



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

AGENDA: 3

Draft Amendments to Regulation 3, Fees

Budget & Finance Committee
March 28, 2018

Jeff McKay
Deputy Air Pollution Control Officer

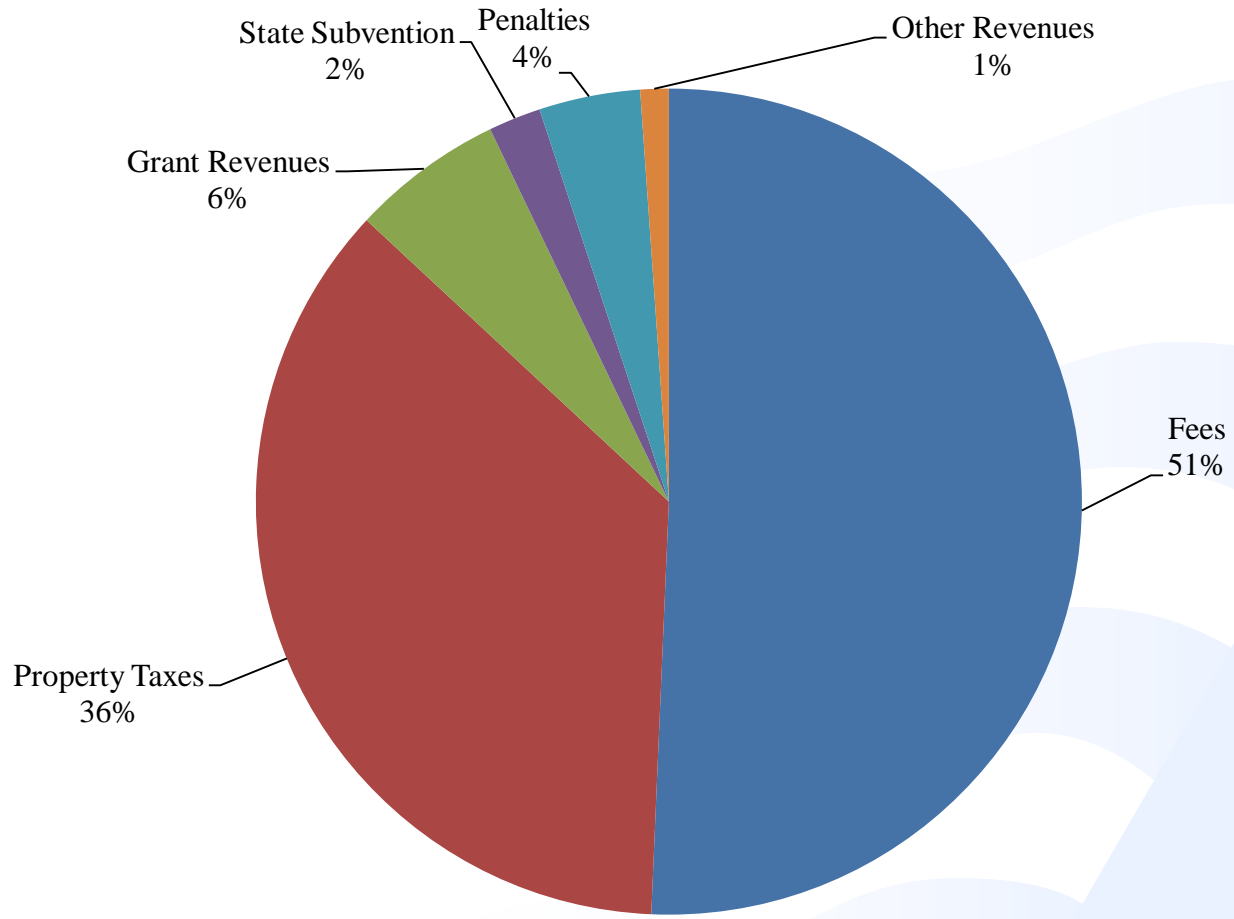


Presentation Outline

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



Revenue Sources – Fiscal Year Ending (FYE) 2017



The top left of the slide features a photograph of the Golden Gate Bridge in San Francisco, showing its iconic orange-red towers and suspension cables against a clear blue sky. The bridge spans across a body of water, with a building visible on the shore in the foreground.

Cost Recovery Background

- Air District has authority to assess fees to recover the reasonable costs of regulating stationary sources
- General policy to fully recover costs of regulatory program activities
- Set policy in 2012 of increasing cost recovery to 85%
- Fee amendments will be made in consideration of cost recovery analyses conducted at the fee schedule-level
- District will implement feasible cost containment measures

