



Volkswagen Trust

Be Part of the Solution

Implementation Guidelines: Overview

Executive Summary

This document provides the details and processes the Department will use to distribute the state's share (\$41,152,051.74) of the Volkswagen (VW) Environmental Mitigation Trust Fund, hereafter referred to as the VW Trust. The guidelines in this document are the result of an extensive public outreach and engagement process. From October 2017 through February 2018, the Department held meetings, conducted surveys, and formed the Missouri VW Trust Advisory Committee to inform the public about the VW Trust, stimulate interest, and gather input to inform the state's Beneficiary Mitigation Plan and this implementation guidelines document. In April 2018, the Department released the draft versions of Missouri's Beneficiary Mitigation Plan and this implementation guidelines document. The Department held a public meeting to discuss the draft documents and gather comments and additional input. The draft documents were available for a 30-day public review and comment period, and the Department received over 450 comments. The public input the Department received through the initial outreach effort, and the public review and comment period is the basis for the implementation guidelines.

This document is separate from Missouri's Beneficiary Mitigation Plan, which provides Missouri's overall vision and goals for the VW Trust funds. Unlike the Beneficiary Mitigation Plan, the Department will not submit this document to Wilmington Trust, Inc., the trustee responsible for managing and disbursing the VW Trust assets to the state beneficiaries. This document describes the method for implementation of mitigation actions under the VW Trust to achieve the vision and goals of Missouri's Beneficiary Mitigation Plan. The Department may need to adjust implementation criteria based on future activities. In the event the Department changes this document over the 10-year trust period (2017 to 2027), changes will be subject to a public review and comment process.

As described in the Beneficiary Mitigation Plan, Missouri's program includes eight separate award categories covering the ten eligible mitigation actions included in the VW federal consent decree. This document includes information for each separate award category regarding the selection process, treatment for projects in certain target areas, contingency measures for award

categories, maximum funding requests, cost share requirements, the timing associated with applications and project funding, eligibility information, and relevant definitions.

Table 1 provides a description of the individual award categories along with their funding levels, rounded to the nearest million dollars. The Missouri legislature grants the Department its spending authority through the annual appropriations process. These appropriations determine the pace at which the Department spends the \$41 million in VW Trust funds reserved for Missouri. Deviations from these guidelines may be necessary in response to legislative direction on appropriations.

Table 1 – Award Categories and Funding Levels

| Award Categories | | Overview | Amount ¹ (Millions) |
|------------------------------------|--|---|-----------------------------------|
| Vehicle Replacement Programs | School Buses | School buses with 2009 and older engines can be replaced with a new bus or engine | \$12 |
| | Government Trucks ² | Large and medium government-owned trucks with 1992 to 2009 engine can be replaced with a new vehicle or engine | \$6 |
| | Transit and Shuttle Buses ² | Transit and shuttle buses with 2009 and older engines can be replaced with a new bus or engine | \$4 |
| | Nongovernment Trucks | Large and medium nongovernment-owned trucks with 1992 to 2009 engine can be replaced with a new vehicle or engine | \$6 |
| | Locomotive and Marine | Older switchyard locomotives can be replaced or repowered; older ferries and tugs can be repowered | \$2 |
| | Airport and Cargo Equipment | Older airport ground support equipment can be replaced with electric vehicles or engines; forklifts can be replaced with electric vehicles or engines | \$2 |
| | DERA Option | States can use VW Trust funds as their non-federal voluntary match for the federal DERA program, allowing project types not otherwise allowed under the VW Trust to be funded | \$3 |
| Electric Vehicle Charging Stations | | Electric vehicle charging stations can be built for light-duty vehicles near highways, workplaces, or at multi-unit dwellings | \$6 |

¹ If the Department receives insufficient project applications for categories below the bold line, the Department will redistribute unspent award money to the three categories above the bold line.

² Per Missouri legislative appropriations signed in 2018, the Missouri Department of Corrections has \$1 million in direct spending authority from the VW Trust. This \$1 million will come from the award categories that apply to the projects the Department of Corrections chooses to pursue. The Department expects funding for most of their projects to come from the government trucks and transit/shuttle bus award categories; reducing the amounts in those award categories available to other fleets.

This document is not a request for project applications or proposals. This document provides the guidelines the Department will follow to solicit projects and make award selections under Missouri's share of the VW Trust.

Disclaimer: The guidelines in this document clarify the process Missouri will use to implement the VW federal consent decree requirements for the VW Trust. Nothing in this document justifies any deviation from the requirements included in the VW federal consent decree.

Introduction and Background

In 2016, the United States settled complaints against Volkswagen AG, et al. The settlement resolved Clean Air Act violations Volkswagen committed by selling approximately 590,000 vehicles with 2.0- and 3.0-liter diesel engines having emissions defeat devices. The vehicles are from model years 2009 to 2016.

As part of their engine control module, the vehicles contain computer algorithms and calibrations that cause emissions control systems to perform differently during emissions testing to guarantee passing scores. During normal operation, the vehicles emitted levels of nitrogen oxides (NO_x) that exceeded the U.S. Environmental Protection Agency's (EPA) standards (emissions contained concentrations of NO_x up to 40 times EPA's standard).

