



**Date:** August 4, 2015

**To:** Thomas J. Bonfield, City Manager  
**Through:** Wanda S. Page, Deputy City Manager  
**From:** David Boyd, Finance Director  
Keith Herrmann, Deputy Finance Director  
Chad Cowan, Treasurer

**Subject:** Private Placement Financing (Fleet), Series 2015

### **Executive Summary**

The Finance Department is proposing a private placement installment financing with Bank of America Public Capital Corporation (BAPCC) to fund the City's fleet acquisition process. This financing, as planned, will be for an amount not to exceed \$9,500,000.00 to fund the City's fleet acquisition process, as approved by City Council during the 2014-15 and 2015-16 Budget processes. Additionally, the financing will pay any costs of issuance related to the financing.

### **Recommendation**

The Finance Department recommends that the City Council:

1. Adopt the resolution authorizing the installment financing contract with BAPCC and other related items for a financing not to exceed \$9,500,000.00.
2. Authorize the City Manager or his designee to execute other associated legal documents as necessary to complete this transaction and to make changes to any of the legal documents prior to execution, so long as the changes are consistent with the intent of the agenda item memo and the existing versions of the documents.

The resolution recommended for adoption by the City Council provides for the following:

- Approve all actions and transactions related to the proposed financing.
- Authorize the execution of the Contract related to the financing and authorize and empower the financing team to execute such documents related to the contract.

### **Background**

On February 6, 2006 the City Council received a report from Mercury Associates, a fleet management consulting firm, of the City's Fleet and Fleet Maintenance Operations. Among other things, the study addressed fleet utilization and "rightsizing" and service lifecycles and fleet replacements. The study found that the City was not doing an adequate job replacing its aging fleet and recommended an accelerated replacement schedule to reduce fleet maintenance costs. Since the 2006 report, the City has borrowed funds on multiple occasions to fund its fleet acquisition plan.

The 2015 and 2016 CIPs included the purchase of new vehicles City-wide for budgeted purchase price of approximately \$11,390,000.00. This financing will fund the purchase all the vehicles approved in the 2015 and 2016 CIPs for General Governmental Purposes and

Solid Waste Fund with an estimated total value of \$9,375,000.00. The financing will reimburse the City for any purchases that were made in FY 2015 and provide funding for the purchase of the remaining vehicles. Any vehicles approved in the 2015 and 2016 CIPs for Water Management and Stormwater will not be funded through this financing. The purchase of those vehicles will be paid for using others sources of funding.

In continuing to maximize the replacement efforts with replacement dollars, Fleet uses best business practices, which includes using an objective vehicle scoring system and an annual utilization study of the entire fleet. This process minimizes “fleet-creep” and minimizes the possibility that replacement funds are used to replace underutilized vehicles or vehicles in a backup status. By keeping a modernized fleet, the City will continue to reduce our greenhouse emissions and allow for the service delivery of our public safety departments and our public works/water services departments.

**Issues and Analysis**

Following thorough evaluation of market conditions, interest rates, and other financing related expenses, the Finance Department has determined that a private placement of this financing will provide the City the best overall financing results. The Finance Department issued a Request For Proposals (RFP) in June to ten banking institutions and received five proposals with Bank of America Public Capital Corporation providing the best overall result for the City. BAPCC was also the low bidder on the City’s 2011 Fleet Financing.

The summary of bids is outlined below:

<u>Bank</u>	<u>Fees</u>	<u>Rate</u>	<u>Total Net Cost</u>
BAPCC	None	1.575%	\$9,875,816.63
PNC Bank	None	1.880%	9,969,895.40
First Tennessee	\$2,500.00	1.970%	10,000,441.18
SunTrust	None	2.190%	10,065,516.45
Bank of North Carolina	\$4,000.00	2.600%	10,196,584.47

The following banks received the RFP but did not respond or did not provide an acceptable proposal:

BB&T, M&F Bank, Regions Bank, Vantage South Bank, Wells Fargo, Yadkin Valley Bank.

Pending City Council approval of the resolution, the transaction will close in the middle of August.

Private placement installment financings are typically marketed directly to an investor. In contrast, public sales – such as the 2015 Limited Obligations Bonds (DPAC Refinancing) – require the hiring of an underwriter who negotiates the sale of the debt to a number of investors. Given the simplicity of a private placement, they can be undertaken without the use of credit rating agencies, an underwriter, and other market professionals such as underwriters counsel, a full service financial advisor, and trustees. For financings of this size and structure, they provide an excellent alternative to traditional bond sales. This transaction will be similar to the financing the City completed in 2011 for the acquisition of fleet vehicles.

**Alternatives**

City Council could choose to forego or delay this debt issuance; however, alternate funding sources for the purchase of vehicles has not been determined or provided in the budget. This would cause significant delays in the Fleet Department’s ability to continue to update the City’s fleet.

**Financial Impact**

The debt service on this financing, as outlined below, will be paid from debt service fund and the Solid Waste fund. The costs outlined below were included in the long-term financial plan as discussed during the recent budget process.

The issuance of debt for vehicle replacements will result in annual debt service payments for up to six years. Based on a final rate of 1.575% and a repayment timeframe of approximately five years and ten months, below are the annual fiscal year debt service costs over the life of the financing:

<b>Total 2015 Fleet Financing</b>			
<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
FY2016	\$940,000.00	\$115,849.13	\$1,055,849.13
FY2017	1,875,000.00	133,087.50	2,008,087.50
FY2018	1,875,000.00	103,556.25	1,978,556.25
FY2019	1,875,000.00	74,025.00	1,949,025.00
FY2020	1,885,000.00	44,493.75	1,929,493.75
FY2021	940,000.00	14,805.00	954,805.00
<b>Total:</b>	<b>\$9,390,000.00</b>	<b>\$485,816.63</b>	<b>\$9,875,816.63</b>

The financing team will be comprised of Parker Poe as Bond Counsel with an estimated fee of \$15,000.

**SDBE Summary**

There are no SDBE issues with regard to this item.

**Attachments**

Resolution (5 pages)

Form of Installment Purchase Contract (31 pages)