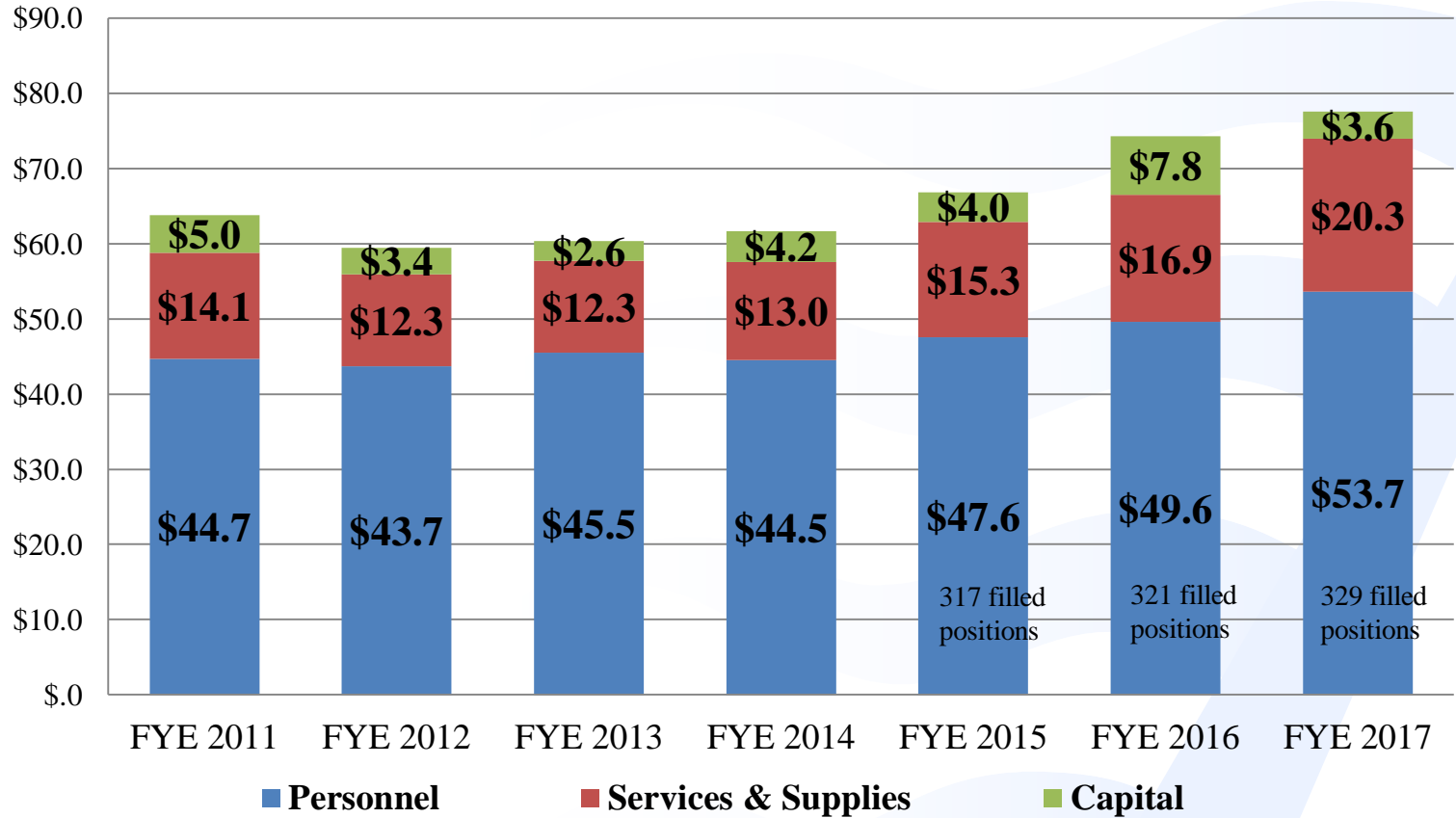


Trends in Cost Recovery

- Fee revenue falls short of overall full cost recovery
 - FYE 2011: Cost recovery = 65%
 - FYE 2012: Cost recovery = 75%
 - FYE 2013: Cost recovery = 80%
 - FYE 2014: Cost recovery = 80%
 - FYE 2015: Cost recovery = 83%
 - FYE 2016: Cost recovery = 82%
 - FYE 2017: Cost recovery = 83%
- Cost recovery gap is filled by county tax revenue

Trends in Expenditures

Audited General Fund Expenditures (millions)





Proposed Changes to Fee Schedules

Revenue from Fee Schedule	Change in Fees	Fee Schedules
95 – 110% of costs	3.1% increase** (CPI-W*)	B, M, S, V
85 – 94% of costs	7% increase	F, G3, P, T
75 – 84% of costs	8% increase	D
50 - 74% of costs	9% increase	E, G1, H
Less than 50% of costs	15% increase**	A, G2, G4, I, K, R

* The annual Consumer Price Index for Bay Area Urban Wage Earners and Clerical Workers (CPI-W) increase from 2016 to 2017.

** 2018 Matrix Consulting Group Cost Recovery & Containment Study recommendations.



Proposed Changes to Fee Schedules

➤ Fee Schedules with 3.1% increase

- Schedule B: Combustion of Fuels
- Schedule M: Major Stationary Source Fees
- Schedule S: Naturally Occurring Asbestos Operations
- Schedule V: Open Burning

➤ Fee Schedules with 7% increase

- Schedule F: Misc. Sources (storage silos, abrasive blasting)
- Schedule G-3: Misc. Sources (metal melting, cracking units)
- Schedule P: Major Facility Review Fees
- Schedule T: Greenhouse Gas Fees



Proposed Changes to Fee Schedules

➤ Fee Schedules with 8% increase

- Schedule D: Gasoline Transfer at Gasoline Dispensing Facilities, Bulk Plants & Terminals

➤ Fee Schedules with 9% increase

- Schedule E: Solvent Evaporating Sources
- Schedule G-1: Misc. Sources (glass manufacturing, soil remediation)
- Schedule H: Semiconductor and Related Operations



Proposed Changes to Fee Schedules

➤ Fee Schedules with 15% increase

- Schedule A: Hearing Board Fees
- Schedule G-2: Misc. Sources (asphaltic concrete, furnaces)
- Schedule G-4: Misc. Sources (cement kilns, sulfur removal & coking units, acid manufacturing)
- Schedule I: Dry Cleaners
- Schedule K: Solid Waste Disposal Sites
- Schedule R: Equipment Registration Fees

Other Proposed Amendments

Schedule E: Solvent Evaporating Sources

- Revisions to directly calculate the fee based on the net amount of organic solvent processed.

Schedule G-1: Miscellaneous Sources

- Clarify that sub-slab depressurization equipment is subject to Schedule F permit fees, not Schedule G-1 fees.

Schedule N: Toxic Inventory Fees

- Update the “slope factor” to recover current costs and higher ARB AB2588 annual fees for FYE 2018.
- Delete the extra slope factor formulas in Schedule N.

Other Proposed Amendments (cont'd)

Schedule P: Major Facility Review Fees

- Clarify that Initial Fees do not apply to Title V Renewal applications.

Specific Fees in Regulation 3

- Revisions to increase by 3.1% based on the CPI-W; filing fees, banking fees, public notice fees, exemption fee, permit renewal processing fees, etc.

Fee Rate in Force

- Revise Section 3-302 to specify the fee rates applied are those in force when the applicant has provided all the information required for a complete permit application.

Other Proposed Amendments (cont'd)

Reduce Late Fees

- Revise Section 3-405 to reduce delinquent fees from 50% to 25% for facilities more than 30 days late on permit renewal invoice payment.
- Historically, this has been a burden mainly on small businesses.

Regulation 11, Rule 18 HRA Review Fees

- Revise Section 3-342 to add new Regulation 11, Rule 18 HRA review fees to recover the cost of reviewing HRAs completed by District-approved consultants.

Other Proposed Amendments (cont'd)

Fees for Online Production System Transactions

- Add Section 3-418 to authorize the Air Pollution Control Officer to reduce the fees for transactions using the Air District's online production system to encourage its use.

Public Comments Received

- **Feb. 20, 2018 Public Workshop**
 - Four attendees plus webcast audience

- **Comments received:**
 - **California Council on Environmental and Economic Balance (CCEEB)**

 - **Western States Petroleum Association (WSPA)**

Public Comments Received

■ CCEEB Comments

- Align proposed amendments to Regulation 3 with proposed Budget
- Place greater focus on cost containment
- Provide greater transparency of fee schedule increases
- Postpone Fee Schedule Y, Community Stationary Source Fees

■ WSPA Comments

- Provide impacts of proposed fees on the petroleum refineries in the Bay Area (*comment is addressed on Slide 16*)
- Code and track costs for specific programs
- For cost containment, minimize unnecessary work efforts
- Clarify the Air District's costs and allocations for Schedules D, M, L, and X



Impact on Small Businesses

➤ Proposed FYE 2019 fee increases:

Facility Type	Current Fees (prior to increase)	Proposed Fee Increase	Total Fees (post increase)
Gas Station	\$2,608	\$212	\$2,820
Dry Cleaner (permitted)	\$448	\$70	\$518
Dry Cleaner (registered)	\$225	\$34	\$259
Auto Body Shop	\$485	\$47	\$532
Back-up Generator	\$263	\$11	\$274

