

Lompoc City Council Agenda Item



City Council Meeting Date: July 16, 2013

TO: Laurel M. Barcelona, City Administrator

FROM: Brad Wilkie, Management Services Director
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SUBJECT: FY 2013-2015 Fleet Lease Purchase Financing and Refinancing of Prior Lease Financing Agreements

Recommendation:

Staff recommends the City Council:

- 1) Adopt Resolution No. 5865(13), authorizing the Mayor or his designee to execute the necessary agreements with the successful bidder to:
 - a. Finance several fleet vehicles scheduled for replacement during the FY 2013-2015 period, as detailed in Exhibit A, with various terms up to 15 years, for a total of up to \$2,150,000;
 - b. Optionally, to finance several fleet vehicles replaced or scheduled to be replaced during the FY 2011-2013 budget cycle, to position the City to minimize budgeted Fleet Service charges during the FY 2013-2021 periods, for a total of up to \$475,000; and
 - c. Optionally, to refinance existing lease agreements with remaining terms of up to 20 years and remaining principal balances of \$6,403,701, if the refinancing results in a financial benefit to the City during the FY 2013-2021 budget cycles, as outlined in the staff report; or
- 2) Provide alternate direction.

Background:

The City of Lompoc has historically pursued lease financing for capital purchases of high-value, long-life replacement fleet vehicles to match the capital costs of vehicles with the expected life of the vehicles. The Fleet Division has expended available reserves for the purchase of the planned and budgeted capital purchases for those vehicles already purchased from the FY 2011-2013 schedule of replacements, without the benefit of financing resources. The benefit of the use of Fleet Division reserves,

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rather than securing outside financing, has accrued during the FY 2011-2013 budget cycle for all using departments and divisions utilizing Fleet Division services for replacements and operations. That benefit was to minimize each department and division's monthly contribution for the replacement component of the internal service that is provided by the Fleet Division.

Discussion:

New Financing Option:

The approved FY 2013-2015 budget includes the planned replacement of a number of vehicles during the budget period utilizing lease proceeds for a number of the replacements. The Fleet Division reviewed the existing vehicles scheduled for replacement prior to the FY 2013-2015 budget cycle and only recommended those vehicles for replacement that would otherwise cost more during the budget cycle to maintain in operational condition, while deferring replacement for those vehicles where the cost of maintaining the operational condition of the vehicle is expected to be less than the annual capital cost of replacement. Of the vehicles scheduled for replacement, only some have expected lives or replacement values where financing would be financially beneficial. The following schedule of vehicles was included in the Request for Proposal (RFP) for lease financing:

Vehicle Number	Department	Model Year	Vehicle Description	Estimated Replacement Period	Estimated Replacement Cost	Estimated Useful Life
<u>Scheduled replacements</u>						
0091	Solid Waste	2008	Refuse Truck-Side Loader	FY 13-14	\$ 305,285	7 years
0092	Solid Waste	2008	Refuse Truck-Side Loader	FY 13-14	305,285	7 years
9271	Electric	2003	Freightliner Digger	FY 14-15	287,416	10 years
7271	Streets	1994	Patch Truck	FY 13-14	93,664	10 years
8112	Water	2003	Ford Pickup	FY 13-14	71,561	10 years
0048	Fire	1992	Brush Truck	FY 13-14	414,299	10 years
5641	Solid Waste	1990	Scraper	FY 14-15	547,718	15 years
<u>Recently installed replacement</u>						
N/A	Solid Waste	N/A	Landfill scale	FY 12-13	465,749	10 years
Total replacement vehicles for financing consideration					<u>\$ 2,490,977</u>	

Although recently installed, the Landfill scale was originally scheduled for financing as part of the FY 2011-2013 budget cycle. The capital cost of the scale has been included in the scope of the RFP for financing consideration. The option of financing of the scale would provide the Solid Waste Division with added flexibility as it progresses through the rate study process and the financial obligations required for installation of a gas collection system at the Division's Landfill mandated by the State as part of the

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Greenhouse Gas legislation (AB32). The final decision to include that asset in the financing package will be determined by the underlying IRS code concerning financing of existing assets.

Refinancing Option:

The City currently has a number of existing lease agreements with various remaining terms and balances where the City could receive economic benefit from the refinancing of the agreements in the current low interest environment. Following is a summary of the existing lease agreements which the Finance Division has included in the RFP for possible refinancing:

<u>Current Lessor</u>	<u>Original Lessor</u>	<u>Original Term</u>	<u>Remaining Principal</u>	<u>Prepayment Penalty</u>	<u>Current Rate</u>	<u>Maturity Date</u>
<u>Refinancing Option #1</u>						
Bank of America	Koch	10 years	\$ 191,412.61	\$ 3,828.25	4.14%	8/15/2015
Siemens Financial	Citi-Capital	10 years	849,308.13	16,986.16	3.95%	12/12/2017
Siemens Financial	Citi-Capital	15 years	690,300.69	13,806.01	4.40%	12/12/2022
Capital One	Deutschebanc	7 years	529,857.01	15,895.71	4.75%	3/1/2017
Capital One	Deutschebanc	10 years	660,375.01	19,811.25	5.07%	3/1/2020
<u>Refinancing Option #2</u>						
G E Capital	Citi-Capital	20 years	3,482,447.82	34,824.51	4.55%	6/10/2027
Totals			<u>\$ 6,403,701.27</u>	<u>\$ 105,151.89</u>		

