



NORTHERN
SONOMA COUNTY

Air Pollution Control District

Policies and Procedures

Community Air Protection Incentives Projects (AB 617)

Updated May 2022



Policies and Procedures Manual for Community Air Protection Incentives Projects

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Policies and Procedures Manual for Community Air Protection Incentives Projects

A. Introduction

Assembly Bill (AB) 617 (C. Garcia, Chapter 136, Statutes of 2017) provides a community-focused action framework to improve air quality and reduce exposure to criteria air pollutants and toxic air contaminants in the communities most impacted by air pollution. Subsequent legislation has allocated funds for incentive projects to reduce or eliminate emissions from mobile, stationary, and community-identified pollution sources. These funds are distributed through the Community Air Protection (CAP) Program and known as CAP incentives.

Funded by Cap-and-Trade auction proceeds, CAP incentives are directed by the Air District to projects that reduce the toxic and smog-forming pollutants that affect public health in communities disproportionately affected by air pollution. CAP incentives are prioritized for the communities selected by CARB (or under consideration for selection) through the AB 617 implementation process. Project decisions follow extensive outreach by the air district to the public in those communities, and the opportunity for community members to propose and comment on specific projects.

Projects funded with CAP incentives must align with the goals and requirements of California Climate Investments, which include targeting funds to projects that meaningfully reduce local pollutant exposure in disadvantaged and low-income communities while also showing a net reduction in greenhouse gas emissions.

As directed by the California Air Resources Board (CARB), at least 80 percent of CAP incentives must be invested in projects located in and benefitting these disadvantaged and low-income communities, with 70 percent invested in disadvantaged communities.

This manual explains the Air District's local implementation of the [Community Air Protection Incentives](#)

[Guidelines](#) (CAP Guidelines)² adopted for the State of California by CARB. The manual is required by Chapter 3, Section B.5 of the CAP Guidelines. It includes the specific requirements of that section and other procedures referred to in the CAP Guidelines that affect local implementation. The manual also includes any Air District requirements that are additional to or more stringent than State requirements, and any CARB approvals of Air District program elements that vary from State requirements.

CAP incentives were initially distributed under the auspices of the Carl Moyer Memorial Air Quality Standard Attainment Program (Moyer Program). Where there is full consistency in the policies and procedures that the Air District has adopted under both CAP incentives and the Moyer Program, this manual may refer the reader to the District's Moyer Program Policies and Procedures.

In addition to the CAP Guidelines cited above, the following documents provide further background and policy guidance for CAP incentives.

- [Assembly Bill No. 617](#)
- [California Climate Investments \(CCI\) Funding Guidelines](#)
- [Community Air Protection Blueprint](#)
- [Carl Moyer Program Guidelines](#)
- [Proposition 1B Program Guidelines](#)

B. Air District Roles and Responsibilities

The District is comprised of (6) staff members: (1) Administrative Assistant, (1) Department Analyst, (1) Air Quality Engineer, (1) Assistant Air Quality Engineer, (1) Air Quality Specialist, and (1) Air Pollution Control Officer/Executive Officer.

The responsibility for implementation of the Moyer Program falls mainly on the Department Analyst, Administrative Assistant, and APCO. The Department Analyst also holds the working title of "Grants Program Manager." The Grants Program Manager is the primary point of contact

for the District grant programs. The Grants Program Manager works under the direction of the APCO regarding grant programs implementation, including but not limited to: responding to ARB funding solicitations; evaluating, selecting, and inspecting projects; and obtaining governing board approval for program participation and projects to be funded.

In order to ensure that the District's grant programs are covered in the event of the Grants Program Manager's absence, the Administrative Assistant and APCO are cross-trained in grant program implementation. The remaining District staff are also capable of taking over some of the Program duties in the Grants Program Manager's absence.

It is the policy of the Grants Program Manager to have procedures documented in checklists, spreadsheets, online on the District's Local Area Network, and in electronic project file folders. This, in addition to input and guidance provided by the District's ARB liaison, ensures that the grant programs can be successfully implemented in such case that the Grants Program Manager is not available.

C. Pollution Source Categories

The Northern Sonoma County Air Pollution Control District maintains excellent air quality. The District is in attainment for all state and federal ambient air quality standards. The District territory does not contain any disadvantaged communities, but it does have some small swaths of low-income communities. The District has not been designated a community under AB617.

The Air District allocated the first year of CAP incentives to mobile source projects eligible under the Moyer Program, but has greater flexibility with subsequent year funds. In addition to Moyer projects, these CAP incentives may be used to support stationary, area and other mobile source projects identified in the CAP Guidelines. Currently these include (a) hexavalent chromium plating facilities and (b) specified projects to reduce air pollution in schools, including emissions from composite wood products, lawn and garden equipment, air filtration, and school transportation.

Chapter 6 of the CAP Guidelines allows the Air District to submit a Project Plan for CARB's review and approval to fund additional stationary source categories and community-identified project categories beyond those already contained in the CAP Guidelines.

