

State of California
Air Resources Board

**CONSIDER THE PROPOSED FISCAL YEAR 2015-16 FUNDING PLAN FOR LOW
CARBON TRANSPORTATION INVESTMENTS AND THE AIR QUALITY
IMPROVEMENT PROGRAM**

Resolution 15-21

June 25, 2015

Agenda Item No.: 15-5-8

WHEREAS, Health and Safety Code sections 39600 and 39601 authorize the Air Resources Board (ARB or Board) to adopt standards, rules, and regulations and to do such acts as may be necessary for the proper execution of the powers and duties granted to and imposed upon the Board by law;

WHEREAS, Health and Safety Code section 44270 et seq. establishes the *California Alternative and Renewable Fuel, Vehicle Technology, Clean Air, and Carbon Reduction Act of 2007* (AB 118; Stats. 2007, ch. 750), which creates the Air Quality Improvement Program (AQIP), administered by ARB, to fund air quality improvement projects related to fuel and vehicle technologies with the primary purpose of funding projects to reduce criteria air pollutants, improve air quality, and provide funds for research to determine and improve the air quality impacts of alternative transportation fuels and vehicles, vessels, and equipment technologies;

WHEREAS, California Code of Regulations, title 13, section 2340 et. seq. establishes the AB 118 Air Quality Guidelines which define the process for ensuring that AQIP complements, and does not interfere with, California's existing air quality programs as required by Health and Safety Code section 44271(b);

WHEREAS, California Code of Regulations, title 13, section 2350 et seq. establishes the AB 118 Air Quality Improvement Program Guidelines (AQIP Guidelines) which define the overall administrative requirements as well as the program structure of AQIP;

WHEREAS, the Governor's proposed fiscal year (FY) 2015-16 State Budget appropriates \$23 million to implement AQIP projects;

WHEREAS, California Code of Regulations, title 13, section 2353, requires that an AQIP funding plan must be submitted to the Board annually for approval;

WHEREAS, Government Code section 16428.8 created the Greenhouse Gas Reduction Fund (GGRF) as a special fund in the State Treasury to receive all moneys, except for fines and penalties, collected by ARB from the auction or sale of allowances, pursuant to a market-based compliance mechanism established pursuant to Division 25.5 (commencing with Section 38500) of the Health and Safety Code and specified in Sections 95800 to 96022, inclusive, of the California Code of Regulations, title 17;

WHEREAS, Health and Safety Code section 39712 requires that the moneys appropriated from GGRF shall only be used to further the regulatory purposes of Division 25.5 (commencing with section 38500) of the Health and Safety Code, consistent with law, and to facilitate the achievement of reductions of greenhouse gas (GHG) emissions in California and, where applicable and to the extent feasible, achieve additional co-benefits;

WHEREAS, the Governor's proposed FY 2015-16 State Budget appropriates \$350 million from GGRF to ARB for Low Carbon Transportation projects to accelerate the transition to low carbon freight and passenger transportation, with a priority for disadvantaged communities;

WHEREAS, proposed AQIP funding and proposed GGRF funding have been joined into one funding plan: FY 2015-16 Funding Plan for Low Carbon Transportation Investments and AQIP (Funding Plan), Attachment A;

WHEREAS, Health and Safety Code section 44274(c) allows for AQIP funding mechanisms to include competitive grants, revolving loans, loan guarantees, loans, and other appropriate measures;

WHEREAS, Health and Safety Code section 44274(b) requires that ARB shall provide preference in awarding funding to projects with higher benefit cost scores that maximize the purposes and goals of AQIP and that ARB may give additional preference for various criteria;

WHEREAS, Governor's Executive Order S-3-05, signed on June 1, 2005, established targets for the State to reduce GHG emissions to the 2000 level by 2010, to the 1990 level by 2020; and to 80 percent below the 1990 level by 2050;

WHEREAS, Governor's Executive Order B-30-15, signed on April 29, 2015, established targets for the State to reduce GHG emissions to 40 percent below the 1990 level by 2030;

WHEREAS, Governor Brown called for reducing petroleum use in cars and trucks by up to 50 percent by 2030 in his January 5, 2015, inaugural address;

WHEREAS, the California Global Warming Solutions Act of 2006 (AB 32; Chapter 488, Statutes of 2006; Health and Safety Code section 38500 et seq.) declares that global warming poses a serious threat to the economic well-being, public health, natural resources, and environment of California and creates a comprehensive multi-year program to reduce California's GHG emissions to 1990 levels by 2020;

