



## CITY OF KIRKLAND

Department of Finance & Administration

123 Fifth Avenue, Kirkland, WA 98033 425.587.3100

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### MEMORANDUM

**To:** Kurt Triplett, City Manager

**From:** Tracey Dunlap, Director of Finance & Administration

**Date:** September 24, 2010

**Subject:** Replacement Sinking Funds

#### *Issue Description*

The City currently funds replacement reserves for vehicles and personal computers using a "sinking fund" approach, which sets aside funds each year through the operating budget toward the anticipated replacement of that equipment. This issue paper suggests that, as resources allow, this approach be broadened to include other types of major equipment that are only funded currently as CIP projects or as one-time funds become available.

#### *Discussion*

Historically, the City of Kirkland has funded the replacement of a variety of public safety and information technology systems and equipment using one-time resources, either through funding service packages with year-end cash or the CIP. The Preliminary CIP includes projects that have predictable replacement cycles, but no replacement reserves, such as:

- Defibrillator Unit Replacement,
- Self Contained Breathing Apparatus (SCBA) Replacement, and
- IT Network Replacement projects.

These projects and others like them compete with other CIP projects for the limited resources allocated to fund General Government CIP. This process results in potentially sub-optimal solutions as projects are deferred, creating future unfunded liabilities, or unsustainable solutions such as one-time resources being used to meet immediate needs. Setting aside dedicated replacement reserves would ensure timely replacement of these items and represents an important element in building a more sustainable budget.

The General Government CIP related to public safety and information technology is funded primarily using interest earnings, which can represent a volatile resource. In the preliminary CIP, approximately \$250,000 per year in interest earnings has been identified to fund public safety projects and \$550,000 per year for information technology projects (with utilities adding another \$150,000 toward IT). However, due to declining interest rates, which are not expected to rise significantly over the next biennium, there is not enough interest revenue projected to be available for this purpose, necessitating the use of one-time cash balances in the IT fund and the General Capital Projects fund to pay for the planned projects in 2011-2012.

In addition, there are replacement needs that have been funded in the past as one-time service packages using available cash, such as Fire Personal Protective Equipment (PPE), and long-term replacement needs, such as Fire and Police radios, for which funding is being cobbled together from a variety of sources, as discussed below.

By moving toward incorporating a funding stream for these items in the operating budget, their replacement can be scheduled with more certainty.

### *Public Safety Needs*

Public safety equipment that requires routine replacement, which is funded in a variety of ways, includes:

- Personal Protective Equipment (PPE - Fire) – \$186,390 was funded as a one-time service package in 2009-2010, with the need for another \$307,586 identified for 2011-12. This amount includes replacement of the remaining PPE and related storage equipment (\$98,382) plus an annual replacement contribution of \$104,468 per year towards future replacements, which drops down to \$72,664 per year after 2013. This request does not have a funding source. Note that the department has an operating budget of \$24,000 per year for PPE in 2009-2010, which is proposed at \$16,000 per year for 2011-2012, to be used for unscheduled replacements in case of damage, etc. The standard replacement cycle is 5 years for frontline PPE.
- Self-Contained Breathing Apparatus (SCBA - Fire) – Last purchased in 2003, scheduled in the CIP for replacement in 2014-2015 (\$621,600), based on a 10-year life.
- Defibrillator Units (Fire and Police) – Scheduled in the CIP for replacement in 2011 (\$253,900). Note that Police replaced 13 AEDs in 2008 for a total cost of \$17,560 out of their 2007-2008 operating budget capital outlay line item.
- Radios (Fire and Police) – The current radios used by Police and Fire were purchased almost 15 years ago, initially using King County 800 MHz levy funds. The radios have reached their useful lives. If a replacement sinking fund is established, a 10 year life is recommended.
  - Police has pursued replacement of the radios over time through a variety of sources (see Attachment A). The total cost to replace 116 radios is approximately \$250,000, of which there is a remaining need to fund \$35,000 to complete the replacement to the new model.
  - The Fire radios in the apparatus have to be replaced at the same time so that there is a standard configuration, since the radios are not assigned to individuals. The Fire Department is requesting to purchase a higher end model than that used by Police, due to factors described in Attachment B. Fire has identified 93 radios to be replaced at a total estimated cost of \$344,000, including all related equipment (batteries, etc.), as shown on the table on the following page. The Aid Car Reserve has a current balance of \$24,000, which could replace 7 radios, and the Fire Department estimates that as much as \$175,000 could be available from unspent funds in CIP projects nearing completion. This leaves a remaining unfunded need of \$49,000 in 2011 and \$96,000 in 2012.

