Memorandum

TO: Dave Ehlinger, Finance Director

Tim Swadley, Mayor

FROM: Joshua Ripp, Fire Chief

DATE: November 11, 2023

SUBJECT: Apparatus Pre-Payment Discussion

Background

The capital budget includes money for a new fire engine in 2025 ($950,000 est) and a Ladder Truck in 2027 ($1,900,000 est). We are replacing trucks that are both 20+ years old, and they are having maintenance issues. Parts are getting more difficult to find, as manufacturers stop producing (end of life) older parts and systems. In addition, we are finding conflicts with some of the newer parts mixing in with the older systems (Ladder 4 especially).

In recent history, the City of Stoughton has pre-paid for apparatus. This has given some savings. This helped to keep the expenditure in the proper year, and generally locked in the price a bit with the contract. It wasn't a big deal, as trucks generally were delivered within a year of being ordered (18 months for trucks that were more complicated).

Currently, deliveries are estimated at 36 months for trucks, from time of order. This renders some issues with budgeting and delivery, as pre-paying for a truck could be spending money 3 years before the truck is delivered.

What seems to be working to our advantage is that the custom fire chassis pricing (so far), is generally able to be contracted on a specific price. If we were buying apparatus that had a commercial chassis (International, Freightliner, Kenworth, for example), the chassis cost wouldn't be fully known until delivery.

Options to consider

#1) Truck is ordered, and paid for on delivery:

Had you asked me 5 months ago, this was the only way to go. At that point, pre-payment was not advantageous. $10K to $20K was not a worthwhile prepayment for a $950,000 truck and interest would be racking up on the borrowing. Payment would be borrowed and paid for upon delivery.

#2) Truck is ordered, pre-payment of truck occurs all at once:

Recently, Pierce has significantly increased the amount of the pre-payment discount. A recent truck (I'm assuming a truck in the range of $2 million dollars) had a $200,000 discount when the cost of the truck was 100% paid for up front.

#3) Truck is ordered, pre-payment of truck is paid out over the timeframe of production:

Again, the Pierce pre-payment discount as before, but payments are made annually, factoring in the expected delivery time (36 months for example) and the total cost (divided by 3 years). I'm awaiting an answer if the pre-payment percentage decreases with this option or not.

Info to be determined:

I anticipate the information that needs to be assessed is:

*Cost of borrowing money (interest costs) vs pre-payment gains. Which is more beneficial to the city?

*Legal aspects of contracting/budgeting for equipment 3 years out. I know this is currently a factor in the ordering/pricing for a Public Works plow truck. I understand the chassis costs were not locked in, as the manufacturers weren't willing to do so.

* Ordering of the apparatus – We are currently working on truck specifications. Pricing and discussion of ordering will follow. My goal is to have the specs finished in less than 6 months. We will figure out pricing with the manufacturers after that.

Discussion

I'd like to meet in the near future to run some scenarios. Please let me know if there are any questions you would like answers to from the truck manufacturers.