

**State of California
California Environmental Protection Agency**

AIR RESOURCES BOARD

**GUIDELINES FOR IMPLEMENTING
AN EXPANDED STATEWIDE ZERO EMISSION VEHICLE
INCENTIVE PROGRAM (ZIP I AND ZIP II)**

AND

**A ZERO EMISSION VEHICLE INCENTIVE PROGRAM
FOR FLEETS THAT OPERATE IN AREAS OF
CALIFORNIA WITH THE POOREST AIR QUALITY
(Fleet ZIP)**



Approved April 25, 2002

Released December 2002

Prepared By:



Zero Emission Vehicle Implementation Section
Mobile Source Control Division

Acknowledgements

Staff appreciates the assistance and time provided by an informal working group representing government agencies, vehicle manufacturers and dealers, fleet administrators, and ZEV proponents. The perspective and experience of this group proved invaluable to staff in the development of these guidelines.

EXECUTIVE SUMMARY

This report constitutes the State Air Resources Board (ARB or Board) guidelines for the coordinated implementation of three zero emission vehicle (ZEV) incentive programs. One program is an existing program, the original \$18 million statewide ZEV incentive program authorized by Assembly Bill 2061 (AB 2061, Statutes of 2000, Chapter 1072, Lowenthal). In addition, the Legislature approved \$20 million in funding in the fiscal year 2001-2002 State Budget (Budget Act of 2001) for two new ZEV incentive programs. These three programs make grants available to consumers for the purchase or lease of eligible ZEVs during overlapping time periods, beginning October 1, 2000 and extending through June 30, 2004.

Originally, \$38 million in total funding was appropriated for these three programs. However, the Administration Budget for 2001-2002 has reduced the original Lowenthal authorized program funding by \$11.2 million and the fiscal year 2001-2002 State Budget funding by \$6.8 million. This reduces the total available funding from \$38 million to \$20 million.

This report is organized in two parts. Part I contains guidelines for implementing two distinct, but similar, ZEV incentive programs. Part II contains guidelines for a unique fleet incentive program. Specifically, Part I-A contains revisions for the existing statewide ZEV incentive program authorized by AB 2061, which staff will refer to as "ZIP I". Part I-B contains guidelines for implementing the first of the new ZEV incentive programs funded by the Budget Act of 2001. As discussed above, funding was appropriated to provide additional grants for ZEVs through June 2004; staff will refer to this program as "ZIP II". Part II contains guidelines for the implementation of the second new ZEV incentive program for fleets operated primarily in areas of California with the poorest air quality. Staff will refer to this program as "Fleet ZIP."

Both ZIP I and ZIP II provide grants for new eligible ZEVs on a first-come-first-served basis. ZIP I provides greater grant amounts per vehicle, but is a more focused program. ZIP I grants remain available for eligible new zero emission passenger cars and trucks only through December 2002. ZIP II grants will be available for a greater variety of ZEVs and will be available through June 2004. Staff will implement both programs in a coordinated and seamless manner so that a single, expanded statewide ZEV incentive program will serve consumers. The Program Manager, application form and approval process will be the same for both programs. The Program Manager will ensure that the consumer receives the maximum grant amount available at the time of purchase or lease.

The Fleet ZIP (Part II) provides the highest award amounts. The Legislature directed the Air Resources Board to award these grants through a competitive process. The competitive process gives preference to those fleets that will primarily use the vehicles in communities that suffer from greater exposure to poor air quality, including low-income and minority communities.

Part I-A. A Revised Zero Emission Incentive Program Pursuant to Health and Safety Code Sections 44260-44265 (ZIP I)

Part I-A contains proposed guidelines that incorporate and revise Guidelines for a Zero Emission Vehicle Incentive Program Pursuant to Health and Safety Code Sections 44260-44265 (AB 2061, Statutes of 2000, Lowenthal) that were approved by the Board at its December 7, 2000, public meeting and released by staff in February 2001. Originally authorized by AB 2061, this program provides grants up to \$9,000 for the purchase or lease of new zero emission passenger cars or trucks between October 1, 2000 and December 31, 2002. AB 2061 specified that only vehicles capable of operation on freeways, also referred to as full-function vehicles, are eligible for grants. AB 2061 also provided a calculation method for determining a maximum available grant and provided instructions on the distribution of the grant. A status report on the implementation of this program through December 2002 is provided in Appendix I-G. The program was recently modified by Assembly Bill 1390 (AB 1390, Statutes of 2001, Chapter 763, Firebaugh), effective January 1, 2002. The revisions to the guidelines address required AB 1390 program modifications as well as several changes proposed by staff.

AB 1390 expanded eligible applicants to include public agencies. This change will allow federal agencies and entities, previously excluded by AB 2061, to qualify for grants. AB 1390 also gives ARB the ability to reserve, allocate and reallocate funds to any eligible grant recipient. The ARB is to periodically review grant applicants and the award of grants to ensure, to the greatest extent possible, that all grant funds are used. The ARB may also reduce the grant amount or eliminate the grant if the applicant receives a grant from either of the two new ZEV incentive programs.

Staff's approved changes include an additional criterion for vehicle eligibility that requires that vehicles be covered by a manufacturer warranty on the power train and battery pack for a minimum of 36 months.

Part I-B. A Zero Emission Vehicle Incentive Program Pursuant To The Budget Act of 2001 (ZIP II)

Part I-B contains guidelines for implementing a new ZEV incentive program, ZIP II, funded by an appropriation from the Budget Act of 2001. The appropriation is available for expenditure through June 2004 and may be used to provide grants

of up to \$5,000 per vehicle pursuant to criteria established by the ARB. ZIP II will be implemented statewide and administered in coordination with ZIP I. However, ZIP II provides grants for a greater variety of ZEVs than are eligible in ZIP I. ZIP II will not be administered retroactively therefore new eligible ZEVs must be purchased or leased after the date of Board approval of these guidelines and on or before June 30, 2004, to be eligible for the ZIP II program.

Staff will use a common application and approval process for ZIP I and ZIP II. The availability of ZIP I and ZIP II grants will overlap during 2002. A ZEV meeting the eligibility criteria for both a ZIP I and ZIP II grant during 2002 will be awarded the greater grant amount. After December 31, 2002, and through June 2004, only ZIP II grants may be awarded.

For ZIP II, individual ZEV models will be placed in one of several categories for the purpose of determining vehicle eligibility and the grant amount. The vehicle categories are: Full-Function ZEVs (FFEVs), City ZEVs (CEVs), Neighborhood ZEVs (NEVs), and Zero Emission Motorcycles (ZEMs). Because NEVs are a low-cost compliance strategy for the ZEV regulations, they would not be eligible for ZIP II grants unless the manufacturer volunteers to give up ZEV regulatory credit. The ZEM category is limited to fully-enclosed, 3-wheel motorcycles. Staff will subdivide the ZEM category, if needed, into freeway-capable and non-freeway ZEMs for purposes of establishing grant amounts.

As in ZIP I, eligible vehicle models will be determined on a case-by-case basis. Vehicle eligibility criteria include certification by ARB as a New Zero Emission Vehicle, compliance with all applicable Federal Motor Vehicle Safety Standards (FMVSS), and a minimum 36-month manufacturer warranty on the vehicle power train and battery pack. The proposed grant amounts range from \$1,000 up to \$5,000 per vehicle.

For either a ZIP I grant or ZIP II grant, the applicant may choose to accept the grant directly or to assign the grant payment to a participating lessor. When the applicant accepts direct payment of the ZIP I grant, it is paid in three equal annual allotments, consistent with AB 2061. The ZIP I grant may not be assigned to the vehicle dealer when the vehicle is purchased. However, the smaller ZIP II grant will be distributed in one payment. The applicant will also have the option of assigning the ZIP II grant to a participating dealer for a vehicle purchase as well as a vehicle lease.

Part II. A Zero Emission Vehicle Incentive Program For Fleets That Operate In Areas of California With the Poorest Air Quality

In the Budget Act of 2001, the Legislature appropriated funding to establish a new ZEV incentive program for fleets operating in areas of California with the poorest air quality. The direction for the program is specified in both Assembly

Bill 1390 (2001, Chapter 763, Section 44260) and authorizing Budget Language (Zero Emission Vehicle Program, Fiscal Year 2001-2002). The competitive process gives preference to those fleets that will primarily use the vehicles in communities that suffer from greater exposure to poor air quality, including low-income and minority communities also known as environmental justice (EJ) areas.

The Fleet ZIP has the following four program goals:

- Provide ZEV incentives for vehicles operated in fleets located in the geographical areas of the State with the poorest air quality;
- Deploy ZEVs in communities that suffer from greater exposure to poor air quality, including low-income and minority communities;
- Encourage projects that showcase ZEV technology to communities, or include education on the benefits of ZEV technology, so that all communities, especially low-income and communities of color, can take a more active role in decisions affecting their local air quality; and
- Promote Full-Function ZEVs or ZEVs with full function characteristics.

The Fleet ZIP will be implemented at the state level by ARB, in conjunction with Program Partners and Program Sponsors. An ARB-appointed Program Manager will oversee the implementation of the Fleet ZIP. Program Partners will be public agencies that agree to work with the ARB Program Manager and assist in the implementation of the program in their jurisdictions. Program Partners may include local air pollution control or air quality management agencies. Program Sponsors will be organizations that support the program in a variety of ways, including outreach activities and fleet evaluation of interested applicants. Program Sponsors may include automakers, electric utilities with electric vehicle programs, environmental groups, or community groups.

The Fleet ZIP is divided into three stages: pre-solicitation, solicitation, and grant allocation. The goal of the pre-solicitation is to inform interested fleets, public agencies and community organizations about the benefits of ZEV technologies and funding opportunities available under the program. The solicitation process will begin with a public notice announcing the opening of the grant solicitation period. All interested parties must submit an official application form along with required information on the proposed project. The Program Manager will screen all applications for completeness and determine eligibility for all complete applications. Eligible applicants will be public agencies, businesses or corporations authorized to conduct business in California, non-profit organizations, estates and trusts. Individuals will not be eligible. All eligible proposals will be evaluated and scored using objective criteria by Program Partners and a Technical Review Committee consisting of ARB staff and managers with expertise in the areas of environmental justice, public education, sources of air pollutant emissions and grant management. Proposals will be categorized as Community Projects or Fleet Projects. The same ranking process

will be used to evaluate both types of projects and will allow projects of similar scope to be evaluated comparably. Table I below summarizes eligibility criteria and considerations in project evaluation.

Table I: Fleet ZIP Project Eligibility Requirements and Evaluation Criteria

Criteria	Project Eligibility Requirement	Project Evaluation Criteria
Eligible Applicant	Yes	
Eligible Fleet	Yes	
Nonattainment Area	Yes	
New Eligible ZEV	Yes	
Environmental Justice Criteria	Yes	
Project Administration (<i>Fleet Projects only</i>)	Yes	
Vehicle Miles Traveled		Yes
Public Education		Yes
Program Partnerships		Yes
Vehicle Use/Application		Yes

Implementation Schedule

These guidelines were approved by the Board on April 25, 2002. A summary of the eligible vehicle categories and grant amounts is provided in Table II. A potential implementation schedule is provided in Table III.

Table II: Summary of ZEV Incentive Programs

Vehicle Category	Earns ZEV Regulatory Credit	Grant Amount		
		ZIP I	ZIP II	Fleet ZIP
		10/2000-2002	5/2002-2004	5/2002-2004
Full Function ZEV	Yes	Up to \$9,000	\$5,000	\$11,000
City ZEV	Yes	None	\$3,500	\$5,000
Neighborhood ZEV	Yes	None	None	None
	No, per manufacturer option	None	\$1,000	\$1,500
Zero-Emission Motorcycle (ZEM)	No	None	Up to \$2,000	Up to \$3,000

Table III: Proposed Implementation Schedule

Date or Time Period	Action Item
April 25-26, 2002	Guidelines approved at ARB public meeting
Current - Dec. 31, 2002	Applications and voucher requests accepted for ZIP I grants authorized by AB 2061
May 1, 2002 – June 30, 2004	Applications and voucher requests accepted for ZIP II grants funded by Budget Act of 2001
May - October 2002	Pre-Solicitation Workshops For First Fleet ZEV Grant Solicitation
December 2002 - February 2003	First Solicitation Period
March 2003	Selection of Fleet Proposals from First Solicitation
April 2003	Annual Status Report on ZEV Incentive Programs
April - May 2003	Pre-Solicitation Workshops For Second Fleet ZEV Grant Solicitation (tentative)
June - July 2003	Second Solicitation Period (tentative)
August 2003	Selection of Fleet Proposals from Second Solicitation (tentative)
April 2004	Annual Status Report on ZEV Incentive Programs

Table of Contents

Part I. GUIDELINES FOR IMPLEMENTING AN EXPANDED STATEWIDE ZERO EMISSION VEHICLE INCENTIVE PROGRAM (ZIP I and ZIP II)

Part I-A. A Revised Zero Emission Vehicle Incentive Program Pursuant To Health And Safety Code Sections 44260-44265 (ZIP I)

1.0	INTRODUCTION.....	I-1
1.1	Background.....	I-2
1.2	Air Resources Board Zero Emission Vehicle Program	I-3
1.3	Need for Incentives.....	I-3
2.0	PROGRAM ADMINISTRATION.....	I-3
2.1	Program Administration.....	I-4
2.2	Energy Commission and Air District Incentive Programs.....	I-4
2.3	Coordination Between Incentive Programs.....	I-5
2.4	Program Manager.....	I-6
2.5	Overview: Grant Payment Process.....	I-6
3.0.	ELIGIBILITY CRITERIA.....	I-10
3.1	Criteria for Applicant Eligibility.....	I-11
3.2	Criteria for Vehicle Eligibility.....	I-11
4.0.	INCENTIVE STRUCTURE	I-16
4.1	Distribution of Assigned Grants for Leased Vehicles.....	I-16
4.2	Distribution of Grants for Purchased Vehicles and Non-Assigned Grants for Leased Vehicles.....	I-16
4.3	Grant Calculation	I-17
4.4	Allocation of Grants.....	I-18
5.0.	SUMMARY.....	I-18

Part I-B. A Zero Emission Vehicle Incentive Program Pursuant To The Budget Act of 2001 (ZIP II)

1.0	INTRODUCTION.....	I-20
2.0	PROGRAM ADMINISTRATION.....	I-21
2.1	Overview of Grant Payment Process.....	I-21
2.2	Effective Date of ZIP II and Availability of Grants.....	I-21
3.0.	ELIGIBILITY CRITERIA.....	I-22
3.1	Criteria for Applicant Eligibility.....	I-22
3.2	Criteria for Vehicle Eligibility.....	I-22
3.2.1	Vehicle Categories	I-23
3.2.2	Eligible Vehicles	I-24
3.2.3	Vehicle Eligibility	I-25

