



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: July 18, 2012 REPORT NO: 12-092
ATTENTION: Budget & Finance Committee
SUBJECT: Amendment to Fiscal Year 2013 Master Lease Agreement to Fund Equipment
REFERENCE: Master Lease Agreement to Fund Equipment (City Council Ordinance O-20166)

REQUESTED ACTION(S):

Forward the authorization of the form and execution of the Amendment to the Master Lease Agreement increasing the amount by \$3.6 million for City Council approval to finance the acquisition of additional equipment.

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 acquire essential equipment and fleet purchases. 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.

On May 22, 2012, the City Council authorized a Master Lease Agreement with JPMorgan Chase Bank, N. A. in an amount not to exceed \$25.3 million.

Since the approval of the Master Lease Agreement, the equipment described below has been identified to be acquired by the Information Technology Department and through the Plaza del Panama Improvement Agreement (approved by the City Council on July 9, 2012, R-307558).

II. Discussion

A. Additional Equipment to be Acquired

a. Information Technology Equipment

In March 2011, the City Council approved the Information Technology Sourcing Strategy. As part of the implementation of this strategy certain data center and computer networking WAN equipment have been identified to be replaced or acquired. The immediate replacement and acquisition of this equipment coincide not only with the normal lifecycle replacement and enhancement of this equipment, but also with the implementation of the IT Sourcing Strategy. The completion of the data center migration must be completed before June 30, 2013.

During the transition year, the City must expediently match data center computing resources to the departments that need them. To facilitate this, the City and Atos, the vendor awarded the contract for data center services, outlined requirements for making the transition to a highly virtualized data center environment. This environment will achieve the smallest possible hardware footprint (reducing energy costs), build an agile, resilient and efficient shared IT computing infrastructure (reducing time to delivery for new computing services), and result in a cloud-based solution delivered from two fiber-connected, Tier 3 Data Centers (providing redundancy for critical City applications). Atos and the City worked with two leading providers of unified and integrated data center computing infrastructure: Network Appliance (NetApp) and EMC are the leaders in Gartner's Magic Quadrant of unified computing platforms.

NetApp's Flexpod and EMC's Vblock solutions are currently being evaluated by Atos for integration within its data centers in Arlington, TX and Plano, TX.

To minimize network latency between the Atos data centers and the City, Riverbed Steelheads WAN Optimization Controllers will be installed at each location to facilitate delivery of real-time data.

b. Balboa Park Trams

The recently approved Balboa Park Plaza de Panama Circulation and Parking Structure Project includes the use of passenger trams to provide service to and from key locations in Balboa Park. The new trams (approximately 3 motorized trams and 9 trailers), with an expected useful life of 10-20 years, would be low-floor, low-speed vehicles that can share the road with pedestrians and provide access to all park visitors, including disabled visitors. The proposed tram vehicles would each carry between 10 and 100 passengers. User-friendly features would include a low floor for easy loading and unloading for passengers of all ages and abilities and would provide several options for wheelchair accessibility using on-board ramps and tie downs.

Tram service is expected to begin upon the commencement of construction of the Project to mitigate visitor inconvenience and allow for seamless traffic flows during construction.

In order to meet this objective, the tram vehicles will be obtained on a rental basis by the Plaza de Panama Committee until the Balboa Park Trams can be competitively procured on a permanent basis through the City's purchasing and contracting process. As prescribed in the Plaza de Panama Improvement Agreement (approved by the City Council on July 9, 2012, R-307558), the Plaza de Panama Committee will pay all tram operation expenses, including tram rental and/or lease expenses, during construction. The City shall assume responsibility for the cost of operating the tram service, including lease payments, upon substantial completion of the parking structure and when the structure is transferred to the City for operations. Following the opening of the parking structure for public use, lease payments will be paid by the City from the parking fee revenues of the proposed parking structure.

B. Timing of the Additional Funding Needs

At the time of the approval of Master Lease Agreement (Budget and Committee approval in April 2012 and Council authorization in May 2012), the IT equipment outlay assessment and the Balboa Park Plaza de Panama Circulation and Parking Structure Project were in preliminary stage of development. As such, it was not timely to include it with the Master Lease Agreement.

Final selection of one of the two IT Asset vendor finalists is expected to be made during the 1st week of August. A vendor will be selected and engaged prior to the City Council meeting in which the consideration of this item will be made. Due to the City Council recess in August, and further delays in the process would have a cascading effect which could delay the June 30, 2013 closure of SDDPC's Rose Canyon Data Center which will result in significant increase of dual operating costs and decrease in the realization of cost savings from the IT Outsourcing Strategy. The IT Assets are anticipated to be installed before December.

Due to the immediate need of the equipment for the City, the subsequent advancement of the procurement process for this Equipment, and the short timeline for their implementation, it is now appropriate to secure financing for this equipment by amending an existing and recently approved Master Lease Agreement with JPMorgan Chase, N.A.

C. Identification of additional Funding Needs

Following are the additional lease-purchase needs identified:

1. FY 2013 Information Technology Data Center Replacement & WAN Optimization Equipment (estimated \$2.6 million)

The City will need to refresh outdated equipment and purchase additional equipment to facilitate virtualization of the data center computing environment. Both Servers and Storage systems need to be purchased totaling approximately \$2.0 million.

WAN optimization appliance to address application performance issues related to network latency associated with the data center location. Appliances are a combination of hardware, firmware and software designed to increase the efficiency and

performance of network traffic by compacting data sent across networks, improving data output, and through application streamlining totaling approximately \$600,000.

