



REPORT TO COUNCIL

City of Sacramento

915 I Street, Sacramento, CA 95814-2604
www.CityofSacramento.org

CONSENT
February 23, 2010

Honorable Mayor and
Members of the City Council

Title: Cooperative Purchase Agreement: Fire Apparatus Acquisition

Location/Council District: Citywide

Recommendation: Adopt a **Resolution:** 1) approving the use of Houston-Galveston Area Council (HGAC) cooperative purchasing agreement (Contract No. FS12-07) with Golden State Fire Apparatus, Inc. to purchase up to ten Pierce fire apparatus in an amount not to exceed \$6.3 million; 2) authorizing the Office of the City Treasurer to execute lease-financing documents with Bank of America NA to secure funding for the acquisition of fire apparatus in the estimated amount of \$4.8 million; 3) authorizing the City Manager or the City Manager's designee to execute the purchase specified above; 4) authorizing the Finance Director to amend the revenue and expenditure budget for the Fire Apparatus/Equipment capital improvement project (F12000300) to reflect the fire apparatus financing as secured by the City Treasurer; 5) authorizing the Finance Director to transfer up to \$110,000 from the North Natomas Community Improvement Fund (3201) to the North Natomas Fire Station 43 Capital Improvement Project (F13000700) for the increased costs of fire apparatus; and 6) directing staff to bring forward a recommendation to equip the North Natomas Fire Station(s), and, if appropriate, a recommendation to modify the standard-form North Natomas Development Agreement prior to executing the final purchase of that equipment.

Contacts: Keith Leech, Fleet Manager, 808-5869, Christopher Stewart, Procurement Services Manager, 808-6202.

Presenters: Not applicable

Departments: General Services

Divisions: Fleet Management

Organization No: 13001311

Description/Analysis:

Issue: The Department of General Services, Fleet Management Division has a customer requirement to purchase seven replacements and up to three additional

pieces of fire apparatus for the Fire Department. The additional apparatus are necessary for fire response in North Natomas including apparatus for the new North Natomas fire station (Station 43), currently under construction.

Policy Considerations: In accordance with City Code 3.56.240 the City Manager may, by cooperative purchasing agreements approved by the City Council, purchase supplies through contracts of other governmental jurisdictions, without separate competitive bidding where it is advantageous to the City. The use of cooperative contracts results in lower operating costs through volume purchasing and combining resources with other governmental agencies.

Committee/Commission Action: Not applicable

Environmental Considerations:

California Environmental Quality Act (CEQA): The Environmental Services Manager has determined that the act of purchasing vehicles does not have the potential for causing a significant effect on the environment and is therefore exempt under CEQA Guidelines, Categorical Exemption Section 15061(b)(3).

Sustainability Considerations: Fleet Management is committed to providing its customers with alternatives to traditionally fueled vehicles whenever practical. In developing the specifications for this purchase, Fleet Management determined it was not feasible to procure alternatively fueled fire apparatus at this time.

The 2009 or newer model year fire apparatus to be purchased will be California Air Resources Board and United States Environmental Protection Agency certified. Model year 2009 or newer fire apparatus feature 96% reduction of particulate matter and 90% reduction of nitrogen oxides when compared to the vehicles they will replace.

Rationale for Recommendation: In order to fulfill the ongoing requirement to purchase fire apparatus, Fleet Management and the Fire Department have worked cooperatively to develop specifications that will best meet the operational requirements of the Fire Department.

In an ongoing effort to maximize cost savings and staff resources, many government agencies share contracting efforts through cooperative purchasing. This procurement approach increases price competitiveness and reduces operating costs through volume buying. When comparing the administrative costs of procurement, staff considers product research, source selection, specifications, advertising, staff reports, awarding, protest, and administration of the contract. It is often more cost-effective to eliminate the cost and time spent on these administrative processes and purchase items and services through a cooperative purchasing program.

The City has used both regional and national cooperative purchasing agreements to complement its own contracting initiatives. Cooperative purchasing enables City departments and the Procurement Services Division to evaluate a broader range of contracting opportunities and to share resources with other jurisdictions. Cooperative purchasing also leverages internal and external resources to maximize cost savings opportunities for the City.

