air pollution control district
SANTA BARBARA COUNTY

Agenda Item: G-3
Agenda Date: October 19, 2023
Agenda Placement: Regular
Estimated Time: 30
Continued Item: No

Board Agenda Item

TO: Air Pollution Control District Board

FROM: Aeron Arlin Genet, Air Pollution Control Officer

CONTACT: Kristina Aguilar, CPA, Administrative Division Manager, (805) 979-8288

SUBJECT: Long-Range Fiscal Strategy (Fiscal Years 2023-28)

RECOMMENDATION:

Receive and file the District's Long-Range Fiscal Strategy (Strategy) Fiscal Years (FY) 2023-28 and provide feedback and direction to staff.

BACKGROUND:

Five years ago, in preparing the FY 2018-19 budget, the District conducted its first long-range fiscal outlook in response to significant upheaval in the oil and gas industry. The District, anticipating that continued decreased oil and gas activity would have ongoing revenue implications, assumed a fiscally conservative position and received Board support for organizational changes, known as the FY 2018-19 reorganization. The District's successful implementation of the FY 2018-19 reorganization resulted in long-term savings with expenditure levels kept relatively flat, while managing continued workload increases.

Through that FY 2018-19 reorganization, the District committed to evaluating its fiscal stability every five years. The goal of the Strategy is to ensure the District has sufficient resources to accomplish its mission and mandates into the foreseeable future. In preparing this Strategy, the District carefully evaluated changes to revenue, impacts to workload, current cost-recovery mechanisms for fee-based programs, existing and projected staffing, and potential cost reductions and/or revenue enhancements.

DISCUSSION:

In preparing the Strategy, the District conducted a thorough analysis of historical revenue and expenditures, as well as detailed projections over the next five years. This analysis was performed in the context of keeping in place core programs with existing staffing levels and factoring in reduced

revenue due to changes in oil and gas activity. These assumptions forecast a budget deficit of approximately $400,000 in FY 2024-25, increasing to a deficit of approximately $1.2 million in FY 2027-28.

Developing this Strategy also involved conducting a Cost Recovery and Fee Analysis Study (Fee Study). The Fee Study analyzed the cost-of-service relationships that exist between the District and the regulated community in relation to facility/equipment fees for the permitting and compliance programs, air quality planning, air toxics programs, and source tests. The Fee Study shows that the District is not fully recovering costs for implementing the various fee-based programs and is under-recovering costs for these programs by approximately $2.3 million per year — a cost-recovery percentage of only 47%.

These fiscal stability challenges, combined with workload management and staff retention needs, require additional measures to safeguard the District's financial health and long-term ability to continue fulfilling its mission. Historically, the District has deferred significant fee increases by adhering to prudent budgeting and efficiency measures. The District has annually adjusted fees only by applying the Consumer Price Index (CPI) and has not required across-the-board fee increases since 1991 — more than 32 years ago.

The recommendations in the Strategy are designed to provide the District with a long-term mechanism to stay fiscally sound. Included in this Strategy are measures listed below to be brought back before your Board at upcoming meetings:

- **Adopt Cost-Recovery Policy for Fee-Based Programs**: By January 2024, bring a policy back to the Board for consideration that would be phased in over a number of years. If approved, Rule 210 fee increases would occur over 10 years and be included in the annual budget process.

- **Consider Potential Changes to Rule 210**: A public workshop and Community Advisory Council meeting would occur before changes are brought to your Board. Two Board meetings will be required and are expected to occur within Fiscal Year 2023-24.

- **Adopt Fund Balance Policy at 15-20% Operating Budget:** Within Fiscal Year 2023-24, a policy will be brought back to your Board with the proposed budget for FY 2024-25.

- **Approve Staff Retention Measure(s):** To be determined; measure(s) will need to be negotiated with the District's represented employee bargaining units during the normal collective bargaining process, which is scheduled for early 2025.

FISCAL IMPACT:

There are no fiscal impacts regarding this specific Board item. All items that will be brought back to your Board at future meetings will have detailed information on the fiscal impacts for Board consideration.

ATTACHMENTS:

A. Long-Range Fiscal Strategy
B. Cost Recovery and Fee Analysis Study

ATTACHMENT A

Long-Range Fiscal Strategy

October 19, 2023

Santa Barbara County Air Pollution Control District
Board of Directors

260 San Antonio Road, Suite A
Santa Barbara, California 93110

Long-Range Fiscal Strategy

Fiscal Years 2023-28

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Executive Summary

The goal of the Long-Range Fiscal Strategy (Strategy) Fiscal Year (FY) 2023-28 is to ensure the Santa Barbara County Air Pollution Control District (District) has sufficient resources to accomplish its mission and mandates into the foreseeable future. In preparing this Strategy, the District carefully evaluated changes to revenue, impacts to workload, current cost-recovery mechanisms for fee-based programs, existing and projected staffing, and potential cost reductions and/or revenue enhancements.

Five years ago, the District brought before the Board of Directors its FY 2018-19 budget. In preparing that budget, the District conducted its first long-range fiscal outlook. That additional step was spurred by the 2015 Plains All American 901 pipeline rupture, which shut down oil and gas facilities dependent on the pipeline for distribution; as a result, the District's revenue from fees associated with annual emission, source testing, monitoring, and reimbursable labor collected from affected oil industry were reduced. Compounding matters, in 2016, Venoco quitclaimed two state land leases and filed for bankruptcy.

The District, anticipating that continued decreased oil and gas activity would have ongoing revenue implications, assumed a fiscally conservative position and received Board support for organizational changes. Those changes — referred to throughout this document as the FY 2018-19 reorganization — included the following measures: 1) implementing streamlining and efficiency measures, 2) reducing the number of full-time positions from 43 to 34, through a mix of retirements and permanently not filling select vacant positions, 3) restructuring agency leadership and Air Quality Specialist positions to serve multiple functions across divisions, and 4) administering equity pay adjustments to ensure staff are compensated at a competitive rate in the employee marketplace. The District's successful implementation of the FY 2018-19 reorganization resulted in long-term savings with expenditure levels kept relatively flat, while managing continued workload increases.

Through that FY 2018-19 reorganization process, the District committed to evaluating its fiscal stability every five years. This Strategy is the next phase of that commitment. In preparing the Strategy, the District conducted a thorough analysis of historical revenue and expenditures, as well as detailed projections over the next five years. This analysis was performed in the context of keeping in place core programs with existing staffing levels and factoring in reduced revenue due to changes in oil and gas activity. These assumptions forecast a budget deficit of approximately $400,000 (i.e., 4% of the District's annual operating budget) in FY 2024-2025, increasing to a deficit of approximately $1.2 million in FY 2027-2028. Developing this Strategy also involved conducting a Cost Recovery and Fee Analysis Study (Fee Study), to analyze the District's cost-recovery metric for fee-based work. That Fee Study found that the District's fees only cover 47% of the time and materials associated with fee-based work, leaving approximately $2.3 million annually unrecovered by fee-paying sources.

Despite prudent budgeting and prior efficiency efforts, today's challenges require additional measures to safeguard the District's financial health and long-term ability to continue fulfilling its mission. Historically, the District has deferred significant fee increases by adhering to fiscal principles that maximize efficiency and minimize costs. The District has annually adjusted fees only by applying the Consumer Price Index (CPI) and has not required across-the-board fee increases since 1991 — more than 32 years ago.

After careful evaluation of all aspects mentioned above, recommendations in this Strategy will provide the District with a long-term mechanism to stay fiscally sound. The District's recommendations for the next five years include: 1) develop a cost-recovery policy for fee-based programs; 2) implement multi-year, phased-in fee increases; 3) adopt fund balance policy; and 4) implement staff retention measure(s).

Today's Challenges

With the FY 2018-19 reorganization, the District was able to stave off raising fees on regulated industry beyond the annual CPI. Today, the District faces new challenges related to its fiscal stability, with revenues projected to decrease due to changes in the oil and gas sector — in addition to rising costs related to pension contributions and health benefits for staff. Simultaneously, workload and unfunded mandates continue to grow, and the staffing crunch being felt by other agencies is similarly affecting the District. These three overarching challenges are explained in detail below.

Fiscal Stability

The oil and gas industry has historically experienced cycles of growth and contraction due to price volatility, market demands, product transportation methods, and technological innovations. However, in recent years, other factors have contributed to accelerated declines in the District's revenues from local oil and gas activity. The 2015 Plains All American 901 pipeline rupture, coupled with the Phillips 66 Santa Maria Refinery closure in early 2023, has continued to have far-reaching effects on oil and gas production in Santa Barbara County. In the last five years, revenue from fees paid by the oil and gas industry has declined, and the District anticipates a loss of approximately $785,000 in revenue over the next five years.

In addition, on the expenditure side, salary and benefits have increased over the past five years, even with the decrease in the number of full-time employees. From modest cost-of-living adjustments, retirement contributions, and District-paid health benefits, the District has experienced a total increase of $972,500, or 18%, in salary and benefits, and anticipates these trends will continue to increase an average of 4% each year.

In response, the District hired Matrix Consulting Group to conduct the Fee Study to determine the cost-recovery percentage achieved by the District using existing fees for the following programs: permitting, compliance, air quality planning, air toxics, source testing, agricultural diesel engine registration, and the hearing board. The current fee structure was established when the District was created, based upon other similar Air Pollution Control Districts. The purpose of this study was to review the existing fee schedule and ensure that it appropriately captures the variety of services provided by the District.

The results of the Fee Study show that, overall, the District is only recovering 47% of its costs to implement those mandated programs. This is due, in part, to the historical reliance on large sources — such as oil and gas facilities — to shoulder the bulk of the fees, a common practice historically used by other air districts as well. More detailed information on the Fee Study is found in the *Results of the Fee Study* section.

