

DATE ISSUED: April 3, 2002

REPORT NO. 02-072

ATTENTION: Honorable Mayor & City Council
Docket of April 9, 2002

SUBJECT: Equipment and Vehicle Financing Program

SUMMARY

Issues:

- 1) Should the City Council authorize the City Manager to award Master Lease Agreements to the most responsive, responsible and competitive primary and secondary lease provider(s) for the purpose of financing the lease-purchase of equipment over 3-, 4-, 5-, 6-, and 7- year lease terms?
- 2) Should the City Council authorize the City Manager to award Master Lease Agreements to the most responsive, responsible and competitive primary and secondary lease provider(s) for the purpose of refinancing the lease-purchase of equipment over 3-, 4-, and 5- year lease terms?

Manager's Recommendations:

- 1) Authorize the City Manager to award Master Lease Agreements to the most responsive, responsible and competitive primary and secondary lease provider(s) for the purpose of financing the lease-purchase of equipment over 3-, 4-, 5-, 6-, and 7- year lease terms.
- 2) Authorize the City Manager to award Master Lease Agreements to the most responsive, responsible and competitive primary and secondary lease provider(s) for the purpose of refinancing the lease-purchase of equipment over 3-, 4-, and 5-year lease terms.

Other Recommendations:

None

Fiscal Impact:

There is no fiscal impact associated with approval of the Master Lease Agreements because the Master Lease Agreements do not authorize the purchase of equipment or

obligate the City to lease-purchase equipment. The Master Lease Agreements under the Equipment and Vehicle Financing Program only provide an alternative method of funding acquisitions should the City decide to take advantage of it.

The refinancing of previously lease-purchased equipment will be undertaken a) if bids received indicate lower interest rates which will result in lower lease payments for previously lease-financed equipment, and, b) as soon as the Agreements to refinance are approved and become effective. Note that a refinancing will not result in one-time direct savings to the City, but rather indirect reductions in anticipated lease payment expenditures over several years. At acceptable interest rates, a refinancing would reduce General Fund lease payments in FY 2003 by an estimated \$30,000 to \$40,000 aggregate for acquisitions previously financed through the Equipment and Vehicle Financing Program.

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.

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. Lease-purchase agreements are structured for a period of three (3) to seven (7) years, allowing 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.

Since the inception of the Equipment and Vehicle Financing Program, the City has utilized the Program to finance a wide variety of essential equipment (ambulances; fire and hazardous materials equipment; police vehicles; 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; traffic signal lights; parking meters; telecommunications equipment; and service maintenance vehicles).

Lease purchase financing through the Equipment and Vehicle Financing Program is used very judiciously. All items to be lease-purchase financed are subject to prior managerial approval and/or budgetary approval. Furthermore, lease-purchase acquisitions with a cost of over \$1 million are subject to City Council approval independent of the herein requested Council approval of the Master Lease Agreements.

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 orrequired by an internal service provider;
- 3) The size of the purchase in relation to the department's non- p
ersonnel expense budget;
- 4) Whether lease-purchase financing is a cost-effective funding a
lternative 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.

In July 2001, as an additional lease-purchase alternative for certain acquisitions, the City submitted a preliminary application to the California Infrastructure and Economic Development Bank (the "CIEDB") for \$2 million in low-interest financing for the acquisition of refuse and recycling packers through the Infrastructure State Revolving Fund Program for expansions of the Automated Refuse Collection Program and the Curbside Recycling Program. Though the preliminary application was accepted, the CIEDB staff recommended that the City discontinue its application because job creation, which is one of the primary criteria of the CIEDB Program, would not directly result from the financing of the proposed acquisitions. Should future City acquisitions meet CIEDB requirements, the City will reapply for financing.

In addition to the CIEDB program, the Equipment and Vehicle Financing Program and its associated financing agreements have been analyzed by City staff in comparison to the CaLease Program through the California Statewide Communities Development Authority, and the G\$Mart Program of the State of California. The City's Equipment and Vehicle Financing Program has continued to compare favorably in terms of interest rate competitiveness, financing flexibility, and timeliness of funding (which has been deemed essential to continued substantial vendor discounts).

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.

By delegating the requested authority to the City Manager to enter into financing and refinancing agreements promptly when market conditions are advantageous to the City, within the parameters described below, the City Council will facilitate the financing and refinancing of equipment at competitive interest rates. Master Lease Agreements are for a duration of one year and are limited to financing a maximum \$15 million per term per each of the 3- to 7- year terms, and refinancing a maximum of \$5 million per each of the 3-, 4-, and 5-year terms. The maximum rate of interest to be charged as of the commencement of the Agreements will not exceed 5.5% and will thereafter be tied to a percentage of a floating index interest rate (either the Treasury rates or the Municipal Market Data AAA rates for comparable maturities).

In addition to the parameters described above, the City Manager will be awarding the financing and refinancing agreements to lease providers selected through a highly competitive process. In order to ensure a wide range of responses to the RFP, staff conducted a pre-RFP survey of approximately 100 firms which specialize in municipal equipment financing.

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.

Fiscal Year 2003 Master Lease Agreements:

An RFP was issued to forty (40) firms which had responded affirmatively to the survey noted above, to solicit proposals for the City's Equipment and Vehicle Financing Program for the financing and refinancing of equipment. Public Resources Advisory Group, Financing Services and the City Attorney's Office are, at the current time, jointly evaluating 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 and or refinance a sample list of acquisitions; and, (d) the City's past experience with the proposer, if applicable.

The FY 2002 Master Lease Agreements will expire on May 31, 2002. In order to ensure lease-purchase financing and refinancing are available options for City acquisitions in Fiscal Year 2003, it is necessary to enter into lease-purchase agreements with the most responsive, responsible and competitive proposers. In order to expedite the approval of the Agreements with the duly selected lease providers by May 31, 2002, it is requested that the City Council approve the Agreements in anticipation of entering into lease-purchase agreements with the selected lease providers and authorize the City Manager to select the lease providers under the Agreements approved by the City Council. In the event that the primary lease providers are unwilling or unable to finance or refinance acquisitions, or are otherwise unable to fulfill the terms of the Agreements, the City Manager will also designate secondary (back-up) lease providers for each lease term. This will ensure that financing and refinancing are available for all City lease-purchase acquisitions.

CONCLUSION

It is recommended that the City Council authorize the City Manager to award Master Lease Agreements to the most responsive, responsible and competitive primary and secondary lease provider(s) for financing and refinancing of equipment under the City's Equipment and Vehicle Financing Program.

ALTERNATIVES

Do not authorize the City Manager to award Master Lease Agreements under the Equipment and Vehicle Financing Program.

Respectfully submitted,

Approved: PATRICIA T. FRAZIER Submitted by: MARY E. VATTIMO
Deputy City Manager City Treasurer

FRAZIER/MEV/LXK/CM/KSB