



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: MAY 24, 2022

FROM: POLICE DEPARTMENT WARDS: ALL
FINANCE DEPARTMENT

SUBJECT: MEASURE Z – NEW CAPITAL LEASE FINANCING FOR TWO POLICE HELICOPTERS AND ASSOCIATED EQUIPMENT IN THE AMOUNT OF \$11,291,564 – SUPPLEMENTAL APPROPRIATION

ISSUE:

Approval of a capital lease with Banc of America Public Capital Corp for the financing of two fully outfitted Police Helicopters and related equipment in an amount of \$11,291,564.

RECOMMENDATIONS:

That the City Council:

1. Adopt the attached resolution approving the form of a financing agreement with Banc of America Public Capital Corp in the amount of \$11,291,564, payable over a period of ten years at an interest rate of 1.7729%;
2. Authorize the City Manager, the Chief Financial Officer, or designee to execute and deliver all associated documents necessary to complete the financing; and
3. With five affirmative votes, authorize the Chief Financial Officer to increase the budgeted debt payments in the Measure Z Fund to match the debt service schedule, estimated to require a supplemental appropriation of \$626,576 in FY 2022/23 and \$14,995 in FY 2023/24.

BACKGROUND:

Measure Z – Police Helicopters

On November 16, 2021, the City Council unanimously voted to approve the purchase of two Airbus H125 Helicopters in the estimated amount of \$10,777,070 plus applicable tax from Measure Z funds utilizing capital lease financing. On December 14, 2021, the City Council approved the Purchasing Agreement and a purchase order with Airbus Helicopters, Inc. of Grand Prairie Texas, in the amount of \$10,137,070 plus tax. The City Council subsequently approved

the purchase of a refurbished fixed FLIR 380 HDc helicopter based aerial thermal imaging sensor camera system on April 12, 2022.

Financing History – Banc of America Capital Corp.

In September 2013, the Finance Department undertook a Request for Proposals (RFP) to solicit interest from capital lease vendors in financing various equipment acquisitions for the General Fund, including fixtures and equipment at the Convention Center, Fox Performing Arts Center, and Municipal Auditorium. Two vendors responded to the RFP and the City ultimately selected Banc of America Public Capital Corp. as their proposal resulted in the lowest cost to the City. The master lease of \$3,668,000 was for a term of seven years at an interest rate of 1.75% (Schedule 1).

In December 2016, the Finance Department undertook another Request for Proposals (RFP) to solicit interest from capital lease vendors in financing vehicles and hardware, including public safety radio equipment, a Police Department records management system, Community & Economic Development permitting system, and Riverside Public Utility water system heavy vehicles. Seven vendors responded to the RFP and the City selected Banc of America Public Capital Corp. as their proposal again resulted in the lowest cost to the City. The amendment to the master lease of \$10.5 million included payment schedules over eight and ten years at a blended interest rate of 2.37% (Schedule 2).

In September 2017, the Finance Department financed up to \$14,500,000 for Fire Department vehicles by amending the existing Banc of America Public Capital Corp. Master Agreement. The rate provided by Bank of America for this schedule (Schedule 3), was 2.0830% for vehicles financed over seven years and 2.183% for vehicles financed over 10 years. These rates were determined to be 20 basis points (bps) less than the rates secured through the most recent capital financing RFP issued in December 2016 as well as an informal survey of additional financing institutions with whom the City had relationships.

DISCUSSION:

Police Department Helicopter Overview

Based on previous Council approval as noted in this report the authorized purchase of the two helicopters is summarized below.

| | Helicopter 1 | Helicopter 2 |
|------------------------------------|------------------------|------------------------|
| Standard Aircraft | \$ 3,424,000.00 | \$ 3,424,000.00 |
| Additional Airframe Equipment | 252,720.00 | 252,720.00 |
| Vendor Installed Items | 1,401,734.00 | 1,401,734.00 |
| Pilot Night Vision Goggles | 12,500.00 | 12,500.00 |
| FLIR (Equipment plus Installation) | 389,698.00 | - |
| Discounts | (48,468.00) | (48,468.00) |
| Credit for no interior flooring | (1,488.00) | (1,488.00) |
| Tax (8.75%) | 399,934.76 | 399,934.76 |
| | <u>\$ 5,830,630.76</u> | <u>\$ 5,440,932.76</u> |

