



Date: January 25, 2021

To: Brent Trout, City Manager

From: Hannah Uhrig, Deputy Director of Public Works

Re: Infrastructure Committee – Potential Fleet Lease Program Update

The update to the Infrastructure Committee at the January 26 meeting regarding the potential fleet lease program will consist of presenting data from last month's status report and an update as to the status on various other related items focused on the review of the Enterprise Lease exploration.

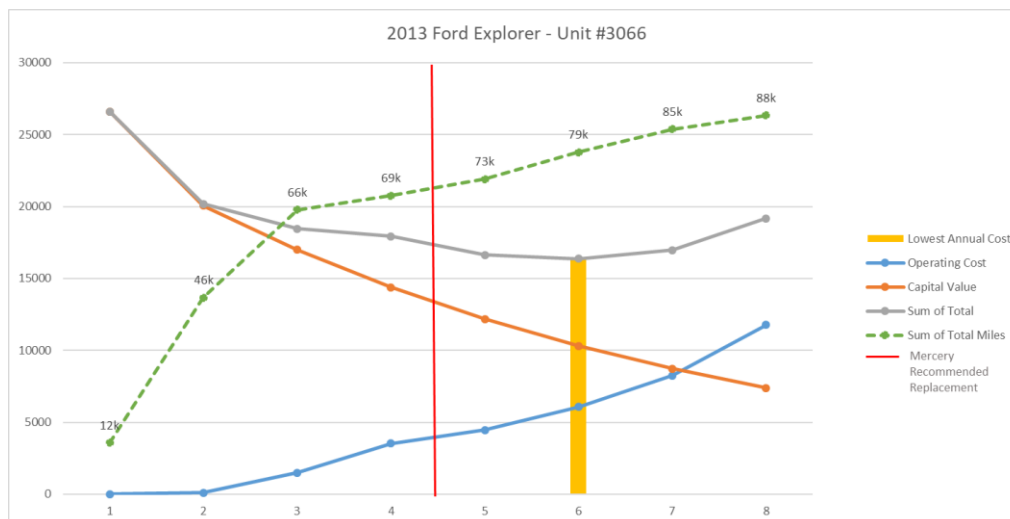
Request from November Public Works Infrastructure committee meeting

As requested, in this memo there are two examples of existing vehicles within our fleet with actual maintenance history to analyze at which point the lowest annual cost occurred. Two examples were selected randomly from the list of vehicles that are seven years or older. Both examples illustrate the importance and need to complete an individual assessments on each asset individually by a fleet specialist as part of a replacement program. Not all vehicles will fit into the "standard" replacement cycles.

The first vehicle selected is a 2013 Ford Explorer with the Police Department (unit 3066).

- Purchase Price: \$26,601
- Total Maintenance/Repair Cost: \$11,635
- Current Meter Reading: 87,810

The chart labeled "2013 Ford Explorer – Unit #3066" shows the capital value, operating cost (repairs & maintenance), total cost, and millage by year. Per the economic theory of vehicle replacement¹ model, discussed at the November PWI committee meeting, the ideal replacement period would occur during year six for this specific asset based on the actualized operating cost. This is later than the Mercury recommended replacement period of four years for Emergency Response SUVs but earlier than the recommendation of SUVs for general use, ten years or 110,000 miles for SUV class vehicles. The City's Police Department maintains a practice of rotating patrol vehicles out of the patrol unit typically, between year two and three resulting in the mileage decreasing in year three.



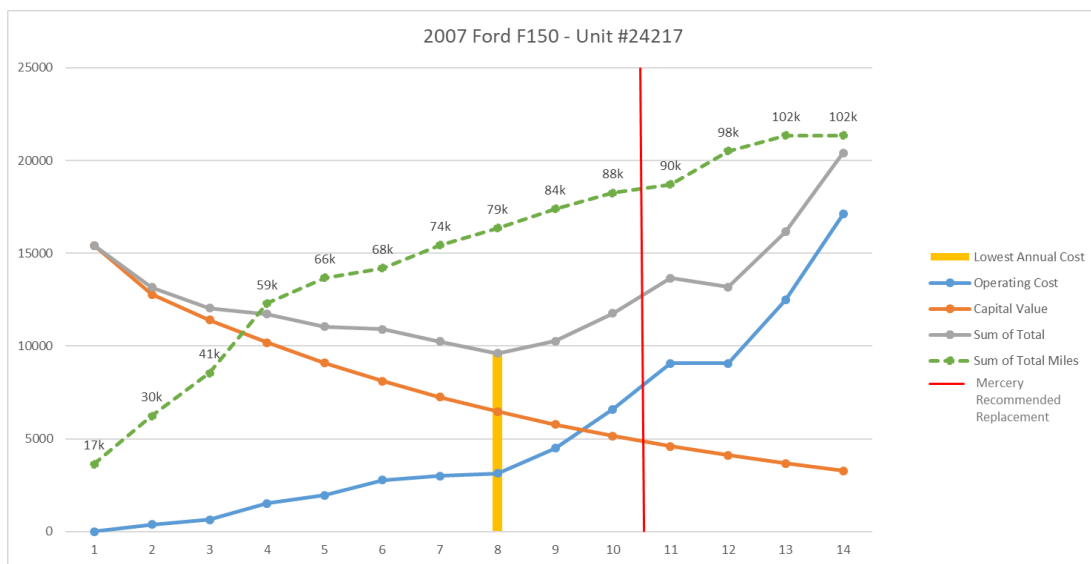
¹ Fleet Replacement Practices 2015 Mercury Report



