

# **AB 118: Air Quality Improvement Program (AQIP)**

## **FY 2011-12 Funding Plan Staff Discussion Document**

### **Public Workshops**

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## **Section 1: Air Quality Improvement Program (AQIP) Background**

The AQIP is an incentive program created under Assembly Bill (AB) 118 (Núñez, 2007) that provides the Air Resources Board (ARB or Board) with funding through 2015 for mobile source technology advancing projects. The AQIP focuses primarily on reducing criteria pollutant emissions, with concurrent reductions in greenhouse gas emissions as a co-benefit. This document describes staff's draft plan for the Fiscal Year (FY) 2011-12 AQIP including project summaries and funding allocations. It will form the basis for the proposed FY 2011-12 Funding Plan which will be released for public comment on June 20, 2011, and presented to the Board for consideration at the July 21, 2011 Board meeting. For more background on the AQIP, please refer to ARB's 2010 Biennial Report to the Legislature on the AB 118 Air Quality Improvement Program available at: [http://www.arb.ca.gov/msprog/aqip/leg\\_reports.htm](http://www.arb.ca.gov/msprog/aqip/leg_reports.htm) .

### Funding Plan

The Funding Plan is each year's roadmap for expending AQIP funds appropriated to the ARB in the State budget. The plan establishes: (1) ARB priorities for the funding cycle; (2) funding allocations by project category; (3) modifications to program implementation based on public input and evaluation of subsequent years' projects; and (4) contingencies in the event revenues fall short of the State budget appropriation and to address other circumstances.

### Prior Board Actions

The Board has previously approved Funding Plans for FYs 2009-10 and 2010-11 which set the guiding principles and implementation priorities for the AQIP. These plans, in which the Board approved several project categories that were envisioned as multi-year projects, form the basis for this year's Funding Plan. The Hybrid Truck and Bus Voucher Incentive Project (HVIP), the cornerstone of the AQIP in FYs 2009-10 and 2010-11, has received a large financial commitment in the early years of the AQIP with staff's intent that funding would gradually decrease as the market for hybrid vehicles becomes self-sustaining and vehicle prices decreased. In contrast, staff envisioned that funding for the Clean Vehicle Rebate Project (CVRP) would increase as more eligible vehicles become available.

### Guiding Principles for AQIP

ARB staff believes the guiding principles established by the Board in 2009 continue to be appropriate for the AQIP and used them to identify funding priorities and projects for this funding year. These principles include:

- Supporting development and deployment of advanced technologies needed to meet California's longer-term, post 2020 State Implementation Plan (SIP) goals, and
- Focusing program funds on areas underserved through other incentive programs.

Subsets of guiding principles were developed specific to deployment and demonstration projects. Deployment project guiding principles include:

- Accelerating advanced technologies to ensure significant penetration by the 2024 extreme ozone nonattainment area attainment date,
- Funding new, commercialized technologies that are proven and cost-effective, and
- Modifying consumer choice to buy cleaner vehicles that may not have occurred without a monetary incentive.

Demonstration project guiding principles include:

- Demonstrate the potential to provide cost-effective emission reductions,
- Can be economically viable without subsidy,
- Will be ready for commercialization within 3 years following demonstration, and
- Apply to the California marketplace.

## Section 2: Draft Project Category Funding Targets

The proposed project categories build upon the success of existing projects and provide funding continuity for those categories. Table 1 presents the staff's draft FY 2011-12 project category allocations based on a \$28 million plan and a \$40 million plan. These plans represent two scenarios: 1) a conservative estimate based on revenues over the past two years, and 2) the \$40 million appropriation for AQIP projects in the Governor's proposed budget. For the purposes of this document, funding based on the \$28 million plan will be assumed. The contingencies in Section 6 describe how funding would be scaled if revenues are larger than the conservative estimate. A description of each project category is included in Section 4.

