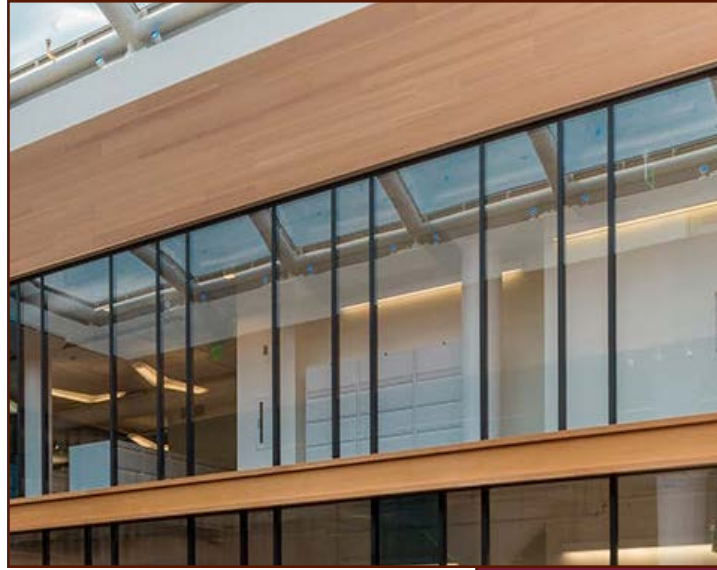




BAY AREA AIR QUALITY  
MANAGEMENT DISTRICT

# PERFORMANCE AUDIT OF THE ENGINEERING DIVISION

BY SJOBERG EVASHENK CONSULTING, INC.



## AUDIT SCOPE & OBJECTIVES

The performance audit of the Air District's Engineering Division included an evaluation of:

- The efficiency of the Division's business operations, including regulatory and Air District requirements, permitting activities and process workflows.
- Key performance metrics, including mandated requirements, timeliness of permit processing, workload indicators, and other measures.
- Workload and resource trends and contributing factors (staffing, information technology)
- The extent to which the Division dedicates resources to non-core functions, and whether non-core functions can be reduced or reassigned to divisions that may be more suitable in the long term.

# REPORT FINDINGS

## PERMIT APPLICATIONS ARE NOT ALWAYS PROCESSED IN A TIMELY MANNER AND BACKLOG EXISTS



Between FY2013 and FY2022, the percent of New Source Review permits not processed timely increased from 13% to 25%.

The number of new permit applications remained stable since FY2013; yet, fewer applications are processed each year.

As of May 30, 2023, the Air District had a permit backlog of 632 applications.

345 incomplete permit applications remained active, despite the District’s policy to cancel them.

In FY2022, 37% of permit application fees and 17% of permit renewal fees were paid late, with nearly \$3 million in permit fees collected 91 or more days late.

The Division is unable to easily determine how many facilities owe permit fees, how much is owed, or the age of the delinquency.

Report	Number of Delinquent Invoice FY 2018 – 2022	Amount Outstanding FY 2018 – 2022
Report 1	68,819	\$1.6 Million
Report 2	2,406	\$0
Report 3	850	\$1.2 Million
Report 4	Unknown	Unknown



# REPORT FINDINGS

## THE DIVISION DOES NOT TRACK NECESSARY INFORMATION

2

The Division does not have adequate measures in place to record and monitor performance indicators. It does not:

Fully track time spent by exempt employees on permitting and non-core activities

Track progress by each step of the permitting process

Track, analyze, or report on late payments or delinquent accounts.

## Common Inefficiencies in Permit Processes



Errors in Applications



Approval Bottlenecks



Incomplete Applications



Redundant Review or Data Entry



Backlogs



Unnecessary Rework on Permits



Poor Visibility of Permit Status



Unbalanced Allocation of Work



Lack of Templates

# REPORT FINDINGS

## SEVERAL FACTORS IMPACT THE DIVISION'S ABILITY TO MEET WORKLOAD DEMANDS

3

Employee attrition and recruiting challenges result  
in persistent vacancies

Existing workload has become more complex since  
the adoption of AB 617, Rule 12-15, Rule 11-18,  
and amendment of Rules 2-1 and 2-5.

Time spent on non-core duties doubled over the  
past five years, from 6% in 2018 to 13% in 2022.

Procedures for prioritizing and assigning work were  
outdated.

Although staffing levels remained relatively  
consistent over the past five years, permit  
workload metrics suggest workload increased.

