JANUARY PUBLIC WORKSHOP TO DISCUSS PROPOSED REVISIONS TO THE LOWER-EMISSION SCHOOL BUS PROGRAM GUIDELINES AND CARL MOYER PROGRAM GUIDELINES

Air Resources Board (ARB) staff (staff) invite you to participate in the public workshop to discuss proposed revisions to the Lower-Emission School Bus Program (LESBP) and the Carl Moyer Program (CMP). The LESBP provides incentive grants to reduce school children's exposure to harmful pollutants through purchases of replacement buses and the installation of retrofit technologies on existing buses. The CMP offers financial incentive grants to reduce emissions from various mobile sources including on-road and off-road motor vehicles and agricultural engines, and locomotives.

In December 2009, three workshops were held at which proposed revisions to the CMP, including the on-road Voucher Incentive Program (VIP) were presented and discussed. At today's workshop, additional proposed revisions to the CMP and VIP are being presented, which are a result of feedback received from stakeholders during those three workshops. In addition, at today's workshop staff is presenting proposed revisions to the LESBP.

This workshop will provide an opportunity for stakeholders to share input on issues that staff should consider in the guideline revisions. This meeting will focus on the proposed changes including:

1. Proposed LESBP Changes
2. Proposed CMP On-road Program Changes
3. Proposed CMP Off-road Program Changes
4. Proposed CMP Administration Changes

This handout is provided to facilitate discussion at this workshop regarding staff's proposed revisions to the LESBP and the CMP. The handout contains stakeholder questions and staff's responses, followed by references to Attachments 1, 2 and 3. Attachments 1, 2 and 3 contain the corresponding proposed revised language to the 2008 LESBP Guidelines, the 2008 VIP Guidelines and the 2008 CMP Guidelines, respectively.

LOWER-EMISSION SCHOOL BUS PROGRAM QUESTIONS

(1) Will ARB change the required engine emission standard for replacement school buses in 2010?

Yes. Currently, the LESBP requires an emission standard of 0.2 g/bhp-hr NOx for 2010 MY replacement school buses funded through the program.

Staff is recommending changing the NOx emission standard from 0.2 g/bhp-hr for 2010 model year buses to a standard of 0.50 g/bhp-hr FEL for any model year engine funded in the 2010 calendar year. This proposed change is due to the limited number of school buses that are being manufactured and certified at or below the 0.2 g/bhp-hr NOx emission levels, and would allow continued funding for the cleanest school buses available. The emission standard for LESBP funding will be evaluated and, if necessary, updated at the staff level by the end of the first quarter of each year.

(2) Will ARB streamline the disbursement process?

Yes. When originally written, the 2008 LESBP guidelines required disbursements to be provided to the districts in limited installment amounts in an effort to evenly supply the market with requests for new school buses and retrofits. Now, the economy has slowed such that the bond sales intended to fund this program are not predictable. For these reasons, staff is proposing to modify the disbursement process to allow districts the opportunity to request funds as they become available as long as the currently required documentation has been provided by the local air district.

In addition, the 2008 LESBP guidelines specified that the liquidated damages will be administered through a withhold by the ARB of five percent of the total grant fund award to each air district until after April 1, 2011. Because of the slow release of bond funds and current contract requirements that safeguard school districts, ARB is proposing to eliminate this five percent withhold of district funds.

(3) Will ARB extend the retrofit funding deadline?

Yes. Current Guidelines require that retrofit projects are expended by June 30, 2010. Due to the slow release of Proposition 1B funds in 2009 for the LESBP, many school districts and local air districts have expressed concerns about meeting the June 30, 2010 deadline. In response, ARB staff is proposing adjusting the retrofit deadline to allow funding through June 30, 2012.

(4) Will ARB increase the current replacement school bus cost cap and CNG infrastructure cost cap?

No. In 2007, the price for a basic diesel-fuel school bus was $115,000. Since then, factors including inflation and an emissions level change have occurred. The price for a basic 2010 model year diesel-fueled school bus is approximately $140,000 before taxes and under $165,000 with taxes. Because of this increase, staff considered an increase to the current

$140,000 cost cap for replacement school buses. However, the impact of this change would be that fewer school buses and retrofits could be purchased with the school bus program funding. Furthermore, the remaining 1977-1986 model year school buses require a $25,000 match, so the current $140,000 LESBP funding plus the $25,000 match is sufficient to purchase replacement school buses. Therefore, staff is recommending no change to the current $140,000 cost cap.

The proposed revised language of the LESBP Guidelines is provided in Attachment 1.

CARL MOYER PROGRAM QUESTIONS – ON-ROAD

(1) Is ARB proposing to add a retrofit funding option to the Voucher Incentive Program?

Yes. ARB is proposing to add a new retrofit funding option that would complement the existing replacement grants available through VIP. Grants of up to $5,000 would be available for ARB-verified retrofit devices. Trucks with engine model year 2004 through 2006 in small fleets (1-3 vehicles) would be eligible for funding, consistent with existing Carl Moyer Program retrofit funding criteria. Staff expects this new funding option to help small fleets achieve emission reductions before regulatory deadlines, while ensuring that retrofits are not installed on trucks destined for short term replacement.

The proposed newly revised language of the VIP Guidelines is provided in Attachment 2.

CARL MOYER PROGRAM QUESTIONS – OFF-ROAD

(1) Under the current Carl Moyer Program Guidelines, the retrofit waiver flexibility expired on March 27, 2009. Can districts still offer the waiver?

Yes. ARB has continued to allow districts to offer the waiver after March 27, 2009, and as represented in the draft proposed language, staff intends to propose that this flexibility be continued for off-road diesel equipment not subject to an ARB in-use regulation.

(2) I signed the retrofit waiver after March 27, 2009. Do I have to install a retrofit?

