

Report to the California Legislature

**STATUS REPORT ON THE DEVELOPMENT OF GUIDELINES FOR THE
ENHANCED FLEET MODERNIZATION PROGRAM (AB 118, Article 11)**

Report Submitted By:

California Air Resources Board

Pursuant to Health and Safety Code § 44125

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Executive Summary

In October 2007, Governor Schwarzenegger signed AB 118 (Nunez, Chapter 750, Statutes of 2007). AB 118 provides approximately \$200 million annually through 2015 for three new programs to fund air quality improvement projects and develop and deploy technology as well as alternative and renewable fuels. The bill creates new funding for the programs via increases to the smog abatement, vehicle registration, and vessel registration fees. One of the three programs, the Enhanced Fleet Modernization Program (EFMP), is a new vehicle retirement program that is to be developed by the Air Resources Board (ARB) and administered by the Bureau of Automotive Repair (BAR) (Health and Safety Code (HSC), section 44125(a)). This program is funded at roughly \$30 million annually through 2015. A copy of the bill language related to the EFMP is provided as an attachment.

The focus of the EFMP is to augment existing State and local vehicle retirement programs by providing new funding to retire the highest polluting vehicles in the areas with the greatest air quality problems. The legislation also directs that the program consider flexible compensation related to the replacement of the vehicles being retired, and requires the ARB to consider cost-effectiveness and impacts on disadvantaged and low-income populations.

There are two main features of the proposed EFMP. First, the proposal significantly expands the existing statewide program by removing the requirements that vehicles be *subject* to Smog Check and *fail* to participate. These enhancements more than double the vehicle population that can be retired in any given year. Second, additional compensation would be made available to targeted consumers in areas with the most severe air quality to incentivize the retirement of probable gross polluting vehicles along with the purchase of newer, cleaner vehicles. It is proposed that compensation range from \$1,000 for a basic retirement up to a maximum of \$4,000 total for retirement and replacement voucher.

This new program is in the final development stage. The ARB, in cooperation with the BAR, has held three public workshops to solicit comment from both stakeholders and the public regarding the specific details for the implementation of this enhanced retirement program. Attendees at the workshops have emphasized the following three points: the program should be as simple as possible to the consumer, compensation incentives should account for lower income populations, and the EFMP should be a cost effective use of state funds. Staff is finalizing details of the program to meet the legislative direction and stakeholder comments. The final proposal will be available for public input in

early April and be presented to the ARB Board for their consideration on May 28, 2009.

This report is submitted to comply with the requirements of the Supplemental Report of the 2008 Budget Act, Item 3900-001-0044 (2) – Air Resources Board:

Air Quality Improvement Program and Carl Moyer Program. The ARB shall report to the Legislature, by no later than January 10, 2009, on options for vehicle retirement programs that create incentives for the purchase of replacement vehicles that, compared to other replacement vehicles that conceivably could be purchased under these programs, emit fewer quantities of air pollutants and that have fewer miles driven at the time of purchase.

Background

Air pollution is a serious problem for California – over 90 percent of Californians live in areas that have unhealthy air at times. Air pollution has been tied to serious health impacts. Research in Southern California shows that children exposed to unhealthful levels of ozone, or smog, suffer decreased lung function growth and increased asthma. In addition, recent evidence has linked the onset of asthma with exposure to elevated ozone levels in exercising children.

The emissions that cause smog come from a multitude of sources – cars, trucks, and industrial sources, as well as hairspray, lawnmowers, and paints. One of the prime contributors to air pollution in California is the automobile. Although new cars are over 97 percent cleaner than their uncontrolled predecessors, in 2010, almost 20 percent of the smog-forming emissions in the Los Angeles area will still be caused by cars, minivans, pick-up trucks, and sport-utility vehicles. A disproportionate amount of these emissions are from older, high-emitting vehicles. For example, by 2010, vehicles 15 years and older will account for about 17 percent of the fleet (and about 12 percent of the miles traveled), but still be responsible for almost 60 percent of the smog-forming emissions from cars. In California, about half of all cars survive at least 15 years and one-quarter to at least 20 years. However, it is interesting to note that of those cars that do survive to 20 years, about 40 percent of those will survive at least 10 more years.

Eventually, these older vehicles will be retired, permanently removing their emissions. However, in order to meet our federally-mandated deadlines for clean air, ARB has developed programs to accelerate the retirement of older vehicles. Although voluntary accelerated vehicle retirement (VAVR) programs operate throughout California, they have never achieved their full potential because they have not been funded at the originally anticipated levels.

Existing Retirement Programs

Both statewide and local programs exist and are governed by basic rules adopted by the ARB. To qualify for these programs, vehicles must meet registration, functionality, and equipment eligibility criteria. To accommodate car collectors and others with interest in vehicles offered for retirement, local programs provide the public with an opportunity to purchase vehicles in whole or in part before the vehicles are retired.

