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DATE: August 16, 2012

TO: SJVUAPCD Governing Board



FROM: Seyed Sadredin, Executive Director/APCO
Project Coordinators: Samir Sheikh/Todd DeYoung

RE: **APPROVE SCORING AND FUNDING CRITERIA FOR COMPETITIVE RFP-BASED PROJECTS SUBMITTED UNDER THE DISTRICT'S PUBLIC BENEFIT GRANTS PROGRAM**

RECOMMENDATIONS:

1. Approve the Proposed Scoring and Funding Criteria for competitive RFP-based projects submitted under the District's Public Benefit Grants Program as described below.
2. Approve one of the following options for considering projects previously submitted in response to the District's January 3, 2012 Request for Proposals:
 - a. Allow applicants with a submitted proposal to amend or supplement their proposals to address the scoring and funding criteria adopted today; or
 - b. Cancel all proposals received and reopen the solicitation to all eligible applicants.

BACKGROUND:

On April 21, 2011, your Board approved the District's Public Benefit Grants Program, a new incentive program aimed at providing funds to local public agencies in the San Joaquin Valley for clean-air projects that provide broad benefits to Valley residents. In the first phase of implementing this new program, the District opened a first-come first-served incentive program in August 2011 for new light-duty alternative fuel vehicles that has provided \$2 million in funding to date. On January 3, 2012, the District opened the second phase of the Public Benefit Grants Program for Advanced Transit and Transportation projects, as a competitive solicitation. A Request for Proposals (RFP)

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was released seeking proposals from Valley public agencies for advanced transit and transportation projects that would provide regional air quality benefits. Under the solicitation, the District received twenty-four proposals seeking over \$26 million in funding from various public agencies represented throughout the Valley.

On June 21, 2012, your Board directed staff to develop and present for your Board's consideration a revised scoring and funding criteria that adhere to the following guiding principles:

- Funding should only be provided for cost-effective projects.
- Public Benefit Project dollars spent by the District, per ton of reductions in emissions, must be competitive with other private sector projects that the District may have the opportunity to fund.
- Public Benefit Projects funded by the District must produce measureable reductions in emissions that best serve to bring the Valley into attainment of the federal ambient air quality standards and improve public health.
- Provide for population-based regional distribution of the funds to the extent that cost effective project proposals are submitted by the region.

The following scoring and funding criteria incorporate the above guiding principles.

PROPOSED SCORING AND FUNDING CRITERIA:

Under the recommended criteria, funding would be distributed on a regional basis, and projects would be ranked and selected by cost-effectiveness. For selected projects, the amount of recommended funding for each project would be based on the cost-effectiveness of the project (based on the cost-effectiveness of other District incentive programs), with additional funding considered for other project benefits consistent with the Risk-Based Strategy that are not reflected by conventional cost-effectiveness calculations.

STEP 1 – Identify Qualifying Projects

Qualifying projects are those that meet the scope and criteria established in the RFP solicitation issued by the District. Incomplete RFP submittals will be disqualified. The District will notify applicants that do not qualify.

STEP 2 - Establish Presumptive Regional Funding Distribution

To ensure an equitable distribution of program funds, all proposals submitted will be evaluated and ranked by three regions: North, Central, and South. To ensure cost-

effectiveness, funding remaining in each region will be combined and used to fund the most competitive projects that were not able to be funded in other regions. The composition of each region is identified in the following table:

Region:	Counties:
North	San Joaquin, Stanislaus, and Merced
Central	Madera, Fresno, and Kings
South	Tulare & the valley portion of Kern

Proposals submitted from the correlating counties for each region will be evaluated and competitively ranked by cost-effectiveness against other proposals submitted in the same region. This proposed regional distribution and evaluation will help ensure that funding is awarded to public agencies throughout the Valley. In addition, by separating the proposals and evaluating them regionally, the process provides smaller public agencies with worthy projects a greater opportunity to receive funding since they do not have to compete against numerous larger public agencies with high-dollar proposals.

