



REPORT TO MAYOR AND CITY COUNCIL

AGENDA ITEM

TO: THE HONORABLE MAYOR
AND CITY COUNCIL

DATE: February 17, 2009

SUBJECT: Approve Augmentation to Sun Trust Lease

Report in Brief

The City Council previously approved a Vehicles/Equipment Management Policy allowing for the lease purchase of vehicles/equipment with a long service life, minimum initial cost of \$80,000 and/or situations where the City may benefit from alternative financing strategies. In many cases, a lease purchase makes financial sense and helps the City from a cash flow standpoint by avoiding a significant expenditure of funds. SunTrust Leasing Corporation (SunTrust) has been a source of previous lease purchase agreements wherein the City has acquired equipment at very competitive lease rates. The current agreement with SunTrust allows for a lease purchase of equipment needed by the Fire Department upon authorization of an augmentation by the City Council.

Staff recommends that the City Council approve Resolution No. ____ authorizing the Finance Officer to augment an existing Lease Purchase Agreement between the City of Woodland and SunTrust Leasing Corporation for the acquisition of new City equipment as described herein.

Background

On September 7, 2004, the City Council authorized the Finance Director to enter into a lease purchase agreement with SunTrust Leasing Corporation for the acquisition of various City vehicles and equipment. That agreement was executed on September 17, 2004. This lease allows for augmentations upon Council approval. Staff recently evaluated alternative financing options through U.S. Communities, a strategic procurement source for public agencies. U.S Communities solicited rates via a Request for Proposal (RFP) using pre-qualified leasing companies. This service affords Woodland the option to choose between the best rates. After reviewing rate between U.S. Communities and SunTrust, the augmentation is still the least costly when compared to acquiring a new lease. SunTrust is able to offer the City an interest rate of 5.0% through an augmentation of the current lease agreement. Similar leasing programs offered by other lenders are currently above 5.1%. The competitive rates offered by SunTrust allowed the City to approve several augmentations since the initial agreement was implemented in 2004. This request is consistent with those prior approvals.

The City is now prepared for its next acquisition of Self-Contained Breathing Apparatus (SCBA's) equipment with an aggregate valued at over \$80,000 which may be purchased through a lease consistent with City policy. SunTrust is offering very favorable rates and requires the attached resolution to augment the existing lease. This acquisition is time sensitive as discussed in the next section of this report.

Discussion

Firefighters are faced with atmospheres that are "immediately dangerous to life and health" (IDLH) every time they fight fires or mitigate hazardous materials releases. Therefore, firefighters must have adequate respiratory protection to survive these environments and that is accomplished with the use of self-contained breathing apparatus (SCBA).

The SCBAs currently used by the Woodland Fire Department are old (44 of 62 units are over 10 years old), are in increasing need of repairs, are becoming more difficult to secure parts for, are not compatible with most of our neighboring departments, and most importantly, are not reliable. WFD SCBAs have already failed (stuck exhalation valve) in training and on two occasions where firefighters were actually working in an IDLH atmosphere which caused an emergency evacuation of firefighting personnel. The same exhalation valve problem was a contributing factor in the death of a St. Louis firefighter back on May 3, 2002 wearing the same make and model of SCBA the WFD are currently using. In this case nobody was seriously injured; however, Fire Department and City management staff is justifiably concerned. Staff believes the City must replace the breathing apparatus as soon as possible before a firefighter, or a member of the community trapped in a fire or rescue situation, becomes seriously injured or killed because of a malfunction.

The Woodland Fire Department has tried since 2006 to replace these SCBA. The Council approved money in the budget at that time for the first year of a 5-year lease-purchase; however, that money had to be used unexpectedly to replace Automated External Defibrillators (AED) when the law changed requiring their immediate replacement. The Department then tried unsuccessfully in 2006, and again in 2007, to secure Federal Homeland Security grant funding administered through Yolo County OES. The WFD then submitted an application in March 2008 to the Assistance to Firefighters Grant Program administered through the Federal Department of Homeland Security. Both Fire Administration and the Woodland Professional Firefighters waited patiently for nine months before learning in early January 2009 that the application had ultimately been rejected. Fire Administration is now moving forward as quickly as possible to replace the SCBAs through a lease-purchase agreement. The Fire Administration and line firefighters agree that replacing our SCBAs is our **single highest priority** in maintaining firefighter safety.

