COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager

Date: April 15, 2013
Board Meeting Date: April 23, 2013
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: John L. Maltbie, County Manager

Subject: Internal Equipment Lease Program

RECOMMENDATION:

A. Adopt a Resolution implementing a $2,000,000 per year Internal Equipment Lease Program and authorizing the County Manager and the Controller to approve internal leases up to $1,000,000 including associated Appropriation Transfer Requests.

B. Resolution authorizing an Appropriation Transfer Request in the amount of $2,000,000 from Non-Departmental ERAF Reserves to Non-Departmental Services and Supplies to appropriate funding for the Internal Equipment Lease Program.

BACKGROUND:

Periodically departments will opt to lease equipment instead of purchase the equipment due to grant allocations or budget issues. This allows departments to spread the equipment cost over several years instead of making lump sum purchases. The advantages to leasing are that it reduces major expenditure fluctuations and matches the financial outlay period for the equipment with its useful life period. The Purchasing Division has historically coordinated lease arrangements with third party lenders, such as GE Capital, and it is not uncommon to pay interest rates ranging from 4.5% to 5.5% over four or five year terms. The types of equipment leased can range from personal computers and servers to very expensive road maintenance equipment, including vehicles. Historically, the total amount of leases in any given year is generally less than $1 million.

DISCUSSION:

Given that the County has sufficient General Fund cash reserves to fund a $2 million per year lease program, it is not financially effective to pay an outside lender 4.5% to 5.5% interest when the County Investment Pool is earning approximately 0.80%. By creating an internal lease program, County departments would borrow from the General

Fund at Investment Pool rates, thereby realizing substantial savings and the interest payments would return to the General Fund.

For example, interest on a five-year external lease of $2 million at 4.5% would result in interest payments totaling $270,000 over the five-year term. By comparison, interest on a similar internal lease at 0.8% would total $48,000 and the interest payments would return to the General Fund, not an outside lender.

This internal lease program would work by having the operating department acquire the equipment using funds set aside in Non-Departmental Services. That department would then enter into a three to five year lease with Non-Departmental Services. It is understood that certain types of equipment may be better suited for leasing under past practices, when issues like asset disposition may be problematic or costly. The interest rate over the term of the lease would be fixed at the County Investment Pool earnings rate for the quarter preceding the purchase date. A minimum threshold of $50,000 would be set for individual leases and any leases in excess of $1,000,000 would be brought back to this Board for approval.

To this end, approval of an Appropriation Transfer Request (ATR) transferring $2,000,000 from Non-Departmental Education Revenue Augmentation Fund (ERAF) Reserves to Non-Departmental Services and Supplies to appropriate funding for the Internal Leases Program is requested. Information Services Division (ISD) will be the first department to take advantage of this new program once it is approved by the Board.

County Counsel has reviewed and approved the Resolution as to form.

Approval of this Resolution and ATRs contributes to the Shared Vision 2025 outcome of a Collaborative Community by eliminating interest expense paid to outside lending institutions for the lease of equipment, thereby saving County resources.

PERFORMANCE MEASURE(S):

Measure	FY 2012-13 Projected	FY 2013-14 Projected
Interest Expense Savings	$37,000	$66,000

FISCAL IMPACT:

It is estimated that this program could save the County $100,000 to $220,000 over five years, depending on the dollar amount of internal leases entered into through this program. There is no negative fiscal impact by adopting the Internal Equipment Lease Program. The program will be funded annually with Non-Departmental ERAF Reserves and funds will be reimbursed by the operating departments under the terms of the leases, which will include interest at County Investment Pool rates.