

BOARD MEETING DATE: March 3, 2017

AGENDA NO. 39

*(Continued from February 3, 2017 Board Meeting)*

**PROPOSAL:** Approve Schedule of Activities to Implement Draft Financial Incentives Funding Action Plan for 2016 AQMP

**SYNOPSIS:** A Draft Financial Incentives Funding Action Plan was prepared to help identify new revenue sources that the SCAQMD could pursue for incentive funding programs to help accelerate the turnover of existing vehicles and equipment to zero and near-zero emission technologies and help the region meet federal air quality standards. The Draft Action Plan includes a discussion of potential funding opportunities, public process, and a proposed schedule of activities to be initiated over the next year. The proposed activities include a schedule for staff to work with stakeholders through a public process to identify a set of funding opportunities to pursue, educating the state legislature and Congressional members on the funding needs of the region, and reporting to the Board on progress. This action is to seek the Board's approval on the schedule of activities proposed in the Draft Action Plan and have staff initiate the activities based on the Board's direction.

**COMMITTEE:** Mobile Source, July 22, 2016 and October 21, 2016; and Governing Board, January 6, 2017; Reviewed

**RECOMMENDED ACTION:**

Approve schedule of activities in Table 1 to implement the Draft Financial Incentives Funding Action Plan for the 2016 AQMP

Wayne Nasti  
Executive Officer

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### **Background**

The Draft Final 2016 AQMP includes many regulatory measures, but identified the need for additional incentives funding to accelerate turnover of older vehicles and equipment to zero and near-zero emission technologies. The early turnover is critical in the near-term (in the next six to seven years) as new regulatory proposals will take some time before the actions can be fully implemented. As part of the development of the

Draft Final 2016 AQMP, an analysis was performed to estimate the level of funding incentives that would be needed in the next seven to 15 years to turn over existing vehicles and equipment if no other actions are taken. The analysis was conducted with the primary purpose of helping to achieve the NO<sub>x</sub> emission reductions associated with the State SIP Strategy “Further Deployment of Cleaner Technologies” measures. In addition to the State SIP Strategy mobile source measures, staff estimated funding incentives needed to help reduce stationary source emission reductions. The total estimated funding needed is approximately \$10 to \$14 billion over the next 15 years. A draft Financial Incentives Funding Action Plan (Action Plan or Plan) was prepared identifying potential opportunities to generate revenue for future incentives funding programs and proposed activities to pursue funding. The Draft Action Plan is available at: <http://www.aqmd.gov/docs/default-source/clean-air-plans/air-quality-management-plans/2016-air-quality-management-plan/draftfinancialincentivefundec2016.pdf>.

The Draft Action Plan provides a discussion of 17 potential funding opportunities that the SCAQMD and the region could pursue. A list of potential funding opportunities to provide funding opportunities to the South Coast Air Basin and Coachella Valley is provided in Table ES-1 of the Draft Final Action Plan. The comprehensive list of potential opportunities does not reflect staff’s recommendation to pursue such opportunities, but was compiled to be a starting point for public input. The Draft Action Plan provides discussion on potential next steps needed to realize such funding. Many of the potential funding opportunities will require state or federal legislative actions, and some opportunities may require voter approval. The Draft Action Plan does not provide an analysis of the SCAQMD’s ability or authority to authorize the potential opportunities and does not provide analysis of the legislative challenges to enact the funding opportunities. This analysis is proposed to be developed as part of the public process that will be undertaken to pursue the funding opportunities. Specific proposals will be brought to the Legislative Committee and/or other Board Committees as appropriate for a full discussion and the Board’s consideration before proceeding with specific funding opportunities.

### **Public Process**

The Draft Financial Incentives Funding Action Plan was released on December 16, 2016 for a 30-day comment period. Prior to the release of the Draft Action Plan, the various elements of the Draft Action Plan were discussed with the 2016 AQMP Advisory Group and overview presentations were made to the Mobile Source Committee. In addition, the Draft Action Plan was presented to the Board at its January 2017 meeting to receive input and public comments on the Plan.

## **Proposal**

Staff is proposing that the Draft Funding Action Plan remain a living document to serve as a starting point for public discussion. However, based on comments received regarding the guiding principles (see discussion under Public Comments), staff has revised the guiding principles (specifically, Guiding Principle 3) to further clarify their intent (see Attachment A). In addition, the proposed activities and a schedule to pursue and secure new funding proposed in the Draft Action Plan (see Chapter V of the Draft Action Plan) was drafted in November 2016 and needs to be updated. A list of the proposed activities is provided below.

