



TO: GENERAL COMMITTEE

SUBJECT: FLEET FINANCING AGREEMENT

WARD: ALL

PREPARED BY AND KEY CONTACT: C. MILLAR, DIRECTOR OF FINANCE AND TREASURER, EXT. 5130

SUBMITTED BY: C. MILLAR, DIRECTOR OF FINANCE AND TREASURER, EXT. 5130

GENERAL MANAGER APPROVAL: D. MCALPINE, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES

CHIEF ADMINISTRATIVE OFFICER APPROVAL: M. PROWSE, CHIEF ADMINISTRATIVE OFFICER

RECOMMENDED MOTION

1. That the Director of Finance and Treasurer or designate(s) be delegated the authority to negotiate and execute financing agreements for up to \$3 million for the purpose of financing the 2019 Fleet Renewal Program as approved in the 2019 Business Plan (Capital Project RFP 1156).

PURPOSE & BACKGROUND

2. The purpose of this report is to seek delegated authority for the Director of Finance and Treasurer to negotiate and execute financing agreements including lease financing agreements for the acquisition of vehicles under the Fleet Renewal Program.
3. The Fleet Renewal Program (see appendix "A" to Staff Report FIN014-19), approved in the 2019 Business plan, recognized the need for the City to take a systematic, innovative and cost effective approach to fund the renewal of the aging fleet.
4. A Fleet Management Reserve was established with the objective of building a sustainable funding source, whereby all financing mechanisms can be considered in the replacement of vehicles. These mechanisms would include debentures, financing and leasing agreements and out right purchases.
5. For the account of the 2019 vehicle acquisition plan, a request for quotations (RFQ) for the supply and delivery of leased vehicles was recently issued by the City. The City Debt and Capital Management Policy in accordance with the Ontario Regulation 653/05 under the Municipal Act, 2001 requires the Treasurer to assess the costs and risks associated with leases against other means of financing.

ANALYSIS

6. Quotations received for the procurement of leased vehicles included interest rates ranging from 3.17% to 4.78% higher than alternative financing rates available to the City. The interest rate on the debenture issued in June was 2.32%. The lowest quoted transaction would have resulted in extra interest cost ranging from \$185K to \$280K over 5 years, based on a capitalized amount of \$2.94 million.
7. The proposed lease agreement included annual lease payments of \$581,514 and a buyout amount of \$587,065 at the end of the 5 year term; a total agreement value of \$3.5 million. The following table summarizes the terms of the proposed agreement.



Terms of Agreement	Term in Years	Fixed Payment Per Year	Total Fixed Payments	Comments
Initial Lease term	5	\$581,514	\$2,907,569	Material Lease
Buyout Amount			\$587,065	Residual
Total term including renewal options	5		\$3,494,634	

8. Learning from the recent RFQ experience, staff is of the opinion that exploring financing mechanisms as a separate exercise would achieve the objective of minimizing the overall cost of the Fleet Renewal Program; as well as provide the flexibility to quickly acquire vehicles and take advantage of special offers from asset and capital providers.

ENVIRONMENTAL MATTERS

9. There are no environmental matters related to the recommendation.

ALTERNATIVES

10. The following alternatives are available for consideration by General Committee:

Alternative #1 General Committee could choose not to provide delegated authority to the Director of Finance/Treasurer to execute financing agreements for the purpose of financing the Fleet Renewal Program.

This alternative is not recommended as the Fleet Renewal Program’s objective of cost efficiency would not be met. If the City is not in a position to quickly react to the market environment, it stands to bear substantial market risk which could translate to additional cost for the Corporation.

FINANCIAL

11. The difference in financing costs for the acquisition of the same asset could be significant between financing alternatives. Quotations received during the recent procurement exercise show that the City could end up paying interest rates 2 to 3 times higher than warranted.
12. In order to meet the needs of the City’s Fleet Renewal Program, it is expected the City will be seeking financing of \$3 million over a 5 year term. The Finance Department will also explore leasing options, however, such options are less desirable as it is the preference of the City’s Fleet Management group to own the vehicles at the end of the term of a lease.
13. As approved in the 2019 Business Plan and Budget, the financing costs will be funded from the Fleet Management Reserve. It is expected annual financing costs will range from between \$645K to \$660K over 5 years.
14. Once financing is secured, the City will reissue an RFP to for the procurement of vehicles, with expected delivery in the first quarter of 2020.

