HISTORIC
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ITEM #6
FINANCE
08-19-10

MEMORANDUM

August 13, 2010

TO: Board of Mayor and Aldermen

FROM: Eric S. Stuckey, City Administrator
Russ Truell, Assistant City Administrator/CFO

SUBJECT: Automobile Allowances

Purpose

The purpose of this item is to consider extending the use of automobile allowances, in lieu of assigned City vehicles, by allowing the City Administrator flexibility in offering allowances of varying amounts based on usage and job requirements.

Background

In 2006, the Finance Committee established a policy of providing an automobile allowance to certain Department Directors who were not issued City vehicles. The amount of $200 per month was set for the three positions involved. Since that time, other Directors have suggested a willingness to forgo using a City vehicle by providing their own transportation. However, no action has been taken because of the relatively low limit on the monthly allowance.

Financial Impact

Reduction in the cost of the City fleet can be achieved by replacing City assigned vehicles with auto allowances for personal vehicles. City vehicles can be expensive, considering the purchase price, fuel and maintenance requirements, plus insurance costs. The overall financial impact will vary with 1) the number of fleet vehicles that are replaced with allowances, 2) the size, weight, and cost of the fleet vehicles, and 3) the amount of allowance granted.

Options

1) Give the City Administrator latitude to establish auto allowance rates based on cost of service, price conditions, and usage
2) Limit such authority by setting an upper limit for auto allowances or, alternatively, a certain percentage of estimated cost of driving a particular vehicle [Example: maximum of $500 per month or 50% of the total cost of ownership]
3) Leave the policy as is.

Recommendation

Staff recommends assigning the City Administrator the authority to use his judgment in establishment of auto allowances with a maximum amount set by policy.

Cost of vehicle estimates

Category	Regular Sedan	Small Sedan	Regular SUV	Small SUV	Light Truck	Regular Truck	Hybrid Sedan	Patrol Car
Example makes and models								
Ford	Crown Vic	Focus	Explorer	Escape	Ranger	F150	Fusion	Crown Vic
Chevrolet	Impala		Tahoe	Equinox	Colorado	Silverado	Malibu	Impala
Dodge		Avenger						Charger
Toyota							Prius	
purchase price								
Ford	$ 24,324	$ 13,088	$ 26,500	$ 25,000	$ 16,000	$ 18,000	$ 26,408	$ 23,945
Chevrolet	$ 18,068		$ 26,500	$ 25,000	$ 16,000	$ 18,000	$ 25,300	$ 23,227
Dodge		$ 15,776						$ 21,815
Toyota							$ 22,611	
Source of purchase pricing	SWC	SWC	CoF est	CoF est	CoF est	CoF est	SWC	SWC
After-market add-ons	depends	depends	depends	depends	depends	depends	depends	$ 6,000
date of purchase/lease								
purchase interest rate								
Annual financing cost (depreciation)	4,054	2,181	5,300	5,000	2,667	3,600	5,282	4,789
lease interest rate								
Annual leasing cost								
Estimate life cycle	100K miles / 8 years	100K miles / 8 years	100K miles / 8 years	100K miles / 8 years	100K miles / 8 years	100K miles / 8 years	100K miles / 8 years	100K miles / 6 years
End of cycle salvage value	1/8 of purchase price	1/8 of purchase price	1/8 of purchase price	1/8 of purchase price	1/8 of purchase price	1/8 of purchase price	1/8 of purchase price	1/8 of purchase price
Annual miles driven								
take home	10,000	10,000	10,000	10,000	10,000	10,000	10,000	20,000
assigned vehicle	5,000	5,000	5,000	5,000	5,000	5,000	5,000	15,000
pool vehicle	not available	not available	not available	not available	not available	not available	not available	not applicable
patrol car	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable	15,000
Type of fuel required	gasoline	gasoline	gasoline	gasoline	gasoline	gasoline	gasoline	gasoline
Cost of fuel per gallon	$ 2.50	$ 2.50	$ 2.50	$ 2.50	$ 2.50	$ 2.50	$ 2.50	$ 2.50
MPG, city	18	24	15	20	15	15	41	10
Annual cost of fuel								
take home	$ 1,389	$ 1,042	$ 1,667	$ 1,250	$ 1,667	$ 1,667	$ 610	$ 5,000
assigned vehicle	$ 694	$ 521	$ 833	$ 625	$ 833	$ 833	$ 305	$ 3,750
pool vehicle	not available	not available	not available	not available	not available	not available	not available	not applicable
patrol car	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable	$ 3,750
Annual cost of consumables, including tires, batteries, brakes, oil, etc.	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500
Warranty, bumper to bumper	3 yr / 36K miles	3 yr / 36K miles	3 yr / 36K miles	3 yr / 36K miles	3 yr / 36K miles	3 yr / 36K miles	3 yr / 36K miles	3 yr / 36K miles
Warranty, powertrain	5 yr / 60K miles	5 yr / 60K miles	5 yr / 60K miles	5 yr / 60K miles	5 yr / 60K miles	5 yr / 60K miles	5 yr / 60K miles	5 yr / 60K miles
Annual cost of maintenance								
First year	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50
Second year	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50	$ 50
Third year	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500
Fourth year	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500
Fifth year	$ 350	$ 350	$ 350	$ 350	$ 350	$ 350	$ 350	$ 350
Sixth year	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500
Seventh year	$ 750	$ 750	$ 750	$ 750	$ 750	$ 750	$ 750	$ 750
Annual cost of property & liability insurance	$ 250	$ 250	$ 250	$ 250	$ 250	$ 250	$ 250	$ 250
Total Cost per Year	$ 6,543	$ 4,323	$ 8,067	$ 7,350	$ 5,433	$ 6,367	$ 6,991	$ 10,889
Total Cost per Month	$ 545	$ 360	$ 672	$ 613	$ 453	$ 531	$ 583	$ 907

