



City Council Agenda Item

City Council Meeting Date: January 21, 2020

TO: Jim Throop, City Manager

FROM: Dean Albro, Management Services Director
d_albro@ci.lompoc.ca.us

SUBJECT: Adoption of Resolution No. 6299(20) Related to Lease with Option to Purchase Financing for Vehicles

Recommendation:

Staff recommends the City Council:

- 1) Adopt Resolution No. 6299(20) (Attachment 1) authorizing the City Manager and Management Services Director to execute the necessary agreements with Sterling National Bank to finance replacement vehicles scheduled for replacement during Fiscal Years (FYs) 2019-2021 with various terms up to 15 years for a total amount up to \$5,140,000; and
- 2) Budget Amendment to appropriate \$616,429.98 for lease payments to Sterling National Bank for the financing for FY 2019-2020; or
- 3) Provide alternate direction.

Background:

The City has historically pursued lease financing for capital purchases of high-value, long-life replacement fleet vehicles to match the capital costs with the vehicles' expected life spans. Until the City has developed and implemented vehicle funding policies to reserve adequate funds for capital replacements, the most cost-effective method to replace vehicles is with the use of capital financing.

Purchases of certain capital replacements were provided for in prior Biennial Budget FYs (Budget) 2013-2015 and 2017-2019 from resources to be provided from capital financing where the purchase of the capital vehicle had not yet been completed by FYs 2017-2019. The capital vehicle budgeted for FYs 2013-2015, a Digger/Derrick for the Electric Division, required extensive development of specifications and resulted in a number of delays. IRS regulations related to capital financing required the repayment of financing previously secured for the purchase of the vehicle due to those delays. The Fleet Division has now

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completed the process to purchase, from the Budget FYs 2017-2019 Schedule of Replacements, three replacement Solid Waste collection vehicles.

Both the Electric and Fleet Divisions' vehicle purchases were provided for in past Budgets (FYs 2013-2015 and 2017-2019) from resources to be provided from capital financing. Those Budgets provided for those capital purchases utilizing the following lease financing as the source of funds:

FYs 2013-2015 and 2017-2019 Fleet Replacement Vehicles				
Division	Vehicle Type	Quantity	Unit Amount	Financing Amount
Solid Waste	Collections	3	\$295,000	\$885,000
Electric	Digger/Derrick	1	330,000	330,000
Total				\$1,215,000

The current Budget (FYs 2019-2021) provides for additional capital purchases of the following high-value, long-life replacement vehicles utilizing lease financing as the source of funds for their acquisition:

FYs 2019-2021 Fleet Replacement Vehicles				
Division	Vehicle Type	Quantity	Unit Amount	Financing Amount
Solid Waste	Collections	3	\$295,000	\$885,000
Wastewater	Vactor	2	800,000	1,600,000
Solid Waste	Compactor	1	1,000,000	1,000,000
Solid Waste	Loader	1	440,000	440,000
Total				3,925,000

Grand Total				\$5,140,000
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On November 19, 2019, the City Council adopted Resolution No. 6291(19) authorizing the City Manager and Management Services Director to enter into a Lease Agreement with the appropriate bidder following submission of bids by three banks, as shown below under Discussion. Subsequent to approval, the bid from City National Bank was withdrawn and the City determined to go with the next lowest bidder, Sterling Bank. However, Sterling's bid on interest rate needed to be revised to account for the delay in timing. Further discussion of the process is presented below under Discussion.

Discussion:

Typically, lease financing provides for the purchase of equipment or infrastructure, such as vehicles, unless an agency has access to more cost effective sources of funding, such as internally generated vehicle replacement reserves. The City does not have such dedicated vehicle replacement reserves.

