SENATE COMMITTEE ON ENVIRONMENTAL QUALITY
Senator Allen, Chair
2021 - 2022 Regular

Bill No:	SB 1382		
Author:	Gonzalez and Becker		
Version:	3/16/2022	**Hearing Date:**	4/20/2022
Urgency:	No	**Fiscal:**	Yes
Consultant:	Eric Walters		

SUBJECT: Air pollution: Clean Cars 4 All Program: Sales and Use Tax Law: zero emissions vehicle exemption

DIGEST: This bill directs the California Air Resources Board (ARB) to identify barriers and develop outreach protocols to accessing the Clean Cars 4 All (CC4A) program, and it exempts those vehicles from the state sales and use tax.

ANALYSIS:

Existing law:

1) Establishes the Air Resources Board (ARB) as the air pollution control agency in California and requires ARB, among other things, to control emissions from a wide array of mobile sources and coordinate, encourage, and review the efforts of all levels of government as they affect air quality. (Health and Safety Code (HSC) §39500 et seq.)

2) Establishes the Air Quality Improvement Program (AQIP), administered by ARB 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. (HSC §44274 et seq.)

3) Establishes the Clean Cars 4 All (CC4A) Program, to be administered by ARB, to focus on achieving reductions in the emissions of GHGs, improvements in air quality, 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. (HSC § 44124.5)

This bill:

1) Directs ARB to coordinate with air districts and local nonprofit and community organizations to identify barriers to accessing CC4A and to develop outreach protocols and metrics.

2) Requires ARB to include, in the annual CC4A review materials posted on their website:
   a) An assessment identifying target groups that are underserved by CC4A and assessing barriers; and
   b) An evaluation of outreach efforts to target groups currently underserved by CC4A.

3) Exempts plug-in hybrid or zero-emission vehicles designated under CC4A from the sales and use tax, barring specified exceptions.

Background

1) *Clean Cars 4 All*. Clean Cars 4 All (CC4A) is a program that focuses on providing incentives to lower-income California drivers to scrap their older, high-polluting car and replace it with a zero- or near-zero emission replacement. The program aims to focus the benefits of the program to low-income and disadvantaged communities and has a heavy emphasis on consumer protections, education of the new technologies, and coordination with other clean transportation programs.

   The program has now been operating for six years and extended to five air districts, during which time districts have been allocated over $90 million in funding to distribute directly to program participants, and placed over 11,000 vehicles with eligible households.

2) *Who benefits from CC4A?* Underserved communities and communities of color disproportionately experience the negative impacts of vehicle pollution. Studies consistently show that mobile source pollution exposure near major roadways contributes to and exacerbates asthma, impairs lung function, and increases cardiovascular mortality. Residents of communities located near major roadways, often low-income or communities of color, are at increased risk of asthma attacks and other respiratory and cardiac effects. These communities are also more sensitive and likely to experience the negative impacts of climate change. This history of disproportionate exposure to polluted air makes it essential to prioritize low-income communities and priority populations who will benefit the most from the reduced emissions and cost-saving benefits of cleaner, newer vehicles and alternative methods of transportation.

   The residents in these communities are often unable to afford the cleanest, most fuel-efficient vehicle technologies available. CC4A program provides much-needed incentives for lower-income residents living in and near disadvantaged communities who scrap their old vehicles and purchase or lease new or used hybrid, plug-in hybrid (PHEV), zero emission (ZEV) replacement vehicles, or alternative mobility options.

CC4A incentives are available to participants with household incomes at or below 400 percent of the Federal Poverty Level (FPL). This is currently equivalent to $106,000 per year for a household of four. To ensure participants with greater needs are better served, the participant pool is grouped into three subcategories: Above Moderate income- 300% to 400% FPL, Moderate income- 226% to 300% FPL, and Low income- at or below 225% FPL. The program is designed to provide higher incentives to participants in the lower-income categories. Historically, at least 90% of program funds have gone to participants in the Low-income (less than or at 225% FPL) category.

3) *Program performance.* AB 630 (Cooper, Chapter 636, Statutes of 2017) requires ARB to set specific and measurable goals annually for the Enhanced Fleet Modernization Program (EFMP) Scrap Only and the CC4A Scrap-and-Replace programs. AB 630 also requires ARB to evaluate the performance of each program towards these goals and to update the guidelines if necessary, to ensure these goals are met.

The latest AB 630 report covered fiscal year 2019-2020, and covered the performance of the CC4A programs in the South Coast, San Joaquin Valley, Bay Area, and Sacramento Metropolitan air districts. Overall, the programs effectuated 3,412 participants scrapping an old vehicle and purchasing a cleaner replacement. Of those 3,412 participants statewide, 2,095 (61.4%) bought a PHEV, 924 (27%) got a conventional hybrid, 378 (11%) got a battery electric vehicle, 8 (2.3%) got fuel cell electric vehicles, and 7 (2.1%) opted for an alternative mobility voucher.

