

**Proposition 1B:
Goods Movement Emission Reduction Program
2011 Funding Awards**

STAFF DRAFT CONCEPT PAPER

Release Date: November 10, 2011
Workshop Date: November 14, 2011
Comments Due: November 18, 2011

Proposition 1B: Goods Movement Emission Reduction Program
Staff Draft Concept Paper – 2011 Funding Awards

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EXECUTIVE SUMMARY

The purpose of the Proposition 1B: Goods Movement Emission Reduction Program (Program) is to cut air pollution and the associated health risk by upgrading the diesel equipment used to move freight in California's trade corridors. The Air Resources Board (ARB or Board) needs to update the funding allocations approved at a June 2010 public hearing in response to the \$100 million in proceeds received from the Fall 2011 bond sale, and additional cash that may become available in Spring 2012. The proposed allocations (i.e., awards) are a continuation of the public process that was conducted in 2010 in accordance with statutory requirements.

This paper discusses staff's preliminary recommendations for the Board to award all available funds from these two installments of new cash to support drayage truck projects and other truck projects. Following a public workshop on November 14, 2011, we will finalize staff's recommendations for the 2011 funding awards for consideration by the Board at a public hearing on December 16, 2011 in Sacramento.

Prior Actions to Allocate Funding

In April 2010, ARB staff issued a Notice of Funding Availability and solicited applications from local and State agencies for new projects to implement up to \$475 million, consistent with the 2010 Program Guidelines for Implementation (Guidelines). Seven local agencies in the four trade corridors and a State agency (ARB) submitted project proposals, requesting over \$1.1 billion in Program funding. As documented in the Staff Report for 2010 Funding Awards, we evaluated each proposal and ranked any competing proposals within each corridor and funding category. Staff presented a preliminary list of projects for public review and comment, and held three public workshops in the trade corridors to seek input.

The Board then conducted a public hearing on June 24, 2010. After reserving up to \$25 million for ARB administration as allowed by law, the Board allocated up to \$475 million in Program funds to local and State agencies in two phases. Phase 1 included final awards for the \$200 million in available cash. These projects are underway. Phase 2 included tentative allocations to local and State agencies for the remaining \$275 million, with the specifics to be finalized based on cash from future bond sales. Of this Phase 2 total, \$216 million was earmarked for truck grants to be administered by the local air districts and a truck financing assistance program to be administered through ARB. The remainder of the Phase 2 funding was recommended for locomotive and ships at berth/cargo handling equipment projects.

2011 Funding Awards

The focus now is on finalizing the Phase 2 awards based on an updated assessment of the available funding – the \$100 million in new cash from the Fall 2011 bond sale and additional funding possible in Spring 2012 (expected to be on the order of \$60 million). This concept paper utilizes the Board's priorities (documented in the Program

Guidelines) to recommend that all of the Fall 2011 and Spring 2012 monies be used to fund additional Phase 2 truck projects.

Drayage Trucks. Drayage trucks are a priority due to health risk concerns in communities near ports, rail yards, and distribution centers. In addition, drayage truck owners have to act earlier than other truck owners to upgrade their fleet. Staff's recommendations for 2011 funding awards include utilization of the "drayage priority reserve" concept that the Board directed staff to establish and implement at the appropriate time. That time is now. Program funds must be used to achieve early or extra emission reductions. The window to achieve early emission reductions through replacement of older drayage trucks closes at the end of 2012, ahead of the January 1, 2014 compliance deadline in ARB's Drayage Truck Regulation. For truck owners to take advantage of Program funding and get the newer trucks in operation by December 2012, we need to make the grants and financing assistance available in early 2012.

We are proposing that the \$100 million in new cash be used first to implement the drayage priority reserve and support early replacement of drayage trucks with the required cleaner models. The Board previously identified the trucks eligible for this priority reserve funding -- drayage trucks with Model Year (MY) 1994-2003 engines that were equipped with diesel particulate matter (PM) filters as of June 30, 2010 and that meet all other registration and usage requirements of the Program.

