APPEARANCES

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Mr. John Eisenhut
Mayor Pro Tem Judy Mitchell
Mrs. Barbara Riordan
Supervisor Phil Serna
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Mr. Alberto Ayala, Deputy Executive Officer
Ms. Edie Chang, Deputy Executive Officer
Ms. Lynn Terry, Deputy Executive Officer
Ms. Ellen Peter, Chief Counsel
Ms. La Rhonda Bowen, Ombudsman
Mr. John Ellis, Manager, OBM Implementation Section, Engineering Studies Branch, MSCD
Ms. Jennifer Gress, Legislative Director
Ms. Elizabeth Melgoza, Air Pollution Specialist, Air Quality Data Branch, AQPS Division
APPEARANCES

ALSO PRESENT

Mr. Louie A. Brown, Jr., Kahn, Soares & Conway, LLP
Mr. Tim Corcoran, Bureau of Automotive Repair
Mr. Casey Kramer, California Cotton Ginners and Growers Associations, Western Agricultural Processors Associations
Mr. Bill Magavern, Coalition for Clean Air
Mr. Kevin Messner, AHAM
Mr. Sayed Sadredin, SCAQMD
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CHAIRPERSON NICHOLS: Good morning, everybody.
The November 21st, 2013, public meeting of the Air Resources Board will come to order. And I guess we'll begin as usual with the Pledge.

(Thereupon the Pledge of Allegiance was Recited in unison.)
CHAIRPERSON NICHOLS: The Clerk will please call the roll.

BOARD CLERK JENSEN: Dr. Balmes?
BOARD MEMBER BALMES: Here.
BOARD CLERK JENSEN: Ms. Berg?
Mr. De La Torre?
BOARD MEMBER DE LA TORRE: Here.
BOARD CLERK JENSEN: Mr. Eisenhut?
BOARD MEMBER EISENHUT: Here.
BOARD CLERK JENSEN: Supervisor Gioia?
Mayor Pro Tem Mitchell?
Mrs. Riordan?
CHAIRPERSON NICHOLS: Here.
BOARD CLERK JENSEN: Supervisor Roberts?
Supervisor Serna?
BOARD MEMBER SERNA: Here.
BOARD CLERK JENSEN: Dr. Sherriffs?
BOARD MEMBER SHERRIFFS: Yes.
BOARD CLERK JENSEN: 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: Great.
The usual announcements. Anyone who wants to testify should fill out a card and turn it into the Clerk. We will impose our usual three-minute time limit.
The emergency exits are to the back of the room and to either side of the podium. And I think that's all I need to do by way of official announcements.
Before we get to the consent calendar, I thought it might be a good idea actually to give a brief report since several of us were at the Los Angeles Auto Show yesterday and had an opportunity to see the fruits of some of our work in the form of some very attractive and desirable cars that are available for sale or lease. But particularly interesting that this year the focus is on the fuel cell vehicles. And there was one in particular very exciting announcement yesterday. I will to leave before the press announcement, so Dr. Albert Ayala was there. I'm going to ask Dr. Ayala to give us a brief summary of what was announced.
DEPUTY EXECUTIVE OFFICER AYALA: Thank you. Good morning.

It was, indeed, a good day. As the Board knows, hydrogen fuel cell vehicles are going to be instrumental in our ability to reach our goals, not only for air quality, but also our climate goals. And as the Board also knows, we are very lucky that -- very fortunate that we've had ongoing and very significant State commitment to electric vehicles both in the form of battery electric vehicles and fuel cell vehicles. And it's also the case that the car makers, the OEMs, have made significant investment in developing the technology and getting it to the point where they can actually start selling it.

And one of the good news stories that we all heard yesterday was an announcement from specifically Hyundai, who is rolling out the very first mass-produced commercially available fuel cell electric vehicle starting in the spring of 2014.

What is significant about the announcement is that the car manufacturer has actually stepped it up and is taking a bigger roll in the development and deployment of infrastructure. As you all know, we are working very hard to make sure that the stations get built, that they get built where they really need to be built, and that they stay in operation so that when consumers start buying
the cars, they can go and refuel.

Hyundai is taking direct approach, and they're basically -- the plan they have is a lease agreement where the fuel is included, unlimited fueling, so the consumer will essentially get the vehicle and they will have access to all the fuel they need. And in my view, I think this is really the game changing strategy because it helps us. It helps all of us that are trying to deploy the infrastructure to really take it to in next level and the next step, because truly the way these vehicles are going to succeed is from the consumer standpoint, it's a completely seamless transition. They should be able to use these vehicles and refuel them the same way that we've been doing it with conventional technology.

And I was very impressed. We stuck around for the announcement. I think it is commendable. Obviously, it's a great day because the race is on. The question on the table is what are Honda going to do? What are Toyota going to do? What are some of the other OEMs that are also planning to deploy a fuel cell vehicles, what is going to be their strategy?

All in all, I think it was the kind of enhanced commitment that we were looking for. And it was essentially worth sticking around for that announcement.

CHAIRPERSON NICHOLS: Yes. So yesterday was the
day for Air Resources Board folks mostly touring the
global manufacturers groups and the Japanese and Korean
offerings in particular. Some of us are going back again
next week to look at more cars. There are a great array
of plug-in vehicles, too. It looks like it's quite an
exciting show. But I thought it would be a good idea to
share this with everybody, because it's nice to see the
progress that's happening there.

Okay. Let's move to the consent calendar. We've
got several items that don't require a hearing unless
anybody wants to. They will come off of consent if there
are any witnesses who have signed up to testify or Board
members who request they come off consent.

So the first of these items is the greenhouse gas
quantification determination for the Santa Barbara County
Association of Governments' Regional Transportation Plan
and Sustainable Community Strategy.

Madam Clerk, have we got any witnesses on this
item? Are there any Board members who would like to have
the off consent? Okay. If not, then I will close the
record and ask the Board members if they've reviewed the
Resolution. And if I can get a motion and a second.

BOARD MEMBER RIORDAN: I'd be happy to move the
motion presented by staff on this item.

CHAIRPERSON NICHOLS: Do we have a second?
BOARD MEMBER BALMES: Second.
CHAIRPERSON NICHOLS: All in favor please say aye.

(Ayes)
The next one is the 2013 updates to the 2009 Sacramento Metro Ozone Nonattainment Area State Implementation Plan for the 1997 8-hour ozone standard.
Mr. Serna, I trust you're familiar with this one.
BOARD MEMBER SERNA: I would be happy to move it.
CHAIRPERSON NICHOLS: Is there a second?
BOARD MEMBER BALMES: I'll second.
CHAIRPERSON NICHOLS: All right. All in favor please say aye.

(Ayes)
CHAIRPERSON NICHOLS: Any opposed?
Great.
The next one is a research proposal. We have just one research proposal for this meeting. And if there's -- if everybody has had a chance to look at it, I think that can also go on consent.
Do we have a motion on that?
BOARD MEMBER BALMES: I'll move.
BOARD MEMBER RIORDAN: Second.
CHAIRPERSON NICHOLS: All in favor, aye.

(Ayes)

CHAIRPERSON NICHOLS: Any opposed?

Abstentions?

And then the last one on consent is the PM2.5 area designation recommendation for the revised federal PM2.5 annual standard. Again, no witness has signed up for this one. So I think we can go ahead and close the record and move that one as well.

BOARD MEMBER RIORDAN: I'd move approval, Madam Chairman.

CHAIRPERSON NICHOLS: All right. Second? Do we have a second?

BOARD MEMBER BALMES: I'll second.

CHAIRPERSON NICHOLS: All in favor, please say aye.

(Ayes)

CHAIRPERSON NICHOLS: Any opposed? None. Okay. So that was simple. Now, we move on to a slightly more complicated issue, which is the San Joaquin Valley 2013 1-Hour Ozone State Implementation Plan.

This one has frustrated many of us I think because of its legal complexity. And apparently it would seem to defy common sense assistance that although U.S. EPA revoked the 1-Hour Ozone Standard in 2005, never the
less, we still have to submit a plan for this revoked standard. The Valley's 2013 plan addresses the remaining planning requirements.

    Mr. Corey is going to explain this all to us, and then we will take action on it.

DEPUTY EXECUTIVE OFFICER COREY: Maybe I'll just explain some of it.

    Thank you, Chairman Nichols.

    The San Joaquin Valley is nearing attainment of the Federal 1-Hour Ozone Standard. However, it did not meet its 2010 attainment deadline. Although the U.S. EPA revoked the 1-Hour Standard in 2005, the Clean Air Act does not allow states to set aside any of the requirements. One of these requirements is an attainment demonstration. Hence, the need to continue to develop a plan to meet the standard.

    The good news is that the strategies developed to meet the more stringent 8-Hour Ozone Standard are the same as those needed to meet the 1-Hour Ozone Standard.

    The San Joaquin Valley Air Pollution Control District prepared this 1-Hour Ozone Plan demonstrating how these strategies bring the area into attainment by 2017.

