



City of Woodland

REPORT TO MAYOR AND CITY COUNCIL

AGENDA ITEM

TO: THE HONORABLE MAYOR
AND CITY COUNCIL

DATE: July 8, 2008

SUBJECT: Approve Augmentation to Sun Trust Lease

Report in Brief

The City Council previously approved a Vehicle Fleet Management Policy allowing for the lease purchase of vehicles with a long service life, minimum initial cost of \$80,000 and/or situations where the City may benefit from alternative financing strategies. In many cases, a lease purchase makes financial sense and helps the City from a cash flow standpoint by avoiding a significant expenditure of funds. SunTrust Leasing Corporation (SunTrust) has been a source of previous lease purchase agreements wherein the City has acquired equipment at very competitive lease rates. The current agreement with SunTrust allows for a lease purchase of equipment needed by the Public Works Department upon authorization of an augmentation by the City Council.

Staff recommends that the City Council approve Resolution No. ____ authorizing the Assistant Finance Director to augment an existing Lease Purchase Agreement between the City of Woodland and SunTrust Leasing Corporation for the acquisition of new City equipment as described herein.

Background

On September 7, 2004, the City Council authorized the Finance Director to enter into a lease purchase agreement with SunTrust Leasing Corporation for the acquisition of various city vehicles and equipment. That agreement was executed on September 17, 2004. This lease allows for augmentations upon Council approval. Staff has evaluated alternative financing options and the augmentation is the least costly when compared to acquiring a new lease via a Request for Proposal (RFP) process. SunTrust is able to offer the City an interest rate of slightly over 4% through an augmentation of the current lease agreement. Similar leasing programs offered by lenders are assessing interest rates of nearly 6%. The competitive rates offered by SunTrust have allowed the City to secure two augmentations since the initial agreement was implemented in 2004. This request is consistent with those prior approvals. The City is now prepared for its next acquisition of fleet equipment valued at over \$80,000 which may be purchased through a lease consistent with City policy. SunTrust is offering very favorable rates and requires the attached resolution to augment the existing lease.

Discussion

The three equipment units will be utilized in the Public Works Department in order to support infrastructure maintenance in the Sewer, Storm Water and Street Maintenance programs. The following information summarizes the use of the equipment.

High Velocity Sewer/Catch Basin/Drain Cleaner – (New) Will be dedicated to cleaning and maintaining the sewer system and storm drain infrastructure and is critical in keeping the City in compliance with the National Pollution Discharge Elimination System (NPDES) and it’s regulatory requirements. Although the City has two other HVVC trucks, they are already being over taxed and will not be able to keep up with the additional maintenance requirements.

Large Capacity Backhoe – (Replacement) This is a replacement for equipment #328, a 1985 Case back-hoe that has out-lived its usefulness and is no longer sized to fit the current workload. The operation now requires a heavier duty backhoe to complement the new pavement router recently purchased. The unit is a key component to support Measure E work over the next ten (10) years.

Ten Yard Dump Truck – (Replacement) This is a replacement for equipment #314, a 1992 International with 57,983 miles. Because of the model year and GVW, it no longer meets the Air Resources Board requirements for diesel engines as per Phase II of our compliance. Retrofitting this vehicle for a diesel particulate trap (\$15,000) is not cost effective for a vehicle already slated for replacement.

These units were reviewed during the FY2009 budget process and the lease-purchase costs were included in the Council approved budget.

Fiscal Impact

The total amount of the lease is \$650,000 and will be held in escrow in the City’s name after agreement execution. The City will disperse the funds upon actual purchase of the equipment. Basic lease terms: (Est.) 4.22 %, 9½ years, with quarterly payments of \$20,851.28, (\$83,405.52 annually).

Although lease financing appears to be significantly more expensive over the life of the lease when compared to outright purchasing, it does allow the City to purchase critical equipment during tight budget conditions when cash flow can be an issue. It is also prudent financial practice to finance larger purchases such as these pieces of heavy equipment over time as their useful lives will dramatically exceed the lease purchase term. In addition, if the annual amortization cost to replace the equipment was included as a factor, the acquisition cost of a lease purchase and an outright purchase would be very comparable. If the City Council approves the recommended action, the augmentation agreement will be executed after final negotiations with the leasing company are complete.

The funding sources for lease payments include the Storm Drain, Sewer Enterprise Fund and the Transportation Development Funds.

Public Contact

Posting of the City Council agenda.

Alternative Courses of Action

1. Approve Resolution No. ____ authorizing the Assistant Finance Director to augment an existing Lease Purchase Agreement between the City of Woodland and SunTrust Leasing Corporation for the acquisition of new City equipment as described herein.
2. Direct staff to seek alternative financing proposals for a lease purchase agreement.

Recommendation for Action

Staff recommends that the City Council approve Alternative No. 1.

Prepared by: Al Mancilla
Purchasing Manager

Reviewed by: Amber D'Amato
Asst. Finance Director

Mark G. Deven
City Manager

Attachments

RESOLUTION _____

A RESOLUTION AUTHORIZING EXECUTION AND DELIVERY OF AN AUGMENTATION TO THE SUNTRUST MASTER LEASE AGREEMENT, EQUIPMENT SCHEDULE NO. 1, AN ESCROW AGREEMENT AND RELATED INSTRUMENTS AND DETERMINING OTHER MATTERS IN CONNECTION THEREWITH

WHEREAS, the City Council of the City of Woodland ("City") desires to obtain a New High Velocity Sewer/Catch Basin/Drain Cleaner, a Large Capacity Backhoe Replacement #328, and a Ten Yard Dump Truck Replacement #316 by augmenting Equipment Schedule No. 1 to the Master Lease Agreement (collectively, "Amended Lease") with SunTrust Leasing Corporation; and

WHEREAS, the Equipment is essential for the City to perform its governmental functions; and,

WHEREAS, the Equipment will cause the Amended Lease to be at \$650,000; and,

WHEREAS, the funds made available under the Amended Lease will be deposited with SunTrust Bank ("Escrow Agent") pursuant to an Escrow Agreement between the City and the Escrow Agent ("Escrow Agreement") and will be applied to the acquisition of the Equipment in accordance with said Escrow Agreement.

NOW, THEREFORE, BE IT RESOLVED BY THE WOODLAND CITY COUNCIL AS FOLLOWS:

Section 1. Obtaining the Equipment through the Amended Lease and Escrow Agreement (collectively, "Financing Documents") is in the best interest of the City.

Section 2. The Assistant Finance Director is authorized to negotiate and execute, acknowledge and deliver the Financing Documents upon completion of negotiations.

PASSED AND ADOPTED this _____ of _____, 2008 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Marlin H. Davies, Mayor

ATTEST:

APPROVED AS FOR FORM:

Sue Vannucci, Director of
Administrative Services/City Clerk

Ann M. Siprelle, City Attorney