



**CITY COUNCIL
COMMUNICATION:**

ITEM _____

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

00-010

SYNOPSIS -

AGENDA:

JANUARY 3, 2000

SUBJECT:

MASTER LEASE
PURCHASE
AGREEMENT FOR
AIRPORT ROTARY
SNOW BLOWER

TYPE:

RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:

WILLIAM F.
FLANNERY
AVIATION
DIRECTOR

KEVIN RIPER
FINANCE
DIRECTOR

The Des Moines International Airport has several large equipment purchases included within its approved operating budget. One such item, the Airport Rotary Snow Blower, has been competitively bid and is ready for acquisition. On December 7, 1999, by Resolution No. A99-413, the Airport Board recommended approval to City Council for the utilization of the City's Master Lease Purchase program to acquire the Airport Rotary Snow Blower from Trans-Iowa Equipment, Inc. (Clear Lake, IA) in the amount of \$359,739. The new snow blower will replace an existing snow blower that is in excess of twenty years old. Timely snow removal from the runways, taxiways, aprons, and roadways is critical to the Airport's ongoing operation. Delivery of the snow blower is not anticipated until March 2000. However, because the Airport's use of the Master Lease Purchase program is considered revenue debt, Council approval is needed before the final purchase order contract can be issued.

On December 20, 1999, by Roll Call No. 99-3788, Council approved setting the date of public hearing for January 3, 2000, for the purpose of taking action on the matter of authorizing a Supplement to the Master Lease in the principal amount of not to exceed \$365,000, the proceeds of which will be used to provide funds to pay costs of acquiring certain items of equipment consisting of an Airport Rotary Snow Blower.

This request is for approval, following the public hearing, of the Supplement in the principal amount not to exceed \$365,000 for the lease-purchase financing of an Airport Rotary Snow Blower. Closing on this transaction is anticipated to occur in April 2000.

FISCAL IMPACT -

There is no fiscal impact on the City's General Fund. All costs

associated with this financing will be paid by the Airport Enterprise Fund. The cost for each lease-purchase financing is based on an interest rate computed as a fixed percentage of the Treasury Note Index. The actual interest rate is set 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 business days before the date of the Supplement (*). The Supplement is the document issued under the Master Purchase Lease Agreement for each financing.

Listed below is the applicable maturity, the fixed Treasury Note Index, the U.S. Treasury Rate as published in the Wall Street Journal on December 28, 1999, based upon a ten-year lease term and the estimated Interest Rate Because of stipulations contained within the Airport's signatory airline agreements, the proposed term of the lease for the Rotary Snow Blower (10 years) corresponds to the term that would be amortized to the airline rates under the signatory airline lease if Airport Enterprise Fund cash were utilized.

**Treasury U.S. Treasury Estimated Interest
Term Note Index Rate - 12/28/99 Rate as of 12/28/99**
10 91.08% 6.75% (*) 6.148%

The par amount for financing the Rotary Snow Blower is estimated to be \$365,000, which includes \$359,739 for acquisition of the Snow Blower and \$5,261 for costs of issuance. Based on the interest rate reflected above, annual debt service will be approximately \$49,940. As reflected above, the rate is 91.08 percent of 6.75 percent for the ten-year Treasury Security, which equals 6.148 percent. The Airport Enterprise Fund will make one yearly payment of principal and two yearly payments of interest. Because the Master Lease Purchase program is considered parity debt equal in claim to Airport Net Revenues to the 1998 Aviation System Revenue Bonds, several certifications must be made by the City's Finance Director prior to closing on the transaction. Closing on this transaction is anticipated to occur in April 2000.

RECOMMENDATION -

Approval.

BACKGROUND -

Lease-purchase financing can allow for more efficient and possibly less cost financing. Lease-purchase financing is often a more practical financing approach than long-term bond financing for the acquisition of equipment because it allows for shorter amortization schedules which match the expected useful lives of the equipment being purchased. Furthermore, lease-purchase financing can be executed for dollar amounts in tens of thousands, while bond financing usually is not cost effective for amounts less than millions. For the Airport Enterprise Fund, lease-purchase financing also allows for a matching of required payments with the corresponding periods under the airline rates and charges and conserves cash reserves for other capital projects and operating needs.

On November 1, 1999, by Roll Call No. 99-3389 and 99-3425, City Council approved the selection of Banc (sic) of America Leasing & Capital, LLC (317 6th Avenue, Des Moines; Hugh McColl Jr., Chairman and CEO), as the City's Master Lease Purchase provider for a three year term with two one-year renewal options and set the date of public hearing for the acquisition of two street sweepers by supplement agreement under the master lease-purchase program. On November 15, 1999, by Roll Call No.'s 99-3541, 99-3542, and 99-3543, City Council closed the public hearing, authorized additional action, and approved the execution and delivery of Supplement No. 1 in the principal amount of \$161,000 for the financing of two City street sweepers. The Master Lease Purchase program allows for all city departments, including enterprise funds, to utilize the program under the same terms and conditions.

On November 2, 1999, by Resolution No. A99-378, the Board approved the Airport's FY 1999/2000 Revised and FY 2000/2001 Recommended Operating Budgets with modification to approve the usage of the City's Master Lease Purchase Program to acquire the paint striper and snow blower included in the FY 1999/2000 Revised Budget and to add \$75,000 to the appropriate line item in the operating budget to cover lease payments. The funding created by the budget modification was required to provide funding for a Capital Improvements Project.

