State of California
Air Resources Board

FISCAL YEAR 2014-15 FUNDING PLAN FOR THE AIR QUALITY IMPROVEMENT PROGRAM AND LOW CARBON TRANSPORTATION GREENHOUSE GAS REDUCTION FUND INVESTMENTS

Resolution 14-18

June 26, 2014

Agenda Item No.: 14-5-4

WHEREAS, Health and Safety Code sections 39600 and 39601 authorize the State 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 the Air Resources Board), 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, title 13, California Code of Regulations, section 2343 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, title 13, California Code of Regulations, 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 fiscal year 2014-15 State Budget appropriates $26 million to implement AQIP, of which $22 million is anticipated to be available for projects;

WHEREAS, title 13, California Code of Regulations, 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 the Air Resources Board 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 title 17 of the California Code of Regulations;

WHEREAS, Health and Safety Code section 39712 requires that the moneys appropriated from the 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 fiscal year 2014-15 State Budget appropriates $200 million from the 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, to:

- Respond to increasing demand for AQIP rebates for zero-emission cars and vouchers for hybrid and zero-emission trucks and buses; and
- Provide incentives for the pre-commercial demonstration of advanced freight technology to move cargo in California, which will benefit communities near freight hubs.

WHEREAS proposed AQIP funding and proposed GGRF funding have been joined into one funding plan: Fiscal Year 2014-15 Funding Plan for AQIP and Low Carbon Transportation GGRF Investments (Funding Plan) although each funding source retains its own statutory and policy requirements;

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, 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, 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 39712 identifies potential investment areas for moneys appropriated from the 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, Health and Safety Code section 39713 requires that the investment plan allocate a minimum of 25 percent of the available moneys in the 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 the GGRF to projects located within disadvantaged communities identified pursuant to Health and Safety Code section 39711;

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, 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 the 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 the GGRF, a state agency shall prepare a record describing the proposed expenditures, how the proposed expenditures further the purposes and emission reduction targets of AB 32, and how the agency will document the result of expenditures;

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 fiscal year 2008-09 State Budget permitted fiscal year 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. The AQIP Funding Plan for fiscal year 2013-14 included the Truck Loan Assistance Program as a new AQIP project category;

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 Truck Loan Assistance Program has grown rapidly, issuing over half of the total loans offered over the course of the program in the past 18 months;

WHEREAS, on April 24, 2009, the Board approved the AB 118 AQIP Funding Plan for fiscal year 2009-10 that established priorities and guiding principles for AQIP, which include:

- Projects should accelerate the commercialization of advanced technologies needed to meet California's longer-term, post-2020 SIP goals;
- AQIP should direct funds to project types that cannot receive funding through California's other incentive programs;
- Deployment projects should be ready for immediate on-the-ground deployment, while demonstration projects should be near commercialization; and

- Projects should modify consumer choice, inducing purchases that would not have occurred otherwise.

WHEREAS, in Board Resolutions 09-33, 10-28, 11-26, and 12-26, and 13-29, the Board reaffirmed the priorities and guiding principles established in the AB 118 AQIP Funding Plan for fiscal year 2009-10 upon approval of AB 118 AQIP Funding Plans for fiscal years 2010-14;

WHEREAS, at the July 2013 Board meeting, ARB staff committed to develop a long-term vision for AQIP and incorporate that vision in the proposed fiscal year 2014-15 Funding Plan;

WHEREAS, Board Resolutions 09-33, 10-28, 11-26, 12-26, and 13-29 for the AB 118 AQIP Funding Plans for fiscal years 2009-14 respectively, established funding targets for the following project categories, the first four of which continue investments in the proposed Funding Plan:

- Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project (FY 2009-10 to present);
- Clean Vehicle Rebate Project (FY 2009-10 to present);
- Advanced Technology Demonstration Projects (FY 2009-10 through 2012-13);
- Truck Loan Assistance Program (FY 2008-09; 2012-13 to present);
- Lawn and Garden Equipment Replacement Project (FY 2009-10 and 2010-11);
- Zero-Emission Agricultural UTV Rebate Project (FY 2010-11); and
- Hybrid Off-Road Equipment Pilot Project (FY 2009-10).

WHEREAS, the Board-approved contingency measures in the Funding Plans for fiscal years 2009-14 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 AQIP Funding Plan for fiscal year 2013-14 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 fiscal years 2009-14;

WHEREAS, demand for funding for the Clean Vehicle Rebate Project, the Hybrid Truck and Bus Voucher Incentive Project, Advanced Technology Demonstration Projects, and the Truck Loan Assistance Program has historically outstripped available funding in AQIP;

WHEREAS, AQIP funding allocations for the Clean Vehicle Rebate Project were exhausted before fiscal years 2010-11, 2012-13, and 2013-14 ended, resulting in the need for short-term waiting lists for consumers to ensure program continuity until additional funding was available;

WHEREAS, the Energy Commission has provided a total of $44.5 million in previous fiscal years in Alternative and Renewable Fuel and Vehicle Technology Program funding via Interagency Agreement with ARB and legislative transfer of funds to ARB pursuant to AB 101 (Committee on Budget, Chapter 354, Statutes of 2013) to provide incentives for qualified light-duty electric drive vehicles through the Clean Vehicle Rebate Project.

