

Date: February 13, 2008

To: Board of Harbor Commissioners

From: Steve Rubin, Managing Director, Finance and Support Services

Subject: **Clean Truck Funding Program**

Requested Action

It is requested that the Board or Harbor Commissioners approve the following actions:

1. Approve the Clean Truck Program Financing Plan and authorize staff to issue a Request for Qualification (RFQ) to Financial Institutions;
2. Approve the Clean Truck Procurement Plan and authorize staff to issue a Request for Quotation (RFQ) to truck Original Equipment Manufacturers (OEMs) and associated dealers;
3. Approve the goal to meet or exceed the replacement of at least half of the trucks through the Clean Truck Program with alternatives to clean diesel, such as Liquefied Natural Gas (LNG) or other alternative fueled trucks given the challenges discussed herein;
4. Approve the criteria for the full or partial exemption of the Clean Truck Fee as outlined in Section IV of this memorandum and instruct staff to return with an implementing ordinance.

Background

On November 20, 2006, the Los Angeles and Long Beach Boards of Harbor Commissioners approved the Clean Air Action Plan (CAAP). The CAAP has been the subject of significant public outreach, including public workshops, meeting with stakeholders, both by committee and individually, significant discussion at Board meetings of the respective Ports, and a day-long public hearing before a joint meeting of Los Angeles and Long Beach boards of Harbor Commissioners on October 12, 2007.

A key component of the CAAP is the implementation of a Clean Trucks Program (CTP) that would replace the approximately 16,800 dirty diesel trucks that service the Ports on a regular basis with a cleaner fleet that would significantly reduce air pollution. As the first key step of this program, the Long Beach Board of Harbor Commissioners (Board) approved a tariff on November 5, 2007 that would progressively ban older, dirtier trucks calling at the Port, starting in October 2008. The same tariff was adopted by the Port of Los Angeles. The tariff imposes a \$35/TEU fee on merchandise that passes through the Ports by truck and would be paid by the Beneficial Cargo Owner. The fee is expected to generate approximately \$1.6 billion over a five

year period. When combined with other funds from Prop 1B, AQMD, and the Ports, an estimated \$2.2 billion will be to be available to support the CTP. On December 10, 2007, the Board directed staff develop to develop a funding program to assist the truck drayage industry in transitioning to cleaner trucks and to evaluate incentive options that could encourage private investment in 2007 compliant trucks. In response to this directive, staff has developed the following recommended program that includes: financing and procurement plans; a recommended fleet mix of clean diesel and LNG/Alternative fueled trucks; and specific full and partial exemptions to the \$35/TEU clean truck fee.

Clean Truck Funding Program

Staff of both Ports has spent many months in developing the recommended program. Financial advisors and experts were consulted, numerous fact-finding meetings were held with financial institutions and truck manufacturers, and input was received from industry participants. The program adheres to the following guiding principles:

- Provides one-time assistance to the Port truck drayage industry to facilitate the transition to clean trucks, given the priority of reducing air pollution without disrupting the flow of cargo. Once the CTP is complete, the private sector will have to fully fund truck replacements in future years;
- Achieves cost-effective emission reductions through financing the replacement or retrofit of the current 16,800 trucks that serve the Ports on a frequent and semi-frequent basis with trucks that are designed for Port drayage;
- Creates an economically viable and affordable subsidy program for Independent Owner Operators (IOOs) and Licensed Motor Carriers (LMCs) calling at the Ports;
- Reflects the fact that the majority of current IOOs and LMCs will need a significant subsidy in order to afford cleaner trucks, as noted a number of recent economic studies.

