CITY OF TOPEKA

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

Date: December 21, 2020

To: Brent Trout, City Manager
From: Hannah Uhlrig, Deputy Director of Public Works

Re: Fleet Lease Program Update

Today's update to the Public Work's Infrastructure Committee meeting will consist of presenting data from the requested review of our assets within the framework of the Economic Theory of Vehicle Replacement, current items in process for the Enterprise Lease exploration, and an example of Enterprise's costs for two different vehicles.

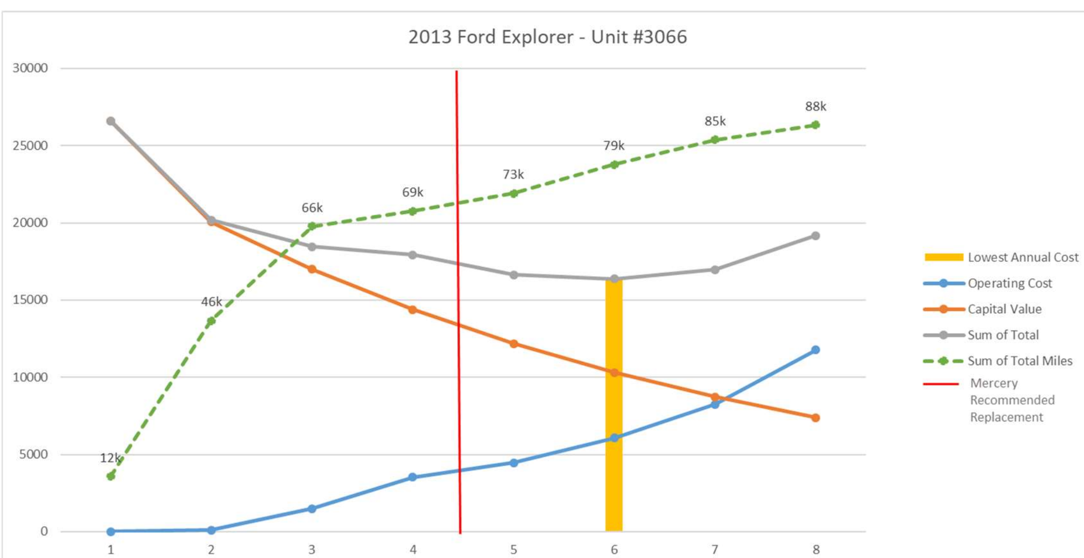
<u>Request from November Public Works Infrastructure committee meeting</u>

We pulled two examples of existing vehicles in our fleet to showcase the point in which the lowest annual cost occurred for these specific assets. Two examples were selected randomly from the list of vehicles that are seven years or older. Both examples illustrate the need for individual assessments as part of a replacement program by a fleet specialist, as 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 below chart shows the capital value, operating cost (repairs & maintenance), total cost, and millage by year. Per the economic theory of vehicle replacement[1], which was discussed at the November PWI committee meeting, the ideal replacement period would occur during year six. This is later than the Mercury recommended replacement period of four years. The City's Police Department maintains a practice of rotating patrol vehicles out of the patrol unit typically, between year 2 and 3 resulting in the mileage decreasing in year 3. For general use, the Mercury report recommends a ten years or 110,000 miles for SUV class vehicles.



[1] Fleet Replacement Practices 2015 Mercury Report

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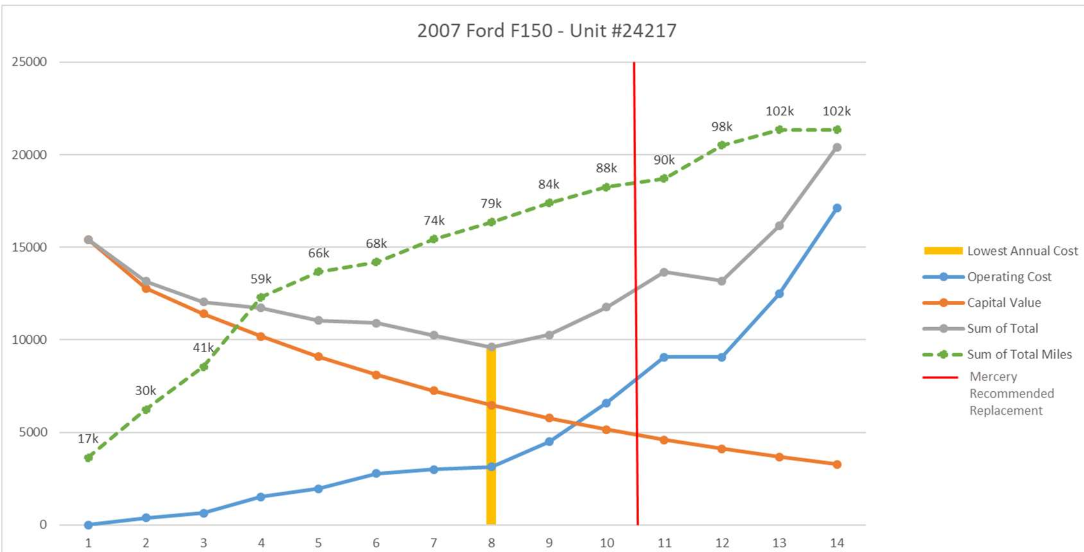
The second vehicle selected is a 2007 Ford F150 with the Street Department (unit 24217).

