



**BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT**

Draft Amendments to Regulation 3: Fees

Budget & Finance Committee Meeting

March 25, 2015

Jeff McKay

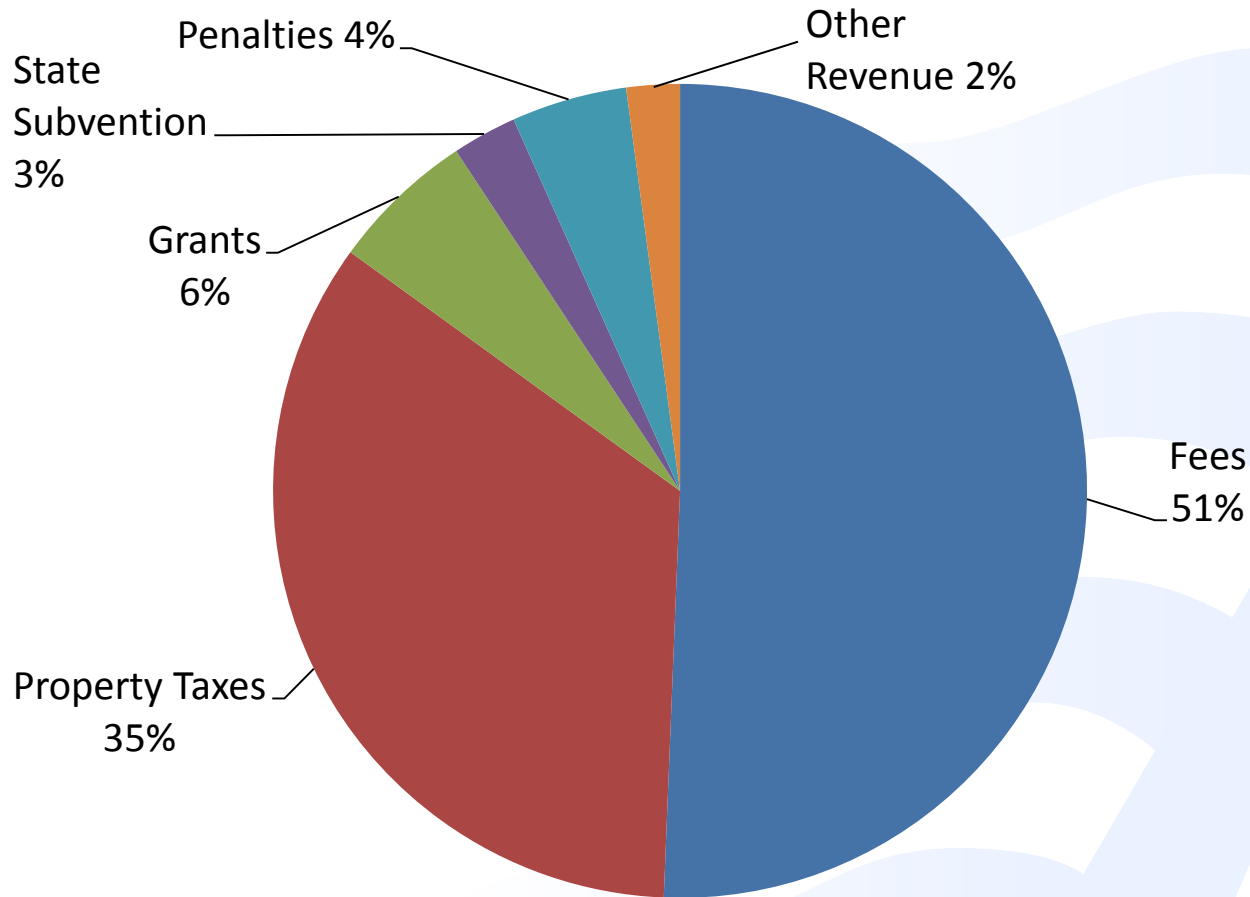
Deputy Air Pollution Control Officer

1. Cost Recovery Background
2. Draft Fee Amendments
3. Public Comments Received
4. Rule Development Schedule





Revenue Sources - FYE 2014





Cost Recovery Policy

- Fully recover costs of regulatory program activities
- Sets goal of increasing cost recovery to 85% over four years FYE 2013 through FYE 2016
- Fee amendments will be based on cost recovery analyses at the fee schedule-level
- Air District will implement feasible cost containment measures





Cost Recovery Background

- Fee revenue falls well short of overall full cost recovery
 - FYE 2010: Cost recovery = 64%
 - FYE 2011: Cost recovery = 65%
 - FYE 2012: Cost recovery = 75%
 - FYE 2013: Cost recovery = 80%
 - FYE 2014: Cost recovery = 80%
 - *FYE 2015: Cost recovery = 82% Projected*

