

To: **Liane M. Randolph, Chair**
Honorable Board Members

From: Craig Segall, Deputy Executive Officer

Date: May 19, 2022

Subject: 2022 Report on Assembly Bill 617 Community Air Protection Incentives

On May 23, 2019, the California Air Resources Board (CARB or Board) approved the *Community Air Protection Incentives 2019 Guidelines* (Guidelines) which contain criteria and eligibility for Community Air Protection incentives (CAP incentives) supporting the Community Air Protection Program (CAP Program) established by Assembly Bill (AB) 617 (Garcia, Chapter 136, Statutes of 2017). In Resolution 19-12, the Board delegated authority to the Executive Officer to modify the Guidelines as necessary, and directed that staff provide regular progress updates to members of the Board. This memo includes the most recent air district progress reported to CARB during the December 2021 reporting period. To date, air districts have expended \$376 million in CAP incentives, with \$127 million spent in selected communities. The majority of the remaining \$249 million spent so far has been in other disadvantaged and low-income communities throughout the State.

CAP incentives provide a key opportunity for the CAP Program to support the efforts of selected communities and non-selected communities to achieve benefits in areas that have pressing community health and air quality needs. For the most recent appropriation in the fiscal year (FY) 2021-22 budget, the California Air Pollution Control Officer's Association (CAPCOA) submitted an allocation proposal agreed upon by a majority of the air districts. Details are provided in the section of this memo pertaining to the FY 2021-22 funding.

Background

AB 617 directed CARB, in conjunction with local air districts, to establish the overall CAP Program. Specifically, AB 617 directed CARB and the air districts to actively engage with members of heavily impacted communities, follow their guidance, and address local criteria air pollutant and toxic air contaminant sources of concern through a variety of strategies including permitting, enforcement and rulemaking, as well as incentives.

The CAP Program focuses on addressing the concerns of communities that continue to suffer from disproportionate cumulative air exposure burdens through the creation of air monitoring plans and emissions reduction programs for communities selected by CARB to participate. Since 2017, the California Legislature has appropriated money annually from the Greenhouse Gas Reduction Fund (GGRF) for incentives to support AB 617. In advance of initial community selection in 2018, the Legislature directed that CAP incentives appropriated in FY 2017-18 be focused in disadvantaged and low-income communities through the Carl Moyer Memorial Air Quality Standards Attainment Program (Carl Moyer Program) and the

Proposition 1B Goods Movement Emission Reduction Program (Proposition 1B Program) to provide immediate air quality benefits in heavily impacted communities. Additionally, the Board directed that at least 70 percent of funds must be spent on projects within and benefiting disadvantaged communities, and that at least 80 percent of funds must be spent on projects within and benefiting a combination of disadvantaged and low-income communities. With subsequent appropriations, the Legislature included specific direction to prioritize spending funds in AB 617 selected communities and communities under consideration for future selection, on zero-emission technologies wherever feasible, and additional incentive options for stationary and community identified sources.

Current Progress on \$964 Million of CAP Incentives

This section provides an update on the funds allocated to CAP incentives. Starting from FY 2017-18, the Legislature has appropriated \$704 million in CAP incentives between FYs 2017-18 and 2019-20, and an additional \$260 million in FY 2021-22 (Table 1 in Appendix A). The Legislature initially appropriated incentives to generate immediate air quality benefits in communities most likely to participate in AB 617—primarily disadvantaged communities—as the rest of the CAP Program began to take shape. So far, air districts have expended \$376 million in CAP incentives on projects. Staff notes that air districts must spend these funds with deliberation, taking time to involve their communities—both those selected to participate in AB 617 and not—and build consensus on the direction of expenditures. The Legislature recognized the need for additional time to spend these funds in a manner consistent with AB 617, and so they granted a two-year extension to the original liquidation deadlines for the FY 2017-18 funds and FY 2018-19 funds, allowing air districts five total years to expend each tranche of funds. Air districts have spent nearly all of the FY 2017-18 funds, and are on-target to spend the FY 2018-19 funds within the extended deadline. Staff also plans to meet with CAPCOA and the air districts to have a holistic conversation about the statewide incentives portfolio to discuss ways to streamline both CARB’s processes as well as local air districts’ processes to ensure funds can be expended in a timely manner while keeping community guidance centered in their decision-making.

