



# Proposed Amendments to Air District Regulation 3: Fees

Board of Directors Meeting

April 29, 2026

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# Recommended Action

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No action is requested today – This public hearing is for considering and taking public testimony on the proposed amendments only.

The Board of Directors will consider adoption of the proposed amendments on June 3, 2026.

# Presentation Outline

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- Background
- Proposed Fee Regulation Amendments
- Impacts
- Budget & Fee Regulation Schedule
- Next Steps

# Cost Recovery Background

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- Air District has authority to assess fees to recover the reasonable costs of its regulatory programs
- In December 2022, the Board set a goal of 100% cost recovery for fee-based activity
- Factors for cost recovery constantly change
- By law, we are limited to increasing permit fees to the true cost of the services provided, with a prohibition on increasing any existing fees for permits by more than 15% in any calendar year

# Cost Recovery Background (cont.)

## Covered by Regulation 3 Fees

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

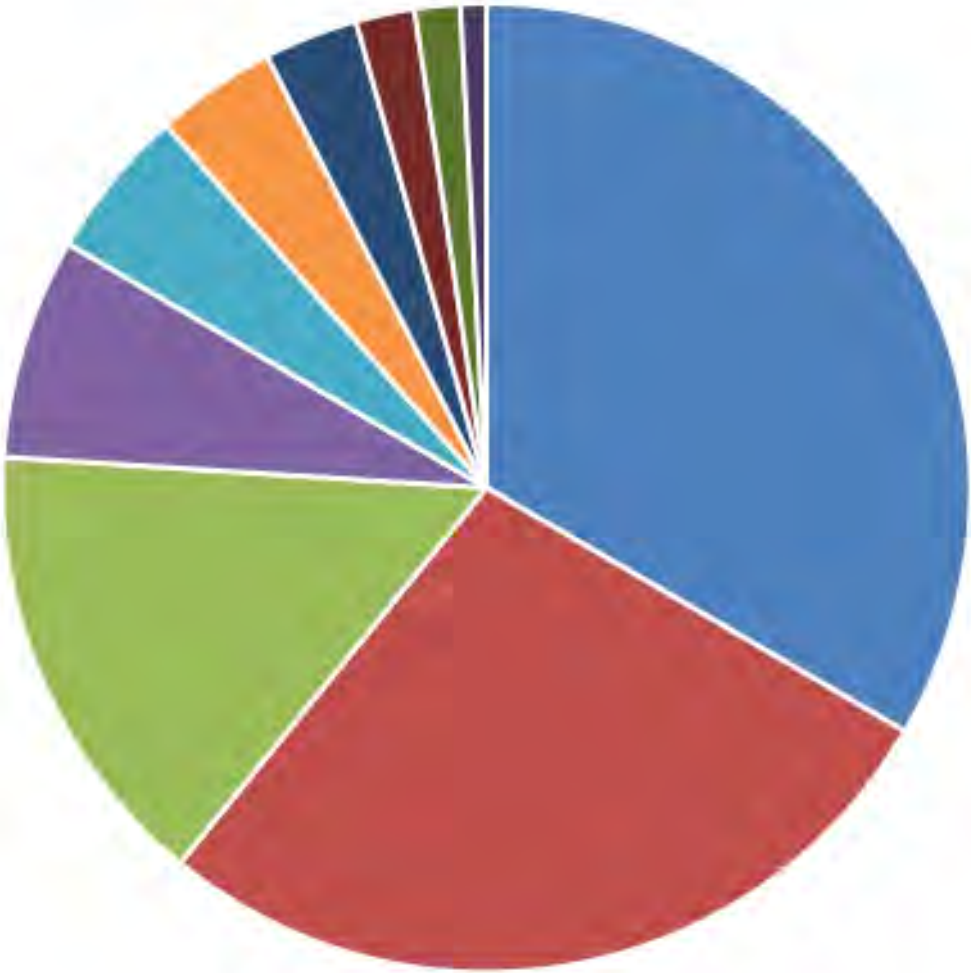
## Not Covered by Regulation 3 Fees

- Assembly Bill (AB) 617 Community Engagement & Outreach (non-permitted issues)
- Ambient Air Monitoring
- Climate change work – Non-permitted sources
- Communications
- Mobile sources
- Planning
- Rule development for non-permitted sources
- Strategic Incentives – “Grants” (e.g., wood-burning device replacement, Carl Moyer Program, Vehicle Buy-Back)
- Indirect costs

