DEPARTMENT OF ENVIRONMENTAL CONSERVATION

DIVISION OF AIR QUALITY

AIR PERMITS PROGRAM

FEE RATE EVALUATION

REPORT

February 25, 2010

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

Executive Summary

Fee Evaluation Report Requirements

The Department of Environmental Conservation evaluated the permit administration fee rates established by AS 46.14.240 and 18 AAC 50.400 and the emission fee rates established by AS 46.14.250 and 18 AAC 50.410. This report (the Report) combines the evaluation for both permit administration fees and emission fees.

The current permit administration fixed fees were established January 29, 2005 in accordance with AS 37.10.050 – 37.10.058. AS 37.10.052 requires that a "resource agency shall review the list of fixed fees at least once every four-years, identify any changes in the average actual and reasonable direct cost of providing each standard designated regulatory service for which a fixed fee has been established, and, by regulation, adjust the fees accordingly. The agency shall include the results of its review in the report submitted under AS 37.10.050(c)." This report satisfies that requirement.

The current emission fees rates became effective December 14, 2006. AS 46.14.250(g) requires the Department evaluate the emission fee rate at least every four years to determine if it is responsive to policy established in statute. The Department must provide its findings in a report, and this report satisfies that requirement.

Fee Report Structure

i. Combined Fee Reports

This Report combines the evaluation for both permit administration fees and emission fees. The Report has four parts. Part I is an overview of the Air Permits Program (the Program) and the funding structure. Part II is the evaluation of permit administration fees based on historical data from the *BillQuick* cost accounting records and *AirTools* permit action records. Part III is the evaluation of emission fees based on the historical cost accounting records, adjusted for unrealized obligations and inflation. Part III follows the general format of the 2006 emission fee report to address issues of the regulated community and statutory requirements. Part IV reviews other fee considerations required under AS 46.14.250.

ii. Evaluation Methodology

The 2004 permit administration fee report and the 2006 emission fee report set rates based on a limited data set. In January 2005, the Department implemented a cost accounting tracking system through *BillQuick.* In addition, the Division of Air Quality (the Division) implemented a division data program, *AirTools.* The two tracking systems now allow the use of full cost accounting historical data to set fee rates. Where there are clear deviations, significant adjustments, limited historical data, or where circumstances have changed, the Report explains how the new fees were derived and how the fee rates were set. The Department's Division of Administrative Services (DAS) conducted an audit of the Division's *BillQuick* to the State Accounting System (AKSAS) and State Accounting Reports (ALDER).

Fee Report Findings

Permit administration fixed fee rates should be adjusted as described in Part II. These adjustments generally increase annual Title V permit renewal flat fees and decrease Title V routine compliance review annual fees with some exceptions. The adjustments also call for replacing most of the current Title I permit administration flat fees with direct billing of time and material costs.

The Title V emission fee rate should be set at $19.32 per ton allocated to the Clean Air Protection Fund (CAPF). This is a decrease from the current Title V emission fee rate of $27.24 per ton. The Title I emission fee rate should be set at $9.25 per ton allocated to the Emission Control Permit Receipts Account (ECPRA). This is an increase from the current Title I emission fee rate of $6.13 per ton. Combined, these equal a total emission fee rate for sources required to get a Title V permit of $28.57 per ton, a net decrease from the current combined rate of $33.37 per ton.

The Department should further explore the option of carryover authority for the Emission Control Permit Receipts Account (ECPRA).

Because the current emission fee rates do not extend past June 30, 2010, failure to adopt new emission fees or to extend the current rates as of July 1, 2010 will result in a funding shortfall which may disrupt permitting service.

Part I: Air Permits Program Description

The Air Permits Program provides services in four distinct areas:

1. Title V Operating Permit Program,
2. Title I Construction Permit Program,
3. Minor Permit Program, and
4. Non-permit stationary source regulation and State Implementation Plan (SIP).

The federal Clean Air Act (CAA) requires the Title V Operating Permit Program, and it must be funded entirely by user fees. This program issues and enforces Operating Permits that authorize operation of major and certain minor stationary air pollution sources. The Title V program also allows for sources to establish emission limits to avoid the requirement to get a permit.

The Title I Construction Permit Program implements the new source permitting requirements in the federal Clean Air Act. This program reviews and issues permits authorizing construction of new major sources and significant modification of existing major sources of air pollution. While the federal law does not specify how this program is funded, Alaska statute provides for fees to cover the cost of the Title I program.

The Minor Permit Program is established by Alaska statute and constitutes part of Alaska’s State Implementation Plan (SIP). The federal Clean Air Act requires each state to have a SIP, approved by the U.S. Environmental Protection Agency (EPA), to attain and maintain air quality standards in the state. While the Clean Air Act does not specifically require a Minor Permit Program, the SIP must contain measures that allow the state to evaluate and prevent the construction or modification of sources that will violate air quality standards. Alaska’s SIP uses the Minor Permit Program to achieve this goal, and Alaska statute provides for fees to cover the cost of program.

Finally, the SIP must include emission standards and other measures necessary to maintain air quality. The Air Permits Program has the responsibility for developing, maintaining, and enforcing regulations for stationary sources. The Air Permits Program also responds to unique and unusual air pollution concerns dealing with stationary sources.

1.1. Air Permits Program Funding Structure

The Alaska air permit statutes provide two mechanisms for cost recovery: permit administration fees (AS 46.14.240) and emission fees (AS 46.14.250). These fees pay Air Quality Services for Title I Construction Permits, Title V Operating Permits, and Compliance. Alaska Law does not distinguish between fees for construction permits or operating permits. Alaska law requires that fees support the full costs of the entire permit program. Under federal law, only the Title V operating permit portion of the program must be funded by permit fees.

Originally, all fees were deposited into the dedicated Clean Air Protection Fund (CAPF). Beginning in FY06, a separate, non-dedicated Receipt Supported Services (RSS) fund was created to collect Title I Construction and Minor Permit fees. There is no federal requirement that the Title I Permit Program be paid for by fee receipts.

To apportion the cost of the permit program among the permitted facilities, the Alaska Statutes established a permit administration fee and an emission fee. Permit administration fees are described under Alaska Statute 46.14.240. Permit administration fees are meant to recover the direct cost of providing services to a specific facility. Such services include pre-application assistance, completeness review, preparing permits, performing compliance inspections, and other activities relevant to a specific site.

AS 37.10.052 identifies specific costs to be recovered from permit administration fees. All other program costs are to be recovered through emission fees established under the 1993 and the 2003 Statutes. The fee rates are set by regulation and periodically reviewed. The original fee rates set in regulation were based solely on technical staff hours which covered the technical staff salary and benefits; a portion of clerical and manager time and benefits; travel; advertising costs; and a portion of staff equipment, supplies, and indirect costs.

In 2003, House Bill 160 (HB 160) set the permit administration fee rate at 149% of the direct staff hourly salary rate, plus expenditures for goods and third party services incurred for the provision of permitting services. HB 160 has since been incorporated into AS 37.10.058. Managers and clerical staff working on a permit service charge directly to the project at 149% of their respective salary rate. The statutes also direct the Department to establish fixed fees for standard services, based on the average direct cost of those services.

Under AS 46.14.250(h)(2) “emission fees” mean fees assessed to recover costs incurred by the department and other state or local governmental agencies for the implementation of minor permits, for the implementation of construction permits, and for operating permits to the extent required under 42 U.S.C. 7661a(b)(3)(A) and federal regulations implementing that provision, for execution of the permit program established under this chapter that are generally not associated with service provided to a specific facility, including the costs incurred by the department or a local air quality program to comply with AS 46.14.010 – 46.14.015; the costs may include rent, utilities, permit program management, administrative and accounting services, and other costs as identified by the department in regulations; the fees shall also be sufficient to recover the cost of the small business assistance program under AS 46.14.300 – 46.14.310.

The emission fee rate is intended to distribute the total annual incurred indirect costs of the Program in such a manner so that each permittee is assessed an annual emission fee that reflects an equitable apportionment of the fees paid by each stationary source type, size, or category.

1.2. Management of Funding Sources

1.2.1. Title V Funding

The fee program must be structured to cover applicable costs of the Program. The Title V program is required by the federal Clean Air Act and must be funded entirely through permit fees. The fees collected for Title V may not be used to fund any other work. To ensure compliance with this federal requirement, Alaska Statutes established the dedicated Clean Air

Protection Fund (CAPF). Funds deposited into the CAPF are carried over between fiscal years, but expenditure from the fund must be authorized each year.

1.2.2. Title I Funding

Alaska Statutes provide for fees to cover the costs of the Title I program. Fees collected for Title I work are deposited into the Emission Control Permit Receipts Account (ECPRA) under AS 46.14.265 for Title I. This fund is a Receipt Support Service account (RSS).

Careful management of the Program's accounts is critical to ensure adequate resources are available to pay program costs throughout the entire fiscal year. Management of account funds is complex because authority to receive RSS funds is limited by legislative budget authorizations, and all funds that are collected must be expended during the fiscal year in which they were received. Any funds collected, but not expended on program costs by the end of the fiscal year, must be returned to the state's general fund. Problems arise when Title I fees meant to cover services for the coming fiscal year are received just prior to fiscal year end, or when expected fees are not received timely. In the former case, fee receipts must be returned to the state's general fund and not be available to pay program costs. In the latter case, the Program must use general funds and grants to help finance funding shortfalls in the Title I program.

1.3. Other Air Program Duties and Costs

This section is necessary to understand the other duties of the Air Permits Program and the availability or unavailability of other funding to subsidize the Title I Program.

The mission of the Air Permits Program is to protect the Alaskan environment by ensuring that air emissions from industrial operations in the state do not create unhealthy air. This is accomplished through permitting actions and compliance assurance inspections. The Air Permits Program has the additional assignment of fulfilling duties not directly associated with a permitted, assigned facility.

Permit fees do not fund these additional tasks. The non-permit duties are more difficult to predict and often have a great impact on air quality, public perception of air issues, and federal regulations. These non-permitted actions are often controversial or are subject to public or political scrutiny. While not directly connected to an air permit source, these other duties can and will affect the permitted sources due to public opinion and reaction to air quality issues. The following are the other major non-permitted duties of the Program.

- Non-permitted source complaint response, investigations, and enforcement;
- Regulation development, adoption of federal rules and participation in national policy initiatives;
- Small business and public technical assistance including public information requests, such as Freedom of Information Requests (FOIAs). The public assistance actions are not often directly connected to permitted sources or require research to determine the nature of the request or the applicable permitted source;

- Program development;
- Public workshops;
- Public assistance, information, and regulations response;
- Leave.

1.3.1. Non Permitted Air Program Duties Funding

The other permit duties are not eligible for funding through permits fees. The only available funding sources are the General Fund allocation and the federal Air 105 Grant for all the Division of Air Quality. Only a portion of the federal Air 105 Grant, State Matching Funds, and the State General Funds are assigned to the Air Permits Program. Other programs, such as the Air Monitoring and Quality Assurance Program and the Non-Point and Mobile Source Program, also receive a share of these funds.

Part II: Permit Administration Fee Evaluation[1]

2.1. Direct Cost for Permitting Services

Part II of the Report satisfies the requirement for the 2009Administration Fee Evaluation Study as required under AS 46.14.240 and the Program's agreement as stated in the 2006 emission fee report (Section 10) to align both emission and administrations fees in one report for rate setting beginning in July 1, 2010.

Permit administration fees cover the direct cost for permitting and compliance services. The current permit administration fees were evaluated by the Program in the Fixed Fee Support Paper, dated August 16, 2004, and established in regulations in 18 AAC 50.400 effective as of January 29, 2005. The current fees were based on estimates from staff experience and limited accounting cost information due to the lack of direct, historical data.

2.2. Cost Recovery Accounting

In January 2005, the Program implemented a cost accounting system through a tracking system called BillQuick (a subsidiary cost accounting module used by the Department) and a Division permit action tracking system called *AirTools*. Permit technical staff and permit administrative support staff have been trained and follow set procedures to track all labor and Third party expenses related to permit services into *BillQuick*. Activities and services relating to permits are tracked in *AirTools*. In addition, a Quality Management System (QMS) was implemented by the Program for permit and compliance services. QMS work instructions ensure that the tracking procedures for both *BillQuick* and *AirTools* include clear entry instructions and designate who is responsible for entering the information. These procedures are outlined in each QMS work instruction and in the *BillQuick* Road map (included with the Report Appendix).

BillQuick can track information through the project ID, activity codes, phase codes and fee codes. Labor costs are tracked though the activity codes which include information about the type of labor action performed. For example, code 3:14 is for routine compliance activities; code 7:31 is for time and material services. The type of permit can be sorted by project ID, and the type of regulation can be sorted by phase code. *BillQuick* also can track the revenue from fees and third party costs associated with a permit. *BillQuick* reports can be filtered by code to provide the cost of compliance or permit service, including: hours of staff, cost of labor, whether the cost is billed or not due to it being a fixed fee. Please reference the list of activity codes in the Appendix.

