

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

Draft Socioeconomic Report for Adjustment Based on Consumer Price Index for Regulation III Fees

March 2020

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EXECUTIVE SUMMARY

Pursuant to Rule 320 and South Coast AQMD’s statutory fee authority (See e.g., California Health & Safety Code § 40510), most fees within Regulation III will be increased by 2.8 percent, consistent with the change in the California Consumer Price Index from December 2018 to December 2019, unless the Governing Board decides to forego the increase. The October 29, 2010 South Coast Air Quality Management District (South Coast AQMD) Governing Board Resolution requires, by March 15 of every year, an assessment of the increase in fee rates based on the previous year’s CPI. A socioeconomic analysis was conducted to assess the impacts of such adjustment.¹ The analysis provides background information, historical revenue trends, sectoral distributions, and estimated increased fee revenue from the CPI adjustment of South Coast AQMD fees. A summary of the analysis and findings is presented below.

Fee Increases	Pursuant to Rule 320, an across-the-board 2.8-percent increase of most fee rates (equivalent to the change in the California CPI from December 2018 to December 2019) will be applied effective July 1, 2020. Increases made pursuant to Rule 320 are automatic unless the Governing Board decides to forego the 2.8-percent increase.
Affected Facilities	Nearly all facilities regulated by South Coast AQMD, covering most economic sectors, would be affected by the proposed fee increases.
Approach and Findings	<p>The analysis herein examines the impact of existing Regulation III fees on various industries. The fees examined include emissions fees, permit processing fees, annual permit renewal fees, asbestos fees, toxic hot spot fees, source testing fees, and a portion of fees under Rule 2202 – On-Road Motor Vehicle Mitigation Options.</p> <p>Current fee rates and the most recent equipment and activity profiles of individual facilities were used to generate facility-level fee estimates. These estimates were aggregated to the industry level. The manufacturing sector is the largest contributor to South Coast AQMD’s emission fees (72 percent), permit processing fees (39 percent), and annual permit renewal fees (36 percent). Overall, the costs of complying with current Regulation III rates are small relative to region-wide industry output or value-added (less than 0.01 percent).</p>
Impact of Fee Increase	Based on fee categories examined in this analysis and last year’s activity levels, the across-the-board CPI-based fee rate increase is projected to bring additional revenue totaling \$2.65 million to South Coast AQMD. The manufacturing sector would incur the largest increase in fees (approximately \$1.21 million for about 3,600 facilities), followed by the services sector (approximately \$0.47 million for about 10,500 facilities) and the retail trade sector (approximately \$0.36 million for about 4,100 facilities). Within the manufacturing sector, the petroleum and coal products manufacturing industry, mostly comprised of refineries, would experience an increase of approximately \$0.51 million.

¹ Proposed amendments to Regulation III with fee impacts will be analyzed in a separate socioeconomic report specific to Regulation III.

INTRODUCTION

The South Coast AQMD General Fund consists of revenues from many sources. The majority of South Coast AQMD revenues are derived from emission fees, annual renewal fees, permit processing fees, and a portion of vehicle registration fees collected by the state (mobile sources/clean fuels). Other sources of revenues include Hearing Board fees, source test/analysis fees, transportation program (Rule 2202) fees, reimbursement for work associated with the AB 2588 program (toxic hot spot program), civil penalties/settlements, and other revenues.

Pursuant to Rule 320, most fees within Regulation III will be increased by 2.8 percent, consistent with the change in the California Consumer Price Index (CPI) from December 2018 to December 2019. This increase is being sought pursuant to the District's statutory fee authority (See e.g., California Health & Safety Code § 40510.) In addition, District Rule 320 authorizes an automatic fee increase, consistent with the CPI, unless the Governing Board decides to forego the increase.² The annual increase in fee rates for the past five FYs and the upcoming FY are as follows: 1.4% in 2015-2016, 2.4% in 2016-17, 2.5% in 2017-2018, 3.4% in 2018-2019, 3.5% in 2019-2020, and 2.8% in 2020-2021.

In order to examine the impact of a fee rate increase on various industries, this report focuses on emission fees, permit processing fees, annual permit renewal fees, toxic hot spot fees, source test fees, and a portion of Rule 2202 fees.³ Other fees subject to the automatic CPI increase are area source fees and Hearing Board fees; however, they account for a relatively small portion of the total revenue.

The South Coast AQMD is required to undertake socioeconomic analyses by California Health and Safety Code Section 40440.8(a) for proposed rules and rule amendments which "...will significantly affect air quality or emissions limitations...." Although the proposed CPI-based fee adjustment does not satisfy this criterion, the analysis herein is presented per the October 29, 2010 Special Governing Board Resolution related to Rule 320, which directs staff to prepare a socioeconomic analysis of the impacts of an automatic adjustment in a given year.

REVENUE TREND

Table 1 lists historical revenue for two prior FYs, estimated revenue for the current FY 2019-2020, and projected revenue for FY 2020-2021 by major fee category. Estimated revenue for FY 2019-2020 is based on actual revenue received through February 2020. FY 2020-2021 projected revenue is based on forecasts estimated by various South Coast AQMD operational units. Emission fees, permit processing fees, and annual permit renewal fees together represent approximately 55 percent of South Coast AQMD's estimated total FY 2019-2020 revenues.

² A fiscal year runs from July 1 to June 30. For example, FY 2019-2020 refers to July 1, 2019 to June 30, 2020. In comparison, calendar year 2019 refers to January 1 to December 31, 2019.

³ All Rule 2202 fees are subject to annual CPI adjustment except for Air Quality Investment Program (AQIP) fees (Rule 311 (c)) and service charges for returned checks (Rule 308 (i)). AQIP fees are administered into a restricted fund and not in the South Coast AQMD general fund.

