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# **City of Olathe Vehicle and Equipment Replacement Fund (VERF)**

KSGFOA Fall Conference  
September 18, 2008

# VERF Overview

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- Purpose of the VERF
- Why and how the VERF was established
- How it works – administrative regulation
- Advantages and disadvantages
- Quality Improvement Process (QIP)
  - Concern about ongoing fund sustainability
  - Budget issues
  - Policy clarification

# Purpose of VERF

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- Ensure adequate funds are available to purchase vehicles and equipment
- Stabilize budgeting for major purchases
- Provide a systematic, citywide approach to procurement and disposition of fleet
- Goal is to provide sufficient cash flow for annual purchases – not to equal replacement value of fleet

# Establishing the VVERF

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- Assets were transferred into the new VVERF fund
- Lease fees for each asset were calculated and charged for remaining lives
- Accumulated depreciation was funded over a two or three year period as budget allowed
- Policy did not provide for an inflation or replacement value aspect – lease fees were based only on actual cost

# How the VERF Works

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- Separate fund that owns the vehicles and equipment
- Capital assets and depreciation are in VERF, not user funds
- User funds and departments pay lease fees
  - Double lease fees for new assets
  - Single fees for replacement assets
  - Half fees for assets retained after their life has ended

# How the VERF Works

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- Finance Director is the final decision maker (with City Manager in an appellate role)
- All areas of Finance are involved – Purchasing, Accounting, Budget
- Administrative regulation (AR) governs – input from all stakeholders
- AR provides annual calendar for VERF process and expected useful lives of classes of assets

# Advantages and Disadvantages

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- Advantages:
  - Prevents wide fluctuation in department operating budgets for vehicle and equipment purchases from one year to the next
  - Provides a citywide framework for budgeting, procurement and fleet management

# Advantages and Disadvantages

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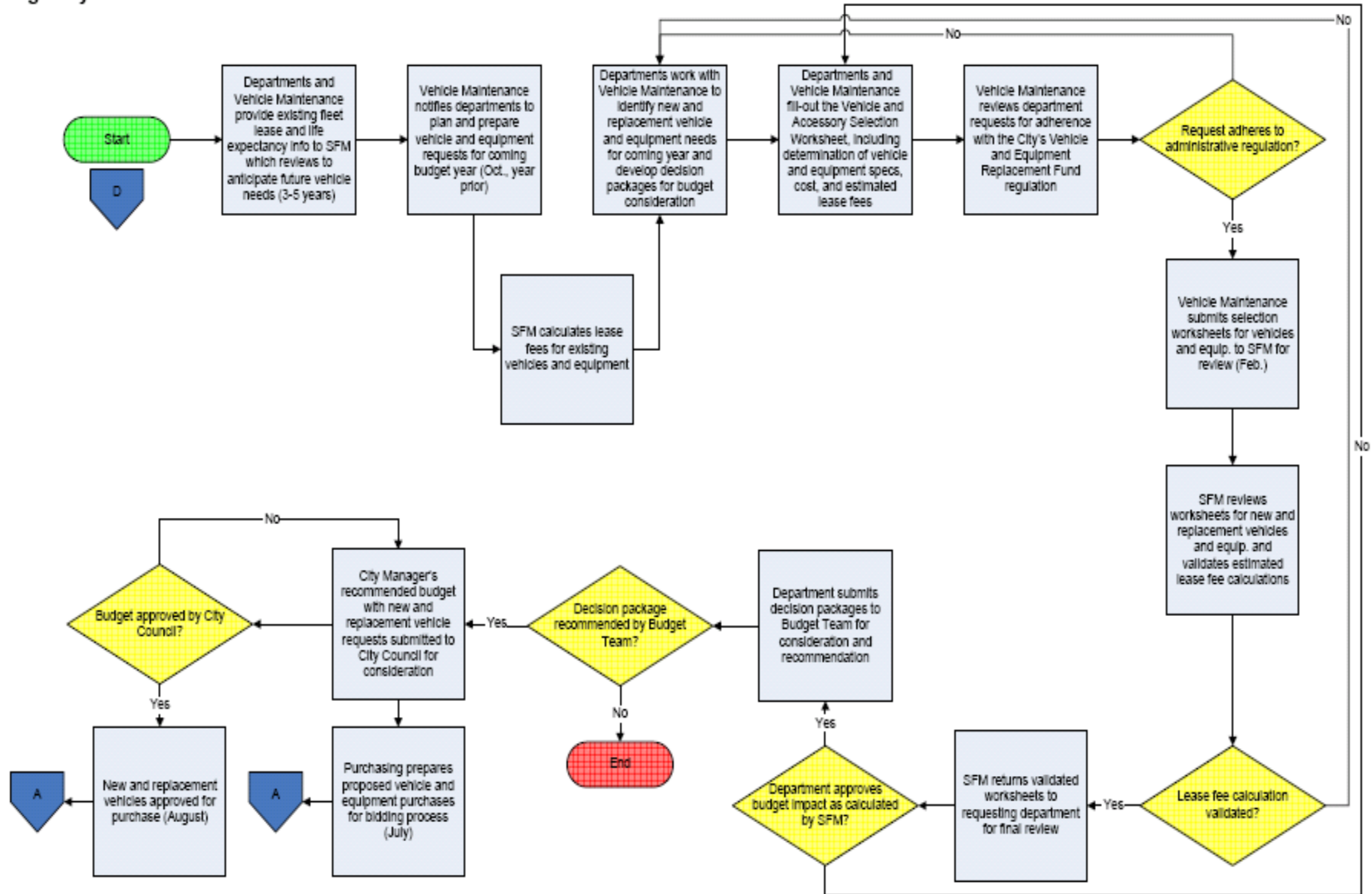
- Disadvantages:
  - Historically not as strong budget oversight as department budgets – has been seen as an “easy” funding source
  - Original plan did not provide for
    - Significant increases in equipment cost
    - “Scope creep” – the replacement vehicle may have many more bells and whistles