The U.S. Clean Air Act and the Missouri Air Conservation Law protect human health and the environment. Volkswagen violated the law by failing to control emissions from its light-duty diesel vehicles, thus emitting harmful pollutants. NO_x is a precursor of ground-level ozone, a pollutant of concern in Missouri. Some areas in Missouri violate EPA national air quality standards for ground-level ozone.

The settlement detailed in the VW federal consent decree requires Volkswagen to take several actions, such as paying \$2.9 billion to a national environmental mitigation trust fund. Beneficiaries — in this case, states — must use their shares to fund specific projects that reduce emissions of NO_x from mobile sources. The number of affected vehicles sold in the state is the basis for Missouri's approximate \$41 million share.

On October 2, 2017, the U.S. District Court in Northern California approved the provisions for the national environmental mitigation trust fund. This date, known as the Trust Effective Date, triggered a series of deadlines to file certain documents with the trustee and the court for states to secure beneficiary status and name a lead agency. The lead agency is responsible for developing a 10-year plan to implement eligible mitigation actions that reduce NO_x emissions from mobile sources as described in the trust documents to reduce NO_x emissions from mobile sources within their state. Missouri filed these forms with the court and the trustee in November 2017, and in January 2018, the trustee confirmed Missouri as a beneficiary of the trust and acknowledged the governor's designation of the Missouri Department of Natural Resources as the lead agency for the state. The Department has ten years from the trust effective date of October 2, 2017, or until October 2, 2027, to complete mitigation actions under the trust.

Public Participation

The federal VW consent decree requires that beneficiaries explain the process they used to seek and consider public input on their beneficiary mitigation plan. Although this implementation guidelines document is not an official part of Missouri's Beneficiary Mitigation Plan and Missouri is not submitting it to the Trustee, extensive public input and comment informed the development of this document. From October 2017 through February 2018, the Department established the Missouri VW Advisory Committee, held six public meetings, sent out two surveys, and solicited public comments via mail, email, and an online comment portal.

The Department used the input from the meetings, the surveys, and written comments to develop drafts of Missouri's Beneficiary Mitigation Plan and this implementation guidelines document. In April 2018, the Department posted the drafts of the mitigation plan and the implementation guidelines on the Missouri Volkswagen Trust website and held a meeting to discuss and gather comments on the document. The Department received over 450 public comments on the two documents during the comment period, which ended on May 4, 2018.

The Department considered all input received prior to finalizing this document. The Department will make the document available on the Missouri Volkswagen Trust website. The Department may amend these implementation guidelines in the future, if necessary. However, any future amendments to this document will undergo a similar public notice and comment process.

Overview

This document provides an overview of the various processes the Department will follow in selecting and implementing projects for each of the award categories. In this document, the terms projects and mitigation actions have the same meaning. Information in this document includes general information explaining:

- the different types of selection processes;
- treatment for projects in certain target areas of the state;
- contingency measures for award categories with unspent funds;
- maximum funding requests per applicant;
- cost share requirements; and
- timing of the application process and project funding

The details vary slightly for each of the award categories as explained in both this overview and the individual award category documents. Missouri's Implementation Guidelines Summary Tables document located on the Department's VW Trust web page summarize this information for the different award categories. The individual award category documents include these details as well along with eligibility information and relevant definitions for the applicable award category.

Selection Process

The Department will use three processes to select projects to receive VW Trust funds. These selection processes include competitively scored applications, lottery-style selection process, and a hybrid team-driven selection process with competitively scored applications or proposals.

Competitively Scored Applications

The following award categories will use competitively scored applications to select the individual projects that will receive funding:

| | |
|-----------------|---|
| Award category: | Government Trucks |
| Award category: | Transit and Shuttle Buses |
| Award category: | Nongovernment Trucks |
| Award category: | Locomotive and Marine |
| Award category: | Airport and Cargo Equipment |
| Award category: | DERA Option (Grant Year 2019 and later) |

The cost effectiveness of a project's NO_x emissions reduction is the primary basis for competitively scored applications, comprising 90 percent of the application score. Cost effectiveness is the result of dividing the VW Trust fund dollars requested (numerator) by the number of pounds of NO_x reduced over the lifetime of the vehicle (denominator). The most cost effective projects have a lower dollar amount per pound result. Applicants can improve a project's cost effectiveness by reducing the amount of VW Trust fund dollars requested or increasing the amount of lifetime NO_x emission reductions. Using the VW Trust fund dollars in the numerator incentivizes competitively priced project proposals. Applicants proposing to spend less VW Trust fund dollars, and provide additional cost share beyond the minimum amount required, will increase project cost effectiveness. This strategy allows the Department to stretch the VW Trust funds to implement more projects and further reduce emissions. Using the lifetime NO_x emission reductions in the denominator encourages the replacement of the highest polluting vehicles across the state. In addition, it incentivizes fleets to adopt cleaner than required new vehicle or engine technology. The Department will award points to account for the useful life of the new vehicle if the new vehicle achieves a more stringent NO_x emission standard than EPA's current minimum diesel engine certification levels. This can benefit alternative fuel, all-electric, and other clean engine technology project proposals that otherwise may score lower in cost effectiveness since they are typically more expensive than traditional diesel engines.