Funding that would be available in each region would be based on the population of each region. To establish the Valley population, the District will utilize annual population information released by the California Department of Finance, which will be updated on an ongoing basis as new information is made available. The following table identifies the funding portion for each region based on the latest DOF information (released May 2012):

Region	Population (as of 01/01/2012)	% of Funding Based on Population
North	1,474,426	38%
Central	1,250,204	32%
South	1,169,095	30%
Total	3,893,725	100%

STEP 3 – Calculate Emission Reductions for the Useful Life of the Project

For each qualifying project, the District will quantify the total reduction in emissions of ozone and particulate precursors (NOx, VOC, PM) over the entire useful life of the project. The quantified emissions reductions will include historical actual emissions as well as projected reductions from future growth in activity. In calculating these reductions in emissions, the District will utilize accepted engineering principles, established emissions factors and methodologies. Only emissions reductions that are surplus, or in excess of what are required by regulation, will be considered when evaluating proposals. The reductions quantified by the District will be used in all evaluation and funding decisions.

STEP 4 – Rank Qualifying Projects by Cost-Effectiveness for Each Region

This ranking will establish the order by which qualifying projects are selected for funding until available funds are exhausted. Cost-effectiveness will be based on the dollars requested by the applicant, and the emissions reductions calculated by the District. Under this methodology, applicants with greater matching funds can achieve a higher ranking. The detailed procedure for calculating cost-effectiveness is described in Attachment A.

STEP 5 – Establish Funding Level per Ton of Emissions Reduced

Consistent with your Board direction, the District funding level for Public Benefit projects will be proportional to the quantity of emissions reduced.

Over the past 10 years, the District has provided incentive funding to purchase, replace or retrofit thousands of pieces of equipment, including:

- 4,584 agricultural irrigation pump engines (~\$4,400/ton)
- 726 agricultural equipment replacements (~\$3,500/ton)
- 945 off-road equipment repowers (~\$8,600/ton)
- 2,434 heavy-duty trucks (~\$8,700/ton)
- 1,879 school bus retrofits (dedicated funding source –funding based on public health considerations rather than \$/ton cost effectiveness)
- 432 school bus replacements (dedicated funding source –funding based on public health considerations rather than \$/ton cost effectiveness)
- 3,585 lawnmower replacements (~\$30,000 - \$50,000/ton)
- 2,318 fireplace change-outs (~\$3,300/ton)
- 18,476 commuter subsidies (~\$35,000/ton)
- 35 locomotive replacements (~\$5,100/ton)
- 396 new alt fuel light duty vehicles (~\$50,000 - \$150,000/ton)
- 706 vehicle retirements (car crushing) (~\$15,000-\$50,000/ton)
- 17 bicycle infrastructure projects (bike paths) (~\$40,000/ton)

It should be noted that as we move forward, the number of potential projects in the lower cost-effectiveness range will diminish. Also, the bulk of Public Benefit projects involve reductions in light-duty vehicles emissions, which are more costly. However, since 80% of the Valley's NOx emissions come from mobile sources, your Board has placed a higher priority on measures to promote clean vehicles, alternative fuels, advanced transit, and alternative transportation. Towards that end, your Board has established a number of incentive programs aimed at reducing light-duty vehicle emissions including the District's *Vanpool Voucher Incentive Program*, *Bicycle Infrastructure*, *E-Mobility*, *Transit Subsidy*, *Park and Ride*, *Tune-In Tune-Up*, *Drive Clean!*, and *Polluting Automobile Scrap and Salvage*. Your Board has already established specific guidelines for these programs, including a funding cap of \$40,000

per ton of total lifetime emissions reductions (NO_x, VOC, and PM) for the REMOVE program, which includes many of the above listed components. Therefore, a \$40,000 per ton funding cap is also proposed for the Public Benefit projects. However, to ensure funding of the most cost-effective projects consistent with the above guiding principles, the funding level for each project will be based on two components as follows:

- **Base Funding Component** - To ensure competitiveness of the Public Benefits projects, base funding for the projects will be set at \$3,500 per ton of emissions reduced (NO_x, VOC, and PM). This number represents the most cost-effective projects funded by the District over the past three years.
- **Risk-Based Funding Component** – Your Board adopted the Risk-Based Strategy on September 29, 2010, which prioritizes measures that maximize public health benefits to Valley residents. This priority under the Risk-Based Strategy applies to all of the District's programs, including its incentive programs. Therefore, supplementary funding will be provided for Public Benefit projects that further the District's Risk-Based Strategy and provide additional public health benefits. Towards that end, the District proposes funding for these additional project benefits, in addition to the \$3,500 per ton base funding level, as follows:
 - a. **Emissions Reductions Occurring in Environmental Justice Communities:** Environmental justice communities typically have a higher exposure risk to air pollution and are consequentially more vulnerable to the associated adverse health effects caused by poor air quality. Your Board-adopted Risk-Based Strategy places a greater value on emissions reductions achieved in environmental justice communities. Projects may be eligible to receive additional funding of \$10,500 per ton of reductions achieved in environmental justice communities. For the purpose of evaluating how grant funding is expended relative to environmental justice communities, the District currently uses three primary criteria to determine environmental justice communities using U.S. Census Data: 1) Communities in nonattainment areas, 2) Communities where greater than or equal to 50% of the population are minorities, and 3) Communities where greater than or equal to 10% of the population is below the Federal Poverty Level.
 - b. **Reduction of oxides of nitrogen (NO_x) emissions:** NO_x is a criteria pollutant and a precursor to both ozone and particulates. The reduction of NO_x in the San Joaquin Valley is vital for the District to expedite attainment of air quality standards and associated health benefits. Given its significance, an additional \$3,500 per ton may be provided for NO_x reductions.
 - c. **Reduction of diesel particulate matter emissions:** Long-term exposure to high concentrations of diesel particulate matter (PM) emissions can result in harmful health effects. Given the carcinogenic and toxic impacts from diesel PM, the District's Risk-Based Strategy places a greater value on diesel PM

reductions compared to other criteria air pollutants. The State Air Resources Board, in the Carl Moyer incentive program guidelines, has adopted a weighting factor of 20 to 1 for diesel PM emissions reductions. Therefore, the District proposes to weigh diesel PM emissions reductions by a factor of 20 to 1, and to provide supplementary funding in the amount up to \$3,500 per ton of weighted diesel PM reduced.

- d. "Vehicle Miles Traveled" reductions:** Emissions produced from vehicle travel significantly contribute to the air quality problem in the San Joaquin Valley, with mobile sources as the leading contributor of air pollution in the Valley. Motor vehicle emissions are also one of the biggest sources of pollution in the Valley's urban population centers, and reducing vehicle emissions will provide for expedited public health benefits to Valley residents. Under the District's existing incentive programs, \$3,000 grants are provided to Valley residents to replace existing vehicles with zero emissions electric vehicles, which, on average, are driven approximately 100,000 miles over a 10-year period. Similarly, the District proposes to provide supplementary funding for projects that assist in reducing large amounts of Vehicle Miles Travelled (VMTs) in the amount of \$3,000 per 100,000 VMTs reduced.

STEP 6 – Calculate Final Funding Level for Public Benefit Projects

Based on the evaluation described in preceding steps, the District will calculate the final recommended funding level for Public Benefit projects. As part of this evaluation, the District would ensure that recommended funding does not exceed:

- Funding cap of \$40,000 per ton of emissions reduced, and
- Funding cap of \$3 million per project, and
- Funding cap of \$3 million per entity.

The Governing Board may raise the funding cap per project and/or entity on a case-by-case basis.

Under no circumstances will the District provide more funding than the amount requested by the applicant.

Additionally, the District will verify that project costs are reasonable and items paid for provide a direct impact on reducing emissions. The following list identifies items that are ineligible for funding, but is not exhaustive:

- Consultant fees
- Feasibility studies
- Research and initial design costs
- On-going maintenance of equipment and/or infrastructure
- Indirect costs such as rent, utility bills, telephone bills, etc.
- Costs for administrative items such as office supplies or equipment
- Employee compensation, health benefits, etc.

STEP 7 – Reallocate Unused Regional Funds to Other Projects in Order of Cost-effectiveness

Major funding for the Public Benefit Grants Program comes from the vehicle surcharge fees paid by residents throughout the Valley. Therefore, your Board has expressed a desire to provide for equitable regional distribution of funds as long as the expenditures yield cost-effective reductions that are in line with the Valley's regional clean air goals. In assessing the regional impact of reductions in emissions, it is important to note that the northern counties within the Valley contribute significantly to the pollution concentrations in the central and southern portion of the Valley. For instance, San Joaquin County has the third highest total emissions in the Valley. Also the predominant wind directions from north to south carry pollutants generated in the northern Valley to hot spot locations in the central and southern regions. Furthermore, with the new ambient air quality standards being published by the EPA, the northern counties within the District will now have a significant number of exceedances.

