

**State Water Resources Control Board
NPDES Fee Stakeholder Workshop
July 6, 2011**

Staff Report

At the request of the State Water Resources Control Board (State Water Board), the NPDES Fee Workgroup (Workgroup) has been meeting since 2010 to discuss methodologies for assessing fees for NPDES permit holders. After several meetings, the Workgroup has developed four scenarios. One scenario is based on a straight percentage increase to all NPDES fee payers. The other three scenarios follow a Sector Allocation methodology that is based on a work effort model that uses the 2001 Core Regulatory Program Needs Analysis (Needs Analysis) to approximate the workload associated with each sector, and grouped dischargers into three sectors: Municipals, Generals, and Industrials. Each sector was then allocated a percentage of the program's costs based on the model. For the purposes of evaluating fee methodologies and comparing their different impacts, the Workgroup also made a request to separate the Industrial sector into two sectors, Industrials and Steam Electric Power Plants (SEPPs), and delineate the original Industrial sector's program cost between the two new sectors.

To meet the Governor's proposed budgetary expenditures for Fiscal Year (FY) 2011-12, the NPDES program must generate \$21 million in revenue. The chart below shows what each sector would pay if the State Water Board adopts a sector allocation approach based solely on the workload estimates reported in the Needs Analysis.

Chart 1

Sector	Needs Analysis	
	Total Revenue	Percentage of Revenue
General	\$5,358,287	25.3%
Municipal	\$8,683,390	41.0%
Industrial (including SEPP)	\$7,137,323	33.7%
Totals:	\$21,179,000	100%
Industrial (without SEPP)	\$6,290,163	29.7%
SEPP	\$847,160	4.0%

Also included in these discussions was a proposal to assess fees based on actual flow instead of design flow [flow is measured in millions of gallons per day (MGD)], and a proposal to eliminate the industrial category surcharge. The Workgroup concluded that the current method of using design flow made more sense based on the following:

- The high flow facilities would meet the maximum fee cap using both design and actual flow;
- The low flow facilities would not see much of a change because they generally operate close to the their design flow levels;
- The Workgroup had established predictability from year-to-year of fee levels as one if its key principles and using actual flows would cause the fees for many to vary from year-to-year; and
- A switch to actual flow would create additional workload and costs for the State Water Board, Regional Boards, and dischargers for the required monitoring and reporting.

The Workgroup is proposing to build the NPDES industrial category surcharge into the base fee for all NPDES fee payers in the proposed scenarios (except for the Status Quo where it would remain as a surcharge).

Scenario 1: Status Quo

Scenario 1 would raise NPDES fees by approximately 39.5 percent above the FY 2010-11 fee schedule. The Status Quo methodology is calculated on the volume of flow discharged by a facility as opposed to the Sector Allocation methodology. Chart 1A shows the FY 2011-12 fee schedule in comparison to the FY 2010-11 fee schedule.

Chart 1A

Scenario 1 - Fee Schedule			
	FY 10-11	FY 11-12	Percent Increase
Base	\$1,000	\$1,395	39.5%
Cost per MGD	\$1,768	\$2,467	39.5%
Maximum Cap*	\$250,000	\$348,775	39.5%
General Cat 1	\$5,760	\$8,036	39.5%
General Cat 2	\$3,480	\$4,855	39.5%
General Cat 3	\$1,200	\$1,674	39.5%

*Does not include the Industrial category surcharge, pretreatment surcharge or wet weather fee.

Chart 1B below shows the estimated revenue and the percentage of revenue generated by each sector for FY 2011-12 based on the Status Quo fee schedule and what each sector would pay if the State Water Board adopts a sector allocation approach based on the Needs Analysis. For evaluation purposes, the following scenarios will compare total revenue and percentage of revenue generated by each sector to the Status Quo.

Chart 1B

Sector	Status Quo		Sector Allocation	
	Total Revenue	Percentage of Revenue	Total Revenue	Percentage of Revenue
General	\$3,991,102	18.9%	\$5,358,287	25.3%
Municipal	\$8,410,287	39.8%	\$8,683,390	41.0%
Industrial (including SEPP)	\$8,706,804	41.2%	\$7,137,323	33.7%
Totals:	\$21,108,193	100%	\$21,179,000	100%
Industrial	\$2,603,623	12.3%	\$6,290,163	29.7%
SEPP	\$6,103,181	28.9%	\$847,160	4.0%

Scenario 2: Sector Allocation Approach

Scenario 2 would bring each sector's fee revenue in line with the workload sector allocation based on the Needs Analysis. The Industrial sector would see the largest increase, approximately 173 percent, compared to the Status Quo. To help mitigate the effects of the large increase on the Industrial fee payers, the SEPP sector proposes to subsidize the Industrial sector by paying one percent over their sector allocation. Chart 2A below compares this scenario to the Status Quo model for FY 2011-12 and shows the percentage of change in total revenue for each sector. To achieve the necessary fee revenue for FY 2011-12, each sector would have a separate fee schedule, as shown

below in Chart 2B. Under Scenario 2, SEPP sector revenue decreases by approximately 24 percent, Municipal sector revenue remains neutral, General sector revenue increases by approximately six percent, and Industrial sector revenue increases by approximately 16 percent.

