



# City of Sacramento City Council

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915 I Street, Sacramento, CA, 95814  
[www.CityofSacramento.org](http://www.CityofSacramento.org)

**Meeting Date:** 12/11/2012

**Report Type:** Consent

**Title:** Refinancing of Six Outstanding Lease-Purchase Agreements

**Report ID:** 2012-00961

**Location:** Citywide

**Recommendation:** Pass a Resolution 1) authorizing the City Treasurer or his designee to refinance certain lease-purchase agreements the City entered into with affiliates of Bank of America and to approve, execute, and deliver related financing documents; and 2) authorizing the City Manager to amend the Fire Department, General Services Department, and Public Works Department expenditure budgets to reflect savings attributable to the reduced debt-service payments associated with the refinancing.

**Contact:** Brian Wong, Senior Debt Analyst, (916) 808-5811, Office of the City Treasurer; Janelle Gray, Debt Manager, (916) 808-8296, Office of the City Treasurer

**Presenter:** None

**Department:** City Treasurer

**Division:** City Treasurer

**Dept ID:** 05001011

**Attachments:**

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- 1-Description/Analysis
- 2-Background
- 3-Resolution
- 4-Terms and Conditions (JP Morgan)

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#### **City Attorney Review**

Approved as to Form  
Joseph Cerullo  
11/27/2012 2:18:18 PM

#### **City Treasurer Review**

Reviewed for Impact on Cash and Debt  
Russell Fehr  
11/26/2012 10:17:51 AM

#### **Approvals/Acknowledgements**

Department Director or Designee: Russell Fehr - 11/26/2012 10:50:33 AM



## Description/Analysis

**Issue:** Over the past eight years, the City Treasurer’s Office has entered into a number of tax-exempt lease-purchase agreements with an affiliate of the Bank of America. These agreements provided financing to City departments that needed to acquire equipment. During our recent review of the City’s outstanding debt to identify refinancing opportunities, we determined that six of these lease-purchase agreements, which were entered into several years ago when interest rates were relatively high, are eligible at this time to be refinanced at considerably lower rates. Refinancing these lease-purchase agreements will result in lower debt-service obligations for the three City departments (Fire, General Services, and Public Works) that used the agreements to acquire equipment.

JP Morgan will provide the refinancing, and the interest-rate quotes received from JP Morgan are valid only through December 31, 2012. Because the City Council’s last scheduled meeting before the quotes expire is on December 11, 2012, the City Council must act at that meeting if the City is to take advantage of the lower interest rates currently available. To that end, we request that the City Council authorize the City Treasurer to do the following on the City’s behalf: sign all documents and take all actions reasonably required to complete the refinancing at the “refunding financing rates” set out in the Financial Considerations section below.

**Policy Considerations:** Refinancing existing debt when there is a net economic benefit for the City is consistent with the City Treasurer’s Debt Management Policy.

**Economic Impacts:** None

**Environmental Considerations:**

**California Environmental Quality Act (CEQA):** The proposed refinancing is not a “project” subject to CEQA review. (CEQA Guidelines § 15378 (b)(2).)

**Sustainability:** None

**Commission/Committee Action:** None

**Rationale for Recommendation:** Refinancing the outstanding tax-exempt lease-purchase agreements with lower interest rates will reduce the debt-service obligations of the Fire Department, General Services Department, and Public Works Department.

**Financial Considerations:** JP Morgan provided the interest-rate quotes in response to the City Treasurer’s informal request for qualifications to refinance six tax-exempt lease-purchase agreements that are eligible at this time to be redeemed.

The terms of the refinancing are summarized in the Background section of this report and in Attachment 4 (Terms and Conditions) to this report.

We estimate that aggregate savings of \$478,000 could be realized refinancing the six existing lease-purchase agreements with Bank of America that are designated as Lease Schedule Numbers 7 through 12. The breakdown of potential savings for each department is as follows:

				A	B	A – B = C
Lease ID No.	City Department	Refunding Financing Rate	Amount of Refunding	Original Interest	Revised Interest <sup>1</sup>	Potential Savings <sup>1</sup>
7 and 8	Fire	1.10%	\$2,982,178	\$266,807	\$74,281	\$192,526
9 and 11	Public Works	1.21%	\$719,899	\$29,323	\$8,728	\$20,595
10	Fire	1.48%	\$270,182	\$27,723	\$10,095	\$17,628
12	General Services	1.22%	\$3,023,142	\$359,418	\$111,768	\$247,650
					<b>TOTAL</b>	<b>\$478,399</b>

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<sup>1</sup> Revised total interest payments and potential savings are only correlated to the reduced financing rates.

