

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT

Draft Socioeconomic Assessment for Proposed Amended Regulation III - Fees

April 2017

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EXECUTIVE SUMMARY

A socioeconomic analysis was conducted to assess the potential impacts of the Proposed Amended Regulation III – Fees. This analysis provides background information, historical trends of SCAQMD revenues from various fees, sectoral distributions of these fees, estimated cost impacts of the proposed fee rate increases by industry, and the resultant macroeconomic job impacts. A summary of the analysis and findings is presented below.

Proposed Fee Rate Increases	Proposed Amended Regulation III (PAR III) – Fees consists of three components with fee impacts: (1) a proposed 2.5 percent across-the-board fee rate increase pursuant to Rule 320 – Automatic Adjustment Based on Consumer Price Index (CPI) for Regulation III Fees; ¹ (2) Proposed Amended Rules (PARs) 301 and 306 would increase Title V annual operating permit renewal and permit processing fee rates by 16 percent per year over the next two Fiscal Years (FYs); (3) PARs 301, 306, and 309 would increase fee rates for annual operating permit renewal, permit processing, and plans for non-Title V facilities by 4 percent per year over the next two FYs.
Affected Facilities	Nearly all the facilities regulated by the SCAQMD would be affected by the proposed fee increases. These facilities belong to every sector of the economy.
Historical Revenue Analysis	This analysis 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 manufacturing sector is the largest contributor to the SCAQMD emission fees (65 percent), permit processing fees (44 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).
Estimated Fee Increases by Industry	<p>Based on the fee categories examined in this analysis and last year’s activity levels, the overall PAR III fee increases, which include the 2.5 percent across-the-board CPI-based fee rate increase for FY 17-18, the 16 percent per year permit-related fee rate increases for Title V facilities over the next two FYs, and the 4 percent per year permit-related fee rate increases for non-Title V facilities over the next two FYs, are projected to bring additional revenues totaling \$6.1 million for FY 17-18 and \$10.5 million for FY 18-19.</p> <p>The manufacturing sector is estimated to experience the largest fee increase, with an increase of \$2.8 million in FY 17-18 and \$4.9 million FY 18-19, incurred by about 4,000 permitted facilities. This is followed by the services sector which is estimated to experience an increase in fees by about \$1.0 million in FY 17-18 and \$1.7 million in FY 18-19, incurred by about 11,000 permitted facilities. Within the manufacturing sector, the petroleum and coal products manufacturing industry, mostly comprised of refineries, would experience an</p>

¹Pursuant to the SCAQMD Governing Board Resolution for Rule 320, a Draft Socioeconomic Assessment of the Automatic CPI Adjustment was made publicly available on March 15, 2017. The report is available online at: <http://www.aqmd.gov/home/about/finance>.

	increase in fees by approximately \$1.1 million in FY 17-18 and \$2.0 million in FY 18-19.
Projected Job Impacts of the Estimated Fee Increases	A macroeconomic job impact analysis was conducted based on the estimated increases in fees paid by various industry sectors. This analysis projects an average annual increase of 58 jobs in the four-county region over a five-year period (2018-2022). The positive job impact is a net result of projected increases in jobs in local government, professional, scientific, and technical services, and administrative and waste management services, combined with smaller decreases in the manufacturing and retail trade sectors.

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.

Various fee schedules are specified in Regulation III – Fees to cover the cost of evaluation, review, planning, inspection, and monitoring related to the issuance of permits. Preparation of the budget has revealed a shortfall in the recovery of these costs. This shortfall was also confirmed with respect to Title V facilities in a recent U.S. EPA Title V Program Evaluation Report (2016), which recommended that SCAQMD take measures to cover program funding deficits. As a result, the proposed amendments would apply a 16 percent per year increase in Title V fees to permit processing and annual permit renewal over the next two fiscal years² (FY). In addition, to partly compensate for a shortfall in non-Title V fees associated with permits, the proposed amendments would apply a 4 percent per year increase in fees to non-Title V permit processing, annual permit renewals, and plan fees over the next two FYs.³ These proposed increases in fee rates would be additional to the automatic adjustment of 2.5 percent by Rule 320, which is based on the California Consumer Price Index (CPI).

To examine the impact of a fee rate increase on various industry sectors, 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.⁴ Other fees that are also subject to the fee increase are area source fees and Hearing Board fees; however, they account for a relatively small portion of the total revenue. These estimated increases in fees by industry are used as inputs into the macroeconomic job impact analysis along with the corresponding increase in SCAQMD spending to estimate the impact on jobs in the region.

REVENUE TREND

Table 1 lists historical revenue for two prior fiscal years, estimated revenue for the current FY 2016-2017, and projected revenue for FY 2017-2018, by major fee category. Estimated revenue for FY 2016-2017 is based on actual revenue received through March, 2017. FY 2017-2018 projected revenue is based on forecasts received from each office. Emission fees, permit processing fees, and annual permit renewal fees together represented approximately 62 percent of the SCAQMD's estimated total FY 2016-2017 revenues.

² A fiscal year runs from July 1 to June 30. For example, FY 2016-2017 refers to the period of July 1, 2016 to June 30, 2017. In comparison, calendar year (CY) 2017 refers to the period of January 1 to December 31, 2017.

³Please see the Staff Report for a complete list of amended fees.

⁴Employers that are 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.

Compared to the estimated revenue in FY 2016-2017, permit processing and annual operating fees would increase by \$0.9 million and \$5.0 million respectively, with the proposed 16 percent Title V permit-related fee rate increase, the 4 percent non-Title V related fee rate increase and the 2.5 percent across-the-board CPI-based increase due to Rule 320.

