Date of Hearing: June 21, 2021

ASSEMBLY COMMITTEE ON TRANSPORTATION
Laura Friedman, Chair
SB 372 (Leyva) – As Amended May 20, 2021

SENATE VOTE: 37-2

SUBJECT: Medium- and heavy-duty fleet purchasing assistance program: zero-emission vehicles

SUMMARY: Establishes the Medium- and Heavy-Duty Zero-Emission Vehicle (MD/HD ZEV) Fleet Purchasing Assistance Program to help the operators of these fleets transition to zero emission vehicles (ZEVs). Specifically, **this bill**:

1) Establishes the Program within the California Air Resources Board's (CARB) Air Quality Improvement Program (AQIP) to make financing tools and nonfinancial supports available to the operators of MD/HD vehicle fleets to enable the transition of fleets to ZEVs.

2) Requires CARB to designate the California Pollution Control Financing Authority (CPCFA) as the agency responsible for administering the Program.

3) Requires CARB and CPCFA, as part of an interagency agreement, to do all of the following:

    a. Seek input from environmental justice organization, fleet operators, financial institutions, truck manufacturers, and other relevant stakeholders on:

        i. Determining which MD/HD fleets should be designated as high priority.

        ii. Applying the Governor's Office of Business and Economic Development's findings on critical barriers that impede MD/HD fleets (of varying size and sector) transition to zero emission.

        iii. Financing tools and nonfinancial supports that should be used to overcome those barriers.

        iv. Measuring program success.

    b. Develop and design financing tools and nonfinancial supports suitable for different sizes and sectors of fleets.

    c. Ensure that at least 75% of financing products are directed towards operators whose fleets impact an underserved community, defined as either disadvantaged communities or low income communities.

    d. Designate high-priority fleets that will have first access to the program. Requires CPCFA to prioritize port and drayage truck fleets until a date determined by CARB.

e. Provide financing tools, such as incentives grants and vouchers that increase access to capital and reduce exposure to market risks and uncertainties, to small and microfleet operators, as defined by CARB and CPCFA.

f. Provide financing tools to increase access to private capital for large fleet operators, as defined by CARB and CPCFA.

g. Enable stacking of financial tools and nonfinancial supports.

h. Ensure the program aligns with milestones established in Executive Order (EO) N-79-20 and the Advanced Clean Truck Rule.

i. Establish penetration targets for deployment of financing tools and nonfinancial supports to operators and compile data and information about deployment.

j. Coordinate with the California Public Utilities Commission (CPUC) and the California Energy Resources Conservation and Development Commission (CEC), to provide marketing, education, and outreach to underserved communities regarding the program.

k. Ensure the financing tools and nonfinancial supports are available by January 1, 2023.

4) Defines financing tools as capital instruments, risk reduction instruments, or cost smoothing instruments.

5) Defines nonfinancial supports as technical support, such as supports for technical management of electric MD/HD vehicles, technical assistance for financing approaches, battery health programs, and creation of residual markets, or policy action, such as policy measures to enable financing or encourage fleet transitions.

6) Requires CARB to create a "one-stop shop" that provides information on its website to operators about available financing, grant options, and other technical assistance in obtaining financing for MD/HD ZEVs.

7) Requires CPCFA, in consultation with CARB, to develop a data collection and sharing strategy for the program to facilitate informed decision making by state agencies and financial institutions.

8) Requires CARB, in consultation with CPCFA, to consult with CEC and CPUC on using on-bill tariff products for charging and fueling infrastructure to allow operators to see fuel cost savings of ZEVs relative to diesel.

EXISTING LAW:

1) Provides that CARB is responsible for coordinating efforts to attain and maintain ambient air quality standards, to conduct research into the causes of and solution to air pollution, and to systematically attack the serious problem caused by motor vehicles.

2) Designates CARB as the state agency charged with monitoring and regulating statewide greenhouse gas (GHG) emissions, and requires CARB to ensure that GHG emissions are reduced to at least 40% below 1990 levels by December 31, 2030.

3) Establishes AQIP, administered by CARB, to fund air quality improvement projects relating to fuel and vehicle technologies that reduce criteria air pollutants, improve air quality and fund research to determine and improve the air quality impacts of alternative transportation fuels and vehicles, vessels, and equipment technologies.

4) Establishes CPCFA, consisting of the Director of Finance, the State Treasurer, and the State Controller, with the purpose of providing industry within the state with an alternative method of financing facilities for establishing pollution control.

