

The California State Auditor released the following report today:

## San Joaquin Valley Air Pollution Control District

*To Cover Its Costs, It Recently Increased Permit Fees and Continues to Use Supplemental Revenue but Can Improve Consistency and Transparency for Certain Program Requirements*

### BACKGROUND

Formed through a merger of existing county districts covering eight central valley counties, the San Joaquin Valley Air Pollution Control District (district) adopts rules designed to meet the air quality standards set by the U.S. Environmental Protection Agency (U.S. EPA) for the San Joaquin Valley. This area is highly susceptible to air pollution because of its climate, transportation infrastructure, industrial demographics, and geography. The counties within the district are among the most polluted the U.S. EPA has measured for small particle pollution—particles found in the air such as dirt, dust, soot, smoke, and liquid droplets that are less than 2.5 micrometers and small enough to lodge deeply in the lungs. Every person or entity which operates a stationary source of air contaminants—like a power plant—must pay a fee to obtain a permit from the district.

### KEY FINDINGS

During our audit of the district and its implementation of certain program requirements, we noted the following:

- Although allowable, the permit fees charged by the district are not sufficient to cover its regulatory costs for inspections and review activities. Thus, the district uses revenue from other sources including penalties, interest earned, and state and federal grants to supplement its permit fee revenue.
  - ✓ Only 39 percent of the district's annual average operating revenue for fiscal years 2010-11 through 2014-15 came from its permit fees.
  - ✓ For a selection of 13 special program fees it assesses, the revenue generated in fiscal year 2013-14 did not cover the related expenditures for inspections and review activities—in fact for 10 of the programs, the fee revenue covered less than half of the related expenditures.
  - ✓ The district's most recent fee increase will not cover all the costs—we estimated that the fee revenue will continue to be 15 percent to 86 percent below the costs of the respective regulatory activities. Therefore, the district will still need to use a portion of the other revenue it receives to supplement fee revenue.
- The district can improve the consistency or transparency for some of its program requirements.
  - ✓ It uses discretion to make the final decision as to whether to require an indemnification agreement and a letter of credit, and it did not always follow its published policy or internal methodology.
  - ✓ It does not have an adequate system for requesting, maintaining, and tracking indemnification agreements and letters of credit.

### KEY RECOMMENDATIONS

We made several recommendations to the district, including the following:

- Update its internal methodology to contain equivalent information to reflect its revised published policy.
- After updating its guidance documents, adhere to policy and internal methodology for requiring indemnification agreements and letters of credit.
- Develop protocols for managing its centralized system for requesting, tracking, storing, and following up on indemnification agreements and letters of credit.