### *Actions at the National Level*

- Create a national collaborative – develop new partnerships with states and regions that are currently in nonattainment of existing federal air quality standards or may be in nonattainment of future air quality standards
- Create a National Clean Air Investment and Cleanup Fund
- Develop public/private partnerships to help identify and/or leverage public funding

### *Actions at the State Level*

- Prioritize existing funding programs to maximize the co-benefits of criteria pollutant and greenhouse gas emission reductions
- Initiate new funding programs through state legislative process
- Develop public/private partnerships to help identify and/or leverage public funding

### *Actions at the Regional/Local Level*

- Build consensus to develop new local ballot measures
- Expand implementation of the District's Strategic Alliance Initiative
- Develop public/private partnerships

Table 1 provides a proposed schedule of activities and milestones to pursue potential funding opportunities.

**TABLE 1**  
Proposed Schedule and Milestones to Pursue Funding Opportunities

Activity	Proposed Schedule
Continue discussions with NACAA and Ultra-Low NO <sub>x</sub> Petition Co-Petitioners on formation of national collaborative	<ul style="list-style-type: none"> <li>December 2016 – February 2017</li> </ul>
Work with CAPCOA, CARB, and the West Coast Collaborative on forming coalitions to support additional funding opportunities	<ul style="list-style-type: none"> <li>December 2016 – March 2017</li> </ul>
Convene Working Group to discuss/identify and prioritize funding opportunities to pursue	<ul style="list-style-type: none"> <li>February 2017</li> </ul>
Report to SCAQMD Legislative Committee and/or other Board Committees as appropriate on process to move forward	<ul style="list-style-type: none"> <li>Within two months from date of adoption of Final 2016 AQMP</li> </ul>
On-Going Working Group Meetings <ul style="list-style-type: none"> <li>Seek input on the various funding opportunities and prioritize potential opportunities to pursue</li> <li>Develop timelines to pursue funding</li> <li>Form coalition(s) to support legislative-related activities to pursue funding</li> </ul>	<ul style="list-style-type: none"> <li>On-going on a monthly basis for six months from date of adoption of Final 2016 AQMP, quarterly or semi-annually after six months</li> </ul>
Report to SCAQMD Legislative Committee and/or other Board Committees, as appropriate, on progress <ul style="list-style-type: none"> <li>Discuss specific funding opportunities to pursue</li> <li>Specific actions for Committee’s consideration and Board approval</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly or semi-annually from date of adoption of Final 2016 AQMP; monthly as needed to consider specific actions</li> </ul>

This action is to approve the proposed schedule of activities provided in Table 1. Upon approval by the Board of the proposed schedule of activities and the approval of the 2016 AQMP, staff will initiate public discussions on pursuing funding and report to the Legislative Committee and/or other Board Committees, as appropriate, on the progress in pursuing funding. Specific proposals will be brought to the Legislative Committee and/or other Board Committees as appropriate for a full discussion and the Board’s consideration to proceed with the pursuit of the specific funding proposal(s).

**Public Comments**

Since the release of the Draft Plan, staff received comments requesting clarification on the intent of the proposed guiding principles; recognition that certain mobile source emission inventory categories have been revised; the challenges posed with the potential funding opportunities; and whether the Funding Action Plan will be submitted into the SIP. In addition, comments on the need for a Funding Action Plan and identifying potential revenue sources for future incentives funding were received as part of the 2016

AQMP public process. Responses to those comments are provided as part of the 2016 AQMP public review process.

Three written comment letters were received by close of business January 20, 2017. The three comment letters are provided at: [www.aqmd.gov/home/library/clean-air-plans/air-quality-mgt-plan](http://www.aqmd.gov/home/library/clean-air-plans/air-quality-mgt-plan). The comments are similar to those received verbally at the 2016 AQMP Advisory Group and Mobile Source Committee meetings, and the January 2017 Board meeting. A summary of the comments and staff responses is provided below.

- Comment: Clarification on Guiding Principles (3) and (6) regarding the relationship between the impact on the funding source and encouragement of maximum use of funding by other entities.

Response: Staff is providing revisions to the Guiding Principle (3) to clarify its intent. (See Attachment A)

- Comment: Recommendation of additional guiding principle stating that “any financial incentives be funded and implemented in ways that support the economy of the region and do not put South Coast businesses at a competitive disadvantage to other areas”.

Response: Staff has revised Guiding Principle (7) to reflect the concept of this recommendation.

