

CITY OF SANTA ROSA  
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL  
FROM: SHAWN SOSA, ADMINISTRATIVE ANALYST  
TRANSPORTATION AND PUBLIC WORKS – TRANSIT  
SUBJECT: AMEND CONTRACT WITH PROTERRA, INC. TO INCLUDE  
PURCHASE OF BATTERIES AND EXTENDED WARRANTIES  
FOR FOUR BATTERY- ELECTRIC BUSES

AGENDA ACTION: RESOLUTION

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RECOMMENDATION

It is recommended by the Transportation and Public Works Department that the Council, by resolution: 1) approve Amendment No. 2 to Contract No. PA-2021-001-SRCB, with Proterra Operating Company, Inc., a Delaware corporation, formerly known as Proterra Inc (Proterra), Burlingame, California, to increase compensation by \$1,551,292 for a total not to exceed amount of \$5,065,000 to accommodate purchase of bus batteries and an extended battery warranty; 2) authorize the Purchasing Agent to issue an amendment to Purchase Order 166357 to Proterra to include the additional purchase, rather than lease of the bus batteries; and 3) authorize the Director of Transportation and Public Works or designee to execute all documents necessary to effect the purchase, subject to approval as to form by the City Attorney.

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EXECUTIVE SUMMARY

The City's current contract with Proterra (No. PA-2021-001-SRCB) includes the purchase of four 40' battery-electric transit buses with bus delivery expected in September 2022. At the time the original contract was executed, Transit Division staff recommended that the City pursue a separate contract for the lease of the bus batteries rather than an up-front purchase primarily due to funding limitations and the ability of the City to purchase four buses instead of three if using the battery lease option. In addition, the lease arrangement offered an automatic battery replacement at year six to help ensure that buses retain an adequate state of charge during their 12-year useful life. However, due to improvements in funding availability as well as certain provisions of the Proterra battery lease agreement that are unfavorable to the City, staff now recommend modifying the bus purchase contract to also purchase the batteries up-front along with an extended warranty to provide additional certainty that adequate state-of-charge will be maintained during the life of the buses and no longer utilize the lease option.

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BACKGROUND

On November 17, 2020, the City Council approved a contract with Proterra Inc for purchase of the City's first four battery-electric buses. At that time, funding limitations in the Transit Division's Capital Fund meant that the City could only procure three battery-electric buses if purchasing the batteries along with the buses. Staff evaluated the Proterra battery leasing program and found that if leasing the batteries, the City could procure four buses and spread the cost of the batteries over the 12-year lease period. In addition, the lease program offered an automatic replacement of the batteries at year 6 to provide additional insurance that the buses would retain an adequate state-of-charge during their 12-year useful life since some amount of battery degradation is expected over time.

Given the option to accelerate the City's transition to a zero-emissions transit fleet by purchasing four electric buses instead of three, staff requested and received authorization from the Council on August 31, 2021, to negotiate and execute a separate battery lease agreement with Proterra. At that time staff highlighted for Council that the Proterra battery lease agreement contained several unfavorable provisions and lacked some of the standard protections the City typically insists upon to protect its interests. However, given the potential benefits of the battery lease option in accelerating the transition to electric buses, staff sought to enter negotiations with the vendor to secure beneficial changes. These negotiations have been ongoing.

Subsequent to the action by Council to approve negotiation of the battery lease, transit revenue recovery and the Transit Division's receipt of several competitive capital grant awards has eliminated funding as a barrier to procuring the four battery-electric buses with the batteries purchased outright. This change along with the inability of staff to reach a negotiated battery lease agreement that eliminates certain operational and financial risks to the City led staff to re-evaluate the battery lease option as its recommendation to Council.

On July 22, 2021, Proterra Inc filed an Amended Statement by Foreign Corporation to change their corporate name to Proterra Operating Company, Inc. with the California Secretary of State.

PRIOR CITY COUNCIL REVIEW

On November 17, 2020, the City Council, by Resolution No. 2020-201, approved the purchase of the first four battery electric buses with no batteries for the fixed route fleet in an amount not to exceed \$3,513,708. This action anticipated the future action of Council to approve lease rather than purchase of the bus batteries.

On August 31, 2021, the City Council, by Resolution No. 2021-150 approved staff to negotiate the battery lease option for the four battery electric buses for the fixed route fleet.

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ANALYSIS

While battery leasing is an innovative new tool for financing electric bus purchases and provided the opportunity for the City to pursue a four-bus purchase instead of a three-bus purchase given funding limitations at the time of the original bus purchase contract, subsequent transit grant awards and revenue increases have eliminated lack of funding as the primary driver of the recommendation to pursue a battery lease.

At this time the Transit Division Capital Fund can fund both purchase of the four battery-electric buses and the batteries (including the proposed extended warranty), with an overall cost savings to the City compared with the cost of the 12-year battery lease. This change will not alter or delay planned future battery-electric bus purchases.

In addition, following negotiations with Proterra, the battery lease agreement still contains provisions that create financial and operational risk to the City over the 12-year term of the agreement with very limited opportunity for amendment or early termination of the agreement. Given availability of funding to purchase the batteries up-front, staff find that there is no longer sufficient benefit to the City from the battery lease arrangement to outweigh the potential risks of entering into the lease agreement.

Finally, while the battery lease agreement does provide for mid-life replacement of the batteries as a method to ensure adequate state of charge over 12 years, staff believes that purchasing the batteries with an extended warranty is a cost-effective method to address state-of-charge concerns outside of the battery lease arrangement. The extended warranty provides for an energy capacity guarantee of 81 kWh per battery pack on a bus (6 battery packs total per bus = "1 - 675 kWh battery") for years 6-12.

The proposed amendment will increase the contract's not to exceed amount by \$1,551,292 to \$5,065,000 to incorporate the following costs:

- Four (4) 675 kWh batteries: \$1,236,292
- Extended battery warranty: \$315,000

By comparison, the battery lease agreement would cost the City a total of \$2.5 million in annual lease payments over the 12-year term of the lease. While this cost would include the replacement of the four batteries after six years of operation, based on modeling of anticipated battery degradation and daily bus energy needs, staff believe the proposed battery purchase with extended warranty will ensure an adequate state-of-charge without a mid-life replacement of the batteries.

FISCAL IMPACT

Approval of this action does not have a fiscal impact on the General Fund.

Funds for the additional cost of \$1,551,292 will be drawn from Transit Division capital grant awards from the Federal Transit Administration and state Transportation

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Development Act Article IV funds. These funds are available in the Transit Division's Capital Fund to support fleet electrification and can be allocated to support this purchase without impacting transit operations or future planned electric vehicle purchases.

ENVIRONMENTAL IMPACT

This action is exempt from the provisions of the California Environmental Quality Act (CEQA) under CEQA Guidelines Section 15061(b)(3) and 15378 in that there is no possibility that the implementation of this action may have significant effects on the environment, and no further environmental review is required.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Resolution / Exhibit A – Amendment No. 2

CONTACT

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