Grants towards the replacement costs would be administered by the Bay Area and South Coast Air Quality Management Districts, based on where the majority of the eligible trucks are located. However, the Central Valley and San Diego/Border corridors would benefit as many of the drayage trucks travel through these corridors. Funds would also be made available through ARB to improve access to financing for owners of these same trucks, and (potentially) owners of certain drayage trucks with MY2005-2006 engines.

Reuse of Drayage Trucks Equipped with PM Filters. Using Program funds to aid replacement of drayage trucks that are already equipped with PM filters presents a unique opportunity. Typically, trucks that are replaced in this Program are scrapped to ensure the emissions benefits are achieved. However, some of these drayage trucks with filters could and should be re-used to replace the oldest trucks used in agriculture or other applications that are not required to upgrade until 2020 or later under ARB's Truck and Bus Regulation. Scrapping the very oldest trucks and replacing them with filter-equipped trucks could provide substantial health benefits, including in low-income and minority communities that are heavily impacted by diesel emissions.

The current and proposed commitment of Program funding to upgrade drayage trucks is providing the greatest benefits in the Los Angeles/Inland Empire and Bay Area trade corridors. Recognizing the environmental justice concerns in the San Joaquin Valley as well, ARB staff is recommending that this truck reuse program be focused on the Valley. We have initiated discussions with the San Joaquin Valley Air Pollution Control District

to develop a program applicable to these vehicles that meets the truck reuse requirements of the Guidelines.

Other Trucks. There is substantial uncertainty about how much of the proposed funding for drayage trucks would be used by drayage truck owners. We propose that any remaining funds from the current \$100 million, plus new funds from Spring 2012, be directed to other truck projects in response to the high demand for funding that resulted from the districts' March/April 2011 solicitations. Focusing on the existing project lists, rather than potential new solicitations, would expedite the use of Program funds and the resulting air quality benefits.

Subsequent Allocations and Awards

Following passage of the FY2012-13 State budget and an assessment of the timing for further Program cash, ARB will proceed with a new Notice of Funding Availability to solicit project proposals in all categories and recommend the next funding awards for Board consideration.

The focus on drayage trucks with the 2011 funding awards would likely increase the proportion of funding administered by local agencies in the Los Angeles/Inland Empire and Bay Area corridors in the near-term, relative to the corridor funding targets. Staff proposes to use the remaining funding for other trucks available from the 2011 funding awards, as well as future program allocations, to achieve the Board's adopted corridor funding targets over the course of the Program.

I. PURPOSE OF THIS CONCEPT PAPER

The purpose of this concept paper is to aid public discussion of updates to the existing Proposition 1B: Goods Movement Emission Reduction Program (Program) funding allocations for new monies received in Fall 2011 and (potentially) Spring 2012. We are seeking your input on the concepts and details described here. Please provide your comments to ARB staff by November 18, 2011 to be considered in the development of the formal Staff Report to support the funding awards being considered by the Board at a public hearing on December 16, 2011, in Sacramento. The Board Meeting notice and Staff Report will be posted on the Program website.

We recognize the short timeframe for written public comment on staff's preliminary recommendations and would be happy to discuss this proposal with you at the workshop or by phone.

II. BACKGROUND

California residents face serious health impacts from freight-related diesel pollution, especially in communities near ports, rail yards, roads with high truck traffic, and distribution centers. The diesel engines used in trucks, locomotives, ships, harbor craft, and cargo equipment to move goods in California are major contributors to the particulate matter (PM) and nitrogen oxides (NOx) emissions that create the State's biggest pollution challenges.

A. Proposition 1B Program Authority and Scope

Proposition 1B, approved by voters in 2006, authorizes \$1 billion in bond funding for the ARB to cut freight emissions in four priority trade corridors. The major sources eligible for bond funding include heavy-duty diesel trucks, freight locomotives, ships at berth, commercial harbor craft, cargo handling equipment, and infrastructure for electrification of truck stops. State law (Health and Safety code section 39625 et. seq.) directs ARB to administer the Program to maximize the emission reduction benefits while achieving the earliest possible health risk reduction in communities heavily impacted by goods movement.

The Program supplements regulatory actions and other incentives to cut diesel emissions by funding projects "not otherwise required by law or regulation." The funds provide an incentive to equipment owners to upgrade to cleaner equipment and achieve early or extra emission reductions beyond those required by applicable regulations or enforceable agreements.

