



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: April 28, 2020

Approved

Date

5/1/2020

SUBJECT: THIRD AMENDMENT TO THE RESTATED AGREEMENT FOR LEASE AND MAINTENANCE OF COMPRESSED NATURAL GAS SHUTTLE BUSES BETWEEN THE CITY OF SAN JOSE AND PENSKE TRUCK LEASING CO., L.P.

RECOMMENDATION

Adopt a resolution authorizing the City Manager to execute the Third Amendment to the Restated Agreement for Lease and Maintenance of Compressed Natural Gas (CNG) Shuttle Buses at the Norman Y. Mineta San José International Airport (Airport) with Penske Truck Leasing Co., L.P. (Penske) (Wilmington, Delaware) to extend services for up to three additional one-year option terms through May 31, 2023 for a not-to-exceed compensation of \$1,504,260 for June 1, 2020 through May 31, 2021, subject to the appropriation of funds.

OUTCOME

Continue to meet the demand for Airport shuttle bus services until all-electric replacement buses are procured, delivered, and operational.

BACKGROUND

The Airport currently provides shuttle services for airport passengers and staff to travel between terminals, rental car facilities, long term parking garages, and employee parking facilities with its fleet of all-electric buses, supplemented by CNG shuttle buses leased from Penske.

In June 2007,¹ Council adopted a resolution authorizing the Director of Finance to negotiate and execute a seven-year agreement with Penske for the lease and maintenance of CNG buses at the Airport. In September 2009, the City and Penske entered into a restated agreement to add an additional fleet of CNG buses with a lease term through 2017. In April 2017,² Council adopted a

¹ 2007 Council Memo: <https://records.sanjoseca.gov/Resolutions/RES73876.PDF>

² 2017 Council Memo: https://sanjose.granicus.com/MetaViewer.php?view_id=&event_id=2684&meta_id=633808

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resolution authorizing a two-year extension of the restated agreement through May 31, 2019 with one (1) one-year option to extend. That option was exercised, and the current agreement will expire on May 31, 2020.

Staff expected to replace the CNG buses with all-electric buses by this time. However, due to increased customer traffic and new construction, the Airport has expanded shuttle bus areas, routes, and schedules more quickly than all-electric buses could be purchased, manufactured, and placed into operation. Therefore, the Airport has been relying on the leased CNG buses to supplement its all-electric bus fleet to meet the increased demand. While demand is currently reduced due to the COVID-19 pandemic, it is expected to resume when the emergency situation subsides.

ANALYSIS

The Third Amendment to the agreement will allow sufficient time for staff to (1) ensure the current all-electric bus vendor completes all outstanding retrofit and warranty issues, (2) develop and re-solicit for an alternative vendor if these items are not resolved to the City's satisfaction, (3) pursue grant funding opportunities for the purchase of additional electric buses, (4) purchase new buses, and (5) allow for the two to three year lead time required for the manufacture and delivery of the new buses. The CNG buses currently in use are in good condition, and the Airport expects they will continue to provide passengers safe, efficient transportation until the all-electric replacement buses are operational.

The agreement includes fixed lease costs and maintenance costs that increase yearly based on the Consumer Price Index (CPI) with a cap of 8%. Staff based the not-to-exceed estimate for the next option term on 7,000 operating hours per bus per year, which is approximately 2,500 hours more than the Airport's current average usage per bus. The additional operating hours reflect staff's estimate of the increase required to meet demand. Staff will reassess this estimate and adjust as required for each option term, subject to the appropriation of funds. The City pays Penske monthly based on actual utilization and does not pay for any unused hours.

The City has the option to terminate the agreement, without cause, by giving the vendor thirty (30) days' prior written notice. Therefore, should Airport staff replace the CNG buses sooner than currently expected, this agreement will be terminated.

CONCLUSION

Approval of the recommendations in this Memorandum will continue the lease and maintenance of the CNG shuttle buses for up to three years through May 31, 2023 while the Airport completes its transition to all-electric buses.

