



November 8, 2025

RESULTS OF THE FY26-27 COST RECOVERY ANALYSIS

The San Diego County Air Pollution Control District (SDAPCD or District) retained Matrix Consulting Group to update its Cost Recovery Study. The following memo provides a background of the project scope, the legal framework within which the cost recovery study was conducted, the methodology used to conduct the study, modifications to the current cost recovery model, the overall results, and the recommended cost recovery scenario.

PROJECT BACKGROUND AND HISTORY

The California Health and Safety Code Sections 41512 and 42311 allow the District to recover the full costs associated with the renewal, evaluation, and issuance of permits as well as costs related to emission measurements ("source tests"), asbestos notifications, and emissions inventory services. These sections also provide limits on fee increases for permit to operate and authority to construct permits, restricting aggregate increase in fees (or total revenue) to 15% annually. Based upon this legal authority, the District has a goal to review its fees every year to ensure that all fee-related costs are captured and maximum cost recovery is achieved.

In 2020, the State Auditor issued a report regarding SDAPCD, which identified that fee-related expenses were not being fully recovered. As a result of these findings, the SDAPCD conducted its first external fee evaluation in 2021, with study results presented and adopted by the SDAPCD Governing Board in May 2021¹. Before implementing fee increases in 2021, the District had not raised fees in three years.

At the end of 2021, the Matrix Consulting Group worked with the District to conduct an update to the study conducted earlier in 2021. This update incorporated staffing and budgetary adjustments as well as several fee program modifications. The results of this analysis were presented and adopted by the Board for implementation on January 1, 2022. In April 2022, the Board adopted a new Fiscal Year 2022-23 fee package for implementation on July 1, 2022; and the District has worked annually with Matrix Consulting Group to update fees.

As part of the continuing effort to ensure that fees cover the costs associated with their activities, the District is now updating its fees for implementation in 2026. The goal of this study was to update the analysis from last year based on new inputs associated with staffing, costs, workload, and any changes in fee structures.

LEGAL FRAMEWORK

The California Health and Safety Code and Proposition 26 are the two primary legal frameworks governing the fees and revenue requirements for Air Pollution Control Districts. Proposition 26 considers all charges imposed by a local government as a tax, except for the following seven exceptions:

¹ A link to the 2021 Matrix Consulting Group report can be found at: [Cost Recovery Report](#)

1. **Fees and Charges for Specific Benefit Conferred or Privilege Granted:** This is in relation to a payor receiving a service that is only provided to that payor specifically, and the costs for this must not exceed the reasonable costs of providing that service.
2. **Fees and Charges for Specific Government Service or Product Provided:** This is similar to the first exception and is directly in relation to a service or tangible product received, and it must not exceed the reasonable cost of that service or product. This is the exception that is used for “user fees”.
3. **Regulatory Fees and Charges:** This is in relation to issuing licenses and permits, performing investigations, inspections, audits, and administrative enforcement of regulated activities. These charges must be based on reasonable regulatory costs.
4. **Use of Government Property:** This is in relation to using park or government facilities, so purchase, rental or lease of any government owned property.
5. **Fines and Penalties:** This is in relation to any charges that are imposed as a result of violation of local or state regulations.
6. **Fees and Charges Imposed as Condition of Development:** This is in relation to impact fees and requires a nexus of how the development has a specific correlation to the impact.
7. **Property Related Fees and Charges and Assessments:** This is in relation to utility / service fees that are imposed in relation to the property such as water, sewer, trash, etc.

The Air District's fees fall under the exception #3 primarily with a handful of fees that are under exception #2. The language of Proposition 26 states that the local government must ensure that the fees imposed for any of these exceptions are based upon the reasonable costs necessary to cover those activities or provide those services. Additionally, there should be a reasonable relationship that exists between the cost and the benefit borne by the payors of these fees.

The Cost Recovery Model (provided under separate cover to the District) calculates the full cost of conducting regulatory activity and providing any fees for service. These costs include the direct (e.g., hands on staff conducting inspections for compliance and reviewing applications), as well as indirect support associated with those activities (i.e., permit processing, rule development, human resources, finance, IT, etc.). The District also ensures that it follows all state and federal guidelines in relation to conducting any compliance inspections or application reviews to ensure that the fee payor is only paying for their fair share of services received. Unnecessary application reviews and inspections are not imposed upon the facility. Any fines and violations for lack of compliance would be imposed separately outside of the fee process.

