CITY OF URBANA, ILLINOIS
FINANCE DEPARTMENT

M E M O R A N D U M

TO: Mayor Diane Wolfe Marlin and City Council Members

FROM: Elizabeth Hannan, Finance Director

DATE: May 31, 2018

SUBJECT: **Leasing City Vehicles**

Introduction: The purpose of this memo is to discuss a recommendation to lease 50 City vehicles.

Summary:

- Current practice is to make an annual payment each year to the Vehicle and Equipment Replacement Fund (VERF) for future replacement of city vehicles.
- In 2015, Finance staff determined that the VERF would be short $2.7 million needed to replace vehicles in the City's fleet, within a matter of a few years. This occurred because the VERF had not been adequately funded in the past.
- Initially, the City planned to correct the shortfall over the following three years by transferring additional funds from the General Fund. Due to tighter budgets, the amount transferred was reduced and the period for making the correction was extended. The current annual transfer of $180,000 will need to continue through FY 2031 in order to correct the underfunding if the leasing program is not approved.
- A leasing program would reduce the need to pre-fund vehicle replacement and alleviate the underfunding problem in the VERF. With a program to lease 50 vehicles, the annual expenditure to address underfunding is reduced by $61,000 annually, which is a total of $790,400.
- Additional savings will be realized due to reduced cost of ownership when vehicles are turned over more frequently. Cash outlays for vehicle purchases or leases would be reduced by about $385,000 over the next fifteen years. Savings in maintenance and fuel costs also are expected.
- City mechanics would continue to maintain the vehicles owned and leased by the City.

Discussion:

City Fleet: The City currently has about 150 vehicles in the City's fleet. Vehicles range from relatively inexpensive passenger vehicles to a ladder truck for the Fire Department, which costs in

excess of $1 million. Most vehicles are retained for ten years. Fire apparatus have a scheduled life of fifteen years, but are often retained for a longer time as reserve units.

Current Vehicle Replacement Practice: The City's current practice is to set aside funds in advance of vehicle replacement in the Vehicle and Equipment Replacement Fund (VERF). For example, for a vehicle that is expected to be replaced at the end of ten years, an annual transfer would be made to pre-fund the expected replacement cost. Rather than pre-funding 100% of the replacement cost, the City funds 90% of the replacement cost because this provides for adequate cash flow in the VERF.

Replacements are generally made based on age and mileage on the vehicle. However, vehicles are sometimes retained for a longer period if the condition is good. Less frequently, a vehicle may be replaced ahead of schedule, for example, if it is totaled in an accident or if it would not be cost effective to make major repairs on a vehicle that is near the end of its useful life.

This is a common method for funding vehicle replacement programs in municipalities. The advantage of this approach is that a level, annual payment provides for future replacement. This eliminates large fluctuations that would occur if vehicle replacements were paid directly from operating funds and ensures that funds are available for scheduled replacements. A replacement schedule also makes budgeting for purchases less complex.

Evaluation of Funding Issues: When an evaluation of the VERF was performed by Finance staff in 2015, staff determined that the VERF would be short $2.7 million dollars below what was needed to replace vehicles in the City's fleet. The solution included in the proposed budget for FY2016 was to transfer additional funds from the City's General Fund over three years to correct the funding problem. As budgets became tighter, this amount was reduced and the period for making the correction was extended. In the FY2018 budget, an annual transfer of $180,000 is included, and this would need to continue through FY2031 to correct the underfunding, if the proposed leasing program is not approved. The FY2019 budget includes a transfer of $110,000, anticipating that this leasing program will be implemented.

