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San Joaquin Valley

AIR POLLUTION CONTROL DISTRICT

November 29, 2007

Douglas Ito, Manager
Goods Movement Strategies Section
California Air Resources Board
1001 I Street
Sacramento, CA 95814

**RE: San Joaquin Valley APCD
Proposition 1B "Early Grants" Proposal**

Dear Mr. Ito:

The San Joaquin Valley Air Pollution Control District (SJVAPCD) is pleased to submit a proposal to secure a portion of the \$25 million from Proposition 1B, that the Legislature has authorized the California Air Resources Board (ARB) to directly grant to projects ready for expedited implementation. At this time, the SJVAPCD is requesting \$15 million, to be utilized in an On-Road Truck Replacement Program and \$2.5 million for a Truck Retrofit Program in accordance with the provisions set forth in Senate Bill 88 (Chapter 181, Statutes of 2007) and outlined in the September 19, 2007 *Goods Movement Emission Reduction Program, Staff Draft Concepts for Implementation* document.

As illustrated in the attached proposal, the SJVAPCD is uniquely qualified to administer the Proposition 1B funds. Based on our experience in operating highly successful and efficient grant programs and our existing pool of qualified applicants, we believe that we can quickly and effectively administer these funds and assist the State in meeting the goals of the enabling legislation as well as meeting the challenging air quality goals in the San Joaquin Valley.

Should you have any questions regarding this proposal, please do not hesitate to contact me at (559) 230-6000.

Sincerely,

Seyed Sadredin
Executive Director/APCO

Seyed Sadredin
Executive Director/Air Pollution Control Officer

Northern Region
4800 Enterprise Way
Modesto, CA 95356-8718
Tel: (209) 557-6400 FAX: (209) 557-6475

Central Region (Main Office)
1990 E. Gettysburg Avenue
Fresno, CA 93726-0244
Tel: (559) 230-6000 FAX: (559) 230-6061
www.valleyair.org

Southern Region
2700 M Street, Suite 275
Bakersfield, CA 93301-2373
Tel: (661) 326-6900 FAX: (661) 326-6985



San Joaquin Valley

AIR POLLUTION CONTROL DISTRICT

San Joaquin Valley Air Pollution Control District Proposition 1B "Early Grants" Proposal

Executive Summary

The challenges faced by the San Joaquin Valley (Valley) with respect to air quality are unmatched by any other region in the State. The Valley's topography, climate, geography and the presence of two major transportation corridors connecting northern and southern California all contribute to the region's problem. The Valley does not currently meet Federal health-based ambient air quality standards for Ozone and PM_{2.5} and has and has been re-classified as Extreme non-attainment for the 1-hour Ozone standard and is in the process of being designated as Extreme non-attainment for the 8-hour Ozone standard. In addition to a comprehensive regulatory program, the 2007 Ozone Plan, adopted by the San Joaquin Valley Air Pollution Control District (SJVAPCD) calls for a significant amount of incentive funding is necessary for the early introduction of voluntary emission reductions.

In 2006, the voters approved Proposition 1B, which provides \$1 billion targeted at reducing emissions in four major transportation corridors throughout the state including: Los Angeles/Inland Empire, the Central Valley (San Joaquin Valley and Sacramento Federal Ozone Non-attainment Area), the Bay Area and the San Diego/Border area. Of the \$250 million appropriated by the Legislature for Fiscal Year 2007-08, a provision was included which authorizes the ARB to directly grant up to \$25 million for projects that can achieve the earliest possible health-risk reduction.

With a high percentage of low-income and minority residents, a significant portion of the population in the San Joaquin Valley resides within established Environmental Justice areas, particularly within the Interstate 5 and Highway 99 corridors. Over 80% of the NO_x inventory in the SJVAPCD is attributed to mobile sources including Heavy-Duty trucks. Furthermore, approximately 45% of all of the truck traffic within the four target corridors in the State occurs within the San Joaquin Valley.

