

VILLAGE OF HOMEWOOD



BOARD AGENDA MEMORANDUM

DATE OF MEETING: October 8, 2024

To: Village President and Board of Trustees

Through: Napoleon Haney, Village Manager

From: Amy Zukowski, Finance Director

Topic: 2024 Lease Agreement for Vehicles and Equipment

PURPOSE

Since 2014, the Village has utilized tax-exempt leasing to finance a variety of vehicles and equipment. Municipal leasing to finance larger and costly equipment and vehicle purchases allows the municipality to spread the cost of paying for the equipment over a more appropriate level of time. Leasing ensures that the municipality is able to keep more cash-on-hand to fund other day-to-day operations; versus expending a large amount of cash at one point in time. The financing arrangements better enables staff to budget, forecast expenses, and purchase a larger volume of new replacement equipment and vehicles. Approval of a lease agreement for \$600,000 will allow Public Works to upgrade and replace seven (7) vehicles and needed equipment.

PROCESS

Leasing for municipalities means that municipal governments pay lower interest rates than the general public due to their tax-exempt status. Tax-exempt municipal leasing offers the Village an attractive financing option to fund various projects and purchase assets. Some advantages that tax-exempt leasing provide are:

- Cash flow management – The Village is able to distribute costs over time, which avoids large upfront expenditures that can strain budgets.
- Lower overall costs – Tax-exempt lease payments are not subject to sales or property taxes.
- Take advantage of current pricing – Equipment and vehicle costs are increasing every year. By purchasing the equipment and vehicles today, the municipality will save money, versus waiting to purchase in two or three years, as full funding becomes available.
- Fixed payments – Annual fixed payments make it easier to budget and forecast expenses.
- Favorable terms – The Village receives lower interest rates.
- Flexibility – The Village will own the assets at the end of the lease term.

2024 Leasing Program

During the fiscal year 2024-2025 budget process, two (2) large Public Works trucks; an aerial lift truck and a plow truck, were approved to be purchased and paid for through a lease agreement. The total budgeted amount for the two trucks was \$140,000.

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The aerial lift truck is currently available for purchase; however, the plow truck is not immediately available and requires up to a two-year wait period. During discussions with Public Works, Finance asked if there were other needed vehicles and equipment that could be purchased now, in place of the plow truck. Public Works was able to provide six (6) other assets that are due for replacement.

Financing will be used to provide the funding for a total of seven (7) vehicles and equipment that Public Works has identified as past their useful life and due for replacement. The total cost of these seven (7) assets is approximately \$600,000. Bundling these vehicles and equipment into one lease makes it more attractive to the leasing companies.

Department/Division	To Be Replaced	Replacement
Public Works	2001 Aerial Lift Truck	2024 Freightliner Aerial Lift Truck
Landscape & Maintenance	2010 Ford F450 Dump Truck	*2024 Ford F550 and upfitting
Public Works	1984 Onan 30 Kw Towable Generator	2024 Kohler Towable Generator 120Kw
Police - CIU	2016 Ford Utility	2024 Ford Police Interceptor and upfitting
Building Maintenance	2017 Chevrolet Silverado	*2024 Ford F250 and upfitting
Street Supervisor	2016 Ford Utility	2024 Ford Interceptor and upfitting
Street	1995 Ingersoll Rand DD24 Roller	2024 Volvo DD35B

**Local Purchasing of Vehicles*

Public Works still plans to allow for our local dealerships to “meet or beat” our vehicle purchases for certain vehicles like the 2024 Ford F550 and the 2024 Ford F250. Our local dealership explained that it is impossible for them to “meet or beat” the costs for police vehicles because the vehicles come directly from the manufacturer to the specific dealership that specializes in police fleet inventory.

Leasing Process

Village staff reached out to six (6) financing institutions for quotes on rates and financing charges over a five-year period. Four (4) quotes were received.

Leasing Companies	Interest Rate	Estimated Financing Charge
BMO Harris Bank	4.110%	\$49,279.71
American Capital	4.562%	\$54,145.60
Tax Exempt Leasing Corporation	4.950%	\$58,740.27
Wintrust	5.150%	\$61,106.57

Enterprise also provided a quote but was not included as their model includes outsourcing the Village’s fleet.

BMO provided the lowest interest rate and financing charge over the five-year period. The annual payment would be \$129,855.94, which is less than the budgeted total of \$140,000.00. This

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annual “lease payment” amount will be budgeted every year in the Village’s general operation budget until the lease is fulfilled.

Once the leasing agreement and all documentation is completed, BMO will fund an escrow account for \$600,000 that the Village will be able to draw upon as Public Works brings the assets to the Board of Trustees for approval. After all purchases are complete, if there are any funds remaining in the escrow account, they will be returned to the Village.

Future Leasing

Staff plans to create and draft a more formal lease policy to bring to the Board of Trustees to guide future financing.

OUTCOME

Once the lease agreement with BMO Harris Bank is approved, subject to the Village Attorney’s review, the Village will be able to finance approximately \$600,000 worth of vehicles and equipment to update the Village’s fleet as recommended by Public Works and will assist the Village in managing cash flow effectively.

FINANCIAL IMPACT

- **Funding Source:** General Fund
- **Budgeted Amount:** \$140,000
- **Cost:** \$129,855.94

LEGAL REVIEW

Under Review

RECOMMENDED BOARD ACTION

Authorize the Village President to enter into a lease agreement between the Village and BMO Harris Bank for the Village’s 2024 lease program, subject to the Village Attorney’s review, which will provide for the replacement of seven (7) vehicle/equipment assets that are past their useful life and will assist the Village in managing cash flow effectively.

ATTACHMENT(S)

None