

**CITY OF PEORIA, ARIZONA
CITY MANAGER REPORT**

RCM #: 2a

Date Prepared: January 22, 2010

Council Meeting Date: February 16, 2010

TO: Carl Swenson, City Manager

FROM: Susan K. Thorpe, Deputy City Manager *SKT*

SUBJECT: Fleet Solutions Group – Final Report of Budgetary Savings

SUMMARY: The Fleet Solutions Group has worked diligently over the past 12 months to recommend and implement numerous operational and financial changes to our City fleet. Since our work began in January 2009, we have achieved the following ongoing budgetary savings:

Eliminated 79 vehicles from city's fleet	\$290,000
Extended vehicle life to 10 years from 7 years	\$131,000
Scrutinized equipment in replacement fund	\$288,000
Increased discount factor from 10% to 20%	<u>\$326,000</u>
Total	\$1,035,000

In addition, we have achieved the following one-time savings and will experience ongoing reductions in several areas, the amount to be determined over time:

One-time revenue from auction of surplus vehicles - \$88,400
Position reduction in Fleet Services - \$250,000 savings
Maintenance and repair efficiencies from vehicle standards
Fuel cards – No federal or state excise taxes

HOW WE ACHIEVED OUR GOALS

A little more than a year after its formation, the Fleet Solutions Group has implemented all of the recommendations in the original action plan presented to management in January 2009. Our initial goals were to:

- Organize a Vehicle Utilization Committee and a Vehicle Standards Committee
- Eliminate at least 75 low-use vehicles
- Eliminate non-core take-home vehicles
- Create interdepartmental motor pools
- Extend vehicle life
- Standardize light vehicle types and accessories

- Develop performance standards for all fleet services
- Implement a service writer function in Fleet Services

Along the way, we have not only achieved these goals, but significant changes have taken place in the management of the city's fleet operations—changes that have resulted in more than \$1 million in ongoing savings. We believe that we have met our charge “to create the most lean, cost effective, efficient, and environmentally sustainable fleet policies, procedures, and operations as possible.”

The city's efforts to improve fleet operations have not gone unnoticed. Since the publication of an August 2009 article in ICMA's *PM Magazine*, Peoria has received numerous inquiries from cities around the country wanting to learn more about our process and about specific changes we have made. As recently as November 2009, the City of Lake Forest, Illinois, contacted the city for advice as they prepared to launch their own fleet review process.

Fleet Solutions Group Members:

Brian Biesemeyer – Utilities
Peter Christensen – Engineering/Budget
Teresa Corless – Police
Andy Granger – Engineering
Cathie Lutch – Fire
Dennis Marks – Community Development
Bill Mattingly – Public Works
J.P. de la Montaigne – Community Services
Mark Nichols – Fire
Richard Scrivens – Police
Jeff Tyne – Budget

A brief Power Point presentation of the Fleet Solutions Group's results will be given at the City Council meeting.

FISCAL NOTE: See above

ATTACHMENT: None



City of Peoria
MEMORANDUM

DATE: January 22, 2010
TO: Carl Swenson, City Manager
FROM: Fleet Solutions Group
SUBJECT: FINAL STATUS REPORT – FLEET SOLUTIONS GROUP

EXECUTIVE SUMMARY

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The Fleet Solutions Group consisted of individuals from all major departments across the city. The group organized itself into four subgroups to conduct extensive analysis and research needed to arrive at recommendations. These subgroups were the Vehicle Utilization Committee, Vehicle Standards Committee, Financial Analysis Team, and Cost Allocation Team.

The original 21 recommendations of the Fleet Solutions Group were organized into five focus areas: (1) Vehicle Utilization, (2) Vehicle Replacement, (3) Vehicle Standards, (4) Service Delivery, and (5) Cost Allocation. This memorandum reports on the implementation of these recommendations by focus area, followed by a summary of the ongoing budgetary savings achieved over the last 12 months.

