This SETTLEMENT AGREEMENT AND RELEASE (hereinafter "Agreement") is entered into between the STATE OF CALIFORNIA AIR RESOURCES BOARD (hereinafter "ARB") 1001 I Street, Sacramento, California 95814, and WATKINS CONSTRUCTION CO., INC. (hereinafter "WATKINS CONSTRUCTION"), P.O. Box 243, Taft, CA 93268.

I. RECITALS

(1) California Health and Safety Code section 44011.6 (HSC § 44011.6) established the Heavy Duty Vehicle Inspection Program (HDVIP). It authorizes ARB to inspect on-road heavy-duty vehicles for excessive smoke emissions and engine tampering and to issue citations, accordingly. The program also requires the vehicle owner to repair its engines that exceed the prescribed ARB smoke opacity standards, perform a post-repair opacity test, and submit proof of repairs and any assessed penalties under the Regulations of the Heavy-Duty Smoke Inspection Program, chapter 3.5, California Code of Regulations, title 13, sections 2180-2188 (13 CCR §§ 2180-2188).

(2) HSC § 43701 provides that ARB shall adopt regulations that require owners or operators of heavy-duty diesel motor vehicles to perform regular inspections of their vehicles for excessive smoke emissions.

(3) 13 CCR § 2190 *et seq.* were adopted under the authority of HSC § 43701 and, with limited exceptions, which are not applicable here, apply to all heavy-duty diesel powered vehicles with gross vehicle weight ratings greater than 6,000 pounds that operate on the streets or highways within the State of California.

(4) 13 CCR § 2190 *et seq.* authorize the Periodic Smoke Inspection Program (PSIP) which requires the owners and operators of California based vehicle fleets of two or more heavy duty diesel motor vehicles with gross vehicle weight ratings greater than 6,000 pounds that operate on the streets or highways within the State of California to conduct annual smoke opacity inspections of their vehicles equipped with engines that are four years and older.

(5) 13 CCR § 2192(a) requires inter alia that the owner of the vehicle "[t]est the vehicle for excessive smoke emissions periodically according to the inspection intervals specified in § 2193(a), (b), and (c)", "[m]easure the smoke emissions for each test...", "[r]ecord the smoke test opacity levels and other required test information as specified in section 2194..." and "[k]eep the records specified in section 2194 for two years after the date of inspection."

(6) HSC § 43016 states, "Any person who violates any provision of this part, or any order, rule, or regulation of the state board adopted pursuant to this

part, and for which there is not provided in this part any other specific civil penalty or fine, shall be subject to a civil penalty of not to exceed five hundred dollars ($500.00) per vehicle."

(7) ARB considers testing, measuring, recording, and recordkeeping to be critical components in reducing excessive smoke emissions from these heavy-duty vehicles.

(8) ARB contends WATKINS CONSTRUCTION failed to test, measure, record, and maintain records of smoke emissions from its fleet of heavy-duty diesel vehicles for year 2012 in violation of 13 CCR § 2190 *et seq*.

(9) Health and Safety Code, §§ 39650-39675 mandates the reduction of the emissions of substances that have been determined to be toxic air contaminants (TACs). In 1998, following an exhaustive 10-year scientific assessment process, the Air Resources Board identified particulate matter (PM) from diesel-fueled engines as a toxic air contaminant. In-use On-Road diesel vehicles are powered by diesel fueled engines that emit toxic particulate matter. On-Road vehicles are controlled under 13 CCR § 2025.

(10) 13 CCR § 2025(r) sets forth the requirements for reporting all vehicles with engines subject to the regulation if the owner of a fleet has elected to utilize the compliance options of §§ 2025(f)(4), 2025(g)(3), 2025(g)(4), 2025(h), 2025(i), the credits of § 2025(j), and the agricultural provisions of § 2025(m), single-engine and two-engine street sweeper provisions of § 2025(n), extension or exemptions for vehicles used exclusively in NOx exempt areas of § 2025(p)(1), and the extension for low-mileage construction trucks of § 2025(p)(2).

(11) WATKINS CONSTRUCTION has elected to utilize the compliance options/credits/provisions of 13 CCR, § 2025(h).

(12) Failure to comply with the requirements of 13 CCR, § 2025 is a violation of state law resulting in penalties. California HSC §§ 39674(a) and (b) authorize civil penalties for the violation of the programs for the regulation of toxic air contaminants not to exceed one thousand dollars ($1,000) or ten thousand dollars ($10,000), respectively, for each day in which the violation occurs.