In keeping with the early focus on priority populations, the Board set specific priority population investment targets for the funds: 70 percent in and benefiting disadvantaged communities and 80 percent in and benefiting disadvantaged or low-income communities. Air districts expended \$302 million or 80 percent in disadvantaged communities, and \$352 million or 94 percent in disadvantaged and low-income communities—well beyond the targets set by the Board (Table 2 in Appendix A).

After the initial CAP incentives appropriation in FY 2017-18, the Legislature provided new direction for air districts in FY 2018-19 to shift priorities from immediate air quality benefits in disadvantaged and low-income communities to focus on communities selected to participate in AB 617. Collectively, the air districts have expended over \$127 million in AB 617 selected communities so far (Table 3 in Appendix A). The Board also directed that air districts prioritize investments in zero-emission vehicles and infrastructure; air districts have expended

over \$79 million, or 21 percent of the total expended so far on zero-emission projects (Table 4 in Appendix A).

Per the statutory requirements of the Carl Moyer Program, most projects are creditable to the State Implementation Plan, which requires emissions reductions to be permanent, surplus, quantifiable, and enforceable. Projects funded by CAP incentives so far will reduce over 15,600 tons of Oxides of Nitrogen, 1,200 tons of Reactive Organic Gases, and 1,300 tons of Particulate Matter through the turnover of over 2,300 engines replaced with cleaner alternatives statewide (Table 5 in Appendix A). Details on individual CAP incentives appropriations by FY are described below.

FY 2017-18 CAP Incentives

Via AB 134 (Committee on Budget, Chapter 254, Statutes of 2017), the Legislature directed FY 2017-18 appropriation of \$250 million to mobile source projects pursuant to the Carl Moyer Program and the Proposition 1B Program. Air districts have expended nearly 100 percent of their FY 2017-18 CAP incentives and have spent 87 percent in disadvantaged communities and 95 percent in disadvantaged or low-income communities (Table 6 in Appendix A). Via AB 128 (Ting, Chapter 21, Statutes of 2021), the Legislature extended the liquidation deadline of these funds to June 30, 2022, and up to that deadline, data will continue to shift as air districts continue to implement projects. The next update to members of the Board will include a closeout report with a final tally of expenditures that will include additional data.

FY 2018-19 CAP Incentives

The Legislature appropriated \$245 million via Senate Bill (SB) 856 (Committee on Budget and Fiscal Review, Chapter 30, Statutes of 2018) in FY 2018-19 budget and provided direction to fund incentives for stationary sources and sources identified in community emissions reduction programs developed pursuant to AB 617, in addition to the existing opportunities outlined previously in AB 134. As directed by the Board, staff, in cooperation with CAPCOA, developed a set of principles to guide allocation strategies for incentives consistent with the goals outlined in AB 617 and the Legislative direction given in SB 856. Staff shared these principles with community members at public workshops held in February 2019 to ensure they were consistent with communities' goals and priorities. In SB 856, the Legislature allowed air districts to continue to fund mobile sources through the Carl Moyer and Proposition 1B Programs, but also enabled air districts to use funds to reduce emissions from stationary sources of air pollution as well as to support projects consistent with community emissions reduction programs. CAPCOA works with air districts to develop and propose the allocation of funds per district. So far, air districts have collectively spent over \$116 million of their FY 2018-19 funds—76 percent in disadvantaged communities and 92 percent in disadvantaged and low-income communities (Table 7 in Appendix A).