The Program is a partnership between ARB and local agencies (like air districts and ports) to quickly reduce air pollution emissions and health risk from freight movement along California's four priority trade corridors. ARB awards Program funding to local

and state agencies; those agencies then provide financial incentives (e.g., grants or loan assistance) for equipment owners to upgrade to cleaner technology.

B. Prior Funding Awards

In February 2008, ARB awarded the first \$250 million of Program funding to local agencies under FY2007-08 grants (ARB, 2008a). The majority of these grants provided funding to upgrade more than 5,100 diesel trucks, most of which are already operational. In June 2010, the Board awarded an additional \$200 million to fund grants for trucks and ships at berth/cargo handling equipment projects (ARB, 2010a). The implementation of the \$200 million is well underway as local agencies have generated ranked lists to upgrade more than 2,300 trucks and install shore-side power at 33 berths throughout the state. The appendix contains details on allocations by region and project category.

C. Background on Drayage Trucks

ARB's Drayage Truck Regulation was originally approved by the Board in December 2007, and subsequently amended in 2008 and 2010. It requires technology upgrades that generate less pollution and reduce adverse impacts from exposure to drayage emissions (ARB, 2007). Phase 1 of the rule required drayage trucks with pre-1994 MY engines to be phased out by 2010, and includes requirements that 1994-2006 MY engines be retrofitted with PM filters. Phase 2 requires drayage trucks to meet 2007 MY or newer engine standards for both PM and NOx by January 1, 2014 to continue accessing ports and rail yards. In December 2010, the Board approved amendments that tightened the rule to prevent compliant drayage trucks from exchanging cargo with noncompliant trucks near ports or rail yards (i.e., "dry-off"). The amendments also added a requirement that smaller Class 7 drayage trucks must meet 2007 MY or newer engine standards by 2014 (ARB, 2011a).

Owners of drayage trucks had to act earlier than other truck owners to protect impacted communities around ports and rail yards. Many owners chose to replace their old trucks with vehicles that met the 2007 MY standard, which means those trucks already comply with the Phase 2 requirement. Owners of a few thousand drayage trucks chose the lower cost option to retrofit their trucks with PM filters by 2010, and later replace those trucks to meet Phase 2 requirements. Most of the retrofitted trucks are in the hands of independent owner-operators and small fleets. However, there was also a large influx of trucks with 2004-2006 MY engines into drayage service to take advantage of the later 2012 and 2013 compliance deadlines to install PM filters on these trucks. This influx of trucks without retrofits has delayed the expected PM benefits but accelerated the NOx benefits.

III. PROPOSED APPROACH FOR FALL 2011/SPRING 2012

A. Proposed Approach: Drayage Trucks

The Board has established diesel trucks as a high priority category in the Program and they've also approved priority funding for drayage trucks. Staff proposes using this hierarchy to focus the 2011 funding awards on drayage trucks, followed by other trucks. ARB staff is proposing that the Bay Area and Los Angeles trade corridors would receive the priority drayage funding, because the vast majority of eligible drayage trucks operate through ports and railyards in these areas. The Central Valley and San Diego/Border corridors would also benefit from reduced emissions as many of the drayage trucks travel through these corridors and may be based there as well. Focusing the funds in two air districts will create a temporary imbalance in the trade corridor targets. However, staff proposes to use the remaining funding for other trucks as well as future program allocations to achieve the overall Board adopted corridor funding targets.

Staff is proposing an accelerated schedule for the allocation and expenditure of bond proceeds included in the 2011 funding awards, in accordance with Department of Finance's direction to ARB that we expedite the disbursement of bond funds.

The Board has already approved \$100 million in Program funding for drayage projects. The use of additional funds would help to accelerate implementation of the Drayage rule and significantly reduce health risks in heavily impacted communities. To achieve early emission reductions from drayage trucks, the Program would need to provide funds during 2012 to assist owners in purchasing replacement trucks. Owners of eligible trucks would be notified that priority funding is available and would be given the opportunity to apply for either grants and loan assistance or only loan assistance, depending on engine model year. ARB estimates that up to \$100 million in Prop. 1B grants and loan assistance could potentially be needed, but actual drayage funding needs would be determined based on applicant responses. Funds not used for drayage trucks would be used for other truck projects consistent with the Board's direction. Details on the proposed drayage priority funding process are provided below.

