



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: October 21, 2013 REPORT NO: 13-086
ATTENTION: Budget and Finance Committee Members
SUBJECT: Annual Master Lease Agreement to Fund Vehicles and Equipment

REQUESTED ACTION(S):

Approve the form of and execution of the Master Lease Agreement with Banc of America Public Capital Corp ("BAPCC") to fund the City's Fiscal current fleet and equipment needs and refinancing of eligible existing leases.

STAFF RECOMMENDATION:

Approve the request action.

SUMMARY:

I. Background

Annually, the City utilizes a lease purchase short-term financing option to address funding of eligible essential equipment and fleet needs. The funding 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 lending agreement is a pledge to annually appropriate funds to make timely lease payments.

Using this funding mechanism, the City has previously funded its annual fleet replacement including vehicles for safety services such as fire engines and police vehicles, and motive equipment for service maintenance (non-safety). In addition to annual fleet replacement, other vehicles and projects funded include refuse containers, refuse packers for the implementation of the Automated Refuse Collection Program, helicopters for the Fire and Police Departments, public safety communications equipment, and the City Enterprise Resource Planning system. Under various Master Lease Agreements established between 2003 and 2012, as of September 30, 2013, the City has 98 outstanding funding leases with approximately \$63 million in outstanding principal.

In June 2012, the City Council authorized a Master Lease Agreement in an amount not to exceed \$26.3 million to finance various equipment needs including fleet replacement, Advanced Metering Infrastructure System, Rescue vessels for the Fire Department, Global Positioning

System Equipment and Balboa Park Trams. This Master Lease Agreement will expire on June 30, 2014. As of October 2013, \$13.7 million has been funded under this agreement, and an additional \$10.8 million is expected to be utilized by June 2014.

The proposed master lease agreement in Fiscal Year 2014 will allow the City to continue funding its annual needs as described below.

II. Proposed Master Lease Agreement

A. Current New Money Funding Needs (\$19.5 million):

1. Fiscal Year 2014 annual Fleet replacement vehicles up to \$14.5 million - Public Works – Fleet Services Division

Fleet Services has identified the citywide General Fund fleet replacement needs for Fiscal Year 2014 totaling approximately \$14.5 million. The assessment by Fleet Services identifies approximately 228 vehicles for replacement. All the replacement vehicles, totaling a not-to-exceed amount of \$14.5 million, are programmed to be lease purchased. The replacement list includes the replacement of approximately 121 police vehicles (including patrol cars, motor cycles, and other support vehicles), 8 fire engines, 10 fire support vehicles, and approximately 89 other non-safety maintenance vehicles. Estimated useful life of the vehicles ranges from seven to twenty (7-20) years. The City may lease purchase the equipment using either the 5-year or 7-year lease term depending on the vehicles estimated useful life.

2. Multi-Purpose Rescue Vessel up to \$1.0 million – Fire-Rescue Department

This vessel was expected to be lease purchased under the current Master Lease Agreement. However, there has been a delay in the selection of the vendor. It is currently expected that a new request for proposals will be issued and the vendor will be selected by December 2013 with the vessel to be ordered under the proposed Master Lease Agreement. The estimated useful life of the vessel is 25 years with an estimated cost of \$1.0 million. The Fireboat represents a sophisticated rescue vessel operated by lifeguards. In addition to providing fire suppression, these vessels support search and rescue operations, and law enforcement detail. The City anticipates funding the Fireboat on a 7-year lease term.

3. Public Safety and Communications Project up to \$4.0 million – Information Technology Department

The Public Safety Communications System Project is in the process of updating and enhancing existing radio communications equipment and services for the City's Police and Fire Rescue departments. This project, called Project 25 (P25), will include the procurement, installation, implementation of digital microwave radio terminals, radio base stations, routing equipment, as well as ancillary equipment and structures. As previously reported to the Public Safety and Neighborhood services Committee on October 9, 2013, the total project cost is estimated at \$20 million. To date, \$12 million has been constructed using grant funding awarded to the City. Of

the \$8 million remaining, \$4 million will be lease purchased with this Master Lease Agreement, and the remaining \$4 million is expected to be funded by grants.