    I'll now ask Elizabeth Melgoza of the Air Quality Planning and Science Division to give the staff presentation.
Elizabeth.
(Thereupon an overhead presentation was presented as follows.)

AIR POLLUTION SPECIALIST MELGOZA: Thank you, Mr. Corey.

And good morning, Chairman Nichols and members of the Board.

Today, I will describe the San Joaquin Valley 2013 State Implementation Plan for the Federal 1-Hour Ozone Standard you have before you begin today.

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AIR POLLUTION SPECIALIST MELGOZA: I'll begin by providing background on the ozone air quality planning in the San Joaquin Valley, including why this plan is needed. Next, I'll describe attainment status with respect to the 1-Hour Ozone Standard and how close the Valley currently is to meeting this standard. Finally, I'll highlight ongoing 8-Hour ozone planning efforts in the Valley.

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AIR POLLUTION SPECIALIST MELGOZA: The Clean Air Act requires EPA to set air quality standards and directs areas that violate those standards to develop the State Implementation Plan, or SIP. The SIP documents how the area will attain the standard.
The San Joaquin Valley currently has planning requirements for both the 1-Hour and 8-Hour ozone standards. The Valley's most recent 8-Hour ozone SIP was approved by EPA in 2012, showing how they will meet the 8-Hour Ozone Standard of 84 parts per billion by 2023. A more stringent 8-Hour Ozone Standard of 75 parts per billion was established by EPA in 2008, which requires a new SIP in 2016.

Prior to establishing the 8-Hour Ozone Standard, the national standard was a 1-Hour Ozone Standard set at 124 parts per billion. Although EPA revoked this standard in 2005, most of the Clean Air Act planning obligations remain, including the requirement that regions develop SIPs that show how they will attain the revoked standard.

Therefore, the San Joaquin Valley Air Pollution Control District prepared the 2013 1-Hour plan to meet the remaining federal planning requirements for the 1-Hour Ozone Standard.

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AIR POLLUTION SPECIALIST MELGOZA: In 2004, the Valley districts prepared a plan to address the 1-Hour ozone planning requirements for extreme areas. That plan showed that the Valley would attain the 1-Hour Ozone Standard by 2010. Although the Valley is close to meeting the standard, the region did not attain the standard in
2010. This plan before you today is a replacement for the
2004 plan and includes updated air quality modeling and
emission inventories.

This plan also includes all other applicable
extreme area SIP requirements as specified in the Clean
Air Act. This plan is based on the benefits of ARB and
the district control measures adopted subsequent to the
2004 plan, resulting in significant reductions of
ozone-forming precursors which are predicted to bring the
Valley into attainment by 2017, if not much sooner.

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AIR POLLUTION SPECIALIST MELGOZA: As mentioned
in the prior slide, the Valley is close to meeting the
1-Hour Ozone Standard of 124 parts per billion. A
violation of the 1-Hour Ozone Standard occurs when there
are four or more exceedances at any monitoring site in a
three-year period.

In the 1990s, ozone exceedances in the Valley
occurred more than 50 days a year. In 2012, the number of
exceedance days dropped to three, with none occurring in
2013. As a result of this progress, only one location,
the Fresno Drummond monitoring site, violates the
standards.

The district is preparing exceptional event
documentation for one of the exceedances in 2012 and will
send the evaluation to ARB and EPA sometime next year. An exceptional event is an exceedance due to a source such as a wild fire that is beyond an agency's control. If EPA approves the exceptional event, Fresno Drummond would then be considered in attainment.

Despite the improvement in 1-Hour ozone air quality that has occurred since the 1990s, the Valley is still significantly over the 8-Hour Ozone Standards. This past summer, the Valley exceeded the 8-Hour Ozone Standard on more than 90 days. Therefore, attaining the 1-Hour Ozone Standard is a milestone in the long-term goal of attaining the more stringent 8-Hour Ozone Standards in 2023 and 2032.

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AIR POLLUTION SPECIALIST MELGOZA: Examining the nature of the Valley's 1-Hour ozone problem in more detail shows that historically 1-Hour ozone exceedances occurred throughout the Valley, but were more common in Fresno and Bakersfield regions.

In Fresno County, there are seven ozone monitoring locations. Over the years, two of these locations, Clovis and Fresno Drummond have alternated in recording the highest one-hour ozone concentrations in the Fresno area. Ozone concentrations at the Clovis site have declined over the years, and this location attains the
1-Hour Ozone Standard as of this year. The Fresno Drummond site is now the only remaining site violating the standard in the Fresno area.

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AIR POLLUTION SPECIALIST MELGOZA: Moving to the south, in the Bakersfield-Arvin area, there are six monitoring locations. Two of these locations, Arvin and Edison, have alternated in recording the highest 1-Hour ozone concentrations in the Bakersfield area. Concentrations have declined throughout the region, and Edison attained the 1-Hour Ozone Standard in 2011.

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AIR POLLUTION SPECIALIST MELGOZA: In addition to the exceptional event analysis I mentioned earlier, a determination of attainment will require resolving air quality monitoring issues in the Arvin area.

ARB maintained an air quality monitoring station at the Arvin-Edison water storage district facility from 1989 through 2010. At times, the site measured the highest ozone levels in the Valley.

After ARB lost its lease for the site, located on Arvin Bear Mountain Boulevard in Arvin, a new site about two miles to the north near an elementary school was established.

Before the old site was closed, we were able to
monitor at both the old and new Arvin sites during the summer of 2010. However, to further evaluate variability in ozone concentrations in the Arvin region, this past summer the district conducted a special saturation monitoring study.

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AIR POLLUTION SPECIALIST MELGOZA: The saturation study consisted of 23 ozone monitors set up in 21 different locations as shown on the map on this slide. These monitors will provide information on the relationships between ozone concentrations at the new monitoring site, the prior Bear Mountain site and other locations within the town of Arvin during the peak ozone season.

We anticipate the study report will be finalized by the end of the first quarter of 2014. In addition, as part of ongoing work, ARB staff have developed a statistical method to account for missing air quality data. The results of this work, along with the saturation study, will provide the information necessary for ARB, the district, and EPA to evaluate the near-term attainment status related to the 1-Hour Ozone Standard as well as determining longer-term monitoring needs for the 8-Hour Ozone Standard.

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AIR POLLUTION SPECIALIST MELGOZA: The significant progress in reducing 1-Hour ozone levels in the Valley has occurred as a result of ongoing reductions in NOx emissions. The chart on this slide shows the downward trend of NOx emissions from 1990 through 2020. These emission reductions are due to control measures adopted by the ARB and the district that are bringing the Valley into attainment of the 1-Hour Ozone Standard.

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AIR POLLUTION SPECIALIST MELGOZA: The Clean Air Act requires the use of air quality modeling to relate ozone levels to emissions in a region and simulate future air quality based on changes in emissions. Modeling uses emission inventories with measurements of meteorology and air quality to establish this relationship.

Consistent with EPA guidelines, ARB modeled air quality to predict the future 1-Hour ozone concentrations at each monitoring site in the valley. The modeling used a base year of 2007 and a future year of 2017. The 2017 attainment year meets the attainment time frame specified in the Clean Air Act.

The modeling shows that all sites in the Valley will have attained the 1-Hour ozone standard by 2017 based on implementation of ongoing ARB and district control programs.
The 2013 addresses all applicable Clean Air Act requirements for an extreme nonattainment area, which includes a summer season emission inventory, a reasonably available control measure demonstration, an attainment demonstration for 2017, a rate of progress demonstration, contingency measures, provisions for clean fuels and technologies for boilers, and a vehicle miles traveled offset demonstration.

The 2013 plan also includes a weight of evidence demonstration that examines air quality trends. These trends are consistent with the results of the modeled attainment demonstration that indicate the Valley will attain by 2017.

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AIR POLLUTION SPECIALIST MELGOZA: The Valley has made great progress in lowering 1-Hour ozone concentrations as well as progress towards attainment of the 8-Hour Ozone Standard by 2023.

In 2016, we will be looking beyond 2023 with a plan to attain the revised 8-Hour Ozone Standard by 2032.

In addition, next year ARB will update the air quality modeling as committed to in the eight-our ozone plan that was approved by EPA in 2012. This update will reflect the latest emission inventory estimates developed for the region.
AIR POLLUTION SPECIALIST MELGOZA: That concludes staff's review of the 2013 1-Hour Ozone Plan. This plan is complete and meets the requirements of the Clean Air Act.

Staff recommends that the Board approve the San Joaquin Valley's 2013 State Implementation Plan for the Federal 1-Hour Ozone Standard.

Thank you. And staff is prepared to answer any questions you may have.

CHAIRPERSON NICHOLS: Thank you.

Despite the complexity of this, we are using this opportunity as a way to continue to move forward on one of our more challenging air quality areas. And I think it's great. Seems as though everything is on track.

We do have two witnesses who have signed up, the first being the Air Pollution Control Officer from the San Joaquin Valley, Sayed Sadredin, and he'll be followed by Casey Kramer.

