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Chief Executive Officer

County of Los Angeles CHIEF EXECUTIVE OFFICE

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May 17, 2011

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
Los Angeles, California 90012

Dear Supervisors:

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

SHERIFF'S DEPARTMENT:

**APPROVE THE PURCHASE OF THREE PRE-OWNED EUROCOPTER AS332L1
SUPER PUMA HELICOPTERS, ANCILLARY EQUIPMENT AND SERVICES FOR
THE SHERIFF'S DEPARTMENT, AND APPROVE USE OF THIRD PARTY LEASE
FINANCING TO FUND \$43 MILLION OF HELICOPTER ACQUISITION COSTS**

**APPROVE THE PURCHASE OF A SOLE SOURCE SERVICES AGREEMENT
WITH TURBOMECA USA, INC. TO PROVIDE A SERVICE-BY-HOUR ENGINE
SERVICE AGREEMENT FOR THE ABOVE HELICOPTERS
(ALL DISTRICTS) (3 VOTES)**

SUBJECT

Approval of the recommended actions will authorize the Internal Services Department to proceed with the purchase of three Eurocopter AS332L1 Super Puma helicopters from Eastern Shore Holdings, Incorporated, through its authorized representative, Pegasus Technologies, Incorporated, for the Los Angeles County Sheriff's Department Aero Bureau; and authorize the Chief Executive Officer to obtain tax-exempt financing through third-party financing providers to acquire the helicopters and necessary outfitting upgrades.

JOINT RECOMMENDATION WITH THE SHERIFF'S DEPARTMENT THAT YOUR BOARD:

1. Authorize the County Purchasing Agent to proceed with the acquisition process for the Sheriff's Department, and enter into a purchase agreement with Eastern Shore Holdings, Incorporated, to acquire three pre-owned Eurocopter AS332L1 Super Puma helicopters, specialized tooling and spare parts, and an assignment

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of a tax-exempt equity position for engine warranty amounting to \$1.0 million; all having a total acquisition cost of approximately \$35.03 million, including sales taxes. This action will authorize the replacement of three existing Sikorsky SH-3 helicopters, which have exceeded their optimal life span. This purchase request exceeds the \$250,000 fixed asset threshold established by your Board and requires your approval.

2. Authorize the County Purchasing Agent to execute an initial purchase order for the above purchase agreement to provide Eastern Shore Holdings, Incorporated, with a \$300,000 deposit in order to secure the agreement pending County's execution of lease-purchase financing for the helicopters.
3. Authorize the County Purchasing Agent to enter into a purchase agreement with Turbomeca USA, Inc., on behalf of the Sheriff's Department, to acquire a Service-By-Hour engine warranty program.
4. Authorize the Sheriff's Department to execute work orders under the Sheriff's Department's Model Agreement 444SH for helicopter maintenance and engineering services to secure low bid pricing for the completion/outfitting of the newly acquired helicopters. The not-to-exceed maximum cost for completion services is \$2.63 million per helicopter, including tax, or \$7.9 million total for all three Eurocopter AS332L1 Super Puma helicopters.
5. Authorize the Chief Executive Officer to obtain tax-exempt lease financing in an amount not to exceed \$45.5 million for the three pre-owned Eurocopter AS332L1 Super Puma helicopters, specialized tooling and spare parts, engine warranty program equity, helicopter modification work; and to fund capitalized interest, through a competitive bid process at an interest rate that does not exceed 5.5 percent and at a lease term that does not exceed 12 years and to execute any documents necessary to complete the financing transaction.
6. Authorize the County Purchasing Agent, the Sheriff's Department, and Chief Executive Office to complete and execute all necessary purchasing documents related to the acquisition of all three pre-owned Eurocopter AS332L1 Super Puma helicopters.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

Approval of the recommended actions will allow the Sheriff's Department (Department) to complete the replacement of its existing air rescue helicopters that are aging and becoming extremely expensive to maintain, and maintain minimum air rescue service levels throughout the County. The maintenance costs of the present fleet continue to increase significantly each year. The specialized equipment installed on the present

fleet has reached the end of its useful life, both from a repair and technological point of view. The proposed acquisition will allow the County to reduce maintenance costs, as well as service downtime due to major repairs.

