



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: December 8, 2010 REPORT NO: 10-157
ATTENTION: Council President and City Council
SUBJECT: City Fleet Needs - Master Lease Agreement to Fund Vehicles and Equipment
REFERENCE:

REQUESTED ACTION(S):

Approve the Ordinance to authorize the form of and execution of the Master Lease Agreement with Chase Equipment Finance, Inc. ("Chase") in an amount not to exceed \$9.6 million to fund the City's Fiscal Year 2011 General Fund fleet needs and in an amount not to exceed \$12.6 million to fund Fiscal Year 2012 General Fund fleet and equipment needs.

STAFF RECOMMENDATION:

Approve the requested action.

SUMMARY:

I. Background

The City utilizes lease purchase financing option to address funding needs of eligible essential equipment and fleet services. Lease-purchase funding is an economic short term financing option and is a good alternative to cash funding alleviating budgetary and fiscal constraints by coordinating fixed lease payments over the financing term with the City owning the vehicles by the end of the repayment term. The funding mechanism 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. The security for this financing agreement is a pledge to annually appropriate funds to make timely lease payments.

Using this lease-purchase funding mechanism, the City has previously funded refuse containers and refuse packers for the implementation of the Automated Refuse Collection Program, service maintenance vehicles in addition to safety services such as fire protection and police vehicles.

More recently, the City has lease-purchased six helicopters - two units for the Fire Department and four units for the Police Department. As of November 30, 2010, the equipment and projects funded include motive equipment, fire apparatus, helicopters, and public safety communications equipment. The outstanding combined principal and interest total approximately \$87.4 million. See Attachment 1 for the detail and the description of existing lease-purchases.

The proposed Master Lease Agreement with Chase will establish a line of credit to fund the City's Fiscal Year 2011 and 2012 General Fund fleet replacement needs.

II. Vehicles and Equipment to be Financed

The City's fleet is essential to conduct services and provide a benefit to the public. A wide variety of fleet services are provided to the communities and residents. Examples include police, fire, graffiti control, library, traffic signal maintenance, street light maintenance, roadway asphaltting, storm drain maintenance, street sweeping, refuse/recycling collection, building maintenance, and park maintenance. An annual assessment of the City's fleet is conducted to identify the vehicles that need to be replaced. Vehicles are replaced by an assessment of mileage, technological needs and life cycle. The current City's fleet (General Fund and non-General Fund) includes approximately 4,045 motive equipment.

The assessment for Fiscal Year 2011 reflects that a total of 511 Citywide vehicles are scheduled to be replaced with new motive equipment, 35% or approximately 186 vehicles of which are programmed to be lease purchased, totaling a not to exceed amount of \$9.6 million. All the 186 vehicles to be lease purchased are for General Fund departments. Within the \$9.6 million, it is expected that contract approval for approximately \$1.4 million to purchase bucket lift trucks for Streets Division will be presented to the City Council in January 2011.

The Fiscal Year 2012 schedule reflects that a total of 341 Citywide vehicles are to be replaced with new motive equipment, 72% or 245 of which are programmed to being lease purchased. The list of replacement vehicles includes public safety and non-public safety vehicles. All the 245 vehicles identified to be lease purchased are for General Fund departments. Additionally, the procurement of a new standard Global Positioning System (GPS) for all City vehicles is being planned. Currently, several City departments use different GPSs in their vehicles. A single standard GPS for all City vehicles would make managing the vehicle fleet more efficient, as well as adding features that are not available on the current GPSs being used. The new GPS will consist of vehicle equipment on all 3,600 in the City, the web based software, and the wireless carrier services. Procurement is expected in Fiscal Year 2012 with an anticipated cost of \$1.3 million. The final award of the contract is expected to be brought to the City Council in the first calendar quarter of 2011.

See Attachment 2 for a complete list of vehicles and equipment to be lease-purchased in Fiscal Year 2011 and 2012 under the proposed Master Lease Agreement.

III. Master Lease Agreement

A Request for Proposals ("RFP") was issued through the City's Purchasing & Contracting

Department on September 16, 2010, to solicit proposals to fund lease-purchases of essential equipment. The RFP was sent to 51 financial firms, including several local firms and firms specializing in lease finance. Three (3) proposals were received and upon review by the evaluation committee and the financial advisor, Chase Equipment Finance, Inc. was identified as most suited to provide lease purchase services. Chase offered the most competitive funding rate and accepted all the terms and conditions under the Master Lease Agreement with the City.

