THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
ACTION AGENDA SUMMARY

DEPT: General Services Agency **BOARD AGENDA #** *B-12

Urgent ☐ **Routine** ☒ **AGENDA DATE** June 3, 2008

CEO Concurs with Recommendation YES ☒ **NO** ☐ **4/5 Vote Required YES** ☒ **NO** ☐
(Information Attached)

SUBJECT:

Approval of the new Vehicle Replacement Plan

STAFF RECOMMENDATIONS:

1. Approve the new Vehicle Replacement Plan, through the following actions:
   a. Dissolve the GSA Vehicle Replacement Fund (fund 5022) effective July 1, 2008;
   b. Repay from the remaining funds, the Agricultural Commissioner and the District Attorney an amount equal to the depreciation paid on vehicles purchased by the respective departments, approximately $141,915;
   c. Transfer remaining funds equal to the operating deficit created upon establishment of the Vehicle Replacement Fund, to the GSA Fleet Services Division (fund 5021), approximately $308,000;
   d. Return any remaining funds to the General Fund; and
   e. Reassign all vehicles out of the Vehicle Replacement Fund to the appropriate departments.

FISCAL IMPACT:

The GSA Fleet Vehicle Replacement Fund is estimated to have $750,000 in cash at the close of Fiscal Year 2007-2008. If this proposal is approved, dispersion of funds from the Vehicle Replacement Fund are estimated as: $142,000 transfer to the Agriculture Commissioner and District Attorney for depreciation on fully funded vehicles, an estimated $308,000 transfer to GSA - Fleet Services to offset the negative cash balance, with the remaining balances to be returned to the General Fund. The annual interest expense for Fiscal Year 2008-2009 is estimated to be $41,927.72 on the purchase of vehicles valued at $800,000, in addition to annual vehicle lease payments of $266,666.

BOARD ACTION AS FOLLOWS:

No. 2008-408

On motion of Supervisor Monteith, **Seconded by Supervisor** DeMartini
and approved by the following vote,
Ayes: Supervisors: O'Brien, Monteith, DeMartini and Chairman Mayfield
Noes: Supervisors: None
Excused or Absent: Supervisors: Grover
Abstaining: Supervisor: None

1) X **Approved as recommended**
2) ___ **Denied**
3) ___ **Approved as amended**
4) ___ **Other:**

MOTION: **THIS ITEM WAS REMOVED FROM THE CONSENT CALENDAR AND PLACED ON NON-CONSENT FOR DISCUSSION AND CONSIDERATION**

Christine Ferraro

ATTEST: **CHRISTINE FERRARO TALLMAN, Clerk** **File No.**

DISCUSSION:

BACKGROUND

The General Services Agency (GSA) – Fleet Services Division currently owns and maintains 386 County vehicles, including sedans, pickups, patrol vehicles, and other specialty equipment. These vehicles are assigned and utilized by Stanislaus County Departments to perform a variety of public services.

The Board of Supervisors approved a new vehicle replacement strategy in Fiscal Year 2003-2004; however, due to a lack of available funds the approved requirements were not met. In order to address the vehicle-funding shortfall the Board subsequently approved the establishment of the Vehicle Replacement Fund in Fiscal Year 2005-2006. At that time, vehicle replacement continued to be funded through an issued base budget method instead of actual replacement needs. The purpose of establishing the new Fund and Org was to accumulate funds for future vehicle replacements.

Currently, Departments are charged a monthly fee for use of these vehicles. The fee is a fixed cost based on the depreciated life plus an inflation factor of 4%. The only exceptions are patrol vehicles, which are charged a mileage rate based on a 100,000-mile life.

In the Proposed Budget for Fiscal Year 2006-2007, the GSA - Fleet Services Division identified an unfunded request of $571,500 for timely replacement of County vehicles. It was recommended that $300,000 of discretionary revenues be made available for the replacement of approximately 20 County vehicles, with an average age of 12.2 years old.

In the Proposed Budget for Fiscal Year 2007-2008, the GSA - Fleet Services Division again identified a critical need for funding to replace aging vehicles in County departments. Additionally, GSA requested to use departmental retained earnings to balance the budget; however, there was insufficient cash to fund this request. As a result of funds carried forward at year-end 2006-2007, the Department had $171,996 available to replace departmental vehicles.