WHEREAS, Health and Safety Code section 39712 identifies potential investment areas for moneys appropriated from GGRF;

WHEREAS, Health and Safety Code section 39716 requires the Department of Finance, on behalf of the Governor, and in consultation with the Air Resources Board and any other relevant State entity, to develop and submit to the Legislature by May 14, 2013 a three-year investment plan, consistent with the requirements of Health and Safety Code section 39712, that identifies near-term and long-term GHG emission

reduction goals and targets by sector; analyzes gaps in current State strategies for meeting GHG reduction goals by sector; and identifies priority investments that facilitate GHG reductions;

WHEREAS, the Department of Finance on behalf of the Governor submitted the Administration's *Cap-and-Trade Auction Proceeds Investment Plan: Fiscal Years 2013-14 through 2015-16* to the Legislature on May 14, 2013, as required by Health and Safety Code section 39716;

WHEREAS, Health and Safety Code section 39713 requires that the investment plan allocate a minimum of 25 percent of the available moneys in GGRF to projects that provide benefits to the disadvantaged communities identified pursuant to Health and Safety Code section 39711, and that the investment plan allocate a minimum of 10 percent of the available moneys in GGRF to projects located within disadvantaged communities identified pursuant to Health and Safety Code section 39711;

WHEREAS, the Administration's *Cap-and-Trade Auction Proceeds Investment Plan: Fiscal Years 2013-14 through 2015-16*:

- Focuses its recommended investments on enhancing existing programs with the expectation that agencies with established programs could be ready to start projects earlier than agencies needing to create or revise programs;
- Identifies Low Carbon Freight Transport and Zero-Emission Passenger transportation as an investment category recommended for consideration;
- Identifies ARB's AQIP as a program that could be used or modified to allocate and expend these Low Carbon Freight Transport and Zero-Emission Passenger Transportation funds; and,
- Identifies a preliminary target of 50 percent of these Low Carbon Freight Transport and Zero-Emission Passenger Transportation funds that could benefit disadvantaged communities.

WHEREAS, Health and Safety Code section 39718 requires that moneys in GGRF shall be appropriated through the annual Budget Act consistent with the investment plan developed and submitted pursuant to Health and Safety Code section 39716;

WHEREAS, Government Code section 16428.9(a) requires that, prior to expending any moneys appropriated to it from GGRF, a state agency shall prepare a record describing the proposed expenditures, including how the proposed expenditures further the regulatory purposes of and emission reductions pursuant to AB 32, and how the agency will document the result of expenditures;

WHEREAS, Governor's Executive Order B-16-2012, signed on March 23, 2012, establishes a GHG emission reduction target of 80 percent below 1990 levels from the transportation sector by 2050, and sets benchmarks for the year 2025 to deploy over

1.5 million zero-emission vehicles in California and displace at least 1.5 billion gallons of petroleum fuels;

WHEREAS, Health and Safety Code section 44258.4(b) establishes the Charge Ahead California Initiative and sets the following goals of the Initiative: to place in service at least one million zero-emission and near-zero emission vehicles by January 1, 2023; to establish a self-sustaining California market for zero-emission and near-zero emission vehicles; and to increase access to these vehicles for disadvantaged, low-income, and moderate-income communities and consumers;

WHEREAS, Health and Safety Code section 44258.4 directs ARB to adopt revisions to the Clean Vehicle Rebate Project (CVRP) by June 30, 2015, to ensure rebate levels can be phased down in increments based on cumulative sales, eligibility is limited by income, and consideration of conversion to prequalification or point-of-sale rebates or other methods to increase participation rates;

WHEREAS, Health and Safety Code section 44258.4 directs ARB to establish programs that further increase access to and direct benefits for disadvantaged, low-income, and moderate-income communities and consumers from electric transportation;

WHEREAS, Health and Safety Code section 39719.2 creates the California Clean Truck, Bus, and Off-Road Vehicle and Equipment Technology Program to fund development, demonstration, precommercial pilot, and early commercial deployment of zero-emission and near-zero emission truck, bus, and off-road vehicle and equipment technologies with priority given to projects benefiting disadvantaged communities;

WHEREAS, Health and Safety Code section 39719.2 directs ARB, through the existing AQIP funding plan process, to develop guidance, create an annual framework and plan, and articulate an overarching vision for implementing the California Clean Truck, Bus, and Off-Road Vehicle and Equipment Technology Program;

WHEREAS, on September 25, 2008, the Board approved Resolution 08-40 that:

- Directs AQIP to provide the maximum possible air quality and GHG reductions in order to meet the California's State Implementation Plan (SIP) commitments and GHG reduction targets;
- Recognizes that funding of emerging technologies is needed to achieve California's multiple policy goals of achieving GHG, ambient air quality, and toxic air contaminant reductions; and,
- Recognizes the importance of continuing ARB and Energy Commission coordination to ensure the ongoing success of both AQIP and the Alternative and Renewable Fuel and Vehicle Technology Program.

