

California Environmental Protection Agency



**REPORT ON THE REALLOCATION OF FUNDING WITHIN THE
FISCAL YEAR 2012-13 ASSEMBLY BILL 118 AIR QUALITY
IMPROVEMENT PROGRAM FUNDING PLAN TO ADDRESS
INCREASED PROJECT DEMAND**

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Executive Summary

The Air Quality Improvement Program (AQIP) is a voluntary incentive program created under the California Alternative and Renewable Fuel, Vehicle Technology, Clean Air, and Carbon Reduction Act of 2007 (Assembly Bill 118, Statutes of 2007). AQIP provides funding through 2015 for clean vehicle and equipment projects that reduce criteria pollutant and air toxics emissions often with concurrent climate change benefits. AQIP investments to date support the deployment of hybrid and zero-emission trucks, advanced clean cars, and other advanced technologies critical to meeting California's long-term air quality and climate change goals.

On June 28, 2012, the Board approved the Assembly Bill 118 AQIP Funding Plan for Fiscal Year 2012-13. As with previous years, 3 projects were allocated funding in the plan: the Clean Vehicle Rebate Project, the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project, and Advanced Technology Demonstration Projects. The AQIP Funding Plan for Fiscal Year 2013-14 is currently under development. Staff plans to present it to the Air Resources Board (ARB or Board) at its June 2013 meeting.

The Fiscal Year 2012-13 Funding Plan allows available funds from the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project to be reallocated by the Executive Officer to other Fiscal Year 2012-13 AQIP projects if remaining funding exceeded \$10 million as of January 1, 2013. After consultation with the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project Work Group, \$6 million was reallocated to the Clean Vehicle Rebate Project, leaving \$18 million available.

Additionally, in the first year of the program, a one-time appropriation of Fiscal Year 2008-09 AQIP funds were directed by the California Legislature (AB 1338; Chapter 760, Statutes of 2008) for use in establishing a loan assistance program to aid small business truck owners affected by ARB's In-Use Truck and Bus Regulation and the Tractor-Trailer Greenhouse Gas Regulation. In response, the Truck Loan Assistance Program was created, and is implemented in partnership with the California Pollution Control Financing Authority.

The Truck Loan Assistance Program is a critical program established to aid small business truck owners affected by ARB's In-Use Truck and Bus Regulation and the Tractor-Trailer Greenhouse Gas Regulation. Although the program began in mid-2009, over half of the total loans issued by the program occurred within the last year. This increase in activity is expected to continue throughout 2013, which will result in the depletion of available funding prior to the start of the 2013-14 Fiscal Year.

Because the Truck Loan Assistance Program was not one of the projects funded in the Fiscal Year 2012-13 AQIP Funding Plan, program funds currently cannot be reallocated by the Executive Officer under the current funding plan. Staff proposes to reallocate up to \$4 million in Fiscal Year 2012-13 AQIP funding to the Truck Loan Assistance Program, as needed, to ensure the program continues through late summer, and provide time to identify other funding sources. In reallocating these funds, the

remaining Hybrid and Zero-Emission Truck and Bus Voucher Project funding should still be sufficient to meet expected demand in the project through the end of the current fiscal year.

I. Overview of AQIP

AQIP is a voluntary incentive program created under the *California Alternative and Renewable Fuel, Vehicle Technology, Clean Air, and Carbon Reduction Act of 2007* (Assembly Bill 118, Statutes of 2007). AQIP provides funding through 2015 for clean vehicle and equipment projects that reduce criteria pollutant and air toxics emissions often with concurrent climate change benefits. AQIP expands ARB's portfolio of air quality incentives, providing the opportunity to fund projects not covered by other incentive programs which focus on near-term emission reductions. AQIP is ARB's only incentive program structured to enable investments in technology advancing projects that also provide immediate emission reductions.

AQIP investments to date support the deployment of hybrid and zero-emission trucks, advanced clean cars, and other advanced technologies critical to meeting California's long-term air quality and climate change goals. These investments are an important first step in the fundamental transformation of the California vehicle fleet to one with widespread use of zero- and near-zero emission vehicles.

A Board-approved annual funding plan, developed with public input and close coordination with the California Energy Commission (CEC), serves as each year's blueprint for expending AQIP funds appropriated to ARB in the annual State Budget. Each year, between \$30 and \$40 million is allocated to ARB for AQIP. Each funding plan describes the projects ARB intends to fund, establishes funding targets for each project, and provides the justification for these decisions.

