DEKALB CITY COUNCIL AGENDA
JANUARY 27, 2020
5:00 P.M.

DeKalb Municipal Building
City Council Chambers
Second Floor
200 S. Fourth Street
DeKalb, Illinois 60115

COMMITTEE OF THE WHOLE

A. CALL TO ORDER AND ROLL CALL

B. APPROVAL OF THE AGENDA

C. PUBLIC PARTICIPATION

D. CONSIDERATIONS

1. Consideration of a Fleet Leasing Program.

City Manager's Summary: Assistant City Manager Ray Munch has provided some in-depth background on several alternatives to traditional fleet purchasing (see attached). Mr. Munch will lead the discussion of those alternatives.

Background
For several years, the City has struggled to adequately fund capital expenditures related to streets and fleets. In 2017, the City worked with consultants from Engineering Enterprises, Inc. (EEI) and Ehlers, Inc. to develop a Preliminary Asset Management Plan for Streets and Fleet. The preliminary plan was presented to the City Council and the Finance Advisory Committee in 2017 and was later incorporated into the City's Five-Year Financial Plan. This preliminary plan included detailed summaries of asset inventory and condition assessments, evaluation of desired levels of service, asset management strategies, and financial strategies.

The 2017 study found that the fleet has been in a state of decline since 2006. The study found that of the 173 vehicles in the fleet, 95 vehicles (55%) were beyond their useful life. That is compared to just 18 vehicles beyond useful life in 2006, suggesting that the City deferred replacement of eight to 10 vehicles per year over that 10-year period. During that same period, fleet maintenance costs rose from $220,000 to $312,000 per year.

The trend identified above has continued over the past several fiscal years as funding for new vehicles remains constrained. Of great concern is the growing need to replace the City's most expensive assets, namely, fire apparatus and large dump trucks used for snow removal operations. Over the past three fiscal years, the City has only purchased eight vehicles (non-Water Fund): seven police patrol vehicles and one street sweeper. All seven patrol vehicles were purchased from the Police Department's restricted asset forfeiture funds, which have been greatly depleted. The street sweeper is the only vehicle purchased using Capital Equipment Replacement Fund (Fund 420) monies. As a point of reference, the last time the City purchased a front-line Public Works vehicle was in 2014, when a large single axle dump truck/snowplow was acquired. Similarly, the last time the City purchased a new piece of fire apparatus (excluding ambulances) was 2016 when the City purchased a used 2009 Pierce ladder truck. The last *new* purchase was a 2013 Alexis fire engine. Two of the City's six ambulances were replaced in 2017, with another three due for replacement over the next five years.

On November 25, 2019, the City Council passed Ordinance 2019-077, which increased the local MFT by $0.04 per gallon. Of that increase, $0.01 was specifically allocated to the Fund 420 for fleet replacement. The new rate became effective on January 1, 2020. While this new revenue will improve our ability to address capital needs, it falls far short of addressing the problem completely.

The preliminary asset management plan identified the need to replace approximately $1.5 million in fleet assets annually over a five-year period in order to normalize our fleet replacement schedule. With the inclusion of the new local MFT revenue, the Fund 420 receives approximately $555,000 in annual revenue. This amount, combined with monies in the Fund 420 balance, enabled the City Council to authorize the following fleet purchases in FY2020:

Purchase	Cost	Department
2020 Fire Engine	$550,000	Fire
2020 Ambulance	$150,000	Fire
2020 Large Single-Axle Dump Truck/Plow	$150,000	Public Works
2020 1-Ton Dump Truck	$70,000	Public Works
2020 ¾-Ton Pickup Truck	$40,000	Public Works
2020 Patrol SUV	$55,000	Police
2020 Patrol SUV	$55,000	Police
2020 Patrol SUV	$55,000	Police
2020 Compact SUV	$20,000	Community Development
Total	$1,145,000	

Nevertheless, in FY2021, available funds for fleet replacement will once again fall short of the recommended threshold of $1.5 million by approximately $750,000.

Finding ways to accelerate the fleet replacement schedule can have numerous positive impacts, including reduced maintenance costs, decreased fuel costs through improved fuel economy, and enhanced driver safety through the acquisition of more vehicles with advanced safety features.

Alternatives to Traditional Fleet Purchasing

In order to preserve cash flow, some municipalities have moved toward alternative models for fleet replacement. Two alternatives have been considered by the City's executive team. These alternatives, which are open-ended equity leasing and tax-exempt lease purchasing, are not exclusive of one another and can be used in conjunction with traditional cash purchasing where appropriate.

There is a third alternative, which is the issuance of bonded debt; however, our management staff do not recommend that approach and have not included it for discussion because of the lack of an adequate, recurring capital revenue stream to fund the debt as well as routine, annual purchases of minor capital equipment and technology.