<b>Table 1: Draft FY 2011-12 Project Category Funding Targets</b>				
<b>Project Category</b>	<b>\$28 M Plan</b>		<b>\$40 M Plan</b>	
	based on recent revenues		proposed Budget appropriation	
	Possible Allocation	Vehicles Funded	Possible Allocation	Vehicles Funded
HVIP	\$10-15 M	450-700	\$15-20 M	700-950
CVRP	\$12-17 M	4,500-6,500	\$17-25 M	6,500-9,500
Advanced Technology Demonstration/Testing	\$0.5-2 M	N/A	\$0.5-4 M	N/A

### Section 3: Status of Existing AQIP Projects

In FYs 2009-10 and 2010-11, approximately \$40 million was appropriated for AQIP projects in each year's State budget; however, available funding is dependent upon actual revenues in the Air Quality Improvement Fund which is funded by motor vehicle fees. Actual revenues for FY 2009-10 and projected revenues for FY 2010-11 are approximately \$30 million, so staff revised AQIP project funding levels in accordance to the contingency provisions in each year's Funding Plan.

Table 2 presents a list of the current project categories, funding levels, and project status. For the most part, projects funded in FY 2009-10 received continued funding in FY 2010-11 as was envisioned in the first Funding Plan. ARB did not allocate additional funds to the Agricultural Utility Terrain Vehicle (Ag UTV) Rebate Project in FY 2010-11 because existing funds are sufficient to meet the projected demand for the rebates in FY 2010-11. The Off-Road Hybrid Equipment Pilot project was added as a new project in FY 2010-11. As shown in Table 2, FY 2010-11 funding is now available to consumers for most project categories. Competitive solicitations for the two remaining categories, the off-road pilot and demonstration projects, have been released or will be released shortly, and funding will be awarded in May or June 2011.

Project Category	FY 2009-10		FY 2010-11	
	Funding Amount	Project Status	Funding Amount	Project Status
HVIP	\$20.4M	667 vouchers issued	\$19M	Funds available February 14, 2011
CVRP	\$4.1M	~300 rebates issued; ongoing implementation	\$7M*	Funds available March 9, 2011
Lawn & Garden Equipment Replacement	\$1.6M	7,911 mowers replaced; 96% of funds spent;	\$1M	Ongoing implementation
Agricultural Utility Terrain Vehicle Rebate Project	\$1.1M	22 rebates issued; ~96% of funds remain	--	No additional funds allocated
Off-Road Hybrid Equipment Pilot	--		\$2M	Solicitations Pending
Advanced Technology Demonstrations	\$1.85M	Projects ongoing	\$2M	Solicitations Pending
<b>Total Funding</b>	<b>~\$30M</b>		<b>~\$30M</b>	

\* Includes \$2 million in funding from the California Energy Commission

## **Section 4: Proposed Project Categories**

### **Hybrid Truck and Bus Voucher Incentive Project (HVIP) Proposed funding of \$10 - \$15 million**

#### Overview

The HVIP is designed to reduce the up-front cost of a hybrid truck or bus, allowing fleets to secure a voucher for about half the vehicle's incremental cost at the time of vehicle order. The HVIP was envisioned as a multi-year project to bridge the price gap until the incremental costs decline to a point where incentives are no longer needed. Hybrid medium- and heavy-duty vehicles remain a significant component of the AQIP and are critical to helping the state meet its long-term State Implementation Plan goals and greenhouse gas emission reduction targets. The HVIP is popular with California truck fleets, and the project is proceeding as envisioned. Due to demand for other AQIP funding categories, ARB staff is proposing a reduced funding allocation - in the \$10 to \$15 million range – relative to the funding levels for the first two years.

#### Project Status

The HVIP was launched in February 2010 with \$19.4 million available for vouchers. All available first year (FY 2010-11) voucher funds were allocated to truck purchasers by August 2010, with a total of 667 vouchers issued at an average voucher amount of about \$29,000. The HVIP garnered national recognition and was named the nation's top emerging energy efficiency program by the American Council for Energy Efficient Economy.

In early February 2011, the FY 2010-11 HVIP launched an additional \$19 million. ARB made modest changes to the HVIP based on lessons learned in the first year, including:

- Adjusting voucher amounts,
- Shifting zero-emission commercial vehicles from the CVRP to the HVIP because the purchasing process for these vehicles more closely resembles that of hybrid trucks than light-duty vehicles, and
- Setting aside \$2 million specifically for public fleets.

