

DATE ISSUED: November 9, 2005 REPORT NO. 05-220

ATTENTION: Honorable Deputy Mayor and City Council
Agenda of November 14, 2005

SUBJECT: San Diego Police Helicopter Procurement

REFERENCE: PS&NS Dockets of July 14, 2005 and September 7, 2005
Manager's Report 04-150, dated July 9, 2004

SUMMARY

Issues –

3. Should the City Council authorize the City Manager to award a contract to American Eurocopter to purchase four AS350B3 “Astar” law enforcement helicopter frames?
4. Should the City Council authorize the City Manager to award a contract to FLIR Systems, Incorporated, to purchase two FLIR systems for the new police helicopters?
5. Should the City Council authorize the City Manager to award a contract to JetSource Avionics to outfit the new police helicopters and complete deliveries to the City?
6. Should the City Council authorize the City Manager to pursue the purchase and outfitting of four American Eurocopter AS350B3 “Astar” law enforcement helicopters utilizing the most cost effective lease purchase plan available?
7. Should the City Council provide the City Manager with the pre-existing authorization to expeditiously execute the transaction via the Equipment and Vehicle Financing Program (EVFP), in place of the loan terms offered in the vendor financing package, if it is the most cost effective plan?
8. Should the City Council authorize the City Manager to declare its intent to sell the existing helicopters and use sale proceeds for the purchase of four new law enforcement helicopters?
9. Should the City Council authorize the City Manager to amend and execute said amendment to the FY 2004 Master Lease Agreement with Bank of America LLC for the purpose of financing four new law enforcement helicopters via the Equipment and Vehicle Financing Program?

10. Should the City declare its intent to use proceeds of indebtedness to reimburse itself for the purchase of four new law enforcement helicopters should there be a need to pay the vendor prior to financing by enacting a Reimbursement Resolution?

Manager’s Recommendations –

3. Authorize the City Manager to award a contract to American Eurocopter to purchase four AS350B3 “Astar” law enforcement helicopter frames.
4. Authorize the City Manager to award a contract to FLIR Systems, Incorporated, to purchase two FLIR systems for the new police helicopters.
5. Authorize the City Manager to award a contract to JetSource Avionics to outfit the new police helicopters and complete deliveries to the City.
6. Authorize the City Manager to finance the purchase and outfitting of four American Eurocopter AS350B3 “Astar” law enforcement helicopters, utilizing the most cost effective lease/purchase plan available.
7. Authorize and provide the City Manager with the pre-existing authorization to expeditiously execute the transaction via EVFP, in place of the loan terms offered in the vendor financing package, if it is the most cost effective plan.
8. Authorize the City Manager to declare the City’s intent to sell the existing helicopters and use sale proceeds for the purchase of four new law enforcement helicopters.
9. Authorize the City Manager to amend and execute said amendment to the FY2004 Master Lease Agreement with Bank of America LLC for the purpose of financing four new law enforcement helicopters via lease-purchase.
10. Declare its intent to use proceeds of indebtedness to reimburse itself for the purchase of four new law enforcement helicopters should there be a need to pay the vendor prior to financing by enacting a Reimbursement Resolution.

Fiscal Impact –

The City of San Diego received a proposal for the outfitting and delivery of four new American Eurocopters AS350B3 “Astar” police helicopters, with delivery expected to begin in June of 2006. The cost of this purchase is defined as follows:

<u>Equipment</u>	<u>Cost</u>
Helicopter Airframes (4)	\$ 8,519,248
Infrared FLIR Systems (2)	681,192
Outfitting Police Equipment Completion	<u>2,046,172</u>
Total	\$11,246,612
 Tax (at 7.75%)	 <u>\$871,612</u>
 Total Cost	 \$12,118,224

It is recommended that the equipment and outfitting expense of \$11,246,612 be funded via the EVFP, financed over a seven (7)-year period. An annual appropriation will need to be included in the Police Department's budget to cover the annual lease payments. The estimated lease payments are \$1,823,300 (including sales tax) in FY 2007 and \$1,902,800 annually thereafter for the term of the lease until FY 2014 when the lease payment is \$951,400. A payment schedule is attached (see attachment 2). The sales tax expense of \$871,875 will be cash funded through the Police Department's existing FY 2007 budget, pending reimbursement from the sale proceeds of the existing helicopter fleet.

