

Fiscal Year 2023-24 Proposed Budget & Work Program

Public Consultation Meeting
April 18, 2023

Agenda:

- General Fund Budget Summary
- Expenditure Comparison
- Expenditures by Activity
- Revenue Comparison
- Revenue and Expenditure Uncertainties
- Estimate & Five-Year Projection
- Regulation III-Fees
- Annual Budget Timetable

General Fund Budget Summary

(\$ in millions)	Fiscal Year 2022-23			Fiscal Year 2023-24
	Adopted	Amended *	Estimate	Proposed
Revenue	\$189.2	\$192.6	\$186.2	\$196.3
Program Cost	<u>\$189.2</u>	<u>\$200.8</u>	<u>\$190.2</u>	<u>\$196.3</u>
Change to Fund Balance	<u>\$0.0</u>	<u>-\$8.2</u>	<u>-\$4.0</u>	<u>\$0.0</u>
* Board approved changes through February 2023.				

Expenditure Comparison

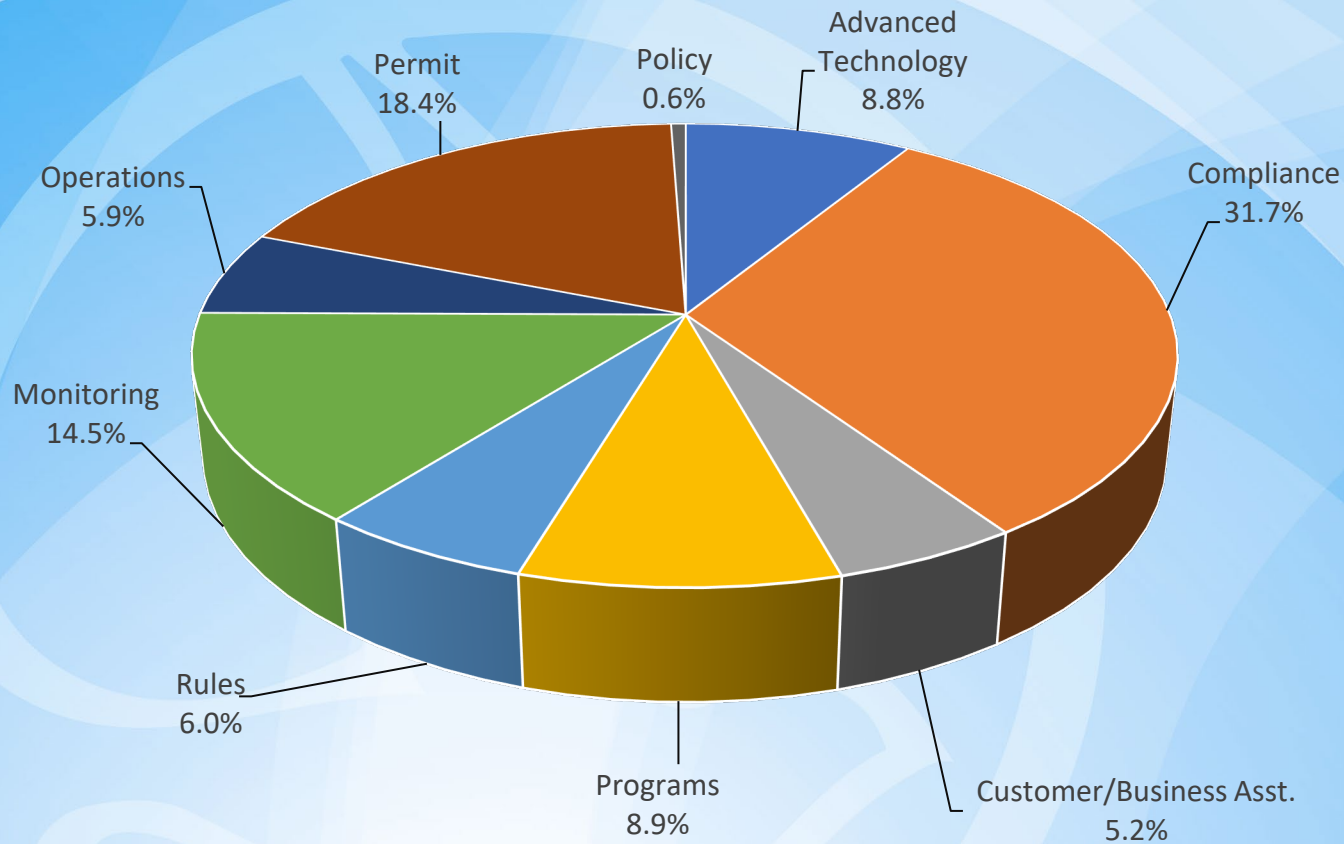
FY 2022-23 Budget vs. FY 2023-24 Proposal