- Comment: Clarification that the Draft Funding Action Plan is not proposed to be submitted to U.S. EPA for incorporation into the SIP.

Response: The Draft Funding Action Plan is not proposed to be submitted to U.S. EPA for inclusion into the SIP.

- Comment: The analysis of the funding levels are based on draft emission inventories provided in earlier public releases of the 2016 AQMP. There is a need to recognize the latest emission inventories and potentially update the analysis of funding levels.

Response: Staff will be providing updated information on emissions and funding levels as part of the public process.

- Comment: Through the working group process, address key topics missing from the funding plan including “inherent tension between seeking the most cost effective reductions versus investing in advanced control technologies that are economically infeasible and would not be made without financial support”;

discussions on funding for stationary sources as well as mobile sources; and how the District will prioritize and schedule its resources and actions among the many identified potential funding sources.

Response: The Draft Funding Action Plan was not intended to cover every topic related to funding. As the Commenter acknowledges, many of the topics raised will be discussed through the public process.

- Comment: The Cargo Container Fee potential funding opportunity inaccurately reflects various proposals over the last ten years. The potential funding opportunity should be removed or rewritten and more specific funding opportunities should be provided.

Response: Staff appreciates the comments on different proposals discussed under the Cargo Container Fee concept, which will be considered during the public process. In addition, the various funding opportunities and development of funding mechanisms will be discussed in greater detail as part of the public process.

- Comment: Incentives for near-zero heavy-duty trucks should be prioritized to maximize near-term emission reductions and be discussed through the Funding Working Group to rank potential funding sources, secure funding, and determine emission reduction priorities.

Response: Staff agrees that there is a need to maximize near-term emission reductions. As provided in Table 1, the working group objectives are to prioritize funding and identify mechanisms to secure funding.

### **Benefits to SCAQMD**

The successful implementation of the 2016 AQMP will be based on adoption of new rules and regulations at all levels of government and identification and procurement of additional incentive funding needed in the near-term to accelerate turnover of older vehicles and equipment. The Draft Final Financial Incentives Funding Action Plan provides a series of activities to pursue revenue sources to fund financial incentive programs.

### **Resource Impacts**

There will be some administrative and program costs associated with implementing the Funding Action Plan. Detailed costs have not been estimated at this time; however, staff resources have been identified in the FY 2016-17 Budget.

### **Attachment**

Attachment A: Guiding Principles to Secure and Allocate Incentive Funds

Attachment B: Board Meeting Presentation

**ATTACHMENT A**

**SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT**

**GUIDING PRINCIPLES TO SECURE AND**

**ALLOCATE INCENTIVES FUNDS**

## **Guiding Principles to Secure and Allocate Incentives Funds**

As the SCAQMD moves forward in seeking new funding opportunities, SCAQMD staff will follow a set of guiding principles that are based on public comments received on the Draft 2016 AQMP.

1) **Evaluate All Potential Opportunities**

As the South Coast Air Quality Management District (SCAQMD) works to identify sustained sources of financial incentives revenue needed in the next seven to 15 years to help accelerate the turnover of legacy vehicles and equipment to modern near-zero emissions vehicles and equipment and where feasible, zero-emission vehicles and equipment, the SCAQMD will evaluate all potential opportunities with a recognition that revenues may come from multiple sources that are locally, state, and/or federally derived.

2) **No Diversion from Purposes Other than Air Quality**

Any identified source(s) of revenue shall not be from the diversion of existing or future funds slated for purposes other than air quality (e.g., funding for transportation infrastructure improvement projects shall not be diverted for use to accelerate turnover of existing vehicles).

3) **Minimize Economic Impact to the Funding Source**

Any potential revenue source proposed to be pursued shall be analyzed and developed in a manner that: 1) wherever possible, incentive funding should be generated from those responsible for air pollution in a fair and proportionate manner (i.e., those who pollute the most should pay the most); 2) the burden for paying for incentive funding should be minimized to the maximum extent possible on those who can least afford it; and 3) where possible, maximize the use of funding back to the revenue source while being mindful of Guiding Principle No. 7.

4) **Collaborative Approach to Prioritize Revenue Sources to Pursue**

The SCAQMD will work with all interested stakeholders to build consensus on a prioritized specific set of potential revenue sources that could be pursued at the local, state, and/or federal level over the next one to three years.

