



**County Board Agenda Item
Meeting of September 26, 2009**

DATE: September 4, 2009

SUBJECT: Approve the execution and delivery of the Master Lease Agreement and declaring the County Board's intention to reimburse itself from the proceeds of financing for expenditures to be made in connection with the acquisition and installation of certain equipment.

C. M. RECOMMENDATION:

1. Approve the Resolution (Attachment 1) authorizing the execution and delivery of the Master Lease Agreement and declaring the County Board's intention to reimburse itself from the proceeds and authorize the County Manager to negotiate lease financing for the equipment.
2. Appropriate funds from Lease proceeds for the Department of Technology Services and Police Department to account 313.380800.91103 and for the Auto Fund to account 609.380800.91103.

ISSUES: Should the County establish a cost-effective lease financing mechanism for technology and other essential equipment?

SUMMARY: In the Adopted Capital Improvement Program, the County Board authorizes the County Manager to seek short- and long-term debt to finance the County and Schools' capital projects. Every year, during the annual operating budget process, the County Manager's Office and the Department of Management and Finance discuss financing alternatives for short-and long-term projects. To finance the short-term projects, which may include equipment and systems, the County could use pay-as-you-go (PAYG) or the Master Lease Agreement.

Historically, Arlington County has financed its equipment needs through a master lease. Tax-exempt lease financing allows the County to acquire the equipment at a low interest rate and pay for the equipment over its useful life. The master lease agreement will allow the County to finance its equipment needs up to a maximum of \$37,500,000 for the next two years, with an option to extend the acquisition period for an additional 12 months.

BACKGROUND: Every year Arlington County and the Arlington Public Schools finance a portion of their needs for equipment and systems through the Master Lease Agreement. The current master lease agreement expired in February 2009. Staff has completed a competitive process to select a vendor and has negotiated a proposed Master Lease with the top-rated offeror.

County Manager: _____

County Attorney: _____

Staff: Loan D. Hoang, Department of Management and Finance

Out of seven bidders, TD Equipment Finance, Inc. provided the lowest fee pricing, had good experience in providing leasing services and had the highest credit rating.

In this financing proposal, the County and the Schools are requesting the County Board to authorize the Purchasing Agent to sign a new Master Lease agreement and for the County Manager to negotiate debt under the Master Lease that would allow the County to purchase the equipment and systems required by the County and the Schools.

The Master Lease Agreement's structure allows the County to procure equipment using temporary sources, and then draw funds from the Lessor to reimburse the temporary sources. In order to comply with federal tax regulations, the County needs to state its intentions to reimburse itself with the proceeds from the Master Lease Agreement. The attached resolution authorizes the execution and delivery of the new master lease agreement and also outlines the County's intent to advance fund certain equipment from the County's General Fund or other temporary sources and to reimburse itself from the financing proceeds at a later date.

Approval of this master lease agreement and reimbursement resolution allows the County Manager to make the necessary financing agreements up to the maximum of \$37,500,000 during the term of this lease; however, action is still required of the County Board to appropriate the lease proceeds for each and every draw throughout the terms of the master lease.

DISCUSSION:

PROPOSED TERMS: The County plans to finance up to \$37.5 million pursuant to the Master Lease. However, there is no requirement that the County finance the entire \$37.5 million. This Agreement permits the County to enter into a financing over a two-year period or until the date when the aggregate amount of equipment leased reaches \$37.5 million, whichever is earlier. The County reserves the right to extend the Master Lease for an additional twelve months beyond the initial twenty-four month term. Such an extension will be made at the discretion of the County, but will not permit the County to finance more than \$37.5 million worth of equipment.

Each time the County wants to draw funds under the Master Lease, the Purchasing Agent will execute an appendix to the Lease for specific equipment. Each appendix represents a new lease and will have an associated interest rate and repayment schedule, subject to the terms of the Master Lease. The County Board will be asked to appropriate proceeds of such draw under the Master Lease.

The County will make lease payments based on a fixed interest rate using a percentage of the current rate for three, five, seven or ten-year U.S. Dollar Current Interest Rate Swap Index as reported by the Federal Reserve Board: H.15 at the time an appendix is executed. Using the U.S. Dollar Current Interest Rate Swap Index rates as of September 2, 2009, the lease rate would be 2.29 percent for equipment financed over a three-year term, 2.99 percent for a five-year term, 3.42 percent for a seven-year term and 3.85 percent for a ten-year term.

The obligation to make payments under the Master Lease will be subject to annual appropriation by the County Board and will be enforced only so long as an annual appropriation is made by the County Board covering the amounts of the obligations described in the appendices to the Master

Lease. No financing will occur under this Master Lease unless the debt service to be paid has been approved in the County or the Schools' adopted budgets. Since neither the County's full faith and credit or its taxing power is pledged, this obligation will not constitute a general obligation debt of the County. If funds were not appropriated by the County Board under the Master Lease, the lessor would have the right to take possession of the equipment financed under the Master Lease.

EQUIPMENT: The list of equipment, Attachment 2, to be funded through this first draw of the master lease includes purchases of personal computers and laptops and installation of the network/telephone refreshment systems for the Department of Technology Services; purchases of mobile data computers for the Public Safety Departments; purchases of class "A" pumpers for the Fire Department; and acquisition of personal computers and laptops for Arlington Public Schools. The total cost for the equipment and installation of systems for this financing is \$9,498,274. By adopting the Resolution in Attachment 1, the County will make its advanced funding intent clear, and therefore, keep its financing plans consistent with federal regulations.

