



BAY AREA  
AIR QUALITY  
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DISTRICT

AGENDA: 6

# Amendments to Regulation 3, Fees

Finance and Administration Committee Meeting  
April 17, 2024

Fred Tanaka  
Manager, Engineering Division  
[ftanaka@baaqmd.gov](mailto:ftanaka@baaqmd.gov)

# Presentation Outcome



Update the Finance & Administration Committee on proposed Regulation 3 (Fees) Amendments for Fiscal Year Ending (FYE) 2025.

# Presentation Outline



- Summary of Proposed Fee Amendments
- Additional Details Requested from the March 20 Finance and Administration Committee Meeting
  - Cost Recovery Strategy & History
  - Metrics and Comparisons
- Rule Development Schedule
- Questions

# Requested Action



This is an action item for the Finance and Administration Committee to consider recommending that the Board of Directors adopt the proposed Regulation 3 amendments for Fiscal Year Ending 2025.

# Summary of Proposed Changes to Fee Schedules



Schedule T was previously proposed for a 3.3% increase, but staff is currently recommending no increase.

Revenue from Fee Schedule	Change in Fees	Fee Schedules
100 to <110% of costs	3.3% increase*	D, I, M**
Less than 100% of costs	15% increase	A, B, E, F, G1, G2, G3, G4, G5, H, K, P, S, V (Marsh Management only), W

\* The annual Consumer Price Index for Bay Area Urban Wage Earners and Clerical Workers (CPI-W) increase.

\*\* Schedule M is not evaluated for cost recovery, but the proposed increase is based as a general fee.

# Other Proposed Amendments



## Summary of other proposed amendments:

- Increase administrative fees by 3.3%.
- Delete Section 320.1, Section 322 and Schedule Q.
- Clarify language in Sections 304.2, 327, 327.5.
- Align Risk Assessment fees in Schedule C and D.A.
- Clarify alteration application fees for sources subject to G-3, G-4 and G-5.
- Clarify applicability in Schedule H.

# Cost Recovery Strategy: Fee-Recoverable Work



## Covered by Regulation 3 Fees

- Permitting programs
- Notification programs (asbestos, open burn)
- Compliance assistance/enforcement of permitted and registered facilities
- Source Testing at permitted facilities
- Rule development for regulated industries
- Emissions inventory from regulated industries
- Other (e.g., Regulation 11-18 Health Risk Assessments)

## Not Covered by Regulation 3 Fees

- AB617 Community Engagement & Outreach
- Ambient Air Monitoring
- Climate change work for non-permitted sources
- Communications
- Mobile sources
- Planning
- Rule development for non-permitted sources
- Strategic Incentives – “Grants” (e.g., wood-burning device replacement, Carl Moyer Program, vehicle buy-back)

➤ This list is not inclusive.

# Cost Recovery Strategy: History of Studies and Recommendations



- 2010: Guidance and opportunities for cost recovery & cost allocation
  - Cost Recovery Policy adopted March 2012 with overall recovery goal of at least 85%
- 2017: Update to the previous cost recovery study
  - Report finalized in February 2018
- 2021: Update to the previous cost recovery study with Board request for options to achieving a goal of 100% cost recovery.
  - Report finalized in April 2022
  - Cost Recovery and Containment Policy adopted in December 2022



# Cost Recovery Strategy: Overall Cost Recovery Trends



	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FYE 2017	FYE 2018	FYE 2019	FYE 2020	FYE 2021	FYE 2022	FYE 2023
<b>By Year</b>	63.8%	66.9%	76.1%	80.2%	79.5%	83.1%	81.4%	81.2%	83.0%	84.7%	83.2%	83.8%	85.9%	92.3%
<b>3-Year Average</b>			68.8%	73.6%	78.7%	80.8%	81.4%	82.2%	81.9%	83.0%	83.6%	83.5%	84.3%	87.4%

- Other funding sources have historically been used to close the cost recovery gap.
- FYE 2023 cost recovery rate has been updated since the March 20 presentation.

# Cost Recovery Strategy: History



Revenue from Fee Schedule	FYE 2018	FYE 2019 & 2020	FYE 2021 (Covid)	FYE 2022	FYE 2023	FYE 2024
110% or more of costs	-	-	-	-	-	-
100 to <110% of costs	-	-	-	-	+15%	CPI-W
95 to < 100% of costs	CPI-W	CPI-W	-	CPI-W	+15%	+15%
85 to < 95% of costs	+7%	+7%	-	+7%	+15%	+15%
75 to < 85% of costs	+8%	+8%	-	+8%	+15%	+15%
50 to < 75% of costs	+9%	+9%	-	+9%	+15%	+15%
Less than 50% of costs	+9%	+15%	-	+15%	+15%	+15%

# Cost Recovery Strategy: Small Business Fee Considerations

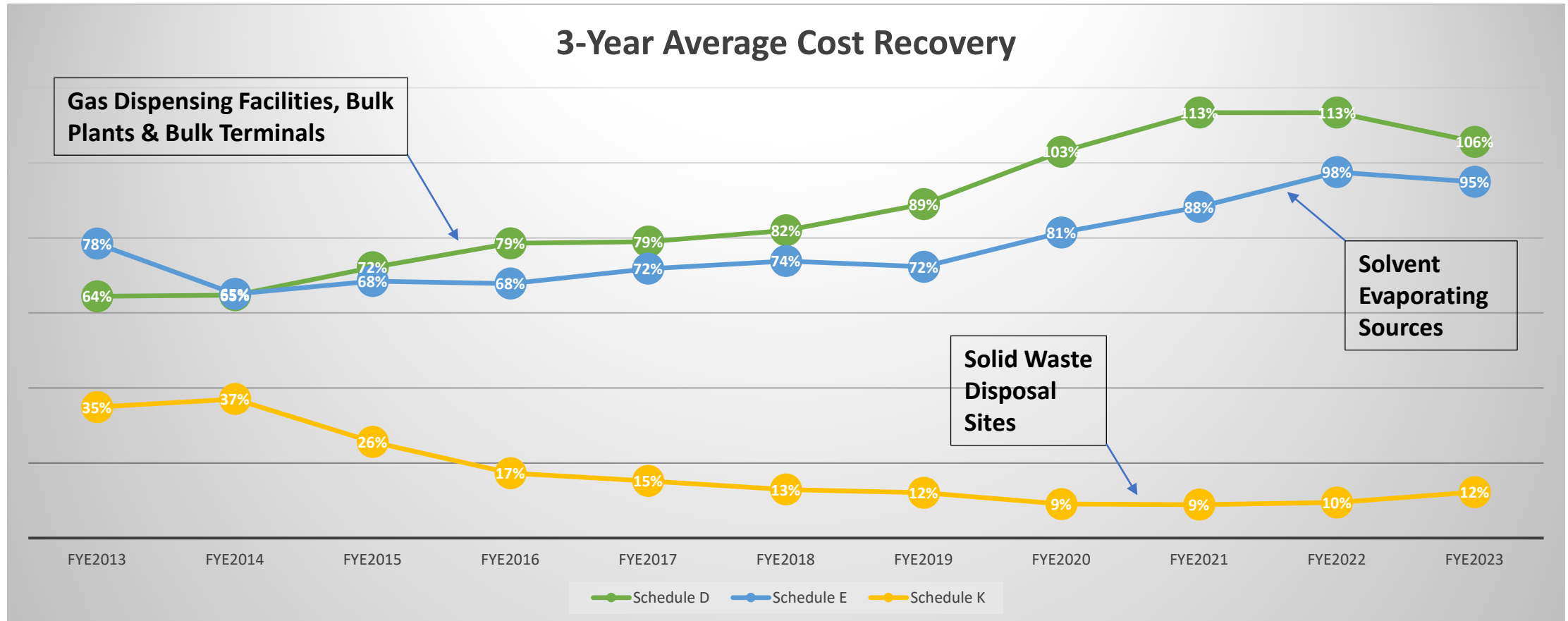


- Facility Size
  - Total fees paid influenced by number/size of equipment/sources and their throughput/capacity.
  - Small businesses typically pay little or no emission-based fees.
- Schedule R: Equipment Registration Fees
  - Examples: Dry cleaning machines, small combustion, mobile refinishing, small graphic arts operations
  - No fee increase in 6 years
- Other considerations
  - Covid Relief of renewal late fees
  - Discount if registered mobile refinishing operators took the industry compliance school

# Metrics and Comparisons: Case Study of Cost Recovery Trends



Examples of Fee Schedules with different trends.



# Metrics and Comparisons: Comparison with Other Air Districts



Different Air Districts have different permitting requirements/rules, funding sources, and policies.

- What requires a permit, registration, or neither?
- How is the fee rule structured?
- What other revenue sources can support fee-based programs?

