



# Agenda Report

**MEETING DATE:** Meeting Date

**TO:** City Council

**FROM:** ADMINISTRATIVE SERVICES DIRECTOR CZERWIN

**SUBJECT: FINANCING OF HEAVY EQUIPMENT AND REFINANCING OF  
SOLAR PANEL LOAN**

---

## **STATEMENT OF ISSUES:**

That the Council approve lease financing of 6 heavy equipment vehicles for the utility departments and the refinancing of a 2012 Solar Panel Loan.

## **RECOMMENDED ACTION:**

That the City Council:

- I. Approve the purchase of 6 Heavy Equipment Vehicles, one for the Sewer Fund, five in the Solid Waste Fund
- II. Approve appropriations for the Heavy Equipment Vehicles
- III. Approve a six-year 0.967% interest loan from Bank of America to fund the purchase of the vehicles
- IV. Approve a refinancing of a 2012 Solar Panel Loan from Bank of America at 1.018%:

## **DISCUSSION:**

- I. **Approve the purchase of 6 Heavy Equipment Vehicles, one for the Sewer Fund, five in the Solid Waste Fund**

The Public Works department in the course of providing services to the citizens of Watsonville has a need to regularly update heavy equipment used in their operations. Due to operational needs and extraordinarily low interest rates the department is requesting to purchase 6 vehicles over the next several months moving them forward in the replacement cycle. See Table 1 for a summary of requested purchases described in detail below.

**Table 1:**  
**Summary of Requested Vehicle Purchases**

Vehicle	Fund	Count	Quote	Total	Vendor	Purchasing Authority
Vactor Sewer Cleaning Truck	Sewer	1	497,597.33	497,597.33	Owen	NJPA Sourcewell Price
Commercial Front Loader	Solid Waste	2	330,853.00	661,706.00	Arata	Piggyback City of Brentwood
Residential Side Loader	Solid Waste	3	376,055.00	1,128,165.00	WTC	Piggyback County of Sacramento
				<b>2,287,468.33</b>		

The Sewer Maintenance Division had “delayed” the replacement of an 18-year-old sewer-cleaning vehicle until FY 22/23; however, the vehicle has been experiencing serious mechanical issues that require costly repairs and downtime. The Division has identified the replacement as part of the current five (5) year Capital Improvement Program. However, replacing the vehicle sooner is a better investment of funds. The Division received a quote from Owen Equipment for \$497,597.33; this quote is at NJPA Sourcewell price. Owen Equipment was selected due to the versatility of their equipment. In particular, their collection vehicle is equipped with a retractable hose; this allows the operator to have greater reach and allows for safer operation, especially when working in "wet wells". Currently, staff has to connect hoses together in order to expand reach which is time consuming and not efficient.

The Solid Waste Division had developed a vehicle replacement plan in order to maintain an efficient and effective collection program. The replacement plan was crafted using best practices recommended in the industry such as useful life, repair and maintenance cost. The Division had planned to replace four (4) vehicles in the next two fiscal years; two (2) residential and (2) two commercial. In addition, the Division has an approved CIP project (\$400,000) for an additional vehicle in the current fiscal year in order to accommodate the new organics collection program. As a result, the plan includes the purchase a total of five collection vehicles

However, the Solid Waste Division has found it needs to accelerate the planned purchase of vehicles. Equipment down time has been high in the past 12 months. Furthermore, the actual repair and maintenance costs were over \$1 million for FY 2019-20 and is well on its way to an estimated \$1.4 for the current fiscal year. Additionally, replacement parts for three (3) of the collections vehicles are not available. The truck manufacturer (American LeFrance) suffered financial setbacks because of covid-19 and had to cease operations. Vehicle Maintenance staff are removing parts from an older vehicle in order to keep vehicles on the road. Vehicle breakdowns impact the Division's ability to run an effective collection program. Keeping the best operating fleet is imperative to provide consistent service. Arata Equipment Company specializes in solid waste collection and disposal equipment. Arata is a leading manufacturer in the Bay Area with a long history of serving the industry. Arata's proximity to Watsonville provides quick customer service for parts and service. The Division purchased collection vehicles from Arata as part of their last replacement plan, they have demonstrated reliable service and high level of integrity.