Compared to the estimated revenue in FY 2019-2020, a net total revenue increase of \$0.6 million is projected for FY 2020-2021, which reflects the impact of the across-the-board CPI-based fee rate increase, additional state funding, and the forecasted changes in activity levels. The estimated revenue impact due to the CPI increase is estimated separately in Table 7.

Table 1: Actual and Estimated South Coast AQMD Revenue

Revenue Category	FY 2017-18 Actual (Thousands)	FY 18-19 Actual (Thousands)	FY 19-20 Estimated (Thousands)	FY 20-21 Projected (Thousands)	Changes in Revenue (from FY 2019 to FY 2020 Estimated)	
					Thousands	%
					Emission Fees	\$18,964
Annual Renewal Fees (w/o PERP)	\$47,561	\$51,007	\$55,787	\$59,125	\$6,510	11.0%
Permit Processing Fees	\$20,729	\$19,538	\$20,030	\$20,399	\$526	2.6%
Mobile Sources/Clean Fuels	\$23,793	\$22,016	\$22,221	\$27,070	\$1,927	7.1%
Sources Test & Lab Analysis	\$734	\$663	\$574	\$302	\$449	148.8%
Hearing Board Fees	\$188	\$352	\$187	\$385	-\$169	-44.0%
Transportation Program (Rule 2202) Fees	\$840	\$846	\$977	\$1,347	-\$370	-27.4%
Other Revenue	\$36,083	\$44,713	\$48,027	\$51,742	-\$9,211	-17.8%
Total	\$148,893	\$161,921	\$167,347	\$181,310	\$644	0.4%

(Note: Numbers may not sum up due to rounding.)

* Information as reported in the Comprehensive Annual Financial Reports (FYs 2017-18 & 2018-19).

** Estimates are based on actual revenue received through February 2020.

*** Other Revenues include: CARB subvention fund program; state and federal grants; interest; lease income; penalties/settlements; subscriptions; AB 2588 reimbursement; miscellaneous revenues; CARB Portable Equipment Registration Program (PERP); area sources; and transfers in (from special revenue funds).

HISTORICAL REVENUE ANALYSIS

The following sub-sections examine the distribution of revenues from various fee categories among key industries for either FY 2018-2019 or calendar year (CY) 2019 as described below. This analysis used the most recent invoiced amounts at the current fee rates to arrive at an estimated picture of the current fee revenue by industry. Thus, the figures below may differ slightly from Table 1 because data sources may reflect different time periods.

Annual Operating Emissions Fees

For FY 2019-2020, emission fees account for approximately 12 percent of South Coast AQMD's estimated total revenue (Table 1). In May 2001, a flat annual operating emission fee was introduced for all facilities with at least one operating permit (Rule 301 (e)(4)).⁴ The flat annual operating emission fee implemented recommendations by the California State Auditor in 1998, the Revenue Committee established by the Executive Officer in

⁴ Excluding equipment in Rule 222—Filing Requirements for Specific Emission Sources Not Requiring a Written Permit Pursuant to Regulation II.

2000, and the independent consultant for the Fee Structure Study—Thompson, Cobb, Bazilio & Associates (March 1999).

Table 2 shows the estimated revenue collected or to be collected from more than 21,000 facilities for flat annual operating emission fees (\$2.88 million) and other annual operating emission fees from around 750 facilities (\$16.44 million).⁵ The latter category of fees contributed approximately 85 percent of total emission fees collected.⁶ These emissions include permitted and non-permitted emissions of nitrogen oxides, sulfur oxides, volatile organic compounds, particulate matter, carbon monoxide, specific organic gasses, and toxic air contaminants for facilities required to report actual emissions each year.⁷

The services sector (NAICS 54-81) contributed the highest share of the flat annual operating emission fee, contributing \$0.95 million, or 33 percent, of the total amount across around 7,000 facilities. It is followed by the retail trade sector (NAICS 44-45), with \$0.49 million paid by about 3,600 facilities.

In comparison, other annual operating emission fees were mostly collected from larger businesses within certain industries. Among the 745 facilities subject to annual operating emission fees, 44 percent were manufacturers (NAICS 31-33), which contributed \$13.59 million, or 83 percent, of these fees invoiced in 2019. The petroleum and coal industry (NAICS 324) contributed \$11.27 million to other annual operating emission fees, accounting for 83 percent from the manufacturing sector and 69 percent of total emissions-based fees.

⁵ Other annual operating emission fees include non-RECLAIM emission fees (Rule 301 (e)(2)), RECLAIM emission fees (Rule 301(l)(9)), toxic air contaminant fees (Rule 301 (e)(7)), and clean fuels fees (Rule 301 (e)(6)).

⁶ Emission-based fees were derived from calendar year 2019 invoices, or the amount a facility should have paid, in calendar year 2019 based on existing applicable Rule 301 fee rates.

⁷ Toxic air contaminants are listed in Table IV of Rule 301.

Table 2: Estimated Emission Fee Revenue by Industry in 2019 (MM\$)