Therefore, the following comparisons are not precise, but consider

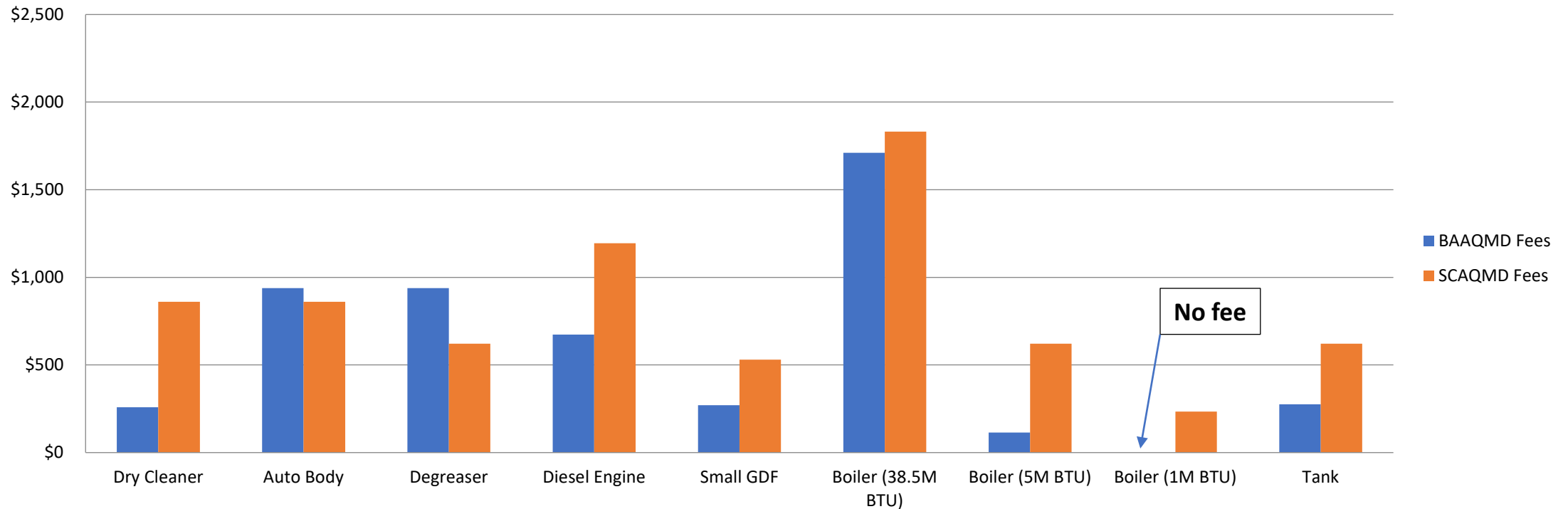
- Number of sources and operations
- Throughput/capacity
- Emissions are assumed to be equivalent.

# Metrics and Comparisons: Small Facilities



- Single device/operation comparisons
- Minimum fees where applicable

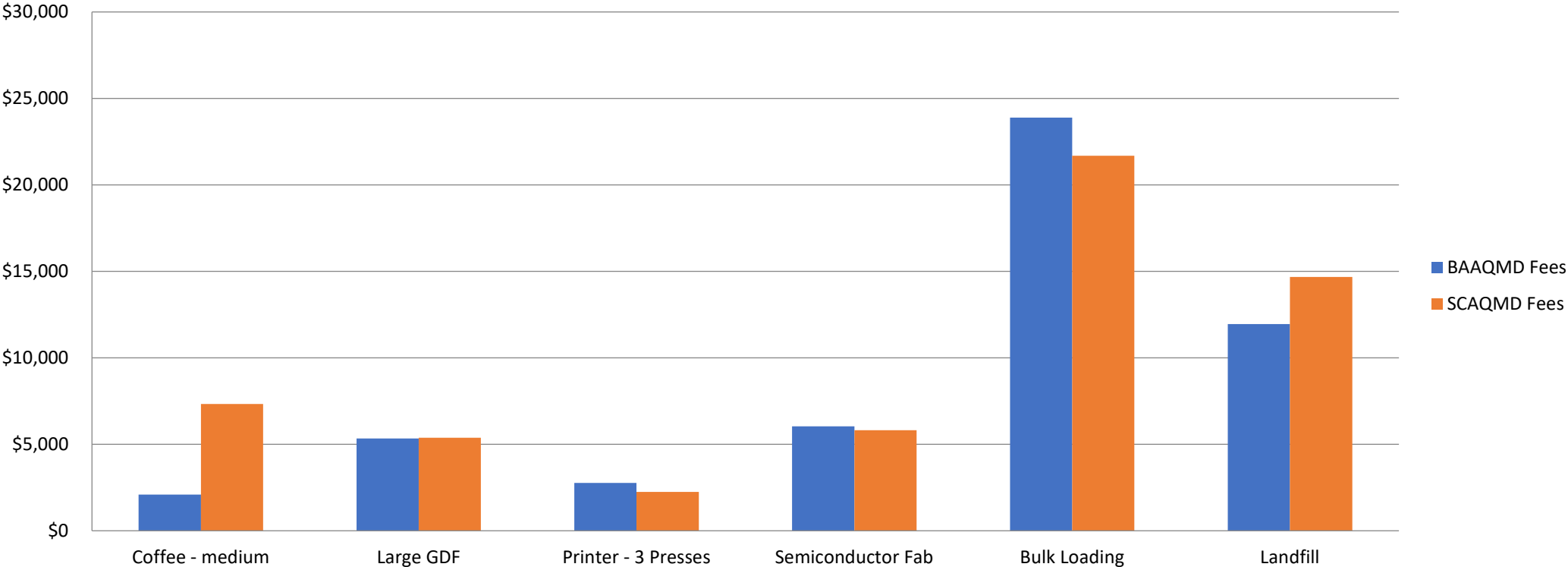
Small Facility Comparison of Renewal Fees (FYE 2023)



# Metrics and Comparisons: Medium Facilities



Medium Facility Comparison of Renewal Fees (FYE 2023)



# Metrics and Comparisons: Refineries



- Refinery facilities across the state differ in size and operations.
- South Coast AQMD charges fees for source test work, fence line and community monitoring, and 'Toxic Hot Spots' program separately.
- In FYE 2022 for all refineries, the fees were:

Agency	Range of Permit Renewal Fees	# of Refineries
BAAQMD	\$1.6M to \$5.7M	5
SCAQMD	\$1.5M to \$4.6M	7



# Metrics and Comparisons: Schedule F



Devices/Operations Types	Count
Combustion, other	22
Fugitives	16
Chemical Process	272
Food and Agriculture Process	423
Metallurgical Process	121
Mineral Process	1,243
Miscellaneous Process	778
Petroleum Process	77
Organic Liquid Loading Operation	7
Soil/Groundwater Remediation	82
Waste Water Treatment	314

- Unless a source is designated a fee schedule, it is assigned to Schedule F.
- For FYE2008, composting operations were moved to Schedule G1.
- For FYE2024, metal shredding was moved to Schedule G2 or G3 based on size.
- Staff will track these source types and, if warranted, propose reassigning them to a different fee schedule.

# Budget and Rule Development Schedule



Description	Date
Public workshop for Regulation 3 amendments	February 15, 2024
Written workshop comments on Regulation 3 due	March 18, 2024
Finance and Administration Committee briefing	March 20, 2024
Finance and Administration Committee briefing	April 17, 2024
First public hearing on budget & Regulation 3 to receive testimony	May 1, 2024
Written public hearing comments on Regulation 3 due	May 17, 2024
Second public hearing on budget and Regulation 3 to consider adoption	June 5, 2024
Budget and fee amendments effective, if adopted	July 1, 2024

# Feedback Requested/Prompt



Request the Committee consider recommending that the Board of Directors adopt the proposed Regulation 3 amendments for Fiscal Year Ending 2025.



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**AGENDA: 7**

# **Continuation of Air District's Proposed Budget for Fiscal Year 2024-2025**

**Finance and Administration Committee Meeting  
April 17, 2024**

**Stephanie Osaze  
Director of Finance  
[sosaze@baaqmd.org](mailto:sosaze@baaqmd.org)**

# Presentation Outcome



The Committee will continue discussion from the March 20, 2024, meeting on the Fiscal Year (FY) 2024-2025 Proposed Budget and will consider recommending to the Board of Directors for adoption.

# Presentation Outline



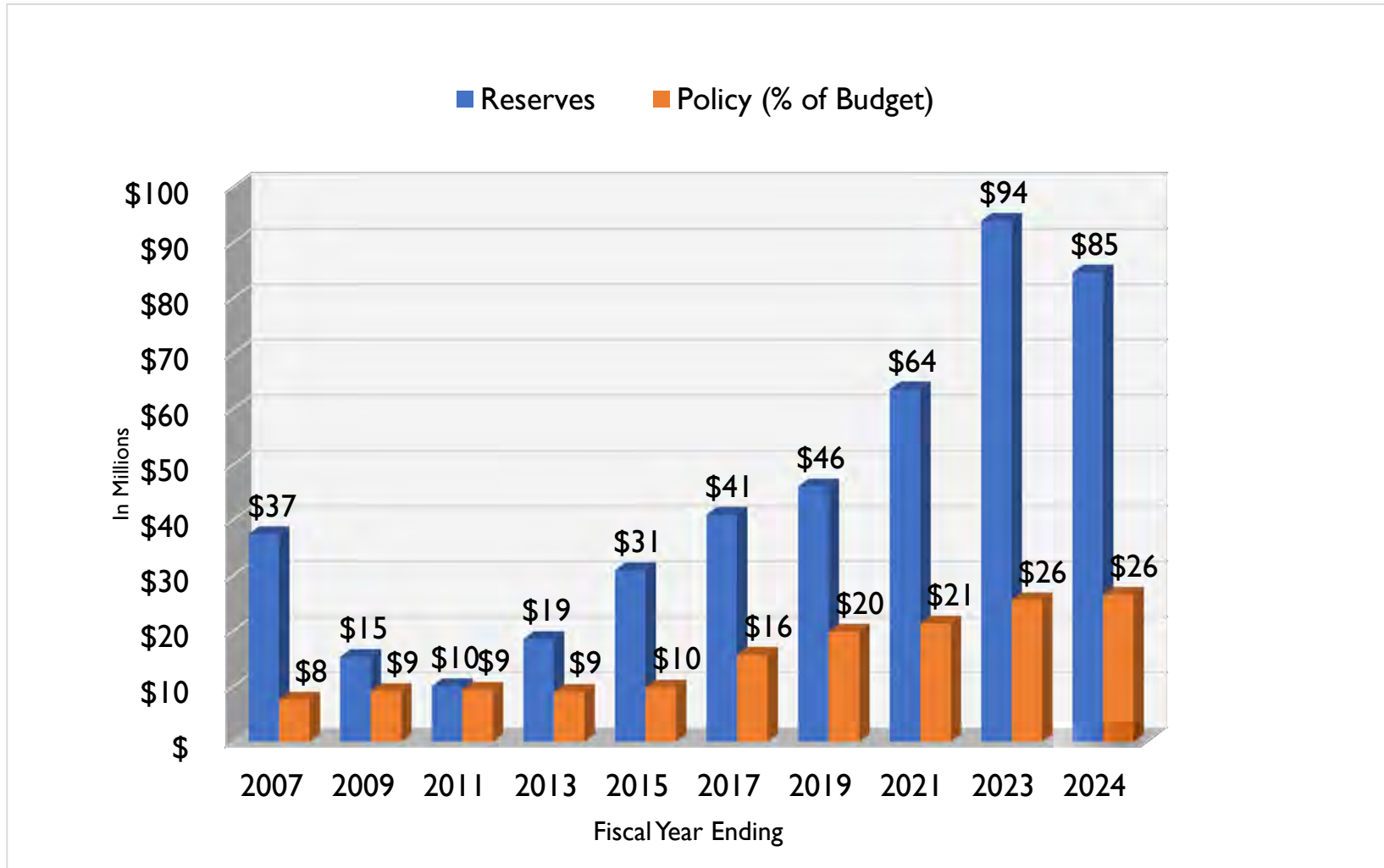
- **Summary of FY 2025 Proposed Budget**
  