Background

Each of the three currently operational Sikorsky SH-3 (SH-3) helicopters was originally manufactured in 1962, 1966, and 1967, respectively, and placed into service by the United States (U.S.) Navy.

In 1997, then Sheriff Sherman Block, together with Senators Dianne Feinstein and Barbara Boxer, facilitated the zero-cost transfer of the current SH-3 fleet from U.S. Navy salvage operations to the Department. With the concurrence of your Board, the Department undertook the task and expense of refurbishing the SH-3s. In accordance with Federal Acquisition Regulations, they remain the property of the U.S. Navy.

Existing Fleet

The Department currently operates three SH-3 helicopters in a maintenance rotation, which nominally supports the air rescue program. In addition to the three SH-3 aircraft in operation, the Department warehouses three SH-3 helicopters for the sole purpose of scavenging helicopter parts, which are no longer available from Sikorsky Aircraft or any third party.

The need to replace the SH-3 helicopters is necessitated by several critical factors; a lack of modern air safety features; unavailability of original equipment manufacturer parts; an increasing unavailability of parts from third party suppliers; and the cost of maintenance to continue SH-3 operations.

de Decker Findings and Maintenance

Beginning in May 2007, Aero Bureau began to research the potential need to replace the aging SH-3 rescue helicopters. In 2009, the Department solicited the services of Conklin and de Decker Consulting (de Decker), a general aviation consulting firm, to assess the current fleet of SH-3 aircraft respective of Aero Bureau operations, including aircraft capabilities and maintenance costs, and chart a future course of action for the County's replacement of the aging SH-3 fleet. In that report, de Decker analyzed three operational years; 2006, 2008, and 2009.

As noted in the de Decker report, the SH-3 fleet has an average annual maintenance cost of approximately \$3.84 million for the operational years analyzed. The de Decker report also made recommendations for suitable replacement helicopters in support of the Department's air rescue operations.

Additional Maintenance Findings

In addition to the projected annual maintenance costs revealed in the de Decker study, the Department shall note that the SH-3 fleet is approaching a point in their operating lifecycle, which will require a comprehensive Standard Depot Level Maintenance (SDLM), which may be defined in lay terms as a complete aircraft teardown which, among other things, allows for testing and diagnosis of pending metal and airframe fatigue.

The SDLM program for one SH-3 helicopter will cost approximately \$7.0 million, and does not guarantee future certification of the aircraft as airworthy. A SDLM will be required in Fiscal Years (FY) 2012, 2013, and 2014, for each of the aircraft, respectively. It should be noted that the inability to access spare parts is in no way mitigated by the completion of SDLM.

Finally, the Department anticipates running out of spare SH-3 replacement rotor blades in 2012. Rotor blade fatigue has become a factor in the continued operation of the aging SH-3 helicopters. Sikorsky Aircraft no longer manufactures the metallic blades for the SH-3, either singly or in balanced sets. The Department would be required to purchase rotor blades from a third party reseller. Modern rotor blade construction involves the use of composite non-metallic construction techniques, which makes them lighter and stronger than their metallic counterparts, but also makes them singly incompatible with the existing metallic blades. We would, therefore, be required to purchase entire blades sets, plus compatible spares, for each of the three operational SH-3s.

The cost for each blade set is approximately \$2.0 million. The purchase of each blade set would be staggered across three successive FYs: 2012, 2013, and 2014.

