



TOWN OF GRANBY

MEMORANDUM

DATE: May 1, 2025

TO: The Granby Board of Selectmen

FROM: Kimi Cheng, Director of Finance

REGARDING: Consideration of FY25 Capital Equipment Loans

Background

The Fiscal Year 2024-25 Adopted Budget includes approval for the loan purchase of a 10-wheel dump truck, 6-wheel dump truck, park mower, and hydraulic equipment for the Town and a facilities van, a school bus, and technology equipment for the Board of Education in the Capital Equipment/Improvement Fund.

With a capital equipment loan program, the Town can spread purchase costs over several years. The Board of Finance recommends this practice. Due to the high interest rate set by the Federal Reserve, we received a significant increase in interest rates offered by the three banks. For a four-and-one-half-year loan agreement, Liberty Bank offers an interest rate of 5.63%, Westfield Bank offers an interest rate of 6.85%, and TD Bank offers an interest rate of 5.00% (good thru 5/5/25 at 3 pm).

	Liberty Bank		Westfield Bank		TD Bank	
	Interest Rate	Estimated Interest	Interest Rate	Estimated Interest	Interest Rate	Estimated Interest
\$438,000 (4.5-year term)	5.63%	\$ 64,849.60	6.85%	\$ 79,454.22	5.00%	\$ 56,551.06
Closing Cost		\$ 250.00		\$ -		
Total Interest		<u>\$ 65,099.60</u>		<u>\$ 79,454.22</u>		<u>\$ 56,551.06</u>

Another option is an interfund loan, which is cash borrowed from one fund by another fund and is treated as a balance sheet transaction only. In this case, the Capital Equipment/Improvement Fund would borrow cash from the General Fund. The Capital Equipment/Improvement Fund would be required to repay the General Fund the principal and interest yearly until the loans are paid off, the same as loans from the bank. The interest rate for the interfund loan is recommended to be set at a 4.75% fixed rate (close to the STIF interest rate), which estimates to be \$53,639.08 in interest. We did utilize this option for FY23 and FY24 loans.

Note that using interfund loan have two financial impacts. The first one is that the Town won't receive loan proceed from a bank as budgeted. In other words, we will have a short fall in revenue to offset the actual spent in capital purchases in the Capital Equipment/Improvement Fund, which may result in a negative fund balance at the year-end. The second one is the opportunity cost in STIF interest earning. The below table illustrates the estimated potential loss (\$69k) in STIF interest earning for four years with a decrease in interest rate every year.

	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest Earned</u>
	\$ 438,000.00		
After 1st yr	\$ 457,710.00	4.50%	\$ 19,710.00
2nd yr	\$ 476,018.40	4%	\$ 18,308.40
3rd yr	\$ 492,679.04	3.50%	\$ 16,660.64
4th yr	\$ 507,459.41	3%	\$ 14,780.37
			<u>\$ 69,459.41</u>

Next Steps

Staff is recommending moving forward with the TD Bank for the FY25 capital lease purchases because of the potential earning from STIF is estimated to be more than the total loan interest offered by the TD Bank. A resolution by the Board of Selectmen to initiate this year's lease agreement is as follows:

PROPOSED RESOLUTION:

A RESOLUTION OF THE BOARD OF SELECTMEN AUTHORIZING THE EXECUTION AND DELIVERY OF A LEASE PURCHASE AGREEMENT WITH RESPECT TO THE ACQUISITION, PURCHASE, FINANCING AND LEASING OF CERTAIN EQUIPMENT; AUTHORIZING THE EXECUTION AND DELIVERY OF DOCUMENTS REQUIRED IN CONNECTION THEREWITH; AND AUTHORIZING ALL OTHER ACTIONS NECESSARY TO THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED BY THIS RESOLUTION

WHEREAS, the Town of Granby is entering into Equipment Lease/Purchase Agreements ("Lease Agreement") and/or Loan Agreements in an amount up to \$438,000 for four and one-half years with the TD Bank;

NOW THEREFORE BE IT RESOLVED, that these Agreements are hereby approved and that the action of the official of the Town of Granby in signing these Agreements on behalf of it be, and is hereby, ratified, confirmed, and approved; and

BE IT FURTHER RESOLVED, that the Town Manager of the Town of Granby, be, and is hereby authorized, empowered, and directed to sign on its behalf the Agreements and any addenda, schedules, notes, loans, and security agreement, UCC financing statements, disbursement authorization, statement of essential use, or other instruments issued under the provisions of the Agreements, and any other instruments or documents which may be necessary or expedient in connection with agreements upon or in fulfillment of the provisions of the Agreements.

