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Patrol Fleet Leasing Equals Efficient Spending

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ABSTRACT

Does patrol fleet leasing equal efficient spending? The intent of this author is to determine whether or not it is more efficient to lease a patrol fleet or purchase a patrol fleet. To research this topic, information was gathered from books, periodicals, the internet and a telephone survey. The information gathered revealed that a municipality would save money by avoiding interest payments if the municipality had the money available to purchase a patrol fleet. If a municipality had limited funds or small revenues to support a balanced budget, then leasing may be a wise option. This would free up money, which could be spent purchasing equipment or used for other projects within the municipality. In conclusion, the end result is based on a municipalities ability acquire revenue to purchase a patrol fleet. Moreover, if the municipality has a limited budget for capital expenses, leasing is a viable option, but in the end the municipality will pay more for the patrol unit because of interest payments.

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INTRODUCTION

Police department budgets are crucial to the deployment of law enforcement. Researching the economic value between leasing a patrol fleet or purchasing one will result in vital information, which could lead to a more efficient budget for law enforcement agencies. It is hypothesized that leasing a patrol fleet will be more economical than purchasing a patrol fleet.

Most of the information about fleet leasing will come from magazines, periodicals and the internet. Information will also be obtained from the automobile industry, as well as the financing industry. A phone survey will be conducted in reference to leasing and the costs involved. It is anticipated that the outcome of this research will show that leasing is a better option than purchasing fleet vehicles.

The implications of this research to law enforcement will be the direct effects to a departments' budget and the possibility of lower liabilities. Costs of equipping or transferring equipment from one unit to the other will have an effect on the value of leasing versus purchasing. The research will affect the personnel of a police department by building their morale, as their equipment will be up-to-date and in good repair. As a morale booster having a newer patrol unit will have an affect on retaining personnel by making them happier with their equipment and foster a desire for them to stay with the department for a longer period of time. The image of the police department will be enhanced, the public will see officers arriving on calls and patrolling in units that are not in ill repair. Officers are also more likely to keep their units clean and take more pride in their equipment. Better equipment equals better morale, which leads to better public perception.

REVIEW OF LITERATURE

Through a review of the literature, this author discovered that there were limited resources on the subject of fleet vehicle leasing when dealing specifically with police vehicles. The best information this author obtained was found in a brochure from the Ford Motor Credit Company.

According to Barbara Lyons, Ford Motor Credit Company Marketing Coordinator, the Ford Municipal lease-purchase finance plan requires no security deposit, has no prepayment penalty, no mileage penalty, or hidden fees. The program is of non-recourse to the dealer and operates the same as a cash sale from the dealer to the municipal customer. At the inception, the new equipment title/registration indicates the municipality as registered owner, and designates Ford Motor Credit as the fist lien holder. At the end of the lease term, the municipality purchases the equipment for one dollar. The municipality is eligible for Ford Governmental Price or other discounts, to reduce product cost.

According to the Ford Motor Company Lease/Purchase Brochure, a municipality could purchase five vehicles costing twenty thousand dollars each with a payment of one hundred thousand dollars from the annual budget. By utilizing the lease purchase program a municipality could lease fourteen vehicles costing twenty thousand dollars each for three years at five percent APR. This is an annual payment of ninety seven thousand, nine hundred twenty-two dollars and twenty-eight cents. Vehicle lease/purchase program benefits include: low cost tax-exempt financing, getting the vehicles necessary when needed, payments that can be tailored to fit the client’s needs, no security deposits, mileage restrictions or pre-payment penalties, the absence of longterm debt to finance vehicles, available financing for all makes and models. Agencies should purchase vehicles when they have the money in their budget. Whether or not an agency should lease or own their vehicles depends on the amount of available funds and the number of vehicles needed. If agencies have the funds, they should purchase and own the patrol unit. If a poor cash flow exists, agencies should utilize the option to choose the action of using someone else's money by leasing. Leasing patrol vehicles is a recent development, which allows agencies to acquire new, updated vehicles with the latest engineering changes. It also allows them to take advantage of increased efficiencies and productivity demands of police duties. Agencies can also lower annual operating and maintenance costs due to the new technology. Vehicle maintenance costs of older vehicles change based on: use, proper or improper application, fleet mix, density, and operational or ergonomic modifications. For some smaller agencies or municipalities, another option tax-exempt, lease/purchase financing exists. This type of lease provides the best of both ownership and leasing: no major capital outlay for the acquisition of vehicles and payments spread out over two to five years. With this option, the agency acquires ownership at the conclusion of the lease term. In this regard, the lease resembles a conditional sale or installment purchase transaction. Municipal leases are specially designed contracts that do not create general obligation debt. The lease payment is generally an operation expense in the municipality budget even though the agreement may cover many years. The tax-exempt, lease/purchase agreement allows a governmental entity to acquire essential vehicles immediately. An agency finances the costs at tax-exempt rates and pays no federal income tax on the interest. This type of program is very advantageous if coupled with open-ended leases. (FBI Law Enforcement Bulletin, 2002).

