



SHAKER HEIGHTS

Memorandum

To: Members of City Council

From: Robert H. Baker, Director of Finance

cc: Mayor David E. Weiss
Chief Administrative Officer Jeri E. Chaikin

Date: January 28, 2019

Re: Approving Lease Financing Arrangement for the Fire Truck

The 2019 approved capital plan allocated funding for the acquisition of a truck that is a critical component of providing fire safety service to the City. The approved plan called for financing the cost of the pumper truck in the amount not to exceed \$725,000. The cost to acquire the equipment will be financed through a tax-exempt lease purchase agreement. The City has used this type of financing to fund the acquisition of a rescue squad vehicle for the Fire Department in 2013, the aerial ladder truck in 2016 and vehicles for Public Works in 2014 and 2017.

Lease financing offers the City low borrowing costs and flexibility. By using a lease purchase arrangement the interest rate is fixed and is not subject to the impact of interest rate increases during the term of the financing. A lease purchase financing has several other benefits to the City including:

- Preservation of capital dollars for other projects for which leasing is not an option.
- No impact on the City's statutory debt capacity because the lease is exempt.
- Diversifies the City's debt portfolio and can be paid down early.
- Provides flexible terms and additional options for operating budget planning.
- Vendors are paid promptly upon funding of the lease escrow.
- Lease payments may be designed to match the expected useful life of the asset.
- Provides access to bank provided products that are becoming more common.

The Finance Department recommends acceptance of the lease proposal from US Bancorp Government Leasing and Finance Inc. (USBGLF). The City already has a Master Lease Agreement with USBGLF. The lease will be structured as a tax-exempt municipal lease, with title in the City's name and US Bank holding a security interest in the equipment during the term. In addition, the City currently has an existing master lease agreement with USBGLF for the lease purchase financing of the aforementioned Public Works equipment and aerial ladder truck. The new financing will be added to the existing agreement with the bank.

The equipment being replaced has a useful life in excess of fifteen years. The recommendation is to structure the lease for seven years thereby minimizing the interest cost paid and balancing the generational equity of the asset with the useful life. Payments for the acquisition of the ladder truck equipment will be made directly from the lease escrow account that is to be funded once the lease is closed. The City is paying the full cost of the truck up front in order to take advantage of the prepayment discount in excess of \$21,000 offered by the vendor. The final cost being financed net of the discount is estimated to be \$703,319. The trade in of the pumper being replaced will be used to purchase various equipment that will be housed on the truck once it is in operation.

The lease structure, if entered into, would have seven annual payments of \$113,954 including interest. Lease payments are required to be paid out of the Fire Department operating budget rather than the debt service budget. The appropriation will be included for the first payment commencing in February of 2020. The final payment will occur in 2026 but the terms from US Bank do include the option to prepay the lease. If approved by Council the lease documents can be executed and a lease escrow funded early in February. Payment will be made to the vendor from the lease account to satisfy the prepayment terms. The City will own the equipment once the final lease payment is made and the financing will be categorized as a capital lease on the City's books.

The Finance and Administration Committee approved the recommendation to authorize the City entering into a seven-year lease purchase agreement with US Bancorp Government Leasing and Finance, Inc. to finance the acquisition cost of an pumper truck for a the Fire Department. Council is requested to authorize entering into a seven-year lease purchase agreement with US Bancorp Government Leasing and Finance, Inc. The approval is requested on first reading and as an emergency in order to allow the City to preserve the vendor offered prepayment discount and close the lease agreement before the February 1st date.

ORDINANCE NO. __
BY: _____

AN ORDINANCE AUTHORIZING THE EXECUTION OF A PROPERTY SCHEDULE PURSUANT TO AN EXISTING MASTER TAX-EXEMPT LEASE/PURCHASE AGREEMENT BETWEEN U.S. BANCORP GOVERNMENT LEASING AND FINANCE, INC. AND THE CITY, PROVIDING FOR THE LEASE AND EVENTUAL ACQUISITION OF A FIRE TRUCK FOR THE FIRE DEPARTMENT, AND RELATED MATTERS, AND DECLARING AN EMERGENCY.

WHEREAS, the Council (the “Council”) of the City of Shaker Heights, Ohio (the “City”) has determined to acquire a fire truck for the Fire Department (the “Property”) pursuant to the Master Tax-Exempt Lease/Purchase Agreement dated September 15, 2014 (the “Master Lease”), between U.S. Bancorp Government Leasing and Finance, Inc., as lessor, and the City, as lessee, by entering into an additional related Property Schedule (Schedule No. 04, and, together with the Master Lease and any addenda, exhibits and attachments thereto, the “Lease”) pursuant to the Master Lease; and

WHEREAS, the obligations of the City under the Lease are subject to annual appropriations by this Council;

NOW, THEREFORE, BE IT ORDAINED by the Council of the City of Shaker Heights, Cuyahoga County, Ohio, that:

