



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

AGENDA: 4

Amendments to Regulation 3, Fees

**Board of Directors Special Meeting –
Budget Hearing
May 4, 2022**

**Fred Tanaka
Manager, Engineering Division
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Presentation Outcome



Update Board of Directors Meeting on Proposed Regulation 3 (Fees) Amendments

Presentation Outline



- Cost Recovery Background
- Proposed Fee Amendments
- Rule Development Schedule
- Questions

Presentation Requested Action



Receive Testimony

Cost Recovery Background



- Air District has authority to assess fees to recover the reasonable costs from fee-based programs.
- Board of Directors set goals to improve cost recovery levels.
- The overall cost recovery trends are:
 - Fiscal Year Ending (FYE) 2011: 65.0%
 - FYE2019: 86.0%
 - FYE2020: 84.5%
 - FYE2021: 83.7%
- Cost recovery is not a static target.

Cost Recovery Background (cont.)



Cost Recovery Impacts – Revenue

- New fees and fee changes
- Facilities, sources, emissions and operational changes
- Number of notifications and applications

Cost Recovery Impacts – Expenses

- New and enhanced programs/rules
- Efficient use of resources
- Shifts in priorities
- Staffing levels

Cost Recovery Background (cont.)



Typical Work in Fee-Based Programs – Direct Costs

- Permitting and notification programs
- Compliance and Enforcement of permitted and registered facilities
- Compliance assistance to permitted and registered facilities
- Source Testing at permitted facilities
- Rule development for regulated industries
- Emissions inventory from permitted and registered facilities
- Other (e.g., Regulation 11-18 Health Risk Assessments)

Cost Recovery Background (cont.)



California Health and Safety Code Section 41512.7

Existing permit fees may not be increased by more than 15 percent on a facility in any calendar year.

Cost Recovery Background (cont.)



Cost recovery is reviewed during the budget process.

Determining cost recovery rate

- Analyze 3-year average of revenue by fee schedule.
- Analyze 3-year average of direct and indirect costs by fee schedule.
- Calculate the cost recovery rate for each fee schedule.

Proposed Changes to Fee Schedules



- Increase any fee schedule recovering less than the fully recovered rate and administrative fees by 15%.
 - There is no increase to schedules with a cost recovery rate of at least 110%.
- Estimated budget increased by \$6.5 million compared to projected FYE2022 revenues
- This amendments have a blended fee schedule increase of **10.9 percent**

Proposed Changes to Fee Schedules: 15% Increase



- Schedule A: Hearing Board Fees
- Schedule B: Combustion of Fuels
- Schedule Da: Gasoline Dispensing Facilities (GDFs) – Risk Assessment Fee only for existing facilities
- Schedule E: Solvent Evaporating Sources
- Schedule F: Misc. Sources (e.g., storage silos, abrasive blasting)
- Schedule G-1: Misc. Sources (e.g., glass manufacturing, soil remediation)
- Schedule G-2: Misc. Sources (e.g., asphaltic concrete, furnaces)
- Schedule G-3: Misc. Sources (e.g., metal melting, cracking units)
- Schedule G-4: Misc. Sources (e.g., cement kilns, sulfur removal & coking units)

Proposed Changes to Fee Schedules: 15% Increase (cont.)



Schedule H:	Semiconductor and Related Operations
Schedule K:	Solid Waste Disposal Sites
Schedule M:	Major Stationary Source Fees
Schedule N:	Toxic Inventory Fees
Schedule P:	Major Facility Review Fees
Schedule S:	Naturally Occurring Asbestos Operations
Schedule T:	Greenhouse Gas Fees
Schedule V:	Open Burning
Schedule W:	Petroleum Refining Emissions Tracking Fees

Schedules Not Being Increased



Section 3-307	Transfers of Permits
Schedule C	Stationary Storage Tanks of Organic Liquids
Schedule D	Gasoline Transfer at GDFs & Bulk Plants and Bulk Terminals: Except the RAF for existing GDFs
Schedule I	Permitted Dry Cleaners (1 source to sunset 1/1/2023)
Schedule L	Asbestos Operations
Schedule Q	Excavation of Contaminated Soil & Removal of Underground Storage Tanks
Schedule R	Equipment Registration Fees
Schedule U	Indirect Source Review Fees
Schedule X	Major Stationary Source Community Air Monitoring Fees

Other Proposed Amendments - Regulation 2-1 and 2-5 Implementation



Regulation 2 (Permits), Rules 1 (General Requirements)

Regulation 2, Rule 5 (New Source Review for Toxic Air Contaminants)

The key changes that impact workload in an overburdened community:

- Public notice requirements for applications that require a Health Risk Assessment (HRA)
- Additional work to ensure compliance with amended New Source Review (NSR) for Toxic Air Contaminants (TACs) requirements including HRAs, source test review and compliance verification
- Programming system changes and tools (e.g., OBC map)

Other Proposed Amendments - Regulation 2-1 and 2-5 Implementation (cont.)



Proposals

- Remove the reference to “Schools” in existing Section 3-318: Public Notice Fees. Applicants are charged based on actual costs.
- Charge an additional application fee of \$1,000 if a Health Risk Assessment is required in an OBC.
- Charge a 15% OBC renewal fee for each permitted facility located in an OBC capped at \$250,000.
 - There are approximately 2,400 facilities in OBCs.
 - Estimated to increase the budget by \$2.4 million.