D. Public Outreach

Each year upon Air District execution of a grant agreement with CARB for CAP incentives, the Air District publishes a solicitation for grant applications. Solicitation materials describe program objectives, potential funding amounts, eligibility requirements, and procedures for application including key dates and deadlines. The materials include a description of administrative and reporting requirements for funded projects, reference to documents such as these policies and procedures that will guide project implementation, and expectations for project review and accountability.

After public notice, the Air District holds public meetings in communities of interest under AB 617. At these meetings Air District staff presents information on potential high-priority projects and other eligible projects that could be funded. Staff invites project ideas from the public and answers project eligibility questions. The Air District takes comments and questions from both interested community members and potential project applicants.

In addition to public meetings, Air District staff conducts or participates in outreach events and campaigns, such as notices through social media, program mail-outs, public service announcements and radio station advertisements, to help potential applicants identify and access funding opportunities, particularly for priority populations. The Air District maintains a mailing list for interested community members and potential project applicants to stay up-to-date on CAP incentives opportunities. Designated program staff are available to respond to questions, including questions related to program access, application/technical assistance, and eligibility determinations.

So that the public is informed of the factors that will guide project selection, project solicitation materials include a description of the project evaluation and selection criteria that will be used to assess project applications. Except where adjusted in response to community comment, these are the criteria listed in Section E of this manual.

Information from submitted applications for CAP incentives projects is made available for public review on the Air District website. Twice yearly, in spring and fall, the Air District reports to CARB on implementation of CAP incentives, consistent with the requirements of the CAP Guidelines and CCI Funding Guidelines. In these reports and in its CAP incentives disbursement requests to CARB, the District includes each public outreach event and campaign held for CAP incentives, including the date and time, place, format, estimated attendance or audience size, accessibility, meeting materials, whether language interpretation was requested and provided.

E. Procedures for Project Selection

CAP incentives are intended for investment in projects that provide direct, meaningful, and assured benefits in high priority communities suffering disproportionate shares of air pollution. For this reason, the Air District prioritizes projects that reduce emissions or exposure in disadvantaged (Senate Bill (SB) 535) and low-income (AB 1550) communities. Particular attention is paid to communities selected by CARB, or being considered for future selection, under AB 617.

In solicitation materials each year, the Air District will specify the criteria used in project selection, and the weighting applied to particular criteria. The criteria will be similar to those below, but may be adjusted in response to comments from members of the public or from notable community-based organizations, or recommendations from a community steering committee. The solicitation materials will also specify applicant cost share requirements. Generally, applicants that are not public entities must cover 15 percent of a project's eligible costs using its own resources or other non-public funds.

Air District staff will evaluate eligibility for CAP incentives as applications are received through the solicitation process. Applications found to meet CAP incentives project eligibility requirements under State guidelines are evaluated for funding consideration based on the following criteria, as applicable. Note that emission reductions estimated relative to these criteria are limited to emission reductions that are surplus to existing rules and regulations.

1. Whether the project or project type has been specified in a Community Emissions Reduction Program, or recommended by an AB 617 community steering committee, or strongly supported by other community organizations following public outreach;

2. Hours or miles of operation within one or more SB 535 community or AB 1550 communities during the project lifetime, with higher priority assigned to SB 535 communities;
3. Amount of PM2.5 and toxic air contaminant emission reductions projected within the AB 617, SB 535, or AB 1550 community during the project lifetime;
4. Cost-effectiveness of criteria pollutant emission reductions estimated from the project during its lifetime;
5. Whether the project incorporates zero-emissions equipment, technologies, or charging infrastructure, especially for medium- and heavy-duty vehicles;
6. Whether the project will provide demonstrable reductions in greenhouse gas emissions, such as through reduced consumption of fossil fuels directly through new vehicles or equipment, or indirectly through charging infrastructure.

Air District staff will review submitted project proposals and assign a total point value to each proposal. Applicants should not order or make down payments on new equipment prior to project approval and authorization by Air District staff following project pre-inspection. A grantee may not receive equipment nor begin work on a repower or retrofit project prior to full execution of a contract between the Air District and the grantee, unless the Air District has provided the potential grantee with written notification that any work performed is not guaranteed funding until a contract is executed. For infrastructure projects, discretionary costs may be accrued by an applicant prior to contract execution, but such costs are not reimbursable until after contract execution.

F. Application Review and Project Documentation

Air District staff will review each project application for CAP incentives funding, and notify applicants within 30 days if the application is not complete. In such cases Air District staff make every effort to clarify what is required to make the application complete. Project applications must include the information needed to evaluate the project relative to the scoring criteria in Section E, including cost-effectiveness and location information. The application and all correspondence with the applicant are

kept in an electronic project file.

Air District staff will work with applicants to ensure that the estimated emissions reductions are eligible and in excess of adopted regulations, and that the project meets cost-effectiveness and other applicable requirements of State guidelines. This will include verifying that the project meets requirements that apply for the emissions source category in State guidelines. Documentation requirements include the following.