(\$ in millions)	FY 2022-23			FY 2023-24
	<u>Adopted</u>	<u>Amended*</u>	<u>Estimate</u>	<u>Proposed</u>
Salaries & Benefits	\$154.7	\$159.2	\$150.2	\$160.5
Services & Supplies	29.6	35.6	34.0	32.1
Capital Outlays	2.1	3.2	3.2	1.7
Transfers Out	<u>2.8</u>	<u>2.8</u>	<u>2.8</u>	<u>2.0</u>
Total	<u>\$189.2</u>	<u>\$200.8</u>	<u>\$190.2</u>	<u>\$196.3</u>
Staffing (FTEs)	970	1,005		1,010

* Board approved changes through February 2023.

Expenditures by Activity

FY 2023-24 Proposed Budget



Program	Activities
Compliance	Inspections, Investigations, PERP, Arch Coatings
Customer/Business Asst	Billings Services, Outreach, Public Records
Programs	AQMP, CEQA, Transportation
Rules	Rulemaking, Modeling
Monitoring	PM Sampling, Ambient Network/Air Analysis
Permits	Permit Processing/Services
Operations	Bldg Maint/Systems, Comp Ops, Fin, HR, Purchasing, Training
Policy	Outreach, Legislation, Advisory Groups/Governing Board
Advanced Technology	Mobile Sources/Carl Moyer, Clean Fuels, Prop 1B, MSRC

Revenue Comparison

FY 2022-23 Budget vs. FY 2023-24 Proposal

(\$ in millions)	Fiscal Year 2022-23			Fiscal Year 2023-24
	<u>Budget</u>	<u>Amended*</u>	<u>Estimate</u>	<u>Proposed**</u>
Emission Fees	\$21.3	\$21.3	\$19.7	\$20.5
Annual Renewal Fees	68.9	68.9	69.8	76.5
Permit Processing Fees	17.3	17.3	17.5	19.1
Area Sources	2.2	2.2	2.2	2.4
Mobile Sources	32.9	32.9	27.7	32.5
Transportation Programs	1.0	0.9	0.9	0.9
Other ***	<u>45.6</u>	<u>49.1</u>	<u>48.4</u>	<u>44.4</u>
Total	<u>\$189.2</u>	<u>\$192.6</u>	<u>\$186.2</u>	<u>\$196.3</u>

* Amended Budget includes Board approved mid-year funding increases through February 2023. These increases are from state/federal grant revenue and transfers in from BP ARCO (WHAM), R1180 and the Infrastructure Improvement Fund.

** FY 23-24 Proposed revenue include a 5.6% CPI fee increase and a 2% permitting fee increase (In total 4% increase , 2% for each year in FY23-24 and FY24-25)

*** Other Revenue includes revenues from Federal & State Grants, State Subvention, Penalties/Settlements, "Hot Spots", Interest, PERP, Hearing Board, Source Test/Lab Analysis, Leases, Subscriptions, and Misc.

