



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

August 4, 2009

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Natural Resources: Section 13.10 Request for the Use of Federal Economic Stimulus Funding for Diesel Emissions Reductions Grants – Agenda Item XVII

### REQUEST

The Governor submitted a request dated July 22, 2009, to the Joint Committee on Finance for approval of the allocation and expenditure of \$1,714,300 in 2009-10 in federal economic stimulus funds for diesel emissions reductions grants administered by the Department of Natural Resources (DNR). In a letter dated July 27, 2009, the Department of Administration (DOA) submitted a modification for a total request of \$2,285,407, including the following two components: (a) \$571,107 for a project to reduce emissions from locomotives at railroad yards; and (b) \$1,714,300 for grants to reduce emissions from diesel powered equipment for on-road, off-road, or stationary engines.

### BACKGROUND

The federal American Recovery and Reinvestment Act (ARRA) of 2009 provided \$300 million nationwide for programs to implement diesel emission reduction technologies. The U.S. Environmental Protection Agency (EPA) awarded grants to DNR and the Department of Commerce for several purposes.

*National Program - Locomotives Project.* The ARRA provided \$156 million nationwide for a National Clean Diesel Funding Assistance Program. EPA awarded the funds through a nationwide competition. On July 9, 2009, EPA awarded \$571,107 in ARRA funds to DNR for a project to reduce emissions from switcher locomotives. (EPA also awarded funding through the national program to Commerce for a separate project, which is described in a separate memo to the Committee.) Two types of locomotives are commonly used by railroads: (a) line-haul locomotives, which move freight or people over long distances; and (b) switcher locomotives, which are used to

move railroad cars around rail yards from one train to another. Switcher locomotives generally do a lot of stopping, starting, and idling during their work.

The EPA award to DNR will be used to install idle-reduction technology known as stop/start devices on 40 switcher locomotives to reduce emissions and fuel consumption from locomotives at rail yards by 50% to 70%. The EPA grant was made for two specific railroad companies, and will be distributed as follows: (a) \$433,500 to the Wisconsin and Southern Railroad Company for 34 idle reduction devices; (b) \$122,900 to the Canadian Pacific Railroad for six idle reduction devices; and (c) \$14,700 for DNR administrative costs.

DNR plans to sign contracts with the two railroad companies by mid-August. The railroad companies would work with selected vendors between August, 2009, and March, 2010, to order and install the devices on locomotives.

*State Program.* ARRA provided \$88 million nationwide for a State Clean Diesel Funding Assistance Program. EPA distributed the funding to all states that administer the federal Clean Air Act. On April 24, 2009, EPA awarded \$1,730,000 to DNR for a statewide clean diesel grant program for projects that reduce diesel emissions and maximize job creation and preservation. DNR spent \$15,700 of the grant in 2008-09 for administrative costs. The remaining \$1,714,300 is the subject of the request before the Committee for expenditure in 2009-10.

The application and work plan submitted by DNR to EPA in March, 2009, state that DNR would use the \$1,730,000 in ARRA funds to provide \$1,660,900 in grants to owners of all types of diesel powered equipment to implement emission control projects within their fleets. The remaining \$69,100 (representing 4% of the total grant, including \$15,700 in 2008-09 and \$53,400 in 2009-10) would be used for DNR staff and contractor administrative activities related to the grant.

Examples of the types of diesel engines eligible for a DNR grant include medium or heavy duty commercial trucks, school buses, transit buses, construction vehicles, rail locomotives, marine engines, equipment that moves cargo at airports or marine ports, and stationary engines, generators, and pumps. DNR plans to allocate grants to sectors with the approximate following breakdown: (a) on-road vehicles (\$680,000); (b) off-road equipment (\$680,000); and (c) stationary engines (\$300,000). Public and private owners of fleets of any size would be eligible for grants of up to \$100,000.

The types of eligible technologies and the required match from the grant recipient are: (a) exhaust retrofit technologies (0% match) are devices, fuels or systems that are applied to an existing diesel engine to achieve emission reductions beyond what is currently required by EPA for the engine; (b) idle reduction technologies (50%) are devices installed on a vehicle or piece of equipment to provide alternative power for services such as heat, air conditioning, or electricity so the engine does not have to be turned on while the vehicle or equipment is not moving; (c) engine upgrades (0%) are engines that are rebuilt or remanufactured to meet higher federal emission standards; (d) engine repowers (25%) involve removing an existing engine and replacing it with a newer or cleaner engine certified to more stringent emission standards; and (e) vehicle or equipment

replacements (75%) involve replacing certain old equipment or vehicles with newer and cleaner ones that perform the same function and meet more stringent emission standards.