1. Documentation of historical vehicle, equipment, or engine usage, such as miles traveled, hours operated, or fuel consumed per year, for 24 months or as required by source category;
2. Documentation of project costs;
3. Engine or retrofit device Executive Orders, if applicable;
4. Proof of vehicle compliance check as needed for on-road projects;
5. Other documentation identified in the source category chapter.

Applicant Certification. Project applications include language informing the applicant that by signing and submitting the application, the applicant certifies under penalty of perjury that the information in the application is accurate and true. The applicant must also provide:

1. A disclosure statement specifying all sources of funding applied for at the time of the CAP incentives project application. Because the sum of project funding from all sources cannot exceed the total project cost, the applicant must specify whether the applicant has submitted an application for incentive funds to any other entity or program for the same equipment (for example, repowering of the same engine). The applicant must disclose to whom other applications were submitted, whether funds have been awarded or may be awarded, and the amount or potential amount of other funding.
2. A regulatory compliance statement certifying that the applicant is currently in compliance with all federal, State, and local air quality rules and regulations at time of application submittal, and is not aware of any outstanding or pending enforcement actions.

Application Signatures. The application will include a section for the vehicle, engine or equipment owner to sign and date the application. If a third party completes the application on behalf of the owner, the third party must separately sign the application.

Subsequent Applications and Limitations. An applicant may re-apply for project funding if a previous application for the same project has been rejected by the Air District and is no longer being considered. Once under contract, CAP incentives participants may not apply for funding for the same project from CAP incentives, the Moyer Program, the Proposition 1B Program, or any other incentive program. An applicant who is found to have applied for or received incentive funds from another entity or program for the same project without disclosing that information will be disqualified from funding for that project from all sources within the control of the Air District or CARB.

If the Air District amends the contract to reduce the term, the amended project must be cost-effective during the reduced contract term, based on the cost-effectiveness values and limit that applied when the original contract was executed. If the Air District agrees to accept a prorated repayment of the CAP incentives grant, the repayment and amended contract execution must both occur prior to the execution of any new contract for funding.

Emissions reductions from previously funded projects must not be included as emissions benefits for any subsequent project under CAP incentives or any other incentive program. In addition, projects funded with CAP incentives may not be used to generate a compliance extension or credit for regulatory compliance.

Recordkeeping. The Air District maintains an electronic file for each project selected for funding, for three years following the end of the contract term. In the event final payment has not been issued prior to the end of the contract term, the three-year clock is re-started upon final payment. Applications for unfunded projects are generally kept a minimum of two years following the solicitation period, or two years from receipt if there is not a specified solicitation period. The Air District will keep some clean truck project files for longer periods as required under Proposition 1B Program Guidelines.

G. Contract Requirements

The Air District will execute a contract with each grantee receiving CAP incentives, stating the grantee and the Air District as parties to the contract. All executed project contracts and contract amendments are kept in the Air District's electronic project files. An applicant may not order or make a down payment on new equipment prior to contract execution or written confirmation from the Air District that its Governing Board has approved the project for funding. Only after contract execution may a grantee receive new equipment or begin work on a repower project.

Contracts will include the following elements.

1. **Notices and Signatures.** The Air District will include in contracts the contact information for both parties, and how notices will be sent and received. The contract will include a section for signatures and dates of signature or contract execution.
2. **Funding Sources.** Grantee certification that (a) all funding sources applied for or received for the project have been disclosed, and (b) the grantee will notify the Air District of any additional sources of funding received for the total cost of the project, including sources that become available after contract execution. Grantees receiving co-funding from other sources for the project must meet all criteria associated with each funding source used. Grantees that are not public entities will commit to providing at least 15 percent of the project's eligible costs from non- public sources. The contract will include terms that prohibit the grantee from receiving grants and other funds that exceed the total project cost.
3. **Contract Term.** The contract will specify the time terms for project completion and project implementation. The Air District will ensure project completion can occur in time to meet grant liquidation deadlines set in statute.
 - a. Project completion is the timeframe starting with the date of contract execution until project post-inspection confirms that the project has become operational, including the period when equipment is ordered, delivered and installed.
 - b. Project implementation is the timeframe used to calculate project cost-effectiveness. The contract will require the grantee to operate and maintain the grant-funded

project according to the terms of the contract for the full project implementation period.

