State of California
Air Resources Board

CONSIDER APPROVAL OF THE PROPOSED FISCAL YEAR 2017-18 FUNDING PLAN FOR CLEAN TRANSPORTATION INCENTIVES

Resolution 17-43

December 14, 2017

Agenda Item No.: 17-12-4

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

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

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

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

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

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

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

WHEREAS, Item 3900-101-0115 in Section 2.00 of the Budget Act of 2017, AB 97 (Ting, Chapter 14, Statutes of 2017), appropriates $28.64 million from the Air Quality Improvement Fund (AQIF) to CARB for AQIP;

WHEREAS, Section 15.4(d) of the Budget Act of 2017 as amended by AB 109 (Ting, Chapter 249, Statutes of 2017) directs CARB to provide advance payment of grant awards to initiate and implement projects in a timely manner;

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

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

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

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

WHEREAS, Health and Safety Code section 39716 requires the Department of Finance, on behalf of the Governor, and in consultation with CARB and any other relevant State entity, to develop and submit to the Legislature by May 14, 2013 a three-year investment plan, consistent with the requirements of Health and Safety Code section 39712, that identifies near-term and long-term GHG emission reduction goals and targets by sector, analyzes gaps in current State strategies for meeting GHG reduction goals by sector, and identifies priority investments that facilitate GHG reductions and that the investment plan be updated every three years;

WHEREAS, the Department of Finance on behalf of the Governor submitted to the Legislature *Cap-and-Trade Auction Proceeds Investment Plan: Fiscal Years 2013-14 through 2015-16* in May 2013 and *Cap-and-Trade Auction Proceeds Second Investments Plan: Fiscal Years 2016-17 through 2018-19* in January 2016 as required by Health and Safety Code section 39716;

WHEREAS, Health and Safety Code section 39713 requires that the investment plan allocate a minimum of 25 percent of the available moneys in GGRF to projects located within the boundaries of, and benefiting individuals living in, the disadvantaged communities described in Health and Safety Code section 39711, and that the investment plan allocate a minimum of 5 percent of the available moneys in GGRF to projects that benefit low-income households or to projects located within the boundaries of, and benefiting individuals living in, low-income communities located anywhere in the state; and that the investment plan allocate a minimum of 5 percent of the available moneys in GGRF to either to projects that benefit low-income households that are outside of, but within a half mile of, disadvantaged communities described in Health and Safety Code section 39711, or to projects located within the boundaries of, and benefiting individuals living in, low-income communities that are outside of, but within a half mile of, disadvantaged communities described in Health and Safety Code section 39711;

WHEREAS, the *Cap-and-Trade Auction Proceeds Second Investments Plan: Fiscal Years 2016-17 through 2018-19* establishes a target that 50 percent of Low Carbon funds benefit disadvantaged communities and identifies the following investment concepts for transportation:

- Support accelerated adoption and deployment of clean passenger vehicles and transit buses;
- Support demonstrations, pilot projects, and deployment of zero and near-zero emission heavy duty trucks, freight and non-freight equipment (e.g., forklifts, agricultural equipment, yard trucks, locomotives, ships, and other harbor craft), and airport equipment;
- Support electric vehicle and equipment charging, hydrogen and renewable fuels and infrastructure, and electric vehicle charging and smart grid integration, including in multi-unit dwellings, small businesses, schools, retail locations, ports, truck stops, and distribution centers; and
- Support demonstration and implementation of passenger and freight efficiency measures to reduce the carbon footprint while increasing capacity and competitiveness (e.g., connected vehicles, information technology, collaborative logistics, etc.).

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

WHEREAS, Health and Safety Code section 38590.1(a) establishes the Legislature's priorities for moneys appropriated from GGRF include, but are not limited to, air toxic and criteria pollutants from stationary and mobile sources, low- and zero-carbon transportation alternatives, and short-lived climate pollutants, among others;

WHEREAS, Health and Safety Code section 39715 requires CARB, in consultation with the California Environmental Protection Agency, to develop funding guidelines for

administering agencies that receive appropriations from GGRF including a component for how administering agencies should maximize benefits for disadvantaged communities. CARB approved these guidelines on September 24, 2015, and published Cap-and-Trade Auction Proceeds Funding Guidelines for Agencies that Administer California Climate Investments (Funding Guidelines) on December 21, 2015, and a supplement to these guidelines on December 30, 2016. CARB released a draft updated Funding Guidelines on August 4, 2017, to provide direction implementing the requirements of AB 1550 (Gomez, Chapter 369, Statutes in 2016) and other program requirements;

WHEREAS, Item 3900-101-3228 in Section 2.00 of the Budget Act of 2017 as amended by AB 134 (Committee on Budget, Chapter 254, Statutes of 2017) appropriates $560 million from GGRF to CARB to be used as follows (collectively referred to as the "Low Carbon Transportation" appropriation):

- Up to $140 million for freight equipment demonstration and pilot deployment.
- Up to $180 million for the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project (HVIP), with at least $35 million for the purchase of zero-emission buses.
- Up to $140 million for the Clean Vehicle Rebate Project (CVRP).
- Up to $100 million for the Enhanced Fleet Modernization Program (EFMP) and Plus-up, replacement of school buses, CVRP rebates for low-income applicants, and light-duty equity pilot projects authorized pursuant to Chapter 530 of the Statutes of 2014. (Collectively referred to as transportation equity projects.)

