



MEMORANDUM

TO: Finance Committee
VIA: Mary McCoy, Finance Director
FROM: Bradley Fluetsch, CFA, Planning and Investment Officer
RE: Lease Purchase Financing of Energy Savings Measures Pursuant to Contracts Between the City of Santa Fe and Yearout Energy Services Company, LLC and Dalkia Energy Solutions, LLC
DATE: February 2, 2021

This memorandum summarizes the lease-purchase agreement (the "Lease-Purchase Agreement") proposed to be entered into by the City of Santa Fe (the "City") and Sterling National Bank ("SNB"), pursuant to which the City will finance the costs of agreements between the City and Yearout Energy Services Company, LLC ("Yearout") for the installation and implementation of energy cost savings improvements and water conservation measures in various City-owned buildings and facilities, and Dalkia Energy Solutions, LLC ("Dalkia") for LED upgrades to City-owned streetlights located throughout the City.

Pursuant to the Lease-Purchase Agreement, SNB will pay the contract costs of the Yearout and Dalkia agreements, will take title to the equipment and improvements installed in the City's facilities, which will be leased back to the City for a term of 18 years. The City will repay the financed amount by making the rent payments due on the Lease-Purchase Agreement from utility costs savings derived from the energy cost savings improvements and water conservation measures. The City will pledge the utility cost savings as a special revenue fund for payment of the amounts due on Lease-Purchase Agreement.

The rent payments due on the Lease-Purchase Agreement include an interest component of 2.145%. The Lease-Purchase Agreement may be prepaid as follows:

First 4 years of the term: 102% of the rent balance due for the remainder of the term;
Years 5-9: 101% of the rent balance due for the remainder of the term;
Thereafter: 100% of the rent balance due for the remainder of the term.

D.A. Davidson, acting as placement agent solicited bids from various financial institutions for a 15 year or 18 year term. The City received a total of five bids, two for 15 year terms and three for 18 year terms. SNB submitted the lowest interest cost proposal for both terms. Hilltop Securities, the City's municipal advisor completed a Net Present Value analysis on both SNB proposals and the City selected the 18 year proposal. The 15 year proposal has a slightly lower NPV, but if inflation is higher than implied by the interest rate, the 18 year will easily overcome the minor cost differential. The other bidders were Century Bank which proposed an interest rate of 3.00 percent, and Trust Bank which proposed a rate of 2.250 percent, each for an 18 year term.