TO: Honorable Mayor and Members of the City Council

FROM: Paul Nanfito, Chief of Police

SUBJECT: Lease of (3) New Police Vehicles

RECOMMENDED COUNCIL ACTION:

Staff is recommending that the City Council approve and authorize the lease of three (3) new, marked police SUV’s from Folsom Ford for annual lease payment of $44,619.68 over three years. Staff is requesting a supplemental budget appropriation of $44,619.68 for expenditure from Police Department expenditure account # 11-33-540-100. Total expenditure at the end of the three year lease agreement will be $126,425.00. At the end of the lease agreement the City will be able to purchase each vehicle for $1.00 each.

SUMMARY:

The Police Department currently has a fleet of eight (8) marked police vehicles comprised of Ford Crown Victoria police sedans. For more than twenty years the Department has had a fleet management policy to purchase two new vehicles per / year in order to cycle out the fleet every four years. Over the past 4 years the Department has only purchased four (4) new police cars. A 5th purchase was authorized by City Council on February 5th 2013 and that vehicle was received by the Red Bluff Police Department on July 19, 2013. The last three (3) patrol cars were purchased with Police Protection Impact Fees (DIF funds). These purchases have exhausted the Police Protection Impact Fee account.

There are three more vehicles that need to be replaced due to the condition of the vehicles and/or with excessive mileage that are experiencing frequent equipment, engine and/or other vehicle component failures. These three vehicles are in poor condition which dictates their replacement. Vehicles assigned to the marked police fleet that operate in the patrol environment need to have a greater probability of not failing in emergent conditions. Replacing these three vehicles will therefore enhance vehicle safety for the citizens of Red Bluff as well as the employees that operate these emergency vehicles.

The lease option allows us to spread the cost of the three vehicles over three fiscal years rather than all at once. The traditional method of replacing two cars per/ year would result in annual
expenditures of $84,000.00 per/year. This option will allow for a longer period of economic recovery before going back to annual general fund purchases.

PREVIOUS COUNCIL ACTION: The City Council has previously approved vehicle purchases utilizing General Fund expenditures and Development Impact Fees.

DISCUSSION:

Due to falling out of sync with past practices of cycling out the fleet on a four (4) year rotation vehicle maintenance and mechanical failures have been steadily increasing. The Police Department exceeded budgeted vehicle repair costs in the last two fiscal years. Many of the problems are associated with the vehicles electrical systems, which are failing with increasing regularity. These systems operate the emergency lighting systems that are critical during a code three operation or a vehicle pursuit.

Most of our vehicle purchases over the past twenty years have been through the State of California vehicle contracts which allows for the best possible prices. The California Highway Patrol (CHP) did an extensive testing and selection process for their new police vehicle following the end of production of the Ford Crown Victoria. They have selected the new Ford SUV and patrol sedan for their fleet of vehicles. The Red Bluff Police Department has also opted for the new Ford SUV as the patrol vehicle for our fleet.

With the immediate need to replace three vehicles due to their condition the lease option is an appropriate method for this acquisition. Ford Motor Company has a very competitive lease program that allows the Department to purchase the vehicles at the end of the lease for $1.00. See attachment entitled New Patrol Car Lease Option Program.

By following Option 1 the Department will be able to accomplish two other very important objectives: 1) By replacing three vehicles this Fiscal Year the Department will not replace the remaining four marked police vehicles until the end of the three year lease (barring unforeseen and unpredictable circumstances). 2) By replacing three vehicles now the Department will be able to cycle out two of the vehicles assigned to the Detectives. Both of these vehicles are in very poor condition as they are older, re-cycled patrol cars. Further delay will create a situation where the marked units being cycled out will no longer be in a condition that they can still be utilized as an unmarked police vehicle.

CITY FISCAL IMPACT: Below is the preferred lease option that outline the fiscal impact to the City:

Three year lease option

<table>
<thead>
<tr>
<th>Option 1</th>
<th>Total Amount</th>
<th>No. Payments/Years</th>
<th>Rate</th>
<th>Payment Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Vehicles</td>
<td>$126,425.00</td>
<td>3</td>
<td>6.00%</td>
<td>$44,619.68 (per/year)</td>
</tr>
</tbody>
</table>
Other Options could be a lesser number of vehicles or for a longer term of the lease agreement (4 years vs 3 years).

