

Staff received two responses to the RFP from ARI and from Enterprise and conducted interviews of both companies during the week of September 12. Both are large companies with significant experience in the fleet industry. Both companies provided compelling models. In both models, staff identified several metrics that will need evaluation through the term of the pilot program, including the cost of the program compared with current costs and the potential fleet availability to our customers.

Leasing of 20 new Vehicles (Model A)

Both companies provide a program that can meet proposed vehicle needs with new leased vehicles. Leases would be full service which includes all maintenance for the vehicles. This model allows the City to compare both a different vehicle acquisition model and a model that utilizes vendors to provide routine maintenance.

It is important to consider the costs associated with this model. To calculate the savings or increased expense, staff has identified the amount of the lease for the vehicles and balanced that with potential savings the City would achieve by not having to maintain older vehicles. As shown in the table below, the calculation shows a preliminary need of an additional \$103,500 over the two-year pilot period. PRNS has identified an existing Capital Improvement allocation that will cover this upfront cost.

Preliminary Lease Analysis – 2 Year Program

Vehicle Leases (20 vehicles)	\$199,800
Maintenance Cost Avoidance	(\$96,300)
Lease Program Funding Need	\$103,500

Through the RFP process, the vendor provided vehicle maintenance costs allocated to the lease model. Those costs for the twenty vehicles equal a total of \$8,830 per year. This compares with an estimate of in-house cost of \$3,370 per year. Because the vehicles are new and require less corrective maintenance, these numbers are significantly less than the maintenance cost avoidance number in the table above. The specific maintenance costs on this model are built into the lease numbers above, but demonstrate the cost competitiveness of City fleet maintenance.

In negotiations with the vendors we have also been able to focus on the cost of the vehicles. It is clear that the City has equivalent buying power to both large companies. This means the starting cost of the vehicles are essentially equal. In a lease model, the leasing company amortizes the costs of the vehicles over the term of the lease and adds to that their overhead and profit. This is an additional cost of between 2% and 3% per vehicle.

Other non-financial considerations also play into the equation. One key element for evaluation is the vehicle availability metric. This measures the amount of time the vehicle is available to the user during the users operating hours. Currently the overall general (non-public safety) fleet is available 97% of the time, with each department receiving a balanced level of service. It makes sense that older vehicles would have a lesser level of availability, while newer vehicles would be available more often. The vehicles chosen for this pilot are older vehicles. Because of that, their

availability tracks at a level of about 85%. While a review of the service records for the vehicles did not uncover downtimes that were out of ordinary for the repairs needed, it is important to note that an 85% availability rate means that a particular vehicle needed to support a particular service is unavailable to departments for more than a month out of every year. This is a symptom of the older fleet we own and not the services provided by Fleet staff. Any level of availability below 100% may mean that PRNS staff is less efficient, as they lack the necessary vehicle to support their work efforts on those days when the vehicles are out of service.

In this model, staff expects to see an increase in availability as the new vehicles will require only basic preventive maintenance activities and there is a potential for vehicle operators to obtain this service in the part of town where they are deployed, reducing down time related to driving the vehicle to the service location. Staff will track this information throughout the pilot in order to measure any availability gains in comparison with the costs associated with those gains.

Another area that will be explored by PRNS is its vehicle deployment strategy and service delivery model. Under this program, the City will lease trucks that hold more people. This will allow PRNS to put more employees in a single truck, which may allow a reduction in the number of trucks necessary and improve efficiency. The change will require trailers to carry the expanded crew's equipment, which would be at least a partial offset of the savings. This aspect will be evaluated further by PRNS, and results of any changes will be reported along with the other findings from the pilot.

The fleet costs cited in the table above are based only on quotes provided by the proposers and analysis of internal data for existing vehicles. While there is an apparent up-front cost to pursue Model A, it may offer availability improvements and service efficiencies for PRNS.

The pilot is scheduled for a two year period. In this model, the City is responsible for compensating the leasing company for the residual value of the vehicles at that point. This is estimated at approximately \$26,000 per vehicle. The City could decide to purchase the vehicles or resell them to cover that cost. The actual value of the vehicles on the resale market will be determined at the time of sale. The City also has these same options at any point during the pilot. Alternatively, the City could extend the term of the lease for the full five year period so that there is no residual value owed on the vehicles. These options will be reviewed during the respective budget process for each fiscal year.

Maintenance of 20 City-owned Vehicles (Model B)

One vendor offered an alternative maintenance model that provides maintenance services for our current complement of vehicles. Staff has identified a group of vehicles that represents the City's general fleet in age and vehicle class. In this model, the primary vendor would take over maintenance responsibilities. Actual maintenance services would be provided by the network of companies in contract with the primary service provider. The cost structure is such that each vehicle has a program fee of between \$4 and \$10 per month and a service charge of 4% - 6% above the cost that the company is charged by the direct service providers. The primary company would take on the full role of evaluating, scheduling, and providing quality control for vehicle maintenance.

This model provides an ideal opportunity to compare costs associated with private sector maintenance of vehicles as well as other performance metrics, such as vehicle availability. There is no ongoing obligation with this option. Should the City wish to dis-engage at any time, we may do so with no additional costs or penalties. There is some risk that the maintenance costs through the vendor will exceed those budgeted. Staff will review costs at least every three months to ensure the costs are appropriate. Any aggregate cost above \$10,000 per vehicle will also trigger a special review.

Through the evaluation, several commonalities came to light among both models. Both companies made it clear that they would not be interested in providing vehicles or maintenance for Public Safety vehicles. Both companies also made it clear that specialized vehicles, such as amusement park rides and heavy equipment at the plant are not in their business models. This information points to the likelihood that these services will need to be provided in-house for the foreseeable future. As such, a substantial complement of in-house fleet maintenance resources will be needed long-term, absent any new vendor interest in providing these services.

Conclusions and Next Steps

Both models provide opportunities for exploring the viability for alternative service delivery methods, allowing for the comparison of financial and non-financial metrics. The City has the ability to enter into an agreement for one, both, or none of the options. Based on the evaluation of Model A described above, along with the fact that Model B requires no initial investment, staff intends to pursue both models. Public Works and PRNS staff will work together closely to ensure that the models complement PRNS' delivery model for parks maintenance services now and in the future.

Staff will track cost and performance data for the duration of the pilot and report out the progress and results regularly through this committee. Both programs allow for the City to end the program at any time. Should we determine that to be necessary, either because we want to expand the program or because it is not performing, we would be able to do so. Staff will be tracking results in both models on a monthly basis, in order to allow for a prompt decision regarding withdrawal from either program.

During the pilots, staff will also continue to look for ways to improve the internal City service model to better align with service needs.

If you have questions regarding the items in this memo, please contact MATT MORLEY, Deputy Director, at 535-1298.

/s/

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