

MEMORANDUM

TO: Asheville-Buncombe Air Quality Agency Board of Directors

FROM: Ashley Featherstone, Director

RE: Retreat Minutes for May 24, 2022

DATE: July 5, 2022

Enclosed, please find the Minutes for the **Tuesday, May 24, 2022** Asheville Buncombe Air Quality Agency (AB Air Quality) board retreat. The next meeting of the AB Air Quality Board is scheduled for **Tuesday, July 12, 2022 at 4:00 pm** in the meeting room located at the Buncombe County Permit Office at 30 Valley Street, Asheville, NC 28801.

The Asheville-Buncombe Air Quality Agency Board of Directors met on Tuesday, May 24, 2022, in the meeting room at the Buncombe County Permit Office located at 30 Valley Street, Asheville, N.C.

The attendance of the Board members was as follows:

Members Present:

Karl Koon

Vonna Cloninger (by Teams)

Joel Storrow

Evan Couzo

Garry Whisnant

Members Absent:

None

Staff Present: *Ashley Featherstone, Director; Kevin Lance, Field Services Program Manager; James Raiford, Permitting Program Manager; Mike Matthews, Senior Air Quality Specialist; Betsy Brown, Air Quality Coordinator; Alex Latta, Senior Air Quality Specialist*

Others Present: *Michael Frue, County Attorney*

Agenda for Board Retreat

- A. FY23 Budget Update**
- B. Revenues and Expenses Forecasting**
- C. Mount Carmel Road Building Lease**
- D. Advisory Committee Priorities**
- E. Adjournment**

Mr. Storrow called the meeting of the Western North Carolina Regional Air Quality Agency Board of Directors to order on May 24, 2022 at 2:00 pm. Mr. Storrow thanked the Board members for attending and staff for their hard work getting this information together. The Agency provided a PowerPoint presentation to support the meeting. A pdf of this PowerPoint presentation will be included with these minutes.

The order of business was as follows:

A. FY23 Budget Update

Mr. Storrow noted that the Board was not going to take any action during this meeting but felt like it was important to go ahead and see what the budget looked like for next year before we take it up at the next meeting.

Ms. Featherstone explained that the budget presented in March was a preliminary budget. We receive updated salary and benefits and other figures later in the budget process. What we sent out in the May board packet was different than what we sent the Board in March. An additional update was provided on May 23. Items that changed from March are highlighted in yellow. Salaries and benefits make up most of our expenses.

The cost-of-living increase that county employees typically get every year is substantial this year because of the increase in the CPI. The County does a two-year average, so the CPI increase is 4.69% for all the staff. We have certain benefits that are tied to salaries like longevity and the 401K contribution. This is in addition to the salaries.

The compensation study that the county has worked on for years has been completed. The Commissioners have voted on it, and it has been approved. We were not sure what to expect; and at last year's retreat, we think we estimated a 5% increase for all employees coming in the next couple of years.

The budget we presented in March showed an estimated draw of about \$30,000 from our fund balance in FY23. We are now showing a budget draw of about \$90,000. There has been a roughly \$75,000 increase in salary and benefits. This includes about \$30,000 from the cost-of-living increase and about \$47,000 from the compensation study. Human Resources is going to discuss the compensation study at our regular meeting.

In addition to the increase in salaries and benefits, the budget was increased a couple of thousand dollars to cover the rise in fuel costs. We estimated indirect costs increasing at 3% increasing per year, we made that adjustment. The County suggested a 4% increase. All of these translated into a larger appropriation for the fund balance to balance the budget.

Another big change from the budget supplied in March is a \$75,700 capital expenditure and a onetime EPA 103 funding increase that supports that expenditure. These are American Rescue Plan Funds. The federal government is strict with these funds, and the EPA told us exactly what to purchase from the wish list we provided. The Agency is receiving this funding for air pollution monitoring equipment. Mr. Lance will tell us more about that later.

