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**AB-118 Alternative fuels and vehicle technologies: funding programs.** (2007-2008)

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**Assembly Bill No. 118**

CHAPTER 750

An act to add Article 11 (commencing with Section 44125) to Chapter 5 of, to add Chapter 8.9 (commencing with Section 44270) to, Part 5 of Division 26 of, and to add and repeal 44060.5 of, the Health and Safety Code, and to add and repeal Sections 9250.1, 9261.1, and 9853.6 of the Vehicle Code, relating to air pollution.

[ Approved by Governor October 14, 2007. Filed with Secretary of State October 14, 2007. ]

LEGISLATIVE COUNSEL'S DIGEST

AB 118, Nunez. Alternative fuels and vehicle technologies: funding programs.

(1) Existing law imposes various limitations on emissions of air contaminants for the control of air pollution from vehicular and nonvehicular sources. Existing law generally designates the State Air Resources Board as the state agency with the primary responsibility for the control of vehicular air pollution. Under existing law, the State Energy Resources Conservation and Development Commission (Energy Commission), in conjunction with other state agencies, is required to develop and adopt a state plan to increase the use of alternative fuels, as defined.

Existing law establishes the Public Interest Research, Development, and Demonstration Fund in the State Treasury, and provides that the money collected by the public goods charge to support cost-effective energy efficiency and conservation activities, public interest research and development not adequately provided by competitive and regulated markets, be deposited in the fund for use by the Energy Commission to develop, implement, and administer the Public Interest Research, Development, and Demonstration Program to develop technologies to, improve environmental quality, enhance electrical system reliability, increase efficiency of energy-using technologies, lower electrical system costs, or provide other tangible benefits.

The bill would create the Alternative and Renewable Fuel and Vehicle Technology Program, to be administered by the Energy Commission, to provide, upon appropriation by the Legislature, grants, loans, loan guarantees, revolving loans, or other appropriate measures, to public agencies, businesses and projects, public-private partnerships, vehicle and technology consortia, workforce training partnerships and collaboratives, fleet owners, consumers, recreational boaters, and academic institutions to develop and deploy innovative technologies that transform California's fuel and vehicle types to help attain the state's climate change policies.

The bill would create the Alternative and Renewable Fuel and Vehicle Technology Fund (Alternative Fund), and would require the Energy Commission to expend the moneys in the Alternative Fund, upon appropriation by the Legislature, to implement the Alternative and Renewable Fuel and Vehicle Technology Program. The bill would

require \$10,000,000 to be transferred annually to the Alternative Fund from the Public Interest Research, Development, and Demonstration Fund.

The bill would also create the Air Quality Improvement Program, to be administered by the State Air Resources Board, to fund air quality improvement projects, upon appropriation by the Legislature, relating to fuel and vehicle technologies. The bill would create the Air Quality Improvement Fund, and would require the state board to expend the moneys in that fund, upon appropriation by the Legislature, to implement the Air Quality Improvement Program.

(2) Existing law creates the High Polluter Repair or Removal Account in the Vehicle Inspection and Repair Fund, and makes moneys deposited in the account available, upon appropriation by the legislature, to the Department of Consumer Affairs and the state board to establish and implement a program for the repair or replacement of high polluters.

This bill would create an enhanced fleet modernization program for the retirement of high polluting vehicles to be administered by the Bureau of Automotive Repair pursuant to guidelines adopted by the state board. The bill would create the Enhanced Fleet Modernization Subaccount in the High Polluter Removal and Repair Account to establish and implement this enhanced program, upon appropriation by the Legislature.

(3) The bill, beginning July 1, 2008, until January 1, 2016, would increase vehicle registration fees from \$31 to \$34, vessel registration fees from \$10 to \$20 and from \$20 to \$40, as applicable, and specified service fees for identification plates from \$15 to \$20. The bill would require the additional revenue generated by those fee increases to be deposited in the Alternative and Renewable Fuel and Vehicle Technology Fund, the Air Quality Improvement Fund, and the Enhanced Fleet Modernization Subaccount, as provided.

