

Agenda Report

TO: CITY COUNCIL **DATE:** March 14, 2005

THROUGH: FINANCE COMMITTEE

FROM: CITY MANAGER

SUBJECT: AUTHORIZATION FOR A RESOLUTION FOR AN EQUIPMENT LEASE FINANCING IN AN AMOUNT NOT TO EXCEED \$6.5 MILLION.

RECOMMENDATION

It is recommended that the City Council adopt a Resolution:

1. Authorizing an equipment lease financing with Community Bank in an amount not to exceed \$6.5 million;
2. Authorizing the execution and delivery of the Equipment Lease Rental Agreement, the Equipment Assignment Agreement and the Deposit Agreement between the City of Pasadena as Lessee and Community Bank as Lessor;
3. Authorizing the City Manager to execute the documents on behalf of the City.

BACKGROUND

Periodically, the City finances capital equipment for various municipal operations within different departments by issuing equipment financings. These financings allow the departments to purchase new or replace old inefficient equipment that are fully depreciated with newer, more efficient ones. The last equipment financing was done in 1999.

Staff conducted a needs assessment from City departments for an equipment lease financing and determined the need for a \$6.5 million for various equipment. At the present time, staff's recommendation is to lock in a financing with Community Bank similar to a line of credit whereby the City can raise the funds at literally no cost for the first 12 months. There will be no commitment, nor any obligation to pay any lease payments from any department at this point. Any equipment purchase will be subject to budgetary appropriation. The lender, Community Bank, has agreed in its commitment letter attached as exhibit A to hold the 3.15% rate until March 31, 2005.

The Financing

Finance Department has secured a lease/purchase equipment financing with Community Bank for an amount not to exceed \$6.5 million. The term of the lease will be six years at a tax exempt fixed rate of 3.15%. The financing will have interest only payments the first 12 months with the balance at the end of the 12 months amortized over the remaining five years of the term. This rate was locked in prior to the Fed increasing the Fed Funds rate at its February 2, 2005 meeting and recent market rate increases. This structure will allow the City to pay down at the end of the 12 months any amount not appropriated by the City Council for fiscal year 2006. Upon the close of this financing, the funds will be disbursed into a deposit account held by the bank. Funds in the deposit account will be invested in accordance with the City Treasurer's directions and pledged as collateral to the lease. Upon purchase of the equipment, funds will be drawn from the escrow account until the entire amount is depleted.

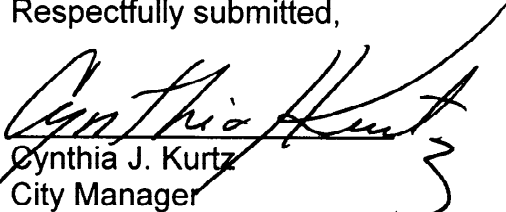
FISCAL IMPACT

The lease/purchase financing is a General Fund credit financing, therefore, the General Fund is the obligor for the lease payments and acting as a conduit on this financing for the Non-General Fund Departments. It is anticipated that the investment earnings on the financing proceeds will be sufficient to pay the interest cost for the first twelve months of the lease term, therefore, there will be no financial impact on the General Fund for the first 12 months, unless funds have been drawn down by the City for a specific purchase. Even then, payments to Community Bank will be interest only. Thereafter, lease payments for all Council approved equipment purchases will be budgeted in the General Fund's budget. All funds participating in this financing will include in their respective operating budgets the lease rental payments to reimburse the General Fund for their pro-rata share of the annual lease payment.

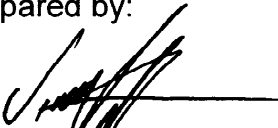
There are no fees, charges or points by the lender on this financing. There is no pre-payment penalty for retiring the debt or any portion thereof early. Any partial prepayment on the lease will automatically trigger an adjustment to the lease rental payment amounts by the proportionate amount of the prepayment.

March 14, 2005

Respectfully submitted,



Cynthia J. Kurtz
City Manager

Prepared by:



Vic Ergarman
City Treasurer

Approved by:



Jay M. Goldstone
Director of Finance

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN EQUIPMENT LEASE AGREEMENT, AN ASSIGNMENT AGREEMENT AND A DEPOSIT AGREEMENT AND OTHER RELATED DOCUMENTS, AND APPROVING OTHER RELATED ACTIONS IN CONNECTION WITH THE FINANCING OF CERTAIN EQUIPMENT

WHEREAS, the City of Pasadena (the "City") desires to acquire certain equipment related to the City's various municipal operations (the "Equipment"); and

WHEREAS, to accomplish such purpose, the City desires to enter into a lease/purchase arrangement with Community Bank (the "Bank");

NOW, THEREFORE, BE IT RESOLVED, ORDERED AND FOUND, by the City Council of the City that:

Section 1. Declaration of Board. The City Council hereby specifically finds and declares that the actions authorized hereby constitute and are with respect to public affairs of the City, and that the statements, findings and determinations of the City set forth in the preambles above and in the documents approved herein are true and correct.

Section 2. Approval of Financing. The equipment lease financing with the Bank is hereby approved.

Section 3. Equipment Lease Agreement. The form of Equipment Lease Agreement, by and between the Bank and the City (the "Equipment Lease Agreement") presented to this meeting and on file with the City Clerk is hereby approved. The City Manager or the Director of Finance is hereby authorized and directed for and on behalf of the City, to execute and deliver said Equipment Lease Agreement in substantially said form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided that the Base Rental to be paid by the City thereunder in any year shall not exceed the sum of \$1,500,000.

Section 4. Equipment Designation. The City Manager or the Director of Finance is hereby authorized and directed for and on behalf of the City, to designate the equipment to be leased under the Equipment Lease Agreement following a determination by the City Council to lease or lease/purchase such equipment or following approval by the City Council of a budget and appropriation covering such equipment.

Section 5. Assignment Agreement. The form of Assignment Agreement, by and between the Bank and the City (the "Assignment Agreement"), presented to this meeting and on file with the City Clerk is hereby approved. The City Manager or the Director of Finance is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver said Assignment Agreement in substantially said form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 6. Deposit Agreement. The form of Deposit Agreement, by and between the Bank and the City (the "Deposit Agreement"), presented to this meeting and on file with the City Clerk is hereby approved. The City Manager or the Director of Finance is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver said Deposit Agreement in substantially said form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 7. Attestations. The City Clerk is hereby authorized and directed to attest the signature of the City Manager, the Director of Finance or such other City officers, as may be required or appropriate in connection with the execution and delivery or acknowledgement of said Equipment Lease Agreement, Assignment Agreement and Deposit Agreement or related documents.

Section 8. Other Actions. The City Manager, the Director of Finance, the City Clerk and the other officers of the City are hereby authorized and directed jointly and severally to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate the transactions contemplated and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution. Such actions heretofore taken by such officers are hereby ratified, confirmed and approved.

Section 9. Effective Date. This Resolution shall take effect from and after its date of passage and adoption.

PASSED by the City Council of the City at a regular meeting this ____ day of March 2005, by the following vote:

AYES:

NOES:

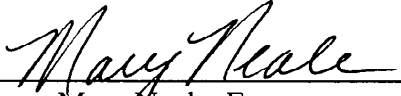
ABSENT:

City Clerk

APPROVED AS TO FORM:

City Attorney

APPROVED AS TO FORM:



Mary Neale, Esq.
Sidley Austin Brown & Wood LLP
Special Counsel