

THE CITY OF SAN DIEGO  
**REPORT TO THE CITY COUNCIL**

DATE ISSUED: December 1, 2010 REPORT NO:  
ATTENTION: Budget and Finance Committee  
SUBJECT: City Fleet Needs - Master Lease Agreement to Fund Vehicles and  
Equipment  
REFERENCE:

REQUESTED ACTION(S):

Forward item to City Council for consideration and approval to authorize the form of and execution of the Master Lease Agreement with Chase Equipment Finance, Inc. ("Chase") in an amount not to exceed \$9.6 million to fund the City's Fiscal Year 2011 General Fund fleet needs and in an amount not to exceed \$12.6 million to fund Fiscal Year 2012 General Fund fleet and equipment needs.

STAFF RECOMMENDATION:

Approve the requested action.

SUMMARY:

**I. Background**

The City utilizes lease purchase financing option to address funding needs of eligible essential equipment and fleet services. Lease-purchase funding is an economic short term financing option and is a good alternative to cash funding alleviating budgetary and fiscal constraints by coordinating fixed lease payments over the financing term with the City owning the vehicles by the end of the repayment term. The funding mechanism is facilitated under a master lease agreement with a lender (the "Lessor") by establishing an upfront tax-exempt line of credit over an agreed upon acquisition period. The security for this financing agreement is a pledge to annually appropriate funds to make timely lease payments.

The proposed Master Lease Agreement with Chase will establish a line of credit to fund the City's Fiscal Year 2011 and 2012 General Fund fleet replacement needs.

## **II. Vehicles and Equipment to be Financed**

The City's fleet is essential to conduct services and provide a benefit to the public. A wide variety of fleet services are provided to the communities and residents. Examples include police, fire, graffiti control, library, traffic signal maintenance, street light maintenance, roadway asphaltting, storm drain maintenance, street sweeping, refuse/recycling collection, building maintenance, and park maintenance. An annual assessment of the City's fleet is conducted to identify the vehicles that need to be replaced. Vehicles are replaced by an assessment of mileage, technological needs and life cycle. The current City's fleet (General Fund and non-General Fund) includes approximately 4,045 motive equipment.

The assessment for Fiscal Year 2011 reflects that a total of 511 Citywide vehicles are scheduled to be replaced with new motive equipment, 35% or approximately 186 vehicles of which are programmed to be lease purchased, totaling a not to exceed amount of \$9.6 million. All the 186 vehicles to be lease purchased are for General Fund departments. Within the \$9.6 million, it is expected that contract approval for approximately \$1.4 million to purchase bucket lift trucks for Streets Division will be presented to the City Council in January 2011.

The Fiscal Year 2012 schedule reflects that a total of 341 Citywide vehicles are to be replaced with new motive equipment, 72% or 245 of which are programmed to being lease purchased. The list of replacement vehicles includes public safety and non-public safety vehicles. All the 245 vehicles identified to be lease purchased are for General Fund departments. Additionally, the procurement of a new standard Global Positioning System (GPS) for all City vehicles is being planned. Currently, several City departments use different GPSs in their vehicles. A single standard GPS for all City vehicles would make managing the vehicle fleet more efficient, as well as adding features that are not available on the current GPSs being used. The new GPS will consist of vehicle equipment on all 3,600 in the City, the web based software, and the wireless carrier services. Procurement is expected in Fiscal Year 2012 with an anticipated cost of \$1.3 million. The final award of the contract is expected to be brought to the City Council in the first calendar quarter of 2011.

See Attachment 1 for a complete list of vehicles and equipment to be lease-purchased in Fiscal Year 2011 and 2012 under the proposed Master Lease Agreement.

## **III. Master Lease Agreement**

A Request for Proposals ("RFP") was issued through the City's Purchasing & Contracting Department on September 16, 2010, to solicit proposals to fund lease-purchases of essential equipment. The RFP was sent to 51 financial firms, including several local firms and firms specializing in lease finance. Three (3) proposals were received and upon review by the evaluation committee and the financial advisor, Chase Equipment Finance, Inc. was identified as most suited to provide lease purchase services. Chase offered the most competitive funding rate and accepted all the terms and conditions under the Master Lease Agreement with the City.

The proposed Master Lease Agreement ("Agreement") between the City (Lessee) and Chase

(Lessor) will be a two year agreement, with an amount not to exceed \$9.6 million to meet Fiscal Year 2011 fleet replacement needs and \$12.6 million to meet Fiscal Year 2012 fleet replacement needs and the funding of the GPS equipment.