The bill beginning July 1, 2008, until January 1, 2016, would also increase smog abatement fees from \$12 to \$20, and would require<sup>1/2</sup> of the additional revenue generated by that fee increase to be deposited in the Air Quality Improvement Fund and the other<sup>1/2</sup> of that additional revenue to be deposited in the Alternative and Renewable Fuel and Vehicle Technology Fund.

Vote: majority Appropriation: no Fiscal Committee: yes Local Program: no

## THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

### **SECTION 1.** The Legislature finds and declares all of the following:

(a) The California Global Warming Solutions Act of 2006 (Division 25.5 (commencing with Section 38500) of the Health and Safety Code) requires California to reduce statewide greenhouse gas emissions to 1990 levels by 2020.

(b) The transportation sector is responsible for approximately 40 percent of statewide greenhouse gas emissions and significant degradation of public health and environmental quality due to air and water pollution.

(c) The State Energy Resources Conservation and Development Commission (Energy Commission) in its Integrated Energy Policy Report recommends that alternative fuels comprise 20 percent of on-road motor vehicle fuels by 2020.

(d) The State Air Resources Board is currently developing a "low-carbon" fuel standard for transportation fuels to reduce the carbon intensity of transportation fuels by 10 percent by 2020.

(e) The Energy Commission will adopt a state alternative fuel implementation plan to increase the use of alternative transportation fuels by recommending policies and financial incentives, and identifying barriers to alternative fuel use.

(f) Investing in the development of innovative and pioneering technologies will assist California in achieving the 2020 statewide limit on emissions of greenhouse gases.

(g) Research, development, and commercialization of alternative fuels and vehicle technologies in California have the potential to strengthen California's economy by attracting and retaining clean technology businesses, stimulating high-quality job growth, and helping to reduce the state's vulnerability to petroleum price volatility. Research, development, demonstration, and deployment of alternative and renewable fuels and vehicle technologies will also result in new skill and occupational demands across California industries.

(h) This act will provide ongoing funding for alternative fuel and vehicle technology research, development, demonstration, and deployment in order to advance the state's leadership in clean technologies, achieve the state's petroleum reduction objectives and clean air and greenhouse gas emission reduction standards, develop public-private partnerships, and ensure a secure and reliable fuel supply.

(i) This act will ensure that research is conducted to evaluate the air quality impacts of alternative fuels and to establish clear criteria to prevent net increases in criteria air pollutants and air toxics.

(j) This act will be implemented in a manner to ensure the fair treatment of people of all races, cultures, and income levels, including minority populations and low-income populations of the state.

(k) This act will provide funding consistent with the California Global Warming Solutions Act of 2006, the Integrated Energy Policy Report, the state alternative fuels plan adopted pursuant to Section 43866 of the Health and Safety Code, and other state goals and requirements.

**SEC. 2.** It is the intent of the Legislature to appropriate moneys from the Alternative and Renewable Fuel and Vehicle Technology Fund and the Air Quality Improvement Fund to the Department of Motor Vehicles to cover the administrative costs of implementing the fee increases created by this act.

**SEC. 3.** Section 44060.5 is added to the Health and Safety Code, to read:

**44060.5.** (a) Beginning July 1, 2008, the smog abatement fee described in Section 44060 shall be increased by eight dollars (\$8).

(b) Revenues generated by the increase described in this section shall be distributed as follows:

(1) The revenues generated by four dollars (\$4) shall be deposited in the Air Quality Improvement Fund created by Section 44274.5.

(2) The revenues generated by four dollars (\$4) shall be deposited in the Alternative and Renewable Fuel and Vehicle Technology Fund created by Section 44273.

(c) This section shall remain in effect only until January 1, 2016, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2016, deletes or extends that date.

**SEC. 4.** Article 11 (commencing with Section 44125) is added to Chapter 5 of Part 5 of Division 26 of the Health and Safety Code, to read:

**Article 11. Enhanced Fleet Modernization Program**

**44125.** (a) No later than July 1, 2009, the state board, in consultation with the Bureau of Automotive Repair (BAR), shall adopt a program to commence on January 1, 2010, that allows for the voluntarily retirement of passenger vehicles and light-duty and medium-duty trucks that are high polluters. The program shall be administered by the BAR pursuant to guidelines adopted by the state board.

