

Date of Hearing: April 19, 2021

ASSEMBLY COMMITTEE ON TRANSPORTATION

Laura Friedman, Chair

AB 1218 (McCarty) – As Amended April 12, 2021

SUBJECT: Motor vehicle greenhouse gas emissions standards: civil penalty: Equitable Access to Zero-Emissions Vehicles Fund

SUMMARY: Codifies, as a goal of the state, that 100% of new passenger and light-duty vehicle sales are zero-emission vehicles by 2035, sets interim greenhouse gas (GHG) emission progress standards for manufacturers, and creates a vehicle rebate program for zero-emission and certain low GHG emission vehicles, funded by civil penalties imposed on violations. Specifically, **this bill:**

- 1) Requires the California Air Resources Board (CARB), by July 1, 2022, to determine the average GHG emissions per mile for all new passenger and light-duty vehicles, separately, sold in the state in the 2020 calendar year (baseline).
- 2) Requires total new passenger vehicles, and light-duty trucks, sold by a manufacturer of those vehicles in the state in a calendar year to meet GHG emissions per mile standards, as follows:
 - a. From 2023 to 2025, 10% lower than the baseline
 - b. From 2026 to 2029, 30% lower than the baseline
 - c. From 2030 to 2034, 60% lower than the baseline
- 3) Provides that violations of the standards are subject to a civil penalty, determined by CARB.
- 4) Requires CARB to establish, by July 1, 2022, and upon appropriation, a rebate program for the purchase of new and used zero-emission vehicles (ZEV) and certain vehicles with low GHG tailpipe emissions where there are no comparable ZEVs available in the current model year, with limitations. Limits funding available for used vehicle rebates to no more than 25% of the total appropriation for the program.
- 5) Establishes the Equitable Access to ZEV Fund (fund), as a repository of civil penalties, with money being available, upon appropriation, for the existing Clean Cars 4 All Program (CC4A), the new rebate program created under this bill, and financial incentives to dealerships that participate in both programs.
- 6) Requires CARB, before December 31, 2024, and every two years after, to submit a report to the Legislature related to money spent from the fund, including recommendations for equitable distribution, vehicle classes purchased with rebates, income brackets of rebate recipients, and the geographical area where rebates were received.

EXISTING LAW:

- 1) Establishes CARB as the air pollution control agency in California and requires CARB, among other things, to control emissions from a wide array of mobile sources and coordinate with local air districts to control emission from stationary sources in order to implement the Federal Clean Air Act.
- 2) Requires CARB, pursuant to California Global Warming Solutions Act of 2006 [AB 32 (Núñez), Chapter 488, Statutes of 2006], to adopt a statewide GHG emissions limit equivalent to 1990 levels by 2020 and to use market-based mechanisms (cap-and-trade) to achieve compliance with these regulations.
- 3) Requires, pursuant to SB 32 (Pavley), Chapter 249, Statutes of 2016, that CARB ensure that statewide GHG emissions are reduced to at least 40% below 1990 levels by 2030.
- 4) States the intent of the Legislature that CARB design emission reduction measures to meet the statewide emissions limits for GHGs in a manner that minimizes costs and maximizes benefits for California's economy, improves and modernizes California's energy infrastructure and maintains electric system reliability, maximizes additional environmental and economic cobenefits for California, and complements the state's efforts to improve air quality.
- 5) Requires CARB to adopt and implement emission standards for new motor vehicles for the control of emissions from new motor vehicles that CARB finds to be necessary and technologically feasible.
- 6) Establishes the Air Quality Improvement Program (AQIP), administered by CARB in consultation with local air districts, to fund programs that reduce criteria air pollutants, improve air quality, and provide research for alternative fuels and vehicles, vessels, and equipment technologies.
- 7) Establishes the Greenhouse Gas Reduction Fund (GGRF) into which state cap-and-trade auction revenue is deposited and requires the Department of Finance, in consultation with CARB and any other relevant state agency, to develop, an annual investment plan for these funds.
- 8) Establishes the Charge Ahead California Initiative pursuant to SB 1275 (de León), Chapter 530, Statutes of 2014, that, among other things, includes the goal of placing at least one million ZEVs and near-zero emission vehicles into service by January 1, 2023, and increasing access to these vehicles for disadvantaged, low-income, and moderate-income communities and consumers.
- 9) Establishes the Clean Vehicle Rebate Project (CVRP) to provide incentives, in the form of rebates for the purchase of certain new, light-duty vehicles.
- 10) Establishes CC4A, administered by CARB and local air districts, to focus on achieving GHG emission reductions, air quality improvements, and benefits to low-income state residents through the replacement of high-polluter motor vehicles with cleaner and more efficient motor vehicles or a mobility option.

FISCAL EFFECT: Unknown

COMMENTS: Governor Newsom’s Executive Order (EO) N-79-20, dated September 23, 2020, establishes the goal that 100% of in-state sales of new passenger cars and trucks will be zero-emission by 2035. In order to accomplish this goal, the EO requires CARB to develop passenger vehicle and truck regulations that would increase over time the volume of new ZEVs sold in the state.