WHEREAS, the FY 2008-09 State Budget permitted FY 2008-09 AQIP funds to be used for a new ARB loan program (Truck Loan Assistance Program) to assist fleet owners affected by the Statewide In-Use Truck and Bus Regulation and the Tractor-Trailer Greenhouse Gas Regulation;

WHEREAS, the AQIP Truck Loan Assistance Program, implemented in partnership with the California Pollution Control Financing Authority, was launched in April 2009 to utilize AQIP funds to guarantee loans provided by participating commercial lenders to eligible truck owners;

WHEREAS, the AQIP Funding Plan for FY 2013-14 included the Truck Loan Assistance Program as a new AQIP project category. The FY 2014-15 Funding Plan for AQIP and Low Carbon Transportation GGRF Investments continued AQIP funding for the Truck Loan Assistance Program;

WHEREAS, the AQIP Truck Loan Assistance Program has grown rapidly;

WHEREAS, Board Resolutions 09-33, 10-28, 11-26, 12-26, and 13-29 for the AB 118 AQIP Funding Plans for FYS 2009-14, respectively, and Board Resolution 14-18 for the FY 2014-15 Funding Plan for AQIP and Low Carbon Transportation GGRF Investments established funding targets for the following project categories, each of which would be continued in the proposed Funding Plan:

- Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project (HVIP) (FY 2009-10 to 2014-15);
- CVRP (FY 2009-10 to 2014-15);
- Advanced Technology Demonstration Projects (FY 2009-10 to 2012-13, and 2014-15);
- Truck Loan Assistance Program (FY 2008-09; 2012-13 to 2014-15);
- Light-Duty Pilot Projects (FY 2014-15); and,
- Zero-Emission Truck and Bus Pilots (FY 2014-15).

WHEREAS, the Board-approved contingency measures in the Funding Plans for FY 2009-15 provide flexibility to adjust funding targets to address fluctuations in project demand and similar flexibility is necessary for the proposed Funding Plan;

WHEREAS, the Board approved a reserve to address uncertain revenues into the Air Quality Improvement Fund (AQIF) as part of the Funding Plans for FY 2013-14 and FY 2014-15 and that same flexibility is necessary for the proposed Funding Plan;

WHEREAS, the Board executed necessary Grant Agreements and Interagency Agreements for administration of projects funded by AQIP for FY 2009-15 and for Low Carbon Transportation projects funded from GGRF for FY 2014-15;

WHEREAS, ARB staff conducted three public workshops in developing the proposed Funding Plan, on November 7, 2014, January 23, 2015, and March 26, 2015, and at these workshops staff announced its intent to prepare a joint funding plan for AQIP and GGRF investments, and released concepts for public review;

WHEREAS, ARB held six public working group meetings in 2015 to evaluate and refine criteria for projects in the proposed Funding Plan;

WHEREAS, ARB staff conducted coordination meetings in 2015 with the Energy Commission to develop the proposed Funding Plan;

WHEREAS, ARB coordinated development of the proposed Funding Plan with local air districts to ensure the Funding Plan complements existing incentive programs;

WHEREAS, the proposed Funding Plan is based upon the latest available information, including funds proposed to be appropriated in the State Budget, availability of and demand for advanced technology, and availability of funds from sources;

WHEREAS, the proposed Funding Plan identifies two new project categories, Low Oxides of Nitrogen (NOx) Truck Incentives and Zero-Emission Freight Equipment Pilot Commercial Deployment Projects;

WHEREAS, introducing and deploying cleaner mobile agricultural equipment into smaller growing operations has been economically and technologically challenging; and

WHEREAS, in consideration of the proposed Funding Plan, staff presentation, and public testimony and comments, the Board finds that:

1. The development of a joint funding plan for both the \$350 million proposed appropriation for Low Carbon Transportation from the GGRF and the \$23 million proposed appropriation to implement AQIP projects is consistent with the goals established in the Administration's *Cap-and-Trade Auction Proceeds Investment Plan: Fiscal Years 2013-14 through 2015-16*.
2. ARB staff has met the requirements set forth in the AQIP Guidelines for considering and adopting the proposed Funding Plan.
3. The proposed AQIP project categories were selected in accordance with the requirements of Health and Safety Code section 44274(b).
4. The proposed project categories are critical for enabling ARB and the local air districts to fulfill their longer-term, post 2020 SIP goals and for enabling California to meet its GHG emission reduction goals, and zero-emission vehicle deployment targets.
5. The proposed Low Carbon Transportation project categories are consistent with the Governor's proposed budget and the Administration's *Cap-and-Trade Auction Proceeds Investment Plan: Fiscal Years 2013-14 through 2015-16*.
6. The proposed allocation of 50 percent of the Low Carbon Transportation GGRF investments to benefit disadvantaged communities meets the preliminary target established in the Administration's *Cap-and-Trade Auction Proceeds Investment Plan: Fiscal Years 2013-14 through 2015-16*.

7. The proposed Funding Plan meets the requirements of Health and Safety Code section 44258.4 by including \$160 million of funding from GGRF for CVRP and ensuring CVRP rebate levels can be phased down in increments based on cumulative sales, proposing CVRP eligibility limits based on income, and considering the conversion of CVRP to prequalification or point-of-sale rebates or other methods to increase participation rates.
8. The proposed Funding Plan meets the requirements of Health and Safety Code section 44258.4 by including \$37 million in funding from GGRF for Light-Duty Pilot Projects to Benefit Disadvantaged Communities which are designed to further increase access to and direct benefits for disadvantaged, low-income, and moderate-income communities and consumers from electric transportation.
9. The proposed Funding Plan meets the requirements of Health and Safety Code section 39719.2 by including \$148 million in funding from GGRF and providing guidance for heavy-duty vehicle and equipment projects, an annual framework and plan for heavy-duty vehicle and equipment projects, and overarching vision for funding heavy-duty vehicle and equipment technologies consistent with the provisions of the California Clean Truck, Bus, and Off-Road Vehicle and Equipment Technology Program.
10. The *Fiscal Year 2015-16 Funding Plan for Low Carbon Transportation Investments and AQIP* serves as part of the record required under Government Code section 16428.9(a).
11. The fiscal year 2015-16 funding targets are appropriate for continuing ARB's investment in advanced technologies.
12. AQIP implementation has been a success, the demand for funding exceeds available funds, and it is appropriate to implement the Low Carbon Transportation GGRF investments through the existing AQIP framework and continue seeking additional funding.
13. It is necessary and appropriate to advance Grantees up to ten percent of clean vehicle, equipment, or technology funding and up to half of project administration funding at project inception to ensure continued effective implementation of streamlined AQIP and Low Carbon Transportation GGRF projects.
14. It is necessary and appropriate to extend Grant Agreement deadlines to ensure AQIP and Low Carbon Transportation GGRF projects continue without disruption.
15. It is necessary and appropriate to advance the California Pollution Control Financing Authority up to 100 percent of loan guarantee funds at project inception to ensure continued effective implementation of the AQIP Truck Loan Assistance Program.

16. It is necessary and appropriate to fund a pilot project as identified in Attachment B, to help overcome hurdles for smaller growing operations to purchase cleaner mobile agricultural equipment.

17. The proposed contingency plans and AQIP reserve are necessary to address uncertain revenues, enable project criteria to be modified and funding to be redirected among projects as necessary to meet program demand, and address funding received from new sources to augment projects.

NOW, THEREFORE, BE IT RESOLVED that the Board approves the proposed Funding Plan in Attachment A and the addendum to the Funding Plan in Attachment B..

