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## Memorandum

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**Date:** November 29, 2017

**To:** Nicolette Bateson, Chief Financial Officer/Treasurer

**From:** Jim Glavin, Manager – Supply Chain Operations

**RE:** Enterprise Fleet Management Lease versus Self-Funded Comparison

At the November 8, 2017 Operations & Resource (OAR) meeting a question was asked concerning lease vs. buy (self-funded in Enterprise's language). Accordingly, the following lease vs. buy comparison was initiated by Supply Chain Operations (SCO) staff.

The comparison is based on GLWA's initial request for 116 new vehicles in year one of the agreement as configured by GLWA's Fleet team for options and annual mileage. The comparison does not include any maintenance costs. The current GLWA fleet's estimated equity of \$1,083,020 is not part of the calculations.

The five-year gross lease cost is \$3,283,065 versus an initial buy at \$3,646,000 resulting in a favorable difference of \$362,935. This difference, however, can be affected by one of two scenarios.

Scenario 1: Upon lease turn in GLWA is estimated to have \$522,000 in equity making the net lease cost \$2,761,065 (\$3,283,065 minus \$522,000)

Scenario 2: Purchase upon lease end is \$928,066 making the net lease cost \$4,211,131 (\$3,283,065 plus \$928,066)

The total lease costs including lease end purchase is \$4,211,131 versus initial buy of \$3,646,000. The ultimate decision is driven by GLWA's needs and is likely to vary on a per vehicle basis as our fleet function stabilizes with new management in that area. The range of the outcome is up to \$565,131 payable over five years. Note also that, with either

scenario 1 or 2 above, the estimated equity in the 116 vehicles in five years would be \$1,450,066 (\$928,066 plus \$522,000).

With leasing, GLWA can turn vehicles in early without a penalty or exit the agreement without penalties. Additionally, leasing would allow GLWA to have a regular upgrade/replacement program in place to insure having a safe, quality fleet of an average age of less than five years versus ten years for the current fleet.

Other considerations by staff include 1) the modernization an aged fleet without significant up-front cash commitment and 2) reducing the need for additional internal staff resources to manage the buy/sell process.

Note: supporting calculations are on the next page.

<b>Leasing Options</b>	<b>Lease Costs</b>	<b>Self-Funded</b>	<b>Difference</b>
Lease Option 1 - Turn In Vehicles at Lease End			
Total Lease Payments	\$ 3,283,065		
Lease Equity Upon Turn In	(522,000)		
Net Lease Costs	<u>\$ 2,761,065</u>	\$ 3,646,000	\$ (884,935)
Lease Option 2 - Purchase Vehicles at Lease End			
Total Lease Payments	\$ 3,283,065		
Purchase Option	928,066		
Net Lease Costs	<u>\$ 4,211,131</u>	\$ 3,646,000	\$ 565,131

<b>Row</b>	<b>116 Vehicles (No Maintenance costs included)</b>	<b>Amount</b>
A	Year 1	\$656,613
B	Year 2	656,613
C	Year 3	656,613
D	Year 4	656,613
E	Year 5	656,613
F	Total Lease Payments (A+B+C+D+E)	\$3,283,065
G	Lease equity upon turn in	522,000
H	Net lease(F-G)	<u>\$2,761,065</u>
I	Lease End Purchase Option	\$928,066
J	Total Lease if Purchased at Lease End (F+I)	\$4,211,131
K	Self-Funded	\$3,646,000
L	Difference (J-K) between purchase at end of lease or day 1	\$565,131
M	Difference (H-K) between leases turned in or purchase at day 1	<b>(\$884,935)</b>
N	Current GLWA Owned Equity (can be applied to F, H or K)	\$1,083,200