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Ms. Sandra Berg
Supervisor John Gioia
Mr. Hector De La Torre
Mayor Pro Tem Judy Mitchell
Mrs. Barbara Riordan
Supervisor Ron Roberts
Supervisor Phil Serna
Professor Daniel Sperling

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Mr. Richard Corey, Executive Officer
Mr. Alberto Ayala, Deputy Executive Officer
Ms. Edie Chang, Deputy Executive Officer
Ms. Lynn Terry, Deputy Executive Officer
Ms. La Ronda Bowen, Ombudsman
Mr. Scott Bacon, Air Pollution Specialist, MLD
Mr. Michael Benjamin, Chief, MLD
Mr. Brad Cole, Air Pollution Specialist, MLD
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Mr. Erik White, Division Chief, Mobile Source Operations Division

ALSO PRESENT
Mr. Tom Austin, Motorcycle Industry Council
Mr. Max Baumhefner, NRDC
Mr. Damian Breen, BAAQMD/CAPCOA
Mr. Rasto Brezny, MECA
Mr. John Clements, Kings Canyon Unified School District
Mr. Daniel Davids, Plug In America
Ms. Jessica DePrimo, NSCAPCD
Mr. Steven Douglas, Alliance of Automobile Manufacturers
Mr. Sean Edgar, CleanFleets.net
Mr. Mike Ferry, California Center for Sustainable Energy
Mr. Jaime Hall, CALSTART
Mr. Nicholas Haris, AMA
Mr. Ted Harris, California Stratgis, EVI, Proterra
Mr. Henry Hogo, Assistant Deputy Executive Officer, South Coast Air Quality Management District
Mr. Mike Krausse, PG&E

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Mr. Scott Lavery, UPS
Mr. Michael Lord, Toyota
Mr. Mark Loutzenhisser, SMAQMD
Mr. Fred Minassian, South Coast AQMD
Mr. Jonathan Morrison, California New Car Dealers Association
Ms. Lindsey Myers, Yamaha
Ms. Rachael O'Brien, Union of Concerned Scientists
Mr. David Pickett, District 36 Motorcycle Sports Committee, Inc.
Mr. Raoul Renaud
Mr. Randy Roesser, Deputy Director, Fuels and Transportation Division, CEC
Mr. Seyed Sadredin, SJVAPCD
Mr. Matt Schrap, Crossroads Equipment Lease and Finance
Mr. Chris Shimoda, California Trucking Association
Ms. Angela Strand, Smith Electric Vehicles
Ms. Eileen Tutt, CaETC
Mr. Mike Watt, San Diego APCD
Mr. Daniel Witt, Tesla Motors
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CHAIRPERSON NICHOLS: The July 25th, 2013, public meeting of the Air Resources Board will come to order.

Before we do the roll call, we will have the Pledge of Allegiance. I've just asked Supervisor Serna to lead us in pledge.

(Thereupon the Pledge of Allegiance was Recited in unison.)

CHAIRPERSON NICHOLS: Madam Clerk, will you please call the roll?

BOARD CLERK JENSEN: Dr. Balmes?

Ms. Berg?

BOARD MEMBER BERG: Here.

BOARD CLERK JENSEN: Mr. De La Torre?

BOARD MEMBER DE LA TORRE: Here.

BOARD CLERK JENSEN: Supervisor Gioia?

BOARD MEMBER GIOIA: Here.

BOARD CLERK JENSEN: Mayor Pro Tem Mitchell?

BOARD MEMBER MITCHELL: Here.

BOARD CLERK JENSEN: Mrs. Riordan?

BOARD MEMBER RIORDAN: Here.

BOARD CLERK JENSEN: Supervisor Roberts?

BOARD MEMBER ROBERTS: Here.

BOARD CLERK JENSEN: Supervisor Serna?

BOARD MEMBER SERNA: Here.
BOARD CLERK JENSEN: Dr. Sherriffs?
Professor Sperling?
BOARD MEMBER SPERLING: Here.
BOARD CLERK JENSEN: Chairman Nichols?
CHAIRPERSON NICHOLS: Here.
BOARD CLERK JENSEN: Madam Chair, we have a quorum.
CHAIRPERSON NICHOLS: Thank you very much.
Welcome, everyone.
A couple of announcements before we get started this morning.
First of all, for anyone who is not familiar with our process, if you wish to testify and you haven't signed up online, you need to fill out a request to speak card that's available in the lobby or from the Clerk and to give it to the Clerk. We prefer that you put your name on the card, though it's not required. And if you did sign up online to testify, you don't need to sign up again, but you do need to check in with the Clerk just to make sure that your name does not get removed from the list.
We do impose a three-minute time limit on speakers. And if you haven't ever experienced this before, it goes by really fast. So it's much better if you don't feel like you have to go through your written testimony, but just summarize it in your own words. We
will get your written testimony, and we'll have an opportunity to read it.

I want to point out the emergency exits at the rear of the room. And we have emergency exits also here behind the dais. In the event of an alarm ringing, we are required to evacuate this room immediately and go down the stairs at the back of the auditorium and out of the building until we get the all-clear signal.

We have several regulatory items this morning. We're also planning to break at around lunchtime. And we will have a closed session after we finish with the item on Proposition 1B.

So with that, I think we can start right in with the first item, which is the adoption of regulations that would amend the certification and test procedures for vapor recovery equipment used at gasoline dispensing facilities in California and on cargo tanks that deliver gasoline to those facilities. Our vapor recover regulations have been in place since 1975, and they've been updated a few times since then in order to try to either make the regulations more enforceable or to get additional emissions reductions. And at this point, I think I'll turn it over to Mr. Corey to begin the presentation.

DEPUTY EXECUTIVE OFFICER COREY: All right.
Thank you, Chairman Nichols, members of the Board.

As the Chair stated, the Board for nearly 40 years has adopted and periodically amended regulations that control vapor emissions associated with the storage and transfer of gasoline. These regulations apply to each step of the gasoline distribution network, including refineries, bulk storage facilities, cargo tanks, and approximately 20,000 gasoline dispensing facilities throughout California.

Over time, the Board has adopted certification procedures that establish standards for equipment in various test procedures that are used to verify compliance with those standards.

Today's proposal would make minor technical changes and improve the clarity of several test procedures for above-ground storage tanks and streamline regulatory compliance cargo tank operators.

Staff's presentation will provide an overview of the proposal as well as a brief history of the vapor recovery program and a vision for its future.

And with that, I'd like to introduce Mr. Scott Bacon of our Monitoring and Laboratory Division to make the presentation. Scott.

(Whereupon an overhead presentation was made as follows.)
AIR POLLUTION SPECIALIST BACON: Thank you, Chairman Nichols and members of the Board.

And thank you for the opportunity to discuss the gasoline vapor recovery and cargo tank programs and our proposed amendments to certification and test procedures.

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AIR POLLUTION SPECIALIST BACON: Today's presentation consists of three sections.

First, we will briefly cover the history of California's vapor recovery program and the beneficial contributions this program has made towards meeting air quality goals.

Next, we will discuss the amendments to certification and test procedures that are being considered for adoption today.

Finally, we will take a look forward at the future of the vapor recovery program and the challenges that lie ahead.

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AIR POLLUTION SPECIALIST BACON: Each year in California, approximately 15 billion gallons of gasoline is distributed through a complex network, from bulk storage facilities where it is transferred to one of roughly 5,000 cargo tank deliver trucks and then delivered to one of approximately 20,000 fueling facilities, of
which about half are retail gas stations and half are non-retail operations, such as farm tanks and private fleet fueling.

Gasoline is ultimately dispensed to the vehicle's fuel tank. Vapors can be emitted throughout this process during storage and each time fuel is transferred so the Board has adopted regulations that control emissions during fuel storage and transfer at each step.

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AIR POLLUTION SPECIALIST BACON: There are two primary reasons why controlling emissions of gasoline vapors is important. First, gasoline vapors can combine with sunlight, oxygen, and nitrogen oxides, or NOx, to increase regional ozone levels. Breathing ozone can trigger health problems with symptoms such as chest pain, coughing, irritated throat, and nose. It's especially harmful to children, the elderly, and people who suffer from respiratory illnesses like asthma, bronchitis, and emphysema.

The second reason to control these vapors is that they contain Benzene, which is a known carcinogen. For average Californians, the vapor recovery program is most noticeable at the pump when fueling your vehicle. This video is an infrared view of the vehicle fueling, first without vapor recovery and then with. The video clearly
shows that fueling without vapor recovery results in exposure to vapors.

In the second portion of the video, you will notice that vapor recovery is an effective control measure to reduce that exposure for individuals who fuel vehicles or who live and work near the gas stations.

The Board's requirements to control gasoline vapor emissions are an important part of efforts to reduce regional ozone levels and health risks associated with Benzene exposure.

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AIR POLLUTION SPECIALIST BACON: This chart shows statewide gasoline throughput and emissions of gasoline vapors from 1975 to 2010.

In 1975, when the Board first adopted regulations for controlling emissions of gasoline vapors, approximately 415 tons per day were being emitted statewide, while throughput of gasoline was about ten billion gallons annually.

Over the following years, industry implemented ARB's newly required controls to recover vapors during gasoline transfers and to contain those vapors. Emissions were drastically reduced.

The Benzene Air Toxic Control Measure was adopted in 1988 and enhanced vapor recovery for gasoline
dispensing facilities was adopted in 2001. Through the combined efforts of the Board, local air districts and industry, gasoline vapor emissions have declined by more than 80 percent since 1975, in spite of the fact that statewide gasoline use has increased by nearly 50 percent. These emissions reductions have been achieved in a very cost effective manner, with cost effectiveness comparable to other similar Board regulations.

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AIR POLLUTION SPECIALIST BACON: The success of California's Vapor Recovery Program can be attributed to a partnership between ARB, local air districts, and industry.

ARB is responsible for establishing performance standards and certification procedures for equipment that controls gasoline vapor emissions. ARB develops test procedures used to certify vapor recovery equipment and verify compliance in the field.

The air districts play a vital role in the success of the program. They are responsible for implementing the program and enforcing requirements adopted by ARB. This is accomplished primarily through issuing permits, inspecting gas stations, and taking enforcement actions when requirements are not mortality.

Local districts also provide essential data that
helps ARB to quantify emissions and identify areas where
the program can be improved.

Gas station and cargo tank operators and
equipment manufacturers also a vital contributor to the
success of the Vapor Recovery Program. They are
responsible for developing innovative control technologies
that meet ARB requirements and for installing, operating,
and maintaining certified control systems as required by
ARB.

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AIR POLLUTION SPECIALIST BACON: Legal authority
for the program is based in statutes that require ARB to
control emissions from gasoline distribution and marketing
operations. These statutes authorize ARB to adopt
regulations for certifying vapor recovery systems and
specify that only certified vapor recovery systems and
equipment can be used in California.

Regulations also establish performance criteria
for vapor recovery systems and reference various
certification and test procedures. Certification
procedures define the process for certifying systems and
refer to test procedures that are used for certification
testing.

During equipment certification, test procedures
are conducted by ARB staff. After certification, some of
those test procedures may be used to determine ongoing compliance of systems installed at gas stations. Because certification and test procedures be incorporated by reference into regulations, only the Board can amend them through a formal rule-making process. The Board has amended certification and test procedures through the rule-making process many times in the past, and we are here today to consider additional amendments.

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AIR POLLUTION SPECIALIST BACON: At this point, I would like to discuss the regulatory amendments that are being proposed today.

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AIR POLLUTION SPECIALIST BACON: Staff is proposing to amend the certification procedure for vapor recovery equipment used on cargo tanks that deliver fuel to dispensing facilities, as well as three test procedures that are referenced within that certification procedure.

We are also proposing to amend two test procedures used by ARB staff during certification of vapor recovery systems for above-ground storage tanks.

The proposed amendments would allow cargo tank operators to conduct a single annual leak decay test that could be used to comply with both California and Federal requirements.
Currently, different tests are required for California and federal compliance. The amendments would also eliminate outdated and unnecessary requirements for ARB certification of any new cargo tank vapor recovery system. This would reduce the burden on manufacturers to certify individual components.

Cargo tanks would still need to be certified annually based on leak delay testing results, so there will be no increase in emissions or change in the cargo tank performance standards.

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AIR POLLUTION SPECIALIST BACON: Staff is also proposing amendments to two test procedures used during certification of new vapor recover systems for above-ground storage tanks. One procedure is a vapor recovery efficiency test originally developed for use on underground tanks.

Amendments would correct a technical deficiency with this procedure and make it more representative of the conditions typically encountered on the above-ground storage tanks.

A second test procedure would be amended to improve measurement equipment specifications and calibration methods and to allow flexibility to accommodate various configurations of dispensing equipment.
and vapor recovery equipment at the facilities where testing is conducted. Both of the test procedures are used exclusively by ARB staff, so these changes will not impact gas station operators.

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AIR POLLUTION SPECIALIST BACON: These proposed amendments are the latest in a long series of proposals that have been approved by the Board over the years in order to improve the vapor recovery program. The proposed amendments are primarily technical and administrative in nature, with no economic, environmental, or emissions impacts.

Current vapor recovery performance standards are not being changed. The proposal will benefit cargo tank operators by harmonizing State and federal regulations so that a single compliance test can be used for both. It will also reconcile regulations with the way the program is currently being implemented. In addition, test procedures used by ARB staff during certification of vapor recovery equipment would be improved.

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AIR POLLUTION SPECIALIST BACON: Now I would like to take a moment the discuss future vapor recovery program priorities.

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AIR POLLUTION SPECIALIST BACON: In the near term, staff is focused on three primary objectives.

First, we will focus efforts on assessing how well various gasoline vapor control technologies are working in the real world.

Second, we would like to improve and enhance the capability of in-station diagnostics, or ISD.

And finally, we would like to review and where appropriate revise test procedures that are used by service personnel to verify compliance of vapor recovery systems in the field.

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AIR POLLUTION SPECIALIST BACON: In-station diagnostics, or ISD, is an electronic system installed at gas stations to monitor vapor recovery system performance and indicate when performance has degraded. The requirement for gas stations to install ISD systems was adopted by the Board in 2001, and most ISD systems have been installed at most gas stations in California since 2010.

The concept behind ISD is very similar to the check engine light on a vehicle's on-board diagnostics, or OBD, system. ISD identifies vapor recovery equipment failures and alerts operators so that problems can be corrected and the vapor recovery system will perform as expected.
intended.

On-board refueling vapor recovery, or ORVR, is a carbon canister vapor recovery system installed within the vehicle being fueled. Its use is required by federal regulations for some passenger vehicle models 1998 or newer. The ORVR requirement phased in over the years so that as of model year 2006, all new vehicles except heavy-duty trucks are equipped with ORVR systems. ORVR controls emissions associated with vehicle fueling. When fueling vehicles without ORVR, these emission are controlled by vapor recovery systems installed on the gas station.

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AIR POLLUTION SPECIALIST BACON: Over the past several years, staff has focused efforts on certifying new vapor recovery systems to meet the latest performance standards.

In the coming years, we expect to shift focus towards a more rigorous assessment of in-use performance. This effort will help us to ensure that we are achieving the necessary reductions of ozone-forming vapors and Benzene exposure and also help us to identify areas of future improvement.

We will work to develop innovative in-use measurement technologies and data management tools to help
identify systems that are not performing as certified.

Our goal is to achieve in-use performance that is as close as possible to the levels observed during certification testing. As we gain a better understanding of in-use vapor recovery equipment performance, we'll work with equipment manufacturers to review and, if appropriate, increase the required equipment warranty period.

Current regulations require a minimum warranty of one year from the date of installation. A longer warranty period would serve to promote increased equipment durability and reliability, which should help to improve in-use performance and cost effectiveness.

We will also track the increased prevalence of vehicles that are equipped with on-board refueling vapor recovery, or ORVR. As older vehicles without ORVR are replaced with newer ORVR equipped vehicles, the emissions reduced by gas station based vapor recovery systems decreases, so staff intends to track this trend.

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AIR POLLUTION SPECIALIST BACON: ISD has been effective tool for identifying vapor recovery equipment failures since it was first required for new gas stations in 2005 and retrofitted to existing stations throughout California in 2010. However, one parameter of pressure
monitoring has led to numerous alarms referred to as over-pressure alarms that are often unrelated to equipment failures.

The cost of responding to these alarms has been significant. ARB, working in cooperation with air districts, has issued an advisory that addresses this problem temporarily, but a more permanent regulatory solution is needed.

Staff is also working with ISD developers to identify opportunities for existing ISD equipment to perform additional functions. And improved ISD system could potentially be used to perform certain compliance tests, trouble shoot equipment failures, verify repairs, and provide remote access to data. This could lead to a significant reduction in testing and maintenance costs, as well as reducing the time and complexity of compliance inspections.

Staff will work with industry and our local district colleagues to develop these ideas for the Board's consideration in late 2014.

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AIR POLLUTION SPECIALIST BACON: Gas stations are periodically required to test their vapor recovery equipment systems using ARB test procedures. This testing must be conducted by a qualified contractor and it often
requires the gas station to be shut down. Periodic testing accounts for a significant portion of the ongoing cost of compliance, so staff will work with industry and air districts to review and improve field compliance test procedures. The goal will be to retain the integrity of these tests, while reducing test time and associated costs.

Staff has conducted an industry survey to identify which of the current test procedures could most benefit from revision. Once revisions are completed, we will bring them to the Board for consideration. Revising field compliance test procedures, along with our planned ISD improvements and efforts to better understand in-use performance, will all help to retain the current levels of control while making compliance easier for gas station operators.

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AIR POLLUTION SPECIALIST BACON: Staff believes that the amendments presented for your approval today are a natural progression of the past success of the vapor recovery program. To ensure continued program effectiveness, we ask the Board the adopt today's proposed amendments to certification and test procedures for cargo tanks and above-ground tanks. These amendments will improve existing procedures and ease the burden of
compliance for cargo tank operators without causing any increase in emissions or costs.

Going forward, the Vapor Recovery Program will remain an important part of California's efforts to control regional ozone levels and Benzene exposure. We will continue to work towards reducing gasoline vapor emission in the coming years.

Absent any changes to vapor recovery controls, we expect that gasoline vapor emissions will track proportionately to fuel dispensed. As California transitions to more fuel efficient vehicles and alternative fuel sources, gasoline consumption and associated vapor emissions should trend downward. This projection is very positive for California's air quality in the coming years. Still, as long as gasoline remains a major fuel source, we will need to maintain an effective vapor recovery program.

Staff looks forward to bringing a proposal to the Board in 2014 that will add increased capabilities and eliminate existing technical problems with in-station diagnostic systems used at gas stations.

Thank you very much for your time and consideration.

CHAIRPERSON NICHOLS: Thank you.

Board member questions or comments?
Supervisor Gioia.

BOARD MEMBER GIOIA: One question, and we talked about this the other day. So there was some just concern expressed by Bay Area air district staff about whether the change from certifying individual pieces of vapor recovery equipment to certifying the cargo tank would result in any increase in VOC emissions. It sounds like you will do testing to ensure that doesn't happen. I know that's clearly not the intention. But I know you don't want that to be an unintended consequence. There was some concern to understand the check back with the Board to look at emission levels with the new system of certification versus the old system.

AIR POLLUTION SPECIALIST COLE: Currently --

CHAIRPERSON NICHOLS: Would you introduce yourself, please?

AIR POLLUTION SPECIALIST COLE: Yes, Brad Cole with the Enforcement Division, California Air Resources Board. Apologize.

Currently, the tanks are tested annually and it need to meet the California leak rate criteria. That standard will continue with the proposal. So as long as the tank meets the current Executive Order for cargo tank vapor recovery systems and is compatible above and below when delivering and meets that annual leak rate criteria,
there should be no increase in emissions.

BOARD MEMBER GIOIA: Thanks. I just wanted to raise that. I appreciate you've addressed that.

CHAIRPERSON NICHOLS: Other comments or questions?

Yes, Ms. Mitchell.

BOARD MEMBER MITCHELL: Good morning. I know there have been some discussions about test procedure 201.1. I was wondering, those discussions have occurred with the South Coast District and perhaps other districts. I was wondering whether staff had any comment on that.

MONITORING AND LABORATORY DIVISION CHIEF BENJAMIN: Michael Benjamin, Monitoring and Laboratory Division.

Yes, we have had extensive discussions with South Coast staff -- and I believe you will be hearing from them during the comment period -- that we believe that the proposed amendments that you're hearing today are a significant improvement over the existing test procedure. We recognize that there's some additional refinements that enforced to be made, and so we are undertaking a field test study this summer in collaboration with South Coast staff. We will look at the results of that. And then based on that information, we make some additional refinements, if needed.
BOARD MEMBER MITCHELL: Thank you.

CHAIRPERSON NICHOLS: Okay. Thank you. Should we turn to public comment then? I have only one witness who signed up, Henry Hogo from the South Coast Air Quality Management District. Good morning.

MR. HOGO: Good morning, Chairman Nichols, members of the Board.

I'm Henry Hogo, Assistant Deputy Executive Officer of the South Coast Air Quality Management District.

As Ms. Mitchell indicated, we have been in discussions with Mr. Benjamin and his staff regarding test procedures, specifically to the single wall above-ground storage tanks which could impact the efficiency of the systems later on. And we appreciate the staff hearing our concerns and addressing these concerns through this field testing program.

With that, we urge you to adopt the proposed amendments and we look forward to working with staff on this. Thank you.

CHAIRPERSON NICHOLS: Thank you, Mr. Hogo.

I don't believe we have any other witnesses on this item, so we can close the hearing.

I think it's been underscored here several times, but just to repeat it, this is a program that has been
around for a long time. It was in need of review, and it's gotten some changes proposed that seem to be all in the direction of just making it easier to administer and enforce. I'm delighted there is no controversy about it at this point. That's very helpful.

But I'm interested in your projections about what you might be dealing with it in the future, because clearly when you have a program that's been around as long as this, it also presents an opportunity to rethink whether all of the equipment that we're using, all the directions we've got are really as good as they could be.

So I do encourage you to be open in your thinking about how to achieve the very best possible results as time goes on.

I think the districts are obviously a rich source of experience and information about this, as well as the industry. So it's good to see old regulations coming back and being refreshed a little bit from time to time. That's a very healthy thing.

Without further ado, I will ask for a motion.

BOARD MEMBER RIORDAN: I would move the approval of Resolution 13-32.

CHAIRPERSON NICHOLS: Second?

BOARD MEMBER MITCHELL: I'll second.

CHAIRPERSON NICHOLS: Second. All in favor
please say aye.

(Ayes)

CHAIRPERSON NICHOLS: Any opposed?
Any abstentions?
Very good. Passes then. Thank you very much.
We will then turn to our next item, which is another one relating to evaporative emissions, but from a different source, off-highway recreational vehicles.
I think as everyone is aware, California is home to many off-road recreational vehicles and people who love them. So they remain an important source of emissions.
And I think as this Board is very well aware, we need additional reductions of reactive organic gases in order to attain the ambient air quality standards for ozone. So we are back looking at these vehicles again to see if there are further improvements.
We hope that we can achieve these through a process that we've used in the past of working with the industry to try to improve technologies. And that's what we are here to hear about today.
So I'll ask Mr. Corey to introduce this item.
DEPUTY EXECUTIVE OFFICER COREY: Thank you, Chairman Nichols.
Mobile sources have historically been the largest source of reactive organic gas emissions in California.
With the success of our control programs from on-road vehicles, the emissions contribution from less well-controlled off-road recreational vehicles has become relatively more important.

Reducing reactive organic gas emissions from this category is a key component of our efforts towards attainment in areas including the South Coast and San Joaquin Valley.