4. **Project Specifications.** The Air District will include in contracts detailed information on baseline and new equipment. The project application may be attached to the contract to help meet this need if it is accurate and complete. The Air District will include the following in contract language.
 - a. A statement that the project complies with all applicable guidelines;
 - b. Grantee certification that the grantee's fleet and all equipment is in compliance with federal, State, and local air quality rules and regulations in effect at the time of contract execution, and that grantee will maintain compliance for the full contract term;
 - c. For repower projects, a statement that installation of the engine will be completed in a manner that does not void the engine manufacturer warranty and any remaining warranty provided by the equipment manufacturer;
 - d. Projects funded with CAP incentives must be included when defining the size of the fleet for determining regulatory requirements;
 - e. Throughout the contract term, the project will not be used to generate credits or compliance extensions, and must be excluded when determining regulatory compliance;
 - f. The Air District may approve substitution of eligible replacement equipment that is verified or certified to achieve equivalent or greater emission reductions than the original replacement equipment, in the same location as the original project replacement equipment, following prior request by the grantee;
 - g. The Air District may include in the contract an estimation of usage for the old equipment, in cases where 24 months of documented, verified historic usage is not available. The Air District will base this estimation on comparisons to the applicant's documented historic usage of similar equipment in similar applications, discounted by 20 percent. Additional forms of estimation or documentation to verify historical annual usage will

be subject to CARB's approval on a case-by-case basis.

5. **Maintenance.** The contract will require the grantee to maintain the funded equipment according to the manufacturer's specifications for the life of the project, including a prohibition on tampering. The grantee must maintain a working hour meter for projects that use hours of operation as a means of calculating emissions reductions and cost-effectiveness. If the hour meter fails, the grantee must immediately notify the Air District, and remain responsible for validating any hours not recorded by the hour meter. The grantee must either repair or replace the non-operating meter or provide other documentation of equipment operating hours acceptable to the Air District.
6. **Payment Terms.** The contract will include the following payment terms.
 - a. **Maximum Contract Amount.** The maximum contract amount must not exceed the maximum funding level corresponding to the current program cost-effectiveness limit, nor may the maximum contract amount exceed the project incremental cost. The maximum contract amount must also comply with any funding caps and other criteria for the specific project category as identified in the CAP Guidelines.
 - b. **Itemized Invoices.** Payment terms must require itemized invoices from the engine or equipment supplier for repowers and infrastructure projects, paid invoices from the vehicle owner for new vehicles, and satisfactory post-inspection by the Air District prior to payment of the owner's invoice. An invoice payment for a specific vehicle, engine, or piece of equipment may not exceed the amount indicated on the project contract for that vehicle, engine, or equipment. The contract will specify that the Air District will pay the lower of the contract amount or the final invoice amount.
7. **Reporting.** The Air District will include in contracts a provision and dates for grantees to submit annual reports, commencing no later than 18 months after project post-inspection and continuing annually thereafter throughout the project implementation phase of the contract. The contract will inform the grantee that noncompliance with reporting requirements will require on-site monitoring or inspections.
8. **Inspections, Audits and Records.** The Air District will include language in contracts to allow Air District or CARB staff or their designees to conduct an inspection and/or audit of the

project, equipment and associated records during the contract term. The contract will require grantees to maintain usage and other records associated with the project for at least three years after the end of the contract term.

9. **Repercussions for Nonperformance.** The Air District will include provisions for grantee nonperformance with the terms of the contract, including the following.
 - a. The contract will specify that by executing the contract the grantee understands and agrees to use the equipment according to the terms of the contract, and to cooperate with the Air District and CARB in implementation, monitoring, enforcement, and other efforts to ensure project emissions benefits are realized.
 - b. The contract will specify repercussions to the grantee for noncompliance with contract requirements, including but not limited to cancelling the contract and recapturing project funds in proportion to loss of emission reductions or reduction in usage (subject to the provisions in Section L of this manual for inadequate use).
 - c. The contract will inform the grantee that the Air District and CARB have the authority to seek any remedies available under the law for noncompliance with CAP incentives requirements and contract nonperformance. The contract will state that CARB, as an intended third party beneficiary, reserves the right to enforce the terms of the contract at any time during the contract term to ensure emissions reductions are obtained.

H. Invoicing and Payment

Within 30 days of project completion, the grantee should submit to the Air District an invoice package that describes all equipment purchased with grant funds and provides documentation that costs are eligible and have been expended in compliance with the project description and schedule. The package will include (a) serial numbers and proof of warranties required under CAP Guidelines, (b) an itemization of payments to, and copies of invoices from, vendors, consultants, and contractors, and (c) documentation of hours incurred to complete the project and the hourly rates for any labor charges. Costs not directly

related to the project will not be included in the invoice, or will be shown as not eligible for reimbursement by the Air District.

Eligible costs are those required to ensure the effective installation and operation of the new equipment, not part of typical equipment maintenance or repair. Transport and installation costs are eligible, as are taxes, provided they are verified and within the overall grant amount. Tires, axles, paint, brakes, and mufflers are not eligible costs for engine repower projects. Other ineligible costs may be specified by source category in the CAP Guidelines.

Invoices are part of the public record for the project. The Air District will maintain copies of all invoices and documentation of payments in the electronic project files. Prior to final payment, the Air District will verify through physical inspection that the project is completed and operational, and that any older equipment replaced as part of the project has been destroyed. District staff will verify that the invoice is consistent with equipment information on the inspection form completed after project completion, and that the sum of funds paid on project invoices does not exceed the total project cost.