1. Financial Incentives

The Program Guidelines allow for grants and loan assistance for drayage trucks with MY1994-2003 engines. Under current Program Guidelines, trucks with MY2005-2006 engines are not eligible for Program funds. The majority of MY2005-2006 trucks were brought into drayage service after the drayage rule was adopted with the knowledge that these trucks would have to be upgraded; the MY1994-2003 trucks were primarily in drayage service prior to the drayage rule going into effect. However, ARB is exploring options to obtain additional funding for loan assistance to improve access to financing for the MY2005-2006 trucks.

Program funds will not provide 100 percent financing, therefore equipment owners will have to put their own cash toward the purchase of the truck. Equipment owners cannot get 100 percent financing and use the grant funds for other purposes. The grant funds must be used toward the purchase of a truck that would be required to meet the MY2007 emission level (1.20 g/bhp-hr or less NOx) or cleaner.

When estimating the total funding that would be needed for eligible drayage trucks, ARB assumed that most truck owners would be purchasing a used replacement truck that would cost approximately \$70,000, based on staff research.

Eligible MY1994-2003 Drayage Trucks

Staff is proposing grants of \$25,000 - \$30,000 per truck to replace drayage trucks that have MY1994-2003 engines and meet all of the conditions for the priority funding. Consistent with the approach proposed in 2010, the maximum funding amount for the replacement truck would be reduced by any Program funds received to install a PM filter. Owners would be eligible for grants of up to \$25,000 per truck if they previously received a \$5,000 Program grant to retrofit the truck now being replaced. These trucks would also be eligible to apply for loan assistance.

Eligible MY2005-06 Drayage Trucks

Staff is proposing to provide loan assistance to replace drayage trucks that have MY2005-2006 engines, if funding becomes available. The equipment owner will not have to scrap their existing truck so it is assumed that the owner could sell or trade in the old truck and use that money for a down payment to get a replacement truck.

Loan Assistance

The owners of the eligible trucks could apply for loan assistance through the California Pollution Control Financing Authority's (CPCFA) California Capital Access Program (CalCAP). CalCAP encourages banks and other financial institutions to make loans to small businesses that fall just outside of their conventional underwriting standards. Equipment owners would apply for loans with participating lenders who, in turn, would base their approval on utilizing the CalCAP Program. This is intended to improve access to loans provided by lenders and is not a guarantee that a truck owner will get a loan.

ARB would provide funding directly to CPCFA to be used for a loan loss reserve account which provides funds to lenders if the equipment owner defaults on the loan. ARB has provided funds to CPCFA for on-road and off-road programs at 14 percent of the loan amount. Staff is looking at raising the percentage to 20 percent so that that more trucks may be eligible for loan assistance. The maximum loan amount covered by the loan loss reserve would be \$40,000.

2. Eligible Applicants

Staff proposes a targeted outreach effort to notify truck owners who are eligible to apply for priority drayage funding. Eligible trucks must currently be in use for port or rail yard service and must have either:

- MY1994-2003 engines that were retrofitted with PM filters and registered in ARB's Drayage Truck Registry (DTR) system by June 30, 2010; or
- MY2005-2006 engines and registered in ARB's DTR system by June 30, 2010.

Based on DTR data as of June 30, 2010, the number of potentially eligible trucks is approximately 2,100 for MY1994-2003 engines and almost 4,300 for MY2005-2006 engines. These vehicles can achieve early emission reductions if they are replaced during 2012 with a truck that meets 2007 or later emission levels. The MY2004 engine drayage trucks must be upgraded with filters (or replaced) to meet Phase 1 requirements by the end of 2011. These trucks were previously eligible for Program funding to assist with early installation of PM filters. They are no longer eligible for funding because of the compliance date.