A Board member asked if Air Quality kept separate budgets for Operation and Maintenance Expenses and Capital Expenses. Currently Air Quality does not have a separate Capital budget. The County handles most of our financials. If we have a large expenditure, Finance will categorize as a capital expense and then it is depreciated by the County. All the money is in one bucket.

We raised our permit fees last year, but we had a loss at the same time. The power plant switched from coal to gas. We raised fees by almost \$100,000, but then we lost about \$70,000. We netted out at about a 30,000 increase in our permit fees, which is helpful.

If the budget is approved, we forecast a possible draw of \$119,972 out of the fund balance which was illustrated in a slide. We have roughly \$700,000 in the fund balance. Although we would rather keep that whole, sometimes we must take money out of the fund balance during a particular year. Some years, we add funds back. In FY 2021 our revenues exceeded our expenditures by \$119,645. During that time, we only had five staff full time and we were not traveling due to COVID. We do try to be very conservative with the revenues that we estimate. We budget \$15,000 in contingency funds that we normally don't spend.

B. Revenues and Expenses Forecasting

Last year staff did a five-year forecast, and it has been updated this year. Slides show Agency revenue sources. The Revenue and Expense Forecasting slide shows actual income and expenses for 2021, year to date May 20, 2022, revenues and expenditures, and the projected budget moving forward through 2027.

The agency is 100% self-funded. Our two largest sources of revenue are the EPA Grants, 103 and 105 Grants (Section 103 and 105 of the Clean Air Act), and our industrial and commercial permit fees. We receive a small portion of the North Carolina gas tax as do all air quality agencies. The gas tax makes up roughly 15% of our revenue and is also a substantial portion of revenues.

Since 2007, we have seen declines. A lot of these permit fees for the big sources like the power plant are based on emissions. It has been great that the air has been getting cleaner, but our fees were set up to pay based on emissions. As those have dropped, we have lost a lot of revenue and the Agency has gone from 11 staff members to 6.

Also, our EPA grant funding has been level since 2004. We have not had an increase in the grant since 2004. Salaries and benefits keep going up. We have the same amount of work. The EPA finalized FY22 and essentially gave the air agencies 1.8 million to split throughout the entire country. Our portion for the increase may be about \$1,000 to \$5,000. Instead of \$210,000 we are expecting \$211,000 or \$215,000.

The amount of additional EPA funding that was approved in the House and Senate committees, could have meant around \$80,000 for us. Our funding got cut on the Senate floor and so we ended up with that much smaller increase. For the federal fiscal year 2023, again, the president's budget allocates more for us, which could end up around \$80,000, but we'll have to see what the current Congress does.

We will get additional funds for FY22, but that is another one-time grant increase. That is not carried forward in the EPA Grants projections. The projected budget numbers are close to what we know we can expect. We could get this additional funding in the 105 grant for FY23 but it is not included the budget because the exact number is uncertain. If we did get that additional amount then we believe, based on past history, that it would stay close to the same or even go up a little bit in future years.

Years ago, Duke Energy's annual permit fees were as high as \$260,000. Then they dropped to around \$120,000. Before, Duke's fees could fluctuate tens of thousands of dollars annually based on the coal consumption. Now we estimate the invoices to run about \$40,000 per year with less fluctuation since they are burning natural gas. We will know more when we have their 2021 emissions inventory that is due June 30. The emissions that are highest are NOx and SO2. We have a new fee structure where we are charging Duke a complex source fee which was put into place last year. They are subject to many different rules. It helps to make up for some of that reduction from the actual emissions part of the fee which is still part of the fees.

In our previous prediction we estimated \$50,000 for ozone equipment in a budget year within the next couple of years. We were able to reduce that down to 30,000 because EPA is giving us this 75,700, which is about half of what we really need for all the new equipment we will be buying.

Previously we were assuming salaries increasing at 3% per year. We are estimating them to increase by 4% next year due to the current high rate of inflation and then back down to 3%. The proposed CPI increases are based on a two-year window.