4.0.	INCENTIVES AND ALLOCATIONS.....	I-25
4.1	Grant Amounts.....	I-25
4.2	Grant Allocations	I-27
5.0.	SUMMARY.....	I-27

Part II: A ZERO EMISSION VEHICLE INCENTIVE PROGRAM FOR FLEETS THAT ARE OPERATED IN AREAS OF CALIFORNIA WITH THE POOREST AIR QUALITY

1.0	BACKGROUND.....	II-1
1.1.	Introduction.....	II-1
1.2	Environmental Justice.....	II-1
1.3	Need for Incentives.....	II-2
1.4	Program Goals.....	II-3
2.0	PROGRAM ADMINISTRATION.....	II-4
2.1	Program Overview.....	II-4
2.2	Program Partners.....	II-5
2.3	Program Sponsors.....	II-6
2.4	Program Manager.....	II-6
2.5	Pre-Solicitation Process.....	II-7
2.6	Solicitation Process.....	II-7
2.7	Grant Allocation Process.....	II-8
2.8	Program Funding Allocation.....	II-9
2.9	Grant Payments.....	II-9
3.0.	PROGRAM ELIGIBILITY REQUIREMENTS.....	II-11
3.1	Overview.....	II-11
3.2	Applicant.....	II-11
3.3	Eligible Fleets.....	II-12
3.4	Definition of Nonattainment Area.....	II-13
3.4.1	Background.....	II-13
3.4.2	Nonattainment Requirement.....	II-14
3.5	New Eligible ZEV.....	II-15
3.6	Environmental Justice Criteria.....	II-17
3.6.1	Background on Environmental Justice Criteria	II-17
3.6.2	Development of Environmental Justice Criteria	II-18
3.7	Project Administration.....	II-19
4.0.	PROJECT EVALUATION AND RANKING.....	II-19
4.1	Eligible Projects.....	II-20
4.2	Project Evaluation Criteria.....	II-20
4.3	Scoring.....	II-23
4.4	Technical Review Committee.....	II-23
5.0	SUMMARY	II-24

Part III: Appendices

- A. Assembly Bill 2061
- B. Resolution 00-38
- C. ZIP I and ZIP II Application Forms
- D. List of Eligible Vehicle Models
- E. Assembly Bill 1390
- F. Zero Emission Vehicle Program
Budget Act Language FY 01-02
- G. Statewide ZEV Incentive Program Activity Report
- H. Table of Federal Motor Vehicle Safety Standards
- I. Fleet ZIP Applications and Instructions
- J. Draft Grant Terms and Conditions
- K. Map of Ozone Non-Attainment Areas
- L. ARB Fact Sheet: Air Pollution and Health
- M. ARB's Programs and Policies for Environmental Justice

Part I: GUIDELINES FOR IMPLEMENTING AN EXPANDED STATEWIDE ZERO EMISSION VEHICLE INCENTIVE PROGRAM (ZIP I AND ZIP II)

Part I-A. A Revised Zero Emission Vehicle Incentive Program Pursuant To Health And Safety Code Sections 44260-44265 (ZIP I)

1.0 INTRODUCTION

Zero emission vehicles (ZEVs) are an integral part of California's efforts to meet health-based air quality standards. Incentives for the purchase of new ZEVs are an important element in the effort to commercialize ZEVs. The statewide ZEV Incentive Program is the result of Assembly Bill 2061 (AB 2061) which was sponsored by Assemblyman Alan Lowenthal of Long Beach and signed by Governor Gray Davis on September 30, 2000 (see Appendix A). This program provides grants up to \$9,000 for the purchase or lease of an eligible ZEV between October 1, 2000 and December 31, 2002. This program was modified by AB 1390 (Statutes of 2001, Firebaugh), effective January 1, 2002.

Part 1 of this document presents guidelines for implementing an expanded statewide ZEV incentive program and consists of two sections, Part 1-A and Part 1-B. Part 1-A is a revision of Guidelines for a Zero Emission Vehicle Incentive Program Pursuant to HSC 44260-44265 (AB 2061, Statutes of 2000, Chapter 1072, Lowenthal) which were originally approved by the Air Resources Board (Board or ARB) at its December 7, 2000, public meeting and released by staff in February 2001. The revision incorporates program modifications pursuant to AB 1390 and additional program modifications proposed by staff. The ZEV incentive program described in this section, Part 1-A, will be referred to as "ZIP I" to distinguish this program from a new ZEV incentive program funded by the Budget Act of 2001. Guidelines for implementing the new ZEV incentive program, which will be referred to as "ZIP II", can be found in Part 1-B, which follows.

ZIP I will provide grants to reduce the incremental cost of new ZEVs over the next three years. Individual grants totaling up to \$9,000 may be provided in three allotments over a 36-month period. These grants are available to qualified private and public consumers who purchase or lease a new ZEV between October 1, 2000, and December 31, 2002. All of the funds will be used for grants, and none will be used for program administration.

The purpose of the program is to make the price of a full-service electric vehicle comparable to that of a conventionally fueled vehicle, spurring the electric vehicle market in California. This is important for supporting a critical ramp-up period needed for the 2003 ZEV requirement.

The program will be developed and administered by the California Air Resources Board (Board or ARB) in conjunction with the State Energy Resources Conservation and Development Commission (Energy Commission or CEC). The guidelines establish the administrative process and vehicle eligibility. At a December 7, 2000 public meeting, the Board considered and approved staff's proposed guidelines, with some modifications, with Resolution 00-38, (See Appendix B). With Board approval of the guidelines, ARB staff had implemented the program almost immediately. A timetable for implementation of the program is shown in Table 1-A-1, below. ARB, CEC, the local air quality management and air pollution control districts (local air districts or districts), and bill proponents have been committed to a quick, successful implementation of the program.

Table 1-A-1: Timetable for ZIP I Implementation

December 7, 2000	ARB public meeting to consider approval of original guidelines.
December 15, 2000	Began taking applications
February 1, 2001	Began distributing grants
January 1, 2002	Effective Date of AB 1390 modifications to the program
April 25, 2002	Revised guidelines approved by the Board at the April 25-26, 2002 Public Hearing

1.1 Background

Air quality in California has improved dramatically over the past 25 years, largely due to continued progress in controlling pollution from motor vehicles. Faced with ever more stringent regulations, vehicle manufacturers have made remarkable advances in vehicle technology. Several thousand zero emission vehicles (battery-electric vehicles) are now in everyday service on California roads, and the latest conventional internal combustion engine vehicles achieve emission levels that seemed impossible just a few short years ago.

Despite this progress, however, air quality in many areas of the state still does not meet federal or state health-based ambient air quality standards. Mobile sources still are responsible for well over half the ozone-forming emissions in California, and passenger cars and small trucks are responsible for a significant portion of the mobile source contribution. State and federal law requires the implementation of control strategies to attain ambient air quality standards as quickly as practicable.

1.2 Air Resources Board's Zero Emission Vehicle Program

In 1990, the ARB adopted the Zero Emission Vehicle (ZEV) program as part of the Low Emission Vehicle regulations. The ZEV program is an integral part of California's mobile source control efforts, and is intended to create a market for advanced technologies that will secure increasing air quality benefits for California now and into the future. ZEVs have significant long-term benefits because they have no emission control equipment that can deteriorate or fail, and they generate only minimal "upstream" refueling and fuel cycle emissions.

ZEVs also have the capability to provide comprehensive energy benefits. High-efficiency ZEVs result in significant reductions in emissions of carbon dioxide (CO₂) and other greenhouse gases. Vehicles powered by grid electricity will increase the diversity of California's fuel consumption and reduce our dependence on imported oil. In addition, electric drive vehicles have the potential to be powered by renewable sources of energy such as wind, hydropower, or solar energy.

At its September 2000 meeting, the Air Resources Board unanimously adopted a resolution affirming that the ZEV program is an essential component of the State's long-term air quality strategy. Staff was directed to review the regulation and propose appropriate modifications to address issues such as the current lack of ZEV availability/ramp-up, market demand, public education, infrastructure needs, manufacturer costs and incentives to assure successful penetration of ZEVs into the market. ARB staff returned to the Board with its recommendations on how to address these issues on January 25, 2001.

1.3 Need for Incentives

Government incentives are one way to address vehicle cost. Incentives are commonly used to promote the introduction of new technology that will benefit society. Because ZEVs are a relatively new technology and are currently produced in limited quantities, they are more expensive than conventional vehicles. To enhance vehicle marketability in the near term and to assist in the transition to large volume production, it is vital to provide support, both monetary and non-monetary, in the form of vehicle and infrastructure incentives.

2.0 ZIP I PROGRAM ADMINISTRATION

This chapter describes how ZIP I will be administered. Specifically, this chapter outlines roles and responsibilities of the Program Manager, how the program will operate from the consumer's perspective, including how consumers will get information about the program, how they will apply for grants and how grants will be distributed.

2.1 Program Administration

The enabling legislation, AB 2061, specifies that ARB will administer the program in consultation with the Energy Commission. In addition, the legislation provides the opportunity for air districts to voluntarily administer the program within their jurisdiction.

ARB has the primary responsibility for administering the program. In developing the guidelines, ARB staff has consulted with the CEC, local air districts, legislative bill sponsors, automakers and other stakeholders interested in the development of this program. Coordination among all parties is essential for an effective, seamless, consumer-friendly program.

Air districts may voluntarily administer the grant program within their jurisdiction. However, air districts must use the guidelines adopted by ARB, including the forms in Appendix C. In addition, AB 2061 does not provide any funds to either ARB or air districts to administer the program.

An air district interested in administering the program should submit a letter to the Program Manager, signed by the Air Pollution Control Officer, stating the district's desire to administer the program. This letter should identify district staff that will be responsible for the program, and whether the district will augment these funds. The Program Manager will work with each interested district to assist it in developing its program, and will develop a mechanism for the transfer of grant funds. Districts administering the program will be responsible for approving all applications, allocating grant funds, providing documentation to ARB, and verifying vehicle registration in subsequent years.

2.2 Energy Commission and Air District Incentive Programs

Since 1996, vehicle "buy-down" incentives as well as infrastructure incentives were available in some areas of the State. In the South Coast Air Basin, the Mobile Source Air Pollution Reduction Committee (MSRC) provided these types of incentives. In the rest of the State, these incentives were co-funded by CEC, and available in air districts providing matching funds. These buy-down incentives reduced the capitalized cost of the ZEV, and the lease payments were recalculated on the reduced cost of the vehicle. These incentives, while awarded to the consumer, were transferred through the lessor. These incentives were available for vehicles that met specific performance criteria and are certified to applicable Federal Motor Vehicle Safety Standards (FMVSS)¹.

As a result of this program, the CEC has gained valuable knowledge and experience in the elements necessary to conduct a successful statewide incentive program. Recently, the CEC in partnership with automakers, local air

¹FMVSS are found in Title 49 of the Code of Federal Regulations (CFR) Part 571

districts, and the MSRC has launched a pilot program, The Efficient Vehicle Program, with \$5 million in funding from the Governor's 2000/2001 budget. Grants varying by county and can provide up to \$1,000 for efficient gasoline vehicles such as hybrid electric vehicles and up to \$3,000 for dedicated natural gas vehicles purchased or leased to individuals and fleet buyers. These incentives are provided through the manufacturer at the time of purchase or lease on a first-come, first served basis.

Close coordination between the administration of the ZEV Incentive Program and the Efficient Vehicle Program has been and will continue to be critical.

2.3 Coordination Between Incentive Programs

The ARB, CEC and local air districts are working towards a statewide coordinated vehicle incentive program that can be implemented through a single, seamless application process. Staff recommends that coordination of incentive programs be achieved through on-going communication and cooperative development of public information products.

Implementation of the ZEV Incentive Program will include an ongoing ZEV Incentives Working Group (Working Group). This Working Group will be composed of interested air districts, the MSRC, CEC, the Department of General Services' Office of Fleet Administration (DGS), legislative bill sponsors, automakers and other interested parties. The Working Group will meet quarterly to discuss the status of the program, implementation issues, and share information. One of the goals of the Working Group is to ensure that all entities have the most up-to-date information on incentive programs and to ensure that the public receives complete and accurate information about all incentive opportunities available.

It is important that information on all incentive programs be centrally available at a web site, www.zevinfo.com, in addition to the information provided by the ARB, CEC, local air districts, DGS (for public agencies), and other web sites. The web site www.zevinfo.com is likely to be the easiest for a consumer to use, as it is primarily established to provide easy and up-to-date information on the family of clean cars with special emphasis on zero emission vehicles, their availability, attributes, incentives and benefits. Many consumers find it more difficult and time-consuming to navigate through government web sites that contain information on a wide variety of programs and issues.

The web site www.zevinfo.com allows potential consumers to indicate the type of vehicle they are interested in purchasing or buying and the city where they live; and then the consumer is given specific information on eligibility and how to apply, including the ability to download the application and instructions. Planned web site upgrades include additional links to clean car-related web sites, e-mail links to program staff that can provide assistance, and a listing of dealers that sell

or lease ZEVs. In addition, the customary Manufacturer Suggested Retail Price (MSRP) and lease price for each ZEV will be posted on the web site to give consumers a baseline price for the vehicles. Other improvements are forthcoming.

Information is also available through ARB's 1-800-END-SMOG information line. Operators of the 1-800-END-SMOG line use the www.zevinfo.com web site to provide information about available incentive programs and direct callers to the appropriate staff person at the ARB, CEC, or local air district.

2.4 Program Manager

An ARB Program Manager will administer the statewide ZEV Incentive Program. The Program Manager will be responsible for administering the program in a manner consistent with the guidelines adopted by the Board.

The duties of the Program Manager will include, but not be limited to the following:

- ◆ Review applications for eligibility
- ◆ Approve or disapprove grant applications
- ◆ Verify that all required information has been submitted prior to grant distribution
- ◆ Authorize grant distribution
- ◆ Track program status, including funding allocation
- ◆ Submit quarterly reports on program status to the Executive Officer
- ◆ Recommend changes to the guidelines, as needed
- ◆ Prepare outreach and educational materials
- ◆ Work with CEC, local air districts, MSRC, and DGS to ensure consistent implementation of the program throughout the State
- ◆ Provide information, upon request, to individuals or organizations that wish to appeal a grant denial to the Executive Officer
- ◆ Coordinate with CEC, MSRC, air districts, DGS and vehicle dealers to assist the buyer in receiving all other incentives that may apply to the vehicle (buy-down, infrastructure, etc).

2.5 Overview: Grant Payment Process

Staff has structured the application process so that consumers can assign the grant to a participating lessor or receive the grant payments directly from the ARB.

At any time, a potential consumer can access the web site www.zevinfo.com or 1-800-END-SMOG to get information on program eligibility. Both of these resources will be designed to assist consumers with their purchase or lease decisions. Information will be provided on the amount of total funding available,

vehicle eligibility, and the maximum grant that is available for each qualified vehicle. Information on vehicle sales contacts, as well as staff at local air districts, CEC, and DGS will also be provided to ensure that prospective consumers are able to get as much assistance as needed to facilitate their participation in the program.