The departments responsible for payment of debt service on Lease Schedule Numbers 7 through 12, namely the City’s Fire Department, General Services Department, and Public Works Department, will be responsible for payment of debt service on the new lease-purchase agreements with JP Morgan.

**Emerging Small Business Development (ESBD):** JP Morgan is not certified with the City as an emerging/small business.

## Background

Consistent with the City Treasurer’s Debt Management Policy, we recently reviewed the City’s outstanding debt to identify refinancing opportunities, and we determined that the City currently has six tax-exempt lease-purchase agreements that are eligible to be refinanced at a net economic benefit to the City. The current interest rates of these six agreements ranges from 3.69% to 4.09%, and each has between three and five years of debt-service payments remaining.

The City’s current pool of tax-exempt lease-financing providers has two members: Banc of America Public Capital Corp (“**BofA**”) and JP Morgan Chase\* (“**JP Morgan**”). In early November the City Treasurer solicited informal interest-rate quotes from both BofA and JP Morgan for the refinancing of the six agreements. JP Morgan submitted quotes, but BofA did not.

Table 1 below summarizes the pertinent information for the six lease-purchase agreements to be refinanced:

**TABLE 1. Summary of Lease-Purchase Agreements Proposed for Refinancing**

Lease ID No.	Lease Commencement Date	City Department	Description of Assets Financed	Initial Financing Rate	Initial Amount of Principal Issued
7	March 27, 2007	Fire	Fire Trucks and Fire Pumper Trucks	3.76%	\$3,998,861
8	March 27, 2007	Fire	Fire Pumper Trucks, Haz-Mat Vehicle, and Breathing Air Vehicle	4.09%	\$1,941,696
9	May 25, 2007	Public Works	Parking Meter Equipment (Pay and Display Equipment)	3.69%	\$830,000
10	September 4, 2007	Fire	Fire Pumper Truck	4.09%	\$485,009
11	November 20, 2007	Public Works	Parking Meter Equipment (Pay and Display Equipment)	3.69%	\$1,670,000
12	July 30, 2008	General Services	Solid Waste Refuse Vehicles (18)	4.06%	\$4,595,823

\* JP Morgan recently provided lease financing of approximately \$2.8 million to the City for the acquisition of fleet vehicles as the first phase of City Council’s approved Fleet Equipment Financing Pilot Program.

Table 2 below summarizes the potential savings if City Council authorizes the City Treasurer to refinance the six existing lease-purchase agreements at the interest rates quoted by JP Morgan. The table shows that the refinancing could generate savings of about \$478,000 between the tentative closing date of the refinancing and the date of the final debt-service payment on the six refinanced lease-purchase agreements. The amounts shown for revised interest and potential savings are not attributable to extension of final maturities.

**TABLE 2. Financial Information**

				A	B	A – B = C
Lease ID No.	City Department	Refunding Financing Rate	Amount of Refunding	Original Interest	Revised Interest <sup>1</sup>	Potential Savings <sup>1</sup>
7 and 8	Fire	1.10%	\$2,982,178	\$266,807	\$74,281	\$192,526
9 and 11	Public Works	1.21%	\$719,899	\$29,323	\$8,728	\$20,595
10	Fire	1.48%	\$270,182	\$27,723	\$10,095	\$17,628
12	General Services	1.22%	\$3,023,142	\$359,418	\$111,768	\$247,650

**TOTAL** **\$478,399**

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<sup>1</sup> Revised total interest payments and potential savings are only correlated to the reduced financing rates.



