

DATE ISSUED: February 5, 2004 REPORT NO. 04-036

ATTENTION: Public Safety and Neighborhood Services Committee
Agenda of February 11, 2004

SUBJECT: Fire-Rescue Department RFP for Leasing Fire Apparatus

REFERENCE: City Manager's Report 03-121, dated June 11, 2003

SUMMARY

Issues:

1. Should the City Council authorize San Diego Fire-Rescue Department to develop a Request for Proposal to lease fire engines in seven year increments for the next seven to fourteen years versus continuing the current practice of lease-purchasing fire apparatus?

Manager's Recommendation:

1. Direct the Fire-Rescue Department, in conjunction with City staff, to develop and circulate a Request for Proposal (RFP) to lease fire engines in seven year increments for the next seven to fourteen years. Based on the responses to the RFP, a final determination for the most cost effective process for purchasing fire engines will be determined for the FY 2005 budget process.

BACKGROUND

San Diego Fire-Rescue Department (SDFD) presented a comprehensive review of the status of the entire Fire and Marine fleet at the July 30, 2003, meeting of PS&NS. The Committee directed City staff to evaluate the concept of a feasibility study to partner with an apparatus manufacturer for a ten-year replacement and repair program. The program concept was twofold:

1. Lease fire apparatus for a duration of five years, with one-fifth of the fleet replaced every year, including reserves, with the option to continue the program in increments of five years.

2. Develop a joint-use repair and warranty facility specifically for use to repair SDFD vehicles, but also to be used as a countywide service and warranty repair facility.

The ultimate goal of this was to ensure a reliable and dependable emergency response fleet to handle fire, medical and marine emergencies by developing a cost-effective and sustainable fleet replacement program.

DISCUSSION

In August and September of 2003, an interdepartmental working group was established to evaluate the feasibility of partnering with an apparatus manufacturer for a ten-year replacement and repair program. The final group included personnel from Purchasing, Labor-Relations, Local 127, City Treasurer/Financing Services, Equipment Services, Financial Management's Optimization Program, Real Estate Assets and the City Attorney's Office. A subcommittee was identified to gather specific information regarding Fire-Rescue's existing fleet and facility costs for development of a comparison of the status quo versus a proposed forecasting of the lease concept for fire apparatus.

Based on the initial cost/benefit analysis, a determination was made to focus on only leasing fire engines. There was limited cost/benefit identified to the leasing of fire aerial ladder trucks. In addition, the decision was made to postpone the discussion of a joint warranty service and repair facility until the practicality of leasing fire engines has been determined.

Several cities were identified and contacted who are currently leasing a limited number of fire engines, or considering leasing apparatus; i.e., Houston, Fountain Valley, Kansas City, Montebello, etc. However, no municipality was identified that is currently leasing fire engines on the magnitude or scale that Fire-Rescue is proposing. Several apparatus manufacturers were also contacted regarding their level of interest in pursuing this type of arrangement, and they expressed interest in responding to this type of RFP.

Cost/Benefit Analysis

The Department evaluated three different acquisition programs: (1) a five-year lease program (Attachment #1) leasing ten engines per year, (2) a seven-year lease-purchase program (Attachment #2) starting with ten engines per year and declining to five engines per year to maintain a twelve-year replacement cycle, and (3) a seven-year lease program (Attachment #3) leasing seven engines per year. The Department enlisted the support of Financial Services in developing the lease-purchase costs. The lease costs were calculated by staff from the Optimization Program using an actual quote from a major fire apparatus manufacturer, one quote for a five-year lease proposal, and another quote for a seven-year lease proposal (Attachment #4). To summarize their findings (Attachment #5), the seven-year lease proposal will save the City about \$812,000 over seven years compared to the five-year lease program, and about \$674,000 when compared to the seven-year lease-purchase program. It should be noted that this proposal does not include any revenue projections associated with the sale of fifty engines during the term of the lease, nor does it include any "volume discount" for leasing fifty engines

from a sole source. Maintenance costs are not included in these calculations and do not impact the recommendation stated in the Conclusion. Maintenance costs tend to peak after seven to eight years and this proposal will significantly reduce these costs. The Department calculates at least an additional 15% reduction in the cost of this proposal from revenues associated with engine resale, volume discounting, and maintenance cost reductions.

Other benefits must be considered in this proposal. Consistency in the type of engine will result in departmental wide operator and repair familiarization, and therefore, improved efficiency. Time consuming and expensive installation of mounting systems and outfitting of firefighting tools can be completed by the manufacturer. If considered successful during the trial period, the lease concept could be considered for expansion to the fire support fleet and the lifeguard vehicles and vessels. SDFD is currently in a good position to move the twelve 2002 and several 1997 engines into a reserve capacity as the proposed lease apparatus completely fill our front line engine requirements.

The seven-year lease proposal is based on acquiring fifty engines over the term of the lease. This proposal will modernize the fire engine fleet more quickly than the current practice of lease-purchasing fire apparatus, and at a significantly reduced cost to the City. The maintenance costs associated with a seven-year lease are far less than the current practice of lease-purchasing apparatus and maintaining them for twelve years, or usually longer.

CONCLUSION:

Given the City of San Diego's commitment to modernize the Fire-Rescue Department's engine fleet in an expeditious and cost-effective manner, and given the City's current dire financial situation, the Department is recommending the following:

- Direct the Fire-Rescue Department, in conjunction with City staff, to develop and circulate a Request for Proposal (RFP) to lease fire engines in seven year increments for the next seven years with an option for an additional seven year term. Based on the responses to the RFP, a final determination for the most cost effective process for acquiring fire engines will be determined for the FY 2005 budget process.

Respectfully submitted,

Jeff Bowman
Fire Chief

Approved by: _____
P. Lamont Ewell
Assistant City Manager

TKJ

Note: The attachments are not available in electronic format. A copy is available for review in the Office of the City Clerk.

- Attachments:
1. Five-Year Lease Program
 2. Seven-Year Lease-Purchase Program
 3. Seven-Year Lease Program
 4. Fire Apparatus Manufacturer Five-Year, Seven-Year Quote
 5. Fire Engine Acquisition Options Summary