

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

Draft Socioeconomic Assessment for Rule 320 - Automatic Adjustment Based on Consumer Price Index for Regulation III Fees

March 2019

Executive Officer

Wayne Nastri

Deputy Executive Officer

Planning, Rule Development & Area Sources

Philip M. Fine, Ph.D.

Assistant Deputy Executive Officer

Planning, Rule Development & Area Sources

Sarah Rees

Authors:

Shah Dabirian, Ph.D., Program Supervisor
Paul Stroik, Ph.D., Air Quality Specialist

Contributor:

Nancy Cole, Financial Analyst

Reviewed By:

Ian MacMillan, Planning & Rules Manager
Donna Peterson, Financial Services Manager
Teresa Barrera, Senior Deputy District Counsel
Sheri Hanizavareh, Senior Deputy District Counsel

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
GOVERNING BOARD**

Chairman: DR. WILLIAM A. BURKE
Speaker of the Assembly Appointee

Vice Chairman: DR. CLARK E. PARKER, SR.
Senate Rules Committee Appointee

MEMBERS:

LISA BARTLETT
Supervisor, Fifth District
County of Orange

BEN BENOIT
Council Member, Wildomar
Cities of Riverside County

JOE BUSCAINO
Council Member, 15th District
City of Los Angeles Representative

MICHAEL A. CACCIOTTI
Council Member, South Pasadena
Cities of Los Angeles County/Eastern Region

JANICE HAHN
Supervisor, Fourth District
County of Los Angeles

JOSEPH K. LYOU, Ph.D.
Governor's Appointee

LARRY MCCALLON
Mayor Pro Tem, Highland
Cities of San Bernardino County

JUDITH MITCHELL
Mayor, Rolling Hills Estates
Cities of Los Angeles County/Western Region

V. MANUEL PEREZ
Supervisor, Fourth District
County of Riverside

DWIGHT ROBINSON
Council Member, Lake Forest
Cities of Orange County

JANICE RUTHERFORD
Supervisor, Second District
County of San Bernardino

EXECUTIVE OFFICER:

WAYNE NASTRI

EXECUTIVE SUMMARY

Rule 320 – Automatic Adjustment Based on Consumer Price Index (CPI) for Regulation III Fees requires adjustments of most fee rates in Regulation III by the California CPI annually unless the Governing Board votes to amend the rule to not require the CPI increase or requires a different increase for a given year. The October 29, 2010 SCAQMD 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 In addition, the analysis provides background information, historical trends of SCAQMD revenues from various fees and sectoral distributions of these fees. A summary of the analysis and findings is presented below.

Fee Increases	Pursuant to Rule 320, an across-the-board 3.5-percent increase in fee rates (equivalent to the change in the California CPI from December 2017 to December 2018) will occur on July 1, 2019 unless the Governing Board decides to forego the 3.5-percent increase.
Affected Facilities	Nearly all facilities regulated by the SCAQMD would be affected by the proposed fee increases. These facilities cover every sector of the economy.
Approach and Findings	The analysis herein examines the impact of the existing Regulation III fees on various industries. The fees examined include emissions fees, permit processing fees, annual permit renewal fees, toxic hot spot fees, source testing fees, and a portion of fees under Rule 2202 – On-Road Motor Vehicle Mitigation Options. The current fee rates together with the most recent equipment and activity profiles of individual facilities were used to generate facility-level fee estimates. These estimates were then aggregated to the industry level. The manufacturing sector is the largest contributor to SCAQMD’s emission fees (78 percent), permit processing fees (41 percent), and annual permit renewal fees (36 percent). Overall, the costs of complying with the current Regulation III rates are very small relative to the region-wide industry output or value-added (less than 0.01 percent).
Impact of Fee Increase	Based on the fee categories examined in the analysis and last year’s activity levels, the across-the-board CPI-based fee rate increase by industry sectors is projected to bring additional revenue totaling \$2.85 million to SCAQMD. The manufacturing sector as a whole would incur the largest increase in fees (approximately \$1.20 million for about 3,600 facilities), followed by the services sector (approximately \$0.53 million for about 10,600 facilities) and the retail trade sector (approximately \$0.41 million for about 4,000 facilities). Within the manufacturing sector, the petroleum and coal products manufacturing industry, mostly comprised of refineries, would experience an increase of approximately \$0.49 million.

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

INTRODUCTION

The SCAQMD General Fund is comprised of revenues from a number of sources. The majority of SCAQMD 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, an across-the-board 3.5-percent increase in fee rates will occur on July 1, 2019 applying to fiscal year (FY) 2019-2020 unless the Governing Board decides to forego the 3.5-percent increase.² The 3.5-percent increase is equivalent to the change in the California Consumer Price Index (CPI) from December 2017 to December 2018. The annual increase in fee rates for the past five FYs and the upcoming FY are as follows: 1.6% in 2014-2015, 1.4% in 2015-2016, 2.4% in 2016-17, 2.5% in 2017-2018, 3.4% in 2018-2019, and 3.5% in 2019-2020.

In order to examine the impact of a fee rate increase on various industries, this report focuses the analysis 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 that are 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 SCAQMD is required to undertake socioeconomic analyses by California Health and Safety Code (H&SC) Section 40440.8(a) for proposed rules and rule amendments that “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 2018-2019, and projected revenue for FY 2019-2020 by major fee category. Estimated revenue for FY 2018-2019 is based on actual revenue received through February 2019. FY 2019-2020 projected revenue is based on forecasts estimated by various SCAQMD operational units. Emission fees, permit processing fees, and annual permit renewal fees

² A fiscal year runs from July 1 to June 30. For example, FY 2018-2019 refers to the period of July 1, 2018 to June 30, 2019. In comparison, calendar year (CY) 2018 refers to the period of January 1 to December 31, 2018.