Good morning, Sayed.

MR. SADREDIN: Good morning, Madam Chair and members of the Board.

First of all, I want to thank your staff, in particular, Lynn Terry and her staff for the great work they did in exercising their dual role of both helping us
with the modeling and some of the strategies that involved mobile source emissions reductions and also their oversight responsibilities and making sure that they hold our feet to the fire to make sure everything that we do satisfies the legal requirements.

I may go a minute two or over the time allotted.

I have one other staff member --

CHAIRPERSON NICHOLS: We'll give you permission.

It's a pretty short agenda this morning.

MR. SADREDIN: I wanted to share some great news related to this item. Staff has alluded to performance that's been made. Last week in San Joaquin Valley, we had major celebrations up and down the Valley, which was extensively covered by the broadcast media, print media, and a really a sense of pride in San Joaquin Valley after years of having that black mark in terms of air quality to have the first sign of huge achievement doing something that none of us thought would happen in our lifetime. That was a great opportunity for the Valley to really reflect back on the efforts that have worked.

Just to share some statistics with you, in 1996, we had 281 hours over the standard. In 2012, only seven hours. And 2013, as your staff mentioned, zero hours.

We're not talking about days anymore of exceedance of the standard; we're talking about hours. We
might be one hour away, depending on what the sort of analysis you want to use from attaining the standard. And this wasn't just some lucky, you know, turn of events but climate or meteorology. We had strings of triple digit temperatures, huge wild fires, the Rim Fire you might have heard about that in the area. But in spite of that, we had zero violations. That's something that never happened in the recorded history of San Joaquin Valley.

But really I want to take the opportunity to thank you for helping us to achieve that. I think this might be the first concrete evidence that your much talked about controversial truck rule may actually be paying some dividends because this is all about NOx in San Joaquin Valley. Fifty percent of our NOx emissions come from trucks. And there was no way that we could see this progress without significant reductions in NOx emissions.

This is -- again, I know the decline in the 1-Hour Ozone Standard. But I think it's important as we reflect on this major historic achievement becoming the first region in the nation to go from extreme non-attainment to attainment of the standard that we should take some time and thank the people that made this possible. I think first and foremost the investment by the businesses, the farmers, the dairy families in San
Joaquin Valley. Our estimate is they spend over $40 million in complying our regulations, modernizing their facilities. And without their investment and sacrifice, we could not see this achievement.

And also the residents. Valley residents have historically listed air quality throughout the years through various economic cycles, with crime, immigration being a concern to them, they always ranked air quality as a top quality of life issue that they cared about. And that care really helped support some of the tough decisions we had to make in San Joaquin Valley to achieve what we had to do.

So I want to thank the Valley residents. In recent years, we're actually asking them to do things themselves to reduce air pollution. Last year, for instance, we instituted the Air Alert Program, which is similar to our no burn day for fireplaces. We had days when the district was projecting based on meteorology potential exceedences of the 1-Hour Ozone Standard and we asked people on those days to do what they can to cut back on driving, idling and all that. And I think they responded to that. The last five or six stubborn hours we had over this 1-Hour standard, I think the public's work on that was crucial as well.

And also on the 8-Hour Ozone Standard, which is
really one of the conclusions that we can reach from this whole exercise that we've gone through, our journey toward clean air is not over. We still have some ways to go. As you can see even for the 8-Hour Ozone Standard, there has been significant achievement both for the '97 standard and 2008 standard. 2013 was the cleanest year on record. Thirty-three violations for the '97 standards and 91 for the 2008 standard. We still have a long ways to go and we really -- as we thank these groups that helped us get there, I have to tell them that we have to come back to them for more. Hopefully they have some confidence what we have asked of them to do and their investment and sacrifice has paid off, and that would be a good foundation for the more that we have to ask them.

With that, I thank you for your time and attention and ask that you approve your staff recommendation.

CHAIRPERSON NICHOLS: Thank you.

And congratulations to you and your Board. I know it hasn't been easy for you all the time either. I understand sometimes your Board meetings can be even more contentious than some of ours. So I really want to thank you for your persistence. And the partnership has been great.

Let's hear from Mr. Kramer, and then we'll go to
MR. KRAMER: Good morning, Chair Nichols and Board of the members.

Casey Kramer with the California Cotton Ginners and Growers Associations and Western Agricultural Processors Associations.

We're a part of a group of other agricultural organizations that formed the Air Coalition Team Act that watched this progress that as happened in the San Joaquin Valley very closely. Some of the other members of Agriculture Coalition are the Rice Commission, rice industry, cotton, citrus, Neisi Farmers League, Grape and Treefruit League, and several of the valley farm bureaus all participating and seeing that progress is made in the San Joaquin Valley.

I just want to highlight one of the things that Sayed did not highlight is that this progress happened a lot because of the incentives that were available in helping our farmers and ranchers replace a lot of tractors. It's achieving a lot of emission reductions prior to any regulation. And that I think helped San Joaquin in achieving that 2013 no violation.

So I'm here today just to support your approval of this plan. And we look forward to working with you as things get even more challenging. Thank you very much.
CHAIRPERSON NICHOLS: Thank you, Mr. Kramer.

The agricultural industry has really pushed the incentives approach I think from the very beginning and obviously has had a lot of success with that. So congratulations to you, too. All right.

Are there any questions of the Board members have on this item? If not, I'm going to ask Dr. Sherriffs to move it.

BOARD MEMBER SHERRIFFS: With pleasure. So moved.

CHAIRPERSON NICHOLS: All right. Do we have a second?

BOARD MEMBER SERNA: Second.

BOARD MEMBER DE LA TORRE: Second.

CHAIRPERSON NICHOLS: All those in favor, please say aye.

(Ayes)

CHAIRPERSON NICHOLS: Any opposed?

Any abstentions?

Great. Thanks.

BOARD MEMBER RIORDAN: It's a real pleasure to have this item. Congratulations, everybody note rear.

CHAIRPERSON NICHOLS: The next item on the agenda is the report to the Board on this year's air quality and climate legislative. And while Jennifer Gress, our
Legislative Liaison, is moving towards the podium here, I will mention was a pretty active year in the Legislature on our bills. And we had some very exciting progress as well through the leadership of Senator Perea and Pavely, as well as Nancy Skinner and Senator Anthony Cannella, the Legislature passed Assembly Bill 8 to extend funding for the Carl Moyer AB 118 and local air district programs, speaking of incentives.

In addition, through Senate Bill 359 by Senator Ellen Corbit, the Legislature appropriated additional funding for this fiscal year to support several programs in service to the State's clean air and climate goals. I note that through the passage of AB 8 and SB 359, the Legislature has essentially created an energy security trust which is of similar size and scope to the one that Congress failed to address this year. So the State of California on its own is basically doing what Congress was asked and has not yet managed to do.

With these bills, the district benefits -- the direct benefits of the incentives provided will be focused obviously on the state of California. Making this happen required a strong cohesive coalition among a diverse array of businesses, environmental groups, and public agencies. I was very pleased to have been a part of that effort and very much appreciate the hard work that everyone devoted
But I will now turn this item over to Richard Corey to introduce.

DEPUTY EXECUTIVE OFFICER COREY: Thank you, Chairman Nichols.

Incentives was, indeed, the key word this year. In completing the first year of cap and trade auctions, naturally engendered legislative interest and how to spend the proceeds. As the Chairman noted, there are several bills this year that extended and strengthened the State's vehicle and equipment incentive programs.

The passage of AB 8 and SB 359 and several other bills recognize the success of incentive programs in achieving the State's air quality and climate goals by dedicating continued funding for the next ten years, helping us meet increased demand for incentive funding this year, and refining some provisions of the AB 118 programs to enhance their successful implementation.

These efforts did more than strengthen the State's incentive programs. They also gave ARB an opportunity to develop and build on relationships with a broad set of partners that was just mentioned, including public health and environmental organizations, the regulated community, and the manufactures who produce the technologies needed to reduce the emissions.
The level of collaboration was tremendous. Work does not end with the passage of legislation, however. Now we must deliver on the promise to ensure that incentive dollars are spent in the most effective way possible and further the State's clean air, climate, and energy goals.

Pursuant to AB 8, ARB will be convening a work group to examine policy changes to Carl Moyer program. In addition, ARB has recently completed an evaluation of the Enhanced Fleet Modernization Programs funded by AB 18, which staff will present to you in the subsequent item. This evaluation will inform further enhancements to the program.

Staff’s also continuing to work with the AB 8 coalition of stakeholders in developing metrics for the Clean Vehicle Rebate Program. So while we should celebrate the success of these bills now, the real work to improve these programs has just started.

With that, Jennifer Gress, our Legislative Director, will provide an overview of the year, describe key legislation, and highlight what we may expect in the coming year.

Jennifer.

(Whereupon an overhead presentation was given as follows.)
LEGISLATIVE DIRECTOR GRESS: Thank you. Good morning. It is my pleasure to present the legislative update for 2013.

