



Memorandum

Date: October 4, 2006
To: Nancy C. Wrona, Director, Air Quality Division
From: Trevor Baggione, Manager, Air Quality Permits Section
CC: David Lillie, Economist III, Air Quality Planning Section
Brian Kelley, Executive Consultant II, Air Quality Division
Latha Toopal, Environmental Engineering Specialist, Air Quality Compliance Section
Subject: Air Quality Fee Rule - Consumer Price Index Adjustments

Pursuant to Arizona Administrative Code (A.A.C.) Title 18, Chapter 2, Section 326(H) (R18-2-326(H)), the Director is required to adjust the hourly fee rate, as well as the administrative or inspection fees every November 1. This memorandum has been created in order to document the methodology for adjusting the Air Quality Division's fees.

A.A.C. R18-2-326(H)

"The Director shall adjust the hourly rate every November 1, to the nearest 10 cents per hour, beginning on November 5, 2004, by multiplying \$98.80 by the Consumer Price Index (CPI) for the most recent year, and then dividing by the CPI for the year 2004. The Director shall adjust the administrative or inspection fees listed in subsections (C), (D), and (E) every November 1, to the nearest \$10, beginning on November 5, 2004, by multiplying the administrative or inspection fee by the Consumer Price Index (CPI) for the most recent year, and then dividing by the CPI for the year 2004. The Consumer Price Index for any year is the average of the Consumer Price Index for all-urban consumers published by the United States Department of Labor, as of the close of the 12-month period ending on August 31 of that year."

METHODOLOGY

The average CPI values for the time period beginning on September 1, 2003, through August 31, 2004 (AvgCPI₂₀₀₄), and the time period beginning on September 1, 2005, and ending on August 31, 2006 (AvgCPI₂₀₀₆), were established through the use of data available upon the U.S. Department of Labor's Bureau of Labor Statistics Data internet site¹. In order to recreate the data set used to establish AvgCPI₂₀₀₄ and AvgCPI₂₀₀₆, the following options were selected:

1. Scroll down to the Section entitled "Prices and Living Conditions"
2. Select the "Create Customized Tables (Multiple Screens)" option² for the option entitled: "CPI – All Urban Consumers (Current Series)"
3. Select the following parameters for viewing the data:
 - a. Option 1: U.S. city average
 - b. Option 2: All items – old base
 - c. Option 3: Not Seasonally Adjusted
 - d. Option 4: Get Data

¹ <http://www.bls.gov/data/home.htm>

² <http://data.bls.gov/PDQ/outside.jsp?survey=cu>

Selection of the criteria described above resulted in the following information:

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2003									554.7	554.3	552.7	552.1
2004	554.9	557.9	561.5	563.2	566.4	568.2	567.5	567.6				

Using the following equation, the average 2004 Consumer Price Index for all-urban consumers was determined:

$$AvgCPI_{2004} = \frac{\sum_{i=Sept\ 2003}^{Aug\ 2004} CPI_i}{12}$$

This resulted in the base CPI average to be **560.1**. This 2004 is the base CPI used to determine the increase in the hourly rate as well as the annual fees.

Selection of the criteria described above also resulted in the following information:

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2005									595.4	596.7	592	589.4
2006	593.9	595.2	598.6	603.5	606.5	607.8	609.6	610.9				

Using the following equation, the average 2006 Consumer Price Index for all-urban consumers was determined:

$$AvgCPI_{2006} = \frac{\sum_{i=Sept\ 2005}^{Aug\ 2006} CPI_i}{12}$$

This calculation resulted in the 2006 CPI average to be **600.0**. This 2006 CPI is to be used to determine the increase in the hourly rate as well as the annual fees.

Using the following equation, the adjusted annual emissions fee was then calculated:

$$New\ Hourly\ Rate = \$98.80 \left(\frac{AvgCPI_{2005}}{AvgCPI_{2004}} \right) = \$98.80 \left(\frac{600.0}{560.1} \right) = \$105.80$$

CONCLUSION

Pursuant to A.A.C. R18-2-326(H), the adjustment factor for the new hourly rate which takes effect on November 5, 2006, was calculated to be 1.071. When rounded to the nearest 10 cents, the new hourly rate is determined to be **\$105.80** per hour.