The literature demonstrates that there is a difference between municipal fleet leases and consumer leasing. Consumer leasing has advantages and disadvantages. Some advantages include people who like to drive a new car every few years and end up paying less by leasing their vehicles and the consideration that lease payments are usually lower than loan payments. Leasing gives people the opportunity to drive a more expensive car than they could afford to buy. Some disadvantages include: having never-ending car payments and paying off a patrol car. If an agency is interested in having no payments, they shouldn't lease their patrol vehicles. Usually if one decides to buy a car at the end of the lease term, one would pay even more for the car than they would have originally. Most leases charge individuals twenty-five cents a mile and sometimes more if they exceed the annual mileage limit of what is usually fifteen thousand to twenty thousand miles.

A key factor in the decision to lease or purchase equipment is the governmental unit's financial position. In other words, it would be beneficial for a department to choose the option that is fiscally favorable to them, while also considering the potential tax advantages. According to Pritchard and Hindelang (1984), tax-exempt municipal leases contain a tax-exempt interest component as well as a non-appropriation (fiscal funding) clause. This combination enables state and local government lessees to bypass their debt limits and allows leasers to offer tax interest rates. There are several excellent private companies that can counsel and assist you in developing the proper lease documents.

In comparison literature indicates there is a vast difference between consumer leases and municipal tax-exempt leases. Smaller agencies are exploring the use of lease vehicles in their fleets in order to obtain more units at a time.

General Motors Fleet and Commercial division also offer a municipal lease purchase plan. According to the GMAC Municipal Lease Purchase Plan brochure, The Municipal Lease gives the municipality to stretch dollars by maximizing limited budgets. It offers flexibility of obtaining vehicles when they're needed, not just at certain times of the year. GMAC offers flexible payment schedules, unlimited mileage, extended service agreements and maintenance packages.

GMAC requires no security deposit. GMAC specifically designed this Municipal Lease Purchase Plan for municipalities that intend to own their vehicles. It is a retail financing program through which eligible municipalities or political subdivisions may finance their essential-use vehicles at favorable tax-exempt interest rates. It includes clauses that municipalities require to enter into this type of transaction.

According to Black (1997) American City and County Magazine tighter budgets and higher vehicle prices have municipalities examining how they spend money on fleet vehicles. Leasing is something consumers have been done for years to get more vehicle for the money. A municipality's decision may rest largely on cash flow and projected fiscal situations. Other factors include interest rates, maintenance costs, local availability of leasing services and municipality's needs in terms of types of vehicles and their intended use. Whether to lease or buy may not be an across the board decision, since fleet vehicles vary so much in price, hours of service and types of usage.

One benefit of leasing for municipalities is it eliminates a large capital outlay for acquisition of vehicles, enabling the governing body to treat the lease payments as operating expenses instead. The municipal lease does not create general obligation debt and avoids the expense of a bond issue. It acts, instead, as an installment sales contract with payments composed of principal and interest. Equity grows with each payment, and at the end of the agreement, the asset is owned free and clear at no additional cost.

Financing is structured as a series of one-year renewable obligations subject to the municipality's ability to appropriate funds for the continuation of the lease payments. The decision to buy of lease is not a simple one, because regardless of which choice is made, it invariably leads to more decisions. If a municipality seeks to purchase fleet vehicles, for example, it has the option of buying new or used. Regardless of which choice the municipality takes, it can conduct the transaction in a variety of ways. If leasing is the choice, a municipality must do its homework to determine which of the many types of leasing arrangements is most suitable.