FY 2019-20 CAP Incentives

The Legislature originally appropriated an additional \$245 million in FY 2019-20 budget via AB 74 (Ting, Chapter 23, Statutes of 2019), and funds were allocated to the air districts similarly to FY 2018-19 incentives allocation, consistent with the principles set in the Guidelines and based on a new proposal from CAPCOA. Lower-than-expected fourth quarter Cap-and-Trade auction proceeds resulted in a reduced appropriation of \$209 million. Staff reduced each air district's allocation and priority population targets proportionally and amended the grants accordingly. While air districts are still primarily focusing on expending their FY 2018-19 funds, they have received their FY 2019-20 allocations, and many have begun to solicit projects on which to expend these funds as well. Air districts have collectively spent over \$12 million of their FY 2019-20 funds so far.

FY 2021-22 CAP Incentives

The Legislature did not appropriate funding during FY 2020-21 due to complications relating to the ongoing public health crisis, but they resumed GGRF appropriations for FY 2021-22. The Legislature appropriated an additional \$260 million in FY 2021-22 budget for CAP incentives. Each air district's allocation is detailed in Table 8 of Appendix A. As with previous appropriations, CAPCOA submitted proposed allocations for FY 2021-22, which required consensus from the air districts. Alongside their proposal, CAPCOA submitted a letter highlighting issues with funding along with the principles they used in guiding their allocation strategy. For the first time, CAPCOA's proposed CAP incentives allocation is not based on a unanimous vote but rather one district was forced to vote against the recommendation due to lack of resources. However, all districts agreed to work together to increase program funding. Below are the principles CAPCOA used in determining funding allocations:

- The amount of funding dedicated to implementing the overall CAP Program is insufficient, resulting in air districts redirecting resources from other programs and leaving all local programs stretched critically thin.
- Shaving funds from other districts to fund new communities reflects an inequity to existing communities who would have to be told, that whatever funds we had are now being lessened to bring in other communities resulting in disappointment and anger to existing communities and districts.
- Shaving funds to bring in new communities further perpetuates and exacerbates the grossly inadequate program funding and leads to greater disillusionment and disappointment in the overall program and reinforcement of the perspective that these communities are not worth the investment and that social and environmental injustice continues.
- The recommended allocation provides some minimal resources to continue AB 617 work, which keeps the promises made to communities to address local emissions.
- For districts that do not yet have communities, the recommendation ensures State mandates including implementing expedited Best Available Retrofit Control

Technology and increased work under the Criteria and Toxics Reporting regulation are complied with.

- Multiple air districts have taken on additional communities without additional resources and others have developed rules to generate funding to supplement the CAP Program and address AB 617 projects.
- Multiple air districts have withdrawn communities for nomination to the program for lack of funding.
- Any reduction in funding in an air district will result in program failure.

FY 2022-23 CAP Incentives

The Governor's proposed budget for FY 2022-23 includes an additional \$180 million appropriation of CAP incentives, with similar direction as in previous CAP incentives appropriations. Once FY 2021-22 funds are fully granted to air districts, CAPCOA will discuss allocation strategies with the air districts in preparation for the approved budget later this year to ensure these funds can be allocated, granted, and disbursed expeditiously and in-line with the allocation principles set forth in the Guidelines.

