GRAND RAPIDS
PUBLIC UTILITIES COMMISSION
AGENDA ITEM

AGENDA DATE: March 13, 2024

AGENDA ITEM: Review fleet vehicle leasing program with Enterprise Fleet Management

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BACKGROUND:

GRPU currently has 24 vehicles in its fleet. Twelve of these vehicles are non-specialized light-heavy duty trucks. GRPU has historically purchased these light trucks as part of the annual capital budget and utilized them past their useful life. Upon replacement, the utility has received very low sale value through selling outright or auctions. This has been the past practice historically for many governments, including utilities.

The option to lease vehicles has been available in the past, yet in recent years equity leasing fleet vehicles has become a viable option for governments. This is due to car rental companies having developed leasing programs which are tailored for governments. These include streamlined acquisition (per Minnesota bid laws); financing plans; fuel programs; maintenance programs, vehicle resale, aftermarket vehicle customization; and license, title and registration features.

The lease is an "open-end lease" which is different from the traditional vehicle lease programs (closed-end leases). An open-end lease provides for equity lease, flexible terms, no mileage restrictions, no abnormal wear & tear clauses, lessee is responsible for book value at term; lessee keeps vehicle equity at term.

GRPU managers have discussed a vehicle lease program for the GRPU non-specialized light-heavy duty trucks with Enterprise Fleet Management. The City of Grand Rapids is already using a vehicle leasing program with Enterprise Fleet Management and GRPU would be considered a department under the City of Grand Rapids leasing program.

For an open-end lease program to be effective and financially advantageous, GRPU will need to commit to a vehicle leasing program for 10 years and agree to sell used vehicles when the lease program determines it is the best time financially for that sale. Which means a vehicle may only have been in the GRPU fleet for one or two years and the program determines it should be sold financially to reap the resale value and replaced it with a new vehicle. This is a different concept for managing a government fleet vehicle program than has been historically past practice.

Key reasons for GRPU to enter an open-end equity lease program is (1) lower average age of the fleet; (2) reduce operating costs – new vehicles have lower maintenance costs; (3) maintain a manageable vehicle budget which eliminates budgeting peaks/valleys to a consent annual budget amount; (4) increased safety; (5) better mileage; and (6) program includes buying from the state bid list (pricing) and selling the used vehicles.

GRPU has the option of exiting the lease program at any time with only the agreed lease payments as outstanding obligations.

The fee for Enterprise to manage the program is 0.10 fixed fee of each lease. Terms of the lease are determined by the lessee, yet Enterprise will recommend based on type of vehicle, use of vehicle and expected miles. For example, a ½ ton pickup which is driven approximately 20,000 miles with a 60-month term. The value of the lease is based on the residual value Enterprise places on a specific vehicle. Using above example, a ½ ton pickup costing $30,000 would have a residual value of $10,000 which would be the value of the lease.

Committing to the lease program (10 years) could yield GRPU savings of $14,000 by consistently renewing vehicles with an average fleet age of 2.5 to 3 years while maintaining a steady annual budget. The lease terms are defined by Enterprise based on type of vehicle and estimated usage (miles) yet there is no penalty for over mileage. The value of the lease is the difference between the price of the vehicle and the reduced book value. For example, if a new vehicle at time of lease was valued at $40,000 and the reduced book value determined by Enterprise was $15,000 with a lease term of 60 months then the lease payment would be $25,000/60 = $416.66/month ($4,999.92/year).

GRPU fleet vehicle maintenance has averaged $14,404 over the past five years with the last three years average of $16,356, supporting the cost of maintenance is increasing as the fleet vehicles get older.

How would GRPU manage customization of vehicles (boxes other)? The managers would make appropriate decisions on the total cost of adding any special equipment/customization. These customizations can be costly and may cause these vehicles to be kept a bit longer with a lower equity value upon sale. Because some of the vehicles in the GRPU fleet have extensive additions to the chassis, they may never be part of this program.

GRPU has identified improved safety with new vehicles. Per the National Highway Traffic Safety Administration, new vehicles safety items are continuing to be upgraded. These include equipment and technology, seat belts, air bags electronic stability control, backup camera, blind spot detection, and driver assistance. Hands free communication to GRPU cell phones is also available in some vehicle models.

Enterprise would purchase the vehicles on a fleet purchase, which would entitle them to the highest warranty option available. Most manufacturers typically offer lower warranties for retail buyers, but when buying through a fleet or state bid, they would qualify for the highest warranty available which will provide better coverage for GRPU.

Replacement of a GRPU fleet vehicle (swapping). Fleet vehicles do not need to be swapped with new vehicles until the new vehicle is ready for service (i.e. after the special equipment has been swapped or new parts installed).

The GRPU vehicle insurance would be the primary insurance coverage for the leased vehicles per the lease agreement. The LMCIT would cover the damages to any leased fleet vehicle. with GRPU paying the deductible amount. If the leased fleet vehicle damages were considered a total loss, then the amount of payoff value is the remaining balance of the lease.

GRPU has contacted peer cities with the following comments. Brainerd spoke positively, especially having new vehicles with a stable budget amount and someone else to who sells the used vehicles. Plymouth has a large fleet of vehicles and spoke positively about having new vehicles, stable budget, increased safety in vehicles, and lower costs for administering purchasing and disposing of fleet vehicles.

The 2024 approved operating budget has $90,000 for lease payments and vehicle repairs for the three utilities.

With new vehicles, maintenance required on the GRPU fleet would diminish, which would impact labor workload with the City of Grand Rapids maintenance crew. However, the Public Works Director said that there is plenty of work for them with their large fleet vehicles and mowing equipment.

RECOMMENDATION:
Review fleet vehicle lease program with Enterprise Fleet Management and receive feedback.