## RESOLUTION NO. 2012-XXXX

Adopted by the Sacramento City Council

December 11, 2012

**AUTHORIZING THE CITY TREASURER OR HIS DESIGNEE TO REFINANCE CERTAIN LEASE-PURCHASE AGREEMENTS THE CITY ENTERED INTO WITH AFFILIATES OF THE BANK OF AMERICA AND TO APPROVE, EXECUTE, AND DELIVER RELATED DOCUMENTS; AND AUTHORIZING THE CITY MANAGER TO AMEND THE FIRE DEPARTMENT, GENERAL SERVICES DEPARTMENT, AND PUBLIC WORKS DEPARTMENT EXPENDITURE BUDGETS TO REFLECT SAVINGS ATTIBUTABLE TO THE REDUCED DEBT-SERVICE PAYMENTS ASSOCIATED WITH THE REFINANCING.**

### BACKGROUND

- A. The City Treasurer has determined that six tax-exempt lease-purchase agreements used to finance the acquisition of equipment are eligible at this time to be refinanced. The current interest rates of the six agreements ranges from 3.69% to 4.09%, and each has between three and five years of debt-service payments remaining.
- B. To investigate whether refinancing would provide a net economic benefit to the City, the City Treasurer solicited informal interest-rate from the two members of the City's current pool of tax-exempt lease-financing providers: JP Morgan Chase Bank, N.A. ("**JP Morgan**") and Banc of America Public Capital Corp ("**BofA**"), the current lessor on the six lease-purchase agreements.
- C. JP Morgan submitted interest-rate quotes that range from 1.10% to 1.48% depending on the type of asset to be refinanced and the final maturity of the lease-purchase agreement. BofA did not submit quotes.
- D. After reviewing JP Morgan's interest-rate quotes as well as JP Morgan's proposed terms and conditions, the City Treasurer determined that JP Morgan is qualified and capable of refinancing the six outstanding lease-purchase agreements. The City Treasurer also determined that refinancing the six agreements will result in aggregate savings of about \$478,000 for the City's Fire Department, General Services Department, and Public Works Department over the terms of the refinanced agreements, which will not be extended.

### **BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:**

- Section 1. The City Treasurer or his designee is hereby authorized to do the following on the City's behalf: (a) to refinance with JP Morgan the six

lease-purchase agreements the City entered into with Banc of America Public Capital Corp or Banc of America Leasing & Capital that are designated as Lease Schedule Numbers 7 through 12; (b) to approve, execute, and deliver all documents required to refinance the six agreements, in an aggregate amount not to exceed \$6,995,402; and (c) to take all other actions that are reasonably necessary to accomplish the refinancing.

Section 2. The City Manager or his designee is hereby authorized to amend the budgets of the City's Fire Department, General Services Department, and Public Works Department to reflect savings attributable to the reduced debt-service payments associated with the six lease-purchase agreements to be refinanced.



**November 2012**



## **LEASE FACILITY PROPOSAL**

**Tax Exempt Non-Bank Qualified Municipal Lease Purchase Obligation issued by City of Sacramento in the amount of \$6,995,401**



*Delivery via E-mail*

**PROPOSAL LETTER**

November 29, 2012

Office of the City Treasurer  
City of Sacramento  
Attn: Brian Wong  
915 "I" Street, HCH, 3rd Floor, #09000  
Sacramento, CA 95814

Dear Brian:

Chase Equipment Finance ("CEF"), a division of JPMorgan Chase Bank, N.A. (the "Bank"), is pleased to propose for discussion indicative terms to City of Sacramento (the "Lessee") for a tax-exempt non-bank qualified municipal lease purchase agreement in an amount up to \$6,995,401, subject to the following terms and conditions described herein (the "Proposal").

CEF has been the market leader in municipal equipment finance credit for over 20 years. JPMorgan Chase Bank ranks among the largest providers of credit facilities in the Municipal market today. Our deep familiarity with this sector is viewed as a strong benefit by the Municipal clients with whom we do business. We believe that our experience in providing credit support, coupled with our long experience in deal execution, will ensure an efficient, cost-effective transaction for City of Sacramento. Client references are available upon request.

The proposed indicative terms provided here for discussion do not represent an offer or commitment to lend on the part of CEF, and are subject to further due diligence, credit analysis and approval, and documentation of detailed terms and conditions satisfactory to CEF. Should any part of this proposal conflict with City of Sacramento's structuring parameters, we would be happy to discuss mutually acceptable alternatives.

