

**State of California
Air Resources Board
Board Item Summary**

Item # 21-3-2: Public Hearing to Consider the Proposed Mobile Source Certification and Compliance Fees

Staff Recommendation:

Staff recommends that the California Air Resources Board (CARB or Board) approve the Proposed Certification and Compliance fees, repealing Title 13, Division 3, sections 1990, 1991, 1992, 1993, and 1994, and adopting Title 13, Division 3, Chapter 16, Articles 1 through 7, Sections 2900 through 2914.

Discussion:

CARB staff is proposing for adoption regulations that would update and expand certification fees for motor vehicles, mobile engines, and emission-control components to provide for greater reimbursement of the agency's costs related to the certification of these mobile sources for sale and use in the state and to ensure their in-use compliance. The Board first adopted certification fee regulations in 1990 under the authority of Health and Safety Code (HSC) section 43019 to assess a fee for on-road motor vehicles and engines (generally, cars, trucks, and motorcycles). Manufacturers of vehicles and engines not subject to an emission standard at the time of adoption (i.e., off-road vehicles and other mobile engines) were not included in the 1990 fee regulation. The fees also did not apply to manufacturers of aftermarket parts when they applied for CARB approval to market their products for use on California certified vehicles.

Since 1990, emission standards and certification requirements have expanded to include the numerous categories of off-road vehicles and engines used in the State. These categories include off-road engines used in large pieces of equipment, small lawn and garden engines, generators and other utility engines, various off-road vehicles, marine engines, and evaporative systems used in such products. CARB's certification program has likewise expanded greatly to cover these regulated sources. Thousands of certification Executive Orders (EO) are issued for these sources annually under CARB's current program without the assessment of any certification fees to recover the State's costs.

Another important factor related to CARB's current certification fee regulation is that the amount of fees collected per year was capped by HSC 43019 at \$4.5 million in fiscal year 1989-1990. The legislation does provide for annual increases based on the California Consumer Price Index (CPI), which has raised the amount of total fees collected to \$9.7 million in 2018. However, due to increases in the scope and complexity of CARB's requirements for on-road vehicles since 1990, this capped fee is not adequate to reimburse the State's costs of CARB's correspondingly larger certification and compliance programs for these vehicles and engines.

As a result of these limitations in CARB's current certification fee regulations, the State is currently only recovering about one third of its costs for its on-road certification and compliance programs and only about one quarter of the costs for all categories taken together. The balance of the program costs to implement CARB's mobile source certification and compliance is being paid through other State funding sources, primarily the Air Pollution Control Fund (APCF), Motor Vehicle Account (MVA), and the Vehicle Inspection and Repair Fund (VIRF).

In order to address this shortfall, the Legislature, in 2018 and 2019, directed CARB through Assembly Bill (AB) 85¹, AB 2381², and Senate Bill (SB) 854³ to develop fee schedules to cover the reasonable costs of its Mobile Source Certification and Compliance programs. The legislation provided CARB authority to collect fees from regulated parties to cover the cost of certification, audit, and compliance activities. Further, the legislation removes the fee cap that existed in HSC 43019, permitting CARB to recover program costs at their current levels for on-road vehicles and engines.

This Proposed Regulation focuses accordingly on creating a schedule of fees that will result in the Mobile Source Certification and Compliance Program costs to be covered within the authority provided by SB 85, AB 2381 and SB 854. These funds will be deposited into a new fund, the Certification and Compliance Fund, specifically to support the Mobile Source Certification and Compliance programs.

Summary and Impacts:

Staff's proposal sets up a phase-in fee schedule that would start in calendar year 2022 with full implementation in 2024 for most mobile source categories. The on-road fees would be annually adjusted by CPI. Reduced fee amounts are proposed for cases where the certification and compliance workload for CARB is lower and where necessary to support CARB's policy to expand zero-emission technologies or to assist small businesses and companies with low California sales. The total expected revenue (total fees collected) from the proposed regulation for the first ten years of the program (2022 through 2031) is \$387 million (\$20 million in 2022 to \$45.5 million in 2031, annually). The newly proposed fees would cover a high percentage of total costs for CARB's certification and compliance programs, but would not reach 100 percent as CARB staff also considered the impact of the fees on vehicle and engine manufacturers and the price impact on products sold in California to the extent that these costs will be passed on to purchasers. The unrecovered program costs will continue to be offset by existing funding sources as they represent a benefit to the state. Should the proposal be adopted, CARB plans to continue to evaluate the certification and compliance fee program for opportunities to more closely approach full-cost recovery when possible through future proposals for Board consideration. Staff expects minimal or no impact on the processing time for certifications because of this funding structure.

¹ Committee on Budget and Fiscal Review, Chapter 31, Statutes of 2019

² Carillo, Chapter 713, Statutes of 2018

³ Committee on Budget and Fiscal Review, Chapter 51, Statutes of 2018

Staff expects the fee proposal will result in minimal to no impact on business as the fees are expected to be passed directly to consumers, resulting in an amortized average cost of \$1.23 to businesses and households alike. The economic analysis for this proposal showed no significant change in employment, business creation, or business competitiveness. CARB has determined that the proposed amendments are exempt from the California Environmental Quality Act (CEQA) under the "general rule" or "common sense" exemption (14 California Code of Regulations 15061(b)(3)). The proposed amendments are not anticipated to have air quality impacts due to the nature of the proposed changes. There are no changes to emissions standards, regulations, and test procedures that would affect air quality. As a result, no cost effectiveness analysis has been conducted because no emissions benefits are directly ascribed to this rulemaking. The proposed regulation helps establish a stable source of funding for CARB's mobile source certification and compliance programs, and provides for the recovery of state costs for these programs from the companies that benefit from receiving the certifications necessary to sell mobile source vehicles and engines in California. These programs protect public health and safety, and the environment, by ensuring that vehicles and engines used in the state meet CARB regulations to reduce greenhouse gas emissions, oxides of nitrogen, diesel particulate matter, and other air contaminants.