



DATE ISSUED: September 13, 2006 REPORT NO: 06-129

ATTENTION: Council President and City Council
Docket of September 19, 2006

SUBJECT: Lease-Purchase of FY 2007 Fire Apparatus

REFERENCE:

The City of San Diego
REPORT TO THE CITY COUNCIL

REQUESTED ACTION:

Authorize the Mayor to lease-purchase FY 2007 General Fund Fire Apparatus in the amount of \$2,550,000, to that effect authorize the execution of the Third Amendment to the Master Lease Agreement with Banc of America Leasing and Capital LLC, over a seven-year repayment term.

STAFF RECOMMENDATION:

Approve the requested action.

SUMMARY:

The City utilizes the Equipment and Vehicle Financing Program (EVFP), a short-term lease-purchase funding option, to acquire essential equipment for the City. The lease-purchase option enables the City to fund high priority equipment used to provide essential operations such as fire protection, streets maintenance, and refuse collection. It is an alternative to cash funding. As needed, the lease purchase option was utilized to acquire City's Fire apparatus since Fiscal Year 1994.

The Fire-Rescue Department has a critical need to purchase three 100 foot service aerial ladder trucks to replace the ladder trucks acquired in 1989 which are becoming increasingly unreliable and expensive to keep in service. Replacing these apparatus is the highest priority item on Fire Department's FY 2007 unfunded needs list. The FY 2007 budget included funding to support the department's engine/pumper lease program but did not include any funds for ladder truck replacement. However, due to the critical need and a lengthy build time, these trucks should be ordered as soon as possible, and since they will not be received by the City until FY 2008, no additional funding toward sales tax or the annual lease purchase payment will be required to be identified in FY 2007.

The City already has a multi-year vendor agreement with Pierce Manufacturing to provide fire trucks as required by the department. Upon the City Council approval to lease purchase and the ordinance comes into effect, the vendor order will be placed with Pierce Manufacturing. The

purchase price of \$2,550,000 for three aerial ladder trucks (\$850,000 per truck) will be funded through the lease-purchase funding agreement with Banc of America Leasing and Capital, LLC . See below. The total cost over the repayment term is estimated at approximately \$3,259,500 (purchase price/principal amount - \$2,550,000, interest cost over the lease term - \$511,800, and the sales tax - \$197,700).

Upon learning the Fire Department’s priority need for the ladder trucks replacement in FY 2007 and the Office of IBA’s inquiry whether EVFP can be utilized to fund the purchase, Department of Finance requested Banc of America Leasing and Capital, LLC to submit a funding proposal and confirm its willingness to lease purchase the 3 ladder trucks. Banc of America is the lease provider for the seven-year lease term selected on a competitive basis under the FY 2004 EVFP program. No new EVFP contracts have been executed since FY 2004 due to the unavailability of financial statements.

Third Amendment to the FY 2004 Master Lease Agreement

The lease-purchase authorization for the 3 ladder trucks is structured similar to the recent lease-purchase of police helicopters and refuse packers. Below is a summary of the FY 2004 Master Lease Agreement with Banc of America and the subsequent amendments to the Master Lease Agreement:

Agreement	Acquisition	Interest Rate	Term
FY 2004 Master Lease Agreement	Essential Equipment	2.67% - 3.71%	5 - 7 years
1 st Amendment (Dec. 2005)	Police Helicopters	3.91% - 4.23%*	7 years
2 nd Amendment (est. Oct. 2006)**	Refuse Packers & Beach Equipment	4.84% (estimate)	5 years

* Interest rate for the 2 helicopters and related equipment funded as of August 2006 under the 1st Amendment. Two more helicopters and related equipment are also ordered under 1st Amendment. Vendor payment is not yet due.