Impact on Large Facilities: Petroleum Refineries

	Annual % Permit Fee Increase/Decrease (Fiscal Year Ending)					2018 Permit Fee
	2015	2016	2017	2018	2019 Projected	
Chevron	12.1	9.3	14.7	1.2	4.9	\$3.7 MM
Shell	12.4	5.8	15.0	10.0	4.9	\$3.4 MM
Phillips 66	9.3	3.4	14.6	2.2	5.5	\$1.6 MM
Valero	8.4	11.9	15.0	2.4	5.3	\$1.9 MM
Tesoro	13.0	21.7	13.3	-1.8	4.7	\$2.1 MM

Impact on Large Facilities: Power Plants

	Annual % Permit Fee Increase/Decrease (Fiscal Year Ending)					2018 Permit Fee
	2015	2016	2017	2018	2019 Projected	
Delta Energy	16.9	12.6	4.8	-7.0	5.1	\$ 427,402
Los Medanos	15.0	15.0	4.8	7.3	5.2	\$ 350,726
Gateway	15.0	19.8	4.5	-7.6	5.0	\$ 295,930
Crockett Cogen	15.0	11.5	7.9	2.5	5.0	\$ 230,111



Rule Development Schedule

- **February 20, 2018**
 - Public workshop
- **March 21, 2018**
 - Written comments due
- **March 28, 2018**
 - Budget & Finance Committee briefing
- **April 18, 2018**
 - Board of Directors first public hearing to receive testimony only
- **June 6, 2018**
 - Board of Directors second public hearing to consider adoption
- **July 1, 2018**
 - Proposed effective date of fee amendments



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

AGENDA: 4

Discussion of Proposed Budget Fiscal Year Ending 2019 Budget

Budget and Finance Committee March 28, 2018

Jeff McKay
Deputy Air Pollution Control Officer



OUTLINE

- Status of Current Year Fiscal Year Ending (FYE 2018)
- Financial History
- Proposed Budget for FYE 2019
- Next Steps



CURRENT FISCAL YEAR FYE 2018 Projections

General Fund Budget: \$94.8 M Budget

Included Use of Reserves \$7.9M for Multi-year expenses

As of March 2018:

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



FINANCIAL HISTORY

Actions Taken During Downturn

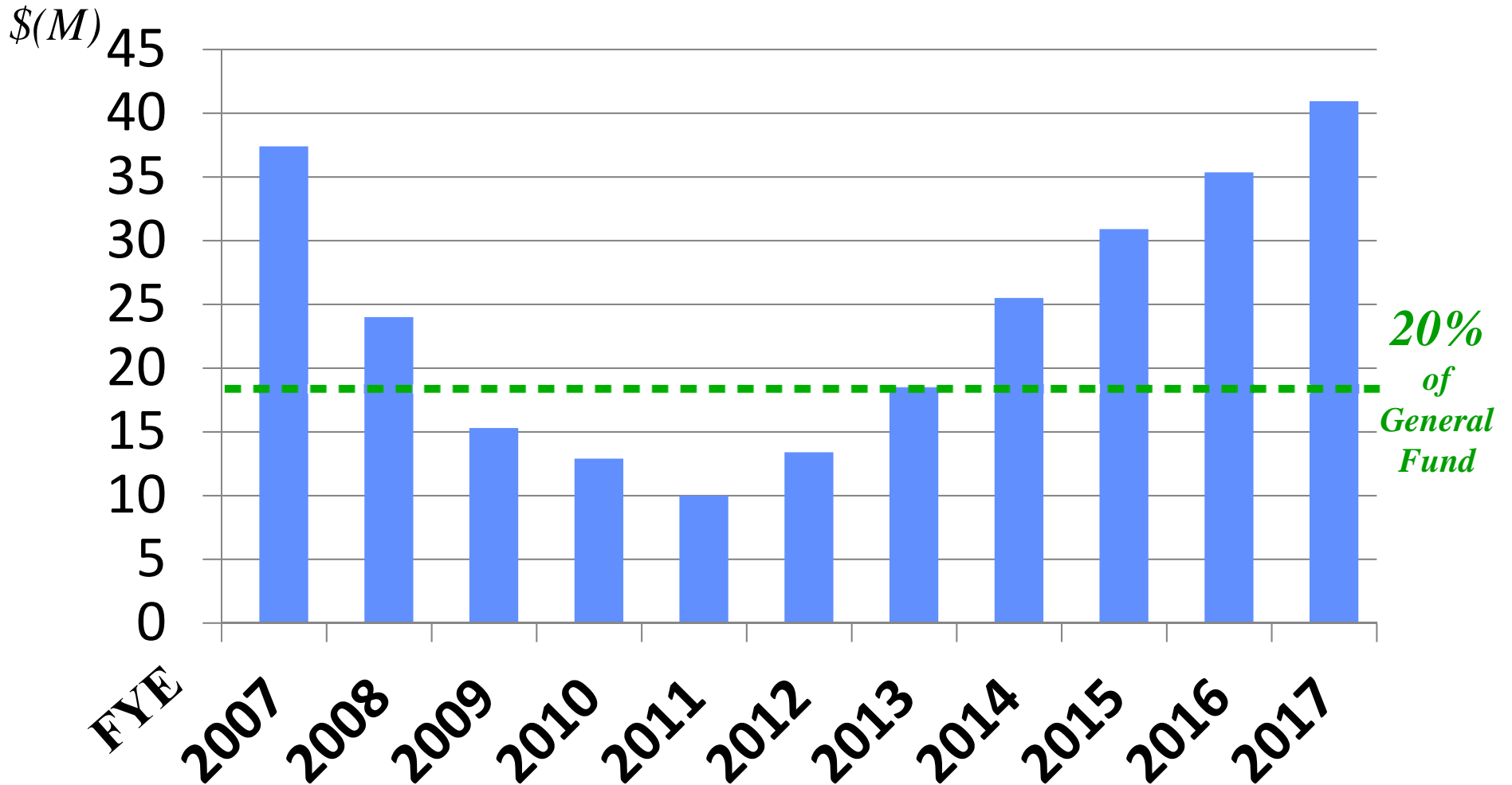
- Reserves Used for General Fund Expenditures
- Vacancies Unfilled (Staff Reduction Through Attrition)
- Postponed Expenditures
- Deferred Capital Investment
- Initiated Cost Recovery Policy
- Continued Funding of Retirement Liabilities



