State of California
Air Resources Board

CONSIDER THE PROPOSED FISCAL YEAR 2016-17 FUNDING PLAN FOR LOW CARBON TRANSPORTATION AND FUELS INVESTMENTS AND THE AIR QUALITY IMPROVEMENT PROGRAM

Resolution 16-7

June 23, 2016

Agenda Item No.: 16-6-1

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) 2016-17 State Budget appropriates $28.6 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 2016-17 State Budget appropriates $500 million from GGRF to ARB for Low Carbon Transportation and Fuels to provide incentives for low carbon freight and passenger transportation;

WHEREAS, proposed AQIP funding and proposed GGRF funding have been joined into one funding plan: Fiscal Year-17 Funding Plan for Low Carbon Transportation and Fuels Investments and the Air Quality Improvement Program (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 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, Governor's Executive Order B-12-2012 established targets for the State to reduce GHG emissions from the transportation sector 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, 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 and that the investment plan be updated every three years;

WHEREAS, the Department of Finance on behalf of the Governor submitted to the Legislature *Cap-and-Trade Auction Proceeds Investment Plan: Fiscal Years 2013-14 through 2015-16* in May 2013 and *Cap-and-Trade Auction Proceeds Second Investments Plan: Fiscal Years 2016-17 through 2018-19* in January 2016 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 *Cap-and-Trade Auction Proceeds Second Investments Plan: Fiscal Years 2016-17 through 2018-19* establishes a target that 50 percent of Low Carbon funds benefit disadvantaged communities and identifies the following investment concepts for transportation:

- Support accelerated adoption and deployment of clean passenger vehicles and transit buses;

- Support demonstrations, pilot projects, and deployment of zero and near-zero emission heavy duty trucks, freight and non-freight equipment (e.g., forklifts, agricultural equipment, yard trucks, locomotives, ships, and other harbor craft), and airport equipment;

- Support electric vehicle and equipment charging, hydrogen and renewable fuels and infrastructure, and electric vehicle charging and smart grid integration, including in multi-unit dwellings, small businesses, schools, retail locations, ports, truck stops, and distribution centers;

- Provide incentives for in-State production of ultra-low carbon intensity fuels; and

- Support demonstration and implementation of passenger and freight efficiency measures to reduce the carbon footprint while increasing capacity and competitiveness (e.g., connected vehicles, information technology, collaborative logistics, etc.).

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, Health and Safety Code section 39715 requires ARB, in consultation with the California Environmental Protection Agency, develop funding guidelines for administering agencies that receive appropriations from GGRF including a component for how administering agencies should maximize benefits for disadvantaged communities and ARB approved these guidelines on September 24, 2015 and published *Cap-and-Trade Auction Proceeds Funding Guidelines for Agencies that Administer California Climate Investments (Funding Guidelines)*;

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 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 include in the FY 2016-17 Funding Plan for AQIP a plan for the Clean Vehicle Rebate Project (CVRP) and related light-duty vehicle incentive programs that contains a three-year estimate of funding needs, a market and technology assessment, and an assessment of when a self-sustaining market is expected (known as the long-term plan for CVRP and light-duty vehicle incentives);

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 including use of fuels that reduce GHG emissions 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, ARB's May 2014 *First Update to the Climate Change Scoping Plan*, ARB's May 2016 *Mobile Source Strategy*, and the May 2016 draft *California Sustainable Freight Action Plan*, conclude that many of the same actions are needed to meet GHG, smog forming, and toxic pollutant emission reduction goals – specifically, a transition to zero-emission and near zero-emission technologies and use of the cleanest, lowest carbon fuels and energy across all vehicle and equipment categories;

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 and the FY 2014-15 Funding Plan and FY 2015-16 Funding Plan 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, 14-18, 15-21, and 15-52 established funding targets for the following project categories, each of which would be continued in the proposed Funding Plan:

- CVRP;
- Light-Duty Pilot Projects including the Enhanced Fleet Modernization Program Plus-up, Car Sharing and Mobility Options, Increased Public Fleet Incentives for CVRP-Eligible Vehicles, and Financing Assistance;
- Advanced Technology Demonstration Projects;

- Zero-Emission Truck and Bus Pilot Commercial Deployment Projects;
- Low Oxides of Nitrogen (NOx) Truck Incentives;
- Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project (HVIP);
- Truck Loan Assistance Program; and
- Agricultural Equipment Trade-up Pilot Project in the San Joaquin Valley.