Workload Management

Despite changing and threatened revenue streams, the District's workload continues to grow. When the District was formed in 1970, the primary pollutant of concern was ozone. In the five decades since, Santa Barbara County has seen great improvements in ozone levels. However, the last 50 years have also brought forth new air pollution challenges, with an increasing focus on particulate matter and air toxics, as well as greenhouse gases, which contribute to climate change. Climate change is expected to lead to more wildfires — resulting in more particulate matter — and higher temperatures, resulting in elevated ozone levels. Underpinning many ongoing and new mandated programs, too, is the growing emphasis on environmental justice. Once the District attains the ozone standard, it must juggle the hard work of maintaining air quality standards while addressing these other challenges.

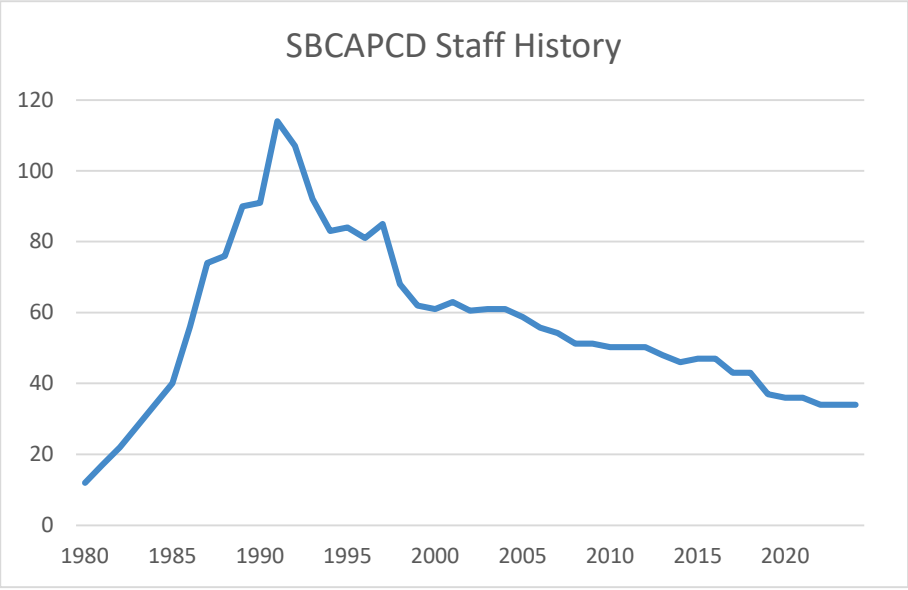
With only 34 staff, each staff member has a full workload with many and varied assignments. While the District has seen decreases in workload for some mandated programs — such as permitting and related ozone planning and rulemaking efforts related to offshore oil platforms — it has not been proportional to revenue decreases. At the same time, there has been a dramatic increase in workload related to, but not limited to, the following mandated State programs: AB 2588 Air Toxics Hot Spots, AB 32 greenhouse gas regulations, and AB 617 Community Air Protection. In addition to increasing mandates, the District's administrative overhead role with grant and incentive programs continues to grow; these programs provide a great benefit to businesses and communities and serve a critical role in reducing emissions from sources outside of the agency's regulatory authority. However, all these workload increases have insufficient funding to cover the associated costs.

At current staffing levels, growing mandates have prevented completion of lower-priority work that could provide important local air quality benefits. For example, the District's surveillance inspection program — an important tool to ensure a level playing field for compliance — is not mandated, requires a lot of staff time to equitably apply, and is easy to be pushed aside when staff resources are tight. The District prides itself on providing excellent customer service to the public and regulated businesses, but current staffing levels sometimes mean unavoidable delays. For example, over the last five years, while the District has remained within its performance parameters for completing permit actions, the overall time it takes for these actions has increased.

The District has undertaken extensive efficiency measures over the past several years to increase productivity with reduced staff, such as in-house database automation and paperless systems. The District will need to expand additional streamlining and automation tools to keep up with anticipated workload increases. However, implementing additional efficiency measures also requires substantial staff time and investment before the benefits are realized.

Staff Retention

The District is currently operating with its leanest workforce since the 1980s. In the last five years, the District has also been challenged with a high rate of staff turnover: each year, almost four full-time employees — approximately 11% of its workforce — leave the District.



This turnover consumes the agency's time and resources for recruitment and training, and due to the small size of the District, detracts from the entire agency's ability to accomplish the workload. It takes a year to evaluate whether a new employee will pass probation. Over the last five years, the average tenure of staff who pass probation but leave the District for other opportunities has been two years.

The District's current workforce also has a lower average tenure than what the District has historically experienced, due to retirements of long-serving staff and those positions being filled by individuals starting their careers. Since the FY 2018-19 reorganization, the District has seen eight retirements totaling more than 200 years of service, with an average District tenure of 25 years. Looking forward, 15% of District staff — who each have more than 30 years of experience — are of retirement age. The average number of years of service is currently nine, with 41% of staff having less than five years of service.

In the wake of the COVID-19 pandemic, the cost of living in Santa Barbara County has skyrocketed above what were already-high levels compared to other areas of California. U.S. News & World Report recently named Santa Barbara the fifth-most expensive place to live in the nation[1]. Average home prices have increased by 26% in Santa Maria and 16% in Santa Barbara in the last two years[2]. As of April 2023, the median home price was $597,500 in Santa Maria, and $1,785,500 in Santa Barbara. The rental market is seeing even more drastic increases; in the last two years, the average rent for a two-bedroom apartment has increased by 45% in Santa Maria and 40% in Santa Barbara[3].

Those economic realities present another complication for staff recruitment and retention. Together, all issues mentioned above emphasize the importance of both succession planning and maintaining and enhancing retention measures so that the District can remain a competitive employer, minimize turnover and the associated workload disruption, and encourage continued service by staff as their institutional knowledge and experience grows.

Despite numerous cost-cutting measures implemented by the District in the past five years, further strategies are now needed to address the expected impacts from decreasing revenues, increasing mandates, and ongoing staffing challenges.

Revenue Overview

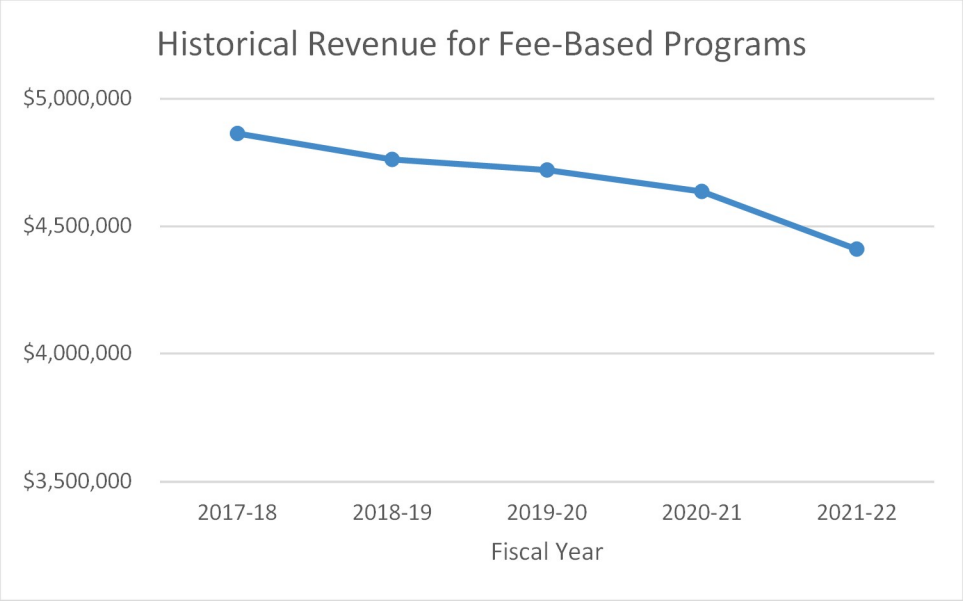
The purpose of this FY 2023-28 Long-Range Fiscal Strategy is to evaluate the existing and projected future staffing and financial resources of the District, and to identify potential revenue enhancements and/or cost reductions to ensure fiscal stability and continued capacity to accomplish the agency's mission and mandates.

Long-Term Revenue Trends

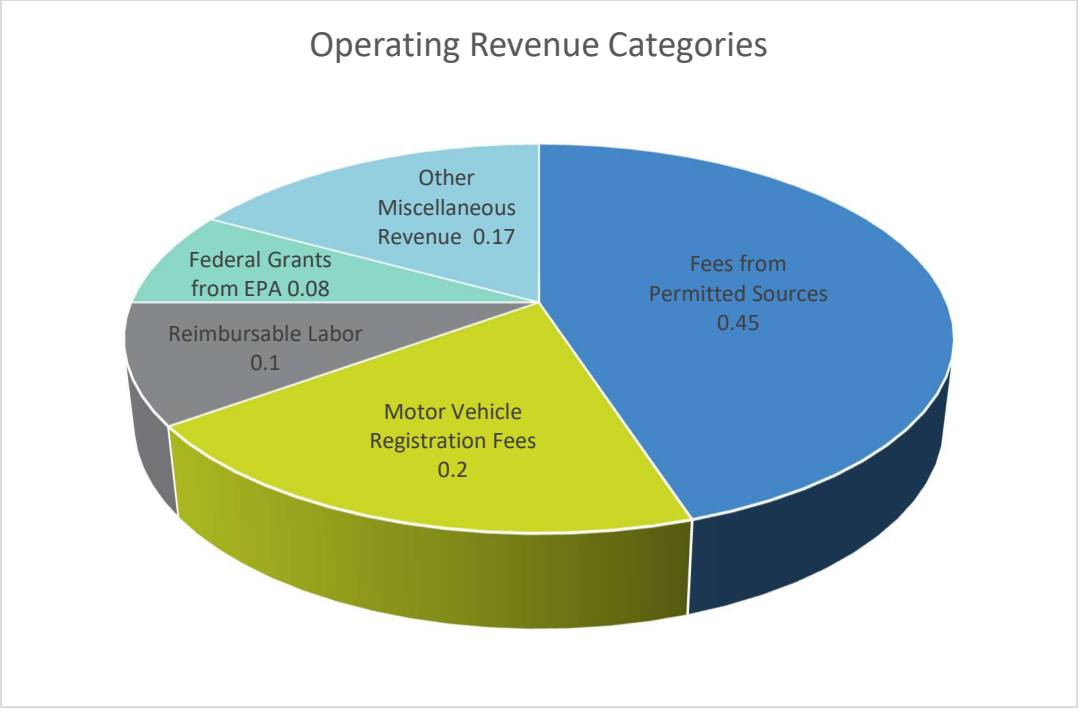
California law and the Health and Safety Code provide the District with the ability to fund its activities through a combination of Permit Fees, which are the scope of the Fee Study; Grants; Subventions; Penalties; and Vehicle Registration surcharges. All revenue streams cover mandated programs and non-mandated programs that provide public health benefits and contribute to local communities.

