



Legislation Text

File #: 15-247, **Version:** 1

AUTHORIZATION TO PAY THE REMAINING BALANCE AND EXECUTE ALL DOCUMENTS NECESSARY TO END A LEASE PURCHASE-BACK AGREEMENT OF CITY PROPERTY WITH BANC OF AMERICA LEASING

Staff Contact: Tom Duensing, Director, Finance and Technology

Purpose and Recommended Action

This is a request for the City Council to waive reading beyond the title and adopt a resolution authorizing the City Manager or his designee to pay the remaining balance and execute all documents necessary to end a lease purchase-back agreement of City property with Banc of America Leasing and authorize a budget appropriation transfer in an amount not to exceed \$9,250,000 for the lease payoff. Approval of this item is contingent upon approval of the Council agenda item Authorization to Reclassify Inter-Fund Advance to Inter-Fund Transfer (File ID 15-247).

Background

On May 24, 2011, the City Council adopted a resolution granting authority to the Finance Director to enter into a lease purchase back agreement of City property with Banc of America Leasing. As a result of the agreement, the City received \$11,503,100 which was used to pay off an outstanding lease, two outstanding notes payable, and costs of issuance of the financing. The interest rate on lease purchase back agreement is 5.4%

On March 17, 2015 at the Budget Workshop, staff presented information to the City Council on a plan to reduce future interest costs on this lease purchase back agreement by prepayment of the balance. The consensus of the Council was for staff to bring forward a resolution authorizing the City Manager or his designee to prepay the loan during this fiscal year.

Analysis

The outstanding principal currently owed on the lease is \$9,042,100. The terms of the lease require an additional one-percent of the principal which is \$90,421 plus any accrued interest. The terms of the agreement also require the City to provide the bank a fifteen (15) day notice of any prepayment. The estimated accrued interest owed on the lease, calculated through April 29, 2015, is \$80,265. Therefore, the total payoff amount is estimated to be \$9,212,786. When comparing this payoff amount to the remaining lease payments of \$9,915,434, the City is estimated to save \$702,648. Although the estimated lease payoff is \$9,212,786, payment authority is being requested up to \$9,250,000 to cover any unanticipated delays in this transaction.

As prepayment of this lease was not anticipated during the FY2014-15 budget process, a budget appropriation transfer is necessary to complete this transaction. City staff has determined that budget appropriation is

available to be transferred from the Transportation Capital Project Fund 2210 Department 65016 (Northern Avenue Super Street) to the General Fund 1000 Department 11380 which will not require the budget appropriation in the current year. No cash will be transferred from the Transportation Capital Project Fund and the necessary appropriation for the construction of the project can be restored through the FY15-16 budget process.

This action will authorize the City Manager or his designee to execute all documents and make the payment necessary to prepay the lease including penalty and accrued interest up to \$9,250,000 and further authorize the Finance and Technology Director to transfer budget appropriation only (no cash) from the Transportation Capital Projects Fund 2210 Department 65016 to the General Fund 1000 Department 11380 of up to \$9,250,000.

Per the transfer policy, appropriation transfers between funds can only be made through City Council approval in the last three months of the fiscal year. Therefore, this appropriation transfer complies with the Cash and Budget Appropriation Transfer Policy adopted December 10, 2013.

Budget and Financial Impacts

The lease prepayment is expected to save the City approximately \$702,648 in interest costs.

Capital Expense? No

Budgeted? No

Requesting Budget or Appropriation Transfer? Yes

If yes, where will the transfer be taken from? Budget appropriation transfer from Transportation Capital Projects Fund 2210, Department 65016.