



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: April 3, 2015

REPORT NO: 15-041

ATTENTION: Honorable Council President Lightner and Members of the City Council

SUBJECT: Master Lease Agreement to Fund Projects and Equipment

REQUESTED ACTION(S):

1. Approve the form of and execution of the Master Lease Agreement, in an amount not to exceed \$14.1 million, with Banc of America Public Capital Corp (“BAPCC”) to finance various essential projects and equipment needs.
2. Declare the City’s intent to use funds made available from the lease-purchase agreement with BAPCC to reimburse itself for eligible project and equipment expenditures advanced by the City.

STAFF RECOMMENDATION:

Approve the requested actions.

SUMMARY:

I. Background

The City utilizes the lease purchase short-term financing option to fund as needed 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, a firefighting rescue vessel, public safety communications system, and the City Enterprise Resource Planning system.

As of February 2015, the City had approximately 83 outstanding capital leases, totaling approximately \$54.6 million in outstanding principal.

II. Proposed Master Lease Agreement

A. Funding Needs in an amount up to \$14.1 million:

The proposed Master Lease Agreement in an amount not to exceed \$14.1 million will allow the City to lease purchase needs the described below.

1. Compressed Natural Gas (“CNG”) Refueling Station up to \$900,000 – Environmental Services Department (General Fund)

The City is transitioning its refuse and recycling collection fleet from low sulfur diesel to compressed natural gas. In order to facilitate this, the process to install a Compressed Natural Gas Fueling Station at the City of San Diego’s Environmental Services Operation Station has commenced. The total project cost is estimated at \$3 million. Of this, approximately \$1.2 million has been appropriated for this project from the Recycling Fund (Non-General Fund). The remaining \$1.8 million, the General Fund portion, is expected to be appropriated over Fiscal Years 2016 – 2018.

This project is expected to be executed in phases. Phase I will provide fueling capacity of up to 50 CNG vehicles and infrastructure to accommodate future phases for up to 90 additional fueling ports. The expected life of the equipment is anticipated to be in excess of 20 years and will be financed on a 10-year term.

The proposed Master Lease Agreement will utilize an amount up to \$900,000 in Fiscal Year 2016 (July 2015 – June 2016) to finance and reimburse the General Fund for its portion of necessary equipment associated with Phase 1 of this project (natural gas compressors, driers and other appurtenant equipment and infrastructure).

2. Mission Bay Barge (“Barge”) up to \$750,000 – Parks and Recreation Department (General Fund)

The City’s Lifeguards and Parks and Recreation Department currently operate a Vulcan II Barge, which is to be replaced as it is nearing its end-of-life. The new Barge will be a powered vessel approximately 40 feet in length and 16 feet in width, and is estimated to cost \$750,000. Its primary purpose is conducting weekly inspections by the Lifeguards of the Mission Bay navigational, directional, and regulatory buoys. Other duties include annual mooring inspections, Mission Bay Park equipment replacement, maintenance and repairs. The expected useful life of the barge is 20-25 years, and will be financed on a 7-year term.

3. Computer Aided Dispatch System (“CAD System”) up to \$6,000,000 – Police Department (General Fund)

The Police Department’s current Computer Aided Dispatch System, which supports the City’s 911 emergency call services and is used to dispatch and monitor the status of police resources in the field, has reached its end-of-life. The City has begun replacing this system; approximately \$3.4 million in cash contribution is expected to be utilized. The proposed Master Lease Agreement is expected to provide funding in an amount up to \$6.0 million to fund various functionalities of the CAD system in fiscal years 2016 and 2017.

The overall expected life of the system is anticipated to be 10-15 years, with computer and networking equipment life cycles to be five (5) years. The project will be financed on a 7-year term.

4. Project Tracking System (“PTS”) up to \$6,440,000 – Development Services Department (Non-General Fund)

The Development Services Department is replacing its in-house developed computer system, with a new Project Tracking System software provided by Accela. The new system will track and manage all events, entities, and commitments for the City’s land development process and code enforcement, and provide additional functionality and integration with the City’s SAP Enterprise Resources Program, GIS system, web resources and other systems. The expected useful life of the system is 10 years. The total project costs are estimated at approximately \$9.44 million, of which \$3 million will be cash funded and the remaining \$6.44 million will be financed. The project will be financed on a 5-year term.

B. Selection of Lender

In September 2014, Debt Management established a Pool of Qualified Lessors through a Request for Statement of Qualifications and established a pool of Lessors. There are currently three (3) Lessors in the Pool, and new Lessors can also participate in Pool over the next four (4) years.