Table 1: Actual and Estimated SCAQMD Revenue

Revenue Category	FY 2014-15 Actual (Thousands)	FY 2015-16 Actual (Thousands)	FY 16-17 Estimated (Thousands)	FY 17-18 Projected (Thousands)	% Rule 320 CPI Increase	% Title V Cost Recovery Fee Increase	% Non- Title V Above CPI Increase	Changes in Revenue (from FY 16-17 Estimated)	
								Thousands	%
Emission Fees	\$19,839	\$18,985	\$19,023	\$19,481	2.5%	N/A	N/A	\$458	2.4%
Annual Renewal Fees (w/o PERP)	\$44,700	\$46,380	\$48,453	\$53,493	2.5%	16%	4.0%	\$5,041	10.4%
Permit Processing Fees	\$16,668	\$17,240	\$18,837	\$19,694	2.5%	16%	4.0%	\$856	4.5%
Mobile Sources/Clean Fuels	\$20,988	\$21,968	\$26,879	\$28,199	N/A	N/A	N/A	\$1,321	4.9%
Source Test & Lab Analysis	\$746	\$683	\$715	\$775	2.5%	N/A	N/A	\$60	8.4%
Hearing Board Fees	\$532	\$164	\$488	\$308	2.5%	N/A	N/A	-\$180	-37.0%
Transportation Program (Rule 2202) Fees	\$845	\$892	\$824	\$861	2.5%	N/A	N/A	\$37	4.5%
Other Revenue	\$33,499	\$28,093	\$24,825	\$24,700	N/A	N/A	N/A	-\$125	-0.5%
Total	\$137,818	\$134,405	\$140,043	\$147,510				\$7,468	5.3%

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

* Information as reported in the Comprehensive Annual Financial Reports (FYs 2014-15 & 2015-16).

** Estimates are based on actual revenue received through March 2017.

*** Other Revenues include: CARB Subvention; 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. The SCAQMD is required to undertake socioeconomic analyses by Health & Safety Code Sections 40440.8(a) and (b) for proposed rules and rule amendments that *"will significantly affect air quality or emissions limitations."* The proposed CPI-based fee adjustment does not satisfy this criterion, but the analysis herein is presented per October 29, 2010 Special Governing Board Resolution related to Rule 320. It should be noted that this analysis has 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

Emission fees accounted for approximately 14 percent of the SCAQMD's estimated total revenue based on actual revenue received through March 2017 (Table 1). In May 2001, an

emissions flat fee was introduced for all facilities with at least one operating permit.⁵ The flat fee implemented recommendations by the California State Auditor in 1998, the Revenue Committee established by the 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 (\$2.6 million, imposed on sources emitting less than the threshold amount of pollutants subject to emission fees) and emissions-based fees (\$15.59 million), the latter of which contributed approximately 86 percent of total emission fees collected.⁶ 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 contaminants⁷ for facilities required to report their actual emissions each year. Also included were clean fuels fees for stationary sources.

The services sector (NAICS 54-81) with about 7,000 facilities paying emission-based fees contributed the highest share of the flat emission fee, contributing \$0.86 million or 33 percent of the total amount. It is followed by the retail trade sector (NAICS 44-45), with \$0.44 million paid by about 3,600 facilities. In comparison, emission-based fees were mostly collected from larger-sized businesses located within certain industry sectors. Among the 974 facilities that were subject to emission-based fees, nearly half were manufacturers (NAICS 31-33), and they contributed 73 percent of the total emission-based fees invoiced in 2016. Within this sector, the petroleum and coal industry (NAICS 324) alone contributed \$9.12 million to emissions-based fees, accounting for 80 percent of the sectoral total.

⁵ Excluding equipment in Rule 222—Filing Requirements for Specific Emission Sources Not Requiring a Written Permit Pursuant to Regulation II.

⁶ Differences between the emission-based fees estimates in Table 3 compared to Table 1 result from Table 3 estimates being derived from 2016 emissions and the invoiced amount, or the amount a facility should have paid, in Calendar Year 2016 based on the existing Rule 301 fee rates, compared to the fiscal year approach in Table 1.

⁷ Listed in Table IV of Rule 301.

**Table 2: Estimated Emission Fee Revenue in Millions of Dollars (MM\$)
by Industry Sector at Current Fee Rates (CY 2016)**