- **Additional Budget information**
  - Reserves
  - General Fund Summary
  - Pension/OPEB Policy
  
- **Recommendation**

# Fiscal Year 2024-2025 Proposed Budget Summary



- \$ 291 M Consolidated Budget, includes \$154 M General Fund Budget
- \$9.7M Use of Reserves includes:
  - \$6.8 M for one-time services and capital costs
  - \$2.9 M as initial staffing investment to support 19 Full-Time Equivalent (FTE), additional \$1 M from penalty assessment
- Continuation of Cost Recovery Policy (up to 15% where applicable)
- 4.5% General Wage Adjustment
- 7% Vacancy Savings
- Allocate \$5 M to the Pension 115 Trust
- Authorize transfers from the Limited-Term Contract Employee (LTCE) Staffing reserve designation to fill limited-term positions

# Air District's General Fund Reserves: Actual vs. Minimum Policy Requirement



- In 2016, Reserve Policy increased from 15% to 20% of the General Fund Budget
- Proposed revision to Reserve Policy (25% - 35%) was recommended by the Committee for Board of Director's approval on March 20, 2024



# 2025 General Fund Reserve Designations



General Fund Reserves (In Millions)	20% Current Reserve Policy	25% Proposed Reserve Policy
<b>Projected Reserves Balance (June 30, 2024)</b>	<b>84.6</b>	<b>84.6</b>
<b>Economic Contingency Designations*:</b>		
AB617 Staffing Contingency	9	9
Reserve Policy (% of Budget)	29	36
Litigation Support Contingency	2	2
	<b>40</b>	<b>47</b>
<b>Long -Term Commitment Designations*:</b>		
Community Benefits	3	3
Limited Term Contract Employee (LTCE) Staffing	1.8	1.8
Schedule X	6.1	6.1
Technology Implementation Office	2.8	2.8
	<b>13.7</b>	<b>13.7</b>
<b>Other Designations *</b>		
Incident Monitoring Program	1	1
Richmond Improvements (HQE)	1	1
Wildfire Mitigation	1	1
Woodsmoke Program (SID)	0.5	0.5
	<b>3.5</b>	<b>3.5</b>
<b>Use of Reserves to Balance the FY 2025 Budget:</b>		
Short-Term Staffing Investment	2.9	2.9
One-time capital & service costs	6.8	6.8
	<b>9.7</b>	<b>9.7</b>
<b>AVAILABLE GENERAL FUND RESERVES</b>	<b>17.7</b>	<b>10.7</b>

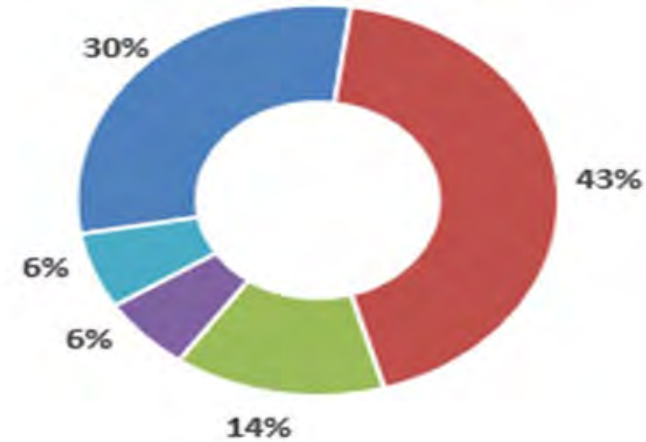
- If Proposed Reserve Policy is adopted by the Board, the Reserve Policy increases from 20% to 25% of the GF Budget.
- The proposed reserve policy amount increases from \$29M to \$36M.

\*Designations are subject to change at Board's discretion.

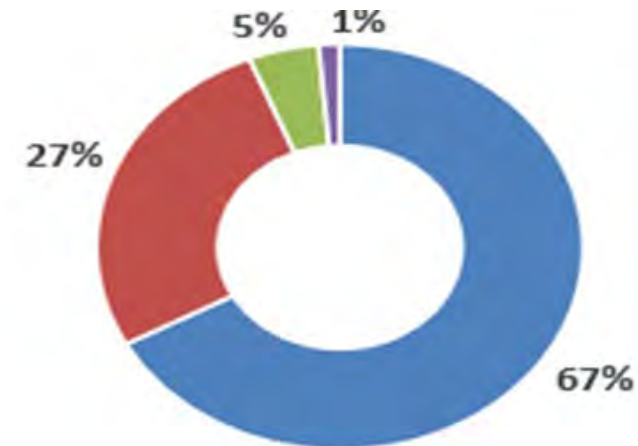
# Proposed General Fund Budget By Type



Revenues		
	(\$ Millions)	
Property Taxes	\$46.3	30%
Permits/Fees	\$67.0	43%
Grants	\$21.9	14%
Other Revenue	\$9.6	6%
Transfer From Reserves	\$9.7	6%
<b>Total Revenues</b>	<b>\$154.5</b>	



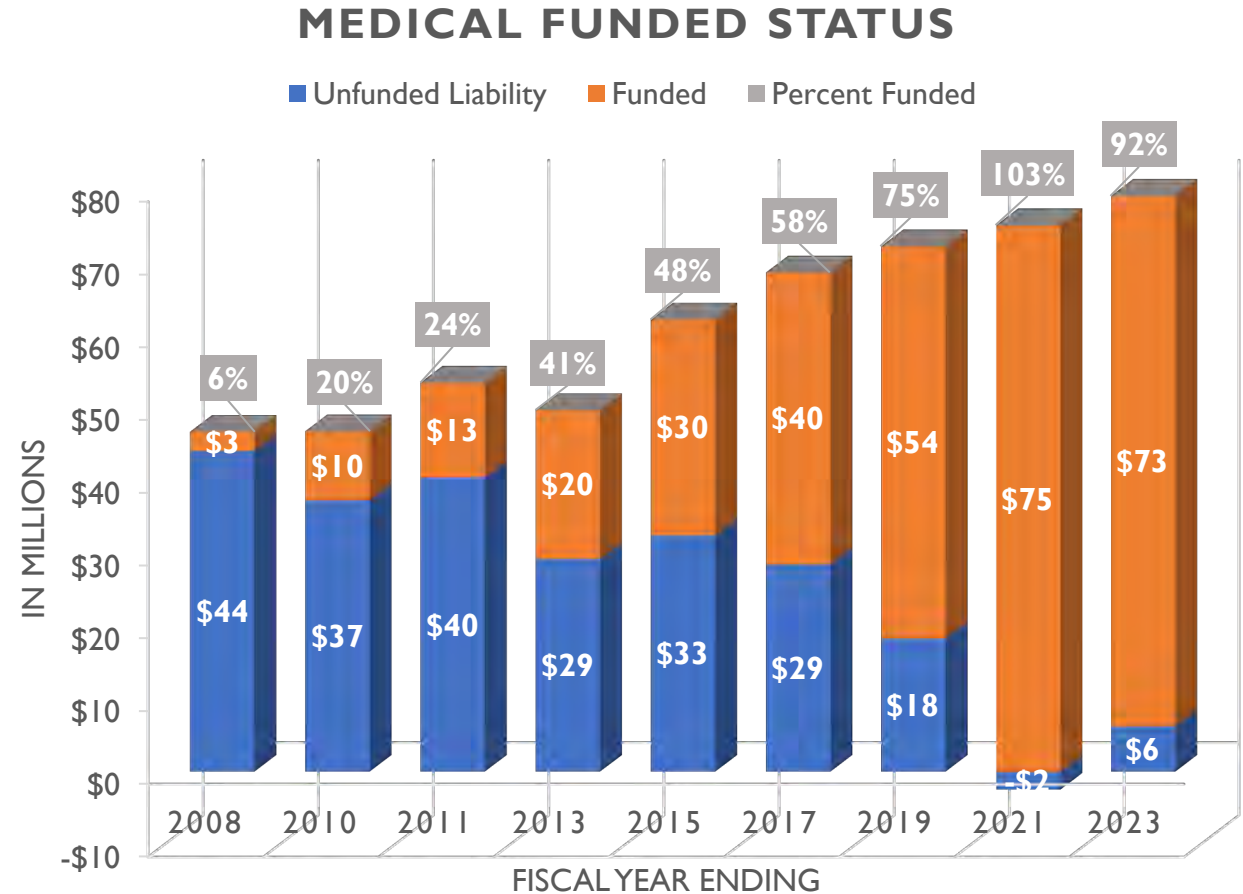
Expenditures		
Salaries & Benefits	\$103.6	67%
Services & Supplies	\$41.5	27%
Capital	\$7.2	5%
Distributions & Transfer	\$2.1	1%
<b>Total Expenditures</b>	<b>\$154.5</b>	



