



Board Report

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OPERATIONS, SAFETY, AND CUSTOMER EXPERIENCE COMMITTEE SEPTEMBER 19, 2024

SUBJECT: SENATE BILL 125 (SB 125) ZERO-EMISSION TRANSIT CAPITAL PROGRAM

ACTION: APPROVE RECOMMENDATION

RECOMMENDATION

CONSIDER:

- A. ADOPTING a Los Angeles County Regional Zero Emission Bus Procurement Policy (Attachment A);
- B. APPROVING the Los Angeles County Regional Zero Emission Transit Capital Program (ZETCP)-Equivalent Fund Allocation Framework and the resulting Included and Eligible Transit Operator fund amounts totaling \$49.84 million in Proposition C 40% funding as shown in Attachment B; and
- C. AMENDING the FY25 Budget to implement the ZETCP-Equivalent Fund Allocations and authorize the Chief Executive Officer to negotiate and execute all necessary agreements.

ISSUE

The SB 125 Zero Emission Transit Capital Program (ZETCP) will allocate \$320.6 million to Metro over four years, beginning in 2024. In July, the California State Transportation Agency (CALSTA) approved allocating \$175,364,000 of ZETCP funds for zero-emission buses and charging infrastructure, and authorized the disbursement of the first-year allocation of \$119,494,973. Metro will receive all ZETCP funds as the county's regional transportation planning agency, and staff has developed a Los Angeles County Regional Zero Emission Bus Procurement Policy and fund allocation, in consultation with the Los Angeles County Municipal Operator Association (LACMOA). Metro will advance the total four-year allocation of \$49.48 million for Included and Eligible Transit Operators so that they may use the funds immediately.

BACKGROUND

SB 125 (Chapter 54, Statutes of 2023) provided \$4 billion in General Funds for distribution through the Transit and Intercity Rail Capital Program (TIRCP) on a population-based formula to regional transportation planning agencies, which have the flexibility to use the money to fund transit

operations or capital improvements. The transportation budget trailer bill also established a \$1.1 billion ZETCP fund for allocation to regional transportation planning agencies on a population-based formula, as well as another formula based on revenues to fund zero-emission transit equipment and operations. In July, CALSTA approved Metro's SB 125 allocation package and disbursed \$498,650,905 of TIRCP funds, plus an additional \$119,494,973 million in ZETCP funds.

ZETCP funding can be used for procurement of zero-emission buses (ZEBs), as well as related facility and network improvement projects, which include (but are not limited to):

- Associated fueling or charging infrastructure
- Facility modifications

Transit operations expenditures are also eligible for funding. All SB 125 eligible projects must demonstrate that they will achieve a reduction in greenhouse gas emissions.

DISCUSSION

Over the past several months, Metro has conducted outreach to LACMOA membership to determine their interest in a combined procurement of ZEBs using ZETCP funds.

Programming ZETCP funds for the regional procurement is important for strengthening U.S. bus manufacturing. Staff evaluated the recent departures of several bus manufacturers from the U.S. transit marketplace, and based on published reports and interviews with executives, the following factors have contributed to the marketplace turmoil:

- Severe cash flow pressures caused by quality issues related to unreliable components and immature technology
- Outdated payment practices and delays
- Capital and other commercial risks
- Significant cost increases due to supply chain disruptions in the wake of the COVID-19 pandemic
- Additional burdens in the U.S. market due to Buy America, Altoona bus testing, 12-year design life, and other aspects of the U.S. market that make it unique worldwide.

The regional procurement considers these factors and incorporates several recommendations outlined in the Federal Transit Administration's (FTA) Dear Colleague Letter dated February 7, 2024 (Attachment C) to bolster interest and competition amongst bus manufacturers in the U.S. This includes supporting the standardization of vehicle specifications across multiple agencies, introducing progress payments to relieve original equipment manufacturers (OEM) of cash flow pressures, as well as reducing supply chain constraints, lead times, and costs for OEMs/agencies. Metro adopted the FTA's recommendations in its recent regional procurement, and the agency's application to the Low or No Emission (LoNo) grant program received priority consideration and secured a \$77.5 million award-the second largest in the nation.

Several LACMOA members have expressed interest in this effort, which could result in a combined

procurement for up to 1,980 ZEBs over the next seven years. Specific plans regarding the participation of other agencies within the County and the exact quantities of vehicles to be purchased beyond Metro's base order of 260 Battery Electric Buses (BEB) with four 325-bus options, and 20 Fuel Cell Electric Buses (FCEB), with four 100-bus options will be determined in the coming months.

In addition, staff developed depot charger specifications for the procurement. Prior to release, vehicle/charger specifications and procurement commercial terms were distributed to LACMOA members for their review and feedback.

Considerations

Staff evaluated several procurement methods to facilitate a joint procurement with LACMOA membership, such as assigning options in the contract to interested agencies and combining specified joint procurement with fixed quantities to a schedule-type approach that emulates the California Department of General Services Statewide Contracts for Fleet Vehicles. The analysis determined that the assignability of options approach represented the mechanism that preserved the most flexibility with the least administrative burden to Metro and participating municipal operators.