Industry	NAICS	Flat Fee ¹			Emission-based Fees ²			Total	
		MM\$	%	# of Fac. ³	MM\$	%	# of Fac.	MM\$	%
Agriculture, Forestry, Fishing & Hunting	11	\$0.01	0.38%	80	\$0.08	0.51%	25	\$0.10	0.49%
Mining	21	\$0.03	1.14%	243	\$0.53	3.21%	51	\$0.56	2.90%
Oil and Gas Extraction	211	\$0.02	0.72%	154	\$0.25	1.52%	27	\$0.27	1.40%
Mining (except oil and gas)	212-213	\$0.01	0.42%	89	\$0.28	1.68%	24	\$0.29	1.49%
Construction	23	\$0.10	3.60%	770	\$0.01	0.06%	14	\$0.11	0.59%
Manufacturing	31-33	\$0.42	14.63%	3,120	\$13.59	82.64%	325	\$14.01	72.49%
Food Manufacturing	311	\$0.03	0.90%	192	\$0.09	0.52%	28	\$0.11	0.58%
Wood Products Manufacturing	321	\$0.01	0.32%	68	\$0.01	0.04%	4	\$0.02	0.08%
Petroleum and Coal Products Mfg.	324	\$0.01	0.39%	84	\$11.27	68.53%	36	\$11.28	58.37%
Chemical Manufacturing	325	\$0.04	1.42%	302	\$0.17	1.02%	35	\$0.21	1.08%
Nonmetallic Mineral Product Mfg.	327	\$0.03	1.01%	215	\$0.31	1.89%	25	\$0.34	1.75%
Primary & Fabricated Metal Mfg.	331-332	\$0.10	3.47%	740	\$0.68	4.11%	77	\$0.78	4.01%
Machinery Manufacturing	333	\$0.02	0.81%	173	\$0.04	0.22%	2	\$0.06	0.31%
Computer and Electronic Product Mfg.	334	\$0.03	1.02%	217	\$0.04	0.23%	12	\$0.07	0.35%
Electrical Equipment & Appliance Mfg.	335	\$0.01	0.52%	110	\$0.02	0.09%	6	\$0.03	0.15%
Motor Vehicle & Trans. Equipment Mfg.	336	\$0.03	0.91%	195	\$0.09	0.56%	24	\$0.12	0.61%
Other Manufacturing	312-339	\$0.11	3.87%	824	\$0.89	5.42%	76	\$1.00	5.19%
Utilities	22	\$0.14	4.76%	1,013	\$0.74	4.49%	65	\$0.88	4.53%
Transportation & Warehousing	48-49	\$0.08	2.63%	559	\$0.15	0.93%	26	\$0.23	1.18%
Information	51	\$0.09	3.28%	698	\$0.02	0.13%	7	\$0.12	0.60%
Publishing Industries, Except Internet	511	\$0.00	0.11%	23	\$0.00	0.00%	0	\$0.00	0.02%
Motion Picture & Sound Recording	512	\$0.01	0.33%	71	\$0.02	0.13%	4	\$0.03	0.16%
Internet Services and data processing	518,519	\$0.01	0.27%	58	\$0.00	0.00%	0	\$0.01	0.04%
Other Information	Other in 51	\$0.07	2.56%	546	\$0.00	0.00%	3	\$0.07	0.38%
Wholesale Trade	42	\$0.14	4.92%	1,048	\$0.28	1.69%	32	\$0.42	2.17%
Retail Trade	44-45	\$0.49	16.99%	3,621	\$0.21	1.26%	63	\$0.70	3.61%
Car & Parts Dealers	441	\$0.04	1.30%	276	\$0.00	0.01%	4	\$0.04	0.20%
Gas Stations	447	\$0.23	8.04%	1,712	\$0.08	0.52%	16	\$0.32	1.64%
Other Retail Trade	Other in 44-45	\$0.22	7.66%	1,633	\$0.12	0.74%	43	\$0.34	1.77%
Finance and Insurance	52	\$0.04	1.42%	303	\$0.00	0.00%	0	\$0.04	0.21%
Real Estate and Rental Leasing	53	\$0.14	4.82%	1,026	\$0.00	0.02%	4	\$0.14	0.74%
Services	54-81	\$0.95	32.95%	7,032	\$0.69	4.22%	109	\$1.64	8.51%
Professional and Technical Services	54	\$0.08	2.70%	577	\$0.02	0.09%	13	\$0.09	0.48%
Accommodation	721	\$0.03	1.06%	228	\$0.00	0.00%	0	\$0.03	0.16%
Food Services & Drinking Places	722	\$0.02	0.68%	145	\$0.00	0.01%	2	\$0.02	0.11%
Automotive Repairs & Maintenance	8111	\$0.26	8.90%	1,902	\$0.01	0.04%	3	\$0.26	1.36%
Dry Cleaning & Laundry Services	8123	\$0.13	4.36%	928	\$0.00	0.00%	0	\$0.13	0.65%
Health Care & Social Assistance	62	\$0.11	3.72%	794	\$0.08	0.48%	30	\$0.19	0.97%
Other Services	Other in 54-81	\$0.33	11.53%	2,458	\$0.59	3.60%	61	\$0.92	4.78%
Public Administration	92	\$0.20	6.93%	1,476	\$0.12	0.72%	19	\$0.32	1.65%
Unclassified⁴	N/A	\$0.04	1.56%	336	\$0.02	0.12%	5	\$0.06	0.33%
Totals		\$2.88	100%	21,325	\$16.44	100%	745	\$19.32	100%

¹ Flat annual operating emission fees based on FY 2018 (07/2018-06/2019).⁴ Facilities with no NAICS codes assigned are categorized as "Unclassified."² Other emission fees based on CY 2019 (01/2019 - 12/2019).³ Almost all facilities paying emission-based fees also pay the flat fee.

Permit Processing, Annual Permit Renewal, and Asbestos Fees

Permit processing and annual permit renewal fees by industry are shown in Table 3. Applicants for permits to construct/operate equipment listed in Rule 301 pay a permit processing fee which varies by equipment type and size. Permit fees also include other charges based on additional time and materials billed for South Coast AQMD staff time (if specified by the applicable rule), and other fees as required (modeling, Title V fees, CEQA analysis fees, etc.). The fee, except for time and material fees, is paid at the beginning of the permit application process. Differences between permit processing fee amounts in Table 1 and Table 3 reflect application fees being collected at time of application, however, they are recognized as revenues when a majority of permit work is complete.

As Table 3 indicates an estimated total of \$14.62 million from about 4,000 facilities that applied for permits to construct or operate was invoiced during FY 2018. Facilities can apply for multiple permits. As with emission fees, most permit processing fee revenue came from the manufacturing sector, which contributed \$5.75 million, or 39 percent of permit processing fee revenue. The services sector paid the second most of permit processing fees with \$2.98 million, or 20 percent of permit processing fee revenue.