³ Employers subject to Rule 2202 can choose among various compliance options, including participation in the Air Quality Investment Program (AQIP). The AQIP program fees consist of a registration fee and an investment fee, the latter of which goes to a special revenue account to obtain necessary emissions reduction or air quality benefits and is not part of the General Fund.

together represent approximately 57 percent of SCAQMD's estimated total FY 2018-2019 revenues.

Compared to the estimated revenue in FY 2018-2019, a net total revenue increase of \$5.5 million is projected for FY 2019-2020, which reflects the impact of the across-the-board CPI-based fee rate increase, a 2017 Board-approved Title V fee increase, additional state funding, and the forecasted changes in activity levels. This estimated revenue increase is inclusive of the CPI-based fee rate increase, the impact of which is also estimated separately in Table 7.

Table 1: Actual and Estimated SCAQMD Revenue

Revenue Category	FY 2016-2017 Actual* (Thousands)	FY 2017-2018 Actual* (Thousands)	FY 2018-2019 Estimated** (Thousands)	FY 2019-2020 Projected (Thousands)	Changes in Revenue (from FY 2018-2019 Estimated)	
					Thousands	%
Emission Fees	\$18,964	\$22,787	\$19,990	\$20,676	\$686	3.4%
Annual Renewal Fees (w/o PERP)	\$47,561	\$51,007	\$56,105	\$59,351	\$3,246	5.8%
Permit Processing Fees	\$20,729	\$19,538	\$18,829	\$20,644	\$1,815	9.6%
Mobile Sources/Clean Fuels	\$23,793	\$22,016	\$26,007	\$28,218	\$2,212	8.5%
Sources Test & Lab Analysis	\$734	\$663	\$699	\$756	\$57	8.1%
Hearing Board Fees	\$188	\$352	\$140	\$217	\$77	55.3%
Transportation Program (Rule 2202) Fees	\$840	\$846	\$1,020	\$964	-\$56	-5.5%
Other Revenue***	\$36,083	\$44,713	\$42,665	\$40,159	-\$2,506	-5.9%
Total	\$148,893	\$161,921	\$165,454	\$170,985	\$5,531	3.3%

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

* Information as reported in the Comprehensive Annual Financial Reports (FYs 2016-17 & 2017-18).

** Estimates are based on actual revenue received through February 2019.

*** Other Revenues include: CARB Subvention; State and Federal Grants; Interest; Lease Income; Penalties/Settlements; Subscriptions; AB 2588 Reimbursement; Miscellaneous Revenues; 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 17-18 or CY 2018 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.

Emission Fees

For FY 18-19, emission fees account for approximately 12 percent of SCAQMD's estimated total revenue (Table 1). In May 2001, a flat emissions fee was introduced for all facilities with at least one operating permit.⁴ The flat fee implemented recommendations by the California State Auditor in 1998, the Revenue Committee established by the

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

Executive Officer in 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 emission fees (\$2.64 million) and emissions-based fees (\$15.02 million), the latter of which contributed approximately 85 percent of total emission fees collected.⁵ These emissions include permitted and non-permitted emissions of NO_x, SO_x, VOC, TSP, CO, and specific organic gasses (SPOG) as well as toxic air contaminants for facilities required to report their actual emissions each year.⁶

The services sector (NAICS 54-81) consisting of around 6,900 facilities contributed the highest share of the flat emission fee, contributing \$0.87 million or 33 percent of the total amount. It is followed by the retail trade sector (NAICS 44-45), with \$0.45 million paid by about 3,600 facilities. In comparison, emission-based fees were mostly collected from larger-sized businesses located within certain industries. Among the 927 facilities that were subject to emission-based fees, nearly half were manufacturers (NAICS 31-33), and they contributed 78 percent of the total emission-based fees invoiced in 2018. The petroleum and coal industry (NAICS 324) alone contributed \$9.50 million to emissions-based fees, accounting for 81 percent of the manufacturing sector and 63 percent of total emissions-based fees.

⁵ Emission-based fees were derived from 2018 emissions and the invoiced amount, or the amount a facility should have paid, in Calendar Year 2018 based on the existing Rule 301 fee rates.

⁶ Toxic air contaminants are listed in Table IV of Rule 301.

Table 2: Estimated Emission Fee Revenue by Industry in 2018 (MM\$)

