



ARLINGTON COUNTY, VIRGINIA

**County Board Agenda Item
Meeting of December 08, 2012**

DATE: November 13, 2012

SUBJECT: Resolution Authorizing the County's Equipment Lease Financing

C. M. RECOMMENDATION:

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.

ISSUES: This is a request to establish a cost-effective lease financing mechanism for technology and other essential equipment. There are no known issues.

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 new master lease agreement will allow the County to finance its equipment needs up to a maximum of \$40,000,000 for no more than the next three years, with an option to extend the acquisition period for an additional 12 months.

The County is currently negotiating with the most qualified offeror. This authorization will allow the County Manager to finalize negotiations to execute a final agreement. All financings will be submitted to the County Board for approval.

County Manager:

BMD/mjs

County Attorney:

[Signature]

JAM

22.

Staff: Michelle Cowan, Director and CFO, Department of Management and Finance
Loan Hoang, Financial Analyst, Department of Management and Finance

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 October 2012. Staff is in the process of negotiating a proposed Master Lease with the top-rated offeror.

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 \$40,000,000 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: Arlington County is in the process of negotiating a new Master Lease with a financial corporation that presents the best opportunity for the County.

PROPOSED TERMS: The County plans to finance up to \$40.0 million pursuant to the Master Lease. However, there is no requirement that the County finance the entire \$40.0 million. This negotiation permits the County to enter into a financing over a maximum acquisition term of three years or until the date when the aggregate amount of equipment leased reaches \$40.0 million, whichever is earlier. The County reserves the right to extend the Master Lease for an additional twelve months beyond the initial acquisition term. Such an extension will be made at the discretion of the County, but will not permit the County to finance more than \$40.0 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 or a comparable index at the time an appendix is executed. Using the U.S. Dollar Current Interest Rate Swap Index rates as of November 2, 2012, the lease rate would be 0.925 percent for equipment financed over a three-year term, 1.052 percent for a five-year term, 1.349 percent for a seven-year term and 1.472 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.

FISCAL IMPACT: The adoption of this resolution will ensure that the equipment approved or to be approved by the County Board can be financed on a tax-exempt basis.

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

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 computers, computer software and equipment, public safety equipment, vehicles and apparatuses, telecommunications equipment and other equipment (collectively, the "Equipment"), and to obtain financing for the Equipment through a financing lease providing financing for the Equipment in an amount not to exceed \$40,000,000 (the "Lease").

NOW, THEREFORE, BE IT RESOLVED BY THE COUNTY BOARD OF ARLINGTON COUNTY, 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 for such Equipment as 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 \$40,000,000. The County Manager and the Director of the Department of Management and Finance, or either of them, and 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 "Equipment Lease") and to execute and deliver such instruments, agreements, documents or certificates, including various appendices and schedules to the Equipment Lease 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 Equipment Lease is subject to appropriation each year by the Board. Nothing in this Resolution or the Equipment 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 \$40,000,000.

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

At a regular meeting of the County Board of Arlington County, Virginia, held on the 8th day of December, 2012, the following County Board members were recorded as present:

PRESENT:

The foregoing Resolution was adopted by a majority of the members of the County Board, the votes being recorded as follows:

MEMBER

VOTE

Clerk, County Board of Arlington County, Virginia