The following tables show the number violations by region.

Table 1: Number of Days over Various Ozone NAAQS thresholds, 2011 data

County	Revoked 1-Hour Standard	1997 NAAQS: 84 ppb	2008 NAAQS: 75 ppb	Range for the 2010 Ozone NAAQS Reconsideration	
				70 ppb	60 ppb
Fresno	3	27	62	80	126
Kern	0	29	67	93	141
Kings	0	5	28	46	99
Madera	0	8	28	44	97
Merced	0	1	19	38	83
San Joaquin	0	2	8	21	53
Stanislaus	0	5	17	33	75
Tulare	0	54	93	114	148
Basin-wide	3	69	109	130	160

Table 2: PM2.5 NAAQS Status, 2011 data

County	24-hr PM2.5 NAAQS: Number of Days over NAAQS Levels		Annual PM2.5 NAAQS – Attainment (A) or Nonattainment (N)?	
	1997 NAAQS: 65 µg/m ³	2006 NAAQS: 35 µg/m ³	1997 & 2006 NAAQS: 15 µg/m ³	2012, low end of EPA consideration: 12 µg/m ³
Fresno	13	41	N	N
Kern	6	32	N	N
Kings	6	39	N	N
Madera	4	34	N	N
Merced	0	22	A	A
San Joaquin	0	16	A	A
Stanislaus	5	38	N	N
Tulare	3	27	N	N
Basin- wide	14	65	N	N

In accordance with the presumptive regional allocations and process described earlier, the District would first fund cost-effective projects by region. Depending on the availability of cost-effective projects in each region, there may be regions that are not able to fully expend allocated funds. Since the primary funding source for this program is through locally generated vehicle surcharge fees from Valley residents, the District must make every effort to expend funds in a timely and cost-effective manner. Therefore, unexpended funds from one or more regions may be allocated to cost-effective projects that occur in other regions in the order of cost-effectiveness Valley-wide.

District Outreach and Technical Assistance

For the January 3, 2012 Public Benefit Grants Program solicitation, the District conducted several solicitation and outreach measures to garner proposals from the various public agencies throughout the San Joaquin Valley. Such measures included mailing program-specific solicitation letters to all regional city clerks, city managers, community colleges, county agencies, irrigation districts, port, school districts, and universities; sending out email notices through the District's Listserv for grants and incentives; disseminating information about the RFP through the local Clean Cities Coalition; and extending the deadline for proposal submittal. The RFP period was extended from its original deadline of March 2, 2012 to March 30, 2012 to allow additional time for public agencies to prepare proposals and submit them to the District for consideration.

The District will continue to improve its efforts by committing to additional actions that will assist in increasing participation. For example, in addition to the preceding measures, the District will conduct press releases as necessary and disseminate information about the solicitation to consultants or companies that assist public agencies with grants.

In addition to improving its outreach methods, the District commits to providing additional technical assistance to public agencies interested in applying for funding through the Public Benefit Grants Program solicitations. For the current solicitation, the District was readily available for public agencies to contact during the solicitation period to provide technical assistance and guidance, specifically with the quantitation of emission reductions. Although many agencies took advantage of the opportunity to speak with staff one-on-one to seek technical assistance; the District recognizes that additional measures can be taken to improve the assistance it provides.

For future solicitations, the District will continue to enhance the process by providing calculation tools, calculation samples, direction, and guidance in the solicitation packet for interested applicants to review and keep as a reference. In addition, the District will also hold workshops to allow interested applicants to ask questions and obtain clarification about the solicitation and its requirements before submitting a proposal.

Accountability

Under the new recommended scoring and funding criteria, proposals approved by your Board at future public hearings would be funded with adequate safeguards to ensure the full accountability of public funds and that the emissions reductions are achieved as expected. Grant awards would be enforced through legally binding agreements, and funding would be contingent upon completion of specific milestones and successful execution of the entire project. This is consistent with the accountability mechanisms in place with the District's other incentive programs.