In all award categories for which the Department will use competitively scored applications to select projects, the Department will perform the calculation for cost effectiveness. The Department will use information included in the applications received to calculate the lifetime NO_x emission reductions of the project using a combination of EPA's Diesel Emissions Quantifier and manual calculations. Using one calculation method allows for direct comparison of the emission reductions associated with competing projects making the selection process as fair and straightforward as possible. The trust agreement requires the Department to report NO_x emissions reductions for all projects that receive funds from the VW Trust.

To ease the burden of submitting an application, the Department does not require or request applicants to calculate emissions reductions. However, the Department is providing its method of calculating cost effectiveness in case applicants want to compare several of their own potential projects and choose their most cost effective. The following two examples provide the methods and steps the Department will take when calculating the emission reductions and cost effectiveness of a project –

Example 1 – Replace a diesel truck with a new diesel truck

Information provided by applicant:

| | | | |
|------------------------------------|---|--|--------------------------------------|
| VW Trust Funds Requested | \$50,000 | | |
| Old Vehicle and Engine Information | <u>VEHICLE TYPE</u> <input type="checkbox"/> LONG-HAUL COMBINATION <input type="checkbox"/> LONG-HAUL SINGLE UNIT <input type="checkbox"/> REFUSE HAULER <input checked="" type="checkbox"/> SHORT-HAUL COMBINATION <input type="checkbox"/> SHORT-HAUL SINGLE UNIT | | |
| | GROSS VEHICLE WEIGHT RATING 48,000 lbs. | VEHICLE CLASS Class 8 | ENGINE MODEL YEAR 2001 |
| | CURRENT FUEL TYPE Diesel (ULSD) | ANNUAL FUEL CONSUMPTION (GALLONS) 5,000 | MOST RECENT ANNUAL MILEAGE 20,000 |
| | ANNUAL IDLING HOURS 250 | YEAR THE PROJECT WILL OCCUR 2019 | |
| | | | |
| New Vehicle and Engine Information | ENGINE MODEL YEAR 2018 | NO _x EMISSION CERTIFICATION LEVEL 0.2 g/bHP-hr | NEW FUEL TYPE Diesel (ULSD) |

The Department calculates remaining life of the old vehicle:

25 years (total assumed truck life) – [2019 (year of the project) – 2001 (engine model year)] = **7 years remaining life**

The Department uses EPA’s Diesel Emissions Quantifier to calculate lifetime tons of NO_x emission reductions:

3.047 tons NO_x reduced

The Department converts lifetime tons NO_x reduced by multiplying by 2,000 pounds:

3.047 tons NO_x reduced × 2,000 pounds/ton = **6,094 lifetime pounds NO_x reduced**

The Department divides total VW funds requested (\$50,000) by lifetime pounds NO_x reduced to arrive at the cost effectiveness of the project:

\$50,000 ÷ 6,094 lifetime pounds NO_x reduced = **\$8.20 per lifetime pound NO_x reduced**

In this example, the project achieves no emission reductions after the remaining life of the old vehicle because the NO_x emission certification level of the engine in the new vehicle is the same as the current federal NO_x emission standard for Onroad Heavy-Duty Engines. In other words, the only emission reductions this project achieves are from taking the older vehicle off the road prior to the end of its useful life.

Example 2 – Replace a diesel truck with a new all-electric truck

Information provided by applicant on the application is the same as example 1, except the new vehicle is all-electric with zero tailpipe NO_x emissions.

The first step for this example assumes a diesel for diesel replacement before calculating the benefit of switching to an all-electric truck. The Department follows the same steps listed in example 1 to determine the lifetime NO_x emission reductions associated with replacing the truck with a new diesel truck:

6,094 lifetime pounds NO_x reduced

The next steps determine the emission reductions associated with the all-electric replacement versus a new diesel. The Department must determine the NO_x emissions expected over the lifetime of a new diesel truck and then add those emissions to the emission reductions associated with a diesel for diesel replacement (This is because the Department credits the all-electric replacement project for avoiding all the lifetime emissions of a new truck):

The Department calculates the annual NO_x emissions from a new diesel truck by taking the difference between the baseline annual emissions of the old truck and the annual emissions reduced in a diesel for diesel replacement. These are both outputs obtained from EPA's Diesel Emissions Quantifier in the first step:

0.460 tons (annual NO_x emissions of old truck) – 0.435 (annual NO_x emissions reduced) =
0.025 tons NO_x/year (annual NO_x emissions from the new diesel truck)

The Department then multiplies the annual emissions of a new diesel truck by 25 (total assumed life of the new truck) to get lifetime emissions of a new diesel truck:

0.625 tons

The Department converts lifetime tons of NO_x from a new diesel truck by multiplying by 2,000 pounds:

0.625 tons NO_x reduced × 2,000 pounds/ton = **1,250 lifetime pounds NO_x reduced**

