

## **II. AIR RESOURCES BOARD'S 1995 CRITERIA AND GUIDELINES**

The Air Resources Board adopted criteria and guidelines for the use of motor vehicle registration fees by air districts and other recipients at its June 30, 1995, meeting. The goal of the guidelines is to ensure that these funds are being used effectively to reduce motor vehicle emissions.

The criteria reflect considerations identified by members of the Board. These include the need to implement measures in districts' clean air plans, maximize motor vehicle emission reductions through cost-effective measures, leverage other public and private funds where possible, and advance new technology.

The criteria reflect the fact that recipient agencies vary in terms of size and program responsibilities. Air districts are the primary agencies responsible for developing comprehensive clean air plans that define the strategies necessary to attain state and federal air quality standards. Transportation, congestion management, and local government agencies are partners in the planning process, and are responsible for implementing many of the mobile source measures in the district plans.

The criteria and guidelines serve as a framework for use of the funds. The ARB supports local flexibility and decision-making in the use of the revenues and intends that districts and other recipient agencies have the opportunity to justify other approaches to prioritizing use of the funds based on special circumstances. ARB also recognizes that supplementary criteria such as total emission reductions, rate of reduction, public acceptability, and enforceability may be useful in determining what projects to fund.

The criteria and guidelines are consistent with the statutory requirements for use of funds as described below. State law clearly specifies that these funds be used to reduce mobile source emissions and to carry out related California Clean Air Act activities. This guidance is intended to help recipient agencies prioritize the use of the funds in accordance with these requirements.

In the development of these guidelines, staff also evaluated typical programs and projects in several categories to determine cost-effectiveness. The results are detailed in a separate technical support document. Projects funded by air districts, the cities and counties of the South Coast Air Basin, the Bay Area congestion management agencies (CMAs), and the South Coast Mobile Source Air Pollution Reduction Review Committee (MSRC) are included. The cost-effectiveness analyses, in conjunction with the criteria and guidelines, should help recipient agencies select the most beneficial projects and programs for future funding.

The ARB recommends that recipient air districts and local agencies adopt criteria and guidelines for use of the funds that are consistent with those promulgated by ARB. The ARB staff is committed to work with recipient agencies in adopting and implementing these criteria.

### Statutory Requirements

Assessment of motor vehicle registration fees by air districts in California is authorized under several provisions of state law. The Sacramento Metropolitan Air Quality Management District (SMAQMD) program was the first to be established (Statutes of 1988, Chapter 1541). The SMAQMD is authorized to collect these fees under HSC Section 41016, which specifies the fees be used to implement strategies reducing emissions from vehicular sources, including but not limited to a clean fuels program and measures to reduce motor vehicle use.

Later legislation authorized other districts to assess the same fees and specified similar uses for the funds (AB 2766, Statutes of 1990, Chapter 1705; and AB 434, Statutes of 1991, Chapter 807). AB 2766 authorized other districts (except Bay Area) to assess motor vehicle registration fees to reduce motor vehicle emissions and implement the California Clean Air Act. One year later, AB 434 established a program specific to the Bay Area.

Legislative findings regarding the use of the funds are found in HSC Section 44220. These findings apply to all districts except Sacramento, which is subject to its own authorizing statute. The findings are as follows:

- (a) "This chapter is intended to ensure that ... districts, and, in the South Coast Air Quality Management District, other implementing agencies, have the necessary funds to carry out their responsibilities for implementing the California Clean Air Act."
- (b) "The revenues from the fees collected pursuant to this chapter shall be used solely to reduce air pollution from motor vehicles and for related planning, monitoring, enforcement, and technical studies necessary for the implementation of the California Clean Air Act of 1988" (emphasis added).

## Criteria and Guidelines

1. **Development and Implementation of Clean Air Plans:** The first priority for use of the funds is to implement emission reduction measures and strategies that are included in districts' clean air plans. At least 50 percent of the total funds spent in a region should be used for projects that directly reduce mobile source emissions. A lesser portion of the funds should be used for technical work necessary to develop and update clean air plans, and monitor progress towards attainment of air quality standards.

### *Emission Reduction Programs and Projects*

Emission reduction programs and projects should support mobile source measures and strategies in the district clean air plans. These plans establish the strategies, timeframe, and quantities of emission reductions needed to attain (and maintain) air quality standards. That framework should be the basis for expenditure of these funds.

Air districts, cities and counties, and congestion management agencies should identify their uses of the motor vehicle fees each year as part of the budget process. The relative allocation of these dollars for emission reduction projects and technical support activities should be clearly shown. This will help ensure that the majority of the funds are used to achieve direct emission reductions.