Chart 2A		Status Quo		Scenario 2		Total Revenue Change	Net Program Revenue Percent Change
Sector	Total Revenue	Percentage of Revenue	Total Revenue	Percentage of Revenue			
General	\$3,991,102	18.9%	\$5,312,506	25.3%	\$1,321,404	6.4%	
Municipal	\$8,410,287	39.8%	\$8,609,313	41.0%	\$199,026	1.2%	
Industrial	\$2,603,623	12.3%	\$6,021,243	28.7%	\$3,417,620	16.3%	
SEPP	\$6,103,181	28.9%	\$1,057,400	5.0%	-\$5,045,781	-23.9%	
Totals:	\$21,108,193	100%	\$21,000,462	100%			
Industrial/SEPP	\$8,706,804	41.2%	\$7,078,643	33.7%	-\$1,628,161	-7.5%	

Chart 2B

Scenario 2 - Fee Schedule					
	Status Quo	General	Municipal	Industrial	SEPP
Base	\$1,395		\$2,674	\$2,200	\$62,200
Cost per MGD	\$2,467		\$2,652	\$8,108	
Maximum Cap*	\$348,775		\$280,000	\$450,000	\$62,200
General Cat 1	\$8,036	\$10,696			
General Cat 2	\$4,855	\$6,462			
General Cat 3	\$1,674	\$2,228			

*Does not include the pretreatment surcharge or wet weather fee.

Scenario 3: Combined Industrial/SEPP Sector Approach

Scenario 3 brings each sector's fee revenue in line with their sector allocation; however, this scenario differs in that it combines the Industrial and SEPP sectors into one sector, as they were in the Needs Analysis, to generate a group target revenue of approximately 33.7 percent. The Workgroup also proposed to increase the base fee above the General Category 3 permit fee because this type of permit requires less State Water Board staff work than the individual permits, but currently has a higher fee than the base. Chart 3A below compares this scenario to the Status Quo model for FY 2011-12 and shows the percentage of change in total revenue for each sector. Chart 3B shows the proposed fee schedule for this scenario in comparison to the Status Quo. Compared to the Status Quo, under Scenario 3, the combined Industrial/SEPP sector revenue decreases by approximately seven percent, Municipal sector revenue remains neutral, and General sector revenue increases by approximately six percent. However, the decrease in revenue for the combined Industrial/SEPP sector in this scenario is allocated entirely for the SEPP sector. Fees for the Industrial sector will remain unchanged from the Status Quo.

Chart 3A

Sector	Status Quo		Scenario 3		Total Revenue Change	Net Program Revenue Percent Change
	Total Revenue	Percentage of Revenue	Total Revenue	Percentage of Revenue		
General	\$3,991,102	18.9%	\$5,312,506	25.3%	\$1,321,404	6.4%
Municipal	\$8,410,287	39.8%	\$8,600,365	41.0%	\$190,078	1.1%
Industrial/SEPP	\$8,706,804	41.2%	\$7,084,979	33.7%	-\$1,621,825	-7.5%
Totals:	\$21,108,193	100%	\$20,997,850	100%		
Industrial	\$2,603,623	12.3%	\$2,579,979	12.3%	-\$23,644	0.0%
SEPP	\$6,103,181	28.9%	\$4,505,000	21.5%	-\$1,598,181	-7.5%

Chart 3B

Scenario 3 - Fee Schedule		
	Status Quo	Scenario 3
Base	\$1,395	\$2,897
Cost per MGD	\$2,467	\$2,680
Maximum Cap*	\$348,775	\$265,000
General Cat 1	\$8,036	\$10,696
General Cat 2	\$4,855	\$6,462
General Cat 3	\$1,674	\$2,228

*Does not include the pretreatment surcharge wet weather fee.

Scenario 4: Modified Combined Industrial/SEPP Sector Approach

Scenario 4 is a variation on the third scenario, with the added objective of minimizing the effect of the large fee increase to low flow dischargers seen in Scenario 3. This was accomplished by lowering the base fee, proposed in Scenario 3, for all individual facilities, lowering the General Category 3 permit fee, and raising the cost per MGD and maximum fee cap. This scenario is also an example of how the fee structure can be adjusted to achieve various objectives. Chart 4A below compares this scenario to the Status Quo model for FY 2011-12 and shows the percentage of change in total revenue for each sector. Chart 4B shows the proposed fee schedule for this scenario in comparison to the Status Quo. Compared to the Status Quo, under Scenario 4 SEPP sector revenue decreases by approximately six percent, Industrial sector revenue remains neutral, General sector revenue increases by approximately four percent, and Municipal sector revenue increases by approximately two percent.

