



Legislation Details (With Text)

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Enactment #:

Title: Staff Report for a Resolution Authorizing the Execution and Delivery of an Equipment Lease/Purchase Agreement with Respect to the Acquisition, Purchase, Financing and Leasing of Certain Equipment for the Public Benefit; Authorizing the Execution and Delivery of Documents Required in Connection Therewith; and Authorizing the Taking of All Other Actions Necessary to the Consummation of the Transactions Contemplated by this Resolution

Sponsors: David Baum
Finance Director

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Attachments: 1. Attachments to the equipment lease - purchase staff report

Date	Ver.	Action By	Action	Result
7/18/2016	1	City Council	Received and Filed	Pass

Staff Report for a Resolution Authorizing the Execution and Delivery of an Equipment Lease/Purchase Agreement with Respect to the Acquisition, Purchase, Financing and Leasing of Certain Equipment for the Public Benefit; Authorizing the Execution and Delivery of Documents Required in Connection Therewith; and Authorizing the Taking of All Other Actions Necessary to the Consummation of the Transactions Contemplated by this Resolution

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council approve the resolution and documents required to execute and deliver an equipment lease/purchase agreement (Agreement) with Bank of America, National Association (Bank), as lessor, to finance energy and water conservation equipment (Equipment) to be installed at City facilities pursuant to the Energy Services Agreement to be entered into with Climatec plus costs related to the installation and financing of the Equipment, up to an amount of \$5,500,000. Annual lease payments on the 16 year Agreement are not expected to exceed \$450,000. The Agreement is an appropriation lease, which means that the City will need to budget and appropriate lease payments in each year. In the event the City elects not to so budget and appropriate lease payments in a given year, Bank of America, as lessor, will have the right to remove the leased equipment.

DISCUSSION

On May 16, 2016, the City Council approved an Installation Agreement and other contracts to be financed with a tax-exempt lease selected through a competitive bid process. Climatec, chosen through a competitive bid process, will install upon, onto, or within City facilities up to \$5,270,455 of energy and water saving equipment. Climatec has further guaranteed sufficient annual savings to pay the financing costs related to the equipment acquisition and installation. Total

energy and water savings are projected to be \$8.0 million over 16 years. Whereas, total debt costs are projected to equal \$6.5 million over 16 years. This results in a net present value savings of \$1.5 million over 16 years.

On June 1, 2016, staff received six proposals from financial institutions offering to finance the equipment installation. Proposals were received from Bank of America, Holman Capital, Municipal Finance Corp., Pinnacle Public Finance, PNC Equipment Finance and Signature Public Funding Corp. Proposals were evaluated based on interest rate, business terms and experience. Bank of America provided the most favorable bid. The bid allows for a one year construction period and 15 years amortization of the principal amount financed. Semi-annual lease payments are expected to average \$212,707 based on the lease rate in effect on the bid date. The effective interest rate on June 1 was 2.19%. The interest rate is based on the 10 year Interest Rate Swap, which is published on daily financial media sites.

Financing Structure

Over the years, the City had used certificates of participation and lease revenue bonds to finance the construction and retrofitting of its public facilities. Certificates of participation are a variation of the general lease-purchase financing method that had been commonly used in California. Due to a perceived preference for private placement, tax-exempt leases in today’s market, the financing will be structured as a tax-exempt lease. For the proposed lease, the Bank will lease the equipment to the City. The City will make these payments to the Bank from its General Fund. Leased equipment is the collateral for the Agreement payments during the intended 16 year lease period.

The Financing Team

Staff worked with the firms listed below to bring this financing transaction to the Council for approval. Therefore, the resolution of issuance to be adopted by the Council directs staff to enter into agreements for services with the following firms in the following capacities:

<u>Name of Firm</u>	<u>Capacity</u>
Bank of America, N.A.	Lessor
Jones Hall, APLC	Lease Counsel
Bank of America, N.A.	Escrow Agent

The Bank was chosen via a request for proposals. The Bank was deemed to be the strongest lessor from a group of six proposals received by the City. The primary reasons for the Bank’s selection are its pricing, experience, and structuring creativity.

Jones Hall, APLC (JH), has been the City’s bond counsel dating back to 1979. JH ranks among the top three bond counsel in the number of state and local bond issues in California during each of the past ten years. Similarly, during the past ten years, JH has been among the top two as disclosure counsel. A bid was solicited from another Lease Counsel firm but was more expensive and therefore was not selected.

Bank of America, NA will serve as the lease escrow agent. The Bank is one of the top municipal lease trustees in the country. The Bank also serves the City with three local branches.

All fees associated with issuing the Equipment Lease/Purchase Agreement will be paid from financing proceeds.

Sources and Uses of Funds

Staff proposes the following sources and uses of funds for the Lease financing transaction.

Sources of Funds

Par Amount of Lease.....	<u>\$ 5,414,455</u>
Total Sources of Funds	<u>\$ 5,414,455</u>

Uses of Funds

Lease Escrow Deposit	\$ 5,270,455
Capitalized Interest (12 months).....	119,000
Costs of Issuance.....	<u>25,000</u>
Total Uses of Funds	<u>\$ 5,414,455</u>

Sources of funds include the par amount of the Lease. The Lease proceeds will be deposited with the Escrow Agent. The capitalized interest represents the first 12 months interest expense to allow the City to pay the debt service while the Project is under construction. The Costs of Issuance pay for legal and other issuance costs.

Lease Documents

The City Council must approve the following documents to complete the 2016 Equipment Lease/Purchase transaction.

Equipment Lease/Purchase Agreement - This agreement establishes the lease between the City and the Bank. This agreement specifies the term of the agreement (16 years) and the amount of payments.

Escrow and Account Control Agreement - The trust agreement is between the City and the Escrow Agent. The Escrow and Account Control Agreement sets forth the guidelines for the administration, investment and treatment of the proceeds of the issue.

Current City Council Policy

The City Council must approve municipal debt issues that impact their financial position.

Previous City Council Action(s)

On May 16, 2016, the city council approved resolution 2016-054 to approve an installation agreement and measurement and verification agreement with Climatec, LLC for implementation/construction of citywide energy/water-efficiency projects for a total cost of \$5,270,455 and \$206,986 over 15 years, respectively.

Summary of Public Outreach Efforts

The meeting was properly noticed in accordance with California law.

Fiscal Impact

The par value of the Lease will not exceed \$5.5 million and will mature in 2032. The Lease will have an interest cost of less than 3% and annual debt service on the Lease will not exceed \$450,000. Total energy and water savings are projected to be \$8.0 million over 16 years. Total debt costs are projected to equal \$6.5 million over 16 years. This results in a net present value savings of \$1.5 million over 16 years.

Budget Authority

City of San Leandro Charter

Attachments:

- City of San Leandro Resolution Authorizing the Execution and Delivery of Not to Exceed \$5,500,000 Equipment Lease/Purchase Agreement, Authorizing and Directing Execution of Related Lease Financing Documents and Escrow and Account Control Agreement

- The following financing documents (in substantially final form):
 - Equipment Lease/Purchase Agreement
 - Escrow and Account Control Agreement

CONCLUSION

Staff recommends that City Council approve the resolutions and documents required to issue the City of San Leandro Lease.

PREPARED BY: David Baum, Finance Director, Finance Department