

**CITY COUNCIL
COMMUNICATION:
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ITEM _____

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

99-485

SYNOPSIS -

**AGENDA:
NOVEMBER 1,
1999**

A Master Lease-Purchase Agreement can provide City departments with access to low-cost, tax-exempt financing for equipment purchases. The City Council approved a Request for Proposals (RFP) to solicit such an agreement from the equipment-leasing industry on August 2, 1999, by Roll Call No. 99-2431 and the RFP was distributed to 52 firms.

**SUBJECT:
SELECTION OF
BANC OF
AMERICA AS
MASTER LEASE-
PURCHASE
PROVIDER**

The City received six bids. The evaluation committee determined that Banc of America Leasing & Capital, LLC (317 6th Avenue, Des Moines; Hugh L. McColl Jr., Chairman and Chief Executive Officer) provided the most favorable combination of interest rate, experience, and firm stability.

**TYPE:
RESOLUTION
ORDINANCE
RECEIVE/FILE**

During this decade the City has entered into eight lease-purchase agreements for capital equipment such 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 twelve years and interest rates from 5.28 percent to 7.64 percent. In the 1990s, the City lease-purchased its equipment off a State of Iowa contract with Norwest Investment Services. 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.

**SUBMITTED BY:
KEVIN RIPER
FINANCE
DIRECTOR**

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.

On the November 1, 1999 Council agenda there is an item requesting that Council set the date of public hearing (November 15, 1999) for final approval of the new Master Lease-Purchase Agreement, and to finance with the Agreement two street sweepers for the Public Works Department at a par amount of \$155,845 plus \$5,000 for costs of issuance related to creating and negotiating the terms and conditions of the Master Lease-Purchase Agreement. (Each future use of the Master

Lease-Purchase Agreement should involve costs of issuance an order of magnitude smaller.) Finally, each use of the Master Lease-Purchase Agreement requires a public hearing and Council approval. Indebtedness resulting from lease-purchase arrangements does not count against the City's general obligation debt limit.

FISCAL IMPACT -

The cost for lease-purchase financings will be determined based on an interest rate computed as a fixed percentage of the Treasury Note Index as follows:

| Lease Term (Years) | Treasury Note Index* |
|--------------------|-------------------------|
| 3 | 90.88% 3-year Treasury |
| 4 | 86.99% 4-year Treasury |
| 5 | 86.99% 5-year Treasury |
| 6 | 84.79% 6-year Treasury |
| 7 | 84.79% 7-year Treasury |
| 8 | 88.03% 8-year Treasury |
| 9 | 88.95% 9-year Treasury |
| 10 | 91.08% 10-year Treasury |

*Based on the lowest applicable U.S. Treasury security of like maturity as published in The Wall Street Journal at the close of business five (5) business days before the date of the Supplement.

The City will make one yearly payment of principal and two yearly payments of interest. Staff anticipates perhaps \$500,000 to \$1 million annually of lease-purchase financings for equipment approved by Council in the budget.

RECOMMENDATION -

Approval of Banc of America Leasing & Capital, LLC as the City's Master Lease-Purchase Provider and preliminary approval of the attached Master Lease-Purchase Agreement between the City and Banc of America Leasing & Capital, LLC.

BACKGROUND -

Lease-purchase financing allows for more efficient and possibly less cost financing (due to shorter payoff terms). 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 Committee

The RFP evaluation committee consisted of the Finance Director/Treasurer, a Management Analyst in the Finance Department, and an Assistant City Attorney. The City's bond counsel and financial advisor also reviewed the six proposals. The committee conducted its evaluation based on the criteria specified in the RFP. Results are shown below:

| | Banc of America - Leasing & Capital | Firststar | First Govt . Leas e CI | GE Capital | Koc h | Norwes t |
|---|-------------------------------------|-----------|------------------------|------------|-------|----------|
| Experience/Qualifications (0-20 points) | 19 | 16 | 16 | 17 | 20 | 19 |
| Interest Rate (0-60 points) | 60.0 | 44.9 | 17.6 | 56.0 | 56.8 | 56.6 |
| Financial Capability (0-20 points) | 18 | 16 | 15 | 20 | 19 | 17 |
| Total Points | 97.0 | 76.9 | 48.6 | 93.0 | 95.8 | 92.6 |
| Ranking | 1 | 5 | 6 | 3 | 2 | 4 |

Contract Terms

Major terms of the Master Lease-Purchase Agreement between the City and Banc of America Leasing & Capital include:

Contract Term. The Contract term between the City and Banc of America will extend for three years with two one-year renewal options. The City will adhere to all terms of the Agreement for maturities extending beyond the term of the Agreement.

Non-appropriation. The City will make lease-purchase payments from either the general fund or enterprise fund revenue. For each year in which a payment is required, the City's recommended annual operating budget presented to Council shall include an amount sufficient to pay that year's principal and interest. The City Council is not legally required to appropriate money for those items paid from the general fund, though failure to pay will result in forfeiture of the leased equipment, and Banc

of America may decline future leasing with the City.

Prepayment penalty. The City can prepay equipment for early ownership by paying 101 percent of the outstanding principal plus any accrued interest if the prepayment occurs in the first half of the lease term and by paying 100.5 percent if prepayment occurs in the second half of the lease.

Title. City retains title to equipment while making payments.

Attachment