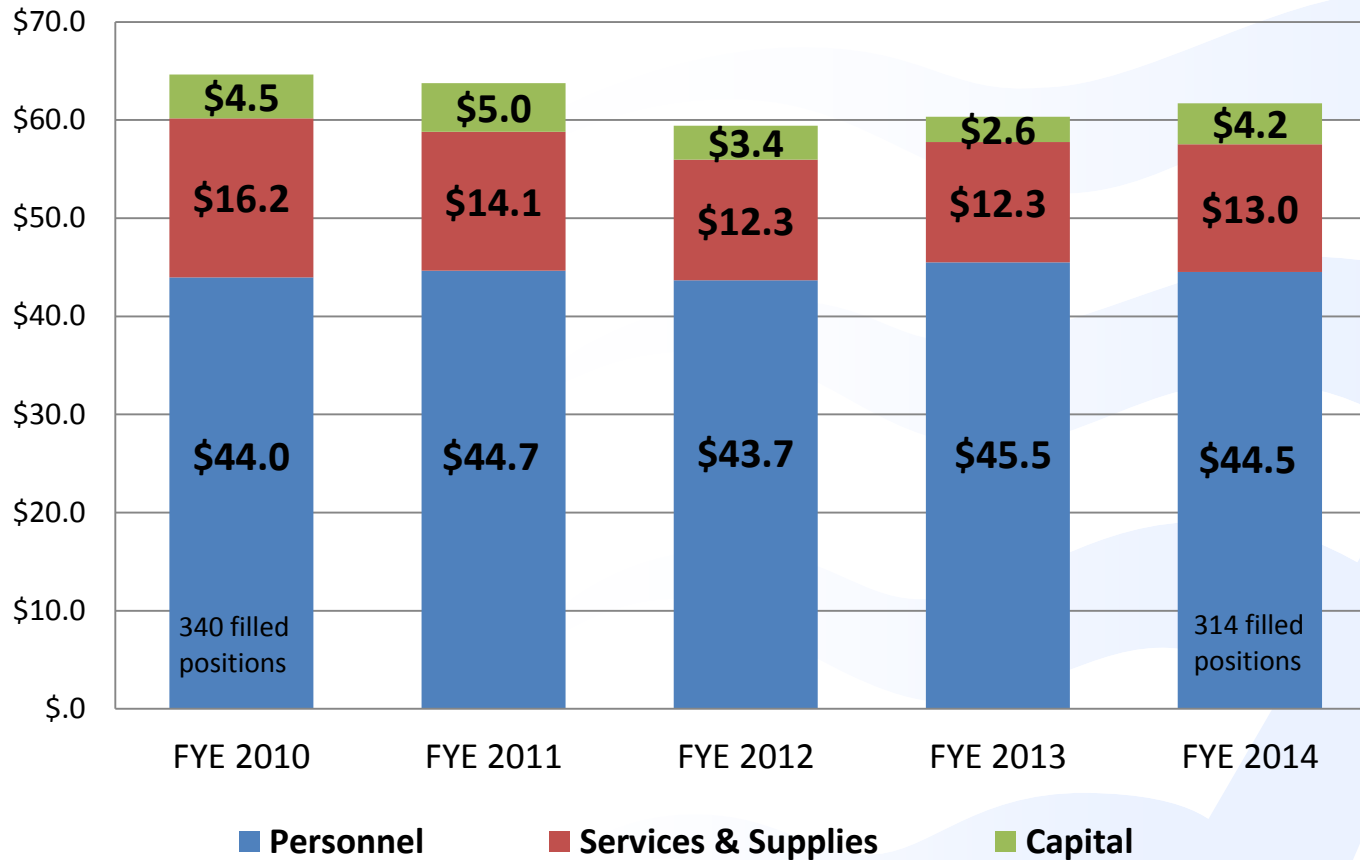
- Cost recovery gap is filled by county tax revenue





Trends in Cost Cutting

Audited General Fund Expenditures (millions)





Proposed Changes to Fee Schedules

| Revenue from Fee Schedule | Change in Fees | Fee Schedules |
|----------------------------------|------------------------|---------------------------------------|
| Exceeds 95% of costs | 2.6% increase (CPI-W)* | C, G-5, M, N, Q, U |
| 85 – 95% of costs | 7% increase | B, D, I, L |
| 75 – 84% of costs | 8% increase | F, G-3 |
| Less than 75% of costs | 9% increase | A, E, G-1, G-2, G-4, H, K, P, R, S, V |

* The annual Consumer Price Index for Bay Area Urban Wage Earners and Clerical Workers (CPI-W) increased 2.6% from 2013 to 2014