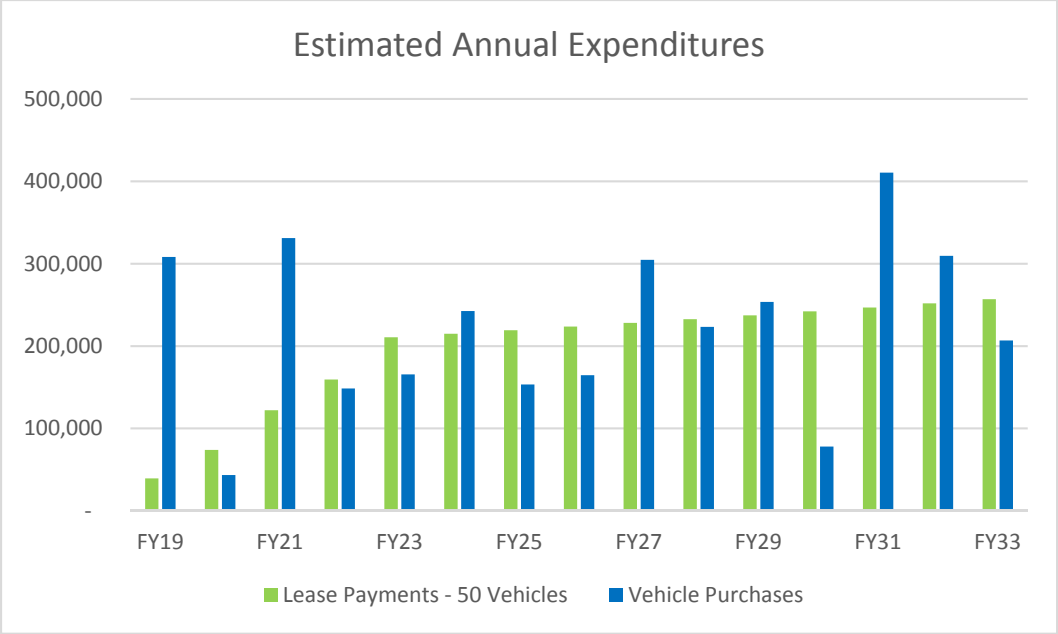
Life Cycle Costing: Retaining vehicles for longer periods can actually result in higher average, annual costs because as the vehicle ages, the cost of maintenance increases and the vehicle depreciates resulting in a lower salvage value. Shortening the life cycle of City vehicles is expected to reduce maintenance costs and increase salvage values. Using a life cycle costing approach, vehicles would be replaced more frequently and annual costs would be reduced. Five years would be a more optimal life cycle for the vehicles discussed here.

Proposed Leasing Program: A leasing program would eliminate the need to pre-fund vehicle replacement, reducing the underfunding problem in the VERF, while allowing the City to benefit from reduced life cycle costs as vehicles are turned over more frequently. Staff proposes to lease 50 vehicles in the current fleet, phasing in the leased vehicles over about four to five years. The leased vehicles would be retained for five years so that they would be "turned" when the salvage value is still relatively high and before maintenance costs would be expected to trend upwards. This would result in a lower annual cost to own these vehicles and allow for a reduction in the annual transfer to address the underfunding in the VERF by about $61,000 because funds that have already been reserved to replace these vehicles would be retained to offset the replacement cost of other vehicles. (Note that this figure is adjusted from the previous estimate of $70,000 after staff determined that one vehicle should be removed from the list of leased vehicles.)

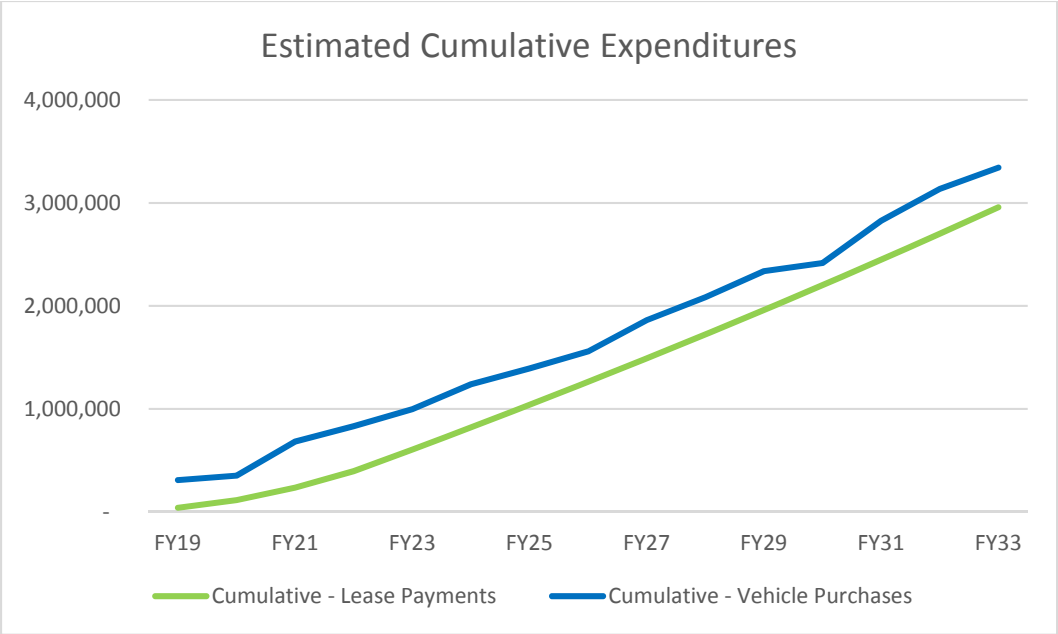
The 50 vehicles that would be part of this program are listed on the attachment. They include passenger vehicles and pickup trucks up to three-quarter ton pickup trucks, excluding police interceptor vehicles. While it is possible to lease police interceptor vehicles, that is not included in this proposal. Heavy equipment and fire apparatus are also not included.