Operating permits must be renewed annually. An annual fee is assessed on the renewed permits to support continuing South Coast AQMD inspection and compliance activities and other permit related activities. As seen in Table 3, approximately 26,700 facilities held operating permits in FY 2018. By February 24, 2020, these facilities are estimated to have paid \$56.60 million for FY 2018. The manufacturing sector was the largest contributor paying \$20.66 million, or 36 percent of total annual permit renewal fee revenue, across about 3,600 facilities. The service sector paid about \$10.90 million, or 19 percent of total annual permit renewal fee revenue, across about 10,500 facilities.

Asbestos (Rule 1403) Fees

Rule 1403 requires contractors performing renovations or demolitions to submit notifications to South Coast AQMD. During FY 2017-2018, over 23,000 notifications were submitted in compliance with Rule 1403, generating over \$6 million in revenue. Fees are based on the size of the project, since larger projects are generally more complicated and take more time for staff to inspect. In addition, there is a flat plan review fee for approved alternative cleanup plans to address disturbed asbestos-containing materials. Finally, there are fees to revise notifications and expedite plan reviews.

Table 3: Estimated Permit Processing & Annual Renewal Fee Revenue by Industry (MM\$)

Industry	NAICS	Permit Processing Fees ¹			Annual Permit Renewal Fees ²		
		MM\$	%	# of Fac.	MM\$	%	# of Fac.
Agriculture, Forestry, Fishing & Hunting	11	\$0.05	0.36%	21	\$0.17	0.29%	114
Mining	21	\$0.17	1.14%	27	\$1.45	2.55%	324
Oil and Gas Extraction	211	\$0.10	0.70%	14	\$1.05	1.86%	211
Mining (except oil and gas)	212-213	\$0.06	0.44%	13	\$0.39	0.69%	113
Construction	23	\$0.40	2.72%	146	\$1.60	2.82%	1,053
Manufacturing	31-33	\$5.75	39.33%	600	\$20.66	36.49%	3,558
Food Manufacturing	311	\$0.54	3.73%	51	\$1.53	2.70%	224
Wood Products Manufacturing	321	\$0.02	0.12%	7	\$0.09	0.16%	79
Petroleum and Coal Products Mfg.	324	\$1.18	8.06%	29	\$5.64	9.96%	92
Chemical Manufacturing	325	\$0.66	4.55%	73	\$2.15	3.81%	338
Nonmetallic Mineral Product Mfg.	327	\$0.27	1.82%	25	\$1.42	2.52%	230
Primary & Fabricated Metal Mfg.	331-332	\$1.19	8.17%	144	\$4.11	7.25%	834
Machinery Manufacturing	333	\$0.18	1.24%	35	\$0.48	0.84%	188
Computer and Electronic Product Mfg.	334	\$0.37	2.51%	47	\$0.80	1.42%	255
Electrical Equipment & Appliance Mfg.	335	\$0.26	1.80%	15	\$0.52	0.92%	121
Motor Vehicle & Trans. Equipment Mfg.	336	\$0.26	1.75%	39	\$1.12	1.98%	230
Other Manufacturing	312-339	\$0.82	5.59%	135	\$2.79	4.94%	967
Utilities	22	\$0.88	6.03%	122	\$2.60	4.59%	1,041
Transportation & Warehousing	48-49	\$0.55	3.74%	95	\$1.61	2.84%	634
Information	51	\$0.14	0.95%	70	\$0.56	0.99%	740
Publishing Industries, Except Internet	511	\$0.01	0.09%	5	\$0.04	0.07%	29
Motion Picture & Sound Recording	512	\$0.03	0.24%	12	\$0.16	0.27%	88
Internet Services and data processing	518,519	\$0.02	0.13%	18	\$0.06	0.11%	61
Other Information	Other in 51	\$0.07	0.49%	35	\$0.31	0.54%	562
Wholesale Trade	42	\$0.97	6.64%	173	\$3.23	5.70%	1,197
Retail Trade	44-45	\$1.20	8.18%	755	\$10.29	18.18%	4,076
Car & Parts Dealers	441	\$0.18	1.22%	34	\$0.27	0.49%	309
Gas Stations	447	\$0.53	3.66%	234	\$6.98	12.33%	1,819
Other Retail Trade	Other in 44-45	\$0.48	3.30%	487	\$3.04	5.36%	1,948
Finance and Insurance	52	\$0.11	0.74%	78	\$0.37	0.66%	351
Real Estate and Rental Leasing	53	\$0.30	2.06%	143	\$1.14	2.02%	1,154
Services	54-81	\$2.98	20.39%	1,280	\$10.90	19.26%	10,467
Professional and Technical Services	54	\$0.50	3.42%	143	\$1.44	2.54%	778
Accommodation	721	\$0.05	0.32%	44	\$0.25	0.45%	278
Food Services & Drinking Places	722	\$0.10	0.71%	154	\$0.70	1.24%	2,312
Automotive Repairs & Maintenance	8111	\$0.44	3.02%	214	\$1.90	3.37%	2,196
Dry Cleaning & Laundry Services	8123	\$0.14	0.93%	106	\$0.57	1.00%	1,111
Health Care & Social Assistance	62	\$0.31	2.14%	147	\$1.31	2.32%	866
Other Services	Other in 54-81	\$1.44	9.86%	472	\$4.72	8.34%	2,926
Public Administration	92	\$0.29	1.96%	128	\$1.33	2.35%	1,551
Unclassified³	N/A	\$0.84	5.76%	331	\$0.71	1.25%	442
Totals		\$14.62	100%	3,969	\$56.60	100%	26,702

¹ Based on permit applications in FY 2018 (07/2018-06/2019).² Based on permits held in FY 2018 and paid by February 24, 2020.³ Facilities with no NAICS codes assigned are categorized as "Unclassified."

