

SETTLEMENT AGREEMENT AND RELEASE

This SETTLEMENT AGREEMENT AND RELEASE (hereinafter "Agreement") is entered into between the STATE OF CALIFORNIA AIR RESOURCES BOARD (hereinafter "ARB") 1001 I Street, Sacramento, California 95814, and PENSKE TRUCK LEASING CO., L.P. (hereinafter "PENSKE"), 2675 Morgantown Road, Reading, PA 19607.

I. RECITALS

- (1) California Health and Safety Code section 44011.6 (HSC § 44011.6) established the Heavy-Duty Vehicle Inspection Program (HDVIP). It authorizes ARB to inspect on-road heavy-duty vehicles for excessive smoke emissions and engine tampering and to issue citations accordingly. The program also requires the vehicle owner to repair its engines that exceed the prescribed ARB smoke opacity standards, perform a post-repair opacity test, and submit proof of repairs and any assessed penalties under the regulations of the HDVIP, chapter 3.5, California Code of Regulations, title 13, sections 2180-2188 (13 CCR §§ 2180-2188).
- (2) HSC § 43701 provides that ARB shall adopt regulations that require owners or operators of heavy-duty diesel motor vehicles to perform regular inspections of their vehicles for excessive smoke emissions.
- (3) 13 CCR § 2190 *et seq.* were adopted under the authority of HSC § 43701 and, with limited exceptions, which are not applicable here, apply to all heavy-duty diesel powered vehicles with gross vehicle weight ratings greater than 6,000 pounds that operate on the streets or highways within the State of California.
- (4) 13 CCR § 2190 *et seq.* authorize the Periodic Smoke Inspection Program (PSIP) which requires the owners and operators of California based vehicle fleets of two or more heavy-duty diesel motor vehicles with gross vehicle weight ratings greater than 6,000 pounds that operate on the streets or highways within the State of California to conduct annual smoke opacity inspections of their vehicles equipped with engines that are four years old or older.
- (5) 13 CCR § 2192(a) requires inter alia that the owner of the vehicle "[t]est the vehicle for excessive smoke emissions periodically according to the inspection intervals specified in section 2193(a), (b), and (c)", "[m]easure the smoke emissions for each test...", "[r]ecord the smoke test opacity levels and other required test information as specified in section 2194..." and "[k]eep the records specified in section 2194 for two years after the date of inspection."
- (6) HSC § 43016 states, "Any person who violates any provision of this part, or any order, rule, or regulation of the state board adopted pursuant to this part, and for which there is not provided in this part any other specific civil penalty or fine, shall

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be subject to a civil penalty of not to exceed five hundred dollars (\$500.00) per vehicle.”

- (7) ARB considers testing, measuring, recording, and recordkeeping to be critical components in reducing excessive smoke emissions from these heavy-duty vehicles.
- (8) ARB contends PENSKE failed to test, measure, record, and maintain records of smoke emissions for its fleet of heavy-duty diesel vehicles for years 2013 and 2014 in violation of 13 CCR § 2190 *et seq.*
- (9) HSC §§ 39650-39675 mandate the reduction of the emissions of substances that have been determined to be toxic air contaminants. In 1998, following an exhaustive ten-year scientific assessment process, ARB identified particulate matter (PM) from diesel-fueled engines as a toxic air contaminant. In-use on-road diesel vehicles are powered by diesel fueled engines that emit toxic PM. On-road vehicles are controlled under the Truck and Bus regulation, as codified in 13 CCR § 2025.
- (10) 13 CCR § 2025(e)(1)(B) states: “Starting January 1, 2012, for all vehicles with GVWR greater than 26,000 lbs, excluding school buses, fleets must meet the requirements of 13 CCR § 2025(g) or fleets that report may instead comply with the phase-in option of 13 CCR § 2025(i).”
- (11) Failure to comply with the requirements of 13 CCR § 2025 is a violation of state law resulting in penalties. HSC §§ 39674(a) and (b) authorize civil penalties for the violation of the programs for the regulation of toxic air contaminants not to exceed one thousand dollars (\$1,000) or ten thousand dollars (\$10,000), respectively, for each day in which the violation occurs.
- (12) PENSKE has elected to meet the requirements of the Engine Model Year Compliance Schedule provided for in 13 CCR § 2025(g).
- (13) 13 CCR § 2025(g) requires that owners of diesel vehicles with a GVWR greater than 26,000 lbs. (heavier vehicles) meet PM Best Available Control Technology (BACT) requirements for all 1996 through 1999 engine model years by January 1, 2012, all 2000 through 2004 engine model years by January 1, 2013, and all 2005 through 2006 engine model years by January 1, 2014.
- (14) ARB contends that PENSKE failed to meet PM BACT requirements for all, 2000 through 2004 engine model years by January 1, 2013, and all 2005 through 2006 engine model years by January 1, 2014.