BE IT FURTHER RESOLVED that the following funding targets shown in Table 1 are established for the purposes described in the approved Funding Plan, including the following allocations to benefit disadvantaged communities:

Table 1: FY 2015-16 Funding Plan Allocations

Project Category	AQIP (millions)	Low Carbon Transportation (millions or %)	
		Total	Minimum % To Benefit Disadvantaged Communities
Light-Duty Vehicle Projects			
CVRP	\$3	\$160	≥25%
Light-Duty Pilot Projects to Benefit Disadvantaged Communities	-	\$37	100%
Heavy-Duty Vehicle and Equipment Projects			
HVIP	\$2	\$10	≥50%
Low NOx Truck Incentives	\$2	\$5	≥50%
Zero-Emission Truck Pilot Commercial Deployment Projects	-	\$20	≥50%
Zero-Emission Bus Pilot Commercial Deployment Projects	-	\$45	≥50%
Advanced Technology Demonstration Projects	-	\$59	100%
Zero-Emission Freight Equipment Pilot Commercial Deployment Projects		\$9	≥50%
Truck Loan Assistance Program	\$15	-	N/A
Off-Road Mobile Agricultural Equipment Trade-Up Pilot	\$0.5		
Reserve for AQIP Revenue Uncertainty	\$0.5		
State Operations for Low Carbon Transportation	-	\$5	
Total	\$23	\$350	≥50% (≥\$180)

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to issue grant solicitations, grant agreements, and interagency agreements for these funding targets

consistent with the Funding Plan with provisions to make modifications as necessary as specified in the contingency plans set forth in the approved Funding Plan.

BE IT FURTHER RESOLVED that the Executive Officer may advance the Grantee up to 10 percent of vehicle/technology funding and half of administration funding once a Grant Agreement has been fully executed.

BE IT FURTHER RESOLVED that the Executive Officer may advance the California Pollution Control Financing Authority up to 100 percent of loan guarantee funds.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to conduct the analysis required under the AB 118 Air Quality Guidelines for the AQIP projects approved in the Funding Plan.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to prepare the expenditure record required under Government Code section 16428.9(a).

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to continue to conduct working group meetings or other outreach, as necessary, for developing project solicitations and further refining project implementation.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to provide an update to the Board on implementation of Low Carbon Transportation investments and AQIP when presenting the proposed fiscal year 2016-17 Funding Plan for approval.

BE IT FURTHER RESOLVED that the Board extends its appreciation to the Energy Commission, California Pollution Control Financing Authority, Bureau of Automotive Repair, local air districts, environmental groups, industry groups, and other stakeholders for their cooperation and efforts in developing this Funding Plan.

I hereby certify that the above is a true and correct copy of Resolution 15-21 as adopted by the Air Resources Board.

/s/

Tracy Jensen, Clerk of the Board

Resolution 15-21

June 25, 2015

Identification of Attachments to Board Resolution 15-21

Attachment A: Proposed Fiscal Year 2015-16 Funding Plan For Low Carbon Transportation Investments and the Air Quality Improvement Program released on May 21, 2015 (Funding Plan).

Attachment B: Addendum to the Funding Plan

**Attachment B
Addendum to the Funding Plan**

Off-Road Mobile Agricultural Equipment Trade-Up Pilot in the San Joaquin Valley

Proposed project allocation: AQIP – \$500,000
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PROJECT OVERVIEW AND GOALS

The concept for a Mobile Agricultural Equipment Trade-Up Program in the San Joaquin Valley was identified as a potential long-term emission reduction strategy during the October 2013 Board Hearing, when the Board approved the Regulation for State Implementation Plan Credit From Mobile Agricultural Equipment. While incentive money is already helping transition many agricultural off-road equipment to the cleanest newest available technologies, there are many smaller growing operations who, even with the current incentive funding levels being offered, cannot afford to replace their existing equipment with newer equipment in an economically feasible way. This innovative program will assist smaller growing operations with uncontrolled equipment – who could not otherwise afford to replace this equipment – to “trade-up” to quality used, cleaner equipment.

STAFF PROPOSAL FOR FY 2015-16

Staff proposes to allocate up to \$500,000 for the demonstration of the feasibility of an off-road mobile agricultural equipment trade-up program in the San Joaquin Valley.

Table X: Proposed Mobile Agricultural Equipment Trade-Up Pilot Funding for FY 2015-16

FY 2014-15 Allocation (million)	Proposed FY 2015-16 Allocation (million)
\$0	\$0.5

Project Solicitation: Staff proposes releasing a project solicitation for the full \$500,000 funding allocation. The project solicitation will be open to public agencies (including air districts, ports, cities, and counties) in the San Joaquin Valley. The solicitation will define the scoring criteria to be used by ARB to evaluate applications, the criteria of which will be discussed in a work group meeting to be held in Summer 2015.

LONG-TERM PLAN

If this project proves viable, staff may propose to expand this program beyond the pilot phase.