



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: November 16, 2016

REPORT NO: 16-096

ATTENTION: Council President and City Council

SUBJECT: Master Lease Agreement to Finance Vehicles and Equipment

REQUESTED ACTIONS:

1. Approve the form of and execution of the Master Lease Agreement, in an amount not to exceed \$30 million, with Banc of America Public Capital Corp ("BAPCC") to finance various essential vehicle 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 vehicles and equipment expenditures advanced by the City.

STAFF RECOMMENDATION:

Approve the requested actions.

ITEM BACKGROUND:

The City utilizes the Equipment and Vehicle Financing Program (EVFP) as a lease purchase short-term financing option to fund as needed eligible essential equipment and fleet needs. Currently, staff is seeking authorization to finance Fiscal Year 2018 General Fund vehicle and equipment needs using this program.

DISCUSSION:

A. Funding needs in an amount not-to-exceed \$30 million

Working with Financial Management and operating departments, the items that have been identified for EVFP financing include certain General Fund replacement vehicles for the Fleet Operations Department and Self Contained Breathing Apparatus (SCBA) units for the Fire-Rescue Department.

1. FY 2018 Fleet Replacement– Fleet Operations Department

The Fleet Operations Department has identified the citywide General Fund fleet replacement needs that qualify for financing for FY 2018 totaling an estimated \$20.7 million. The replacement list includes Refuse Packers, Street Sweepers, Dump Trucks, Construction Equipment, Crew/Service Vehicles, and Specialty Vehicles. Estimated useful life of the vehicles and equipment range from six to eight (6-8) years. For its FY 2018 Fleet Replacement needs, the City will lease purchase using

either the five (5) or seven (7) year terms depending on the vehicle or equipment's useful life.

2. **Self-Contained Breathing Apparatus (SCBA) Units and Other Related Equipment-- Fire-Rescue Department**

The Fire-Rescue Department has identified the current Fire-Rescue replacement needs estimated at \$8 million. This includes approximately six-hundred (600) SCBA units, eight (8) air filling stations throughout the City, and one (1) light and air apparatus. Based on useful life, the City is planning to lease purchase the equipment on a five (5) year lease term.

While the total cost to finance these vehicles and equipment is currently estimated to be \$28.7 million, actual funding amounts may differ at the time of delivery. The City would be able to utilize any additional capacity to finance other essential vehicles and equipment with the total financed amount capped at \$30 million.

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

The proposed Master Lease Agreement with BAPCC, in an amount not-to-exceed \$30 million, will allow the City to lease purchase the needs described above.

Key terms include:

- Acquisition Amount: Not-to-Exceed \$30 million
- Acquisition Period: Up to twenty-four (24) months from Agreement execution – the period during which the City funds vehicles and equipment and seeks reimbursement from the Lessor for up to \$30 million.
- Lease/Repayment Term: The City has the ability to finance the vehicles and equipment using either a five (5) or seven (7) year repayment 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 is up to 6%.
 - o Based on interest rates of November 3, 2016, the lease rates are expected to be approximately 1.48% for a seven (7) year term. The lease rates are expected to be approximately 1.37% for a five (5) year term.
- Security Interest: The Lessor will hold security interest in the financed vehicles and equipment 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 City has the ability to pre-pay on new leases at no penalty following the initial twelve (12) months of the lease term.

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 October 4, 2016, a Request for Lease Purchase Financing Services was provided to all three (3) Lessors within the current EVFP Pool of Qualified Lessors. Responses were received from two (2) firms, Banc of America Public Capital Corp (“BAPCC”) and JPMorgan Chase Bank, N.A., (“JPMorgan”), and staff is recommending the award of the contract to BAPCC based on the most competitive financing rates and lease terms.

D. Reimbursement Resolution

Payments to vendors for equipment or vehicles are expected to occur at the time of delivery prior to drawing down the Master Lease Agreement. The City then expects to reimburse itself periodically. 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 vehicle and equipment 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 reimburse itself for all qualified vehicle and equipment payments the City fronts while acquiring the assets described herein.

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:

Based on the current list of equipment and vehicles that are expected to be funded, approximately \$23 million will be funded on a 5-year term and the remaining \$7 million will be funded on a 7-year term. Based on interest rates as of November 3, 2016, the effective interest rates are estimated to be 1.37% and 1.48% on a five (5) year term, and seven (7) year term, respectively, resulting in the following estimated lease payments:

\$23 million – (5-year term)

Fiscal Year	2018	2019-2022	2023	Total
Estimated Lease Payments ⁽¹⁾	\$1,529,000	\$4,776,000	\$3,247,000	\$23,880,000

(1) Assumes three (3) funding installments in FY 2018. The repayment terms for the first and second funding installments are FY's 2018 – 2023 (each with one semi-annual payment in FY's 18 and 23). The repayment term for the third installment is FY's 2019-2023.

\$7 million – (7-year term)

Fiscal Year	2018	2019-2024	2025	Total
Estimated Lease Payments ⁽¹⁾	\$249,000	\$1,062,000	\$814,000	\$7,435,000

(1) Assumes two (2) funding installments in FY 2018. Repayment terms for the two funding installments are FYs 2018- 2025 (with one semi-annual payment in FY 18 and FY 25), and FY 2019-2025.

The semi-annual lease payments will be made from the respective department's operating budgets. No fiscal impact is anticipated in Fiscal Year 2017. 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:

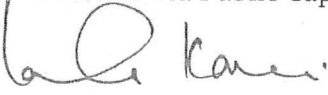
Budget and Government Efficiency Committee authorization to occur prior to City Council approval.

COMMUNITY PARTICIPATION AND OUTREACH EFFORTS:

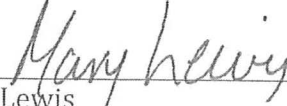
In September 2014, a Request Statement of Qualifications (RFSQ) was issued to over 150 firms, including advertisement on Planet Bids. The City also advertised the RFSQ in local minority publications including the Asian Journal, La Presna, and the San Diego Voice and Viewpoint. Three (3) firms were accepted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