Memphis Business Journal - April 8, 2010
/memphis/stories/2010/04/05/daily18.html?s=du&ed=2010-04-08

Memphis Business Journal

Thursday, April 8, 2010, 11:37am CDT

AAA: Car ownership costs rose in 2009

Memphis Business Journal

View Larger

Owning and operating a car got more expensive last year due mostly to higher gasoline prices, according to **AAA**'s 2010 edition of the annual 'Your Driving Cost' study released Thursday.

The average cost to own and operate a sedan rose 4.8 percent to 56.6 cents per mile, or $8,487 a year, based on 15,000 miles of annual driving, AAA said.

Other models' cost per year:

- Small sedan -- $6,496
- Medium sedan -- $8,436
- Large sedan -- $10,530
- Four-wheel drive SUV -- $11,085
- Minvan -- $9,301

Key services, such as routine oil changes, tire rotations, and replacing the timing belt or maintaining a timing chain, can be a car owner's insurance against unnecessary and/or major car repairs, AAA noted.

"The most cost-effective way to keep a car running is to perform regular oil changes that average $100 a year, versus the $4,000 it would cost to replace an engine that has not been cared for properly," said Pete Candela, director of AAA Automotive Repair, in a statement. "So, preventative maintenance is the best insurance policy you can have to protect your engine."

Gas costs have risen steadily over the past year. The average price of gasoline in Tennessee reached $2.698 per gallon last week, according to **AAA Auto Club South**. The average price in the Volunteer State was $2.615 a month ago and $1.923 a year ago.

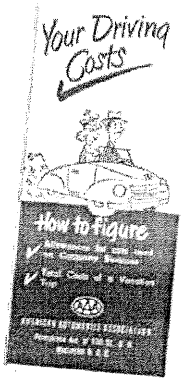
Behind the Numbers

2009 Edition

AAA is a federation of motor clubs serving more than 51 million members in the United States and Canada through more than 1,100 offices.

Founded in 1902, AAA is a not-for-profit, fully taxpaying corporation. Its purpose is twofold: give members a full range of automotive and travel-related services and promote the interests of motorists and travelers through legislative and educational activities.

AAA has published *Your Driving Costs* since 1950. That year, driving a car 10,000 miles cost 9 cents a mile, and gasoline sold for 27 cents per gallon.



Methodology Most cost calculations in this edition of *Your Driving Costs* are comparable to the 2008 version. However, revised U.S. Environmental Protection Agency fuel-economy estimates intended to better reflect "real world" results establish new baselines for fuel costs and overall average operating expenses in comparison with previous editions. The process used to estimate annual driving costs is proprietary to AAA. It incorporates standardized criteria designed to model the average AAA member's use of a vehicle for personal transportation over five years and 75,000 miles of ownership.