# QIP Discussion Points

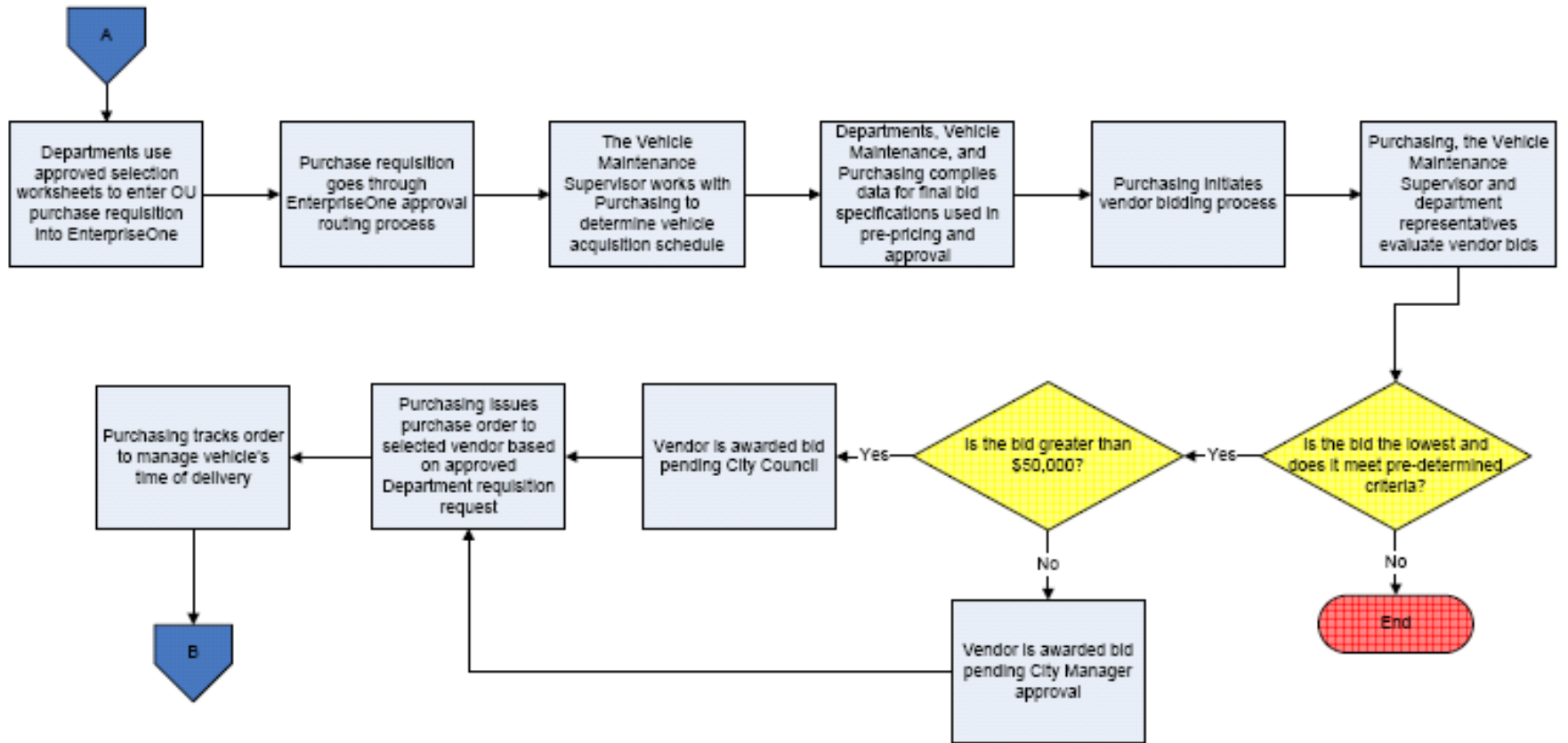
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- Created and reviewed process map – budget, purchasing, receiving and maintenance cycles
- Definition of items eligible to be charged to the VETF – preventing asset “growth”, treatment of on-vehicle computer equipment
- Proposed revision of lease fee formula to incorporate inflation, salvage value and replacement cost
- Possible revisions to lives of certain types of assets

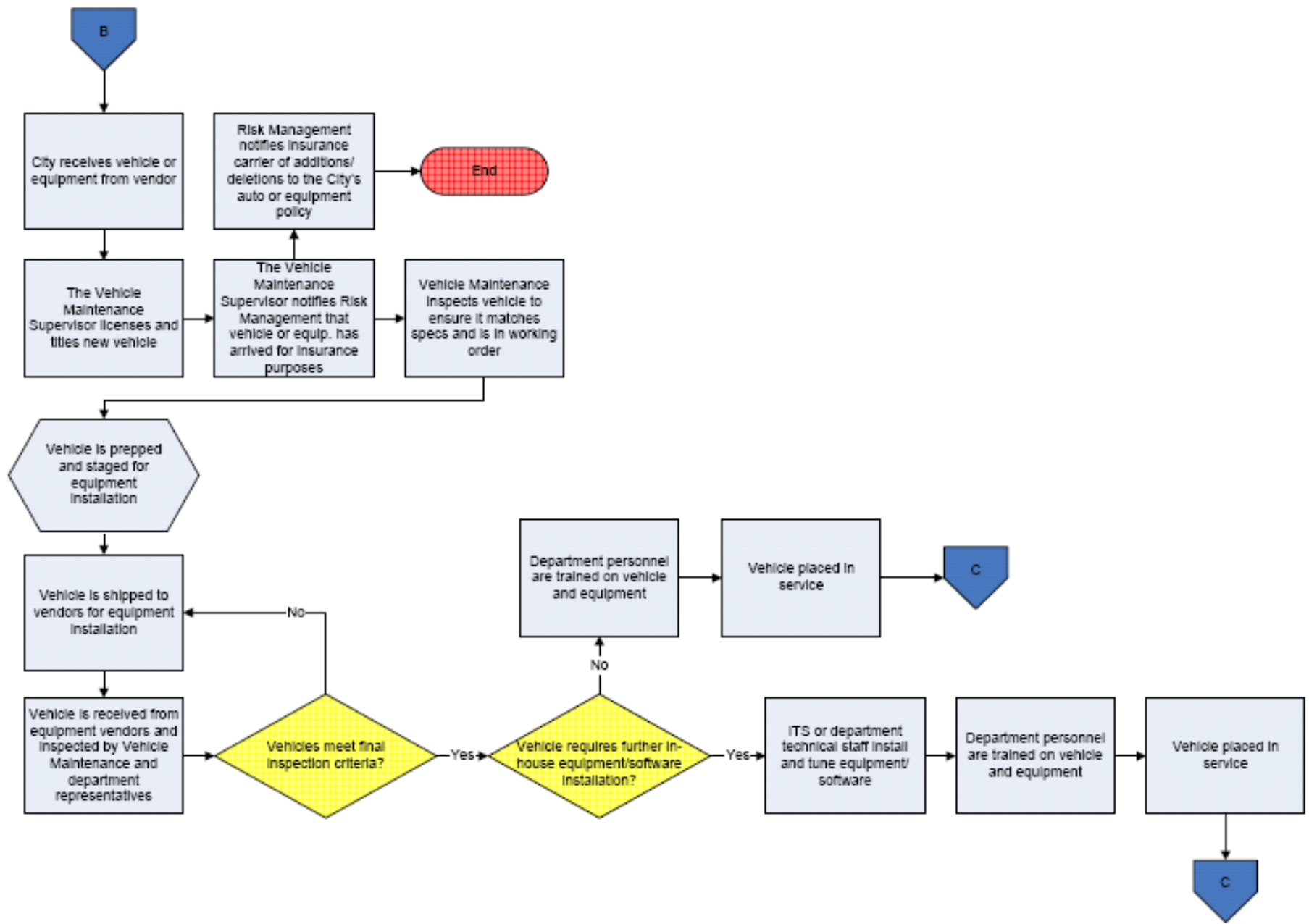
# Budget Cycle



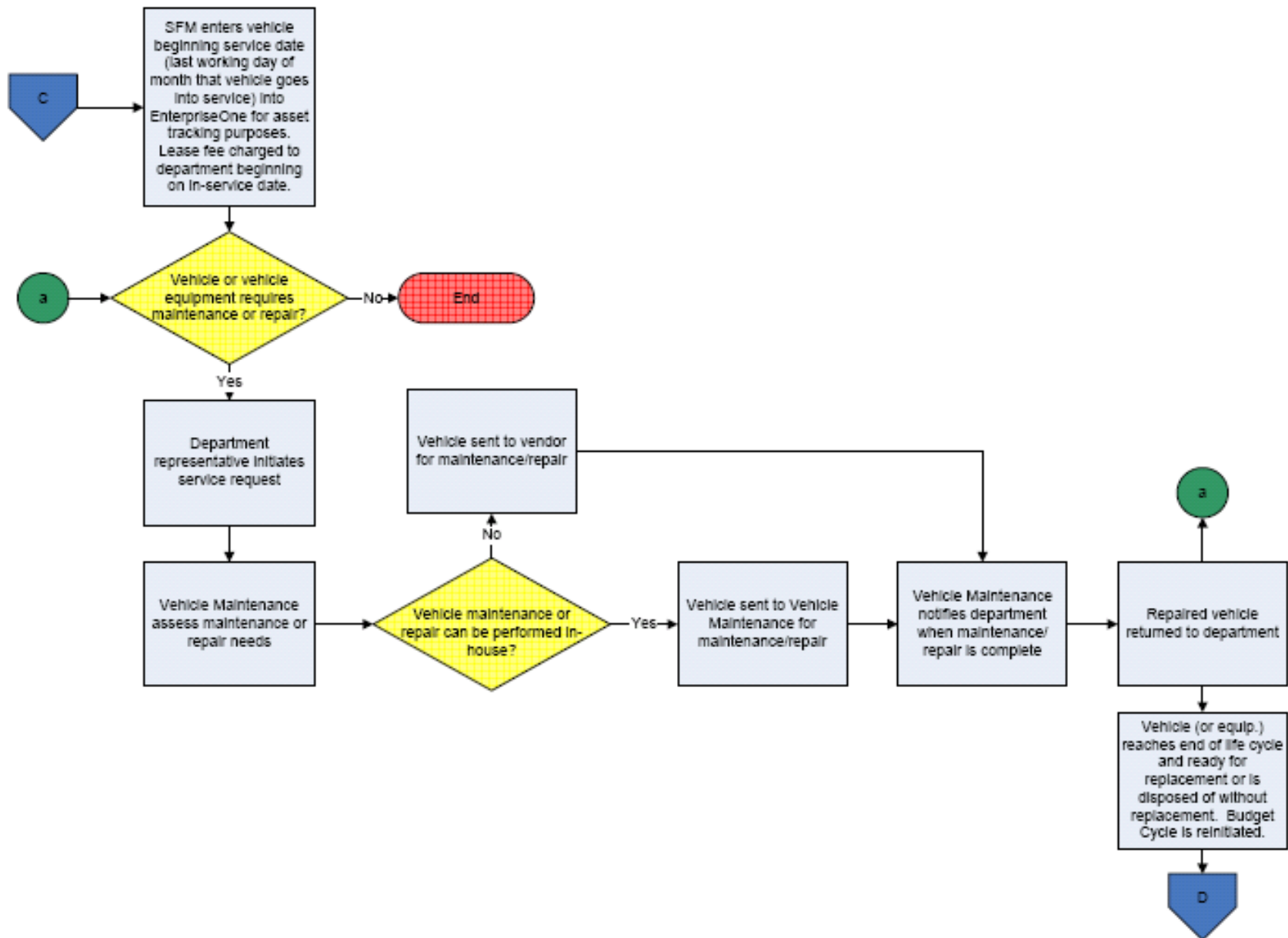
# Purchasing Cycle



# Receiving Cycle



# Maintenance Cycle



# Proposed Lease Fee

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- Lease fee calculation (proposed revised policy):
- $[A + B - D]/\text{life} * C = X$
- A = asset cost
- B = fund shortage
- C = inflation factor
- D = Salvage value
- X = normal annual lease fee

# Example of Lease Fee Shortage

<b>Year of Purchase (YOP)</b>	<b>VERF Balance YOP</b>	<b>Vehicle Cost</b>	<b>VERF Balance