

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: October 25, 2010

0220-04628-0000

To: Budget and Finance Committee

From: Miguel A. Santana, City Administrative Officer Subject: **2009-10 MICLA FLEET REPLACEMENT PROGRAM**

On October 25, 2010 your Committee asked this Office to report back on the Department of General Services' (GSD) request to purchase 48 vehicles through the MICLA Fleet Replacement Program for \$12.23 million. This Office was specifically requested to address the debt service associated with this purchase, the impact of not replacing these vehicles and whether the purchase of these vehicles conflicts with the fleet reduction goal of 2,000 vehicles included in the 2010-11 Budget.

The debt service for the \$12.23 million is \$15 million which will be financed using Recovery Zone Economic Development Bonds rather than MICLA. This assumes a 10-year term at 4.9% interest and a \$1.7 million interest subsidy paid for by the Federal government. The purchase of this equipment is part of a larger issuance of Recovery Zone Bonds and the 10-year term represents a weighted average of the useful life of all the items to be purchased. If the bonds are not issued this year, the City will not be eligible for the interest subsidy and the debt service for the 48 vehicles will increase by \$1.7 million from \$15 million to \$16.7 million.

These 48 trucks are not part of the 2,000 vehicles targeted for elimination in the preliminary fleet utilization study conducted by GSD. The street sweepers, aerial trucks and cranes, and various dump and move truck tractors perform core functions such as street sweeping and traffic signal repair/replacement, and street repair support functions. Replacing this equipment with alternative fueled CNG engines complies with Air Quality Management District (AQMD) fleet rules, California Air Resources Board (CARB) regulations and City clean air policies.

General Services has a current contract for CNG street sweepers which will expire in December 2010. The street sweeper purchases must be approved in order to take advantage of securing a lower per unit cost because of an additional quantity option contained in the current contract. If this option cannot be exercised, it is estimated that the additional cost with a new contract will be \$38,000 per unit, or an additional \$777,000 for all 20 street sweepers. If the Department cannot use the current contract, it will take approximately 18 months to two years to secure a new sweeper contract. The additional parts and labor cost required to keep the existing 20 street sweepers operational is approximately \$6,700 per vehicle per year or an additional \$134,000. The total estimated cost for the increased purchase price and additional maintenance cost for 20 street sweepers is estimated to be \$911,000. This equipment has exceeded its lifecycle and maintaining the equipment past its useful life accelerates parts and labor costs in order to continue the utilization of the equipment.

The CARB on-road heavy-duty truck vehicle emissions regulation mandates that heavy-duty truck tractors and dump trucks must be replaced by December 31, 2011 or must be taken out of

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service. The fine by CARB for operating equipment out of compliance with the regulation is up to \$1,000 per day per citation. The average time needed to build the trucks is nine months. Funding must be obtained now to allow for order and build time to place the new trucks into service by the State's deadline.

The evaluation factors used to identify the 48 vehicles to be included in the replacement purchase include continued support of departmental core functions, vehicle lifecycle, State of California CARB on-road heavy-duty truck vehicle emissions regulation mandates, environmental considerations and City clean air goals. With the exception of one unit, all of the equipment will be replaced with alternative fuel CNG engines.

RECOMMENDATION

That the Council adopt Recommendation No. 16 contained in the Financial Status Report dated October 15, 2010.

FISCAL IMPACT STATEMENT

The impact to the General Fund as a result of the purchase of 48 vehicles using Recovery Zone Economic Redevelopment Bonds is \$15 million over 10 years. If MICLA is used in 2011, the impact to the General Fund would be \$16.7 million over 10 years.

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