Due to the shortfall, it was recommended that appropriations be increased by $300,000 of General Fund fund balance for the replacement of approximately 23 County vehicles, with an average age of 12 years, for use in the Agriculture Commissioner, GSA Central Services, Parks, Behavioral Health and Recovery Services, and Sheriff Departments. As GSA continues to function within the available revenues to avoid incurring a long-term cash deficit, County departments requiring replacement vehicles should be prepared to identify funds for that use.

IDENTIFYING OPTIONS

GSA held a Focus Group meeting on December 18, 2007, to discuss the options available. Participating in the focus group were Agricultural Commissioner, Behavioral Health & Recovery Services, Community Services Agency, Chief Executive Office, Department of Environmental Resources, Sheriff, District Attorney, Office of Emergency Services, Probation, and Health Services Agency. Prior to the first meeting, GSA provided several options to the group, as a starting point for discussion.

OPTIONS

1. <u>Dissolve the Vehicle Replacement Fund</u>
    - The Vehicle Replacement Fund has acted as a bank, allowing for the purchase of vehicles, repaid through depreciation over an extended period of time (3 - 5 years).
    - Each department would be responsible for the purchase of needed vehicles. Funds for the purchase of vehicles would go through the normal budgeting process.
    - Fleet would facilitate the purchase of vehicles for County departments and agencies.

2. <u>Charge Participating Departments</u>
    - A fixed percentage based on depreciation would allow the fund to maintain vehicle purchases at Fiscal Year 2007-2008 levels ($555,633). The percentage required over a 10-year period would be 92% of depreciation. This is due, in part, to long repayment period for the original expense.

3. <u>Segregate Paid Vehicles From Unpaid</u>
    - Determine who has paid for vehicles in the fund currently. This would primarily be the Sheriff's operations, Agricultural Commissioner, and District Attorney. These departments would be able to fund vehicles as purchased, but would not need to pay an additional fee to rebuild the fund.
    - All other departments would be required to fund the purchase of vehicles utilized by their department, as well as pay an additional fee to rebuild the fund.

4. <u>Move to a Leased Fleet</u>
    - Instead of purchasing vehicles, the County utilizes a capital lease program. A capital lease is essentially a vehicle loan. The lease would exceed 75% of the useful life of the vehicle and would include a minimal cost at the conclusion of the lease for the County to take possession of the vehicle.
    - The vehicle would become the sole property of the County at the end of the lease and could be used beyond the anticipated life of the vehicle.

5. <u>Operate the Vehicle Fund as a Vehicle Loan Program</u>
    - An additional funding of $2.4 million would be required to provide funding for the loan program. (Based on average purchases of $800,000/year for 3 years.)
    - Depreciation is charged directly to the departments, instead of working through the Vehicle Replacement Fund.
    - Departments borrow capital from the Vehicle Loan Program, which is then paid back to the program with interest over a period of time (for example 3 years), not related to the depreciation of the vehicle.

Departments were open to the possibility of utilizing capital leases to fund vehicles, but wanted to ensure that GSA - Fleet Services would still facilitate the purchase of vehicles. A follow-up Focus Group meeting was held on March 12, 2008 to discuss the specific needs of departments such as the Agricultural Commissioner. After careful consideration and completing a detailed analysis of the options, the Board is being asked to determine if the recommendation of the Focus Group to move to a Leased Fleet is the most fiscally sound option at this time.

CAPITAL LEASE PROGRAMS

At this time, GSA - Fleet is requesting Board approval to move the County to a leased fleet. By entering into master lease agreements with vehicle leasing firms, such as Ford, General Motors, Commercial Truck Leasing and many others, both General Fund and Non-General Fund Departments will have the option to lease vehicles for a period of three to five years, with a $1 buyout at completion. Capital leases are a form of financing, and maintain ownership of the vehicle by the County. Under this scenario, Departments would enter into a lease with the chosen firm, paying principle and interest to the firm for a period of three to five years. At completion, the Department would pay the $1 buyout. For example, a Department wanting to purchase a $30,000 passenger van would enter into a leasing agreement for $30,000 under a County Master Agreement and would be charged approximately $10,524, assuming a 5.2% interest rate, annual payment in advance, to the leasing firm for the next three years.

COST BENEFIT ANALYSIS
This option will provide an annualized fiscal impact of the cost of a new vehicle for all departments, by reducing the amount required at any one time for a new vehicle. It will result in an expense comprised of the annual cost of the lease payment plus the annual interest charge. In the case cited above, the additional interest paid annually is estimated at $524 and over the three-year period would be $1,572. Extending that out to the County estimated vehicle purchases of $800,000 annually, would result in an additional $41,928 in interest payments annually. This option may also allow some departments to absorb the lower annual cost of a vehicle within their existing budgets, thereby reducing the number of requests for a County contribution. In the event a Department chooses to purchase a vehicle instead of using the lease option and has funds available, GSA will continue to facilitate such purchases.
At this time, it appears that a capital leasing program may be the more advantageous option for most departments. As interest rates move that may change. Each vehicle acquisition will need to be evaluated on its own merits given the needs of the acquiring department and the needs of the County.