The Department will then add the lifetime emission reductions associated with a diesel-for-diesel replacement to the lifetime emissions of a new diesel truck (which the project in this example avoids because the new truck is all-electric) to calculate the total lifetime emission reductions of the project:

6,094 lifetime pounds NO_x reduced + 1,250 lifetime pounds NO_x reduced = **7,344 lifetime pounds NO_x reduced**

The Department divides total VW funds requested (\$50,000) by total lifetime pounds of NO_x reduced to arrive at the cost effectiveness of the project:

\$50,000 ÷ 7,344 lifetime pounds NO_x reduced = **\$6.81per lifetime pound NO_x reduced**

In this example, the project achieves emission reductions from taking the older vehicle off the road prior to the end of its useful life the same as the first example. However, this project

achieves additional emission reductions because the all-electric truck, with zero tailpipe emissions, avoids all the emissions associated with the lifetime of a new diesel truck. Since the dollar amount requested in both examples are the same, and the all-electric project achieves these additional emission reductions, the all-electric project results in a more cost effective project. This means the all-electric project would receive a higher application score.

The Department will convert the cost effectiveness into a score. The more cost effective the project is, the higher the application score will be. The scales that equate NO_x reduction cost effectiveness to the application score vary based on the range of expected cost effectiveness values for the types of projects in each respective award category. For award categories with competitively scored applications, the scales for application points based on cost effectiveness are included in their respective individual award category documents.

While the cost effectiveness accounts for 90 percent of the application score, the geographic area of operation accounts for the remaining 10 percent of the score. The Department will base the geographic score on the amount of time spent operating in the state or target area. For many application rounds, the Department will award bonus points for projects located in specific target areas within the state. In rounds where the Department reserves a minimum amount of funds for certain target areas, the Department will deduct points for operating time spent outside the state.

Lottery-style Selection

The following award categories will use a lottery-style method for the selection of individual projects to receive funding:

| | |
|-----------------|----------------------------|
| Award category: | School Buses |
| Award category: | DERA Option (Round 1 only) |

The lottery-style selection process will give equal chance of selection to all applicants that submit a complete application during the application window. There will be multiple rounds of applications until the Department has exhausted the total allotted funding in the award category. Appropriations will determine the year when the project may be completed.

If funds are sufficient to cover all eligible projects in the first application round, the Department will fund all of them, and any leftover funding will remain in the award category until the next application round. However, the Department will use a lottery selection process to determine the order in which projects may receive funding. Applicants drawn first will receive funding for their project that same year, while applicants drawn towards the end may need to wait a year or more before they receive funding for their project.

At the point in which the total funds in the award category become insufficient to cover all applications in any given round, the Department will reduce applications for multiple vehicles to a single vehicle and all applications submitted will receive funding for one vehicle. The Department will then use a lottery selection process to determine which fleets will receive funding for two vehicles. If funds are not sufficient to cover all applications after reducing each application to one vehicle, the Department will use a lottery selection process to determine which fleets will receive funding awards for one vehicle.

The use of a lottery selection process will greatly reduce the administrative cost necessary for the successful implementation of the program. In addition, it will allow for a simple application to encourage participation and ensure that all fleets applying will have an equal chance to receive funding.

Hybrid Approach

Electric vehicle charging stations is the only award category that will use the hybrid approach to select the individual projects to receive funding.

The hybrid approach uses a team-driven selection process with competitively scored applications or requests for project proposals as needed. The Department will lead a team of stakeholders to develop a plan to spend funding dedicated to electric vehicle charging stations using this approach. If necessary, the team may use a request for proposals or an application process to narrow the focus and select final projects.

Target Areas

There are two types of preferential treatment for projects located in target areas of the state. This includes a minimum reservation of funding by area and the inclusion of bonus points on competitively scored applications. Award categories may apply both, one, or neither type of preference method to application scores.

Minimum reserved and bonus points

Where a minimum reservation of funding is used, the Department will dedicate approximately half of the funding to area-specific funding pools and the other half will be available statewide. The Department will divide the portion of funds reserved for target areas as follows: 25 percent reserved for the St. Louis area, 10 percent for the Kansas City area, and 15 percent for all areas outside of Kansas City and St. Louis. The following list summarizes how the Department will divide the total funds from each award category that uses a minimum reservation of funding for target areas:

- Approximately 25 percent of the funds in a given award category reserved for projects in the St. Louis area, which consists of St. Louis City, and St. Louis, St. Charles, Jefferson, and Franklin Counties
- Approximately 10 percent of the funds in a given award category reserved for projects in the Kansas City area, which consists of the Jackson, Clay, and Platte Counties
- Approximately 15 percent of the funds in a given award category will be reserved for projects in any area outside of the St. Louis and Kansas City areas described above
- Approximately 50 percent of the funds in a given award category will be available statewide

Projects will first compete in their area-specific funding pool. Then, all projects not selected to receive funds from one of the area-specific funding pools will compete against each other in the statewide funding pool.

In all award categories that reserve a minimum amount of funding for target areas, the Department will also use bonus points to score applications. The Department will award bonus points based on the amount of time a vehicle or piece of equipment operates in certain target areas of the state.