1. Assignment of Grant to Participating Lessors

The grant assignment option is a mechanism that allows consumers to sign over the grant to the lessor in exchange for a lower monthly lease price. In order to assign the grant to the participating lessor, the vehicle must be leased, not purchased. It would also be an option for vehicles that are leased with an option to buy at the end of the lease period, if the lease period is at least 36 months. The lessor for the consumer would handle this transaction. This option would result in the entire grant going directly to the lessor. The lessor would reduce the capitalized cost of the ZEV by the entire grant amount. It is anticipated that most consumers will find this the easiest option to use.

At the time of the lease transaction, a lessor (or authorized representative) would contact the Program Manager for a voucher number for the qualifying vehicle using a toll free telephone number established by the Program Manager. Each voucher number will represent the total grant amount for the qualifying vehicle. Obtaining this voucher number would constitute a "pre-authorization" of grant approval. To simplify the process, the voucher number will be provided to the applicant by the Program Manager either on the telephone or by fax. It is the responsibility of the Program Manager to ensure that the applicant is qualified under the program. A voucher number will guarantee that the lessor will receive the total grant amount, provided that the lease is executed with the applicant and the required documentation is submitted.

Once a voucher number has been issued, the consumer can complete the lease agreement. The lessor will reduce the lease obligation by the total grant amount. The lessor will submit the completed application, which has been signed by both the applicant and lessor, along with an Assignment of Grant form that is included in Appendix C. The applicant must also check and initial the box on the application form indicating that he or she has assigned the grant benefits to the lessor. Lessors can also use their own grant assignment form, as long as it has been approved in advance by the Program Manager.

The lessor will submit the application to the Program Manager, along with the required documentation of the purchase or lease, such as a copy of the sales or lease contract, along with an itemization of discounts, incentives and credits received, and appropriate proof of temporary or permanent vehicle registration. Once the application with the valid voucher number and required documentation is received, a check for the total grant amount will be sent to the lessor. A voucher number assures the lessor that it will receive payment, as long as the

lessor submits a complete application and the required supporting documentation.

2. Payment of Grant to Vehicle Lessee/Owner (Direct Payment)

A consumer who is purchasing or leasing an eligible ZEV can apply for direct payment of the grant that typically will be distributed in three allotments over a 36-month period.

At the time of, or following, the purchase or lease transaction, an applicant or sales/lessor representative would contact the Program Manager to receive a voucher number for the eligible vehicle. Each voucher number will represent the total grant amount for the eligible vehicle. Obtaining this voucher number would constitute a "pre-authorization" of grant approval. To simplify the process, the voucher number will be provided to the applicant or sales/lessor representative by the Program Manager either on the telephone or by fax. It is the responsibility of the Program Manager at this time to ensure that the applicant is qualified under the program. A voucher number will guarantee that the applicant will receive the grant in three allotments over a 36-month period, provided that the purchase, or lease, is executed with the applicant and a complete application and the required supporting documentation is submitted.

Once a voucher number has been issued, the applicant will submit the application to the Program Manager, along with the required documentation of the purchase or lease, such as a copy of the sales or lease contract, along with an itemization of discounts, incentives and credits received, and appropriate proof of temporary or permanent vehicle registration. Once the application with the valid voucher number and required documentation is received, a check for the first grant allotment will be sent to the lessee. What a grant recipient must do to receive the second and third grant allotments is described in Section 3 below.

This program is retroactive to October 1, 2000. Therefore, if an eligible ZEV has been purchased between October 1, 2000 and the date of program implementation, the applicant shall submit a completed application and required documentation to the Program Manager. In such cases, applicants do not need to obtain voucher numbers prior to submitting applications.

3. Distribution of 2nd and 3rd Grant Allotments

For those customers who receive grant payments directly and have not assigned the benefits to the lessor, the Program Manager is required to verify continued California vehicle registration to the grant recipient prior to making subsequent grant distributions. To simplify this process, the Program Manager will send each grant recipient a reminder letter requesting that any changes in information be provided regarding vehicle ownership and owner address along with a copy of the current vehicle registration.

4. Annual Reports from Participating Lessors

The Program Manager will send a letter on a quarterly basis to participating lessors with grant assignments requesting status information on a specific list of vehicles that received grants at the beginning of the previous 12-month period. The Project Manager is requesting that information be provided for any changes in the status of the vehicle lease and vehicle lessees and addresses.

5. Assignment of Benefits to New Lessees/Owners.

As mentioned earlier, the intent of this program is to place ZEVs in the 2000-2002 timeframe and to reduce the cost of a ZEV over a 36-month period. With that said, the ARB realizes that some ZEVs may be sold or returned to a dealer within the 36-month period. Staff recommends that the grant remain with the vehicle if it is sold or re-leased. If this occurs, a new owner or lessee can request a continuation or transfer of the grant benefit.

For those vehicles that were leased under the assignment of grants option, the lessor will continue to provide the grant benefit in the form of reduced lease payments to the new customer who re-leases the vehicle. A lessor may, at its sole discretion; return the unused grant amount should it no longer wish to make the vehicle available for lease in California.

6. Statewide Availability

This grant is available statewide to all eligible consumers. However, the ARB acknowledges that several areas of the State have taken many actions to become "EV Ready." Areas such as the South Coast, Bay Area, and Sacramento have made significant public investments in electric vehicle (EV) infrastructure and incentive programs. In particular, the MSRC has been a leader in this area. As a result of these programs, there now exists considerable unmet interest in EVs. These are also the areas with some of the most challenging air quality problems.

The ARB encourages these "EV Ready" areas to continue their supportive activities such as infrastructure development, public education and buy-down incentives.

7. Appeal Process

If an applicant is denied a grant, the Program Manager will provide the applicant with the reason for the denial in writing. Any applicants who feel that they have been unfairly denied a grant may submit an appeal to the ARB Executive Officer. Such an appeal must be submitted to the ARB Executive Officer within 30 days of the date shown on the written denial letter. The appeal must be made in

writing, and be signed by the applicant. Appeals made by e-mail, fax or phone will not be considered. A written response to the appeal will be provided by the ARB Executive Officer within 60 days of receipt.

3.0 ELIGIBILITY CRITERIA

This chapter describes which applicants and vehicles are eligible for the grants provided by this program.

The program was originally authorized to provide grants to individuals, local governments, state agencies, nonprofit organizations, and private businesses purchasing or leasing an eligible ZEV. Federal agencies are not identified in the enabling legislation, AB 2061, and were excluded from the program prior to January 1, 2002. However, AB 1390, which became effective January 1, 2002, expands the program by making public agencies (replacing state agencies) eligible for grants. Public agencies may include local, regional, state and federal government agencies and entities.

To be considered eligible, vehicles must meet all of the criteria specified in Section 3.2, below. Using the criteria specified in Section 3.2, ARB staff has created an Initial List of Eligible Vehicle Models (See Appendix D). ARB will maintain the list of eligible vehicle models to reflect new additions, as they become available. It is the responsibility of the vehicle manufacturer to provide the ARB with sufficient information to make a determination regarding a vehicle model's eligibility.

Vehicles discussed below can be separated into three different categories. They include Full Function Zero Emission Vehicles (FFEV), City Zero Emission Vehicles (CEV) and Neighborhood Zero Emission Vehicles (NEV). FFEVs are freeway capable, are required to meet numerous FMVSS, and have much of the same functionality as the typical passenger car or light-duty truck on the road. CEVs have some of the features of FFEVs, but are generally much smaller and exhibit lower vehicle performance; however, it is likely that CEVs will be eligible for the grant. NEVs are Low Speed Vehicles (LSV) as described in California Vehicle Code (CVC) Section 385.5. NEVs have a top speed of 25 miles per hour and are not permitted on roads with speed limits exceeding 35 miles per hour. NEVs are therefore not freeway capable and are not eligible for ZIP I.

3.1 Criteria for Applicant Eligibility

Per AB 2061 and AB 1390, the following applicants are eligible grant recipients:

- ◆ An individual (i.e., a retail or private customer/consumer),
- ◆ A local government entity or agency,
- ◆ A state government entity or agency (replaced January 1, 2002, with public agency)
- ◆ As of January 1, 2002, be a public agency which may include local, regional, state and federal government agencies and entities
- ◆ A nonprofit organization, or
- ◆ A private business.

For a leased ZEV, ARB staff would clarify that the grant applicant shall be the person or entity financially responsible for registration of the vehicle.

3.2 Criteria for Vehicle Eligibility

A qualified recipient may be provided with a maximum available grant for a new zero emission light-duty car or truck eligible for the program.² In order to be eligible to receive a grant under the ZIP I program, a zero emission vehicle shall meet all of the following criteria:

- ◆ Be purchased or leased on or after October 1, 2000, and on or before December 31, 2002;
- ◆ Be registered with the Department of Motor Vehicles (DMV) for use in this state;
- ◆ Meet all applicable federal and state safety standards, or, if the vehicle is to be utilized solely for a demonstration program, have received the applicable waivers from the National Highway Traffic Safety Administration (NHTSA); in the case where vehicles of a particular vehicle model are to be utilized solely for a demonstration project, have the applicable waivers for those vehicles from NHTSA;
- ◆ Be capable of operation on the freeway, as determined by the ARB, in conjunction with the CEC; and
- ◆ Any other criteria established by the ARB.

² The maximum available grant for any qualified recipient, as determined by the state board, shall be an amount equal to 90 percent of the incremental cost above one thousand dollars (\$1,000) of a new zero emission light-duty car or truck eligible for the program up to a maximum of \$9,000.

1. New Vehicle

To be eligible, the vehicle shall be a new vehicle as defined in Section 430 of the California Vehicle Code³, except one circumstance provided for by AB 2061. For purpose of this program, AB 2061 specifies that “new zero emission vehicle” shall include previously leased vehicles that have been determined by the ARB to have been substantially upgraded with new technologies, including, but not necessarily limited to, advanced batteries or power electronics. What would constitute a substantial upgrade with new technologies will be addressed below.

To be eligible, the Original Equipment Manufacturer (OEM) or its authorized licensee must manufacture a vehicle. Therefore, a conversion of a conventionally fueled vehicle that had previously been subject to a retail purchase would not be eligible. Vehicles considered new vehicles solely for determination of compliance with state emissions standards pursuant to Health and Safety Code, Article 1.5, Prohibited Transactions, (Sections 43150-43156) and CVC Section 4000.2, Registration of Out-of-State Vehicles, are not eligible vehicles.

2. Zero Emission Light-Duty Car or Truck

To be eligible, the vehicle must be a zero emission light-duty car or a zero emission light-duty truck. For purposes of this program, a zero emission light-duty car shall be a vehicle in the vehicle class passenger car and a model that ARB has certified as a New ZEV. A zero emission light-duty truck shall be a vehicle in the vehicle class light-duty truck and a model that ARB has certified as a New ZEV.

For a vehicle model that is not yet ARB-certified as a New ZEV, the OEM or its authorized licensee may apply to ARB for the necessary certification. It is ARB staff’s experience that the approval process typically takes two to four weeks, provided a complete application with the results of applicable test procedures⁴ is submitted. Staff recommends that manufacturers of new vehicle models, in particular models not previously available for sale in California, contact the DMV Registration Operations Division to ensure that the vehicle model meets California registration and safety requirements.

For the purposes of this program, a vehicle in a vehicle class other than passenger car and light-duty truck shall not be considered an eligible vehicle.

³ Per Section 430 of the California Vehicle Code, a "new vehicle" is a vehicle constructed entirely from new parts that have never been the subject of a retail sale, or registered with the department, or registered with the appropriate agency or authority of any other state, District of Columbia, territory or possession of the United States, or foreign State, province, or country.

⁴ The results of tests specified in, and in conformance with, “California Exhaust Emission Standards and Test Procedures for 2003 and Subsequent Model Zero-Emission Vehicles, and 2001 and Subsequent Model Hybrid Electric Vehicles, in the Passenger Car, Light-Duty Truck and Medium-Duty Vehicle Classes, Adopted August 5, 1999.”

Therefore, a vehicle that is classified as a motorcycle, a medium-duty vehicle, or a heavy-duty vehicle would not be an eligible vehicle.

3. Date of Purchase or Lease

To be eligible, the vehicle must be purchased or leased on or after October 1, 2000, and on or before December 31, 2002. For purposes of this program, the date of purchase shall be the day of sale. Typically, a sale is deemed completed and consummated when the purchaser of the vehicle has paid the purchase price, or, in lieu thereof, has signed a purchase contract or security agreement and taken physical possession or delivery of the vehicle. For purposes of this program, a vehicle shall be deemed to be leased on the date upon which the lease of the vehicle commences, which is typically-specified in a signed lease agreement.

4. Registration with the Department of Motor Vehicles (DMV) for Use In California

To be eligible, the vehicle must be registered with DMV for use in California. Appropriate proof of temporary or permanent vehicle registration must be submitted with the grant application. A copy of the Application for New Vehicle Registration submitted by the dealer to DMV is acceptable proof of temporary vehicle registration if submitted within one year of sale. Local, state and federal agencies and entities may submit other documents with the prior approval of the Program Manager.

5. Applicable Federal and State Safety Standards

It is the responsibility of the vehicle manufacturer to provide ARB with a written statement and documentation regarding whether, or not, vehicles of a particular vehicle model meet all applicable federal and state safety standards, including any applicable Federal Motor Vehicle Safety Standards (FMVSS). The FMVSS are safety standards for new motor vehicles and new motor vehicle equipment issued by the National Highway Traffic Safety Administration (NHTSA). The FMVSS are found in Title 49 of the Code of Federal Regulations (CFR) Part 571. A table summarizing the FMVSS for a number of vehicle categories is provided in Appendix H. If a written statement and documentation have been previously provided to ARB in the course of applying for ARB approval/certification of the vehicle model, no additional written statement is required.

In the case where vehicles of a particular vehicle model are to be utilized solely for a demonstration project, the written statement must include documentation that the applicable waivers for those vehicles have been received from NHTSA or

that the manufacturer has submitted the appropriate applications or required notifications to NHTSA.⁵

6. Capable of Operation on the Freeway

For the purpose of this program, the ARB may request a vehicle manufacturer to provide a written statement on whether, or not, vehicles of a particular vehicle model are capable of operation on the freeway. Per CVC Section 22400 (Minimum Speed Law), no person shall drive upon a highway at such a slow speed as to impede or block the normal and reasonable movement of traffic. In order for a vehicle to be considered capable of operation on a freeway, it must be in compliance with CVC Section 22400. Therefore, NEVs are not eligible for this grant. CEVs may be considered freeway capable assuming they are not subject to any of the circumstances listed below.

