



ARLINGTON COUNTY, VIRGINIA

**County Board Agenda Item
Meeting of
October 18, 2008**

DATE: October 14, 2008

SUBJECT: Approve the Resolution amending the Master Lease Agreement and the Reimbursement Resolution 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 amending the Master Lease Agreement, Attachment 1.
2. Approve the Reimbursement Resolution, Attachment 2, and authorize the County Manager to negotiate lease financing for the equipment as presented in Attachment 3.
3. Appropriate funds from Lease proceeds for the departments of Technology and Environmental Services to account 313.380800.91103 and appropriate funds from Lease proceeds for the Fire Department to account 101.380800.91103.

ISSUES: Every year the County Board is requested to authorize the County Manager to negotiate a debt through the Master Lease; financing of equipment and systems through the Master Lease allow the County to finance equipment at low interest rates.

Due to uncertainties in the financial markets and the effect on County's revenues, the staff has reviewed and revised the amount proposed to be financed through the Master Lease; this proposal only funds those urgent infrastructure investments such as the telephone and network systems, breathing apparatus, and energy savings program.

SUMMARY: The County entered into a Lease Agreement between the County and Citimortgage (the "Lessor") dated as of February 16, 2006. The County has determined that it is in its best interest to amend certain terms of the Lease to extend the term of the Lease and to provide for the issuance of certain appendices under the Lease for a term of fifteen years in accordance with the terms of the Lease and to make certain other amendments. Such amendments will be reflected in the Second Amendment to Lease Agreement between the County and the Lessor.

County Manager: _____

County Attorney: _____

Staff: Gus Vega, Dept of Management & Finance – Financing Services Unit

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. This Agreement allows Arlington County and the Schools to finance their short-term needs at low tax-exempt interest rates.

In order for the equipment detailed in Attachment 3 to qualify under the Master Lease, the County Board has determined that it may be necessary or desirable to advance money to purchase of communication equipment for replacement of the network/voice refreshment for the Department of Technology Services.

The current telephone and network electronics have reached their end of life. The Telephone System is over twenty years old and parts to replace critical elements are only available on the secondary market. The County is experiencing telephone outages on increasing frequency. The network electronics necessary to move data, voice and video across the County network is too at end of life. First, installed in 2002 the equipment is now six years old and is too experiencing failures resulting in network interruptions. To address both issues the County has completed a competitive request for proposals (RFP) and awarded a contract this summer to PRESIDIO to refresh both the network and telephone systems. The equipment has arrived and the County is now in the process of repairing the most critical elements of both the telephone and network. This master lease fund (\$3,257,630) along with a \$1,742,176 buy down will fund the equipment purchase and initial installation costs of this project.

DTS has delayed its scheduled PC Replacement program for the past 18 months. In order to reduce spending, DTS will further delay scheduled PC replacements. DTS' request has been scaled back from \$2.0 million to \$0; DTS will replace computers on an as-needed basis.

Other equipment in Attachment 3 includes the purchasing of 1363 breathing apparatus and other equipment for the Fire Department; purchasing of a heavy duty closed circuit impact crusher for the Solid Waste Bureau, and contracting the firm of Custom Energy to execute an energy savings performance contract for the Department of Environmental Services. For the Schools, the School Board approved in its FY 2009 Budget, the acquisition of personal computers, and additional furniture and equipment for Washington /Lee High School. As of September 30, 2008, the Schools have purchased 88 percent of the amount requested for the computer replacement. The Schools will defer the remaining computer purchases and will look for other resources to fund the furniture and equipment for the new spaces in the Washington-Lee High School.

By adopting the Resolution in Attachment 2, the County will make its advancing funding intent clear, and therefore keep its financing plans consistent with federal regulations. The total cost for the equipment and systems is \$14,120,213.

BACKGROUND: On February 16, 2006, the Purchasing Agent negotiated a new Master Lease Agreement with Citimortgage. This Agreement can be used to acquire equipment and systems at

a low interest rate and to pay for the equipment and systems over their useful life. Recently, the Department of Management and Finance confirmed with the Lessor, the County's intentions to finance the equipment included in Attachment 3 under the current Master Lease; the Lessor despite the difficulties in the financial market has confirmed its interest in financing the equipment at the interest rates indices negotiated in the Agreement back on February 16, 2006.

Most recently, the County has been working with Custom Energy, a consulting firm to evaluate the energy consumption at the County's Justice Center and the possibility to reduce the consumption of energy and provide savings to the County. In a separate Board Report, the County Manager is asking the County Board to approve the award of the energy- and water-savings performance contract with Custom Energy.

Arlington County government's 2000 baseline greenhouse gas emissions totaled 67,250 metric tons of CO₂. Reducing annual electricity consumption by 1,594,401 kWh and natural gas consumption by 101,333 therms reduces our emissions by 1,422 metric tons, which is 21 percent of the 6,725 ton reduction necessary to achieve the 2012 goal.

The estimated savings in the next fifteen years would pay the debt service for the financing of the contract with Custom Energy. In order for the County to finance the energy performance contract with Custom Energy, the County needs to amend the current Lease Agreement with Citimortgage to include this type of project and to extend the term of the debt up to fifteen years; approval of this amendment is included in Attachment 1 of this report.

The Master Lease Agreement's structure allows the County to procure equipment, to use 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 (Attachment 2) 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. The attached list (Attachment 3) is comprised of County and Schools' equipment and systems to be purchased with Master Lease proceeds.

It is in the County's interest to adopt an explicit resolution rather than relying on budget documents to provide the federal government with sufficient prior intent documentation. This is the fourth draw under the Master Lease authorized in February 2006.