The past year was busy and exciting. In September, I shared with you some of the successes with respect to fully funding and reauthorizing ARB's incentive programs.

Today, I will provide a more global overview of ARB's legislative activity for the year. About 2500 bills and resolutions were introduced and considered by the Legislature. Thirty-nine percent of bills succeeded in reaching the Governor's desk. And the Governor signed about 89 percent of them.

The Legislative Office tracked about 251 pieces of legislation related to air quality and climate change. ARB also participated in eight special hearings and two town hall meetings. These events addressed hydraulic fracturing, strategies to reduce emissions from the transportation sector, California's freight plan, the truck and bus rule, and the economic impacts of ARB's regulations.

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LEGISLATIVE DIRECTOR GRESS: To give you a better sense of the issues of interest to the Legislature, this slide presents the number of bills the Legislative Office
tracked by major subject area.

As you can see, there were a large number of energy and fuel bills with the majority of energy bills related to renewable energy and energy efficiency, including green buildings and the implementation of Prop. 39.

Fuels bills dealt with the low carbon fuel standard, hydraulic fracturing, and oil and gas production.

Bills in the climate category included climate adaptation and the Cap and Trade Program, including offset protocols, auction proceeds, and the Western Climate Initiative, Incorporated, or WCI, Inc.

Motor vehicle bills addressed electric vehicle charging infrastructure, alternative fueled vehicles, high occupancy vehicle lanes, incentive programs, and the truck and bus regulation.

The air quality category included miscellaneous topics, such as Salton sea restoration and dust mitigation, non-vehicular penalties, environmental justice, and toxic air contaminants.

Land use and transportation bills included bills on AB 375, goods movement, high speed rail, and transportation funding.

And lastly administrative bills covered the
rulemaking process, including economic impact analyses, government operations, and Green Collar Jobs Council, and CEQA. CEQA was a hot topic this year. And bills sought to provide expedited judicial review, exemptions, and defining thresholds of significance for project's impact on transportation, among other things.

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LEGISLATIVE DIRECTOR GRESS: A dominant theme in this year's air quality and climate legislation concern funding and incentives. There were bills related to incentives for cleaner vehicles and equipment, the expenditures of cap and trade auction proceeds, and the implementation of Prop. 39.

As I noted earlier, hydraulic fracturing and CEQA were other prominent areas of legislative interest.

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LEGISLATIVE DIRECTOR GRESS: The bills listed here strengthen the incentives available for cleaner vehicles and equipment. I described several of them in my September update, so I will touch on them briefly today.

AB 8 extended existing motor vehicle vessel and tire fees until January 1, 2024. These fees support the Carl Moyer Program, Local Air District programs, and the AB 118 programs, which include the Air Quality Improvement Program administered by ARB, the Alternative and Renewable
Fuel and Vehicle Technology Program administered by the California Energy Commission, and the Enhanced Fleet Modernization Program, which is a vehicle retirement program administered by the Bureau of Automotive Repair. AB 8 provides support for ARB's incentive programs for the next ten years.

In addition to extending existing funding sources, two bills augmented funding for key AB 118 programs for this fiscal year. AB 108 provided 24 and a half million for the Clean Vehicle Rebate project. And SB 359 provided 20 million for the Clean Vehicle Rebate Project, ten million for the hybrid and zero emission truck and bus voucher incentive project, and ten million for truck loan assistance and increased spending authority of eight million for the Enhanced Fleet Modernization Program, or EFMP.

These programs did not have sufficient funding to meet existing demand, and these bills ensure that the programs will be fully funded for this fiscal year.

SB 459 directed ARB to make changes to the Enhanced Fleet Modernization Program in order to maximize participation by low income drivers, while also ensuring that the program achieves its emission reduction goals. You will hear an update on staff's work on this program, including some potential changes to the program pursuant
Incentives to purchase advanced technology clean vehicles were not limited to financial incentives. Access to high occupancy vehicle lanes is an important non-monetary incentive. And four bills were introduced on this topic.

Ultimately, two, AB 266 and SB 286, made it to the Governor's desk. Together, these bills extended the sunset date from 2016 to 2019 on the law allowing zero emission vehicles, plug-in hybrid electric vehicles, and some compressed natural gas vehicles to use HOV lanes without regard to vehicle occupancy.

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LEGISLATIVE DIRECTOR GRESS: Efforts to promote zero emission technologies extended beyond providing incentives for vehicle purchase. The Legislature also introduced and passed bills to support the development of fueling infrastructure necessary to support electric vehicles.

AB 8 dedicates up to 20 million annually until January 1, 2024, for the development of a hydrogen fueling network, and established a process for determining how many stations to fund each year.

SB 454 enhances access to publicly-available privately-held electric charging stations by prohibiting
electric charging service providers from requiring membership in a charging network or payment of a subscription fee.

And SB 1092 requires the California Building Standards Commission to incorporate in the next triennial update of the Building Standards Code mandatory building standards that support the installation of electric vehicle charging infrastructure in multi-family dwellings in non-residential developments.

LEGISLATIVE DIRECTOR GRESS: Another area of legislative activity centered on the Cap and Trade Program. There were a total of 18 bills on cap and trade, the majority of which aimed to direct the expenditures of auction proceeds.

The 2013 Budget Act provided for $500 million loan to the general fund for the 2013-14 fiscal year and all of the proceeds bills were held in the Appropriations Committees.

In addition to bills related to auction proceeds, the Legislature expressed its intent to bring more transparency and accountability to WCI, Inc. by introducing three bills to subject WCI, Inc. to California's Bagley-Keene Open Meeting Act. One bill, SB 726 by Senator Lara, provided a comprehensive approach to
transparency by requiring WCI, Inc. to adopt and maintain open meeting and record availability policies and to amend its bylaws to clarify that the nonprofit corporation is limited to providing administrative support services for emissions trading programs.

An ongoing conversation around cap and trade is embodied in the phrase California First, which refers to the interest in ensuring that California benefits from cap and trade and that emission reductions occur in California, especially disadvantaged communities.

California First grew out of concerns about using offset credits from projects outside of California to count towards a facility's compliance obligations, as well as investing resources to link California's cap and trade programs with those of other states and provinces. SB 605 by Senator Lara is a two-year bill pending in the Legislature on this issue, and we have been actively engaged in discussions on these concerns.

The final area of interest was Proposition 39, with ten bills introduced to implement provisions of that Act. Proposition 39 provides about one billion in additional general fund revenues annually from tax changes to multi-state businesses.

For the first five years, 550 million will fund projects that create energy efficiency and clean energy
jobs in California, funding projects from public schools, universities, and facilities, job training, and workforce development, and public/private partnerships. One bill was signed, SB 73, which directed revenues to K through 12 schools and community colleges.

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LEGISLATIVE DIRECTOR GRESS: If I could chose one word to describe our work this year, it would be "productive."

Before closing, I want to thank the staff who worked in the legislative office this year.

Heather Arias, Chief of Staff, kept the trains running on time and provided outstanding support on reauthorization, fiscal analyses, and the budget, among many other things.

Robin Neese, our Executive Assistant, was tasked with keeping my ever-evolving calendar in order.

Alexander Kamel, ARB's Executive Fellow; and the analysts, Ken Arnold, Dominic Bulone, Daniel Seeman, Nicole Sotak, Steve Trumbly, and Sydney Vergis, all maintained a large workload with a smile.

A special shout out to Dominic and Sydney who were first year analysts and exceeded expectations in every way possible.

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LEGISLATIVE DIRECTOR GRESS: If you didn't get enough here, let me refer to you the annual Legislative summary, which contains brief descriptions of the most pertinent legislation tracked by the legislative office listed by subject, author, and bill number.

That concludes my presentation. I'd be happy to answer any questions you may have.

CHAIRPERSON NICHOLS: Thank you, Jennifer.

Since you are not allowed to pat yourself on the back, let me say everywhere I go in the Legislature and the Horseshoe, I hear comments about the caliber of ARB's legislative representation. We are very fortunate to have you heading up this great team, because you've really established yourself, and therefore ARB, as being a credible, active, and positive player in this process.

And that's really critical.

As everybody knows, ARB does a lot have things that can either please or irritate people on a daily basis. And legislators hear about us frequently. So it's extremely important that we have that channel of communication and that members and their staffs know they can get accurate information from us, not to mention responses to constituents and to questions that come up.

So it really has been a good year on all those fronts. I want to thank and congratulate you for that
here in front of this assembled crew, because you may not hear from the Board members all the time.

But if any Board members have any comments either about specifics of legislation or any questions about where things are going, please feel free. Dr. Sperling.

BOARD MEMBER SPERLING: I must say I was impressed with so many productive laws that have been passed in the passed year. We don't always feel that way about our legislative activity either in Sacramento or Washington. But so many of them seem so valuable and useful.

I just have one little question. And that is you said that there were 900 bills signed. And then there was an ARB bill activity at 251. Are those 251 signed bills?

LEGISLATIVE DIRECTOR GRESS: No. Those are the total number of bills that we tracked over the course of the year. Some of them died. Some of them didn't move forward. With that constitutes sort of the legislative's office complete work. The 900 bills signed by the Governor included kind of his entire bill load.

BOARD MEMBER SPERLING: I'm curious from the bigger picture how important some of these issues are to the Legislature. How many of those 251 were signed, roughly?

LEGISLATIVE DIRECTOR GRESS: I think there were
about 28 -- 27 or 28 bills that were signed.

BOARD MEMBER SPERLING: Out of the 250?

THE WITNESS: Oh, out of the 250 --

CHAIRPERSON NICHOLS: Out of the bills that got to the Governor, I think he signed a very high proportion. I think there was one bill in our area that was vetoed.

LEGISLATIVE DIRECTOR GRESS: Let me back up. I don't know the number of the 251. We divide it up into what we call our primary interest bills, which we analyze. We submit EBRs on if they make it to the Governor's desk.

And we also track additional legislation that are related to climate or to air quality, but may not have a direct impact on ARB or our programs. We don't submit and ask for formal positions on those bills. So I don't know how many of those total were signed by the Governor.

BOARD MEMBER SPERLING: Okay. Thank you.


If not, we have one person who signed up to speak on this item, Louie Brown.

MR. BROWN: Morning, Madam Chair and members of the Board.

My name is Louie Brown. I'm a partner at the Law Offices of Kahn, Soares & Conway. We represent a number of the groups that participated actively in the AB 8/SB 11 coalition. The agricultural groups, the California Cotton
Growers and Ginners Association, Neisi Farmers League, California Citrus Mutual, Grape and Tree Fruit League, and numerous areas.

And you stole my thunder, Madam Chair. Really what I came up to do was recognize Jennifer Gress and the hard work she put in.

The one additional adjective I would use is hard working. There are numerous times throughout the session that I would get e-mails, phone calls from Jen after hours about what is going on. And her team did a fabulous job of providing data when we needed it. AB 8 became the perfect example of nothing is ever easy in the Legislature. When you look at the -- when you look at the coalition that was built around that and the programs that we were looking to extend, most people thought it should have been a no-brainer from day one. It wasn't. And it took a lot of work. Took a lot of leadership and Jennifer Gress was a -- she was instrumental to the passage of that. I want to thank you but more importantly recognize on behalf of our clients and the agricultural industry that work Jennifer did with us and appreciate that.

CHAIRPERSON NICHOLS: Thank you so much for coming. Appreciate that.

Thank all. We will move on our last item, which is a status report on the enhanced fleet modernization
program or in ARB acronym, EFMP. Everybody knows the EFMP. I always have to stop and try to spell it out for myself.

In 2009, the Air Resources Board adopted regulations to implement the voluntary retirement of older higher emitting light-duty vehicles as authorized by AB 118. Fleet modernization has long been a part of California's efforts to meet ambient air quality standards, and the 2007 State Implementation Plan for ozone contains a commitment to retire vehicles in the South Coast and San Joaquin Valley. This program, the EFMP, supports that commitment.

Funding for the program was originally scheduled to sunset at the end of 2015. But as we've just heard in the legislative update from the last presentation, we now have funding extended until 2024. We also have legislative direction to review the program and to adopt new guidelines by June 30th of 2015.

Today, we have the opportunity to look at the status of this program and get a preview of some of the program improvements and enhancements staff are evaluating. Clearly, this is a good point in history to be doing this because there is the prospect of longer term funding. But at the same time, we know there are ways in which this program could be more effective. So it's
incumbent upon us to make sure that we are looking in every way we can to make sure this the money that we will have an opportunity to spend is spent to get the most emission reductions that we can.

So with that, Mr. Corey, I'll turn it over to you.

DEPUTY EXECUTIVE OFFICER COREY: Thank you, Chairman Nichols.

The EFMT program allows for the voluntary retirement of passenger vehicles and light-duty and medium-duty trucks that are high polluters. EFMP is administered by the Bureau of Automotive Repair using guidelines adopted by the Board. The program is funded by a one dollar vehicle registration fee, translating to approximately $30 million each year to fund the program. An EFMP consists of two elements: The retirement only program that provides up to $1500 to scrap older vehicles and the pilot voucher program that provides motorists additional incentives to retire an older vehicle and replace it through a dealer with a newer cleaner model.

As you'll hear, the retirement only element is extremely popular with motorists, but the replacement voucher program has not proven nearly as popular. Earlier this year, ARB and staff in conjunction with staff and the Bureau of Automotive Repair initiated a study to evaluate
the effectiveness of the retirement-only program as well as explore the reasons why the Pilot Replacement Program has not been well utilized.

Today's status update presents the key findings from staff's review of the program, including the field assessment of 164 vehicles retired at two dismantlers in southern California.

The presentation will also identify suggested areas of improvement and further study for both elements of the program. And also as I wanted to acknowledge Tim Corcoran with the Bureau of Automotive Repair who's joined staff at the staff table.

With that, I'd like to turn the presentation over to John Ellis of the Mobile Source Operations Division who will be providing the staff presentation. John.

(Thereupon an overhead presentation was presented as follows.)

OBD IMPLEMENTATION SECTION MANAGER ELLIS: Thank you, Mr. Corey. Good morning, Chairman Nichols, members of the Board.

Today's presentation is an update on the status of the Enhanced Fleet Modernization Program, or EFMP. Last October, as part of an item discussing smog check, we presented some information about EFMP. And today, we return with a report on our assessment of the program.
In today's presentation, I'll provide a brief overview of EFMP and the assessment staff conducted in coordination with the Bureau of Automotive Repair. This assessment yielded useful information that played a role in recent legislation which paves the way for improving the program. I'll discuss our preliminary concepts for improvement and conclude with the next steps we intend to take.

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OBD IMPLEMENTATION SECTION MANAGER ELLIS: EFMP is designed to remove older higher polluting passenger vehicles from California roads and replace them with newer cleaner vehicles. Annual funding of approximately 30 million is provided through a one dollar vehicle registration fee. Participants in the program may choose to simply retire their vehicle or they may retire their vehicle and receive an additional incentive towards replacement.

Under authority granted by the Legislature, in Assembly Bill 118, EFMP began purchasing vehicles for retirement in August of 2010. At that time, this marked a significant expansion of vehicle retirement at the state level.

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OBD IMPLEMENTATION SECTION MANAGER ELLIS: As
ARB's Mobile Source Program has caused new engines to become cleaner and cleaner at certification, the relative emissions contribution from in-use older vehicles has been growing to the extent that it will soon make up the majority of the mobile source emissions.

This graph shows emission rates for light and medium duty vehicles. As seen on the plot, a 20 year old vehicle, which is the mean age of vehicles retired through EFMP, emits ozone precursors at roughly 30 times the rate of a late model vehicle.

Our emissions inventory models show that although vehicles 20 years old and holder account for only five percent of all miles traveled, they contribute 40 percent of daily smog-forming emissions. These facts make retirement of older vehicles an attractive option to continue to get emissions reductions from the on-road fleet needed to help meet State and federal air quality standards.

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OBD IMPLEMENTATION SECTION MANAGER ELLIS: Our 2007 State Implementation Plan, or SIP, includes a goal to retire about 60,000 vehicles each year in the South Coast and San Joaquin Air Districts. However, the current implementation of EFMP accounts for only about 25,000 vehicles annually statewide and about 12,000 vehicles in
these two air districts. So given the current pace, improvements are needed to increase participation. It is hoped that the assessment and concepts for improvement presented today will be leveraged with other State funding and other programs at the local level to achieve needed emission reductions in both the South Coast and San Joaquin Valley areas in the near future.

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OBD IMPLEMENTATION SECTION MANAGER ELLIS: While retirement of older vehicles may appear to be a simple solution, there are many confounding factors. The emission benefits of vehicle retirement are not only determined by the vehicle's emission rate, but also by how long it would have been otherwise been driven. Retiring even a gross polluting vehicle offers very little benefit if the owner had already decided to scrap it because it was at the end of its useful life.

The timing of a vehicle retirement is critical in delivering real air quality benefits. So we want to buy old cars, but they need to be functional. The key to success is early retirement. A successful emission reduction program must balance the incentive amount and the remaining life or emission benefits. This is not a trivial task, because it isn't always easy to predict remaining life, and the value of a vehicle tends to be
proportional to its expected remaining life. Early retirement programs must be designed to include an appropriate incentive amount to attract targeted vehicles cost effectively.

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OBD IMPLEMENTATION SECTION MANAGER ELLIS: The fundamental challenge of a vehicle retirement program is to buy a car that would have otherwise been driven and retire it early. At some point, the cost of repair will exceed the value of any vehicle. Necessary repairs may be mechanical, affecting the physical ability to use the vehicle, or they may be emission related, affecting the legal ability to register and use the vehicle.

Typically, when vehicles reach the point where repair costs exceed the value of the vehicle, the owner retires the vehicle. Over one million vehicles leave the California fleet naturally through this process every year. Regardless of emissions rate, paying to retire a vehicle at the end of its useful life does not generate any additional emission benefits because the vehicle will be scrapped and no longer pollute anyway. A vehicle at the end of life and ready for the scrap yard may be inexpensive to purchase, but that is not a cost effective use of limited public resources. Retirement programs must include safeguards to block participation by the end of
life vehicles if they are to achieve meaningful emission reductions.

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OBD IMPLEMENTATION SECTION MANAGER ELLIS: There are several other vehicle retirement programs either planned or currently operating within the state. Six are local programs operated by air districts using Carl Moyer Program or AB 923 funds, but these programs are much smaller than EFMP in terms of funding. EFMP and the Consumer Assistance Program, or CAP, are the two statewide programs. Both receive approximately the same level of funding and both are implemented by the Bureau of Automotive Repair. Under statute, the Board adopts the EFMP guidelines. In doing so, ARB coordinates closely with BAR on EFMP and have tried to make it mirror parts of cap.

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OBD IMPLEMENTATION SECTION MANAGER ELLIS: CAP actually predates EFMP by about a decade. It was, as the name implies, established to provide assistance to consumers, specifically those who fail a smog check test. CAP offers $1,000 for vehicle retirement, but consumers meeting the low income eligibility requirements of 225 percent of the federal poverty level can receive $1500. To participate, an applicant applies to BAR by
mail and then after receiving approval, drives the vehicle to an authorized BAR dismantler where they sell the vehicle and receive a check on the spot.

In addition to retirement options, CAP also offers repair assistance to income eligible motorists who have failed a smog check test.

Retirement under CAP does not deliver additional emissions benefits, but by providing a mechanism to keep marginal cars to be driven unregistered, it plays a role in supporting the overall benefits achieved by the Smog Check Program.

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OBD IMPLEMENTATION SECTION MANAGER ELLIS: As mentioned, EFMP retirement has been constructed to mirror CAP in many ways. Participants even use the same application for both programs. The incentive amounts offered currently are identical, as is the process.

The difference is eligibility. While cap is only available to those registered vehicles that have failed a smog check, EFMP has broader eligibility criteria. To participate in EFMP, a vehicle need only be shown to have been operated for the last two years in California and not to have been registered in any other state or country during that period.

The intention was to procure high emitters that
were in operation and remove them, regardless of
registration status. Thus, any vehicle eligible for cap
is also eligible for EFMP, but only some of the vehicles
eligible for EFMP are also eligible for CAP.

The broader eligibility contributes to the
popularity of the EFMP retirement, which typically
exhausts its annual funding within eight months. During
the course of answering thousands of phone calls and
e-mails with questions about the EFMP program, staff
became concerned about the quality of vehicles entering
the program. Callers almost universally described their
vehicles as scrap, not worth repairing, or that the
repairs cost more than the vehicle is worth.

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OBD IMPLEMENTATION SECTION MANAGER ELLIS:
Although EFMP does currently have an operational check to
ensure some operability, the requirements are minimal.
The vehicle must be driven under its own power to the
dismantler, must started readily, and must travel a
minimum distance of ten yards under its own power. These
operability requirements set a low bar and one can easily
think of vehicles that meet these requirements but are
still at end of life. Suspicion that a substantial number
of end-of-life vehicles were entering the program prompted
a closer look at what vehicles are submitted.
and BAR inspected 164 vehicles and 140 of those were tested on portable dynamometer using the standard BAR roadside check. While many of the vehicles looked good on the outside, a majority of the vehicles tested had significant mechanical or emission control failures, 17 were unable to complete a standard smog check test on a dynamometer, meaning they were unable to drive 25 miles per hour for 90 seconds. A few suffered catastrophic engine or transmission failure during the test. Those vehicles that successfully completed the test did exit very high emissions. Sixty percent of the vehicles failed smog, with 21 percent exceeding the gross polluter threshold.

Staff has observed 63 percent of the vehicles with a check engine light had the malfunction indicator illuminated or it was simply nonfunctional. Another observation was that the age distribution of vehicles retired in the program is actually slightly older than vehicles retired naturally during the same time period at these dismantlers, which strongly suggested that on average the program did not retire vehicles early.

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OBD IMPLEMENTATION SECTION MANAGER ELLIS: While
the retirement program is popular with over 70,000
vehicles retired to date, the assessment indicates that we
are not retiring the vehicles needed to deliver
substantial emission reductions. While the vehicles
turned in are high emitting, they appear to have much less
remaining useful life than estimated and therefore provide
very little real emission benefits.

Although the number of vehicles assessed is
small, these results indicate areas in which the program
can be improved. The popularity of the program and
recurring oversubscription does suggest the current
incentive amount is sufficient to attract participants.
But overwhelmingly, those participants do not retire the
kind of vehicle needed.

It may be more cost effective and beneficial to
increase the incentive amount and be more selective so
that we can accept only higher quality vehicles with
longer remaining useful lives and therefore greater
emission benefits.

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OBD IMPLEMENTATION SECTION MANAGER ELLIS: The
second element of EFMP is a retirement plus replacement
program that was piloted in the South Coast air basin.
The replacement program offered a substantially larger
incentive than retirement only. In addition to the base
amount paid for retiring their vehicles, owners could receive an additional $2,000 voucher towards a replacement vehicle or $2500 for low income participants.

In the pilot, BAR identified known and suspected high polluting vehicles using smog check test data. The owners of those vehicles were then solicited by mail to participate by first retiring the vehicle at a BAR authorized dismantler and then visiting a dealership to redeem a voucher towards the purchase of an eligible replacement vehicle. Eligible replacement vehicles included anything less than four years old with fuel economy in approximately the top 50th percentile of the fleet. Low income participants were eligible to select a vehicle up to eight years old. While BAR implemented the retirement of the vehicle, the South Coast Air Quality Management District handled the replacement implementation.

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OBD IMPLEMENTATION SECTION MANAGER ELLIS: The popularity of the retirement only element of EFMP contrasts with the very limited participation in the replacement pilot program, which attracted only 21 participants. This prompted a close examination of the pilot's structure and operation in conjunction with the BAR and the South Coast Air District.
The issues faced here are not as straightforward as those for vehicle retirement alone. First, there are multiple points in this process where participants can drop out from either frustration or confusion. Under the piloted approach, a participant must have a vehicle identified as a high polluter, must be solicited to participate, must get retirement approval from BAR, must then take the old vehicle to a dismantler, then must receive replacement approval by the air district, and finally must purchase a newer vehicle at a dealership under contract with the district. A much simpler process would likely increase participation.

Another concern is that the incentive amounts are too low. Marketplace surveys suggest that the total incentive for retirement plus replacement is on average slightly less than the vehicles targeted for retirement. Few people who do not already intend to sell would scrap a car and take on the cost of the more expensive replacement without some additional premium.

Clean vehicle affordability for low income households is a significant challenge. Economic surveys and statistics reveal low income households can barely meet the annual cost of ownership for any vehicle. There is essentially no remaining income left to pay for acquisition of a newer, cleaner, more expensive vehicle.
OBD IMPLEMENTATION SECTION MANAGER ELLIS: As I mentioned earlier, our assessment yielded information that helped inform recent legislation. Specifically, Senate Bill 459 authored by Senator Pavely paves the way for both better assuring the emission benefits from EFMP and creating better access to cleaner vehicles for low and moderate income households.

Among other items, SB 459 specifies that vehicles should not be eligible for retirement unless they have sufficient remaining useful life. And in addition to a directive that outreach should be increased, the bill provides options to ensure the program adequately serves persons of low and moderate income, such as by granting the ability to limit eligibility on the basis of income. SB 459 requires that the ARB update the program guidelines in consultation with the Bureau of Automotive Repair no later than June 2015.

OBD IMPLEMENTATION SECTION MANAGER ELLIS: As we develop these guidelines, there are some other elements SB 459 directs us to consider. These items include other means of compensating for retirement and replacement, the possibility of vehicle dealer participation, a variable incentive structure, and increased emphasis on cleaner
replacements and greenhouse gas reductions.

All of these are consistent with the findings noted in the assessment and the concepts for improvement that we have identified, which I'll now briefly discuss.

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OBD IMPLEMENTATION SECTION MANAGER ELLIS: Both the staff assessment of the program and legislative direction call for an improved test for sufficient remaining useful life. The remaining life of participating vehicles is directly proportional to emission reductions and cost effectiveness of the program.

As mentioned earlier, the current operational test is minimal. And while this requirement does ensure some measure of vehicle usefulness, it can be improved. One option under consideration is requiring all vehicles to successfully pass a smog check test on a dynamometer. A smog check test is both relatively inexpensive and universally available. This would help ensure that the vehicles have more substantial operability and could provide the added benefit of directing failing vehicles to the CAP program and passing vehicles to EFMP. Overall, this approach means that the vehicles that are accepted into EFMP would have a higher market value.

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OBD IMPLEMENTATION SECTION MANAGER ELLIS: This
triggers some concerns that interest in the program could suffer since current incentives are less than the value of those desired vehicles, but it is difficult to know at this time what the appropriate level of incentive should be.

So instead of simply raising incentive amounts initially, one option is to maintain current incentive levels after the implementation of measures to restrict end of life vehicles and closely monitor participation rates.

In implementing this, staff will explore how we might coordinate with existing programs that address older high-polluting vehicles such as charitable organizations and vehicles being reported to the smoking vehicles hotline in order to increase participation.

Conceptually, the new guidelines could include specific dates to review participation rates and provide a mechanism to increase incentive amounts if participation drops below pre-determined levels.

Although the program overall would purchase fewer vehicles with a higher incentive, it should attract a higher quality vehicle, and thus provide more emission benefits by creating a better balance between incentive and remaining life.

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The concepts for improve the replacement side of the program center on influencing people who are already considering replacement to making a cleaner choice. One option, moving the focus of the replacement program to vehicle dealerships, could provide several advantages, including making the program far simpler.

Many vehicles currently traded in to dealerships are excellent candidates for accelerated retirement. As we saw earlier, age alone establishes sufficiently high emissions to justify retirement. As a dealership typically purchases trade-in cars for less than resale value and the vehicle winds up being sold to another household, these vehicles could be intercepted at a price agreeable to both the seller and the dealer and then retired instead of continuing high emission operation through subsequent resale.

Dealerships are well equipped to assess a trade-in's condition and potential remaining life, so this could also be used to limit end-of-life vehicles from entering the program.

This is another area where the flexibility to adjust the incentives based on participation rates and that we get what we are paying for.

In implementing this concept, care would need to
be taken to protect consumer interests. ARB staff will evaluate and incorporate strategies during the regulatory process to ensure that the trade-in vehicles are permanently retired and that the consumers are being treated fairly and equitably during the vehicle purchase process.

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OBD IMPLEMENTATION SECTION MANAGER ELLIS: This paradigm shift to maximum the benefits of the replacement vehicle will require the flexibility to pay more for a cleaner replacement vehicle. Here, the concept is to offer a base amount for retirement of any eligible vehicle and replace it with a vehicle meeting some minimum level of cleanliness, such analyses ultra low emission vehicle. SB 459 sets a minimum base amount of $2500 for low income motorists, but larger incentives could be offered to make advanced technology hybrid and electric vehicles more attractive and offset the additional expense.

Such a progressive incentive structure could also provide greenhouse gas benefits by offering higher compensation for more fuel efficient vehicles. In developing such strategies, special consideration will be needed to address advanced technology vehicles, including hybrid and electric vehicles being purchased on the secondary market, as well as potential infrastructure
ARB is already developing research to examine this market. And as we revise EFMP, we will use this information to help determine minimum replacement vehicle requirements, such as potential provisions for low odometer readings and warranty.

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OBD IMPLEMENTATION SECTION MANAGER ELLIS: Other programs, like the Clean Vehicle Rebate Program, do already offer funding for purchases of more fuel efficient and lower emission new vehicles. Improving coordination between EFMP and these programs by leveraging incentives would make cleaner choices even more attractive and potentially allow increased market penetration of these vehicles into low and moderate income households by reducing some of the financial barriers to entry. While we recognize this goal is ambitious, our plan is to proceed with a pilot program that is flexible and designed for long-term success.

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OBD IMPLEMENTATION SECTION MANAGER ELLIS: The next steps in rebalancing the program begin with upcoming public workshops to fully develop the concepts presented today. Staff will continue its coordination with BAR and local air districts and will work to develop other
partnerships to ensure that the goals of SB 459 are attained. Staff intends to return to the Board next summer with proposed revisions well in advance of the June 2015 deadline set by SB 459.

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OBD IMPLEMENTATION SECTION MANAGER ELLIS: The ultimate goal of these efforts is a properly balanced program offering substantial emission benefits to the public, ensuring participation of low and moderate income populations, and furthering the goal of clean cars for all. Thank you.

CHAIRPERSON NICHOLS: So extremely interesting public policy issue here for those who like to study these things, the interplay of economics, psychology, the auto market emissions. I'm sure people have a lot of ideas about how to go.

But I think perhaps the most important thing to focus on is what the next steps should be in even beginning to analyze this because the topic is pretty wide open at the moment. And as I said before, we're in the wonderful position of having been authorized to spend some money, but now we need to figure out how to get the most out of the program. Before we discuss this among ourselves, we have one witness, Bill Magavern, who perhaps will explain it all to us, Coalition for Clean Air. Hi,
MR. MAGAVERN: Good morning. Thanks for putting us on the agenda and paying attention to this issue. Fleet modernization is something that we've been concerned with for a very long time from Coalition for Clean Air's involvement in the creation of the Smog Check Program through our support this year for both AB 8, which as you've heard continues the funding for the program and also SB 459 Senator Pavely's Clean Cars For All Program.

And we share Senator Pavely's concerns and the concerns articulated by the staff that the program should be better targeted and also that it should be better reaching disadvantaged communities.

And something that I maybe didn't hear as much of in the staff report and partly it could be because the Appropriations Committee in the Assembly actually stripped out the outreach funding from the bill is that we need to improve the outreach particularly to low income communities, non-English speaking consumers, because I think that a lot of the availability of the program is not necessarily penetrating to a lot of the people who need it the most.

So I would consider the Board to look to potentially other funding sources like, for example, the cap and trade funding to make that outreach program
available. I think the estimate in the legislation was
one and a half million dollars a year. So I think that
would be money that's very well spent.

I appreciate the analysis from the staff. And I
think there are a lot of good ideas here that we should
explore moving forward, particularly in terms of
increasing incentives for cleaner vehicles, because right
now I think it has to be above the medium for fuel
efficiency. But since we have now a lot of much cleaner
vehicles in California and those are starting to move into
the used car market, we want to make sure that people in
low income communities can benefit from those vehicles and
not just the more affluent. This is something we're
hearing loud and clear from our community partners who are
showing real interest in this.

The other point that I would make is that as the
presentation noted, there is a parallel program through
smog check. And there were a number of reforms made to
the Smog Check Program through AB 2289 a few years ago
which was sponsored by ARB, and I know you heard an update
on that last October. I think more recently there should
be more data available about the success of those reforms.
So that's something that you might want to consider for
the agenda for a future meeting. Thank you.

CHAIRPERSON NICHOLS: Thank you very much. We do
have one other witness whose card just came up to me, Kevin Messner.

MR. MESSNER: Hi. Thank you. Kevin Messner with the Association of Home Appliance Manufacturers.

I actually wasn't planning on speaking on this, but I found the presentation fascinating. I just wanted to make the Board aware that we are working on a national initiative on early replacement, early retirement program for home appliances. If you look at the greenhouse reductions, today's refrigerator only uses about 50 wats. If you replace that old refrigerator that's in your basement with a new one, the greenhouse gas reductions and the savings are staggering.

We did a study. We weren't expecting it to be as high, but if you replace half of the 15 and older refrigerators, just half, over a four-year program, the energy savings to greenhouse gas reductions you achieve will be the same as the Energy Star's achieved in about twelve years. It's very significant.

We're looking through this working with Energy Star, looking at the Department of Energy, working with utilities and things and maybe a partnership that I can talk with CARB staff as well in more detail to get a better understanding of what you've done on vehicles, because we're looking at the same issues, working what's
the sweet spot. If the appliance is about to just get thrown out anyway, how much it's going to be there. All the same issues. We've done a lot of work and studies on this.

So look forward and just wanted to bring that to the Board's attention that's out there. And maybe that's something where the appliance industry and CARB can work together on something to help with the environment.

CHAIRPERSON NICHOLS: Actually, your coming forward is a great opening for a comment I wanted to make, which is that the more I've thought about this program, the more it seemed to me that a critical element that was missing in this is the people who buy and sell used cars for profit because they would have the vested interest, obviously, in attracting the kinds of cars that we want and in selling people newer cars as well, if there was a way to work the program out.

It's also a way to get around possibly some of the difficulties of outreach that government faces when you're dealing with a private sector entity. And they can buy billboards and ads and be on the radio and they are all the time. So if this was a program that had some co-sponsorship from the industry, it would I think really enhance its ability to get to the people who need it.

Any other comments at this point?
MR. MESSNER: Sorry. Excuse me. I was going to follow up. I totally agree the consumer products that we sell, the manufacturers are very excited and can provide a lot of marketing in that as well as to help support it. You're right on. Thanks.

CHAIRPERSON NICHOLS: Dr. Sherriffs, or you were just pointing out?

BOARD MEMBER SPERLING: I think that clearly this program needs to be reformed. It's not a new idea. I mean, I did a paper on this in the early 1990s about how flawed many of these scrappage programs are. By the way --

BOARD MEMBER BALMES: A lot of good that paper did.

CHAIRPERSON NICHOLS: That was a personal comment.

(Laughter)

BOARD MEMBER SPERLING: Actually, it's a good observation because there's been a whole stream of papers and studies that have said exactly the same thing, and hardly any that have said that programs have been cost effective in accomplishing their goals.

