

Cost Recovery & Containment Study

For Fiscal Year Ended June 30, 2017

BAY AREA AIR QUALITY MANAGEMENT DISTRICT, CA

FINAL REPORT



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Table of Contents

Introduction & Executive Summary	1
.....	
Cost Allocation Plan	5
.....	
BillCodes	14
.....	
Cost Recovery Model - Fee Study	22
.....	
Cost Containment Strategies	27
.....	

1 Introduction & Executive Summary

The Matrix Consulting Group was retained by the Bay Area Air Quality Management District (BAAQMD) to provide a cost recovery and containment study. This assessment used multiple analytical tools to understand the current process for allocation of indirect costs, current cost recovery levels, and recommendations for cost recovery and savings. This report summarizes our findings, conclusions, and recommendations.

1 OVERVIEW OF THE STUDY

The Bay Area Air Quality Management District hired the Matrix Consulting Group to update the cost recovery and containment study conducted in 2012. The primary purpose of this study is to evaluate the indirect overhead associated with the District and the cost recovery associated with the fees charged by the District. The project team evaluated the District's current programs to classify them as direct or indirect costs, as well as the time tracking data associated with each of the different fee schedules. This report provides specific recommendations related to direct and indirect cost recovery for the District, as well as potential cost efficiencies.

2 STUDY METHODOLOGY

As part of this study, the project team took a phased approach that included the following activities:

- **Categorized Programs as Indirect or Direct:** The Matrix Consulting Group conducted interviews with different program staff regarding their role within the District as either a provider of direct service to the residents and consumers of District services or indirect support provided internally to District programs.
- **Reviewed General & Permit General BillCodes:** The project team conducted interviews with District staff and reviewed BillCode data associated with two major categories – General and Permit General.
- **Evaluated Cost Containment Strategies:** Recommendations from the previous cost recovery & containment study were evaluated in the context of the District's current operations, including a review and analysis of the District's new production system / online permitting system.
- **Assessed and Developed a Cost Recovery Software:** Key components of a cost recovery software were identified and incorporated into a cost recovery model that would enable District staff to evaluate cost recovery in a simplistic manner on an on-going basis.

- **Conducted an Analysis of Issues Identified:** Based on the initial findings, the project team evaluated additional data and analyzed operational issues and efficiencies. The analysis resulted in recommendations that are presented in the body of this final report, divided by the different functional areas of the recommendations.

The objective of the study was to review and update the current cost allocation methodology of the District. This included reviewing its current cost recovery levels, designing a new software, and identifying any cost containment strategies and their incorporation into future cost analysis studies. This report presents recommendations, along with an implementation plan for those recommendations.

3 SUMMARY OF KEY RESULTS AND IMPROVEMENT OPPORTUNITIES

The primary focus of the Cost Recovery and Containment study was to evaluate the District's cost recovery level status on a fee schedule by fee schedule basis. The following table shows the results of the cost recovery and containment study, comparing the total cost and revenue associated with each fee schedule.

Fee Schedule	Total Cost	Total Revenue	Annual Surplus / (Deficit)	Cost Recovery %
A	\$168,099	\$5,722	(\$162,377)	3%
B	\$9,322,314	\$9,599,477	\$277,163	103%
C	\$756,517	\$2,491,202	\$1,734,684	329%
D	\$6,811,754	\$5,548,181	(\$1,263,573)	81%
E	\$3,552,397	\$2,767,439	(\$784,958)	78%
F	\$2,543,093	\$2,351,500	(\$191,593)	92%
G1	\$6,165,542	\$2,556,491	(\$3,609,051)	41%
G2	\$1,027,393	\$561,626	(\$465,767)	55%
G3	\$606,529	\$648,892	\$42,362	107%
G4	\$3,442,094	\$959,093	(\$2,483,001)	28%
G5	\$364,040	\$979,704	\$615,663	269%
H	\$344,693	\$122,440	(\$222,253)	36%
I	\$184,091	\$5,439	(\$178,653)	3%
K	\$1,261,621	\$246,552	(\$1,015,070)	20%
L	\$3,997,627	\$4,108,669	\$111,042	103%
N	\$356,760	\$214,311	(\$142,449)	60%
P	\$5,812,842	\$5,088,243	(\$724,598)	88%
R	\$513,065	\$237,105	(\$275,961)	46%
S	\$98,105	\$101,934	\$3,829	104%
T	\$2,333,516	\$2,179,797	(\$153,719)	93%
V	\$1,088,002	\$151,781	(\$936,221)	14%
W	\$89,400	\$324,000	\$234,600	362%
X	\$502,547	\$1,131,169	\$628,622	225%
TOTAL	\$51,342,042	\$42,380,765	(\$8,961,277)	83%

Based upon the results, the District is under-recovering on an annual basis by \$8.96 million. The primary source of this deficit is G1 sources.

In addition to conducting a financial evaluation of the District's operations, the project team also developed some recommendations that directly impact cost recovery. These recommendations are summarized in the table below.

Recommendation	Associated Area
<p>There should be some minor alterations to the allocation bases to simplify the cost allocation process. These changes include the following:</p> <ul style="list-style-type: none"> - Allocating Recruitments based on total number of full-time equivalents. - Allocating Penalties, Enforcement, & Settlement based on total number of full-time equivalents in Compliance & Enforcement and Engineering. - Allocating Facilities Maintenance based on total number of full-time equivalents in the facilities being maintained. <p>Implementing these changes will result in a simpler and more refined allocation methodology that better reflects the level of service provided.</p>	Cost Allocation / Program Classification
<p>A clear definition of activities that are considered "General" should be developed and distributed to all staff members within the District. This should also be included in the employee handbook to make it easier for dissemination during the onboarding process. This definition should be developed by District staff within Finance and Administration, and be approved by District Executive Management.</p>	Cost Recovery / BillCodes
<p>There should be an annual auditing and monitoring mechanism in place for supervisors to review the timesheets of staff members. This will ensure that staff are accurately recording time in the "General" category.</p>	Cost Recovery / BillCodes
<p>The "General" billcode category should be separated into two distinct categories – District General and Other General. The District General should refer to activities such as Executive Office, Finance, Payroll, etc. or activities that provide support to all programs internally within the District. The Other General should refer to unpermitted sources, mobile inspections, or activities that have no revenue source other than property tax.</p>	Cost Recovery / BillCodes
<p>District staff should be encouraged to code more time and thereby cost directly to the Fee Schedules rather than utilizing Permit General or even General to code the balance of time. Some of these activities include Litigation, Penalties, Enforcement, and Settlement, and Information Systems Software Development.</p>	Cost Recovery
<p>A threshold should be set up for Permit General calculation. The majority of staff positions and members should not be coding more than 25% of their time / cost to the Permit General Category. If at the end of the year, a staff member's time exceeds 25% in the Permit General category, the supervisor should review that time coding and ensure that it is appropriate for that position to code more time to Permit General rather than to specific fee schedules or grant activities.</p>	Cost Recovery

Recommendation	Associated Area
The District should expand the definition and sample activities associated with the Bill codes for Schedules T and B to include review work related to Schedules H, K, P, G1, G2, and G3 sources. This will ensure that District staff are appropriately coding their time while working on these activities and will mitigate the need for the District to reallocate expenses to those schedules on the back-end prior to the cost recovery calculation.	Cost Recovery / Bill Codes
The initial cost recovery level category should be expanded up to 110% to ensure that cost recovery levels are maintained even for those schedules that may show over 100% cost recovery in one year, but then may dip down the following year due to lack of fee increases. This practice will help maintain consistency in cost recovery levels for those full cost recovery fee schedules and is in line with best management practices.	Cost Recovery
An additional cost recovery level should be added to the fee increase table. The less than 50% category should have a 15% increase. The District should review schedules that are below 50%, and develop multi-year schedule based increase percentages to address the unique cost recovery issues associated with each schedule. This will help the District increase those fees and fee schedules that are significantly below the 75% mark at a much more significant rate.	Cost Recovery
The District should encourage online application submission through the New Production System. This encouragement should occur through a publicity campaign, as well as possibly implementing an online application fee discount.	New Production System
The District should review the metrics and statistics gathered in the New Production System and utilize it to publish key performance metrics and measure cycle times. This will help the District to better understand staff resource allocation as well as to present information to key internal and external stakeholders.	New Production System

As the table above indicates there are several key recommendations as a result of this report. The majority of these recommendations are related to cost classifications and monitoring, either by definition of bill codes or auditing time and costs coded to the bill codes.

2 Cost Allocation Plan

One of the primary objectives of the study was to evaluate the District's current cost allocation methodology. The following chapter discusses the full cost allocation methodology, the results of the proposed methodology with recommendations for the District to consider, and a comparison between the results of the different methodologies.