Other Proposed Amendments - Naturally Occurring Asbestos



Schedule S: Naturally Occurring Asbestos – Geologic evaluation

Before an Asbestos Dust Mitigation Plan (ADMP) is submitted, an applicant may need a geologic evaluation to determine if the project is exempt.

- Currently this work has never been charged a fee.
- The Air District is proposing a fee to recover costs for this work.

Level of effort and proposed fees

Description	Hours of work	Proposed fee
Evaluation	16	\$3,200
Field inspection (if needed)	≈4	Per hour fee already in Schedule S

Impact on Large Facilities: Power Plants



	Annual Permit Fee Increase/Decrease (Fiscal Year Ending)							
	2021, % fee change		2021 Renewal fee	2022, % fee change		2022 Renewal fee		2023, % fee change
	Predicted	Actual		Predicted	Actual			<u>Projected</u>
Crockett Cogen*	5.7	-3.6	\$257,000	9.1	11.2	\$289,000	15.0	
Delta Energy	5.7	16.7	\$530,000	9.2	12.6	\$608,800	31.7	
Gateway Station	5.7	10.0	\$390,000	9.3	NA	Not yet invoiced in FYE2022	31.6**	
Los Medanos	5.7	14.2	\$460,000	9.4	NA	Not yet invoiced in FYE2022	31.5**	

*Not in an OBC

** Based on projected 2022 permit renewal fees

Impact on Large Facilities (cont.): Petroleum Refineries



Annual Permit Fee Increase/Decrease (Fiscal Year Ending)

	2021, % fee change		2021 Renewal fee	2022, % fee change		2022 Renewal fee	2023, % fee change
	Predicted	Actual		predicted	actual		<u>Projected</u>
Chevron	5.2	8.7	\$4.0 million	6.1	-5.9	\$3.8 million	17.7
Martinez Refining Co.	6.2	10.4	\$3.9 million	6.9	3.4	\$4.0 million	17.8
Phillips 66	6.6	6.0	\$2.1 million	8.1	18.7	\$2.4 million	22.5
Tesoro	5.9	1.3	\$2.9 million	6.2	-11.7	\$2.6 million	21.2
Valero*	6.5	7.9	\$2.5 million	6.9	7.5	\$2.7 million	12.9

*Not in an OBC

Impact on Small Businesses – Renewal Fees & Impact



Facility Type	Current fee	Estimated Total: No OBC fee	Estimated increase: No OBC fee	Estimated Total: With OBC fee	Estimated increase: With OBC fee
Backup Engine* (Sch. B)	\$382	\$439	\$57 (+15%)	\$502	\$120 (+31%)
Gas Station** (Sch. Da)	\$2,707	\$2,729	\$22 (+1%)	\$3,121	\$414 (+15%)
Auto Body Shop (Sch. E)	\$815	\$938	\$123 (+13%)	\$1,072	\$257 (+32%)
Coffee Roaster (Sch. F)	\$643	\$739	\$96 (+13%)	\$845	\$202 (+31%)

*Minimum fee – Permit fees are greater for larger engines.

**Common configuration with 6 islands with 3-triple product nozzles

Rule Development Schedule



Budget Advisory Group (BAG) meeting #1	January 24, 2022
Public workshop	February 17, 2022
Budget Advisory Group meeting #2	March 14, 2022
Written workshop comments due	March 18, 2022
Budget & Finance Committee briefing	March 23, 2022
Budget & Finance Committee briefing	April 27, 2022
Board of Directors first public hearing to receive testimony	May 4, 2022
Written Public Hearing comments due	May 25, 2022
Board of Directors second public hearing to consider adoption	June 15, 2022
Proposed fee amendments effective	July 1, 2022

Feedback Requested/Prompt



Public testimony and Board comments



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AGENDA: 5

First Public Hearing to Consider Adoption of the Air District's Proposed Budget for Fiscal Year Ending 2023

Board of Directors Special Meeting – Budget Hearing
May 4, 2022

Jeff McKay
Chief Financial Officer
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Presentation Outcome



Conduct first of two required Public Hearings on the Fiscal Year Ending (FYE) 2023 Air District Proposed Budget for public review and comment. Final Action will be taken at the conclusion of the second public hearing scheduled for June 15, 2022

Presentation Outline



- Financial History/Trends
- Status of Current Fiscal Year 2021-2022
- Proposed Budget for Fiscal Year 2022-2023
- Next Steps

Requested Action



Conduct first of two required Public Hearings on the FYE 2023 Air District Proposed Budget for public review and comment.