From:

Vincent Locicero
VP, Regional Manager
(856) 433-2265
Vincent.Locicero@td.com

Equipment
financing
that works.



Turn to TD Equipment Finance for solutions that fit your needs.

Count on the professionals at TD Equipment Finance to deliver the creative financing solutions you need, along with the highly personal service you demand.

Financing Proposal For:

Kimi Cheng
Town of Granby
15 N. Granby Road
Granby, CT 06035

5/1/2025

Kimi Cheng
Town of Granby
15 N. Granby Road
Granby, CT 06035

Dear Kimi,

TD Equipment Finance, Inc. ("TDEF") is pleased to present the following Proposal for your consideration. The structure of the transaction is outlined in the attached Proposal Exhibit which also sets forth certain terms and conditions. **PLEASE NOTE THIS PROPOSAL IS SUBJECT TO CREDIT REVIEW AND UNDERWRITING IN ACCORDANCE WITH TDEF'S INTERNAL CREDIT POLICY. NOTHING IN THIS PROPOSAL SHALL BE CONSTRUED AS A COMMITMENT TO LEND.** TDEF looks forward to doing business with you and hopes you find the attached Proposal acceptable. If so, please sign and date the enclosed signature page and return it to us by May 5, 2025.

Sincerely,

Vincent Locicero

VP, Regional Manager
TD Equipment Finance, Inc.

Proposal Exhibit

Lessor:	TD Equipment Finance, Inc., its successors and assigns
Lessee:	Town of Granby a state or a political subdivision thereof.
Equipment:	Various Essential Use Equipment: Expected to be a Facilities Vehicle, 2025 Freightliner 6-wheel dump truck, and BOE Technology equipment.
Maximum Purchase Price:	\$438,000
Commencement Date:	<p>Subject to the terms and conditions of the Lease, the Lease shall commence upon the earlier of (a) Lessee's acceptance of the Equipment and (b) Lessor's deposit of the Purchase Price for the Lease in an escrow fund or similar fund as provided in the Lease, but in no event later than 6/13/2025</p> <p>Lease Term: See amortization schedule attached hereto and made a part hereof</p> <p>Payment Amount: See amortization schedule attached hereto and made a part hereof</p>
Rental Payments:	Payments Due: annual - see amortization schedule attached hereto and made a part hereof
Prepayment:	The Lease may be prepaid at any time in whole, but not in part, subject to a prepayment premium based on the greater of Yield Maintenance or 1% of the then- outstanding principal balance of the Lease.
Taxable Interest Rate:	5.00% - see amortization schedule attached hereto and made a part hereof
Indexing:	The Taxable Interest Rate quoted above based on Lessor's cost of funds and will be held until 6/30/2025. If the Commencement Date does not occur by 6/30/2025, the interest rate will be adjusted to reflect any change in Lessor's cost of funds. The interest rate and rental payments under the Lease will be fixed for the term of the Lease.
Structure:	<p>The Lease will constitute a "state or local bond" with the meaning of Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code").</p> <p>Lessee's obligations under the Lease will be subject to annual appropriation of funds by Lessee's governing body. Lessee shall use all reasonable and lawful means available to secure appropriations for each fiscal year during the term of the Lease sufficient to pay all Rental Payments coming due therein</p> <p>Lessor shall lease the Equipment to Lessee without representation or warranty on an AS IS BASIS. The Lease will be a "triple net lease" under</p>

which Lessee will be responsible for all expenses relating to the Equipment including, but not limited to, maintenance, insurance coverage (in an amount and in a form acceptable to Lessor), and all taxes (e.g. sales, use and personal property). Lessee shall bear all risk of loss, damage and liability to the Equipment.

At the end of the Lease term, upon payment of all amounts payable thereunder, Lessee may purchase the Equipment for \$1.00.

Escrow Funding:

The proceeds of the Lease will be deposited in an escrow account acceptable to Lessor, and disbursements made therefrom upon request by Lessee, pursuant to an escrow agreement in form and substance satisfactory to Lessor.

Collateral Security:

To the extent permitted by applicable law, Lessee's obligations under the Lease will be secured by a first priority security interest on the Equipment and, if applicable, the escrow fund. Titles to the Equipment, if any, shall list Lessee as the owner and Lessor as lienholder.

Tax Status:

The Lease will not be a qualified tax exempt obligation under Section 265 (b)(3) of the Code. The interest portion of the rental payments under the Lease will be excludable from the gross income of Lessor for federal income taxation purposes. Upon a determination that the interest component of the rental payments under the Lease is includable in gross income of Lessor for federal income tax purposes, the interest rate on the Lease will increase to a rate sufficient to restore Lessor to its after-tax yield from and after the date such interest became includable in Lessor's gross income, and taking into account all penalties, fines, interest and additions to tax.