Revenue & Expenditure Uncertainties

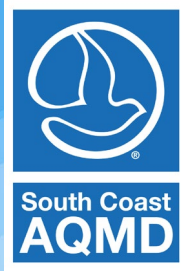
- Retirement Cost
- AB 617 Ongoing Funding
- Federal/State Funding
- Penalties/Settlements
- Inflation Impact on the Economy

FY 2022-23 Estimate and Five-Year Projection

(\$ in millions)	FY 22-23 Estimated	FY 23-24 Proposed	FY 24-25 Projected	FY 25-26 Projected	FY 26-27 Projected	FY 27-28 Projected
Authorized Staffing *	1,005	1,010	1,010	1,010	1,010	1,010
Vacancy Rate	11%	11%	11%	11%	11%	11%
Funded Staffing	894	899	899	899	899	899
Revenues **	\$186.2	\$196.3	\$203.9	\$207.8	\$210.2	\$210.2
Program Costs	\$190.2	\$196.3	\$204.5	\$209.5	\$213.0	\$213.0
Changes in Fund Balance	\$(4.0)	\$-	\$(0.6)	\$(1.7)	\$(2.8)	\$(2.8)
Unreserved Fund Balance (at Year-End)	\$78.4	\$78.4	\$77.8	\$76.1	\$73.3	\$70.5
% of Revenue	42%	40%	38%	37%	35%	34%

* Includes 35 positions added by the Board in FY 2022-23 and a net 5 positions added in the FY 2023-24 Proposed Budget.

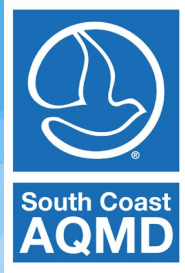
** CPI projections include the following: : FY 23/24 – 5.6% & 2% on Annual Operating and Permit Fees; FY 24/25 – 5.3% & 2% on Annual Operating & Permit Fees; FY 25/26 - 3.6%; FY 26/27 – 3.2% & FY 27/28 – 3.1%



Annual CPI-Based Fee Increase (Rule 320)

- Fees updated to cover cost of inflation pursuant to Rule 320 – Automatic Adjustment Based on Consumer Price Index (CPI)
 - Upcoming automatic adjustment = 5.6%¹
 - Applicable to most fee rates in Regulation III
 - Rules 301, 303, 304, 304.1, 306, 307.1, 308, 309, 311, 313, 314, and 315
 - Examples of exception:
 - Fee rates set by state law
 - Rule 311 (c) Air Quality Investment Program Fees