(b) The guidelines shall ensure all of the following:

(1) Vehicles retired pursuant to the program are permanently removed from operation and retired at a dismantler under contract with the BAR.

(2) Districts retain their authority to administer vehicle retirement programs otherwise authorized under law.

(3) The program is available for high polluting passenger vehicles and light-duty and medium-duty trucks that have been continuously registered in California for two years prior to acceptance into the program or otherwise proven to have been driven primarily in California for the last two years and have not been registered in any other state or country in the last two years.

(4) The program is focused where the greatest air quality impact can be identified.

(5) Compensation levels for retired vehicles are flexible, taking into account factors including, but not limited to, the age of the vehicle, the emission benefits of the vehicle's retirement, the emissions impact of any replacement vehicle, and the location of vehicles in areas of the state with the poorest air quality.

(6) Cost-effectiveness and impacts on disadvantaged and low-income populations are considered.

**44126.** The Enhanced Fleet Modernization Subaccount is hereby created in the High Polluter Removal and Repair Account. All moneys deposited in the subaccount shall be available to the department and the BAR, upon appropriation by the Legislature, to establish and implement the program created pursuant to this article.

**SEC. 5.** Chapter 8.9 (commencing with Section 44270) is added to Part 5 of Division 26 of the Health and Safety Code, to read:

**CHAPTER 8.9. California Alternative and Renewable Fuel, Vehicle Technology, Clean Air, and Carbon Reduction Act of 2007**

**44270.** This chapter shall be known, and may be cited, as the California Alternative and Renewable Fuel, Vehicle Technology, Clean Air, and Carbon Reduction Act of 2007.

**44270.3.** For the purposes of this chapter, the following terms have the following meanings:

- (a) "Commission" means the State Energy Resources Conservation and Development Commission.
- (b) "Full fuel-cycle assessment" or "life-cycle assessment" means evaluating and comparing the full environmental and health impacts of each step in the life cycle of a fuel, including, but not limited to, all of the following:
  - (1) Feedstock production, extraction, transport, and storage.
  - (2) Fuel production, distribution, transport, and storage.
  - (3) Vehicle operation, including refueling, combustion, conversion, permeation, and evaporation.
- (c) "Vehicle technology" means any vehicle, boat, off-road equipment, or locomotive, or component thereof, including its engine, propulsion system, transmission, or construction materials.

**44271.** (a) This chapter creates the Alternative and Renewable Fuel and Vehicle Technology Program, pursuant to Section 44272, to be administered by the commission, and the Air Quality Improvement Program, pursuant to Section 44274, to be administered by the state board. The commission and the state board shall do all of the following in fulfilling their responsibilities pursuant to their respective programs:

- (1) Determine definitions of terms used in the provisions of this chapter.
- (2) Establish sustainability goals to ensure that alternative and renewable fuel and vehicle deployment projects, on a full fuel-cycle assessment basis, will not adversely impact the state natural resources, especially state and federal lands.
- (3) Identify revenue streams for the programs created pursuant to this chapter.
- (4) Ensure that the results of the reductions in emissions or benefits can be measured and quantified.

(b) The state board shall develop guidelines for both the Alternative and Renewable Fuel and Vehicle Technology Program and the Air Quality Improvement Program to ensure that programs meet both of the following requirements:

- (1) Activities undertaken pursuant to the programs complement, and do not interfere with, efforts to achieve and maintain federal and state ambient air quality standards and to reduce toxic air contaminant emissions.
- (2) Activities undertaken pursuant to the programs maintain or improve upon emission reductions and air quality benefits in the State Implementation Plan for Ozone, California Phase 2 Reformulated Gasoline standards, and diesel fuel regulations.

(c) For the purposes of both of the programs created by this chapter, eligible projects do not include those required to be undertaken pursuant to state or federal law or district rules or regulations.