In the case of air districts, the budgets or expenditure plans should identify the amount of money allocated to grant programs and to district activities such as air quality planning and monitoring. Cities and counties that are direct recipients (South Coast) should include expenditure plans within their budgets. The local governments should specify the projects and programs to be funded, and demonstrate a clear link to the air quality plan. Congestion management agencies (counties) in the Bay Area should also identify the uses of the funds in enough detail to demonstrate that projects meet the statutory requirements specific to the region.

Detailing use of the funds in the budget processes of the recipient agencies will help ensure governing board involvement in the allocation process. Once the allocations are approved by the local governing boards, this information should be provided to the ARB for inclusion in the statewide biennial review. Recipient agencies should provide the information to ARB on an annual basis.

For air districts, the primary mechanism for funding emission reduction projects is through a grant process. Most districts have criteria in place for evaluating potential projects. These criteria should be expanded, if necessary, to ensure that priority is given to emission reduction projects that support the clean air plan. State law specifically provides for a grant program in the South Coast to be implemented by the South Coast MSRC. The MSRC's grant program should be aligned with the South Coast Air Quality Management District's (South Coast AQMD's) clean air plan.

Most cities, counties, and congestion management agencies do not have criteria in place that ensure projects are tied to the district air quality plan. Such criteria should be adopted by the governing boards based on the ARB-developed

criteria and guidelines. Local agencies should familiarize themselves with strategies and measures in the air district clean air plans and apply funds to implement them. For example, the Southern California Association of Governments (SCAG) has developed a list of transportation projects for the South Coast Air Basin that are part of the air district plan. It is also appropriate to use the funds on measures in district plans for which other local agencies have accepted delegation or provided substitute measures (e.g., transportation control measures).

As grant programs are administered, priority strategies in district plans should be identified and funds allocated accordingly. The districts and the MSRC should identify priority strategies before requests for proposals (RFPs) are prepared. The maximum amount of funds awarded in each category of RFPs should reflect these priorities; awards should not be based on the number of grant requests.

In prioritizing projects, all recipient agencies should consider the timing, duration, and magnitude of emission reductions needed to attain and maintain air quality standards. Most district plans include a combination of near term and long term strategies. In regions such as the South Coast, long term strategies are a crucial element of attainment plans given the persistent air quality problem. Long term strategies should also be considered in the context of anticipated growth in population and vehicle travel.

The magnitude of emission reductions from individual projects should also be considered from an efficiency standpoint. It is more desirable to administer a few projects with large emission reductions than numerous projects with small individual benefits.

Grant programs in rural air districts are small or nonexistent since these areas generally receive less than \$150,000 per year. This is appropriate since a grant program may not be the best use of these limited funds in these cases. Rather than applying a strict formula for use of the funds, rural districts should assess program needs and the air quality benefits of proposed projects, and allocate the funds accordingly. District staff should prepare an allocation plan for consideration by the governing board in a public process. Allocation plans adopted by governing boards should demonstrate the air quality benefits associated with the expenditure of these funds.

All recipient agencies should allocate the funds in a timely manner. If it is necessary to save some or all of the funds to accumulate adequate funds for a specific project, it is important that the agencies identify the implementation date and project. Evaluating the results achieved is the final step in assuring accountability.

### *Planning and Technical Activities*

The primary purpose of the funds is to reduce emissions from the use of motor vehicles. However, state law also recognizes the need to develop clean air plans that identify the strategies for meeting air quality standards. Ambient air monitoring and technical studies needed to implement the California Clean Air Act are other eligible uses of the funds.

To maintain the emphasis on emission reduction programs, less than 50 percent of the funds spent should be used to develop clean air plans and carry out other technical work. In the South Coast region, this limitation is statutory; by law the air district receives 30 percent of the regional funds. Thirty percent is allocated to the MSRC for emission reduction projects. The largest portion (40 percent) is allocated to cities and counties, which should spend the vast majority on emission reduction projects.

The allocation of motor vehicle fees for district planning and technical work should be detailed in district budgets and approved by governing boards. These technical activities should not be funded entirely by motor vehicle fees; at most, the funding should be proportionate to the relative contribution of mobile source emissions.

In terms of priorities, districts should ensure that clean air plans are complete and updated as required. Planning and technical work necessary to meet statutory timelines should be considered as priorities are set. In major metropolitan districts with complex air quality problems, technical activities will need to continue between revisions to clean air plans. As new information regarding emission inventories, air quality models, and control strategies becomes available, plans may need refinement between planning cycles. The need for technical work to support plan revisions should be considered each year as fees are allocated as part of the budget process.

Local government agencies participate in the air quality planning process since they are involved in implementing measures in district plans, particularly in the South Coast. SCAG has a statutory responsibility for developing portions of the district clean air plan and local agencies participate in that activity. However, local agencies should spend no more than ten percent of the funds for air quality planning activities since their responsibilities are limited.

