters and boilers; new requirements for woodburning device installations in new construction and remodels directed to planning and building departments; and new requirements for restaurants that operate chain-driven charbroilers. On October 15, Staff met with Travis AFB representatives regarding compliance with asbestos regulations during the demolition of fire damaged buildings. On October 30, staff gave a presentation on asbestos regulations to the West Oakland Local Advisory Group (WOLAG). On November 12, 2008, Staff attended the Alameda County Environmental Task Force Meeting in Hayward and gave a presentation on proposed amendments to the District's automotive refinishing regulation and provided an update on the upcoming Enhanced Vapor Recovery (EVR) Phase II deadline of April 1, 2009. Translation from Vietnamese and Spanish languages was provided for Division activities during this period.

Operations

The 4th Quarter In-Service Training Sessions were conducted in October. Annual Hazardous Waste Operations and Emergency Response (Hazwoper) training and respirator fit testing was conducted in November. Staff processed 5 Prescribed Burn Smoke Management Plans for control burns in Napa, San Mateo and Santa Clara counties.

(See Attachment for Activities by County)

ENGINEERING DIVISION – B. BATEMAN, DIRECTOR
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Permit Activity Summary

In the 4th quarter of 2008, 525 new permit applications were received: 236 standard New Source Review applications, 268 Gasoline Dispensing Facility applications, 20 Title V applications, and 1 Banking application. During this period, the Division issued 226 Authorities to Construct and 348 Permits to Operate.

Engineering Division Permit Activity – 4 th Quarter 2008			
Annual update packages started	1271	Permits to Operate issued	348
Annual update packages completed	985	Exemptions	32
Total update pages entered	1714	Authorities to Construct denied	0
New applications received	525	New Companies added to Data Bank during the 4 th quarter 2008	78
Authorities to Construct issued	226		

Toxics Summary

A total of 79 Health Risk Screening Analyses (HRSAs) were completed during the 4th quarter of 2008. The majority of these HRSAs were for diesel engine emergency generators, soil remediation projects and gasoline stations.

Staff is refining work on a Health Risk Assessment (HRA) for Sentinel Cremation Societies in Emeryville. Several new residential buildings have been built immediately adjacent to the crematory, and it appears that Sentinel will be subject to the public notification requirements of the Air Toxics Hot Spots (ATHS) Program as a result. If this is determined to be the case, notices will be sent to affected members of the public, and a community meeting will be held to discuss the results of the HRA.

Staff has approved the Final Health Risk Assessment (HRA) for Pacific Steel Castings Company (PSC) in Berkeley required under the ATHS Program. PSC mailed public notices to affected workers and residents in December 2008, and will be required to periodically send out updated notices.

Staff completed review of Prevention of Significant Deterioration (PSD) air dispersion modeling analyses for three large power generation projects: Russell City Energy Center (Hayward), Mirant Willow Pass (Pittsburg), and Gateway Generating Station. Staff is continuing review of PSD analyses for two other large power generation projects: Mirant Marsh Landing (Antioch), and East Altamont Energy Center (Byron).

Staff is continuing work to update the toxic emission inventory and health risk assessment for Lehigh Southwest Cement Company (Cupertino) for the ATHS Program. This work includes additional testing of sources of fugitive emissions at the facility.

Staff conducted a workshop on December 22, 2008, to discuss proposed amendments to the following regulations applying to dry cleaners: Regulation 11, Rule 16: Perchloroethylene and Synthetic Solvent Dry Cleaning Operations; Regulation 8, Rule 17: Petroleum Dry Cleaning Operations; Regulation 2, Rule 1 Permits, and Regulation 8, Rule 27: Synthetic Solvent Dry Cleaning Operations (to be deleted, replaced by Reg. 11-16). The proposed rule amendments are scheduled to be presented to the Board of Directors for consideration of adoption in February 2009.

Title V Program

Staff continues work on the Title V permit renewals for the Bay Area refineries. Staff expects that the public comment period for these permits will be held in the 3rd quarter of 2009.

Permit Evaluation Program

Staff completed its review and evaluation of the Valero (Benicia) Improvement Project amendments, and an Authority to Construct for this project was issued in December 2008. The project includes replacement of two existing CO boilers with boilers that will be abated by Selective Catalytic Reduction (SCR) and a scrubber, and replacement of an existing hydrogen plant that will be abated by SCR.

Air District staff continues to assist the City of Richmond in implementing a Conditional Use Permit condition for the Chevron Richmond Refinery that is related to the Chevron Energy & Hydrogen Renewal Project. The condition requires sampling and analysis of crude oil, fuel gas, and flare gas, and the District is providing review of proposed test protocols.

The Air District has begun the process of re-noticing the revised PSD permit for the Russell City Energy Center. The Statement of Basis for the revised PSD permit was issued on December 8, 2008. The public comment period will close on January 22, 2009. The public will have an additional opportunity to comment on the project at a public hearing scheduled on January 21, 2009.

The California Energy Commission (CEC) has deemed the applications for the proposed Willow Pass Generating Station, and the Marsh Landing Generating Station, to be "data adequate". District staff attended CEC-sponsored site visits and Data Response & Issue Resolution Workshops for these projects. The District will likely be issuing a Preliminary Determination of Compliance for these projects in the first quarter of 2009.

Staff continued work to implement the CARB stationary diesel engine Airborne Toxic Control Measure (ATCM), and the portable diesel engine ATCM. The District continues to receive many permit applications for diesel engines.

LEGAL DIVISION – B. BUNGER, DISTRICT COUNSEL

The Air District Counsel's Office received 176 Violations reflected in Notices of Violation (NOVs) for processing.

Mutual Settlement Program staff initiated settlement discussions regarding civil penalties for 143 Violations reflected in NOVs. In addition, Mutual Settlement Program staff sent 12 Final 30 Day Letter regarding civil penalties for 21 Violation(s) reflected in NOVs. Finally, Settlement negotiations by Mutual Settlement Program staff resulted in collection of \$60,725 in civil penalties for 68 violations reflected in NOVs.

Counsel in the District Counsel's Office initiated settlement discussions regarding civil penalties for 78 Violations reflected in NOVs. Settlement negotiations by counsel in the District Counsel's Office resulted in collection of \$195,750 in civil penalties for 56 violation(s).

(See Attachment for Penalties by County)

OUTREACH AND INCENTIVES – L. FASANO**Public Information and Media**

Winter Spare the Air – The first five *Winter Spare the Air Alerts* were issued in the fourth quarter of 2008, prompting numerous inquiries by the media and general public. Media advisories were issued each time. Messages and tips for the Spare the Air Every Day campaign were developed and creative work completed on production for the final TV spot and additional radio and print advertising. The number of people registered for automated AirAlerts swelled from 55,000 at the start of the season on Nov. 1 to more than 94,000, an average of 570 new signups each day. In addition, more than 10,000 people signed up for Phone Alerts since Nov. 1. Staff continues to work with contractors to improve the speed and consistency of the *Winter Spare the Air Alert* notification process.

Wood Smoke Rule Outreach – Staff produced a communications and outreach plan and worked with contractors on a media campaign to educate the public about the new wood smoke rule. Television, radio, print, Internet, grass roots, bicycle display messenger and outdoor advertising were all utilized, including door-to-door canvassing and a banner over the Treasure Island tunnel on the Bay Bridge and in Mill Valley. Staff commenced distribution of the new pamphlet on Wood Burning Regulation. Hundreds were mailed out in response to requests from agencies which will distribute them. Staff made presentations, provided answers to FAQs and delivered literature for public distribution during appearances before groups such as the Clayton and Alameda Rotary Clubs, Santa Clara County Fire and San Mateo County Building departments as well as 3 Employee Leadership workshops. Staff uploaded a new video on wood smoke and a *Winter Spare the Air* fact sheet in English, Spanish and Chinese onto the sparetheair.org website.

Media Inquiries & Coverage – Staff responded to about 150 media inquiries from Bay Area news outlets and gave interviews about the District’s new wood smoke rule, the new Clean Air Plan, the CARE Program, the EPA designating the Bay Area a PM non-attainment area, the Port of Oakland and other air quality topics. Staff also visited numerous media outlets to provide general information about the wood burning rule and the health impacts from wood smoke. Jack Broadbent did an interview about air quality at the Port of Oakland and authored a column about our efforts to improve air quality in East Oakland. These efforts include major sponsorship of the new East Bay Breathmobile and \$825,000 in grant funding for the community. In all, more than 400 news stories were recorded in media throughout the Bay Area on air quality subjects. The Oakland Tribune ran a front page, above-the-fold story titled “Choked” on Dec. 6. The story focused on the Port of Oakland’s withdrawal of \$5 million towards diesel truck retrofits and engine change outs. USA Today ran a story Dec. 7 that looked at the EPA’s Toxics Release Inventory data and made air quality emissions assumptions based on TRI reporting and proximity of reporting facilities to schools throughout the United States. The report stated that Berkeley schools were disproportionately impacted by emissions from Pacific Steel Casting. In response, the Air District drafted a letter to the editor to USA Today and also sent it to the Berkeley Planet stating that using TRI data for emissions inventory information provides inaccurate results. An article titled “Breathe Easy: Air District No-Burn Rule Now in Effect” was published in the League of Women Voters’ Bay Area Monitor newsletter. Lisa Fasano representing the Air District was featured on 2 of 3 segments on KGO TV’s “Behind the Headlines” program which airs on Sunday mornings at 10 a.m.

Public Inquiries – Staff responded to thousands of calls from the public, with increased volume attributable to the season’s first Winter Spare the Air Alerts and media coverage of the wood smoke rule. Callers wanted to know how they could apply for a wood smoke exemption and also get information about what the fines would be for wood smoke violators. Other topics included permits, the vehicle buy-back program and other air quality topics.

Community Outreach Report

CARE/CAP Community Meetings – Staff presented at meetings in West Oakland, San Jose, San Leandro, Petaluma and Pleasanton to provide an overview of the Community Air Risk Evaluation (CARE) Program, describe the 2009 Clean Air Plan (CAP), and provide an update on the District’s Grant and Incentive Funds. Staff organized meeting logistics, publicized the meetings to impacted communities, and was on-hand to answer questions. Following the presentations, members of the public provided feedback on community concerns and air quality related comments. Staff recorded community comments, concerns and questions.

San Mateo County Resource Team Meeting – Staff participated in the newly formed San Mateo County Air Quality Resource Team. The team discussed priorities for the County, narrowed down the team focus, and brainstormed project ideas for an upcoming project. Project priorities will focus on employer based education and organizing a transportation summit. Welcoming speeches were given by Chairperson Jerry Hill and Executive Officer Jack Broadbent.

CalTrain Working Group – Staff attended the October meeting of the CalTrain

Working Group, a group of residents in the South of Market neighborhood of San Francisco who are concerned about dust, soot and particulate matter from the CalTrain Station at 4th and King Streets. Staff distributed information about the District's Carl Moyer grants and upcoming Community Air Risk Evaluation and Clean Air Plan meetings. Staff also answered questions about the District's air monitoring program. CalTrain staff presented a number of measures they are implementing to address the CalTrain Working Group's concerns.

San Jose Resource Team Meeting – Staff organized and attended the first of a series of scheduled outreach meetings with targeted businesses, educational institutions and public agencies to encourage participation in the San Jose Green Vision Team. The Team is a collaborative effort of the District and City to foster voluntary implementation of programs to reduce greenhouse gases and help the City of San Jose meet its Green Vision Program goals. Meetings were held with Adobe, San Jose State University, KLA Tencor, the San Jose Unified School District, the Silicon Valley Community Foundation, the Tech Museum and PG&E.

American Lung Association Healthy Walk event – Staff participated in the event and conducted outreach regarding Spare the Air Everyday and the new wood smoke rule at the Oct. 11 walk, of which the District was a major sponsor.

Lehigh Permanente Quarry Public Meeting – Staff, in conjunction with planning staff from the County of Santa Clara, attended a community meeting on the Lehigh Permanente Quarry in Cupertino. The meeting focused on a proposed project located in the hillsides west of Cupertino that involves modification and expansion of a Reclamation Plan for mining and reclamation activities at Hanson Quarry. The purpose of the meeting was to allow residents of Cupertino and interested individuals to meet County officials who are responsible for review of the quarry's reclamation plan amendment application, and to ask questions regarding the facility.

Japanese IT Group – Staff hosted a delegation of Information Technology professionals from Japan. Staff shared information about the District's mission, answered questions about climate change initiatives in California and elsewhere in the United States and participated in a discussion with the tour group about how U.S. climate change efforts compare with those in Japan.

Climate All Stars Conference – Staff moderated the Schools and Youth Breakout Session at the 2009 Climate All Stars Conference. Panelists included representatives of three programs that won awards at the conference: Safe Routes to School, KyotoUSA and the Cool Schools Program. Approximately 40 students, teachers, administrators and community activists attended the breakout session.

California Science Education Conference – Staff promoted District-sponsored science curricula, the *Clean Air Challenge* (middle and high school) and *Protect Your Climate* (4th and 5th grade), at the 2009 California Teachers Association Science Education Conference. Dozens of teachers signed up to receive more information about District-sponsored curricula.

California Air Resources Board (CARB) AB32 Scoping Plan Community Meeting – Staff attended the meeting November 10 in Richmond where members of CARB's Office

of Climate Change presented its Scoping Plan. Comments from community members focused mainly on the weakness of cap-and-trade agreements in reducing greenhouse gasses.

Bayview/Hunters Point Community Air Quality Meetings – The District hosted a meeting Nov. 15 in Bayview/Hunters Point to hear from community members about any air quality concerns or issues. Staff provided an overview of the Community Air Risk Evaluation (CARE) Program, described the 2009 Clean Air Plan, and provided an update on the District's Grant and Incentive Funds. Staff organized meeting logistics, publicized the meetings to impacted communities, and was on-hand to answer any questions. Following the presentations, members of the public provided feedback on community concerns and air quality related comments. Staff recorded community comments, concerns and questions.

Sir Francis Drake High School Environmental Sciences Program – Staff hosted 34 high school students who are participants in an innovative environmental sciences program in Marin County. Presentations to the students on Nov. 17 included background on the District, its mission, the Climate Protection Program and the work of the laboratory.

West Oakland Truck Traffic Study Follow-Up – Staff met with various truck facility managers in West Oakland to compile and organize area specific data for the West Oakland Truck Idling Study. Facility managers completed a survey to assist the District in mapping the spatial distribution of diesel exhaust in West Oakland. The information will be used to assess the effectiveness of mitigation measures that could be implemented to reduce these emissions.

Italian Delegation District Tour – Staff hosted a visit Dec. 1 by seven government and transportation executives from Milan. Staff presented information on the District and its grant and climate programs.

League of Women Voters Forum on Wood Burning – Staff worked with the League of Women Voters to plan and co-host a forum Dec. 2 on the District's new wood burning rule. The District's Executive Officer welcomed League members and the District's Communications Director spoke to League members about how to communicate the rule to the public. Additional panelists from Lawrence Berkeley Labs, the American Lung Association and Breathe California spoke about the health impacts of wood smoke and educational efforts with the public. Over 50 Bay Area League Chapter Leaders attended.

Sustainable Silicon Valley's Annual Meeting – Staff attended Sustainable Silicon Valley's annual meeting on Dec. 8. Presenters discussed environmental responsibility, planning for future climate challenges, and reviewing the past year of progress. Staff provided information on various aspects of the Air District's programs, distributed informational material, and was on-hand to answer general questions about the Air District. Approximately 200 people attended.

Russell City Energy Center – Staff created and posted the public notice for the Jan. 21 PSD hearing and issued a press release on this meeting. Fliers were also posted in public locations throughout Hayward. In addition, staff conducted extensive outreach including

contacting leaders of the Healthy San Leandro/880 Corridor and Greenaction organizations regarding outreach for this meeting.

Language Access Scope of Work – Scope of Work and a Request for Proposal for a language access study were issued with input from the Bay Area Environmental Health Collaborative.

PLANNING DIVISION – H. HILKEN, DIRECTOR

Community Air Risk Evaluation (CARE) Program

Staff participated in the third meeting of CalEPA's Cumulative Impacts and Precautionary Approaches Work Group. Staff presented information on the CARE program and participated in a panel discussion at the Contra Costa County Hazardous Materials Commission forum addressing the cumulative impacts of pollution. Staff convened community meetings in eastern San Francisco, San Leandro, and San Jose during this quarter to update these communities on the CARE Mitigation Action Plan, emission reduction projects funded through the District's grant programs, and the proposed multi-pollutant approach to the Clean Air Plan. Staff convened a CARE Task Force meeting this quarter to discuss proposed land use guidance, updates on West Oakland activities, and developing the CARE Cumulative Impact Resolution Workgroup.

Air Quality Planning Program

Staff submitted comments on the AB 32 Scoping Plan. Staff published the updated Bay Area GHG emission inventory. Staff convened a workshop in Napa to assist Napa and Solano County jurisdictions in developing greenhouse gas inventories for their communities. Staff continued work on the 2009 Climate Protection Summit. Staff presented the District's Protect Your Climate curriculum program at an Energy Educators meeting held by the CEC and announced the release and availability of the curriculum to education contacts including Bay Area school superintendents, regional agencies, CAPCOA, and California Dept of Education. Staff convened a conference call with ARB and staff from the regional agencies to discuss implementation of SB 375. Staff continued to meet with ARB staff and CAPCOA regarding ARB's development of CEQA threshold of significance for greenhouse gas emissions.

Staff continued work on the 2009 Clean Air Plan and made public presentations on the CAP at a meeting of the Contra Costa County Environmental Justice Air Quality Resource Team, and at community meetings in Petaluma, Pleasanton, and San Leandro. Staff also made a presentation on the CAP to the Executive Committee and Joint Policy Committee. Staff responded to inquiries from members of the public with concerns about the Honda Port of Entry Project at the Port of Richmond and met with the applicants and City of Richmond staff regarding District comments to the DEIR for the project. Staff submitted CEQA comment letters on an NOP for the City of Santa Rosa's General Plan Revision, a DEIR on a proposed Stanford Medical Center in the City of Redwood City, an NOP for the Broadway Mixed Use Project in Oakland, a DEIR for the Hercules Town Center Project, a DEIR for the Main Street Cupertino Project, an NOP for the Sciortino Ranch Project in the city of Brentwood, and the NOP for the Ballpark Village Community Specific Plan in Fremont.

Rule Development Program

Staff presented proposed amendments to Air District Regulation 8, Rule 20: Graphic Arts Printing and Coating Operations to the Board of Directors at a public hearing on October 5, 2008, along with amendments to Regulation 2, Rule 1: Permits, General Requirements and Regulation 3, Schedule R: Equipment Registration Fees. The Board continued the public hearing until October 19 and adopted the proposed amendments. On December 5, 2008, staff presented proposed amendments to Regulation 8, Rule 45: Motor Vehicle and Mobile Equipment Coating Operations to the Board of Directors, along with a further amendment to Regulation 3, Schedule R. The Board adopted the amendments as proposed. On October, 6, staff hosted a morning and afternoon workshop to discuss proposed amendments to Regulation 8, Rules 33 and 39, concerning Gasoline Bulk Terminals, Bulk Plants and Gasoline Delivery Vehicles. Staff posted notice of a public workshop and a proposed draft of amendments to District Regulation 8, Rule 3: Architectural Coatings in preparation for a workshop on January 13.

Research and Modeling Program

Staff continued to analyze particulate matter (PM) data collected in the Bay Area and simulate PM concentrations captured during the winters of 2000-01 and 2006-07 in order to better understand PM formation in the Bay Area, identify sources of PM, and study the response of PM to proposed emissions controls. Staff continued work on two sets of regional toxics modeling for the CARE program. Staff assisted the Engineering Division in permit modeling for the following facilities: the XERES facility in San Jose, Hanson Cement in Cupertino, Pacific Steel Casting in Berkeley, the Russell City Energy Center, the Marsh Landing Generating Station, and the Willow Pass Generating Solution. Staff participated in several CCOS/CRPAQS Technical and Policy Committee meetings and obtained progress reports from several projects related to emissions inventory validation and improvements of meteorological model performance.

Emission Inventory

Staff completed the (criteria pollutant) Base Year 2005 emission inventory and a summary report is posted on the District's web page. Staff completed the Bay Area GHG emissions inventory for 2007; the Emission Inventory report is posted on the web. A District consultant verified and approved the District's 2007 GHG inventory for the Climate Action Registry. Staff continued work on preparing point sources criteria, toxics and (this year for the first time) GHG data for submittal to ARB. Staff continued work on preparing Bay Area Seaport Emissions Inventory.

TECHNICAL DIVISION – G. KENDALL, DIRECTOR**Air Quality**

During the fourth quarter of 2008, the 8-hr national ozone standard was exceeded on one day in the Bay Area, at Benicia on October 17th. This brought the total number 8-hr national ozone exceedances for the year to 12. The 8-hr State ozone standard was exceeded on 3 days during the last quarter and 20 days for the year. The 1-hr State ozone standard was not exceeded during the 4th quarter; it was exceeded on 9 days for the year. All of the ozone exceedances during the 4th quarter occurred in October. By November, particulates became the primary pollutant in the Bay Area due to cooler weather, longer evenings, and increased woodsmoke emissions.

The Wintertime Spare the Air Alert program started on November 1st. Based on filter measurements, there were 7 days when the 24-hr national PM_{2.5} standard was exceeded this quarter, compared to 4 days in the same period last year. The increase this quarter over that of last year's 4th quarter is partially due to the more frequent sampling schedule at the Vallejo station, which changed from a 1 in 3 day sampling to everyday sampling this year. This brought the total of 24-hr national PM_{2.5} exceedances for 2008 to 12 days. The relatively low number of days this quarter was due in part to the passage of numerous weather systems during the Thanksgiving and Christmas holiday periods.

Air Monitoring

Two stations, Sunnyvale and San Leandro, closed on December 1st as described in the Annual Monitoring Network Plan. Four ozone monitors at Hayward, San Martin, Gilroy and Fairfield were shut down during the low ozone season, as allowed under a waiver granted by the EPA. All 25 remaining air monitoring stations were operational from October 1st to December 31st 2008, with equipment operating on routine, EPA-mandated schedules.

Meteorology and Forecasting

The 3rd quarter 2008 air quality data were quality assured and entered into the EPA Air Quality System (AQS) database. Staff continued to make daily air quality and burn forecasts. The final version of the Technical Division's Quality Management Plan (QMP) was submitted to EPA, and subsequently approved by EPA. The American Lung Association's "State of the Air Report 2009" report was reviewed by staff. Testing of the new Technical Services Database Management System continued, and development of a new Particulate-Filter database began. Toxics data from 2007 thru 3rd quarter 2008 were reviewed and input into the EPA AQS database.

Performance Evaluation

The Performance Evaluation Group conducted regular, mandated performance audits on 121 analyzers at 37 Air District monitoring stations. All instruments passed the audits, but one BAM temperature sensor exceeded limits by 2° C and received a warning notice. Staff also participated in CARB audits at 5 Air District monitoring stations. All gas analyzers and particulate samplers met CARB acceptance criteria and passed the audits.

Hydrogen Sulfide (H₂S) and Sulfur Dioxide (SO₂) monitors were audited at the Shell Refinery, the ConocoPhillips San Francisco Area Refinery, and the ConocoPhillips Carbon Plant Ground Level Monitoring (GLM) networks. All GLM monitors passed the audit.

Staff completed shut-down audits on shut-down PM₁₀ samplers at the Fremont, Livermore, Redwood City, Vallejo, Santa Rosa and Pittsburg air-monitoring stations. The Anderson FRM PM_{2.5} samplers were replaced with Partisol FRM PM_{2.5} samplers at all District stations in November, and audits were performed before shut down of the old samplers and after start up of the new samplers. Full-station shut-down audits were completed at the Pittsburg and Benicia sites in December. PE staff also attended a one-day defensive driver training class.

Laboratory

In addition to routine ongoing analyses, one phenolic binder resin sample from Pacific Steel Casting Co., Berkeley was analyzed for Volatile Organic Compound and phenol content.

Eleven sludge samples collected from Palo Alto Regional Water Quality Control Plant, and ten sludge samples collected from Central Contra Costa Sanitary District, Martinez, were analyzed for mercury and moisture content.

Four cement samples collected from the CEMEX facility Oakland were analyzed for mercury and hexavalent chrome.

Eight grab samples of coke, bauxite, iron ore and aggregates from Lehigh-Heidelberg Cement Group facility in Cupertino, were analyzed for moisture content.

Two ambient air samples taken in the vicinity of the October 28 gas leak at P G & E Martinez were analyzed for methane and total reduced sulfur.

Source Test

Ongoing Source Test activities during October, November, and December of 2008 included Continuous Emissions Monitoring (CEM) Field Accuracy Tests, source tests, gasoline cargo tank testing, and evaluations of tests conducted by outside contractors. The ConocoPhillips Rodeo Refinery's open path monitor monthly reports for September, October, and November were reviewed. The Source Test Section continued its participation in the District's Rule Development efforts and Business System's Analysis for the new Production System.

STATISTICS

Administrative Services:**Accounting/Purchasing/Comm.**

General Checks Issued	1,541
Purchase Orders Issued	517
Checks/Credit Cards Processed	3,425
Contracts Completed	37
RFP's	3

Executive Office:

Meetings Attended	135
Board Meetings Held	5
Committee Meetings Held	10
Advisory Council Meetings Held	2
Advisory Council Committee Mtgs. Held	2
Hearing Board Meetings Held	7
Variations Received	

Information Systems

New Installation Completed	34
PC Upgrades Completed	65
Service Calls Completed	556

Human Resources

Manager/Employee Consultation (Hrs.)	320
Management Projects (Hrs.)	280
Employee/Benefit Transaction	490
Training Sessions Conducted	12
Applications Processed	512
Exams Conducted	5
New Hires	4
Payroll Administration (Hrs.)	525
Safety Administration	180
Inquiries (voice/telephone/in-person)	1,820

Vehicle/Building Maintenance

Vehicle Services Completed	150
Requests for Building Services	335

Compliance and Operations Program

Asbestos Plans Rec'd	991
Coating and other petitions Evaluated	9
Open Burn Notifications Rec'd	522
Prescribed Burn Plans Evaluated	4
Smoking Vehicle Complaints Rec'd	1,624
Tank/Soil Removal Notifications Rec'd	35
Compliance Assistance Inquiries Rec'd	543
Green Business Reviews	27
Flare Notifications	40

Compliance Assurance Program

Industrial Inspections Conducted	2,079
GDF Inspections Conducted	359
Asbestos Inspections Conducted	695
Open Burning Inspections Conducted	27
Auto Body/Dry Cleaning Inspections Conducted	24

Engineering Division:

Annual Update Packages Started	1,271
Annual Update Packages Completed	985
Total Update Pages Entered	1,714
New Applications Received	525
Authorities to Construct Issued	226
Permits to Operate Issued	348
Exemptions	32
Authorities to Construct Denied	0
New Companies added to Databank during the 4th Quarter 2008	78

Outreach & Incentives Division:

Presentations Made	35
Responses to Media Inquiries	102
Press Releases	25
General Requests for Information	3,200
Visitors	4

STATISTICS (continued)

Compliance and Enforcement Division:

Enforcement Program

Reportable Compliance Activity Investigated	129
Citizen Complaints Investigated	1,133
GDF Tags Issued	154
Violations Resulting in Notices of Violation	162
Violations Resulting in Notice to Comply	76
New Hearing Board Cases Reviewed	40

Technical Services:

4th Quarter 2008 Ambient Air Monitoring

Days Exceeding Nat'l 24-hour PM _{2.5} Std.....	7
Days Exceeding Nat'l 24-hour PM ₁₀ Std.....	0
Days Exceeding Nat'l 24-hour PM ₁₀ Std.....	3
Days Exceeding the Nat'l 8-hour Ozone Std...	1
Days Exceeding the State 1-hour Ozone Std...	0
Days Exceeding the State 8-hour Ozone Std...	3

Ozone Totals, Jan.-Dec. 2008

Days Exceeding Nat'l 8-hour Ozone Std.....	12
Days Exceeding State 1-hour Ozone Std.....	9
Days Exceeding State 8-hour Ozone Std.....	20

Particulate Totals, Jan.-Dec. 2008

Days Exceeding Nat'l 24-hour PM _{2.5} Std.....	12
Days Exceeding the Nat'l 24-hour PM ₁₀ Std....	0
Days Exceeding State 24-hour PM ₁₀ Std.....	5

PM_{2.5} Winter Season Totals for 2007-2008

Days Exceeding Nat'l 24-hour PM _{2.5} Std.....	7
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4th Quarter 2008 Agricultural Burn Days

Oct.-Dec. Permissive Burn Days – North.....	62
Oct.-Dec. No-Burn Days – North.....	32
Oct.-Dec. Permissive Burn Days – South.....	62
Oct.-Dec. No-Burn Days – South.....	32
Oct.-Dec. Permissive Burn Days – Coastal...	66
Oct.-Dec. No Burn Days – Coastal.....	26

Laboratory

Sample Analyzed.....	1,218
Inter-Laboratory Analyses.....	1

Technical Library

Titles Indexed/Cataloged	
Periodicals Received/Routed	

Source Test

Total Source Tests.....	167
Pending Source Tests.....	7
Violation Notices Recommended.....	3
Contractor Source Tests Reviewed.....	3,324

Continuous Emissions Monitoring (CEM)

Indicated Excess Emission Report Eval...	39
Monthly CEM Reports Reviewed.....	175
Indicated Excesses from CEM.....	17

Ground Level Monitoring (GLM)

Oct.-Dec. Ground Level Monitoring SO ₂ Excess Reports.....	0
Oct.-Dec. Ground Level Monitoring H ₂ S Excess Reports.....	2

**These facilities have received one or more Notices of Violations
Report period: October 1, 2008 – December 31, 2008**

Alameda County

Status Date	Site #	Site Name	City	Regulation Title
11/12/2008	A0703	Pacific Steel Casting Co-Plant #2	Berkeley	Failure to Meet Permit Conditions
10/21/2008	D1409	AMG Pipeline, Inc	Fremont	Gasoline Dispensing Facilities
11/06/2008	C9282	ConocoPhillips #30169	Fremont	Gasoline Dispensing Facilities
11/13/2008	D0470	Hub Valero	Fremont	Failure to Meet Permit Conditions
10/21/2008	C9168	STATE OF CA - Dept of Transportation	Fremont	Authority to Construct
11/06/2008	C9926	Warm Springs Auto Services Inc	Fremont	Gasoline Dispensing Facilities
12/09/2008	C0792	ARCO Facility #02107 - JOHN CHAO	Oakland	Gasoline Dispensing Facilities
		ARCO Facility #02169 - KULWINDER		Gasoline Dispensing Facilities
12/17/2008	C0690	KAUR	Oakland	
12/17/2008	C8419	Chevron SS #9-0076	Oakland	Gasoline Dispensing Facilities
12/09/2008	C9208	ConocoPhillips #251156	Oakland	Gasoline Dispensing Facilities
12/18/2008	C9278	Food & Gas Company/Valero	Oakland	Gasoline Dispensing Facilities
12/17/2008	C6872	Fruitvale Union 76	Oakland	Gasoline Dispensing Facilities
10/27/2008	C8077	Valero	Oakland	Failure to Meet Permit Conditions
11/12/2008	B3443	Granite Construction Co	Pleasanton	Failure to Meet Permit Conditions
		Vulcan Materials Company Western		Failure to Meet Permit Conditions
11/12/2008	A0705	Division	Pleasanton	
10/27/2008	C9070	Grand Gas Station	San Leandro	Gasoline Dispensing Facilities
12/08/2008	A4050	JBR, Inc	San Leandro	Authority to Construct
				Asbestos Demolition, Renovation & Mfg.
12/17/2008	G2514	Southwest Hazard Control, Inc	San Leandro	
11/19/2008	C9006	76 Gas Station #5760	San Lorenzo	Gasoline Dispensing Facilities
12/09/2008	C7361	Sunol Super Stop	Sunol	Gasoline Dispensing Facilities

Contra Costa County

Status Date	Site #	Site Name	City	Regulation Title
12/08/2008	A3245	GWF Power Systems,LP (Site 3)	Antioch	Continuous Emission Monitoring & Recordkeeping Procedures;Failure to Meet Permit Conditions
12/18/2008	A5975	Hillcrest Cleaners	Antioch	Perc & Synthetic Solvent Dry Cleaning Operations
12/02/2008	C0237	Trinity Valero Enterprises	Antioch	Gasoline Dispensing Facilities
		Henkel Corporation-Aerospace		Failure to Meet Permit Conditions
12/08/2008	B2855	Group	Bay Point	
11/13/2008	T1790	Delta Coves/Suncal Development	Bethel Island	Public Nuisance
12/08/2008	T3049	Byron Power Co.	Brentwood	Failure to Meet Permit Conditions
12/09/2008	C7695	All Star Gasoline	Concord	Gasoline Dispensing Facilities

These facilities have received one or more Notices of Violations
Report period: October 1, 2008 – December 31, 2008
(continued)

Contra Costa County

Status Date	Site #	Site Name	City	Regulation Title
11/19/2008	C5954	Arco Car Wash	Concord	Gasoline Dispensing Facilities
11/12/2008	C9970	Bonfare Markets	Concord	Gasoline Dispensing Facilities
11/19/2008	C0563	Costco Wholesale Gasoline Service Station	Concord	Gasoline Dispensing Facilities
12/09/2008	D0808	Grand Gas Station	Concord	Gasoline Dispensing Facilities
11/12/2008	A0581	ST Shore Terminals LLC	Crockett	Major Facility Review (Title V); Storage of Organic Liquids
12/02/2008	C9294	Tosco Facility #11142	Danville	Authority to Construct; Gasoline Dispensing Facilities
11/12/2008	A4556	East Bay Municipal Utility District	El Sobrante	Failure to Meet Permit Conditions
11/06/2008	C9427	EASY SERV	Martinez	Gasoline Dispensing Facilities
10/21/2008	B1661	Rhodia Inc	Martinez	Major Facility Review (Title V); Parametric Monitoring & Recordkeeping Procedures Standards of Performance for New Stationary Sources; Major Facility Review (Title V); Equipment Leaks; Storage of Organic Liquids
11/06/2008	A0011	Shell Martinez Refinery	Martinez	Flare Monitoring at Petroleum Refineries; Continuous Emission Monitoring & Recordkeeping Procedures; Sulfur Dioxide; Major Facility Review (Title V)
10/21/2008	B2758	Tesoro Refining and Marketing Company	Martinez	Major Facility Review (Title V)
12/02/2008	C1447	Candia's Valero Service	Orinda	Authority to Construct
12/08/2008	A2282	General Chemical West, LLC	Pittsburg	Authority to Construct
10/22/2008	A3243	GWF Power Systems,LP (Site 1)	Pittsburg	Authority to Construct
11/13/2008	S9031	Les Trapps Jr	Pittsburg	Asbestos Demolition, Renovation & Mfg.
12/02/2008	D0455	Pleasant Hill Shell-Shell Oil Products	Pleasant Hill	Gasoline Dispensing Facilities
10/21/2008	B4704	Burlington Northern and Santa Fe Railway Company	Richmond	NOx & CO from Stationary Internal Combustion Engines
11/12/2008	A0072	Chevron Inc	Richmond	Storage of Organic Liquids

These facilities have received one or more Notices of Violations
Report period: October 1, 2008 – December 31, 2008
(continued)

Contra Costa County Continued

Status Date	Site #	Site Name	City	Regulation Title
10/22/2008	K3771	Jakela Inc.	Novato	Asbestos Demolition, Renovation & Mfg. Perc & Synthetic Solvent Dry Cleaning Operations
10/27/2008	B1023 C976	Gateway Cleaners	Sausalito	
11/06/2008	5	Saint Helena Chevron	Saint Helena	Gasoline Dispensing Facilities

San Francisco County

Status Date	Site #	Site Name	City	Regulation Title
12/02/2008	C8644	Currie's Chevron Service	San Francisco	Gasoline Dispensing Facilities
10/27/2008	T0904	MFD	San Francisco	Asbestos Demolition, Renovation & Mfg.
11/20/2008	C6643	San Francisco Water Department	San Francisco	Gasoline Dispensing Facilities
10/21/2008	C9307	Tosco #30221-2611187 Attn: L Cu	San Francisco	Authority to Construct
10/22/2008	T2085	WRI Construction	San Francisco	Asbestos Demolition, Renovation & Mfg.