	FY 2018	FY 2022	5-Year Change
Filled Permit Processing Positions	40	40	0%
Total Permit Renewals	4,621	10,229	+121%
Total Active Permit Applications	1,670	2,032	+22%
Total Permit Applications Submitted	1,076	1,124	+4%
Permitted Devices and Operations	24,347	25,873	+6%
Health Risk Screening Analysis	230	334	+45%

# REPORT FINDINGS

## OPPORTUNITIES EXIST TO IMPROVE THE COST RECOVERY MODEL

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The Air District has yet to achieve its goal of full cost recovery, which was established in 2012.

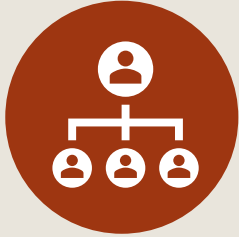
- The Air District's Cost Recover Policy is overly-restrictive.
- The methodology employed to calculate proposed rate increases further impeded full cost recovery.
- Some fee schedules have become obsolete due to legislative changes.

The Air District improved its cost recovery from 82% to 86% between Fiscal Year 2016 and Fiscal Year 2022.

### Proposed Fee Schedule Rate Increase Methodology

Cost Recovery Rate Range	Proposed Rate Change	Cost Recovery Rate Range	Proposed Rate Change
Fiscal Year 2018		Fiscal Year 2019-2022	
Above 100%	No Increase	Above 110%	No Increase
95-100%	CPI-W	95-110%	CPI-W
85-94%	7% Increase	85-94%	7% Increase
75-84%	8% Increase	75-84%	8% Increase
Less than 75%	9% Increase	50-74%	9% Increase
		Less than 50%	15% Increase
Fiscal Year 2023		Fiscal Year 2024 and Forward	
Above 110%	No Increase	Above 110%	No Increase
Less than 110%	15% Increase	100 < 110%	Consumer Price Index (CPI-W) Increase
		Less than 100%	15% Increase

# KEY RECOMMENDATIONS



Develop a plan to address the permit backlog and update procedures for prioritizing and assigning workload.



Work with the My Air Online team to:

Ensure necessary permitting and accounts receivable information is tracked

Develop standardized reports for management

Identify and correct erroneous information



Once necessary information is tracked, management should:

Identify staffing resource needs

Review permit processes

Refer delinquent accounts to the Compliance and Enforcement Division



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AGENDA: 4

# Management Audit Report on Air District Engineering Functions Initial District Response

Finance and Administration Committee Meeting  
December 20, 2023

Meredith Bauer  
DEO, Engineering & Compliance  
[mbauer@baaqmd.gov](mailto:mbauer@baaqmd.gov)

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

# Presentation Outline



- Key Audit Findings
- Current Continuous Improvement Initiatives
- Corrective Action Strategy
- Next Steps

# Presentation Requested Action



Consider directing the Executive Officer/APCO to prepare an action plan to address the Engineering Audit Report's recommendations to be presented to the Finance and Administration Committee for approval within 90 days.

# Key Audit Findings



- Timeliness/Backlog: Permit applications are not always processed in a timely manner and a backlog exists.
- Tracking: Engineering does not track all information necessary to assess efficiency of permitting processes and identify resource needs.
- Staffing: hiring freeze, attrition, training, loss of institutional knowledge
- Fee Recovery: Opportunities exist to enhance current fee schedule to better recover costs.

# Key Audit Findings (cont.)



- Timeliness/Backlog: Permit applications are not always processed in a timely manner and a backlog exists.
- Tracking: Engineering does not track all information necessary to assess efficiency of permitting processes and identify resource needs.
- Staffing: hiring freeze, attrition, training, loss of institutional knowledge

- Fee Recovery: Opportunities exist to enhance current fee schedule to better recover costs.