ARB has allocated at least \$28 million to AQIP projects each year, totaling over \$115 million since Fiscal Year 2009-10. An additional \$6 million has been provided by CEC to augment 2 of AQIP's largest projects, with another \$4.5 million committed for Fiscal Year 2012-13. Over \$75 million has been expended, with the remaining encumbered by ongoing multi-year projects. AQIP has funded the deployment of over 17,000 near-zero and zero emission passenger cars and medium- and heavy-duty trucks, and 12,000 clean equipment purchases; and the ongoing demonstration of advanced technologies in locomotive engines, off-road equipment, and other sources.

Additionally, in the first year of the program, a one-time allocation of Fiscal Year 2008-09 AQIP funds were directed by the California Legislature (AB 1338; Chapter 760, Statutes of 2008) for use in establishing a loan assistance program to aid small business truck owners affected by ARB's In-Use Truck and Bus Regulation and the Tractor-Trailer Greenhouse Gas Regulation. In response, the Truck Loan Assistance Program was created, and is implemented in partnership with the California Pollution Control Financing Authority.

As of December 31, 2012, the truck loan assistance program has spent roughly \$21 million to leverage \$140 million in financing for the purchase of over 2,250 cleaner trucks and nearly 350 exhaust retrofits.

II. Fiscal Year 2012-13 Funding Plan Update

For the Fiscal Year 2012-13 funding cycle, the Funding Plan focused most of AQIP funding on the two largest project categories from previous years – the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project and the Clean Vehicle Rebate Project. These projects are intended to fund hybrid and zero-emission technology in light- and heavy-duty vehicle applications. While funding demand has been strongest in the light-duty Clean Vehicle Rebate Project, both projects are at a key point where public incentives can help them penetrate the California marketplace and become mainstream choices. Funding also continued for advanced technology demonstrations. These are an important part of the program because successful demonstration projects can potentially lead to future deployment project opportunities.

ARB staff envisioned that these project categories would be funded for multiple years in order to maintain continuity and provide a larger overall impact on the selected technologies. Continuing investments in the next generation of vehicles, equipment, and emission controls is critical to meet California's long-term air quality goals and will help start the transformation of the California fleet to one with widespread use of advanced technology hybrid and zero-emission vehicles.

For the Fiscal Year 2012-13 AQIP Funding Plan, the Board approved funding for the following projects based on expected revenue:

Table 1: Fiscal Year 2012-13 AQIP Funding Plan Allocations

<i>Project</i>	<i>Funding Allocated¹ (in millions)</i>
<i>Clean Vehicle Rebate Project</i>	\$15
<i>Hybrid and Zero-Emission Truck and Bus Voucher Project</i>	\$10
<i>Advanced Technology Demonstration Projects</i>	\$2

¹ Funding levels represent actual allocations to these programs based on anticipated Fiscal Year 2012-13 revenue, minus administrative costs.

In addition to the above amounts, the Clean Vehicle Rebate Project received funding from 3 other sources: CEC, the Truck Loan Assistance Program, and the Hybrid and Zero-Emission Truck and Bus Voucher Project, bringing the total funding available during Fiscal Year 2012-13 to \$28.5 million. CEC committed \$4.5 million in funding from the Fiscal Year 2012-13 Investment Plan Update for the Alternative and Renewable Fuel and Vehicle Technology Program. At the beginning of Fiscal Year 2012-13, \$3 million was reallocated from the Truck Loan Assistance Program because, at the time, available funding was believed to exceed the need for the current fiscal year. And, in February of 2013, \$6 million was reallocated from the Hybrid and Zero-Emission Truck and Bus Voucher Project in response to contingency measures identified in the Fiscal Year 2012-13 AQIP Funding Plan.

