



Legislation Text

File #: 20-593, **Version:** 1

Staff Report for a City of San Leandro City Council Resolution Authorizing the Execution and Delivery of an Equipment Lease/Purchase Agreement with Respect to the Acquisition, 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 (approval to finance energy conservation and resiliency equipment to be installed at the City's Water Pollution Control Plant for \$8,893,876.20)

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 Banc of America Public Capital Corp. (Bank), as lessor, to finance energy conservation and resiliency equipment (Equipment) to be installed at the City's Water Pollution Control Plant (WPCP) pursuant to the executed Installation Agreement between the City and Climatec. The principal amount to be financed under the Agreement is estimated at \$7,624,924 (which is equal to the total estimated project cost of \$8,045,781 minus a PG&E grant of \$420,857). Annual lease payments on the 15-year Agreement are expected to equal \$592,925.08, with total principal plus interest paid anticipated to equal \$8,893,876.20.

The Agreement is an appropriation lease, which means that the City will need to budget and appropriate lease payments (to come from the WPCP Enterprise Fund or any other legally available funds of the City) in each year. In the event the City elects not to budget and appropriate lease payments in a given year, the Bank, as lessor, will have the right to remove the leased equipment. The General Fund is not obligated to pay for any amounts due under the Agreement.

DISCUSSION

On September 28, 2020, the City Council approved an Installation Agreement for a proposed energy efficiency/resiliency project at the WPCP, to be financed with a \$420,857 PG&E Self Generation Incentive Program (SGIP) grant plus a tax-exempt lease with a bank or other financial institution selected through an informal RFP process. Per the Installation Agreement, Climatec will install at the City's WPCP up to \$8,045,781 of energy saving and resiliency equipment. Fifteen-year lifecycle savings/revenue are projected at \$14,322,177 with an estimated net positive fiscal impact of \$6,276,396 over the same period. First year savings/revenue are anticipated to be \$842,517. It is noted that this project also includes new revenue-generating aspects, but for a worse-case scenario and due to anticipated market fluctuations for the revenues, only the total debt costs are indicated here.

In November 2020, staff received four proposals from financial institutions offering to finance the equipment installation. Proposals were received from Bank of America, Holman Capital, the California Infrastructure and Economic Development Bank (Ibank), and US Bank (Union Bank and

Wells Fargo did not respond). Proposals were evaluated based on interest rate, business terms and experience. Bank of America provided the proposal most advantageous to the City. The bid allows for a 15-year amortization of the principal amount financed. Annual lease payments are expected to be \$592,925.08 (includes Principal + Interest) based on the lease rate in effect on the bid date. The interest rate is 1.989%, assuming the financing closes as scheduled on January 22, 2021.

It is noted that the Phase I citywide energy and water-efficiency work (started in 2016 and completed in 2018 at various sites throughout the City and including upgraded streetlighting), was also financed through Bank of America (up to \$5,500,000 over 16 years and at a rate of 2.19%).

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 short-term nature of the financing, and the disclosures required to be made by the City compared to a public offering, the financing will be structured as a tax-exempt private placement lease. For the proposed lease, the Bank will lease the equipment to the City and the City will make lease payments to the Bank from the WPCP Enterprise Fund. As noted above, the Equipment is the collateral, securing the City’s payment obligations under the Agreement during the intended 15-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>
Banc of America Public Capital Corp.	Lessor
Jones Hall, APLC	Special Counsel
Bank of America, NA	Escrow Agent

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

Jones Hall, A Professional Law Corporation (APLC), has been the City’s bond or special counsel dating back to 1979. Jones Hall 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, and has worked with the City as Special Counsel/Bond Counsel with respect to the 2016 energy-efficiency financing as well as numerous other financings over the years.

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

All fees of the Bank and its special counsel are included within the financing rate quoted above and are not separately payable by the City. Jones Hall’s fees associated with entrance into the Equipment Lease/Purchase Agreement will be paid from WPCP Enterprise Fund monies (not financing

proceeds).

Lease Documents

The City Council must approve the following documents to complete the 2020 Equipment Lease/Purchase transaction with the Bank:

- Equipment Lease/Purchase Agreement - This agreement establishes the lease between the City and the Bank, and all key representations, warranties and covenants of the City related thereto. This agreement also specifies the term of the agreement (15 years) and the amount of payments (estimated at \$592,925.08 annually).
- Escrow and Account Control Agreement - This trust agreement is between the City and the Escrow Agent. It sets forth the guidelines for the administration, investment and treatment of the proceeds of the Agreement, which will be used by the City to pay Climatec.
- Memorandum of Understanding - The purpose of this Memorandum is to set forth the understanding of Climatec, the City and the Bank with respect to the rights of the parties relating to the Equipment being financed. Because the Bank's security for repayment under the Agreement is tied to its interest in the Equipment, the Bank wants to ensure that title to the Equipment passes free and clear to the City once the Equipment is installed by Climatec and paid for by the City.

Current City Council Policy

The City Council must approve municipal debt issues that impact the City's financial position.

Previous City Council Action(s)

On September 28, 2020, the City Council approved Resolution No. 2020-121 to approve an Installation Agreement with Climatec, LLC for implementation/construction of energy-efficiency and resiliency projects for a total cost of \$8,045,781 (includes SGIP grant monies) over 15 years.

Fiscal Impact

The acquisition and installment of the energy-efficiency equipment at the WPCP is expected to more than pay for itself over its expected useful life. Fifteen-year lifecycle savings/revenue are projected at \$14,322,177 with an estimated net positive fiscal impact of \$6,276,396 over the same period.

In accordance with Government Code Section 5852.1, the following good-faith estimates are provided to the City Council regarding the financing:

- The estimated true interest cost of the Agreement (being the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the Agreement) is approximately 2.0%.
- The estimated finance charge of the Agreement (being the sum of all fees and charges paid to third parties) is approximately \$20,000.
- The estimated amount of proceeds expected to be received by the City, less the finance charges described above paid from the principal amount of the Agreement is approximately

\$7,624,924. There are no reserve funds or capitalized interest being paid or funded with the Agreement.

- The estimated total payment amount (being the sum of principal and interest paid to final maturity, plus any financing costs not paid from proceeds of the Agreement) is approximately \$8,893,876.

The foregoing good-faith estimates are based on the interest rate and amortization schedule provided to the City by the Bank.

Budget Authority

City of San Leandro Charter

Attachments:

- City of San Leandro Resolution Authorizing the Execution and Delivery of an Equipment Lease/Purchase Agreement with Respect to the Acquisition, 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.
- The following financing documents (in substantially final form):
 - Equipment Lease/Purchase Agreement
 - Escrow and Account Control Agreement
 - Memorandum of Understanding

CONCLUSION

Staff recommends that City Council approve the resolution and authorize execution of all documents required to finance the energy-efficiency improvements at the WPCP on the terms proposed by Banc of America Public Capital Corp.

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