In addition to the benefits of cooperative purchasing, by including the apparatus for Station 43 in this order for replacement apparatus, the City will save as much as \$65,000 through multiple unit discounts and availability of in-stock emissions compliant diesel engines.

Financial Considerations: On July 14, 2009, City Council adopted Resolution 2009-465, authorizing the Office of the City Treasurer to enter into an amendment to the Master Lease Equipment Acquisition agreement with Bank of America Public Capital Corporation to secure a \$10 million credit line. After funding one liquefied natural gas mobile trailer and 60,000 green-waste containers, approximately \$6.7 million remains unspent. Upon approval of the recommendations in this report approximately \$4.8 million of the line of credit will be used to acquire the seven proposed replacement fire apparatus, leaving a balance of approximately \$1.9 million for future considerations approved by City Council.

The proposed borrowing is consistent with the long term funding strategy established to ensure that fire apparatus are replaced on a 15 year schedule, and balances the use of lease financing and cash purchases. Funding received from the lease financing will be added to the Fire Apparatus/ Equipment (F12000300) CIP for the purchase of replacement fire apparatus.

North Natomas Station 43: On June 23, 2009, City Council adopted Resolution No. 2009-421 approving \$9.6 million from the North Natomas Community Improvement Fund (Fund 3201) to fund the construction of a new fire station and the purchase of related apparatus (truck, engine and ambulance). Staff determined that the terms of the North Natomas Financing Plan and standard form Development Agreement limit the use of the North Natomas funding to equipment for operations that are non-revenue generating. This limits the funding in the capital project to the station truck and engine purchases.


Additionally, Fire staff performed a risk assessment of the North Natomas community and determined that the community would be better served by having two grass rigs (one for Station 30 and one for Station 43) in lieu of the proposed truck. Therefore, staff is in the process of recommending this modification to the proposed equipment plan and the (as yet unsigned) standard form Development Agreement.


Staff will be meeting with community members to discuss the proposed equipment needs for North Natomas based on the Fire Department's operational review of equipment needs for this area of the City. The purchase of fire apparatus is eligible for multiple-unit discounts for equipment purchases made within 60 days of the initial order.

In an effort to reduce equipment costs for Station 43 (as much as a \$65,000 savings dependent on the types of apparatus purchased), staff is recommending approval to include the authority to purchase the needed fire apparatus for Station 43 along with the scheduled fire apparatus replacements, subject to staff returning to Council with a recommendation for Station 43 apparatus and, if appropriate, a recommendation to amend the standard-form North Natomas Development Agreement.

\$1.4 million of the total funding for Station 43 has been allocated, and is available, for the purchase of fire apparatus. Current equipment pricing for fire apparatus has increased since the CIP was established for Station 43. If the operational plan developed includes a truck instead of two grass rigs, an additional \$110,000 must be added to the CIP. Additional funding is not required if the plan developed includes an engine and two grass rigs.

Emerging Small Business Development (ESBD): Golden State Fire Apparatus, Inc. is certified as an Emerging/Small Business Enterprise (ESBE).

Respectfully submitted by: 
Keith Leech
Fleet Manager

Approved by: 
Reina J. Schwartz
Director, Department of General Services

Recommendation Approved:



Ray Kerridge
City Manager

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Attachment 1

BACKGROUND

- The City of Sacramento Fire Department currently has 55 pieces of fire apparatus.
- In 2001, in an effort to standardize, a purchase of 11 Pierce pumpers and 3 Pierce aerial trucks was made from Golden State Fire Apparatus, Inc. Since then, the City has purchased 20 other Pierce apparatus of various models (pumpers, aerials, hazmat response and heavy rescue trucks).
- In FY2006/07 the replacement schedule for fire apparatus was changed from a 20-25 year replacement schedule (based on the specific type of apparatus) to a 15 year replacement schedule. This change was made in an effort to address equipment maintenance/reliability issues resulting from significantly higher mileage due to increased calls for service.
- In FY2006/07 funding for fire apparatus was moved from the City's operating budget to the Capital Improvement Program (CIP) due to the cost of the equipment, the length of time it takes to acquire it and the life of the equipment.