Industry	NAICS	Flat Fee ¹			Emission-based Fees			Total	
		MM\$	%	# of Fac. ²	MM\$	%	# of Fac. ²	MM\$	%
Agriculture, Forestry, Fishing & Hunting	11	\$0.01	0.38%	81	\$0.13	0.89%	35	\$0.14	0.81%
Mining	21	\$0.03	1.16%	244	\$0.43	2.89%	72	\$0.46	2.63%
Oil and Gas Extraction	211	\$0.02	0.73%	154	\$0.21	1.40%	47	\$0.23	1.30%
Mining (except oil and gas)	212-213	\$0.01	0.43%	90	\$0.22	1.49%	25	\$0.24	1.33%
Construction	23	\$0.09	3.55%	750	\$0.04	0.27%	9	\$0.13	0.76%
Manufacturing	31-33	\$0.40	15.26%	3,222	\$11.65	77.58%	414	\$12.05	68.25%
Food Manufacturing	311	\$0.02	0.88%	185	\$0.09	0.60%	38	\$0.11	0.64%
Wood Products Manufacturing	321	\$0.01	0.32%	67	\$0.01	0.04%	4	\$0.01	0.08%
Petroleum and Coal Products Mfg.	324	\$0.01	0.41%	87	\$9.49	63.23%	39	\$9.50	53.83%
Chemical Manufacturing	325	\$0.04	1.46%	309	\$0.25	1.69%	45	\$0.29	1.66%
Nonmetallic Mineral Product Mfg.	327	\$0.03	1.04%	219	\$0.47	3.11%	24	\$0.49	2.80%
Primary & Fabricated Metal Mfg.	331-332	\$0.10	3.61%	763	\$0.40	2.67%	95	\$0.50	2.81%
Machinery Manufacturing	333	\$0.02	0.78%	165	\$0.03	0.18%	5	\$0.05	0.27%
Computer and Electronic Product Mfg.	334	\$0.03	1.12%	237	\$0.03	0.21%	18	\$0.06	0.34%
Electrical Equipment & Appliance Mfg.	335	\$0.01	0.52%	109	\$0.01	0.09%	10	\$0.03	0.15%
Motor Vehicle & Trans. Equipment Mfg.	336	\$0.03	0.99%	210	\$0.09	0.61%	28	\$0.12	0.66%
Other Manufacturing	312-339	\$0.11	4.13%	871	\$0.78	5.16%	108	\$0.88	5.01%
Utilities	22	\$0.13	4.79%	1,009	\$0.97	6.43%	79	\$1.09	6.18%
Transportation & Warehousing	48-49	\$0.07	2.56%	538	\$0.36	2.41%	30	\$0.43	2.43%
Information	51	\$0.08	3.20%	677	\$0.02	0.11%	6	\$0.10	0.57%
Publishing Industries, Except Internet	511	\$0.00	0.10%	22	\$0.00	0.01%	1	\$0.00	0.03%
Motion Picture & Sound Recording	512	\$0.01	0.29%	63	\$0.02	0.10%	5	\$0.02	0.13%
Internet Services and data processing	518,519	\$0.01	0.25%	52	\$0.00	0.00%	0	\$0.01	0.04%
Other Information	Other in 51	\$0.07	2.55%	540	\$0.00	0.00%	0	\$0.07	0.38%
Wholesale Trade	42	\$0.13	4.85%	1,024	\$0.25	1.63%	48	\$0.37	2.12%
Retail Trade	44-45	\$0.45	16.95%	3,570	\$0.21	1.42%	70	\$0.66	3.75%
Car & Parts Dealers	441	\$0.03	1.26%	266	\$0.00	0.02%	4	\$0.04	0.20%
Gas Stations	447	\$0.21	8.08%	1,699	\$0.07	0.48%	15	\$0.29	1.62%
Other Retail Trade	Other in 44-45	\$0.20	7.61%	1,605	\$0.14	0.92%	51	\$0.34	1.92%
Finance and Insurance	52	\$0.04	1.38%	291	\$0.00	0.01%	2	\$0.04	0.21%
Real Estate and Rental Leasing	53	\$0.13	4.75%	1,006	\$0.00	0.02%	3	\$0.13	0.73%
Services	54-81	\$0.87	32.82%	6,931	\$0.80	5.34%	138	\$1.67	9.45%
Professional and Technical Services	54	\$0.07	2.55%	538	\$0.01	0.03%	12	\$0.07	0.41%
Accommodation	721	\$0.03	1.00%	211	\$0.00	0.00%	0	\$0.03	0.15%
Food Services & Drinking Places	722	\$0.02	0.63%	134	\$0.00	0.01%	3	\$0.02	0.10%
Automotive Repairs & Maintenance	8111	\$0.24	9.11%	1,923	\$0.01	0.08%	4	\$0.25	1.43%
Dry Cleaning & Laundry Services	8123	\$0.13	4.91%	1,035	\$0.00	0.00%	3	\$0.13	0.74%
Health Care & Social Assistance	62	\$0.09	3.57%	753	\$0.11	0.72%	46	\$0.20	1.14%
Other Services	Other in 54-81	\$0.29	11.05%	2,337	\$0.68	4.50%	70	\$0.97	5.48%
Public Administration	92	\$0.18	6.91%	1,456	\$0.13	0.89%	18	\$0.32	1.79%
Unclassified³	N/A	\$0.04	1.44%	304	\$0.02	0.11%	3	\$0.05	0.31%
Totals		\$2.64	100%	21,103	\$15.02	100%	927	\$17.66	100%

¹ Flat emission fees based on FY 2017-2018.² Almost all facilities paying emission-based fees also pay the flat fee.³ Facilities with no NAICS codes assigned are categorized as "unclassified."

Permit Processing Fees and Annual Permit Renewal 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 SCAQMD 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. Variances in permit processing fee amounts between Table 3 - Estimated Permit Processing & Annual Permit Renewal Fee Revenue by Industry and Table 1 – Actual and Estimated SCAQMD Revenue reflect application fees being collected at time of application, but are recognized as revenues at the time the majority of permit work is completed.

As Table 3 indicates, an estimated total of \$12.80 million from about 4,600 facilities that applied for permits to construct or operate was invoiced during FY 2017-2018. Facilities can apply for multiple permits. As with emission fees, the majority of the permit processing fee revenue came from the manufacturing sector, which contributed \$5.23 million (41 percent of permit processing fee revenue). The services sector paid the second most of permit processing fees with \$2.91 million (23 percent of permit processing fee revenue).

Operating permits must be renewed annually. An annual fee is assessed on the renewed permits to support continuing SCAQMD inspection and compliance activities and other permit related activities. Approximately 26,800 facilities held operating permits as of February 22, 2019. The revenue from these facilities at the current fee rate is estimated to be \$50.36 million (Table 3). The manufacturing sector, with about 3,600 facilities, was the largest contributor, paying \$18.26 million or 36 percent of the total annual renewal fee revenue. The service sector with more than 10,500 facilities paid about \$9.77 million and the retail trade sector with about 4,000 facilities paid about \$9.25 million.

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 SCAQMD. Rule 314 affects about 200 architectural coatings manufacturers classified under the chemical manufacturing sector (NAICS 325). Beginning 2009 and each subsequent calendar year, Rule 314 requires architectural coatings manufacturers to report to SCAQMD annual quantity (in gallons) and emissions of each of their architectural products distributed or sold into or within the SCAQMD for use in the SCAQMD 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 2017-2018 pursuant to Rule 314 were about \$2.2 million. This amount represents around 1.4 percent of the SCAQMD's total revenue for that FY, and about 0.01 percent of the chemical manufacturing industry's economic output.⁷

⁷ Please refer to the "Major Revenue Sources by Industry" section for more details.

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	0.38%	32	\$0.15	0.30%	115
Mining	21	\$0.16	1.26%	60	\$1.32	2.62%	326
Oil and Gas Extraction	211	\$0.11	0.85%	48	\$0.92	1.82%	210
Mining (except oil and gas)	212-213	\$0.05	0.42%	12	\$0.40	0.80%	116
Construction	23	\$0.36	2.79%	165	\$1.42	2.82%	1,071
Manufacturing	31-33	\$5.23	40.85%	656	\$18.26	36.26%	3,641
Food Manufacturing	311	\$0.32	2.51%	51	\$1.36	2.70%	227
Wood Products Manufacturing	321	\$0.05	0.36%	8	\$0.08	0.15%	79
Petroleum and Coal Products Mfg.	324	\$1.27	9.94%	32	\$4.86	9.64%	95
Chemical Manufacturing	325	\$0.44	3.47%	71	\$1.93	3.84%	337
Nonmetallic Mineral Product Mfg.	327	\$0.21	1.66%	38	\$1.25	2.49%	233
Primary & Fabricated Metal Mfg.	331-332	\$1.11	8.69%	161	\$3.70	7.35%	850
Machinery Manufacturing	333	\$0.17	1.31%	35	\$0.42	0.83%	195
Computer and Electronic Product Mfg.	334	\$0.30	2.33%	62	\$0.77	1.52%	265
Electrical Equipment & Appliance Mfg.	335	\$0.19	1.49%	20	\$0.45	0.90%	125
Motor Vehicle & Trans. Equipment Mfg.	336	\$0.30	2.34%	45	\$0.93	1.85%	233
Other Manufacturing	312-339	\$0.86	6.75%	133	\$2.52	5.00%	1,002
Utilities	22	\$0.65	5.07%	132	\$2.32	4.60%	1,038
Transportation & Warehousing	48-49	\$0.27	2.11%	103	\$1.43	2.84%	640
Information	51	\$0.18	1.44%	206	\$0.51	1.00%	736
Publishing Industries, Except Internet	511	\$0.04	0.34%	9	\$0.03	0.07%	31
Motion Picture & Sound Recording	512	\$0.05	0.37%	24	\$0.14	0.27%	80
Internet Services and data processing	518,519	\$0.03	0.20%	18	\$0.05	0.11%	58
Other Information	Other in 51	\$0.07	0.52%	155	\$0.28	0.55%	567
Wholesale Trade	42	\$0.67	5.20%	166	\$2.84	5.65%	1,201
Retail Trade	44-45	\$1.26	9.86%	1,112	\$9.25	18.37%	4,044
Car & Parts Dealers	441	\$0.08	0.60%	34	\$0.24	0.48%	307
Gas Stations	447	\$0.51	4.01%	237	\$6.29	12.49%	1,836
Other Retail Trade	Other in 44-45	\$0.67	5.24%	841	\$2.71	5.39%	1,901
Finance and Insurance	52	\$0.04	0.30%	65	\$0.34	0.67%	357
Real Estate and Rental Leasing	53	\$0.32	2.48%	184	\$1.03	2.05%	1,171
Services	54-81	\$2.91	22.72%	1,397	\$9.77	19.40%	10,574
Professional and Technical Services	54	\$0.60	4.72%	161	\$1.25	2.47%	790
Accommodation	721	\$0.04	0.30%	28	\$0.23	0.46%	281
Food Services & Drinking Places	722	\$0.13	1.03%	205	\$0.65	1.28%	2,347
Automotive Repairs & Maintenance	8111	\$0.34	2.69%	183	\$1.73	3.43%	2,221
Dry Cleaning & Laundry Services	8123	\$0.10	0.75%	88	\$0.54	1.08%	1,185
Health Care & Social Assistance	62	\$0.28	2.19%	162	\$1.17	2.33%	846
Other Services	Other in 54-81	\$1.41	11.04%	570	\$4.20	8.34%	2,904
Public Administration	92	\$0.28	2.16%	153	\$1.19	2.36%	1,531
Unclassified³	N/A	\$0.43	3.36%	206	\$0.54	1.07%	360
Totals		\$12.80	100%	4,637	\$50.36	100%	26,805

¹ Based on permit applications in FY 2017-2018.² Based on permits held on February 22, 2019.³ Facilities with no NAICS codes assigned are categorized as "unclassified."

Toxic Hot Spots Fees

AB 2588 toxic hot spots fees are calculated based on health risks and priority scores. The most recent invoiced revenue for FY 2017-2018 was approximately \$2.55 million (Table 4). 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 20 and 16 percent respectively.

Source Testing Fees

The revenue from source testing fees is based on the invoiced source test fees during FY 2017-2018. During this period of time, the combined source test fee revenue from Rules 304 and 304.1 was \$0.53 million (Table 4). Manufacturing accounted for 59 percent of this revenue, followed by services with 14 percent.

Rule 2202 Fees

Rule 2202 – On-Road Motor Vehicle Mitigation Options applies to employers with 250 or more employees in the SCAQMD's jurisdiction. It provides employers with three compliance options: (1) the Employee Commute Reduction Program (ECRP); (2) emission reduction strategies (ERS) such as the 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 SCAQMD at the time 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.

The revenue from Rule 2202 fees herein is based on the invoiced Rule 2202 fees during FY 2017-2018. A total of \$0.87 million was collected from Rule 2202 fees for ECRP, ERS, and AQIP registration fees. The services sector accounted for 34 percent of the estimated Rule 2202 fee revenue. Unlike many other fee categories, only 14 percent of the Rule 2202 fee revenue came from manufacturing.

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

Industry	NAICS	Source Testing Fees			Toxic Hot Spots Fees		
		MM\$	%	# of Fac.	MM\$	%	# of Fac.
Agriculture, Forestry, Fishing & Hunting	11	\$0.00	0.07%	1	\$0.00	0.19%	32
Mining	21	\$0.01	2.75%	6	\$0.02	0.72%	46
Oil and Gas Extraction	211	\$0.01	2.61%	5	\$0.02	0.61%	33
Mining (except oil and gas)	212-213	\$0.00	0.14%	1	\$0.00	0.11%	13
Construction	23	\$0.01	1.99%	8	\$0.04	1.55%	280
Manufacturing	31-33	\$0.32	59.46%	190	\$0.41	16.05%	1,132
Food Manufacturing	311	\$0.03	5.16%	23	\$0.01	0.20%	34
Wood Products Manufacturing	321	\$0.00	0.00%	0	\$0.00	0.05%	9
Petroleum and Coal Products Mfg.	324	\$0.02	4.18%	14	\$0.07	2.75%	41
Chemical Manufacturing	325	\$0.02	3.09%	12	\$0.03	1.09%	117
Nonmetallic Mineral Product Mfg.	327	\$0.00	0.90%	7	\$0.01	0.41%	22
Primary & Fabricated Metal Mfg.	331-332	\$0.13	24.30%	59	\$0.14	5.45%	247
Machinery Manufacturing	333	\$0.02	3.49%	10	\$0.00	0.17%	28
Computer and Electronic Product Mfg.	334	\$0.00	0.40%	2	\$0.02	0.73%	120
Electrical Equipment & Appliance Mfg.	335	\$0.02	3.44%	7	\$0.01	0.45%	29
Motor Vehicle & Trans. Equipment Mfg.	336	\$0.01	2.68%	10	\$0.04	1.43%	92
Other Manufacturing	312-339	\$0.06	11.83%	46	\$0.08	3.31%	393
Utilities	22	\$0.05	8.65%	27	\$0.14	5.61%	738
Transportation & Warehousing	48-49	\$0.01	1.19%	2	\$0.06	2.36%	407
Information	51	\$0.00	0.27%	3	\$0.09	3.40%	655
Publishing Industries, Except Internet	511	\$0.00	0.00%	0	\$0.00	0.12%	19
Motion Picture & Sound Recording	512	\$0.00	0.27%	3	\$0.01	0.35%	56
Internet Services and data processing	518,519	\$0.00	0.00%	0	\$0.01	0.24%	47
Other Information	Other in 51	\$0.00	0.00%	0	\$0.07	2.69%	533
Wholesale Trade	42	\$0.03	5.81%	19	\$0.09	3.54%	577
Retail Trade	44-45	\$0.01	1.86%	13	\$0.52	20.47%	3,125
Car & Parts Dealers	441	\$0.00	0.64%	4	\$0.03	1.36%	212
Gas Stations	447	\$0.00	0.35%	3	\$0.31	12.14%	1,761
Other Retail Trade	Other in 44-45	\$0.00	0.87%	6	\$0.18	6.97%	1,152
Finance and Insurance	52	\$0.00	0.14%	2	\$0.04	1.59%	301
Real Estate and Rental Leasing	53	\$0.00	0.57%	4	\$0.12	4.70%	910
Services	54-81	\$0.07	13.71%	65	\$0.84	32.75%	5,427
Professional and Technical Services	54	\$0.01	2.57%	9	\$0.05	1.88%	339
Accommodation	721	\$0.00	0.58%	2	\$0.03	1.06%	210
Food Services & Drinking Places	722	\$0.00	0.60%	3	\$0.01	0.54%	99
Automotive Repairs & Maintenance	8111	\$0.01	2.18%	9	\$0.37	14.40%	2,154
Dry Cleaning & Laundry Services	8123	\$0.00	0.14%	2	\$0.07	2.64%	398
Health Care & Social Assistance	62	\$0.01	1.75%	5	\$0.10	4.00%	756
Other Services	Other in 54-81	\$0.03	5.88%	35	\$0.21	8.24%	1,471
Public Administration	92	\$0.00	0.46%	1	\$0.15	5.78%	1,066
Unclassified¹	N/A	\$0.02	3.07%	6	\$0.03	1.29%	225
Totals		\$0.53	100%	347	\$2.55	100%	14,921

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

Major Revenue Sources by Industry

Approximately 58 percent of SCAQMD's FY 2018-2019 estimated revenue comes from the following major revenue categories:⁸ emission fees, permit processing fees, annual permit renewal fees, toxic hot spot fees, source test fees, and a portion of Rule 2202 fees.