While the lease amounts do include an interest component, since the City would essentially be borrowing from the leasing company, the savings generated by more frequent turnover of vehicles should offset that cost. In addition, as the age of the fleet decreases, downtime for repairs should be reduced and the workload for Equipment Services staff who will maintain the vehicles should become more manageable. Newer vehicles should be more fuel efficient, further reducing costs. Because commercial leasing companies have very large purchasing volumes, the lease amounts would be based on a very competitive purchase price.

The following chart shows expected expenditures for both options for the vehicles that would be part of the leasing program. This chart does not include savings on maintenance costs that are expected to occur as the age of the fleet is reduced. It also does not include payments for the correction of past underfunding in the VERF, which would be reduced by $790,000 over this period if the leasing option were implemented. Expenditures fluctuate considerably under the current method due to the timing of vehicle purchases.



The following chart shows the cumulative expenses over a fifteen-year period. By the end of the fifteen-year period, the lease costs are about $385,000 less than the purchase option.



When savings in the correction for the VERF underfunding are added, projected expenses for the leasing option are $1.17 million less than under the current method. $790,000 of that savings is related to the elimination of the need to pre-fund purchases under the leasing option.

City staff would continue to be responsible for maintaining the leased vehicles, just as they are for vehicles owned by the City. The City currently employs three mechanics whose services are essential to maintaining the City's fleet. They provide a quick response to problems, particularly for public safety vehicles, and during snow events or other emergencies. While a leasing company could provide maintenance, they cannot meet all of the City's needs.

The City would maintain its current insurance program for the leased vehicles. The City is self-insured for physical damage claims, which are paid from the Retained Risk Fund. The City is insured for liability claims with a self-insured retention limit of $150,000.

Benefits of leasing include –

1. improved cash flow because the initial cash outlay is reduced and we pay only for the value of the vehicle for the time it is used
2. reduced maintenance costs due to reduced age of fleet
3. reduced life cycle cost due to a more optimal replacement schedule
4. reduced workload for managing the fleet because the leasing company will handle vehicle purchases and licensing, and also disposal of vehicles at the end of the lease

For all vehicles included in the leasing program, $639,000 has been reserved in the VERF as of the end of FY2018. Using these funds to offset future costs would reduce the transfer to address

underfunding by $42,600 annually. There would also be no need to address underfunding for vehicles in the leasing program, which amounts to $273,800, saving an additional $18,300 annually. The result is that the annual transfer to address underfunding is reduced by $60,800.

Vehicles included in the leasing program could be disposed of by the City or the leasing company, returning approximately $488,000 to the City. A portion of that would be used to make a down payment on the leases. In addition, depending on the final terms of the lease, it may be possible to return a substantial portion of those revenues to the VERF, generating additional savings.

Total annual lease amounts are expected to be comparable to the current VERF charges, so there should be no additional cost for leasing beyond what is already budgeted as an annual expense for VERF transfers. Because the lease terms are not set at this point, this may vary.