ARB would use a targeted solicitation, beginning in December 2011, to notify eligible truck owners about the availability of funds. Since much of the required Program information is already available through the DTR or the air districts, staff would use a streamlined application process, requiring the applicant to demonstrate current registration and proof of financing by early February 2012. Based on the initial truck owner response, ARB will determine how much money needs to be set aside for drayage grants and loan assistance.

3. Reuse of Drayage Trucks with Filters

Typically, trucks that are replaced in this Program are scrapped to ensure the emissions benefits are achieved. However, many of the drayage trucks with filters could be used to replace the oldest trucks that are not scheduled to be upgraded for nearly a decade. Under Program Guidelines, local agencies may allow the reuse of old trucks under specific conditions if approved by ARB. Retrofitted drayage trucks are potential candidates for reuse in a limited number of truck categories under ARB's Truck and Bus Rule (e.g., low-use, agricultural, specialty agricultural). Using retrofitted trucks for these types of applications could provide several years of additional PM emission reductions beyond those achieved by the rule. These additional reductions would be particularly beneficial in the San Joaquin Valley where many communities have been highly impacted by diesel PM emissions. To achieve added air quality benefits in these impacted areas, staff suggests that retrofitted trucks first be made available to the San Joaquin Valley to replace the oldest trucks in certain targeted categories. The older trucks that are replaced by the reused drayage trucks would be scrapped to ensure that emission reductions are achieved.

Per the Guidelines, the ARB Executive Officer may approve truck reuse proposals that meet all of the following criteria:

- Deliver an equivalent or greater air quality benefit in California (compared to scrappage of the middle-aged truck).
- Require any truck reused in California to be retrofit with a PM filter to ensure a localized health benefit.
- Require any truck reused outside of California to be prevented from re-entering the State.
- Are consistent with the principles and goals of this Program.
- Do not increase Program cost and do not substantially increase the Program administration workload.

B. Proposed Approach: Other Trucks

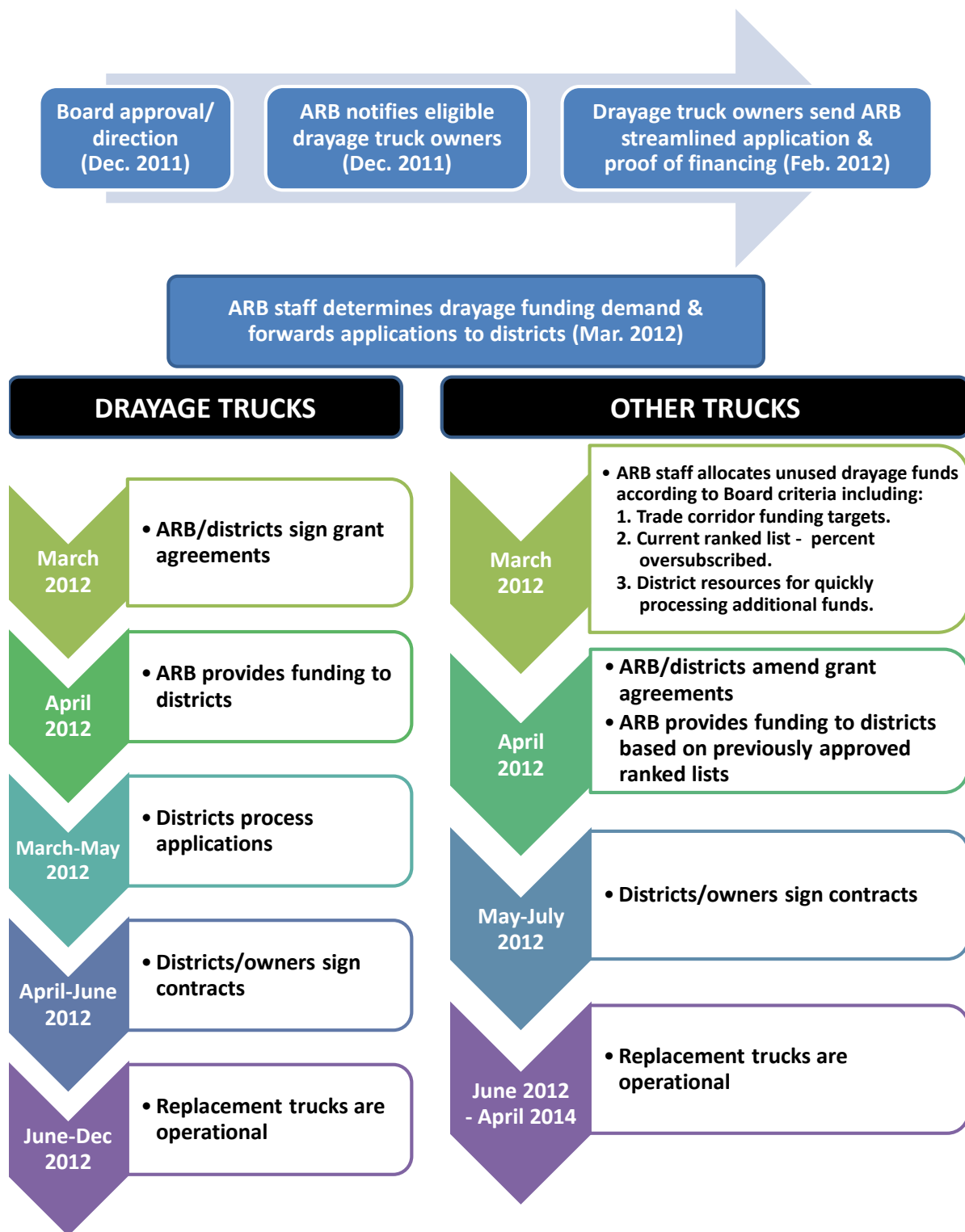
The process of distributing other truck funding would include consideration of the documented demand for funding based on existing ranked lists from applications received during the Spring 2011 solicitations. There would be no new solicitations to identify projects for the additional truck projects for the 2011 funding awards. If an area is eligible for more funding, but there is insufficient demand on a local agency's existing ranked list for truck projects, the available funding would shift to another agency in that same trade corridor or it would be used in another trade corridor.

