



Date: March 23, 2009
To: The Board of Harbor Commissioners
From: Steve Rubin, Managing Director of Finance and Administration *SR*
Subject: **Revisions to the Clean Truck Program (CTP)**

Introduction

Since the inception of the Clean Trucks Program (CTP), the Port of Long Beach has achieved a number of significant milestones as well as faced a number of challenges. The purpose of this memo is to provide an update on our progress and recommend changes to the program that will better achieve the Board's goal of eliminating dirty trucks and improving air quality, while addressing changes in the drayage market and overall economy.

Background

On November 20, 2006, the Los Angeles and Long Beach Boards of Harbor Commissioners approved the Clean Air Action Plan (CAAP). A key component of the CAAP is the implementation of the CTP. Truck-related air pollution is projected to be reduced by 80 percent by 2012, as a result of the implementation of the CTP. In order to facilitate the replacement of the Ports' trucking fleet, both Ports of Long Beach and Los Angeles provide financial incentives to assist participants with the cost of replacing the aging drayage trucks serving the San Pedro Bay Ports with clean diesel and alternative fuel trucks meeting 2007 Federal Environmental Protection Agency Standards.

The CTP has been the subject of significant public outreach, including public workshops, meetings with stakeholders, and significant discussions at the Long Beach Board of Harbor Commissioners (Board) meetings. In order to generate revenue to help fund retrofits or replacement trucks under the CTP, the Board adopted a Clean Truck Fee (CTF) equal to \$35 per twenty foot container and \$70 for containers larger than twenty feet on every loaded container entering or leaving the Port by drayage truck, with certain exemptions.

Truck Progressive Ban: As of October 1, 2008, the Ports began to reduce harmful emissions at terminals by denying access to older trucks according to a progressive ban by engine model year. The schedule for the progressive ban is as follows:

- Ban pre-1989 trucks from Port service by 10/1/2008
- Ban 1989-1993 trucks from Port service by 1/1/2010
- Ban un-retrofitted 1994-2003 trucks from Port service by 1/1/2010
- Ban pre-2007 trucks from Port service by 1/1/2012

Financial Timeline

- ✓ On September 18, 2008 the Board approved a Program Agreement with Daimler Truck Financial (DTF), the financing entity for the CTP.

- ✓ On October 10th 2008 staff reviewed the credit criteria for Independent Owner Operators (IOOs) with Daimler to ensure that our credit requirements allow for as many applicants as possible to qualify for the program while minimizing the default rate.
- ✓ On October 20, 2008, the Board approved Participant Agreements which outline the responsibilities an applicant must meet in order to be eligible for on-going subsidies from Port of Long Beach funds and California Air Resources Board (CARB) grants.
- ✓ At subsequent meetings, the Board approved agreements with truck dealerships that outlined their responsibilities under the CTP. Contracts with several companies were also approved by the Board for the provision of routine maintenance services to be paid by the Port of Long Beach.
- ✓ On October 17, 2008, a key milestone was achieved with the inauguration of the sales and leasing office at 1654 Anaheim Street, Long Beach, California. The first two clean trucks were awarded on that date at a press conference with Mayor Bob Foster and Commission President Jim Hankla.
- ✓ On December 23, 2008, the Port received correspondence from CARB that *“due to the delay in enacting solutions to the current fiscal year budget crisis, the State Treasurer’s Office has been unable to access the bond market to generate funds for bond programs such as Proposition 1B.”* As a result CARB instructed the Port to cease entering into agreements that commit the expenditure of bond funds.
- ✓ Subsequent to CARB correspondence and the passage of the State’s budget, staff has learned that bond funding for projects like the CTP will be slow in coming back on line. In fact, all indications are that funds will not be available this year.
- ✓ On February 18, 2009, electronic gate access and collection of fees went into effect.

Truck Award Status

To date, 38 trucks have been leased through the CTP since October 1, 2008. Port staff, along with TetraTech, our grant and concession administrator, and DTF has worked to expedite the process by working closely with the applicants and finding ways to streamline the procedure. The worsening economy and the uncertainty resulting from pending litigation have caused many applicants to delay a final commitment or withdraw from the program entirely.

Current Issues

Cargo owners are reluctant to pay the CTF and as a result, more Licensed Motor Carriers (LMCs) are privately funding trucks to gain a competitive advantage in the marketplace. The current economic recession has significantly reduced container volume at the Port; therefore, a number of applicants have withdrawn their requests for funding through the CTP citing lack of work. For those who already received trucks through our program, some are not being dispatched by their LMCs because they do not have fee exempt trucks. LMCs are clearly showing a preference for fee exempt trucks.