- The refreshment of the County's network and telephone system costs \$6.0 million. Purchase and installation of the refreshment was planned to be phased in over a two year period. The first phase was financed in FY 2009 at \$5.0 million. This current funding of \$1.0 million is the second phase and will complete funding for this project.
- The County's PC replacement program operates on a four year cycle, leading to replacement of one-fourth of the PC inventory annually. However, budget constraints from the past fiscal years have delayed the replacement cycle. This funding request of \$2.0 million is higher than average in order to catch up to the four year cycle. This inventory includes desktop computers as well as laptops for users whose work requires mobility.
- Mobile data computers allow emergency personnel to communicate more efficiently with the Emergency Communications Center and other public safety officers in the County. The current mobile data computers have reached the end of their lifecycle. The current financing request of \$740,000, with previously approved PAYG funding and debt service savings, will provide total funding to replace 390 mobile data computers.
- The fire pumpers were replaced in FY 2002 and have reached the end of the 7 year useful life. The \$2,258,274 funding request will replace the 6 fire pumpers, also taking advantage of the buy-back credit from the trade in of the old pumpers.
- The School's request of \$3,500,000 will be used to finance their PC and laptop replacement program.

Staff expects that about 66 percent of the equipment to be financed under this Master Lease would be financed over three years, 11 percent over five years, and 24 percent over seven years. The lease term reflects the expected useful life of the equipment. The Arlington County Purchasing Resolution permits the Purchasing Agent to enter into financing agreements on behalf of the County.

FISCAL IMPACT: The adoption of the Resolution in Attachment 1 will ensure that the equipment described in Attachment 2 approved by the County Board can be financed on a tax-exempt basis. The equipment and systems will be financed for 3, 5, 7 and 10 years. The debt service to support the County's projects is included in the adopted FY 2010 budget. The debt service for the General Fund projects are budgeted under 101.490500.91103. The debt service for the Fire Pumpers budgeted in the Auto Fund is covered under 609.490500.43124.

CERTIFICATE OF THE CLERK
OF THE COUNTY BOARD OF
ARLINGTON COUNTY, VIRGINIA

At a regular meeting of the County Board of Arlington County, Virginia, held on the ____ day of September, 2009, the following County Board members were recorded as present:

PRESENT:

On motion by _____, seconded by _____, the attached Resolution was adopted by a majority of the members of the County Board by a roll call vote recorded as follows:

MEMBER

VOTE

Dated: September ____, 2009

CLERK, ARLINGTON COUNTY BOARD

**A RESOLUTION OF THE COUNTY BOARD OF ARLINGTON, VIRGINIA
AUTHORIZING THE LEASE FINANCING OF CERTAIN EQUIPMENT AND
SYSTEMS AND DECLARING ITS INTENTION
TO REIMBURSE ITSELF FROM THE PROCEEDS**

The County Board (the "Board") of Arlington County, Virginia (the "County") has determined that it is necessary and desirable to acquire certain equipment for the County, including without limitation certain computer software and equipment, network and telephone installation, mobile data computers and infrastructure and fire pumpers (collectively, the "Equipment"), and to obtain financing for the Equipment through a financing lease providing financing, on a tax exempt basis, for the Equipment in an amount not to exceed \$37,500,000 (the "Lease").

NOW, THEREFORE, BE IT RESOLVED BY THE COUNTY BOARD OF ARLINGTON, VIRGINIA:

1. Acceptance of Proposal; Authorization and Execution of Documents. The County Manager and the Director of the Department of Management and Finance, or either of them, is authorized and directed to accept a proposal to provide financing, on a tax exempt basis, for the Equipment that the County Manager and the Director of the Department of Management and Finance, or either of them, determine to be in the County's best interest; provided that the maximum principal amount of such financing shall not exceed \$37,500,000. The County Manager and the Director of the Department of Management and Finance, or either of them, or such officers as either of them may designate are authorized to execute and deliver on behalf of the County an equipment lease agreement or other similar financing agreement (the "Lease") and to execute and deliver such instruments, agreements, documents or certificates, and to do and perform such things and acts, as they shall deem necessary or appropriate to carry out the transactions authorized by this Resolution; and all of the foregoing, previously done or performed by such officers or agents of the County, are in all respects approved, ratified and confirmed.

2. Nature of Obligations. The obligation of the County to make payments under the Lease is subject to appropriation each year by the Board. Nothing in this Resolution or the Lease shall constitute a debt or a pledge of the faith and credit of the County.

3. Reimbursement. The Board adopts this declaration of official intent under Treasury Regulations Section 1.150-2. The Board reasonably expects to reimburse advances made or to be made by the County to pay the costs of the Equipment from the proceeds of its debt or other financings. The maximum amount of financing expected to be issued for the Equipment is \$37,500,000.

4. Effective Date. This Resolution shall take effect immediately upon adoption.

MASTER LEASE PROGRAM FUNDING REQUIREMENT

<u>DEPARTMENT</u>	<u>UNITS</u>	<u>TOTAL COST</u>
DTS		
Replacement of County's desktop computers and laptops	approx 1,500	2,000,000
Installation of Network/Voice Refreshment (final phase of a \$6 million project)		<u>1,000,000</u>
Total DTS		3,000,000
Police		
Mobile Data Computers for Public Safety departments (total cost of \$1.74 million is offset by \$1.0 million of previously budgeted master lease debt service funding)	approx 157	<u>740,000</u>
Total Police		740,000
Auto Fund for Fire Department		
2009 Pierce Custome Built Class "A" Pumper (net of trade in value of \$720,000)	6	<u>2,258,274</u>
Total Auto Fund		2,258,274
APS		
Desktop computers, laptops, software and peripherals	approx 3,200	<u>3,500,000</u>
Total APS		3,500,000
Grand Total		9,498,274