

Agenda Report

TO: CITY COUNCIL **DATE:** July 17, 2006
FROM: CITY MANAGER
SUBJECT: RESOLUTION FOR EQUIPMENT LEASE LINE OF CREDIT OF
\$5 MILLION WITH BANK OF AMERICA LEASING AND CAPITAL,
LLC.

RECOMMENDATION

It is recommended that the City Council adopt a Resolution:

1. Authorizing an equipment lease line of credit in an amount of \$5 million with Bank of America Leasing and Capital, LLC;
2. Authorizing the execution and delivery of a Master Equipment Lease/Purchase Agreement and an Acquisition Fund and Account Control Agreement;
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 entering into equipment Lease/Purchase financings. These financings allow the departments to newly purchase or replace old inefficient equipment that is fully depreciated with newer, more efficient ones.

Currently two departments have identified the need to require equipment well-suited for lease financing, as discussed below, however the proposed line of credit will enable other departments to take advantage of this financing as the need may arise.

Department of Public Works

In 2003, City Council approved the Department of Public Works Integrated Waste Management Operations Plan. The Operations Plan identified a variety of issues within the refuse program and the necessary changes needed to continue providing quality and cost-efficient services and programs. Two of the primary goals of the Plan included improvement of the financial stability of the Refuse Fund and replacement of the refuse collection fleet pursuant to an updated replacement schedule. In October 2005, staff submitted the 2006 Updated Operations Plan which included a revised vehicle replacement schedule.

Prior to the approval of the Operations Plan the replacement of refuse vehicles was significantly deferred due to the negative financial condition of the Refuse Fund. As a result of the changes implemented through the Operations Plan an aggressive replacement schedule began in FY 2006. This replacement schedule requires a larger outlay for vehicle purchases in a shorter period of time to ensure that the replacement of the needed refuse vehicles is back on schedule. However, in order to ensure the continued financial stability of the Refuse Fund, these vehicle replacements will be made through equipment financing.

On May 8, 2006 City Council approved the purchase of five automated side loaders using 2005 Equipment Lease Financing funds totaling \$1.4 million. Beginning in FY 2007 through FY 2011, refuse vehicle replacements include side-loader automated collection trucks and commercial front-load collection trucks. Service vehicles include: commercial bin shuttle trucks, residential container roll-out trucks, scooters used for contaminated yard waste and recycling container inspections, and service vehicles used for supervision of collection routes. The new equipment will improve productivity while ensuring effective operation of service for Pasadena residents while meeting the goals established in the Operations Plan.

Police Department

The City's Police Department operates a fleet of helicopters that have all logged in excess of 10,000 flight hours, which is the equivalent of over 181,000 miles on a vehicle. The Department has two military surplus helicopters that were manufactured in 1972. Additional surplus aircraft are no longer available from the military. In addition, the Department has one 1978 and two 1980 vintage helicopters.

It is anticipated that replacement of these helicopters will begin in fiscal year 2009. The current cost of a replacement turbine quiet technology helicopter is \$1,200,000. This is the same type of aircraft both the City of Glendale and Burbank use. The lease financing would allow the Police Department to lease the helicopters for 10 years with an annual payment of approximately \$160,000 per helicopter at the current financing rate.

The Financing

The Finance Department has secured a lease/purchase equipment financing line of credit with Bank of America Leasing and Capital, LLC for an amount of \$5 million. Finance has also negotiated a forward rate lock to be held until December 28, 2006. Any equipment lease until December 28, 2006 shall have the following tax exempt interest rates:

3 years: 3.93%
5 years: 3.98%
7 years: 4.04%
10 years: 4.13%

Subsequent to December 28, 2006, the tax-exempt rate will be fixed approximately five business days prior to funding equal to the following tax-exempt interest rate formula:

3 years (0.65 x 3-year U.S. Treasury) plus 0.7125
5 years (0.65 x 5-year U.S. Treasury) plus 0.7365
7 years (0.65 x 7-year U.S. Treasury) plus 0.7601
10 years (0.65 x 10 year U.S. Treasury) plus 0.7955

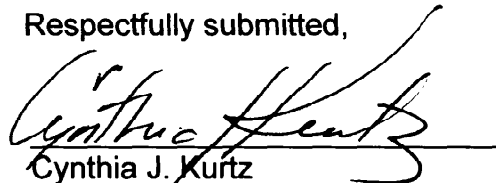
The \$5 million amount may be increased at the City's request with the bank's internal approval process. The City has full control as to when to draw funds and lease purchase equipment. At each draw on the line of credit, the interest rate on the lease will be set at the then prevailing rates based on the above tax-exempt interest rate formula. Due to the size of the transaction and the essential use of the equipment, no tax opinion from outside bond counsel is contemplated. The only cost associated with the financing will be registration of large assets such as helicopters or other large equipment that the City may wish to lease at a later date. The Master Lease Agreement with a line of credit allows City departments to lease desired equipment on an annual basis without going through documentation and new transactions every year and provides the City full flexibility as to when to lease, how much to lease and at what terms to lease.