CC4A was intended not just to provide participants the benefit of a cleaner and more efficient vehicle, but to also deliver the co-benefits that come with having more reliable transportation, such as greater access to economic opportunities. While participant surveys have indicated some participants have realized these co-benefits, the California State Auditor's *CARB Audit Report* has highlighted the need to better quantify these co-benefits. In response to that report, ARB has added a secondary metric of program effectiveness, the evaluation of participant surveys, for ongoing analysis. These surveys can be tailored by air districts to their specific needs, and thus far have fairly low return rates, which both of which limit their ability to be considered uniformly across the board. Examples of questions in the participant surveys include, "On a scale of 1 to 10, with 1 being very unsatisfied and 10 being very satisfied, how satisfied are you with the process to retire and replace your vehicle?", "Has your replacement vehicle changed your employment opportunities or your plans for your future?", and "What, if anything, about your replacement vehicle worries you?", among other prompts.

4) *Defining equity.* The concept of "equity" in policymaking is deceptively complex. The American Planning Association defines equity as "just and fair inclusion in a society so that all can participate, prosper, and reach their full potential." Equity involves people having what they need to enjoy full, healthy lives. In contrast, equality aims to ensure that everyone gets the same things, no matter their starting place. Different groups of people — based on race, ethnicity, gender, immigration status, sexual orientation, or socioeconomic status — may need different types or amounts of resources and supports to enjoy full, healthy lives.

   More specifically, equity is often broken down further into more detailed components, such as:

   a) *Procedural equity*, when public decisionmaking processes are transparent, accessible, fair, and inclusive;
   b) *Structural equity*, when government institutions and systems have the processes, practices, and policies to operationalize equity in how they function and make decisions; and
   c) *Distributional equity*, when there is an equitable distribution of resources, community burdens, and benefits.

   These dimensions of equity can be applied when evaluating CC4A as well. Are historically underrepresented and disadvantaged communities included in the decisionmaking processes around CC4A? Is access to the program provided equitably and working to right historical wrongs? In terms of distributional equity, ZEV ownership is clearly not equitable. Wealthier white households are more likely to own ZEVs relative to lower income Black and Latino households. In California, between 2011 and 2015, households earning less than $100,000 per year represented 72% of new and used gasoline vehicle purchases compared to 44% of new and used electric vehicle purchases. In addition, Black and Latino car buyers made up 41% of new and used gasoline vehicle purchases, but only 12% of new and used EV purchases. Electric Vehicle uptake is lower in disadvantaged communities (DACs), and electric vehicle sales tend to be concentrated among higher-income, higher-educated homeowners. As of 2019, fewer than 6% of California ZEVs are registered in the upper 80th percentile of CalEnviroScreen score census tracts. These facts necessitate the existence of equity-focused programs like CC4A, and should motivate continual efforts to improve and refine the state's incentive programs.

While the CC4A program maintains common eligibility and benefit criteria across the state, each operating district has been granted and exercises discretion in implementation of the program regionally, particularly around outreach strategies.

5) *Luskin Center study.* A report titled *Procedural Equity in Implementing California's Clean Cars 4 All Program* was published by the University of California, Los Angeles's Luskin Center for Innovation in May of 2021. The report stated that, "The intent and efficacy of outreach to potential CC4A participants is crucial to ensure both procedural and distributive equity in program outcomes… This is particularly true for this program given that districts have discretion in implementation, there has been limited state funding for the program, and the program offers a large benefit for a relatively complex technology to those who successfully apply. It is thus important to analyze strategies used by the districts and program partners to provide both information about the program opportunity as well as support to help navigate the program enrollment process to interested participants, given the limited benefit dollars available compared to the pool of income-eligible and interested households in each region."

   The authors studied whether and how implementing districts' strategies have achieved procedural equity outcomes, and included a supplementary focus on distributive equity as well. The report concluded that procedural equity was not consistent across all CC4A implementation. They found that the extent of outreach, variation in outreach approaches employed, and effort through partnerships with local community-based organizations (CBOs) varied widely across the districts. Moreover, greater success was found by synchronizing CC4A benefits with other assistance programs, as well as by involving and compensating CBO staff in outreach, and by providing direct assistance with applications to interested parties.

   SB 1382 appears to be largely motivated by the findings and recommendations of the Luskin Center study.