Financial History



Actions Taken During the Economic Downturn:

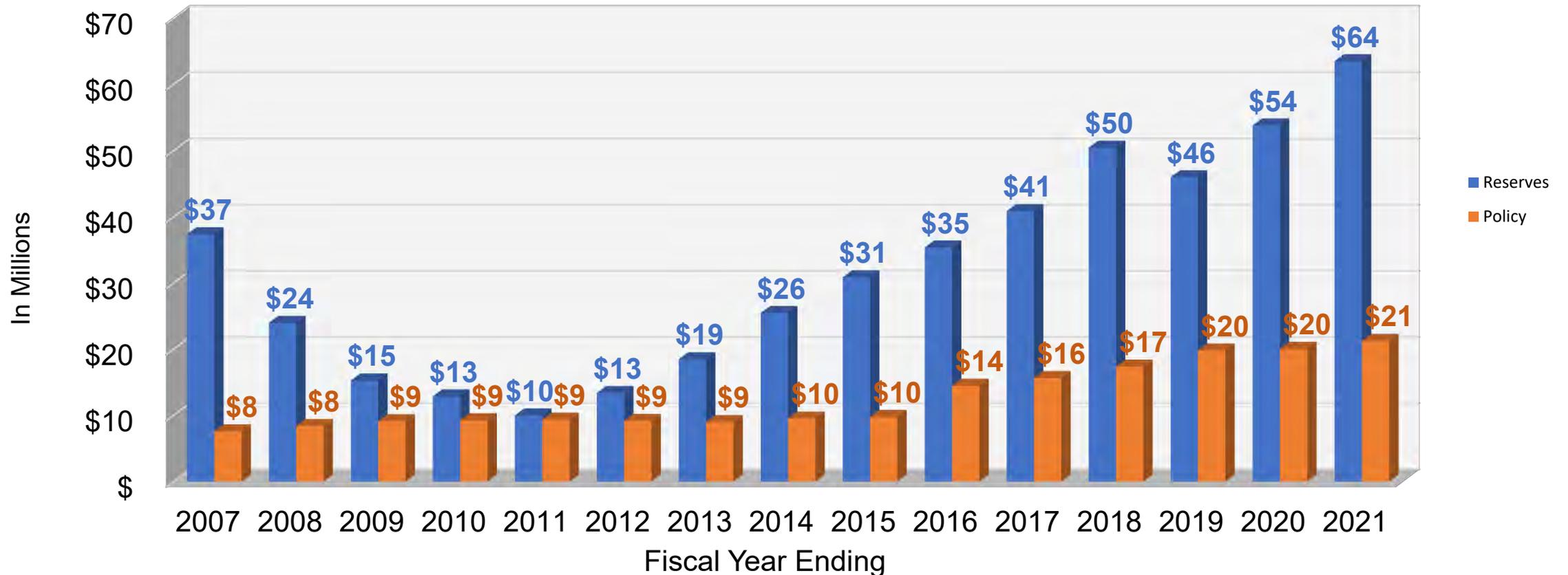
- Reserves Used for General Fund Expenditures
- Vacancies Unfilled (Staff Reduction Through Attrition)
- Postponed Expenditures
- Deferred Capital Investment
- Initiated Cost Recovery Policy
- Continued Funding of Retirement Liabilities

Financial History (cont.)

