

MEMORANDUM

DATE: November 12, 2020

TO: Lynnwood City Council Finance Committee

FROM: Public Works Director William A. Franz
Public Works Manager Marcie MacQuarrie

RE: Update on Fleet Finances and FCS Study

Overview of Funds:

510: Equipment Rental Reserve Fund

This is the fund where departments pay replacement costs for their vehicles and the amounts are held in reserve until the time that purchases are made.

511: Equipment Rental Operations Fund

This is the fund that pays for the actual costs of maintaining the city's fleet of vehicles and equipment. It includes the costs of mechanics, administrative staff, overhead, parts, tools and outsourcing.

Agenda:

1. Fund 510 planned 2019-2020 expenditures vs. budget (See attached spreadsheet with planned vs. actual purchases)

Fund 510 is trending to be overspent on expenses for the 2019-2020 biennium due to changes encountered over the biennium, however with insurance and department contributions for excess expenses, the fund reserve will actually be underspent for what it was projected to be. Changes that increased/decreased the Fund 510 budget include: (1) opting to not replace equipment this biennium, (2) opting to postpone replacing equipment to a later biennium, (3) opting to replace equipment with other types of equipment, (4) departments adding equipment from approved budget adjustments, and 5) replacing equipment early due to vehicles being totaled in an accident or some other mechanical failure that makes repair too costly. Though all purchases are made out of the 510 Equipment Rental Fund, overages and unplanned purchases are reimbursed by the departments or the insurance company. In 2019-2020 these unplanned purchases and replacements are what drove spending about \$72,000 above budget. This will be included in 2020 budget amendments that will be brought forward to Council in December for approval.

2. Outcomes from Fleet Analysis by FCS (See attached report from FCS)

Upon taking over management of the Fleet 510 and 511 Funds, Public Works hired FCS to review the funds, suggest best practices, and create management tools to better track and forecast the replacement schedule, fund balance forecast and shop rate models. Staff will brief the Finance Committee on the status of the Fund 510 reserve account, our current shop rate, and the reconciling of carried debt in Fund 511, Fleet Operations, with Fund 510.

3. Update on Fleet Management by Public Works

The Public Works Department has made many improvements to the management of fleet and Funds 510 and 511. This has been influenced by FCS and the report done, the now regular bi-monthly meetings between Public Works Fleet staff and Admin Services Fleet Accounting staff, auditor suggestions, and other department feedback. Staff will brief the committee on the following list of improvements that have been made over the last two years.

FCS Study

- New replacement schedule spreadsheet in place for 2021-2022 biennium
- New Shop Rate spreadsheet in place for 2021-2022 biennium

Budget Improvement

- Forecasted to avoid going into the red in 2021-2022 biennium with 510 transfer

New set up process for PD units

- Quicker turnaround of vehicles
- Standardized set ups with tech support
- Budget reduction

Insurance procedures

- New insurance company
 - Less expensive
 - Better visibility of coverage for customers
- Improved tracking of Insurance claims to ensure customers get full credit and charges related
 - Reduces admin work
 - Reduces finance work
 - Reduces missed expenses
 - Charged through 511 on work orders

Capitalization procedures

- Improved tracking of expenses on new equipment
 - Reduces admin work
 - Reduces finance work
 - Reduces missed expenses
 - Charged through 511 on work orders

New fuel card procedures

- Management delegated to Public Works
- Updated PCard policy to include volunteers and temporary employees
- Updated tracking of volunteer fuel card usage
- Updated review of fuel expenditures, 3 people with documented follow-ups for irregular charges
- Stronger management and review of statement standards of Ecards

New Management

- Reduced billing hours corrected with personnel issues resolved
- Re-organization of shop
 - Improved safety
 - Improved leadership (supervisor in shop)
 - Improved parts/supply organization (reduced duplicate ordering)
- Improved moral and norms on the shop floor

4. Update on South County Fire successor agreement for City Fleet services (See attached Draft Agreement)

Public Works Management has been working with South County Fire to update the Interlocal Agreement that defines the services and terms that the City provides to the Authority for maintenance of its vehicles and apparatus. Management plans to present the amended agreement to the South County Fire Board of Commissioners and the City of Lynnwood City Council in early December for approval.

510 ERR Purchases

Planned							Replacements									
Dept	Code	Year	Make	Model	Est Rplcmt Year	510 Est Rplcmt COST	Rplcmt Veh Code	Year Purch	Make	Model	Year	Actual Cost	Est Final Cost	Diff	Notes	
PW	NEW	2019	FORD	Escape	2019	\$14,475	381	2019	Ford	Escape	2019	\$22,416		\$ (7,941)	Department Budget	
PW	NEW	2019	FORD	Explorer	2019	\$22,121	389	2019	Ford	Explorer	2020	\$35,897		\$ (13,776)	Department Budget	
PRR	220	2009	FORD	STAKESIDE	2019	\$31,954								\$ 31,954	replaced in 2018	
PW	231	2008	DODGE	CARAVAN	2019	\$97,281	382	2019	Ford	F150	2019	\$29,713		\$ 67,568		
PW	T59	1990	FORD	F350	2019	\$88,002								\$ 88,002	Unit not being replaced, funds redistributed	
PW	T89	1999	FREIGHTLINER	MTS5	2019	\$56,087	411	2020	Ford	F550 w/ trivan	2020		\$164,000	\$ (107,913)	used money from T59 excess funds on other vehicles	
PW	M03	1989	WELD	TRAILER	2019	\$58,647								\$ 58,647	not going to replace, M04 replaced	
PW	105	2005	CHEVY	4500	2019	\$32,794								\$ 32,794	pushed to 2021	
PW	M11	1999	THERMO	PLAST	2019	\$30,281	370							\$ 30,281	replaced in 2018	
PW	M52	1998	STRIPING	MACHINE	2019	\$70,502								\$ 70,502	pushed to 2021	
PW	130	2006	CHEVY	3500	2019	\$67,737	412	2020	EH WACHS	Valve Turner	2020		\$162,603	\$ (94,866)	borrowing funds from T59 and some coming from department went to council as FYI memo April 6th 2020	
PD	-	2015	Panasonic	Toughbook	2019	\$13,451						\$202,020		\$ (188,569)	Total amount - computers installed in PD vehicles Department Budget	
PD	258	2012	CHEVROLET	CAPRICE	2019	\$47,000	380	2019	Ford	Police interceptor	2020	\$85,485		\$ (38,485)		
PD	-	2015	Panasonic	Toughbooks	2019	\$13,451								\$ 13,451	part of line 15	
PD	-	2015	Panasonic	FZ-G1	2019	\$13,311								\$ 13,311	part of line 15	
PD	135	2006	CHEVY	EXP	2019	\$30,000								\$ 30,000	pushed to 2021	
PD	-	2015	Panasonic	Toughbooks	2019	\$139,573								\$ 139,573	part of line 15	
PD	224	2009	DODGE	CHARGER	2019	\$46,000								\$ 46,000	Not going to replace, moved to trickle down, funds redistributed	
PD	-	2015	Panasonic	Toughbooks	2019	\$26,903								\$ 26,903	part of line 15	
PD	270	2013	H-D	FLHPI	2019	\$23,000	387	2019	FLHTP	Electra Glide	2019	\$48,588		\$ (25,588)		
PD	272	2013	H-D	FLHPI	2019	\$23,000	388	2019	FLHTP	Electra Glide	2019	\$49,309		\$ (26,309)		
PD	317	2015	H-D	ELECTRA	2019	\$23,000								\$ 23,000	pushed to 2021	
PD	318	2015	H-D	ELECTRA	2019	\$23,000	400	2020	Harley	Electraglide		\$31,414		\$ (8,414)		
PD	319	2015	H-D	ELECTRA	2019	\$23,000	401	2020	Harley	Electraglide		\$31,891		\$ (8,891)		
PD	320	2015	H-D	ELECTRA	2019	\$23,000								\$ 23,000	pushed to 2021	
PD	-	2015	Panasonic	Toughbooks	2019	\$13,451								\$ 13,451	part of line 15	
PD	-	2015	Panasonic	FZ-G1	2019	\$56,619								\$ 56,619	part of line 15	
2019 PLANNED TOTAL						\$1,107,640	2019 ACTUAL TOTAL						\$863,336	\$ 244,304		
PW	T11	2002	DODGE	RAM	2020	\$30,372	405	2020	Chevy	Silverado 1500	2020	\$37,822		\$ (7,450)		
PW	140	2006	CHEVY	1500	2020	\$26,858	406	2020	Chevy	Silverado 1501	2020	\$37,822		\$ (10,964)		
PW	182	2008	FORD	F250	2020	\$42,695	407	2020	Ford	F250	2020	\$41,850		\$ 845		
PW	189	2008	CHEVY	1500	2020	\$32,782	408	2020	Ford	Explorer	2020	\$33,831		\$ (1,049)		
PW	187	2008	FORD	F450	2020	\$45,343	409	2020	Ford	F550	2020		\$90,321	\$ (44,978)	borrowing funds from T59	
PD	303	2005	FORD	E450	2020	\$57,149	404	2020	Ford	E350 Allstar	2019	\$67,005		\$ (9,856)		
DBS	172	2008	FORD	ESCAPE	2020	\$27,476	403	2020	Ford	Explorer	2020		\$34,100	\$ (6,624)		
PW	180	2008	FORD	F250	2020	\$35,566	398	2020	Ford	F350	2020	\$64,766		\$ (29,200)		
PW	181	2008	FORD	SC	2020	\$48,164	399	2020	Ford	F350	2020	\$65,119		\$ (16,955)		
PW	223	2008	KUT	KWICK	2020	\$77,860	385	2019	Kut Kwick	Mower	2018	66,443.50		\$ 11,417		
PD	257	2013	FORD	TAURUS	2020	\$33,000	386	2019	Ford	Fusion	2019	\$40,551		\$ (7,551)		
PD	327	2016	FORD	INTERCEPTOR	2020	\$47,000	379	2019	Ford	Police interceptor	2020	\$85,792		\$ (38,792)		
PD	328	2016	FORD	INTERCEPTOR	2020	\$47,000	383	2020	Ford	Police interceptor	2020	\$65,825		\$ (18,825)		
PD	329	2016	FORD	INTERCEPTOR	2020	\$47,000	394	2020	Ford	Police interceptor	2020	\$53,013		\$ (6,013)		
PD	338	2016	FORD	INTERCEPTOR	2020	\$47,000	395	2020	Ford	Police interceptor	2020	\$53,013		\$ (6,013)		
PD	339	2016	FORD	INTERCEPTOR	2020	\$47,000	396	2020	Ford	Police interceptor	2020	\$53,013		\$ (6,013)		
PD	341	2016	Ford	INTERCEPTOR	2020	\$47,000	397	2020	Ford	Police interceptor	2020	\$53,013		\$ (6,013)		
PD	351	2017	CHEVY	TAHOE	2020	\$46,000								\$ 46,000	pushed to 2021	
2020 PLANNED TOTAL						\$785,265	2020 ACTUAL TOTAL						\$943,300	\$ (158,035)		
ADDED OUTSIDE OF BUDGET																
PD	287						390	2019	Ford	Taurus	2018	\$30,719		\$ (30,719)	Replaced Narcotic vehicles, paid by department	
PD	K9 Insurance replacement							402	2020	Ford	Police interceptor	2020	\$82,250		\$ (82,250)	insurance replacement
PW	M04						392	2019	TNT/Mirage	TRA/MLX		\$8,329		\$ (8,329)	Replaced instead of M03	
PW	NEW						393	2020	Ford	F150		\$36,928		\$ (36,928)	Added and paid for by department	
BIENNIAL PLANNED TOTAL						\$1,892,905	BIENNIAL ACTUAL TOTAL						\$1,964,862	\$ (71,956)		

