

**CITY COUNCIL  
COMMUNICATION:**

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

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

**99-503**

**SYNOPSIS -**

**AGENDA:**  
  
NOVEMBER 15, 1999

On November 1, 1999, by Roll Call No. 99-3425, the City Council approved Banc of America Leasing & Capital, LLC (317 6th Avenue, Des Moines; Hugh L. McColl Jr., Chairman and Chief Executive Officer) as the City's Master Lease-Purchase Provider and preliminarily approved the Master Lease-Purchase Agreement between the City and Banc of America Leasing & Capital, LLC.

**SUBJECT:**  
  
MASTER LEASE-  
PURCHASE  
AGREEMENT WITH  
BANC OF AMERICA  
AND FINANCING OF  
TWO STREET  
SWEEPERS

Council also approved at its November 1, 1999 meeting (Roll Call No. 99-3389) a resolution setting the date of public hearing for November 15, 1999, for the first Master Lease-Purchase financing supplement in the principal amount of not to exceed \$161,000 for the purpose of acquiring two street sweepers.

**TYPE:**

Today's request is for final approval of the Master Lease-Purchase Agreement and, following the public hearing, approval of the first supplement in the principal amount of \$161,000, for the lease-purchase financing of two street sweepers.

**RESOLUTION**  
ORDINANCE  
RECEIVE/FILE

**FISCAL IMPACT -**

**SUBMITTED BY:**

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

KEVIN RIPER  
FINANCE  
DIRECTOR

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 par amount for financing the two street sweepers is \$161,000, which includes \$155,845.47 for the street sweepers; \$700 for the City's financial advisor (Public Financial Management, Inc); and \$4,454.53 for the City's bond counsel (the Ahlers Law Firm). The street sweepers will have a lease term of seven years, which corresponds to staff's estimate of the useful life of the equipment. Costs of issuance for this financing include work 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 smaller costs of issuance. Based on November 8, 1999 interest rates, annual debt service will be approximately \$27,972.15. (The rate is 84.79 percent of 6.07 percent for the seven-year Treasury Securities, which equals 5.147 percent.) The City will make one yearly payment of principal and two yearly payments of interest.

#### **RECOMMENDATION -**

**Final approval of a Master Lease-Purchase Agreement between the City and Banc of America Leasing & Capital, LLC, and Supplement No. 1 in the principal amount of \$161,000 for the financing of two street sweepers.**

#### **BACKGROUND -**

Lease-purchase financing allows for more efficient and possibly less cost tax-exempt 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.

*Contract Terms*

Major terms of the Master Lease-Purchase Agreement between the City and Banc of America 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 pay for items 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 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.

Attachments