**44271.5.** (a) The commission shall create an advisory body to help develop an investment plan to determine priorities and opportunities for the Alternative and Renewable Fuel and Vehicle Technology Program created pursuant to this chapter. The advisory body shall be subject to the public meetings requirements of the Bagley-Keene Open Meeting Act (Article 9 (commencing with Section 11120) of Chapter 1 of Part 1 of Division 3 of Title 2 of the Government Code). The investment plan shall describe how funding will complement existing public and private investments, including existing state programs that further the goals of this chapter. The plan shall be updated annually.

(b) Membership of the advisory body created pursuant to subdivision (a) shall include, but is not limited to, representatives of fuel and vehicle technology consortia, labor organizations, environmental organizations, community-based justice and public health organizations, recreational boaters, consumer advocates, academic institutions, workforce training groups, and private industry. The advisory body shall also include representatives from the Resources Agency, the Business, Transportation and Housing Agency, the Labor and Workforce Development Agency, and the California Environmental Protection Agency.

**44272.** (a) The Alternative and Renewable Fuel and Vehicle Technology Program is hereby created. The program shall be administered by the commission. The program shall provide, upon appropriation by the Legislature, grants, revolving loans, loan guarantees, loans, or other appropriate measures, to public agencies, vehicle and technology consortia, businesses and projects, public-private partnerships, workforce training partnerships and collaboratives, fleet owners, consumers, recreational boaters, and academic institutions to develop and deploy innovative technologies that transform California's fuel and vehicle types to help attain the state's climate change policies. The emphasis of this program shall be to develop and deploy technology and alternative and renewable fuels in the marketplace, without adopting any one preferred fuel or technology.

(b) The commission shall provide preferences to those projects that maximize the goals of the Alternative and Renewable Fuel and Vehicle Technology Program created by Section 44272, based on the following criteria, as appropriate:

(1) The project's ability to provide a measurable transition from the nearly exclusive use of petroleum fuels to a diverse portfolio of viable alternative fuels that meet petroleum reduction and alternative fuel use goals.

(2) The project's consistency with existing and future state climate change policy and low-carbon fuel standards.

(3) The project's ability to reduce criteria air pollutants and air toxics and reduce or avoid multimedia environmental impacts.

(4) The project's ability to decrease, on a life-cycle basis, the emissions of water pollutants or any other substances known to damage human health or the environment, in comparison to the production and use of California Phase 2 Reformulated Gasoline or diesel fuel produced and sold pursuant to California diesel fuel regulations set forth in Article 2 (commencing with Section 2280) of Chapter 5 of Division 3 of Title 13 of the California Code of Regulations.

(5) The project does not adversely impact the sustainability of the state's natural resources, especially state and federal lands.

(6) The project provides nonstate matching funds.

(7) The project provides economic benefits for California by promoting California-based technology firms, jobs, and businesses.

(8) The project uses existing or proposed fueling infrastructure to maximize the outcome of the project.

(9) The project's ability to reduce on a life-cycle assessment greenhouse gas emissions by at least 10 percent, and higher percentages in the future, from current reformulated gasoline and diesel fuel standards established by the state board.

(10) The project's use of alternative fuel blends of at least 20 percent, and higher blend ratios in the future, with a preference for projects with higher blends.

(11) The project drives new technology advancement for vehicles, vessels, engines, and other equipment, and promotes the deployment of that technology in the marketplace.

(c) All of the following shall be eligible for funding:

(1) Alternative and renewable fuel projects to develop and improve alternative and renewable low-carbon fuels, including electricity, ethanol, dimethyl ether, renewable diesel, natural gas, hydrogen, and biomethane, among others, and their feedstocks that have high potential for long-term or short-term commercialization, including projects that lead to sustainable feedstocks.

(2) Demonstration and deployment projects that optimize alternative and renewable fuels for existing and developing engine technologies.