1 COST ALLOCATION DESCRIPTION

The primary objective of a Cost Allocation Plan is to spread costs from central support departments, generally called "Central Service Departments" to those departments, divisions, cost centers, and/or funds that receive services in support of conducting their operations. In doing so, an organization can both better understand its full cost of providing specific services to the community, and also generate organizational awareness regarding indirect (overhead) costs associated with operations.

The Cost Allocation Plan is compiled in accordance with Generally Accepted Accounting Principles, and is also based on many of the methods of indirect cost allocation defined by the federal Office of Management and Budget's (OMB) Super Circular (formerly A-87). These principles can be summarized in the following points:

- Necessary and reasonable
- Determined by allocation "bases" that relate to benefit received

In addition, the circular defines a method for allocating indirect costs called the double-step down allocation method, which utilizes two "steps" or "passes" to fully allocate costs. The double-step down procedure is reflected in this plan, and ensures that the benefit of services between Central Service support departments are recognized first, before final allocations to receivers of services are made. For example:

- **First Step:** Central Service Department expenditures are allocated to other central service departments such as Human Resources, Information Technology, etc., as well as to Receiving Departments.
- **Second Step:** Distributes Central Service department expenses and first step allocations to the Receiving Departments only.

The current and proposed methodology both employ the Double Step-down procedure. The table on the following page shows the program title, a brief description of the program, and the recommended allocation basis for that program.

Program Title	Program Description	Allocation Basis
Executive Office	This program includes the Executive Officer/APCO, oversees staff, and directs the business of the Air District.	FTE per program
Board of Directors	This program handles administrative duties for Board of Director activities.	FTE per program
Advisory Council	Consisting of 7 members, the Advisory Council is asked to study and make recommendations for changes for specific topics from the Board of Directors or the Air Pollution Control Officer.	FTE per program
Community Engagement	This program interacts with the public to inform everyone about the Air Districts programs and air quality issues. They also develop clean-air partnerships with non-profit organizations.	FTE per program
Website Development & Maintenance	This program is responsible for development, support, and maintenance of the Air District's online websites.	FTE per program
Payroll	This program is responsible for the Air District's employee payroll and benefits related to payroll.	FTE per program
Benefits Administration	The Benefit Administration program handles administrative duties related to employee benefits as well as ergonomics and special events.	FTE per program
Organizational Development	This program manages wellness activities and events for employees and provides extensive career development training to retain a top performing and motivated workforce.	FTE per program
Employment Relations	The Employment Relations program manages employee Equal Employment Opportunity programs and provides staff consultations and support.	FTE per program
Recruitment & Testing	This program is responsible for finding and interviewing candidates for vacant positions.	FTE per program
Finance/Accounting	The Finance/Accounting program manages the District's budget by reviewing all receipts and expenditures, disbursements of District funds, and maintenance of Federal and State grant funds.	FTE per program

Program Title	Program Description	Allocation Basis
Facilities	This program provides all day to day operations for all buildings in the District.	FTE per program (Excluding offsite facilities)
Communications	The Communications program is responsible for the distribution of mail, reproduction, and subscription requests for the District.	FTE per program
375 Beale Street	This program is to pay for the District's main building lease payments.	FTE per program
Purchasing	The Purchasing program is responsible for the purchase of services, equipment, and supplies as well as property management administration of insurance policies and setting up the removal of extra equipment.	# of Purchase Orders per program
Shared Services	This program is responsible for business operations and technology functions that are shared between the Bay Area Air Quality District, Metropolitan Transportation Commission, and the Association of Bay Area Governments.	FTE per program
Vehicle Maintenance	The Vehicle Maintenance program maintains the District's 121 vehicles by getting the vehicles serviced, handling vehicle financing, and tracking and diagnostics of fuel records.	# of Vehicles per program
Legal Counsel	This program provides the District with legal services such as advising, counseling, preparing and reviewing contracts, and providing legal opinions and advice on rule development and governmental and general law issues.	FTE per program
Penalties Enforcement & Settlement	This program reaches settlements and pursues penalty enforcement actions to ensure enforcement of the District's rule set in place.	FTE per Compliance & Enforcement & Engineering Divisions
Litigation	The Litigation program represents the District when individuals, corporations, or organizations sue the Air District in State or Federal court.	FTE per program

Program Title	Program Description	Allocation Basis
Media Relations	The Media Relations program focuses on outreach to the public about air quality issues, the District's programs and purpose, and functions of the agency.	FTE per program
Information Management Records & Content	This program maintains all official records for the District.	FTE per program
Information Technology Engineering & Operations	This program maintains all computer server infrastructure for District staff by handling all software, computer networks, office systems, computers and workstations, and database servers.	FTE per program

The table above and on the previous pages lists all of the programs that were classified and confirmed as District-wide support for the agency. Additionally, it also identifies the allocation bases utilized by the project team.

While the project team reviewed different methodologies associated with the different programs, the allocation bases listed above were arrived at after comparing the existing methodologies to the proposed methodologies. Some methodologies were altered for simplicity such as replacing number of recruitments with number of full-time equivalents; however, other bases were more refined such as allocating the costs associated with penalties to enforcement and engineering only. A summary of changes to the allocation methodology are discussed in the points below:

- **Recruitments:** Proposing that recruitments be allocated based upon the number of full-time equivalents as that is a less volatile number, rather than having to rely on the fluctuation in recruitments within programs on an annual basis. The rationale behind using the number of full-time employees is that the more employees within a program, the higher the likelihood that there will be turnover and the need for recruitment support and services.
- **Penalties, Enforcement, & Settlement:** Staff in Penalties, Enforcement, and Settlement primarily focus on work related to permitted activities, therefore, instead of allocating their support district-wide to all programs, their support has only been allocated based upon the number of staff within the permit-related programs. This ensures that permitted activities directly absorb the overhead associated with these activities.
- **Facilities Maintenance:** Only employees that are housed at the District's headquarters receive support from staff or through the management of facilities maintenance contracts by staff in facilities maintenance. Therefore, the project team revised the allocation to remove those employees that are located in offsite

facilities to ensure that support is only allocated to those employees that benefit from support provided by Facilities maintenance.

Implementing these changes to the cost allocation methodology simplifies the model, while also refining it to better reflect the level of service being provide.

In order to ensure that appropriate costs are being allocated, staff in the programs that are considered District Overhead should be coding their time to the General BillCode. The only exception to this should be if staff spend specific time on grant funded activities or fee schedule related activities. This will ensure that during the cost recovery calculation process those costs are appropriately identified and allocated.

Recommendation #1: There should be some minor alterations to the allocation bases to simplify the cost allocation process. These changes include the following:

- ***Allocating Recruitments based on total number of full-time equivalents.***
- ***Allocating Penalties, Enforcement, & Settlement based on total number of full-time equivalents in Compliance & Enforcement and Engineering.***
- ***Allocating Facilities Maintenance based on total number of full-time equivalents in the facilities being maintained.***

Implementing these changes will result in a simpler and more refined allocation methodology that better reflects the level of service provided.

2 COST ALLOCATION RESULTS

The project team compiled the results of the Cost Allocation Plan based upon the District's current methodology, the recommended changes, and compared those results. The following subsections discuss each of those result components.

2.1 Current Cost Allocation Results

The following table shows the total costs allocated to the different district programs based upon the current allocation methodology.

Program #	Program Title	Total Costs Allocated
105	Joint Policy Committee	\$387
122	Hearing Board	\$24,208
125	My Air Online	\$452,888
126	Clean Power & Efficiency Program	\$12,921
202	Hearing Board Proceedings	\$102,199
303	Intermittent Control Programs	\$139,511
305	Spare the Air (CMAQ)	\$9,294
306	Intermittent Control Programs	\$513,710
307	Carl Moyer Program Administration	\$265,315
308	Transportation Fund for Clean Air	\$485,043

Program #	Program Title	Total Costs Allocated
310	Mobile Source Incentive Fund	\$341,677
311	Carbon Offset Fund	\$9,762
312	Vehicle Buyback	\$34,670
313	Grant Program Development	\$355,780
316	Miscellaneous Incentive Program	\$10,549
317	Regional Electric Vehicle Deployment	\$53,627
318	Enhanced Mobile Source Inspections	\$229,247
323	California Goods Movement Bond Administration	\$331,222
401	Enforcement	\$2,386,697
402	Compliance Assistance & Operations	\$1,451,842
403	Compliance Assurance	\$3,409,387
501	Permit Evaluation	\$2,446,852
502	Permit Renewals	\$490,336
503	Air Toxics	\$991,895
504	Permit Operations	\$401,456
506	Title V	\$473,312
507	Engineering Special Projects	\$348,007
601	Source Inventories	\$486,320
602	Air Quality Plans	\$383,110
603	Air Quality Modeling Support	\$363,207
604	Air Quality Modeling & Research	\$347,729
605	Mobile Source Measures	\$482,475
608	Climate Protection	\$877,548
609	Community Air Risk Evaluation (CARE)	\$339,972
611	Rule Development	\$817,243
725	Information Systems Software Development	\$709,832
802	Ambient Air Monitoring	\$1,843,810
803	Laboratory	\$659,022
804	Source Test	\$1,307,517
805	Meteorology	\$405,560
807	Air Monitoring Instrument Performance Evaluation	\$357,877
809	BioWatch Monitoring	\$16,382
810	Infrastructure and Records Management	\$150,891
811	Mobile Monitoring	
TOTAL		\$25,320,289

As the table shows the total costs allocated through the District's current full cost allocation methodology results in a total cost of \$25.3 million allocated to different District programs. The primary receivers of support are Compliance and Enforcement at 29% and Engineering at 20%. This suggests that fee-related programs receive approximately 49% of the overall support of the District.

