

**CITY COUNCIL  
COMMUNICATION:**

**ITEM \_\_\_\_\_**

**OFFICE OF THE CITY MANAGER  
CITY OF DES MOINES, IOWA**

**99-345**

**SYNOPSIS -**

**AGENDA:**

AUGUST 2, 1999

**SUBJECT:**

RFP FOR MASTER  
LEASE-PURCHASE  
AGREEMENT

**TYPE:**

**RESOLUTION**  
ORDINANCE  
RECEIVE/FILE

**SUBMITTED BY:**

KEVIN RIPER  
FINANCE  
DIRECTOR

A Master Lease-Purchase Agreement can provide City departments with access to low-cost, tax-exempt financing for equipment purchases. A Request for Proposals (RFP) has been prepared to solicit such an agreement from the equipment-leasing industry. The RFP is attached. The terms of the Lease-Purchase Agreement between the City and the Lessor follow the terms of the agreement in the RFP; the City will distribute the agreement with the RFP.

Indebtedness resulting from lease-purchase arrangements does not count against the City's general obligation debt limit. In the 1990s, the City lease-purchased its equipment off a State of Iowa contract with Norwest Investment Services. Since that contract has expired, the City should conduct its own competitive selection process for a lease-purchase provider. During this decade the City has entered into eight Lease-Purchase Agreements for such capital equipment as the telephone system, 9-1-1 telecommunications equipment, recycling trucks, and vactor trucks. The par amounts for these issues total approximately \$4 million with maturities ranging from five to 12 years, and interest rates from 5.28 percent to 7.64 percent. Every financing with Norwest Investment Services has required a separate contract, increasing Norwest's costs-and probably the City's. A Master Lease-Purchase Agreement will eliminate that duplicative effort.

Each City department-in conjunction with the Purchasing Division-will acquire its needed equipment using the same procedures currently used to bid and select equipment. Once equipment is selected, funding will be available through the new Master Lease-Purchase Agreement.

Immediately after Council approves a contract with the winning proposer, the City will finance with this Master Lease-Purchase Agreement two street sweepers for the Public Works Department at a par amount of \$153,292. Each use of the

Master Lease-Purchase Agreement requires a public hearing and Council approval.

### **FISCAL IMPACT -**

The cost for lease-purchase financings will be determined based on the winning bidder's interest rate. The interest rate will be computed as a fixed rate above the Treasury Note Index. The City will make one yearly payment of principal and two yearly payments of interest. The contract term between the City and the winning bidder will extend for three years with two one-year renewal options. Staff anticipates perhaps \$500,000 to \$1 million annually of lease-purchase financings for equipment approved by Council in the budget.

### **RECOMMENDATION -**

**Approval of an RFP for a Master Lease-Purchase Agreement, and authorization to proceed with a competitive procurement process.**

### **BACKGROUND -**

Lease-purchase financing allows for more efficient and possibly less cost (due to shorter payoff terms) financing. Lease-purchase is often a more practical financing approach than long-term bond financing to acquire pieces of equipment, because it allows for shorter amortization schedules to match the shorter expected useful lives of the equipment. Furthermore, lease-purchase financings can be executed for dollar amounts in the hundreds of thousands, while long-term bond financing usually requires a minimum issue size in the millions.

#### Evaluation Criteria

#### **Experience and Qualifications (20 points)**

- Similar lease-purchase financings
- Firm experience
- Staff experience

#### **Interest Rate (60 points)**

#### **Financial Capability (20 points)**

## Availability and adequacy of financial resources

### Evaluation Team

The RFP evaluation team will consist of three City employees: the Finance Director/Treasurer, a Management Analyst in the Finance Department, and either a City attorney or an operating department representative. This team will make recommendations to the City Manager, who will recommend to the City Council a lease-purchase provider, as well as business terms of the contract between the City and the financing institution. The City Council has authority for final contract approval.

### RFP Timeline

The following timeline is currently in place for completing this process:

Issuance of Request for Proposal	August 3, 1999
Requests for Clarification of Intent or Content Due	August 11, 1999
Clarification of Intent or Content Issued	August 18, 1999
Proposals Due	September 1, 1999
Selection of Finalists	Week of September 7 to 10, 1999
City Council Approval of Lessor	September 13, 1999
City Council Approval and Award of Contract	September 27, 1999

Attachment