[1] 25 Most Expensive Places to Live in the U.S. in 2023-2024 | U.S. News (usnews.com)
[2] Santa Maria Housing Market: House Prices & Trends | Redfin and Santa Barbara Housing Market: House Prices & Trends | Redfin
[3] Average Rent in Santa Barbara, CA and Cost Information - Zumper and Average Rent in Santa Maria, CA and Cost Information - Zumper

Below is a graph that shows the revenue trend over the last five years for many of the District's fee-based programs, including permitting and compliance, air quality planning, air toxics, source testing, and hearing board fees — all of which were analyzed in the Fee Study. The chart shows that, over the last five years, the District has experienced an overall reduction in fee revenue of approximately 10%. This is mainly due to the decrease in oil and gas activities. Due to this decrease, over the next five years, the District's conservative projection is a continued revenue reduction of approximately $785,000.



This expected revenue reduction is two-pronged: 1) reduced oil and gas activity, and 2) as further explained in the *Results of the Fee Study* section, the District is under-recovering fee-based revenue. Looking at the District's operating revenue, fees from permitted sources typically provide approximately 45% of the District's total operating revenue. Motor vehicle registration fees comprise another 20% of the operating revenue, reimbursable labor work account for 10%, and various other revenue streams account for the remaining 25%.



The various other revenue streams used for operations, captured under "Other Miscellaneous Revenue" and "Federal Grants from EPA" in this chart, include:

- Federal EPA Section 103 and 105 grants;
- Portable Equipment Registration Program (PERP) monies from the State;
- Subvention grant funds from CARB; and
- Smaller grants that help fund specific programs. (Examples include Prescribed Burns, Oil & Gas regulation, E-BAM cache, and the AB 617 program implementation.)

These other revenue streams are only received when funds are available through the state or federal governments. Over the last five years, these revenue streams have contributed approximately $3 million annually to the District.

Despite the cost-recovery shortfall in fees, the District has operated with a balanced budget because other revenue sources have filled the gaps in our various fee-funded programs. Ultimately, this practice is not sustainable, and the District should not be relying on these other revenue sources to subsidize permitting and compliance work. Of note, the California State Auditor has stated that while Air Districts have the discretion to utilize vehicle registration revenues for fee-related services, they should utilize those funds to help offset mobile emissions and improve air quality through those programs rather than subsidize permit holders.

The last noteworthy revenue category is pass-through grant funds, which are received by the District to distribute to third parties for voluntary emission-reduction projects. The grant funds help local businesses and organizations replace old diesel engines with cleaner technologies. Grant funds are also used to expand electric vehicle (EV) infrastructure and technologies, and for incentive programs to replace gas-powered landscaping equipment with electric options. These funds have specified uses and are not eligible to cover District operations. These pass-through grants come with administrative funds to help with the District's implementation, yet these funds are often not enough to fully cover implementation

costs. On average, over the last five years, the District has received approximately $275,000 annually for grant administration; however, it costs the District approximately $520,000 annually to administer the programs.

Results of the Fee Study

The District issues permits for stationary sources of air pollution, and charges fees for those permits. For long-term fiscal stability, these permit fees should cover the costs related to staff's work in the permitting program and not be subsidized by other revenue sources. This Fee Study, finalized in May 2023, was conducted to determine the cost-recovery percentage of the District's existing fee schedule. The Fee Study did not evaluate all sources of District revenue for cost recovery. Specifically, the Fee Study excluded annual emissions fees, DAS and monitoring fees, reimbursable labor charges, the asbestos program, and revenue from various grant sources.

The Fee Study analyzed the cost-of-service relationships that exist between the District and the regulated community in relation to facility/equipment fees for the permitting and compliance programs, air quality planning, air toxics programs, and source tests. The results of the study provide a tool for understanding current service levels, the cost recovery for those services, and what fees for service can be legally charged.

The Fee Study shows that the District is not fully recovering costs for implementing the various fee-based programs and is under-recovering costs for these programs by approximately $2.3 million per year — a cost-recovery percentage of only 47%. The largest contribution to the deficit is fees related to permitting and compliance programs. Detailed Fee Study results by fee schedule are shown below.

Annual Cost Recovery Analysis Provided by Matrix Consulting

Fee Schedule	Revenue at Current Fee[4]	Total Annual Cost	Annual Surplus / (Deficit)	Cost Recovery %
A – Equipment / Facility	$1,157,439	$1,923,856	($766,417)	60%
B-1 Air Quality Planning	$344,135	$428,347	($84,212)	80%
B-2 Air Toxics	$113,970	$259,352	($145,382)	44%
C – Source Testing	$105,321	$178,882	($73,561)	59%
F - Miscellaneous	$327,537	$1,525,322	($1,197,785)	21%
Agricultural Diesel Engines	$24,360	$70,701	($46,341)	34%
TOTAL	**$2,072,763**	**$4,386,460**	**($2,313,697)**	**47%**

Other notable findings from the Fee Study include:

- $628,000 annual shortfall from Fuel-Burning Equipment fees,
- $468,000 annual shortfall from Minimum Permit Reevaluation Fees, and
- $485,000 annual shortfall from Gasoline-Dispensing Facility fees.

Many air districts' fee schedules work, by design, in a progressive fashion. Larger sources of air pollution — such as oil and gas industry sources — pay higher fees than smaller sources, based on the size and quantity of equipment they install and the mass of pollutants they emit. In some cases, the fees collected

[4] The Revenue at Current Fee is calculated by taking the 3-year average of workload information (FY19, FY20, and FY21) and multiplying it by the FY22 fee rate.

from larger sources may have historically offset some cost-recovery shortfalls from the fees collected from most smaller sources. Therefore, the recent and projected loss of several larger sources is anticipated to create a disproportionate loss of revenue due to the progressive nature of the District's fee structure; other air districts have experienced similar disruption in recent years. If the agency's fee schedules are maintained at current levels, the District will continue to experience even larger fee revenue shortfalls and more difficulty balancing budgets in the future.

For the District to ensure ongoing fiscal equity and sustainability, it is important that the fees charged cover — but not exceed — the costs for implementing the services provided. The results of the Fee Study show the District is not adequately recovering fees for the cost of its work across the majority of its fee-funded programs, and changes to both fee schedules and operating practices are necessary.

Expenditure Overview

District Workforce and Workload

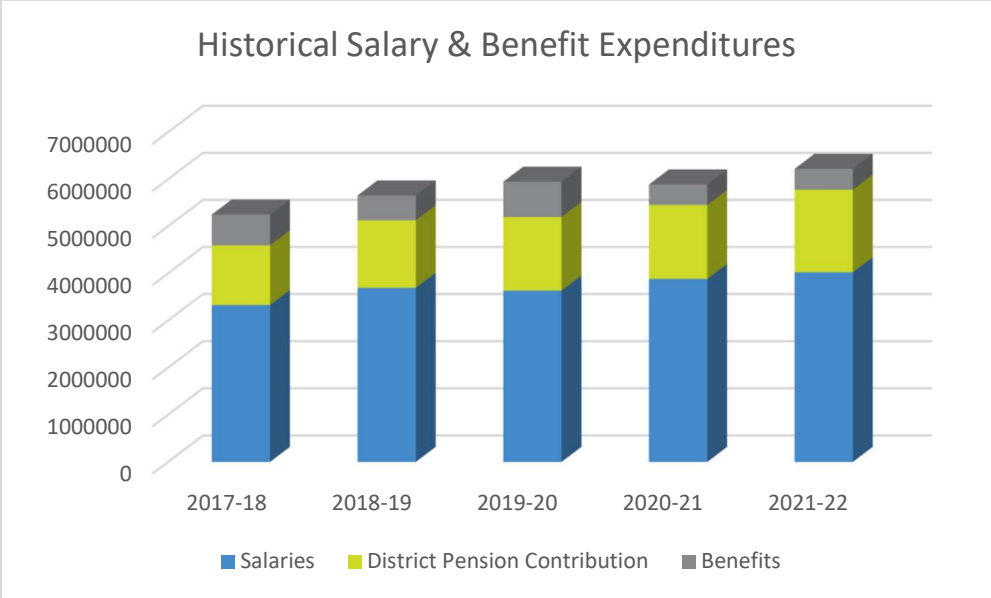
District operating expenditures pay for goods and services needed to run the District efficiently. Examples of these expenditures are employee salaries, retirement contributions, medical benefits, and worker's compensation insurance. Services and Supplies is another expenditure group and includes things such as utilities, rent, legal fees, training, travel, office expenditures, and repairs and maintenance to equipment. Lastly, there are "other expenditures," covering the District's fleet costs, liability insurance premiums, and any other miscellaneous expenditures that might not be captured in the categories above.

