

To: Finance Committee
From: Mark Stevens
Date: March 10, 2025
RE: Fire Truck Financing

Summary of my research on financing options for a fire truck...

Q: Can Watertown pursue a government lease-purchase to finance a new ladder truck?

A: Yes, and this was the method utilized in 2006/07 to secure the existing ladder.

Q: Is this approach a cost savings worth pursuit?

A: No, at least not with the Leasing 2 Inc firm. I've had a good conversation with the principal at this company. He's a second-generation owner; they've only ever financed fire trucks, and they work with dozens of manufacturers. The ordering of a truck initiates the closing of the lease, which requires a first payment two years after closing. They're willing to open an escrow account for interest earnings before the truck delivery or we could negotiate a pre-payment discount (and a performance bond) with the manufacturer. He stated that 70% of his customers choose the latter option since it becomes a known savings. Enough of the details...the current internal rate of return (IRR is what a leasing company charges for interest) is 5.49%. Our Leasing 2 offer is locked until 6/12.

Bond Borrowing

Although we have no guarantee of future bond interest rates, our past few years of interest rates have been well below the IRR of Leasing 2. I've thrown a couple of what-if scenarios to Brad Viegut (Baird) and see only one con to including the fire truck purchase with an annual borrowing package- the overall borrowing request for the year. A possible example: include \$2.6 M plus \$3.0 M other needs to equal a \$5.6 M request in 2028. Or reduce other departments' needs to lower the total borrow.

Effectively, whether we secure funds through the lease-purchase or bond borrowing, we'll still have annual payments. The lease payment schedule would require an even amortization through the payoff schedule. As part of the bond borrowing, we can anticipate that Brad would work to manage the payment schedule within the existing debt management structure.

Brad & I have worked through the potential scenarios of truck delivery taking place before or after the debt issuance.

Q: Should we borrow the funding a year ahead of the truck's arrival just in case it delivers early?

A: There are stiffer rules in place for spending money on equipment over infrastructure. If we borrowed for the truck as part of the March 2027 issuance, we would be required to have the truck delivered no later than 18 months later (or must return the funds). In contrast, if we borrowed as part of the March 2028 issuance and the truck arrived in Jan/Feb 2028, the City could temporarily advance funds from the General Fund (or another source) to cover the payment that's reimbursed with the proceeds of the debt issue. Depending on the timing, a reimbursement resolution may need to be adopted.

In summary, include the borrowing of funds for the ladder truck in the bond issuance year that you anticipate delivery of the truck.

In my conversation with the leasing company rep, he stated that projected delivery dates are optimistic, and he doesn't hear of many early deliveries. He suggested that one asks for the earliest delivery date and the latest delivery date when ordering a truck.

The NY Times ran an article on the delay of fire truck manufacturing (assertion: supplier monopolization is key reason). Our library's newspaper feeds don't include this newspaper, but I found a different source that likely captures most of the original article contents.

<https://biz.chosun.com/en/en-international/2025/02/18/KEW5NHN3JBEVJN3OBRIUITVLKQ/>