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- (15) 13 CCR § 2025(f) requires that owners of diesel vehicles with a GVWR greater than 14,000 lbs. and less than or equal to 26,000 lbs. (lighter vehicles) upgrade to a 2010 model year emissions equivalent engine for all 1995 and older model year engines by January 1, 2015.
- (16) ARB contends that PENSKE failed to upgrade to a 2010 model year emissions equivalent engine for all 1995 and older model year engines by January 1, 2015.
- (17) In order to resolve these alleged violations, PENSKE has taken, or agreed to take, the actions enumerated below under "RELEASE". Further, ARB accepts this Agreement in termination and full settlement of alleged violations of law as set forth above.
- (18) In consideration of the foregoing, and of the promises and facts set forth herein, the parties desire to settle and resolve all claims, disputes, and obligations, known or unknown, relating to the above-listed alleged violations (collectively "Violations"), and voluntarily agree to resolve this matter by means of this Agreement. Specifically, ARB and PENSKE agree as follows:

II. TERMS AND RELEASE

In consideration of ARB not filing a legal action against PENSKE for the alleged Violations referred to above, and PENSKE's payment of the settlement payment set forth in Section 1 below, ARB and PENSKE agree as follows:

- (1) Upon execution of this Agreement, PENSKE shall make payment in the amount of five hundred thirty-two thousand eight hundred seventy-five dollars (\$532,875.00). Payment shall be made as described below, beginning on **December 23, 2016**.

Payment Due Date:	In the Amount of and Paid to:
(1) December 23, 2016	\$399,656.00 paid to Air Pollution Control Fund
(2) December 23, 2016	\$133,219.00 paid to Peralta Colleges Foundation

Please sign and return the enclosed Settlement Agreement to the following address no later than December 23, 2016:

**Mr. Randy M. Rhondeau
Air Pollution Specialist
California Air Resources Board
Enforcement Division
P.O. Box 2815
Sacramento, California 95812**

Please send the payments along with the attached "Settlement Agreement Payment Transmittal Form" (Attachment A) to:

**California Air Resources Board
Accounting Office
P.O. Box 1436
Sacramento, California 95812-1436**

- (2) **Effect of Untimely Payment.** If any payment is more than 15 days late, the entire remaining balance becomes immediately due and payable. In addition, if the Attorney General files a civil action to enforce this settlement agreement and is successful, PENSKE shall pay all costs of investigating and prosecuting the action, including expert fees, reasonable attorney's fees, and costs.
- (3) It is agreed that if PENSKE, including its subsidiary, at any time (a) becomes insolvent, or makes an assignment for the benefit of creditors or similar action adversely involving PENSKE or its subsidiary; ; (b) a proceeding or petition under any bankruptcy, reorganization, arrangement of debt, insolvency, readjustment of debt, or receivership law or statute is filed by or against PENSKE or its subsidiary;; (c) or a trustee in bankruptcy, custodian, receiver or agent is appointed or authorized to take charge of any of PENSKE's or its subsidiary, properties; (d) or if any deposit account or other property of PENSKE, or its subsidiary be attempted to be obtained or held by writ of execution, garnishment, attachment, condemnation, levy, forfeiture or other legal process; (e) or PENSKE, or its subsidiary, takes any action to authorize any of the foregoing, the entire remaining balance becomes immediately due and payable without notice or demand.
- (4) It is further agreed that ARB considers the amounts described in "Terms and Release", to be punitive in nature, rather than compensatory. Furthermore, the alleged penalty is intended to deter and punish PENSKE for alleged violations of state environmental statutes, and these penalties are payable to and for the benefit of ARB, a governmental unit. Therefore, for purposes of this Agreement and for the payment required hereunder, it is agreed that these amounts imposed on PENSKE by ARB arising from the facts described in recital paragraphs (1) through (16) shall be considered "penalties" are, therefore, non-dischargeable under 11 United States Code § 523 (a)(7), which provides an exception from discharge for any debt to the extent such debt is for a fine, penalty or forfeiture payable to and for benefit of governmental unit, and is not compensation for actual pecuniary loss, other than certain types of tax penalties.