2.2 Proposed Cost Allocation Results

The proposed cost allocation model not only incorporated the recommended allocation bases, but also altered the order of direct cost exclusions. The following table shows the total costs allocated to the different district programs based upon the recommended /

proposed allocation methodology.

Program #	Program Title	Total Costs Allocated
105	Joint Policy Committee	\$287
122	Hearing Board	\$17,617
125	My Air Online	\$346,033
126	Clean Power & Efficiency Program	\$8,575
202	Hearing Board Proceedings	\$35,524
303	Intermittent Control Programs	\$110,717
305	Spare the Air (CMAQ)	\$6,899
306	Intermittent Control Programs	\$411,569
307	Carl Moyer Program Administration	\$214,476
308	Transportation Fund for Clean Air	\$379,902
310	Mobile Source Incentive Fund	\$283,358
311	Carbon Offset Fund	\$273
312	Vehicle Buyback	\$22,086
313	Grant Program Development	\$282,096
316	Miscellaneous Incentive Program	\$8,316
317	Regional Electric Vehicle Deployment	\$38,523
318	Enhanced Mobile Source Inspections	\$180,551
323	California Goods Movement Bond Administration	\$225,851
401	Enforcement	\$2,891,820
402	Compliance Assistance & Operations	\$1,824,636
403	Compliance Assurance	\$4,139,889
501	Permit Evaluation	\$3,126,887
502	Permit Renewals	\$536,515
503	Air Toxics	\$1,014,287
504	Permit Operations	\$474,238
506	Title V	\$515,406
507	Engineering Special Projects	\$351,490
601	Source Inventories	\$423,405
602	Air Quality Plans	\$319,986
603	Air Quality Modeling Support	\$308,361
604	Air Quality Modeling & Research	\$294,273
605	Mobile Source Measures	\$392,626
608	Climate Protection	\$757,169
609	Community Air Risk Evaluation (CARE)	\$269,193
611	Rule Development	\$654,758
725	Information Systems Software Development	\$618,217
802	Ambient Air Monitoring	\$1,298,697
803	Laboratory	\$ 530,141
804	Source Test	\$948,167
805	Meteorology	\$295,756
807	Air Monitoring Instrument Performance Evaluation	\$279,154
809	BioWatch Monitoring	\$11,418
810	Infrastructure and Records Management	\$129,381
811	Mobile Monitoring	\$287
TOTAL		\$24,978,814

As the table above shows, under the proposed / revised methodology a total of \$24.98 million costs was allocated. Similar to the current methodology, the primary receivers of support are Compliance and Enforcement at 36% and Engineering at 24%. The proposed methodology increases indirect costs for fee-related programs by approximately 11%.

2.3 Cost Allocation Comparison

The table on the following page compares the total cost allocation between the two different methodologies, showing the total costs currently allocated, proposed costs allocated, and the difference.

Prog. #	Program Title	Current Costs Allocated	Proposed Costs Allocated	Difference in Costs
105	Joint Policy Committee	\$387	\$287	(\$100)
122	Hearing Board	\$24,208	\$17,617	(\$6,591)
125	My Air Online	\$452,888	\$346,033	(\$106,855)
126	Clean Power & Efficiency Program	\$12,921	\$8,575	(\$4,346)
202	Hearing Board Proceedings	\$102,199	\$35,524	(\$66,675)
303	Intermittent Control Programs	\$139,511	\$110,717	(\$28,793)
305	Spare the Air (CMAQ)	\$9,294	\$6,899	(\$2,394)
306	Intermittent Control Programs	\$513,710	\$411,569	(\$102,141)
307	Carl Moyer Program Administration	\$265,315	\$214,476	(\$50,839)
308	Transportation Fund for Clean Air	\$485,043	\$379,902	(\$105,141)
310	Mobile Source Incentive Fund	\$341,677	\$283,358	(\$58,318)
311	Carbon Offset Fund	\$9,762	\$273	(\$9,489)
312	Vehicle Buyback	\$34,670	\$22,086	(\$12,584)
313	Grant Program Development	\$355,780	\$282,096	(\$73,684)
316	Miscellaneous Incentive Program	\$10,549	\$8,316	(\$2,232)
317	Regional Electric Vehicle Deployment	\$53,627	\$38,523	(\$15,104)
318	Enhanced Mobile Source Inspections	\$229,247	\$180,551	(\$48,696)
323	California Goods Movement Bond Administration	\$331,222	\$225,851	(\$105,372)
401	Enforcement	\$2,386,697	\$2,891,820	\$505,124
402	Compliance Assistance & Operations	\$1,451,842	\$1,824,636	\$372,794
403	Compliance Assurance	\$3,409,387	\$4,139,889	\$730,502
501	Permit Evaluation	\$2,446,852	\$3,126,887	\$680,035
502	Permit Renewals	\$490,336	\$536,515	\$46,179
503	Air Toxics	\$991,895	\$1,014,287	\$22,392
504	Permit Operations	\$401,456	\$474,238	\$72,782
506	Title V	\$473,312	\$515,406	\$42,095
507	Engineering Special Projects	\$348,007	\$351,490	\$3,482
601	Source Inventories	\$486,320	\$423,405	(\$62,915)
602	Air Quality Plans	\$383,110	\$319,986	(\$63,124)
603	Air Quality Modeling Support	\$363,207	\$308,361	(\$54,845)
604	Air Quality Modeling & Research	\$347,729	\$294,273	(\$53,456)
605	Mobile Source Measures	\$482,475	\$392,626	(\$89,849)
608	Climate Protection	\$877,548	\$757,169	(\$120,379)
609	Community Air Risk Evaluation (CARE)	\$339,972	\$269,193	(\$70,779)

Prog. #	Program Title	Current Costs Allocated	Proposed Costs Allocated	Difference in Costs
611	Rule Development	\$817,243	\$654,758	(\$162,484)
725	Information Systems Software Development	\$709,832	\$618,217	(\$91,615)
802	Ambient Air Monitoring	\$1,843,810	\$1,298,697	(\$545,113)
803	Laboratory	\$659,022	\$ 530,141	(\$128,881)
804	Source Test	\$1,307,517	\$948,167	(\$359,350)
805	Meteorology	\$405,560	\$295,756	(\$109,803)
807	Air Monitoring Instrument Performance Evaluation	\$357,877	\$279,154	(\$78,723)
809	BioWatch Monitoring	\$16,382	\$11,418	(\$4,965)
810	Infrastructure and Records Management	\$150,891	\$129,381	(\$21,510)
811	Mobile Monitoring		\$287	\$287
TOTAL		\$25,320,289	\$24,978,814	(\$341,475)

As the table above and on the previous page shows the proposed methodology results in approximately a decrease of \$341,000. The primary difference in costs allocated is related to the classification of certain indirect costs as more directly associated with fees and permit-related activities in the proposed methodology.

3 BillCodes

Currently, all staff within the District code and track their time based on major activity using an associated bill code. The following chapter discusses the BillCodes utilized by the District.

1 BILLCODES

There are ninety-nine (99) BillCodes in place. Each BillCode is associated with an activity at the district. The following table lists all of the different activities and Fee Schedules that are associated with each of the billcodes.