Should you have any questions about any aspect of this proposal, please do not hesitate to contact me at (415)315-3967. Thank you and we look forward to working with City of Sacramento and your financing team.

Yours sincerely,

*Rebecca Lowe*

Rebecca Lowe  
Senior Vice President, Territory Manager




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**City of Sacramento**

**Tax-Exempt Non-Bank Qualified Municipal Lease Purchase**

**Summary of Terms and Conditions**

**November 29, 2012**

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This Summary of Terms and Conditions (the "Term Sheet") is confidential and is intended as a statement of indicative terms only, and is provided to facilitate additional discussion. It is a proposal only and not a commitment by Chase Equipment Finance ("CEF"), a division of JPMorgan Chase Bank, N.A. (the "Bank") to provide financing. *CEF shall not have any commitment or obligation hereunder unless and until it executes a commitment letter or a definitive lease agreement.* The pricing and terms included in this Term Sheet are based on market conditions on the date hereof and are subject to change.

**TRANSACTION SUMMARY**

<b>Lessee:</b>	City of Sacramento
<b>Lessor:</b>	JPMorgan Chase Bank, N.A. or any affiliate of JPMorgan Chase Bank, N.A., its successors and/or assigns ("JPMorgan Chase" or the "Lessor").
<b>Transaction:</b>	Fixed-rate, fully amortizing, tax-exempt taxable lease-purchase agreement ("Agreement").
<b>Use of Proceeds:</b>	To refinance various equipment, the legal title of which will vest with Lessee during the term of the Agreement. All equipment proposed for financing will be subject to final review and acceptance by Lessor prior to closing.
<b>Equipment:</b>	I. Solid Waste Trucks (Lease 12) II. Fire Trucks (Leases 7 & 8) III. Parking Meter Equipment (Leases 9 & 11) IV. Fire Trucks (Lease 10)
<b>Estimated Financing Amount:</b>	I. \$3,023,142.10 II. \$2,982,178.08 III. \$719,898.94 IV. \$270,181.90
<b>Location of Equipment:</b>	Sacramento, CA
<b>Commencement Date:</b>	Anticipated to be no later than December 31, 2012

**TRANSACTION DETAILS**

<b>Estimated Financing Term:</b>	I. 66 months II. 48 months III. 18 months IV. 54 months
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**Interest Rate:** See table below

**Payment / Frequency:** Equal semi-annual payments of principal and interest in arrears.

	Term-Months	# of Payments	Tax-exempt Interest Rate	Spread (See Index Formula Below)	Payment / Frequency
I.	66	11	1.22%	.933%	\$ 284,991.86 / Semi-annual
II.	48	8	1.10%	.813%	\$ 382,057.41 / Semi-annual
III.	18	3	1.21%	.970%	\$ 242,875.74 / Semi-annual
IV.	54	9	1.48%	1.19%	\$ 31,141.88 / Semi-annual

**Adjustment to Rate:** The Interest Rate and Payment quoted herein will be held until 12/31/12. If the Financing does not close by 12/31/12 the Interest Rate and Payment will be subject to the index below based upon the then current Interest Rate Swap (“Index Rate”) as published via Bloomberg Finance. Index Rates (indicated below) are quoted as of November 13, 2012. The Interest Rate will be the applicable Swap Rate multiplied by the Bank’s Tax Exempt Factor of 64.03% plus a Spread, as outlined below. For every change (increase or decrease) in the Index Rate a corresponding adjustment will be made to the Interest Rate to maintain Lessor’s economics.

Interest Rate = (Index Rate x 64.03%) + spread

Sample:

Option I: 3-Year Swap = .448% x 64.03% + .933% = 1.22%

Option II: 3-Year Swap = .448% x 64.03% + .813% = 1.10%

Option III: 2-Year Swap = .373% x 64.03% + .970% = 1.21%

Option IV: 3-Year Swap = .448% x 64.03% + 1.19% = 1.48%

Lessor reserves the right to adjust the pricing proposed in order to maintain Lessor’s anticipated economic return as a result of material adverse change.

**Prepayment:** The Financing may be prepaid without penalty, in whole but not in part, prior to maturity, on any payment date after the initial 24 months from Commencement, subject to 30 days prior written notice. If Lessee prepays the financing prior to the 24th month from Commencement, the payment may be subject to a fixed rate / “make whole” break funding charge.