Permit Processing

➤ Continuous Improvement



# Continuous Improvement: Timeliness/Backlog



- Enforcement of Permit Streamlining Policy
  - Addresses: incomplete applications, revisions, request responsiveness (timeboxing)
- My Air Online: Improved online customer access and tools

# Continuous Improvement: Tracking



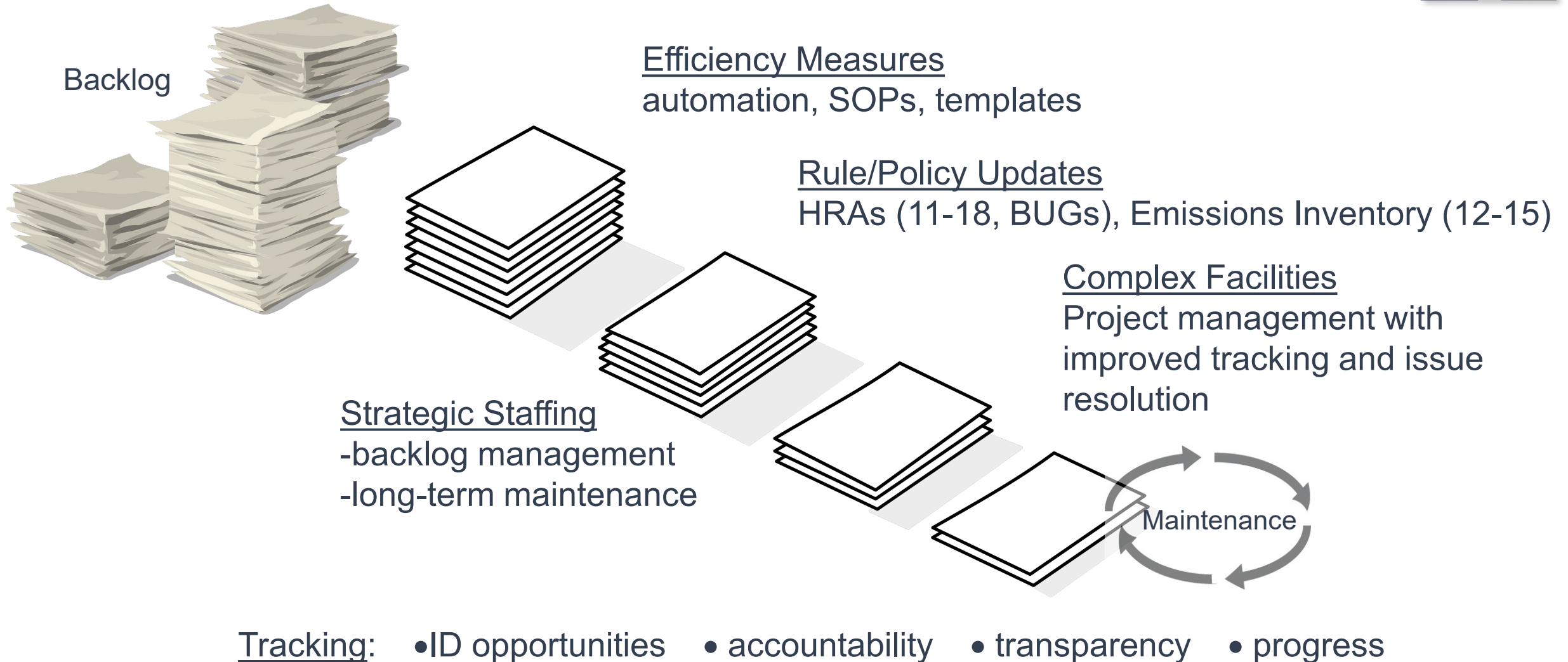
- Updated Productivity Reports
- My Air Online: Improved tracking, metrics and reports
  - Evaluation Subcategories
    - HRA
    - CEQA
    - Public Notice (existing)

