

BOARD MEETING DATE: December 4, 2020

AGENDA NO. 5

**PROPOSAL:** Execute Contracts for the Volkswagen Environmental Mitigation Trust Program – Combustion Freight and Marine Projects Category

**SYNOPSIS:** In March 2020, the Program Announcement for the Volkswagen (VW) Environmental Mitigation Trust Program - Combustion Freight and Marine Projects category, with \$30 million in available funding, closed. The solicitation was largely undersubscribed primarily due to the lower incentive amounts, other competing programs in South Coast AQMD, and other programmatic requirements, as specified in the court-approved Consent Decrees and CARB’s Beneficiary Mitigation Plan. Based on review of eligible applications, staff is recommending awards for truck replacement and marine engine repower projects. This action is to execute contracts for the VW Program – Combustion Freight and Marine Projects Category.

**COMMITTEE:** Technology, November 20, 2020; Recommended for Approval

**RECOMMENDED ACTION:**

Authorize the Chairman to execute contracts for the replacement of on-road heavy-duty trucks as listed in Table 1A in an amount not to exceed \$3,895,238 and one contract for the repower of a marine vessel as listed in Table 1B, in an amount not to exceed \$1,000,000 from the VW Mitigation Special Revenue Fund (79).

Wayne Natri  
Executive Officer

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**Background**

In November 2018 and March 2020, the Board recognized revenue up to \$165 million to administer and implement two of the five project funding categories for the VW Program, including \$150 million in project funds. The two funding categories that South Coast AQMD is administering are the Combustion Freight and Marine Projects and Zero-Emission Class 8 Freight and Port Drayage Trucks, which have been allocated \$60

million and \$90 million in project funds, respectively. The other three funding categories are being administered by San Joaquin Valley APCD and Bay Area AQMD.

On December 6, 2019, the South Coast AQMD released a Program Announcement (PA) to solicit projects for the Combustion Freight and Marine Projects Category, using the first installment of \$30 million. The solicitation closed on March 4, 2020 and was largely undersubscribed primarily due to the lower incentive amounts and other programmatic requirements, as specified in partial Consent Decrees ordered by the U.S. District Court for the Northern District of California (*United States of America v. Volkswagen AG et al.*, Case No. 16-cv-295 (N.D. Cal.)) and CARB's Beneficiary Mitigation Plan (BMP).

As a follow-up, in coordination with CARB staff, staff surveyed applicants that initiated the process for the solicitation but did not complete the applications and discussed the programmatic parameters with local fleet operators. Based on feedback received, the primary reasons for the low subscription were the lower incentive amounts relative to other competing programs, compounded by the requirements to scrap an older vehicle and inability to leverage VW Trust funds with other CARB funds. For example, HVIP, although depleted of funds, offers up to \$45,000 per NZE truck with no scrappage and Proposition 1B offers \$100,000 per truck with scrappage. The confluence of these factors discouraged many fleet operators from applying for funding under this PA. However, two larger fleets who applied were willing to move forward at a reduced funding amount relative to the maximum incentive offered by the VW program.

### **Proposal**

All applications were evaluated based on the criteria specified in the PA, including other VW program-related documents, and eligible projects were ranked based on cost effectiveness for the amount of NOx emissions reduced. The projects were also reviewed by a five-member panel consisting of one member from: South Coast AQMD, Bay Area AQMD, San Joaquin Valley APCD, CARB, and California Air Pollution Control Officers Association (CAPCOA). The review panel verified all project selection criteria were followed.

Staff is recommending the execution of contracts for truck replacement projects and one marine engine repower project from the approved rank list, as identified in Tables 1A and 1B, in an amount not to exceed \$3,895,238 and \$1,000,000, respectively, from the VW Mitigation Special Revenue Fund (79). In summary, the total recommended awards from the first solicitation of the Combustion Freight and Marine Projects Category will be \$4,895,238 as summarized in Table 1C.

## **Outreach**

The PA was provided to San Joaquin Valley APCD, Bay Area AQMD, CARB and CAPCOA to assist with statewide outreach. The PA was also posted on each of the VW websites administered by the South Coast AQMD, San Joaquin Valley APCD, Bay Area AQMD and CARB. South Coast AQMD issued a press release notifying interested stakeholders of the opening of the PA for the Combustion Freight and Marine Projects category. Staff also held a public webinar to assist applicants statewide and conducted outreach on a statewide basis, including the utilization of social media and sending over 136,000 emails to subscribers.

Staff will work with other air districts, industry organizations, community groups and other stakeholders, in coordination with CARB, on revised statewide outreach for future solicitations.

## **Disadvantaged and Low-Income Communities**

Consistent with the goals established within the BMP, not less than 50 percent of the funds appropriated for this category are to be expended in a manner that directly reduces air contaminants and/or associated public health risks in disadvantaged and/or low-income communities. The qualification of the projects is determined by using CalEnviroScreen version 3.0 to identify disadvantaged and low-income communities.

Staff determined that 85 percent of the projects recommended for funding in this Board action are expected to provide benefits to disadvantaged and/or low-income communities. This greatly surpasses the requirements of the program.