⁸ Value comes from Table 1's estimated fee revenue collected for FY 2018-2019.

The amount of these total fee revenues 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 2017-2018 Revenues from Major Fee Categories by Sector

Sector	NAICS	Revenues from Permit and Emission-based Fees (MM\$)
Agriculture, Forestry, Fishing & Hunting	11	\$0.33
Mining	21	\$2.01
Construction	23	\$1.96
Manufacturing	31-33	\$34.23
Utilities	22	\$3.91
Transportation & Warehousing	48-49	\$2.07
Information	51	\$0.90
Wholesale Trade	42	\$3.97
Retail Trade	44-45	\$11.68
Finance and Insurance	52	\$0.50
Real Estate and Rental Leasing	53	\$1.61
Services	54-81	\$15.16
Public Administration	92	\$2.01
Unclassified ¹	N/A	\$1.06
Total		\$81.40

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 17-18 at about \$34.23 million, which is 42 percent of fee revenues (Figure 1). This is followed by the services sector (NAICS 54-81), providing about \$15.16 million, or 19 percent of fee revenues, and the retail trade sector (NAICS 44-45), providing \$11.68 million, representing a 14 percent share.

Figure 1: FY 2017-2018 Share of Major Fee Revenue by Sector

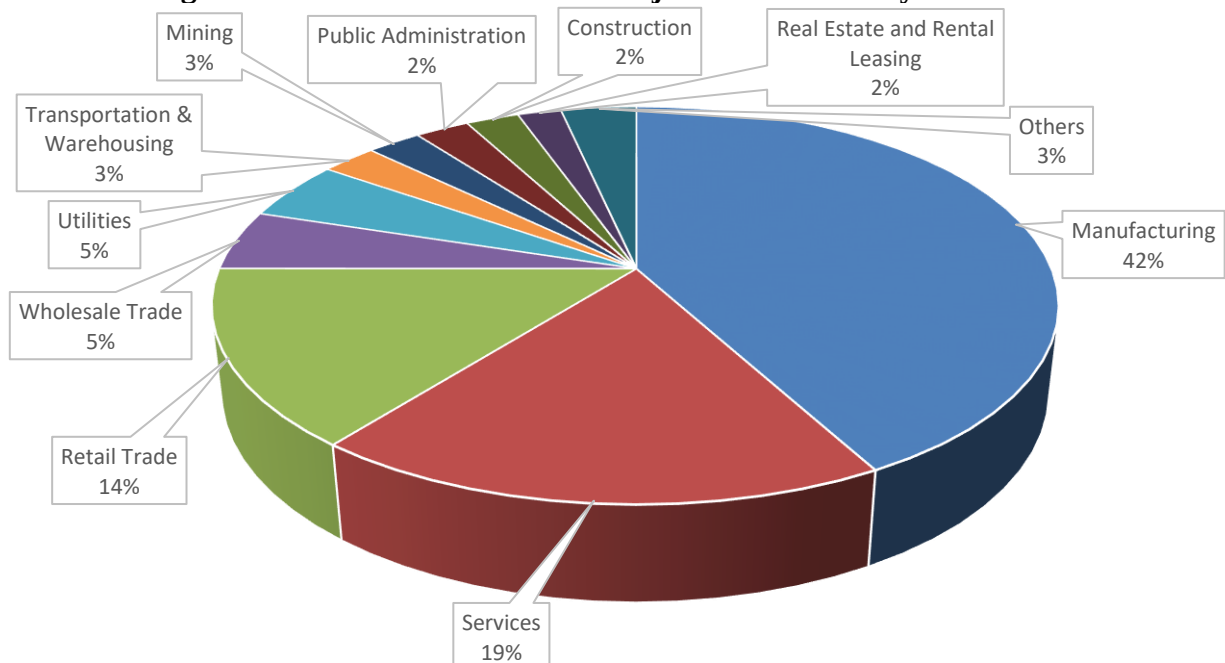


Table 6 shows the percentage of fees from these categories relative to each industry's total (gross) output and value-added to evaluate them relative to different economic measures of industries within SCAQMD's jurisdiction.⁹ Output is measured as an industry's total sales revenue. Value-added is measured as an industry's profit margin plus its expenses on labor and capital. Collectively, revenue from these fees is estimated to amount to approximately \$81.40 million, based on invoiced amounts at the 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 that paid among the highest amount of fees relative to their output were pipeline transportation (NAICS 486), mining and supportive activities (NAICS 212 and 213), nonmetallic mineral product manufacturing (NAICS 327), and petroleum and coal products manufacturing (NAICS 324). Nominally, the petroleum and coal products manufacturing industry (NAICS 324) paid the most, with a total of \$14.08 million in various fees, representing five hundredths of one percent of the sector's output and about a fifth of a percent of the sector's value-added. Overall, SCAQMD'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.

