

Vehicle Leasing Options

Transportation, Technology, and Infrastructure
Committee

October 1, 2020



Finance & Fleet Management Departments

Victor Ayres, Director – Fleet Management

Melissa Dubowski, Deputy Director - Finance

Agenda



- **Overview**
- **Common Types of Leases**
 - Open-End (TRAC) Lease
 - Closed-End Lease
 - Finance (Capital) Lease AKA \$1Buyout
 - Municipal Lease
- **Which Vehicles to Lease?**
 - Light Duty
 - Medium/Heavy Duty
- **Purchasing & Leasing Process**
- **What are other cities doing?**
- **Leasing experience**
- **Where does the money come from?**
- **Takeaways**
 - Leasing
 - Ownership
- **Proposal**



Overview



For FY2021 budget, amendment 6.05 was adopted which read:

The City shall review a plan to begin leasing vehicles instead of purchasing them. The vehicles shall include but not be limited to large apparatuses such as ladder trucks (HFD), ambulances (HFD), patrol vehicles (HPD), trash/recycling vehicles (SWMD). A presentation shall be made to the Transportation, Technology, & Infrastructure Committee within 120 days



Common Types of Leases

- Open-End (TRAC) Lease
- Closed-End Lease
- Finance(Capital) Lease
- Municipal Lease





Common Types of Leases

Open-End (Terminal Rental Adjustment Clause - TRAC) Lease

- Flexible mileage terms
- Flexible ownership; city may continue to lease or pay-off balance
- Lease is based on residual value of vehicle
 - Example: contract term includes residual value of \$18K.
 - If vehicle value higher ~ residual applied to next lease or lessee gains
 - If less ~ balance is due, lessee has option of purchasing vehicle or re-leasing with new terms
- Resale value is dependent on vehicle condition and market condition.

Common Types of Leases



Closed-End Lease

- Restricted mileage terms
- Excessive wear and tear and early termination penalties
- Can return the vehicle without any financial obligation
- No residual value risk



Finance (Capital) Lease

The title is transferred automatically to lessee upon \$1 payment by lessee at end of term

- High monthly payments as full cost of vehicle is amortized over the lease term & there is a \$1 residual value.



Common Types of Leases

Municipal Lease

- Available for states and their political subdivisions and non-profit organizations with a sponsoring governmental unit
- Flexible terms; lease to ownership plan
- Low interest rates since the lessor is eligible for an income tax exemption on the interest earned from municipal lease
- Includes a non-appropriation clause that specifies that the lease can be terminated if funds are not available in subsequent fiscal years



Which Vehicles to Lease?

- **Light Duty Vehicles**

- Cars, vans, SUV's, pickup trucks
- Treated as near commodity
 - Large market demand for used vehicles from general public
 - Modifications/customization may increase/decrease value





Which Vehicles to Lease?

- **Medium/Heavy Duty Vehicles**
 - Application specific
 - Typically highly customized
 - Generally have a limited resale market which impacts resale potential