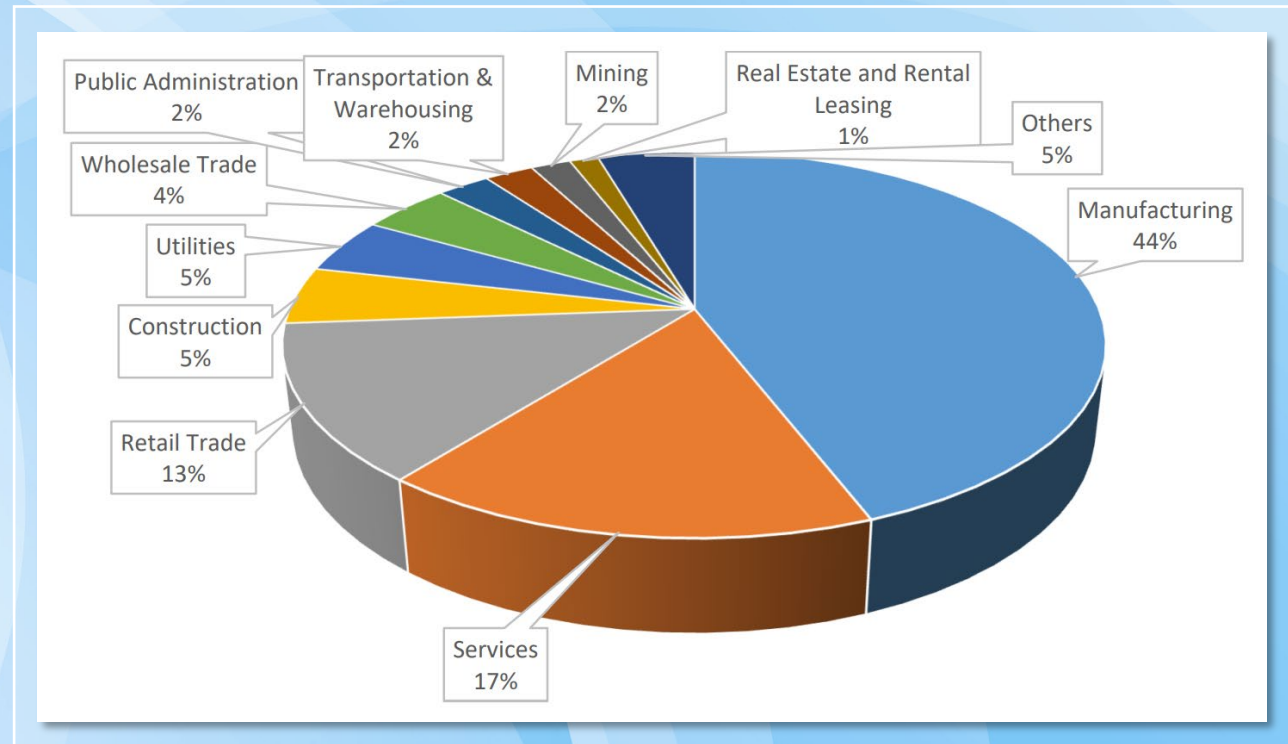
1. <https://www.dir.ca.gov/oprl/capriceindex.htm>

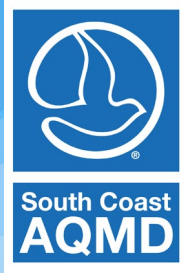


Socioeconomic Impacts of Rule 320 CPI Adjustments

- Potential impacts of the 5.6% fee increase are analyzed in the Rule 320 Socioeconomic Impact Assessment¹
 - Released March 15, 2023
- FY 2021-22 fee revenue:
 - Total emission-based fees: \$20.3 million
 - Total permit processing fees and permit renewal fees: \$82.4 million
- Total fees paid by industry is small relative to these industries' regional economic output
 - ≤ 0.01% overall
- CPI adjustment currently estimated to increase annual revenue by approximately \$5.7 million

FY 2021-2022 Share of All Major Fee Revenue by Sector





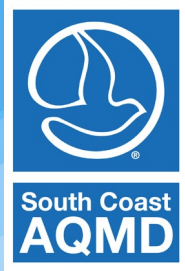
Overview of Proposed Rule Amendments with Fee Impacts



Proposal 1:
Authorize automatic adjustments to most fees by CPI



Proposal 2:
Amend Rule 301 and Rule 306 to increase permitting fees by 4% to address the increasing workload associated with administering the permitting program



Proposal 1 - Amend Rule 320

- Rule 320 was established in response to Proposition 26
- Under Health and Safety Code Section 40510(a)(4):
 - Generally only fees in excess of CPI require findings of fact
- CPI represents reasonable cost recovery as a result of inflation
- Amend Rule 320 to authorize automatic CPI percent increase adjustments of most fees

(b) Applicability

Effective July 1 of each calendar year after October 29, 2010, each fee set forth in Regulation III ~~as of October 29, 2010~~ shall be automatically adjusted by the change in the California Consumer Price Index for the preceding calendar year, as defined in Health and Safety Code §40500.1(a).

