



STAFF REPORT

CITY of YORBA LINDA

FINANCE DEPARTMENT

DATE: OCTOBER 19, 2021

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: DIANNA HONEYWELL, FINANCE DIRECTOR / CITY TREASURER

SUBJECT: BLACK GOLD GOLF COURSE EQUIPMENT PURCHASE AND FINANCING

RECOMMENDATION

It is recommended that the City Council approve:

1. Execution of Purchase Order with John Deere for a purchase of various groundskeeping vehicles and equipment in the approximate amount of \$646,214;
2. Execution of Purchase Order with Toro for purchase of various mowing vehicles and equipment in the approximate amount of \$564,659;
3. Execution of Purchase Order with Club Car for purchase of a clubhouse transportation vehicle in the approximate amount of \$22,665;
4. Posting of the RFP on the City website and authorize Finance Director to award bid to lender with lowest financing cost; and
5. Harrell & Company Advisors to assist with the financing documentation.

BACKGROUND

Black Gold operates year-round, therefore the life cycle of golf course maintenance equipment is far shorter than at other facilities in colder climates that shut down for a portion of the year. The average life cycle for golf course maintenance equipment is approximately five years, which has been deferred at Black Gold for four years, making the equipment nine years old. The cost to maintain equipment over the five-year life cycle escalates three to four times the average, especially after warranties expire.

Periodically, the City purchases golf carts and maintenance equipment for the Black Gold Golf Course. When such purchases are necessary, the staff consults with the City's financial advisor, Harrell & Company Advisors (HCA) on the most cost-effective method to finance the equipment acquisition. The methods generally include purchasing directly from the vendor under the vendor's financing terms or selecting a third-party lender to loan the funds to the City pursuant to a typical lease-purchase agreement.

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At present, the City needs to purchase multiple vehicles, tractors, mowers and utility carts used for groundskeeping and mowing, and related equipment, as well as a clubhouse transportation vehicle. There are three vendors from which the City will purchase the equipment.

DISCUSSION

Staff received quotes from the manufacturers and recommends the following purchases:

Equipment Description	Equip. Quantity	Unit Cost	Extended Price	NOTES	COMPANY
Club House Transportation Vehical	1	22,664.66	22,664.66	met required specifications	Club Car
Fairway Unit	3	66,731.00	215,707.96	Least Expensive	John Deere
Rough Unit Rotary	1	69,756.00	75,162.09	Least Expensive	John Deere
Rough Unit Reel	1	79,817.00	86,002.82	Least Expensive	John Deere
Tri-Plex Green/Tee Mower	3	44,900.00	145,139.25	Least Expensive	John Deere
Walking Seeder/Verticuter	1	8,841.97	8,841.97	met required specifications	John Deere
Tractor + Attachments	1	68,064.60	73,339.60	met required specifications	John Deere
Tri-Plex Hollow Tine Unit	3	14,990.18	14,990.18	met required specifications	John Deere
Tri-Plex Spiking Unit	3	10,748.06	10,748.06	met required specifications	John Deere
Tri-Plex Rolling Unit	3	8,614.61	8,614.61	met required specifications	John Deere
Tri-Plex Verticut Unit	3	7,116.00	7,667.45	met required specifications	John Deere
Waking Greens Mower-21"	6	14,121.33	84,724.99	met required specifications	TORO
Trailer For Walking Mowers	6	1,799.38	10,796.29	met required specifications	TORO
Utility Vehicle	9	13,783.92	124,055.28	met required specifications	TORO
Bunker Rake	2	31,725.27	63,450.53	met required specifications	TORO
300 Gallion Sprayer+Vehicle	1	64,996.23	64,996.23	met required specifications	TORO
Large Utility Vehicle 4WD	2	36,311.32	72,622.64	met required specifications	TORO
Topdresser Twin Spinners + Vehicle	1	63,077.54	63,077.54	met required specifications	TORO
Mini Tractor + Attatchments	1	56,883.52	56,883.52	met required specifications	TORO
Utility Cart	2	12,025.69	24,051.38	Least Expensive	TORO
Total			1,233,537.05		

Staff received financing estimates from the manufacturers for the separate purchases of equipment. The equipment has a useful life of 5 years and would be financed over that term by entering into separate lease-purchase agreements with each vendor.

