



BAY AREA  
AIR QUALITY  
MANAGEMENT  
DISTRICT

AGENDA: 3

# Proposed Amendments to Air District Regulation 3: Fees

**Budget and Finance Committee Meeting  
May 20, 2020**

**Jack P. Broadbent  
Executive Officer**

# Overview



- April 15, 2020: Board of Directors first public hearing to receive testimony only on Fiscal Year Ending (FYE) 2021 Budget
- June 3, 2020: Board of Directors second public hearing to consider adoption of FYE 2021 Budget
- Robust Discussion of Proposed Fees that Support Budget

# Important Considerations



- \$9 Million (M) Expected for Next Year's Assembly Bill (AB) 617 Implementation
- Considerable Uncertainties Surrounding Budget and Fees
  - Lower Economic Activity May Reduce Industrial Permit Revenues
  - Property Tax Revenue May Decrease Over the Long Term
  - Lower Revenue from State for Critical Programs
- State Budget (May Revise): \$54 Billion Shortfall
- AB 617 Funding – Priority (\$25 M for Implementation)

# Proactive Management (Levers)



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

# Staff Proposal



- Hold Off on Fee Increases
- Revisit Position in Fall 2020
- Establish a New Fee Structure for AB 617 Implementation

# Possible Actions



- *Size of shortfall: \$5 M/yr with State AB 617; \$14 M/yr without AB 617*
- Reserves Used for General Fund Expenditures
  - **Currently \$38 M, including \$5 M in designated funds**
- Vacancies Unfilled (Staff Reduction Through Attrition)
  - **10 filled seats = \$2 M/yr**
- Postponed Expenditures
  - **Service and Supplies Budget = \$28 M**
- Deferred Capital Investment
  - **Improvements to Richmond HQE = roughly \$8 M**
- Initiated Cost Recovery Policy
  - **6.4% Fee increase = \$3 M/yr**
- Continued Discretionary Funding of Retirement Liabilities
  - **Currently \$5 M/yr (expect CalPERS obligation to increase by \$4 M FYE 2023)**

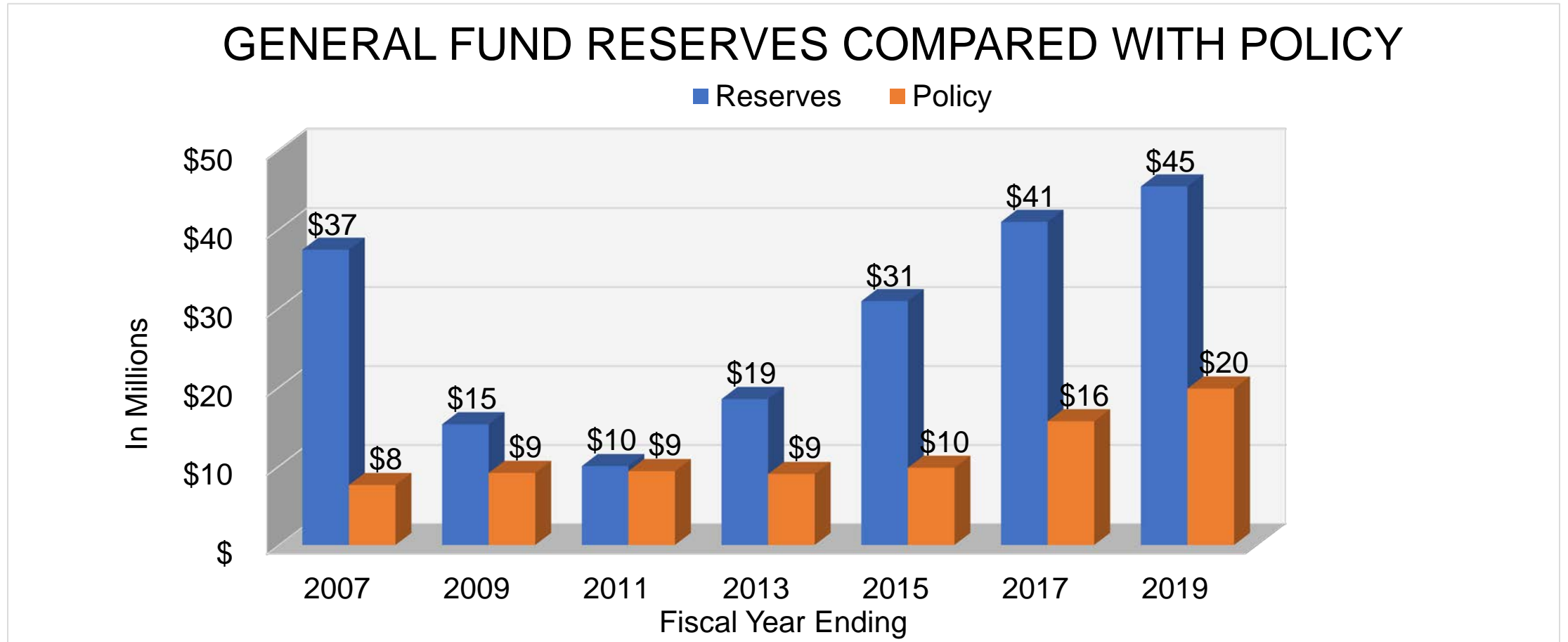
# FYE 2021 General Fund Proposed Budget Revisions



## FYE 2021 General Fund Proposed Budget

	Million (\$M)
<b>Original Revenues</b>	<b>116.1</b>
<b>Original Use of Reserves</b>	<b>6.0</b>
<b>Total Original Revenues</b>	<b>122.1</b>
Reduce Existing Fees	-12.4
Reduce New Fees	-2.7
Reduce Use of Reserves	-0.8
Reduce Other Revenues	-1.2
Increase Use of Grant Sources	1.5
<b>Revised Revenues:</b>	<b>106.5</b>
<b>Original Expenditures:</b>	<b>122.1</b>
Reduce Personnel Costs	-0.1
Reduce Services & Supplies	-9.5
Reduce Capital Costs	-6.0
<b>Revised Expenditures:</b>	<b>106.5</b>

# Actual Reserves & Policy (Excludes Building Proceeds)



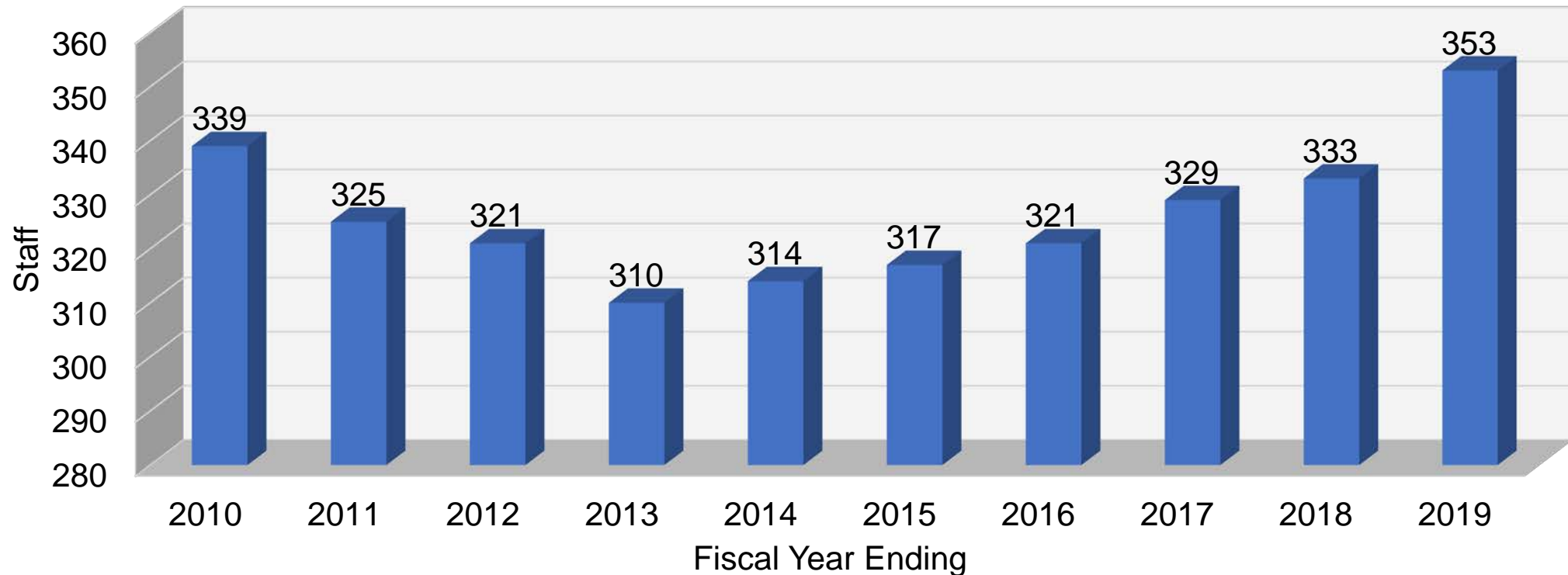


# Staffing Trend-Filled Positions

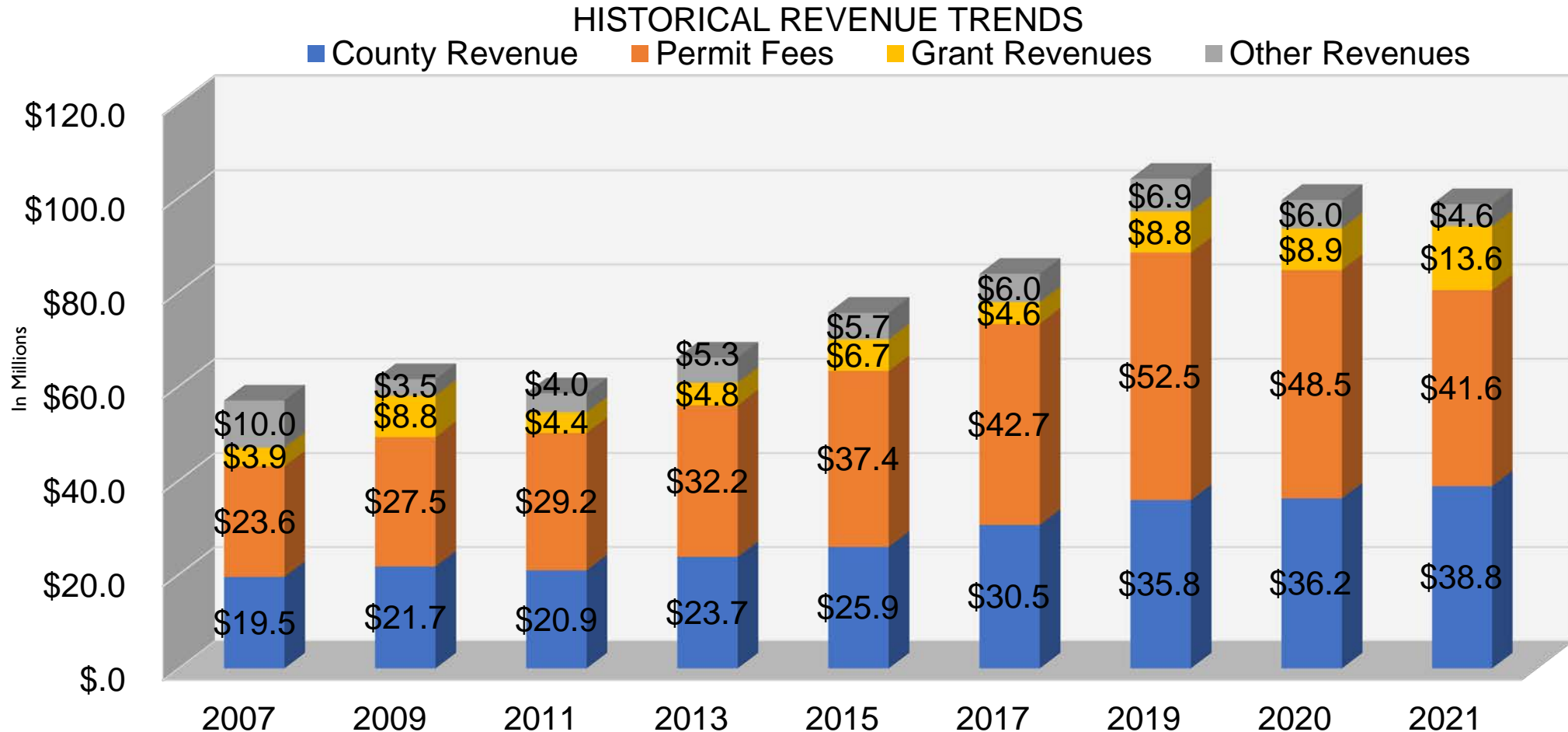


In November 2019, staff requested an additional 10 positions, bringing total approved to 415 Full-Time Equivalent (FTE)

## ACTUAL STAFFING LEVELS

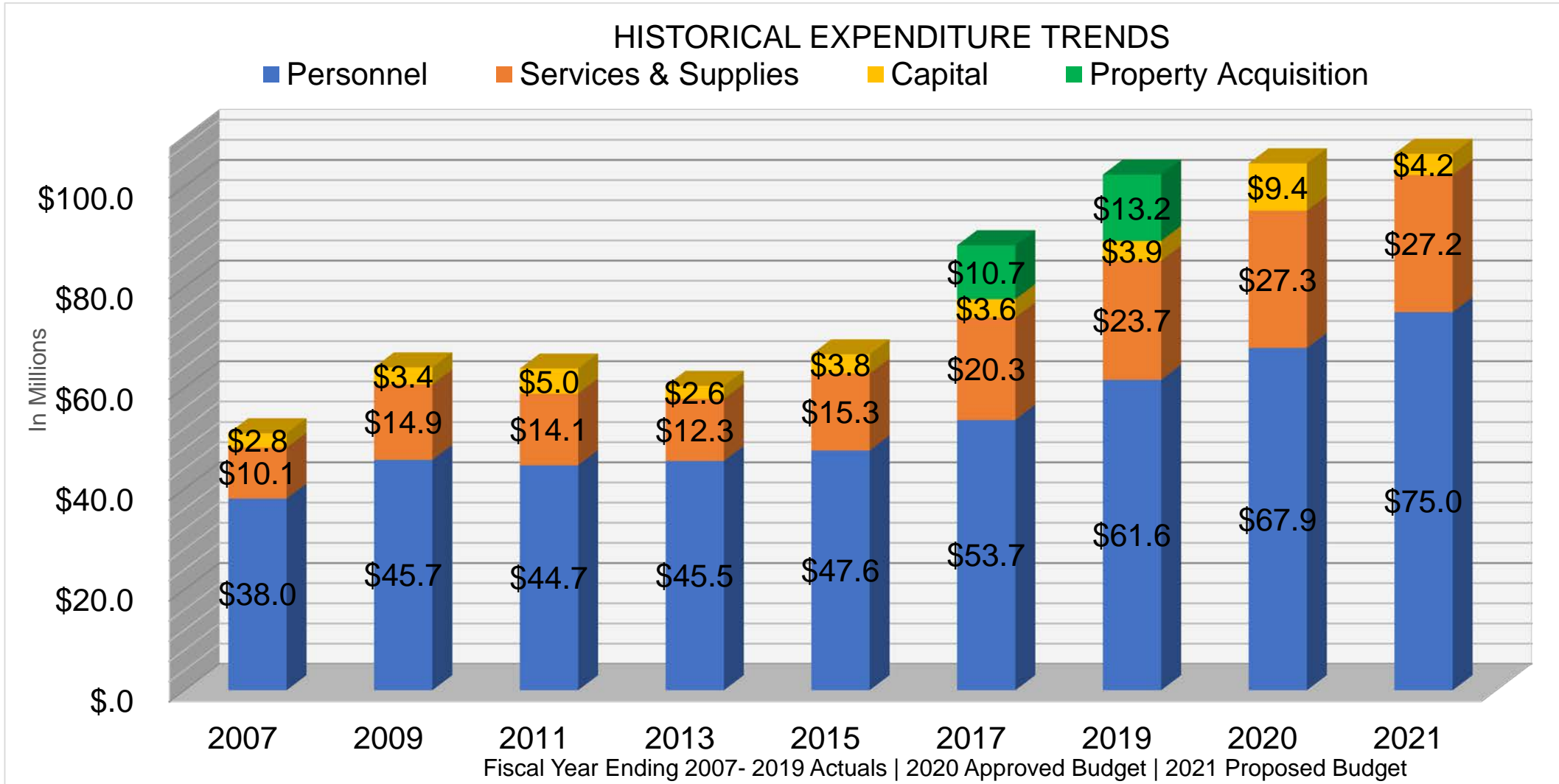


# General Fund Revenue Trend

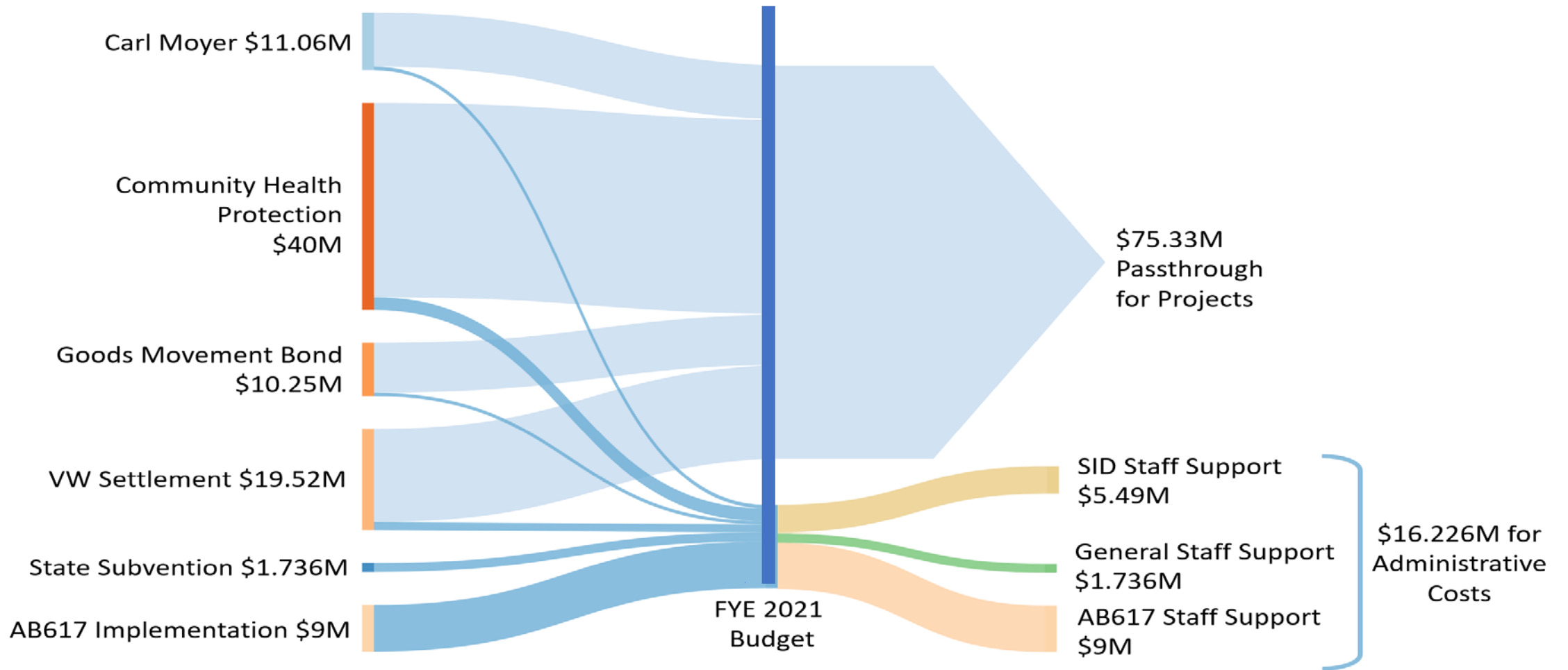


FYE 2007 - 2019 Actual | FYE 2020 Approved Budget | FYE 2021 Proposed Budget

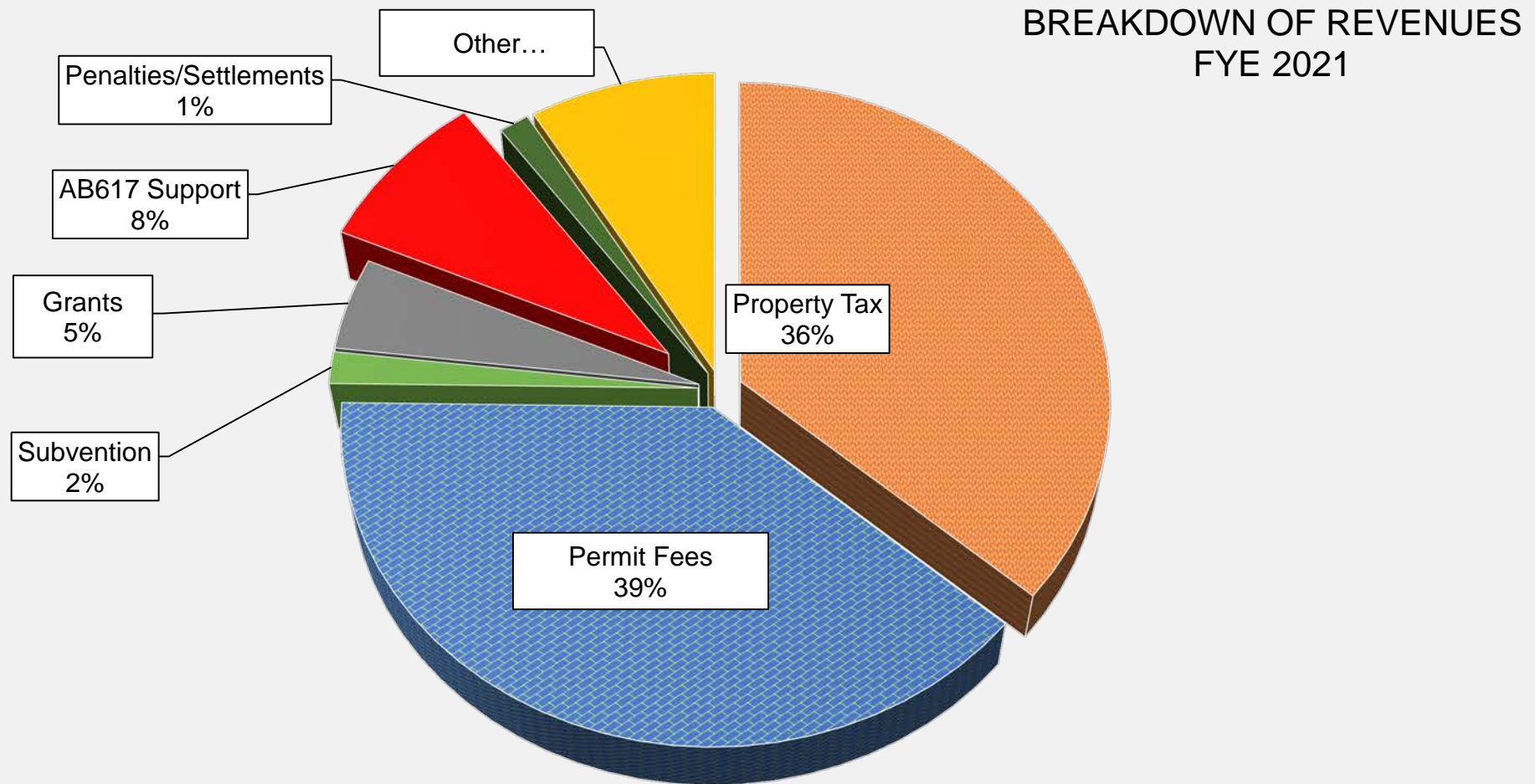
# General Fund Expenditure Trend



# State Revenues in FYE 2021



# General Fund Revenue Sources FYE 2021 Proposed Budget



# Clean Air Protection Program Implementation Grants



17CAPP3: \$4.8 million – **fully expended**



18CAPP3: \$10.0 million



Forecasted full expenditure  
by 1<sup>st</sup> Quarter FYE 2021

Grant Funds Available  
for expenditure until  
April 2021

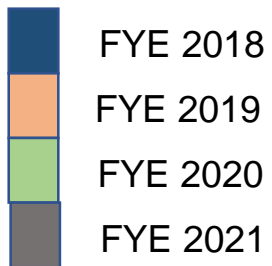
19CAPP3: \$9.0 million



Forecasted full expenditure  
by 4<sup>th</sup> Quarter FYE 2021

Grant Funds available  
for expenditure until  
April 2022

BAAQMD Budget Year



# FYE 2021 Revised Proposed Budget Overview



- \$106 M General Fund Budget, decrease of \$16 M
- Includes Use of Reserves of \$5 M
- No Amendment to Existing Fee Schedules
- Propose New Fee Schedule (AB 617)
- Limited Staffing Level Increase
- Budget 405 of the 415 FTE
- No Increase in Services & Supplies
- Addresses Retirement Liabilities
- Includes 3.1% Cost of Living Adjustment (COLA)

# General Fund Reserves



Reserves Policy: 20% of  
General Fund Budget

FYE 2021 Budget of \$105 M  
= \$21 M

FYE 2021 Projected Reserve  
Designations = \$27 M

FYE 2021 Available Reserves  
= \$6 M

Probable Reserve Designations *	
	\$M
<b>Balance at June 30, 2019</b>	<b>45</b>
<b><u>Less: Designations</u></b>	
Pension Liability	2
Woodsmoke Grants	1
Revolving Loan Program	3
<b>Economic Contingency (20% of Budget)</b>	<b>21</b>
<b>Total Designations</b>	<b>27</b>
<i>*Designations subject to change at Board's Direction</i>	
<b><u>Use of Reserves in FY 2020 and 2021</u></b>	
Legal Settlement	3
Richmond Facility Improvements	4
<b>To Balance FY2021 Budget</b>	<b>5</b>
<b>Total Use of Reserves</b>	<b>12</b>
<b>AVAILABLE GF RESERVES</b>	<b>6</b>



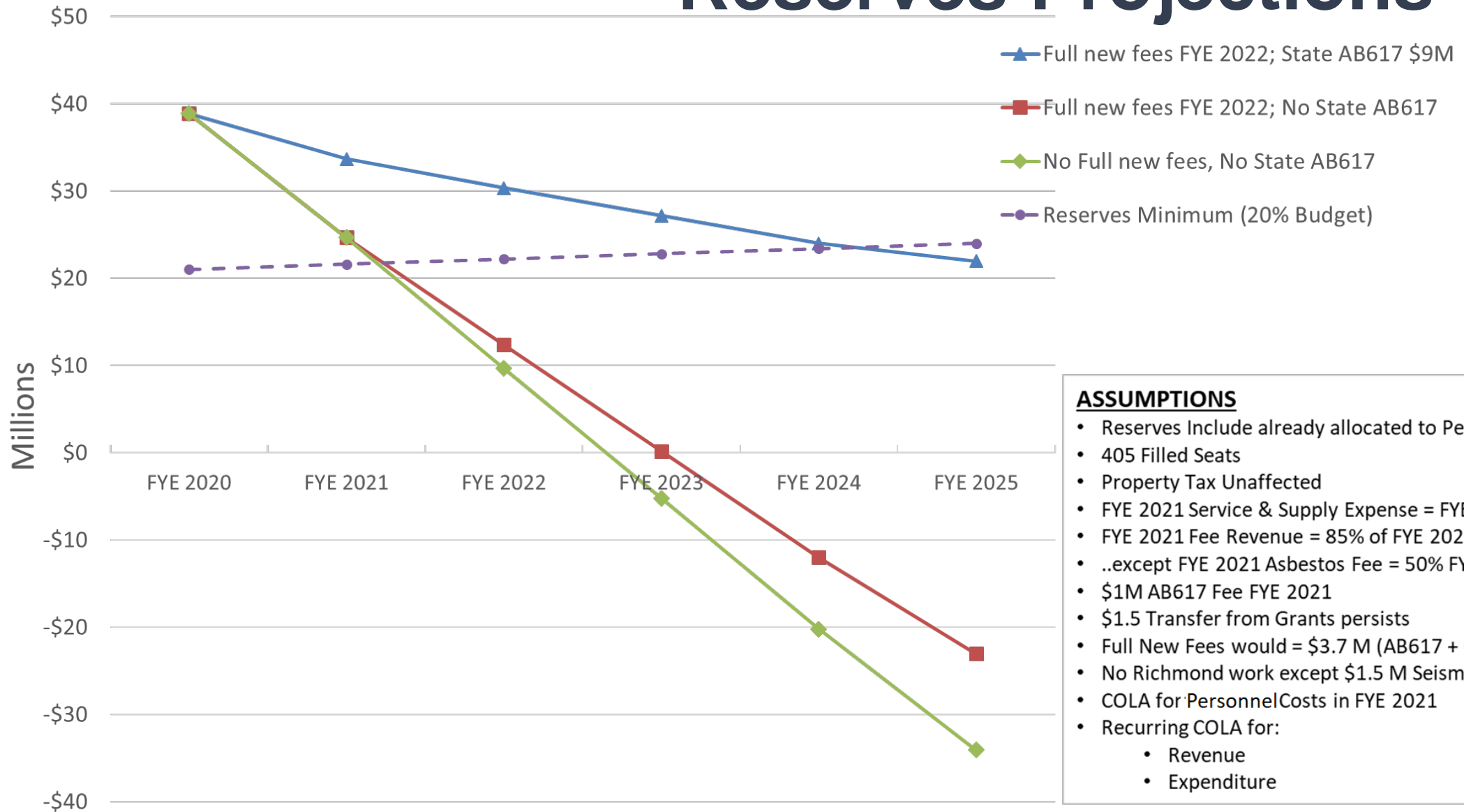
# Reserves Projections Assumptions



## ASSUMPTIONS

- Reserves Include already allocated to Pension and TIO Loans
- 405 Filled Seats
- Property Tax Unaffected
- FYE 2021 Service & Supply Expense = FYE 2020
- FYE 2021 Fee Revenue = 85% of FYE 2020 Fee Revenue...
- ..except FYE 2021 Asbestos Fee = 50% FYE 2020 Asbestos
- \$1M AB617 Fee FYE 2021
- \$1.5 Transfer from Grants persists
- Full New Fees would = \$3.7 M (AB617 + CTR)
- No Richmond work except \$1.5 M Seismic
- COLA for Personnel Costs in FYE 2021
- Recurring COLA for:
  - Revenue
  - Expenditure

# Reserves Projections



## ASSUMPTIONS

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# FYE 2021 Proposed Budget Summary



- Budget Balanced with use of \$5 M from Reserves
- 405 of 415 Budgeted Positions
- No Amendment to Existing Fee Schedules
- Propose New Fee Schedule (AB 617)
- \$1 M Annual Contribution for Pension
- \$4 M Annual Contribution for OPEB

# Recent Major Economic Indicators – United States



- US GDP change for 2020Q1 is -4.8%
  - 2019 Q4 is +2.1
- US unemployment rate for April, 2020 is 14.7%
  - March 2020 is 4.4%
- US inflation rate (12 months CPI-U) in April, 2020 is 0.3%
  - April 2019 (12 months CPI-U) inflation rate is 2.0%
- US PPI index (reflecting demand) in April, 2020 is -0.3%
  - April 2019 PPI index is 2.4%
- US Federal Budget Deficit in April 2020 is -\$1,480 Billion
  - April 2019 Federal Budget Deficit is -\$531 Billion

# Selected California Economic Indicators



- California unemployment rate in March\* 2020 is 5.3%
    - March 2019 unemployment rate is 4.3%
  - In March 2020 (reflecting mostly February activity), California State revenue was 1% above projections – showing robust economic growth pre-pandemic
  - California inflation (12 month CPI-U) in April 2020 is 1.3%
    - April 2019 inflation (12 month CPI-U) is 3.0%
  - Total claims for unemployment (last 8 weeks): 4.1 million
  - Total benefits paid out (last 8 weeks):\$8.9 billion
- \*April data for California will be released on May, 22, 2020 – full month's effects of COVID-19

# Current Projections



Most economists currently (as of May 14, 2020) expect the following\*:

- US unemployment rate to hit 17% in June 2020;
- US GDP will change by -32% in 2020 Q2 (compared to 2020 Q1);
- Economic recovery will start in the 2<sup>nd</sup> half of 2020:
  - Current projections are for +9% in 2020 Q3
  - And for +6.9% in 2020 Q4; and
- Full year economic growth is currently estimated to be -6.6% in 2020

\*Wall Street Journal Survey of Economists, May 13, 2020

# Current Projections (cont.)



In addition to these, macroeconomic problems:

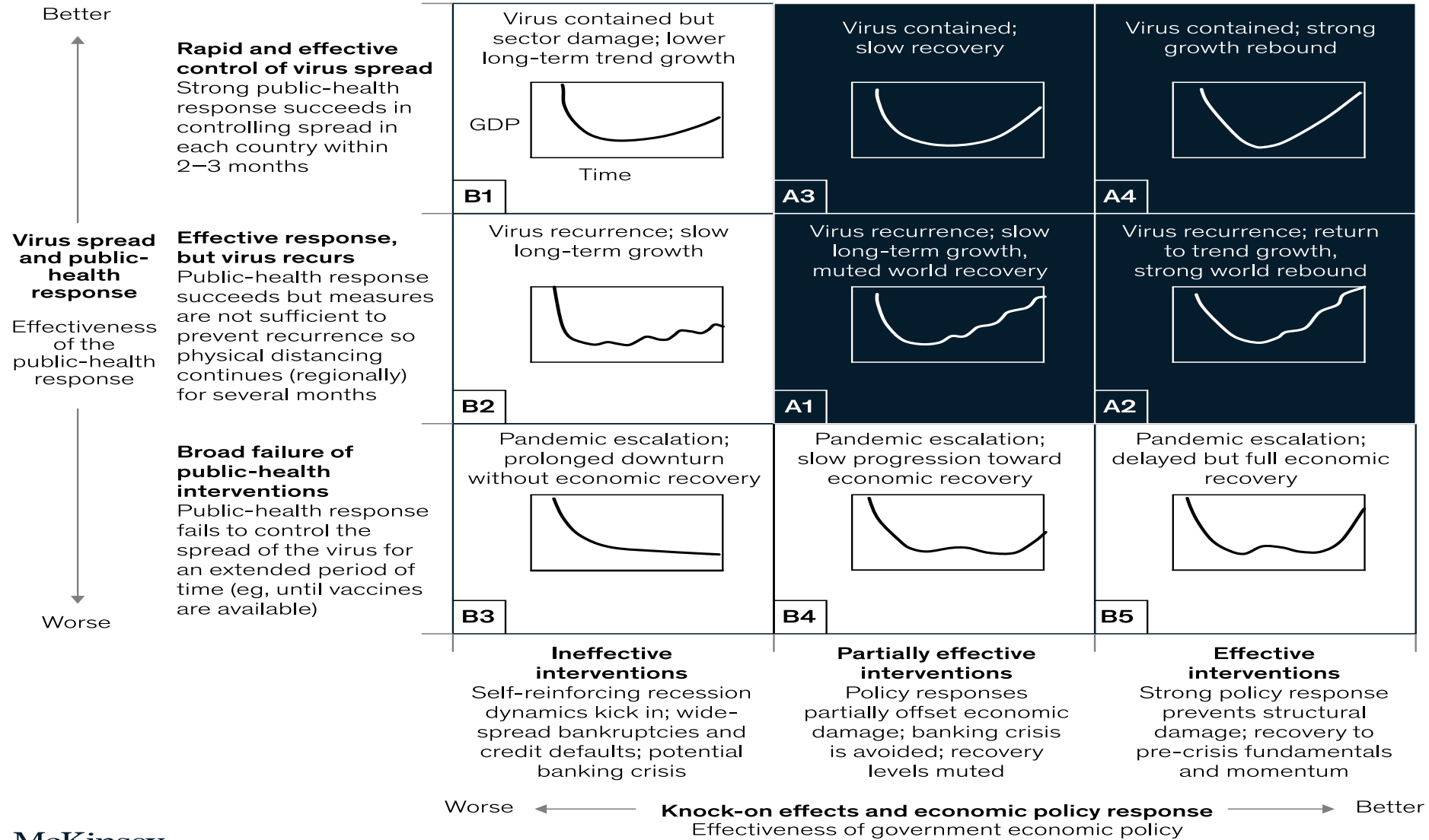
- Growing problems in real estate, as millions are unable to pay their mortgages and rents;
- Low interest rates are not helpful to fuel real estate demand when millions are unemployed; and
- Leads to increasing inequality, as eventually cheaper housing will be bought up by investors

\*Wall Street Journal Survey of Economists, May 13, 2020

# Scenarios for the economic impact of the COVID-19 crisis.




## GDP impact of COVID-19 spread, public-health response, and economic policies





# Conclusions



- Virtually no economist currently expects a V-shaped recovery; most projections now call for a swoosh-type of a recovery: 
- It means that a decline is followed by a very slow, painful, and uneven recovery
- The pace of recovery is also heavily dependent on the type of industry, with face-to-face industries taking much longer to recover, whereas construction, business supplies, and data centers should get back to normal faster

# Staff Proposal – April 29, 2020



Enact modified AB 617 Fee for Title V Facilities:

- Fee: 5.7% per facility owner with a \$100,000 cap
- Generates ~ **\$1 million** which equals shortfall in California Air Resources Board allocation to Air District in 2019
- Excludes Small Business
- Proposal in line with Board of Directors request to ensure continued cost recovery from essential facilities
- Supports efforts to get matching funding in Sacramento

# Fee Options



Options	Fee Schedules	Increase Over Current Fees	Projected 2021 Revenue Increase	Projected Revenue FYE 2021
<b>3.1% increase across the Board</b>	Increases to all, no AB 617 & CTR	3.1%	\$1,615,402	\$53,725,149
<b>April 29, 2020 – Staff Proposal</b>	AB 617 Title V fee only, no increases to other schedules, no CTR	2.0%	\$993,460	\$53,103,207
<b>Combined April 15 &amp; 29 Proposals</b>	Increase to A, G3, M, P, W & AB 617 Title V fee, no increases to other schedules, no CTR	3.0%	\$1,570,557	\$53,680,304

# Revenue and Activity Monitoring



- Staff currently monitoring fee schedules and revenue receipts
- Quarterly reports to the Board
- Staff proposing to also monitor by Industry Sector:

- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>▪ Refineries</li><li>▪ Refinery Support/Related facilities</li><li>▪ Bulk Plants and Terminals</li><li>▪ Power Plants</li><li>▪ Landfills/Solid Waste Facilities</li><li>▪ Wastewater Facilities</li><li>▪ Major Industrial/Chemical Facilities</li></ul> | <ul style="list-style-type: none"><li>▪ University, Government and Hospitals</li><li>▪ Asphalt/Concrete – Material Handling/Building Materials</li><li>▪ Autobodies</li><li>▪ Dry Cleaners</li><li>▪ Gas Stations</li><li>▪ Other Small Businesses</li><li>▪ Registered Sources</li></ul> |
|---|---|

# Small Business Fee Deferral Program



- Staff proposing fee deferrals for small business:
  - Autobodies
  - Dry Cleaners
  - Gas Stations
  - Other Small Businesses
  - Registered Sources
- Permit Holders can apply online
- Requires Hardship Demonstration – 50% reduction in throughput
- Hardship can be verified by Field Inspection
- Fees for late payment of permits to be waived
- Relies on existing Air District Program Structures

# Rule Development Schedule



- April 15, 2020
  - Board of Directors first public hearing to receive testimony only
- April 22, 2020
  - Budget and Finance Committee meeting
- April 29, 2020
  - Budget and Finance Committee meeting
- May 8, 2020
  - Written public hearing comments due
- May 20, 2020
  - Budget and Finance Committee meeting
- June 3, 2020
  - Board of Directors second public hearing to consider adoption
- July 1, 2020
  - Proposed effective date of fee amendments

# Recommendation



Recommend the Board of Directors:

- Adopt a new fee for implementation of Assembly Bill 617 on Title V Facilities for Fiscal Year Ending 2021; and
- Revisit imposition of additional fees in October 2020, as the economic and facility activity level picture become clearer.