Proposed Changes to Fee Schedules

➤ Fee Schedules with 2.6% increase

- Schedule C: Stationary Containers for the Storage of Organic Liquids
- Schedule G-5: Petroleum Refinery Flares
- Schedule M: Major Stationary Source Fees
- Schedule N: Toxic Inventory Fees
- Schedule Q: Contaminated Soil & Removal of Underground Storage Tanks
- Schedule U: Indirect Source Fees





Proposed Changes to Fee Schedules

➤ Fee Schedules with 7% increase

- Schedule B: Combustion of Fuel
- Schedule D: Gasoline Transfer at Gasoline Dispensing Facilities, Bulk Plants & Terminals
- Schedule I: Dry Cleaners
- Schedule L: Asbestos Operations

➤ Fee Schedules with 8% increase

- Schedule F: Misc. Sources (storage silos, abrasive blasting)
- Schedule G-3: Misc. Sources (metal melting, cracking units)



Proposed Changes to Fee Schedules

➤ Fee Schedules with 9% increase

- Schedule A: Hearing Board Fees
- Schedule E: Solvent Evaporating Sources
- Schedule G-1: Misc. Sources (glass manufacturing, soil remediation)
- Schedule G-2: Misc. Sources (asphaltic concrete, furnaces)
- Schedule G-4: Misc. Sources (cement kilns, sulfur removal & coking units, acid manufacturing)
- Schedule H: Semiconductor and Related Operations
- Schedule K: Solid Waste Disposal Sites
- Schedule P: Major Facility Review Fees
- Schedule R: Equipment Registration Fees
- Schedule S: Naturally Occurring Asbestos Operations
- Schedule V: Open Burning



Other Proposed Amendments

Schedule R: Equipment Registration Fees

- The facility registration fee for boilers would be deleted and replaced by a registration fee per device of \$100

Section 3-304: Alteration

- An applicant to alter a source would pay 50% of the applicable initial fee



Greenhouse Gas Fees

Schedule T: Greenhouse Gas Fees

- Increases from \$0.07 to \$0.09 per metric ton of carbon dioxide equivalent emissions
- Fee increase adopted in FYE 2015 as part of a two-year, phased increase per Board of Directors Resolution No. 2014-04



Impact on Large Facilities: Oil Refineries

| | Annual % Fee Increase (Fiscal Year Ending) | | | | Current Permit to Operate Fee (million) |
|-------------|---|------|------|--------------------------|---|
| | 2013 | 2014 | 2015 | 2016 <i>Projected</i> | |
| Chevron | 5.8 | 3.4 | 12.6 | 8.0 | \$2.91 |
| Shell | 3.9 | 1.2 | 12.6 | 8.5 | \$2.51 |
| Phillips 66 | 1.6 | 1.2 | 10.9 | 7.5 | \$1.36 |
| Valero | -32* | 7.2 | 11.4 | 8.5 | \$1.42 |
| Tesoro | 1.8 | 5.5 | 8.3 | 7.1 | \$1.77 |

*Note: Decrease due to significant reduction in emissions



Impact on Large Facilities: Power Plants

| | Annual % Fee Increase (Fiscal Year Ending) | | | | Current Permit to Operate Fee |
|-------------------|---|------|------|--------------------------|----------------------------------|
| | 2013 | 2014 | 2015 | 2016 <i>Projected</i> | |
| Delta Energy | 4.3 | 13.5 | 16.9 | 14.9 | \$ 310,000 |
| Los Medanos | -0.4 | 11.3 | 15.0 | 14.0 | \$ 236,000 |
| Gateway | -0.5 | 3.3 | 15.0 | 13.8 | \$ 207,000 |
| Crockett Cogen | 1.6 | 2.1 | 15.0 | 12.9 | \$ 196,811 |



Impact on Small Businesses

➤ Proposed FYE 2016 fee increases:

| Facility Type | Facility Description | Fee Increase | Total Fee |
|--------------------------|---|--------------|-----------|
| Gas Station | 10 multi-product gasoline nozzles | \$198 | \$3,130 |
| Dry Cleaner (permitted) | One machine: 1,400 lb/yr Perc emissions | \$29 | \$585 |
| Dry Cleaner (registered) | One machine: 800 lb/yr VOC emissions | \$16 | \$189 |
| Auto Body Shop | One spray booth: 400 gal/yr paint | \$39 | \$535 |
| Back-up Generator | One 365 hp engine | \$17 | \$323 |





Public Comments

- Feb. 17, 2015 Public workshop
 - Five attendees plus webcast audience

- Comments received to date (CCEEB, Valero)
 - Fees for alterations are too high
 - Fees for large facilities are too high
 - GHG fees duplicative of state programs





