

Accomplishments of an Innovative Statewide Van Lease and Purchase Program

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ABSTRACT

Tennessee Vans is an innovative statewide vehicle procurement service that provides vans for lease and/or purchase to commuter groups, employers, public agencies and private non-profit community organizations. In exchange for access to vehicles and affordable financing provided by Tennessee Vans, the program participants agree to provide safe and reliable transportation services to meet identified needs and to pay for the Tennessee Vans vehicles.

The cost recovery strategy for Tennessee Vans is a critical approach to maintaining the viability and longevity of the program. The initial seed grants are provided by local, state, and federal governments with the stipulation and expectation that Tennessee Vans will recover vehicle and administrative costs to the highest extent possible. Tennessee Vans strives to constrain administrative expenses, minimize financial losses, and maximize vehicle cost recovery. Revenues received from program participants are used to purchase replacement vehicles in the lease program and to procure additional vehicles for the purchase program. With no driver costs and other operating costs largely absorbed by the agencies, Tennessee Vans has a distinct financial advantage.

Tennessee Vans has experienced a steady rate of growth in funding and service development since its implementation in 1990. Financial resources provided during this time have enabled the program to place over 500 vehicles with 300 different organizations. Currently over two million annual trips are provided by organizations utilizing Tennessee Vans with 354 vans being in active service, 115 in the lease program and 239 in the purchase program.

Key words: public transit services—vehicle lease and purchase program

SERVICE DELIVERY APPROACH

The service delivery approach used by Tennessee Vans has evolved over the past ten years in response to growing demands for transportation resources among diverse population groups throughout Tennessee. Van transportation services have been used as an energy conservation technique, a measure to help alleviate traffic congestion and air pollution, and an economic resource to assist persons with access to employment and job training opportunities. A variety of van transportation programs have been implemented, including employer sponsored programs, independent owner operators, private third party operations, and public agency programs. Tennessee Vans is an evolving service delivery model designed to meet the changing nature of mobility needs in Tennessee. (1)(2)(3).

The Tennessee Vans program was initiated on February 1, 1990, as a continuation of the Tennessee Department of Transportation's (TDOT) supportive role in the development of van transportation services in Tennessee. The Tennessee Vans program is operated by the University of Tennessee Center for Transportation Research and provides vehicles for lease and/or purchase by commuter groups, employers, private agencies, and public and non-profit community organizations. Tennessee Vans is a provider of vehicle resources to program participants, who are the primary mobility service designers. The program participants design the travel routes, operating schedules, and financial options for those they serve. The only requirement from Tennessee Vans is that the program participant meets the basic requirements for vehicle repayment and travel safety. Tennessee Vans uses grant funds provided by federal, state, and local sources to purchase vehicles for use by program participants. The vehicle costs and associated administrative expenses for Tennessee Vans is recovered from program participants through fees charged for the lease or purchase of vehicles. These generated funds are in turn used to purchase vehicles to replace older vehicles or add more vehicles to the fleet. During the past ten years, the Tennessee Vans fleet has grown to over 500 vehicles across the state (Figure 1). This paper presents a summary of the ten years of accomplishments of Tennessee Vans.