Payments to Grantees. The grantee may seek a progress payment from the Air District prior to project completion, if allowed under terms of the contract. In this case the grantee will submit to the Air District a progress statement and invoice package with the items listed above for costs incurred to date, evidence that milestones specified in the contract have been met, and a schedule for project completion. Interim payments will be at the discretion of Air District staff following review of the progress statement, contract milestones, and the invoice package.

The Air District will pay grantees for eligible costs, not to exceed the amount of the grant, within 45 days of receipt of an invoice package assuming the completion of required project inspections with satisfactory results. Payment will be made directly to the grantee unless the contract specifies payment to a dealer or distributor. If the contract required the grantee to demonstrate a regulatory requirement is met as a condition of project funding, the Air District will require documentation that the requirement is met before issuing payment. The contract may specify that a portion of the grant payment will be withheld pending the receipt and review of one or more reports from the grantee.

Records Retention. The Air District will retain grant receipts and expenditure documents, including invoices, contracts, vouchers, personnel records, and payroll records for five years after the grant liquidation period or the last recorded grant transaction, whichever is later.

I. Project Inspections

Project inspections are field visits conducted for projects awarded CAP incentives. There are several types of project inspections. Except in limited cases permitted under CAP Guidelines, Air District staff conducts a pre- inspection prior to executing a contract to verify equipment information in the grant application. Air District staff then conducts a post-inspection after completion of the project, to verify that the equipment identified for funding in the contract agreement has been purchased and installed and is operating properly, that replaced equipment is no longer operable, and that the completed project is consistent with the project scope in the contract and the invoice submitted by the grantee.

Staff will separately inspect replaced equipment to verify its destruction. Staff may also conduct an inspection during a project audit to verify continued project operation. Additional or different inspection requirements may apply to infrastructure or stationary source projects, as specified in the source category requirements of the CAP Guidelines.

Procedures. Air District staff will arrange the time and location for project inspections with the equipment owner or operator -- or in some cases, a truck dealer or the dismantler of old equipment. Inspections are generally conducted onsite by Air District staff, but staff may arrange a remote inspection by videoconference, with the assistance of an equipment owner, operator, dealer or dismantler equipped with a suitable camera.

A District point of contact will be identified for the applicant or grantee. Air District staff will provide their own safety equipment for the inspection; generally this includes a hardhat, goggles, earplugs, dust mask, reflective vest, gloves and steel-toed boots. Air District staff will adhere to other on-site safety requirements as instructed at the project site.

Staff will complete an inspection form with contact information for the inspector and the applicant or grantee, the inspection date, equipment location, and information specific to each piece of equipment under inspection. Information collected may include but is not limited to the items below, as applicable to both old and new equipment. Where information cannot be obtained at an inspection, Air District staff will record "NC" or "not confirmed" on the inspection form and note the reason.

1. Equipment type, make, fuel type, model year, model and unit numbers, and as applicable and available, engine tier and engine family;
2. Equipment power in kilowatts or horsepower;
3. Equipment serial numbers;
4. Vehicle identification number, license plate number or other equipment identifiers, e.g., marine vessel name and identification number;
5. Equipment usage meter reading (usually in hours or miles), if applicable and used to calculate cost-effectiveness;
6. For pre-inspections, certification or supporting documentation from the applicant or grantee that the equipment under inspection is in compliance with applicable rules and regulations;
7. For post-inspection of retrofit devices, information from the labels affixed on the device and the engine (Note: where such labels are missing the inspector will provide direction to the grantee for the installation of compliant labels.);

Staff will ask to witness engine or motor start and verify that the equipment is operated according to its stated use. Other procedures apply to infrastructure projects based on direction in state guidelines. Staff will verify the battery charging capability of electric charging stations and the generation of power by solar and wind projects, for example.

Air District staff will note on the inspection form (and document with photographs where possible) any concerns, problems, or follow-up issues identified during the inspection. The District will notify the CAP incentives team project lead of completion of the inspection and its results.

Photographs. During inspections, Air District staff will usually take multiple photographs of each relevant piece of equipment, to ensure pictures are clear and avoid the need for follow-up visits. In the case of remote inspections, the lead inspector will request specific pictures of the equipment from the grantee during the inspection; photographs taken should be transmitted to the Air District on the day of the inspection. Photographs will include equipment identification numbers as noted above, and close-up pictures of each engine plate or equipment tag. Staff will photograph and obtain information

for both the new and replaced equipment, including verification of old equipment destruction (e.g., a hole in the block of a replaced engine). Photograph requirements may vary for stationary source and infrastructure projects. For submersible pumps staff will ask the equipment owner to take a picture of the motor name plate information before installation, including make, model, and serial number.

Air District staff will download photographs to Air District computers using a filename that includes the project number, date of the inspection and equipment identifier. Staff will scan and file the inspection form with the photographs, and retain the hard copy in the Air District project file.