AirTools tracks the type of service provided to the specific permit. It provides a record of permit and compliance actions. It provides one quickly accessible record of the various permit and compliance services that were performed and includes attachments, notes, and memos, dates, etc. The *AirTools* reports can give action counts of various services by dates; for

[1] All regulatory citations in this report refer to the existing regulations. Proposed regulations implementing the findings of this report may have slightly different citations.

example, it is possible to query the number of Facility Compliance Evaluations (FCE)s conducted in FY06.

These two cost accounting and recording programs allow the Program to track, manage workload, and determine cost recovery fees. They also allow for consistent data and records management.

2.3. Direct Fee Formula

The Report analyzed historical data from FY06 through FY09. This allowed for four full fiscal years of cost reporting into *BillQuick* and *AirTools* under the new permit administration fee regulations.

The administration fee formula for calculation of the direct cost for permitting service is:

(Direct labor cost + Third party cost) divided by number of actions.

Direct labor costs are tracked though activity codes in *BillQuick* (see *BillQuick* Road Map provided in the Report Appendix). The Third party costs are comprised of travel, contractor, and public notice costs. The Third party costs are also tracked directly to the permit holders through *BillQuick*, travel logs, and term contracts. The number of actions are tracked though *AirTools* and verified by cross reference to *BillQuick* or revenue (fixed fee) actions and invoices.

2.4. Methodology

The permit administration services and fees are established in 18 AAC 50.400. The 2006 emission fee report methodologies were approved by an independent research Institute of Social and Economic Research (ISER). The Program followed the same methodology in a 2009 preliminaryfee study. Using *BillQuick*, the preliminary study identified proposed fee structure modifications based on historical costs and historical actions. The preliminary study projected the level of effort for each regulatory category [flat fees vs. time and material cost basis], established the study organizational structure, collated many of the source documents and prepared a preliminary fee study narrative, tables and charts.

Technical and administrative staff compiled cost accounting reports from *BillQuick* based on activity codes and type of regulatory actions. These actions were sorted by Phase (permit type) or project ID in *BillQuick*. Staff reviewed the reports and checked for any activity code deviations, duplicates, or incorrectly entered codes. Technical staff compiled reports and queries from *AirTools* to establish the number of actions performed for each regulatory service. The action counts were then verified based on performance reports, *BillQuick* entries, and accounting revenue for fees.

The Alaska Statutes require the fee structure to be based on historical costs – therefore, the fee study group revised its methodology. The DEC, Division of Administrative Services (DAS) reconciled BillQuick data with the Alaska Statewide Accounting System (AKSAS) for each of fiscal years 2006 through 2009. That reconciliation is the basis for the fee amounts and structures presented in this report. Please refer to the Appendix for the audit outline.

2.5. Permit Administration Fees

The following are the proposed permit administration fees for each regulatory service listed in 18 AAC 50.400. This section references the section and sub-section number sequence in the existing regulations. Each subsection of 18 AAC 50.400 was reviewed according to the above methodology. Where there are clear deviations, significant adjustments, limited historical data, or where circumstances have changed, it is explained how the new fees were derived and how the permit administration fee rates were set.

18 AAC 50.400

Title V Permit Annual Renewal Fees
18 AAC 50.400(a)(1)-(3), (5), (7), & (9)

Permit Administration annual fixed fees in this section pay for the direct services costs related to the issuance of a Title V renewal permit. Original Title V (TV) permits are valid for five years and were issued in FY03, FY04, and FY05. These permits are on a five year renewal cycle. A large proportion of the Title V renewals are expected to be issued in FY09 and FY10. The next renewal cycle will begin in FY 14 and FY 15.

The fees are calculated based on the total cost to issue the permit, divided by five years, to arrive at an annual fee. The five year annual fee is based on public input from permit holders requesting an annual equalization of the cost of the permit, and to provide consistent funding to the Program.

The accounting data demonstrated the need to increase TV annual fees to fully recover direct Program costs. The cost recovery for TV renewal permit work is estimated to increase the annual fees. The TV renewal permit cost increases are due to several factors including: initial fixed fees that were based on a limited data set (five year old data), changes in federal rules, new compliance concerns, and increased Third party expenses due to use of outside term contractors.

The review of technical hours spent on recent permit renewals indicates that some renewal permit actions may require even more hours than originally predicted due to changes in federal rules or complications stemming from compliance concerns which arose during the initial five year permit period.

The Program does not have sufficient authorized full-time employee (FTE) positions to process the cyclical surge of permit renewals. To ensure timely and predictable issuance of TV renewal of permits, the Program frequently uses outside term contractors for specific tasks. Term contracting costs are Third party expenses included into the total cost to issue a permit.

Title V Permit Annual Renewal Fees
18 AAC 50.400(a)(1) – (3), (5), (7), & (9)

October 2008 Regulation Citation	Description	Old Fee / Yr	New Fee / Yr	Total Cost Per Permit	Difference New Fee to Old Fee	Percentage Change
18 AAC 50.400(a)(1)(A)	Oil and Gas, PTE > 250 TPY	$1,633	$2,675	$13,375	$1,042	64%
18 AAC 50.400(a)(2)(A)	Large Power Plant, PTE > 250 TPY	$1,485	$3,080	$15,400	$1,595	107%
18 AAC 50.400(a)(3)(A)	Small Power Plant, PTE > 250 TPY	$1,315	$1,390	$6,950	$75	6%
18 AAC 50.400(a)(5)(A)	Oil and Gas or SRU, PTE >100 TPY and < 250 TPY	$1,347	$2,045	$10,225	$698	52%
18 AAC 50.400(a)(7)(A)	Small Power Plant, PTE >100 TPY and < 250 TPY	$1,326	$1,565	$7,825	$239	18%
18 AAC 50.400(a)(9)(A)	Other, PTE >100 TPY and < 250 TPY	$1,326	$2,090	$10,450	$764	58%

Table 1 - Title V Permit Annual Renewal Fees

Original Title V Annual Permit Fees
18 AAC 50.400(a)(4), (6)

The permit administration fees in this subsection pay for the direct costs of services related to the issuance of an original TV permit for oil-and gas sources, thermal soil remediation units, or small power plants, each with the potential to emit more than 100 and less than 250 tons per year of any one pollutant. Please note: only two original TV permit categories are included as fixed administration fees in the January 29, 2005 regulations. All other TV original permits are charged time and materials for administration fees.

Original TV permits for new sources are infrequent, in limited quantity, and have a wide range of potential cost to issue. The fixed fees for these permits were based on five year old estimates. Current data is based on FY06-FY09 *BillQuick* cost accounting records. There was one permit issued under 18 AAC 50.400(a)(6)(A). The five year annual fixed fee was $1,989. The cost to issue that one permit was $3,214. There were no permits issued for 18 AAC 50.400(a)(4)(A).

The time and material administration fee is better suited to ensure a fee that allows for direct cost recovery for TV "major" original permits. It is recommend that the administration fee for 18 AAC 50.50.400(a)(4) & (6) be revised to follow the time and materials fee structure.

Original Title V Annual Permit Fees
18 AAC 50.400 (a) 4, 6

October 2008 Regulation Citation	Description	Old Fee / Yr	New Fee / Yr
18 AAC 50.400(a)(4)(A)	Oil & Gas Source, Thermal Soil Remediation Unit, PTE >100 TPY and < 250 TPY	$2,020	T&M
18 AAC 50.400(a)(6)(A)	Small Power Plant, PTE >100 TPY and < 250 TPY	$1,989	T&M

Table 2 - Original Title V Annual Permit Fees

Title V Routine Compliance Review -Annual Fees
18 AAC 50.400(a)(1), (2), (3), (5), (7), (8), & (9)(B)

Permit administration fees in this subsection pay for the routine compliance services related to TV permits. These services include Facility Compliance Evaluations (FCE), Annual Compliance Certifications, Facility Operating Reports (FOR), and Routine Report Reviews. The administration fees in this subsection are annual fixed fees for routine compliance. All non-routine compliance is billed according to the time and materials fee structure under current regulations 18 AAC 50.400(m)(11).

Based on historical costs, this Report supports maintaining the fee or a decrease in routine compliance fee rates for the majority of the TV permit categories. Changes in leadership, staff training, and the adoption of Quality Management System (QMS) work instructions have resulted in increased efficiencies for the delivery of routine compliance activities.

One notable exception are fees listed under 18 AAC 50.400(a)(8). *BillQuick* data supports a significant compliance fee increase to cover direct costs. The initial fixed fee was based on cost estimates from the category for "General Permits" (GP) in 18 AAC 50.400(g). The initial GP category typically applies to lower emission sources that do not require the same level of compliance oversight as do other types of permits. *BillQuick* data demonstrated that 18 AAC 50.400(a)(8) sources (diesel electrical generation facilities) incurred direct costs for compliance oversight are similar to the permit administration fee rates assessed to small power plants under 18 AAC 50.400(a)(7).

The permit holders for 18 AAC 50.400(a)(8) sources have not paid the full costs of the provided compliance service since adoption of the January 2005 administration fee regulations. The Department finds that the fixed fee should be increased for this source category.

Title V Routine Compliance Review -Annual Fees
18 AAC 50.400

October 2008 Regulation Citation	Description	Old Fee / Yr	New Fee / Yr	Difference New Fee to Old Fee	Percentage Change
18 AAC 50.400(a)(1)(B)	Oil and Gas, PTE > 250 TPY	$2,915	$1,895	-$1,020	-35%
18 AAC 50.400(a)(2)(B)	Large Power Plant, PTE > 250 TPY	$1,700	$1,735	$35	2%
18 AAC 50.400(a)(3)(B)	Small Power Plant, PTE > 250 TPY	$1,485	$1,485	$0	0%
18 AAC 50.400(a)(5)(B)	Oil and Gas or SRU, PTE >100 TPY and < 250 TPY (renewal)	$2,070	$1,350	-$720	-35%
18 AAC 50.400(a)(7)(B)	Small Power Plant, PTE >100 TPY and < 250 TPY (renewal)	$1,540	$1,115	-$425	-28%
18 AAC 50.400(a)(8)	Sources Operating Under GP1 or GPA, PTE >100 TPY and < 250 TPY	$160	$730	$570	356%
18 AAC 50.400(a)(9)(B)	Other, PTE >100 TPY and < 250 TPY	$1,540	$1,345	-$195	-13%

Table 3 - Title V Routine Compliance Review Annual Fees

Routine Compliance Review Annual Fee
18 AAC 50.400(h) Source not classified as needing a Title V Permit and General Permits

Permit administration fees in this section pay for the routine compliance services related to Title I Minor Permits. These services include Facility Compliance Evaluations (FCE), Facility Operating Reports (FOR), and Routine Report Reviews. *BillQuick* data supports the continuation of a fixed fee rate.

Routine Compliance Review Annual Fees
18 AAC 50.400 (h)

October 2008 Regulation Citation	Description	Old Fee / Yr	New Fee / Yr	Difference New Fee to Old Fee	Percentage Change
18 AAC 50.400(h)	Sources Operating Under a Minor Permit w/no TV, including GP3 and GP9 (GP4 is questionable if minor)	$530	$325	-$205	-39%

Table 4 - Routine Compliance Review Annual Fees for sources not classified as needing a Title V Permit and General Permits

One time Administration Fees required prior to Action
18 AAC 50.400(c) Minor Permit Administration Fees

Permit administration fees in this section pay for the direct costs related to the issuance of Title I minor permits under 18 AAC 50.502(b). The initial fees were fixed rates with payment required prior to action by the Program.

The administration fixed fee is for a single category or a specific, consistent work effort cost associated with the service. The 18 AAC 50.502(b) minor permits are often combined with other permit actions, including actions under 18 AAC 50.225, 18 AAC 50.506, and 18 AAC 50.508. The current administration fixed fee under 18 AAC 50.400(c) has been confusing to administer due to this combination of a variety of required permit actions.

Both Program staff and industry have had difficulty in understanding, assessing, or paying the correct fee. Confusion about the fee resulted in increased administrative and permit processing costs, and resulted in potentially confusing permits. It is challenging to determine the correct, single category or permit element being acted upon and then apply the correct, corresponding fee. For example: for an Owner Requested Limit (ORL), submitted under either 18 AAC 50.508(5) or 18 AAC 50.225, there are multiple actions or source types to consider which can be combined in the 18 AAC 50.502 (b) minor permits. Depending upon interpretation of services, more than one fee type could apply: a fixed fee for the 18 AAC 50.502(b) permit, a fixed fee for the ORL, and potential time and material costs for other work.

