
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Master Lease Agreement with Banc of America Public Capital Corporation

Item 200 on the docket for June 2, 2009 is a revised request for authorization to enter into a Master Lease Agreement with Banc of America Public Capital Corporation in an amount not to exceed \$35 million for the lease purchase of motive and other equipment. This Item was initially heard on May 11, and was not approved by the City Council due to a number of unresolved issues. The current proposal has been revised to specify the further Council approvals that will be required. This report aims to clarify several points of confusion regarding the planned equipment purchases and the FY 2009 budgetary implications for the Fleet Services Division.

Vehicle Replacement

One of the primary financing needs is for the replacement of City vehicles that have reached the end of their useful life. The revised staff report indicates that of the 460 vehicles currently in need of replacement, 291 will be cash funded and 169 are proposed to be financed through the Master Lease Agreement.

Each year, City departments that maintain a vehicle fleet pay assignment charges in order to save for the eventual replacement of current vehicles. These payments accumulate in the Fleet Division Vehicle Replacement Fund, and are then used to replace vehicles once they reach the end of their useful life. The annual assignment charge for any vehicle is essentially the estimated cost of replacement divided by the number of years in its useful life. In FY 2008, as part of the Fleet Services Business Process Reengineering, the Police and Fire-Rescue fleets were consolidated into the replacement program to ensure timely replacement of critical public safety vehicles. Following this consolidation, the Police and Fire-Rescue Departments began paying annual assignment charges; however, they did not have pre-existing balances with which to purchase vehicles that require current replacement.

At the Council meeting on May 11, the Fleet Services Division was mischaracterized as being \$10.8 million overbudget in the current fiscal year, and that the lease financing was needed to cover this amount. It should be clarified that the Fleet Division does not have a deficit in FY 2009. More accurately, due to the consolidation of the Public Safety Fleet, the Vehicle Replacement Fund does not yet have a sufficient accumulated balance to cash fund all of the City's vehicle replacement needs. In other words, the City's fleet replacement needs currently exceed Replacement Fund cash balances. As such, certain vehicles are proposed to be replaced via lease financing. If the proposed financing is not approved, the vehicles will not be purchased, and therefore the Replacement Fund will not go overbudget. However, it should be noted that the cost to operate and maintain these vehicles will likely increase if they are not replaced at this time.

Automated Yard Waste Containers

The proposal included lease financing for the purchase of approximately 60,000 automated yard waste containers to begin converting City yard waste customers from manual to automated collection. While the City currently has a pilot program along several routes, the lease financing purchases would allow for approximately one-third of the City yard waste customers to be converted to automated collection. Current financial challenges in the Recycling Fund would likely prohibit further expansion of the program at this time.

While the policy decision to convert to automated yard waste collection has not yet been made, the revised proposal specifies that further Council approval would be required before financing the acquisition of the automated containers. Under the Master Lease Agreement, the City would have up to one year to draw upon the line of credit for these purchases. While it would have been more appropriate for a final policy decision to be made prior to seeking financing, it would not be unreasonable to combine this action with other needed financings in order to take advantage of potential economies of scale, particularly since the revised proposal includes adequate safeguards to ensure that further Council approval is required, and there is no penalty if the line of credit is not accessed. However, it is our understanding that the proposal is being revised to no longer request financing for the purchase of automated yard waste containers at this time. Despite this revision, moving to automated yard waste collection may have merit, and we recommend that a policy discussion on potential citywide implementation be initiated at the Committee level.

[SIGNED]

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