

State of California
AIR RESOURCES BOARD

DRAFT PROPOSED REVISIONS:

ENHANCED FLEET MODERNIZATION PROGRAM

February 28, 2014

Proposed Revisions to the Enhanced Fleet Modernization Program (EFMP) (Car Scrap)

Air Resources Board (ARB) staff is evaluating EFMP in coordination with the Bureau of Automotive Repair (BAR), the San Joaquin Valley Air Pollution Control District (SJVAPCD), and the South Coast Air Quality Management District (SCAQMD) to determine how best to address the findings of the 2013 program review and meet the goals outlined in Senate Bill (SB) 459, including both the EFMP retirement-only and EFMP pilot voucher replacement programs. The draft ARB staff proposal to revise EFMP is summarized below.

A. EFMP Retirement-only Program

Voluntary accelerated vehicle retirement or “car scrap” programs provide monetary incentives to vehicle owners to retire older, more polluting vehicles. The purpose of these programs is to reduce fleet emissions by accelerating the turnover of the existing fleet and subsequent replacement with newer, cleaner vehicles. Reducing emissions from the existing fleet is a component of California’s State Implementation Plan, which outlines the State’s strategy for meeting health-based ambient air quality standards.

The EFMP retirement-only program is oversubscribed, typically exhausting the funding within the first eight months of each fiscal year. However, staff’s study, conducted in conjunction with BAR, has shown that retirement of a number of these vehicles provides no real air quality benefit, as these vehicles essentially were incapable of operating to provide even basic transportation, and would have likely been scrapped by their owners anyway.

Staff proposes several modifications to EFMP retirement guidelines to address the goals provided in SB 459. These changes are designed to ensure access to incentive funds for low-income California motorists, participation by vehicles with sufficient functionality to be currently driven, and streamlined program implementation.

1. Limit the Retirement-Only element of the program to low-income participants

Currently approximately 60 percent of the participants in the Retirement-only program are low-income. Since the program is oversubscribed, limiting participation to low-income participants will help ensure limited funds go to the target population.

2. Focus on vehicles with sufficient functionality to be currently driven

Staff recommends requiring a vehicle to take (or have taken within the previous 180 days) a Smog Check test as a simple means of determining its functionality. Successful completion of a smog test, whether the end result is a pass or a fail, is a good indication that a vehicle is in sufficient condition to be driven on the road, and that scrappage will provide real air quality benefits. Such vehicles would be eligible for \$1,500 through the EFMP program, consistent with BAR's Consumer Assistance Program (CAP).

3. Track participation and adjust incentives if needed

Setting a more stringent standard for participation runs the risk that the current incentive offered may not be sufficient to attract the higher quality vehicles needed. With the change in eligibility to ensure that scrapped vehicles provide an emissions benefit, ARB and BAR staff would monitor the program to ensure that scrap participation remains high. Specifically, staff proposes to incorporate a provision that if participation has dropped sufficiently to indicate that the retirement program will fall short of expending its annual funding, then incentive amounts for vehicles passing the Smog Check test could be raised incrementally up to \$2,500 total per vehicle to improve participation. Vehicles that do not pass Smog Check would only be eligible for the current \$1,500 offered by BAR's CAP, which is designed to purchase vehicles unable to be currently reregistered and legally driven. This approach would keep parity with the CAP for vehicles with unknown air quality benefit while simultaneously paying fair market value for vehicles with remaining useful life.

4. Other Revisions

Staff proposes a number of additional changes to simplify the program and expand potential participation, including clearly defining the documentation needed in the application (insurance documents, proof of California operation, registration, etc.) and allowing the participation of vehicles with salvage titles, provided they are currently registered. These changes will be closely coordinated with BAR to ensure compatibility with CAP.

B. EFMP Pilot Voucher Replacement Program

The issue of incentivizing vehicle replacement for low-income individuals is complex, with many confounding factors. The EFMP retirement plus replacement voucher program has seen limited success with only 22 vouchers issued to date. The 2013 program review assessed the voucher program with respect to participation rates and economics. The key findings suggest that the

program is overly complicated, highly bureaucratic, and the monetary incentives offered are too low.

To determine a sustainable replacement vehicle solution for low-income participants in federal extreme non-attainment areas, staff believes that different approaches should be evaluated and tested. ARB staff proposes developing these pilot replacement programs in coordination with SJVAPCD and SCAQMD. While the ARB will develop specific minimum program requirements and be responsible for program review, the pilot programs would be funded by block grants and administered through the Air Districts, which would be allowed flexibility in operation. Staff is proposing that the pilot programs be subject to the following:

1. Outreach/Eligibility

- The program must target outreach and restrict program eligibility to motorists with household incomes of 300 percent of the federal poverty level or less.
- The program must provide significant assistance to program participants to complete transactions. This assistance could take the form of financial education, access to low-cost loans, or other assistance to address issues faced by low-income participants.

2. Retirement

- The program must include a mechanism for targeting high-emitting vehicles. This could include a model year cut-off or another approach.
- The program must include a mechanism to ensure vehicles with sufficient functionality to be currently driven. This could include a functional test or an alternative.
- The program must require that retired vehicles be dismantled at a BAR contracted dismantler.

3. Replacement

- The program must allow for additional tiered incentives for purchase of more environmentally friendly replacement vehicles, with the minimum incentives shown in the table below. ARB staff will work with the Districts to enable coordination with other programs such as the Clean Vehicle Rebate Project (CVRP) and other light-duty low-carbon transportation funding to maximize participation opportunities for low-income participants. For example, under current CVRP funding levels, combined incentives per this proposal could be \$6,000 (\$4,500 plus \$1,500) for plug-in hybrids and \$7,000 (\$4,500 plus \$2,500) for zero-emission vehicles.