San Mateo County

Status Date	Site #	Site Name	City	Regulation Title
10/27/2008	T2120	Barbara Tracy	Burlingame	Asbestos Demolition, Renovation & Mfg.
12/17/2008	B1668	Gas Recovery Systems, Inc	Menlo Park	Major Facility Review (Title V)
12/09/2008	C9268	Conoco Phillips #2611200	San Bruno	Gasoline Dispensing Facilities
10/27/2008	C9415	Unocal #0109	San Bruno	Gasoline Dispensing Facilities

These facilities have received one or more Notices of Violations
Report period: October 1, 2008 – December 31, 2008
(continued)

Santa Clara County

Status Date	Site #	Site Name	City	Regulation Title
10/27/2008	C6681	Cupertino Beacon	Cupertino	Gasoline Dispensing Facilities
11/19/2008	A0017	Lehigh Southwest Cement Company	Cupertino	Major Facility Review (Title V)
12/22/2008	B0394	Stevens Creek Quarry Inc	Cupertino	Particulate Matter & Visible Emissions
10/27/2008	A5887	Cal-Tech AutoBody Repair	Milpitas	Motor Vehicle & Mobile Equip Coating Operations
12/17/2008	C9911	McCarthy Ranch Chevron & Carwash	Milpitas	Gasoline Dispensing Facilities
10/21/2008	C9526	Alum Rock Chevron	San Jose	Gasoline Dispensing Facilities
11/06/2008	C7630	Avis Rent A Car	San Jose	Gasoline Dispensing Facilities
11/06/2008	C0500	Avis Rent A Car System	San Jose	Gasoline Dispensing Facilities
11/06/2008	D1141	Budget Rent-A-Car	San Jose	Gasoline Dispensing Facilities
12/17/2008	A1070	San Jose Tallow Company	San Jose	Public Nuisance
11/19/2008	C4360	Al's Arco	Santa Clara	Gasoline Dispensing Facilities
10/23/2008	A0041	Owens Corning Insulating Systems, LLC	Santa Clara	Particulate Matter & Visible Emissions

Solano County

Status Date	Site #	Site Name	City	Regulation Title
12/08/2008	A9128	Morrow Crane Company	American Canyon	Surface Coating of Misc Metal Parts & Products
12/08/2008	A0901	Valero Benicia Asphalt Plant	Benicia	Major Facility Review (Title V)
11/13/2008	B2626	Valero Refining Company - California	Benicia	Flare Monitoring at Petroleum Refineries; Continuous Emission Monitoring & Recordkeeping Procedures; Major Facility Review (Title V); Particulate Matter & Visible Emissions; Episodic Releases From Pressure Relief Devices at Petroleum Refineries & Chemical; Hydrogen Sulfide; Episodic Releases From Pressure Relief Devices at Petroleum Refineries & Chemical Plants; Storage of Organic Liquids
11/17/2008	T2417	Craig Chavez	Fairfield	Open Burning
12/08/2008	A2039	Potrero Hills Landfill, Inc	Suisun City	Authority to Construct
12/10/2008	C6537	N & M Market (Arco)	Vallejo	Gasoline Dispensing Facilities

Sonoma County

Status Date	Site #	Site Name	City	Regulation Title
11/12/2008	A2254	Sonoma County Dept of Public Works	Petaluma	Major Facility Review (Title V)
11/06/2008	C9879	A & J Gas	Santa Rosa	Authority to Construct
11/13/2008	C6184	ARCO Facility #04936	Santa Rosa	Gasoline Dispensing Facilities
10/16/2008	S8727	Santa Rosa Stainless Steel	Santa Rosa	Authority to Construct
12/08/2008	B6956	Sonoma Jet Center	Santa Rosa	Failure to Meet Permit Conditions
12/09/2008	T3038	Warner Hofmarcher	Sebastopol	Open Burning

Closed NOV's with Penalties by County October 2008 – December 2008

Alameda

Site Name	Site Occurrence	City	Penalty Amount	# of Violations Closed	Month
ARCO Facility #02185 - BILLY J AMBERS INC	C0540	Oakland	\$200	1	October
Figueroa Tank Lines	T0514	Berkeley	\$500	1	October
Pacific Steel Casting Co-Plant #2	A0703	Berkeley	\$8,500	6	October
Rohm and Haas Chemicals LLC	A0200	Hayward	\$2,000	2	October
Stop & Save	C7480	Castro Valley	\$500	1	October
76 branded Gas Station	C9369	Oakland	\$1,000	1	November
ARCO Facility #02185 - BILLY J AMBERS INC	C0540	Oakland	\$350	1	November
ARCO Facility #09535 - KRISHAN K GOYAL	D0209	Oakland	\$450	1	November
Dharma Press	B0757	Berkeley	\$750	1	November
Evergreen Oil, Inc	A1190	Newark	\$3,000	2	November
Hub Valero	D0470	Fremont	\$750	1	November
MD Auto Body	B1715	Oakland	\$2,500	3	November
Quik Stop	C0367	Castro Valley	\$500	1	November
ARCO Facility #00374 - Bee Pokpa	C6476	Oakland	\$500	1	December
Grand Gas Station	C9070	San Leandro	\$500	1	December
Livermore Beacon	C8876	Livermore	\$1,000	1	December
Owens-Brockway Glass Container Inc	A0030	Oakland	\$17,500	2	December
Warm Springs Auto Services Inc	C9926	Fremont	\$200	1	December
Totals:			\$40,700	28	

**Closed NOV's with Penalties by County
October 2008 – December 2008 (continued)**

Contra Costa

Site Name	Site Occurrence	City	Penalty Amount	# of Violations Closed	Month
Doctors Medical Center	A0508	San Pablo	\$3,000	1	October
IFCO Systems	B6277	Oakley	\$650	1	October
Mirant Delta, LLC	A0018	Antioch	\$2,000	2	October
Pacific Atlantic Terminals LLC	A0745	Richmond	\$9,000	9	October
Allied Container Systems	B8776	Antioch	\$1,750	2	November
CEMEX Construction Materials, LP	A1361	Antioch	\$2,200	1	November
Cutting Mini Market (ARCO)	D0450	Richmond	\$1,500	3	November
Keller Canyon Landfill Company	A4618	Pittsburg	\$5,000	1	November
Shell Martinez Refinery	A0011	Martinez	\$123,000	23	November
Wareham Property Group - EPA Lab	B5508	Richmond	\$500	1	November
ARCO Facility #00428	C8391	Richmond	\$150	1	December
Bay Area Diablo	Q5015	Martinez	\$1,000	2	December
BP West Coast Products, LLC	A0057	Richmond	\$11,500	2	December
Burlington Northern and Santa Fe Railway Company	B4704	Richmond	\$750	1	December
Container Management Services, LLC	A1396	Richmond	\$5,250	4	December
L-3 Communications SSG-Tinsley	A7234	Richmond	\$3,000	1	December

**Closed NOV's with Penalties by County
October 2008 – December 2008 (continued)**

Contra Costa (continued)

Site Name	Site Occurrence	City	Penalty Amount	# of Violations Closed	Month
New NGC, Inc	A0706	Richmond	\$1,000	1	December
Professional Finishing	B7254	Richmond	\$450	1	December
Rhodia Inc	B1661	Martinez	\$4,500	2	December
USA #68208	C5810	San Pablo	\$250	1	December
		Totals:	\$176,450	60	
Marin					
Site Name	Site Occurrence	City	Penalty Amount	# of Violations Closed	Month
Equator Estate Coffees & Teas	B5081	San Rafael	\$1,200	1	October
Marinwood Chevron	C1952	San Rafael	\$200	1	October
DeLong Avenue Shell #135673	C1859	Novato	\$500	1	December
Vogue Cleaners, Inc	A0297	Mill Valley	\$500	1	December
		Totals:	\$2,400	4	
Napa					
Site Name	Site Occurrence	City	Penalty Amount	# of Violations Closed	Month
Crocker Vineyards	Q4223	Saint Helena	\$2,000	1	November
		Totals:	\$2,000	1	

**Closed NOV's with Penalties by County
October 2008 – December 2008 (continued)**

San Francisco

Site Name	Site Occurrence	City	Penalty Amount	# of Violations Closed	Month
St. Ignatius College	H8172	San Francisco	\$1,500	2	October
Totals:			\$1,500	2	

San Mateo

Site Name	Site Occurrence	City	Penalty Amount	# of Violations Closed	Month
Genentech, Inc	A1257	South San Francisco	\$2,500	1	October
San Mateo Auto Care	C9938	San Mateo	\$375	1	October
Membrane Technology & Research Inc	B1092	Menlo Park	\$1,500	1	November
One Hour Martinizing	A9864	Belmont	\$500	1	December
Totals:			\$4,875	4	

Santa Clara

Site Name	Site Occurrence	City	Penalty Amount	# of Violations Closed	Month
Blaine Settle	T0022	San Jose	\$250	1	October
Boston Scientific Corporation	B1251	San Jose	\$1,500	1	October
KAG West, LLC	N1032	San Jose	\$4,250	1	October
Mission Bell Mfg Inc	B3191	Morgan Hill	\$1,000	1	October
Tron's Auto Body & Paint Shop	B3901	San Jose	\$500	1	October

**Closed NOV's with Penalties by County
October 2008 – December 2008 (continued)**

Santa Clara (continued)

Site Name	Site Occurrence	City	Penalty Amount	# of Violations Closed	Month
Equilon Enterprises LLC-San Jose Terminal	A0064	San Jose	\$2,500	1	November
Valero Refining Co SS#7528	D0420	Mountain View	\$750	2	November
Gas Recovery Systems, Inc	B1670 & B1669	San Jose	\$7,500	3	December
Raisch Products	S9287	San Jose	\$800	2	December
Stevens Creek Quarry Inc	B0394	Cupertino	\$750	1	December
Western ECI	R6995	Gilroy	\$4,000	2	December
		Totals:	\$23,800	16	
Sonoma					
Site Name	Site Occurrence	City	Penalty Amount	# of Violations Closed	Month
Koller's Town & Country Cleaners	A8463	Petaluma	\$750	1	October
Santa Rosa Stainless Steel	S8727	Santa Rosa	\$1,500	2	October
Gildardo A. Olivares	R0038	Santa Rosa	\$500	1	November
Redwood Station	C8467	Sonoma	\$400	2	November
SFD	S6598	Santa Rosa	\$1,000	1	November
Selvage Concrete Products, Inc	B8850	Santa Rosa	\$600	2	December
		Totals:	\$4,750	9	

ACRONYMS AND TERMINOLOGY

ABAG	Association of Bay Area Governments
AC	Authority to Construct issued to build a facility (permit)
AMBIENT	The surrounding local air
AQI	Air Quality Index
ARB	[California] Air Resources Board
ATCM	Airborne Toxic Control Measure
BAAQMD	Bay Area Air Quality Management District
BACT	Best Available Control Technology
BANKING	Applications to deposit or withdraw emission reduction credits
BAR	[California] Bureau of Automotive Repair
BARCT	Best Available Retrofit Control Technology
BIODIESEL	A fuel or additive for diesel engines that is made from soybean oil or recycled vegetable oils and tallow. B100=100% biodiesel; B20=20% biodiesel blended with 80% conventional diesel
BTU	British Thermal Units (measure of heat output)
CAA	[Federal] Clean Air Act
CAL EPA	California Air Resources Board
CCAA	California Clean Air Act [of 1988]
CCCTA	Contra Costa County Transportation Authority
CEQA	California Environmental Quality Act
CFCs	Chlorofluorocarbons
CMA	Congestion Management Agency
CMAQ	Congestion Management Air Quality [Improvement Program]
CMP	Congestion Management Program
CNG	Compressed Natural Gas
CO	Carbon monoxide
EBTR	Employer-based trip reduction
EJ	Environmental Justice
EIR	Environmental Impact Report
EPA	[United States] Environmental Protection Agency
EV	Electric Vehicle
HC	Hydrocarbons
HOV	High-occupancy vehicle lanes (carpool lanes)
hp	Horsepower
I&M	[Motor Vehicle] Inspection & Maintenance ("Smog Check" program)
ILEV	Inherently Low Emission Vehicle
JPB	[Peninsula Corridor] Joint Powers Board
LAVTA	Livermore-Amador Valley Transit Authority ("Wheels")
LEV	Low Emission Vehicle
LNG	Liquefied Natural Gas
MPG	Miles Per Gallon

MTC	Metropolitan Transportation Commission
NAAQS	National Ambient Air Quality Standards (federal standards)
NO _x	Nitrogen oxides, or oxides of nitrogen
NPOC	Non-Precursor Organic Compounds
NSR	New Source Review
O ₃	Ozone
PM _{2.5}	Particulate matter less than 2.5 microns
PM ₁₀	Particulate matter (dust) less than 10 microns
PM _{>10}	Particulate matter (dust) over 10 microns
POC	Precursor Organic Compounds
pphm	Parts per hundred million
ppm	Parts per million
PUC	Public Utilities Commission
RFG	Reformulated gasoline
ROG	Reactive organic gases (photochemically reactive organic compounds)
RIDES	RIDES for Bay Area Commuters
RTP	Regional Transportation Plan
RVP	Reid vapor pressure (measure of gasoline volatility)
SCAQMD	South Coast [Los Angeles area] Air Quality Management District
SIP	State Implementation Plan (prepared for <i>national</i> air quality standards)
SO ₂	Sulfur Dioxide
TAC	Toxic Air Contaminant
TCM	Transportation Control Measure
TFCA	Transportation Fund for Clean Air [BAAQMD]
TIP	Transportation Improvement Program
TMA	Transportation Management Association
TOS	Traffic Operations System
tpd	tons per day
Ug/m ³	micrograms per cubic meter
ULEV	Ultra low emission vehicle
ULSD	Ultra low sulfur diesel
USC	United States Code
UV	Ultraviolet
VMT	Vehicle miles traveled (usually per <i>day</i> , in a defined area)
VTA	Santa Clara Valley Transportation Authority
ZEV	Zero Emission Vehicle

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
 Memorandum

TO: Chairperson Pamela Torliatt and Members
 of the Board of Directors

FROM: Jack P. Broadbent
 Executive Officer/APCO

DATE: February 23, 2009

RE: Quarterly Report of the Executive Office: October 1 – December 31, 2008

RECOMMENDED ACTION

This report is provided for information only.

DISCUSSION

Listed below is the status of minutes for the Board of Directors and Advisory Council and activities of the Hearing Board for the fourth quarter of 2008:

Board of Directors

<u>Meeting Type</u>	<u>Meeting Date</u>	<u>Status of Minutes</u>
Regular Meeting	October 1	Minutes Approved
Regular Meeting	November 5	Minutes Approved
Regular Meeting	November 19	Minutes Approved
Regular Meeting	December 3	Minutes Approved
Regular Meeting	December 17	Minutes Approved
Nominating Committee	November 5	Minutes Completed/Pending Approval
Legislative Committee	December 17	Minutes Approved
Budget & Finance Committee	October 22	Minutes Approved
Mobile Source Committee	October 23	Minutes Approved
Mobile Source Committee	November 19	Minutes Approved
Executive Committee	November 24	Minutes Approved
Executive Committee	December 5	Minutes Completed/Pending Approval
Personnel Committee	November 13	Minutes Approved
Personnel Committee	November 24	Minutes Approved
Public Outreach Committee	October 31	Minutes Completed/Pending Approval
Ad Hoc Cme. on Port Emissions	November 17	Minutes Approved

Advisory Council

<u>Meeting Type</u>	<u>Meeting Date</u>	<u>Status of Minutes</u>
Special Regular Meeting	October 21	Minutes Approved
Regular Meeting	November 12	Minutes Approved
Executive Committee	November 12	Minutes Approved
Technical Committee	October 22	Minutes Approved
Public Health Committee	October 8	Minutes Approved

Hearing Board

1. During the Period October–December 2008, the Hearing Board processed and filed a total of seven (7) Applications: two (2) Short-Term Variances, one of which was withdrawn; two (2) Interim Variances which were both withdrawn; two (2) Long Term Variances, and one (1) Extension to a Variance. Also processed were hearing notices and filings for one (1) Appeal and two (2) Accusations.
2. A total of seven (7) hearings were held.
3. A total of \$7,419.16 was collected as Hearing Board fees during the fourth quarter of 2008.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

To: Chairperson Pamela Torliatt and
Members of the Board of Directors

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 24, 2008

Re: Consider Authorization to Enter into Contract with Management Partners Incorporated

RECOMMENDED ACTION

Authorize the Chairperson of the Board of Directors to enter into contract with Management Partners Incorporated, to establish an approach to facilitate a performance evaluation process for the Executive Officer and Counsel in an amount not to exceed \$23,800.

BACKGROUND

Management Partners Incorporated is a professional management consulting firm specializing in helping local government leaders. The firm is comprised of former city and county managers and other professionals providing expertise in specialty areas of human resources, public works, public safety, finance, and development.

The Board of Directors at its February 4, 2009, meeting was provided an opportunity to meet with Mary Welch of Management Partners Incorporated to understand services provided by the company and to discuss criteria requirements of the Board of Directors to establish an effective performance evaluation process for the Executive Officer and Counsel.

Management Partners Incorporated has developed an outline for an effective evaluation process that will deliver the Board of Directors' desired result.

BUDGET CONSIDERATION/FINANCIAL IMPACT

Funds are available in the Professional Services account of Program 121.

Respectfully submitted,

Jack P. Broadbent,
Executive Officer/APCO

Prepared by: Mary Ann Goodley

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

To: Chairperson Pamela Torliatt and Members
of the Board of Directors

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 24, 2009

Re: Report of the Climate Protection Committee Meeting February 20, 2009

RECOMMENDED ACTION

Receive and file.

DISCUSSION

The Climate Protection Committee met on Friday, February 20, 2009. The Committee received the following presentations:

- A) Update on Climate Action Summit; and
- B) Update on Grant Program Funded through Attorney General's Settlement with Conoco-Phillips.

Attached are the staff reports presented in the Climate Protection Committee packet.

Chairperson, Yoriko Kishimoto will provide an oral report of the meeting.

BUDGET CONSIDERATION/FINANCIAL IMPACTS

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Vanessa Johnson
Approved by: Mary Ann Goodley

Attachment(s)

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

To: Chairperson Kishimoto and Members
of the Climate Protection Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 9, 2009

Re: 2009 Climate Action Summit

RECOMMENDED ACTION:

None. For information only.

BACKGROUND

At its meeting on October 1, 2008, the Board of Directors authorized the Executive Officer to execute a contract with O'Rorke, Inc. (O'Rorke), in an amount not to exceed \$200,000, to perform event planning and logistical support activities, including passing through payment to sub-contractors, for a regional Climate Action Summit for local governments to be held in 2009. The contract has been executed and staff has been working with O'Rorke on event planning and preparation.

DISCUSSION

O'Rorke has secured Thomas Friedman as the keynote speaker for the Summit, which will take place on May 4, 2009. Staff is currently developing content for breakout sessions that will support the Summit's primary goals to advance long-term climate planning, accelerate implementation of high-promise emission-reducing policies and programs, and to recognize District-sponsored agencies and projects. In addition, staff is working with ABAG staff to coordinate the Summit with the ABAG General Assembly, scheduled for April 23, 2009.

Staff will report on the status of logistics planning activities and will discuss ideas for Summit themes, breakout sessions, desired outcomes, and involvement of other Bay Area regional agencies.

BUDGET CONSIDERATION / FINANCIAL IMPACT:

None. The FY 08/09 budget includes funds for the summit which will be supplemented by sponsorships.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Abby Young
Reviewed by: Henry Hilken

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

To: Chairperson Kishimoto and Members
of the Climate Protection Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 9, 2008

Re: Update on the Grant Program Funded through the Attorney General's Settlement
with ConocoPhillips

RECOMMENDED ACTION:

None. For information only.

BACKGROUND

The Attorney General entered into a Settlement Agreement dated September 10, 2007, with ConocoPhillips Company to resolve a dispute regarding the adequacy of the environmental review of the environmental impact of GHG emissions from the Clean Fuels Expansion Project at the ConocoPhillips refinery in Rodeo, California. The Settlement Agreement requires ConocoPhillips to make a payment by June 1, 2009, to a carbon offset fund created by the Air District. The payment could be as much as \$7 million; however, the amount will be reduced by \$25 for each ton of GHG emission reductions that ConocoPhillips achieves at the Rodeo Refinery. The Settlement Agreement provides that the Air District will use the payment to fund eligible projects to achieve verifiable, quantifiable reductions in GHG emissions, with priority given to projects nearest to the Rodeo refinery.

DISCUSSION

As a follow up to the previous discussion at the Climate Protection Committee meeting of January 8, 2009, staff will present an update on the development of the Air District's program for selecting and funding eligible projects.

BUDGET CONSIDERATION / FINANCIAL IMPACT:

None at this time.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Karen M. Schkolnick
Reviewed by: Jack M. Colbourn

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

To: Chairperson Pamela Torliatt and Members
of the Board of Directors

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 25, 2009

Re: Report of the Legislative Committee Meeting of February 23, 2009

RECOMMENDED ACTIONS

Receive and file.

BACKGROUND

The Legislative Committee met on Monday, February 23, 2009. The Committee continued the discussion relative to the size of the Air District's Board of Directors. The Committee directed staff to conduct a poll of the full Board on its size. Results of the poll will be discussed at the next meeting of the Committee.

Attached are staff reports presented in the Legislative Committee packet.

Committee Chair Tom Bates will give an oral report of the meeting.

BUDGET CONSIDERATION/FINANCIAL IMPACTS

There would be a minor fiscal savings to the Air District if the Board was reduced in size.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Lisa Harper
Approved by: Mary Ann Goodley

Attachment(s)

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

To: Chairperson Bates and
Members of the Legislative Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 9, 2009

Re: Continued Discussion of 2009 District Legislative Agenda

RECOMMENDATION:

None.

BACKGROUND:

At its January 26th meeting, the Committee discussed sponsoring legislation to make changes to the size of the Board of Directors. The Committee endorsed a proposal that would change the Board's composition. Essentially, the proposal would allow counties with populations in the Bay Area of less than one million two seats on the Board, and counties with populations over one million three seats on the Board. At its February 4th meeting, the Board of Directors voted to send the issue back to the Legislative Committee for further deliberation.

DISCUSSION:

The Committee will continue its discussions concerning potential legislation to change Board size and to reduce port emissions.

BUDGET CONSIDERATION/FINANCIAL IMPACT

There would be minor fiscal savings to the Air District if the Board was reduced in size.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Thomas Addison

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

To: Chairperson Pamela Torliatt and Members
of the Board of Directors

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 25, 2009

Re: Report of the Budget & Finance Committee Meeting of February 25, 2009

RECOMMENDED ACTION

Receive and file.

BACKGROUND

The Budget & Finance Committee met on Wednesday, February 25, 2009. The Committee received the following reports:

- A) First Quarter Financial Report – Fiscal Year 2008/2009; and
- B) Review of Air District Financial Audit Report 2007/2008; and
- C) Report regarding the proposed amendments to Regulation 3: Fees.

Attached are the staff reports presented in the Budget and Finance Committee packet.

Chairperson Chris Daly will give an oral report of the meeting.

BUDGET CONSIDERATION/FINANCIAL IMPACT:

None.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Lisa Harper
Approved by: Mary Ann Goodley

Attachment(s)

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

Memorandum

To: Chairperson Daly and Members
of the Budget and Finance Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 10, 2009

Re: First Quarter Financial Report – Fiscal Year 2008-09

RECOMMENDED ACTION:

Informational report. Receive and file.

DISCUSSION

GENERAL FUND BUDGET: STATEMENT OF REVENUE

Comparison of Budget to Actual Revenue

- County receipts totaled \$221,611 (1%) of budgeted revenue.
- Permit Fee receipts were \$11,803,289 (52%) of budgeted revenue.
- Title V Permit Fees were \$1,853,262 (73%) of budgeted revenue.
- Asbestos Fees were \$480,667 (25%) of budgeted revenue.
- Toxic Inventory Fees were \$257,166 (47%) of budgeted revenue.
- Penalties and Settlements were \$768,519 (31%) of budgeted revenue.
- Miscellaneous Revenue receipts were \$8,565 (2%) of budgeted revenue.
- Interest Revenue was (\$1,445,184) which totaled (-101%) of budgeted revenue.

GENERAL FUND BUDGET: STATEMENT OF EXPENDITURES

Comparison of Budget to Actual Expenditures

- Salaries and Benefits were \$9,059,059 (21%) of budgeted expenditures.
- Operational Services and Supplies were \$1,836,393(11%) of budgeted expenditures.
- Capital Outlay was \$155,722 (7%) of budgeted expenditures.

FUND BALANCES

	<u>6/30/2007</u> <u>Audited</u>	<u>6/30/2008</u> <u>Audited</u>	<u>6/30/2009</u> <u>Budgeted</u>
Imprest Cash	\$ 500	\$ 500	\$ 500
Building and Facilities	1,731,690	1,731,690	1,510,315
PERS Funding	3,100,000	2,700,000	2,300,000
Radio Replacement	75,000	75,000	75,000
Climate Protection	3,000,000		
Production System	1,250,000	2,800,000	1,250,000
Capital Equipment	130,425	130,425	130,425
Contingencies	400,000	400,000	400,000
Worker's Compensation	1,000,000	1,000,000	1,000,000
Economic Uncertainties	7,709,028	8,755,437	9,112,133
TOTAL SPECIAL RESERVES	<u>\$ 18,396,643</u>	<u>\$ 17,593,052</u>	<u>\$ 15,778,373</u>
Appropriation - Production System	<u>\$ 152,141</u>	<u>\$ -</u>	<u>\$ -</u>
UNDESIGNATED	<u>13,996,404</u>	<u>6,358,308</u>	<u>9,293,299</u>
TOTAL FUND BALANCES	<u>\$ 32,545,188</u>	<u>\$ 23,951,360</u>	<u>\$ 25,071,672</u>

BUDGET CONSIDERATION/FINANCIAL IMPACT:

No impact on Fiscal Year 2008/2009 budget.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Linda J. Serdahl, CPA, CFE

Reviewed by: Jeffrey McKay

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

To: Chairperson Daly and Members
of the Budget and Finance Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 10, 2009

Re: Air District Financial Audit Report for Fiscal Year 2007/2008

RECOMMENDED ACTION:

Informational report. Receive and file.

DISCUSSION

The Independent Auditors' Report confirms that the Air District's financial statements "...present fairly, in all material respects, the respective financial position of governmental activities, each major fund, and the aggregate remaining fund information of the Air District as of June 30, 2008, and the respective changes in the financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America." The report on the basic financial statements is unqualified with no reportable conditions, no instances of non-compliance, and no financial statement findings noted.

The Report and internal control over financial reporting and on compliance was performed in accordance with *Government Auditing Standards* states that "We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses."

The Report on compliance in accordance with *OMB Circular A-133* states "In our opinion, the Air District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008."

The Report on Compliance with the Transportation Fund for Clean Air (TFCA) indicated that the Air District complied with the applicable provisions of Assembly bill 434 (AB434) and Health and Safety Code Sections 44220 through 44242, and that for items not tested, nothing came to the auditor's attention to indicate that the District had not complied with the applicable provisions of AB434.

Further, there were no findings or questioned costs in the current or prior year for the Federal Programs listed on the *Schedule of Expenditures of Federal Awards*.

BUDGET CONSIDERATION/FINANCIAL IMPACT:

None.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Linda J. Serdahl
Reviewed by: Jeffrey M. McKay

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED JUNE 30, 2008

**MAZE &
ASSOCIATES**

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

FOR THE YEAR ENDED JUNE 30, 2008

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February 6, 2009

To the Board of Directors
The Bay Area Air Quality Management District
San Francisco, California

In planning and performing our audit of the financial statements of the Bay Area Air Quality Management District (District) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions of a significant deficiency or material weakness that we believe to be of potential benefit to the District.

The District's written responses included in this report have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, Board of Directors, others within the District, and agencies and pass-through entities requiring compliance with generally accepted government auditing standards, and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

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**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

**SCHEDULE OF SIGNIFICANT DEFICIENCIES
JUNE 30, 2008**

2008-01 INFORMATION SYSTEM

We conducted an Information Systems Review with our audit, which encompassed the District's financial information system and the network environment. We looked beyond the financial information systems as a result of greater risks of unauthorized access caused by overall industry growth of web-based commerce and internet based financial systems. Internal controls that are present in the overall network environment have become more important and relevant to understanding the internal controls over the financial system. We believe Information System controls must be continuously improved and enhanced to stay ahead of the ever-increasing sophistication of hackers and criminals.

Currently, there are no Information Technology (IT) standards to which local governments are required to conform. Indeed, there are a wide variety of informal guidelines and suggested controls from many different organizations, which local governments can use to implement appropriate controls to ensure adequate security over information technology. Our Information Technology staff has reviewed these informal guidelines and we have concluded that the certification and accreditation framework developed by the National Institute of Standards and Technology (NIST) for the Federal Information Security Management Act (FISMA) is the most appropriate for local governments. NIST standards represent the minimum-security requirements for Federal government agencies information systems. We understand the U. S. Department of Justice recommends these for local law enforcement. Our procedures included performing an external network scan based on PCI DSS criteria and NIST in determining that internal control provides for:

- Internet access defenses including hacker prevention, detection and deterrent systems
- Security of data from physical or network access
- Adequately protecting data from unauthorized internal access
- Reasonable measures to ensure continuation of service

As a result of our work we believe that the District's external (internet) facing systems are highly susceptible to attack and exploitations. Further, we believe that controls appear to be inadequate to protect, deter and defend from any such attack. A summary of these results are as follows:

External Scan Results

Our external scan found exploitable vulnerabilities in the District's externally facing systems (systems connected directly to the internet) which may be used to gain control of those systems. Externally facing systems should have the greatest level of security. Our results indicate a weakness in the information systems control processes. These vulnerabilities should be mitigated as soon as possible. In addition, the District should establish a means to monitor the effectiveness of their information systems control procedures, including periodic vulnerability scans.

Server Crash

The District's IT staff has reported that our scan caused a single system to crash. We use a scanning method approved by Payment Card industry Security Standards Council (PCI SSC) that is designed to be the least intrusive.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

**SCHEDULE OF SIGNIFICANT DEFICIENCIES
JUNE 30, 2008**

Although it is extremely remote that the scan would bring down a system, it is possible for a fragile system to be brought down by the scan. Such systems should not be internet facing given that any Denial-of-Service (DoS) attack or even normal use of the system could bring the system down. If a non-intrusive scan brought down the system, it needs immediate improvement and is in danger of a Denial of Service attack.

These results are a representative demonstration of a weakness in the security management process, risk management process, deployment testing, patch management process, vulnerability management process, vulnerability scanning process, system hardening, continuity of service and adequate data protection. We recommend immediate mitigation of all related to information system security concerns.

Management Response:

Exploitable vulnerabilities were indicated on computers that are administered under policies and practices used exclusively for computers that serve the District Planning (Research and Modeling) functions. The same policies and practices are not followed to administer servers or network devices that are part of the District's financial systems. Additionally, the computers with indicated vulnerabilities are all administered by a single individual that does not have administrative credentials for any device (including workstations or servers) on the District's financial network. Because of these facts, the District believes that the level of control in the District's financial network is not accurately represented by the indicated vulnerabilities.

Further, if an intrusion were to occur on one or more computers with indicated vulnerabilities, the intruder would not be able to exploit the vulnerability to access the District's financial systems because IP traffic is disallowed from those networks.

The District agrees that Information System controls must be continuously enhanced to stay ahead of ever increasing sophistication of hackers and criminals. As such, the District plans to address the issues and improve the controls on all perimeter devices.

2008-02 BOARD AND MANAGEMENT INVOLVEMENT

The District had approximately \$92 million of revenue for fiscal year 2007-08. Its growth has been rapid over the past several years and as such, it is now an organization that is much different in size than several years ago. In light of this fact, coupled with the fact that the District expects this type of growth to continue, we believe that the District would benefit from greater involvement from its Board. We recommend, therefore, that the Board be actively involved in adopting operational policies and the reviewing of District operations.

Investment Policy and Quarterly Investment Report

The District does not have a formal written investment policy. Also, although San Mateo County administers the cash account and investment portfolio for the District, there is no formal agreement between the District and San Mateo County Investment Pool. In addition, no interim report is submitted to the Board to provide information of the cash and investment positions of the District during the year. The information is only communicated annually to the Board through the annual Basic Financial Statements, which is accepted by the Board eight months after the year-end.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

**SCHEDULE OF SIGNIFICANT DEFICIENCIES
JUNE 30, 2008**

California Government Code Section 53646 encourages local agencies to annually submit their investment policies to their legislative bodies. It also encourages local agencies to render quarterly treasury reports to the chief executive officer and the legislative bodies.

The District had an investment portfolio of approximately \$130 million as of June 30, 2008, all of which was handled by San Mateo County. It is important that the District Board stay informed of cash and investment positions of the District more regularly. The District should establish a formal written investment policy that details the Board's philosophies, policies, and goals (both short and long-term). Since the District's portfolio is part of the San Mateo Investment Pool, the policy should state that the Board elects to continue this arrangement. The policy should also state who has the right to transfer funds between the cash and investment accounts, transaction amount limits, and who can authorize purchases and sales of investments (in this case, withdrawals from the County). Annually, the Board should review the County's investment policy, audited financial statements, and memorandum of internal control to ensure that the Board is comfortable with the make up of the County's investment portfolio and its internal controls.

In addition, the District's management should report its cash and investment values to the Board at least quarterly using the guidelines provided by the California Government Code.

Capital Assets and Depreciation Policy

The District's Capitalization and Depreciation Policy has not been adopted by the Board. To provide proper guidelines to District's management, the District Board should adopt a formal Capitalization and Depreciation Policy. At the minimum, a capitalization policy should have the following elements:

- Establish a minimum dollar amount for capitalization within the various property accounts.
- Prepare written guidelines for proper account classification of all routine fixed asset additions (furniture and fixtures, leasehold improvements, etc.).
- Formalize District's policy to differentiate between maintenance and repair items and long-term improvement items.

Record Retention Policy

The District currently does not have a formal Record Retention Policy. As a result, the District's current practice is to keep its records indefinitely. Keeping extensive records takes up storage space, which requires more energy consumption. Also, the lack of policy means that individual employees are left with the judgment of whether a particular document should be kept, thus exposing the District to the risk of losing valuable and irreplaceable documents. We recommend the District adopt a record retention policy that clearly defines the types of documents to be kept and the retention period for each class of documents.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

**SCHEDULE OF SIGNIFICANT DEFICIENCIES
JUNE 30, 2008**

Travel Policy

Section 5 of the District's Administrative Code defines allowable expenses for business travel. However, the Code does not set maximum reimbursable amounts for lodging and meal expenses, nor does it provide a definition on what qualifies as reimbursable "actual and necessary incidental expenses". Travel related expenses can be an area for intense analysis and scrutiny in the event of an audit by the Internal Revenue Service (IRS) or other such inquiry or investigation. The District should consider providing further guidelines on the areas mentioned above. Alternatively, the District can consider following the Per Diem Rates (For Travel Within the Continental United States) Publication 1542 published annually by the IRS. This Publication lists the maximum per diem rates an entity can pay to its employees for lodging, meals and incidental expenses without treating part of the per diem allowance as wages for tax purposes.

Other Policies to be Considered

The District Board should also consider adopting policies governing the Budgetary Process and Fraud Prevention.

Management Response:

The District is currently in the process of addressing the Board and Management involvement through the following actions:

Investment Policy and Quarterly Investment Report

The District, as noted above, is required to maintain cash and investments in the County of San Mateo Treasury (the County), and as such, the management reviews and acknowledges receipt of their Investment Policy on an annual basis. The County, however, is in the process of revising their Investment Policy to adopt a more conservative investment approach. As such, the District intends to formally adopt, by Board resolution, the County's revised Investment Policy, as soon as the policy becomes available. The District will also include in the Quarterly Financial Report to the Board the status of the cash and investment values, beginning with the Second Quarter of fiscal year 2009, after it has been determined which format would best serve the Board.

Capital Assets, Record Retention, Travel, and Other Policies

The Capital Assets and Depreciation Policy, Record Retention Policy, Travel Policy, and Fraud Policy are all in the process of being revised and updated, and the District expects to have the revisions completed and adopted by Board action. The District has incorporated budgetary assumptions and procedures in the on-line electronic budget files.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

**SCHEDULE OF OTHER MATTERS
JUNE 30, 2008**

2008-03 OTHER MATTERS IN INFORMATION SYSTEM

Payment Card Industry Compliance

In order for the District to be in compliance with the Payment Card Industry Data Security Standard (PCI-DSS) for securing credit card information, the District will need to develop written policies addressing PCI specific controls. Additionally, an organization that processes credit cards is required to comply with PCI-DSS, even if the processing is outsourced. Failure to meet compliance results in higher transaction fees and liability if a security breach is found. Because the District accepts credit cards as a form of payment, the District must be compliant with the applicable controls.

We understand that the District is currently working on the above compliance. We recommend the District continue and perform a compliance review annually.

General Information Systems Controls

We reviewed the compliance of the District's information systems with the National Institute of Standards and Technology (NIST) information security standards based on a moderate risk system. The following is a list of controls that were not in place. We recommend the District choose an appropriate industry standard such as NIST to help plan, organize and review information security. In lieu of this selection, we recommend the District continue with the controls that we found in place during our review and review and implement the list of controls noted as discussed.

Management Response:

The District will ensure that written policies are in place and available in conformance with the Payment Card Industry Data Security Standard, and will review the general systems control to determine controls to implement which are both efficient and cost-effective.

2008-04 GASB UPDATES

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets (Effective for fiscal 09/10) - Retroactive Application Required*

Governments have different types of intangible assets, such as easements, water rights, patents, trademarks, and computer software. Easements are referred to in the GASB 34 description of capital assets which has raised questions about whether and when intangible assets should be considered capital assets for financial reporting purposes.

The absence of specific authoritative guidance has resulted in inconsistencies in the recognition, initial measurement, and amortization of intangible assets among governments. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies and enhance comparability.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

**SCHEDULE OF OTHER MATTERS
JUNE 30, 2008**

A summary of the statement:

- Intangible assets should be classified, accounted for and reported as capital assets, unless excluded from the scope. Guidance in this statement is in addition to existing capital asset guidance.
- GASB 51 specifically addresses the nature of intangible assets.
 - *Lack of physical substance.* An asset may be contained in or on an item with physical substance, for example, a compact disc in the case of computer software. An asset also may be closely associated with another item that has physical substance, for example, the underlying land in the case of a right-of-way easement. These modes of containment and associated items should not be considered when determining whether or not an asset lacks physical substance.
 - *Nonfinancial nature.* In the context of this Statement, an asset with a nonfinancial nature is one that is not in a monetary form similar to cash and investment securities, and it represents neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods or services.
 - *Initial useful life greater than one year.*
- GASB 51 excludes:
 - Assets acquired or created primarily for the purpose of directly obtaining income or profit.
 - Assets resulting from capital lease transactions reported by lessees.
 - Goodwill created through the combination of a government and another entity.
- Recognition of an intangible asset occurs only if it is considered identifiable. That is when either of the following apply:
 - The asset is separable from the government. That is it can be sold, transferred, licensed, rented, or exchanged.
 - The asset arises from contractual or other legal rights, regardless of whether transferable or separable.
- Specific conditions must present to recognize internally generated intangibles. Capitalization of costs begins after all of the following criteria are met:
 - Determination of specific objectives of the project and the nature of the service capacity expected upon the completion.
 - Demonstration of the feasibility that the completed project will provide its expected service capacity.
 - Demonstration of the current intention, ability, and effort to complete or continue development of the intangible asset.
 - Internally generated computer software is used as an example in applying the specific conditions approach.
- Amortization lives are addressed:
 - Limited by contractual or legal provisions.
 - Renewal periods for rights may be considered if there is evidence that the government will seek and be able to achieve renewal and that any anticipated outlays to be incurred as part of achieving the renewal are nominal. Such evidence should consider the required consent of a third party and the satisfaction of any conditions required to achieve renewal.
 - An indefinite life (no amortization) is permitted so long as there are:
 - No limiting legal, contractual, regulatory, technological, or other factors, and
 - No subsequent change in circumstances.
 - A permanent right-of-way easement is an example.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

**SCHEDULE OF OTHER MATTERS
JUNE 30, 2008**

Retroactive Application For GASB 34 Phase I & II governments, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980. Retroactive reporting is not required for intangible assets with indefinite useful lives as of the effective date of this Statement nor for internally generated intangibles.

Retroactive reporting for Phase III governments is not required.

Management Response:

The District has no intangible assets as described by GASB Statement No. 51, **Accounting and Financial Reporting for Intangible Assets**, other than the JD Edwards (JDE) accounting system software, and the new District Production System that is currently in the preliminary project stage. Both the JDE accounting system and the Production System have been treated, for accounting purposes, in accordance with the AICPA's Statement of Position (SOP) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. As such, the District believes that the accounting treatment of intangible assets is in accordance with GASB Statement No. 51.

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**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

STATUS OF PRIOR YEAR FINDINGS

FISCAL YEAR 2006-07 RECOMMENDATIONS

CAPITAL ASSET POLICIES AND PROCEDURES

Observation:

The Capital Asset Policies and Procedures do not reflect the current practice of capitalization threshold and construction in progress transfer procedures upon completion. Without adequate documentation of existing procedures, changes in personnel may jeopardize the efficient processing of daily activities.

Recommendation:

The auditor recommended that the District update the Capital Asset Policy to reflect the current practices.

Current Status:

The District is currently in process of updating the policies and procedures for the areas addressed above.

PURCHASING AND ACCOUNTS PAYABLE

Observation:

Business Manager's access to the purchasing module is not limited to his normal duties. Occasionally, when any of the authorized personnel is out of the office, his approval can be delegated to other personnel. The Business Manager is responsible for changing the approval set-up in the module upon receiving email confirmation requesting the delegation. The Business Manager, who also has the authority to approve purchase requisition up to certain limit, has the access to change the approval set-up at anytime. The full access that Business Manager has indicates a weakness in the internal control, which provides opportunity for unauthorized purchases.

Recommendation:

The auditor recommended that the District establish procedures to ensure the proper segregation of duties and review process in the purchasing process to prevent unauthorized purchases.

Current Status:

The Business Manager's access to approve purchase requisitions is now limited to Business Office related requisitions.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE**

STATUS OF PRIOR YEAR FINDINGS

WORKERS COMPENSATION

Observation:

There was no regular reconciliation performed between workers' compensation Loss Run Reports received from the Third Party Administrator and the District's claim log in the system. Such reconciliation will ensure that all claims against the District are properly reflected on the Loss Run Reports provided by the Third Party Administrator.

Recommendation:

The auditor recommended the District establish procedures to reconcile the claims log to the workers' compensation Loss Run Report to assure that the information in the Loss Run Report reflects all claims against the District. This would assure that information in the Loss Run Report is accurate, since this information is relied upon by the actuarial study to determine the amount the District should record for claims liability.

Current Status:

The Administrative Services Division is now reconciling the third-party Administrator's workers compensation Loss Run Report to the District's Claim Log on a monthly basis.

PAYROLL PROCESS

Observation:

The Payroll Technician processes the payroll and uploads the payroll information to third party payroll processing company (Ceredian). No independent review is performed of the payroll register to ensure the accuracy.

Recommendation:

The auditor recommended that the District review and evaluate their internal control structure for the payroll processing to ensure procedures are in place for proper management oversight.

Current Status:

The District Finance Department performed an independent review of both the Ceridian Payroll Register and the District's Position Control to ensure the integrity of the payroll process; no discrepancies were noted.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MEMORANDUM ON INTERNAL CONTROL STRUCTURE

STATUS OF PRIOR YEAR FINDINGS

COMPUTER CONTROLS

Observation:

The Disaster Recovery Plan does not offer a solution if the computer equipment of the District was damaged as result of fire or any other disaster. The District has back-up tapes but will not have the equipment necessary to run the tapes in case of disaster.

Recommendation:

The auditor recommended that the District expand its disaster preparedness to address the issue by either getting into an agreement with other agencies that are using the same software and/or equipment. Or, the District could establish an agreement with a company in the disaster recovery business such as Sunguard.

Current Status:

The District entered into an agreement during fiscal year 2009 to back up the computer systems remotely; the equipment is currently in place, and the District is in the process of testing the system to ensure that it functions as intended.

COMPUTER CONTROLS

Observation:

The District does not require employees to change password periodically. The regular password changes will increase the security level over District's computer control.

Recommendation:

The auditor recommended that the District establish procedures to ensure that passwords to the computer are changed periodically.

Current Status:

The District has enhanced the security settings to require mandatory password changes for the JD Edwards accounting and Windows based software on a quarterly basis.

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REQUIRED COMMUNICATIONS

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February 6, 2009

To the Board of Directors of
the Bay Area Air Quality Management District
San Francisco, California

We have audited the financial statements of the Bay Area Air Quality Management District as of and for the year ended June 30, 2008 and have issued our report thereon dated February 6, 2009. Professional standards require that we advise you of the following matters relating to our audit.

Financial Statement Audit Assurance: Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit in accordance with generally accepted auditing standards does not provide absolute assurance about, or guarantee the accuracy of, the financial statements. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is an inherent risk that material errors, fraud, or illegal acts may exist and not be detected by us.

Other Information Included with the Audited Financial Statements: Pursuant to professional standards, our responsibility as auditors for other information in documents containing the District's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. Our responsibility also includes communicating to you any information that we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements. This other information and the extent of our procedures are explained in our audit report.

Accounting Policies: Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements.

As described in Note 1D to the financial statements, in fiscal year 2008, the District changed its application on one of its accounting policies in which the recognition of revenue in interest earned from DMV fees was deferred until disbursements are made. As a result, \$26,511,937 of beginning fund balance in the Special Revenue Fund was reclassified as deferred revenue at July 1, 2007.

Also, as described in Note 9 to the financial statements, during the year, the District implemented the following new standard:

- GASB Statement No. 50 *Pension Disclosures — an amendment of GASB Statements No. 25 and No. 27*

This Statement amends disclosure requirement for defined benefit pension. The current disclosures of Note 9 to the financial statements comply with this Statement.

Unusual Transactions, Controversial or Emerging Areas: No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during 2008. While there have been no changes in accounting policies or disclosures resulting from the credit crisis, we believe the unprecedented volatility of credit markets occurring after year end warrants mention.

- *Credit Risk and the Financial Crisis:* The District has credit risks in its investments (Note 2). Credit risks as of June 30, 2008 for these areas have been disclosed in accordance with generally accepted accounting principals.