Attachment 2**SUMMARY OF TERMS AND CONDITIONS**

Pursuant to the Lease Line terms and conditions, dated June 11, 2009, the interest rate and payments used in the funding for the fire trucks is not determined until the financing documents are executed. When financing documents are executed the rate is calculated using the following formula:

$$10 \text{ Year Term Rate} = \text{Average Weighted Life Swap Index (6) Years} \times .65 + 2.5425\%$$

As of January 19, 2010, the estimated rate based on the formula above is 4.512%, resulting in semi-annual payments of \$299,335.

The terms of the financing arranged by the City Treasurer's Office are as follows:

Estimated loan amount:	\$4,775,766
Loan term:	10 years
Estimated interest rate:	4.512%
Annual debt service:	\$598,670

The following provides more detailed information on the terms of the City's agreement for the lease financing to be used for the fire apparatus.

<u>Date:</u>	June 11, 2009
<u>Lessee:</u>	City of Sacramento, CA
<u>Lessor:</u>	Banc of America Public Capital Corp, Bank of America NA or designee ("Lessor")
<u>Equipment:</u>	Essential Use Equipment
<u>Structure:</u>	Master Lease Line of Credit. The lease line will be set for a total of \$10MM. Indexing the rate will be valid until 9/30/09 and is reviewed quarterly.
<u>Security:</u>	Lien on the assets
<u>Term:</u>	A) 5 Years B) 10 Years, payable Semi-annually in arrears

Interest Rate: **A) 4.04% B) 4.98%**

The rates above as of 6/11/09 have been based on the following formula:

Average Weighted Life Swap Index (3 year) 2.59% X .65
+235.65 = 4.04%

Average Weighted Life Swap Index (6 year) 3.75 X .65 + 254.25
= 4.98%

Market Disruption: Notwithstanding anything contained herein to the contrary, in the event any material change shall occur in the financial markets after the date of this proposal letter, including but not limited to any governmental action or other event which materially adversely affects the extension of credit by banks, leasing companies or other lending institutions, Lessor may modify the indicative pricing described above.

Payments: Semi-annually payments in arrears

**Governmental
Entity Lease:**

The Base Rent installments are calculated on the assumptions, and Lessee will represent, that Lessee is a state or political subdivision of a state within the meaning of Section 103(c) of the Internal Revenue Code (the "Code"), and that this transaction will constitute an obligation of Lessee within the meaning of Section 103(a) of the Code, notwithstanding Section 103(b) of the Code. Lessee shall provide Lessor with such evidence as Lessor may request to substantiate and maintain such tax status. Lessee shall comply with the filing requirements of Section 149(e) of the Code. Lessee will pay Lessor amounts calculated at a taxable rate sufficient to maintain Lessor's yield in the Lease, in the event Lessor suffers a loss of Federal income tax exemption of the interest portion of the rentals.

Early Termination: After the first 50% of the term, the Lessee may prepay the Lease with 30 days written notice. After the 50% of the term, the prepayment penalty will be 3%, 2% and 1% for the remaining years. The amount paid will also include accrued interest, principal balance and any other charges due.

End of Term: At the expiration of the Lease Term, Lessee will purchase all (but not less than all) the Equipment for **\$1.00** ("Purchase Price").

Opinion of Counsel: Lessee's counsel shall deliver a tax and validity opinion to Lessor at closing in form and substance satisfactory to Lessor. The opinion of counsel will cover the following tax matters, in addition to other customary opinions:

- (a) the portion of Base Rent designated as and constituting interest paid by Lessee and received by Lessor is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from state personal income taxes;
- (b) such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes; and
- (c) counsel has examined, approved and attached the text of the enabling resolution of Lessee's governing body authorizing Lessee to enter into the Lease.