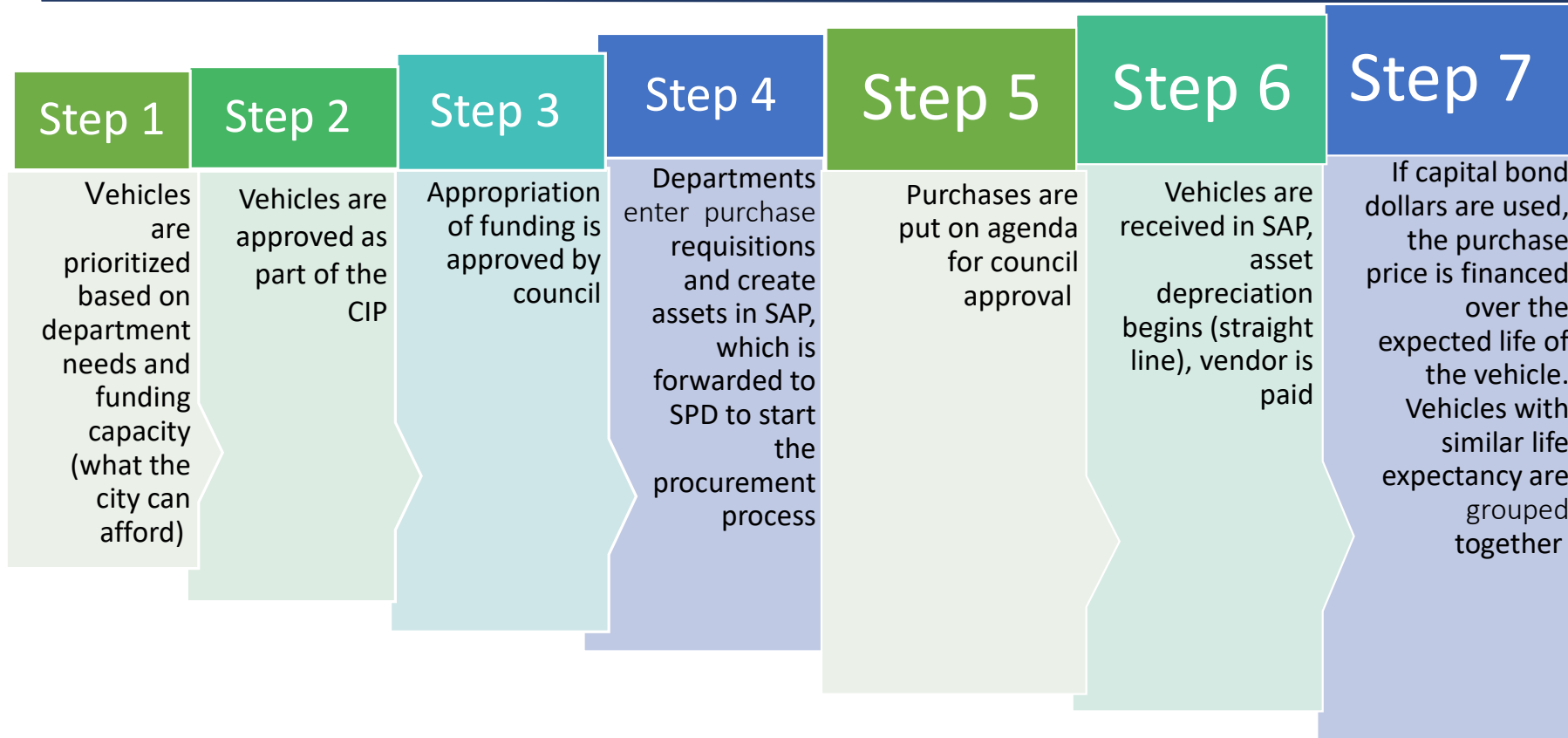


Lease vs. Buy





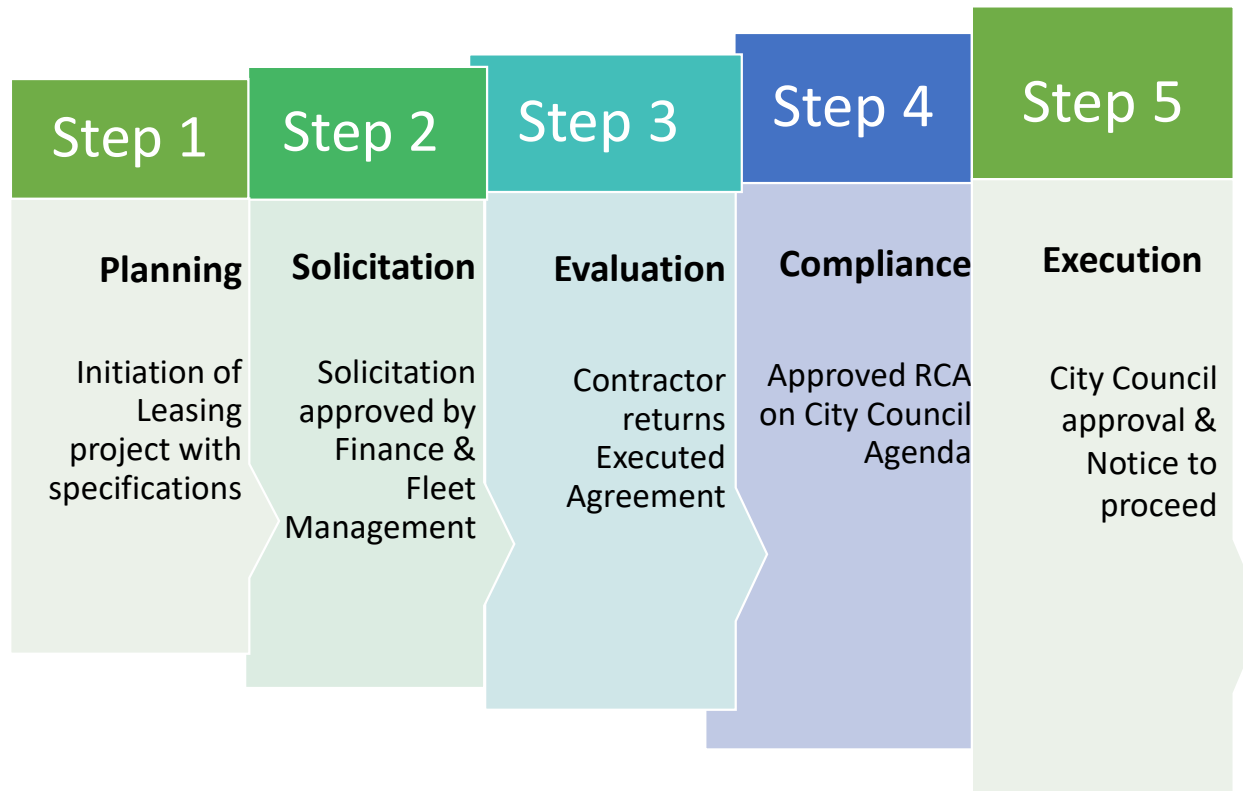
Vehicle Purchasing process



Process can take 12-18 months to complete dependent on vehicle type



Vehicle Leasing Process

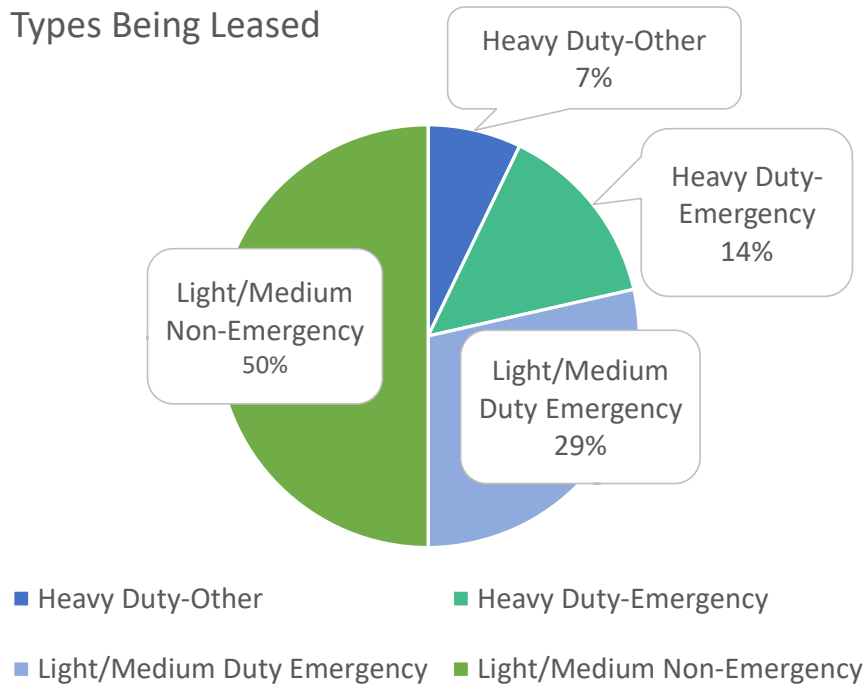


- **Initial process may take approximately 9 months to complete; upon renewal the process is streamlined**
- **Once contract is in place it becomes order to delivery schedule**



What are other cities doing?

Vehicle Types Being Leased



- Number of surveys distributed: 22
- Actual number of Survey Participants: 13
- Majority of leased vehicles were for Light/Medium Duty.
- Larger cities leasing is not a standard practice for fleet management.

Survey Participants



- Los Angeles, CA
- San Antonio, TX
- Memphis, TN
- Montesano, WA
- Orange, TX
- Oak Park, IL
- West Jordan, UT
- Harris County, TX
- Nampa, ID
- Sedona, AZ
- The Woodlands Township, TX
- Dallas, TX
- State of Washington

What are other Cities doing?



