



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JULY 16, 2024**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: PUBLIC HEARING – FINANCING OF VEHICLES AND RELATED EQUIPMENT THROUGH CAPITAL EQUIPMENT LEASE FINANCING AGREEMENT WITH JP MORGAN CHASE BANK N.A. IN THE AMOUNT NOT-TO-EXCEED \$4,814,000 PLUS INTEREST, IN COMPLIANCE WITH PURCHASING RESOLUTION NO. 24101, SECTIONS 602(f) AND 602(p).

ISSUE:

Conduct a Public Hearing to receive comments relative to the proposed financing transaction to fund the purchase of vehicles and related equipment. Consider approval of financing vehicles through capital equipment lease with JPMorgan Chase Bank, N.A. (“the Bank” or “JPMorgan Chase”) in the amount not-to-exceed \$4,814,000, in compliance with Purchasing Resolution No. 24101, Sections 602(f) and 602(p).

RECOMMENDATIONS:

That the City Council:

1. Conduct a Public Hearing in consideration of the 2024 Capital Equipment Lease Financing issuance and receive comments relative to the proposed financing transaction;
2. Adopt a resolution approving an amendment and schedule to the Master Lease Purchase Agreement with JP Morgan Chase Bank, N.A. in the amount not-to-exceed \$4,814,000, payable in semi-annual payments over a 7-year period at an estimated interest rate of approximately 4.149% per year;
3. With at least five affirmative votes, authorize the Chief Financial Officer, or designee, to record an increase in revenue equal to the total bond proceeds of \$4,814,000 and a supplemental appropriation of the same amount in the applicable Water Fund accounts for the purchase of vehicles and related equipment;
4. Authorize the estimated costs of issuance expenditures of up to \$50,000 associated with this financing to be paid from existing appropriations in the Water Fund, Debt Related Fiscal Charges Account; and
5. Authorize the City Manager, or designee, to execute all documents necessary to complete the financing and purchasing of the vehicles and related equipment, including approving purchase orders and making minor and non-substantive changes.

BOARD RECOMMENDATION:

On June 24, 2024, the Riverside Board of Public Utilities voted to recommend that the City Council:

1. Adopt a resolution approving a financing agreement with JPMorgan Chase Bank, N.A. in the amount of \$4,814,000 plus interest, payable over a 7-year period at an estimated interest rate of approximately 4.149%;
2. Authorize an increase in estimated revenues in the amount of \$4,814,000 to reflect the proceeds of the capital lease financing agreement;
3. Authorize a supplemental appropriation in the amount of \$4,814,000 from the Water Fund, Water Automotive Equipment Account, for the purchase of vehicles and related equipment;
4. Authorize the estimated costs of issuance expenditures of \$50,000 associated with this financing to be paid from existing appropriations in the Water Fund, Debt Related Fiscal Charges Account; and
5. Authorize the City Manager, or designee, to execute all the documents necessary to complete the financing and purchasing of the vehicles and related equipment, including approving purchase orders and making minor and non-substantive changes

BACKGROUND:

On March 13, 2023 and April 18, 2023, the Board of Public Utilities and City Council respectively met and approved vehicle purchases in compliance with Purchasing Resolution No. 23914, Article Six Acquisition of Goods, Sections 602 (f) and 602 (p), using Sourcewell Cooperative Purchasing for the Water Field and Operations Divisions for an estimated amount of \$4,814,000, plus interest, with various vendors, subject to the availability of budgeted funds.

The City's various departments have periodic needs for equipment and vehicle acquisitions that are typically funded through capital equipment lease financing of a short to medium payback term. The City has a long history of utilizing this type of financing to facilitate these purchases.

DISCUSSION:

On April 3, 2024, the Finance Department, in partnership with the City's Municipal Advisor, CSG Advisors, released a Request for Proposals to 16 direct lenders that provide capital equipment lease financing. The City received eight qualified responses, thoroughly analyzed for the lowest borrowing cost, and selected JPMorgan Chase Bank. The City previously entered into a master equipment lease with the Bank in 2013.

Pursuant to an amendment and new financing schedule to the Master Lease with the Bank, the City will finance \$4,814,000, plus interest, to purchase Water Field Division vehicles and related equipment. The City will be required to make annual debt service payments of approximately \$800,000 over a 7-year period to be paid semiannually at an interest rate of approximately 4.149%. The actual interest rate may vary if the loan does not close until after July 25, 2024, at

which time it will be based on a spread to the SOFR¹ swap interest rate index set on the date that the lease transaction closes, which may change the actual payment amount slightly. The total costs of issuance for the capital equipment lease financing is estimated not-to-exceed \$50,000.

