



BAY AREA  
AIR QUALITY  
MANAGEMENT  
DISTRICT

AGENDA: 4

# **Discussion of Proposed Budget for Fiscal Year Ending (FYE) 2020**

**Budget and Finance Committee  
March 22, 2019**

Jack P. Broadbent  
Air Pollution Control Officer



- Status of Current Year Fiscal Year Ending (FYE) 2019
- Financial History
- Proposed Budget for FYE 2020
- Next Steps



# CURRENT FISCAL YEAR FYE 2019 Projections

General Fund Budget: \$99.2 M Budget

Included Use of Reserves \$4 M for Technology  
Implementation Office (TIO) Loan Program

As of March 2019:

- Permit Fee revenue exceeds target due to change in expiration date for Reg 12-15 facilities
- Property Tax revenue on target
- Expenditures on target



# FINANCIAL HISTORY

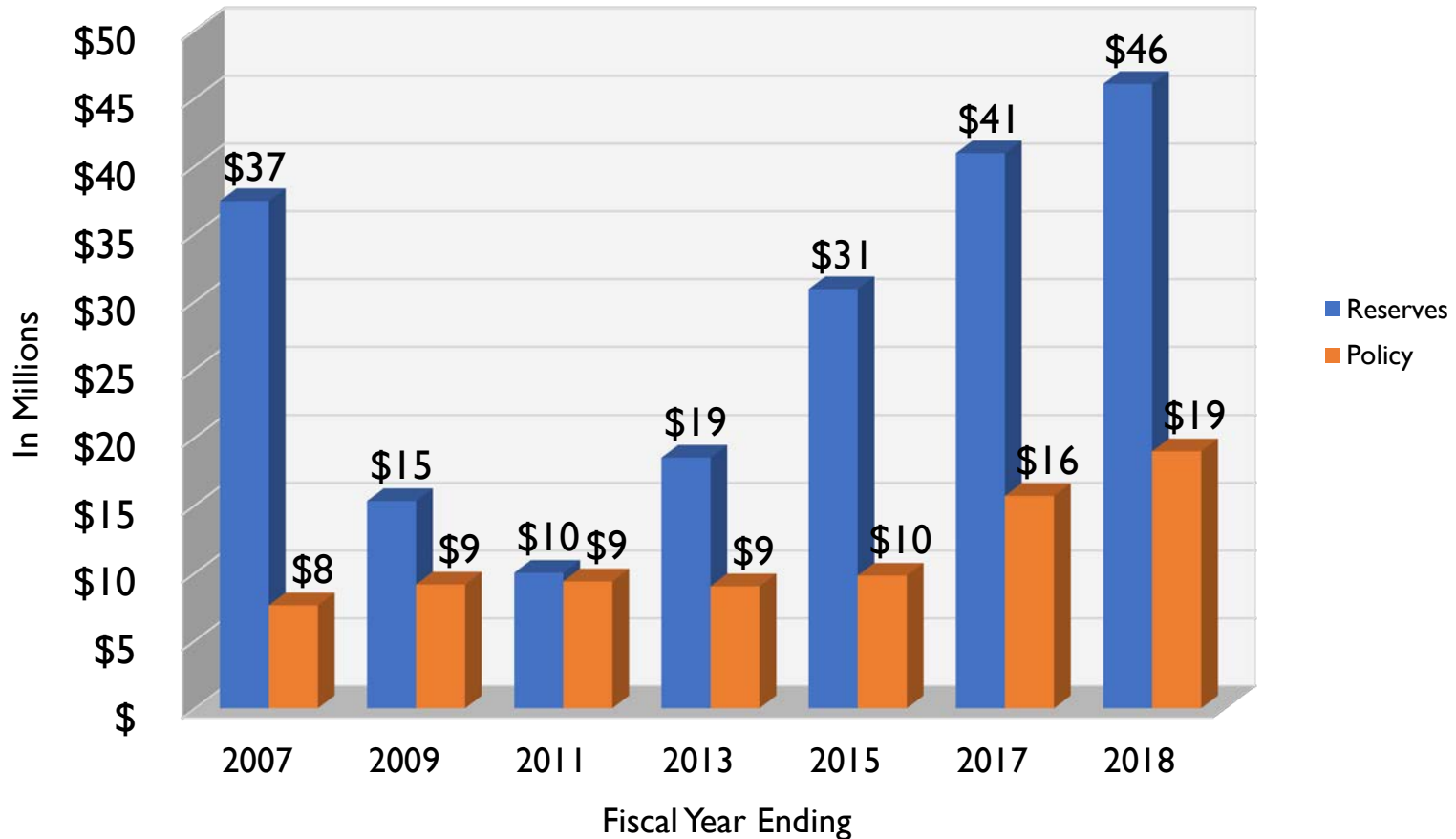
## Actions Taken During Downturn

- 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



# ACTUAL RESERVES & POLICY (Excludes Building Proceeds)

GENERAL FUND:  
RESERVES COMPARED WITH POLICY

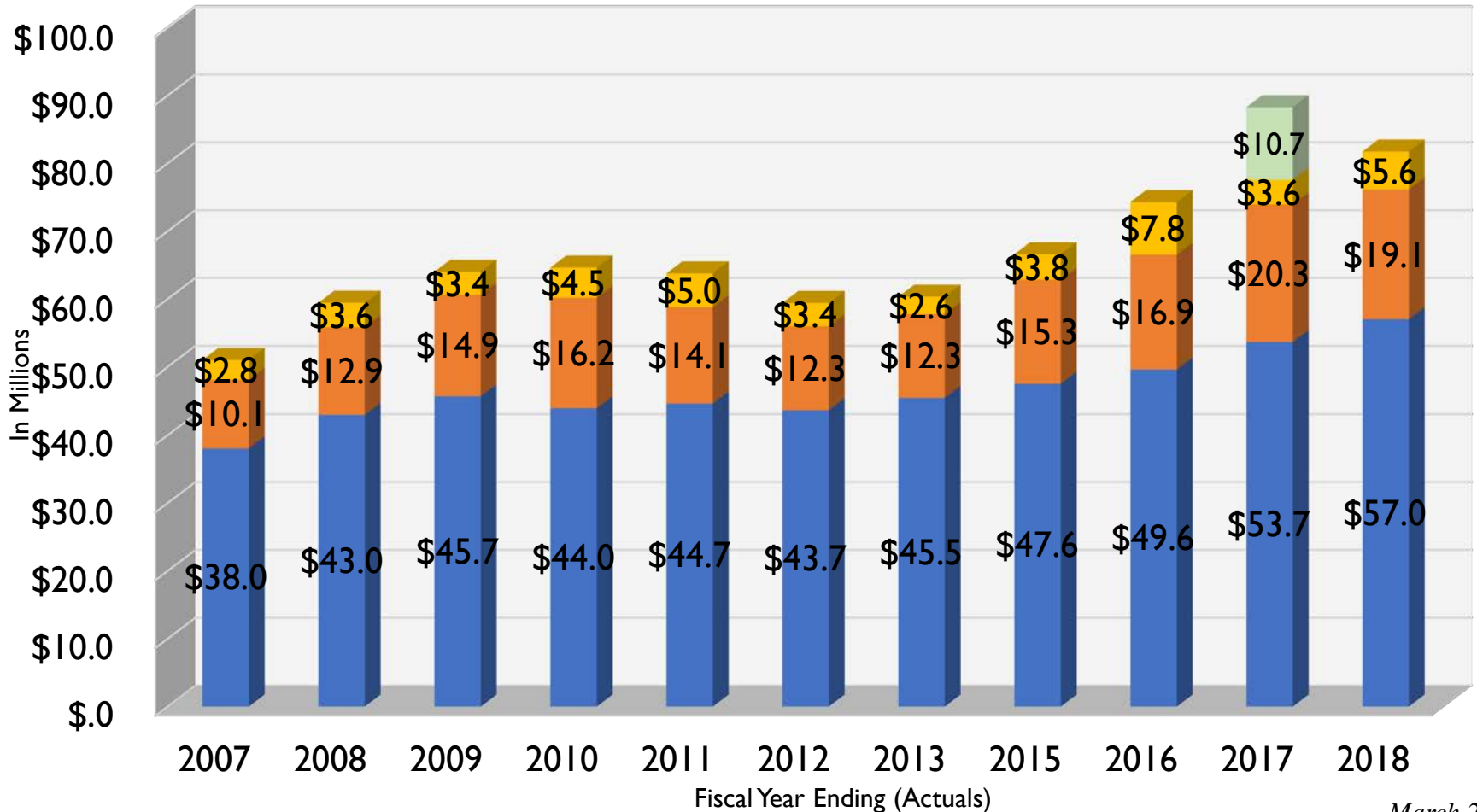




# GENERAL FUND EXPENDITURE TREND

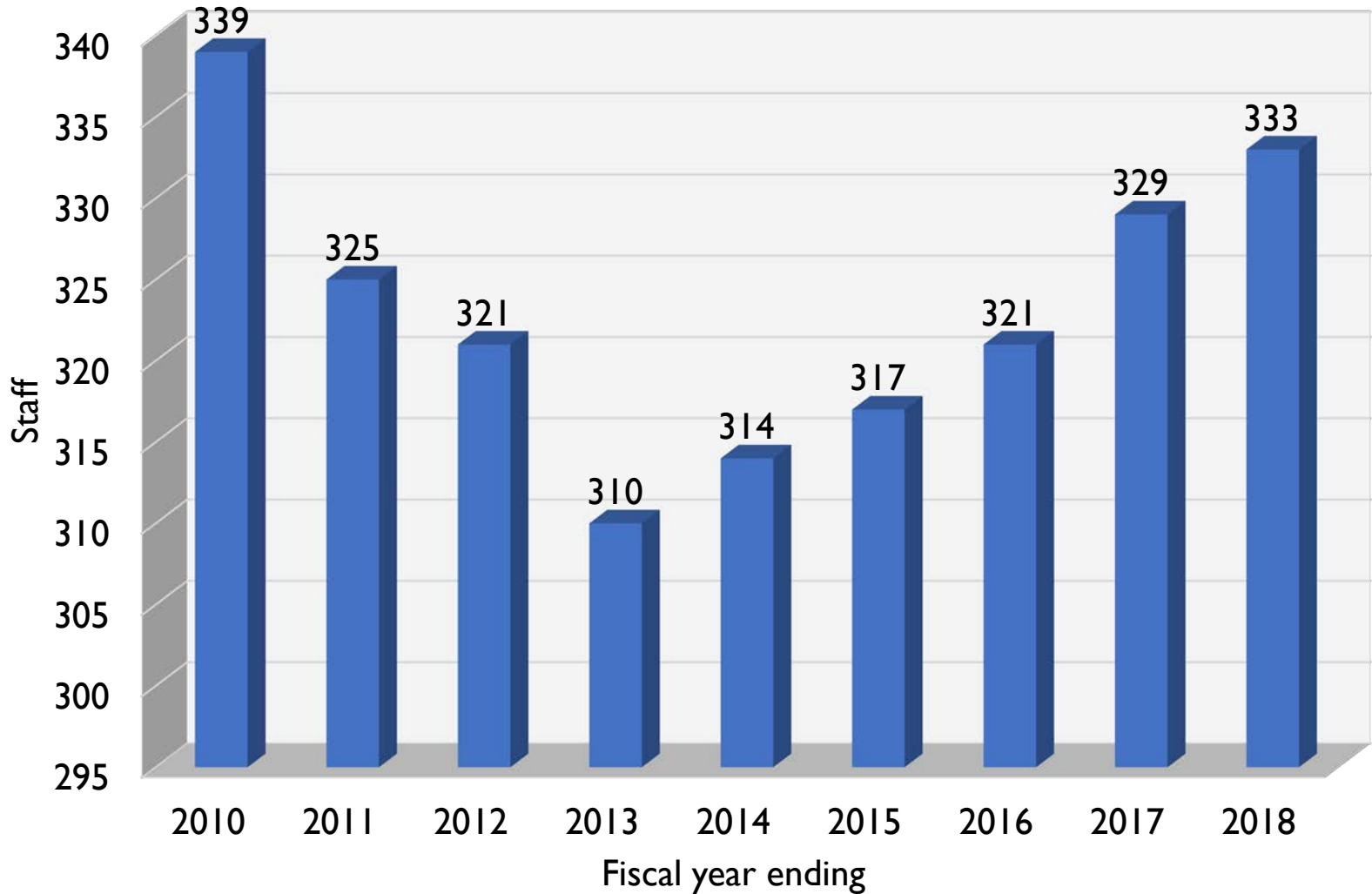
## EXPENDITURE TRENDS

■ Personnel ■ Services&Supplies ■ Capital ■ Beale St. Down Payment





# STAFFING TREND – FILLED POSITIONS

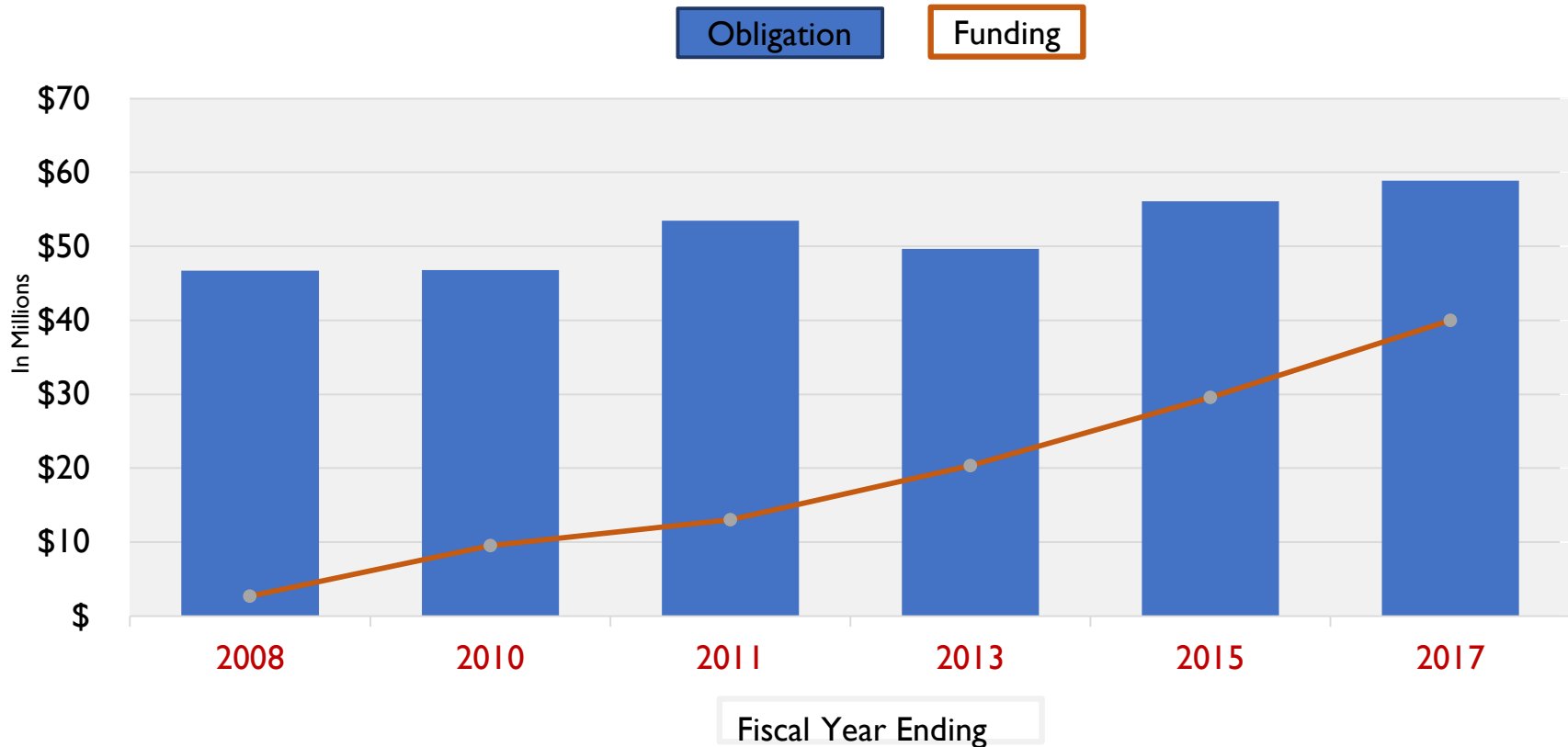


*Staffing level is based on full-time equivalent positions filled during the fiscal year*



# MEDICAL RETIREMENT: Other Post Employment Benefits (OPEB)

OPEB HISTORICAL FUNDED STATUS



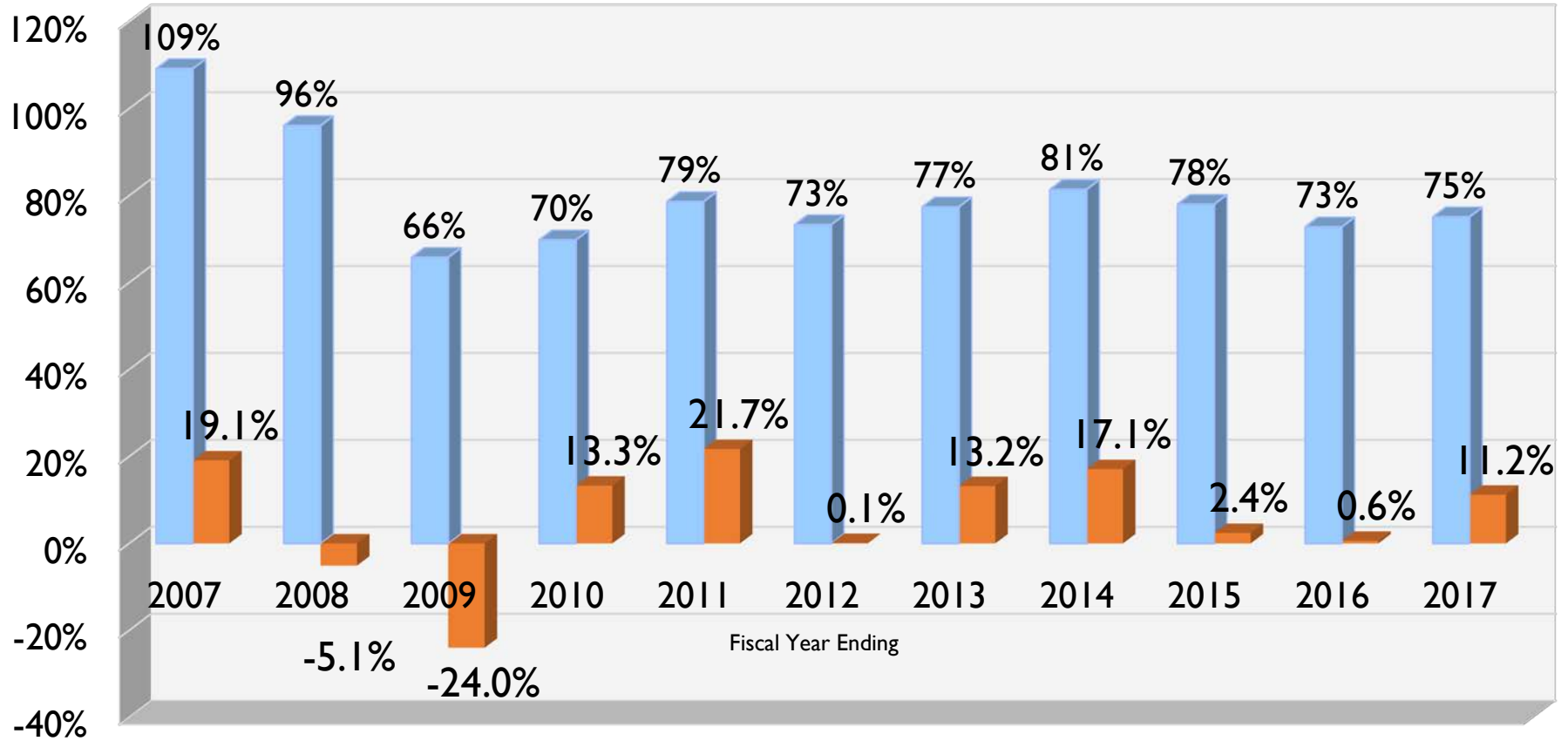




# CALPERS PENSION: Historical Rate of Return and Funding Ratio

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS)  
FUNDING HISTORY

■ Funding Ratio ■ Rate of Return



***2018 Rate of Return = 8.6%***



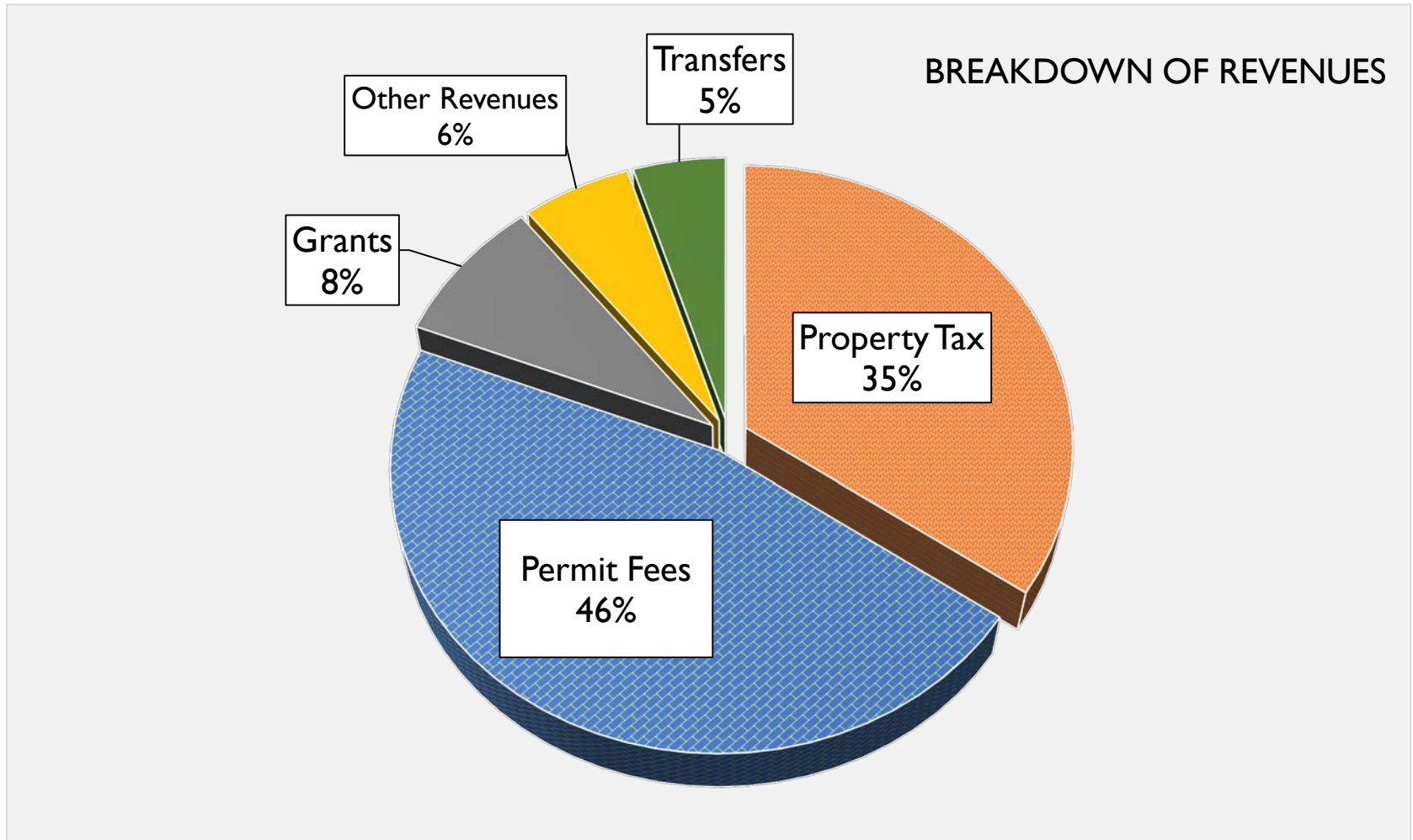
# FYE 2020 PROPOSED BUDGET

## Overview

- \$104.6 M General Fund Budget
- Includes Use of Reserves \$4 M
- Continuation of Cost Recovery Policy
- No Staffing Level Increase: 405 Full Time Equivalent (FTE)
- Addresses Retirement Liabilities
- Includes 3.5% Cost of Living Amount (COLA)

# GENERAL FUND REVENUE SOURCES

## FYE 2020 Proposed Budget

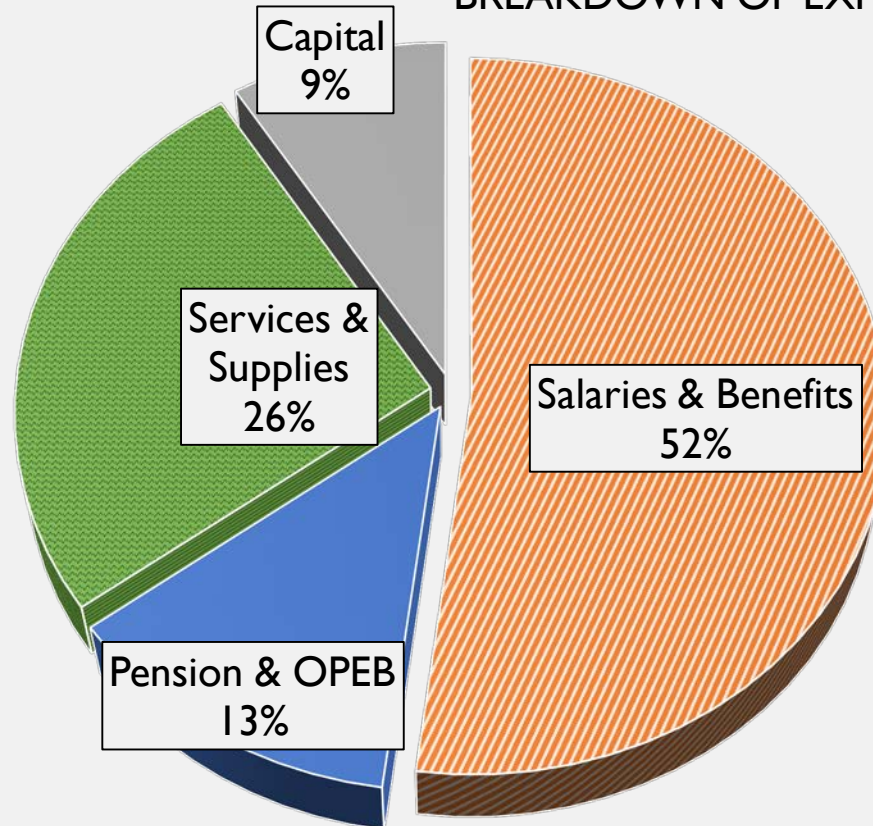




# GENERAL FUND EXPENDITURES

## FYE 2020 Proposed Budget

BREAKDOWN OF EXPENDITURES





# CAPITAL BUDGET

## FYE 2020 Proposed Budget

### **\$9.9 M Proposed Capital Budget Expenditure:**

<b><u>Description</u></b>	<b><u>Amount</u></b>
One (1) Analytical Equipment Portable Air Quality Speciation Platforms	476,000
One (1) Meteorological Towers and Equipment Upgrades	131,400
One (1) Analytical Equipment for Mandatory PAMS Station	316,092
One (1) Analytical Equipment for Fixed Site Monitoring Network	272,292
One (1) DI Water Generator	15,000
Two (2) Laboratory Freezers	10,000
Two (2) Laboratory Refrigerators	12,000
Three (3) Laboratory Ovens	15,000
Two (2) Canister Cleaners	40,000
Two (2) Analytical balances	10,000
One (1) Microbalance	25,000
Two (2) Gas Chromatograph	120,000
Two (2) Hydrogen Generator	20,000



# CAPITAL BUDGET

## FYE 2020 Proposed Budget (continued)

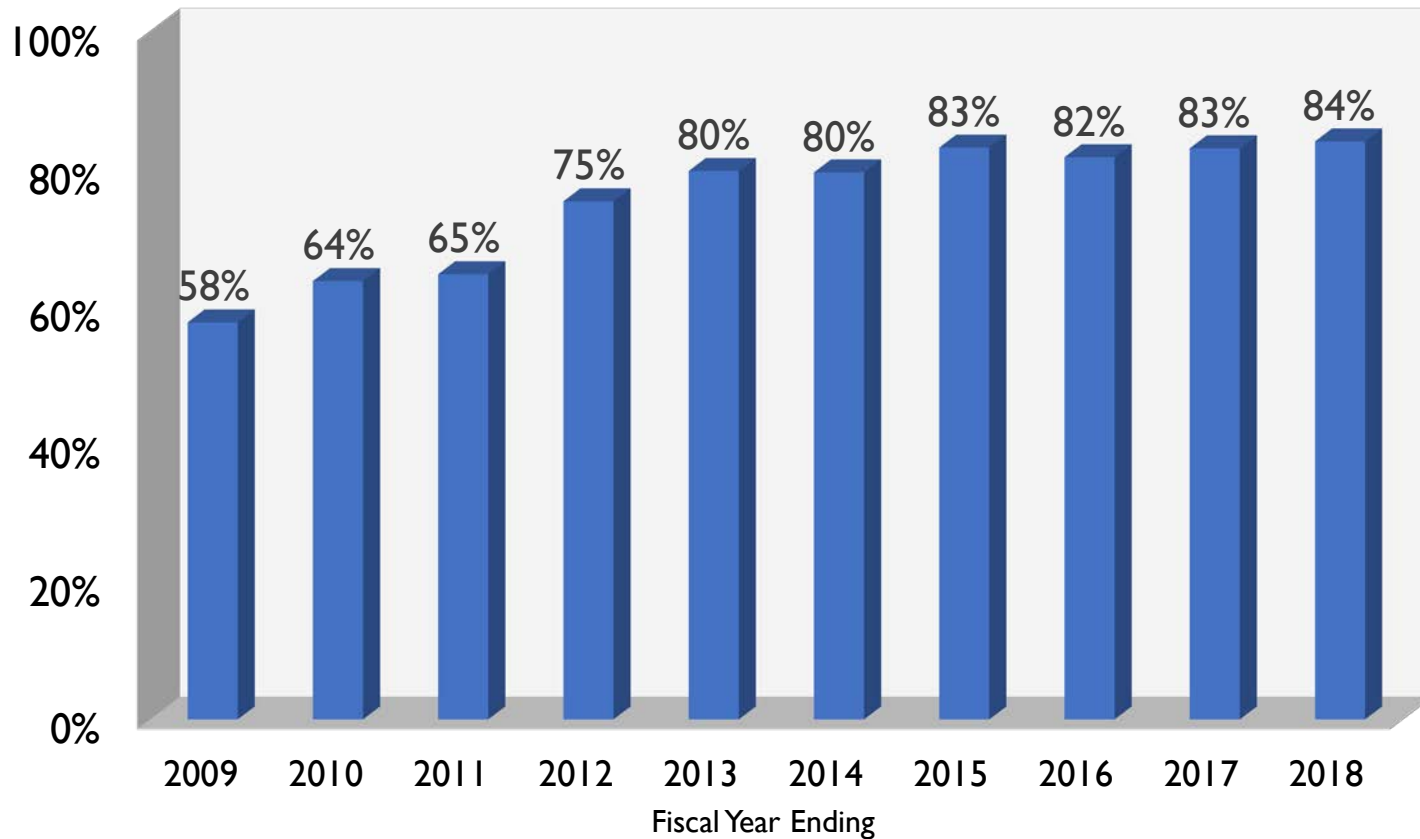
### **\$9.9 M Proposed Capital Budget Expenditure Cont.:**

One (1) Gas Chromatography/Mass Spectrometer	170,000
One (1) X-Ray Fluorescence Instrument	80,000
Four (4) Source Test Analyzers	80,000
Four (4) Automated Calibration Gas Dilution Manifolds	60,932
Five (5) Automated Isokinetic Sampling Consoles	50,000
One (1) Air Monitoring Instrumentation (auditing)	20,400
One (1) Linux Cluster Computer for Modeling	70,000
Richmond Facility Improvement	4,000,000
Office Equipment for Recordkeeping	60,000
Computer and Equipment for Recordkeeping	250,000
Business Continuity Site	75,000
Capital Lease for Servers, Telecommunications & Hardware	400,000
Public Permitting & Compliance Systems	2,625,000



# COST RECOVERY TREND

COST RECOVERY PERCENTAGE BY FISCAL YEAR







# FEES AND COST RECOVERY

## Overview

- Air District can recover 100% of costs through fees
- Cost Recovery was 58% in 2009
- Cost Recovery Policy approved in FYE 2013
- 85% minimum cost recovery target
- Reached 84% in FYE 2018
- 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 2020
- Fee increases assumed to average approximately 6%



# RESERVES POLICY

- Reserves Policy: **20%** of General Fund Budget
  - FYE 2020 Budget of \$100 M => **\$20 M minimum**
  - FYE 2020 Projected Reserves = **\$26 M**



# RESERVES DESIGNATIONS

## FYE 2020 Proposed Budget

<b><u>Proposed Reserve Designations for FYE 2020</u></b>	<b><u>(\$M)</u></b>
Napa/Sonoma Fireplace Replacement Grants	1
Pension Liability	1
Woodsmoke Grants	1
To Be Determined	<u>3</u>
<b>Total Designations</b>	<b>6</b>
<b><u>Economic Contingency (20% of budget)</u></b>	<b><u>20</u></b>
<b><i>TOTAL FYE 2020 RESERVES *</i></b>	<b>26</b>
<b><u>Used from Reserves in FYE 2020 Budget</u></b>	
<i>Richmond Facility Improvements</i>	4

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



# RETIREMENT LIABILITIES

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



# MEDICAL RETIREMENT PLAN

## OPEB Overview

- Other Post Retirement Benefit (OPEB)
  - Obligation: \$58 M
  - Funded: \$40 M (68%)
  - Unfunded: \$18 M (32%)
  
- Funding Policy: 90 % Funded Level
  - 3 Year Target Date (FYE 2022)
  - \$4 M Annual Contribution



# CALPERS PENSION PLAN

## Retirement Overview

### ➤ CalPERS Retirement

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

### ➤ Funding Policy: 90% Funded Level

- 20 Year Target Date (FYE 2039)
- \$1 M Annual Additional Contribution



# BUDGET SUMMARY

## FYE 2020

- Budget balanced
- Use of Reserves of \$4 M
- Budgeted positions remain at 405
- Amend Fee Schedule based on Proposed Fees
- \$1 M Annual Contribution for Pension
- \$4 M Annual Contribution for OPEB



## NEXT STEPS

- April 17, 2019 – 1<sup>st</sup> Public Hearing on Proposed Fees
- April 22, 2019 – Committee refers FYE 2020 Proposed Budget to the Board
- May 15, 2019 – 1<sup>st</sup> Public Hearing on Budget
- June 5, 2019 – 2<sup>nd</sup> Public Hearing & Adoption on Proposed Fees & Budget





# Proposed Amendments to Regulation 3: Fees

**Pamela Leong**  
**Director of Engineering**

**Budget & Finance Committee**  
**March 22, 2019**



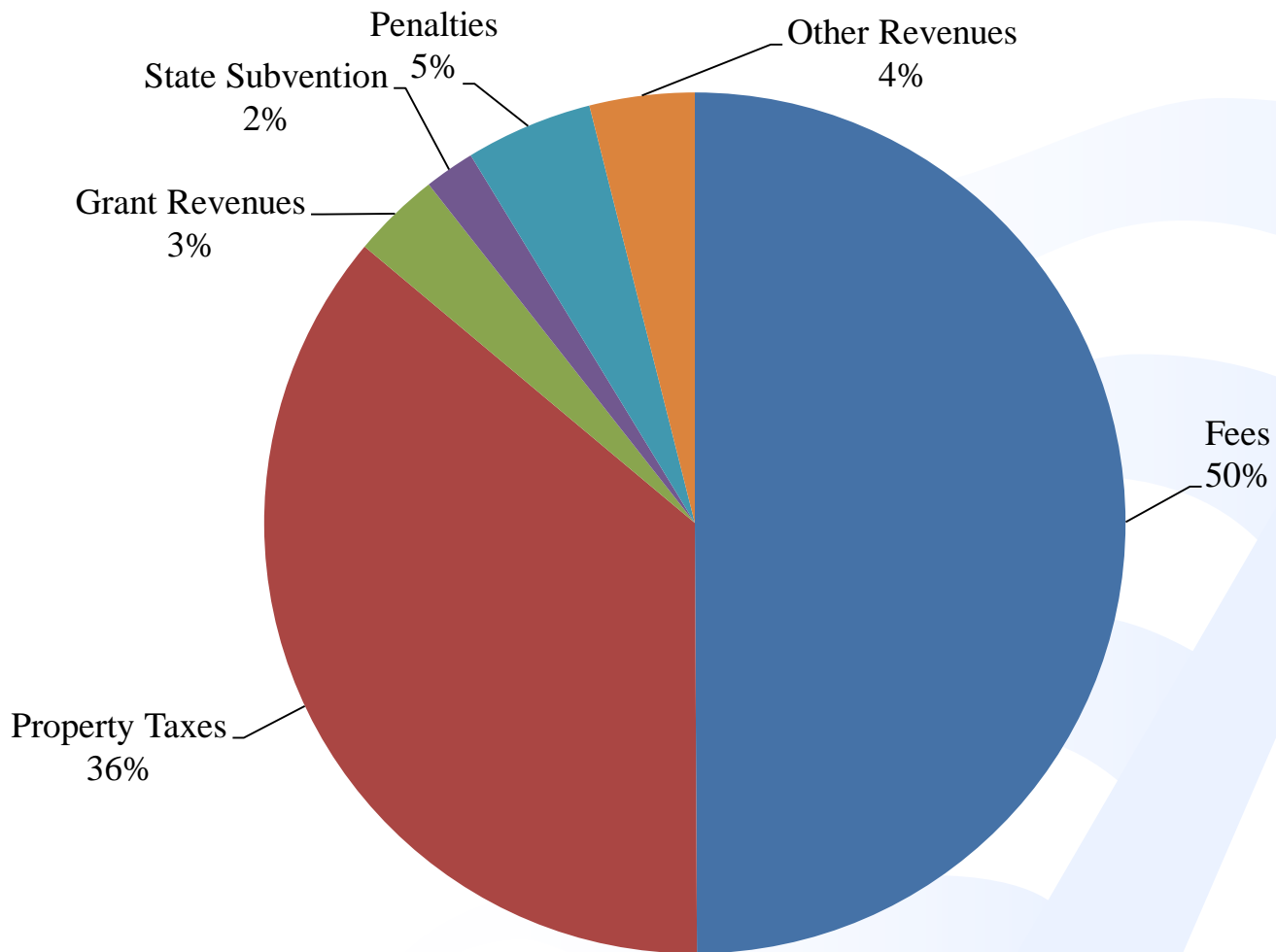
# Agenda

1. Cost Recovery Background
2. Draft Fee Amendments
3. Fee Schedule N (Toxics Inventory Fees)
4. Rule Development Schedule
5. Comments Received





# Revenue Sources – Fiscal Year Ending (FYE) 2018





# Cost Recovery Background

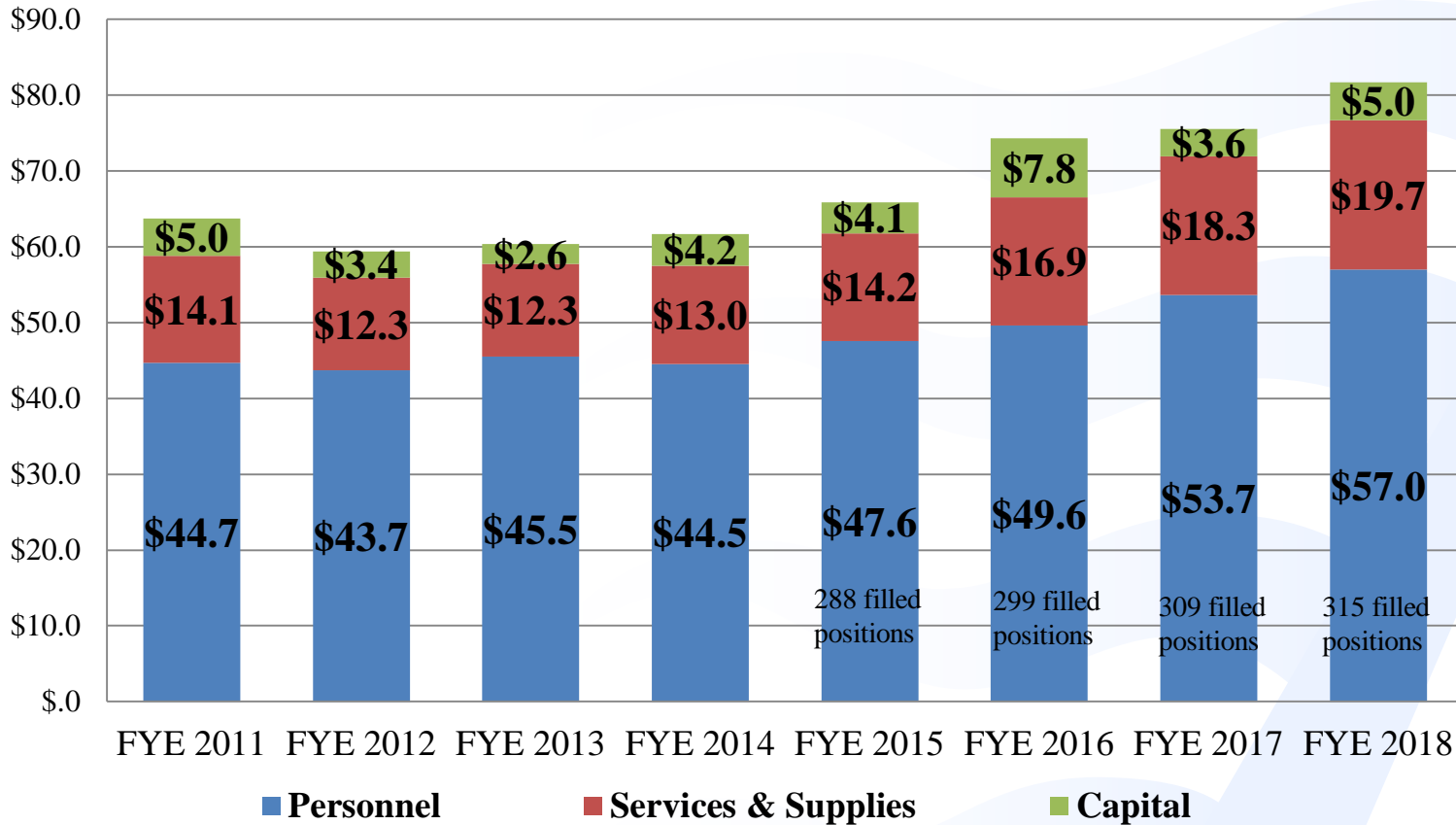
- Air District has authority to assess fees to recover the reasonable costs of regulating stationary sources
- Board set goal of increasing cost recovery to a minimum of 85%
- Fee amendments will be made in consideration of cost recovery analyses conducted at the fee schedule-level
- Air District will implement feasible cost containment measures





# Trends in Expenditures

## Audited General Fund Expenditures (millions)





# 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%
- FYE 2018: Cost recovery = 84%



# Proposed Changes to Fee Schedules

Revenue from Fee Schedule	Change in Fees	Fee Schedules
95 – 110% of costs	3.9% increase** (CPI-W*)	B, F, M, V
85 – 94% of costs	7% increase	G3
75 – 84% of costs	8% increase	P, T
50 - 74% of costs	9% increase	E, H, W
Less than 50% of costs	15% increase**	A, G1, G2, G4, K, S

\* The annual Consumer Price Index for Bay Area Urban Wage Earners and Clerical Workers (CPI-W) increase from 2017 to 2018.

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

**Note:** For Schedule D, a 6% increase is proposed, although cost recovery would have allowed an 8% increase. Schedule D covers gasoline stations and many are small businesses.





# Proposed Changes to Fee Schedules (cont.)

## ➤ Fee Schedules with 3.9% increase

- Schedule B: Combustion of Fuels
- Schedule F: Misc. Sources (storage silos, abrasive blasting)
- Schedule M: Major Stationary Source Fees
- Schedule V: Open Burning

## ➤ Fee Schedule with 6% increase

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







# Proposed Changes to Fee Schedules (cont.)

## ➤ Fee Schedules with 7% increase

- Schedule G-3: Misc. Sources (metal melting, cracking units)

## ➤ Fee Schedules with 8% increase

- Schedule P: Major Facility Review Fees
- Schedule T: Greenhouse Gas Fees

## ➤ Fee Schedules with 9% increase

- Schedule E: Solvent Evaporating Sources
- Schedule H: Semiconductor and Related Operations
- Schedule W: Petroleum Refining Emissions Tracking Fees



# Proposed Changes to Fee Schedules (cont.)

## ➤ Fee Schedules with 15% increase

- Schedule A: Hearing Board Fees
- 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 K: Solid Waste Disposal Sites
- Schedule S: Naturally Occurring Asbestos Operations



# Other Proposed Amendments

## Schedule E: Solvent Evaporating Sources

- Revisions to clarify when the minimum and maximum fees apply for each source.

## Schedule L: Asbestos Operations

- Delete the fee specific to mastic removal by mechanical buffers so as to assess fees for such work at the same rate as for other regulated asbestos containing material removal work.



# Other Proposed Amendments (cont.)

## Schedule N: Toxic Inventory Fees

- Revise Schedule N to recover the costs for Assembly Bill (AB) 2588 fees to be paid to the California Air Resources Board and for staff to conduct AB 2588 work.

## Schedule S: Naturally Occurring Asbestos Operation

- Include a \$325 fee in Schedule S to recover the costs for Asbestos Dust Mitigation Plans amendments.



# Other Proposed Amendments (cont.)

- Specific fees in Regulation 3 proposed to be increased 3.9% based on the CPI-W (filing fees, banking fees, public notice fees, exemption fee, permit renewal processing fees, etc.)
- Revise Section 3-302 to specify that for those applicants that qualify for both the Small Business Discount (50%) and Green Business Discount (10%), only the 50% higher discount shall be applied.
- Revise Section 3-304, Alteration, to clarify that the risk assessment fee shall only be charged when the alteration requires a health risk assessment.





# Other Proposed Amendments (cont.)

- Revise Section 3-311 to align the current rule language with established Air District practice for emission reduction credit transactions.
- Add Section 3-343 to recover the Air District's costs for air dispersion modeling done to meet an Air District regulatory requirement.
- Revise Section 3-405.5 to reduce additional late fees charged to invoices for registration and other fees which are more than 30 days late from 50% to 25%.



# Proposed Schedule N Revisions

- Schedule N fees are to recover the Air District's costs for AB 2588 fees (Air Toxics Hot Spots program) to be paid to the California Air Resources Board and for staff to conduct the Air District's AB 2588 work.
- For non-gasoline station facilities, the fee will be calculated by multiplying the weighted toxic inventory emissions by a factor of \$0.80 per weighted pound per year.
- Gasoline stations will continue to be charged a fee of \$5 for each nozzle.



# Impact on Large Facilities: Power Plants

	Annual % Permit Fee Increase/Decrease (Fiscal Year Ending)					2019 Permit Fee
	2016	2017	2018	2019	2020 Projected	
Delta Energy	12.6	-0.8	-7.0	-13.5	5.8	\$ 369,630
Los Medanos	15.0	-6.0	7.3	15.0	6.9	\$ 407,474
Gateway	15.0	8.5	-7.6	12.0	6.0	\$ 331,320
Crockett Cogen	13.2	0.8	2.5	0	5.8	\$ 230,111





# Impact on Large Facilities: Petroleum Refineries

	Annual % Permit Fee Increase/Decrease (Fiscal Year Ending)					2019 Permit Fee for 16 months*
	2016	2017	2018	2019*	2020 Projected	
Chevron	9.3	14.7	1.2	-0.5	12.0	\$4.9 M
Shell	5.8	15.0	4.0	5.6	11.7	\$4.6 M
Phillips 66	3.4	14.6	2.3	4.2	8.5	\$2.3 M
Valero	11.9	15.0	2.4	-0.2	13.3	\$2.5 M
Tesoro	15.0	2.2	-8.5	15	1.9	\$3.1 M

\*Permits to Operate extended from 8/1/18 to 12/1/2019 (16 months) to allow use of Rule 12-15 emission inventories to calculate emissions and permit renewal fees. Increase based on ratioed (12/16) amount.



# Impact on Small Businesses

## ➤ Proposed FYE 2019 fee increases:

Facility Type	Current Fees (prior to change)	Proposed Fee Increase	Total Fees (post change)
Gas Station	\$2,820	\$169	\$2,989
Dry Cleaner (permitted)	\$518	\$0	\$518
Dry Cleaner (registered)	\$259	\$0	\$259
Auto Body Shop	\$532	\$0	\$532
Back-up Generator	\$274	\$11	\$285





# Comments Received

- **Western States Petroleum Association**
  - Request for more specificity of timekeeping.
- **California Council for Environmental and Economic Balance**
  - Request for FYE 2020 Budget earlier in the process.
  - Request for an update on cost containment efforts.





# Timekeeping Improvements

- Employee Handbook
- Cost Recovery Timekeeping Video
- Air District-Wide Training
- New and Expanded Timecodes
- Quarterly Oversight Meetings





# Rule Development Schedule

- **February 19, 2019**
  - Public workshop
- **March 21, 2019**
  - Written workshop comments due
- **March 22, 2019**
  - Budget & Finance Committee briefing
- **April 17, 2019**
  - Board of Directors first public hearing to receive testimony only
- **May 9, 2019**
  - Written public hearing comments due
- **June 5, 2019**
  - Board of Directors second public hearing to consider adoption
- **July 1, 2019**
  - Proposed fee amendments effective

