

FOR BOARD ACTION

REVISED
10/30/07

Agenda Item # 10.

Meeting Date:

SUBJECT: Capital Lease for Network and Data Center Resource Upgrades

PREPARED BY: Bryan Blom, Manager of Finance and Accounting

ITEM DESCRIPTION:

In March, 2007, the Board concurred with a staff recommendation to fund upcoming technology infrastructure expenditures with a capital lease. This infrastructure included items such as servers, data storage and network equipment. A copy of the March, 2007 For Board Action and infrastructure inventory are attached.

As background, the implementation of the Customer Care System (CCS) and the decision to have high availability/back-up systems implemented along with CCS accelerated these expenditures into 2007. Many of the expenditures would normally have been made over a number of years. In order to stay within the original cash flow plans, a capital lease option was proposed last March. The equipment has now been installed and three leasing companies have been asked to provide proposals for a three-year \$650,000 capital lease.

Staff reviewed proposals from three companies. A summary of the proposals is attached. The lowest proposal was from Key Government Finance Inc in the amount of \$650,000.00.

UTILITY BOARD ACTION REQUESTED:

Staff recommends that the Board request the Common Council to approve a capital lease agreement with Key Government Finance Inc. for six semiannual payments of \$116,022.40 for a total of \$650,000.00, subject to the City Attorney's review and approval.

Larry Koskivi
General Manager

10-30-07
Date

RPU
Equipment Under Proposed Capital Lease

Equipment Type	Year	Invoice	Model	SN	Total
Storage Area Network	2006	74515	Equallogic PS 400E	B014198	\$ 47,962
	2007	77587	Equallogic PS 400E	B019058	\$ 48,941
		79452	Equallogic PS 400E	B021492	\$ 48,300
		H158069	NMS 160 (2.0 TB) with SAN/IQ	SNSM1602710655	\$ 19,278
		(blank)	NMS 160 (2.0 TB) with SAN/IQ	(blank)	\$ 20,261
Servers	2006	41446245	DL380 G5	USE 648NAM1	\$ 4,497
				USE648NALZ	\$ 4,497
				USE648NAM0	\$ 4,497
	2007	42496991	DL380 G5		1 \$ 7,126
					2 \$ 7,126
					3 \$ 7,126
					4 \$ 7,126
					5 \$ 5,432
					8 \$ 6,573
					9 \$ 6,573
					10 \$ 6,165
					11 \$ 6,165
					12 \$ 6,165
					13 \$ 6,165
					14 \$ 5,432
					15 \$ 5,432
					16 \$ 6,393
					17 \$ 6,946
					18 \$ 6,946
			DL580R04		6 \$ 16,530
				7 \$ 16,530	
		A41917709	DL380 G5	USE702N4V7	\$ 6,372
				USE702N4V8	\$ 6,372
				USE702N4V9	\$ 5,427
			DL580 G4 X7140M HIGH PERFORM	USE702N4TD	\$ 17,222
				USE702N4TF	\$ 17,222
		(blank)	DL380 G5	(blank)	\$ 9,492
Switches	2007	6196	Catalyst 3750	FOC1052Y0T1	\$ 8,677
		6197	Catalyst 6509	SMG1045N3VP	\$ 88,341
		7347	Catalyst 3560	CAT1113NG35	\$ 1,857
				CAT1113NG3A	\$ 1,857
				CAT1113NG3J	\$ 1,857
			Catalyst 3750	FOC1109Y1H4	\$ 13,854
				FOC1109Y5D2	\$ 4,407
		7402	Catalyst 6500/CIS	SAL1115LKJJ	\$ 17,360
				SAL1115LPYM	\$ 17,360
		7662	ASA 5520	JMX1120L0TD	\$ 9,917
				JMX1120L0TE	\$ 9,917
		8749	Catalyst 296	FOC1122Z84J	\$ 2,043
				FOC1123Z2TP	\$ 2,043
		H156792	PIX-525-SW-R-UR [Firewall]	SPIX-7X-CM-7A71B3	\$ 3,402
		4X16 Digital KVM		\$ 12,848	
		Backbone Upgrade		\$ 37,200	
Backup	2007		External Tape Drive		\$ 5,371
			10TB Storage Array		\$ 22,359

Grand Total **\$ 656,958**

FOR BOARD ACTION

Agenda Item # 8

Meeting Date: 3/27/07

SUBJECT: Funding Network and Data Center Resource Upgrades**PREPARED BY:** Jim Daley, Manager – Information ServicesITEM DESCRIPTION:

The purpose of this For Board Action is to provide recommendations for funding network and data center upgrades required to support the new Customer Care direction.

In September 2006, the Board approved a plan to purchase and implement the latest version of the SAP business software including Customer Care. System sizing calculations indicate that the new business software will significantly increase processing demands on network and data center resources shared by the entire organization. Here are some examples:

- 50% increase in total number of computer servers
- 100% increase in total data storage requirements
- 100% increase in backup and recovery requirements
- 50% increase in data center heat load
- Redundant network controls for high availability
- Security controls for customer self-service on the Internet

Many of these capital improvements were budgeted in future years to meet planned growth in capacity, reliability and security needs across the organization. These additions and improvements will need to be purchased over the next several months to keep the Customer Care project on schedule. Staff reviewed a variety of alternatives for funding these requirements. They included using the existing technology infrastructure budget, reprioritizing capital improvement projects in other areas, using the contingency fund and leasing. Staff has experience in leasing computer hardware and recommends the leasing option. This will allow RPU to move forward with capital additions and upgrades planned for future years within the 2007 capital budget.