Rule Development Schedule

- **February 17, 2015**
 - Public workshop
- **February 27, 2015**
 - Written comments due
- **March 25, 2015**
 - Budget & Finance Committee briefing
- **April 15, 2015**
 - Board of Directors first public hearing to receive testimony only
- **June 3, 2015**
 - Board of Directors second public hearing to consider adoption
- **July 1, 2015**
 - Proposed effective date of fee amendments





**BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT**

Proposed Fiscal Year End 2016 Budget

Budget and Finance Committee

March 25, 2015

Jeff McKay

Deputy Air Pollution Control Officer



OUTLINE

- Status of Current Year (Fiscal Year End 2015)
- Overview of Revenue and Expenditure FYE 2016
- Detailed Review of Revenue and Expenditure



Revenue Projections for Current Fiscal Year FYE 2015

Out of \$65 M Budget

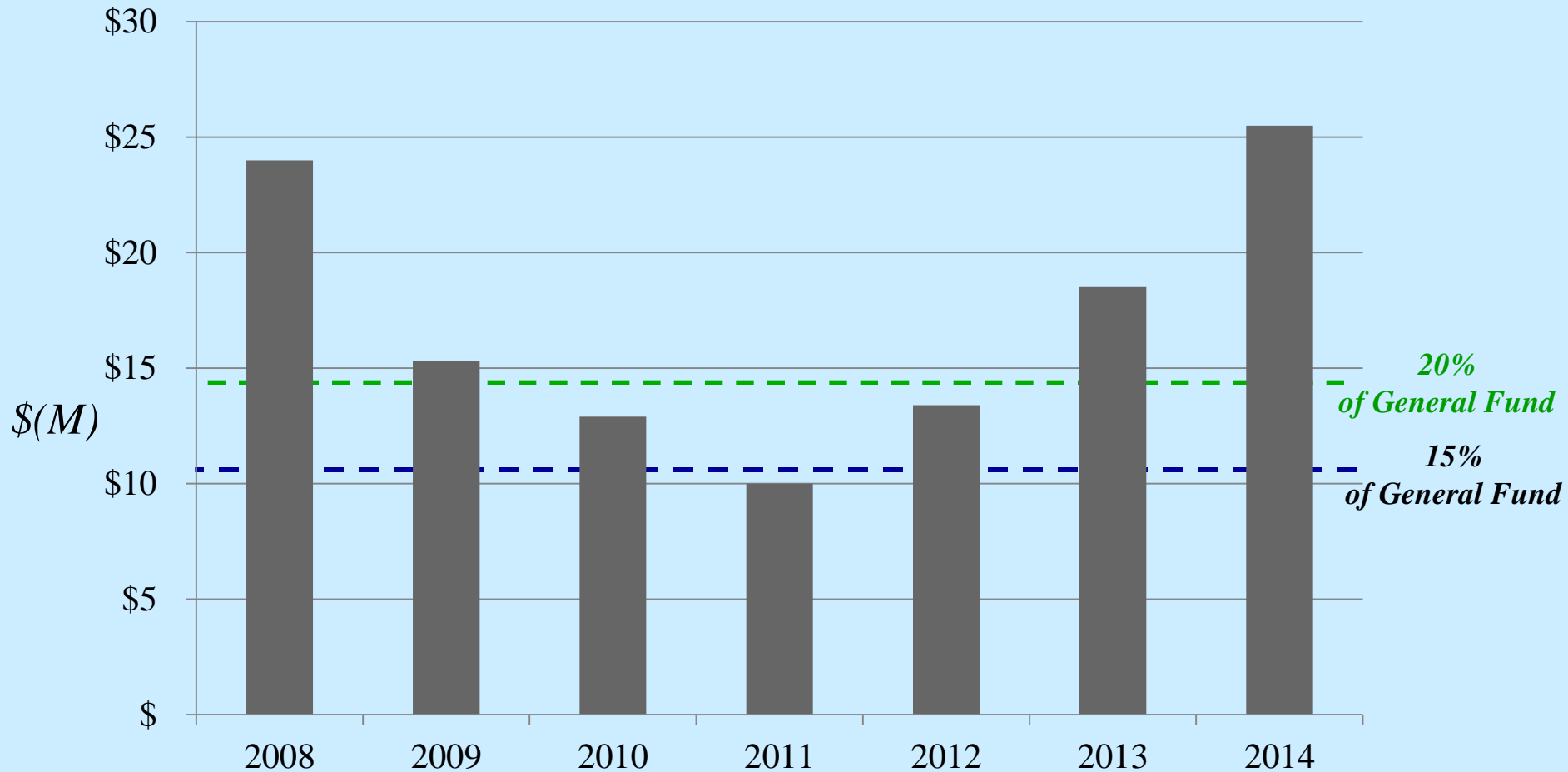
As of March 2015:

- Permit Fee revenue on target
- Property Tax revenue on target
- Expenditures on target



DISTRICT RESERVE FUNDS

Audited Values





APPROVED RESERVE TRANSFERS FYE 2015

- During FYE 2015 Board Approved Transfers:
 - \$1M for 375 Beale Design and Construction
 - \$1.4M for JDE Software Upgrade



OVERVIEW

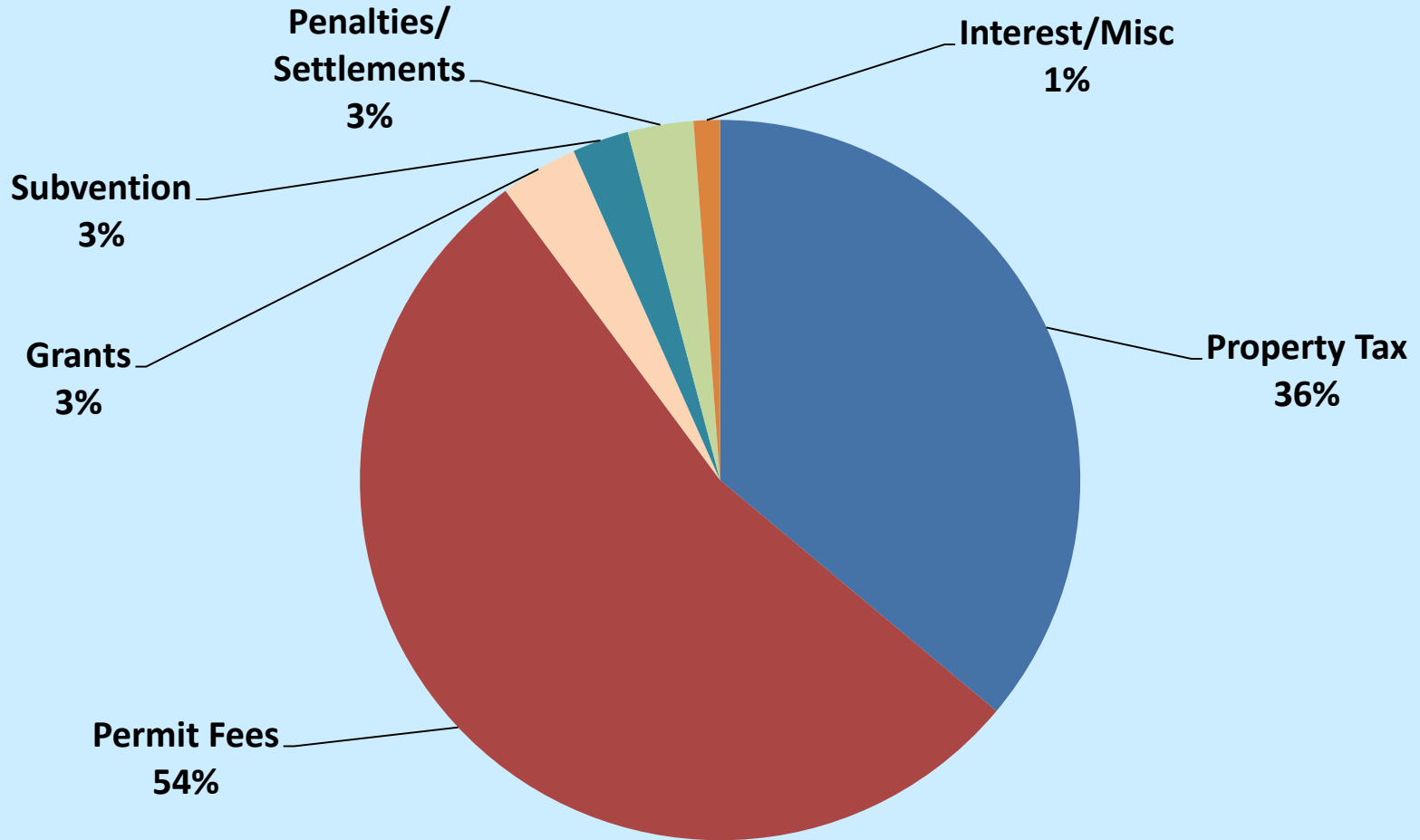
Proposed Budget for FYE 2016

(Excludes New Building Financing)

- \$ 72.5 M General Fund Budget
- Incorporates Cost Recovery Policy
- Additional GHG Funding for 2 new positions
- Hire Staff: From 329 to 334 filled positions
- Addresses Retirement Liabilities
- Includes 2.6% COLA
- Use of Reserves & Proposed Reserves Policy