DISCUSSION: Every year Arlington County and the Arlington Public Schools finance a portion of their needs for equipment and systems through the Master Lease Agreement. In this financing proposal, the County and the Schools are requesting that the County Board authorize the Purchasing Agent to sign an amendment to the Master Lease to include the Energy savings project and for the County Manager to negotiate a debt under the Master Lease that would allow the County to purchase the equipment and systems required by the County and the Schools.

FISCAL IMPACT: The adoption of the Resolution in Attachment 2 will ensure that the equipment described in Attachment 3 approved by the County Board can be financed on a tax-exempt basis. The equipment and systems will be financed for 3, 5, 7, 10, and 15 years. The debt service of approximately \$ 1.16 million a year to support the County's projects, excluding

the debt service for the DES' projects, are included in the adopted FY 2009 budget, code number 101.91103.490500. The debt service for the energy performance contract projected to start up in FY 2010 and estimated at \$0.47 million a year would come from savings in energy consumption. The debt service for the heavy duty crushing plant would come primarily from the Utility Fund 519.490500.43542. ROCK.0337.0000 and from General Fund 101.49050.44030.

RESOLUTION OF THE COUNTY BOARD OF
ARLINGTON COUNTY, VIRGINIA
AUTHORIZING THE EXTENSION AND AMENDMENT OF ITS
LEASE AGREEMENT DATED AS OF FEBRUARY 16, 2006
WITH CITIMORTGAGE, INC.

Arlington County, Virginia (the "County") entered into a Lease Agreement between the County and Citimortgage (the "Lessor") dated as of February 16, 2006, as previously amended (the "Lease") to provide financing for various equipment for the County. The County has determined that it is in the best interests of the County to amend certain terms of the Lease to extend the term of the Lease and to provide for the issuance of certain appendices under the Lease for a term of fifteen years in accordance with the terms of the Lease and to make certain other amendments. Such amendments will be reflected in the Second Amendment to Lease Agreement between the County and the Lessor (the "Amendment").

NOW, THEREFORE, BE IT RESOLVED THAT:

1. Amendment Approved. The Amendment is hereby approved. The Purchasing Agent is authorized and directed to execute the Amendment on behalf of the County.
2. Authorization and Execution of Documents. The Purchasing Agent is authorized to execute and deliver on behalf of the County such instruments, 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 or contemplated by the Amendment and the Lease, 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.
3. Nature of Obligations. Nothing in this Resolution, the Amendment, or any instrument, document, or certificate executed and delivered on behalf of the County to carry out the transactions authorized by this Resolution or contemplated by the Amendment shall constitute a debt of the County, and the County shall not be obligated to make any payments under the Lease, as amended, except from money appropriated by the County Board for such purpose.
4. Ratification. All previous actions taken by the Purchasing Agent in connection with the execution and delivery of the Lease are hereby ratified and confirmed.
5. Effective Date. This Resolution shall be effective upon its adoption.

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 18th day of October, 2008, the following County Board members were recorded as present:

PRESENT:

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

MEMBER

VOTE

Dated: October 18, 2008

CLERK, ARLINGTON COUNTY BOARD

RESOLUTION OF THE COUNTY BOARD OF
ARLINGTON COUNTY, VIRGINIA DECLARING ITS INTENTION
TO REIMBURSE ITSELF FROM THE PROCEEDS OF ONE OR MORE
LEASE FINANCINGS FOR CERTAIN EQUIPMENT AND SYSTEMS

The County Board of Arlington County, Virginia (the "County") has determined that it may be necessary or desirable to advance money to pay the costs of (the "Equipment"). The total cost for the equipment is \$ 14,120,213.

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

1. The County Board adopts this declaration of official intent under Treasury Regulations Section 1.150-2.
2. The County Board reasonably expects to reimburse advances made or to be made by the County to pay the costs of acquiring the Equipment from the proceeds of certain lease financing. The maximum amount of financing expected to be issued in one or more series for the Equipment is \$ 14,120,213.
3. This resolution shall take effect immediately upon its adoption.

The foregoing resolution was adopted by the County Board at its meeting on October 18, 2008

Clerk, County Board, Arlington County, Virginia

MASTER LEASE PROGRAM PROPOSED FUNDING REQUIREMENT

DTS	UNITS	TOTAL COST
Replacement of County's desktop computers	-	-
Replacement Network/Voice Refreshment		
Equipment for refreshment of Network and Edge		2,940,000
Voice Edge/Routers		233,562
Voice Servers/Phone (\$1,826,244 less \$1,742,176 buy down)		<u>84,068</u>
Total Replacement Network/Voice Refreshment		3,257,630
Total		3,257,630
Fire Department		
Breathing Apparatus (Scotts AP75, AV 3000, other models)	1,363	1,770,778
Scott Epic Voice amplifier	100	28,500
Scott CBRNE Regulator	125	99,769
Scott RIT and Pak Tracker Apparatus		21,087
Spare parts new breathing apparatus		29,698
Apparatus mounting brackets and installations		<u>9,550</u>
Total (*)		1,959,382
DES		
Heavy Duty Closed Circuit Impact Crusher	1	594,600
Energy Performance Contract		<u>5,308,601</u>
Total		5,903,201
APS		
Desktop computers, software, and peripherals	1,500	1,500,000
Laptop computers, software, and peripherals	900	1,500,000
Total		3,000,000
Grand Total		14,120,213

(*) Includes Trade-in-value for existing breathing apparatus AP50 for \$32,500