



*City of Arts & Innovation*

# City Council Memorandum

**TO: HONORABLE MAYOR AND CITY COUNCIL**      **DATE: DECEMBER 14, 2021**

**FROM: GENERAL SERVICES DEPARTMENT**      **WARDS: ALL**

**SUBJECT: MASTER EQUITY LEASE AGREEMENT WITH ENTERPRISE FLEET MANAGEMENT, INC. FOR A PILOT VEHICLE REPLACEMENT PROGRAM IN THE TOTAL AMOUNT OF \$1,265,248.83 FOR A FOUR-YEAR TERM PLUS 15% CHANGE ORDER AUTHORITY UP TO \$189,787.32 FOR A TOTAL AMOUNT OF \$1,455,036.15.**

## **ISSUE:**

Approve a Master Equity Lease Agreement with Enterprise Fleet Management, Inc. for a pilot vehicle replacement program in the total amount of \$1,265,248.83 for a four-year term plus 15% change order authority up to \$189,787.32 for a total amount of \$1,455,036.15.

## **RECOMMENDATIONS:**

That the City Council:

1. Approve the Master Equity Lease Agreement with Enterprise Fleet Management, Inc. for a pilot vehicle replacement program in the amount of \$1,265,248.83 for a four-year term;
2. Authorize 15% change order authority up to \$189,787.32 for vehicle cost inflation for a total amount of \$1,455,036.15; and
3. Authorize the City Manager, or his designee, to execute the Master Lease Agreement and vehicle quotes with Enterprise Fleet Management, Inc., including making minor and non-substantive changes.

## **BACKGROUND:**

The General Services Fleet Management Division oversees the replacement and maintenance of light-duty vehicles. These vehicle classifications range from sedans to specialty light and medium duty trucks that are utilized by various departments. Currently, 55% of the City's light-duty fleet is over 10 years old and as a result, the annual maintenance and operating costs exceeds the residual value of the vehicles and qualify for replacement.

Fleet Staff has evaluated alternative vehicle replacement programs that could potentially result in cost savings as well as facilitate the transition to a newer fleet. As a result of this analysis, staff

discovered several other municipalities have implemented vehicle replacement lease programs. These public agencies have opted to utilize short term leases and capitalize on the residual resale value at the end of the term. These lease programs have resulted in substantial cost savings by significantly reducing the age of the fleet, which in turn leads to reduced maintenance costs, warranty coverage that covers the majority of the lifecycle, the most up to date safety features, and increased fuel efficiency. Enterprise Fleet Management, Inc. (Enterprise) has successfully partnered with several municipalities to include but not limited to Corona, Westminster, and San Marcos to implement vehicle lease replacement programs with tangible cost-savings results.

Enterprise Fleet Management specializes in helping various government organizations develop a proactive fleet replacement strategy that identifies the lowest Total Cost of Ownership and optimal vehicle life cycle. The Total Cost of Ownership is defined as the sum of the purchase price of an asset plus operating costs for its lifetime. It is Enterprise's goal to help the City achieve the lowest Total Cost of Ownership for the fleet which can best be expressed using the following:

- ***Acquisition Costs + Maintenance Expenses + Fuel Cost – Resale Value = The Total Cost of Ownership***

The City of Riverside will have all rights of ownership and equity in the vehicle and will benefit from the flexible funding through the municipal Open End Equity Lease structure.

Enterprise provides Open End Leases for light-duty vehicles that typically have a 3-5 year term which will allow the City to fund/pay for the value of the vehicle that is being used and sell the vehicle at the most appropriate time in order to capture the best resale value. This financing mechanism also reduces the initial capital investment as the total vehicle cost does not require full upfront payment at the time of purchase. Additionally, the resale equity will go back to the City either in the form of a check or credit towards the new replacement vehicle, further reducing the capital cost. This establishes a replacement plan that cycles vehicles at the appropriate time which will result in the lowest Total Cost of Ownership, while also avoiding major capital outlays to purchase vehicles outright.

Being that government organizations receive such aggressive incentives from manufacturers on their vehicles, the cost of vehicles is significantly less than for the public retail pricing. Selling these vehicles at the right time through Enterprise will maximize the resale value and the net effect is only a slight increase (sometimes neutral) in the depreciation cost per year. However, fleet maintenance expenses will reduce dramatically with a 5 year or less lifecycle versus a 10+ year lifecycle. Fuel expenses will also decrease as typical with newer vehicles achieving better fuel economy. Ultimately, this leasing model lowers the Total Cost of Ownership versus the current vehicle replacement plan the City is operating under which is retiring light-duty vehicles at 15 years.

## **DISCUSSION:**

The goal of this pilot program is for the City to establish and evaluate a proactive fleet replacement plan to acquire vehicles on a more consistent basis, thus ensuring the most up-to-date safety and fuel efficiency standards. In addition, more frequent replacement would ensure a higher percentage of the fleet would be covered by manufacturer's warranty, increased uptime, and benefit from the remarketing power of a large entity such as Enterprise leasing.

