

City of Brisbane

Agenda Report

To: City Council via City Manager
From: Administrative Services Director
Subject: Creation of a Vehicle Replacement Fund
Date: April 16, 2015

Purpose:

Ensure the long-term financial stability of the City and ensure vehicles are replaced in a timely, cost-effective manner.

Recommendation:

Direct staff to establish a Vehicle Replacement Fund which will set aside funding to replace the City's vehicle fleet. Direct staff to transfer funds from the General Fund, Utility Fund, and Marina Fund to offset the unfunded liability in the newly established Vehicle Replacement Fund.

Background:

On February 25, 2015 the City Council's Finance and Budget Subcommittee met to discuss the mid-year budget and review the City's unfunded liabilities. One of the liabilities discussed was the replacement of the City's vehicle fleet. The fleet consists of over 50 vehicles including sedans, police vehicles, public works vehicles, fire engines, and a boat at the marina. The cost to replace the fleet is over \$2,200,000. The City has not set aside any funding to replace vehicles as they become worn out and inefficient. Instead, the City has budgeted funds as vehicles have needed to be replaced which causes spikes and valleys in the City expenses depending on which vehicles need to be replaced in any given year.

Discussion:

Staff determined the normal useful life of the City's vehicles. This was based on industry standards, use of the vehicles, and past experience. After determining the useful life of each vehicle staff developed a spreadsheet which shows when a vehicle was purchased, the purchase price, the useful life, and the cost at replacement (based on an inflationary increase). Based on this analysis staff determined how much money would need to be set aside each year for each vehicle to be able to replace it at the end of its life. Staff then determined how much of this amount should already be set aside but has not. Based on this analysis the vehicles assigned to the General Fund should have set aside \$879,682 to date and needs to allocate \$114,169 each year; the Utility Fund should have set aside \$535,101 to date and needs to allocate \$40,552 each year; and the Marina should have set aside \$78,052 to date and needs to allocate \$16,807 each year.

This is a different analysis than the traditional depreciation analysis done in traditional accounting. Depreciation takes the cost of the vehicle, the expected life, and expenses the cost over the expected. If

there is any anticipated residual value this is deducted from the cost to determine how much of the vehicle is used up each year. This analysis, which is good for explaining the cost of a goods sold, would not allow the City to set aside enough money to replace vehicles as needed. Therefore, the staff recommended to the subcommittee using anticipated replacement cost instead. The subcommittee agreed with this analysis.


Fiscal Impact:

The cost to the General Fund would be \$879,682 from current reserves and a new budget item of \$114,000 starting in the 2015/16 budget. The cost to the Utility Fund would be \$535,101 from current reserves and a new budget item of \$40,552 starting in the 2015/16 budget. The cost to the Marina Fund would be \$78,052 from current reserves and a new budget item of \$16,807 in the 2015/16 budget.

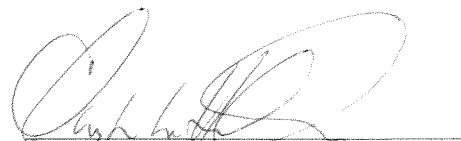
The anticipated ending fund balance for the General Fund in FY 2014/15 is about \$11,300,000. This transfer would reduce this to about \$10,400,000. The anticipated ending reserve in the Utility is about \$2,500,000. This transfer would reduce this to a little under \$2,000,000. The anticipated ending reserve in the Marina Fund is about \$700,000. This transfer would reduce this to about \$600,000.

Measure of Success

The City is able to replace vehicles as needed without impacting other services provided by the City.



Stuart Schillinger
Administrative Services Director



Clay Holstine
City Manager