In Fiscal Year 2006 or early Fiscal Year 2007, the existing fleet of four Police Department helicopters will be sold with the intent of using the proceeds to offset the Fiscal Year 2007 expenses related to the purchase of the four new police helicopters. The existing fleet has recently been appraised at a value of \$1,740,000 and potential buyers are awaiting release of this equipment.

The additional costs associated with operating the Police Helicopter Program, including personnel, direct operating costs, and other contractual services, will continue to be funded through the Police Department's General Fund and non-General Fund budgets.

BACKGROUND

On July 14, 2004, the Police Department appeared before the Public Safety and Neighborhood Services Committee to present an update on the Police Helicopter Fleet Status and Needs Assessment. The committee directed the City Manager to return with an analysis of the feasibility of a lease or lease purchase program, to replace the aging helicopter fleet. In addition, the City Manager was directed to identify specific financing options that would include an accounting for the savings that could result from implementing the City Manager's proposal.

DISCUSSION

The Police Department's Air Support Unit currently operates an aging fleet of police helicopters in constant need of costly maintenance and repair. A police sergeant oversees nine pilots, four tactical flight officers, and two civilian mechanics. On an annual basis, the Air Support Unit averages over 3,000 flight hours, covers 7,600 radio calls, assists in 980 suspect apprehensions, covers 140 pursuits, and is the first police unit on the scene in 42% of the calls they cover.

The current air fleet consists of three Bell 206 Jet Rangers helicopters, one Bell 206L4 Long Ranger helicopter, and two Cessna 182RG airplanes. The major concern is the continued operational integrity of the helicopter fleet. The age and structural integrity of the helicopter airframes are public safety issues requiring immediate attention. The ages and hours of usage for each helicopter are as follows:

- Unit N703SD – B206B (38-years-old, 23,700+ Flight Hours)
- Unit N704SD – B206B3 (31-years-old, 20,100+ Flight Hours)

- Unit N705SD – B206B3 (12-years-old, 11,100+ Flight Hours)
- Unit N706SD – B206L4 (12-years-old, 9,800+ Flight Hours)

Helicopter Selection

The Police Department's Air Support Unit conducted substantial research on identifying potential helicopters and equipment that would meet law enforcement needs. Two models of helicopters were identified as appropriate for police service - the Bell Model 407 and the American Eurocopter Model AS350B3. Specifications were identified and the Purchasing Department produced and managed the Request For Proposals (RFP). The RFP was completed and American Eurocopter was selected as the vendor capable of delivering new police helicopter frames at the best value available to the City.

Specialized Equipment Selection

The helicopters selected require specialized equipment not available via the airframe manufacturer. The specific equipment necessary for the law enforcement function includes two Forward Looking Infrared Systems (FLIR), similar to the Dual Sensor Airborne Thermal Imaging Systems manufactured by FLIR Systems, Incorporated. These will be mounted on two of the four new helicopters. Two additional FLIR System hard mounts will be purchased to support installation on the other two helicopter airframes. This allows the two FLIR Systems to be transferred and shared between all four helicopters within the fleet. The ability to interchange this equipment results in a reduction of the initial purchase outlay and keeps this vital equipment in the air where it is most valuable to public safety. Specifications were identified and the Purchasing Department produced and managed the Request For Proposals. The RFP was completed and FLIR Systems, Incorporated, was selected to provide this equipment at the best value available to the City.

Helicopter Outfitter Selection

In addition to the purchase of helicopter airframes, a separate vendor is required to professionally outfit and complete each new helicopter airframe with specialized equipment necessary to perform the law enforcement function. The helicopter outfitter supplies the labor force that installs avionics, the FLIR System hardware, miscellaneous parts and supplies, and is ultimately responsible for providing the City with a complete "turn key" police helicopter that meets bid specifications. The specifications for a helicopter outfitter were identified in the Request For Proposals. The RFP was completed and JetSource Avionics was selected as the helicopter outfitter most capable of delivering four new, completely equipped police helicopters at the best value available to the City.