- (3) Projects to produce alternative and renewable low-carbon fuels in California.
- (4) Projects to decrease the overall impact of an alternative and renewable fuel's life-cycle carbon footprint and increase sustainability.
- (5) Alternative and renewable fuel infrastructure, fueling stations, and equipment. The preference in paragraph (10) of subdivision (b) shall not apply to these projects.
- (6) Projects to develop and improve light-, medium-, and heavy-duty vehicle technologies that provide for better fuel efficiency and lower greenhouse gas emissions, alternative fuel usage and storage, or emission reductions, including propulsion systems, advanced internal combustion engines with a 40 percent or better efficiency level over the current market standard, light-weight materials, energy storage, control systems and system integration, physical measurement and metering systems and software, development of design standards and testing and certification protocols, battery recycling and reuse, engine and fuel optimization electronic and electrified components, hybrid technology, plug-in hybrid technology, fuel cell technology, and conversions of hybrid technology to plug-in technology through the installation of safety certified supplemental battery modules.
- (7) Programs and projects that accelerate the commercialization of vehicles and alternative and renewable fuels including buy-down programs through near-market and market-path deployments, advanced technology warranty or replacement insurance, development of market niches, and supply-chain development.
- (8) Programs and projects to retrofit medium- and heavy-duty on-road and nonroad vehicle fleets with technologies that create higher fuel efficiencies, including alternative and renewable fuel vehicles and technologies, idle management technology, and aerodynamic retrofits that decrease fuel consumption.
- (9) Infrastructure projects that promote alternative and renewable fuel infrastructure development connected with existing fleets, public transit, and existing transportation corridors, including physical measurement or metering equipment and truck stop electrification.
- (10) Workforce training programs related to alternative and renewable fuel feedstock production and extraction, renewable fuel production, distribution, transport, and storage, high-performance and low-emission vehicle technology and high tower electronics, automotive computer systems, mass transit fleet conversion, servicing, and maintenance, and other sectors or occupations related to the purposes of this chapter.
- (11) Block grants administered by not-for-profit technology consortia for multiple projects, education and program promotion within California, and development of alternative and renewable fuel and vehicle technology centers.

(d) The same requirements in Section 25620.5 of the Public Resources Code shall apply to awards made on a single source basis or a sole sources basis.

**44273.** (a) The Alternative and Renewable Fuel and Vehicle Technology Fund is hereby created in the State Treasury, to be administered by the commission. The moneys in the fund, upon appropriation by the Legislature, shall be expended by the commission to implement the Alternative and Renewable Fuel and Vehicle Technology Program in accordance with this chapter.

(b) Notwithstanding any other provision of law, the sum of ten million dollars (\$10,000,000) shall be transferred annually from the Public Interest Research, Development, and Demonstration Fund created by Section 384 of the Public Utilities Code to the Alternative and Renewable Fuel and Vehicle Technology Fund. Prior to the award of any funds from this source, the commission shall make a determination that the proposed project will provide benefits to electric or natural gas ratepayers based upon the commission's adopted criteria.

**44274.** (a) The Air Quality Improvement Program is hereby created. The program shall be administered by the state board, in consultation with the districts. The purpose of the program shall be to fund, upon appropriation by the Legislature, air quality improvement projects relating to fuel and vehicle technologies. The primary purpose of the program shall be to fund projects to reduce criteria air pollutants, improve air quality, and provide funding for research to determine and improve the air quality impacts of alternative transportation fuels and vehicles, vessels, and equipment technologies.

(b) Projects proposed for funding pursuant to subdivision (a) shall be evaluated based on their proposed or potential reduction of criteria or toxic air pollutants, cost-effectiveness, contribution to regional air quality

improvement, and ability to promote the use of clean alternative fuels and vehicle technologies as determined by the state board, in coordination with the commission.