Table 1 is an estimated semi-annual debt service schedule for the financing plan:

JP MORGAN CHASE BANK					
7-YEAR Borrowing Term					
Loan Amount		\$4,814,000.00			
Estimated Interest Rate		4.14900%*			
Basis		30/360			
Period		14			
Payment	Principal	Interest	Total	Annual	Balance
1	\$299,867.38	\$99,866.43	\$399,733.81		\$4,514,132.62
2	\$306,088.13	\$93,645.68	\$399,733.81	\$799,467.62	\$4,208,044.49
3	\$312,437.93	\$87,295.88	\$399,733.81		\$3,895,606.56
4	\$318,919.45	\$80,814.36	\$399,733.81	\$799,467.62	\$3,576,687.11
5	\$325,535.44	\$74,198.37	\$399,733.81		\$3,251,151.67
6	\$332,288.67	\$67,445.14	\$399,733.81	\$799,467.62	\$2,918,863.00
7	\$339,182.00	\$60,551.81	\$399,733.81		\$2,579,681.00
8	\$346,218.33	\$53,515.48	\$399,733.81	\$799,467.62	\$2,233,462.67
9	\$353,400.63	\$46,333.18	\$399,733.81		\$1,880,062.04
10	\$360,731.92	\$39,001.89	\$399,733.81	\$799,467.62	\$1,519,330.12
11	\$368,215.31	\$31,518.50	\$399,733.81		\$1,151,114.81
12	\$375,853.93	\$23,879.88	\$399,733.81	\$799,467.62	\$775,260.88
13	\$383,651.02	\$16,082.79	\$399,733.81		\$391,609.86
14	\$391,609.86	\$8,123.95	\$399,733.81	\$799,467.62	\$-
Total	\$4,814,000.00	\$782,273.35	\$5,596,273.34	\$5,596,273.35	

* The Bank has agreed to lock the rate until July 25, 2024. The actual Interest rate may vary if the closing date occurs after such date, at which time it will be based on the spread to the SOFR Swap Rate upon the closing date, which may change the debt service schedule amount above.

Financing Team:

The Financing Team for this transaction consists of the following:

- City staff from the Finance Department and Riverside Public Utilities (RPU)
- CSG Advisors, Incorporated serving as the Municipal Advisor
- JP Morgan Chase Bank, N.A. serving as lender, selected based on their response to a competitive request for proposal
- Stradling, Yocca, Carlson & Rauth LLP serving as Bond Counsel
- US Bank National Association serving as Escrow Agent

The estimated Financing Team expenses include:

Role	Party	Estimated Fee
Bond Counsel	Stradling, Yocca, Carlson & Rauth LLP	\$15,000
Municipal Advisor	CSG Advisors, Incorporated	\$10,000
Escrow Agent	US Bank National Association	\$1,500
	Total:	\$26,500

¹ Secured Overnight Financing Rate

Good Faith Estimates:

California Senate Bill 450 (SB 450) requires a public agency disclose, in a public meeting, good faith financing estimates provided by an underwriter, municipal advisor, or private lender. These estimates include (1) the True Interest Cost of the obligations; (2) the total finance charge of the obligations, equal to the sum of all fees and charges paid to third parties; (3) the amount of estimated proceeds of the obligation minus the total finance charge, and any reserves funded from proceeds of the obligation; and (4) the total payment amount. The attached Resolution of Issuance (Attachment 1) Exhibit A contains the details of the Good Faith Estimates of the Lease Schedule as defined therein, prepared by Municipal Advisor, CSG Advisors Incorporated.

- (A) True Interest Cost of the Schedule: 4.1490%
- (B) Finance Charge of the Schedule
(Sum of all fees/charges to be paid to third parties): \$26,500
[Note: the City has decided to pay the Finance Charge from available funds]
- (C) Net Proceeds of the Schedule to be Received (net of finance charges, reserves and capitalized interest, if any): \$4,814,000
- (D) Total Payment Amount through Maturity of the Schedule: \$5,596,273

The Good Faith Estimates assume expected closing date of July 25, 2024.

Vehicle and Equipment Details

The 2023 proposed vehicle list has been adjusted to reflect current market conditions and costs. The heavy equipment market has been greatly impacted by fluctuations in price due to supply chain and market factors outside of the City’s control.

Table 2 Proposed Vehicles

Equipment Type	Quantity	Estimated Actual Cost Per Vehicle	Total Estimated Cost
Service Truck Freightliner 114SD (Sourcewell #060920)	5	\$400,575	\$2,002,875
Dump Truck Peterbilt 16’ Dump (Sourcewell #060920)	6	\$342,705	\$2,056,230
Boom Truck Elliot – 1870F (70’ boom) (Sourcewell #110421)	1	\$428,930	\$428,930
Water Ops Truck Ford 350 (Sourcewell #060920)	2	\$125,390	\$250,780
Cargo Van Ford Transit 250 MR (Sourcewell #091521)	1	\$75,000	\$75,000
		Total:	\$4,813,815

The costs reflected in Table 2 contain both estimated and actual cost per vehicle, all of which have been rounded for simplicity. The heavy equipment market has been heavily impacted by fluctuations in price and availability, and the list of equipment may need to be modified as current market conditions arise during the purchasing process.

