

## **Appendix E**

### **Fee Increase Analysis**



## **Background**

The Portable Equipment Registration Program (program) must collect fees to cover the entire cost of implementation. No provisions are made in the state budget to cover any of these costs. Currently, the program is not collecting enough fees to cover the total program costs and is operating both underfunded and under-staffed. As averaged from 2013 – 2015, the program collects approximately \$6,700,000 in fees each year. A portion of those fees are sent to the districts for enforcement. The specific percentage sent to the districts can vary, but averages about 53% per year. The balance of the fees collected stay with ARB to cover implementation costs.

## **Proposed Fee Increase**

Staff is proposing an increase to the inspection fees that are collected for the districts according to the Consumer Price Index (CPI) since the fees were first established in 2006, which is 17.73%. Staff is also proposing to increase the fees collected by ARB to cover implementation costs by the CPI since the fees were last increased in 2004 plus an additional 20% administrative overhead to cover program costs, which is a 45.64%. The specific fee amounts will be rounded to the nearest \$5 to facilitate payments and accounting. With these proposed increases, the total fee for initial registration of an engine will increase from \$620 to \$805. This is a total increase of approximately 30%.

## **Program Cost Analysis**

The fees and regulation to calculate the fees are being revised to ensure the reasonable costs of the program are collected, as required by statute. The total current program costs are a combination of direct costs and indirect costs. Direct costs include salaries and benefits of staff and costs for supplies, contracts, and equipment that directly benefit the program. The current staff costs are based on the number of Air Pollution Specialists (APS), Air Resources Engineers (ARE), Air Resource Technicians (ART II), Air Resources Supervisors (ARS I & II), and Associate Government Program Analysts (AGPA) that are necessary to run the program. These costs include an operating compliment for general expenses, communications, travel, facilities, etc. Then, all program cost estimates include approximately 20% overhead/indirect rate based on two components 1) general administration (i.e., Executive Office, Chairs Office, Office of Information Technology and Administrative Services Division) and 2) program administration (i.e., Division Chiefs, Assistant Division Chiefs, and direct program administrative support liaisons). The overhead/indirect cost rate is subject to change at the direction of the Legislature through an approved annual budget act. Annual budget acts may be adjusted based on increases and decreases to program appropriations through budget change proposals and Legislative adjustments in budget hearings. The composition of the Air Resources Board can also affect the indirect cost rate. Recently, the Legislature approved the addition of four new Board Members within a two-year time frame through bills that amended the Health and Safety Code. The additional Members increase indirect costs.

The current staff costs include the 2% raise to be given to Bargaining Unit 9 employees in the 2017/2018 fiscal year. The current staff costs as of this writing are shown in the following table.

Positions	Current PY Amount*	Current Staff Cost
7 APS	\$165,000	\$1,155,000
3 ARE	\$175,000	\$525,000
9 ART II *(0.72)	\$82,000	\$531,360
ARS I	\$202,000	\$202,000
1 ARS II *(0.50)	\$219,000	\$109,500
1 AGPA	\$117,000	\$117,000
<b>Subtotal</b>		\$2,639,860
<b>2% raise (BU9 only)</b>		\$39,830
<b>20% overhead (general and program administration)</b>		\$535,938
<b>Total</b>		\$3,215,628

\*Current PY amount includes the position direct salary and benefits plus a compliment of operating costs which includes general expense, communication, travel, facilities etc.

The table below compares the current program costs to the projected program costs. To estimate the projected revenue, the District portion and ARB portion of current revenue was increased by 17.73% and 45.64% respectively. This comparison demonstrates that the increased fees will pull the program from a deficit of over \$400,000 annually into an estimated surplus of over \$470,000. Any future surplus due to the fee increase will be used for staffing as specified in Appendix C of this ISOR; PERP Data Management System (DMS) work and/or maintenance; and improved compliance assistance tools as necessary.

	Annual Revenue	District Portion	ARB Portion	Program Staff Costs	Supplies <sup>1</sup>	Total ARB program cost	Balance
					Contracts <sup>2</sup>		
					Equipment <sup>3</sup>		
					Total		
<b>Current</b>	\$6,700,000	\$3,557,242	\$3,142,758	\$3,215,628	\$38,400	\$3,562,908	<b>-\$420,150</b>
					\$306,480		
					\$2,400		
					\$347,280		
<b>Projected</b>	\$8,765,054	\$4,187,941	\$4,577,113	\$3,215,628	\$98,400	\$4,102,908	<b>\$474,205</b>
					\$786,480		
					\$2,400		
					\$887,280		

<sup>1</sup>Supplies: Current estimate includes stickers (~\$12,000) and placards (~\$20,000). The projected estimate also includes a one-time placard purchase of ~\$50,000 for additional placards at the time regulation becomes effective.