The \$4 million identified to be funded through the proposed Master Lease Agreement is expected to fund the procurement and installation of microwave radio terminals and routers and switches over a twenty-four (24) month period. The useful life of this equipment is estimated to be five to seven (5 to 7) years for routing equipment and seven to ten (7 to 10) years for microwave radio terminals. The City anticipates funding this project on a 5-year lease term.

B. Refinancing of Existing Leases up to \$25.7 million

As of September 30, 2013, out of the ninety-eight (98) leases outstanding, forty-six (46) are eligible to be refunded. The total outstanding principal on the refundable leases is approximately \$25.7 million, with the remaining lease payments spanning Fiscal Years 2014 - 2023. Leases to be refinanced include the following: Fleet, the ERP System, the PSCP, and the Fire Helicopter. By refinancing these leases, there will be an economic savings to each of the respective Departments by having lower lease payments in future fiscal years due to lower annual interest costs.

C. Selection on Lender – Request for Proposals

A Request for Proposals (“RFP”) was issued through the City’s Purchasing & Contracting Department on August 8, 2013, to solicit proposals for a Master Lease Agreement (the “Agreement”) to fund the vehicle and equipment needs and refinancing as identified above. Notification of the RFP was sent to approximately 350 contacts through DemandStar, including forty-seven (47) local firms specializing in lease finance. Furthermore, twenty-eight (28) mailed notices were sent to local firms who did not have an email available for DemandStar notification. Seventeen (17) copies of the RFP were downloaded and the City received four (4) proposals, three (3) of which were determined to be responsive. The City is recommending the award of the contract to BAPCC. BAPCC offered the most competitive funding rate overall and came to agreement with the City on all key terms and conditions.

D. Master Lease Agreement

Subsequent to the City Budget & Finance Committee approval, the form of and execution of the Agreement with BAPCC will be brought forward for City Council approval in November 2013 (See Attachment 1 – Form of the Master Lease Agreement). The Agreement requires City Council approval via ordinance; subsequent to Council approval and the following 30-day referendum period, the Agreement would be executed and the line of credit would be available as of January 2014. The ordinance authorizes the Mayor or his designees to enter into the Agreement with such additions and changes therein as the Mayor, in consultation with the City Attorney, shall approve as being in the best interest of the City.

Upon execution of the Agreement, Departments will be able to place orders for their respective vehicles/equipment. On receipt, inspection, and acceptance by the respective departments, necessary funds will be drawn from the 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 and/or equipment are owned by the City.

Key terms under the lease purchase agreement between the City (Lessee) and BAPCC (Lessor) include:

- Acquisition Amount:
 Current New Money Funding Needs: Not-to-exceed \$19.5 million
 Refinancing Needs: Not-to-exceed \$25.7 million
- Acquisition Period: Up to 24 months
- Lease Term: Vehicles and equipment can be funded under a 5-year or 7-year lease term. Refinancing leases are funded at a term equal or lesser to their original maturity.
- Interest Rate: Fixed rate 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%.

Lease Category	Lease Term	Estimated Equipment Lease Rate (As of 10/11/13)¹
Current New Money Financing Needs	5	1.1928%
	7	1.5628%
Refinancing Leases	2	0.7629%
	3	0.8564%
	4	0.9464%
	10	1.9429%

¹Based on an index formula as defined in the Master Lease Agreement Section 1.16

- The City is required to budget and make lease payments from legally available funds. The requirement to make lease payments is not one for which the City is obligated to levy or pledge any form of taxation.
- The City has the ability to pre-pay on both new equipment leases and refinancing at no penalty following the initial 24 months of the lease term.

FISCAL CONSIDERATIONS:

The semi-annual lease payments for fleet vehicles will be made from the annual charges accrued in the Fleet Services Replacement Fund. Semi-annual lease payments for the Fire Vessels and Public Safety Communications Project will be made from the respective departments' operating budgets. Semi-annual lease payments for the refinancing leases will continue to be made from

their originally identified funding source. Any savings in lease payments from existing leases will be realized within their respective funds.

