

TO: James L. App, City Manager
FROM: Mike Compton, Director of Administrative Services
SUBJECT: Equipment Leasing Program and Related Budget Appropriations
DATE: September 7, 1999

Needs: For the City Council to consider awarding a contract for equipment leasing services for the replacement of various information system components and copying machines and adoption of a resolution providing for budget appropriations.

Facts:

1. During budget deliberations, the Council authorized the use of commercial leasing for the acquisition of replacement equipment in lieu of the more traditional lease-purchase option.
2. A budget appropriation for the estimated annual cost to the General Fund was included in the adopted budget but appropriations for enterprise fund equipment was not included.
3. Request for Proposals (RFP) were distributed to sixteen vendors.
4. Three vendors responded to the RFP; Asset Backed Income Group, Inc., Bank One, and Hewlett-Packard Company.
5. The Bank One response was totally unresponsive. They proposed a lease-purchase arrangement rather than the requested commercial lease.
6. Hewlett-Packard, proposed the commercial lease for information system components but proposed lease-purchase for the copying machines. They also want mostly HP products to be included in the commercial lease.
7. Only one vendor, Asset Backed Income Group, Inc., was fully responsive to the RFP except that they will not go seven years on the copying machines.

Analysis

and

Conclusion:

As a reminder to the Council, the purpose of trying a commercial lease, rather than the traditional purchase to own method to replace equipment, is because the City does not want to be stuck with obsolete equipment when its useful life is ended. Establishing a rigid replacement discipline, which a commercial lease provides, will assure the continued integrity of the City's information system.

The results of the RFP were disappointing. Staff believes that the reason for the poor response is most financing firms prefer the lease-purchase option. Under this option, the vendor who is providing the leasing financing and owner of the equipment is not stuck with antiquated equipment at the end of the lease which has no or little fair market value.

As noted above, the Bank One RFP was not responsive. They did not submit a proposal which provided for a commercial lease arrangement as requested. They submitted the more traditional lease purchase option only. Thus, were not considered as a viable alternative.

Hewlett-Packard did was partially responsive. They provided a quote for the commercial lease of the information system components but not the copying machines. They proposed a lease purchase arrangement for the copying machines. Additionally, Hewlett-Packard will require that their equipment make up some part of the equipment acquired. This may or not be problematic for the City but this determination can not be made until such time as the actual equipment to be acquired is chosen. On the upside, their proposal is slightly less costly than Asset Backed Income Group. During the first three years, it is \$2,382.07 less costly and during the last two years, is \$1,147.99 less costly or only about \$120 per month.

In the case of Asset Backed Income Group, it was the only fully responsive bid providing for the leasing of all of the desired equipment.

Fiscal
Impact:

The annual cost during the first three years is approximately \$83, 500, assuming that the commercial lease bid is awarded to Asset Backed Income Group and breaks out as \$80,000 for the General Fund, \$900 for CDBG and \$2,600 for Water Operations. The actual numbers are dependent upon final acquisition costs of all of the equipment.

The adopted budget contains a General Fund appropriation for \$60,000. This represented the estimated General Fund share for commercial lease payments. Due to an oversight, the non-General Fund payments were not included in the adopted budget.

The General Fund portion is now estimated at \$80,000. The cost is higher than originally projected due to the fact that it was anticipated that more of the equipment would be enterprise fund related. This was not the case. Also contributing to the difference is the inclusion of the Y2K upgrades which had their own budget appropriation.

The Council had previously allocated \$158,500 by adopting Resolution No. 99-95 for the Y2K upgrades. Of this amount, \$55,000 was for equipment which is now included in the commercial lease pool. Rather than 'carrying forward' the \$55,000 from the prior year, staff is simply proposing to fill the current year budget funding gap, \$20,000, with a new current year budget appropriation while letting the prior year lapse. General Fund will actually experience a reduction in total budget appropriations in the amount of \$35,000 representing the Y2K appropriation which won't have to be carried over less the difference between what is needed for the General Fund and what is budgeted for the General Fund (\$55,000 less [\$80,000 - \$60,000]).

Options:

- a. That the City Council:
 1. Award the commercial lease bid to Asset Backed Income Group, Inc.; and
 2. Authorize the Director of Administrative Services to executive all required documents to establish the commercial lease; and
 3. Adopt the attached resolution approving a budget appropriation for the estimated cost in excess of the existing budget appropriation.
- b. Amend, modify, or reject the above option.

RESOLUTION NO. 99-

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES
AWARDING A BID FOR COMMERCIAL LEASING SERVICES TO
ASSET BACKED INCOME GROUP, INC. AND APPROPRIATING ADDITIONAL
FUNDS FOR THE ANNUAL LEASE PAYMENTS

WHEREAS, the Council has determined that it is more effective to lease office equipment rather than own said equipment; and

WHEREAS, the leasing of equipment would result in the turnover of obsolete (technology deficient) equipment on a regular basis; and

WHEREAS, the City has distributed 'Request for Proposals' to identify the most favorable commercial leasing terms available; and

WHEREAS, in lieu of carrying forward that portion of the Y2K budget appropriation adopted in fiscal year 1999 in the amount of \$55,000, staff proposes that it lapse and a new current fiscal year appropriation in the amount of \$20,000 be authorized.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of El Paso de Robles:

1. that the commercial lease bid be awarded to Asset Backed Income Group, Inc.; and
2. that the Director of Administrative Services is authorized to execute all required documents to establish the commercial lease; and
3. that the following budget appropriations to cover estimated annual lease payments are hereby approved:
 - a. General Fund - Budget Account No. - various \$20,000
 - b. Community Development Block Grant - Budget Account No. 227-710-5212-211 900
 - c. Water Operations Fund - Budget Account No. 600-140-5212-127 2,600

PASSED AND ADOPTED by the City Council of the City of El Paso de Robles this 7th day of September, 1999 by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

Duane J. Picanco, Mayor

ATTEST:

Dennis Fansler, City Clerk