City of Lynnwood

Equipment Rental Reserve Analysis

DRAFT REPORT
December 2019

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FCS GROUP
Solutions-Oriented Consulting

December 10, 2019

Lester Rubstello P.E., Deputy Director
City of Lynnwood
19100 44th Ave W
Lynnwood, WA 98036

Subject: Equipment Rental Reserve Analysis

Dear Mr. Rubstello:

FCS GROUP is pleased to submit this report summarizing the results of the Equipment Rental Reserve analysis for the City of Lynnwood. The following questions were evaluated:

- How have historical revenues compared to historical expenditures?
- Has the City been collecting the rate model-recommended revenues from City departments?
- How does the City's replacement rate methodology compare to industry standards?
- Are there ways to improve the technical modeling of the current replacement rate model?

The results of our findings are covered within this report. It has been a pleasure to work with you and other City of Lynnwood staff on this effort. Please let us know if you have any questions or need additional information. Tage can be reached at (425) 615-6487 or TageA@fcsgroup.com.



Angie Sanchez Virnoche
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APPENDICES

Appendix A - ERR Model Findings

Appendix B - March 2011: ERR Analysis by P. Dugan

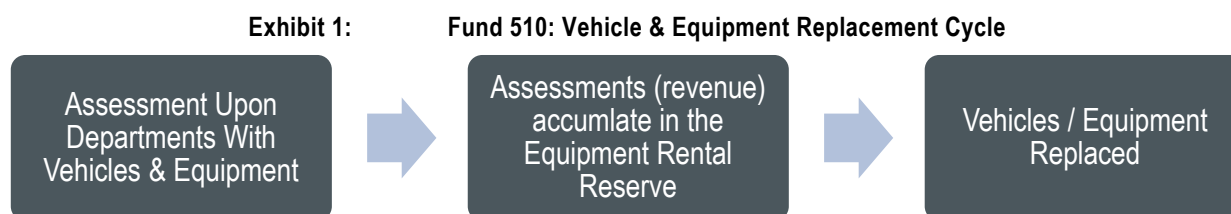
Appendix C - October 2012: Memo to Mayor

Appendix D - Backup Data for Historical ERR Performance

Appendix E - Fund 511 Technical Memorandum

Section I. INTRODUCTION

The City of Lynnwood (City) operates an Equipment Rental Reserve, which is an internal service fund used to provide for the accumulation of revenues (reserves) which allows for the maintenance and replacement of the City's vehicles and equipment. The departments responsible for administering this fund include Public Works and Administrative Services. The Public Works Department took over management of the Fund in 2018; Administrative Services provides the fiduciary accounting of the fund. **Exhibit 1** shows the general flow of resources through Fund 510.



Additionally, Fund 511 (Equipment Rental Operations Fund – Fleet) and Fund 513 (Lynnwood Shop Operations Fund) also are associated with Fund 510. Fund 511 provides maintenance, repairs, and fuel for fleet vehicles while Fund 513 pays the utility bills at the Lynnwood Maintenance & Operations Center. The majority of this report focuses on the activity related to Fund 510 only.

The City utilizes an Excel-based model to calculate the annual replacement charge for each vehicle, which is then applied to each department to determine the revenue that is deposited into Fund 510 from each department. The total charges for each department can vary depending on how many and of what types of vehicles and equipment are assigned. Departments with higher quantities and / or with more expensive vehicles and equipment tend to have higher charges as a result. The sum of these charges represents the revenues to Fund 510.

The City also operates its own mechanic's shop (accounted for in Fund 511), which is funded through an hourly charge to benefitting departments. As part of this study, FCS GROUP was tasked with analyzing the City's existing Shop Rate model and determining whether the addition of a new mechanic would allow the City to lower its hourly rate. The technical memorandum examining this issue is attached in the Appendix.

In 2019, the City contracted with FCS GROUP to analyze the historic performance for Fund 510, as well as to review the City's existing Fund 510 Equipment Rental Reserve (ERR) rate model. In particular, the City wanted FCS GROUP to evaluate the following topics:

- Historical Fund Performance.
 - » Have historical revenues met expenditures?
 - » What type of fund activity occurred in 2010-2012 (post-recession)?
- ERR Model Revenues vs. Revenues Actually Received.
 - » Is the fund actually collecting the revenue calculated by the rate model?
- ERR Model Review.
 - » How does the City's replacement rate methodology compare to industry standards?
 - » Are there ways to improve the technical modeling of the current ERR model?

- ERR Fund Balance Forecast.
 - » How might estimated revenues and expenditures affect the fund balance over the next 15 years?

These topics will be reviewed in order in the subsequent sections.