Area Source Fees (Architectural Coatings)

Rule 314 – Fees for Architectural Coatings, was adopted June 6, 2008 requiring manufacturers to pay fees and report sales and emissions of architectural coatings to the South Coast AQMD. Rule 314 affects about 220 architectural coatings manufacturers classified under the chemical manufacturing sector (NAICS 325). Beginning in 2009 and each subsequent calendar year, Rule 314 requires architectural coatings manufacturers to report to South Coast AQMD annual quantity (in gallons) and emissions of each of their architectural products distributed or sold into or within the South Coast AQMD for use in the South Coast AQMD during the previous calendar year. Fees are assessed on the manufacturers’ reported annual quantity of architectural coatings and its respectively recorded cumulative VOC emissions. All fees collected from architectural coating sales in FY 2018-2019 pursuant to Rule 314 were about \$2.06 million. This amount represents around 2.1 percent of the South Coast AQMD’s total fee revenue for FY 2018, and about 0.01 percent of the chemical manufacturing industry’s economic output.⁸

Source Testing Fees

Revenue from source testing fees is based on invoiced source test fees during FY 2018. As illustrated in Table 4, the combined source test fee revenue from Rules 304 and 304.1 was \$0.48 million. Manufacturing accounted for 54 percent of this revenue, followed by services with 16 percent.

Toxic Hot Spots Fees

AB 2588 toxic hot spots fees are calculated based on health risks and priority scores. As illustrated in Table 4, the most recent invoiced revenue for FY 2018 was approximately \$2.71 million. The services sector’s share of this total was 33 percent, which includes automotive repairs and maintenance, dry cleaning and laundry services, health care and social assistance, etc. The second and third largest contributors to hot spot fees are retail trade and manufacturing contributing 21 and 16 percent, respectively.

Rule 2202 Fees

Rule 2202 – On-Road Motor Vehicle Mitigation Options applies to employers with at least 250 employees in the South Coast AQMD’s jurisdiction. It provides employers with three compliance options: (1) the Employee Commute Reduction Program (ECRP); (2) emission reduction strategies (ERS) such as use of clean-fuel vehicles, re-powering of diesel engine marine vessels, and vehicle scrapping; and (3) participation in the Air Quality Investment Plan (AQIP). Employers choosing the ECRP option pay a plan review fee to the South Coast AQMD when they file their ECRP Plan. Employers choosing an ERS pay a registration fee. Employers choosing to invest in AQIP pay a registration fee and an investment fee. The investment fee portion goes to a special revenue account which is not part of the General Fund.

⁸ Refer to “Major Revenue Sources by Industry” section and Table 6 for more details.

Revenue from Rule 2202 fees herein is based on invoiced Rule 2202 fees during FY 2018. A total of \$0.87 million was collected from Rule 2202 fees where services and manufacturing sectors accounted for 35 and 14 percent respectively.

Table 4: Estimated Source Testing and Toxic Hot Spot Fees by Industry (\$MM)

Industry	NAICS	Source Testing Fees ¹			Toxic Hot Spots Fees ¹		
		MM\$	%	# of Fac.	MM\$	%	# of Fac.
Agriculture, Forestry, Fishing & Hunting	11	\$0.00	0.43%	2	\$0.01	0.22%	35
Mining	21	\$0.00	0.91%	5	\$0.02	0.85%	59
Oil and Gas Extraction	211	\$0.00	0.82%	4	\$0.02	0.68%	40
Mining (except oil and gas)	212-213	\$0.00	0.09%	1	\$0.00	0.17%	19
Construction	23	\$0.01	2.05%	7	\$0.04	1.57%	279
Manufacturing	31-33	\$0.26	53.87%	176	\$0.42	15.57%	1,125
Food Manufacturing	311	\$0.02	4.89%	19	\$0.01	0.20%	33
Wood Products Manufacturing	321	\$0.00	0.00%	0	\$0.00	0.04%	8
Petroleum and Coal Products Mfg.	324	\$0.03	5.37%	17	\$0.08	2.89%	50
Chemical Manufacturing	325	\$0.02	3.45%	10	\$0.04	1.58%	119
Nonmetallic Mineral Product Mfg.	327	\$0.01	1.28%	4	\$0.02	0.71%	27
Primary & Fabricated Metal Mfg.	331-332	\$0.09	19.43%	65	\$0.12	4.61%	252
Machinery Manufacturing	333	\$0.02	3.92%	9	\$0.00	0.15%	24
Computer and Electronic Product Mfg.	334	\$0.00	0.45%	3	\$0.02	0.68%	112
Electrical Equipment & Appliance Mfg.	335	\$0.03	5.39%	9	\$0.01	0.45%	28
Motor Vehicle & Trans. Equipment Mfg.	336	\$0.01	2.66%	14	\$0.03	1.19%	91
Other Manufacturing	312-339	\$0.03	7.03%	26	\$0.08	3.05%	381
Utilities	22	\$0.05	10.10%	20	\$0.15	5.54%	751
Transportation & Warehousing	48-49	\$0.01	2.11%	8	\$0.06	2.36%	403
Information	51	\$0.00	0.41%	2	\$0.09	3.33%	635
Publishing Industries, Except Internet	511	\$0.00	0.00%	0	\$0.00	0.12%	20
Motion Picture & Sound Recording	512	\$0.00	0.41%	2	\$0.01	0.37%	55
Internet Services and data processing	518,519	\$0.00	0.00%	0	\$0.01	0.25%	48
Other Information	Other in 51	\$0.00	0.00%	0	\$0.07	2.60%	512
Wholesale Trade	42	\$0.02	3.88%	18	\$0.10	3.64%	587
Retail Trade	44-45	\$0.01	1.23%	5	\$0.56	20.60%	3,097
Car & Parts Dealers	441	\$0.00	0.00%	0	\$0.04	1.38%	213
Gas Stations	447	\$0.00	0.34%	2	\$0.33	12.07%	1,751
Other Retail Trade	Other in 44-45	\$0.00	0.90%	3	\$0.19	7.14%	1,133
Finance and Insurance	52	\$0.00	0.26%	1	\$0.04	1.53%	288
Real Estate and Rental Leasing	53	\$0.01	2.46%	4	\$0.12	4.51%	868
Services	54-81	\$0.07	15.60%	57	\$0.88	32.70%	5,369
Professional and Technical Services	54	\$0.01	2.78%	7	\$0.05	1.84%	332
Accommodation	721	\$0.00	0.09%	1	\$0.03	1.06%	210
Food Services & Drinking Places	722	\$0.00	0.09%	1	\$0.02	0.59%	106
Automotive Repairs & Maintenance	8111	\$0.01	1.84%	7	\$0.39	14.25%	2,135
Dry Cleaning & Laundry Services	8123	\$0.00	0.32%	3	\$0.06	2.20%	334
Health Care & Social Assistance	62	\$0.01	2.63%	7	\$0.12	4.28%	763
Other Services	Other in 54-81	\$0.04	7.86%	31	\$0.23	8.46%	1,489
Public Administration	92	\$0.02	3.29%	8	\$0.16	5.79%	1,060
Unclassified²	N/A	\$0.02	3.40%	7	\$0.05	1.82%	310
Totals		\$0.48	100%	320	\$2.71	100%	14,866