FINANCIAL HISTORY

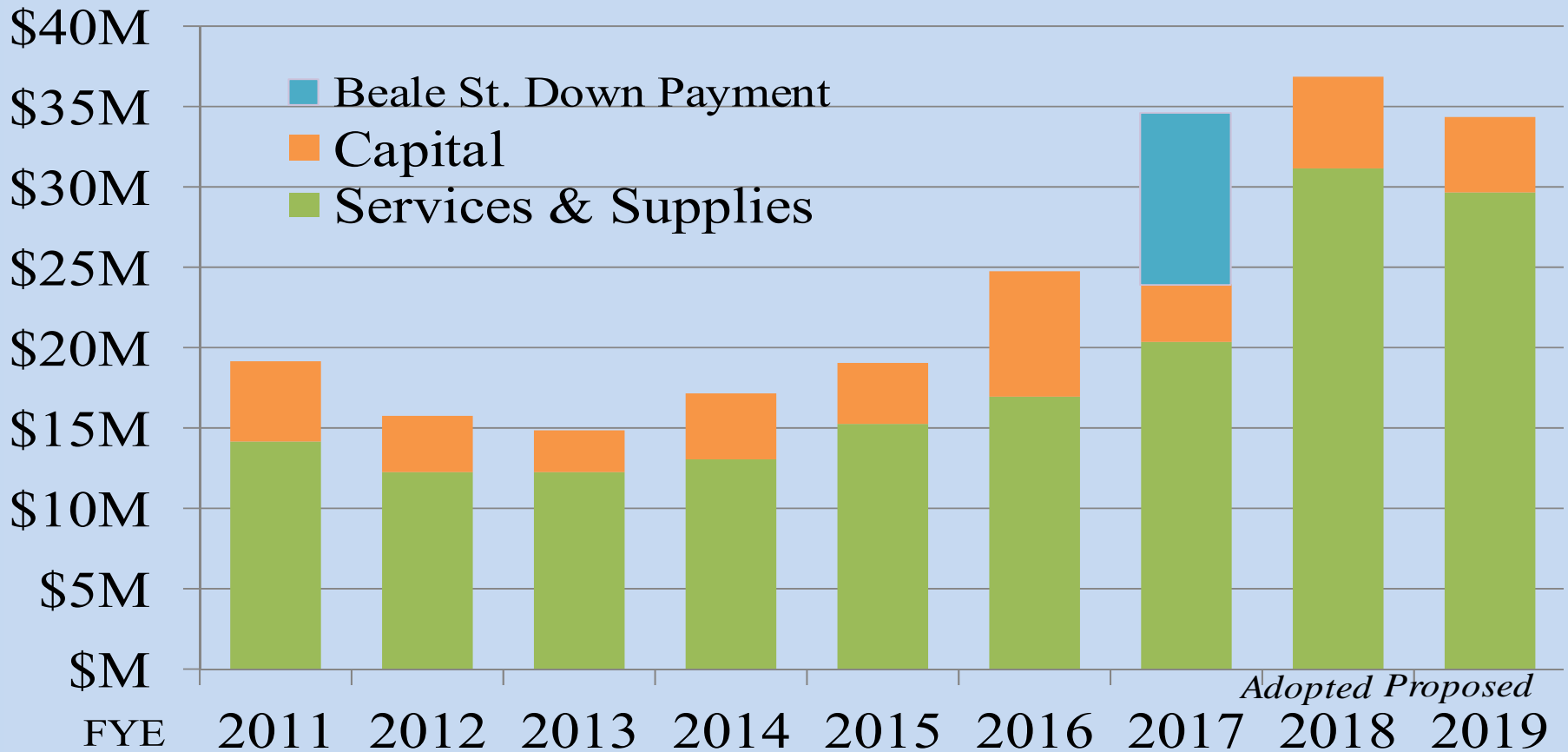
Audited District Reserves

Excludes Building Proceeds





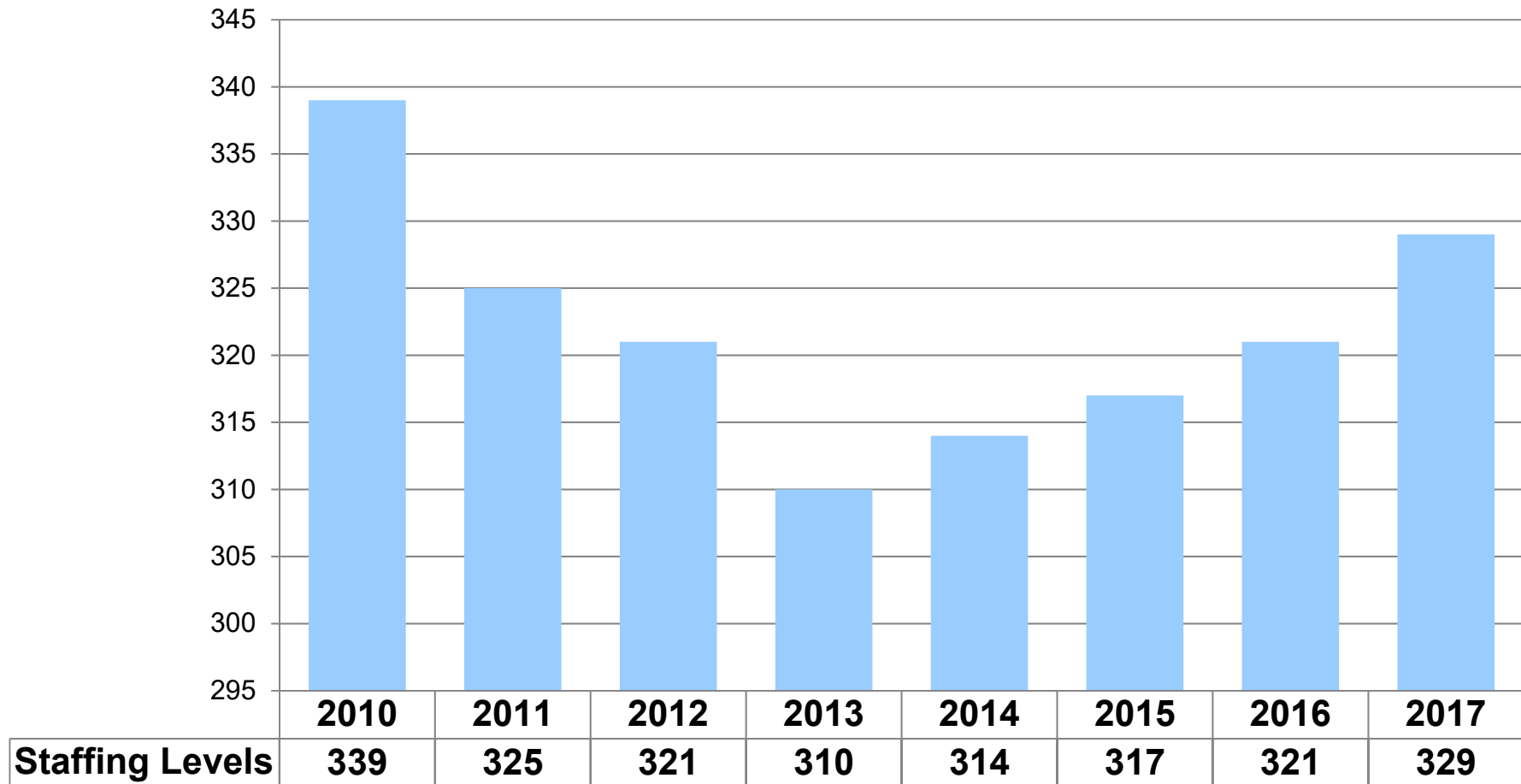
SERVICES & SUPPLIES and CAPITAL (actuals)



Beale St.							\$10.7		
Capital	\$5.0	\$3.4	\$2.6	\$4.2	\$3.8	\$7.8	\$3.6	\$5.7	\$4.7
Svs & Supplies	\$14.1	\$12.3	\$12.3	\$13.0	\$15.3	\$16.9	\$20.3	\$31.2	\$29.7
Total	\$19.1	\$15.7	\$14.8	\$17.2	\$19.0	\$24.7	\$34.6	\$36.9	\$34.3



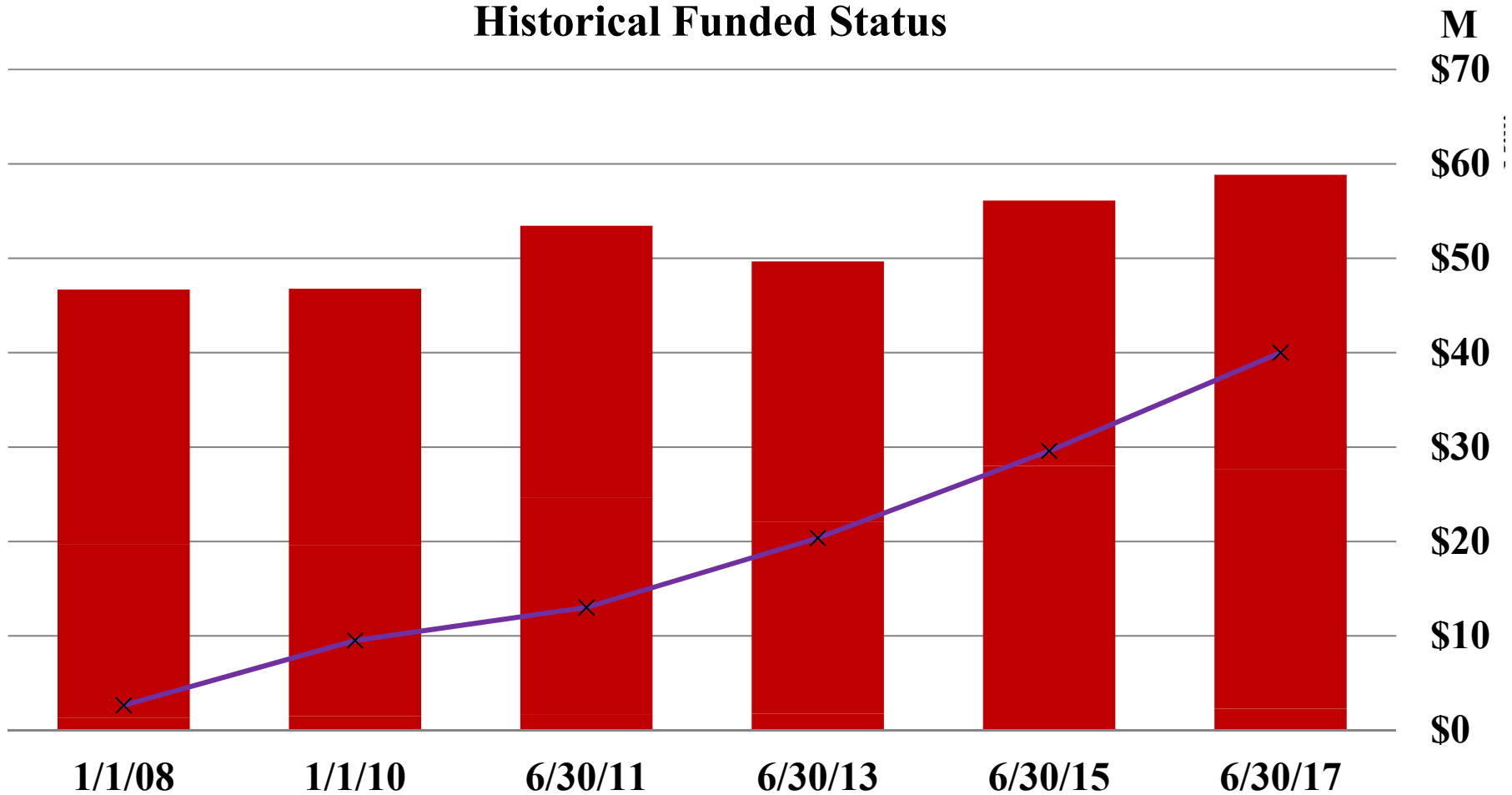
STAFFING TREND – FILLED SEATS





MEDICAL RETIREMENT (OPEB)

Historical Funded Status



OBLIGATION

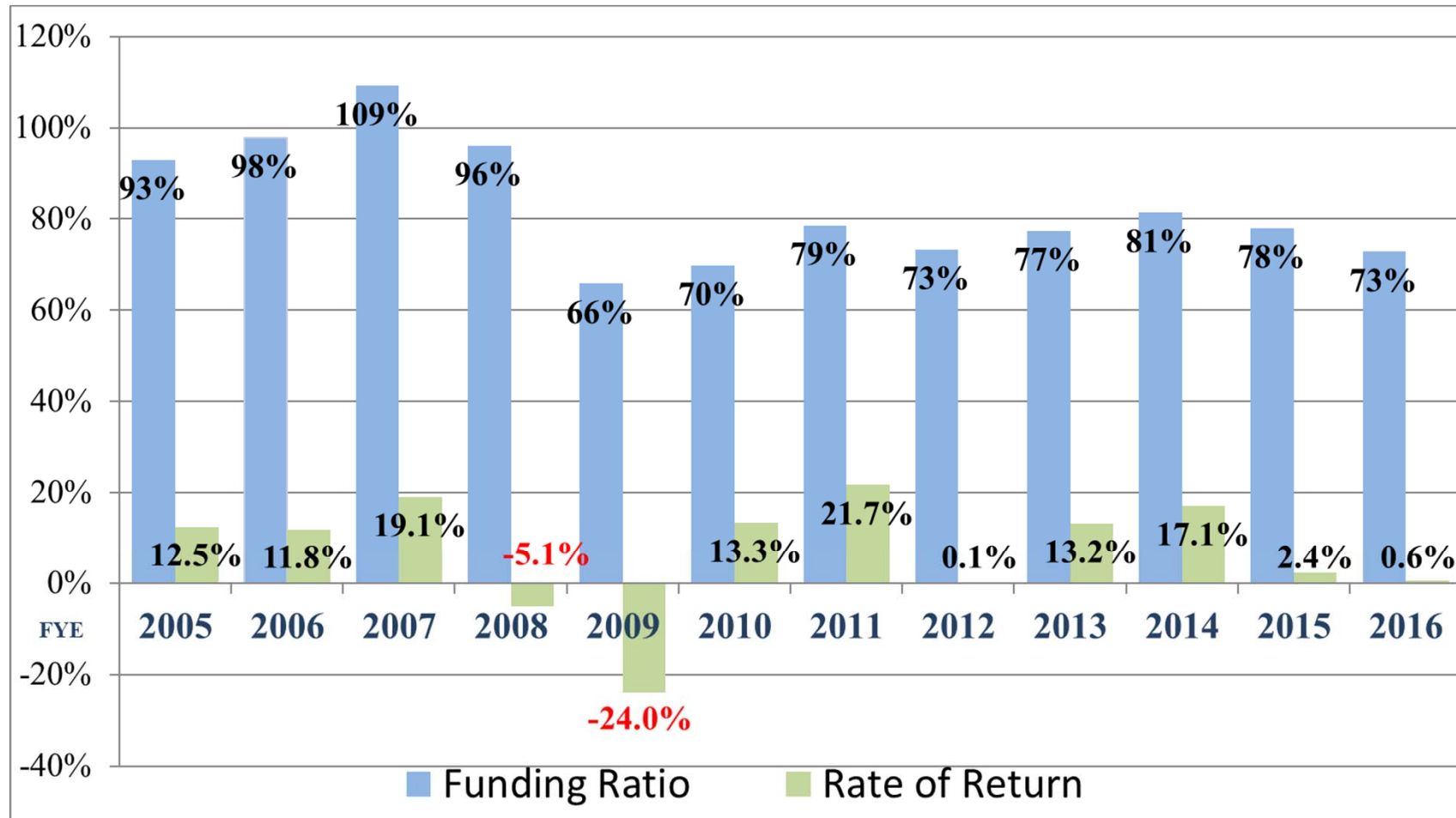
FUNDING





CALPERS PENSION

Historical Rate of Return and Funding Ratio



2017 Rate of Return = 11.2%



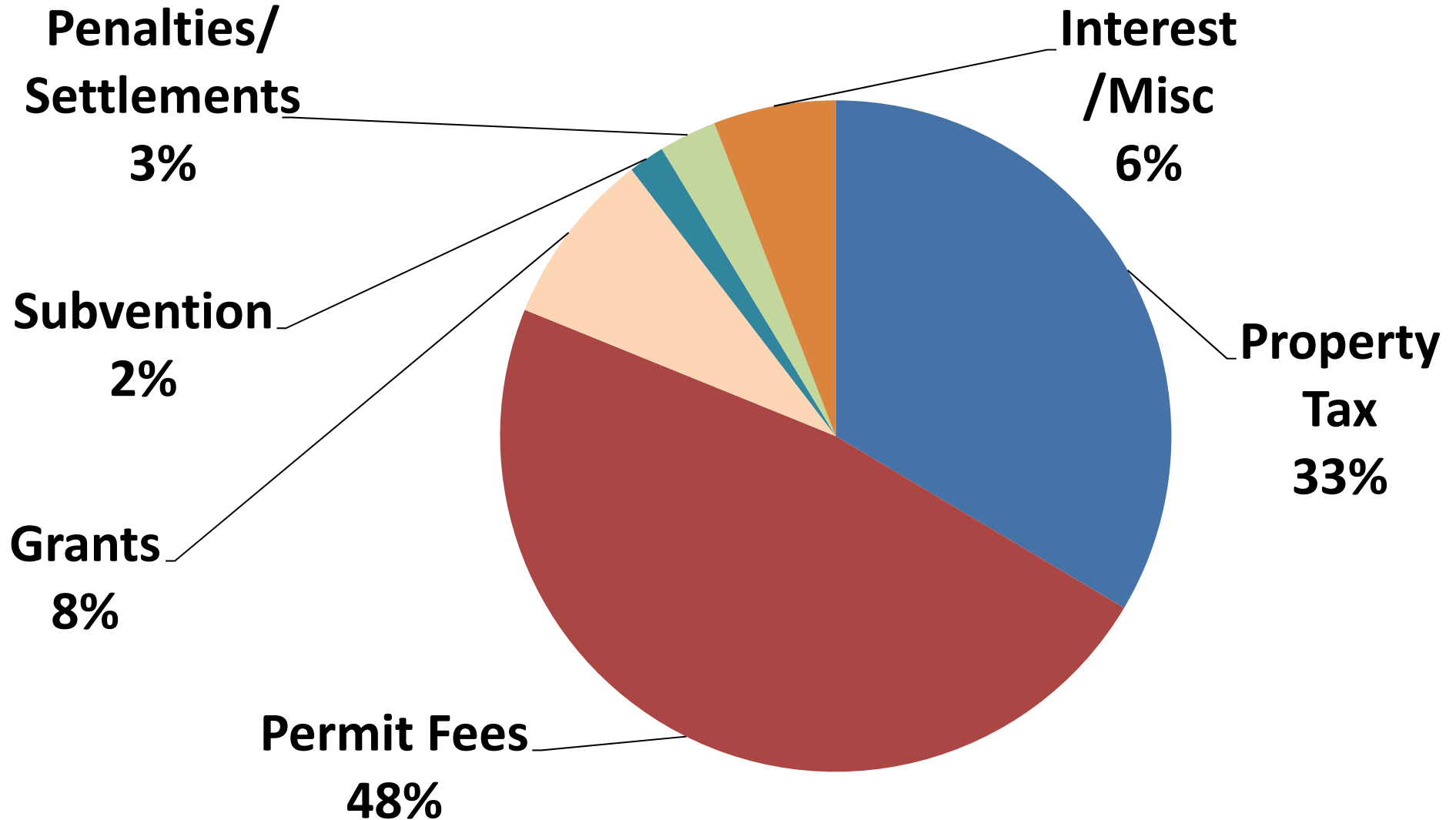
FYE 2019 PROPOSED BUDGET Overview

- \$99.2 M General Fund Budget
- Includes Use of Reserves \$4.0 M
- Continuation of Cost Recovery Policy
- Staff Level: From 381 to 397 FTE
- Addresses Retirement Liabilities
- Includes 3.1% COLA



GENERAL FUND REVENUE SOURCES

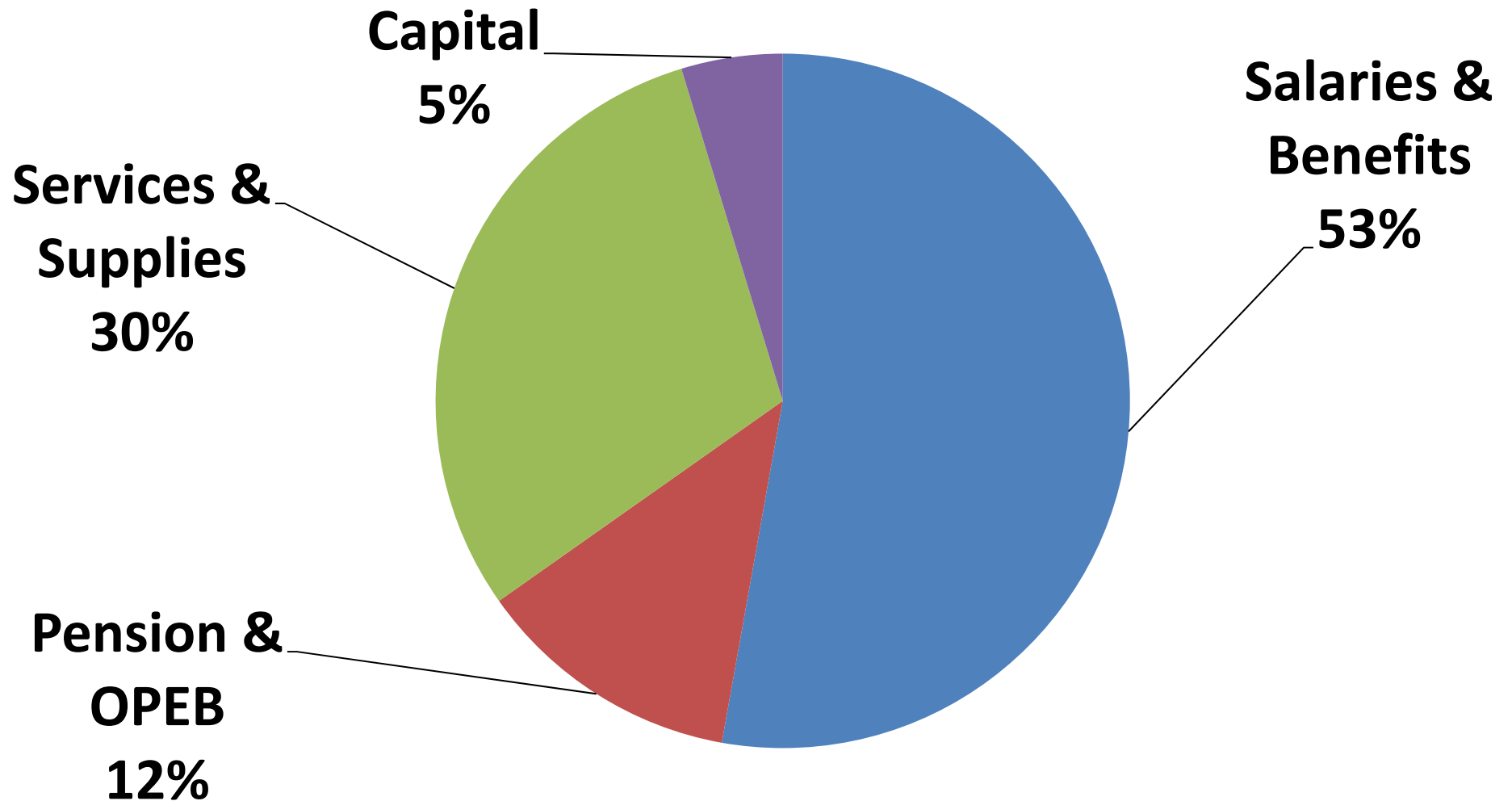
FYE 2019 Proposed Budget





GENERAL FUND EXPENDITURES

FYE 2019 Proposed Budget





2019 PROPOSED BUDGET

Recurring Revenues & Expenditures

RECURRING REVENUES:	\$ (Million)
Property Taxes	1.7
Permit Fees	2.6
AB 617 State Funding	4.8
	9.1
RECURRING EXPENSES:	
32 Additional Staff with Benefits	4.7
3.1% COLA & Benefits	2.3
Air Monitoring Equipment	1.0
Data Analysis	1.0
	9.0



FEES AND COST RECOVERY

Overview

- Air District can recover 100% of costs through fees
- Cost Recovery was 65% in 2011
- Cost Recovery implemented in FYE 2013
- 85% minimum cost recovery target
- Reached 83% in FYE 2017
- Cost Recovery Study Update completed in FYE 2018
- Strong involvement by Regulated Community



FEES AND COST RECOVERY

Future State

- New and enhanced programs reduce Cost Recovery
- Cost recovery will drop in FYE 2018
- Three more years needed for 85% Cost Recovery
- Fee increases assumed to average approximately 6%



FYE 2019 PROPOSED STAFFING

FYE 2018 (Beginning)	359
Addition (Board)	22
FYE 2018 TOTAL FTE	381

New Staffing Requests	16
FYE 2019 TOTAL FTE	397



22 ADDITIONAL STAFFING POSITIONS

Division/Title	Salary	Benefits	Total	Grant
Community Protection Office				
Director/Officer	178,261	67,739	246,000	
Assistant Staff Specialist I	76,011	28,884	104,895	
Staff Specialist I	92,392	35,109	127,501	
Engineering				
Manager	147,630	56,099	203,730	
Principal Air Quality Engineer	130,005	49,402	179,407	
3 Air Quality Engineer II	320,866	121,929	442,795	
Meteorology & Measurement				
Principal Air & Meteorological Monitoring Specialist	126,872	48,211	175,083	
Air Quality Meteorologist I	94,674	35,976	130,650	
2 Air Quality Instrument Specialist I	159,623	60,657	220,280	
Assistant Staff Specialist I	76,011	28,884	104,895	
Technology Implementation Office				
3 Staff Specialist I	277,176	105,327	382,503	2
Assistant Staff Specialist I	76,011	28,884	104,895	1
Strategic Incentives				
Senior Staff Specialist	112,303	42,675	154,978	
2 Staff Specialist I	184,784	70,218	255,002	2
2 Assistant Staff Specialist I	152,022	57,768	209,791	1
Total	2,204,641	837,763	3,042,404	6



16 NEW STAFFING REQUESTS

Division/Title	Salary	Benefits	Total
Executive			
Assistant Manager	144,072	54,747	198,820
Senior Executive Secretary	101,862	38,708	140,570
Executive Secretary I	87,992	33,437	121,429
Administrative Resources			
Staff Specialist I	92,392	35,109	127,501
Human Resources Analyst I	92,392	35,109	127,501
Legal			
Assistant Counsel II	166,782	63,377	230,159
Compliance & Enforcement			
2 Air Quality Inspector I	159,623	60,657	220,280
Planning			
Environmental Planner I	92,392	35,109	127,501
Meteorology and Measurement			
2 Supervising Air Quality Instrument Specialist	213,911	81,286	295,197
Senior Air Quality Instrument Specialist	97,012	36,864	133,876
Assistant Manager	144,072	54,747	198,820
Atmospheric Modeler	117,918	44,809	162,727
Principal Air Quality Specialist	123,814	47,049	170,863
Senior Atmospheric Modeler	130,005	49,402	179,407
Total	1,764,239	670,411	2,434,650

March 28, 2018

Slide 18



RESERVES POLICY

- Reserves Policy: **20%** of General Fund Budget
 - FYE 2019 Budget of \$95 M => **\$19 M minimum**
(excludes \$4.0 M use of reserves)
 - 2019 Projected Reserves = **\$34 M**
(includes remaining Building Sale proceeds)



RESERVES DESIGNATIONS

FYE 2019 Proposed Budget

<u>Proposed Designations for FYE 2019:</u>	\$M
Additional Purchase at 375 Beale	5
East Bay Real Estate	7
Napa/Sonoma Fireplace Replacement Grants	3
Woodsmoke Grants	1
Total Designations	16
<i>Economic Contingency (20% of budget)</i>	19
TOTAL FYE 2019 RESERVES*	\$ 35
<u>Use of Reserves in FYE 2019 Proposed Budget</u>	
Technology Implementation Office	\$ 4

* Reserves are subject to change at Board's discretion. Reserves may be expended over a period of years (Includes Building Proceeds)



FYE 2019 USE OF RESERVES

Use of Reserves of \$4.0M: Multi-year expenditures

- \$4.0M Technology Implementation Office
- Request funds from reserves to establish five year revolving loan fund
- Seek matching funding from private industry



RETIREMENT LIABILITIES

1. OTHER POST EMPLOYMENT BENEFITS (Medical OPEB)
2. PENSION RETIREMENT



MEDICAL RETIREMENT PLAN

OPEB Overview

- Other Post Retirement Benefit (OPEB)
 - Obligation: \$59 M
 - Funded: \$40 M (68%)
 - Unfunded: \$19 M (32%)

- FYE 2019 Employer Contribution: \$6.5 M
 - Pay Go Cost: \$2.5 M
 - Discretionary Contribution: \$4.0 M



MEDICAL RETIREMENT PLAN

Funding Policy Recommendation

➤ Current Funding Policy:

- 90% Funding Level, No Target Date
- FYE 2018 discretionary funding: \$4 M

➤ Recommended Funding Policy:

- Continuation of \$4 M discretionary funding
- Achieves 90% funding in approximately 4 years
- Redirect annual \$4 M to CalPERS Pension after 90% target is achieved in 4 years



CALPERS PENSION PLAN

Retirement Overview

➤ CalPERS Retirement

- Obligation: \$283 M
- Funded: \$207 M (73%)
- Unfunded: \$76 M (27%)

➤ FYE 2019 Employer Required Contribution: \$8.2M

- Unfunded Liability Payment: \$4.9 M
- Normal Cost: \$3.3 M



CALPERS PENSION PLAN

Funding Policy Recommendation

- **Current Funding Policy:**
 - 90% Funding Level, No Target Date
 - FYE 2018 discretionary funding: \$1M

- **Recommended Change to Funding Policy:**
 - Establish a 20 year target to reach 90% funding
 - Use 6.5% discount rate to calculate contribution
 - Continuation of \$1M discretionary funding

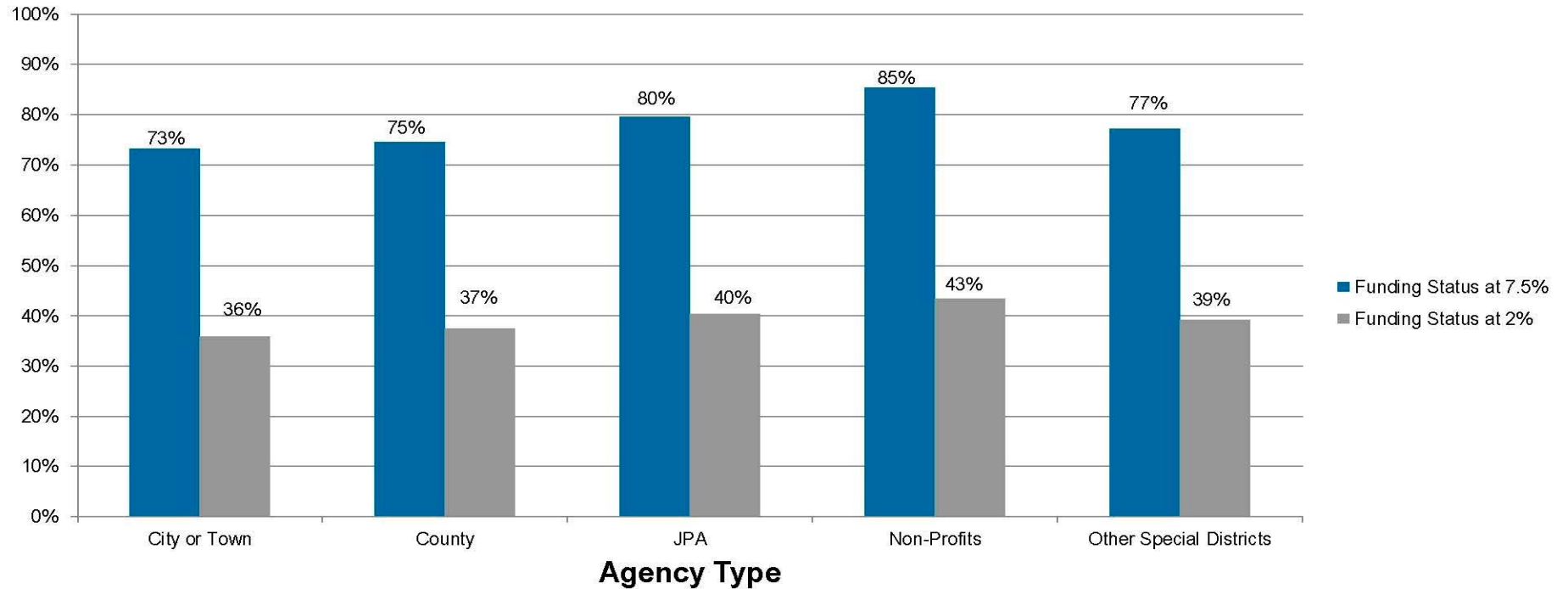


CALPERS PENSION PLAN

CalPERS: Ensuring Long-Term Sustainability

June 28, 2017

All Public Agency Funded Status





ALTERNATIVE ASSET ALLOCATIONS For Discretionary Funds

- Allocate portions of CalPERS and OPEB discretionary funds to alternative investments after budget cycle such as:
 - Public Agency Retirement Services (PARS)
 - California Employers' Retiree Benefit Trust (CERBT)
 - Self Directed 115 Trust (allows green investment)



BUDGET SUMMARY FYE 2019

- Budget balanced
- Use of Reserves of \$4.0 M
- Budgeted positions increased to 397
- CalPERS Pension
 - Establish 20 year target to reach 90% funding
 - Use 6.5% discount rate to calculate contribution
 - Discretionary Contribution of \$1M
- Other Post-Employment Benefits (Medical):
 - Continuation of \$4 M Annual Discretionary Contribution
 - Reallocate \$4 M to CalPERS Pension upon achieving 90% funding level



NEXT STEPS

- April 18 – 1st Public Hearing on Proposed Fees
- April 25 – Committee refers FYE 2019 Proposed Budget to the Board
- May 16 – 1st Public Hearing on Budget
- June 6 – 2nd Public Hearing & Adoption on Proposed Fees & Budget