Here are some examples and preliminary cost estimates for additions and upgrades appropriate for leasing:

• Servers	\$200,000
• Data Storage	\$150,000
• Network Switches	\$200,000
• Backup and Recovery	\$100,000
Total	\$650,000


 General Manager

3/20/07
 Date

ROCHESTER PUBLIC UTILITIES

FOR BOARD ACTION

Agenda Item # 8

Meeting Date:

3/27/07

The actual requirements will be finalized during the business blueprinting phase of the Customer Care project that is expected to be completed in June, 2007. Plans would include:

- Purchasing assets from a variety of vendors in 2007 to keep the Customer Care project on schedule.
- Selling assets appropriate for leasing to a leasing company when the assets are installed in the third quarter, 2007.
- Leasing back the equipment with terms to-be-determined when the final leasing agreement is prepared.

Several leasing companies have expressed interest in working with RPU on a leasing program. They are currently offering rates in the 5% range and payment schedules ranging from 3 to 5 years. RPU would own the equipment at the end of lease period.

UTILITY BOARD ACTION REQUESTED:

Staff requests Board concurrence with a recommendation to purchase network and data center resources required to meet the processing demands of the SAP business software including Customer Care and funding the purchases with a capital lease agreement in the third quarter, 2007.

General Manager

Date

ROCHESTER PUBLIC UTILITIES

RPU Finance and Accounting
 Capital Lease Accounting
 Sale Lease Back
 Lease Options

	Wells Fargo 36 Mo Pmts	Wells Fargo 48 Mo Pmts	36 Mo pmt	Key Gov't Leasing 12 Qtr Pmts	6 Semi annual Pmts	36 Mo Pmts	GE Gov't Financing * 60 Mo Pmts
Discount Rate	4.00%						
Stated Rate	4.66%	4.76%	3.99%	3.99%	3.99%	0.0475	3.98%
Cash Proceeds	656,958	656,958	650,000.00	650,000.00	650,000.00	656,958	656,958
Periodic Payment Amount	19,589.50	15,057.97	19,188.00	57,742.75	116,022.40	19,615.97	12,092.96
PV Periodic Payment	(663,511.38)	(666,899.93)	(649,912.27)	(649,899.12)	(649,891.46)	(664,407.94)	(656,636.47)
Additional fees Documentation Fee	(300.00)	(300.00)					
PV All Lease Payments	(663,811.38)	(667,199.93)	(649,912.27)	(649,899.12)	(649,891.46)	(664,407.94)	(656,636.47)
Purchase Option	(0.89)	(0.86)	(0.89)	(0.89)	(0.89)	(0.89)	(0.83)
Present value of all payments	(663,812.27)	(667,200.79)	(649,913.16)	(649,900.02)	(649,892.35)	(664,408.83)	(656,637.30)

* Provides for an option to lock the rate before funding for \$3285.00

Comparison Table	Wells Fargo 36 Mo Pmts	Wells Fargo 48 Mo Pmts	36 Mo pmt	Key Gov't Leasing 12 Qtr Pmts	6 Semiannual Pmts	36 Mo Pmts	GE Gov't Financing * 60 Mo Pmts
Wells Fargo 36 Mo	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7
Wells Fargo 48 Mo	3,388.52	(3,388.52)	6,941.11	6,954.25	6,961.92	(596.56)	7,174.97
Key Gov't Leasing 36 Mo	(6,941.11)	(6,941.11)	10,329.63	10,342.78	10,350.45	2,791.96	10,563.49
Key Gov't Leasing 12 Qtr	(6,954.25)	(6,954.25)	(13.14)	13.14	\$20.81	(7,537.67)	233.86
Key Gov't Leasing 6 Biennial	(6,951.92)	(6,951.92)	(20.81)	(7.67)	7.67	(7,550.81)	220.72
GE 36 Mo	596.56	(52,791.96)	7,550.81	7,550.81	7,558.48	(7,558.48)	213.05
GE 60 Mo	(7,174.97)	(10,563.49)	(233.86)	(220.72)	(213.05)	(7,771.53)	7,771.53

- Most Costly Option Option 2
- Least Costly Option Option 7
- Most Costly 36 Mo Option Option 6
- Least Costly 36 Mo Option Option 5

Columns illustrate how much better or worse () each option is than the others.
 To account for the difference in cash proceeds options 3, 4, and 5 are adjusted in the comparison table relative to options 1, 2, 6, and 7.

Staff Recommended Proposal



RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, that the Common Council of the said City is requested to approve a contract agreement with Key Government Financing Inc., subject to review by the City Attorney, and that the Common Council authorize the Mayor and the City Clerk to execute the agreement for

Capital Lease for Network and Data Center Resource Upgrades

The amount of the contract agreement to be SIX HUNDRED FIFTY THOUSAND AND 00/100 DOLLARS (\$650,000.00) payable in Semiannual installments of \$116,022.40, and Key Government Finance Inc. being lowest responsible bidder.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 30th day of October, 2007.

President

Secretary