The second vehicle selected is a 2007 Ford F150 with the Street Department (unit 24217).

- Purchase Price: \$15,429
- Total Maintenance/Repair Cost: \$17,299
- Current Meter Reading: 93,256

The chart titled “2007 Ford F150 – Unit #24217” shows the capital value, operating cost (repairs & maintenance), total cost, and millage by year. Per the economic theory of vehicle replacement², discussed at the November PWI committee meeting, the ideal replacement period would occur during year eight. This is earlier than the Mercury recommended replacement period of ten years.

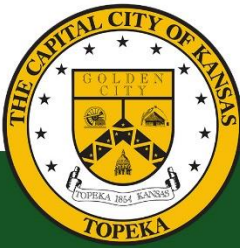


Data Request from December Public Works Infrastructure committee meeting

At the December Infrastructure Committee meeting, committee members raised questions regarding what types of vehicles makeup the City’s current fleet. The chart included below shows the current breakout of our light and mid-size vehicles separated by Police Department vs balance of the City. Currently, 27% (88 out of 328) of the citywide fleet is comprised of sedans. Based on the feedback from departments, a large number of the sedans have the potential to be shifted into SUV or Trucks going forward if that is the direction given.

Type	Non PD	PD	PD Patrol	Total	% TTL
Truck	148	7	5	155	47%
Van	30	2	3	32	10%
Sedan	35	53	12	88	27%
SUV	14	39	89	53	16%
Total	227	101	109	328	100%

² Fleet Replacement Practices 2015 Mercury Report



Current Lease Exploration Status

Staff is collecting a wide range of information to develop a comprehensive analysis of a potential lease program. We are still targeting to provide a recommendation by late spring.

Financial Analysis

- Working to identify the list of assets that would be potential candidates for a light/mid-size lease program
 - Fleet Division has worked with City departments, non-emergency, to review the sedans in our current fleet to determine if the potential for a SUV or Truck would meet the needs of the department based on the financial analysis Enterprise has provided
 - Enterprise has received a list of these assets and is working on updating their recommendations to reflect the potential shift of vehicle types to determine the impact on the fleet in total
 - To understand which Police assets are potential candidates, highly customized assets are typically not strong candidates for a lease program, Fleet Division has received the list of Police assets based on equipment level to provide recommendations against
 - 33 Standard
 - 46 Minimal Equipment
 - 102 Fully equipped front line
- Reviewing the two Leasing Cost Worksheets from Enterprise
 - Received F150 pricing sheet to compare with our current fleet assets, included in the blow update
- Developing a model to compare costs across leasing, bonding, and cash funding
 - Leverage the new model in the Cost of Funding analysis (starting on page 5 of this memo) to review the full cost of each option

Contract Analysis

- Reviewing the Sourcwell purchasing agreement to ensure it aligns with our procurement policies
 - Confirmed that Sourcwell is a state agency that utilizes competitive bidding and is in compliance with the City’s competitive bidding process requirement
- Received the standard contracts from Enterprise and Legal continues to work with Enterprise during the contract review process

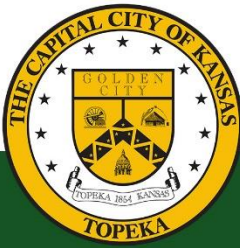
Enterprise Leasing Cost Examples – December PWI Update

We received two cost sheets from Enterprise to better understand their financial modeling, Malibu and GMC Sierra. One key component that is still missing from these two examples is the cost the City would pay independent of Enterprise. We currently do not have a contract we would use to purchase these two vehicle models.