Therefore, the SJVAPCD is requesting \$15 million to fund an on-road heavy-duty (Class 8) truck replacement program targeted at replacing pre-1996 model-year trucks that travel along the Interstate 5 and Highway 99 corridors with new or used trucks meeting the 2007 emission standards. Additionally, the SJVAPCD is

requesting \$2.5 million to implement a truck retrofit program as an option for truck or fleet owners who wish to apply Verified Diesel Emission Control Strategies (VDECS) to existing trucks. While the requested funding level would garner the maximum amount of emission reductions possible in the shortest timeframe, this proposal is completely scalable to operate effectively should a lesser amount ultimately be awarded. Additionally, in the interest of obligating and expending these funds as expeditiously as possible, we request that, if the retrofit portion of the program does not generate sufficient interest to expend the funding in a timely manner, that the SJVAPCD be extended the option to transfer funding into the replacement portion of the program.

To expedite the encumbrance and expenditure of the Proposition 1B funds, the SJVAPCD is proposing to utilize information from applications previously submitted for the Moyer Program Fleet Modernization Component, for which funding is not currently available. Based on this strategy, the SJVAPCD is confident that the short timelines and milestones for the obligation and expenditure for these funds can be achieved. It is anticipated that the funding can be completely obligated and that a significant portion of the projects can be fully implemented by June 30, 2008. There are, however, issues inherent to voluntary incentive programs that are largely out of the control of the implementing agencies that could affect the timely expenditure of these funds. These will be discussed later in this document.

Proposal

Introduction:

The San Joaquin Valley Air Pollution Control District (SJVAPCD) is a public health agency whose mission is to improve the health and quality of life for all Valley residents through efficient, effective and entrepreneurial air quality strategies. The SJVAPCD is made up of eight counties in California's Central Valley: San Joaquin, Stanislaus, Merced, Madera, Fresno, Kings Tulare and the Valley portion of Kern.

The same characteristics that make the Valley the world's most fertile agricultural region and a beautiful place to live, unfortunately, also create optimal conditions for creating and trapping air pollution. Surrounding mountains, stagnant weather patterns, hot summers, and foggy winters make the formation of air pollution in the Valley inevitable and prevent air pollutants from dispersing. The Valley air basin has a natural propensity to form and retain Ozone. Additionally, the Valley is home to two major transportation corridors that connect Northern and Southern California: Interstate 5 and Highway 99. There are a number of communities located along these two transportation corridors. Many of these residents are low-income and minorities living within 5 miles of either Interstate 5 or Highway 99 and are disproportionately impacted by the pollution generated along these transportation corridors.

On April 30, 2007, the SJVAPCD Governing Board approved an innovative and comprehensive "dual-path" strategy to attain cleaner air, meeting the Federal 8-hour Ozone standard as expeditiously as possible. To establish the legal foundation for the overall Ozone strategy, the Board adopted the 2007 Ozone Plan. The Plan is predicated on current and expected future technologies to reduce emissions as much as technologically possible, in consideration of the legal "credibility" constraints of the Federal Clean Air Act and United States Environmental Protection Agency (US EPA or EPA) policies and regulations.

This overarching and comprehensive Plan is designed to be as expeditious as possible, but given the Valley's low carrying capacity for air pollution, current and future technologies do not provide sufficient Federally creditable reductions for attaining the new Ozone standard. Therefore, the Plan contains a "black box" that represents control measures that cannot currently be defined to the extent needed for a "serious" or severe" Ozone plan. The extreme designation with the "black box" approach is the only strategy that would be approvable by EPA, given that the need for emission reductions is greater than what prospective technologies will provide. The dual path also includes a set of strategies to reduce or eliminate the "black box" as expeditiously as possible, and well in

advance of the 2024 attainment deadline. SJVAPCD staff has adopted the term "Fast Track" to describe this accelerated path to attainment.

Central to the Fast Track effort is the idea that additional regulation alone will not bring the Valley into attainment with the Federal 8-Hour Ozone standard and that voluntary incentive measures will play a significant role in reducing the attainment gap. It is estimated that it will take close to \$3 billion in incentives to bring the Valley into attainment with the Federal 8-hour Ozone standard. Funding from Proposition 1B is an important step in the right direction.

Proposed Truck Replacement and Retrofit Program:

Of the \$250 million in Proposition 1B funds appropriated by the Legislature for Fiscal Year 2007-08, a provision was included which authorizes the ARB to directly grant up to \$25 million for projects that can achieve the earliest possible health-risk reduction ("early grants"). Due to the severe nature of the Ozone problem in the San Joaquin Valley, the SJVAPCD is requesting \$15 million of the "early grant" funds to implement a truck replacement program and \$2.5 million to implement a truck retrofit program.