This study calculates the full cost (direct and indirect) associated with each fee line item assessed by the District. Therefore, for each individual fixed fee, renewal fee, source test fee, asbestos, or hearing board item, it is ensured that the total fee proposed or recommended does not exceed the full cost of providing the service.

For example, in Rule 40, for Schedule 1X there is a current fixed application fee of \$841. Through the FY26-27 Cost Recovery Study, the full cost calculated for this fee is \$1,367. The District is proposing to increase all fixed application fees by a maximum of 15%, resulting in the recommended fee being \$967.

The proposed fee of \$967 does not exceed the full cost of \$1,367. Conversely, Schedule 6X shows a current fixed application fee of \$883 and full cost of \$911. In this situation, even though a maximum 15% fee increase is proposed for fixed application fees, because the full cost exceeds the current fee, the proposed or recommended fee is \$911, a 3% increase to match the full cost.

Therefore, as the examples demonstrate, even though the District applies a recommended maximum fee percentage increase across the board to a fee schedule, each individual fee is evaluated to ensure that it does not exceed the maximum justifiable full cost fee calculated through the cost recovery model.

METHODOLOGY

The work accomplished by the Matrix Consulting Group, in partnership with District staff, to develop the full cost of fee-based services involved the following steps:

- **Staff Interviews:** The project team met with District staff to discuss and determine fee structure modifications and time estimate assumptions.
 - Staff provided insight regarding changes that needed to be made to the current fee structure.
 - Staff confirmed previous or provided updated time estimates associated with application processing, review, inspection, and source testing services. These estimates represent average times and exclude extremely difficult or abnormally simple projects.

All fee schedule modifications and time estimate assumptions were reviewed by the project team for “reasonableness”, as well as with District management.

- **Cost Analysis:** Fiscal Year 2025 / 2026 budget and staffing documents were provided by the District. This information was then entered into the Matrix Consulting Group’s analytical software model where several cost components were calculated for each fee or service. The components then build upon each other to comprise the total cost for providing the service.

The methodology employed by the Matrix Consulting Group is a widely accepted “bottom up” approach to cost analysis. This methodology evaluates each individual fee line item and calculates its full cost (direct and indirect) based upon two components:

1. **Time Estimates:** The time it takes to provide the individual service, regardless of how many are performed annually.
2. **Fully Burdened Hourly Rate:** The hourly rate consists of the salaries, benefits, productive working hours², services and supplies³, program overhead⁴, and districtwide overhead⁵. It reflects the cost to the District of the position providing the service. It does not reflect the take home pay of the position.

² The productive working hours reflect a reduction from 2,080 annual hours to 1,641 hours to account for vacation, holiday, sick leave, breaks, and trainings.

³ This captures the overhead costs associated with operating expenses for a program such as vehicles, fuel, software, etc.

⁴ This reflects support from clerical and supervisory staff to oversee the activities, as well as general support activities related to permits, inspections, and applications.

⁵ This reflects the support provided by the Board, Rule Development, Support Services, and Administration.

The time estimates are multiplied by the fully burdened hourly rate to calculate the full cost for each individual line item on the fee schedule.

For example, for Schedule 3W the full cost for application evaluation is calculated by taking the estimated time associated with each position classification (0.30 hours for the Sr. Engineer and 2.2 hours for the Associate Engineer) and multiplying it by their respective fully burdened hourly rates (\$347.55 and \$323.69) to arrive at the full cost of \$816. In order to calculate the estimated annual cost associated with these activities, the \$816 is multiplied by the number of fixed fee applications processed during the previous fiscal year. This allows the District to represent the annual cost of administering the specific services for which fees are assessed, rather than the cost of the overall program.

MODIFICATIONS TO THE CURRENT COST RECOVERY MODEL

All cost recovery studies are a snapshot in time. The FY25-26 study focused on FY24-25 adopted budget and staffing, as well as FY23-24 completed workload information. Due to the nature of fee studies, the cost assumptions utilized to develop the fees are typically backward-looking and based upon the current adopted budget for future fee increases. The concept being that future costs should generally be reflective of current costs. For the FY26-27 Cost Recovery Model, the project team incorporated the following data and assumptions:

- FY25-26 Adopted Budget for District Programs showing personnel and operating expenditures
- FY25-26 Adopted Staffing Levels showing updated staffing levels and staffing costs
- FY24-25 Completed Workload Information
- July 2025 Adopted Fee Amounts
- Emissions Inventory Fixed Fee (discussed below)

These model inputs ensured that the FY26-27 model was updated consistently with the current cost recovery model methodology. It also ensures that future fee increases are based upon the most recent cost, organizational structure of the District, and fee-related processes.