## **Funding Distribution**

The VW Trust is a component of partial settlements with VW and is enumerated in Appendix D of the Consent Decree ordered by the U.S. District Court for the Northern District of California. In May 2018, as required by the Consent Decree, CARB approved the BMP, which includes a goal that at least 50 percent of program funds be expended on projects that will reduce NOx emissions in disadvantaged and low-income communities for the Combustion Freight and Marine Projects category.

Recommended projects in this Board letter are anticipated to reduce emissions in the following counties: Alameda, Butte, Los Angeles, Riverside, Sacramento, San Diego and other areas where the vehicles are operated.

## **Benefits to South Coast AQMD**

The successful implementation of the projects selected for funding through the VW Program will reduce emissions of NOx and other criteria air pollutants, toxic air contaminants and greenhouse gases on a statewide basis, including the South Coast AQMD. The recommended projects will exceed the targets for benefits to disadvantaged and low-income communities as qualified by CalEnviroScreen version

3.0. Below are the estimated NOx emissions reduction benefits from the recommended awards:

<b>Funding Category</b>	<b>Number of Vehicles/Engines</b>	<b>Maximum Recommended Awards</b>	<b>Estimated Statewide NOx Emission Reductions (tons/year)</b>	<b>Estimated NOx Emission Reductions Within South Coast AQMD (tons/year)</b>
On-Road	66	\$3,895,238	14.5	13.0
Marine	2	\$1,000,000	10.6	0.0
<b>Total</b>	<b>68</b>	<b>\$4,895,238</b>	<b>25.1</b>	<b>13.0</b>

The NOx emission reductions that will be achieved from replacing older, high-polluting vehicles and equipment with cleaner technologies within the South Coast AQMD and statewide are intended to fully mitigate the diesel NOx emissions caused by VW’s illegal actions. This program provides incentive funding to owners of heavy-duty vehicles and equipment to reduce emissions by replacing or repowering their older engines to the cleanest zero-emission or near zero-emission technologies. The projects identified in this Board letter will result in emission reductions that are surplus to existing regulations and will occur throughout the life of the projects resulting in long-term emission reduction and public health benefits.

**Resource Impacts**

Total funding for projects under the VW Environmental Mitigation Trust Program – Combustion Freight and Marine Projects Category will not exceed \$4,980,238. Revenue up to \$165 million, which includes \$150 million in projects funds and \$15 million in Administrative Costs, was previously recognized into the VW Mitigation Special Revenue Fund (79) to administer and implement the two project funding categories being administered by the South Coast AQMD. There are sufficient funds in the VW Mitigation Special Revenue Fund (79) for this funding category, including the recommended awards in this Board letter. Reimbursement of administrative costs will not exceed \$15 million of revenue received.

**Attachments**

Table 1A: Combustion Freight and Marine Projects Category: On-Road Trucks Program Awards

Table 1B: Combustion Freight and Marine Projects Category: Marine Project Program Awards

Table 1C: Combustion Freight and Marine Projects Category: Total Program Awards

**Table 1A**

<b>Combustion Freight and Marine Projects Category: On-Road Trucks Program Awards (Grant # G18-VWM-04)</b>			
<b>Applicant</b>	<b>Category</b>	<b>Number of Vehicles</b>	<b>Maximum Recommended Award</b>
Arete Logistics Corp.	On-Road	1	\$85,000
Bookmark Logistics, Inc.	On-Road	1	\$85,000
City of Los Angeles, Bureau of Sanitation	On-Road	2	\$170,000
Hyon, Allen Chul	On-Road	1	\$85,000
Jeon, Hyeong Cheol	On-Road	1	\$85,000
King Business Services, Inc. dba Debris Box	On-Road	1	\$73,094
Kwon, Jason	On-Road	1	\$85,000
MJ Truck Leasing, LLC	On-Road	2	\$170,000
On, Pung Seob	On-Road	1	\$85,000
Pacific Green Trucking Inc.	On-Road	3	\$255,000
Premium Transportation Services, Inc. dba Total Transportation Services (TTSI)	On-Road	4	\$340,000
Universal Waste Systems Inc.	On-Road	4	\$323,032
US Foods, Inc.	On-Road	27	\$1,279,112
USA Waste of California, Inc.	On-Road	17	\$775,000
<b>Subtotal:</b>		<b>66</b>	<b>\$3,895,238</b>

**Table 1B**

<b>Combustion Freight and Marine Projects Category: Marine Project Program Awards (Grant # G18-VWM-04)</b>			
<b>Applicant</b>	<b>Category</b>	<b>Number of Engines</b>	<b>Maximum Recommended Award</b>
R.E. Staite Engineering, Inc.	Marine	2	\$1,000,000
<b>Subtotal:</b>		<b>2</b>	<b>\$1,000,000</b>

**Table 1C**

<b>Combustion Freight and Marine Projects Category: Total Program Awards (Grant # G18-VWM-04)</b>		
<b>Category</b>	<b>Number of Vehicles/Engines</b>	<b>Maximum Recommended Award</b>
On-Road	66	\$3,895,238
Marine	2	\$1,000,000
<b>Total:</b>	<b>68</b>	<b>\$4,895,238</b>