John Deere has offered financing at 3.25% interest; Toro has offered financing at 4.75% interest and Club Car has offered financing at 3.90%. There are usually only a minor or no up-front costs associated with these smaller lease-purchase agreements. If either vendor requires a validity opinion from the City Attorney, that cost would be out-of-pocket.

HCA provided staff with an estimated interest rate for a third-party lease-purchase

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agreement. Based on the City's AAA issuer credit rating, HCA expects that the interest rate for a 5-year lease would be 1.50% interest. The costs associated with this option would be added to the financing. These costs are made up of the cost of the validity opinion from the City Attorney, HCA fees for assisting with the transaction and review of documents and the California Debt and Investment Advisory Committee initial fee. There would be required annual reporting relating to this transaction to CDIAC.

Costs estimates under each option are shown below:

Lender	<u>Toro</u>	<u>John Deere</u>	<u>Club Car</u>	<u>Total</u>	<u>Lender TBD</u>
Amount Financed	564,659	646,214	22,665	1,233,538	1,244,538 ⁽²⁾
Costs Financed	-	-	-	-	11,000
Payments	Monthly	Monthly	Monthly		Semiannual
Interest Rate	4.75%	3.25%	3.90%		1.50%
Year 1	127,092	140,208	4,992	272,292	259,287
Year 2	127,092	140,208	4,992	272,292	259,287
Year 3	127,092	140,208	4,992	272,292	259,287
Year 4	127,092	140,208	4,992	272,292	259,287
Year 5	<u>127,092</u>	<u>140,208</u>	<u>4,992</u>	<u>272,292</u>	<u>259,287</u>
Total Payment	635,460	701,040	24,960	1,361,460	1,296,435
Out of Pocket	1,000	750	750	<u>2,500</u> ⁽¹⁾	<u>2,500</u> ⁽³⁾
Total Costs				1,363,960	1,298,935

⁽¹⁾ Review of vendor lease-purchase documents by City Attorney and HCA, does not contemplate City Attorney validity opinion (\$2,500 each vendor if needed). Toro document fee included.

⁽²⁾ City Attorney opinion, HCA fees and CDIAC upfront fee added to financing

⁽³⁾ Annual CDIAC Reporting for 5 years

The third-party lender option provides the lowest financing costs, saving approximately \$13,000 each year. If the City Council authorizes proceeding with third-party lender, in order to bid out the financing to various lenders who might be interested in providing lease-purchase financing, an RFP inviting lenders to bid for the lease will be posted on the City website on October 20. Bids would be requested by October 27. Lease-purchase documents with the final interest rate would be presented to the City Council for approval on November 16.

Due to the manufacturing time needed for the equipment, the purchase order will be executed on October 20, before the lease-purchase documents are finalized. If the third-party lender option becomes more costly and doesn't occur by the time that the payment is due to the manufacturer, the City would revert to the manufacturer lease option.

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FISCAL IMPACT

The equipment and financing costs are expected to be \$1.299 million over 5 years, paid from Golf Course revenues. Upfront costs to enter into the lease will be included in the financing. These costs total \$11,000 and are comprised of \$2,500 for the City Attorney validity opinion required by the lender, \$7,500 for Harrell & Company Advisors to assist the City in the bidding, review and coordination of the financing documents and \$1,000 for the CDIAAC fee. Sufficient funds were included in the FY 2021/22 budget to make the annual debt service payment.

ALTERNATIVES

Finance equipment with vendor financing.

ATTACHMENTS

None