¹ Based on permit applications in FY 2018 (07/2018-06/2019).

² Facilities with no NAICS codes assigned are categorized as "Unclassified."

Major Revenue Sources by Industry

Approximately 56 percent of South Coast AQMD's FY 2019 estimated revenue comes from the following major revenue categories:⁹ emission fees, permit processing fees, annual permit renewal fees, toxic hot spot fees, source test fees, and a portion of Rule 2202 fees.

The amount of these total fee revenues subject to a CPI increase incurred by the major economic sectors is shown in Table 5. These total fee revenues were estimated based on recent invoiced amounts at current fee rates. Thus, these figures may differ slightly from those in Table 1, which are based on actual revenue received.

Table 5: FY 2018-2019 Revenue from All Major Fee Categories by Sector

Sector	NAICS	Revenue (MM\$)	%
Agriculture, Forestry, Fishing & Hunting	11	\$0.32	0.33%
Mining	21	\$2.20	2.28%
Construction	23	\$2.17	2.24%
Manufacturing	31-33	\$43.28	44.77%
Utilities	22	\$4.57	4.72%
Transportation & Warehousing	48-49	\$2.49	2.58%
Information	51	\$0.94	0.97%
Wholesale Trade	42	\$4.77	4.94%
Retail Trade	44-45	\$12.87	13.32%
Finance and Insurance	52	\$0.62	0.64%
Real Estate and Rental Leasing	53	\$1.73	1.79%
Services	54-81	\$16.79	17.37%
Public Administration	92	\$2.23	2.31%
Unclassified ¹	N/A	\$1.69	1.74%
Total		\$96.66	100%

¹ Facilities with no NAICS codes assigned are categorized as "Unclassified."

The manufacturing sector (NAICS 31-33) provides the greatest amount of fee revenue for FY 2018 at about \$43.28 million, which is 45 percent of fee revenues (Figure 1). This is followed by the services sector (NAICS 54-81), providing about \$16.79 million, or 17 percent of fee revenues, and the retail trade sector (NAICS 44-45), providing \$12.87 million, representing a 13 percent share.

⁹ Value comes from Table 1's estimated fee revenue collected for FY 2019-2020.

