



CITY OF CARSON

Legislation Text

File #: 2020-799, Version: 1

Report to Mayor and City Council

Tuesday, December 01, 2020

Discussion

SUBJECT:

CONSIDERATION OF RESOLUTION NO. 20-180 OF THE CITY COUNCIL OF THE CITY OF CARSON, CALIFORNIA, AMENDING THE GENERAL FUND AND SPECIAL REVENUE FISCAL YEAR 2020-21 BUDGET IN THE AMOUNT OF \$6,546,676.00 AND CONSIDER DIRECTING STAFF TO PURSUE TAX EXEMPT LEASE PURCHASE OPTION FOR FINANCING INCLUDING LOCKING IN CURRENT FINANCING RATES (CITY COUNCIL)

I. SUMMARY

At the November 17, 2020 City Council meeting, a Design-Build Agreement was awarded to Trane U.S., Inc. in the amount of \$5,822,925.00 to address the air filtration, heating, ventilation, and air conditioning (HVAC) systems and roof at City Hall and the Community Center buildings. The City Council also approved a six percent contingency budget, and Council directed staff to review the financing proposals that were received pursuant to the City's Request for Proposals (RFP) no. 20-033.

The financing proposals were reviewed by the City's Finance Department and the City Treasurer's Office and the preliminary analysis indicates that the top ranked proposal to be from JP Morgan Chase. Their proposal is offering a 10-year term at 1.57% with semiannual payments of \$325,339.53. Loan repayment would begin in July 2021. The principal amount is \$6 Million and over the 10-year period interest would be approximately \$506,790.69 for a total debt service of \$6,506,790.69.

As part of this staff report, staff is seeking approval of Resolution No. 20-180 to appropriate funds for the entire project cost of \$6,546,676.00. The total project cost includes the Trane contract amount and other associated project costs such as the six percent contingency budget, six percent construction support services, and budget for network cable installation. Staff is also seeking direction to continue to work on the financing package with JP Morgan Chase, which includes negotiate the terms of the financing, preparing a legal opinion, reviewing the financing agreement, and issue a Notice of Intent to Award. Last, the final recommendations allow the Finance Director to lock in the rates as presented in the proposal prepared by JP Morgan Chase and referenced in this staff

report.

The completed financing package is anticipated to be ready in the next two months, based on direction from the City Council, staff would bring back the final package for consideration in early 2021.

II. RECOMMENDATION

1. WAIVE further reading and ADOPT Resolution No. 20-180, "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON, CALIFORNIA, AMENDING THE FISCAL YEAR 2020-21 BUDGET IN THE GENERAL FUND AND SPECIAL REVENUE FUNDS"
2. AUTHORIZE staff to seek \$6 million in financing, negotiate the terms of the financing, prepare a legal opinion, draft a financing agreement, and issue a Notice of Intent to Award for City Council consideration at a future meeting.
3. AUTHORIZE the Finance Director to execute all necessary documents to lock in financing rates that are not subject to termination fees.

III. ALTERNATIVES

1. Direct staff to pursue negotiations with the recommended financial institution, JP Morgan Chase, using other parameters than proposed in the staff recommendations, such as longer or shorter lease duration, or a higher or lower lease amount.
2. Direct staff to negotiate with a different financial institution for a tax exempt lease agreement.
3. DO NOT adopt Resolution No. 20-180.
4. TAKE another action the City Council deems appropriate consistent with the requirements of the law.

IV. BACKGROUND

On October 29, 2020, the City issued an RFP titled, "Tax Exempt Lease Purchase Financial Services" seeking proposals from qualified and eligible financial institutions to provide up to \$6 million in private financing. The City received six proposals by the November 16, 2020 due date.

The six proposals were reviewed by an internal review team consisting of the City Treasurer, the Finance Director, Purchasing Manager, Accounting Manager and the Sustainability Administrator. The proposals were ranked in the following order:

Financial Institution Name	Ranking
JPMorgan Chase	1
Bank of America	2
US Bank	3
BankFunding, LLC	4
Signature Public Funding Corp	5
Holman Capital Corporation	6

Overall, staff was satisfied with the number of proposals and the variety of offers. Term options varied from 7, 10, 15, and 20 year options, rates were between 1.29% to 2.417%, terms and conditions varied.

JP Morgan Chase was ranked no. 1 because its proposal was the most comprehensive and the rates were better or comparable to the other banks and it offered the most favorable prepayment terms. Prepayment is allowed without penalty, in whole but not in part, prior to maturity, on any payment date after the initial 12 months from Commencement, subject to 30 days prior written notice. The proposal from JP Morgan Chase provided options for a 7 year term and a 10 year term and the option of monthly, quarterly, semiannual and annual payments. The review team determined that a 10 year term at 1.57% repaid semiannually beginning July 2021 is a good fit.

Per the supplied loan amortization schedule, the 1.57% rate on a 10 year term shows semiannual payments of \$325,339.53. The first loan payment would be due in July 2021. The principal amount is \$6 Million, and over the 10 year period interest would be approximately \$506,790.69, for a total debt service of \$6,506,790.69.

The review team considered the benefits and disadvantages of both shorter term financing (7 years) and longer term (15 or 20 year) financing. The shorter term financing offers the best rate and lowest financing costs, however, the annual payment amounts would be more difficult to absorb within the City's expected annual revenues. The longer-term financing have the lowest annual payment amount, however, the rates are higher and will be more costly over the life of the loan. For example, a 20-year term with a rate of 2.417% would provide lowest annual payment amount of \$381,868.45; however, the overall cost at the end of 20 years would be \$7,637,369.00, which represents \$1,637,369.00 in interest.

Staff also considered proceeding without financing, which would require an appropriation from the General Fund for the full amount. Based upon the relatively low cost to finance this project, staff considered obtaining a low interest loan to be the better option.

Potential Federal Funds

The City's Emergency Services Manager will be exploring grant options through FEMA, the City is monitoring potential COVID relief funding opportunities, and City staff will be looking

for other options to obtain grant funding. Favorable prepayment penalties provisions are being considered so that any grant funding can be applied to the project thus lowering the financed amount.

Other Buildings

Staff is in the process of developing individual RFPs with site specific scope of work to be released site by site starting December 2020. Site specific awards will be presented to the City Council for consideration throughout the 2021 calendar year. Budget amendments for these other sites will be presented concurrently.

V. FISCAL IMPACT

The cost of the Design-Build Agreement with Trane for new air filtration and HVAC system replacements at City Hall and the Community Center is \$5,822,925.00.

The other associated project cost includes \$25,000 for network cable installation, contingency funds of \$349,375.50, and \$349,375.50 for construction management services for a total project cost of \$6,546,676.00.

Staff is recommending the use of financing in the amount of \$6 million and the use of reserve funds for the balance in the amount of \$546,676.00. Resolution No. 20-180 allocates the budget for this project.

VI. EXHIBITS

1. Resolution No. 20-180. (pgs. 5-6)
2. JP Morgan Chase - 10 Year, semiannual, loan amortization schedule at 1.57%. (pg. 7)

1.

Prepared by: Reata Kulcsar, Sustainability Administrator Utilities, Terry Rodrigue, Interwest & Tarik Rahmani, Finance Director