The District currently employs 34 permanent, full-time staff, plus temporary part-time college interns and extra-help employees who work on specific projects. In implementing the FY 2018-19 reorganization, the District streamlined all program areas to accommodate the rising workload amid ongoing budget constraints. These efforts have significantly improved efficiency, but staff workload remains high. Further staff reductions would mean significant impacts to the execution of core programs and customer service and place the District in a precarious position during unexpected air pollution challenges.

Long-Term Expenditure Trends

Each year, District expenditures are programmed to match revenues, making a balanced budget. Therefore, planned revenues cover all operational expenses. Periodic expenses (e.g., capital improvements) are paid through fund balance accounts (i.e., savings) specifically designated for those items.

Salary and benefit expenditures have increased over the past five years, even with the decrease in staff. Salaries have increased by approximately 11% due to modest cost-of-living adjustments, and the District's retirement contribution has increased almost 40%. District-paid health benefits are also on the rise — a 17% increase over the last five years. The District anticipates these trends to continue, where salary and benefit expenditures continue to increase, on average, 4% each year.

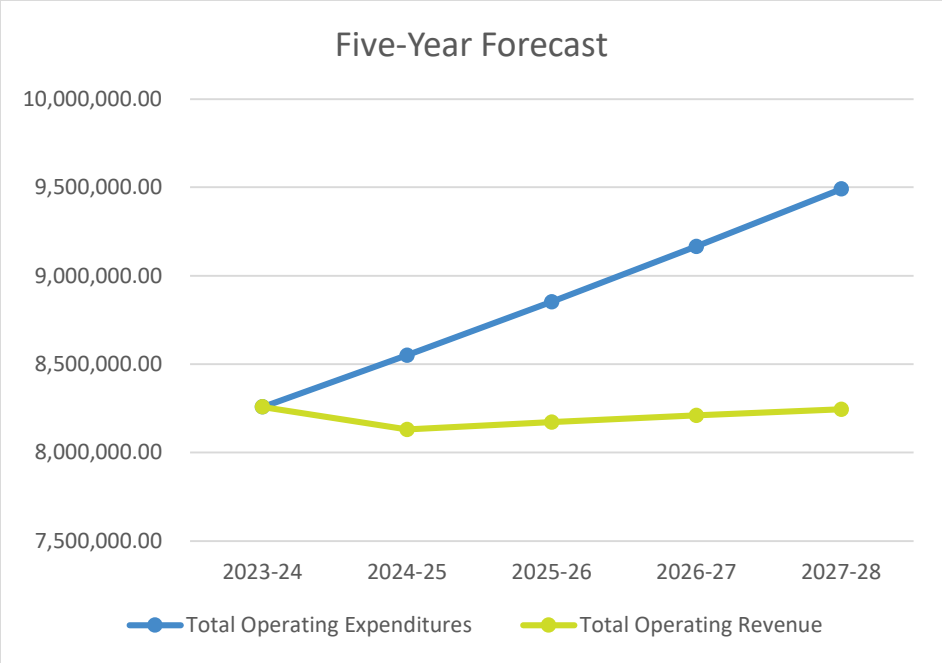


The Services and Supplies (S&S) category has remained steady over the last five years, with a minor increase of less than 1% and an average total of $3.8 million per year, which includes pass-through grant funds. When looking solely at operating expenditures over the last five years, the District has decreased S&S expenditures by almost 15%. The District anticipates ongoing expenditures to remain steady over the next five years with minor fluctuations (including a 2% increase factor to capture any utility increases). For the implementation of future efficiency measures, additional S&S funds will be needed.

However, even with ongoing streamlining and cost-cutting over the past several years, the District finds itself reaching the point of diminishing returns where further significant cuts would seriously impede the agency's ability to accomplish its mission, comply with mandates, and meet its customer service goals. While the District is committed to continuing to explore additional efficiency measures, embarking on such measures requires significant up-front staff time and resources, and efficiency measures alone would not be sufficient to prevent future budget shortfalls. Moving forward, consideration of any further significant expenditure reductions should take the following into account: 1) Air quality and public health protection must be maintained consistent with state and federal mandates and in alignment with the District's Strategic Plan, and 2) Essential facilities, infrastructure, and equipment must be maintained at reasonable levels.

Strategies to Ensure Financial & Operational Stability

As summarized in the two sections above, it is anticipated that the District will face a shortfall in operational revenue in the near future. The chart below represents the forecasted revenue and expenditures over the next five years. This is considered a base case scenario that incorporates projected reductions in oil and gas activity associated with the known decommissioning of some of the oil and gas platforms off the coast of Santa Barbara County.



Expenditures were calculated using the following assumptions:

- Maintaining the existing 34 full-time staff,
- 4% increase annually for salaries, pension costs, benefits,
- 2% increase for Services and Supplies, and
- 3% increase in all other expenditures, which covers insurance premiums and fleet costs.

Assumptions for revenue were based on historical values related to general revenue increases (1.24%) as well as annual CPI increases (2.92%). Illustrated in the chart above, if the District continues to operate without any fee increases, operating expenditures will surpass operating revenue by approximately $400,000 in FY 2024-25 (i.e., a deficit of 4% of total operating budget) and will grow to a shortfall of more than $1.2 million by FY 2027-28.

As the District moves forward, the District will continue to place high reliance on expanded use of efficiency strategies, such as electronic permit application submittals and annual emissions inventory data. The District also plans to expand cross-training of staff to better address workload demands within and among divisions. In addition to continued efficiency efforts, the proposed strategies outlined below will be integral to the District's financial and operational stability.

Adopt and Implement Cost-Recovery Policy for Fee-Based Programs

To ensure the District's time and materials are accounted for when processing permits and working with sources, the implementation of a cost-recovery policy will ensure that the District has a long-term mechanism to stay fiscally sound. The District's historical approach for only implementing the CPI has not provided the necessary cost-recovery mechanism. Prior to conducting the Fee Study, the District's intent was to secure cost-recovery close to 100% for the services and time required to manage the permit and compliance programs. The Fee Study showed that the District's operations currently fall well below the target of 100% cost-recovery. For many air districts, a standard policy is to reach 85% cost-recovery. While 100% cost recovery would be ideal, it could be difficult and burdensome to achieve.

The California Health & Safety Code provides air districts with the authority to adopt fee schedules to cover the costs to implement a stationary source permitting program. Increases in fees are required to be capped at 15% per year. With that Health & Safety Code restriction, continued application of CPI adjustments, and the significant gap between the current cost-recovery of 47% to the recommended metric of 85%, it will take a multi-year, phased-in approach for the agency to reach its cost-recovery goal. This phased-in approach would also ease the transition for regulated industry.

The goal of reaching an 85% cost-recovery could be accomplished by applying a certain percent increase over multiple years. The higher the percentage, the sooner the target of 85% could be achieved (e.g., 15% increase per year would reach 85% over 5 years, 10% increase per year over 10 years, and 5% increase per year over 15 years).

District staff are recommending a phased-in fee increase of 10% per year over the next 10 years. Over the five-year outlook of this Long-Range Fiscal Strategy, the cost recovery would increase from the current 47% level to 66% cost recovery in FY 27-28.

Consider Potential Changes to Rule 210

In analyzing the District's Fee Rule (Rule 210), it became clear that there are several areas where the current fee schedule does not provide a mechanism for the District to recover costs for associated work. To address these shortfalls, the following new fees are currently being evaluated and will be presented during a public workshop prior to adoption: Part 70 application filing fee, minimum permit evaluation fee, partial permit transfer fee, confidential information handling fee, Interim Permit Approval Program (IPAP) fee, annual emergency standby diesel-engine fee, annual gas station fee, cannabis facility/equipment fees, Health Risk Assessment (HRA) screening fee, school notice fee, ERC processing fee, and CEQA fees. In addition, expansion of applicability to the existing Air Toxics fees and Air Quality Planning fees is also being evaluated to ensure these fees allow the District to recover its costs for implementing the associated programs. By modifying Rule 210 to include new fee categories, and expanding the applicability for two existing fee categories, the District would be able to secure fees from sources whose work is currently subsidized by other non-permit revenue sources. The estimated increase in revenue from these potential changes to Rule 210 is approximately $700,000 in FY 24-25, increasing to approximately $770,000 in FY 27-28 due to the application of CPI adjustments.

Adopt Fund Balance Policy at 15% - 20% of Operating Budget

The District proposes to create and adopt a fund balance policy. A fund balance policy establishes minimum reserve levels to ensure stable services, meet future needs, and protect against financial instability. According to the Government Finance Officers Association (GFOA), the recommended best practice is the general fund reserve account should be no less than what will meet the average cash flow needs of the District for no less than 60 days. Based on this best practice, a policy set at 15 - 20% of the District's operating budget, approximately $1,500,000 - $2,000,000, will establish an appropriate level to meet the demands of the District during periods when revenues are not available. This policy is important to continue the fiscal health of the District.

Approve Staff Retention Measure

Due to the District's size and structure, there are limited promotional opportunities after a certain point of employment. The District proposes to evaluate longevity strategies for employees who reach milestone years of service with the goal of retaining staff who have grown in their position and become efficient at carrying out essential workload. The implementation of the staff retention measure could add additional expenditures in FY 2025-26, increasing the overall deficit.

Staff Recommendations

These above-mentioned strategies will be brought before the District Board of Directors for consideration according to the following timelines:

- **Adopt Cost-Recovery Policy for Fee-Based Programs**: By January 2024, bring a policy back to your Board for consideration that would be phased in over a number of years. If approved, Rule 210 fee increases would occur over 10 years and be included in the annual budget process.

