

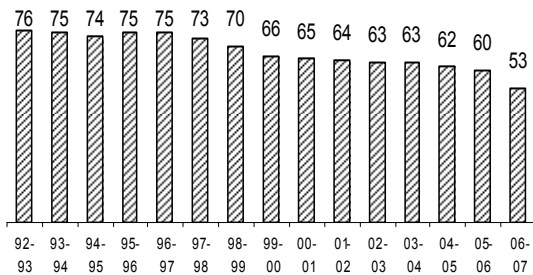
REVISIONS TO RULE 42 PERMIT FEES

BACKGROUND

Expenditures

The Air Pollution Control District (APCD) operating budget for fiscal year 2006-07 is approximately \$8.0 million, excluding pass through funds. (Pass through funds are spent directly on pollution control projects). About 78 percent of the APCD's operating budget is employee salaries and benefits. Figure 1 below shows APCD staff size during each year since its peak in 1992.

Figure 1
Historical APCD Staff Size



Staffing cuts that occurred between 1997 and 2006 reflect lower workloads caused by completion of work mandated by the 1990 state and federal clean air act amendments, increases in efficiency due to low employee turnover, automation, changes in air toxics laws, and changes in trip reduction mandates. In 2006, staff further minimized increases in expenses by eliminating seven more staff positions and curtailing services and supplies expenditures.

To estimate future expenditures, staff assumed the staff size of 53 positions will be maintained and salaries and benefits will increase at a rate of 3.0 percent per year to account for inflation.

Revenue

Projected operating revenue for fiscal year 2006-07 is approximately \$7.3 million. APCD revenue comes

from state and federal grants, automobile registration fees, and fees charged to sources of air pollution. Rule 42 sets the fee rates in the form of permit processing fees, filing fees, and annual permit renewal fees. The APCD receives no property tax revenue or general fund revenue. Figure 2 shows the APCD's sources of District operating revenue for fiscal year 2005-06.

Permit renewal fees are charged annually to each source of air pollution that is large enough to be required to have an APCD Permit to Operate. Most sources pay the minimum fee of \$418.50 per year. Larger emission sources are charged in proportion to their "permitted emissions," calculated in tons per year and pounds per hour.

Projected Budget Shortfall

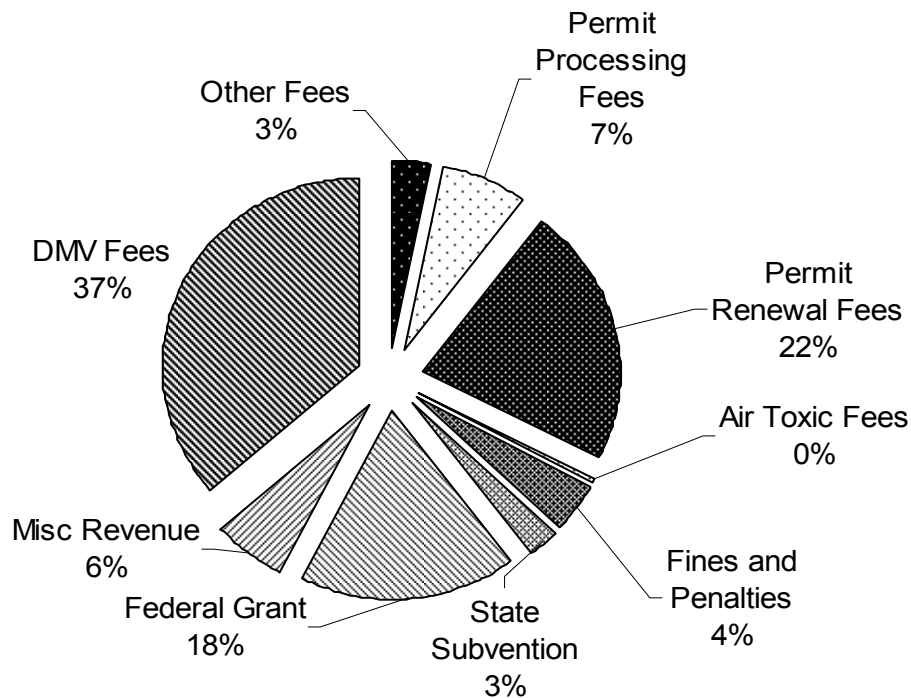
Expenses are projected to exceed revenue in fiscal year 2006-07. The difference will be made up by drawing down the APCD's fund balance. Under current conditions, staff projects the fund balance would fall below the targeted range in 2011.