Chart 4A

Sector	Status Quo		Scenario 4		Total Revenue Change	Net Program Revenue Percent Change
	Total Revenue	Percentage of Revenue	Total Revenue	Percentage of Revenue		
General	\$3,991,102	18.9%	\$4,884,269	23.3%	\$893,167	4.4%
Municipal	\$8,410,287	39.8%	\$8,818,904	42.0%	\$408,617	2.2%
Industrial/SEPP	\$8,706,804	41.2%	\$7,291,820	34.7%	-\$1,414,984	-6.5%
Totals:	\$21,108,193	100%	\$20,994,993	100%		
Industrial	\$2,603,623	12.3%	\$2,548,820	12.1%	-\$54,803	-0.2%
SEPP	\$6,103,181	28.9%	\$4,743,000	22.6%	-\$1,360,181	-6.3%

Chart 4B

Scenario 4 - Fee Schedule		
	Status Quo	Scenario 4
Base	\$1,395	\$2,176
Cost per MGD	\$2,467	\$2,840
Maximum Cap*	\$348,775	\$279,000
General Cat 1	\$8,036	\$10,696
General Cat 2	\$4,855	\$5,658
General Cat 3	\$1,674	\$1,674

*Does not include the pretreatment surcharge wet weather fee.

The charts on page 6 show a comparison of all four scenarios. Chart 5 is a comparison of total revenue and percentage of total revenue by sector and Chart 6 is a comparison of fees for General permits and a range of flow-based permits.

Chart 5 - Comparison of Revenue and Percent of Total Revenue by Sector

	Scenario 1: Status Quo		Scenario 2: Sector Allocation Approach		Scenario 3: Combined Industrial/SEPP		Scenario 4: Modified Combined Industrial/SEPP	
Sector	Revenue	Percent	Revenue	Percent	Revenue	Percent	Revenue	Percent
General	\$3,991,102	18.9%	\$5,312,506	25.3%	\$5,312,506	25.3%	\$4,884,269	23.3%
Municipal	\$8,410,287	39.8%	\$8,609,313	41.0%	\$8,600,365	41.0%	\$8,818,904	42.0%
Industrial/SEPP	\$8,706,804	41.2%	\$7,078,643	33.7%	\$7,084,979	33.7%	\$7,291,820	34.7%
Totals:	\$21,108,193	100.0%	\$21,000,462	100.0%	\$20,997,850	100.0%	\$20,994,993	100.0%
Industrial	\$2,603,623	12.3%	\$6,021,243	28.7%	\$2,579,979	12.3%	\$2,548,820	12.1%
SEPP	\$6,103,181	28.9%	\$1,057,400	5.0%	\$4,505,000	21.5%	\$4,743,000	22.6%

Chart 6 - Fee Comparisons

Sector	Category	Flow (MGD)	Scenario 1: Status Quo	Scenario 2: Sector Allocation Approach	Scenario 3: Combined Industrial/ SEPP	Scenario 4: Modified Combined Industrial/ SEPP
General	Gen Cat3		\$1,674	\$2,228	\$2,228	\$1,674
General	Gen Cat2		\$4,855	\$6,462	\$6,462	\$5,659
General	Gen Cat1		\$8,036	\$10,696	\$10,696	\$10,696
Industrial		0	\$1,395	\$2,200	\$2,897	\$2,176
Industrial		10	\$26,060	\$83,280	\$29,700	\$30,576
Industrial		30	\$75,391	\$245,440	\$83,306	\$87,376
Industrial		56	\$139,521	\$450,000	\$152,993	\$161,216
Industrial		75	\$186,385	\$450,000	\$203,919	\$215,176
Industrial		98	\$243,116	\$450,000	\$265,000	\$279,000
Industrial		105	\$260,381	\$450,000	\$265,000	\$279,000
Industrial		140	\$348,775	\$450,000	\$265,000	\$279,000
Municipal		0	\$1,395	\$2,674	\$2,897	\$2,177
Municipal		10	\$26,060	\$29,194	\$29,700	\$30,576
Municipal		30	\$75,391	\$82,234	\$83,306	\$87,376
Municipal		56	\$139,521	\$151,186	\$152,993	\$161,216
Municipal		75	\$186,385	\$201,574	\$203,919	\$215,176
Municipal		98	\$243,116	\$262,570	\$265,000	\$279,000
Municipal		105	\$260,381	\$280,000	\$265,000	\$279,000
Municipal		140	\$348,775	\$280,000	\$265,000	\$279,000
SEPP		108	\$282,781	\$62,200	\$265,000	\$279,000
SEPP		140 to 2670	\$348,775	\$62,200	\$265,000	\$279,000

Bold indicates discharger meets maximum cap.