Indirect expenses are predicted to go up 4% per year. That is substantial. There are other costs that we did not put in the five-year projections, but wanted to point out: at some point in the next five years, we must do a modernization where we scan old files that we are required to keep. We had one estimate of about \$40,000; but we need to do some research and get a firm estimate. We also have an agency vehicle that is due to be replaced in the next couple of years.

Ms. Featherstone presented a slide with the Projected Budget Shortfall. Had we not raised the fees last year, the prediction moving forward was much worse than now. Last year we brought in roughly \$120,000 more than we spent. It is still not a pretty picture as you get to 2024 and beyond. As is shown with the fund balance around \$700,000 at the end of FY2021, the fund balance is currently healthy. But we predict pulling from the fund balance every year moving forward, assuming our expenses stay the same.

There was a question about charging fees for CO2 emissions. Regulating and charging sources for CO2 emissions could be a possibility. Currently, there are no fees for

Greenhouse gases (GHG). This was discussed when GHGs were being regulated under Title V. There was some discussion about whether we could charge a certain fee for CO2. It would have to be a different pound per ton or different figure per pound than our current conventional pollutants. At that time, EPA did say that States and locals could charge a fee for GHGs, but they did not say we had to. And so essentially as far as we know, no agencies have been able to do that.

If we bring in revenue from climate change pollutants, the Agency could reduce fees for permits on conventional pollutants. Some of the fees are not commiserate with the harm to the environment. It may be that we could charge for CO2, but the State legislature could prevent it.

We are charging a complex source fee with our updated fee schedule. The Division of Air Quality has talked of going to the state legislature for more funding, and Mecklenburg Air Quality could go to their county. Forsyth air quality already receives funds from their county. The consensus is that we cannot raise fees enough to get out of our current budget shortfall. The EPA needs to increase the grant funding.

Future needs of the Agency include monitoring equipment, digitalizing our files, and a vehicle to replace an older one.

There was discussion about possibly going to the City and County for some contributions in future budget years. There was interest in approaching the City and the County over the course of the coming year.

There was further discussion around scanning the documents, what that entailed (the documents must be searchable, and we must have special permission from the State and the EPA to ensure we meet public records requirements), and what alternatives there might be. It was noted that the task may be appropriate for unskilled labor but still must be done in an organized and specific manner. One suggestion was reaching out to find out how universities are doing things like this, and perhaps making it a student project. There may also be other options available with the County in the future. There is a new media department at UNCA that may be helpful.

More about the budget will be discussed at the regular meeting.

C. Mount Carmel Road Building Lease

There followed an in-depth discussion concerning the building that was constructed with Air Quality funds at 49 Mt. Carmel Road. Air Quality gave up the building in 2015 in an arrangement with the county manager at that time. This agreement was a verbal agreement that to compensate Air Quality for the surrender of the building, the County would provide Air Quality with office space and a return of indirect funds paid by Air Quality to the County. Considerations included that there were only six Air Quality staff at the time and the Agency did not need the large building. The building also had some costly maintenance pending. Indirect costs had risen substantially, so the reimbursement of those costs was helpful to the budget.

After new county management noted that they felt that the County had reimbursed the Agency adequately for the initial cost of the building, the Air Director at that time negotiated to pay a reduced indirect amount based upon what was agreed under interlocal which was very low as opposed to what the cost allocation plan allowed. (See indirect cost allocation documentation) Slide 11 in ABAQA Board Retreat 2022 PowerPoint shows the history of the indirect and money exchange for the building.

The building was built with Title V money. When that program was created there was an influx of money to air quality agencies. We had more employees then because Haywood County was still part of the interlocal agreement and there were more Title V permitted facilities. County staff had been moved frequently and had often been separated in different buildings. The School Board leased the property to Buncombe County for \$1 per year for use by Air Quality until the time which Air Quality no longer needed that space. Buncombe County in turn leased the property to Air Quality.

Last November the Air Quality Board voted to terminate the lease at the request of Mr. Frue (see Legal Counsel Report in the minutes from the November 8, 2021 Board meeting.) There were still doubts and objections from some Board members who felt the Agency had not been properly compensated for the worth of the property. This was also a consideration because the financial projections of the Agency show a funding shortfall.