Currently, there are approximately 3,500 privately funded 2007-compliant trucks registered in the Drayage Truck Registry (DTR) that are fee exempt at both Ports. This number of privately funded trucks is much larger than originally anticipated, partially due to the large incentives that were offered by the Port of Los Angeles. Since the February 18, 2009 start of the CTF, staff has seen renewed interest in privately funded trucks. These clean diesel trucks would be fee

exempt at the Port of Los Angeles, but only 50% fee exempt with proof of scrappage at the Port Long Beach. Privately funded alternative fueled/LNG trucks would be 100% free exempt at both Ports, with POLB requiring proof of scrappage. Many LMC's and organizations, such as the Coalition for Responsible Trucking (CRT), have approached the Port and indicated that they are very interested in privately funding additional trucks if POLB waives the scrappage requirement and modifies our fee exemptions.

The drayage market also is fast approaching the next progressive dirty truck ban date of January 2010. At this time staff does not have accurate figures on the number of trucks that will need to be replaced by January 1, 2010; the Drayage Truck Registry indicates that approximately 11,000 trucks fall within this category. However, given the downturn in Port container volumes, many of these trucks are not currently serving the Port. Preliminary numbers from PortCheck, which tracks actual gate moves, and other analysis, suggest that the numbers of trucks that will be needed to serve the Port in 2010 could be as low as 7,500. Since approximately 3,500 trucks are already 2007 EPA compliant, this would mean that 3,500 trucks would need to be replaced or retrofitted between now and January 2010.

Given these changes, staff is recommending a number of changes to both our CTF Exemptions and Clean Truck Financing program.

Clean Truck Fee (CTF) Exemptions

Proposed changes to CTF exemptions are outlined in Attachment I. The purpose of these changes is to:

1. Further incentivize private investment in clean trucks, which would reduce the need for Port funding and subsidies.
2. Provide additional incentives to encourage both private sector and CTP funding of alternative fuel/LNG trucks. This would support the Board's goal of having at least 50% alternative fuel/LNG trucks among the trucks funded by our CTP.
3. Enable participants who use CTP funds to remain competitive with privately funded trucks by adjusting the fee exemptions, thereby giving them the ability to charge competitive market rates.

It is anticipated that most of the trucks that will need to be replaced by January 2010 will be funded through the private sector just as the majority of the first wave of truck replacements were funded by the private sector. However, these changes will allow LMCs and IOOs who used public financing for trucks to compete more effectively. Models have also been implemented in which LMCs privately finance clean trucks and then lease these trucks to IOOs.

In addition to the changes outlined in Attachment I, Staff is also recommending that trucks funded through the The Gateway Cities Program (GCP) receive a fee exemption. This would apply to approximately 500 trucks. The joint Gateway Cities/POLB/POLA fleet modernization program sought to reduce emissions from port-drayage trucks by providing financial assistance to purchase newer, cleaner trucks. The Gateway Cities program was funded, approved, and underway prior to the development of the Clean Air Action Plan (CAAP). The program proved fleet modernization could be very successful in greatly reducing emissions associated with port drayage, and it was therefore included in the Clean Air Action Plan strategies. The CAAP led to the development of the Clean Truck Program as it exists today. Those truck-owners that participated were early implementers of fleet modernization that has achieved significant emissions reductions over the past several years.

Since these trucks were not “grandfathered” into the original CTP, these truckers have been put at a competitive disadvantage by having to pay the clean truck fee. Additionally, many LMCs are unwilling to dispatch trucks to the ports that would be charged a fee causing GCP participants to lose work opportunities, thus further complicating their ability to meet their contract terms.

In order to rectify this situation staff recommends the following:

1. Release GCP participants from their contracts, allowing them to sell or retrofit their trucks.
2. Modify the tariff to exempt GCP participants from the CTF so that they can continue to serve the Ports. It is important to note that GCP participants will still be subject to the progressive truck bans, therefore, the Ports will still achieve the air quality goals of the CTP while not causing undue harm to GCP participants.

CTP Financing Program

Background

The CTP was to be primarily funded by the Board’s approved tariff imposed on merchandise and payable by the beneficial cargo owners. In addition, it was anticipated that Proposition 1B would fund up to \$98 million, shared equally by both Ports. The Port had also considered using \$72 million of its own funds for the CTP. It was intended that these sources of funds would fully fund the CTP. The program includes three funding options:

1. **Lease-to-own.** An applicant can exchange his/her older truck for a pre-approved new truck under a 7-year lease agreement that is subsidized up to 80 percent by the Port. Monthly payments for drivers are as low as \$500 for both diesel and alternative fuel/LNG trucks. Prepaid maintenance, paid by the Port, is also included. Because LNG trucks (the only alternative fuel trucks currently in the program) are more expensive than clean diesel trucks, the Port’s subsidy for LNG trucks (\$137,000) is more than double than that for diesel trucks (\$68,000).
2. **Truck.Grants.** An applicant can exchange his/her older truck for a pre-approved new truck, secure their own financing based on their credit, and receive a Port grant of \$67,000 for a clean diesel truck or \$105,000 for an LNG truck. The Port’s grant is paid out over seven years.
3. **Retrofit Grants.** The Port will provide a one-time upfront grant of up to \$20,000 towards the purchase of retrofit equipment for model year 1994 – 2003 trucks. A retrofit device that can bring trucks up to 2007 EPA standards is currently being tested and, unfortunately, is not expected to be available this year. Current retrofit devices can only be used only up to 2012, but this will enable trucks that are needed for Port drayage in January 2010, but have not been replaced with new trucks because of financing issues or the high value of the old truck, to continue to serve the Port.