The proposed Master Lease Agreement (“Agreement”) between the City (Lessee) and Chase (Lessor) will be a two year agreement, with an amount not to exceed \$9.6 million to meet Fiscal Year 2011 fleet replacement needs and \$12.6 million to meet Fiscal Year 2012 fleet replacement needs and the funding of the GPS equipment.

After the ordinance comes into effect and the Agreement is executed, vehicle orders will be placed with the vendors. Expected delivery dates of the vehicles range between 90 and 360 days upon placing the orders. On receipt, inspection, and acceptance of the vehicles by the Equipment Division staff, necessary funds will be drawn from the pre established line of credit. The funding draws typically occur in batches as the vehicles and equipment are received. The Lessor makes direct payments to vendors and corresponding amortization schedules will be established with the City to make semi-annual payments to the Lessor on a fixed rate basis over the lease term. At the end of the term, the vehicles will be owned by the City.

Key Terms of the Agreement

- Acquisition Amount & Period:
 - o Fiscal Year 2011 Needs - Commencing on the date of execution of the Agreement and ending 12 months from date of execution or the date on which \$9.6 million of Equipment has been financed under the Agreement.
 - o Fiscal Year 2012 Needs - Commences on July 1, 2011 and ends June 30, 2012, in an amount not to exceed \$12.6 million.
- Lease Term: Vehicles and equipment can be funded under a 5-year or 7-year lease term
- Interest Rate: Fixed basis. Established at the time the equipment is funded based on the lease term and locked for the term of the lease, provided no equipment will be funded if the interest rate exceeds 6% (Article 2.1 of the Master Lease Agreement).

5 Year Lease Term	7 Year Lease Term
$(64.03\% * 3\text{-year LIBOR Index}) + 1.47\%^1$	$(64.03\% * 4\text{-year LIBOR Index}) + 1.53\%^2$

1. The spread is 1.55% if the draw from the line of credit is less than \$250,000
 2. The spread is 1.61% if the draw from the line of credit is less than \$250,000

- Abatement Lease: The Agreement is subject to abatement, meaning that the City is not legally required to make lease payments unless it has active use of the equipment financed. In the event the vehicle is in repair or totaled from an accident, the City cannot make the lease payments. Lessor will receive insurance proceeds substantially equal to the lease payments until such time the City has regained or replaced the use of the

vehicle. The City is required to budget and make lease payments from any general funds legally available to it, but the requirement to make lease payments is not one for which the City is obligated to levy or pledge any form of taxation.

- Insurance: For the lease term, City covenants to procure necessary property, liability, and 12 month rental interruption insurance with Lessor named as additional insured and loss payee.
- Pre-payment: The City has the ability to pre-pay the lease at no penalty following the initial 24 months of the lease term.

FISCAL CONSIDERATIONS:

Subsequent to the authorization of the proposed Master Lease Agreement, orders will be placed for the 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. Sales tax and outfitted costs are cash funded by Fleet Services Division and not included in the financed amount. Funds to replace motive equipment are generated by annual charges (assignment fees) made by the benefitting departments to the Fleet Services Division department for each item of motive equipment. The annual lease payments are made from funds generated from the aforementioned annual charges accrued in the Fleet Services Replacement Fund. Lease payments for GPS equipment will be made from the Fleet Operating Fund. All Lease payments will be included in the FY 2012 Proposed Budget and subsequent budgets with the City Council approval to be obtained through the annual budget process.

Based on current rates as of December 3, 2010, the effective interest rate would be 2.45%¹ on a 7-year term². Assuming a single draw the estimated lease payments are as follows:

1. Fiscal Year 2011 General Fund vehicle replacement needs (\$9.6 million): Annual lease payments of \$1.5 million FY 2012-2018. Total Principal and Interest for 7 year term \$10.5 million.
2. Fiscal Year 2012 General Fund vehicle replacement needs (\$11.3 million): Semi-annual lease payment of \$882,500 in FY 2012, annual lease payments of \$1.77 million FY 2013-2018, and a semi-annual payment of \$882,500 in FY 2019. Total Principal and Interest for 7 year term \$12.4 million.
3. Fiscal Year 2012 GPS equipment (\$1.3 million): Semi-annual lease payment of \$101,525 in FY 2012, annual lease payments of \$203,050 FY 2013-2018, and a semi-annual lease payment of \$101,525 in FY 2019. Total Principal and Interest for 7 year term \$1.4 million.