The following subsections provide an update on each project category funded in Fiscal Year 2012-13.

a. Clean Vehicle Rebate Project

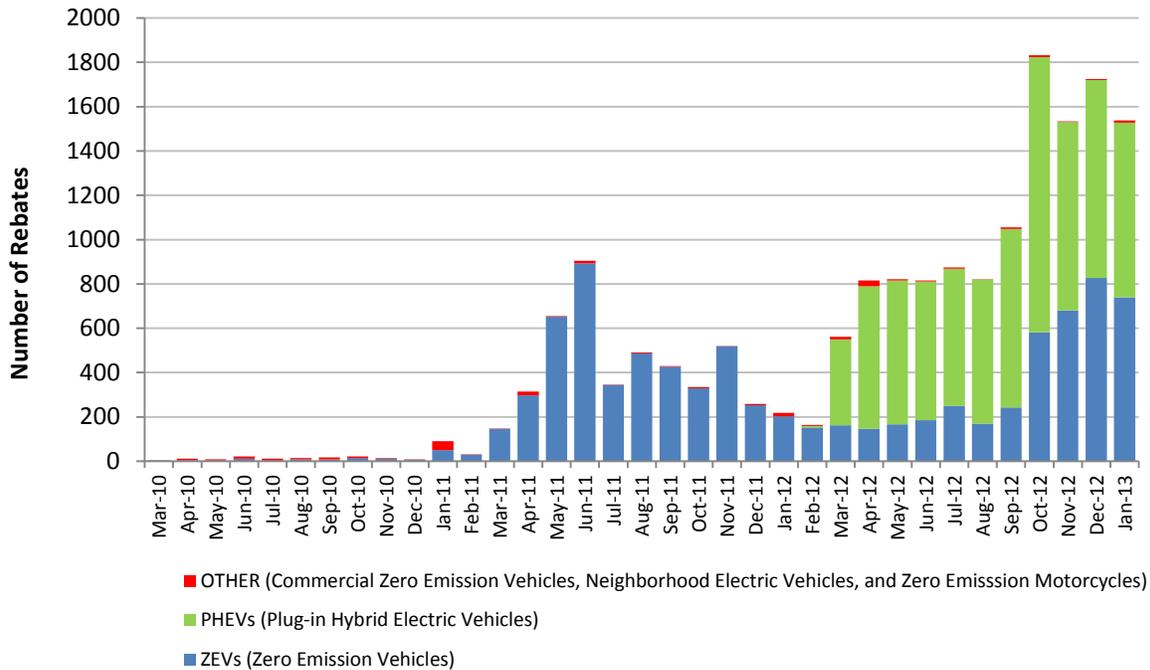
Overview

The Clean Vehicle Rebate Project provides rebates to California residents, businesses, nonprofit organizations and government entities that purchase or lease a plug-in electric vehicle (PEV) such as a battery electric or fuel cell electric, or a plug-in hybrid electric vehicle (PHEV). The Clean Vehicle Rebate Project helps get the cleanest vehicles on the road in California by providing consumer rebates to partially offset the higher initial cost of these advanced technologies. This early investment in clean vehicle technologies will prime the market for the larger number of vehicles needed over the next decade and beyond to meet the State's health based air quality standards and climate change goals. The Clean Vehicle Rebate Project investment — coupled with corresponding investments in vehicle charging and fueling infrastructure by regional governments, CEC and the federal government — is enticing manufacturers to focus early vehicle deployment in California. For a complete list of eligible vehicles, rebate amounts and information about the Clean Vehicle Rebate Project, visit www.energycenter.org/CVRP.

Project Update

The Clean Vehicle Rebate Project has continued to increase in popularity since its public launch in March 2010. Demand for rebates hit a record high in the Fall of 2012, with close to 2,000 rebates issued each month from October through December. Figure A provides a month-by-month illustration of rebate activity since its launch.

Figure A. Clean Vehicle Rebates Issued by Month



Funding Status

To help close the funding gap between fiscal cycles for the Clean Vehicle Rebate Project, the Executive Officer reallocated \$6 million in unused funds from the Hybrid and Zero-Emission Truck and Bus Voucher Project, consistent with existing contingency provisions within the Funding Plan. These contingency measures are discussed in more detail in the next subsection regarding the Hybrid and Zero-Emission Truck and Bus Voucher Project. Additionally, \$4.5 million is forthcoming from CEC. For Fiscal Year 2012-13, these supplements bring the total allocation for the Clean Vehicle Rebate Project to \$28.5 million.