Fiscal Impact

The total amount of the lease is \$460,000 and will be held in escrow in the City’s name after agreement execution. The City will disperse the funds upon actual purchase of the equipment. Basic lease terms: 5%, 5 years, with quarterly payments of \$26,137.38 (\$104,549.52 annually).

Although lease financing appears to be significantly more expensive over the life of the lease when compared to outright purchasing, it does allow the City to purchase critical equipment during tight budget conditions when cash flow can be an issue. It is also prudent financial practice to finance larger purchases such as this over time as their useful life will dramatically exceed the lease purchase term. In addition, if the annual amortization cost to replace the equipment was included as a factor, the acquisition cost of a lease purchase and an outright purchase would be very comparable. If the City Council approves the recommended action, the augmentation agreement will be executed after final negotiations with the leasing company are complete.

It is our intent to “piggyback” on a current vendor contract in order to secure the best pricing and to expedite this purchase. Each vendor has been contacted and invited to supply us with their “best” contract upon which we may “piggyback” allowing us to enter into a Cooperative Purchase Agreement as approved in the City of Woodland’s purchasing policy.

The costs figures shown in this staff report are intended to be high, or worst –case scenario, for purposes of approval and are expected to be lower than the estimates herein. In either case, the Fire Department will fund the entire lease payment for the balance of FY 09 from the current budget. Therefore, the recommended action will not worsen the City’s current fiscal challenges. The Fire Department will also make every effort to fund the annual lease payments from their budget beginning in FY10. It should be noted that until the vendor contracts are received and reviewed, it is impossible to know at the time this what the exact SCBA costs, and therefore lease payments, will be. If the Fire Department is unable to fund the entire annual payment, the cost will be factored into the FY 2009-10 budget and updated 10-Year Plan. However, given the current fiscal conditions, the cost of this equipment may require additional reductions in another General Fund program.

Public Contact

Posting of the City Council agenda.

Alternative Courses of Action

1. Approve Resolution No. ____ authorizing the Finance Officer to augment an existing Lease Purchase Agreement between the City of Woodland and SunTrust Leasing Corporation for the acquisition of new City equipment as described herein.
2. Direct staff to seek alternative financing proposals for a lease purchase agreement.

Recommendation for Action

Staff recommends that the City Council approve Alternative No. 1.

Prepared by: Al Mancilla
Purchasing Manager

Shannon Collins
Management Analyst

Reviewed by: Amber D'Amato
Finance Officer

Tod Reddish
Fire Chief

Mark G. Deven
City Manager

Attachments

RESOLUTION _____

A RESOLUTION AUTHORIZING EXECUTION AND DELIVERY OF AN AUGMENTATION TO THE SUNTRUST MASTER LEASE AGREEMENT, EQUIPMENT SCHEDULE NO. 1, AN ESCROW AGREEMENT AND RELATED INSTRUMENTS AND DETERMINING OTHER MATTERS IN CONNECTION THEREWITH

WHEREAS, the City Council of the City of Woodland ("City") desires to obtain 64 replacement, Self-Contained Breathing Apparatus (SCBA's) and related accessories by augmenting Equipment Schedule No. 1 to the Master Lease Agreement (collectively, "Amended Lease") with SunTrust Equipment Finance and Leasing Corporation; and

WHEREAS, the Equipment is essential for the City to perform its governmental functions; and,

WHEREAS, the Equipment will cause the City's obligation under the Amended Lease to increase by \$460,000; and,

WHEREAS, the funds made available under the Amended Lease will be deposited with SunTrust Bank ("Escrow Agent") pursuant to an Escrow Agreement between the City and the Escrow Agent ("Escrow Agreement") and will be applied to the acquisition of the Equipment in accordance with said Escrow Agreement.

NOW, THEREFORE, BE IT RESOLVED BY THE WOODLAND CITY COUNCIL AS FOLLOWS:

Section 1. Obtaining the Equipment through the Amended Lease and Escrow Agreement (collectively, "Financing Documents") is in the best interest of the City.

Section 2. The Finance Officer is authorized to negotiate and execute, acknowledge and deliver the Financing Documents upon completion of negotiations.

PASSED AND ADOPTED this _____ of _____, 2008 by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

Marlin H. Davies, Mayor

ATTEST:

APPROVED AS FOR FORM:

Sue Vannucci, Director of
Administrative Services/City Clerk

Andrew Morris, City Attorney