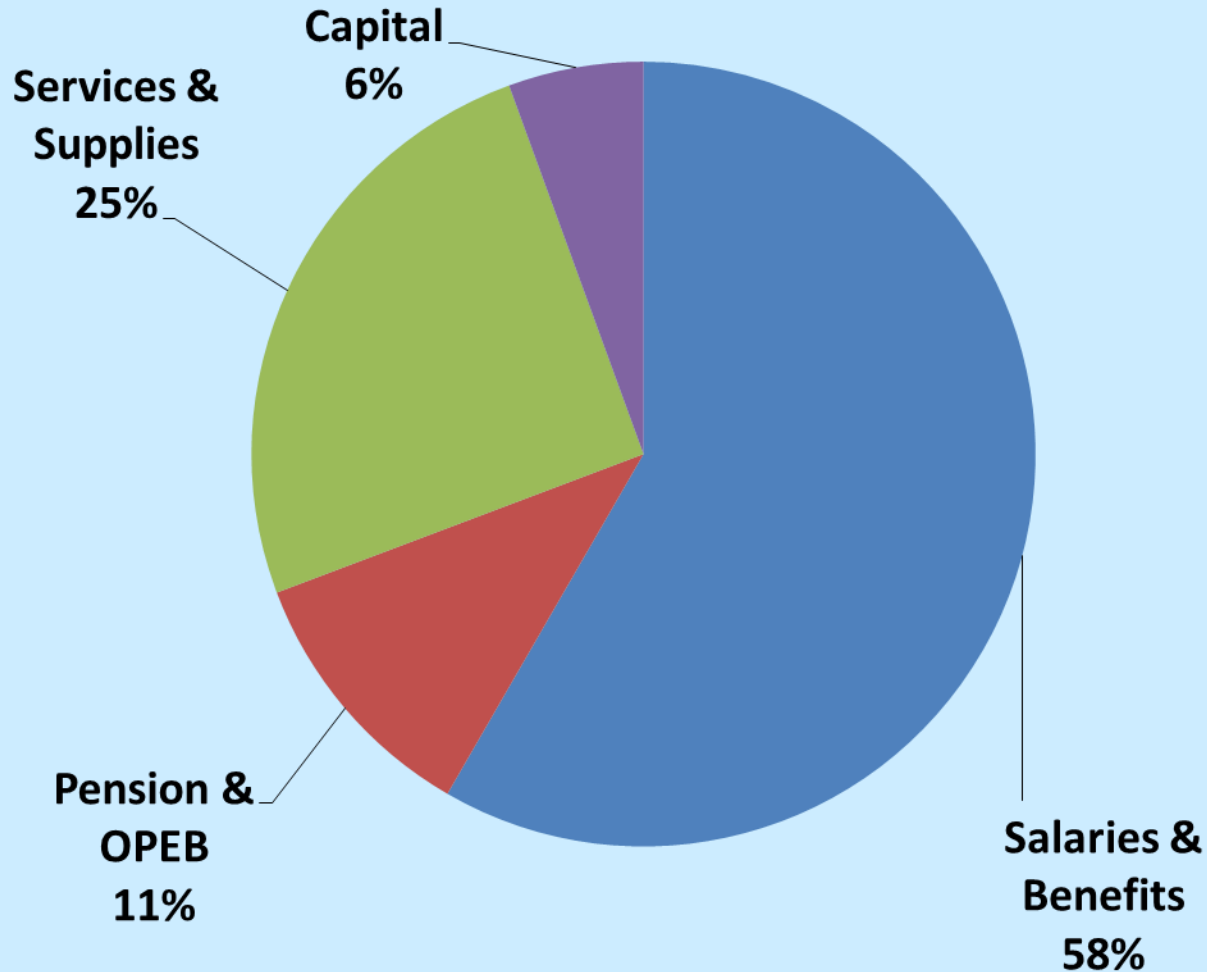
GENERAL FUND REVENUE SOURCES (FYE 2016 Proposed Budget)