Destruction Verification. For replacement and repower projects, Air District staff will document the destruction of old equipment to ensure it is not used again. Replaced engines will be photographed following their destruction; the photograph should show a jagged hole in the engine block that is at least three inches at the narrowest point. A portion of the oil pan flange should be connected to the hole unless infeasible.

For vehicle replacement projects (not repowers), photographs must show cuts in the chassis or other structural frame; the frame rails between the front and rear axles should be completely severed to render the equipment unusable. At some post-inspections, inspectors will collect a dismantler transfer form (DMV Form REG42 or 488C) from the truck dealer that certifies a dismantler will take possession of old equipment on or by a certain date. Inspectors will verify that the form is complete and retain it with electronic records of the inspection.

J. Grantee Reporting and Documentation

Air District staff will send reminder notifications to grantees that annual reports are due. Grantees are required to submit annual reports to the Air District within 18 months of post-inspection and annually thereafter for the term of the contract. Annual reports include the following information:

1. Grantee name, address, email address and telephone number;
2. Information needed to uniquely identify the project's equipment, such as make, model, horsepower, and serial number;

3. Current location of the equipment identified under item 2;
4. Estimated percentage of time or miles the vehicle or equipment has been operated within the boundaries of the Air District since the previous annual report;
5. Estimated percentage of time or miles the vehicle or equipment has operated within SB 535 disadvantaged community or AB 1550 low- income community boundaries, and a description of how the estimate was obtained;
6. Current and past-year readings of usage metering devices (e.g., hour meter, odometer, or electronic monitoring unit) for the equipment included in the project, and dated current photographs of the usage metering devices displaying use as of the date indicated;
7. Estimated energy use since the previous report, in gallons or therms of fuel or kilowatt-hours of electricity, for each engine, vehicle or other equipment included in the project;
8. If usage is more than 30 percent below that identified in the project application, a description of conditions that have affected project usage and a projection of future usage.

As discussed in Section G and specified in the contract, the grantee must maintain a working hour meter for projects that used hours of operation as a means of calculating emissions reductions and cost-effectiveness. In any case where a usage metering device has failed, the grantee will include in the report an estimate of hours or miles of operation since the last yearly report (or since project completion, if a yearly report has not yet been submitted). The estimate should be supported by fuel receipts, operation logs, or other explanation of the methods used to determine usage.

When an annual report is overdue, incomplete, or inaccurate, the Air District will make a reasonable attempt to obtain a complete and accurate report from the grantee. Air District staff may also request an inspection of the funded equipment. In the absence of a satisfactory annual report the Air District will identify the project for a performance audit.

Failure to submit annual reports is considered a breach of the grant contract. It may result in recapture of grant funds from the grantee and/or jeopardize the grantee's eligibility to participate in future incentive and grant programs. Grantees that have not submitted complete required reports will not be granted funds for new CAP incentives projects until all reports are satisfactorily submitted.

Air District staff will review annual reports and check the completeness and accuracy of the report, whether actual documented equipment usage compares to contracted usage requirements, the location of equipment operation relative to commitments in the contract, ownership of the equipment, and changes to grantee contact information. Air District staff will follow up with the grantee on issues to be addressed as a result of the annual report. The Air District will maintain a copy of the report, initialed and dated by the reviewing staff, in the project file.

Annual reports are part of the public record for the project and the CAP incentives used to fund them. Members of the public may request copies of the reports, and the Air District will provide copies under the Public Records Act. The District will notify grantees of such requests and provide the opportunity to withhold any confidential business information the reports may include.

K. Project Monitoring and Audits

CAP incentives projects are monitored during their contract terms to ensure they are in compliance with the requirements of their contracts and the program guidelines. Projects are monitored using annual reports, project audits that involve inspections of selected funded equipment to ensure it is operating in accordance with the grant requirements, and grantee self-reporting of problems with the project.

The Air District conducts performance audits as necessary. During a performance audit, actual documented equipment usage is checked to see how the equipment is being used in comparison to the contracted usage requirements. The equipment location is checked to see where it is operating relative to any requirements specified in the contract. The inspector checks serial numbers and confirms the funded equipment is operational. Equipment ownership is confirmed to see if the funded equipment still belongs to the grantee, and grantee contact information is verified. Application materials may also be re-checked if there are questions regarding the accuracy of the information originally submitted or to identify any administrative errors made by Air District staff.

Other expectations of the grantee with respect to project audits may be specified in the contract for the project, which requires grantees to cooperate fully with inspections and audits, including providing on a timely basis copies of any project records to the Air District and to State agencies who request them. In addition to performance audits conducted by Air District or CARB staff, project financial audits may

be conducted by the California Department of Finance, the California State Auditor, or another State agency.

L. Project Compliance

The Air District will work with the grantee when a project is not meeting operational and usage expectations set forth in the application and contract, to ensure CAP incentives project requirements are met and emissions reductions are achieved. The Air District may consider unforeseen circumstances beyond the grantee's control in determining repercussions for nonperformance.