Today, ARB staff will present a regulatory proposal for reducing evaporative emissions from new off-highway recreational vehicles sold in California by adopting readily available evaporative control technology from on-road vehicles. This regulation is expected to reduce reactive organic gas emissions from new off-highway recreational vehicles by more than 70 percent compared to existing vehicles.

Now I'd like to ask Mr. Pippin Mader of our Monitoring and Laboratory group to give the presentation.

CHAIRPERSON NICHOLS: MDL. Okay. Good morning, Mr. Mader.

(Thereupon an overhead presentation was presented as follows.)

AIR RESOURCES ENGINEER MADER: Thank you, Mr. Corey.

Good morning, Chair Nichols and members of the
Today, I will present the proposed regulation to control evaporative emissions from off-highway recreational vehicles, or OHRVs for short.

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AIR RESOURCES ENGINEER MADER: Today's presentation will cover the need for evaporative controls from OHRVs which make up over 70 percent of OHRV emissions and are less well controlled than exhaust.

Staff evaluated innovative technology solutions and updated the OHRV emissions inventory to quantify the cost effective emissions reductions from this category. The proposed regulation is the result of extensive collaboration between ARB and stakeholders and will yield significant emissions benefits.

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AIR RESOURCES ENGINEER MADER: The types of OHRVs this proposal would reduce emissions from are gasoline powered off-road motorcycles, all-terrain vehicles, off-road utility vehicles, sand cars, and off-road sports vehicles.

Over the next 20 years, the current OHRV population in California is expected to grow from 1.2 to 1.5 million. Without new controls, this will lead to an increase in evaporative emission of reactive organic
gases, or ROG.

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AIR RESOURCES ENGINEER MADER: Dr. Haagen-Smit identified ROG emissions as ozone precursors. Together with oxides of nitrogen and sunlight, they create ground level ozone. OHRVs are a significant source of ROG emissions statewide. Their control is especially important in non-attainment areas, such as the San Joaquin Valley and South Coast.

The current State Implementation Plan, or SIP, calendar commits ARB to developing a regulation to reduce ROG from OHRVs in 2013. The proposal we are outlining today meets the commitment described in the 2007 SIP and also serves as a down payment toward meeting future air quality targets.

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AIR RESOURCES ENGINEER MADER: In order to determine the best approach for controlling ROG emissions from OHRVs, it is important to understand how the emissions are generated.

There are three driving mechanisms to evaporative emissions: Permeation through the fuel tank and fuel lines; venting out of the fuel tank vent; and liquid fuel leakage from the carburetor and connectors.

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AIR RESOURCES ENGINEER MADER: These three mechanisms occur during three distinct usage modes. Running loss emissions occur during engine operation. Hot soak emissions are generated immediately after engine operation when the fuel system heats up. And finally, diurnal emissions are generated when the vehicle is stored.

Current regulations limit permeation from the fuel tanks and fuel hoses to some degree, but do not control other evaporative components or processes.

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AIR RESOURCES ENGINEER MADER: This chart summarizes the regulatory history for OHRVs and the percent control from those regulations. For exhaust emissions, the first OHRV standards were adopted by ARB in 1994 and implemented in 1997.

In 1998, the exhaust emissions regulation was amended to establish riding seasons for high performance red sticker OHRVs. The amendment allows red sticker OHRVs to be ridden when their emissions are not expected to impact ozone, but prohibits their operation during peak ozone season.

Compared to federal regulations, the red sticker program provides California additional emissions reductions while furthering a steady transition to high
performance green sticker OHRVs that meet our exhaust emission standards.

The EPA took a first step in controlling evaporative emissions from OHRVs by setting fuel tank and fuel hose permeation standards. ARB harmonized with these standards, which were implemented in 2008. Now, we are proposing the next step to further reduce evaporative emissions from OHRVs starting in 2018.

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AIR RESOURCES ENGINEER MADER: This chart highlights the need for evaporative control and specifically diurnal emissions control. With the standards currently in place, over two-thirds of all ROG emissions from OHRVs are from evaporative sources. Evaporative emissions, specifically diurnal or storage emission, clearly dominate. Diurnal emissions are doubly important because of usage patterns.

OHRVs are often used in ozone attainment areas, such as the Mojave Desert. However, they are predominantly stored in urban non-attainment areas, such as Los Angeles where diurnal emissions contribute to ambient ozone formation.

With this as background, we can start to look at how the proposed regulation was developed.

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AIR RESOURCES ENGINEER MADER: Staff conducted extensive testing and an assessment of technology that can be applied to OHRVs to determine an appropriate evaporative emission standard. Based on this evaluation, we developed prototype OHRV evaporative control systems. The technology was transferred and scaled down from on-road vehicles. This technology includes low permeation fuel hoses and tanks, roll-over valves, carbon canisters, and fuel injection. On-road vehicles, including many on-road motorcycles, have used this technology for over 20 years to greatly reduce evaporative emissions.

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AIR RESOURCES ENGINEER MADER: To evaluate the optimized evaporative controls, staff conducted extensive emissions testing of an off-road motorcycle and ATV using a sealed housing for evaporative determination, or SHED, as shown in these photos. SHED tests were performed to measure running loss, hot soak, and diurnal emissions rates.

In-use OHRVs were tested to develop baseline emission factors. This process provided ARB with a comprehensive understanding of OHRV evaporative emissions and their sources. The difference between the SHED results for the OHRVs with and without evaporative control demonstrates the overall emissions benefit.
AIR RESOURCES ENGINEER MADER: An improved emissions inventory was developed that incorporates new evaporative emissions factors measured using the SHED method as described on the previous slide, vehicle storage and usage patterns derived from a California State University Sacramento survey of California OHRV owners conducted in 2009, and forecasts future year OHRV populations and sales based on the most current vehicle registration data from the California Department of Motor Vehicles, or DMV, housing start data provided by the UCLA Anderson School of Business, and human population growth data provided by the California Department of Finance.

The updated inventory was used to evaluate baseline and controlled emissions. One of the key considerations of the updated emissions inventory was the vehicle population and how the economic conditions affect OHRV sales.

AIR RESOURCES ENGINEER MADER: Off-road motorcycles are the largest category of OHRVs. Historical DMV registration data shows a large decline during the recession. Our analysis found a strong correlation between U.S. housing starts and OHRV sales.

Our near-term forecast to 2017 assumes this
relationship continues during the economic recovery. Our long-term forecast begins in 2018 and assumes new vehicle sales grow at the same 1.2 percent rate as the human population of California.

The projections made in the inventory are further supported by the June 2013 publication of the UCLA Anderson forecast which shows a strong rebound in housing starts, both nationally and in California.

As the proposed regulation is phased in beginning in 2018, emissions benefits will be generated through sales of new vehicles that comply with the proposed more stringent evaporative standards.

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AIR RESOURCES ENGINEER MADER: The industry proposed whole vehicles performance standards reflect the need for diurnal emissions control and give manufacturers sufficient lead time and flexibility to comply. Although the new standards will take effect in 2018, they will be phased in over a four-year period, providing manufacturers flexibility in how to obtain needed emissions reductions.

Diurnal emissions will be measured using newly developed test procedures that ensure emissions reductions while minimizing costs.

The proposal also contains flexibility certification options and provisions for reducing
AIR RESOURCES ENGINEER MADER: The proposed regulation includes a number of innovative features that were developed with input from OHRV manufacturers. Flexible certification options allow manufacturers to use a credit system to cost effectively achieve fleet compliance. This provision encourages manufacturers to produce zero emissions electric vehicles.

The ultimate goal of this regulation is to control evaporative emissions over the entire life of an OHRV. To address tampering, the proposal requires an educational statement and careful placement of the carbon canister on all new OHRVs to ensure that the added cost of control technology results in real world emissions reductions.

AIR RESOURCES ENGINEER MADER: Carbon canisters are expected to be the primary vented emissions control technology used to comply with the stringent diurnal standard. When tipped, carbon canisters can be contaminated with liquid fuel and become ineffective. The test procedure requires the evaporative emissions control system to be designed to withstand a tip event, consistent with typical operation. The tip test
verifies that the carbon canister is not contaminated with liquid fuel.

A cost effective solution to protect the carbon canister from liquid fuel is to install a roll over valve in the vent line. Roll over valves are currently used on many on-road motorcycles.

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AIR RESOURCES ENGINEER MADER: As shown in this slide, under California's recently adopted advanced clean car standard, a new passenger car sold in California in 2018 will be allowed to emit no more than 0.35 grams of reactive organic gases a day. If the rule being proposed today were not adopted, a new OHRV sold in 2018 would likely emit 10 to 15 grams of reactive organic gases a day, roughly 30 to 40 times which would be emitted by a new passenger car.

With the proposed regulation starting in 2018, a new OHRV would be allowed to emit no more than one gram per day of total organic gas, which is roughly three times the emissions of a new passenger car.

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AIR RESOURCES ENGINEER MADER: This regulatory proposal has been carefully developed to be cost effective by maximizing emissions reductions while avoiding unnecessary costs. It provides multiple certification
options to manufacturers and is not expected to limit the
types of OHRVs available in California.

The cost effectiveness was calculated using
industry reported costs. Staff expects the cost of
compliance for most vehicles to be in the lower end of the
range, as forecasted sales rebound.

The cost of this regulation is balanced by the
benefits of the proposal.

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AIR RESOURCES ENGINEER MADER: Implementing this
proposal will greatly reduce ROG emissions from OHRVs. It
is imperative to control evaporative emissions now because
the benefits will not be fully realized for almost
ten years due to the fairly slow turnover of these
vehicles.

This proposal will help us meet our 2023 SIP
commitments and pays off in the long term by reducing ROG
emissions by 8.5 tons per day in 2032.

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AIR RESOURCES ENGINEER MADER: Reduced Benzene
exposure is an important co-benefit of this proposal.
Benzene, which is a component of evaporative emissions, is
a toxic air contaminant and a known human carcinogen.

Our survey shows that the majority of OHRVs are
stored inside attached garages where emissions can
increase concentrations of Benzene, both inside the garage and inside the home, as documented by several recently published studies.

Elevated levels of Benzene have been demonstrated to have significant negative health effects, including increased cancer risk and potential neurological damage.

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AIR RESOURCES ENGINEER MADER: The proposed regulation was collaboratively developed with stakeholders beginning in 2006. Four public workshops and 40 stakeholder meetings were held over the past seven years. We included manufacturers of off-road vehicles in these discussions and on-road motorcycle manufacturers as they had extensive experience complying with similar emissions standards.

We made a number of changes to the proposed rule to address stakeholder concerns, including: Phasing in standards over a four-year period beginning in 2018; providing emission credits for advanced fuel systems, such as zero emissions motorcycles as shown on the previous slide; providing small volume manufacturers with alternative compliance options; streamlining the test procedure to reduce cost to manufacturers; and allowing an integrated exhaust and evaporative emissions label.

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AIR RESOURCES ENGINEER MADER: Despite the collaboration between ARB staff and stakeholders to reach agreement on many key issues, some concerns remain.

Industry has expressed concern that sales of new OHRVs will not recover to the extent predicted by ARB staff, thus making it expensive for them to comply with the proposed 2018 implementation date. However, staff have worked extensively with industry over the past seven years to build compliance flexibility into the rule, including a phase in that will not be fully implemented until 2022, nine years from now.

Given the most recent housing start data from the UCLA Anderson School of Business that shows a strong recovery since the recession, staff believes that the forecasted sales underlying the rule are reasonable.

Another concern raised by industry is the proposal to require evaporative control for all non-racing OHRVs, including red sticker vehicles. There are currently no evaporative or exhaust standard requirements for red sticker OHRVs. As proposed, the regulation would require red sticker vehicles to meet the same new evaporative standards as green sticker vehicles, while providing an exclusion for exhaust standards.

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AIR RESOURCES ENGINEER MADER: Since releasing
the regulatory proposal for public comment, we have become aware of compelling challenges to controlling evaporative emissions from red sticker OHRVs. To address industry's concern with these challenges, we are proposing a 15-day change that will exclude red sticker OHRVs from the current evaporative proposal.

The challenges include, developing new evaporative warranty requirements for a segment where most OHRVs are currently offered for sale with no warranty, seeking a resolution for the definition of an off-road competition vehicle that balances riding area restrictions and the need for emissions reductions, and a thorough evaluation of the best approach to controlling ROG emissions.

Given the relatively small percent contribution from this category in the short term, we have a window of opportunity to work with stakeholders to develop a comprehensive evaporative and exhaust emissions proposal that will deliver the long-term emissions reductions California needs to control ozone.

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AIR RESOURCES ENGINEER MADER: In summary, controlling evaporative emissions from OHRVs will provide emissions reductions that are critical for ARB to meet its air quality goals.
The rule will provide manufacturers with flexibility by providing a four-year phase in beginning in 2018. ARB has tested prototype evaporative systems on OHRVs that demonstrate the proposed standards are feasible with available control technology.

The proposed was developed with extensive stakeholder participation and is cost effective relative to comparable evaporative emissions regulations adopted by ARB.

The proposal will improve public health by reducing ambient ozone concentrations. An added co-benefit is a substantial reduction in exposure to Benzene.

Staff recommends that the Board adopt the proposed regulation with the 15-day changes that continue the evaporative emissions exclusion for red sticker OHRVs.

Staff commits to returning to the Board with a comprehensive proposal for reducing both evaporative and exhaust emissions from these vehicles.

CHAIRPERSON NICHOLS: Thank you. We have six witnesses who have signed up to testify on this item.

Do we have any Board members questions?

Ms. Mitchell.

BOARD MEMBER MITCHELL: Thank you, Chairman.

If I understand you correctly, the red sticker
program now prevents operation on days that are high ozone; is that how it works?

MONITORING AND LABORATORY DIVISION CHIEF BENJAMIN: This is Michael Benjamin.

Yes, actually, it restricts use during the ozone season, not specific days. So it doesn't place a burden on the user in terms of tracking what the ozone is on any given day. It's very clearly stated what months of the year riders are not allowed to use their red sticker vehicles in what parts of the state. So this information is very well known. It's disseminated. The parks department and other riding areas have this information. So it's a restriction on regions of the state and times of the year, not specific days.

BOARD MEMBER MITCHELL: And the red sticker exemption prevents operation.

MONITORING AND LABORATORY DIVISION CHIEF BENJAMIN: Correct. It's a usage restriction. It's not an emissions restriction. So really the trade off here with the red sticker program is in return for being able to ride a bike or operate a vehicle that does not have emissions control, the trade off is that users cannot use it during certain times of the year or in certain parts of the state.

BOARD MEMBER MITCHELL: Okay. Then that leads to
my next question, which is the diurnal emissions occur whether it's operating or not; correct? And so if there is a red sticker exemption, how does that work? Because you're getting emissions whether it's operating or not.

MONITORING AND LABORATORY DIVISION CHIEF

BENJAMIN: That is an excellent question. That was the rational for including red sticker vehicles in the original regulatory proposal. So we recognize and we did recognize and we still recognize that red sticker vehicles emit when they're being stored in residential areas.

What has lead to the 15-day change is not that we're ignoring that these emissions are occurring, but rather that we've learned through discussions with industry that addressing the red sticker issue is more complex than we had previously thought, especially in the area of warranties. What we need to do is take some additional time to work out those issues with a full understanding we will need to come back and address those emissions.

I don't know if you recall the slide that shows the advanced clean car, the new passenger car in 2018 versus the controlled and uncontrolled OHRV. There is no doubt that red sticker vehicles will emit significantly and are significant emitters. So we will need to come back to address that. But that's something we will do in
the coming years.

BOARD MEMBER MITCHELL: Okay. It is a concern I think in those districts that already are non-attainment. And South Coast is one of those as well as San Joaquin. And the issue is that, as your slide showed, 60 percent of the emissions are these diurnal emissions. And I know in South Coast we have the mandate to reduce ozone emissions by about 40 tons per day by 2023. And this could certainly help our South Coast district with a reduction of 3.4 tons or so I think by 2023.

And so I encourage staff to work on this with industry and to reach a solution that helps the non-attainment districts get to the goal that they need to get to.

I would encourage you include in the resolution perhaps a phrase that says that you will be working to help the districts -- the non-attainment districts reach their goals and that this red tag exemption not apply to the diurnal emissions because it seems that it would be reasonable for it not to apply. You're not going to get any extra benefit if we allow that to apply.

CHAIRPERSON NICHOLS: So perhaps if we bring that back to the Board to act on the resolution, we could add some language that dealt with your problem.

BOARD MEMBER MITCHELL: That would be very good.
Thank you, staff, for your work on this.

MONITORING AND LABORATORY DIVISION CHIEF

BENJAMIN: This is Michael Benjamin.

I can just address that within the current draft resolution that we have today, there is explicit language directing the Executive Officer and staff to come back to address the red sticker exclusion explicitly. So we are acknowledging that, and it is something that is currently within the resolution.

BOARD MEMBER MITCHELL: Thank you very much.

CHAIRPERSON NICHOLS: Yes, I think Ms. Berg and then Supervisor Gioia.

BOARD MEMBER BERG: I would like to follow up. Do we have any data showing how many red sticker vehicles or motorcycles we have off-road that we have? What are we talking about?

CHAIRPERSON NICHOLS: What is the population of red sticker vehicles?

MONITORING AND LABORATORY DIVISION CHIEF

BENJAMIN: Yes. We do have an estimate of that from the Department of Motor Vehicle registration data, which we receive annually. So our emissions inventory staff analyzed that data on an annual basis. They did that analysis for this regulation. About 20 percent of the vehicles are red sticker. So in terms of the emission
benefits that we're foregoing with the recommended or proposed 15-day change, it's about 20 percent.

We believe that with the low sales that we're seeing at this time with OHRVs, as well as the fact that turnover of these vehicles is fairly slow and also that the rule does not start to take effect until 2018, that we do have a window of opportunity here where we can address red sticker vehicles. The lost emissions are not that significant in the near term. But over the longer term, it is something that we cannot ignore.

CHAIRPERSON NICHOLS: Mr. Gioia.

BOARD MEMBER GIOIA: So just to be clear, you indicate that there will be additional time to develop a comprehensive rulemaking to control addressing the red stickers. So it may be useful to set some parameters on that time frame. I understand the rule doesn't go into effect for a few years. What were you anticipating as a time frame? It may be useful to define that in the resolution in our approval that there's a -- I was looking through the resolution on that, and I didn't see a time frame. What is your thought about that?

DEPUTY EXECUTIVE OFFICER AYALA: I think I can address that. We're thinking that we should be able to come back to the Board in the next couple years, between 2015, 2016.
This is the case where we are equally concerned about the emissions we are leaving on the table. At the same time, we recognize if we allow for a more comprehensive look at what technology can give us in terms of not only evap control but also exhaust control, what we can bring back to the Board is a much better proposal in terms of getting more emission reductions. That is going to take time.

BOARD MEMBER GIOIA: So it may make sense when this comes back to have language that sets a time frame, whether it's by June 30th of 2016 or something like that, that then sets the outer parameter that you would develop. So everybody -- the industry is aware of that time frame. The public is aware of that time frame. And we're aware of that time frame.

CHAIRPERSON NICHOLS: Thank you.

I have another question that takes this in a slightly different direction, but it's based on the observation that not only are we leaving some emissions reductions on the table with the rule we're dealing with today, but also it's quite a long time before this regulation takes effect at all, during which time current generation vehicles are sitting around apparently in people's garages giving off Benzene emissions as well as other ROG emissions that we're not really in a position to
do anything about.

My question, which is for staff, but for anybody, I suppose, is there any alternative to changing the vehicle itself which could potentially help with the situation even on a non-regulatory basis? In other words, these are not very large vehicles. You know, is there some kind of a hooding technology, like a cover for the motorcycle, the off-road vehicle, some fabric that actually could be used to contain emissions so they would be less of a danger to themselves and to the air basin. Is this something that anybody has even looked at? Is it a silly idea to think that people would put their equipment inside of something that would potentially make their garages a little safer, their homes a little safer, something like that. Is there anything like that in the world?

DEPUTY EXECUTIVE OFFICER AYALA: Taking the analogy of the gas can that is typically used for a lawn mower, I can see there is a component for some education here and outreach because the simplest solution would be to store the motorcycle without fuel.

CHAIRPERSON NICHOLS: Yes, right.

DEPUTY EXECUTIVE OFFICER AYALA: So make sure when you're done riding and having fun that vehicle comes back as close to empty as possible. There's things as
simple as just educating the public that it's probably not a good thing to store a motorcycle with a full tank of gas.

Ventilation in a garage obviously is something we can do as well. So I think there are some things that we can certainly partner with industry to look to see if we can do, as you said, Chairman, some easy solutions, while we take the time to come back with a proposal that addresses that issue as well as exhaust.

CHAIRPERSON NICHOLS: Thank you.

Ms. Berg.

BOARD MEMBER BERG: Just so I'm clear, this regulation is not a fleet modernization. In other words, we aren't going to outlaw current. This is for new sales. And so we're saying in 2018 that there is not going to be a red sticker program or there is going to be some sort of solution for those current motorcycles or off-road recreational vehicles that are currently allowed red stickers.

DEPUTY EXECUTIVE OFFICER AYALA: I think what we're asking the Board is for time to let us work with industry and stakeholders to look at a better solution for remaining evap emissions as well as exhaust. We can come back to the Board in a couple years. Whether that new proposal applies in 2018 or later, I think we need to let
the analysis dictate that. Because this is going to be very much a function of what can we achieve cost effectively with the future of technology that can give us both the evap as well as the emission control.

So while I degree with you that it would be ideal to come back and say, okay, we're catching up to 2018 model year implementation for new vehicles, I think at this point in time it would be premature for us to speculate when that could happen. Because again, if we had that answer, we would be making that proposal today. So we are asking the Board for time to come back and undertake that analysis.

BOARD MEMBER BERG: Okay. I think it's important that industry -- what I'm hearing from some of my fellow Board members -- is that we are keenly interested in a solution and so that we would encourage industry as well as users of these equipment to be as open minded and at the table because we are very interested in the solution.

CHAIRPERSON NICHOLS: Thank you. I think we should perhaps now hear from the stakeholders. So I'll call a couple of names and please come forward.

First is Rasto Brezny from MECA and then Tom Austin representing Motorcycle Industry Council and Henry Hogo.

MR. BREZNY: Good morning, Chairman Nichols and
members of the Board. I'm Rasto Brezny with the
Manufacturers of Emission Controls Association. MECA
represents the leading manufacturers of emission control
technology for all types of vehicles, engines, and
applications.

And the types of technologies that MECA members
are developing and commercializing are not just the
evaporative systems and canisters that we are talking
about today, but also exhaust controls, which I hope that
staff will consider in the future.

MECA supports the staff's proposal today because
we believe that it does present a cost effective approach
for reducing significantly the reactive organic gases from
these off-road recreational vehicles.

We believe focusing the controls on diurnal
emissions makes sense with respect to the duty cycles and
the long storage times these vehicles experience.

And we believe that the evaporative control
technologies based on activated carbon canisters is a
ready available technology that's been proven effective on
passenger cars for over 30 years.

Looking beyond today's proposal, we believe there
is significant opportunities for further reductions of
emissions from these vehicles. And I'd like to highlight
a couple of those.
The first would be further reduction of evaporative controls. Looking at the passive carbon canisters, passive perk technology that is being proposed today, these systems are about 50 to 60 percent efficient. However, the latest technology based on activated purge carbon canisters is on the order of 90 to 95 percent efficient. So I think there is some additional opportunities for future consideration by staff and future amendments to this regulation.