The use of standardized criteria ensures AAA's estimates are consistent when comparing driving costs of different vehicle makes and models. Actual driving costs will vary based on individual driving habits, location, operating conditions and other factors.

Estimates are provided to help consumers make informed vehicle purchase decisions and budget for annual automotive expenses.

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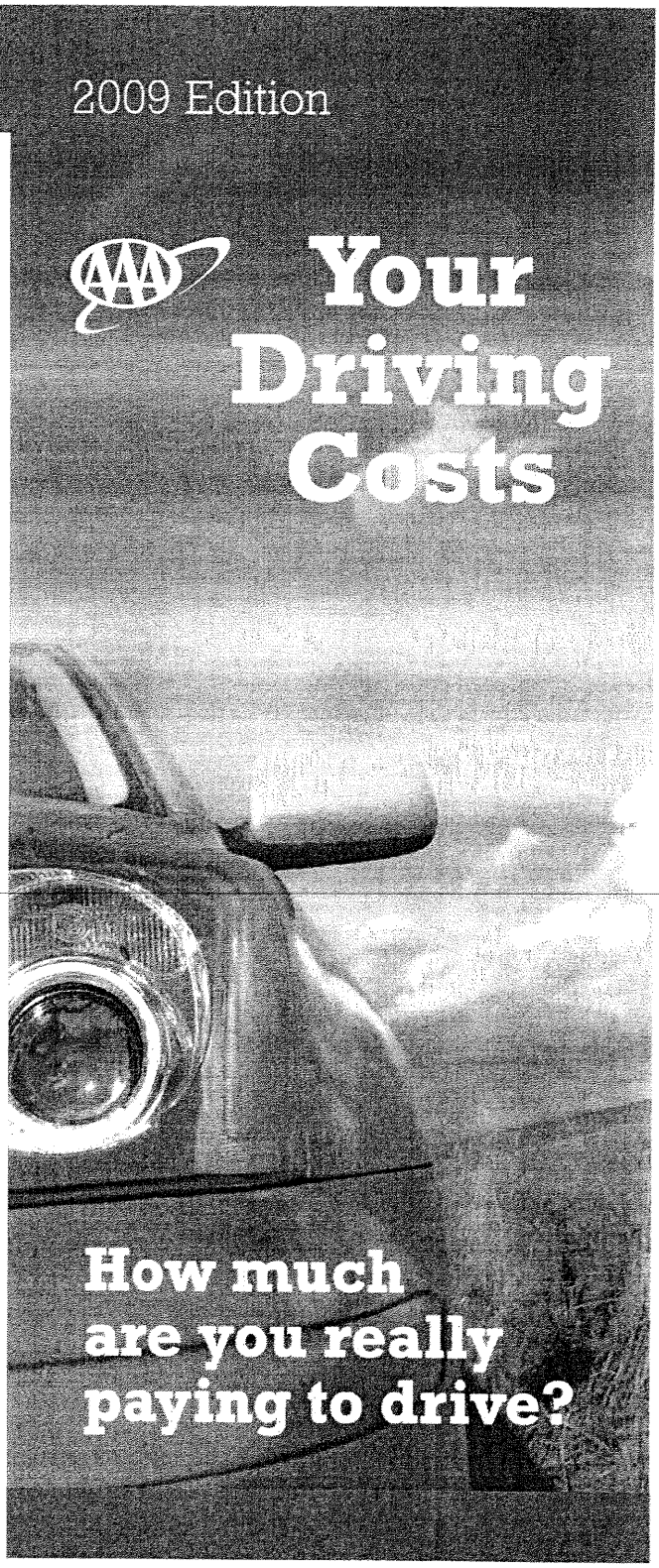


How Much Does it Cost to Drive?

Following are average per-mile costs as determined by AAA and the composite average cost for three size categories of sedans:

AAA Average Costs Per Mile

Miles per year	10,000	15,000	20,000
small sedan	55.0 cents	42.1 cents	35.4 cents
medium sedan	70.2 cents	54.0 cents	45.5 cents
large sedan	86.8 cents	65.8 cents	54.9 cents
composite average *	**70.7 cents**	**54.0 cents**	**45.3 cents**

*** Detailed driving costs for small, medium and large sedans are provided on pages 6 and 7. Driving costs for four-wheel-drive sport utility vehicles and minivans are listed on page 8.** Though not part of the composite AAA average, SUV and minivan information is included to help buyers estimate operating costs for those types of vehicles.

