

II. 1998 ADDENDUM TO CRITERIA AND GUIDELINES

Setting Project Funding Priorities

Recipient agencies should prioritize project funding based on established criteria that include ARB's four criteria and other criteria necessary to address specific local needs. Strategies for reducing motor vehicle emissions are identified in district clean air plans. Funding priorities should be consistent with these plans from both a near-term and long-term perspective. Priorities should also reflect the nature and scope of each district's air quality problem and potential multi-pollutant benefits. Air districts should continue to implement ARB's 1995 criteria; South Coast cities and counties should work more closely with the South Coast AQMD to use motor vehicle fees consistent with ARB criteria and the region's clean air priorities; and Bay Area congestion management agencies should prioritize projects within the statutory list based on ARB criteria and local clean air needs.

Cost-Effectiveness and Leveraging Funds

Cost-effectiveness is expressed as dollars per ton of pollution eliminated. ARB's 1995 criteria recommend that project cost-effectiveness be \$20,000/ton or less. The criteria also encourage leveraging of the funds. When applying ARB's criteria, it is appropriate that leveraged funds be taken into account when estimating cost-effectiveness. This can be done by calculating cost-effectiveness based solely on motor vehicle funding.

Leveraging, or co-funding, can stretch air quality dollars. Co-funding offers the opportunity to partner with other organizations and agencies to increase the air quality benefit of these funds. This is a particularly useful approach for small jurisdictions with limited funds. For example, a district may wish to fund a project that if totally funded with motor vehicle fees would cost \$80,000/ton for emissions reduced. If the district funds just one fourth of the project cost, the cost-effectiveness of the motor vehicle fees would be \$20,000/ton.

By calculating cost-effectiveness based on the amount funded with motor vehicle fees, many types of projects that would otherwise exceed the recommended cost-effectiveness range, can meet ARB's criteria. These include non technology-based demand management and transportation projects in addition to cleaner vehicle technology-based projects.

Incentive Programs

Recipient agencies may also want to consider the need to incentivize small scale projects in order to stimulate investment in full scale projects with good cost-effectiveness. An incentive program can help jump-start the implementation of a particular clean air strategy. This is particularly useful when introducing new technology. Incentive approaches give the "early adopter" a financial advantage to offset their real or perceived risk and inconvenience for adopting the new technology. Once the technology is established and meets the needs of the purchasing organizations, incentives may be reduced or eliminated. For this reason, incentive programs should be for a limited duration and be re-evaluated periodically as to their priority for funding.

For example, recipient agencies may accelerate the introduction of low-emitting vehicles through incentive programs. The differential cost between a conventional and low-emitting vehicle is generally less than 25% of the total purchase price. The most cost-effective use of the fees would be to fund only this differential. However, incentives may be needed to interest fleet operators in converting their fleets. It is appropriate for recipient local government agencies to fund more than the differential cost if there is a commitment to convert a large portion of their fleet.

Commitment is key to the success of fleet conversions, as is training. A portion of project funding can be designated for training so that implementation will go smoothly. Examples of local government fleet conversions to electric or compressed natural gas (CNG) include: police vehicles, refuse haulers, street sweepers, transit vehicles, parking meter surveillance vehicles, delivery trucks, park maintenance vehicles, and off-road city vehicles.

New Technology and Infrastructure

New technology and supporting infrastructure needed to achieve cost-effective emission reductions should also be considered in selecting projects for funding. A priority for use of the motor vehicle funds is to implement emission reducing strategies and projects that are included in air district clean air plans. For some projects to be successful, supporting infrastructure and programs may be needed. Examples of supporting projects include infrastructure for low-emission vehicles such as refueling stations and recharging facilities; public education; and transit projects that improve access and convenience, eliminate barriers, or provide automated schedule information.

Supporting projects may be difficult to evaluate for cost-effectiveness, but can be evaluated with respect to their consistency with the clean air plan, the degree of local need for the project, project location, etc. ARB recommends that air districts develop additional project selection criteria for supporting projects which cannot be evaluated on the basis of direct cost-effectiveness.

Demonstration Projects

While many demonstration projects are new technology related, there are other kinds of demonstration projects that may fall within a district's priorities. A project may demonstrate an approach to providing up-to-the-minute transit information to enable people to make last minute transit decisions, thereby increasing their travel options and encouraging them to use transit for some of their trips. In funding demonstration projects, it is important to outline the specific objectives of the project, preferably in quantitative terms (vehicles trips and vehicle miles traveled reduced, for example), and to include a plan for monitoring the results.

Rural District Programs

Programs in rural districts will need to take into account the more limited project opportunities and lower funding levels. Rural districts should assess program needs and the air quality benefits of proposed projects and allocate funds accordingly. District staff should prepare an allocation plan for consideration by

the governing board in a public process. It is appropriate for rural districts to establish project selection criteria that reflect the local air quality and district program needs.

Reporting on Program Effectiveness

Accountability by recipient agencies in the use of these funds is important to ensure the maximum air quality benefit. Statewide, the program provides approximately \$60 million for funding projects. The remaining \$25 million funds CCAA implementation portions of district budgets. (An exception is the Bay Area Air Quality Management District which is prohibited by state law from using funds in this way.) The ARB has directed staff to compile the statewide data on an annual basis and to assist recipient agencies in assessing the cost-effectiveness and overall quality of the projects funded.

In accounting for revenues used to fund projects, recipient agencies should report on the cost-effectiveness achieved. Where projects are funded outside the range of cost-effectiveness recommended by ARB, the criteria applied to project selection should be identified. Some examples are projects that fall in the new technology or supporting infrastructure category. From an accountability standpoint, it is important that all criteria for project selection be clearly specified as part of a public process.

SIP Credits

California's air quality planning process integrates the requirements of the Federal Clean Air Act (FCAA) and the California Clean Air Act. Federally required State Implementation Plans (SIPs) define the emission reduction targets for achieving national air quality standards by specific deadlines. These plans also ensure steady progress toward state air quality standards. It is important, as emphasized in ARB's 1995 criteria, that projects support the implementation of clean air plans and, in doing so, support achievement of emission reduction targets defined in the SIPs. For funding agencies that may lack air quality expertise, this supplementary guidance provides some assurance that if they implement emission reducing projects as defined in these criteria, a cost-effective air quality benefit will result for which credit can be taken in clean air plans (SIPs).