

"Placerville, a unique historical past forging into a golden future."

City Manager's Report
November 13, 2018, City Council Meeting
Prepared by: Cleve Morris, City Manager
Item #: 12.4



Subject: Review the proposed Capital Outlay Budget and provide direction to staff in identifying funding for the \$336,128 in immediate equipment replacement needs.

Purpose: To review the proposed Capital Outlay Budget and identify funding for more critical equipment needs.

Background:

During this year's budget development process, the Council asked staff to further refine the Equipment Replacement Program. Since that time, staff has been working on developing the Program. It was our goal to complete the program sooner. However, it has turned out to be more extensive than expected. All departments have participated in the program. Staff has identified and taken inventory of all of the City's equipment as a basis for the program. However, funding the entire program for Fiscal Year 2018/2019 has proven to be very challenging.

Discussion:

The attached documents outline the Equipment Replacement Program. Exhibit 1 is a summary of all equipment by department and the estimated replacement costs. The cost of replacing each piece of equipment has been allocated by fiscal year. All equipment that has a useful life of 6 years or more are listed under the 5+ years column.

The total aggregate cost for replacing all of the identified equipment in Fiscal Year 2018/2019 is \$812,116. This would bring us current within the recommended program. However, we are still working on ways to fund this amount given current budget constraints. The reason why the amount for Fiscal 2018/2019 is so much larger than each of the following four years thereafter is because the replacement of certain equipment was deferred in previous years due to budget constraints. The proposed program would replace items based on the end of their useful life. Standards have been established based on the recommended useful life for equipment. For example, desktop computers have been assigned a useful life of 6 years. Industry standards recommend 3 to 5 years. However, past history for the City has shown that 6 years is reasonable. Vehicles and other equipment have recommended useful life based on usage and department recommendation.

Exhibit 2 outlines urgent items that staff is recommending to be replaced immediately. As you can see, the list is limited to just vehicles and computer related equipment. Staff is tentatively recommending that smaller items, which are mainly computer equipment, be purchased using current cash reserves. One exception is a \$29,900 Pickup Truck for the Parks Division which is out of service and unrepairable, and staff is tentatively recommending this item be added to the list of items to be funded by cash reserves. The items tentatively recommended to be funded from reserves total \$78,530. The remaining items could potentially be financed through a capital lease which staff is researching at this time. The total of these remaining items is \$257,598. Some of the remaining items, such as police vehicles, have a long lead time for ordering. Therefore, it is important that we proceed as soon as possible. Staff is hoping that we can get approval for the lease purchase program as soon as possible.

Staff is seeking direction from the City Council in how to proceed in funding the \$336,128 in immediate equipment replacement needs. If staff receives conceptual approval from the Council, staff will return to the Council at a future meeting with formal budget recommendations.

Options:

1. Approve the conceptual Capital Outlay Budget funding recommendations and direct staff to return to the Council with formal budget recommendations.
2. Modify the conceptual Capital Outlay Budget funding recommendations and direct staff to return to the Council with formal budget recommendations.
3. Do not approve the conceptual Capital Outlay Budget funding recommendations and give staff further direction in how to proceed.

Cost: The cost of the proposed Capital Outlay Budget is \$336,128. If some of the equipment is financed, interest expenses would also be incurred.

Budget Impact: The proposed \$336,128 Capital Outlay Budget was not included in the adopted Fiscal Year 2018/2019 Operating Budget. If conceptually approved tonight, staff will return with formal budget recommendations and capital lease terms for the Council's consideration.

Recommendation: Review the proposed Capital Outlay Budget and provide direction to staff in identifying funding for the \$336,128 in immediate equipment replacement needs.



M. Cleve Morris, City Manager



Dave Warren, Director of Finance

Attachments:

Exhibit 1: Equipment Replacement Program

Exhibit 2: Equipment Urgent Items