The *BillQuick* activity code data showed wide variations in the amount of labor (and costs) required to process different permits. The consistency necessary to establish a fixed fee or result in equity among the cost payers who pay for direct services was absent.

The Department finds that this fixed fee should be eliminated, and the direct cost of the regulatory service provided under this fixed fee should be billed at a time and material rate to align direct costs with the appropriate permit actions.

Minor Permits: Permit Administration Fees: One-Time Fee Required Prior to Action 18 AAC 50.400(c)

October 2008 Regulation Citation	Description	Old Fee / Yr	New Fee / Yr
18 AAC 50.400(c)(1)	Asphalt Plants, PTE < 100 TPY	$3,975	T&M
18 AAC 50.400(c)(2)	Thermal SRU, PTE < 100 TPY	$5,300	T&M
18 AAC 50.400(c)(3)	Rock Crusher, PTE < 100 TPY	$2,650	T&M
18 AAC 50.400(c)(4)	Incinerator, PTE < 100 TPY	$7,950	T&M
18 AAC 50.400(c)(5)	Port of Anchorage Source, PTE < 100 TPY	$7,950	T&M
18 AAC 50.400(c)(6)	Coal Preparation Plant, PTE < 100 TPY	$6,360	T&M

Table 5 - One-Time Fees Required Prior to Action

One time Administration Fees required prior to Action
18 AAC 50.400(d) Minor Permit Fast Track

This administration fee pays for the direct cost service to issue a "Fast Track" permit under 18 AAC 50.508(b)-(c). The regulated community requested a Fast Track option to allow for an accelerated permit process. In response, the Program implemented Fast Track procedures in 18 AAC 50.542(b). This was based on the client's responsibility to submit an application for Fast Track that follows all the required criteria to allow for the quicker processing of the permit. The current fee is $3,975.

One element of the Fast Track process is for a web based public notice process. If additional public notice beyond the web-based process is required, the current regulation requires the client to pay an additional fixed rate of $2,650.

BillQuick data supports a continued fixed rate for administration fees for the Fast Track Permits when the applications meet the specified criteria for accelerated processing. During the study period, there were no Fast Track permits that required additional public notice processes. There is no data or evidence to change the current rate.

For those Permit application actions that do not adhere to the Fast Track criteria, there are still costs associated with making the determination that they will not meet the criteria and processing the permits described above in 18 AAC 50.400(c). The *BillQuick* activity code data has wide variation in the cost of these types of permits. The Department finds that the

Non- Fast Track permits be moved to the time and material subsection so that the administration fees are equitable and fully recover the direct costs of permit issuance. The initial Fast Track fee will remain non-refundable to ensure clients submit correct applications and to avoid additional costs associated with incorrect and confusing applications.

Other Permit Administration Fee: One-Time Fee Required Prior to Action
18 AAC 50.400(d)

October 2008 Regulation Citation	Description	Old Fee / Yr	New Fee / Yr	Difference New Fee to Old Fee	Percentage Change
18 AAC 50.400(d)	Fast Track Minor Permit	$3,975	$2,665	-$1,310.00	-33%
18 AAC 50.400(d)	Non-Qualifying Fast Track Minor Permit	$2,650	T&M		

Table 6 – One-Time Fees Required Prior to Action

Plant-Wide Applicability
18 AAC 50.400(e) Plant-Wide Applicability

Administration fixed fees in this section pay for the direct service costs related to the issuance of 18 AAC 50.508(3), plant wide applicability (PAEL) Minor Permits. The fees are one-time fees paid at the time of application.

The Department finds that this category should be moved to the time and materials subsection. There were no actions under 18 AAC 50.400(e)(1) and only one action for 18 AAC 50.400(e)(2). The fixed fee for that action was $3,975 but the action actually cost $12,571. T department could not recover $8,596 of the cost of this action.

18 AAC 50.400(e)(3) and (4) were repealed.

Plant-Wide Applicability
18 AAC 50.400 (e)

October 2008 Regulation Citation	Description	Old Fee / Yr	New Fee / Yr
18 AAC 50.400(e)(1)	Plant-Wide Applicability Limit w/o ambient analysis	$3,975	T&M
18 AAC 50.400(e)(2)	Plant-Wide Applicability Limit w/ambient analysis	$7,950	T&M

Table 7 - Plant-Wide Applicability Fees

General Permit Administration Fees Required Prior to Action 18 AAC 50.400(g)

Permit administration fees in this section pay for the services related to the issuance of an authorization to operate under the requirements of a state-developed General Operating Permit or Minor General Permit (GP). The permit application fee is determined by dividing the direct cost of the permit development by the number of expected permit recipients. The Program recommends no changes to this fee structure.

One time fees: Other Permit Administration Fees Required Prior to Action Administrative Permit Amendments, Modeling Protocols 18 AAC 50.400(i)

Administrative Permit Amendments are minor changes in a permit document that do not result in material changes in permit terms or conditions.

The administration fee for a Modeling Protocol Approval is in 18 AAC 50.400(i)(4). The Department finds that the fee structure be changed to a time and materials basis. *BillQuick* data could be interpreted to support a fixed fee schedule, however, the data showed a wide variation in costs among individual clients (from $40 to $2,400.) The significant cost differential makes establishment of an equitable fixed fee challenging. In addition, some other pre-application actions are billed on a time and materials basis. Both industry and staff have concerns that the lack of consistency is confusing and has resulted in project delays while billing issues were pending resolution. Modifying the fee structure to time and materials will align costs to the direct use of the permit service, eliminate confusion, and allow for seamless transition among the various pre-application elements.

The data supports adding a new service--Owner Requested Limit Administrative Amendments--to this regulatory category.

Other Permit Administration Fees Required Prior to Action (400 (i)

October 2008 Regulation Citation	Description	Old Fee / Yr	New Fee / Yr	Difference New Fee to Old Fee	Percentage Change
18 AAC 50.400(i)(1)	Title I Administrative Amendment	$110	$465	$355.00	323%
18 AAC 50.400(i)(2)	Title V Administrative Amendment (not construction permit incorporation)	$110	$225	$115.00	105%
18 AAC 50.400(i)(3)	Title V Administrative Amendment when incorporating construction permit	$795	$220	-$575.00	-72%
18 AAC 50.400(i)(4)	Modeling Protocol Approval	$1,170	T&M		
	18 AAC 50.225 Owner Requested Limit Administrative Amendment		$465		

Table 8 - Permit Administration Fee Required Prior to Action 18 AAC 50.400(i)

Permit Administration Fees for Open Burn Approvals
18 AAC 50.400(*l*) Open Burn

The current permit administration fee is for the service to process an application for either approval or denial of an open burn with no smoke incursion. If an application is denied, an application re-submittal will require an additional one-time fee payment. Data supports no change to the current fee.

The current fee is for the review of the open burn applications for either an approval or denial, not for any follow-up activities. If there are compliance issues related to the operation of an Open Burn, any associated costs are charged as non-routine compliance, and fall under time and material costs, 18 AAC 50.400(m).

Permit Administration Fees for Open Burn Approvals
18 AAC 50.400(*l*))

October 2008 Regulation Citation	Description	Old Fee / Yr	New Fee / Yr	Difference New Fee to Old Fee	Percentage Change
18 AAC 50.400(l)	Open Burn Approval – w/no Smoke Incursion	$200	$200	$0.00	0%

Table 9 - Permit Administration Fees Required for Open Burn Approvals

One-time Permit and Annual Compliance Review Fees for ORLS, PAELS
18 AAC 50.400(k)

One time permit administration fees in this section pay for the services related to the issuance of an Owner Requested Limits (ORLs) or a pre-approved emission limit (PAEL) operating under 18 AAC 50.225-230.

The *BillQuick* data supports keeping the PAEL administration and compliance fees as fixed fees under 18 AAC 50.400(k)(2)(A), (3)(A), (2)(B), and (3)(B).

Under existing regulations, ORL permit administration fees were charged at the same rate for both 18 AAC 50.225 (Title V) and 18 AAC 50.508(5) (Title I) permits. *BillQuick* data analysis shows a wide cost variation between the two types of ORLs. There is sufficient data to indicate that a fixed fee to issue the Title V ORLs is appropriate. In contrast, data shows a wide variation in the costs to process Title I permits. This indicates that a time and materials fee structure is more reasonable. Additionally, modifying the Title I ORL administration fee to a time and materials basis will avoid confusion in applying fee structures.

The Department finds that 18 AAC 50.225 ORLs (Title V) continue to be charged on a fixed fee basis, that the 18 AAC 50.508(5) ORLs (Title I) be modified to a time and materials fee structure. The remaining permit administration fees in this subsection are annual fees to provide compliance services.

Once the permit has been issued, the annual compliance cost and work effort are consistent for either permit type. The fixed fee for compliance service will continue and will increase. The compliance rates will be listed as separate rates in the regulations under 18 AAC 50.400 for Title I compliance to avoid confusion and to enable the tracking of the costs separately for future rate setting.

One-time Permit and Annual Compliance Review Fees for ORLS, PAELS
18 AAC 50.400(k)

October 2008 Regulation Citation	Description	Old Fee / Yr	New Fee / Yr	Difference New Fee to Old Fee	Percentage Change
18 AAC 50.400(k)(1)(A)	ORL or Minor Permit w/ ORL (18 AAC 50.225 sources ONLY)	$1,990	$2,290	$300.00	15%
18 AAC 50.400(k)(2)(A)	PAEL for Diesel Engines	$110	$85	-$25.00	-23%
18 AAC 50.400(k)(3)(A)	PAEL for Gasoline	$110	$65	-$45.00	-41%
Annual Compliance Review Fees					
18 AAC 50.400(k)(1)(B)	Sources Operating Under an ORL (18 AAC 50.225)	$110	$235	$125.00	114%
18 AAC 50.400(k)(2)(B)	Sources Operating Under a PAEL for Diesel Engines	$110	$45	-$65.00	-59%
18 AAC 50.400(k)(3)(B)	Sources Operating Under a PAEL for Gasoline	$110	$60	-$50.00	-45%

Table 10 - One-Time Permit and Annual Compliance Review Fees for ORLs, PAELs

Other Permit Administration Fees Required Upon Completion of DEC Review or Action
18 AAC 50.400(j) Source Test, Excess Emission, Fee Appeals

The permit administration fees collected upon completion of an action in this section pay for the non-routine compliance services related to reviews or actions conducted for Source Tests.

Source Test activities are review procedures based on standard form submittals from the clients. The cost of this type of compliance service has decreased due to better training procedures and QMS instructions.

The Excess Emissions/Permit Deviation Permit Administration fee pays for services to record and enter Excess Emissions or Permit Deviation notifications sent to the Department by clients. Excess Emissions/Permit Deviation services are technical administrative work actions. The Program implemented a web-based system for reporting excess emissions and permit deviations that reduced data entry workload. Additional outreach and assistance to permitted facilities is planned to further the use of the on-line reporting system, thus ensuring a continued reduction of the costs associated with the administrative intake of these types of reports. Fees for this action will be reduced.

Other Permit Administration Fees Required Upon Completion of DEC Review or Action
18 AAC 50.400(j) Source Test, Excess Emission, Fee Appeals

October 2008 Regulation Citation	Description	Old Fee / Yr	New Fee / Yr	Difference New Fee to Old Fee	Percentage Change
18 AAC 50.400(j)(1)	Source Test Plan Review or RATA/RAA Test Plan Review	$400	$665	$265.00	66%
18 AAC 50.400(j)(2)	Source Test Results Review or RATA/RAA Test Report	$400	$660	$260.00	65%
18 AAC 50.400(j)(3)	Excess Emission/Permit Deviation Report Review	$26.50	$15	-$11.50	-43%
18 AAC 50.400(j)(4)	Fee Appeal (*will waive charge if reduction of 50% or more of disputed fee*)	$110	$210	$100.00	91%

Table 11 – Other Permit Administration Fees Required upon Completion of DEC Review or Action

Time and Material Permit Administration Fees Invoiced Monthly
18 AAC 50.400(m)

Permit administration fees in the Time and Materials section include those regulatory services for which no fixed fee is established. These services are billed monthly in accordance with AS 37.10.54. The cost recovery, work level, and service actions in 18 AAC 50.400(m) were reviewed to determine if a fixed fee could be established for any of the services. Data did not support the establishment of new fixed fees. As noted in previous sections, the Department has determined that some services covered under fixed fees should be changed to a time and materials fee structure, and these services will be added to this section of the regulation.

