



ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item Meeting of March 10, 2012

DATE: February 8, 2012

SUBJECT: Authorize a draw under the existing Master Lease Agreement with TD Equipment Finance, Inc. to finance various essential equipment and technology systems as reflected in the Adopted FY 2012 PAYG budget.

C. M. RECOMMENDATION:

1. Authorize the Purchasing Agent to execute an appendix to the Master Lease for certain essential equipment.
2. Appropriate funds from Lease proceeds for the Department of Technology Services and Police Department to the General Capital Fund account 313.380800.91103, the Auto Fund to 509.380800.91103 and Arlington Public Schools to 880.380800.91103.

ISSUES: This is a request to authorize a draw under the existing Master Lease Agreement to finance various essential equipment and technology systems as reflected in the Adopted Fiscal Year 2012 PAYG budget. No issues have been identified.

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 evaluates 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 current master lease agreement, put into effect in October 2009, allows the County to finance its equipment needs up to a maximum of \$37.5 million and expires in October 2012. This third draw will bring the total to \$23.2 million financed through the existing master lease agreement.

County Manager:

BMD/mjs

County Attorney:

[Signature] *[Signature]*

Staff: Michelle Cowan, DMF Director
Loan Hoang

27.

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 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 County complied with this tax provision at the September 26, 2009 meeting when the Board approved the reimbursement resolution which covered all purchases from that date up to a 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 draw through the term of the master lease.

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

The County will make lease payments based on the higher of 1) the interest floor as established in the existing master lease agreement or 2) 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. Based on the U.S. Dollar Current Interest Rate Swap Index rates as of February 7, 2012, the lease rate would be 2.35 percent for equipment financed over a three-year term, 2.75 percent for a five-year term and 3.25 percent for a seven-year term.

The obligation to make payments under the Master Lease are 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 nor its taxing power is pledged, this obligation does 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: Attachment 1 lists the equipment needs to be funded through this third draw of the master lease. These projects are consistent with the adopted FY 2012 budget. It includes personal computers and laptops, network security enhancements, and server refreshment requested by the Department of Technology Services; mobile data computers for the Police, Sheriff and Fire department; and fire apparatus managed under the Auto Fund. The total cost for the equipment and systems for this draw is \$7,882,875.

- The PC Replacement program operates on a four year cycle, leading to replacement of approximately one-quarter of the PC inventory annually. This inventory has traditionally included desktop and laptop computers, and will refresh approximately 660 PCs.

- Server Refreshment is an ongoing requirement for the replacement of servers and storage devices that are over five years old, out of warranty and no longer supportable. Without replacement, the applications that reside on this equipment are at risk of failure. This financing will be used to replace approximately 19 servers and one enterprise/storage backup system.
- Network Security Enhancements are needed to harden data security to maintain compliance, reduce the risks of potential data breach/loss and enhance the County's data access controls. This financing will be used to purchase hardware, software and consulting services.
- Mobile Data Computers - The current laptops were replaced during calendar years 2008 and 2009 and have reached the end of their three year useful life. This project will replace the current laptops with more rugged laptops which can be taken out of public safety vehicles thereby enabling public safety officers to be more efficient in working in the field. The newer model of laptops will be able to access the full range of bandwidth available to the County, improving connectivity over that currently experienced by laptop users. There are currently 390 mobile data terminals: 300 for the Police, 10 for Sheriff, and 80 for the Fire Department. The total replacement cost is \$2,145,000 and will be done over two years (FY 2012 and FY 2013). Based on the warranty expiration dates for the current fleet of MDCs as well as staff time required to install the computers, the FY12 financing will replace 260 out of the 390 MDCs at a cost of \$1,435,230. The remaining 130 devices would be replaced in FY 2013.
- The Fire apparatus program will replace two (2) class "A" fire pumpers, one (1) aerial ladder truck, and two (2) heavy rescue. The equipment has reached the end of its seven year useful life. As part of the buy-back program, the County is able to acquire the equipment less the trade-in value (\$495,000) for the existing equipment for a net cost of \$2.9 million. Debt service costs are included in the Auto Fund.
- The Arlington Public Schools PC replacement program will replace 1,400 notebooks and 56 netbooks for a total cost of \$1,372,600, financed over 3 years. In addition, the Schools will purchase three high volume printers costing \$530,000, financed over 5 years.

Under this Master Lease draw, about 57 percent of costs will be financed over three years, seven percent will be financed over five years and 36 percent will be financed 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 computer equipment, systems, and printers will be financed over five years. The fire apparatus will be financed over seven years. The debt service to support the County's projects is included in the adopted FY 2012 budget. The debt service for the Schools equipment is budgeted under the School's budget. The debt service for County's fire apparatus

equipment is budgeted under the Auto Fund (609.490500.43124). The debt service for the remainder of the County's projects is budgeted under the General Fund (101.490500.91103).

Arlington County
Equipment List for Master Lease Financing – 3rd Draw - March 2012

<u>Department</u>	<u>Equipment</u>	<u>Amount Financed</u>	<u>Useful Life</u>
Department of Technology Services	Desktop computers and laptops	958,400	3 years
Department of Technology Services	Servers and Storage devices	550,000	3 years
Department of Technology Services	Network Security equipment – firewalls, routers, fluke network test equipment	175,000	3 years
Police Department	Mobile Data Computers - laptops	1,435,230	3 years
Arlington Public Schools	Desktop computers and laptops	1,372,600	3 years
Arlington Public Schools	High volume printers	530,000	5 years
Auto Fund	Class "A" Fire Pumpers (2), Aerial Ladder Truck (1), Heavy Rescues (2)	2,861,645	7 years
	Total	7,882,875	
		57%	4,491,230 3 years
		7%	530,000 5 years
		36%	2,861,645 7 years
			7,882,875