



DATE ISSUED:

September 13, 2006

REPORT NO: 06-123

ATTENTION:

Council President and City Council
Docket of September 19, 2006

REPORT TO THE CITY COUNCIL

SUBJECT:

Lease-Purchase of General Fund Motive Equipment

REFERENCE:

REQUESTED ACTION:

Authorize the Mayor to lease-purchase General Fund Motive Equipment in the amount of \$6,800,000, and to that effect authorize the execution of the Second Amendment to the Master Lease Agreement with Banc of America Leasing and Capital LLC, over a 5 year repayment term.

STAFF RECOMMENDATION:

Approve the requested action.

SUMMARY:

The City utilizes the Equipment and Vehicle Financing Program (EVFP), a short-term lease-purchase funding option, to acquire essential equipment for the City. The lease-purchase option enables the City to fund high priority equipment used to provide essential operations such as fire protection, streets maintenance, and refuse collection. It is an alternative to cash funding. The EVFP has been utilized to lease-purchase General Fund motive equipment since Fiscal Year 1998. Lease-purchase of General Fund motive equipment has been necessary because in the 1990s motive equipment replacement funds were diverted to other City needs. Funds from the Replacement Fund administered by the Equipment Division in the General Services Department are used to provide the necessary cash flow to meet annual lease-purchase contractual obligations.

On February 24, 2006, the Deputy Chief of Public Works approved a list of motive equipment for acquisition. The General Fund motive equipment on that list include 23 refuse packers equipped with diesel particulate filters, **9 Dual Fuel Refuse Packers**, and 7 pieces of beach equipment: 2 beach packers and 5 wheel loaders. Replacement of the remaining 29 dual fuel packers in the Recycling Program is being planned later in FY 2007. Operation of these dual fuel packers is no longer cost effective. At its peak operation, the LNG Dual Fuel Demonstration Project included 77 dual fuel refuse packers under an APCD monitored grant program. The APCD grant has been satisfied.

The vendors for the above listed equipment have already been selected through competitive bid processes managed by the Purchasing Division. The vendors are Rush Truck Centers for the

refuse packers, Dion International Trucks for the beach Packers and D3 Equipment for the wheel loaders. The total acquisition cost including sales tax, fitting costs, and financing costs is estimated at approximately \$8.3 million. The acquisition amount that is to be funded through lease-purchase is \$6,800,000; this includes the filters, rear cameras and elliptical body for the refuse packers and two beach cleaners and five wheel loaders. The sales tax (\$527,000) and fitting costs (\$48,700) will be cash funded by Equipment Division when the equipment is delivered.

The Department of Finance has evaluated equipment vendor offered financing options and the lease-purchase terms proposed by the Banc of America Leasing Capital LLC, the lease provider for the 5 year lease term selected on a competitive basis under the FY 2004 EVFP program for the list of motive equipment approved in February 2006. (No EVFP contracts were executed since FY 2004 due to the unavailability of financial statements.) Based on the examination of the lease terms and the proposed cost of borrowing, Banc of America's funding offer was more cost effective, and offers the City greatest flexibility in terms of execution of the financing and accessing funds. Proposals from the equipment vendors' financing partners included interest rates that were 1.5-3.0 percentage points higher. Furthermore, the Banc of America has agreed to fund all the required equipment, whereas the equipment vendor financing proposals were brand specific. No equipment vendor financing options were available for the nine FY 2007 refuse packers. Given that a competitive interest rate was offered by Banc of America and that it has also agreed to fund the additional 9 refuse packers at the same rate proposed for the FY 2006 motive equipment, it is efficient to extend the funding to cover the additional 9 packers.

Second Amendment to the FY 2004 Master Lease Agreement

The lease-purchase arrangement for motive equipment with Banc of America is structured similar to the recent lease-purchase of 4 police helicopters and related equipment. A First Amendment to the original Master Lease Agreement (FY 2004), executed in conjunction with the police helicopters, increased the funding capacity in the Master Lease Agreement from a cumulative \$30 million for the 5-7 year lease terms to a cumulative \$45 million. As of August 2006, two helicopters and related equipment were funded under the First Amendment. The effective interest rate for the funding was set by reference to the City's underlying general obligation credit rating as of the date of the equipment payment to the vendors. At the City's current credit rating (Moody's A3), the rate of borrowing to fund police helicopters was 65% of the U.S Treasury securities index at 7 year maturity plus 95.55 basis points (0.9555%) spread. The effective interest rates for these acquisitions ranged between 3.91%- 4.23% based on the index and the resulting interest rate fixed at the time the vendors were paid.