Time and Material Permit Administration Fees Invoiced Monthly
18 AAC 50.400(m)

October 2008 Regulation Citation	Description	Old Fee / Yr	New Fee / Yr
18 AAC 50.400(m)(1)	Minor Permit under 502(c)(1)	T&M	T&M
18 AAC 50.400(m)(2)	Minor Permits under 502(c)(3)	T&M	T&M
18 AAC 50.400(m)(3)	Adjudicatory Hearing requested by Permittee	T&M	T&M
18 AAC 50.400(m)(4)	Title V Minor Modification	T&M	T&M
18 AAC 50.400(m)(5)	Title V Significant Modification	T&M	T&M
18 AAC 50.400(m)(7)	Revision or Rescission of terms of Title I Permit under 508(6)	T&M	T&M
18 AAC 50.400(m)(8)	Observation of Source Test	T&M	T&M
18 AAC 50.400(m)(9)	Pre-Application Assistance	T&M	T&M
18 AAC 50.400(m)(10)	Open Burn Approval – w Smoke Incursion	T&M	T&M
18 AAC 50.400(m)(11)	Nonroutine Compliance Activities	T&M	T&M
18 AAC 50.400(m)(12)	Completion of Permit action prior to January 29, 2005	T&M	T&M
18 AAC 50.400(m)(13)	Reopening of permit terms at the request of the Permittee before issuance	T&M	T&M

Table 12 - Time and Material Charges Invoiced Monthly

Permit Administration Fee Implementation

Air Quality Control Regulations, 18 AAC 50.400, outline the permit administration fee rates. 18 AAC 50.400 will be repealed and readopted to reflect the final permit administration fees. Please reference the Report Appendix for the new regulation language.

Part III: Emission Fees Evaluation[2]

Part III of the Report satisfies the requirements under AS 46.14.240 and AS 46.14.250 to periodically review fees.   It also satisfies the Program's agreement, as stated in the 2006 emission fee report, to align both emission and administrations fees in one report for rate setting. Part III will follow the similar format as the 2006 emission fee report. It will first discuss and set Title V emission fees and then discuss and set Title I emission fees.

3.1. Title V Operating Permits Program- Emission Fees

3.1.1. Title V Program Budget Authorization

Figure 1 below shows the FY 10 Budget authorization for CAPF, which includes $4,179,400 for Air Permits Program, $77,300 for Division of Administrative Services (DAS), and $7,300 for Department of Administration. DAS and Department of Administration do not provide direct permit service, but their budget authorizations for air permits related expenses must be covered as an indirect cost of the Title V Operating Permits Program.

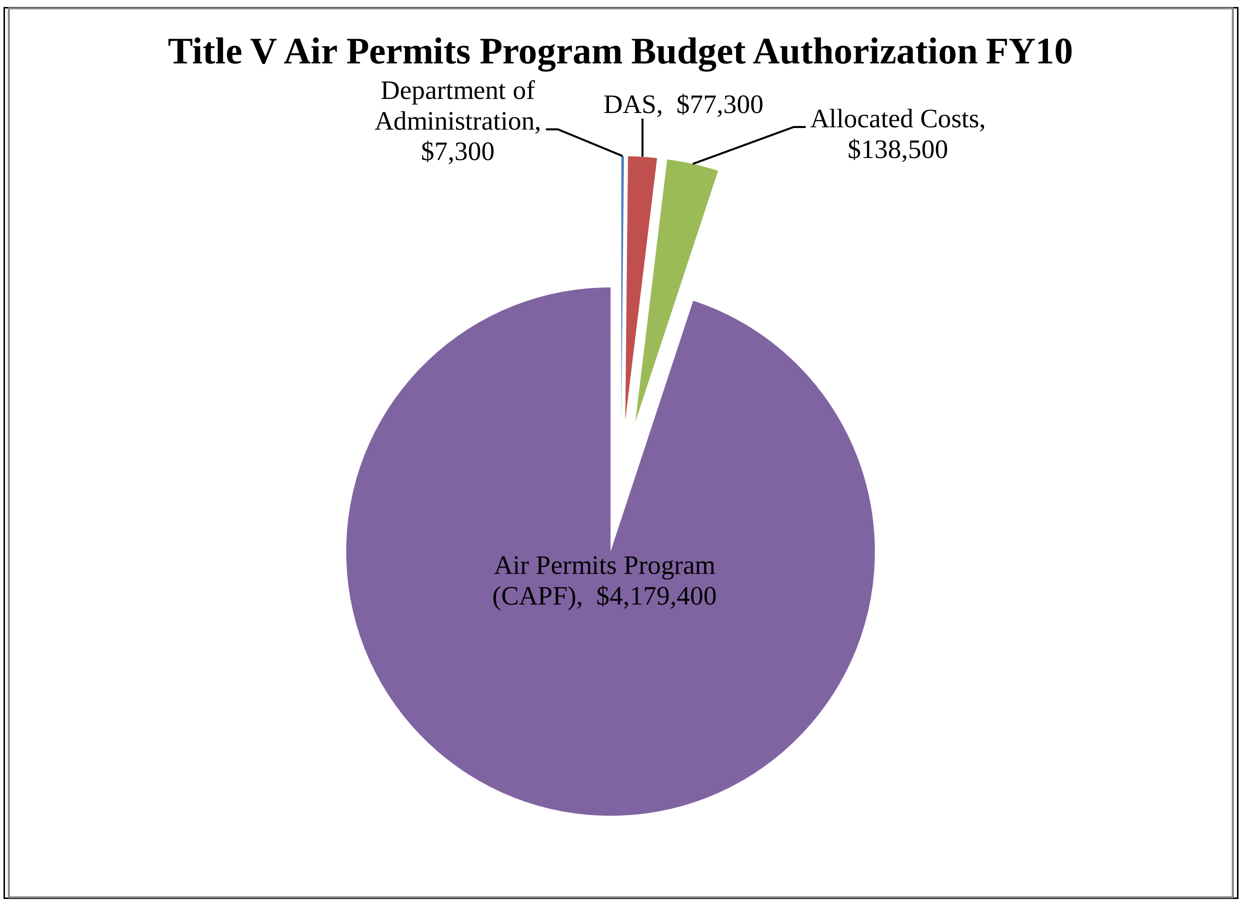


Figure 1 - Title V Program Budget Authorization FY10

[2] All regulatory citations in this report refer to the existing regulations. Proposed regulations implementing the findings of this report may have slightly different citations.

3.1.2. Title V Emission Fee Formula and Evaluation

The following spreadsheet (Table 13) illustrates the formula and historical numbers used to set the emission fees for Title V. The methodology is recommended by the Department's Division of Administrative Services (DAS) to align with the direction of the statutes. Discussion for each line and calculation follows the table. The format for discussion follows the 2006 emission fee report. Any changes are clearly noted.

The spreadsheet calculates the emission fee rate using the following five steps:

1) **Establish Historical Program cost**

   A) Historical TV Program Cost for FY06 through FY09
   B) Add: Unrealized Obligations for FY06 through FY09
   C) Sub-total of Historical Program Costs
   D) Adjustment for bargaining unit agreements and inflation
   E) Total TV Program Costs

2) **Adjust for Historical Program receipts**

   F) Historical Permit Administration Fees
   H) Add: Billing rate for unrealized obligations (adjusted for inflation
   H2) Add: Adjustment for Uncollected Revenue
   I) Sub-total of Program Receipts

3) **Total Program Cost (E) less: sub-total Program Receipts (I) equals Program expense to be covered by emission fees (J)**

4) **Divide Program expense to be covered by emission fees (J) by historical emission tonnage (K)**

5) **Equals fee rate per ton (L)**

	Title V Emission Fee Calculation					
A	**Historical Program Expenses**	**$ 9,583,690**				
A1	**Known Expenses Funded by Other Sources**					
B	**Unrealized Obligations**					
	Title V Personnel	$ 665,027				
	Program Improvement / Tech Services	$ 101,380				
	Data Management / IT Program Support	$ 318,676				
	Administrative Billing / Fee	$ 276,525				
	Program Organization/Management/EPA Progrm Approval/Maintenance	$ -				
B1						
	Subtotal Unrealized Obligations	**$ 1,361,607**				
C	**Title V Program Total Historical Operational Expense (estimated 4-year average)**	$ 2,736,324				
		FY11	FY12	FY13	FY14	4-yr Average (FY11-FY14)
D	*Union Contract Agreement & Inflation Adjustment--4.71%*	$ 128,881	$ 256,394	$ 386,369	$ 528,931	$ 325,144
E	**Total Program Cost Title V**	**$ 2,865,205**	**$ 2,992,718**	**$ 3,122,693**	**$ 3,265,256**	**$ 3,061,468**
F	**Historical Program Receipts**					
G	Historical Program Receipts (Permit Administration Fees-4yr average)	$ 843,477	$ 843,477	$ 843,477	$ 843,477	$ 843,477
H	Billing rate for unrealized Title V personnel (based on historical rate of 36%)	$ 59,852	$ 59,852	$ 59,852	$ 59,852	$ 59,852
H1	Inflation adjustment for unrealized Title V personnel costs	$ 2,819	$ 5,608	$ 8,451	$ 11,569	$ 7,112
H2	Adjustment for Uncollected Revenue (4 yr average)	$ 58,174	$ 58,174	$ 58,174	$ 58,174	$ 58,174
I	***Subtotal Receipts***	*$ 964,323*	*$ 967,112*	*$ 969,955*	*$ 973,073*	*$ 968,616*
J	**Total Program Expenses to be covered by Emission Fees**	$ 1,900,882	$ 2,025,606	$ 2,152,738	$ 2,292,182	*$ 2,092,852*
K	Emission Tonnage-(based on FY09 Receipts)	108,308	108,308	108,308	108,308	108,308
L	**Title V Emission Fee Rate**	**$ 17.55**	**$ 18.70**	**$ 19.88**	**$ 21.16**	**$ 19.32**

Table 13 - Title V Emission Fee Calculation

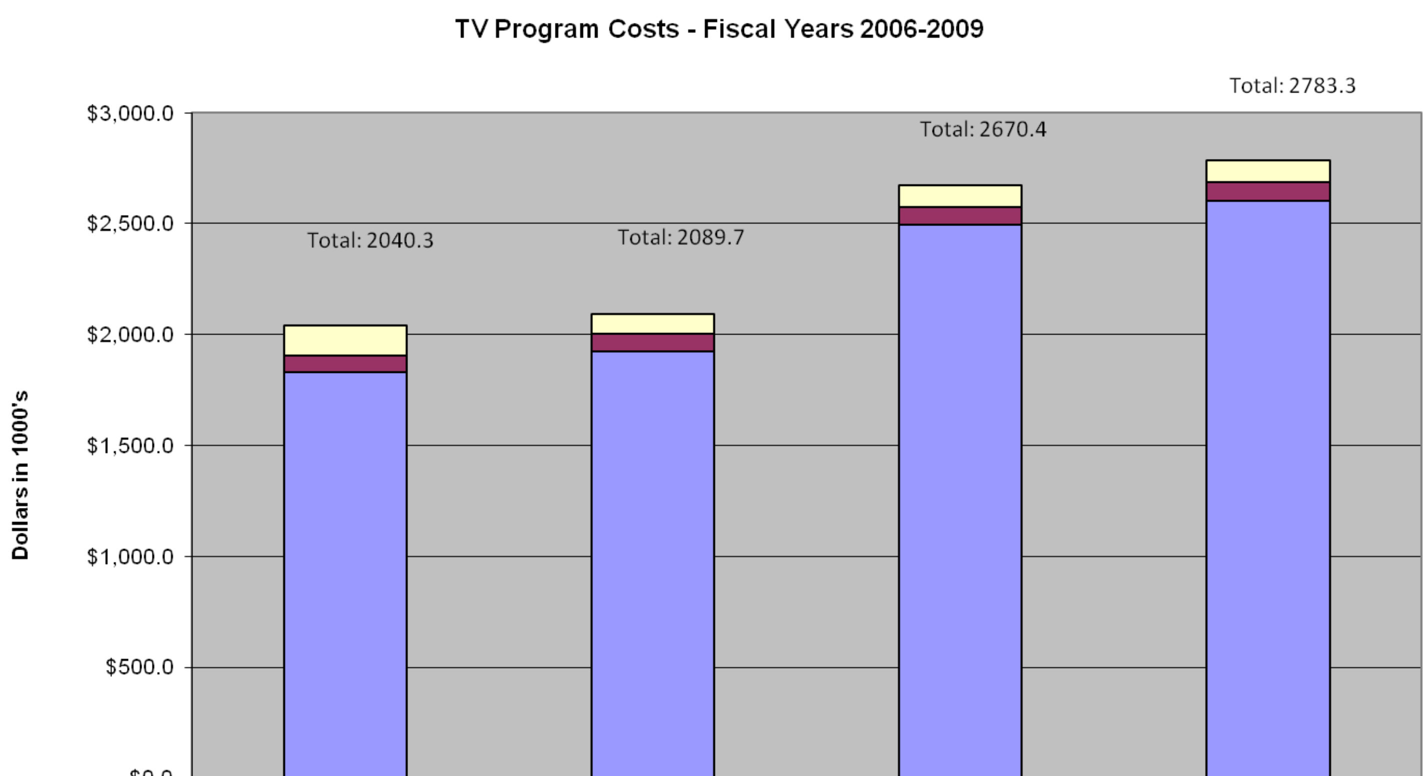
Title V Historical Costs FY06-FY09

<u>Step 1: Establish Historical Program Costs</u>

A) ***Determine Past Program Costs- Line A***

During fiscal years FY06 – FY09, the Title V Operating Permit Program costs were paid from the dedicated Clean Air Protection Fund (CAPF). In the 2006 emission fee report, DAS costs and other costs were pro-rated between the Title V and Title I programs with the recommendation that two funds be established, one for each Permit service group: Title V (CAPF) and Title I (ECPRA). Title V and Title I funds are now in two separate accounts. Costs are allocated according to the services that they fund.