➤ This list is not exhaustive

# Cost Recovery Background (cont.)

Total Costs Assigned to Schedules



- Compliance & Enforcement (33%)
- Engineering (28%)
- Enterprise Technology Solutions (15%)
- Source Test (7%)
- Legal (5%)
- Meteorology & Measurement (4%)
- Regulatory Development (3%)
- Assessment, Inventory & Modeling (2%)
- Environmental Justice (2%)
- Other (1%)

# Cost Recovery Background: Limitations

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- Facilities or programs that are below cost recovery are not paying their fair share
- Reaching 100% cost recovery for some fee schedules may take several years
- Cost recovery analyzes past revenue and cost data
- Cost recovery does not account for work backlog or level of service
- Cost recovery does not account for required/future resource needs
- A fee schedule's cost recovery rate does not reflect whether adequate resources exist
- The gap in cost recovery is filled with other revenue sources

# Cost Recovery Background: Trends

## Overall Cost Recovery

	FYE 2010	FYE 2017	FYE 2018	FYE 2019	FYE 2020	FYE 2021	FYE 2022	FYE 2023	FYE 2024	FYE 2025
<b>By Year</b>	63.8%	81.2%	83.0%	84.7%	83.2%	83.8%	85.9%	92.3%	87.7%	89.7%
<b>3-Year Average</b>		82.2%	81.9%	83.0%	83.6%	83.5%	84.3%	87.4%	88.7%	89.9%

FYE = Fiscal Year Ending (e.g., FYE 2025 means fiscal year 2024 – 2025)

# Cost Recovery Background: Trends (cont.)

FYE 2023 - 2025 Average Revenue	Number of Fee Schedules, (change from previous year)	Percentage of Fee Schedule Revenue
110% or more of costs	5 (NC)	18.6%
100 to <110% of costs	2 (+1)	34.9%
95 to < 100% of costs	2 (NC)	9.8%
75 to < 95% of costs	2 (NC)	15.0%
50 to < 75% of costs	5 (-1)	20.0%
25 to < 50% of costs	3 (NC)	0.8%
Less than 25% of costs	2 (NC)	0.9%