Section II. HISTORICAL PERFORMANCE

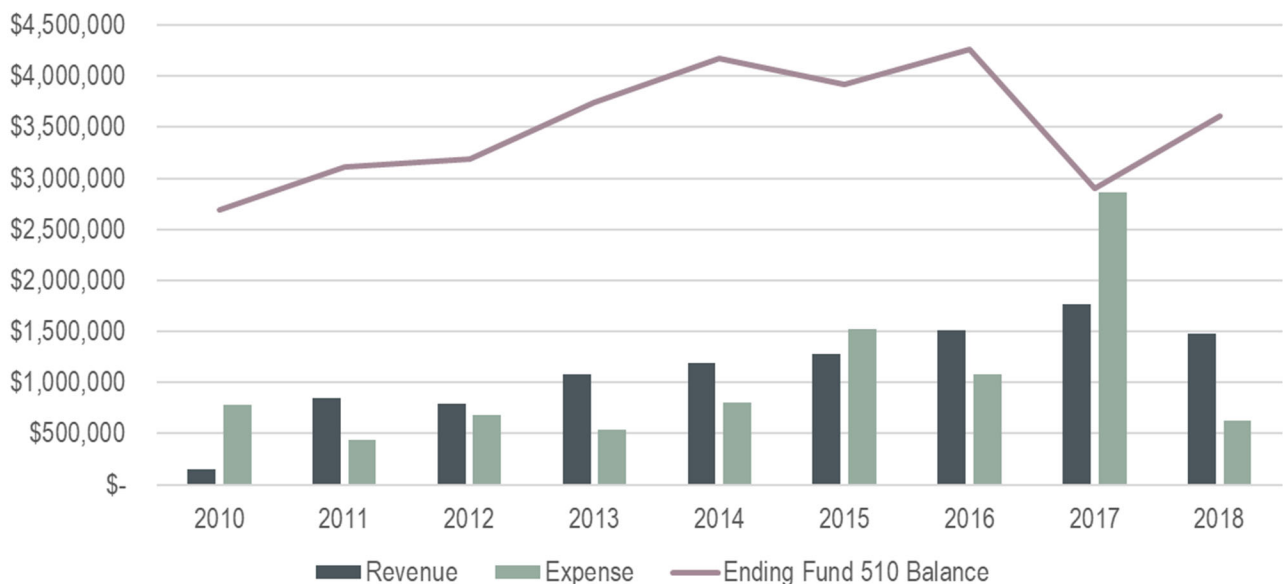
DISCUSSION ON DATA

The data for this analysis is largely based on trial balances generated from the City’s financial records, which are attached to this report as appendices. Data from 2014-18 was generated from the City’s current financial database, and data for 2010, 2011, 2012, and 2013 was retained from the City’s previous accounting system. The 2012 ERR fund balance data was derived from the City’s Annual Financial Statement, which the City was able to break down into the three constituent funds. In summary, no single data source spanning the study period contained revenues, expenditures, and fund balance. Therefore, the analysis in this section is based on data from multiple sources. There is no guarantee that these different sources define revenues, expenditures, and ending fund balance in the same way. FCS GROUP worked closely with City staff to enhance data continuity as best as possible.

GENERAL CONCLUSIONS

In general, revenues have met or exceeded expenditures in most years, with the notable exceptions of 2010 and 2017. No replacement rates were collected in 2010, and 2017 contained some one-time expenditures related to the incorporation of South County Fire. In addition, the City transferred \$140,000 in 2010 to support the General Fund post-economic recession.

Exhibit 2: Revenues, Expenditures, and Ending Fund Balance: Fund 510



ACTIVITY DURING 2010-12

As can be seen from **Exhibit 2**, revenues and expenditures are significantly lower during the 2010-12 period (and even 2013). The following bullets summarize some findings that were referenced in a memo from the City's Administrative Series Department, "Memo to Mayor Oct 2012 re budget":

- In 2010, equipment replacement payments were suspended City-wide to reduce departmental expenses in response to cost-cutting budgetary constraints;
- In addition, 2010 through 2012 fleet replacement purchases were scaled-back to a level that did not adhere to the replacement schedule;
- Only failing and wrecked vehicles were replaced; and
- For the 2011-2012 biennium, in an effort to reduce operational costs, the Fire Department suspended equipment replacement payments.

Based on discussions with City staff, it is believed that the fund balance for Fund 510 was higher in years prior to 2010. Since 2010, the overall fund balance has gradually increased as replacement charges were collected at their intended levels. Revenues, expenditures and Fund 510's overall fund balance have all gradually increased since that timeframe, with the exception of 2017 and the one-time expenditures associated with the incorporation of South County Fire.

Unless a major unforeseen situation arises, the City should have sufficient resources to maintain the fund going forward. By collecting replacement charges as planned and proactively managing the fund, the City should be able to avoid a situation where the fund becomes insolvent.

In conclusion, based on the research noted above, the existing fund balance remains sufficient to meet projected replacement costs for vehicles in the foreseeable biennium or two, assuming the model-recommended payments continue to be collected and deposited into Fund 510. A longer-term forecast is discussed in **Section V**.

Section III. ERR MODEL REVENUES VS. REVENUES RECEIVED

While it could be helpful to compare modeled revenues versus collected revenues over a multi-year period, there are several reasons why this has been problematic:

- Per City staff input, prior to 2017-18, Fund 510 payments included payments to the City’s Shop fund (Fund 511); this makes it difficult to isolate and reconcile the replacement rates from a rate model versus what was actually charged to the individual departments.
- The City also changed accounting software providers between 2013 and 2014, which led to numerous issues in collecting financial data from before the transition period.
- Overall, prior to 2018, it proved difficult to match up the modeled replacement rates with what was actually charged to various City departments.

Even with the identified limitations, FCS GROUP was able to validate that the 2018 modeled rates matched the amounts charged to City departments. The 2018 revenues received by Fund 510 are shown below.

Exhibit 3: Fund 510 Revenues (2018)

DATE	REFERENCE	AMOUNT
12/31/2018	Veh Rplcmt	\$ (25,041)
12/31/2018	Veh Rplcmt	(1,508)
12/31/2018	Veh Rplcmt	(10,035)
12/31/2018	Veh Rplcmt	(27,681)
12/31/2018	Veh Rplcmt	(25,499)
12/30/2018	ERR RPLCMT	(112,271)
11/30/2018	ERR RPLCMT	(112,271)
10/31/2018	ERR RPLCMT	(112,271)
9/30/2018	ERR RPLCMT	(112,271)
8/31/2018	ERR RPLCMT	(112,271)
7/31/2018	ERR RPLCMT	(112,271)
6/30/2018	ERR RPLCMT	(112,271)
5/31/2018	ERR RPLCMT	(112,271)
4/30/2018	ERR RPLCMT	(112,271)
3/31/2018	ERR RPLCMT	(112,271)
2/28/2018	ERR RPLCMT	(112,271)
1/31/2018	ERR RPLCMT	(112,271)
Total		\$ (1,437,020)

Source: City's Financial Database

As shown in **Exhibit 3**, the combined monthly ERR replacement rate charged to City departments totaled \$112,271. This is shown in the rightmost column where monthly revenue is recorded for

payments labeled as “ERR RPLCMT”. The charges marked as “Veh Rplcmt” are recorded at the end of the year. Sometimes, the amount that the City has budgeted and collected for the replacement vehicle is not sufficient to fully pay for the replacement vehicle. In these situations, the ERR fund bills the relevant department for the difference between the actual cost of acquiring and setting-up the vehicle and the amount the City has budgeted for it.

Exhibit 4 shows the calculated payments from the City’s final 2018 ERR rate model by department. The monthly rate column totals \$112,271, which matches the amount actually charged to departments in 2018, as shown in **Exhibit 3**. Based on the information available, it appears the City did utilize the rates calculated in 2018 to actually bill departments.

Exhibit 4: ERR Modeled Rates by Department (2018)

Department	Biennial Rate	Annual Rate	Monthly Rate
Admin	\$ 39,653	\$ 19,826	\$ 2,708
CID	87,765	43,883	3,657
Comm Health	47,102	23,551	1,963
Evidence	5,371	2,686	224
Patrol	813,781	406,891	33,908
SOS	52,349	26,174	2,181
Traffic	301,340	150,670	12,556
Training	20,247	10,123	844
Jail	55,986	27,993	2,333
Park Maintenance	46,839	23,419	1,952
Recreation	80,419	40,210	3,351
Permits & Inspections	51,064	25,532	2,110
Inspector	10,000	5,000	417
Bldg & Properties	12,395	6,197	516
Streets	335,468	167,734	13,978
Traffic	59,761	29,881	2,490
Water	228,897	114,448	9,537
Sewer	127,554	63,777	5,315
Storm Engineering	11,366	5,683	474
Stormwater	250,878	125,439	10,453
Fleet	17,018	8,509	709
Treatment	14,333	7,167	597
Total	\$ 2,669,585	\$ 1,334,792	\$ 112,271

Section IV. ERR MODEL REVIEW

Based on a review of the ERR replacement rate model, the general replacement rate methodology used by the City is generally consistent with industry best practices. However, there are model and methodology improvements that can help clarify questions on data sources and methodologies.

The ERR model review centered on the following themes:

- Does the model methodology follow industry best practices?
- Can model transparency be improved? and
- Are there model changes that can streamline the approach and incorporate dynamic rate calculations?

BEST PRACTICES

The City's methodology of recovering its capital replacement costs is generally consistent with best practices in the following areas:

- Tracking equipment acquisition and 'make-ready' costs;
- Projecting the useful life for each vehicle and piece of equipment;
- Projecting replacement cost, adjusted for surplus value; and
- Calculating a net replacement cost, converted into a regular payment schedule.

The City also tracks running 'amounts received' by vehicle. Assuming that this data is accurate and routinely updated, this enables Public Works to track contributions and uses of reserves on a detailed basis and adjust future payments accordingly. While this step may represent a material administrative effort, this is an additional step that increases the transparency for departments.

MODEL TRANSPARENCY & DYNAMIC RATE CALCULATIONS

Based on a review of the City's existing model, FCS GROUP determined that improvements could be made regarding the technical aspects of the ERR model for Fund 510. These recommendations include a centralized input section, more 'flow-through' formulas (which minimize the number of cells that need to be updated) and creating look-up tables that will allow the City to summarize information by department or replacement year.

The detailed discussion notes regarding specific improvements to the ERR model are attached to this memo in the Appendices. After these results were reviewed with City staff, the City requested that FCS GROUP develop a more dynamic rate tool that would allow for greater flexibility and automatic generation of summary reports while maintaining the existing replacement methodology. The City currently has a draft version of this updated tool and is working with FCS GROUP to review and refine the functionality as City staff use and test the tool.