A vehicle shall be presumed not capable of operation on the freeway if any one of the following circumstances apply:

- ◆ The vehicle is a low-speed vehicle as defined by CVC Section 385.5;
- ◆ The vehicle is prohibited by law from being operated on the freeway or is only capable of limited operation on the freeway;
- ◆ The manufacturer has required, or will require, the purchaser or lessee to sign an agreement that limits, or prevents, the operation of the vehicle on the freeway; or
- ◆ There is a written manufacturer's statement or recommendation (which can include the owner's manual for the vehicle) that the vehicle should not be operated on the freeway or should have limited operation on the freeway.

7. Previously Leased Vehicle that has been Substantially Upgraded with New Technologies

ARB will determine on a case-by-case basis whether or not a previously leased vehicle has been substantially upgraded with new technologies and may be an eligible vehicle for the purposes of this program. Vehicles currently owned or previously owned by a person or entity that is not the vehicle manufacturer, an authorized dealer, or their financing company shall not be considered an eligible previously leased vehicle. Previously leased vehicles that have been substantially upgraded may be eligible to receive up to \$9,000 depending on their incremental cost as determined by the CEC.

New technologies include, but are not limited to, advanced batteries or power electronics. For purposes of this program, replacement of spent batteries with

⁵ The application or notification required by applicable FMVSS including Part 555 –Temporary Exemptions from Motor Vehicle Safety Standards (Effective 1-29-73) and Part 591- Importation of Vehicles and Equipment Subject to Federal Safety, Bumper and Theft Prevention Standards (Effective 3-28-90).

batteries of equivalent performance or application of upgrades that do not provide substantial increase in battery or vehicle performance will not be considered substantial upgrades with new technologies.

For purposes of this program, only the vehicle manufacturer or an authorized dealer/service provider may perform the upgrades to the vehicle. The vehicle manufacturer is encouraged to submit, as expeditiously as possible, sufficient information to enable ARB to determine if a substantial upgrade with new technologies has been, or will be, made to a previously leased vehicle. Only one submittal of information is required if the manufacturer has made, or plans to make, essentially the same upgrade to one or more previously leased vehicles of the same vehicle model. The submittal must be made in writing to the ARB and must include, at a minimum, the following information:

- ◆ A summary description of the changes that have been, or will be, made and the effect the changes will have on battery and vehicle performance, operation or durability;
- ◆ For battery upgrades, include watt hour per kilogram (whr/kg), watt per kilogram (w/kg) and manufacturer's estimated cycle life specifications for the battery modules to be installed as well as those to be replaced;
- ◆ For drive systems, provide manufacturer's specifications including peak and continuous power rating of the new and replaced drive systems;
- ◆ A list of the parts/components replaced or to be replaced, and the retail value of such parts/components, if new;
- ◆ A list of the new parts/components installed or to be installed, and the retail value of each part/component;
- ◆ The manufacturer's total cost to upgrade the vehicle, with parts, labor and overhead cost identified;
- ◆ The retail value of the previously leased vehicle before the upgrade and the retail value when the vehicle was new; and
- ◆ A comparison of the retail value of the upgraded vehicle to the retail value of a comparable new vehicle.

8. Specialty Fleet Versions

The eligibility of specialty fleet vehicle models based on an eligible passenger car or light-duty truck model will be determined on a case-by-case basis. The electric United States Postal Service vehicle model that is based on the Ford electric Ranger truck is an example of a specialty fleet vehicle model.

9. Vehicle and Battery Warranty

To be eligible, a vehicle, including battery pack, must be covered by a manufacturer warranty for a minimum of 36 months. At a minimum, a full warranty shall be provided for the first 12-months of the coverage period. If the warranty for the remainder of the coverage period is prorated, the percentage of

the battery pack's original value to be covered or refunded must be at least as high as the percentage of the prorated coverage period still remaining. For the purpose of this computation, the age of the battery pack must be expressed in intervals no larger than three months. Where a vehicle lease period is less than 36 months, the vehicle and battery pack warranties may be for the duration of the lease period. For vehicle purchases and lease periods greater than 36 months, manufacturers are encouraged to provide or offer extended warranties. Prior to approving a vehicle model for addition to the List of Eligible Vehicles, the Program Manager may request the manufacturer to provide copies of representative vehicle and battery warranties and a description of the manufacturers' plans to provide warranty and routine vehicle service.

4.0 INCENTIVE STRUCTURE AND ALLOCATION

This chapter describes staff's plan for distributing the grant, how the amount of the grant will be calculated, and allocating the grant funds.

4.1 Distribution of Assigned Grants for Leased Vehicles

If the grant recipient has assigned the grant to the vehicle lessor, the entire grant amount will be provided to the lessor, or to the lessor's financing company. The Program Manager will work with a participating lessor to establish mutually agreeable procedures and schedules for submitting grant applications and grant distribution requests and making the grant distributions. However, grant distributions shall be made by the Program Manager no less frequently than quarterly, except if the lessor requests otherwise.

4.2 Distribution of Grants for Purchased Vehicles and Non-Assigned Grants for Leased Vehicles

Typically, the grant for an eligible vehicle will be distributed to the qualified recipient in three equal allotments, one allotment for each of the first, second and third 12-month periods, if applicable, after vehicle purchase or lease.⁶ The monies for the second and third allotments, if applicable, shall be reserved and disbursed as early as practicable in the second and third 12-month periods, respectively. The reserved monies will be released and made available for other eligible vehicles if the required documentation and verification for grant distribution is not received within the applicable 12-month period.

The three grant allotments shall be distributed in the following manner:

- ◆ Up to \$3,000 of the grant will be provided for the first 12-month period of the purchase or lease. The distribution of this first allotment of the grant will be made as soon as possible, but no later than 60 days, after receipt and

⁶For a vehicle lease term of 24 months or less, but more than 12 months, the grant will be made in two equal allotments.

verification of the documentation required for approval of the grant application.

- ◆ Up to \$3,000 of the grant remaining will be provided for the second 12-month period after vehicle purchase or lease. The release of this second allotment of the grant will be made as soon as possible after receipt and verification of any required documentation establishing continued eligibility of the vehicle for purposes of this program. Such documentation must be submitted during the second 12- month period.
- ◆ Up to \$3,000 of the grant remaining will be provided for the third 12-month period after vehicle purchase or lease. The distribution of this third and final allotment of the grant will be made as soon as possible after receipt and verification of any required documentation. Such documentation must be submitted during the third 12-month period.

Each of the three grant allotments will be equal to one third of the grant. For example, If the grant is \$9,000, then each allotment will be \$3,000. If the grant amount is calculated to be \$6,000, then each allotment will be \$2,000. If the grant is \$3,000, then each allotment will be \$1,000.

4.3 Grant Calculation

AB 2061 specifies that the "maximum available grant" for any qualified recipient shall be the amount equal to 90 percent of the incremental cost of the vehicle above one thousand dollars. AB 2061 further specifies that up to \$3,000 of the available grant funds may be provided for each of the first, second and third 12-month periods of the lease or purchase of vehicle.

AB 2061 defines the incremental cost as the amount determined by the CEC as the reasonable difference between the cost of the ZEV and the cost of a comparable gasoline or diesel-fueled vehicle. CEC staff will provide ARB staff with a description of its methodology for determining the reasonable incremental costs of an eligible vehicle model and a list of incremental cost determinations for existing eligible vehicle models.⁷

The ARB will establish a maximum grant for each eligible vehicle model. The maximum grant shall be equal to "the maximum available grant", up to \$9,000, except if a vehicle is leased for less than 36 months. If a vehicle is leased for less than 36 months, the maximum grant shall be equal to "the maximum available grant", up to \$9,000, multiplied by the lease term in months and divided by 36 months. The ARB will include the information on the maximum grant for each eligible vehicle model in its List of Eligible Vehicle Models (See

⁷ Currently, the CEC determines a similar incremental cost of EVs for use in the AB 1782 program.

Appendix D.). As provided for in this program's enabling legislation, local air districts may augment the grant.

It will be a challenge to determine the incremental cost of a previously leased vehicle that has been substantially upgraded with new technologies. The vehicle manufacturers of such vehicles are encouraged to work cooperatively with CEC and ARB to arrive at an appropriate incremental cost.

4.4 Allocation of Grants

AB 1390 specifies that the Board may reserve, allocate, and reallocate funds to any eligible grant recipient. The Board may also reduce or eliminate the ZIP I grants if the Board determines that the recipient received grants from the Budget Act of 2001. Furthermore, the Board is to periodically review grant applicants and the award of grants to ensure, to the greatest extent possible, that all grant funds are used.

The ZIP I grant may be reduced or eliminated if the total amount of state grants received for the eligible vehicle would exceed 50% of the actual cost of the vehicle for the applicant. Local program grants may be used to augment the ZIP I grants.

5.0 SUMMARY

In summary, the incentive program provided by AB 2061, and modified by AB 1390, is a positive step towards supporting the ZEV market in California. It provides grants to reduce the incremental cost of new ZEVs from 2000 to 2003. ZEVs will be more affordable for the general public, public agencies, and private fleets.

Incentive programs such as the one created by AB 2061 are essential to increase sales volumes and reduce the cost of ZEVs. This program was intended to encourage manufacturers to increase the number of EVs available between the years 2000-2002. This is important for developing the momentum necessary to support the 2003 market.

However, AB 2061 alone will not achieve all of our goals. Other incentives such as access to high occupancy vehicle lanes, decreased vehicle license fees, and preferential parking are also valuable for making ZEVs more attractive to consumers. In addition, continued support for the current incentive and infrastructure programs is encouraged. These programs need to work in tandem with new programs coming on board in order to achieve our mutual goals of a sustainable market for ZEVs. ARB recommends that districts continue to provide additional funding to complement grants provided under AB 2061 where appropriate. This includes "buy-down" funds, as well as funds designed to offset

costs of infrastructure installation. The Program Manager will work with local agencies to ensure that all available incentives are rolled into one consolidated package. Finally, it is our goal to make this program seamless and consistent statewide so that it is easy for consumers, air districts, dealers and manufacturers to use.

A summary of program activity through December 31, 2002 is provided in Appendix G.

**Part I-B. A Zero Emission Vehicle Incentive Program
Pursuant to the Budget Act of 2001 (ZIP II)**

1.0 INTRODUCTION

The Legislature made funding available in the fiscal year 2001-2002 State Budget for use as grants to provide incentives for the purchase or lease of zero emission vehicles (ZEVs). These funds are available for expenditure through June 30, 2004 and may be used to provide grants of up to \$5,000 per vehicle pursuant to criteria established by the State Air Resources Board (ARB).

The expanded statewide ZEV incentive program will combine the existing statewide ZEV incentive program authorized by Assembly Bill (AB) 2061 and the funds appropriated in the Fiscal Year 2001-2002 State Budget. Staff will refer to the existing program as ZIP I and the new funds for ZEV incentives from the State Budget as ZIP II. The expanded statewide ZEV incentive program will be composed of ZIP I and ZIP II components. Available only through 2002, ZIP I grants, up to \$9,000 per vehicle, are awarded on a first-come-first-served basis to zero emission light-duty passenger cars and trucks capable of operation on freeways. The ZIP II grants, up to \$5,000 per vehicle, will also be awarded on a first-come-first-served basis and will be available for the purchase or lease of additional vehicles types through June 30, 2004.

In developing these guidelines, Staff consulted with ZEV stakeholders, through the ZEV Incentive Working Group, for suggestions regarding vehicle categories to be considered for ZIP II grants. Staff also held two public workshops and received a broad range of suggestions and opinions. Some stakeholders did not wish to expand the program and preferred that the incentive funds be reserved and allocated for grants in 2003 and 2004 for passenger cars and truck capable of operation on freeways. Some thought that all types of ZEVs should be treated equally to promote electric vehicle (EV) technology and that each ZEV should receive the maximum grant. Others said that ZEVs should be categorized by vehicle type and that the grant amount should vary by vehicle type. Some support ZEV incentives only for vehicles that meet the requirements of the ZEV regulation and would exclude vehicles such as motorcycles that are not recognized by the ZEV regulation. Many commenters suggested that staff consider factors such as vehicle suitability for a broad range of applications, manufacturing cost, compliance with safety standards, cost to consumer, vehicle range and maximum speed.

Staff's goal is to implement a single, continuous statewide program for ZEV incentives to enhance vehicle marketability in the near term, through June 30, 2004. However, ZIP I and ZIP II components will be administered in a manner consistent with authorizing legislation, especially in regards to establishing vehicle eligibility and incentive amounts.

The Fiscal Year 2001-2002 State Budget also provided additional funding for grants in the amount up to \$11,000 per vehicle to subsidize the purchase or lease of ZEVs to be used in fleets operating in areas of the state that are not in attainment with applicable air quality standards. Guidelines for implementing this program are provided in Part II of this report.

2.0 ZIP II PROGRAM ADMINISTRATION

This chapter describes how the ZIP II portion of the expanded statewide ZEV incentive program should be administered. Specifically, this chapter identifies where administration of ZIP II grants will differ from ZIP I grants. The Program Manager of the existing statewide ZEV incentive program (ZIP I) will administer an expanded ZEV incentive program that includes the ZIP II grant program. Air districts voluntarily administering ZIP I within their jurisdiction are encouraged to request to administer the expanded program. The Program Manager will have the same responsibilities as specified in the revised ZIP I guidelines. However, the Program Manager will administer ZIP II in a manner consistent with the Budget Act Language for fiscal year 2001-2002 and ZIP II guidelines approved by the Board.

2.1 Overview of Grant Payment Process

The Program Manager will use a single application and approval process for ZIP I and ZIP II grants. An overview of the grant payment process is provided in Part I-A, Section 2.5. However, a ZIP II grant will be paid in a single allotment for the full grant amount. As with ZIP I, a ZIP II grant may be paid directly to the grant recipient or the grant recipient may assign the grant to a participating vehicle dealer or lessor. The grant recipient may assign the ZIP II grant, whether the vehicle is purchased or leased.

2.2 Effective Date of ZIP II and Availability of Grants

The effective date of the ZIP II portion of the expanded statewide ZEV incentive Program will be the date of Board approval of the staff's proposed ZIP II guidelines. ZIP II grants will be available for eligible vehicles purchased or leased on or after the date of Board approval of these guidelines and on or before June 30, 2004. ZEVs purchased or leased prior to the effective date of the ZIP II program and guidelines are not eligible for ZIP II grants. It should be noted that ZEVs purchased or leased in 2002 and meeting the ZIP I eligibility criteria will receive the ZIP I grant amount, up to \$9,000, as long as ZIP I funds are available. An applicant may not receive both a ZIP I grant and a ZIP II grant for the same vehicle. However, an applicant may accept local program incentives.

3.0 ELIGIBILITY CRITERIA

The State ARB is authorized by Budget Act language for fiscal year 2001-2002 to establish criteria for ZIP II grants. This chapter provides the applicant and vehicle eligibility criteria.

3.1 Criteria for Applicant Eligibility

The applicant eligibility criteria for ZIP II grants will be the same as for ZIP I grants. Eligible applicants are individuals, local governments, public agencies, nonprofit organizations, and private businesses purchasing or leasing an eligible ZEV. Public agencies may include local, regional, state and federal government agencies and entities. However, federal agencies and entities only became eligible for ZIP I grants as of January 1, 2002.