Due to the much greater remaining term of the GE Capital lease, the RFP has segregated it to provide flexibility to potential vendors in pricing the refinancing products. The RFP requires any financing options to provide similar terms to maturity to ensure the financing does not extend beyond the life of the underlying collateral – the vehicles. While each existing lease has slightly different terms and interest rates, the potential savings from a one percent reduction in the overall interest rate for the group would allow the City to realize savings during the first year of the FY 2015-2017 budget cycle without the refinancing of the GE Capital lease. If a similar one percent reduction is realized on the GE Capital lease, then the savings benefit from refinancing the entire group would begin during this upcoming FY 2013-2015 budget cycle. The payback, in time, of a one percent reduction of the “Refinancing Option No. 1” is 2.4 years or about 29 months. The payback including both options is 1.6 years or about 19 months.

In light of the recent upward movement of borrowing rates in the markets and due to the experience with the timing of funding of the 2009-2011 financing package, it will be advantageous to execute funding documents soon after the RFP package is received and reviewed. Within parameters set by Council for minimum savings on the refinancing package, the recommendation in this staff report is to approve the financial structure of the financing and refinancing agreements and to delegate the execution of

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the agreements with the successful bidder at staff level. This method of preapproval has been used successfully by the City for a number of years for the execution of power purchase contracts that have much the same timing restrictions for market driven rates as this proposal does.

If awarded, then the allocation of costs related to the new debt service payments for the refinancing package will mirror the allocation of costs for the existing debt service payments. The adopted FY 2013-2015 budget cycle includes scheduled repayments for all the financing agreements identified in this staff report – debt service is already budgeted at the existing rates. If the City receives a successful bid for the refinancing of the GE Capital lease, then the resulting benefit will be spread across a wide range of City funds and accounts. However, the vast majority of the reduction in debt service obligations for the GE Capital agreement will accrue to the Electric Public Benefits Program, which provided a substantial portion of the security for the lease and provides a funding stream for the payments. Any reduction in interest costs in the Electric Public Benefits Program area will reduce the obligation on ongoing resources to be used for other eligible Public Benefit Program costs, such as energy-efficiency and low-income assistance programs.

The proposed schedule for soliciting proposals through the RFP is as follows:

Issuance of RFP	June 27, 2013
Deadline for questions regarding the RFP	July 5, 2013
On-line responses to RFP questions available beginning	July 1, 2013
Proposals due by 2:00 p.m. EST	July 17, 2013
Approval	August 6, 2013
Lease closing and delivery of proceeds to fiscal agent	August 8, 2013

Fiscal Impact:

The scheduled principal and interest for existing debt is incorporated into the FY 2013-2015 approved budget. Anticipated principal and interest payments for new debt used to finance future capital purchases is also incorporated into the FY 2013-2015 approved budget, based on estimated debt service terms, amounts and interest rates. As the recommended course of action would only include a refinance of existing debt if the results of the RFP are positive related to the existing budget, any refinancing of existing debt would result in the decrease of interest expense during the FY 2013-2015 budget cycle. While the budgetary constraints of the FY 2013-2015 budget cycle were set with the adoption of the budget, the majority of the City's existing leases are set to mature during budget cycles beyond FY 2013-2015. As the City anticipates continued upward cost pressures to be placed upon the City during the next several years, primarily from external agencies, the benefit of refinancing of existing obligations, where possible, should look beyond the FY 2013-2015 cycle.

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Conclusion:

Minimizing the City's interest expense associated with existing lease obligations is something the City can control. Several of the anticipated future cost pressures we are aware of are not within the direct control of the City. The current unrest in the credit market has the potential of reducing the economic benefit the City may accrue from refinancing existing obligations. At this time, it appears that the credit markets are regaining some stability and any interest rate change will likely be driven primarily by the City's financial strength, as well as the supporting collateral. By adopting Resolution No. 5865(13), the City is able, but not obligated, to execute agreements to secure financing for new purchases of property as identified in this staff report and in the FY 2013-2015 budget and to refinance existing leases used to purchase property in prior budget cycles. The refinancing of prior leases will only move forward if the City will realize an economic benefit on the leases in less than three years.

Respectfully submitted,

Brad Wilkie, Management Services Director

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

Laurel M. Barcelona, City Administrator

Attachments: 1) [Request for Proposal – issued June 27, 2013](#)
2) [Resolution No. 5865\(13\)](#)