# Medical Retiree Plan Funding Status and Policy



- **Medical Retirement (OPEB):**
  - Obligation: \$79 M
  - Funded: \$73 M
  - Unfunded: \$6M
  
- **Funding Policy: 90% Funded Level**
  - Current Funding Level at 92%\*
  - Redirect \$4 M Annual Discretionary Funding to CalPERS Pension after reaching target funding level



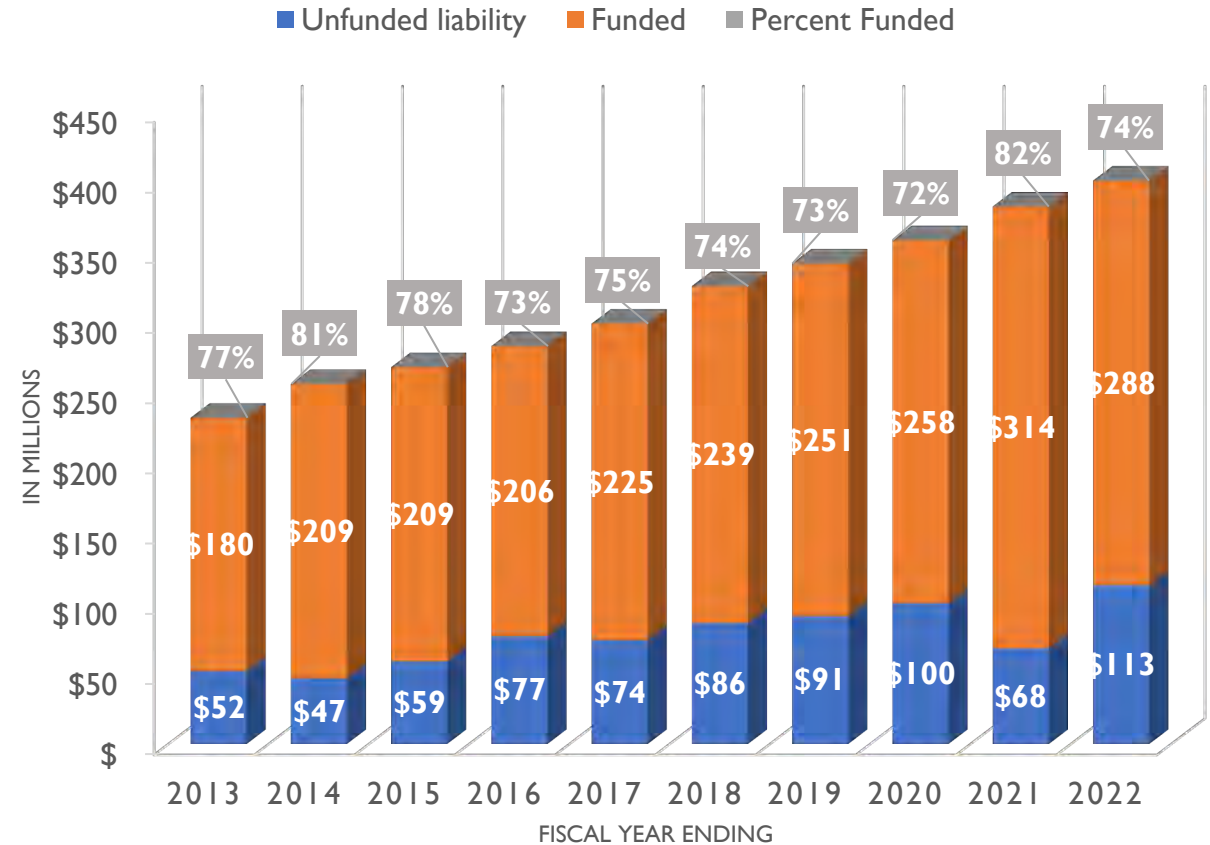
\* Actuarial valuation funded status decreased from 103% funded in 2021 to 92% in 2023

# Pension Plan Funding Status and Policy



- **CalPERS Retirement (Pension):**
  - Obligation: \$401 M
  - Funded: \$288 M
  - Unfunded: \$113 M
  - Prefund Trust: \$11M
  
- **Funding Policy: 90% Funded Level**
  - Current Funding Level at 74%\*\*
  - \$1 M Annual Discretionary Funding
  - \$4 M Redirect Discretionary Funding from OPEB
  
- **Recommendation:** Allocate \$5 M to Prefund the Pension 115 Trust

**CALPERS UNFUNDED STATUS**



\*\* Includes investment in California Employers' Pension Prefunding Trust (CEPPT)

# Recommendation



The Executive Officer/APCO requests that the Finance and Administration Committee recommend that the Board of Directors:

1. Conduct public hearings on the FY 2024-2025 Proposed Budget; and
2. Adopt the FY 2024-2025 Proposed Budget and staffing recommendations; and
3. Allocate \$5 million to the California Employers Pension Prefunding Trust (CEPPT) for pension prefunding purposes.



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**AGENDA: 8**

# **Approval of a Contract for Spare the Air Advertising and Messaging Campaigns**

**Finance and Administration  
Committee Meeting  
April 17, 2024**

**Kristina Chu  
Communications Manager  
[kchu@baaqmd.gov](mailto:kchu@baaqmd.gov)**

# Requested Action



This is an action item for the Finance and Administration Committee to consider recommending the Board of Directors to approve:

- Allison+Partners as the lead contractor for the Spare the Air Advertising, Communications and Evaluation Services;
- Up to three-year contract at the Air District's discretion, based on the contractor's performance and available funds with contract cost not to exceed \$1,950,000 for FYE 2025 & FYE 2026 and \$2,019,000 for FYE 2027.

# Presentation Outline



- Spare the Air Request for Proposals (RFP) Overview
- Proposals Received
- RFP Evaluation Criteria
- Firm Evaluation Scores
- Spare the Air Budget Overview
- Spare the Air Funding Sources
- Staff Recommendation



# Spare the Air RFP Overview



- Communications Office recently completed an RFP process for the following services for Spare the Air campaigns:
  - Advertising
  - Media Relations
  - Social Media
  - Employer Outreach
  - Public Opinion Surveys

# Proposals Received



- 7 RFP submissions were received for Advertising, Communications and Evaluation Services for the Spare the Air campaigns from:
  - **Allison+Partners**
  - Here Be Dragons, LLC
  - Iota Impact Company
  - **MIG, Inc.**
  - TRANSFORM DIGITAL LLC
  - **True North Inc.**
  - Wondros
- Communications staff reviewed proposals and conducted interviews with the top three firms

# RFP Evaluation Criteria



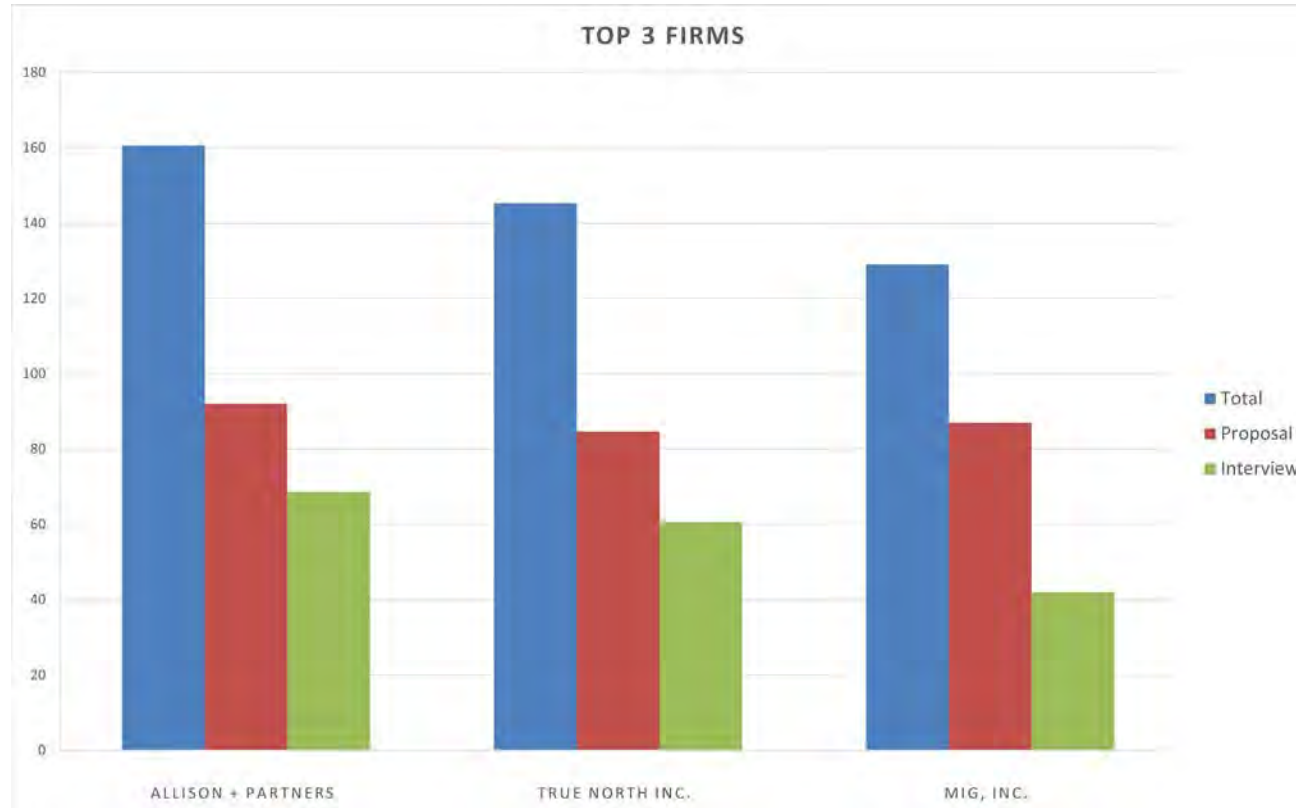
- Proposal evaluation and scoring criteria:

Criteria	Application	Interview
Technical Expertise	30 points	30 points
Skill & Experience of Team	25 points	25 points
Approach to the Proposal	20 points	20 points
Cost	15 points	
Local/Green Business	5 points	
References	5 points	
Total Points	100 points	75 points

# Firm Evaluation Scores



## Proposal & Interview Scores



### Active Submissions

Supplier	Total / 175 pts	A - Proposal / 100 pts	B - Interview / 75 pts
Allison + Partners	160.67	92	68.67
True North Inc.	145.33	84.67	60.67
MIG, Inc.	129	87	42

### Eliminated Submissions

Supplier	A - Proposal / 100 pts	B - Interview / 75 pts
Here Be Dragons LLC	67.67	-
Wondros	64.33	-
Iota Impact Company	51.33	-
TRANSFORM DIGITAL LLC	31.5	-

# Spare the Air Budget Overview



Spare the Air Summer Campaign*		Spare the Air Winter Campaign*	
Advertising	\$600,000	Advertising	\$600,000
Media Relations	\$200,000	Media Relations	\$100,000
Social Media	\$75,000	Social Media	\$75,000
Employer Program	\$200,000	Public Opinion Surveys	\$50,000
Public Opinion Surveys	\$50,000	In-Language Option Surveys	\$69,000**
Campaign Total	\$1,125,000 FYE 2025 – FYE2027		\$825,000 FYE 2025 & FYE 2026  \$894,000 FYE 2027
<b>Contract Total (not to exceed)</b>			<b>\$1,950,000 FYE 2025 &amp; FYE 2026  \$2,019,000 FYE 2027</b>

\*based on previous campaigns budget allocations

\*\*3<sup>rd</sup> year of contract only

# Spare the Air Funding Sources



Funding for this contract comes from the following sources and is included in the FYE 2025 proposed budget:

- Spare the Air Summer = \$1,125,000 per contract year for FYE 2025
  - Transportation Fund for Clean Air (TFCA) - \$1,075,000
  - General Revenue - \$50,000
- Spare the Air Winter
  - General Revenue - \$825,000 per contract year for FYE 2025

Spare the Air program costs for FYE 2026 and FYE 2027 will be budgeted appropriately in the ordinary course of the Air District's annual budget process.

# Requested Action



Recommend to the Board of Directors approve:

- Allison+Partners as the lead contractor for the Spare the Air Advertising, Communications and Evaluation Services;
- Up to three-year contract at the Air District's discretion, based on the contractor's performance and available funds with contract cost not to exceed \$1,950,000 for FYE 2025 & FYE 2026 and \$2,019,000 for FYE 2027.



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**AGENDA: 9**

# **Funding Community Benefits from Penalty Funds**

**Finance and Administration Committee  
April 17, 2024**

**Greg Nudd  
Deputy Executive Officer, Science and Policy  
[gnudd@baaqmd.gov](mailto:gnudd@baaqmd.gov)**



# Potential Presentation Outcomes



- The Committee will consider a policy to automatically allocate some penalty funds for community benefits and will consider recommending the policy to the Board of Directors for adoption.

# Presentation Outline



- Information about penalties
- Penalty allocation proposal
- Mitigating budget risk
- Recommendations from community representatives
- Recommended action

# About Penalties



- The Air District collects penalties from facilities that violate our regulations.
- In the past five years, these funds have varied from \$700k to \$4.2M per year.
- Penalty collections for this fiscal year are almost \$22M.
- In the current fiscal year, \$3M of penalty fund revenue was budgeted to partially fund our enforcement program consisting of 77 full time employees with a total direct costs of roughly \$16M per year.

# About Penalties (cont.)



- Most individual penalty packages are between \$10-\$50k (58%).
- But most of the penalty dollars collected are from a few large penalty packages exceeding \$1M.
- Penalties > \$1M are paid primarily by petroleum refineries and related industry. Over 90% of the penalties collected in recent years are from this sector.

# Proposed Policy



- Allocate as much of penalty funds as possible to community benefits, while ensuring the Air District recovers appropriate costs.
- Focus on providing benefits to the community impacted by the air quality violation, but also address the needs of communities that may not have large industrial sources
- Details in attached document entitled “**Funding Community Benefits from Penalty Funds**”

# Community Benefit Project Examples



Examples of projects that were identified for possible funding from penalty money from Richmond-North Richmond-San Pablo Community Emissions Reduction Plan:

- Reduce particulate matter and other toxic air pollution from food cooking operations
- Urban greening projects
- Expand accessibility to programs like Black Infant Health and CalAIM
- Expand asthma programs in schools
- Home retrofits for asthma patients

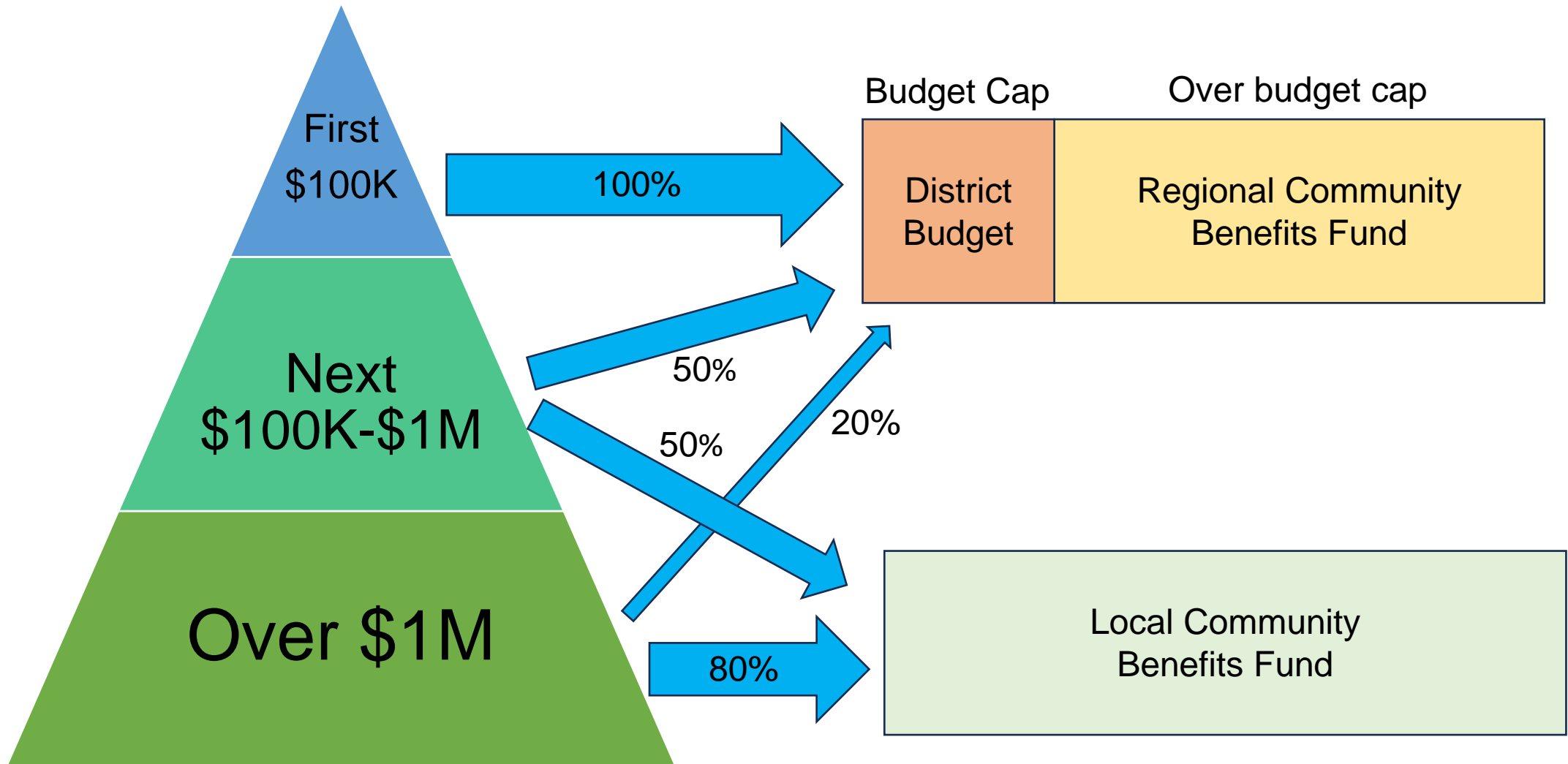
# Penalty Allocation Proposal



Lower Break Point	Upper Break Point	% to Local Benefit Fund	% to Air District or Regional Benefit Fund
\$0	\$100,000		100%
\$100,000	\$1,000,000	50%	50%
\$1,000,000		80%	20%

