

**MEMORANDUM
OFFICE OF THE
COUNTY EXECUTIVE**
County of Placer County

TO: Honorable Board of Supervisors

FROM: Thomas Miller, County Executive Officer

DATE: March 24, 2009

SUBJECT: Helicopter Acquisition, Placer County Sheriff's Office Aviation Program

REQUESTED ACTION: That the Board of Supervisors provide policy direction with respect to the following actions:

- 1) Determine the preferred approach toward final acquisition and funding for the new Aerostar AS 350B helicopter for the Sheriff's Department Aviation Program including:
 - a. Full funding approach for the capital acquisition costs
 - b. Full funding approach for the on-going operational costs

- 2) Direct staff to complete the tasks necessary to implement the selected funding approach and return to your Board at its April 7th meeting for final review and approval.

BACKGROUND: On January 23, 2007, based upon the information contained in a detailed Feasibility Study, your Board approved a series of staff recommendations related to the purchase of a new Aerostar AS 350 B helicopter. At that time sufficient funding was set aside to allow for the ordering of the base helicopter, but funding had yet to be identified for the provision of required mission equipment and the projected increase in ongoing operational costs.

Your Board's approval included a series of directives to the Sheriff's Department to pursue funding sources to fully account for the identified gaps in both the one-time capital and the on-going operational expenses. The Sheriff's Department and County Executive Office were directed to develop a "full-funding approach" related to increased costs to support the acquisition, outfitting, and operation of the new helicopter.

On February 24, 2009 your Board, as part of the FY 2009-10 Strategic Budget and Policy Briefing, received an update on the current status of the new helicopter acquisition and requested clarification on four issues:

These issues included:

- The one-time capital costs for both the base helicopter and the mission equipment identified by the Sheriff's Department have risen from the \$3,438,000 identified in the original Board memo to \$4,000,000, an increase of \$562,000. As the amount

set aside for the capital expenditures was \$2,500,000, a potential one-time expenditure gap of \$1,500,000 existed. The Sheriff's Department indicated that it had drafted a donation agreement with the United Auburn Indian Community (Tribe) to provide \$1,000,000 over a multi-year period to assist with the capital funding gap. The Department also indicated that, upon delivery of the new helicopter it would sell the old helicopter and use the proceeds, expected to be in the \$400,000-\$600,000 range, to assist in covering the capital funding gap.

Your Board asked for further clarification of the sufficiency of these actions to provide full funding for the capital cost of the helicopter.

- The increased operational costs for the new helicopter for the same level of service were estimated by the Sheriff's Department to range from \$330,000 to \$530,000. No new funding source had been identified to cover this potential additional expenditure. The Sheriff's Department indicated a willingness to operate the helicopter program within its existing FY 2009-10 proposed budget through the reduction of service levels in combination with other cost saving measures related to the program.

Your Board asked for further clarification of the sufficiency of these actions to provide full funding for the on-going operational costs of the helicopter.

- The January 23, 2007 staff report to your Board indicated that funding support from local law enforcement agencies benefitting from the Sheriff's Helicopter Program would be sought. In addition, staff was to explore the willingness of the US Forest Service and CAL-FIRE to enter into reimbursement agreements for potential fire support services. At the February 24, 2009 meeting, staff reported no significant fiscal contributions from the local jurisdictions had been forthcoming and that neither the US Forest Service nor CAL-FIRE had shown a willingness to enter into reimbursement agreements with the County.

The Sheriff's Department indicated that the Cities of Roseville and Rocklin have provided "Flight Officers" as an in-lieu contribution to the on-going costs of the program and are expected to continue that support in the future.

Your Board asked for additional clarification related to the fire suppression aspect of the new helicopter's mission and the willingness of the US Forest Service and CAL-FIRE to enter into reimbursement agreements.

- In the February 24, 2009 staff report, three options were presented for your Board's consideration relating to the purchase of the helicopter as follows:
 1. Fulfill the contract obligation for the purchase of the base helicopter and resell it to another agency.
 2. Fulfill the contract obligation for the purchase of the base helicopter and defer the purchase of the mission equipment and its placement in operations

until an agreement to sell the existing helicopter is secured and the remainder of the capital shortfall is absorbed by the Sheriff's Department from non-general fund sources. Also, direct that the anticipated increased operating expenses also be absorbed by the Sheriff's budget in addition to those otherwise directed by your Board action today.

3. Accept delivery of the helicopter and fund the one-time expenditure gap with a temporary loan from the general fund reserves. Direct that other Sheriff Department fixed asset purchases be deferred until the County Reserves Loan is repaid from the sale of the existing helicopter, other agency contributions or other public safety fixed asset sale proceeds. Also, direct that the anticipated increased operating expenses be absorbed by the Sheriff's budget in addition to those otherwise directed by your Board action today.