Excludes Building Proceeds

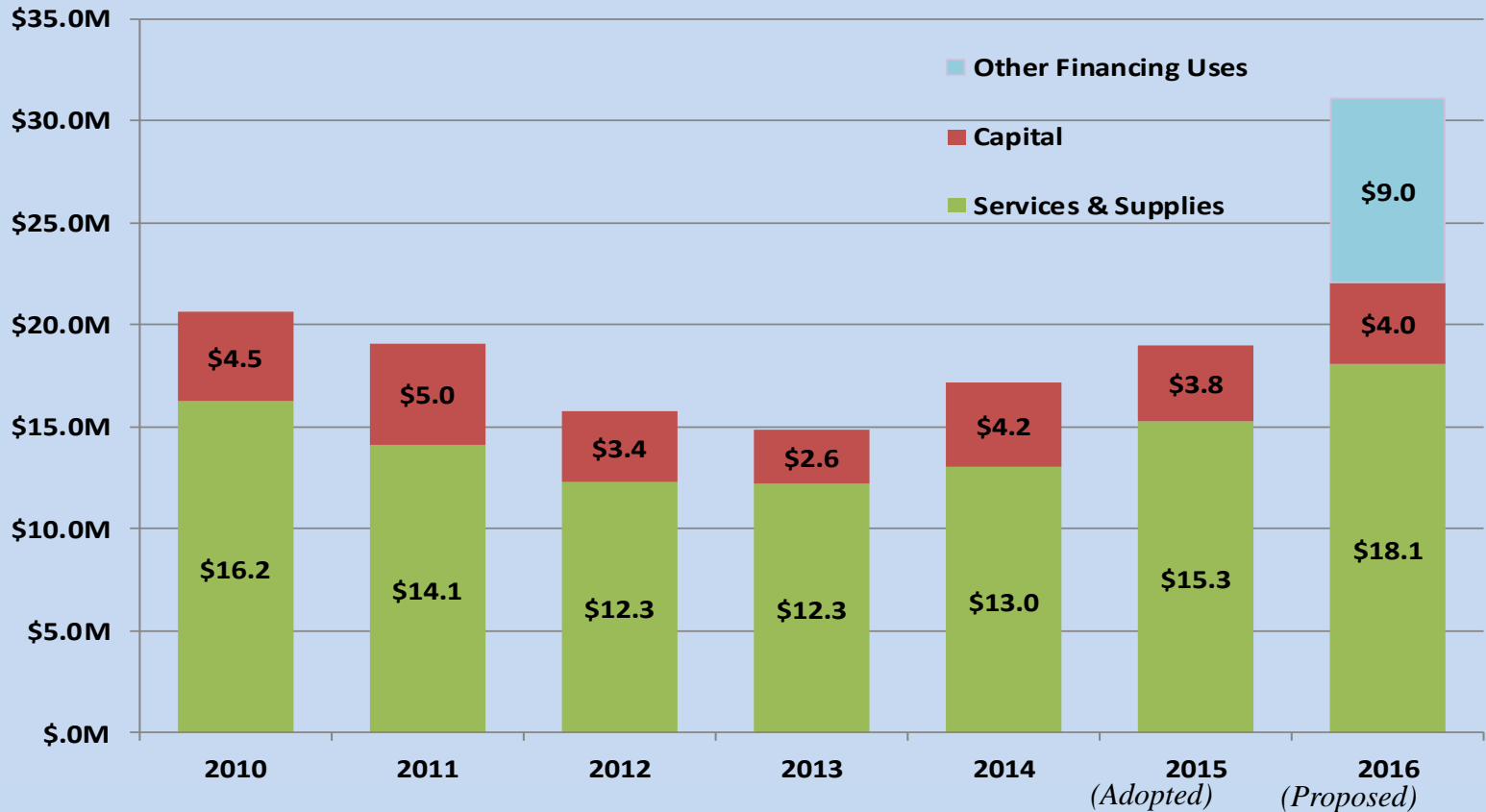


GENERAL FUND EXPENDITURES (FYE 2016 Proposed Budget)



Excludes Building Financing

SERVICES & SUPPLIES and CAPITAL



| | | | | | | | |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Other Financing Uses | | | | | | | \$9.0 |
| Capital | \$4.5 | \$5.0 | \$3.4 | \$2.6 | \$4.2 | \$3.8 | \$4.0 |
| Services & Supplies | \$16.2 | \$14.1 | \$12.3 | \$12.3 | \$13.0 | \$15.3 | \$18.1 |
| Total | \$20.7 | \$19.1 | \$15.7 | \$14.8 | \$17.2 | \$19.0 | \$31.1 |



FYE 2016 PROPOSED FEES

- Fourth year of Cost Recovery Policy
 - Average 6.4% Fee increase in FYE 2016 budget
 - Additional GHG Fees to cover new programs
 - Strong involvement by Regulated Community



CLIMATE PROGRAM STAFFING

- Implementation of the Air District's 10-Point Climate Action Work Plan

- 4.6 cents per ton of GHG implemented over 2 years
 - 4 Positions (2 in 2015 and 2 in 2016)
 - Planning (2)
 - Inspection (1)
 - Technical (1)



FYE 2016 FTE STAFFING LEVEL

| | |
|--------------------------------|-----|
| FYE 2015 Budgeted Positions | 329 |
| FYE 2016 Recommended Positions | 5 |
| Total Budgeted Positions | 334 |

