



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: SEPTEMBER 26, 2017

FROM: FIRE DEPARTMENT WARDS: ALL
FINANCE DEPARTMENT

**SUBJECT: MEASURE Z – PURCHASE OF 16 VEHICLES FROM PIERCE
MANUFACTURING AND FIREMATIC SUPPLY THROUGH THE HOUSTON-
GALVESTON AREA COUNCIL IN AN AMOUNT NOT TO EXCEED \$10,996,622
PLUS 7.5% CHANGE ORDER AUTHORITY AND NEW CAPITAL LEASE
FINANCING FOR ABOVE FIRE VEHICLES IN AN AMOUNT UP TO \$14,500,000
– RESOLUTION – SUPPLEMENTAL APPROPRIATION**

ISSUE:

Using previously appropriated Measure Z funds, approve the purchase of 16 fire vehicles from Pierce Manufacturing in the amount of \$10,996,622 through the Houston-Galveston Area Council plus 7.5% change order authority, and approve a capital lease for the financing of these 16 fire vehicles and related equipment in an amount up to \$14,500,000.

RECOMMENDATIONS:

That the City Council:

1. Adopt the attached resolution approving a financing agreement with Banc of America Public Capital Corp in the amount of up to \$14,500,000, payable over a seven to ten year period at rates up to 2.25% and other related documents, in order to finance the purchase of 16 fire vehicles and related equipment as described below;
2. Authorize the City Manager, or his designee, to execute all documents necessary to complete the financing including making minor and non-substantive changes;
3. Appropriate funding for the previously approved Measure Z fire vehicle replacement plan, in the amount of \$14,500,000, to account number 3510009-450058, Vehicle Replacement – Fire; and
4. Approve purchase orders for the purchase of 16 vehicles from Pierce Manufacturing through the Houston-Galveston Area Council in an amount not to exceed \$10,996,622 plus 7.5% change order authority, utilizing the above capital lease financing.

BACKGROUND:

Measure Z – Fire Vehicles

The Measure Z Five-Year Spending Plan was adopted by the City Council on May 16, 2017 (Attachment 7). Included in that that spending plan was approximately \$11.15 million in Fire Department vehicle replacement costs over the first five years, including a one-time infusion of 16 vehicles that were to be financed over 10 years, consisting of eight fire engines, two tiller trucks, one straight truck, two water tenders, one brush truck and two squads.

Financing History – Banc of America Capital Corp.

In September 2013, the Finance Department undertook a Request for Proposals (RFP) to solicit interest from capital lease vendors in financing various equipment acquisitions for the General Fund, including fixtures and equipment at the Convention Center, Fox Performing Arts Center, and Municipal Auditorium. Two vendors responded to the RFP and the City ultimately selected Banc of America Public Capital Corp. as their proposal resulted in the lowest cost to the City. The master lease of \$3,668,000 was for a term of seven years at an interest rate of 1.75% (Schedule 1).

In December 2016, the Finance Department undertook another Request for Proposals (RFP) to solicit interest from capital lease vendors in financing vehicles and hardware, including public safety radio equipment, a Police Department records management system, Community & Economic Development permitting system, and Riverside Public Utility water system heavy vehicles. Seven vendors responded to the RFP and the City selected Banc of America Public Capital Corp. as their proposal again resulted in the lowest cost to the City. The amendment to the master lease of \$10.5 million included payment schedules over eight and ten years at a blended interest rate of 2.37% (Schedule 2).

DISCUSSION:

Fire Department Vehicle Overview

The Fire Department currently has a fleet of 32 vehicles, which represents a diverse range of equipment. The useful life of most fire vehicles is approximately 5-20 years. Generally, battalion and squad vehicles have a 5 to 7 year useful life. Fire engines have a 12-15 year useful life, with mileage limits of 100,000 and 10,000-hour limits on the engine/pump. Additionally, fire trucks have a 15-20 year useful life, with mileage limits of 100,000 miles and 13,500-hour limits on the engine/pump.

In addition to the in-service vehicles detailed above, the Fire Department has a reserve fleet consisting of nine vehicles (Fire Engines-6, Brush Truck-1, Fire Truck-1, and Squad Vehicle-1). The reserve group of vehicles will be replaced as the Fire Department's active fleet is replaced. The reserve vehicles are a vital part of the Fire Department and are used when a vehicle in the existing fleet is under repair or when vehicles need to be sent out of town for mutual aid. The National Fire Protection (NFPA), the organization which creates standards and best practices for the fire service, states that an organization should not keep reserve vehicles past the age of 25 years old. Currently, the Fire Department's reserve fire engines are 22 years old and are in need of replacement.

The Fire Department has worked with staff from General Services, the City Manager's Office

and Finance Department to put together a 20-year funding plan for vehicle replacement. The plan calls for an immediate need of approximately 16 vehicles, which includes eight fire engines, two tiller trucks, one straight truck, two water tender vehicles, one brush truck and two squad vehicles. The total cost is approximately \$14.5 million. A summary of the plan is attached to this report (Attachment 5).

Fire Department Vehicle Purchasing Plan

From the date of purchase, it generally takes between 90-120 days for smaller vehicles (e.g. battalion vehicle) to enter into service and approximately one-year for larger vehicles (e.g. fire engine/truck) to enter into service. The price for sixteen fire apparatus built to Fire Department specifications totals \$10,565,027. An extended 5-year warranty costing \$431,595 brings the total to \$10,996,622. Related equipment necessary to outfit the vehicles for emergency response is estimated to cost \$2,245,000 and includes, including communications package, rescue tools and EMS equipment. The total estimated cost of vehicles, warranty and equipment is \$13,241,622, as summarized below.