Industry	NAICS	Flat Fee			Emission-based Fees			Total	
		MM\$	%	# of Fac.**	MM\$	%	# of Fac.**	MM\$	%
Agriculture, Forestry, Fishing & Hunting	111-115	\$0.01	0.41%	87	\$0.12	0.75%	37	\$0.13	0.70%
Mining	21	\$0.03	1.18%	249	\$0.59	3.78%	91	\$0.62	3.40%
Oil and Gas Extraction	211	\$0.02	0.76%	161	\$0.33	2.09%	66	\$0.35	1.90%
Mining (except oil and gas)	212-213	\$0.01	0.42%	88	\$0.26	1.68%	25	\$0.27	1.50%
Construction	23	\$0.09	3.53%	748	\$0.02	0.12%	11	\$0.11	0.60%
Manufacturing	31-33	\$0.41	15.60%	3,309	\$11.34	72.71%	446	\$11.74	64.56%
Food Manufacturing	311	\$0.02	0.90%	191	\$0.14	0.90%	37	\$0.16	0.90%
Wood Products Manufacturing	321	\$0.01	0.35%	74	\$0.02	0.12%	7	\$0.03	0.15%
Petroleum and Coal Products Mfg.	324	\$0.01	0.39%	83	\$9.12	58.51%	39	\$9.13	50.22%
Chemical Manufacturing	325	\$0.04	1.42%	299	\$0.21	1.36%	39	\$0.25	1.37%
Nonmetallic Mineral Product Mfg.	327	\$0.03	1.05%	221	\$0.34	2.20%	28	\$0.37	2.03%
Primary & Fabricated Metal Mfg.	331-332	\$0.10	3.68%	781	\$0.52	3.36%	114	\$0.62	3.41%
Machinery Manufacturing	333	\$0.02	0.84%	179	\$0.03	0.17%	9	\$0.05	0.27%
Computer and Electronic Product Mfg.	334	\$0.03	1.17%	248	\$0.05	0.29%	20	\$0.08	0.42%
Electrical Equipment & Appliance Mfg.	335	\$0.01	0.56%	118	\$0.02	0.11%	10	\$0.03	0.17%
Motor Vehicle & Trans. Equipment Mfg.	336	\$0.03	1.01%	214	\$0.12	0.75%	33	\$0.14	0.79%
Other Manufacturing	312-339	\$0.11	4.23%	901	\$0.77	4.95%	110	\$0.88	4.84%
Utilities	22	\$0.11	4.32%	922	\$1.07	6.89%	96	\$1.19	6.53%
Transportation & Warehousing	48-49	\$0.07	2.52%	534	\$0.31	2.00%	30	\$0.38	2.07%
Information	51	\$0.08	2.94%	624	\$0.02	0.11%	7	\$0.09	0.51%
Publishing Industries, Except Internet	511	\$0.00	0.13%	27	\$0.00	0.00%	1	\$0.00	0.02%
Motion Picture & Sound Recording	512	\$0.01	0.29%	63	\$0.02	0.11%	5	\$0.02	0.13%
Internet Services and data processing	518, 519	\$0.01	0.23%	48	\$0.00	0.00%	1	\$0.01	0.03%
Other Information	Other in 51	\$0.06	2.29%	486	\$0.00	0.00%	0	\$0.06	0.33%
Wholesale Trade	42	\$0.12	4.78%	1,014	\$0.29	1.89%	44	\$0.42	2.30%
Retail Trade	44-45	\$0.44	16.93%	3,591	\$0.08	0.50%	25	\$0.52	2.85%
Car & Parts Dealers	441	\$0.03	1.31%	279	\$0.01	0.04%	4	\$0.04	0.22%
Gas Stations	447	\$0.21	7.99%	1,690	\$0.06	0.40%	14	\$0.27	1.48%
Other Retail Trade	Other in 44-45	\$0.20	7.63%	1,622	\$0.01	0.06%	7	\$0.21	1.14%
Finance and Insurance	52	\$0.04	1.40%	297	\$0.00	0.00%	1	\$0.04	0.20%
Real Estate and Rental Leasing	53	\$0.12	4.74%	1,005	\$0.03	0.17%	5	\$0.15	0.83%
Services	54-81	\$0.86	33.20%	7,041	\$1.56	9.99%	155	\$2.42	13.30%
Professional and Technical Services	54	\$0.07	2.65%	561	\$0.03	0.19%	16	\$0.10	0.54%
Accommodation	721	\$0.03	0.97%	208	\$0.00	0.00%	0	\$0.03	0.14%
Food Services & Drinking Places	722	\$0.01	0.56%	119	\$0.00	0.02%	2	\$0.02	0.10%
Automotive Repairs & Maintenance	8111	\$0.24	9.31%	1,969	\$0.00	0.00%	2	\$0.24	1.33%
Dry Cleaning & Laundry Services	8123	\$0.14	5.46%	1,160	\$0.00	0.01%	5	\$0.14	0.79%
Health Care & Social Assistance	62	\$0.09	3.45%	734	\$0.10	0.64%	44	\$0.19	1.04%
Other Services	Other in 54-81	\$0.28	10.79%	2,290	\$1.42	9.13%	86	\$1.70	9.37%
Public Administration	92	\$0.18	6.85%	1,447	\$0.16	1.04%	22	\$0.34	1.86%
Unclassified*	N/A	\$0.04	1.61%	344	\$0.01	0.06%	4	\$0.05	0.28%
Totals		\$2.60	100%	21,212	\$15.59	100%	974	\$18.19	100%

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

** Almost all facilities paying emission-based fees also pay the flat fee.

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 Revenue and Table 1 - Actual Revenues for FY 2015-2016 reflect the fact that application fees are 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 \$13.25 million from about 5,000 facilities that applied for permits to construct or operate was invoiced during FY 2015-2016. It should be noted that a facility could apply for multiple permits. As with emission fees, the majority of the permit processing fee revenue came from the manufacturing sector. It contributed \$5.78 million, or 44 percent, of the total revenue in this fee category, followed by the services sector with \$2.77 million (21 percent).

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 27,000 facilities held operating permits as of February 7, 2017. The revenue from these facilities at the current fee rate is estimated to be \$46.31 million (Table 3). The manufacturing sector, with nearly 4,000 facilities, was the largest contributor, paying \$16.81 million or 36 percent of the total annual renewal fee revenue, it is followed by the service sector with about 11,000 facilities paid about \$9 million, and the retail trade sector with about 4,000 facilities that paid about \$8 million.

Area Source Fees (Architectural Coatings)

Rule 314 – Fees for Architectural Coatings, was adopted on June 6, 2008 requiring manufacturers to pay fees, as well as report sales and emissions of architectural coatings to the SCAQMD. The rule affects about 200 architectural coatings manufacturers. Beginning in 2009 and each subsequent calendar year, Rule 314 requires architectural coatings manufacturers to report to SCAQMD the total 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 as well as the cumulative VOC emissions from the reported annual quantity of coatings. All fees collected from architectural coating sales in FY 2015-2016 pursuant to Rule 314 were about \$2.2 million which is around 1.6 percent of the SCAQMD's total revenue for that FY. These fees are collected from paint manufacturers who are classified under the chemical manufacturing sector (NAICS 325). The \$2.2 million fees collected from architectural coatings represent about 0.01 percent of the chemical manufacturing industry's economic output (Table 4).