WHEREAS, the proposed Funding Plan identifies four new project categories: Agricultural Worker Vanpools in the San Joaquin Valley; Zero-Emission Freight Equipment Pilot Commercial Deployment Project; Rural School Bus Pilot Project; and Very Low Carbon Fuels Production Incentive Project;

WHEREAS, the Board-approved contingency measures in the Funding Plans for FY 2009-16 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, FY 2014-15, and FY 2015-16 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 2009-16 and for Low Carbon Transportation projects funded from GGRF for FY 2013-14, FY 2014-15, and FY 2015-16;

WHEREAS, ARB staff conducted three public workshops in developing the proposed Funding Plan, on December 8, 2015, January 27, 2016, and April 4, 2016, 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 15 public working group meetings in 2016 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, 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 $500 million proposed appropriation for Low Carbon Transportation and Fuel from the GGRF and the $28.6 million proposed appropriation to implement AQIP projects is appropriate in order to ensure continued coordinated investments between the two programs;

2. ARB staff has met the requirements set forth in the AQIP Guidelines for considering and adopting the proposed Funding Plan and has met the requirements of the AB 118 Air Quality Guidelines;

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, and the project categories are consistent with and support the strategies identified in ARB's May 2014 *First Update to the Climate Change Scoping Plan*, ARB's May 2016 *Mobile Source Strategy*, and the May 2016 draft *California Sustainable Freight Action Plan*;

5. The proposed Low Carbon Transportation and Fuels project categories are consistent with the Governor's proposed budget and the Administration's *Cap-and-Trade Auction Proceeds Investment Plan: Fiscal Years 2016-17 through 2018-19;*

6. The proposed allocation of 50 percent of the Low Carbon Transportation GGRF investments to benefit disadvantaged communities meets the target established in the Administration's *Cap-and-Trade Auction Proceeds Investment Plan: Fiscal Years 2016-17 through 2018-19*;

7. The proposed Funding Plan meets the requirements of the Funding Guidelines established pursuant to Health and Safety Code section 39715;

8. The proposed Funding Plan meets the requirements of Health and Safety Code section 44258.4 by including in funding from GGRF for Light-Duty Pilot Projects to Benefit Disadvantaged Communities and Financing Assistance for Lower-Income Consumers 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 44258.4 by including a long-term plan for CVRP and light-duty vehicle incentives;

10. The proposed Funding Plan meets the requirements of Health and Safety Code section 39719.2 by including 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;

11. The fiscal year 2016-17 funding targets are appropriate for continuing ARB's investment in advanced technologies;

12. It is necessary and appropriate to disburse 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 and Fuels GGRF projects;

13. It is necessary and appropriate to extend Grant Agreement deadlines to ensure AQIP and Low Carbon Transportation GGRF projects continue without disruption;

14. It is necessary and appropriate to disburse to 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; and

15. 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 with the following modifications to the contingency provisions set forth in Chapter 7 of the proposed Funding Plan:

- In the event that the FY 2016-17 State Budget appropriation for Low Carbon Transportation and Fuels is reduced by less than 20 percent of $500 million (but greater than or equal to $400 million), each project's allocation would be scaled proportionally to its relative share of the $500 million proposal with the exception of the Light-Duty Pilot Projects to Benefit Disadvantaged Communities and Financing Assistance for Lower-Income Consumers which would each receive their full proposed allocation.

- In the event that the FY 2016-17 State Budget appropriation for Low Carbon Transportation and Fuels is reduced more than 20 percent of $500 million (i.e. less than $400 million), the Board directs staff to return with revised project allocations for Board approval.

BE IT FURTHER RESOLVED that the Board recognizes the need for more than $500 million Low Carbon Transportation and Fuels funding to support the State's climate change, air quality, and petroleum reduction goals and identifies equity projects,

freight projects, and school and transit bus projects as top priorities for additional funding. The Board directs staff to consider opportunities increasing funding to $750 million to $1 billion and how ARB would spend that funding.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to issue grant solicitations, grant agreements, interagency agreements, or other appropriate funding agreements for the projects identified in 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 disburse to the Grantee up to 10 percent of vehicle/technology funding and half of administration funding to cover initial expenses once a Grant Agreement has been fully executed.

BE IT FURTHER RESOLVED that the Executive Officer may disburse to 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 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 revise project implementation manuals and terms and conditions as necessary to incorporate the provisions set forth in the approved Funding Plan.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to provide an update to the Board on implementation of Low Carbon Transportation and Fuels investments and AQIP when presenting the proposed fiscal year 2017-18 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, the California Air Pollution Control Officers Associations, 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 16-7 as adopted by the Air Resources Board.

Tracy Jensen, Clerk of the Board

Resolution 16-7

June 23, 2016

Identification of Attachments to Board Resolution 16-7

Attachment A: Proposed Fiscal Year 2016-17 Funding Plan for Low Carbon Transportation and Fuels Investments and the Air Quality Improvement Program released on May 20, 2016.