Table 6: Share of Major Revenue by Detailed Industry

Industry Sector	NAICS	MM\$	% of Total Fees	% of Total Output	% of Total Value Added
Pipeline Transportation	486	\$0.60	0.74%	0.137%	0.166%
Support Activities for Mining	213	\$0.21	0.25%	0.096%	0.200%
Mining (except oil and gas)	212	\$0.50	0.61%	0.084%	0.143%
Nonmetallic Mineral Product Mfg.	327	\$1.76	2.16%	0.051%	0.110%
Petroleum and Coal Products Mfg.	324	\$14.08	17.30%	0.051%	0.180%
Oil & Gas Extraction	211	\$1.30	1.60%	0.039%	0.047%
Waste Management & Remediation Services	562	\$1.65	2.02%	0.039%	0.077%
Primary Metal Mfg.	331	\$1.63	2.00%	0.035%	0.143%
Utilities	22	\$3.91	4.81%	0.034%	0.045%
Repair & Maintenance	811	\$3.18	3.91%	0.021%	0.033%
Fabricated Metal Product Mfg.	332	\$4.01	4.92%	0.019%	0.045%
Electrical Equipment & Appliance Mfg.	335	\$0.70	0.86%	0.016%	0.035%
Plastics and Rubber Products Mfg.	326	\$1.47	1.80%	0.014%	0.043%
Textile & Textile Product Mills	313-314	\$0.43	0.53%	0.014%	0.039%
Retail Trade	44-45	\$11.68	14.35%	0.012%	0.018%
Agriculture & Forestry support activities	113-115	\$0.07	0.08%	0.011%	0.015%
Printing & Related Support Activities	323	\$0.52	0.64%	0.011%	0.023%
Paper Mfg.	322	\$0.51	0.63%	0.011%	0.031%
Chemical Mfg.	325	\$2.59	3.18%	0.009%	0.021%
Personal & Laundry Services	812	\$1.20	1.48%	0.008%	0.013%
Wood Products Mfg.	321	\$0.14	0.17%	0.007%	0.022%
Machinery Manufacturing	333	\$0.65	0.80%	0.007%	0.019%

⁹Output and value-added data for 2016, the most recent historical data, by detailed industry were compiled by Regional Economic Modeling, Inc. (REMI) in 2018 year dollars.

Industry Sector	NAICS	MM\$	% of Total Fees	% of Total Output	% of Total Value Added
Education Services	61	\$1.26	1.55%	0.007%	0.011%
Food Mfg.	311	\$1.81	2.23%	0.007%	0.031%
Furniture & Related Product Mfg.	337	\$0.30	0.37%	0.006%	0.017%
Farm (Agricultural Products)	111-112	\$0.27	0.33%	0.006%	0.018%
Amusement, Gambling, and Recreation	713	\$0.51	0.63%	0.005%	0.009%
Scenic & Sightseeing Transportation	487-488	\$0.73	0.90%	0.005%	0.011%
Beverage and Tobacco Product Mfg.	312	\$0.37	0.46%	0.005%	0.011%
Museums, Historical Sites, Zoos, and Parks	712	\$0.04	0.05%	0.005%	0.011%
Warehousing & Storage	493	\$0.32	0.40%	0.005%	0.007%
Transit & Ground passenger Transportation	485	\$0.11	0.14%	0.005%	0.008%
Miscellaneous Mfg.	339	\$0.63	0.77%	0.004%	0.008%
Transport Equip. Mfg. Excl. Motor Veh.	3364-3369	\$1.06	1.30%	0.004%	0.010%
Motor Vehicle Mfg.	3361-3363	\$0.35	0.43%	0.004%	0.017%
Computer & Electronic Product Mfg.	334	\$1.16	1.43%	0.004%	0.005%
Administrative & Support Services	561	\$1.74	2.14%	0.004%	0.006%
Wholesale Trade	42	\$3.97	4.88%	0.004%	0.005%
Accommodation	721	\$0.36	0.44%	0.003%	0.005%
Membership Associations and Organizations	813	\$0.34	0.42%	0.003%	0.006%
Construction	23	\$1.96	2.41%	0.003%	0.005%
Hospitals	622	\$0.86	1.05%	0.003%	0.005%
Nursing & Residential Care Facilities	623	\$0.20	0.25%	0.002%	0.003%
Food Services & Drinking Places	722	\$0.82	1.01%	0.002%	0.004%
Professional and Technical Services	54	\$2.04	2.51%	0.002%	0.002%
Internet Services & Data Processing	518-519	\$0.11	0.13%	0.001%	0.003%
Rental & Leasing Services	532-533	\$0.32	0.39%	0.001%	0.002%
Ambulatory Health Care Services	621	\$0.65	0.79%	0.001%	0.002%
Government	92	\$2.01	2.46%	0.001%	0.002%
Truck Transportation	484	\$0.19	0.23%	0.001%	0.002%
Social Assistance	624	\$0.15	0.18%	0.001%	0.001%
Telecommunications	517	\$0.38	0.47%	0.001%	0.002%
Rail Transportation	482	\$0.02	0.02%	0.001%	0.001%
Securities, Commodity Contracts, Investments	523	\$0.21	0.26%	0.001%	0.001%
Couriers & Messengers	491-492	\$0.04	0.05%	0.001%	0.001%
Publishing Industries, Except Internet	511	\$0.09	0.11%	0.001%	0.001%
Monetary Authorities	521-522, 525	\$0.20	0.25%	0.001%	0.001%
Broadcasting, Except Internet	515	\$0.11	0.14%	0.001%	0.001%
Real Estate	531	\$1.29	1.58%	0.000%	0.001%
Apparel, Leather & Allied Product Mfg.	315-316	\$0.05	0.06%	0.000%	0.001%
Performing Arts & Spectator Sports	711	\$0.10	0.12%	0.000%	0.001%
Water Transportation	483	\$0.01	0.01%	0.000%	0.001%
Insurance Carriers & Related Activities	524	\$0.09	0.11%	0.000%	0.001%
Air Transportation	481	\$0.04	0.05%	0.000%	0.001%
Motion Picture & Sound Recording Industries	512	\$0.22	0.27%	0.000%	0.000%
Management of Companies & Enterprises	55	\$0.06	0.07%	0.000%	0.000%
Unclassified*	N/A	\$1.06	1.30%		
Totals		\$81.40	100%	0.005%	0.007%