WHEREAS, the Energy Commission allocated an additional $5 million in the *2014-2015 Investment Plan Updates for the Alternative and Renewable Fuel and Vehicle Technology Program* for the Clean Vehicle Rebate Project;

WHEREAS, to help accelerate the commercial introduction fuel cell electric vehicles into the California market, staff proposes to increase Clean Vehicle Rebate Project rebate amounts for eligible fuel cell electric vehicles from $2,500 to $5,000.

WHEREAS, ARB staff conducted two public workshops in the development of the proposed Funding Plan, one in January 2014 and one in April 2014, and announced its intent at these workshops 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 2014 to evaluate and refine criteria for projects and long-term AQIP planning in the proposed Funding Plan;

WHEREAS, ARB staff conducted coordination meetings in 2014 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, Pilot Projects in Disadvantaged Communities and Zero-Emission Truck and Bus Pilots;

WHEREAS, forthcoming guidance to be developed by ARB for all agencies receiving GGRF funding will establish further requirements for program administration and reporting including benefits to disadvantaged communities;

WHEREAS, pending bills under consideration by the California State Legislature may impact project criteria and requirements for projects in the proposed Funding Plan;

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 $22 million appropriation to implement AQIP projects and the $200 million appropriation for Low Carbon Transportation from the GGRF 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 consideration and adoption of the proposed Funding Plan.

3. The proposed metrics of success and long-term vision are consistent with the goals of AQIP and are needed to meet California's air quality goals.

4. The proposed AQIP project categories listed in Table 1 were selected in accordance with the requirements of Health and Safety Code section 44274(b).

5. The proposed AQIP project categories listed in Table 1 are critical for enabling ARB and the local air districts to fulfill their longer-term, post 2020 SIP goals.

6. The proposed Low Carbon Transportation GGRF project categories listed in Table 1 are consistent with the fiscal year 2014-15 State Budget and the Administration's *Cap-and-Trade Auction Proceeds Investment Plan: Fiscal Years 2013-14 through 2015-16.*

7. 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*, and the new project categories, Pilot Projects in Disadvantaged Communities and Zero-Emission Truck and Bus Pilots, will help meet the disadvantaged communities investment requirement.

8. The record established for the adoption of the proposed Funding Plan serves as part of the record required under Government Code section 16428.9(a).

9. The proposed Funding Plan properly directs AQIP funding to project categories that may not be funded through existing incentive programs but are necessary for ARB to meet California's multiple policy goals of achieving GHG, criteria air pollutant, and toxic air contaminant reductions.

10. The proposed funding categories strike an appropriate balance for achieving long-term benefits with regards to reducing production costs and accelerating technology transfer and consumer acceptance of advanced technologies, while also achieving near-term criteria pollutant and GHG emission benefits.

11. The fiscal year 2014-15 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 in association with the existing AQIP framework and continue seeking additional funding.

13. The dynamic nature of the zero-emission passenger vehicle marketplace at this early stage of vehicle deployment makes it difficult to project consumer demand for the 2014-15 funding cycle, and accordingly, flexibility is needed for potential mid-year adjustments to the Clean Vehicle Rebate Project parameters including per vehicle rebate amounts.

14. It is necessary and appropriate to consider two-year solicitations for projects to streamline administration from one year to next, based on funding authority in the approved State Budget.

15. It is necessary and appropriate to consider advancing 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 projects, and it is appropriate to consider extending this approach to Low Carbon Transportation GGRF projects if consistent with forthcoming ARB guidance.

16. It is necessary and appropriate to extend Grant Agreement deadlines to ensure AQIP projects continue without disruption, and it is appropriate to consider similar deadlines for Low Carbon Transportation GGRF projects if consistent with forthcoming ARB guidance.

17. It is necessary and appropriate to advance the California Pollution Control Financing Authority up to one hundred percent of loan guarantee funds at project inception to ensure continued effective implementation of the AQIP Truck Loan Assistance Program.

18. The use of interagency agreements with the Energy Commission is an effective and efficient mechanism for jointly funding projects that further the goals of both AQIP and the Alternative and Renewable Fuel and Vehicle Technology Program.

19. The proposed contingency plans, as modified by the Board, 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.

20. It is necessary and appropriate to consider the use of a waiting list for the Clean Vehicle Rebate Project and Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project to ensure program continuity.

