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Report to Mayor and City Council

Tuesday, November 21, 2017

Discussion

SUBJECT:

ENTERPRISE FLEET MANAGEMENT, INC. VEHICLE LEASE ANALYSIS (CITY COUNCIL)

I. SUMMARY

In June 2013, the City Council approved agreements with Enterprise Fleet Management, Inc. to provide leased vehicles to the City. Staff has prepared an analysis of the long-term fiscal impact of leasing vehicles; and recommends the City explore the option of extending the lease terms to take ownership of leased vehicles upon lease end. Additionally, the analysis indicates the City should purchase future vehicles rather than lease in order to constrain costs associated with ongoing lease agreements. Staff has also held discussions with Enterprise regarding continuing payments and taking ownership once vehicles are paid off and Enterprise has verbally agreed to allow the City to pursue that option.

II. RECOMMENDATION

DIRECT Staff to prepare an amendment to the agreement with Enterprise Fleet Management, Inc., to enable the City to take ownership of currently leased vehicles by extending the term of the lease.

III. ALTERNATIVES

1. CONTINUE taking delivery of leased vehicles from Enterprise Fleet Management, Inc.; OR

2. TAKE another action deemed appropriate by City Council.

IV. BACKGROUND

On June 18, 2013, based upon Staff recommendation, the City Council approved an Equity

Lease Agreement and Maintenance Agreement with Enterprise Fleet Management Inc. (Enterprise) to provide and maintain light-duty vehicles. In the process of reorganizing the vehicle fleet, 6 full time mechanic positions were eliminated and all vehicle maintenance was outsourced to private companies. The cost savings of the fleet changeover was realized in the first year, however as the leased fleet grew, the amount paid for leased vehicles grew; and at the end of the lease term, the City does not own the vehicles.

Over 3 years, the City has taken delivery of 67 vehicles under the agreement.

The key terms of the agreement are:

- Lease is for a 5 year term
- Vehicle is returned to Enterprise once lease term is fulfilled
- Monthly Payment for lease is composed of 4 parts:
    - 1.35% Monthly of Vehicle Capitalized Cost
    - Finance charge (approximately 5% APR)
    - Use Tax (9.5%)
    - Maintenance Program Fee (between $28 - $45 per vehicle per month)
- Once lease term is complete, the City must return the vehicle, along with a $400 final payment to Enterprise
- There is also an estimated book value for the vehicle calculated at lease start. Should the vehicle not maintain that book value at the end of the lease, the City must pay the difference to Enterprise
- In addition leased vehicles have mileage allowances of 5,000 - 100,000 miles. Any overage is charged to the City at a rate of $0.035 - $0.045 per mile.
- As of the March 2017 mileage inventory of 23 vehicles with 2013 leases, 16 vehicles were under 50% of allocated contract mileage and 3 were over their allocated contract mileage. Current mileage of the 2013 vehicles ranges from 3,860 to 33,444.

At the conclusion of the lease, new vehicles are delivered and a new lease begins. Based upon the actual mileage on City vehicles, many of them may have a useful life of up to 10 years. Should the City take ownership of the vehicles at lease end, this would reduce monthly vehicle expenditures and would allow for a more efficient use of the vehicle fleet. Staff has spoken to Enterprise and has been verbally assured that the City may continue the payments per the lease agreement and take ownership once vehicles are paid off.

If Council were to direct staff to negotiate with Enterprise and take delivery of the vehicles, there would be an additional 14 months of vehicle payments, after which the City would own the vehicles. The City would then only incur maintenance costs on an as-needed basis and forego monthly maintenance payments.

<u>Lease vs. Purchase Analysis</u>

Staff prepared an analysis that indicates leasing vehicles, under the current arrangement, is far more expensive over time vs. purchasing vehicles.

Advantages to Purchasing

- Retain the asset for its full useful life, which may be up to 10 years, based upon the low mileage incurred by City vehicles.
- The City can use restricted air quality money to purchase clean-air vehicles, relieving the General Fund of the obligation.
- Costs limited to purchase price and maintenance.