2. FY 2013 Acquisition of Balboa Park Trams (estimated \$970,000)

Approximately three (3) motorized trams and nine (9) trailers with the ability to collectively carry up to 300 passengers are to be acquired. The actual number of motorized trams and trailers may vary based on the actual manufacturer selected during the procurement process.

D. Amendment to Master Lease Agreement

The City currently has a Master Lease Agreement (“Agreement”) between the City (Lessee) and JPMorgan Chase Bank N.A. (Lessor) for a not to exceed amount of \$25.3 million to fund equipment. The existing limits regarding the acquisition of additional vehicles and equipment may be modified under terms acceptable to both parties.

This item under consideration will execute an amendment to Section 1.3 of the existing Agreement which increases the limit of equipment to be financed by \$3.6 million from \$25.3 million to an amount not to exceed \$28.9 million to fund the additional equipment. The form of the First Amendment to the Master Lease Agreement is included as Attachment 1 to this report.

FISCAL CONSIDERATIONS:

Based on the lease purchase terms, the effective interest rate as of July 5, 2012, is estimated at 1.25% on a 5-year term and 1.38% on a 7-year term for the IT Equipment and Balboa Park Trams, respectively. Assuming one draw for each project the estimated lease payments are as follows:

1. Information Technology Equipment (\$2.6 million): Semi-annual lease payment of \$270,000 in FY 2013, annual lease payments of \$540,000 in FY 2014-2017, and a semi-annual lease payment of \$270,000 in FY 2018.
2. Balboa Park Trams (\$970,000): Annual lease payments of \$146,000 in FY 2014-2020. As noted above, the Plaza de Panama Committee will assume all lease expenses prior to the completion of construction of the parking structure.

Subsequent to the authorization of the amended Master Lease Agreement, orders will be placed for the additional equipment and vehicles. Once the equipment is received and funded, lease payment schedules are executed with the first payment commencing 6-months after the funding date.

A. Information Technology Equipment

Annual payments will be budgeted in the IT Department budget. Revenues required to satisfy the payments will be recovered in the IT cost allocations to City departments. The first semi-annual

payment is included in the approved FY 2013 budget. Approval for subsequent budgets will be obtained through the City Council annual budget process.

B. Balboa Park Trams

The annual lease payments for the Balboa Park Tram during construction of the proposed Parking Structure will be made by the Plaza de Panama Committee. Upon the substantial completion of the Parking Structure, annual lease payments will be assumed by the City to be paid from parking revenues collected in a new Balboa Park Parking Structure Fund, a Special Fund within the Parks and Recreation Department. City Council approval for the annual lease payments are to be obtained through the annual budget process.

The final fiscal impact will depend on the actual amounts drawn from the line of credit and the specific timing of the draws. The City is under no obligation to utilize the full amount established under the line of credit. There is no commitment fee for establishing and maintaining the funds amount through the term of the Agreement. If alternate sources of funding is identified, or cash purchases (“pay go”) is preferred, the City will have that flexibility.

PREVIOUS COUNCIL MEETING and/or COMMITTEE ACTION:

On May 22, 2012, the City Council approved Ordinance Number O-20166 authorizing the execution of the Master Lease Agreement.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

N/A

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

JPMorgan Chase Bank, N. A. is the lease provider.



Lakshmi Kommi
Debt Management Director



Jay M. Goldstone
Chief Operating Officer

Attachments:

1. Amendment to the Master Lease Agreement

FIRST AMENDMENT TO MASTER LEASE AGREEMENT

**CITY OF SAN DIEGO, CALIFORNIA
(AS LESSEE)**

AND

JPMorgan Chase Bank, N.A. (AS LESSOR)

DATED AS OF _____, 2012

FIRST AMENDMENT TO MASTER LEASE AGREEMENT

This FIRST AMENDMENT TO MASTER LEASE AGREEMENT dated as of _____, 2012, amends and supplements that certain Master Lease Agreement, dated as of July 2, 2012 (this "Agreement" or this "Lease"), between **JPMorgan Chase Bank, N.A.** as the Lessor hereunder (the "Lessor"), and the City of San Diego, California (the "City") as the Lessee hereunder, a political subdivision of the State of California (the "State").

RECITALS

WHEREAS, pursuant to a Request For Proposals, dated February 27, 2012, the City appointed Lessor to enter into arrangements for the lease purchase of various Equipment under the terms of the Agreement; and

WHEREAS, in accordance with Section 10.6 of the Agreement, Lessor and Lessee desires to provide for the financing of all such Equipment under the terms of the Agreement and in furtherance thereof the parties deem it necessary and desirable to amend certain terms of the Agreement;

NOW, THEREFORE, in consideration of the mutual covenants and conditions contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree to amend the Agreement as follows:

Section 1. The term "Acquisition Period" defined at Section 1.3 of the Agreement is hereby amended to read as follows:

Acquisition Period: means the period commencing on the execution of this Agreement and ending on the earlier of July 2, 2014, or the date on which \$__ million of Equipment has been financed under the Agreement. The City reserves the right to (i) request to increase the limits upon exhausting the initial limits for and of the terms upon mutual agreement and pre-approval by Lessor, and (ii) request to extend the Acquisition Period for a period upon terms acceptable to Lessor.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

CITY OF SAN DIEGO, LESSEE

By: _____
(Name)

Chief Operating Officer
(Title)

Date: _____

JPMorgan Chase Bank, N.A., LESSOR

By: _____
(Name)

(Title)

Date: _____

APPROVED AS TO FORM AND LEGALITY this ____ day of _____ 2012.

By: _____
(Name)

Deputy City Attorney