However, subsequent to year end, financial markets experienced significant reductions of available credit and certain financial institutions have had their credit ratings downgraded with one large institution entering bankruptcy. The Federal government has taken steps to support financial markets in an effort to stave off further negative trends. These conditions have increased credit risks which warrant continuous monitoring and reassessment of the risk that credit counterparties and investees maybe downgraded or be unable to fulfill their obligations. Highest priority should be placed on maintaining a credit watch on its counterparties and formulate contingency plans as needed to ensure credit remains available for its operations.

Estimates: Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The most sensitive accounting estimates affecting the financial statements are fair values of Investments.

- *Estimated Fair Value of Investments:* As of June 30, 2008, the District, held approximately \$130 million of cash and investments as measured by fair value. Fair value is essentially market pricing in effect as of June 30, 2008. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2008.

Disagreements with Management: For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the District's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Retention Issues: We did not discuss any major issues with management regarding the application of accounting principles and auditing standards that resulted in a condition to our retention as the District's auditors.

Difficulties: We encountered no serious difficulties in dealing with management relating to the performance of the audit.

Audit Adjustments: For purposes of this communication, professional standards define an audit adjustment, whether or not recorded by the District, as a proposed correction of the financial statements that, in our judgment, may not have been detected except through the audit procedures performed. These adjustments may include those proposed by us but not recorded by the District that could potentially cause future financial statements to be materially misstated, even though we have concluded that the adjustments are not material to the current financial statements.

We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the entity's financial reporting process.

Uncorrected Misstatements: There were no uncorrected financial statement misstatements.

* * * * *

This report is intended solely for the information and use of the audit committee, Board of Directors, and management and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

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BAY AREA AIR QUALITY
MANAGEMENT DISTRICT
BASIC FINANCIAL STATEMENTS,
SINGLE AUDIT REPORTS, TRANSPORTATION
FUND FOR CLEAN AIR (TFCA) PROGRAM
TOGETHER WITH INDEPENDENT
AUDITORS' REPORTS
FOR THE YEAR ENDED JUNE 30, 2008

**MAZE &
ASSOCIATES**

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

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**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
BASIC FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

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INDEPENDENT AUDITORS' REPORT

ACCOUNTANCY CORPORATION
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To the Board of Directors
of the Bay Area Air Quality Management District
San Francisco, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Bay Area Air Quality Management District (District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2008, and the respective changes in the financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1D, the District changed its method of reporting interest earned on deferred grants and restated beginning fund balance.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2009 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Required Supplementary Information Section are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Maze & Associates

February 6, 2009

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**BAY AREA AIR QUALITY MANAGEMENT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

This discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the accompanying letter of transmittal and basic financial statements.

A. Financial Highlights

The assets of the District exceeded its liabilities at the close of fiscal year 2007-08 by \$41,758,818 (net assets). Of this amount, \$19,161,977 could be used to finance the District's daily operations without legal or legislative constraints (unrestricted assets); \$22,596,841 was restricted to specific uses (restricted assets); and \$11,273,003 was invested in capital assets. Net assets decreased by \$28,716,945 from fiscal year 2006-07.

The District's governmental funds reported a fund balance of \$33,929,914, with the entire amount representing the General Fund, which is a change from the prior year presentation. The District changed the application of interest revenue recognition for the Special Revenue Fund from recognizing when received, to recognizing when expenditures have been incurred. The change in the application resulted in the fund balance of the Special Revenue Fund being eliminated in the amount of \$26,511,937, and the Deferred Revenue balance increasing by a corresponding amount. The General Fund balance of \$6,358,306 represents the unreserved fund balance with the remaining balance of \$27,571,608, reserved for specific uses. Table 1 presents the General Fund detail of fund balances as of June 30, 2008, and June 30, 2007.

Table 1. General Fund Balances as of June 30, 2008, and 2007

Category	General Fund June 30, 2008	General Fund June 30, 2007	Increase/ (Decrease)
Reserved for:			
Revolving Fund	\$500	\$500	
Encumbrances	9,978,556	4,904,467	\$5,074,089
Multi-year Appropriations		152,141	(152,141)
Worker's Compensation	<u>1,000,000</u>	<u>1,000,000</u>	
Reserve	\$10,979,056	\$6,057,108	\$4,921,948
Total Reserved			
Unreserved, designated for:			
Building and Facilities	1,731,690	1,731,690	
PERS Super Funding	2,700,000	3,100,000	(400,000)
Radio Replacement	75,000	75,000	
Climate Protection		3,000,000	(3,000,000)
Production System	2,800,000	1,250,000	1,550,000
Capital Equipment	130,425	130,425	
Contingencies	400,000	400,000	
Economic uncertainties	<u>8,755,437</u>	<u>7,709,028</u>	<u>1,046,409</u>
Total Unreserved, designated	16,592,552	17,396,143	(803,591)
Undesignated	<u>6,358,306</u>	<u>13,996,404</u>	<u>(7,638,098)</u>
Total Fund Balance	\$33,929,914	\$37,449,655	(\$3,519,741)

B. Overview of the Financial Statements

This discussion and analysis is designed to serve as an introduction to the District's basic financial statements. The District's basic financial statements have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also includes required and other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District.

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business. They provide information about the activities of the District as a whole and present a longer-term perspective of the District's finances. Government-wide financial statements include the Statement of Net Assets and the Statement of Activities and Changes in Net Assets.

The Statement of Net Assets reports all assets held and all liabilities owed by the District on a full accrual basis. The difference between the assets held and the liabilities owed is reported as *Net Assets*. The net assets total is comparable to total stockholder's equity presented on the balance sheet of a private enterprise. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Net Assets as of June 30, 2008 is presented on Page 12.

The Statement of Activities reports the net cost of the District's activities by category and is also prepared on a full accrual basis. Under the full accrual basis of accounting, revenues and expenses are recognized as soon as the underlying event occurs, regardless of the timing of the related cash flows. The focus of the Statement of Activities is on the cost of various work programs performed by the District. The statement begins with a column that identifies the total cost of these programs followed by columns that summarize the District's program revenues by major category. The difference between expenses and revenues represents the net cost or benefit of the District's work programs. General revenues are then added to the net cost/benefit to calculate the change in net assets. The Statement of Activities and Changes in Net Assets is presented on pages 13.

All of the District's activities are governmental in nature and no business-type activities are reported in these statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Bay Area Air Quality Management District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. For governmental activities, these statements tell how these services were financed in the short-term and what is left over for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's major funds. The District maintains two governmental funds; the General Fund and the Special Revenue Fund.

B. Overview of the Financial Statements, Continued

Governmental Funds

Governmental fund financial statements consist of the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances. Both are prepared using the modified accrual basis of accounting.

Balance Sheets prepared under the modified accrual basis of accounting have a short-term emphasis and, for the most part, measure and account for cash and other assets that can be easily converted to cash. Specifically, cash and receivables that are deemed collectible within a very short period of time are reported on the balance sheet. Capital assets such as land and buildings are not reported in governmental fund financial statements. Fund liabilities include amounts that will be paid within a very short period of time after the end of the fiscal year. Long-term liabilities such as outstanding bonds are not included. The difference between a fund's total assets and total liabilities represents the fund balance. The unrestricted portion of fund balance represents the amount available to finance future activities. The District's governmental fund balance sheets can be found on page 16.

The Statement of Revenues, Expenditures and Changes in Fund Balance include only revenues and expenditures that were collected in cash or paid with cash during the fiscal year or very shortly after the end of the fiscal year. The governmental fund Statements of Revenue, Expenditures and Changes in Fund Balance can be found on page 18.

Since a different basis of accounting is used to prepare these statements, reconciliation is required to facilitate the comparison between the government-wide statements and the fund financial statements. The reconciliation of the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Assets is on page 17. The Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets can be found on page 19.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 25 to 37.

Required and Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the governmental funds budget comparison schedules and the California Public Employees Retirement System (PERS) Schedule of Funding Progress on pages 41 to 44.

C. Government-Wide Financial Analysis

The government-wide financial analyses focus on net assets and changes in net assets of the District's governmental activities. Table 2 below shows a condensed Statement of Net Assets as of June 30, 2008 compared to the fiscal year ended June 30, 2007.

Table 2. Statement of Net Assets as of June 30, 2008 and June 30, 2007

	Governmental Activities June 30, 2008	Governmental Activities June 30, 2007	Increase/ (Decrease)
Current & Other Assets	\$ 141,243,016	\$ 118,062,536	\$ 23,180,480
Noncurrent Assets	<u>11,273,503</u>	<u>9,233,224</u>	<u>2,040,279</u>
Total Assets	\$ 152,516,519	\$ 127,295,760	\$ 25,221,759
Noncurrent Liabilities	\$ 3,440,599	\$ 2,718,553	\$ 722,046
Current Liabilities	<u>107,317,102</u>	<u>54,101,444</u>	<u>53,215,658</u>
Total Liabilities	\$ 110,757,701	\$ 56,819,997	\$ 53,937,704
Net Assets:			
Invested in Capital Assets	\$ 11,273,003	\$ 9,232,724	\$ 2,040,279
Restricted	11,323,838	6,554,711	4,769,127
Unrestricted	<u>19,161,977</u>	<u>54,688,328</u>	<u>(35,526,351)</u>
Total Net Assets	\$ 41,758,818	\$ 70,495,763	(\$28,716,945)

As noted earlier, total net assets may serve over time as a useful indicator of the District's financial position. At June 30, 2008 the District's assets exceeded its liabilities by \$ 41,758,818 - a decrease of \$28,716,945 over the previous fiscal year. The decrease was due primarily to the District changing the application of interest revenue recognition for the Special Revenue Fund. The change resulted in an increase of \$26,511,937 to deferred revenue, and a corresponding decrease in net assets.

Restricted assets are to be used for specific programs and purposes according to legal terms and conditions. The remaining portion of the District's net assets is unrestricted and may be used to meet the District's obligations in carrying out its day-to-day operations.

C. Government-Wide Financial Analysis, Continued

Table 3 below provides Changes in Net Assets for the fiscal year ending June 30, 2008 compared with the fiscal year ended June 30, 2007.

Table 3. Statement of Changes in Net Assets for Fiscal Years 2007-08 and 2006-07

	Governmental Activities FY 2007-08	Governmental Activities FY 2006-07
Revenues:		
Program Revenues:		
TFCA DMV Fees	\$ 18,999,797	\$ 22,049,092
MSIF DMV Fees	2,003,105	3,971,580
Operating Grants and Contributions	15,177,673	5,990,768
Permit Fees and PERP	18,427,888	19,455,368
Title V Permit Fees	1,992,820	2,062,812
State Subvention	1,711,718	1,748,051
Spare the Air Grant (CMAQ)	677,953	1,336,931
Federal Grants (EPA)	1,983,135	1,585,312
Federal Grants (Homeland Security)	870,427	945,948
Penalties & Variance Fees	3,084,812	5,868,539
Hearing Board Fees	27,354	21,123
AB 2588 Income	552,445	351,599
Asbestos Fees	1,800,001	1,679,146
District Services & Consulting		825
Interest Revenue	1,336,834	4,036,355
Other Grants	1,371,109	197,998
AB434 Others	595,708	
Miscellaneous Revenue	54,776	1,119,639
Special Environmental Projects	129,680	
County Apportionments	\$ 20,878,006	\$ 19,464,704
Total Revenues	\$ 91,675,241	\$ 91,885,790
Expenses:		
Salaries and Benefits	\$ 44,421,764	\$ 39,755,626
Services and Supplies	17,855,471	14,736,720
Capital Outlay	1,002,183	2,844,313
Program Distributions	30,600,831	23,969,064
Total Expenses	\$ 93,880,249	\$ 81,305,723
Loss on Sale of capital assets		(35,134)
Increase (Decrease) In Net Assets at June 30, 2008 & 2007	\$ (2,205,008)	\$ 10,544,933

Governmental Activities

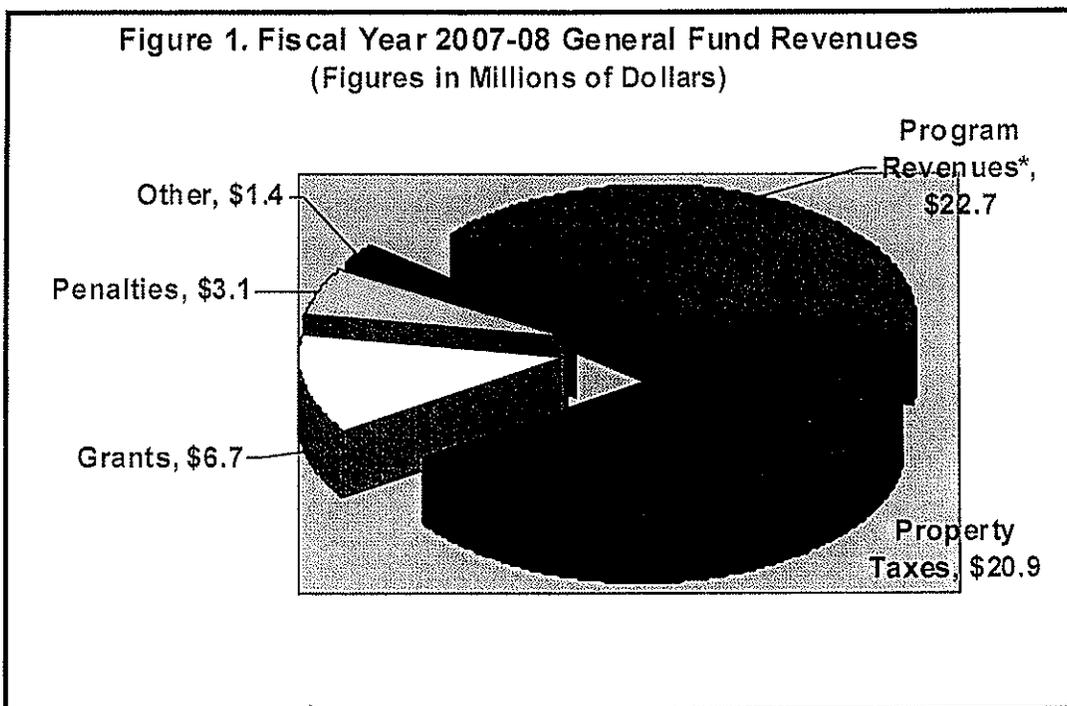
The objective of the Statement of Activities is to report the full cost of providing government services during the fiscal year. The format also permits the reader to ascertain the extent to which each function is either self-financing or draws funds from the general funds of the government.

The Statement of Activities presents information showing how the District's net assets changed during the FY 2007-2008. All changes in net assets are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

C. Government-Wide Financial Analysis, Continued

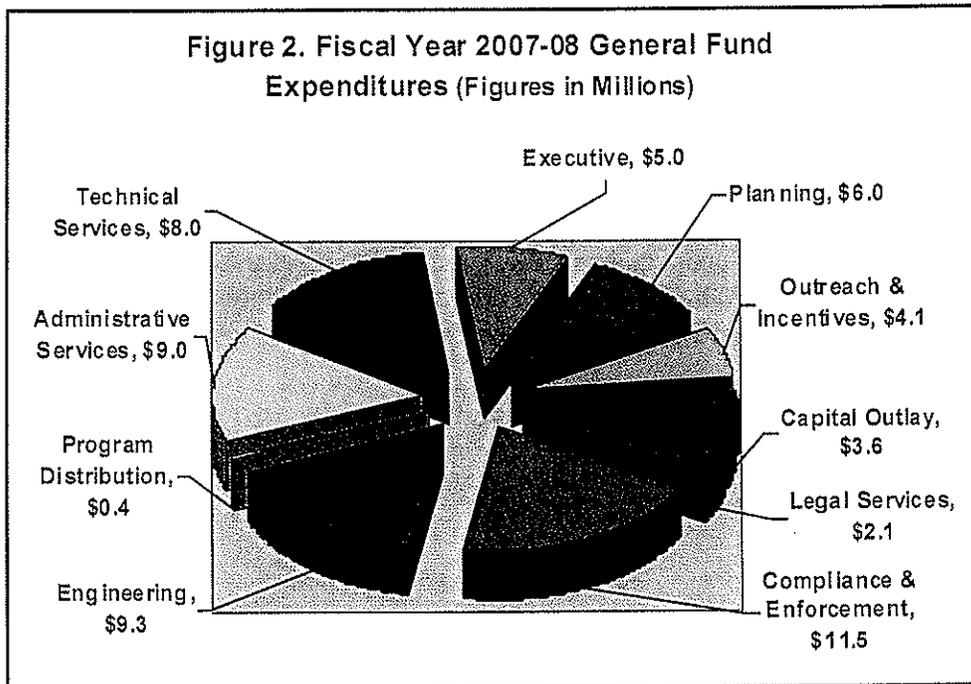
Governmental functions of the District are predominately supported by fees, property taxes, subvention, grants, and penalties and settlements. The penalties and settlements are one-time revenues which are over and above the regular revenues directly related to the programs. The primary governmental activities of the District are: to advance clean air technology, ensure compliance with clean air rules, develop programs to achieve clean air, develop rules to achieve clean air, monitoring air quality, permit review and Special Revenue Fund Activities.

Figure 1 below provides a pie chart of the District's General Fund revenues for fiscal year 2007-08. The General Fund received total revenue of \$54,853,843 in fiscal year 2007-08 – a decrease of \$2,238,149 over fiscal year 2006-07. Program Revenues* include: Permit, AB2588, PERP, Title V, and Asbestos fees. Program revenues were the largest General Fund revenue source in fiscal 2007-08 (\$22.7 million), followed by Property Tax (\$20.9 million), Grants (\$6.7 million), Penalties (\$3.1 million), and Other revenues (\$1.4 million).



C. Government-Wide Financial Analysis, Continued

Figure 2 below provides a graph of General Fund expenditures for fiscal year 2007-08. General Fund expenditures totaled \$58,969,292 which is an increase of \$7,957,588 over fiscal year 2006-07. General Fund expenditures represent the District's general government operating costs categorized into the following operating divisions: Compliance and Enforcement (\$11.5 million); Engineering (\$9.3 million) Administrative Services (\$9.0 million) Technical Services (\$8.0 million) Executive (\$5.0 million) Planning (\$6.0 million); Outreach & Incentives (\$4.1 million); and Legal Services (\$2.1 million); the District also incurred \$3.6 million of Capital Outlay expenditures in fiscal year 2007-08. General Fund expenditures exceeded revenue by \$4,115,449 in fiscal year 2007-08.



Total General Fund revenue decreased by \$2.2 million or 3.9% compared with the prior fiscal year, primarily due to a decrease in penalties and variance fees. General Fund Expenditures increased by \$8.0 million or 15.6% compared to the prior year, primarily both from increased expenditures across all programs in accomplishing the District's mission, and prefunding of the District's other post-employment benefits in the amount of \$2.8 million.

The General Fund is the operating fund of the District and at the end of the fiscal year, the total fund balance of the General Fund was \$33.9 million. The unreserved fund balance was \$6.4 million; reservations and designations were \$11.0 million and 16.6 million, respectively. These reserved and designated amounts represent the District's intended use of the financial resources in future periods. One measure of the General Fund's liquidity is the comparison of both unreserved fund and total fund balances to total expenditures. The unreserved fund balance represents 10.8% of the total General Fund expenditures, while the total fund balance represents 57.5% of the total fund expenditures.

The FY 07-08 adopted budget as compared to the amended budget reflects an increase in appropriations of \$18.2 million. The changes to the budget were the result of Governing Board actions, and carry over of unspent funds from 2006-07.

Capital Assets

As of June 30, 2008 the District's investment in capital assets was \$11.3 million net of accumulated depreciation. Capital assets include land, buildings, laboratory equipment, Air monitoring stations, computers, office furniture and District fleet vehicles.

D. Economic Factors and Next Year's Budget

The District receives approximately 38% of its General Fund revenue from property taxes levied in nine Bay Area counties and 33% from permit fees charged to local businesses. Consequently, District revenues are impacted by changes in the state and local economy. The District takes a fiscally conservative approach to its budget and it strives to balance its budget within available current revenues. In an effort to recover a greater share of the costs of maintaining air quality, the District increased its permitting fees by approximately 13.9% in FY 2008-09. The District will continue to focus on long term financial planning to ensure the vitality and effectiveness of its programs.

E. Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Jeffrey M. McKay, Deputy Executive Officer at 939 Ellis Street, San Francisco, CA 94109.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets reports the difference between the District's total assets and the District's total liabilities, including all District's capital assets and all its long-term liabilities, on full accrual basis. The Statement of Net Assets presents information similar to the traditional balance sheet format, but presents it in a way that focuses the reader on the composition of the District's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the District's Governmental Activities in a single column. The District's Governmental Activities include the activities of its all of its governmental funds, capital assets and long-term liabilities.

The Statement of Activities reports increases and decreases in the District's net assets, and is also prepared on full accrual basis, which means it includes all District's revenues and all its expenses, regardless of when cash changes hands. This differs from the modified accrual basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The Statement of Activities presents the District's expenses listed by program. Program revenues — that is, revenues that are generated directly by these programs — are then deducted from program expenses to arrive at the net expense of each program. The District's general revenues are then listed in the Governmental Activities column, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

These financial statements along with the fund financial statements and footnotes are called *Basic Financial Statements*.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities
ASSETS	
Current assets:	
Cash and investments in County Treasury (Note 2)	\$123,827,416
Restricted cash and investments in County Treasury (Note 2)	6,160,622
Receivable:	
Trade (Note 3)	8,628,342
Interest (Note 3)	1,045,173
Other	53,920
Due from other governments	1,493,474
Deposits and other current assets	34,069
Total current assets	141,243,016
Noncurrent assets:	
Cash in revolving fund (Note 2)	500
Capital assets (Note 5):	
Non-depreciable	5,192,833
Depreciable, net	6,080,170
Total capital assets	11,273,003
Total noncurrent assets	11,273,503
Total assets	152,516,519
LIABILITIES	
Current liabilities:	
Accounts payable	10,411,706
Accrued payroll	747,769
Other current liabilities	439,477
Unearned revenue (Note 6)	95,714,650
Compensated absences - short-term (Note 10)	3,500
Total current liabilities	107,317,102
Noncurrent liabilities:	
Compensated absences - long-term (Note 10)	3,440,599
Total noncurrent liabilities	3,440,599
Total liabilities	110,757,701
NET ASSETS (Note 13)	
Invested in capital assets, net of related debt	11,273,003
Restricted for:	
Encumbrances	10,323,338
Revolving fund	500
Self-funded workers' compensation	1,000,000
Total restricted net assets	11,323,838
Unrestricted net assets	19,161,977
Total net assets	\$41,758,818

See accompanying notes to financial statements

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues		Total	Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions		Governmental Activities
Governmental activities:					
Primary government	\$57,654,559	\$25,625,466	\$7,003,876	\$32,629,342	(\$25,025,217)
TFCA program:					
TFCA distribution	21,568,355		21,651,102	21,651,102	82,747
Cari Moyer Program	13,796,864		13,796,864	13,796,864	
Lower Emission School Bus Program	860,471		1,328,317	1,328,317	467,846
Total TFCA program	36,225,690		36,776,283	36,776,283	550,593
Total governmental activities	\$93,880,249	\$25,625,466	\$43,780,159	(24,474,624)	(24,474,624)
General revenues:					
County apportionment:					
Alameda					3,754,178
Contra Costa					2,804,322
Marin					1,085,957
Napa					720,086
Santa Clara					5,298,785
San Francisco					2,680,293
San Mateo					2,638,154
Solano					626,119
Sonoma					1,115,987
Redevelopment					154,125
Total county apportionment					20,878,006
Investment income not restricted for a specific program					1,391,610
Total general revenues					22,269,616
Change in net assets					(2,205,008)
Net asset, beginning, as restated (Note 1D)					43,963,826
Net assets-ending					\$41,758,818

See accompanying notes to financial statements

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FUND FINANCIAL STATEMENTS

The Fund Financial Statements are presented by individual major funds, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year.

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the District for fiscal year 2008.

GENERAL FUND

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

SPECIAL REVENUE FUND

The Special Revenue Fund is used to account for proceeds of specific revenue sources (other than capital projects) that are legally restricted to expenditures for specified purposes.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008

	MAJOR FUNDS		Total Governmental Funds
	General Fund	Special Revenue Fund	
ASSETS			
Cash and investments in County Treasury (Note 2)	\$31,644,441	\$92,182,975	\$123,827,416
Restricted cash and investments in County Treasury (Note 2)		6,160,622	6,160,622
Cash in revolving fund (Note 2)	500		500
Receivable:			
Trade (Note 3)	2,739,120	5,889,222	8,628,342
Interest (Note 3)	252,288	792,885	1,045,173
Other	53,920		53,920
Due from other governments	1,448,328	45,146	1,493,474
Due from other funds (Note 4A)	2,090,703		2,090,703
Deposits and other assets	27,940	6,129	34,069
Total assets	\$38,257,240	\$105,076,979	\$143,334,219
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	2,236,975	8,174,731	10,411,706
Accrued salaries and wages payable	747,769		747,769
Due to other funds (Note 4A)		2,090,703	2,090,703
Other liabilities	439,477		439,477
Deferred revenue (Note 6)	903,105	94,811,545	95,714,650
Total liabilities	4,327,326	105,076,979	109,404,305
Fund balances:			
Reserved fund balances:			
Revolving fund	500		500
Encumbrances	9,978,556	344,782	10,323,338
Self-funded workers' compensation	1,000,000		1,000,000
Total reserved	10,979,056	344,782	11,323,838
Unreserved, designated for:			
Building and facilities	1,731,690		1,731,690
PERS super funding	2,700,000		2,700,000
Radio replacement	75,000		75,000
Production system	2,800,000		2,800,000
Capital equipment	130,425		130,425
Contingencies	400,000		400,000
Economic uncertainties	8,755,437		8,755,437
Total unreserved, designated	16,592,552		16,592,552
Unreserved and undesignated	6,358,306	(344,782)	6,013,524
Total fund balances	33,929,914		33,929,914
Total liabilities and fund balances	\$38,257,240	\$105,076,979	\$143,334,219

See accompanying notes to financial statements

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
 Reconciliation of
 FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
 STATEMENT OF NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2008

Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:	\$33,929,914
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds	11,273,003
LONG-TERM LIABILITIES	
The liabilities below are not due and payable in the current period and therefore are not reported in the Funds: Long-term compensated absences	<u>(3,444,099)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$41,758,818</u>

See accompanying notes to financial statements

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2008

	MAJOR FUNDS		Total Governmental Funds
	General Fund	Special Revenue Fund	
REVENUES			
TFCA/MSIF DMV fees		\$21,002,902	\$21,002,902
Carl Moyer Program		13,796,864	13,796,864
Nox and PM10 Program		52,492	52,492
Lower Emission School Bus Program		1,328,317	1,328,317
Permit fees	\$18,038,354		18,038,354
Title V permit fees	1,992,820		1,992,820
Asbestos fees	1,800,001		1,800,001
Penalties and variance fees	3,084,812		3,084,812
Hearing board fees	27,354		27,354
State subvention	1,711,718		1,711,718
AB 434/923 others		595,708	595,708
AB 2588 income	552,445		552,445
Miscellaneous	54,776		54,776
Special environmental projects	129,680		129,680
Federal grant - EPA	1,983,135		1,983,135
Federal grant - DHS	870,427		870,427
CMAQ Spare The Air	677,953		677,953
Other grants	1,325,994	45,115	1,371,109
Portable equipment registration program (PERP)	389,534		389,534
Interest	1,336,834		1,336,834
County apportionment:			
Alameda	3,754,178		3,754,178
Contra Costa	2,804,322		2,804,322
Marin	1,085,957		1,085,957
Napa	720,086		720,086
Santa Clara	5,298,785		5,298,785
San Francisco	2,680,293		2,680,293
San Mateo	2,638,154		2,638,154
Solano	626,119		626,119
Sonoma	1,115,987		1,115,987
Redevelopment	154,125		154,125
Total revenues	<u>54,853,843</u>	<u>36,821,398</u>	<u>91,675,241</u>
EXPENDITURES			
General government:			
Program distribution	473,585		473,585
Executive office	4,991,577		4,991,577
Finance, administration and information systems	8,955,037		8,955,037
Legal services	2,074,476		2,074,476
Outreach and incentives	4,077,382		4,077,382
Compliance and enforcement	11,464,677		11,464,677
Engineering	9,324,643		9,324,643
Planning and research	5,981,905		5,981,905
Technical services	8,021,377		8,021,377
TFCA Program:			
Program distribution		30,127,247	30,127,247
Smoking vehicle		290,131	290,131
Intermittent control		634,971	634,971
Transportation fund for clean air administration		915,866	915,866
Vehicle buy-back		3,798,240	3,798,240
Mobile source incentive		414,121	414,121
Grant administration		45,114	45,114
Capital outlay	3,604,633		3,604,633
Total expenditures	<u>58,969,292</u>	<u>36,225,690</u>	<u>95,194,982</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(4,115,449)</u>	<u>595,708</u>	<u>(3,519,741)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (Note 4B)	595,708		595,708
Transfers (out) (Note 4B)		(595,708)	(595,708)
Total other financing source (uses)	<u>595,708</u>	<u>(595,708)</u>	
NET CHANGE IN FUND BALANCES	<u>(3,519,741)</u>		<u>(3,519,741)</u>
BEGINNING FUND BALANCES, AS RESTATED (NOTE 1D)	<u>37,449,655</u>		<u>37,449,655</u>
ENDING FUND BALANCES	<u>\$33,929,914</u>		<u>\$33,929,914</u>

See accompanying notes to financial statements

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 to the
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2008

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	(\$3,519,741)
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Capitalized expenditures are added back to fund balance	3,375,086
Depreciation expense is deducted from fund balance	(1,287,728)
Loss of disposal of capital assets is deducted from fund balance	(47,079)

NON-CURRENT ITEMS

The amount below included in the Statement of Activities does not require the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Long-term compensated absences	(725,546)
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	(\$2,205,008)
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See accompanying notes to financial statements

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FIDUCIARY FUND

OTHER POST EMPLOYMENT BENEFIT (OPEB) TRUST FUND

This Fund is used by the District account for assets legally held in trust for the specific purpose of retiree life insurance benefit.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
 FIDUCIARY FUND
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2008

	OPEB Trust Fund
ASSETS	
Cash and investments (Note 11)	\$2,724,190
Total assets	\$2,724,190
NET ASSETS	
Held in trust	\$2,724,190
Total liabilities	\$2,724,190

See accompanying notes to financial statements

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Pension Trust Funds
ADDITIONS:	
Investment income	\$124,826
Total additions	124,826
CHANGE IN NET ASSETS	124,826
NET ASSETS, BEGINNING OF YEAR	2,599,364
NET ASSETS, END OF YEAR	\$2,724,190

See accompanying notes to financial statements

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BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements

NOTE 1 - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Bay Area Air Quality Management District (District) was created by the California legislature in 1955. The District's structure, operating procedures and authority are established by Division 26 of the California Health and Safety Code.

The District's jurisdiction is limited principally to policing non-vehicular sources of air pollution within the Bay Area, primarily industry pollution and burning. Any company wishing to build or modify a facility in the Bay Area must first obtain a permit from the District to ensure that the facility complies with all applicable rules.

The District also acts as the program administrator for Transportation Fund for Clean Air (TFCA) funds and Mobile Source Incentive funds (MSIF) derived from Assembly Bill 434 and Assembly Bill 923 respectively. TFCA and MSIF funding comes from a \$4 and \$2 surcharge, respectively, on motor vehicles registered within the District. TFCA funding may only be used to fund eligible projects that reduce motor vehicles emissions and support the implementation of the transportation and mobile source control measures in the 1994 Clean Air Plan. All projects must fall within the categories listed in State Law (Health and Safety Code Section 44241).

The Health and Safety Code requires the District to pass-through no less than forty percent of the TFCA revenues raised within a particular county to that county's eligible, designated Program Manager. The remaining sixty percent is for Regional Fund grants and is being allocated to projects on a competitive basis. Projects are evaluated using the District's Board adopted evaluation and scoring criteria. The District may receive reimbursement from TFCA funds, not to exceed 5% of total funds, for administration of the program. TFCA activities are accounted for in the District's Special Revenue Fund.

The District includes seven counties: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo and Santa Clara and portions of two other counties, Southwestern Solano and Southern Sonoma. The District is governed by a twenty-two member Board of Directors that includes representatives from all of the above counties.

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principals. The District's significant accounting policies are described below.

The financial statements and accounting policies of the District conform with generally accepted accounting principles applicable to governments. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies are summarized below.

B. Basis of Presentation

The District's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The GASB is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements

NOTE 1 - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

These Statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government (the District). Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column. All remaining funds, if any, are aggregated and reported as non-major funds.

C. Major Funds

The District's major governmental funds are required to be identified and presented separately in the fund financial statements.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures equal to ten percent of the total. The General Fund is always a major fund. The District has elected to treat all its funds as major funds.

GENERAL FUND - The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

SPECIAL REVENUE FUND - This Fund is used by the District to account for the proceeds of specific revenue sources (other than capital projects) that are legally restricted to expenditures for specified purposes.

OPEB TRUST FUND - GASB rules require accounting for post-employment benefits. The OPEB Trust Fund was established to record the amounts set aside by the District to fund future retiree life insurance benefit.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements

NOTE 1 - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds.

Those revenues susceptible to accrual are taxes, intergovernmental revenues, interest, charges for services, fines and penalties, and license and permit revenues.

Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Deferred revenue arises when potential revenues do not meet both the "measurable" and "available" criteria for revenue recognition in the current period. Deferred revenue also arise when the government receives monies before it has a legal claim to them including grant monies received prior to incurring qualifying expenditures.

Deferred revenue consists of TFCA DMV fees (DMV fees) which are recorded when the monthly fees are received. Forty percent of the DMV fees received are passed through twice a year to Program Managers at the nine counties served by the District. These disbursements are DMV fees collected in the prior six months. Revenues are recognized twice a year when disbursements are made. The remaining sixty percent of DMV fees are utilized to fund regional programs and programs sponsored by the District. Disbursements for the regional programs are made based on a reimbursement basis. Revenue is recognized throughout the year when the disbursements for the above programs are made.

The District deposits the above DMV fees in an interest bearing account when received. In prior years, interest earned by these fees was recognized as revenue when received by the District. In fiscal 2008, the District changed the application of its accounting principal and determined that interest generated by unearned DMV fees should be treated in the same manner as the unearned fees themselves as discussed above. As a result, the entire beginning fund balance of \$26,511,937 in the Special Revenue Fund was reclassified as deferred revenue at July 1, 2008.

The deferred revenue balance reflects the reserved portion of the DMV fees that has been allocated to different programs, but expenditures have not been incurred as of year-end.

Unearned revenue in the Government-Wide Financial Statements represents amounts for which revenues have not been earned.

Certain indirect costs are included in program expenses reported for individual functions and activities.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements

NOTE 1 - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Compensated Absences

The District's liability for compensated absences is recorded in the Statement of Net Assets.

District employees are allowed to accrue no more than four hundred and sixty hours of vacation as of the end of the fiscal year. In the event of termination, the employees are reimbursed for all accumulated vacation at the time of separation from the District.

The District's policies provide compensation to employees for certain absences, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on any special event beyond the control of the District and its employees is accrued as employees earn those benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in a period in which such services are rendered or in which such events take place.

There are no restrictions regarding the accumulation of sick leave. On termination, employees are not paid for accumulated sick leave, but the accumulated sick leave is counted as service credit by the CalPERS pension plan administered by the State of California.

F. Income Taxes

The District falls under the purview of Internal Revenue Code, Section 115, and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to Federal or State income taxes and no provisions for income taxes have been made in the accompanying basic financial statements.

The District may fund projects with a combination of cost-reimbursement grants, advances, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance expenditures. The District's strategy is to first apply restricted grant resources to such activities, followed by general revenues as necessary.

G. Use of Management Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

H. Receivables

During the course of normal operations, the District carries various receivable balances for taxes, interest and permitting operations. The District considers receivables to be fully collectible; accordingly no allowance for doubtful accounts had been provided. If amounts become uncollectible, they will be charged to operations when that determination is made.

I. Capital Assets

The District's assets are capitalized at historical cost or estimated historical cost. District policy has set the capitalization threshold for reporting general capital assets at \$3,500. Donated capital assets are recorded at fair market value when received. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings, grounds & improvements	15-20 years
Equipment	5-7 years

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements

NOTE 2 - CASH AND INVESTMENTS

The District pools cash from all sources and funds so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

The following is a summary of pooled cash and investments, including cash in revolving fund at June 30, 2008:

Cash in bank	\$113,636
Cash and investments in San Mateo:	
Pooled Fund Investment Program	123,713,780
Restricted cash and investments	6,160,622
Cash in revolving fund	500
Total	\$129,988,538

The District is a voluntary participant in the San Mateo County Investment Fund (County Pool) that is regulated by California Government Code Section 16429 under the oversight of the Treasury of the County of San Mateo. The District reports its investment in the County Pool at the fair value amount provided by the County. Included in the County Pool's investment portfolio are US Treasury Notes, Obligations issued by the agencies of the United States Government, Local Agency Investment Fund (LAIF), Corporate Notes, Commercial Paper, Collateralized Mortgage Obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises and corporations.

The District earns interest on a proportionate basis with all other investors. Interest is credited directly to the District's account on a quarterly basis. The pooled fund is collateralized at 102% by San Mateo County, but not specifically identified to any one depositor or in the District's name.

The District's deposits and investments were categorized as follows at June 30, 2008:

	Ratings	Maturities	Fair Value
Cash in bank	Not Rated	Current	\$114,136
Cash and investments in San Mateo			
Pooled Fund Investment Program	Not Rated	Current	129,874,402
			\$129,988,538

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

Subsequent to June 30, 2008, the District was informed that management of the San Mateo County Investment Pool removed certain investments issued by Lehman Brothers Holdings, Inc. (Lehman Brothers) from the Pool and classified them as non-performing assets due the bankruptcy filed by Lehman Brothers. This write down reflects concerns that those investments may not be collectible. Ultimate recovery, if any, is not determinable at this time. At September 30, 2008, the District's share of the loss is estimated to be approximately \$7,250,960.

NOTE 3 - RECEIVABLES

A. Trade Receivable

At June 30, 2008 the District had the following trade receivable:

General Fund:		
Trade	\$1,771,944	
County appointments	599,709	
Other	<u>367,467</u>	
Total General Fund		\$2,739,120
Special Revenue Fund:		
TFCA DMV fees	3,926,148	
MSIF DMV fees	1,963,074	
Total Special Revenue Fund		<u>5,889,222</u>
Total Trade Receivable		<u><u>\$8,628,342</u></u>

B. Interest Receivable

At June 30, 2008 the District had the following interest receivable:

General Fund:		
San Mateo County Investment Pooled Fund	<u>\$252,288</u>	
Total General Fund		\$252,288
Special Revenue Fund:		
San Mateo County Investment Pooled Fund	<u>792,885</u>	
Total Special Revenue Fund		<u>792,885</u>
Total Interest Receivable		<u><u>\$1,045,173</u></u>

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements

NOTE 4 – INTERFUND TRANSACTIONS

A. Current Interfund Balances

Current interfund balances arise in the normal course of business and represent short-term borrowings occurring as a result of expenditures which are paid prior to the receipt of revenues. These balances are expected to be repaid shortly after the end of the fiscal year when revenues are received. At June 30, 2008, the General Fund was owed \$2,090,703 by the Special Revenue Fund.

B. Transfers Between Funds

With Board approval resources are transferred from one fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. Interfund transfer for the year ended June 30, 2008 was as follows:

<u>Fund Receiving Transfer</u>	<u>Fund Making Transfer</u>	<u>Amount Transferred</u>
General Fund	Special Revenue Fund	<u>\$595,708</u>

Transfers between funds represent costs required by the General Fund for grant administration.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements

NOTE 5 - CAPITAL ASSETS

The District's capital assets comprise the following at June 30, 2008:

	Balance at 7/1/2007	Additions	Deletions	Transfers	Balance at 6/30/2008
Governmental activities					
<i>Non-depreciable assets:</i>					
Land	\$214,608				\$214,608
Construction in progress	2,506,740	\$2,471,485			4,978,225
Total non-depreciable assets	2,721,348	2,471,485			5,192,833
<i>Depreciable assets:</i>					
Building and grounds	7,741,443	303,958			8,045,401
Leasehold improvements	2,847,646				2,847,646
Office equipment	183,915	52,888		(\$33,909)	202,894
Computer and network equipment	2,749,305	103,313	(\$21,795)		2,830,823
Motorized equipment	1,492,573	33,891	(15,687)		1,510,777
Lab equipment	5,533,244	308,826	(76,732)		5,765,338
Communications equipment	668,663	37,966	(41,368)		665,261
General equipment	228,592	62,759		33,909	325,260
Total depreciable assets	21,445,381	903,601	(155,582)		22,193,400
<i>Accumulated depreciation</i>					
Building and grounds	5,312,354	373,827			5,686,181
Leasehold improvements	2,673,389	2,391			2,675,780
Office equipment	79,199	27,299		(19,688)	86,810
Computer and network equipment	1,238,426	222,667	(20,705)		1,440,388
Motorized equipment	1,039,792	183,999	(14,903)		1,208,888
Lab equipment	4,327,815	330,398	(72,895)		4,585,318
Communications equipment	185,511	97,048			282,559
General equipment	77,519	50,099		19,688	147,306
Total accumulated depreciation	14,934,005	1,287,728	(108,503)		16,113,230
Total depreciable assets, net	6,511,376	(384,127)	(47,079)		6,080,170
Total capital assets, net	\$9,232,724	\$2,087,358	(\$47,079)		\$11,273,003

Depreciation expenses by program for capital assets for the year ended June 30, 2008 are as follows:

Executive office	\$55,667
Administrative services	141,569
Legal services	26,076
Public information and outreach	43,585
Compliance and enforcement	347,908
Engineering	116,329
Planning	93,033
Technical services	381,349
Information systems	82,212
Total depreciation expense	\$1,287,728

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements

NOTE 6 – UNEARNED AND DEFERRED REVENUE

Unearned revenues in Government-Wide Financial Statements represent amounts for which revenues have not been earned. Deferred revenues in the Fund Financial Statements represent amounts for which revenues have not been earned or the funds were not available to finance expenditures of the current period.