Driving costs in each category are based on average costs for five top-selling 2008 models selected by AAA. By size category, they are:

- **Small sedan** — Chevrolet Cobalt, Ford Focus, Honda Civic, Nissan Sentra and Toyota Corolla.
- **Medium sedan** — Chevrolet Impala, Ford Fusion, Honda Accord, Nissan Altima and Toyota Camry.
- **Large sedan** — Buick Lucerne, Chrysler 300, Ford Taurus, Nissan Maxima and Toyota Avalon.

Selected SUV models include Chevrolet TrailBlazer, Ford Explorer, Jeep Grand Cherokee, Nissan Pathfinder and Toyota 4Runner. Minivans include Chevrolet Uplander, Dodge Grand Caravan, Kia Sedona, Honda Odyssey and Toyota Sienna.

What's Covered

AAA's analysis covers vehicles equipped with standard and optional equipment including automatic transmission, air conditioning, power steering, antilock brakes and cruise control, to name a few.

✓ **Fuel** Fuel costs were based on $2.30 per gallon, the late-2008 U.S. price from AAA's Fuel Gauge Report, www.FuelGaugeReport.com. Fuel mileage is based on Environmental Protection Agency fuel-economy ratings weighted 60 percent city and 40 percent highway driving.

✓ **Maintenance** Costs include retail parts and labor for normal, routine maintenance as specified by the vehicle manufacturer. They also include the price of a comprehensive extended warranty with one warranty claim deductible of $100 and other wear-and-tear items that can be expected to require service during five years of operating the vehicle. Sales tax is included on a national average basis.

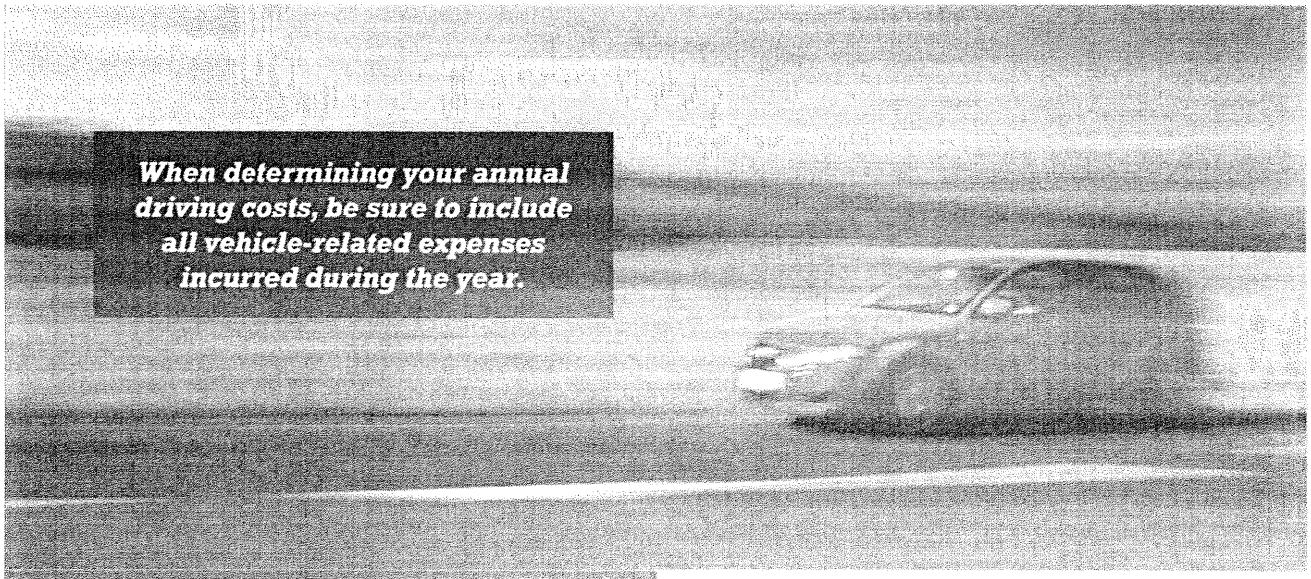
✓ **Tires** Costs are based on the price of one set of replacement tires of the same quality, size and rating as those that came with the vehicle. Mounting, balancing and sales tax also are included.