### 5- YEAR VEHICLE REPLACEMENT PLAN
*(Fiscal Year 2013/2014 through Fiscal Year 2017/2018)*

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Description</th>
<th>New Vehicle Type</th>
<th>Financing Option</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year One</strong></td>
<td><strong>2013/2014 Lease Option; $44,619.68 lease payment</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **Year Two** | **2014/2015 Second Installment of the Lease Option; $44,619.68** |  |  |

| **Year Three** | **2015/2016 Third Installment of the Lease Option; $44,619.68** |  |  |

| **Year Four** | **2016/2017 General Fund Purchase of (2) Patrol Vehicles; $84,000.00 (estimated cost)** |  |  |

| **Year Five** | **2017/2018 General Fund Purchase of (2) Patrol Vehicles: $84,000.00 (estimated cost)** |  |  |

**ATTACHMENTS:**

1. **New Patrol Car Lease Option Program**

   *“The City of Red Bluff is an Equal Opportunity Employer”*
New Patrol Car Lease Option Programs
February 13, 2013

Folsom Lake Ford
Attn: Dan Raimondi
12755 Folsom Blvd.
Folsom, CA 95630
Fax: (916) 353-2078, email: danielraimondi@folsomlakeford.com

Re: Ford Credit Municipal Finance Program Quotation for Red Bluff, CA Bld #75500

Please review the following Ford Credit Municipal Finance quotation.

All required documentation, municipality’s first payment to Ford Credit, and the delivery of the vehicle(s) and/or equipment must take place by 05/31/2013. Otherwise, rates and payments are subject to change.

**Option A:** One (1) 2013 Ford Police Interceptor Utility at $42,000.00
Funded Range: $25,000 - $49,999

<table>
<thead>
<tr>
<th>Total Amount</th>
<th>No of Pymts</th>
<th>Payment Timing</th>
<th>Rate</th>
<th>Factor</th>
<th>Payment Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$42,425.00</td>
<td>2</td>
<td>Annual in Advance</td>
<td>7.35%</td>
<td>0.519115</td>
<td>$22,023.45</td>
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<tr>
<td>$42,425.00</td>
<td>3</td>
<td>Annual in Advance</td>
<td>6.50%</td>
<td>0.354531</td>
<td>$15,046.98</td>
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<tr>
<td>$42,425.00</td>
<td>4</td>
<td>Annual in Advance</td>
<td>6.45%</td>
<td>0.279394</td>
<td>$11,820.38</td>
</tr>
</tbody>
</table>

**Option B:** Two (2) 2013 Ford Police Interceptor Utility at $42,000.00 each
Funded Range: $75,000 - $149,999

<table>
<thead>
<tr>
<th>Total Amount</th>
<th>No of Pymts</th>
<th>Payment Timing</th>
<th>Rate</th>
<th>Factor</th>
<th>Payment Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$54,425.00</td>
<td>2</td>
<td>Annual in Advance</td>
<td>7.45%</td>
<td>0.517956</td>
<td>$43,728.44</td>
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<tr>
<td>$54,425.00</td>
<td>3</td>
<td>Annual in Advance</td>
<td>6.00%</td>
<td>0.352834</td>
<td>$29,796.45</td>
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<tr>
<td>$54,425.00</td>
<td>4</td>
<td>Annual in Advance</td>
<td>5.95%</td>
<td>0.272073</td>
<td>$22,969.78</td>
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</tbody>
</table>

**Option C:** Three (3) 2013 Ford Police Interceptor Utility at $42,000.00 each
Funded Range: $75,000 - $149,999

<table>
<thead>
<tr>
<th>Total Amount</th>
<th>No of Pymts</th>
<th>Payment Timing</th>
<th>Rate</th>
<th>Factor</th>
<th>Payment Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$126,425.00</td>
<td>2</td>
<td>Annual in Advance</td>
<td>7.45%</td>
<td>0.517956</td>
<td>$85,482.59</td>
</tr>
<tr>
<td>$126,425.00</td>
<td>3</td>
<td>Annual in Advance</td>
<td>6.00%</td>
<td>0.352834</td>
<td>$44,819.68</td>
</tr>
<tr>
<td>$126,425.00</td>
<td>4</td>
<td>Annual in Advance</td>
<td>5.95%</td>
<td>0.272073</td>
<td>$34,396.83</td>
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</table>

**Note:** To calculate payment amount, multiply total amount funded by the payment factor.

**Financing is Subject To:**
- Municipality’s most recent audited financial statement
- Mutually acceptable documentation
- Confirmation from the dealer of actual selling price.

**Ford Credit Municipal Finance Program**
- An underwriting fee of $425 is required per transaction, not per unit. It can be paid at time of delivery or funded over the term (included above).
- There is no security deposit, no prepayment penalty, and no mileage penalty
- Non-recourse to the dealer. The same as a cash sale from the dealer to the municipal customer.
- At inception, the new equipment title/registration indicates the municipality as Registered Owner, and designates Ford Credit, 1 American Road-MD7500, Dearborn, MI 48126, as first lien holder.
• At term end, the municipality buys the equipment for $1.
• The municipality, as owner of record, is eligible for Ford Governmental Price Concessions or other discounts, to reduce product cost

If you need additional information, please contact me at (800) 241-4199, option 1. Thank you for your interest in the Ford Credit Municipal Finance Program.