At June 30, 2008, all deferred revenues in the Fund Financial Statements represent revenues that were not earned at year-end. Therefore, all of the deferred revenues in the Fund Financial Statements are reported as unearned revenue in the Government-Wide Financial Statement. Unearned revenue in the Government-Wide Financial Statements and deferred revenue in the Fund Financial Statements as of June 30, 2008 were as follows:

<u>General Fund:</u>		
Tosco Corporation	\$13,500	
Backup Generator Administrator	577,005	
Vallero (ULTR)	50,000	
SEP - Delta Energy Center	40,000	
Romic Env Tec	19,000	
Shell Oil	203,000	
Other Grants	<u>600</u>	
Total General Fund		\$903,105
 <u>Special Revenue Fund</u>		
TFCA DMV Fees	72,630,566	
CARB - Lower Emission School Bus	3,970	
BART	494,499	
Carl Moyer Program	11,580,161	
TFCA 40%	8,402,843	
Other Deferred Revenue	1,699,506	
Total Special Revenue Fund		<u>94,811,545</u>
Total unearned and deferred revenue		<u><u>\$95,714,650</u></u>

NOTE 7 – OPERATING LEASES

Commitments under non-cancelable operating lease agreements for air-monitoring stations and office equipment provide for minimum annual rental payments as follows:

	<u>Year ended June 30:</u>	
	2009	\$288,137
	2010	222,342
	2011	180,443
	2012	126,007
	2013	13,550
	2014 - 2018	<u>380,339</u>
		<u><u>\$1,210,818</u></u>

Air-monitoring station leases are renewable with minor escalations.

Rental expense for the cancelable lease agreements for the year ended June 30, 2008 was \$283,428.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements

NOTE 8 – COUNTY APPORTIONMENT REVENUE

As a result of the passage of Proposition 13 in fiscal year 1979, the District no longer has the power to calculate property tax revenues due for each county. Instead, the District now receives remittances from the counties, which are calculated in accordance with Assembly Bill Number 8.

Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year. Property tax revenues are recognized by the District in the fiscal year they are accessed, provided that they become available as defined above.

Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent after December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. The term “unsecured” refers to taxes to personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed.

Property taxes levied are recorded as revenue and receivables in the fiscal year of levy, provided that they are collected within the fiscal year or with sixty days of year-end.

NOTE 9 - PENSION PLAN

All District employees are eligible to participate in a pension plan offered by the California Public Employees Retirement System (CalPERS), an agent multiple-employer defined-benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CalPERS provides retirement *and* disability retirement benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. The District’s employees participate in the CalPERS Miscellaneous Employee “2% at 55” Plan. Benefit provisions under the Plan are established by State statute and District resolution. Benefits are based on years of credited service, equal to one year of full-time employment. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS; and the District must contribute the amounts specified by CalPERS. The District also contributes employees’ contributions to CalPERS. The Plan’s provisions and benefits in effect at June 30, 2008 are summarized as follows:

	Miscellaneous
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	55
Monthly benefits, as % of annual salary	1.426% - 2.418%
Required employee contribution rates	7%
Required employer contribution rates	10.112%

CalPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the District’s total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the District must pay annually to fund an employee’s projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. The District uses the actuarially determined percentages of payroll to calculate and pay contributions to CalPERS. This results in no net pension obligations or unpaid contributions. The required contributions and related rates for the year ended June 30 were as follows:

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements

NOTE 9 - PENSION PLAN (Continued)

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2006	4,691,248	100%	\$0
6/30/2007	4,523,356	100%	0
6/30/2008	5,159,708	100%	0

CalPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3.0%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling thirty-year period.

Audited annual financial statements and ten year trend information are available from CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

NOTE 10 - COMPENSATED ABSENCES

Compensated absences at June 30, 2008 were as follows:

	Governmental Activities
Beginning Balance, at July 1, 2007	\$3,123,860
Additions	366,304
Payments made during fiscal year	(46,065)
Ending Balance, at June 30, 2008	<u>\$3,444,099</u>
Current Portion	<u>\$3,500</u>

The long-term portion of compensated absences is liquidated by the General Fund.

NOTE 11 - POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the pension benefits described in Note 9, the District provides post employment health care benefits, in accordance with the Employee Association Memorandum of Understanding (MOU) for represented employees and as adopted by Board Resolution for all other employees who retire from the District on or after attaining age 50 with at least 5 year of service. The District pays medical, dental, vision and life insurance premiums for participating retirees on the pay-as-you-go basis. Benefits are provided for the participant's lifetime and with an election of certain options may continue to be paid for the lifetime of a survivor of the participant. The medical insurance plan is administered by CalPERS and was initially contracted in November, 1978. The maximum medical insurance premium (including dental, vision, and life) that the District is obligated to provide annually as a benefit to retirees is \$1,200 for management employees, \$1,150 for confidential employees and \$1,022 for represented employees or the actual amount at retirement date, if greater than the District obligated benefit.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements

NOTE 11 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

During fiscal year ended June 30, 2008, there were one hundred and forty-four retirees participated in the health insurance plan, one hundred and nineteen retirees participated in the dental plan, ninety-four retirees participated in the vision plan, and one hundred and twenty retirees participated in the life insurance plan. The cost of retiree health care benefits is recognized as an expenditure as health care premiums are paid. The District paid premiums for the participating retirees during the fiscal year ended June 30, 2008 in the amount of \$1,045,791 for the health insurance plan, \$158,817 for the dental plan, \$9,928 for the vision plan, and \$129,816 for the life insurance plan for total payments of \$1,344,352. In addition to the above, the District contributed another \$2.8 million to a separately governed Retiree Health Care Trust as part of its plan to fully fund these benefits over the long-term.

The District established a trust fund in January 1981 to continue life insurance premium for retired employees. In 2004, the District ceased contribution to the trust when it changed life insurance carriers. The current trust is administered by American General Life Insurance Company. At June 30, 2008, the trust amount of \$2,724,190 reflected the District contribution and earned interest. The trust deposit is subject to a 10% surrender fee, and may only be transferred to a trust or another life insurance company in accordance with the terms of the life insurance reserve contract.

NOTE 12 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District manages and finances these risks by purchasing commercial insurance and has a \$1,000 to \$5,000 deductible for general and special property liability with limits of \$10 million and \$350 million, respectively. The District has a \$300,000 deductible for workers' compensation with a \$1 million limit. There have been no significant reductions in insurance coverage from the previous year, nor have settled claims exceeded the District's commercial insurance coverages in any of the past three years.

As of June 30, 2008, the District had no material claims outstanding for general liability or for workers' compensation cases.

NOTE 13 – NET ASSETS AND FUND BALANCES

Net Assets is measured on the full accrual basis, while Fund Balance is measured on the modified accrual basis.

A. Net Assets

Net Assets is the excess of all the District assets over all its liabilities, regardless of fund. Net Assets are divided into three sections, and apply only to Net Assets, which is determined at the Government-wide level, and described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter. These principally include assets committed to fund construction commitments and debt service requirements.

Unrestricted describes the portion of Net Assets which is not restricted to use.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Notes to Basic Financial Statements

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The District is subject to litigation arising in the normal course of business. In the opinion of the District's Attorney, there is no pending litigation, which is likely to have a material adverse effect on the financial position of the District.

The District receives Federal and State grant funds. The amounts, if any, of the District's grant expenditures, which may be disallowed upon audit by the granting agencies, cannot be determined at this time, although the District expects any such amounts to be immaterial.

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REQUIRED SUPPLEMENTARY INFORMATION

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BAY AREA AIR QUALITY MANAGEMENT DISTRICT REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Principles

Through the budget, the Board of Directors sets the direction of the District. The annual budget assures the most efficient and effective use of the District's economic resources, and establishes the priority of objectives that are to be accomplished during the fiscal year.

The annual budget covers the period from July 1 to June 30, and is a vehicle that accurately and openly communicates these priorities to the community, businesses, vendors, employees and other public agencies. In addition, it establishes the foundation of effective financial planning by providing resource allocation, performance measures and controls that permit the evaluation and adjustment of the District's performance.

The District follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- a) The Board of Directors adopts an annual budget by resolution prior to July 1 of each fiscal year. The annual budget indicates appropriations by fund and by program. The Board of Directors may also adopt supplemental appropriations during the year. At the fund level, expenditures may not legally exceed appropriations. The Air Pollution Control Officer (APCO) is authorized to transfer budgeted amounts between divisions and programs within any fund.
- b) Budgets are adopted on a basis that is consistent with Generally Accepted Accounting Principles (GAAP). Annual appropriated budgets are adopted for the General and Special Revenue funds.
- c) Supplementary budgetary revenue and expenditure appropriations were adopted by the Board of Directors during the fiscal year. These supplemental appropriations have been included in the Budgeted Amounts - Final column of the Budgetary Comparison Schedules.

Encumbrances

Encumbrances represent commitments related to goods or service, that were unspent at year end. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the District's governmental fund types. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent fiscal year.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Permit fees	\$19,525,000	\$19,525,000	\$18,038,354	(\$1,486,646)
Title V permit fees	2,272,000	2,272,000	1,992,820	(279,180)
Asbestos fees	1,739,000	1,739,000	1,800,001	61,001
Penalties and variance fees	2,250,000	2,250,000	3,084,812	834,812
Hearing board fees	30,000	30,000	27,354	(2,646)
State subvention	1,722,863	1,722,863	1,711,718	(11,145)
AB 434/923 others	1,009,081	1,009,081		(1,009,081)
AB 2588 income			552,445	552,445
Miscellaneous	415,000	430,000	54,776	(375,224)
Special environmental projects			129,680	129,680
Federal grant - EPA	1,776,075	1,961,075	1,983,135	22,060
Federal grant - DHS	1,698,304	1,698,304	870,427	(827,877)
CMAQ Spare The Air	1,063,122	1,063,122	677,953	(385,169)
Other grants	459,899	459,899	1,325,994	866,095
Portable equipment registration program (PERP)			389,534	389,534
Interest	1,200,000	1,200,000	1,336,834	136,834
County apportionment:				
Alameda	3,687,643	3,687,643	3,754,178	66,535
Contra Costa	2,548,305	2,548,305	2,804,322	256,017
Marin	1,059,914	1,059,914	1,085,957	26,043
Napa	701,783	701,783	720,086	18,303
Santa Clara	5,051,167	5,051,167	5,298,785	247,618
San Francisco	2,402,667	2,402,667	2,680,293	277,626
San Mateo	2,645,231	2,645,231	2,638,154	(7,077)
Solano	639,301	639,301	626,119	(13,182)
Sonoma	1,042,746	1,102,572	1,115,987	13,415
Redevelopment			154,125	154,125
Total revenues	54,939,101	55,198,927	54,853,843	(345,084)
EXPENDITURES				
Program distribution			473,585	(473,585)
Executive office	4,857,861	5,782,505	4,991,577	790,928
Finance, administration and information systems	10,404,854	15,607,568	8,955,037	6,652,531
Legal services	2,274,480	2,341,990	2,074,476	267,514
Outreach and incentives	3,589,636	4,684,687	4,077,382	607,305
Compliance and enforcement	11,199,665	12,111,302	11,464,677	646,625
Engineering	8,477,641	9,173,711	9,324,643	(150,932)
Planning and research	6,333,916	10,612,401	5,981,905	4,630,496
Technical services	8,919,331	10,668,215	8,021,377	2,646,838
Total current expenditures	56,057,384	70,982,379	55,364,659	15,617,720
Capital outlay	2,557,707	5,831,183	3,604,633	2,226,550
Total expenditures	58,615,091	76,813,562	58,969,292	17,844,270
DEFICIENCY OF REVENUES OVER EXPENDITURES	(3,675,990)	(21,614,635)	(4,115,449)	17,499,186
OTHER FINANCING SOURCES				
Transfers in			595,708	595,708
Total other financing sources			595,708	595,708
NET CHANGE IN FUND BALANCE	(\$3,675,990)	(\$21,614,635)	(3,519,741)	\$18,094,894
BEGINNING FUND BALANCE			37,449,655	
ENDING FUND BALANCE			<u>\$33,929,914</u>	

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
TFCA/MSIF DMV fee	\$11,479,339	\$59,447,378	\$21,002,902	(\$38,444,476)
Carl Moyer Program		25,809,423	13,796,864	(12,012,559)
Nox and PM10 Program			52,492	52,492
Lower Emission School Bus Program		2,528,391	1,328,317	(1,200,074)
AB 434/923 others			595,708	595,708
Other grants			45,115	45,115
Total revenues	<u>\$11,479,339</u>	<u>\$87,785,192</u>	<u>\$36,821,398</u>	<u>(\$50,963,794)</u>
EXPENDITURES				
Programs:				
Program distribution		74,381,767	30,127,247	44,254,520
Smoking vehicle	785,223	784,226	290,131	494,095
Intermittent control	150,750	1,579,997	634,971	945,026
Transportation Fund for clean air administration	1,241,995	1,293,654	915,866	377,788
Vehicle buy-back	7,360,654	8,997,748	3,798,240	5,199,508
Mobile source incentive	550,715	562,384	414,121	148,263
Grant administration			45,114	(45,114)
Total expenditures	<u>10,089,337</u>	<u>87,599,776</u>	<u>36,225,690</u>	<u>51,374,086</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,390,002</u>	<u>185,416</u>	<u>595,708</u>	<u>410,292</u>
OTHER FINANCING USES				
Transfers out			(595,708)	(595,708)
Total other financing uses			<u>(595,708)</u>	<u>(595,708)</u>
NET CHANGE IN FUND BALANCE	<u>\$1,390,002</u>	<u>\$185,416</u>		<u>(\$185,416)</u>
BEGINNING FUND BALANCE, AS RESTATED				
ENDING FUND BALANCE				

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)
 SCHEDULE OF FUNDING PROGRESS
 JUNE 30, 2008

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Actuarial Over (Under) Accrued Liability	Funded Ratio	Covered Payroll	Actuarial Asset: Over (Under) Liability as Percentage of Covered Payroll
6/30/2005	\$122,659,724	\$135,111,093	(\$12,451,369)	90.8%	\$25,448,126	(48.9%)
6/30/2006	133,258,350	144,155,886	(10,897,536)	92.4%	26,512,786	(41.1%)
6/30/2007	145,957,078	154,268,467	(8,311,389)	94.6%	27,883,108	(29.8%)

SINGLE AUDIT REPORTS

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BAY AREA AIR QUALITY MANAGEMENT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2008

SECTION I—SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of Auditors' report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Type of Auditors' report issued on compliance for major programs: unqualified

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None Reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes X No

Identification of major programs:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>66.001</u>	<u>Air Pollution Control Program Support</u>

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any significant deficiencies, or material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated February 6, 2009 which is an integral part of our audits and should be read in conjunction with this report.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit did not disclose any findings and questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Prepared by Management

Financial Statement Prior Year Findings

There were no prior year Financial Statement Findings reported.

Federal Award Prior Year Findings and Questioned Costs

There were no prior year Federal Award Findings and Questioned Costs reported.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2008

<u>Grantor Agency and Award Title</u>	<u>Identifying Pass-Through Grant #</u>	<u>Federal Catalog Number</u>	<u>Program Expenditures</u>
Environmental Protection Agency			
Air Pollution Control Program Support	A00905608	66.001	\$1,301,048
PM 2.5 Monitoring Network			
CAA Special Purpose Activities	PM97993201	66.034	410,250
CAA Special Purpose Activities	PM98977301	66.034	104,861
National Air Toxic Trend Study	XA00900701	66.034	118,108
Pollution Prevention Incentive States	NP96955601	66.708	<u>48,868</u>
Total Environmental Protection Agency			<u>1,983,135</u>
Department of Homeland Security			
Biowatch - Homeland Security	2006-ST-91-2	97.091	<u>870,427</u>
Total Department of Homeland Security		97.091	<u>870,427</u>
U.S. Department of Transportation (Pass through California Department of Transportation)			
Spare the Air Program	CML-6297	20.205	<u>483,595</u>
Total U.S. Department of Transportation		20.205	<u>483,595</u>
Total Expenditures of Federal Awards			<u>\$3,337,157</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2008

NOTE 1-REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of Federal awards for the Bay Area Air Quality Management District, California, as disclosed in the notes to the Basic Financial Statements.

NOTE 2-BASIS OF ACCOUNTING

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

NOTE 3-DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the District by a Federal granting agency or may be granted to other government agencies which pass-through Federal awards to the District. The Schedule includes both of these types Federal award programs when they occur.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
of the Bay Area Air Quality Management District
San Francisco, California

We have audited the financial statements of the Bay Area Air Quality Management District (District) as of and for the year ended June 30, 2008, and have issued our report thereon dated February 6, 2009. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about the whether District financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated February 6, 2009 which is an integral part of our audits and should be read in conjunction with this report.

This report is intended solely for the information and use of the District Board, management, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Maye & Associates

February 6, 2009

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
of the Bay Area Air Quality Management District,
San Francisco, California

Compliance

We have audited the compliance of the Bay Area Air Quality Management District (District) with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The District's major federal programs are identified in Section I - Summary of Auditors' Results included in the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control over Compliance

The management of the District is responsible for establishing and maintaining effective internal controls over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of District's internal control over compliance.

A *control deficiency* in a District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the District as of and for the year ended June 30, 2008, and have issued our report thereon dated February 6, 2009. Our audit was performed for the purpose of forming opinions on the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the District Board, management, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Maye & Associates

February 6, 2009

TRANSPORTATION FUND FOR CLEAN AIR (TFCA) PROGRAM

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REPORT ON COMPLIANCE WITH APPLICABLE PROVISIONS OF TRANSPORTATION FUND FOR CLEAN AIR (TFCA) PROGRAM

To the Board of Directors
the Bay Area Air Quality Management District
San Francisco, California

We have audited the basic financial statements of the Bay Area Air Quality Management District (District) as of and for the year ended June 30, 2008, and have issued our report thereon dated February 6, 2009. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the applicable provisions and Assembly Bill 434 (AB434) (Health and Safety Code Sections 44220 through 44242) including the use of money for the reduction of emission from motor vehicles; the use of an independent auditor; the adoption of appropriate resolutions as specified in the Health and Safety Code Sections 44223, 44225, and 44241, and the not to exceed cap of 5% on administrative costs for the year ended June 30, 2008.

Based on the audit, we found that, for the items tested, the District complied with the applicable provisions of AB434 as referred to above. Further, based on our examination, for the items not tested, nothing came to our attention to indicate that the District had not complied with the applicable provisions of AB434.

This report is intended for the information of the District Board, management, and Federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


February 6, 2009

Bay Area Air Quality Management District
 Transportation Fund for Clean Air (TFCA) Program
 Schedule of Expenditures
 For the year ended June 30, 2008

<u>Programs</u>	<u>Salaries and Benefits</u>	<u>Services and Supplies</u>	<u>Program Distribution</u>	<u>Total</u>
Program distribution			\$30,127,247	\$30,127,247
Smoking vehicle	\$282,406	\$7,725		290,131
Intermittent control	98,500	536,471		634,971
TFCA administration	718,911	196,955		915,866
Vehicle buy back	33,863	3,764,377		3,798,240
Mobile source incentive	301,719	112,402		414,121
Grant administration	1,920	43,194		45,114
 Total expenditure	 <u>1,437,319</u>	 <u>4,661,124</u>	 <u>30,127,247</u>	 <u>\$36,225,690</u>

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

To: Chairperson Daly and Members
of the Budget and Finance Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 9, 2009

Re: Discussion of Proposed Amendments to Regulation 3: Fees

RECOMMENDED ACTION:

None. This item is for information only.

BACKGROUND

The Air District collects fees to pay for the costs of implementing and enforcing regulatory programs to reduce air pollution from stationary sources. Under State law, the Air District has the authority to collect fees sufficient to recover the full direct and indirect costs of these programs.

A study of fee revenue, and regulatory program costs, was completed in 2005 for the Air District by the accounting firm Stonefield Josephson, Inc. (*Bay Area Air Quality Management District Cost Recovery Study, Final Report; March 30, 2005*). This study concluded that program costs are much greater than fee revenue and that, if this cost recovery gap is to be reduced, fees should be increased over a period of time at a rate that exceeds the rate of inflation.

Due to increases in fees adopted by the Board of Directors since the 2005 Cost Recovery Study was completed, the gap between program costs and fee revenue has decreased. Nonetheless, a significant cost recovery gap still exists. This cost recovery gap is filled by using property tax revenue received by the Air District from the counties.

For the upcoming Fiscal Year Ending (FYE) 2010, District staff is preparing a budget that incorporates a number of cost containment measures that address the fiscal challenges that the Air District and other public agencies face. In order to prepare a balanced budget without compromising the Air District's core programs and initiatives, however, a decrease in the cost recovery gap is necessary.

PROPOSED FEE AMENDMENTS FOR FYE 2010

Staff has prepared proposed fee regulation amendments for the upcoming fiscal year that would increase overall fee revenue by an estimated \$2.5 million, which represents a 9 percent increase. This would continue to reduce the cost recovery gap, although at a lower rate from the fee amendments adopted for the current fiscal year, which represented a 14 percent increase in fee revenue. Staff will consider the need for more aggressive fee increases in future budget cycles.

In order to address fee equity issues, the Air District's individual Fee Schedules would be amended based on the magnitude of the cost recovery gap determined at the fee schedule level. Under this proposal, individual Fee Schedules would be increased by 3, 6, 9, 12, or 15 percent based on the magnitude of the Schedule's cost recovery gap. Fee Schedules without cost recovery gaps would not be increased. Fees that are administrative in nature would be increased by 6 percent.

Staff will provide the committee with additional details regarding the proposed fee amendments, at the committee meeting on February 25, 2009. A summary of comments received at a public workshop scheduled for February 23, 2009, will also be provided.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Brian Bateman
Reviewed by: Jeffrey Mckay

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

To: Chairperson Pamela Torliatt and Members
of the Board of Directors

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 25, 2009

Re: Report of the Mobile Source Committee Meeting of February 26, 2009

RECOMMENDED ACTIONS

1. The Committee recommends the Board of Directors receive and file the following items:
 - a. 2008 Vehicle Buy Back (VBB) Program Annual Report,
 - b. Update on the Department of Finance audit of the Carl Moyer Program, and
 - c. Update on Incentive Program Expenditures and Truck Programs.
2. The Committee directed staff to perform additional analysis and return to the next meeting of the Board of Directors with a revised recommendation for proposed changes to the Vehicle Buyback Program, and
3. The Committee directed staff to return to the next meeting of the Board of Directors with a revised recommendation regarding the Drayage Truck Retrofit Program.

BACKGROUND

The Mobile Source Committee met on Thursday, February 26, 2009. The Committee considered and received the following reports and recommendations:

- A) Receive and file the 2008 Vehicle Buy Back (VBB) Program Annual Report; consider recommended modifications to Program Guidelines to align with BAR's/ARB's programs.
- B) Receive an update of results of the Department of Finance audit of Carl Moyer Program.
- C) Receive an update on Incentives Programs Expenditures.
- D) Consideration to suspend the expenditure of funds as part of the California Goods Movement Bond (I-Bond) for Drayage Truck Retrofits.

Attached are the staff reports presented in the Mobile Source Committee packet.

Chairperson, Scott Haggerty will give an oral report of the meeting.

BUDGET CONSIDERATION/FINANCIAL IMPACT

- 1) None. VBB Program costs are covered by MSIF, Carl Moyer Program, and TFCA revenues. Funding for the continuation of the VBB Program was included in the FY 2008/2009 budget.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Lisa Harper
Reviewed by: Mary Ann Goodley

Attachment(s)

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

To: Chairperson Haggerty and
Members of the Mobile Source Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 19, 2009

Re: Vehicle Buy Back Program – Annual Report and Proposed Changes

RECOMMENDED ACTIONS

- 1) Receive and file the 2008 Vehicle Buy Back (VBB) Program Annual Report; and
- 2) Recommend the Board of Directors authorize a) an increase in the amount paid, to up to \$1000 per eligible vehicle, and b) an expansion in the range of eligible vehicles.

BACKGROUND

The Air District's VBB Program began in June 1996, in order to provide a financial incentive to retire older, higher-polluting vehicles. The Program currently purchases and scraps model year 1987 and older light-duty vehicles that lack modern emission control systems and, therefore, produce more air pollution than newer cars. The Program is completely voluntary and pays \$650 to qualifying vehicle owners. The Program adheres to the Voluntary Accelerated Light-Duty Vehicle Retirement (VAVR) regulation adopted by the California Air Resources Board. The VBB Program is funded by Mobile Source Incentive Funds (MSIF), Carl Moyer Program Funds, and Transportation Fund for Clean Air (TFCA).

#1 2008 VEHICLE BUY BACK PROGRAM ANNUAL REPORT

The VBB Program continues to be a popular and cost-effective program for reducing air emissions. Following is a summary of the Program from January 1, 2007 through December 31, 2008.

Emissions Reductions and Program Cost-Effectiveness: During this time period, the Program reduced 785 tons of emissions (531 tons of ROG, 251 tons of NOx and 3 tons of PM), and achieved an estimated cost-effectiveness of \$12,903 per weighted ton.

Contracts: During this report period, the Air District entered into contracts with three dismantlers in the total amount of \$7,000,000 to purchase and scrap eligible vehicles. The direct mail campaign has been operated under contract since January 2000 and, based upon surveys, is the most successful method of informing potential participants about the program.

The dismantlers conduct additional advertising; as of December 2008, the Air District no longer pays dismantlers' advertising costs.

Vehicle Scrapping Rates: The scrapping rate has declined since 2006, which averaged 458 vehicles scrapped per month. In 2007 the average rate was of 395.7 vehicles per month, and in 2008 it was 374.5.

#2 PROPOSED CHANGES TO VEHICLE BUY BACK PROGRAM

Staff is recommending the Board authorize the following changes to the VBB Program, to increase the vehicle scrapping rate and better align the District's VBB program with programs operated by the State and other air districts:

- Offer up to \$1,000 per vehicle, and
- Expand the range of eligible vehicles.

Staff anticipates implementing these changes during 2009, in tandem with the development of an expanded buy back program by the State.

BUDGET CONSIDERATION/FINANCIAL IMPACT

None. VBB Program costs are covered by MSIF, Carl Moyer Program, and TFCA revenues. Funding for the continuation of the VBB Program was included in the FY 2008/2009 budget.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Sylvia Wee
Reviewed by: Jack M. Colbourn

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

To: Chairperson Haggerty and
Members of the Mobile Source Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 18, 2009

Re: Update on the Department of Finance (DOF) Audit of Carl Moyer
Program

RECOMMENDED ACTION

None. Informational report, receive and file.

BACKGROUND

In June 2007, the California Air Resources Board (ARB) conducted its first ever audit of the Bay Area Air Quality Management District's (District) Carl Moyer Program (CMP). This audit identified significant deficiencies in the program related to eligibility determination, reporting, expenditure of funds and contract enforceability. In order to gauge the District's progress in achieving its remediation goals, the ARB agreed to revisit the District's program in May 2008, to conduct a follow-up audit. As part of the audit, ARB assessed the programmatic side of the District's CMP, Lower-Emission School Bus Program (LESBP), and Mobile Source Incentive Fund (MSIF) programs and the California Department of Finance (DOF) performed the fiscal review. In September 2008, staff briefed the committee on the results of the ARB programmatic audit. This document summarizes the results from the DOF audit.

DISCUSSION

Between May and December 2008, District staff assisted the DOF in its fiscal review of CMP, LESBP and MSIF program expenditures that occurred between July 1, 2006 and June 30, 2008. The DOF reviewed the District's processes for receiving, recording, and disbursing program funds; allocating administrative costs and earned interest; and meeting match funding requirements. This process has been highly cooperative and has led to a better understanding of the audit process and the fiscal state of the District's funding programs.

Upon completion of the fiscal review, the DOF commended the District on its recent program improvements regarding the refinement of implementing policies and program oversight. The final DOF report identified just one observation and made one recommendation:

- **Observation:** DOF identified funds that were expended beyond the two year deadline identified in the California Health and Safety Code. Specifically, \$257,590, \$764,677,

and \$3,933,098 of CMP Year 7 multi-district, Year 8 regular, and Year 8 multi-district funds were expended after the expiration of the grace periods, respectively.

District response: The District made all of the payments identified by DOF as being after the grace period in accordance with the CMP guidelines and under advisement of the ARB.

- **Recommendation:** DOF recommends that the District institute some policies and procedures to ensure that projects are completed and funds expended within the respective grace periods.

District response: The District has hired a full-time financial analyst to ensure greater accuracy, tracking, reconciliation and control over program expenditures. The District has also updated its policies & procedures for these funding programs to ensure greater oversight and tracking of expenditures.

BUDGET CONSIDERATION/FINANCIAL IMPACT

None.

Respectfully submitted,

Jack P. Broadbent
Executive Officer /APCO

Prepared by: Anthony Fournier
Reviewed by: Jack M. Colbourn

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
 Memorandum

To: Chairperson Haggerty and
 Members of the Mobile Source Committee

From: Jack P. Broadbent
 Executive Officer/APCO

Date: February 20, 2009

Re: Update on Incentives Programs Expenditures

RECOMMENDED ACTION

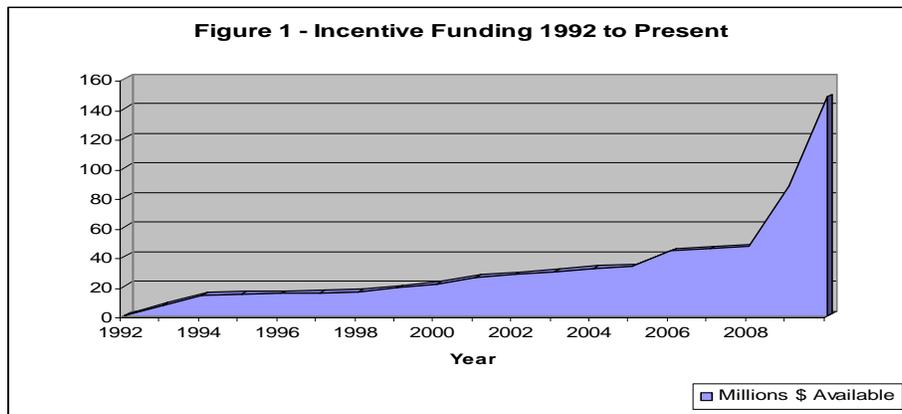
None. Informational report, receive and file.

BACKGROUND

The past two years have seen expansive growth in the District’s incentives programs. These programs approximately doubled from FY 07/08 to FY 08/09, and this trend is projected to continue in FY 09/10, where the funding is projected to again increase to \$148 million. This is due largely to an influx of money for truck replacements and greenhouse gas (GHG) mitigation measures from the Metropolitan Transportation Commission (MTC) 2035 Regional Transportation Plan (RTP) discretionary fund. In order to effectively direct this funding, the Committee has requested that staff provide an overview of how funding has been spent, especially in the area of DPM emissions reductions due to truck replacements, repowers and retrofits.

DISCUSSION

In looking at the historical data for the program, it is easy to see the growth in funding over the period 1992 to present (represented in figure 1 below). In the early years of the program (1992 to 1998), the Transportation Fund for Clean Air (TFCA) was the sole source of funding for school bus replacements, truck, light-duty vehicle, shuttle, ridesharing, bicycle, traffic calming and smart growth projects. This funding has been since augmented by the Carl Moyer program (1998), Assembly Bill 923 which allowed the District to establish its mobile source incentive fund (MSIF) in 2004 and the 2007 California Goods Movement Bond (I-Bond) fund. Funding is expected to grow a further \$45 million in 2008 based on the MTC 2035 RTP discretionary fund to replace on-road and port drayage trucks.



Due to the increase in the funding available over the last year and projected increase for next year, staff chose to present the committee with the breakdown of those projects approved for execution in fiscal year (FY) 08/09. Last year provides the only relevant historical benchmark due to the volume of funding expected in FY 09/10. Table 1 below presents the total funding slated for expenditure in FY 08/09 by program and equipment category.

As is evidenced by this pie chart (Figure 2), the bulk of FY 08/09 funding has been dedicated to emissions reductions from trucks. This is due to the fact that the District's community air risk evaluation (CARE) program has identified DPM as contributing to 80% of the health risk from toxic air contaminants Bay Area wide. Additionally, a recent health risk assessment performed by the California Air Resources Board (ARB) in West Oakland indicated that approximately 85% of a cancer risk three times the Bay area average is caused by on-road trucks.

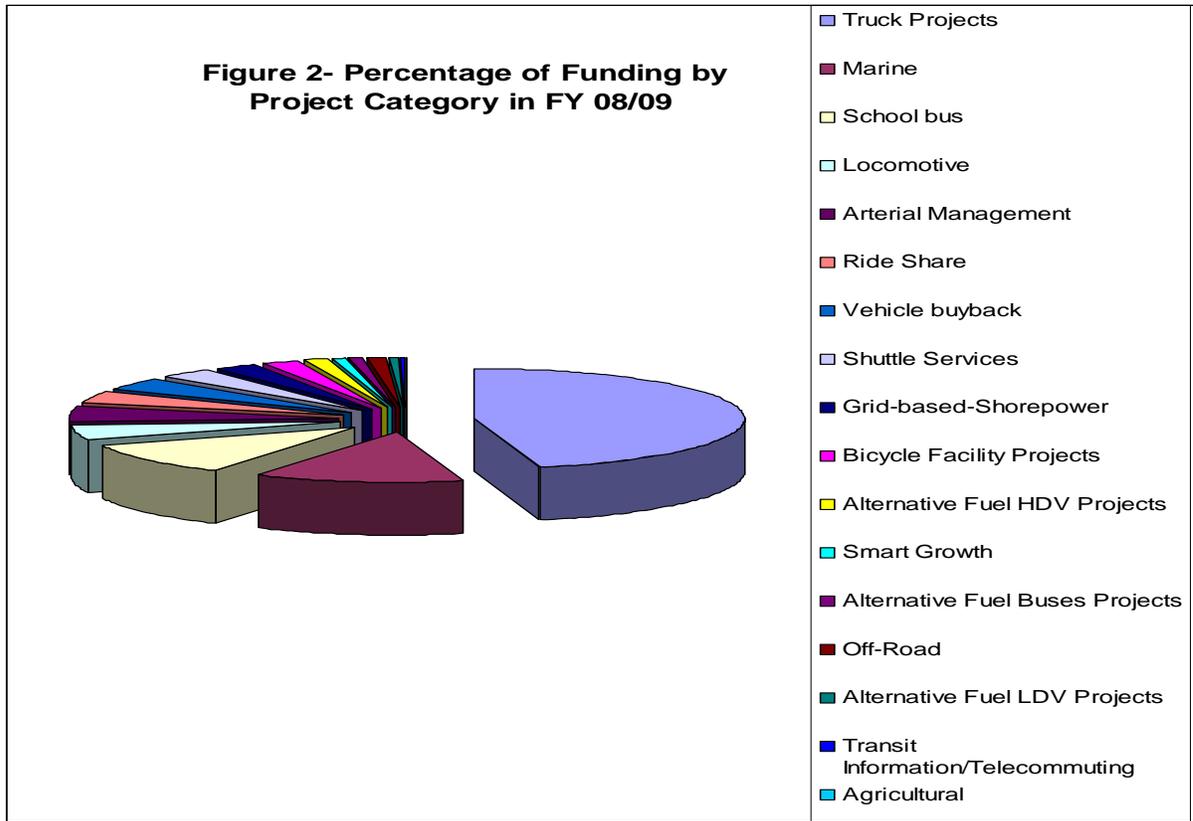
In order to address this, staff has been tasked by the District's Board of Directors to rapidly reduce emissions in 6 highly impacted communities identified by the CARE program including West Oakland. In looking at these communities, it is obvious that a major component of the DPM exposure comes from Bay Area highways. By coupling this directive with impetus provided by the upcoming On-road and drayage fleet regulations from the ARB, staff is targeting emissions reductions by replacing and retrofitting current higher polluting, less fuel efficient trucks.

Table 1- Projected Incentives Expenditures for FY 08/09

Project Type	Funding Source				Total Funding	Percentage of Total Funding
	TFCA Regional	TFCA County	CMP/MSIF	I-Bond		
Truck Projects	\$10,068,041*	-	\$4,423,969	\$33,266,544**	\$47,758,554	46%
Marine	-	-	\$12,548,910	\$322,000	\$12,870,910	12%
School bus	-	-	\$6,875,000	\$4,200,000	\$11,075,000	11%
Locomotive	-	-	\$2,300,948	\$2,900,000	\$5,200,948	5%
Arterial Management	\$1,544,150	\$3,240,407	-	-	\$4,784,557	5%
Ride Share	\$1,500,000	\$2,610,436	-	-	\$4,110,436	4%
Vehicle buyback	\$100,000	-	\$4,000,000	-	\$4,100,000	4%
Shuttle Services	\$2,069,000	\$1,403,814	-	-	\$3,472,814	3%
Grid-based-Shorepower	-	-	-	\$2,800,000	\$2,800,000	3%
Bicycle Facility Projects	\$600,000	\$1,525,217	-	-	\$2,125,217	2%
Alternative Fuel HDV Projects	\$1,364,332	-	-	-	\$1,364,332	1%
Smart Growth	\$600,000	\$360,000	-	-	\$960,000	1%
Alternative Fuel Buses Projects	\$911,000	\$46,884	-	-	\$957,884	1%
Off-Road	-	-	\$939,778	-	\$939,778	1%
Alternative Fuel LDV Projects	\$478,800	\$109,200	-	-	\$588,000	1%
Transit Info/Telecommuting	-	\$367,341	-	-	\$367,341	0.4%
Agricultural	-	-	\$43,296	-	\$43,296	0.04%
Totals:	\$19,235,324	\$9,663,298	\$31,131,901	\$43,488,544	\$103,519,067	100%

*\$5 million reserved for I-Bond truck projects

**Includes \$5 million from Port of Oakland



ACTIONS

In order to address the immediate health risk in highly impacted communities (especially West Oakland), staff is working towards issuing contracts under the I-Bond program using TFCA dollars to retrofit port drayage trucks at a cost of \$15,000 per piece of equipment installed. Additionally, retrofits and repower projects are also moving forward in other highly impacted communities under the TFCA Regional Fund and Carl Moyer programs. Staff hopes that State’s I-Bond funding will be available shortly to further reduce DPM by funding truck projects in these communities and throughout the Bay Area.

BUDGET CONSIDERATION / FINANCIAL IMPACT

None. Administrative and incentive funds for these programs come from four separate funding sources CMP, TFCA, MSIF and I-Bond. Staff and project costs are provided for by these sources at no cost to the General Fund.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Damian Breen
Reviewed by: Jack M. Colbourn

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

To: Chairperson Haggerty and
Members of the Mobile Source Committee

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 20, 2009

Re: Update on Drayage Truck Retrofit Program

RECOMMENDED ACTION

- Staff request that the Committee recommend that the Board of Directors (Board) suspend the expenditure of funds as part of the California Goods Movement Bond (I-Bond) for drayage truck retrofits until issues relating to the Port of Oakland have been discussed by the Board's Ad-Hoc Committee on Port Emissions.

BACKGROUND

In November 2006, California voters authorized the Legislature to appropriate \$1 billion in bond funding to the California Air Resources Board (ARB) to quickly reduce air pollution emissions and health risk from freight movement along California's priority trade corridors. On February 28, 2008, ARB approved an allocation of \$140 million for the Bay Area trade corridor (\$35 million per year over the next four years.) As part of this program the Board allocated \$5 million in TFCA and \$5 million in I-Bond funding to match \$5 million in Port of Oakland (Port) funding to retrofit approximately 1,000 (50%) of Port drayage trucks by July 1, 2009. This action was taken in order to immediately address the serious health risk posed by toxic diesel particulate matter (DPM) emissions from goods movement in West Oakland, a community with a cancer risk three times the Bay Area average.

However, on November 19, 2008, the Board of Port Commissioners (Port Commissioners) passed a resolution postponing the use of Port funds to retrofit trucks under the joint I-Bond program until after the adoption of its Comprehensive Truck Management Program (CTMP). On December 3, 2008, the District's Board informed staff that it was unwilling to accept the actions taken by the Port and passed an I-Bond program that included the Port's \$5 million to be used to retrofit drayage trucks. On December 5, 2008, this message was conveyed to the Mayor of the City of Oakland (the entity with ultimate authority over the Port) via a letter from the Board's Chair. This letter stated that it was the District's intention to proceed with the retrofit of the trucks using the Ports funds. On December 19, 2008, the Port informed the District that it was seeking to terminate the memorandum of understanding (MOU) between the two agencies and that it was seeking the return of \$2 million previously transferred to District on August 27, 2008.

DISCUSSION

In order to address this issue, members of the Board, the Board Chair and District staff met with the Port Commissioners on February 17, 2009. As part of an extensive discussion, Board members and the Board Chair questioned the Port Commissioners as to their reasoning for withdrawing the \$5 million in matching funds. The Port Commissioners stated that the Port currently has a consultant looking at the best model to follow for a CTMP and because of the Port's current financial situation spending funding on truck retrofits may be premature. They further stated that because of the possibility of these trucks leaving Port service or that the Port's consultant may recommend truck replacements or an "employee model" for truck operations at the Port, they were unwilling to make an investment in retrofits at this time. The Port Commissioners also felt by funding a retrofit program they might be "locking" truckers into long contracts that would ultimately prevent them from participating in the Port's overall CTMP solution.