A. Open-Ended Equity Leasing:

In September 2019, City staff met with a representative of Enterprise Fleet Management. Enterprise offers a fleet leasing model that has gained popularity with municipalities in recent years. This program utilizes an open-ended equity lease, which is different than the traditional closed-end leases that are offered by most automotive manufacturers. While a closed-end lease typically imposes restrictions on mileage, lease term, vehicle modifications, and maintenance, the Enterprise program does not. If the municipality chooses to replace the vehicle, the remaining equity in the vehicle is credited to a new lease, similar to trade-in value. In addition, Enterprise assigns an account manager to the City who monitors all vehicles under lease and advises the City on opportunities to replace vehicles sooner, based on market conditions. Among the current Enterprise customers using this program are Crystal Lake, Geneva, Freeport, and Round Lake Beach.

Enterprise is primarily focused on light-duty fleet vehicles, including sedans, SUVs, light-duty pickup trucks, and light-duty trucks outfitted with dump or service bodies. For the City's purposes, this would cover most of our Police fleet, some Public Works vehicles, administrative and light response vehicles in Fire, and any pool cars assigned to departments in City Hall. Very recently, Enterprise began offering a medium- to heavy-duty lease program under which the City would be able to lease the larger dump trucks operated by Public Works for snow removal operations. Any vehicle leased through Enterprise can be modified to the City's specifications, from emergency lighting to truck plows and spreaders.

Pros:
- Leverages cash flow to accelerate the fleet replacement schedule.
- Reduces the upfront cost of vehicle replacement.
- Professional account management through Enterprise.

Cons:
- The additional cost of management fees and interest.
- Potential for end-of-lease buyout costs if a leased vehicle is not replaced with another leased vehicle.
- It does not adequately address all areas of the fleet.

B. Tax-Exempt Lease Purchasing:

As noted above, the Enterprise program does not cover some of the costliest assets within the City's fleet, namely fire apparatus. The FY2020 Budget includes $550,000 for the purchase of a fire engine and $150,000 for the purchase of an ambulance. These two purchases alone will consume more than half of the total funds available in Fund 420. An alternative to the full cash purchase of these types of assets is a tax-exempt lease purchase. A tax-exempt lease purchase is a form of lease financing that is an alternative to issuing debt for certain capital expenditures. These are true lease-to-own programs that provide financing for the purchase and spread the cost over a five to 10-year period, for example. The advantage to a municipality is the ability to manage cash flow over time. There is an added cost of interest on the lease; however, interest rates are typically favorable due to the fact that the interest is claimed by the lender as tax-free under established IRS rules since the interest is paid to the lender by a government entity. These lease programs have become popular among municipalities purchasing costly fire apparatus and heavy equipment.

The City's current Debt Management Policy, included as part of the annual budget, allows for capital leasing of this type. The policy sets a limit of $1,000,000 in lease financing per fiscal year, with no asset over $500,000 being eligible for a lease. That policy has not been revised since 2017, and the City Council may wish to consider revising the single asset eligibility limit to reflect the rising costs over the past three years.

Pros:
- Low-interest financing for the replacement of expensive capital assets.
- No end-of-lease buyout costs.
- Flexible lease terms from one year to 15 years.
- Not classified as long-term debt for accounting purposes

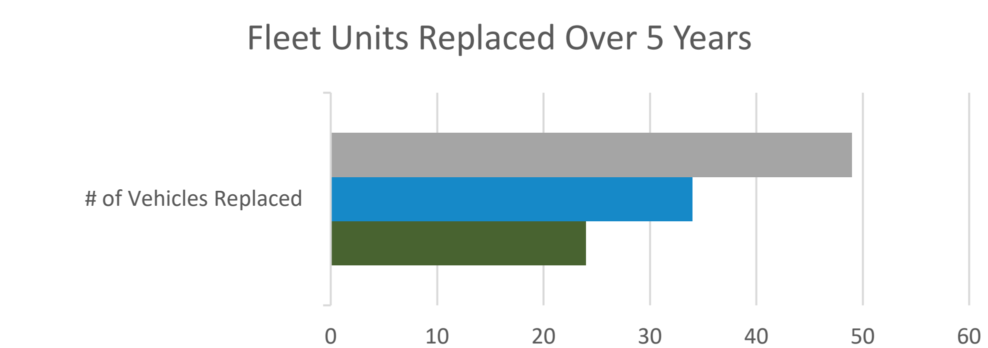
Cons:
- The additional cost of interest.
- Requires the need for careful financial planning over the life of the lease.

