



# SHAKER HEIGHTS

## Memorandum

To: Finance Committee

From: Director of Public Works, Patricia Speese  
Director of Finance, John J. Potts

cc: Mayor, David E. Weiss  
Chief Administrative Officer, Jeri E. Chaikin

Date: May 15, 2023

Re: 2023 Equipment Lease Financing – Public Works Equipment

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The 2023 Sewer Operating Budget allocated funding for the yearly lease payment for a street sweeper. The cost to acquire equipment can be financed by either a transfer from the General Fund, the issuance of one year notes or through a tax exempt lease purchase also known as a municipal lease. The City has used this type of financing to fund the acquisition of packer trucks and the other street sweepers in our fleet.

The purchase and financing of the street sweeper through a tax-exempt municipal lease purchase agreement is on State Term through U.S. Bancorp Government Leasing and Financing, Inc. Upon consultation with Matt Stuczynski, our Municipal Advisor, it would be beneficial to the City to lease through the U.S. Bank leasing arm as we already have a Master Lease Agreement in place with them. Mr. Stuczynski obtained lease proposals from U.S. Bank, Key and Huntington and Public Works obtained a proposal from Republic First National and all of these banks came back with leasing rates within a basis point or two from the U.S. Bank proposal. The last lease (2017-2022) for a street sweeper was with U.S. Bank.

By using a lease purchase the interest rate is fixed and is not subject to the impact of interest rates increases during the term of the financing. While interest rates have remained low, there remains a likelihood that rates will continue to increase in the next several years and this would in turn increase the interest rate risk to the City. Using a municipal lease as a means of financing the identified capital equipment has several other benefits to the City including:

- Preservation of capital dollars for other projects for which leasing is not an option.
- No impact on the City's statutory debt capacity because the lease is exempt.
- Diversifies the City's debt portfolio and can be paid down early.
- Provides flexible terms and additional options for operating budget planning.
- Lease payments may be designed to match the expected useful life of the asset.

The lease will be structured as a tax-exempt municipal lease, with title in the City's name and U.S. Bank holding a security interest in the equipment during the term. The City would own the equipment once the final lease payment is made and the financing is categorized as a capital lease on the City's books. However, in this case, the street sweeper that just came off of the previous five year lease will be traded-in for this new street sweeper. The City utilizes two street sweepers throughout the year and rotates the lease/purchase of each sweeper.

The equipment being replaced has a useful life in excess of seven years. Our recommendation is to structure the lease for five years thereby minimizing the interest cost paid and maintaining a conservative approach for gauging the useful life of the assets. Payments for the acquisition of the street sweeper would be made directly from a lease escrow account that is funded once the lease is closed.

The cost of the street sweeper is estimated to be \$345,156, an increase of about \$89,000 from the cost of the 2017 sweeper. The lease structure would have five annual payments of \$79,323 based on a five year term. The lease payments will be paid out of the Public Works Sewer operating budget and appropriation was included for a yearly payment in this year's budget.

We are requesting that the Finance Committee recommend to Council that the City enter into a five year lease purchase agreement with U.S. Bank to finance the cost of a street sweeper for Public Works.