As of March 15, 2011, 107 vehicle vouchers have been issued to California fleets.

ARB partnered with CALSTART - selected via competitive solicitation - to implement the HVIP in both FY 2009-10 and FY 2010-11. Vehicles were distributed throughout California; however, half went to the South Coast region and another 30 percent to the San Francisco Bay Area. Almost half of vouchers issued thus far have been for

purchase of urban beverage delivery trucks, with an additional 20 percent for package delivery vehicles.

Staff Proposal for FY 2011-12

ARB staff proposes a funding allocation of \$10 to \$15 million for the HVIP in FY 2011-12. Staffs proposal includes project refinements designed to encourage additional California fleets to purchase hybrid trucks and buses for the first time as well as ensuring reduced project funding goes further. All modifications are based on lessons learned in the HVIP's first two years.

- A. Vehicle Vouchers- ARB staff proposes two updates to the vehicle voucher amounts:
- 1) *Progressive Voucher Amounts:* As in previous funding years, fleets may continue to receive up to 100 truck vouchers in the FY 2011-12 HVIP. However, the voucher amount declines by about 20 percent at the 30 and 65 voucher thresholds. Fleets that have embraced hybrid technology and typically request many vouchers may continue to do so at slightly lower funding levels. Table 3 provides the proposed progressive voucher amounts.
  - 2) *Additional \$10,000 for First Three Hybrid Trucks:* To encourage fleets that have not participated in HVIP in its first two year, an additional \$10,000 will be provided on top of the voucher amounts in Table 2 for the first three vouchers ever received by a fleet.

<b>Gross Vehicle Weight in Pounds (lbs)</b>		<b>Base Vehicle Incentive<sup>1</sup></b>		
		<b>1 to 30 vehicles<sup>2</sup></b>	<b>31 to 65 vehicles</b>	<b>66 to 100 vehicles</b>
8,501 – 10,000 lbs <sup>3</sup>	Plug-in Hybrid	\$10,000	\$8,000	\$5,000
	Zero-Emission	\$15,000	\$12,000	\$8,000
10,001 – 19,500 lbs <sup>4</sup>		\$15,000	\$12,000	\$8,000
19,501 – 33,000 lbs		\$20,000	\$15,000	\$10,000
33,001 – 38,000 lbs		\$25,000	\$18,000	\$12,000
> 38,000 lbs		\$30,000	\$24,000	\$16,000

1 –An ARB-certified hybrid vehicle above 14,000 lbs is eligible for an additional \$5,000 voucher. See School Buses section (below) for information regarding school bus voucher amounts.

2 - The first three HVIP-eligible vehicle purchased by a fleet (inclusive of the FY 2009-10 and 2010-11 programs) are eligible for an additional \$10,000 voucher.

3 - This weight category includes plug-in hybrid and zero-emission vehicles only.

4 - Zero-emission commercial vehicles in this weight class receive a \$20,000 voucher for the first 30 vehicles purchased by a fleet, \$15,000 for vehicles 31 through 65, and \$10,000 thereafter.

- B. School Buses- Reducing emissions from school buses continues to be an ARB priority, due to the serious public health concerns from diesel-fueled school buses. ARB staff proposes increasing voucher amounts for HVIP-eligible hybrid school buses by \$10,000 above the funding levels identified in Table 3. This increase, along with the \$10,000 for the first three HVIP vouchers, enables the HVIP to provide up to a \$40,000 voucher for a 26,000 pound hybrid school bus. If the Lower Emission School Bus Program provides \$140,000 towards the cost of a typical \$200,000 hybrid bus, these combined public funds provide 90 percent of the total bus cost. Other grant funding, such as federal or local air district funds, could be used to pay for the rest of the bus cost.
- C. Commercial Zero-Emission Vehicles- The California Energy Commission (Energy Commission) has expressed interest in potentially providing funding to complement ARB's funding commitment for zero-emission commercial vehicle deployment. ARB will coordinate with the Energy Commission, the HVIP Work Group, and other interested stakeholders to further develop any modifications with regards to this potential funding.
- D. Public Fleets- Demand for HVIP vouchers by public agencies represent far less than 5 percent of vouchers requested thus far. Stakeholders from public agencies have indicated that budgetary challenges along with a prolonged procurement process have deterred participation in HVIP. Over the next several months, ARB staff will evaluate the success of the \$2 million public fleet set-aside that is being implemented for FY 2010-11 HVIP funds. If this proves to be a successful way to bring more public fleets into to the HVIP, ARB will again set aside up to 10 percent of FY 2011-12 HVIP funds for public fleets.