Sincerely,

James DeYonke
James DeYonke
Marketing Coordinator
jdeyonke@ford.com
Ford Credit Municipal Finance Program
Ford Credit Municipal Finance Program

Overview

Municipal Lease/Purchase Financing is an alternative source of medium-term, tax-exempt financing for state and local governmental units that can be used as an additional or alternative source of funds to acquire necessary equipment and facilities.

Generally, any state or local government unit or any political subdivision of these units (e.g., state agencies, school districts, public universities, hospitals, etc.) may qualify as a lessee for a Municipal Lease/Purchase transaction. The municipal lease-purchase transaction resembles a conditional sale or an installment purchase transaction with the lessee making periodic payments of principal and interest to the financing source (lessor) and obtaining ownership of the equipment for $1.00 at the lease maturity. The structure of the Municipal Lease/Purchase transaction provides that the Lessor is exempt from federal income taxes on the interest portion of the periodic payments, and the transaction is considered a current obligation of the lessee.

Under the structure of the Municipal Lease/Purchase transaction, the lessor runs the risk, on an annual basis, that additional funds will not be appropriated by the lessee to continue to make the periodic payments. Therefore, to obtain competitive interest rates and to reduce the lessor's risk of non-appropriation, all equipment financed under the Ford Credit Municipal Finance Program must be considered essential to the ongoing operations of the governmental unit.

I. The Municipal Lease/Purchase Transaction

A. What Is A Municipal Lease/Purchase Transaction?

A Municipal Lease/Purchase transaction is a lease between a governmental entity, that is acquiring equipment, and an investor, that finances the transaction. The Municipal Lease/Purchase transaction is, in essence, a “finance lease” or a “conditional sales agreement” and not a “true lease.”

Under a "true lease":

- The primary purpose is to give the lessee use of the lessor's property over a period of time.
- The lessor holds title to the property.
- The periodic payments are considered rent.
- The lessee may have the option to purchase the leased property at lease maturity at the fair market value (or at a fixed amount under a finance lease.)
- The lessor utilizes the ITC, if available, and depreciation from the property.
Under a Municipal Lease/Purchase:

- The primary purpose is for the lessee to finance the acquisition of the property over a period of time.
- Title to the property generally goes to the lessee at the beginning of the Agreement.
- The periodic payments are made up of principal and interest.
- The lessee has the option to purchase the property at the end of the agreement for one dollar ($1.00) or at the end of any fiscal year for a specified amount (unamortized balance of the obligation).
- The lessor does not utilize ITC or depreciation, but is exempt from paying federal taxes on the interest portion of the lessee's payments.

B. What Financing Alternatives Are Available For Governmental Units?

- Pay Cash—If the governmental unit does not obtain some means of financing an acquisition, a cash purchase would be required.
  Disadvantages:
  - Prohibits the acquisition of equipment if existing budget appropriations are less than the purchase price.
  - Does not provide the flexibility to obtain all the equipment required because of limited available resources.

- Issue Bonds—Municipal bonds are normally issued with maturities of 15 to 30 years. Recent tax and spending limits have made it more difficult for tax-secured bonds to be issued for capital projects.
  ---Disadvantages:
  - May require a voter referendum to approve their issuance.
  - Term is much longer than the useful life of the equipment being acquired.
  - Usually offered in dollar amounts greater than individual projects.

- Rental or Lease on an Operating Basis—A desirable method to obtain the use of equipment if the equipment is subject to rapidly changing technology or if the equipment is needed for only a short time.
  ---Disadvantages:
  - Lessee does not accrue equity in the equipment.
  - Because ITC is not available for equipment leased to governmental units, an operating lease may be more expensive than other financing methods.
  - Municipal Lease/Purchase—An installment purchase or conditional sale agreement, not a "true lease," which provides for the acquisition as well as the use of the equipment.
  - Total cost of acquiring equipment is greater than for a cash purchase because interest payments are required.
C. Who is Eligible?

Eligibility of potential lessees is covered under Section 103(a) of the Internal Revenue Code of 1986, as amended. Under this section, the interest received on an obligation of a state, a territory, a possession of the United States, any political subdivision of the above or the District of Columbia is exempt from federal income taxation.

This section of the Code is typically interpreted to allow states, cities and counties to be lessees in a tax-exempt lease/purchase transaction. In addition, special purpose districts, authorities, boards, commissions, agencies or units that act on behalf of a state government or on of its political subdivisions may qualify to enter into a lease/purchase transaction.

