

MEMORANDUM



To: Bladensburg Town Council

From: Michelle Bailey Hedgepeth, Town Administrator

Date: December 6, 2024

Subject: Analysis of Fleet Vehicle Leasing Options and Long-Term Replacement Strategies

Executive Summary

This memorandum provides the Town Council with an update and evaluates two potential fleet vehicle leasing programs: Enterprise Fleet Management and the Ford Municipal Lease Program (hybrid model). It also examines the long-term costs of leasing versus purchasing, replacing vehicles on a prescribed schedule versus deferring replacements, and the dependency on revenue from the General fund, Speed, and Redlight Cameras proceeds.

The Town has traditionally used pay-go funding (or other one-time funding sources) to buy and add vehicles as needed. This has limited the Town's ability to purchase more than a few vehicles yearly.

Public Safety has spearheaded this project because they are the largest Town vehicle user, and the current analysis has been focused on the following factors:

- Updating and replacing much of the current fleet within three (3) to five (5) years.
- Assuming that the same practices that have been used to assign vehicles and allow take-home will be continued
- Focusing new purchasing and replacement on public safety
- The replacement of specific types of vehicles
 - Ford Interceptor
 - Ford F-150
 - Command Vehicle replacement – Tahoe and or like equivalent
 - Other Civilian vehicle – Hybrid /Electric

Public Works purchased and replaced two (2) trucks in FY 2024 and FY 2023. Due to the town's size, our PW vehicles have a more extended replacement period but eventually need to be included in a vehicle replacement fund.

As part of the FY 2025 Budget process, the Town Administrator presented the Council with the concept of developing Vehicle Equipment Replacement Funds. This fund would use a

percentage of funds each year to plan and pay for repairs. This is called an internal service fund (ISF) in many organizations. ISFs charge departments for services and organize expenses across the entire organization. The council could determine seed funding from sources to start the fund. In some ways, this type of funding may need to be considered before embarking on the vendor's immediate acquisition and/ or selection. However, we started the process by looking at a vendor proposal because of the need.

Fleet replacement is unavoidable, and the town's lack of a proactive plan has hindered the replacement process. Over the last few months, I have looked at various studies and what others are doing, but the critical issue is that we staunch the spending of funds on vehicles past their useful service life.

Option 1: Enterprise Fleet Management

Enterprise Fleet Management offers a full-service leasing solution designed to optimize fleet management. Over the last several months, we have met with Enterprise to discuss and review a comprehensive leasing solution.

This is helpful information, but the long-term cost for the Town is at least 150,000 – 200,000 per year for replacement alone. The estimate is also based on the sales of vehicles more frequently and leasing at least six to eight vehicles in the first few years, replacing much of the fleet by year four. This figure is not off-target for the rate and replacement schedule; it is more of a culture shift and allocating significantly more resources to the Police Department. Below is a list of the pros and cons of the Enterprise Fleet Management Program

Pros:

- **Comprehensive Services:** This includes vehicle acquisition, maintenance, and resale services, reducing the administrative burden on Town staff.
- **Improved Predictability:** Provides fixed monthly payments, which improve budget predictability.
- **Fleet Modernization:** Regularly rotates vehicles, keeping the fleet updated and reducing maintenance costs.
- **Enhanced Resale Value:** Enterprise manages vehicle resale, often recovering higher residual values.
- **Fuel Efficiency and Safety:** Newer vehicles improve fuel efficiency and include advanced safety features, reducing liability risks.
- **Partnership and Professional Analysis:** Enterprise will provide staff and Council with a long-term funding model. The planned leases are new one-year terms, so if there are financial emergencies or changes in revenue, the Town could suspend and restart the yearly leasing program.