(13) 13 CCR, § 2025(e)(8) states: "All information specified in § 2025(r) must be reported to the Executive Officer.

(14) The ARB has documented that WATKINS CONSTRUCTION has failed to timely report all required information for all vehicles in the fleet for which the owner has elected to utilize the compliance options/credits/provisions of 13 CCR, § 2025(h).

(15) In order to resolve these alleged violations, WATKINS CONSTRUCTION has taken, or agreed to take, the actions enumerated below under "RELEASE". Further, ARB accepts this Agreement in termination and settlement of this matter.

(16) In consideration of the foregoing, and of the promises and facts set forth herein, the parties desire to settle and resolve all claims, disputes, and obligations relating to the above-listed violations, and voluntarily agree to resolve this matter by means of this Agreement. Specifically, ARB and WATKINS CONSTRUCTION agree as follows:

II. TERMS AND RELEASE

In consideration of ARB not filing a legal action against WATKINS CONSTRUCTION for the alleged violations referred to above, and WATKINS CONSTRUCTION's payment of the penalties set forth in Section 1 below, ARB and WATKINS CONSTRUCTION agree as follows:

(1) Upon execution of this Agreement, the sum of fifteen thousand seven hundred and fifty dollars **($15,750.00)** shall be paid on behalf of WATKINS CONSTRUCTION no later than **November 24, 2014**, as follows:

$ 11,813.00 paid to **Air Pollution Control Fund**
$ 3,937.00 paid to **School Bus Retrofit Project**

If you agree with our settlement offer, **please sign and return the enclosed Settlement Agreement to the following address** no later than **November 24, 2014**:

Allison Spreadborough, Air Pollution Specialist
Air Resources Board, Enforcement Division
P.O. Box 2815
Sacramento, CA 95812

Please also submit the payment along with the attached "Settlement Agreement Payment Transmittal Form" (Attachment A), to the following address no later than October 30, 2014:

California Air Resources Board
Accounting Office
P.O. Box 1436
Sacramento, CA 95812

(2) If the Attorney General files a civil action to enforce this settlement agreement, WATKINS CONSTRUCTION shall pay all costs of investigating and prosecuting the action, including expert fees, reasonable attorney's costs, and costs.

(3) It is further agreed that the penalties described in "Terms and Release", paragraph 1 are punitive in nature, rather than compensatory. Furthermore, the penalty is intended to deter and punish WATKINS CONSTRUCTION for violations of state environmental statutes, and these penalties are payable to and for the benefit of ARB, a governmental unit. Therefore, it is agreed that these penalties imposed on WATKINS CONSTRUCTION by ARB arising from the facts described in recital paragraphs (1) through (16) are non-dischargeable under 11 United States Code § 523 (a)(7), which provides an exception from discharge for any debt to the extent such debt is for a fine, penalty or forfeiture payable to and for benefit of governmental unit, and is not compensation for actual pecuniary loss, other than certain types of tax penalties.

(4) WATKINS CONSTRUCTION shall not violate HSC §§ 43701 *et seq.*, 44011.6 *et seq.*, and 13 CCR §§ 2180 *et seq.*, 2190 *et seq.*, and 2485 *et seq.*

(5) WATKINS CONSTRUCTION shall comply with one or both of the following options to attend the California Council on Diesel Education and Technology (CCDET I) class, (SAE J1667 Snap Acceleration Smoke Test Procedure for Heavy-Duty Diesel Powered Vehicles) as described on the ARB webpage at http://www.arb.ca.gov/enf/hdvip/ccdet/ccdet.htm. This class is conducted by various California Community Colleges and instructs attendees on compliance with the PSIP, ECL and the HDVIP.

(a) WATKINS CONSTRUCTION shall have the fleet maintenance manager (or equivalent) and all staff performing opacity tests for compliance with PSIP and the HDVIP attend the CCDET I class. Proof of CCDET I completion shall be provided to ARB within six months of the date of this Agreement and be maintained in each applicable employee's file for the term of his or her employment.

(b) If WATKINS CONSTRUCTION uses a contractor to perform the annual smoke opacity testing required under the PSIP, in addition to having the fleet maintenance manager (or equivalent) attend the CCDET I course, WATKINS CONSTRUCTION shall obtain proof that the contractor's staff conducting the smoke opacity tests completed the CCDET I course within the past four years. This proof of CCDET I completion shall be provided to ARB with PSIP records as required by this Agreement and be maintained with the annual PSIP records.