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**Clean Vehicle Rebate Project (CVRP)  
Proposed funding of \$12 - \$17 million**

Overview

The CVRP is designed to accelerate widespread commercialization of zero-emission vehicles (ZEVs) and plug-in hybrid electric vehicles (PHEVs) by offsetting their higher cost compared to internal combustion engine counterparts. The CVRP is working as ARB envisioned. ARB anticipated a slow initial launch to the CVRP in early 2010 because vehicle choice was initially limited, but wanted the rebates in place before increased vehicle production in order to signal to manufacturers and consumers California’s commitment to support the ZEV roll out. Demand has picked up as more eligible vehicles come to market. Staff proposes a significant increase in ARB’s investment in the CVRP to between \$12 and \$17 million in FY 2011-12 in response to growing consumer demand and increasing product choice. Cleaner, light-duty vehicle technologies are critical to the transportation changes needed to meet California’s criteria pollutant and greenhouse gas emission reduction goals.

Project Status

In June 2010, the Board approved \$5 million in funding for the CVRP for FY 2010-11, augmenting the \$4.1 million funded in FY 2009-10. The California Center for Sustainable Energy was selected via competitive solicitation to administer the CVRP for both FYs funding. Taking into account administrative costs, the combined funding is sufficient to incentivize approximately 1,600 full-function ZEVs (at \$5,000 each). Since the project’s consumer launch in March 2010, approximately \$1.9 million in rebates have been issued, which comprises 25 percent of the existing CVRP budget. Table 4 provides a breakdown of rebates issued by vehicle type:

<b>Table 4. Rebates Issued by Vehicle Type</b>			
<b>Vehicle Type</b>	<b>Rebates Issued</b>	<b>Total Rebate Amount</b>	<b>% of Total Distributed</b>
Commercial Zero- Emission Vehicles	49	\$980,000	53%
Light-Duty Zero- Emission Vehicles	150	\$805,000	43%
Neighborhood Electric Vehicles	15	\$20,550	1%
Zero-Emission Motorcycles	37	\$55,500	3%

Data as of February 24, 2011

Updates were made to the CVRP Implementation Manual in March 2011 to incorporate the FY 2010-11 funding into the FY 2009-10 project. The updates include:

- A. Provisions for Rental and Car Share Fleets- This provision allows rebates to fleets that place eligible vehicles in California for a minimum of one year (twelve consecutive months) but less than three years for the reduced rebate amount presented in Table 5.

<b>Table 5. Rebate Amounts for Rental and Car Share Fleets under a Reduced Ownership Period</b>	
<b>Vehicle Type</b>	<b>Maximum Rebate Amount</b>
Light-Duty Zero-Emission Vehicle	
Type II, III, IV, or V	\$1,500
Type I.5	\$1,200
Type I	\$900
Light-Duty Plug-in Hybrid Electric Vehicle	\$900
Neighborhood Electric Vehicle	\$450
Zero-Emission Motorcycle	\$450

- B. Maximum Rebates per Entity- This provision caps each entity to 20 CVRP rebates either via direct purchase and/or lease in each calendar year with the exception of rental and car share fleets.
- C. Waiting List- This provision establishes a waiting list in the event FY 2010-11 funds are exhausted and new funds are not yet available. Rebates will be disbursed according to waiting list order, although ARB cannot guarantee funding until the Board approves next year's Funding Plan and the Legislature appropriates funding. All rebates for the waiting list are subject to the terms and conditions of the FY 2011-12 CVRP including revised rebate amounts.

