CALIFORNIA AIR RESOURCES BOARD

NOTICE OF PUBLIC MEETING TO CONSIDER THE PROPOSED FISCAL YEAR 2016-17 FUNDING PLAN FOR LOW CARBON TRANSPORTATION AND FUELS INVESTMENTS AND THE AIR QUALITY IMPROVEMENT PROGRAM

The Air Resources Board (ARB or Board) will conduct a public meeting at the time and place noted below to consider the approval of the *Proposed Fiscal Year 2016-17 Funding Plan for Low Carbon Transportation and Fuels Investments* and *the Air Quality Improvement Program* (FY 2016-17 Funding Plan).

DATE:	June 23, 2016
TIME:	9:00 a.m.
LOCATION:	California Environmental Protection Agency Air Resources Board Byron Sher Auditorium 1001 I Street Sacramento, California 95814

This item will be considered at a one-day meeting of the Board, which will commence at 9:00 a.m., June 23, 2016. Please consult the agenda for the meeting, which will be available at least 10 days before June 23, 2016, to determine the order in which this item will be considered.

Background

The Governor's proposed Fiscal Year (FY) 2016-17 State Budget includes $500 million for Low Carbon Transportation and Fuels investments administered by ARB from Cap-and-Trade auction proceeds deposited into the Greenhouse Gas Reduction Fund. This funding would reduce greenhouse gas (GHG) emissions and further the purposes of Assembly Bill 32 (Núñez, Chapter 488, Statutes of 2006) with a priority on benefiting disadvantaged communities. At least half these funds would be invested to benefit disadvantaged communities, and at least 10 percent would be invested directly in disadvantaged communities. This proposal includes $40 million to support the production of very low carbon fuels, a new addition to ARB's incentive programs. The Governor's proposed State Budget includes $28.6 million for the Air Quality Improvement Program (AQIP) which provides mobile source incentives to reduce emissions of criteria pollutants, toxic air contaminants, and GHGs.

The proposed FY 2016-17 Funding Plan describes how these combined funds will be spent. The plan describes ARB's policy drivers and vision for advanced technology mobile source investments, eligible project categories and criteria, project funding allocations, and program implementation details. ARB staff has developed a joint plan

for both the auction proceeds and AQIP funding sources as it did for previous budget cycles to ensure continued synergistic investments between the programs while also ensuring that statutory requirements applicable to each are met. The investments proposed in the FY 2016-17 Funding Plan are contingent on the approval of the proposed FY 2016-17 State Budget.

Cap-and-Trade Auction Proceeds and Low Carbon Transportation and Fuels: Cap-and-Trade auction proceeds provide funding for ARB's advanced technology and clean transportation incentive programs, expanding the types of projects ARB has funded through AQIP. Over the last 3 budget cycles, the Legislature has appropriated $325 million to ARB for Low Carbon Transportation investments to reduce GHG emissions with an emphasis on investments that benefit disadvantaged communities. These investments are being used to provide consumer rebates for zero-emission and plug-in hybrid passenger vehicles through the Clean Vehicle Rebate Project (CVRP) and vouchers for fleets to purchase clean trucks and buses through the Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project (HVIP). Investments also include new light-duty pilot projects to benefit disadvantaged communities, zero-emission truck and bus pilot deployment projects, and advanced technology demonstration projects for the freight sector.

AQIP: ARB investments initiated under AQIP provide the foundation for the Low Carbon Transportation and Fuels investments that now make up 95 percent of the funding covered in this proposed Funding Plan. AQIP is a mobile source incentive program focusing on reducing criteria pollutant and diesel particulate emissions with concurrent reductions in GHG emissions. AQIP was created in 2007 by AB 118 (Núñez, Chapter 750, Statutes of 2007) and reauthorized by AB 8 (Perea, Chapter 401, Statutes of 2013). AQIP has provided funding for CVRP, HVIP, and advanced technology demonstrations since 2009. In recent years, these projects have been primarily funded from Low Carbon Transportation appropriations because demand has exceeded AQIP's budget. The majority of AQIP funds have been directed to the Truck Loan Assistance Program, which helps small business truckers secure financing for newer trucks and diesel exhaust retrofits to meet compliance deadlines for ARB's in-use truck and bus regulation.

Overview of FY 2016-17 Funding Plan

California faces ambitious goals to reduce GHG emissions, improve air quality, deploy zero-emission vehicles (ZEV), and reduce petroleum dependency. ARB is using these incentives to accelerate development and deployment of advanced mobile source technologies to meet the goals. ARB's May 2014 *First Update to the Climate Change Scoping Plan* and May 2016 *Mobile Source Strategy* conclude that many of the same actions are needed to meet GHG, smog forming, and toxic pollutant emission reduction goals – specifically, a transition to zero-emission and near zero-emission technologies and use of the cleanest, lowest carbon fuels and energy across all vehicle and equipment categories. The *California Sustainable Freight Action Plan*, May 2016 draft, reiterates the need for this transition as it relates to the freight sector.