<sup>2</sup>Contracts: Current estimate includes \$250,000 for PERP DMS M&O contract, and \$5,400 for digital image hosting on an annual basis. The projected estimate also includes a one-time expenditure of \$400,000 for adaptive change work on PERP DMS necessary to incorporate the proposed amendments.

<sup>3</sup>Equipment: Both current and projected estimates include cost to replace one Zebra sticker printer.

## Local Air District Fee Comparison

In order to evaluate if the proposed PERP fee increases are still cost effective relative to local air district permit fees, ARB staff surveyed fee schedules of the local districts that are identified as the home district for the majority of the engines registered in PERP. Local air districts issue annual permits to operate and charge an application fee and then most charge an additional fee based on the engine size. Some districts charge a separate fee for the resources spent evaluating the application. It is important to remember that these fees are only valid in the district for which the permit was issued. If an engine were to operate in other districts, additional permits would be needed and associated fees would be charged thus increasing the cost to the engine owner.

Because PERP registration has a three-year term, Staff used a factor of 3 to arrive at the three-year cost of local districts' annual permits. Then the average cost for permitting an engine with a local air district was determined by taking a weighted average of those 3-year fees based on the percentage of engines with those districts designated as the home district in the PERP DMS. The formula is as follows:

%HD = percent of PERP engines with that district designated as home district  
 TFee = the total amount of fees to have that engine permitted for 3 years in that district.

Average district fee = (%HD1)\*(Tfee1) + (%HD2)\*(Tfee2) + (%HD3)\*(Tfee3) + ...

Using this formula, it was determined that the average fee for a portable engine in a district for three years is **\$2259.28**. The percentages of home district designation and fees charged by local districts used in this formula are shown in the table below.

### Local Air District Fees

Air District	PERP Engine's Designated Home District / Total PERP Engine Inventory	HP category	Initial Application Fees	Renewal Fees (per year)	Total fees (3 years)
Sac Metro	3.77%	<50	434	537	1508
		50-249	870	754	2378
		250-499	1740	1190	4120
		500-999	3480	2060	7600
		1000+	6961	3800	14561
San Diego County	5.67%	<200	1893	171	2235
		≥200	2037	353	2743
South Coast	39.24%	51-500	2482.82	354.86	3192.54
		>500	3927.1	1270.97	6469.04
Ventura County	1.29%	all	1001	551	2103
Butte County	0.29%	all	520**	520**	780
Monterey Bay	0.65%	All***	1406	470	2346

Air District	PERP Engine's Designated Home District / Total PERP Engine Inventory	HP category	Initial Application Fees	Renewal Fees (per year)	Total fees (3 years)
San Joaquin Valley	18.18%	50-99	151 +Eval*	80	311
		100-199	188 +Eval	117	422
		200-399	311 +Eval	240	791
		400-799	550 +Eval	479	1508
		800-999	673 +Eval	602	1877
		1000-5000	820 +Eval	749	2318
Imperial County	1.39	<59	442	261.5	965
		59-157	617	436.5	1490
		158-255	1046.5	866	2778.5
		256-588	1482.5	1302	4086.5
		589-981	1912	1731.5	5375
		982-1963	2783.5	2603	7989.5
		1964-5890	3649.5	3469	10587.5
Yolo-Solano	2.81	<50	196	332	860
		50-249	389	431	1251
		250-499	782	700	2182
		500-999	1565	1172	3909
		1000+	3128	2150	7428
Placer County	1.11	<50	772.36	258.44	1289.24
		50-99	1082.49	513.92	2110.33
		100-199	1800.21	769.41	3339.03
		200-299	2312.65	1026.37	4365.39
		300-399	2826.57	1283.33	5393.23
		400-499	3341.97	1541.77	6425.51
		500-599	3854.42	1798.73	7451.88
		600+	4368.34	2054.21	8476.76
Bay Area	17.87%	50-750	1,136	\$354	1,843.80
		751 to 1000	1,598	\$354	2,305.80
		1001 to 2000	1,820	\$354	2,528.00
		2001 to 3000	2,716	\$584	3,884.00
		3001 to 4000	3,612	\$830	5,272.00
		4001 to 5000	4,508	1,077	6,662.00
San Luis Obispo	0.92	all diesel	500	406.70	1,220.10
		Non-diesel	500	249	747

\* Evaluation fee includes actual time for application processing so fee could be higher.

\*\* Two-year initial permit

\*\*\* For the application, the air emissions fee includes \$188 for criteria pollutants and \$189 toxics fee. For the renewal, the emissions fees are dependent on engine emissions (tons per year) plus a toxic fee. The permitted engines are in the range of \$188-281 for billable tons, \$281 was used for the calculation and the toxic fee is \$189.

## **Conclusion**

ARB's proposed PERP registration fee increase would raise the cost of an initial PERP registration from \$620 to \$805, which is still very cost effective compared to the average local district fee of approximately \$2,260. This increase is expected to pull the program from a deficit and at the same time, continue to provide a cost-effective statewide air quality permitting program for the industries that operate portable equipment in California.