



CITY COUNCIL AGENDA REPORT

Meeting Date: 10/6/2022

From: Carolina Yuen, Finance Director

Subject: Approve Purchase of Fire Apparatus Ahead of Current Vehicle Replacement Budget Schedule

Community Goal/Result

Safe Community - Residents and visitors will experience a sense of safety

Fiscally Prudent - Brisbane's fiscal vitality will reflect sound decisions which also speak to the values of the community

Purpose

Ensure the City has fire equipment that is modern and available to respond to calls for service as needed.

Recommendation

Purchase Fire Apparatus (Pierce Enforcer Type 1 Engine) in October 2022 ahead of expected 6% pricing increase scheduled for November, taking advantage of paying 50% as a down-payment and the remainder upon completion.

Background

The City has established the Vehicle Replacement Fund and sets aside funds each year in anticipation that vehicles in our fleet will need to be replaced in a certain number of years based on the type of vehicle. For fire engines, the City set aside funds with the expectation of adding a fire apparatus in twelve years.

For fire engines, the City and the North County Fire Authority (NCFA) utilize a reserve program. Engines are placed in reserve to ensure an engine is available when the frontline engine is out of service due to maintenance, repairs, or for operational reasons.

In recent years, the lead time to build fire vehicles upon order was 18 months. For a variety of reasons including supply chain issues, the current lead time is now at least three years to build. The City's current reserve engine was purchased in 2005. With current delays, if we were to

order this year, the reserve engine will be at least 20 years if we can receive the engine in 2025 or older if the build takes longer.

The City's last frontline engine was purchased in 2018 at a cost of \$601,000. We therefore were setting aside \$71,407 each year anticipating replacing it in 2030 assuming a 3% annual price increase, for a total cost of approximately \$857,000.

The City has been notified that the preferred manufacturer will be increasing prices on November 1st by 6% and was presented with the opportunity to purchase a vehicle using a group purchase discount with other cities as part of NCFCA.

Discussion

The City would like to place the order ahead of schedule for a number of reasons. The first reason, older engines are more expensive to repair and at times replacement parts become difficult to find, potentially taking the engine out of service when needed. As previously mentioned, the lead time from order to purchase has increased from 18 months to at least three years, partly due to supply chain issues, but also due to the high number of fire engines being ordered currently due to the planned price increase in November. Fire departments who are in need of a new engine in the next few years are placing their orders prior to that day, glutting the pipeline and further delaying the delivery time of vehicles. By placing the order in October, our delivery date could be delayed well past three years. However, by working with Daly City through NCFCA and adding our order to theirs, perhaps we can shorten the delivery time. And finally, by purchasing now, the sooner we will be able to lock in the quoted price of \$889,000 (before tax) instead of paying at least an additional \$53,000 by waiting until after November 1st.

The City was presented with the option to purchase a fire apparatus outright, or finance through a lease to purchase arrangement. Both options were presented to the Fiscal and Administrative Subcommittee on September 27, 2022. The Subcommittee directed staff to determine a way to purchase the fire apparatus instead of financing through a third party.

The City currently has approximately \$350,000 set aside for the purchase (five fiscal years of budgeted savings). The anticipated cost of the engine if we paid 100% up front would be \$911,000 with a variety of discounts, including a pre-payment discount of \$28,000 or 3.2%. With only \$350,000 available in the Vehicle Replacement Fund, the City would have to use funds from reserves or from other funds to cover the balance and purchase outright. The manufacturer is offering a slightly lower discount of \$11,000 or 1.2% by paying only 50% up front, combined with other discounts for a total cost of \$930,000.

The current earning rate on our portfolio is slightly higher than 1%, with highly liquid funds earning over 2%. With rising interest rates, we have been able to invest new money above

3.5%. Therefore, by holding off on paying the remaining 50% upon delivery, we would be earning more on our held cash than the additional discount we'd receive by paying in full.

If the City chooses to purchase the vehicle outright, we will need to transfer an additional \$580,000 from another fund to the Vehicle Replacement Fund. If we pay down 50% upon purchase, we would only need an additional \$115,000 from another fund to supplement the \$350,000 already in the Vehicle Replacement Fund at this time. Although the City has ample liquid funds (over \$20 million as of 8/31/22), staff does not recommend paying in full now considering uncertainties in the current economic environment and significant outflows expected to cover improvements to the 25 Park Place property over the coming year.

Staff would recommend that in either case the City anticipate replacing this new vehicle in 10 years from delivery date and assume an increase of 5% per year in cost. So, starting in 2025 the City should set aside \$167,000 for the next fire engine to ensure that the City has the available cash when needed (in 10 years).

current budget		proposed purchase using \$350K		future budget	
2018	\$71,407 / yr	2018	\$71,407 / yr	2025	\$167,000 / yr
2030	\$856,884 avail	2023	\$350,000	2035	\$1,670,000 avail
		100%	\$930,000		
		remaining	\$580,000		
		50%			
		down	\$465,000		
		remaining	\$115,000		

Instead of using reserves from the General Fund to supplement the down payment, staff would recommend using other funds to cover the balance, such as the Public Arts Fund or Park Development Capital Projects Fund, as these are not expected to be used over the next three years. Either Fund would then be paid back through the Vehicle Replacement Fund.

Fiscal Impact

The cost of the apparatus is \$930,000. We will pay 50% now in the amount of \$465,000, and the remaining 50% upon completion. For the down-payment, \$350,000 will be from the Vehicle Replacement Fund already saved, and \$115,220 from a determined fund to be repaid by the Vehicle Replacement Fund. The remaining \$465,000 balance required at completion will be budgeted over the next two years.

Measure of Success

The City is able to promote a safe community through timely response to fire emergencies while enjoying price savings.

Carolina Yuen

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