Actual Reserves and Policy Trends

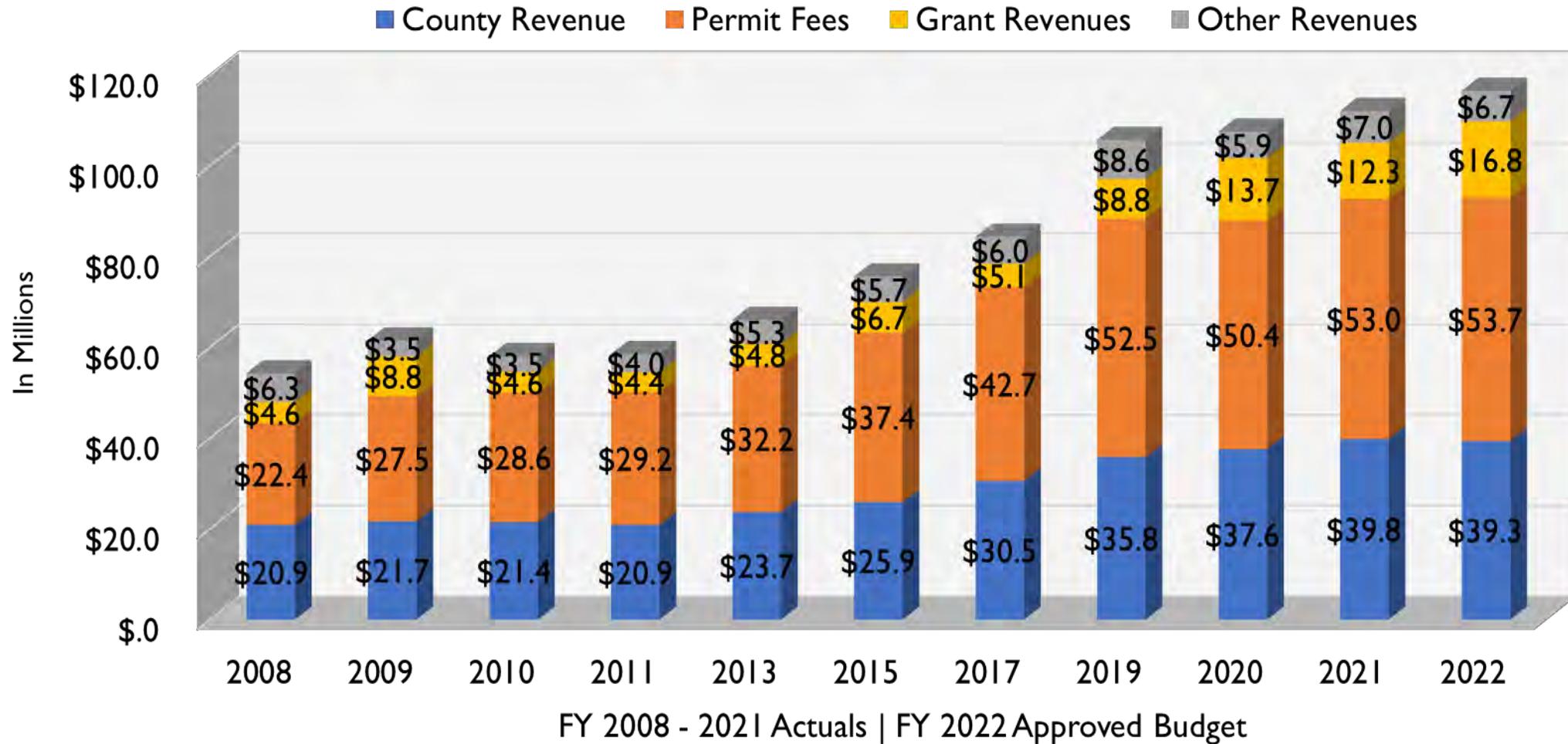


GENERAL FUND RESERVES COMPARED WITH POLICY



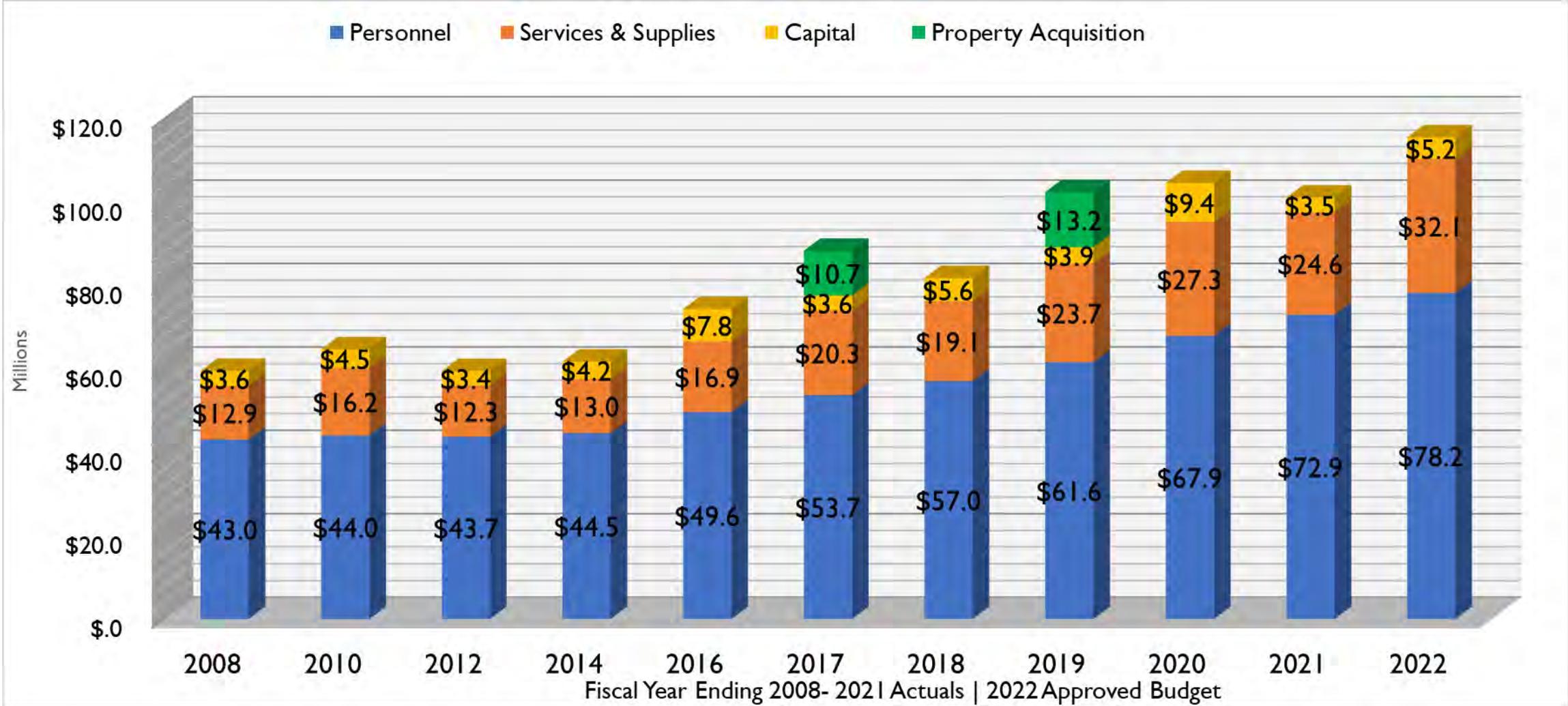
Financial History (cont.)

General Fund Revenue Trends



Financial History (cont.)