Disadvantages to Purchasing

- Cash outlay is made up-front.

Advantages to Leasing

- Cash outlay is made over time.

Disadvantages to Leasing

- Must use General Fund money.
- City incurs financing charges.
- City has no asset after 5 years of payments.
- After-market equipment purchased by City stays with the vehicle when it is returned to Enterprise. For example, if a light-bar is purchased, the vehicle is returned to Enterprise with the light-bar intact. It is not removed for the City to retain.

Vehicle Maintenance

As noted above, maintenance is currently provided by several outside companies. Staff is exploring long-term fleet maintenance options that would provide routine maintenance with quick turnaround and minimize maintenance costs. Staff recommendation would be to continue outsourcing vehicle maintenance. At this time, there is no recommendation to re-build the mechanic staffing levels.

Long-Term Cost Comparison

The illustration below shows the 5- and 10-year cost comparison with purchased vehicles, leased vehicles and leased to own vehicles.

	Ford F-150			Ford F-250			Nissan Altima		
	Purchas	Lease to Ov	Lease	Purchas	Lease to Ov	Lease	Purchas	Lease to Ov	Lease
Monthly Cost	473.37	518.92	518.92	720.31	766.23	766.23	387.69	400.97	400.97
5 year Cost	28,402	31,135	31,535	43,219	45,974	46,374	23,261	24,058	24,458
10 year Cos	32,237	42,235	63,070	47,054	60,536	92,748	27,096	33,507	48,916

**Purchased and lease-to-own vehicles incur annual maintenance charges which average approximately $767 per year. Source: AAA*

Current Year Vehicle Purchases

The FY17-18 budget includes procuring 3 clean air vehicles for Parking Enforcement. The funds for these vehicles are through the use of an AQMD grant that will cover the cost of the vehicles along with a PB loader for Public Works. The FY17-18 budget also includes the purchase of 5 vehicles.

• 2017 Ford F-550 Chassis w/Altec 35G Aerial Lift	$100,000
• 2017 Ford Transit 350 w/locksmith upfitter	$40,000
• 2017 Ford F-450 Chassis w/contract body lift gate	$84,917
• 2017 Ford F-250 Chassis w/utility bed	$35,000
• 2017 Ford F-250 Chassis w/utility bed	$35,000
Total Fiscal 2017-18 Cost:	$294,917

Capital Asset Replacement Fund

The FY17-18 budget also includes a General Fund transfer of $250,000 to the Capital Asset Replacement fund to pay for current vehicle purchases. Going forward, staff would recommend an equipment allocation charge to each program within the General Fund that utilizes equipment, including vehicles. Money would be accumulated in the Capital Asset Replacement fund for future equipment/vehicle replacements.

Next Steps

If the City Council approves the recommendation, staff plans to:

- Negotiating lease with Enterprise to allow the City to own vehicles at term end;
- Re-assess vehicle usage and assignments, which may result in a reduction of the fleet;
- Review options for outsourced vehicle maintenance; and
- Include a vehicle allocation charge in the draft FY18-19 budget.

V. FISCAL IMPACT

If City Council approves the recommendation, and an agreement is reached whereby the City owns the vehicles after a 14-month lease extension, the City will be relieved of additional lease payments beginning in FY19-20.

The FY17-18 budget includes an expenditure of $294,917 from the Capital Asset Replacement Fund to replace City-owned vehicles that are no longer cost-effective or safe to operate. Future vehicle acquisitions will be subject to competitive bidding, and will require City Council approval when the purchase price exceeds $25,000.

VI. EXHIBITS

Exhibit 1 - 5 & 10 year cost of ownership: Lease, Lease to own & Purchase (Pages 5-6)

Exhibit 2 - Monthly Cost Breakdown of Vehicle Acquisition Options (Page 7)

Exhibit 3 - 5 year look forward of vehicle replacement (Page 8)

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