Given the excessive age of the aircraft and barring unforeseen mechanical or catastrophic equipment failures, maintenance costs for the existing SH-3 fleet over the next three FYs would be approximately \$12.84 million per year. Maintaining the current fleet of SH-3 aircraft would require additional funding in the amount of approximately \$9 million per year for the next three fiscal years. Any additional County costs thereafter cannot be ascertained due to the age and unpredictable maintenance schedules for the existing aircraft.

de Decker, Feasible Air Rescue Replacement Platforms

The de Decker study identified the Sikorsky S-92 (S-92) platform as the best helicopter for the Department's air rescue program, and best suited replacement for the SH-3 fleet. Unfortunately, the current state of the County's economy has made this option

virtually untenable as the cost of two fully equipped S-92 aircraft would exceed \$70 million.

The de Decker study also identified the Eurocopter Corporation (Eurocopter) EC 225 Super Puma as the next best option as compared to the S-92. These helicopters are manufactured in France. Total cost, as well as currency exchange rates, has made this option equally as untenable as the S-92, as two fully equipped EC 225 Super Pumas would also exceed \$70 million.

Proposed Helicopter Acquisition

On a parallel track with the effort to identify less costly alternatives, the Department has been seeking suitable pre-owned replacement options for the past six months. Department research has shown that a suitable replacement to the EC 225 Super Pumas would be the Eurocopter AS332L1 Super Puma (AS332L1), which is a slightly smaller platform than the EC 225 Super Pumas recommended by de Decker.

Three previously owned Eurocopter AS332L1 helicopters have become available from a private seller, Eastern Shore Holdings, Incorporated (ESH). These helicopters, which range in age from 6-9 years old, have low flight hours (738, 1236, and 1672, respectively), and perform nearly as well as the EC 225 Super Pumas have at a price of \$31 million for the three, not including sales tax. These aircraft are in near-new condition and would cost approximately \$21 million each, if purchased brand new. This does not include final completion costs, which could range up to \$6 million per helicopter, nor specialized tooling and spare components, which is estimated at \$4 million. The total acquisition price for three brand new helicopters of the type proposed herein would exceed \$85 million.

Department personnel have extensively explored the used helicopter market and have determined that no other AS332L1 helicopters are presently for sale inside of the United States, Canada, or Mexico. The AS332L1 helicopters for sale outside of North America are limited in number, and those with flight hours to provide for the Department's long-term operational needs have asking prices, which are substantially higher than the three available helicopters from ESH.

There are no viable pre-owned Sikorsky S-92 aircraft currently on the market.

Consequently, the Department is pleased to advise your Board that the proposed purchase of three AS332L1 helicopters from ESH is from the best known source available, is in the best interest of the County, and is an imperative for the safe and reliable continuation of the aging Sikorsky SH-3/air rescue program.

On condition of sale of all three AS332L1 helicopters, ESH has offered to include several million dollars' worth of specialized Eurocopter tooling and spare parts inventory at no extra cost to the County. The transferable equity portion of the current Service-By-Hour (SBH) engine maintenance warranty program offered by the engine manufacturer, Turbomeca USA, Inc., will be assigned by ESH to the Department for a cost of \$1.0 million.

Should your Board approve the Department's purchase of these helicopters, the Department anticipates operating the AS332L1 fleet over at least the next 12 years and logging approximately 800 total flight hours per year in support of air rescue operations.

SBH Engine Maintenance Warranty Program, Turbomeca USA, Inc.

The SBH program (the "Program") provides the County with a level-pay plan for the purpose of maintaining the AS332L1 Makila 1A1 engines. Under the Program, the County would pay into an engine warranty program on a monthly basis, for each hour of engine runtime used in any given month, and for engine cycles (start-up and shutdown, takeoff and landing, each a "cycle" and further defined in the Program). With the above proposed acquisition, ESH has agreed to transfer their equity position in the Program to the County for a cost of \$1 million. The transferable equity position is an asset to the County valued at approximately \$1.5 million. The actual value of the equity position will be determined by Turbomeca USA, Inc., at the point of sale and assignment of the equity interest to the County.