Cons:

- **Higher Overall and Annual Costs:** Leasing over extended periods may result in higher cumulative costs than outright purchasing. However, due to our needs and limited resources, we may not be able to address the gap in our inventory.
 - **Dependency on Enterprise:** The town has less control over fleet management decisions such as resale timing. For the financial models to be accurate, the Town would need to follow the resale models.
 - **Potential for Service Fees:** Additional costs include accident management or vehicle tracking costs.
 - **Long-Term Funding Concerns:** Is the Town willing to prioritize the fleet project over other long-term capital needs? The Town will need to finance a Bond for the Town Hall, which has significant space needs.
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Option 2: Ford Municipal Lease Program (Hybrid)

The Ford Municipal Lease Program offers lease-purchase agreements tailored to government entities, allowing for eventual vehicle ownership. Ford offers terms of 36 to 72+ months. Several municipalities use This financing mechanism to provide funding alternatives to Pay-go and allow for annual and semi-annual payments. Smaller municipalities have employed this to catch up with their fleet. The Town would work with a dealership that honored the state contract pricing and finance a group of vehicles each year.

This can be thought of as a hybrid model in which the Town would lease vehicles but manage the leasing process itself. For this to succeed, the Town would have to define the leasing terms and sales parameters. So, this would involve more staff work but it may be a good way to start the leasing process and lower the initial payments in the program's first few years. Many pros and cons are the same, but some are slightly different.

Pros:

- **Ownership Option:** The Town retains the vehicles after lease terms, reducing costs in the long term.
- **Flexible Terms:** Interest rates and lease terms can be negotiated, offering budgetary flexibility.
- **Municipal Discount Pricing:** Access to reduced pricing for government agencies, potentially lowering upfront costs.
- **Local Vendor Support:** Supports local dealerships and vendors, keeping economic activity closer to the Town.

Cons:

- **Higher Maintenance Costs Over Time:** As vehicles age, maintenance costs increase, particularly beyond the warranty period. The Town would be responsible as it currently manages the maintenance of its fleet with local repair shops.
- **Resale Coordination:** The Town would need to handle vehicle disposition, which can be time intensive.
- **Less of a Comprehensive package and relationship:** The Ford Municipal Lease would be a financial single transaction. There is no management package associated with the program. Staff is still working with the dealer and may be able to provide an update if there is a more comprehensive program.
- **Budget Volatility:** Lease-purchase payments may be less predictable due to varying maintenance costs as vehicles age.

Option 3: Continue Purchasing Vehicles on Pay-go Basis

Much of this memo discusses the current purchasing method, as it is always an option to continue without changing the model. Below is a chart that compares and contrasts Leasing vs. Purchasing as an option.

Comparison of Leasing vs. Purchasing

•Leasing Pros:

- Lower upfront costs.
- Consistent budget allocation.
- Access to newer vehicles with lower maintenance needs.

•Purchasing Pros:

- Lower overall cost over the vehicle's lifespan.
- Full ownership and flexibility in-vehicle use.
- Retained resale value.

•Leasing Cons:

- Higher cumulative costs if kept long-term.
- No asset ownership. Limited ownership because the Town will be seeking to refresh the inventory of the Town's Fleet to retain lower leasing fees constantly

•Purchasing Cons:

- High initial capital outlay.
- Greater financial risk in fluctuating maintenance costs for older vehicles.

Fleet Replacement Strategies

Municipalities often, either by planning or by default, have two methods of Fleet Replacement. This often is due to budget and the need for more staffing. The town currently operates on a deferred replacement model. When we make purchases, we buy and replace vehicles by need and age. With the ARPA funds, the Town has been able to purchase XX vehicles, and these funds have been used to expand our fleet to accommodate new positions and areas.

Prescribed Replacement Schedule:

•Advantages:

- Keeps fleet modern, reliable, and fuel-efficient.
- Reduces unexpected repair costs.
- Improves safety and reduces environmental impact.

•Disadvantages:

- Higher annual costs for consistent leasing or purchasing new vehicles.



Deferred Replacement:

•Advantages:

- Lowers short-term capital expenditures.
- Maximizes value from existing fleet.