While staff expects the total infusion of funding to carry the program into the summer when new funds from the upcoming Fiscal Year 2013-14 Funding Plan become available, it is possible that funding could run out prior to this. To address a limited-term shortage of funding, the Fiscal Year 2012-13 Funding Plan identified procedures for the establishment of a waiting list. A decision-making trigger is invoked if the remaining vehicle funding reaches \$3 million; at in which time the Executive Officer has discretion on whether to establish a waiting list to bridge the gap between Fiscal Year 2012-13 and Fiscal Year 2013-14 funding. Staff is currently monitoring expenditures in preparation of this trigger being reached.

b. Hybrid and Zero-Emission Truck and Bus Voucher Project

Overview

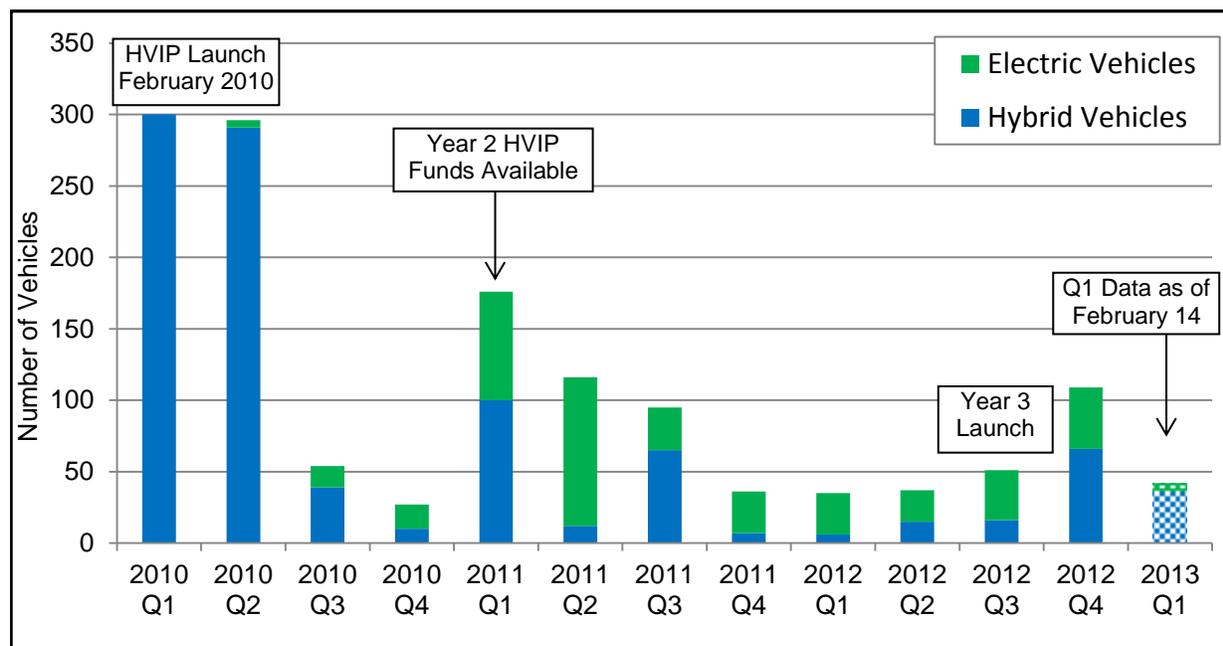
The Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project offers vouchers to California fleets for about half of the incremental cost to purchase new hybrid and zero-emission trucks, on a first-come, first-served basis. The Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project is intended to spur early production volumes for these vehicles and lower long-term production costs. Hybrid vehicle technology has the potential to reduce criteria pollutant, air toxic, and greenhouse gas emissions – particularly in urban delivery vehicles, refuse trucks, work trucks, buses, and other vehicles with high stop-and-go or idling duty cycles. Zero-emission trucks and buses are typically powered by a large electric battery (although fuel cells are making technological strides) that typically provide up to 100 miles of range per charge. As of December 31, 2012, the project has provided vouchers to help California fleets purchase over 1,200 hybrid and zero-emission trucks and buses.

Project Update

While Year 1 (Fiscal Year 2009-10) Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project voucher demand was high, fleet participation in Year's 2 and 3 (Fiscal Year's 2010-11, and 2011-12) was slower than expected. Discussions with stakeholders suggest participating fleets may have already turned over much of their existing older, urban delivery vehicle fleet for new hybrids in Year 1 when the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project funds initially became available. Some fleet representatives also suggested voucher amounts be increased to further stimulate program demand.

