Tom Knox
14-5-3

valley CAN℠
"clean air now"

June 24, 2014

Chairman Mary Nichols
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Dear Chairman Nichols:

RE: Valley Clean Air Now (Valley CAN) comments on Proposed Amendments to the Enhanced Fleet Modernization Program

Thank you for the opportunity to respond to the Proposed Amendments to the Enhanced Fleet Modernization Program (EFMP), which we find to be thorough and well considered. We greatly appreciate the opportunity to participate in what has been a very inclusive and efficient process focusing on an air quality issue that our organization feels is a top priority.

The comments below are meant to complement the proposed EFMP program amendments to drive participation within challenged communities and increase cost-effectiveness.

Valley CAN has been working on behalf of the San Joaquin Valley Air Pollution Control District (District) since 2010 to implement the Tune In & Tune Up (TI&TU) emissions repair program. Over the past four years, TI&TU has provided free emissions testing and up to $500 in emissions-repairs to motorists attending weekend events through out the San Joaquin Valley. Over 20,000 vehicles have been tested and repairs have been completed on over 10,000 vehicles.

The TI&TU program has achieved great success in targeting and eliciting participation from high emitting, unregistered vehicles from Environmental Justice communities through out the San Joaquin Valley. Over 60 percent of vehicles that attend TI&TU events are owned by motorists from Environmental Justice communities. Nearly half of vehicles attending TI&TU events, 41 percent, are unregistered. The key to success for the program has been a community organizing model that partners with hundreds of local community groups throughout the Valley to build trust within the neighborhoods that most need the assistance.

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For the past five TI&TU events, starting in April 2014, Valley CAN has been working with the District to implement a pilot program to offer vehicle retirement and replacement as an option for well-qualified vehicles. Valley CAN has worked to identify the vehicle and motorist characteristics that lead to successful, and cost-effective vehicle retirement and replacement.

TI&TU event participants that pass an initial screening (pre-OBD II vehicle with a failed emissions test) are given a survey to further identify their ability to successfully complete the retirement and replacement pilot. Motorists who meet all the pilot criteria (including vehicle ownership, insurance, and financial information) are approached with the option of retiring and replacing their vehicle with a newer, more fuel-efficient vehicle. Over the past three months, Valley CAN has replaced fourteen vehicles and has learned many lessons on guiding motorists through the retirement and replacement process. Our experience - in identifying, motivating, and educating high-emitting drivers - is the basis of the following observations and comments.

General Observations

- Flexibility is key: Our staff has adopted a very high-touch, retail approach to working with each customer on an individual basis to understand their challenges and work out a solution.
- Complex rules discourage participation: Having very simple, clear guidelines that can be easily explained is crucial.
- Driving a high-emitting vehicle is often not a voluntary choice: 11 percent of TI&TU event participants are driving gross polluting vehicles, 42 percent of which are unregistered. Due to financial barriers and lack of access to credit, many motorists are trapped in inefficient, high-polluting vehicles.

Incentive Levels

Over the past three months, Valley CAN staff has surveyed and interviewed hundreds of potential candidates for vehicle retirement and replacement. We have found that the amount of the monetary incentive is a key factor in attracting motivated and qualified customers. Many surveyed motorists are essentially trapped in their current pre-OBDII vehicles due to financial constraints. These motorists are aware of the benefits of driving more fuel-efficient and reliable vehicles, but cannot afford the upfront costs and monthly payments required for vehicle replacement.

The average cost of newer, more fuel-efficient vehicles has risen substantially since 2008 as owners of larger, less efficient vehicles have sought to replace them with more efficient vehicles. While this movement is positive for the California vehicle fleet, it has increased the purchase price for fuel-efficient used vehicles. The 14 TI&TU replacement vehicles have ranged in price from $12,000 to $16,000. We find that there are very few qualifying replacement vehicles available for less than $10,000. The high vehicle replacement cost increases the amount of funding that motorist must procure to replace their vehicle. The amount of the incentive is critical in providing a means for motorists to obtain low-interest loans to finance the balance of the replacement vehicle purchase price.

In order to maintain a good loan-to-value ratio for the majority of qualified customers, who must qualify for vehicle financing to participate in the program, we have found that a minimum incentive of $5,000 is necessary. **We strongly recommend increasing the minimum incentive to at least $5,000 for both low- and moderate-income customers. The incentives for the higher income tiers can be correspondingly increased.**

Vehicle availability and fuel economy

Demand for more efficient vehicles has translated to a de-facto premium on lower-priced fuel-efficient vehicles. Ten years ago, fuel prices were lower and demand for large vehicles was high, resulting in price points for smaller vehicles below $10,000. That situation has now inverted, with drivers selling larger vehicles and seeking more efficient replacements.