Escrow Account: In compliance with applicable regulations, including but not limited to arbitrage reporting, the proceeds of the Lease may be deposited into an escrow account acceptable to Lessor, and disbursements made there from to pay for the equipment upon execution and delivery of an acceptance certificate (and related documents) by Lessee and approved by Lessor.

Documentation: The master lease will need to be modified to reflect the terms detailed in the cover sheet and terms. This transaction is subject to acceptable documentation in Lessor's sole discretion.

Credit Approval: This transaction has not been formally credit approved but will be submitted quickly after an acceptance of terms.

Proposal Expiration: This proposal will expire on June 30, 2009 and may be re-issued at Lessor's discretion.

RESOLUTION NO. 2010-XXXX

Adopted by the Sacramento City Council

February 23, 2010

APPROVING FIRE APPARATUS ACQUISITION USING A COOPERATIVE PURCHASING AGREEMENT

BACKGROUND

- A. The Department of General Services, Fleet Management Division has a customer requirement to purchase replacement fire apparatus for the Fire Department.
- B. In accordance with City Code 3.56.240 the City Manager may, by cooperative purchasing agreements approved by the City Council, purchase supplies through contracts of other governmental jurisdictions, without separate competitive bidding where it is advantageous to the City. The use of cooperative contracts results in lower operating costs through volume purchasing and combining resources with other governmental agencies.
- C. On June 23, 2009 the City Council adopted Resolution 2009-421, authorizing the establishment of the North Natomas fire station (Station 43) capital improvement project (F13000700) with a budget of \$9.6 million in North Natomas Community Improvement Funds (Fund 3201) for the construction of the fire station and purchase of related equipment (truck, engine and ambulance).
- D. The terms of the North Natomas Financing plan limit use of the North Natomas funding to equipment for operations that are non-revenue generating. This limits the funding in the capital project to the station truck and engine purchases.
- E. A risk assessment by the Fire Department of the North Natomas community indicates that the community would currently be better served by two grass rigs (one for Station 30 and one for Station 43) in lieu of the proposed truck.
- F. On July 14, 2009, City Council adopted Resolution 2009-465, authorizing the Office of the City Treasurer to enter into an amendment to the Master Lease Equipment Acquisition agreement with Bank of America Public Capital Corporation to secure a \$10 million credit line.
- G. The Master Lease Equipment agreement approved by Council has been used to fund one liquefied natural gas mobile trailer and 60,000 green-waste containers. Approximately \$6.7 million remains unspent. Upon approval of the recommendations in this report approximately \$4.8 million of the line of credit will

be used to acquire seven proposed replacement fire apparatus, leaving a balance of approximately \$1.9 million for future considerations approved by City Council.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1. The use of Houston-Galveston Area Council (HGAC) cooperative purchasing agreement (Contract No. FS12-07) with Golden State Fire Apparatus, Inc. to purchase up to ten Pierce fire apparatus in an amount not to exceed \$6.3 million (\$4.8 million in lease financing and up to \$1.5 million in North Natomas Improvement funds (Fund 3201) is approved.
- Section 2. The Office of the City Treasurer is authorized to execute lease-financing documents with Bank of America NA to secure funding for the acquisition of fire apparatus in the estimated amount of \$4.8 Million through the ratified Master Equipment Lease / Purchase Agreement, dated March 16, 2004 and the Amended Master Agreement dated November 18, 2009.
- Section 3. The City Manager or the City Manager's designee is authorized to execute the purchase specified above.
- Section 4. The Finance Director is authorized to amend the revenue and expenditure budget for the Fire Apparatus/Equipment capital improvement project (F12000300) to reflect the fire apparatus financing as secured by the City Treasurer.
- Section 5. The Finance Director is authorized to transfer up to \$110,000 from Fund 3201 to the North Natomas Fire Station 43 capital improvement project (F13000700) project for the increased costs of fire apparatus.
- Section 6. Prior to purchasing the equipment for the North Natomas Fire Station(s), staff is directed to return to Council with a final equipment recommendation and, if appropriate, to include a recommendation to modify the standard-form North Natomas Development Agreement.