DNR staff estimate that awards will be made for between 16 and 300 vehicle fleets, and for up to 2,100 pieces of equipment or engines. They made a broad estimate because there is a wide range of cost estimates for the many possible combinations of technologies and vehicles, and the different match requirements for various technologies will affect the award amounts.

DNR's work plan indicates the projects funded under the grant program will meet the following priorities, as included in the federal Energy Policy Act of 2005, to the extent practicable: (a) maximize public health benefits; (b) are the most cost-effective; (c) are in areas with high population density and poor air quality; (d) are in areas that receive a disproportionate quantity of air pollution from diesel fleets; (e) include an engine or technology with a long expected useful life; (f) maximum the useful life of the engine or technology; (g) conserve diesel fuel; and (h) utilize ultra low sulfur diesel fuel.

The Department has drafted a 13 point system to evaluate and score grant applications under the program. The evaluation criteria include: (a) up to four points for operating in a location where the project maximizes public health benefits, including: (1) one point in a non-attainment area (area that does not meet federal standards for levels of ozone or particulate matter); (2) one point around sensitive populations such as children or elderly; (3) one point in a highly populated or urbanized area; and (4) one point for an area with disproportionate air pollution such as a rail yard, truck stop, or construction site; (b) up to four points for cost effectiveness, including a proportional score with the most cost effective proposal receiving the highest score; (c) up to three points for projects that conserve fuel, including: (1) one point for a project that saves fuel (such as idling technology); (2) one point for a project that reduces extended length of idling time; and (3) one point for any diesel truck idling reduction activities for motor carriers eligible under the Commerce diesel truck idling reduction grant program; (c) one point for equipment with an expected lifespan of ten or more years; and (d) one point for high use equipment (miles or hours).

DNR recently updated its application scoring system to provide the priority point described above for any application for diesel truck idling reduction activities for motor carriers eligible under the Commerce program. The additional point was included in the scoring system to comply with the 2009 Wisconsin Act 28 (the 2009-11 biennial budget act) requirement that, when DNR expends any ARRA funds for diesel emission reduction activities, the Department is required, to the extent permitted under federal law, to give priority to diesel truck idling reduction activities for motor carriers eligible for grants under the state diesel truck idling reduction grant program administered by Commerce. The Commerce program provides assistance to Wisconsin-headquartered motor carriers for a portion of the costs of the purchase of idling reduction units on truck tractors with post-1998 diesel truck engines. (Act 28 also requires Commerce to give priority, under any ARRA funds it receives for diesel emission reduction activities, to motor carriers eligible under the state program.)

## **ANALYSIS**

*Locomotives.* The Governor's request for \$571,107 in federal stimulus funds for diesel emission reductions in locomotives satisfies a requirement in 2009 Wisconsin Act 2 that a plan be submitted to the Committee for the expenditure of these funds. Since the funding was awarded by EPA for two specific railroad companies, no alternative uses of the funds are permitted under the federal program. Approval of the request would allow the project to proceed in a timely manner.

*State Program.* The specific recipients of grants under the diesel emissions reduction program will not be determined until approximately late September. DNR accepted applications for funding until August 3, 2009. DNR plans to score applications during August and September, notify grant recipients in late September, and finalize grant agreements in October. DNR intends that grant recipients would implement the projects, install emission reduction equipment or retrofit engines and equipment during approximately the following four months. ARRA requires that all projects be completed and funds spent by September, 2010.

While DNR's work plan and application scoring system does not guarantee that motor carriers eligible under the Commerce diesel truck idling reduction grant program would be funded under the ARRA grant, such motor carriers would be awarded an extra point in the evaluation and scoring process. This scoring priority is included to comply with 2009 Act 28. This extra point is not expected to affect DNR's general allocation of grant funds between the on-road, off-road, and stationary source sectors.

Since the ARRA funding must be used for diesel emission reduction projects, Committee approval of the ARRA funding at this time would allow DNR to award funds as soon as it scores applications received by the Department's August 3, 2009, deadline. Alternatively, if the Committee wishes to review the final award decisions made by DNR, the Committee could deny the request at this time. The Governor could resubmit the request to the Committee when that information is available. However, resubmittal of the request may delay implementation of diesel emission reduction projects for some grantees.

## **ALTERNATIVES**

1. Approve the allocation and expenditure of \$2,285,400 in 2009-10 of federal stimulus funds for DNR diesel emission reduction grants.
2. Approve \$571,100 FED in 2009-10 for the two railroad companies. The Governor could submit a request for remaining expenditure authority when diesel emission reduction grant recipients have been identified.
3. Deny the request.

Prepared by: Kendra Bonderud