Table 3: Estimated Permit Processing & Annual Permit Renewal Fee Revenue by Industry Sector at Current Fee Rates in Millions of Dollars (FY 15-16)

Industry	NAICS	Permit Processing Fees ¹			Annual Permit Renewal Fees ²		
		MMS\$	%	# of Fac.	MMS\$	%	# of Fac.
Agriculture, Forestry, Fishing & Hunting	111-115	\$0.03	0.23%	24	\$0.14	0.31%	118
Mining	21	\$0.34	2.58%	41	\$1.37	2.95%	351
Oil and Gas Extraction	211	\$0.21	1.55%	27	\$0.97	2.10%	243
Mining (except oil and gas)	212-213	\$0.14	1.02%	14	\$0.40	0.85%	108
Construction	23	\$0.37	2.83%	237	\$1.26	2.71%	958
Manufacturing	31-33	\$5.78	43.61%	749	\$16.81	36.30%	3,746
Food Manufacturing	311	\$0.37	2.81%	65	\$1.33	2.87%	225
Wood Products Manufacturing	321	\$0.04	0.30%	12	\$0.09	0.19%	89
Petroleum and Coal Products Mfg.	324	\$1.22	9.22%	30	\$4.25	9.17%	90
Chemical Manufacturing	325	\$0.58	4.37%	87	\$1.81	3.91%	348
Nonmetallic Mineral Product Mfg.	327	\$0.30	2.26%	41	\$1.20	2.59%	238
Primary & Fabricated Metal Mfg.	331-332	\$1.21	9.17%	135	\$3.33	7.20%	860
Machinery Manufacturing	333	\$0.21	1.55%	36	\$0.34	0.73%	200
Computer and Electronic Product Mfg.	334	\$0.41	3.08%	65	\$0.71	1.53%	274
Electrical Equipment & Appliance Mfg.	335	\$0.18	1.38%	20	\$0.45	0.96%	129
Motor Vehicle & Trans. Equipment Mfg.	336	\$0.42	3.15%	51	\$0.89	1.93%	246
Other Manufacturing	312-339	\$0.84	6.32%	207	\$2.42	5.22%	1,047
Utilities	22	\$1.00	7.54%	143	\$1.96	4.23%	947
Transportation & Warehousing	48-49	\$0.31	2.33%	107	\$1.16	2.51%	609
Information	51	\$0.18	1.37%	266	\$0.52	1.13%	814
Publishing Industries, Except Internet	511	\$0.01	0.06%	9	\$0.05	0.11%	35
Motion Picture & Sound Recording	512	\$0.06	0.45%	22	\$0.12	0.27%	74
Internet Services and data processing	518,519	\$0.01	0.10%	17	\$0.05	0.11%	53
Other Information	Other in 51	\$0.10	0.76%	218	\$0.30	0.64%	652
Wholesale Trade	42	\$0.60	4.50%	208	\$2.71	5.86%	1,181
Retail Trade	44-45	\$0.93	7.03%	930	\$8.41	18.15%	4,033
Car & Parts Dealers	441	\$0.10	0.74%	37	\$0.22	0.48%	306
Gas Stations	447	\$0.35	2.65%	220	\$5.73	12.38%	1,837
Other Retail Trade	Other in 44-45	\$0.48	3.64%	673	\$2.45	5.29%	1,890
Finance and Insurance	52	\$0.08	0.59%	86	\$0.31	0.68%	352
Real Estate and Rental Leasing	53	\$0.34	2.58%	244	\$0.94	2.03%	1,147
Services	54-81	\$2.77	20.88%	1,594	\$9.01	19.46%	10,593
Professional and Technical Services	54	\$0.40	3.05%	210	\$1.11	2.39%	723
Accommodation	721	\$0.05	0.39%	48	\$0.21	0.45%	267
Food Services & Drinking Places	722	\$0.09	0.65%	236	\$0.63	1.37%	2,438
Automotive Repairs & Maintenance	8111	\$0.43	3.25%	245	\$1.61	3.48%	2,279
Dry Cleaning & Laundry Services	8123	\$0.10	0.78%	99	\$0.55	1.19%	1,310
Health Care & Social Assistance	62	\$0.28	2.08%	159	\$1.06	2.30%	807
Other Services	Other in 54-81	\$1.41	10.66%	597	\$3.83	8.28%	2,769
Public Administration	92	\$0.24	1.85%	184	\$1.12	2.42%	1,518
Unclassified*	N/A	\$0.28	2.09%	145	\$0.58	1.26%	460
Totals		\$13.25	100%	4,958	\$46.31	100%	26,827

¹ Based on permit applications in FY 2015-2016.² Based on permits held on February 7, 2017.

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

Toxic Hot Spots Fees

AB 2588 toxic hot spots fees were calculated based on health risks and priority scores. The most recent invoiced revenue for FY 2015-2016 was approximately \$2.34 million. The services sector's share of this total was 33 percent, followed by manufacturing (19 percent) and retail trade (17 percent).

Lab Source Testing Fees

The revenue from source testing fees was based on the invoiced source test fees during FY 2015-2016. During this period of time, the source test fee revenue from Rules 304 and 304.1 was \$0.49 million. The manufacturing sector accounted for 59 percent of this revenue, followed by services (17 percent).

Rule 2202 Fees

Rule 2202 – On-Road Motor Vehicle Mitigation Options applies to employers with 250 or more employees, at a facility, 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 purchase of emission credits, use of clean fuel vehicles, re-powering of diesel engine marine vessels, and vehicle scrapping; and (3) the Air Quality Investment Program (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 was based on the invoiced Rule 2202 fees during FY 2015-2016. A total of \$0.89 million was collected from Rule 2202 fees for ECRP, ERS, and AQIP (Table 1). The services sector accounted for approximately 35 percent of the estimated Rule 2202 fee revenue. Unlike most of the other fee categories, only 14 percent of the revenue came from the manufacturing sector.

Share of Major Revenue Sources by Industry

Approximately 62 percent of the SCAQMD's FY 2016-2017 estimated revenue comes from the following major revenue categories: emission fees, permit processing fees, annual permit renewal fees, toxic hot spot fees, source test fees, and a portion of Rule 2202 fees. Table 4 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 in the SCAQMD.⁸ Value-added is a measure of compensation of employees, production taxes less subsidies, and gross operating surplus; thus to a certain degree reflects each industry's profit margin. Collectively, revenue from these fees is estimated to amount to approximately \$81 million, based on invoiced amounts at the current fee rates.

