CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
California Capital Access Program
Meeting Date: March 25, 2009
Request to Approve Interagency Agreement with the California Air Resources Board (ARB) Regarding the CalCAP Independent Contributor Program

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Independent Contributor:	California Air Resources Board	**Amount:**	Not to exceed $48,700,000
Program Location:	Statewide	**Term of Agreement:**	April 1, 2009 through December 31, 2011

Summary. The California Air Resources Board (ARB) has agreed to participate in the California Capital Access Program ("CalCAP) as an Independent Contributor. The proposed Interagency Agreement (the "Agreement") between the California Pollution Control Financing Authority (the "Authority" or "CPCFA") and ARB allocates up to $48,700,000 of ARB funds appropriated in Assembly Bill 118. These funds will be used for the ARB On-Road Diesel Independent Contributor program to provide financial assistance to small business owners of heavy-duty diesel vehicles affected by the ARB's Statewide In-Use Truck and Bus Regulation and the Heavy-Duty Vehicle Greenhouse Gas Emission Reduction Regulation (the "Regulations"). The term of the Agreement will be from April 1, 2009 through December 31, 2011.

Background. CalCAP assists small businesses in obtaining financing. CalCAP encourages banks and other financial institutions to make loans to small businesses that fall just outside of most banks' conventional underwriting standards. CalCAP is a form of loan portfolio insurance which may provide up to 100% coverage on certain loan defaults. The CalCAP Independent Contributor Program provides a mechanism that allows third parties to participate in CalCAP to meet a specific goal or mission. Independent Contributors agree to pay the loan loss reserve contributions of the borrower and can also pay the loan loss reserve contributions of the lender and CPCFA. The Independent Contributor Program has been a very successful part of CalCAP. ARB currently participates in CalCAP as an Independent Contributor for ARB's Off-Road Diesel Equipment Program to assist operators to comply with new air quality regulations.

ARB adopted Statewide In-Use Truck and Bus Regulations and Heavy-Duty Vehicle Greenhouse Gas Emission Reduction Regulations in December 2008. Most diesel trucks and buses, which can last 20 years or longer, have little or no emission controls. As a result, these vehicles emit large amounts of oxides of nitrogen or NOx, which contributes to high levels of smog throughout the state, and soot also known as particulate matter or PM, which is toxic. The Regulations require fleets to install exhaust retrofits that capture pollutants before they are emitted to the air, and to accelerate vehicle replacements to those with cleaner engines. The Regulations do not require any vehicles be replaced before 2012, and it never requires all the vehicles within a fleet to be replaced in a single year. The Regulations are expected to significantly reduce particulate matter and oxides of nitrogen pollution and prevent premature deaths.

In general, ARB's Regulations require owners to reduce emissions in their fleet by upgrading existing vehicles by using one of three compliance options. The first option is to install PM retrofits and replace vehicles (or engines) according to a prescribed schedule based on the existing engine model year. The second option is to retrofit a minimum number of engines each year with a high level PM exhaust retrofit and to replace a minimum number of engines meeting the 2010 new engine standards. Finally, the third option is to meet a fleet average. The Regulations will apply to approximately 380,000 CA registered vehicles with approximately 940,000 total vehicles impacted. The cost of the available options range from $17,000 to $160,000, and the total cost to affected fleets are expected to be up to $6 billion. Therefore, the cost to individual truck owners and fleets will be significant. During the course of developing the Regulations, many fleets indicated they would need to borrow money to purchase the required retrofits. Attachment A provides a more detailed description of the ARB Regulations, and Attachment B presents a more detailed description of the source of funds ARB will pledge for the ARB On-Road Diesel Independent Contributor Program.

The Interagency Agreement. The Agreement between the Authority and ARB allocates up to $48,700,000 of ARB funds toward the ARB On-Road Diesel Independent Contributor Program and the term of the Agreement will be from April 1, 2009 through December 31, 2011. There are no additional criteria a small business will need to meet to be eligible for the ARB On-Road Diesel Independent Contributor Program. The small business simply needs to be eligible under existing CalCAP regulations.

Typically Independent Contributors will contribute 2% to 10.5% of a borrower's enrolled loan amount into a lender's loan loss reserve account to cover potential losses. ARB has agreed to pay 14% of a borrower's enrolled loan amount to cover the contributions of the borrower, lending institution, and CPCFA toward the loan loss reserves. Additionally, the Interagency Agreement provides that the Authority will recover its costs associated with the administration of the ARB On-Road Diesel Independent Contributor Program.

