

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

Item # 21-12-4: Public Meeting to Consider Approval of the Proposed Fiscal Year 2021-22 Funding Plan for Clean Transportation Incentives Accompanied by Proposed Carl Moyer Program Changes, Agricultural Burning Incentives for Combustion Equipment, and Climate Heat Impact Response Program

Staff Recommendation:

Staff recommends the California Air Resources Board (CARB or Board) approve the Proposed Fiscal Year 2021-22 Funding Plan for Clean Transportation Incentives, Proposed Carl Moyer Program Changes, Agricultural Burning Incentives for Combustion Equipment, and Climate Heat Impact Response Program (CHIRP) Plan. The transportation incentive programs invest billions in transformative change, with over half of those funds overall going to priority populations. The companion programs address critical state priorities, including putting a plan in place to address excess emissions occurring during extreme heat events, ending agricultural burning in the San Joaquin Valley, and continuing our partnerships with air districts to fund pollution reductions.

Related to the agricultural burning item, staff also recommends that the Board find that there is clear and convincing evidence that non-combustion alternatives to agricultural burning are not available in the numbers needed to meet increasing demand as the practice of agricultural burning phases out rapidly over the next three and a half years and that combustion alternatives would help meet that demand in some cases. Staff further recommend that the Board find that the San Joaquin Valley Air Pollution Control District can use the funds granted via the Budget Act of 2021 for non-stationary combustion alternatives to agricultural burning as a method of eliminating agricultural waste.

Discussion:

To achieve California's numerous climate change, air quality, zero-emission vehicle (ZEV) deployment, and petroleum reduction goals, CARB has adopted an aggressive, multi-pronged strategy that uses incentives to complement regulatory approaches. Annually, the State appropriates funding to a portfolio of incentive programs, and each program plays a unique role to improve air quality, enhance community protection, and reduce greenhouse gas emissions. These incentive programs are designed to support the transition to a

low-carbon economy across multiple sectors, including investments in the transportation sector administered through the Funding Plan for Clean Transportation Incentives.

The proposed Fiscal Year (FY) 2021-22 Funding Plan covers a total of \$1.5 billion in clean transportation investments from related funding sources appropriated to CARB in the budget bill passed by the Legislature and signed by the Governor.

The proposed FY 2021-22 Funding Plan includes \$838 million from the State General Fund appropriated to CARB in the Budget Act of 2021 as amended by Senate Bill (SB) 129 (Skinner, Chapter 69, Statutes of 2021), \$595 million for Low Carbon Transportation Investments funded with Cap-and-Trade Auction Proceeds appropriated to CARB in the Budget Act of 2021 as amended by SB 129 and SB 170 (Skinner, Statutes of 2021), \$86.45 million from the Air Pollution Control Fund appropriated to CARB in the Budget Act of 2021 as amended by SB 129 and, \$28.64 million for the Air Quality Improvement Program appropriated to CARB in the Budget Act of 2021.

The Legislature appropriated funding to CARB in the Budget Act of 2021 as amended by SB 129 for two complementary programs to improve air quality. First, \$45 million from the State General Fund will support the replacement of diesel trucks with trucks certified to meet the 0.02 gram per brake horsepower-hour (g/bhp-hr) nitrogen oxides (NOx) standard or lower through the Carl Moyer Memorial Air Quality Standards Attainment Program (Carl Moyer Program). Second, \$180 million from the State General Fund will support incentives for alternatives to agricultural burning in the San Joaquin Valley.

Furthermore, on July 30, 2021, Governor Newsom signed a Proclamation of a State of Emergency (Proclamation) to expedite clean energy projects and reduce demand on the electric grid during extreme heat events when the California Independent System Operator (CAISO) declares a grid warning or grid emergency. The Proclamation suspended certain emissions requirements to allow greater energy production during critical times when extreme heat events or a reduction in transmission capacity threaten energy supply. The Proclamation directs CARB to develop, and then promptly implement, a State-funded plan to mitigate the effects of additional emissions authorized by the Proclamation beyond ordinarily permitted levels. Staff developed the Climate Heat Impact Response Program (CHIRP) to mitigate these emissions during CAISO events, while providing opportunities to further enhance and support California's grid resiliency.