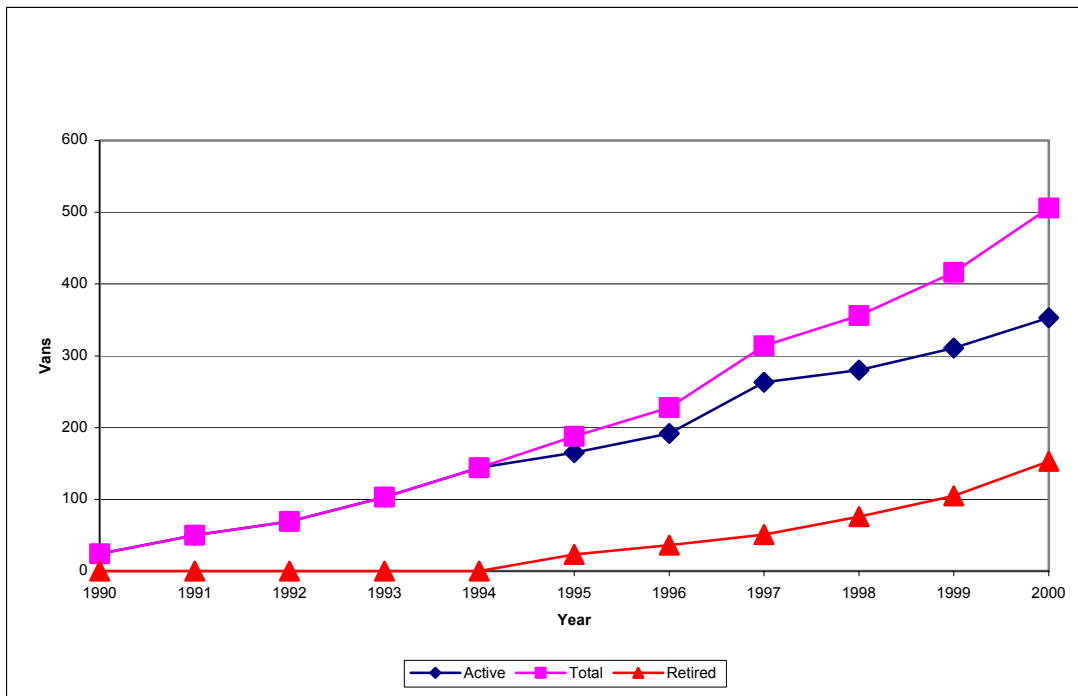


FIGURE 1. Tennessee Vans Vehicles Per Year

BASIC PROGRAM SERVICES

Qualified program participants can lease and purchase Tennessee Vans vehicles. Three basic service programs are available: the Employee Vanpool Lease Program, the Agency Vehicle Lease Program, and the Agency Vehicle Purchase Program.

The Employee Vanpool Lease Program provides vehicles, insurance, maintenance, and fleet management assistance to commuter groups who want to travel to and from work in a vanpool. Minivans and fifteen passenger vans are provided to groups of commuters who wish to ride together and share the monthly costs of operating the vanpool. The monthly fee covers the vehicle costs, maintenance, gasoline, insurance, and fleet management expenses. A member of the commuter group volunteers to drive the van, collect monthly rider fares, and keep the vehicle properly serviced. The typical vanpool monthly lease fee for a current model fifteen passenger van traveling seventy miles (70) round trip daily is \$780.00. Each member of the group pays a portion of the monthly fee (e.g., \$65.00 each for a group of twelve paying passengers).

The Agency Vehicle Lease Program provides the opportunity for public and private organizations to provide transportation through an affordable vehicle lease plan. Transportation services include transporting persons to and from work, job training sites, work-trip related events, and other activities which facilitate the mobility and meet the travel needs of persons served by the organization. Qualified agencies pay monthly vehicle lease fees on a fixed cost plus mileage basis. The agencies provide their own insurance at program specific coverage levels. The lease costs include the cost of the vehicle, vehicle maintenance, and fleet management expenses. A typical agency monthly lease fee for a current model fifteen passenger van is \$450.00 fixed cost per month plus \$.10 per mile.

The Agency Vehicle Purchase Program provides the opportunity for program participants to purchase vehicles for transportation purposes through an affordable financing plan. Participants include public and private non-profit organizations that currently provide or would like to provide transportation services. The transportation services provided by the agency are the same as for agencies who lease Tennessee Vans vehicles. Vans are assigned to participating organizations through simple purchase contracts. The participating organization agrees to pay monthly fees until the vehicle contract is paid in full. Upon payment of the vehicle contract cost, the vehicle title is fully transferred to the participating organization. Under the vehicle purchase program, the program participant provides the vehicle insurance, maintenance services, and qualified drivers. The typical agency vehicle purchase contract cost for a current model fifteen passenger van is \$25,000. The contract cost is amortized over 72 months with monthly payments of approximately \$348.00.

PROGRAM FUNDING

Program funds to administer and operate Tennessee Vans vehicles have been provided by TDOT, local agencies (e.g., Metropolitan Planning Organizations), and program generated revenue. Tennessee Vans strives to be financially self-sufficient through its cost recovery program, reinvestment of program generated revenues, and continuous solicitation of capital resources to meet increasing service demand.

The funds used for capitalizing Tennessee Vans during its implementation have been provided by several sources. Approximately 15% of the funds have been provided by TDOT in the form of the initial seed grant and periodic supplemental grants. Local MPOs have contributed approximately 42% to support local van services as part of congestion mitigation, air quality and surface transportation programs. The remaining 43% has been received as program generated revenue in the form of service fees received from program participants. The operating cost for the Tennessee Vans program is approximately \$250,000 annually.

CURRENT FLEET STATUS

Of the vans operating in Tennessee, 70 percent are included in the purchase program, 10 percent in the commuter vanpool program and 20 percent in the agency vehicle lease program. The lease program is of interest to public transit and work force development organizations that are looking to acquire vehicles to address short term mobility needs or respond to grant programs with uncertain time durations. Program participants come from an array of different organizations as noted in Table 1. The program categories and current participating numbers of organizations in Knoxville were as follows:

1. community economic development organizations – 56 (88 vans)
2. faith based organizations – 75 (68 vans)
3. public/private transit services – 7 (27 vans)
4. workforce development organizations – 14 (40 vans)
5. youth services organization – 49 (72 vans)
6. commuter vanpooling – 35 (37 vans)