I. Financing Plan

In view of the differing needs of IOOs and LMCs, staff recommends a financing plan that offers three distinct options towards the acquisition cost of a new truck or approved retrofit equipment. The three options are as follows:

- 1) Lease-to-own program. An applicant can exchange his/her older truck for a pre-approved new truck under a 7-year lease agreement with a financial institution selected by the Ports. The monthly lease payment for the applicant will be between \$500 and \$700. The applicant's credit worthiness will be supplemented by the Ports' credit facility, through either a credit guarantee or a net loss pool with the financial institution. In addition, the Ports will need to augment the applicant's monthly lease payments with Port monthly lease payments of between \$800 and \$1,400. Prepaid maintenance will be provided under this option. Coupled with maintenance reporting requirements under the concession agreement, this will ensure that the new trucks will be properly maintained. At the end of the lease term and assuming the lessee is in good standing, the Ports will

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provide a 50% (\$7,000 - \$15,000) subsidy towards the purchase of the truck by the lessee. Payment defaults will trigger repossession and redeployment of the truck to another qualified driver.

It is the goal of the Port to keep the trucker's lease payments as low as possible. Ranges have been provided since an actual financing plan has yet to be negotiated with a financial institution. The monthly lease payment by the truckers will be partially offset by savings they will realize through the prepaid maintenance program and the increased fuel efficiency of the new trucks.

- 2) Up-front grant towards a truck cost buy-down. An applicant can exchange his/her older truck for a pre-approved new truck with a grant equal to the net present value of the Ports lease-to-own program subsidy, currently in the range of \$60,000 to \$75,000 for clean diesel trucks, and \$90,000 to \$120,000 for Liquefied Natural Gas (LNG) or other alternative fueled trucks. The up-front grant program will be administered similarly to the Ports' funded Gateway Cities Truck Modernization program where the applicant provides his/her own financing for the remaining costs of the replacement truck. Prepaid maintenance will included as part of the up-front grant under this option. The Ports will have less control under this option since legal title of new truck will pass to the applicant at the time of purchase, but the structure (monitoring, credit screening, etc.) of the Gateway Cities program has been successful in mitigating this issue.
- 3) Up-front grant for retrofit. The Ports will provide a one-time grant up to \$20,000 towards the purchase of retrofit equipment for model year 1994 – 2003 trucks in 2008 and 2009. Retrofit applicants may be eligible to apply for additional funding (net of approved upfront grant option 2 above less the disbursed retrofit grant) towards a truck replacement at a later date if additional funding is available and the Ports' retrofit requirements are satisfied.

This program provides eligible IOOs and LMCs with a subsidy that equates to almost 80% of the cost of a new, clean, more fuel efficient truck. To take advantage of this program, they will have to scrap their older, dirty trucks. No additional payments will be made for these scrapped trucks.

The following overall criteria are required as part of the program:

- ✓ All older trade-in trucks must be scrapped; a hole will be drilled through the engine block
- ✓ Priority will be given to the oldest, most polluting trucks to achieve the highest emission reductions, with pre-1989 trucks given the highest priority due to the October 1, 2008 ban from Port service, and applicants with previous Port drayage experience.
- ✓ Trucks eligible for replacement must meet the definition of "frequent" and "semi-frequent" Port users as defined in the CAAP
- ✓ Participants must meet minimum credit criteria
- ✓ Clear truck title on old truck is required to exchange for a replacement truck
- ✓ Trucks must be registered in the Drayage Truck Registry (DTR) and drivers must be TWIC compliant
- ✓ Automatic Vehicle Locators (AVL), Radio Frequency Identification (RFID) tags, and California Air Resources Board (CARB) stickers are required on new trucks

II. Procurement Plan

The Ports will not be the purchaser of clean trucks but will act as an aggregator on behalf of the individual Independent Owner-Operators (IOOs) and Licensed Motor Carriers (LMCs) in order to achieve volume price discounts from truck Original Equipment Manufacturers (OEMs) and dealers. Since there are thousands of individual IOOs and LMCs, the procurement process established by the Ports will need to provide a reasonable number of choices of truck manufacturers and models without sacrificing the degree of standardization needed to achieve volume discounts. A standardized Port drayage truck specification has been developed in consultation with industry experts. It is recommended that a Request for Quotation (RFQ) be issued to truck OEMs and dealers that requests volume pricing on trucks that meet this specification, production capacity and delivery schedules, scrapping capabilities, maintenance and warranty information. Proposals will be solicited from both clean diesel and LNG/alternative fuel truck manufacturers. Once a list of qualifying trucks is determined, the Ports will work with the selected financial instruction to ensure that only these trucks are purchased at the pre-determined prices.

