



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: February 28, 2007 REPORT NO: 07-045
ATTENTION: Council President and City Council
Docket of March 6, 2007
SUBJECT: Lease-Purchase Agreement with Koch Financial Corporation
REFERENCE: Public Safety Communications Projects, Report No: 05-237 and 05-051

REQUESTED ACTION(S):

Authorize the Mayor to enter into a lease-purchase agreement with Koch Financial Corporation ("Koch") for the following:

- Motive Equipment in the amount not to exceed \$11.6 million
- Public Safety Communications Equipment in an amount not to exceed \$3.0 million

STAFF RECOMMENDATION:

Approve the requested action.

SUMMARY:

The City is seeking to finance, via a master lease-purchase agreement, the acquisition of motive and public safety equipment. A request for proposals ("RFP") was issued through the City's Purchasing Division on January 9, 2007, to solicit financing proposals for the motive equipment and Enterprise Resource Planning system¹. Koch was the sole bidder to finance the motive equipment acquisition. Staff considers the rate quoted by Koch to be competitive, while adhering to the stringent conditions set forth in the RFP and given the City's inability to produce audited financial statements. Subsequently, staff was advised of the need to finance the last segment of the City's Public Safety Communications project, in an amount of approximately \$3 million. Due to the fact that Koch was the sole respondent to the RFP for the motive equipment and their rate was competitive, staff inquired with, and it was accepted by Koch, to finance this additional project, under the same terms and conditions spelled out in its RFP response.

¹ The City issued an RFP to solicit financing proposals for 2 separate projects – acquisition of motive equipment and implementation of the Enterprise Resource Planning System. The financing proposal being brought forward for City Council approval at this time is for the acquisition of motive equipment.

Master Lease Agreement with Koch Financial Corporation

(i) For Motive Equipment in the amount, not to exceed \$11.6 million

The City's non-public safety fleet size currently is about 2,600 vehicles; each year about 300-400 vehicles are replaced with new motive equipment. Attachment 1 lists the equipment that General Services Equipment Division has identified as requiring financing to complete the fleet needed to fulfill the requirements of various general fund departments to provide established City services. The equipment list includes 29 automated refuse packers, and various other trucks, vans, and other vehicles totaling 148 items.

The replacement of 29 automated refuse packers is required in the current year due to end of their useful life and completion of the dual fuel LNG demonstration project. Replacement of the final 29 LNG refuse packers is urgently needed due to the impending expiration of the LNG fuel supply and Station Lease contract on December 7, 2007. Renegotiation or extension of this contract to service only 29 alternative fuel vehicles would not be cost effective. Removal of the LNG system to allow the equipment to operate on ultra low sulfur diesel fuel would require the installation of diesel particulate traps at a cost of \$10,000 per vehicle to comply with the California Air Resources Board (CARB) diesel particulate regulations. An expenditure of \$290,000 to install these traps on obsolete equipment with minimal possible service life remaining would not be a cost effective use of City funds.

The decision to replace the remaining motive equipment is based not only on age or the end of a vehicular life cycle, but also on an assessment that takes into consideration mileage, condition, and technological needs. Delays in replacing diesel equipment also delays emission reductions. The requested equipment should have been replaced at the beginning of FY 2007; the process has been delayed due the inability to lease-purchase equipment on an as needed basis, via the City's Equipment and Vehicle Financing Program, in the absence of the ongoing Master Lease Agreements under this Program.

The vendors for some of listed equipment have already been selected through competitive bid processes managed by the Purchasing Division, while other vendors are in the process of being selected (see Attachment 1 for details).

Debt Management staff determined that the rates quoted by Koch (see table 1 below), the sole respondent for financing motive equipment, is a competitive rate, more aggressive than recent bids provided by vendors for similar purposes².

Table 1

Term	MMD "AAA" Interest Rate as of 1/18/07	% of MMD "AAA" Interest Rate as of 1/18/07	Effective Rate as of 1/18/07
5 year	3.55%	120.5633%	4.28%
7 year	3.59%	119.7771%	4.30%

² PACCAR Financial, the financing arm of the vendor for refuse packers, proposed to finance the refuse packers at 6% (5-yr treasury + 1.25%)

The effective interest rate and the annual lease payment obligation will be set at the time funds are drawn to pay vendors when the equipment is received and accepted by the City. The financing term chosen will be based on the useful life of the equipment as expressed in Attachment 1, i.e. equipment with useful life of five to seven years would be financed over five years; equipment with useful life of eight or more years would be financed over seven years. In addition to the principal amount financed of \$11.6 million, sales tax of approximately \$896,100 and fitting costs of approximately \$153,100 would be cash funded when the equipment is delivered and accepted.

(ii) For Public Safety Equipment in the amount, not to exceed \$3 million

Staff was advised of the need to finance the last segment (approx \$3 million) of the Public Safety Communications project. The project, currently in progress to upgrade the 800MHz Radio System was originally projected to be \$21 million, \$15 million of which was financed through the equipment vendor, Motorola. Additional monies were obtained through awarded grants, leaving a funding need of approximately \$3 million for the procurement of the remaining system hardware and services as detailed in Attachment 2. In summary, the last segment is for site upgrades, power, and ancillary improvements in support of the 800 MHz Radio System and Microwave system. Approximately 80% of the \$3 million is for hardware costs and the remaining 20% is for vendor services.