The Program is used to cover engine failures/repairs, and/or replacement on an as-needed basis. Aside from normal scheduled maintenance, the Program also protects the County from serious and/or catastrophic failures, and against Federal Aviation Administration (FAA) airworthiness directives that could result in premature component life reductions. Without the Program, the County would be required to purchase up to two "flight-ready" spare engines as backups, and would bear the entire cost of any FAA airworthiness directives levied upon the engines.

Implementation of Strategic Plan Goals

This purchase supports the County Strategic Plan Goals of Operational Effectiveness (Goal 1), by enhancing the safety and productivity of the Department's helicopter patrol services.

FISCAL IMPACT/FINANCING

The one-time and ongoing operating costs related to the replacement of the Department's Air Rescue helicopter fleet will not require the use of any additional net

County cost. The costs will all be absorbed in the Department's operating budget. A summary of the annual program costs is included in Table 1 below.

Table 1: Annual Operating Costs - Existing and New							
	Existing Fleet	New Fleet					
Fiscal Year	Operations	3rd Party Financing	Operations	Training	Other one-time costs**	Total Costs (Existing + New Fleet)	Increase from Existing \$3.84 Million Program Budget
2010-11	3,840,000	-	-	-	125,000	3,965,000	125,000
2011-12	3,300,000	-	488,578	750,000	125,000	4,663,578	823,578
2012-13	-	5,186,435	1,540,560	750,000	-	7,476,995	3,636,995
2013-14	-	5,186,435	1,617,588	-	-	6,804,023	2,964,023
2014-15	-	5,186,435	1,698,467	-	-	6,884,903	3,044,903
2015-16	-	5,186,435	1,783,391	-	-	6,969,826	3,129,826
2016-17	-	5,186,435	1,872,560	-	-	7,058,996	3,218,996
2017-18	-	5,186,435	1,966,188	-	-	7,152,624	3,312,624
2018-19	-	5,186,435	2,064,498	-	-	7,250,933	3,410,933
2019-20	-	5,186,435	2,167,723	-	-	7,354,158	3,514,158
2020-21	-	5,186,435	2,276,109	-	-	7,462,544	3,622,544
2021-22	-	5,186,435	2,389,914	-	-	7,576,349	3,736,349
2022-23	-	5,186,435	2,509,410	-	-	7,695,845	3,855,845
2023-24	-	5,186,435	2,634,880	-	-	7,821,316	3,981,316
Total	7,140,000	62,237,222	25,009,866	1,500,000	88,747,089	96,137,089	42,377,089
*Assumes lease-purchase of maximum of \$43.022 million in Helicopter costs @ 5.5%, capitalizing interest through 7/1/12							
**Includes aircraft inspection, ferrying service, cartage for spare parts.							

The maintenance of the existing fleet will phase out starting in FY 2011-12, as the new fleet is put into service in March 2012. Maintenance expenses on the existing fleet will decline from \$3.84 million in FY 2010-11 to \$3.3 million in FY 2011-12, with no expenses in FY 2012-13 as the existing fleet will have been put out of service at that time.

Nearly all of the helicopter replacement costs (\$43.1 million of the \$45.0 million total) will be funded via third-party lease-purchase financing and repaid over a 12 year term. The \$43.1 million in helicopter costs to be financed consist of \$31.0 million for the three pre-owned AS332L1 helicopters and specialized tooling and spare parts, \$1.0 million for an assignment of a tax-exempt equity position for engine warranty amounting, \$7.2 million for aircraft modifications, and \$3.9 million in applicable sales taxes. At the not-to-exceed interest rate of 5.5 percent, annual debt service would be \$5.2 million and would initiate in FY 2012-13. The funds will be borrowed at the time of the purchase of the helicopters (June 2011) and deposited into escrow from which ESH and subsequently the completion contractor performing the aircraft modifications will be paid. The amortization period of the loan will not initiate until FY 2012-13, after the modifications on the helicopters have been completed and put into service by the Department in March 2012. Approximately \$2.4 million in interest accruing on the borrowed funds will be capitalized from June 2011 until July 2012.