And then also in the area of exhaust controls, we believe that through proper integration of exhaust catalysts, engine controls, as well as fuel system controls to these vehicles, further reductions of both hydrocarbon and NOx are achievable on the order of 50 to 80 percent. And we'd like to work with your staff to demonstrate some of these capabilities.

And finally, I just want to thank you for your consideration of our comments. And I'd like to thank staff for bringing forward this proposal today. If you have any questions, I'll be happy to address them.

CHAIRPERSON NICHOLS: Thank you.

Mr. Austin.

Mr. AUSTIN: Thank you. Good morning, Ms. Nichols and members of the Board.

I'm Tom Austin. I've been consulting with the
Motorcycle Industry Council on this regulation since its beginning about seven years ago. And I've been working quite closely with ARB staff.

We think the staff has done an excellent job of coming up with a test procedure that will minimize what otherwise would be extraordinary cost for low volume manufacturers, and we think we will end up with cost effective controls on these vehicles using the test procedure that the staff has developed.

There are just two issues that we are concerned about as was pointed out in the staff presentation. One has to do with the treatment of red sticker vehicles. It's a little bit more complicated than I think you've heard so far, because in the case of the MIC member companies, most of those red sticker vehicles are true competition vehicles which are statutorily exempt. There's that issue we have to deal with going forward.

Regarding the question you raised, Ms. Nichols, which I think was an excellent question, there are a number of things that can be done with existing vehicles to minimize their diurnal emissions. Covering the vehicle is one option, but just insulating the garage they're in has a big effect. Because when you knock down the diurnal temperature variation in the garage which insulation will do, you knock down the emission significantly. That is
something you might want to consider dealing with in some other manner.

Regarding sales, the staff, in its presentation, showed you that projection they've made based on the economic model that's tied to nationwide housing starts. On the second page of my written testimony that was submitted, I've got a copy of that graph. And then there is a second graph on that page, which is an update of the actual MIC sales data for the vehicles that are graphed in the ISOR.

As the ISOR graph shows, starting in 2010, there's assumptions we have a rapid increase in sales of off-highway recreational vehicles. If you look the second graph on the page, which is the actual updated sales data from MIC, it will show you that that rapid increase is not occurring. Sales have remained flat in 2012 and in 2013, hence the concern we have about whether the 2018 implementation date is really the right implementation date.

This is a relatively small market compared to the passenger car light-duty truck market where currently we're talking about less than 10,000 vehicles per year being sold. When you look at the sales volume for the individual models, more than half of the vehicles in this category have sales in California of less than 100 units
per year. So when a manufacturer starts looking at what's it going to cost me to put evap controls on these bikes and ATVs, it's not the cost of canisters. It's not the cost of the low permeation fuel lines. It's amortizing the fix cost of going through the certification process.

We'd like you to consider the fact sales are not increasing like the staff assumed they would, and a two-year delay would ensure we don't have a number of California dealers being unable to stay in business in this phase-in period because of the low sales we're experiencing.

CHAIRPERSON NICHOLS: I want to ask you to address the comment that was made by Mr. Brezny earlier about the fact that the amount of control that we're getting from these passive canisters is relatively modest in comparison with what we could be getting if we were asking for an active canister, an active purging canister.

MR. BREZNY: Passive canisters can provide much higher than nine percent control on a vehicle like a passenger car that's used every day and purged every day. When you start talking about vehicles that are subject to very long term storage, where they may sit for weeks or months on end. That's when you see the effectiveness of canisters go down. I would say it's more like 65 percent efficiency.
I think you're going to see some approaches from MIC member companies that will go beyond that level of control. There are alternatives to canisters, not just active canisters, but other alternatives I think you'll see. And over the longer term, I think we'll be able to do better than the level of control that comes with this reg.

CHAIRPERSON NICHOLS: Thank you.

Mr. Hogo again, and then Mr. Harris followed by Lindsey Myers and David Pickett.

MR. HOGO: Good morning, again, Chairman Nichols and members of the Board.

Henry Hogo with South Coast Air Quality Management District.

The South Coast staff has been supportive of the proposed regulation as released on June 5th, which includes the red sticker vehicles. And it's important to point out that -- and staff did point out -- that VOC and ROG emissions are an important component to ozone air quality. Even though our air quality management plans are focusing on reducing oxides, we found that there is a need to reduce ROG emissions also in order to maintain a lower level of ozone as we continue to reduce NOx.

More importantly, when we look at the exposure to Benzene, as you may have heard that the Office of
Environmental Health Hazard Assessment has new methodologies for calculating potential cancer risk and the previous risk numbers may be 2.7 to 3 times higher than what they are today. And so we are gravely concerned we're reducing emissions from this category of vehicles.

We recognize that there is a need to look at these red sticker vehicles further. And if you should proceed with excluding them from the regulation, we're proposing to provide some certainties that this category will be covered.

And we have handout today that recommend two alternatives. One, that during the 15-day change that there be some provision that recognize that if no other actions are taken on this category of vehicle that the regulation will take effect. Or vice versa if you were to have a regulation, this would sunset.

The alternative is to include language in the Board adopting resolution, which you do have today. So we would encourage you to keep the red sticker category in the rule in some manner and with the recognition they could be covered in the future.

And with that, we urge you to approve the regulation as proposed. Thank you.

CHAIRPERSON NICHOLS: Thank you.

Nicholas Haris.
MR. HARIS: Good morning. My name is Nicholas Haris. I'm the western states representative for the American Motorcycle Association.

We submitted some comments recently, and I just wanted to touch on a few items. In particular, Chairman Nichols, your comment about keeping the fuel tanks empty, that was going to be my first comment. Typically, these days, especially when you're going to store your vehicle for more than a couple of days or months or weeks, you tend to run the vehicle empty. I do the same thing with chainsaw, log splitter. It's just become standard.

I don't know if it was five or ten years ago, but at this point, I don't know anyone who keeps their ATV or motorcycle in their shop for two months with a full tank. It just doesn't happen, partially because of the concern of effects of ethanol fuels on vehicles. Regardless of what's actually sold, you know, the impression is out there.

So with that, I do think there is a bit of an over-estimation on the diurnal emissions based on the fact I don't think most of these vehicles have fuel in them when they're stored.

We are concerned about the increased costs and likewise the reduced sales offered dealers would be an effect. But of course, I represent the buyers, and we
tend to look at the cost for the end user.

Likewise, the elimination of specific models from the California market would be a significant concern, in particular, youth models. We've gone to great lengths to educate parents, dealers, and the user community to buy the right size vehicle for the right age group, the right size rider. If all of a sudden there is a significant reduction in youth models, that could be some unintended consequences.

Likewise, when we look at some of the additional equipment proposals, it's a lot easier to put extra equipment on a car, on an ATV or side by side. On a motorcycle, you start to run out of places quickly, just practically in terms of it falls over and you damage it or the weight becomes a significant concern for the riders. I used to work in a shop and we saw different ideas come along.

So with that in mind, I would like to see a regulation that is very specific as far as the stated goal of the emissions. However, it doesn't mandate the technology to meet that emissions standard. Therefore, you tell the industry you're going to have a date certain when you're going to have to meet this standard and allow them working with the staff to say, here's how we propose to do it. We've heard today a number of statements about
different technologies that are available. We never know what the next technology is going to be. If we incentivize folks to go out and figure that out, I think that can have a real long-term benefit.

So with that all being stated, I think in theory there's a lot of great things being said here. I would like to see a delay based on the sales information we've heard. Two years seems to be what most folks are asking for. We would support a two-year delay.

CHAIRPERSON NICHOLS: Thank you. Thanks for coming.

Lindsey Myers, and then David Pickett.

MS. MYERS: I'm Lindsey Myers. I'm here on behalf of Yamaha Motor Corporation.

And first, I would like to thank Pippen and Jim and his group for working cooperatively with MIC and the manufacturers.

We would also ask for the two-year delay due to the drop in sales. Approximately 46 percent of our total sales of vehicles in California are off-highway vehicles. And at this time, we do not have the budget or technology to update those to meet the new standards. So that would be a large percentage of sales going away for our dealers.

And only about less than six percent of our total vehicle sales come to California. So creating new
technology for such a small amount of dealers or users is also a problem for us.

CHAIRPERSON NICHOLS: I'm wondering about the two-year delay. Obviously, we've heard this several times now. The standard doesn't take effect for the new vehicles until 2018. So what does the two-year delay -- what does that back out now, I guess? If we pass the regulation today as is, without delay, as you've now requested, what would that enable you to do that you can't do now? The other way around. Why do you need the two-year delay. What is that going to get you?

MS. MYERS: To come up with the new technology and have the money to re-design product that we would need to re-design.

CHAIRPERSON NICHOLS: But you would start re-designing it when for the 2018 vehicles?

MS. MYERS: I couldn't answer that.

CHAIRPERSON NICHOLS: Okay. Maybe somebody else can.

Staff, do you have -- I mean, you must have heard this comment before today. Perhaps you could explain what the industry really is seeking here, other than just delay is always good if you can avoid spending money today and can postpone it, that's always attractive.

AIR RESOURCES ENGINEER PIPPIN: So the way that
works is that roughly speaking it appears that takes about
18 months of R&D for a model to become available. And I
think we can speak more to the sales. I think we have
more information on current sales values based on more
recent DMV data that was available for the ISOR.

But the bottom line here is we're looking for a
recovery -- substantial recovery in the market for
manufacturers to be able to put up the capital for these
models. And our projections appear to have that recovery
and our new data shows that also. I think we may at some
point -- I think we may have some slides on that.

CHAIRPERSON NICHOLS: Mr. Ayala.

DEPUTY EXECUTIVE OFFICER AYALA: I think it as
important for us to state clearly that we, the staff,
disagree that delay is needed. As you heard today, this
proposal has been in the works for several years, six,
seven years in total. As you mentioned, Chairman Nichols,
it doesn't take effect until 2018.

And finally, as with any other regulatory
proposal, we will continue to track it. And we have the
ability to come back to you and make adjustments as we've
done with many other items. So we feel it's not necessary
to implement a delay.

And the last point I want to make is even though
the focus is on the red sticker vehicles, let me remind us
that most of the population is not red sticker. We heard today -- we're talking about 20 percent of the vehicles. The benefit that we're proposing today to you is over the remaining 80 percent of the vehicles. That's why we are very concerned about any delay because we don't think it's necessary. But to the extent that the data comes back and we need to make adjustments, you have the to latitude to direct us to come back.

CHAIRPERSON NICHOLS: Mr. Gioia.

BOARD MEMBER GIOIA: It seems like the staff has built in a delay into the rule. And by having the implementation be in 2018 and there is nothing that prevents us as we move down this time frame to change the implementation date if the technology is not improving. So if you're saying it takes 18 months of R&D, it sort of keeps the -- I don't want to say keeps the pressure, but it keeps sort of a parameter or time frame -- maybe I'll use the word pressure -- to do the research and to implement the new technology. And if truly there is a problem in developing this research and implementing it, we can always re-evaluate the implementation date.

I think, likewise, the staff here has tried to accommodate all sides. I mean, I respect, for example, the comment of the South Coast Air District. But in a sense, what you're saying is we are going to work on a
And what we have now -- maybe it's implementing that too quickly. So as long as we put in a time frame like whether it's 2015 or 2016, I'd like to hear your thoughts, I'm fine, for example, with not going back to the earlier version of this regulation. But setting a time frame that we're going to implement or develop the new rule regarding the red sticker.

So you've tried to sort of thread this needle and across both sides. On one hand, you're getting pushed more to do on one side and on the other hand to do less. I think you're trying to reach some accommodation here, which is always a good balance to achieve.

MONITORING AND LABORATORY DIVISION CHIEF BENJAMIN: This is Michael Benjamin.

I think it would be helpful for the discussion for staff to share some additional analysis that we've done in the last couple of days. And it addresses specifically the issue of sales, what we believe the recovery is going to be. So I'm going to turn it over to Todd Sax of our Emissions Inventory Group.

Let me just say, when we developed the ISOR, we used the best DMV registration data which we had at the time, which was up through 2010. They give us on a regular basis -- a scheduled basis updates to the registration data, which are 25 million records we get
once a year.

So in the past week, a couple of things have happened. We received our 2011 DMV registration data. So we have a new data point indicating what registration of these vehicles looks like in 2011, a year for which in the staff report we've projected the recovery. And in addition, Todd and his staff have gone back and done a cursory analysis of the 2012 data. So it's their assessment of what the 2012 data look like. What you'll hear from Todd in a minute and see is a rigorous assessment of the 2011 data that we just received and a first cut at what the 2012 DMV data look like.

CHAIRPERSON NICHOLS: Okay. Mr. Sax.

BRANCH CHIEF SAX: So we have some backup slides. So what you're looking at here on the left-hand side, this chart is broken into three pieces. On the left-hand side is historical DMV vehicle registration data. And previously in the slide we saw in the presentation, the actual data went from 2000 to 2010.

As Michael said, we were able to process the 2011 DMV data. And the point you see where the solid green line hits the dotted vertical line at 2011 shows what our current new vehicle sales estimate is for the 2011 calendar year.

In addition to that, we received the new UCLA
2013 forecast, which is published in June. UCLA forecasts in June every year their longer term forecasts. So that's the one we use for a lot of the emission inventory categories, including this one.

And what we saw was that their estimate for housing starts and our estimate for its impacts on new vehicle sales really hasn't changed going forward from the previous year's analysis. So we wouldn't revise our analysis much based on the new UCLA forecast.

And thirdly, the black dot that you see at 2012 along the dotted green and dotted red line on this chart shows our estimate or the 2012 population from our latest cut of the DMV database from October of 2012. What you see is there is an increase in new vehicle sales for off-highway motorcycles in the DMV registration database. And that that increase is consistent with our forecast.

Next slide, please.

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BRANCH CHIEF SAX: This slide shows similar information but for all-terrain vehicles in the state. Here, the blue line to 2010 is what you saw in the previous slides during the presentation. There is a significant tick up in 2011 from what we had projected to occur in 2011. And you can see that by the tick up in the blue line relative to the dotted red line, which was our
estimate in the Initial Statement of Reasons.

Looking forward, we looked at the housing starts forecast and its impact on all-terrain vehicles. And what we see is that given the new information, our forecast is a little more aggressive in the next couple years, but really it's consistent with the previous forecast we had come up with.

And thirdly, looking at our estimates from the 2012 DMV data, the black point at calendar year 2012 on that slide, what you'll see is it's a little higher than what we had projected before and in line with what the new UCLA forecasts would be.

So taken together -- next slide.

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BRANCH CHIEF SAX: What we see for the combined all-terrain vehicles and off-road motorcycles, we do expect sales are increasing. Obviously, the recession has had a major, major impact on industry. You can see the decline from the mid-2000s has been on the order of 90 percent or more. So industry is rightly concerned about their ability to sell new vehicles. But my group at least is optimistic they will continue to sell vehicles. And as the economy continues to recover, those vehicle sales will increase.

CHAIRPERSON NICHOLS: Thank you.
I don't really think that we were hearing pessimism about the longer term future. I think the issue that was being presented was that companies weren't in a position right now to invest major capital in compliance with the rule. And I think that's a legitimate point. But I think the response that the way of dealing with this issue that was suggested earlier by Supervisor Gioia and others that really we're setting a benchmark that is a ways out in the future, giving people pent of time to focus on it. I don't think there is a reason why people need to go out and make their final decisions about what's going to be on their 2018 vehicles today, although they certainly do need to start looking at it, which is what we want them to do.

But if we're wrong all of us and things don't pick up as much as planned, there still is time to adjust. So I think that does come through pretty clearly.

We do have one more witness, however, Mr. Pickett from District 36 Motorcycle Sports Committee.

Good morning.

MR. PICKETT: Good morning. Thank you, Mr. Chair Nichols. David Pickett, District 36 Motorcycle Sports Committee.

When the earlier comments were made by staff, there was a reference to stakeholders process. I'm having
difficulty, and I find it curious that the largest OHVH agency in the state that not sitting at the table, that being the off highway motor vehicle recreational division. I don't understand why they were not involved or notified. I don't know who is on the stakeholder round table. I know that most major off-highway vehicle organizations up and down the state were not involved either, nor were we asked to participate. I think this is an issue that it's frustrating where the user community could not be involved more in this process other than notice of meetings on the ARB website.

We're talking millions of Californians that recreate off road. And going back to the early days of the two stroke motorcycle and the red sticker and implementation back in the '90s, during that time, I requested CARB to supply documents of percentage output of emissions, which was not available, still not available. The only thing I got was unit sale numbers from the manufacturers.

Ms. Mitchell made a comment earlier about permeation and vapor escape from motorcycles specifically. I have a problem with that also. As Mr. Haris said, I, too, have a log splitter and a pressure washer and a rototiller and all the other lawn mower stuff that most people have.
Guess what I store my reserve fuel in. Walmart plastic five gallon gas cans. So I'm one guy and I've got ten gallons worth of fuel in a plastic gas can. Is this an issue? Are we going to have to have canisters on our GI cans in the future? So I'm really suspect on that.

There's already a product available for your air vent for your fuel tank, which is a one-way valve. And I found the tipping test documents that were in here. Quite curious also because there is $1.99 retail product that pretty much solves that problem.

Mr. Haris also alluded to most competition users will drain their fuel tank post-event because the latest fuels gum up the carburetor system so bad. You only go through that once. So I didn't see any documentation or study done in that area. And 20 percent of those are red stickers. That's a pretty good chunk of vehicles where we're not having emission standard problems.

Last, I asked that you table this vote today for at least 90 days until you get involvement back from the directors of State Parks General Jackson as well as Chris Conlin from the OHV Division. He's the new Deputy Director. So that staff can communicate between these two agencies and sit down and see if we can figure out how to move forward on this.

Thank you for your time.
CHAIRPERSON NICHOLS: Thank you. That completes the list of witnesses, unless there is anyone else who wanted to testify. So we can close the record I think at this point.

But I will give staff an opportunity to respond if you would care to either on the process or on the specific points that Mr. Pickett made.

MONITORING AND LABORATORY DIVISION CHIEF BENJAMIN: This is Michael Benzene. I would like to respond to some of those questions.

The first relates to process. As you've heard several times, including from industry, this has been a seven-year regulation in the making. It's been very expensive. We've had four public workshops throughout the state. We've had more than 40 meetings with stakeholders, specifically as regards to the State Parks Department. They were at several of our workshops at the very beginning of the regulation in 2006. In fact, I met with one of their managers on development of the emissions inventory in 2006. They were very much aware we were planning to do this regulation.

Subsequent, they chose to subscribe to our list serve for this regulation. So folks who are on that list serve receive notification of all the workshops and all the documents that are posted related to the rulemaking.
So we are aware that the State Parks Department has been very much involved, both personally through meetings that we have had with them at the beginning of the rulemaking as well as subsequent meetings that we have had with them to develop the emissions inventory and other aspects of the rule.

So we have been very engaged with them. And they have had many opportunities to be involved.

CHAIRPERSON NICHOLS: Having been a former Secretary of that agency and quite involved with the Parks Department, I would be surprised if they were contributing directly as far as the technology issue was concerned. Their concern is mainly with making sure that there are adequate opportunities for riders. That is, places for people to ride off-road.

MONITORING AND LABORATORY DIVISION CHIEF BENJAMIN: That is correct. Areas where we had extensive discussions with them had to do with issues of usage. So, for example, the red sticker program you've heard a lot about are how many of the bikes, for example, are being operated in some of these areas, what the population of these vehicles is. So that's where our discussions with them focus. That seemed to be the areas that were of greatest concern to them.

I think another question that's come up a few
times is the issue of storage of gasoline in these vehicles. As part of the regulatory development process, ARB funded a study that was done by Sacramento State University in 2008 where they went out and they did a phone survey of over 2,000 owners of OHRVs across the state and asked them many questions about their usage and storage of their equipment.

One of the questions that was asked explicitly was: How many of you store your piece of equipment with fuel in it? And the response from about 2,000 respondents was that two-thirds of them store their vehicle with gasoline in it, and one-third of them empty the tank.

So clearly it's an issue. I think the results of the survey don't discount what you've heard today, which is some users do chose to drain the tanks, some don't. I just wanted you to be aware that was accounted for in our emissions inventory and in our thought process in developing this regulation.

CHAIRPERSON NICHOLS: Thank you. Any additional Board member questions or comments?

Ms. Mitchell.

BOARD MEMBER MITCHELL: Thank you, Chairman.

I would just want to affirm what Supervisor Gioia has earlier said that I think the 2018 date is adequate. I mean, if it takes 18 months for your R&D and we're still
five years out from 2018 and the economic forecast is good for recovery, I believe that is adequate time.

I mean, we have on the other side of the balance sheet here the obligations of this agency to improve air quality and reduce harmful emissions. And so we are always balancing that obligation against what the industry and the economy may demand. So I think we're doing a good job here of balancing that. I thank staff for all the work they've done on this regulation. And I do think the 2018 date is appropriate.

CHAIRPERSON NICHOLS: Okay. Well, having gotten to this point then, I guess we're ready for a motion.

BOARD MEMBER GIOIA: I'll make a motion to adopt the proposed regulatory language based on the staff recommendation with the suggested modifications limiting applicability to the OHRV red sticker as proposed by the staff with the direction of setting a date to come back I can include that in the motion or not depending on -- so let's start off -- maybe the date should be June 30th, 2016. You dated possibly December 30th, 2015. Why don't we be a little more aggressive. December 30th of 2015. You can always come back and say we need more time.

CHAIRPERSON NICHOLS: Staff, of course, always hates it when we give them directions to do --

BOARD MEMBER GIOIA: Is that something that's
okay? I think it accommodates some of the concerns also
of South Coast on setting a date.

CHAIRPERSON NICHOLS: It's sending a signal this
is going to move forward.

BOARD MEMBER MITCHELL: Supervisor, would that
date be for review of the determinations of the red
sticker program?

BOARD MEMBER GIOIA: Yeah. Right. For the
December 30th, 2015.

CHAIRPERSON NICHOLS: And with that, would you
like to second the motion?

BOARD MEMBER MITCHELL: I will second it.

CHAIRPERSON NICHOLS: All right. Any additional
comments or discussions?

If not, let's proceed to a vote then. I don't
think we need to do a roll call. I think we'll just ask
for a people to say aye or nay. All in favor, please say
aye.

(Aye)

CHAIRPERSON NICHOLS: Opposed.

Any abstentions?

All right. Very good. Thank you, staff. I
think we should take about a five-minute break for the
court reporter and to shift the personnel in the front row
here. Will that work? Okay.
(Whereupon a recess was taken.)

CHAIRPERSON NICHOLS: We are ready to resume. We'll ask you to take your seats, please.

The next agenda item is the AB 118 Air Quality Improvement Program, otherwise known as AQIP, funding plan for fiscal year 2013-14.

And I know we have quite a few people who want to talk about this item this morning, so we'll try to get right to it.

The funding plan is the Air Resources Board's blue print for how we intend to expand the $35 million appropriated for incentive projects in the proposed fiscal year for 2013-2014 budget. The plan establishes ARB's priorities for this funding cycle and describes the projects that we plan to fund as well as setting funding allocations. This represents the fifth funding cycle for AQIP, a program which has very successfully begun to introduce the next generation of clean vehicles and equipment in California's fleet.

The success is no more readily apparent than in the Clean Vehicle Rebate Project, where we have issued over 26,000 rebates since 2010 with more than half of those issued in the last fiscal year alone. These investments are an important step in the fundamental transformation of the California vehicle fleet to one with
widespread use of zero and near-zero emission vehicles. And these incentive funds that we've been able to provide have been a major factor in the transformation. But with success also comes challenges in balancing limited funding with growing consumer demand for these vehicles. And I know that staff are planning to describe these challenges in more detail.