C. Next Steps for Drayage Trucks and Other Trucks

Staff will work with districts and stakeholders to further refine the proposed funding approach for the December 2011 Board Hearing. Based on Board direction, staff would conduct a streamlined assessment of drayage demand and then define the specific dollar amounts available to each district for other truck projects.

Figure 1 contains a flow chart for funding drayage and other truck projects.

Figure 1: Flow Chart for Disbursement of Proceeds from the October 2011 Bond Sale and Possible Spring 2012 Bond Sale



IV. FUTURE FUNDING

As noted previously, staff proposes that monies available to support the 211 funding awards would be used to implement the drayage priority reserve and to fund other truck projects on the existing ranked lists. The tentative Phase 2 allocations that were presented to the Board in June 2010 contained proposed funding for locomotive and shorepower projects, but staff proposes to defer funding for projects in those categories.

We anticipate that cleaner locomotives will become available over the next 2-3 years, which will provide greater health and air quality benefits per State dollar invested. Therefore, staff proposes that funding be awarded in a future allocation when cleaner Tier 4 engines are available. Tier 4 engines will achieve PM reductions of at least 95 percent and NOx reductions of at least 90 percent, compared to uncontrolled, pre-Tier 0 engines. Allocating future Program funding for locomotives will support the early implementation of Tier 4 technology to reduce health risks near railyards.

For shorepower projects, the nearly \$80 million in existing grant agreements is sufficient to cover all of the projects that are contained on existing ranked lists. Therefore, staff proposes that we revisit the need for additional shorepower funding in a future allocation.

The focus on drayage trucks with the 2011 funding awards would likely increase the proportion of funding administered by local agencies in the Los Angeles/Inland Empire and Bay Area corridors in the near-term, relative to the corridor funding targets. Staff proposes to use the remaining funding for other trucks available from the 2011 funding awards, as well as future program allocations, to achieve the Board's adopted corridor funding targets over the course of the Program.

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**APPENDIX:
Background Information on Funding Allocations**

Current Funding Allocations

Trucks are estimated to be the largest source of PM and NOx emissions compared to the other goods movement categories. To ensure the greatest reductions in emissions and health risk, the Board adopted funding targets that prioritized truck projects. Provided below are the current overall funding targets by trade corridor and category.