## **II. Approve appropriations for the Heavy Equipment Vehicles**

All of the vehicles being requested were included at various points in the previously adopted five-year Capital Improvement Plan. However, due to operational needs it was determined the best course of action is to finance these vehicles. This maintains reduces the strain on cash flow particularly for the Solid Waste Division in a time where they need to remain flexible in implementing new state mandates. It does not increase the size of their capital plan as instead of cash outlays for purchases the department will be making debt payments. To accomplish this, we are requesting appropriations of \$503,932 in the Sewer Fund and \$1,412,666 in the solid waste fund funded through the proposed vehicle lease financing. The amounts are slightly higher than the purchasing amounts described above because these amounts are inclusive of Financing Costs, the maybe adjusted slightly when the loan is finalized. See Table 2 and 3 respectively.

**Table 2:  
Adjustments to Sewer CIP**

<b>Sewer</b>	<b>Project</b>	<b>FY 20-21</b>	<b>FY 21-22</b>	<b>FY 22-23</b>	<b>FY 23-24</b>	<b>FY 24-25</b>
Prior CIP	14581 Replace Vactor			500,000		
New CIP	14581 Replace Vactor	503,932				
Loan Receipts		(503,932)				
Debt Payment			86,218	86,218	86,218	86,218

**Table 3:  
Adjustments to Solid Waste CIP**

<b>Solid Waste</b>	<b>Project</b>	<b>FY 20-21</b>	<b>FY 21-22</b>	<b>FY 22-23</b>	<b>FY 23-24</b>	<b>FY 24-25</b>
Prior CIP	14353 -Collection Vehicles		400,000	400,000	400,000	800,000
Prior CIP	14804- Organics Waste	800,000				
New CIP	14353 -Collection Vehicles	1,812,666				400,000
New CIP	14804- Organics Waste	400,000				
Loan Receipts		(1,812,666)				
Debt Payment			310,782	310,782	310,782	310,782

## **I. Approve a six-year 0.97% interest loan from Bank of America to fund the purchase of the vehicles**

Interest rates are near historically low levels, providing the City an opportunity to raise the capital needed to finance this vehicle purchase at low interest rates. The City and its municipal advisor issued a formal request for proposals ("RFP") from banks in January 2021. The City received eleven interest rate proposals to finance the vehicles, with bids ranging from just below 1% to 2.5%. Terms included a loan amount of \$2.3 million and a 6-year amortization.

After consideration of the terms and interest rates, the City determined that Bank of America Public Capital Corp. (or “BofA”) submitted the best bid. BofA’s bid for the vehicle equipment financing was 0.97%. Their bid also included a 45-day rate lock (March 15, 2021) to mitigate risk that interest rates increase before the financing closes, a reasonable prepayment option, and no bank closing costs.

As a result of BofA’s bid, the total interest paid over six years on the vehicle equipment is expected to be approximately \$60,000.

## **II. Approve a refinancing of a 2012 Solar Panel Loan at 1.02%**

In 2012, the City entered into a lease with Santa Cruz County Bank for \$3,014,285 to finance the installation of solar panels at City Hall, the Municipal Service Center, the Material Recovery Facility, and the Water Resource Center. This 2012 Solar Panel Loan was issued as a Taxable Clean and Renewable Energy Bond (“CREB”) with an interest rate of 5.29% and had a final maturity of April 2027. The 2012 Solar Lease has \$1.6 million in remaining par and, given the current, historically low interest rate environment, the City’s financing team also included a component in the Bank RFP for banks to bid on interest rates to refinance the 2012 Solar Panel Loan.

Of the eleven banks that bid on the vehicle equipment financing, nine also bid on the solar refinancing. While the top three bids were all very competitive, BofA was the lowest bid at 1.018%. The lower interest rate is estimated to save the City approximately \$205,000 through December 2027.

In addition to saving interest on the solar refinancing, the City will also release the lien on City Hall, which was pledged as security for the 2012 Solar Panel Loan. BofA will structure the refinancing similar to the vehicle equipment lease using only the solar panel and equipment as the collateral.

Additionally, a refinancing of the 2012 Solar Panel Loan that is included in the equipment lease will simplify the City’s accounting by reducing the number of outstanding obligations. This will reduce ongoing administrative work associated with the City’s outstanding obligations.

Finally, the 2012 Solar Panel Loan was issued as a taxable CREB, with the requirement for City staff to file semiannually for the subsidy from the Federal Government to offset the debt service on the 2012 Solar Panel Loan. Not only does this result in significant administrative work, but it also exposes the City to the risk that the Federal Government may cease providing the subsidy in the future or that the City may miss a filing window in a given year. Refinancing the 2012 Solar Panel Loan with tax exempt debt removes that ongoing filing requirement and reduces the risk that a future expected subsidy is not realized.