Statewide Consumer Assistance Program: The state currently provides \$1,000 through BAR's Consumer Assistance Program (CAP) for the retirement of vehicles that did not pass their most recent Smog Check. Typically, these are older vehicles, but there is not a specific range of model years targeted by the program. Any vehicle that has failed the test (and meets registration and

physical condition requirements) is eligible. The objective of CAP is to provide options, both vehicle retirement and repair assistance, for Californians facing difficulties in registering their vehicles resulting from a failing Smog Check. The program is only available during the Smog Check cycle and for vehicles that fail the test. A total of 88,000 vehicles have been retired since the program's inception and demand has historically exceeded available funds. In addition, 235,000 vehicles have received repair assistance since the program's inception.

Local Car Scrap Programs: Local air districts also administer programs that provide incentives to voluntarily retire older vehicles. District programs are referred to as Voluntary Accelerated Vehicle Retirement (VAVR) programs. The five air districts that have historically operated a VAVR program include Antelope Valley Air Pollution Control District (APCD), Bay Area Air Quality Management District (AQMD), San Joaquin Valley APCD, Santa Barbara County APCD, and the South Coast AQMD. Although the incentive amounts are similar to BAR's CAP, with incentives in the \$600 to \$1,000 range, VAVR programs do not strictly overlap with the state's CAP since the vehicles participating in district programs are all outside of the registration renewal cycle and had to have passed their last Smog Check to be eligible. These programs are typically operated with state or local incentive funds, although the South Coast AQMD also operates a privately funded program under Rule 1610 that generates mobile source offset credits. The district-operated VAVR programs have retired substantially fewer vehicles than the State's CAP program.

There are also two other recently initiated vehicle retirement programs which are operated by local air districts. Both of these programs are limited in scope and funding compared to the programs discussed above. The South Coast AQMD operates a program called HEROS that uses mobile remote sensing equipment to identify gross polluters and then solicits voluntary participation through the offer of compensation for repair or retirement. The San Joaquin Valley APCD operates the REMOVE II program for gross polluters by soliciting owners of vehicles that are targeted as probable high emitters based on Smog Check test data.

Collectively, all of these existing programs are not sufficient in scope or funding to meet the State Implementation Plan (SIP) commitments for vehicle retirement. Vehicle retirement programs have consistently been included in the State's clean air plans due to their cost effective nature, but funding sources have been a chronic problem. The most recent SIP proposes to increase the scope of the current State program by approximately 50,000 and 10,000 vehicles per year in the South Coast and San Joaquin Valley respectively. These totals represent about half of one percent of the vehicles subject to Smog Check in each region. The funds allocated under AB 118 provide roughly one-third of the total needed to meet the SIP commitment.

Overview of Article 11: Enhanced Fleet Modernization Program

The Enhanced Fleet Modernization Program (EFMP), is a voluntary vehicle retirement program authorized under AB 118 (Nunez, Chapter 750, Statutes of 2007, section 44125(a)). It will augment the existing vehicle retirement programs by providing new funding via a \$1 increase to vehicle registration fees (roughly \$30 Million annually through 2015). This program is to be developed by the ARB in consultation with the Bureau of Automotive Repair (BAR). The program will be administered by BAR, beginning January 1, 2010.

AB 118 establishes six significant design criteria or guidelines for the new program: 1) Retired vehicles must be permanently removed from operation by a dismantler under contract with the BAR; 2) This will be a separate and supplemental program to any existing program administered by local air districts; 3) The program will target high polluting passenger vehicles, light-duty and medium-duty trucks that have been continuously registered in California for two years; 4) The program shall be focused where the greatest air quality impact can be identified; 5) Compensation is flexible, depending on emissions, age and replacement vehicle factors; and 6) Cost-effectiveness and impacts on disadvantaged and low-income populations shall be considered.

Preliminary Program Design and Concepts

There are two main features of the proposed EFMP. First, the proposal significantly expands the existing statewide program by removing the requirements that vehicles be *subject* to Smog Check and *fail* in order to participate. Second, additional compensation would be made available to targeted consumers in areas with the most severe air quality to incentivize the retirement of probable gross polluting vehicles along with the purchase of newer, cleaner vehicles.

The first feature, expansion of the existing retirement program would be available statewide and include vehicles that have been declined from the CAP program for administrative reasons and vehicles that are targeted as probable high emitters. This expansion of the existing retirement program is a significant change because a given vehicle would be eligible for retirement at any time not just within 180 days of failing a smog check test. The potential increase in eligible population and decrease in program restrictions is significant. Staffs estimate that 7,500 vehicles are declined from the CAP program for administrative reasons, but would be eligible under the EFMP. The targeted probable high emitters population consists of an estimated 500,000 pre-1976 vehicles, about 200,000 light-duty diesel vehicles and an additional large population of vehicles identified by BAR using the High Emitter Profile (HEP) model. The combination of additional funds and greatly expanded eligible

population in the EFMP more than double the vehicle population that can be retired in any given year.