Apparatus Type	Quantity Ordered	Total Pricing Per Vehicle Class	Required Equipment (e.g. ladders)	Total
Fire Engine	8	\$5,512,366	\$1,080,000	\$6,592,366
Tiller Truck	2	\$2,820,590	\$430,000	\$3,250,590
Straight Truck	1	\$1,182,825	\$215,000	\$1,397,825
Water Tender	2	\$637,512	\$200,000	\$837,512
Brush Truck	1	\$424,903	\$100,000	\$524,903
Squads	2	\$418,426	\$220,000	\$638,426
	16	\$10,996,622	\$2,245,000	\$13,241,622

Given the immediate need for critical Fire Department vehicles and the length of time between ordering a vehicle and delivery, the Fire Department and Finance Department recommend the City Council approve the purchase of the 16 vehicles through the Houston-Galveston Area Council's (HGAC) cooperative purchasing program, called HGACBuy. The Fire Department researched various manufacturers of fire apparatus and found that Pierce Manufacturing provided the vehicles and add-on options best meeting the Fire Department's specifications for emergency response vehicles.

HGACBuy is a "Government-to-Government" procurement service available nationwide for more than 30-years. As a unit of local government assisting other local governments, HGACBuy strives to make the governmental procurement process more efficient by establishing competitively priced contracts for goods and services, and providing the customer service necessary to help its members achieve their procurement goals. All contracts available to members of HGACBuy have been awarded by virtue of a public competitive procurement process. The City has utilized HGACBuy previously, through the purchase of body-worn cameras for the Policy Department (\$286,454), which was approved by the City Council December 6, 2016.

This procurement is being issued in accordance with Purchasing Resolution 22576, Section 201(f). The City received cooperative pricing through the purchasing agreements with HGAC.

The City’s Purchasing Services Manager concurs that this exception applies and has determined that it is in the best interest of the City to contract with Pierce Manufacturing for the procurement of fire apparatus.

Financing Plan

The Finance Department is seeking to finance up to \$14,500,000 for Fire Department vehicles. Staff recommends the financing be secured by amending the existing Master Lease Agreement with Banc of America to add Schedule 3. Pursuant to this agreement, the City will covenant to make base rental payments for the capital equipment and to include all such base rental payments (appropriations) in each of its budgets. The rate provided by Banc of America to add up to \$15 million to the current Master Lease is 2.0830% for vehicles financed over seven years and 2.183% for vehicles financed over 10 years. These rates are 20 bps less than the rates secured through the most recent capital financing RFP issued in December 2016. Additionally, this process allows the City to move quickly on securing this critical public safety equipment in need of replacement. To verify the pricing the City received was fair, staff reached out to additional institutions the City has relationships with, including US Bancorp Government Leasing and Finance, Inc. and Pinnacle Public Finance, Inc. All institutions surveyed had higher rates.

There is no reserve fund required in this financing, and the financing will be tax-exempt. The financing costs associated with this debt financing amount to \$10,000 representing less than 0.01% of the total financing. Below is a summary of the financing terms:

	Squad Vehicles	All Other Vehicles	Total
Borrowing Amount	\$700,000	\$13,800,000	\$14,500,000
Borrowing Term	7 Years	10 Years	N/A
Interest Rate	2.0830%	2.183%	N/A
Annual Payment	\$107,987	\$1,543,591	\$1,651,578
Total Payments	\$755,906	\$15,435,911	\$16,191,817

The Purchasing Manager agrees with the recommendations in this report.

FISCAL IMPACT:

The total amount requested through financing is \$14.5 million, which allows for approximately 7.5% change order authority in the total cost of the vehicles and related equipment, should it be needed. Specifically, total estimated costs are projected to be \$13,241,622. The 7.5% change order authority would allow Fire staff the opportunity to purchase additional vehicle features, should they be needed and still stay within the adopted budget.

The proposed capital lease of \$14.5 million requires total annual debt service payments of \$1,651,578, which are included in the Measure Z Budget in account number 3595009-882390, Fire Capital - Utilization Charges from 390 (Debt) Fund.

The Measure Z Five-Year Spending Plan was adopted by the City Council on May 16, 2017, which included approximately \$11.15 million for fire vehicles. Based on the financing, including \$10,000 for issuance costs in FY 2017-18, estimated savings over five-years is estimated to be \$143,688.

Expense Category	FY 2016-17	FY 2017-18	FY 2018-19	FY2019-20	FY 2020-21	Total
Budget	\$ -	\$ 1,690,000	\$ 1,990,000	\$ 3,574,252	\$ 3,894,158	\$ 11,148,410
Financing Costs	\$ -	\$ 1,661,578	\$ 1,651,578	\$ 1,651,578	\$ 1,651,578	\$ 6,616,312
Estimated New Vehicles (Cash)	\$ -	\$ -	\$ 300,000	\$ 1,884,252	\$ 2,204,158	\$ 4,388,410
Under/(Over) Budget	\$ -	\$ 28,422	\$ 38,422	\$ 38,422	\$ 38,422	\$ 143,688

Upon approval of supplemental appropriation, all Fire Department vehicle purchases pursuant to this report will be tracked in 3510009-450058, Vehicle Replacement - Fire.

Prepared by: Michael D. Moore, Fire Chief
 Adam Raymond, Chief Financial Officer/Treasurer

Certified as to
 Availability of funds: Edward Enriquez, Controller

Approved by: Marianna Marysheva, Assistant City Manager

Approved as to form: Gary G. Guess, City Attorney

Attachments:

1. Resolution Approving Lease Financing
2. Sources and Uses of Funds
3. Schedule of Property
4. Escrow Agreement and Addenda
5. Fire Vehicle Replacement Plan
6. Presentation
7. 5-Year Measure Z Spending Plan