- **Consider Potential Changes to Rule 210**: A public workshop and Community Advisory Council meeting would occur before changes are brought to your Board. Two Board meetings will be required and are expected to occur within Fiscal Year 2023-24.

- **Adopt Fund Balance Policy at 15-20% Operating Budget:** Within Fiscal Year 2023-24, a policy will be brought back to your Board with the proposed budget for FY 2024-25.

- **Approve Staff Retention Measure(s):** To be determined; measure(s) will need to be negotiated with the District's represented employee bargaining units during the normal collective bargaining process, which is scheduled for early 2025.

ATTACHMENT B

Cost Recovery and Fee Analysis Study

October 19, 2023

Santa Barbara County Air Pollution Control District
Board of Directors

260 San Antonio Road, Suite A
Santa Barbara, California 93110

Cost Recovery and Fee Analysis

AIR POLLUTION CONTROL DISTRICT OF SANTA BARBARA COUNTY

FINAL REPORT

May 2023

matrix consulting group

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1. Introduction and Executive Summary

The Matrix Consulting Group was retained by the Air Pollution Control District of Santa Barbara County (District) to conduct a cost recovery and fee analysis of the District's existing fees for service. The following report summarizes the findings and conclusions associated with the District's current cost recovery and full cost recovery.

Project Background and Overview

The District has never conducted a formal cost of services study. Its current fee structure was established when the District was created, based upon other similar Air Pollution Control Districts. The District does annually increase (as appropriate) its fees based upon an established Consumer Price Index (CPI) factor. The District has undergone significant operational, organizational, and staffing changes. As such the purpose of this study was to review the existing fee schedule and ensure that it appropriately captures the variety of services provided by the District.

The Matrix Consulting Group analyzed the cost-of-service relationships that exist between the District and its customers in relation to Facility / Equipment fees for the Permitting and Compliance programs, Air Quality Planning, Air Toxics Programs, Source Tests, and Registration and Renewal of Agricultural Diesel Engines. The results of this study provide the District with a tool for understanding current service levels, the cost and demand for those services, and what fees for service can be legally charged.

State law and the Health and Safety Code provides the District with the ability to fund its activities through a combination of Grants, Subventions, Permit Fees (scope of this analysis), penalties, and Vehicle Registration surcharges.

The display of the cost recovery figures shown in this report are meant to provide a basis for policy development discussions among Board members and District staff, and do not represent a recommendation for where or how the Board should act. The setting of the "rate" or "price" for services, whether at 100 percent full cost recovery or lower, is a policy decision to be made only by the Board, with input from District staff and the regulated community.

Project Methodology

The methodology employed by the Matrix Consulting group is a widely accepted "bottom up" approach to cost analysis, where time spent per unit of fee activity is determined for

each position within a Division or Program. Once time spent for a fee activity is determined, all applicable District costs are then considered in the calculation of the "full" cost of fee-related services provided by the District:

Table 1: Cost Components Overview

Cost Component	Description
Direct	Fiscal Year 2022/23 Budgeted salaries, benefits, and allowable expenditures.
Indirect	Departmental and districtwide administration and clerical support.

Together the cost components in the table above comprise the calculation of the total "full" cost of providing a particular fee-related activity. For example, the full cost to permit and inspect an air pollution emitting device (e.g., baghouse) powered by an electric motor using the Schedule A.2. per electric horsepower fee consists of a review of 0.10 hours (6 minutes) by Air Quality Engineer, 0.03 hours (2 minutes) by Eng. Mgr. / Supervisor, 0.10 hours (6 minutes) by Compliance Air Quality Specialist, and 0.03 hours (2 minutes) by Compliance Mgr. / Supervisor. The time estimates for each position are multiplied by their respective fully burdened hourly rates ($161.50 for Air Quality Eng., $201.63 for Eng. Mgr. / Supv., $178.32 for Compliance Air Quality Spec., and $224.52 for Compliance Supv. / Mgr.) to arrive at the full cost of $45.28. This is the level of detail that was collected for every single fee included in this study.

The work accomplished by the Matrix Consulting Group in the analysis of the fees for service involved the following steps:

- **Conducted Interviews with Staff:** The project team interviewed District staff across all programs and activities regarding the services that they provide, the level of service associated with fees, and ensuring that time estimates are appropriate.

- **Collected Data:** Data was collected for each permit / service, including internal time tracking information and workload information associated with the different activities. In addition, budgeted costs and staffing levels for FY22/23 were entered into the Matrix Consulting Group's analytical software model.

- **Calculated the Full Cost of Services:** Utilizing the data collected, fully burdened hourly rates were calculated and multiplied by the time estimates to determine the full cost associated with each fee-related service.

- **Reviewed Results with Staff:** The project team reviewed the results of the analysis with supervisory and managerial staff to ensure that there was review and approval of these documented results.

A more detailed description of user fee methodology and legal regulations are provided in subsequent chapters of this report.

Summary of Findings

When comparing the prior 3 years of workload information against the FY23 budgeted full cost of District fee-related activities, the District is under-recovering by approximately $2.3 million per year. The following table shows by Fee Schedule, the revenue at current fee, the total annual cost, the resulting difference, and the cost recovery percentage.

Table 2: Annual Cost Recovery Analysis

Fee Schedule	Revenue at Current Fee[1]	Total Annual Cost	Annual Surplus / (Deficit)	Cost Recovery %
A – Equipment / Facility	$1,157,439	$1,923,856	($766,417)	60%
B-1 Air Quality Planning	$344,135	$428,347	($84,212)	80%
B-2 Air Toxics	$113,970	$259,352	($145,382)	44%
C – Source Testing	$105,321	$178,882	($73,561)	59%
F - Miscellaneous	$327,537	$1,525,322	($1,197,785)	21%
Agricultural Diesel Engines	$24,360	$70,701	($46,341)	34%
TOTAL	**$2,072,763**	**$4,386,460**	**($2,313,697)**	**47%**

The $2.3 million reflects a cost recovery level of 47% for the programs funded by the fee schedules. The largest sources of this shortfall are Schedules F ($1.2 million) and Schedule A ($766,000). This under-recovery is primarily associated with three fee categories:

- Schedule A.3 - Fuel Burning Equipment – per 1 million BTU / hr. – annual shortfall of $628,000 and a per unit shortfall of $700.

- Schedule F.2 - Minimum PTO / Reevaluation Fee – annual shortfall of $468,000 and a per unit shortfall of $2,646.

- Schedule F.3 – Yearly PTO Reevaluation Fee – Motor Vehicle Fueling Facilities Equipped with Phase II Vapor Recovery Systems per nozzle – annual shortfall of $485,000 and a per unit shortfall of $540.

[1] The Revenue at Current Fee is calculated by taking the 3 year average of workload information (FY19, FY20, and FY21) and multiplying it by the FY22 fee rate.

The shortfalls noted are being funded through other revenue sources available at the District. The results of this study show on a fee-by-fee or line-by-line basis the current fee and the full cost calculated through this study. The results of this analysis provide the District with guidance on how to right-size their fees to ensure that each service unit is set at an amount that does not exceed the full cost of providing that service and which does not rely on revenue subsidies.

Future Considerations for Cost Recovery Policy and Updates

The Matrix Consulting Group recommends that the District use the information contained in this report to discuss, adopt, and implement a formal Cost Recovery Policy, and a mechanism for the annual update of fees for service.

1 Adopt a Formal Cost Recovery Policy

The Matrix Consulting Group strongly recommends that the Board adopt a formalized, individual cost recovery policy for each service area included in this Study. Whenever a cost recovery policy is established at less than 100% of the full cost of providing services, a known gap in funding is recognized and may then potentially be recovered through other revenue sources. The Matrix Consulting Group considers a formalized cost recovery policy for various fees for service an industry Best Management Practice.

For most Air Control Districts, a standard target cost recovery policy is to achieve and maintain 85% cost recovery. While it is ideal to target 100% cost recovery, due to changing regulations, permitting environments, and costs, it is difficult to achieve that. Therefore, it is being recommended that through this analysis, the District adopt a formal target policy identifying its Board agreed upon cost recovery target.

2 Adopt an Annual Fee Update / Increase Mechanism

The purpose of a comprehensive update is to completely revisit the analytical structure, service level estimates and assumptions applied in the previous study, and to account for any major shifts in cost components or organizational structures. The Matrix Consulting Group believes it is a best management practice to perform a focused programmatic update of the fees every 3 to 5 years by utilizing current revenue and expenditure data coupled with up-to-date programmatic goals and objectives.

In between focused programmatic updates, the District should continue its practice of utilizing published industry economic factors such as the California Consumer Price Index (CPI) as noted by the California Health and Safety Code Section 42311, which enables the District to update the cost calculations established in the Study on an annual basis. Utilizing an annual increase mechanism would ensure that the District receives

appropriate fee and revenue increases that reflect growth in costs and minimize major cost increases from year to year.

3 Other Fees

There are certain fees that have not been evaluated in this cost of services study as those fees are not service or time-based, or the programs are evolving. For those programs and fees, the District should consider evaluating them at a later date. For example, the District plans to undergo changes for the Asbestos program in the near future, as such those fees should be evaluated, once all changes have been implemented.

4 Cost Increases

The cost of services study is a snapshot in time. Future cost recovery considerations must take into account potential cost increases not due to annual cost increases, but rather items such as staffing changes or process changes that may impact the time it takes to conduct activities.