FYE 2016 FUND BALANCE SUMMARY

| FUND BALANCES | 6/30/2014 Audited | 6/30/2015 Projected | 6/30/2016 Projected |
|---|----------------------|------------------------|------------------------|
| Reserve for Building and Facilities | \$ 500,000 | \$ 500,000 | \$ - |
| Reserve for Capital Equipment Contingency | \$ 1,000,000 | \$ 1,000,000 | \$ 3,000,000 |
| Reserve for Economic Contingency | \$ 10,114,309 | \$ 10,114,309 | \$ 12,802,988 |
| Reserve for Fleet Contingency | \$ - | \$ - | \$ 1,000,000 |
| Reserve for IT-Desktop Equipment | \$ 500,000 | \$ 500,000 | \$ 500,000 |
| Reserve for IT- Event Response | \$ 500,000 | \$ 500,000 | \$ 500,000 |
| Reserve for JD Edwards Software Upgrade | \$ 1,000,000 | \$ 1,000,000 | \$ - |
| Reserve for Pension & Post Employment Liability | \$ 1,800,000 | \$ 1,800,000 | \$ 2,300,000 |
| Reserve for Prop 1A Loan Repayment | \$ - | \$ 860,200 | \$ - |
| Reserve for Tech- GHG Monitoring Equipment | \$ 360,900 | \$ 360,900 | \$ 360,900 |
| Reserve for Tech- Meterological Network Equipment | \$ 417,100 | \$ 417,100 | \$ 417,100 |
| Reserve for Tech- Mobile Monitoring Instruments | \$ 450,000 | \$ 450,000 | \$ 450,000 |
| Reserve for Worker's Comp Self -Funding | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 |
| Unreserved and Undesignated | \$ 7,404,751 | \$ 7,404,751 | \$ - |
| Prior Approved Transfers | \$ - | \$ (1,858,036) | \$ - |
| Proposed Use of Fund Balance | \$ - | \$ - | \$ (1,316,825) |
| TOTAL SPECIAL RESERVES | \$ 25,047,060 | \$ 24,049,224 | \$ 21,014,163 |
| Building Proceeds | \$ 14,668,200 | \$ 14,668,200 | \$ 14,168,200 |
| Building Financing Cost | - | (500,000) | (9,000,000) |
| TOTAL BUILDING PROCEEDS | \$ 14,668,200 | \$ 14,168,200 | \$ 5,168,200 |
| TOTAL FUND BALANCE | \$ 39,715,260 | \$ 38,217,424 | \$ 26,182,363 |



FYE 2016 USE OF RESERVES RECOMMEDATIONS

| | |
|--------------------------------|---------------------|
| 375 Beale Building Acquisition | \$9,000,000 |
| | |
| Information Technology | \$900,000 |
| | |
| Lab & Monitoring Equipment | \$416,825 |
| | |
| | <u>\$10,316,825</u> |



FUND BALANCE POLICY

- Current Fund Balance Policy: 15% of General Fund Expenditures
 - FYE 2016 Budget of \$73M = \$11M (minimum)
 - Proposed Policy: 20% = \$15M (minimum)



UNFUNDED LIABILITIES

(based on June 30, 2013 Valuation)

➤ CalPERS Retirement

- \$232 M Obligation – 77% Funded
- \$53 M Unfunded

➤ OPEB Medical

- \$50 M Obligation – 40% Funded
- \$30 M Unfunded



UNFUNDED LIABILITIES RESPONSE for CalPERS

- CalPERS projects required contributions will increase from about 15% of salary to about 20% of salary over five years.
- Required contribution (ARC) FYE 2016 = \$5 M
- Proposed FYE2016 Prefund = \$250,000:
 - 105% of ARC = \$5.25 M



UNFUNDED LIABILITIES RESPONSE for OPEB

- Unfunded Liability = \$30M
- FYE2016 OPEB Estimated Normal Cost = \$2M
- Propose continuation of prefund amount = \$3M
- Proposed Policy: 90% minimum funded level



OFFICE BUILDING OBLIGATIONS

- 375 Beale projected acquisition date: January 2016
 - Contribution of \$9M; reducing obligation
 - FYE 2016 Monthly Base Rent is \$100,000
 - HOA approximately \$1M/year

- 939 Ellis Street monthly lease of \$91,925
 - Lease becomes \$114,906 beginning October 1, 2015



SUMMARY

Budget FYE 2016

- Budget balanced
- Reserve drawdown of \$1.3M
- Budgeted positions increased to 334
- Other Post-Employment Benefits (OPEB):
 - Contribution remains at \$3 M
 - 90% Funding Target
- Additional CalPERS contribution (\$250 K)
- Minimum Reserve increased to 20% of Budget