Subsequent to City Council approval, after the ordinance comes into effect and the Agreement is executed, vehicle orders will be placed with the vendors. Expected delivery dates of the vehicles range between 90 and 360 days upon placing the orders. On receipt, inspection, and acceptance of the vehicles by the Equipment Division staff, necessary funds will be drawn from the pre established line of credit. The funding draws typically occur in batches as the vehicles and equipment are received. The Lessor makes direct payments to vendors and corresponding amortization schedules will be established with the City to make semi-annual payments to the Lessor on a fixed rate basis over the lease term. At the end of the term, the vehicles will be owned by the City.

FISCAL CONSIDERATIONS:

The interest rate on the line of credit will be on a fixed rate basis; it will be established at the time the equipment is funded based on the lease term and locked for the term of the lease. Based on current market rates as of November 12, 2010, the effective interest rate would be 2.34% for a 7-year term.

Assuming a single draw the estimated lease payments are as follows:

1. Fiscal Year 2011 General Fund vehicle replacement needs (\$9.6 million): Annual lease payments of \$1.5 million FY 2012-2018. Total Principal and Interest for 7 year term \$10.5 million.
2. Fiscal Year 2012 General Fund vehicle replacement needs (\$11.3 million): Semi-annual payment lease payment of \$880,000 in FY 2012, annual lease payments of \$1.76 million FY 2013-2018, and a semi-annual payment of \$880,000 in FY 2019. Total Principal and Interest for 7 year term \$12.3 million.
3. Fiscal Year 2012 GPS equipment (\$1.3 million): Semi-annual payment lease payment of \$101,150 in FY 2012, annual lease payments of \$202,300 FY 2013-2018, and a semi-annual payment of \$101,150 in FY 2019. Total Principal and Interest for 7 year term \$1.4 million.

***The actual fiscal impact will depend on the actual amounts drawn and the timing of the draws.*** Funds to replace motive equipment are generated by annual charges to departments for each item of motive equipment. The annual lease payments will be made from funds generated from the aforementioned annual charges accrued in the Fleet Services Replacement Fund. Lease payments will be included in the FY 2012 Proposed Budget and subsequent budgets with the City Council approval to be obtained through the annual budget process.

The City is under no obligation to draw down the full amount established under the line of credit. There is no commitment fee for establishing and maintaining the funding amount through

the term of the Agreement. If alternate sources of funding are identified, or cash purchases (“pay go”) is preferred, the City will still have that flexibility.

PREVIOUS COUNCIL MEETING and/or COMMITTEE ACTION:

The lease-purchase of the fire helicopter and a portion of the Fiscal Year 2008 fleet replacement needs were authorized in April 2008.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

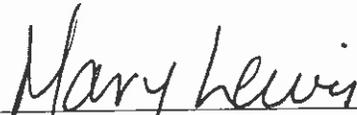
A Request for Proposals (“RFP”) was issued to 51 financial firms, including several local firms, through the City’s Purchasing & Contracting Department on September 16, 2010 and was noticed on the City’s public website.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Chase Equipment Finance, Inc. is the lease provider.



Lakshmi Kommi  
Debt Management Director



Mary Lewis  
Chief Financial Officer



Mario Sierra  
General Services Director

Attachments:

1. List of Vehicles and Equipment to be Lease Purchased – Fiscal Years 2011 and 2012

**List of Vehicles and Equipment to be Lease Purchased  
Fiscal Years 2011 and 2012  
(Estimates)**

	Fiscal Year 2011		Fiscal Year 2012	
	Number of Vehicles	Estimated Price	Number of Vehicles	Estimated Price
<b>Light Duty Vehicles</b> Sedans, cargo vans, pickup trucks w/one ton capacity of less, and safety command vehicles	76	\$1,914,338	178	\$4,193,403
<b>Medium Duty Vehicles</b> Trucks with 14,000 lbs to 26,000 lbs gross vehicle weight capacity including maintenance trucks, 1.5 cy dump trucks, aerial lifts	46	\$3,634,600	17	\$843,688
<b>Heavy Duty Vehicles</b> Refuse packers, heavy duty 3 axle trucks, tractors, heated patch trucks and heavy aerial lifts	16	\$1,957,000	17	\$4,906,114
<b>Law Enforcement Motorcycles &amp; Scooters</b> 11 scooters used by parking enforcement and 9 police motorcycles	20	\$599,000	0	\$0
<b>Construction/Off Road Vehicles</b> Tractors, beach screens, wood chippers, backhoes, electric carts and various trailers	28	\$1,474,810	33	\$1,346,951
<b>Subtotal Fleet</b>	<b>186</b>	<b>\$9,579,748</b>	<b>245</b>	<b>\$11,290,156</b>
<b>Global Positioning System (GPS)</b>				\$1,300,000
<b>TOTAL (Vehicles and Equipment)</b>		<b>\$9,579,748</b>		<b>\$12,590,156</b>

