

IOWA DEPARTMENT OF NATURAL RESOURCES

LEADING IOWANS IN CARING FOR OUR NATURAL RESOURCES

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Funding Limited – Response to Inquiry

Date: July 20, 2017
From: Catharine Fitzsimmons, Air Quality Bureau Chief
To: 2017 Air Quality Program Funding Work Group
Re: Stakeholder requested analysis

Request: Provide information on the impact to services if the funding deficits remain.

There are included in today's meeting materials three documents I will primarily be referring to in this memo to illustrate the extent and consequences of retaining the current funding regime. The first is entitled "Response to Inquiry – Funding Limited Data." The other two documents are referred to later in this memo.

Issue: The current budget shortfalls are the result of a lack of hourly data on which to set the fees when they were established in late 2015. In addition, the inability to complete a time study resulted in not having data available to characterize indirect costs adequately which resulted in setting fee levels that generally only cover about two-thirds of the direct and indirect cost of the programs. Also, no start-up monies were provided to facilitate the transition to a new fee structure. Staff reductions cannot solve the under-funding issue without addressing the fundamental flaw in the fee rate calculations.

How did we get here? In late 2015, DNR worked with stakeholders to develop fees to cover the direct and indirect costs of 1) Major construction permit application review and issuance, 2) Minor construction permit application review and issuance, 3) Title V application review and issuance, and 4) Asbestos notification submissions. Billable hourly rates were set for Major construction permit, and Title V permit application review and issuance processes. Flat fees were established for Minor source application review and permit issuance, template submissions, and Asbestos notification submissions. Due to the necessity to implement these new funding mechanisms to continue to provide services to businesses and industry, the department utilized suggested direct and indirect ratios to calculate fees. Unfortunately, those ratios were not correctly set as evidenced by data reported to the Work Group in prior meetings. This evaluation of the costs has led to DNR proposing to make some staffing level changes to better address the current workloads in the programs, and seek stakeholder input on addressing other program areas.

In developing the fee structures in 2015, indirect costs of the programs were significantly underestimated, and staff were directed to bill only for hours directly spent on projects at those

incorrect rates. This has resulted in an updated air quality bureau budget that indicates a \$1,635,250 (or 13%) shortfall of needed revenue to match planned expenses.

Absent support for addressing these shortfalls with additional funding, the Bureau would potentially suffer a loss of staffing of 14 of the current 73.5 employees, significant backlogs of permitting projects, and continuing budgetary shortfalls.

Funding for each program area is non-fungible, so shortfalls in some areas cannot be made-up with other funds. An analysis of the financial and staffing resources that would result from a lower level of funding to provide for the direct and indirect costs of running the air quality program are included in the "Response to Inquiry..." document and below in this memo.

Descriptions of the impacts to services are described on a program by program basis below to the best of our ability. However, it is even more difficult to predict how a reduction in staff in one program area would impact other program areas. For example, Title V permitting staff rely on Construction permitting staff to quickly remedy issues discovered in operating permits by working with applicants to resolve synthetic minor or other issues. A reduction in staff will have a ripple effect that is difficult to quantify.

Title V Emissions Fee Account: No additional shortfalls are predicted for SFY18. In late 2016, the bureau undertook an effort to address reductions in Title V emission fees, by eliminating funding for local program modifications of Title V permits, reducing the ambient monitoring network by 24%, reducing the services provided by the Small Business Technical program at UNI by half, and making other expense reductions, reducing stack testing technical assistance, planning assistance and reducing regional and local dispersion modeling and permit data entry - totaling a decrease of \$1,350,000.

Title V Permitting Program: It is anticipated that the Title V application review and permitting program, with 11.5 staff will not have the revenues necessary to fund those staff. Due to a shortfall in billable hourly fees in FY17, carried forward to the FY18 budget, the bureau expects there to be a \$871,000 shortfall that could result in reducing the staffing compliment to 3. At the current hourly billing level of \$100/hour, the 3 staff working on the annually anticipated 58 permit renewals, would not have the capacity to bill enough hours of work to pay for their own salaries, benefits, and indirect costs. The permit backlog would immediately increase and result in devastating the current permit application turnaround time from 86 days, to years. (See handout "Effects on Title V Permitting Work Load from Potential Reduction in Staff" document in the meeting materials and on the Workgroup website.)