Figure 1: FY 2018-2019 Share of All Major Fee Revenue by Sector

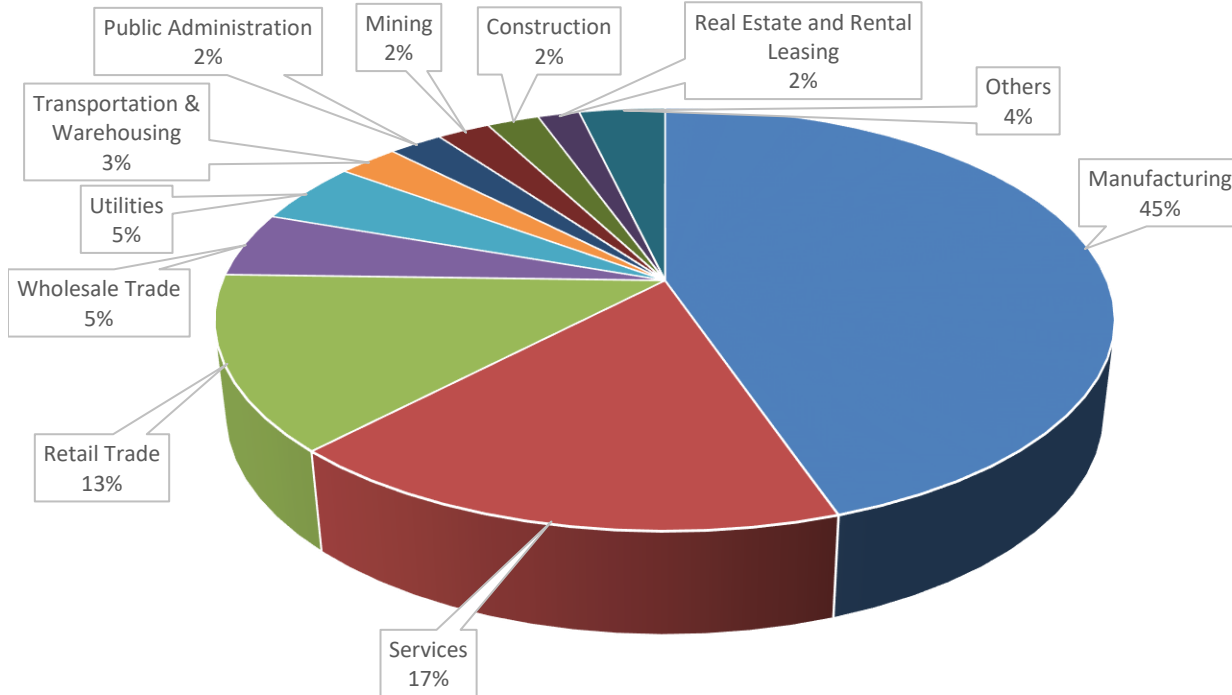


Table 6 shows the percentage of fees from these categories relative to each industry’s total (gross) output and value-added to evaluate them relative to different economic measures of industries within South Coast AQMD’s jurisdiction.¹⁰ Output is measured as an industry’s total sales revenue. Value-added is measured as an industry’s profit margin plus its expenses on labor and capital. Collectively, revenue from these fees is estimated to amount to approximately \$96.66 million, based on invoiced amounts at current fee rates.

Table 6 ranks fees paid by each industry relative to total industry output, showing total fees paid is relatively small compared to each industry's regional output or value-added. This is the case for both industries which are predominantly comprised of small businesses, such as retail trade, and for industries predominately comprised of large businesses, such as refineries.

The industries which paid among the highest amount of fees relative to their output were petroleum and coal products manufacturing (NAICS 324), gas stations (NAICS 447), and primary and fabricated metal manufacturing (NAICS 331-332). The petroleum and coal products manufacturing industry (NAICS 324) paid the most, with a total of \$18.20 million, representing seven hundredths of one percent of the sector’s output and about a quarter of a percent of the sector’s value-added. Overall, South Coast AQMD’s fee revenue represented less than one-hundredth of one percent of aggregate industry output or value-added in the four-county region for each industry.

¹⁰ Industry output and value-added data for 2018, the most recent historical data, was obtained from the Regional Economic Modeling, Inc. (REMI) model v2.3.1 in 2018 year dollars.

Table 6: Share of Major Revenue by Detailed Industry

Industry	NAICS	MM\$	% of Total Fees	% of Total Output	% of Total Value Added
Agriculture, Forestry, Fishing & Hunting	11	\$0.32	0.33%	0.008%	0.021%
Mining	21	\$2.20	2.28%	0.072%	0.097%
Oil and Gas Extraction	211	\$1.45	1.50%	0.069%	0.083%
Mining (except oil and gas)	212-213	\$0.75	0.78%	0.078%	0.138%
Construction	23	\$2.17	2.24%	0.003%	0.005%
Manufacturing	31-33	\$43.28	44.77%	0.019%	0.047%
Food Manufacturing	311	\$2.22	2.30%	0.010%	0.042%
Wood Products Manufacturing	321	\$0.13	0.13%	0.007%	0.020%
Petroleum and Coal Products Mfg.	324	\$18.20	18.83%	0.073%	0.256%
Chemical Manufacturing	325	\$5.16	5.33%	0.019%	0.046%
Nonmetallic Mineral Product Mfg.	327	\$2.06	2.13%	0.060%	0.129%
Primary & Fabricated Metal Mfg.	331-332	\$6.31	6.52%	0.028%	0.071%
Machinery Manufacturing	333	\$0.74	0.77%	0.008%	0.021%
Computer and Electronic Product Mfg.	334	\$1.28	1.32%	0.005%	0.007%
Electrical Equipment & Appliance Mfg.	335	\$0.86	0.89%	0.023%	0.048%
Motor Vehicle & Trans. Equipment Mfg.	336	\$1.57	1.62%	0.005%	0.012%
Other Manufacturing	312-339	\$6.32	6.54%	0.008%	0.019%
Utilities	22	\$4.57	4.72%	0.035%	0.047%
Transportation & Warehousing	48-49	\$2.49	2.58%	0.004%	0.007%
Information	51	\$0.94	0.97%	0.001%	0.001%
Publishing Industries, Except Internet	511	\$0.06	0.06%	0.000%	0.001%
Motion Picture & Sound Recording	512	\$0.24	0.25%	0.000%	0.001%
Internet Services and data processing	518,519	\$0.10	0.10%	0.001%	0.002%
Other Information	Other in 51	\$0.53	0.55%	0.001%	0.002%
Wholesale Trade	42	\$4.77	4.94%	0.004%	0.006%
Retail Trade	44-45	\$12.87	13.32%	0.014%	0.021%
Car & Parts Dealers	441	\$0.53	0.55%	N/A	N/A
Gas Stations	447	\$8.16	8.44%	N/A	N/A
Other Retail Trade	Other in 44-45	\$4.18	4.32%	N/A	N/A
Finance and Insurance	52	\$0.62	0.64%	0.001%	0.001%
Real Estate and Rental Leasing	53	\$1.73	1.79%	0.001%	0.001%
Services	54-81	\$16.79	17.37%	0.004%	0.006%
Professional and Technical Services	54	\$2.12	2.20%	0.002%	0.003%
Accommodation	721	\$0.39	0.40%	0.003%	0.005%
Food Services & Drinking Places	722	\$0.85	0.88%	0.002%	0.003%
Automotive Repairs & Maintenance	8111	\$0.12	0.13%	0.001%	0.002%
Dry Cleaning & Laundry Services	8123	\$0.62	0.64%	0.004%	0.006%
Health Care & Social Assistance	62	\$2.05	2.13%	0.002%	0.003%
Other Services	Other in 54-81	\$10.62	10.99%	0.007%	0.012%
Public Administration	92	\$2.23	2.31%	0.001%	0.002%
Unclassified¹	N/A	\$1.69	1.74%	N/A	N/A
Total		\$96.66	100%	0.005%	0.009%

¹ Facilities with no NAICS codes assigned are categorized as "Unclassified."