The primary contract we source vehicle types from is the State contract with Ford. For a base comparison point, the table below shows the discount the City would receive from this contract for an F-150 and Fusion.

State Contract - Ford		
	F-150	Fusion
MSRP	28,940	25,695
State Contract	21,003	17,069
Discount	27.4%	33.6%

Enterprise’s model is built with the principle of optimizing the cost of ownership tied closely to the estimates of the resale value based on the used car market. Based on the current used car market they were recommending two different terms based on the current market for cars (60 month term) vs trucks (12 month term).

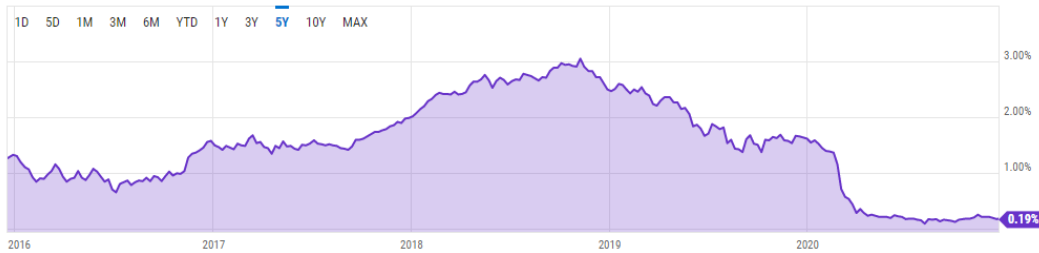


Key Metrics

- Purchase Cost: Capitalized cost after all rebates and incentives plus a \$200 delivery fee
- MSRP: Manufacturer's Suggested Retail Price plus destination charge
- Management Fee: .10% of invoiced price before rebates
- Interest: 3 year treasury note + 350 basis points³
- Est. Resale Value: based on Enterprise's projections of the used car market

Interest is locked in at the time of lease initiation for the term period. The interest base is the 3 year Treasury note, which is currently at historic lows, plus a set 350 basis points (3.5%). December beginning of month (BOM) was a .22% rate compared to 1 year ago at 1.63%. The below table and chart show the trend over the last 5 years.

3-Year Treasury Rate ⁴					
	2016	2017	2018	2019	2020
Dec BOM	1.45%	1.90%	2.84%	1.63%	0.22%

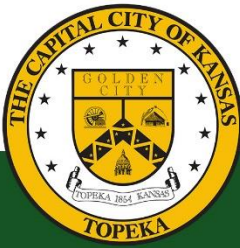


For the Malibu the net cost over the five year term would be \$9,815. For the GMC Sierra the net gain over the 1 year term would be \$1,740. This is attributed to the high resale value of trucks against the highly discounted rate at which the City can purchase them. The breakout of fees are below:

Chevy Malibu				GMC Sierra			
Purchase Cost	18,763	MSRP	24,201	Purchase Cost	25,079	MSRP	35,745
Lease Term	60 Months	Discount	22.5%	Lease Term	12 Months	Discount	29.8%
	Monthly	Annual	Term Total		Monthly	Annual	Term Total
Monthly Payment	303	3,636	18,180.00	Monthly Payment	446	5,349	5,349.00
- Principle Amount	234	2,805	14,023	- Principle Amount	339	4,063	4,063
- Management Fee ¹	23	280	1,402	- Management Fee ¹	35	415	415
- Interest ²	46	551	2,755	- Interest ²	73	871	871
Term End				Term End			
Balance on Principle	4,740			Balance on Principle	21,016		
Lease Term Fee	395			Lease Term Fee	395		
Est. Resale Value ³	(13,500)			Est. Resale Value ³	(28,500)		
Cash from Resale	(8,365)			Cash from Resale	(7,089)		
TTL Payments over Term	18,180			TTL Payments over Term	5,349		
Net Cost	9,815			Net Cost	(1,740)		
	52%				-7%		

³ Applied using the rule of 78's

⁴ YCharts.com



Enterprise Leasing Cost Examples – Current Update

Enterprise has provided pricing sheets for a Ford F-150 and Traverse to show as comparable models based on the State contracted pricing. Similar to the GMC Sierra, the F-150 shows a net positive at the end of the 12 month period and the Traverse is estimated at a neutral cost.