Below are some highlights of this proposed pilot program:

- No mileage restrictions, no abnormal wear and tear, and no early termination penalties.
- The City has all rights of ownership and can up-fit some of the vehicles with aftermarket equipment (utility bodies, toolboxes, etc.)
- Leasing would provide the opportunity to minimize the amount of large capital outlays necessary for purchasing vehicles.

After several meetings with representatives from Enterprise, it was determined that the proposed pilot plan will include an initial replacement of 37 City vehicles through a vehicle leasing program for a four-year term, at a cost of \$1,265,248.83, as outlined below:

Total Number of Leased Vehicles*	37
Down Payment	\$70,432.83
Total Monthly	\$24,892.00
Total Annually	\$298,704.00
<b>Total Over 4 Years</b>	<b>\$1,265,248.83</b>

\*For a detailed table of the 37 vehicles being leased, please refer to Attachment 3.

Enterprise conducted a preliminary analysis of current expenditures combined with total cost of ownership versus the leasing program and the results are an estimated cost savings of \$699,629 over the four-year term.

### Cooperative Pricing

Sourcwell is a national service cooperative created to provide government procurement resources and solutions to members in government, education, and nonprofit sectors. Enterprise Fleet Management, Inc. holds Cooperative Contract #060618-EFM with Sourcwell. The current Sourcwell Contract expires on July 24, 2022 but Amendment #1 states that “Vendor performance, Member Payment obligations, and any applicable warranty periods or other Vendor or Member obligations may extend beyond the term” of the current Contract meaning that no new orders could be placed after the expiration date but previously existing orders and performance of services would remain valid until their stated expiration.

Purchasing Resolution No. 23256, Section 702 allows for exceptions to the competitive procurement process and Section 702(e) specifically allows for an exception, “When Cooperative Purchasing is available and undertaken or when Services can be obtained through Federal, State and/or other public entity pricing contracts or price agreements.”

The Purchasing Manager concurs that the recommended action to approve the Master Equity Lease Agreement is in compliance with Purchasing Resolution No. 23256.

### **STRATEGIC PLAN ALIGNMENT:**

The proposed lease agreement meets Strategic Priority – *Infrastructure, Mobility & Connectivity* and Goal No. 6.2 – Maintain, protect and improve assets and infrastructure within the City’s built environment to ensure and enhance reliability, resiliency, sustainability, and facilitate connectivity.

This item aligns with the Cross-Cutting Threads as described below:

1. **Community Trust** – The pilot vehicle leasing program will facilitate the replacement of old, unreliable vehicles and allow City employees to better serve the community, increasing

public trust.

2. **Fiscal Responsibility** – The pilot vehicle leasing program will result in significant cost savings for the purchase of fleet vehicles.
3. **Innovation** – The pilot vehicle leasing program provides an innovative model for fleet replacement by allowing the City to utilize newer vehicles during the four-year lease period, and then to sell those vehicles to help fund future fleet replacement needs.
4. **Sustainability & Resiliency** – The pilot vehicle leasing program will contribute to a greener fleet by replace older vehicles with newer, more fuel efficient vehicles.

### **FISCAL IMPACT:**

The total fiscal impact of this action, including change order authority, is \$1,455,036.15. The FY 2021/22 amount is \$369,136.83 which is budgeted and available in the funds and accounts listed below. Appropriations for future fiscal years will be included in the Department's Budget submissions for those fiscal years to be presented to the City Council for approval.

<b>Fund, Program, &amp; Account Number</b>	<b>Year 1*</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Total</b>
Central Garage, Motor Pool 2215200-462100	\$294,549.81	\$247,359.24	\$247,359.24	\$247,359.24	\$1,036,627.53
General Fund, Library Services 5135000-423400	\$7,502.16	\$7,502.16	\$7,502.16	\$7,502.16	\$30,008.64
General Fund, PW Storm Drain Maintenance 4110300-423400	\$7,789.80	\$7,789.80	\$7,789.80	\$7,789.80	\$31,159.20
Electric Fund, Operations 6100000-423400	\$59,295.06	\$36,052.80	\$36,052.80	\$36,052.80	\$167,453.46
<b>Total</b>	<b>\$369,136.83</b>	<b>\$298,704.00</b>	<b>\$298,704.00</b>	<b>\$298,704.00</b>	<b>\$1,265,248.83</b>

\*Includes initial down payment if applicable

Prepared by: Carl Carey, General Services Director  
 Certified as to availability of funds: Edward Enriquez, Chief Financial Officer/Treasurer  
 Approved by: Kris Martinez, Interim Assistant City Manager  
 Approved as to form: Phaedra A. Norton, City Attorney

### **Attachments:**

1. Enterprise Master Lease Agreement
2. Sourcewell Contract #060618-EFM
3. Table of Vehicles