✓ **Insurance** AAA based its insurance costs on a full-coverage policy for a married 47-year-old male with a good driving record, living in a small city and commuting three to 10 miles daily to work. The policy includes $100,000/$300,000 coverage with a $500 deductible for collision and a $100 deductible for comprehensive coverage.

✓ **License, Registration and Taxes** Costs include all governmental taxes and fees payable at time of purchase, as well as fees due each year to keep the vehicle licensed and registered. Costs are computed on a national average basis.

✓ **Depreciation** Depreciation is based on the difference between new-vehicle purchase price and estimated trade-in value at the end of five years.

✓ **Finance** Costs are based on a five-year loan at 6 percent interest with a 10 percent down payment. The loan amount includes taxes and the first year's license fees, both computed on a national average basis.



Figuring Your Costs

To figure your fuel cost, begin with a full tank of fuel and write down the odometer reading. Each time you fill up, note the number of gallons, how much you pay and the odometer reading. These figures can then be used to calculate average miles per gallon and cost of fuel per mile. For example:

Gas Cost Per Mile

gallons	cost*	odometer
full tank		8,850
12.4	$28.52	9,136
9.5	$21.85	9,355
15.7	$36.11	9,717
37.6	**$86.48**	**9,717**
		- 8,850
		miles driven = 867

miles per gallon: 867 ÷ 37.6 = 23.1 mpg

gas cost per mile: $86.48 ÷ 867 = 10 cents

* cost per gallon $2.30

To determine your driving costs accurately, keep personal records on all the costs listed below. Use this worksheet to figure your total cost to drive:

Annual Cost Per Mile

costs	your totals
operating costs	
gas per mile	_____
total miles driven	× _____
total gas	= _____
maintenance	+ _____
tires	+ _____
total operating costs	+ = _____
ownership costs	
depreciation	_____
insurance	+ _____
taxes	+ _____
license and registration	+ _____
finance charges	+ _____
total ownership costs	+ = _____
other costs	
(washing, accessories, etc.)	+ _____
total driving costs	= _____
total miles driven	÷ _____
cost per mile	= _____

Driving Costs

Operating Costs	Small Sedan †	Medium Sedan †	Large Sedan †	Average
	per mile	per mile	per mile	per mile
gas	8.21 cents	10.54 cents	11.51 cents	10.09 cents
maintenance	4.26 cents	4.51 cents	4.92 cents	4.56 cents
tires	0.61 cents	0.87 cents	0.82 cents	0.77 cents
cost per mile	**13.08 cents**	**15.92 cents**	**17.25 cents**	**15.42 cents**
Ownership Costs	per year	per year	per year	per year
full-coverage insurance	$948	$957	$1,022	$976
license, registration, taxes	$419	$572	$711	$567
depreciation (15,000 miles annually)	$2,430	$3,401	$4,551	$3,461
finance charge	$553	$786	$998	$779
cost per year	**$4,350**	**$5,716**	**$7,282**	**$5,783**
cost per day	**$11.92**	**$15.66**	**$19.95**	**$15.84**
Total Cost Per Mile				
10,000 total miles per year	per year	per year	per year	per year
cost per mile x 10,000 miles	$1,308	$1,592	$1,725	$1,542
cost per day x 365 days	$4,350	$5,716	$7,282	$5,783
decreased depreciation**	-$155	-$286	-$330	-$257
total cost per year	**$5,503**	**$7,022**	**$8,677**	**$7,067**
total cost per mile*	**55.0 cents**	**70.2 cents**	**86.8 cents**	**70.7 cents**
15,000 total miles per year	per year	per year	per year	per year
cost per mile x 15,000 miles	$1,962	$2,388	$2,588	$2,313
cost per day x 365 days	$4,350	$5,716	$7,282	$5,783
total cost per year	**$6,312**	**$8,104**	**$9,870**	**$8,095 total**
total cost per mile*	**42.1 cents**	**54.0 cents**	**65.8 cents**	**54.0 cents**
20,000 total miles per year	per year	per year	per year	per year
cost per mile x 20,000 miles	$2,616	$3,184	$3,450	$3,083
cost per day x 365 days	$4,350	$5,716	$7,282	$5,783
increased depreciation***	$120	$208	$240	$189
total cost per year	**$7,086**	**$9,108**	**$10,972**	**$9,055**
total cost per mile*	**35.4 cents**	**45.5 cents**	**54.9 cents**	**45.3 cents**