FISCAL CONSIDERATIONS:

(i) Motive Equipment

Motive Equipment will be financed for either five or seven year terms, determined by the useful life of each class of equipment, i.e. vehicles with a useful life of five to seven years (\$618,000) will be financed over a five year term, and vehicles with useful lives of eight or more years (\$10,944,420) will be financed for a seven year term. Funds to replace motive equipment are generated by annual charges or Assignment Fees to departments for each item of motive equipment; the actual charge is based on the anticipated replacement cost divided by the number of years in the life cycle. The proposed lease purchase agreement with Koch for the acquisition of motive equipment is for an amount not to exceed \$11.6 million; the total estimated lease payments, including estimated interest cost in future years based on the rate proposed by Koch are presented in Table 2 below. There is no fiscal impact in Fiscal Year 2007. The lease payments for future years are subject to annual appropriations; lease payments will be included in future budgets and City Council approval will be obtained through the annual budget process. The annual lease payments will be met with funds generated from the aforementioned Assignment Fees.

Table 2

	Financed		Cash Funded	Total Fiscal Impact
	5 yr Term	7 yr Term		
	\$618,000	\$ 10,944,420		
Year	Lease Payments		Sales Tax & Fitting Costs	
FY 08	\$69,000	\$909,000	\$1,049,200	\$2,027,200
FY 09	\$139,000	\$1,818,000		\$1,957,000
FY 10	\$139,000	\$1,818,000		\$1,957,000
FY 11	\$139,000	\$1,818,000		\$1,957,000
FY 12	\$139,000	\$1,818,000		\$1,957,000
FY 13	\$69,000	\$1,818,000		\$1,887,000
FY 14		\$1,818,000		\$1,818,000
FY 15		\$909,000		\$909,000
Total	\$694,000	\$12,726,000	\$1,049,200	\$14,469,200

Assumptions

- Equipment is delivered and accepted in FY 08
- Financing term is based on useful life of the Equipment as outlined in Attachment 1.
- Effective interest rate based on MMD index as of 1/8/07
 - 5 year term: 4.28% (120.5633% of 5-yr MMD)
 - 7 year term: 4.30% (119.7771% of 7-yr MMD)
- Interest rate is fixed at the time of vendor payment
- Sales tax: \$896,100 and fitting costs: \$153,100 are cash funded in FY 08

(ii) Public Safety Equipment

The equipment for the last segment of the Public Safety Communications project costing approximately \$3 million is proposed to be financed over a 7 year period (the equipment has an useful life of 10-15 years). The proposed lease purchase agreement with Koch for the acquisition of public safety equipment is for an amount not to exceed \$3 million; the total estimated lease payments, including estimated interest cost in future years based on the rate proposed by Koch are presented in Table 3 below. There is no fiscal impact in Fiscal Year 2007. The hardware costs (80% of the \$3 million) will incur a sales tax of approximately \$186,000, which will be cash funded. The lease payments for future years are subject to annual appropriations; lease payments will be included in future budgets and City Council approval will be obtained through the annual budget process.

Table 3

	Financed		Cash Funded	Total Fiscal Impact
	\$3,000,000			
Year	Lease Payments	Sales Tax		
FY 08	\$250,000	\$186,000		\$436,000
FY 09	\$501,000			\$501,000
FY 10	\$501,000			\$501,000
FY 11	\$501,000			\$501,000
FY 12	\$501,000			\$501,000
FY 13	\$501,000			\$501,000
FY 14	\$501,000			\$501,000
FY 15	\$250,000			\$250,000
Total	\$3,506,000	\$186,000		\$3,692,000

Assumptions

- Implementation of this last segment of the project will be completed in FY 08
- Financing term - 7 years
- Effective interest rate based on the the 7-yr MMD Index as of 1/18/07: 4.30%
- Interest rate is fixed at the time of vendor payment
- Sales tax ~ \$186,000 cash funded in FY 08

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

(i) Motive Equipment

The current contract in place for the acquisition of motive equipment was established by a competitive bid process, and was adopted by the City Council on December 1, 2003, in Resolution # 298641.

(ii) Public Safety Communications Project

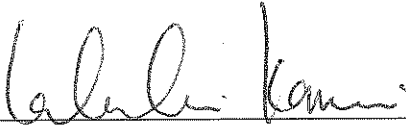
- R-298345: Authorizing application for FY 2003 Urban Areas Security Initiative – Part II (UASI-II) Grant Program
- R-299094: Authorizing application for FY 2004 Urban Area Security Initiative Grant
- R-299631: Authorizing accept, expend, appropriate & administer grant funds from FY 2004 State Homeland Security Grant Program
- R-300311: Grant funds from U.S. Department of Justice for San Diego Police Department Interoperable Communications COPS 2004 Technology Program
- R-301636: Authorizing Regional Interoperable Communications Development Grant-Funded Expenditures
- Ordinance O-19458: Authorizing expenditure of \$15,100,150.09 for the Master Lease Purchase Agreement with Motorola, Incorporated for the SmartZone 4.1 Communications System

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

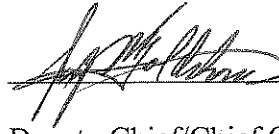
N/A

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

A contract totaling \$14.6 million for the financing of motive equipment and public safety equipment will be with Koch Financial Corporation.



Originating Department



Deputy Chief/Chief Operating Officer

Attachments:

1. List of Motive Equipment
2. Public Safety Communications Project – Items to be financed