Proposed Replacement Purchase Program Incentives

Consumer Type	Retire and Replace with <8 year old	Retire and Replace with hybrid	Retire and Replace with plug-in hybrid	Retire and Replace with zero-emission vehicle
Low Income (<225% Federal Poverty Level)	\$4,000	\$4,500	\$4,500 + Low-Carbon Transportation (CVRP) type incentives	\$4,500 + Low-Carbon Transportation (CVRP) type incentives
Moderate Income (<300% Federal Poverty Level)	\$3,000	\$3,500	\$3,500 + Low-Carbon Transportation (CVRP) type incentives	\$3,500 + Low-Carbon Transportation (CVRP) type incentives

- In addition to cleaner conventional replacements, the program must promote advanced technology replacements by providing additional financial assistance for cleaner vehicles. This assistance could be in the form of increased incentive amounts, or could be provided in alternative ways, such as low-cost loans.
- The program must include consumer protection during the purchase and financing of the vehicle to ensure that the benefits of the incentives accrue to the final consumer.

4. Administration

- The program must include quarterly reports to ARB and BAR detailing participation rates, vehicles retired, replacement vehicles purchased, administrative costs, and other metrics that can be evaluated to determine whether incentive amounts or other program criteria need to be adjusted to improve the program's performance.
- Due to the complexity of implementing consumer-level vehicle replacement programs, the need to target and outreach to a specific income group, and the requirement to consider methods of financial assistance other than vouchers, staff proposes to allow Districts to use up to 10 percent of the total funding to pay for program administration.

5. Other Revisions

- Under the current regulations, vouchers can be used for transit passes as well as a replacement vehicle. Staff proposes to expand this to also allow vouchers to be used for car-sharing memberships.
- As with the retirement program, staff proposes a number of additional changes to simplify the program and expand potential participation, including clearly defining the documentation needed in the application (insurance documents, proof of California operation, registration, etc.) and allowing the participation of vehicles with salvage titles, provided they are currently registered.

Potential Pilot Models

To help illustrate approaches that would be available under the proposed criteria, staff has identified two pilot implementation models that hold promise to increase participation in the EFMP Pilot Voucher Replacement program. While the ARB will develop specific minimum program requirements and be responsible for program review, the Air Districts will have the flexibility to choose an approach that is best suited for their district. Both these example models revolve around targeted outreach in environmental justice communities and provide provisions for targeting high emitting vehicles with remaining useful life.

Event-Driven Model

- ✓ Community-based outreach efforts
- ✓ Event-driven implementation
- ✓ Leverage existing air district program infrastructure
- ✓ Focus on low-income motorists
- ✓ Promote sustainable replacement vehicles through low-interest financing, financial counseling and low-cost car insurance

This model utilizes infrastructure from exiting community events in low-income and disadvantaged communities. Staff believes a pilot replacement program can be integrated into existing events. For example, SJVAPCD already hosts Tune-In Tune-up events monthly throughout the San Joaquin Valley geared toward repair assistance of high-emitting vehicles where the focal point of outreach is low-income motorists. The program could potentially be expanded to include vehicle retirement and replacement. The event-driven model also provides an opportunity for access to other facets of a sustainable replacement vehicle such as low-interest loans, financial counseling, and low-cost vehicle insurance.

Dealer-Driven Model

- ✓ Dealership-based implementation
- ✓ Solicit low-income motorist participation
- ✓ Utilize dealer networks, with focus on disadvantaged communities
- ✓ Incentivize advanced technology replacements

- ✓ Target high-emitters with remote sensing

The second proposed model focuses on a dealership based approach. Many vehicles sold to dealerships as trade-ins are relatively high emitters due to age and also have significant useful life remaining and thus make good candidates for EFMP retirement. Dealerships typically purchase these vehicles for less than retail resale value and the vehicle is subsequently sold into another household. Those vehicles could potentially be intercepted at a price that is advantageous to both the dealer and the consumer and scrapped instead of eventually returning to the road under new ownership. The Dealer-Driven Model would leverage the fact that motorists that have travelled to a dealership have already made the decision to replace their vehicle. This model would ideally educate the motorist on the incentives available through EFMP and encourage them to pursue and advanced technology replacement. This model would significantly streamline program implementation. Additionally, remote sensing can be used on-site and/or in low-income communities to target high-emitting vehicles and prioritize them for participation in EFMP.

These models are presented as example only. Staff does not intend to limit implementation to one of the models described above and encourages stakeholders to submit additional ideas for consideration.

Consumer Protections

No matter the eventual approaches chosen, the pilots must include measures to protect consumers and enable them to sustainably utilize the replacement vehicle. These measures may include, but are not limited to:

Loans:

- Require or encourage/educate program participants to borrow from reputable lending institutions and even join credit unions to establish credit prior to purchase
- Prohibit vehicle loans by selling dealership
- Leverage financial counseling offered by most credit unions by directing participants to those resources
- Suggest/require program participants be pre-approved before visiting dealership
- Administer program in collaboration with consumer advocacy groups that provide financial counseling
- Cap allowable loan interest rate

- Direct program participants to California's low-cost auto insurance program
- Provide an estimate for total cost of car ownership with the truth-in-lending statement (now required by law)

Vehicle

- Work with dealers to set pre-approved pricing for used vehicles
- Require vehicle inspection by reliable, trustworthy professional auto mechanic
- Require vehicle history be provided and attached to paperwork
- Require vehicle warranty for specified timeframe

Program Oversight

- Develop basic program requirements and agreements with participating dealerships
- Review and audit program vehicles to check for irregularities, predatory practices