After a discussion, your Board asked for the development of additional options relating to the leasing of the helicopter over a series of years and approaches, including both private and Placer County Treasury financing options.

RESPONSES TO ADDITIONAL INFORMATION REQUESTS BY YOUR BOARD

The County Executive Office has met with the Sheriff to generate responses relative to the funding and operational issues and with the County Treasurer / Tax Collector relative to financing options. The results are presented below:

1. Capital Funding – Potential Gap

According to Sheriff Edward Bonner:

The Tribe has agreed to pay \$1,000,000 toward the purchase of the helicopter in lease payments over the period of time of the lease entered into by the County. The first lease payment is expected to be due approximately one year from the actual purchase of the helicopter.

The Tribe has indicated the desire to have other jurisdictions within the County that will benefit to assist financially in the purchase and/or ongoing operations of the helicopter. Based on discussions with the Tribal management, the planned contributions listed below will satisfy that request:

- a. The provision of "Flight Officers" from the Cities of Roseville and Rocklin
- b. The donation of land and engineering services for the construction of a new landing pad from the City of Auburn
- c. The potential donated construction of the landing pad from a local construction firm.

Once the new helicopter is delivered and operational, the old helicopter will be sold. The proceeds from the sale (estimated to range between \$400,000 to \$600,000) will be applied to cover the lease payments in excess of the Tribe's contributions. The Sheriff's Department will cover the residual amount of the lease payments which are in excess of the total covered by the Tribe and the proceeds from the sale of the helicopter from within its existing resource base. Sources could include grant funds, additional donations, or reallocations within the Sheriff's budget.

2. On-going Costs – Potential Gap

According to Sheriff Bonner on-going operational costs associated with the helicopter program will be covered completely within the currently proposed FY 2009-10 Sheriff's budget.

3. Clarification of Fire Suppression aspect of helicopter's mission:

After further review and analysis including the reluctance of the US Forest Service and CAL-FIRE to enter into reimbursement agreements during challenging fiscal times and the investment in training hours required to support fire suppression activities, Sheriff Bonner has decided that the new helicopter will be focused on its law enforcement mission. The "bambi bucket" will not be installed as part of the initial mission equipment package, but may be considered at a later date. The helicopter, however, will be offered to the US Forest Service and CAL-FIRE as a backup for administrative support during extreme fire situations.

4. Lease-Purchase Options

Your Board has several options in regards to potential lease – purchase. Staff recommends the BOS focus on two specific options, either of which is accomplishable and of merit. County Treasurer-Tax Collector Jenine Windeshausen developed extensive information in response to your Board's request for lease-purchase helicopter financing options. Attachment 1 presents seven, ten, and twelve year options relative to Public Offering (COP), Third Party Lease, and County Treasury Financing.

The County Treasury Financing Alternative at 2.206% to 2.966% depending upon the term of the lease, is clearly the optimal lease-purchase approach. The Board will need to consider financing the helicopter and mission equipment (\$4,065,000) or mission equipment only (\$1,500,000) and the term of the lease purchase.

ADDITIONAL CONSIDERATIONS

The base helicopter has been built to the County's specifications and is currently in the process of being delivered to the American Eurocopter Training Facility in Texas. American Eurocopter will not allow the County to take possession of the helicopter until the financing option is selected, insurance is in place, and all associated transfer related documentation is completed. The timing of the delivery is such that helicopter will need to be stored in Texas while the transfer process moves forward. The cost of the storage is approximately \$10,500 for the first month with a six-month total storage cost of \$24,300.

Additionally, if a financing option is chosen, in order to ensure the continued value of the asset, the terms of the lease will require a yearly "floating" hours of usage cap for the helicopter. The purpose of this cap is to insure the helicopter maintains a value over the length of the finance period commensurate with the remaining value of this financing. The longer the finance period the more extended the cap will need to be. According to Sheriff Bonner, the Department is aware of this requirement and will structure its flight program in accordance with the cap.

RECOMMENDATIONS:

Based on the responses by the Sheriff to your Board's requests for further clarification as indicated above, and the assessment of financing options by the County Treasurer/Tax Collector, two approaches are presented to your Board for consideration today. One offers financing for the new helicopter and related mission equipment (\$4,065,000) at both a seven and twelve year lease purchase and the other provides a financing scenario for the mission equipment only (\$1,500,000). Both approaches are feasible and are predicated on financing through the County Treasury at very reasonable interest rates. While these options represent the material elements of financing approaches evaluated, these options are being refined at the writing of this memorandum. Further information may be presented for your Board's consideration at your meeting on March 24.

