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Title: Approve an Escrow Agreement with BOK Financial to be used in conjunction with a Master Equipment Lease Purchase Agreement with Banc of America Public Capital Corp.

Sponsors: Finance Department

Indexes:

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Attachments: 1. Escrow Agreement for Master Lease - Final.pdf

Date	Ver.	Action By	Action	Result
4/6/2017	1	City Council	approved	Pass

REPORT TO THE CITY COUNCIL

April 6, 2017

FROM: MICHAEL LIMA, Finance Director/City Controller
Finance Department

BY: PHILLIP L. HARDCASTLE, Principal Accountant - Debt Administration
Finance Department

SUBJECT:

Approve an Escrow Agreement with BOK Financial to be used in conjunction with a Master Equipment Lease Purchase Agreement with Banc of America Public Capital Corp.

RECOMMENDATION(S)

Staff recommends that the Council approve an Escrow Agreement to be used in conjunction with a Master Equipment Lease Purchase Agreement (Agreement) with Banc of America Public Capital Corp. (Bank). This Escrow Agreement with BOK Financial (BOK) is necessary to escrow lease proceeds on equipment purchases having payments to multiple vendors and/or having multiple items being paid at various dates.

EXECUTIVE SUMMARY

On January 12, 2017, the City Council approved a new Agreement with Bank to finance equipment acquisitions for terms up to 10 years. In conjunction with approving the Agreement, Council also approved a form of Escrow Agreement that was shown in the Agreement as Exhibit B. Subsequent

to that approval, due to regulations that were stricter than when the previous Agreement was active, no escrow agent was willing to accept the approved form of Escrow Agreement. BOK was selected to provide escrow services because they were willing to accept the form of Escrow Agreement with minor modifications.

BACKGROUND

On January 12, 2017, the City Council approved a new Agreement with Bank to finance equipment acquisitions for periods between 3 and 10 years. The City has used Agreements over the years to lease-purchase fire apparatus, police vehicles (including helicopters), telecommunications, computers, building improvements, and software licenses. The Agreement does not approve the purchase or the financing of any equipment. It simply provides a mechanism to fund equipment that has already been approved for purchase and financing by the City Council.

Some of the equipment that will be financed, such as police vehicles, will be acquired in multiple batches being received on various dates. In situations like these, the most efficient way of financing is to fund a lump-sum amount that would be placed into escrow. The escrowed amount would then serve as security for the loan until expenditures are made and reimbursed from the escrow account. As the escrow balance goes down, the value of the asset being financed goes up, so the security for the loan never changes. This process allows the City to pay invoices as they come in by having cash readily available to pay them. Not having an escrow requires the City to either make payments directly or is required to prepare a separate lease schedule for each payment. The first process requires an appropriation of City funds in addition to amounts already budgeted for lease purchase payments, while the latter takes about two weeks to process and results in multiple lease schedules for very small amounts.

BOK has agreed to use the City's form of Escrow Agreement with the addition of language that has been accepted by the Risk Division. All other options presented would require using the Escrow Agent's Agreement, which would require complete and thorough review before approval. Approving the use of the modified Escrow Agreement will ensure that departments are not delayed in making acquisitions that are critical to their operations through the lease purchase program. The City Attorney's Office has reviewed the Escrow Agreement and approved to form. It is on file with the City Clerk's Office for review.

ENVIRONMENTAL FINDINGS

This item is not a project for the purposes of the California Environmental Quality Act.

LOCAL PREFERENCE

Local preference was considered in the evaluation of the documents and pricing of the Agreement.

FISCAL IMPACT

Approving the Escrow Agreement allows the City Departments to finance certain equipment by escrowing funds; thereby eliminating the need to appropriate for expenditures other than Council-approved lease payments. BOK will charge \$500 per escrow account established. Escrow account costs will be paid out of escrowed proceeds. There is no concurrent fiscal impact. Not approving the Agreement will require the City to reconsider certain acquisitions or find alternative funding sources or methods to purchase items.

Attachment:

Escrow Agreement