General Fund Expenditure Trends



Financial History (cont.)

Staffing Trends



AVERAGE FILLED SEATS BY FISCAL YEAR

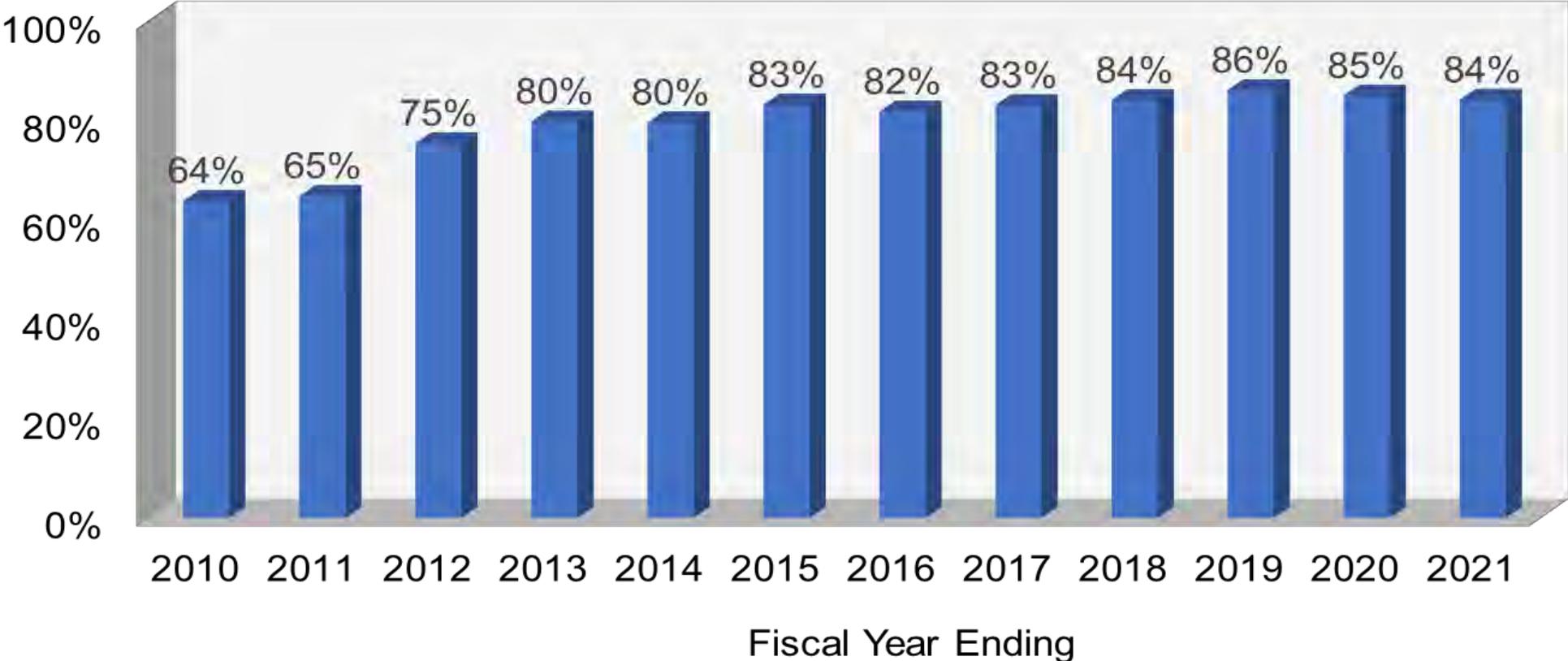


Financial History (cont.)

Cost Recovery Trends



COST RECOVERY TREND USING 3 YEAR AVERAGE



Financial History (cont.)

Fees and Cost Recovery Overview



Cost Recovery Policy Established in FYE 2012:

- 85% minimum cost recovery target
- Regulated community gains predictable fees
- Budget Advisory Group (2nd meeting held on March 14, 2022)
- Cost Recovery Review is underway

Current Fiscal Year Budget Overview



Actions taken in the FY 2021-2022 Approved Budget:

- \$117 Million (M) General Fund Budget
- Includes Use of Reserves of \$ 0.5 M
- Reinstated Amendment to Existing Fee Schedules
- New Fee to recover costs of California Air Resources Board's Criteria Pollutant and Toxics Emissions Reporting Regulation
- 445 Full-Time Equivalent (FTE); includes 4 FTE added in December 2021
- Addresses Retirement Liabilities
- Includes 1.5% Cost of Living Adjustment (COLA)

Current Fiscal Year Budget Overview (cont.)