Maintenance costs make up the other component of the Program's ongoing operating costs. These costs will initiate upon the acceptance of the completed helicopters in March 2012, with the first full year of maintenance costs coming in FY 2012-13, at \$1.54 million, with subsequent annual increases at 5 percent.

Funding to cover the increase in ongoing operating costs (consisting of debt service payments and maintenance) has been identified within the Department's operating budget utilizing estimated savings from reduced maintenance costs as compared to the SH-3 program (initially \$2.3 million), and savings due to anticipated lower litigation costs to the Department's Judgments and Damages account. The net increase in ongoing operating costs from the air rescue program's existing budget of \$3.84 million, after taking into account the reduction in maintenance costs, is \$2.9 million in FY 2012-13, with increases of approximately \$85,000 annually thereafter. The net increase will be funded from the savings due to anticipated lower litigation costs to the Department's Judgments and Damages account.

The Department will absorb miscellaneous charges to its FY 2011-12 and FY 2012-13 operating budgets to facilitate the acquisition. The charges include: aircraft inspection services estimated at \$50,000, ferrying services estimated not to exceed \$200,000, cartage for tools and spare parts, as well as training and travel expenses amounting to approximately \$1.5 million over FY 2011-12 and FY 2012-13 for Aero Bureau's pilots and mechanics.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

In 1997, then Sheriff Sherman Block, together with Senators Dianne Feinstein and Barbara Boxer, facilitated the zero-cost transfer of the current SH-3 fleet from U.S. Navy salvage operations to the Department. With the concurrence of your Board, the Department undertook the task and expense of refurbishing the SH-3s, thereby establishing the Sheriff's currently configured air rescue program. In accordance with Federal Acquisition Regulations, they remain the property of the U. S. Navy.

Department personnel have extensively explored the used helicopter market and have determined that the proposed acquisition of the three identified AS332L1 helicopters from ESH is from the best known source currently available, and is in the County's best interest.

In June 2011, your Board will be asked to authorize the Department to enter into multiple agreements for helicopter maintenance, repair, and engineering services under Sheriff's solicitation number 444SH. Eighteen of the 20 contractors currently under prior model agreement 245SH for engineering and maintenance services are in the process of qualifying to work on various aspects of the AS332L1 helicopter, including completion services. The Department will execute work orders for completion services under model agreement 444SH upon authorization from your Board.

PURCHASING PROCESS

This is a commodity purchase under the statutory authority of the County Purchasing Agent. The purchase will be requisitioned through, and accomplished by the Purchasing Agent in accordance with the County's Purchasing policies and procedures established by Internal Services Department.

On May 2, 2011, the Chief Executive Officer, at the request of the Sheriff, issued a Letter of Intent to ESH to purchase the three AS332L1 helicopters subject to your Board's approval.

IMPACT ON CURRENT SERVICES

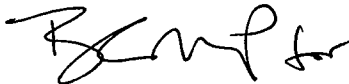
The helicopter purchase now before your Board will complete the replacement and enhancement of the Department's air rescue fleet. The new aircraft will provide upgraded operational capabilities to meet current and anticipated future mission requirements.

The Honorable Board of Supervisors
May 17, 2011
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CONCLUSION

Please return one adopted copy of this letter to the Chief Executive Office, Capital Projects Division; the Sheriff's Department; and the Internal Services Department.

Respectfully submitted,



WILLIAM T FUJIOKA
Chief Executive Officer



LEROY D. BACA
Sheriff

WTF:LDB:RLR
DJT:SW:PB:zu

c: Executive Office, Board of Supervisors
Auditor-Controller
County Counsel
Internal Services