III. Fleet Mix/Type of Clean Trucks

It is the goal of the proposed program to meet or exceed the concept in the CAAP to replace at least half of the trucks with alternatives to clean diesel, such as Liquefied Natural Gas (LNG) or other alternative fueled trucks. It is recognized that these alternatives may be more costly, but they may also provide additional environmental benefits. This goal, however, may be limited by production availability, adequacy of fueling stations, driver demand and volume price estimates that may exceed what has been informally proposed by manufacturers. The responses to the Procurement RFQ will answer many of these questions.

IV. Clean Truck Fee Exemption

When the Boards adopted the Clean Truck Fee, they approved a fee that would be assessed against merchandise (\$35/TEU) and paid by cargo owners. Based on financial and economic analyses, the concept of assessing a fee on dirty trucks at container terminal gates was determined not to be desirable. The \$35/TEU fee was adopted to generate most of the funding necessary to finance the 80% subsidy that the industry (the vast majority of IOOs and LMCs currently in the market) needs right now to purchase clean trucks to meet the progressive dirty truck ban, clean up the air and keep cargo moving.

The Clean Trucks Program recognizes that not every container should pay the fee. Accordingly, staff proposes the following exemptions, which seeks to maintain the financial integrity of the financing plan while recognizing private investment in either clean diesel or LNG/Alternative fueled trucks.

1. 100% exemption for pre-CTP clean trucks (2007 emission compliant)

Cargo owners are 100% exempt from the Clean Truck Fee if merchandise is drayed by clean trucks put in service before October 1, 2008 and are not funded by the Clean Trucks Program. If the private sector invested in clean trucks with its own capital, other municipal grants, or port funds outside the CTP prior to this date, they are

“grandfathered” in and are eligible for a 100% exemption. This applies to both diesel and LNG/Alternative fueled trucks.

2. 100% exemption for non-CTP funded LNG or Alternative fueled trucks

Cargo owners are 100% exempt from Clean Truck Fee if merchandise is drayed by LNG or Alternative Fueled trucks put in service after October 1, 2008 and are not funded by the Clean Trucks Program. This exemption has been proposed to incentivize private investment in alternative technologies. It does not include LNG/Alternative Fueled trucks funded by the Clean Truck Program because with the goal of replacing at least half of CTP trucks with these alternative trucks, we would effectively be exempting at the least half the fleet from the fee. This would reduce projected revenue from \$1.6 billion to \$800 million and greatly reduce the number of trucks that can be replaced. To be eligible for this exemption, proof that an existing dirty truck in Port drayage has been scrapped is required.

3. 50% exemption for non-CTP funded clean diesel trucks (2007 emission compliant)

Cargo owners are exempt from 50% of the Clean Truck Fee if merchandise is drayed by non-port funded clean diesel trucks that are put in service after October 1, 2008. This encourages private investment and may accelerate emission reduction benefits. To be eligible for this exemption, proof that an existing dirty truck in Port drayage has been scrapped is required.

Unprecedented Program

The proposed financing program is unprecedented in its cost, aggressive schedule and market challenges. There are numerous variables. The proposed plan is undoubtedly not perfect, but it is a start in the right direction to achieve our number one priority of cleaning up the air. As we implement the plan, we will learn a great deal and will need to return to the Board to make modifications and adjustments as necessary.

Recommendation

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Recommended by:

Approved by:

Steve Rubin
Managing Director, Finance and Support Services

Richard D. Steinke
Executive Director

cc: Sam Joumblat
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