Future lease payments will be included in future budgets and City Council approval will be obtained through the annual budget process. *The actual fiscal impact will depend on the actual amounts and timing of the draws, interest rates, and the final repayment schedules.*

The City would be under no obligation to draw down the full amount established under the line of credit. There is no commitment fee for establishing and maintaining the funding amount through the term of the Agreement. If alternate sources of funding are identified, or cash purchases (“pay go”) are an option, the City will still have that flexibility.

Below is a summary of projected lease payments on the new money funding needs and refinancing needs based on current interest rates. Sales tax will be cash funded from the respective department at the time of acceptance.

New Money Financing Needs

1. IT & C PCSP P-25 Project, \$4 million (5-year term):

Based on interest rates as of October 11, 2013, the effective interest rate would be 1.19% on a 5-year term. Assuming periodic draws of \$500,000 occurring every two months from April 2014 through November 2015, the estimated lease payments are as follows:

Fiscal Year	2015	2016	2017-2019	2020	2021	Total
Estimated Lease Payments	\$260,000	\$672,000	\$827,000	\$569,000	\$155,000	\$4,137,000

2. FY 2014 Fleet Replacement, \$14.5 million (7-year term):

Based on interest rates as of October 11, 2013, the effective interest rate would be 1.56% on a 7-year term. Assuming a single draw, the estimated lease payments are as follows:

Fiscal Year	2015	2016-2021	2022	Total
Estimated Lease Payments	\$1,100,000	\$2,200,000	\$1,100,000	\$15,400,000

3. Fire Rescue Vessel Fleet Replacement, \$1 million (7-year term):

Based on interest rates as of October 11, 2013, the effective interest rate would be 1.56% on a 7-year term. Assuming a single draw, the estimated lease payments are as follows:

Fiscal Year	2015	2016-2021	2022	Total
Estimated Lease Payments	\$76,000	\$152,000	\$76,000	\$1,064,000

Refinancing Leases:

This Master Lease Agreement includes the economic refinancing of an estimated forty-six (46) existing leases with a total outstanding principal of \$25.7 million and interest rates ranging from 1.89% to 4.88%. Based on current rates, the refinancing lease rates are estimated to range from 0.75% to 1.94% depending on maturity. This will result in a savings of approximately \$2.3 million over the next 10 years (Fiscal Years 2015 - 2024). Annual lease payments for the refinancing leases will continue to be made from the respective departments' operating budgets.

Fiscal Year	2015	2016	2017	2018-2023	2024	Total
Existing Lease Payments	\$8,908,000	\$6,309,000	\$2,957,000	\$1,075,000	\$537,000	\$25,161,000
Estimated Refinanced Lease Payments	\$8,183,000	\$6,028,000	\$2,821,000	\$979,000	\$0	\$22,906,000
Savings	\$725,000	\$281,000	\$136,000	\$95,000	\$537,000	\$2,255,000

PREVIOUS COUNCIL MEETING and/or COMMITTEE ACTION:

This is an annual item; the Fiscal Year 2013 Master Lease Agreement was approved by the City Council on May 22, 2012.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

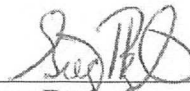
The RFP was issued to approximately 378 firms, including advertisement on DEMANDSTAR for local firms and firms specializing in lease finance. Additionally, local outreach for the RFP was made via email from DEMANDSTAR and US mail to each local bank and credit union within the City of San Diego. Furthermore, advertisements in local community papers included the Daily Transcript, as well as the following minority publications: "Voice & Viewpoint", "La Prensa", and the "Asian Journal". Lastly, a pre-proposal conference was held to provide any clarifications if necessary for qualified firms to attend. There was no attendance by any firm.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Banc of America Public Capital Corp



Lakshmi Kommi
Debt Management Director



Greg Bych
Interim Chief Financial Officer

Attachment: Form of the Master Lease Agreement