Three award categories include both types of preferential treatment for target areas. These award categories include:

| | |
|-----------------|---------------------------|
| Award category: | Government Trucks |
| Award category: | Transit and Shuttle Buses |
| Award category: | Nongovernment Trucks |

Bonus points only

Four award categories give bonus points to applications based on target areas in all or some of the application rounds, but the Department is not reserving a minimum amount of the award category funding for any given area. These four award categories include:

| | |
|-----------------|---|
| Award category: | Locomotive and Marine |
| Award category: | Airport and Cargo Equipment |
| Award category: | DERA Option (Grant Year 2019 and later) |
| Award category: | Electric Vehicle Charging Stations (contingency round only) |

No preference for target areas

Three of the award categories do not provide preferential treatment to projects based on target areas in any or some of the application rounds. These award categories include:

| | |
|-----------------|---|
| Award category: | School buses |
| Award category: | DERA Option (Grant Year 2018 only) |
| Award category: | Electric Vehicle Charging Stations (initial rounds) |

Contingencies

Each award category will have at least one contingency measure in case the Department receives insufficient applications for eligible projects to utilize all of the funding dedicated to the award category. Contingencies ensure the Department can distribute all \$41 million in VW Trust proceeds on eligible projects prior to the end of the 10-year trust period. If Missouri fails to distribute the entire VW Trust allocation by the end of this 10-year trust period, unspent funds will be lost to other states. If Missouri uses the full allocation by the end of the 10-year period, Missouri will be eligible to receive additional trust funds resulting from other states that were unable to utilize their allocation.

There are three types of contingency measures used for the various award categories. These measures include allowing a wider range of eligible projects to apply, moving funds from one award category to another, and initiating multiple application rounds with decreasing cost share requirements.

Widen range of eligible projects: Three award categories use this as a contingency measure if funds remain in the award category:

| | |
|-----------------|-------------------------------------|
| Award category: | School buses; |
| Award category: | DERA option; and |
| Award category: | Electric vehicle charging stations. |

Moving Funds to Other Award Categories: Five award categories use this as a contingency measure if funds remain in the award category. If this contingency measure is triggered, the remaining funding will be divided evenly among the school bus, government trucks, and transit/shuttle bus award categories. The five award categories that use this contingency measure include:

| | |
|-----------------|-------------------------------------|
| Award category: | Nongovernment trucks; |
| Award category: | Locomotives and marine; |
| Award category: | Airport and cargo equipment; |
| Award category: | DERA option; and |
| Award category: | Electric vehicle charging stations. |

Multiple Rounds with Decreasing Cost Share: Three award categories use this as a contingency measure if funds remain in the award category. These three categories can receive funds from other categories. The Department expects this contingency measure to be the final contingency necessary to ensure Missouri distributes its entire allocation from the VW Trust to quality projects within the 10-year trust period. For example, final round applicants may receive VW Trust funds to cover up to 90 percent of the cost of a school bus, government truck, or transit or shuttle bus. The three award categories that use this contingency measure include:

| | |
|-----------------|----------------------------|
| Award category: | School buses; |
| Award category: | Government trucks; and |
| Award category: | Transit and shuttle buses. |

Maximum Funding per Application

Each award category includes a maximum amount of funding applicants may request in a single application round. This will help prevent any individual applicant from receiving all of the funding in a single award category. Instead, Missouri intends to spread funds out to many fleets, allowing for a diverse range of projects with widespread benefits. Maximum funding amounts also encourage fleets to select their best or most important projects as opposed to submitting an application that includes a project for every eligible vehicle or piece of equipment they own. The maximum funding amounts vary by award category as explained in each award category document.

The Department plans for multiple application rounds in every award category, and the maximum funding request will reset in each application round. Therefore, if a particular fleet has a list of projects larger than allowed on a single application due to the maximum funding amount; they may submit another application in the second or later application rounds for that

award category. This will ensure that the best projects receive funding while still maintaining the goal of spreading the funds to numerous fleets.

Cost Share

Cost share is the portion of the total project cost the fleet owners pay. For example, if VW Trust funds cover up to 40 percent of the total cost of a project, the cost share would be 60 percent of the total cost. Maximizing the amount of cost share provided by fleet owners leverages the VW Trust funds by allowing more projects to receive funding. This increases the environmental and economic benefits of the program.

The federal VW consent decree includes maximum amounts the VW Trust can fund per eligible mitigation action. VW Trust funds and cost share cover total project cost. When fleet owners do not request the maximum VW Trust funds allowed, they are paying more than the minimum cost share. States have the option to require fleet owners to provide more than the minimum cost share amounts as outlined in the consent decree. Based on the consent decree, the minimum cost share requirements vary by project type and by whether the project is for a government-owned or private-owned fleet. Each award category document explains the VW Trust maximum funding amounts and fleet owner cost share requirements for projects.

