



Agenda Report

December 9, 2019

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
SUBJECT: FINANCING THE MOTOROLA PUBLIC SAFETY RADIO COMMUNICATIONS EQUIPMENT AND ACCESSORIES

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is not a "project" subject to California Environmental Quality Act (CEQA) as defined in section 15378(b)(4) of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required for the project;
2. Adopt a Resolution of the City Council of the City of Pasadena authorizing the execution and delivery of a lease schedule No.1000145982, an escrow agreement, and related instruments, and declaring its intention to reimburse itself from the proceeds of one or more tax-exempt financings for certain expenditures made and/or to be made in connection with the acquisition, construction, and equipping of certain public safety radio communication system;
3. Amend the Fiscal Year (FY) 2020 Capital Improvement Program for the Radio Communication Equipment Upgrade and Replacement Project 71166 by increasing the appropriation for equipment lease financing by \$800,000 to \$6,800,000, and increasing the total estimated cost of the project by a like amount;
4. Grant an exemption from the Competitive Selection process pursuant to Pasadena Municipal Code Section 4.08.049(B) contracts for which the City's best interests are served; and

5. Authorize the City Manager or the Director of Finance 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 City to purchase or replace old, inefficient, fully depreciated equipment with newer, more efficient equipment.

On October 7, 2019, the City Council approved the issuance of a contract to Motorola Solutions, Inc. in an amount not to exceed \$8,000,000 for the purchase of radio communications equipment and accessories for the Fire and Police departments. The action included returning to the City Council for approval of a financing plan, a tax-exempt equipment lease instrument within 60 days to fund approximately \$6,000,000 of the equipment. Also, as part of the plan outlined in the agenda report, staff plans to return to the City Council in January 2020 to recommend a contract award to replace the radios in the Police Department's helicopter fleet. These radios are uniquely made, designed specifically for each helicopter, and require custom installation by specialized vendors. Based on updated cost estimates, it is anticipated the purchase and installation of these radios will cost approximately \$800,000. Therefore, staff is recommending increasing the total estimated cost of the Radio Communication Equipment Upgrade and Replacement Project by an additional \$800,000, and put in place the equipment financing, the equipment lease instrument for \$6,800,000, which covers a portion of the total equipment cost.

The Department of Information Technology (DoIT) is responsible for purchasing and maintaining radio equipment to support essential wireless communications on behalf of all City departments, most notably Police, Fire, Water and Power, Public Works, and Transportation. Across all departments, there are nearly 1,600 portable handhelds, vehicle-mounted, and desktop radios along with batteries and accessories that are predominately sourced from Motorola Solutions, Inc.

The radio fleet that supports the Fire and Police Departments was last replaced in 2006 and 2008, respectively, and originally expected to remain in service for ten years. The radios have exceeded their useful life and repairs are increasing in both frequency and cost. Motorola no longer supports the version of radios in the City's public safety fleet and repair parts are becoming increasingly difficult to source.

Lifecycle replacement of the radios for the Fire and Police Departments had been listed in the Capital Improvement Program as an unfunded project for some time. Earlier this year, replacement of the radios was mentioned regularly during discussions about the use of Measure I funds and a partial funding of \$2,000,000 was approved by the City Council during the FY 2020 Capital Improvement Program budget hearings. Issuance of

Fire Department portable radios will be the first priority as these radios are the oldest in the fleet.

In November 2019, the Department of Finance solicited various lenders for lease purchase financing and obtained bids for a master lease equipment financing from two major banks. The lowest bid in terms of interest rate was received from JP Morgan/Chase Bank at a true interest cost of 1.659%, for a term of seven years.

Proceeds from this financing will be remitted to the City once DoIT provides verification of payment of the equipment. Staff anticipates closing the recommended financing and funding the escrow/acquisition account on January 15, 2020 after the City Council's approval of the lease financing.

The Internal Revenue Service (IRS) revised its regulations concerning the use of tax-exempt bonds to reimburse expenditures made prior to the date of the financing. Under the IRS regulations, the proceeds of bonds may be allocated to a prior capital expenditure for a period of time after the expenditure is made, but only if a formal declaration of reasonable intention to reimburse the expenditure with the proceeds of a borrowing (a "declaration of official intent") has been properly made.

The recommended declaration of official intent in the Resolution allows the City to reimburse itself, from future tax-exempt financings, for certain capital expenditures paid up to sixty days prior to adoption of this Resolution, and the allocation of proceeds of the financing to such reimbursement has to be made no later than the later of: (a) 18 months after the date of payment of the reimbursable expenditure; or (b) 18 months after the date upon which the project is placed in service or abandoned, but in no event more than three years after the date of payment of the reimbursable expenditure. This action does not commit the City to any obligation. It merely provides the flexibility to capitalize expenditures into future tax-exempt financings. Simply stated, the declaration of intent in the Resolution is a tool that provides the City the ability to reimburse itself for any current expenditures it makes on capital projects from proceeds of future tax-exempt financing. Without this Resolution, all current payments made on capital projects will be expensed instead of being capitalized as assets on the City's financial statements.

COUNCIL POLICY CONSIDERATION:

This action supports the City Council's strategic planning goals to maintain fiscal responsibility and stability and to improve the quality of life.

ENVIRONMENTAL ANALYSIS:

The proposed actions are governmental fiscal activities that would not cause either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. Therefore, the proposed action is not a "project" subject to

CEQA, as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines. Since the action is not a project to CEQA, no environmental document is required.

FISCAL IMPACT:


Pursuant to Senate Bill 450, the true interest cost of this financing will be 1.659% for a term of 84 months or seven years. The amount of proceeds from the financing will be \$6,800,000 which will be funded into an escrow account to be held at Deutsche Bank Trust Company. The semi-annual payments will be \$516,472.51 for a total aggregate payment of \$7,230,615.14 over the term of the financing. The only issuance cost associated with this transaction will be \$5,000 in legal fees payable to the firm of Nixon Peabody, bond counsel to the transaction

Respectfully submitted,



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