Activity / Fee Schedule Title			
ARB Inspection	FS_E-Solvent Evaporation	FS_N-AB2588	Mobile Diesel
Carbon Offset Fund	FS_F-Misc.	FS_P-Title V	NatOccAsb
DHS	FS_G1-Misc.	FS_R-Registration	PM Speciation
EA	FS_G2-Misc.	FS_S-NatOccAsbBillable	Reg6-3WoodBurning
EPAG	FS_G3-Misc.	FS_T	SR_CarlMoyer
Fed Grant 103	FS_G4-Misc.	FS_V-Prescribed Burning	SR_CGMB
Fed Grant 105	FS_G5-Misc.	FS_W_Refinery Emissions Tracking	SR_MSIF
FS_8-PermitGeneral	FS_H-Semiconductor	FS_X	SR_TFCA
FS_B-Combustion of Fuel	FS_I-Drycleaners	General	zAg Waste Chipping
FS_C-Storage Organic Liquid	FS_K-Waste Disposal	Grants-Development	zBIA Public Records Act Request
FS_D-Gasoline Dispensing/Bulk Terminals	FS_L-Asbestos	Grants-Other	zPublic Records

As the table above shows there is the ability for the District to code time across the different fee schedules as well as grants and other specific District programs. The two activity titles and bill code classifications that the project team focused on were: General and Permit General, as these codes are further reallocated during the cost recovery process.

2 GENERAL – 01 BILLCODE

The BillCode 01 refers to the “General” Billcode. The General BillCode is intended to capture support services activities that benefit the entire district. The primary purpose of the General BillCode is to record the time and cost associated with indirect services such as the Executive Board, Administrative Resources Division, Communications, etc. There are also additional services that are considered District-Wide support, such as non-fee schedule based enforcement activities or litigation activities that are meant to support and benefit the general public and residents of the District.

The following table shows the total dollars associated with BillCode 01, as well as the overall total dollars associated with all District Billing Codes, and the percentage of cost associated with BillCode 01.

Category	Personnel Cost
BillCode 01	\$11,618,961
Overall	\$36,147,926
Percentage	32%

As the above table indicates, BillCode 01 comprises 32% of the salaries and benefits paid to employees of the District. The following table shows the breakout of the cost by District program.

ProgNo	Program Title	Total Cost	% of Cost
104	Executive Office	\$1,527,683	13%
106	Payroll	\$79,902	1%
107	Benefit Administration	\$133,525	1%
109	Organizational Development	\$102,467	1%
111	Employment Relations	\$146,907	1%
114	Recruitment & Testing	\$274,406	2%
121	Board of Directors	\$75,909	1%
122	Hearing Board	\$19,097	0%
123	Advisory Council	\$7,923	0%
126	Clean Power & Efficiency Program	\$9,949	0%
201	Legal Counsel	\$927,564	8%
202	Hearing Board Proceedings	\$49,908	0%
203	Penalty Enforcement & Settlement	\$117,829	1%
205	Litigation	\$191,421	2%
301	Public Information	\$703,594	6%
302	Community Engagement	\$576,697	5%
303	Intermittent Control Programs	\$443	0%
306	Intermittent Control Programs	\$1,109	0%
309	Website Development & Maintenance	\$127,418	1%
401	Enforcement	\$91,789	1%
402	Compliance Assistance & Operations	\$33,439	0%
403	Compliance Assurance	\$53,531	0%
501	Permit Evaluation	\$7,223	0%
503	Air Toxics	\$25,349	0%
507	Engineering Special Projects	\$6,391	0%
601	Source Inventories	\$132,285	1%
602	Air Quality Plans	\$386,560	3%
603	Air Quality Modeling Support	\$208,371	2%
604	Air Quality Modeling & Research	\$197,937	2%
605	Mobile Source Measures	\$544,256	5%
608	Climate Protection	\$717,970	6%
609	Community Air Risk Evaluation (CARE)	\$221,983	2%
611	Rule Development	\$102,185	1%
701	Finance/Accounting	\$773,583	7%

ProgNo	Program Title	Total Cost	% of Cost
702	Strategic Facilities	\$297,898	3%
703	Communications	\$227,025	2%
708	Purchasing	\$234,543	2%
710	Vehicle Maintenance	\$93,142	1%
712	Information Management Records & Content	\$106,853	1%
725	Information Systems Software Development	\$423,862	4%
726	Information Technology Engineering & Operations	\$1,115,989	10%
802	Ambient Air Monitoring	\$90,858	1%
803	Laboratory	\$108,607	1%
804	Source Test	\$122,277	1%
805	Meteorology	\$30,401	0%
807	Air Monitoring Instrument Performance Evaluation	\$20,441	0%
810	Infrastructure and Records Management	\$170,461	1%
Grand Total		\$11,618,961	100%

As the table above and on the previous page indicates, the largest source of BillCode 01 Cost comes from the following six programs: Executive Office, Information Technology Engineering & Operations, Legal Counsel, Finance / Accounting, and Public Information and Climate Protection. These programs comprise approximately 50% of BillCode 01.

It is important to note that of the top six programs, five are considered indirect support to the District and are allocated to various programs through the Cost Allocation Plan. There is only one program – Climate Protection – that is not part of the Cost Allocation Plan. Therefore, the project team extrapolated from the data above those codes that do not flow through the cost allocation plan. The following table shows those program codes, titles, cost, and percentage of the total General BillCode:

ProgNo	Program Title	Total Cost	% of Cost
122	Hearing Board	\$19,097	1%
126	Clean Power & Efficiency Program	\$9,949	0%
202	Hearing Board Proceedings	\$49,908	1%
303	Intermittent Control Programs	\$443	0%
306	Intermittent Control Programs	\$1,109	0%
401	Enforcement	\$91,789	3%
402	Compliance Assistance & Operations	\$33,439	1%
403	Compliance Assurance	\$53,531	1%
501	Permit Evaluation	\$7,223	0%
503	Air Toxics	\$25,349	1%
507	Engineering Special Projects	\$6,391	0%
601	Source Inventories	\$132,285	4%
602	Air Quality Plans	\$386,560	11%
603	Air Quality Modeling Support	\$208,371	6%
604	Air Quality Modeling & Research	\$197,937	5%
605	Mobile Source Measures	\$544,256	15%
608	Climate Protection	\$717,970	20%
609	Community Air Risk Evaluation (CARE)	\$221,983	6%
611	Rule Development	\$102,185	3%
725	Information Systems Software Development	\$423,862	12%

ProgNo	Program Title	Total Cost	% of Cost
802	Ambient Air Monitoring	\$90,858	3%
803	Laboratory	\$108,607	3%
804	Source Test	\$122,277	3%
805	Meteorology	\$30,401	1%
807	Air Monitoring Instrument Performance Evaluation	\$20,441	1%
	Grand Total	\$3,606,221	100%

As the table above and on the previous page shows, the total costs associated with Non-support services are \$3.6 million. The costs represent approximately 31% of the total General BillCode costs and 10% of the overall cost of the District. The District currently has no revenue source for recovering these costs, which are funded through the General Fund or Property Tax.

Even though, the majority of the services in this section should be funded by Property Tax, there are certain programs that should not code any time to General BillCode 01. Staff within programs such as Permit Evaluation and Information Systems Software Development should be coding their time to BillCode 08 – Permit General rather than BillCode 01 – General.

In order to clearly delineate the difference between General – District-wide indirect support and General – non-cost recovery district wide support, there should be two different billing codes. Creating a separate billing code for these services will ensure that those services that are “direct” programs but “unfunded” are represented in a different category and do not filter through or get layered onto fees. Based upon the review of current costs and bill code usage the project team has identified the following major issues with BillCode 01:

- **Definition:** There should be a clear definition of BillCode 01 – General that is provided to all Programs and Divisions. This definition should not only provide a brief summary of what is considered to be “General” activities for the District but also the types of activities that are eligible to be coded as General Activities specific to each program. This should be distributed to all employees as well as added to an Employee handbook for ease of distribution to new employees. The definition of “General” should be developed by staff in Finance and Administration and then be approved by the Air Pollution Control Officer and the Board.
- **Monitoring:** Supervisors and Management in each program should be carefully monitoring the staff and hours coded to BillCode 01 to ensure that those are eligible activities for that BillCode. This will also ensure that hours that are being provided in support of fee-related schedules are not being coded as General Hours. This is the case in Legal Services for Penalties and Litigation and also for the Information Systems Software Development. These programs should be coding costs to BillCode 08 – Permit General. Supervisors and time sheet approvers should be auditing the hours coded to the BillCodes at a minimum on an annual basis. If there

are any adjustments to the billcodes those should be made retroactively to ensure that time and cost is flowing through to the appropriate activities.

- **Other General Support:** Creation of an additional BillCode that captures those support and general activities that are “unfunded”. This will enable the District staff to clearly and easily identify indirect support associated with a particular program, and determine if those costs should be “unfunded” or allocated through another methodology.

As the points above indicate there are some opportunities for improvement as it relates to BillCode 01 – General. Clarifying the expectations associated with BillCode 01 will help the District better track its indirect costs, as well as ensure that District support is coded appropriately.