The consent decree allows 100 percent VW Trust funding for government-owned fleets, meaning no cost share is required. Missouri, however, is requiring some level of cost share for all fleets. As mentioned previously, three of the award categories include contingency measures that would lower the cost share amounts for government-owned fleets if the Department receives insufficient eligible projects to utilize all of the funding in those award categories. These three award categories, school buses, government trucks, and transit/shuttle buses, are the categories with the most government-owned fleets.

Exception: In the first application round for award category 1, school buses, the Department is reserving a portion of the funding for financially disadvantaged schools that meet certain criteria. The Department will allow this reserved portion of the funding in that award category to cover up to 100 percent of the cost of a new school bus.

The Department also chose a different cost share requirement than the consent decree for all-electric repowers and replacements for nongovernment-owned fleets. In general, the consent decree requires only 25 percent as the minimum cost share for these types of projects, which is substantially less than the cost share required by the consent decree for replacement and repower projects that utilize diesel or alternative fuel. If this type of technology was included on numerous applications and the minimum cost share was only 25 percent, far fewer projects would receive funding, and the state would achieve fewer emission reductions. Therefore, the Department is requiring 50 percent as the minimum cost share for these projects.

Timing of Awards and Funding Disbursement

As described in the federal VW consent decree, no beneficiary may request payout of more than: (i) one-third of its total allocation during the first year after the settling defendants make the initial deposit, or (ii) two-thirds of its total allocation during the first two years after the settling defendants make the initial deposit. Missouri's total allocation under the VW Trust is

\$41,152,051.74. One-third of this amount is \$13,717,350.58, and two-thirds of this amount is \$27,434,701.16. The settling defendants made their initial deposit into the VW Trust in October 2017. As the beneficiary, Missouri may withdraw no more than approximately \$13.7 million and \$27.4 million from the VW Trust until October 2018 and 2019, respectively. The Department must ensure that payments totaling one third and two thirds of the state's total allocation will not occur until October 2018 and 2019, respectively. In addition, the Department may only spend the portions of the \$41 million for which the state legislature has granted appropriations authority in any given year.

Legislative Appropriations

In Missouri, the legislature grants appropriations authority to state agencies based on the state fiscal year, which runs from July 1 through June 30 each year. Appropriations are the spending authority for state agencies. In May of 2018, the legislature granted the Department \$6.25 million in spending authority from the VW Trust. The Department plans to use those funds from July 1, 2018, through June 30, 2019, to implement mitigation actions from award categories included in Missouri's Beneficiary Mitigation Plan.

In addition to the \$6.25 million appropriated to the Department from the VW Trust, the legislature appropriated \$1 million in spending authority from the VW Trust to the Missouri Department of Corrections. The Department of Corrections will not be subject to the selection processes, cost share requirements, or other details in these implementation guidelines. Instead, the Department of Corrections may spend up to \$1 million on any eligible mitigation actions allowed by the federal VW consent decree from July 1, 2018, through June 30, 2019. This \$1 million will come from the award categories that apply to the projects the Department of Corrections chooses to pursue. The Department expects funding for most of their projects to come from the government trucks and transit/shuttle bus award categories, reducing the amounts in those award categories available to other fleets.

Each year going forward, the Department will provide the state legislature with an appropriations request to implement the goals of Missouri's Beneficiary Mitigation Plan using these implementation guidelines. The timing of applications and project funding for all state fiscal years beyond 2019 will depend on the appropriations authority granted by the legislature. As such, the Department plans to make announcements each year after the conclusion of the appropriations process to inform the public which application rounds will occur that year and when funding will be available for selected projects. This will give prospective applicants advance notice to prepare for the opening of the application period.

Application Rounds and Project Funding

July 2018 – June 2019

As mentioned in the previous section, the Department has appropriations authority of \$6.25 million from the VW Trust from July 1, 2018, through June 30, 2019. The Department will use these funds to implement projects in the school bus, government trucks, transit/shuttle bus, and DERA option award categories. The list below provides the amounts available for these award categories this first fiscal year, 2019:

- School Buses (\$1.474 million)
 - \$1 million available for unfunded DERA applications
 - \$474,000 available for financially disadvantaged school districts
- Government Trucks (\$2.75 million)
- Transit and Shuttle Buses (\$1.75 million)
- DERA Option (\$276,000)

In addition to the amounts listed above, the Missouri Department of Corrections may spend up to \$1 million during fiscal year 2019 on any eligible mitigation action.

For the DERA option award category, the Department will use \$276,000 in VW Trust funds to match the federal funding of \$276,000 available to states for the 2018 DERA program. By matching the federal funding with VW Trust funds, the Department is eligible for the federal matching bonus of 50 percent of the base funding, \$138,000. The combined 2018 state DERA program will fund a total of almost \$700,000 in projects including the federal base, VW Trust fund match, and federal bonus funds. The Department chooses to fund school bus replacements according to the requirements of DERA, continuing the popular program the Department has implemented for several years. Eligible buses include those of engine model year 1995-2006. The Department plans to accept 2018 state DERA school bus replacement applications in August-September 2018. The Department will select projects in September 2018 and begin funding projects in October 2018. Any unfunded applications will have a second chance to receive funding through the \$1 million available in the school bus award category. If the Department receives insufficient applications through the DERA grant process to utilize the \$1 million available in the school bus award category, the Department will initiate another application round in September 2018 and will expand eligibility to include additional model years.