**Disbursement of Proceeds:** Upon receipt of Lender Payoff Letter, Lessor shall, at Lessee’s direction, pay directly to current Lender the amount specified in said Letter.

**Appropriation:** This agreement shall be subject to annual appropriation.

**Security:** Lessee will grant Lessor a first priority security interest in the financed equipment. UCC I and UCCII filings will be completed as applicable.

## OTHER TERMS

<b>Documentation:</b>	<p>The terms of this financing will be evidenced by agreements, instruments and documents (“Lease Documents”) usual and customary for a Tax-Exempt Lease Purchase. The Lease Documents must be acceptable to Lessor and its counsel.</p> <p>Lessor does not anticipate any documentation costs or other expenses.</p>
<b>Conditions Precedent:</b>	Usual and customary conditions to issuance of the financing including acceptable legal documentation which will include an opinion of counsel that the financing is valid, binding and enforceable.
<b>Representations and Warranties:</b>	<p>Usual representations and warranties for like situated Lessees and the Facility’s type and tenor, including, without limitation, absence of material adverse change, absence of material litigation, absence of default or potential default and continued accuracy of representations.</p> <p>Representations and warranties relating to Absence of Sovereign Immunity (or waiver of sovereign immunity, if applicable) will also be required for all governmental entities.</p>
<b>Maintenance &amp; Insurance:</b>	All maintenance and insurance are the responsibility of Lessee. Lessee shall bear all risk of loss or damage of the Equipment and will be responsible for keeping the Equipment insured with companies satisfactory to Lessor. Lessor, its parent and/or affiliates, its successors and assigns must be named as loss payee and additional insured as applicable, on all insurance policies. Evidence of such insurance must be satisfactory to Lessor.
<b>Assignment:</b>	This proposal assumes that the Lessor will assign the transaction to JPMorgan Chase & Co. Lessor will remain as servicing agent.
<b>Waiver of Jury Trial:</b>	The Lessee and the Bank will waive, to the fullest extent permitted by applicable law, any right to have a jury participate in resolving any dispute in any way related to this term sheet, any related documentation or the transactions contemplated hereby or thereby. The Lessee hereby consents to the adjudication of any and all claims pursuant to Judicial Reference as provided in California Code of Civil Procedure Section 638, and the judicial referee shall be empowered to hear and determine any and all issues in such Reference whether fact or law.
<b>Waiver of Immunity:</b>	Lessee hereby expressly and irrevocably waives any immunity (including sovereign, crown or similar immunity) and any defenses based thereon from any suit, action or proceeding or from any legal process in any forum with respect to Lease.
<b>Governing Law:</b>	All aspects of the credit(s) being discussed including this Term Sheet and any Bond Documents would be governed by the laws of the State of California.
<b>Proposal Only:</b>	This proposal is not a commitment to undertake this financing. A commitment can be issued only after full credit and economic review and subsequent approval by the appropriate officers of JPMorgan Chase Bank, N.A., any affiliate, successors and/or assigns. A commitment shall not be binding on Lessor unless it is signed by Lessor and accepted by Lessee. Lessor will have the sole right of assignability of this proposal or any lease between Lessor and Lessee.

**Proposal Expiration:** This proposal will expire if accepted does not occur by 11/28/12 (unless extended in writing by Lessor).

**Confidentiality Statement:** Chase confirms that it will not use confidential information obtained from you by virtue of the potential transaction contemplated by this Term Sheet or our other relationships with you in connection with the performance by Chase of such services for other companies.

The Bank may, from time to time, be providing debt financing, equity capital or other services (including financial advisory services) to other companies in respect of which the Lessee may have conflicting interests regarding the transaction described herein and otherwise. The Bank confirms that it will not use confidential information obtained from the Lessee by virtue of the potential transaction contemplated by this commitment or our other relationships with the Lessee in connection with the performance by the Bank of such services for other companies. The Bank will not use in connection with the potential transaction contemplated by this commitment, or furnish to you, confidential information obtained from other companies.

\* \* \*

*This Term Sheet is intended as an outline only and does not purport to summarize all the conditions, covenants, representations, warranties and other provisions which would be contained in definitive legal documentation for the financing contemplated hereby.*