

TOWNSHIP OF LOWER MERION
Finance Committee
Issue Briefing

Topic: Equipment Fund - 2023 Asset Replacement Schedule

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I. Action To Be Considered By The Board:

Review and discuss the planned 2023 Equipment Fund vehicle and equipment replacement list and offer any comments or direction.

II. Why This Issue Requires Board Consideration:

It has been the Township's policy to discuss this issue annually at a Finance Committee meeting to get feedback and any necessary policy direction from the Board of Commissioners.

III. Current Policy Or Practice (If Applicable):

The Township's Equipment Fund is an internal service fund that accounts for the asset replacement, operating and maintenance costs of the Township's fleet and communications equipment. Costs include fuel, materials, maintenance, and asset replacement that are determined annually on a cost recovery basis. Township departments that use equipment are assessed a "rental" charge, which reimburses the Equipment Fund for these costs through interfund transfers. The asset replacement component of the rental charge is a current operating expense to gradually pay for the use of the asset during its useful life, thus providing funding for the future asset replacement. This recurring source of funding is intended to make the Equipment Fund self-sufficient, although a one-time transfer of \$2.0 million from the General Fund to the Equipment Fund was approved last year. The vehicles and equipment are assigned to three main operating funds, the General Fund, Sanitary Sewer Fund and the Solid Waste Fund.

For over two years now supply chain constraints and other factors have significantly curtailed the availability of new vehicles. The delivery time for certain heavy equipment has elongated significantly as equipment that used to take 9-12 months now can take three or more years to be delivered. For example, currently the Township has nine units on order going back to 2021 totaling approximately \$1,000,000. Township staff has been trying to navigate this environment by proactively planning replacement cycles and working with its vendors/suppliers, but it has been very challenging.

IV. Other Relevant Background Information:

A list of the 2023 scheduled vehicle and equipment replacements has been provided to the Board. In 2023, the Equipment Fund is scheduled to purchase 51 replacement assets (vehicles and major equipment). The Township's Public Works Fleet Division will continue to enhance its preventive maintenance of vehicles and major equipment to try to lengthen the useful life of Township assets especially considering the issues which may force the Township to hold on to certain vehicles longer. Approximately 40% of the vehicles and equipment slated for replacement in 2023 are at least one year beyond their original replacement date.

The number of purchases has increased from 39 last year and the estimated purchase value of all vehicles and equipment is significantly higher due to the need to replace multiple Public Works vehicles and equipment this year that have an estimated purchase price above \$100,000. However, staff anticipates that the actual cash outflows will occur over several years given its recent experience and the expected lead time for certain equipment.

The majority of asset replacements are scheduled to be purchased from the Commonwealth of Pennsylvania's cooperative purchasing program (COSTARS) or a similar purchasing cooperative. Based on vehicle availability some vehicles and equipment may need to be purchased utilizing the public bidding process. Township staff will report to the Board through the Operations Report on major purchases as it has in past years.

Discussion of Alternative Fuel Vehicles/Equipment Options

Township staff has continued to evaluate and consider the inclusion of alternative fuel vehicles and equipment into the Township's fleet. As technology advances, studies have indicated that alternate fuels vehicles have the potential to reduce vehicle air emissions and stabilize total cost of ownership. In order to ensure Lower Merion is doing its part to reduce air emissions, effectively manage fleet spending, and respond to policy direction to begin to integrate electric vehicles into the Township fleet, Township staff is proposing five additional electric vehicles in Parking Services, Police and Building & Planning as part of the 2023 fleet replacement plan. The cost of the five electric vehicles is expected to be approximately \$250,000.

As a result of the Inflation Reduction Act of 2022, tax-exempt organizations such as the Township now qualify for a direct payment credits of up to \$7,500 per vehicle for Class 1 and 2 electric vehicles such as the ones proposed in the proposed equipment list, for a total savings of up to \$37,500. Additionally, lower vehicle fueling and maintenance costs for the electric vehicles would offset a small portion of their initial acquisition costs over time. Township staff also intends to apply for the PADEP Alternative Fuels Incentive Grant for an additional \$7,500 per vehicle for Class 1 and 2 electric vehicles, although the rapidly increasing adoption of electric vehicles in recent years has made those grants more competitive. If the Board preferred an alternative approach, three of the five vehicles scheduled to be transitioned to electric vehicles could be replaced with a reassigned police patrol vehicles at a cost of roughly \$3,500 per vehicle.

Township staff will continue to try to balance the costs associated with transition to electric vehicles versus the benefits as it gains insights from its most recent electric vehicles fleet

purchases. Those vehicles are being transferred to different departments to gauge the feedback from staff and how well they meet the needs of each department/division.

The Township will also continue to incorporate electric/battery powered equipment into operations in Parks, Shade Tree and other areas where it is operational feasible. For example, Parks & Recreation has acquired a full size, zero-turn electric mower that it is using on certain fields and park areas this year to gauge its effectiveness and ability to meet the Township's operational needs.

V. Impact On Township Finances:

Township staff projects the Equipment Fund will be stressed by the rapid price increases we have seen in recent years. For example, the following details some recent price increase examples:

- a. Shade Tree Chipper: 2019 purchase = \$57,300; 2023 purchase = \$115,500.
- b. Electric Shop Bucket Truck: 2018 purchase = \$105,000; 2023 purchase = \$210,000
- c. Highway Dump Truck: 2021 purchase = \$184,000; 2023 purchase = \$260,000
- d. Highway Knuckle Boom Truck: 2013 purchase = \$205,000; 2023 purchase = \$403,000

The impact of these price increases will be higher Equipment Fund rental rates to the General Fund, Sewer Fund and Solid Waste Fund. The average increase in the Equipment Fund rental rates over the last four budgets has been 7.3%, which might be the minimum increase over the next several years if costs continue to escalate at their current pace. In addition, the Township has significant major equipment to replace over the next few years. Fortunately, the cash and investment balance in the Equipment Fund was bolstered by the recent \$2.0 million transfer and was over \$6.3 million as of year-end 2022. This level of reserves is sufficient for 2023 especially considering some of the 2023 equipment is not expected to arrive for several years.

The current environment of rising costs, long order lead times and other uncertainty make financial projections for the Equipment more difficult. While it is almost certain that rental rates will increase at rates much higher than most other expenditure categories, it remains possible that the 50% funding level for the General Fund may need to be re-evaluated in the future and/or additional General Fund transfers may be necessary. Township staff will continue to monitor the Equipment Fund moving forward to ensure its financial viability and report back to the Board later this year.

VI. Staff Recommendation:

Staff recommends the Township proceed with purchasing the equipment and vehicles as presented with any revisions recommended by the Board of Commissioners.