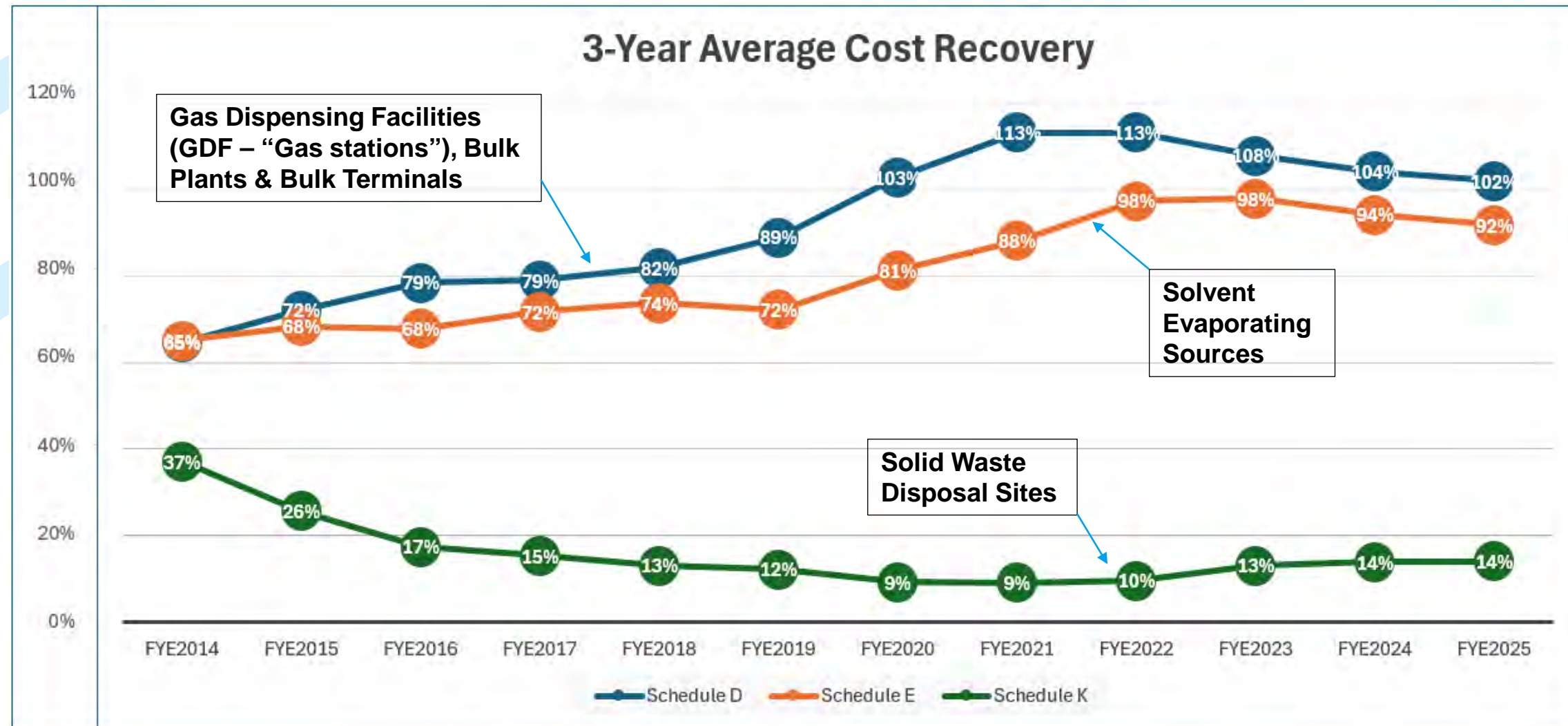
➤ Specific fee schedule cost recovery levels are published in the Cost Recovery reports

