

## **SUBJECT**

First Reading of Ordinance No. 104, 2012, Authorizing the Purchasing Agent to Enter into an Agreement for the Financing by Lease-Purchase of Equipment.

## **EXECUTIVE SUMMARY**

The City of Fort Collins is lease-purchasing desktop computers and laptops for various City departments. The cost of the items to be lease-purchased is \$294,000. Payments at the 2.28% interest rate will not exceed \$15,596 in 2013. Money for 2013 lease-purchase payments is included in the 2013 budget requests. The effect of the debt position for the purpose of financial rating of the City will be to raise the total City debt by 0.21%. A competitive process was used to select Pinnacle Public Finance for this lease. Staff believes acceptance of this lease rate is in the City's best interest.

## **BACKGROUND / DISCUSSION**

This Ordinance authorizes the Purchasing Agent to enter into a lease-purchase financing agreement with Pinnacle Public Finance at 2.28 percent interest rate. The agreement is for an original term from the execution date of the agreement to the end of the current fiscal year. The agreement provides for renewable one-year terms thereafter, to a total term of five (5) years, subject to annual appropriation of funds needed for lease payments. The total lease terms, including the original and all renewal terms, will not exceed the useful life of the property. This lease-purchase financing is consistent with the financial policies of the City of Fort Collins.

All equipment shall be purchased following the City's purchasing ordinances and procedures to ensure that the City realizes all cost savings.

The equipment financed under the agreement will comply with applicable City policies, and will be in accordance with the goal of optimizing City resources without impacting service to the community.

The equipment purchases have been approved in accordance with departmental procedures.

## **FINANCIAL / ECONOMIC IMPACTS**

Lease-Purchase: The City's lease-purchase policy provides that:

The City of Fort Collins uses lease-purchase for the provision of new and replacement equipment, vehicles and rolling stock in order to ensure the timely replacement of equipment and vehicles. This method may also be used to acquire real property. Members of the management staff have developed an equipment needs schedule for rolling stock which encompasses the demands of operating departments. This schedule is used to project equipment needs for each budget year.

The type of lease that the City uses is termed a conditional sales lease. With each rental payment the City builds equity and assumes risk in the asset over the term of the lease. The annual installments are subject to appropriation by the Council each year.

Advantages of a lease-purchase over a cash purchase are:

- Decreasing the impact of inflation on the purchase of new and replacement equipment.
- Resolving the problem of capital replacement needs backlog.
- Conserving operating reserves.
- Reducing the initial impact of the cost to user departments by enabling costs to be spread over the useful life of the equipment.

- Safeguarding the opportunity to use cash assets to earn higher interest than the interest cost of lease-purchasing.

It should be noted that the City is able to discontinue the equipment leases so that future City Councils will have the option to continue or discontinue the policy of lease-purchasing City equipment.

Finance Department performed an analysis of this equipment lease financing arrangement which showed that this lease-purchase is in the best interest of the City given the normal spread between lease rate and reinvestment rate.

According to Section 29-1-103 C.R.S., local governments are required to identify as part of their budgets: (1) the total expenditures during the ensuing fiscal year for all lease purchase agreements involving real and personal property; and (2) the total maximum payment liability under all lease purchase agreements over the entire terms of the agreements, including all optional renewal terms.

Staff recognizes that the State does not include lease-purchase in the legal definition of debt; however, rating agencies include lease-purchases in calculating the City's debt burden.

The proposed Ordinance authorizes the lease-purchase financing of the following:

<b>Information Technology</b>		
Dell OptiPlex 7010 Minitower	140	129,000
Dell Latitude e6430 Laptops	106	130,500
Panasonic Toughbook 53-I5-2520M	25	34,500
<b>Data &amp; Communications Fund Total:</b>		<b>294,000</b>
<b>Lease Total:</b>		<b>294,000</b>

**STAFF RECOMMENDATION**

Staff recommends adoption of the Ordinance on First Reading.