Legal Opinions:

Lessee's counsel shall deliver an opinion to Lessor at closing in form and substance satisfactory to Lessor which shall address, among other things, Lessee's authority to enter in to Lease and the enforceability of the Lease.

Costs & Expenses:

None

Documentation:

The documentation for the Lease will contain covenants, representations and warranties usual and customary for transactions of this type and others appropriate to the transaction. All documentation to be executed in connection herewith shall be in satisfactory form and substance to Lessor. Lessor shall verify the Equipment specifications including, but not limited to, model number, number of units, installation costs, year of manufacturing

and maintenance contracts; and approve the final Equipment configuration, and acceptance of the financing.

LESSOR'S PROPOSAL/FINANCIAL INFORMATION:

This Proposal is subject to final credit review and approval, and not, nor should it be construed as, a commitment by Lessor or any affiliate to enter into the proposed Lease transaction. In order to complete its credit due diligence, Lessee shall furnish Lessor with the following:

- Three years most current audited annual financial statements, and shall be furnished annually thereafter, if not otherwise published on Lessee's website
- Copy of meeting minutes
- Copy of budget
- Statement of essential use
- Other supporting data as may be requested

AUTHORIZATION: Lessee acknowledges and agrees that Lessor may furnish all Lessee-presented information, financials, analysis, and related credit and review materials to its employees, counsel and agents, as well as its participants and/or assigns. Lessee authorizes Lessor to contact TD Bank, N.A. and other references of Lessee, and to order any and all credit checks and investigative reports, all as Lessor deems necessary in connection with the evaluation of the transaction.

GENERAL:

TD Equipment Finance, Inc. complies with Section 326 of the USA Patriot Act. This Act mandates that we verify certain information about Lessee while processing any Lease request.

EXPIRATION:

This Lease Proposal shall expire, if not accepted by a qualified official by 3:00 pm, on May 5, 2025.

Town of Granby

By: _____

Print Name:

Title:

Date:

Amortization:

	Starting		Debt			Ending
Date	Balance	Takedowns	Service	Interest	Principal	Balance
6/13/2025	\$ -	\$438,000.00	\$ -	\$ -	\$ -	\$438,000.00
12/13/2025	\$438,000.00	\$ -	\$ 54,950.12	\$10,950.00	\$ 44,000.12	\$393,999.88
6/13/2026	\$393,999.88	\$ -	\$ 54,950.12	\$ 9,850.00	\$ 45,100.12	\$348,899.76
12/13/2026	\$348,899.76	\$ -	\$ 54,950.12	\$ 8,722.49	\$ 46,227.62	\$302,672.14
6/13/2027	\$302,672.14	\$ -	\$ 54,950.12	\$ 7,566.80	\$ 47,383.31	\$255,288.82
12/13/2027	\$255,288.82	\$ -	\$ 54,950.12	\$ 6,382.22	\$ 48,567.90	\$206,720.93
6/13/2028	\$206,720.93	\$ -	\$ 54,950.12	\$ 5,168.02	\$ 49,782.09	\$156,938.83
12/13/2028	\$156,938.83	\$ -	\$ 54,950.12	\$ 3,923.47	\$ 51,026.65	\$105,912.18
6/13/2029	\$105,912.18	\$ -	\$ 54,950.12	\$ 2,647.80	\$ 52,302.31	\$ 53,609.87
12/13/2029	\$ 53,609.87	\$ -	\$ 54,950.12	\$ 1,340.25	\$ 53,609.87	\$ 0.00
Total		\$438,000.00	\$494,551.06	\$56,551.06	\$438,000.00	

Essential Use/ Source of Funds Certificate

TD Equipment Finance, Inc.
9000 Atrium Way,
Mount Laurel, NJ 08054

Re: Lease/Purchase Agreement dated as of _____ between TD
Equipment Finance, Inc. and the _____ dated _____

This certificate confirms and affirms that the Equipment described in the Agreement referenced above is essential to the functions of Lessee or to the services Lessee provides its citizens. Further, Lessee has an immediate need for, and expects to make immediate use of, substantially all such Equipment, which need is not temporary or expected to diminish in the foreseeable future. Such Equipment will be used by Lessee only for the purpose of performing one or more of Lessee's governmental functions consistent with the permissible scope of its authority.

Lessee affirms that sufficient funds to make Rental Payments due under the Lease are available for the current fiscal year. Lessee will make every effort as required under this Agreement to ensure that adequate funds will be available for all future payments or rent due after the current budgetary period.

Lessee

By: _____

Name:

Title: