



BAY AREA
AIR QUALITY
MANAGEMENT
DISTRICT

AGENDA: 18

Proposed Amendments to Regulation 3, Fees

**Board of Directors Meeting
April 15, 2020**

**Jeffrey McKay
Chief Financial Officer**

Important Message



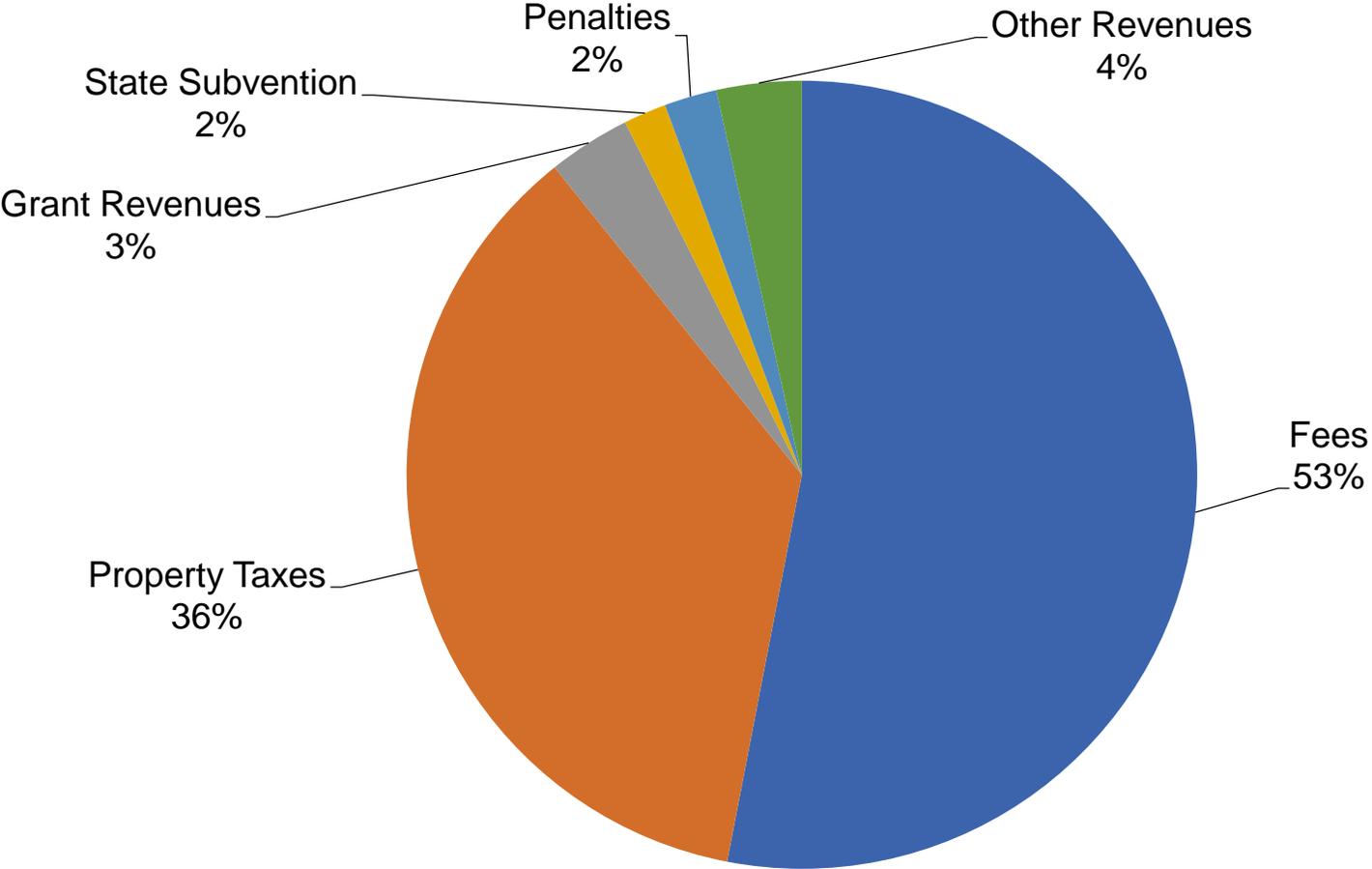
- An Air District Budget & Finance Committee meeting is scheduled on April 22, 2020, and the proposed fees may be amended according to their instructions based on recent developments in the economy.

Outline



1. Welcome / Introductions
2. Cost Recovery Background
3. Draft Fee Amendments
4. Rule Development Schedule

Revenue Sources: Fiscal Year Ending (FYE) 2019



Cost Recovery Background

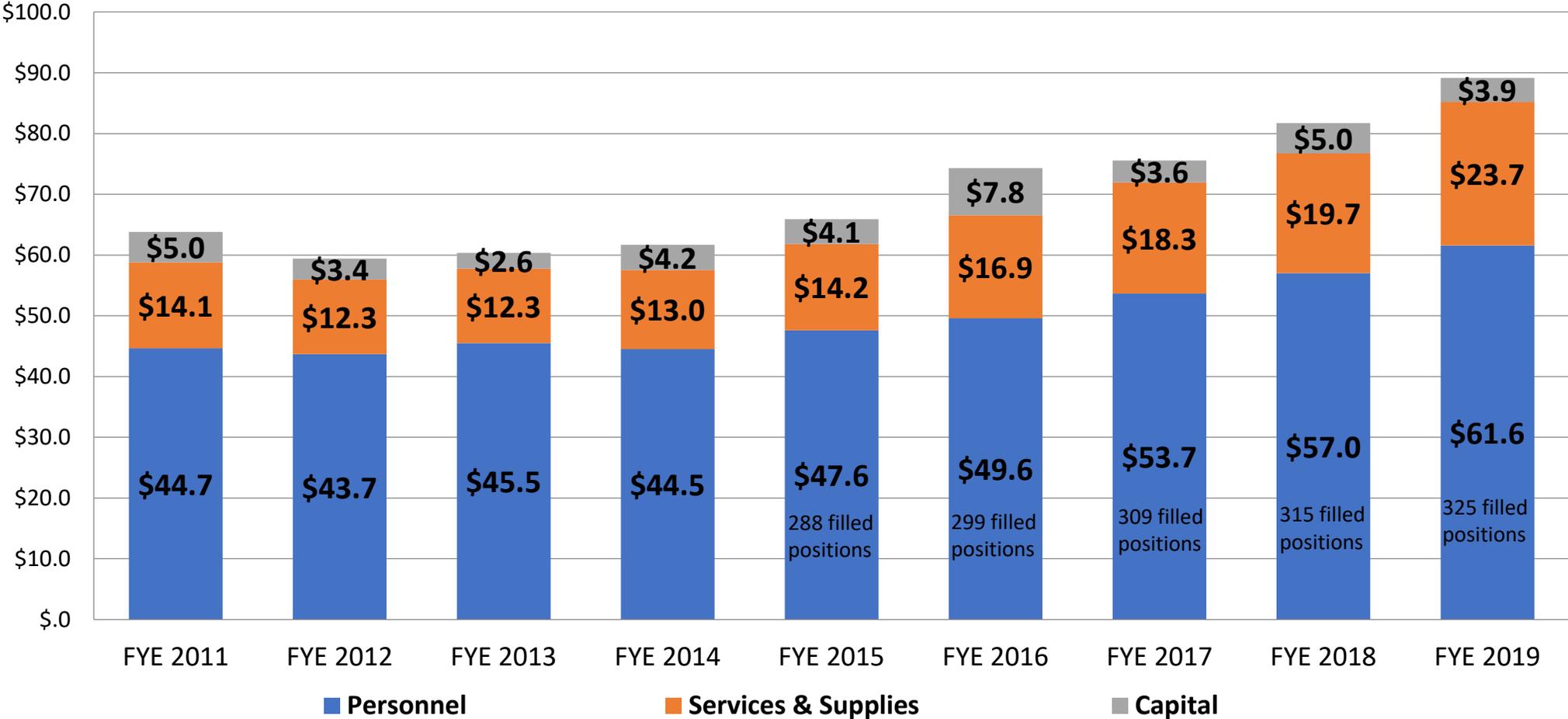


- Air District has authority to assess fees to recover the reasonable costs of regulating stationary sources
- Board of Directors set goal of increasing cost recovery to a minimum of 85%
- Fee amendments will be made in consideration of cost recovery analyses conducted at the fee schedule-level
- Filling vacancies and new/enhanced programs reduce cost recovery

Trends in Annual Costs



Audited General Fund Expenditures (millions)



Trends in Cost Recovery (by Fiscal Year)



Fee revenue falls short of overall full cost recovery of 100%

- 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%
- FYE 2019: Cost Recovery = 86%

Trends in Cost Recovery (by Fiscal Year) (cont.)



- Cost recovery will decrease as we try to fill vacancies
- Fee Schedule changes are based on three-year average (84%)

Proposed Changes to Fee Schedules



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

*The annual CPI-W increase from 2018 to 2019.

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

Note: For Schedules D and E, 3.1% increase is proposed, although cost recovery would have allowed a 7-9% increase. Schedule D covers gas stations and Schedule E covers autobody shops, many of which are small businesses.

Proposed Changes to Fee Schedules (cont.)



Fee Schedules with 3.1% increase

- Schedule B: Combustion of Fuels
- Schedule D: Gasoline Transfer at Gasoline Dispensing Facilities, Bulk Plants & Terminals
- Schedule E: Solvent Evaporating Sources
- Schedule F: Misc. Sources (storage silos, abrasive blasting)
- Schedule M: Major Stationary Source Fees

Proposed Changes to Fee Schedules (cont.)



Fee Schedules with 7% increase

- Schedule G-3: Misc. Sources (metal melting, cracking units)
- Schedule P: Major Facility Review Fees

Fee Schedules with 8% increase

- Schedule T: Greenhouse Gas Fees

Proposed Changes to Fee Schedules (cont.)



Fee Schedules with 9% increase

- Schedule G-2: Misc. Sources (asphaltic concrete, furnaces)
- Schedule H: Semiconductor and Related Operations
- Schedule I: Dry Cleaners
- Schedule N: Toxic Inventory 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-4: Misc. Sources (cement kilns, sulfur removal & coking units, acid manufacturing)
- Schedule K: Solid Waste Disposal Sites
- Schedule S: Naturally Occurring Asbestos Operations
- Schedule W: Petroleum Refining Emissions Tracking Fees

Other Proposed Amendments



Schedule N: Toxic Inventory Fees

- Amend the language to clarify the methodology used by the Air District to calculate the facility's weighted toxic inventory

Other Proposed Amendments (cont.)



- Specific fees in Regulation 3 proposed to be increased 3.1% based on the CPI-W (filing fees, banking fees, exemption fee, permit renewal processing fees, etc.)
- To recover costs from administrative activities for managing A/C permits, revise:
 - Section 3-330 to add minimum A/C renewal fee
 - Section 3-330.1 to add fee for requesting A/C renewal after expiration date
 - Section 3-405 to add a fee for late start-up notification of a source under an A/C within a year from the start-up date

Criteria Pollutant and Toxics Emissions Reporting (CTR) Regulation Fee



- As part of Assembly Bill (AB) 617, the California Air Resources Board (CARB) recently adopted a new regulation for the reporting of criteria air pollutants and toxic air contaminants for stationary sources
- We are tasked with implementing the new regulation in the Bay Area and \$1.5 million per year is needed
- To distribute these costs, we are basing this fee on the number of sources at each facility, since the costs are commensurate with the number of sources at each facility

CTR Regulation Fee: Draft Fee Proposal



- Fees based on the number of sources at each facility up to a maximum of \$50,000 per year
- In addition to these renewal fees, each facility subject to the CTR Regulation shall pay a fee of:

Number of Permitted Sources per Facility	\$ per Permitted Source
1 to 4	25
5 to 9	75
10 to 14	150
15 to 19	200
20 to 24	250
25 and greater	300

AB 617 Community Health Impact Fee



- We are tasked with implementing the CARB AB 617 “Community Air Protection Program” in the Bay Area
- \$2.4 million per year is needed in excess of direct funding from CARB
- To distribute these costs, we first looked at weighted toxic emissions and unadjusted prioritization scores
- A more equitable way to distribute these costs is by percentage of annual permit/registration renewal fees, which are largely emissions based

AB 617 Community Health Impact Fee Draft Fee Proposal



- Fees based on percentage of annual total permit/registration renewal fees
- Current fee proposal:
 - 5.7% of the facility's annual total renewal fee
 - Up to a maximum of \$70,000 per year

Accelerated Permitting



- The Air District is exploring options for an Accelerated Permitting Process that would require amendments to Regulation 3: Fees
- We are looking at other existing processes including:
 - Texas Commission on Environmental Quality
 - South Coast Air Quality Management District, San Joaquin Valley Air Pollution Control District (APCD), and San Diego County APCD
 - Looking for input on which models work best

Impact on Large Facilities: Power Plants



	Annual % Permit Fee Increase/Decrease (Fiscal Year Ending)					2020 Permit Fee
	2017	2018	2019	2020	2021 Projected	
Delta Energy	-0.8	-7.0	-13.5	5.8	11.4	\$ 460,000
Los Medanos	-6.0	7.3	15.0	6.9	11.7	\$ 400,000
Gateway	8.5	-7.6	12.0	6.0	11.6	\$ 360,000
Crockett Cogen	0.8	2.5	0	5.8	13.1	\$ 270,000

Impact on Large Facilities: Petroleum Refineries



	Annual % Permit Fee Increase/Decrease (Fiscal Year Ending)					2020 Permit Fee
	2017	2018	2019*	2020	2021 Projected	
Chevron	14.7	1.2	-0.5	0.8	8.5	\$3.7 M
Shell	15.0	4.0	5.6	0.9	9.7	\$3.5 M
Phillips 66	14.6	2.3	4.2	13.6	12.8	\$1.9 M
Valero	15.0	2.4	-0.2	22.5	11.6	\$2.3 M
Tesoro	2.2	-8.5	15	21.5	10.1	\$2.9 M

*Permits to Operate extended from 8/1/2018 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



Facility Type	Current Fees (prior to change)	Proposed Fees (post change)	Proposed Fee Increase	Proposed % Increase
Gas Station ^{1,2}	\$239	\$287	\$48	20%
Dry Cleaner (registered) ¹	\$259	\$274	\$15	6%
Auto Body Shop ^{1,3}	\$729	\$820	\$91	13%
Back-up Generator ^{1,3}	\$382	\$442	\$61	16%

Notes:

1. Assuming facility has only one source
2. Assuming source has one single-product gasoline nozzle
3. Assuming source qualifies for minimum fee

Comments Received



Western States Petroleum Association (WSPA) and California Council for Environmental and Economic Balance (CCEEB)

- Criteria Pollutant and Toxics Emissions Reporting (CTR) Regulation
 - Seems redundant with Schedule W (Regulation 12-15)
 - Request for explanation why the fee rate is lower for facilities with fewer sources
- AB 617 Community Health Impact Fee
 - Request for explanation on AB 617 expenditures
- Schedule P (Major Facility Review) Fees
 - Request for explanation on Schedule P expenditures

Rule Development Schedule



- January 27, 2020
 - First Budget Advisory Group meeting
- February 18, 2020
 - Public workshop
- March 16, 2020
 - Second Budget Advisory Group meeting
- March 20, 2020
 - Written workshop comments due
- March 25, 2020
 - Budget & Finance Committee briefing

Rule Development Schedule (cont.)



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



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AGENDA: 19

Update on the Impact of COVID-19 on the Economy

**Board of Directors Meeting
April 15, 2020**

**Leonid Bak
Economist**

COVID-19 Impact on the Economy



- Initial theoretical framework of the impact:
 - A sharp sudden stop of the economy (given closures and quarantines) mostly in Q2
 - The sudden stop is followed by a similarly sharp, V-shaped recovery in Q3/Q4
 - The theory compares the impact to the economy to a “massive snowstorm” (Bernanke)
 - No permanent damage, as in a typical economic recession: i.e., everything stops and then everything goes back online, just as it was before the stoppage

Initial Projections



- Initial economic output (US GDP) losses from Wall Street investment banks ranged from -14% to -24% for Q2
- Federal Reserve Bank of St. Louis estimated losses as high as 50% in 2020 Q2 in the worst case scenario
- Most of these firms predicted quick recovery in Q3/Q4, between +10% to + 19% to end the year around -2%; with St. Louis Fed expecting approximately +34% (due to sharper losses in Q2)
- However, these forecasts were made before any actual data releases, such as unemployment claims and before stricter stay home orders

Current Expectations



As economic indicators data is released, the initial theoretical “snowstorm” framework has been questioned, compared to standard classical economic theories and past experience

- Hysteresis phenomenon: Hysteresis in economics implies that as a result of a negative shock (a sudden stop in economy), the number of people employed in the company/industry does not fully recover once the shock is past

Current Expectations (cont.)



- The reason: remaining workers demand higher wages, resulting in slower growth in the number of workers in the industry
- Hysteresis explains persistently high unemployment in the economy after shocks for 2 reasons:
 1. Slow adaptation of wages and prices
 2. Labor markets do not clear instantly in response to unemployment

Policy Response



To avoid hysteresis in the economy (persistently high medium- to long-term unemployment), some European countries (notably, Germany) directly support employers by covering wages of the workers. US response is similar, although more limited

- March 27, 2020 stimulus program in the US aims to do the same – if partially: support of small businesses by making loans available to them, which would be converted to grants, if these companies avoid layoffs

Policy Response (cont.)



- However, US program is very limited – applies to a small part of the US labor market. Early indications suggest it may be insufficient, given massive applications for loans
- Allowing too many companies to fail = too costly for the economy > government should not hesitate to help private firms to weather this storm

Early April Estimates



- According to the US Congressional Budget Office (CBO), the economy will contract sharply in 2020 Q2. US GDP is expected to decline by more than seven percent and would exceed 28 percent loss on annualized basis (compared to 2019 Q2)

Early April Estimates (cont.)



- **The unemployment rate** is expected to exceed 10 percent during the second quarter, in part reflecting the 3.3 million new unemployment insurance claims reported on March 26, 2020, and the 6.6 million new claims reported on March 30, 2020. (The number of new claims was about 10 times larger than it had been in any single week during the recession from 2007 to 2009)
- **Interest rates** on 10-year Treasury notes are expected to be below one percent during the second quarter as a result of the Federal Reserve's actions and market conditions

California Data



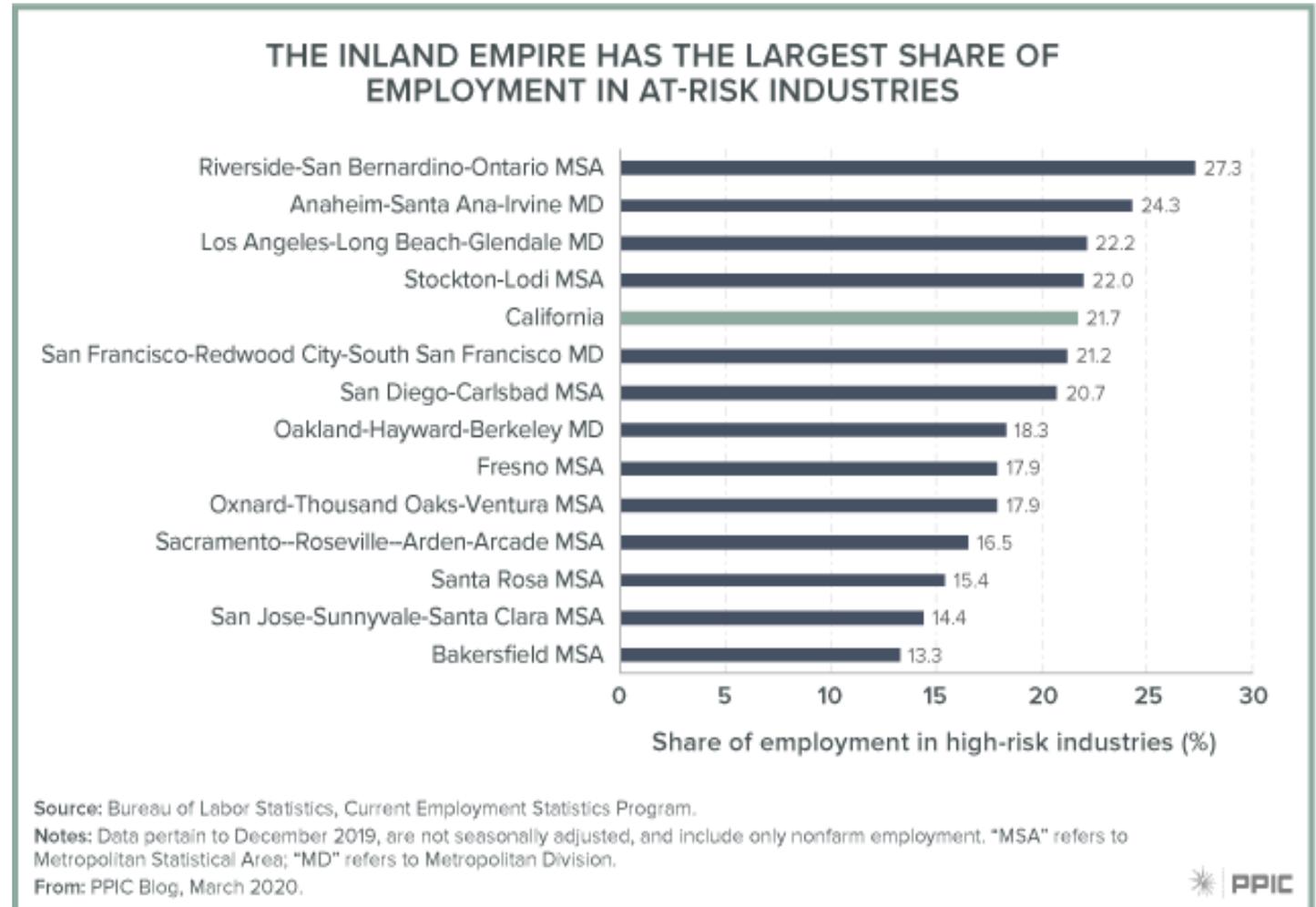
- Economic data released in California is still very limited
- Aside from employment indicators, no other data yet
- Over one million new unemployment claims in just two weeks (last 2 weeks of March 2020)
- California is one of the 10 states where new unemployment claims exceed one million
- Given large number of people employed in the services industries in CA, should expect more claims in the coming weeks
- Relatively more people in Southern CA work in services, compared with Bay Area

Impact on California's Labor Market



Share of “at risk”
employment by MSA:

Higher in SoCal, Bay
Area MSAs are
relatively lower,
especially in South
Bay

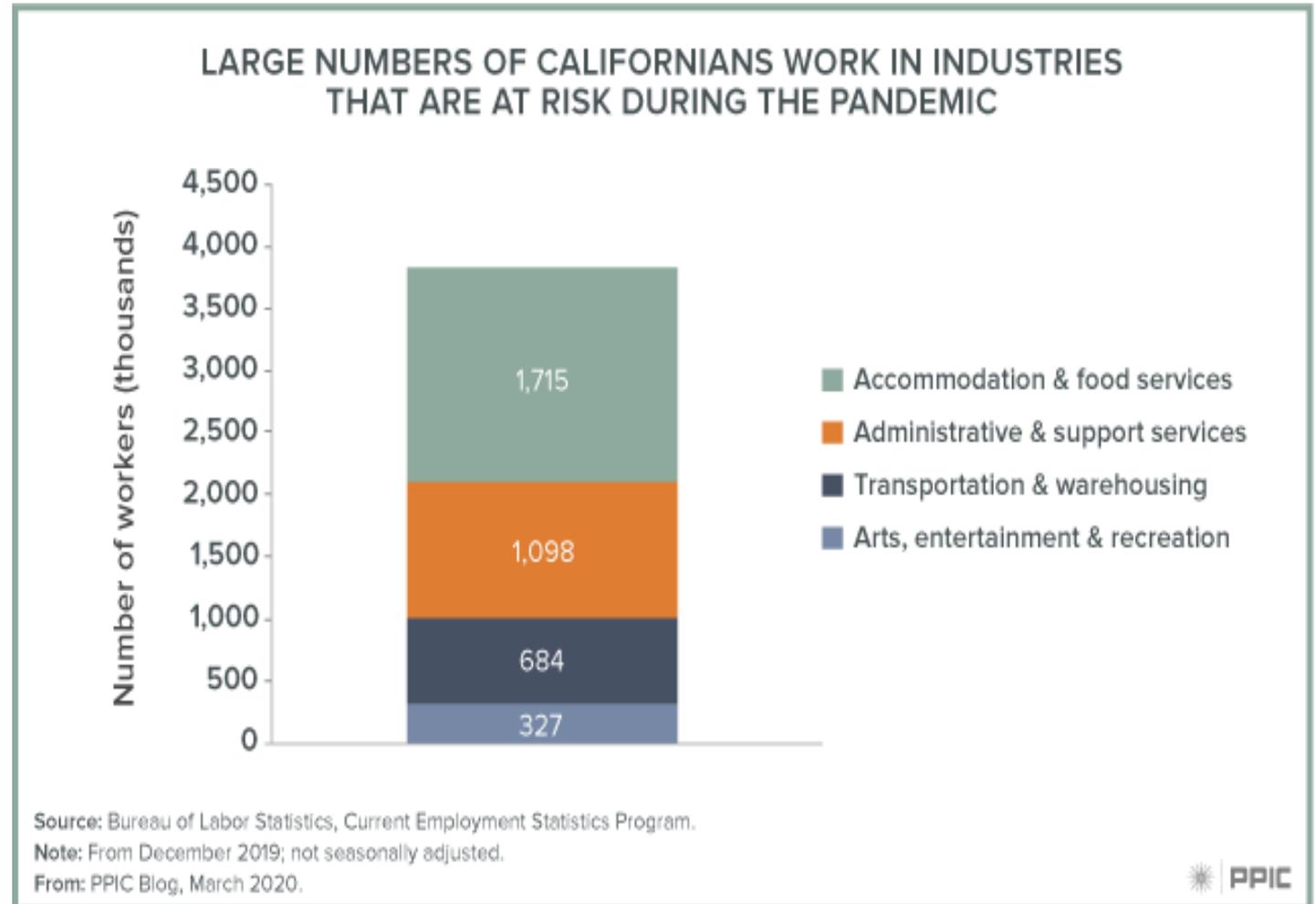


Impact on California's Labor Market (cont.)



“At risk” sectors
employment in CA:

Hospitality, arts,
entertainment, admin.
& support, mining,
transportation = 3.9
Million



Consequences of Elevated Unemployment



- Vicious debt circle for companies: inability to pay rent, service debts, expand or higher more workers > more layoffs in the future
- Vicious debt circle for workers: inability to service debts, pay rent/mortgage > lower consumption in the economy
- For the economy, this scenario will make a recovery slow, with multiple mini-recessions
- L-shaped economic recovery vs. V-shaped recovery
 - Impact from the \$2 trillion CARES Act on the unemployment/willingness of lower paid workers to return to their jobs

Summary



- Too early to predict any realistic impacts currently due to lack of data
- Economic forecasts rely heavily on past data, which are not useful in an environment of rapid changes and unclear trends
- Still no clarity due to insufficient data
- Accurate forecast of impacts on the economy depends heavily on having correct theoretical framework
 - Currently, consensus is still not reached among economists on what that framework is, since the data is very sparse
 - However, as more data is released – both with regard to the virus spread and economic indicators – the impacts and projections should become clearer

Status of Bay Area Facility Operations



- Overview:
 - Essential businesses are in operation (ex. refineries, gasoline stations, food production, waste recycling/disposal)
 - Non-essential businesses are not operating

Status of Bay Area Facility Operations (cont.)



- Title V Facilities (Largest Emitters):
 - Almost all are still in operation
 - Production rates are significantly down
 - Facilities are struggling to remain in operation
- Continued Shelter-In-Place:
 - Facilities will be shutting down/closing
 - The economic impacts will be significant
 - Air quality will potentially worsen

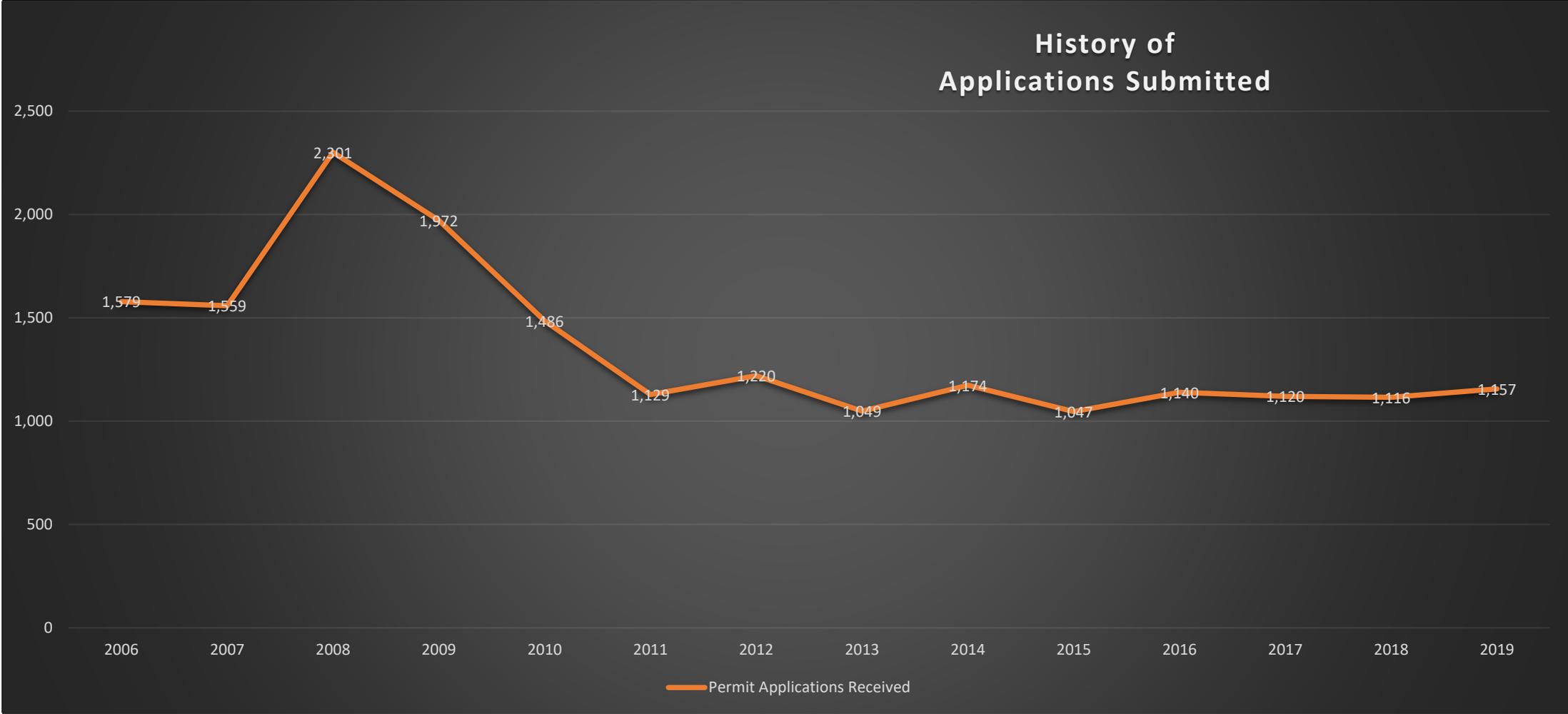
Bay Area Outlook – Activity at Permitted Facilities



Survey of Title V Facilities (Largest Emitters) – 89 Facilities:

- 68% expect no slowdown in permitting activity – (refineries, chemical plants, power plants)
- 2.5% possible slowdown in permitting activity (municipal wastewater treatment facilities)
- 29% - no response – (some refineries, metal melting facilities, chemical and industrial manufacturers)
- Majority of survey respondents expect no change

Bay Area Outlook – Activity at Permitted Facilities (cont.)



Bay Area Outlook – Activity at Permitted Facilities (cont.)



- Smaller facilities more likely to be impacted by economic downturn
- Public Safety Power Shutoff (PSPS) applications expected to increase in 2020
- Overall too early to tell – need to continue monitoring