And you know, there were these big programs a few years ago the UE did, the US, and they were really motivated to simulate the auto industry, not to reduce
pollution or carbon. I think this is a great opportunity. And so I'm glad to see all these good ideas coming up and I think a lot of them are really good ideas.

But there's one idea I did not hear, and that is my understanding is that there are programs that say you don't have to use it to use it to buy a car. You could use it for other types of mobility that are even lower carbon.

And I point out that we have this program called SB 375 and the intent of that is to reduce VMT. And so why not make eligible people -- make funds available that people can use for transit passes or to buy a bicycle or to participate in car sharing programs. That seems in many ways more -- and especially lower income people are going to be -- especially some of those appeal to them, but you know, lots of other people as well.

CHAIRPERSON NICHOLS: But just to respond on that one. Doesn't that get you the people who were going to stop driving anyway and therefore fail the test of cost effectiveness? Because why would the opportunity to get a little help with a bicycle really motivate me to stop driving? I mean, it would be nice to have. But I could be getting ready to stop driving anyway.

BOARD MEMBER SPERLING: I think the evidence is overwhelming the vehicles that are being scrapped would
have been junked anyway.

CHAIRPERSON NICHOLS: Yeah, that's what I'm saying. So why not at least get something good for it rather than just another car, is your point.

BOARD MEMBER SPERLING: Exactly.

CHAIRPERSON NICHOLS: Got it. That is an interesting point.

Alex.

BOARD MEMBER SHERIFFS: Thank you.

It's clear to me that this is the first string staff and we have the second string working on cap and trade because that's so much easier.

This is complicated policy in its own way. It's been struggled with for decades, as has been suggested. It's a real challenge.

I love this idea of rethinking it. I think it really is essential to get local community participation to think of some new ways. And certainly as we think about trying to encourage other forms of transportation, lower VMT, that's going to be really key to finding some good ideas for that.

It's going to be key to the outreach. You know, I wonder if the air district -- certainly the San Joaquin Valley has been very successful in terms of their incentive programs, their tune up program. And that would
certainly be a potential average. There should be some information there that would be helpful as we try to design this, and also that's a clear way to -- effective reaching the public. And this could be added on to that. I think we have to be cautious if the dealer is the first point of contact because in a sense the deal is already made. So how that would be structured would be very, very important. I love these mottoes "Clean Cars For All" and "We Want Your Old Dirty Car." Good time to be rethinking this. I'm glad we've got some time to work on it, because it is a lot of money and we have a potential to be much more effective than anything has been in the past.

CHAIRPERSON NICHOLS: All right. Hectare -- or sorry.

BOARD MEMBER MITCHELL: Thank you, staff, for working on this.

It is a program that I think has the potential for lots of abuse. And we have seen some of that in our history here. But I think dealerships are, in fact, a key player in this. And it would seem that if you work with the dealers first and develop some kind of coalition with the dealers to work such a program, you can also avoid some of the potential abuses that might occur. I think oversight of dealerships is critical. And I don't know
who would do that or how that would be done. But it would seem periodic checks of what is going on at the dealership would be necessary.

The other part of the program that I think has real benefit is the incentive program for lower income to move into low emission vehicles, zero emission vehicles, plug-in electrics, all of those, because they don't really have the opportunity now, most of them, to move into that market.

So there is co-benefits in moving them into the market. One is simply the public exposure to these new cars that provide such a benefit to clean air. And of course, the other benefit is clean air and lowering of greenhouse gas emissions.

So I would look at that program. And if any incentive moneys are going to be used from AB 8 from CVRP, they ought to be dedicated to that purpose and maybe not to the purpose of just replacing old cars with another old car. I think you can structure the program in such a way that we get the most benefit out of what we are doing. And it certainly does need some work as we've seen from your story this morning.

So thank you staff for your work on this.

CHAIRPERSON NICHOLS: Any others? Yes.

BOARD MEMBER DE LA TORRE: Thank you. When
I think about this program, I think of the beginnings of the truck buy-back program of the big rig truck buy-truck program when I came familiar with it in the late 90s when we were looking at trucks in the ports, in the L.A. Long Beach ports. I vaguely remember that with set the bar at about 1975 when we started. This was in the late 90s. That we set the trucks that were older than 1975 in the late 90s were going to be replaced. And obviously now we're up to 2007 at the ports. That's a phenomenal move forward in a fairly short amount of time from 1975 to 2007, in less than 15 years.

So when I think of this, I think of that kind of progression of being able to move. Yeah, you're getting rid of an older car for a less older car, but it's a cleaner car. And you just keep moving the bar up as you move along.

I also -- I mentioned this to staff during our briefing, the end smog program where you can report smoking cars, which I use all the time --

CHAIRPERSON NICHOLS: You're that one guy who calls all the time.

BOARD MEMBER DE LA TORRE: Always via e-mail. But it is -- I think you've got a warning system right there built into what we've got to flag these cars. And you're already getting a letter, right, when somebody
reports those. You get this letter. Imbed it in the
letter saying. Look you've got the smoky car. You've
been reported. And by the way -- it's kind of a carrot
and stick thing. You either fix it or you can get rid of
it. We'll take it off your hands with these incentive
programs.

So, I mean, you've already got the report in hand
of who these people are. You don't have to go chase them.

The other thing that I mentioned and I think
others from the Board mentioned it as well is those
nonprofit --

CHAIRPERSON NICHOLS: Give us your old cars.

BOARD MEMBER DE LA TORRE: Those folks are
already doing all the marketing already taking these cars
in. To the extent there is any of those cars that meet
our needs, we could get into the mix with them to take
these cars out. Because as I understand, I always assumed
those cars got junked, but apparently they don't. To the
extent we can junk some of those cars and take them out of
the pipeline instead of them reselling them is a very good
and promising path.

Again, to the extent we can piggyback on
marketing that's already taking place that people are
already doing, it's a win for us without a whole lot of
heavy lifting.
On the used car piece -- this is my last point -- well, used car dealers, right? It says it all. If you've got to make a deal with the devil, then wow, you really have to set up a tight infrastructure around that. I was thinking, you know, you're going to have to have some criteria for who the car dealers are.

One big advantage is they are in these communities, in the low income community. They're in the Central Valley. They're in the southeast L.A. County. They're in all the places we need to be. So they're already there. So that's phenomenal. But we've got to deal with their issues.

So we have to come up with some mechanism on the trustworthiness of the dealers in terms of any bad reports they might have on their practices, et cetera. We'd have to have some mechanic network to verify that these cars are in as good of shape or as clean as they possibly can for the year they are.

I'm thinking of something like car dealerships do the certified pre-owned where they do all those tests on it and they give it their stamp of approval. Something like that. Like a CARB-approved car. That would be something that dealers would clamber for, if they could take a car in and have it checked out, not by us, but somebody we trust. And then they could get this CARB
CHAIRPERSON NICHOLS: It's a whole new image for ARB. Let's face it.

BOARD MEMBER DE LA TORRE: It's like Energy Star. It's something that people would want to have for their vehicle because it would imply that the car is in good shape. So those are some thoughts about the used car. It's just -- that is, to me, the last possible option. But if we need to go there, I think we think ahead and come up with some ways to mitigate it.

CHAIRPERSON NICHOLS: Exactly. We'll send Hectare.

BOARD MEMBER DE LA TORRE: Just send me to the Used Car Dealers Association of California. I would be happy to speak to them.

CHAIRPERSON NICHOLS: I'm sure they'd be glad to see that. Okay.

Well, this is an exciting new adventure that we're embarking on here. Any additional thoughts from the Board? Thank you for coming over.

Mr. Corcoran, did you want to add anything on behalf of the Bureau of Automotive Repair, our partner in this activity.

MR. CORCORAN: Good morning, Madam Chair, members
of the Board and staff we've worked with these past several years now.

Nothing of substance to really add. I think Mr. Ellis' presentation was very comprehensive as far as where we are at today and the long road we all have ahead in really just fixing this program, getting what we all want to see out of it.

I would just like to say on behalf of BAR that we are happy to be a part of it. We very much look forward to it. We don't underestimate the amount of work that's necessary, but we're committed to making sure we do succeed. Thank you all.

CHAIRPERSON NICHOLS: All right then. That would conclude this item and our agenda, unless we're going to have a closed session, which we are. So -- okay.

In that case, we will not adjourn the meeting. We'll recess into closed session for a discussion of litigation as authorized by the Government Code. And when we're done with that, we will come back out and adjourn the meeting. Thanks, everybody.

(Whereupon the Board recessed into closed session at 10:48 AM and returned to open session at 11:25 AM.)

CHAIRPERSON NICHOLS: I'm back from the closed session to report that the Board discussed several items
of pending litigation but took no action. So we will adjourn the meeting at this time.

(Whereupon the Air Resources Board meeting adjourned at 11:25 AM)
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 3rd day of December, 2013.

TIFFANY C. KRAFT, CSR, RPR
Certified Shorthand Reporter
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