METHODOLGY

The author's goal in conducting this research is to produce an answer to the research question: Is leasing a police fleet more economical than purchasing? The author's purpose is to establish the value of, and need for patrol fleet leasing. The author hypothesizes that this research will confirm that both officers and law enforcement agencies benefit when they lease a vehicle. Additionally the author contends that this study will also affirm that as a result of research findings. Having established these results through research, the author ultimately hopes that patrol fleet leasing is a good value.

Additionally, data has been collected from fourteen Texas municipalities who lease or purchase the patrol fleet. This has been accomplished through the administration of a telephone survey utilizing categorical and close-ended, forced response questions. Survey participation was requested of representatives from municipalities of varying size and geographic location within the state of Texas, and resulted in 100% response rate. Analysis of this data will produce statistics regarding the percentage of agencies currently employing five or more personnel.

Patrol Fleet Leasing Equals Efficient Spending, it is hypothesized that leasing a patrol fleet will be more economically sound than purchasing a patrol fleet. This author believes the better option will be leasing a patrol fleet due to officers getting new cars on a regular rotating basis; leading to better moral and productivity from patrol officers.

A telephone survey of municipalities with police departments with five or more personnel will be conducted to determine their ideas regarding patrol fleet leasing and patrol fleet purchasing. The size of the survey and nature of the survey will cover questions on whether or not their agency participates in a leasing program, how it has affected morale among officers of the agency and if the agency has saved money since they have started a leasing program. This survey will cover the state of Texas as the survey will be from municipalities from all over the state. The obtained information will be analyzed by the responses given by each participating agency. The surveys will be compared with each other and may lead to further research with that agencies finance director or fleet manager.

FINDINGS

This author found after conducting the research the Ford Motor Credit Lease purchase and the GMAC Lease Purchase are similar programs. Offering no security deposit, has no prepayment penalty, no mileage penalty, or hidden fees. The program is non-recourse to the dealer, the same as a cash sale from the dealer to the municipal customer. At the inception, the new equipment title/registration indicates the municipality as registered owner, and designates the leasing company as first lien holder. At term end, the municipality buys the equipment for one dollar and can use the vehicle as needed or trade it in on new vehicles.

This research shows if a municipality has the cash on hand to purchase a patrol fleet then it should do so. If a municipality has limited funds available and needs to free up more money for other budgeted items then a lease purchase program should be explored.

If a municipality has a need to replace for example, two cars every three years then they could explore the possibility of a lease purchase. If the municipality used capital outlay funds to purchase the patrol vehicles at a cost of $42,000 dollars the budget for that year would have to balance with a large expenditure. However, if the municipality entered a lease program then the agency could spread the payments over the next three years with payments of $14,000 then the budget would have a reduced expenditure for that year freeing up funds that could be used for other equipment or projects.

Municipal leases are specially designed contracts that do not create general obligation debt the payment is generally an operation expense in the budget even though the agreement may cover between two and five years. The research has also demonstrated there is a difference between a consumer lease and a governmental lease. Consumer leases have different regulations and usually higher percentage rates. Consumer leases also include penalties for exceeding mileage. A municipal lease is more like a finance plan designed to stretch the payment of the vehicles over a specific period of time with no mileage fee or penalty for turning the vehicles back over to the leasing company should funds not be available to make the payment.

Key factors to consider in a decision to lease or purchase equipment is relevant to the municipality's financial position. Municipal leases contain a tax-exempt interest component as well as a non-appropriation clause enabling the municipality lessees to bypass their debt limits and allow leasers to offer tax interest rates. If a municipality has funds available and cash on hand to purchase then they can avoid additional costs of paying interest. Another factor to consider is the higher cost of fleet vehicles.