➤ Over 63% of fee schedule revenue is at least 95% recovered

➤ Less than 2% of fee schedule revenue is grossly under-recovered

NC = No change

# Cost Recovery Background: Trends Example



# Cost Recovery Strategies

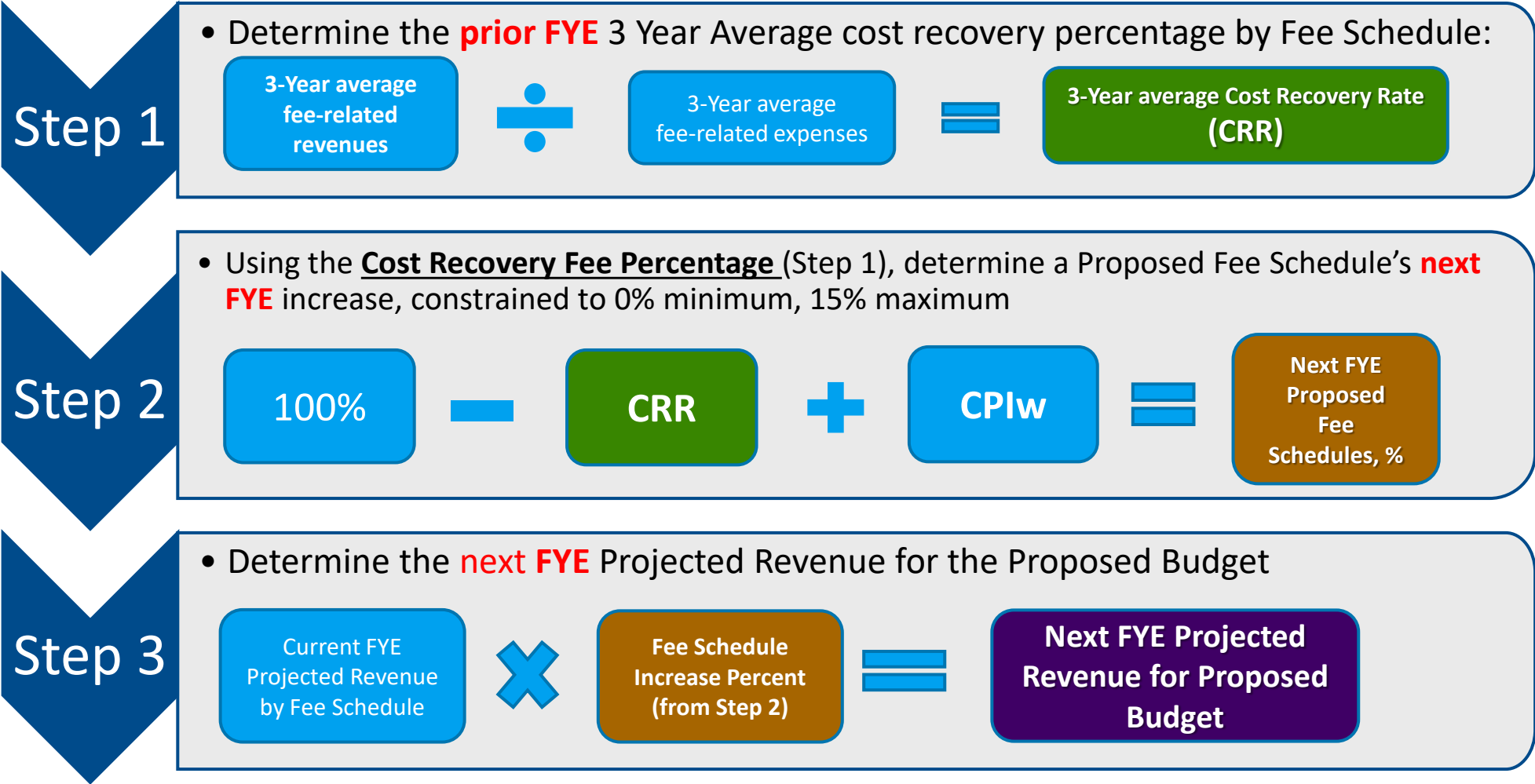
At the December 17, 2025, Finance and Administration Committee meeting, the members were in favor of a smoother approach for schedules closer to 100% cost recovery.

Revenue from Fee Schedule (3-year average)	FYE 2025	FYE 2026	FYE 2027
110% or more of costs	-	-	-
100 to <110% of costs	CPIw	CPIw	CPIw
95 to < 100% of costs	+15%	CPIw	3.6% (CRR @ 98.70%)
85 to < 95% of costs	+15%	+15%	8.8% (CRR @ 93.55%)
75 to < 85% of costs	+15%	+15%	+15%
50 to < 75% of costs	+15%	+15%	+15%
Less than 50% of costs	+15%	+15%	+15%

CPIw = The annual Consumer Price Index of the previous year for Bay Area Urban Wage Earners and Clerical Workers