LINKAGE TO 2018-2022 STRATEGIC PLAN

15. The recommendation(s) included in this Staff Report support the following goals identified in the 2018-2022 Strategic Plan:

Offering Innovation and Citizen Driven Services

16. The Fleet Renewal Programs provides for the management of tax dollars by making them go further by reducing total operating costs of the Fleet Program.

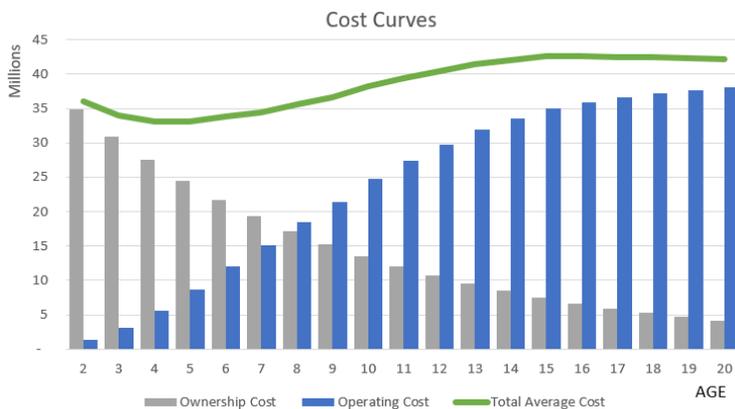
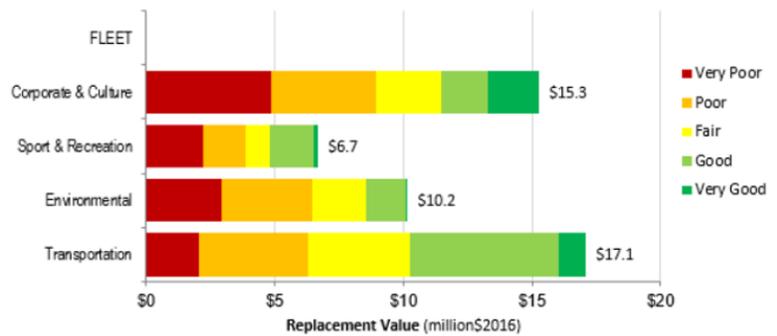
APPENDIX "A"

403 – FLEET RENEWAL PROGRAM
INFRASTRUCTURE & GROWTH MANAGEMENT
CONTACT: Craig Millar, Director of Finance (Ext. 5130)

DESCRIPTION:

In 2016, GHD completed a State of the Assets report and identified that 52% or \$27 million of the City's fleet is in poor or very poor condition. GHD estimated the City's fleet had a replacement value of \$49.22 million.

The chart below shows the average cost curves to own and operate the City's Fleet per year. Ownership cost decreases as the asset depreciate over time. Meanwhile operating cost increases to keep up with maintenance and repairs.

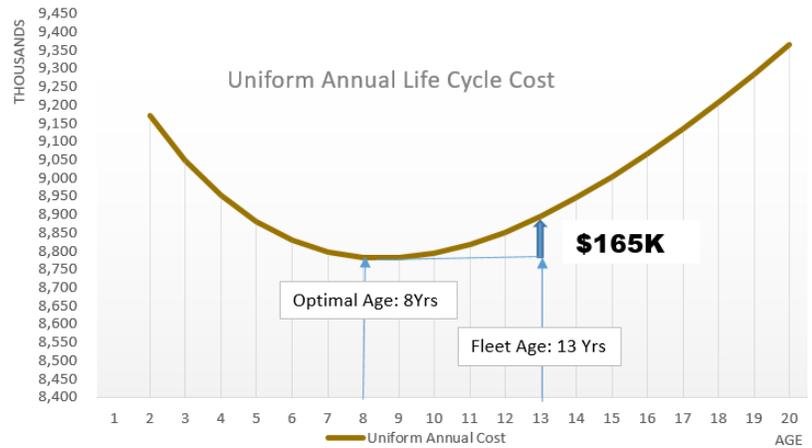


The total cost of ownership is the lifetime cost of owning an asset which include acquisition, operating and disposal costs. There is one point in time where the total cost of ownership is **minimized** and that defines the **optimal life cycle** or replacement age.

The next graph is the annualized life cycle cost for the City's fleet. This analysis shows that the optimal age to replace the City's fleet is 8 years, with an annual total ownership cost of about \$8.78M.