- The first \$100,000 of each penalty payment would go to offset the Air District's expenses in enforcing regulations. **After the budget cap is met those funds would go into a regional benefit fund.**
- Between \$100,000 and \$1,000,000, 50% of the penalties would go to a fund to benefit the community impacted by the violation. The balance would go Air District's general fund or the regional benefit fund (after the budget cap has been met).
- Above \$1,000,000, 80% of the penalties would be reserved for local benefits programs, with 20% to the Air District's general fund or the regional benefit fund (after the budget cap has been met)

# Penalty Allocation Proposal (cont.)





# Mitigating Budget Risk



- Penalty Collections vary from year-to-year, but are expected to be higher than in prior years due to enhanced and prioritized enforcement by the Air District
- FYE 2024 budget assumes \$3,000,000 in penalty collections with actual collections near \$22,000,000 year-to-date
- Proposed FYE 2025 budget assumes \$4,000,000 in penalty collections
- The proposed policy would automatically allocate some funding for local benefits for any penalty package over \$100,000, potentially creating some budget risk.

# Mitigating Budget Risk (cont.)



- Proposal: Set the Fiscal Year Penalty Budget Cap to account for any shortfalls in the previous two years.
- Fiscal Year Penalty Budget Assumption = general revenue for penalties assumed in the budget.
  - FYE 2024 - \$3,000,000
  - FYE 2025 - \$4,000,000 (proposed)
- Fiscal Year Penalty Budget Cap = Fiscal Year Budget Assumption + any recent shortfalls

# Mitigating Budget Risk (cont.)



## Example Calculation 1:

Fiscal Year	2025	2026	2027
Penalty Budget Assumption	\$4,000,000	\$4,000,000	\$4,000,000
Penalty Budget Cap	\$4,000,000	\$4,500,000	\$4,500,000
Actual Penalties Collected	\$3,500,000	\$4,000,000	\$5,000,000
Shortfall	\$500,000	\$0	\$0

# Mitigating Budget Risk (cont.)



## Example Calculation 2:

Fiscal Year	2025	2026	2027
Penalty Budget Assumption	\$4,000,000	\$4,000,000	\$4,000,000
Penalty Budget Cap	\$4,000,000	\$4,500,000	\$4,700,000
Actual Penalties Collected	\$3,500,000	\$3,800,000	\$5,000,000
Shortfall	\$500,000	\$200,000	\$0

# Community Advisory Council Recommendations:



- Recommend that the Air District Board of Directors create a policy in collaboration with the Community Advisory Council that automatically sets aside a portion of penalties for regional and local benefits
- Recommend that the Air District Board of Directors have the Community Advisory Council conduct an annual periodic review of the program after one year to ensure that the policy is effective and equitable
- Recommend that the Air District Board of Directors ensure, with the collaboration of the Community Advisory Council, that there is the creation of a plan for community outreach and oversight of any local or regional benefit fund spending programs

# Community Advisory Council Recommendations (cont.):



- Recommend that the Board of Directors set a policy in collaboration with the Community Advisory Council that automatically allocates a portion of penalties for local (80%) and regional (20%) community benefits

# Richmond-North Richmond-San Pablo CSC Recommendations:



- Create a policy that automatically directs 90% to a Local Benefit Fund for the most impacted community and 10% to a regional benefit fund.
- When the source and impact are within an AB617 designated community, the Community Steering Committee would have local oversight of the Local Benefit Fund.
- When the source and impact are **not** within an AB617 designated community, work with the Community Advisory Council (CAC) to identify community based organizations that would have local oversight of the Local Benefit Fund.

# Richmond-North Richmond-San Pablo CSC Recommendations (cont.):



- Work in collaboration with the Community Advisory Council to create a regional policy to oversee and distribute the regional funds.
- All policies and funds will include an annual review and amendment process to the program to ensure the policy's effectiveness, equity, and environmental justice principles are being met.
- All policies and funds will have an equitable and transparent implementation plan to improve air quality and public health for impacted communities.



# Partial Results for FYE 2024



- For the fiscal year ending 2024 including the \$20M Chevron penalty, the proposed 80/20 split would have the following results:
  - Air District budget cap of \$3,000,000 met
  - Local benefit fund for Richmond area: \$16,250,000
  - Regional benefit fund: \$2,658,650
  - Local benefit fund for Pleasanton: \$64,000

# Recommendation



The Executive Officer/APCO requests that the Finance and Administration Committee recommend that the Board of Directors:

**Adopt the policy to allocate penalty money to community benefits as described in the attached policy document entitled “Funding Community Benefits from Penalty Funds” Including the requirement to report back to the Board on the effectiveness of the policy**



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**AGENDA: 10**

# **Corrective Action Plan to Implement the Recommendations from the Engineering Performance Audit**

**Finance and Administration Committee  
April 17, 2024**

**Pamela Leong**  
**Engineering Division Director**  
[pleong@baaqmd.gov](mailto:pleong@baaqmd.gov)

**Meredith Bauer**  
**Deputy Executive Officer for  
Engineering and Compliance**  
[mbauer@baaqmd.gov](mailto:mbauer@baaqmd.gov)

# Presentation Outcome



- Consider and discuss the Corrective Action Plan to implement recommendations from the Engineering Performance Audit.

# Requested Action



Informational item. No action requested.

# Presentation Outline



- Background
  - Engineering Audit History
  - Review of Key Audit Findings
- Audit Recommendations
- Corrective Actions
  - Approach and Timing
  - Action Plans
- Recommended Action

# History



- On December 20, 2023, the Finance and Administration Committee heard the Engineering Audit Report on the Air District's Permit Process.
- The Audit Report calls for 7 broad recommendations to address multiple findings.
- After hearing the report, the Finance and Administration Committee directed staff to develop this action plan to address the recommendations within 90 days.

# Key Audit Findings



- Timeliness/Backlog: Permit applications are not always processed in a timely manner and a backlog exists.
- Tracking: Engineering does not track all information necessary to assess efficiency of permitting processes, identify resource needs, and ensure facilities are properly permitted.
- Resource Management
  - Staffing: hiring freeze, attrition, training, loss of institutional knowledge
  - Workload: Insufficient resources for workload, increase in non-core activities, inefficiencies in permit processing and delinquent application accounts
- Cost Recovery: Opportunities exist to enhance current fee schedule to better recover costs.



# Audit Recommendations Timeliness/Backlog



1. Develop a plan to address the permit application backlog.

Factors contributing to the backlog identified in Audit Report

- New/resource-intensive rules and programs (e.g., Rules 11-18 and 12-15, AB617, BUGs)
- Complex sources (refineries, new technologies, composting)
- Non-core duties doubled in the past five years (over 10% of workload)
- Staffing

Excerpt: “Develop a plan to address the permit application backlog. As part of this plan, the Division should consider the use of contractors and/or retired annuitants to supplement its existing staffing resources.”

# Audit Recommendations

## Tracking – Permit Process/Bottlenecks



### 2. Track permit process and payments

- (a) Ensure overall and interim permit processing steps are tracked in NPS
- (b) Ensure payments are tracked and accounts receivable information readily available in NPS
- (c) Create reports at aggregate and facility level to track efficiency, bottlenecks, and payments – these should be available to Division management
- (d) Identify information needed by management to oversee permitting activities and develop standardized reports
- (e) Identify and correct erroneous and corrupted data that was migrated from legacy systems and is currently recorded in the New Production System

Excerpt: “Work with the My Air Online team to ensure the New Production System records processing time data on both core and interim permit processing steps, outstanding accounts receivable information is readily available at the facility and aggregate level and reports necessary for management to assess permit process efficiency, identify bottlenecks, and assess the timeliness of payments are developed and available to Division management. As part of this, management should identify information it needs to oversee permitting activities and work with the My Air Online team to develop standardized reports with the required information. In addition, the Division should continue to work with the My Air Online team to identify and correct erroneous and corrupted data that was migrated from legacy systems and is currently recorded in the New Production System.”

# Audit Recommendations

## Tracking – Permit Process/Bottlenecks (cont'd)



6 (a) (ii). Identify permitting process inefficiencies and bottlenecks and implement process improvements to address the root-cause of the inefficiencies identified, including dependencies outside the Division.

# Audit Recommendations Tracking - Accounts



## 2. Track permit process and payments

- (b) Ensure payments are tracked and accounts receivable information readily available in NPS
- (c) Create reports at aggregate and facility level to track efficiency, bottlenecks, and payments – these should be available to Division management

## 6 (b) Track, identify, and collect payments for delinquent accounts

Excerpt: “Track and identify delinquent accounts and work with the Compliance and Enforcement Division to enforce permitting requirements and collect amounts owed. Once the true number and amount of delinquent accounts is identified, the Air District may want to consider the use of a third-party collector to help the Air District collect past due amounts.”