Section V. FUND BALANCE OUTLOOK

The City asked for a fifteen-year forecast of Fund 510 to analyze its long-term financial sustainability. By utilizing the City's existing inventory, plus cost inflation and surplus vehicle sales assumptions, the City's projected vehicle acquisitions were forecast through 2034.

In addition, the amount that other departments would pay into Fund 510 was also forecast, allowing the ending fund balance to be calculated. This forecast is shown below.

Exhibit 5: Fund Balance Forecast

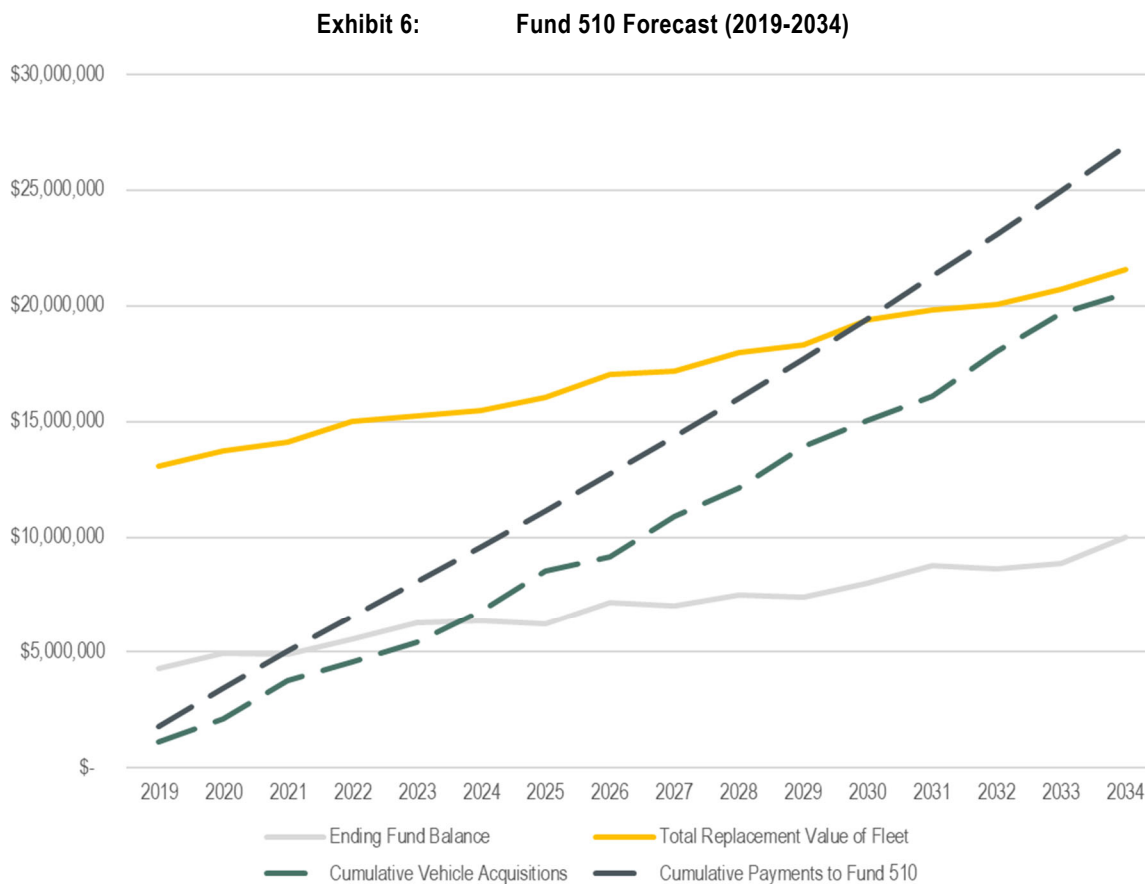
Year	Beginning Fund Balance	Surplus Vehicle Sales	Vehicle Acquisitions	Payments to Fund 510	Ending Fund Balance	Annual Change
2019	\$ 3,605,892	\$ 62,248	\$ (1,175,693)	\$ 1,802,511	\$ 4,294,959	\$ 689,067
2020	4,294,959	81,237	(1,075,302)	1,658,933	4,959,827	664,868
2021	4,959,827	120,564	(1,777,204)	1,582,432	4,885,620	(74,207)
2022	4,885,620	61,010	(875,089)	1,495,091	5,566,632	681,012
2023	5,566,632	72,427	(903,283)	1,517,786	6,253,563	686,930
2024	6,253,563	110,563	(1,516,071)	1,533,489	6,381,544	127,981
2025	6,381,544	130,694	(1,858,057)	1,551,600	6,205,782	(175,762)
2026	6,205,782	56,744	(675,195)	1,583,197	7,170,528	964,745
2027	7,170,528	135,121	(1,888,071)	1,605,191	7,022,769	(147,759)
2028	7,022,769	105,421	(1,301,297)	1,658,415	7,485,309	462,540
2029	7,485,309	126,575	(1,930,720)	1,702,166	7,383,330	(101,979)
2030	7,383,330	92,866	(1,219,564)	1,763,301	8,019,933	636,603
2031	8,019,933	89,406	(1,121,609)	1,804,451	8,792,181	772,248
2032	8,792,181	158,170	(2,114,992)	1,807,169	8,642,528	(149,653)
2033	8,642,528	121,522	(1,757,447)	1,879,392	8,885,995	243,467
2034	8,885,995	72,037	(928,351)	1,946,973	9,976,653	1,090,659

A few observations can be made:

- Payments to Fund 510 increase at a fairly steady rate from the 2022 level, with only small fluctuations as individual vehicles are replaced. In other words, the calculated model rates succeed at smoothing out the payments from other departments into Fund 510.
 - » Payments to Fund 510 in years 2019-2021 are higher than the low point in 2022 due to some catch-up payments being made by some departments. These catch-up payments are the result of comparing the replacement cost with the amount collected; this difference must be spread over the remaining life of the vehicle. In some cases, this difference is quite significant and is only being spread over two to three years, due to pending replacement.
- The vehicle acquisition amount varies greatly on a year by year basis. However, in no year does the planned acquisition amount come close to depleting the fund balance.
- The analysis indicates that if the City continues to charge the modeled rates over time, the fund is likely to be financially sustainable over the next 15 years.

- The fund balance generally increases over time. This is a natural consequence of the City’s policy to collect fund balance in advance of purchasing new vehicles.

Exhibit 6 compares the ending fund balance from **Exhibit 5** with some other interesting metrics. For example, the replacement value of the entire fleet is shown in every year (yellow line) – this can be understood as the total amount the City would need to expend if every vehicle needed to be replaced at the same time.



As can be seen, the total replacement value of the fleet and the ending fund balance of Fund 510 trend closely to each other. The cumulative vehicle acquisitions and cumulative payments to Fund 510 (beginning in 2019) are shown as dashed lines.

The ending fund balance is shown in the grey line. In 2025, it is forecast to be roughly \$6 million and it approaches \$10 million by the mid-2030s. This approximate level of fund balance is consistent with what was also projected nearly 8 years ago, as the ‘2011 Dugan’ memo forecast ending fund balances of greater than \$6 million by 2028 and beyond.

Although the ending fund balance increases over time, the difference between the cumulative vehicle acquisitions and cumulative payments to Fund 510 are closely correlated. The ending fund balance will likely continue to slowly increase over time if the City continues to charge the full replacement rates calculated by the model.

Section VI. CONCLUSIONS

The City tasked FCS GROUP to review four key areas regarding the equipment rental reserve, which are listed below:

Have historical revenues matched historical expenditures?

With the exception of 2010 and 2017, historical revenues have generally matched historical expenditures. Both of these years have a known explanation; the City decided not to charge ERR rates in 2010, and 2017 is due to the creation of South County Fire. If the City charges the rates calculated in its updated rate model, it appears that the ERR funds should continue to operate in a financially sustainable manner.

Is the City actually collecting the appropriate amount of revenues from departments based on the rate model calculations?

Unfortunately, data issues limited the extent to which historical revenues could be tracked. However, FCS GROUP was able to validate that the City charged the modeled amounts in 2018.

Is the City's existing rate model consistent with industry standards and can it be improved in order to increase transparency and make it easier to update each budget cycle?

The City's existing rate model is generally consistent with industry standards. By charging on a per vehicle basis; and including cost inflation, set-up costs, and surplus value in the calculation, the City is already performing a detailed analysis.

FCS GROUP provided an updated modeling tool. Rather than changing the City's existing methodology, the tool focused on creating dynamic 'flow-through' capabilities in the model, increasing consistency, and minimizing the possibility of user error. The model also creates summaries 'by department' and 'by year of vehicle replacement', increasing both the ease of which these summaries can be created as well as increasing the transparency of the model results for both internal and external stakeholders.

Will Fund 510 be financially sustainable over the next 15 years?

By utilizing the City's new rate model, Fund 510 will likely be financially sustainable over time. However, the further out the forecast goes, the more likely it is that assumptions may change and or external factors may have an impact on this forecast. City staff should closely monitor the actual revenues, expenditures, and resulting fund balances at least on an annual basis and perform their own near-term forecast each biennium and compare actual results with the forecast.