* total cost per year ÷ total miles per year

** decreased depreciation for mileage under 15,000 miles annually

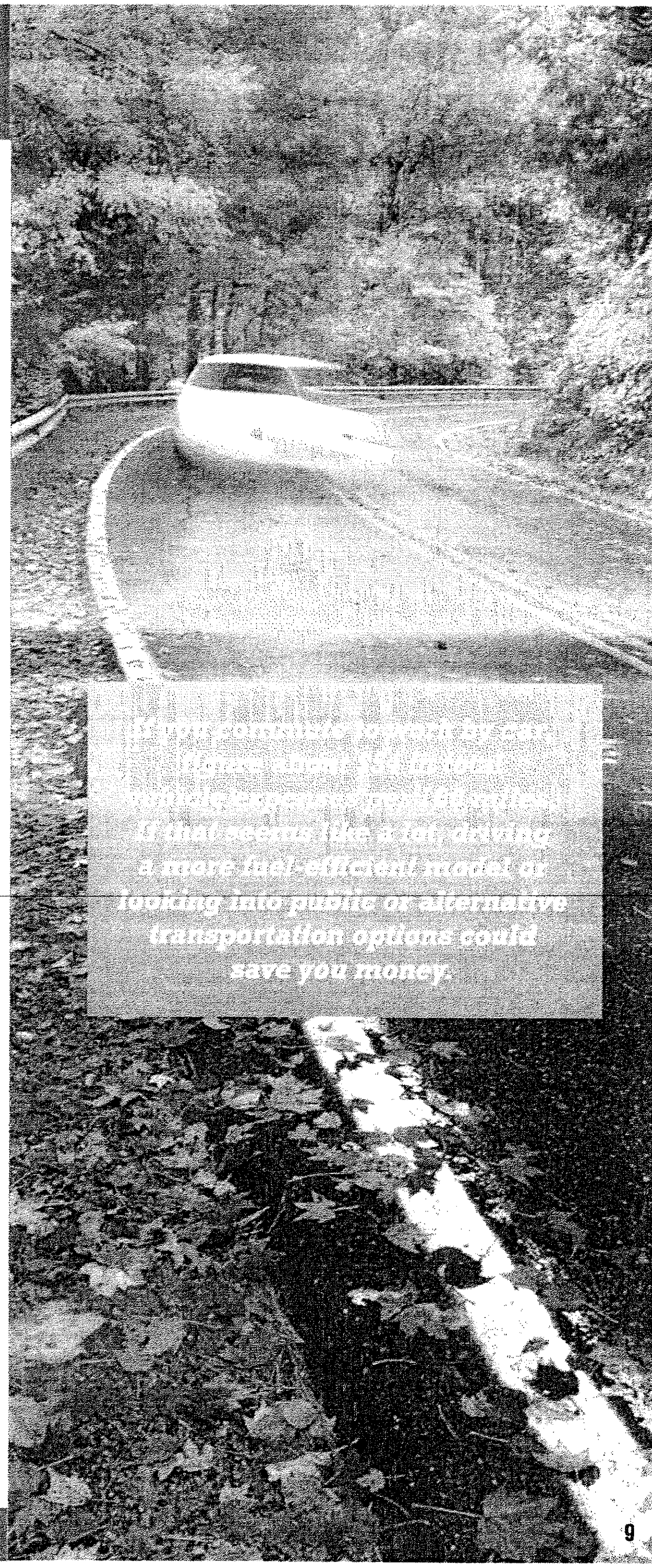
*** increased depreciation for mileage over 15,000 miles annually

† see page 2 for a listing of vehicle makes and models used for driving cost calculations

Driving Costs

	4WD Sport Utility Vehicle †	Minivan †
Operating Costs	per mile	per mile
gas	14.39 cents	12.16 cents
maintenance	4.94 cents	4.87 cents
tires	0.95 cents	0.74 cents
cost per mile	**20.28 cents**	**17.77 cents**
Ownership Costs	per year	per year
full-coverage insurance	$948	$897
license, registration, taxes	$727	$602
depreciation (15,000 miles annually)	$4,519	$3,818
finance charge	$1,023	$832
cost per year	**$7,217**	**$6,149**
cost per day	**$19.77**	**$16.85**
Total Cost Per Mile		
10,000 miles a year	per year	per year
cost per mile x 10,000 miles	$2,028	$1,777
cost per day x 365 days	$7,217	$6,149
decreased depreciation**	-$275	-$275
total cost per year	**$8,970**	**$7,651**
total cost per mile*	**89.7 cents**	**76.5 cents**
15,000 miles a year	per year	per year
cost per mile x 15,000 miles	$3,042	$2,666
cost per day x 365 days	$7,217	$6,149
total cost per year	**$10,259**	**$8,815**
total cost per mile*	**68.4 cents**	**58.8 cents**
20,000 miles a year	per year	per year
cost per mile x 20,000 miles	$4,056	$3,554
cost per day x 365 days	$7,217	$6,149
increased depreciation***	$200	$200
total cost per year	**$11,473**	**$9,903**
total cost per mile*	**57.4 cents**	**49.5 cents**

