

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 08/15)

Fiscal Year 2016-17	Business Unit 3900	Department Air Resources Board	Priority No. 9
Budget Request Name 3900-009-BCP-BR-2016-GB		Program 3500 - MOBILE SOURCE	Subprogram

Budget Request Description
 Air Quality Improvement Program Augmentation

Budget Request Summary

Increase the Air Quality Improvement Program annual expenditure authority from \$24.2 million to \$31.7 million – a total increase of \$7.5 million – to align with the average annual revenue of \$30.0 million for this program. The Air Quality Improvement Program funds air quality improvement projects related to fuel and vehicle technologies to reduce criteria pollutant, air toxic, and greenhouse gas emissions. For some programs, the Air Quality Improvement Program is the only source of State funding (such as for the Truck Loan Assistance Program, a first come/first serve program that provides financing opportunities for California truckers using the leveraging power of loan guarantees). As demand for the program has increased, and new Air Quality Improvement Program programs (such as those designed to accelerate the deployment of clean agricultural tractors and equipment that are planned for regions of the State that do not meet ambient air quality standards) are launched, demand for program funding exceeds current budget levels. In addition, this proposal is a technical adjustment to correct the effect of the Pro-Rata assessment correction when the budget display between local assistance and state operations was split in fiscal year 2015-16.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed
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Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date
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For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance.

FSR SPR Project No. Date:

If proposal affects another department, does other department concur with proposal? Yes No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By Tim Hartigan <i>[Signature]</i>	Date 1-6-16	Reviewed By Alice Stebbins <i>[Signature]</i>	Date 1-6-16
Department Director Richard W. Corey <i>[Signature]</i>	Date 1/6/2016	Agency Secretary Matthew Rodriguez <i>[Signature]</i>	Date 1/6/16

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE CALSTARS Dept. of Technology

BCP Type: Policy Workload Budget per Government Code 13308.05

PPBA	Original Signed By: Ellen Moratti	Date submitted to the Legislature
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A. Budget Request Summary

Increase the Air Quality Improvement Program (AQIP) annual expenditure authority from \$24.241 million to \$31.741 million – a total increase of \$7.5 million – to align with the average annual revenue of \$30.0 million for this program. Alignment of expenditure authority with existing and projected revenue would augment local assistance to meet increased demand for AQIP’s consumer and business incentive air quality improvement projects. For example, AQIP is the only source of State funding for the Truck Loan Assistance Program, a first come/first serve program that provides financing opportunities for California truckers using the leveraging power of loan guarantees. It is experiencing higher demand than available funding as the State’s small business truck owners attempt to comply with clean air regulations and stay in business. In 2013, 2014, and the two completed quarters of 2015, AQIP contributed an average of \$1.3 million per month for the Truck Loan Assistance Program (averaging 1,980 loans and \$15.6 million in expenditures per year). Staff projects an increase in annual demand for this program that will support approximately 640 additional loans, which would require an increase of about \$5.0 million in expenditure authority. Increased demand of \$2.5 million is expected from new AQIP programs designed to accelerate the deployment of clean agricultural tractors and equipment that are planned for regions of the State that do not meet ambient air quality standards. Like the Truck Loan Assistance Program, AQIP is the only source of State funding for this program. In addition, this proposal includes a technical adjustment to correct the effect of the Pro-Rata assessment when the budget between local assistance and state operations was split in 2015-16.

B. Background/History

Assembly Bill (AB) 118 (Núñez, Chapter 750, Statutes of 2007) created three new incentive programs to reduce air pollution and greenhouse gas emissions, of which AQIP is one. AB 8 (Perea, 2013) extended funding until January 1, 2024, subject to annual appropriation by the Legislature. At the time of its inception, AQIP revenue was below what was anticipated due to the downturn in the economy. Consequently, the expenditure authority for the program was reduced to align with revenues. More recently, the State’s economy has improved, resulting in greater demand for AQIP’s consumer and business incentive programs. AQIP revenue has also increased and it is now appropriate to align expenditure authority with existing and projected revenue to meet growing demand. The Air Resources Board (ARB) already has budgeted positions in place to administer AQIP; therefore, ARB is not requesting additional positions as part of this proposal.

Resource History
(Dollars in thousands)

Program Budget	PY - 4	PY - 3	PY - 2	PY - 1	PY	CY
Authorized Expenditures	\$44,151	\$44,319	\$43,042	\$53,904	56,055	\$24,241
Actual Expenditures	\$33,604	\$44,319	\$30,952	\$53,904	N/A**	N/A
Revenues	\$30,493	\$31,226	\$28,943	\$69,478*	N/A**	N/A
Authorized Positions						
Filled Positions						
Vacancies						

* SB 852, Chapter 25, Statutes of 2014 (Budget Act) provided \$15M in FY 2014-15 with a \$30M authority expenditure increase in FY 2014-15. The May Revise Issue #175 provided an additional FY 2013-14 increase of \$15M as identified in the May 13, 2014 letter to the Senate Budget and Fiscal Review Committee.