** See the companion docket item, authorization for proposed 2nd Amendment and refuse packers acquisition.

A Third Amendment to the Master Lease Agreement is proposed to secure the financing for the fire apparatus. This Third Amendment will increase the cumulative funding capacity authorization under the FY 2004 Master Lease Agreement for the 5-7 year terms with Banc of America to \$54.8 million (\$30 million – FY 2004 Master Lease; \$15 million for the police helicopter program, \$6.8 million for the refuse packers and beach equipment; and \$3 million for the fire apparatus).

For the ladder trucks, based on the expected useful life of the equipment of over 7 years, the interest rate index will be the U.S. Treasury securities with a 7-year maturity identified at the time funds are drawn in installments as the equipment is received and accepted by the Fire-Rescue Department. The pricing (effective interest rate = % of index + spread) will be set by reference to the City’s most recent underlying general obligation (GO) credit rating release as of the date of the equipment acceptance. For example, the effective interest rate at the City’s most recent credit G.O. rating confirmation (Moody’s A3) would be 65% of the index (U.S. Treasury securities at 7-year maturity) plus 160 basis points (1.60%). Based on current interest rates (ending the week of June 23, 2006), the borrowing rate from Banc of America is approximately

4.95% (which results in an annual lease purchase payment of approximately \$437,400 over a seven-year term starting FY 2008). Note that the actual interest rate will be fixed at the time the vendor is paid for the delivery of the ladder trucks based on the City's GO credit rating and the interest rate conditions prevailing at that time using the interest rate methodology described above.

Similar to the First and Second Amendments and as noted above, a change in the City underlying general obligation credit rating at any time on or prior to the date of equipment acceptance and payment will result in a change in the spread. If the City's underlying GO credit rating improves at any time on or prior to the date of apparatus acceptance, the effective interest rate would drop to 65% of the index (U.S. Treasury securities at 7 year maturity) plus 137.5 basis points (1.375%). If there is a rating deterioration, the effective interest rate would increase to 65% of the index plus 183 basis points (1.83%). In the event of the credit ratings falling below Baa1/BBB+, the terms of the lease purchase will be renegotiated by the City and BALCAP in good faith. Prepayment of the amount borrowed will be permitted throughout the lease term at 101% of the outstanding principal amount.

FISCAL CONSIDERATIONS:

There is no fiscal impact in Fiscal Year 2007. The estimated fiscal impact over a seven year term, assuming a delivery between September 2007 and November 2007, is as follows (subject to changes in market conditions, dates of delivery and/or equipment costs):

FY 2008	\$416,400 (one semi-annual lease payment plus sales tax)
FY 2009	\$437,400 (two semi-annual lease payments)
FY 2010	\$437,400
FY 2011	\$437,400
FY 2012	\$437,400
FY 2013	\$437,400
FY 2014	\$437,400
FY 2015	\$218,700 (one semi-annual lease payment)
TOTAL	\$3,259,500

The acquisition costs are summarized below:

Principal	\$2,550,000 (estimated cost of equipment)
Interest	\$ 511,800 (estimate)
Sales Tax	\$ 197,700 (cash funded, not financed)
TOTAL	\$3,259,500

For comparison, the cash purchase option will result in a total cost of \$2,747,700 (cost of equipment plus sales tax) with the the entire cash payment to be identified in Fiscal Year 2008.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

The current contract for the acquisition of aerial ladder trucks was established by a competitive bid process, and was adopted by the City Council on November 19, 2001 via Resolution # R-295713.

Ordinance O –19160 was established on April 17, 2003 to authorize the FY 2004 Master Lease Agreement with the Banc of America Leasing and Capital LLC for 5-, 6- and 7- year lease terms.

Ordinance O-19452 was established on December 5, 2005 to authorize a first Amendment to the Master Lease Agreement with the Banc of America Leasing and Capital Group to lease-purchase four Law Enforcement Helicopters.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: n/a

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

The contract for aerial ladder trucks is with Pierce Manufacturing. The financial institution that was considered is Banc of America.

Fire Chief

Deputy Chief/Chief Operating Officer
Public Safety/Homeland Security

Chief Financial Officer