FISCAL IMPACT

The lease/purchase financing is a General Fund credit financing, therefore, the General Fund is the obligor for the lease payments and acts as a conduit on this financing for the Non-General Fund Departments if any. The annual lease payments are subject to appropriation and will be budgeted in the General Fund's budget. All funds participating in this financing will include in their operating budgets the lease rental payments to reimburse the General Fund their pro-rata share of the annual lease payment. The annual lease payment for equipment leased for General Fund purposes will be appropriated and approved in the respective department's budget.

There will be no lease payments until there is a draw on the credit line and the amount is amortized according to the City's requested term. There are no fees, charges or points by the lender on this financing. The lease can be fully retired and paid off with no penalty after the first 18 months of the lease.

Respectfully submitted,



Cynthia J. Kurtz
City Manager

Prepared by:



Vic Erganian
City Treasurer

Approved by:



Steve Mermell
Acting 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 A MASTER EQUIPMENT LEASE/PURCHASE AGREEMENT AND AUTHORIZING THE EXECUTION AND DELIVERY OF AND APPROVING OTHER RELATED DOCUMENTS AND ACTIONS IN CONNECTION THEREWITH

WHEREAS, in 2003 the City Council approved the Department of Public Works Integrated Waste Management Operations Plan, one of the primary goals of which was the replacement of the City refuse collection fleet pursuant to a replacement schedule beginning in Fiscal 2007, and

WHEREAS, the City has determined that it is necessary and desirable to replace certain of the fleet of helicopters utilized by the City's Police Department, and

WHEREAS, the City periodically finances capital equipment for various municipal operations within the departments of the City; and

WHEREAS, the City has determined that it is in the best interests of the City to provide financing for all or a portion of the costs of certain capital equipment needs of the City through the execution and delivery of a Master Equipment Lease/Purchase Agreement (the "Master Equipment Lease/Purchase Agreement"), between the City and Banc of America Leasing & Capital LLC or its designee (the "Lessor"), pursuant to which the Lessor will provide up to \$5,000,000 of funds to finance the acquisition of equipment to be leased by the Lessor to the City and the City will make rental payments to the Lessor for the lease of such equipment to be purchased by the City from the Lessor at the expiration of the lease term for a purchase price of \$1.00; and

WHEREAS, in connection therewith, the City may enter into an Acquisition Fund and Account Control Agreement (the "Acquisition Fund Agreement" as defined in the Master Equipment Lease/Purchase Agreement) with the Lessor and Bank of America, N.A., as Acquisition Fund Custodian, in order to provide for the escrow of funds to be applied to pay the costs of acquisition of the equipment to be leased under the Master Equipment Lease/Purchase Agreement; and

WHEREAS, all acts, conditions and things required by the Constitution and laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of the transactions authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the City is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such transactions for the purpose, in the manner and upon the terms herein provided;

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

Section 1. Declaration of City Council. 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. Master Equipment Lease/Purchase Agreement. The form of Master Equipment Lease/Purchase Agreement on file with the City Clerk is hereby approved. The City Manager or the duly authorized designee thereof is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver said Master Equipment/Lease Purchase 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 3. Acquisition Fund Agreement. The form of Acquisition Fund Agreement on file with the City Clerk is hereby approved. The City Manager or the duly authorized designee thereof is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver said Acquisition Fund 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 4. Attestations. The City Clerk is hereby authorized and directed to attest the signature of the City Manager or such other City officers and to affix and attest the seal of the City, as may be required or appropriate in connection with the execution and delivery of said Master Equipment Lease/Purchase Agreement, Acquisition Fund Agreement or related documents.

Section 5. 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, including a tax certificate and related 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, the Master Equipment Lease/Purchase Agreement and the Acquisition Fund Agreement. Such actions heretofore taken by such officers are hereby ratified, confirmed and approved.

Section 6. Effective Date. This Resolution shall take effect from and after its date of passage and adoption.

PASSED by the City Council of the City of Pasadena at a regular meeting this ____ day of _____, 2006, by the following vote:

AYES:

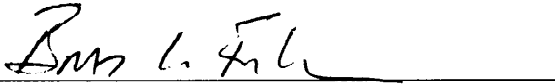
NOES:

ABSENT:

ATTEST:

City Clerk

APPROVED AS TO FORM:



Brad L. Fuller, Assistant City Attorney