As shown in Table 4, the amount of fees paid by each industry is relatively small compared to that industry's regional output or value-added. This is the case for industries which are predominantly comprised of small businesses, such as retail trade, and for industries predominately comprised of large businesses, such as refineries.

The petroleum and coal products manufacturing industry (NAICS 324) paid a total of \$14.69 million in various fees, which represented four hundredths of one percent of the sector's output and less than fifth of a percent of the sector's value-added. Other industries that also paid among the highest amount of fees relative to their outputs or value-added were the pipeline transportation industry (NAICS 486), the mining industry (NAICS 212), the nonmetallic mineral product manufacturing industry (NAICS 327), and waste management and remediation services (NAICS 562). Overall, major SCAQMD fee revenue, as a whole, represented less than one-hundredth of one percent of the aggregate industry output or value-added in the four-county region.

Table 4: Share of Major Revenue by Detailed Industry

Industry Sector	NAICS	MMS\$	% of Total Fees	% of Total Output	% of Total Value-Added
Farm (Agricultural Products)	111-112	\$0.24	0.29%	0.00%	0.01%
Agriculture & Forestry support activities	115	\$0.07	0.08%	0.02%	0.02%
Oil & Gas Extraction	211	\$1.55	1.90%	0.02%	0.03%
Mining (except oil and gas)	212	\$0.63	0.77%	0.06%	0.09%
Support Activities for Mining	213	\$0.18	0.22%	0.03%	0.04%
Utilities	22	\$4.29	5.27%	0.03%	0.04%
Construction	23	\$1.80	2.22%	0.00%	0.01%
Wood Products Mfg.	321	\$0.16	0.19%	0.01%	0.03%
Nonmetallic Mineral Product Mfg.	327	\$1.88	2.31%	0.05%	0.12%
Primary Metal Mfg.	331	\$1.54	1.90%	0.02%	0.08%
Fabricated Metal Product Mfg.	332	\$3.87	4.76%	0.02%	0.04%
Machinery Manufacturing	333	\$0.63	0.77%	0.01%	0.01%
Computer & Electronic Product Mfg.	334	\$1.24	1.53%	0.00%	0.01%
Electrical Equipment & Appliance Mfg.	335	\$0.69	0.85%	0.01%	0.03%
Motor Vehicle Mfg.	3361-3363	\$0.37	0.45%	0.00%	0.02%
Transport Equip. Mfg. Excl. Motor Veh.	3364-3369	\$1.17	1.44%	0.00%	0.01%
Furniture & Related Product Mfg.	337	\$0.38	0.46%	0.01%	0.02%

⁸ Output and Value-added data for 2014 by detailed industry were compiled by Regional Economic Modeling, Inc. (REMI). They are converted to 2016 dollars based on the GDP price index (available at: <https://www.bea.gov/>).

Table 4: Share of Major Revenue by Detailed Industry (continued)

Industry Sector	NAICS	MMS\$	% of Total Fees	% of Total Output	% of Total Value-Added
Miscellaneous Mfg.	339	\$0.71	0.87%	0.00%	0.01%
Food Mfg.	311	\$1.91	2.34%	0.01%	0.03%
Beverage and Tobacco Product Mfg.	312	\$0.41	0.50%	0.00%	0.01%
Textile & Textile Product Mills	313-314	\$0.41	0.50%	0.01%	0.04%
Apparel, Leather & Allied Product Mfg.	315-316	\$0.05	0.06%	0.00%	0.00%
Paper Mfg.	322	\$0.40	0.49%	0.01%	0.02%
Printing & Related Support Activities	323	\$0.58	0.71%	0.01%	0.03%
Petroleum and Coal Products Mfg.	324	\$14.69	18.05%	0.04%	0.17%
Chemical Mfg.	325	\$2.69	3.30%	0.01%	0.02%
Plastics and Rubber Products Mfg.	326	\$1.40	1.72%	0.01%	0.04%
Wholesale Trade	42	\$3.88	4.77%	0.00%	0.01%
Retail Trade	44-45	\$10.37	12.74%	0.01%	0.02%
Air Transportation	481	\$0.06	0.07%	0.00%	0.00%
Rail Transportation	482	\$0.02	0.02%	0.00%	0.00%
Water Transportation	483	\$0.02	0.02%	0.00%	0.00%
Truck Transportation	484	\$0.13	0.16%	0.00%	0.00%
Couriers & Messengers	491-492	\$0.04	0.05%	0.00%	0.00%
Transit & Ground passenger Transportation	485	\$0.10	0.12%	0.00%	0.01%
Pipeline Transportation	486	\$0.65	0.79%	0.08%	0.11%
Scenic & Sightseeing Transportation	487-488	\$0.65	0.80%	0.01%	0.01%
Warehousing & Storage	493	\$0.30	0.37%	0.00%	0.01%
Publishing Industries, Except Internet	511	\$0.07	0.09%	0.00%	0.00%
Motion Picture & Sound Recording Industries	512	\$0.23	0.28%	0.00%	0.00%
Internet Services & Data Processing	518-519	\$0.08	0.10%	0.00%	0.00%
Broadcasting, Except Internet	515	\$0.12	0.14%	0.00%	0.00%
Telecommunications	517	\$0.42	0.52%	0.00%	0.00%
Monetary Authorities	521-522, 525	\$0.19	0.23%	0.00%	0.00%
Securities, Commodity Contracts, Investments	523	\$0.23	0.28%	0.00%	0.00%
Insurance Carriers & Related Activities	524	\$0.10	0.12%	0.00%	0.00%
Real Estate	531	\$1.26	1.55%	0.00%	0.00%
Rental & Leasing Services	532-533	\$0.29	0.36%	0.00%	0.00%
Professional and Technical Services	54	\$1.70	2.09%	0.00%	0.00%
Management of Companies & Enterprises	55	\$0.05	0.06%	0.00%	0.00%
Administrative & Support Services	561	\$2.27	2.79%	0.00%	0.01%
Waste Management & Remediation Services	562	\$2.04	2.50%	0.05%	0.10%
Education Services	61	\$1.26	1.55%	0.01%	0.01%
Ambulatory Health Care Services	621	\$0.57	0.70%	0.00%	0.00%
Hospitals	622	\$0.91	1.12%	0.00%	0.01%
Nursing & Residential Care Facilities	623	\$0.15	0.19%	0.00%	0.00%
Social Assistance	624	\$0.12	0.15%	0.00%	0.00%
Performing Arts & Spectator Sports	711	\$0.08	0.10%	0.00%	0.00%
Museums, Historical Sites, Zoos, and Parks	712	\$0.03	0.04%	0.00%	0.01%
Amusement, Gambling, and Recreation	713	\$0.42	0.52%	0.00%	0.01%
Accommodation	721	\$0.34	0.41%	0.00%	0.01%
Food Services & Drinking Places	722	\$0.76	0.93%	0.00%	0.00%
Repair & Maintenance	811	\$3.05	3.75%	0.03%	0.04%
Personal & Laundry Services	812	\$1.24	1.53%	0.01%	0.02%
Membership Associations and Organizations	813	\$0.36	0.44%	0.00%	0.01%
Government	92	\$1.94	2.39%	0.00%	0.00%
Unclassified*	N/A	\$0.97	1.19%		
Totals		\$81.40	100%	0.005%	0.008%