In determining expenditures, districts and other agencies should differentiate clearly between air quality planning and planning related to measure implementation.

### *Public Education*

The California Clean Air Act requires that districts include a public education element in their attainment plans. HSC Section 40918 states that, "Each district with moderate air pollution shall, to the extent necessary to meet the requirements of the plan developed pursuant to Section 40913, include the following measures in its attainment plan: ... Provisions for public education programs to promote actions to reduce emissions from transportation and areawide sources."

Public education programs can result in behavioral changes that reduce motor vehicle travel and emissions. However, it is difficult to quantify such reductions and apply typical cost-effectiveness criteria. For that reason, public education programs may need to be evaluated with different criteria than are applied to direct emission reduction programs.

Districts should ensure that public education programs effectively deliver a focused message that targets behavioral changes that reduce motor vehicle emissions. The results of public education programs should also be monitored to assess program effectiveness. Parameters such as reduced travel or changes in travel mode can be examined through survey techniques.

2. **Cost-Effectiveness:** Projects should be prioritized and funded primarily on the basis of cost-effectiveness. A range of acceptable cost-effectiveness should be applied for screening purposes, and cost-effectiveness should be a primary consideration in final funding decisions.

The California Clean Air Act set a precedent for using cost-effectiveness to prioritize emission reduction measures in clean air plans. The Act requires air quality plans to assess and list control measures in terms of cost-effectiveness. The air districts are to consider cost-effectiveness in developing their schedule for implementing measures, along with other factors including technological feasibility, total emission reduction potential, rate of reduction, public acceptability, and enforceability (HSC Section 40922(a)&(b)).

A similar emphasis should be placed on cost-effectiveness as projects are considered for funding with motor vehicle registration fees. Cost-effectiveness should be high to ensure the greatest emission reductions possible per dollar spent.

As air pollution control programs have been implemented, a generally accepted range of cost-effectiveness has emerged. The cost of ARB mobile source measures is typically less than \$10,000 per ton of pollutant reduced, although sometimes much lower. District stationary source measures have at times had higher costs (up to \$20,000), and air pollution offset transactions have resulted in costs as high as \$37,000 per ton.

The projects funded over the first years of the motor vehicle registration fee program have also varied. However, most fall within the range of \$5,000 to \$20,000 per ton. Projects under \$20,000 per ton should be considered eligible for funding. Projects with much higher costs should not proceed past the screening process, with the exception of research or demonstration projects involving new technologies.

Districts and the MSRC should review their grant processes to ensure that cost-effectiveness is a high priority as projects are scored and selected. Cost-effectiveness should be emphasized as requests for proposal are developed.

3. **Leveraging Funds:** Emission reduction projects that have co-funding from other sources (private or public) should be given priority over those that do not, if leveraging results in a greater benefit per dollar spent.

Federal funds are available to the State to fund transportation programs that have air quality benefits. Use of district or other air quality funds to attract those funds is appropriate. Grant programs should be designed (as many are) to give priority to those programs and projects that have co-funding from one or more sources.

Similarly, co-funding of projects by multiple jurisdictions can "leverage" the effect of motor vehicle fees. Such efforts can result in efficiencies of scale and avoid duplication of effort. Cities and counties should pursue co-funding opportunities to maximize the effectiveness of the dollars spent in a region.

In terms of public education programs, cost sharing among organizations can increase the efficiency of public education campaigns. In addition, such coordination helps ensure that the public does not receive competing, overlapping or otherwise confusing messages.

Projects that are co-funded must be designed to ensure that emission reduction credits are not generated for sale through use of motor vehicle registration fees. The sale of emission credits does not clean the air since the credits are used to offset other emissions. Emission credits should only be generated by co-funders of projects in proportion to their funding contribution. Where emission reductions are sold or used by others, the cost-effectiveness of the project is reduced and no true "leveraging" occurs.

4. **Demonstration and Introduction of New Technology:** The need to develop, demonstrate, and introduce new technologies (as identified in clean air plans) should be considered as projects are prioritized for funding. Grant programs should balance the need to achieve short term emission reductions with the need for new strategies for the future.

Allocating a portion of motor vehicle fees to new technologies is a good use of the funds, particularly in areas with long term air quality problems. While near term measures are needed to clean the air as quickly as possible, longer term strategies that will provide future benefits are also needed. The clean air plan for the South Coast region relies on new technology to deliver a significant portion of the emission reductions after the year 2000. The measures are for the most part undefined and reliant on technology advances. Other areas will also need new technologies as population and vehicle travel continue to grow.

It is well recognized that cost-effectiveness of new technology projects may be poor in the short term because of research and development costs. Longer-term cost-effectiveness may be estimated based on the potential for successful implementation beyond the demonstration stage.