



# Staff Report

## City of Manhattan Beach

**TO:** Honorable Mayor Montgomery and Members of the City Council

**THROUGH:** Geoff Dolan, City Manager

**FROM:** Bruce Moe, Finance Director  
Sona Kalapura, Environmental Programs Manager

**DATE:** September 2, 2008

**SUBJECT:** Consideration of Letter to the South Coast Air Quality Management District Supporting Expanded Grant Funding to Subsidize the Purchase of Compressed Natural Gas (CNG) Taxicabs

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**RECOMMENDATION:**

Staff recommends that the City Council authorize the Mayor to sign the attached letter urging the South Coast Air Quality Management District to expand their proposed CNG taxicab subsidy program to include non airport based taxicabs.

**FISCAL IMPLICATION:**

There are no fiscal implications associated with the recommended action.

**BACKGROUND:**

The City's taxicab franchise is set to expire at the end of November 2008. In keeping with our green efforts, staff is developing new clean vehicle standards for the new franchise period. Up until recently, the South Coast Air Quality Management District (AQMD) offered subsidies that lowered the purchase price of CNG taxicabs to the point of making them economically feasible for the cab companies to purchase. That subsidy was recently discontinued. However, a new subsidy is proposed, but it only applies to CNG taxicabs that are authorized for airport trip origination. The AQMD is scheduled to discuss this item up at their September 5, 2008 board meeting. Staff has prepared the attached letter in order for the City Council to voice support for expanding the subsidy.

**DISCUSSION:**

Currently, most taxicab companies (or the individuals who purchase their own vehicles) buy used police patrol cars due to their low cost and heavy duty service capabilities. They are able to purchase 4-5 year old cars for \$5,000 to \$6,000, spend a few thousand dollars to refurbish them for taxicab use, and then run the cars for several years before replacing them. According to the taxicab franchise companies, the economics of their industry do not support the purchase of newer, or more expensive alternative fuel vehicles for cab operations. As a result, it is impractical for them to

purchase newer CNG vehicles since the capital outlay before any subsidies is over \$30,000. This ultimately impacts our ability to implement stricter clean air vehicle standards for our franchise since compliance is not economically feasible.

Until recently, the AQMD was offering a \$16,000 purchase subsidy that lowered the cost of a one year old CNG-powered Crown Victoria or similar car from \$30,000 to approximately \$14,000. When coupled with the fuel cost advantage of CNG over gasoline (usually one-third to one-half less), the subsidy justified the higher initial cost of the vehicle. Unfortunately, the AQMD discontinued that subsidy and is now planning on introducing a new, more limited, program that provides a \$10,000 grant for CNG taxicabs. However, the cabs must be used in trips originating from regional commercial airports<sup>1</sup>. This would be of little value to Manhattan Beach since only eighteen of our one hundred sixty-five franchised cabs would be eligible.

With the City's taxicab franchise up for renewal late this year, staff has been developing new clean air vehicle standards. CNG is expected to be a viable alternative fuel for compliance, however, capital cost of these vehicles is a hurdle to expanded use. As a result, subsidies to underwrite the cost are important. In an effort to encourage broader application of the new AQMD grant for CNG taxicabs, staff prepared the attached letter for the Mayor's signature, pending approval by the full Council.

#### *Franchise Status*

The City's three year taxicab franchise is set to expire at the end of November 2008. Staff is developing new clean air standards which will include CNG and hybrid options, but as we have discussed, the cost of these vehicles is an issue for the taxicab companies. While we are hopeful that the AQMD will assist by providing broader subsidies for CNG cabs, that remains to be seen.

Other funding assistance may be available by way of federal tax credits. Additionally, there is a proposition on the November ballot (Proposition 10) that would provide rebates to purchasers of fuel efficient and alternative fuel vehicles<sup>2</sup>. If that passes, funding will be available in 2009. CNG taxicab vehicles would be eligible for a \$10,000 rebate under Proposition 10. Rebates would also be available to the City for our own alternative fuel vehicle purchases.

Another franchise issue has been the availability of CNG fuel. Clean Energy, the largest retailer in this area of CNG for vehicles, has been promoting the use of CNG for taxicabs. Currently the closest fueling station is by LAX, with the next closest in Carson. In order for CNG taxicabs to be effectively used in the South Bay, another fueling location needs to be constructed. Clean Energy has tentatively identified a location in Redondo Beach, but is delaying construction pending local governments' adoption of clean energy franchise requirements (including CNG) for cabs. On the other hand, cost issues aside, taxicab companies are not willing to implement CNG vehicles without adequate fueling infrastructure.

In order to move this issue along, staff, working with the cab companies and Clean Energy, are

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<sup>1</sup> LAX cabs are specifically licensed by the Los Angeles Department of Transportation.

<sup>2</sup> Proposition 10, "The California Renewable Energy and Clean Alternative Fuel Act," is a \$5 billion bond measure to encourage businesses and individuals to conserve energy and use alternative energy sources.

developing an amendment to the City's Vehicle for Hire ordinance that includes a phase in of clean air vehicles (this is expected to be presented for Council consideration on September 16<sup>th</sup>). If adopted, Clean Energy would view this as sufficient commitment to requiring clean air vehicles for our taxicab franchise, that they will commence construction of a new fueling station in Redondo Beach. They expect the new station to open within nine months of ground breaking.

With so many open issues, it may be to our benefit to delay solicitation of new franchise agreements until the outcomes are clear. Staff will return to Council with more information as it becomes available.

**CONCLUSION:**

Staff recommends that the City Council authorize the mayor to sign the attached letter to the AQMD urging expansion of the proposed CNG taxicab funding plan.

Attachments: A. Letter to AQMD



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September 3, 2008

Governing Board  
South Coast Air Quality Management District  
21865 Copley Drive  
Diamond Bar, CA 91765

Re: Taxi Cab Clean Vehicle Grant Program

Honorable Governing Board:

Like many cities in California, we are concerned about our environment. From reducing green house gas emissions to purchasing environmentally-friendly products, we are actively pursuing all avenues to be as green as possible. One area that we are currently focusing on is vehicle emissions from our franchised taxicab operators. But in order for us to be effective in this area, we need your help.

By way of background, the City franchises one hundred sixty taxi cabs, through four area companies, for trips originating in the City of Manhattan Beach. With the current franchise period expiring later this year, we have developed new standards which require a phase-in of clean air taxi cabs. Up until recently, AQMD provided a grant which subsidized the purchase of clean burning, Compressed Natural Gas (CNG) taxi cabs. That grant, which provided \$16,000 towards the purchase of CNG cabs, made the purchases economically feasible, and supported clean air goals and requirements. However, it is our understanding that the funding for that program has been withdrawn. As a result, the taxi cab companies are unable to economically purchase clean vehicles to meet our new requirements.

We are aware that you are considering a new allocation program at your September 5<sup>th</sup> meeting to assist in the purchase of natural gas taxicabs. However, the new program addresses only taxicabs for operations at commercial airports, which comprises only 10% of those cabs used in servicing our franchise. Without the ability to obtain such financial assistance, the economics of purchasing a new CNG taxicab is prohibitive.

As you meet and discuss this issue on the 5<sup>th</sup>, we respectfully urge you to consider expanding the allocation to include not just airport based taxicabs, but those serving other communities such as the South Bay. Such support is vital to both of our efforts to improve air quality and protect the environment.

Please contact the City's Finance Director, Bruce Moe, if you have questions. He can be reached at 310-802-5552.

Sincerely,

Richard P. Montgomery  
Mayor