In order to qualify for the CTP Financing program applicants must meet credit and operational criteria (i.e. minimum number of trips to the Ports) that are outlined in a Participant Agreement, a contract between the applicant and the Port. Many of the operational requirements are mandated under Prop 1B eligibility requirements.

Proposed Changes

It is recommended that the Port continue the CTP Financing Program with the three options, with the same subsidy levels that favor LNG trucks, but with the following changes:

1. Eliminate the scrappage requirement for LNG trucks, but continue it for applicants who prefer a clean diesel truck.
2. Add additional LNG truck models to the list of Port approved trucks to provide applicants with additional alternative fuel options.
3. Modify future participant agreements to eliminate onerous Prop 1B requirements while maintaining requirements needed to maintain the program's goals and protect the Port's financial interest.
4. Continue the financing program as a Port of Long Beach program; the program to date has been a joint program with the Port of Los Angeles. POLA has announced that they will cease participation in the program until Prop 1B funds become available.

It appears unlikely that Prop 1B funds will be available this year. Given the economic downturn and significant decline in Port revenues, it is not recommended that Port general revenues be committed to the program at this time. Instead, it is proposed that funding be initially limited to revenues generated by the \$35/TEU Clean Truck Fee. While we do not have definitive numbers from PortCheck yet, we estimate that approximately \$200,000 is being generated each day which would provide \$30 million through the end of this calendar year. When CARB Prop 1B funds become available and if the Port is able to secure additional dollars through the economic stimulus plan, these funds could then augmented and the structure of the program reevaluated.

Recommendations

It is recommended that the Finance and Support Services committee approve and refer the following to the Board of Harbor Commissioners:

1. Request the City Attorney to revise the tariff to reflect changes to the Clean Truck Fee tariff exemptions as reflected in Attachment I and as recommended for Gateway Cities funded trucks to be effective May 4, 2009.
2. Approve the recommended changes to the Clean Truck Funding Program as outlined above and authorize the Executive Director to approve new Participant agreements.

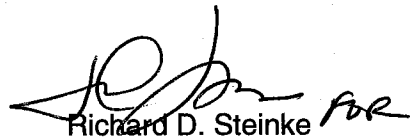
Recommended by:



J. Chris Lytle
Deputy Executive Director

SR/wc

Approved by:



Richard D. Steinke
Executive Director

Attachment I
Port of Long Beach Proposed Exemptions

100% exemption unless otherwise indicated:

Current POLB Exemptions	Proposed POLB Exemptions	Current POLA Exemptions
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Rail and Container Moves

Containers entering or leaving the Port by rail	Containers entering or leaving the Port by rail	Containers entering or leaving the Port by rail
Container moves between two terminals within the Port	Container moves between two terminals within the Port	Container moves between two terminals within the Port
Container moves under contract to the United States	Container moves under contract to the United States	

Privately Funded Trucks

Privately funded 2007 compliant diesel or alt fuel/LNG trucks registered in the DTR prior to October 1, 2008	Privately funded 2007 compliant diesel or alt fuel/LNG trucks registered in the DTR prior to October 1, 2008	Privately funded 2007 compliant diesel or alt fuel/LNG trucks registered in the DTR prior to October 1, 2008
Privately funded alternative fuel truck purchased after October 1, 2008 with a scrappage requirement	Privately funded alt fuel/LNG truck with no scrappage requirement	Privately funded alt fuel/LNG truck with no scrappage requirement
Privately funded 2007 diesel truck purchased after October 1, 2008 50% exemption (\$17.50/\$35.00) with scrappage	Privately funded 2007 diesel truck purchased after October 1, 2008 with no scrappage requirement	Privately funded 2007 diesel truck purchased after October 1, 2008 with no scrappage requirement

Port Funded Trucks

No exemption for Port funded 2007 compliant diesel trucks.	Port funded 2007 compliant diesel trucks — 50% (\$17.50/\$35.00) exemption with scrappage requirement (will exempt trucks already funded)	No exemption for Port funded 2007 compliant diesel trucks.
No exemption for Port funded 2007 compliant alt fuel/LNG trucks.	Port funded 2007 compliant alt fuel/LNG trucks with no scrappage requirement.	Port funded 2007 compliant alt fuel/LNG trucks with no scrappage requirement.

Retrofits

No exemptions for retrofits	No exemptions for retrofits	No exemptions for retrofits
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