So I'll turn it over to Mr. Corey.

DEPUTY EXECUTIVE OFFICER COREY: Yes, thank you, Chairman Nichols.

AB 118 created the Air Quality Improvement Program, or AQIP, which provides ARB with between 30 to $40 million annually depending on revenues through 2015 to invest in clean vehicles and equipment, projects, reduce criteria pollutants and air toxics often with concurrent greenhouse gas emission reduction benefits.

AQIP provides the opportunity to fund projects not covered by the incentive programs which primarily focus on near-term emission reductions from fully commercialized technologies.

In the program's first few years, we use these funds to help accelerate the introduction of the advanced motor vehicle technologies just coming to market, such as hybrid trucks and buses, zero emission passenger cars.

Widespread use of these technologies will help...
meet our post-2020 air quality emission reduction targets and the 2050 climate change goal.

This year's funding plan continues the clean vehicle rebate project, hybrid, and zero emission passenger vehicle and truck incentives, as well as advanced technology demonstration project funding. The funding plan continues coordination with California Energy Commission, which supports the necessary infrastructure. In fact, we're joined today by Randy Roesser with the CEC at the table with us. Finally, this year's plan also provides funding for the Truck Loan Assistance Program.

As indicated, demand for these projects, in particular, AQIP's deployment, projects is expected to outstrip available funding late this year. Because of this, staff is engaging the Board members and stakeholders on a process to develop a longer-term structure for the program. We plan to return to you in September 2013 with an update on recommendations for modifications resulting from the staff analysis and stakeholder work.

Lisa Macumber of the Innovative Strategy Branch will present staff's proposal.

(Thereupon an overhead presentation was presented as follows.)

AIR POLLUTION SPECIALIST MACUMBER: Thank you, Mr. Corey.
Good morning, Chairman Nichols and members of the Board.

We are here to present our plan for expenditure of this fiscal year's funds under the Air Quality Improvement Program, known as AQIP. Overall, this program has been highly effective in promoting advanced technologies into the California marketplace. However, the program today is at an important crossroads. As you will see throughout this presentation, because of our success, our projects have outgrown available AQIP funding.

In light of our limited funding, today we are recommending continued investments in our largest and most successful projects for the 2013-2014 fiscal year. And we'll engage the Board in a discussion of AQIP priorities moving forward to ensure that the program is sustainable and continues to transform the California fleet to zero and near-zero emission technologies.

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AIR POLLUTION SPECIALIST MACUMBER: AQIP is one of three incentive programs created by Assembly Bill 118 signed in 2007. The other two programs are administered by the Bureau of Automotive Repair and the California Energy Commission. The Bureau of Automotive Repair funds early vehicle retirement, while the Energy Commission
focuses on fuel and vehicle projects that help meet California's climate change goals. I will provide more detail on our coordination with the Energy Commission later.

AQIP has funding authority for up to $35 million each year from a variety of fees to pay for clean vehicle and equipment projects designed to reduce criteria pollutants and toxics with concurrent climate change benefits. In recent years, our revenue has come in lower than anticipated, resulting in about $25 million annually for the program.

AQIP is ARB's only incentive program with statutory authority to target mobile source technology-advancing projects that are critical to meeting California's post 2020 air quality and climate change goals.

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AIR POLLUTION SPECIALIST MACUMBER: In the first year of the program, the Board approved guiding principles that have guided subsequent years funding priorities. These principles emphasized the need to support the development and deployment of advanced technologies and focus program funds in areas underserved through other incentive programs.

In support of this, ARB's AQIP investments have
funded deployment of advanced technologies which are the basis for the transformation of the vehicle fleet necessary to meet our long-term air quality and climate change goals. As you will see later in the presentation, considering the rapid growth in consumer and fleet demand for these technologies, it is clear we have been tremendously successful at an early stage.

While this year's proposed funding plan follows these same guiding principles, we must recognize that they were developed at a time when AQIP had adequate funding to fully meet demand. While staff believes these guiding principles remain applicable and should continue to serve as the foundation for the program moving forward, we also recognize that in the long term, AQIP is not sustainable at current funding levels without changes that account for the exponential growth and unquestionable success of the program.

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AIR POLLUTION SPECIALIST MACUMBER: Advanced technologies face many deployment barriers, and AQIP helps bridge the gap until they become mainstream primarily through reduced production costs and raising consumer acceptance.

AQIP further supports the transfer of technology to sectors. For example, zero emission battery electric
and fuel cell vehicle technology is beginning to make the
jump from light-duty vehicles to heavy-duty trucks and
buses.

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AIR POLLUTION SPECIALIST MACUMBER: AQIP projects
provide both immediate emission reductions from the
vehicles directly funded, and more importantly provide the
critical down payment for greater reductions in the future
associated with large scale deployment of advanced
technologies.

As previously mentioned, these investments
complement ARB's other incentive programs which focus on
near-term emission reductions from fully commercialized
technologies.

AQIP investments in advanced technologies and
complementary AB 118 investments by the Energy Commission
also help stimulate business growth in the state. Derived
using jobs-related data from the United States Bureau of
Economic Analysis, staff estimates that AQIP alone
supports over 2200 jobs.

Additionally, some of the vehicles and vehicle
components funded under AQIP are manufactured in
California. And these vehicles and equipment are
distributed through extensive dealer networks. As more of
these vehicles enter the California fleet, there will be
increasing demand for a well-trained workforce to design, build, service, and maintain these new technologies.

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AIR POLLUTION SPECIALIST MACUMBER: ARB's and the Energy Commission's AB 118 programs have similar goals, making coordination vital to their continued success. While ARB's investments have focused on clean car and truck deployments and a wide array of demonstrates, the Energy Commission's deployment program makes annual investments of about $100 million a year for a broader variety of projects. These include the development, demonstration, and deployment of alternative fuels, infrastructure in vehicles, manufacturing support, and workforce development.

As you can see from the dashed lines, there are close relationships between the investments made between the two programs. Their close coordination and complimentary nature has resulted in the mutual success of the overall AB 118 program.

For example, over the last several years, the Energy Commission has made significant investments in fueling infrastructure, which are critical to ensure a successful zero emission vehicle roll out in California, while also providing a total of $18.5 million in additional funding for clean car rebates and advanced
technology truck deployments. This effort will continue into the 2013-2014 fiscal year, with an additional $20 million for infrastructure development and $5 million for clean car rebates.

I'd like to note the Energy Commission is here today at the table in support of our recommendation.

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AIR POLLUTION SPECIALIST MACUMBER: Since the program's inception, about $156 million has been invested to date. The largest two categories funded by AQIP include vouchers for advanced technology trucks and buses and rebates for clean cars.

Demonstration projects have been an important part of AQIP in each year as well accelerating technologies on the cusp of commercialization.

This slide shows how the allocation of roughly $30 million for the Truck Loan Assistance Program that provides financing to help truckers impacted by the diesel fleet rules.

In March, we reported that the loan program had seen a significant increase in popularity, which continue today, as we move closer to the January 1st, 2014, compliance date for the truck and bus regulation.

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AIR POLLUTION SPECIALIST MACUMBER: This slide
illustrates that more progress is required before we reach a point where public incentives are no longer needed. Incentives will likely remain necessary until mainstream consumer acceptance and broad market diversity is achieved and the costs associated with advanced technologies come down. We have a long way to go before the advanced technology passenger and commercial vehicle market is both self-sustaining and on a trajectory to meet our air quality and climate change goals.

An important and outstanding question is identifying when incentives are no longer needed for a specific project or advanced vehicle technology. Over the course of the upcoming year, we intend to assess AQIP's projects in conjunction with stakeholders and identify more specific metrics to better inform when public investments are no longer needed.

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AIR POLLUTION SPECIALIST MACUMBER: And now I will present our proposed fiscal year 2013-14 funding plan. It's important to highlight that this year we are in a transitional phase with AQIP. The projects we fund have growing needs. Yet, we have a very limited budget. As you'll see in a moment, this is the first time we are recommending that we continue to work with our stakeholders on this funding plan after it is adopted, as
we are proposing to return to the Board in September with
an update on our funding status and further appropriate
recommendations.

Over the next year, we will continue working with
our stakeholders to identify potential long-term changes
to help meet our clean air goals while ensuring a more
fiscally sustainable program.

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AIR POLLUTION SPECIALIST MACUMBER: For this
year's funding plan, we considered many key principles
that support the recommendations we're presenting to you.

First, the constrained budget played a key role
in recommending funding levels for each project.

Next, it's important to continue the streamlined
project design that consumers and fleets have come to
expect.

We also considered the current stage of
technology readiness. For example, zero emission
passenger cars are more widely available today than zero
emission trucks, so more funding is proposed to be
directed towards the light duty market.

Market stability is an important principle
because most of the advanced clean technologies needed for
long-term emission reductions are still very early in
their development.
All of the proposed projects also help to support regulatory goals and programs, especially the advanced clean cars, the ZEV mandate, and the truck and bus regulation.

Each of the recommended projects is designed to integrate with current or upcoming planning efforts, including the State Implementation Plans, Scoping Plan updates, and the Sustainable Freight Plan.

Finally, our proposal is designed to accommodate any potential additional funding that could be added to the program over the next fiscal year.

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AIR POLLUTION SPECIALIST MACUMBER: Staff proposes to continue directing most of the year's funds to the two largest projects: The Clean Vehicle Rebate Project, more commonly known as CVRP, and the hybrid and zero emission truck and bus voucher incentive project, commonly known as HVIP.

Both projects saw rapid growth in this past year, which we expect to be a continuing trend. This year, staff is proposing to add the Truck Loan Assistance Program as a new AQIP deployment project. This program is critical in that it provides one of the only sources of incentive funds for truck operators seeking to upgrade their vehicles to newer cleaner models, especially in
Finally, we are proposing to continue an allocation for advanced technology demonstrations, which are leading to new deployment opportunities, both now and in the future.

Unfortunately, available AQIP funding will not be sufficient to meet the total demand for any of the projects.

In response, staff is proposing to allocate $20 million of the $25 million available for projects this year and hold $5 million in reserve. This reserve is intended to provide flexibility for funding projects that demonstrate the most need throughout the year, without over-obligating our resources.

The funding plan includes a public process to review each project as dollars are depleted, with provisions to allocate the reserve to projects based on demand and available funding.

I will now discuss each of the proposed categories as well as our continuing efforts to address near-term and long-term funding challenges.

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AIR POLLUTION SPECIALIST MACUMBER: For advanced technology demonstrations, we propose continued investment of a $3 million funding target. Our goal is to help
accelerate the next generation of advanced emission
reduction technologies with a focus on those within three
years of commercialization. We already have 13 projects
in progress or completed, demonstrating advanced
technology emission controls on locomotives, marine
engines, commercial lawn and garden equipment, and school
buses.

The projects we have funded thus far are yielding
exciting results and providing a more important emission
reduction. For example, our hybrid tug retrofit project,
which we funded in the first year of the program, provides
emission reduction in and around the ports of Los Angeles
and Long Beach. And just last month, received U.S. EPA
verification, thereby opening the path for future Carl
Moyer program funding.

Additionally, our investments in Tier 4 gen-set
switchers and diesel particulate filters for locomotives
help reduce cancer risk at the California rail yards, and
spur larger investments from rail roads than otherwise
expected.

Finally, our zero emission school bus
demonstrations help promote California-built buses, while
reducing children's exposure to cancer-causing and
smog-forming chemicals.

Continued public investment in demonstration
projects, such as these, provides essential funding needed
to invent, develop, test, and introduce cutting edge
emission-reducing technology across all sectors in
California and predominantly in environmental justice
communities.

Priorities for the new funding cycle include
locomotives nearing Tier 4 emission levels, expanded
marine vessel hybridization, marine transit vehicles,
which is a carry over project from last year since AQIP
revenues are insufficient to fund the project.

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AIR POLLUTION SPECIALIST MACUMBER: AQIP is the
primary funding source for the Truck Loan Assistance
Program. This program enables lenders to provide
affordable financing to small business owners that fall
just outside conventional underwriting standards and that
may not qualify for traditional financing. Financing is
used to upgrade or retrofit trucks ahead of regulatory
compliance schedules for existing in-use fleet rules.
Without this program, there may be no financing options
for these business owners.

As we reported in March, this program is
currently administered by the California Pollution Control
Financing Authority, or CPCFA. Today, we have Renee
Webster Hawkins with CPCFA to help answer any questions
What makes this program so unique is it has been critical in reaching populations in California most in need of economic assistance. For example, 79 percent of the loans are to single truck owner/operators, 96 percent of loans are to companies with ten or fewer employees, 87 percent of borrowers self-identify as a member of a minority group.

So far, ARB has invested over $28 million in the program, supporting about 2800 loans and leveraging nearly $190 million in financing. This equates to over $6.00 in private financing for every public dollar invested.

These investments have resulted in financing for over 3,000 cleaner trucks, nearly 200 exhaust retrofits, and 16 SmartWay aerodynamic trailers.

Due to the success of the program, less than $5 million remains, and a total of $4 million are needed to carry the program through the end of December. $14 million are needed through June of 2014.

Because a long term need for this program exists, staff are continuing to look at options for extending this program into 2014 and beyond and plan to return in September with potential recommendations.

Additionally, in the next item on the agenda today, you will hear staff's recommendation for similar
financing options through the Goods Movement Program that will target truck operators along California's trade corridors and should help relieve some of the financial pressures on this project.

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AIR POLLUTION SPECIALIST MACUMBER: Next is the hybrid and zero emission truck and bus voucher incentive project, or HVIP. Since its inception, HVIP has provided over $50 million in vouchers for California fleets to buy down the incremental cost of hybrid or zero emission trucks. The project's streamlined approach has proven to be successful with California fleets, vehicle dealers, and manufacturers.

HVIP vouchers for California fleets have helped expand the nation's entire truck fleet by almost 40 percent and the electric truck fleet by 75 percent. As of late May, all previously allocated funding for HVIP has been depleted. Although staff expects a $5 million minimum allocation to only last a few months and to fund only about 200 vehicles, we believe this investment is necessary for continuing the important momentum that is underway to bring advanced technology trucks to California. Staff projects that the demand for HVIP this year could reach up to $25 million under the project's current structure.
AIR POLLUTION SPECIALIST MACUMBER: HVIP has paid for over 1700 vehicles through vouchers averaging about $30,000 per hybrid truck and about $35,000 per electric truck. Hybrids make up three quarters of the vouchers issued while electric trucks comprise the remaining one-quarter. Until this past year, large fleets were responsible for most advanced technology truck and bus purchases. These fleets, which include beverage companies such as Coca-Cola and Pepsi and parcel delivery companies, such as UPS and FedEx, have historically been early adopters of advanced technology vehicles.

The market for clean trucks recently expanded with the introduction of a more economical hybrid truck manufactured by Hino Motor Company. Hino hybrid trucks are popular with smaller fleets that have not previously purchased hybrid vehicles, thus expanding this technology into new markets. This has been important not just for HVIP, but for the hybrid truck market overall.

AIR POLLUTION SPECIALIST MACUMBER: With the entry of new hybrid trucks from Hino and the interest of smaller fleets in hybrid truck technologies, voucher demand has begun to grow again. Based on initial interest from fleets at the end of this past fiscal year, we expect
AIR POLLUTION SPECIALIST MACUMBER: In response to growing demand and to better ensure vouchers are available to more fleets, we are proposing to limit vouchers from 200 down to 100 per fleet each year. It is unlikely that any one fleet will reach the new voucher limit, as demand trend is shifting from larger fleets requesting dozens of vouchers to smaller fleets requesting three or fewer vouchers.

Additionally, we are proposing a number of technical changes to further incentivize the most efficient and advanced technologies. This includes strengthening the minimum warranty requirements and offering higher voucher amounts for extended warranty and fast charge capable trucks. Base voucher amounts will remain unchanged from the previous year, although we are proposing a new method for determining hybrid vehicle incremental cost.

Last, we propose to set aside a portion of the HVIP allocation for the purchase of advanced technology trucks in the Goods Movement Program.

These changes aim to further the deployment of more advanced and robust hybrids and zero emission technologies and should modestly extend funding.
AIR POLLUTION SPECIALIST MACUMBER: The zero emission passenger vehicle market is at a critical point as it matures and transitions beyond early adopters and mainstream consumers. Nearly all new vehicle sales by the 2040 model year must be zero emission and plug-in hybrid electric vehicles to achieve California's long-term 2050 greenhouse gas reduction goals in the light-duty sector. Because of this, developing consumer demand for these vehicles remains critical.

CVRP is designed to accelerate the widespread commercialization of light-duty, zero-emission, and plug-in hybrid electric vehicles by providing consumer rebates to partially offset their higher incremental cost relative to comparable conventional vehicles. These higher costs not only include sticker prices but higher taxes, license fees, and annual license fee renewals. Currently, the rebate is $2500 for a zero-emission vehicle, such as a Nissan Leaf or Ford Focus electric, and $1500 for a plug-in hybrid, such as a Chevy Volt or Toyota Prius. The rebate can be combined with federal tax credit of up $7500 for those that qualify, HOV lane access, and other incentives offered at the regional or local level.
While vehicle manufacturers are responding to market needs by offering lower points CVRP continues to be a critical factor in consumers' purchasing decisions. In response to surveys conducted by the California Center for Sustainable Energy, our administrator for CVRP, 93 percent of respondents that received rebates stated that the rebate was an important motivating factor in their purchasing decision.

Staff is proposing a minimum allocation of $10 million for CVRP, which when combined with $5 million approved by the Energy Commission from their AB 118 funds brings the total this fiscal year to $15 million.

Staff recognizes that this amount is less than half of the funding needed to support the program for an entire year. And in the next few slides, I will update you on the efforts we have made and will continue to make to transition CVRP into a program that is more sustainable.

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AIR POLLUTION SPECIALIST MACUMBER: Since the initial launch in early 2010, demand has continued to accelerate, with over $58 million invested to close to 30,000 rebates. In fact, two-thirds of all rebates have been issued in this last year alone. Since last fall, rebates requests have climbed dramatically, hitting an all
time high in March at just over 2,350 rebate requests, totaling almost $5 million.

Consumer demand since then has remained steady, with over a million dollars requested in rebates per week. Given these trends, the need for the 2013-14 fiscal year is likely over $50 million.

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AIR POLLUTION SPECIALIST MACUMBER: The graph above illustrates just how rapidly the demand for CVRP rebates has grown since the project began, and we expect this strong growth to continue. It is an important indicator of growing consumer awareness and confidence in advanced technology passenger vehicles.

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AIR POLLUTION SPECIALIST MACUMBER: The success of CVRP is due in no small part to the growing availability of clean vehicles in the marketplace. Today, 21 manufacturers offer almost 30 different makes and models of zero-emission and plug-in hybrid vehicles. This slide shows the break down or rebates for some of the most popular models so far.

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AIR POLLUTION SPECIALIST MACUMBER: While not expected to significantly address the funding shortfall in CVRP, staff is proposing a few administrative changes to
help simplify the project for consumers and maintain the streamlined design that is a cornerstone of its success. Specifically, we propose three changes.

First, standardizing zero-emission vehicle rebates to reduce consumer confusion associated with different zero-emission vehicle types.

Second, establishing a $200,000 set aside for public agencies.

And last, reducing the amount of rebates allowed to individuals from 20 to 2 and increasing those allowed for public fleets from 20 to 30.

A waiting list provision was not originally recommended in the proposed funding plan. However, staff has received considerable stakeholder input and recommends that the Board grant authority to Executive Officer to begin a waiting list, if warranted.

One issue we want to identify for the Board today is the potential for increased timing needed to process CVRP rebates to consumers. Historically, rebates have been processed within four to six weeks. AQIP this year is starting out with a zero balance, and it only gains about $2 million in revenue each month. The need for CVRP alone is between 4 and $5 million per month, in addition to the real time funding needs of our other projects.

Staff recognizes that delays in rebate processing
will be disruptive to consumers in the marketplace and will look for options to minimize delays.

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AIR POLLUTION SPECIALIST MACUMBER: With the growing demand we've just seen, the AQIP program is no longer sustainable. CVRP alone has outgrown AQIP as a funding source, impacting other key AQIP projects.

However, AQIP remains ARB's only stable funding source for advanced vehicles truck loans and technology demonstrations.

In developing the funding plan this year, staff began discussions with stakeholders to consider changes in AQIP projects, in particular, CVRP, to make them more sustainable in the coming year.

As a result of many of those discussions and significant stakeholder input, staff is not proposing any significant changes to CVRP or any other AQIP projects at this time. And we recommend that you approve the proposed fiscal year 2013-2014 funding plan.

However, we recognize that continued focused discussions with our stakeholders is needed to identify near-term and long-term options for our various projects. In addition to adopting this year's funding plan, we are proposing to return to the Board in September with an update and appropriate recommendations on CVRP and truck
loan assistance.

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AIR POLLUTION SPECIALIST MACUMBER: Looking ahead, the funding challenge in AQIP will only continue to grow. Given the popularity of these projects, AQIP will not be able to meet demand for any of the projects we've recommended today.

However, to ensure the future success of AQIP, an in-depth evaluation of the program's long-term sustainability is planned. As part of this, staff will begin evaluating key questions, such as:

When are advanced technology incentives no longer needed?

At what point does the advanced technology marketplace become self-sufficient?

What future technologies need public investment?

And are there other sources of funding that can be utilized to support the program's goals.

Staff would like to begin that discussion today by seeking guidance on the Board's future vision for AQIP, including identifying areas for metrics to measure when public incentives are no longer needed. Building on that, staff will engage stakeholders through a process as part of the development of next year's funding plan with recommendations on addressing the long-term sustainability
That concludes my presentation. At this time, I would like to welcome and introduce Randy Roesser, Deputy Director for the Fuels and Transportation Division of the California Energy Commission.

CEC FUELS AND TRANSPORTATION DIVISION DEPUTY DIRECTOR ROESSER: Thank you, Lisa.

It seems I'm always put in the position of following an excellent presentation. So that's a hard act to follow. I thought that was an excellent presentation this morning.

On behalf of the California Energy Commission, I'm happy to be here today to offer our support for ARB's 2013-14 AQIP funding plan.

I'm also pleased to confirm staff's earlier comments and Lisa's presentation regarding the continued cooperation and coordination between ARB and Energy Commission staff. I think we continue to make strong progress in working together and also to confirm that our two funding programs themselves complement each other, supporting California's climate change, air quality, petroleum reduction, and economic goals. So I think our agencies are working better every year -- working together better every year and our programs continue I think as they mature to complement each other in a better way.
I think a good example of the Energy Commission's recognition of the value and our support of your AQIP program is our recently approved 2013-14 Alternative and Renewable Fuel and Vehicle Technology Program Investment Plan, which does allocate $5 million in support of your CVRP, as Lisa mentioned in her presentation also.

Additionally, I want to publicly state that the Energy Commission is committed to continue to work closely with your staff to develop options for your consideration to ensure the long-term viability of the CVRP. It's an important goal, and we're very happy to offer whatever support and help we can offer your staff here.

So I just want to conclude with saying thank you for the opportunity to publicly affirm the Energy Commission's support for this important 2013-14 AQIP funding plan before you today.

CHAIRPERSON NICHOLS: Thank you very much. Really appreciate your being here and the ongoing cooperation between the two agencies.

Obviously, we share a common legislative authorization here, and our missions are directly aligned with each other and in some cases crossover. So it's important that we stay closely coordinated.

It's very clear from the number of people who have signed up to testify here and from the presentation
this morning that the amount of money that's allocated to this program is far short of what the demand is.

