

SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA



ITEM: 3.4
(ID # 23232)

MEETING DATE:
Tuesday, October 17, 2023

FROM : EXECUTIVE OFFICE:

SUBJECT: EXECUTIVE OFFICE: Approval of the increased amount to the Master Lease Purchase Agreement line of credit for Financing Purchases of Fixed Assets with JPMorgan Chase Bank, N.A., by an additional \$75,000,000 [Districts All]; [\$75,000,000 total]; 100% Department Budgets

RECOMMENDED MOTION: That the Board of Supervisors:

1. Approve the increased amount to the Master Lease Purchase Agreement line of credit with JPMorgan Chase Bank, N.A., by an additional \$75,000,000, and, authorize the Chairman of the Board to execute necessary documents on behalf of the County, and;
2. Authorize the Purchasing Agent, in accordance with Ordinance No. 459, and, as approved by County Counsel, to sign necessary amendments that do not change the intent of the agreement.

ACTION: Policy


Don Kent, Director of Finance 10/5/2023

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Perez, seconded by Supervisor Spiegel and duly carried by unanimous vote, IT WAS ORDERED that the above matter is approved as recommended.

Ayes: Jeffries, Spiegel, Washington, Perez and Gutierrez
Nays: None
Absent: None
Date: October 17, 2023
xc: E.O.

Kimberly A. Rector
Clerk of the Board

By: 
Deputy

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FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 36,000,000 (estimated)	\$ 39,000,000 (estimated)	\$ 75,000,000 (estimated)	\$
NET COUNTY COST	\$	\$	\$	\$
SOURCE OF FUNDS: 100% Department Budgets			Budget Adjustment:	No
			For Fiscal Year:	2023-24, and, 2024-25 (estimated)

C.E.O. RECOMMENDATION: Approve

BACKGROUND

In order to meet the operational demands of the County, departments may have the need to procure assets through a financing mechanism when funds for outright purchases are not available. These assets may include, but are not limited to: vehicles, aircraft, heavy equipment, information technology equipment such as computer hardware, software and related peripherals, software subscriptions, licenses or services, communications equipment, monitors/defibrillators, hospital equipment, reimbursable tenant improvements (furniture/facility remodel projects including workstations, office furniture, conference/training rooms or lobby/reception area furniture), and, miscellaneous items (park maintenance equipment, aerial lifts, material handling equipment, building backup generators, etc.).

Master Lease Purchase Agreements (lines of credit, or LOCs) have allowed departments to draw upon when necessary to purchase new equipment or replacements when the useful life has expired. Note: all financed purchases must have prior Board of Supervisors approval, through the annual budget process or a separate Form 11 submittal, in order to utilize the LOC.

CURRENT LINE OF CREDIT USAGE AND CAPACITY

The current \$50,000,000 LOC with JPMorgan has been utilized by Fire for fire equipment/engines and vehicles, Transportation for heavy-duty vehicles, Sheriff for specialized equipment and various vehicles (including patrol), Fleet for vehicles, and, DPSS for reimbursable tenant improvements. It includes a taxable portion, only to provide flexibility if needed in the event certain circumstances warrant usage that would otherwise not qualify as tax-exempt. Tax-exempt financings have, and will continue to be, the dominant option to obtain the most favorable interest rates for the County.

As of October 10th, including the aforementioned purchases and deliveries, there was approximately \$20,000,000 remaining on the LOC to accommodate future requests. The County's remaining balance of the LOC is projected to be exhausted within the next several months due to approximately \$64,000,000 of Board approved financed requests in the FY 2023-24 Adopted Budget, as well as an easing of global supply chain issues from prior COVID-19 lockdowns.

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Having ample LOC capacity on an as-needed basis allows for the fluid and timely delivery of assets from vendors to the County and maintains cash reserves for emergency and unforeseen expenses throughout the year (as of October 10th, the County's reserves were earning approximately 4.05% in the Treasurer's Pooled Investment Fund).

Following is a list of remaining asset requests in the current FY 2023-24 Adopted Budget. If all were to be delivered within this fiscal year, there would not be enough LOC capacity to fund the purchases.

FY 2023-24 Adopted Budget

Department	Asset	Amount
Fire	Fire equipment & vehicles	\$28,704,472
Sheriff & PSEC	Vehicles	13,945,761
Fleet	Vehicles	9,496,551
Transportation	Heavy-duty vehicles	3,398,779
Total		\$55,545,563

INCREASED LINE OF CREDIT AND UPDATED RATE CALCULATIONS

JPMorgan Chase Bank, N.A. can accommodate an increase in the LOC of \$75,000,000 which would serve the County's needs for the future; there are no fees associated with the additional amount. County departments utilizing the LOC will, however, incur interest charges at the then prevailing rate when an asset purchase is requested to be financed.