Recommendation #2: A clear definition of activities that are considered “General” should be developed and distributed to all staff members within the District. This should also be included in the employee handbook to make it easier for dissemination during the onboarding process. This definition should be developed by District staff within Finance and Administration, and be approved by the Executive Management Office.

Recommendation #3: There should be an annual auditing and monitoring mechanism in place for supervisors to review the timesheets of staff members. This will ensure that staff are accurately recording time in the “General” category.

Recommendation #4: The “General” billcode category should be separated into two distinct categories – District General and Other General. The District General should refer to activities such as Executive Office, Finance, Payroll, etc. or activities that provide support to all programs internally within the District. The Other General should refer to unpermitted sources, mobile inspections, or activities that have no revenue source other than property tax.

3 PERMIT GENERAL – 08 BILLCODE

The primary purpose of the Permit General bill code is to capture the support associated with Permit-related activities specifically. The Finance staff takes the Permit General costs and layers it onto all of the fee-related services as fee overhead. The project team evaluated the total costs associated with BillCode 08. The following table shows the Permit General cost as a proportion of total district-wide cost.

Category	Personnel Cost
BillCode 08	\$7,512,767
Overall	\$36,147,926
Percentage	21%

As the table shows, BillCode 08 comprises 21% of the total District wide personnel costs. The project team evaluated the programs that made up the total permit general costs. The following table shows by program number and title, the total costs coded to Permit General in FY 16-17.

ProgNo	Program Title	Total Cost	% of Cost
104	Executive Office	\$271,910	4%
111	Employment Relations	\$1,261	0%
125	My Air Online	\$460,057	6%
203	Penalty Enforcement & Settlement	\$74,062	1%
303	Intermittent Control Programs	\$67	0%
401	Enforcement	\$558,191	7%
402	Compliance Assistance & Operations	\$746,041	10%
403	Compliance Assurance	\$764,636	10%
501	Permit Evaluation	\$872,325	12%
502	Permit Renewals	\$235,137	3%
503	Air Toxics	\$394,782	5%
504	Permit Operations	\$429,898	6%
506	Title V	\$81,953	1%
507	Engineering Special Projects	\$256,673	3%
601	Source Inventories	\$213,680	3%
603	Air Quality Modeling Support	\$113,927	2%
604	Air Quality Modeling & Research	\$99,856	1%
605	Mobile Source Measures	\$3,714	0%
608	Climate Protection	\$264,907	4%
609	Community Air Risk Evaluation (CARE)	\$148,407	2%
611	Rule Development	\$424,477	6%
701	Finance/Accounting	\$75,257	1%
712	Information Management Records & Content	\$40,546	1%
725	Information Systems Software Development	\$441,969	6%
803	Laboratory	\$140,645	2%
804	Source Test	\$358,007	5%
805	Meteorology	\$34,638	0%
807	Air Monitoring Instrument Performance Evaluation	\$5,743	0%
Grand Total		\$7,512,767	100%

As the table above shows, the top sources of Permit General are the following programs: Permit Evaluation, Compliance Assurance, Compliance Assistance & Operations, Enforcement, and My Air Online, Permit Operations, and Rule Development. These programs comprise approximately 57% of the cost. All of the programs that have cost and time coded to Permit General (BillCode 08) should account for general permit related activities.

The project team also evaluated BillCode 08 – Permit General personnel costs and time coded as a percentage of fee-related Bill Codes. The following table shows the Permit General cost as a proportion of fee-related only cost.

Category	Personnel Cost
BillCode 08	\$7,512,767
Fee-Related	\$17,903,107
Percentage	42%

As the table above shows BillCode 08 comprises 42% of the fee-related cost. This is a significant portion of time that is coded as general permit support. The benchmark for general permit support is typically in the range of 25%-33%, with the remaining portion of staff time being spent directly on permitted activities.

It is recommended that where possible more time and thereby cost should be coded to specific types of permits in the BillCode system. This ensures that those costs are directly captured for that specific permit and source rather than being layered upon all permits and sources. A clear example of this is that nearly 30% of Permit Evaluation's personnel costs are coded to Permit General, those costs should be examined to ensure that all of those hours and cost should truly be classified as "Permit General".

The District should develop a threshold upon which Program Supervisors and Managers should review time coding to ensure that time is being appropriately coded to the Permit General category. This threshold should be set at a minimum of 25%. Therefore, if any program codes 25% or more of its time annually to Permit General, the Supervisors should meet with staff and ensure that all of those activities and costs should have been classified as Permit General. For certain programs, it will be acceptable for them to be overhead to all fees such as Enforcement, whereas for other programs such as Permit Evaluation or Permit Renewal, it will be important to monitor the time and costs coded to BillCode 08 – Permit General.

The project team has recommended through the review of cost classifications of central services and indirect support that the following programs code more time directly as Permit General:

- Penalties, Enforcement, & Settlement
- Litigation
- Information Systems Software Development

Staff within these programs should code time to Permit General to ensure that costs filter through appropriately to fee-based schedules and allow the district to fully recover the costs associated with issuing permits.

Recommendation #5: District staff should be encouraged to code more time and thereby cost directly to the Fee Schedules rather than utilizing Permit General or even General to code the balance of time. Some of these activities include Litigation, Penalties, Enforcement, and Settlement, and Information Systems Software Development.

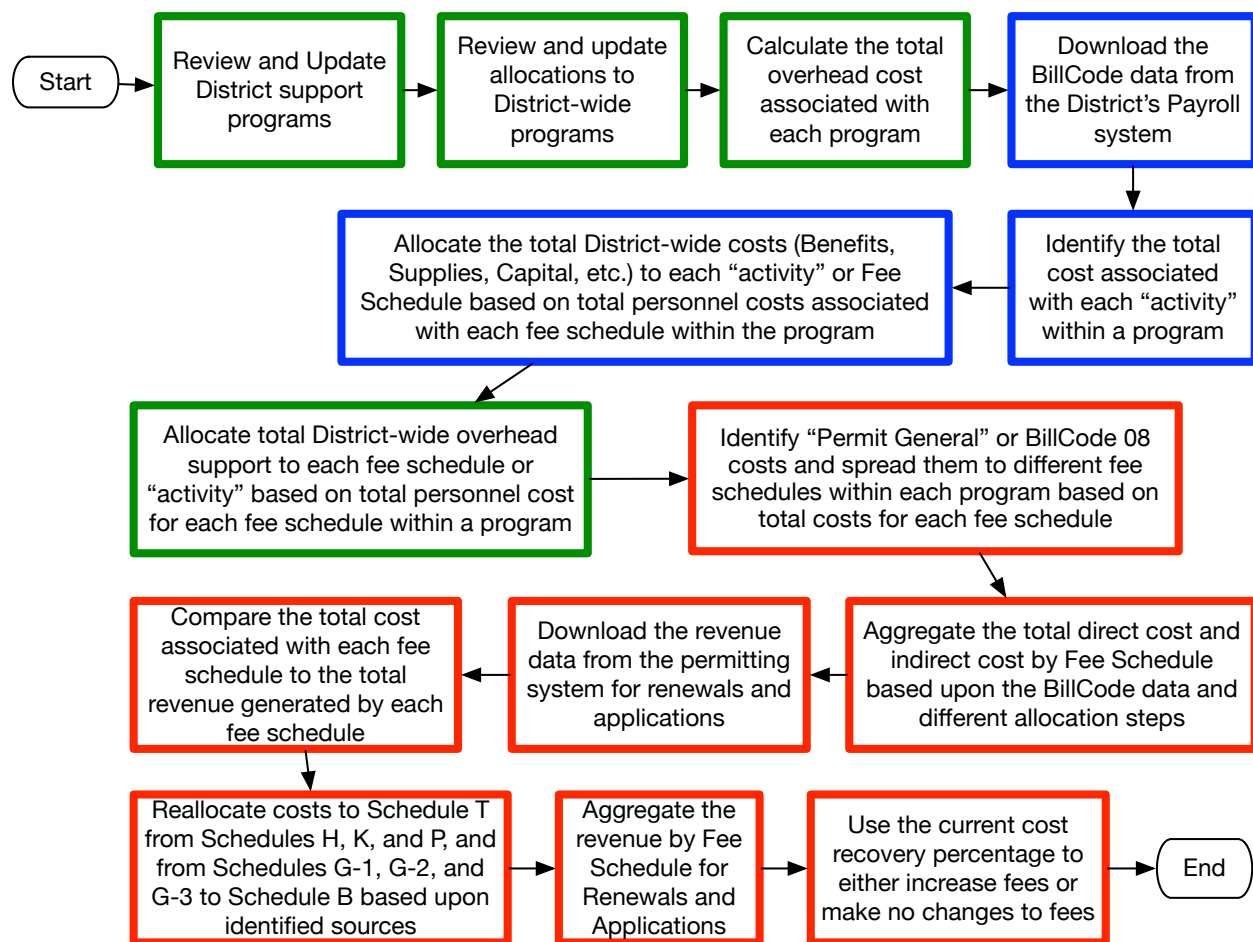
Recommendation #6: A threshold should be set up for Permit General calculation. The majority of staff positions and members should not be coding more than 25% of their time / cost to the Permit General Category. If at the end of the year, a staff member's time exceeds 30% in the Permit General category, the supervisor should review that time coding and ensure that it is appropriate for that position to code more time to Permit General rather than to specific fee schedules or grant activities.