•Disadvantages:

- Increased risk of breakdowns and higher maintenance costs.
- Potential for unplanned budget overruns.
- Lower fuel efficiency and safety standards.

Revenue Dependency Risks | Need for Vehicle Equipment Replacement Fund and Fiscal Policies: The Town's sole reliance on the General fund, Speed, and Red-Light Camera revenue introduces fiscal risks:

- **Pressure on the General fund:** The town's needs are evolving, and our yearly expenses are rising. The Town has ambitions to build a new facility, and this will require debt service even when we secure additional funding from the state and other sources.
- **Camera Fluctuating Revenue:** Changes in driver behavior, regulations, or public attitudes may reduce revenue streams. This has not been seen yet, and the current projects show revenue similar to previous years. The Town has an RFP for Stop Sign enforcement as a possible new revenue source.
- **Mitigation:** Incorporate a conservative revenue estimate for fleet budgeting to prevent overreliance. As part of a mitigation strategy, we will provide the Council with more frequent updates on our capital equipment needs, which will be part of the FY 2026 Budget.

- **Mutually Agreed upon Needs and Priorities:** Staff needs clear Council direction on the Town's financial priorities, which may mean that other areas are not funded. With the current Fleet evaluation, staff have focused on public safety needs.
 - **Vehicle Assignments and Take-Home Vehicles:** The current analysis maintains the current practices and assignments. Changes to the current policies and procedures have not been factored into the estimates and revenue models.
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Next Steps | Recommendations: This memo was developed as information only so that the Council could consider this matter more over the holidays. The timeline for discussing it at the session is January/February 2025. Below are some summary recommendations that the staff is working through.

1. **Leasing Preference as a Financing Model:** The Town may opt for a leasing solution (Enterprise or Ford Municipal Lease) to ensure predictable costs and consistent fleet modernization. Mr. Tinelli will be seeking quotes from Ford Motor Credit so that we can provide the Council with actual numbers for the next step.
2. **Fleet Replacement Schedule:** Council will be asked to adopt a prescribed replacement strategy to reduce long-term maintenance and operational risks. We will engage with the departments, especially the Police, on their needs.
 - The Chief has provided a copy of the upfit requirements for his vehicles, which add 30-40% to the vehicle cost. These items are essential to officer safety. The upfit costs drive up our per-vehicle replacement because many initial replacements are patrol units. The other key issue is that upfitting does not reflect or enhance resale.
 - Enterprise has been provided with the upfitting information for their estimates. With Ford Motor Credit, we may have to pay for upfitting as a separate cost, and this may be better since the items are not permanent fixtures to the vehicle.
3. **Financial Safeguards:** Staff will develop and ask the Council to approve an internal service fund (ISF) model to allocate funds for this project. This may call for changes to the FY 2025 budget. However, this model helps develop the funding sources' capacity to mitigate dependency on fluctuating revenues. Financial policies will guide staff on when to halt or reduce funds to address shortfalls or windfalls.
4. **Vendor Selection:** Over the coming months, staff will provide detailed proposals from Enterprise and Ford Municipal Lease, considering service offerings, cost, and Town needs.
5. **Legal Review:** Staff asked the Town Attorney about the lease process and other towns' actions. She confirmed that leasing is the only financing method for municipalities since bonding is the only way to issue debt officially. So, the town can not finance cars like consumers and businesses can.
6. **Additional Council Input:** If a subject or matter has not been addressed in this memo, please let me know so that staff can provide further information.

Conclusion: Both leasing options present advantages and challenges. Given the Town's fiscal constraints and dependency on fluctuating camera revenues, the leasing strategy offers a balance of predictability and operational efficiency, provided financial safeguards are in place. This memo has been provided as an informational supplement to the Council. Town staff has reviewed and provided feedback on this memo.

Respectfully submitted,

Michelle Bailey Hedgepeth
Town Administrator