Vehicles Available: Most leasing companies offer a wide variety of vehicles, including hybrid and electric models. Providing the budget permits, leasing could provide an opportunity to add more fuel efficient vehicles to the City's fleet.

Purchasing Cooperative: Staff may take advantage of a joint purchasing arrangement, which would require that Council approve participation in the TIPS (The Interlocal Purchasing System). The lead agency for TIPS is the Region 8 Education Service Center in Texas. Participating in a joint purchasing arrangement allows the City to take advantage of the buying power of a much larger group, whereas the City alone might not attract very competitive pricing for a group of 50 vehicles. TIPS awarded a fleet leasing and management services contract to Enterprise Fleet Management, Inc. They followed a competitive procurement process including publicly advertising bids, analyzing responses, and entering into a contract with the bidder receiving the award. Enterprise Fleet Management has submitted the City's EEO Report Form for review by the Human Relations Commission.

Implementation: If the City becomes a participant in TIPS, staff could work directly with Enterprise Fleet Management on the specifics of the leasing arrangement, and delivery of new vehicles could begin in the fall. The City could also choose to issue a Request for Proposals (RFP) for vehicle leasing.

Over the next four to five years, the current vehicles would be replaced with new, leased vehicles. Proceeds from disposal of the vehicles that are being replaced would be returned to the VERF to offset replacement costs for other vehicles to the extent those proceeds are not needed for initial lease payments.

Alternatives:

1. Direct staff to proceed with the proposed leasing program for 50 vehicles in the City's fleet.

2. Maintain the current approach, which will require a reduction in expenses elsewhere in the General Fund budget.

Recommendation: Direct staff to proceed with the proposed leasing program for 50 vehicles. Staff will also evaluate additional leasing options as the budget for FY2020 is developed.

Fiscal Impact: Expenditures for leases or vehicle purchases and VERF transfers would be reduced by $1.17 million over the next fifteen years. This change reduces expenditures in the General Operating Fund by $61,000 annually. Additional savings in maintenance and fuel costs are also expected in the future.

