



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

DATE ISSUED: March 19, 2008

REPORT NO: 08-039

ATTENTION: Council President and City Council

SUBJECT: Agenda of March 25, 2008  
First Amendment to the Master Lease Agreement with Koch Financial Corporation

REFERENCE: Fire/Rescue Helicopter Acquisition, Report #08-011

REQUESTED ACTION(S):

Authorize the Mayor to execute the First Amendment to the Master Lease Agreement with Koch Financial, increasing the authorization for the lease purchase of Fire Helicopter and essential equipment and vehicles from \$14.6 million to an amount not to exceed \$37.3 million.

STAFF RECOMMENDATION:

Approve the requested action.

SUMMARY:

**I. Background**

The City is currently seeking to finance, via lease-purchase, a new Fire/Rescue helicopter and certain motive equipment to meet Fiscal Year 2008 fleet replacement needs. The City utilizes the Equipment and Vehicle Financing Program (EVFP), a lease-purchase funding option, to acquire essential equipment. 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. The EVFP has been utilized to lease-purchase the City's motive equipment and other special needs since Fiscal Year 1998.

**II. Vehicles and Equipment Being Financed**

**A. Fire Helicopter**

The San Diego Fire-Rescue Department (SDFD) currently has a refurbished Bell 212 medium-lift fire-rescue helicopter. The acquisition of a new state-of-the-art Fire Department Helicopter is proposed to maximize availability, minimize response times, and provide mission flexibility and emergency medical services response. Estimated cost of a new helicopter equipped with standard Level 1 IFR technology is estimated at \$8.5 million. This medium-lift helicopter would be configured with technologically

advanced equipment unique to SDFD's specific needs including increased generator capacity, high transmission drive-system, vibrations monitoring system and four-blade composite main rotor with a service life expected to be 15 years. Estimated cost for procurement and installation of ancillary equipment is estimated at an additional \$2 million. The total cost of the completed helicopter is expected to be between \$10.4 million and \$10.6 million. It is expected to be procured by August of calendar year 2008.

### ***B. Motive Equipment***

The City provides a wide variety of services to its communities and residents. Examples include police, fire, graffiti control, library, traffic signal maintenance, street light maintenance, roadway asphaltting, storm drain maintenance, street sweeping, trash/refuse collection, building maintenance, and park maintenance. Motive equipment is essential to conduct services and provide a benefit to the public. The current fleet size is 4,600 vehicles; this year 814 vehicles are scheduled to be replaced with new motive equipment, 37% or 305 of which are required to be lease purchased. Vehicles are replaced by an assessment of mileage, technological needs and life cycle. Funds to replace motive equipment are supported by annual charges to user departments for each piece of motive equipment.

#### Fiscal Year 2008 Fleet Replacement Needs

The City is currently in the process of procuring its Fiscal Year 2008 fleet replacement needs. Essential and immediate Lease Purchase Fleet Services needs for Fiscal Year 2008 consists of the replacement of police vehicles, parking enforcement scooters and support vehicles as well as Non-Safety Fleet vehicles such as, Light, Medium and Heavy Duty Motive Equipment. Also included in the replacement needs is the lease-purchase of 20 compact pickup trucks for the Water Department Meter Reading group. The acquisition of these vehicles will expand the duties of the Meter Readers and result in higher productivity and customer service.

Attachment 1 provides a detail listing of equipment, useful life, and purchase prices. The total cost of the acquisition is estimated at \$12.01 million with financing terms between 3 and 5 years.

### **III. Financing**

#### ***A. Selection of the Lender***

Given the urgent need for financing of the fire helicopter and other vehicle and equipment needs, an amendment to the existing Master Lease Agreement was identified as the most feasible financing alternative. Several firms with existing contracts with the City were contacted<sup>1</sup>, of which 3 firms expressed interest in financing the current vehicle and equipment needs of the City. On December 20, 2007, a request for bids was sent to the 3 firms, Koch Financial Corporation, Bank of America Leasing and Capital, and GE Government Finance.

Bids were evaluated based on interest rates proposed for various lease periods. Attachment 2 is a summary of bids received. Koch Financial Corporation ("Koch") was selected as the lender for the current transaction by submitting the most cost effective funding offer.

---

<sup>1</sup> Firms that were contacted were Koch Financial Corporation, Bank of America Leasing and Capital, GE Government Finance, Motorola, Key Municipal Finance, Comerica, and PB Municipal Finance.

**B. First Amendment to the Master Lease Agreement with Koch Financial Corporation**

A First Amendment to the Master Lease Agreement is required to secure financing for the acquisition of the fire helicopter and Fiscal Year 2008 motive equipment. This amendment would increase the cumulative funding capacity of the existing contract with Koch by \$22.7 million. The current Master Lease Agreement, in an amount not to exceed \$14.6 million<sup>2</sup> with Koch Financial Corporation was approved by the City Council on March 27, 2007 under Ordinance O-19584. The First Amendment to the Master Lease Agreement will increase the total authorization from the existing \$14.6 million to an amount not to exceed \$37.3 million. Additionally, the acquisition of the helicopter requires an Aircraft Supplement in accordance with the provision of the Cape Town Treaty Implementation Act of 2004. See Attachment 3 for additional key provisions as it relates to the helicopter acquisition.

**C. Execution of First Amendment and Lease Purchase of Vehicles & Equipment**

The amendment to the Master Lease Agreement will be executed upon City Council authorization via an Ordinance. The proposed vehicles and equipment to be financed will be ordered after the authorizing ordinance goes into effect. Upon delivery, followed by testing and acceptance of the equipment and vehicles by the City, the vendors will be paid by Koch on a funding date agreed to by Koch and the City. The equipment/vehicles typically are received and accepted in installments, with expected delivery varying between 2-7 months. The effective interest rate, which will determine the annual lease payment obligation, is fixed at the time funds are drawn to pay vendors as the equipment is received and accepted by the City.

**FISCAL CONSIDERATIONS:**

**I. Fire Helicopter**

The fire helicopter estimated to cost approximately \$10.6 million is proposed to be financed over a 15-year term based on its useful life. The estimated fiscal impact over the 15-year repayment term, assuming delivery of the equipment in August 2008, is as follows (subject to changes in market conditions, date of delivery and/or equipment costs):

Description	
FY 2009 Sales Tax payment	\$ 821,500
FY 2010 Annual Payments	\$ 1,044,891
FY 2011	\$ 1,044,891
FY 2012	\$ 1,044,891
FY 2013	\$ 1,044,891
FY 2014	\$ 1,044,891
FY 2015	\$ 1,044,891
FY 2016	\$ 1,044,891
FY 2017	\$ 1,044,891
FY 2018	\$ 1,044,891
FY 2019	\$ 1,044,891
FY 2020	\$ 1,044,891
FY 2021	\$ 1,044,891
FY 2022	\$ 1,044,891
FY 2023	\$ 1,044,891
FY 2024	\$ 522,445
Total Lease Payments (rounded)	\$ 15,150,913
Total Payments (Including Sales Tax) (rounded)	\$ 15,972,413

Estimates, subject to change

**Assumptions:**

- Vendor payment date: September 15, 2008
- 1st semi-annual payment 12 months after vendor payment
- Estimated interest rate: 4.73%  
(AAA MMD \* 118.0203%; AAA MMD as of 02/15/08: 4.01%)
- Sales tax is not financed, and will be paid at the time of vendor payment

<sup>2</sup> Projects authorized under this agreement were the acquisition of Motive Equipment in an amount not to exceed \$11.6 million and the Public Safety Communications Project in an amount not to exceed \$3 million.

Summary of Acquisition Costs

Principal Amt Funded:	\$10.60 mil
Interest paid:	\$ 4.55 mil
Sales Tax:	\$ 0.82 mil
Total:	\$15.97 mil

The annual lease payments will be included in future budgets and City Council approval will be obtained through the annual budget process. Based on current projections, it is anticipated adequate funds exist within Fire-Rescue’s helicopter special fund account #10264 to pay the sales tax upon aircraft delivery and to pay for the lease-payments through Fiscal Year 2010. Lease payments would need to be supported by the General Fund beginning in Fiscal Year 2011.

In addition to lease-payments, expenses related to operations and maintenance and staffing will be incurred, which would be supported by the General Fund commencing Fiscal Year 2009.

**II. Motive Equipment**

Motive Equipment estimated at \$12.01 million will be financed over three-year and five-year-term determined by the useful life of each class of equipment. The breakdown is as follows (See Attachment 1 for a complete list of equipment, useful life, and description):

<u>Amount financed</u>	<u>Financing Term</u>
\$ 49,000	3 years
\$ 11,962,470	5 years
Total \$ 12,011,470	

There is no projected fiscal impact in Fiscal Year 2008. 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 estimated fiscal impact is as follows (subject to changes in market conditions, dates of delivery and/or equipment costs):

	<u>3 YR</u>	<u>5 YR</u>	<u>Total</u>
FY 2009 - Sales Tax payment	\$ 3,798	\$ 927,091	\$ 930,889
FY 2009 - Fitting Costs	\$ 7,576	\$ 515,500	\$ 523,076
<b>Lease Payments</b>			
FY 2009	\$ 8,596	\$ 1,308,585	\$ 1,317,181
FY 2010	\$ 17,192	\$ 2,617,169	\$ 2,634,362
FY 2011	\$ 17,192	\$ 2,617,169	\$ 2,634,362
FY 2012	\$ 8,596	\$ 2,617,169	\$ 2,625,766
FY 2013		\$ 2,617,169	\$ 2,617,169
FY 2014		\$ 1,308,585	\$ 1,308,585
Total Lease Payments (rounded)	\$ 51,577	\$ 13,085,847	\$ 13,137,424
Total Payments (Lease payments + sales tax + fitting costs) (rounded)	\$ 62,950	\$ 14,528,438	\$ 14,591,389

Assumptions:

- Vendor payment date: July 1, 2008
- 1<sup>st</sup> semi-annual payment 6 months after vendor payment
- Estimated interest rate for 3 year term: 2.83% (AAA MMD \* 122.0395%; AAA MMD as of 02/15/08: 2.32%)
- Estimated interest rate for 5 year term: 3.23% (AAA MMD \* 120.5635%; AAA MMD as of 02/15/08: 2.68%)

Summary of Acquisition Costs

	<u>3 year term</u>	<u>5 year term</u>
Principal Amount Funded	\$ 49,000	\$ 11,962,470
Interest Paid	\$ 2,577	\$ 1,123,377
Sales Tax	\$ 3,798	\$ 927,091
Fitting Costs	\$ 7,576	\$ 515,500
TOTAL (rounded)	\$ 62,950	\$ 14,528,438

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 City's multiple sub-fund account #500311.

PREVIOUS COUNCIL MEETING and/or COMMITTEE ACTION:

The current agreement with Koch Financial was authorized by the City Council on March 27, 2007 under Ordinance O-19584. The amount financed was for Motive equipment and Public Safety Communications Project with a total amount not to exceed \$14.6 million.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

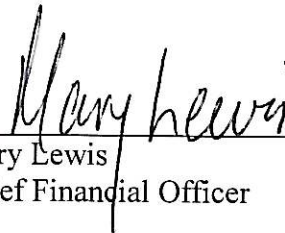
N/A

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Koch Financial, the lease provider, is the sole business entity involved in this agreement extension.



Lakshmi Kommi  
Debt Management Director



Mary Lewis  
Chief Financial Officer

Attachments:

1. List of Motive Equipment
2. Summary of Bids Received
3. Helicopter Lease Financing - Additional Key Provisions/Documents