City of Richmond

Report to Committee

To:	Community Safety Committee	**Date:**	May 5, 2003
From:	Jim Hancock Fire Chief	**File:**	5140-01
Re:	**RFP for Sale and Leaseback Agreement for Fire vehicles**		

Staff Recommendation

That the Purchasing Department exercise the option outlined in Section 11.4 of the current FRP submission by GE Fleet Services to add new Fire Rescue Vehicles/Equipment to the lease program.

J Hancock

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Fire Chief
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Staff Report

Origin

The current method of funding vehicle and equipment replacement is through the Fire Vehicle Replacement Statutory Reserve Fund. This Fund is sustained by annual budget allocations based on the replacement value, depreciation, and operating and maintenance costs of each vehicle. Such a Fund has the advantages of stabilizing equipment replacement funding, maintaining full ownership, and protecting routine replacement from the fluctuations of the annual budget process. In recent years, contributions to the Fund have not kept pace with the needs of the Fund.

The current rate of depletion will result in complete exhaustion of the reserve by 2003 year-end.

The Finance Department and Richmond Fire-Rescue (RFR) have been evaluating alternative strategies with a goal of bolstering the Fund, improving cash flow, minimizing tax impact and ensuring the timely renewal of the fire vehicle fleet in order to meet the demands of the RFR operations.

Analysis

Based on the approval of the report titled "MOU for the Supply and Delivery of Fire Apparatus" the current Reserve Fund will be completely depleted. There is an annual contribution from the operating budget of $458,300. As part of the 10-year capital plan, it is anticipated that a virtual overhaul of the entire fleet will be completed. Therefore, based on this need and these levels of usage there is no funding available to accommodate the capital purchases.

Historically, there has been no established vehicle acquisition program and no departmental standard for determining the useful life of fire apparatus. Vehicles have been replaced on an ad-hoc basis that has made cash flow planning impossible. The desired replacement cycle is 15 years as recommended by the National Fire Protection Association.

<u>OPTION 1 – Extend the useful life of existing fire vehicles</u>

A number of options have been analyzed to deal with this shortfall.

RFR is already extending the useful life of fire apparatus by deferring the replacements beyond a 15-year life cycle. With this initiative comes the increased costs of repairs and maintenance and a reduction in vehicle reliability. Attempting to extend beyond a 15 year life cycle will increase the risks and may result in costs that outweigh any optional benefits. The apparatus due for replacement are considered obsolete and inadequate to meet RFR's needs. For example, the total resale value of the three vehicles replaced in 2002 is approximately $22,000 while the replacement cost is approximately $2M. This is not an option that has any appeal, as staff feel it does not serve the City's interests at any level.

OPTION 2 – MFA or Bank Loan to bridge the shortfall

This is only a stopgap measure. Analysis has shown that while this option will initially provide some cash relief, it will hurt us in the long run resulting in tax increases in order to meet repayments of the principal and interest. This is not an option staff feel should be pursued.

OPTION 3 - Sale and leaseback agreement

This option involves selling the vehicle fleet to a third party for cash and in turn leasing the fleet back from them over a 5 year term. The current market has sale/leaseback rates ranging from 4.5% to 5.5%. This means that we could leverage a rate of return greater than the lease interest cost based on the present return on our investment portfolio. If we were to sell the vehicle fleet alone we would receive over $2.6 million in cash which could then be reinvested at over 5.5% or utilized for the acquisition of other assets.

It is important to note that this is the only viable option in order to meet the long-term RFR vehicle needs. The RFR fleet analysis has shown that sufficient funding was not contributed to the reserve in order to meet the needs of RFR

Financial Impact

The financial benefits of a sale and leaseback agreement for the RFR fleet are that the City receives $2.6 million cash up front that can be either reinvested or utilized for the acquisition of other assets.

Conclusion

Based on the above analysis, it is recommended that staff approach GE Fleet Services and incorporate the Fire fleet into the existing agreement.

for

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