The contract requires grantees to notify the Air District if there is a change in the usage of funded equipment or if equipment is removed from service. Air District staff will collect a written statement (email or letter) from the grantee explaining the status of the equipment, including the dates the equipment was removed from service, and the usage meter readings at the time if available.

Equipment Out of Service. The Air District will address situations where funded equipment has been removed from service as described below.

1. **Sale of the funded equipment:** If the grantee no longer owns the funded equipment, the grantee will either (a) return to the Air District a pro-rated amount of grant funds as specified in the project contract, or (b) work with Air District staff and the new equipment owner to transfer the terms of the contract to the current owner through a successor agreement.
2. **Removal of equipment from the Air District:** The grantee will work with Air District staff to determine how much the equipment has operated outside of Air District boundaries relative to contract requirements. Air District staff will consider whether the change of location is temporary or permanent when considering next steps. Relocation of the equipment outside the Air District could result in the recapture of grant funds.
3. **Equipment stolen or not operational:** The grantee is required to maintain the funded equipment, and ensure it is operational throughout the project term. If the equipment is not operational, the grantee must repair the equipment, replace it with an emissions-equivalent

piece of equipment (as clean, or cleaner than the funded equipment), or repay a pro-rated amount of grant funds to the Air District. If equipment is destroyed in an accident or is stolen, the grantee must provide appropriate documentation of the loss, which should include an insurance statement or police report. Before an equipment substitution is approved, Air District staff must first evaluate the proposed equipment to ensure that the emission reductions from the proposed equipment are equivalent or greater. After substitute equipment has been purchased, Air District staff will inspect this equipment and update project data to reflect the changes.

Equipment with Inadequate Use. As required under CAP Guidelines, the Air District works to ensure emissions reductions are realized for the equipment it funds with CAP incentives. Air District staff review each grantee annual report and conduct inspections of selected projects to check whether equipment are still being used in the expected locations and overall activity is at least 70 percent of levels specified in the contract. When average usage over a three- year period (or for the contract period if less than three years) for a contracted engine, vehicle, fleet, or other equipment is less than 70 percent of the activity required in the contract, the Air District will discuss with the grantee appropriate remedial action, which may include one or more of the following:

1. *Extension.* The Air District will notify the grantee of a contract extension to allow more time to meet usage expectations. The project may be extended for additional years as long as emission reductions remain surplus to regulatory requirements.
2. *Funds Recapture.* The Air District may require the grantee to return funds in proportion to the loss of emission reductions, so that recaptured funds can be assigned to projects that cover the shortfall.
3. *Ownership Transfer.* The grantee may transfer ownership of some or all of the project's equipment to another entity committed to complying with contract terms. The new equipment owner must complete a substitute contract with the Air District.
4. *Recalculation.* The Air District may recalculate project cost-effectiveness based on the reported decrease in usage. If the project is still below the applicable cost-effectiveness limit, calculated consistent with the methodology and limit in effect on the date of contract execution and prior to the end of the contract, the Air District will continue to monitor the project over the next year to determine if additional actions are necessary. (This option does not apply to

projects not subject to a cost- effectiveness limit, such as charging infrastructure.)

5. *Usage Waiver.* Grant a usage waiver, without penalty, to the grantee for a defined time period. The grantee must demonstrate to the Air District's satisfaction that the engine, vehicle, or equipment is not being underutilized in favor of operating other, higher-polluting equipment, and that the underutilization was due to unforeseen conditions beyond the grantee's control, such as (a) a decrease in usage due to economic recession; (b) unforeseen fluctuations in water allocations or pumping needs for agricultural irrigation pump engines, (c) significant land fallowing for off-road agricultural equipment and agricultural irrigation pump engines.

To be considered for a waiver, the grantee must provide a written request to the Air District along with documentation that substantiates the need for the waiver and verifies that higher-polluting equipment is not consequently receiving more use. The Air District will specify the length of time for which the waiver is valid. The waiver will not exempt the grantee from any contract requirement to provide annual usage reports. It will be documented in writing, approved by the APCO or designee, and included in the project file.

For projects that include multiple pieces of equipment or engines, the Air District may review and recalculate the funded equipment collectively to see if the project as a whole has performed as expected. A waiver is not required in this event.

M. Calculation and Use of Interest Revenue

The Air District tracks interest earned on the funds received from CARB for CAP incentives with a "TCA" tracking account number to separate it from CAP incentives grant funds received and other incentive funds. Consistent with other Air District incentive programs, interest is calculated by applying a rate, specific to fiscal year and the account where funds are kept, to the average daily balance of CAP incentives in the Air District account during the fiscal year on a quarterly basis. The interest balance accounts for compounding.

All interest earned is used to support projects selected through the process described in Section E. The Air District may retain a percentage of interest earned for administrative purposes, which may vary by fiscal year according to requirements of statute or State guidelines, as specified in grant agreements between the Air District and CARB. The Air District will restore any CAP incentive funds lost due to investment loss, no later than the succeeding fiscal year.