Staff's proposal builds upon the investments made in previous funding cycles. In FY 2015-16, ARB implemented a scaled back version of its Funding Plan because the Legislature appropriated only $95 million for Low Carbon Transportation investments compared to the $350 million proposed by the Governor. As a result, many of the projects the Board endorsed when it approved the FY 2015-16 Funding Plan could not be implemented. Staff still believes there is a strong need and demand for these unfunded projects, so it made carrying forward these project categories a priority for this year's Funding Plan.

Many stakeholders noted throughout the FY 2016-17 Funding Plan development process a need for incentive funding beyond that in the proposed State Budget. Staff's proposal attempts to balance the available funding with the funding needs across all these categories.

Tables 1 and 2 show the proposed project allocations for the Low Carbon Transportation and Fuels program and AQIP, respectively.

Table 1: Proposed Low Carbon Transportation and Fuels Project Allocations

Low Carbon Transportation and Fuels Project Category	**Project Allocation** (millions)
Light-Duty Vehicles Investments (SB 1275)	
CVRP Remaining 2015-16 Demand (Through Sept 2016) - $55M 2016-17 Demand (Oct 2016-Sept 2017) - $175M	$230
Light-Duty Pilot Projects to Benefit Disadvantaged Communities Enhanced Fleet Modernization Program (EFMP) Plus-Up - $30M Car Sharing and Mobility Options - $8M Increased Public Fleet Incentives for CVRP-Eligible Vehicles - $3M Agricultural Worker Vanpools in San Joaquin Valley - $3M	$44
Financing Assistance for Lower-Income Consumers	$6
Light-Duty Vehicle Investment Total	**$280**
Heavy-Duty Vehicles and Off-Road Equipment Investments (SB 1204)	
Advanced Technology Demonstration Projects	$59
Zero-Emission Freight Equipment Pilot Commercial Deployment Project	$5
Zero-Emission Truck Pilot Commercial Deployment Project	$18
Zero-Emission Bus Pilot Commercial Deployment Project	$42
Rural School Bus Pilot Project	$10
Low NOx Engine Incentives with Renewable Fuel	$23
HVIP Remaining 2015-16 Demand (Through Sept 2016) - $5M 2016-17 Demand (Oct 2016-Sept 2017) - $13M	$18
Heavy-Duty Vehicle and Off-Road Equipment Investment Total	**$175**
Fuels	
Very Low Carbon Fuels Production Incentive Project	$40
State Operations	$5
TOTAL	**$500**

Table 2: Proposed AQIP Project Allocations

AQIP Project Category	Project Allocation (millions)
Truck Loan Assistance Program	$22
Agricultural Equipment Trade-Up Pilot for San Joaquin Valley	$3
Reserve for Revenue Uncertainty	$3.6
TOTAL	**$28.6**

These investments would:

- Meet expected demand for consumer driven, first-come, first-served projects including: CVRP consumer rebates for ZEVs; EFMP Plus-up car scrap and replace incentives; HVIP clean truck and bus vouchers; the Truck Loan Assistance Program; and new incentives for low NOx trucks and buses just coming to market. The proposal includes funding to meet the remaining CVRP and HVIP consumer demand from the FY 2015-16 cycle.

- Increase funding for the light-duty vehicle projects designed to improve access to clean transportation for lower income Californians and disadvantaged communities, a key element of ARB's light-duty vehicle incentive strategy.

- Carry forward the unfunded heavy-duty vehicle and equipment project categories from the FY 2015-16 Funding Plan, refining them where necessary based on information learned over the past year. These include: advanced technology demonstration projects; zero-emission truck and bus commercial pilots; freight equipment deployment, and a new rural school bus pilot project.

- Provide funding for a new very low carbon fuel production incentive project. This is the first time fuels are included in ARB's Low Carbon Transportation program.

ARB is targeting at least 50 percent of the Low Carbon Transportation and Fuels funds to benefit disadvantaged communities and at least 10 percent of these funds to be invested in disadvantaged communities. The Funding Plan describes the conditions staff proposes placing on each project category to ensure these targets are met. Staff considers these investment targets to be a floor. Investments made over the past funding cycles are delivering benefits that exceed these targets, and ARB staff is confident that it will again surpass the minimum targets with the FY 2016-17 investments.