On the one hand, I think those of us who have been in positions either in government or in the private sector where you're administering any kind of a grant program become used to that fact, and it isn't necessarily shocking or even always a bad sign that there is more demand than there is money, because it indicates there is a good reason for the money to have been put aside in the first place. On the other hand, the gap here is very great.

I think the other thing that's important and again this was acknowledged in the presentation is that our goals and our knowledge and sophistication have advanced considerably since we first began this program, which is also a good thing. But it means that this action that we are being asked to take today is really I think should be viewed more as a marker or a milestone as opposed to something that is going to set in stone the funding approach for the years to come. There's a lot more work that needs to be done.

And just I'm going to say two things by way of example. One obviously being the CVRP program where through a combination of goals, mandates, and incentives, we're now in the process of really trying to oversee a
very large scale introduction of zero emission vehicles into the California fleet, but we don't necessarily have all the information we need to know what the best way is for the State to assist.

Many of us have some experience and ideas about this, but the reality is that even now, despite the fact that we are working together with the industry and with academics and with utilities and others through a plug-in electric vehicle collaborative effort, we still are hearing very, very different things about how necessary the incentives really are. How much the incentive really is. What the best way to deliver the incentives might be. And how long they're going to be needed until we see that tipping point. We can't probably have perfect knowledge about all of this. But I think we can do better certainly than we have up until now.

And the other observation I would make just in terms of divvying up a pie, which again is too small, is the issue about the heavy-duty vehicles where we're seeing tremendous advances in terms of zero-emission vehicles in the fleet and eye-opening opportunities I guess I would put it that way to achieve very large reductions in emissions as well as move us towards our goals for greenhouse gas emissions reductions through a more wide scale deployment of some of these new types of equipment.
in the heavy-duty sector, especially in trucks and
delivery vans all that kind of thing. The uses that we've
been seeing in places like UPS and others are very
impressive. A lot more opportunity there as well.

So just by -- that's just kind of an introduction
to make it clear to people in the audience, I hope, that
we're here to listen to your comments, and we appreciate
your comments. But we also recognize that there is a lot
more work that's going to need to be done on this topic.

And I think with that we probably just should
start calling the witness list. So let's begin with Henry
Hogo back again for a repeat performance. Damian Breen,
Daniel Davids, and then I'll call the next three.

BOARD MEMBER RIORDAN: Madam Chair, before Henry
gets started, could I just express a moment of
appreciation to some of the people that are in the
audience. And that is for the launch of the 100 United
Parcel Vehicles. All of the people that contributed to
that through the programs we're talking about today, plus
some very generous donations, United Parcel launched 100
delivery vehicles for the State of California. Part of
those were funded, of course, by our good friends at the
Energy Commission. And we really thank you for that. I'm
very impressed with what we were able to do.

But we also had the contribution of the Air
Quality Districts, South Coast, San Joaquin, and Sacramento, besides ourselves, becoming involved to be able to launch those vehicles, which are going to be in our neighborhood on a daily basis. And I just have to say thank you for that effort. And thank you to the staff that helped make that happen. United Parcel is very appreciative of our efforts, but I have to say it was a great opportunity to collectively work with all of our partners here in the effort to clean up the air. So thank you very much. And we hope you'll do more.

CHAIRPERSON NICHOLS: Thanks, Barbara. I think that's just one of many tributes that we could be bringing here in terms of great things that have been accomplished with the funds that are available and people coming together to make up the pot that's needed.

Okay. Henry, go ahead.

MR. HOGO: Thank you, Chairman Nichols and members of the Board. Henry Hogo with South Coast Air Quality Management District.

I'm here in support of the proposed funding allocation in the fiscal year plan. We believe it's appropriate to allocate the funds.

We do have a small request relative to the advanced technology demonstration category. At this time, staff is proposing to include locomotives and marine
vessels. We believe the other categories that are listed on page 32 and 33 are equally important. In fact, we are working on zero-emission trucks, overhead catenary electric trucks. We're even looking at plug-in hybrid trucks that can get all-electric range.

We're also looking at the next generation of freight and passenger locomotives. We're asking our Board to release a request for information moving ahead with LNG locomotives that can go beyond Tier 4 levels. So we believe a couple of the categories listed here are vitally important. We believe if you include all these categories as priority, we can see what type of projects and opportunity is going to arise. If we keep them as a second tier, we may be delaying the opportunity to hear from stakeholders as to what type of technologies can be brought forward.

So we would request that you consider having these other categories, especially the advanced freight transport and the hybrid and other advanced locomotives technology category be considered with the primary categories.

CHAIRPERSON NICHOLS: Thank you.

Damian.

MR. BREEN: Good morning, Chair Nichols and members of the Board.
This morning, I will be addressing you on behalf of the California Air Pollution Control Officers Association. And then I'll add one comment at the end on behalf of the Bay Area Air Quality Management District.

CAPCOA has been a strong supporter of the CARB ZEV program since its early development and also supports the use of incentive funding to encourage the adoption of electric vehicles and to reduce heavy-duty diesel emissions.

The EV industry and like this program is at a critical point in its development. New vehicles are being introduced that address all of the wide range of needs that the public has and surveys have shown that incentives are still very important in consumer decisions about electric vehicles because they address the cost differential between EV and IC engines and help overcome anxiety about new technologies.

CAPCOA supports the staff proposal to continue the incentive funding for EVs at its current level. We understand that there are funding shortfalls in the program, and we support a stakeholder process to identify ways to address the shortfalls and establish metrics to help us better target these funds and track the program's success.

Districts have a wealth of experience in
implementing incentive programs and are ready to support this effort.

Local air district have worked collaboratively with ARB on incentive funding and are the co-sponsors of SB 11 (Pavely) and AB 8 (Perea), and that would extend funding for the Carl Moyer Program local diesel reduction grants and funding for this program under AB 118. CAPCOA associates this opportunity to address the issue in front of you.

On behalf of --

CHAIRPERSON NICHOLS: Now with your other hat.

MR. BREEN: On behalf of the Bay Area Air District, we are very appreciative of what the proposal that staff has put forward today. We are concerned that small trucking and small fleets are supported in terms of making their effort to come into compliance. That will be critical over the next couple of years. So if funding does come available, we would ask the Board to consider that funding to be put in place for both the electric vehicles and those trucks. Thank you very much.

CHAIRPERSON NICHOLS: Thank you.

Daniel Davids.

MR. DAVIDS: Thank you, Madam Chairman and distinguished Board members.

My name is Daniel Davids. I represent the
California-based nonprofit Plug-In America. We have submitted our written support for this staff proposal separately, but I just have a few remarks.

We think that the incentives in order to stimulate market demand are absolutely critical going forward. Plug-In America did draw national attention about two months ago and celebrated our having nationally reached the 100,000 vehicle mark as a milestone. And largely a lot of that was due to trying to counter negative media publicity about how PEVs are a failure in the marketplace.

Of course, those who are close to it doesn't think that at all. Certainly the uptake rate is arguably twice or two-and-a-half times of that of hybrids from about ten years ago.

Despite that success, we were reminded two days ago at a PEV collaborative meeting in San Francisco by the auto makers that this industry -- this partial sector of the industry is really still in its infancy. The numbers are really quite small. And so incentives like this are absolutely critical going forward.

One of Plug-In America's proudest achievements was our intense involvement a number of years ago in obtaining the $7500 tax credit at the federal level and expanding that to 200,000 vehicles per manufacturer and
then ramping down after that, this is about a $12 billion commitment. We think that's commensurate with perhaps taking the marketplace to the next milestone, arguably one million vehicles on the road. And we think that's the level that's needed. The California rebate should work in concert with that. But as the Chairman pointed out, there's quite a shortfall there.

I just wanted to share one observation that we've done a lot of work in other states and, in particular, the state of Hawaii. They had a rebate program. Their funding ran out in the middle of last year. And PEV sales frankly dropped off a cliff at that point. They've steadily recovered somewhat since then, but definitely there were quite a loss of sales because of that.

Up until that point, Hawaii was duking it out with California for the highest per capita penetration of PEV sales. So Plug-In America looks forward to continued working with staff on metrics and trying to nail down things like the price elasticity or rebate elasticity issue around sales decisions. Thanks very much.

Oh, I have one other comment. Having listened to the evaporative emissions issues discussions earlier, it strikes me that the easiest way to deal with that is to not created the emissions in the first place. So why not electrify these vehicles. Certainly Zero build its entire
business on off-road motorcycles.

CHAIRPERSON NICHOLS: Thank you.

Okay. We'll hear next from Matt Schrap and then Steven Douglas and Jamie Hall.

If you could be ready when your time comes so we can move through the list more quickly.

MR. SCHRAP: Thank you. I had to come from the entire other side of the room over there. I appreciate it.

Thank you, Madam Chair and Board members. My name is Matt Schrap. I'm Vice President of Government Programs at Crossroads Equipment Lease and Finance and the Velocity Vehicle Group Companies.

We appreciate the opportunity to share our support regarding the AQIP funding plan, but today for one program in particular, as it is sometimes referred to the Providing Loan Assistance for California Equipment, or PLACE, Truck Loan Assistance Program that is administered through the Treasurer's Office highly successful, California Capital Access Program, or CalCAP.

The Truck Loan Assistance Program is, in fact, the most integral funding program available today for small to medium size businesses in California. Leading to the consensus that the $2 million currently allocated, although a step in the right direction, is not enough.
There is a reason that this program is so successful. Crossroads, as well as our partnering participating lender partners, have been able to help business secure commercial financing in one of the tightest credit markets in recent history. Without this program, most of the businesses would not be been able to secure the needed capital for equipment purchases required by State law. It is State turnover mandates, not mean stream consumer acceptance, that is driving these transactions.

In that vain, it is also important to remember that the PLACE Program has not only helped those individuals and businesses who cannot qualify commercial credit on their own, but also has also been successful in reducing particulate matter and NOx emissions by one ton and 4.5 tons per day respectively.

In addition to reducing emissions, the program has been able to create and retain jobs. According to the Treasurer's Office, close to 300 new jobs were created and over 1500 jobs retained in 2012 alone because of these enrolled truck loans. Whether funds are distributed through AQIP, 1B, or other funding sources, the program must go on. It should not be eclipsed by rebate vehicle purchases for consumers or businesses who can already afford particular configurations or platforms. There are
literally tens of thousands of small- and medium-size
businesses all over the state who need your help.
CARB found the leadership in 2009 to create this
program. And once again, the industry needs your
direction. Please, direct staff to support and maintain
the PLACE Program and seek out additional funds to keep
the wheels turning. I appreciate it. Thank You.

CHAIRPERSON NICHOLS: Thank you.

Mr. Douglas, welcome.

MR. DOUGLAS: Thank you, Chairman Nichols,
members of the Board. I'm Steve Douglas with the Alliance
of Automobile Manufacturers. The Alliance represents
d twelve of the world's leading car and light truck
manufacturers. And it's a pleasure to be here today and
to express our association's strong support for the
staff's proposal.

We're also part of a large coalition of
organizations that support both the CVRP and the HVIP
program, and we support the comments that Eileen Tutt will
make later today on behalf of that coalition.

Yesterday, the Coalition met with Supervisor
Gioia. And before that meeting the staff asked, well,
what's the Coalition's goal? What's your goal? I
thought, well, it's a pretty simple goal. We want
zero-emission vehicles to succeed. We want to see a
vibrant and robust market for plug-in hybrid electric vehicles, battery electric vehicles, and fuel cell vehicles.

We share this goal with automobile dealers, with environmentalists, with the utilities, and with the ARB. And the CVRP is an absolutely necessary element in achieving those goals. As the saying goes, it takes a village to raise a child. And this technology in this marketplace is very much in its infancy.

Success will require the efforts of the auto makers, the federal government, the State, and local governments, the utilities, and EV and ZEV enthusiasts everywhere.

Auto makers have invested billions of dollars developing, certifying, and producing these vehicles. And for the first time in the 23-year history of the ZEV program, battery electric and plug-in electric vehicles are on the roads and in the dealerships today. And if we can secure funding for hydrogen fueling infrastructure, fuel cell vehicles will be here shortly as well.

There is no state that has supported the ZEVs like California. And we can't afford to lose momentum or to let this program stall now. We support the staff's recommendations to continue the CVRP at its current level. We believe it's essential to avoid confusion in the
marketplace and the resulted drop in sales and lease of these vehicles. We are currently working with ARB and our coalition partners to secure funding for at least at the current level through this fiscal year.

And just finally, I'd like to sincerely thank Chairman Nichols, your staff, and the Energy Commission for the hard work and support for this program, not just in bringing this package, but also over the last year where there was a lot of work to ensure the funding was there to ensure the rebates were there. It's critically important for the ZEV program. It's critically important moving forward. Thank you.

CHAIRPERSON NICHOLS: Thank you. I will take advantage of your being here to thank you as well. This has been a great engagement on the part of your organization, on behalf of the industry as a whole, in really a joint effort here to have a successful marketplace for electric vehicles.

I do want to ask for your continued help as we move forward to try to figure out how we are going to best redesign this program so it can be a success onward into the future. Because I know we have a common goal of having these vehicles be cost competitive, you know, by 2020. And volume is obviously key to that.

But we need to make sure that we have a way of
structuring the incentives, delivering them that really will work. Because if we were to attempt to try to get to the Governor's one and a half million electric vehicle goal by 2025, we would be talking about billions of dollars, which we know we're never going to get.

So even if we are successful in maintaining the program or even modestly expanding it, it would never achieve those kinds of levels in terms of direct subsidy. So figuring out what the mix is and the way of doing it and having your help, because obviously this is a competitive industry. We understand that. Each manufacturer has their own products and their own visions and plans. Even within our Board, we have people who have different EVs that might be in competition with each other. I'm getting ready to challenge Sandy Berg to a little drag race here.

But the point is that the Alliance has a really critical role to play here I think in terms of helping us get the information and the perspectives that we need. So I want to urge you to continue for your involvement and thank you.

MR. DOUGLAS: Thank you.

CHAIRPERSON NICHOLS: All right. Jaime Hall and then Angela Strand and Scott Lavery.

MR. HALL: Good morning. And thank you, Chairman
Nichols and members of the Board.

My name is Jaime Hall. I'm Policy Director for CalSTART. Our members include auto makers, truck manufacturers, and fleets, all of them whom care a great deal about the AQIP program.

I'll say quickly I agree with everything that Steve Douglas just said. And we are also part of this broader coalition.

I'm here today to support the staff recommendation for this funding plan. We know the current resources are limited and believe staff has really struck a good balance with the funding levels and also with putting in place a reserve.

However, we are concerned about the funding shortfalls for the both the CVRP and HVIP funding programs.

We are at this point today because demand is growing for zero-emission cars, trucks, and buses. This is really a good problem to have. But the lack of sufficient funding is a real threat to this market.

You'll hear quite a bit today about CVRP's critical role in supporting the market for electric cars. In fact, you just did. I'm going to share a few key points on the heavy-duty incentives under the HVIP program.
First, HVIP is incredibly important for this market. There are no federal tax credits or incentives for these trucks. Sales are dependant on programs like HVIP.

Second, it really is working. It reduces costs right at the point of purchase, which is exactly what fleets say is necessary to get them interested in purchasing these vehicles.

The program is one reason why the majority of all-electric trucks nationwide have been deployed here in California. Moreover, the majority of these are deployed in heavy polluted communities where the air quality benefits are needed most.

Third, HVIP is creating jobs today in California. HVIP funding enabled Stockton-based Electric Vehicles International to sell 100 California-made electric trucks to UPS as we heard about earlier today. And another company, Bolder EV, expanded to Chatsworth in part because of HVIP incentives. These are just a few examples. There are more, but time is limited up here.

Unfortunately, as you know, the program is essentially on hold right now and not able to take additional voucher requests due to insignificant funding. The FY 13-14 funds that we're discussing today, when they become available for HVIP, will not be enough to meet
demand, as staff noted. This delay in making the funds available and the uncertainty about how much will be available is really problematic for the market.

CVRP is in a similarly dire situation. We need about 15 percent of new car sales to be zero-emission or plug-in hybrid by 2025. This is not going to be easy. And especially if you look at what happened in the past, how long it took hybrids to achieve market success, we need a much steeper rate here. So now is really not the time to pull back on incentives.

In conclusion, we support the staff proposal and are committed to working with you to ensure that AQIP funding continues to support the market for these vehicles in California. We think this is exactly what cap and trade revenues were intended to do and we urge the administration to dedicate funds to this purpose, and we look forward to continuing to work with you and your staff on this issue. Thank you.

CHAIRPERSON NICHOLS: Thank you.

Angela and then Scott Lavery and Eileen Tutt.

MS. STRAND: Hello. Chairman Nichols, Board, thank you for allowing me a few minutes.

I'm Angela Strand with Smith Electric Vehicles. We are a medium duty all-electric truck manufacturer. And rather than repeat all of the sentiment earlier, obviously
I'm here in support of staff's proposal and urge you to continue to look at other sources of funding as we help to support what is now an industry with real momentum. Here are a few facts that I think are relevant to the discussion today.

Since Smith has started its U.S. entity in 2009, it's put over 700 vehicles on the road. They've traveled more than 6 million miles, offsetting 700,000 gallons of fuel and 10,000 short tons of GHG. Over a third of those vehicles are running on California roads today. There is no question that the reason why this industry, the all-electric truck industry, has accelerated is because of the HVIP program. For the reasons that Jaime stated, the way it's structured to allow fleets to have a rebate at the point of purchase and the funds that have been available and made very streamlined in administration. There's no question.

Moving forward, and maybe a look to the future, as Jaime mentioned, jobs are paramount. Smith, because of its demand and because of the potential for continued demand in the state, has started an exploratory exercise to look at situating a manufacturing and assembly facility here. We currently have a manufacturing facility in Kansas City and have committed one in the Bronx in New York City largely because of the funding and ZVIP program.
they're about to launch.

And, secondly, we are at the very early stages of launching a transit line, particularly in yellow school bus. And as you are all probably aware, the World Health Organization classified diesel exhaust as a group one carcinogen about a year ago, which puts it on equal standing with asbestos. So there is a considerable opportunity to not only impact the environment, but to protect young lungs as well. And we are very passionate about launching that platform and would like to make California really the leader, not only for the country but for the entire world.

The last point that I'll just emphasize is that California is in its leadership with HVIP. It's not just a state or even a US program, but people around the globe are looking to this program and the way it has been structured as a way to help accelerate zero emission vehicle adoption.

Specifically, Smith has manufacturing facilities in the UK. And I was participating in a conference in London where they were bemusing the fact that their grant program had not had significant uptake. And as we walked through a lot of the structural differences between their program and the program here in California, it was obvious that there is a lot of interest globally in taking the
footprint of what's been successful here and adopting it in other markets. Thank you.

CHAIRPERSON NICHOLS: Thank you.

Scott Lavery and then Eileen Tutt and Max Baumhefner.

MR. LAVERY: Good morning to Madam Chairperson, Board, and staff.

Barbara, thank you very much for the introduction earlier.

My name is Scott Lavery. I'm the Vice President of the West Region Automotive Engineering and Fleet Maintenance Group. Obviously, we have been -- as Barbara noted, we've been recipients of 100 vehicles. We're very excited about that. We're very committed to exploring any low emission or zero-emission vehicles out there.

So as Jaime mentioned from CalSTART, the programs are important to us. And one of the things I thought I would mention when we talk about the funding going back and forth, in my position at UPS, starting in late 80s, I'm starting to see similarities between what we ran into originally with the CNG projects. That is when the funding goes away, the technology goes away. So the economy of scales is very important for us.

But what we'll learn from the 100 vehicles we have and three air quality districts in California now
will be very important moving forward. It will be
important for us. It will be important for the industry.
But what I found is when the funding goes away and as
other people have alluded to, it hurts the industry
because the technology gets dull.

So again, thanks to not just the Board, but all
the organizations and agencies in this meeting today for
the wonderful support for our project. We're very excited
about it.

CHAIRPERSON NICHOLS: Thank you.

Now, I would just note again apropos of the
project that Barbara mentioned, but others, that it's
those stories that are what enable us to continue to get
the funding in the first place. Without that, there is
never a chance for the Legislature to see the results of
their work. So it really is the opposite of a vicious
circle. It's a virtuous circle we're talking about.

Eileen with the Electric Transportation
Coalition. I know you've asked for a little additional
time to speak on behalf of all these folks with -- others
who are with you. Sorry. Not all these folks, but some
anyway. About five minutes?

MS. TUTT: That would be great. Thank you so
much.

So I'm Eileen Tutt with the California Electric
Transportation Coalition. We're an organization made up of utilities and auto makers. And our mission is to support electrification of the whole transportation sector, light duties, locomotives, everything. I'm here really representing a much larger coalition that came together in support of the CARB staff and the Board and policy makers and trying to maintain this project or this program. And it's part of the staff recommendation today.

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MS. TUTT: So our group includes auto makers, new car dealers, non-profits, consumer, groups air districts. Those of you that we've met with have been impressed by diversity. We are not a group that typically hangs out together. But we came together because we do support the incentives at the current rates.

We know that this is a hard recommendation for staff, and we really appreciate working with them. We know that we need a longer-term plan, a three- to five-year plan, and we want to continue to work with you. We, as a whole group, want to work with this Board, the staff, and other policy makers to make sure the program is made whole.

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MS. TUTT: But we've heard throughout today that we need to look at what the important. Metrics are here.
We all want to establish a mature and sustainable PEV market. We are not there yet.

We want to accelerate this market to the maximum extent feasible because we have such challenges.

And, Mary, if it takes a billion dollars or -- Chair -- sorry -- let's find it over the next five to ten years because we have electric vehicles now. We have fuel cells. We have a road to hoe ahead, and it's not going to be cheap. Let's work together.

I want to just keep in mind what we do know. We do know that these vehicles create jobs in California. We know that we have very significant emission reductions, GHG and criteria and toxic pollutants. And we know that whether or not you drive one of these vehicles or a truck, everyone in California benefits. So it's not just people who drive the cars that benefit. We're going to skip this one.

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MS. TUTT: Just move to the key findings. We've worked with your staff, and we actually retained Jack Faucet on behalf of the Coalition to look at what different incentives levels mean. We didn't quite get it done by today. But we're very close, and we'll continue to share the information and talk to your staff. What Jack Faucet found in their analysis was there was a lot of
price elasticity within like vehicles.

So this incentive, it doesn't sound like much compared to the federal incentive, but the federal incentive doesn't come to you for quite some time. And this is an immediate incentive. And paired with that incentive, the 1500 and the 2500 at least in our initial analysis looks like it's the right amount. This level of incentive, paired again with the federal incentive, makes these vehicles in many cases cost parity with conventional vehicles.

I just want to say there are a couple key numbers here. One is the incentives make the biggest difference in the lowest income and lowest cost vehicle markets. If GM were here, they would tell you that the first person to buy a Chevy spec was a 16-year-old kid and the incentive was a big part of the reason. We also notice that incentives below $1,000 have very diminishing benefits.

There was this other number that stuck out to us was the $2,000 number because electric vehicles are competing with conventional vehicles. They're not just competing with each other. They're competing with hybrids. They're competing with very clean gasoline technology and diesel technologies now.

In the light-duty vehicle market, if you have an electric vehicle or alternative fuel vehicle and a
conventional vehicle side by side and the electric version costs $2,000 more, you lose over 90 percent of the market right away. So that means that the $2500 incentive not only brings down the price in conjunction with the federal incentive to about equivalent to gasoline, it actually makes it possible for 90 percent more people to consider these vehicles. So it's an important number. And that's why we really think we don't want to go below 2500.