EMISSIONS INVENTORY FIXED FEE

The District is proposing the addition of a new provision to Rule 40 (f)(12) to recover costs for the staff effort associated with reviewing Emissions Inventory for specific types of facilities. These facilities would pay a flat rate in lieu of the time and material fee that was implemented in the previous fee update. Facilities subject to emissions inventory requirements would either pay this proposed new fixed fee OR pay the time and material fee; they would not be billed both.

There is currently no dedicated fee-related mechanism for recovering emissions inventory costs associated with facilities not subject to the time and material fee included in Rule 40. Currently, these costs are covered through other funding sources, rather than fees for service, which conflicts with the District's audit findings that require fee-related services to be offset by fee-related revenue. For purposes of this year's cost recovery analysis this proposed flat fee item has been captured as part of the Emissions Inventory category to show the full potential revenue impact associated with this service area to the District.

Staff applied a methodology consistent with that described above to develop a proposed fee for facilities that were not previously subject to emission inventory fees. Amendments to State law adopted in 2021 expanded the emission inventory program to include these additional facilities. The proposed fee is designed to recover the District's costs associated with preparing emission inventory reports for these sources.

The proposed fee was derived using 2025 labor data to estimate the time required to prepare inventories for the newly included facilities. Specifically, based on labor data review, staff estimated that preparation of each inventory requires approximately 0.8 hours of Associate Engineer labor. Multiplying the calculated labor by the fully burdened hourly rate of \$323.69 results in a total cost of \$259 per inventory review.

COST RECOVERY RESULTS

When comparing FY 25-26 fee-related expenditures⁶ with fee-related revenue based upon the FY24-25 workload, including the emissions inventory services discussed above, the District is currently providing a fee-related subsidy of approximately \$1.7 million or recovering approximately 90% of annual fee-related costs. The following table outlines the District's existing cost recovery levels by major fee category assessed by the District:

TABLE 1: FY26 (EXISTING) ANNUAL COST RECOVERY ANALYSIS

Fee Category ⁷	Revenue at Current Fee	Total Fee-Related Annual Cost	Difference	Cost Recovery %
Initial Application Fees	\$105,502	\$147,234	(\$41,732)	72%
Renewal Fees	\$6,860,497	\$7,269,111	(\$408,614)	94%
Source Testing Fees	\$1,171,928	\$1,614,619	(\$442,691)	73%
Asbestos Fees	\$1,161,959	\$1,165,116	(\$3,157)	100%
Time & Material Fees	\$4,384,586	\$4,533,936	(\$149,350)	97%
Processing Fees	\$666,751	\$728,523	(\$61,772)	92%
Emissions Inventory	\$394,161	\$988,404	(\$594,243)	40%
TOTAL	\$14,745,384	\$16,446,944	(\$1,701,560)	90%

The revenue at the current fee represents the projected current revenue based on the District's current fee being assessed and the workload from the prior year. It is important to stress that the fee categories above represent estimated revenue and costs for a range of services provided under each fee category and are not inclusive of other non-fee-related components within a program. The annual cost is only reflective of fee-related support provided for those activities and does not encompass the entire program.

For the emissions inventory category, this includes both the current T&M fee, but also the new proposed fixed fee. The low cost recovery for that fee category reflects that there is no dedicated fee-related

⁶ Fee-related expenditures only refers to the annual costs associated with fee-related activities. It does not include other non-fee related components within a program. For example, Compliance has a Mobile Source unit, whose cost is not included in this calculation as that cost is not permit or fee related.

⁷ Fee-related revenue and costs associated with Hearing Board have been excluded as no changes are being proposed.

revenue currently for the new proposed fixed fee. Those activities are currently offset by other funding sources, similar to how the current deficit for other categories is also offset by other funding sources.

COST RECOVERY RECOMMENDATION

Last fiscal year, the Board adopted a fee increase scenario targeted at increasing all fees subject to the 15% aggregate fee increase limit. The California Health and Safety Code Section 41512.7(d)(2) states that the District can increase individual fees for service for permit to operate and authority to construct permits as long as the total increase, which is interpreted as total revenue generated by those fee categories, does not exceed more than 15% in a single fiscal year.

The District has traditionally followed this Health and Safety Code guideline by applying it to Application Fees, Renewal Fees, Time and Material, and Processing Fee categories, as those fees fall under the “permit to operate” and “authority to construct” permit categories. For all other fee categories the District is not bound to any limits on fee or revenue increases other than the requirement that the fee cannot exceed the cost of providing the service.

