

AGENDA ITEM SUMMARY

FORT COLLINS CITY COUNCIL

ITEM NUMBER: 19

DATE: June 3, 2008

STAFF: Jim O'Neill

SUBJECT

First Reading of Ordinance No. 066, 2008, Authorizing the Purchasing Agent to Enter into a Lease-Purchase Financing Agreement for Vehicles and Equipment.

RECOMMENDATION

Staff recommends adoption of the Ordinance on First Reading.

FINANCIAL IMPACT

The cost of the items to be lease-purchased is \$ 379,038. Payments at the 3.70% interest rate will not exceed \$ 20,847 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 0.6 %. 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 Ordinance authorizes the Purchasing Agent to enter into a lease-purchase financing agreement with Koch Financial Corporation at 3.70% 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 vehicles and 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.

BACKGROUND

An "Equipment Request" justifying the replacement of each vehicle or piece of fleet equipment is on file with Fleet Services. The fleet manager has researched each request, and approved them based on current and projected maintenance costs, fuel economy, downtime, and relevant safety

factors. Other equipment purchases have been approved in accordance with departmental procedures.

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.

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:

Line No.	Department	Qty	Description	Total Cost	Term (yrs)
1	SouthRidge Golf	15	Golf Carts	\$ 37,505	5
2		2	JD 84" slope mowers	\$ 49,176	5
3	City Park Nine Golf	2	Toro Greens mowers	\$ 19,412	5
4		1	Toro ProCare 648	\$ 23,542	5
5		1	JD Gator 850 Utility	\$ 15,947	5
6	Collindale Golf	1	Toro ProCore 864	\$ 25,318	5
7		1	Toro TriPlex greens mower	\$ 25,832	5
8	Traffic	1	Ford F550 cab/chassis	\$ 26,453	5
9		1	Altec AT37-G aerial lift	\$ 53,293	5
10		1	Ford F550 cab/chassis	\$ 26,763	5
11		1	Flannegan Western lift	\$ 50,492	5
12	Police	7	XLT 500 Mobile radios	\$ 25,305	5
TOTAL 5-year Financing				\$ 379,038	

The Operations Services Director has determined that the following units meet requirements for replacement of vehicles. Departments have appropriately justified the purchase of additional vehicles and equipment.

Department	Old Unit	Age	Miles/hours	New Units	Disposal of old unit	Notes
SouthRidge	13 Club Car golf carts	6 years	varies	2008 EZ-GO golf carts	Trade-in per bid	For rental to the public
SouthRidge	John Deere Mowers-2	10 years	3064 & 4012 hours	JD 2653B mowers	Auction	
City Park Nine	new units	n/a	n/a	Toro Flex 21 mowers	n/a	
City Park Nine	Greens aerator	21 years	n/a	Toro ProCore 648	Auction	Old unit worn out

Department	Old Unit	Age	Miles/hours	New Units	Disposal of old unit	Notes
City Park Nine	new unit	n/a	n/a	JD Gator XUV 850D	n/a	
Collindale	new unit	n/a	n/a	Toro ProCore 864	n/a	Attaches to existing tractor
Collindale	new unit	n/a	n/a	Toro 3150 mower	n/a	
Traffic	1998 van with bucket	10 years	8865 hours	2008 Ford F-550 chassis	Auction	
Traffic	1998 van with bucket	10 years	8865 hours	Altec AT37-G aerial device	Auction	Attaches to F550 chassis
Traffic	1998 utility truck	10 years	60,000 miles	2008 Ford F550 chassis	Move to other use	
Traffic	1998 utility truck	10 years	60,000 miles	Flannegan Western sign shop body	Move to other use	Attaches to F550 chassis
Police	new units	n/a	n/a	Motorola XTL 5000 radios	n/a	

Note on usage: Units will accumulate additional miles/hours between now and when replacement vehicles arrive.

ORDINANCE NO. 066, 2008
 OF THE COUNCIL OF THE CITY OF FORT COLLINS
 AUTHORIZING THE PURCHASING AGENT TO ENTER
 INTO A LEASE-PURCHASE FINANCING AGREEMENT FOR
 VEHICLES AND 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 Article XX of the Colorado Constitution, 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 these agreements may include options to purchase and acquire title to the leased or rented property; and

WHEREAS, the City has received a proposal from Koch Financial Corporation to lease equipment to the City, consisting of the following:

Line No.	Department	Qty	Description	Total Cost	Term (yrs)
1	SouthRidge Golf	15	Golf Carts	\$ 37,505	5
2		2	JD 84" slope mowers	\$ 49,176	5
3	City Park Nine Golf	2	Toro Greens mowers	\$ 19,412	5
4		1	Toro ProCare 648	\$ 23,542	5
5		1	JD Gator 850 Utility	\$ 15,947	5
6	Collindale Golf	1	Toro ProCore 864	\$ 25,318	5
7		1	Toro TriPlex greens mower	\$ 25,832	5
8	Traffic	1	Ford F550 cab/chassis	\$ 26,453	5
9		1	Altec AT37-G aerial lift	\$ 53,293	5
10		1	Ford F550 cab/chassis	\$ 26,763	5
11		1	Flannegan Western lift	\$ 50,492	5
12	Police	7	XLT 500 Mobile radios	\$ 25,305	5
TOTAL 5-year Financing				\$ 379,038	

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 with respect to the financing of the Equipment; and

WHEREAS, the useful life of the Equipment is greater than five (5) 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 \$20,847 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 agreement shall be for an original term from the execution date of the agreement through December 31, 2008. 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 Koch Financial Corporation will total

the sum of the principal, \$379,038, plus interest at a fixed rate equal to 3.70% 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 that 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 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 Twenty Five Thousand, Three Hundred Five Dollars (\$25,305) to be provided under the lease-purchase agreement is appropriated for expenditure in the General Fund from unanticipated revenue in the appropriate funds for the acquisition of the Police radios in accordance with the terms and provisions of the lease-purchase agreement, upon receipt thereof.

Section 3. That the amount of One Hundred Fifty-seven Thousand One Dollars (\$157,001) to be provided under the lease-purchase agreement is appropriated for expenditure in the Transportation Fund from unanticipated revenue in the appropriate funds for the acquisition of the Traffic Operations vehicles in accordance with the terms and provisions of the lease-purchase agreement, upon receipt thereof.

Section 4. That the amount of One Hundred Ninety-six Thousand, Seven Hundred Thirty-two Dollars (\$196,732) to be provided under the lease-purchase agreement is appropriated for expenditure in the Golf 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 5. 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 3rd day of June, A.D. 2008, and to be presented for final passage on the 1st day of July, A.D. 2008.

Mayor

ATTEST:

City Clerk

Passed and adopted on final reading on the 1st day of July, A.D. 2008.

Mayor

ATTEST:

City Clerk