One strategy the state has used to increase the sales of ZEVs is to provide consumer incentives such as rebates through CVRP and CC4A. These incentives have mainly been funded with cap-and-trade auction revenues. Revenues from the state’s cap-and-trade allowance auction, authorized under AB 32, Chapter 488, Statutes of 2006, and reauthorized by SB 32, Chapter 249, Statutes of 2016, are deposited in GGRF and used for California Climate Investments such as CVRP. However, the amount of GGRF funding available for investments fluctuates from year to year, and there are many competing demands for the funding. According to CARB’s most recent Annual Report to the Legislature on California Climate Investments Using Auction Proceeds, since 2014 \$943 million has been allocated to CVRP and \$102 million to CC4A for consumer incentives. Roughly half of the EVs sold in California have received incentives from these programs.

Notably, the 2021-22 Governor’s January Budget does not propose GGRF for CVRP, beyond what is available in 2021. This raises questions about how the Administration intends to achieve its goal of selling 100% ZEVs by 2035. On April 14, 2021, CARB announced that, in response to strong demand for EVs, it expects rebate funds for CVRP to be exhausted within 30 days for both standard rebates (\$2,000) and increased rebates (standard rebate increased by \$2,500) for low-to-moderate income consumers. Through the first quarter of 2021, CVRP rebate applications have exceeded projections, with higher participation by low- and moderate-income consumers. A waitlist will be established for applications and applicants will receive a rebate contingent on funding appropriated through the legislative budget process. According to real-time data provided by the Center for Sustainable Energy, the administrator of CVRP, as of April 14, 2021, there is currently \$6.8 million of general funding remaining for CVRP and a separate pot of \$6.1 million reserved for increased rebates for low-to-moderate income consumers.

The Administration indicates that other programs would help incentivize the purchase of ZEVs. For example, CARB, working with utilities, recently implemented the Clean Fuel Rewards Program that provides a \$1,500 time-of-sale incentive for the purchase or lease of a new electric vehicle. However, this incentive is considerably less than what was historically provided by CVRP and CC4A. In its analysis of the proposal, the Assembly Budget Committee states, “As one of the ZEV flagship programs, the CVRP has been foundational for the adoption of clean vehicles over the last 11 years. The proposed budget includes no funding for the program, which leads to unanswered questions about how that program would continue for the next year. Will CARB consider additional limitations to the program? What happens when the program exhausts its current funding? Does the program stop accepting new rebate applications?”

Cumulative ZEV sales reached 760,000 in September 2020 and currently account for about 8% of new vehicle sales in California. ZEV sales include battery-electric vehicles (59%), plug-in hybrids (40%), and hydrogen fuel cell electric (1%). Exponential growth will be needed to achieve the goal of 100% ZEV sales by 2035. However, the Administration has not put forward a plan to achieve this goal. Exponential growth will require a strategy to encourage vehicle sales, through standards imposed on auto manufacturers and incentives to entice consumers, and to increase the availability of charging/fueling infrastructure.

CARB has developed a package of coordinated regulations work together to try to reduce smog-causing pollutants and GHG emissions from passenger vehicles in California. The ZEV regulations are designed to achieve the state's long-term emission reduction goals by requiring auto manufacturers to produce a certain amount of ZEVs (such as full battery electric or hydrogen fuel cell) and plug-in hybrids electric vehicles each year, based on the total number of cars sold in California by the manufacturer. As a result, manufacturers with higher overall vehicle sales are required to produce more ZEVs. Requirements are in terms of percent credits, ranging from 4.5% in 2018 to 22% by 2025. Each vehicle a manufacturer produces receives credits based on its electric driving range. The greater a vehicle's range, the more credit it receives. Credits not needed for compliance in any given year can be banked for future use, traded, or sold to other manufacturers.

It is unclear how long consumers would need incentives to encourage them to purchase ZEVs. As technology improves, the cost to manufacture ZEVs is expected to decrease and automakers should be able to produce and sell mass market EVs at the same price (and with the same margin) as comparable internal combustion vehicles in some markets. As production costs drop, the need for state incentives should also decline. There has been debate about the need for rebates to incentivize the purchase of hybrids and ZEVs because generally these types of vehicles have been purchased by people in upper-income brackets and not low-income consumers. Others maintain that the rebate is needed in order to encourage people to transition to a new technology. In addition, many believe that more significant rebates are necessary to enable low-income people to purchase this types of vehicles.

This bill proposes a funding mechanism for consumer incentives to encourage the adoption of ZEVs. This bill also sets up interim GHG emissions targets for manufacturers to achieve towards the 2035 100% zero-emission sales goal. By reaching these targets, manufacturers would avoid having to pay a penalty. Manufacturers have stated support for the Governor's EO and understand the need for rebates to incentivize consumer adoption of ZEVs. Manufacturers do not like that this bill imposes penalties on manufacturers in order to fund those rebates. This bill raises important questions of how best to reach 100% zero-emission sales for passenger vehicles by 2035 in the face of limited state funding options.