DISPOSITION OF PROPOSALS RECEIVED UNDER JANUARY 3, 2012 RFP SOLICITATION:

Proposals received under the January 3, 2012 solicitation were originally evaluated and ranked based on the following scoring categories:

- Air quality benefit
- Public benefit
- Innovation
- Potential for replication and regional applicability
- Leveraging and/or match funding
- Environmental justice benefit
- Project readiness

Today's recommendation, although consistent with the above criteria, more explicitly describes the scoring and funding criteria to be utilized for competitive RFP-based projects submitted under the District's Public Benefit Grants Program. The District recognizes that appropriate measures must be taken to address the proposals received under the January 3, 2012 solicitation that would ensure the proposals received can be evaluated fairly without developing any new competitive disadvantages. Furthermore, the District may need additional information from applicants to accurately evaluate projects in relation to the recommended scoring and funding criteria. Accordingly, staff has developed two options for the Board's consideration, as outlined below. Under both of these options, the District would bring recommendations for proposal selections to your Board at a future Governing Board meeting for approval.

Option 1: Allow applicants to amend or supplement their proposals for evaluation under the updated selection criteria

The Board can opt to allow applicants who have submitted a proposal under the current solicitation to amend or supplement their proposals with additional information to be evaluated under the recommended selection criteria. Should the Board elect this option, only applicants who have submitted a current proposal will be allowed to resubmit an amended or supplemented proposal for consideration by the District. The District will not accept new proposals to evaluate for funding.

Option 2: Cancel all the current proposals received and re-open the solicitation

The Board can opt to cancel all proposals received under the current solicitation and re-open the Advanced Transit and Transportation solicitation to every eligible public agency within the San Joaquin Valley. Should the Board elect this option, the District would review the new proposals under the recommended selection criteria. In addition, the District would enhance its outreach measures and provide additional technical assistance as described for the new solicitation. Proposals submitted under the current

solicitation would be returned to applicants to refine as needed and those applicants will be encouraged to resubmit their proposals.

FISCAL IMPACT:

Sufficient appropriations are included in the Adopted 2012-13 Budget to fund the Public Benefit Grants Program.

*Attachment:
Public Benefit Grants Program Cost-Effectiveness Methodology (1 page)*

San Joaquin Valley Unified Air Pollution Control District
Meeting of the Governing Board
August 16, 2012

**APPROVE SCORING AND FUNDING CRITERIA FOR COMPETITIVE RFP-
BASED PROJECTS SUBMITTED UNDER THE DISTRICT'S PUBLIC BENEFIT
GRANTS PROGRAM**

Attachment A:

Public Benefit Grants Program Cost-Effectiveness Methodology
(1 page)

Public Benefit Grants Program Cost-Effectiveness Methodology

For the purpose of the cost-effectiveness review and ranking, staff proposes to utilize the below uniform cost-effectiveness methodology for all proposals received. This methodology is similar to methodologies used under other state, federal, and local incentive programs operated by the District. Under this methodology, the cost-effectiveness of a project is determined by dividing the annualized cost of the proposed funding by the annual surplus emission reductions that will be achieved by the project. As such, the following formula to calculate cost-effectiveness would be consistently applied to all the proposals to determine their rank:

$$\text{Cost-Effectiveness (\$/ton)} = \frac{\text{Annualized Funding Request (\$/year)}}{\text{Annual Emission Reductions (tons/year)}}$$

When emissions vary from year to year, the cost-effectiveness for the project will be the average of the project's annual cost-effectiveness for the life of the project.

1. Determining the Annualized Funding Request

To determine the cost-effectiveness of proposals, the requested funding will be amortized to an annual amount using a capital recovery factor (CRF), as follows:

$$\text{Annualized Funding Request} = \text{CRF} * \text{Requested Funding (\$)}$$

The CRF converts the requested funding into a stream of equal annual payments over the life of the project, at a specific discount (interest) rate. The discount rate currently used is 2% based on averages of recent U.S. Treasury security yields, and will be updated as appropriate. The project life will be based on the useful life of the proposal, and represents the period of time that the expected emissions reductions and associated air quality benefits will occur.

2. Determining the Annual Emissions Reductions

The second significant part of determining the cost-effectiveness of proposals is the annual emissions reductions. For each qualifying project, the District will quantify the annual reductions in emissions of ozone and particulate precursors (NO_x, VOC, and PM) utilize accepted engineering principles, established emissions factors and methodologies. The quantified emissions reductions will include historical actual emissions as well as projected reductions from future growth in activity. Only emissions reductions that are surplus, or in excess of what are required by regulation, will be considered when evaluating proposals.