Financing Plan

The Finance Department issued an RFP through its Municipal Advisor, CSG Associates, Inc. in March 2022 to finance approximately \$11.65 million for the purchase of the Police Department Airbus Helicopters. Five banks responded to the request for proposal. Banc of America Public Capital Corp. proposed the lowest interest rate and fees, saving the Police Department significant interest cost. In addition, the cost of issuance, which includes Bond Counsel to amend the existing Master Lease Agreement and create Schedule 4, is outlined below.

| Cost of Issuance | | |
|-------------------------|-----------------------------------|---------------------|
| Bond/Disclosure Counsel | Stradling, Yocca, Carlson & Rauth | \$ 12,500.00 |
| Financial Advisor | CSG Advisors | 7,500.00 |
| | | <u>\$ 20,000.00</u> |

There is no reserve fund required in this financing, and the financing will be tax exempt.

Good Faith Estimates

The attached Resolution Approving Lease Financing (Attachment 1) Exhibit A contains the details of the Good Faith Estimate, prepared by Municipal Advisor, CSG Advisors, Inc., in consultation with Banc of America Public Capital Corp.

- (A) True Interest Cost of the Schedule: 1.7729%
- (B) Finance Charge of the Schedule (Sum of all fees/charges paid to third parties): \$20,000
- (C) Net Proceeds of the Schedule to be Received (net of finance charges, reserves and capitalized interest, if any): \$11,271,564
- (D) Total Payment Amount through Maturity of the Schedule: \$12,381,572

STRATEGIC PLAN ALIGNMENT:

This item contributes to Strategic Priority No. 5 *High Performing Government* and Goal No. 5.4 – Achieving and maintaining financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.

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

1. **Community Trust** – Approving the lease agreement and good faith estimates for the helicopter financing in an open forum demonstrates that the City of Riverside is transparent and committed to community trust and makes decisions that serve the public interest.
2. **Equity** – Using capital lease financing to fund long-term capital equipment over ten years ensures the repayment of the equipment is spread to the generations of taxpayers that receive the actual benefits of the equipment.
3. **Fiscal Responsibility** – The City was able to obtain and lock in interest rates far lower than current market benchmarks, significantly reducing interest cost.
4. **Innovation** – Financing these helicopters provides the Police Department with state-of-the-art technology to ensure the safety of our community.
5. **Sustainability & Resiliency** – Sound analysis and consideration of all funding options are the key to Riverside’s resilient and sustainable debt portfolio.

FISCAL IMPACT:

The total fiscal impact of this action is \$12,381,572 over the ten-year life of the lease. The proposed capital lease requires annual debt service payments of \$1,238,157 over a ten-year period to be paid semiannually at an interest rate of 1.7729%.

Currently, the proposed FY 2022-2024 biennial budget and Measure Z Spending Plan includes one (1) estimated debt service payment of \$611,581 in FY 2022/23 and two (2) estimated debt service payments totaling \$1,223,162 in FY 2023/24. With Council approval and following budget adoption, the budget and spending plan will be increased to the actual payment obligations and timing per the debt service schedule: the payments will begin in Fiscal Year 2022/23 with two (2) debt payments per fiscal year totaling \$1,238,157. Sufficient funding exists in Measure Z unallocated reserves for the supplemental appropriations.

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|------------------------|---|
| Prepared by: | Heidi Schrader, Debt and Treasury Manager |
| Certified as to | |
| availability of funds: | Edward Enriquez, Interim Assistant City Manager CFO/Treasurer |
| Approved by: | Kris Martinez, Assistant City Manager |
| Approved as to form: | Phaedra A. Norton, City Attorney |

Attachment:

1. Resolution Approving Lease Financing
2. Equipment Schedule 4
3. Escrow and Account Control Agreement
4. Term Sheet