<b>Fire Radio Replacement</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>
Radios Needed	68	25	93
Radio Cost	228,592	84,041	312,633
Equipment Costs	<u>19,776</u>	<u>11,554</u>	<u>31,330</u>
<b>Total Cost</b>	<b>248,368</b>	<b>95,595</b>	<b>343,963</b>
less: Aid Car Reserve Funding	(24,000)	-	(24,000)
less: Unused CIP Funds	<u>(175,000)</u>	<u>-</u>	<u>(175,000)</u>
<b>Remainder to be Funded</b>	<b>49,368</b>	<b>95,595</b>	<b>144,963</b>

- Other Fire equipment included in the current funded CIP includes replacement of thermal imaging cameras (\$133,000 in 2012), dive rescue equipment (\$58,900 in 2013), the breathing air fill station (\$159,100 in 2010) and mobile data terminals (MDTs) funded at \$227,300 in 2009.
- Other Police equipment, currently included in their operating budget, includes replacement of body armor on a 5-year cycle (\$20,000 per year). The Police mobile data terminals (MDTs) are funded through PC replacement charges and the next cycle of replacement is funded and scheduled for 2010 (\$148,000).

This listing illustrates the complexity of the issue and the variety of approaches that have been applied in addressing these requirements. If a sinking fund approach is to be considered, the initial replacement of items that are currently due to be replaced needs to be addressed from one-time funds. The unfunded amount for replacements that are currently needed totals \$278,382, which includes:

<b>Summary of Unfunded Needs</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>
Police Radios	35,000	-	35,000
Fire Radios	49,000	96,000	145,000
Fire Personal Protective Equipment	<u>98,382</u>	<u>-</u>	<u>98,382</u>
<b>Total Cost</b>	<b>182,382</b>	<b>96,000</b>	<b>278,382</b>

Staff recommends that year-end cash should be used to fund the 2011 replacements (\$182,382) and that the 2012 fire radio request (\$96,000) be brought back at the mid-biennium for consideration. While there is no on-going funding available to begin setting aside sinking fund payments for future replacements, staff recommends that, as revenues improve, setting aside operating funds toward future replacements should be a high priority for funding. An initial rough estimate of annual sinking fund charges for the public safety equipment identified above is approximately \$300,000-400,000 per year. A more in-depth analysis of the required sinking fund annual payment is recommended in 2011 (or as funds become available) to recognize the impacts of annexation and establish specific policies on the types of equipment and funding sources to be assumed.

#### *Information Technology Needs*

Three major categories of information technology replacements have been identified that do not currently have replacement reserves:

- Major systems, such as the Finance and Human Resources system (IFAS), Maintenance Management System (Hansen), Parks and Recreation System (CLAS), which have been traditionally funded in the CIP,
- Major infrastructure equipment, such as switches, servers, routers, telephone, which are funded in the CIP, and
- Copier replacements, which have been funded from one-time cash.

Major systems typically have a life of 10-15 years. Infrastructure equipment lives range from 3 to 9 years. To establish a sinking fund for major systems that generates adequate funds based on estimated end of life of the City's existing systems is approximately \$950,000 per year. For major equipment, a sinking fund payment of \$500,000-600,000 per year would be required.

Note that \$1 million was set aside in a major systems replacement reserve in 2004. These funds are planned to be used to fund the permit system replacement project that is currently in progress and is scheduled for completion in early 2011. After completion of the project, the major systems replacement reserve will be nearly depleted. In 2008, a permit system replacement charge of about 1.5% of fee revenues was incorporated into the existing development fees. The revenue has been used to fund the process improvement study and other activities related to the current system replacement and future revenues are intended to be set aside toward future system replacement. Revenue from this component has dropped as permit activity has slowed, but this represents the only current funding source toward major system replacement.

In summary, the estimated annual sinking fund contribution for identified information technology needs ranges from \$1.4 to \$1.6 million. While there are no funding sources available to fund a sinking fund approach at this time, the Information Technology Fund has an uncommitted cash balance that could support a transfer of \$400,000 into the Major Systems Replacement reserve, which is a recommended first step. As with public safety equipment, further analysis should be conducted in 2011 or as funds become available to establish specific needs and policies.

### *Conclusion*

While the City has been able to make needed replacements in the past using one-time funds, often the timing of these replacements was deferred until one-time funds became available. There are a variety of needs that can be anticipated and funds can be set aside to meet the periodic need. This approach becomes even more important because the costs of required replacement will grow as the City grows with annexation.

The preliminary budget does not include additional on-going funding toward a sinking fund for replacements, but does identify a funding source for the initial replacements that are currently due. Those items that are currently funded in the preliminary CIP continue to be funded from that source and the other items are either deferred or are not yet required. The purpose of identifying this issue at this point in time is to request that, if revenues improve sufficiently to provide for it, that funding of these sinking funds become a priority, second only to replenishing the City's general fund reserves used during the economic downturn.