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

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 3.5 percent for the period of December 2017 to December 2018 unless the Board decides in a rulemaking hearing to forgo the CPI increase. In order to analyze only the impact of the CPI-based increase, the estimation is based on FY 17-18 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 3.5 percent CPI increase are estimated to increase total SCAQMD revenue by approximately \$2.85 million. This estimate is only for the CPI-based increase and thus differs from the estimate in Table 1, for reasons discussed above.¹⁰

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 as a whole would experience the largest increase in fees (approximately \$1.20 million for about 3,600 facilities), followed by the services sector (approximately \$0.53 million for about 10,600 facilities), the retail trade sector (approximately \$0.41 million for about 4,000 facilities), with the remaining sectors accounting for approximately \$0.71 million. Within the manufacturing sector, the petroleum and coal products manufacturing industry, mostly comprised of refineries, will have an increase of around \$0.49 million, or over 17 percent of the overall increase.

SUMMARY

The above analysis provides background information on SCAQMD's revenue and summarizes the economic impact on facilities regulated by SCAQMD 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, SCAQMD revenues are expected to increase by \$2.85 million as a result of this fee rate increase. However, the amount of SCAQMD fees paid by each industry remained small relative to the industry's economic output or value-added (less than 0.01 percent overall).

¹⁰ 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 4, 2018.

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

Industry	NAICS	Estimated Number of Facilities Affected	Revenue Change Due to 3.5% CPI Adjustment	Percent of Total CPI Increase
Agriculture, Forestry, Fishing & Hunting	111-115	115	\$11,708	0.41%
Mining	21	326	\$70,326	2.47%
Oil and Gas Extraction	211	210	\$45,635	1.60%
Mining (except oil and gas)	212-213	116	\$24,690	0.87%
Construction	23	1,071	\$68,715	2.41%
Manufacturing	31-33	3,641	\$1,197,963	42.05%
Food Manufacturing	311	227	\$63,498	2.23%
Wood Products Manufacturing	321	79	\$4,731	0.17%
Petroleum and Coal Products Mfg.	324	95	\$492,916	17.30%
Chemical Manufacturing	325	337	\$90,719	3.18%
Nonmetallic Mineral Product Mfg.	327	233	\$61,518	2.16%
Primary & Fabricated Metal Mfg.	331-332	850	\$197,392	6.93%
Machinery Manufacturing	333	195	\$22,700	0.80%
Computer and Electronic Product Mfg.	334	265	\$40,755	1.43%
Electrical Equipment & Appliance Mfg.	335	125	\$24,592	0.86%
Motor Vehicle & Trans. Equipment Mfg.	336	233	\$49,363	1.73%
Other Manufacturing	312-339	1,002	\$149,779	5.26%
Utilities	22	1,038	\$136,966	4.81%
Transportation & Warehousing	48-49	640	\$72,276	2.54%
Information	51	736	\$31,587	1.11%
Publishing Industries, Except Internet	511	31	\$3,027	0.11%
Motion Picture & Sound Recording	512	80	\$7,673	0.27%
Internet Services and data processing	518,519	58	\$3,678	0.13%
Other Information	Other in 51	567	\$17,210	0.60%
Wholesale Trade	42	1,201	\$139,116	4.88%
Retail Trade	44-45	4,044	\$408,741	14.35%
Car & Parts Dealers	441	307	\$13,926	0.49%
Gas Stations	447	1,836	\$258,045	9.06%
Other Retail Trade	Other in 44-45	1,901	\$136,770	4.80%
Finance and Insurance	52	357	\$17,599	0.62%
Real Estate and Rental Leasing	53	1,171	\$56,380	1.98%
Services	54-81	10,574	\$530,472	18.62%
Professional and Technical Services	54	790	\$71,519	2.51%
Accommodation	721	281	\$12,550	0.44%
Food Services & Drinking Places	722	2,347	\$28,718	1.01%
Automotive Repairs & Maintenance	8111	2,221	\$94,442	3.31%
Dry Cleaning & Laundry Services	8123	1,185	\$29,185	1.02%
Health Care & Social Assistance	62	846	\$64,761	2.27%
Other Services	Other in 54-81	2,904	\$229,297	8.05%
Public Administration	92	1,531	\$70,199	2.46%
Unclassified¹	N/A	360	\$37,012	1.30%
Totals		26,805	\$2,849,058	100%

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

REFERENCES

California State Auditor, Bureau of State Audits. SCAQMD: The District Should Establish a More Equitable Emission Fee Structure and Process Permits More Promptly. July 1998.

Department of Industrial Relations, State of California. California Consumer Price Index. Retrieved February 22, 2019. <http://www.dir.ca.gov/OPRL/capriceindex.htm>

Regional Economic Modeling Inc. (REMI). Policy Insight® for the South Coast Area (70 sector model). Version 2.1.2, 2018.

South Coast Air Quality Management District. Comprehensive Annual Financial Report. Diamond Bar, California: South Coast Air Quality Management District, 2017.

South Coast Air Quality Management District. Comprehensive Annual Financial Report. Diamond Bar, California: South Coast Air Quality Management District, 2018.

Thompson, Cobb, Bazilio & Associates. SCAQMD Fee Structure Study. March 1999.