In order to accommodate the expected increase in loan volume, CalCAP will allow lenders with a proven track record to enroll and attain preferred lender status. Preferred lender status will allow participating financial institutions to process and enroll loans in the program in a more efficient and expeditious manner. Preferred lender status only applies to the ARB On-Road Diesel Independent Contributor Program.

Staff Recommendation. Staff recommends approval to enter into an Interagency Agreement with the California Air Resources Board to serve as an Independent Contributor in CalCAP for the ARB On-Road Diesel Independent Contributor program in an amount not to exceed $48,700,000.

**RESOLUTION OF THE
CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
AUTHORIZING THE EXECUTIVE DIRECTOR OR
DEPUTY EXECUTIVE DIRECTOR TO SIGN AN INTERAGENCY
AGREEMENT WITH CALIFORNIA AIR RESOURCES BOARD**

WHEREAS, the California Pollution Control Financing Authority ("Authority") was created under the provisions of Section 44500 of the Health and Safety Code; and

WHEREAS, Section 44522(c) of the Health and Safety Code provides that the Authority is authorized to "do all things generally necessary or convenient to carry out its powers"; and

WHEREAS, the Authority wishes to enter into an Interagency Agreement with the California Air Resources Board (ARB) for an amount not to exceed $48,700,000, the term of which will be April 1, 2009 through December 31, 2011; and

WHEREAS, pursuant to the Interagency Agreement, the ARB will provide Independent Contributor funds for the California Capital Access Program ("CalCAP") to provide financial support services to the ARB On-Road Diesel Independent Contributor program.

NOW THEREFORE BE IT RESOLVED, that the Executive Director or Deputy Executive Director of the Authority is hereby authorized to prepare and execute an Interagency Agreement with the ARB in an amount not to exceed $48,700,000 for CalCAP to provide financial support services to the ARB On-Road Diesel Independent Contributor program.

FURTHER, that the Executive Director or Deputy Executive Director shall execute and submit the Interagency Agreement to the Department of General Services for approval.

Date of Adoption: March 25, 2009

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Michael Paparian
Executive Director

Attachment A

California Environmental Protection Agency | **AIR RESOURCES BOARD**

OVERVIEW OF THE

Proposed Regulation to Reduce Emissions from In-Use On-Road Diesel Vehicles

New rules to achieve significant emission reductions and protect public health

On December 11, 2008, the California Air Resources Board (ARB) will consider a new regulation to significantly reduce emissions from existing trucks and buses operating in California.

Why is ARB staff proposing this regulation?

Most diesel trucks and buses, which can last 20 years or longer, have little or no emission controls. As a result, these vehicles emit large amounts of oxides of nitrogen or NOx, which contributes to high levels of smog throughout the state, and soot also known as particulate matter or PM, which is toxic. All told, trucks and buses account for about 30 percent of the statewide emissions of NOx and about 40 percent of all PM emissions. Emissions from trucks contribute to many adverse health effects, including about 4,500 premature deaths per year. Reducing emissions from in-use trucks and buses is necessary to meet federally imposed clean air standards and to reduce the adverse health effects from truck pollution.

What types of vehicles would be subject to the regulation?

Affected vehicles include on-road heavy-duty diesel fueled vehicles with a gross vehicle weight rating (GVWR) greater than 14,000 pounds, yard trucks with off-road certified engines, and diesel fueled shuttle vehicles of any GVWR. Out-of-state trucks and buses that operate in California are also subject to the regulation. Drayage trucks and private utility-owned vehicles would be subject to the regulation beginning January 1, 2021.

Who must comply with the regulation?

Any person, business, school district, Tribal reservation, or federal government agency that owns, operates, leases or rents affected vehicles. The regulation also establishes requirements for any in-state or out-of-state motor carrier, California-based broker, or any California resident who hires or dispatches vehicles subject to the regulation. In addition, California sellers of a vehicle subject to the regulation would have to disclose the regulation's potential applicability to buyers of the vehicles.

What industries and types of fleets would be subject to the regulation?

Approximately 170,000 businesses in nearly all industry sectors in California, and almost a million vehicles that operate on California roads each year would be affected. Some common industry sectors that operate vehicles subject to the regulation include: for-hire transportation, construction, manufacturing, retail and wholesale trade, vehicle leasing and rental, bus lines, and agriculture.

What would the regulation require?

The regulation would require fleets to install exhaust retrofits that capture pollutants before they are emitted to the air, and to accelerate vehicle replacements to those with cleaner engines. The regulation does not require any vehicles be replaced before 2012, and it never requires all the vehicles within a fleet to be replaced in a single year.