The following table summarizes, by major fee category, the current estimated cost recovery percentage (FY25-26), whether it is subject to the Individual / Aggregate Fee increase limit of 15%, the maximum projected fee increase percentage for FY26-27, and the resulting FY26-27 Cost Recovery percentage:

TABLE 2: PROPOSED COST RECOVERY ANALYSIS BY FEE CATEGORY FOR FY26-27

Fee Category	Current Cost Recovery %	Subject to Individual / Aggregate Cap of 15%?	Max FY26-27 Fee Inc. %	FY26-27 Cost Recovery %
Initial Application Fees	72%	Yes	15%	82%
Renewal Fees	94%	Yes	15%	98%
Source Testing Fees	73%	No	15%	83%
Asbestos Fees	100%	No	4% ⁸	100%
Time & Material Fees	97%	Yes	15%	100%
Processing Fees	92%	Yes	10%	100%
Emissions Inventory	40%	Yes	4% ⁹	100%

The highlighted rows in the table above represent those categories that are subject to the 15% fee increase limit, meaning either the individual fees or the total increase in fee-related revenue for all of those fees combined cannot exceed 15%. As the table indicates, for fee categories that are subject to the 15% increase cap, the proposed fee increases are all set at a maximum of 15%.

The following table shows, for each of the major fee categories, the current revenue based on FY25-26 budgeted staffing and expenditure costs and FY24-25 workload, the projected revenue at the proposed FY26-27 percentage increase, and the resulting revenue change:

⁸ Only proposing to increase by 4% as these fees are already at full cost recovery and only cost increases are those based on CPI. The limited increase is due to the consolidation / streamlining of Asbestos fees, so previous rate payers may see more than a 4% increase compared to fees paid in prior years.

⁹ Only requires a 4% increase associated with CPI to maintain the cost recovery level for the hourly rate-based Emission Inventory fee, and the fixed fee for Emission Inventory is new, so there is no need for an anticipated increase, as that fee is being proposed at full cost recovery.

TABLE 3: PROPOSED REVENUE INCREASE IMPACTS

Fee Category	Revenue at Current Fee	Total Projected Revenue	\$ Difference
Initial Application Fees	\$105,502	\$120,195	\$14,693
Renewal Fees	\$6,860,497	\$7,112,710	\$252,213
Source Testing Fees	\$1,171,928	\$1,346,453	\$174,525
Asbestos Fees	\$1,161,959	\$1,165,116	\$3,157
Time & Material Fees	\$4,384,586	\$4,512,663	\$128,078
Processing Fees	\$666,751	\$726,994	\$60,243
Emissions Inventory	\$394,161	\$988,404	\$594,243
TOTAL	\$14,745,384	\$15,972,536	\$1,227,153

The District's total fee-related revenue would be projected to increase to approximately \$15.9 million and / or generate an additional \$1.2 million in revenue. This \$1.2 million represents an 8% increase in revenue.

When the District first began this study process in 2021, the fee-for-service cost recovery was approximately 66%. This is the District's sixth year of conducting the study and update, and it is projected to increase overall fee-for-service cost recovery to approximately 97%. The original study estimated that it would take the District more than 5 years to reach maximum cost recovery (barring significant operational or cost changes). As such, the District has made substantial progress toward achieving maximum fee-related cost recovery.

As the District approaches cost recovery, there will be less need for significant annual fee increases. Once fee-related cost recovery is achieved, yearly fee increases will only need to match the annual increases in personnel and operating expenditures. However, this will still vary based on the individual fees, as some fees are already close to full cost recovery, and others may still require significant increases to achieve higher cost recovery.

The following table summarizes the advantages and disadvantages of the proposed fee increases from the perspective of internal (District) and external (permit and fee holders) stakeholders:

TABLE 4: COST RECOVERY RECOMMENDATION – ADVANTAGES AND DISADVANTAGES

Advantages	Disadvantages
<ul style="list-style-type: none"> Internal: Increased revenue for the District. External: No fee increases for Hearing Board or Asbestos other than cost adjustments. External: Continued focus on ensuring that receivers of the service are paying for their fair share of the service. 	<ul style="list-style-type: none"> External: Continued fees increase for rate payors.

The proposed fee increases are consistent with previously adopted Board practices, enable the District to continue its movement towards increasing cost recovery, and apply fee increases based upon the estimated level of cost recovery.