3.2 Criteria for Vehicle Eligibility

The existing ZIP I program provides grants only for new zero emission light-duty passenger cars and trucks capable of operation on freeways. Consistent with the intent of AB 2061, the Board did not include other categories of vehicles in the ZIP I program. However, per Budget Act Language for Fiscal year 2001-2002, the Board is to establish the criteria for the new funds that are available for grants of up to \$5,000 per vehicle. The Legislature also expressed its intent that the Board consider the eligibility of low-speed vehicles or Neighborhood Electric Vehicles, or both, for ZEV incentives, in recognition of their contribution to achieving compliance with the ZEV mandate.

The ZIP I program guidelines note that currently available ZEVs can be separated into three different categories: Full-Function Zero Emission Vehicles (FFEVs), City Zero Emission Vehicles (CEVs), and Neighborhood Zero Emission Vehicles (NEVs). The passenger cars and trucks currently eligible for the ZIP I grant are in either the FFEV and CEV categories. Staff recognizes that there may be some overlap in the Full-Function and City EV categories. Although the ZEVs that are currently commercially available are all battery electric vehicles, staff recognizes that zero emission fuel cell vehicles may become available, particularly for fleet demonstrations, during the implementation of the expanded ZEV Incentive Program. It is not staff's intent to exclude zero emission fuel cell vehicles from being eligible for ZIP I or ZIP II grants.

The ZIP II program includes the four eligible vehicle categories: Full-Function Zero Emission Vehicles (FFEVs), City Zero Emission Vehicles (CEVs), Neighborhood Zero Emission Vehicles (NEVs), and Zero Emission Motorcycles (ZEMs). However, NEV and ZEM vehicle models will have restricted eligibility under certain specific circumstances described below. Staff will also evaluate the eligibility of fuel cell vehicle models on a case-by-case basis.

3.2.1 Vehicle Categories

Staff recognizes that there may be some overlap in vehicle categories, particularly in the FFEV and CEV categories, and is committed to work with the vehicle manufacturers to arrive at acceptable solutions for categorizing specific vehicle models. To be eligible for ZIP II grants, vehicle models must be ARB certified as new electric vehicles and must comply with all applicable Federal Motor Vehicle Safety Standards (FMVSS) and state safety standards. A table summarizing the FMVSS for a number of vehicle categories is provided in Appendix H.

- ◆ **Full-Function Zero Emission Vehicle (Full Function ZEV or FFEV) -** Vehicle models placed in the FFEV category are typically zero emission passenger cars and light-duty trucks that are capable of operation on freeways. Specialty fleet versions based on passenger car or light-duty truck chassis will be considered FFEVs. Vehicle models in the FFEV category are subject to the numerous FMVSS for passenger cars or light trucks, as applicable. FFEVs may be used in many typical passenger car and light-duty truck applications. Current and past FFEV models include two-seat pickup trucks, two-seat coupes, sedans, sport utility vehicles and minivans.
- ◆ **City Zero Emission Vehicle (City ZEV or CEV) -** Vehicle models placed in the CEV category may be similar to FFEVs and be suitable for many of the same applications. However, vehicle models that have manufacturer-imposed limitations or restrictions on their operation on freeways will be placed in the CEV category. CEVs and FFEVs are subject to the same FMVSS for passenger cars or light trucks. However, CEVs will typically be smaller in size, seat two passengers and have less range (miles that the vehicle can travel when starting with fully charged batteries) than FFEVs. CEVs are typically equipped with smaller battery packs, which reduces the cost to produce the vehicles. City EVs typically have lower top speeds than FFEVs. CEVs would be suitable for use as local commute vehicles in urban and city centers.
- ◆ **Neighborhood Zero Emission Vehicle (Neighborhood ZEV or NEV) -** Vehicles placed in the NEV category are zero emission low speed vehicles. Per California Vehicle Code (CVC) Section 385.5, a low speed vehicle is a motor vehicle, having four wheels on the ground and an unladen weight of 1,800 pounds or less, that is capable of propelling itself at a minimum speed of 20 miles per hour and a maximum speed of 25 miles per hour on a paved level surface. NEVs may be legally operated on public streets with maximum speed limits of 35 mile per hour or lower. Therefore, NEVs are particularly suited for operation in residential neighborhoods, planned communities, campus environments, business parks, and, possibly, transportation centers. Low speed vehicles are not subject to FMVSS applicable to passenger cars

and light trucks. Instead, low speed vehicles are subject to a single safety standard, Standard No. 500, that requires ten specific items of safety equipment.

- ◆ **Zero Emission Motorcycles (ZEMs)** - Fully-enclosed zero emission vehicles designed to travel on three wheels are motorcycles in the ZEM category. ZEMs are subject to the FMVSS applicable to motorcycles, which are less extensive than the FMVSS for passenger cars and light-duty trucks. Two-wheel motorcycles and three-wheel motorcycles not fully enclosed are not considered ZEMs for the purposes of the ZIP II grant program. Although ZEMs are not required by the ARB's Zero Emission Vehicle program and do not earn ZEV regulatory credit, staff recognizes that ZEMs may be well suited to many of the same transportation needs as FFEVs and CEVs. ZEMs provide a person who commutes alone with a lower cost, zero emission transportation option.

3.2.2 Eligible Vehicle Models

Vehicle models will be approved by ARB staff on a model year basis and placed on a List of Eligible Vehicle Models for ZIP I and ZIP II Grants (Appendix D). Manufacturers of vehicle models not currently on the list should request in writing to the Program Manager that their vehicle model be considered for addition to the list of eligible vehicle models. The written request should include a description of the vehicle model, the manufacturer's certification that the vehicle model meets all applicable state and federal safety standards and be accompanied by copies of the vehicle operation and service manuals and applicable warranties.

To be eligible, the vehicle models must meet the following criteria:

- ◆ The vehicle model has been certified by the ARB as a new electric vehicle or new zero emission vehicle.
- ◆ The manufacturer has certified that the vehicle model complies with all applicable federal and state safety standards, including applicable FMVSS.
- ◆ For NEVs only, a manufacturer has the option to enter into an agreement with the ARB to retire or forego ZEV regulatory credits earned from the production of a vehicle offered for sale in California and the placement of the vehicle into service. To use this option, the manufacturer must enter into an agreement with the ARB to retire or forego the ZEV regulatory credits earned by a specific vehicle model on a model year basis. NEV vehicle models, on a model year basis, not subject to such an agreement will not be eligible for ZIP II grants.

3.2.3 Vehicle Eligibility

To be eligible to receive a ZIP II grant, a vehicle must meet all the following criteria:

- ◆ The vehicle must be a new vehicle as defined in CVC Section 430.
- ◆ The vehicle must be purchased or leased on or after the effective date of the ZIP II program and on or before June 30, 2004. The effective date of the ZIP II Program is the date of Board approval of the proposed guidelines. If a vehicle is not available for immediate delivery, the date on which the vehicle dealer has accepted an applicant's vehicle order and a nonrefundable deposit will be considered the date of purchase or lease, provided the vehicle dealer has requested and received a grant voucher number to secure a "preauthorization" of a grant on behalf of the applicant.
- ◆ If leased, the vehicle must be leased for a minimum term of 36 months.
- ◆ There must be, at a minimum, a 36-month warranty on the vehicle and battery pack, consistent with Part I-A, section 3.2, Item 9. Vehicle and Battery Warranty.
- ◆ The vehicle must be registered with the California Department of Motor Vehicles (DMV) for use in California.

Vehicles will not be eligible for a grant under the following circumstances:

- ◆ The vehicle is not new, has been re-leased, is the subject of a lease assumption or has been transferred into California after previously having been registered out-of-state; or
- ◆ Vehicle is offered for lease, or is leased, for a minimum term less than 36 months.

Eligibility of imported vehicles with an exemption from applicable federal or state safety standards will be determined in a case-by-case basis. To be eligible, the vehicle must meet DMV registration requirements and be registered with the DMV for use in California.

4.0 INCENTIVES AND ALLOCATIONS

This section describes how grants will be distributed, the grant amount available for each vehicle category, and the allocation of grants.

4.1 Grant Amounts

Budget Act language limits the grants to an amount of up to \$5,000 per vehicle pursuant to criteria established by the Board. Grant amounts vary according to vehicle category. Staff considered suitability for a variety of applications, vehicle range, and price to the consumer in establishing grant amounts. FFEVs will be provided the maximum amount of \$5,000. Lesser grant amounts will be provided

for CEVs, NEVs and ZEMs. Table 1-B-1 below summarizes the vehicle categories and the grant amounts. The List of Eligible Vehicle Models provided in Appendix D includes specific grants amounts.

Vehicles in the FFEV category that are purchased or leased between October 1, 2000 and December 31, 2002, and meet applicable vehicle eligibility criteria of the ZIP I program may receive grants up to \$9,000, as long as ZIP I program funds are available. Otherwise, staff is proposing to provide vehicle models in the FFEV vehicle category with a grant amount of \$5,000. Vehicle models in the CEV category will be eligible for a grant amount of \$3,500.

The participation of NEVs will be limited in the incentive program. Manufacturers are expected to aggressively market NEVs in 2002, as NEVs are their least expensive compliance option to meet their ZEV mandate requirements. NEV production costs can be considerably lower than FFEV or CEV costs because NEVs can be equipped with smaller battery packs and can be designed to comply with fewer and less stringent applicable safety standards. Manufacturers will earn relatively high ZEV regulatory credit from the production and sale of NEVs in 2002, up to four ZEV credits per NEV. However, in recognition of the contribution NEVs make to the advancement of ZEV technology, manufacturers will be provided with a limited option to participate in the incentive program. NEV manufacturers will have the option of participating in the incentive program if they enter into a formal agreement with the ARB to retire, or forego, ZEV regulatory credits earned for a specific vehicle model on a model year or calendar year basis. In this case, staff recommends that a grant of \$1,000 be provided for eligible NEVs.

The grant amount for a ZEM will be determined on a case-by-case-basis for each eligible model. ZEM production costs are lower than for a typical FFEV or CEV because they can be equipped with smaller battery packs and can be designed to meet the less stringent safety standards for motorcycles. However, in recognition of the contribution of ZEMs to the advancement of ZEV technology and that manufacturers do not earn ZEV regulatory credit for ZEMs, staff will determine, on a case-by-case basis, the grant amount for individual models. However, staff will provide ZEMs that are capable of operation on freeways with a grant amount of up to \$2000.

Table 1-B-1: ZIP II Grant Amounts

Vehicle Category	ZEV Regulatory Credit	Grant Amount
Full Function ZEV	Yes	\$5,000
City ZEV	Yes	\$3,500
Neighborhood ZEV	Yes	No Incentive
	No, per manufacturer option	\$1,000
Zero-Emission Motorcycle (ZEM)	No	Up to \$2,000

4.2 Grant Allocation

The ZIP II program will be implemented statewide and grants will be awarded on a first-come-first-served basis. Applicants must receive delivery or take possession of an eligible vehicle before submitting an application for a grant to the Program Manager. However, upon the applicant submitting a vehicle order or purchase order to the vehicle dealer, the applicant or the vehicle dealer may request from the Program Manager a grant voucher number that guarantees availability of a grant. Processing time from application receipt to grant approval and check issuance will take 30 to 60 days. A single check for the entire amount of the grant will be issued to the applicant or, if the applicant has assigned the grant, to the participating lessor. An applicant may not receive both a grant from the ZIP I or the ZIP II programs and a grant from the Fleet Incentive Program for the same vehicle.

On a calendar quarter basis, staff will review grant applications and the award of grants to ensure, to the greatest extent possible, that all grant funds are used. Staff will consider manufacturer production plans, including the number of vehicles, type of vehicles, and production schedule. Staff will place a priority on ensuring that grant funds will be available, to the extent feasible, for incentives for FFEVs and CEVs in the October 2002-June 2004 time period.

5.0 SUMMARY

The additional appropriation made in the State Budget for ZEV incentives makes it possible for staff to implement an expanded statewide ZEV incentive program. The appropriation is available for expenditure through June 30, 2004 and may be used to provide grants of up to \$5,000 per vehicle pursuant to criteria established

by the ARB (ZIP II). The existing statewide ZEV incentive program authorized by AB 2061 (ZIP I) provides grants only through 2002. The expanded program will make grants available for the purchase or lease of additional types of ZEVs, including FFEVs, CEVs, NEVs, and ZEMs. With ZIP I, only FFEVs are eligible for grants.

Staff's goal is to implement a single, continuous statewide program for ZEV incentives to enhance vehicle marketability in near term, through June 30, 2004. However, the ZIP I and ZIP II components of the expanded program will be administered in a manner consistent with authorizing legislation, especially in regards to establishing vehicle eligibility and incentive amounts.

PART II: ZEV INCENTIVE PROGRAM FOR FLEETS THAT OPERATE IN AREAS OF CALIFORNIA WITH THE POOREST AIR QUALITY

Part II of this document covers the new ZEV incentive program that will provide grants to fleets that operate in areas of California with the poorest air quality. Topics covered include background on the Legislative requirements and the need for the program, administrative structure, eligibility requirements, and project evaluation criteria.

1.0 BACKGROUND

This section presents background information on the Legislative direction for the program, environmental justice, need for incentives, expected program benefits, and the program goals.

1.1 Introduction

The Legislature approved funding in the Fiscal-Year 2001-2002 State Budget to establish a new ZEV incentive program for fleets. This funding authorizes grants of up to \$11,000 per vehicle for new qualifying ZEVs that are purchased or leased through June 2004, and are used by fleets operating in nonattainment areas of California.

The Legislature directed the Air Resources Board to award grants through a competitive process. The competitive process gives preference to those fleets that will primarily use the vehicles in environmental justice communities as described below. The direction on the program is specified in both Assembly Bill 1390 (2001 Statutes, Chapter 763, Health and Safety Code Section 44260) and authorizing Budget language (Zero Emission Vehicle Program, Fiscal Year 2001-2002). A copy of Assembly Bill 1390 and the authorizing Budget Language can be found in Appendix E and Appendix F, respectively.

1.2 Environmental Justice

Environmental justice is defined in State law as *“the fair treatment of people of all races, cultures, and incomes with respect to the development, adoption, implementation, and enforcement of environmental laws, regulations, and policies.”* These laws respond to growing concerns about the potential health effects from exposure to multiple pollutants and toxic compounds. Local community groups have repeatedly called for better protection from emissions from mobile sources, as well as pollutants from industrial sources that have often been sited in or near low-income communities.

In December 2001, the ARB adopted broad-ranged environmental policies that are designed to assure clean air for all Californians. The policies will help advance this goal by making environmental justice considerations a standard practice in all ARB activities. The policies are a result of a comprehensive two year Stakeholder process, in which

The ARB worked closely with local air districts, environmental and community groups, and industry representatives.