As a result of the policy decision to charge departments in advance of replacing vehicles, the overall fund balance should slowly increase over time if the City continues to charge the full rates calculated by the model.

APPENDIX A - ERR MODEL FINDINGS



CITY'S EXISTING FLEET MODEL – INITIAL REVIEW

Highlights of Current Model

- Findings based on “POLICE BUDGET equations.xlsx” model provided
- Tracks vehicles individually; assigns rate responsibility to department and division
- Replacement rate methodology generally consistent with industry standards
 - (Replacement cost – salvage value) ÷ useful life
- Rate accounts for replacement cost; inflation assumptions seem reasonable
- Rate accounts for make-ready cost (e.g., parts/equipment, graphics, labor)
- Includes payments made to-date per vehicle

Potential Areas for Improvement

1. Numerous hard-coded values – makes error checking difficult

$=((C4-P4+Q4)*1.035^5)+R4+S4$

P	Q	R	S	T
&R RATES				
EST Part Cost	EST Graphics	EST Licensing	EST Labor Cost	EST Rplcmnt COST
535010	549110	549080	548140	
1,500.00	-	48.00	4,998.00	48,939.63
1500	0	48	4998	46021
1500	0	48	4998	46021
1500	0	48	4998	43296

Inflation rate (3.5%) and years remaining (5) are manually entered into formula for each vehicle, meaning that there is greater potential for errors when updating the model. Additional staff time likely needed to update these assumptions as well.

For example:

$=(I5-J5+K5)*(L03^A45)$

K	L	M	N	O	P	Q	R	S	T	U
2019-2020 ER&R RATES										
Installation/Decommission	Total Vehicle Cost	Milage	Est Rplcmnt Year	EST Vehicle Cost 2018	EST Part Cost	EST Graphics	EST Licensing	EST Labor Cost	EST Rplcmnt COST	Est Rplcmnt Cost CYNDIE
		798	2025	33,000.00	1,500.00	-	48.00	4,998.00	48,939.63	
3,181.27	34,888.91	25525	2023	33000	1500	0	48	4998	46021	44,388.44
3,181.27	34,888.91	22465	2023	33000	1500	0	48	4998	46021	42,908.96
3,485.00	34,897.62	22644	2021	33000	1500	0	48	4998	43296	44,399.52

The inflation rate here is entered at 3% instead of 3.5% due to not having a centralized inputs section.

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Redmond Town Center
7525 166th Ave NE, Ste D-215
Redmond, Washington 98052

Locations
Washington | 425.867.1802
Oregon | 503.841.6543
Colorado | 719.284.9168

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2. Multiple 'estimated replacement cost' columns

	EST Rplcmnt COST	Est Rplcmnt Cost CYNDIE
0	48,939.63	
	46021	44,388.44
	46021	42,908.95
	43296	44,399.52

There are two replacement columns, which may cause confusion. Cyndie's column appears to be used for historical collections, and 'EST Rplcmnt COST' is used to project going forward. This can create confusion.

3. Added vehicles between final version and police model - departments do not reconcile

	2,400.00	1,200.00	100.00
7	21,620.13	10,810.06	900.84
	2,400.00	1,200.00	100.00
4	36,949.05	18,474.53	1,539.54
4	36,949.05	18,474.53	1,539.54
7	15,615.54	7,807.77	650.65
7	14,888.66	7,444.33	620.36
4	46,571.97	23,285.99	1,940.50
4	47,242.20	23,621.10	1,968.42
4	47,644.79	23,822.39	1,985.20
7	20,478.65	10,239.32	853.28
7	20,462.00	10,231.00	852.58
4	47,371.63	23,685.81	1,973.82
4	47,158.64	23,579.32	1,964.94
4	47,159.14	23,579.57	1,964.96
4	34,783.33	17,391.67	1,449.31
4	27,419.21	13,709.60	1,142.47
7	21,039.86	10,519.93	876.66
4	120,552.97	60,276.48	5,023.04
	658,706.82	329,353.41	27,446.12

Police Model

	2,400.00	1,200.00	100.00
7	21,620.13	10,810.06	900.84
	2,400.00	1,200.00	100.00
4	36,949.05	18,474.53	1,539.54
4	36,949.05	18,474.53	1,539.54
7	15,615.54	7,807.77	650.65
7	14,888.66	7,444.33	620.36
4	46,571.97	23,285.99	1,940.50
4	47,242.20	23,621.10	1,968.42
4	47,644.79	23,822.39	1,985.20
7	20,478.65	10,239.32	853.28
7	20,462.00	10,231.00	852.58
4	47,371.63	23,685.81	1,973.82
4	47,158.64	23,579.32	1,964.94
4	47,159.14	23,579.57	1,964.96
4	34,783.33	17,391.67	1,449.31
4	27,419.21	13,709.60	1,142.47
7	21,039.86	10,519.93	876.66
	2,400.00	1,200.00	100.00
4	120,552.97	60,276.48	5,023.04
	661,106.82	330,553.41	27,546.12

Final Model

Some departments have an added vehicle in the final version, could be due to transmitting errors that dropped formulas.

4. Some formulas don't reference each other

Est Rplcmnt Year	EST Vehicle Cost 2018 564050	EST Part Cost 535010	EST Graphics 549110	EST Licensing 549080	EST Labor Cost 548140	EST Rplcmnt COST	Est Rplcmnt Cost CYNDIE	Surplus	Collected Amount as of 12/31/2017	Collected Amount as of 12/31/2018	Amnt To Be Collected as of 12/31/2017	Amnt To Be Collected as of 12/31/2018	Life
2023	35,000.00	1,500.00	-	48.00	4,998.00	48,939.63	3,854.00				44,863.00	44,863.00	7
2023	33000	1500	0	48	4998	46021	44,388.44	3,160.24		6,288.19	40,689.55	35,612.60	7
2021	33000	1500	0	48	4998	46021	42,908.95	1,980.89		6,672.63	38,720.07	38,988.18	7
2021	33000	1500	0	48	4998	43296	44,399.52	3,988.26	8,000.00	16,421.84	37,819.58	21,085.01	7

For example, estimated replacement year, useful life, and remaining useful life are not connected through formulas. A user could input acquisition year and useful life – the replacement year and remaining useful life could be an output.

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5. No separate section for inputs

There is no centralized input section, which can create efficiency and accuracy issues during updates (e.g., inputting the same assumption in multiple places, forgetting to update all assumptions in model, etc.) A centralized input area could help avoid having 3.0% and 3.5% inflation factors in the same model.

6. Two Mileage columns - do not match

There are two mileage columns in the model – values do not match. Different years?

Milage	Insurance	Year	Make	Model	Vehicle Acquisition Amt	Equipment Acquisition	Installation/Decommission	Total Vehicle Cost	Milage
0	619.16	2018	Ford	TAURUS					798
22,073	619.16	2016	Ford	Taurus	30,533.02	1,174.62	3,181.27	34,888.91	25525
19,603	619.16	2016	Ford	Taurus	30,533.02	1,174.62	3,181.27	34,888.91	22465
22,166	619.16	2014	FORD	TAURUS	29,840.98	1,571.64	3,485.00	34,897.62	22644

7. Mileage and Insurance columns are included, but do not influence analysis - note for tracking purposes?

Mileage and insurance are included in the model, but do not have any impact on the final results.

Dept	Division	Code	Milage	Insurance	Year	Make	Model
300	Admin	355	0	619.16	2018	Ford	TAURUS
300	Admin	332	22,073	619.16	2016	Ford	Taurus
300	Admin	334	19,603	619.16	2016	Ford	Taurus
300	Admin	289	22,166	619.16	2014	FORD	TAURUS

8. No reconciliation/error check formulas included

There are no reconciliation or error check formulas included in the model. An Excel modeling best practice is to include error check formulas to detect typos in formulas, and other potential errors.

To: Lester Rubstello, P.E.; Public Works Deputy Director
City of Lynnwood

Date: May 2020

From: Luke Slaughterbeck, Senior Analyst
Tage Aaker, Project Manager

CC: Angie Sanchez Virnoche, Principal

RE: Fund 510 Transfer Analysis

INTRODUCTION

The City of Lynnwood has long operated a series of fleet funds, including an equipment rental and replacement fund (Fund #510), which serves to fund the purchase of new and replacement vehicles, as well as a mechanics shop fund (Fund #511) which repairs and services the City’s current fleet. Fund 511 has had a net negative fund balance for several years. The City desires to end this deficit by transferring the amount (about \$650,000) from Fund 510, which had a 2019 ending fund balance of \$4.3 million. This transfer would result in a 2020 modeled beginning fund balance of \$3.65 million for Fund 510. The City has expressed concern about the effects that this transfer could have on the long-term sustainability of Fund 510, and its ability to finance purchases of vehicles in the future.

