

DATE ISSUED: March 14, 2001 REPORT NO. 01-049

ATTENTION: Honorable Mayor & City Council
Docket of March 20, 2001

SUBJECT: Equipment and Vehicle Financing Program

SUMMARY

Issues - 1) Should the City Council approve a Master Lease Agreement with Ford Motor Credit Company ("Ford") to serve as a primary lease provider for the 3- year lease term and as a back-up lease provider for the 4-year lease term for the purpose of financing the acquisition of equipment through lease-purchase? 2) Should the City Council approve a Master Lease Agreement with Koch Financial Corporation ("Koch") to serve as a primary lease provider for the 4-year lease terms and as a back-up lease provider for the 5-, 6- and 7-year lease terms for the purpose of financing the acquisition of equipment through lease-purchase? 3) Should the City Council approve a Master Lease Agreement with PB Municipal Funding Incorporated ("PBMF") to serve as a primary lease provider for the 5-, 6- and 7- year lease terms for the purpose of financing the acquisition of equipment through lease-purchase?

Manager's Recommendations - 1) Approve a Master Lease Agreement with Ford Motor Credit Company ("Ford") to serve as a primary lease provider for the 3- year lease term and as a back-up lease provider for the 4-year lease term for the purpose of financing the acquisition of equipment through lease-purchase. 2) Approve a Master Lease Agreement with Koch Financial Corporation ("Koch") to serve as a primary lease provider for the 4- year lease term and as a back-up lease provider for the 5-, 6- and 7-year lease terms for the purpose of financing the acquisition of equipment through lease-purchase. 3) Approve a Master Lease Agreement with PB Municipal Funding Incorporated ("PBMF") to serve as a primary lease provider for the 5-, 6- and 7- year lease terms for the purpose of financing the acquisition of equipment through lease-purchase. purpose of financing the acquisition of equipment through lease-purchase.

Other Recommendations - None

Fiscal Impact - None

BACKGROUND

A lease-purchase transaction is considered to be an ideal financing package for essential acquisitions of equipment. Although there are financing costs associated with lease-purchase transactions, the savings over traditional tax-exempt financing can be substantial.

Generally structured for a period of less than ten (10) years, lease-purchase agreements allow the City to coordinate payments for essential acquisitions to meet budgetary restrictions. The City has utilized the Equipment and Vehicle Financing Program to a) spread acquisition costs over the useful life of equipment; b) acquire and make use of equipment in the near term versus waiting until cash is accumulated; and, c) acquire equipment at current costs rather than at escalated costs in the future when cash might be available.

In light of the City's budgetary and fiscal restraints, the City Council implemented the Equipment and Vehicle Financing Program (formerly the Master Lease Program) in 1993, enabling the City to finance the acquisition of needed equipment by lease-purchase. Since the inception of the Equipment and Vehicle Financing Program, the City has utilized the program to finance refuse containers and refuse packers for the implementation of the Automated Refuse Collection Program, recycling containers and recycling packers for the expansion of the Curbside Recycling Program, computer equipment, golf course maintenance equipment, ambulances, fire and hazardous materials apparatus, cemetery equipment, water meters, traffic signal devices, parking meters, police vehicles, telecommunications equipment, and service maintenance vehicles.

Each acquisition is reviewed by City staff to assess the suitability of lease-purchase financing based upon the following criteria:

- 1) Whether the use of the equipment is essential to City operations;
- 2) Whether the acquired equipment is revenue generating or required by an internal service provider;
- 3) The size of the purchase in relation to the department's non-..... personnel expense budget;
- 4) Whether lease-purchase financing is a cost-effective funding..... alternative to vendor financing;
- 5) Whether grants or other cost-saving incentives to acquire the equipment now will offset a portion of acquisition costs; and,
- 6) Whether the immediate acquisition of equipment will result in long- term savings to the City.

DISCUSSION

The Equipment and Vehicle Financing Program enables the City to obtain competitive interest rates, to design a tailored payment plan, and to obtain immediate use of essential equipment in an expeditious fashion. We are advised by the City Attorney and Special Counsel retained by the City Attorney, that because the agreements associated with lease-purchase transactions specify that lease payments are subject to annual appropriations, the annual monetary obligations arising from lease-purchase agreements are not considered to be debt under the City Charter or the State Constitution.

FY 2002 Master Lease Agreements:

The FY 2001 Master Lease Agreements will expire on May 1, 2001. In order to ensure financing is an available option for City acquisitions in FY 2002, it is necessary to enter into lease-purchase agreements with the most qualified proposers. City staff, in consultation with an independent financial advisor, Public Resources Advisory Group ("PRAG"), drafted and issued a Request for Proposals ("RFP") on December 22, 2000 soliciting bids for the City's program. A total of four (4) responsive bids were received by Financing Services. (Results are summarized in the attached Table). PRAG, Financing Services and the City Attorney's Office have jointly evaluated the bids based upon the following criteria: (a) interest rates proposed for various lease periods; (b) the proposer's ability to comply with the terms of the proposed agreement; (c) the proposer's willingness to finance a sample list of acquisitions; and, (d) the City's past experience with the proposer, if applicable.

The following firms are recommended as primary lease providers: Ford for the 3-year term; Koch for the 4-year term; and, PBMF for the 5-, 6- and 7-year terms.

In the event that the primary lease providers are unwilling or unable to finance acquisitions or otherwise unable to fulfill the terms of the Agreements, it is recommended that the City designate back-up lease providers for financing. This will ensure that financing is available for potential City lease-purchase acquisitions. The following firms are recommended as back-up lease providers: Ford for the 4-year lease term, and Koch for the 5-, 6-, and 7-year lease terms.

The Master Lease Agreements do not obligate the City to make any purchases. The Equipment and Vehicle Financing Program only provides an alternative means of funding acquisitions should the City wish to take advantage of it.

CONCLUSION

It is recommended that the City Council approve the Master Lease Agreements under the Equipment and Vehicle Financing Program with Ford, Koch, and PBMF.

ALTERNATIVES

Do not approve the Master Lease Agreements under the Equipment and Vehicle Financing Program.

Respectfully submitted,

MARY E. VATTIMO

Approved: PATRICIA T. FRAZIER

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FRAZIER/MEV/CM/KSB

ATTACHMENT: Comparison of Responsive Bids