2. Legal Framework

A "user fee" is a charge for service provided by a governmental agency to a public citizen or group. In California, several constitutional laws such as Propositions 13, 4, and 218, State Government Codes 66014 and 66016, and more recently Prop 26 and the Attorney General's Opinion 92-506 set the parameters under which the user fees typically administered by local government are established and administered. Specifically, California State Law, Government Code 66014(a), stipulates that user fees charged by local agencies "…may not exceed the estimated reasonable cost of providing the service for which the fee is charged".

In addition to these propositions and legal government codes, the District's fees are specifically subject to the California Health and Safety Code. The following table summarizes the key Health and Safety Codes and their fee and revenue related regulations:

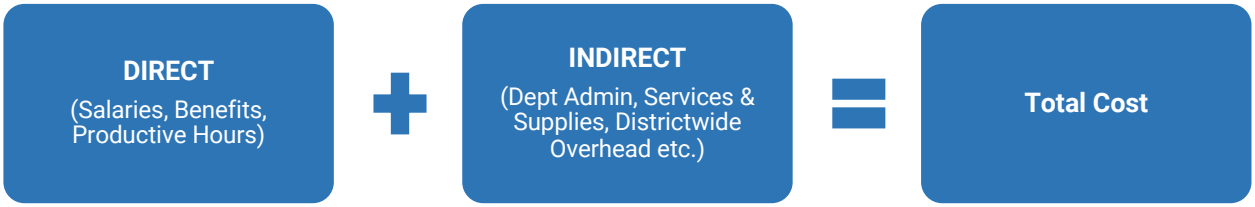
Table 3: California Health and Safety Code Regulations

CA H&SC	Description
40701.5	Provides the District with the ability to fund its activities through a combination of Grants, Subventions, Permit Fees (scope of this analysis), penalties, and Vehicle Registration surcharges.
41512	Provides the District with the ability to set fees (after a public hearing) to recover the costs associated with evaluation, sampling, calculations, and report preparation for sources that have emissions provided fees do not exceed the cost of providing those services.
41512.7(b)	Provides language that enables the District to increase individual fees for service for permit to operate and authority to construct permits by no more than 15% per year.
42311	This section enables the District to establish fees for renewal, evaluation, and issuance of permits for stationary sources, nonvehicular sources emitting toxic air contaminants, and hearing board fees, provided they do not exceed the cost of providing those services. Additionally, the District can increase these fees every year based upon the California CPI.

As the table demonstrates, there are several codes that are applicable to Air Pollution District fees. Ultimately, these codes reiterate the regulations from Proposition 26 and 218, in that the District is limited to the cost associated with providing these services as it is setting its fees. Therefore, it is critical to ensure that as the costs are being calculated for this analysis, they incorporate all costs (direct and indirect) associated with providing the fee-related services. The regulations do also potentially limit the increase of fees to no more than 15% per year, which doesn't affect cost calculation but affects fee setting.

3. Cost Recovery Methodology

The Matrix Consulting Group utilizes a cost allocation methodology commonly known and accepted as the "bottom-up" approach to establishing User Fees. The term means that several cost components are calculated for each fee or service. These components then build upon each other to comprise the total cost for providing the service. The following chart describes the components of a full cost calculation:



The general steps utilized by the project team to determine allocations of cost components to a particular fee or service are:

- Calculate fully burdened hourly rates by position, including direct & indirect costs.
- Develop time estimates for each service included in the study.
- Distribute the appropriate amount of the other cost components to each fee or service based on the staff time allocation basis, or another reasonable basis.

The results of these allocations provide detailed documentation for the reasonable estimate of the actual cost of providing each service. The following subsections discuss the fully burdened hourly rates calculated and the time estimates utilized.

Fully Burdened Hourly Rates

Fully burdened hourly rates are one of the two key factors of the full cost calculated, and are comprised of the following key components:

- **Direct Cost:** This consists of the salaries, benefits, and productive hours associated with each position. The salaries and benefits are the actual salaries and benefits budgeted for each position at the District. The productive hours are a calculation to reduce the billable hours from 2,080 (standard full-time hours) to the hours which are available to be billed for. This includes reduction for items such as sick leave, vacation, holidays, and trainings. Based upon review of District staff

labor agreements, the total productive hours calculated for the District are 1,646 hours. The 1,646 hours represents a billable percentage of 79%, which is within the range typically seen for local government at 72-82%.

- **Supplies and Services Overhead:** This overhead refers to the non-personnel budgeted items for each program or division that are necessary for the employees to be productive. This includes costs such as internal service charges for vehicles, technology costs, minor equipment, training expenses, and general office equipment. There is a unique overhead associated with each program, as each program has their own services and supplies costs. The costs for each program are divided by the total billable hours in each program to calculate the supplies and services overhead per hour.

- **Departmental Overhead:** This consists of the costs associated with all other activities associated with fee-related programs that are not considered billable. This includes the costs associated with managerial and clerical staff, as well as the non-billable time associated with fee-related staff. The goal of the program is to be recovered through fees, as such the costs should be considered as overhead to fees. The departmental overhead, like the supplies and services overhead is unique to each program, as there are different staffing allocations to each program and activity.

- **Districtwide Overhead:** This cost component reflects the costs associated with Fiscal and Executive, Human Resources, Public Information, and Information Technology. These are all programs and activities that provide support to the District's fee and non-fee related programs. The costs associated with these programs are allocated to the different District programs based upon the FTE and budgeted expenditures associated with each program. The total overhead costs for each program are unique and divided by the total available hours for each program to calculate the districtwide overhead per hour for each staff position.

Together these cost components result in fully burdened hourly rates, which are reflective of the total cost to the District for each position. It is important to note that this rate is *NOT* meant to be reflective of actual pay to District staff, but rather reflects the cost associated with that employee, which includes salaries, benefits, supervisory support, services and supplies, and overall districtwide support. The fully burdened hourly rate is utilized in conjunction with time estimates to calculate the full cost of service.

Time Studies

One of the key study components utilized in the "bottom up" approach is the use of timecard data along with supplemental time estimates, as needed, for the provision of each fee related service. Timecard data, where available, reflects actual staff time spent in the various programs funded by the fee schedule. Where timecard data was unavailable or incomplete, utilization of time estimates is a reasonable and defensible approach, especially since experienced staff members who understand service levels and processes unique to the District developed these estimates.

The project team worked closely with District staff in developing time assumptions with the following criteria:

- Estimates were based on actual timecard data where available.
- Estimates are representative of average times for providing services for those fee schedules for which timecard data was unavailable or incomplete. Estimates for extremely difficult or abnormally simple projects are not factored into this analysis.
- Estimates reflect the time associated with the position or positions that typically perform a service.
- Estimates provided by staff are reviewed and approved by the division / department and involve multiple iterations before the Study is finalized.
- Estimates are reviewed by the project team for "reasonableness" against their experience with other agencies.
- Estimates were not based on time in motion studies[1], as they are not practical for the scope of services and time frame for this project.

The Matrix Consulting Group notes that while the use of time estimates is not perfect, it is the best alternative available for setting a standard level of service for which to base a jurisdiction's fees for service and meets the requirements of California law.

[1] Time in Motion studies refers to a type of process in which staff time is measured utilizing a stopwatch and each task is timed separately through the course of the project. This is not typically feasible for most services as due to the time span over which the services are provided.

4. Detailed Results

The motivation behind a cost of services (User Fee) analysis is for the District Board and Program staff to maintain services at a level that is both accepted and effective for the community, and to maintain control over the policy and management of these services.

The results presented in this report are not a precise measurement. In general, a cost-of-service analysis takes a "snapshot in time", where a fiscal year of adopted budgeted cost information is compared to the same fiscal year of revenue, and workload data available. Changes to the structure of fee names, along with the use of time estimates allow only for a reasonable projection of shortfalls and revenue. Consequently, the Board and Program staff should rely conservatively upon these estimates to gauge the impact of implementation going forward.

Discussion of results in the following sections is intended as a summary of extensive and voluminous fee study documentation produced during the Study. Each chapter includes detailed cost calculation results for each major permit category including the following:

- **"Per Unit" Results:** comparison of the full cost of providing each unit of service to the current fee for each unit of service (where applicable).

- **Annualized Results:** utilizing the volume of activity, estimates of annual shortfalls and revenue impacts were projected.

The full analytical results were provided to District staff under separate cover from this summary report.

5. A – Facility / Equipment Description

Fees for the issuance of Authority to Construct (ATC) and Permit to Operate (PTO) permits are based on the number and size of the equipment included in each project. These permit issuance fees are primarily covered by Fee Schedule A. These fees are intended to cover the cost of staff time associated with reviewing and issuing new permits, conducting reevaluations of existing permits, and conducting initial and ongoing compliance inspections. The following subsections discuss per unit and annual results.

Per Unit Results

The full cost calculated for each service includes direct staff costs, departmental overhead, and districtwide overhead. The following table details the name, current fee, full cost calculated, and the difference associated with Facility / Equipment Fee Schedule.