To address these concerns, FCS GROUP modeled three separate scenarios to determine potential issues with this transfer. These scenarios were developed based on the model provided to the City in support of FCS GROUP’s December 2019 report, *Equipment Rental Reserve Analysis*. The City has made adjustments to the model since that time. However, resources were not available to validate every change made to the model, therefore the 2019 model was used as the starting point for this analysis, updated to reflect the City’s adopted 2020 payments to Fund 510 as well as the actual 2020 beginning fund balance. First, the ‘status quo’ projection of Fund 510 without the transfer to Fund 511 is shown in **Exhibit 1**.

Exhibit 1: Status Quo Fund Balance Forecast

Year	Beginning Fund Balance	Surplus Vehicle Sales	Vehicle Acquisitions	Payments to Fund 510	Ending Fund Balance
2020	\$ 4,300,000	\$ 81,237	\$ (1,075,302)	\$ 1,622,765	\$ 4,928,700
2021	4,928,700	120,564	(1,777,204)	1,582,432	4,854,493
2022	4,854,493	61,010	(875,089)	1,495,091	5,535,505
2023	5,535,505	72,427	(903,283)	1,517,786	6,222,436
2024	6,222,436	110,563	(1,516,071)	1,533,489	6,350,417
2025	6,350,417	130,694	(1,858,057)	1,551,600	6,174,656
2026	6,174,656	56,744	(675,195)	1,583,197	7,139,401
2027	7,139,401	135,121	(1,888,071)	1,605,191	6,991,642
2028	6,991,642	105,421	(1,301,297)	1,658,415	7,454,182
2029	7,454,182	126,575	(1,930,720)	1,702,166	7,352,203

This forecast serves as a point of comparison to the scenario forecasts below. These scenarios are intended to ‘stress test’ the fund balance transfer and to estimate how various disruptions to modeling assumptions could impact the Fund 510 balance into the future. They are not intended as recommendations, or actions that the City should take. Instead, they are intended to simply forecast what could happen under different assumptions.

SCENARIO ONE – FULL PAYMENTS

Scenario One assumes that the City transfers \$650,000 to Fund 511 and that all payments to Fund 510 from the City’s departments continue as planned. Thus, the only difference between this scenario and the status quo is the beginning fund balance of 2020 is now \$650,000 less. This also means that the ending fund balance at the end of the study period is \$650,000 less than the status quo scenario.

A summary of Scenario One is shown in **Exhibit 2**.

Exhibit 2: Scenario One: Fund Balance Forecast

Year	Beginning Fund Balance	Surplus Vehicle Sales	Vehicle Acquisitions	Payments to Fund 510	Ending Fund Balance
2020	\$ 3,650,000	\$ 81,237	\$ (1,075,302)	\$ 1,622,765	\$ 4,278,700
2021	4,278,700	120,564	(1,777,204)	1,582,432	4,204,493
2022	4,204,493	61,010	(875,089)	1,495,091	4,885,505
2023	4,885,505	72,427	(903,283)	1,517,786	5,572,436
2024	5,572,436	110,563	(1,516,071)	1,533,489	5,700,417
2025	5,700,417	130,694	(1,858,057)	1,551,600	5,524,656
2026	5,524,656	56,744	(675,195)	1,583,197	6,489,401
2027	6,489,401	135,121	(1,888,071)	1,605,191	6,341,642
2028	6,341,642	105,421	(1,301,297)	1,658,415	6,804,182
2029	6,804,182	126,575	(1,930,720)	1,702,166	6,702,203

The year with the lowest ending fund balance is 2021 when the fund is projected to have \$4.2 million. By the end of the forecast period, the ending fund balance is substantially higher than today. This is in line with the City’s modeling assumptions and FCS GROUP’s 2019 report on Fund 510.

SCENARIO TWO – 50% PAYMENTS (2020-21)

Scenario Two assumes that the City transfers \$650,000 to Fund 511, but that payments into Fund 510 are only 50% of what has been projected during 2020 and 2021. During the 2008 recession, the City suspended payments into Fund 510 for a year to ease the financial burden on departments. This scenario is intended to show the potential impacts of a similar decision (possibly related to the COVID-19 outbreak and potential resulting financial stress on both the general fund and enterprise funds).

Exhibit 3: Scenario Two: Fund Balance Forecast

Year	Beginning Fund Balance	Surplus Vehicle Sales	Vehicle Acquisitions	Payments to Fund 510	Ending Fund Balance
2020	\$ 3,650,000	\$ 81,237	\$ (1,075,302)	\$ 811,383	\$ 3,467,318
2021	3,467,318	120,564	(1,777,204)	791,216	2,601,895
2022	2,601,895	61,010	(875,089)	1,495,091	3,282,907
2023	3,282,907	72,427	(903,283)	1,517,786	3,969,837
2024	3,969,837	110,563	(1,516,071)	1,533,489	4,097,819
2025	4,097,819	130,694	(1,858,057)	1,551,600	3,922,057
2026	3,922,057	56,744	(675,195)	1,583,197	4,886,802
2027	4,886,802	135,121	(1,888,071)	1,605,191	4,739,044
2028	4,739,044	105,421	(1,301,297)	1,658,415	5,201,584
2029	5,201,584	126,575	(1,930,720)	1,702,166	5,099,605

Similar to Scenario One, the year with the lowest ending fund balance is 2021. However, it is still in excess of \$2.6 million, or about 1.5 years' worth of average annual vehicle acquisition costs. The City does not have a minimum target balance for Fund 510, whether as a specific number or as a percentage of the City's total fleet value. Therefore, whether a fund balance of \$2.6 million is sufficient to manage the City's fleet is a policy judgement. However, even if payments to Fund 510 are disrupted, the City appears to have sufficient reserve funds to meet planned vehicle acquisitions (and time to replenish the fund in subsequent years). If payments were temporarily reduced, Fund 510 could increase its charges in later years to make up for lost revenue.

SCENARIO THREE – 5% INFLATION

Scenario Three assumes that *actual* annual inflation is 5%. This will increase the cost of the City's future vehicle purchases over time. The Fund 510 model is designed to adjust for increased inflation and automatically calculate higher charges to supported departments. However, this is reliant on a manual adjustment to the inflation rate in the model. Scenario 3 shows costs inflating at 5% annually, while the calculated replacement rates are based on a 3.5% inflation rate (the same as the status quo).

Exhibit 4: Scenario Three: Fund Balance Forecast

Year	Beginning Fund Balance	Surplus Vehicle Sales	Vehicle Acquisitions	Payments to Fund 510	Ending Fund Balance
2020	\$ 3,650,000	\$ 81,237	\$ (1,193,192)	\$ 1,622,765	\$ 4,160,811
2021	4,160,811	120,564	(2,072,519)	1,582,432	3,791,289
2022	3,791,289	61,010	(951,542)	1,495,091	4,395,848
2023	4,395,848	74,033	(1,000,622)	1,517,786	4,987,045
2024	4,987,045	111,930	(1,741,777)	1,533,489	4,890,687
2025	4,890,687	130,803	(2,135,241)	1,551,600	4,437,850
2026	4,437,850	59,736	(765,316)	1,583,197	5,315,467
2027	5,315,467	139,998	(2,240,955)	1,605,191	4,819,701
2028	4,819,701	112,997	(1,526,386)	1,658,415	5,064,727
2029	5,064,727	130,102	(2,371,164)	1,702,166	4,525,830

Similar to Scenarios One and Two, the immediate 'crunch year' is 2021, although the fund balance remains above \$3.65 million throughout the forecast period. Unlike the previous scenarios, the fund balance does not steadily grow over time, but remains relatively steady, due to the increasing difference between the payment inflation rate and the cost inflation rate. However, it is unlikely that a discrepancy between these *actual* and *modeled* inflation rates would be unidentified over such a substantial period. It is important for the City to routinely evaluate replacement cost projections and adjust as necessary.

CONCLUSION

Exhibit 5 shows a comparison of the ending fund balance across the three modeled scenarios as well as the status quo forecast.

Exhibit 5: Ending Fund Balance Comparison

Year	Status Quo	Scenario One	Scenario Two	Scenario Three
2020	\$ 4,928,700	\$ 4,278,700	\$ 3,467,318	\$ 4,160,811
2021	4,854,493	4,204,493	2,601,895	3,791,289
2022	5,535,505	4,885,505	3,282,907	4,395,848
2023	6,222,436	5,572,436	3,969,837	4,987,045
2024	6,350,417	5,700,417	4,097,819	4,890,687
2025	6,174,656	5,524,656	3,922,057	4,437,850
2026	7,139,401	6,489,401	4,886,802	5,315,467
2027	6,991,642	6,341,642	4,739,044	4,819,701
2028	7,454,182	6,804,182	5,201,584	5,064,727
2029	7,352,203	6,702,203	5,099,605	4,525,830

All three scenarios examined show that Fund 510 can likely absorb a transfer of \$650,000 to Fund 511 to eliminate Fund 511's persistent deficit. In all scenarios, the ending fund balance is well above the average annual vehicle acquisition cost.

The forecast shows that Fund 510 can transfer the funds to Fund 511 and still have sufficient reserves, as long as the City continues to follow the methodology outlined in FCS GROUP's report *Equipment Rental Reserve Analysis* dated December 2019. As previously noted, this memo should not be considered as a recommendation to go through with the transfer. The City should consult their attorney and auditor as to the legal defensibility of such a transfer.



