

Date of Hearing: April 17, 2017

ASSEMBLY COMMITTEE ON TRANSPORTATION

Jim Frazier, Chair

AB 964 (Gomez) – As Introduced February 16, 2017

SUBJECT: Economic development: Capital Access Loan Program: low emission vehicles

SUMMARY: Creates the California Affordable Clean Vehicle Program (CACVP), administered by the California Pollution Control Financing Authority (Authority), to help low-income and high financial risk individuals buy low-emission vehicles using qualified loans.

Specifically, **this bill:**

- 1) Declares Legislative intent with respect to the creation of CACVP and its administration by the Authority.
- 2) Creates the CACVP to cover potential losses of participating lenders on qualified loans issued to low-income and high-risk individuals on qualifying low-emission vehicles with a purchase price of up to \$45,000 (including sales tax and vehicle registration).
- 3) Requires qualified lenders to offer loans at an interest rate not to exceed 1%.
- 4) Defines "qualified loans" to mean a loan or portion of a loan in an amount not to exceed 100% of the sales price of \$45,000 (including sales tax and vehicle registration).
- 5) Requires that CACVP be administered by the Authority following specified terms and conditions.
- 6) Requires the Authority to establish definitions of "clean vehicle" and "low-income" in consultation with the California Environmental Protection Agency and the California Air Resources Board (ARB).
- 7) Establishes the CACVP fund in the State Treasury and requires the continuous appropriation of \$50 million of Greenhouse Gas Reduction Fund (GGRF) monies to support qualified loans, cover costs of providing education to car buyers and participating lenders, and for certain administrative expenditures.
- 8) Authorizes the Authority to establish and manage the CACVP in accordance with specified requirements, to adopt regulations to implement the program, to establish and maintain loss reserve accounts with financial institutions, and to adopt related policies, as needed.
- 9) Requires the Authority to submit an annual report to the Legislature, beginning in 2018, regarding alternative financing programs administered by CACVP.
- 10) Defines a variety of terms.

EXISTING LAW:

- 1) Requires ARB, pursuant to California Global Warming Solutions Act of 2006 [AB 32 (Núñez), Chapter 488, Statutes of 2006], to adopt a statewide greenhouse gas (GHG)

emissions limit equivalent to 1990 levels by 2020 and authorizes ARB to use market-based mechanisms (cap-and-trade) to achieve compliance with these regulations.

- 2) Requires, pursuant to SB 32 (Pavley), Chapter 249, Statutes of 2016, that ARB ensure that statewide GHG emissions are reduced to at least 40% below 1990 levels by 2030.
- 3) Establishes the GGRF in the State Treasury and requires all the money collected pursuant to cap-and-trade to be deposited into the fund.
- 4) Establishes the Consumer Assistance Program (CAP) in the Bureau of Automotive Repair (BAR), to provide assistance to low-income owners of vehicles that have failed a smog test in the form of a repair cost waiver, repair cost assistance, or a monetary incentive of up to \$1,500 to “retire” (scrap) the vehicle.
- 5) Establishes the Enhanced Fleet Modernization Program (EFMP), administered by ARB and BAR to provide for the voluntary retirement of passenger vehicles and light- and medium-duty trucks that are high polluters.
- 6) Establishes the Clean Air Vehicle Rebate Project (CVRP) to provide monetary incentives toward the purchase of new clean air vehicles.
- 7) 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 zero-emission vehicles (ZEVs) and near-zero emission vehicles (NZEVs) into service by January 1, 2023, and increasing access to these vehicles for low-income and moderate-income individuals in disadvantaged communities (DACs) by creating the following programs:
 - a) EFMP Plus-Up: Provides enhanced monetary EFMP incentives for low-income individuals in DACs;
 - b) The Car Sharing and Mobility Options Pilot Project: Provides funding for government entities or non-profit organizations to start or expand car share programs for residents of DACs; and,
 - c) The Financing Assistance Pilot Project: Provides financing assistance to lower-income consumers to buy or lease qualifying clean air vehicles.
- 8) Creates the Authority and authorizes them to establish small business assistance funds to support and administer the following programs:
 - a) The California Americans with Disabilities Act Small Business Capital Access Loan Program that assists small businesses in financing the costs of projects that alter or retrofit existing small business facilities to comply with the federal Americans with Disabilities Act; and,

- b) The Capital Access Loan Program assists residential property owners and small business owners to seismically retrofit residences and small businesses by covering losses on qualified loans.

