

LEGISLATIVE ANALYST'S OFFICE ANALYSIS OF ARB'S CAPITAL OUTLAY PROJECT
May 12, 2015

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Sent: Tuesday, May 12, 2015 5:50 PM
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Cc: Montoya, Susan@DOF; Moratti, Ellen; Scharffer, Andrea@DOF; Haas, Jason; Gress, Jennifer@ARB; Brown, Brian
Subject: LAO Analysis of ARB Capital Outlay Proposal

Hi Consultants,

We want to provide you with an updated analysis of the Governor's budget proposal to construct a new emissions testing facility for the Air Resources Board in Southern California. As a reminder, the administration requests a total of \$5.9 million in 2015-16 to assess the suitability of a proposed new site (\$200,000) and develop performance criteria (\$5.7 million). The total project—including planning, construction, and equipment—is estimated to cost \$366 million.

In our February analysis, we raised the following concerns about the administration's proposal:

- No adequate justification for \$5.9 million cost estimate.
- No clear strategy for long-term project funding.
- No clear justification for the size and scope of the project.
- Lack of complete analysis of alternatives.

Based on these findings, we recommended the administration provide additional information to address these concerns.

Since the time of our February analysis, we visited the existing testing facility, we met with ARB to discuss our concerns, and the ARB has responded to our various requests for additional information. Based on these meetings and the additional information provided by ARB, we provide an updated analysis of the ARB proposal below.

Administration Provided Sufficient Justification for \$5.9 Million Cost Estimate. The administration provided sufficient justification for the \$5.9 million estimate. We no longer have concerns about this part of the proposal.

Administration Does Not Plan to Identify Long-Term Funding Strategy This Year. In our view, prior to approving \$5.9 million for initial planning work for this project, the Legislature should have a clear understanding of how the project will be funded in the long term. The administration indicates that it does not plan to provide a long-term funding plan for this project prior to the conclusion of this year's budget process. Rather, it says funding for the project will be identified when it submits future budget proposals for the costs of constructing the facility. It is currently unclear whether the identified funding sources can support the additional costs in the long term. For example, most of the costs are likely to be funded from the Motor Vehicle Account (MVA), and we project that the MVA will likely become insolvent in the next few years without actions to either reduce costs or increase revenues.

Level of Testing Capacity Needed To Meet Air Quality Standards Is Unclear. The administration’s proposal would increase ARB’s testing capacity. For example, the existing facility has five test cells for light-duty vehicles; the new facility would include seven light duty testing cells (two of which would be used as prep cells). According to ARB, the additional testing capacity is needed to achieve the state’s current and future GHG and air quality goals. Additional testing capacity would likely lead to some amount of improved air quality relative to what would have otherwise occurred, but the amount of improvement is unknown. Therefore, the degree to which the proposal will result in air quality improvements that meet (or exceed) air quality standards is unclear. For example, ARB’s research and development testing likely leads to improvements in air pollution control technologies. However, it is difficult to quantify how different levels of research and development testing affect air quality levels. More testing likely leads to greater improvements in air quality, but the amount of testing capacity needed to meet long-term air quality goals is unclear.

Alternatives For Legislature To Consider. Given the uncertainty about the level of testing capacity needed to achieve state and federal air quality goals, the Legislature may wish to consider alternatives that have different levels of testing capacity and costs. As illustrative examples, the Legislature could consider the three alternatives identified in the table below. All options include costs to renovate and maintain the existing light duty testing facility, construct a new facility that includes additional heavy-duty vehicle testing capacity, additional chemistry laboratory space at the new facility, and a new Environmental Chamber. The primary differences between these alternatives is the level of light-duty vehicle testing capacity, which is largely determined by the number of light-duty test cells and chambers designed to measure evaporative emissions from vehicles and other engines (known as Sealed Housing for Evaporative Determinations, or SHEDs). The cost of each alternative is based on estimates provided by the ARB.

		Light Duty Test Cells and SHEDs	Heavy Duty Test Cells and SHEDs	Estimated Cost
Existing Facilities		8	1	
ARB Proposal	Existing Facility	-	-	
	New Facility	10	4	
	Total	10	4	\$366 million
LAO Alternative 1	Existing Facility	8	-	
	New Facility	-	4	
	Total	8	4	\$270 million
LAO Alternative 2	Existing Facility	8	-	
	New Facility	2	4	
	Total	10	4	\$300 million
LAO Alternative 3	Existing Facility	8	-	
	New Facility	5	4	
	Total	13	4	\$340 million

Relative to the administration's proposal, each of these alternatives would result in lower cost and one of the alternatives would result in both lower cost and more testing capacity. We briefly describe each alternative below, as well as some of the key tradeoffs associated with each.

- **LAO Alternative 1—Maintain Light-Duty and Expand Heavy Duty (\$270 Million).** The state would renovate its existing facility in order to maintain current light-duty testing capacity. This option would be about \$100 million less than the administration's proposal, but there would be two fewer light-duty test cells than the administration's proposal (as well as less motorcycle and small off-road engine testing capacity). The ARB states that it would continue to have some operational challenges associated with having two separate testing locations—one for heavy duty and one for light duty. For example, it may need continue to transport some laboratory samples from the new facility to the old facility.
- **LAO Alternative 2—Add Two Light-Duty Test Cells and Expand Heavy Duty (\$300 Million).** The state would renovate its existing facility and add two light duty test cells to the new heavy duty facility. This option would cost about \$65 million less than the administration's proposal and would have the same number of light-duty test cells and SHEDs. Similar to Alternative 1, ARB states that there would be operational challenges associated with having two separate testing facilities, but the challenges would likely be more significant because light duty testing operations would be split between two different facilities. For example, this would result in a need to split light-duty staff between the two facilities, and some vehicles may need to be transported between the two facilities for different testing activities.
- **LAO Alternative 3—Add Four Light-Duty Test Cells, One Light-Duty SHED, and Expand Heavy Duty (\$340 Million).** The state would renovate the existing facility and add four light duty testing cells and one additional SHED to the new heavy duty facility. This proposal would be about \$30 million less than the administration's proposal and would allow for greater light duty testing capacity than the administration's proposal. There would be operational challenges similar to what was identified in Alternative 2.

Please let me know if you have any questions.

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