The FY 2000/2001 Recommended Airport Operating Budget, as originally presented and approved by the Airport Board, contemplated usage of the Master Lease Purchase Program for acquisition of several large equipment items in fiscal year

2000/01.

At the request of the Aviation Department, the Purchasing Department solicited bids for the purchase of the Airport Runway Rotary Snow Blower under Bid G2000-95. Bid specifications were mailed to seven potential bidders with three returning bids. The lowest bid was received from Trans Iowa Equipment, Inc., of Clear Lake, Iowa in the amount of \$359,739. In order to proceed with acquiring this piece of equipment, approval under the Master Lease Purchase Program is required. The ordinance which established the Airport Board reserves the issuance of debt to City Council.

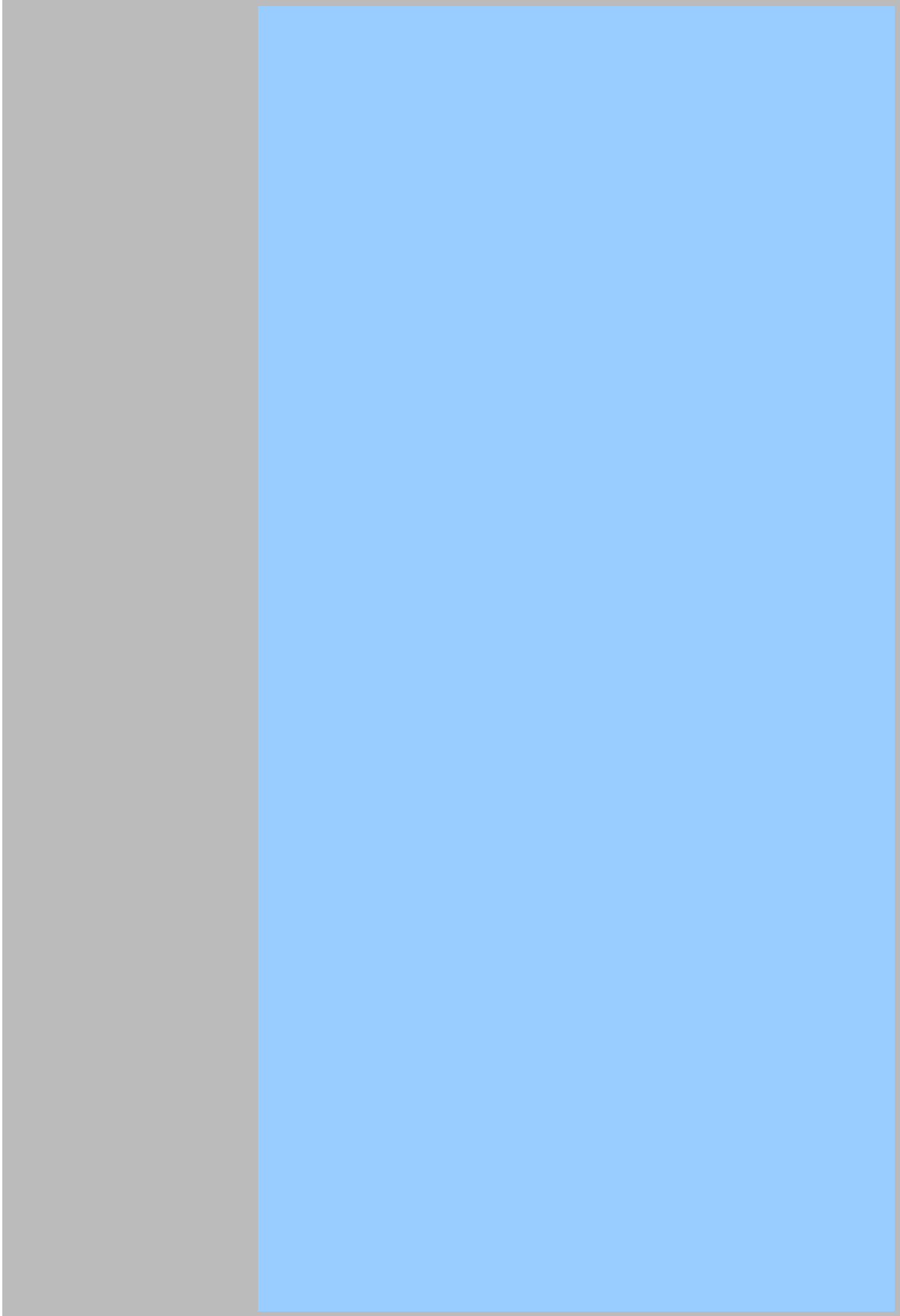
Major terms of the Master Lease-Purchase Agreement between the City and Banc of America Leasing & Capital, LLC include:

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 (and Airport) 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 in the case of the Airport, enterprise fund revenue. For each year in which a payment is required, the City (or Airport's) recommended annual operating budget shall include an amount sufficient to pay that year's principal and interest.

Prepayment Penalty - The City can prepay for early ownership by paying 101.0 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 the prepayment occurs in the second half of the lease.

Title - The City (Airport) retains title to the equipment while making payments. Failure to pay will result in forfeiture of the leased equipment and Banc of America may decline future leasing.





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