FISCAL EFFECT: Unknown

COMMENTS: By introducing this bill, the author hopes to improve financing options for low-income and high-risk individuals so they can purchase and use low-emission vehicles and, in doing so, increase the use of clean vehicles in California. By increasing the purchase and use of clean vehicles, this bill would help California achieve its emissions reduction goals.

Specifically, this bill would create the CACVP to be administered by the Authority. The CACVP is modeled after the successful programs, administered by the Authority, that help small businesses secure loans to complete projects needed to comply with state and federal laws—such as the American's with Disabilities Act.

Specifically, the CACVP would create a loan loss reserve with the Authorities' contribution funded using \$50 million in GGRF monies. GGRF funds would be transferred to the Authority and incrementally deposited into loan loss reserve accounts created for individual lenders. When a lender enrolls in the program, they agree to the terms and conditions of the program which, for the CACVP, includes the requirement that they offer 1% interest rate loans to low-income and high-risk borrowers, as specified, to purchase clean vehicles valued at \$45,000 (including taxes and registration fees) or less.

When a participating financial institution chooses to enroll an eligible loan in the program it, along with the CACVP would then each deposit a fee into a loan loss reserve account established specifically for that lender. As the lender continues to enroll eligible loans, the funds in the loan loss reserve account grows. These funds are then held in reserve and made available for the lender if a borrower defaults on the loans but only after the lender has carried out the regular collections proces. It is important to note lenders are willing participants in the program and, therefore, creating a program that incentivizes lender participation is crucial.

Charge Ahead Initiative: In 2014, the Legislature passed and Governor Brown signed SB 1275, also known as the Charge Ahead Initiative, that, among other things, required ARB to create a number of programs designed to encourage ZEV adoption and use by low-income individuals in DACs. One of these programs is the Financing Assistance Project (which is similar to the program proposed in this bill) to provide financing assistance to lower income consumers to buy or lease ZEVs. ARB initiated a Financing Assistance Pilot Program in the San Francisco Bay Area in early 2016 and offers low-interest financing to assist low- and moderate-income consumers purchase or lease advanced technology vehicles. The pilot coordinates services with community-based EFMP and other incentive programs as recommended in the Governor's 2016 ZEV Action Plan. ARB is in the process of taking the program statewide in late 2017 using a \$5 million allocation.

Cap-and-Trade and the GGRF: While in the past, cap-and-trade auction revenues have generated billions of dollars to support programs that help the state achieve its climate change goals, recent auctions have generated relatively little, with the most recent auction in February 2017 generating only \$8 million. The consistently low auction revenues are generating a great deal of concern about the ability to fund the state's existing clean air programs—much less new

ones. For example, the Governor's 2017-18 budget proposes a \$2.2 billion expenditure plan assuming \$1 billion in cap-and-trade revenue in 2016-17, despite the fact that the first three quarterly auctions in 2016-17 have generated only \$380 million. While it is entirely possible that factors causing low auction revenues could be resolved, it is uncertain when, or if, auction revenues will be restored to previous levels.

Committee concerns:

- 1) While it is laudable that the author wishes to create a program to help low-income individuals obtain financing for low-emission vehicles, the program, which is dependent on an allocation of \$50 million in GGRF monies, this bill duplicates efforts already underway by ARB. The bill also establishes a number of parameters that would make execution of the financing assistance program difficult. For example, the bill sets the interest rate on loans at 1%. While this would most certainly attract borrowers, it is likely that many lenders would find this low interest rate unprofitable making them reluctant to participate in the program. This is particularly concerning given that the program is predicated on its ability attract participating lenders.
- 2) Additionally, recent cap-and-trade auctions have generated relatively little in comparison to past auctions, with the most recent auction in February 2017 generating only \$8 million. The consistently low auction revenues are causing concern with regard to how existing emissions reduction programs will be funded—much less new ones. For example, the Governor's 2017-18 budget assumes a \$1 billion in cap-and-trade revenue in 2016-17, despite the fact that the first three quarterly auctions in 2016-17 have generated only \$380 million. While it is entirely possible that factors causing low auction revenues could be resolved, it is uncertain when, or if, auction revenues will be restored to previous levels.
- 3) It is also important to note that this bill is one over 10 bills introduced in the Assembly this session (see related legislation below) that seeks to further incentivize the purchase and use of ZEVs and NZEVs and that AB 1259 (Calderon) creates a program very similar to the financing assistance program created by this bill. While more incentives may be needed to ensure full market adoption of ZEVs and NZEVs, the fact that the multitude of incentive programs already in existence has not "moved the needle" with respect to market adoption is concerning. Given that this is only one of many bills introduced this year to create and enhance ZEV and NZEV incentive programs, the Legislature may wish to pause, gather the data, and develop a comprehensive strategy to attack the issue of ZEV market adoption rather than to continue to pursue a patchwork approach.

