



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: DECEMBER 12, 2016

ITEM NO: 9

SUBJECT: RIVERSIDE PUBLIC UTILITIES PARTICIPATION IN THE 2016 CITY LEASE PURCHASE BOND ISSUANCE FOR THE PURCHASE OF WATER HEAVY VEHICLES AND EQUIPMENT IN AN ESTIMATED AMOUNT OF \$2,300,000

ISSUE:

Approval of Riverside Public Utilities' participation in the 2016 City Lease Purchase Bond issuance for the purchase of heavy vehicles and equipment for the Water Utility in an estimated amount of \$2,300,000.

RECOMMENDATIONS:

That the Board of Public Utilities:

1. Approve Riverside Public Utilities' participation in the 2016 City Lease Purchase Bond Issuance for the purchase of Water Heavy Vehicles and Equipment in an estimated amount of \$2,300,000;
2. Authorize the City Manager, or his designee, to execute the necessary documents; and
3. Direct staff to provide a report to the Board with the final associated costs of issuance for the Water Utility's share of the Lease Purchase Bonds after approval by the City Council.

BACKGROUND:

Staff recommends approval of a lease purchase financing of water fleet heavy equipment to better manage annual cash flow and enable the replacement of aging equipment critical to the daily mission of the Water Utility. During the two year budget process, the Water Utility identified a need to replace aging heavy vehicles and equipment totaling approximately \$2,000,000. These vehicles are needed to perform ongoing construction, maintenance and operation activities in an efficient and safe manner. On average, the existing equipment is 20 years old.

Due to the drop in revenues from the drought, the Water Utility was only able to fund equipment purchases of \$610,000 and \$875,000, respectively for fiscal years 2017 and 2018, which was included in the City Council and Board approved Two-Year Budget. At the time of budget approval, the plan was to research financing or purchase options for equipment needed with funding available.

In March 2016 the City Council approved the Fiscal Policies which included maintaining a capital repair/replacement reserve to accumulate funds for replacement/repair of facilities and equipment in a more routine, timely manner. This reserve has a current balance of \$750,000.

The City Council in July 2015 authorized the Police Department to purchase a new radio system and in October 2015 authorized the Community Development Department to purchase permitting software and associated hardware. In both instances, the City Council approved using a Lease Purchase method for financing these projects. The City plans to undertake a lease purchase financing to fund this equipment. The City's Chief Financial Officer recommended combining City and Utility equipment needs to obtain best pricing.

Lease purchase financings are an alternative to using traditional municipal bonds to purchase plant and equipment, including buildings, rolling stock and technology. The City intends to use the services of an investment bank to solicit financing proposals from investors. Potential investors include leasing companies, banks, and insurance companies, among others. The investment bank will release the request for proposal (term sheet) and will be responsible negotiating the best rate and terms. The loan will be privately placed with the investor offering the most attractive terms. At the end of the term of the lease period, the equipment will be purchased by the Water Utility (typically, at a nominal fee of \$1).

Leasing vehicles offers benefits over outright purchase including level cash-outflow over the useful life of the assets, which conserves our cash reserves. In addition, undertaking this form of financing over a traditional bond issuance offers more flexible structures and terms, simpler administration, and lastly will have lower transaction issuance costs.

The original budgeted funds included in the two-year budget would cover purchasing outright approximately six vehicles. However, participating in the City's lease financing effort will allow the Water Utility to fund their estimated equipment needs of approximately \$2 million by financing the equipment over their useful life while staying well within the budget approved. In addition, combining efforts with a larger sized transaction will yield more savings to our ratepayers than RPU seeking financing on our own. The City's combined financing for the equipment for the three City departments will be approximately \$11 million. Issuance costs of approximately \$65,000 would be allocated to departments based on their share of the financing.

The Water Utility's estimated equipment financing of \$1,940,000 (before interest and issuance costs) would include (2) dump trucks, (2) back hoes, (1) service truck, (1) boom truck, (1) pavement grinder or zipper, (2) backhoe trailers, (1) valve turning trailer, (1) large asphalt saw and (4) sign boards for traffic control. Staff recommends leasing this equipment for ten years based on the estimated lives. The following table outlines the estimated annual lease payments:

Estimated cost of equipment to be financed	\$1,940,000
Estimated issuance costs (RPU share)	\$ 12,000
Total estimated amount to be financed	\$1,952,000
Estimated annual lease payment (3% interest rate)	\$ 230,000
Total estimated payments -10 year term	\$2,300,000

City Finance plans to move forward with this financing by the end of December 2016 or early January 2017.

The Chief Financial Officer and Interim Purchasing Services Manager concurs with the recommendations above.

FISCAL IMPACT:

Sufficient funds are available in the two year Fiscal Year Budget for the estimated annual lease payment and bond issuance costs in the Water Fund Automotive Equipment Account 6205000-462100. The remaining budget in this account for both fiscal years will be carried forward and used for future annual lease payments. The annual lease payment will be included in future years' annual budgets through the term of the financing.

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Approved by: Girish Balachandran, Public Utilities General Manager
Approved by: John A. Russo, City Manager
Approved as to form: Gary G. Geuss, City Attorney

Certifies availability
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Attachments: Presentation