Overall budget projections are on target

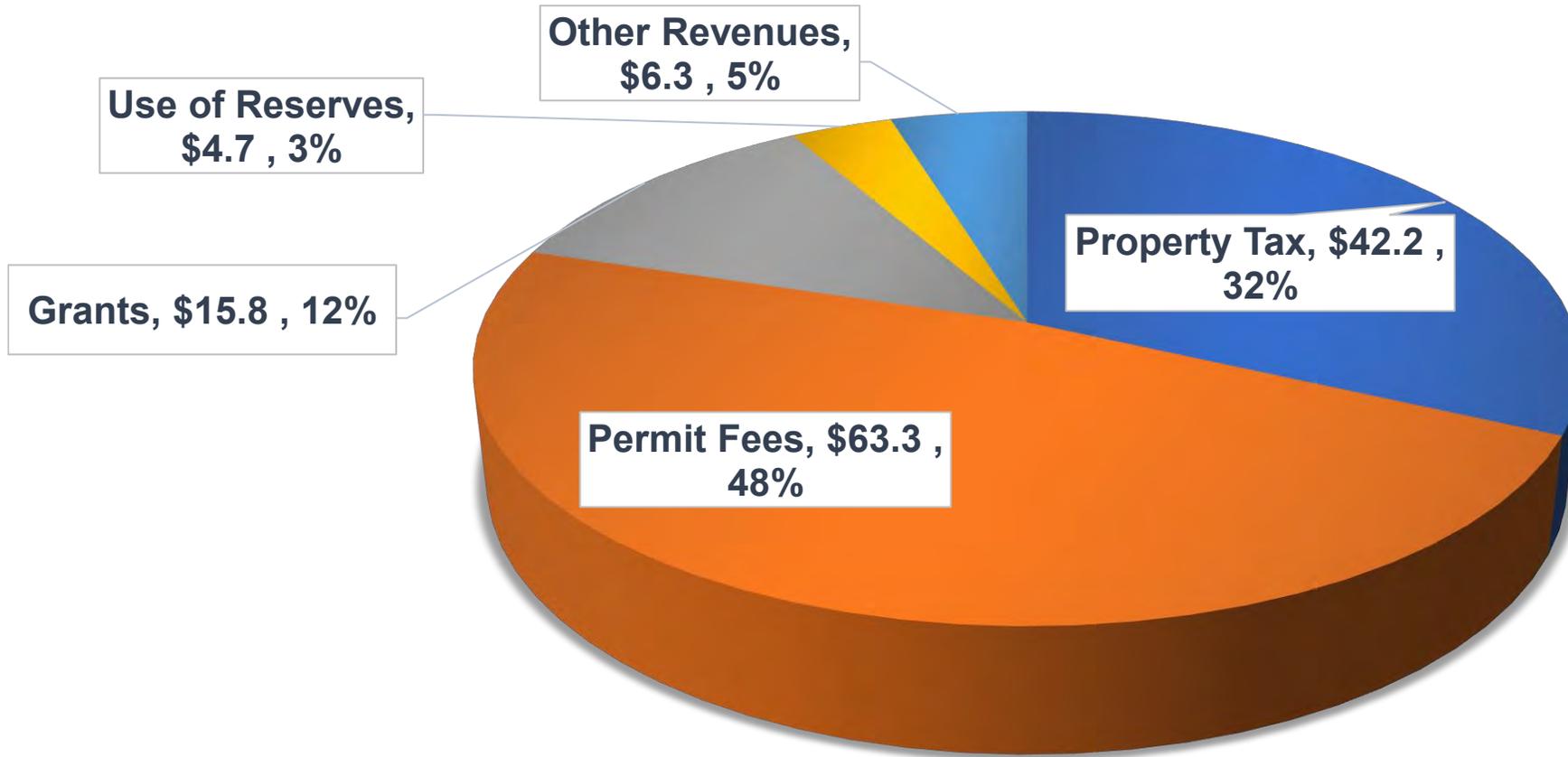
- Permit Fee revenue projections are on target
- Property Tax revenues are holding steady
- Personnel savings due to vacancy

