



City of Woodland

REPORT TO MAYOR AND CITY COUNCIL

AGENDA ITEM

TO: THE HONORABLE MAYOR
AND CITY COUNCIL

DATE: December 2, 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 also evaluated alternative financing options through U.S. Communities, a strategic procurement source for public agencies. U.S Communities solicited rates via a Request for Proposal (RFP) using pre-qualified leasing companies. This service affords the City the option to choose between the best rates. After reviewing the RFP results, the augmentation is the least costly when compared to acquiring a new lease. SunTrust is able to offer the City an interest rate of 5.1% through an augmentation of the current lease agreement. Similar leasing programs offered by other lenders are at 5.295% to 6.518%. 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 four equipment units will be utilized in the Public Works Department in order to support infrastructure maintenance in the Sewer and Street Maintenance programs. The following information summarizes the use of the equipment.

Asphalt Patch Truck – (Replacement) This unit is a replacement for equipment #216, a 1993 GMC with 97,562 miles that has out-lived its usefulness and reached its replacement cycle. This unit is used extensively throughout the year and is the only unit of its kind the city owns. Vehicle assignment: Fund 354 Public Works/Street Maintenance.

Stencil/Paint Truck – (Replacement) This unit is a replacement for equipment #115, a 1992 GMC with 42,896 miles that has out-lived its usefulness and has reached its replacement cycle. This unit is the only city owned unit used for all street markings and doubles to tow the thermoplastic marking trailer. The other critical part of this unit is the airless paint system that has also reached its replacement cycle. Vehicle assignment: Public Works Fund 355 Signs and Markings.

Two (2) Ten Yard Dump Truck – (Replacements) One unit is a replacement for equipment #316, a 1992 International with 57,983 miles. The other is a replacement for equipment #215, a 1990 GMC with 63,951 miles. Vehicle assignments: Fund 220 Public Works/Utilities and Fund 354 Public Works/Street Maintenance.

In addition, all four units no longer meet the Air Resources Board requirements for diesel engines as per Phase II of our compliance. Retrofitting these units for a diesel particulate trap (\$15,000 per vehicle) is not cost effective for vehicles 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 \$585,000 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.) 5.1%, 10 years, with quarterly payments of \$18,793.14, (\$75,172.56 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 Sewer Enterprise Fund and the Transportation Funds, including TDA and Gas Tax. There is no impact on the General Fund.

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.

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City Manager

Attachments