# Continuous Improvement: Staffing

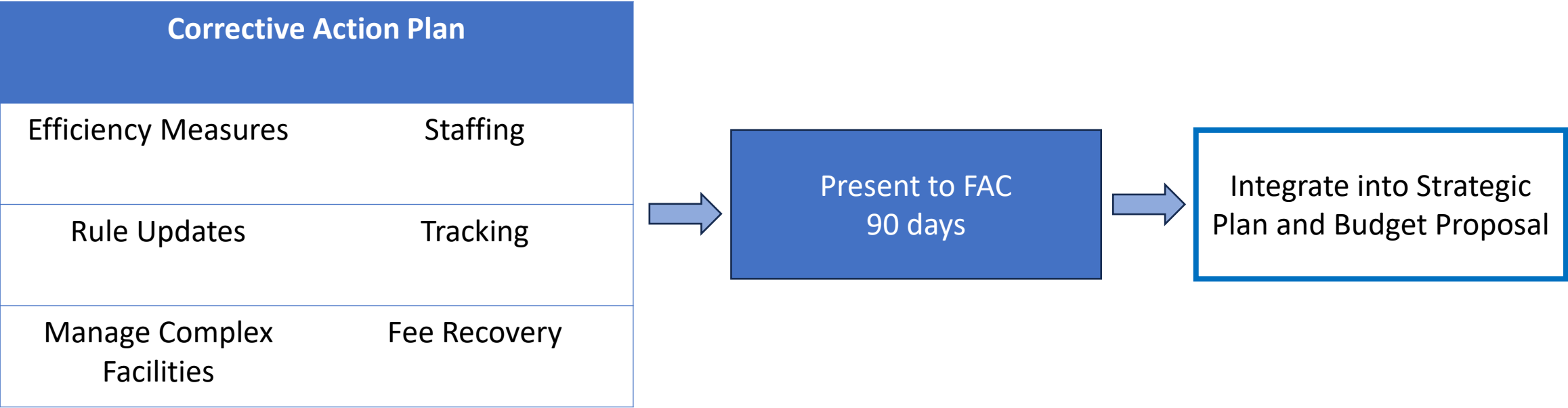


- Vacancies filled
  - 4 new Engineers and 2 new Technicians starting in December/January
  - 3 Senior Engineers recruited, and recommendations made
- 4 Knowledgeable Retirees – process/oversee overdue complex applications
- Creating New Entry Level Engineer Position

# Corrective Action Strategy



# Next Steps





# Feedback Requested/Prompt



Consider directing the Executive Officer to prepare an action plan to address the Engineering Audit Report's recommendations to be presented to the Finance and Administration Committee for approval within 90 days.



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AGENDA: 5

# Funding Community Benefits from Penalty Funds

Finance and Administration Committee  
December 20, 2023

Dr. Philip M. Fine  
Executive Officer/APCO  
[pfine@baaqmd.gov](mailto:pfine@baaqmd.gov)

# Presentation Outcomes



- Informational/Discussion Item.
- Provide information about penalties and their relation to the Air District budget.
- Outline a proposal to direct some penalty money to community benefits while addressing potential budget impacts.

# Background



- The Air District collects penalties from facilities that violate our regulations.
- In the past, these funds have varied from year-to-year but typically exceeded \$3M per year.
- Penalty collections are expected to increase in 2024.
- The penalty funds are currently used to help fund our enforcement program consisting of 77 full time employees with a total direct costs of roughly \$16M per year.

# Concept



Develop a policy to automatically set aside a portion of penalty funds for community benefits. If approved by the Board, we would be the first Air District to implement this as a routine policy.

Policy could be retroactive to the beginning of this calendar year which would include \$1.15M settlement with Chemtrade in Richmond from July 2023.



# About the Penalties



- Most individual penalties are between \$10-\$50k (58%).
- But most of the penalty dollars collected are from a few large penalty agreements exceeding \$1M (65%).
- Penalties > \$1M are paid primarily by petroleum refineries and related industry. Over 85% of the penalties collected in recent years are from this sector.