Fiscal Year 2022-2023 Proposed Budget Overview



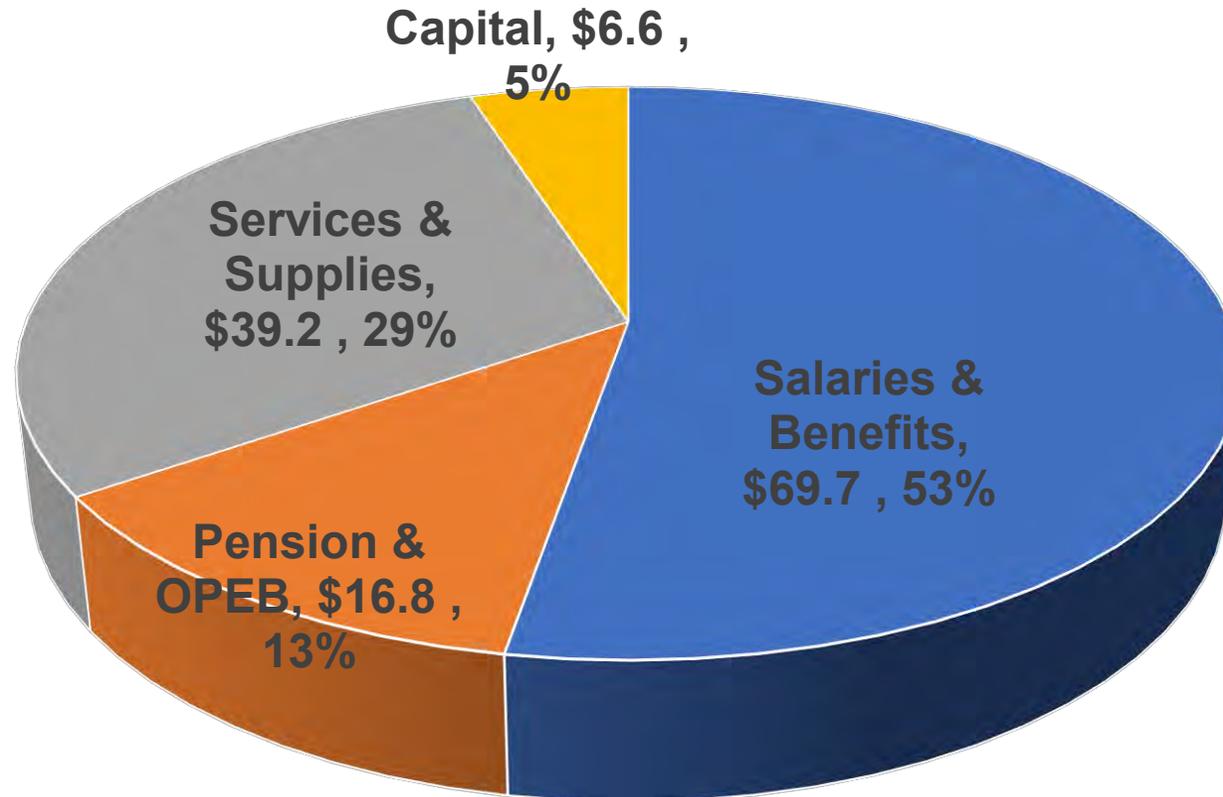
- \$247 M Consolidated Budget
- \$132 M General Fund Budget
- Includes Use of Reserves \$4.7 M
 - \$3.7 M to support James Cary Smith Grants
 - \$1 M to support Capital Expenditures
- Continuation of Cost Recovery Policy (up to 15% where applicable)
- Proposed new fee for overburdened communities
- Staffing Level Increase: 445 to 465 Full Time Equivalent (FTE)
- Addresses Retirement Liabilities

Breakdown of FY 2023 General Fund Revenues



In Millions

Breakdown of FY 2023 General Fund Expenditures



In Millions

Breakdown of \$15.2 M Budget Increase



BUDGETED SOURCES:	\$ (Million)
Increase to Property Taxes	2.8
Increase to Existing Permit Fees	7.1
Proposed new fee for overburdened communities	2.5
Reduction in other revenue	(0.6)
Total Ongoing Sources	11.8
Grant reduction	(0.8)
Increase in Use of Reserves	4.2
Total One-time Sources	3.4
TOTAL BUDGETED SOURCES	15.2

Breakdown of \$15.2 M Budget Increase (cont.)



BUDGETED COSTS:	\$ (Million)
Estimated 20 additional General Fund positions with benefits	3.3
Increase personnel costs for existing authorized positions	5.1
Increase in CalPers Required Pension Payment	0.8
Net increase in Various District Programs (61)	2.4
Total Ongoing Costs	11.6
Vacancy Rate adjustment from 5% to 6%	(1.0)
Increase in Grant Expenditures	3.2
Increase in Capital Expenditures	1.4
Total One-time Costs	3.6
TOTAL BUDGETED COSTS	15.2

Recent Staffing Requests



	Current FTE Authorized to Hire	FYE 2022 (On Hold)	FYE 2023 Proposed
Requested	N/A	26	20
Total	419	445	465

FYE 2022 included request for 26 staff: New Staffing Request General Fund (19) On Hold



Work Unit	Number of Staff	Funding Source	Budget Impact
Community Engagement	3	AB 617	\$535,106
Compliance & Enforcement	4	Fees	\$707,491
Engineering	4	Fees	\$777,983
Finance	3	General Fund	\$605,605
Meteorology and Measurement	4	Multiple	\$701,475
Rules	1	Fees	<u>\$189,618</u>
	19		\$3,517,278

FYE 2022 included request for 26 staff: New Staffing Request Grant Funded (7) On Hold



Work Unit	Number of Staff	Funding Source	Budget Impact
Finance	1	Grant	\$162,808
Strategic Incentives	5	Grant	\$914,661
Technology Implementation Office	1	Grant	\$175,386
	7		\$1,252,855

FYE 2023 Proposed 20 New Staff



- 445 authorized budget position, 26 positions are placed on hold pending the results of the management audit
- The Finance Division cannot currently adequately perform some basic functions because of lack of staff
- Proposed 20 additional positions bringing authorized FTE from 445 to 465.
- Needed to support the growth in our mission
- Identifying and filling these new positions will be informed by the management audit and presented to the Committee in FYE 2023
- New positions are supported by increased proposed fees and increased property tax revenues

Alternative Proposed Budget



- The proposed budget includes a 10.9% blended rate increase for permit fees.
- If the Committee does not wish to support the higher fee increase proposed in the budget and prefers to support the 6.4% blended rate for increase in permit fees:
 - Permit Fee revenue would reduce by approx. \$3.3M; and
 - Removal of the 20 new positions will reduce Personnel Costs by \$3.3M

Possible Proposed Budget Options



1. Adopt the Proposed Draft Budget
2. Adopt the Alternative Budget – this will likely require a discussion of agency priorities and cutting back on certain initiatives
3. Adopt the Alternative Budget and wait for the results of the management audit. Then amend the budget to increase fees to fund any additional staffing recommended.