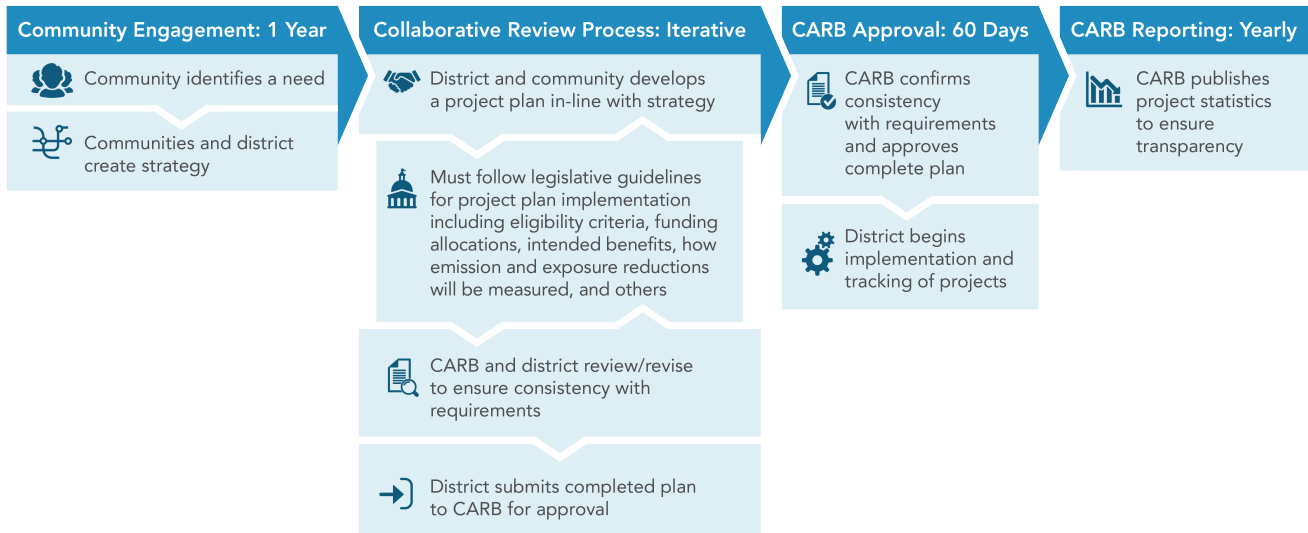
Stationary Source and Community-Identified Projects

The Guidelines contain a framework that allows air districts to expeditiously develop Project Plans outlining new incentives to either reduce emissions from stationary sources statewide or to address strategies identified in AB 617 community emissions reduction programs. In Project Plans to address Community Emissions Reduction Program strategies, air districts must include documentation of strong, widespread, and clear community support and descriptions of all quantitative or qualitative community benefits.

Staff has already approved several of these new measures. Project Plans thus far have included lawn and garden equipment replacement, alternatives to open agricultural burning, equipment to reduce emissions from hexavalent chrome plating, road paving, urban greening, stationary diesel generator replacement, and an expanded school air filtration program, to name a few. Staff will continue to work with districts and communities to develop project plans and will post approved Project Plans publicly on [CARB's webpage](#).

The graphic below illustrates the process by which air districts must develop Project Plans and CARB must review them. This iterative process allows air districts and CARB to account for complicated, unique, or otherwise unusual projects and ensure that they will be responsive to community needs. More recently, staff has developed the Request to Use or Modify Approved Community-Identified or Stationary Source Project Plans form that allows air districts to use existing approved Project Plans and adapt them for use in other communities. This form will further streamline the review and expedite the approval process for incoming projects.

Community Air Protection Project Plan Review Process



Community Engagement and Outreach

To ensure that expenditure of CAP incentives reflect community priorities, air districts must invest time to build community trust and participation in the community steering committees and more broadly with local community members, which requires engaging with them via numerous channels. To show that they are focusing on priority populations and listening to community priorities, air districts are required to submit documentation of their public process and associated project lists with each request for disbursement of funds. Table 9 in Appendix A includes a brief overview of the project types in each air district's most recent submitted project list. Air districts must also continue to seek guidance from community members in how to prioritize project selection, and Table 10 in Appendix A provides information reported by the air districts on the public outreach and engagement events.

Even as air districts continue to make progress implementing AB 617, the ongoing economic and public health crisis impacts program implementation. Air district and CARB staff have found success in remote hosting of community steering committee meetings, ensuring continued community participation even amidst strict physical distancing policies. CARB staff continue to work to ensure the requirements of CAP incentives remain flexible and accessible while maintaining a level of rigor that ensures health benefits in communities are real and effective.

Next Steps

Staff will continue to review and approve stationary source and community-identified Project Plans submitted by air districts and update the Board on the selection and funding of projects, as well as overall air district progress. Staff plans for the next status update memo in Spring of 2023, allowing time to ensure the quality and integrity of data reported during the November 2022 reporting period. Staff will coordinate these updates with the complementary efforts of the Office of Community Air Protection, charged with reporting on overall progress of air districts in community emissions reduction program implementation. CARB staff developed a draft online interactive tool to provide a visual summary of CAP incentive projects across the State to ensure that communities have transparency with regards to CAP incentives.

Attachment: Appendix A