In general, the regulation would require owners to reduce emissions in their fleet by upgrading existing vehicles by using one of three compliance options. The first option would be to install PM retrofits and replace vehicles (or engines) according to a prescribed schedule based on the existing engine model year. The second option would be to retrofit a minimum number engines each year with a high level PM exhaust retrofit and to replace a minimum number of engines meeting the 2010 new engine standards. Finally, the third option would be to meet a fleet average. With this option, a fleet operator could use PM and NOx emission factors established by the regulation to calculate the average emissions of the fleet. Then, by the applicable compliance date each year, the owner would have to demonstrate that the fleet average emissions for PM or NOx did not exceed the PM and NOx fleet average emission rate targets set by the regulation.

Are there special provisions for low-use vehicles?

Yes, low use vehicles (that operate less than 1,000 miles and less than 100 hours per year in

California) are exempt from the vehicle cleanup requirements of the regulation. Depending on the weight class of the vehicle, those operating less than 7,500 (greater than 33,000 pounds gross vehicle weight rating (GVWR)) or 5,000 (less than 33,000 pounds GVWR) miles per year would not be subject to any engine or vehicle replacement requirements until January 1, 2021, but would still be required to have a PM control device.

What other special provisions are provided?

The proposed regulation also has a number of provisions or delays for low-use vehicles, agricultural vehicles, certain unique vehicles, and vehicles operated in cleaner areas of the state. However, by January 1, 2023, all engines would meet the 2010 new engine emission standards.

What if a diesel retrofit is not available or can not be safely installed for a particular vehicle?

If a vehicle cannot be safely equipped with the highest level verified PM exhaust retrofit, the fleet owner may request a one-year extension of the PM compliance deadline. The owner would have to provide documentation to support its claims.

When does the regulation take effect?

For most fleets, the first performance requirements for PM would not begin until January 1, 2011, followed by the NOx requirements in 2013. For fleets with 3 or fewer affected vehicles, none of the performance requirements would begin January 1, 2013. The regulation would be phased in through January 1, 2023.

What are the requirements for school buses?

School buses would only be required to meet the proposed PM requirements and would be subject to several special provisions and timetables specifically designed for school buses. School buses manufactured prior to April 1, 1977, will be required to be removed from service by January 1, 2012. All remaining buses may meet one of the three proposed compliance options. A different PM compliance schedule has been proposed for school buses, with school buses having 2000 and newer model year engines have to install PM retrofit devices by the beginning of 2011.

What are the estimated benefits of the regulation?

The regulation is projected to provide significant diesel PM and NOx emissions reductions that would have a substantial positive air quality impact throughout California. PM emissions are projected to be reduced by about 13 tons per day in 2014 and 3.5 tons per day in 2023. NOx emissions are projected to be reduced by about 124 tons per day and 98 tons per day, for 2014 and 2023, respectively. These reductions are critical towards meeting federal clean air standards. The regulation would also reduce diesel PM emissions by the maximum level achievable from in-use on-road diesel vehicles.

Staff estimates that approximately 9,400 premature deaths statewide would be avoided by the year 2025 from the implementation of the regulation, and would provide associated health benefits would of $48 to $69 billion.

What are the estimated costs?

The total increased cost of the regulation is estimated to be $5.5 billion (2008 dollars). While it is expected that most fleets will pass through these costs their customers, this is expected to result in a negligible impact on consumers, equating to about a few cent increase for a pair of shoes, less than one one-hundreth of a cent increase per pound of produce, or an increase of from $3 to $10 for a new car.

Is Incentive money available?

Yes, incentive money is available. Please see the related fact sheet on incentive money for additional information.

Where can I find more information about the regulation?

The staff report and technical support document for the proposed regulation are posted at http://www.arb.ca.gov/msprog/onrdiesel/onrdiesel.htm

For additional general information

Please contact ARB's diesel hotline at (866) 6DIESEL (634-3735). You may also obtain this document in an alternative format by contacting ARB at: (916) 322-4505 (voice); (916) 324-9531 (TDD, Sacramento area only); or (800) 700-8326 (TDD, outside Sacramento). TTY/TDD/Speech-to-Speech users may dial 711 for the California Relay Service.

Attachment B

Incentive Funding Opportunities for On-Road Diesel Vehicles

The Air Resources Board (ARB) is providing an unprecedented amount of incentive funding – over $1 billion – for on-road heavy-duty diesel vehicles. A wide variety of grant and loan programs will help reduce the cost of cleaner vehicles in California. Grant funding is available through the Carl Moyer Program and the Proposition 1B Goods Movement Emission Reduction Program. Loan guarantees are also available through Proposition 1B as well as Assembly Bill 118.