VEHICLE UTILIZATION

Accomplishments:

- Removed 79 vehicles from the fleet and the replacement fund
- Limited take-home vehicles to standby/on-call service
- Institutionalized vehicle sharing among departments

One of our major undertakings was to “rightsize” the city's fleet. To accomplish this, we established a low-use threshold of 7,000 miles per year and asked the departments to justify the need for any vehicle falling below this threshold. The departments themselves volunteered approximately 60 vehicles for elimination. The Vehicle Utilization Committee proposed the elimination of another 19 vehicles after meeting with all of the departments to understand their business needs for vehicles and the existing composition of their respective fleets. In the end, 79 vehicles were removed from the fleet and from the replacement fund, resulting in \$290,000 in ongoing savings.

The Vehicle Utilization Committee also reviewed the use of take-home vehicles with the goal of limiting this practice to standby or on-call service that serves a vital health and/or safety function. The committee identified 34 take-home vehicles that did not meet this criterion and will no longer be taken home by employees. Some of these vehicles have been removed from the fleet while others are now used on a rotating basis by employees when they are on call or on standby.

One of the reasons the growth of the fleet had outstripped need was that there was very little

interdepartmental sharing of vehicles. We sought to change this by first eliminating unnecessary vehicles (thus making vehicle sharing a necessity) and then by publishing a list of vehicles available for use by city employees, regardless of department. Approximately 15 such vehicles have been identified, most of which can be reserved through Outlook in much the same way employees reserve conference rooms.

VEHICLE REPLACEMENT

Accomplishments:

- Extended light-duty vehicle life from 7 to 10 years
- Created financial incentives for proper care and maintenance of vehicles
- Increased discount factor in replacement fund from 10% to 20%
- Leasing and local purchase options found not viable

Even before the formation of the Fleet Solutions Group, Public Works had recommended extending the life of most light-duty vehicles from seven to 10 years. The Vehicle Standards Committee reviewed and endorsed this recommendation. Extending vehicle life expectancy decreases the amount departments must pay into the replacement fund each year. The ongoing savings from this measure are \$131,000.

In the past, vehicles were automatically replaced when they reached the end of their life expectancy (seven years, for most light-duty vehicles). As such, departments and their employees had no incentive to care for their vehicles in such a way as to extend the life of those vehicles. To change this mindset, we created financial incentives to properly care for vehicles and to use them beyond their expected lives. When a vehicle reaches its life expectancy, the annual contribution to the replacement fund is not assessed until a replacement vehicle is purchased. Departments can use these savings for any purpose. Conversely, if a vehicle must be replaced before its expected life, the department must continue to contribute to the replacement fund for that vehicle as well as the replacement vehicle.

In calculating the annual contribution to the replacement fund, the standard practice was to discount the future purchase price by 10 percent to account for auction proceeds and interest earnings. For many years, however, replacement fund revenues have far exceeded expenditures. As such, the Budget Department increased the discount factor from 10 percent to 20 percent. The ongoing savings from this measure are \$326,000.

The Budget Department also scrutinized the replacement fund and removed any items that did not belong, such as trailers that do not necessarily have a defined useful life or that are replaced at irregular intervals. The ongoing savings from this measure are \$288,000.

The city issued a Request for Information to evaluate the feasibility of leasing rather than purchasing vehicles. Two responses were received. One demanded to take over the maintenance of all leased vehicles, and the other would not lease police vehicles. For these reasons, we ruled out leasing as an alternative to purchasing vehicles. We also asked the City Attorney's Office to look at whether or not we could limit vehicle purchases to dealers within the city limits. They indicated that this would be a clear violation of competitive bidding requirements.

VEHICLE STANDARDS

Accomplishments:

- Established standards for light-duty vehicles
- Sustainability a key factor in the standards selected
- Any exceptions to standards require approval of Vehicle Standards Committee

In the past, a lack of policies or guidelines about which type of vehicle should be used for which purposes led departments to request and receive many different makes and models. As a result, efficiency was undermined by the fact that mechanics had to learn the idiosyncrasies of many different makes and models. Fleet Services had only limited ability to impose standardized models on departments.

The Vehicle Standards Committee worked closely with Fleet Services staff to select standards for the various classes of vehicles required by employees across the city. Environmental impact was a key factor in the selection of vehicle standards. Specifically, the Vehicle Standards Committee considered EPA Pollution Guidelines, CARB Global Warming Scores, and the U.S. Department of Energy Alternative and Advanced Vehicles.