City of Lynnwood

Shop Rate Analysis

Summary

Costs to Recover from Shop Rate	2019-20	2021-22
Total Budgeted Overhead	\$ 1,877,339	\$ 2,009,655
Plus: Add'l Mechanic(s)	-	-
Plus: Reserve/Contingency	-	-
Total Costs to Recover from Shop Rate	\$ 1,877,339	\$ 2,009,655

Billable Hours	2019-20	2021-22
Mechanics	5	4
Billable Hours per Mechanic	3,200	3,200
Total Billable Hours	16,000 hrs.	12,800 hrs.

Hourly Shop Rate	\$117.33	\$157.00
<i>Increase per Biennium</i>		\$39.67

Total Fund 511 Costs	2019-20	2021-22
Overhead	\$ 1,877,339	\$ 2,009,655
Direct Bill	\$ 702,000	\$ 1,398,465
Total	\$ 2,579,339	\$ 3,408,120

- 38 fitted Authority vehicles, as agreed to by the parties. Such services shall be paid by the
39 “Hourly Rate” method pursuant to Section 3a below.
- 40 c. Maintenance of Authority aid vehicle cots, and preventative maintenance and repair of
41 cots when brought in associated with preventative maintenance of Aid vehicles. Such
42 services shall be paid by the “Hourly Rate” method pursuant to Section 3a below.
- 43 d. Repair services to cots brought separately for repair and not associated with an Aid
44 vehicle. Such services shall be paid by the “Hourly Rate” method pursuant to Section 3a
45 below.
- 46 e. Annual aerial ladder and pump tests, including coordination of occasional required tests
47 by third parties. Such services shall be paid by the “Hourly Rate” method pursuant to
48 Section 3a below. The Authority shall pay fees or costs charged by third party testers
49 directly to those third parties, in accordance with any payment terms required by the
50 third parties. The Authority reserves the right to select the third party to whom any
51 vehicle will be sent.
- 52 f. Initial evaluation of damaged vehicles and equipment for insurance claim purposes. Such
53 services shall be paid by the “Hourly Rate” method pursuant to Section 3a below.
- 54 g. Determination if warranties cover needed repairs. The City shall coordinate such work
55 with the manufacturer. Such services shall be paid by the “Hourly Rate” method
56 pursuant to Section 3a below. Any warranty reimbursement for City labor by the
57 manufacturer shall be paid directly to the City with no reimbursement to the Authority.
- 58 h. Diagnostic/evaluation and fleet expertise/advice. Such services to be paid by the “Hourly
59 Rate” method pursuant to Section 3a below.
- 60 i. Authority requested City staff support for out-of-state travel for reasons such as new
61 equipment inspection shall be paid by the “Hourly Rate” method for actual hours worked
62 during the trip and including all travel costs and incidentals to be paid by the Authority.

63 2. Term of Agreement. The initial term of this Agreement shall be January 1, 20~~18~~²¹ through
64 December 31, 20~~19~~²², unless either party terminates the Agreement pursuant to Section 8
65 below. (Please refer to #4, Quarterly Meetings and Biennial Updating regarding agreement
66 extensions.)

67 3. Payment. The Authority shall pay the City for fleet mechanical services listed in Section 1 above
68 as follows. Invoice amounts shall be due and payable within thirty (30) days of the date of the
69 invoice.

70 a. Hourly Rate Payments: For the City services listed as “Hourly Rate” in Section 1 above, the
71 Authority shall pay the City an amount equal to the City’s [officially adopted Shop Rate shop-billing](#)
72 [rate of \\$117.00 per hour](#) for all regular hours worked providing the services. [The City’s officially](#)
73 [adopted Overtime Shop Rate will be charged. An overtime rate of \\$145.00 per hour](#) for all hours
74 worked that require staff to be paid at their overtime rate. The Authority must pre-authorize all
75 overtime work.

76 b. Materials and Parts:

77 (1) Materials (including consumables such as fluids) and parts necessary to service
78 Authority vehicles shall be ordered by the City and the City shall invoice the Authority for
79 the actual cost incurred by the City for such materials on a monthly basis. No City mark-
80 up shall be included on parts or other materials. Invoices shall include at a minimum a
81 description of materials and parts and vehicles in which they were used.

82 (2) With pre-authorization of City Fleet Supervisor, the Authority may supply parts
83 purchased at their cost for City use on Authority vehicles. No mark-up of Authority
84 supplied parts shall occur.

85 c. Sales Tax: Sales tax, if any is due and payable on any of the charges to the Authority under this
86 Agreement, shall be paid by the Authority in addition to the charges described above.

87 4. Quarterly Meetings and Biennial Updating. The City and the Authority shall cooperate to
88 analyze actual workload and costs and make necessary adjustments to future versions of this
89 Agreement. A standing quarterly meeting with designees from each party shall be scheduled by
90 the City, and held at the request of either party, to review reports and billings, and discuss any
91 issues arising out of the performance of this Agreement. This Agreement shall automatically
92 renew for five (5) consecutive two-year renewal terms, subject to each party's rights to terminate
93 as provided in Section 8.

94 5. City Responsibilities. The City shall:

95 A. Provide a reasonable number of appropriately certified mechanics to be available to work
96 on Authority apparatus at any time, to provide the services offered in Section 1 above.

97 On-Call?

98 B. Provide maintenance services that meet all applicable standards.

99 C. Meet reasonable turnaround times in providing services. If emergency conditions exist, or
100 other such extraordinary conditions that prohibit the City from meeting reasonable turnaround
101 times, the City shall notify the Authority as soon as reasonably possible.

102 D. Account for all services provided including parts, labor, and incidentals. The City shall
103 send a yearly report of services by January 31st to the Authority.

104 E. Track information related to the Authority's fleet vehicles including, but not limited to,
105 labor hours spent on Authority fleet vehicles, vehicle service records, and records on parts
106 ordered and used including costs and associated apparatus number.

107 F. Make all reasonable attempts to provide timely fleet expertise and advice. Advice may
108 include topics such as warranties, insurance coverage, ordering, vehicle specifications, service
109 levels, diagnostics, and evaluation.

110 G. Inspect Authority vehicle tires and coordinate replacement as needed.

- 111 H. Provide and coordinate with the Authority for shuttling Authority vehicles needing
112 services.
- 113 I. Invoice the Authority monthly for all payments due for services provided in the prior
114 month.
- 115 6. Authority Responsibilities. The Authority shall:
- 116 A. Provide the City updated lists of Authority apparatus and other vehicles whenever
117 changes to the fleet occur.
- 118 B. Provide the City with information related to necessary preventative maintenance
119 schedules for each vehicle.
- 120 C. Provide reasonable notice of anticipated mechanical needs beyond preventative
121 maintenance.
- 122 D. Pay for any permits or other approvals required for Authority apparatus from regulatory
123 agencies.
- 124 E. Pay for any towing costs necessary to transport Authority vehicles.
- 125 F. Provide for a reasonable and geographically close vehicle “swap out” location from which
126 City staff can shuttle vehicles. (The Martha Lake Station shall be the “swap out” location, unless
127 and until the parties agree otherwise). Coordinate with the City to shuttle vehicles to and from
128 the City’s facility. The Authority shall be solely responsible for shuttling vehicles any distance
129 beyond ten (10) miles. Provide and pay all associated costs of a shuttle vehicle for City and/or
130 Authority use in shuttling vehicles and personnel to and from Authority and City facilities. The
131 Authority will also provide use of a Authority vehicle for transferring apparatus to and from the
132 shop. The vehicle is a 1989 Chevy pick-up truck, apparatus #50. The vehicle may change or may
133 no longer be available depending on the Authority’s fleet requirements.
- 134 7. Indemnification.
- 135 A. The City shall protect, save harmless, indemnify, and defend, at its own expense, the
136 Authority, its elected and appointed officials, officers, employees and agents, from any loss or
137 claim for damages of any nature whatsoever, arising out of the City's performance of this
138 Agreement, including claims by the City's employees or third parties, except for those damages
139 solely caused by the negligence or willful misconduct of the Authority, its elected and appointed
140 officials, officers, employees or agents.
- 141 B. The Authority shall protect, save harmless, indemnify, and defend, at its own expense,
142 the City, its elected and appointed officials, officers, employees and agents, from any loss or claim
143 for damages of any nature whatsoever, arising out of the Authority's performance of this
144 Agreement, including claims by the Authority's employees or third parties, except for those

145 damages solely caused by the negligence or willful misconduct of the City, its elected and
146 appointed officials, officers, employees or agents.

147 C. In the event of liability for damages of any nature whatsoever arising out of the
148 performance of this Agreement by the City and the Authority, including claims by the City's or the
149 Authority's own officers, officials, employees and volunteers, or third parties, caused by or
150 resulting from the concurrent negligence of the Authority and the City, their officers, officials,
151 employees, and volunteers, each party's liability hereunder shall only be to the extent of that
152 party's negligence.