(6) WATKINS CONSTRUCTION shall comply with one or both of the following options to attend the CCDET II class (Diesel Exhaust After Treatment and Maintenance), described on the ARB's webpage http://www.arb.ca.gov/enf/hdvip/ccdet/ccdet.htm. This class is conducted by various California Community Colleges and instructs attendees on

California's emission regulations and the proper care and maintenance of diesel exhaust after-treatment systems (DEATS).

(a) WATKINS CONSTRUCTION shall have the fleet maintenance manager (or equivalent) and all staff responsible for maintenance of DEATS attend the CCDET II class. Proof of CCDET II completion shall be provided to ARB within six months of the date of this Agreement and also be maintained in each applicable employee's file for the term of his or her employment.

(b) In case WATKINS CONSTRUCTION uses a contractor for the maintenance of DEATS, in addition to having the fleet maintenance manager (or equivalent) attend the CCDET II course, WATKINS CONSTRUCTION shall obtain proof that the contractor's staff maintaining the DEATS device(s) completed the CCDET II course within the last four years. This proof of the CCDET II completion shall be provided by WATKINS CONSTRUCTION to the ARB within six months of the date of this settlement and be maintained with the DEATS installation and maintenance records.

(7) As is typically required, WATKINS CONSTRUCTION shall submit copies of all PSIP compliance records for the two years (2014 and 2015) after the close of the audit to ARB by January 31 of the following year. ARB acknowledges that WATKINS CONSTRUCTION has already submitted copies of all PSIP compliance records for year 2014 and has therefore complied with that requirement. WATKINS CONSTRUCTION must still submit copies of all PSIP compliance records for year 2015 to ARB by January 31 of the following year. **Copies shall be addressed to the attention of Ms. Allison Spreadborough at the California Air Resources Board, Enforcement Division, P.O. Box 2815, Sacramento, CA 95812**. ARB reserves the right to visit any WATKINS CONSTRUCTION fleet location at any time to conduct compliance audits for the HDVIP and PSIP, or any other applicable ARB program.

(8) WATKINS CONSTRUCTION shall complete Low NOx Software Upgrades (reflash) on all applicable heavy-duty diesel engines operating in California and report to the ARB within 45 days of this agreement.

(9) Each 1974 or newer diesel powered heavy-duty vehicle in the WATKINS CONSTRUCTION fleet shall remain in compliance with the emission control label (ECL) requirements set forth in 13 CCR § 2183.

(10) WATKINS CONSTRUCTION shall instruct all employees who operate diesel-fueled vehicles to comply with the idling regulations set forth in 13 CCR § 2485, within 45 days of this Agreement.

(11) WATKINS CONSTRUCTION shall comply with the Truck & Bus regulation as codified in 13 CCR, § 2025 et seq. Within 45 days of the execution of

this Agreement, WATKINS CONSTRUCTION shall submit the proof of compliance to Ms. Allison Spreadborough at the California Air Resources Board, Enforcement Division, P.O. Box 2815, Sacramento, CA.

(12) WATKINS CONSTRUCTION shall not violate the Truck & Bus regulation as codified in 13 CCR, § 2025 et seq.

(13) This Agreement shall apply to and be binding upon WATKINS CONSTRUCTION, and its officers, directors, receivers, trustees, employees, successors and assignees, subsidiary and parent corporations and upon ARB and any successor agency that may have responsibility for and jurisdiction over the subject matter of this Agreement.

(14) This Agreement constitutes the entire agreement and understanding between ARB and WATKINS CONSTRUCTION concerning the subject matter hereof, and supersedes and replaces all prior negotiations and agreements between ARB and WATKINS CONSTRUCTION concerning the subject matter hereof.

(15) No agreement to modify, amend, extend, supersede, terminate, or discharge this Agreement, or any portion thereof, is valid or enforceable unless it is in writing and signed by all parties to this Agreement.

(16) Severability. Each provision of this Agreement is severable, and in the event that any provision of this Agreement is held to be invalid or unenforceable, the remainder of this Agreement remains in full force and effect.

(17) This Agreement shall be interpreted and enforced in accordance with the laws of the State of California, without regard to California's choice-of-law rules.

(18) This Agreement is deemed to have been drafted equally by the Parties; it will not be interpreted for or against either party on the ground that said party drafted it.

(19) Senate Bill 1402 (Dutton, Chapter 413, statutes of 2010) requires ARB to provide information on the basis for the penalties it seeks (HSC § 39619.7). This information, which is provided throughout this settlement agreement, is summarized here:

The manner in which the penalty amount was determined, including a per unit or per vehicle penalty.

Penalties must be set at levels sufficient to discourage violations. The penalties in this matter were determined in consideration of all relevant

circumstances, including the eight factors specified in HSC §§42403 and 43024.

