



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: June 8, 2016 REPORT NO: 16-062

ATTENTION: Council President and City Council

SUBJECT: Master Lease Agreement to Finance IAM System Implementation

REFERENCE: Infrastructure Committee Item #3, dated March 16, 2016, and City Council Item 100, dated April 5, 2016, titled Awarding Agreement with Deloitte for Systems Integrator (SI) Consulting Services for the (Infrastructure Asset Management) I AM San Diego Project

REQUESTED ACTIONS:

1. Authorize the Mayor and Chief Financial Officer to finance eligible General Fund portions of the I AM San Diego Project expenditures utilizing the City's Equipment and Vehicle Financing Program
2. Approve the form of and execution of the Master Lease Agreement, in an amount not-to-exceed \$10 million, with Banc of America Public Capital Corp ("BAPCC") to finance the implementation of an Infrastructure Asset Management System.
3. Declare the City's intent to use funds made available from the lease-purchase agreement with BAPCC to reimburse itself for eligible Project expenses advanced by the City.

STAFF RECOMMENDATION:

Approve the requested actions.

ITEM BACKGROUND:

The City has identified the I AM San Diego Project ("Project") to replace existing disparate and legacy maintenance management systems within the Departments of Information Technology (IT), Public Works, Transportation & Storm Water (TSW) and Public Utilities (Water and Wastewater). The Project will develop and implement an integrated end-to-end asset management software solution that will provide City staff with state-of-the-art technology to support their work and help the City address infrastructure needs.

DISCUSSION:

A. IAM Project financing

The total project implementation cost is estimated to be \$54.2 million. An estimated \$15.9 million is General Fund's cost allocation for the overall project. Eligible capital

costs associated with the General Fund (departments of IT, Public Works, and TSW) totaling approximately \$10 million to be programmed in Fiscal Years 2017 and 2018 are proposed to be financed using City's Equipment Vehicle Financing Program. Approximately \$38.3 million of the project cost will be cash funded by Water and Wastewater funds.

B. Master Lease Agreement with BAPCC (the "Agreement")

The proposed Master Lease Agreement with BAPCC will allow the City to finance through lease purchase various capitalizable expenses of the Project attributable the General Fund in Fiscal Years 2017 and 2018. Key terms include:

- Acquisition Amount: Not-to-exceed \$10 million
- Acquisition Period: Up to 24 months – the period during which the City funds the Project and seeks reimbursement from the Lessor for up to \$10 million. Based on current projections the Project implementation is expected to be completed by November-December 2017.
- Lease/Repayment Term: The implementation of the IAM System will be funded on a 7-year term.
- Interest Rate: Fixed rate basis. Established at the time the reimbursement is funded based on the lease term and locked for the term of the lease. Ordinance authorization up to 6%.
 - o Based on interest rates as of June 10, 2016, the estimated lease rates are expected to be approximately 1.49% for a seven (7) year term.
- Security Interest: The Lessor will hold security interest in the Project during the lease term. No other collateral pledge is provided.
- The City is required to budget and appropriate lease payments from legally available funds. The City is not obligated to levy or pledge taxes.

The Agreement requires City Council approval via ordinance. 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, the City will be able to draw down funds from the funding agreement.

C. Selection of Lender

On April 18, 2016, a Request for Lease Purchase Financing Services was provided to all three (3) Lessors within the current EVFP pool. Responses were received from two (2) firms, Banc of America Public Capital Corp ("BAPCC") and IBM Credit, LLC ("IBM"), and staff is recommending the award of the contract to BAPCC based on the most competitive financing rates and willingness to finance the project over a 7 year repayment term.

D. Reimbursement Resolution

Project expenses are expected to occur at the time of acquisition for software and hardware, as milestone payments to various service vendors, and City Project Staff Costs will be incurred on an on-going basis. The City is anticipating financing these payments as reimbursements to the City after the acceptance of milestone payments. 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 staff costs 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 staff costs that the City fronted in implementing the Project.

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):

Goal #1: Provide high quality public service.

Objective #1: Promote a customer-focused culture that prizes accessible, consistent, and predictable delivery of services.

FISCAL CONSIDERATIONS:

Below is a summary of projected lease payments at current interest rates and assuming two funding installments in Fiscal Year 2017, and a final installment in Fiscal Year 2018. Based on interest rates as of June 10, 2016, the effective interest rate is estimated to be 1.49% on a seven (7) year term resulting in the following estimated lease payments:

\$10 million – General Fund (7 year term)

Fiscal Year	2017	2018	2019-2023	2024	2025	Total
Estimated Lease Payments ⁽¹⁾	\$270,000	\$1,026,000	\$1,510,000	\$1,239,000	\$485,000	\$10,570,000

(1) Repayment terms for the three funding installments are FYs 2017- 2024 (with one semi-annual payment in FY 17 and FY 24), FYs 2018 -2024, and FY 2018-2025 (with one semi-annual payment in FY 18 and FY 25), respectively.

The semi-annual lease payments will be made from the General Fund’s operating budget. Estimated lease payments for Fiscal Year 2017 have been included in the Fiscal Year 2017 Budget; 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 project milestone payments to vendors, General Fund share of the expenditures, Lessor funding installment dates, and the interest rates.*

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.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable):

Contract or agreements associated with this action are subject to the City's Equal Employment Outreach Program (San Diego Ordinance No. 18173, Section 22.2701 through 22.2708) and the City's Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

On March 16, 2016, the Infrastructure Committee recommended adoption of the resolution and approval of the agreement with Deloitte for Systems Integrator Consulting Services for the IAM Project.

On April 5, 2016, approval of the agreement with Deloitte for Systems Integrator Consulting Services for the IAM Project was unanimously approved by City Council via R-310321.

COMMUNITY PARTICIPATION AND OUTREACH EFFORTS:

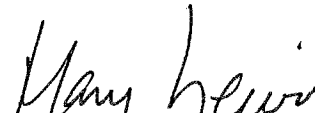
In September 2014, a Request Statement of Qualifications (RFSQ) was issued to over 150 firms, including advertisement on Planet Bids. The City also advertised the RFSQ in local minority publications including the Asian Journal, La Presna, and the San Diego Voice and Viewpoint. Three (3) firms were accepted into the Pool of qualified Lessors and in April 2016, a Request for Lease Purchasing Financing Services (RLPFS) was issued to firms within the Pool.

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