Budget Options: 6.4% vs. 10.9% blended rate

Breakdown of Budget Increases



	10.9% Blended Rate	6.4% Blended Rate
	\$ (Million)	\$ (Million)
BUDGETED SOURCES:		
Increase to Property Taxes	2.8	2.8
Increase to Existing Permit Fees	7.1	3.8
Proposed new fee for overburdened communities	2.5	2.5
Reduction in other revenue	(0.6)	(0.6)
Total Ongoing Sources	11.8	8.5
Grant Reduction	(0.8)	(0.8)
Increase in Use of Reserves	4.2	4.2
Total One-time Sources	3.4	3.4
TOTAL BUDGETED SOURCES	15.2	11.9

Budget Options: 6.4% vs. 10.9% blended rate

Breakdown of Budget Increases (cont.)



	10.9% Blended Rate	6.4% Blended Rate
	\$ (Million)	\$ (Million)
BUDGETED COSTS:		
Estimated 20 additional General Fund positions with benefits	3.3	-
Increase personnel costs for existing authorized positions	5.1	5.1
Increase in CalPers Required Pension Payment	0.8	0.8
Net increase in Various District Programs (61)	2.4	2.4
Total Ongoing Costs	11.6	8.3
Vacancy Rate adjustment from 5% to 6%	(1.0)	(1.0)
Increase in Grant Expenditures	3.2	3.2
Increase in Capital Expenditures	1.4	1.4
Total One-time Costs	3.6	3.6
TOTAL BUDGETED COSTS	15.2	11.9

Capital Budget Detail



<u>Description</u>	<u>PGM</u>	<u>Amount</u>
One (1) Air Quality Analyzer	802	655,000
One (1) Air Quality Analyzers - PM2.5 equipment	802	129,517
One (1) Air Quality Analyzers - Schedule X equipment	802	450,000
Three (3) Source Test Analyzers	804	60,000
One (1) Multi Test Program Field Testing Van	804	60,000
One (1) PM Van Custom Equipment and Build Out	804	40,000
One (1) Lab & Monitoring Equipment (Picarro G2401)	807	90,000
One (1) Volatile Organic Compounds Monitor	810	20,000
One (1) Instrumentation for Particulate Matter Speciation (Metals)	810	185,000
One (1) Instrumentation for Particulate Matter Speciation (EC/OC)	810	75,000
One (1) Optical Gas Imaging Camera	403	100,000
Phase 2 HQE build out for Meterology & Measurement staff	707	500,000
Leasing of Additional Vehicles	710	50,000
Design & POC for IT Infrastructure Datacenter Refresh	726	400,000
Replacement of End-of-Life Network Components	726	500,000
Communication Equipment	726	200,000
Public Permitting & Compliance Systems	125	3,047,660
Total Capital Expenditures		6,562,177

Funding of Retirement Liabilities



- **Medical Retirement (OPEB):**

- Obligation: \$73 M*
- Funded: \$75 M (103%)
- Surplus: (\$2M)

- **Funding Policy: 90% Funded Level**

- Current Funding Level at 103%
- **Redirect \$4 M Annual Discretionary Funding to CalPERS Pension after reaching target funding level**

- **CalPERS Retirement (Pension):**

- Obligation: \$358 M**
- Funded: \$258 M (72%)
- Unfunded: \$100 M (28%)

- **Funding Policy: 90% Funded Level**

- 90% Target Date (FYE 2039)
- \$1 M Annual Discretionary Funding
- \$4 M Redirect Discretionary Funding from OPEB

*Based on 2021 actuarial valuation

** Based on 2020 actuarial valuation

Reserves Designations



General Fund Reserves (In Millions)	
Reserves Balance at June 30, 2021	64.0
<u>Less Designations:</u>*	
AB617 Staffing Contingency	-7.6
Community Benefits	-3.0
Economic Contingency (20% of Budget)	-25.5
Litigation	-3.0
Pandemic Contingency	-4.0
Pension Liability	-4.0
Richmond Improvements (HQE)	-5.0
Technology Implementation Office	-3.4
WildFire Mitigation	-2.0
Total Designations	-57.5
<u>Less Use of Reserves:</u>	
Use to Balance FY 2022 Budget	-0.5
Use to Balance FY 2023 Budget	-4.7
Total Use of Reserves	-5.2
AVAILABLE GENERAL FUND RESERVES	1.3
<i>*Designations subject to change at Board's Direction</i>	

Fiscal Year 2022-2023 Proposed Budget Summary



- \$132 M General Fund Budget
- Includes Use of Reserves \$4.7
- Amend Fee Schedule based on Proposed Fee increase
- New Fee for overburdened communities
- Budgeted Position Increase to 465 FTE
- \$5 M Annual Contribution to Pension

Next Steps



- May 4, 2022- 1st Public Hearing on Proposed Fees and Budget
- June 15, 2022 – 2nd Public Hearing and Adoption of the Proposed Fees and Budget

Feedback Requested/Prompt



No requested action at this time. The Board will conduct Second Public Hearing for adoption of the FYE 2023 Proposed Budget on June 15, 2022.