



Cover Memorandum/Staff Report

File #: 23-050

Agenda Date: 1/17/2023

Item #: 7.E.

TO: Mayor and Commissioners
FROM: Hugh B. Dunkley, Chief Financial Officer
THROUGH: Terrence R. Moore, ICMA-CM
DATE: January 17, 2023

CONSIDERATION OF OPTIONS FOR PURCHASE OF CITY VEHICLES AND EQUIPMENT

Recommended Action:

N/A - Workshop discussion item.

Background:

The City's FY2022/23 adopted budget includes consideration for leasing vehicles and equipment to facilitate City operations, i.e., police, fire, public works, utilities and the like. Leasing by state and local governments is the result of a number of economic and legal factors, including but not limited to the following:

- Leasing enables state and local governments to enhance their cash flow by spreading the cost of equipment over several fiscal periods;
- Leasing allows governments to purchase property and equipment through installment payments, which can be made monthly, quarterly, semi-annually or annually;
- Leasing may also be more cost-effective because governments can purchase equipment or facilities at today's prices, not next year's prices -- thus effectively escaping inflation;
- Annual savings realized through decreased maintenance costs will also help to offset the annual interest cost of the leased equipment; and
- The costs and fees as well as the formalities associated with executing a municipal lease are not as great or as involved as other forms of municipal borrowing, i.e., revenue bond issue.

As with all borrowing transactions, the primary disadvantage to the City in entering into a lease arrangement is that the City will have to bear the cost of interest over the life of the lease agreement. Therefore, an alternative to leasing is to simply purchase the vehicles or equipment outright, providing the funds exist.

Replacement vehicle purchases are made from the Central Garage Fund, which currently has inadequate reserves for funding the budgeted FY2023 vehicle replacements of \$2.3 million. At the end of the last audited fiscal year (FY2021), this reserve balance amounted to only \$400,000. This deficiency in the Garage Fund reserves arose primarily due to underfunding of the Garage Fund by participating departments. Staff is therefore recommending a two-pronged solution to our current dilemma: (1) build up the reserves within the Garage Fund by increasing annual fleet rental charges to participating departments (via the annual budgeting process) and (2) lease-purchase those

vehicles and equipment that are in critical need of replacement and which will have a negative impact on current service levels.

City Attorney Review:

N/A

Funding Source/Financial Impact:

N/A

Time Sensitive:

N/A