In order to address this concern, Staff updated the Port Commissioners on new proposed changes to the I-Bond guidelines such as the shortening of the retrofit contract life to two years and the ability of applicants to receive prorated funds for replacement trucks at a later date on the program. The Port Commissioners stated that they were unaware of these changes and that they needed time to evaluate them relative to their position on the retrofit program. Additionally, staff presented the Port Commissioners with other project options (shorepower, locomotive replacements, etc.) that would rapidly reduce DPM emissions using the Port's \$5 million. It was agreed, that both District and Port staff would continue to work together to come up with an acceptable proposal for use of the Port's funding.

Over the past few months, staff has continued to prepare but not execute contracts for all drayage retrofits under the program. Staff had been proceeding under the assumption that \$5 million in I-Bond and Port of Oakland funding would be available to match District TFCA monies. However, on December 23, 2008, the District was notified by the CARB that due to the State of California's current fiscal year budget crisis, funds have not been generated to cover any further expenditures under the I-Bond program. In its letter, CARB instructed the District not to enter into any new equipment projects or other contracts that would be funded using I-Bond monies and not to expend any funds on contracts previously signed.

Due to the Port's decision to suspend its funds and because CARB's I-Bond funds are not currently available, staff is recommending that all efforts on this program be put on hold pending a meeting of the Board's Ad Hoc Committee on Port Emissions to discuss options.

BUDGET CONSIDERATION / FINANCIAL IMPACT

None. The I-Bond Program distributes funds from CARB to the District and then to eligible equipment owners. Staff costs for the administration of the Program are included under Programs 321 "California Goods Movement Bond – Early Grants" and 323 "California Goods Movement Bond Grants" in the FY 2008/2009 budget.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Damian Breen
Reviewed by: Jack M. Colbourn

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
Memorandum

To: Chairperson Torliatt and Members of the Board of Directors

From: Jack P. Broadbent
Executive Officer/APCO

Date: February 19, 2009

Re: Public Hearing to consider Adoption of Proposed Amendments to Regulation 11, Rule 16: Perchloroethylene and Synthetic Solvent Dry Cleaning Operations, Regulation 8, Rule 17: Petroleum Dry Cleaning Operations, Regulation 8, Rule 27: Synthetic Solvent Dry Cleaning Operations, Regulation 2, Rule 1, Section 120: Exemption, Dry Cleaning Equipment and Adoption of a CEQA Negative Declaration

RECOMMENDED ACTION:

Staff recommends that the Board of Directors take the following actions:

- Adopt proposed amendments to Regulation 11, Rule 16: Perchloroethylene and Synthetic Solvent Dry Cleaning Operations;
- Adopt proposed amendments to Regulation 8, Rule 17: Petroleum Dry Cleaning Operations;
- Adopt proposed amendments to Regulation 2, Rule 1, Section 120: Exemption, Dry Cleaning Equipment;
- Delete Regulation 8, Rule 27: Synthetic Solvent Dry Cleaning Operations; and
- Adopt a Negative Declaration pursuant to the California Environmental Quality Act (CEQA).

BACKGROUND

The California Air Resources Board (CARB) has amended the Airborne Toxic Control Measure (ATCM) for Emissions of Perchloroethylene from Dry Cleaning Operations, which became effective on December 27, 2007. The primary component of the amended ATCM is a phase-out of Perc dry cleaning machines and related equipment. The proposed amendments to District Regulation 11, Rule 16: Perchloroethylene and Synthetic Solvent Dry Cleaning Operations, would incorporate the requirements of the amended ATCM, and add several other requirements that would improve the effectiveness of the rule and reduce emissions of toxic air contaminants.

Staff is also proposing amendments to District Regulation 8, Rule 17: Petroleum Dry Cleaning Operations that are intended to control emissions of non-halogenated volatile dry cleaning solvents, the use of which will increase as a consequence of the mandated Perc phase-out. Regulation 8, Rule 17 would be renamed "Non-Halogenated Solvent Dry Cleaning Operations".

The staff proposal also would lower the existing permit exemption for non-halogenated dry cleaning facilities and require registration for machines that are subject to Regulation 8, Rule 17, but exempt from permit requirements.

Finally, staff is proposing to delete District Rule 8-27: Synthetic Solvent Dry Cleaning Operations. This rule has been replaced by Regulation 11, Rule 16, and is obsolete.

DISCUSSION

The proposed amendments to Regulation 11, Rule 16 will:

- Incorporate provisions of CARB's amendments into the Perchloroethylene ATCM, including provisions requiring the phase-out of Perc dry cleaning by 2023.
- Prohibit halogenated spotting solutions.

The proposed amendments to Regulation 8, Rule 17 will:

- Expand the applicability of the rule from petroleum to non-halogenated solvents
- Require closed-loop equipment for all new installations.
- Prohibit halogenated spotting solutions.
- Require registration for all machines exempt from permit requirements.

The proposed amendment to Regulation 2, Rule 1, Section 120 will lower the permit exemption level from 700 gallon/year to 200 gallon/year of nonhalogenated solvents.

The proposed deletion of Regulation 8, Rule 27 will eliminate an obsolete rule.

RULE DEVELOPMENT PROCESS

The proposed rule amendments were developed with significant public input. Staff participated in several CARB workgroups with other air districts that included the members from the dry cleaning industry in the development of the ATCM amendments. The District also conducted a survey of exempted facilities to determine solvent use practices. Additionally, the District maintains industry involvement by hosting an on-going workgroup comprised of dry cleaning operators, cleaners associations, machine manufacturers, solvent manufacturers and environmental groups that typically meet on a quarterly basis. In May 2008 per the new ATCM requirements, the District sent out a preliminary information request to all dry cleaning facilities for equipment specifications that included information on the new state standards and the proposed rule changes. Staff held a public workshop on December 22, 2008, to solicit input on the draft regulations. In response to comments received, staff amended the proposal to incorporate a compliance schedule for the phase-out of halogenated spotting solutions.

A socioeconomic analysis has found that the costs of the rule amendments would not create economic dislocation or loss of jobs, including to small businesses. Pursuant to the California Environmental Quality Act (Public Resources Code 21000 et seq.), an initial study for the proposed amendments has been conducted, concluding that the proposed rule would not create any significant adverse environmental impacts; a negative declaration is proposed. Final proposed amendments to these regulations, a CEQA initial analysis and Negative Declaration,

and a socioeconomic analysis were posted for public review and comment on January 16, 2009. The regulatory staff report was posted for public review and comment on February 19, 2009.

Public comments on the proposed amendments, and staff responses, are attached as Appendix C.

BUDGET CONSIDERATION/FINANCIAL IMPACTS

Costs to the District to administer and enforce the amended rules will be recovered by permit fees and registration fees set out in Regulation 3 Fees, Schedules I and R.

Respectfully submitted,

Jack P. Broadbent
Executive Officer/APCO

Prepared by: Marc Nash
Reviewed by: Scott Lutz & Brian Bateman

Attachments:

Staff Report including appendices:

- A. Regulation 8, Rule 17 Rule Change Summary
- B. Regulation 11, Rule 16 Rule Change Summary
- C. Workshop Comments and Responses
- D. Socioeconomic Analysis
- E. CEQA Documents
- F. Proposed Regulation 8, Rule 17 Changes, Strike-out Version
- G. Proposed Regulation 11, Rule 16 Changes, Strike-out Version
- H. Proposed Regulation 2, Rule 1, Section 120 Changes, Strike-out Version
- I. Proposed Changes Regulation 8, Rule 27 Changes, Strike-Out Version

BAY AREA AIR QUALITY MANAGEMENT DISTRICT
939 ELLIS STREET
SAN FRANCISCO, CALIFORNIA 94109



Regulation 2, Rule 1 General Requirements
Regulation 8, Rule 17 Non-halogenated Solvent Dry Cleaning Operations
Regulation 8, Rule 27 Synthetic Solvent Dry Cleaning Operations
Regulation 11, Rule 16 Perchloroethylene and Synthetic Solvent Dry Cleaning Operations

Staff Report

Prepared by

Marc Nash
Air Quality Specialist
Toxic Evaluation Section
Engineering Division

Reviewed by

Scott Lutz, Manager, Toxics Evaluation Section
Brian Bateman, Director, Engineering Division

February 2009

Staff Report outlining the proposed amendments to the District's Dry Cleaning Regulations. This report has been prepared by the staff of the Bay Area Air Quality Management District. Publication does not signify that the mention of trade names or commercial products constitute endorsement or recommendation for use.

Acknowledgements

Legal Division, BAAQMD	Nancy Wang
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Engineering Division, BAAQMD	May Leung
Planning Division, BAAQMD	Dan Belik
Planning Division, BAAQMD	Victor Douglas
Information Systems, BAAQMD	Duane Vazquez
Information Systems, BAAQMD	Jaime Williams
Institute for Research and Technical Assistance	Dr. Katy Wolf

District Staff would like to extend their gratitude to the numerous dry cleaners, dry cleaner associations, and dry cleaner contractors that provided information, participated in meetings, participated in surveys and demonstrated dry cleaning operations to District Staff.

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I. EXECUTIVE SUMMARY

The staff of the Bay Area Air Quality Management District (District) is proposing changes to four existing regulations that control air emissions from dry cleaning equipment: Regulation 2, Rule 1 General Requirements, Regulation 8, Rule 27 Synthetic Solvent Dry Cleaning Operations, Regulation 8, Rule 17 Petroleum Dry Cleaning Operations and Regulation 11, Rule 16 Perchloroethylene and Synthetic Solvent Dry Cleaning Operations. The key driving factors of the proposed rule revisions are recent amendments by the United States, Environmental Protection Agency (USEPA) to the National Perchloroethylene Air Emission Standards for Dry Cleaning Facilities, and by the California Air Resources Boards (CARB) to the Airborne Toxics Control Measure (ATCM) for Emissions of Perchloroethylene from Dry Cleaning Operations. Additionally, some of the recommended changes are necessary to keep pace with significant developments in “Alternative Technology” solvents and dry cleaning equipment control technologies that the industry has made since the District dry cleaning rules and regulations were last amended.

Many synthetic solvents, or halogenated organic solvents, used in dry cleaning cause adverse health effects over long-term exposure. That is true of perchloroethylene, the most widely used dry cleaning solvent in the District today. Also known as Tetrachloroethylene or Perc, this synthetic solvent is classified as a Group IIA, “probably carcinogenic” by the International Agency for Research on Cancer (IARC).

The District has regulated Perc and other synthetic solvent dry cleaning equipment since 1980 under Rule 8-27 (until 1990, the rule was specific to Perc solvent, but its scope was expanded later). In 1994, the District added Rule 11-16 to address changes in federal and state law. Rule 11-16 sets emission standards for synthetic solvents used in textile cleaning by limiting air emissions of these compounds, with the goal of reducing exposure levels and potential harmful health impacts to the Public. Once adopted by the District’s Board, Rule 11-16 replaced Rule 8-27. Rule 11-16 now regulates all Perc and synthetic solvent dry cleaning equipment and operations in the District.

The District’s major proposed amendments to Rule 11-16 are summarized in Table 1. The proposed amendments to Rule 11-16 would incorporate CARB’s recent changes to the ATCM for Perc dry cleaning operations, which became effective on December 27, 2007. Among other things, the amended ATCM prohibits new installations of dry cleaning equipment using Perc and phases out all existing Perc solvent dry cleaning equipment by January 1, 2023. In addition, the District is proposing to add several requirements that are more stringent than the amended ATCM, including a prohibition against the purchase and use of spotting solutions containing halogenated solvents such as Perc.

Table 1. Major Provisions of Proposed Regulation 11, Rule 16

- Prohibit the installation or relocation of new Perc dry cleaning machines.
- Prohibit Dip Tank Operations.
- Eliminate the use of existing Perc machines at co-residential facilities and Perc converted machines by July 1, 2010.
- Effective July 1, 2010, require that all Perc machines must be removed from service once they become 15 years old.
- Require that remaining Perc machines must be removed from service by January 1, 2023 (if not earlier).
- Expand good operating practices.
- Expand recordkeeping and reporting requirements.
- Prohibit halogenated solvent spotting solutions.

The proposed changes to Rule 8-17 (*summarized in Table 2*) reflect the significant improvements that have been made in control technologies in the newer solvent dry cleaning equipment and the development of alternatives to Perc and Stoddard solvent. Hydrocarbon solvents with high flashpoints were created in response to environmental regulatory restrictions in Germany in 1991. The German dry cleaning industry also created third generation closed-loop technology for these newer solvents. In response to the increasing cost of Perc in California and environmental and health concerns, some dry cleaning facilities in the District have turned to using these newer alternative technologies. Rule 8-17 needs to be updated to address and incorporate the new technologies. Additionally, the solvent definition needs expansion to capture newer solvent formulations that are not currently described by the rule or any other District dry cleaning regulation.

Table 2. Major Provisions of Proposed Regulation 8, Rule 17

- Rename the rule "Non-halogenated Solvent Dry Cleaning Operations".
- Expand applicability of the rule to capture new alternative solvents.
- Prohibit new or replacement transfer or vented equipment; all new machines must be closed-loop.
- Prohibit Dip Tank Operations.
- Prohibit the transfer of materials mid-cycle from a closed-loop machine to a separate dryer.
- Prohibit halogenated solvents such as Perc or trichloroethylene (TCE) in spotting solutions.
- Require all facilities to keep records to verify compliance with exemption or permit requirements.
- Add recordkeeping and reporting requirements.
- Add registration requirement for exempted equipment.

The proposed changes to Regulation 2, Rule 1, Section 120 Exemption, Dry Cleaning Equipment would lower—from the current 700 gallons/year to 200 gallons/year—the amount of petroleum or other non-halogenated solvent that a facility could use (gross usage) while remaining exempt from District permit requirements. All facilities that use 200 gallons/year or more of non-halogenated solvent would require permits for their dry cleaning equipment. All facilities that continue to qualify for the exemption would be required to register their equipment under the proposed amended Rule 8-17.

Staff proposes deletion of Regulation 8, Rule 27 Synthetic Solvent Dry Cleaning Operations. This rule was not removed from the active regulation listing because of various stages of classification imposed at the Federal level. Originally classified as a Volatile Organic Compound (VOC), Perc was added to a group of compounds known as “negligibly-reactive” in 1983. The USEPA further proposed for Perc to be “excluded” from the VOC categorization in 1993. However, the re-designation was not approved until January 26, 1996. In the interim, USEPA completed its hazardous air pollutant evaluation and created a new standard for Perc emissions, which the District incorporated into its regulations by adopting a new rule, Rule 11-16, in 1994. As a precautionary measure for the state implementation plan (SIP), due to the length of consideration by USEPA and the differing categories and requirements, Rule 8-27 was never removed from the active regulation listing. It is obsolete, however, and should be deleted.

II. BACKGROUND

There are four current regulatory statutes formally adopted by the District's Board of Directors authorizing the regulation of dry cleaning equipment. Each addresses a specific group of dry cleaning equipment, according to the District's regulatory structure. Precursor Organic Compounds (POC) emissions form unhealthy ground-level ozone, while Non-Precursor Organic Compounds (NPOC) do not react in the atmosphere to produce ozone, but may have other health issues. Regulation 8, Rule 27, regulated halogenated NPOC and POC solvent until superseded in 1994 by Regulation 11, Rule 16. Regulation 8, Rule 17 specifically regulates POC hydrocarbon solvent dry cleaning equipment. Regulation 2, Rule 1, Section 120 addresses permit exemption levels.

A. INDUSTRY DESCRIPTION

Over 56 percent of dry cleaning facilities located within the District (500 facilities) use Perc as a cleaning solvent. There are three types of Perc dry cleaning machines in use: machines converted from vented to closed-loop (converted), closed-loop machines with refrigerated condensers (closed-loop), and secondary control machines. Secondary control machines include closed-loop machines with add-on secondary controls and closed-loop machines with integral secondary controls (secondary control or integral secondary control, respectively).

The second most common solvents in use are high flash point hydrocarbon solvents manufactured by ExxonMobil (DF-2000™ Fluid) and by Chevron (EcoSolv® Fluid). Other hydrocarbon solvents being used include: PureDry®, Shell Sol 140 HT (Shell 140), and Stoddard Solvent. The most advanced hydrocarbon machines may use any of the hydrocarbon solvents mentioned. Currently, 37 percent of all dry cleaning facilities located within the District (330 facilities) are using hydrocarbon solvents. All hydrocarbon solvents are classified as POC. Presently, there are two types of machines operating in the District: transfer machines and closed-loop.

In addition to hydrocarbon solvents, dry cleaners are also using other solvents such as decamethylcyclopentasiloxane (D5), and glycol ethers (Rynex or Rynex 3). Volatile methylated siloxane or D5 is an odorless, colorless liquid and it is used in GreenEarth™ dry cleaning solvent. GreenEarth™ solvent is primarily used in hydrocarbon machines and classified as a NPOC. The Office of Environmental Health Hazard Assessment (OEHHA) is currently evaluating the toxicity testing data submitted by GreenEarth. Currently, 3 percent of the District's Dry Cleaning facilities use D5 solvent. Additionally, Rynex 3 is a mixture of substituted aliphatic glycol ethers with limited toxicity data. It is also classified as a POC. Less than 1 percent of the dry cleaning facilities in the District are currently using Rynex 3; of these, all use closed-loop equipment.

Professional wet cleaning, an alternative to dry cleaning that was first introduced in 1991, differs from commercial laundering in several aspects. Wet cleaning uses computer-controlled washers and dryers with specially formulated detergents and surfactants. Additional finishing equipment includes pressing and tensioning units. The tensioning units are used to touch-up, stretch, reform, and finish the garments. Ideally, wet cleaning systems use non-toxic, biodegradable detergents, which are approved for disposal into the sewer. Wet cleaning, considered non-toxic and non-smog forming, is currently not regulated by the District.

Carbon Dioxide (CO₂) cleaning, an alternative to dry cleaning that uses a process that operates within a pressurized, and therefore relatively costly, machine. The CO₂ used in this process is an industrial by-product from existing operations, primarily anhydrous ammonia (typically fertilizer) production. There is no net increase in the amount of CO₂ emitted; therefore, this process does not contribute to global warming. CO₂ cleaning, considered non-toxic and non-smog forming, is currently not regulated by the District.

Green Jet cleaning, an alternative to dry cleaning that refreshes and dries garments in a single computer-controlled unit using a mist of water, bio-degradable detergent and adsorbent pads. Green Jet, considered non-toxic and non-smog forming, is currently not regulated by the District.

B. REGULATORY HISTORY

1. Regulation 8, Rule 27

a. Impact Summary

There will be no impact to any dry cleaning facility from the deletion of this rule: it is obsolete. The regulation of all synthetic solvent dry cleaning equipment previously administered by Rule 8-27 has been delegated to Rule 11-16 since 1994.

b. Regulatory History

Initially adopted by the District on March 5, 1980 as an ozone control measure, Rule 8-27 explicitly focused on Perc solvent requirements. The rule was amended on March 17, 1982 to address emission control requirements under Section 302. The USEPA added Perc to a list of negligibly-reactive compounds which would be exempt from regulation under the State Implementation Plan for attainment of the ozone standard on October 24, 1983, but did not make a final decision about toxicity prompting a less restricted use of the solvent. The 1982 revisions had a phase-in clause that increased the applicability of the rule over a 3 year period, requiring permits and further regulating most Perc equipment.

The next amendment to Rule 8-27 occurred to Section 301 on November 21, 1984 to comply with hazardous waste disposal requirements mandated by the California Code of Regulations (CCR), known then as the California Administrative Code (Title 22, Division 4, Chapter 30). It was also a forerunner of limiting waste solvent evaporation, requiring covers and metal containers to prevent evaporation.

Rule 8-27 was last amended on September 5, 1990, to address operating standards and control requirements for closed-loop and vented dry-to-dry technology. Additional halogenated solvents such as trichlorotrifluoroethane (CFC-113) and 1,1,1-trichloroethane (TCA) prompted the District to expand the scope of the regulation. The title of Rule 8-27 was revised from "Perchloroethylene Dry Cleaning Operations" to "Synthetic Solvent Dry Cleaning Operations."

2. Regulation 8, Rule 17

a. Impact Summary

The impact will be fairly minimal for all sources currently covered by this rule and for the sources projected to be covered by this rule, once the proposed changes are adopted. Closed-loop equipment has been standard technology for the dry cleaning industry for over 17 years. Lower operational costs were one of the driving factors that led dry cleaners to abandon the older transfer equipment that dominated most of the 20th Century. The changes to Rule 8-17 will update the rule's operational requirements to reflect the lower emissions profiles of the new technology and prohibit the reintroduction of the older technology. Additionally, the solvent definition will be expanded to include all non-halogenated solvents and the rule will be renamed accordingly.

b. Regulatory History

The District originally adopted Rule 8-17, Petroleum Solvent Dry Cleaning Operations, as an ozone control measure on May 21, 1980. At that time, all equipment was first generation transfer units, with a separate washer and dryer. Emission control requirements were updated on March 17, 1982 to conform with similar updates that were made on that date to the emission control requirements in Rule 8-27.

The next rule revision occurred on March 20, 1985, to eliminate the medium user exemption (section 112) and identify and address solvent filtration requirements (section 303). Additionally, standards for condensers used in solvent recovery dryers and requirements for filter cartridge solvent evaporation were added.

Rule 8-17 was last updated on September 5, 1990 to insert leak check requirements, update hazardous waste transport standards and to implement minor improvements in control technology standards. Recordkeeping requirements, manual of procedure (MOP) requirements and stringent controls for solvent evaporation were also added on this date.

Additional requirements from other regulations also were reviewed for applicability. The USEPA, under section 111 of the federal Clean Air Act, has established pollution control requirements for specific industrial activities that emit significant "criteria air pollutants" such as volatile organic compounds (VOCs). These standards are intended to establish minimum nationwide requirements for new facilities and are known as new source performance standards (NSPS).¹ Petroleum dry cleaners have an NSPS provision for transfer equipment that was established by USEPA on September 21, 1984. This was after the original 1980 Rule 8-17 adoption date. The District has since received delegation by USEPA on September 5, 1990 for this standard and the current rule meets or surpasses this standard. The proposed changes will be more stringent and will improve upon the current Rule 8-17 standards; thus, the District should continue to qualify for USEPA NSPS delegation.

3. Regulation 2, Rule 1, Section 120

a. Impact Summary

Regulation 2, Rule 1, Section 120 describes the qualifying criteria for a dry cleaning facility to be exempt from District permit requirements for its alternative solvent dry cleaning equipment (the exemption does not apply to Perc equipment or equipment that uses more than 1% by weight of halogenated compound). The proposed amendment would lower the permit exemption level from 700 gallons/year to 200 gallons/year (gross usage). This is expected to have a minimal impact on alternative solvent facilities in the District. Data collected by District Staff indicate that, of the 330 alternative solvent facilities using less than 700 gallons/year of halogenated solvent, approximately 17 to 20 facilities, or 5%, use between 200 gallons/year and 700 gallons/year, while the other 95% of alternative solvent facilities use less than 200 gallons/year. The 17-20 larger solvent users would be required to obtain District permits for their equipment under the proposed amendment. This number may be reduced, however, if the lower exemption level encourages facilities to conserve solvent in order to continue to qualify for the exemption.

b. Regulatory History

This section was originally adopted on October 10, 1983, and the initial qualifying exemption level was 700 gallons/year for petroleum dry cleaning. The upper limit for this exemption has remained the same for over 25 years, but has been expanded to cover other non-halogenated solvents in addition to petroleum to create additional incentives to switch from using Perc.

¹ NSPS are detailed in 40 CFR Part 60.

4. Regulation 11, Rule 16

a. Impact Summary

All Perc solvent equipment in the Bay Area will be impacted by the proposed changes to this regulation. Approximately 500 Perc solvent dry cleaning facilities will be phased-out by the proposed amendments. The largest number of facilities will be affected by July 1, 2010 when approximately 66% of the 500 facilities (330 facilities) will be required to replace their equipment with alternative solvent technology or shut down. The remaining 34% will be affected over the next 13 years until January 1, 2023, when all Perc solvent equipment will be prohibited. Facilities that choose not to adopt alternative technologies by the shut-down date for their equipment are expected to cease on-site dry cleaning and become “drop shops” that contract for their dry cleaning to be done off-site at other facilities that operate alternative technologies. Table 3 shows the breakdown by year of projected number of facilities retiring their Perc solvent equipment.

Table 3. Projected Facilities Impacted by Proposed Regulation 11, Rule 16 Changes

Date	Number of Facilities Affected	Percent
July 1, 2010	328	66
January 1, 2011	31	6
January 1, 2013	92	18
January 1, 2015	24	5
January 1, 2017	8	2
January 1, 2019	6	1
January 1, 2021	7	1.2
January 1, 2023	4	0.6
Total	500	100

b. Regulatory History

The District has a history of implementing regulatory requirements in advance of state or federal government agencies and this is reflected in part, by the history of dry cleaning regulations. For example, Rule 8-27 was the first District rule to regulate Perc solvent dry cleaning. It was adopted by the District’s Board of Directors on March 5, 1980. The last modification to Rule 8-27 took place on September 5, 1990 and expanded the scope of the regulation to include all synthetic solvents. The requirements of the USEPA and CARB began 1990, ten years later, with the critical identification of Perc as potentially harmful.

i) Perc Identification as a Hazardous Air Pollutant

Although recommended for reclassification as negligible to ground level ozone formation since 1983 by the USEPA, Perc became one of 189 chemicals classified as a hazardous air pollutant (HAP) by the 1990 Clean Air Act amendments. This HAP designation meant that a federal control standard for Perc would have to be identified and adopted.

ii) Perc Identification as a Toxic Air Contaminant

The California Air Resources Board (CARB) identified Perchloroethylene (Perc) as a toxic air contaminant (TAC) under California's Toxic Air Contaminant Identification and Control Program (Health and Safety Code section 39650 et. seq.) in October 1991, prompting the state to review Perc solvent dry cleaning equipment emissions and adopt appropriate action.

iii) Perc NESHAP Standard

In September 1993, USEPA adopted a new NESHAP standard, the "National Perchloroethylene Air Emissions Standards for Dry Cleaning Facilities." The NESHAP established three source categories: small, large and major. Equipment types (dry-to-dry, transfer) were also identified. Maintenance (leak check and repair schedules) and recordkeeping provisions were also established. It also specified air emissions control standards based on the type of equipment used, the installation date and the amount of Perc purchased per year.

iv) Perc ATCM Standard

On October 14, 1993, one month after the USEPA approved the Perc NESHAP standard, CARB adopted the ATCM for Emissions of Perc from Dry Cleaning Operations and the Environmental Training Program for Perchloroethylene Dry Cleaning Operations (Perc Certification Program). Similar in scope to the Perc NESHAP but more stringent, the Dry Cleaning Operations ATCM identified the equipment, operation, maintenance, recordkeeping, and reporting requirements for Perc solvent dry cleaning operations. Further, the Environmental Training Program set forth the guidelines and criteria for CARB to train and approve instructors who then teach dry cleaning operators the proper operational standards and maintenance procedures for their Perc solvent dry cleaning equipment.

v) District Hazardous Pollutant Standard

Based on the new regulatory standards at both the Federal and State level, District staff proposed a new regulation. Regulation 8, Rule 27, Synthetic Solvent Dry Cleaning Operations would be replaced with a rule that would conform to the new legislative and regulatory changes. This new rule would incorporate the federal requirements, the state requirements, and the risk reduction measures outlined in SB1731² and implement the risk reduction objectives outlined in the District's Toxic Air Contaminant Risk Reduction Plan. The rule would contain additional exposure reduction requirements for high density population areas in the Bay Area that typically contain dry cleaning facilities in buildings co-located with residences and other commercial businesses. The District Board of Directors approved this new regulation, Regulation 11, Rule 16, Perchloroethylene and Synthetic Dry Cleaning Operations, on December 12, 1994.

Rule 11-16 had a four-year implementation schedule. However, as the control equipment requirement milestones approached over the years, the cost for the required additional controls became controversial with many owners of Perc solvent dry cleaning equipment. They expressed their concerns at District Board Meetings and lobbied for a permanent exemption or a multi-year variance. A one year variance was granted. At the end of the fifth year, all Perc solvent dry cleaning facilities were in compliance. Alternative solvent dry cleaning technologies existed at this time, but no formal incentive existed for Perc solvent facilities to adopt alternative solvent equipment until October 2003, when the California's State Legislature passed AB998 (Assembly Bill 998, discussed in more detail below). Nevertheless, many dry cleaners voluntarily switched to alternatives when they needed to replace a dry cleaning machine.

² Senate Bill 1731, Facility Toxic Air Contaminant Risk Reduction Audit and Plan -- Section 44390 et al of the California Health and Safety Code.

vi) AB998

AB998 established a Non-Toxic Dry Cleaning Incentive Program to provide financial grants of up to \$10,000 for dry cleaning facilities that switch from equipment using Perc solvent to non-toxic, non-smog forming alternatives such as wet cleaning and carbon dioxide (CO₂) cleaning. The grants are financed by a tax on Perc, which is assessed against California Perc solvent distributors. The tax started at three dollars (\$3) per gallon of Perc and was applied starting in 2004. It increased by one-dollar (\$1) per gallon per year from 2005 through 2013. Tax funds that are not distributed by CARB via the grant program are to be used to establish demonstration programs that would showcase and promote acceptable alternative solvent technologies.

AB998 acted like a catalyst for change: Perc equipment owners, in reaction to the increase in solvent prices and the projected solvent price increases, began to investigate non-Perc solvent technologies. (The additional incentives of lower permit fees and fewer regulatory requirements also supported their decision.) The media's favorable coverage of environmentally responsible dry cleaning also helped to distinguish these new technologies and galvanize public support. Dry cleaning facilities began to adopt alternative cleaning technologies to keep overhead costs low and to demonstrate environmental goodwill.

vii) Amended District Standard

Rule 11-16 was updated in 2005 to incorporate the new provisions of Regulation 2, Rule 5, New Source Review of Toxic Air Contaminants.

viii) Amended Perc NESHAP Standard

The original NESHAP update was proposed in 2006, but USEPA has released several updates since then, most recently on July 11, 2008. The updated Perc NESHAP identified three source categories: major, area and co-residential. Fortunately, there are no facilities with Perc equipment within the District that qualify for the NESHAP definition of a major source. Accordingly, by default, the District is in compliance with all provisions for that source category. The District's current rule also meets or exceeds all Federal requirements for area sources. Thus, the District is in compliance with all provisions for area sources. Co-residential sources on the other hand, need to be addressed.

The updated NESHAP co-residential requirements now contain two prohibitions that are more stringent than the District's current rule: a prohibition against new co-residential Perc facilities after December 21, 2015, and a prohibition against continued operation of all existing co-residential Perc facilities by December 21, 2020. The District has not permitted any new co-residential Perc facility since 2005, putting the District by default in compliance with the NESHAP's first prohibition. However, Rule 11-16 has no rule language that prohibits new co-residential Perc facilities after 2015 or any other date. The proposed amendments would prohibit any new co-residential Perc facility (along with all new Perc facilities), effective immediately (date of adoption), and also would prohibit operation of any existing co-residential Perc facility by July 1, 2010. Thus, the District's proposed amendments would phase out co-residential Perc facilities earlier than required by the NESHAP.

ix) Amended Perc ATCM Standard

The amended CARB ATCM became state law on December 27, 2007 and contains equipment phase out provisions that are more stringent than the new NESHAP co-residential phase out requirements discussed above. The ATCM is more stringent than the NESHAP requirement because it reduces emissions of Perc solvent sooner than the NESHAP. For example, the ATCM has a Perc phase out provision that applies to all Perc solvent source types (not just co-residential facilities) and the phase out starts July 1, 2010, which is ten years earlier than the NESHAP standard. Incorporating the CARB provisions into Rule 11-16 will bring the District into compliance with the NESHAP requirements.

The ATCM also prohibits new Perc solvent facilities starting after January 1, 2008. There are also more stringent operational and maintenance procedures for all Perc solvent equipment. The current proposed changes to Rule 11-16 will incorporate the ATCM provisions. A comparison of the requirements of the proposed Rule 11-16, the NESHAP and the ATCM is summarized in Table 5³.

C. TECHNICAL REVIEW

1. Emission Control Technologies

Historically, most Perc dry cleaning equipment that is used in the US was designed and built in Europe. European governments have been imposing stricter environmental standards on dry cleaning operations since 1975, which has driven the development of cleaner dry cleaning technologies.⁴ These technologies have evolved in four generations:

a. First Generation

The first generation of equipment is known as Transfer Machines. The distinguishing characteristics of this generation are a separate washer and dryer. Solvent laden clothes are passed or transferred from washer to dryer by hand. The dryer uses a water condenser that cools the recirculating air to recover some of the solvent during the deodorizing part of the dryer cycle. The remaining air is exhausted into a carbon adsorber or a refrigerated condenser in later models. If the dryer is equipped with an adsorber, it is replaced or regenerated during routine maintenance of the machine. A typical solvent emissions profile ranges from 500 to 1000 gallons per year (see Figure II-C1). This equipment type is now prohibited in California for Perc operations.

b. Second Generation

The second generation of equipment is known as Vented Machines. The distinguishing characteristics of this generation are that it is "dry-to-dry," *i.e.*, clothes go into the machine dry and come out of the machine dry, and that it exhausts solvent into the atmosphere. This machine is one unit and equipped with a water-cooled condenser used to recover solvent during the deodorizing part of the drying cycle. During this time, fresh air is drawn into the machine and exhausted through an external carbon adsorber at the end of the cycle. The adsorber is replaced or regenerated during routine maintenance of the machine. Improper maintenance caused excess emissions because of breakthrough issues that would negate the abatement effectiveness of the adsorber. A typical solvent emissions profile ranges from 200 to 400 gallons per year (see Figure II-C1). This equipment type is now prohibited in California for Perc operations.

³ Table 5 is on p. 39.

⁴ Conference on Security and Co-Operation in Europe, Helsinki 1975.

c. Third Generation

The third generation of equipment is known as Closed-Loop Machines. The distinguishing characteristics of this generation are that they are dry-to-dry, ventless, and do not exhaust to the atmosphere. Hot air from the drying cycle is passed through a refrigerated condenser to recover solvent; the recovered liquid solvent and water mixture is sent to a water separator; the remaining airstream is reheated by heating coils and recirculated back into the drum. The solvent recovered by the water separator then goes to the solvent storage tank. Unlike second-generation machines that inject fresh air, deodorization transpires as the vapor pressure of the solvent is lowered by temperature reduction via repeated passes through the refrigerated condenser (30-45 degrees F). Some machine designs use an inductive door fan that draws air through the loading door and drum when the door is ajar to further reduce worker exposure from residual solvent vapor. Other models have a more formalized fugitive control system comprised of an inductive door fan with a carbon adsorber to further reduce solvent emissions. The adsorber is replaced or regenerated during routine maintenance. A typical solvent emissions profile ranges from 60 to 120 gallons per year (see Figure II-C1). This equipment type currently operates in California.

Additionally, as a cost savings measure to extend the lifespan of the equipment, some vented machines (2nd gen) were retrofitted with a refrigerated condenser and converted to closed-loop. These converted closed-loop machines, although not as efficient limiting solvent emissions as a true closed-loop machine, meet the minimum definition of a closed-loop machine. This modified equipment type currently operates in California.

d. Fourth Generation

The fourth generation of equipment is known as Secondary Control Machines. The distinguishing characteristic of this generation is the addition of an integrated carbon adsorber to a closed-loop machine. The primary control device on a closed-loop machines is the Refrigerated Condenser. The addition of the carbon adsorber, typically an activated carbon bed contained in a metal housing, is the secondary control device. The two emission control devices work in tandem at the end of the cool down phase of the deodorizing cycle to further reduce fugitive emissions. Solvent vapors from the drum, button and lint traps are routed through the adsorber, reducing the drum concentration of the solvent to 300 ppmv or lower. The carbon is periodically regenerated; using heat and the adsorbed solvent is recovered, further reducing solvent consumption. The regeneration is automatically scheduled and occurs, according to manufacturer's recommendation or after a specific number of wash loads. Other machine designs have retrofitted an external secondary control device onto a closed-loop machine. These external adsorbers have not been able to meet the same control efficiencies as the closed-loop machines with the integral design. A typical solvent emissions profile ranges from 30 to 75 gallons per year (see Figure II-C1). This equipment type currently operates in California.

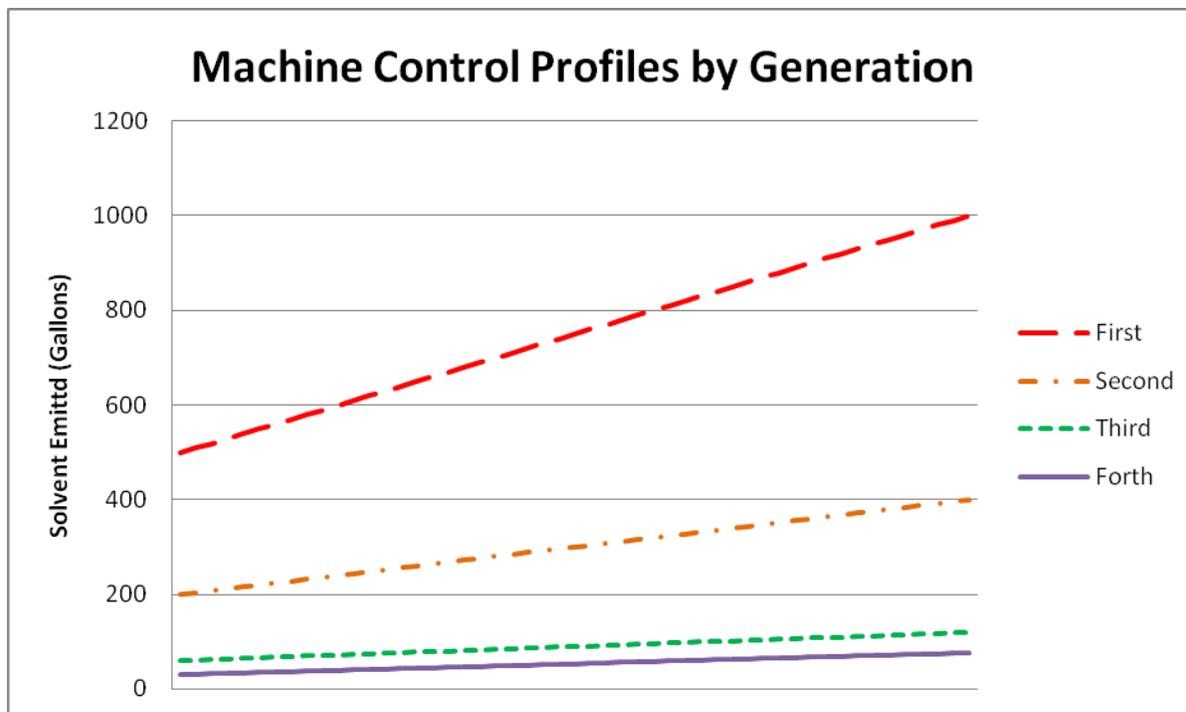


Figure II-C1 – Emission Profiles for Each Generation of Equipment

2. Ventilation Technologies

Ventilation has been used as a risk mitigating measure at dry cleaning facilities and is implemented in several different ways. Ventilation is important as it affects the dispersion of fugitive solvent vapors and other airborne compounds within the facility. Most dry cleaners do not have adequate ventilation systems for good capture or dispersion. Dispersion is typically based on building dimensions, stack dimensions, airflow rate, and capture efficiency of the ventilation system. Dispersion helps to determine the persistence or length of exposure to the solvent vapor, which impacts the potential health risk to nearby residences and businesses. The types of ventilation⁵, in order of increasing effectiveness are:

a. Natural Ventilation

Natural ventilation is the most passive form of ventilation and relies solely upon wind and convective forces to move air in and around the facility. Solvent vapors from windows, doors, roof vents or other openings tend to remain trapped and entrained around the facility for longer periods of time, resulting in greater exposure to workers and nearby residents. Natural ventilation is adequate if the facility is a stand-alone facility with a reasonable buffer zone. It is the least effective form of ventilation.

b. Window Fans

Window fans, or wall fans, are high flow propeller-type fans installed vertically in an external wall or exterior window type opening in the facility. Solvent vapors are exhausted horizontally and near ground level with the vertical component completely dependent on metrological conditions. Window fans typically exhaust into or around adjacent businesses or nearby residences increasing exposure to nearby workers and residents.