Helicopter Delivery Timeline

Assuming City Council approval of the lease purchase agreement and ordering helicopters by November 1, 2005, the following are estimated delivery dates for the four police helicopters:

Helicopter 1	June 1, 2006
Helicopter 2	August 1, 2006
Helicopter 3	October 1, 2006
Helicopter 4	December 1, 2006

Delivery includes installation of FLIR and law enforcement support equipment in a completed status. The Police Department Air Support Unit Commander will approve acceptance of each completed helicopter.

Sale of Existing Fleet

Once the first new helicopter has been delivered, the sale of the existing fleet will begin, using the following timeline:

<u>Helicopter</u>	<u>Estimated Sale Date</u>	<u>Estimated Sales Price</u>
Lot 1: #704	June 1, 2006	\$230,000
#705	June 1, 2006	489,000
Lot 2: #703	December 1, 2006	237,000
#706	December 1, 2006	<u>784,000</u>
Total		\$1,740,000

Lease and Lease/Purchase Analysis

The Police Department, in partnership with the City’s Financing Services and Purchasing Divisions, explored a number of purchase, lease and financing options to fund the helicopter replacement program.

Option 1 - The team looked at the option of leasing the helicopters and determined it was the most costly of all options offering no residual equity at the end of the lease period.

Option 2 - A second option of conducting a direct City purchase of helicopters was not feasible due to the lack of funds within the Police Department budget to support this action.

Option 3 - The final analysis confirmed the best strategy to pursue was a minimum seven (7) - year lease purchase program, with the option to cash fund this purchase and reimburse the City when financing is available. The benefits of this strategy include:

- City ownership of four new police helicopters with a service life expectancy of at least 15 years. Ownership allows the City to maintain valuable assets that may eventually be sold to produce revenue for future replacement purchases.
- The ability to minimize the initial financial impact in the first year of procurement by spreading this major expenditure over a period of seven (7) years.

- Placing four brand new, state of the art police helicopters in the City of San Diego during FY 2007, outfitted with the latest communications technology and public safety equipment. Total fleet replacement will put police helicopters in the field that are consistent in make, model, design and operational functionality, eliminating the current operational hazards identified in Manager's Report #04-150, dated July 9, 2004.

Recommended Funding Plan

On September 7, 2005, the Police Department appeared before the Public Safety and Neighborhood Services Committee (PS & NS) requesting the approval to bring the purchase of four law enforcement helicopters before the City Council. Among the options presented to purchase the helicopters was using the City's Equipment and Vehicle Financing Program (EVFP) by amending the Master Lease Agreement with the FY 2004 primary Lessor, Bank of America Leasing and Capital, LLC.

Established in 1994, EVFP is a lease purchase program used to acquire equipment critical to City operations. Among the acquisitions were refuse packers, fire apparatus, a wide variety of trucks and the LED traffic signals. The program has enabled the City to purchase equipment to meet mandated deadlines (e.g. new refuse packers to meet State of California air emissions requirements) or to replace aging fleets or equipment in a timely manner (e.g. placing twelve fire engines on the streets for the same annual fiscal impact as buying two with cash).

The most recent Equipment and Vehicle Financing Program (EVFP) annual lease-purchase contracts expired on June 30, 2004. The Lessors for the FY 2004 EVFP, five- and seven-year terms were Bank of America Leasing and Capital LLC as primary provider, and Comerica Leasing Corporation as the back-up provider. Due to the unavailability of audited financials for FY 2003 and FY 2004, staff was unable to execute FY 2005 EVFP contracts. Request for Proposals to identify lease providers for FY 2006 has not occurred due to the same challenges that deterred implementation of FY 2005 contracts.