Figure 2 illustrates FY06 – FY09 historical costs paid for by Title V fees.



	FY'06	FY'07	FY'08	FY'09
Allocated Costs	$136.5	$86.8	$94.8	$96.0
DIAS Costs	76.00	79.10	81.60	83.70
Direct TV Costs	$1,827.8	$1,923.8	$2,494.0	$2,603.6

Figure 2 - Title V Prior Year's Costs - FY06-09

- The Direct Title V cost is the amount spent directly by the Air Permits Program to deliver the Title V Operating Permit Program services.
- The allocated costs are Departmental costs to be paid by the Title V Operating Permit Program. These include: rent, utilities, and similar Department expenses

pro-rated by the amount of personal service expenses charged to a particular funding source.

- The DAS cost is a fixed charge imposed on the air permit fee revenues. This charge pays for DAS staff to manage the time recording and billing software, prepare and mail fee invoices, and record fee payments

In summary, the Program spent approximately $2,040,300 delivering the Title V Program in FY06, $2,089,700 in FY07, $2,670,400 in FY08 and $2,783,300 in FY09.

B) Title V Unrealized Obligations

Title V Personnel Costs for Permit and Compliance Services

In order to attain the goals of the Program, and to provide complete permit and compliance services to permittees, the Program needs a full staff. The preceding analysis assumes that the Program will provide the same level of Title V permit and compliance services as in prior years. The historical cost included salary and benefit costs for the positions that were filled during the report period. However, it did not account for unrealized costs associated with a significant number of full-time equivalent (FTE) positions that were vacant. Workload demands resulted in the Program achieving a full staff during FY09. In order to calculate a fee structure that will be adequate for future Program service delivery, and to maintain the level of service required by industry and federal guidelines, the unrealized costs of providing services must be considered along with actual historical salary and benefit costs.

Vacancy Factor

The unrealized costs associated with vacant positions for Title V permit and compliance staff is calculated by review of the vacancy rate of Program positions. For calculation purposes, vacant positions were assumed to be filled at the lowest applicable salary range, at Step A. This method may be lower than the actual cost if an employee is transfered over in the same range, but higher class. The total cost for Title V unrealized staff obligations is $665,027. Please see Table 13 and Appendix for details.

Other Title V Program Unrealized Obligations

In addition to the Title V Permit and Compliance workloads, the Program includes support work essential for the delivery of permit services. These include:

- Program Improvement/Technical Services
- Data Management Services
- Administrative Services
- Program management
- Environmental Protection Agency (EPA) Approvals/Maintenance
- Report Review

Title V Program Improvement and Technical Services

The Program implemented a Quality Management System (QMS) for Title V permit and compliance services. The Program intends this QMS to improve the speed, accuracy, and consistency of permit and compliance service delivery. Program services and permitting processes have been standardized with published work instructions allowing for knowledge retention and transfer. The development of the QMS is a preemptive measure designed to allow for continuity of services when attrition occurs.

Calculation of unrealized costs associated with vacant positions for Title V technical services staff follows the same methodology stated above for the permit and compliance services staff. Total costs for the Program's technical services are pro-rated[3] between Title V and Title I (70% for TV; 30% for TI.)

The total unrealized obligations for Title V Program Improvement and Technical Services are $101,380. Please see Table 13 and Appendix for details.

Title V Data Management/IT Program Support

The Program uses a customized integrated database system**,** called *AirTools*, to record Title V permit, compliance and enforcement activities. *AirTools* records, tracks, and manages data essential to managing the Program and serving our clients. The *AirTools* data management software system has proven invaluable for providing information for this Report and supporting Program efficiency by providing quick operation reports to management.

AirTools includes two modules:

- Workload Tracking Module: This module tracks information pertaining to permitting, compliance, and non-routine compliance. The information stored includes dates and documents related to all permit and compliance services offered by the Program. Air quality staff and managers use this module to track performance, share data, prioritize workloads, and record decisions and correspondence;

- Online Services Module: This module, currently under development, will provide the regulated community and the general public a variety of online services. Please see *AirTools* Project in the Appendix for a list of open projects. The online system has resulted in reduced fixed fee costs for Excess Emission reporting, as noted in Part II.

Title V Data Management Services

There is increased demand from the regulated community for online services and reporting enhancements for EPA emission inventory and permit/compliance reports. Historical cost estimates do not include essential *Air Tools* reporting enhancements and the development and implementation of the Online Services module. All *AirTools* enhancements, changes, report

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[3] Please see the Appendix for detailed description.

creation, maintenance, and other activities are placed on the *AirTools* Development Schedule (see Appendix.) The development schedule lists all *AirTools* projects based on Program priority and associated cost including the continued effort for online reporting service. Based on the adopted development schedule, the workload will require an additional 0.5 FTE IT Programmer**.** The total unrealized obligations to support the Title V data management activities are $318,676.

Title V Administrative Billing/Fees

The 2006 emission fee report anticipated the need for increased administrative support to implement the new FY06 fee program. The *BillQuick* and *AirTools* programs required additional administrative staff time for recording and tracking the cost accounting data. Projected increased services included project set up in the time/billing system, recording and correct application of fees received, collecting and auditing invoices, resolving fee disputes, and coordinating with DAS systems.

Unfortunately, the Program and the state employment system had significant vacancy rates in administrative staff (Administrative Officer II, Accountant III, and Administrative Clerk III.) Due to the vacancies, Program costs associated with administrative billing/fee support were unrealized and are not reflected in the historical program costs. Using the methodology described above, the total unrealized obligations for necessary Program administrative support services are $276,525. This cost is pro-rated at 70% for Title V support. (Please see Appendix for salary detail.)

Title V Additional Considerations

The following were reviewed and considered, however, no adjustments for unrealized obligations were appropriate.

Title V Program Administration

Title V Program Administration consists of the following elements:

- Program Organization/Management: This represents a range of items not directly billable to permit activities, including staff time spent on workforce development, training, and budget; work plan preparation; negotiating EPA grant commitments; internal program audits; personnel evaluations; administrative form preparation; and management briefings;
- EPA Program Approval/Maintenance: EPA requires technical staff to keep the Program consistent with EPA regulations, changes, and standards.
- Administrative Support: Various administrative services not directly billable to permit activities, such as human resources, accounting, and fees and collections.

Program Administration activities do not directly serve a permit client but are important support activities. The Program uses CAPF emission fees to pay for these indirect services.

Program Organization/Management

We anticipate that program management activities will remain similar to those of past fiscal years. Associated costs have been accounted for in the Historical Program Cost, therefore, no adjustments to the base program costs are needed for program management changes.

We considered the impact that potential attrition of experienced staff might have on program service delivery. While there is continued concern with the State's ability to retain long-term, experienced staff, the Program instituted the QMS program to insure consistent and predictable permits and compliance regardless of staff changes or knowledge base adjustments. Historical and future costs associated with this preemptive measure are included elsewhere and no additional adjustments were made.

Title V EPA Program Approval/Maintenance

The Title V Permit and Compliance Programs are required under the Clean Air Act to follow and satisfy supporting federal regulations. Examples of the EPA Approval/Maintenance workloads include State Implementation Plan maintenance, regulation hygiene, and new regulations. The Regulation Projects can vary from minor adjustments to major projects, such as program audits by EPA. The Title V Program can expect one major EPA required adjustment per year. There are also on-going minor maintenance or regulation hygiene projects.

In the past these activities were included in the cost of the Title V Program and paid for from the CAPF. Past costs included a full time regulations specialist with additional personnel costs depending on the size, scope, and level of expertise required for the regulation changes.

Work load and costs that were projected in the 2006 emission fee report were implemented during the historical tracking period of FY06-FY09 and are included in this Report. Additional regulatory projects are anticipated in response to known federal environmental protection actions (e.g., new rules pertaining to mercury contaminants, Green House Gases, and adoption of new ozone and PM2.5 national standards for air quality.) It is difficult to have firm estimates on project costs, which will depend on the scope of the projects and which permit groups are affected.

We anticipate that the Program's EPA activities will remain similar to those of prior years. Associated costs have been accounted for in the historical program cost, therefore, no adjustments to the base program costs are appropriate.

Title V Administrative Payroll/Human Resources

As stated above, the Program anticipates no significant change in the level of activity required to comply with EPA regulatory mandates. It is expected that human resource costs for administrative support in this area will remain at historical cost levels; therefore, no adjustments to the base program costs are appropriate.

D) Multiply in Personnel Cost Assessments and Adjust for Inflation

The inflation factor applied in this report is based on two factors: 1) a general inflation rate of 2.75% and, 2) known increases in bargaining unit agreements. Current rate of increase for union contracts is approximately 3% each year.

To make up for the new labor contract agreements the Report assessed an additional 3% of each employee's salary for the next four-years. The unadjusted costs in the Report include salary and benefits, travel, contractual costs, supplies, and equipment costs. Salary and benefits represent about 87% of the program costs, and benefit costs are currently about 33% of salary cost. Therefore, salary cost makes up 65.25% of the unadjusted program costs (87% x 75%). Since the 3% is only charged on 65.25% of the total, it is effectively a 1.96% rate on the total. The final rate is 1.96% plus the 2.75% inflation rate, or 4.71 %. See Appendix for formulas.

The projected totals including inflation and the union contract agreement adjustment were calculated by projecting costs in today's dollars and then applying the following factors for each year (These factors are used in Table 13).

Inflation and Union Contract Agreements adjustments are as follows:
FY11, 1.0471;
FY12, 1.0937;
FY13, 1.1412;
FY14, 1.1933

<u>Step 2: Historical Title V Permit Administration Fee Receipts</u>

G) We determined the Administration Fee Revenues
The Title V Permit Administration fee receipts are from FY06 through FY09, based on the historical collected revenue. The four-year average is $843,477. Please see Table 13, Line G.

H) Add Billing Factor for Title V staff:
Some portion of the unrealized obligation for the Title V Permit and Compliance staff will be offset by reimbursements for services. This will need to be added into the Title V Administration Fee receipts. Based on historical *BillQuick* records, the Title V billing rate is 36%. This rate will be multiplied by the unrealized obligation in Step H1 adjusted for inflation.

H2) Add Adjustment for Uncollected Revenue:

The reconciliation of BillQuick records to the AKSAS system revealed that the Department did not bill for certain activities that were eligible for cost recovery. The uncollected revenue amount was added to the actual permit administration fee receipts because the Department expects to bill for these types of activities in the future.

Step 3: Next, we subtract the projected revenue (Table 13, Line I) from the Total Program cost (Table 13, Line E) to determine the amount to be covered by emission fees.

The amount to be covered by Emissions Fees in FY11 is $1,900,882. (Table 13, Line J)

Step 4: Emission Tonnage

The annual amount to be covered by emission fees is then divided by the annual average of emission tons to determine the annual rate per ton.

The emissions tonnage estimates are only for Title V sources. They are based on collected receipts for emission tons that were billed from FY06 through FY09. For fee assessment purposes, rules allow permittees to report on actual tons emitted, or on source specific potential to emit. The historical record is based on the actual amount of collected receipts from the emission fees divided by the rate in 18 AAC 50.410. Analysis of historical data indicates a declining trend in tons emitted. Based on the declining trend, FY09 tonnage rates provide the most accurate calculation figure for new emission fee rates. Please see Section 3.3 for full discussion of assessable emissions.

The most current billing receipts indicate future emission tonnage to be 108,308 tons annually.

Step 5: As calculated above, the proposed average four-year Title V Emission Rate is $19.32 (Table 13, Line L).

3.1.3. Title V Emission Fee Structure and Implementation

Before 2006, the emission fees were an annual rate that was an average based on the total costs to be recovered divided by the number of years over which the fee was collected. The average rate was then assessed as an annual emission fee until the next four-year evaluation.