2010-11 LIGHT-DUTY VEHICLE STANDARDS	
Vehicle Type	Standard Vehicle
Small	Toyota Prius Hybrid
Midsize	Ford Fusion Hybrid
Full Size (Police Cruiser)	Ford Crown Victoria (Flex Fuel)
Small Pick-Up 2WD	Chevrolet Colorado
Full Size Pick-Up 1/2T 2WD	Chevrolet Silverado (Flex Fuel)
Full-Size Pick-Up 3/4T 2WD	Chevrolet Silverado
Full Size Pick-Up 1T	Chevrolet Silverado
Small SUV 2WD	Ford Escape Hybrid
Large SUV	Ford Expedition (Flex Fuel)

The committee will reevaluate vehicle standards on an annual basis, but the goal is to keep them relatively constant so that Fleet Services can realize the maintenance and repair efficiencies that were the basis for this recommendation. The committee will also hear any exception requests from departments and recommend whether or not these requests should be granted.

The committee has also adopted a vehicle ordering template, developed by Fleet Services, to standardize accessories on vehicles. This template will be used by departments when requesting a new vehicle and will also assist the requesting department and the Budget Department in understanding the full price of the requested vehicle and accessories. Each department has provided a document to the committee matching all of their functions/positions to the appropriate vehicle type on the list above. The committee and Fleet Services will use this document to make decisions about new vehicles and replacement vehicles.

SERVICE DELIVERY

Accomplishments:

- Expanded service-level agreements to all departments with vehicles
- Created service writer function from existing staff
- Implemented online vehicle maintenance system
- Fleet Services tracking and reporting performance measures
- Analyzed outsourcing of PMs, tire work, and parts, and recommended retaining these services in-house

The Fleet Solutions Group demanded improvements in the level of customer service provided to city departments, and Fleet Services has responded positively. Shortly after our recommendations were presented to management, Fleet Services revised its standard service-level agreement to reflect these recommendations, and negotiated new agreements with all departments that “own” vehicles. These agreements outline the responsibilities of both Fleet Services and vehicle owners. All the agreements are available online at http://citynet/public_works/fleet_home.asp.

All of the service-level agreements identify the new service writer as the point of contact for departments and outline the responsibilities of this position as outlined by the Fleet Solutions Group. These responsibilities include scheduling routine maintenance and other work, providing upfront estimates of repair costs and ready time, contacting the customer for approval of additional work, providing an invoice of work performed, and otherwise communicating with the customer about the vehicle and any work performed thereon. The service writer function was created by redefining the responsibilities of a fleet supervisor.

A significant recent enhancement to customer service is the new online maintenance system. This add-on to the FASTER application used by Fleet Services allows departments to access detailed information about work performed on their vehicles. Owners can also look up the next due date for preventive maintenance. In addition to the information available online, Fleet Services is now providing detailed monthly reports to departments. With these improvements, city departments now have at their fingertips information that used to take days to obtain.

To ensure that Fleet Services remains accountable to its customers, the Vehicle Standards Committee identified a set of performance measures that Fleet is now tracking and reporting on each month. These measures include such things as actual hours spent per work order versus the industry standard for that work, percent of work orders requiring rework, percent of work orders completed within 24 hours, and percent of parts available within one hour. The attached scorecard shows the performance of Fleet Services on these measures for the last six months.

The Fleet Solutions Group enlisted the help of the Finance Department to analyze the cost effectiveness of outsourcing preventive maintenance, tire work, and parts. The analysis was limited to light-duty vehicles. Based on the responses to the city’s requests for information, Finance concluded that the city would not save money by outsourcing either preventive maintenance or tire work. As for parts, the analysis showed a cost savings of about \$50,000 per year if parts for Fire and Community Services were included. For Fleet parts only, it was a wash. Based on this information, we recommend retaining these services in-house but continuing to monitor the impact of the changes made by Fleet Services.