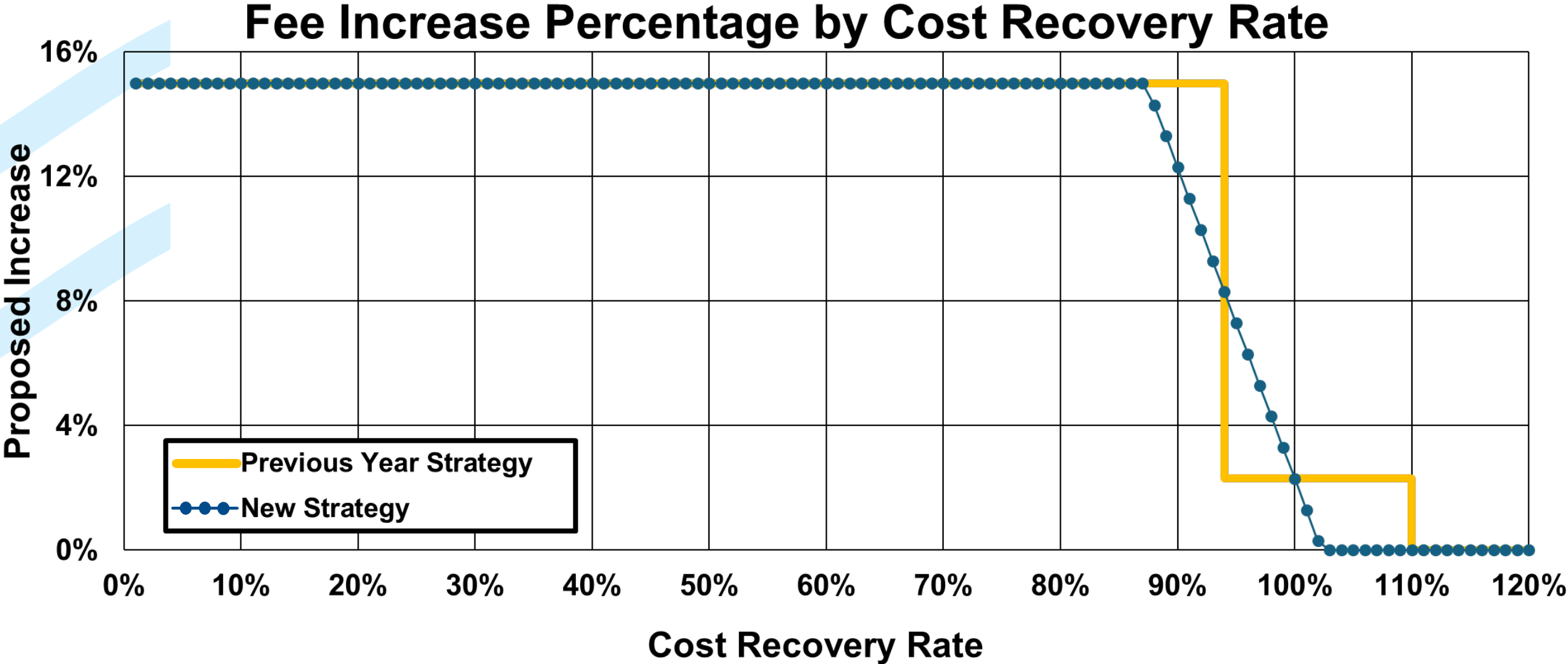
CRR = Cost recovery rate

# Cost Recovery Background



CPIw = The annual Consumer Price Index of the previous year for Bay Area Urban Wage Earners and Clerical Workers

# Cost Recovery Background (cont.)



# Fee Reductions

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- Schedule R – Equipment Registration: Reduce fee by 20%
  - Non-permitted dry cleaning machines, small combustion, small graphic arts operations, charbroilers
  - When facilities only have registered equipment, they are typically small businesses
  - Revenue impact is approximately a \$52,000 reduction

# Fee Removals

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## Remove language

- Section 3-405.4.1.2 (Fees Not Paid, Reinstatement of Lapsed Permit to Operate)
- Section 3-405.5 (Fees Not Paid, Registration and Other Fees)

## Discussion

The current language imposes a total late fee of 25% if an invoice is not paid in full after 30 days (delinquent fee). By removing these subsections, there is only one 10% late fee if the invoice is not paid in full by the invoice due date. The intent is to streamline the process of getting parties in compliance from a fee standpoint. Many facilities paying the delinquent fee were small businesses.