In the 2006 emission fee report, the Division reviewed several issues that affected the rate structure and several alternatives to the four-year historical average rate. (Please refer to the 06 Fee Report for additional information.) In addition, the evaluation of each alternative emission fee structure considered requirements of key elements mandated by federal and state statutes**.** The 06 Fee Report evaluated four emission fee structure alternatives:

1) Rate based on four-year average;
2) Annual Rate based on each fiscal year;
3) Annual rate FY07- Average Rate FY08 Forward;
4) Rate based on two-year average.

The 2006 emission fee report recommended shifting to an annualized rate structure for several reasons, including concerns from industry about their ability to effectively predict fee obligations and manage internal budgets. There were three primary factors in determining the emission fee structure:

1) Revenues need to match the workloads;
2) The requirement that emission fees must be deposited into proper accounts – Title I fees into the ECPRA and Title V fees into the CAPF;
3) Aligning the evaluation and fee setting schedules for the two sources of fee revenues into a single schedule.

This Report recommends establishing a four-year average rate for emission fees instead of a different rate for each fiscal year. The issues that required annual rates have been addressed: federal law allows CAPF funds to carryover from year to year, which allows equalization of funding for years that have lower rates than the average; *BillQuick* and *AirTools* match direct costs to services; there are two separate accounts for Title I and Title V; and this Report aligns the two fee evaluation schedules.

Using an average rate has the advantages of reducing confusion about emission fee rates for both industry and Program staff, and allowing industry to establish internal budgets based upon predictable rates.

3.1.4. Additional Considerations: Program Costs vs. Budget Authorization

Analysis of Program costs (Table 14) compared to the FY10 Air Permits Program budget authorization (Figure 1) shows that the costs of providing services do not exceed the approved budget authorizations.

Title V Program Costs	FY11	FY12	FY13	FY14	Average
Total Program Cost Title V	$2,865,205	$2,992,718	$3,122,693	$3,265,256	$3,061,468
FY10 Budget Authorization (Figure 1)	$4,179,400	$4,179,400	$4,179,400	$4,179,400	$4,179,400
Difference between Projected Costs and Budget Authorization	$1,314,195	$1,186,682	$1,056,707	$914,144	$1,117,932

Table 14 - Title V Projected Costs vs. Budget Authorization FY10-FY14

3.1.5. Conclusions for Title V Emission Fees

Title V Emission fees will be based on a four-year average. The four-year average annual rate for Title V emission fees is $19.32 per ton.

3.2. Title I Permits Program (Construction and Minor Permits) - Emission Fees

3.2.1. Title I Program Budget Authorization

Figure 3 shows the FY10 Budget authorization for ECPRA, which includes $1,443,500 for Air Permits, $33,800 for DAS, $3,100 for Department of Administration, and $49,600 for allocated costs. DAS and Department of Administration authorizations and allocated costs do not provide direct permit service, but their budget authorizations for air permits related expenses must be covered as an indirect cost of the Title I permits program.

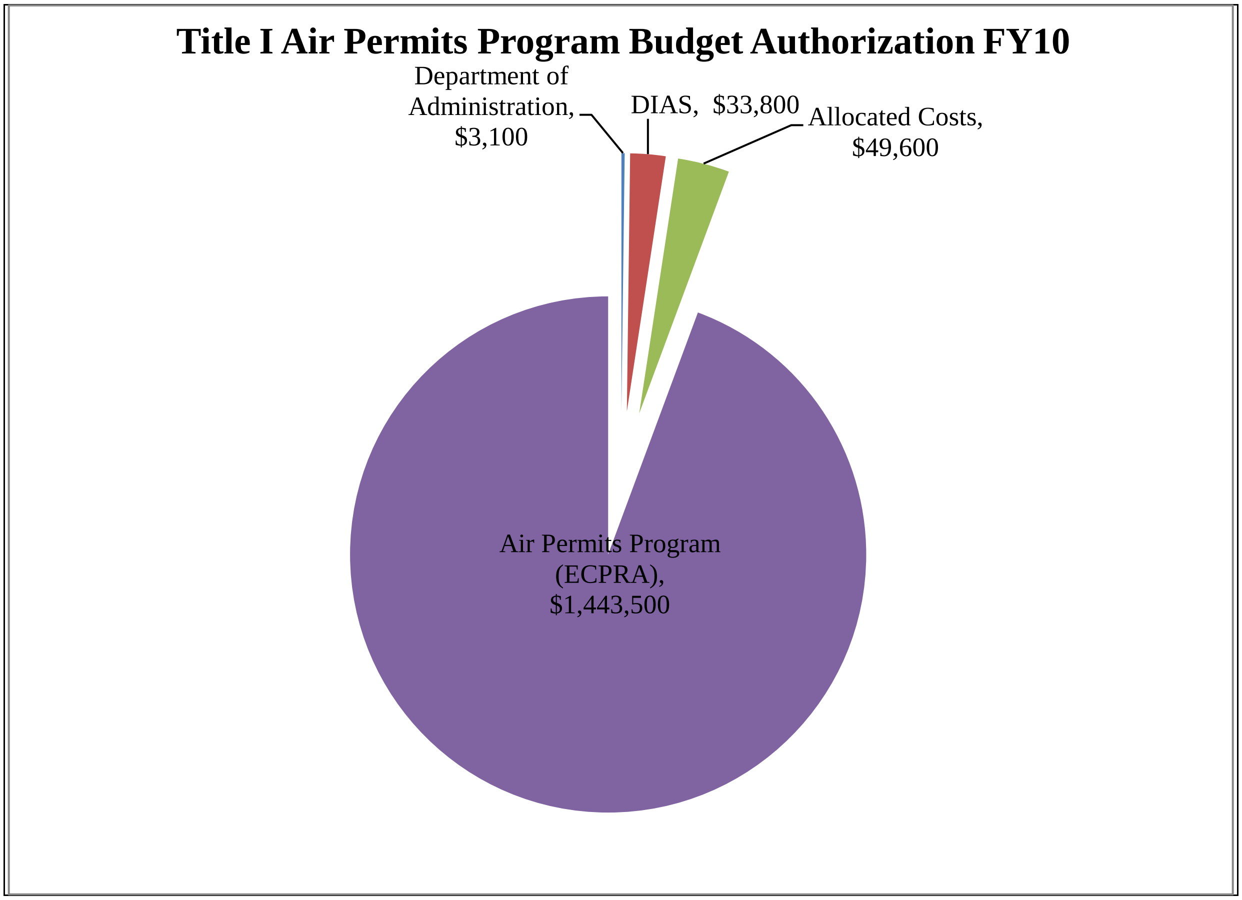


Figure 3 - Title I Program Budget Authorization FY10

3.2.2. Title I Emission Fee Formula and Evaluation

The following spreadsheet (Table 15) illustrates the formula and historical numbers used to set the emission fees for Title I. The methodology is recommended by the Department's Division of Administrative Services (DAS) to align with the direction of the statutes. Discussion for each line and calculation follows the table. The format for discussion follows the 2006 emission fee report. Any changes are clearly noted.

The spreadsheet calculates the emission fee rate using the following five steps:

1) Establish Historical Program cost.

A) Historical Program Cost for FY06 through FY09
B) Add: Unrealized Obligations for FY06 through FY09
C) Sub-total of Historical Program Costs
D) Adjustment for bargaining unit agreements and inflation
E) Total Program Costs

2) Adjust for Historical Program Receipts

F) Historical Permit Administration Fees
G) Add: Billing rate for unrealized obligations (adjusted for inflation
H2) Add: Adjustment for Uncollected Revenue
I) Sub-total of Program Receipts

3) Total Program Cost (E) less: sub-total Program Receipts (I) equals Program expense to be covered by emission fees (J)

4) Divide by historical emission tonnage (K)

5) Equals fee rate per ton (L)

	Title I Emission Fee Calculation					
A	**Historical Program Expenses**	**$ 3,920,843**				
A1	**Known Expenses Funded by Other Sources**	**$ 354,447**				
B	**Unrealized Obligations**					
	Title I Personnel	$ 626,913				
	Title I Compliance-EPA Mandated	$ 209,920				
	Program Improvement / Tech Services	$ 43,449				
	Data Management / IT Program Support	$ 136,575				
	Administrative Billing / Fee	$ 118,511				
B1	***Subtotal Unrealized Obligations***	**$ 1,135,368**				
C	**Title I Program Total Historical Operational Expense (estimated 4-year average)**	$ 1,352,664				
		FY11	FY12	FY13	FY14	4-yr Average (FY11-FY14)
D	*Union Contract Agreement & Inflation Adjustment--4.71%*	$ 63,710	$ 126,745	$ 190,996	$ 261,470	$ 160,730
E	**Total Program Cost Title I**	**$ 1,416,375**	**$ 1,479,409**	**$ 1,543,661**	**$ 1,614,134**	**$ 1,513,395**
F	**Historical Program Receipts**					
G	Historical Program Receipts (Permit Administration Fees-4yr average)	$ 407,031	$ 407,031	$ 407,031	$ 407,031	$ 407,031
H	Billing rate for unrealized Title I personnel (based on historical rate of 32%)	$ 50,153	$ 50,153	$ 50,153	$ 50,153	$ 50,153
H1	Inflation adjustment for unrealized Title I personnel costs	$ 2,362	$ 4,699	$ 7,082	$ 9,695	$ 5,959
H2	Adjustment for Uncollected Revenue (4 yr average)	$ 34,067	$ 34,067	$ 34,067	$ 34,067	$ 34,067
I	***Subtotal Receipts***	*$ 493,613*	*$ 495,950*	*$ 498,333*	*$ 500,946*	*$ 497,211*
J	**Total Program Expenses to be covered by Emission Fees**	$ 922,762	$ 983,459	$ 1,045,328	$ 1,113,189	$ 1,016,184
K	Emission Tonnage-(based on FY09 Tonnage)	109,916	109,916	109,916	109,916	109,916
L	**Title I Emission Fee Rate**	**$ 8.40**	**$ 8.95**	**$ 9.51**	**$ 10.13**	**$ 9.25**

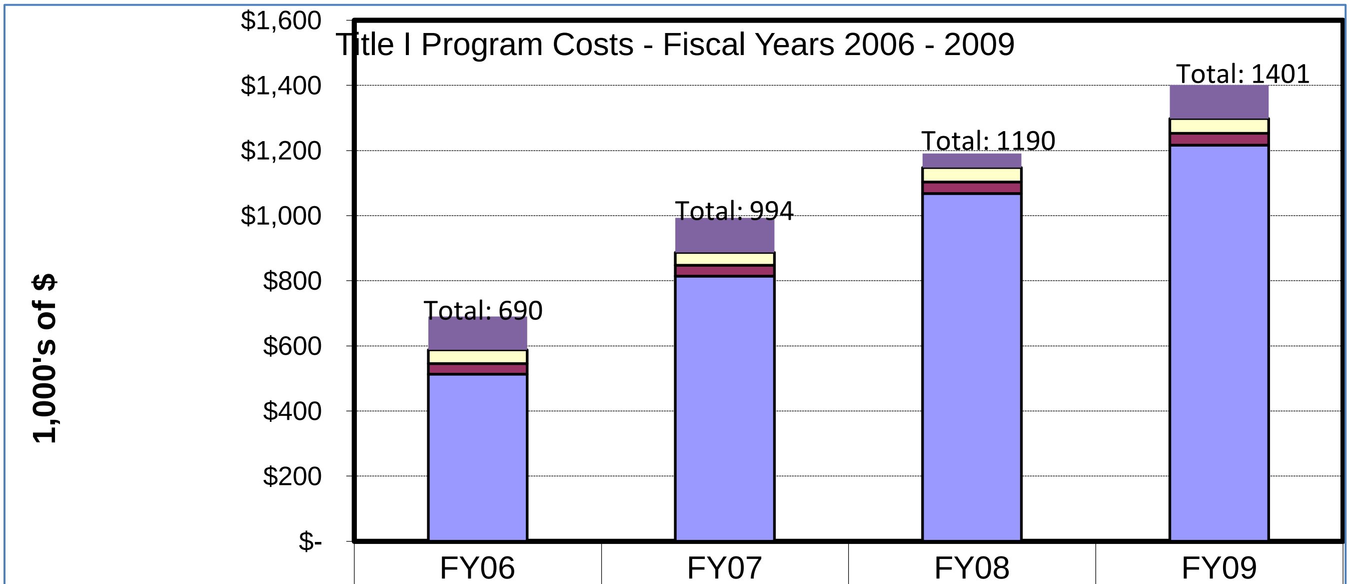
Table 15 - Title I Emission Fee Calculation

Title I Historical Costs FY06 – FY09

Step 1: Establish Historical Program Costs

A) Determine Past Program Costs – Line A

Figure 4 below illustrates Program expenditures for FY06 through FY09. The direct Title I expenditures and the overhead payments to DAS, allocated costs, and additional indirect costs are shown for each year. These expenditures were funded through permit administration fees, emission fees, EPA grants, and general funds. The methodology for the Title I expenditures and funding breakdown is described in the Appendix.



