

## MEMORANDUM

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**DATE:** April 7, 2015

**TO:** Honorable Mayor and City Commission

**VIA:** Kenneth Fields, City Manager

**FROM:** Christopher Velasquez, Chief of Police

**SUBJECT:** Lease Agreement with Mears Motor Leasing

**SYNOPSIS:** Staff is requesting Commission approval to dispose of two (2) volunteer vehicles and lease-purchase one (1) volunteer vehicle, with a community provided down payment, from Mears Motor Leasing under the Master Lease Agreement for use by the V.O.I.C.E. volunteers.

### RECOMMENDATION

It is recommended that the City Commission take the following action(s):

1. Approve the sixty (60) month lease of one 2015 Ford Fusion marked volunteer vehicle from Mears Motor Leasing.
2. Approve the use of \$12,000 in community donations as a down payment toward the lease of one 2015 Ford Fusion marked volunteer vehicle.
3. Approve the disposal of two 1997 Ford Taurus volunteer vehicles through an exchange agreement for equipment on the above mentioned Ford Fusion.
4. Authorize the City Manager to execute the necessary documents on behalf of the City.

### BACKGROUND

V.O.I.C.E. is the volunteer program of the Lake Wales Police Department. V.O.I.C.E. is an acronym for Volunteer Observers Impacting Community Efforts. The police department began the V.O.I.C.E. program in 1995. Since inception, volunteers have provided more than 50,000 service hours in support of the citizens of Lake Wales and the police department mission.

V.O.I.C.E. provides services ranging from assisting with office duties such as answering telephones and shredding paper to community patrols, funeral escorts, crime prevention events and business closing presence. V.O.I.C.E. members conducting patrol based functions utilize specially marked volunteer vehicles equipped with a police channel radio and amber safety lights.

Two of the three vehicles used by V.O.I.C.E. to perform duties such as vacation security checks, funeral escorts, business closing presence, roving patrol and traffic control at special events and traffic crash scenes, are 1997 Ford Taurus cars. The third vehicle used by V.O.I.C.E. is a 2014 Ford Fusion. The 1997 Taurus vehicles spend a substantial amount of time being repaired, providing virtually one usable vehicle at most any given time.

Local community members and current V.O.I.C.E. members have donated \$12,000 toward obtaining a replacement vehicle for the old 1997 vehicles.

## Proposed Lease

Staff recommends the lease-purchase of this vehicle for the following reasons:

- Price: Mears Leasing conducted a statewide search for a vehicle to use as a marked volunteer vehicle uniform with the current Ford Fusion in the volunteer fleet. Bartow Ford has the only usable vehicle currently available in the state. The proposed vehicle has a purchase price of \$18,459.00.
- Maintenance: Annual maintenance costs for the two 1997 Ford Taurus vehicles costs \$4,169.52. The maintenance cost for the six month period remaining in the current budget year is \$2,084.76. The annual maintenance cost for the one 2015 Ford Fusion is \$600 or for the same six month period is \$300.00. Acquisition of the 2015 Ford Fusion to replace the two 1997 Ford Taurus vehicles results in \$3,569.52 initial annual savings and \$1,784.76 savings for the remaining six months in the current budget year.
- Down Payment: Using the donations raised by the community and current V.O.I.C.E. members as a down payment toward the lease cost, reduces the remaining lease obligation. Without a down payment, the monthly lease obligation is \$326.16 per month; with the \$12,000.00 down payment, the monthly lease obligation is \$114.94 per month. The reduced monthly lease obligation results in an overall cost savings of \$673.20 more than the \$12,000.00 down payment ( $\$326.16 \times 60 = \$19,569.60$ ;  $\$114.94 \times 60 = \$6,896.40$ ;  $\$19,569.60 - \$6,896.40 = \$12,673.20$ ;  $\$12,673.20 - \$12,000.00 = \$673.20$ ).
- Lease Obligation: Under the Mears Motor Leasing agreement this vehicle can be leased at an annual cost of \$1,379.28 (total cost over the five year lease term is \$6,896.40). A full purchase would result in a current-year decrease in cash flow of \$18,459.00 as compared to no cash with the proposed lease. Mears Motor Leasing's proposal has an APR of 1.54% over the sixty (60) month term with a one (1) dollar residual buyout price for the vehicle.
- State Contract: If this new vehicle was purchased under the Florida State Contract pricing, the total purchase price would be \$16,899.00. The proposed vehicle has a purchase price of \$18,459.00 from Bartow Ford. Mears Motor Leasing indicated a statewide search revealed this is the only vehicle available. The cost difference between the immediately available vehicle and state contract pricing is \$1,560.00. A vehicle purchased under state contract pricing would require the vehicle being ordered from production, which historically takes six (6) or more months. Although the immediately available vehicle has a slightly higher cost, this is more than overcome with the \$1,784.76 savings in maintenance savings alone (see maintenance section above).
- Budget: The proposed lease obligation of \$689.64 (6 months) provided by Mears Motor Leasing is unbudgeted in the FY 2014/15 budgetary appropriations. Fuel consumption is significantly under the FY 2014/15 budget amount. The fuel budget for FY 2014/15 is \$175,000. As of 02/28/15 the budget year was 41.67% complete. Actual fuel expense through the same date was \$49,718.75 or 28.41% of budget. This reflects a fuel expense \$23,203.75 below budget year to date. The unbudgeted lease obligation during FY 2014/15 could be realized from the fuel consumption savings.
- Lowest Overall Cost: As with all purchases, if the City were able to purchase items without the use of financing this would result in the lowest overall cost, but the greatest single annual cash flow decrease. If the City decided to use financing options, this lease-purchase option would result in the lowest financing cost over the life of the lease. The interest cost of the five-year lease-purchase option is \$347.40 (or \$69.48 per year).