Table 4: Cost Per Unit Results – Facility / Equipment Description / Fee Schedule

Fee Name	Unit	Current Fee	Total Cost Per Unit	Difference
1.a. Miscellaneous per equipment	Each	$79.76	$109.01	($29.25)
1.b. Minimum Permit fee if only miscellaneous equipment	Each	$496.00	$1,079.21	($583.21)
2. Electric Motor				
Per total rated horsepower	Each	$41.35	$45.28	($3.93)
Minimum Fee	Each	$79.24	$87.35	($8.11)
Maximum Fee	Each	$8,006.06	$8,767.72	($761.66)
3. Fuel Burning Equipment				
Per 1 million Btu/hour input (max design fuel consumption)	Each	$598.34	$1,298.62	($700.28)
Minimum Fee	Each	$79.24	$173.10	($93.86)
Maximum Fee	Each	$8,006.06	$17,375.87	($9,369.81)
4. Electrical Energy				
Per KVA rating in 10's	Each	$8.04	$21.38	($13.34)
Minimum Fee	Each	$79.24	$210.68	($131.44)
Maximum Fee	Each	$8,006.06	$21,286.65	($13,280.59)
5. Incinerator				
Per square feet of inside cross-sectional area	Each	$99.70	$130.06	($30.36)
Minimum Fee	Each	$79.24	$104.04	($24.80)
Maximum Fee	Each	$4,002.08	$5,220.53	($1,218.45)
6. Stationary Container				
Per 1,000 gallons	Each	$4.57	$5.00	($0.43)
Minimum Fee	Each	$79.24	$87.26	($8.02)
Maximum Fee	Each	$4,002.08	$4,378.59	($376.51)
7. Dry Cleaning Equipment Fee	Each	$79.76	$4,768.42	($4,688.66)
8. Motor Vehicle Gasoline Fueling Facilities				
Per Phase II vapor recovery system nozzle (NSR Mods)	Each	$45.87	$80.81	($34.94)
Min. Fee (for a Facility with a Phase II VRS)	Each	$318.87	$561.72	($242.85)
10. Rock Crusher Fee, Per Device	Each	$79.76	$219.77	($140.01)
11. Stacker Belt Fee, Per Stacker Belt	Each	$79.76	$57.52	$22.24

Other than the Stacker Belt Fee, every fee in this section shows an under-recovery. The most significant shortfalls on a permit equipment basis relates to 'Fuel Burning Equipment' at $700 per 1 million BTU, as such the Maximum Fee for that category shows a $9,000 shortfall. The remaining fees also have shortfalls ranging from a low of $0.43 per 1,000 gallons to a high of $13,281 – maximum fee for Electrical Energy.

Annual Results

In addition to the per unit analysis, the project team also collected information regarding the annual implications of the full cost calculated. For each fee associated with the Facility / Equipment Description / Fee Schedule, the following table shows the three (3) year[2] average volume, the revenue at current fee, the total annual cost, and the difference.

Table 5: Annual Results – Facility / Equipment Description / Fee Schedule

Fee Name	Annual Volume	Revenue at Current Fee	Revenue at Full Cost	Difference
1.a. Miscellaneous per equipment	1,442	$114,987	$157,157	($42,170)
1.b. Minimum Permit fee if only miscellaneous equipment	4	$2,149	$4,677	($2,527)
2. Electric Motor				
Per total rated horsepower	7,515	$310,731	$340,263	($29,532)
3. Fuel Burning Equipment				
Per 1 million Btu/hour input	896	$536,312	$1,163,995	($627,683)
4. Electrical Energy				
Per KVA rating in 10's	20	$158	$420	($262)
5. Incinerator				
Per square feet of inside cross-sectional area	67	$6,680	$8,714	($2,034)
6. Stationary Container				
Per 1,000 gallons	29,206	$133,470	$145,970	($12,500)
7. Dry Cleaning Equipment Fee	2	$160	$9,537	($9,377)
8. Motor Vehicle Gasoline Fueling Facilities				
Per Phase II Vapor Recovery System Nozzle	181	$8,318	$14,653	($6,335)
Facilities w/out Phase II Vapor Recovery Nozzle	2	$1,196	$1,818	($621)
10. Rock Crusher Fee, Per Device	15	$1,196	$3,297	($2,100)
11. Stacker Belt Fee, Per Stacker Belt	9	$744	$537	$208
TOTAL		**$1,157,439**	**$1,923,856**	**($766,417)**

When comparing average annual revenues to project full costs, the District shows a shortfall and associated subsidy of approximately $766,000. The primary source of this subsidy relates to Fuel Burning Equipment at $628,000.

[2] Volume is based on an average of FY19, FY20, and FY21 annual permit workload.

6. B-1 Air Quality Planning

The District's Planning Division is responsible for implementing several air quality planning programs. The Air Quality Planning (AQP) fee is used for ozone planning, PM planning, rule development, coordination efforts with planning departments around the county, marine shipping initiatives, mobile source planning, promotion of zero emission vehicle technology and infrastructure, implementing control measures, maintaining the District's emission inventory, oversight of the District's air monitoring network, AB 197 and AB 617 implementation, the Vessel Speed Reduction Program, as well as conducting outreach for grant and incentive programs to promote clean air technologies, presenting at school and community groups, and partnering with local agencies and organizations. The Division reviews discretionary actions by the County and cities, and provides comments on air quality issues, including being responsible for ensuring compliance with the California Environmental Quality Act (CEQA). More recently, the Division has implemented legislative requirements and incentives associated with the state's AB 617 Community Air Protection program. The following subsections discuss any proposed modifications, the per unit results, and the annual results.

This fee was historically known as the Air Quality Attainment Plan (AQAP) fee. It is important to note that this fee is based on tonnage. The fee can be based on either permitted levels or actual levels, depending upon the date the facility was first permitted. In FY21/22, this fee applied to 44 facilities with potential or actual emissions of 10 tons per year or more of either ROG or NOx. Short term projections indicate a decrease of AQP fees of about 30% with longer term projections indicating a further 20% reduction as emissions continue to decrease. As such, there is expected to be a significant decline in the revenues received for this activity.

Per Unit Results

The full cost calculated for each service includes direct staff costs, departmental overhead, and districtwide overhead. The following table details name, current fee, full cost calculated, and the difference associated with Air Quality Planning.

Table 6: Cost Per Unit Results – Fee for Air Quality Planning

Fee Name	Unit	Current Fee	Total Cost Per Unit	Difference
0 to ≤ 10 tons per year	per ton	$0.00	$0.00	$0
> 10 to ≤ 25 tons per year	per ton	$61.82	$77.07	($15.25)
> 25 to ≤ 100 tons per year	per ton	$93.71	$115.60	($21.89)
> 100 tons per year	per ton	$123.66	$154.13	($30.47)

The District is currently under-recovering for all Air Quality Planning categories, ranging from a low of $15 for '> 10 to ≤ 25 tons per year' to a high of $30 for '> 100 tons per year'.

Annual Results

In addition to the per unit analysis, the project team also collected information regarding the annual implications of the full cost calculated. For each fee associated with Air Quality Planning, the following table shows the three (3) year[3] average volume, the revenue at current fee, the total annual cost, and the difference.

Table 7: Annual Results – Fee for Air Quality Planning

Fee Name	Annual Volume	Revenue at Current Fee	Revenue at Full Cost	Difference
> 10 to ≤ 25 tons per year	226.85	$14,024	$17,483	($3,459)
> 25 to ≤ 100 tons per year	494.23	$46,314	$57,132	($10,818)
> 100 tons per year	2,294.98	$283,798	$353,732	($69,935)
TOTAL		**$344,135**	**$428,347**	**($84,212)**

Overall, Air Quality Planning fee services show an annual shortfall of approximately $84,000, with the largest impact ($70,000) coming from the '> 100 tons per year' category.

[3] Volume is based on an average of FY19, FY20, and FY21 annual permit workload.

7. B-2 Air Toxics Program

The Air Toxics function includes implementation of the state's Air Toxics "Hot Spots" (AB 2588) Program, the review of applications to ensure no new sources of significant health risk are permitted, and the tracking and implementation of requirements of state and federal air toxic regulations. The California Air Resources Board (CARB) develops Air Toxic Control Measures for categories of sources that emit toxic air contaminants, and the District implements these measures locally. The United States Environmental Protection Agency (EPA) also develops air toxic regulations, known as National Emission Standards for Hazardous Air Pollutants, and these are implemented locally by the District via a delegation agreement. The air toxics programs help ensure that residents, businesses, and sensitive receptors (e.g., schools, daycares, hospitals, etc.) are properly protected. The following subsections discuss the proposed modifications to this section, the detailed per unit results, and the annual revenue impact.

The Air Toxics Program fee schedule is based on pounds of emission per year. The District doesn't currently assess fees for Air Toxics Programs with less than 2,000 pounds per year. However, similar to the AQP fee, because the structure is based on emissions, as emission decline the total revenue associated with these fees is expected to decline. There are estimates of approximately a 15% decline in the short-term and another 12% decline in the long-term, resulting in a significant overall revenue decline.

Per Unit Results

The full cost calculated for each fee-based service includes direct staff costs, departmental overhead, and districtwide overhead. The following table details the name, current fee, full cost calculated through this study, and the difference for each fee associated with the Air Toxics Program.

Table 8: Cost Per Unit Results – Air Toxics Program

Fee Name	Unit	Current Fee	Total Cost Per Unit	Difference
> 2,000 pounds per year	per pound	$0.39	$0.89	($0.50)

The current per pound fee shows a $0.50 shortfall.

Annual Results

In addition to the per unit analysis, the project team also collected information regarding the annual implications of the full cost calculated. For each fee associated with Air Toxics

Programs, the following table shows the three (3) year[4] average volume, the revenue at current fee, the total annual cost, and the difference.

Table 9: Annual Results – Air Toxics Program

Fee Name	Annual Volume	Revenue at Current Fee	Revenue at Full Cost	Difference
> 2,000 pounds per year	292,231	$113,970	$259,352	($145,382)
TOTAL		**$113,970**	**$259,352**	**($145,382)**

The shortfall for this fee category ($145,000) is due to the per unit shortfall of $0.50 per pound, given that the District monitors nearly 300,000 pounds annually.

[4] Volume is based on an average of FY19, FY20, and FY21 annual permit workload.

8. C – Source Tests Under Schedule A

Source Testing is the in-stack measurement of the actual emissions released from an equipment unit. Engineering Division staff are responsible for implementing the District's Source Test Program. Approximately 10% of permitted facilities are required to perform source testing. Staff review source test plans and reports as well as observe onsite testing. The following subsections discuss any proposed modifications, the per unit results, and the annual results.

