



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: JUNE 24, 2024

SUBJECT: FINANCING OF VEHICLES THROUGH CAPITAL LEASE FINANCING AGREEMENT WITH JP MORGAN CHASE BANK N.A. IN THE ESTIMATED AMOUNT OF \$4,814,000 PLUS INTEREST, IN COMPLIANCE WITH PURCHASING RESOLUTION NO. 24101, SECTIONS 602(f) AND 602(p)

ISSUE:

Consider approval of financing vehicles through capital lease with JPMorgan Chase Bank, N.A. in the estimated amount of \$4,814,000 plus interest, in compliance with Purchasing Resolution No. 24101, Sections 602(f) and 602(p).

RECOMMENDATIONS:

That the Board of Public Utilities 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 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 financial consultant, CSG Advisors, released a Request for Proposals to 16 direct lenders that provide capital lease financing. The City received eight qualified responses, thoroughly analyzed for the lowest borrowing cost, and selected JPMorgan Chase Bank, N.A.

Pursuant to the proposed capital financing agreement with JPMorgan Chase Bank, N.A., 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 rate lock guarantee expires, 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 financing are estimated at \$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		\$2,579,681.01
8	\$346,218.33	\$53,515.48	\$399,733.81	\$799,467.62	\$2,233,462.68
9	\$353,400.63	\$46,333.18	\$399,733.81		\$1,880,062.05
10	\$360,731.92	\$39,001.89	\$399,733.81	\$799,467.62	\$1,519,330.13
11	\$368,215.31	\$31,518.50	\$399,733.81		\$1,151,114.82
12	\$375,853.93	\$23,879.88	\$399,733.81	\$799,467.62	\$775,260.89
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	\$5,596,273.35	\$5,596,273.35	

¹ Secured Overnight Financing Rate

* The City currently has a Rate Lock Guarantee from JPMorgan for the estimated interest rate. The Rate Lock Guarantee expires July 25, 2024. The actual Interest rate may vary if Rate Lock expires, 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.

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 aging 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:

Upon City Council approval, a supplemental appropriation for FY 2023/2024 in the amount of \$4,814,000 will be recorded in the Water Fund, PU Water Field Operations, Automotive Equipment Account Number 6205000-462100, with a corresponding increase to estimated revenues of \$4,814,000, resulting in a net zero fiscal impact to the FY 2023/24 budget. Upon City Council approval, the estimated costs of issuance expenditures of \$50,000 associated with this financing will be paid from existing appropriations in the Debt Related Fiscal Charges Account 6225000-487000.

The debt service payments of approximately \$800,000 annually will begin in Fiscal Year 2024/2025 and are included in the Fiscal Year 2024-2026 proposed biennial budget, which is set to be presented for Public Hearing at City Council on June 25, 2024, for adoption. The remaining five years of debt service payments will be built into future years' budgets.

Prepared by: Meline Carranza, Debt and Treasury Manager
Approved by: David A. Garcia, Interim Utilities General Manager
Certified as to
availability of funds: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Approved by: Rafael Guzman, Assistant City Manager
Approved as to form: Phaedra A. Norton, City Attorney

Attachment:

1. Sourcewell Agreements
2. Presentation