A Request for Lease Purchase Financing Services was provided to all the Lessors in the current pool to finance the equipment and project needs described above. Responses were received from all three firms, and staff is recommending the award of the contract to Banc of America Public Capital Corp (“BAPCC”). BAPCC offered the most competitive financing rates overall and accepted all key terms and conditions within the City’s Master Lease Agreement.

C. Master Lease Agreement with BAPCC (the “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. The line of credit is expected to be available as of July 2015. The ordinance authorizes the

Chief Operating Officer or the Chief Financial Officer to enter into the Agreement with such additions and changes therein, in consultation with the City Attorney, shall approve as being in the best interest of the City. See Attachment – Form of the Master Lease Agreement.

Upon execution of the Agreement, departments will be able to place orders for their respective projects/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 projects and equipment are received. The Lessor could make direct payments to vendors or in the event the City fronts the costs, the Lessor could reimburse the City. 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 projects 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: Not-to-exceed \$14.1 million
- Lease Term: Projects and equipment will be funded under a 5, 7, and 10-year lease terms.
- 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%.
- Acquisition Period: Up to 24 months
 - o The estimated lease rates are expected to be approximately 0.13% higher for acquisitions funded after the first 12-month period

Lease Term	Est. Lease Rate July 2015 – June 2016 *	Est. Lease Rate July 2016 – June 2017 *
5	1.41%	1.55%
7	1.69%	1.82%
10	1.96%	2.10%

*Based 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 at no penalty following the initial 24 months of the lease term.

FISCAL CONSIDERATIONS:

The semi-annual lease payments for the CNG Refueling Station, Barge, CAD system, and PTS will be made from the respective departments' operating budgets.

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, fixed interest rate based on the index level at the time of funding of vendor payment, 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 for the identified funding needs based on current interest rates. Sales tax will be cash funded from the respective department at the time of acceptance.

1. CNG Refueling Station \$900,000 (10-year term General Fund):

Based on interest rates as of February 23, 2015, the effective interest rate is estimated to be 1.96% on a 10-year term. The estimated lease payments are as follows:

<u>Fiscal Year</u>	<u>2017-2026</u>	<u>Total</u>
Estimated Lease Payments	\$100,000	\$1,000,000

2. Barge \$750,000 (7-year term General Fund):

Based on interest rates as of February 23, 2015, the effective interest rate is estimated to be 1.69% on a 7-year term. The estimated lease payments are as follows:

<u>Fiscal Year</u>	<u>2017-2023</u>	<u>Total</u>
Estimated Lease Payments	\$114,000	\$800,000

3. CAD System \$6.0 million (7-year term General Fund):

Based on interest rates as of February 23, 2015, the effective interest rate is estimated to be 1.71% (blended rate over 2 years) on a 7-year term. The estimated lease payments are as follows:

<u>Fiscal Year</u>	<u>2016</u>	<u>2017</u>	<u>2018-2022</u>	<u>2023</u>	<u>2024</u>	<u>Total</u>
Estimated Lease Payments	372,600	829,200	913,300	540,700	84,000	\$6,393,000

4. PTS \$6.44 million (5-year term Non-General Fund):

Based on interest rates as of February 23, 2015, the effective interest rate is estimated to be 1.41% on a 5-year term. The estimated lease payments are as follows:

Fiscal Year	2016	2017-2020	2021	Total
Estimated Lease Payments	\$670,000	\$1,340,000	\$670,000	\$6,700,000

Reimbursement Resolution

Due to the logistics, timing of product delivery and nature of the projects and equipment listed above, the City may make vendor payments for some of the components expected to be financed. If City advances these payments, the City is still permitted to get reimbursed from the proceeds through the Master Lease Agreement. In order to do that, the City must adopt a reimbursement resolution in accordance with section 1.150-2 of Treasury Regulations (“Regulations”). By adopting a reimbursement resolution the City will satisfy the Official Intent Requirement under the Regulations and be able to reimburse project and equipment related expenses using funds available from the lease-purchase agreement with BAPCC. Adoption of the reimbursement resolution will not obligate the City to expend any funds; it merely enables the City to get reimbursed for all qualified project and equipment related expenses that the City fronted in implementing the projects and equipment listed above.

PREVIOUS COUNCIL MEETING and/or COMMITTEE ACTION:

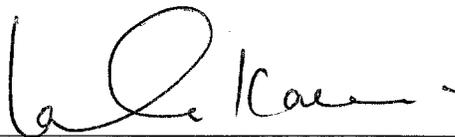
Budget and Government Efficiency Committee authorization to occur prior to City Council.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

N/A

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Banc of America Public Capital Corp (BAPCC)



Lakshmi Kommi
Debt Management Director



Mary Lewis
Chief Financial Officer

Attachment: Form of the Master Lease Agreement