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EXECUTIVE
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December 18, 2008

James Goldstene
Executive Officer

California Air Resources Board

1001 I Street
Sacramento, CA 95814

RE: Audit of Bay Area Air Quality Management District (District) Carl Moyer Program

Dear Mr. Goldstene,

Thank you for your letter on November 25, 2008, regarding the follow-up audit conducted by the California Air Resources Board (ARB) on the District's implementation of the Carl Moyer Program (CMP). In your letter, you mention that the District has substantially improved the overall operation of its CMP and Lower Emissions School Bus Program (LESBP). This improvement has been the result of cooperation between the ARB and District staff; a partnership which has resulted in the significant reduction of the diesel particulate and nitrogen oxide emissions targeted by the program.

In your letter, you noted that there are still a number of issues outstanding with the District's CMP and LESBP. In response to this, the District has taken significant action to ensure that these remaining issues have been completely addressed. To assure you of this, I will outline the outstanding issues and actions taken to address them:

1. **Issue:** *The CMP must continue its mitigation efforts on items such as cost-effectiveness calculations, amendments to contracts and file documentation.*

Response: Since the exit interview on September 8, 2008, the District has continued to execute its remediation plan for the CMP. As part of the final stage of execution, the District has performed all cost effectiveness calculations, contract amendments and documentation additions requested by the ARB. District staff and consultants have also reviewed all other affected CMP files to ensure that these changes have also been reflected consistently throughout the program. All amendments will be complete by early January and the District has requested that ARB staff provide a format for a "closeout report" for all CMP Years 1 through 8 to complete the remediation process.

2. **Issue:** *Because of returned LESBP funds, the ARB is requiring the District to follow a remediation plan (LESBP plan) submitted on September 22, 2008.*

Response: Since the submittal of the LESBP plan, the District's 2008 solicitation for school bus retrofit and replacement projects has closed. This solicitation yielded over \$11 million (\$6 million for retrofits and \$5 million for replacements) in eligible projects. This dollar amount far exceeds the \$8.4 million allotted to the District from the California Goods Movement Bond (I-Bond) program. In order to meet its commitments under the LESBP plan, the District will fund all \$6 million in retrofit projects from its I-Bond allotment. This more than meets the requirements of the LESBP plan. Additionally, the District will open an additional solicitation for retrofits in 2009.

3. **Issue:** *Previous LESBP contract language conflicted with ARB guidelines by allowing project work to begin prior to contract execution.*

Response: The District has completely revamped its contracts for LESBP for its 2008 program. As part of this effort, particular attention has been paid to ensure that contracts conform to the new ARB program guidelines. In addition to including a clause in the contract that stipulates no work can begin prior to contract execution, the District's policies and procedures stipulate that this requirement will be referenced in all documentation provided to grantees prior to contract. Copies of the current District contract will be forwarded to the ARB program liaison by the end of December 2008.

In addition to the issues referenced above, your letter also made three observations regarding reporting on the CMP and LESBP programs to the District Board of Directors (Board), the reopening of solicitations on an as needed basis to ensure sufficient projects to fulfill funding obligations and the need to maintain a backup lists of eligible projects and substitutes projects for both programs. The District appreciates these suggestions and has taken the following actions in response to them:

- The District's Board is regularly updated via its Mobile Source Committee on operations in the CMP and LESBP. These reports occur approximately quarterly to semiannually. In addition, the Board receives a monthly report from the incentives program on operations associated with both programs.
- As part of its review of operations, the District has determined that it is necessary to go to an ongoing open solicitation for projects in its CMP. This will be discussed with the District's Board in January and with their permission this will ensure that sufficient projects are obtained to fulfill obligations and to maintain a backup lists of eligible projects and substitutions for the program.
- The LESBP has been significantly oversubscribed in this last solicitation. However, the District's Board is significantly committed to achieving emissions reduction for California's children. Therefore, the program will be reopened with funding from our AB923 program and the remainder of the I-Bond funds in 2009 with a view to obtaining the maximum number of retrofits and replacements possible.

Finally, I would like to thank you again for the professional manner in which your staff conducted this audit and for the assistance of your liaison team. These efforts have helped us to reshape our program and helped us to make the significant progress you commented on in your letter. We look forward to working together towards further improvements. If you have any questions regarding this letter, please feel free to contact me or Jack Colbourn, Director of the Strategic Incentives Division at (415) 749-5041 or jcolbourn@baaqmd.gov.

Yours sincerely,


Jack P. Broadbent
Executive Officer /APCO