4 Cost Recovery Model – Fee Study

In addition to the Cost Allocation Methodology, the project team also evaluated the District's current and potential cost recovery. The following chapter discusses the methodology for determining cost recovery and the results of the current and proposed methodology.

1 COST RECOVERY MODEL PROCESS

In order to evaluate the District's current cost recovery levels and develop a cost recovery model the project team evaluated the District's current cost recovery model. The project team distilled the development of the cost recovery model and its results into a simplified flowchart. The following flowchart describes how the District staff takes the information from the Cost Allocation Plan and the BillCodes and uses that to develop and calculate its current cost recovery levels and affect the fees.



Green = Cost Allocation Plan
Blue = Bill Codes
Red = Fee Schedule / Cost Recovery

The flowchart shows the different types of costs that are allocated to the different fee schedules based upon the total personnel costs associated with each fee schedule. All direct and indirect costs are allocated using this method. The costs are allocated in different steps to ensure that the appropriate level of cost is being recorded, with direct costs allocated first, then district-wide overhead, and lastly permit-related overhead.

It is important to note that the permitting system records revenue to all fee schedules. However, not all staff code time to all fee schedules. Certain fee schedules within the District are related to the overall monitoring of a specific type of program or source, and as such, when District staff are working on those permits that time is coded to a different fee schedule, rather than the appropriate fee schedule. Therefore, the District reallocates those costs based upon the types of sources from one schedule into another schedule.

This cost reallocation occurs for only two schedules: Schedule T and Schedule B. Costs are allocated to Schedule T from Schedules H, K, and P, while costs are allocated to Schedule B from Schedules G1, G2, and G3. In order to mitigate the back-end re-allocation of costs that are distributed based upon the sources in those schedules, it is recommended that additional descriptions be added to the BillCodes. The District provides staff with a list of BillCodes and the types of activities associated with each BillCode. The project team recommends that the BillCode Description for Schedules T and B be expanded to include review of relevant sources in the context of Greenhouse Gases or Gasoline Dispensing Facilities to be coded to those specific schedules rather than to another schedule. This change in the process will ensure that costs are coded to the appropriate schedules, without having to do additional calculations each year.

Recommendation #7: The District should expand the definition and sample activities associated with the Bill codes for Schedules T and B to include review work related to Schedules H, K, P, G1, G2, and G3 sources. This will ensure that District staff are appropriately coding their time while working on these activities and will mitigate the need for the District to reallocate expenses to those schedules on the back-end prior to the cost recovery calculation.

2 COST RECOVERY CALCULATION REGULATIONS AND GUIDELINES

Based upon the process outlined in the previous section the District calculates the total cost recovery associated with each specific fee schedule. It is important for the district to annually calculate its cost recovery status to ensure that for its fees for service that are being charged, it is in compliance with California State laws and propositions associated with user fee charges.

A “user fee” is a charge for service provided by a governmental agency to a public citizen or group. In California, several constitutional laws such as Propositions 13, 4, and 218, State Government Codes 66014 and 66016, and more recently Prop 26 and the Attorney General’s Opinion 92-506 set the parameters under which the user fees typically

administered by local government are established and administered. Specifically, California State Law, Government Code 66014(a), stipulates that user fees charged by local agencies "...may not exceed the estimated reasonable cost of providing the service for which the fee is charged".

In addition to the user fee regulations in Prop 26, the District is also governed by the Health and Safety Code. In the post-Prop 13 era, the State Legislature determined that the cost of programs to address air pollution should be borne by the individuals and businesses that cause air pollution through regulatory and service fees. The primary authority for recovering the cost of District programs and activities related to stationary sources is given in Section 42311 of the Health and Safety Code (HSC), under which the District is authorized to:

- Recover the costs of programs related to permitted stationary sources
- Recover the costs of programs related to area-wide and indirect sources of emissions which are regulated, but for which permits are not issued
- Recover the costs of certain hearing board proceedings
- Recover the costs related to programs that regulate toxic air contaminants

The measure of the revenue that may be recovered through stationary source fees is the full cost of all programs related to these sources, including all direct program costs and a commensurate share of indirect program costs, unless otherwise funded. Such fees are valid so long as they do not exceed the reasonable cost of the service or regulatory program for which the fee is charged, and are apportioned amongst fee payers such that the costs allocated to each fee-payer bears a fair or reasonable relationship to its burden on, and benefits from, the regulatory system.

3 PROJECTED COST RECOVERY MODEL RESULTS

The project team took the information from the revised cost allocation plan and applied it to the District's current cost allocation methodology. Additionally, the project team took the District's FY17 expenditures and allocated it to the different fee schedules based upon the total cost associated with a fee schedule within a program. Finally, the project team reviewed the renewals and applications data from the District's permitting database and allocated revenue to the identified fee schedule in the permitting system. The following table shows the results based on the cost recovery model developed by the project team.

Fee Schedule	Direct Cost	Indirect Cost	Total Cost	Total Revenue	Annual Surplus / (Deficit)	Cost Recovery %
A	\$114,967	\$53,132	\$168,099	\$5,722	(\$162,377)	3%
B	\$6,049,140	\$3,273,174	\$9,322,314	\$9,599,477	\$277,163	103%
C	\$459,222	\$297,296	\$756,517	\$2,491,202	\$1,734,684	329%
D	\$4,435,464	\$2,376,290	\$6,811,754	\$5,548,181	(\$1,263,573)	81%

Fee Schedule	Direct Cost	Indirect Cost	Total Cost	Total Revenue	Annual Surplus / (Deficit)	Cost Recovery %
E	\$2,187,565	\$1,364,832	\$3,552,397	\$2,767,439	(\$784,958)	78%
F	\$1,698,342	\$844,751	\$2,543,093	\$2,351,500	(\$191,593)	92%
G1	\$4,057,641	\$2,107,901	\$6,165,542	\$2,556,491	(\$3,609,051)	41%
G2	\$685,054	\$342,339	\$1,027,393	\$561,626	(\$465,767)	55%
G3	\$373,912	\$232,618	\$606,529	\$648,892	\$42,362	107%
G4	\$2,411,867	\$1,030,228	\$3,442,094	\$959,093	(\$2,483,001)	28%
G5	\$218,556	\$145,484	\$364,040	\$979,704	\$615,663	269%
H	\$209,350	\$135,343	\$344,693	\$122,440	(\$222,253)	36%
I	\$113,384	\$70,708	\$184,091	\$5,439	(\$178,653)	3%
K	\$795,821	\$465,800	\$1,261,621	\$246,552	(\$1,015,070)	20%
L	\$2,670,703	\$1,326,923	\$3,997,627	\$4,108,669	\$111,042	103%
N	\$226,118	\$130,642	\$356,760	\$214,311	(\$142,449)	60%
P	\$3,870,921	\$1,941,921	\$5,812,842	\$5,088,243	(\$724,598)	88%
R	\$306,095	\$206,971	\$513,065	\$237,105	(\$275,961)	46%
S	\$59,384	\$38,721	\$98,105	\$101,934	\$3,829	104%
T	\$1,584,464	\$749,052	\$2,333,516	\$2,179,797	(\$153,719)	93%
V	\$681,720	\$406,282	\$1,088,002	\$151,781	(\$936,221)	14%
W	\$76,145	\$13,255	\$89,400	\$324,000	\$234,600	362%
X	\$330,655	\$171,891	\$502,547	\$1,131,169	\$628,622	225%
TOTAL	\$33,616,489	\$17,725,553	\$51,342,042	\$42,380,765	(\$8,961,277)	83%

As the table shows, the overall cost recovery level calculated for the District is 83% under the projected model and represents a \$8.96 million deficit. The primary source of this deficit is \$3.6 million related to G1 sources, which comprises approximately 40% of the overall deficit.

4 COST RECOVERY LEVELS AND FEE UPDATES

As discussed in the last step of the process, the District utilizes the current cost recovery level calculated through the cost recovery process to update its fees. The following table shows how the fees were changed for fiscal year 2018 based on the cost recovery level.