* total cost per year ÷ total miles per year
** decreased depreciation for mileage under 15,000 miles annually
*** increased depreciation for mileage over 15,000 miles annually
† see page 2 for a listing of vehicle makes and models used for driving cost calculations



Vehicle Maintenance

Driving costs also are affected by how well your vehicle runs. Performing regular maintenance not only ensures more efficient vehicle operation, but can help prevent costly repairs down the road.

Here are some things to keep an eye on to make sure your vehicle stays in tip-top shape. Before performing any maintenance, read your owner's manual to become familiar with your vehicle's specific requirements and take proper safety precautions.

✓ Fluids

- **Engine oil:** Lubricates and cools the engine while cleaning internal parts. Running your car when it's low on oil can cause serious engine damage. Check the oil level at least once a month.
- **Coolant:** Also known as antifreeze, this fluid prevents engine freeze-up in winter and boil-over in summer while protecting the cooling system from rust and corrosion. Check the coolant level at each oil change.
- **Brake fluid:** Critical to proper performance of the vehicle's braking system. Check at each oil change.
- **Transmission fluid:** Helps transfer engine power to the wheels, lubricates internal parts, maintains seals and acts as a coolant. Check the level at each oil change.
- **Power steering fluid:** Transfers hydraulic pressure to reduce driver steering effort. Check at each oil change.
- **Gasoline:** Follow vehicle manufacturer octane rating recommendations to ensure maximum fuel efficiency and prevent damaging engine knock.

✓ **Air Filter** Your vehicle's air filter captures dirt and dust particles and ensures proper airflow to the engine's combustion chamber. For maximum performance and efficiency, inspect the filter at every oil change and replace as needed.

✓ **Belts** Most vehicles today use a single serpentine belt to operate under-hood accessories such as the air-conditioning compressor. However, V-belts still are used in some applications. Inspect all belts at every oil change and replace when you spot signs of wear such as glazing or cracking.

✓ **Hoses** Hoses circulate vital liquids such as transmission fluid, engine coolant and power steering fluid. Inspect hoses at every oil change and repair or replace any that show signs of wear or leakage.

✓ **Battery** The battery supplies power to the starter motor, acts as a voltage stabilizer and makes up for any shortfall when the alternator can't meet the vehicle's electrical needs. Inspect battery cable connections at every oil change and clean as needed. When inspecting a battery, always wear eye protection and gloves.

✓ **Tires** As the only part of your vehicle in contact with the road, tires are integral to safety and ride comfort. For optimum performance, tires must have adequate tread depth and proper inflation. Inspect tires and check inflation pressure at least once a month.

AAA encourages regular vehicle maintenance and offers several resources to complement information found in your owner's manual. They include:

- **AAA.com:** Provides a variety of automotive maintenance and operating tips in addition to those covered in this publication. Site content varies by AAA club.
- **AAA ShopLocator:** Available in most areas, this AAA.com search tool helps users locate nearby AAA Approved Auto Repair facilities. Shop information includes types of vehicles serviced, repair services, hours of operation, online appointment requests and maps/driving directions.
- **AAA AutoManager:** This free AAA.com program sends users e-mail reminders of scheduled vehicle service requirements and due dates for vehicle payments and insurance premiums. It also provides vehicle recall notifications and helps owners track service histories. Online content varies by club.
- **AAA Approved Auto Repair:** The Approved Auto Repair network includes more than 8,000 shops across North America that are visited regularly and inspected annually to ensure they meet AAA's rigorous quality standards and deliver exceptional service and value. AAA members who use AAR facilities benefit from written repair estimates, free maintenance inspections, a minimum 12-month/12,000-mile parts and labor warranty and AAA arbitration in repair disputes.