TABLE 1. Tennessee Vans Program Participants by Category

Van Programs
1. <u>Community and Economic Development</u> Health Care Facilities Housing Authorities Environmental Groups Community Development City and County Agencies Residential Group Homes Drug Elimination Program
2. <u>Faith Based Organizations</u>
3. <u>Public/Private Transit Providers</u>
4. <u>Work Force Development</u> Educational Facilities Private Industry Councils Supported Employment Programs Job Training/Placement Services Employers Work Release Programs
5. <u>Youth Based</u> Day Care Centers Youth Service Programs
6. <u>Commuter Vanpools</u>

Some examples of agencies participating in the program include the following:

The Knoxville Community Development Corporation is a community economic development organization that uses a program vehicle to meet mobility needs of participants in its community micro-enterprise loan program. A minivan was purchased to transport program staff and participants to community based training events and activities that support the development of small businesses.

The Knox County Community Action Committee is an example of a public transit operation that uses the vans to transport clients. This organization is a demand responsive transit service that transports clients to jobs, employment training, medical appointments, and recreational activities. An example of a private transportation business that uses the vans is Kid Trans Enterprises. Kid Trans Enterprises is a small business formed as part of the Knoxville Transportation Business Development Program and leases several vehicles to transport children to and from daycare centers and after school care facilities, and also provides transportation for field trips.

The Sertoma Center is a work force development organization that uses several vans to transport clients from community homes to jobs and training facilities. They also transport clients from their central training facility to job interviews and other work related events and activities.

The Boys and Girls Clubs is an example of a youth service organization that uses vans to support its basic activities. They use the vehicles to transport their clients to and from activities at their central facilities, as well as to community based activities and for field trips.

The Eternal Life Harvest Center is an example of a faith-based organization that uses several vans to support its community based ministries and services. The vehicles are used primarily to meet the mobility needs of its youth ministry and after school service program. Bethel Baptist Church also uses a vehicle to transport clients to and from its day care center and other events in the community.

With an average placement of more than 50 vans per year, the interest in Tennessee Vans vehicles shifts with mobility needs. In the past five years there has been increased participation by community and economic development and youth service organizations.

Participation in the program categories also varies by community and reflects the mobility needs in these areas. For example, today the vanpool market remains strong in Nashville, a large metropolitan area with a strong downtown employment base. The conventional commuter vanpool market in Memphis and Knoxville has all but disappeared. Through the leadership of the Metropolitan Planning Organizations (MPO) in Memphis and Knoxville, Tennessee Vans has substantially broadened its role to meet a variety of mobility needs. In these communities there are 200 vehicles operated by 156 different organizations.

TENNESSEE VANS VEHICLE UTILIZATION

To understand more about the exact nature of the vans usage, a survey of participants was conducted. The definitions of van utilization were based upon a telephone interview of 45 percent of the organizations/agencies operating one or more Tennessee Vans vehicles across the State of Tennessee. These include 99 telephone surveys in total. Information was obtained about the trip structures served, number of riders, characteristics of riders and their access to alternative modes if a Tennessee Vans vehicle was not available. The survey data were supplemented with annual van odometer mileage obtained from the Tennessee Vans administrative office. Estimates were made from the surveys and trip logs of the additional vehicle-miles of automobile travel required to serve the existing mobility patterns of the Tennessee Vans. It was determined that an average Tennessee Van vehicle is operated 910 vehicle miles per month, but if these trips were to be served by a private vehicle, riding with family or friends or a staff vehicle, an additional 4600 vehicle-miles of travel would be required. This considers the availability of alternative transportation and vehicle occupancies based on the specific trip structures used by the agency. Thus, to maintain existing mobility levels, the Tennessee Vans vehicles are reducing automobile vehicle-miles of travel, improving air quality and providing fuel conservation benefits to the community. The benefits from Tennessee Vans include a reduction of air pollution by 44,453,000 grams/day for HC; 418,649,000 grams/day for CO; and 29,333,000 grams/day for NO_x, and a reduction in fuel consumption by 1.4 million gallons annually (4)(5).

Summary statistics indicate that the Tennessee Vans vehicles provide about 2 million annual trips. Financially, the Tennessee Vans service is significant in contrast to the services provided by conventional fixed route, fixed schedule bus services. When considering expenditures, revenue, and cost per trip, Tennessee Vans generates a strong revenue stream. With no driver costs and other operating costs largely absorbed by the operating agencies, Tennessee Vans has a distinct financial advantage. Based on a current financial analysis, the public cost per trip for Tennessee Vans is approximately \$0.17 per trip versus \$1.97 for the small urban transit systems, \$2.50 for the large city urban transit systems and \$6.63 for the rural transportation operators in Tennessee

(5).