- Average lease terms greater than 24 months
- 78% of responding entities leasing vehicles were small government entities (under 116K population)
- Similar size cities typically only do short-term leases for special circumstances based on departmental needs





Experience with Leasing

Current Lease Agreement

- City has a current light duty vehicle leasing contract with EAN Holdings, LLC (Enterprise Leasing)
- Mainly used month-to-month by HPD in high sensitivity operations
- Cost range: - \$6,400/yr for Compact Sedan to \$10,200/yr for full size SUV



Experience with Leasing

SWM trucks

January 2019, leased 8-rear loader garbage trucks to supplement the aging fleet pending arrival of new trucks. Cost for each truck:



SWMD LEASING EXPERIENCE FY2019 - FY2020	
Rear loaders monthly cost	\$ 6,800.00
Payments Annualized	\$ 81,600.00
Avg Transportation Cost	\$ 2,175.00
Avg maintenance cost paid by city	\$ 6,753.00
Avg charges at end-of-lease*	\$ 1,208.00
Annual cost	\$ 91,736.00

**Other charges include - accident, wear and tear to vehicle, e.g., tire tread wear, dents, major scratches, missing parts, etc.*



Experience with Owning

CURRENT COST OF OWNERSHIP LESS FUEL	
Vehicle Cost	\$ 182,500.00
2018-2020 avg resell Value	\$ 1,016.00
Financing Cost @ 1.5%	\$11,113.00
Est Repair Cost 11 years	\$ 386,329.24
Total Cost of Ownership less Fuel	\$ 578,926.24
Annual cost 11 years holding	\$ 57,892.62



NOTE: Average age of vehicle sold is 13 years.

vehicles move from active to reserve in later years



SWMD Rear Loader Own vs Lease

SWMD Vehicle Lease vs Buy Annualized

Lease	\$ 91,736.00
Buy (11-year holding period)	\$ 57,892.62

Ownership

Pros

- Flexibility in funding year to year
- Modify vehicle as necessary
- No restrictions on usage

Cons

- Prone to keeping past vehicle useful life cycle
- Increased maintenance as vehicle ages
- Limited Funding for regular replacement

Leasing

Pros

- newer, reliable vehicles
- Lower maintenance cost for short term leases

Cons

- Cost
- No permanent modifications
- Restrictions on usage
- End-of-lease cost based on return condition

Where does the money come from?

Purchasing

- **Capital Funds**
 - General Obligation bonds funded from City revenues: property tax, sales tax, franchise fees, etc...
 - Bonds roll over from one FY to another.
 - Issued for life of the asset
 - At lowest preferred interest rate.



Where does the money come from?

Leasing

- **Operational funds**
 - Derived from each Fiscal Year budget.
 - Funding does not roll over.



Takeaways: Ownership



Pros

- Ownership allows flexibility in replacement cycle and financing of purchase vehicles
- No restrictions on mileage or modification
- No insurance mandates

Cons

- Significant upfront capital is required to acquire vehicles, can create irregular replacement cycles
- Will incur high maintenance cost as vehicle continues to age
- As vehicle ages larger vehicle reserve needed to meet demands when vehicle break down



Takeaways: Leasing

Pros

- Lower monthly payments, allowing leveraging of dollars
- Minimum maintenance for short term lease
- Newer, safer, and more reliable vehicles

Cons

- Wear and tear, dents, accident repairs increase cost of lease
- Possible restriction on usage
- Financing tends to be more expensive than the City Financing a vehicle purchase
- Increased cost due to possible insurance needed. The City self-insures.
- Vehicles cannot be customized in any permanent way
- Additional cost for make ready and decommissioning of vehicle



Proposal

Light Duty Vehicles

- Find opportunities to lease new vehicles to replace old, light duty, high mileage vehicles which are driven 10,000 to 20,000 miles annually.
- Pilot a lease with EAN(Enterprise) to allow for 1-year Open End lease
 - Utilize ability of buying power of City to capture resale market
 - Will entail some minor financial risk
 - Medium/Heavy Duty Vehicles
 - Continue to buy as leasing has a high financial risk



Questions?