In addition, the recent economic downtown has had a major impact on the vehicle market, leading many manufacturers to offer substantial incentives for the purchase of new vehicles. These incentives have reduced the differential in price between new and used vehicles, making some new vehicles relatively more affordable than used vehicles for qualified buyers.

These trends have a negative impact on the vehicle replacement options available for lower income drivers with limited financial means. Used vehicle options within the $11,000-$12,000 range are limited. Many vehicles at this price point are with subcompacts - not a viable transportation option for a family. On the positive side, most sedans that are available at this price have average fuel economy in the low- to mid-20 mile per gallon (MPG) range, a vast improvement relative to the fuel economy of pre-OBDII vehicles.

Placing any additional restrictions on vehicle choice for low- to moderate-income drivers will have the effect of essentially increasing replacement vehicle price by $1,000-$3,000, placing the replacement option out of reach for many customers. While well-intentioned, these types of restrictions would have a regressive effect on the primary audience for this program.

Instead of imposing any additional fuel economy requirements, we recommend that an escalator be added so that future years keep pace with the increase in average MPG of cars eight model years old, i.e., an increase of one MPG over the current baseline starting in July 2016 and every year thereafter.

This increase will result in maintaining a long-term pool of qualified, affordable vehicles this year, while steadily increasing average fuel efficiency of replacement vehicles over time.

Income classifications

Our TI&TU customer base skews strongly toward low-income in a region with some of the most challenged demographics in the state. We agree with orienting the EFMP program to benefit lower income families. However, we have strong concerns that not including households classified as Moderate Income (<300% Federal Poverty Level) in the baseline incentive tier will exclude deserving participants.

We recommend that Moderate Income participants be allowed to access the baseline program, with a corresponding increase in the model year requirement to six years or newer.

Given the demographics, geography and infrastructure of the Valley, we do not anticipate much demand for plug-in hybrids, ZEVs, and Alternative Transportation Mobility options. **Reorienting these higher tiers of funding to the 8 year old or newer category will encourage maximum participation among Valley communities.**

Administration and Outreach

Through the District's replacement pilot, we have found that it takes approximately 15-20 employee hours to complete a replacement transaction. In addition, for each successful transaction there are four to six that are not completed for various reasons, each consuming 2-10 employee hours. We have three employees working nearly full-time in facilitating a relatively small number of transactions and we anticipate that staffing needs will increase as the EFMP program is implemented. Nearly all of our activities are focused on low-income communities, and we appreciate the recommendation that five percent of program funding be applied to this time-consuming and very specialized work. It is difficult to predict the percentage of program funding necessary to drive full participation, but it is reasonable to assume that it may exceed fifteen percent.

We request that the combined limit for administration and outreach be increased to a total not to exceed 20 percent. The District can report detailed results to ARB on its findings of the optimal amounts needed for both of those categories, and a fully informed decision on the amounts needed for administration and outreach can be made when ARB considers the results of the EFMP pilot next year.

Finance

The biggest challenge in our pilot replacement program has been connecting program applicants with financing at reasonable interest rates. Since this has been a temporary pilot program we have not been able to enlist a financing partner that specializes in low-income customers. We anticipate that once the EFMP program is enacted with the District, Community Development Financial Institutions (CDFIs) could potentially offer specialized financing options for replacement customers. In addition, we are in an ongoing conversation with Ways to Work about how to integrate their proven model of financial education and credit repair.

Absent this specialized solution, we guide our customers through the process of applying for vehicle financing through their bank or credit union, or through CarMax finance providers. Not all of our customers are able to qualify for non-subprime financing, and others are not comfortable with applying for financing, which has been a significant barrier to participation.

One simple solution has been to strongly suggest that all participants add a family member as a co-signer on their finance application. This helps to control the interest rate, and has the additional benefit of making participation in the retirement and replacement program a family decision, which could help to control the default rate.

The most impactful assistance that the State of California could give to ensure program participation would be to open access to a loan-loss reserve fund to guarantee vehicle finance for qualified program participants. This finance program could be done through a CDFI or other qualified lender.

General Comments

B. 1. a. Retirement Element

Based on our observation of the more than 20,000 vehicles attending our Tune In & Tune Up events during the past eight years, the results of your program assessment of retirement vehicles closely matches the characteristics of our participants. 55% of TI&TU vehicles fail to meet Smog Check emissions standards, with 11% failing as gross polluters.

Instead of a clear definition of functional vs. nonfunctional, we believe that there are likely several segments within these end-of-life vehicles. Many drivers will recognize that their car is no longer cost-effective to repair, particularly after expensive components such as their emissions systems fail. They will then make the decision to retire their vehicles, or sell them at a used car lot where they will be resold at a price affordable to lower-income motorists.