The ARB's Environmental Justice policies represent one of the most comprehensive policies yet adopted by a State agency to date. They include major commitments in seven broad areas which are summarized below:

- ◆ Integrate environmental justice into all of the ARB's programs, policies, and regulations.
- ◆ Strengthen the ARB's outreach and education efforts in all communities, especially low-income and minority communities, so that all Californians can fully participate in our public processes and share in the air quality benefits of our programs.
- ◆ Work with local air districts to meet health-based air quality standards and reduce health risks from toxic air pollutants in all communities, especially low-income and minority communities, through the adoption of control measures and the promotion of pollution prevention programs.
- ◆ Work with the local air districts to strengthen enforcement activities at the community level across the state.
- ◆ Assess, consider, and reduce cumulative emissions, exposures and health risks when developing and implementing programs.
- ◆ Work with local land-use agencies, transportation agencies, and air districts to develop ways to assess, consider, and reduce cumulative emissions, exposures, and health risks from air pollution through general plans, permitting, and other local actions.
- ◆ Support research and data collection needed to reduce cumulative emissions, exposure, and health risks, as appropriate, in all communities, especially low-income and minority communities.

ARB's environmental justice policies specifically commit to implement incentive programs as specified in Assembly Bill 1390 to ensure that all communities, including low income and communities of color, are afforded the opportunity to participate in the program. Thus, this ZEV incentive program is an important part of implementing the ARB's environmental justice policies.

1.3 Need for Incentives

Incentives help accelerate the production of technologies that benefit society. During the next three years, staff believes that incentives will play a critical role in enhancing market development for ZEVs. ZEVs currently cost more than comparable conventionally fueled vehicles, due in part, to small production volumes. This higher cost makes it much more difficult for fleets to purchase or lease ZEVs.

Residents of many communities, including low-income and communities of color, have not had the opportunity to purchase or lease a ZEV because of the substantially higher cost of these vehicles and lack of familiarity with the technology. This program is designed to break through these barriers. By providing significant grants to fleets that

operate in areas with the poorest air quality, this program is intended to provide opportunities to communities who may not have been previously able to consider leasing or purchasing a ZEV.

This program has the potential to provide tangible, near-term benefits to communities. ZEVs can replace older gasoline or diesel vehicles that contribute to smog and toxic air pollutants. Education and outreach on ZEV technology helps promote a greater understanding of air pollution and its causes, which can empower communities to take a more active role in air quality decisions which impact them. This is consistent with ARB's Environmental Justice policies that commit to strengthen outreach and education efforts in all communities, especially low income and communities of color, so that all Californians can fully participate in public process and share in the air quality benefits of our programs.

Finally, by providing a grant of up to \$11,000 per vehicle, it is anticipated that this incentive program will result in greater use of ZEVs by fleets. This will greatly enhance the marketability of ZEVs, because fleets have been very important in paving the way to a vibrant consumer market. Of particular importance is the ability to allocate funding priorities to support the availability of vehicles with full function characteristics. Full function ZEVs are able to satisfy the widest variety of transportation needs, and thus are a critical element of a sustainable market.

1.4 Program Goals

There are four program goals for this program. These goals incorporate the Legislative direction for this program, ARB's Environmental Justice policies, and priorities identified by the Board for ZEV program implementation. The program requirements described later are structured to most effectively meet these goals. The four program goals are described below:

- ◆ Implement a ZEV incentive program for fleets that operate in geographical areas of the State with the poorest air quality (nonattainment for ozone).
- ◆ Promote the deployment of ZEVs in environmental justice communities.
- ◆ Encourage projects that showcase ZEV technology to communities, or include education on the benefits of ZEV technology, so that all communities, especially low-income and communities of color, can take a more active role in decisions affecting their local air quality.
- ◆ Promote full function ZEVs or ZEVs with full function characteristics.

2.0 FLEET ZIP PROGRAM ADMINISTRATION

This section provides information on how the program will be administered. Topics discussed include the application and solicitation process, and administrative roles and responsibilities. This administration ensures that the program is successful in meeting the program goals discussed in the previous section.

This program differs from the programs described in Part I in that grants are not allocated on a “first-come, first-served” basis. The Legislature directed ARB to award Fleet ZIP grants through a competitive process.

A competitive process is one in which all eligible requests for grants are evaluated and scored utilizing objective criteria. Grants are then awarded to proposals that are found to score the highest using the criteria. The order in which proposals are submitted is not important as long as they are submitted within required timeframes. A competitive process is already used by ARB in the administration of a number of programs, including the Carl Moyer Program, and the award of funds allocated through the Research Division for sponsored research projects.

2.1 Program Overview

The program will be implemented at the State level by ARB, in conjunction with Program Partners and Program Sponsors. ARB will appoint a Program Manager to oversee the implementation of the program and to work collaboratively with Program Partners and Program Sponsors. Program Partners are air districts or other public agencies that agree to assist with the implementation of program in their area, including the recruitment and evaluation of project proposals. Program Sponsors are public or private organizations that would like to assist with program outreach and identification of potential applicants. The duties of the Program Manager, Program Partners, and Program Sponsors are described later in this section.

The Program is divided into three different stages: (1) Pre-Solicitation, (2) Solicitation, and (3) Grant Allocation.

Pre-Solicitation During this period, ARB, Program Partners, and Program Sponsors hold Pre-Solicitation workshops to inform interested parties about the program and funding opportunities. These workshops will be held throughout the State, and will include detailed information on the program and how to apply, as well as a demonstration of ZEV technology and information on charging infrastructure.

Grant Solicitation This begins when ARB and Program Partners announce the Request for Grant application period. This will be a sixty-day period, in which all interested parties can submit an application requesting a grant. All applications must be received by the last day of the solicitation period. There will be at least two Solicitation periods, one each in late 2002 and late 2003. Depending on funding availability, there could be additional solicitation periods in 2003 and 2004.

Grant Allocation. ARB and Program Partners review and score all applications submitted during the Grant Solicitation Period (more information on this process is included in the *Project Evaluation* Section). Successful applicants will be notified and will receive grants upon execution of the Grant Agreement and submittal of necessary documentation, including vehicle lease and registration information.

2.2 Program Partners

Program Partners are essential to a successful program. A Program Partner is a public agency that agrees to work with the ARB Program Manager and assist with implementation of the program in their area or jurisdiction. Program Partners agree to make the following commitments to the program:

- ◆ Jointly co-sponsor at least one Pre-Solicitation Workshop in their jurisdiction each solicitation period.
- ◆ Provide input on the program outreach strategy for their region or jurisdiction.
- ◆ Assist with outreach efforts for the program in their area or jurisdiction, including providing assistance to ARB to help identify potential fleets in their area.
- ◆ Make the grant application package and program information available at their offices, website, and at appropriate outreach events that they normally sponsor or participate in.
- ◆ Provide information on all possible incentives or funding sources that could be considered by potential applicants in their area.
- ◆ Assist ARB in the evaluation of applications within their jurisdiction. This will include their recommendation as to the scoring of projects utilizing Project Evaluation Criteria and recommendations as to which projects to fund in their area or jurisdiction.
- ◆ Appoint a staff person to provide input to the ARB Program Manager. This will include participating in quarterly meetings or monthly conference calls with other Program Partners and the ARB Program Manager. Air Districts who are Program Partners would also be asked to develop environmental justice criteria for their region or provide input to the Program Manager on the appropriate environmental justice criteria for their area.

Staff looks forward to Air Districts' active participation as Program Partners. Air Districts can make a very important contribution to the overall program success. Districts are the most familiar with fleets in their area and as well, can provide considerable expertise in the identification of appropriate environmental justice criteria in their area. In addition, they have ongoing outreach activities that provide important opportunities to educate their communities about ZEV technology and funding opportunities available with this program.

While it is anticipated that Air Districts will be the primary Program Partners, staff also encourages other public agencies that have battery electric vehicle experience or expertise with implementing fleet programs to consider becoming a Program Partner. This could result in some areas having more than one Program Partner. For example, an Air District, City, and State or federal agency could all have overlapping areas of jurisdiction. This structure has the potential to incorporate a wide variety of insight, expertise, and knowledge into the program. It also opens up a multitude of outreach opportunities to inform communities about the program and grant opportunities. Program Partners will play an extremely important role in implementing the program at the local level.

To avoid any conflict of interest, a Program Partner must agree to not submit a grant proposal under this program. Because Program Partners will be evaluating grant applications for their area, it would not be appropriate for them to submit their own application during a solicitation period. However, interested agencies that are planning to submit a grant application would be eligible to participate as a Program Sponsor.

2.3 Program Sponsors

Organizations (automakers, electric utilities with EV programs, environmental or community organizations, etc) that could have a potential stake in which proposals receive grants are welcome to participate as a Program Sponsor. A Program Sponsor would be an organization that is willing to support the program, including outreach activities and fleet evaluation of interested applicants. However, they would not have any role in the evaluation of projects in their area. Specifically, Program Sponsors agree to the following:

- ◆ Sponsor a pre-solicitation workshop in their area and provide other assistance, as needed, with outreach on the program.
- ◆ Provide assistance, as needed, to the Program Manager and Program Partners in identifying potential fleets or specific fleet applications in their area or within their area of expertise that they believe have high merit.
- ◆ Assist interested organizations with determining if EVs are appropriate for their fleet needs (“fleet evaluation”).
- ◆ Program Sponsors may also assist fleets in the development of grant proposals.

2.4 Program Manager

The ARB will appoint a Program Manager to administer the program. The Program Manager may be different than the Program Manager responsible for the statewide grant program described in Part I of this report. The duties of the Program Manager are:

- ◆ Coordinate with Program Partners and Program Sponsors.
- ◆ Develop grant application packages and make them available.
- ◆ Develop outreach plan with Program Partners and Program Sponsors.
- ◆ Coordinate outreach activities with the ZEV Outreach Stakeholder Group.
- ◆ Coordinate with the ZEV Grant Program Manager and ZEV Incentive Stakeholder Group.
- ◆ Conduct Pre-Solicitation Workshops with Program Partners and Program Sponsors.
- ◆ Screen all applications for completeness and eligibility.
- ◆ Ask Program Partners to review all eligible applications in their jurisdiction.
- ◆ Assist in the evaluation of applications, and incorporate recommendations of Program Partners regarding applications in their area or jurisdiction.
- ◆ Announce grant awards and authorize grant distribution.
- ◆ Track program status, including funding allocation.

- ◆ Meet quarterly (or monthly if needed) with Program Partners and Program Sponsors.
- ◆ Coordinate within ARB to hold an outreach event in 2003 to publicly acknowledge the contribution of all Program Partners and Program Sponsors, and to highlight Program Accomplishments.

2.5 Pre-Solicitation Process

The goal of the Pre-Solicitation process is to inform interested fleets, public agencies, and community organizations about the benefits of ZEV technologies and funding opportunities available under the program. The Pre-Solicitation process will include a comprehensive outreach effort with the following materials and activities:

- ◆ Written materials on ZEV technology and funding opportunities prepared by the Program Manager in coordination with Program Partners and Program Sponsors.
- ◆ ARB Press Release announcing the Program.
- ◆ Preparation of materials that can be used by Program Partners and Sponsors to provide outreach on the Program. In addition to a program factsheet, this could include brochures, a short Power Point Presentation or video explaining the program and any other outreach needs identified by Program Partners and Sponsors. In addition, a program logo may be developed to enable interested parties to quickly identify the program.
- ◆ Identify potential fleets and fleet applications and determine best methods of outreach to these fleets.
- ◆ Coordinate outreach activities with ZEV Stakeholder Outreach Group and other interested organizations.
- ◆ Pre-Solicitation Workshops that will include discussions of available ZEVs, assistance with a fleet evaluation, and detailed information on the program and application process.

2.6 Solicitation Process

The solicitation process begins with the announcement of the opening of the grant solicitation period. The first solicitation period is expected to begin by the end of 2002 and will last 60 days. Application packages will be available from ARB, auto dealers and at www.zevinfo.com, as well as from Program Partners and Program Sponsors.

The application process has been designed to be simple and easy to complete. However, all interested parties must submit the official application form. Required information includes: applicant name, taxpayer identification number, business license (if applicable), mailing address and agency contact information. In addition, the application must include the name of the organization(s) where the vehicles will be placed and used. Other required information includes the number and type of vehicles that will be leased or purchased (make, model number, lease cost), address(es) where vehicles will be garaged, and description of project.

It is anticipated that the project description will be relatively simple for those applicants leasing or purchasing small numbers of vehicles, but may be significantly more detailed for large and complex projects. Detail on project requirements can be found in subsequent sections of this report. However, the project description should, at a minimum:

- ◆ Identify geographical areas where vehicles will be garaged and used, including the nonattainment area;
- ◆ Document that the vehicle will be garaged and used in an area that meets environmental justice criteria and the benefits of the project to the area;
- ◆ Provide fleet application or use for the vehicle;
- ◆ Estimate vehicle miles traveled;
- ◆ Briefly describe any educational or outreach project components; and
- ◆ Identify any Project Partnerships.

Only paper copies of applications will be accepted. All applications must be received by the close of the solicitation period. Applicants may include any supplemental information they would like to have considered in the evaluation of their project. In addition, the application must be signed and dated by a representative of the applicant's organization that has the authority to submit the application.

2.7 Grant Allocation Process

The Program Manager shall (1) screen all applications for completeness, and (2) determine eligibility for all complete applications. All eligible applications will be evaluated and scored by Program Partners and the ARB Technical Review Committee.

Complete Applications. The Program Manager will review each application to determine if it is complete. Anyone that has submitted an application that is incomplete, unsigned, or has missing information, will be provided with an opportunity (10 business days from the date of written notification) to provide the missing information to the Program Manager. If the information is not provided within this timeframe, the application will be found to be ineligible. All applicants will be notified in writing that their application has been received and whether it is complete.

Eligibility Determination. Eligibility requirements are discussed in the next section. All applications will be reviewed by the Program Manager to determine if they meet minimum eligibility requirements. The Program Manager will consult, as necessary, with the appropriate Program Partner. Applications determined to not meet minimum eligibility requirements will be notified in writing. Any applicant can appeal to the Program Manager in writing if they believe that their application has been unfairly found to be ineligible. They must provide their reason in a signed letter within 10 working days of being notified that their application does not meet minimum requirements. All applicants that submit an appeal will be notified in writing by the Program Manager of the final eligibility determination.

Most, ineligible applicants would be eligible for a grant under the ZIP I or ZIP II, described in Part I of this document, as long as they meet those eligibility requirements. All ineligible applicants will be provided with information on how to complete the paperwork to receive a grant from the general ZEV Grant program.

Project Evaluation and Award of Grants. A copy of all eligible applications will be provided to Program Partners (projects in their jurisdiction) for their review and recommendation. The Program Manager and Technical Review Committee will then review the Program Partner's evaluation of each project, and incorporate their evaluation when determining a final score for the project. The composition of the ARB Technical Review Committee and evaluation process is described in detail in the *Project Evaluation* section.