(c) The program shall be limited to competitive grants. Projects to be funded include the following:

- (1) On- and off-road equipment projects that are cost effective.
- (2) Projects that provide mitigation for off-road gasoline exhaust and evaporative emissions.
- (3) Projects that provide research to determine the air quality impacts of alternative fuels and projects that study the life-cycle impacts of alternative fuels and conventional fuels, the emissions of biofuel and advanced reformulated gasoline mixes, and air pollution improvements and control technologies for use with alternative fuels and vehicles.
- (4) Projects that augment the University of California's agricultural experiment station and cooperative extension programs for research to increase sustainable biofuels production and improve the collection of biomass feedstock.
- (5) Incentives for small off-road equipment replacement to encourage consumers to replace internal combustion engine lawn and garden equipment.
- (6) Incentives for medium- and heavy-duty vehicles and equipment mitigation, including all of the following:
  - (A) Lower emission schoolbus programs.
  - (B) Electric, hybrid, and plug-in hybrid on- and off-road medium- and heavy-duty equipment.
  - (C) Regional air quality improvement and attainment programs implemented by the state or districts in the most impacted regions of the state.
- (7) Workforce training initiatives related to advanced energy technology designed to reduce air pollution, including state-of-the-art equipment and goods, and new processes and systems. Workforce training initiatives funded shall be broad-based partnerships that leverage other public and private job training programs and resources. These partnerships may include, though are not limited to, employers, labor unions, labor-management partnerships, community organizations, workforce investment boards, postsecondary education providers including community colleges, and economic development agencies.
- (8) Incentives to identify and reduce emissions from high emitting light-duty vehicles.

**44274.5.** The Air Quality Improvement Fund is hereby created in the State Treasury, to be administered by the state board. The moneys in the Air Quality Improvement Fund, upon appropriation by the Legislature, shall be expended by the state board in accordance with this chapter to implement the Air Quality Improvement Program. The Legislature may transfer moneys from the fund to the Carl Moyer Memorial Air Quality Standards Attainment Trust Fund.

**SEC. 6.** Section 9250.1 is added to the Vehicle Code, to read:

**9250.1.** (a) Beginning July 1, 2008, the fee described in Section 9250 shall be increased by three dollars (\$3).

(b) Two dollars (\$2) of the increase shall be deposited into the Alternative and Renewable Fuel and Vehicle Technology Fund created by Section 44273 of the Health and Safety Code, and one dollar (\$1) shall be deposited into the Enhanced Fleet Modernization Subaccount created by Section 44126 of the Health and Safety Code.

(c) This section shall remain in effect only until January 1, 2016, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2016, deletes or extends that date.

**SEC. 7.** Section 9261.1 is added to the Vehicle Code, to read:

**9261.1.** (a) Beginning July 1, 2008, the fee described in Section 9261, as adjusted pursuant to Section 1678, shall be increased by five dollars (\$5).

(b) Two dollars and 50 cents (\$2.50) of the increase shall be deposited into the Alternative and Renewable Fuel and Vehicle Technology Fund created by Section 44273 of the Health and Safety Code, and two dollars and fifty cents (\$2.50) shall be deposited into the Air Quality Improvement Fund created by Section 44274.5 of the Health and Safety Code.

(c) This section shall remain in effect only until January 1, 2016, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2016, deletes or extends that date.

**SEC. 8.** Section 9853.6 is added to the Vehicle Code, to read:

**9853.6.** (a) (1) Beginning July 1, 2008, the fee described in paragraph (1) of subdivision (b) of Section 9853 shall be increased by ten dollars (\$10).

(2) Five dollars (\$5) of the increase shall be deposited into the Alternative and Renewable Fuel and Vehicle Technology Fund created by Section 44273 of the Health and Safety Code and five dollars (\$5) shall be deposited into the Air Quality Improvement Fund created by Section 44274.5 of the Health and Safety Code.

(b) (1) Beginning July 1, 2008, the fee described in paragraph (2) of subdivision (b) of Section 9853 shall be increased by twenty dollars (\$20).

(2) Ten dollars (\$10) of the increase shall be deposited into the Alternative and Renewable Fuel and Vehicle Technology Fund created by Section 44273 of the Health and Safety Code and ten dollars (\$10) shall be deposited into the Air Quality Improvement Fund created by Section 44274.5 of the Health and Safety Code.

(b) This section shall remain in effect only until January 1, 2016, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2016, deletes or extends that date.

**SEC. 9.** The provisions of this act are severable. If any provision of this act or its application is held invalid, that invalidity shall not affect other provisions or applications that can be given effect without the invalid provision or application.