If this approach is desirable, a more detailed analysis of an equipment replacement sinking fund and potential funding resources will be developed and presented to the City Council in 2011.

**CITY OF KIRKLAND****Police Department****123 Fifth Avenue, Kirkland, WA 98033 425.587.3400****[www.ci.kirkland.wa.us](http://www.ci.kirkland.wa.us)**

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**MEMORANDUM**

**To:** Capt. Markle

**From:** Lt. Krebs

**Date:** June 10, 2010

**Subject:** Portable Radio replacement update/proposal

As a reminder, the department needed 116 portable radios in service by the end of 2010 which includes 26 radios for the annexation officers. In May we were able to replace 33 old portables with 33 new XTS 2500 portable radios bringing us to a total of 52 newer radios in service and leaving us with a remainder of 64 radios to replace.

I contacted Day Wireless to get a quote on portable costs and was informed that although Motorola has no promotions going at this time, they are willing to give us a \$300 discount per radio if we order 30 or more radios and trade in our old radios on a 1 to 1 basis. In addition, Motorola said the discount would only apply if the order is placed and received in the month of June. Using the quote from Motorola we could purchase 47 additional portable radios for approximately \$100,000. As previously discussed, we are proposing the purchase of the radios with 33 being paid for using Narcotics Seizure Fund money and 14 being paid for using the Portable Replacement Fund money from the City.

If we are able to purchase the 47 radios mentioned above, that would leave us only 17 old portable radios still needing to be replaced. Originally the plan was to try and finish off the radio replacement sometime in 2011 or 2012 however Motorola sweetened the deal by offering to give us a \$400 discount per radio (with trade in) if we order 64 radios (47 + remaining 17). With the deal that Motorola is currently offering and the substantial savings involved, I believe we should try and find funding to purchase the remaining 17 radios in June so we can place an order for 64 radios and receive the \$400 discount. The cost of 64 new radios with a \$400 discount would be approximately \$135,000 leaving a difference of \$35,000 to finish off replacement of all our old radios.



**CITY OF KIRKLAND**  
**Fire & Building Department**  
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## MEMORANDUM

**To:** Tracey Dunlap, Director Finance and Administration  
Gene Markel, Captain Kirkland PD  
Mike Ursino, Captain Kirkland PD  
Rick Krebs, LT. Kirkland PD  
Sri Krishnan, Financial Planning Manager

**Cc:** Kevin Nalder, Director Fire & Building  
Helen Ahrens-Byington, Deputy Fire Chief (admin.)

**From:** Jack Henderson, Deputy Fire Chief (ops)

**Date:** July 14, 2010

**Subject:** Purchasing Motorola portable radios XTS 5000 rather than XTS 2500

**RECOMMENDATION:** That the Fire Departments purchase the Motorola XTS 5000 for the upcoming radio purchase.

### **BACKGROUND DISCUSSION:**

#### **Safety issue:**

1. The XTS 5000 has a toggle ABC switch similar to our current model which will allow easier change for crews. This switch is pivotal when changing to the Emergency Channel during Fire Ground/Incident emergencies. The 2500 does not have a toggle switch which makes it extremely difficult to manipulate with structural fire fighting gloves.
2. The control knobs are larger and are of different size, shape and angles making it easier to manage with structural fire gloves allowing the firefighter to easily determine which knob he/she is manipulating without looking during fire fighting assignments.
3. The 5000 has larger battery capacity which provides for longer talk time on the fire ground and extended incidents.
4. The scanning feature of the XTS 5000 is similar to our current model and can be turned on within the radio pocket and without actually visualizing the unit. The XTS 2500 needs to be taken out of the radio pocket and a series of buttons pushed to switch it on.
5. The XTS 5000 comes in a rugged/water proof version that protects the unit to 15 feet and up to two hours submersion time. The XTS 2500 is not submersible. In the past 5 years this alone would have saved the KFD \$10,000.

**Other issues:**

6. XTS 5000 fits into the current pockets of our PPE without modification. Bellevue FD and PD found that the 2500 did not fit their PPE or police tactical gear would have meant the reconfiguring of all portable radio pockets on their PPE. In KFD this would mean replacing nearly 180 radio pockets at an estimated \$40 per pocket.

7. Every fire department within EPSCA is using the XTS 5000. This provides for the ability of crews from various departments to use radios from other agencies if needed without any training. This would lend itself well during large scale incidents and if a radio should fail on the fire ground.

8. Only two departments within King County use the XTS 2500, both are departments with extremely small budgets.

9. The XTS 5000 offers multiple encryption technology the XTS 2500 does not

While the Motorola XTS 5000 does cost more than the XTS 2500 the difference between the operational & safety demands of the KPD and the operational & safety demands of the KFD is the main impetus for requesting the XTS 5000.

If you have questions please contact me.