FISCAL EFFECT: Unknown

COMMENTS: Nearly 40% of California's GHG emissions are generated by the transportation sector, which includes both the light-duty (passenger) and MD/HD fleets. Diesel trucks also contribute to unhealthy levels of ozone, inhalable particulate matter, carbon monoxide, NOx, and sulfur dioxide, affecting local air quality. In the transportation sector, measures to reduce GHG emissions include requiring the use of low carbon fuels, cleaner vehicles, and strategies to promote sustainable communities and improved transportation choices that reduce growth in number of vehicle miles traveled. To further these efforts, at the end of 2020, Governor Newsom issued Executive Order (EO) N-79-20 which requires 100% of MD/HD vehicles in the state be zero-emission by 2045 for all operations where feasible and by 2035 for drayage trucks. EO N-79-20 charges CARB with developing and proposing MD/HD vehicle regulations requiring increasing volumes of new zero-emission trucks and buses sold and operated in the state towards that goal.

CARB's Advanced Clean Truck regulation (approved in June 2020) requires an increasing percentage of MD/HD ZEVs to be sold beginning in 2024 through 2035. This combined with technology advances will increase the number of these types of vehicles on the road. CARB's Draft 2020 Mobile Source Strategy projects that the state will need 180,000 MD/HD ZEVs in 2030 to achieve state climate and air quality goals and comply with EO N-79-20. This bill requires MD/HD ZEV Fleet Purchasing Assistance Program deadlines to align with the milestones in EO N-79-20 and in Advanced Clean Trucks.

A November 2020 report "Financing the Transition: Unlocking Capital to Electrify Truck and Bus Fleets" (Environmental Defense Fund, EDF) examined barriers and provided recommendations on how to more effectively leverage public dollars and engage private capital. The report states "The traditional public and private mechanisms that have been developed to assist the purchase of cleaner trucks and buses are often mismatched with the highest priority needs for fleet transitions. Nationwide, most existing programs were designed for one-to-one replacements of older internal combustion trucks with new, less polluting ones. These programs have been limited in their ability to support new infrastructure or address the additional costs, risks, uncertainties and frictions that arise when shifting vehicle technology. Further, fleet owners often find existing grant programs to be administratively difficult and costly to navigate, given constraints such as reporting and vehicle scrappage requirements. The end result is a lost opportunity to replace more internal combustion vehicles with zero-emission ones."

This bill takes recommendations from EDF's report and identifies a number of financial tools that CPCFA could leverage to provide capital to support fleets in making the transition to zero emission. This bill directs CARB and CPCFA to identify financing tools for small fleet, microfleet, and larger fleet operators, which could help tailor support to each kind of truck fleet. Examples of the tools identified in this bill include:

- *Capital instruments*, which are financing instruments that increase access to capital or reduce the cost of capital. For example, investment aggregation involves bundling smaller fleet's MD/HD ZEV investments to attract investors looking for larger opportunities.
- *Risk reduction instruments*, which are financing instruments that reduce exposure to risk or uncertainty. For example, government-backed performance guarantees protect ZEV buyers from underperformance of vehicles or batteries.
- *Cost smoothing instruments*, which are financing instruments that reduce and smooth up-front or recurrent costs. For example, lease-purchase agreements reduce upfront costs by enabling an MD/HD ZEV fleet operator to rent vehicles with the option to buy upon termination of contract.
- *Nonfinancial support*, including support for management of electric MD/HD vehicles, technical assistance for financing approaches, or battery health programs.

This approach is not without precedent. Launched in 2009, CARB's Truck Loan Assistance Program helps small-business fleet owners affected by the In-Use Truck and Bus Regulation to secure financing for upgrading their fleets with newer trucks. The Truck and Bus Regulation requires older heavy vehicles (diesel trucks and buses greater than 26,000 pounds) to be replaced with 2011, or newer, vehicles by January 1, 2023. CARB runs the Truck Loan Assistance Program in partnership with CPCFA and leverages public funding with private funding from participating lending institutions. The Truck Loan Assistance Program helps small business truck owners that fall below conventional lending criteria and are unable to qualify for traditional financing for cleaner trucks. State funds are deposited as "contributions" (based on a percentage of each enrolled loan amount) into a loan loss reserve account for each participating lender to cover potential losses resulting from loan defaults. The Truck Loan Assistance Program is available for small fleets with 10 or fewer trucks at the time of application. Lenders use their traditional underwriting standards to establish loan terms; however, the program currently includes an interest rate cap of 20%. After the 2023 compliance date for the Truck and Bus Regulation, fleet operators will still need financial tools to transition their fleets over time.