REVENUE IMPACTS OF PROPOSED FEE RATE INCREASES BY INDUSTRY

PAR III – Fees consist of three components with fee impacts: (1) a proposed 2.5 percent across-the-board fee rate increase pursuant to Rule 320 – Automatic Adjustment Based on CPI for Regulation III Fees; (2) PARs 301 and 306 would increase Title V annual operating permit renewal and permit processing fee rates by 16 percent per year over the next two FYs; (3) PARs 301, 306, and 309 fees would increase fee rates for annual operating permit renewals, permit processing, and plans for non-Title V facilities by 4 percent per year over the next two FYs. Based on the 2016 emissions and current equipment and activity profile of individual facilities, these fee rate increases are expected to increase total SCAQMD revenue by approximately \$6.1 million for FY 17-18 and \$10.5 million for FY 18-19 and beyond.⁹

Table 5 shows the distribution of these fee changes across the affected industries. It includes the majority subset of the fees subject to the PAR III fee increases. They include emission fees, permit processing fees, annual permit renewal fees, toxic hot spot fees, source test fees, and a portion of Rule 2202 fees.

The manufacturing sector is estimated to experience the largest increase in fees, with an increase of \$2.8 million in FY 17-18 and \$4.9 million FY 18-19, incurred by about 4,000 permitted facilities. This is followed by the services sector which is estimated to experience an increase in fees by about \$1.0 million in FY 17-18 and \$1.7 million in FY 18-19, incurred by about 11,000 permitted facilities. Within the manufacturing sector, the petroleum and coal products manufacturing industry, mostly comprised of refineries, would experience an increase in fees by approximately \$1.1 million in FY 17-18 and \$2.0 million in FY 18-19.

⁹ Revenue projections for the next two FYs from emission-based fees are based on calendar year 2016 emissions.

Table 5: Revenue Impacts of Proposed Fee Rate Increases by Industry

Industry	NAICS	FY 17-18		FY 18-19	
		Revenue Change Due to CPI and PAR III Fee Increases	Share of Increase	Revenue Change Due to PAR III Fee Increases*	Share of Increase
Agriculture, Forestry, Fishing & Hunting	111-115	\$14,859	0.2%	\$22,154	0.2%
Mining	21	\$139,008	2.3%	\$224,064	2.1%
Oil and Gas Extraction	211	\$91,947	1.5%	\$148,272	1.4%
Mining (except oil and gas)	212-213	\$47,061	0.8%	\$75,792	0.7%
Construction	23	\$115,713	1.9%	\$185,540	1.8%
Manufacturing	31-33	\$2,796,371	45.9%	\$4,930,315	46.9%
Food Manufacturing	311	\$156,259	2.6%	\$276,542	2.6%
Wood Products Manufacturing	321	\$10,768	0.2%	\$18,488	0.2%
Petroleum and Coal Products Mfg.	324	\$1,137,008	18.6%	\$2,033,638	19.4%
Chemical Manufacturing	325	\$224,070	3.7%	\$371,455	3.5%
Nonmetallic Mineral Product Mfg.	327	\$163,427	2.7%	\$292,455	2.8%
Primary & Fabricated Metal Mfg.	331-332	\$446,896	7.3%	\$791,437	7.5%
Machinery Manufacturing	333	\$47,139	0.8%	\$81,489	0.8%
Computer and Electronic Product Mfg.	334	\$88,254	1.4%	\$146,958	1.4%
Electrical Equipment & Appliance Mfg.	335	\$45,325	0.7%	\$74,469	0.7%
Motor Vehicle & Trans. Equipment Mfg.	336	\$159,496	2.6%	\$295,927	2.8%
Other Manufacturing	312-339	\$317,728	5.2%	\$547,456	5.2%
Utilities	22	\$449,269	7.4%	\$841,919	8.0%
Transportation & Warehousing	48-49	\$203,697	3.3%	\$381,364	3.6%
Information	51	\$59,729	1.0%	\$98,300	0.9%
Publishing Industries, Except Internet	511	\$5,680	0.1%	\$9,889	0.1%
Motion Picture & Sound Recording	512	\$18,336	0.3%	\$32,537	0.3%
Internet Services and data processing	518,519	\$4,689	0.1%	\$7,390	0.1%
Other Information	Other in 51	\$31,024	0.5%	\$48,483	0.5%
Wholesale Trade	42	\$308,153	5.1%	\$534,289	5.1%
Retail Trade	44-45	\$642,019	10.5%	\$1,037,493	9.9%
Car & Parts Dealers	441	\$23,212	0.4%	\$36,854	0.4%
Gas Stations	447	\$402,379	6.6%	\$659,771	6.3%
Other Retail Trade	Other in 44-45	\$216,428	3.5%	\$340,868	3.2%
Finance and Insurance	52	\$29,164	0.5%	\$45,680	0.4%
Real Estate and Rental Leasing	53	\$98,222	1.6%	\$160,450	1.5%
Services	54-81	\$1,040,461	17.1%	\$1,720,820	16.4%
Professional and Technical Services	54	\$117,298	1.9%	\$181,212	1.7%
Accommodation	721	\$19,231	0.3%	\$30,286	0.3%
Food Services & Drinking Places	722	\$47,407	0.8%	\$77,317	0.7%
Automotive Repairs & Maintenance	8111	\$151,987	2.5%	\$239,552	2.3%
Dry Cleaning & Laundry Services	8123	\$49,293	0.8%	\$77,123	0.7%
Health Care & Social Assistance	62	\$135,577	2.2%	\$232,534	2.2%
Other Services	Other in 54-81	\$519,668	8.5%	\$882,796	8.4%
Public Administration	92	\$118,691	1.9%	\$193,840	1.8%
Unclassified**	N/A	\$81,629	1.3%	\$131,006	1.2%
Totals		\$6,096,986	100%	\$10,507,232	100%