How much funding is available?

The Goods Movement Emissions Reduction Program, funded by Proposition 1B, provides $1 billion for grants and loan guarantees over the next several years. ARB received the first installment of $250 million in the 2007-2008 budget, and the second $250 million in the 2008-2009 budget. The vast majority of this funding is slated for on-road trucks. The Carl Moyer Program provides about $140 million per year in grant funding for all types of mobile equipment. The Heavy Duty Vehicle Air Quality Loan Program will provide about $350 million for loan guarantees. Finally, about $200 million is available for school bus replacement and retrofits under the Lower Emission School Bus Program funded by Proposition 1B. Together, these funding sources make up the most extensive on-road vehicle funding opportunity ever offered in California.

Can incentive funds be used to achieve early compliance with the Truck & Bus Regulation?

Yes, but only if the project is completed in advance of the regulatory compliance deadline. For most trucks, the upgrade must be completed at least two years before it would be required by regulation. For example, if an owner/operator wants to replace an old truck, and the regulatory compliance deadline is January 1, 2013, then the upgraded truck must be operational by January 1, 2011. Truck owners should apply for grant funding as early as possible to qualify for the highest grant amount.

What kinds of funding opportunities are available for small fleets?

Small fleets are eligible for grants, vouchers, and loan guarantees. Grant funding can be used to help with the cost of replacing older trucks with new or newer trucks, or for exhaust retrofits that can reduce emissions from older trucks. For 1993 and older trucks, grants of up to $50,000 are available through the Carl Moyer Program for replacement with a 2007-2009 truck, or up to $75,000 for replacement with a 2010 truck. Fleet owners can combine Carl Moyer Program grant funding with loan guarantees to significantly lower the cost of a new truck purchase. Loans will be available through the Heavy Duty Vehicle Air Quality Loan Program in the form of loan guarantees issued through lenders to help truck owners that might not qualify for traditional loans.

Vouchers are similar to grants, but will be easier to obtain and will have fewer administrative requirements along with slightly lower funding levels. For roll-out in the spring of 2009, the Carl Moyer Voucher Program will target funds to class 8 trucks and provide a qualified trucker with $35,000 to replace a pre-1991 truck or $30,000 to replace a 1991-1993 truck.

The Proposition 1B Goods Movement Emission Reduction Program provides truck replacement funding of up to $50,000 for trucks operating in a trade corridor, plus combined grants and loan guarantees for small fleets.

What kinds of funding opportunities are available for large fleets?

Since large fleets are not eligible for as many programs as small fleets, they are expected to bear the majority of their own compliance costs. However, large fleets are still eligible for truck replacement and retrofit grant funding through the Proposition 1B Goods Movement Emission Reduction Program. Trucks that are 2003 or older are eligible for replacement funding of up to

$35,000-$50,000 depending on the model year of the replacement truck. Up to $5,000 is available for exhaust retrofits that reduce diesel particulates by at least 85%, and up to $15,000 is available for retrofits that reduce particulates and NOx. In addition to grant funding, large fleets may be eligible for loan guarantees to help provide financing for the balance of the replacement truck cost.

Can I use grant funding in combination with a loan?

Truck owners may use any available incentive grants – including the Carl Moyer Program and Goods Movement Emission Reduction Program – as down payments on trucks purchased with loan guarantees.

How Do I Apply for Incentive Funding?

Most incentive programs are administered by local air districts. Fleet owners may contact their local air district to apply for funding from the Carl Moyer Program or the Goods Movement Emissions Reduction Program. Information and applications for the voucher program for small fleets will be available at many truck dealers beginning in the spring of 2009. The ARB is also developing an outreach plan that will provide information on all funding programs available through air districts, dealers, and selected truck stops.

Information and applications for the loan guarantee program will be available through truck dealers or directly through participating lenders. The AB 118 loan program will be implemented through the California Capital Access Program (CalCAP). Approximately 60 financial institutions throughout the State already participate in CalCAP, but ARB staff is developing a list of core CalCAP lenders that will specialize in ARB's Heavy-Duty Vehicle Air Quality Loan Program; this contact information will be available soon.

For More Information

Further information on the ARB's incentive and loan programs is available at http://www.arb.ca.gov/diesel/rppot.htm. Local air district contact information is available at http://www.arb.ca.gov/capcoa/roster.htm.

Information is also available through the ARB's Public Information Office at (916) 322-2990, ARB's Carl Moyer Program hotline at 877-56-GRANT, or the Goods Movement Emission Reduction Program hotline at 916-44-GOODS.