The proposed Second Amendment to the Master Lease Agreement with Banc of America for the purpose of lease purchasing refuse packers will increase the funding cap made available to the City from the cumulative \$45 million for the 5-7 year terms to a cumulative \$51.8 million. Based on the useful life of the equipment, the interest rate will be set by reference to the U.S. Treasury securities with a 5-year maturity. The effective interest rate and the annual lease payment obligation will be set at the time funds are drawn in installments to pay vendors as the equipment is received and accepted by the City. Upon the City Council authorization of the lease purchase and the ordinance authorizing the Second Amendment comes into effect, the order for the equipment will be placed with the vendors. Once the equipment is delivered to the City and

upon and testing and acceptance of the equipment by the City, the vendors will be paid by Banc of America on a mutually agreed upon funding date and the Chief Financial Officer executes the funding documents.

The interest rate for the funding will be set by reference to the City’s most recent underlying general obligation credit rating release as of the date of the equipment payment to the vendors. If there is no change in the City’s GO credit rating the interest rate at the City’s current credit rating (A3) will be set at 65% of the U.S Treasury securities index at 5-year maturity plus 160 basis points (1.60%) spread. Based on current index level (week ending July 28, 2006), the borrowing rate for the motive equipment funding is estimated to be 4.84% which is estimated to result in an annual lease payment obligation of \$1,550,000 over a 5 year repayment term.

Similar to the First Amendment, a change in the City underlying general obligation credit rating at any time on or prior to the date of equipment acceptance and payment will result in a change in the spread. Under the Second Amendment, if the City’s credit rating improves at any time on or prior to the date of equipment acceptance and payment, the interest rate would drop to 65% of the index plus 137.5 basis points (1.375%) spread. If there is a rating deterioration at any time on or prior to the date of equipment acceptance and payment, the interest rate would increase to 65% of the index plus 183 basis points (1.83%). If the credit rating falls below Baa1/BBB+ prior to the funding of the equipment, the interest rate terms of the lease purchase will be renegotiated in good faith by the City and Banc of America. Once the funding is provided by Banc of America and the interest rate is fixed, the lease payments will be fixed over the 5 year lease term. However, prepayment of the outstanding principal is permitted under the Second Amendment throughout the lease term at 101% of the outstanding principal amount.

FISCAL CONSIDERATIONS:

There is no fiscal impact in Fiscal Year 2007. The estimated fiscal impact over a 5-year repayment term, assuming a delivery of the equipment in July 2007, is as follows (subject to changes in market conditions, dates of delivery and/or equipment costs¹):

FY 2008	\$1,350,700	(includes, one semi-annual lease payment of \$775,000, sales tax of \$527,000 fitting costs of \$48,700)
FY 2009	\$1,550,000	(two semi-annual lease payments)
FY 2010	\$1,550,000	
FY 2011	\$1,550,000	
FY 2012	\$1,550,000	
FY 2013	\$ 775,000	(one semi-annual lease payment)
TOTAL	\$8,325,700	

The acquisition costs are summarized below:

Principal	\$6,800,000	(estimated cost of equipment)
Interest	\$ 950,000	(estimate)
Sales Tax	\$ 527,000	(cash funded, not financed)

¹ The interest rate is fixed when the vendor is paid. The 23 refuse packers and the 7 pieces of beach equipment constitute approximately 75% of total cost. The remaining 25% attributable to the 9 refuse packers.

Fitting Cost \$ 48,700 (cash funded, not financed)
TOTAL \$8,325,700

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

The current contract for the acquisition of refuse packers was established by a competitive bid process, and was adopted by the City Council on December 1, 2003 in Resolution # 298641.

Ordinance O –19160 was established on April 17, 2003 to authorize the FY 2004 Master Lease Agreement with the Banc of America Leasing and Capital LLC for 5, 6, and 7 year lease terms. Ordinance O-19452 was established on December 5, 2005 to authorize a first Amendment to the Master Lease Agreement with the Banc of America Leasing and Capital Group to lease-purchase four Law Enforcement Helicopters over a 7-year term.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: n/a

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

The contracts for refuse packers, beach packers and wheel loaders are with Rush Truck, Dion International Trucks, and D3 Equipment, respectively. The financial institutions that were considered include Banc of America for all equipment types, Paccar Leasing Corp. (associated with the refuse packer vendor), Navistar Financial (associated with the beach packer vendor), and C & H Capitol (associated with the wheel loader vendor).

Originating Department

Deputy Chief/Chief Operating Officer

Chief Financial Officer