To address these, and other identified barriers, the Board approved several program refinements to the Hybrid and Zero-Emission Truck and Bus Voucher Project as part of the Fiscal Year 2012-13 AQIP Funding Plan for Year 4, to stimulate near-term demand for hybrid and zero-emission trucks. Refinements, which also applied to unused funds from previous years, included 1) increasing vouchers for the cleanest technologies available, and 2) adding new eligible vehicle types. As a result of these project changes, participation in the program is increasing. Figure B illustrates the recent increase in voucher requests, which is expected to continue over the course of the next year.

Figure B. Hybrid and Zero-Emission Truck Vouchers Reserved by Quarter



Funding Status

However, while long-term demand for funding in the Hybrid and Zero-Emission Truck and Bus Voucher Project remains, near-term project demand did not materialize as quickly as anticipated. To address the reduction in past demand of the project, the Fiscal Year 2012-13 Funding Plan identified funding contingency measures to allow funding reallocation between AQIP projects as needed. Specifically, the proposed Fiscal Year 2012-13 Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project funding allocation may be reallocated as follows:

- 1) Up to half of the allocated funding may be redirected to other Fiscal Year 2012-13 AQIP projects if remaining Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project funds exceed remaining Clean Vehicle Rebate Project funds as of November 1, 2012.
- 2) Additional funds may be redirected to other Fiscal Year 2012-13 AQIP projects if remaining Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project funding exceeds \$10 million as of January 1, 2013.

Both of these conditions have been met. ARB did not initiate a contingency redirection based on November 1, 2012 project funding in order to better evaluate recent increased demand for hybrid and zero-emission trucks, as well as new hybrid trucks with very low incremental cost recently entering the California market. However, the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project still had a funding balance exceeding \$10 million as of January 1, 2013, resulting in the previously described transfer of \$6 million to the Clean Vehicle Rebate Project. Currently, \$18 million

remains available. As described in the next section, staff proposes to reallocate an additional \$4 million from the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project, leaving \$14 million, which should be sufficient to meet the expected demand in the project through the end of the current fiscal year.

Additionally, the Funding Plan requires that any reallocation of Fiscal Year 2012-13 Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project funding to other AQIP projects will be conducted in consultation with the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project Work Group and other interested AQIP stakeholders. In anticipation of reallocating funding between projects, ARB staff consulted with the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project Work Group and other interested AQIP stakeholders on December 18, 2012. The Work Group supported redirecting up to \$10 million in Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project funds to other AQIP projects with greater immediate funding need, as long as the adequate funds remained to meet anticipated voucher demand and the project continues to be an ARB priority in future AQIP funding plans.

c. Advanced Technology Demonstration Projects

Overview

Advanced Technology Demonstration Projects accelerate advanced emission reducing technologies that are on the cusp of commercialization into the California marketplace. A public investment in these technologies helps to achieve significant emission reductions of criteria pollutants and toxic air contaminants sooner than would be possible otherwise. Funding advanced technology demonstration projects carries inherent complexities and engineering challenges. ARB mitigates this potential by requiring a competitive selection process to award funding to the most promising technology, requiring a significant cost share from the technology demonstrator, and requiring that the project applicant be a California-based public agency with expertise in the project category. Grants are awarded to public agencies to manage the day-to-day administration of the projects with ARB oversight. Typically public agencies are local air districts, port authorities, or public school districts, but other agencies are eligible. The team concept for demonstration projects, with technology demonstrators partnering with a local public agency and one or more end-users, has proven to be effective and is planned to continue for future projects.

Project Update

Throughout the first 3 years of Advanced Technology Demonstration Projects (Fiscal Year 09-10 through Fiscal Year 2011-12), AQIP has funded 12 separate projects totaling \$4.6 million, ranging from locomotive retrofits to hybrid marine demonstrations. AQIP investment has leveraged \$6.3 million in match funding from grantee and technology demonstrators resulting in a total of \$10.9 million of demonstration funding.

For Fiscal Year 2012-13, an additional \$2 million is allocated for demonstration projects, with a focus on zero-emission off-road equipment and zero-emission transit vehicles. The Zero-Emission Off-Road Solicitation was released on December 14, 2012, and closed on February 7, 2013. The resulting applications from the Zero-Emission Off-Road Solicitation have been scored and applicants notified as to their ranking, the grant agreement process is now underway, with projects anticipated to start before the end of the fiscal year. The Zero-Emission Transit Solicitation has not yet been released, the timing of which is currently under consideration.

III. Truck Loan Assistance Program

Overview

The California Legislature directed a one-time appropriation of first year AQIP funds for use in establishing a loan assistance program to aid small business truck owners affected by ARB's In-Use Truck and Bus Regulation and the Tractor-Trailer Greenhouse Gas Regulation. Formally known as the Providing Loan Assistance for California Equipment Program, about \$31 million has been allocated to assist truckers. To date, ARB has developed and implemented 2 components of the Providing Loan Assistance for California Equipment Program: a small Pilot Revolving Loan/Lease-to-Own Program, and the Truck Loan Assistance Program. The Truck Loan Assistance Program makes up the largest portion of the Providing Loan Assistance for California Equipment Program, with \$30.3 million allocated to date. More information regarding the small Pilot Revolving Loan/Lease-to-Own Program can be found in the Fiscal Year 2012-13 AQIP Funding Plan, under Appendix A.

The Truck Loan Assistance Program, implemented in partnership with the California Pollution Control Financing Authority (CPCFA), is an integral tool in bridging the financing gap for fleet owners who receive other funding but still require some level of additional financing; for fleet owners that do not receive grant funding due to program oversubscription; or for projects that do not meet grant program requirements.

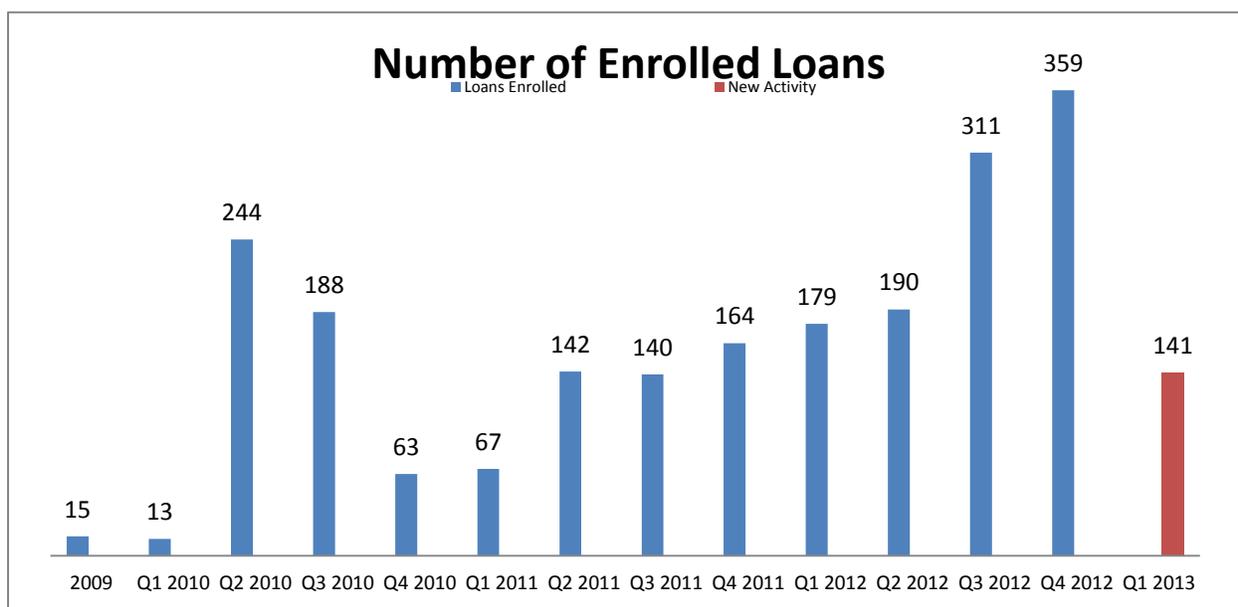
Status Update

Over the course of the past year, participation in the Truck Loan Assistance Program has grown rapidly as regulatory compliance deadlines near. As of January 29, 2013, approximately \$22.7 million in Truck Loan Assistance Program funding has been leveraged to provide nearly \$148 million in financing for the purchase of nearly 2,600 cleaner trucks, exhaust retrofits, and trailers. Table 2 below provides the breakdown of loans offered, and Figure C illustrates the program's activity since 2009.

Table 2: Truck Loan Assistance Program Status

Vehicles/Equipment Financed as of January 29, 2013					
Program	Number of Loans Issued	Number of Projects Financed	Project Type	\$ Spent	Total Amount Financed
ARB/CPCFA Truck Loan Assistance Program	2,207	2,383	Truck Purchase	\$22.7M	\$148.4M
		189	Exhaust Retrofit		
		13	Trailer		

Figure C. Truck Loan Assistance Program Loan Activity



The program is reaching the appropriate demographic of participants for its purpose. Currently, over 79 percent of all enrolled loans are for single owner operators and 94 percent are of companies with 10 or less employees. Additionally, 87 percent of borrowers are minorities. Finally, used truck purchases have made up the vast majority of loans at 86 percent.

Funding Status

Although the program began in mid-2009, over half of the total loans issued by the program occurred within the last year, as can be seen in Figure C. This activity trend is expected to continue throughout 2013, which will result in the depletion of available funding prior to the start of the 2013-14 Fiscal Year. Interruption of funding prior to the Board's approval of the 2013-14 Fiscal Year Funding Plan will be disruptive to participants, both borrowers and lenders.

IV. Proposed Reallocation of Funding from Fiscal Year 2012-13

Staff proposes to reallocate up to \$4 million in available 2012-13 Fiscal Year AQIP funding from the Hybrid and Zero-Emission Truck and Bus Voucher Project to the Truck Loan Assistance Program, as needed, to ensure the program continues uninterrupted past the start of the 2013-14 Fiscal Year. In reallocating these funds, the remaining Hybrid and Zero-Emission Truck and Bus Voucher Project funding should still be sufficient to meet expected demand in the project through the end of the current fiscal year.

However, because the Truck Loan Assistance Program was not one of the projects funded in the Fiscal Year 2012-13 AQIP Funding Plan, program funds currently cannot be reallocated by the Executive Officer under the current funding plan. Therefore, staff requests that the Board approve the authority for the Executive Officer to reallocate up to \$4 million in AQIP funding to the Truck Loan Assistance Program, as needed.

VI. References

In developing the proposed reallocation of funding for the Fiscal Year 2012-13, ARB staff relied on information from previous Board approved AQIP Funding Plans and AQIP Guidelines. Links to this reference material are listed below:

Air Resources Board. Staff Report: Initial Statement of Reasons for Proposed Rulemaking, Proposed AB 118 Air Quality Guidelines for the Air Quality Improvement Program and the Alternative and Renewable Fuel and Vehicle Technology Program, Released August 8, 2008.

<http://www.arb.ca.gov/regact/2008/aqipfuels08/aqipfuels08.htm>

Air Resources Board. Staff Report: Initial Statement of Reasons for Proposed Rulemaking, Proposed AB 118 Air Quality Improvement Guidelines, Released March 6, 2009. <http://www.arb.ca.gov/regact/2009/aqip09/aqip09.htm>

Air Resources Board. Proposed AB 118 Air Quality Improvement Program Funding Plan For Fiscal Year 2009-10. Approved April 24, 2009.

http://www.arb.ca.gov/msprog/aqip/fundplan/aqip_FY09-10_approved.pdf
http://www.arb.ca.gov/msprog/aqip/fundplan/aqip_FY09-10_FP_appendix.pdf

Air Resources Board. Proposed AB 118 Air Quality Improvement Program Funding Plan For Fiscal Year 2010-11. Approved June 24, 2010.

http://www.arb.ca.gov/msprog/aqip/fundplan/AQIP_FP_JUNE%202010-FINAL.pdf

Air Resources Board. Proposed AB 118 Air Quality Improvement Program Funding Plan For Fiscal Year 2011-12. Approved July 21, 2010.

http://www.arb.ca.gov/msprog/aqip/fundplan/final_approved_aqip_fy2011_funding_plan.pdf

Air Resources Board. Proposed AB 118 Air Quality Improvement Program Funding Plan For Fiscal Year 2012-13. Approved July 21, 2010.

http://www.arb.ca.gov/msprog/aqip/fundplan/final_approved_aqip_fy2012_funding_plan.pdf