

**Metro**Los Angeles County  
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Los Angeles, CA 90012-2952213.922.2000 Tel  
metro.net**FINANCE, BUDGET AND AUDIT COMMITTEE  
NOVEMBER 5, 2014****SUBJECT: ENVIRONMENTAL COMMODITIES SALES PROCEDURE****ACTION: AUTHORIZE TO CONDUCT THE SALE OF ENVIRONMENTAL  
COMMODITIES IN ACCORDANCE WITH THE INFORMAL BIDDING  
PROCESS****RECOMMENDATION**

Authorize the Chief Executive Officer to conduct the sale of environmental commodities in accordance with the informal bidding process which does not require publication or notice of sale, and award such sales at market prices.

**ISSUE**

A modification in the current procurement policies and procedures is needed to have the ability and flexibility to issue a request for quotes from all interested parties that are involved in the sale of environmental commodities, such as the Low Carbon Fuel Standards (LCFS) carbon credits market. The current Metro policies and procedure specifically applicable to this type of commodity does not allow for Metro to competitively secure market prices to optimize generated revenue.

Specifically, staff has recently conducted a test sale of LCFS carbon credits but has terminated the process as they have determined that the procedure is not aligned with the intent of the Air Resources Board's market procedures. Current Metro procurement procedures for the disposal of surplus and unusable personal property such as material, supplies and equipment (under which environmental commodities like LCFS credits are categorized) requires notice of sale to be published; and sale be made by sealed bids to be opened in public a minimum of 30 days after publication and mailing of notice of sale. The price at the time of bid therefore lags actual market prices by a minimum 30 days and therefore revenue is not optimized.

**DISCUSSION**

In May 2014, the Metro Board approved the execution of the LCFS Market Analysis and Revenue Optimization Plan (Plan). The Plan identifies an approach that will ensure Metro gets the maximum possible value from these types of environmental

commodities. Since then staff has commenced a test sale for a small volume trade via a Request for Quotes (RFQ) process. Staff has the internal capacity and experience to implement LCFS carbon credit transactions through the LCFS exchange.

Staff had to terminate the test sale because a further review of the policies and procedures to conduct such sales, staff determined that in order for Metro to optimize its participation in the LCFS market, a modification of the current policies and procedures as set forth under Chapter 12 in the Procurement Manual will need to be performed to ensure that conduct of such LCFS sales is consistent with the sales procedures set forth by the Air Resources Board.

Under the current policies and procedures as set forth under Chapter 12 in the Procurement Manual, the sale of environmental commodities would be covered under the formal bidding process for disposal of surplus and unusable personal property such as material, supplies and equipment. The formal bidding process requires that the notice of sale be published and sale be made by sealed bids to be opened in public a minimum of 30 days after publication and mailing of notice of sale. Due to the volatility of the market place for environmental commodities such as LCFS credits, in order to optimize revenue it is advantageous and in the best interest of Metro to have the ability and flexibility to issue a request for quotes from all interested parties that are involved in the LCFS market, and make an award and execute the transaction within a few days of the solicitation. Metro always has the option not to award sale of the environmental commodities at the bid price.

Vendor/Contract Management staff will conduct the sales, deposit the proceeds from the sales and maintain records of the transactions. Environmental Compliance and Services staff is the custodian of the credits, authorizes the sales and executes the transfer of the credits to the buyer after payment has been received. This is in keeping with internal controls related to separation of duties. County Counsel has reviewed the proposed modification and confirmed it does not violate state and federal procurement laws.

### **DETERMINATION OF SAFETY IMPACT**

This Board action will not have an impact on safety standards for Metro.

### **FINANCIAL IMPACTS**

Funding for staff time to conduct sales of environmental commodities is initially included in the FY15 budget under project number Project Number 450004 - Carbon Emissions and Greenhouse, Cost Center 8420 Environmental Compliance and Services, Account 50316 Professional and Technical Services using Admin-Prop A, Prop C, and TDA funds. Since this is a multi-year project, the Environmental Compliance and Services cost center manager and Executive Director, Engineering & Construction will be responsible for budgeting in future fiscal years.

## Impact to Budget

There will be no net impact to Bus and Rail Operating Budgets. Proceeds generated from environmental commodities transactions can be allocated for the future administration of these types of sales. Once proceeds from the sales are realized, staff will be using a de minimis portion of such funds through the Green Fund to self-fund these transactions.

## ALTERNATIVES CONSIDERED

The MTA Board of Directors could decide not to provide authority to conduct the sale of environmental commodities through the informal bidding process. Staff does not recommend this alternative. Due to the volatility of the marketplace for environmental commodities such as Low Carbon Fuel Standard (LCFS) credits, revenue would not be optimized due to the time lag between when the bids are received to when they are opened. Metro always has the option not to award the environmental commodities at the bid price.

## NEXT STEPS

Upon approval, Vendor/Contract Management staff will initiate revisions to the current policies and procedures as set forth under Chapter 12 in the Procurement Manual to allow for the sale of environmental commodities under an informal bidding process.


## ATTACHMENTS

None.

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