During FY 2005 the City accessed the EVFP FY 2004 contracts to meet citywide needs on outstanding equipment orders that had been ordered during the FY 2004 contract year. This was accomplished on an as-needed basis by successfully extending the term of the FY 2004 agreement with Bank of America beyond the 12-month period. These leases included several pieces of fire apparatus and refuse packers that would have been ordinarily financed under FY 2005 contracts. In addition to meeting all the pre-existing equipment orders from FY 2004, recently staff was successful in arranging funding from Bank of America under the FY 2004 EVFP contract for the San Diego Fire Department purchase of one used Fire-Rescue Helicopter.

Upon receiving PS & NS direction, staff examined whether EVFP, based on FY 2004 contract terms with the primary (Bank of America) and back-up (Comerica) lease providers, could be utilized for the financing of four Police Department helicopters. Bank of America Leasing and Capital LLC is willing to fund under an amendment to the FY 2004 contract. The amendment changes the Percentage of the Index Rate and the prepayment provision in the original FY 2004 Master Lease Agreement. Given that even with these changes it is still more cost effective to use EVFP in place of the loan terms offered in the vendor financing package it is recommended that

the City Manager use his pre-existing authorization to expeditiously execute the transaction via EVFP upon Council authorization of the amendment to the Master Lease Agreement for FY 2004.

Estimated Cost Savings

The age of the current helicopter fleet is a serious concern. The Police Department incurs substantial costs and out of service time associated with unscheduled maintenance on this aging fleet. Corrosion and metal fatigue are a major concern when aircraft reach the age of our current fleet, despite being well maintained. The replacement of these helicopters will result in the following benefits to the City and the Police Department:

- Each new helicopter will be identically equipped, minimizing training impacts while maximizing operational efficiency and public safety interoperability
- Increased payload capacity will allow full fuel loads and the ability to evacuate rescue victims and assist with fire suppression duties
- Increased performance and improved response times as helicopters are available in-service as opposed to being routinely grounded for unscheduled maintenance
- The ability to orbit at a higher altitude reducing noise impact to residents on the ground

Implementation of this helicopter fleet replacement program will result in the following estimate of cost savings and expenditure reductions:

The purchase of new helicopters will eliminate the excessive costs for unscheduled maintenance and repair required to keep our current fleet operational. However, keeping the existing helicopters operational still does not enable us to fulfill many of our mission requirements, due to limited capabilities and outdated technology within the current fleet. Over the last seven years, as an example, we have spent over \$145,000 to repair our FLIR Model 2000 infrared imagers. They are still in need of additional repairs, and we anticipate spending up to \$55,000 to keep them operational. About five years ago, the 38-year old helicopter required \$393,500 for a substantial retrofit and new skin on the body. The 31-year-old helicopter is at the point of needing a similar retrofit; today's cost would likely exceed \$400,000. Even if we put these substantial investments into the existing fleet, the helicopters will not be capable of meeting the Police Department's operational needs.

Because the new helicopters will all be the same model, training costs will be reduced, in that pilots will no longer need to be trained on two different types of helicopters. Additionally, training for all current pilots, as well for three future pilots, is included in the purchase price of the new helicopters, eliminating post-purchase training expenditures.

SUMMARY

A multi-year lease purchase helicopter fleet replacement plan provides substantial economic and operational advantages to the City of San Diego. We receive the benefit of volume pricing, minimal parts inventory, a simplified training program, improved maintenance efficiency, and a low interest purchase option that creates a positive economic perspective for this type of plan.

The approval of this plan will give the City the opportunity to field the safest aircraft available, clearly capable of performing the law enforcement mission, and configured in a consistent manner with interchangeable support equipment and replacement parts. The lease purchase helicopter fleet replacement plan will replace an aged helicopter fleet and is an effective, long-term, cost efficient solution to the issues identified in Manager's Report 04-150, dated July 9, 2004.

Respectfully submitted,

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Chief of Police

Charles Mueller, Jr.
Acting City Treasurer

P. Lamont Ewell
City Manager

EWELL/LANSDOWNE/MUELLER/jcl

Attachments: [1. Amended Master Lease Agreement with Bank of America](#)
[2. Equipment and Financing Program \(EVFP\) Estimate](#)