This bill creates a "one-stop-shop" at CARB to provide consumer information about all of the potential state ZEV financing options. Multiple MD/HD incentive and financing programs could create confusion among potential program recipients, leading to reduced program utilization and effectiveness.

This bill does not specify a new funding source, but instead aims to leverage existing public dollars in more efficient ways. CPCFA can offer a variety of financial tools that may or may not need a diversion of funds from existing program. By creating the MD/HD ZEV Fleet Purchasing Assistance Program under AQIP, this bill ensures that fleet assistance is integrated into an existing strategy and planning process. Each fiscal year, CARB submits a Clean Transportation Incentives Funding Plan which includes AQIP programs. The plan prioritizes and balances between investing in technologies that are just coming to market and providing support to emerging advanced technologies that help meet all of California's goals. As part of the plan, the Heavy-Duty Investment Strategy provides insight into how CARB plans to invest its Low

Carbon Transportation and AQIP funding on a combination of transformational technologies for heavy-duty vehicles, off-road equipment, and fueling infrastructure.

AQIP is funded through, among other things, surcharges on vehicle registration fees and a portion of the Smog Abatement Fee. AQIP also receives funding from the Greenhouse Gas Reduction Fund.

According to the author, "California has been on the forefront of setting strong air quality goals and actions for decades and has worked to create and distribute cleaner and greener modes of transportation. Despite numerous successful emission reduction regulations, heavy-duty trucks remain a large source of air pollution and the largest source of diesel particulate matter (PM 2.5)—a carcinogenic and toxic air contaminant—in California. In order to make continued progress towards our clean air and climate goals, we must also make the transition to ZEVs a viable and equitable option for fleet owners and operators. California's current solution for financing the transition to ZEVs has been largely limited to rebate programs. Unfortunately, these limited options do not meet the diverse financial needs of current and future fleet owners. SB 372 will create more options to maximize California's available funding, prioritize deployment in underserved communities, and ensure that electric vehicle transition is a real and lasting option for all fleets. In doing so, it will expand the amount of money California has available for the ZEV transition.

In support a broad coalition writes, "Vehicle fleets are a major contributor to these local [air quality] impacts, but not all truck fleets are the same size or do the same thing. In California, fleet ownership models range from multi-billion dollar companies to small business operations – this is why the assistance needs to be more customized. SB 372 requires California Pollution Control Financing Authority, which as part of the Treasurer's office has a track record with the Cal Capital Access Program on innovative financing solutions with trucks and small businesses, to develop tools that will focus direct financing on small fleets and leverage public funds for large fleets to bring in private capital."

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

Previous legislation: SB 44 (Skinner) Chapter 279, Statutes of 2019 requires CARB to update the 2016 Mobile Source Strategy by January 1, 2021, and every five years thereafter. Specifically, SB 44 requires CARB to include a comprehensive strategy for the deployment of MD/HD vehicles for the purpose of meeting air quality standards and reducing GHG emissions.

REGISTERED SUPPORT / OPPOSITION:

Support

Environmental Defense Fund (Sponsor)
350 Bay Area Action
350 Sacramento
350 Silicon Valley
American Lung Association in California
Arrival
Association of California Water Agencies (ACWA)

California Hydrogen Business Council
California Hydrogen Coalition
California Interfaith Power & Light
California League of Conservation Voters
California Municipal Utilities Association
Center for Community Action & Environmental Justice
Central California Asthma Collaborative
Ceres
Coalition for Clean Air
Community Action to Fight Asthma
E2 (Environmental Entrepreneurs)
East Bay Municipal Utility District
Elders Climate Action, Norcal and Socal Chapters
Environment California
Fluid Truck
Inland Empire Utilities Agency
Lordstown Motors
Los Angeles Cleantech Incubator (LACI)
NextGen California
NRDC
Port of San Diego
Regional Asthma Management and Prevention (RAMP)
San Diego Unified Port District
SanDiego350
San Francisco Bay Physicians for Social Responsibility
Sierra Club California
Spur
The Climate Center
The Climate Reality Project, Orange County Chapter
Union of Concerned Scientists
ZEV 2030

Opposition

None on file

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