Cost Recovery Level	Fee Increase
95-100%	2.7% (COLA factor)
85-95%	7%
75-84%	8%
Less than 75%	9%

As the table above indicates, the District is following a best management practice of increasing its 100% cost recovery fees annually by a cost factor. This increase ensures

that those fees for which the District is recovering a 100% of its costs continue to maintain that recovery level. Additionally, the other percentages reflect a gradual increase in the fees to bring the cost recovery levels closer each year and move them up to the next cost recovery level bracket.

Some of the District's current fee schedules are recovering more than 100% of their costs. It is the recommendation that a cost recovery level of 110% is generally considered acceptable as it accounts for revenue generation in one year and review / monitoring activities through multiple years. Therefore, the first category on the cost recovery level and fee increase table should be expanded to include up to 110% and the increase should be based on the COLA increases.

The table above groups all cost recovery levels below 75% at the same level. It is the project team's recommendation that another level be added to the fee increase table. For fees at less than 50% cost recovery there should be a 15% increase. This will enable the District to bridge the gap much sooner for these large sources of deficit.

The District currently reviews and updates fee increase percentages annually. Review of increases allows the District to manage impacts to applicants, as well as ensure that increases are not abnormally absorbent. The District should consider developing multi-year target percentages for fees that are below the 75% cost recovery threshold. These multi-year targets would provide guidance on how quickly fees should be increased to get them into the 75% cost recovery range, and may need to be fee schedule specific. For example, the District may want to be more aggressive in increasing fees associated with Schedule K permits than Schedule I permits. Therefore, the District may want to establish separate annual increase percentages based on each under-recovering fee schedule.

Recommendation #8: The initial cost recovery level category should be expanded up to 110% to ensure that cost recovery levels are maintained even for those schedules that may show over 100% cost recovery in one year, but then may dip down the following year due to lack of fee increases. This practice will help maintain consistency in cost recovery levels for those full cost recovery fee schedules and is in line with best management practices.

Recommendation #9: An additional cost recovery level should be added to the fee increase table. The less than 50% category should have a 15% increase. The District should review schedules that are below 50%, and develop multi-year schedule based increase percentages to address the unique cost recovery issues associated with each schedule. This will help the District increase those fees and fee schedules that are significantly below the 75% mark at a much more significant rate.

5 Cost Containment Strategies

This chapter provides an overview of the assessment of cost containment strategies, especially as it pertains to the New Production System. The District conducted a Cost Recovery and Containment study in 2010. As a result of the study there were several different cost containment strategies that were recommended for implementation for the District. The following sections discuss some general cost containment strategies and efficiencies implemented by the District since the previous study, as well as a discussion of the New Production System.

1 GENERAL COST CONTAINMENT STRATEGIES

In the past five years since the previous study was completed, the District has implemented several cost containment and efficiency-based strategies. Some of these strategies include the following:

1. **Timekeeping:** Since the previous study the District has implemented a timekeeping system that allows employees within each District program to directly code / identify their time spent on fee-related activities. This time can be allocated either directly to a specific fee schedule or can be coded as a general permit activity – i.e. data entry, permit routing, intake, etc. This ensures that all costs that are directly associated with permit activities are captured.
2. **Greater Field Capabilities:** There is the ability of inspectors in the enforcement and compliance section to utilize equipment in the field. This enables there to be elimination of duplication of effort that exists between having to take notes in the field and then re-transcribe those notes into the legacy system at the District. Additionally, the utilization of satellite offices minimizes the travel and drive time between assigned facilities.
3. **Annual Updates to Cost Recovery:** A policy was developed for the District to annually assess their cost recovery level as it pertains to fees, including monitoring the expenses and revenues associated with schedules. Schedules are adjusted accordingly, but also monitored for any spikes or significant decreases in revenue or expenditure activity. Additionally, it also ensures a slow or gradual increase to fee schedules as necessary to incorporate any efficiencies or cost savings immediately rather than waiting for fee studies to be conducted every 3-5 years.
4. **Public Education:** The District has provided for the public a list of all of its fees in a single PDF document on the website for public convenience. Additionally, there is a permitting handbook available that outlines the general permitting process and provides examples of different facilities and the schedule(s) that would be

applicable to those fees. The availability of this information on the website helps minimize the time associated with general permit inquiries.

5. **Online Applications:** The New Production System allows certain types of facilities to submit online applications for the different types of permits. This allows District staff to review information provided by applicants, rather than transcribing submitted applications into the legacy system.
6. **Permit Statuses:** Facilities can now view their permit status online through the New Production System. The availability of this information on the website helps minimize the time associated with basic permit inquiries.

As the points above illustrate, the District has made significant strides in implementing strategies that have resulted in efficiencies as well as the ability to reduce time spent doing paperwork or answering general permit-related questions to conducting inspections or evaluating permit applications.

Additionally, the annual monitoring of cost recovery levels while not cost saving, is a cost efficiency strategy that enables the District to continuously monitor its costs associated with each schedule and ensure that fees are increased to enable the District to maintain designated cost recovery levels.

2 COMPARISON OF NEW PRODUCTION SYSTEMS TO RECOMMENDATIONS

The District is in the process of rolling out a New Production System as it relates to its permitting activities. The New Production System was developed based on the recommendations from the previous Cost Allocation and Cost Recovery study conducted by the District. The project team had conversations with the District staff working on the New Productions system including a brief demonstration of the capabilities of the system.

The table that follows reviews the ability of the New Production System to meet the best management standards identified in the previous study as well as a discussion regarding how the implementation of this new system effects fee-related time. If the District meets or has implemented the recommendation fully, the project team has marked the recommendation with an X. If there are any qualifications to the implementation of the recommendation, or portions of recommendations that were not implemented those recommendations have a discussion regarding the potential for future implementation.

Recommendation	Implemented
The current information management system, Data Bank / IRIS, is not web-based. The District, however, should be designing and implementing a new permit information management system (i.e., the "Production System") that is web-based, allowing access from any computer terminal.	X

Recommendation	Implemented
Current District permit applicants do not have the access to online information regarding the status of their respective permit application. The new Production System should be designed and / or implemented with online capabilities.	X
The new Production System should be designed and / or implemented to readily provide web-based capabilities to see the status of permit applications.	X
Data Bank / IRIS does not have wireless capabilities. With the implementation of the Production System, the District should utilize wireless interfaces and capabilities, especially for the field inspectors, in order to view permit history, update comments, etc.	X
The current Data Bank / IRIS system is utilizing a dated mainframe for data (HP 3000 / 9000) and custom in-house code for data management. The new Production System should utilize a relational database management system (such as Oracle).	X
The new Production System should utilize a centralized client server to standardize operations and management (e.g., system updates).	X
Data Bank / IRIS are not fully integrated with other District information management systems (i.e., the financial system and the inspector / enforcement system). The new Production System should be designed and / or integrated with the disparate systems to promote consistency and efficiency among the operating units (i.e., permitting, invoicing, and inspections).	X
The Production System should be designed and / or implemented to support GIS capabilities.	X
The new Production System should be designed and / or implemented with automated features that minimize manual data input errors (i.e., utilizing, smart forms, automated fee calculations, standard permit conditions, etc.).	X
Data Bank / IRIS has a limited audit trail for each permit application showing the date, time, and specific staff member who handled the permit application folder. Data Bank / IRIS also has a limited audit trail for modification of data in the system (e.g., time, date, personnel stamp, etc.). The new Production System should be designed and / or implemented with audit trail capabilities, which specifically track the user and types of changes made to a record (including date and time), including capturing the identification of all staff who was assigned to that permit application during its lifetime (i.e., the current system does not track when permit is re-assigned).	X

Recommendation	Implemented
The new Production System should be designed and / or implemented to integrate with email and calendar systems, which, for example, can facilitate such features as automatic emails to supervisors regarding overdue permit applications.	X
Data Bank / IRIS has limited capabilities to notify of status changes.	
The new Production System should be designed and / or implemented with these automated auditing features.	X
Data Bank / IRIS does not support online submission of permit applications. The new Production System should be designed and / or implemented with electronic submittal capabilities for both permit applications and renewals.	X
Data Bank / IRIS are not a web-based system which supports automated submissions, and does not support the electronic receipt of data from the facilities (e.g., such as emissions information during the renewal process). Currently, permit holders must contact the District to retain copies of update questionnaires or permit invoices.	X
The new Production System should be designed and / or implemented to allow online submission for high volume source categories, such as for auto-body shops, dry cleaners, etc.	
Data Bank / IRIS does not automatically generate fees for permit applications (as the fee calculations are currently done manually).	
The new Production System should be designed and / or implemented for automated fee calculations based on emissions and other factors (requiring the system to be table driven).	X
The Production System should be designed and / or implemented to allow for online payments, especially for “smaller” applicants that meet certain criteria, who should be allowed to automatically pay for permits at time of online submittal (thus limiting processing time and manual involvement by District staff).	X
The Production System should be integrated with JD Edwards and the invoicing process to automatically adjust invoice amounts.	X
Data Bank / IRIS does not have receipt issuance capabilities.	
The new Production System should be designed and / or implemented (with JD Edwards integration) to support receipt issuance.	X
Data Bank / IRIS does not support web-based storage of information on each permit application file, such as scanned documents or images, etc.	
The new Production System should be designed and / or implemented to electronically store information related to the application (including engineer comments, etc.).	X