Therefore, we are proposing to increase revenue by increasing permit renewal fee rates by 12.5 percent effective in fiscal year 2007-08. For most permit holders, adoption of this proposal would result in a fee increase of \$52.50 per year.

The major reasons staff is proposing a relatively large fee increase this year are:

- 1) The District has been required to make higher contributions to the County retirement fund. This requirement was not triggered by changes to employee retirement benefits.
- 2) The fund balance is nearing the targeted range.
- 3) The District has already implemented significant cost-cutting measures.

Figure 2
APCD Operating Revenue 2005-06



PROPOSED REVISIONS

Staff proposes to increase permit renewal fee rates by 12.5 percent effective in fiscal year 2007-08. Current and proposed renewal fee rates appear in Appendix A. For permit holders paying the minimum fee, adoption of this proposal would result in a fee increase of \$52.50 per year.

The current operating fund balance is approximately \$5.1 million, and with no fee increase, is projected to decrease at an average rate of about \$512,000 per year over the next five years. Under these conditions the fund balance will fall below the targeted range in about three years, and left unchecked the fund balance would be depleted in about seven years.

As shown in Figure 3, a 12.5 percent renewal fee increase effective in fiscal year 2007-08 and an 8 percent increase effective in fiscal year 2008-09 will stabilize the District's fund balance.