For drivers with limited options due to their economic situation, the decision to retire a car with declining functionality takes a backseat to everyday necessities such as driving to work and getting kids to school. It is much cheaper in the short-run to do constant minor maintenance to these cars while ignoring higher-cost (and unnecessary in regards to functionality) repairs such as failing emissions systems. At some point, these deferred emissions repairs could force the car out of registration following a failed smog test. Since the driver remains short of options, they will continue driving the car without registration.

Figure I-2 Distribution of Model Year of Vehicles Retired by EFMP vs. Natural Retirement

This graph supports our observation that pre-OBDII vehicles from model years 1990-1995 represent a substantial portion of cost-effective retirement candidates. It appears if approximately 30% of retired vehicles fall within these six model years, which based on average VMT are likely to have odometer readings of 150,000-210,000 miles. This is a likely range for many car owners to decide to retire or sell their car. Many of these cars will then be scrapped, but the minority of them with 30,000-50,000 miles of usability will pass on to third, forth or fifth owners who will continue to operate them as the cars start to slowly degrade prior to complete failure.

We believe that this segment of cars – 20-to 25-years old with 150,000-200,000 miles on the odometer – represents the majority of cars that become very problematic high emitting vehicles that cause vastly outsized emissions impacts over the years until their final death. Newer higher-value OBDII cars with better emissions systems and fewer miles are more likely to be properly maintained, and cars older than 1990 (roughly 15 model years which in total represent fewer cars than the six model years 1990-1995) are driven far fewer annual VMTs on average and can safely be assumed to be on the verge of natural retirement.

Most consumers probably do make the decision to retire their vehicles when they reach 15-25 years old. Our belief is that a relatively small but very high-emitting minority of these cars end up being used regularly for another three to five or more years. Based on statewide demographics and EJ mapping, we believe that these cars are very likely driven by low-income drivers in the San Joaquin Valley and South Coast air basins. Data analysis would likely show that many of the vehicles in this segment that show an emissions failure and then a lapse in registration status without a corresponding retirement can be proven to be operating (through repair records, toll payments/violations, tickets, etc) for years after they disappear from registration.

Targeting these vehicles thus is the best opportunity to retire the cars most likely to cause the most significant emissions problems of any segment of the fleet.

Page 6, 2nd Paragraph
The market segment referred to above – high-emitting unregistered vehicles – would show up in the 30% of retirement vehicles that could not pass emissions but did not need mechanical repairs to be operated.

Page 6, b. Pilot Replacement Voucher Element
Regarding offering an incentive worth more than the current vehicle, we agree that there is substantially less monetary value as a trade-in than needed for low-income motorists to afford the purchase of a newer, more efficient vehicle. The higher the incentive amount, the lower the barrier for target customers.

Regarding using mail to contact potential participants, we have found that effective program recruitment usually depends on audiences hearing the program messages in two or more ways from trusted sources. The more direct and interactive the contact (i.e., face-to-face conversations, announcements at churches or meetings, live mentions by local DJs), the more likely the customer is to enter and complete the program. Typical paid advertising or direct marketing programs are unlikely to motivate the audience that most needs the program.

Page 8, A. Retirement-Only Program
We propose linking and streamlining the Retirement-Only Program to the Pilot Repair and Replace Program at SJVAPCD Tune In & Tune Up events. Based on participant surveys, we believe that 10-20 vehicles at each event would strongly consider a retirement-only option.

A. 1. Limit to low-income
We strongly agree with focusing the benefits of the program on the lowest-income participants possible. High-emitting vehicles are likely to be concentrated in the EJ communities that most need assistance, so an optimal program will direct maximum help to where it is most effective.

A.2. Smog Check requirement
This appears to be a simple, commonsense solution to determining functionality.

A. 4. CAP consistency
We agree with allowing the participation of salvage vehicles with current registration in vehicle retirement. However, it may be prudent to consider limiting potential abuse by requiring that the retirement customer have at least one year of registration in the retirement customer's name.

Page 13, c) Consumer Protections
We agree wholeheartedly on the need for consumer protections, especially considering that this audience is frequently targeted for fraud and abuse.

We also agree with the point in Page 14, paragraph 1 about a balance between protecting program participants and ease of implementation. Adding too many fraud protections increases the risk of excluding targeted participants due to a lack of paperwork, etc. Ensuring maximum flexibility by the air districts will allow for aligning rules with reality and maintain program availability.

Credit unions have been an excellent finance option for our vehicle replacement customers. We encourage all replacement participants to join a credit union if needed.

The optimal program design will include some level of financial education at the event, leading to regular follow-ups with customers by finance counselors.