Purchasing Resolution No. 24101, 602 (f), Acquisition of Goods “Competitive Procurement through Informal Procurement and Formal Procurement processes shall not be required...(f) When Cooperative Purchasing is available and undertaken or when goods can be obtained through Federal, State and/or other public entity pricing contracts or price agreements.”

RPU has determined that utilizing Sourcewell Cooperative Purchasing for the purchases of the 18 replacement vehicles will expedite the ordering process while maintaining compliance with the City's purchasing requirements. Sourcewell provides competitive municipal vehicle and equipment pricing to government agencies and is a service cooperative created by the Minnesota legislature as a local unit of government (Minn. Const. art. XII, sec. 3). Sourcewell uses cooperative contract purchasing to leverage more than 50,000 member agencies' national purchasing power while streamlining the required purchasing process. As a municipal, national contracting agency, Sourcewell establishes and provides nationally leveraged and competitively solicited purchasing contracts under the guidance of the Uniform Municipal Contracting Law. Joint Powers laws enable members to purchase through their awarded contracts.

Purchasing Resolution No. 24101, Section 602 (p) Acquisition of Goods, states that Competitive Procurement through the Informal Procurement and Formal Procurement process shall not be required... "When approved by the Manager, the City requires Goods not subject to the bidding requirements of Section 1109 of the City Charter, which are of such a nature that suitable technical or performance specifications describing them are not readily available and cannot be developed in a timely manner to meet the needs of the City, in which case the Manager shall be authorized to negotiate with any Person or Persons for the Procurement thereof upon the price, terms, and conditions deemed by the Manager to be in the best interest of the City and in doing so may utilize Informal Procurement or Negotiated Procurement process".

Equipment and/or specialty add-ons to be installed by the vendor supplying the new vehicle that is excluded from the Sourcewell Cooperative Agreement will need to be negotiated separately, and a purchase order will need to be issued to hold the item for RPU.

The Purchasing Manager concurs that the recommended actions are in compliance with Purchasing Resolution No. 24101.

The Fleet Services Manager concurs with the recommendations in this report.

STRATEGIC PLAN ALIGNMENT:

This item contributes to **Strategic Priority 5 – High Performing Government** and **Goal 5.4 – Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.**

This item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – Replacement of the current ageing vehicles will ensure timely maintenance and reliability of the City's water system and result in greater public good.
2. **Equity** – RPU endeavors to provide safe and reliable water service to all its customers. Since RPU's water system is serviced by heavy duty equipment, investments made to maintain the operation of these vehicles is essential in the reliability of maintaining the overall water system, thereby providing an equitable benefit to all customers.
3. **Fiscal Responsibility** – Ensuring the lowest possible fees related to the cost of borrowing supports long term debt service fiscal responsibility.

4. **Innovation** – These purchased vehicles are innovative in keeping up to date with the current state and local air emission regulations, as well as maintaining the compressed natural gas alternative fuel engines.
5. **Sustainability & Resiliency** – These vehicles help to ensure RPU can provide a reliable water service to its customers.

FISCAL IMPACT:

The total fiscal impact of this action is \$4,814,000 in total bond proceeds plus the additional debt-related fiscal charges which are not to exceed \$50,000. Upon Council approval, an increase in revenue will be recorded in the Water Fund, Other Bond & Financing Proceeds revenue account number 0000520-382040 and a supplemental appropriation will be recorded in the Water Fund, PU Water Field Operations, Automotive Equipment Account Number 6205000-462100. The estimated costs of issuance expenditures of up to \$50,000 associated with this financing will be paid from existing appropriations in the Water Fund, Water Debt Service, Debt Related Fiscal Charges Account 6225000-487000.

The debt service payments of approximately \$800,000 annually will begin in Fiscal Year 2024/25 and are budgeted and available in the Water Fund, Debt Service, Principal expenditure account 6225000-481010 and Water Fund, Debt Service, Interest expenditure account 6225000-482000. The required debt service payments for future fiscal years will be included in the department's budget submissions for those fiscal years to be presented to the City Council for approval.

Prepared by: Meline Carranza, Debt and Treasury Manager
Approved by: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Certified as to
availability of funds: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Approved by: Edward Enriquez, Assistant City Manager/Chief Financial Officer/City
Treasurer
Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. Resolution of Issuance
2. Master Lease-Purchase Agreement Amendment and related Equipment Lease Schedules
3. Escrow Agreement
4. Presentation