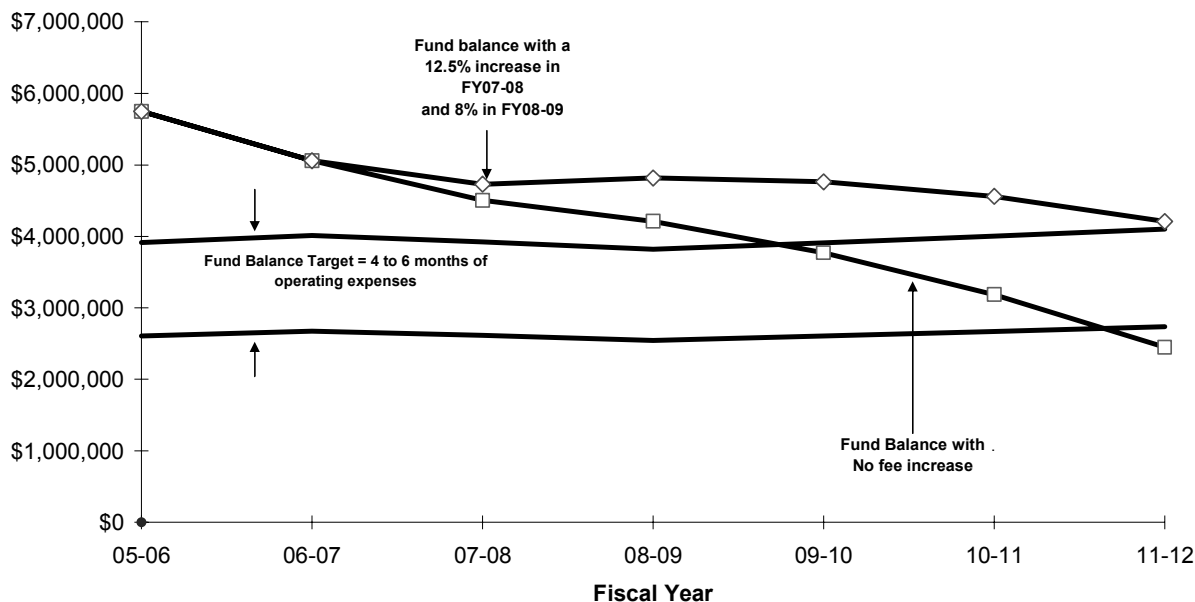
Discussion

Board Policy established a targeted range of 4 to 6 months operating expenses for the fund balance. Based on current operating expenses, the fund balance should therefore be stabilized between \$2.7 million and \$4.0 million. In addition, the fund balance policy prescribes a five-year revenue and expense projection to determine if additional fiscal resources are necessary to maintain an adequate fund balance.

The biggest financial challenge is a large increase in mandatory contributions to the County retirement fund. There have been no changes in employee retirement benefits to cause the higher contributions.

Staff's current proposal is for a single fee increase this year and does not include any future fee increases. New fund balance projections will be made annually to determine if fee rates must be adjusted. However, over the long term, periodic fee

Figure 3
 Fund Balance Projections
 as of 12/6/06



increases will probably be necessary to counter inflation's continual effect on the APCD's finances.

Staff will continue to work on stabilizing and increasing the District's state and federal funding sources. If successful, this could reduce the need for future fee increases.

Permit renewal fees are assessed annually in proportion to each permitted source's annual and hourly permitted emissions according to the fee rates

in Section H of Rule 42. Sources with high permitted emissions pay higher renewal fees than sources with low permitted emissions. Most permit holders pay the current minimum annual fee of \$418.50. Therefore, adoption of the proposed 12.5 percent fee increase would result in a fee increase of \$52.50 per year for most permit holders. Facilities with higher permitted emissions would be subject to larger permit renewal fee increases (12.5 percent). Adoption of this proposal would increase APCD revenue by approximately \$231,000 per year.

COST-EFFECTIVENESS AND IMPACT ANALYSES

Cost-Effectiveness

California Health and Safety Code § 40703 requires the APCD Board to consider and make public, in adopting a regulation, its findings relative to cost-effectiveness of Air Quality Management Plan (AQMP) control measures. The proposed revisions to Rule 42 are not related to any control measure. Therefore, a finding on cost-effectiveness is not required.

In addition, because BACT requirements and feasible control measures are not involved, an incremental cost-effectiveness analysis under Health & Safety Code Section 40920.6 is not required.

Socioeconomic Impact Analysis

California Health and Safety Code § 40728.5, which went into effect on January 1, 1992, requires that the

APCD Board consider the socioeconomic impact of any new rule or amendment to an existing rule if air quality or emission limits are affected. The proposed amendments to Rule 42 do not significantly affect air quality or emission limitations in Ventura County. Therefore, this analysis is not required.

Environmental Impacts Of Methods Of Compliance

California Public Resources Code § 21159 requires the District to perform an environmental analysis of the reasonably foreseeable methods of compliance if the proposed rule requires "the installation of pollution control equipment, or [specifies] a performance standard or treatment requirement..." The proposed revisions to Rule 42 are administrative in nature and involve no pollution control equipment. Therefore, an analysis is not required.

California Environmental Quality Act

The proposed revisions to Rule 42 are exempt from the California Environmental Quality Act (CEQA) pursuant to Public Resources Code § 21080(b)(8) and State CEQA Guidelines § 15273(a), Rates, Tolls, Fares, and Charges.