No. Projects for which applicants signed the retrofit waiver before the March 25, 2010 Board Hearing date are allowed to proceed with the waiver. These projects must be committed to (as defined in the

Guidelines, Section 15 of the Program Administration Chapter) no later than three months after Board approval of the proposed language.

3) Is there a specific definition for Farm Equipment that are impacted by SBX2_3 (Florez)?

Yes. Staff proposes to revise the CMP Guideline language to include a definition of farm equipment.

CARL MOYER PROGRAM QUESTIONS – ADMINISTRATION

1) In response to the recent economy, will ARB consider allowing districts to waive the usage requirements in existing project contracts?

Yes. Under the 2008 CMP Guidelines, all project contracts must specify the amount an engine is required to operate within California, or the district, each year based on hours, miles, or fuel usage. Staff is recommending that districts be allowed to waive the usage requirement in existing projects where circumstances beyond the control of the applicant have resulted in a significant decrease in the amount an engine is used. In addition, staff is recommending that future contracts need not include usage requirements, as long as robust historical documentation is provided by the applicant. The following details staff's recommendation.

Annual Usage (New Projects):

In projects where at least two years of complete historical annual usage (mileage, fuel usage, hours of operation, etc.) are documented and verified, districts are not required to include a minimum annual usage requirement in the contract. Such historical usage shall be documented for at least the previous twenty-four (24) months immediately prior to the application date. Consistent with current Guideline requirements, for projects in which historical annual usage is not adequately documented, the contract must include a minimum annual usage requirement. All contracts, regardless of whether or not annual usage is included in the contract, must continue to include a provision for owners to submit annual usage reports.

The types of acceptable documentation for establishing historical annual usage will be clearly defined and incorporated into each district's policies and procedures manual, and will be subject to ARB approval at ARB's request. Additional forms of documentation to verify historical annual usage that are not included in a District's policies and procedures manual can be evaluated and approved by ARB on a case-by-case basis.

Annual Usage (Existing Projects):

For existing contracts, the minimum annual usage requirement may be waived for a defined time period without penalty if the grant recipient demonstrates to the satisfaction of the Air Pollution Control Officer that the equipment currently subject to the usage requirements was idled (or significantly underutilized) due to unforeseen conditions beyond the control of the participant. These conditions could include, but are not limited to, the following:

- A decrease in usage due to the economic recession.
- Unforeseen fluctuations in water allocations or pumping needs for agricultural irrigation pump engines.
- Significant land fallowing for off-road agricultural equipment and agricultural pumps.

To be considered for a waiver of the minimum annual usage requirement, the participant must provide a written request to the district along with documentation that substantiates the unforeseen conditions leading to the lower usage rate. The participant must also demonstrate that the equipment for which a waiver is being requested is not being idled (or significantly underutilized) in favor of operating other, higher-polluting equipment.

The types of acceptable documentation for substantiating 1) the need for the waiver and 2) that higher-polluting equipment is not consequently receiving more use will be clearly defined and incorporated into each district's policies and procedures manual, and will be subject to ARB approval at ARB's request. Such documentation may include, but is not limited to, documentation from appropriate governmental agencies regarding surface water deliveries and fallow land, relevant logs regarding the amount of groundwater pumped in lieu of surface water deliveries, agricultural pump registration/permit information, records that show that idled vehicles or equipment are still owned by the participant, relevant information from the ARB's Diesel Off-Road On-Line Reporting System (DOORS), or other pertinent records. Additional forms of documentation that are not included in a District's policies and procedures manual can be evaluated and approved by ARB on a case-by-case basis.

In granting a waiver of the minimum annual usage requirement, the district shall specify the length of time for which the waiver is valid. The waiver

will not excuse the participant from any contract requirement to provide annual usage reports.

The district's findings must be documented in writing and be included in the project files. Appropriate notations to indicate that a waiver has been granted shall also be included in the "comments" field of the CARL database for each relevant project.

2) Do the initial proposed cost-effectiveness limit and capital recovery factors (CRF) include 2009 data?

No. Due to the availability of data, the initial proposed cost-effectiveness limit of $16,500 was based upon the changes to the California Consumer Price Index (CA CPI) through December 2008 and was calculated by converting the CA CPI change to an inflation rate. The initial proposed CRF was based upon a discount rate of 3 percent using the average annual yield of U.S. Treasury securities with a 3-year, 5-year, 7-year, and 10-year maturation over the 2008 calendar year. Since more recent data could impact the final cost-effectiveness limit and CRF thereby changing project eligibility criteria, staff proposes to revise its original recommendation and instead recommend using the 2009 calendar year CA CPI data as soon as it is available to finalize updates to both the cost-effectiveness limit and CRF. The data is expected to be available in early spring 2010.

3) Are districts required to submit a Policies and Procedures Manual every year to receive their annual fund disbursement?

No. Districts must submit a Policies and Procedures Manual (P&P) for the 2008 Carl Moyer Program Guidelines and receive approval from ARB before they can receive their initial fund disbursement. Once the district has received ARB approval for the current Guidelines (i.e. 2008 CMP Guidelines), they will not be required to annually re-submit a P&P to receive subsequent years fund disbursements. Furthermore, should the district update their P&P, they will only need to keep a current version at the district office, and make it available to ARB upon request.

4) Can an air district use the Clean Air Reporting Log (CARL) to fulfill the application tracking system requirement in Section 27(d)?

Yes. As an option, a district may use CARL to fulfill this requirement if all the CMP applications received by the district are entered into CARL (i.e. whether the application is provided funding or not). For clarity, Staff has modified the proposed language.

With the exception of Administration questions #2, the proposed newly revised language of the CMP Guidelines is provided in Attachment 3.