City of Urbana Fleet Leasing Worksheet

Unit	Year	Make	Model	Vehicle Age	Assigned Category	Recommended Replacement Year	New Replacement Category
PW83	2011	FORD	F250	7	3/4 Ton Pickup Reg 4x2	2018	3/4 Ton Pickup Reg 4x2
PD05	2009	CHEVY	IMPALA	9	Full-size Sedan	2019	Full-size Sedan
PW20	2011	FORD	F150	7	1/2 Ton Pickup Reg 4x2	2019	1/2 Ton Pickup Reg 4x2
PD07	2011	FORD	F150	7	1/2 Ton Pickup Ext 4x2	2019	1/2 Ton Pickup Ext 4x2
MU09	2009	FORD	ESCAPE	9	Compact SUV 4x2	2019	Compact SUV 4x2
PW19	2008	FORD	F150	10	1/2 Ton Pickup Reg 4x2	2018	1/2 Ton Pickup Reg 4x2
FD201	2009	CHEVY	IMPALA	9	Full-size Sedan	2019	Full-size Sedan
MU02	2009	FORD	ESCAPE	9	Compact SUV 4x2	2019	Compact SUV 4x2
FD220	2008	FORD	EXPEDITION	10	Full Size SUV 4x4	2018	Full Size SUV 4x4
PW16	2008	FORD	F150	10	1/2 Ton Pickup Reg 4x2	2018	1/2 Ton Pickup Reg 4x2
PD08	2010	CHEVY	IMPALA	8	Full-size Sedan	2019	Full-size Sedan
PE15	2010	FORD	ESCAPE	8	Compact SUV 4x2	2019	Compact SUV 4x2
PW81	2011	FORD	F250	7	3/4 Ton Pickup Reg 4x2	2020	3/4 Ton Pickup Reg 4x2
PD11	2010	CHEVY	IMPALA	8	Full-size Sedan	2019	Full-size Sedan
PW14	2011	DODGE	CARAVAN	7	Minivan-Passenger	2020	Minivan-Passenger
PW42	2011	FORD	F250	7	3/4 Ton Pickup Reg 4x2	2020	3/4 Ton Pickup Reg 4x2
FD291	2009	FORD	F250	9	3/4 Ton Pickup Quad 4x2	2019	3/4 Ton Pickup Quad 4x2
PW04	2008	CHEVY	C3500	10	1 Ton Van Cargo	2018	1 Ton Van Cargo
CD04	2007	FORD	F150	11	1/2 Ton Pickup Reg 4x2	2018	1/2 Ton Pickup Reg 4x2
PW41	2011	FORD	F250	7	3/4 Ton Pickup Reg 4x2	2020	3/4 Ton Pickup Reg 4x2
PW98	2011	FORD	F250	7	3/4 Ton Pickup Ext 4x2	2020	3/4 Ton Pickup Ext 4x2
MU10	2007	FORD	FOCUS	11	Compact Sedan	2018	Compact Sedan
PW01	2012	FORD	FUSION	6	Mid-size Sedan	2020	Mid-size Sedan
ED01	2011	FORD	FOCUS	7	Compact Sedan	2020	Compact Sedan
PW34	2014	FORD	F-250	4	3/4 Ton Pickup Quad 4x4	2021	3/4 Ton Pickup Quad 4x4
CD07	2011	FORD	RANGER	7	Compact Pickup Ext 4x2	2020	Compact Pickup Ext 4x2
PD10	2011	DODGE	CARAVAN	7	Minivan-Passenger	2020	Minivan-Passenger
PD51	2015	DODGE	CARAVAN	3	Minivan-Passenger	2022	Minivan-Passenger
PE17	2015	FORD	CMAX	3	Compact Sedan	2022	Compact Sedan
CD05	2011	FORD	FOCUS	7	Compact Sedan	2020	Compact Sedan
PW12	2011	FORD	F150	7	1/2 Ton Pickup Ext 4x2	2020	1/2 Ton Pickup Ext 4x2
PD21	2015	DODGE	CARAVAN	3	Minivan-Passenger	2022	Minivan-Passenger
PW43	2013	FORD	F150	5	1/2 Ton Pickup Ext 4x2	2021	1/2 Ton Pickup Ext 4x2
ED04	2013	FORD	F150	5	1/2 Ton Pickup Ext 4x2	2021	1/2 Ton Pickup Ext 4x2
FD290	2013	FORD	F350	5	1 Ton Pickup Quad 4x2	2021	1 Ton Pickup Quad 4x2
MU06	2008	FORD	FOCUS	10	Compact Sedan	2018	Compact Sedan
PD30	2015	DODGE	CARAVAN	3	Minivan-Passenger	2022	Minivan-Passenger
PW02	2011	FORD	F150	7	1/2 Ton Pickup Ext 4x2	2020	1/2 Ton Pickup Ext 4x2
ED05	2013	FORD	F150	5	1/2 Ton Pickup Ext 4x2	2021	1/2 Ton Pickup Ext 4x2
MU03	2014	DODGE	CARAVAN	4	Minivan-Passenger	2021	Minivan-Passenger
PD20	2016	FORD	TAURUS	2	Full-size Sedan	2022	Full-size Sedan
PW18	2017	FORD	F350	1	1 Ton Pickup Reg 4x2	2022	1 Ton Pickup Reg 4x2
PW06	2017	FORD	F150	1	1/2 Ton Pickup Quad 4x4	2022	1/2 Ton Pickup Quad 4x4
PW09	2016	FORD	F250	2	3/4 Ton Pickup Reg 4x2	2022	3/4 Ton Pickup Reg 4x2
ED06	2017	FORD	F150	1	1/2 Ton Pickup Ext 4x2	2022	1/2 Ton Pickup Ext 4x2
CD03	2017	FORD	F150	1	1/2 Ton Pickup Ext 4x2	2022	1/2 Ton Pickup Ext 4x2
PD02	2017	FORD	TAURUS	1	Full-size Sedan	2022	Full-size Sedan
PW54	2017	FORD	TRANSIT	1	1/2 Ton Van Cargo	2022	1/2 Ton Van Cargo
PE15	2015	FORD	CMAX	3	Compact Sedan	2022	Compact Sedan
CD02	2017	FORD	FOCUS	1	Compact Sedan	2022	Compact Sedan