1. Lease Purchase of Mission Equipment Only (\$1,500,000) - Seven Year Term Helicopter purchase with reserves previously designated by your Board (\$2.5 million)

This approach provides for an interest rate of 2.206% and would result in total interest and financing costs of \$127,036 over the seven year lease purchase period. This approach would result in the lowest yearly lease payment of the options presented \$89,577 (net of the UAIC contribution). It is most closely aligned with Board policies related to long term debt as it limits the County's long term liability.

2. Lease Purchase of Helicopter and Mission Equipment (\$4,065,000)

a. Seven Year Lease Purchase

The seven year alternative provides for the lowest overall financing costs at an interest rate of 2.206% and, of the full financing options, would result in the lowest total interest and financing costs of \$344,266 over the seven year lease purchase period. However,

this approach would result in the highest annual lease payment of the options presented at \$487,038, (net of the UAIC annual contribution).

b. Twelve Year Lease Purchase

The twelve year alternative provides for an interest rate of 2.966% and offers the greatest flexibility in terms of cash management and maintaining dollars in the County General and Public Safety funds during uncertain economic times. The yearly lease payment on this option is the lower of the two full financing options at \$321,740 (net of the UAIC annual contribution). Interest and finance costs for the twelve year lease purchase would total \$795,878.

Should your Board choose to fully finance the helicopter and mission equipment (\$4,065,000), it would be recommended that your Board consider maintaining all or part of the \$2,500,000 reserve designated for the helicopter purchase as well as, the proceeds from the sale of the existing helicopter (estimated at \$500,000) to partially offset debt service payments over time and ensure funding is available for lease purchase payments.

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Attachment: Helicopter Financing Options

Helicopter Financing Options

Borrowing Term	Cost/ Finance Amt ^(c)	Gross Annual Debt-Service	UAIC Contribution	Annual Debt-Service ^(b)	Total Gross Debt-Service	Interest & Finance Costs ^(b)	Net of UAIC Contribution	Including all Financing Costs
Public Offering (COP)								
Seven Year - Insured ^(a)	\$4,725,000	\$757,922	\$142,857	\$540,477	\$5,305,454	\$1,240,454	\$3,783,341	4.059%
Seven Year - Uninsured	\$4,680,000	\$756,479	\$142,857	\$539,745	\$5,295,353	\$1,230,353	\$3,778,213	4.034%
Ten Year - Insured ^(a)	\$4,730,000	\$567,456	\$100,000	\$413,061	\$5,674,555	\$1,609,555	\$4,130,605	4.266%
Ten Year - Uninsured	\$4,680,000	\$567,081	\$100,000	\$413,261	\$5,670,809	\$1,605,809	\$4,132,609	4.289%
Twelve Year - Insured ^(a)	\$4,730,000	\$496,773	\$83,333	\$366,928	\$5,961,275	\$1,896,275	\$4,403,135	4.464%
Twelve Year - Uninsured	\$4,680,000	\$497,510	\$83,333	\$368,157	\$5,970,122	\$1,905,122	\$4,417,882	4.504%
Third Party Lease								
Seven Year	\$4,082,929	\$681,657	\$142,857	\$538,800	\$4,771,600	\$706,600	\$3,771,600	4.440%
Ten Year	\$4,082,929	\$518,881	\$100,000	\$418,881	\$5,188,811	\$1,123,811	\$4,188,811	4.903%
County Treasury Financing								
Seven Year ^(d)	\$4,065,000	\$629,895	\$142,857	\$487,038	\$4,409,266	\$344,266	\$3,409,266	2.206%
Ten Year ^(d)	\$4,065,000	\$465,848	\$100,000	\$365,848	\$4,658,481	\$593,481	\$3,658,481	2.669%
Twelve Year ^(d)	\$4,065,000	\$405,073	\$83,333	\$321,740	\$4,860,878	\$795,878	\$3,860,878	2.966%
Seven Year ^(d)	\$1,500,000	\$232,434	\$142,857	\$89,577	\$1,627,036	\$127,036	\$627,036	2.206%
Ten Year ^(d)	\$1,500,000	\$171,900	\$100,000	\$71,900	\$1,718,997	\$218,997	\$718,997	2.669%
Twelve Year ^(d)	\$1,500,000	\$149,477	\$83,333	\$66,143	\$1,793,721	\$293,721	\$793,721	2.966%

Assumptions & Notes

Project Fund deposit of \$4,065,000, includes cost of airframe and mission equipment.

Gross Annual Debt-Service is the annual budget appropriation amount.

All borrowing rates are estimated from current market rates as of March 6, 2009.

Public Offering (COPs) include an amount necessary to fund a debt service reserve fund.

(a) Cost of Bond Insurance estimated at 75 bps of gross debt service.

(b) Public offerings include reserve fund interest earnings and application of reserve fund to final payment. All options include \$1 million tribe contribution.

(c) Includes costs of issuance and underwriters discount.

(d) Based on semiannual payments

37