Summary and Impacts:

The proposed FY 2021-22 Funding Plan continues to build on investments from previous budget cycles that were envisioned as multi-year investments. These projects are designed to achieve both immediate emission reductions and, as emphasized in Governor Newsom's Executive Order N-79-20, support the transformation of California's vehicle and equipment fleet to one that is zero-emitting, where feasible. In designing these investments, CARB strives to maximize the benefits for disadvantaged communities, low-income communities, and low-income households.

Staff proposes \$525 million for consumer rebates for new ZEV purchases through the Clean Vehicle Rebate Project (CVRP). These funds represent a substantial investment, intended to last for three years, to address the recent increase in consumer demand since the January Budget proposal. Along with rebates for vehicles, \$10 million is intended to support rebates for electric bicycles in line with legislative direction.

Staff also proposes \$150 million for clean transportation equity investments to increase access to clean transportation and mobility options benefiting low-income and disadvantaged communities and low-income households consistent with the direction provided by SB 1275 and SB 350. This covers vehicle purchase incentives, clean mobility investments, outreach, community transportation needs assessments (needs assessments), technical assistance and capacity building, Access Clean California and workforce training and career development.

Finally, staff proposes \$873 million for heavy-duty and off-road equipment investments following the principles of the portfolio approach. This means that CARB provides funding across multiple technologies at different points on their commercialization arcs to support those that are providing emission reductions today, as well as those that need to mature to meet future goals. This includes funding for demonstration and pilot projects, vouchers for advanced clean technologies, and financing and support for small fleets transitioning to cleaner technologies. Additionally, this year funds will be set aside for drayage trucks, transit buses, and school buses, all of which are primed to rapidly continue the transition to zero-emission. Finally, staff is proposing to expand incentives for zero-emission off-road equipment, through targeted demonstration and pilot project categories in the off-road sector, and increased funding to the Clean Off-Road Equipment Voucher Incentive Project, known as CORE. The proposed expansion of CORE includes \$30 million of dedicated funds for zero-emission small off-road equipment such as leaf blowers, lawn mowers, and portable generators for small businesses or sole proprietors who provide professional landscaping services in California.

Staff proposes limited changes to the Carl Moyer Program in support of the Legislature's allocation of SB 129 funds of \$45 million to purchase eligible non-diesel medium- and heavy-duty vehicles emitting no more than 0.02 g/bhp-hr of NO_x to replace diesel vehicles through the Carl Moyer Program. Staff proposes to support these advanced technology and zero-emission technology vehicles by increasing the Carl Moyer Program's maximum eligible funding amounts for these technologies as well as proposing an optional on-road advanced technology cost-effectiveness limit of \$200,000 per weighted ton of emission reductions and an optional on-road zero-emission cost-effectiveness limit of \$500,000 per weighted ton. Staff also proposes to adjust the existing cost-effectiveness limits for inflation as follows: \$33,000 per weighted ton of emission reductions for the base cost-effectiveness limit, \$300,000 per weight ton of emission reductions for the school bus base cost-effectiveness limit, and \$109,000 per weighted ton of emission reductions for the optional advanced technology cost-effectiveness limit.

The San Joaquin Valley Air Pollution Control District (District) adopted the strategy developed with CARB staff for the near-complete phase-out of agricultural open burning in the San Joaquin Valley by January 1, 2025. Pursuant to the phase-out, the Budget Act of 2021 appropriated \$180 million to be granted from CARB to the District to support incentives for alternatives to agricultural burning in the Valley. The Budget Act specified that funds may be expended only for non-combustion incentives, including, but not limited to, chipping, mulching, soil reincorporation, and composting, unless the CARB Board makes a finding in a public hearing, based on clear and convincing evidence, that such non-combustion alternatives are not available. While it is important that the District continue prioritizing non-combustion alternatives wherever feasible, there is an insufficient supply of chipping equipment to meet the current and increasing demand for alternative services as the practice of agricultural burning phases out rapidly over the next three and a half years. In addition, a large volume of vineyard material cannot easily be chipped due to technological challenges and equipment availability.

Additionally, in response to the Proclamation, staff developed a CHIRP mitigation plan to describe the process for determining excess emissions resulting from the Proclamation and the funding needed to mitigate such emissions, while also providing opportunities to further enhance and support California's grid resiliency. Staff's proposal also includes a public process to help tailor funding to better meet the needs of impacted communities.