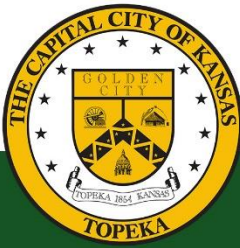
F150				GMC Traverse			
Purchase Cost	25,228	MSRP	36,195	Purchase Cost	27,307	MSRP	35,061
Lease Term	12 Months	Discount	30.3%	Lease Term	12 Months	Discount	22.1%
	Monthly	Annual	Term Total		Monthly	Annual	Term Total
Monthly Payment	439	5,266	5,266.08	Monthly Payment	487	5,844	5,844.00
- Principle Amount	341	4,087	4,087	- Principle Amount	383	4,593	4,593
- Management Fee ¹	35	415	415	- Management Fee ¹	34	402	402
- Interest ²	64	764	764	- Interest ²	71	849	849
Term End				Term End			
Balance on Principle	21,141			Balance on Principle	22,714		
Lease Term Fee	395			Lease Term Fee	395		
Est. Resale Value ³	(29,500)			Est. Resale Value ³	(29,000)		
Cash from Resale	(7,964)			Cash from Resale	(5,891)		
TTL Payments over Term	5,266			TTL Payments over Term	5,844		
Net Cost	(2,698)			Net Cost	(47)		
	-11%				0%		

Cost of Funding

To understand the cost of leasing we have worked with our Financial Advisors to lay out a base comparison of the cost of leasing, bonding, and cash funding for the models above. There are a number of assumptions that are included in both Enterprise's leasing model as well as the cash/bond models that are subject to change. For example, currently, all time low interest rates are magnified by the used car resale market being particularly high that is yielding very favorable results in the below models that are likely to change within the relative future.

To do the comparisons we made the below assumptions in the cash and bond models:

- Purchase price of GMC and Chevy models estimated at 25% off MSRP – would have to bid for actual cost
- Purchase price of F-150 estimated with 27% discount rate, in line with the State Contract
- Resale for bond/cash options is assumed with 5% less return due to assumed ability for Enterprise to sell at higher rate per their used car sales platform
- Cash investment rate (opportunity cost) estimated at an average of .25% over a 5 year period
- Bond Terms mirror Lease Term recommendations from Enterprise to optimize resale value



CITY OF TOPEKA

Department of Public Works
620 SE Madison Street
Topeka, KS 66607

	Purchase Price	Principal	Interest & Fees	Opportunity Cost	Resale	Book Value	Net Cost	Annual Cost
Chevy Malibu - 60 Month Term								
Lease through Enterprise	18,963.00	14,023.00	4,552.00		13,500.00	4,740.00	(9,815.00)	3,636.00
GO Bond Financing	18,150.75	18,150.75	\$520.72		12,825.00	-	(5,846.47)	3,734.29
Cash Purchase	18,150.75	18,150.75		226.88	12,825.00		(5,552.63)	45.38
GMC Sierra - 12 Month Term								
Lease through Enterprise	24,878.65	4,062.72	1,681.28		28,500.00	21,015.93	1,740.07	5,349.00
GO Bond Financing	26,808.75	26,808.75	475.60		27,075.00	-	(209.35)	27,284.35
Cash Purchase	26,808.75	26,808.75		32.17	27,075.00		234.08	32.17
GMC Traverse - 12 Month Term								
Lease through Enterprise	27,107.00	4,593.00	1,646.00		29,000.00	22,714.00	47.00	5,844.00
GO Bond Financing	26,295.75	26,295.75	466.50		27,550.00	-	787.75	26,762.25
Cash Purchase	26,295.75	26,295.75		31.55	27,550.00		1,222.70	31.55
F150 - 12 Month Term								
Lease through Enterprise	25,028.00	4,087.00	1,574.08		29,500.00	21,141.00	2,697.92	5,266.08
GO Bond Financing	26,277.57	26,277.57	466.18		28,025.00	-	1,281.25	26,743.75
Cash Purchase	26,277.57	26,277.57		31.53	28,025.00		1,715.90	31.53

The GO Bond Financing examples included in the above model are not in line with our current debt policy as we do not currently bond for assets under \$125k or 10 year life.

Next Steps

Facilities Division is working closely with the different impacted departments and functions to analyze the impacts of a lease program for the City of Topeka. An effective fleet management program cannot be a one size approach or a set it and forget it program, as illustrated with the two examples from within our current fleet. The City of Topeka has a wide range of fleet assets that are used in a variety of ways across different departments many with unique outfitting requirements.

For a lease program, there are still many considerations from both a contractual and risk perspective that need to be evaluated to determine the viability of a such a program to ensure the City does not enter into an agreement that is not in its best interest.

Staff will be taking the information that is being gathered as part of the process along with feedback provided from this committee and continue work on the development of a recommendation for a fleet replacement program.