Analysis Of Existing Federal And District Regulations

California Health & Safety Code § 40727.2(a) requires districts to provide a written analysis of existing regulations prior to adopting, amending or repealing a regulation. Section 40727.2(a) states:

In complying with Section 40727, the district shall prepare a written analysis as required by this section. In the analysis, the district shall identify all existing federal air pollution control requirements, including, but not limited to, emission control standards constituting best available control technology for new or modified equipment, that apply to the same equipment or source type as the rule or regulation proposed for adoption or modification by the district. The analysis shall also identify any of that district's existing or proposed rules and regulations that apply to the same equipment or source type, and all air pollution control requirements and guidelines that apply to the same equipment or source type and of which the district has been informed pursuant to subdivision (b).

The proposed revisions to Rule 42 include no emission control standards; therefore, the requirements of Health & Safety Code § 40727.2(a) are satisfied pursuant to Health & Safety Code § 40727.2(g).

PUBLIC MEETINGS AND COMMENTS

Public Workshop January 16, 2007

District staff conducted a public workshop on the proposed revisions to Rule 42 on January 16, 2007. Workshop notices were mailed to each permit holder and other interested parties. Two people attended the workshop and no changes to the proposed rule were discussed.

Advisory Committee February 27, 2007

The APCD Advisory Committee considered the proposed revisions on February 27, 2007. Two public attendees were at the meeting but had no comments. After discussion, the Committee voted unanimously to recommend the proposed revisions to the Air Pollution Control Board.

Appendix A
Proposed Renewal Fees in Rule 42, Subsection H

The renewal fee shall be based on the following schedule plus annual CPI adjustments directed by the Board after 6/30/2000:

<u>Air Contaminant</u>	<u>Dollars per Ton/Yr</u>			<u>Dollars per Lb/Hr</u>	
	<u>Effective Dates</u>			<u>Effective Dates</u>	
	<u>Through 6/30/2007</u>	<u>After 6/30/2007</u>		<u>Through 6/30/2007</u>	<u>After 6/30/2007</u>
Reactive Organic Compounds (ROC)	<u>\$72.00</u>	<u>\$81.00</u>	+	<u>\$72.00</u>	<u>\$81.00</u>
Nitrogen Oxides (NOx)	<u>\$72.00</u>	<u>\$81.00</u>	+	<u>\$72.00</u>	<u>\$81.00</u>
Particulate Matter (PM)	<u>\$54.00</u>	<u>\$61.00</u>	+	<u>\$54.00</u>	<u>\$61.00</u>
Sulfur Oxides (SOx)	<u>\$36.50</u>	<u>\$41.00</u>	+	<u>\$36.50</u>	<u>\$41.00</u>
Carbon Monoxide (CO)	<u>\$ 7.50</u>	<u>\$ 8.50</u>	+	<u>\$ 7.50</u>	<u>\$ 8.50</u>
Other Pollutants	<u>\$54.00</u>	<u>\$61.00</u>	+	<u>\$54.00</u>	<u>\$61.00</u>

The permit renewal fee, however, shall not be less than a minimum fee calculated using the following method. Determine which pollutant among ROC, NOx, PM or SOx has the largest annual permitted emissions. Use the annual permitted emissions of that pollutant to determine the minimum fee from the following table. For a facility with no permitted emissions of any of these pollutants, the minimum fee shall be the lowest fee in the following table effective at the time of the permit renewal plus annual CPI adjustments directed by the Board after 6/30/2000.

<u>Permitted Emissions</u>	<u>Minimum Renewal Fee</u>	
	<u>Effective Dates</u>	
	<u>Through 6/30/2007</u>	<u>After 6/30/2007</u>
Less than 5 tons/year	<u>\$ 418.50</u>	<u>\$ 471.00</u>
Less than 10 tons/year	<u>\$ 837.00</u>	<u>\$ 942.00</u>
Less than 15 tons/year	<u>\$1255.50</u>	<u>\$1412.00</u>
Less than 20 tons/year	<u>\$1674.00</u>	<u>\$1883.00</u>
Less than 25 tons/year	<u>\$3348.50</u>	<u>\$3767.00</u>
Equal to or more than 25 tons/year	<u>\$8371.00</u>	<u>\$9417.00</u>