21. It may be necessary to establish specific requirements for Low Carbon Transportation GGRF projects to comply with forthcoming ARB guidance on the use of auction proceeds.

22. It may be necessary and appropriate to make mid-year modifications to project criteria and requirements as appropriate in response to pending bills under consideration by the California State Legislature if those bills are signed into law and require changes prior to fiscal year 2015-16.

NOW, THEREFORE, BE IT RESOLVED that the Board approves the proposed Funding Plan, with the following changes:

1. Battery electric vehicle and plug-in hybrid electric vehicle rebate levels for the Clean Vehicle Rebate Project shall remain unchanged at $2,500 and $1,500 per vehicle, respectively.

2. Eliminating rebates for some plug-in hybrid electric vehicles based on all-electric range shall be removed from the list of Clean Vehicle Rebate Project contingency measures the Executive Officer is authorized the implement.

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 2014-15 Funding Plan Allocations (in millions)

	AQIP Allocations	**Low Carbon Transportation Allocations**	
		Total	*Percentage of Total to Benefit Disadvantaged Communities*
Light-Duty Vehicle Projects – up to $125			
• Classic Clean Vehicle Rebate Project	$5	$111	*10% = $11*
• Pilot Projects in Disadvantaged Communities	-	$9	*100% = $9*
Heavy-Duty Vehicle and Equipment Projects – up to $85			
• Hybrid and Zero-Emission Truck and Bus Voucher Incentive Program	$5	$5-$10	*100% = $10*
• Zero-Emission Truck and Bus Pilots		$20-$25	*100% = $20*
• Advanced Technology Freight Demonstrations	-	$50	*100% = $50*
Loan Assistance Programs – up to $10			
• Truck Loan Assistance Program	$10	-	
Reserve for Revenue Uncertainty	***$2***		
Total	**$22**	**$200**	*50% = $100*

BE IT FURTHER RESOLVED that the Board directs the Executive Officer establish final Low Carbon Transportation allocations between HVIP and Zero-Emission Truck and Bus Pilots based on an assessment of the HVIP funding need and the ability to meet disadvantaged communities investment targets consistent with the provisions of the proposed Funding Plan.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to apply the fuel cell electric vehicle rebate amount of $5,000 to all qualifying Clean Vehicle Rebate Project fuel cell electric vehicle purchases or leases made on or after June 1, 2014.

BE IT FURTHER RESOLVED that the Board delegates to the Executive Officer the authority and responsibility to modify the requirements applicable to the use of GGRF funding for Low Carbon Transportation as necessary to be consistent with forthcoming ARB guidance on the administration of those funds.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to issue grant solicitations for these funding targets, with provisions in the grant solicitations and Grant Agreements to modify grant funding and project criteria as necessary as specified in the contingency plans set forth in the approved Funding Plan.

BE IT FURTHER RESOLVED that the Executive Officer may modify approved project criteria where necessary to coordinate with other incentive funds or ARB regulations or to reflect changes in statute and to reflect changes in the available technology.

BE IT FURTHER RESOLVED that the Executive Officer may modify the approved funding targets or projects as a result of receiving funding from other sources.

BE IT FURTHER RESOLVED that the Executive Officer may resolicit a project or redirect funding from one project category to another if applications in a project category fail to meet minimum project scores set in the project solicitations or when demand for funds in one project category exceeds the demand for funds in another project category.

BE IT FURTHER RESOLVED that the Executive Officer may institute a waiting list for the Clean Vehicle Rebate Project and Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project if necessary to bridge any funding gaps and ensure program continuity.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to provide an update to the Board with proposed mid-year changes to the Clean Vehicle Rebate Project if the Executive Officer determines than any changes are necessary beyond the establishment of a waiting list.

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 one hundred 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 continue to identify additional funding opportunities to augment or complement AQIP and Low Carbon Transportation GGRF funds, and to look for opportunities to leverage State funds with federal and local air quality incentive funds.

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

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to continue to work with the Energy Commission on further coordination of AQIP and the Alternative and Renewable Fuel and Vehicle Technology Program including entering into interagency agreements with the Energy Commission as the Executive Officer deems appropriate to administer funds that the Energy Commission may direct to project categories established in the approved Funding Plan.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to continue to conduct work group meetings, analysis, and seek input from stakeholders to determine any long-term changes to improve the sustainability of the Clean Vehicle Rebate Project and other projects and continue to refine metrics of success and long-term vision for each project.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to provide an update to the Board on implementation of AQIP and Low Carbon Transportation GGRF investments when presenting the proposed fiscal year 2015-16 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 14-18 as adopted by the Air Resources Board.

Tracy Jensen

Tracy Jensen, Clerk of the Board