#### California Energy Commission Funding

In February 2011, the Energy Commission approved \$2 million in funding under the Alternative and Renewable Fuel and Vehicle Technology Program to augment the FY 2010-11 CVRP. The funding is restricted to CVRP-eligible vehicles that are zero-emission or plug-in hybrids capable of freeway operation and certified for 4 passengers or more. The funding will support rebates for an additional 400 full function ZEVs.

## Staff Proposal for FY 2011-12

Staff is proposing a funding allocation between \$12 and \$17 million for the CVRP in FY 2011-12. This allocation is a significant increase from previous year with the possibility of tripling the previous years' investment in the CVRP. This funding range is based on input from vehicle manufacturers and stakeholders representing diverse consumer and industry interests. Even with increased funding, staff expects that demand for rebates over the next 12-18 months, due to increased consumer demand, production volumes, and vehicle choice, may exceed funding. Staff's proposal includes project refinements designed to increase the number of rebates available with limited funding while continuing ARB's commitment to advancing vehicle technology by influencing consumer choice and drawing vehicles to California.

- A. Rebate Amounts- Staff proposes a reduction in the maximum rebate amount from \$5,000 to \$2,500 for full-function ZEVs, with step-down reductions for other vehicle types. The new rebate amounts would apply to all wait listed rebates. Table 6 summarizes rebate amounts and maximum project funding proposed for each eligible vehicle type.

<b>Vehicle Type</b>	<b>Rebate Amount</b>
Light-Duty Zero-Emission Vehicle	
<i>Type II, III, IV, or V (range <math>\geq</math>100 miles)</i>	\$2,500
<i>Type 1.5 (range <math>\geq</math>75, &lt;100 miles)</i>	\$2,000
<i>Type I (range <math>\geq</math>50, &lt;75 miles)</i>	\$1,500
Light-Duty Plug-in Hybrid Electric Vehicle	\$1,500
Neighborhood Electric Vehicle	\$750
Zero-Emission Motorcycles	\$750

- B. Car Share Set-Aside- Car sharing provides a reliable and flexible alternative to car ownership, particularly in urban settings where it is part of a larger public transportation network. Staff is proposing to set aside about 10 percent of CVRP funds for this purpose in recognition of this transportation model's benefits in reducing criteria pollutant and greenhouse gas emissions within the state. Staff would monitor the draw down throughout the fiscal year and remaining funds would roll back into the general CVRP account if unused.
- C. Rebate Cap- Staff is proposing to extend the cap on the number of rebates a purchasing entity is eligible for FY 2011-12. All fleets, except for rental and car share fleets, would be capped at 20 rebates per entity per year. Traditional rental

car fleets would be capped at 50 vehicles per calendar year. Car share fleets would be excluded from this provision. To be eligible for the car share cap exclusion, rebated vehicles must be used exclusively for car share purposes otherwise they will fall under a rebate cap.

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## **Advanced Technology Demonstrations Proposed funding of \$0.5 - \$2 million**

### Overview

ARB's goal in funding demonstration projects under the AQIP is to help accelerate the next generation of advanced technologies to reduce emissions from mobile sources. AQIP funding would be used to demonstrate the viability of new technologies with the potential for commercialization within three years of demonstration and the ability to gain significant market penetration.

### Project Status

In FY 2009-10, ARB issued two solicitations, one to demonstrate advanced after-treatment on existing locomotives and another to demonstrate hybridization of an existing marine vessel. ARB awarded funding for two locomotive projects totaling approximately \$850,000 and one marine project for \$1 million. Implementation of these projects is ongoing.

In FY 2010-11, three solicitations totaling \$2 million have been released or will be released shortly:

- Marine Category: Technologies to Reduce Main Engine Usage and Other Emission Reducing Technologies-\$700,000
- Locomotive Category: Cleaner Engines and Advanced PM Retrofits- \$800,00
- Agriculture and Off-Road Category: Commercial Zero Emission Lawn and Garden Equipment- \$500,000

### Proposed FY 2011-12 Demonstration Project Categories

- A. Locomotive- ARB is proposing to continue funding for locomotive demonstration projects. Eligible projects will be selected based on ARB priorities in the ARB Technical Options to Achieve Additional Emissions and Risk Reductions from California Locomotives and Railyards (August 2009) document and available funding.
- B. School bus- ARB opted, in consultation with school bus stakeholders, to defer funding for a school bus demonstration project from FY 2010-11 to FY 2011-12. The school bus project will be prioritized for demonstration funding in FY 2011-12 following a public work group process that will define project parameters during the summer of 2011.