Trade Corridor Funding Targets

In February 2008, the Board adopted these funding targets for each trade corridor, to be achieved over the course of the \$1 billion Program (ARB, 2008b).

<u>Percent</u>	<u>By Trade Corridor</u>
55%	Los Angeles/Inland Empire (South Coast Air Basin and Port of Hueneme)
25%	Central Valley (San Joaquin Valley Air Basin and Sacramento Federal Nonattainment Area)
14%	Bay Area (San Francisco Bay Area Air Basin)
6%	San Diego/Border (San Diego County and Imperial County)

Category Funding Targets

In March 2010, the Board revised the targets for various funding categories, to be achieved over the course of the \$1 billion Program (ARB, 2008a).

<u>Dollars</u>	<u>By Funding Category</u>
\$700 million	Heavy duty diesel trucks that haul goods, plus any truck stop or distribution center electrification
\$100 million	Diesel freight locomotives
\$160 million	Cargo ships at berth, plus cargo handling equipment used at a port or intermodal rail yard
\$ 40 million	Commercial harbor craft

These funding splits are not intended to be directly applied in each funding cycle; the Board retains the discretion to fund the mix of projects that best meets the Program needs.

Provided below are the Program funds awarded by trade corridor.

Table A-1: Prior Funding Awards

Trade Corridor	Funding Category	Local District	Funds Awarded (millions)
LA/Inland Empire	Port/Rail Trucks	South Coast & Ports of LA/LB	\$82.6
	Other Trucks		\$92.6
	Ships/Equipment		\$61.3
	Locomotives		\$9.3
	Corridor Total		
Central Valley	Other Trucks	San Joaquin Valley	\$91.7
	Other Trucks	Sacramento Metro	\$15.3
	Locomotives		\$10.3
	Corridor Total		
Bay Area	Port Trucks	Bay Area	\$14.5
	Other Trucks		\$25.0
	Ships/Equipment		\$22.9
	Corridor Total		
San Diego/Border	Port Trucks	San Diego	\$5.2
	Other Trucks		\$8.6
	Other Trucks	Imperial	\$6.7
	Harbor Craft	San Diego	\$0.5
	Corridor Total		
Local Agency Totals			\$446.5

Provided below are the previous funding awards and tentative allocations, as approved by the Board in June 2010 (ARB, 2010a, 2010c).

Table A-2: Previous Funding Recommendations (June 2010)

Trade Corridor and Target %	Funding Category	Local District	Total¹ (millions)	Phase 1 June 2010 (millions)	Tentative Phase 2 Spring 2011 (millions)
LA/Inland Empire (55%, \$233.7M)	Trucks	South Coast	\$141.5	\$42.5	\$99.0
	Ships/ Equipment	South Coast	\$61.3	\$61.3	---
	Locomotives	South Coast	\$30.9	\$6.2	\$24.7
	Corridor Total		\$233.7	\$110.0	\$123.7
Central Valley (25%, \$106.2M)	Trucks	San Joaquin Valley	\$75.5	\$45.5	\$23.0
	Trucks	Sacramento Metro		\$10.0	
	Locomotives	San Joaquin Valley	\$20.0	---	\$20.0
	Locomotives	Sacramento Metro	\$7.7	---	\$7.7
	Corridor Total		\$103.2	\$55.5	\$50.7
Bay Area (14%, \$59.5M)	Trucks	Bay Area	\$33.3	\$8.0	\$25.3
	Ships/ Equipment	Bay Area	\$23.9	\$20.0	\$3.9
	Locomotives	Bay Area	\$2.3	---	\$2.3
	Corridor Total		\$59.5	\$28.0	\$31.5
San Diego/ Border (6%, \$25.5M)	Trucks	San Diego	\$28.0	\$3.0	\$19.0
	Trucks	Imperial		\$3.0	
	Harbor Craft	San Diego	\$0.5	\$0.5	---
	Corridor Total		\$28.5	\$6.5	\$19.0
All Trade Corridors	Trucks	ARB ²	\$50.0	---	\$50.0
Local and State Agency Totals			\$474.9	\$200.0	\$274.9

¹ Adds to just under \$475 million due to rounding.

² State agency.