The Air District will report to CARB annually the interest earned on CAP incentive funds during the previous fiscal year. The amount reported is added to the CAP incentives target based on the fiscal year in which it accrued, with a liquidation period equivalent to the amount of time given to liquidate that fiscal year appropriation. The Air District works to liquidate earned interest by the end of the grant performance period, but will remit to CARB any unused portion of interest within 90 days following the end of the grant period.

Other Non-grant Revenue. In any project where the Air District salvages and sells scrapped portions of old equipment, revenues will be reported to CARB and retained as a supplemental source of funds for CAP incentives projects. Salvage revenues will be tracked in a subsidiary revenue ledger, similar to earned interest.

N. Procedures for California Climate Investments

The Air District has established additional procedures to support the requirements specified in Section IV of the California Climate Investments (CCI) Funding Guidelines. These include the following.

Logo and Funding Language. CAP incentives are made possible by California Climate Investments, as statewide program that puts Cap-and-Trade dollars to work reducing greenhouse gases, strengthening the economy, and improving public health and the environment -- particularly in disadvantaged communities. CAP incentives encourage industries to invest in clean technologies and develop innovative ways to reduce pollution. Grantees are encouraged to include recognition of California Climate Investments as the source of the CAP incentives for their projects. For more information, visit the California Climate Investments website at www.caclimateinvestments.ca.gov.

Transparency. In addition to a website for its CAP incentives, the Air District maintains websites specific to the disadvantaged and low-income communities that receive priority for CAP incentive projects, with current information about CAP incentives availability and the process for selection of projects. As discussed in Sections D and E of this manual, the Air District notifies interested organizations and individuals in affected communities and allows opportunity for comment prior to funding decisions. Project source categories to be considered for support with CAP incentives and the schedule for solicitation and review of applications to be submitted under these source categories are specified in grant solicitation materials and described in Section D of this manual. Projects with applications submitted are posted on the CAP incentives web page, with indication as to project status as listed in Section D.

Methods and Reporting. The Air District reports to CARB semi-annually on projects with executed contracts, for CARB entry into the California Climate Investments Reporting and Tracking System. CARB's emissions reduction quantification methodologies, co-benefit assessment methodologies, priority population benefit criteria tables, and reporting templates are used to estimate, track and report project benefits. The Air District works with CARB to post project results including emission reductions on the California Climate Investments website for the Annual Report to the Legislature. This enables the public to access the project location (e.g., address, census tract), funding amounts, emission reductions and the methods used to estimate them, and benefits to priority populations. Where projects and programs are included in or respond to strategies in a Community Emissions Reduction Program, the Air District includes information in the program's annual status report on funds distributed, equipment deployed, and emissions reduced.

Audits. As described in Section K of this manual, the Air District has its own procedures to monitor CAP incentives project outcomes through project performance audits, either during or after project implementation. The Air District also makes program and project records available for CARB incentive program reviews. Air District and CARB implementation of CAP incentives are in turn subject to oversight, including audits by the California State Auditor, Department of Finance, other State oversight agencies, or a third-party auditor.

Contact Resources. The Air District provides on its website and in solicitation materials and reports contact information for the public to ask questions or obtain additional information (e.g., phone, email, social media). The Air District designates points of contact for program outreach and partnership development with and between community groups on funding opportunities, program application requirements, eligibility determinations, and application technical assistance. As CAP incentives

continues, the Air District will develop a frequently asked questions document and other resources for technical assistance. In addition to consulting the Air District, members of the public can direct general inquires in English or Spanish to CARB's email (info@caclimateinvestments.ca.gov) and phone hotline (800-757-2907).

Meeting Investment Minimums. As California Climate Investments, CAP incentives provide the opportunity to yield significant benefits to communities that are exposed to multiple sources of pollution, disproportionately burdened by the impacts of climate change, and are particularly vulnerable to environmental pollutants. Statewide, at least 70 percent of CAP incentives must be invested in projects located in and benefitting disadvantaged (SB 535) communities, and an additional 10 percent in projects located in and benefitting either disadvantaged communities or low-income (AB 1550) communities or households.

The Air District uses a three-step approach under CCI Funding Guidelines to evaluate whether these benefits occur from each CAP incentives project.

- Step 1: Identify the Priority Population(s). The project must be located within a census tract identified as a disadvantaged community or low-income community, or directly benefit residents of a low-income household;
- Step 2: Address a Need. The project must meaningfully address an important community or household need for the disadvantaged community, low-income community, or low-income household;
- Step 3: Provide a Benefit. Identify at least one direct, meaningful, and assured benefit from the evaluation criteria that the project provides to priority populations. The benefit provided must directly address the identified need.

The Air District reports the results of these evaluations by project, using benefit and co-benefit metrics specified in the CCI Funding Guidelines, when it reports to CARB on CAP incentives projects. CARB considers the results of the Air District's evaluations with those of other air districts to determine whether CAP incentives investment minimums have been met statewide.