



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: April 4, 2012 REPORT NO: 12-038
ATTENTION: Budget and Finance Committee Members
SUBJECT: Annual Master Lease Agreement to Fund Vehicles and Equipment

REQUESTED ACTIONS:

Forward the authorization of the form of and execution of the Master Lease Agreement for City Council approval to fund the City's Fiscal Year 2013 fleet and equipment needs.

STAFF RECOMMENDATION:

Forward to City Council for consideration and approval.

SUMMARY:

I. Background

As necessary, the City utilizes lease purchase short-term financing option to address funding needs of eligible essential equipment and fleet services. The funding is facilitated under a master lease agreement with a lender (the "Lessor") by establishing an upfront tax-exempt line of credit over an agreed upon acquisition period. The security for this financing agreement is a pledge to annually appropriate funds to make timely lease payments.

Using this lease-purchase funding mechanism, the City has previously funded its annual fleet replacement including vehicles for safety services such as fire engines and police vehicles and motive equipment for service maintenance (non-safety). In addition to annual fleet replacement, other vehicles and projects funded with the lease-purchase mechanism include refuse containers, refuse packers for the implementation of the Automated Refuse Collection Program, helicopters for the Fire and Police Departments, public safety communications equipment, and the City Enterprise Resource Planning system. Under various Master Lease Agreements established between 2003 and 2011, as of March 31, 2012, the City has approximately \$68.5 million in outstanding principal and interest. See Attachment 1.

In March 2011, the City Council authorized a Master Lease Agreement with JPMorgan Chase Bank, N. A. in an amount not to exceed \$22.2 million to finance the fleet replacement needs of Fiscal Years 2011 and 2012, together in an amount not to exceed \$20.9 million and to finance the acquisition of a new Global Positioning System in an amount not to exceed \$1.3 million. As of March 31, 2012, replacement vehicles totaling approximately \$20.0 million have been ordered, of which, approximately \$6.5 million has been received and funded. The remainder is expected to be funded by June 30, 2012. It is currently anticipated that the GPS equipment will not be acquired prior to June 30, 2012 and hence the line of credit for this project is not expected to be utilized by June 30, 2012. This Master Lease Agreement for the Fiscal Year 2011 and 2012 period expires on June 30, 2012.

II. Fiscal Year 2013 Master Lease Agreement

In order to make available the lease-purchase option for Fiscal Year 2013 equipment and vehicle needs, Debt Management solicited information on lease-purchase needs from various departments in January 2012. The following funding needs were identified:

1. FY 2013 annual fleet replacement needs (\$16.9 million)

Fleet Services has identified the citywide General Fund fleet replacement needs for Fiscal Year 2013 totaling approximately \$16.9 million. The assessment for Fiscal Year 2013 identifies approximately 254 vehicles for replacement. All the replacement vehicles, totaling a not to exceed amount of \$16.9 million, are programmed to be lease purchased. The Fiscal Year 2013 General Fund vehicle replacement list includes the replacement of police fleet, fire engines, refuse packers, and other non-safety maintenance vehicles. Estimated useful life of the vehicles range between 7-20 years. The City may lease purchase the equipment using either the 5- year or 7- year, or to 10 year lease term depending on the vehicles estimated useful life and lease payment amounts.

2. Advanced Metering Infrastructure (AMI) system (\$5.1 million)

The Public Utilities Department has a business opportunity to enhance its water meter reading, customer service and billing functions and water conservation capabilities with the installation of an AMI system. AMI technology allows water meters to be read electronically rather than through direct visual inspection by field staff. The implementation will include approximately 10,000 of the total meter population of roughly 275,000. Estimated useful life of the AMI system is 15 years. The project is expected to be completed within 2 years. The estimated total capitalized project cost is \$4.9 million; with a 4.5% contingency cost, the total not to exceed amount financed is approximately \$5.1 million.

3. Global Positioning System Equipment (\$2 million)

Currently, several City departments use different GPS equipment in their vehicles. The proposed new system will establish a common GPS System for all vehicles as well as adding features that are not available on the current GPS being used. The new GPS will consist of software, modems, and the hardware and professional services infrastructure advanced technology. The expected procurement date is July 1, 2012 with an anticipated

cost of \$2 million. Estimated useful life is 7 to 10 years, the City anticipates a 5 year lease term with three draw downs to expense the \$2 million.