COST ALLOCATION

Accomplishments:

- Implemented a flat rate charge system for services
- Allocated indirect costs to a vehicle administration fee
- Separated fuel maintenance in department budgets
- Introduced fuel card program

Perhaps the biggest complaint we heard from the outset of our work was that Fleet's \$135 hourly labor rate was way too high and that it was out of line with the private sector. Furthermore, this rate was multiplied by the actual number of hours worked by the mechanic rather than by an industry standard time (known as a flat rate), the norm in the private sector. This practice resulted in some very expensive maintenance and repair bills for city departments.

The primary reason for the high rate was the inclusion of just over \$1 million in indirect overhead costs allocated to Fleet Services for such things as risk management, purchasing, facility maintenance, information technology, etc. Although private shops incur similar costs, they are nowhere near as high as in a large government organization like the City of Peoria. For this reason, we felt it was appropriate to remove the indirect costs from the labor rate and instead recover them through a separate vehicle administration fee. Beginning in fiscal year 2010, Fleet's indirect costs were spread across each vehicle in the fleet based on vehicle type or class.

Removing the indirect costs brought the labor rate down to \$68 per hour—a number that is much more palatable to departments. Fleet Services has converted to a flat rate charge system based on the Mitchell standards rather than billing for actual time spent by mechanics (although actual time is still tracked and compared to the flat rate). Separate accounts for maintenance and fuel are now being used in department budgets rather than aggregating these costs together in a single account as had been the practice. The end result of these changes is a system that is more comparable to what employees are used to in the private sector and that is more transparent to all involved.

Finally, the city is in the process of rolling out a new fuel card program. This program is designed primarily for employees based in the northern part of the city, for whom it is inconvenient or infeasible to refuel at the MOC. Many of these employees have been using procurement cards to buy fuel at retail locations in northern Peoria rather than driving all the way down to the MOC. However, these cards are unable to collect data on vehicle mileage, which Fleet uses for the purpose of scheduling preventive maintenance. More importantly, the use of procurement cards requires the payment of federal and state excise tax on gasoline, from which the city is legally exempt. The fuel card program resolves these issues. Employees based at or near the MOC will be expected to continue to refuel at that facility.

BUDGETARY SAVINGS

When we presented our recommendations to management a year ago, we estimated the total ongoing budgetary savings we hoped to achieve at \$1,025,000. A year into the implementation, the quantifiable ongoing savings directly attributable to our work thus far total \$1,035,000. These

savings have come from the following sources:

- Removing 79 vehicles from the fleet – \$290,000
- Extending light-duty vehicle life from 7 to 10 years – \$131,000
- Removing equipment from the replacement fund – \$288,000
- Increasing the discount factor in the replacement fund from 10% to 20% – \$326,000

These are not the only savings that have been realized from the changes made to fleet operations over the last year. There are a number of other measures that have undoubtedly saved the city money but that we are unable to quantify. For example, the standardization of vehicles and accessories has and will create efficiencies that will generate labor cost savings on maintenance and repair bills. Once the fuel card program is fully implemented, we will no longer be paying federal or state taxes on fuel purchases outside of the MOC.

Also not included in the savings shown above are position reductions in the Fleet Services Division. The management analyst position was reassigned to Public Works Administration, one fleet supervisor took the retirement incentive package, and one mechanic took the voluntary severance incentive program. The total ongoing savings from these positions are approximately \$250,000.

CONCLUSION

The members of the Fleet Solutions Group have done an excellent job over the past year to reduce costs, increase efficiencies, and enhance accountability across the organization with regard to fleet operations. The group's goals have been accomplished, and its official job is complete. The full group will be disbanded in February 2010, although the Vehicle Standards Committee and Vehicle Utilization Committee will continue to play specific roles during the budget process.

I believe the Fleet Solutions Group serves as an excellent model for problem-solving in our organization, in the way we organized ourselves, conducted thorough research and analysis, and worked together as a team. We received excellent support and cooperation from a number of other employees, who were instrumental in helping us achieve our goals. I'd like to specifically thank Charlie Johnson, Herman Koebergen, Andy Wagemaker, Alex Munro and Kent Meredith for their help.

I want to extend my appreciation and thanks to each member of the Fleet Solutions Group for their hard work. It was a pleasure and an honor to lead this effort.

Susan K. Thorpe
Deputy City Manager

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