**Final year-end reports are not yet available.

C. State Level Considerations

Analysis of Problem

ARB has evaluated this proposal for consistency with its Strategic Plan and its impact on other State departments. Incentive programs such as AQIP directly support the following two goals in ARB's Strategic Plan:

- Develop and implement new strategies to effectively reduce air pollution.
- Promote the development, commercialization, and use of zero- and near-zero emission technologies.

This proposal has no impact on other State departments.

D. Justification

The increase in expenditure authority resulting from alignment with existing and projected revenue will allow AQIP's projects (particularly the Truck Loan Assistance Program) to more fully meet increased consumer demand, while also appropriately supporting new programs to reduce emissions in regions of the State that do not meet ambient air quality standards.

In addition to aligning expenditure authority with uptrends in revenues, this proposal is also a technical fix to correct expenditure authority to meet operational needs. In 2015-16, to more accurately display the AQIP program, local assistance expenditure authority was split from state operations. An incorrect adjustment was made between state operations and local assistance that left a shortfall in operational authority due to the effect of the Pro-Rata assessment. Therefore, this technical adjustment to increase state operations authority will adjust funding as appropriate for this program.

E. Outcomes and Accountability

This request to increase expenditure authority to align with current and projected revenue for the AQIP, provide available funding to support air quality improvement projects. AQIP projects are subject to strict accounting and monitoring oversight, including program reviews conducted by ARB and the Department of Finance's Office of State Audits and Evaluations, with reports posted to both websites. AQIP also reports status and outcomes every other year to the Legislature.

F. Analysis of All Feasible Alternatives

Alternative 1 – Approve proposal: The increase in expenditure authority from \$24.241 million to \$31.741 million – a total increase of \$7.5 million – to align with existing and projected revenue will allow AQIP's Truck Loan Assistance Program to more fully meet increased consumer demand and appropriately support new programs to reduce emissions in regions of the State that do not meet ambient air quality standards.

Alternative 2 – Partially approve proposal: Approve a partial increase in expenditure authority from \$24.241 million to \$30.0 million - a total increase of \$5.759 million in expenditure authority - to move closer to existing and projected revenue and somewhat increase the ability of AQIP's Truck Loan Assistance Program to meet increased consumer demand and support new programs to reduce emissions in regions of the State that do not meet ambient air quality standards. However, at this level, it is not expected that ARB will be able to support growth in both programs, resulting in insufficient funding in one or both programs and unmet consumer demand.

Alternative 3 – Deny proposal: Denying the increase in expenditure authority to align with existing and projected revenue will result in AQIP's Truck Loan Assistance Program significantly not meeting consumer demand, nor will it support new programs to reduce emissions in regions of the State that do not meet ambient air quality standards. This will result in a loss of emission benefits in the AQIP program, and could result in significantly greater levels of non-compliance with ARB's in-use diesel regulations (and in particular the Truck and Bus regulation) as fleets do not have access to the capital needed to upgrade their equipment.

G. Implementation Plan

Analysis of Problem

This request would be implemented upon enactment of the FY 2016-17 Budget Act.

H. Supplemental Information

None.

I. Recommendation

ARB recommends approval of Alternative 1.

BCP Fiscal Detail Sheet

BCP Title: Air Quality Improvement Program Augmentation

DP Name: 3900-009-BCP-DP-2016-GB

Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Salaries and Wages						
Earnings - Permanent	0	876	876	876	876	876
Total Salaries and Wages	\$0	\$876	\$876	\$876	\$876	\$876
Total Staff Benefits	0	413	413	413	413	413
Total Personal Services	\$0	\$1,289	\$1,289	\$1,289	\$1,289	\$1,289
Operating Expenses and Equipment						
5301 - General Expense	0	60	60	60	60	60
5302 - Printing	0	10	10	10	10	10
5304 - Communications	0	20	20	20	20	20
5306 - Postage	0	10	10	10	10	10
5320 - Travel: In-State	0	40	40	40	40	40
5322 - Training	0	10	10	10	10	10
5324 - Facilities Operation	0	45	45	45	45	45
5342 - Departmental Services	0	116	116	116	116	116
5344 - Consolidated Data Centers	0	20	20	20	20	20
5346 - Information Technology	0	40	40	40	40	40
5348 - Pro Rata	0	200	200	200	200	200
54XX - Special Items of Expense	0	5,640	5,640	5,640	5,640	5,640
Total Operating Expenses and Equipment	\$0	\$6,211	\$6,211	\$6,211	\$6,211	\$6,211
Total Budget Request	\$0	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500

Fund Summary

Fund Source - State Operations						
3119 - Air Quality Improvement Fund	0	1,860	1,860	1,860	1,860	1,860
Total State Operations Expenditures	\$0	\$1,860	\$1,860	\$1,860	\$1,860	\$1,860
Fund Source - Local Assistance						
3119 - Air Quality Improvement Fund	0	5,640	5,640	5,640	5,640	5,640
Total Local Assistance Expenditures	\$0	\$5,640	\$5,640	\$5,640	\$5,640	\$5,640
Total All Funds	\$0	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500

Program Summary

Program Funding						
3500 - Mobile Source	0	7,500	7,500	7,500	7,500	7,500
Total All Programs	\$0	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500