And to be honest, the $1500 is probably a little on the low end. But because the plug-in hybrids do have the full utility of a conventional vehicle, we think that that's the right amount for them, too.

So with that, I want to thank you for your time. I really want to thank all the Board members, the staff, everybody who spent so much time with us. And we are very committed to work with you over the next two months, in particular. But to be honest, we got to have a long-term solution because this is too much for me to take.

CHAIRPERSON NICHOLS: That's a good reason to fix this program.

MS. TUTT: Thank you very much for your time.

CHAIRPERSON NICHOLS: All right. We will hear next from Max Baumhefner.

MR. BAUMHEFNER: Thank you, Chairman Nichols.

The Natural Resources Defense Council supports
the staff's proposal for the Air Quality Improvement Program. AQIP's light- and heavy-duty vehicle incentives expand access to alternative fuel vehicles that save Californians money at the pump, insulate against the volatility of the global oil market and help meet the State's long-term environmental goals.

I'm speaking on behalf of the American Lung Association in California, which also supports AQIP as a critically important component of the State's air quality and global warming strategies.

Cleaner technologies and fuels incentivized through these programs reduce local and regional air quality pollution and harms lung health and exacerbates asthma and other respiratory and cardiovascular illnesses.

CARB's own cap and trade auction proceeds investment plan underscores the importance of these programs, noting that the transportation sector accounts for the single largest share of the state's greenhouse gas emissions. We note that these programs could be fully funded with a relatively modest share of cap and trade proceeds going forward.

NRDC and the American Lung Association are committed to working with CARB and stakeholders to secure additional funding to keep these vital programs whole for the remainder of the fiscal year, while we develop a
longer-term plan designed to achieve the state's 2050 climate goals.

To meet the target set by Governor Brown's ZEV Action Plan, the marketplace needs a stable program with sufficient funding and incentive amounts that match the pace of technology development.

And on a personal note, as a consumer who drove off the lot with a plug-in vehicle last night, I'll say on my NGO salary, the State's vehicle incentive played a crucial role in my decision.

CHAIRPERSON NICHOLS: Are you going to show pictures of you and your car?

BOARD MEMBER GIOIA: So what did you get?

MR. BAUMHEFNER: I got a Chevy Volt. And I took advantage some of the very attractive lease deals that are available now. And those are made possible through the incentives. And also the incentives really make a big difference for reducing that initial down payment to increase access to those lease programs. Look forward to continuing to work with you on that issue.

CHAIRPERSON NICHOLS: Do we disqualify him because of conflict of interest? I don't think so. We've already disclosed a few of us here who are happy EV purchasers as well.

So let's hear from Jessica DePrimo and then David
Witt and then Ted Harris.

MS. DEPRIMO: Good afternoon, Madam Chair and members of the Board.

I'm Jessica DePrimo, Senior Quality Specialist at the Northern Sonoma County Air Pollution Control District. The Northern Sonoma District is a strong supporter of electric vehicles and other clean vehicle technology. We have implemented incentive programs supporting the adoption of these technologies since the early 1990s. We have committed significant resources toward the Sonoma County Electric Trail, which received a Governor's environmental and economic leadership award this past January.

The district serves as one of three local government members on the California Plug-In Electric Vehicles Collaborative.

We're pleased to support the staff proposal for the 2013-14 AQIP funding plan. The proposed plan appropriately prioritizes expenditures on incentive funds for the CVRP and HVIP. The district specifically supports continuing the incentive funding for electric vehicles at its current level.

As mentioned previously, the electric vehicle industry is at a critical point in market expansion. Many new vehicles have been or are assumed to be introduced.
They address a broad cross section of consumer vehicle types and uses from the neighborhood scale to SUVs and luxury cars. Regardless of the vehicle type, however, surveys show that incentives are still very important in consumer decisions to move towards electric vehicles. Incentives address the cost differential compared to gasoline powered vehicles and help overcome driver anxiety about a new technology. The district understands there is a constrained budget for this program and the need for metrics to better target the funds we have and to measure the success of the program.

We support the staff proposal for a stakeholder process to address these needs. We and other local air districts have a wealth of experience implementing incentive programs and are ready to participate in this effort.

Thank you very much for the opportunity to address you on this important issue.

CHAIRPERSON NICHOLS: Thank you.

Mr. Witt.

Mr. Witt and then Ted Harris and Michael Lord.

MR. WITT: Thank you, members of the Board, Chairman Nichols.

My name is Daniel Witt. I'm the Legislative and Policy Associate for Tesla Motors.
Tesla Motors is California-based auto manufacturer of electric vehicles -- you've probably heard of us -- that has over 4,000 employees in the state of California. Our current production includes the Tesla Model S, which is winner of the 2013 Motor Trend Car of the Year award and built entirely in the former Numi factory that is in Fremont, California.

In addition, we produce EV power trains and battery systems in partnership with other larger OEMs, including Toyota and Daimler.

The reason we're in front of you today is because we strongly support the staff's recommendations for the funding plan for the AQIP plan.

The Clean Vehicle Rebate Project is without a doubt one of CARB's most effective programs in terms of direct consumer assistance. Continuing to fund this program at its current levels will enable both consumers and manufacturers with the stability and consistency necessary to continue adopting these vehicles in larger numbers in the coming years.

As you probably know, Tesla began production and delivery of the Model S in June of 2012, but deliveries didn't begin in earnest until the end of last year. In fact, the Tesla Model S was the best selling vehicle in the first quarter of 2013, out selling not only the rest
of the BEVs and PHEVs on the market, but also the
comparable gas powered equivalents from Audi, Mercedes,
Lexus, BMW, so forth. To put this in perspective, in one
month, the current fleet of California Model S's mitigates
about 1.5 milligrams of CO2 emissions when compared to
those gas powered vehicles.

We understand -- Tesla understands the current
predicament that's faced by this program and its funding
challenges for the coming year. And to that end, we want
to echo Eileen Tutt's comments that we are committed to
working with the Board, CARB staff, the Coalition, the
Legislature, and the Governor's office to ensure this
program has success and will continue into the future.
Thank you very much.

CHAIRPERSON NICHOLS: Thank you.
Ted Harris.

MR. HARRIS: Thank you, Madam Chair, members of
the Board.

I'm Ted Harris, the principle of California
Strategies. I'm here behalf of both Proterra for Phan
Nebali and Ricki Halla (phonetic) from EVI.

I want to first recognize and thank you all for
bringing up the 100 vehicle deployment. That would not
have been possible without the HVIP program, without AQIP,
and the support of a number of agencies. Also want to
recognize U.S. EPA as part of that deployment as well.

First, I want to point out that the mission of the Air Resources Board to protect all Californians and to address toxic diesel emissions and substantially reduce GHG is perfectly aligned with the AQIP Program, and both Proterra and EVI strongly support that.

The background of Proterra is the leading US manufacturer of quick charge zero-emission buses and HVIP eligible. EVI makes delivery trucks and medium/heavy-duty. As pointed out before, they're headquartered right here in California, in Stockton. And they have good jobs in the heart of California.

I do want to point out that the HVIP program as mentioned earlier is currently out of funds. And it is very important for that consistency of funding. We're here today in support of the whole program, both CVRP and HVIP. But it's very important that both have consistency in funding.

Also want to just make it very clear it's absolutely necessary that consistency remains for fleet operators, because you don't have the level of elasticity you might have in light duty. It's particularly important when bus operators or heavy-duty purchasers want to buy that vehicle that will be on the road for decades. Those decision are being made right now. We have multiple
examples that the current lack of HVIP funding is either
stalling, missing, or moving those deployments to other
states. This is very important that in addition to
supporting today's action, we also have efforts to find
additional funding through the course of the next multiple
years. Thank you.

CHAIRPERSON NICHOLS: Okay. Thank you.

Michael Lord and then Jonathan Morrison and John
Clements.

MR. LORD: I guess it's afternoon now. Good
afternoon. Thank you for the opportunity to say a few
words for Toyota.

My name is Michael Lord. I work for Toyota
Technical Center, the R&D arm of Toyota Motor Engineering
and Manufacturing North America.

To start off, obviously, we support the staff's
proposal. And I want to echo what was said by Eileen Tutt
and CalETC and Steve Douglas.

The importance of the CVRP can't be
underestimated, especially at this time where the market
is just developing. We think it's an important message
from the state and also to the -- from the state to the
customer. It's an important part of the decision-making
when customers are considering purchasing vehicles.

I also would like to state that Toyota is
committed to the development of advanced technology vehicles. So we have, as you know, 13 years of experience with hybrid vehicles. We've sold over five million worldwide, two million in the U.S. And we currently have three vehicles in U.S. market, two of them are available in California and other states, the RAV4 EV, the plug-in Prius. And the IQEV. The IQEV is in a demonstration program.

We've also announced a market introduction in 2015 of a fuel cell sedan and we're working with stakeholders to get the necessary infrastructure in place. And we also feel that the CVRP is essential for that market introduction as well.

I also would like to take this time to do a quick commercial on our RAV4 EV. We have a pretty aggressive lease right now at 299. 3,999 down. Rebate helps with the down payment on that. It's a nice hundred mile SUV. Not any others out there.

We're committed to the market. Industry has spent billions of dollars in developing these technologies. And the issue with the CVRP is that helps kind of bridge the gap of the cost premium these vehicles have and the competition, as Eileen mentioned in her presentation with conventional vehicles and hybrid vehicles.
So the CVRP is essential, as well as the HOV lane access to get the vehicles into the market at this early stage. And we're committed to work through the Coalition and directly on trying to find some funding mechanisms to shore up that program.

So I'd just like to thank the Board for this opportunity to speak. Thank you.

CHAIRPERSON NICHOLS: Thank you, Michael.

Jonathan Morrison and then John Clements and Rachael O'Brien.

MR. MORRISON: Thank you, Madam Chairman and distinguished Board members and staff for all the work you've done in this program.

My name is Jonathan Morrison with the California New Car Dealers Association. We represent the 1300 franchise new car dealers in the state of California that purchase these vehicles for resale from the auto makers and sell them to the consumers. We are the ones actually interfacing with the consumers on the ground level having discussions about these vehicles.

We'd like to recommend adopting the staff's proposal. And we commit to working with the staff in the future to create a sustainable version of this program.

One thing I'd like to mention is that this is really a nascent technology. As much excitement as there
is about these vehicles, it's still a very small level of market acceptance. We're looking to continue working with the Board, the Energy Commission, Governor's office, and Employment Training Panel on training our dealers to help create a uniform experience for the consumers that are buying the vehicles and provide a great education to the consumers on how to use the vehicles and consider whether or not these vehicles are suitable for them.

As part of that discussion and the education we've begun already, we've explained in great detail the availability of the various incentive programs, including the CVRP.

One thing that really hasn't been mentioned is the fact that when we're having discussions with consumers that are considering purchasing these vehicles, we're having a lot of discussions about the affordability of these vehicles. These vehicles are much more expensive than the other compact vehicles in the market which they're directly competing with. So when we're having these discussions, the incentives that are available are absolutely key to that consumer's purchase decision.

And as car dealers, when we have these discussions, the consumers are relying upon our discussion about the availability of these incentive programs. And there is some potential legal liability if there is an
abrupt change to the program.

So what I'd ask that the Board do today is avoid any sort of urge to consider an abrupt change to the program, reduction in the levels of the incentives, and let us work with staff over the next couple of months to develop a better program so we can get the word out to the dealers and consumers about what they can expect in the future from the program. Thank you very much.

CHAIRPERSON NICHOLS: Thank you. You're an essential part of the chain here. Appreciate your involvement.


MR. CLEMENTS: Good afternoon, Madam Chair and Board members.

I'm the recently retired Director of Transportation from Kings Canyon Unified, as of about two months ago. But I wanted to report to you and say that I support -- continue to support AQIP. This past year, we successfully ran five hybrid electric school buses in the San Joaquin Air District, and that's in part thanks to the HVIP vouchers. Three of those buses I combined HVIP vouchers with lower-emission school bus funds to make those buses whole at no cost to our school district. Two of those buses I added to the fleet utilizing federal
AQIP -- or I should say CMAC funds.
   And we look forward to in the next year using HVIP funds to finally put four to six all-electric school buses in the San Joaquin Valley, as well as an all-electric warehouse truck.
   So keep those moneys coming. Thank you very much. It works for school districts if they combine their resources well.

CHAIRPERSON NICHOLS: Thank you. Now that you're retired, I guess it maybe too late to say this to your former employers, but you've been before us a number of times.

MR. CLEMENTS: Yes, I have. I wish I had an electric bus to show you today. I had one last summer when I was here.

CHAIRPERSON NICHOLS: You did. But I was always impressed by the fact you've been able to step out in front and put together some resources to really bring some very clean equipment into your district.

MR. CLEMENTS: Thank you. It's served us well. You know, in my time, I had 39 years there, and the last 20 as the director, since 1993. And I should say working in concert with the CEC is where we first started. We were able to replace five school buses, add twelve to the fleet, and bring close to $10 million in clean air
funding.

And one other thing I wanted to mention is that AQIP is well rounded. In addition to receiving those five hybrids, we used the ETP moneys to offset the cost of our technician training. And we were able to use 923 dollars from our local air district to pay for the curriculum for that hybrid technology training. So in case there is anybody from PERS in the room, I'm not working for anybody. I have four more months before my 180 days is up.

CHAIRPERSON NICHOLS: Thank you so much.

Congratulations. And best wishes on your retirement.

Rachael O'Brien, Mark Krausse, and Mike Ferry.

That's the last witness.

MS. O'BRIEN: Yes, Chairman Nichols, and members of the Board.

Rachael O'Brien here speaking today on behalf of the Union of Concerned Scientists. UCS supports of the efforts of the Air Resources Board to invest in technology advancing projects through AQIP. Although AQIP programs have been successful, we still think there is a continuing need for incentives at this early stage of the electric vehicle market to ensure the positive trends and electric vehicle sales and acceptance continues.

We strongly support the development and adoption
of a multi-year plan for AQIP incentive programs. We think in order to have a stable CVRP program, the total program costs will need to match allocated program funds. The most straightforward approach would be to have a volumetric target for clean vehicle sales and incentives that are lowered as the targets are met. This approach is similar to other programs such as the CSI, California Solar Initiative.

We are also supporting funding of incentives at the current levels for next fiscal year as the best way to ensure continued progress of the EV market in California.

Briefly, I'd like to just go into some following suggestions that we have to enhance the effectiveness of the CVR program.

The first is that ARB should consider allocating funds for additional outreach in areas that currently have low existing CVR program participation rates. The current CVRP statistics show there are areas of California that are under-represented in the program. ARB should investigate opportunities to increase awareness of the CVRP that outreach efforts targeted in these areas that have low CRP participation rates.

Second, ARB should consider providing vouchers or pre-purchase applications instead of post-purchase applications.
The third, ARB should establish separate rebate amounts for fuel cell electric vehicles. Fuel cells are a critical part of California's long-term air quality and emission goals. And this technology should receive similar support as the initial plug-in electrical vehicles.

And finally, ARB should evaluate options for increasing consumer access to electrical vehicles through car sharing fleets. Car sharing programs can increase consumer awareness of plug-in vehicles without the large personal financial commitment.

Programs like AQIP and CVRP are critical part of transitioning to a cleaner transportation options and we applaud ARB's leadership in carrying out these efforts.

Thank you for the opportunity to speak today.

CHAIRPERSON NICHOLS: Thank you.

Mark Krausse, Mike Ferry. And we do have one more.

MR. KRAUSSE: Good morning, Madam Chair and Board members.

Mark Krausse with Pacific Gas and Electric Company.

As the utility with the largest number of EV drivers, we are here to support AQIP very strongly. I would add your comments about the program being
over-subscribed is a high quality problem but a problem we may contribute to. And that is through both our own programs, our own fleets electrification where we have a significant portion of the fleet electrified already. We have bucket trucks, for example, that not only have electric mechanisms for the operation of the lift and that kind of thing, but also can provide loads. If we have to bring down a customer as we're doing service work, the customer doesn't have to be brought off line. There are a number of advantages here.

On the -- PG&E also has a second life for batteries pilot program going where we're trying to determine if we are trying to aggregate some of the EV batteries and put them at different places on the grid what the value of that might be to our customers such that we can supplement the pay to manufacturers for a stream of batteries that might be coming after. I believe the manufacturers generally have about an 80 percent charge rate where at that point they'd like to have the battery replaced.

So if we can provide that funding once we determine what that's worth, it might help buy down the price of vehicle. So like these AQIP dollars, it helps makes the vehicles more competitive.

Finally, I would say the long-term funding
solution is one we stand ready to partner with. And with all the folks here speaking today, we want to help find a solution to.

CHAIRPERSON NICHOLS: Great. Thank you.

Mike Ferry, and then the last speaker is Raoul Renaud.

MR. FERRY: Good afternoon, Madam Chair, members of the Board. Thank you for the opportunity to speak this afternoon.

My name is Mike Ferry. I'm with the California Center for Sustainable Energy. The Center has administered the Vehicle Clean Rebate Project on behalf of the Air Resources Board since launching the program with ARR in March of 2010. Since that time, we have processed over 29,000 consumer rebates and distributed just under $56 million in incentive funds, with roughly 75 percent of those funds being distributed just the past ten months.

We are very proud of the amazing success of this program and the role it has played in establishing and building a market for zero emission vehicles in California.

Now I would like to say that we are honored to administer the program on behalf of ARB. And I complement ARB staff on their exceptional management of the project.

I would like to comment this afternoon
specifically on the timing of the fiscal year 13-14 CVRP budget shortfall. The rebate project is an essential component of the ZEV market in California, with approximately 75 percent of California ZEV owners taking advantage of the rebate.

Moreover, in a survey of over 3,500 rebate recipients, 93 percent of owners reported the importance of the rebate program and their purchase decision, with 65 percent reporting that the rebate was very important or extremely important in their purchase decision.

The rebate project has faced budget shortfalls in the past, notably in the summer of 2011 and then again in the spring of this year. However, the budget shortfall the project faces in fiscal year 2013-14 is more severe and potentially may have broader impacts.

Specifically, under current program rules and budget, with weekly program expenditures averaging $1 million per week since March 1st of this year, we estimate project funding to be depleted by November 14th. If program changes are made, such as reduced rebate amounts, and depending on when those program changes are implemented, funding for the project will only be extended an estimated four to seven weeks compared to no program changes, before both fiscal year funding as well as proposed weightless funding are depleted.
In that case, consumers will be unable to apply for a vehicle incentive or even be placed on a waiting list beginning sometime in mid-January to early February next year.

We urge the Board to investigate all possible remedies to address the shortfall and provide certainty and continuity to both the nascent zero-emission vehicle market and to the California consumers that the state needs to both adopt and purchase these vehicles.

Thank you.

CHAIRPERSON NICHOLS: Thank you. This might be the point for me to say clearly in case there is any confusion that the Air Resources Board doesn't have any spare change in our pockets that we can contribute to this.

We have been working with the Governor's office and the Department of Finance to see if there is any potential in other pots of money that could possibly be made available to this program. I think everybody knows this is an issue of great interest and importance to the Governor.

On the other hand, we're also fighting our way back from a very severe recession. And we've been working very hard and this administration has been working very hard with the Legislature, I might say, to make sure that
we're not creating any new debts that we can't sustain either.

So all I can say is that we are hopeful, but we don't have an answer to announce yet. But we have not exhausted our possibilities here. So we are working to try to find a way that we can deal with the current year demand. So thank you.

Okay. So Mr. Renaud.

MR. RENAUD: Thank you, Chair Nichols. Good afternoon.

Apparently, I'm the only one here who is coming as an individual participant in this CVRP citizen and zero-emission or plug-in vehicle enthusiast.

My name is Raoul Renaud. I'm a resident of Davis. In November, last November, we got our first Nissan Leaf, attracted largely by the low lease prices being offer and incentives. We walked in there. We put $2,000 down. Drove out in a $40,000 car with a $200 a month payment, which is amazing.

And then we very promptly from the CCSC received a check for $2500. It's like Christmas. That paid for the down and a good chunk of our charger that we had installed.

We like the Leaf so much, it worked out so well for our family, we decided to get rid of the gas car and
get a second one. In May, Leaf number two arrived. I went into the same dealer, went over the various deals with them. And at that time, the best deal offered by Nissan on leases was a 24-month lease. And I was told by the salesman that, well, I could do that, but I wouldn't qualify for the $2500.

Well, with all due respect to the representatives of the auto sales industry that are here, I've learned over the years to take what car salesman tell you with many grains of salt. I had --

CHAIRPERSON NICHOLS: Unlike most Americans.

MR. RENAUD: I had reviewed the program, the implementation manual, which is this document, and found nothing in there that said you had to have a 36-month lease.

Anyway, I wanted the car. We put $2,000 down, drove out with this time a $36,000 car for 200 a month. I applied to CCSE and very promptly I got back a rejection. And I've pointed out to them and to ARB staff that there really isn't anything in the implementation manual that requires a certain term of the lease. I think this restriction actually may be impacting a lot of the lower-income folks who you are trying to reach.

Sometimes the 24-month lease has a lower payment than any other kind of lease. At the end of that lease,
for example, on this car, we can buy it after two years for $21,000. We could use that $2500 rebate as a down payment and conventionally financial the balance.

    Our leasing company NMAC also has said we can extend the lease and keep the same payment for another year.

    I think it's wrong. It's not stated in the implementation manual that a lease must be of a certain term to qualify. What's required is a promise to keep the car for 36 months. I've made that promise. I think you should open that up to more consumers. Thank you.

    CHAIRPERSON NICHOLS: Thanks for the suggestion and for taking the time to come on your own as a private citizen to share your enthusiastic for the program.

    That's great.

    Okay. I believe that concludes the list of witnesses. And it's time to proceed. We do not have anyone who has come to tell us not to adopt the staff proposal, amazingly enough. It appears to be total Unanimity on that.

    I think the only even suggestion that I heard was from Mr. Hogo with regard to opening up all the categories in the advanced technology vehicle demonstration category so they could all compete with each other, which I think is a fine idea. I don't have any -- I mean, inherently,
it seems like a sensible idea. But I don't want to do this without hearing from staff.

DEPUTY EXECUTIVE OFFICER COREY: Madam Chair, we agree with your assessment in terms of opening up and letting

CHAIRPERSON NICHOLS: I think that's an administerial type change you can make.

DEPUTY EXECUTIVE OFFICER COREY: That's correct.

BOARD MEMBER MITCHELL: Thank you, Madam Chair.

If I could just make one comment, because I wanted to bring to your attention an advanced freight technology that we are working on in the South Coast and may have application in some of our other districts.

As you know, we have the Port of Long Beach, Port of Los Angeles. Combined, those ports are some of the largest in the world. We have substantial impact from those ports. One of the impacts is about 5,000 truck trips a day going from near-dock and on-dock to the intermodal yards where they're put on freight and locomotives to go different places, much of it across the Rockies toward the east coast.

And we have a project that Siemens is helping us with that involves an overhead catenary system for trucks. And the trucks are equipped -- the cab is equipped with -- I'm not sure what the term is. Maybe someone --
pentiflex -- with the mechanism that it actually sits on top of the cab. And it's like your trolley car in San Francisco. It's a very established technology. But what's different is with this equipped on a truck, the truck can enter the catenary and exist the catenary at will. So it has great application for trucks who are exiting at one point of a freeway or need to get on at a different point of a freeway.

And we are contemplating putting this system either on the Terminal Island freeway or on the Alameda Street corridor to handle those 5,000 truck trips a day. It's a very interesting project. It could have application in other areas where you have large volumes of truck trips to stay in the ports or in other locations.

