



Agenda Item:

47

COUNCIL COMMUNICATION City Manager's Office

GENERAL INFORMATION

Agenda Date: 10/25/04
04-530

Communication No.:

Agenda Item Type: Resolution
No.:

Roll Call

Submitted by: Merrill Stanley, Finance Director

SUBJECT—

Approving Master Lease-Purchase Agreement and Provider.

SYNOPSIS—

Approving Banc of America Leasing and Capital, LLC, 101 South Tryon St., Charlotte, NC (Douglas H. Bowers, President) as the city's provider for the Master Lease-Purchase Agreement for a three-year period with the option of two one-year renewals.

FISCAL IMPACT—

Borrowing costs under the lease-purchase will be determined by the interest rate market at the time of the lease. The Request for Proposals (RFP) sought an interest rate tied to the U.S. Treasury Note at the time of the borrowing. Proposers quoted rates as a fixed percentage of the U.S. Treasury Note as reported in the Wall Street Journal five days prior to closing. Lease-purchases do not count against the City's general obligation debt limit.

RECOMMENDATION—

Approval

BACKGROUND—

On November 1, 1999, by Roll Call Nos. 99-3389 and 99-3425, the City Council approved the selection of Banc (sic) of America Leasing & Capital, LLC, as the City’s Master Lease-Purchase provider for a three-year term with two one-year renewal options. There have been 16 lease-purchase actions totaling \$8,559,015.22 approved by Council under the 1999 contract, involving equipment purchased for the Airport, Solid Waste, Stormwater Utility, and General Fund departments. The total amount originally authorized for issuance was \$6,000,000, but with the ease of use and cost effectiveness realized, the authorized amount was increased by Council to \$9,000,000.

November 15, 2004 marks the end of the 1999 agreement with the new agreement set to begin immediately thereafter. Any supplements in process under the 1999 agreement (through #16) will proceed under the terms of the 1999 agreement.

The 2004 RFP received six proposals. A Proposal Evaluation Committee met to review and grade proposals based on the criteria set forth in the RFP. Evaluation criteria included experience and qualifications (15%), financial capability (15%), and total cost (70%). Bank of America received the highest score with a ranking of 99.3%, with SunTrust coming in second at 96.9%. Bank of America received the 1% local adjustment for having a Des Moines presence.

The total cost portion of the evaluation was based on a hypothetical series of leases as stated in the RFP. The interest cost plus fees for six leases of \$1,000,000 each with terms of three (2), five, seven, and ten (2) years was used to calculate comparative costs. The percentage of the Treasury Note Rate that will be used to determine lease interest rates, as compared to the 1999 percentages is as follows:

<u>Lease Term</u>	<u>2004 Proposed %</u>	<u>1999 %</u>
3 years	92%	90.88%
4 years	91%	86.99%
5 years	89%	86.99%
6 years	88%	84.79%
7 years	88%	84.79%
8 years	88%	88.03%
9 years	88%	88.95%
10 years	88%	91.08%

Comparing the above percentages in the 2004 agreement with those in the 1999 agreement shows that 2004 percentages are higher in the shorter terms, but lower in the longer terms. Using the hypothetical lease terms included in the RFP, total interest cost would be 1% less when using 2004 percentages than when using 1999 percentages.

The advantages of using the Master Lease-Purchase Agreement include having a credit facility in place that allows financing of equipment on an as-needed basis instead of waiting until the annual general obligation bond issue each June, or incurring the issuance costs associated with individual revenue bond issues. Lease-purchase supplements have very low issuance costs and

the repayment term can be set for 3 to 10 years, depending on the expected useful lives of the equipment. In addition, the debt does not count against the City's general obligation debt limit.