The proposed program will specifically target trucks traveling along the Interstate 5 and Highway 99 corridors, which bisect the San Joaquin Valley. Based on the most current data from the State, approximately 66,000 trucks travel more than 4 million miles along these corridors on an annual basis. Almost half of these trucks are older than 1996.

Pursuant to the guidelines set forth in the *Goods Movement Emission Reduction Program, Staff Draft Concepts for Implementation* document, the San Joaquin Valley is proposing the following two program options:

1. Truck Replacement (\$15 million):

The SJVAPCD is proposing to offer applicants up to \$50,000 per truck for the replacement of existing trucks with newer, cleaner trucks meeting specific criteria included in the *Goods Movement Emission Reduction Program, Staff Draft Concepts for Implementation* document, including:

- Existing Trucks:
 - Must be Class 8 (>33,000 lbs. GVWR)
 - Must be model year 1996 or older
 - Must operate at least 20,000 miles per year
 - Must be registered in California for past two years
 - Must operate at least 50% in the four trade corridors
 - Must commit to scrapping truck

- Replacement Trucks:
 - Must be Class 8 (>33,000 lbs. GVWR)
 - Must meet 2007 emission standards
 - May be new or used
 - Must commit to California-only operation and registration until truck is scrapped, model year is banned or 2020
 - Must accept an on-board monitoring device
 - Must submit annual usage reports for the life of the project

It is anticipated that at full funding, this program could assist in the replacement of approximately 285 trucks.

2. Truck Retrofitting (\$2.5 million):

The SJVAPCD is proposing to offer applicants up to \$5,000 per truck to install a retrofit device on existing trucks meeting specific criteria included in the *Goods Movement Emission Reduction Program, Staff Draft Concepts for Implementation* document, including:

- Trucks to be Retrofitted:
 - Must be Class 8 (>33,000 lbs. GVWR)
 - Must be model year 2006 or older
 - Must operate at least 20,000 miles per year
 - Must be registered in California for past two years
 - Must operate at least 50% in the four trade corridors
 - Must commit to California-only operation and registration until truck is scrapped, or model year truck is required to upgrade emissions performance
- Retrofit Device:
 - Must be ARB Verified Diesel Emission Control Strategy (VDECS)
 - Must achieve at least 85% Particulate Matter (PM) reduction
 - Device may achieve oxide of Nitrogen (NOx) reductions in addition to PM reductions
 - Must be warranted for at least 5 years from date of installation

It is anticipated that at full funding, this program could assist in the retrofitting of approximately 475 trucks.

Cost Effectiveness:

As with all SJVAPCD grant programs, this proposal has been designed with a great emphasis on cost-effectiveness. With the significant challenges facing the Valley, realizing the maximum emission reductions per dollar spent is of the utmost importance. That is why this program is targeting a combination of the oldest trucks on the road and only those trucks that are actually driving a significant number of miles per year. It is this combination of age and mileage that will ensure that this program realizes the greatest "bang for the buck."

Staffing:

The SJVAPCD has 15 years of experience implementing highly successful voluntary incentive programs. To date, the SJVAPCD has awarded over \$180 million, achieving 58,000 tons of emission reductions. The SJVAPCD Emission Reduction Incentive Program (ERIP) has gained a reputation of excellence and has become a model for grant programs throughout the State. The SJVAPCD has recently participated in several successful State audits of the incentive programs, including the Bureau of State Audits, ARB Carl Moyer Program, and State Department of Finance.

In these audits the SJVAPCD was lauded for its efficient, robust and effective use of incentive grant funds in reducing air pollution. ARB commended the SJVAPCD on its incentive programs and several SJVAPCD practices will be instituted by ARB as "best practices" for all air districts in the upcoming Moyer Program guideline revisions, including invoice scrutiny and pre- and post-inspection processes.

The ERIP Department is currently comprised of 18 staff members and is well positioned to administer the SJVAPCD's existing and proposed incentive programs. However, to meet the upcoming potential challenges of increased Proposition 1B funding, the SJVAPCD is committed to adding necessary staffing resources as well as implement further streamlining and efficiency measures to ensure the timely and effective expenditure of these early grant funds as well as any future Proposition 1B funds.