And we would like very much to have CARB support on that project. It's not so much needed as in funding as it is needed in basic support for moving forward. We do have a fair amount of funding for the project. I wanted to bring it to the attention of the Board. It's pretty interesting technology that is not even new technology. Old technology with a new application.

CHAIRPERSON NICHOLS: Thanks. On the funding point, I would be remiss to not acknowledge that the districts, the larger ones, have all substantially contributed from their own funds to this program. This is
not something that the State does on its own. It's a critical partnership. So thank you.

Additional comments? Yes.

BOARD MEMBER GIOIA: I had a couple questions and then some comments.

First, I appreciate that the $2 million allocation for the truck program and given the 2014 deadline, I just want to get a sense of how many single owner-operators we expect are going to become subject to the on-road regulation in January 2014.

HEAVY-DUTY DIESEL IN-USE STRATEGIES BRANCH CHIEF WHITE: Good afternoon. This is Erik White with the Mobile Source Operations Division.

Our best estimate at this time is that there is going to be about 30,000 or so single owner-operators that are going to fall under this first compliance date and the truck and bus rule. I think as was noted by one of the commentors and I think many of the Board members have heard from us in the past, the Truck Loan Program is certainly a very important program for us to continue to fund in support of that.

BOARD MEMBER GIOIA: So one of the things we're trying to understand is the additional opportunities, right, to fund that program, knowing this is a really limited fund here and looking at other opportunities given
that these are vehicles that go through many local communities, near industrial facilities or ports where there is a need to reduce emissions. So it's a very important program. So when will you be looking at coming back to us about identifying other opportunities for funding for this program, especially given that 2014 is around the corner?

HEAVY-DUTY DIESEL IN-USE STRATEGIES BRANCH CHIEF WHITE: Certainly by September. So as we look at this program in its entirety and work with our partners in the Treasurer's Office about how to continue to sustain this program moving forward, not just though the rest of this year but into next year as well, this is exactly one of the projects we plan to update the Board about in terms of available funding and opportunities to make it last longer.

BOARD MEMBER GIOIA: And I appreciate it's great -- others have said this, it's great to continue the Rebate Program, Clean Vehicle Rebate Program. I do agree with Chair Nichols' observation that we need to think about how we continue to get data to look at the effectiveness of all of these. Because with the limited sum of money, it's about how you spend those limited dollars to get the best impact to get electric vehicles out into the marketplace. Whether it's rebates or some
other strategy, we want to make sure we fully understand that.

So even if it's us helping fund some of that study, because I mean, obviously studies coming out of the industry will be good, but they're coming out of the industry. So it would be useful for us to identify our own independent source of study for this. So I just wanted to agree, Chair Nichols, your comment on that.

The comment about the lease term is interesting, because one of the things we heard a lot about, like we're adopting our sustainable community strategies around the state. We finally adopted ours in the Bay Area a week or so ago. And you know, we've looked at putting money into electric vehicles even within our own SCS. What we heard often from the social justice organizations was a lot of individuals can't afford those vehicles. Lower income folks can't afford that.

So the challenge is to continue to make those vehicles more affordable, which means, you know, if -- I don't understand sort of the requirements with regard to the lease issue, but are there opportunities for us in providing this funding to link it to financing and other alternatives that will actually make the cars more broadly affordable. Because there is this perception that they're great vehicles and we need to have the rebate program. I
strongly support it. But in the whole strategy we have, you know, many people perceive it's for not just middle income but wealthier folks. So we need to make sure that we're providing a greater opportunity to have more affordability.

So what can we do with regard to that issue in this plan? The issue that was raised in the lease, can you respond? That's just one, but just to understand that.

HEAVY-DUTY DIESEL IN-USE STRATEGIES BRANCH CHIEF WHITE: Certainly as we look to implement the program, we can look at.

I think more broadly the concept of how can we expand the program to different levels of consumers and the types of consumers is one we are very interested in engaging in. Not just focusing on this program, but looking at opportunities across numerous programs, whether it's how we handle scrappage of vehicles, whether it's how we handle deployment of new vehicles, but opportunities to leverage various sources of funding in a way that we can continue to deploy advanced technology vehicles at all income levels throughout the state.

That work is going on. We're working very closely with several members of the Legislature on activities that would do just that.
BOARD MEMBER GIOIA: So we'll get reports back on that. I'm trying to raise this as an issue for us to be aware of and conscious about and to be aggressive about.

HEAVY-DUTY DIESEL IN-USE STRATEGIES BRANCH CHIEF WHITE: That is correct. We have a plan to come back to the Board in October to discuss our enhanced fleet modernization program, which focuses on retiring older vehicles and opportunities to use that program in partnership with the CVRP.

CHAIRPERSON NICHOLS: This is how we keep you coming back.

BOARD MEMBER GIOIA: Yes. Right.

One other point I failed to mention on the truck program, there is a lot of good information. It leverages other dollars. That is obviously a standard we're trying to look at, how are moneys leveraged. It would be useful to have a chart that shows as part of the data analysis what are we leveraging with each of these investments, because then that's a really important fact for us to know. It's really not mentioned throughout. It's mentioned on the truck program. So it would be interesting to see that in all of these programs. What is the leverage we're getting.

HEAVY-DUTY DIESEL IN-USE STRATEGIES BRANCH CHIEF WHITE: We can commit when we come back in September to
provide that information to you. Absolutely.

BOARD MEMBER GIOIA: Thanks.

CHAIRPERSON NICHOLS: Sandy.

BOARD MEMBER BERG: Just to clarify on the loan program, that 30,000 single truck owners once January 2014 hits, then he will no longer be available for funding; correct? Because they'll be under the regulation?

HEAVY-DUTY DIESEL IN-USE STRATEGIES BRANCH CHIEF WHITE: That is correct, although they would still continue to be able to pursue the loan program type of opportunities that are there.

BOARD MEMBER BERG: So the loan program it is not a requirement to get surplus emissions?

HEAVY-DUTY DIESEL IN-USE STRATEGIES BRANCH CHIEF WHITE: That's correct. They would remain their eligibility. Certainly their ability to operate, they would not be in compliance. They should be able to apply for funding through the PLACE Program you heard about today.

BOARD MEMBER BERG: Great. Thank you.

CHAIRPERSON NICHOLS: All right. Dr. Sperling.

BOARD MEMBER SPERLING: Don't forget us down here.

CHAIRPERSON NICHOLS: No. It's always one side or the other that feels neglected.
BOARD MEMBER BERG: It's not usually on the right.

BOARD MEMBER SPERLING: I first want to note I saw a woman leading that large legion of men, so-called unholy alliance. That was very impressive. I was happy to see that, Eileen Tutt.

I want to you know lend my support to the idea that incentives are very important and they clearly play a big role in market development. And we should be acknowledging that the car companies are putting a lot of their own incentive money into it in the sense of subsidizing these vehicles when they bring down the price. That means they're putting a lot of their own resources into it.

So they're trying to commit to this same path, with us in partnership. And it's important that we send -- not only provide the money, but also the signal that we're fully committed to this because we're seeing in some other parts of the country that signal is not being sent. And it's creating some real problems elsewhere. So California is doing a good job in that way.

But having said that -- okay. I have two little things and a big one. I agree with this idea of opening up the advanced demo program a little bit, and the catenary program is an obvious good idea.
And other good ideas like that, especially on the freight side where it's most difficult and most challenging and for California probably most needed.

And I also -- UCS proposed some small changes. I hadn't seen them and heard them before. I didn't write them down. But they all sounded reasonable to me at the time. So if staff could follow up on those, I think that would be good.

But the big issue here is I keep hearing this word about a sustainable program. And yet, I did not hear one idea about what a sustainable program is. And so I don't believe in two months we're going to solve what is a sustainable program. If the miracle happens that we get this new funding and lots of people are hopeful about it, I'll buy into that optimism for now. But even if we get -- even if we get up to the $50 million, that's a one year fix. Next year, it's going to be 75, 80, 90 million. The next year, it's going to be 150 million. We need an entirely different way of doing this. And I think we need some really serious thought. I think drawing on taxpayer money is not going to be the way to do it very much longer. And so we need some new ideas.

And the only idea that keeps coming back to me -- and I know some of you have heard it. Maybe I'm starting to sound like beating an old drum here. But something
like a fee bate idea I think is really what we need to be thinking about seriously where we're not burdening taxpayers. And certainly, this could be the case with cars, possibly with heavy trucks as well where somehow we figure out a mechanism that we -- people buying the gas guzzlers and the high-carbon vehicles are paying an extra fee. And those that are buying the very efficient vehicles are getting a rebate back, we make that revenue-neutral so it's not a new tax. Something like that.

Unless someone comes up with a better idea, I think we need to really get serious about pursuing that. And soon, because this program, as everyone says, is not sustainable even with gifts dropping from the sky on us. So I urge the staff to really, really think about this very deeply and really get engaged in a serious way.

CHAIRPERSON NICHOLS: Okay. Thank you.

Judy, you have the last word and then you can make a motion. We need to do this.

BOARD MEMBER MITCHELL: Just two things.

First of all, that the CVRP program has been a great program. And it's at a state where we have a lot of momentum going. We're moving in the right direction with getting these clean cars on the road.

And as Dr. Sperling mentioned, we do need to find
the funding for continuing these programs. I don't know what the procedure is or what kind of authority we have to consider a set-aside in cap and trade moneys for this. And I think it's something I'd like the staff to look into. Is there a way that we can recommend to the administration --

CHAIRPERSON NICHOLS: Let me just respond on that particular point, because not everybody was here when we went through the process of making the investment program recommendations for the cap and trade funding.

So under legislation that was authored by Speaker Perez, the administration is required to do a funding plan for cap and trade. And Department of Finance was to submit it, but to consult with the Air Resources Board. They did consult with us. And we actually had a very open process as usual, being ARB, but we had workshops in several parts of the state and great participation from other State agencies as well as from local governments and all kinds of stakeholders and people with ideas.

And we did come up with a plan, which has now been submitted to the Legislature. Hasn't been acted upon. As far as I know, it wasn't required to have anything done to it. But it did go through the administration process. That will get updated on a regular basis so there are opportunities to add to it or
refine it.

It did include funding for these programs as one of the priority areas for cap and trade funding. So there was no hesitation or difficulty about that at all.

I think as everybody knows, the Legislature and Governor decided not to put forward any money out of the cap and trade account in this upcoming budget year because we haven't yet made it to the 500 million, which they had agreed on the year before was to be used to offset existing general fund funded programs that also qualify as being AB 32 compliant programs. So that is still the state of play at the moment.

We are being asked to submit some more detailed ideas for funding to be released potentially before the end of the fiscal year, depending on the result of the upcoming auctions that we have. So if the door isn't quite closed, but it certainly was mostly closed for a while.

And I know many people who participated in the process were very disappointed. But I think that it is absolutely clear from the language that was in the budget bill that those funds were alone to be paid back in one year with interest. So we do have the opportunity to think more deeply about how we're going to spend that money as time goes on. But there were no shortage of
really good ideas.

I think very high on the list was funding for implementation of SB 375, which some of these programs are obviously consistent with, but also to have some funding to implement some of the really terrific ideas that are coming forward. And the sustainable community strategies was one of the areas that we heard loud and clear. And then there were some others as well. But anyway, so this Board does play a role in the process, in response to your question. And the staff will be continuing to work on it and to update us as well.

BOARD MEMBER MITCHELL: Thank you, Chairman. And I will make a motion to approve the funding plan.

BOARD MEMBER GIOIA: Second.

CHAIRPERSON NICHOLS: There is a second. Any further comments, questions?

If not, we'll call for a vote.

All in favor, please say aye.

(Ayes)

CHAIRPERSON NICHOLS: Opposed?

Abstention? All right. It passes. Thank you.

It is now five minutes of 1:00. I need to know how many people have signed up to speak on the 1B item.

BOARD CLERK JENSEN: Seven.

CHAIRPERSON NICHOLS: All right. So, Board
members, we have a choice as to whether we want to continue on and get it done and then break. I'm seeing head nodding versus taking a break for lunch now. Let's just continue. Thanks, everybody. I get to do the opening comments today.

The final item today is to consider an award of Proposition 1B program funding to local agencies for projects to reduce diesel emissions from goods movement activities. We'll also be considering staff's proposed changes to the program guidelines.

This program continues to be a vital part of ARB's suite of incentive programs designed to help equipment owners obtain the cleanest equipment on the road. As we get closer to the truck and bus regulatory milestone, equipment owners need to be aware of the timing to take advantage of these types of incentive funds.

This allocation represents the last opportunity to obtain Proposition 1B funds for cleaner conventional trucks before the regulatory deadline. So this is the money that goes to upgrade either to retrofit or renew existing heavy-duty equipment, especially trucks. And it is a really important element of our Air Quality Program.

We currently have an appropriation of 154 million. I would note that's more than three times what's available in the AQIP money that we were just talking
about. So this is a lot of money. But it's also never
had a shortage of places to spend it. So we are asking
for -- or we've got requests for over $519 million against
that total fund.

Today, we get to hear from the staff as to how
they propose to award these funds and to revise the
program guidelines. And again, we're really appreciative
of the continued confidence that the administration has in
this program. These incentives have done a tremendous
amount, not only for public health, but also for economic
stimulus at a time when there was a desperate need out
there among owners of trucks and other kinds of diesel
equipment who were ready and willing to move ahead of ARB
regulatory requirements. So it's a program that has
already shown its worth in terms of helping to keep jobs
in California and support businesses that design and
install green products here.

I would like to ask Mr. Corey, who has returned,
to us to introduce this item.

DEPUTY EXECUTIVE OFFICER COREY: Thank you,
Chairman Nichols.

The funding recommendations staff will present
today are consistent with the program guidelines
priorities that the Board has previously adopted and local
agency priorities within each corridor. They also achieve
the cumulative corridor funding targets approved by the Board for each region.

The majority of the funding would be available for truck-related projects, including grants, truck loan assistance, and truck filter substraight replacements. Funding would also go toward commercial harbor craft projects in the San Diego border trade corridor.

In general, State agencies that receive bond funds have been striving to increase the efficiency of these programs by limiting the amount of time in which bond funds remain on deposit prior to expenditure.

ARB and the local agencies have already taken steps to reduce the time between when bond funds are received by ARB and when they're distributed to the local agencies. In response to new State fiscal direction, staff is developing additional modifications to streamline the grant process, while ensuring that local agencies receive funds prior to signing contracts with equipment owners.

Now I'd like to introduce Melissa Niederreiter of the Stationary Source Division who will give the staff presentation.

(Thereupon an overhead presentation was presented as follows.)

AIR POLLUTION SPECIALIST NIEDERREITER: Thank you
for that. Afternoon, Mr. Corey. Good afternoon, members
of the Board.

In January, the Board adopted updated Proposition
1B program guidelines and addressed priorities for project
funding. Local air districts in each trade corridor have
requested funding for incentive projects to reduce
emissions from freight operations.

Today, staff is recommending that the Board
approve a list of primary and backup projects for this
round of funding.

After a brief background of the program, I'll
summarize our staff proposal for funding emission
reduction projects. Let's first look at what we are
asking for you to consider today.

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AIR POLLUTION SPECIALIST NIEDERREITER: The
proposals are funding awards for the program's current
appropriation of 154 million and targeted revisions to the
program's guidelines. I'll now provide a brief background
of the program.

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AIR POLLUTION SPECIALIST NIEDERREITER: California voters approved Prop. 1B in 2006, authorizing
over one billion dollars to ARB for air quality
incentives.
State law established this program to cut diesel freight emissions and the related health risks in communities near ports, rail yards, freeways, and distribution centers.

ARB and our local partners accomplish this through incentives to owners of diesel equipment, including trucks, locomotives, ship berths, cargo equipment, and commercial harbor craft equipment to upgrade to cleaner models to achieve early or extra emission reductions compared to regulatory requirements.

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AIR POLLUTION SPECIALIST NIEDERREITER: Funding is open to owners of equipment based in the trade corridors as well as equipment based elsewhere in the state, as well as the new or upgraded equipment will operate at least half of the time within one or more trade corridors and at least 90 percent of the time in California.

For example, we've seen significant participation from trucking firms based on the central coast that haul agricultural goods from Salinas or San Luis Obispo through the trade corridors to processing plants in the Central Valley.

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AIR POLLUTION SPECIALIST NIEDERREITER: Funding
for this program comes primarily from bond sales issued by
the State. Once ARB receives the spending authority via a
budget appropriation, the Board adopts the program
guidelines and specifies eligible projects. The Board
took this step in January of this year.

We then solicit project proposals from eligible
local and State agencies, and the Board considers funding
awards like those before you today. Think of this as a
funding distribution at the wholesale level.

Finally, the local agencies solicit and evaluate
applications from equipment owners and fund eligible
projects in a competitive process for each source
category. Think of this funding distribution at the
retail level with individual equipment owners as the
customers.

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AIR POLLUTION SPECIALIST NIEDERREITER: This
slide summarizes the number of program-funded equipment
projects completed or being implemented so far, as well as
their associated emission reductions of approximately 4.8
million pounds of particulate matter, plus 130 million
pounds of nitrogen oxides over the life of their contract
term. Most of this cleaner equipment is already in
operation throughout the state, with the remaining
projects close to completion as well.
AIR POLLUTION SPECIALIST NIEDERREITER: Looking at the funding by source category, over 80 percent of the program's funding has gone towards replacing or retrofitting old diesel trucks. This focused investment is a key factor in the remarkable air quality progress reported in the Los Angeles and Oakland communities over the last four years.

AIR POLLUTION SPECIALIST NIEDERREITER: In November 2010, ARB staff released a concept paper containing proposed updates to the guidelines, held public workshops, and participated in meetings with the local agencies to publicly discuss the program's proposed changes to project eligibility.

In January of 2013, the Board adopted the current program guidelines and specifications for eligible projects. Those of you who were here in January may recall that the truck specifications were updated to reflect the compliance deadlines in the ARB statewide truck and bus rule. This incentive program must evolve as these regulatory requirements approach or pass to ensure that we continue to deliver the early or extra emission reductions required by statute.

One of the noteworthy changes to the Board
approved in January was to give top priority in the competitive process to projects that would introduce zero-emission trucks like electric or fuel cell and to allow those truck projects to receive co-funding through the AB 118 program. This is the first step in transitioning the Prop. 1B program to support our sustainable freight initiatives.

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AIR POLLUTION SPECIALIST NIEDERREITER: Next I'll describe the basis for staff's recommended allocations and the recommended year four funding awards.

In the past, the Board has approved funding awards after the cash was deposited in the program's account. State fiscal policies and practices have changed to continue to improve the fiscal accountability of bond-funded programs.

Moving forward, ARB staff will be requesting the Board approve funding awards based on an amount up to the program's appropriation, which is the authority to spend money as identified in the State budget.

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AIR POLLUTION SPECIALIST NIEDERREITER: In February of this year, ARB issued a notice of funding availability for the 150 million available in year four funds. ARB staff identified the need to reserve up to
four million for administrative expenses. We typically set aside the maximum amount anticipated and then draw down against that balance based on actual expenses. Remaining funds are added to local agencies' grants.

In response to the call for project proposals, local and State agencies submitted applications for 15 grants, requesting more than three times the current allocation, to upgrade almost 10,000 pieces of equipment.

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AIR POLLUTION SPECIALIST NIEDERREITER: Once we reviewed the applications to ensure they meet the program requirements, we followed the process outlined in the program guidelines to develop the funding recommendations. First, we considered the targets adopted by the Board for each trade corridor for a geographic distribution of funds.

We also considered the Board's priorities for funding truck projects, as well as requests for funding and priorities identified by each of the local agencies.

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AIR POLLUTION SPECIALIST NIEDERREITER: The trade corridor funding targets originally adopted by the Board in 2008 established a target percentage distribution for the program overall.
The implementation of the Drayage Truck Priority Reserve Program in December 2011 temporarily increased the share of funding for the Bay Area trade corridor above their Board-approved funding target in order to achieve early emission reductions.

Today's recommended funding awards would restore each trade corridor to the target percentages approved by the Board.

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AIR POLLUTION SPECIALIST NIEDERREITER: Based on the Board's prioritization of truck projects, staff is recommending to award up to 138 million for eligible truck projects to the local agencies, as well as a few harbor craft projects in the San Diego border trade corridor.

Staff is also recommending up to 11.6 million for two multi-corridor programs to support the transition to cleaner trucks and reserving up to $4 million for ARB's administration costs associated with the program.

These recommended funding levels will return each trade corridor back to their target percentages and would leverage an estimated 132 million in funding from equipment owners, upgrading approximately 3300 trucks and five harbor craft.

It's important to note that the actual funds identified in the grant agreements between ARB and the
local agencies may differ from the recommended amounts for two main reasons.

First, local agencies are nearing the completion of projects awarded by the Board in December of 2011 and most will have some unused funds due to project fallout. Following the process outlined in the program guidelines and the direction from the Board today, these funds will be included in the new grant agreements for truck projects.

In addition, today's awards are dependent on funds that will become available later this year, which may be less than the maximum amount appropriated by the Legislature. If the actual funds available are less than 150 million in project funds awarded today, staff will ensure that the trade corridor targets continue to be met.

Once the local agency projects are underway, should the local agencies experience insufficient demand for projects, the ARB Executive Officer may reallocate funds according to the protocols established in the guidelines, which would include meeting any excess demand for truck funds elsewhere and then funding other sources such as locomotives, ships at berth, and cargo handling equipment.

I'll know go into more detail on the recommended allocations for each trade corridor.
AIR POLLUTION SPECIALIST NIEDERREITER: For the Bay Area, ARB staff is recommending that the Board award up to 9.9 million for truck projects to the Bay Area Air Quality Management District, which equates to over 200 trucks.

For the Central Valley, staff is recommending allocations for truck projects including up to 29.5 million for the San Joaquin Valley Air Pollution Control District, and up to 7.4 million to the Sacramento Metropolitan Air Quality Management District. Together, the Central Valley allocation would fund nearly 900 projects.

AIR POLLUTION SPECIALIST NIEDERREITER: In the Los Angeles Inland Empire, ARB staff is recommending that the Board award up to 78.5 million to the South Coast Air Quality Management District for nearly 1900 truck projects.

For the San Diego border, ARB staff is recommending that the Board award up to 6 million for truck projects and up to .8 million for harbor craft projects to the San Diego Air Pollution Control District and up to 6 million for truck projects to the Imperial County Air Pollution Control District. In total, this
would fund over 300 trucks.

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AIR POLLUTION SPECIALIST NIEDERREITER: Finally, ARB staff is recommending funding for two multi-corridor programs.

For the first, staff recommends up to 5.3 million to support improved access to financing for small and medium-size truck fleets through existing the California Capital Access Program for truck owners receiving Prop. 1B funds.

For the second, staff recommends up to 6.3 million to fund a limited truck filter substrate replacement program, a new concept to address roughly 1600 trucks to meet the program's eligibility criteria.

I'll discuss both those programs in more detail in the following slide.

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AIR POLLUTION SPECIALIST NIEDERREITER: The Truck Loan Assistance Program is an existing program that provides improved access to loan guarantees through the California Capital Access Program that you just heard about in the staff presentation on the AB 118 program.

The program was established to help independent owner-operators and smaller trucking fleets that have less access to capital obtain financing for cleaner equipment.
The year four funding award would provide up to 5.3 million to continue to make this program available, specifically to those truck owners receiving Proposition 1B funds. Proposition 1B funds cover a portion of the cost of the clean replacement truck. The owner must privately fund or finance the remainder of the cost.