2.8 Program Funding Allocation

A maximum of 40% of total funds will be set aside for vehicles leased to implement project proposals that are approved in the first solicitation. The remaining funds, as well as any unused funds from the first solicitation, will be available for vehicles leased for projects approved in 2003 and 2004. Minimum baseline funding amounts will initially be allocated in the first solicitation to each eligible area of the State (eligible areas are described in the *Program Eligibility* section). These allocations will not comprise more than 20% of available funding for a given year and will be based on a consideration of both population and severity of the air pollution problem. The allocations will be made by eligible air districts.

Providing minimum baseline allocations of funding was recommended in the ZEV Incentive Stakeholder Group as a mechanism to ensure that each eligible area has the ability to have funded projects. The Program Manager will reallocate this funding if there are insufficient requests in an area, or submitted requests do not attain a minimum score using Project Evaluation Criteria (discussed in the section on Project Criteria). Proposals that attain a score of 70 or better are eligible for funding.

If the amount of projects with a score of 70 (see Table II-3 below for details) exceeds available funding in an area, then projects will be funded in priority, based on those with the highest score. The process will fund the projects with the highest score (a score of 70 or greater) in each area. When funding is either exhausted for each area, or if unused, it will be reallocated to a "State pool." The remaining projects will then be funded, based on those with the highest score (must have minimum score of 55, as discussed later).

2.9 Grant Payments

Successful applicants will be notified in writing that they are eligible for a grant award. In order to receive their grant, they must execute a Grant Agreement with ARB and lease or purchase the vehicles. A copy of the recommended draft terms and conditions of the Grant Agreement is included in Appendix J. Each Grant Agreement will specify

the number of vehicles and the approved grant award for each vehicle. The applicant's project description will be incorporated as part of the Grant Agreement.

All successful applicants will be provided with a Grant Agreement approved (signed) by ARB. The receipt of the approved Grant Agreement is documentation to the applicant that their project is approved for funding, pending execution of the Grant Agreement. The Grant Agreement must be fully executed within 90 days from the date that ARB approves it. If the Grant Agreement is not fully executed within 90 days, then the applicant is no longer eligible for a grant. A "Fully Executed" Grant Agreement means that the applicant has signed the Grant Agreement (as approved by ARB), returned it to the Program Manager, and provided any required documentation (vehicle lease or sales agreement is not needed at this stage). Any changes to the standard Grant Agreement Terms and Conditions must be approved by both ARB and the applicant. In addition, the Grant Agreement must be fully executed within the same 90 day period (90 day period is calculated from the date that the original Grant Agreement was approved by ARB).

It should be understood that execution of the Grant Agreement does not obligate the applicant to purchase or lease vehicles should they determine for any reason not to implement the project. In addition, applicants can purchase or lease vehicles in increments, or purchase or lease a smaller number of vehicles than approved in the executed Grant Agreement. Under no circumstances, however, can an applicant receive funds in excess (or for a greater number of vehicles) than in the executed Grant Agreement.

Upon obtaining prior written approval by the Program Manager, applicants can substitute similar vehicles for those that are identified in the executed Grant Agreement (and were originally requested in their application). All vehicles substituted must be eligible for the same grant award. For example, an applicant could substitute similar vehicles that qualify for the maximum grant award of \$11,000 (RAV4EV or a Ford Ranger EV), but not a RAV4EV for a Neighborhood Electric Vehicle. In addition, all substituted vehicles must be eligible for a grant. In approving the substitution of vehicles, the intent is to support the implementation of projects, address any vehicle availability issues, and provide flexibility to applicants if they identify vehicles better suited to their project or fleet application. However, no vehicle substitutions will be approved if the substitution itself substantially changes the scope or effectiveness of the project, as described in the applicant's original project description.

The successful applicant has a maximum of twelve months from the date that ARB signs the Grant Agreement to lease or purchase the vehicles. This time period is being provided to address Stakeholder concerns related to vehicle availability and the time needed to address budgetary and procurement cycles of different agencies. However, if the vehicles are not leased or purchased within 12 months of the date that ARB approves the Grant Agreement, then the applicant must reapply for a grant during the next open solicitation period. If the applicant does not execute the Grant Agreement

within 90 days, then the project is no longer eligible for a grant. A grant will be offered to other remaining eligible projects (in the same solicitation period).

Actual payment will be made when the applicant leases or purchases the vehicles. Payment can be made directly to the applicant or the auto manufacturer/dealer. Payment will be issued when the applicant returns the Payment Request Form with documentation of vehicle lease or purchase. Payments will be made only for eligible vehicles included in the executed Grant Agreement. No grants or funds are provided to recoup administrative or infrastructure costs. Applicants are encouraged to work closely with Program Partners and Program Sponsors in their area so that they can secure all assistance that they may be eligible for in their area.

3.0 PROGRAM ELIGIBILITY REQUIREMENTS

This section of the staff report contains the minimum program eligibility requirements. These requirements reflect the Legislative Direction that ARB provide grants to fleets that operate in areas with the poorest air quality. The eligibility requirements are also structured to ensure that the program goals are achieved.

3.1 Overview

As discussed in the previous section, all applications submitted will be evaluated through a three-step competitive process. First, all applications are screened to determine if they are complete. Second, all complete applications are reviewed to determine if they meet minimum eligibility requirements. Any applicant whose proposal is determined by the Program Manager to not meet the minimum eligibility requirements will be provided with an opportunity to appeal this finding (as described in previous section). If it is deemed to be ineligible after an appeal, it will be excluded from further evaluation. Finally, all applications that meet minimum eligibility requirements will be evaluated and scored, using the project evaluation criteria (discussed in later sections of this report).

There will be five requirements that would need to be met for all applications or grant requests. These are: (1) definition of eligible applicant, (2) fleet definition, (3) nonattainment requirement, (4) eligible vehicle, and (5) environmental justice criteria. To be eligible, an applicant must meet all five of these requirements. In addition, some projects must also provide information on how the project will be administered. Each of these requirements is described in this section.

3.2 Applicant

Individuals are not eligible for grants. To qualify, all applications must be submitted by a representative of an organization that falls into one of the following categories:

- ◆ Public agency. This includes State agencies (including State College and University system), any federal agency with an office in California (example U.S. Post Office)

and local agencies (city, county, public school, public community college, police, fire or other special purpose district). The applicant shall provide their federal tax payer identification number on the application and information on the agency (type of agency, mission, geographic area of service).

- ◆ Business or Corporation Authorized to Conduct Business in California. This includes sole proprietors and partnerships. The applicant shall provide a copy of the current business license issued in California and their federal tax payer identification number. If a business license is not required, the applicant can provide other documentation demonstrating that they are authorized to conduct business in California. The applicant shall provide a short description of their business and geographical area of service.
- ◆ Non-profit organizations, Estates, or Trusts. The applicant shall provide a federal tax payer identification number and a short description of the charter or organizational mission and geographical area of service/activity.

A typical applicant would be an entity that meets the criteria above and who applies for grants for vehicles that they will lease and use in their own fleet. However, it is also possible that a qualified applicant could also be any entity that meets the criteria outlined above and who is applying for funding that will be used to purchase or lease vehicles that they will place and manage in other fleets (or other fleets including their own). In all cases, vehicles must be placed with an eligible fleet, which is defined below.

3.3 Eligible Fleets

All vehicles must be placed in a fleet. The Legislation or authorizing budget language does not define fleet or include any fleet criteria. There are many possible definitions of a fleet that have been used in programs. These definitions include organizations that own a specified number of vehicles (2,10,100, etc), organizations that purchase a specified number of vehicles, or organizations that administer vehicles for other fleets or organizations (including implementing a project).

A fleet is defined very broadly to facilitate community participation in the program. However, the fleet definition is also intended to exclude any grants for vehicles purchased or leased by an individual or primarily intended for use as a commuter vehicle.

A fleet vehicle differs from a vehicle purchased by an individual. Individuals generally use their vehicles to meet their personal transportation needs, including commuting. A fleet vehicle is any vehicle used by a business, public agency, or other organization in the course of conducting business. This vehicle is generally owned, leased, or procured through a long-term rental agreement.

An eligible fleet must meet either one of the following criteria:

- ◆ Owns or leases two or more fleet vehicles that are used to conduct business at the time the application for a grant is submitted.
- ◆ Be any public agency, business, non-profit organization estate, or trust that has entered into an agreement with an eligible applicant to receive and use ZEVs that receive a grant through this program. All vehicles must be used as fleet vehicles.

The definition of fleet is broad. It should accommodate a broad spectrum of community organizations, businesses, and public agencies. In the evaluation of projects (described in detail in the next section), priority will be given to those fleets that do not typically garage their fleet vehicles at a private residence, and do not intend to garage the ZEV receiving a grant at a private residence. This is to ensure that grants are allocated to fleet vehicles. “Garaged” is defined for a battery EV as the location where the charging station is installed. For all other vehicles, “garaged” is defined as the location where the vehicle is parked overnight.

All grant applications will need to include an estimate of the number of fleet vehicles in the applicant’s fleet. This number can be based on the number of vehicles in the entire organization in one geographical area (for example, Air District boundaries or nonattainment area boundary) or sub-unit of organization that will use the vehicles. If the applicant is not the entity using the vehicle, then the applicant must identify each eligible fleet receiving vehicles through their project.

3.4 Definition of Nonattainment Area

3.4.1 Background

The Legislature directed that grants be awarded to fleets that operate in ozone nonattainment areas of California. This section provides background information on ambient air quality standards and nonattainment areas. Health effects associated with other pollutants, including particulate matter (PM), carbon monoxide, and toxic air contaminants are discussed in the following section on environmental justice criteria. Additional information on air quality standards, health effects, and air pollution sources, is available in the Appendix L.

The 1990 Federal Clean Air Act requires that the United States Environmental Protection Agency (U.S. EPA) establish National Ambient Air Quality Standards. The Board also establishes state ambient air quality standards that are in some cases, more stringent and protective of human health than the national standards. These standards set legal requirements on the maximum concentration of an air pollutant that ambient or outdoor air may contain and still be considered protective of public health. The process to establish these standards is based on extensive evaluation of peer reviewed scientific data as well as public input and comment.

Monitoring is conducted to measure air quality throughout the State. An area that exceeds the levels specified in the ambient air quality standards is designated as a

nonattainment area for that particular pollutant. An area can be nonattainment for one or multiple pollutants. Additionally, an area can be nonattainment for both the State and federal standards for a particular pollutant, or for only the State or federal standard.

Nonattainment areas are those counties or sub-divisions of a county where U.S. EPA or ARB determines that the measured levels of a particular pollutant are exceeded for a minimum number of days or hours. Of particular concern is the ambient air quality standard for ozone. This is due to the severity of the nonattainment problem throughout California. Ozone is a regional pollutant and is formed by chemical reaction in which emissions primarily from motor vehicles are chemically transformed in the presence of sunlight.

Most population centers of California exceed the ozone standard by a significant margin. This includes the Sacramento metropolitan area, the South Coast Air Basin, the Bay Area Air Quality Management District, and San Diego area. Populations at highest risk are children, the elderly, and those with pre-existing health conditions. Scientific studies have demonstrated that ozone can cause or contribute to breathing difficulties and lung tissue damage. Health effects are impacted by both the severity (or level) of the pollutant and the length of exposure (number of hours or days in which the standard was exceeded).

3.4.2 Nonattainment Requirement

The nonattainment requirement is defined as any County or sub-division of a County that is designated nonattainment for the State ambient air quality standard for ozone. To qualify, each vehicle receiving a grant would need to be garaged in a County or sub-division of a County currently designated nonattainment for the State ozone standard. This will be based on designations promulgated by ARB and in effect at the time of the application period. The Table below lists the current counties or parts of counties that are currently designated as State ozone nonattainment areas, and thus eligible for grants under this program.

Table II-1: Nonattainment Areas for State Ozone Ambient Air Quality Standard

County	County
Alameda	Placer ⁴
Butte ¹	Riverside
Contra Costa	Sacramento
El Dorado ²	San Diego
Fresno	San Francisco
Imperial	San Joaquin
Kern ³	San Mateo
Kings	Solano
Los Angeles	Stanislaus
Madera	Sutter
Marin	Tulare
Merced	Ventura
Napa	Yolo
Orange	

¹ Chico only

² Not Lake Tahoe portion

³ Only San Joaquin Valley portion

⁴ Not Lake Tahoe portion

A map of the nonattainment areas for State ambient air quality standard for the ozone standard are included in Appendix K. This map shows the severity of the air pollution problem, based on ARB classifications of unclassified, moderate, serious, severe, and extreme nonattainment areas.

3.5 New Eligible ZEV

Each applicant would be assured that if their proposal were selected, they would receive the maximum grant amount for each eligible vehicle, unless they requested a lesser grant amount. The program is structured this way to provide certainty to fleets and to encourage the use of ZEVs in fleets. A more detailed rationale on vehicle eligibility requirements can be found in Part I of this document. Generally, all vehicles eligible for a grant under the statewide ZEV Grant Program are also eligible for a grant under this program. However, the funding amounts differ. This is because the Legislature authorized a maximum grant of \$11,000 per vehicle for this program to encourage placement of ZEVs in environmental justice areas.

To be eligible, the vehicle must be a new zero emission light-duty car, zero emission light-duty truck, or fully enclosed three wheel zero emission motorcycle. NEVs that are

not receiving regulatory credit are also eligible. The vehicle categories described in Part I-A will also be used in this program.

Below is a summary of the basic vehicle requirements:

- ◆ A zero emission light-duty car or a zero emission light-duty truck, or a 3-wheel, fully enclosed motorcycle that is certified by the ARB;
- ◆ Any NEV certified as a ZEV that does not receive regulatory credits;
- ◆ A new vehicle as defined in Section 430 of the California Vehicle Code; and
- ◆ Paperwork to register the vehicle must have been submitted to the Department of Motor Vehicles, and the applicant must possess a temporary or permanent vehicle registration to operate the vehicle in California issued before receiving a grant.

Table II-2 below lists the vehicle categories that qualify for grants. The maximum grant amount a vehicle may receive is specified. Project applicants' may request a lesser grant amount per vehicle.

The registered address for fleets can often vary significantly from the address where the vehicle is garaged. In order to qualify for funding, an applicant will need to provide documentation that the vehicle will be registered and used in California. However, in terms of ensuring that the proposal meets nonattainment and environmental justice criteria, the garaging location of the vehicle will be used to determine compliance with these requirements.

TABLE II-2: ELIGIBLE VEHICLES AND GRANT AMOUNTS

Vehicle Category	ZEV Regulatory Credit	Grant Amount
Full Function ZEV	Yes	\$11,000
City ZEV	Yes	\$5,000
Neighborhood ZEV	Yes	No Incentive
	No, per manufacturer option	\$1,500
Zero-Emission Motorcycle (ZEM)	No	Up to \$3,000

Appendix D contains a list of current model vehicles eligible for funding under this program.