# Proposed Fee Regulation Amendments

Proposed Change in Fees	Fee Schedules	FYE 2025 Fee Revenue %, (\$)
20% decrease	R	0.4% (\$266K)
0% increase	B, C, D, L, N, T, X	44.4% (\$35M)
2.3% increase (CPIw )	Section 300 fees, M, I	15.0% (\$1.6M)
3.6% increase	G5	1.2% (\$1.7M)
8.8% increase	E	7.1% (\$4.7M)
15% increase	A, F, G1, G2, G3, G4, H, K, P, S, V*, W	31.9% (\$23.9M)

**Weighted average proposed fee increase = +5.7%**

\*Open Burning Operation Fee and Stubble Burn Operation Fee only

M = Million

# Other Proposed Changes – General

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- General clean-up (e.g., remove obsolete language, typos)
- Increase administrative fees in Section 300 by CPIw, excluding:
  - Permit transfer fee (Section 3-307)
  - Upfront public notice fee (Section 3-318.1)
- Increase Schedule M by CPIw

# Other Proposed Changes – General (cont.)

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- Schedule B – Combustion of Fuels
  - Align calculation for the Risk Assessment Fee (RAF) consistent with other schedules.
- Schedule C – Stationary Containers for the Storage of Organic Liquids
  - Align calculation for the Risk Assessment Fee (RAF) consistent with other schedules.
- Schedule D.A – Gasoline Transfer at Gas Dispensing Facilities (GDF)
  - Increase the RAF by 15% in Schedule D.A.4.b consistent with existing GDFs for the same work.

# Other Proposed Changes – New Fee

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## **New fee**

- Section 3-311.6 (Emission Reduction Credit Reissuance Fee) equal to the filing fee which is proposed to be \$684

## **Discussion**

Before the Air District can honor an Emission Reduction Credit (ERC) certificate, the owner must surrender the ERC. Last year, the Air District received several requests where the applicant did not have the certificate and was not the contact of record. Considerable effort is required to verify ownership, especially when the facility is shutdown and the contact of record is not available.

# Other Proposed Changes – Reclassification

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## **Reclassify general miscellaneous sources in Schedule F**

- Move gasification/pyrolysis sources from Schedule F (General miscellaneous) to Schedule G1
- Revenue impact is an approximate \$28,000 increase in Permit to Operate fees

## **Discussion**

Source categories being charged Schedule F are reviewed against the level of effort. Schedule F (Miscellaneous – Unclassified) are charged when no other fee schedule applies. Due to the complexity and interest of these facilities, these projects often involve public workshops, legal discussion, increased enforcement, modeling, source testing and emissions verification.

# Impact on Large Facilities – Permit Renewal

## Refineries

Annual Permit Fee Increase/Decrease (Fiscal Year Ending)							
	2025, % Fee Change		Actual Renewal Fees paid	2026, % Fee Change		Actual Renewal Fees paid	2027, Projected % Fee Change
	Predicted	Actual		Predicted	Actual		Predicted
Chevron	8.5	9.3	\$5.0 million	9.7	9.5	\$5.5 million	6.3
Martinez Refining	7.9	-0.2	\$5.7 million	4.4	3.2	\$5.9 million	7.0
Phillips 66	8.6	-6.2	\$2.8 million	3.8	-2.2	\$2.8 million	8.4
Tesoro (Marathon)	9.1	16.5	\$1.9 million	-1.6	8.0	\$2.0 million	6.2
Valero	9.0	4.3	\$3.5 million	13.7	4.6	\$3.8 million	7.0