Major Source Construction Permitting Program: It is anticipated that the Major source construction application review and permitting program, with a complement of 14.75 staff, would experience a 29% loss of staff (4.27 staff members) if a funding shortfall this year of \$544,370, is not funded. The funding shortfall will develop during the year as fees collected on a billable hour basis of \$115 per hour, will fall significantly short of meeting the actual direct and indirect cost of the staff. Because the marginal indirect funding included in the hourly rate is such a small fraction of the actual indirect costs, reducing staff will not address the shortfall. As

staff are reduced, their capacity to bill enough hours of work to pay for their own salaries, benefits, and indirect costs decreases. It is estimated that for every 25 projects that are added to the backlog, the permit issuance time would increase by 22 days. A reduction in 4-5 staff would grow the backlog by 25 projects every 3 months resulting in a rapidly compounding effect on permit issuance times. Delays in having staff available to review and approve dispersion modeling protocols, review submitted models, and conduct modeling would occur. Current turn-around time for most modeling activities is 2 weeks or less. Elimination of a dispersion modeler could increase the turn-around time by 50% or more. (See handout "Effects on Construction Permitting Work Load from Potential Reduction in Staff".)

Minor Source Construction Permitting Program: Minor source construction permitting is currently staffed at a 5 staff level. Funding shortfalls of \$144,900 could require a 23% reduction of staffing to 3.85 staff members working on these projects. The flat fee rate currently paid for each permit application is \$385. This money is matched 40%:60% by state and federal funds at the level of \$578. However, the amount of match has been shown to be deficient for the level of work (hours of direct and indirect time) to issue these permits. Minor source permits can take more time to issue an equivalent permit than a major source permit. Minor source representatives often have much less experience at putting together applications, and also frequently request assistance in developing plans to stay out of major source status by requesting additional emission limits or operating conditions.

Because the federal funds and state funds for matching the applicants fee is likely to be decreased (up to 30%), that burden could also decrease funding for permitting these sources even further. It is anticipated that any reduction in staffing in the minor source program would result in permit issuance and modeling time increases similar to those projected for Major source construction permitting.

Federal and State Grants Supported Programs: As outlined in a June 21, 2017 memo ("Federal Appropriations Reductions Memo" to the Work Group, the department is awaiting the finalization of the federal Clean Air Act sections 103 & 105 grants appropriation bill for federal fiscal year 2018. The president's budget recommends a 30% reduction in both grants, as well as a new requirement to match the section 103 grant. The FY2018 budget summary does not reflect any reduction at this time. The most recent Congressional action has sustained the current funding level plus a reversion of some of the current year's funding. In addition there remains interest at the federal level in making reductions to those appropriations.

State general fund revenues continue to decline and at the start of the 2018 legislative session new revenue projections may result in a reversion of current state fiscal year funding.

Asbestos Notification Program: The asbestos notification program is currently staffed at less than two-thirds of the level requested by stakeholders in the 2014 Funding Work Group. In the interim between the time workload analysis were conducted and the current time, asbestos notifications have declined (see power point presentation "Slides for Printing" from June 21,

2017 meeting of this Work Group. Because of this, the program revenue will now only support 1.5 staff members to cover asbestos activities state-wide.

On July 19, 2017, in a subcommittee meeting comprised of asbestos contractors, increasing the funds collected for each notification from \$100 to \$200 was endorsed. The subcommittee also requested that one position be dedicated to providing technical and regulatory training to asbestos renovation and demolition contractors, cities, schools, and general contractor organizations. If the funding deficit is not addressed, all asbestos activities will fall on one staff member, and one-half of a clerical staff person's time.

Summary: Services provided by 14 Title V and Construction permitting staff are at risk of being lost if the lack of funds for indirect expenses necessary to operating the air quality program is not addressed. We appreciate your assistance in providing recommendations for both improving our services, increasing efficiencies, and properly determining service user fees.