The second feature, the retirement and replacement voucher program, would be only for those targeted vehicles in specific areas, namely South Coast and San Joaquin Valley. Targeted vehicles would include the following three sets of probable high emitters: 1) pre-1976 model year vehicles, 2) light-duty diesel vehicles, 3) a subset of vehicles identified by BAR using the high emitter profile model. Additional compensation will be made available to consumers for targeted vehicles in the form of a rebate or voucher to incentivize the purchase of a newer, cleaner vehicle. This dual nature of the program will further allow the retirement of vehicles as well as providing additional incentives to select a cleaner replacement vehicle.

Incentives for Early Retirement Only

Board staff has proposed that incentive dollar amounts for early retirement be consistent with the existing CAP program. Pre-1976 model year vehicles, light-duty diesel vehicles, and a subset of vehicles identified by BAR using the HEP model with the highest probable emissions will be targeted for direct solicitation in the program. Moreover, vehicles declined from the CAP program due to administrative issues or those that passed smog check would be eligible. The proposed incentives for retirement are shown in the table below. Consumers may elect to participate only in the early retirement portion of the EFMP.

Incentives for Vehicle Replacement

AB118 provides for flexibility in compensation levels depending on factors including, but not limited to, the age of the vehicle, the emission benefits of the vehicle's retirement, the emissions impact of any replacement vehicle, and the location of vehicles in areas of the state with the poorest air quality. Cost-effectiveness and impacts on disadvantaged and low-income populations are also to be considered. Board staff has proposed that incentive dollar amounts for early retirement be consistent with existing retirement programs, but targeted to the most probable high emitters in those areas with the greatest air quality problems. Only targeted vehicles (pre-1976 model year vehicles, light-duty diesel vehicles, and a subset of vehicles identified by BAR using the HEP model) will be eligible for an additional incentive for vehicle replacement.

These targeted vehicles will on average have higher baseline emissions than those in conventional retirement programs where the vehicles are selected by model year alone. Because these targeted vehicles are probable gross polluters, additional funds can be made available for a cleaner replacement vehicle while still maintaining acceptable cost effectiveness. Targeting gross polluters and providing a replacement incentive for a sufficiently new (clean) vehicle allows

mitigation of one of the historic criticisms of voluntary vehicle retirement programs: the assumption of a cleaner replacement vehicle.

The proposed incentives for retirement are shown in the table below. In order to influence the emissions impact of a replacement vehicle, a voucher or rebate will be provided if the participant elects to buy a sufficiently new (clean) vehicle. Pursuant to stakeholder and public input staff is presently exploring means to implement this incentive in the simplest manner possible in order to maximize participation. Both retirement and replacement incentives are shown in the table below. The proposal is structured to provide greater funding and flexibility to low income participants to allow them to get into a newer vehicle at a manageable cost.

Proposed Program Incentives:

Consumer	Retirement Incentive	Voucher/Rebate towards replacement vehicle	Total Incentives	Replacement Model Years (rolling)
All	\$1,000	\$2,000	\$3,000	Newest 4 Model Years
Income Eligible (225% of federal poverty limit)	\$1,500	\$2,500	\$4,000	Newest 8 Model Years

Schedule of Program Adoption

Board staff is continuing to refine and outreach the proposal with interested stakeholders. Staff is also planning to present the regulation at the May, 2009 Air Resources Board Hearing. It is expected that this will allow sufficient time for compliance with the legislated deadline of July 1, 2009 for program adoption and January 1, 2010 for commencement of the program.

Appendix A: AB118, Article 11

SEC. 4. Article 11 (commencing with Section 44125) is added to Chapter 5 of Part 5 of Division 26 of the Health and Safety Code

Article 11. Enhanced Fleet Modernization Program

44125. (a) No later than July 1, 2009, the state board, in consultation with the Bureau of Automotive Repair (BAR), shall adopt a program to commence on January 1, 2010, that allows for the voluntarily retirement of passenger vehicles and light-duty and medium-duty trucks that are high polluters. The program shall be administered by the BAR pursuant to guidelines adopted by the state board.

(b) The guidelines shall ensure all of the following:

(1) Vehicles retired pursuant to the program are permanently removed from operation and retired at a dismantler under contract with the BAR.

(2) Districts retain their authority to administer vehicle retirement programs otherwise authorized under law.

(3) The program is available for high polluting passenger vehicles and light-duty and medium-duty trucks that have been continuously registered in California for two years prior to acceptance into the program or otherwise proven to have been driven primarily in California for the last two years and have not been registered in any other state or country in the last two years.

(4) The program is focused where the greatest air quality impact can be identified.

(5) Compensation levels for retired vehicles are flexible, taking into account factors including, but not limited to, the age of the vehicle, the emission benefits of the vehicle's retirement, the emissions impact of any replacement vehicle, and the location of vehicles in areas of the state with the poorest air quality.

(6) Cost-effectiveness and impacts on disadvantaged and low-income populations are considered.

44126. The Enhanced Fleet Modernization Subaccount is hereby created in the High Polluter Removal and Repair Account. All moneys deposited in the subaccount shall be available to the department and the BAR, upon appropriation by the Legislature, to establish and implement the program created pursuant to this article.