



THE CITY OF SAN DIEGO  
**REPORT TO THE CITY COUNCIL**

DATE ISSUED: April 8, 2009 REPORT NO: 09-045

ATTENTION: Council President and City Council

SUBJECT: First Amendment to the Master Lease Agreement with IBM Credit LLC

REFERENCE: Report 07-060 - Rules, Open Government and Intergovernmental Relations Committee  
Report 07-060 – Lease Purchase Agreement with IBM Credit LLC dated April 11, 2007

REQUESTED ACTIONS:

Authorize the Mayor to execute the First Amendment to the Master Lease Agreement with IBM Credit LLC (IBM) increasing the authorization for the implementation of the Enterprise Resource Planning System Core Project (One SD Project) from \$29.5 million to an amount not to exceed \$37 million and extending the acquisition period through June 30, 2010.

STAFF RECOMMENDATION:

Approve the requested actions.

SUMMARY:

A Master Lease Agreement (the "Agreement") with IBM Credit LLC (IBM) was authorized by the City Council on May 21, 2007 under Ordinance O-19618 to finance a portion of the implementation of the enterprise resource planning system core project, the OneSD Project. The OneSD Project was originally estimated to cost \$36.5 million of which \$29.5 million was to be financed. The Agreement was executed establishing a line of credit in an amount not to exceed \$29.5 million to facilitate the financing of the OneSD Project and is scheduled to expire on June 30, 2009, unless an extension is implemented.

Currently, the OneSD Project is projected to increase by \$10.5 million as a result of proposed changes to the cost of integration and transition to SAP and the out-scoped functionality that requires funding and the increased labor costs in the City and DPC due to the extended go-live dates (refer to Report 07-060 - Rules, Open Government and Intergovernmental Relations Committee). Of the increased costs, \$7.5 million is proposed to be financed in the Master Lease Agreement with IBM Credit LLC.

The proposed First Amendment to the Master Lease Agreement (“Amendment”) with IBM will increase the authorization from \$29.5 million to an amount not to exceed \$37 million and extend the agreement through June 30, 2010.

#### Amendment to the Master Lease Agreement

IBM Credit LLC, a wholly owned subsidiary of IBM, was identified as the lender for the OneSD project in March 2007 through a request for proposals process. Due to the increased costs and the impending expiration of the current Agreement, IBM was requested to fund an additional \$7.5 million and also extend the Agreement up to June 30, 2010.

The proposed Amendment will continue to allow for the City to borrow amounts to meet the cash flow requirements of the project on an as needed basis. It is anticipated that these draw downs will occur on a bi-monthly basis. The Amendment gives the option to fund on either a 5-year term or a 7-year term. As under the current Agreement, the City expects to continue to finance the OneSD Project on a 7-year term.

The interest rate is fixed at the time funds are drawn as needed for the project. Under the Agreement, which will continue to be in effect for all draw downs through June 30, 2009, the interest rate will be set at 100% of the 7-year US Treasury. As of week end March 27, the effective rate was 2.30%. Pursuant to the proposed Amendment that provides funding to cover \$7.5 million in increased costs and any draws from the initial line of credit, on or after July 1, 2009, the interest rate will be set at LIBOR Swap Index using the average of the 3-year and 4-year swap rates plus spread of 3.20%. As of week end March 27, effective rate was 5.17% (1.97% + 3.20%).

#### FISCAL CONSIDERATIONS:

The current Agreement with IBM is for an amount not to exceed \$29.5 million. The amount yet to be drawn down from the \$29.5 million line of credit is \$14.2 million. As of March 2009, \$15.3 million has been drawn down. Based on the current rate per the Agreement, the projected draw down schedule for reimbursement expenditures, approximately \$10.9 million is expected to be reimbursed under the current Agreement until June 30, 2009. The remaining amount of approximately \$10.9 million will be funded under the Amendment at the increased rate. Table 1 illustrates the fiscal impact of these draws. There is no projected fiscal impact in FY09 as a result of this proposed Amendment.

**Table 1**

		Total Lease Payments				
Draw Downs	Amount Financed	FY 08-09	FY 2010	FY 2011-2016	FY 2017	Total
Current Draws						
#1 - #4	\$15,290,693	\$1,444,954	\$2,482,658	\$13,450,994	--	\$17,378,606
Under Current Agreement <sup>(1)</sup> (estimates)						
#5	\$915,395	--	\$143,781	\$862,686	--	\$1,006,467
#6	\$4,983,973	--	\$782,830	\$4,696,980	--	\$5,479,810
#7	\$4,957,343	--	\$389,707	\$4,676,484	\$389,707	\$5,455,898
Under Proposed Amendment <sup>(2)</sup> (estimates)						
#8	\$3,352,596	--	\$291,649	\$3,499,791	\$291,649	\$4,083,090
#9	\$4,032,415	--	\$350,788	\$4,209,458	\$350,788	\$4,911,034
#10	\$2,476,498	--	\$210,688	\$2,528,259	\$210,688	\$2,949,636
#11	\$476,240	--	--	\$497,149	\$82,858	\$580,007
#12	\$40,000	--	--	\$2,585,228	\$430,871	\$3,016,100
#13	\$474,847	--	--	\$2,585,228	\$430,871	\$3,016,100
Subtotal (estimates)	\$21,709,307	\$1,444,954	\$2,169,444	\$26,141,265	\$2,187,434	\$30,498,142
(estimates)	<b>\$37,000,000</b>	<b>\$1,444,954</b>	<b>\$4,652,102</b>	<b>\$39,592,259</b>	<b>\$2,187,434</b>	<b>\$47,876,748</b>

<sup>(1)</sup> Draw downs subject to rates under current Agreement, i.e. 100% of the 7-Year Treasury. As of week end March 27, effective rate is 2.30%. For the purpose of budgeting lease payments, a 25 basis point cushion was added resulting in an effective rate of 2.55%

<sup>(2)</sup> Draw downs subject to increased rate based off the LIBOR swap Index using the avg of the 3 and 4-year swap rates plus spread of 3.20%. As of week end March 27, effective rate 5.17%. For the purpose of budgeting lease payments, a 25 basis point cushion was added resulting in an effective rate of 5.42%. Annual Lease Payments for FY 2011-2016 total \$4.77 million

#### PREVIOUS COUNCIL and/or COMMITTEE ACTION:

The current Agreement with IBM Credit LLC was authorized by the City Council on May 21, 2007 under Ordinance O-19618. The amount financed was for the OneSD Project in an amount not to exceed \$29.5 million.

#### COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

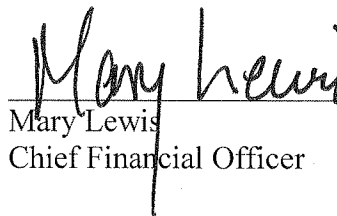
n/a

#### KEY STAKEHOLDERS AND PROJECTED IMPACTS:

n/a



Lakshmi Kommi  
Debt Management Director



Mary Lewis  
Chief Financial Officer