The collaboration will improve the ZEB procurement process and market by reducing manufacturer customizations. In addition, the procurement documents added the recommendations of the American Public Transportation Task Force on Bus Procurements, which call for milestone payments and performance-based technical specifications with minimal references to brand preferences. Notably, per the Federal Transit Administrator's direction, milestone payments have also been tied to more rigorous testing to improve quality assurance of delivered buses, which will also help improve overall operations and lessen program risks for all agencies undertaking the transition to zero-emission fleets.

By designating the ZETCP funds to purchase vehicles and charging infrastructure through the consolidated regional procurement developed in collaboration with LACMOA, Metro will play a significant role in inducing more interest and competition amongst bus OEMs to manufacture zero-emissions buses for the U.S. This will help by addressing many of the pain points that are currently driving many of the manufacturers out of the U.S. market. Without a concerted effort to resolve U.S. bus manufacturing concerns, fewer bus manufacturers will be available to produce zero-emission buses for Metro and LACMOA operators at a time when many agencies are gearing up to convert to zero emissions.

Los Angeles County Regional Zero Emission Bus Procurement Policy Framework

Metro will receive all ZETCP funds as the county's regional transportation planning agency in four annual allocations. Metro staff collaborated with LACMOA, representing the operators eligible for SB 125 funds, to develop a Procurement Policy (Attachment A) and disburse ZETCP-equivalent funds instead of ZETCP funds. While CALSTA has authorized disbursement of only one year of ZETCP funding to Metro, the agency will advance all four years of allocation at once to the Included and Eligible Operators. This fund advance in FY25 will provide LACMOA operators enough funding to allow them to participate in Metro's regional procurement or conduct their own commensurate multi-agency procurement. Metro will distribute Proposition C 40% funds to the Included and Eligible

Transit Operators, relieving them of the burden of grant compliance requirements. Attachment B presents the proposed fund allocation amounts by the agency consistent with Metro Board adopted formulas.

To qualify for funding, local operators must participate in Metro's regional bus procurement or equivalent multi-agency procurement that meets corresponding provisions for reduced customizations and milestone or advanced payments. Funds may also be used for operations but only once the agency has drawn down fully on federal COVID relief funding. LACMOA concurs with the Policy and ZETCP-Equivalent Fund Allocations (Attachment D - LACMOA Letter of Concurrence).

FINANCIAL IMPACT

The ZETCP-equivalent fund allocations for FY25 are estimated at \$49,839,411, but the funding for this action was not included in the FY25 Budget and will need to be amended to add Proposition C 40% funding to Cost Center 0443, Project Number 410062-Proposition C 40% Subsidies.

Impact to Budget

Adopting the staff recommendation would increase the Metro Budget by \$49.84 million to implement the recommended transit operator fund allocations. These funds are eligible for Metro bus and rail operations. However, this budget increase is offset by the \$119.5 million in ZETCP funding allocated to Metro.

EQUITY PLATFORM

Metro's solicitation and ZEB program goals align with SB 125 Final Guidelines that require funds to be used for programs that reduce greenhouse gas emissions and provide at least 25 percent of available funding to projects that directly, meaningfully, and assuredly benefit disadvantaged communities. LACMOA members who receive ZETCP-equivalent funds must follow program guidelines. Otherwise, for participation in the regional procurement, LACMOA members will follow their respective policies and SBE/DBE participation requirements.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

These activities support Goal #3, Enhance communities and lives through mobility and access to opportunity, and Goal #4, Transform LA County through regional collaboration and national leadership.

NEXT STEPS

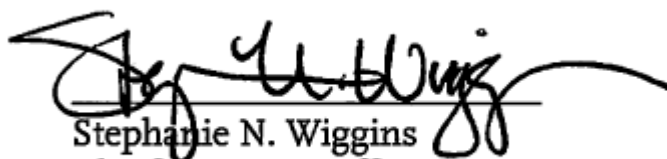
Upon Board approval of the recommended allocations, Staff will work with the transit operators to ensure the proper disbursement of funds. Proposals in response to the bus procurement are due September 29, 2024. Staff will also finalize the determination of bus procurement interest for the submittal of a regional plan as requested by CalSTA.

ATTACHMENTS

Attachment A - Los Angeles County Regional Zero Emission Bus Procurement Policy
Attachment B - Los Angeles County Regional Zero Emission Transit Capital Program (ZETCP)-
Equivalent Fund Allocation Framework
Attachment C - Federal Transit Administration's Dear Colleague Letter
Attachment D - LACMOA Letter of Concurrence

Prepared by: Shaun Miller, Deputy Executive Officer, Project Management (ZEB
Infrastructure), (213) 922-4952
Matt Dake, Deputy Chief Operations Officer, Vehicle Maintenance &
Engineering, (213) 922-4061
Cosette Stark, Deputy Executive Officer, Local Programming, (213) 922-2822

Reviewed by: Conan Cheung, Chief Operations Officer, (213) 418-3034
Nalini Ahuja, Chief Financial Officer, (213) 922-3088



Stephanie N. Wiggins
Chief Executive Officer