

AGENDA ITEM SUMMARY

FORT COLLINS CITY COUNCIL

ITEM NUMBER: 17

DATE: February 5, 2008

STAFF: Jim O'Neill

SUBJECT

First Reading of Ordinance No. 012, 2008, Authorizing the Purchasing Agent to Enter into an Agreement to Finance Equipment by Lease-Purchase.

RECOMMENDATION

Staff recommends adoption of the Ordinance on First Reading.

FINANCIAL IMPACT

The cost of the Lighting Upgrade items to be lease-purchased is \$765,347. Payments at the 3.75% interest rate will not exceed \$144,534 in 2008. Money for 2008 lease-purchase payments is included in the 2008 budget. The effect of the debt position for the purpose of financial rating of the City will be to raise the total City debt by 1.2%. A competitive process was used to select Koch Financial Corporation for this lease. Staff believes acceptance of this lease rate is in the City's best interest.

EXECUTIVE SUMMARY

This an implementation action from a City technical energy audit done in 2006. This Ordinance authorizes the Purchasing Agent to enter into a lease-purchase financing agreement with Koch Financial Corporation at 3.75% 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.

BACKGROUND

Energy Efficiency Lighting Upgrade

Description: This lighting upgrade will upgrade existing lighting systems throughout 28 City Facilities using a combination of energy-efficient lamps, high-efficiency electronic ballasts, reflectors, solar tubes, and in some cases, fixture replacements. Fluorescent fixtures will be upgraded using third-generation T8 lamps and electronic ballasts. Incandescent fixtures will be

replaced with compact fluorescent lamps or new fluorescent fixtures. High intensity (HID) fixtures will use pulse-start technology lamps or be replaced by compact fluorescent or high output fluorescent fixtures. Metal halide fixtures will be replaced with new fluorescent T5 high-output fixtures or pulse-start lamps and ballasts where feasible. Exit signs using incandescent lamps will be replaced with LED exit signs.

The lighting upgrade scope includes removal and disposal or recycling of fluorescent lamps and ballasts. These materials will be handled in accordance with all applicable, State, Federal, OSHA, and EPA guidelines. Certificates of Disposal and/or Recycling will be provided at project completion

Benefits of the lighting upgrade include:

- Reduction in energy use and cost.
- Improved lighting consistency and quality.
- Elimination of ballast flicker and hum.
- Elimination of hazardous materials (PCB containing ballasts).
- Reduced lighting maintenance requirements through the reduction of total lamp counts and the use of long-life lamps.
- Reduced lamp and ballast inventory through the standardization of lamps and ballast throughout the facility.

The total lighting upgrade cost is projected to be \$1,114,412. However, \$170,049 will be refunded through the Platte River Power Authority LightenUP incentive program, and \$79,016 will be funded through capital dollars from the Utilities and Fleet Fund. The estimated simple payback from this lighting upgrade is 6 years. The timeline for completion of this project is mid-summer 2008.

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.

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.

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:

Department	Qty	Description	Total Cost	Term (yrs)
Operations Services	1 lot	Energy Efficiency Lighting Upgrade	765,347	5
Total 5-year Financing			\$765,347	

ORDINANCE NO. 012, 2008
OF THE COUNCIL OF THE CITY OF FORT COLLINS
AUTHORIZING THE PURCHASING AGENT TO ENTER
INTO AN AGREEMENT TO FINANCE EQUIPMENT BY LEASE-PURCHASE

WHEREAS, the City of Fort Collins, Colorado (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 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 Koch Financial Corporation to lease equipment to the City (the "Equipment"), consisting of an energy efficiency lighting upgrade for 28 city facilities; and

WHEREAS, the City Council has determined that it is in the best interest of the City to lease the above-described equipment from Koch Financial Corporation, which is also providing financing for the Equipment acquisition; and

WHEREAS, the City desires to enter into a lease-purchase agreement (the "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 (5) years; and

WHEREAS, the City has determined that the lease payments to result from the proposed Agreement will require payments by the City in the sum of \$42,146 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 2008 lease payments are included in the 2008 budget; 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 Charter of the City of Fort Collins 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 above-described Equipment with Koch Financial Corporation in accordance with the following terms and provisions:

- a. The original term of the Agreement will commence on the execution date and extend through December 31, 2008. The Agreement shall provide for renewable one-year terms 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 will make equal quarterly payments throughout the term of the Agreement but subject to annual appropriation of funds needed for the payments.
- c. If the City leases the Equipment for the original term and all renewal terms, the payment to Koch Financial Corporation will total the sum of the principal, \$765,347, plus interest at a fixed rate equal to 3.75% per year.
- d. The City will 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 that date.
- e. If the City renews the Agreement for all the renewal terms and makes all payments during those terms, the City will have exercised the option to purchase the Equipment.
- f. The Agreement will 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 Seven Hundred Sixty Five Thousand, Three Hundred Forty Seven Dollars (\$765,347) to be provided under the Agreement is hereby appropriated for expenditure in the General Fund from unanticipated revenue in the appropriate funds for the acquisition of the equipment in accordance with the terms and provisions of the 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 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 5th day of February, A.D. 2008, and to be presented for final passage on the 19th day of February, A.D. 2008.

Mayor

ATTEST:

City Clerk

Passed and adopted on final reading on the 19th day of February, A.D. 2008.

Mayor

ATTEST:

City Clerk