	FY06	FY07	FY08	FY09
Known Other Costs	$102	$107	$43	$102
Allocated Costs	$42	$39	$44	$46
DIAS Costs	$33	$34	$36	$36
Direct TI Costs	$513	$814	$1,068	$1,216

Figure 4 - Title I Program Costs FY06-FY09

- The APP cost is the amount spent directly by the Air Permits Program to deliver the Title I Permit Program.
- The allocated costs are the Department's costs to be paid by the Title I Permit Program. This includes rent, utilities, and similar Department expenses pro-rated by the amount of personal service expense charged to a particular funding source.
- The DAS cost is a fixed charge imposed on the air permit fee revenues. This charge pays for DAS staff to manage the time recording and billing software, prepare and mail fee invoices, and record fee payments

In summary, the Program spent approximately $690,373 delivering the Title I Permits Program in FY06, $993,552 in FY07, $1,190,492 in FY08, and $1,400,874 in FY09.

A1) Known Expenses Funded by Other Sources

Title I permit services have not been fully funded by administrative and emission fees. Additional funding for permits services has come from general funds and EPA grants.

B) Title I Unrealized Obligations

Title I Personnel Costs for Permit Issuance, Renewal and Revision

In order to attain the goals of the Program, and to provide complete permit and compliance services to permittees, the Program needs a full staff. The preceding analysis assumes that the Program will provide the same level of Title I permit services as in prior years. The historical cost included salary and benefit costs for the positions that were filled during the report period. However, it did not account for unrealized costs associated with a significant number of full-time equivalent (FTE) positions that were vacant. Workload demands resulted in the Program achieving a full staff during FY09. In order to calculate a fee structure that will be adequate for future Program service delivery, and to maintain the level of service required by industry and federal guidelines, the unrealized costs of providing services must be considered along with actual historical salary and benefit costs.

Vacancy Factor

The unrealized costs associated with vacant positions for Title I permit staff is calculated by review of the vacancy rate of Program positions. For calculation purposes, vacant positions were assumed to be filled at the lowest applicable salary range, at Step A. This method may be lower than the actual cost if an employee is transferred over in the same range, but higher class. The total cost for Title I unrealized staff obligations is $626,913. Please see Table 15 and Appendix for details.

Other Title I Program Unrealized Obligations

This section describes how the quantity and quality of Title I work products have changed over the past four fiscal years and identifies deliverables related to Title I Minor Permits that the Program is not currently performing. These unmet deliverables must be incorporated into the suite of services provided to the regulated community, and costs associated with providing the additional services must be considered along with historical programmatic costs in order to appropriately set fee rates.

Other work essential for the delivery of permit services include:

- Mandated additional Title I workload
- Program Improvement/Technical Services
- Data Management Services
- Administrative Services

Title I - Known New Activities

One of the performance measures for the Permitting program is to provide compliance and oversight for Title I Minor permits. Currently, limited oversight is provided by Title V compliance staff.

The Program intends to conduct inspections and compliance evaluations of each Minor Permit classified under 18 AAC 50.502(b) at least once every five years. In FY10, Title V staff is conducting a beta test of Minor Permit compliance evaluations with the goal of documenting processes required to complete each evaluation. Title I staff will incrementally integrate responsibility for inspections and compliance evaluations commencing in FY11, with full implementation and review starting in FY12. Assuming 32 sources per year, approximately 158 sources will be reviewed over the course of five years.

A Minor Permit Compliance Evaluation is equivalent to Title V routine compliance, and will include review of fugitive dust control plans for all Minor Permits classified under 18 AAC 50.502. Site-specific dust control plans are required for asphalt plants or soil remediation units within one mile of inhabited structures, and for crushers within 2,000 feet of inhabited structures. Currently, the Program does not review these specific control plans for adequacy. In order to take on this new responsibility, the Program will require either additional staff or increased contractor costs. Analysis of similar compliance actions in *BillQuick* indicates that performance of the additional tasks will take approximately 160 labor hours per year. Based on that analysis, the total costs are estimated to be $209,920 per year for an additional .5 FTE, or the equivalent in contractor support services.

Title I Program Improvement and Technical Services

The Program implemented a Quality Management System (QMS) for Title I permit services. The Program intends this QMS to improve the speed, accuracy, and consistency of permit and compliance service delivery. Program services and permitting processes have been standardized with published work instructions allowing for knowledge retention and transfer. The development of the QMS is a preemptive measure designed to allow for continuity of services when attrition occurs.

Title I program improvement is expected to mirror the efforts described for Title V. Total QMS costs for the Program are pro-rated[4] between Title V and Title I (70% for Title V/30% for Title I).

The total unrealized obligations to support the Title I Program Improvement and Technical Services are $43,449. Please see Table 15 and the Appendix for details.

Title I Data Management/IT Program Support

Please reference the data management discussion for Title V in Step 1 B) As explained in that section, the Program uses an integrated database system called *AirTools.* Among other functionalities, *AirTools* facilitates electronic permitting. Electronic permitting is an essential

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[4] Please see the Report Appendix for detailed description.

component of providing enhanced Title I Minor General Permit services to the regulated community. Costs for *AirTools*, database management, and electronic permitting are pro-rated between Title V and Title I using a respective ratio of 70%/30%.

Unrealized data management costs for Title I were calculated using the same methodology as was used for Title V unrealized data management costs. Please reference the Title V Step 1 B section of this report for a thorough discussion.

The total unrealized obligations to support the Title I data management activities are $136,575.

Title I Administrative Billing/Fees

Title I billing and accounting support is fully discussed in the Title V section of this report. The same methodology was used to determine projected costs for Title I and pro-rated as above. (Please see Appendix for detail).

The total unrealized program administration costs for Title I are $118,511.

Title I Program Administration

Title I Program administration consists of various administrative services not directly billable to the permittee, including human resources, accounting, and the billing and collection of fees.

D) Multiply in Personnel Cost Assessments and Adjust for Inflation

Please see discussion of calculation methodology for adjustments for bargaining unit increases and inflation in the Title V section.

The total Title I Program Cost for FY11 to FY14 is summarized in Table 15, Line E.

<u>Step 2: Historical Title I Permit Administration Fee Receipts</u>

G) We determined the Permit Administration Fee Revenue
The Title I Permit Administration FY06 through FY09 fee receipts are based on the historical collected revenue. The four-year average is $407,031. Please see Table 15, Line G.

H) Add Billing Factor for Title I staff:
Some portion of the unrealized obligation for the Title I Permit staff will be offset by reimbursements received for services. This will need to be added into the Title I Administration Fee receipts. Based on historical BillQuick records, the Title I billing rate is 32%. This rate will be multiplied by the unrealized obligation in Step H1) and adjusted for inflation.

H2) Add Adjustment for Uncollected Revenue:

The reconciliation of BillQuick records to the AKSAS system revealed that the Department did not bill for certain activities that were eligible for cost recovery. The uncollected revenue amount was added to the actual permit administration fee receipts because the Department expects to bill for these types of activities in the future.

Step 3: Next, we subtract the projected revenue (Table 15, Line I) from the Total Program cost (Table 15, Line E) to determine the amount to be covered by emission fees.

The amount to be covered by Emissions Fees in FY11 is $922,762. (Table 15, Line J).

Step 4: Emission Tonnage

The annual amount to be covered by emission fees is then divided by the annual average of emission tons to determine the annual rate per ton (Table 15, Line L).

The Title I Emission Fees will increase in order to cover the full cost of delivery of permit services. This is in part due to the need to charge time and material costs for the majority of the permit services and the effect of the 149% required rate structure as mentioned above.

3.2.3. Title I Emission Fee Structure and Implementation

Historically, the emission fees were an annualized rate that was averaged based on the total costs to be recovered divided by the number of years over which the fee was collected. The average rate was then assessed as the annual emission fee until the next four-year evaluation.

In the 2006 emission fee report, the Division reviewed several issues that were affecting the rate structure and several alternatives to the four-year historical average based rate (please refer to the 2006 emission fee report, Section 8). In addition, evaluation of each alternative emission fee structure considered requirements of key elements mandated by federal and state statutes. The 2006 emission fee report evaluated four emission fee structure alternatives:

1) Rate based on four-year average
2) Annual rate based on each fiscal year
3) Annual rate FY07- Average rate FY08 forward
4) two-year average rate

The 2006 emission fee report recommended a change in rate structure to an annual rate due to several issues and the effect on fee rate payers at that time. There were three primary issues in determining the emission fee structure:

1) Revenues need to match the workloads.
2) The emission fees must be deposited into proper accounts – Title I fees into the ECPRA and Title V fees into the CAPF.
3) Aligning the analysis of the two sources of fee revenue from different evaluation schedules to one evaluation.

The Division implemented the recommendations and has resolved the issues discussed in the 2006 emission fee report. *BillQuick* and *AirTools* match direct costs to services, there are two separate accounts for Title I and Title V, and this Report aligns the two fee evaluation schedules.

This Report recommends the return to the historical method of the four-year average rate for emission fees**.** The issues that required annual rates have been addressed. Using an average rate has the advantages of: reducing confusion on emission fee rates, and allowing industry to set internal budgets on predictable rates.

3.2.4. Additional Considerations: Program Costs vs. Budget Authorization

One consideration that needs to be addressed before the new fees are implemented is whether collected fees and cost recovery exceed the Budget Authorization. Comparing Table 15 to the FY10 Air Permits Program budget authorization of $1,443,500, it is evident that projected expenses exceed the approved budget authorizations.

Title I Program Costs vs/ Authorization	**FY11**	**FY12**	**FY13**	**FY14**	**Average**
Historical Program Costs + Known Add'l Expenses	$1,416,375	$1,479,409	$1,543,661	$1,614,134	$1,513,395
FY10 Budget Authorization (Figure 3)	$1,443,500	$1,443,500	$1,443,500	$1,443,500	$1,443,500
Difference between Projected Costs and Budget Authorization	$27,125	-$35,909	-$100,161	-$170,634	-$69,895

Table 16 - Title I Program Costs vs. Budget Authorization

Title I Budget Authorization Limitation

The Program is required by statute to fully recover the cost of services. The emission rate will be required to be set for the full cost recovery. Federal law only allows the CAPF funds to carryover from year to year which will provide sufficient funds for Title V. Due to the cap on spending from the budget authorization, the Program cannot spend over the limit set by the legislators. When the limit is reached, the Program will be required to delay Title I permitting services into the new next fiscal year. Based on the historical program costs, it is anticipated that 10 % of Title I permitting work will be delayed.

Expected costs will exceed the Budget Authorization starting in FY12. Any shortfall in FY12 could be dealt with by seeking supplemental budget authorization. The Department could seek increased authorization to fully cover the expected cost of services in the FY12 budget. This Report recommends the Department pursue carryover authority for the ECPRA from the Alaska legislation to allow sufficient funding of Title I services.

3.2.5. Conclusions for Title I Emission fees

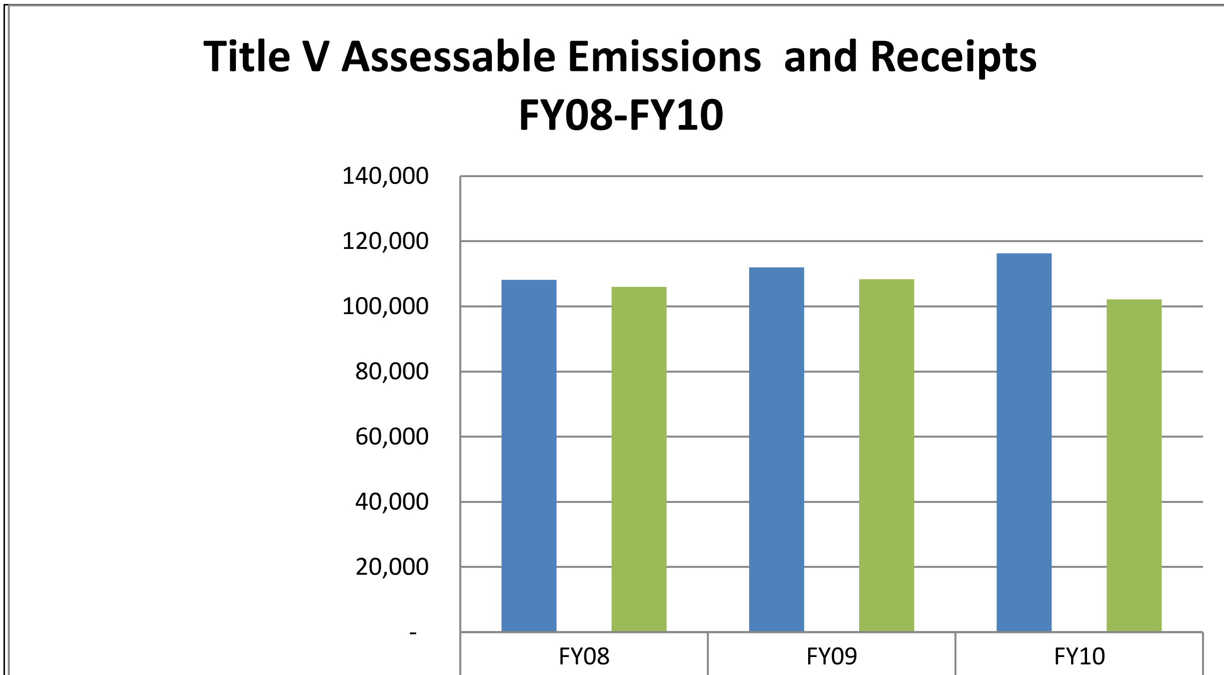
Emission fee rates are required to be set to cover the full costs of providing services. If the program exceeds authorization, increases to the authorization must be approved or carryover of Title I fees in the ECPRA would be required.