MOBILITY IMPLICATIONS OF TENNESSEE VANS

From the telephone survey, 29 percent of the organizations stated that in the short term they could not maintain their existing programs without access to a Tennessee Vans vehicle. Another 17 percent stated that some clients would be left without mobility and could not participate in the programs. Only 10 percent stated their clients could rely on public transit or walking. Another 44 percent stated that clients would have to rely on private vehicles, parents or carpooling. Tennessee Vans vehicles are operated by many organizations that provide essential mobility to their clients. Closure and curtailment of services would fall hardest on organizations providing community/economic development and youth services.

RELIANCE ON TENNESSEE VANS VEHICLES

While some organizations use Tennessee Vans vehicles to supplement their fleet purchased from other sources, many had attempted to purchase a vehicle from a private dealership with little success. In most cases, the private sector would not provide the financial flexibility or extend the credit required for the organization to secure a van. Also, about a fourth of the organizations attempted to acquire a vehicle as part of public capital grant programs, but without success. Almost half of the organizations reported that a Tennessee Vans vehicle replaced an older vehicle. These organizations benefited from acquiring a newer, safer and more reliable vehicle. The sources or revenue used to pay for the Tennessee Vans vehicles include:

<u>Source of Funds:</u>	<u>Percent of Organizations Selecting</u>
Fares	6.1%
Organizations/Program Revenue	19.5%
Daycare or Tuition Fees	9.8%
Social Service Grant & State Vouchers	23.2%
Donations	41.4%

It was stated that the Tennessee Vans vehicles were utilized because of the attractive payment plan, reasonable rates and no down payment. The organizations stated Tennessee Vans vehicles were selected for the following reasons:

<u>Reason:</u>	<u>Percent of Organizations Selecting</u>
No Down Payment Required	35%
Low Cost and Attractive Payment Schedule Plan	61%
No Interest Payment	10%
Simplicity with Maintenance, Insurance, Flexibility of Program and Help of Staff	19%
Obtain New Van in timely Manner	10%
Had No Other Options	1%

It is clear that these organizations value the simplicity and financial flexibility provided by Tennessee Vans. They are not in a good financial position to utilize conventional credit to lease or purchase a van. Yet the Tennessee Vans program has a default rate of less than 5 percent of vehicles placed in the purchase program.

CONCLUSIONS

Tennessee Vans has experienced a steady rate of growth in funding and service development since its implementation in 1990. Financial resources provided during this time have enabled the program to procure over 500 vehicles statewide and to place into service approximately fifty vehicles per year in the lease and purchase programs. These vans are helping to fill mobility gaps through the provision of affordable vehicles.

The underlying service delivery approach has the basic premise of allowing customers to design the mobility services that directly meets their needs. This user-based service design model differs substantially from the typical provider-based service design, wherein mobility services are solely designed and operated by a centralized service provider (e.g., fixed route, fixed schedule, public transit). In the provider-based model, the services are centralized, design decisions are provider-driven, and operations are provider-based. In the user-based model, the services are decentralized, design decisions are user-driven, and operations are user-based. The user-based service design model enables a high degree of user participation in transportation decision making, thus making the Tennessee Vans service essentially market driven with regard to its evolution of services. In essence, the service delivery approach adopted by Tennessee Vans is highly viable because it works intentionally to meet the mobility needs of its evolving market, as indicated by the results of the program participant surveys.

Tennessee Vans is an example of an effective model of forging public/private partnerships to meet mobility goals and objectives. Most of the program participants are private commuter groups, businesses, and private non-profit organizations. Very few participants are public groups and organizations, presumably because these groups have ready access to vehicle and financial resources through public grant programs. Each participant forms a partnership with Tennessee Vans to provide van transportation services to meet the mobility needs of persons served by the participating organization. In exchange for access to vehicles and affordable financing provided by Tennessee Vans, the program participant agrees to design and provide safe and reliable transportation services to meet identified needs and to pay for the Tennessee Vans vehicles. The public/private partnership is expanded through the participation of private companies that manufacture, maintain and insure the vehicles and by the private individuals and groups who pay for the vehicles and their use.

While the nature of the Tennessee Vans service varies from traditional fixed route and demand responsive services, Tennessee Vans is comparable to transit operations in terms of fleet size, annual trips served and annual vehicle miles. With regard to public costs, Tennessee Vans services provide a cost-effective approach with public subsidies that are much lower than subsidies for public transit operations.

The van transportation program provides an affordable option for program participants as they strive to overcome transportation problems that are barriers to achieving their organizational goals (e.g., employment, training, community service, etc.). The Tennessee Vans program provides essential services to meet the transportation needs of diverse travel markets, including employment, job training/education, health care, and human services. This program is an innovative, cost-effective, user-based service delivery model that helps to meet growing mobility demands in communities now and into the future.

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