It was noted that staff would email a copy of the indirect cost allocation document to the Board members.

The Board voted to terminate the lease between the County and Air Quality in November. Mr. Storrow has not signed the lease termination agreement. He felt he owed it to Board members that were still concerned with the 49 Mt Carmel property to allow for further discussion before he signed the lease termination. Although all the Board members are not totally satisfied that Air Quality received proper compensation for the value of the building at 49 Mt Carmel, they are willing to move forward. With no further comment, Mr. Storrow will sign the lease termination.

On a more positive note:

Slides 12 – 14 showed the improvement of air quality in photos taken from Clingman's Dome.

Ms. Featherstone noted that eyes are the best pollution monitors. NC DAQ provided the slides.

D. Advisory Committee Priorities

Mr. Storrow gave Dr. Couzo the opportunity to update the Board on the Advisory Committee that he leads.

A brief synopsis from the slides includes:

Historical Roles and Responsibilities-2011 Memorandum

- Membership limited to 12 persons, appointed by board. Previously met bimonthly or as needed. Committee consisted of members from diverse backgrounds and experiences.
- A Board member served as chair. Dr. Couzo
- Primary role: assisted and promoted work of agency and board, research specific projects and make recommendations, provide technical information within expertise of committee members, help gauge public reaction to proposed new regulations and programs.
- Currently there are 6 members and 1 applicant to consider.

There was a lively discussion surrounding the possible projects that the Advisory Committee had discussed.

Potential Roles and Responsibilities

- Clean Air Excellence Awards Support
- Citizen Science Projects-
Great avenue for the committee to pursue.

- Public Outreach-work with UNCA and other partners
 - a. Free Radon Kits (this could potentially be made a budget item so that we can offer these to the public even when we do not receive free kits from the state for distribution. The State received extra money for the radon program but they decided to spend it on classes and training for day cares and other types of business rather than supply as many free kits.)
 - b. Woodstove Changeouts and Ground Source Heat Pumps (there have been successful programs in other areas. The old stoves have to be destroyed. There are different ways to approach this program, partner with local woodstove manufacturer.)
 - c. Personal air sensors (Dr. Couzo is still waiting to hear on funding for a project.)
 - d. Energy efficiency treasure hunts-breweries
 - e. Electric lawn mower rebate program (the Louisville air quality agency had a successful one, they have been in noncompliance and that may affect support that was received.)
 - Battery Swap Programs
- Grant Research and Application Assistance
- EPA Advance Program (still looking into options for the future)
 - Path forward and outreach
- Environmental Justice/Equity Policy for Agency (If we make progress here, the City and County who are also very focused on this, may prove to be financially supportive. The Agency needs a formal EJ policy and could use some assistance.)
- Other possibilities could include projects for ground source heat pumps at schools.

Additional information was shared. Air Quality partnered with Land of Sky, Sustainability, Buncombe County Schools, and Green Built Alliance in a grant application to the County for some of the American Rescue Plan funds. There are three components which include energy efficiency in housing, improved air quality/energy efficiency for the HVAC systems in schools, and a battery option for ambulances so they did not have to run their combustion engines when they were idling. We have not heard back on this. Land of Sky is the applicant.

Dr. Couzo said since there are now six members, he feels we can move forward with one or several of the ideas that are being discussed. We need to work out what path that may be.

Mr. Storrow thanked Dr. Couzo for his leadership on the advisory committee. His affiliation with UNCA could help with funding for some of these projects.

Mr. Storrow thanked staff for putting together the information for the retreat as well as providing snacks and beverages for the social time following the retreat.

The Board was hoping to honor Britt Lovin, a former Board member and Chairman for many years at this meeting, but he was not available. We are waiting to hear when his schedule is open. It is possible that he could attend the July board meeting.

E. Adjournment

The meeting adjourned at 3:19 pm.

ABAQA Board Retreat 2022 (attach pdf)