Total Permit renewal fees paid  
by refineries in FYE 2026 = \$20M

# Impact on Small Facilities – Permit Renewal

Facility Type	Current Renewal Fee: Not OBC	Current Renewal Fee: OBC	Proposed Renewal Fee: Not OBC	Proposed Renewal Fee: OBC
Backup Engine* (Schedule B)	\$563	\$644	\$566 0.5%	\$647 0.5%
GDF “Gas Station”** (Schedule Da)	\$2,860	\$3,271	\$2,863 0.1%	\$3,270 0.1%
Auto Body Shop* (Schedule E)	\$1,378	\$1,576	\$1,491 7.6%	\$1,705 7.6%
Coffee Roaster (Schedule F)	\$1,076	\$1,231	\$1,220 11.8%	\$1,395 11.8%
Dry Cleaning Machine (Schedule R)	\$259	\$259	\$207 -20%	\$207 -20%

\*Minimum fee – Permit fees are greater for larger engines or higher solvent usage sources

OBC = Overburdened Community

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

# Fee Reduction Summary

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These are the changes that provide relief, especially to small businesses.

- Proposed 20% reduction in registration fees (Schedule R)
- Proposal to eliminate delinquent permit renewal fees
  - This will remove approximately \$386,000 in delinquent fees already invoiced

# Efficiencies and Cost Containment Efforts

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## Examples:

- There was a 17% increase in the applications processed in 2025 compared with 2024
- Eliminated backlog of 147 Health Risk Assessments. Pivot from backlog reduction to improving consistency, transparency, and automation
- Savings of \$4 Million per year in ongoing costs for the decommissioning of the legacy permitting system
- Saving of \$600,000 per year in ongoing maintenance and operational costs for the legacy permitting system

# Efficiencies and Cost Containment Efforts (cont.)

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## Examples:

- In October 2023, Engineering fully transitioned to the Permitting & Compliance System (PCS)
- In July 2025, functionality for Compliance & Enforcement upgraded to the current PCS platform
- In November 2025, Source Test transitioned into PCS
- Permit Efficiency Task Force and Ad Hoc Committee: Input for policy/rule improvements

# Budget & Fee Regulation Schedule

Description	Date
Finance and Administration Committee briefing	December 17, 2025
Public workshop for Regulation 3 amendments	February 26, 2026
Budget Workshop	March 10, 2026
Finance and Administration Committee briefing	March 18, 2026
Finance and Administration Committee briefing	April 15, 2026
First public hearings on budget & Regulation 3 to receive testimony	April 29, 2026
Written comments on proposed amendments to Regulation 3 due	May 15, 2026
Second public hearings on budget and Regulation 3 to consider adoption	June 3, 2026
Budget and fee amendments effective, if adopted	July 1, 2026



# Summary of Public Comments

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## Comment regarding delaying fee increases until level of service improves

- Efforts are already underway to improve level of service
  - Board approved new positions in September 2025
  - Efficiencies are also addressed by reallocating resources, training, improved tools, program efficiencies, and overall cost containment
  - Improvements are part of the strategic plan and ideas are collected from the Permit Efficiency Taskforce
- Cost recovery addresses work that has already occurred with existing resources
- Delaying fee increases would extend timeframe to meet 100% cost recovery and/or drop level of service. Fees fund program activities (level of service), including inspections & enforcement, emissions testing, rule development, as well as permitting

# Summary of Public Comments (cont.)

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Comment regarding timekeeping: Staff should bill time to specific projects (e.g., facility, device)

- Fees fund Air District programs such as compliance verification, emissions inventory, source testing and rule development. With few exceptions, facilities/entities are not billed based on specific work
- Adding more data to the timekeeping process would reduce efficiency
- As our tools improve, we will explore the possibility to have the system provide additional automated tracking

# Recommended Action

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No action is requested today – This public hearing is for considering and taking public testimony on the proposed amendments only.

The Board of Directors will consider adoption of the proposed amendments on June 3, 2026.

# Questions & Discussion

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**For more information:**

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