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January 14, 2022

Members of the Finance & Personnel Committee
City of Milwaukee
City Hall, Room 205
Milwaukee, WI 53202

RE: File 211500 – Fire Department Equipment Lease Contract

Dear Chair Murphy and Committee Members:

On January 13th our office was forwarded a term sheet regarding a proposed lease between the Fire Department and PNC Equipment Finance, LLC. The term sheet indicated an amount of \$3,878,399.20 to finance four Pierce Engines and one Pierce Aerial. The term sheet offered two options; a seven year lease term at 2.81%, and a 10 year lease term at 3.25%.

The interest rates offered by PNC are much higher than what the City would be able to achieve if general obligation debt were issued to finance this equipment. Given market conditions as of January 13th, the interest rate would be approximately half as expensive at each given term if general obligation debt were issued instead of entering into a lease contract.

In subsequent discussions, the budget office indicated that the cost for these apparatuses would be increasing by approximately 5% in February. Any general obligation issue would have to take place after such a price increase due to time requirements, leading to higher principal payments.

Given the range of options, our office thought that it would be prudent to provide the committee with a comparison of both the terms and funding mechanisms available for financing the procurement of this equipment. The tables on the following page assume a lease contract could be executed prior to any equipment price increase, while a general obligation issue would take place after a 5% price increase.

	Seven Year Term		
	Lease	GO Notes	GO Savings
Average Interest Rate	2.81%	1.47%	1.34%
Annual Debt Service	618,753	616,504	2,249
Total Interest Paid	452,874	243,206	209,668
Total Principal Paid	3,878,399	4,072,319	(193,920)
Total GO Savings Over Seven Years			\$15,743

	10 Year Term		
	Lease	GO Notes	GO Savings
Average Interest Rate	3.25%	1.59%	1.66%
Annual Debt Service	461,501	443,791	17,710
Total Interest Paid	736,613	365,595	371,018
Total Principal Paid	3,878,399	4,072,319	(193,920)
Total GO Savings Over 10 Years			\$177,100

As previously stated, the above tables assume that the lease contract is executed prior to the price increase in February. If a contract is not executed in time to take advantage of the lower price, then not only will the principal savings from the lease be zero, the corresponding interest paid and annual debt service for the lease will also increase. This would lead to much higher savings than what is shown above for general obligation notes over the leases at both the seven and 10 year terms.

Please contact Joshua Benson of my staff at extension 2302 with any questions regarding this letter.

Sincerely,



Aycha Sawa, CPA, CIA
Comptroller

CC: Dennis Yaccarino, Budget Director
Chief Aaron Lipski, MFD

AS:JB