Double referral: This bill will be referred to the Assembly Natural Resources Committee should it pass out of this committee.

Related legislation: AB 33 (Quirk) would require the Public Utilities Commission by March 30, 2018, to authorize investor owned utilities (IOUs) to offer programs and investments in residential electric vehicle service equipment. AB 33 is set to be heard by the Assembly Communications and Conveyance Committee on April 26, 2017.

AB 188 (Salas) would require ARB to update the EFMP guidelines to allow participants to replace their vehicles with a light-duty truck so long as they are retiring a pickup truck and the replacement truck meets fuel efficiency standard set for minivans. AB 188 passed out of this

committee on March 27, 2017, with a 14-0 vote and is awaiting a hearing in the Assembly Appropriations Committee.

AB 193 (Cervantes) would require ARB to create a program that incentivizes the purchase and use of used clean air vehicles by low- and moderate income individuals living in areas of the state with poor air quality and where existing clean air vehicle rebate programs have been underutilized. AB 193 is set to be heard by this committee on April 24, 2017.

AB 544 (Bloom) would amend the current high occupancy vehicle lane sticker program for EVs. AB 544 is set to be heard by this committee on April 24, 2017.

AB 615 (Cooper) is an urgency measure that would make permanent the current income restrictions in the CVRP program that were imposed by last year's budget. AB 615 passed out of this committee on March 20, 2017, with a 13-0 vote and is awaiting a hearing by the Assembly Appropriations Committee.

AB 964 (Gomez) is similar to this bill in that it would create a new program (The California Affordable Clean Vehicle Program) to be administered by the Authority, to help low-income and high financial risk individuals buy low-emission vehicles using qualified loans. AB 964 is set to be heard by this committee on April 17, 2017.

AB 1081 (Burke) would exempt from state sales tax the value of a vehicle traded in to purchase a cleaner car. AB 1081 is set to be heard by the Assembly Revenue and Taxation Committee on April 17, 2017.

AB 1082 (Burke) would require IOUs to develop a program for the installation of vehicle charging stations at school facilities for use by faculty, students, and parents with electricity provided at time-of-use rates. AB 1082 passed out of the Assembly Communications and Conveyance Committee on April 6, 2016, with a 10-3 vote and is set to be heard by the Assembly Education Committee on April 26, 2016.

AB 1083 (Burke) Would require IOUs to create a charging network at all state parks and beaches by July 31, 2018 with electricity provided at time-of-use rates. AB 1082 passed out of the Assembly Communications and Conveyance Committee on April 5, 2017, with a 10-3 vote and is set to be heard by the Assembly Water, Parks, and Wildlife Committee on April 25, 2016.

AB 1341 (Calderon) would establish tax credits, deductions, and exemptions to incentivize the deployment of ZEVs and NZEVs. AB 1341 is set to be heard by this committee on April 17, 2017.

Previous legislation: AB 32 (Núñez), Chapter 488, Statutes of 2006, required ARB to develop and implement regulations necessary to reduce emissions to 1990 levels by the year 2020.

AB 118 (Núñez), Chapter 750, Statutes of 2007, created the California Alternative and Renewable Fuel, Vehicle Technology, Clean Air, and Carbon Reduction Act of 2007 that required the Commission to implement the program and 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.

SB 32 (Pavley), Chapter 249, Statute of 2016, required the Air Resources Board (ARB) to ensure that statewide GHG emissions are reduced to at least 40% below the 1990 level by 2030.

SB 1275 (de León), Chapter 530, Statutes of 2014, established the Charge Ahead California Initiative to provide incentives that increase the availability of ZEV and NZEV vehicles, particularly in disadvantaged and low-and-moderate-income communities.

SB 837 (Committee on Budget and Fiscal Review), Chapter 32, Statutes of 2016, made various statutory changes necessary to implement the state administration-related provisions of the Budget Act of 2016, including, providing the Authority with the ability to issue consumer loans.

REGISTERED SUPPORT / OPPOSITION:**Support**

None on file

Opposition

CalTax
California Chamber of Commerce

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