- Equipment: The two 1997 Ford Taurus vehicles to be disposed will be sold to Enforcement One, an equipment installation company. Enforcement One will purchase the two vehicles for \$2,400.00. The proceeds will be applied against the equipment cost and installation for the 2015 Ford Fusion, which is \$2,469.41. The proposal details presented above include the \$69.41 difference between the trade allowance and the equipment and installation costs.

## **OTHER OPTIONS**

- 1) Outright Purchase: A full purchase would result in a current year decrease of cash flow of \$6,549.00. This option would apply the \$12,000.00 donations as a down payment with the remaining balance paid in full.
- 2) Full Lease: Lease the full amount of the vehicle and place the \$12,000.00 donations in a designated account. The designated account would be used, until exhausted, for the full lease payment at which time the remaining lease costs would need to be budgeted in future years. This option carries an increased interest cost. The total interest cost under this option is \$1,110.60 (\$763.20 greater than the proposed option or \$152.64 greater annually than the proposed option).
- 3) Retain the existing vehicles.

## **FISCAL IMPACT**

- Proposed Lease - \$12,000 down payment / Lease Balance  
The proposed lease obligation of \$689.64 (6 months) provided by Mears Motor Leasing is unbudgeted in the FY 2014/15 budgetary appropriations. Maintenance cost savings for the six months is \$1,784.76. With the community donations down payment, the city will realize an overall savings of \$1,095.12.
- Alternate Scenario 1 – \$12,000 down payment / Purchase Balance  
This scenario costs the city \$6,549.00 immediately. Maintenance cost savings for the six months is \$1,784.76. With the community donations down payment, the city will realize a net initial unbudgeted expense of \$4,764.24.
- Alternate Scenario 2 – No Down Payment / Lease Full Amount / Designated Account  
This lease scenario commits the city to an obligation of \$1,956.96 (6 months) provided by Mears Motor Leasing. This is unbudgeted in the FY 2014/15 budgetary appropriations. Maintenance cost savings for the six months is \$1,784.76. With no down payment, the city will realize an overall cost of \$172.20, although this cost would be available from the \$12,000.00 donations maintained by the city. This scenario brings with it the added burden of the finance department tracking the use of community donations for lease payments for the next thirty-seven (37) months.
- Retain existing vehicles – no fiscal impact but high maintenance costs.

If the City Commission approves the vehicle lease agreement as proposed, the City is committed to a yearly lease payment of \$1,379.28 for the remaining four (4) years of the five (5) year lease. If revenues are insufficient in future years, an option would be to return the vehicle under the non-appropriation of funds clause. If it becomes necessary to exercise this option, however, the Police Department would suffer the loss of the vehicle.

## **ATTACHMENTS**

Schedule "A" of the Lease Agreement