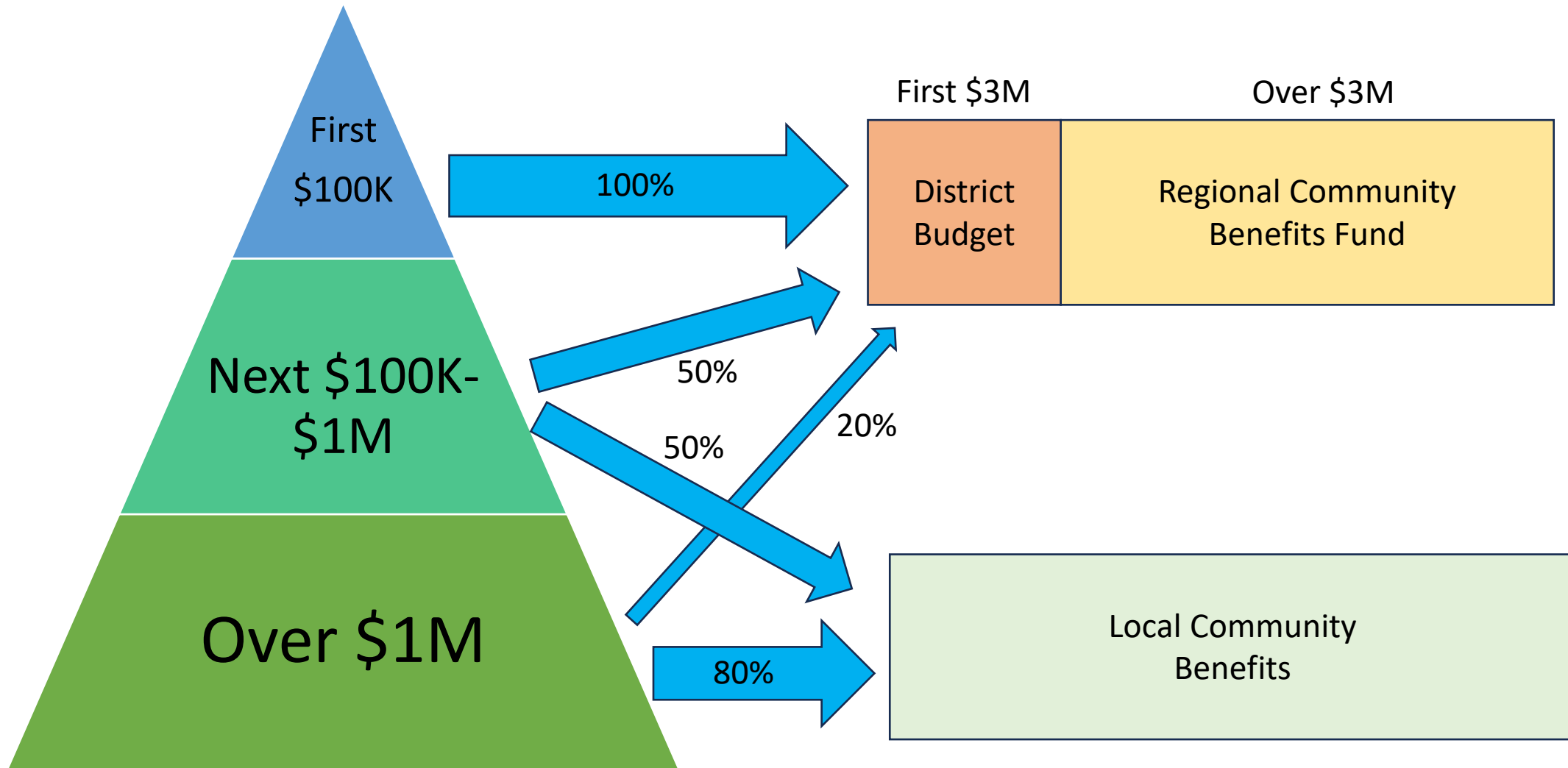
# Example Allocation Idea



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

- The first \$100,000 of each penalty agreement would go to offset the Air District's expenses in enforcing regulations. After the budget target is met (\$3,000,000 for this year), those funds would go into a regional benefit fund.
- Between \$100,000 and \$1,000,000, 50% of the penalties would go to a fund to benefit the community impacted by the violation. The balance would go either to the Air District or the regional benefit fund (depending if budget target has been met).
- Above \$1,000,000, 80% of the penalties would be reserved for local benefits programs., with 20% to the Air District/Regional Fund (depending if budget target has been met).

# Example Allocation Idea (cont.)



# Example Results



- Using penalty data from fiscal year ending 2022, the Sample Allocation Idea would have had the following results:
  - Local benefit fund for Martinez area: \$1,598,100
  - Local benefit fund for Benicia area: \$168,200
  - Regional Benefit fund: \$0 (budget target is not met)
  - Funding retained for Air District Operations: \$2,722,990
- We expect larger penalties next year. Here's how the Example Allocation would work for a \$10M penalty if the budget target had already been met:

Penalty	Local Fund	Regional Fund	Air District
\$10,000,000	\$7,650,000	\$2,350,00	\$0

# Discussion and Feedback



*Focusing now only on allocation policy (not on programs for expenditures):*

- Committee feedback on staff developing this idea further with the Community Advisory Council and representatives of the Richmond-North Richmond-San Pablo AB 617 Community Steering Committee?
- Any concerns about the general approach?
  - Allocation Method
  - Local Benefit Fund
  - Regional Benefit Fund



# Possible Next Steps



- January 2024: Discuss proposal and allocation idea with Community Advisory Council
- February 14, 2024: Discuss proposal and results of Community Advisory Council consideration with Community, Equity, Health and Justice Committee
- February/March 2024: Return to Finance and Administration Committee/Board of Directors, with CAC recommendations, as a possible action item