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- (5) PENSKE shall not violate HSC §§ 43701 *et seq.*, 44011.6 *et seq.*, and 13 CCR §§ 2180 *et seq.*, 2190 *et seq.*, and 2485 *et seq.*
- (6) Upon request, PENSKE shall submit copies of all PSIP compliance records for the year 2016 to ARB by January 31 of the following year. **Copies shall be addressed to the attention of Mr. Randy M. Rhondeau at the California Air Resources Board, Enforcement Division, P.O. Box 2815, Sacramento, California 95812.** ARB reserves the right to visit any PENSKE fleet location at a mutually agreeable time and manner, to conduct compliance audits for the HDVIP and PSIP, or any other applicable ARB program.
- (7) PENSKE shall complete Low NOx Software Upgrades (reflash) on all applicable heavy-duty diesel engines operating in California and report to ARB within 45 days of this agreement.
- (8) PENSKE shall remain in compliance with the ECL regulation as codified in 13 CCR § 2183.
- (9) PENSKE shall instruct all employees who operate diesel-fueled vehicles to comply with the idling regulations set forth in 13 CCR § 2485, within 45 days of this Agreement.
- (10) PENSKE shall not violate the Truck and Bus regulation as codified in 13 CCR § 2025.
- (11) This Agreement shall apply to and be binding upon PENSKE, and its officers, directors, receivers, trustees, employees, successors and assignees, subsidiary and upon ARB and any successor agency that may have responsibility for and jurisdiction over the subject matter of this Agreement.
- (12) This Agreement constitutes the entire agreement and understanding between ARB and PENSKE concerning the subject matter hereof, and supersedes and replaces all prior negotiations and agreements between ARB and PENSKE concerning the subject matter hereof. ARB represents and warrants that it is the sole party to enforce the alleged Violations and that it has not transferred, assigned or otherwise sold any portion of any rights or claims it holds herein.
- (13) No agreement to modify, amend, extend, supersede, terminate, or discharge this Agreement, or any portion thereof, is valid or enforceable unless it is in writing and signed by all parties to this Agreement.
- (14) Severability. Each provision of this Agreement is severable, and in the event that any provision of this Agreement is held to be invalid or unenforceable, the remainder of this Agreement remains in full force and effect.

- (15) This Agreement shall be interpreted and enforced in accordance with the laws of the State of California, without regard to California's choice-of-law rules.
- (16) This Agreement is deemed to have been drafted equally by the Parties; it will not be interpreted for or against either party on the ground that said party drafted it.
- (17) Senate Bill 1402 (Dutton, Chapter 413, statutes of 2010) requires ARB to provide information on the basis for the alleged penalties it seeks (HSC § 39619.7). This information, which is provided throughout this settlement agreement, is summarized here:

The manner in which the penalty amount was determined, including a per unit or per vehicle penalty.

Penalties must be set at levels sufficient to discourage violations. The penalties in this matter were determined in consideration of all relevant circumstances, including the eight factors specified in HSC §§ 42403 and 43024.

PSIP Violations

The per vehicle penalty for the PSIP violations involved in this case is a maximum of \$500.00 per vehicle per violation per year. The penalty obtained for the PSIP violations involved in this case is \$357,375 for 953 violations involving approximately 692 vehicles, or \$375.00 per vehicle per violation.

The penalty was discounted based on the fact that this was a first time violation and the violator made diligent efforts to comply and to cooperate with the investigation.

Truck and Bus Violations

The per unit penalty for the Truck and Bus violations involved in this case is a maximum of \$1,000 per vehicle per day for strict liability violations or \$10,000 per vehicle per day for negligent or intentional violations.

The penalty obtained for the Truck and Bus violations involved in this case for failure to meet the requirements of the Engine Model Year Compliance Schedule for heavier vehicles is \$175,500.00 or approximately \$250.00 per month of violation:

- \$60,250.00 for 41 vehicles with a 2000-2004 model year engine (241 months total in violation); and

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- \$107,250.00 for 43 vehicles with a 2005-2006 model year engine (429 months total in violation); and
- \$8,000.00 for 3 lighter duty vehicles with 1995 and older model year engines (32 months total in violation).