Recommendation	Implemented
The new Production System should be designed and / or implemented to store approved template permit conditions for reference by engineers, inspectors, and other pertinent staff. The system should automatically assign the permit conditions based on source type.	Engineers can assign specific conditions to the permit, but automatic condition generation is not integrated in the system.
<p>The District should have a consolidated and centralized document archive.</p> <p>The new Production System should be designed and / or implemented to upload and store necessary scanned and other electronic documents for permit applications.</p>	X
<p>Data Bank / IRIS does not make automatic assignment of permit applications (this is manually checked and will be assigned based on whether it is a new facility).</p> <p>The new Production System should provide automated assignment and routing of permit applications (based on both qualitative and quantitative factors) in order to promote better time management and workload balancing among staff.</p> <p>Additionally, the new Production System should be configurable to allow managers to set cycle time objectives (i.e., number of days from permit application submittal) that are different from the regulatory dates.</p>	X
<p>Data Bank / IRIS does not store and / or automatically populate applicant information.</p> <p>The new Production System should be designed and / or implemented to utilize more “auto-populating” capabilities.</p>	X
<p>Data Bank / IRIS does not support management processes to fully understand the activity, date, and assigned staff through the lifecycle of the permitting process.</p> <p>The new Production System should be designed and / or implemented to track and manage all tasks and activities throughout the lifecycle of the permitting process, and should generally have an adequate number of descriptors to promote case management and ability of managers to identify the exact status of a permit application.</p>	X
<p>Data Bank / IRIS does not automatically generate application numbers or assign permits based on permit application type.</p> <p>The new Production System should be designed and / or implemented for automated routing and tracking features.</p>	X

Recommendation	Implemented
<p>Data Bank / IRIS allow only a limited number of users to have access to the same permit application, and does not support District-wide access to the permit application simultaneously.</p> <p>The new Production System should be designed and / or implemented to allow for enterprise wide access.</p>	X
<p>The new Production System should be designed and / or implemented with more comprehensive and integrated “dashboards” to support the proactive management of permit applications and processes, including staff caseload balance and activity levels.</p>	X
<p>The new Production System should be designed and / or implemented to allow for all divisions; for example, Technical Services, to input source test results, and Toxics to enter risk screening results and data.</p>	There is some variability regarding accessibility and it must be requested depending on the type of application.
<p>The new Production System should be designed and / or implemented to identify each piece of equipment/source and its respective historical and emissions data.</p>	X
<p>The new Production System should be designed / implemented to identify those applications which may require risk screening analyses, and route as necessary to the modeler for simultaneous review.</p> <p>The electronic permit application should allow multiple staff the ability to review an application at the same time.</p>	It requires additional documentation, but may not automatically route to appropriate staff.
<p>The District should integrate the conditions of approval within the Production System based on business rules and application types in order to expedite the review process.</p>	The Engineer has the ability to add the conditions of approval, but they are not automatically integrated. Additionally, all approvals require supervisory sign-off.
<p>The new Production System should be designed / implemented to inform the permit holder of the applicable rules and regulations.</p>	X
<p>The District currently utilizes various functional units during permit application processing, including resources from the Toxics Evaluation Section, Permit Evaluation Section, Permit Systems Section, and Engineering Projects Sections.</p> <p>With the implementation of the new Production System, the District will achieve greater efficiencies during the review process (e.g., less data entry, less manual review and routing, etc.).</p>	X

Recommendation	Implemented
The new Production System should be designed / implemented that allows online application submission and receipt of the respective permit for the smaller, routine applications.	X
The District should provide an online tool for permit applicants to determine the applicable fees. This will improve the standardization and consistency of fee calculations and reduce errors.	X
The new Production System should be designed / implemented to calculate preliminary fees at time of submittal.	
The new Production System should be designed / implemented with various features (or capabilities) to identify the applicable triggers for review (based on the application type or source category).	X
The new Production System should be designed and / or implemented to include all Authorities to Construct, Permits to Operate and registered equipment in a single document.	X
Data Bank / IRIS are not fully integrated with the inspections information management system.	X
The new Production System should be designed and / or implemented for full integration with the inspector management system (which also provides inspectors insights regarding permit history, conditions of approval, etc.).	
The new Production System should be designed and / or implemented with online capabilities for field inspectors. This will decrease the amount of manual data entry and enhance efficiency.	X
The Production System should be designed and /or implemented to support automated GPS capabilities. Highly accurate facility and/or equipment locations will allow improved health risk modeling. Current notebook computers with wireless cards do not have GPS capability.	X
The new Production System should be designed and / or implemented with automated features that minimize data input errors (i.e., utilizing smart forms).	Certain types of complex facilities may be integrated into the system, when feasible.

As the recommendation table above and on the previous pages indicate, the New Production System has implemented the majority of the recommendations from the previous cost containment study. The primary focus of the New Production System has been to increase the efficiency of the District by impacting the following elements:

- **Data Entry:** There is the ability for data entry in the field, which reduces extra work generated from having to wait to come back into the office or satellite offices to update electronic records associated with a facility.

- **Workflow Processes:** The New Production System automates the workflow between the different divisions and programs within the District. This eliminates the paper routing and reduces time spent related to permit general activities and reallocates that effort to permit review or inspections.
- **Shifting of Workload:** The New Production System eliminates data entry for high volume facilities by having the facilities directly input their information into the system. This shifts the workload from District staff to the applicant and reduces the time spent on those high-volume applications, allowing staff to spend more time on the review and conditions portion of the evaluation. This will help shift the cost from BillCode 08 (Permit General) to specific fee schedules and strengthen the nexus and defensibility associated with increasing fees.
- **Accessibility of Data:** Permit holders and District staff members can access information in the system online regarding the status of their permits, as well as current and past invoices for the facility. The availability of this information online eliminates extra inquiries directed towards District staff members regarding permit statuses and invoices.
- **Automatic Fee Calculation:** The New Production System automatically calculates the relevant fees for each facility. This reduces time spent by staff in Finance and in Permit Evaluation related to invoice generation.

As the points above illustrate, the New Production System incorporates significant efficiencies for the District, while providing a higher service level. The impact to cost efficiency is primarily due to the shifting of workload from District staff to the applicant, as it pertains to application data entry. This results in higher level District staff being able to spend more time reviewing applications. Additionally, this staff time then becomes more easily identifiable to specific BillCodes, and therefore can be directly attributable to specific fee schedules rather than layering it as permit general on all of the fee schedules.

3 FUTURE COST CONTAINMENT STRATEGIES

The District has been able to port over roughly 70% of their facilities to the New Production System, consisting mostly of low emitting sources including dry cleaners and gas stations. Staff are now focusing on integrating high emitters, such as refineries, into the New Production System. The District's goal is to incorporate the remaining 30% of facilities by early 2019.

While the New Production System is live, it is incumbent upon the applicant to use the system for new applications, renewals, invoice monitoring, and payments. As such, in order for the District to fully realize efficiency goals associated with the New Production System, public education will need to continue. This includes outreach to current facilities, as well as brochures and handouts for new applicants.

The District should work with the Community Outreach and Engagement Program to better market the New Production System. Some incentives for encouraging applicants to utilize the New Production system could be implementing a discount for online application submissions, associated with reduced staff time and paperwork associated with non-online submissions.

The New Production System is set up with the ability to track various metrics associated with facilities, sources, and inspections, including cycle times and performance measures. The District should review this information, and begin a formal tracking process to better understand how services are being provided and staff resources allocated. District staff should conduct a quarterly download of this information and publish it within the quarterly reports generated by each division for board review as well as the annual budget report. This will help internal stakeholders (i.e. APCO, Deputy APCO, Board members) and external stakeholders (i.e. permit holders) gain a better understanding of the different types of sources within the Districts as well as allocation of staffing resources.

Recommendation #10: The District should encourage online application submission through the New Production System. This encouragement should occur through a publicity campaign, as well as possibly implementing an online application fee discount.

Recommendation #11: The District should review the metrics and statistics gathered in the New Production System and utilize it to publish key performance metrics and measure cycle times. This will help the District to better understand staff resource allocation as well as to present information to key internal and external stakeholders.