*Estimated without automatic 2017 CPI increase, which is not yet known.

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

MACROECONOMIC IMPACTS ON THE REGIONAL ECONOMY

The REMI model (PI+ v2.0.3) was used to assess the total socioeconomic impacts of PAR III fee increases and the corresponding SCAQMD revenue increase. It links the economic activities in the counties of Los Angeles, Orange, Riverside, and San Bernardino, and for each county, it is comprised of five interrelated blocks: (1) output and demand, (2) labor and capital, (3) population and labor force, (4) wages, prices and costs, and (5) market shares.¹⁰

The assessment herein was performed relative to a baseline scenario where PAR III fee increases, including Rule 320, would not be implemented. PAR III would create a policy scenario under which the affected facilities would incur additional annual costs of \$6.1 million for FY 17-18 and \$10.5 million for FY 18-19 and following years (Table 5). As the permitting fee increases above CPI are recommended for cost recovery purposes, the baseline scenario represents a situation where SCAQMD is not able to fully cover its costs and is in a deficit situation. For purposes of the macroeconomic impact analysis, the estimated fee increase was converted from FY to calendar year and was analyzed for a 5-year period from 2018 to 2022, where the full amount of the fee increase is realized by 2019 and is held constant for the following three years of the analysis horizon.

The impact of the proposed fee rate increases was simulated with the REMI model using estimates of the fee increase, along with the corresponding increase in SCAQMD revenue. The estimated increase in fees by industry (Table 5) were input into the REMI model as an increase in production cost for the affected industries, by county.¹¹ The distribution of the fee increase by county was estimated based on facility location, indicating that Los Angeles County would incur 66 percent of the estimated total fee increase, Orange County would incur 16 percent, Riverside County would incur 12 percent, and San Bernardino County would incur 5 percent. The resulting increase in SCAQMD revenue was input in the REMI model as an increase in local government spending, distributed by the proportion of population in each of the four counties.¹² This modeling approach is based on the concept of a balanced government budget, where an increase in revenue must be equivalent to an increase in government spending.

Based on these inputs into the REMI model, the macroeconomic impacts of the estimated fee increases on the regional economy was simulated. The total effect on jobs consists of

¹⁰ Within each county, producers are made up of 66 private non-farm industries, three government sectors, and a farm sector. Trade flows are captured between sectors as well as across the four counties and the rest of U.S. Market shares of industries are dependent upon their product prices, access to production inputs, and local infrastructure. The demographic/migration component has 160 age/gender/race/ethnicity cohorts and captures population changes in births, deaths, and migration. (For details, please refer to REMI online documentation at <http://www.remi.com/products/pi>.)

¹¹ The real (adjusted for inflation) dollar cost of the fee increase is input into REMI, thereby assuming implementation of Rule 320 - Automatic CPI Adjustment of Fees in all future years of the analysis.

¹² Instead of using the default "local government spending" policy variable in REMI, staff elected to use a "custom local government spending" policy variable that it considers to more accurately reflect the SCAQMD spending portfolio. This custom policy variable has a lower proportion of local government spending going into the construction industry and proportionately allocates the difference to local government and professional services sectors. The simulation using this custom policy variable results in a prediction of a lower net job gain than would have been found with the default policy variable.

the effect on the directly affected sectors combined with the indirect and induced effects, which result as increased industry costs and government spending cascade through the regional economy. The overall PAR III fee increases are projected to lead to a net gain of 58 jobs on average per year above the baseline job forecast from 2018 to 2022 (Table 6). The net gain of jobs is a result of a gain in jobs from increased SCAQMD spending and foregone jobs in the industries most affected by the proposed fee increases. The foregone jobs are most concentrated in the manufacturing and retail trade sector, with each foregoing about 8 jobs per year, followed by the construction and other services sectors, with each foregoing about 4 jobs per year. These jobs foregone either occur in industries most significantly affected by the fee increase (Table 5) or industries which are significant intermediate suppliers to the affected industries, such as construction. The jobs gained from the increase in SCAQMD spending are most highly concentrated in the local government sector, which includes SCAQMD and all other local government agencies in the region, along with small gains in industries servicing the local government sector, such as professional, scientific, and technical services and administrative and waste management services.¹³

The gain in jobs refers to a change from the baseline scenario without PAR III fee increases, in which case SCAQMD would have an estimated \$10.5 million less per year in revenue going forward from FY 18-19. As this revenue is required to recover costs, without it SCAQMD could be in a deficit situation that is not sustainable and could potentially result in program cuts and staffing adjustments, such as delaying progress on the permit backlog reduction plan. This potential employment impact pertinent to SCAQMD is not specifically considered in this job impact analysis due to modeling constraints.¹⁴ These changes in jobs however, are very small relative to the size of the regional economy (10.7 million payroll and self-employment jobs), representing a change of about 0.001 percent.