Truck and Bus Violations

The per unit penalty for the Truck and Bus violations involved in this case is a maximum of $1,000 per vehicle per day for strict liability violations or $10,000 per vehicle per day for negligent or intentional violations.

The penalty obtained for the Truck and Bus violations involved in this case is for failure to timely report all required information for all vehicles in the fleet is $4,125.00. Eleven vehicles reported after the deadline, for $375 per vehicle, per violation.

The penalty was discounted based on the fact that this was a first time violation and the violator made diligent efforts to comply and to cooperate with the investigation.

PSIP Violations

The per vehicle penalty for the PSIP violations involved in this case is a maximum of $500 per vehicle per violation per year. The penalty obtained for the PSIP violations involved in this case is $11,625.00 for 31 violations involving 44 vehicles, or $375.00 per vehicle per violation.

The penalty was discounted based on the fact that this was a first time violation and the violator made diligent efforts to comply and to cooperate with the investigation.

The provision of law the penalty is being assessed under and why that provision is most appropriate for that violation.

Truck and Bus Violations

The penalty provision being applied for the Truck and Bus regulation (13 CCR, § 2025) violations in this case is HSC § 39674 because the Truck and Bus regulation is a Toxic Air Contaminant Control Measure adopted pursuant to authority contained in HSC § 39002 et seq., 39650-39675 and because WATKINS CONSTRUCTION failed to timely report all required information for all vehicles in the fleet for which they have elected to utilize compliance options/credits/provisions as required in 13 CCR, § 2025(r).

PSIP Violations

The penalty provision being applied to the PSIP violations is HSC § 43016 because WATKINS CONSTRUCTION failed to test, measure, record, and maintain records of smoke emissions from its fleet of heavy duty diesel

vehicles for the year 2012 in violation of the PSIP regulation in 13 CCR § 2190 *et seq.*, for 44 vehicles. Since the PSIP regulation was adopted pursuant to authority granted in Part 5 of Division 26 of the HSC and since there is no specific penalty or fine provided for PSIP violations in Part 5, HSC § 43016 is the applicable penalty provision.

Is the penalty being assessed under a provision of law that prohibits the emission of pollution at a specified level, and, if so a quantification of excess emissions, if it is practicable to do so.

Truck and Bus Violations

The provisions cited above do not prohibit emissions above a specified level of g/hp-hr.

PSIP Violations

The PSIP provisions cited above do prohibit emissions above a specified opacity or level of g/hp-hr. However, since the hours of operation of the non-compliant units involved and their individual emission rate are not known, it is not practicable to quantify the excess emissions.

(20) WATKINS CONSTRUCTION acknowledges that ARB has complied with Senate Bill 1402 in prosecuting or settling this case. Specifically, ARB has considered all relevant facts, including those listed at HSC § 43024, has explained the manner in which the penalty amount was calculated, has identified the provision of law under which the penalty is being assessed and has considered and determined that this penalty is being assessed under a provision of law that prohibits the emission of pollutants at a specified level.

(21) Penalties were determined based on the unique circumstances of this matter, considered together with the need to remove any economic benefit from noncompliance, the goal of deterring future violations and obtaining swift compliance, the consideration of past penalties in similar cases, and the potential costs and risk associated with litigating these particular violations. Penalties in future cases might be smaller or larger on a per unit basis.

(22) The penalty was based on confidential settlement communications between ARB and WATKINS CONSTRUCTION that ARB does not retain in the ordinary course of business. The penalty is the product of an arms length negotiation between ARB and WATKINS CONSTRUCTION and reflects ARB's assessment of the relative strength of its case against WATKINS CONSTRUCTION, the desire to avoid the uncertainty, burden and expense of litigation, obtain swift compliance with the law and remove

any unfair advantage that WATKINS CONSTRUCTION may have secured from its actions.

(23) Now therefore, in consideration of the payment on behalf of WATKINS CONSTRUCTION to the Air Pollution Control Fund and the School Bus Retrofit Project, the ARB hereby releases WATKINS CONSTRUCTION and their principals, officers, agents, predecessors and successors from any and all claims, the ARB may have or have in the future based on the circumstances described in paragraph (1) through (16) of the Recitals. The undersigned represent that they have the authority to enter into this Agreement

California Air Resources Board		**COMPANY NAME**	
Signature:	Ellen Peter	Signature:	
Print Name:	Ellen Peter	Print Name:	Keith Watkins
Title:	Chief Counsel	Title:	President
Date:	11/12/2014	Date:	10-29-14