4. Fire and Lifeguard Vessels (\$1.3 million)

The Fire Department needs to replace three of the Lifeguard Vessels. The estimated useful life on one of the vessel is 25 years with an estimated cost of \$1.0 million. The other two vessels are estimated to cost total of \$220,000 with the estimated useful life of 9 years. These Multi-Purpose Rescue Vessels, also known as Fireboat, represents the most sophisticated rescue vessel operated by lifeguards. In addition to providing fire suppression, these vessels support search and rescue operations, and law enforcement detail. The City anticipates a 7 year lease term.

A Request for Proposals (“RFP”) was issued through the City’s Purchasing & Contracting Department on March 2, 2012, to solicit proposals for a Master Lease Agreement (the “Agreement”) to fund the vehicle and equipment needs identified above. The RFP was sent to approximately 42 financial firms, including advertisement on DEMANDSTAR for local firms and firms specializing in lease finance. Debt Management is in the process of reviewing the proposals and expects make a final selection in the following weeks. Evaluation is based on the delivery of the best overall value to the City under the Agreement, including but not limited to achieving the lowest possible borrowing cost, while meeting the specifications and requirements of the RFP.

Subsequent to the selection of the lessor, the form of and execution of the Master Lease Agreement (the “Agreement”) is expected to be brought forward for City Council approval in May 2012. Subsequent to City Council approval, via ordinance and the following 30-day referendum period, the Agreement would be executed and the line of credit would be available as of July 1, 2012. Upon execution of the Agreement, Departments will be able to place orders for their respective vehicles/equipment. On receipt, inspection, and acceptance by the respective departments, necessary funds will be drawn from the line of credit. The funding draws typically occur in batches as the vehicles and equipment are received. The Lessor makes direct payments to vendors and corresponding amortization schedules will be established with the City to make semi-annual payments to the Lessor on a fixed rate basis over the lease term. At the end of the term, the vehicles/equipment are owned by the City.

FISCAL CONSIDERATIONS:

Funds to replace motive equipment are generated by annual charges to departments for each item of motive equipment. The annual lease payments will be made from funds generated from the annual charges accrued in the Fleet Services Replacement Fund. Annual lease payments for the GPS equipment will be made from funds generated from usage fees charged to various departments. Annual lease payments for the AMI system and Fire Vessels will be made from the respective departments’ operating budgets.

Future lease payments will be included in future budgets and City Council approval will be obtained through the annual budget process. *The actual fiscal impact will depend on the actual amounts and timing of the draws, interest rates, and the final repayment schedules.*

The City would be under no obligation to draw down the full amount established under the line of credit. There is no commitment fee for establishing and maintaining the funding amount through the term of the Agreement. If alternate sources of funding are identified, or cash purchases (“pay go”) are an option, the City will still have that flexibility.

PREVIOUS COUNCIL MEETING and/or COMMITTEE ACTION: N/A

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

A Request for Proposals (“RFP”) was issued to approximately 42 financial firms, including several local firms, through the City’s Purchasing & Contracting Department on March 2, 2012 and was noticed on the City’s public website.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

The evaluation committee working with Purchasing & Contracting is in the process of reviewing the proposals and expects to make a final selection in the following weeks.

Attachment: Capital Lease Obligations as of March 31, 2012



Lakshmi Kommi
Debt Management Director



Jay M. Goldstone
Chief Operating Officer

Attachment 1

City of San Diego			
Capital Lease Obligations			
As of March 31, 2012			
	Outstanding Principal	Outstanding Interest	Total Outstanding Debt
General Fund Fleet (Safety & non-safety)	\$ 15,085,356	\$ 1,037,778	\$ 16,123,134
Environmental Services Refuse Packers (Non General Fund)	2,165,831	68,115	2,233,946
Fire Apparatus - Helicopter and Hoist	10,380,779	3,185,711	13,566,489
Police Helicopters	3,125,763	152,850	3,278,613
Public Safety Communications Project ⁽¹⁾	6,201,483	423,302	6,624,785
Enterprise Resource Planning ⁽²⁾	24,303,285	2,380,941	26,684,226
Total Capital Lease Obligations	\$ 61,262,497	\$ 7,248,696	\$ 68,511,194

Source: Debt Management Department

(1) 85% General Fund, 15% Non General Fund

(2) 53% General Fund, 47% Non General Fund