Section 1: Authorization of Schedule No. 04; Authorized Aggregate Principal Component; Interest Rate. The Mayor and the Director of Finance are hereby authorized to sign, acknowledge and deliver, in the name of and on behalf of the City, Schedule No. 04 in substantially the form now on file with the Clerk of Council. The form of Schedule No. 04 is approved with such changes therein that are not materially inconsistent with this Ordinance and not substantially adverse to the City and that are permitted by law and shall be approved by the Mayor, provided that the aggregate principal components of the rental payments due under the Lease shall not exceed \$725,000.00, the interest component of those rental payments shall accrue at an annual rate not in excess of 3.250%, the final renewal term of the Lease shall end not later than 84 months from the commencement date of the Lease, and the Lease shall be subject to prepayment at the “Termination Amount” on the dates set forth in the Lease. The approval of such changes, and that such changes are not materially inconsistent with this Ordinance and not substantially adverse to the City, shall be conclusively evidenced by the signing of Schedule No. 04 by the Mayor and the Director of Finance. The Mayor, Director of Finance, Director of Law, Clerk of Council or any other City officials, as appropriate, are each further authorized to sign any certifications, financing statements, escrow agreements, documents, instruments and to take such other actions as are desirable, advisable, necessary or appropriate to consummate the transactions contemplated by this Ordinance and the Lease.

Section 2: Application of Proceeds. The proceeds of the Lease shall be paid into the proper fund or funds as provided in the Lease, and those proceeds are appropriated and shall be used for the purpose for which the Lease is authorized and are hereby appropriated for that purpose.

Section 3: Federal Tax Considerations. The City covenants that it will use, and will restrict the use and investment of, the proceeds of the Lease in such manner and to such extent as may be necessary so that (a) the obligations of the City under the Lease will not (i) constitute private activity bonds or arbitrage bonds under Sections 141 or 148 of the Internal Revenue Code of 1986, as amended (the “Code”), or (ii) be treated other than as bonds to which Section 103(a) of the Code applies, and (b) the interest component of lease payments due under the Lease (“Interest”) will not be treated as a preference item under Section 57 of the Code.

The City further covenants (a) that it will take or cause to be taken such actions which may be required of it for the Interest to be and remain excluded from gross income for federal income tax purposes, (b) that it will not take or authorize to be taken any actions which would adversely affect that exclusion, and (c) that it, or persons acting for it, will, among other acts of compliance, (i) apply the Lease proceeds to the governmental purpose of the Lease, (ii) restrict the yield on investment property acquired with the Lease proceeds, (iii) make timely and adequate rebate payments to the federal government if required to do so, (iv) maintain books and records and make calculations and reports, and (v) refrain from certain uses of Lease proceeds and, as applicable, of property financed with such proceeds, all in such manner and to the extent necessary to assure such exclusion of that Interest under the Code.

The Director of Finance, as the fiscal officer, or any other officer of the City having responsibility for execution of the Lease, is hereby authorized (a) to make or effect any election, selection, designation, choice, consent, approval, or waiver on behalf of the City with respect to the Lease as the City is permitted or required to make or give under the federal income tax laws, including, without limitation thereto, any of the elections provided for in or available under Section 148 of the Code, for the purpose of assuring, enhancing or protecting favorable tax treatment or status of the Lease or Interest or assisting compliance with requirements for that purpose, reducing the burden or expense of such compliance, reducing the rebate amount or payments of penalties, or making payments of special amounts in lieu of making computations to determine, or paying, excess earnings as rebate, or obviating those amounts or payments, as determined by that officer, which action shall be in writing and signed by the officer, (b) to take any and all other actions, make or obtain calculations, make payments, and make or give reports, covenants and certifications of and on behalf of the City, as may be appropriate to assure the exclusion of Interest from gross income and the intended tax status of the Lease, (c) to designate the City’s obligations to pay lease payments due under the Lease as “qualified tax-exempt obligations” if such designation is applicable and desirable, and (d) to give one or more appropriate certificates of the City, for inclusion in the transcript of proceedings for the Lease, setting forth the reasonable expectations of the City regarding the amount and use of all the proceeds of the Lease, the facts, circumstances and estimates on which they are based, and other facts and circumstances relevant to the tax treatment of the Interest and the tax status of the Lease.

Section 4: Prior Acts Ratified and Confirmed. Any actions previously taken by City officials or agents of the City in furtherance of the matters set forth in this Ordinance are hereby approved, ratified and confirmed.

Section 5: Compliance with Open Meeting Requirements. This Council finds and determines that all formal actions of this Council and of any of its committees concerning and relating to the passage of this Ordinance were taken in an open meeting of this Council or committees, and that all deliberations of this Council and of any committees that resulted in those formal actions were in meetings open to the public in compliance with the law.

Section 6: Captions and Headings. The captions and headings in this Ordinance are solely for convenience of reference and in no way define, limit or describe the scope or intent of any Sections, subsections, paragraphs, subparagraphs or clauses hereof. Reference to a Section means a section of this Ordinance unless otherwise indicated.

Section 7: Declaration of Emergency; Effective Date. This Ordinance is declared to be an emergency measure necessary for the immediate preservation of the public peace, health, safety and welfare of the City, and for the further reason that this Ordinance is required to be immediately effective to enable the City to capture a significant prepayment discount on the purchase price of a vehicle required to enhance the services provided by the City's Fire Department and thereby better protect and provide for the health and safety of the citizens of the City and to establish the interest rate for the financing of that vehicle; wherefore, this Ordinance shall be in full force and effect immediately upon its passage and approval by the Mayor.

Enacted _____, 2019.

Approved this _____ day of _____, 2019.

DAVID E. WEISS, Mayor

Attest:

JERI E. CHAIKIN
Clerk of Council