Due to a very different environment that has been influenced by several factors since October 2022 when the Board approved the current agreement, which includes inflationary pressures leading to actions by the U.S. Federal Reserve increasing short-term interest rates, and a regional banking crisis that impacted liquidity and costs for lending institutions, JPMorgan has increased the Fixed Index Spread ⁽¹⁾ component. Longer-term interest rates are currently more attractive due to a bond market condition known as yield curve inversion. See tables below.

Rate Calculation

Lease Term (Years) ⁽²⁾	SWAP Rate ⁽³⁾	x % of Index	+ Fixed Index Spread	= Indicative Tax-Exempt Rate ⁽⁴⁾
2	5.4526%	79%	0.4855%	4.7931%
3	5.4337%	79%	0.6653%	4.9579%
4	5.4337%	79%	0.5103%	4.8029%
5	5.0255%	79%	0.6905%	4.6606%
6	5.0255%	79%	0.6135%	4.5836%
7	4.7044%	79%	0.7112%	4.4277%
8	4.7044%	79%	0.7532%	4.4697%
9	4.5940%	79%	0.8444%	4.4737%
10	4.5940%	79%	0.8194%	4.4487%

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Lease Term (Years) ⁽²⁾	SWAP Rate ⁽³⁾	+ Fixed Index Spread	= Indicative Taxable Rate ⁽⁴⁾
2	5.4526%	0.6640%	6.117%
3	5.4337%	0.8890%	6.323%
4	5.4337%	0.6910%	6.125%
5	5.0255%	0.9180%	5.944%
6	5.0255%	0.8200%	5.846%
7	4.7044%	0.9430%	5.647%
8	4.7044%	0.9930%	5.697%
9	4.5940%	1.1090%	5.703%
10	4.5940%	1.0760%	5.670%

(1) The increase ranges from 0.26% - 0.50% for tax-exempt rates, and the increase ranges from 0.46% - 0.72% for taxable rates, depending upon the lease term. For financings over \$5 million in size, JPMorgan will provide a 0.10% discount to the Fixed Index Spread.

(2) The finance period is based on a variety of factors including available budget and useful life of the equipment with the lease payments paid directly by the departments.

(3) Swap rates were as of 8:00 a.m. E.S.T. 10/2/23. Based on the SOFR (Secured Overnight Financing Rate - a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities). Rates subject to change based on financial market conditions.

(4) Fixed for the life of the term.

CONTRACT HISTORY

A request for proposal was conducted, with Purchasing issuing RFP #RivCo-RFP-0000511 to establish a new \$50,000,000 LOC. Requests were sent to 166 lending institution contacts and was advertised on Purchasing's website. Bids were received from four financial institutions including, JPMorgan Chase Bank, N.A., Banc of America Public Capital Corp, MUFG Union Bank (which has since been acquired by U.S. Bancorp in December 2022), and Signature Bank (which has since shutdown in March 2023, in the aftermath of the Silicon Valley Bank collapse due to rapidly rising interest rates).

The evaluation team consisting of the Executive Office and the Treasurer-Tax Collector's Office reviewed the responses and recommended the award to JPMorgan which provided the lowest tax-exempt and taxable financing rates for the County. A new agreement was approved as Item #3.3 by the Board of Supervisors on October 25, 2022.

DEBT ADVISORY COMMITTEE (DAC) RECOMMENDATION

On October 12, 2023, the Debt Advisory Committee reviewed and has recommended approval to the Board of Supervisors.

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SUMMARY

With the Board's approval of Item #3.3 on October 25, 2022, the initial \$25,000,000 line of credit has been exhausted, and the option of an additional \$25,000,000 is currently being utilized. In an effort to purchase remaining assets for FY 2023-24 (as shown in the table on page 3) and ensure LOC capacity on an as-needed basis, the Executive Office Finance Team is recommending approval of the increased amount of \$75,000,000 to the line of credit.

IMPACT ON RESIDENTS AND BUSINESSES

There are no direct impacts to residents or businesses. The addition to the Master Lease Purchase Agreement will provide additional capacity available for County departments to procure assets when funds for outright purchases may not be available.



Meghan Hahn, Deputy Director of Procurement 10/6/2023



Michael Ambolo, Chief Finance Officer 10/10/2023



Kristine Bell-Valdez, Supervising Deputy County Counsel 10/10/2023



Aaron Gettis, Deputy County Counsel 10/10/2023