The following schedule of projects and activities was included in the RFP (Attachment 2) for lease financing:

Fleet Replacement Vehicles	Quantity	Amount	Term
Solid Waste Collection Vehicles	6	\$1,770,000	7 years
Solid Waste Landfill Compactor	1	1,000,000	15 years
Solid Waste Landfill Loader	1	440,000	15 years
Wastewater Vactor Vehicle	2	1,600,000	10 years
Electric Digger/Derrick	1	330,000	10 years
Total Financing		\$5,140,000	

The lease terms included in the RFP are fixed rate, fully amortized loan(s) with semi-annual payments of principal and interest in arrears with seven-, ten-, or fifteen-year terms depending upon the asset's estimated financial life. Funds are anticipated to be available for payment of acquisition costs beginning in January 2020. The proposed fixed rate bid will be good through January 22, 2020.

Following is the schedule for the financing process under the original RFP:

Issuance of RFP	September 11, 2019
Deadline for questions regarding the RFP	September 20, 2019
Responses to RFP questions available beginning	September 23, 2019
Proposals due by 2:00 p.m. EST	October 8, 2019
Approval (by City Council) – estimated	November 15, 2019
Estimated lease closing and delivery of proceeds to fiscal agent	December 20, 2019

Fiscal Impact:

The proposed issuance of capital financing for the equipment replacement was included in the Budget FYs 2019-2021.

The City received three responsive, and one alternate non-responsive, proposals to the RFP (Attachment 3). Each responsive proposal provided terms acceptable under the RFP for length and timing of payments. The proposed rates received are as follows:

Firm	7 Year Term	10 Year Term	15 Year Term
City National Bank	2.18%	2.44%	2.76%
Bank Funding LLC	2.47%	2.72%	n/a
Sterling National Bank	2.59%	2.64%	2.71%

The City's current internal cost of funds is approximately 2.03% and is remaining stagnant in the current interest rate environment. Ten-year treasury yields are equivalent to the proposed rate from City National Bank at 2.21% (quoted on 11/6/19). The City will be able to conserve available operating cash by utilizing the financing products for matching operational costs with operational services provided from the capital equipment rather than from current operations only.

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The RFP provides the lease proceeds to be deposited to an escrow fund upon closing of the financing. Until the funds are disbursed from escrow, the City will have no repayment obligation.

City National Bank was originally awarded this financing, but subsequently decided to withdraw its proposal before an agreement could be reached. Sterling National Bank was determined to be the second choice as their weighted-average rate was less than Bank Funding LLC, and they agreed to fund the 15-year vehicles over their entire useful life. The rate proposed by Sterling for the extension of time for award was not in their original proposal and is approximately .05% higher than its previous rates.

Government Code Section 5852.1 Transparency. Sterling National Bank, as the private lender, has provided the following good faith estimates pursuant to Government Code Section 5852.1: (a) the true interest cost with respect to the Lease Agreement is 2.655412%, (b) the finance charges or fees to third parties related to the Lease Agreement is limited to the City Attorney's Office fees (which may be approximately \$5,000-\$7,000 and are not being paid from proceeds of the lease) (c) proceeds of the assignment with respect to the Lease Agreement is \$5,140,000, not including any finance charges, reserves and capitalized interest funded by proceeds, and (d) the total payment amount of the Lease Payments, calculated as provided in Section 5852.1(a)(1)(D) of the Government Code is estimated at \$5,917,351.48 (i.e. total of all payments the City will make to pay lease payments plus the finance charges set forth in section (b) which are not paid from proceeds).

Conclusion:

Awarding the financing to Sterling National Bank by the adoption of Resolution No. 6299(20), will allow the City, but not obligate it, to execute agreements to secure financing, at favorable rates, for new purchases of assets, as identified in this staff report. The Resolution will also approve the Sterling Lease Documents in the form submitted and any changes approved by the City Manager. Due to the changes, this resolution supplements Resolution No. 6291(19) adopted on November 19, 2019.

Respectfully submitted,

Dean Albro, Management Services Director

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

Jim Throop, City Manager

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- Attachments:
- 1) Resolution No. 6299(20)
 - 2) Request for Proposal – issued September 11, 2019
 - 3) Proposals Received
 - 4) Sterling Lease Documents