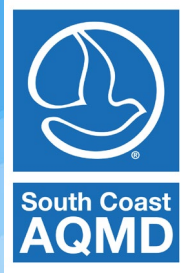
(c) Exceptions

- (1) The provisions of subdivision (b) shall not apply for any fiscal year for which a rule is adopted for a specific fee or fees or for all fees that provides for a different adjustment or no adjustment. In such a case, subdivision (b) shall again apply for the subsequent years.
- (2) The provisions of subdivision (b) shall not apply to any fee which is charged for a dishonored check, which shall be as set forth by statute, nor to Rule 317, which shall instead be automatically adjusted as stated in Rule 317(d)(2).
- (3) The provisions of subdivision (b) shall not apply to any fee for which the rate is set by state law or a specific rule that precludes such automatic adjustments.



Proposal 2 - Amend Rule 301 and Rule 306 Permit Application and Processing

- South Coast AQMD Permitting Program
 - Fees assessed under Regulation III
- Starting in 2022, the permit application inventory has increased
 - The inventory is currently 4,680 pending applications
- To assist with the increased pending inventory, a number of measures have been implemented including:
 - Staff resource sharing across teams and divisions,
 - Temporary assignments of recent retirees,
 - Hiring external contractors,
 - Staff working out of class assignments,
 - Ongoing engineer recruitment,
 - Ongoing promotional efforts at all levels,
 - Streamlining of permits, and
 - Additional technical and development training



Increasing Pending Applications

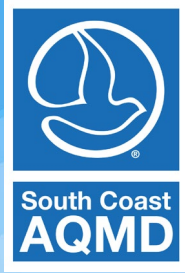
- Reasons for increasing pending applications
 - Recently adopted/amended rules implementing Best Available Retrofit Control technology (BARCT) requirements in Assembly Bill 617 and 2016 Air Quality Management Plan (AQMP)
 - Compliance timeframes 2022-2031
 - Increasing number of permit applications (11% from 2021 to 2022)
 - Increasing complexity of permits
 - A high turnover from recent retirement and attrition
- Workload is expected to further increase in the coming years
 - Further implementation of BARCT rules
 - Further development of toxics rules
 - Further rule development to achieve attainment with the National Ambient Air Quality Standards (NAAQS) as outlined in the 2022 AQMP





Permit Related Fee Adjustment

- Additional resources needed to address increasing workload
 - In anticipation of future implementation of BARCT rules, staff has estimated additional 14 full-time equivalent staff are needed to process permits in a timely and efficient manner
 - The fee impact is estimated to be about \$3.4 million per year which translates to a 4% fee increase of permit processing fees, annual renewal fees, and plan fees
 - Fee increase to be phased in over the next two fiscal years (2% in fiscal year 2023-24 and 2% in fiscal year 2024-25)
 - The fee increases are necessary to provide specific regulatory cost recovery for the additional resources needed to implement rule requirements through issuance and implementation of permits



Proposed Amendments to Regulation III – Summary of Fee Impacts

Proposed Amendment	FY 2023-24	FY 2024-25 and Thereafter
Proposal 1: Authorize automatic adjustments to most fees by CPI	\$175,000	\$175,000
Proposal 2: Amend Rule 301 and Rule 306 to increase permitting fees by 4% to address the increasing workload associated with administering the permitting program	\$1,742,000	\$3,485,000
Total:	\$1,917,000	\$3,660,000

Fiscal Year 2023-24 Budget Timeline

Date	Activity
Wednesday, March 15 th	Socio Economic Report (CPI only) Posted
Tuesday, April 4 th	Budget Document Completed/Posted
Wednesday, April 5 th	Budget Advisory Committee Meeting
Friday, April 7 th	Governing Board Special Study/Workshop
Tuesday, April 11 th	Public Consultation Meeting
Friday, April 14 th	BAC Recommendations due to Governing Board
Tuesday, April 18 th	Public Consultation Meeting *
Friday April 21 st	Public Comments due to the Governing Board
Friday, May 5 th	Governing Board Meeting - Budget Adoption

*The April 18th Public Consultation meeting was added this fiscal year because of technical difficulties at the April 11th meeting.