According to the author, "California leads the nation in adopting policies which promote clean air and stem the long-term effects of climate change. However, the state needs a tenfold increase in the number of zero emission vehicles (ZEVs) on California's roads to meet the goal of 5,000,000 ZEVs on the road by 2030 and 100 percent sales of new ZEVs by 2035. AB 1218 promotes rapid ZEV adoption by ensuring high emitting vehicles are contributing their fair share to zero emission vehicle incentives. It will provide rebates to middle and low income ZEV buyers with money from auto-manufacturers who do not meet state emission standards. By increasing access to ZEVs for all Californians, AB 1218 will reduce emissions, significantly improve our state's air quality, and help achieve our ambitious climate goals." In support 350 Bay Area Action writes, "In 2018, passenger vehicles generated 28.1% of California's greenhouse gas emissions, dwarfing the next largest source: in-state electricity generation, at 9.1%. Passenger and light duty vehicles also generate ozone, particulate matter and nitrogen oxide emissions, contaminants which have been shown to cause asthma and cancer in California's communities of color at disproportionately high rates. California's existing executive orders requiring five million ZEVs on the road by 2030 and the end of combustion-powered vehicle sales by 2035 recognize the need for deployment of additional ZEVs, but these orders have been

met with questions and criticism about the details of their implementation. AB 1218 provides a concrete pathway to achieving California’s ZEV deployment goals.”

In opposition a coalition of business, vehicle manufacturing, and agricultural groups states that AB 1218 unnecessarily limits mobility and transportation options for California families and businesses, the feebates imposed by the bill will increase the cost of all vehicles (including ZEVs), and that the bill provides unprecedented civil penalty authority for lawful vehicles.

Related and previous legislation: AB 745 (Gipson) of this session would make various changes to CC4A. AB 745 is currently in Assembly Transportation Committee.

AB 630 (Cooper), Chapter 636, Statutes of 2017 establishes CC4A, providing drivers of high polluting vehicles financial incentives and support to switch to lower-emission vehicles or other modes of transportation. Also requires CARB to set specific and measurable goals annually for the Enhanced Fleet Modernization Scrap Only and CC4A Scrap-and-Replace programs.

AB 126 (Cooper) requires ARB to impose specified income cap limits for Clean Vehicle Rebate Project eligibility, increase the rebate payment by \$500 for a low-income applicant for all eligible vehicle types, and only offer rebates for plug-in hybrids that have an electric range of at least 40 miles. This bill is in Senate Transportation Committee.

SB 32 (Pavley), Chapter 249, Statutes of 2016 requires CARB to ensure that statewide GHG emissions are reduced at least 40% below 1990 levels by 2030.

SB 350 (de León), Chapter 547, Statutes of 2015 sets GHG reduction targets to be achieved by 2030 through a variety of measures, including supporting electrification of the transportation system and established requirements of CPUC in adopting EV charging proposals from the IOUs.

SB 1275 (de León), Chapter 530, Statutes of 2014 establishes the Charge Ahead California Initiative, administered by CARB, in consultation with CEC, air pollution control and air quality management districts, and the public. Specifies that the goal of the initiative is to, among other things, place in service at least one million ZEVs by January 1, 2023, and to increase access for disadvantaged, low-income, and moderate-income communities and consumers.

AB 8 (Perea), Chapter 401, Statutes of 2013, extended until January 1, 2024, the fees that support AQIP and AFRVTP.

AB 118 (Núñez), Chapter 750, Statutes of 2007, created the ARFVTP and AQIP to provide funding measures to specified entities to develop and deploy technologies and alternative and renewable fuels in the marketplace to help attain the state’s climate change policies.

AB 32 (Núñez), Chapter 488, Statutes of 2006, required ARB to develop a plan of how to reduce emissions to 1990 levels by the year 2020.

REGISTERED SUPPORT / OPPOSITION:

Support

350 Bay Area Action
350 Humboldt: Grass Roots Climate Action
Elders Climate Action, NorCal and SoCal Chapters

Support in concept

Coalition for Clean Air
Natural Resources Defense Council (NRDC)
Union of Concerned Scientists

Opposition

African American Farmers of California
Alliance for Automotive Innovation
American Pistachio Growers
Black Business Association
California African American Chamber of Commerce
California Association of Black Pastors
California Business Roundtable
California Chamber of Commerce
California Cotton Ginners and Growers Association
California Fuels and Convenience Alliance
California Hispanic Chambers of Commerce
California Independent Petroleum Association (CIPA)
California Manufacturers & Technology Association
California Taxpayers Association
California Walnut Commission
Californians for Affordable & Reliable Energy
Civil Justice Association of California
CTIA
Far West Equipment Dealers Association
Industrial Association of Contra Costa County
Nisei Farmers League
State Building and Construction Trades Council of California
Western Agricultural Processors Association
Western States Petroleum Association

Analysis Prepared by: Christine Casey / TRANS. / (916) 319-2093