Access to financing is the key element to helping small- and medium-size trucking fleets transition to the cleaner equipment required by ARB regulations.

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AIR POLLUTION SPECIALIST NIEDERREITER: The truck filter substrate replacement program is a new concept to address a unique situation with roughly 1,600 trucks that meet the Proposition 1B eligibility criteria regarding the hauling of goods primarily within the four trade corridors. Owners of these trucks previously invested private funds or a combination of private and public funds to install a specific model or verified diesel particulate filter that used a metal substrate to achieve the diesel particulate control.

In response to safety concerns with just this model, ARB rescinded the verification and the manufacturer initiated a voluntary recall. The filter manufacturer has since gone out of business. In many cases, the filter core or substrate was removed from the housing on each
truck or other equipment.

Today, these trucks have the filter housing, but without the desired diesel particular control. Because the truck owners installed verified filters in good faith, ARB is allowing vehicles that are impacted by the recall to remain in compliance with the in-use fleet rules with appropriate documentation.

Staff is recommending that the Board approve a targeted revision to the guidelines to establish an eligible project in the truck category to fully fund the installation of a new ceramic substrate within the filter housing of this limited population of trucks. All of the particulate matter benefits are extra relative to the current situation.

In addition, full funding of the replacement ceramic substrate and installation up to an amount determined by ARB would be provided through an air district or contractor.

ARB staff will determine which agency or agencies is may be best positioned to manage the specialized replacement program. The implementing agency or agencies will then notify eligible truck owners. The year four funding award identifies up to 6.3 million for this program.

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AIR POLLUTION SPECIALIST NIEDERREITER: This is a summary of the recommendations along with the expected emission benefits.

The majority of the funding, approximately 154 million, would be available for truck related projects. Since the program requires each piece of equipment to compete for the available funding based on emission reductions and cost effectiveness, the actual reductions achieved may be higher.

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AIR POLLUTION SPECIALIST NIEDERREITER: In addition to the funding awards, staff is also proposing minor revisions to the program guidelines.

First, to implement the truck filter substrate replacement program, we are asking for the Board to adopt targeted revisions to the guidelines to establish this new project as eligible for Proposition 1B funding.

Second, ARB is proposing changes to the program's administrative process in order to continue improving the fiscal accountability. Although ARB and the local agencies have reduced the time in which bond funds remain on deposit prior to expenditure, we must cut this time down further. The policy motivation is to get State funds out into the economy as quickly as possible, especially funds from bonds that the State repays over time, with
interest.

This guideline change would include modifying the process to reduce the time between bond issuance and the final payment on project completion. These changes would only impact the transaction of funds between State and local agencies. They would not change the timing for funding to the equipment owners once the new equipment is operational.

We are working through options and issues with the Department of Finance and the local agencies to find the best way to meet the State's fiscal policy discretion and support the local agency's administration of the program. Because this process is still underway, we recommend that the Board rely on the prior authority that you have delegated to the ARB's Executive Officer to approve the specific changes to the guidelines. Once ARB has completed the coordination work with the Department of Finance and local agencies. This would allow the entire process to proceed quickly and enable completion of all of the new truck projects in 2014.

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AIR POLLUTION SPECIALIST NIEDERREITER: In preparation for today's Board meeting, ARB staff held three regional workshops to receive public input on how the funds should be distributed among eligible projects as
defined by the program guidelines.

Most of the comments were from local agencies. At the workshops, we heard their concerns that demand for truck projects might be less than the funds available. Some of local agencies also highlighted the importance of maximizing the funding assistance available for small truck fleets subject to the ARB statewide truck and bus rule.

Although the potential pool of eligible applicants for truck projects is much greater than the funding available, we have responded to the local agencies comments in two ways.

First, we agree to the local agency's request to expand the opportunity for some small fleets to compete for funding under the existing guidelines adopted by the Board in January. This involves revising a staff interpretation of the current guidelines to allow funding compliant fleets of two to three trucks to compete for funding to replace the second or third truck early based on additional NOx reductions that could be achieved prior to the NOx compliance date. Fully compliant means that the first truck in each fleet must have a diesel particulate filter already installed either as a retrofit or original equipment by the January 2014 deadline in the truck and bus rule.
It is too late for the independent owner-operator with a single truck to receive Proposition 1B funding to retrofit or replace that truck to meet the January 2014 compliance deadline. However, if this owner acted early to install a diesel particulate filter, he can compete for a replacement funding based open NOx reductions just like any other fleet.

In addition, these independents and small fleets have been eligible in prior rounds of Proposition 1B funding and loans, ARB vouchers and loan assistance, Moyer grants and local incentive programs. Additional loan assistance and some local funding may still be available to the independent owner-operator.

Our second response to the local agency's concern is a commitment to be active partners in the outreach effort to solicit applications from owners of eligible trucks to attract the largest number of applicants possible. The local agencies and ARB staff successfully collaborated on this type of outreach in 2011. Because the program requires each truck compete individually for funding, regardless of the fleet size, we can be assured that the projects receiving public dollars from Proposition 1B will achieve the greatest levels of early and/or extra emission reductions in each region.

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AIR POLLUTION SPECIALIST NIEDERREITER: ARB will coordinate with the Department of Finance and local agencies to develop the administrative changes needed to meet the State's fiscal policy requirements on the timing for use of bonds funds. ARB and local agencies will then sign grant agreements.

Local agencies will begin implementing the program this summer, starting with public solicitations for truck project applications and then evaluate those applicants.

Local agencies will begin signing contracts with equipment owners in early 2014. Trucks funded in this round will not be on the road in time to be used for January 2014 compliance strategies, but will become operational no later than December 31st, 2014.

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AIR POLLUTION SPECIALIST NIEDERREITER: Staff recommends that the Board adopt Resolution 13-34. This resolution identifies local and State agency projects for year four program funds. It also adopts revisions to the guidelines to include a limited truck filter substrate replacement program as part of the existing truck source category and supports the follow-up work to amend the administrative requirements in the guidelines to implement the State's fiscal policies to reduce the time prior to
expenditure of funds. This concludes our presentation.

CHAIRPERSON NICHOLS: Any concluding remarks or should we proceed right to the discussion?

DEPUTY EXECUTIVE OFFICER COREY: Proceed.

CHAIRPERSON NICHOLS: Let's call the witnesses then starting with Seyed Sadredin followed by Fred Minassian and Mark Loutzenhisier.

MR. SADREDIN: Thank you, Madam Chair, members of the Board.

It's a pleasure and honor to be here before you on this matter. As we are approaching the final phases of the Prop. 1B, I believe we may have one more. We've had many exciting meetings every time you've had the allocation meeting here.

As we begin the last couple of phases, I wanted to take this opportunity to really express my gratitude to your grant staff, not only in Prop. 1B, but also in the Moyer program.

A couple of months ago, your staff was at my Board meeting giving them a report on the recent audit that you had conducted. And we appreciate all the compliments and commendations and pointed to our program as a shining example of efficiency and effectiveness.

But the truth of the matter is that our program, our success really would not be possible without the
support, oversight and guidance we received from your staff. They do a bang up job here all the time to help us and I wanted to make sure they do hear our appreciation. We certainly do value their work.

And now the item that's before you today, trucks, as you know, make up over 50 percent of the NOx emissions in San Joaquin Valley. It's an important category, the most important category. And we appreciate the recommendation today to target virtually all of the funding to trucks, because that's an important category within San Joaquin Valley.

Now, within the truck population in San Joaquin Valley and the rest of the state, the small single owner-operators are a sensitive category that we are concerned with. Because of the economy, because of the tight margins, they've had limited opportunity to participate in the previous funding opportunities. So in San Joaquin Valley, realizing that importance and the concern that we have with them with the emissions being in environmental justice communities, many of these trucks actually you've seen parked in EJ communities. And we are concerned with that.

So we have a program that I wanted to take an opportunity to announce today for $5 million for targeted at small businesses. And we are using entirely local
funding for that program. It's open right now. We want people to apply before the deadline of January 2014. We did raise a concern regarding the fact that today's proposal will not allow any of the funds to be used for single engine operators. And I want to express my gratitude to Rich Corey really listening to us and working with us and already coming up with some ideas about how we can proceed in that regard to make this more successful and take care of that sector in a way that would ensure expedited compliance and perhaps even using the funding to get more reductions in the emissions than the truck provides for.

So speaking of Rich Corey, I wanted to congratulate your Board for making a great selection. I think today's meeting would be an entirely different meeting today were it not for his care, hard work, and we were talking late into the night last night. So I wanted to congratulate you and also thank Rich's good work with the air districts.

My time is up. Thanks.

CHAIRPERSON NICHOLS: You can have more time if you want to say nice things. Pile it on.

MR. SADREDIN: So we look forward to the promise and the commitment that Rich has made. And we will work with him and with your Board to make sure we find ways to
take care of the single owner-operators.

CHAIRPERSON NICHOLS: Thank you very much.

Mr. Minassian and then Mr. Loutzenhiser and then Mr. Breen.

MR. MINASSIAN: Chairman Nichols, members of the Board, good afternoon. I'm Fred Minassian, Director of Technology and Implementation at the South Coast AQMD.

On behalf of my agency, I would like to thank your staff for working closely with us and seeking our comments and suggestions for proposed Proposition 1B program awards funding and grant updates.

We urge CARB to continue to seek additional incentive funding, including for small and minority businesses through any available funding opportunities. We support the proposed funding distribution among the participating air districts as it brings each air district's total share of funding in line with the overall allocations adopted by your Board at the commencement of this program.

We also appreciate your staff's acceptance of CAPCOA's proposal related to funding of small fleets of two and three trucks where the second truck of a fleet of two and second and third trucks are fleets of three can be funded with Proposition 1B funding so long as the first truck is retrofitted by a PM filter by January 1st, 2014.
Finally, we are ready to work closely with your staff to expedite the issuance of the program solicitation for the Truck Replacement Program to expedite the implementation of the funding with the availability of these new funds.

Thank you very much.

CHAIRPERSON NICHOLS: Thank you.

MR. LOUTZENHISER: Good morning, Chair Nichols, members of the Board.

I'm Mark Loutzenhiser with the Sacramento Air Quality Management District. I, too, am up here to support the ARB staff recommendations for the goods movement program. We'd like to thank the ARB staff and their management for the work that they've done with all the districts. As has been mentioned, there's been a great collaborative effort over the past -- well, I would even say years of the program going forward, but certainly over the past few months and weeks as well. In particular as already mentioned in the staff report, the clarification on the two and three truck fleets, we think that will be a great addition to helping out some of the smaller businesses. And it was some collaborative effort going back and forth on getting that clarification. We really appreciate that.

And just on that note of some of the discussions
on the AB 118 and always looking for additional funding through goods movement and everything else, I'll take a moment to briefly mention we had opened back up our CCAT program, which is a local program here for on-road trucks a couple of months ago. And the demand is so great out there for people looking to go ahead and move forward that we actually had a line out the door to our office the day our solicitation opened an hour before.

Sort of ironic I got the call coming into the office, I stopped saying what are going to do? How do we let them in? We are not open yet upstairs. I felt like we were the hot new rock concert, which is an unusual feeling for an air district.

So there is a need out there for these incentive programs. People are looking to try to get into the new cleaner technologies through programs like the goods movement, through the AB 118. We recognize the funding opportunities are limited, especially given different budgetary concerns. So we appreciate the help and support we have, both for our local programs, through the State programs, and working with the staff on these efforts.

Thank you.

CHAIRPERSON NICHOLS: Damian Breen, Mike Watt.

MR. BREEN: Good morning, Chair Nichols, members of the Board.
Damian Breen, Director of the Incentives Program at the Bay Area Air Quality Management District.

The Bay Area Air District is here today to speak in support of staff's recommendation. First, let me start by commending ARB staff on making the changes to the program guidelines that provide for additional funding for small fleets with two to three trucks. This builds on direction that's been provided by this Board and gives a much needed route to early compliance for truck owners.

This section also reflects the results of very productive dialogue between ARB staff and air district statewide. However, as a result of that dialogue and upon some reflection on our own grant programs over the past few years, the Bay Area Air District was left with concerns regarding small fleets I want to share with you today.

On January 1st, 2014, as you've heard, thousands of single owner-operators become subject to the requirement of on-road rule. This will require them to retrofit or replace their existing truck. Now, usually as we approach these compliance deadlines at local air districts, we see distinct up-takes in activity around our grant programs and around our industry assistance phone lines. However, in the case of these particular singular owner-operators, that update has yet to materialize.
So with thousands effected and with the deadline rapidly approaching, we're left with the distinct impression this segment of the trucking industry has been particularly hard hit by the economic downturn and may not be in a position to even consider the upgrades necessary for compliance.

So while it may be beyond the scope of your proposed action today, the Air District would like to encourage the Board and the staff to make sure that all avenues of possible outreach to these owner-operators are being exploited.

We also believe that these outreach efforts should include information about available loan guarantee programs, private and public financing options, for those who are seeking to come into compliance. And we would encourage the Board and staff to seek additional funding to assist this segment of the trucking community. That links to my comments earlier about the AB 118 funding.

Additionally, I would add the Bay Area Air District stands ready to provide any assistance possible to help you with these outreach efforts. And we'll be looking also at our funding to see if we can provide much needed support for these truckers locally. Thank you.

CHAIRPERSON NICHOLS: Thank you.

Mike Watt and then Chris Shimoda.
MR. WATT: Good afternoon, Madam Chair and members of the Board.

I'm Mike Watt, Manager of Mobile Source Incentives for San Diego County Air Pollution Control District.

Again, in light with everyone else, I'd like to thank ARB staff for collaborating with us, working with us on these programs, particularly in line with the two to three fleet trucks. That's a big issue for us. We're glad we're able to find a resolution there.

Our agency has participated with the program since its inception. We are proud to say our Board has provided over $18 million in both State and local funding to clean up nearly 500 trucks and one marine vessel to provide over 300 tons of emissions reductions in our region. So that's a big deal, and we're very proud of that.

We certainly are in support of the staff recommendation. And we're glad to see they will restore the funding amounts to the targets that you guys identified as part of your initial approval of the program.

Again, we would like to encourage your staff to work with us, to identify any feasible means to use these funds to continue to get benefits, particularly from these
single owner-operator fleets and outreach any ways we can find to make sure we reach those folks.

   It's important to assure that all viable project options are explored so we can maximize the benefits of these funds.

   Lastly, we look forward to continuing to work with your staff on this program and providing much needed reductions to our region and the state of California.

Thank you.

CHAIRPERSON NICHOLS: Thanks. Chris Shimoda and then Matt Schrap.

MR. SHIMODA: I'm Chris Shimoda, Manager of Environmental Policy for the California Trucking Association.

   And first just wanted to strongly support the staff's recommended funding allocations. You obviously can't do much better than 99 percent. So again, strong support for that.

   And I'm here today to specifically support the direction your staff is taking with respect to this filter substrate replacement component. There is some work left to be done on the details of the program, but I'm hopeful we can get those details hammered out with your staff here in the coming weeks.

   Just a couple of details on this situation for
the Board to consider. For those of you who are new Board members, this stems from the situation, the fallout basically from the Cleaire situation earlier this year.

And in talking with some of our vendor members, we do believe that there is going to be a certain percentage of those trucks out there with Cleaire long miles that are not going to be able to operate with the new replacement ceramic substrates that were talked about in the discussion. That means there is going to be a number of trucks out there that need a complete replacement of the filter or who will not have a replacement filter to actually get into.

CTA has been very consistent on this topic since the situation with Cleaire arose. If a fleet did spend money on a Cleaire product, and through no fault of their own now face a replacement of $20,000 for a new filter, we believe that fleet should be made whole.

We believe your staff is committed to working with us on this. And we would ask for the Board's continued engagement on this situation. These are the truckers who acted early. These are the good guys. Please do make sure the good guys are not hurt in this situation. Thank you.

CHAIRPERSON NICHOLS: Thank you. And you have been consistent on this, and we appreciate it.
Okay. Matt and then Sean Edgar.

MR. SCHRAP: Hello. I'm Matt Schrap. My second time here before the Board. I'm honored again to have the opportunity to come and discuss some of the issues that we found.

We are very supportive of the 1B Program. Our grants and compliance division, California Fleet Solutions, processed over 1200 grants in the last 1B application, secured over ten million dollars for our clients. We are very familiar with the program and looking forward to the solicitation's opening.

I will also echo my friends at the air district in commending ARB staff for the great job they've done over the past eight months now practically in getting ready for this day today, Cynthia, Melissa, Doug, especially and Barbara.

One thing that was very encouraging as we mentioned here before about these truck loan programs, in particular, the money being allocated to the CalCAP program for the 1B grants is very important and it's very needed.

As we've heard, there is an unmet need for, according to Mr. White's statistics, up to 30,000 of these individual truck operators. Even if there was grant consideration given to them for a regulatory extension,
that still would not take the entire owner-operator population into consideration, primarily because you have to be related to a goods movement transaction in the corridor. That means upper, upper northern California as I like to call it really loses out in the mix.

You have this issue combined with the fact that a model year considerations are only for 1994 to 2006 engines for the Class 8 and Class 7 replacement. So that leaves anybody with the oldest most high polluting vehicles ineligible for the grant funding program.

We're excited there has been consideration for the two and three truck fleets. We'll work hard to maintain our consistent level of outreach using our relationships with the California Trucking Association, the American Trucking Association, as well as the California Construction Truck Association.

One thing that is very important that we all need to understand is that the credit market right now, although the economy is getting better, we're still left with the old adage good people/bad credit. And without some help from the State in a program like CalCAP, a proven public/private partnership that has worked over the years and will continue to work while your staff supporting this program by injecting more money into it, we think there is going to be a great I guess tidal wave
of folks who should be utilizing this grant funding.  
But we need more money for the CalCAP and PLACE 
Programs wherever it comes from. It is a great program, 
as Supervisor Gioia mentioned earlier. These guys need 
help. This is regulatory requirements. 
So we appreciate again all of staff's work and 
look forward to working with them to get the solicitation 
underway and our friends at the air districts as well. 
Thank you very much. 
CHAIRPERSON NICHOLS: And last, Mr. Edgar. 
MR. EDGAR: Thank you, Chair Nichols and Board 
members. 
Sean Edgar, Director of Cleanfleets.net. Just 
here to punctuate a few items and join the love fest. 
It's my lucky day because the Board is making key 
decisions with money. 
I offer my remarks, having spent the last 18 
months under contract with the Board going out and doing 
outreach in six western states that took us to 125 events 
where we educated over 5,000 fleet owners about ARB 
requirements. And looking into the eyes of the folks that 
are effected by the regulation, I realize many of them who 
are in the small fleet categories have not figured out in 
an improving economy how to pay for the vehicle -- the 
first vehicle, let alone the second or the third vehicle.
So I think the funding we are talking about will be key support and obviously endorsing your staff's recommendations to get funds out as quickly, expeditiously, and reasonably as possible.

Just one item I'll add to Mr. Shimoda's comments would just be the issue -- and I appreciate staff's foresight of looking into fixing the Cleaire situation. Many of those folks in those vehicles did take early action with the rule. And absent some sort of a -- they've already paid for one device. So absent some sort of intervention by the Board, they would be left possibly high and dry. So appreciate your consideration of fixing that problem as well.

Also looking at supporting your joint outreach efforts. We were fortunate we automated our reservations system when we did the outreach. So we have some electronic information to share with Board staff as they do outbound informational materials about this statewide coordinated solicitation.

And just finally wanted to really encourage you as well especially in the rural areas, we went to about 30 of the rural counties throughout California and especially those areas the information flow via internet may not be as quick. So postcards and things like that may also be utilizing. So we're always willing to cooperate and with
the benefits of our last training.

Thank you very much for allowing me to speak and
thanks to your staff for some foresight in what will
hopefully be a new successful grant program in year four.

CHAIRPERSON NICHOLS: Thank you very much.

For the Board members, I think it is important to
realize that staff has not been waiting around for the
deadline to hit, but has been very proactive in terms of
getting out into communities and trying to find people to
educate about the program with assistance from the local
districts. And if any of you want more details about
what's going on in your own area and if you have any extra
time and want to engage in something, there's always
someplace to go and some group of truckers to talk to it
seems. So this is very much an active ongoing operation.

I want to congratulate you on having gotten to
the point where I heard from the districts there is still
a few details they need to get ironed out, but that
overall people are in agreement with the way the funds
have been allocated. And that's really huge progress.

So thanks to all both from the districts and from
the ARB for having come to this with such good will and
determination to try to reach a successful conclusion
here.

Are there any additional comments or questions
from staff -- Board -- sorry. Board members, yes.

BOARD MEMBER MITCHELL: Thank you.

I would just also want to reiterate our thanks to Richard Corey and the staff on working with the districts to find a solution.

We do have a problem with the small truck fleets. It looks like we've gotten a solution for the two and three truck owners, but there's still some problems about the single truck owner. And Mr. Corey and I had a discussion this morning about that. I understand that staff will continue to work with the districts to help find funding, some financing, and loan assistance for these small truckers.

Many of them are minorities. So I think we do have environmental justice issue with our small fleet owners, our single owner truckers. And I hate to see them go out of business. You know, they're the bred winners for their families. And it's an important, you know, role they play. And we need to be mindful of that. So I trust our staff will continue to work on this issue and help us find some assistance for those folks. Thank you.

CHAIRPERSON NICHOLS: I see Mr. Corey saying "yes" quietly. You can say so loudly.

DEPUTY EXECUTIVE OFFICER COREY: It was absolutely acknowledgement.
I did want to make reference to the discussion with the districts and my interest and they've been actually very helpful in terms of reaching out. In fact, the announcement that Seyed made I think is a key element of ongoing work and support the districts have been playing in terms of the upcoming deadline. That's an element of it. The outreach is an element of it.

Looking at the CalCAP and the important role that loans are going to play and are there vehicles to supplement that.

Now, this is not without challenge. The challenges are actually fairly considerable. But focusing on this and staying on point I think is going to be key. And I'm very appreciative of ongoing work with districts and the key role they're going to play.

CHAIRPERSON NICHOLS: All right. We do need a resolution and we're going to --

BOARD MEMBER BERG: So moved.
BOARD MEMBER ROBERTS: Second.
CHAIRPERSON NICHOLS: All in favor please say aye.

(Ayes)
CHAIRPERSON NICHOLS: Any opposed?
Abstentions? Great. Okay.
This is done then. I will be happy to entertain
a motion to adjourn.

CHIEF COUNSEL PETER: Wait.

CHAIRPERSON NICHOLS: We will have an executive session. The Board members will recess, and we will be getting a briefing on some litigation. And no action is expected to be taken, but we'll come out and announce it at the end. So thanks everybody.

(Whereupon the Board recessed into closed session at 1:41 p.m. and returned from closed session into open session at 2:44 p.m.)

BOARD MEMBER RIORDAN: Just for the record, we have concluded our closed session and no decisions were made. And we will now adjourn formally this meeting. Thank you.

(Whereupon the Air Resourced Board meeting adjourned at 2:45 p.m.)
CERTIFICATE OF REPORTER

I, TIFFANY C. KRAFT, a Certified Shorthand Reporter of the State of California, and Registered Professional Reporter, do hereby certify:

That I am a disinterested person herein; that the foregoing hearing was reported in shorthand by me, Tiffany C. Kraft, a Certified Shorthand Reporter of the State of California, and thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said hearing nor in any way interested in the outcome of said hearing.

IN WITNESS WHEREOF, I have hereunto set my hand this 7th day of August, 2013.

______________________________
TIFFANY C. KRAFT, CSR, RPR
Certified Shorthand Reporter
License No. 12277