¹³ These results of jobs gained in local government reflect model predictions based on the estimated increased revenues, not any specific proposal to add or fill jobs (positions) at SCAQMD.

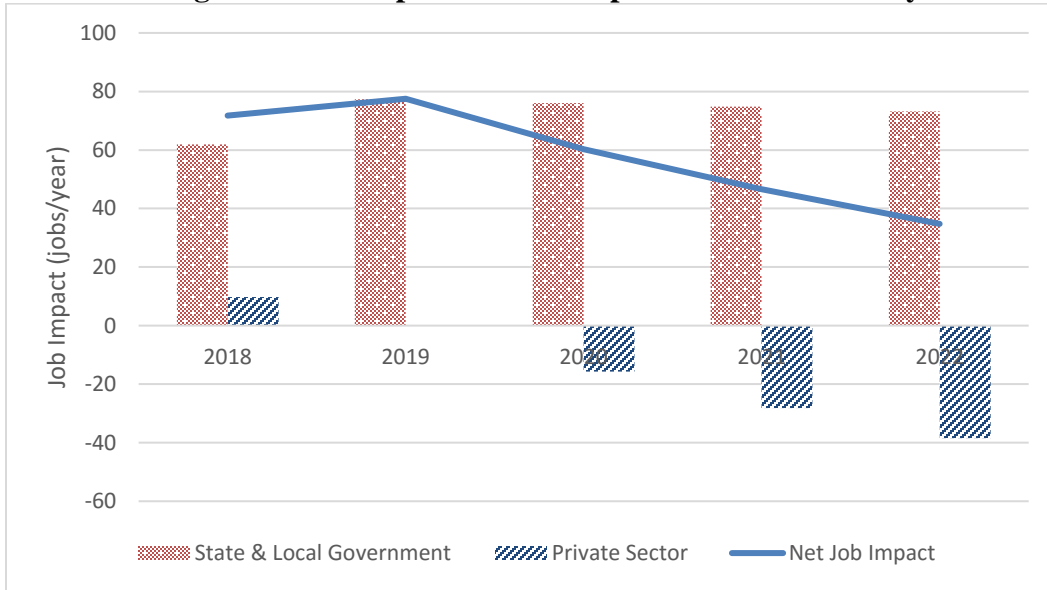
¹⁴ As common in economic modelling, each economic sector is represented by the average behavior of all entities belonging to that sector. Therefore the REMI model's representation of an average local government agency will not precisely predict any specific staffing changes, timing of changes, nor specific labor costs of SCAQMD.

Table 6: Projected Job Impacts of Proposed Fee Rate Increases by Sector

Sector	NAICS	Change in Jobs		Average Annual (2018-2022)		
		2018	2022	Change in Jobs	Baseline Jobs	% Change
Agriculture, Forestry, and Related Activities	11	0	0	0	28,825	0.000%
Mining, Oil and Gas Extraction	21	0	-2	-1	28,873	-0.004%
Utilities	22	0	-1	0	20,552	-0.002%
Construction	23	0	-7	-4	478,583	-0.001%
Manufacturing	33	-3	-11	-8	654,698	-0.001%
Wholesale Trade	42	0	-2	-1	475,052	0.000%
Retail Trade	44-45	-4	-10	-8	990,988	-0.001%
Transportation and Warehousing	48-49	0	-2	-1	384,822	0.000%
Information	51	0	-1	0	318,458	0.000%
Finance and Insurance	52	3	1	2	484,433	0.000%
Real Estate and Rental and Leasing	53	1	0	0	622,196	0.000%
Professional, Scientific, and Technical Services	54	6	3	5	872,981	0.001%
Management of Companies and Enterprises	55	0	-1	-1	113,974	-0.001%
Administrative and Waste Mgmt. Services	56	4	1	3	797,501	0.000%
Educational Services	61	0	-1	0	237,779	0.000%
Health Care and Social Assistance	62	4	1	3	1,316,549	0.000%
Arts, Entertainment, and Recreation	71	0	-1	0	335,725	0.000%
Accommodation and Food Services	72	1	-1	0	835,607	0.000%
Other Services, except Public Administration	81	-1	-4	-3	712,412	0.000%
State and Local Government	92	62	73	73	1,028,791	0.007%
Total		72	35	58	10,738,798	0.001%

Figure 1 illustrates the net change in jobs over the 2018-2022 time period. The first year impact of about 72 job gains increases to about 77 jobs in the second year due to the increased spending from the full second-year phase in of the fee increases. Following 2019 the net job gains diminish, as jobs foregone in the affected industries increase and local government job gains slightly decrease. The decreasing trend of net positive job impacts continues past 2022, but still remains positive 10 years after implementation of PAR III fee increases.

Figure 1: Job Impacts of the Proposed Fee Increases by Year



SUMMARY

The above analysis provides background information on SCAQMD revenue and analyzes the socioeconomic impact of the overall PAR III fee increases. The historical revenue analysis shows that the amount of existing SCAQMD fees paid by each industry is small relative to the industry's economic output (less than 0.01 percent overall). Based on the fee categories examined in the analysis and last year’s activity levels, SCAQMD revenues are expected to increase by \$6.1 million in FY 17-18 and \$10.5 million in FY 18-19 as a result of these PAR III fee increases. The manufacturing sector is estimated to incur the greatest increases in fees, followed by the services sector. Based on the estimated fee increases by industry and the corresponding increases in SCAQMD revenue, the macroeconomic job impact of the estimated fee increase was simulated. The job impact analysis projects a net gain in jobs over the 2018-2022 period, resulting primarily from a gain in local government jobs and jobs foregone in manufacturing and retail trade sectors. However, the projected job impact is very small relative to the regional economy, representing a change of about 0.001 percent.

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