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

The below chart shows the capital value, operating cost (repairs & maintenance), total cost, and millage by year. Per the economic theory of vehicle replacement[2], which was 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.



Current Lease Exploration Status

Staff is working on collecting a wide range of different pieces of information that are needed to compile a comprehensive view 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
- Reviewing the two Leasing Cost Worksheets from Enterprise for a Chevrolet Malibu and GMC Sierra 1500
    - Awaiting to receive a pricing sheet for a F150 to compare with our current fleet assets
- Developing a model to compare costs across leasing, bonding, and cash funding
    - Inclusive of cost of exit analysis

Contract Analysis

- Reviewing the Sourcewell purchasing agreement to ensure it aligns with our procurement policies
- Received the standard contracts from Enterprise and sent to Legal with feedback from C&P and notes received from our Financial Advisor for review

[2] Fleet Replacement Practices 2015 Mercury Report

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Enterprise Leasing Cost Examples

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 could the City would pay independent of Enterprise. We currently do not have a contract we would purchase off of for the two models they provided us.

The primary contract we source vehicle types off of is the State contract with Ford. For a base comparison point, the table below shows the discount we can leverage off of 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%*

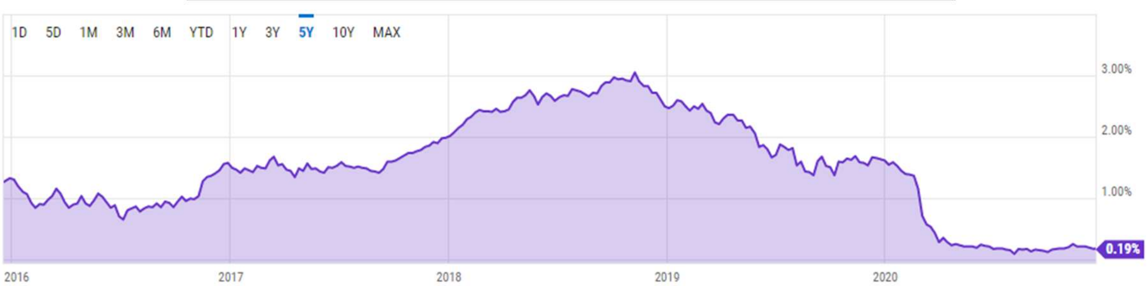
Enterprise's model is built with the principle of optimizing the cost of ownership tied closely to the estimates of the resale value based on the used car market. With this model, they were recommending two different terms based on the current market for cars vs trucks.

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 points[3]
- Est. Resale Value: based on Enterprise's projections of the used car market

Interest is locked in at the time of lease for the term period. The interest base is the 3 year Treasury note, which is currently at historical lows, plus a set 350 basis points (3.5%). December 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 5 year term would $9,553. The breakout of fees are below:

[3] Applied using the rule of 78's
[4] YCharts.com

Malibu			
Purchase Cost	18,963	MSRP	24,201
Lease Term	60 Months	*Discount*	*21.6%*
	Monthly	Annual	Term Total
Monthly Payment	299	3,583	17,917
- Principle Amount	*237*	*2,844*	*14,222*
- Management Fee[1]	*24*	*283*	*1,414*
- Interest[2]	*38*	*456*	*2,281*
Term End			
Balance on Principle	4,741		
Lease Term. Fee	395		
Est. Resale Value[3]	(13,500)		
Cash from Resale	(8,364)		
TTL Payments over Term	17,917		
Net Cost	9,553		

For the GMC the net gain over the 1 year term would $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:

GMC			
Purchase Cost	25,079	MSRP	35,745
Lease Term	12 Months	*Discount*	*29.8%*
	Monthly	Annual	Term Total
Monthly Payment	446	5,349	5,349
- Principle Amount	*339*	*4,063*	*4,063*
- Management Fee[1]	*35*	*415*	*415*
- Interest[2]	*73*	*871*	*871*
Term End			
Balance on Principle	21,016		
Lease Term. Fee	395		
Est. Resale Value	(28,500)		
Cash from Resale	(7,089)		
TTL Payments over Term	5,349		
Net Cost	(1,740)		