Examples of potential eligible lessees include:

• Cities
• Villages
• Townships
• Counties
• States
• State universities
• School districts
• Community colleges
• Hospitals (funded by a governmental unit)
• Fire, water, parking or sewer districts
• Municipal-owned airports
• Municipal-owned utilities (not a utility whose stock is owned by the public)

Being a Non-Profit Or Tax-Exempt Organization Does Not Necessarily Make It An Eligible Governmental Unit

Examples of Lessees Not Eligible:

• Boy Scouts of America
• American Red Cross
• Agencies of the Federal Government

D. What Equipment is Eligible?

Basically, any equipment that is used for a purpose considered Essential to the ongoing operations of the governmental unit will be considered eligible under the Ford Credit Municipal Finance Program.

Some examples of equipment which may be considered essential are:

• Police vehicles
- Administrative vehicles
- Rescue vehicles
- Light/medium/heavy trucks
- Ambulances
- Fire trucks
- Garbage trucks
- Snow removal equipment
- Administrative vehicles
- Road repair equipment
- School buses
- Street sweepers
- Tractors
- Backhoes and graders

E. Why Is Lease/Purchasing Financing Attractive?

The structure of a lease/purchase transaction can be extremely flexible with respect to terms and payment amounts. Declining tax bases and taxpayer revolts have resulted in many governmental units being unable to replace worn out equipment and to maintain other services. The flexible structure of lease/purchase financing can aid a governmental unit by allowing them to stretch out the payments for the acquisition of the equipment over its useful life. This flexibility permits the governmental unit to acquire the needed equipment even when the total purchase price may be too large to finance in a single year’s budget but yet too small to issue a bond.

II. What Are Some Of The Commonly Asked Questions About Municipal Lease/Purchase Financing?

Q: What is the lease term for the various types of equipment?
A: The lease term is determined by the normal life of the equipment.

Q: Who furnishes maintenance, operating expenses, insurance and other expenses relative to the operation of the equipment?
A: The Lessee.

Q: What is the penalty for returning equipment at the end of the fiscal year but prior to the end of the lease term?
A: If the lessee non-appropriates funds for the next fiscal period, the lessee will lose all equity in the equipment.

Q: What happens to the equipment if the governmental unit keeps it for the entire lease term?
A: The governmental unit can purchase the equipment for $1.00.
Q: May the governmental unit turn the equipment in before the end of the fiscal year?
A: No. However, in the case of a casualty loss, the damaged equipment will be removed from service and a settlement made with the Lessee’s insurance carrier.

Q: What is the fiscal responsibility of the governmental unit if the equipment is rendered inoperable through a casualty loss prior to the end of the lease term period?
A: The governmental unit’s insurance carrier would settle the claim with the lessor. Any net proceeds in excess of the current purchase option would be remitted to the governmental unit. In the event the governmental unit elected to self-insure for casualty loss, they would be responsible for the concluding purchase option price.

Q: If a number of different types of equipment with different lease periods are ordered, will the interest rate be the same for all units?
A: No, the interest rate generally will vary depending on the lease term and the amount financed.

Q: What are some of the advantages of municipal lease/purchasing financing?
   - Little or no down payment is required
   - No security deposit is required
   - No mileage restriction
   - Terms can vary with the useful life of the equipment.
   - Equipment can be obtained without large appropriations of funds
   - Equity in the equipment accrues with each periodic payment
   - Long-term financing can be acquired without creating a long-term debt obligation in the budget.

III. Bidding Lease/Purchase Funding

A. What information Is Necessary To Obtain A Lease/Purchase Financing Proposal?

Once the governmental unit has agreed to use lease/purchase financing or you desire to request a financing proposal, you should obtain the following information:
   - Lessee
     --Name
     --Address (city, state, zip)
     --Contact name, title, telephone number
     --Fiscal year end
   - Bid Request
     --Type of bid request:
       • oral
       • written request for proposal (RFP)
       • information only
     --Bid closing date
     --Term (number of years)
---Payment frequency (monthly, quarterly, semiannually, annually)  
---Total to be funded  
---Down payment or first year's budget  
• Equipment  
  --Type of equipment  
  --Quantity  
  --Manufacturer  
  --Delivery date  
  --Cost  
  --Essential use of equipment

IV. After Submitting a bid...

A. Requirements Of Dealer After Winning a Bid:

When you have been awarded a bid under the Ford Credit Municipal Finance Program, you must notify us immediately so that we can begin the credit review and documentation of the transaction. If more than one option the lessee desires and if the transaction will be closed immediately or upon delivery of the equipment.

B. What is Required For the Credit Review?

Even if the lessee is rated by Moody's or Standard & Poor's, additional date may be needed. In most cases, financial statements for the past three fiscal years and a copy of the current year's budget will be required. The actual credit approval will not be made until after the bid is awarded, so immediate notification of an award is important.

For further information, contact:
Ford Credit Municipal Financing  
P.O. Box 1739  
Dearborn, MI 48121-1739.  
Phone: (800) 241-4199