Immediately After Purchase</b>	<b>Vehicle Life</b>	<b>Lease Fees During Vehicle Life</b>	<b>Balance Remaining for Replacement</b>
1990	-	150,000	(150,000)	10	300,000	150,000
2000	150,000	600,000	(450,000)	10	600,000	150,000
2010	150,000	1,000,000	(850,000)	10	1,000,000	150,000

# VERF Sustainability Trend

	12/31/99	12/31/01	12/31/03	12/31/05	12/31/07
<b>FLEET VALUE</b>	<b>16,511,693.09</b>	<b>22,116,711.12</b>	<b>23,786,619.54</b>	<b>29,653,541.47</b>	<b>35,271,226.98</b>
<b>DEPRECIATION</b>	<b>9,358,503.14</b>	<b>11,203,845.10</b>	<b>13,406,619.98</b>	<b>17,170,734.29</b>	<b>19,633,931.41</b>
<b>NET BOOK VALUE</b>	<b>7,153,189.95</b>	<b>10,912,866.02</b>	<b>10,379,999.56</b>	<b>12,482,807.18</b>	<b>15,637,295.57</b>
<b>Fund balance</b>	<b>3,376,942.00</b>	<b>2,356,117.00</b>	<b>4,055,763.00</b>	<b>2,444,892.00</b>	<b>3,620,515.00</b>
<b>FLEET VALUE</b>	<b>20.45%</b>	<b>10.65%</b>	<b>17.05%</b>	<b>8.24%</b>	<b>10.26%</b>
<b>DEPRECIATION</b>	<b>36.08%</b>	<b>21.03%</b>	<b>30.25%</b>	<b>14.24%</b>	<b>18.44%</b>
<b>NET BOOK VALUE</b>	<b>47.21%</b>	<b>21.59%</b>	<b>39.07%</b>	<b>19.59%</b>	<b>23.15%</b>