WHEREAS, Item 3900-102-0115 in Section 2.00 of the Budget Act of 2017 appropriates $25 million received pursuant to the 3.0-liter Volkswagen partial consent decree to CARB for the purposes of the EFMP Plus-up, with the direction that:

- To the extent allowed by the consent decree, CARB shall expend a portion of these monies in a manner that assists the expansion of EFMP Plus-up statewide including, but not limited to, development of a tool to improve administration efficiency, including verifying participant and vehicle eligibility for EFMP Plus-up and potentially other incentive programs.
- To the extent allowed by the consent decree, CARB may expend a portion of these funds to increase community outreach efforts and program participation.

WHEREAS, Item 3900-101-3291 in Section 2.00 of the Budget Act of 2016, as amended by SB 132 (Committee on Budget and Fiscal Review, Chapter 7, Statutes of 2017), appropriates $50 million from the Trade Corridor Enhancement Account to CARB for the Zero/Near Zero-Emission Warehouse Program with that direction that:

- The funds be used for a competitive funding program to advance implementation of zero and near zero-emission warehouses and technology.
- The funds be combined with a one-to-one match resulting in $100 million for projects.

WHEREAS, Item 3900-401 in Section 2.00 of the Budget Act of 2017, as amended by SB 108 (Committee on Budget and Fiscal Review, Chapter 54, Statutes of 2017), directed CARB to develop criteria for implementing the Zero/Near Zero-Emission Warehouse Program with public input using the AQIP funding plan process;

WHEREAS, the $28.64 million in AQIP funding, the $560 million in Low Carbon Transportation funding, the $25 million received pursuant to the 3.0-liter Volkswagen partial consent decree, and the $50 million in Zero/Near Zero-Emission Warehouse Program funding have been joined into one funding plan: Fiscal Year-2017-18 Funding Plan for Clean Transportation Incentives (Funding Plan), Attachment A;

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

WHEREAS, Health and Safety Code section 44258.4 directs CARB adopt certain revisions to the criteria and other requirements for CVRP and to establish programs that further increase access to and direct benefits for disadvantaged, low-income, and moderate-income communities and consumers from electric transportation;

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

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

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

WHEREAS, the Board-approved contingency measures in the Funding Plans for FYs 2009-10 through 2016-17 provide flexibility to adjust funding targets to address fluctuations in project demand and similar flexibility is necessary for the proposed Funding Plan;

WHEREAS, the FY 2016-17 Funding Plan allocated $5 million for the Zero-Emission Freight Equipment Pilot Commercial Deployment Project which will not be implemented as envisioned due to the expenditure deadline of the funding;

WHEREAS, the FY 2016-17 Funding Plan allocated $10 million for the Rural School Bus Pilot Project which was oversubscribed with $127 million in funding requested;

WHEREAS, the Board approved a reserve to address uncertain revenues into AQIF as part of the Funding Plans for FYs 2013-14 through FY 2016-17 and that same flexibility is necessary for the proposed Funding Plan;

WHEREAS, the Board executed necessary Grant Agreements and Interagency Agreements for administration of projects funded by AQIP for FYs 2009-10 through 2016-17 and for Low Carbon Transportation projects funded from GGRF for FYs 2013-14 through 2016-17;

WHEREAS, CARB staff conducted two workshops in developing the proposed Funding Plan, on February 10, 2017, and October 4, 2017, and at these workshops staff announced its intent to prepare a joint funding plan for AQIP, Low Carbon Transportation investments from GGRF, the $25 million received pursuant to the 3.0-liter Volkswagen partial consent decree, and the Zero/Near Zero-Emission Warehouse Program funding, and released concepts for public review;

WHEREAS, CARB held 15 public working group meetings in 2017 to evaluate and refine criteria for projects in the proposed Funding Plan;

WHEREAS, CARB staff conducted coordination meetings in 2017 with the Energy Commission to develop the proposed Funding Plan;

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

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

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

1. The development of a joint funding plan for the $28.64 million in AQIP funding, the $560 million in Low Carbon Transportation funding, the $25 million received pursuant to the 3.0-liter Volkswagen partial consent decree, and the $50 million in Zero/Near Zero-Emission Warehouse Program is appropriate in order to ensure coordinated investments between the four programs and consistent with the Legislature's direction that CARB develop criteria for implementing the

Zero/Near Zero-Emission Warehouse Program with public input using the AQIP funding plan process;

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

3. The proposed AQIP project categories were selected in accordance with the requirements of Health and Safety Code section 44274(b);

