



Legislation Details (With Text)

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Title: RESOLUTION - Authorizing the execution and delivery of a Master Equipment Lease Purchase Agreement, certain separate lease schedules, and other documents required in connection therewith in respect to the acquisition, purchase, financing and leasing of equipment for the public benefit.
Sponsors: Finance Department
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Attachments: 1. City of Fresno Master Equipment Lease Purchase Agreement - Signed.pdf, 2. Resolution.pdf

Date	Ver.	Action By	Action	Result
1/12/2017	1	City Council	approved	Pass

REPORT TO THE CITY COUNCIL

January 12, 2017

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

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

SUBJECT:

RESOLUTION - Authorizing the execution and delivery of a Master Equipment Lease Purchase Agreement, certain separate lease schedules, and other documents required in connection therewith in respect to the acquisition, purchase, financing and leasing of equipment for the public benefit.

RECOMMENDATION(S)

Staff recommends that the Council adopt the accompanying resolution and thereby approve a Master Equipment Lease Purchase Agreement with Banc of America Public Capital Corp. This agreement is necessary to provide lease-purchase financing of City equipment.

EXECUTIVE SUMMARY

A Master Equipment Lease Purchase Agreement (MELPA) provides a ready-to-use mechanism to finance equipment purchases over time. The City's previous MELPA expired on September 30, 2011. While the City had this type of lease arrangement for several years prior to the expiration of the previous MELPA, the City's credit rating after September 2011 prevented staff's ability to find a lender willing to commit to a long-term financing agreement. With the improvement in the City's credit

rating, staff issued a Request for Proposal for MELPA financing. After evaluating the responses, staff is recommending the Council approve a MELPA with Banc of America Public Capital Corp (“BAPCC”). The MELPA will be used to fund upcoming equipment purchases, which will be approved as part of current and future Adopted Budgets and other equipment purchases as approved by the City Council. Rates will be determined at the time of financing, based on a Spread that is between 0.8115% and 1.27% above an agreed upon Index (the “Average-Life Swap Rate x 65%”) for the term of each individual lease.

BACKGROUND

MELPAs are a common form of financing, which the City has used over the years to lease-purchase fire apparatus, police vehicles (including helicopters), telecommunications, computers, building improvements, and software licenses. The MELPA does not approve the purchase nor 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.

The City has had this type of lease arrangement in place for several years before the last MELPA expired on September 30, 2011. However, staff has been unable to solicit interest from lending institutions since the expiration of the previous MELPA, as those institutions did not wish to offer financing to an organization with a credit rating at the level the City’s credit rating subsequent to September 2011. With the improvement in the City’s credit rating, staff felt the time was appropriate to solicit proposals for a new MELPA. The MELPA is needed as the City has financing requirements in FY 2017 that will be expedited by its approval.

On July 26, 2016, the City requested proposals for a MELPA from local, regional and national financing institutions. There were 342 firms asked to submit a proposal. Twenty-nine of the firms had previously solicited the City for these types of services. Five firms submitted proposals: BAPCC, Bank of the West, Community Leasing Partners, Kansas State Bank and Signature Public Funding. All five firms were evaluated against criteria that emphasized experience, qualifications, competitive pricing, and responsiveness to the specifications. Three of the five firms ranked equal with respect to these criteria. In light of the similar responses, staff determined that all things being equal, price would prevail. Thus, BAPCC was selected as the most responsive firm to the City’s proposal specifications.

The proposed MELPA with BAPCC will provide for lease financing of City needs over the next three years, up to a maximum aggregate leasing of \$25 million. The contract also provides for two 1-year extensions by mutual agreement. In that this MELPA is intended to meet the City’s equipment financing needs over this time frame, the lease rate has been structured so that it is set each time the City needs to lease purchase equipment.

The lease rate is set by adding a fixed percentage (a “Rate Spread”) to 65% of the Average-Life Swap Rate (the “Index”) for the number of years on each individual lease. Rate spreads are between 81.15 and 127.00 basis points (“BPS”) above 65% of the Index. For lease terms of two years, the one-year Index is used. For lease terms of three and four years, the two-year index is used. For lease terms of five and six years, the three-year index is used. For lease terms of seven and eight years, the four-year index is used. For lease terms of nine and ten years, the five-year index is used. A structure of this type is common and provides the lessor and lessee with market-level lease rates at the time a lease purchase is transacted. The Index can be found on the Intercontinental Exchange Inc. website at www.theice.com/marketdata/reports/180 <<http://www.theice.com/marketdata/reports%20/180>>.

The City Attorney’s Office has reviewed the MELPA and approved to form. It is on file with the City Clerk’s Office for review.

ENVIRONMENTAL FINDINGS

This item is not a project of the City of Fresno and as such, the California Environmental Quality Act requirements are not applicable.

LOCAL PREFERENCE

Local preference was considered in the evaluation of the documents and pricing. Bank of the West claimed local preference. However, based on anticipated needs, the difference in cost between Bank of the West and BAPCC was just under \$164,000, making Bank of the West 38% more expensive than BAPCC.

FISCAL IMPACT

Adopting the resolution approving the MELPA allows the City Departments to finance certain equipment through lease-purchase under this agreement, subject to meeting any competitive procurement, budgeting, and appropriation requirements. There is no concurrent fiscal impact. Not approving the resolution will require the City to reconsider

certain acquisitions or find alternative funding sources or methods to purchase items.

Attachment: Resolution