Matching Funds:

Based on past experience and upcoming regulatory activities, the SJVAPCD is confident that this program will operate effectively at the funding levels proposed with the Proposition 1B funds. Therefore, at this time, the SJVAPCD is not proposing to utilize any local funds as non-state match for this program. The SJVAPCD believes strongly that applicant participation or "buy-in" is essential to maintain the integrity of any incentive program and is therefore proposing a program in which there will be a considerable match requirement provided by the individual applicants.

Administrative Funds:

The SJVAPCD is requesting that up to five percent (5%) of the total funding for each of the two programs be made available for direct program support, including, staffing, outreach and marketing. Only the administrative costs directly associated with the implementation of this program will be charged to these funds and any funds not used for administrative purposes will be used to fund additional emission reduction projects.

Schedule for Implementation:

Based on past experience, the SJVAPCD estimates that the entire amount of grant funding allocated to the SJVAPCD would be encumbered by executed contract by the June 30, 2008 milestone date. It is also anticipated that a large percentage of the funds (up to 80%) could be expended (paid to applicants) by this date. However, there are several factors that are largely out of the control of the SJVAPCD that could potentially affect the timing of the actual grant expenditure, including: availability of new vehicles, availability of retrofit devices, scheduling of retrofit installation, ability of applicants to secure additional funding and the availability of new vehicles and retrofitted vehicles for pre- and post-inspection. Additionally, since these are voluntary agreements, applicants can choose not to continue with a project at almost any time during the process. In situations like this, the SJVAPCD would immediately attempt to re-obligate these funds. However, project cancellations would affect the ability of the SJVAPCD or any agency to expend the funds in a timely manner. The expected timeline and milestone dates are outlined below:

January - February 2008

- Verify existing applicant participation
- Verify/update existing applicant information
- Marketing and outreach, if necessary

February – March 2008

- Begin processing applications including calculating emission reductions
- Begin pre-inspection of existing vehicles
- Begin contracting with vehicle owners for new purchase or retrofit

March – June 2008

- Continue processing applications
- Continue pre-inspection of existing vehicles
- Complete contracting with vehicle owners for new purchase or retrofit
- Applicants begin to take delivery of new vehicles or have retrofits installed
- Begin post-inspection of new vehicles and retrofits
- Begin processing claims for payment for new vehicles and retrofits

June – December 2008

- Continue post-inspections of new vehicles and retrofit devices
- Complete expenditures for new vehicles and retrofits

Marketing and Outreach:

The SJVAPCD's Heavy-Duty Engine Emission Reduction Incentive Program (Heavy-Duty Program) operates on a first-come first-serve basis with applications accepted year-round. Over the past 18 months, the applications submitted to the Heavy-Duty Program have far outpaced the available grant funding. This situation has led to a backlog of eligible applications in excess of \$175 million. In contrast, the SJVAPCD currently has approximately \$20 million in available grant funding. Within the existing backlog, there are applications for 375 new trucks or truck replacements Valley-wide submitted to the SJVAPCD under the Carl Moyer Program Fleet Modernization component. A detailed list of these vehicle projects including specific truck information (make, model year, annual mileage, etc.) is included as an attachment to this proposal.

While the guidelines for the Carl Moyer Program Fleet Modernization component differ from the guidelines outlined in the *Goods Movement Emission Reduction Program, Staff Draft Concepts for Implementation* document, these vehicles would still be eligible for funding under the proposed SJVAPCD program. Therefore, the SJVAPCD initially intends to offer funding to this eligible pool of applicants under this program.

It is anticipated that the number of eligible applicants would exceed the available funding for the SJVAPCD's portion of the initial \$25 million. However, should we find ourselves in a situation in which the program were not immediately oversubscribed the SJVAPCD would implement a targeted outreach effort in an attempt to identify potential applicants. This effort would include several workshops (at least one in each of the three regions: North, Central and South), mail outs utilizing existing SJVAPCD mailing lists, the SJVAPCD's email listserv, as well as notification through other media outlets in each media market including, but not limited to television, radio and newspaper.