Per Unit Results

The full cost calculated for each service includes direct staff costs, departmental overhead, and districtwide overhead. The following table details the name, current fee, full cost calculated through this study, and the difference for each fee associated with Review, Observation, and Evaluation of Source Tests for Equipment Evaluated Under Section A.

Table 10: Cost Per Unit Results – Review, Observation, and Evaluation of Source Tests

Fee Name	Unit	Current Fee	Total Cost Per Unit	Difference
Boiler or Heater	Each	$2,044.36	$3,442.65	($1,398.29)
Piston type engine				
one engine	Each	$2,044.36	$3,442.65	($1,398.29)
each additional engine	Each	$544.48	$958.60	($414.12)
Thermal oxidizer	Each	$2,044.36	$3,637.54	($1,593.18)
Wet scrubber (gaseous)	Each	$2,044.36	$3,783.31	($1,738.95)
Wet scrubber (particulate)	Each	$2,722.49	$4,720.13	($1,997.64)
Baghouse	Each	$2,722.49	$4,720.13	($1,997.64)
Gas Turbine	Each	$2,722.49	$4,720.13	($1,997.64)
Heater Treater	Each	$2,722.49	$4,038.81	($1,316.32)
Other	Each	$2,722.49	$4,720.13	($1,997.64)

All the fees relating to Source Tests show an under-recovery. The largest shortfall of $1997.64 per unit relates to 'Wet scrubber (particulate)', 'Baghouse', 'Gas Turbine', and 'Other'.

Annual Results

In addition to the per unit analysis, the project team also collected information regarding the annual implications of the full cost calculated. For each fee associated with Source

Tests, the following table shows the three (3) year[5] average volume, the revenue at current fee, the total annual cost, and the difference.

Table 11: Annual Results – Review, Observation, and Evaluation of Source Tests

Fee Name	Annual Volume	Revenue at Current Fee	Revenue at Full Cost	Difference
Boiler or Heater	27.00	$55,198	$92,952	($37,754)
Piston type engine				
One engine	5.00	$10,222	$17,213	($6,991)
Each additional engine	7.00	$3,811	$6,710	($2,899)
Thermal oxidizer	6.00	$12,266	$21,825	($9,559)
Wet scrubber (gaseous)	1.00	$2,044	$3,783	($1,739)
Baghouse	1.00	$2,722	$4,720	($1,998)
Gas Turbine	4.00	$10,890	$18,881	($7,991)
Heater Treater	2.00	$5,445	$8,078	($2,633)
Other	1.00	$2,722	$4,720	($1,998)
TOTAL		**$105,321**	**$178,882**	**($73,561)**

The District's annual shortfall related to Source Tests is approximately $74,000. This deficit is primarily due to the Boiler or Heater Source Test category. The per unit shortfall for that category is approximately $1,400 and coupled with 27 annual tests, it results in a $38,000 shortfall.

[5] Volume is based on an average of FY19, FY20, and FY21 annual permit workload.

9. Schedule F

This section of the fee schedule captures miscellaneous fees as well as Hearing Board fees. The following subsections discuss any proposed modifications, the detailed per unit results, and the annual results.

Per Unit Results

The full cost calculated for each service includes direct staff costs, departmental overhead, and districtwide overhead. The following table details the name, current fee, full cost calculated through this study, and the difference for each fee associated with Schedule F.

Table 12: Cost Per Unit Results – Schedule F

Fee Name	Unit	Current Fee	Total Cost Per Unit	Difference
1. ATC/PTO filing fee, per application	Each	$456.00	$925.05	($469.05)
2. Minimum PTO reevaluation fee	Each	$496.00	$3,141.73	($2,645.73)
3. Yearly PTO reevaluation fee – motor vehicle fueling facilities equipped with Phase II vapor recovery systems, per nozzle	Per Nozzle	$27.91	$568.22	($540.31)
4. Additional reinspection fee for motor vehicle fueling facilities equipped with Phase II vapor recovery systems, per nozzle	Per Nozzle	$27.91	$568.22	($540.31)
5. Fee for change in production rate	Per Permit	$496.00	$940.78	($444.78)
6. Fee for administrative change	Per Permit	$496.00	$932.92	($436.92)
9. Annual Atmospheric Acidity Protection Program fee	Per Source	$696.00	$846.70	($150.70)
10. Annual California Clean Air Act fee	Per Source	$696.00	$846.70	($150.70)
11. Fee for written determination of permit exemption	Flat	$696.00	$1,307.18	($611.18)
12. Hearing Board Fees				
12.a. Filing Fee (Fixed Fee Permit)				
Emergency variance				
Length of variance is 15 days or less	Each	$117.00	$1,894.06	($1,777.06)
Length of variance is more than 15 days	Each	$236.00	$1,894.06	($1,658.06)
Interim variance	Each	$275.00	$2,083.47	($1,808.47)
90-day variance	Each	$1,494.00	$3,030.50	($1,536.50)
Regular variance	Each	$1,494.00	$3,788.13	($2,294.13)
Additional fee for variance more than 3 months	Per Month	$547.19	$757.63	($210.44)
12.b. Filing Fee (Reimbursable Permit)				
Emergency variance	Each	$117.00	$1,894.06	($1,777.06)
Interim variance	Each	$686.00	$2,083.47	($1,397.47)
90-day variance	Each	$686.00	$3,030.50	($2,344.50)
Regular variance	Each	$686.00	$3,788.13	($3,102.13)
12.c. Permit appeal filing fee, per petition	Per Petition	$794.00	$3,788.13	($2,994.13)
12.d. Permit appeal hearing time, after first day (two hours)	Each	$398.13	$378.81	$19.32
12.e. Excess emission fee, per ton	Per Ton	$319.09	$284.11	$34.98

All but two fees associated with Schedule F show a per unit shortfall. These shortfalls range from a low of $150 for 'Annual Atmospheric Acidity Protection Program' and 'Annual California Clear Air Act', to a high of $3,102 for 'Filing Fee (Reimbursable Permit) – Regular Variance'. Both the 'Permit appeal hearing time, after first day' and 'Excess emission fee, per ton' fees show surpluses of $19 and $35, respectively.

Annual Results

In addition to the per unit analysis, the project team also collected information regarding the annual implications of the full cost calculated. For each fee associated with Schedule F, the following table shows the three (3) year[6] average volume, the revenue at current fee, the total annual cost, and the difference.

Table 13: Annual Results – Schedule F

Fee Name	Annual Volume	Revenue at Current Fee	Revenue at Full Cost	Difference
1. ATC/PTO filing fee, per application	339	$154,584	$313,593	($159,009)
2. Minimum PTO reevaluation fee	177	$87,792	$556,087	($468,295)
3. Yearly PTO reevaluation fee – motor vehicle fueling facilities equipped with Phase II vapor recovery systems, per nozzle	898	$25,049	$509,976	($484,927)
5. Fee for change in production rate	2	$827	$1,568	($741)
6. Fee for administrative change	8	$4,133	$7,774	($3,641)
11. Fee for written determination of permit exemption	31	$21,808	$40,958	($19,150)
12. Hearing Board Fees				
12.a. Filing Fee (Fixed Fee Permit)				
Emergency variance				
Length of variance is 15 days or less	5	$585	$9,470	($8,885)
Length of variance is more than 15 days	1	$236	$1,894	($1,658)
Interim variance	7	$1,925	$14,584	($12,659)
90-day variance	5	$7,470	$15,153	($7,683)
Regular variance	1	$1,494	$3,788	($2,294)
Additional fee for variance more than 3 months	27	$14,774	$20,456	($5,682)
12.b. Filing Fee (Reimbursable Permit)				
Interim variance	4	$2,401	$7,292	($4,891)
90-day variance	3	$1,715	$7,576	($5,861)
Regular variance	4	$2,744	$15,153	($12,409)
TOTAL		**$327,537**	**$1,525,322**	**($1,197,785)**

The District's annual shortfall associated with Schedule F is approximately $1.2 million. The largest contributor to this shortfall is the 'Minimum PTO reevaluation' at roughly $468,000 annually.

[6] Volume is based on an average of FY19, FY20, and FY21 annual permit workload.

10. 213-A Agricultural Diesel Engines

This section of the fee schedule is specific to the registration of Agricultural Diesel Engines. The following subsections discuss the proposed modifications, the detailed per unit results, and the annual results.

Per Unit Results

The full cost calculated for each service includes direct staff costs, departmental overhead, and districtwide overhead. The following table details the name, current fee, full cost calculated through this study, and the difference for each fee associated with Registration and Renewal of Agricultural Diesel Engines.

Table 14: Cost Per Unit Results – Registration and Renewal of Agricultural Diesel Engines

Fee Name	Unit	Current Fee	Total Cost Per Unit	Difference
213-A. Registration and Registration Renewal of Agricultural Diesel Engines	Each	$280.00	$812.65	($532.65)

The 'Registration and Registration Renewal of Agricultural Diesel Engines' has a calculated per unit shortfall of $532.65.

Annual Results

In addition to the per unit analysis, the project team also collected information regarding the annual implications of the full cost calculated. For each fee associated with Registration and Renewal of Agricultural Diesel Engines, the following table shows the three (3) year[7] average volume, the revenue at current fee, the total annual cost, and the difference.

Table 15: Annual Results – Registration and Renewal of Agricultural Diesel Engines

Fee Name	Annual Volume	Revenue at Current Fee	Revenue at Full Cost	Difference
213-A. Registration and Registration Renewal of Agricultural Diesel Engines	87	$24,360	$70,701	($46,341)

The District's annual shortfall related to Registration and Renewal of Agricultural Diesel Engines is roughly $46,000.

[7] Volume is based on an average of FY19, FY20, and FY21 annual permit workload.