The penalty was discounted based on the fact that this was a first time violation and the violator made diligent efforts to comply and to cooperate with the investigation.

The provision of law the penalty is being assessed under and why that provision is most appropriate for that violation.

PSIP Violations

The penalty provision being applied to the PSIP violations is HSC § 43016 because PENSKE failed to test, measure, record, and maintain records of smoke emissions from its fleet of heavy-duty diesel vehicles for the years 2011 and 2012 in violation of the PSIP regulation in 13 CCR § 2190 *et seq.*, for approximately 692 vehicles. Since the PSIP regulation was adopted pursuant to authority granted in Part 5 of Division 26 of the HSC and since there is no specific penalty or fine provided for PSIP violations in Part 5, HSC § 43016 is the applicable penalty provision.

Truck and Bus Violations

The penalty provision being applied for the Truck and Bus regulation (13 CCR § 2025) violations in this case is HSC § 39674 because the Truck and Bus regulation is an Airborne Toxic Control Measure adopted pursuant to authority contained in HSC §§ 39002 *et seq.*, 39650-39675 and because PENSKE failed to bring their diesel fleet into compliance by the deadlines set forth in 13 CCR § 2025(g).

Is the penalty being assessed under a provision of law that prohibits the emission of pollution at a specified level, and if so, a quantification of excess emissions, if it is practicable to do so.

PSIP Violations

The PSIP provisions cited above do prohibit emissions above a specified opacity or level of g/hp-hr. However, since the hours of operation of the noncompliant units involved and their individual emission rates are not known, it is not practicable to quantify the excess emissions.

Truck and Bus Violations

The provisions cited above do prohibit emissions above a specified level of g/hp-hr. However, since the hours of operation of the noncompliant trucks involved and their individual emission rates are not known, it is not practicable to quantify the excess emissions.


- (18) PENSKE acknowledges that ARB has complied with Senate Bill 1402 in prosecuting or settling this case. Specifically, ARB has considered all relevant facts, including those listed at HSC § 43024, has explained the manner in which the penalty amount was calculated, has identified the provision of law under which the penalty is being assessed and has considered and determined that the payment is being assessed under a provision of law that prohibits the emission of pollutants at a specified level.
- (19) The settlement payment was determined based on the unique circumstances of this matter, considered together with the need to remove any economic benefit from noncompliance, the goal of deterring future violations and obtaining swift compliance, the consideration of past penalties in similar cases, and the potential costs and risk associated with litigating these particular violations. Penalties in future cases might be smaller or larger on a per unit basis.
- (20) The penalty was based on confidential settlement communications between ARB and PENSKE that ARB does not retain in the ordinary course of business. The payment is the product of an arm's length negotiation between ARB and PENSKE and reflects ARB's assessment of the relative strength of its case against PENSKE, the desire to avoid the uncertainty, burden and expense of litigation, obtain swift compliance with the law and remove any unfair advantage that PENSKE may have secured from its actions. This settlement was reached as a compromise to a disputed claim. Penske disputes the allegations and by entering into this settlement, make no admission of liability or fault. The Parties agree that this Agreement does not constitute any factual or legal precedent and cannot be used as evidence in any subsequent proceeding of any kind, except to enforce the terms hereof.
- (21) **RELEASE.** Now therefore, in consideration of the payment on behalf of PENSKE to the Air Pollution Control Fund and the Peralta Colleges Foundation, ARB hereby releases PENSKE and their principals, subsidiaries, officers, agents, predecessors and successors from any and all claims, causes of actions, demands, penalties, fines, violations or amounts related to or arising out of any claim, right, demand ARB may have or have in the future, known or unknown, based on the circumstances described in paragraphs (1) through (16) of the

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Recitals. The undersigned represent that they have the authority to enter into this Agreement.

CALIFORNIA AIR RESOURCES BOARD

PENSKE TRUCK LEASING CO., L.P.

Signature: 

Signature: 

Print Name: Richard W. Corey

Print Name: Richard S. Harris

Title: Executive Officer

Title: V.P. Operating, AX

Date: 12/15/2016

Date: November 28 2016