- C. Hybrid truck testing- ARB is proposing approximately \$500,000 in funding for testing of hybrid heavy-duty trucks by the U.S. Department of Energy National Renewable Energy Laboratory. The testing will consist of data logging hybrid vehicles to improve duty cycle classifications and possible emissions testing of both hybrid and conventional vehicles. This testing will support ARB's investment in hybrid trucks through the HVIP, as a regulatory control strategy, and updates to ARB's heavy-duty hybrid test procedures.
- D. ARB is proposing to have the option of funding additional demonstration projects based on guiding principles, Board priorities, needs identified from existing demonstrations, and availability of funds. Additional projects will be vetted through the AQIP Demonstration Project Working Group.

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## **Section 5: Other Project Categories**

Lawn and Garden Equipment Replacement (LGER) Project – ARB staff is not proposing additional AQIP funding for consumer LGER rebates. As the demand for AQIP funds continues to exceed revenues, ARB must prioritize funding to those project categories with high demand that meet all guiding principles. Lawn and garden equipment replacement receives funding through local air district programs and has the opportunity to expand that program using Carl Moyer Program funds pending proposed program revisions that will be presented to the Board in late April. Since other incentive funding is available, the LGER no longer meets a primary guiding principle of the AQIP to focus funding on areas underserved through other incentives.

Agricultural Utility Terrain Vehicle (Ag UTV) Rebate Project – ARB staff is not proposing additional funds for the Ag UTV Rebate project in FY 2011-12. Demand for the rebates has been slower than ARB anticipated with 22 rebates issued, accounting for about 6 percent of the available FY 2009-10 vehicle funding, as of March 15, 2011. The remaining project funds are expected to meet demand over the next year. If demand does not increase and a significant amount of FY 2009-10 funds remain in the project through 2011, ARB may withdraw funding for this category in January 2012.

Off-Road Hybrid Equipment Pilot Project (Off-Road Pilot Project) – The solicitation for the Off-Road Pilot Project will be released shortly. ARB will administer this project over the next year and evaluate viability of hybrid technology on various off-road vocations and the corresponding emission benefits and fuel savings. ARB will use data from this pilot to determine if a more comprehensive project is warranted in future funding plans.

## **Section 6: Proposed Contingency Plan**

Similar to previous years' funding plans, this year's Funding Plan will incorporate contingency provisions in the event circumstances change between Board approval and the time solicitations are issued or funds awarded. Under these provisions, the Board would grant the Executive Officer authority to make the necessary mid-course adjustments to address the cases described below.

Contingency Related to AQIP Revenues - Over the past two funding cycles, revenues have been nearly 30 percent lower than the amount appropriated in the State budget. Based on this experience, ARB will propose the following:

- A minimum allocation for each project category based on a \$28 million revenue total (a conservative estimate based on the revenues over the past two years) as well as an allocation for \$40 million allocated in the proposed State Budget.

- Initial grant solicitations will be based on the minimum allocation; however, the solicitations and grant agreements will be written with provisions to increase the awarded funding if there are sufficient revenues.
- Depending on actual revenues, funding for each project category would be scaled according to the targets in Table 2 and an updated assessment of demand for funding in each project category.

Contingency for Minor Technical/Administrative Changes - This provision will allow staff to make minor changes to a project category through a publicly vetted work group process. Minor changes would be within the Funding Plan parameters approved by the Board. Any major allocation adjustments outside those specifically prescribed in the proposed Funding Plan would require Board approval.

### **Section 7: Fiscal Year 2011-12 Project Solicitations**

Staff is proposing to release grant solicitations based on the minimum allocations early in the 2011-12 fiscal year after Board approval of the Funding Plan. However, ARB is not able to enter into a grant agreement until the State budget has been approved. The CVRP solicitation will be ARB's first priority; it is staff's goal to make FY 2011-12 CVRP funding available to consumers before the current funds are exhausted, if possible.