153 D. The indemnification provisions of this Section 7 are specifically intended to constitute a
154 waiver of each party's immunity under Washington's Industrial Insurance Act, Title 51 RCW, as
155 respects the other party only, and only to the extent necessary to provide the indemnified party
156 with a full and complete indemnity of claims made by the indemnitor's employees. The parties
157 acknowledge that these provisions were specifically negotiated and agreed upon by them.

158 E. The provisions of this Section 7 shall survive the expiration or earlier termination of this
159 Agreement.

160 F. No liability shall be attached to the City or the Authority by reason of entering into this
161 Agreement except as expressly provided herein.

162 8. Termination. Either party may terminate this Agreement, with or without cause, upon three
163 hundred sixty five (365) days written notice to the other party beginning on the second day after
164 the mailing. If this Agreement is so terminated, the parties shall be liable only for the payment in
165 accordance with the terms of this Agreement for services rendered prior to the effective date of
166 the termination.

167 9. Assignment. Neither party shall assign or sublet its rights or responsibilities under this
168 Agreement without the authorization of the other party.

169 10. Notice. Each notice or communication which may be or is required to be given under this
170 Agreement shall be in writing and shall be deemed to have been properly given when delivered
171 personally during the normal business hours to the party to whom such communication is
172 directed or three working (3) days after being sent by regular mail, to the following address as
173 may be designated by the appropriate party:

174 CITY OF LYNNWOOD
175 ~~—~~ [Lynnwood, WA 98036](#)
176 - [PO BOX 500819100 44th Ave W](#)
177 Lynnwood, WA ~~98046-5008~~[98036](#)
178 ATTN: Public Works Director
179

180

181 SOUTH SNOHOMISH COUNTY FIRE AND RESCUE REGIONAL FIRE AUTHORITY
182 ATTN: Chief
183 12425 Meridian Ave S
184 Everett, WA 98208
185

186 11. Dispute Resolution. If either party claims that the other party has breached any term of this
187 Agreement, the following procedures shall be followed if and when informal
188 communications, such as telephone conversations, fail to satisfy the claiming party, or one of the
189 parties elects to trigger the dispute resolution process at any time, in the event of disputes or
190 disagreements concerning programming or uses:

191 A. The claiming party's Designated Representative shall provide a written notice to the other
192 party's representative of the alleged breach. The notice shall identify the act or omission at issue
193 and the specific term(s) of the Agreement which the complaining party alleges was violated.

194 B. The responding party's Designated Representative shall respond to the notice in writing
195 within fifteen (15) working days. The response shall state that party's position as well as what, if
196 any, corrective action the responding party agrees to take.

197 C. The complaining party shall reply in writing, indicating either satisfaction or
198 dissatisfaction with the response. If satisfied, any corrective action shall be taken within
199 fourteen (14) working days of receipt of the responding party's reply unless otherwise mutually
200 agreed. If dissatisfied, the complaining party shall call an in-person meeting. The meeting shall
201 occur within a reasonable period of time and shall be attended by the Designated
202 Representatives of each party, and such others as they individually invite.

203 D. If the complaining party remains dissatisfied with the results of the meeting, it
204 shall then refer the matter to the Authority Chief and Mayor, or their designees, for
205 resolution. If the issue is not resolved at this level within thirty (30) days, then either party may
206 require in writing that the matter shall be reviewed in a non-binding, structured mediation
207 process developed on a cooperative basis by the parties and the parties shall consider in good
208 faith any recommendations or settlements arising from such process. All of the steps
209 preceding shall be a prerequisite to either party suing under this Agreement for breach,
210 specific performance, or any other relief related to this Agreement.

211 12. Severability. If any term of this Agreement is held invalid or unenforceable, the remainder of the
212 Agreement will not be affected but continue in full force.

213 13. Entire Agreement; Amendment. This Agreement constitutes the entire agreement between the
214 parties regarding the subject matter hereof. This Agreement may not be modified or amended in
215 any manner except by a written document signed by the party against whom such modification is
216 sought to be enforced.

- 217 14. Governing Law and Venue. This Agreement shall be governed by and enforced in accordance with
 218 the laws of the State of Washington. The venue of any action arising out of this Agreement shall be
 219 in Snohomish County Superior Court. Each party expressly waives the right to a jury trial.
- 220 15. Severability. If any provision of this Agreement or the application thereof to any person or
 221 circumstance shall, for any reason and to any extent, be found invalid or unenforceable, the
 222 remainder of this Agreement and the application of that provision to other persons or circumstances
 223 shall not be affected thereby, but shall instead continue in full force and effect, to the extent
 224 permitted by law.
- 225 16. No Waiver. A party's forbearance or delay in exercising any right or remedy with respect to a default
 226 by the other party under this Agreement shall not constitute a waiver of the default at issue. Nor
 227 shall a waiver by either party of any particular default constitute a waiver of any other default or
 228 any similar future default in performance of this Agreement.
 229
- 230 17. No Joint Venture. Nothing contained in this Agreement shall be construed as creating any type or
 231 manner of partnership, joint venture or other joint enterprise between the parties.
- 232 18. Compliance with RCW 39.34.030. This Agreement does not create a separate legal or administrative
 233 entity and does not require a joint board. No real or personal property will be jointly acquired
 234 pursuant to this Agreement.
- 235 19. Recording. Pursuant to RCW 39.34.040, this Agreement shall be recorded with the Snohomish County
 236 Auditor immediately after execution by all Jurisdictions hereto or posting of such Agreement on
 237 either party's website.
 238

239 CITY OF LYNNWOOD
 240

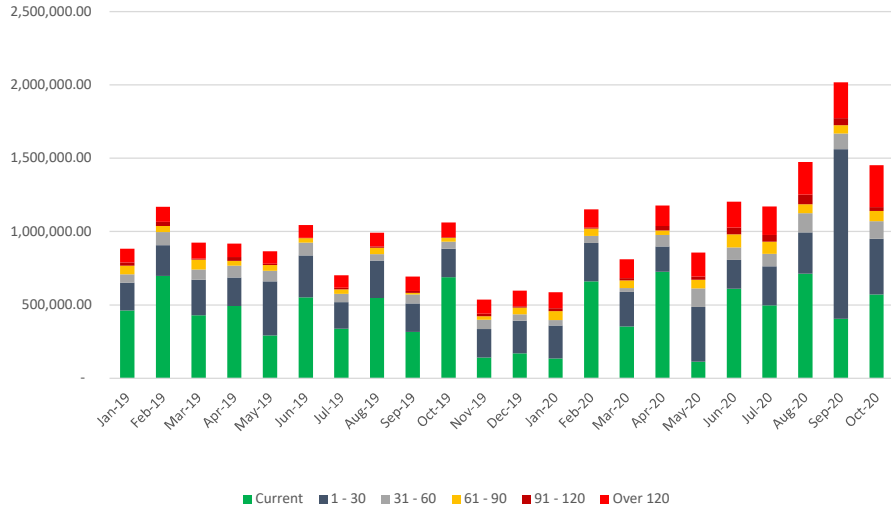
SOUTH SNOHOMISH COUNTY FIRE AND RESCUE REGIONAL
 FIRE AUTHORITY

241 By: _____ By: _____
 242 Nicola Smith, Mayor Jim Kenny, Board Chair
 243 Date: _____ Date: _____
 244

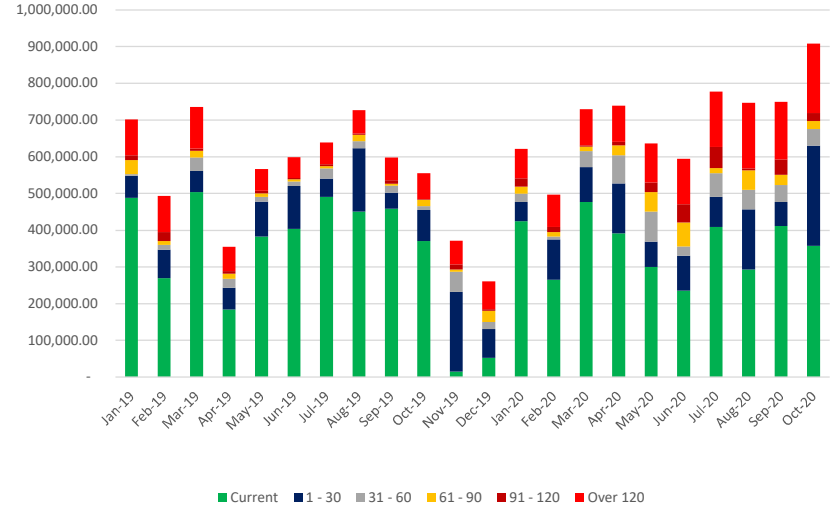
245
 246 Approved as to Form: Approved as to Form:
 247
 248

249 By: _____ By: _____
 250 Rosemary Larson, City Attorney Rich Davis, RFA Attorney
 251

Utility Accounts Receivable Aging-**Residential**



Utility Accounts Receivable Aging-**Commercial**



Utility Accounts Receivable Aging-**Aggregated**