⁵ BAAQMD 2001.

c. General Ventilation

General ventilation configurations typically have one or more large capacity fans on the roof of the facility that exhaust horizontally by design or because of rain caps. Capture efficiency depends on the air exchange rate inside the building and is a function of facility size and the fan air-flow rate. Solvent vapors are released at roof level producing better dispersion at ground level. However, the effects of building downwash tend to trap emissions into nearby empty space or cavity zones located around and near the facility. These zones concentrate the emissions, increasing exposure to nearby workers and residents.

d. Local Ventilation

The term local ventilation describes a ventilation system with a high capacity fan, exhaust stack and physical apparatus/structures (fume hoods, shrouds, flexible walls, vertical plastic strips) enclosing the dry cleaning machine and designed to capture fugitive emissions. A ventilation fan captures and exhausts solvent emissions vertically through a stack on the roof of the facility. A combination of walls, plastic curtains and/or plastic strips completely surrounds the equipment with three feet of clearance in front of and behind the machine for operation and maintenance.

e. Partial Vapor Room

Partial vapor room (PVR) means a ventilation system that encloses the back of the dry cleaning machine in a small room with the front panel and loading door exposed for operational convenience (loading/unloading). Maintenance doors are designed to be self-closing and kept closed during routine operation of the machine. PVRs more effectively capture fugitive emissions from leaks and maintenance activities when compared to local or general ventilation systems. A ventilation fan captures and exhausts solvent emissions vertically through a stack on the roof of the facility. The loading door fugitive emissions are captured by one of the follow controls: a shroud, an inductive door fan, a fugitive control system or secondary control system.

f. Vapor Barrier Room

The term vapor barrier room (VBR) describes a ventilation system that encloses the entire machine in a small room and is the most health protective vapor capture system. A VBR is constructed with diffusion resistant material (such as metal foil-faced insulation sheets, plastic sheeting between drywall sheets or steel sheeting) with seams and gaps sealed with metalized tape. A ventilation fan captures and exhausts solvent emissions vertically through a stack on the roof of the facility. Maintenance doors are designed to be self-closing and kept closed during routine operation of the machine. VBRs are required for all co-residential dry cleaning facilities in the District and are recommended for non-residential facilities located in high-density population areas. Some non-residential facilities can appropriately construct total enclosures without the barrier material; these are known as vapor capture rooms (VCR).

3. BACT and Toxics NSR

The District describes Best Available Control Technology (BACT) as the most effective emission control device or technique successfully utilized for the type of equipment, or the most stringent emission limitation achieved by an emissions control device determined to be technologically feasible and cost effective. For any new or modified source emitting TACs, Rule 2-5 Toxics New Source Review (NSR) also may apply. This rule can require a more stringent control standard for projects producing a chronic hazard Index (HI) of 0.20 and/or a cancer risk greater than 1.0 in a million (10^{-6}) called Toxics Best Available Control Technology (TBACT). Projects with a chronic or acute hazard index greater or equal to 1.0 or a cancer risk of more than 10 in a million are not permitted (Rule 2-5, Section 302).

a. Halogenated Solvent

The existing BACT standard for halogenated solvent dry cleaning equipment is a Secondary Control Machine. If the cancer risk and/or hazard indexes are elevated, effective ventilation is also required to lower these numbers and reduce the exposure to nearby workers and residences. For example, all co-residential facilities require a secondary control machine enclosed in a vapor barrier room (VBR). This is the most effective form of ventilation. Other types of facilities may use other forms of ventilation provided the overall project risk stays below the maximum project risk requirements levels mandated by Rule 2-5, Section 302.

b. Petroleum Solvent

The existing BACT standard for petroleum solvent (and similar solvent types) is a Closed-Loop Machine.

4. Solvent Emissions

a. Emissions

Solvent emissions are typically determined by material balance. Most of the solvent purchased throughout the year is emitted into the air. Approximately 20-30% of the annual solvent emitted is recaptured and disposed of as hazardous waste. A residual amount of solvent is retained by each garment cleaned and slowly evaporates over a several week period. A secondary control system used at the end of each drying cycle, and/or a fugitive control system with an inductive door fan both use a regenerating carbon adsorber to reduce emissions. One of the largest sources of emissions comes from gasket leaks around the tanks, service maintenance ports, and around the loading door. Good operating practices (weekly leak checks, proper maintenance, and regular adsorber regeneration, if applicable) can further reduce solvent emissions.

b. Emission calculations

The following equations are used to determine net solvent emitted from equipment at a dry cleaning facility:

Solvent Emissions = (Solvent Consumption) – (Solvent Waste Credit)

Solvent Consumption = (Solvent Purchases) + (Initial Solvent Inventory) – (Final Solvent Inventory)

Solvent Waste Credit = (Still Oil) (% solvent in Still Oil) + (No. of Filter Cartridges) (solvent/Cartridge)

Default values in lieu of waste test data: 50% volume for still residue; 0.5 gal/cartridge standard or split filters (1 gal/cartridge for Jumbo filters).

5. Solvent Characteristics

a. Toxicity

Perc is the only dry cleaning solvent that has been carefully studied and researched for a long period of time. It has been designated a Hazardous Air Pollutant (HAP) at the federal level and a Toxic Air Contaminant (TAC) at the state level. Perc is known to cause acute⁶ non-cancer health effects such as skin and eye irritation, irregular heart rhythm, respiratory irritation and central nervous system effects (headaches, intoxication, drowsiness and dizziness). Chronic⁷ exposure may cause liver and kidney dysfunction, and more serious central nervous system effects (diminished cognitive ability). The Office of Environmental Health Hazard Assessment has determined the URV⁸ for Perc to be $5.9 \text{ E-}06 \text{ } (\mu\text{g}/\text{m}^3)^{-1}$, and the chronic non-cancer reference exposure level to be $35 \mu\text{g}/\text{m}^3$. The acute non-cancer reference exposure level is $20,000 \mu\text{g}/\text{m}^3$. Rule 2-5, Table 2-5-1 lists information specifics on all TACs regulated by the District.

Reference exposure levels (REL) are used as indicators of potential non-cancer effects. A concentration below the REL would not be expected to exhibit adverse non-carcinogenic health effects. The acute REL is compared to the expected one-hour maximum concentration and the chronic REL is compared to the expected annual average concentration to determine the potential for non-carcinogenic health effects. The District lists all regulated TACs and their associated RELs and URVs in Rule 2-5, Toxics NSR, Table 2-5-1. Dispersion modeling using local meteorological data, facility dimensions, nearby building characteristics, ambient monitoring near dry cleaning facilities and source tests are used in conjunction with the engineering analysis to determine exposure levels to nearby residences and workers. Emission levels, proximity and dispersion can significantly factor into exposure determination.

Another significant solvent used in dry cleaning is Trichloroethylene (TCE), a halogenated solvent that has been used in spotting formulations to remove stains from fabrics and is listed in Table 2-5-1. Additionally, 1-bromopropane, also known as n-propyl bromide, a new halogenated solvent, is currently being marketed as a spotting solvent. N-propyl bromide is listed under California Proposition 65 as a chemical known to cause birth defects or other reproductive harm.

There are concerns that some of the newer halogenated solvent formulations may include potential health effects and toxicity issues that have yet to be identified and addressed from a regulatory standpoint. These will be addressed as new data about these newer compounds become known.

b. Flammability and Safety

All dry cleaning facilities should know the potential hazards associated with the process or solvent used in their equipment. Converted machine owners should consult their respective machine manufacturer for safety guidance on their solvent choice. The conversion may not be recommended by the solvent manufacturer or the machine manufacturer. Material safety data sheets (MSDS) with the chemical information, technical data and flammability details are available from the solvent distributor and the solvent manufacturer. The local fire department will consult the state fire code to determine proper handling and storage of the solvent.

⁶ Short-term

⁷ Long-term

⁸ Unit Risk Value is the estimated probability of a person contracting cancer from an ambient exposure to $1 \mu\text{g}/\text{m}^3$ over a 70 yr lifetime.

The fire code classifies solvent on the basis of flammability. A flammable liquid has a flashpoint below 100 degrees F. A combustible liquid has a flashpoint above 100 degrees F and is classified as follows:

- Class II liquids have a flash point at or above 100 degrees F and below 140 degrees F.
- Class IIIA liquids have a flash point at or above 140 degrees F and below 200 degrees F.
- Class IIIB liquids have a flash point at or above 200 degrees F and below 1500 degrees F.

Most of the newer dry cleaning solvents are classified as combustible liquids. Furthermore, there may be additional building code requirements, such as the installation of sprinkler systems that may have to be addressed, based on the category of the solvent and the amount of solvent used by the equipment. The local planning office will have information on all required building codes, submission requirements and details on the review and approval process.

6. Halogenated Solvents⁹

a. Perchloroethylene

Despite potential harmful health impacts, most dry cleaners in the District currently use Perc. Perc's classification by CARB as a probable carcinogen, however, has limited its popularity in recent years and encouraged increasing regulatory restrictions.

Perc is the most common name used to refer to the solvent known as Perchloroethylene or Tetrachloroethylene. It does not occur naturally in the environment. The English scientist Michael Faraday, using a thermal decomposition of hexachloroethane, first formally synthesized Perc in 1821. It is a chlorinated aliphatic hydrocarbon containing a double carbon bond. It is a colorless liquid at room temperature, nonflammable (no flash point) and has a boiling point of 250 degrees F. Perc is relatively insoluble in water and the combination of all of these properties makes it an ideal industrial solvent. Perc is also used as a starting material for making other products such as: adhesives, fabric finishers, metal degreasing, silicon lubricants, spot removers, water repellants and wood cleaners. However, historically, the largest application has been associated with the cleaning of textiles, known as dry cleaning.

The dry cleaning process uses non-water-based solvents to remove soil and stains from textiles and clothes. Commercial dry cleaning in the United States became more prominent in the early 20th century and the early solvents were petroleum based such as kerosene, gasoline and Stoddard. However, Perc had much greater stability than petroleum solvents and had better cleaning properties. By the mid-1930s, the U.S. dry cleaning industry had essentially adopted Perc as the preferred solvent.

⁹ Halogenated solvents are subject to Rule 11-16.

b. 1-Bromopropane (n-propyl bromide)

1-Bromopropane (n-propyl bromide or n-PB or DrySolv™), a VOC, is a solvent being developed as a drop-in alternative solvent for Perc secondary control machines. The solvent is more volatile than Perc and is known to have a strong odor. Rule 11-16 requires all new or modified halogenated solvent dry cleaning machines to be a fourth generation machine and operated according to the manufacturer's recommendations. Environtech International, Inc., the solvent manufacturer, recommends that all facilities replace all rubber gaskets and seals in their existing Perc equipment with Viton equivalents when switching from Perc to n-PB. The California Department of Health Services identified n-PB as a neurotoxin and a reproductive toxin and it is listed under Proposition 65. The compound has not yet undergone formal evaluation for TAC identification. The USEPA is currently reviewing n-PB for inclusion in several HAP standards and confirms the harmful health effects; however, USEPA has proposed allowing the use of n-PB, under the Significant New Alternatives Policy program (SNAP), as a replacement for halogenated compounds and ozone depleting compounds (ODC) such as methyl chloroform, 1,1,1-trichloroethane, CFC 113, and HCFC 141b in industrial processes involving limited human exposure. Most recently, in 2007, USEPA approved TCE and Perc for use in vapor degreasing, circuit board cleaning and other miscellaneous applications not related to dry cleaning. Since n-PB is a relatively new solvent to the U.S. markets, new data regarding potential toxicity are still being gathered.

7. Alternative Technologies¹⁰

a. Petroleum Solvent Cleaning

In 1855, the effectiveness of petroleum based solvents such as kerosene and gasoline in dry cleaning was discovered accidentally, and the solvents became some of the first to be used in the early dry cleaning industry. These solvents had a few shortcomings, however, such as low flash points (below 140 degrees F), odors, and flammability issues that curtailed widespread adoption. Perc, mainly because of its stability (with its lack of a flashpoint), would surpass petroleum based solvents and become the solvent of choice in the 20th century. However, in the last 10 years, with the development of newer high-flash point formulations (above 140 degree F), petroleum based solvents have become the most widely used alternative to Perc. Currently, there are more than 330 petroleum solvent dry cleaners in the District.

The newer formulated solvents are isoparaffins (hydrocarbon chain length: 9 to 13 carbon atoms), which are synthetic hydrotreated aliphatic hydrocarbons. The hydrotreatment removes trace quantities of the aromatic components (such as benzene) producing a less toxic odorless solvent, making it more ideal for dry cleaning applications. All of these solvents are classified by the California State Fire code as Class IIIA combustible liquids which have a flash point above 140 degrees F and below 200 degrees F.¹¹ There are several trade names for these types of solvents produced by various manufacturers.

The newer machines use third generation technology known as Closed-Loop Machines with computerized controls. The distinguishing characteristics are that they are dry-to-dry, ventless, and do not exhaust to the atmosphere. The footprint or size of the equipment is analogous to a Perc Machine. Some of the machines are equipped with nitrogen canisters to produce a "nitrogen blanket" that suppresses the remote possibility of potential solvent ignition. Hot air from the drying cycle is passed through a refrigerated condenser to recover solvent, and then the recovered liquid solvent and water mixture is sent to a water separator, while the remaining airstream is reheated by heating coils and recirculated back into the drum. The solvent recovered by the water separator then goes to the solvent storage tank. Distillation or solvent filtration by an adsorptive medium such as Tonsil® is used to recover the solvent.

¹⁰ Non-halogenated solvents will be subject to Regulation 8, Rule 17.

¹¹ A combustible liquid is defined as having a flash point at or above 100 degrees F.

Bacterial growth can be an issue with this solvent, creating odor problems that can be imparted onto garments. Solvents should be frequently distilled, and solvent tanks need to be bottom drained frequently, keeping the solvent clear of water contamination should prevent bacterial growth.

Newer types of petroleum closed-loop machines have been designed to use a powdered adsorbent called Tonsil®. Tonsil® is an acid activated form of calcium bentonite. Machines using this technology typically employ a mixture of 50% Tonsil® with a 50% diatomaceous earth blend. The Tonsil® manufacturers claim that their product has four major advantages:

- 1) Control of bacterial growth, thereby reducing odor problems;
- 2) No distillation of solvent is needed (contaminants are adsorbed), reducing potential fire hazards and resulting in lower power consumption;
- 3) Detergents are not necessary (providing a potential long-term cost savings measure); and
- 4) Non-colorfast dyes are removed (producing no dye bleeding on other garments washed in the same load).

Original load-cycle times for all petroleum closed-loop machines were approximately 75 minutes/load, but newer machines now have reduced this time to 60 minutes/load¹². The quicker cycles use a larger blower capacity to shorten the cycle time. The District currently exempts this source type from permit requirements.

i) DF-2000™

ExxonMobil launched DF-2000™ Fluid (DF-2000) in 1994 as an alternative to Stoddard and Perc. At present, it is the most widely used alternative solvent in the Bay Area. It is a synthetic mix of isoparaffins and cycloparaffins (naphthenes) consisting of C11 to C13 aliphatic hydrocarbons with a boiling point between 185 and 211 degrees C.

ii) EcoSolv®

Chevron Phillips Chemical Company LP produces a solvent called EcoSolv®, an isoparaffin mixture consisting of C9 to C13 aliphatic hydrocarbons with a boiling point between 181 and 209 degrees C.

iii) Shell Sol D60

Previously known as Shell Sol 140 HT (Shell 140), Shell Sol D60 is a high flash point hydrocarbon solvent with flash point @ 142°F. This solvent works well in closed-loop machines. It has a boiling point between 177 and 213 degrees C.

b. Volatile Methylated Siloxanes (decamethylcyclopentasiloxane)

This solvent was first manufactured by Dow-Corning in 1998, and is distributed by General Electric under the patented trade name GreenEarth™. It is a decamethylcyclopentasiloxane solvent mixture also known by the name of its chemical structure, D5. The flash point of this solvent is 171 degrees F and is higher than the flashpoints of the other hydrocarbon solvents. On the basis of flammability, D5 is also classified as a Class IIIA combustible liquid; the same designation given to the newer hydrocarbon solvents. This similarity to hydrocarbon solvents allows it to be used with hydrocarbon solvent dry cleaning equipment. Although some facilities have also used GreenEarth™ with (modified) equipment originally designed to use Perc, both the machine manufacturers and the solvent manufacturers do not recommend this option.

¹² Typical Perc Cycle times are 45 minute/load.

The machines using D5 solvent are closed-loop machines or third generation technology. The distinguishing equipment characteristics are: one unit, dry-to-dry, ventless, and does not exhaust to the atmosphere. The footprint or size of the equipment is analogous to a Perc Machine. D5 and water have a comparable specific gravity making solvent separation from water more complicated. The machine employs a specialized separator to achieve this task.

Original load-cycle times for all methylated siloxane solvent closed-loop machines were typically longer than hydrocarbon. Newer machine designs utilize a larger blower capacity to shorten the cycle time. However, cycle times are still longer than comparably designed hydrocarbon solvent cycles.

OHHEA evaluated the potential toxicity effects from exposure to decamethylcyclopentasiloxane, and issued a memorandum dated September 13, 2007. The results, while inconclusive, were not final and merits continued tracking from a regulatory perspective. The District currently characterizes the solvent by process as analogous to hydrocarbon dry cleaning and currently regulates this source type using an identical method.

c. Stoddard

Stoddard solvent, also known as Mineral Spirits or White Spirit, is a paraffin-based transparent liquid organic solvent commonly used in many industrial processes including but not limited to, degreasing, printing, painting and dry cleaning. Stoddard is a hydrotreated mixture of saturated aliphatic and alicyclic C8 to C12 hydrocarbons with a maximum content of 25% C8 to C12 alkyl aromatic hydrocarbons. Stoddard has a flash point of 110 degrees F, contains benzene¹³ and smells somewhat like kerosene.

Historically, the use of highly flammable petroleum solvents led to many fires and explosions, which resulted in heavy regulation of petroleum solvent dry cleaning in the United States at the start of the 20th century. In 1924, a dry cleaner based in Atlanta, Georgia named W.J. Stoddard worked with the Mellon Research Institute to develop a less volatile dry cleaning petroleum solvent. The solvent grew in popularity but was eventually replaced by Perc. Yet during its use, the brand recognition became a permanent synonymous identifier for this type of solvent. Currently, only one facility in the Bay Area uses Stoddard solvent and the technology used is first generation transfer equipment.

d. PureDry®

PureDry® (PureDry) was developed and produced by Niran Technologies, Inc. as a replacement for Perc. It is an isoparaffin hydrocarbon blend of approximately 96 percent by weight aliphatic hydrocarbons (C9 to C12) combined with approximately 4 percent by weight of two halogenated compounds, a formulated perfluorocarbon (PFC) used to suppress the flashpoint of the hydrocarbons and hydrofluoroether (HFE) used to accelerate drying. The solvent has a flash point 350 degrees F, which is higher than most petroleum solvents and is accordingly classified as a class IIIB combustible liquid (flashpoint greater than 200 degrees F). PureDry can be used in most hydrocarbon machines with minor adjustments to temperature and cycle times.

¹³ Benzene is a Toxic Air Contaminant.

e. Rynex™ (propylene glycol ether) Cleaning

Rynex™ is the trade name for one of the glycol ether technologies; it is also known as Rynex 3, since this is the third formulation of the solvent. Rynex™ is a biodegradable low volatile organic solvent (VOC) comprised primarily of aliphatic glycol ethers with a flash point higher than petroleum solvents and is classified as a class IIIB combustible liquid (flashpoint greater than 200 degrees F). Although glycol ethers are readily miscible with water making separation difficult in a typical distillation phase, Rynex 3 is lighter than water, and therefore floats on water after separation. Rynex 3 can therefore be used in most hydrocarbon machines with minor adjustments to temperature and cycle times. The differences in the physical properties between Perc and Rynex 3 make solvent conversions for Perc equipment difficult, and expensive. Although Rynex3 has been used in modified equipment originally designed to use Perc, both the machine manufacturers and the solvent manufacturers do not recommend this option. Several dry cleaners in the District currently use this solvent.

f. Carbon Dioxide Cleaning

Liquid carbon dioxide (CO₂) cleaning was originally examined by the USEPA through a contract with Los Alamos in 1994. Global Technologies and Raytheon Corporation presented a prototype at the Las Vegas Clean show in 1997. Over a dozen states have deployed CO₂ machines since 2000. Carbon dioxide dry cleaning technology uses pressurized CO₂ as a liquid solvent. These machines have a configuration similar to a Perc solvent machine, only with a larger footprint to accommodate the larger components needed to pressurize the drum. The drum is pressurized to a range between 700 and 800 pounds per square inch (PSI), which is about the same pressure used in a typical fire extinguisher.

The system is closed-loop with a cleaning chamber (drum), solvent storage unit, filtration, lint trap, and distillation. Jets inside the chamber circulate CO₂ and detergent through the clothes. The jets simulate spinning or agitation motion within the pressurized drum. The CO₂ solvent is eventually evacuated to prevent re-depositing of the dirt onto the garments. A typical cycle is 35 to 40 minutes. At the end of the cycle, the pressure is released and the CO₂ returns to a gaseous state. Cooling and drying of the garments occurs when the CO₂ evaporates, a nearly instantaneous process.

The CO₂ used as a solvent in dry cleaning does not contribute to global warming, because it is a by-product from an existing industrial operation, usually anhydrous ammonia operations (fertilizer production). Other commercial applications for liquid CO₂ have been to decaffeinate coffee beans and to carbonate beverages, such as soft drinks. The CO₂ can be stored in a bulk storage tank by the dry cleaner or the dry cleaner can use a service, which regularly changes out the empty tank as more CO₂ is needed.

Equipment costs for pressurized equipment, typically constructed of stainless steel, are high and hinder widespread adoption of this technology. Operational costs to optimally maintain the equipment needed to create the high pressure are more expensive than operational costs of a typical dry cleaner. Also, the cleaning technology is still evolving and, with only one manufacturer of CO₂ equipment in the United States, growth is expected to be slow. The District currently has two facilities using CO₂ machines.

g. Professional Wet Cleaning

Professional wet cleaning relies on water, detergent, conditioners and degreasers to clean clothing and textiles. Traditionally deployed by industry as a supplement to PERC dry cleaning, less than a dozen facilities in the Bay Area exclusively use wet cleaning. The wet cleaning process uses specific computer controlled equipment (washer, dryer) and specialized finishing equipment called tensioning equipment. Garments are washed in a carefully controlled environment and dried to a specific moisture level, via computer, to prevent shrinkage. The wet garments are hung and finished with the tensioning equipment. Any shrinkage that has occurred during the cleaning process is dealt with by stretching during the tensioning process, while the garment still retains residual moisture. This type of equipment has been available since 1991 and is generally less expensive than the equipment used by any of the other solvent alternatives.

h. Green Jet

The Green Jet machine also employs computer control similar to professional wet cleaning to clean and dry garments, but Green Jet cleaning is completed in a single unit. Garments are dehumidified to reduce surface tension, which allows the kinetic motion of the drum and pulsed air jets to remove non-soluble dust and soil. A lint chamber collects the dislodged grime while a specific amount of water-based cleaner (usually less than a pint) is jet injected, re-hydrating the fabric. The drum agitation combined with the felt pads located along the ribs and drum cylinder absorb the soluble soil. Once the wash cycle concludes, a characteristic drying and cool-down phase follow to complete the cycle.

8. Emerging Technologies

There are four emerging technologies that are anticipated to be marketed to the dry cleaning industry within the next few years. These technologies are: 1) Hydroclene Fluids, 2) Impress™; 3) Solvair™, and 4) Cold Water Cleaning Systems.

a. Hydroclene Fluids

Hydroclene is a clear liquid that represents a mixture of iso-, normal-, and cyclo-paraffins. The solvent has a flash point of 145 degrees F and a boiling point of 187 degrees C. Caled Chemical is the company developing this formulation, which is manufactured by Shell Chemical.

b. Impress™ Solvent

Impress™ is a biodegradable dry cleaning solvent that is another glycol-ether-based formulation. The solvent, aliphatic propylene glycol ethers, has a flash point of 190 degrees F and carries the same Combustible Liquid Class IIIA designation as most hydrocarbon solvents. Impress™, a VOC, can be used in most hydrocarbon machines with minor adjustments to temperature and cycle times. Lyondell Chemical Company is the company developing this formulation.

c. Solvair™ Dry Cleaning System

Solvair™ is a new hybrid dry cleaning technology that uses dipropylene glycol normal butyl ether (DPNB) and CO₂. DPNB is not a new solvent; it is a VOC and has been widely used in consumer products for over 20 years. The Solvair™ design exploits the low volatility of DPNB in a pressurized system and uses liquid CO₂ to extract the DPNB without using heat. Once extracted, the garments dry almost instantaneously, by depressurizing the equipment back to normal (~14.7 PSI). This technology is being developed by R.R. Street.

d. Cold Water Cleaning Systems

Cold water cleaning systems utilize typical wet cleaning transfer equipment (washer and dryer) and temperature specific biodegradable detergents to wash and dry all fabrics. Chilled water (36 to 39 degrees F) is used by the washer to prevent and minimize potential fabric shrinkage and may reduce the amount tensioning needing to be done at the end of each drying cycle. The manufacturers of cold water cleaning systems are Suntech Company, Ltd. and By-For The Cleaners, Inc.

III. PROPOSED AMENDMENTS

A. Regulation 8, Rule 27

The District originally adopted Rule 8-27, for Synthetic Solvent Dry Cleaning Operations as an ozone control measure in 1980. In 1994, however, the District adopted Rule 11-16 to incorporate new regulatory standards adopted at the federal and state levels (e.g., 1993 Perc NESHAP and ATCM). Once adopted by the District's Board, Rule 11-16 replaced Regulation 8, Rule 27. Rule 8-27 was retained as part of the District's regulations for SIP considerations; however, it is now proper to remove this obsolete rule. Staff recommends deleting this rule as a "housekeeping" measure.

B. Regulation 8, Rule 17

The proposed amendments to Rule 8-17 are intended primarily to update the equipment standards, control requirements and solvent definitions in the existing rule. This District regulation is currently applicable to petroleum solvents only. Although most of the newer solvent formulations are petroleum based, some are not. The newer alternative technologies currently available include a number of non-halogenated POC and NPOC solvents that need to be formally recognized and incorporated into the solvent definition used by this rule. To reflect the expanded applicability of the rule, the title of Rule 8-17 should be updated from "Petroleum Solvent Dry Cleaning Operations" to "Non-halogenated Dry Cleaning Operations." Further, Staff recommends updating the equipment standards in the current rule to reflect advances in technology that have been made since the rule was last amended, almost 20 years ago (in 1990).

1. Operational Requirements

The proposed changes specify additional operational requirements for facilities using non-halogenated solvent. These proposed requirements are more stringent than the District's current rule and are summarized below:

- All new machines must be closed-loop.
- Existing transfer machines will be allowed to continue to operate, but can only be replaced by a closed-loop machine.
- All facilities must keep records for exemption or permit compliance.
- All facilities must report annually or as required.
- All facilities must register new equipment.
- All facilities must register ownership change (Transfer of Ownership).

Additionally, there have been advances in alternative technologies since the last amendment in 1990 that need to be identified and codified into the rule. Staff therefore recommends incorporating these new standards as requirements into the current rule.

2. Prohibitions

One of the proposed amendments prohibits the highly emissive operational practice of transferring materials from the drum mid-cycle from a closed-loop machine to a separate dryer. Additionally, four obsolete equipment types are being prohibited: new transfer equipment, vented machines, drying cabinets and dip tanks. Currently, one facility within the District operates a transfer machine, which will be allowed to continue to operate (but may only be replaced by a closed-loop machine).. There are no examples of the other types of equipment in operation within the District. Finally, to prevent reintroduction of toxic and potentially toxic compounds, and to parallel the proposed amendments to Rule 11-16, halogenated solvents such as Perc or TCE are prohibited in spotting solution formulations. Staff recommends incorporating these prohibitions into the current rule.

3. District requirements

The District retains the regulatory authority to adopt requirements that are more stringent than state or federal specifications. These control and/or abatement mandates can be exercised in a variety of methods, such as by pollutant, process, equipment type, or even on a case by case basis. The adoption of stricter standards assures implicit compliance with all associated statutes. Often these “standards” are associated with recommended guidelines such as BACT. The District Board of Directors and/or Executive Officer reserve the right to grant the final authorization of these standards.

a) Existing Standards

All Rule 8-17 standards are currently more stringent than state or federal provisions.

The District has received delegation from the USEPA for regulation of petroleum dry cleaning equipment. The only federal standard that exists for petroleum dry cleaners is the NSPS standard¹⁴. Since there are no sources within the District that qualify as a major source as defined by this standard, the District is in compliance with all NSPS major source requirements by default. The NSPS definition of a major source uses more than 4700 gallons of petroleum solvent/year and also has a dryer drum capacity greater than 84 pounds (38 kg). The Districts standards apply to all petroleum dry cleaning equipment using less than 4700 gallons of solvent/year.

The Federal Clean Air Act defines a major source as emitting 10 tons/year of any single HAP, or 25 tons/year of any combination of HAPs or 25 tons/year of VOC.¹⁵ Currently, there are no petroleum dry cleaning sources within the District that exceed these emission levels to qualify as a major source.

There are no other existing federal standards for alternative solvent dry cleaning.

There are currently no state standards for petroleum or alternative solvent dry cleaning.

b) Proposed Standards

All proposed Rule 8-17 standards are currently more stringent than State or Federal provisions.

The current proposal is to add provisions to Rule 8-17 that continue the District’s established practice of setting requirements that are more stringent than state or federal provisions. These new requirements will update emission control standards to reflect the current level of technology and add recordkeeping and reporting requirements.

i) Expansion of the definition of solvent

Many alternatives to Perc now exist and more are introduced every year. Demand for them has only increased given the CARB-mandated Perc phase-out. Some of the alternative solvents are petroleum-based, but some are not. In order to capture all of the new alternative solvents in the regulation, District Staff recommends expanding the definition of “solvent” regulated by Rule 8-17 to include any non-halogenated solvent. The title of the rule should be changed from Petroleum Dry Cleaning Operations to Non-halogenated Solvent Dry Cleaning Operations to reflect this change.

¹⁴ New Source Performance Standards.

¹⁵ Section 112(a)(1) Clean Air Act.

ii) Additional definitions

Definitions have been added to parallel the definitions of Rule 11-16, where the description or process is similar. Other definitions define new equipment types or further clarify previous definitions. Appendix A has a more detailed summary of the proposed changes.

iii) Additional standards

The existing standards have been updated to better organize and define operational parameters. New standards have been added for closed-loop machines. Standards have also been added to parallel the controls of Rule 11-16, where the description or process is similar. A Prohibited Equipment/Operations standard has been added to prevent reintroduction of archaic equipment types and to ban practices that may cause unnecessary or excessive pollution. A halogenated spotting solution prohibition has been added and is further discussed for Rule 11-16 in part III.D.5.b(i) of this document. The purchase of halogenated spotting solution will be prohibited starting on July 1, 2009, however, use of halogenated spotting solution will not be prohibited until July 1, 2010, to provide a one year period for suppliers and dry cleaning facilities to reduce or exhaust existing inventories. Appendix A has a more detailed summary of the proposed changes.

iv) Additional administrative requirements

Additional requirements have been proposed to further define the information required by the District, to keep contact and permit information concurrent. A registration requirement is also added. Appendix A has a more detailed summary of the proposed changes.

v) Recordkeeping requirements

An updated, more definitive recordkeeping requirement has been added. The details parallel Rule 11-16 requirements for determining net solvent usage for permitted sources. Appendix A has a more detailed summary of the proposed changes.

4. Specific Rule Changes

The proposed changes to Rule 8-17 are listed by section in Appendix A.

C. Regulation 2, Rule 1, Section 120

The existing permit exemption level is for 700 gallons of petroleum solvent/year per facility. The proposed amendment to Regulation 2-1-120 would extend the exemption to all alternative solvents subject to Rule 8-17; lower the qualification level for the exemption from 700 gallons/year to 200 gallons/year, and add a new requirement that facilities register their exempt equipment. All of the proposed changes are more stringent than current state or federal regulations. Staff recommends incorporating these changes into the current rule.

1. Operational requirements

Alternative solvent technology has progressed from first generation transfer equipment to more efficient third generation closed-loop controls. Correspondingly, these machines now use less solvent and have lower emissions. Lowering the exemption level would track these technological improvements. The proposal is to lower the gross solvent usage exemption qualification levels for a facility, currently set at 700 gallons/year, to 200 gallons/year. Facilities that use 200 gallons per year or more must obtain a permit to operate from the District. All facilities using less than 200 gallons/year would remain exempt from permit requirements, but would now need to register their equipment with the District.

2. Registration

As a baseline determination tool, registration requirements for exempt dry cleaning facilities would assist in providing a complete picture to determine the location, number of facilities, machine characteristics, and types of solvent used in the Bay Area. Registration would recover costs of inspecting these facilities.

3. Basis

In 2004, The District surveyed 250 alternative solvent dry cleaning facilities to determine typical usage over a one year period. The data gathered from the questionnaires revealed very different operating practices for different sizes of machines, even from the same manufacturer. Net solvent usage, solvent recovery data, and mileage¹⁶ numbers varied widely. Gross solvent usage provided a fairly consistent dimension of measurement. Figure III – C1 shows that only 13 facilities, *i.e.*, 5% of all alternative solvent facilities, had gross solvent usage over 200 gallons/year. The information collected by the questionnaire provided compelling evidence that lowering the exemption level was reasonable and would not present an unacceptable burden for alternative solvent facilities.

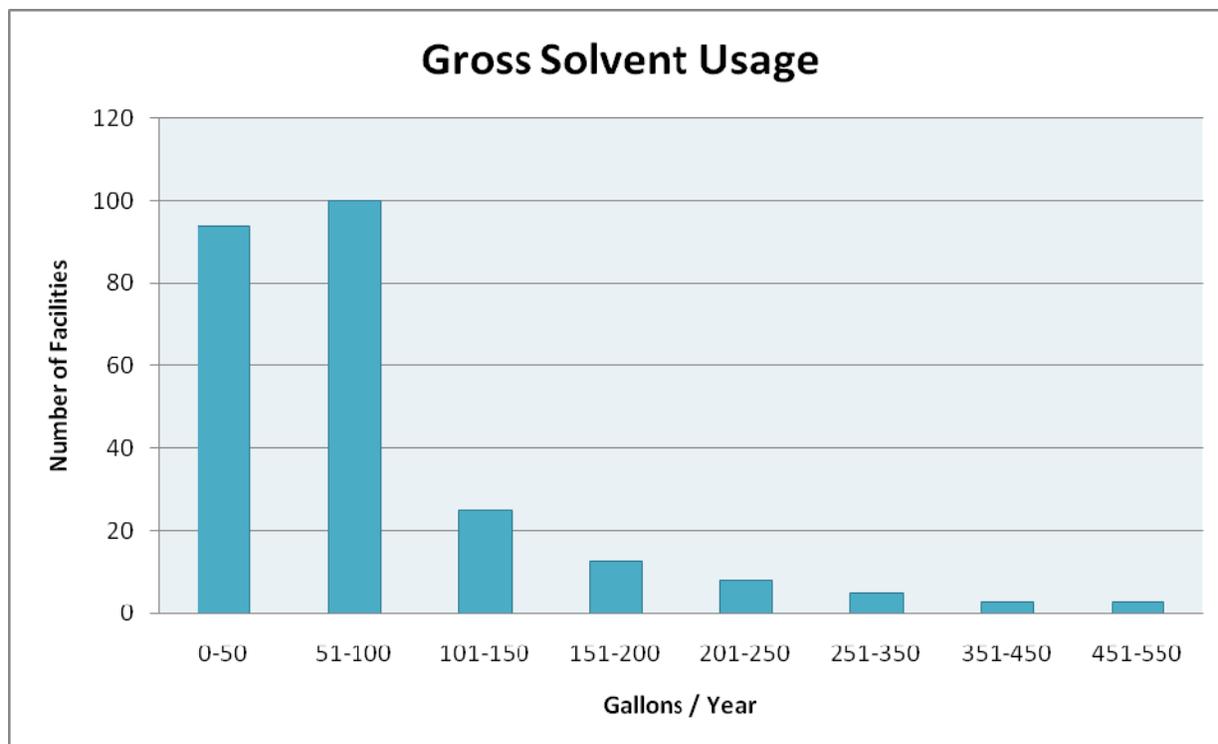


Figure III – C1 Alternative Solvent Annual Usage

¹⁶ The efficiency of solvent use at a facility (pounds of materials cleaned per gallon of solvent).

D. Regulation 11, Rule 16

The proposed amendments to Rule 11-16 are intended to primarily adopt the new requirements of the Perc ATCM into the existing rule. This District regulation is currently applicable to both Perc and synthetic solvents, whereas the ATCM is specific to Perc only. Simply adopting the ATCM by reference would therefore relax the Districts' current standard for all of the existing and potential non-Perc synthetic solvents currently covered by Rule 11-16. Staff recommends amending the current rule to incorporate the new Perc ATCM requirements. Staff also recommends, however, adopting additional requirements that are more stringent than the ATCM. The amended NESHAP, amended ATCM and the proposed rule amendments are compared in Table 5¹⁷.

1. Operational Requirements

The ATCM specifies additional operational requirements for facilities using Perc solvent. These requirements are more stringent than the District's current rule and are summarized below:

- Facility must report make, model, serial number, and age of machine.
- Annual leak checks with a leak detector that gives a quantitative result.
- Facility must have the following spare gaskets (loading door, still, lint trap, button trap, and water separator) on premises.
- Facility must have a spare lint filter.
- Button and lint traps must be cleaned and inspected on a daily basis.
- Shorter times allowed for repair (up to 7 days in rare cases).
- 5 years of recordkeeping.
- Trained operator must be on site while dry cleaning equipment is in operation.
- The original record for the completion of the environmental certification for each trained operator must be retained during the employment of that person and a copy must be retained up to 2 years beyond separation of employment at the facility.

For the District to demonstrate equivalence, these ATCM standards must be added. Staff therefore recommends incorporating these requirements into the current rule.

2. Equipment Prohibitions

The ATCM prohibits new Perc solvent equipment, effective January 1, 2008. The District is currently enforcing this provision and is in compliance with the ATCM mandate. No permits for new Perc solvent equipment have been issued on or after January 1, 2008. Additionally, three obsolete equipment types are prohibited under the ATCM: external water repelling operations¹⁸, drying cabinets and dip tanks. There are no sources of these types operating within the District. Adopting these explicit prohibitions will demonstrate equivalence with the ATCM equipment prohibition standards and prevent a reintroduction of this more emissive type of technology. Staff recommends incorporating these prohibitions into the current rule.

¹⁷ Table 5 is on p. 39.

¹⁸Water repelling operations must be completed inside closed-loop equipment.

3. Equipment Phase-out Provisions

The ATCM requirements mandate a Perc equipment phase out starting on July 1, 2010. These requirements are more stringent than the District's current rule. Specifically, the ATCM:

- Eliminates the use of existing Perc machines at co-residential facilities by July 1, 2010;
- All converted machines must cease operation on July 1, 2010.¹⁹
- Requires that machines that are 15 years or older be removed from service effective July 1, 2010;
- Requires that all Perc solvent equipment prohibited by January 1, 2023.

Once the equipment has been retired on/after July 2010, then the equipment may not be retained after that date for continued water repelling operations. The equipment date of manufacture is used to determine the "age" of the equipment. If the date cannot be determined, it must be retired on July 1, 2010. Staff recommends incorporating these Perc solvent ATCM phase out provisions into the District's current rule.

4. Perc manufacturers, Distributors and Reseller Requirements

The ATCM requirements identify recordkeeping requirements for Perc manufacturers, distributors and resellers who do business in the state of California. They are required to report and keep records of all Perc solvent transactions and submit them to regulatory agencies on an as needed basis. Staff recommends incorporating these new requirements into the current rule.

5. District requirements

The District retains the regulatory authority to adopt requirements that are more stringent than state or federal specifications. These control and/or abatement mandates can be exercised in a variety of methods, such as by pollutant, process, equipment type, or even on a case by case basis. The adoption of stricter standards assures implicit compliance with all associated statutes. Often these standards are associated with recommended guidelines such as BACT, or TBACT. The District Board of Directors and/or the Executive Officer reserve the right to grant the final authorization of these standards.

a) Existing Standards

Rule 11-16 currently has three standards that are more stringent than state or federal provisions.

i) Ventilation

The District requires ventilation to promote dispersion of fugitive solvent vapors and reduce overall solvent exposure to nearby receptors working and living near a dry cleaning facility. Additional ventilation is primarily used as a risk mitigating measure, lowering the potential cancer risk to acceptable levels.

¹⁹ converted to close loop, these once vented machines use an external water-cooled "chiller" for primary control.

ii) Secondary Control

The process for dry cleaning is very similar in most mechanical and design applications, regardless of solvent type, making the type of emission controls almost universal. The BACT standard for synthetic solvent equipment has been a 4th generation secondary control machine. The TBACT NSR standard for synthetic solvent equipment also requires secondary control. Carbon adsorption is currently the most effective form of secondary control available for dry cleaning technology. The solvent emissions concentrations from the drum at the end of a typical Perc solvent cleaning cycle have been measured at less than 300 ppmv, an effective implementation of this equipment standard.

iii) Synthetic Solvent Applicability

The strict operational, maintenance, recordkeeping and reporting requirements of Rule 11-16 specific to Perc solvent equipment have extended applicability to all synthetic solvent equipment.²⁰ All synthetic solvents are then subject to the same standards as Perc solvent such as secondary control for all new sources, regular leak checks, proper equipment maintenance, solvent inventory, maintenance records, hazardous waste manifests and annual reporting. This extension of BACT standards to all synthetic solvents is one of the most comprehensive and effective regulatory methods for this solvent type. This extended applicability maintains a uniform standard for compliance determination, and simplified regulatory requirements for all synthetic solvent equipment.

b) Proposed Standards

The current proposal is to add three standards to Rule 11-16 that are more stringent than state or federal provisions.

i) Spotting Solution Formulation Prohibition

The proposal includes a ban on the purchase and use of spotting solutions containing halogenated solvents, including Perc. The purchase prohibition would become effective on July 1, 2009, and the use of such formulations would become effective on July 1, 2010. The one year gap between the purchase and use prohibitions is intended to allow suppliers and facilities time to reduce or exhaust their existing inventories.