# Audit Recommendations Tracking – Management Time



## 3. Track total hours worked by management on permits and account for time in cost recovery allocations

Excerpt: “Work with the Human Resources Office to determine the feasibility of tracking the total hours worked by management within existing systems. If this is not feasible, management should develop an alternative process to track actual time spent to ensure it has a full understanding of resource needs and where staff are spending their time. This analysis should be used to refine cost recovery for these positions to ensure the appropriate percentage of costs are attributed to each program.”

# Audit Recommendations

## Resource Management: Staffing and Workload



### 4. Create a new job classification for an entry-level position for the Division

Excerpt: “Work with Air District management and Human Resources to implement a new job classification for entry level position for the Division.”

### 5. Review/update workload prioritization process

Excerpt: “Review existing permit and workload prioritization processes to assess whether procedures should be updated to better align with Division priorities and current practices.”

# Audit Recommendations

## Resource Management: Staffing and Workload (cont'd)



6. Assess resource needs to meet workload demands and core activities after tracking and efficiency measures have been implemented
  - (a) Assess impact of non-core activities and consider transferring non-core activities where possible
    - (i) Assess whether current staffing can implement work from newly adopted programs

Excerpt: “Once the Division has the data it needs to assess permit process efficiency and determine current workload and resource needs, management should: Review existing resources and determine whether resources are sufficient to not only meet workload demands, but also perform all core activities.

- (a) As part of this review, management should also review time spent by Division staff and management on non-core activities and assess the impact these activities have on resources, whether the responsibility should be transferred to another area within the Air District, and the Division’s ability to meet existing workload demands and perform core functions.
  - (i) Management should review previously requested staffing that was not approved from newly adopted programs to check if the estimates are up to date to fully implement the work.”

# Audit Recommendations

## Cost Recovery



### 7. Re-evaluate/update (as needed) Cost Recovery and Containment Policy and fee schedules

Excerpt: “Work with executive management, District Counsel, and the Board to re-evaluate the existing Cost Recovery and Containment Policy and fee schedules to determine whether they should be adjusted to better align practices with the intent of Air District leadership.”



# Audit Recommendations Summary



Finding(s)	Recommendation(s)
Timeliness/backlog	<ol style="list-style-type: none"> <li>1. Develop a backlog plan</li> <li>2. Improve tracking</li> <li>6(a)(1). Assess resource needs (including staffing)</li> <li>6(a)(ii). Identify/resolve bottlenecks</li> </ol>
Tracking: Permit Process and Bottlenecks	<ol style="list-style-type: none"> <li>2(a). Track permit process steps</li> <li>2(c). Create reports for efficiency, bottlenecks, and payments</li> <li>2(d). Develop standardized reports for management</li> <li>2(e). Identify/correct erroneous data migrated to NPS</li> <li>6(a)(ii). Identify/resolve bottlenecks</li> </ol>
Tracking: Management Time	<ol style="list-style-type: none"> <li>3. Track and account for management time spent on permit program</li> </ol>
Tracking: Accounts	<ol style="list-style-type: none"> <li>2(b). Track payments in NPS</li> <li>2(c). Create reports for efficiency, bottlenecks, and payments</li> <li>6(b). Track, identify, and collect payments for delinquent accounts</li> </ol>
Resource Management: Staffing and Workload	<ol style="list-style-type: none"> <li>4. Create a new job classification for an entry-level position for the Division</li> <li>5. Review/update workload prioritization process</li> <li>6. Assess resource needs to meet workload demands</li> <li>6(a). Assess/transfer non-core activities</li> <li>6(a)(i). Assess whether current staffing can implement work from newly adopted programs</li> </ol>
Cost Recovery	<ol style="list-style-type: none"> <li>7. Re-evaluate/update (as needed) Cost Recovery and Containment Policy and fee schedules</li> </ol>

# Corrective Actions Recent Progress



## Staffing

- Hired 4 Knowledgeable Retirees – process/oversee overdue complex applications
- Job Classification Studies started with HR – recommend entry level engineer
- 'Continuous' recruitment for the Air Quality Engineer I/II position
- Annual participation in College Summer Intern Program and Career Fairs

## Efficiencies

- Enforce Permit Streamlining Policy and Title V Policies
- Completed realignment of facility assignments to take advantage of specialized knowledge
- Pilot updated Permit Handbook with new source categories and CEQA guidance in 2Q2024

## Tracking

- MyAirOnline tools
- Spreadsheets as a 'stop gap' for Health Risk Assessments and Public Notices
- Legacy Databank staff trained and proficient in to run queries and write reports in MyAirOnline

# Corrective Action Approach and Timeline



## Dependencies that Affect Corrective Action Timing

- Strategic plan
- Compensation/Classification Study
- Rule development schedule
- NPS upgrade schedule

## Phase 1: Planning

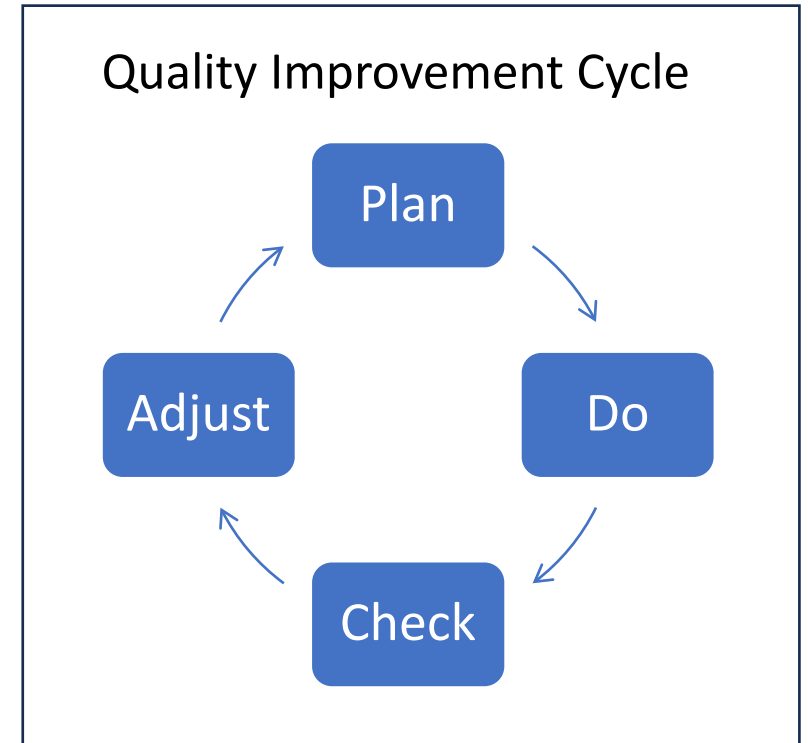
- Next 6 months
- Develop plans for backlog reduction, tracking, staffing, work prioritization, cost recovery
- Create metrics to report progress to Board
- Continue on-going improvements (e.g., NPS upgrades, efficiency measures, etc.) and complete concrete near-term recommendations

## Phase 2: Implementation and Tracking

- End of 2024 - 2027

## Phase 3: Adjust and Maintain

- 2028-2029+

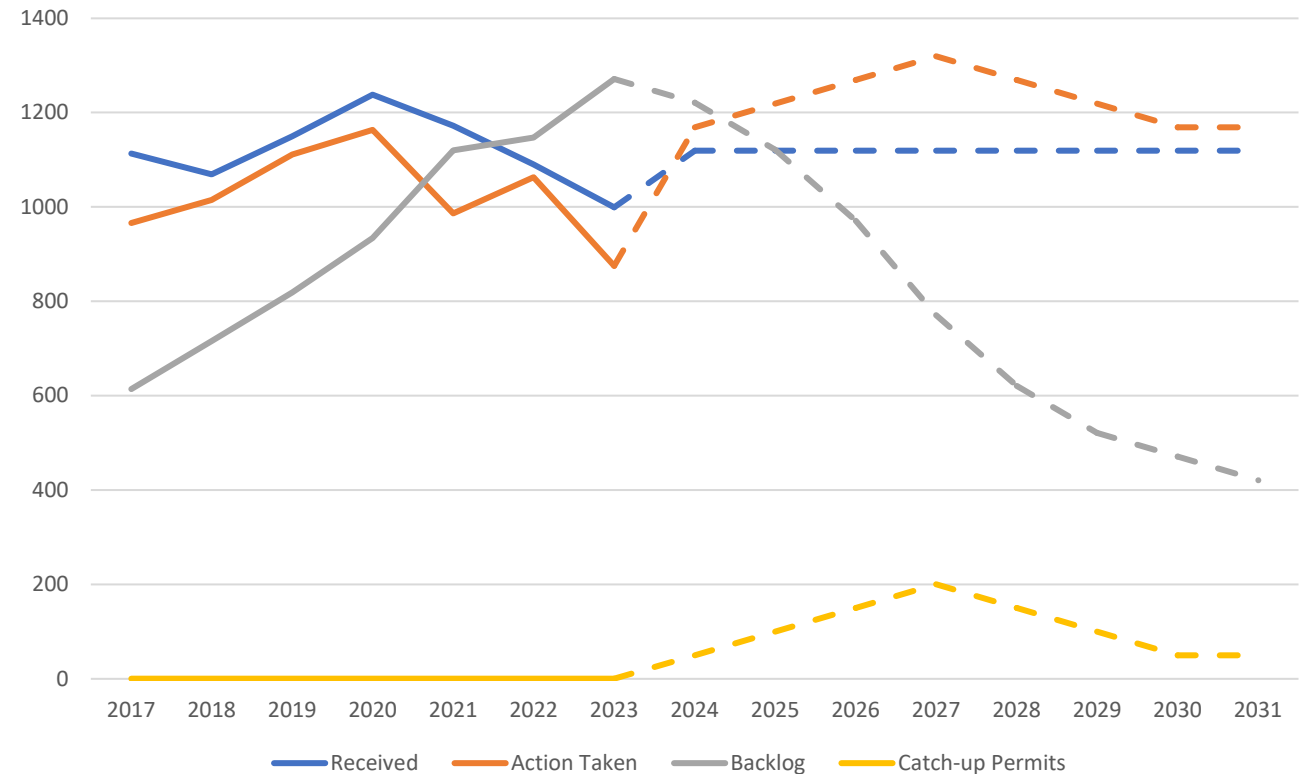


# Corrective Action Timing 5-year Backlog Reduction Schedule



Year	Total NSR Actions	Extra Actions	Above 2017 Baseline
2024	1169	50	607
2025	1219	100	507
2026	1269	150	357
2027	1219	200	157
2028	1219	150	7