**STRATEGIC PLAN:**

02-Fiscal Health: This item provides for the fiscal health of the utility funds by taking advantage of historic low interest rates to finance much needed equipment and refinance an old higher interest loan

03-Infrastructure & Environment – The purchase of new solid waste collection vehicles supports the City goals of "Infrastructure & Environment" by replacing older vehicles with newer models that perform more efficiently. In addition, this purchase will support the City's effort to meet the requirements of SB1383 related to reducing emissions of short-lived climate pollutants and methane emissions.

**FINANCIAL IMPACT:**

All of the purchases have been included in the Sewer and Solid Waste financial plan assuming a 1.5% interest rate. Planned capital expenditures in the form of cash purchases will be replaced by debt payment costs. Thus, the debt costs associated with the financing can be absorbed in the departments' budgets. The solar panel refinancing will result in savings of approximately \$205,00 for the remainder of the loan.

**GOOD FAITH ESTIMATES**

The good faith estimates set forth herein are provided with respect to the 2021 Lease in accordance with California Government Code Section 5852.1. Such good faith estimates have been provided to the City by the Municipal Advisor.

*Principal Amount.* The Municipal Advisor has informed the City that, based on the City's financing plan and current market conditions, its good faith estimate of the aggregate principal amount of the 2021 Lease to be sold is \$3,969,152 (the "Estimated Principal Amount").

*True Interest Cost of the 2021 Lease.* The Municipal Advisor has informed the City that, assuming the Estimated Principal Amount of the 2021 Lease is sold and based on market interest rates prevailing at the time of preparation of such estimate, their good faith estimate of the true interest cost of the 2021 Lease, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the 2021 Lease, is 0.99%.

*Finance Charge of the 2021 Lease.* The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the 2021 Lease is sold, and based on market interest rates prevailing at the time of preparation of such estimate, their good faith estimate of the finance charge for the 2021 Lease, which means the sum of all fees and charges paid to third parties (or costs associated with the 2021 Lease), is \$35,000.

*Amount of Proceeds to be Received.* The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the 2021 Lease is sold, and based on market interest rates prevailing at the time of preparation of such estimate, their good faith estimate of the amount of proceeds expected to be received by the City for sale of the 2021 Lease, less the finance charge of the 2021 Lease, as estimated above, and any reserves or capitalized interest paid or funded with proceeds of the 2021 Lease, is \$3,919,152.

Total Payment Amount. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the 2021 Lease is sold, and based on market interest rates prevailing at the time of preparation of such estimate, their good faith estimate of the total payment amount, which means the sum total of all payments the City will make to pay debt service on the 2021 Lease, plus the finance charge for the 2021 Lease, as described above, not paid with the proceeds of the 2021 Lease, calculated to the final maturity of the 2021 Lease, is \$4,081,098, which excludes any reserves or capitalized interest paid or funded with proceeds of the 2021 Lease (which may offset such total payment amount).

The foregoing estimates constitute good faith estimates only as of February 10, 2020, and are based on market conditions prevailing at the time of preparation of such estimates. The actual principal amount of the 2021 Lease issued and sold, the true interest cost thereof, the finance charges thereof, the amount of proceeds received therefrom and total payment amount with respect thereto may differ from such good faith estimates due to (a) the actual date of the sale of the 2021 Lease being different than the date assumed for purposes of such estimates, (b) the actual principal amount of 2021 Lease sold being different from the Estimated Principal Amount, (c) the actual amortization of the 2021 Lease being different than the amortization assumed for purposes of such estimates, (d) the actual market interest rates at the time of sale of the 2021 Lease being different than those estimated for purposes of such estimates, (e) other market conditions, or (f) alterations in the City's financing plan, or a combination of such factors. The actual date of sale of the 2021 Lease and the actual principal amount of the 2021 Lease sold will be determined by the City based on the timing of the need for proceeds of the 2021 Lease and other factors. The actual interest rates borne by the 2021 Lease will depend on market interest rates at the time of sale thereof. The actual amortization of the 2021 Lease will also depend, in part, on market interest rates at the time of sale thereof. Market interest rates are affected by economic, national, international and other factors beyond the control of the City, or the Municipal Advisor.

**ALTERNATIVE ACTION:**

Council may choose to reject these purchases and financing in which case the department will have to pay cash for the equipment and continue to pay higher interest on the old solar panel loan.

**ATTACHMENTS AND/OR REFERENCES (If any):**

Attachment 1: Owen Equipment Quote

Attachment 2: Western Truck Center Side Loader Quote

Attachment 3: Arata Front Loader Quote

Attachment 4: Master Lease Agreement with Bank of America