*N/A values exist due to lack of output and value-added information from REMI model v2.3.1.

REVENUE IMPACTS OF PROPOSED FEE RATE INCREASE BY INDUSTRY

Rule 320 requires annual adjustment of most fee rates in Regulation III by an amount equal to the change in CPI, which is 2.8 percent for the period of December 2018 to December 2019 unless the Board decides in a rulemaking hearing to forgo the CPI increase.

To analyze only the impact of the CPI-based increase, the estimation is based on FY 2018 emissions and the current equipment and activity profile of individual facilities. Thus, this estimate excludes any other changes to revenue, such as Title V/Non-Title V fee increase, additional state funding, and changes in activity levels, as discussed in the Revenue Trend section. Based on this methodology, the fee rate increases from the 2.8 percent CPI increase are estimated to increase total South Coast AQMD revenue by approximately \$2.65 million. This estimate is only for the CPI-based increase and differs from the estimate in Table 1 for reasons discussed above.¹¹

Table 7 shows the distribution of these fee changes across the affected industries. It includes the majority subset of the fees subject to the CPI-based rate increase. They include emission fees, permit processing fees, annual permit renewal fees, AB 2588 fees, source test fees, and a portion of Rule 2202 fees.

The manufacturing sector would experience the largest increase in fees (approximately \$1.21 million for about 3,600 facilities), followed by the services sector (approximately \$0.47 million for about 10,500 facilities), the retail trade sector (approximately \$0.36 million for about 4,100 facilities), with the remaining sectors accounting for approximately \$0.61 million. Within the manufacturing sector, the petroleum and coal products manufacturing industry, mostly comprised of refineries, will have an increase of around \$0.51 million, or about 19 percent of the overall increase.

SUMMARY

The above analysis provides background information on South Coast AQMD's revenue and summarizes the economic impact on facilities regulated by South Coast AQMD due to the automatic consumer price index (Rule 320) increase. Based on the fee categories examined in the analysis and last year's activity levels, South Coast AQMD revenues are expected to increase by \$2.65 million due to this fee rate increase. However, the amount of South Coast AQMD fees paid by each industry remained small relative to the industry's economic output or value-added (less than 0.01 percent overall).

¹¹ A socioeconomic assessment of proposed amendments to Regulation III with fee impacts will be released at least 30 days prior to the public hearing, which is currently scheduled for May 1, 2020.

Table 7: Revenue Impact of the Fee Rate Increase by Industry Sector

Industry	NAICS	Estimated Number of Facilities Affected	Revenue Change Due to 2.8% CPI Adjustment	Percent of Total CPI Increase
Agriculture, Forestry, Fishing & Hunting	111-115	114	\$9,028	0.34%
Mining	21	324	\$61,590	2.33%
Oil and Gas Extraction	211	211	\$40,591	1.53%
Mining (except oil and gas)	212-213	113	\$20,999	0.79%
Construction	23	1,053	\$60,693	2.29%
Manufacturing	31-33	3,558	\$1,211,743	45.75%
Food Manufacturing	311	224	\$62,175	2.35%
Wood Products Manufacturing	321	79	\$3,539	0.13%
Petroleum and Coal Products Mfg.	324	92	\$509,725	19.24%
Chemical Manufacturing	325	338	\$144,373	5.45%
Nonmetallic Mineral Product Mfg.	327	230	\$57,549	2.17%
Primary & Fabricated Metal Mfg.	331-332	834	\$176,591	6.67%
Machinery Manufacturing	333	188	\$20,801	0.79%
Computer and Electronic Product Mfg.	334	255	\$35,852	1.35%
Electrical Equipment & Appliance Mfg.	335	121	\$24,092	0.91%
Motor Vehicle & Trans. Equipment Mfg.	336	230	\$43,891	1.66%
Other Manufacturing	312-339	967	\$133,156	5.03%
Utilities	22	1,041	\$127,880	4.83%
Transportation & Warehousing	48-49	634	\$69,837	2.64%
Information	51	740	\$26,211	0.99%
Publishing Industries, Except Internet	511	29	\$1,703	0.06%
Motion Picture & Sound Recording	512	88	\$6,763	0.26%
Internet Services and data processing	518,519	61	\$2,831	0.11%
Other Information	Other in 51	562	\$14,914	0.56%
Wholesale Trade	42	1,197	\$133,611	5.04%
Retail Trade	44-45	4,076	\$360,456	13.61%
Car & Parts Dealers	441	309	\$14,979	0.57%
Gas Stations	447	1,819	\$228,435	8.62%
Other Retail Trade	Other in 44-45	1,948	\$117,041	4.42%
Finance and Insurance	52	351	\$17,306	0.65%
Real Estate and Rental Leasing	53	1,154	\$48,441	1.83%
Services	54-81	10,467	\$470,010	17.74%
Professional and Technical Services	54	778	\$59,493	2.25%
Accommodation	721	278	\$10,933	0.41%
Food Services & Drinking Places	722	2,312	\$23,816	0.90%
Automotive Repairs & Maintenance	8111	2,196	\$84,169	3.18%
Dry Cleaning & Laundry Services	8123	1,111	\$24,930	0.94%
Health Care & Social Assistance	62	866	\$57,519	2.17%
Other Services	Other in 54-81	2,926	\$209,150	7.90%
Public Administration	92	1,551	\$62,550	2.36%
Unclassified¹	N/A	442	\$47,180	1.78%
Totals		26,702	\$2,648,855	100%

¹ Facilities with no NAICS codes assigned are categorized as "Unclassified."

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