Spotting solutions are commonly used by dry cleaning facilities to remove localized spots or stains on fabrics such as drapes, clothing or other textiles, and may be applied before or after the dry cleaning process. Halogenated solvents, such as Perc, trichloroethylene (TCE) or methylene chloride are still being used for spotting, either as a component of a solution or in pure form, because of their effective solvent properties. Effective, alternative formulations also exist. Although some are soy- or water-based, most formulations contain mixtures of more volatile VOCs.

The proposed ban, in conjunction with other proposed amendments to Rule 11-16 that are described in this report, would eliminate the use of Perc in dry cleaning. The state-mandated Perc phase-out applies only to Perc dry cleaning equipment, not spotting agents. Thus, without the ban, facilities would be allowed to continue to use Perc (as a spotting agent), even after the state-mandated phase-out of Perc dry cleaning. By banning halogenated spotting solutions, the proposed amendment would eliminate the exposure of dry cleaners and their customers and nearby residents to Perc—as well as other halogenated solvents—through this “spotting” pathway. Additionally, the ban would eliminate this type of hazardous waste from the effluent streams of both dry and wet cleaning systems.

²⁰ unless the section or subsection is specifically worded for Perc solvent.

CARB is in the initial stages of modifying the California Consumer Products Regulation to ban halogenated solvents to prevent manufacturers from reintroducing these toxic compounds as they reformulate their consumer spotting products to comply with lower VOC requirements. If instituted, a state ban would be consistent with the District ban proposed here.

Staff recommends incorporating this new prohibition against halogenated spotting solutions into the current rule.

ii) Reporting Requirement

The Perc ATCM requires all Perc equipment older than 15 years from date of manufacture to cease operation starting July 1, 2010. The proposal is to require all Perc facilities to declare their intent by December 31, 2009 either to install alternative solvent equipment or to retire their existing equipment. The intent is to obtain advanced confirmation for scheduling a final inspection by enforcement staff or to encourage submission of all applicable paperwork for the alternative solvent equipment in advance of the Perc phase out deadline. The reporting requirement will facilitate an orderly transition in advance of the initial Perc solvent equipment prohibition date. Staff recommends incorporating this new requirement into the current rule.

iii) ATCM Extension

The proposal is to apply certain new ATCM requirements—which apply only to Perc—to all synthetic (halogenated) solvents covered by Rule 11-16. Thus, all synthetic solvent equipment subject to Rule 11-16 would be required to comply with the stricter operational, maintenance, recordkeeping and reporting requirements mandated for Perc solvent. These stricter standards would not only reduce potential exposure to a specific toxic air contaminant (Perc), but would become generalized to all potential toxic air contaminants. All synthetic solvent equipment would be required to the following:

- Facility must have the following spare gaskets (loading door, still, lint trap, button trap, and water separator) on premises.
- Facility must have a spare lint filter.
- Button and lint traps must be cleaned and inspected on a daily basis.
- Shorter times allowed for repair (up to 7 days in rare cases).
- 5 years of recordkeeping.

Synthetic solvent equipment would not be subject to Perc operator certification or Perc solvent phase out requirements. Staff recommends incorporating these equipment and operational standards for all synthetic solvents into the current rule.

6. Specific Rule Changes

The proposed changes to Rule 11-16 are listed by section in Appendix B. Comparison of the proposed rule with the amended NESHAP and amended ATCM are summarized in Table 5.

IV. EMISSIONS and EMISSIONS REDUCTIONS

The District’s preliminary 2008 emissions inventory indicates that the reported net solvent emissions from Perc dry cleaning sources is 0.405 tpd NPOC and 0.14 tpd from POC hydrocarbon equipment. Additionally, 2008 emissions from spotting formulations show 0.11 tpd from halogenated (primarily VOC) spotting formulations. The changes outlined in this proposal will reduce emissions for all District dry cleaning equipment.

A. Regulation 11, Rule 16: Perc ATCM equipment phase-out

The new ATCM requirements will completely eliminate Perc dry cleaning by 2023. Starting in 2010, existing permitted Perc solvent equipment must be removed from service once the equipment reaches 15 years of age. Figure IV-A1 shows the projected changes to the emissions profile, assuming that dry cleaning facilities in the District transition to hydrocarbon solvent closed-loop equipment. 2009 starts with 0.14 tpd for the 330 existing Hydrocarbon machines and moves up to 0.36 tpd once all facilities convert. Of course this is the expected worst case. Some facilities may choose to convert to non-toxic biodegradable alternatives such as wet cleaning. Perc solvent starts at 0.405 tpd for the existing 500 facilities and falls to zero over 15 years.

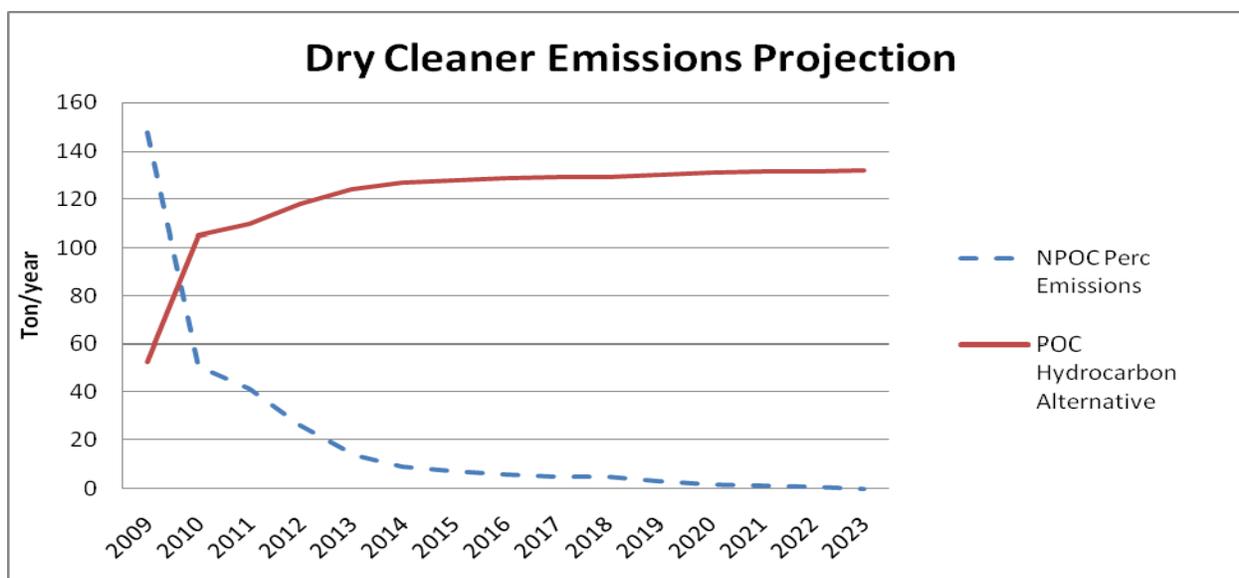


Figure IV – A1 Perc Solvent Equipment Emissions Projection

B. Regulation 8, Rule 17: Closed-Loop Equipment Requirement

Of the facilities in the District that use alternative (non-Perc) solvent for their dry cleaning operations, 87% use hydrocarbon solvent. Thus, the most probable scenario under the new ATCM and proposed amendments to Regulation 11, Rule 16 is that facilities will adopt hydrocarbon solvent equipment when they phase out Perc. Figure IV-B1 shows the worst case scenario—that all of the 500 Perc facilities currently operating in the District will choose to switch to hydrocarbon transfer machines (which are the existing rule standard) instead of less emissive closed-loop machines (which are proposed)—and the projected impacts to the associated emissions profile. Requiring closed-loop equipment as proposed would generate a potential reduction in emissions in 2010 of 1.82 tpd VOC which would steadily rise to a savings of 4 tpd VOC by 2023. This would be an 87% reduction in potential VOC emissions.

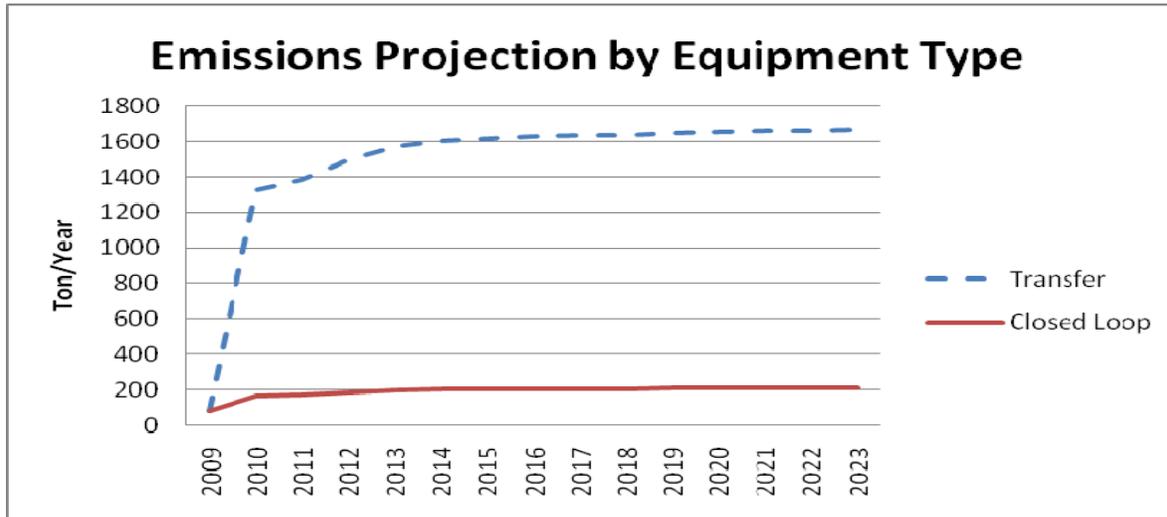


Figure IV-B1 Projected Emission Reductions by Proposed Closed-Loop Technology Standard

C. Regulation 11, Rule 16 & Regulation 8, Rule 17 Halogenated Spotting Solution Prohibition

Regardless of the type of equipment and solvents they use, all dry cleaning facilities utilize spotting agents to remove undesirable textile stains. Perc and TCE are carcinogens that are classified as HAPs and TACs, yet they comprise the most widely used solvents in spotting formulations. Both compounds have been found in effluent stream test samples of both dry and wet cleaning equipment.²¹ Because Perc and TCE are listed as hazardous compounds, a waste stream containing either compound would be classified as hazardous waste and would be required to be disposed of as such.

The emissions produced by these chemicals could easily be reduced by using alternative formulations that already exist. Figure IV-C1 shows that a significant 66% reduction from current levels of VOC emissions would result if facilities switch to alternative spotting solutions, even if facilities use 20% more quantity of the alternative formulations.

The largest contributor of VOC emissions from the halogenated spotting solutions is TCE with 0.11 tpd, with Perc emitting only 0.0005 tpd. However the new formulations, a mix of the highest VOC alternatives comprised of 50% hydrocarbon and 50% low-VOC soy, emit a combined 0.025 tpd. The data for these emission projections were provided by California suppliers and cleaners participating in spotting agent testing.²²

²¹ IRTA, 2007.

²² IRTA, 2007.

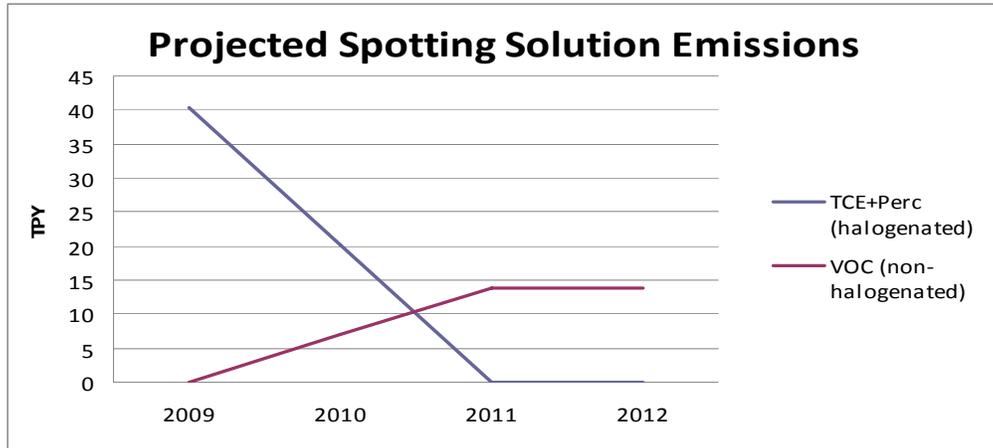


Figure IV-C1 VOC emission reductions achieved using non-halogenated spotting solutions

D. Regulation 8, Rule 27, VOC

There are no expected emission reductions from the deletion of this rule.

E. Regulation 2, Rule 1, Section 120, VOC

There are no quantifiable emission reductions from the lowering of the exemption limit from 700 gallon/year to 200 gallon/year; however a lower exemption level is an incentive to emit less.

V. ECONOMIC IMPACTS

Staff conducted a cost and cost effectiveness analysis based on information developed by CARB staff. A socioeconomic analysis was also performed along with an incremental costs effectiveness analysis and an analysis of the potential impacts to the District. The results for ease of reference have been broken down by rule where necessary.

A. Costs and Cost Effectiveness

1. Regulation 2, Rule 1, Section 120

There is no control equipment costs associated with the registration of equipment. The current proposal would require registration for all facilities that use non-halogenated solvent equipment that are exempt from permit requirements. The annual registration fee is \$125/year with \$180 initially charged for new registrants. All currently registered facilities will automatically transition to the \$125/year fee. Equipment using 200 gallons/year or more of non-halogenated solvent must obtain a District permit in accordance with Regulation 8, Rule 17. The fees are necessary to recover District costs associated with compliance inspections and administrative tasks.

2. Regulation 8, Rule 17

The use of closed-loop control technology for exempt petroleum equipment has been voluntary by the dry cleaning industry for over the last 17 years, largely as an environmentally correct incentive to switch out from perc solvent. The current proposal formally requires that all new machines be closed-loop, which would prevent the re-introduction of the older, more emissive transfer equipment should the price of the solvent, the equipment or the process make transfer machines attractive again in the future. Current annual permit renewal fees are based on drum capacity and equipment less than 100 lb. is \$217 and \$4.50/ lb. is added if the drum capacity is over 100 lb.

3. Regulation 8, Rule 27

There is no control equipment costs associated with the deletion of this rule.

4. Regulation 11, Rule 16, NPOC

CARB staff performed a Technical Assessment Report (CARB 2006) as supporting documentation for the cost analysis to estimate the implementation of the ATCM amendment and included portions from the report in the preliminary Initial Statement of Reason document. CARB estimated the costs to be approximately \$1.06 million dollars/year statewide over 15 years. Table 4 shows typical costs in 2005 dollars.

Table 4. Machine Cost Comparison for a Typical Dry Cleaning Facility¹

Machine Solvent Type	Installation Cost	Typical Machine Cost	Machine Cost Difference Perc (dry-to-dry) to Alternative (dry-to-dry)
Perc-Secondary Control (40-lb capacity)	\$2,500 – \$3,000	\$43,900	-
Perc-Secondary Control (40-lb capacity) w/chiller or cooling Tower	\$3,000 - \$5,000		
Hydrocarbon (50-lb capacity)	\$5,000 - \$6,000	\$61,000	+\$17,100
GreenEarth™ (50-lb capacity)	\$5,000 - \$6,000	\$63,000	+\$ 19,100
Water-Based Cleaning Green Jet (45-lb capacity)	\$2,000 - \$2,500	\$30,000	-\$13,900
Professional Wet Cleaning (washer/dryer/tensioning equip.)			
Soft Mount (25-35 lb capacity)		\$37,800-\$40,500	-\$6,100 to -\$3,400
Hard Mount (30-40 lb capacity)		\$35,700-\$39,600	-\$8,200 to -\$4,300
CO2 (60-lb capacity)	\$50,000	\$140,000	+\$96,100

1. Table VII-2 from CARB 2006.

Approximately 50 facilities have already converted from Perc to petroleum solvent since 2004. Currently, 98% of the facilities that have switched from Perc have switched to hydrocarbon based solvents. If we assume that the remaining Perc facilities also convert to hydrocarbon and do not choose other alternatives such as wet cleaning or CO2, and if we use the costs that are listed in Table 4 (in 2005 dollars), the annual costs for the remaining Perc facilities to convert are conservatively estimated to be \$2,217,000/year. At the end of the 15 years, per CARB's ATCM requirements, Perc solvent use in dry cleaning equipment would be completely eliminated in the Bay Area. All further cost analysis and justification basis is available from CARB via its website or written request and contained in the Final Statement of Reasons for Rulemaking, Public Hearing to Consider Adoption of the Amendments to the Control Measure for Perchloroethylene Dry Cleaning Operations and Adoption of Requirements for Manufacturers and Distributors of Perchloroethylene.

Current annual permit renewal fees are based on drum capacity and equipment less than 100 lb. is typically \$217 and \$4.50/ lb. is added if the drum capacity is over 100 lb.

B. Socioeconomic Impacts

Section 40728.5 of the California Health and Safety Code requires state air districts to assess the socioeconomic impacts of the adoption, amendment or repeal of a rule if the rule is one that “will significantly affect air quality or emissions limitations.” Bay Area Economics of Emeryville, California has prepared a socioeconomic analysis of the proposed amendments to Regulation 2, Rule 1; Regulation 8, Rule 17; Regulation 8, Rule 27; and Regulation 11, Rule 16. District staff has reviewed and accepted this analysis. The analysis concludes that the affected facilities impacted by the proposed changes should not result in significant impacts, either through economic dislocation or loss of job.

C. Incremental Cost Effectiveness

The District is required to conduct an incremental cost effectiveness analysis prior to the adoption of any Best Available Retrofit Control Technology (BARCT) rule or feasible measure pursuant to Health and Safety Code section 40920.6(a)(3). Under this section, the District must (1) identify one or more potential control options which achieves the emission reduction objectives for the proposed rule; (2) determine the cost effectiveness of each option; and (3) calculate the incremental cost effectiveness of each option. For the purpose of this analysis, cost effectiveness means “the cost, in dollars, of the potential control option divided by emission reduction potential, in tons, of the potential control option.” Health and Safety Code section 40920.6(a)(2). To determine the incremental cost effectiveness, then, the District must “calculate the difference in the dollar costs divided by the difference in the emission reduction potentials between each progressively more stringent potential control option as compared to the next less expensive control option.” Health & Safety Code section 40920.6(a)(3).

1. Closed-Loop Standard for Hydrocarbon Solvent (Regulation 8, Rule 17)

The baseline assumption is that all 500 existing Perc machines in the District which will need to be removed from service under the new ATCM and proposed amendments to Rule 11-16 will be replaced with non-halogenated (hydrocarbon) solvent transfer machines. The mean VOC emissions are projected to be 2.75 ton/day. The estimated annual costs of the transfer equipment (capital & installation) are \$17,674 and the annual operation and maintenance (O&M) costs \$10,634 with a total annualized cost for 500 machines are estimated to be \$14,154,000²³. The control system option proposed in the proposed amendments to Rule 8-17 is closed-loop equipment. This newer type of equipment achieves an overall control efficiency of 87.5%. The closed-loop equipment costs \$66,500 (capital and installation), amortized over 10 years at 10% interest with an annual operation and maintenance (O&M) costs estimated to be \$27,911²⁴. Installation of this technology would achieve a potential emissions reduction of 2.41 ton/day of VOC at a cost of approximately \$13,955,500 District-wide.

Incremental cost effectiveness can be calculated according to the following formula.

$$ICE = \frac{C_{option} - C_{proposal}}{ER_{option} - ER_{proposal}}$$

Where:

- ICE** = incremental cost effectiveness,
- C_{option}** = annualized cost of the control option,
- C_{proposal}** = annualized cost of the proposal,
- ER_{option}** = potential emissions reduction that would be achieved by the control option,
- ER_{proposal}** = potential annual emissions reductions that would be achieved by the proposal.

$$ICE = \frac{\$14,154,000 - \$13,955,500}{(0 \text{ tpd} - 2.41 \text{ tpd}) \times 365 \text{ days}}$$

= \$226 per ton savings

²³CARB 2006, Table VII-5.

²⁴CARB, 2006.

Thus, adoption of closed-loop technology would result in an annual monetary savings of \$226 per ton of VOC reduced, making closed-loop equipment more cost effective control option than transfer equipment. Each hydrocarbon solvent dry cleaning facility would save \$397 per machine/year by operating closed-loop equipment over transfer equipment. Staff recommends closed-loop technology as the new effective control standard for all new hydrocarbon dry cleaning equipment.

2. Spotting solutions (Regulation 11, Rule 16 & Regulation 8, Rule 17)

For this analysis, the District assumes, based on data from dry cleaning facilities and suppliers, that 95% of facilities currently use halogenated spotting solutions for all of their spot cleaning. Based on that same data, the District estimates that approximately 40.2 ton/year (0.11 ton/day) of TCE and 0.2 ton/year (0.0005 ton/day) Perc are emitted for a combined total of 0.11 ton/day in the Bay Area from spotting solution formulations.²⁵ This assumes 8 gallon/year of halogenated spotting formulation usage per dry cleaner, at \$46 per gallon costing a total of \$305,440 per year by dry cleaners located within the District.

The proposal is to prohibit the use of halogenated spotting formulations in favor of other lower emitting hydrocarbon alternative solvents such as acetates and low-VOC soy formulations that are currently available on the market. Assuming a total of 10 gallon/yr of alternative spotting formulation used for each of the 830 facilities with 5 gallon/year hydrocarbon alternative at \$40 per gallon and 5 gallon/year low-VOC soy at \$25 per gallon produces a total projected cost of \$269,750. This proposed change would produce a 66% emission reduction of VOC (0.07 ton) per day.

Incremental cost effectiveness can be calculated according to the following formula.

$$ICE = \frac{C_{option} - C_{proposal}}{ER_{option} - ER_{proposal}}$$

Where:

ICE	=	incremental cost effectiveness,
C_{option}	=	annualized cost of the control option,
C_{proposal}	=	annualized cost of the proposal,
ER_{option}	=	potential emissions reduction that would be achieved by the control option,
ER_{proposal}	=	potential annual emissions reductions that would be achieved by the proposal.

$$ICE = \frac{\$305,440 - \$269,750}{(0 \text{ tpd} - 0.07 \text{ tpd}) \times 365 \text{ days}}$$

= \$1347 per ton savings

The adoption of the non-halogenated spotting formulations with a 20% greater usage than the halogenated solvent produces a net savings of \$ 43 per facility and results in an overall collective cost savings of \$ 1347 per ton of VOC reduced using the alternative formulations, making it economical in terms of savings and effective in VOC reduction. Staff recommends non-halogenated spotting formulation technology as the new cost effective control measure for the reduction of VOC emissions.

3. Rule Deletion (Regulation 8, Rule 27)

There are no incremental costs associated with this rule deletion.

²⁵ IRTA, 2007.

4. Change of Exemption Limit (Regulation 2, Rule 1, Section 120)

There are no incremental costs associated with lowering the permit exemption limit.

D. District Impacts

The proposed amendments are expected have an impact on District resources. The potential impacts of each proposal are discussed separately below.

1. Regulation 8, Rule 27

No sources will be affected by this rule deletion.

2. Regulation 8, Rule 17

The majority of sources are expected to remain exempt. Applications for the administration, evaluation and compliance determination of new equipment permits are expected over the next 15 years, with no additional resources required. Costs are expected to be recovered by permit fees.

3. Regulation 11, Rule 16

The majority of permitted halogenated solvent dry cleaning sources are expected to be retired over the next 15 years. There are costs to administer, monitor and provide data to CARB for all sources regulated by this rule. During routine inspections, District staff will inspect each source to verify that it is retired in compliance with the ATCM. No additional resources will be required; costs are expected to be covered by permit fees.

4. Regulation 2, Rule 1, Section 120

The proposed registration requirement will require facilities using less than 200 gallons/year of alternative solvents (facilities using any amount of Perc or solvents containing more than 1% by weight of any halogenated compound do not qualify) to register with the District all alternative solvent dry cleaning equipment. This requirement is expected to make these facilities easier to track and evaluate for compliance. The initial and annual registration fees are expected to cover the administrative, inspection and other costs associated with these sources. Fee collection will be automated and integrated into the District's current billing structure.

Proposed changes to the permit exemption limit would require facilities using between 200 gallons/year and 700 gallons/year of alternative solvents to obtain District permits for all alternative solvent dry cleaning equipment. (Facilities using more than 700 gallons/year would be required to obtain permits too, as they are already required to do under the current rule.) Administrative, inspection, and other costs are expected to be recovered by permit fees.

VI. REGULATORY IMPACTS

Section 40727.2 of the Health and Safety Code requires an air district, in adopting, amending, or repealing an air district regulation, to identify existing federal and that air district's air pollution control requirements that apply to the same equipment or source type affected by the proposed change in air district rules. The air district must also identify any state or other air pollution control requirements and guidelines that apply to the same equipment or source type and of which the air district has been informed pursuant to the statute. The air district must then note any difference between these existing requirements and the requirements imposed by the proposed change.

A. Regulation 8, Rule 27

All requirements addressed by this rule transferred to Regulation 11, Rule 16 since 1994. Accordingly, there are now no federal, state or other applicable requirements to address relative to the retirement of this rule.

B. Regulation 2, Rule 1, Section 120

The District has not identified any federal, state or other requirements that pertain to alternative solvent dry cleaning exemptions within the District.

C. Regulation 8, Rule 17

The District has not identified any federal, state or other requirements that pertain to permitting alternative solvent dry cleaning equipment within the District.

D. Regulation 11, Rule 16

One federal and two state requirements apply solely to Regulation 11, Rule 16:

- 40 CFR Part 63, National Emission Standards for Hazardous Air Pollutants (NESHAP) for Source Categories: Subpart M, National Perchloroethylene Air Emission Standards for Dry Cleaning Facilities, Environmental Protection Agency, July 11, 2008.
- 17 CCR, Section 93109, Airborne Toxic Control Measure (ATCM) for Perchloroethylene Emissions from Dry Cleaning Operations, California Air Resources Board, January 25, 2007.
- 17 CCR, Section 93110, Environmental Training Program for Perchloroethylene Dry Cleaning Operations, California Air Resources Board, May 4, 1994 (Environmental Training Requirements).

The proposed amendments are in compliance with all applicable provisions of the NESHAP and the ATCM. A comparison of each provision of the proposed rule as it compares with the ATCM and NESHAP is contained in Table 5, demonstrating the effective stringency of the proposal.

The Environmental Training Requirements have been already addressed in the existing rule since 1994 and have not changed. Thus, Rule 11-16 is, and remains, in complete compliance with all of this statute's applicable provisions.

Table 5. Comparison of Proposed Regulation 11, Rule 16 with amended ATCM and amended NESHAP

BAAQMD Reg. 11-16, Section (s)	ATCM, 17CCR Section 93109 Subsection (s)	NESHAP, Part 63, Subpart M Section (s)	Comments
11-16-101	(a)	320 (a)	District is more explicit because the scope includes Perc and all synthetic solvents. NESHAP & ATCM only regulate Perc Solvent.
11-16-102	(b)&(h)(4)	322 (a) (3)	ATCM: Water Repellant Treatment & Dip Tank Operations are prohibited. NESHAP: allows transfer operations of Perc saturated garments, if enclosed and ventilation operates continuously. The ATCM is more stringent. District is more comprehensive because the applicability is for all synthetic solvent. The District is incorporating the ATCM provisions and will be just as stringent for Perc solvent.
11-16-103	--	--	Exemption & applicability Rule 8-17 for alternative solvents.
11-16-104	(e) & (g)	322 (o) (4)	Relocation exemption- ATCM: no new facilities after 1/1/08; eliminates relocated facilities. NESHAP: no new Co-Residential Facilities or Relocations after 12/1/05. NESHAP is more stringent for Co-Residential Facilities on or after 12/01/05. The District has no facilities that qualify for this provision. The ATCM, once enacted is more stringent because it applies to all facilities. This provision will be deleted to comply with the ATCM.
11-16-105	h (1)	322 (a) (3)	Drying Cabinets - ATCM: prohibited 1/1/08. NESHAP: allows transfer of garments if the source is enclosed. The ATCM provision is more stringent. This provision will be deleted to comply with the ATCM.
11-16-106	e (2)	322 (a) (3)	Pass Through Clean Room Garment Cleaner deletion. Obsolete Definition. No Sources of this type exist.
11-16-108	g	--	ATCM clarification of District approval to mean APCO approval and section (g), which allows relocations at District's discretion, is not applicable. The District is more stringent because relocations for Perc equipment are no longer allowed.
11-16-241	e (2)	322 (a) (3)	Pass Through Clean Room Garment Cleaner deletion. Obsolete Definition. No Sources of this type exist.
11-16-242	--	--	Perceptible Vapor Leak - obsolete definition deleted.
11-16-266	--	--	Water Repellant Operation deleted, replaced by section 279 to be specific as ATCM. No NESHAP equivalent.
11-16-267	d(1)	--	ATCM incorporation, More specific than NESHAP, District definition equivalent to ATCM.
11-16-268	d(3)	321	ATCM incorporation, More specific than NESHAP, District definition equivalent to ATCM.
11-16-269	d(16)	321	ATCM incorporation, More specific than NESHAP, District definition equivalent to ATCM.
11-16-270	d(26)	321	ATCM incorporation, More specific than NESHAP, District definition equivalent to ATCM.
11-16-271	d(27)	321	ATCM incorporation, More specific than NESHAP, District definition equivalent to ATCM.
11-16-272	d(37)	321	ATCM incorporation, More specific than NESHAP, District definition equivalent to ATCM.

BAAQMD Reg. 11-16, Section (s)	ATCM, 17CCR Section 93109 Subsection (s)	NESHAP, Part 63, Subpart M Section (s)	Comments
11-16-273	d(41)	321	ATCM incorporation, More specific than NESHAP, District definition equivalent to ATCM.
11-16-274	d(44)	--	ATCM incorporation, More specific than NESHAP, District definition equivalent to ATCM.
11-16-275	d(45)	321	ATCM incorporation, More specific than NESHAP, District definition equivalent to ATCM.
11-16-276	d(33)	--	ATCM incorporation, More specific than NESHAP, District definition equivalent to ATCM.
11-16-277	d(34)	--	ATCM incorporation, More specific than NESHAP, District definition equivalent to ATCM.
11-16-278	--	--	District definition. No equivalent definition in NESHAP or ATCM.
11-16-279	d(56)	--	ATCM incorporation, More specific than NESHAP, District definition equivalent to ATCM.
11-16-301.1.4	e (2)	322	Requirements for existing non-residential facilities: Deletion: Obsolete provision. No sources of this type exist within District. District more stringent than NESHAP or ATCM, applicability for other solvents.
11-16-301.2.1	f	322	Requirements for New Non-residential facilities: Deletion: Obsolete provision for other synthetic solvents. District provision as stringent as ATCM, more stringent than NESHAP for Perc solvent.
11-16-302	f	322 (b)	Requirements for new non-residential facilities: secondary control required; more stringent than ATCM and NESHAP. District provision as stringent as ATCM for Perc solvent.
11-16-302.2	f	322 (a) & (b)	Requirements for new non-residential facilities: Perc Equipment phase out provision added; required by ATCM; more stringent than NESHAP phase out provision. District is more stringent with applicable standards for synthetic solvent other than Perc.
11-16-303	h (3)	322 (a) & (b)	Requirements for Co-residential facilities: is more stringent than ATCM and NESHAP by requiring secondary controls, vapor barrier rooms and ventilation systems. Requirements for Co-residential facilities: more stringent than NESHAP which phases out 12/21/20; ATCM 7/1/10 Perc solvent phase-out provisions added, District as stringent as ATCM provisions for Perc. District provisions more stringent because they apply to all synthetic solvents.
11-16-303.2	e (2)	322	Requirements for Co-residential facilities: Deletion: No sources of this type exist within District: Obsolete provision.
11-16-303.3.1	--	--	Requirements for Co-residential facilities: Deletion: Obsolete Perc Phase-in provision.
11-16-304.1 – 11-16-304.8	--	--	Prohibited equipment/Operations: format change.
11-16-304.3	g (1)	322 (b)	Prohibited equipment/Operations: Language update.
11-16-304.9	e (1)		Prohibited equipment/Operations: ATCM: No new facilities after adoption date. More stringent than NESHAP. District more stringent than ATCM, this provision applicable to all synthetic solvents.

BAAQMD Reg. 11-16, Section (s)	ATCM, 17CCR Section 93109 Subsection (s)	NESHAP, Part 63, Subpart M Section (s)	Comments
11-16-304.10	h (1)	322	Prohibited equipment/Operations: ATCM: Dip Tanks, Drying Cabinets are leftover equipment types that are from transfer operations. We have no permitted sources of this type. This is a more stringent requirement than the NESHAP. District more stringent than ATCM, this provision applicable to all synthetic solvents.
11-16-304.11	--	--	Prohibited equipment/Operations: Halogenated Spotting Solution ban prevents facilities from purchasing formulations containing halogenated chemicals, such as Perc, from being used, effective 7/1/09. Halogenated spotting solutions use prohibited 7/1/10. More stringent than ATCM or NESHAP. District Provision.
11-16-304.12	--	--	Prohibited equipment/Operations: Halogenated Spotting Solution ban prevents facilities using formulations containing halogenated chemicals, such as Perc, from being used, effective 7/1/09. More stringent than ATCM or NESHAP. District Provision.
11-16-304.13	h (3)	322 (o) (4)	Prohibited equipment/Operations: ATCM: Prohibits Co-Residential Facilities after 7/1/10. More stringent than NESHAP. District as stringent as ATCM.
11-16-304.14	f	322 (a) (3)	Prohibited equipment/Operations: ATCM: Prohibits Converted machines after 7/1/10. More stringent than NESHAP. District as stringent as ATCM.
11-16-304.15	h (4)	322 (a) (3)	Prohibited equipment/Operations: ATCM: Prohibits equipment 15 yrs or older after 7/1/10. More stringent than NESHAP. District as stringent as ATCM.
11-16-304.16	h (5)	322 (o) (4)	Prohibited equipment/Operations: ATCM: Prohibits all Perc equipment after 1/1/23. More stringent than NESHAP, District as stringent as ATCM.
11-16-305.2	--	--	Specifications for Required Equipment: Language update.
11-16-305.5	h (1)	322 (b)	Specifications for Required Equipment: ATCM: Deletion: Drying Cabinet & Pass-through Garment Obsolete Equipment Specification. More stringent than NESHAP. District provision more stringent than ATCM because it is applicable to all synthetic solvents.
11-16-306		322	Deleted. Obsolete vented equipment standard.
11-16-307	--	322	Ventilation Requirements: language update. District is more stringent than NESHAP or ATCM requirements.
11-16-308	l	322 (b)	Water-Repellant Treatment: Requirements Update required by ATCM. More stringent than NESHAP. District provision equivalent to ATCM provisions for Perc solvent. District provisions more stringent because of the applicability for all synthetic solvents.
11-16-309.1.4.b	--	--	Deletion of obsolete equipment standards.
11-16-309.2.5	i (2) (E)	322 (j) & (k) & (m)	Good Operating Practices: ATCM Leak Check requirement changes. ATCM more stringent than NESHAP. District as stringent as ATCM for Perc solvent, but more stringent because the applicability is extended for all synthetic solvents.

BAAQMD Reg. 11-16, Section (s)	ATCM, 17CCR Section 93109 Subsection (s)	NESHAP, Part 63, Subpart M Section (s)	Comments
11-16-309.6	i (2) (A)(6)	--	Good Operating Practices: Site Gasket Requirement. ATCM more stringent than NESHAP. District as stringent as ATCM for Perc solvent, but more stringent because the applicability is extended for all synthetic solvents.
11-16-309.7	i (2) (A)(7)	--	Good Operating Practices: Spare Lint Filter Requirement. ATCM more stringent than NESHAP. District as stringent as ATCM for Perc solvent, but more stringent because the applicability is extended for all synthetic solvents.
11-16-310.1	i (1) (B)	--	Environmental Training Requirement. ATCM more stringent than NESHAP. District as stringent as ATCM.
11-16-310.3	i (2) (D)	--	Environmental Training Requirement: Replacement Operator. ATCM more stringent than NESHAP. District as stringent as ATCM.
11-16-401.4	k	324	Reporting Requirements: Initial Notification - ATCM requires collection of serial numbers of machines. ATCM more stringent than NESHAP. District as stringent as ATCM.
11-16-401.6	--	--	Reporting Requirements: Initial Notification - Existing Facility provision deleted – obsolete provision.
11-16-402	e	324	Reporting Requirements: District is more stringent than ATCM and NESHAP, requiring waste data used, to calculate emissions.
11-16-403	j	320	Reporting Requirements: Compliance Schedule: Facilities are subject to NESHAP and ATCM until adoption of rule. District will be as stringent ATCM and more stringent than NESHAP.
11-16-404	--	--	Conversion Reporting requirement. District is more stringent than NESHAP or ATCM.
11-16-501	j (1)	324	Recordkeeping: at least as stringent as ATCM and more stringent than NESHAP. Several additional records useful for emissions & compliance determination.
11-16-501.2	--	--	Language update: unit clarification (gallons)
11-16-503	93109.2(a)&(b)	--	Perc Manufacturer Reporting Requirements. District as stringent as ATCM. District more stringent than NESHAP.
11-16-504	93109.2(a)&(b)	--	Perc Distributor Reporting Requirements. District as stringent as ATCM. District more stringent than NESHAP.
11-16-605	h	323	2-5 Language update: HRSA
Table 11-16-1			Phase out Schedule in table form. Equivalent to ATCM phase out provision requirements. District more stringent than NESHAP.

VII. ENVIRONMENTAL IMPACTS

A. CEQA

Environmental Audit, Inc. has prepared on behalf of the District an initial study of the proposed amendments under the California Environmental Quality Act (CEQA). The initial study concludes that there are no potential significant adverse environmental impacts associated with the proposed amendments. A negative declaration is proposed for approval by the District Board of Directors.

B. Greenhouse Gas Emissions

In June, 2005, the District's Board of Directors adopted a resolution recognizing the link between global climate change and localized air pollution impacts. Climate change, or global warming, occurs when emissions of anthropogenic pollutants, combined with other naturally-occurring gases, absorb infrared radiation from the atmosphere, leading to overall average global temperature increases.

Although carbon dioxide (CO₂) is the largest contributor to global warming, methane, halogenated carbon compounds, nitrous oxide, and other species also contribute to climate change. Gases in the atmosphere can contribute to the greenhouse effect both directly and indirectly. Direct effects transpire when the gas is defined as a greenhouse gas (GHG). Indirect effects, generally defined as more problematic to quantify, characteristically occur when chemical transformations of the original compound produce other GHGs, when a gas influences the atmospheric lifetimes of methane (CH₄), and/or when atmospheric processes that alters the radiative balance of the earth (e.g., affect cloud development) are gas affected.

VOCs have some direct global warming effects; however, their contribution as greenhouse gases is primarily due to their indirect effects. VOCs react chemically in the atmosphere to increase concentrations of ozone and may prolong the persistence of methane (CH₄). The magnitude of the indirect effects of VOCs is still poorly quantified and depends on local air quality conditions. There is a cyclical relationship between global warming and VOCs. Global warming increases ozone formation, and ozone formation intensifies global warming. Accordingly, reducing VOCs to make progress towards meeting California air quality standards for ozone will additionally help reduce global warming.

District regulations generally allow a facility to reduce VOC emissions to the atmosphere through the use of air pollution abatement equipment and/or the use of low-VOC products. Abatement equipment for dry cleaners may be refrigerated condensers and/or carbon adsorption. Historically, low-VOC products, refrigerated condensers and/or carbon adsorption all have been used successfully. Because active air pollution abatement equipment (burning fuel, such as a catalytic oxidizer) is not expected to be used to meet specific VOC limits in the proposed rule amendments, no increases in GHG emissions are expected.

VIII. RULE DEVELOPMENT / PUBLIC PROCESS

This report and the recent associated Public Workshop held on December 22, 2008 constitute the most recent step in the District's rule development process for revising the rules regulating dry cleaning operations in the District. During the Public Workshop, we received comments from the public on the proposed amendments to Rule 11-16, Rule 8-17, and Rule 2-1. During the workshop, staff responded to questions about information presented in the workshop report. Based on the input received during the workshop and the associated public comment period, staff made one change to the proposal prior to preparing the final proposed amendments for consideration at a public hearing before the District's Board of Directors February 18th, 2009 Board Meeting.

In both the proposed Rule 11-16 and Rule 8-17, District staff has added a halogenated spotting solution purchase deadline of July 1, 2009 and halogenated spotting solution use deadline of July 1, 2010. The prior proposal did not include any purchase ban and had banned the use of halogenated spotting solutions effective immediately (date of adoption). It is expected that the two-tier purchase and use bans will provide suppliers and facilities with time to exhaust any existing inventory of halogenated spotting solutions before the bans on such solutions take effect.

Two written comments were received:

- Lawrence Lim, Chairman, KCDC, Ko-Am Cleaner Association of America, Millbrae, CA
- Marti Russell, Stockton, CA

Their written comments and related information from the Public Workshop are contained in Appendix E.