The final fiscal impact will depend on the actual amounts drawn and the timing of the draws.
The City is under no obligation to draw down the full amount established under the line of credit.

¹ Effective interest rate = (64.03% * 4-year LIBOR Index) + 1.53% = (64.03% * 1.44%) + 1.53% = 2.45%.

² Estimated fiscal impact will be updated to reflect current rates at the City Council meeting.

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 still have that flexibility.

PREVIOUS COUNCIL MEETING and/or COMMITTEE ACTION:

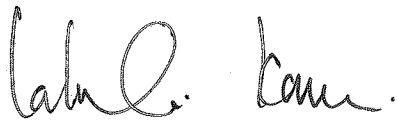
This item was presented to the Budget and Finance Committee (the “Committee”) on December 1, 2010. The Committee unanimously voted to forward the item for City Council consideration.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

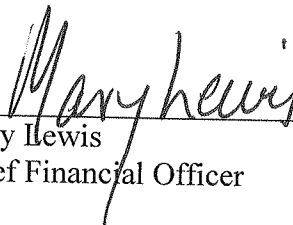
A Request for Proposals (“RFP”) was issued to approximately 51 financial firms, including several local firms, through the City’s Purchasing & Contracting Department on September 16, 2010 and was noticed on the City’s public website.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

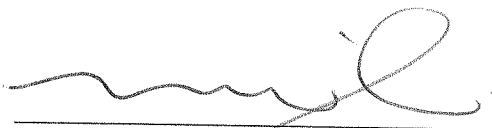
Chase Equipment Finance, Inc. is the lease provider.



Lakshmi Kommi
Debt Management Director



Mary Lewis
Chief Financial Officer



Mario Sierra
General Services Director

Attachments:

1. Schedule of Outstanding Lease Purchases as of November 30, 2010
2. List of Vehicles and Equipment to be Lease Purchased – Fiscal Years 2011 and 2012

**Schedule of Outstanding Lease Purchases
As of November 30, 2010**

DEPARTMENT AND ACQUISITION	Outstanding Principal	Outstanding Interest	Total Outstanding Principal and Interest
General Services - Fleet			
Safety Fleet- Fire Vehicles	\$ 2,786,266	\$ 211,003	\$ 2,997,269
Safety Fleet- Police Vehicles	1,122,909	71,513	1,194,422
Refuse Packers	5,725,373	348,909	6,074,282
Non-Safety Vehicles	9,473,102	738,938	10,212,039
Fire-Rescue			
2 Fire Helicopters	\$ 11,905,729	\$ 3,742,465	\$ 15,648,194
Police			
4 Police Helicopters and related outfitting	\$ 5,318,609	\$ 410,444	\$ 5,729,053
Information Technology			
Public Safety Communications Project- Phase 1	\$ 7,318,809	\$ 686,761	\$ 8,005,570
Public Safety Communications Project- Phase 2	2,083,914	209,035	2,292,949
SAP Support			
OneSD System	\$ 31,333,980	\$ 3,933,461	\$ 35,267,441
TOTAL	\$ 77,068,691	\$ 10,352,528	\$ 87,421,219

**List of Vehicles and Equipment to be Lease Purchased
Fiscal Years 2011 and 2012
(Estimates)**

	Fiscal Year 2011		Fiscal Year 2012	
	Number of Vehicles	Estimated Price	Number of Vehicles	Estimated Price
Light Duty Vehicles Sedans, cargo vans, pickup trucks w/one ton capacity of less, and safety command vehicles	76	\$1,914,338	178	\$4,193,403
Medium Duty Vehicles Trucks with 14,000 lbs to 26,000 lbs gross vehicle weight capacity including maintenance trucks, 1.5 cy dump trucks, aerial	46	\$3,634,600	17	\$843,688
Heavy Duty Vehicles Refuse packers, heavy duty 3 axle trucks, tractors, heated patch trucks and heavy aerial lifts	16	\$1,957,000	17	\$4,906,114
Law Enforcement Motorcycles & Scooters 11 scooters used by parking enforcement and 9 police motorcycles	20	\$599,000	0	\$0
Construction/Off Road Vehicles Tractors, beach screens, wood chippers, backhoes, electric carts and various trailers	28	\$1,474,810	33	\$1,346,951
Subtotal Fleet	186	\$9,579,748	245	\$11,290,156
Global Positioning System (GPS)				\$1,300,000
TOTAL (Vehicles and Equipment)		\$9,579,748		\$12,590,156