In addition to the proposed investments for the FY 2016-17 funding cycle, the Funding Plan presents staff's long-term plan for CVRP and light-duty vehicle incentives. ARB has directed significant funding toward light-duty vehicle incentives, primarily through CVRP. Because of this, policy makers continue to inquire about the cost effectiveness, equity, financial sustainability, and structure of these incentive programs. The Legislature and the Board have expressed interest in understanding when a self-sustaining ZEV market is expected and what steps can be taken to ensure incentives are phased out appropriately.

Senate Bill (SB) 1275 (De León, Chapter 530, Statutes of 2014), one of the laws guiding ARB's light-duty vehicle investments, requires ARB to include a long-term plan for CVRP and related programs in the FY 2016-17 Funding Plan. The plan must include: a three-year forecast of funding needs to support the goals of technology advancement, market readiness, and consumer acceptance of advanced vehicle technologies; a market and technology assessment; and an assessment of when a self-sustaining market is expected.

Staff's assessment shows that ZEV technology costs are declining quicker than originally expected in most cases. The assessment also shows growth in vehicle diversity, number of manufacturers selling vehicles, and consumer demand. CVRP-eligible vehicles now account for about 3 percent of annual passenger car sales in California. These are all positive signs regarding the state of the ZEV market and technology development. As part of the long-term plan, staff recommends a number of metrics that could be used to measure progress toward market sustainability. Staff also identifies mechanisms that could be used to ramp down incentives as the market matures as well as possible alternative incentive structures that could be considered in future years. However, staff believes it is premature to begin a ramp down this year because the market is still in its infancy. Accordingly, staff is not proposing any changes that would scale down CVRP in the FY 2016-17 funding cycle.

Proposed Action

ARB staff will present the *Proposed Fiscal Year 2016-17 Funding Plan for Low Carbon Transportation and Fuels Investments* and *the Air Quality Improvement Program* for the Board's approval at the meeting. Copies of the report may be obtained from ARB's Public Information Office,1001 I Street, First Floor, Environmental Services Center, Sacramento, California, 95814, (916) 322-2990, at least 30 days prior to the scheduled meeting on June 23, 2016. The report may also be obtained from ARB's website at http://www.arb.ca.gov/aqip/.

Interested members of the public may present comments orally or in writing at the meeting and may provide comments by postal mail or by electronic submittal before the meeting. To be considered by the Board, written comments not physically submitted at the meeting, must be received **no later than 5:00 pm, June 20, 2016**, and addressed to the following:

Postal mail: Clerk of the Board, Air Resources Board
1001 I Street, Sacramento, California 95814

Electronic submittal: http://www.arb.ca.gov/lispub/comm/bclist.php

Please note that under the California Public Records Act (Government Code section 6250 et seq.), your written and oral comments, attachments, and associated

contact information (e.g., your address, phone, email, etc.) become part of the public record and can be released to the public upon request.

ARB requests that written and email statements on this item be filed at least 10 days prior to the meeting so that ARB staff and Board members have additional time to consider each comment. Further inquiries regarding this matter should be directed to Mr. Andrew Panson, Staff Air Pollution Specialist, at (916) 323-2809 or (designated back-up contact) Mr. Ali Koohestani, Air Pollution Specialist, at (916) 324-1590.

SPECIAL ACCOMMODATION REQUEST

Consistent with California Government Code Section 7296.2, special accommodation or language needs may be provided for any of the following:

- An interpreter to be available at the meeting;
- Documents made available in an alternate format or another language;
- A disability-related reasonable accommodation.

To request these special accommodations or language needs, please contact the Clerk of the Board at (916) 322-5594 or by facsimile at (916) 322-3928 as soon as possible, but no later than 10 business days before the scheduled Board meeting. TTY/TDD/Speech to Speech users may dial 711 for the California Relay Service.

Consecuente con la sección 7296.2 del Código de Gobierno de California, una acomodación especial o necesidades lingüísticas pueden ser suministradas para cualquiera de los siguientes:

- Un intérprete que esté disponible en la audiencia;
- Documentos disponibles en un formato alterno u otro idioma;
- Una acomodación razonable relacionados con una incapacidad.

Para solicitar estas comodidades especiales o necesidades de otro idioma, por favor llame a la oficina del Consejo al (916) 322-5594 o envié un fax a (916) 322-3928 lo más pronto posible, pero no menos de 10 días de trabajo antes del día programado para la audiencia del Consejo. TTY/TDD/Personas que necesiten este servicio pueden marcar el 711 para el Servicio de Retransmisión de Mensajes de California.

CALIFORNIA AIR RESOURCES BOARD

Richard W. Corey
Executive Officer

Date: May 20, 2016

The energy challenge facing California is real. Every Californian needs to take immediate action to reduce energy consumption. For a list of simple ways you can reduce demand and cut your energy costs, see our website at www.arb.ca.gov.