At the time of this analysis, the age of the fleet is about 13 years, with an annual total cost of ownership of \$8.95M or **\$165K higher than the optimal cost**. As the graph shows, each additional year the cost increases. For instance, in just 2 years at a fleet age of 15 years, this difference in annual operating cost more than doubles to \$355K and increases to \$503K in 5 years.

The analysis also shows that the net present value of the life cycle cost for the fleet is \$84.1M which is \$27.3M higher than the optimal replacement net present value cost of \$56.8M.



Over the last 5 years, the City has spent over \$10 million on repairs and vehicle rentals. With up to \$27 million needed in vehicle replacements, the City of Barrie needs a comprehensive approach to developing a cost effective fleet program that includes:

- Systematic policies and procedures
- Maintenance programs
- Decision models
- Lifecycle cost consideration
- Funding mechanisms
- Financial projections and analyses

This intake form proposes the creation of a Fleet Management Reserve, which will be used to fund Fleet vehicles, and some equipment (does not include Transit). The reserve will provide sustainable funding to cost effectively manage a fleet replacement program. The 2019 proposed Capital Plan includes project 00832 Fleet Replacement Program (see Page 181 of the capital binder). This capital program will support the replacement of all fleet for City services except Transit.

BENEFITS:

The objective of the fleet reserve is to build a sustainable funding source, whereby all funding mechanisms can be considered in the replacement of vehicles. These funding mechanisms would include leasing options and out right purchases. The proposed funding sources or contributions are as follows: over the first 4 years, \$3M a year would come from existing capital reserves (Tax, Water, and Wastewater) and \$120 thousand would come from existing operating budgets within Water and Wastewater. In addition, starting in 2019, it is proposed there be a new contribution of \$450 thousand from the tax levy, a new contribution of \$225 thousand from water rates and a new contribution of \$125 thousand from wastewater rates.



FINANCIAL DETAILS:

Net Incremental Operating Impact	2019	2020	2021	2022	2023
Tax Rate	\$450,000	\$450,000	\$450,000	\$450,000	\$450,000
Water Rate	225,000	-	-	-	-
Wastewater Rate	125,000	-	-	-	-
	\$800,000	\$450,000	\$450,000	\$450,000	\$450,000

Capital Project # 000832	2019	2020	2021	2022	2023	Total
Light Duty	\$3,261,841	\$2,221,234	\$1,494,501	\$1,695,708	\$1,275,192	\$9,948,476
Medium Duty	1,582,928	796,458	431,134	782,395	795,888	4,388,803
Heavy Duty	5,362,585	3,034,899	2,473,966	3,127,673	3,725,478	17,724,601
Capital Budget	\$10,207,354	\$6,052,591	\$4,399,601	\$5,605,776	\$5,796,558	\$32,061,880

Fleet Reserve	2019	2020	2021	2022	2023
Opening Reserve Balance	\$0	\$385,395	\$653,377	\$1,216,632	\$1,284,601
Estimated Contributions To Fleet Reserve					
Capital Reserves (Tax/Water/Wastewater)	\$1,687,500	\$1,687,500	\$1,687,500	\$1,687,500	1,687,500
Capital Reserve (Water)	\$468,750	\$468,750	\$468,750	\$468,750	468,750
Capital Reserve (Wastewater)	\$468,750	\$468,750	\$468,750	\$468,750	468,750
Existing rental operating Budget (Water)	210,000	210,000	210,000	210,000	210,000
New Annual contributions (Tax)	450,000	900,000	1,350,000	1,800,000	2,250,000
New Annual contributions (Water)	225,000	225,000	225,000	225,000	225,000
New Annual contributions (Ww)	125,000	125,000	125,000	125,000	125,000
Total Contributions	\$3,635,000	\$4,085,000	\$4,535,000	\$4,985,000	\$5,435,000
Estimated Draws From Fleet Reserve					
Tax funded fleet	\$2,982,024	\$3,435,670	\$3,479,087	\$4,324,866	\$4,127,633
Water funded fleet	\$154,310	\$217,294	\$295,783	\$378,111	\$328,234
Ww funded fleet	\$113,270	\$164,055	\$196,875	\$214,054	\$162,834
Total Draws	\$3,249,605	\$3,817,019	\$3,971,745	\$4,917,031	\$4,618,701
Fleet Reserve Ending Balance	\$385,395	\$653,377	\$1,216,632	\$1,284,601	\$2,100,900