As part of the move to a leased fleet, all vehicles currently assigned to GSA – Fleet Services Vehicle Replacement Fund should be reassigned to the Department using the vehicle, in order to more correctly identify their location, usage, and expense. However, by relocating the vehicles into a different budget, depreciation may be impacted due to the type of fund absorbing the vehicle. When a vehicle is held in a Governmental Fund budget, the department does not see the depreciation in their budget. However, if the vehicle is held in an Internal Service Fund, such as GSA - Fleet Services, depreciation is charged directly to that budget. In the case of GSA - Fleet Services, that depreciation is then passed on to the department using the vehicle.

An example of this would be patrol vehicles, which the Sheriff uses, but are currently assigned to GSA - Fleet Services Vehicle Replacement Fund. Each month, GSA - Fleet Services Vehicle Replacement Fund is charged depreciation on the vehicle, and passes that expense on to the Sheriff. Moving the patrol vehicles back to the Sheriff's books eliminates that expense from the Sheriff's budget and charges it directly to the General Fund. Based on the current General Fund vehicle assets held by Vehicle Replacement Fund, the estimated transfer from departmental budgets to the General Fund is $733,875.

The original intent of the Vehicle Replacement Fund was to build sufficient funds to replace vehicles with a reduced impact on budgets. Two Departments have purchased vehicles with departmental funds and then transferred the vehicle to GSA – Fleet Services Vehicle Replacement Fund. With the vehicle part of the Vehicle Replacement Fund, these Departments were charged monthly depreciation, with the intent of building up sufficient funds to cover the replacement cost of the vehicle. These departments are the Agricultural Commissioner and the District Attorney, as shown in the following tables:

Agricultural Commissioner			
Asset #	Acquire Cost	Depreciation	Depreciated Value
04-32	15,176.76	-5,058.95	10,117.81
04-33	15,176.76	-5,058.95	10,117.81
04-34	15,895.50	-5,298.47	10,597.03
04-35	14,824.30	-4,941.44	9,882.86
04-36	15,536.84	-5,178.92	10,357.92
04-37	14,167.76	-4,777.55	9,390.21
04-38	14,617.30	-4,872.47	9,744.83
04-39	15,587.26	-5,195.72	10,391.54
04-40	16,291.30	-5,430.39	10,860.91
04-41	16,724.91	-5,757.00	10,967.91
	153,998.69	-51,569.86	102,428.83

District Attorney			
Asset #	Acquire Cost	Depreciation	Depreciated Value
02-56	15,267.42	-14,631.59	635.83
02-57	15,267.42	-14,631.59	635.83
02-58	15,267.42	-14,631.59	635.83
02-59	15,230.54	-14,595.77	634.77
02-60	15,230.54	-14,715.63	514.91
02-67	17,628.00	-17,138.75	489.25
	93,891.34	-90,344.92	3,546.42

The total value that should have been created in the Vehicle Replacement Fund, on behalf of these two departments is $141,914.78. Both the Agricultural Commissioner and the District Attorney have the expectation that, as vehicles are replaced, there would be sufficient funds built up to cover the replacement cost without additional departmental funds.

SUMMARY

In summary, staff recommends that the GSA Fleet Services Division Vehicle Replacement Fund (fund 5022) be dissolved as of July 1, 2008, and that the remaining funds be used to repay the estimated depreciation charges to the Agricultural Commissioner and the District Attorney. Additionally, approximately $308,000 of the remaining funds are recommended to be transferred to the GSA Fleet Services Division budget (fund 5021) for the operating deficit that occurred when the Replacement Fund was established as a separate fund. Any remaining funds are recommended for return to the General Fund. Finally, staff recommends that all vehicles currently assigned to the Vehicle Replacement Fund be reassigned to the appropriate department, as shown in the attachment.

POLICY ISSUES:

The Board of Supervisors is asked to determine if the recommended actions are consistent with its priority of efficient delivery of public services.

STAFFING IMPACT:

This proposal will continue to be supported by existing General Services Agency staff. There is no additional staffing impact associated with this item.