3.6 Environmental Justice Criteria

The Legislature directed that ARB give priority in the allocation of grants to those fleets that operate in areas that are disproportionately impacted by poor air quality, including low income and communities of color.

The final eligibility requirement that all projects must meet is that the vehicle(s) must be garaged in an area that meets environmental justice criteria. This is being used in order to simplify the process for applicants in determining whether their project is located in an area that meets environmental justice criteria. In addition, staff recognizes that the majority of EVs will be used within a 30-mile radius of the garaged location.

However, the geographic area that the vehicle will actually be driven in is important and will be an important consideration during the evaluation and scoring of all eligible projects. This is to ensure that vehicles receiving a grant are primarily driven in areas that meet environmental justice criteria, so that these communities receive tangible benefits from the funding provided in this program.

3.6.1 Background on Environmental Justice

ARB's environmental justice policies are intended to ensure that diverse strata of communities, including low income and minority communities, will benefit from efforts to control California's air quality problems and to address the impact that exposure to multiple pollutants, including toxic air contaminants, has on community health.

Scientific studies have demonstrated that many pollutants have the potential to impact public health. Besides ozone, particulate matter (PM) and carbon monoxide (CO) are of particular concern. PM has been correlated to increased respiratory disease, lung damage, and premature death. CO causes chest pain in heart patients, headaches, and reduced mental alertness. In addition there are a number of toxic air contaminants that can contribute to a wide variety of long-term health impacts, including increased cancer rate.

In addition to air quality considerations, it is also important to consider the socioeconomic factors that may impact a community's existing air quality as well as participation in new programs, including the ZEV incentive program. These factors include but are not limited to:

- ◆ Number of people at or below the federal poverty level
- ◆ Average median household income that meets definition of low income (HUD or other agencies)
- ◆ Ethnic make-up of the neighborhood
- ◆ Unemployment rates
- ◆ Higher than average concentration of industrial and mobile sources (e.g, power plants, freeway corridors, auto refinishing).

Available data includes regional air quality monitoring data, emissions data by source (or source category), and community health monitoring. In addition, ARB provides an estimate of cumulative risk from exposure to toxic air contaminants. This information is available through interactive maps (Aspen Maps) that estimate inhalable cancer risk, as well as show anticipated trends between 1990 and 2010. Socioeconomic data includes (but is not limited to) income, ethnicity, housing, and population data available from the U.S. Census Bureau.

3.6.2 Development of Environmental Justice Criteria

It is very difficult to develop a “one size fits all” environmental justice criteria that is fair and equitable throughout the State. This is because local air quality concerns and socioeconomic factors vary significantly due to the diversity of communities found in California. The best criteria will reflect the best data and tools available for a particular area. Therefore the best approach is for Air Districts to develop environmental justice criteria for their jurisdiction.

To facilitate participation in the program, Air Districts should map areas that meet environmental justice criteria using a Geographic Information System (GIS). This will make it easy for potential applicants to determine if their project is located in an area meeting minimum environmental justice criteria. Several air districts have already taken this approach to developing environmental justice criteria for the Carl Moyer Program. This includes the South Coast, Santa Barbara, and Mojave districts.

Health and Safety Code Section 43023.5 requires districts containing more than one million inhabitants to spend at least fifty percent of state incentive funds, including Carl Moyer Program funds, to reduce or eliminate impacts on areas of the state with the poorest air quality. As part of the implementation of the Carl Moyer Program, many Districts have reviewed the challenges they need to address to best define environmental justice criteria for their area. Larger Air Districts, including South Coast, Bay Area, Sacramento, San Joaquin Valley, and San Diego Air Districts have developed or are in the process of developing environmental justice criteria for Carl Moyer projects within their jurisdiction.

The South Coast’s proposed environmental justice criteria includes an economic and air quality factor. The economic factor is defined as areas where at least ten percent of the population is below the federal poverty level (based on U.S. Census data). The air quality factor is defined as the areas with the highest PM concentrations and areas with the highest estimated cancer risks. Less populated or rural districts are also attempting to respond to the challenges of how they should best define areas to focus environmental justice efforts. The issue of which criteria to use can be quite different for small dispersed communities whose demographics are difficult to define.

In many cases, it is anticipated that existing environmental justice criteria that Districts are using for the Carl Moyer Program may be applicable to this program. In the event that district criteria is not available, or Carl Moyer environmental justice criteria is not

appropriate, ARB staff will work with district staff and the interested community organizations to assist in the development of criteria for the area. Also, potential applicants will be allowed to use alternate criteria, as long as supporting documentation is supplied. ARB and Program Partners will review the alternate criteria as part of the program eligibility determination process.

3.7 Project Administration

Staff will require that some applicants provide additional information related to program administration. The reason for this is to ensure that grants are awarded to projects that have the greatest likelihood of being implemented. As discussed earlier, funds for grant awards are encumbered for up to one year. It would be counterproductive to encumber money for projects that are speculative, have not identified all of the funding needed to implement the project, or do not have agreements in process of being finalized that are needed to execute the project. It would also tie up funds for projects that are ready to move forward.

If a project includes any of the following elements, the applicant would need to complete Form B of the standard application form:

- ◆ Includes 11 or more vehicles.
- ◆ Vehicle use by a State or Federal Agency.
- ◆ Include off-road use of vehicles (example military base, closed campus, retirement community, factory, etc).

Administrative and funding issues are more of a concern with those projects that will be procuring larger numbers of vehicles, because as the complexity and cost increases, so does the administrative needs of the project. Form B would also be required for projects involving State or federal agencies, since contracts, budget augmentations and other administrative requirements, if not obtained, can make it difficult for the projects to be implemented. Finally, projects that include off-road applications will also be required to provide this information. This is to ensure that projects that include off-road uses will be administered so that tangible benefits will be achieved in the intended community.

Applicants will need to provide the following information:

- ◆ Funding sources for the entire project, including infrastructure
- ◆ Charging strategy
- ◆ Person responsible for administering the project
- ◆ Contracts or agreements necessary to implement the project

4.0 PROJECT EVALUATION AND RANKING

This section discusses the process to evaluate and score all eligible applications. Topics discussed include type of projects, project proposal requirements, and project

evaluation criteria. The minimum eligibility requirements were discussed in the previous section.

4.1 Eligible Projects

All proposals that meet the minimum eligibility requirements will be further evaluated. Proposals will fall into one of two categories. These categories are established to help simplify the application and review process for smaller projects, and to set up a structure so that projects of similar scope are evaluated against each other. It is staff's intention to ensure that a diverse mix of projects is funded, and that no one applicant or project receives all of the available funding. The two categories of projects are:

- ◆ Community Projects. These are applications for 10 or fewer vehicles for a project where all the vehicles are intended for use by the applicant. Federal or State agencies of any size must apply as a Fleet Project (described below). Community Projects do not have to complete Form B of the Application Form (Project Administration). Any local government agency is eligible to apply as a Community Project, as long as the project is for 10 or fewer vehicles. All proposals for Community Projects must complete the standard application package.
- ◆ Fleet Projects. This includes any applications submitted for vehicles to be placed in State or federal agencies, or any projects requesting funding for 11 or more vehicles. In addition, projects where the applicant is receiving funding for vehicles that will be used by other fleets are also defined as a Fleet Project. An example of a project where the applicant is different than the end user of the vehicle is the *ev Sacramento* project; the Department of General Services leased vehicles for *ev Sacramento* and then entered into contracts with other State and local government agencies to sub-lease the vehicles. In addition, any projects where vehicles will be used in off-road applications are also considered a fleet project. An example of an off-road application would be a University that plans to use vehicles in a closed campus setting.

The same ranking process will evaluate both Community and Fleet projects, but the application process for Community Projects will be simpler because they do not have to complete Form B. Funding will be set aside for both Community and Fleet projects, while retaining the overall goal of providing grants to the highest scoring projects. This structure is designed to ensure that small projects are able to remain competitive when evaluated alongside projects that propose large fleet deployments.

4.2 Project Evaluation Criteria

All applications that meet the minimum eligibility requirements will be evaluated using the Project Evaluation Criteria. Table II-3 below lists both eligibility and Project Evaluation Criteria. During the project evaluation process, all Community Projects will be evaluated and scored using the project evaluation criteria. The competitive process will consist of ranking all Community projects against each other, and all Fleet Projects

against each other. All projects have a potential score of 100: All eligible projects are given a beginning score of 40. The project evaluation criteria will provide a score of up to 60 additional points. The final score for a project will be determined during the evaluation process.

Projects that attain a minimum score of 70 are eligible for a grant, contingent upon execution of a Grant Agreement and submittal of required documentation. However, if the number of projects exceeds funding availability, then grants will be allocated to the highest scoring projects. Conversely, if there is more funding than projects that attain a score of 70, then projects with a score of 55 or better will be eligible for a grant. A project applicant's request for a lesser grant amount per vehicle may be considered in ranking the project.

Environmental Justice Criteria. The vehicle must be garaged in an area that meets environmental justice criteria, as discussed earlier. However, the goals of the program will be best met with vehicles that are used primarily in areas that meet environmental justice criteria. Priority will be given to those projects that can include documentation that the vehicles are intended to be driven at least 75% of the time in areas that meet environmental justice criteria. This documentation can be relatively simple for small projects of one to two vehicles. Documentation for small projects could consist of a description of the organization's service area, or description of expected routes described, or routes indicated on a regional map.

Vehicle Miles Traveled (VMT). The more a ZEV is driven, the greater the air quality benefit to the community. Fleets should identify the VMT of the vehicle, if it is replacing an existing vehicle in their fleet. If it is not replacing an existing vehicle, fleets should provide an estimate of projected VMT (daily and monthly estimates).

Factors considered when scoring projects include: estimated daily and monthly VMT, type of vehicles being replaced, and types of VMT (freeway, surface street, mixed, or off-road).

Public Education/Outreach. Education to communities on air quality in general as well as ZEV technology is very important. Education provides important tools to communities so that they can take a more active role in air quality decisions that affect them. In addition, education and outreach on ZEV technology is a critical element for achieving long-term program success. Projects that include public education or outreach will be given a higher priority than comparable projects with no public education or outreach elements.

Education and outreach opportunities vary widely depending on the interests of the community and type of project. Some examples of how this can be included in project proposals include:

- ◆ Use, display, or demonstration at educational facilities, including elementary and high schools and universities.

- ◆ Display at scheduled outreach or educational events.
- ◆ High-profile vehicle use.
- ◆ Vehicle displayed in community.
- ◆ Innovative new programs that provide education on air quality or other environmental issues.
- ◆ Displays or other information at office or primary vehicle location.
- ◆ Employee or student education.
- ◆ Brochures or other information on air quality issues at business or fleet location.

Project Partnerships. Projects that include partnerships have the potential to provide substantial benefits to communities. Project Partners can provide diverse types of tangible benefits to communities. These contributions including financial or in-kind contributions to the project, project management assistance, or funding for public or workplace infrastructure that could attract additional ZEVs to the community. Projects that include Project Partnerships will be given higher priority than those that do not.

Factors considered when scoring include: (1) are Project Partners identified? (2) are the Project Partners providing financial or in-kind contributions? (3) what tangible benefits are Program Partners bringing to the community (e.g., supporting local business or organization, public charging, etc)? and (4) do Project Partners establish a framework that contributes to a successful project that would be difficult to achieve without the partners? Examples of Project Partnerships include local air agencies, electric utilities, other public agencies, auto manufacturers/dealers, and equipment manufacturers.

Vehicle Use/Application. All applicants must identify each vehicle and how the vehicle will be used, or the type of fleet application being proposed. Proposals for vehicles that include individual transportation uses, including commuting, will not be given priority. Fleet applications will be evaluated for suitability, benefit to the community, potential for demonstrating and enhancing ZEV marketability, and potential for success in the particular application.

Factors considered when scoring include: (1) the full-function capabilities of the vehicle, (2) whether the vehicle is garaged at a non-residential facility, (3) whether the fleet application appears reasonable, given the vehicle specification and range, (4) whether the proposed vehicle use takes advantage of all vehicle capabilities, (5) whether the fleet applications are primarily in the community, and (6) whether the vehicle will use freeways and city streets, or is primarily intended for use off public roads (schools, industrial, etc).

TABLE II-3: Fleet ZIP Eligibility and Project Ranking Criteria

Criteria	Project Eligibility Requirement	Project Evaluation Criteria
Applicant	Yes	
Eligible Fleet	Yes	
Nonattainment Area	Yes	
New Eligible ZEV	Yes	
Environmental Justice Criteria	Yes	Yes
Project Administration (<i>Fleet Projects Only</i>)	Yes	
Vehicle Miles Traveled		Yes
Public Education		Yes
Project Partnerships		Yes
Vehicle Use/Application		Yes

4.3 Scoring

Program Partners will evaluate projects in their area and score projects. The Program Partner's evaluation will be provided to the Program Manager. The Program Manager will provide a copy of the Program Partner's evaluation and each application to the ARB Technical Review Committee. The Technical Review Committee will meet to evaluate and score each project. The ARB Project Manager will compile the final results. The scoring contributed by Program Partners will be averaged into the score determined by the ARB Technical Review Committee. Using a weighted average for each criterion, Program Partner's evaluation will contribute 30% to the total score, and the ARB Technical Review Committee will contribute 70%. If more than one Program Partner evaluates an application, the scoring will reflect the input of all the Program Partners.

4.4 Technical Review Committee

The composition of the Technical Review Committee includes representatives from several ARB Divisions. It is staff's intention to incorporate staff expertise in the areas of environmental justice, public education, and emission sources of air pollutants. Staffs' proposal for the Technical Review Committee is as follows:

- ◆ Chief Mobile Source Control Division (MSCD), or designee,
- ◆ MSCD/ZEV Implementation Section (two staff, including Program Manager),
- ◆ PTSD/Environmental Justice Section (one staff), and
- ◆ ASD/Accounting Section (one staff).

All scoring of projects will be evaluated by the Deputy Executive Officer, prior to the award of grants being announced.

5.0 SUMMARY

In the Budget Act of 2001, the Legislature appropriated funding to establish a new ZEV incentive program for fleets operating in areas of California with the poorest air quality. This program uses a competitive process to provide up to \$11,000 per new ZEV placed in fleets that are not in attainment of the State's ozone standard. The competitive process also gives preference to those fleets that will primarily use the vehicles in communities that suffer from greater exposure to poor air quality, including low-income and minority communities also known as environmental justice (EJ) areas.

This program will allow ARB staff to do the following:

- ◆ Implement a ZEV incentive program for fleets that operate in geographical areas of the State with the poorest air quality (nonattainment for ozone).
- ◆ Promote the deployment of ZEVs in environmental justice communities.
- ◆ Encourage projects that showcase ZEV technology to communities, or include education on the benefits of ZEV technology, so that all communities, especially low-income and communities of color, can take a more active role in decisions affecting their local air quality.
- ◆ Promote full function ZEVs or ZEVs with full function characteristics.