Cash Flow Analysis:

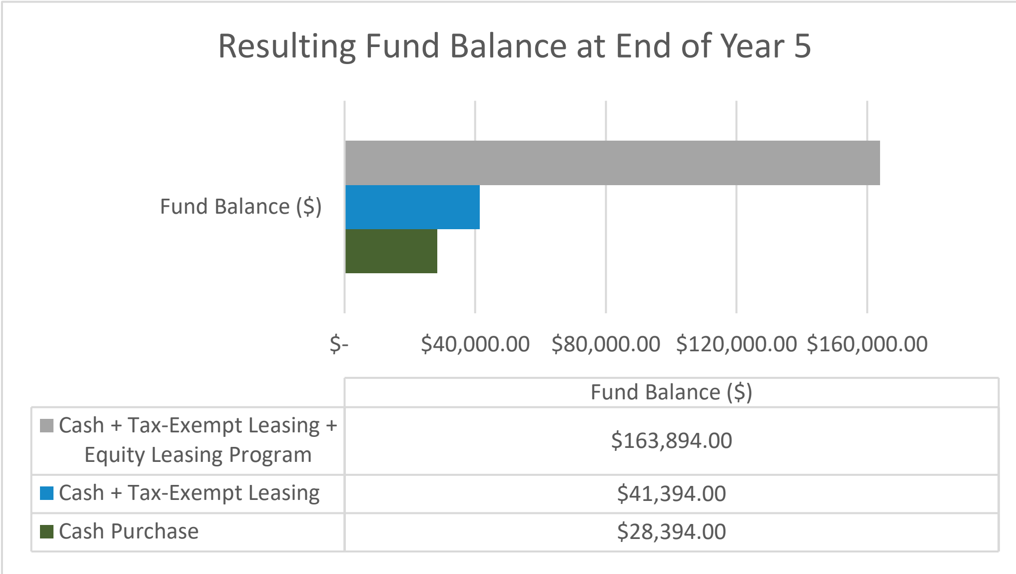
To better understand the cash flow impact of various fleet replacement options, Assistant City Manager Munch has developed a cash flow analysis of Fund 420 over a five-year period. This analysis looked at three fleet replacement models: all-cash purchasing; cash purchasing supplemented by tax-exempt lease financing; and cash purchasing supplemented by tax-exempt lease financing and an open-ended equity leasing program. The cash flow analysis used the following assumptions:

- Annual revenue growth of 1%.
- Inclusion of $50,000 NIU contribution for capital, per our Fire agreement.
- Loss of $40,000 annually after 2021 when the County Nursing Home and Health Center tax-sharing agreement expires (Michael's, DSW, TJ Maxx, etc.).
- Reserve $75,000 for non-fleet equipment purchases annually.

Based on those assumptions, it is evident that using an all-cash purchasing model for fleet replacement significantly restrains cash flow, making it difficult to establish an adequate fleet replacement schedule. This conclusion is based on a projection of the total number of fleet units replaced over five years and the resulting fund balance at the end of the same period. The two graphs below represent those projections.



	# of Vehicles Replaced
Cash + Tax-Exempt Leasing + Equity Leasing Program	49
Cash + Tax-Exempt Leasing	34
Cash Purchase	24



Using the current fiscal year as an example, the FY2020 Budget contemplates the purchase of nine vehicles from Fund 420. By using alternative models, the City Manager believes it is possible to replace as many as 17 vehicles in FY2020. That does not include additional vehicle purchases planned for our Water Fund and Transportation Fund in FY2020.

It is important to keep in mind that the projections are based on estimates. Those estimates consider variables such as current revenue projections, interest rates, and lease cost estimates offered by Enterprise. Economic conditions may fluctuate and impact these estimates either positively or negatively over time.

Recommendation
The City Manager recommends the Council's consideration of the alternative fleet replacement models outlined above, with direction as to which, if any, alternative(s) should be pursued. All City departments are eager to begin the process of replacing assets approved in the FY2020 Budget and will incorporate the City Council's direction on this issue into that process. *(Click here for additional information)*

2. **Presentation of the DeKalb County Basics Program by Amanda Christensen, Superintendent of the Regional Office of Education.**

City Manager's Summary: Joanne Rouse, Community Services Coordinator, has been approached by Amanda Christensen, the superintendent of the Regional Office of Education, to briefly present a new approach to early childhood learning that is being piloted by her office.

The DeKalb County Regional Office of Education works with the Illinois Board of Education to offer the following services:

- helping school personnel find the resources necessary to carry out their mission.
- acting collaboratively with the Illinois State Board of Education to advance safe, efficient, and effective schools.
- promoting the best educational opportunities for Illinois families.

Superintendent Christensen is looking for institutional and corporate “partners” to take a specific “pledge” to support certain nurturing practices – DeKalb County Basics – designed to help infants cognitively, socially, and emotionally (see attachments). Since education theory and methodologies are not within the required competencies of any City departments, the City Manager recommends further discussion with local school officials and other stakeholders before the Council considers “signing on” to such a pledge. *(Click here for additional information)*

E. EXECUTIVE SESSION

None.

F. ADJOURNMENT

FULL AGENDA PACKET