5) **Develop Stakeholder Coalition**

The SCAQMD will work to develop a coalition of stakeholders that will help inform state legislators and Congressional members on the need for such funding and the benefits such funding will provide to meet current and future air quality standards, avoiding sanctions, and with a recognition that there will be substantial co-benefits of greater greenhouse gas emission reductions.

6) **Recognize Criteria Pollutant Emission Benefits from Projects Funded by Other Agencies**

The SCAQMD will work with entities such as county transportation agencies, Southern California Association of Governments (SCAG), local governments, Port of Long Beach, and Port of Los Angeles to ensure that the use of funding secured by these entities for the primary purpose of climate change, energy efficiency, or improved operational efficiencies provide additional criteria pollutant reduction co-benefits to the South Coast Air Basin and Coachella Valley to the greatest extent feasible.

7) **Maximize Disbursements/Benefits to Environmental Justice and Disadvantaged Communities**

Any funding realized shall be disbursed in such a manner that maximizes benefits to residents living in environmental justice and disadvantaged communities that are adversely affected by poor air quality, while ensuring that the region attains federal air quality standards as early as possible while continuing to foster the region's recovering economy and being sensitive to the region's economic competitiveness with other areas.

# **Approve Schedule of Activities to Implement Draft Financial Incentives Funding Action Plan for 2016 AQMP**

Agenda No. 26

SCAQMD Governing Board Meeting

February 3, 2017

# Draft Financial Incentives Funding Action Plan

- Guiding Principles to Secure and Allocate Incentives Funds
- Identifies 17 Potential Sources of Funding Revenues for Public Discussion
- Proposes Activities to Secure Additional Funding Revenues
- 3 Written Comments; Other Comments Provided as Part of 2016 AQMP Public Process

# Draft Guiding Principles to Secure and Allocate Incentive Funds

1. Evaluate all potential opportunities
2. No diversion from purposes other than air quality
3. Minimize economic impact to the funding source
4. Collaborative approach to prioritized potential revenue sources
5. Develop coalition to educate elected officials on funding needs and benefits
6. Ensure funding provides criteria pollutant reduction co-benefits
7. Maximize disbursements/benefits to environmental justice and disadvantaged communities

# Public Comments

- Clarifying Intent of Guiding Principle on Economic Impact on Funding Source
- Need to Prioritize Funding Opportunities and Resources
- Clarification on Emission Inventories Used for Funding Analysis
- Support for Early Emission Reductions Through Incentives for Near-Zero Emission Technologies
- Sensitivity to the Region's Economic Competitiveness with Other Areas

# Proposed Activities to Pursue New Funding

## Actions at the National Level

- Create a national collaborative – develop new partnerships with states and regions that are currently in nonattainment of existing federal air quality standards or may be in nonattainment of future air quality standards
- Create a National Clean Air Investment and Cleanup Fund
- Develop public/private partnerships to help identify and/or leverage public funding

# Proposed Activities to Pursue New Funding

## Actions at the State Level

- Prioritize existing funding programs to maximize the co-benefits of criteria pollutant and greenhouse gas emission reductions
- Initiate new funding programs through state legislative process with Board Direction
- Develop public/private partnerships to help identify and/or leverage public funding

# Proposed Activities to Pursue New Funding

## Actions at the Regional/Local Level

- Build consensus to develop potential local ballot measures  
(with input from the Board and the public)
- Expand Implementation of the District's Strategic Alliance Initiative
- Develop public/private partnerships

# Activities, Schedule, and Reporting

Activity	Proposed Schedule
Continue discussions with NACAA and Ultra-Low National Low-NOx Petition Co-Petitioners on formation of national collaborative	December 2016 – February 2017
Work with CAPCOA, CARB, and the West Coast Collaborative on forming coalitions to support additional funding opportunities	December 2016 – March 2017
Convene Working Group to discuss/identify and prioritize funding opportunities to pursue	February 2017
Report to SCAQMD Legislative Committee and/or other Board Committees as appropriate on process to move forward	Within two months from date of adoption of Final 2016 AQMP

# Activities, Schedule, and Reporting

Activity	Proposed Schedule
<p>On-Going Working Group Meetings</p> <ul style="list-style-type: none"> <li>• Seek input and prioritize funding opportunities</li> <li>• Develop timelines to pursue funding</li> <li>• Form coalition(s) to support legislative-related activities to pursue funding</li> </ul>	<p>On-going on a monthly basis for six months from date of adoption of Final 2016 AQMP, quarterly or semi-annually after six months</p>
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# Staff Recommendation

- Approve Schedule of Activities to Implement Draft Financial Incentives Funding Action Plan