Permit Action Timeline: Historic and Projected



# Action Plan Timeliness/Backlog



Finding:	Timeliness/backlog		Phase 1 - Plan		Phase 2 - Implement			Phase 3 -Adjust		
Audit Rec. No.	Planned Action	complete	Q2 2024	Q3 2024	Q4 2024	2025	2026	2027	2028	2029
1	Staff will develop a comprehensive backlog reduction plan									
1,2	Staff will create standard metrics to report progress to the Board									
1	Staff will create a list of backlogged permits and identify the action(s) and timeline to take final action									
1	Staff will finalize action on backlogged permits									
1, 6(a)(i)	Staff will assess resource-intensive programs and identify opportunities for efficiencies, which may require rule amendments (e.g., 2-5, 12-15, 11-18, BUGs, BACT, composting)									
1	Staff will develop a rule amendment plan, including a timeline									
1	In consultation with the Board of Directors, staff will develop policy updates and/or rule amendments for Rule 11-18, Rule 12-15, Rule 2-5, BUGs, BACT, and composting, along with others that may be identified in the rule amendment plan									
1, 5, 6	Staff will create project teams for complex sources to have more streamlined coordination									
1, 6(a)(ii)	Staff will initiate a procurement for outside project management services to develop internal coordination tools and efficiency measures									

# Action Plan Timeliness/Backlog (cont'd)



Finding:	Timeliness/backlog		Phase 1 - Plan			Phase 2 - Implement			Phase 3 -Adjust	
Audit Rec. No.	Planned Action	complete	Q2 2024	Q3 2024	Q4 2024	2025	2026	2027	2028	2029
1	Staff will implement efficiency measures based on tracking corrective actions									
1, 2, 6(a)(ii)	Staff will evaluate external causes of permit delays (e.g., applicant, school notifications, CEQA, EIR) and develop a plan to address the impact on permit timelines									
1, 2, 6(a)(ii)	Staff will identify and resolve bottlenecks in the permit process based on metrics and reports developed through the tracking corrective actions									
1	Staff will complete revisions of the Permit Handbook and managers will work with staff to ensure Air District policies are efficiently implemented									
1	Staff will enhance and expand customer service tools on the permit process (e.g., tools for complete submittals, status checker, dispute resolution)									
1, 6(a)(i)	Staff will develop backlog reduction and maintenance staffing plans based on workload corrective actions									

# Action Plan Tracking – Permit Process/Bottlenecks



Finding:	Tracking: Permit Process and Backlog		Phase 1 - Plan		Phase 2 - Implement			Phase 3 -Adjust		
Audit Rec. No.	Planned Action	complete	Q2 2024	Q3 2024	Q4 2024	2025	2026	2027	2028	2029
2(a)	Staff will map out key permit process steps, including those in other Divisions and by external entities, and known bottlenecks									
2(a), 2(c), 2(d)	Staff will initiate a procurement for outside project management services to develop standard tracking metrics and reports									
2(a), 2(c), 2(d)	Staff will develop a project plan to systematically build internal tracking tools and routine reports to management									
2(a), 2(c), 2(d)	To the extent possible, staff will build tracking and reporting tools in NPS. If needed, staff will initiate RFQ for services to build the necessary tools, in consultation with the Board of Directors.									
1, 2(a)	Staff will enhance and expand tools for applicants to track the status of individual permits									
1, 6(a)(ii)	Staff will initiate a procurement for outside project management services to develop an internal coordination plan									

# Action Plan

## Tracking – Permit Process/Bottlenecks (cont'd)



Finding:	Tracking: Permit Process and Backlog		Phase 1 - Plan		Phase 2 - Implement			Phase 3 -Adjust		
Audit Rec. No.	Planned Action	complete	Q2 2024	Q3 2024	Q4 2024	2025	2026	2027	2028	2029
2(a), 6(a)(ii)	Based on the internal coordination plan, staff will integrate key information from other Divisions into NPS (e.g., source test status, NOVs, AB617 community, unresolved/past enforcement actions), incorporate HRA process information and steps, and track title V permits									
1, 2(c), 6(a)(ii)	Staff will identify bottlenecks in the permit process based on metrics and reports developed through the tracking updates and create de-bottlenecking recommendations									
1, 6(a)(ii)	In consultation with Legal and Source Test, staff will explore options to expedite current AC permits that are awaiting source test approval									
2(e)	Staff will identify and correct erroneous data that was migrated to NPS									



# Action Plan Tracking - Management Time



Finding:	Tracking: Management Time		Phase 1 - Plan		Phase 2 - Implement			Phase 3 -Adjust		
Audit Rec. No.	Planned Action	complete	Q2 2024	Q3 2024	Q4 2024	2025	2026	2027	2028	2029
3	In consultation with the Human Resources Office and Finance Division, staff will develop a process to track time spent by management on permit program									
3	Management will track time spent on permit program, in alignment with the new process									

# Action Plan Tracking - Accounts



Finding:	Tracking: Accounts		Phase 1 - Plan		Phase 2 - Implement			Phase 3 -Adjust		
Audit Rec. No.	Planned Action	complete	Q2 2024	Q3 2024	Q4 2024	2025	2026	2027	2028	2029
2(b), 2(c), 6(b)	Staff will identify delinquent accounts									
6(b)	In consultation with Legal and Compliance and Enforcement, staff will determine how to expeditiously achieve compliance									
2(b), 2(c), 6(b)	In consultation with Legal and Compliance and Enforcement, staff will create and implement a standard procedure to quickly address applications with delinquent fees									

# Action Plan

## Resource Management: Staffing and Workload



Finding:	Resource Management - Staffing and Workload		Phase 1 - Plan			Phase 2 - Implement			Phase 3 -Adjust	
Audit Rec. No.	Planned Action	complete	Q2 2024	Q3 2024	Q4 2024	2025	2026	2027	2028	2029
1, 6	Staff will hire retired annuitants									
1, 6	In consultation with Human Resources and the Employee Association, staff will develop a backlog reduction staffing plan that will consider, among other things, the use of contractors (per audit recommendation)									
1,6	Based on the backlog reduction staffing plan, in consultation with the Board, staffing levels will be adjusted in order to reduce the backlog to 2017 levels within 5 years (i.e., 2029)									
4, 6	In consultation with Human Resources, staff will identify hiring barriers (e.g., intro-level job classification)									
6, 6(a)(i)	Staff will develop long-term staffing plan (maintenance level) based on rule/policy updates, tracking data, and efficiency/de-bottlenecking measures									
6	In order to maintain adequate staffing and retain institutional knowledge, staff will develop a retention plan									
5,6	To increase efficiency, effectiveness, expertise, and consistency, staff will develop a training and collaboration plan									

# Action Plan

## Resource Management: Staffing and Workload (cont'd)



Finding: Audit Rec. No.	Resource Management - Staffing and Workload Planned Action	complete	Phase 1 - Plan		Phase 2 - Implement			Phase 3 -Adjust		
			Q2 2024	Q3 2024	Q4 2024	2025	2026	2027	2028	2029
6, 6(a)	Staff will assess non-core activities and, based on strategic planning priorities, develop a plan address their impact on the permit backlog									
5	Use strategic plan and tracking information to develop a prioritization process that utilizes staffing resources to meet Air District priorities									
5	Utilize tracking data to identify resource-intensive sources and develop a plan to efficiently and effectively manage projects									
1, 5, 6	Staff will create project teams for complex sources to have more streamlined coordination									
5	Staff will initiate early coordination on sensitive projects, which will be identified based on strategic planning priorities and in consultation with Legal and C&E									
6(a)(ii)	In consultation with Rules and Planning, staff will develop a process to identify unexpected impacts of new programs on permit processing, which should happen in early stages of program development									

# Action Plan Cost Recovery



Finding:	Cost Recovery		Phase 1 - Plan		Phase 2 - Implement			Phase 3 -Adjust		
Audit Rec. No.	Planned Action	complete	Q2 2024	Q3 2024	Q4 2024	2025	2026	2027	2028	2029
7	Staff will initiate RFQ for service to provide a report on cost recovery methods used by other agencies and options for the Air District to consider.									
7	In consultation with the Board of Directors, consider updates to the cost recovery methodology for the Air District based on findings from the cost recover report, and that consider time spent by management and on legal and enforcement cases									
7	In consultation with Finance and the NPS Team, identify opportunities to streamline fee payment and tracking to ensure the Air District receives timely and adequate fees									
7	The NPS team will develop a plan for implementing fee payment and tracking improvements in NPS									
7	To the extent possible, staff will build fee streamlining tools in NPS. If needed, staff will initiate RFQ for services to build the necessary tools, in consultation with the Board of Directors.									

# Requested Action



Informational item. No action requested.



# Q&A