Consumers have been leasing vehicles for years to get more vehicle for the money, municipalities are increasingly looking into other options to obtain more vehicles without over extending the budget limits they work within. A lease purchase program opens new avenues for municipalities to explore in order to obtain and fill the patrol fleet needs. A benefit of leasing patrol fleets for municipalities is it eliminates a large capital outlay for acquisition of vehicles. The lease payments can be treated as operating expense. Financing is constructed as a series of annual renewable obligations. The structure of the payments can be tailored to the municipality's ability to appropriate funds.

By purchasing a patrol fleet the municipality owns the vehicle outright. There is no further obligation and if the municipality runs into budget constraints the next budget year they at least own the vehicle. If the municipality was in a lease purchase contract and was unable to fund the annual payment they would have to return the patrol units leased under the lease purchase contract leaving the municipality without the amount of units obligated to the lease.

Two out of fourteen surveys conducted throughout the state of Texas resulted in municipalities who lease patrol units. This author learned these municipalities who are leasing are doing so because they can acquire more patrol units at a time reducing the amount of money expended from one budget year. The municipalities are also able to free up moneys to be utilized to acquire much needed equipment to furnish the officers and the patrol units. Municipalities who are lease purchasing the patrol units have shown a reduction in maintenance costs because the units are rotated out sooner before the mileage exceeds the expected life of the vehicle. These municipalities also report getting a higher residual when they sell the patrol vehicles at the end of the life cycle. The surveyed municipalities utilizing the lease purchase have stated one downside of the lease purchase is paying an interest rate which is usually very low. One surveyed municipality reported saving money by setting up monthly payments rather than annual or bi-annual payments.

Some municipalities surveyed who purchase the patrol vehicle reported they purchase the fleet vehicles because they can own the vehicle without owing money or having a lien carried on the vehicle. The municipalities reporting owning or purchasing the fleet vehicles tend to keep the fleet vehicles on line longer. Two out of fourteen agencies surveyed lease the patrol fleet. Twelve out of fourteen purchase the patrol fleet. Six out of fourteen agencies rotate the patrol car out at or prior to 100,000 miles. Three out of fourteen agencies have no set mileage for rotating a patrol car out of service. Five out of fourteen agencies rotate the patrol car out of service over 100,000 to 130,000 miles.

The survey showed municipalities who lease the patrol fleet reported not being locked into a specific make of vehicle. Depending on what brand of fleet vehicle was chosen for the fleet Chevrolet, Dodge or Ford a lease purchase program is available and is competitive with each other, offering very similar programs.

DISCUSSION/CONCLUSIONS

Police Department budgets are key to the deployment of law enforcement. Researching the economic value between leasing a patrol fleet or purchasing one will result in vital information which could lead to a more efficient budget. The purpose of this study to determine the economic value between leasing or purchasing a fleet vehicles. It is hypothesized that leasing a patrol fleet will be more economical than purchasing a patrol fleet.

Findings show that the value of leasing a patrol fleet has a lot to do with a municipality's cash flow and its ability to acquisition money. Municipalities who have a low cash flow can get fleet vehicles they need without expending one large lump sum of money in one budget year by spreading the cost over a three year lease. By budgeting $14,000 in one budget year a municipality is able to lease purchase two patrol units. If the municipality was going to purchase two fleet vehicles the cost would be about $42,000 without equipment. The lease is able to free up $28,000 dollars that can be used in other areas of the budget which helps finance officers balance the budget.

Finance officers are also able to show the expenditures for a lease purchase as operating costs and not capital outlay. However, if a municipality is unable to allocate funds in the next budget year they will have to return the fleet vehicles back to the leasing company, which the municipality is protected by a non-appropriation clause in the lease contract. At the end of the lease the fleet vehicle cost the more money than would if it were purchased outright because of the additional interest accrued throughout the term of the lease.

The findings of this research did not support the hypothesis. It was hypothesized that leasing a patrol fleet would be more economical than purchasing a patrol fleet. When one analyzes the cost of purchasing a fleet vehicle and leasing a fleet vehicle in the end a leased vehicle costs more due to paying interest. The lack of literature such as books hindered this study. Limited information was available in periodicals, and on the internet.

This study is relevant to law enforcement because it provides information relating to an important part of the deployment of officers. Officers need good working fleet vehicles, this information may help a finance officer, city manager, or police chief decide what is the best way for the municipality to acquire a fleet vehicle.

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