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

5. The proposed Low Carbon Transportation project categories are consistent the provisions on use of these funds in Item 3900-101-3228 in Section 2.00 of the Budget Act of 2017, the Administration's *Cap-and-Trade Auction Proceeds Investment Plan: Fiscal Years 2016-17 through 2018-19,* and the investment priorities identified in Health and Safety Code section 38590.1(a);

6. The proposed allocation of at least 35 percent of the Low Carbon Transportation GGRF funds to projects located within the boundaries of, and benefiting individuals living in, the disadvantaged communities described in Health and Safety Code section 39711 and an additional allocation of at least 10 percent of percent of the Low Carbon Transportation GGRF funds to projects that benefit low-income households or to projects located within the boundaries of, and benefiting individuals living in, low-income communities located anywhere in the state is appropriate to help ensure the State meets the overall investment targets for GGRF funds established in Health and Safety Code section 39713;

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

8. The proposed project allocations for the $25 million received pursuant to the 3.0-liter Volkswagen partial consent decree are consistent the provisions of the partial consent decree and the provisions of Item 3900-102-0115 in Section 2.00 of the Budget Act of 2017;

9. The proposed project allocation and project criteria for the $50 million in Zero/Near Zero-Emission Warehouse Program are consistent the provisions of Item 3900-101-3291 in Section 2.00 of the Budget Act of 2016 and of Item-3900-401 in Section 2.00 of the Budget Act of 2017;

10. The proposed Funding Plan meets the requirements of Health and Safety Code section 44258.4 by including funding from GGRF for projects designed to further

increase access to and direct benefits for disadvantaged, low-income, and moderate-income communities and consumers from electric transportation;

11. The proposed Funding Plan meets the requirements of Health and Safety Code section 39719.2 by including funding from GGRF and providing guidance for heavy-duty vehicle and equipment projects, an annual framework and plan for heavy-duty vehicle and equipment projects, and overarching vision for funding heavy-duty vehicle and equipment technologies consistent with the provisions of the California Clean Truck, Bus, and Off-Road Vehicle and Equipment Technology Program;

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

13. The proposed reallocation of $5 million of FY 2016-17 Low Carbon Transportation funding from the Zero-Emission Freight Equipment Pilot Commercial Deployment Project to the Rural School Bus Pilot Project is an appropriate use of funds. The Rural School Bus Pilot Project from the FY 2016-17 Funding Plan is oversubscribed;

14. Advance payment of grant awards are necessary to ensure timely implementation of projects and safeguards are needed to ensure grant monies continue to be used responsibly; and

15. Additional flexibility is needed in the project criteria for the Zero and Near Zero-Emission Freight Facilities Project in the proposed Funding Plan to provide potential funding opportunities for freight facilities located outside of the disadvantaged communities.

NOW, THEREFORE, BE IT RESOLVED that the Board approves the proposed Funding Plan as set forth in Attachment A.

BE IT FURTHER RESOLVED that the Board modifies the project criteria for the Zero and Near Zero-Emission Freight Facilities Project in the Funding Plan as follows:

- At least 90 percent of the funding shall be reserved for projects located in or providing benefits to the disadvantaged communities.
- The Executive Officer shall define the term "providing benefits to disadvantaged communities" for purposes of the Zero and Near Zero Emission Freight Facilities Project.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to issue grant solicitations, grant agreements, interagency agreements, or other appropriate funding agreements for the projects identified in the Funding Plan with provisions to make modifications as necessary as specified in the contingency plans set forth in the approved Funding Plan.

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

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to continue to coordinate implementation of the programs covered in the Funding Plan with other funding programs including, but not limited to, the Volkswagen Environmental Mitigation Trust, Carl Moyer Program, other GGRF-funded programs, and the California Energy Commission's Alternative and Renewable Fuel and Vehicle Technology Program.

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

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to provide an update to the Board on implementation of the Funding Plan when presenting the proposed fiscal year 2018-19 Funding Plan for approval.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to transfer $5 million of FY 2016-17 Low Carbon Transportation funding from the Zero-Emission Freight Equipment Pilot Commercial Deployment Project to the Rural School Bus Pilot Project.

BE IT FURTHER RESOLVED that the Board directs the Executive Officer to continue working with the Department of Finance, the California Air Pollution Control Officers Association, local air districts, and other stakeholders to evaluate whether further refinements are needed to the advance payment procedures in the Funding Plan and delegates to the Executive Officer the authority to incorporate any necessary changes into the final Funding Plan and future grant agreements.

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

I hereby certify that the above is a true and correct copy of Resolution 17-43 as adopted by the California Air Resources Board.

Rana McReynolds

Rana McReynolds, Clerk of the Board

Resolution 17-43

December 14, 2017

Identification of Attachments to Board Resolution 17-43

Attachment A: Proposed Fiscal Year 2017-18 Funding Plan for Clean Transportation Incentives released on November 9, 2017.