Title I Emission fees will be based on a four-year average. The four-year average annual rate for Title I emission fees is $9.25 per ton.

3.3. Assessable Emissions

3.3.1. Title V Assessable Emissions

We estimate that the FY11 Title V assessable emissions will be 108,308 tons of pollutants, based on the actual amount collected from FY09 assessable emissions billing receipts. The Title V Air Permits Program requires $1,900,882 in emission receipts for FY11 (See Table 13, Line J). There is a decline in the amount of fees collected as Title V sources more vigilantly report actual emissions as opposed to paying fees based on potential to emit estimates. Additionally, some stationary sources no longer pay Title V emission fees as they have obtained alternative permit avoidance and minor source permits. Currently, emission fees collected from Title V sources are deposited into the Clean Air Protection Fund (CAPF).

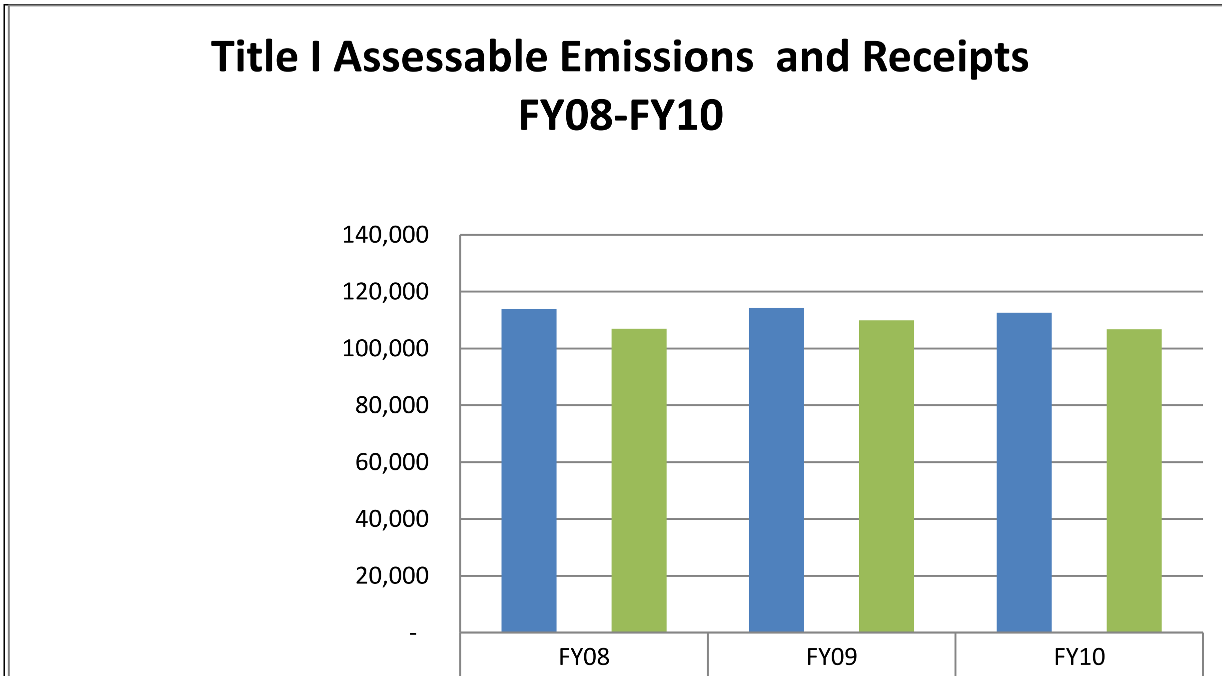


	FY08	FY09	FY10
Total Assessable Emissions (tons billed)	108,184	112,002	116,273
Rate / Ton	$26.28	$27.24	$27.24
Total Emission Tonnage (based on receipts)	105,955	108,308	102,128

Figure 5 - Title V Assessable Emissions FY07-FY10

3.3.2. Title I Assessable Emissions

We estimate that the FY11 Title I assessable emissions will be 109,916 tons of pollutants, based on the actual amount collected from FY09 assessable emissions billing receipts The Program would collect approximately $673,785 in emission fee receipts if the current rate of $6.13/ton remained the same. The Title I Air Permits Program requires $922,762 in emission receipts for FY11 (See Table 15, Line J). As with Title V emission receipts, there is a decline in the amount of Title I emission fees collected as Title I sources more vigilantly estimate and report actual emissions, and are not billed for assessable emissions based on their potential to emit. Currently, emission fees collected from Title I sources are deposited into the Emission Control Program Receipt Account (ECPRA).



	FY08	FY09	FY10
Total Assessable Emissions (tons billed)	113,818	114,341	112,656
Rate / Ton	$5.52	$6.13	$6.13
Total Emission Tonnage (based on receipts)	106,990	109,916	106,691

Figure 6 - Title I Assessable Emissions FY07-FY10

Part IV: Other Fee Considerations

Previous sections of this report have presented the various effects of the emission fees by comparing previous fees, reviewing for fee inequities, and analyzing the cost and the effect on types, sizes, and categories of sources. This section provides an overall view and additional information relative to the emission fee.

4.1. Review of Fee Structure Alternatives

Alternatives for various fee structure issues were fully addressed in the 2006 emission fee report. The 2006 emission fee report reviewed alternatives for emission fees. No changes are recommended. The following items were analyzed to review emission fees from all sources and identified any alternatives:

- Emission fees for Small Sources
  - Under 10 tons
  - Title V Avoidance
- Funding (Legislative) options
  - Increase in General funds
  - Changes to the 149 % staff rate
  - Carryover Authority for ECPRA

4.2. Emission fees for Small Sources

The conclusions from the 2006 emission fee report still hold true. The option to charge emission fees to these sources does not provide a viable alternative. Assessing the emission fee to this source group is not equitable to the associated level of work or the cost recovery of accounting services. In addition, assessing emission fees would require additional regulation changes.

4.3. Funding (Legislative) Options

4.3.1. Adjust the 149% Staff Rate

The permit administration hourly fee rate is currently set at 149% of the hourly employee cost to the state for Air Permit employees under AS 37.10.052 and AS 46.14.240.

The 2006 emission fee report researched and recommended that the 149% hourly rate be adjusted to reflect the current actual cost for a DEC employee (Section 8.4.1, 2006 emission fee report). There have been no changes to the employee hourly rate multiplier since the 2006 emission fee report. The recommendation to change the 149% hourly employee rate is still valid. Changing the 149% rate requires legislative action to amend AS 37.10.

4.3.2. Effect of the 149 % rate on Permit Administration Fee Structure

As discussed in Part I of this report, the Alaska State statutes allow permit administration fees to recover the direct costs of providing permit services. This has greater affect on the Title I program, as the majority of Title I permit administration fees are based on time and materials. The statute defines the direct cost as 149% of the hourly wage for direct staff time, plus the full cost of any third party goods or services used. This direct cost, however, does not cover the full cost of personnel services of staff providing permit services. Personnel service costs include salary and benefits, and include holidays, vacation, sick leave, training and administrative time. Personnel service costs also include indirect and allocated costs, such as rent, utilities, equipment, and common supplies. Personnel service costs also need to account for increases to the general program costs due to increased supervisory, payroll, and personnel action work. Either the permit administration fee charged at 149% of the staff person's base salary would have to collect enough to cover all these costs, or some costs would have to be covered by other revenue sources.

As an example, we examine the impacts of 149% rate affects the direct costs associated with a new Environmental Program Specialist II (EPSII). The base salary for an EPSII in FY06 was approximately $21.65 per hour. At 149%, the direct cost is calculated at $32.25 per hour. Based on past billing records, construction permit professional staff spend an average[5] of 60.1% of their time (1,172 hours per year) providing direct permit services; the remaining 40% of their time is devoted to training; program work not associated with an individual permit; and holidays, breaks, sick time, and annual leave. Thus, we can expect a new EPSII to generate an average of $37,797 in permit administration fees during the year. These fees do not cover the $41,418 annual salary cost of this employee, much less the benefits, allocated costs, and indirect costs.

Over time, we may be able to increase the amount of hours a given employee spends providing direct permit service work. Billing records indicate that individual staff has been able to reach as high as 82% (1,267 hours per year) direct permit service work over a given fiscal year. At this individually high rate, our example EPSII would be able to cover their annual salary, but would not be able to cover the other costs associated with having them on staff. While we may be able to eliminate some non-billable time, the other program work does not completely disappear and must be done by other staff. We expect to be able to obtain some increased efficiencies over time, but we cannot quantify how much.

We conclude that we can not quantify a significant change in the overall cost of the Title I permit program by increasing the time staff spends providing direct permit services. While not quantified in this report, we will work to increase the portion of time staff spends in direct permit service and to decrease their non-billable time.

4.3.3. Allow Carry Over Authority for Title I

Alaska Statutes provide for fees to cover the costs of the Title I program. Fees collected for Title I work are deposited into the Emission Control Permit Receipts Account (ECPRA) under AS 46.14.265.

The Program has previously used general funds and grants to help finance the Title I program. Managing the accounts requires care to ensure adequate resources to pay for each program through the fiscal year. Problems arise when Title I fees meant to cover services for the next fiscal year are received near the end of the previous fiscal year. The Title I fee must be completely spent by the end of the fiscal year or be returned to the state's general fund. This can be corrected by changing the Title I ECPRA to allow carryover funds. Carryover authority will ensure that there is no disruption in delivery of Title I services.   Without carryover authority, the risks to services of the Program include:

- Cutbacks in Title I services due to non-receipt of fee revenue at the end of Fiscal year

[5] Annual billed hours divided by annual total hours recorded in billing system.

- Loss of program momentum
- Loss of staff
- Economic disruption to the state economy
- Non-compliance with state statute and federal law

4.3.4. Increase in General Funds

In FY10, the Air Permits Program received $150,372 in federal grant and matching funds and $248,492 in general funds. Federal grant funding has been decreasing, and we expect the trend to continue. General funds are projected to be at stable funding levels. Current funding will be required to pay for other program costs as discussed in Part III.

Unlike other regulatory programs that receive up to 60% of the funding from federal or general funds, the Air Permits Program is designed to be entirely funded by permit fees. In particular, federal law requires that the Title V permit program be 100% funded by permit fees.

Based on comments in the 2006 emission fee report from the Workgroup and Alaska Oil and Gas Association, there is support to pursue increased General Funds to support the Air Permits Program. Since federal law requires the Title V permits to be funded through fees, all general funds received will be applied to Title I activities, not Title V. Should general fund appropriation be increased, the Program would understand that any increase in general funds would be applied to a reduction in the Title I Emission Fee rate, and the Program would pursue an emission fee rate regulatory adjustment.

4.3.5. Emission Fee Structure and Implementation

Air Quality Control Regulations 18 AAC 50.410 outlines the emission fee rate. The current 18 AAC 50.410 will be repealed and readopted to reflect the final emission rates as set out by Tables 13 and 15.

Part V: Conclusion

5.1. Summary of Report Process

This Report has met the requirements under AS 46.14.250(f). The Department, through this Report, has made every effort to have a transparent process that allows for a full disclosure of the data, information, and analysis used to make informed decisions for the delivery of Program services to the public and the regulated community.

The primary authors of this Report acknowledge the efforts and commitment of the many individuals and entities that assisted the Division of Air Quality in the successful conclusion of this endeavor.

5.2. Findings

- Permit administration fixed fees should be adjusted as described in Part II;
- The Title V emission fee rate should be set at $19.32 per ton allocated to the Clean Air Protection Fund (CAPF).
- The Title I emission fee rate should be set at $9.25 per ton allocated to the Emission Control Permit Receipts Account (ECPRA).
- Emission fee rates should be established on four-year averages of projected revenue and program costs, and the governing regulations 18 AAC 50.410 should be revised;
- The Department will further explore carry over authority for the Emission Control Permit Receipts Account (ECPRA).