Comments

1) *Purpose of Bill.* According to the author, "As California moves towards its ambitious zero-emission vehicle (ZEV) targets, it is essential that we steer towards a truly equitable ZEV deployment that makes clean transportation options and air quality benefits accessible to our most vulnerable and

underserved communities. Currently, the data shows that low-income, Black and Brown communities and disadvantaged communities are less likely to own ZEVs than wealthier white communities. The Clean Cars 4 All program has been one of the most effective state programs in advancing access to zero-emission vehicles in low-income communities, placing over 11,000 zero emission and hybrid vehicles into the hands of low-income Californians. SB 1382 builds off the strong success of Clean Cars 4 All program and further reduces costs and uncertainty for participants in CC4A by waiving state taxes for cars bought and sold through the program. SB 1382 also requires a holistic approach to clean transportation equity, directing the Air Resources Board to identify and address barriers, such as language access, trust in government, timing and resource constraints, or other factors that currently prevent underserved Californians from participating in CC4A."

2) *Finding what works*. One challenge the state regularly faces in developing and implementing policy is the lack of a counterfactual; if a policy is established statewide, there is no control group against which to compare. The varied implementation of CC4A across five different air districts is a rare opportunity to assess which components of the program work and which do not. The Luskin Center study distinguishes a number of such program details.

   One notable difference is in the taxability of the incentive money. IRS 1099 tax forms are currently required in both the South Coast and Bay Area regions, but not the San Joaquin Valley, because ARB has advised each air district to consult their own legal counsel in determining whether the 1099 forms are necessary. The Luskin Center study notes that a California Attorney General letter to ARB from early 2015 concluded that Clean Vehicle Rebate Project rebates should not constitute gross income for federal income tax purposes, so it is possible that this determination also applies to CC4A benefits. This element of the program is included here for context, but would likely be better suited for discussion in the Senate Governance and Finance committee, where this bill will go next if passed today.

   Outreach approaches have varied across air districts, and led accordingly to different distributional equity. For example, the Bay Area Air Quality Management District CC4A has allocated only 15% of their funds to disadvantaged community (DAC) census tracts. In contrast, the CC4A program administered by the San Joaquin Valley Air District—the Valley Clean Air Now (ValleyCAN) program—has provided incentives in a more equity-focused manner. As a result, 72% of their incentives were allocated to DACs.

   Going forward, the author should continue to work with stakeholders and the *committee to determine and—where appropriate—include in SB 1382 the specific program features that serve to enhance procedural and distributional equity of the CC4A program.*

3) *High-touch program*. Unlike many other GGRF-funded or even other clean vehicle incentive programs, successful CC4A implementation requires much more contact and dialog with program applicants. This is because these residents—often by virtue of the same inequities that have created greater need for purchase assistance in the first place—may lack the time and access to navigate a potentially byzantine application processes. Simply offering incentives to applicants below a certain income threshold and awarding them on a first-come-first-served basis does not maximize the program's ability to achieve distributional equity and right historical wrongs.

   Program overhead expenses, such as administrative costs, are often considered as a value to be minimized. It stands to reason that maximizing the state dollars awarded to a program that flow through to the program's recipients means the program is operating "efficiently." However, that measure of efficiency does not account for the demographics of who is getting the incentives. While program administrators for CC4A should by no means be wasteful, the unique nature of the program may require greater flexibility on outreach and administrative costs.

   Going forward, the author should continue to work with the committee and stakeholders to ensure implementing air districts are able to provide the needed services equitably, even if overhead expenses exceed that of comparable programs.

4) *Towards ZEV equity*. Ultimately, advancing equity in the state's ZEV policies means addressing procedural, structural, and distributive equity. People's material conditions today are caused in part by decisions made decades or centuries ago, often along racially discriminatory lines. Righting those historical wrongs will require targeting support today across all sectors accordingly. California has ambitious ZEV goals and many varied programs to reach them. CC4A is unique in its design among clean vehicle incentive programs, and serves to enhance distributional equity of ZEVs intentionally.

   As California moves towards a statewide CC4A program and eventually a future free from internal combustion consumer vehicles, it will be important and valuable to learn lessons from the first years of these heterogeneous single-district implementations. SB 1382 represents an opportunity for the Legislature to state its position on what aspects of the programs so far have worked, and which have not.

Related/Prior Legislation

SB 1230 (Limon, 2022) would make specified changes to CC4A to expand the pool of eligible applicants. It also applies new, uniform requirements to clean vehicle incentive programs in the state, as specified. SB 1230 is currently before this committee.

AB 745 (Gipson, 2021) would have required ARB to, on or before January 1, 2024, review award amounts under CC4A, ensure vouchers are sufficient to incentivize ZEV purchases, develop metrics to demonstrate the socioeconomic benefits from CC4A, establish a centralized online database for EV incentives, and develop a community outreach strategy. AB 745 died in the Assembly Appropriations Committee.

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

DOUBLE REFERRAL:

This measure will be considered in the Senate Governance and Finance Committee on April 20, 2022.

SOURCE: Author

SUPPORT:

Bay Area Air Quality Management District

OPPOSITION:

None received

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