The application periods for the financially disadvantaged school districts under the school bus award category and for the government trucks and transit/shuttle bus award categories will open September-October 2018. The Department plans to select projects in December 2018, so projects may begin in January 2019.

Application Round Summary

Each award category includes at least two application rounds. For some categories, the second application round will mirror the first round, and is only intended to give fleet owners a second chance to apply and to encourage additional applications. For other award categories, the eligibility or cost share requirements will change between application rounds. All award

categories will include no fewer than two application rounds. The planned application rounds for each of the award categories appear below.

Award Category (School Buses)

- Financially disadvantaged schools round – The Department plans to open the application period for financially disadvantaged school districts in September-October 2018. Five of the possible 29 school districts will receive awards, up to 100 percent of the cost of a new bus, in the first year. An additional eight school districts will receive awards, but will have to wait to replace their buses in a later year (subject to appropriations). The Department plans to give all remaining participating financially disadvantaged school districts the option to receive an award to cover approximately 50 percent of the cost of a new bus. The timing for these 50 percent awards will also depend on legislative appropriations.
- Round 1 – Unfunded DERA applications from the 2018 state DERA grant program. The Department will award funds from the school bus award category to school bus owners not drawn under the DERA program. The Department plans for the 2018 DERA application process to occur in August-September 2018 with funding available to successful applicants beginning in October 2018.

The timing for Rounds 2 and later will depend on the number of applications received in Round 1 and future legislative appropriations.

- Round 2 – This round will be identical to the DERA Round 1 in terms of cost share requirements and maximum funding requests. The only difference is any school bus with engine model year 2009 and older will be eligible for replacement.
(25 percent funding; 2009 and older model years)
- Round 3 – In this round, only school buses with 2003 and older engines will be eligible to apply. Government-owned buses will be eligible to receive an award to cover approximately 50 percent of the cost of a new bus.
(50 percent funding; 2003 and older model years)
- Round 4 – This round will be identical to Round 3 except school buses with 2009 and older engines will be eligible to apply.
(50 percent funding; 2009 and older model years)
- Round 5 – This round will be identical to Round 3 except government-owned buses will be eligible to receive an award for approximately 75 percent of the cost of a new bus.
(75 percent funding; 2003 and older model years)
- Round 6 – This round will be identical to Round 5 except school buses with 2009 and older engines will be eligible to apply.
(75 percent funding; 2009 and older model years)
- Round 7 – This round will be identical to Round 3 except government-owned buses will be eligible to receive an award for approximately 90 percent of the cost of a new bus.
(90 percent funding; 2003 and older model years)
- Round 8 – This round will be identical to Round 7 except school buses with 2009 and older engines will be eligible to apply.
(90 percent funding; 2009 and older model years)

Award Category (Government Trucks)

- Round 1 - The Department plans to open the first application period for government trucks in September-October 2018. The Department will dedicate the available funds to target areas of the state (three pools of funding: St. Louis area, Kansas City area, and any areas outside of St. Louis and Kansas City)

The timing for Rounds 2 and later will depend on future legislative appropriations.

- Round 2 – The Department will allow unfunded applications from Round 1 to compete in a statewide pool. The Department will also hold a second application round to give fleet owners a second chance to apply and to allow successful fleet owners from Round 1 to apply for more projects.
- Round 3 – If necessary, the Department will hold another application round and VW Trust funds may cover up to 75 percent of a new truck.
- Round 4 – If necessary, the Department will hold another application round and VW Trust funds may cover up to 90 percent of a new truck.

Award Category (Transit and Shuttle Buses)

- Round 1 - The Department plans to open the first application period for transit and shuttle buses September-October 2018. Funds available will be dedicated to certain target areas of the state (three pools of funding: St. Louis area, Kansas City area, and any areas outside of St. Louis and Kansas City)

The timing for Rounds 2 and later will depend on future legislative appropriations.

- Round 2 – The Department will allow unfunded applications from Round 1 to compete in a statewide pool. The second round also gives fleet owners a second chance to apply and allow successful fleet owners from Round 1 to apply for more projects.
- Round 3 – If necessary, the Department will hold another application round and VW Trust funds may cover up to 75 percent of a new bus.
- Round 4 – If necessary, the Department will hold another application round and VW Trust funds may cover up to 90 percent of a new bus.

Award Category (Nongovernment Trucks)

The timing for both application rounds will depend on future legislative appropriations.

- Round 1 – The Department plans for approximately half of the funding in this award category (~\$3 million) to be available in the first application round. Funds will be dedicated to certain targets areas of the state (three pools of funding: St. Louis area, Kansas City area, and any areas outside of St. Louis and Kansas City)
- Round 2 – The Department plans for the remaining half of the funding in this award category (~\$3 million) to be available to successful applicants in the second application round. The Department will allow unfunded applications from Round 1 to compete in a statewide pool. The second round also gives fleet owners a second chance to apply and allows successful fleet owners from Round 1 to apply for more projects.