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EVALUATION AND FOLLOW-UP

The memorandum will not require any follow-up from staff.

CLIMATE SMART SAN JOSE

The recommendations in this memorandum align with one or more Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH

This memorandum will be posted on the City's website for the May 12, 2020 City Council meeting.

COORDINATION

This memorandum has been coordinated with the Airport Department, the City Manager's Budget Office, and the City Attorney's Office.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

FISCAL/POLICY ALIGNMENT

This action is consistent with the City's 2019-2020 Adopted Operating Budget City Service Areas Delivery Framework for Performance Driven Government for Transportation and Aviation Services: 1) Provide Safe and Secure Transportation Systems; 2) Provide Viable Transportation Choices that Promote a Strong Economy; and 3) Travelers Have a Positive, Reliable and Efficient Experience.

COST SUMMARY/IMPLICATIONS

The following outlines the elements of the contract:

	<u>Current Agreement Not to Exceed</u>	<u>Third Amendment Not to Exceed</u>
1. AMOUNT OF RECOMMENDATION		\$1,504,260
2. COST ELEMENTS		
- Original Agreement (12/18/07 – 7/31/08)	\$1,900,000	
- Addendum 1, amended term (6/01/08 – 7/31/09)	1,900,000	
- Annual Compensation (8/01/09 – 7/31/10)	2,950,000	
- Restated Agreement (9/16/09 - 7/31/10)	1,900,000	
- Annual Compensation (8/01/10 - 7/31/11)	3,000,000	
- Annual Compensation (8/01/11 - 7/31/12)	2,750,000	
- Amendment 1, terminated Fleet A, executed 5/23/12	-	
- Annual Compensation (8/01/12 - 7/31/13)	1,395,000	
- Annual Compensation (8/01/13 - 7/31/14)	1,395,000	
- Annual Compensation (8/01/14 - 7/31/15)	1,395,000	
- Annual Compensation (8/01/15 - 7/31/16)	1,400,000	
- Annual Compensation (8/01/16 - 7/31/17)	1,425,000	
- Amendment 2, adjusted compensation and extended term/added option (6/1/17 – 5/31/18)	1,579,700	
- Annual Compensation (6/1/18 – 5/31/19)	1,646,530	
- Option 1 (6/1/19 – 5/31/20)	1,719,071	
- New Option (6/1/20 – 5/31/21)		
• Fixed Lease Cost (10 Buses @ \$2,288/month/bus) *		\$274,560
• Fixed Maintenance Cost (10 Buses @ \$3,430/month/bus)		411,600
• Variable Maintenance Cost (\$11.33/engine hour x estimated 7,000 hours/year for 10 buses)		793,100
• Non-Maintenance Services (as required)		25,000
TOTAL	<u>\$26,355,301</u>	<u>\$1,504,260</u>

*This rate is constant provided the total annual bus hour range of 40,000 to 70,000 remains in effect.

3. SOURCE OF FUNDING: Multiple funding sources as follows:

519 - Airport Customer Facilities and Transportation Fee Fund

523 - Airport Maintenance and Operation Fund

4. FISCAL IMPACT:

The lease and maintenance of Airport shuttle buses is funded via the Airport Department's annual operating budget in the Airport Maintenance and Operation Fund (Fund 523) and Airport Customer Facilities and Transportation Fee Fund (Fund 519).

BUDGET REFERENCE

The table below identifies the fund and appropriations to fund the contract recommended as part of this memo and remaining project costs, including project delivery, construction, and contingency costs.

Fund #	Appn #	Appn. Name	Total Appn	Amt. for Contract	2019-2020 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
523	0802	Airport Non-Personal/ Equipment	\$46,007,740	\$954,834	X-3	10/22/2019, Ord. No. 30325
519	0802	Airport Non-Personal/ Equipment	\$2,491,222	\$549,426	X-1	6/18/2019, Ord. No. 30286

CEQA

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

/s/

JULIA H. COOPER
Director of Finance

For questions, please contact Jennifer Cheng, Deputy Director of Finance, at (408) 535-7059.