As part of the public process that involves all parties affected by the proposed changes to the dry cleaning regulations, staff made extensive contacts with various industry representatives. For informational purposes, some of the information used in this report came from the following methods:

A. Outreach Efforts

CARB's amendments to the Perc ATCM, upon which many of the proposed amendments to District Rule 11-16 are based, took effect and became state law more than one year ago, on December 27, 2007. In May 2008, the District sent out a preliminary informational request to inform Perc solvent facilities about the new state dry cleaning standards and to request specific equipment information as required by the ATCM. At that time, the District also informed the public that the District was considering making changes to District dry cleaning regulations in light of the state and federal changes. Furthermore, the District participated in an EPA grant to provide supplemental grants over a two year period to showcase wet cleaning/CO₂ as viable alternatives. In addition, District staff attended several USEPA workshops and discussed with EPA staff and others various expected federal regulatory changes relating to dry cleaning. Finally, the District has remained active in its efforts to engage and reach out to Bay Area dry cleaners, as described in more detail below.

B. Public Involvement

District staff attended several public meetings as part of CARB's outreach efforts relating to the amended ATCM. Three of these meetings occurred in the evening in an effort to reach out to the Korean community²⁶ in the Bay Area.

²⁶ Northern California Korean Dry Cleaners and Launderers

C. Industry Involvement

District staff maintains industry involvement by keeping an on-going workgroup that comprises dry cleaning operators, cleaners associations, machine manufacturers, solvent manufacturers and environmental groups. The workgroup meets on a quarterly basis. Most of these workgroup members also actively participated in the development of the ATCM amendment process. They also have previewed earlier drafts of the proposals for the dry cleaning rule update and provided technical information.

D. Government Agency Involvement

District staff participated in the development of the CARB's Perc dry cleaning ATCM, and CARB Regulatory Committees via conference calls to review, revise and address issues regarding the Perc ATCM standards from a permitting and enforcement perspective. Additionally, District staff provided input into the 2006 Perc NESHAP revision.

E. Dry Cleaning Surveys

District Staff conducted a survey in 2004 to obtain information on operational practices from alternative solvent facilities. The questionnaire and cover letter was translated into Chinese, Korean, and Spanish to assist owners and/or operators who spoke English as a second language. The questionnaire was sent to all non-halogenated solvent facilities listed in the District's records. The return rate of the survey was 100 % of the exempted facilities. Enforcement staff provided key assistance to alternative solvent facilities which facilitated such a high return rate.

IX. CONCLUSION

This report describes proposed revisions to District regulations regarding dry cleaning operations. These revisions incorporate recent amendments to state and federal dry cleaning regulations and update District regulations to cover the many new dry cleaning solvents and technologies that have emerged since the regulations were last amended. Staff recommends the adoption of the regulations as amended in order to continue to protect the public health.

References:

CARB, 1991, Initial Statement of Reasons for Rulemaking, Staff Report/Executive Summary, and Part B, Proposed Identification of Perchloroethylene as a Toxic Air Contaminant, California Air Resources Board, August 1991.

CARB, 1993, Airborne Toxics Control Measure (ATCM) for Emissions of Perchloroethylene from Dry Cleaning Operations, California Air Resources Board, October 14, 1993.

CARB, 2006, California Dry Cleaning Industry Technical Assessment Report, California Air Resources Board, February 2006.

CARB, 2007, Airborne Toxics Control Measure (ATCM) for Emissions of Perchloroethylene from Dry Cleaning Operations, California Air Resources Board, January 25, 2007.

CARB, 2008, Initial Statement of Reasons for Proposed Amendments to the California Consumer Productions Regulation, Spot Removers, California Air Resources Board, May 9, 2008.

IRTA, 2005, Evaluation of New and Emerging Technologies for Textile Cleaning, Institute for Research and Technical Assistance, August 2005.

IRTA, 2007, Spotting Chemicals: Alternatives to Perchloroethylene and Trichloroethylene in the Textile Cleaning Industry, Institute for Research and Technical Assistance, January 2007.

USEPA, 1984, Standards of Performance for New Stationary Sources, Subpart JJJ-Standards of Performance for Petroleum Dry Cleaners, United States Environmental Protection Agency (U.S. EPA), September 21, 1984.

USEPA, 1993, National Perchloroethylene Air Emission Standards for Dry Cleaning Facilities, Subpart M, United States Environmental Protection Agency (U.S. EPA), 40 CFR Part 63, September 22, 1993.

USEPA, 1996, Air Quality; Revision to Definition of Volatile Organic Compounds—Exclusion of Perchloroethylene, United States Environmental Protection Agency (U.S. EPA), 40 CFR Part 51, March 08, 1996.

USEPA, 2006, National Perchloroethylene Air Emission Standards for Dry Cleaning Facilities, Subpart M, United States Environmental Protection Agency (U.S. EPA), 40 CFR Part 63, July 27, 2006.

USEPA, 2008, National Perchloroethylene Air Emission Standards for Dry Cleaning Facilities, Subpart M, United States Environmental Protection Agency (U.S. EPA), 40 CFR Part 63, July 11, 2008.

Appendix A

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Regulation 8, Rule 17 Rule Change Summary

Section	Comments
GENERAL	
101	Updating definition from petroleum to non-halogenated solvent.
102	Applicability definition added.
110	Clarification of solvents subject to other regulations (Rule 11-16)
111	Small user exemption deleted.
112	Exemption added for existing transfer equipment.
DEFINITIONS	
201	The Petroleum solvent definition updated and expanded to include all known alternative solvents
202	The facility definition was update to be equivalent to Rule 11-16.
204	The cartridge filter definition was updated to reflect the improvements in technology.
205	The dry weight definition was updated.
206	The Solvent Liquid leak definition was updated.
207	The Solvent vapor leak definition was updated.
208	The Transfer Cart definition was updated.
209	Adsorptive Filtration System definition added for new technology for hydrocarbon machines.
210	Closed-loop machine definition added to define new technology.
211	Co-located definition added to clarify type of facility.
212	Condenser definition added to define emissions control technology.
213	Cool down definition added to clarify the part of the cycle where solvent recovery occurs.
214	Control device definition added to define the function of the condenser and adsorber devices.
215	Date of compliance definition added to clarify regulatory deadlines.
216	District definition added to demonstrate equivalence with other regulation.
217	Dip tank operations definition added to explain a specific process.
218	Drum definition added to clarify machine operation.
219	Dry cleaning definition added to clarify a specific process.
220	Dry Cleaning equipment definition added to specify equipment category.
221	Dry cleaning system definition added to specify groups of components within equipment.
222	Drying cabinet definition added to specify equipment type.
223	Drying tumbler or dryer definition added to clarify a specific component.
224	Dry-to-dry unit definition added to specify equipment type.
225	Equivalent primary control system definition added to clarify equivalent processes.
226	Existing facility definition added to clarify facility category.
227	Existing machine definition added to clarify equipment category.
228	Gallons of solvent used definition added to clarify solvent usage.
229	Materials definition added to clarify a specific component processed.
230	Muck cooker definition added to identify a process type.
231	New facility definition added to clarify facility category.
232	New machine definition added to clarify equipment type.
233	Pounds of material cleaned per load definition added to clarify measurement.
234	Primary control system definition added to specify solvent recovery technology.
235	Refrigerated condenser definition added to specify type of emissions control technology.
236	Registration definition added to define a type of regulatory process.
237	Relocated machine definition added to clarify facility category.
238	Separator facility definition added to identify a process type.
239	Spotting solution definition added to identify a supplementary cleaning process.
240	Still definition added to identify a solvent recovery process.
241	Transfer machine definition added to clarify equipment type.
242	Transfer of ownership definition added to clarify equipment proprietorship.

243	Used machine definition added to identify an equipment type.
244	Vented machine definition added to clarify equipment type.
245	Waste from dry cleaning operations definition added to identify a component of a solvent recovery process.
246	Wastewater evaporator definition added to identify a specific equipment type.
247	Water-repelling operations definition added to clarify a specific textile treatment process.
STANDARDS	
301	Operating requirements expanded: Leak check requirements expanded to require a checklist to be completed on a monthly basis, noting leaks with 14 days from the recording date to repair them. Closed container requirements are more specifically worded. Solvent minimization requirement formalized. Hazardous waste requirement updated. Existing Transfer Operations modified to minimize transfer times. Solvent recovery and wastewater evaporation requirements added.
302	Emission Control Requirements standard updated to be specific for existing transfer machines
303	Solvent filtration requirement deleted.
304	Equipment requirements standard added to required closed-loop technology.
305	Prohibited equipment/operations standard added. New/replacement transfer/vented prohibited. Dip tank/drying cabinets prohibited. Transfer of wet clothes from/to closed-loop equipment prohibited. Halogenated solvent spotting prohibited with a one year prior purchase ban.
306	Specifications for closed-loop machines standard added. Exhausting to atmosphere during operation not allowed. Primary control system must reduce mass of solvent during a specific part of the operational cycle and must be as efficient as a refrigerated condenser. Primary control system cannot require additional water if it comes into direct physical contact with the solvent.
307	Water-repelling operations standard added to require this process with closed-loop equipment.
ADMINISTRATIVE REQUIREMENTS	
403	Initial notification requirement added to specify minimum written informational requirements for equipment evaluation.
404	Registration requirement added for exempt equipment types.
405	Annual reporting requirement added to specify types of data used for the yearly facility reporting.
406	Transfer of ownership requirement added to keep contact information current.
MONITORING AND RECORDS	
501	Small user record requirement deleted.
502	Solvent filtration records requirement deleted.
503	Recordkeeping requirement added: 2 yrs, date, lbs cleaned/load solvent consumption, solvent waste, monthly leak checks, and the equipment operations manual must be kept on-site.

Appendix B

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Regulation 11, Rule 16 Rule Change Summary

Section	Comments
GENERAL	
101	Updating description to be consistent with Perc ATCM.
102	Updating applicability to be consistent with Perc ATCM.
103	Updating exemption for other solvents to reference proposed non-halogenated solvent of Rule 8-17.
104	Deleted relocated facility limited exemption.
105	Deleted dry cabinets limited exemption.
106	Deleted pass through clean room garment cleaners limited exemption.
108	Perc ATCM applicability added to demonstrate compliance with ATCM provisions delegated to the District.
DEFINITIONS	
205	Closed-loop definition updated to include secondary control machines.
206	Co-commercial definition was updated for clarification purposes.
207	Co- residential definition was updated and simplified for clarification purposes.
214	Dip tank definition was updated to clarify the specific components of the process.
218	Dry cleaning equipment definition was updated to include other equipment types.
219	Dry cleaning system definition was updated to include "any" process.
220	Drying cabinet definition updated for better process definition.
221	Drying cycle definition was updated to clarify equivalent processes on specific equipment types.
223	Drying tumbler definition was deleted.
224	Dry-to-dry unit definition updated to clarify a specific process.
225	Environmental training program definition was updated to better clarify the California Code of Regulations reference.
229	Facility definition was updated to refine the definition.
233	Gallons of solvent used definition was updated definition syntax
234	Halogenated-hydrocarbon detector definition was updated to refer to "Perc".
235	Major facility definition was updated with minor syntax changes.
239	New facility definition was updated to remove the relocated facility reference.
241	Pass through clean room garment cleaner definition deleted.
242	Perceptible vapor leak definition deleted.
243	Perchloroethylene definition was updated to better clarify the California Code of Regulations reference.
246	Primary control system definition was updated to define the specific process used for emission control.
249	Refrigerated Condenser definition was updated to better identify a specific process.
250	Relocated facility definition updated to "relocated dry cleaning equipment" with an updated definition.
251	Secondary control system definition was updated to identify a specific process.
253	Self-service dry cleaning machine definition updated to specify equipment type.
256	Synthetic solvent or solvent definition was updated to include reference to proposed Rule 8-17 changes.
257	Tetrachloroethylene definition updated to better clarify the California Code of Regulations reference.
259	Transfer machine definition was updated to be more specific to equipment.
262	Vapor leak definition updated to further clarify all synthetic solvent, rather than leaks specific to Perc solvent.
263	Vented machine definition updated to further define the exhaust process.
264	Waste from dry cleaning operations definition updated to reference section 309 required good operating practices.
265	Waste water evaporator definition changed to "Wastewater evaporator" and "atomizes" added to the definition.
266	Water repellent treatment definition completed.
267	Add-on secondary control machine definition added to clarify differences in secondary control systems. (ATCM)

268	Carbon adsorber definition added to specify solvent recovery technology.(ATCM)
269	Dry cleaning machine definition added to specify category of equipment types. (ATCM)
270	Integral secondary control system definition added to specify solvent recovery technology. (ATCM)
271	Secondary control system definition added to identify specific components of equipment used in solvent recovery.(ATCM)
272	Primary control machine definition added to identify a specific equipment type. (ATCM)
273	Recycled synthetic solvent definition added to identify a component of the solvent recovery process. (ATCM)
274	Remove from service definition added to clarify inoperable equipment types.(ATCM)
275	Residence definition added to specifically identify which households can be categorized as long term. (ATCM)
276	Solvent distributor definition added to identify a specific group referenced in the Perc ATCM section 93109.2.
277	Solvent manufacturer definition added to identify a specific group referenced in the Perc ATCM section 93109.2.
278	Spotting solution definition added to identify a specific solution used by the dry cleaning industry.
279	Water-repelling operations definition added to clarify a specific textile treatment process.
	STANDARDS
301	Final equipment requirements standards updated to remove the word final from the standard and deletes the references to equipment types now prohibited.
302	Equipment requirements, new non-residential facilities standard updated to include a reference to prohibited equipment in section 304 and an updated reference to Rule 2-5, Toxics NSR.
303	Final equipment requirements, co-residential facilities standard updated to remove the word final from the standard and references section 304 to prohibited equipment types.
304	Prohibited equipment/operations requirements standard updated the format of existing prohibitions and the Perc ATCM equipment prohibition timeline has been added. Halogenated Spotting solutions also prohibited with two dates, a 7/1/09 buy prohibition and a 7/1/10 use prohibition.
305	Specifications for required equipment standard updated to remove standards for updated equipment minor grammatical syntax updated.
306	Specifications for interim equipment and controls standard deleted.
307	Ventilation requirements standards updated to be consistent with definition syntax.
308	Water-repellent treatment and dip tank operations standard updated to remove equipment prohibited by Perc ATCM, such as Dip Tank operations. This standard has been renamed water repelling operations.
309	Required good operating practices standard updated to reference that the Perc ATCM standards shall apply to all synthetic solvents. Several CCR references format updated. The applicable standards for equipment types already prohibited are deleted. Grammatical syntax updated throughout standard to be consistent with definitions. Leak repair updated to be consistent with Perc ATCM. Spare gaskets and spare lint trap requirements added to be consistent with Perc ATCM.
310	Environmental training requirements standards updated to include the applicable reference to the appropriate CCR references. Additional requirements from the Perc ATCM added, such as operator must be present at all times equipment is in operation and the replacement operator certification must be completed within 15 days.
	ADMINISTRATIVE REQUIREMENTS
401	Initial notification requirement added to specify minimum written informational requirements for equipment evaluation. Serial number, dates of equipment manufacture and types of solvents used requirements added to conform to Perc ATCM.
402	Annual reporting requirement updated to include a reference to CCR for Perc ATCM. Format syntax also updated. Make, model, serial number, types of solvents used and date of manufacture requirements added.
403	Compliance schedule requirement updated to address a timeline imposed by the Perc ATCM phase out requirements.

404	Conversion from Perc to non-Perc requirement added to create a deadline for switching to an alternative dry cleaning method.
MONITORING AND RECORDS	
501	Recordkeeping requirement updated to include a reference to the CCR and the 5 year recordkeeping requirement. Solvent information must keep in gallon units. Minor grammar updates to be consistent with definition syntax.
502	Equipment certification/testing requirements updated to reflect minor CCR format change. Inclusion of the District Executive Officer in the approval of testing methods.
503	Requirements for solvent manufacturers added to comply with Perc ATCM.
504	Requirements for solvent distributors added to comply with Perc ATCM.
MANUAL OF PROCEDURES	
601	Determination of compliance – emissions section references updated.
604	Analysis of solvent content of water repellent solution and other liquid materials updated from repellent to repelling.
605	Determination of cancer risk updated by adding (HRSA)
Table	11-16-1 Perchloroethylene Compliance Schedule Table added

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Appendix C

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Dry Cleaner Workshop, December 22, 2009
Specific Issues



Workshop participants were encouraged to, and did, raise issues after District Staff presented the proposed rule changes. The issues that were raised at the workshop are summarized below.

1) Questions about Permit fees versus Registration Fees.

*The easiest way is to look at annual fee differences is by example:
 (assume that all equipment has 60 lb. drum capacity.)*

- Example 1 is for a Permitted perc machine. (P)*
- Example 2 is for a Registered non-halogenated solvent machine. (R)*
- Example 3 is for a Permitted non-halogenated solvent machine. (P)*
- Example 4 is for a Permitted perc machine and a Registered non-halogenated solvent machine. (P&R)*
- Example 5 is for a Permitted perc machine and a Permitted non-halogenated solvent machine. (P&P)*
- Example 6 is for two Registered non-halogenated solvent machines. (2R)*
- Example 7 is for two Permitted non-halogenated solvent machines (2P).*
- Example 8 is for two Permitted perc machines. (2P)*

Annual Renewal Fee Table (\$)

Perc	Alternative	Registration	Permit	AB2588	Toxics	Processing	Total
P			217	75	22	63	377
	R	125					125
	P		217			63	280
P	R	125	217	75	22	63	503
P	P		307		22	123	452
	2R	250					250
	2P		307			123	430
2P			307	75	22	123	527

2) Dry Cleaners have an inventory of halogenated spotting solution and need additional time to use up existing stock.

Under the original proposal, Rules 11-16 and 8-17 would have banned the use of halogenated spotting solutions, effective immediately (i.e., on the date of adoption). However, the District understands the desire for additional time to use up existing stock. At the same time, in the interest of protecting the public's health and the environment, halogenated spotting solutions should be banned with minimal delay. Accordingly, the current proposal is to include a "buy prohibition" against halogenated spotting solutions starting on 7/1/09 and a one year period to reduce or exhaust any existing inventory. A final "use prohibition" would become effective on 7/1/10.

- 3) The CARB has been approached by several dry cleaning organizations to change the effective date of the amended ATCM, can the District postpone the dry cleaner amendments until the CARB responds?

The CARB adopted the amended Perc ATCM effective 12/27/07, and the District has been enforcing the ATCM since that date (for example, the District has not permitted any new Perc machines on or after 12/27/07). The CARB has not provided any indication that it will change or reconsider the effective date of the amended ATCM or any provision contained therein, despite industry's requests that it do so. In fact, on 1/26/09, CARB issued a letter specifically rejecting a petition by the Ko-Am Cleaners Association of California (KCOC), which included a request that CARB consider delaying certain compliance dates by 5 to 10 years. CARB's decision reconfirms its commitment to the amended ATCM and the compliance schedule contained therein. Given these circumstances, the District sees no reason to delay amending the District's dry cleaning rules and regulations as proposed, including incorporating the requirements and compliance schedule contained in the amended ATCM.

A copy of the January 26, 2009 CARB letter detailing the basis of its decision is attached to the end of this section on page 63.

- 4) What happens if my usage goes over the 200 gallon/year exemption limit?

A facility using 200 gallons/year or more of non-halogenated solvent (gross usage) would no longer qualify for the exemption and would have to apply for a permit and pay permit fees, see table above.



Written Comments Received



This document summarizes the written comments that the District received following the workshop and at or before the January 5, 2009 12:00 PM deadline. Some of the comments mirrored comments that workshop participants had raised at the workshop, but for the sake of completeness, they are summarized again below.

- 1) A request for delay of the rulemaking process until CARB has responded to the KCAC (Ko-Am Cleaners Association of California) organization petition to delay the implementation of the ATCM. According to the organization, CARB confirmed that a response to their petition would be sent to them on or after January 26, 2009. The request is to suspend the District incorporation of the new ATCM requirements into Rule 11-16 until all issues with the CARB have been resolved.

CARB has responded and denied the KCAC petition. The ATCM will remain in force and unchanged. CARB's decision reconfirms its commitment to the amended ATCM and the compliance schedule contained therein. Given these circumstances, the District sees no reason to delay amending the District's dry cleaning rules and regulations as proposed, including incorporating the requirements and compliance schedule contained in the amended ATCM.

A copy of the January 26, 2009 CARB letter detailing the basis of CARB's decision is attached to the end of this section.

- 2) The workshop did not explain why a VOC reduction is necessary for dry cleaning equipment. Rule 8-17 does should not be changed until it can be shown to be reasonable and cost-effective from an air quality perspective.

The District is out of attainment for the Federal 8-hour ozone standard and must continue to reduce the contributing pollutants conducive to ozone formation. VOCs contribute significantly to ozone formation and their reduction is necessary and an important step in the District's overall plan. The proposed changes would actually save non-halogenated solvent dry cleaners money, both because closed-loop equipment is less expensive than transfer equipment and because non-halogenated spotting solvents are less expensive than their halogenated counterparts. The District will continue to monitor the use of all dry cleaning solvents in order to minimize emissions. The District will also examine toxicity data with respect to new solvent formulations (e.g., n-propyl bromide, decamethylcyclopentasiloxane) as such data become available.

- 3) There is no “compelling evidence that lowering the exemption was reasonable”, no justification to lower the exemption level in Rule 2-1, Section 120. This section should not be modified unless it can be shown to be necessary and cost effective from an air quality perspective.

The proposal reduces the permit exemption threshold to an amount that is more equitable to operators of other source categories (which typically have much lower exemption thresholds) and provides a small financial incentive for dry cleaners to conserve solvent usage. The 700 gallon exemption threshold was originally adopted in 1983 as a small user consideration based on higher emitting transfer machine technology; at that time, typical transfer operations used thousands of gallons/year of solvent and only a few facilities were eligible for the small user exemption. By contrast, now virtually all dry cleaners that use non-halogenated solvents operate closed loop machines and solvent usage for the vast majority of operators is less than 200 gal/yr. The District considered revising the permit exemption level in 1993 when the Perc ATCM was adopted but decided to maintain it at 700 gallon/yr to provide a small financial incentive for dry cleaners to switch from Perc to non-halogenated solvents. More than 380 non-halogenated machines now operate within the District and the District has not recovered the cost of regulating them. Proposed revisions to Regulation 8-17 would implement registration fees for the sources exempt from permits. Equitable permit fees for larger sources and nominal registration fees for smaller sources are reasonable and necessary for the District to recover regulatory costs.

- 4) BAAQMD should adopt a one/two year timeframe to allow the supply houses that service California to exhaust their inventories of halogenated spotting agents.

In both the proposed Rule 11-16 and Rule 8-17, District staff added a halogenated spotting solution purchase deadline of July 1, 2009 and halogenated spotting solution use deadline of July 1, 2010. The prior proposal did not include any purchase ban and had banned the use of halogenated spotting solutions effective immediately (date of adoption). It is expected that the two-tier purchase and use bans will provide suppliers and facilities with time to exhaust any existing inventory of halogenated spotting solutions before the bans on such solutions take effect.

- 5) Have the July 1, 2010 date apply only to Distributers (who buy from the suppliers).

The District has modified the proposal to allow purchases of halogenated spotting agents until July 1, 2009 in order for supply houses and distributors to clear their inventories. The halogenated spotting solution prohibitions will apply to all dry cleaners, suppliers, distributors and any other person or entity. All purchases of halogenated spotting solutions are prohibited beginning July 1, 2009. All use of halogenated spotting solutions is prohibited beginning July 1, 2010. It is expected that the two-tier purchase and use bans will provide dry cleaners, suppliers and others with time to exhaust any existing inventory of halogenated spotting solutions before the bans on such solutions take effect.

End of Comments.



Ko-Am Cleaners Association of California

가주 한인세탁협회 환경위원회

www.kdanc.org

302 Lansdale Ave #R Millbrae CA 94030

Office 510-919-3002 | Fax

December 30, 2009

Mark Nash
BAAQMD
939 Ellis St.
San Francisco CA 94109

Dear Mr. Nash:

I would like to take this opportunity to comment on behalf of the of the Ko-Am Cleaners Association of California on the proposed revisions to Regulation 11, Rule 16, Regulation 8, Rule 17 and Regulation 2, Rule 1 that were the subject of the December 22, 2008 workshop.

First, with respect to the proposed revisions to Regulation 11, Rule 16, the Ko-Am Cleaners Association of California has petitioned the California Air Resources Board for changes to Section 93109 of Title 17 California Code of Regulations. By mutual agreement, CARB has indicated that it will respond to this petition on or before January 26, 2009. Given that the proposed revisions to Regulation 11, Rule 16 are intended to achieve alignment with requirements of Section 93109 that may be revised in light of the petition, we request, at a minimum, that action by the BAAQMD be delayed until all issues related to the petition are completely resolved. Second, there is a question as to why there is any need for revisions to Regulation 11, Rule 16 in light of the existence of the state regulations set forth in Section 93109.

With respect to Regulation 8, Rule 17, the workshop materials contain no information regarding the need for (e.g. the VOC emission reductions) associated with the proposed revisions or any assessment of the cost impacts on dry cleaners. Regulation 8, Rule 17 should not be revised unless the revisions can be shown to be necessary and cost-effective from an air quality perspective. Similarly, with respect to the proposed revisions to Regulation 2, Rule 1, no air quality based justification has been provided for lowering the exemption level despite the claim that there is “...*compelling evidence that lowering the exemption level was reasonable...*” Again, Regulation 2, Rule 1 should not be modified unless it can be shown to be necessary and cost-effective from an air quality perspective.

Sincerely,

(signed)
Lawrence Lim
Chairman

From: mruss91977@aol.com
Sent: Monday, January 05, 2009 10:51 AM
To: Marc Nash
Subject: BAAQMD Regulation 11,Rule 16, proposed changes
Marc Nash:

In regard to the workshop/meeting held on December 22, 2008 in the BAAQMD Building on Ellis Street, San Francisco, CA:

To be fair to every party involved, I propose to BAAQMD the following:

1. BAAQMD adopt a one to two year time frame/period in which the Distributors, Allies, Supply Houses, etc. are to stop purchasing chemicals from any Manufacturer or any spotting agent's supply houses, that have the chemicals you wish to ban in the BAAQMD District.
((All the Supply Houses in California: WinkCo, S & B (which is funded by United Supply in LA), MBL, Workroom Supply all sell to cleaners in the BAAQMD region.))
2. Have the July 1, 2010 date apply to the Distributors; from buying these chemicals from Manufacturers. Given the high cost of buying chemicals, the Supply houses can then deplete their inventory stock, which will/can/would then dwindle down to the cleaners in the BAAQMD area.
3. Since the majority of chemicals are purchased primarily in gallon containers, and the cleaners need to use up their costly inventory, please give the cleaners in the district, at least another year or more after the Distributors dateline.

Respectively Submitted,

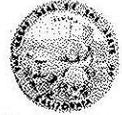
Marti Russell



Linda S. Adams
Secretary for
Environmental Protection

Air Resources Board

Mary D. Nichols, Chairman
1001 J Street • P.O. Box 2815
Sacramento, California 95812 • www.arb.ca.gov



Arnold Schwarzenegger
Governor

January 26, 2009

Mr. Lawrence Lim, Chairman
Ko-Am Cleaners Association of California
5420 Ygnacio Valley Road, Suite 60
Concord, California 94521

Dear Mr. Lim:

On December 1, 2008, the California Air Resources Board (ARB or Board) received your letter together with the petition entitled "Second Petition of the Ko-Am Cleaners Association of California to the California Air Resources Board for Amendments to section 93109, Title 17 California Code of Regulations" (hereinafter the Petition). This section refers to the Airborne Toxic Control Measure for Emissions of Perchloroethylene (Perc) from Dry Cleaning and Water Repelling Operations (Dry Cleaning ATCM). You have cited the following as authority for the requested action: California Government Code sections 11340.6 and 11340.7.

The California Administrative Procedure Act (APA) provides that any interested person may petition a state agency requesting the adoption, amendment, or repeal of a regulation as provided in Government Code section 11340.6. The petition must clearly and concisely state the substance or nature of the regulation, amendment, or repeal requested, the reason for the request, and reference to the authority of the state agency to take the action requested. (Government Code section 11340.6(a)-(c)). The APA further provides that a state agency shall notify the petitioner in writing of the receipt and shall within 30 days either deny the petition indicating why the agency has reached its decision on the merits of the petition in writing or schedule the matter for public hearing in accordance with the notice and hearing requirements of the APA. (Government Code section 11340.7.) ARB requested and appreciates the extension you granted to respond by January 26, 2009. The extension provided an opportunity to consider and discuss the circumstances raised in the petition with the State Fire Marshal and others. By this letter, we are advising you that ARB has denied the Petition.¹ The basis for the denial is set forth in this letter and the references listed on the enclosure to this letter.

¹ The Board may delegate any duty it deems appropriate to its Executive Officer (Health and Safety Code section 39515(a)). The Board is conclusively presumed to have delegated any of its powers to the Executive Officer unless it has expressly reserved that power to itself (Health and Safety Code (HSC) *The energy challenge facing California is real. Every Californian needs to take immediate action to reduce energy consumption. For a list of simple ways you can reduce demand and cut your energy costs, see our website: <http://www.arb.ca.gov>.*

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Summary of Findings for the Denial

The findings upon which the denial is based are summarized below and the basis for these findings is discussed in more detail later in this letter. The findings are as follows:

- ARB finds that sufficient information was not provided to support the petitioner's claim that given the current state of the economy implementation of the Dry Cleaning ATCM will have "dramatic adverse consequences" on the dry cleaning industry.
- ARB finds that the petitioner has not provided sufficient information on the estimated costs of installing fire suppression systems.
- ARB estimates, based on information ARB staff gathered, that the average cost to install an automatic sprinkler system, for a typical installation, could result in a \$0.05 increase in the cost of cleaning a garment.
- ARB finds that a \$0.05 increase in the cost of cleaning a garment is not sufficient to warrant changes to the regulation.
- ARB finds that it is premature to conclude that all new hydrocarbon dry cleaning facilities will have to install automatic sprinkler system until the petitioner fully explores the alternative compliance options or administrative remedies provided under the 2007 California Fire Code (CFC).

The Regulation Addressed by the Petition

The Petition contains the second request for ARB to amend section 93109 of Title 17, California Code of Regulations (CCR), the Dry Cleaning ATCM. The Dry Cleaning ATCM prohibits the sale or lease of new Perc dry cleaning machines beginning on January 1, 2008, eliminates the use of existing Perc machines at co-residential facilities (facilities that share a wall with, or are located in the same building, as a residence) by July 1, 2010, requires Perc machines that are 15 years or older be removed from service by July 1, 2010, and requires that all other Perc machines be removed from service once they become 15 years old or by January 1, 2023, whichever is sooner. In addition, the Dry Cleaning ATCM expands good operating practices and recordkeeping and reporting requirements for Perc dry cleaners, and requires Perc manufacturers and distributors to report and keep records of their Perc sales to California dry cleaners.

The Petition requests ARB to either reverse the action taken by the Board on January 25, 2007 by deleting the adopted regulatory text or the final regulation order (Reference A) and restoring the deleted regulatory text (Reference B) or by amending

section 39516.) The Board has not reserved the power to act on rulemaking petitions and it is, therefore, appropriate for the Executive Officer to act on the Petition under delegated authority.

Mr. Lawrence Lim, Chairman
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the regulatory text to include additional lead time of 5 to 10 years to all of the compliance dates. In the Petition, you restated the reasons contained in the previous petition entitled "Petition of the Ko-Am Cleaners Association of California to the California Air Resources Board for Amendments to section 93109, Title 17, California Code of Regulations" (Reference C, hereinafter the First Petition) and added two additional reasons why the Board should consider amending the Dry Cleaning ATCM. ARB's responses to the reasons in the First Petition were addressed in ARB's March 7, 2008 letter to you (Reference D, hereinafter March 2008 Letter). The two additional reasons and ARB's responses to them are addressed in the following discussion.

Petitioner's Claim No. 1 - The Current State of California's Economy

The first new reason cited in the Petition is the claim that the Board's decision at the January 25, 2007 hearing was based on an economic analysis that did not reflect California's current economy. The Petition states that:

[T]he Board's January 25, 2007 decision that included the ban on perchloroethylene-based dry cleaning machines was based on an economic analysis that did not reflect the current state of California's economy. Rather, the Board's 2007 decision was based on what are now known as erroneous assumptions that vastly overstated the dry cleaning industry's ability to finance the purchase of alternative dry cleaning machines and the ability of the industry to recover those costs by passing them on to customers... CARB's failure to make the requested changes to section 93109 will have dramatic adverse consequences for the dry-cleaning industry and in small cleaners in particular.

Response to Claim No. 1

The Board's decision at the January 25, 2007 hearing considered the economic and cost information on the effects of the Dry Cleaning ATCM and the projected total cost at that time. Since then, the California's economy has taken a downturn. The California economy has seen an increase in unemployment rates, a decrease in consumer spending, and a loss of revenue for businesses. However, the extent and impact this downturn has had on the dry cleaners are not known and the petitioner did not provide this information. The petitioner has not provided any information on the economic loss suffered by dry cleaners in California or examples of the industry's inability to purchase alternative dry cleaning machines. More importantly, the major requirements of the Dry Cleaning ATCM, which requires the replacement of existing Perc machines, will not begin until July 2010 and will not be completed until 2023.

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Therefore, staff finds that the claim that California's current economy will have a "dramatic adverse consequence for the dry-cleaning industry" is unsubstantiated.

Petitioner's Claim No. 2 - Costs Associated with Installation of Sprinklers for Newly Installed Hydrocarbon Cleaning Systems

The second new reason cited in the Petition is the claim that costs associated with the use of high flash point hydrocarbon solvent in dry cleaning machines are higher than estimated in the rule making process because the 2007 CFC requires installation of fire suppression systems at all dry cleaning facilities using high flash point hydrocarbon solvent-based machines. The petitioner claims that this higher cost results in the hydrocarbon based systems being unviable alternatives and renders the Board's findings incorrect. The Petition states that:

[T]he Board's January 25, 2007 decision that included the ban on perchloroethylene-based dry cleaning machines was based on an analysis of alternative technologies that failed to properly account for all of the costs associated with alternatives... [T]he California State Fire Marshal is requiring the installation of fire suppression systems at all dry cleaning facilities using the high flash point hydrocarbon solvent based machines... CARB staff's conclusion that hydrocarbon based systems are a viable alternative to perchloroethylene-based dry cleaning machines is erroneous and that fact renders the Board's finding based on that conclusion incorrect.

Response to Claim No. 2

Background

The 2007 CFC, effective on January 2008, requires fire suppression systems (automatic sprinklers) in buildings where new dry cleaning systems using Class II, Class IIIA, or Class IIIB solvents are installed. Existing dry cleaning facilities that started using Class II, Class IIIA, and Class IIIB solvents before January 2008 will continue to fall under the previous CFC (2001) which exempts facilities that store less than 330 gallons of solvent onsite. As a result, existing hydrocarbon dry cleaning operations will not have to retroactively install fire suppression systems. Also, the 2007 CFC will not impact dry cleaning facilities that already have sprinklers in place.

The Board's decision at the January 25, 2007 hearing did not include consideration of the impact of the 2007 CFC because the 2007 version was still under development and was not effective until January 2008. Because Class II, Class IIIA, and Class IIIB solvents are some of the most popular alternatives to Perc and the Dry Cleaning ATCM requires replacement of existing Perc machines starting in July 1, 2010, with all Perc

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machines to be replaced by January 2023, up to 2500 facilities statewide could be impacted by the 2007 CFC.

If required to meet the 2007 CFC, a dry cleaning facility owner who installs a new dry cleaning solvent system that use solvents in Class II (Stoddard Solvent) and Class III (high flash point hydrocarbon solvents, GreenEarth[®] and Rynex[™]) would have three options to comply. The first option would be to comply with the 2007 CFC as it is written and install an automatic sprinkler system. The second option would be to employ an alternative fire prevention method (requires approval from the local fire authority). The third option would be to participate in the CFC's amendment process with the Office of the State Fire Marshal (OSFM) to attempt to amend the 2007 CFC requirements concerning hydrocarbon dry cleaning facilities. The following discusses ARB's findings concerning each option.

Option 1 – Installation of an Automatic Sprinkler System

Concerning the first option, the installation of an automatic sprinkler system, the petitioner claims that this option would make hydrocarbon machines too costly to be considered a viable alternative to Perc dry cleaning systems. The petitioner did not provide any specific information concerning the cost of installing automatic sprinkler systems, how many hydrocarbon systems installed in 2008 were required to add automatic sprinkler systems, or how many facilities per year are likely to have to install these systems between 2010 and 2023.

Since no cost information was provided, ARB staff contacted Office of the State Fire Marshal (OSFM), dry cleaning industry representatives, and local air district personnel to gather additional information on the potential impacts of 2007 CFC. Staff found that the total cost for installing a new automatic sprinkler system will be site-specific and depend on a number of factors. These include the size of the building, whether the dry cleaning facility is in a stand-alone building or part of a larger building, whether an additional water supply and its associated piping is needed, whether any structural upgrades are needed, whether there are permit and inspection fees, and whether there are any local fire authority requirements.

Based on our investigation, staff estimates that the cost for installing automatic sprinkler systems will be between 2 to 4 dollars per square foot of building space. For an average sized dry cleaning facility of 2000 square feet, this would result in an average cost of about \$6,000 (range of \$4,000 to \$8,000). This average cost assumes the facility will not have to make any significant to its water supply system or the building structural. It also does not include any permit and inspections fees.

Adding the \$6,000 cost to the cost of hydrocarbon machines, would increase staff's estimated cost for installing a new hydrocarbon machine from \$75,000 to \$81,000. This

Mr. Lawrence Lim, Chairman
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would change the "Cost Recover Price Increase" reported to the Board (See Table VII-11 of the Staff Report: Initial Statement of Reasons released on December 8, 2006, Reference E, herein) from \$0.56 to \$0.61.

Staff believes a \$0.05 change in the "Cost Recover Price Increase" is not sufficient to warrant changes to the regulation.

Option 2 – Use an alternative method of fire protection

The second option, using an alternative method of fire protection, is allowed under section 111.2.4 of the 2007 CFC. Facility owners can use an alternative method of protection provided that the method would provide equivalent fire protection and there is agreement and approval from the facility's local fire authority. Ms. Kate Dargan, the State Fire Marshal, addressed this option in her December 23, 2008 letter (Reference F, hereinafter, December 2008 Letter) to Mr. David Suber, President of the California Cleaners Association. The December 2008 Letter is incorporated herein by reference. In the December 2008 Letter, Ms. Dargan stated that NFPA 32 (National Fire Protection Association Standard for Dry Cleaning Plants) may exclude the requirement for an automatic sprinkler system and the OSFM is considering alternate methods of protection utilizing the provisions of NFPA 32. Local fire authorities have the authority and often use the option of applying alternate methods of protection to comply with the CFC. Besides the use of NFPA 32, other methods maybe considered and implemented to demonstrate that dry cleaning facilities' treatment of Class II and Class III solvents will provide equivalent fire protection. Individual facility owners will need to work with local fire authorities and seek their approval.

Option 3 – Seeking Amendments to 2007 CFC

The third option, seeking amendments to 2007 CFC, is allowed under the OSFM's rule making process. In the December 2008 Letter, Ms. Kate Dargan noted that the OSFM is reviewing provisions in NFPA 32 for possible adoption into the next CFC, tentatively proposed for 2011; NFPA 32 provides an exemption for facilities that store no more than 330 gallons of solvent. ARB staff estimates that a majority of the Perc dry cleaners will not be required by the Dry Cleaning ATCM to replace their Perc machines until 2011 or after. Participation in the OSFM's rule making process, which should start in the March/April 2009, can ensure proper representation of the dry cleaning industry and potentially provide an exemption from sprinkler installation to those dry cleaning facility owners that will choose to switch from Perc to a Class III solvent in 2011 and beyond.

ARB finds that until the petitioner fully explores this option it is premature to conclude that all new hydrocarbon dry cleaning facilities will have to install an automatic sprinkler system.

Mr. Lawrence Lim, Chairman

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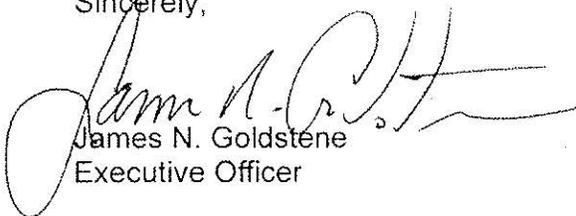
Conclusion

Based on the foregoing analysis, ARB find that the Petition has not demonstrated the Dry Cleaning ATCM to be inconsistent with the overall statutory charge to protect public health through the control of Perc as a toxic air contaminant, nor has the Petition demonstrated further amendments to the Dry Cleaning ATCM to be reasonably necessary to effectuate the purposes of the Health and Safety Code sections 39665 and 39666.

The record upon which this denial is based includes the Petition and its enclosures. The record also includes this letter and all of the material incorporated by reference.

In accordance with Government Code section 11340.7(d), a copy of this letter is being transmitted to the Office of Administrative Law for publication in the California Regulatory Notice Register. The agency contact person on this matter is Robert Krieger, Manager, Emissions Evaluation Section at (916) 323-1202. Interested parties may obtain a copy of the Petition from Lori Andreoni, ARB Office of Legal Affairs, 1001 I Street, P.O. Box 2815, Sacramento, CA 95812, (916) 322-5594.

Sincerely,



James N. Goldstene
Executive Officer

Enclosures

cc: Robert Krieger, Manager
Emissions Evaluation Section
Stationary Source Division

Lori Andreoni, Manager
Board Administration
and Regulations Coordination Unit
Office of Legal Affairs

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Appendix D

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Appendix E

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Appendix F

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Appendix G

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Appendix H

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Appendix I

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