ORDINANCE NO. 104, 2012  
 OF THE COUNCIL OF THE CITY OF FORT COLLINS  
 AUTHORIZING THE PURCHASING AGENT TO ENTER  
 INTO AN AGREEMENT FOR THE FINANCING BY  
 LEASE-PURCHASE OF EQUIPMENT

WHEREAS, the City has a need for and desires to provide certain real and personal property for City purposes; and

WHEREAS, the City is authorized by the Colorado Constitution, Article XX, §6, its home charter and Part 8 of Article 15 of Title 31, Colorado Revised Statutes, as amended (the “Act”), to enter into rental or leasehold agreements in order to provide necessary land, buildings, equipment and other property for governmental or proprietary purposes, and such agreements may include options to purchase and acquire title to such leased or rented property; and

WHEREAS, the City has received a proposal from Pinnacle Public Finance to lease certain equipment to the City (the "Equipment"), consisting of the following:

<b>Information Technology</b>		
Dell OptiPlex 7010 Minitower	140	129,000
Dell Latitude e6430 Laptops	106	130,500
Panasonic Toughbook 53-I5-2520M	25	34,500
<b>Data &amp; Communications Fund Total:</b>		294,000
<b>Lease Total:</b>		294,000

and;

WHEREAS, the City Council has determined that it is in the best interest of the City to lease the Equipment from Pinnacle Public Finance, which is also providing financing for the Equipment acquisition; and

WHEREAS, the City desires to enter into a lease-purchase agreement with respect to the leasing and financing of the Equipment; and

WHEREAS, the useful life of the Equipment is longer than the maximum lease-purchase term of five years; and

WHEREAS, the City has determined that the lease payments to result from the proposed arrangement will require payments by the City in the sum of \$15,596 per quarter, and that payments in that amount are reasonable and proper and represent the fair rental value of the Equipment; and

WHEREAS, funds for the 2013 lease payments are included in the 2013 budget requests; and

WHEREAS, the lease of the Equipment will not constitute a “multiple-fiscal year direct or indirect debt or other financial obligation” of the City within the meaning of Article X §20(4)(b) and may therefore be entered into without voter approval; and

WHEREAS, Article V, Section 9, of the City Charter permits the Council to make supplemental appropriations by ordinance at any time during the fiscal year, provided that the total amount of such supplemental appropriations, in combination with previous appropriations for that fiscal year, does not exceed the then current estimate of actual and anticipated revenues to be received during the fiscal year.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF FORT COLLINS as follows:

Section 1. That the Purchasing Agent is hereby authorized to enter into a lease-purchase agreement for the Equipment with Pinnacle Public Finance in accordance with the following terms and provisions:

a. The agreement shall be for an original term from the execution date of the agreement through December 31, 2012. The agreement shall provide for renewable one-year terms thereafter up to a total term of five (5) years, subject to annual appropriation of funds needed for lease payments. The total lease terms, including the original and all renewal terms, shall not exceed the useful life of the property.

b. The City shall make equal quarterly payments throughout the term of such agreement but subject to annual appropriation of funds needed for such payments.

c. If the City leases the Equipment for the original term and all renewal terms, the payment to Pinnacle Public Finance will total the sum of the principal, \$294,000, plus interest at a fixed rate equal to 2.28% per year, which is a reasonable amount.

d. The City shall have the option to purchase part or all of the Equipment on any quarterly payment date of any term. The option to purchase shall be exercised by paying the quarterly payment due on said date and the unpaid principal due after said date.

e. If the City renews the agreement for all the renewal terms and makes all payments during said terms, the City shall be deemed to have exercised the option to purchase said Equipment.

f. The agreement shall constitute only a current expense of the City and shall not be construed to be a debt or pledge of the City's credit or revenues.

Section 2. That the amount of TWO HUNDRED NINETY FOUR THOUSAND DOLLARS (\$294,000) to be provided under the lease-purchase agreement is hereby appropriated for expenditure in the Data & Communications Fund from unanticipated revenue in the appropriate funds for the acquisition of equipment in accordance with the terms and provisions of the lease-purchase agreement, upon receipt thereof.

Section 3. Any inconsistency between the provisions of this Ordinance and those of the Act is intended by the Council. To the extent of any such inconsistency the provisions of this Ordinance shall be deemed made pursuant to the home rule charter of the City and shall supersede, to the extent permitted by law, the conflicting provisions of the Act.

Introduced, considered favorably on first reading, and ordered published this 2nd day of October, A.D. 2012, and to be presented for final passage on the 16th day of October, A.D. 2012.

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Mayor

ATTEST:

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City Clerk

Passed and adopted on final reading on the 16th day of October, A.D. 2012.

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Mayor

ATTEST:

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City Clerk