Award Category (Locomotive and Marine)

The timing for both application rounds will depend on future legislative appropriations.

- Round 1 – The Department plans for approximately half of the funding in this award category (~\$1 million) to be available in the first application round. In the first application round all applications the Department receives will compete against each other.
- Round 2 – The Department plans for the remaining half of the funding in this award category (~\$1 million) to be available in the second application round. The Department will allow unfunded applications from Round 1 to compete again in the second round. The second round also gives fleet owners a second chance to apply and allows successful fleet owners from Round 1 to apply for more projects.

Award Category (Airport and Cargo Equipment)

The timing for both application rounds will depend on future legislative appropriations.

- Round 1 – The Department plans for approximately half of the funding in this award category (~\$1 million) to be available in the first application round. In the first application round, all applications the Department receives will compete against each other.
- Round 2 – The Department plans for the remaining half of the funding in this award category (~\$1 million) to be available in the second application round. The Department will allow unfunded applications from Round 1 to compete again in the second round. The Department will also hold a second application round to give fleet owners a second chance to apply and allows successful fleet owners from Round 1 to apply for more projects.

Award Category (DERA Option)

The Department is naming the application rounds for the DERA Option award category based on the grant year associated with the state's DERA grant.

- The Department will accept applications for the 2018 grant year in August-September 2018. Funding will be available to successful applicants beginning in October of 2018.
- The Department expects to accept applications for all other grant years between January and February every year throughout the 10-year trust period, and funds will be available to successful applicants in October of those years. The early application period and relatively long waiting period between applications and funding in future years will allow the Department to include the actual projects that fleet owners will implement in the DERA grant work plan that the Department submits to EPA (typically in June of each year). Project funding for DERA grants follows the federal fiscal year, which begins in October each year.

Award Category (Electric Vehicle Charging Stations)

The timing for this award category will depend on future legislative appropriations.

- In the first stage of this award category, the Department-led team will release requests for proposals or competitive application processes for the highway network. Multiple rounds

of requests for proposals or applications may be necessary to achieve the highway network goal.

- The contingency application rounds, where successful applicants can receive awards to install charging stations at work places and multi-unit dwelling locations, will occur if funds remain in the award category after the Department-led team meets its highway network goal.

Administrative Costs

According to the federal VW consent decree, beneficiaries may use VW Trust funds for actual administrative expenditures associated with implementing any eligible mitigation action, not to exceed 15 percent of the total cost of such eligible mitigation action. The 15 percent cap includes the aggregated amount of eligible administrative expenditures incurred by the beneficiary and any third-party contractors. Appendix D-2 of the VW federal consent decree lists the following acceptable administrative costs:

1. Personnel including costs of employee salaries and wages, but not consultants.
2. Fringe benefits including the costs of employee fringe benefits such as health insurance, FICA, retirement, life insurance, and payroll taxes.
3. Travel including costs of mitigation action-related travel by program staff, but does not include consultant travel.
4. Supplies including tangible property purchased in support of the mitigation action expensed on the statement of activities, such as educational publications, office supplies, etc. Identify general categories of supplies and their mitigation action costs.
5. Contractual including all contracted services and goods except for those charged under other categories such as supplies, construction, etc. Contracts for evaluation and consulting services and contracts with sub-recipient organizations are included.
6. Construction including costs associated with ordinary or normal rearrangement and alteration of facilities.
7. Other costs including insurance, professional services, occupancy and equipment leases, printing and publication, training, indirect costs, and accounting.

As discussed in Missouri's Beneficiary Mitigation Plan, the Department expects to spend a minimum of two percent for administrative costs associated with a mitigation action. For every individual mitigation action, the Department plans to set aside funds from the award categories to cover anticipated Department administrative expenses associated with selecting the project, awarding the funds, overseeing the project, submitting funding requests, and reporting to the trustee and the public on project implementation. As outlined by the consent decree, this amount can never be more than 15 percent of the total cost of the individual mitigation action. The Department commits that this cost will not exceed 10 percent of the trust proceeds over the life of the program.

In addition, the Department will not allow third party administrative costs under the VW Trust. The exclusion of third party administrative costs allows more funding for mitigation actions, thus maximizing the benefit of the VW Trust funds in Missouri.

Note that for electric charging infrastructure for vehicles or equipment, the Department will not consider the costs applicants incur to pay third parties for planning, zoning, electrical engineering, etc. as administrative expenses. Instead, the Department will consider such expenses eligible for reimbursement if they are necessary to ensure the safe, legal, and reliable installation of the electric charging infrastructure. The Department will require applicants to submit documentation to explain why such services are necessary for the safe, legal, and reliable installation of the electric charging infrastructure.

Conclusion

The Department will follow the implementation guidelines in this document to distribute the VW Trust proceeds of \$41 million to eligible projects throughout Missouri. The Department will provide a guideline document for each of the individual award categories. The Department will make all of the guideline documents available on the Department's VW Trust webpage: <https://dnr.mo.gov/env/apcp/vw/index.html>. The webpage also includes tables that summarize the implementation guidelines for all of the award categories.