

EXECUTIVE SUMMARY

The City of Salinas retained Mercury Associates to assess the feasibility of centralizing fleet operations and to develop a long-term fleet replacement plan.

The City owns a diverse fleet with around 400 pieces of rolling stock and 200 miscellaneous pieces such as trailers and small landscape equipment. The City spent around \$2.3 million last year to maintain and fuel the fleet.

Four departments currently have involvement with fleet operations. Purchasing keeps a master asset list and coordinates replacement activities. Public Works operates the City's main garage and provides some fleet management services to some departments. The Fire Department handles its own fleet maintenance inside Fire Station #1 and through vendors and rarely uses Public Works for any services. The Police Department uses a combination of Public Works and outside vendors.

In the current system, there are no clear lines of responsibility between departments, a lack of readily available cost and operational data, and no clear strategy to optimize fleet performance.

Centralization Feasibility

The City's current decentralized approach is not optimal and is unusual for an organization of its size. Silos of independent fleet operations are inherently inefficient because they produce obvious duplication of effort and fail to capture economies of scale. Centralizing fleet operations in the City would certainly lower costs and should also produce improved service levels as consistent management practices are applied across current organizational barriers.

We recommend that all fleet management and maintenance functions be centralized within Public Works. The City will need to make investments in its fleet program to insure success. Public Works will require new positions (Fleet Manager, Parts Specialist, and Fleet System Analyst), a new fleet management information system, and the current fleet related budgets and positions from Police and Fire. Additional funding from current levels will likely be required, at least until better management practices and economy of scale produce downstream savings. In addition, the City should take the following steps to institute fleet operations best management practices:

- Establish the fleet program as an internal services fund with a system of fully burdened charge-back rates to recover the costs of services it provides to its customers;
- Develop a Fleet Advisory Board comprised of primary stakeholders (Public Works Operations, Police, Fire, and Finance). Service Level Agreements should be established for all fleet customers as well;
- Develop a system of key performance indicators to track and report essential fleet information such as fleet availability, shop turn-around time, and cost performance.

Fleet Replacement Plan

After decades of lean budgets, the City's fleet is old. An old fleet has consequences for costs, the efficiency of work crews who rely on vehicles to do their jobs, safety, and environmental responsibility. Increasing funding for fleet replacement is crucial. All other fleet improvement initiatives cited in this report will not be successful unless the City renews its fleet.

The average age of all the vehicles in the fleet (15.4 years) exceeds standard industry practice for government fleets of 8 to 10 years (we have recommended an average replacement criteria of 9 years for Salinas). In general, the average age of a fleet should be around 50-percent of the replacement criteria. For example, if the target replacement cycle for police patrol cars is 5 years, then the average age of all patrol cars should be 2.5 years (provided that the data set is statistically relevant). With an average age of more than 15 years, it would take the City more than 30 years to replace the vehicles in the fleet at least once. This gives Salinas the dubious honor of having one of the oldest government fleets among the more than 500 we have worked with.

With the replacement cycles we are recommending, 325 assets – roughly 86 percent of all the vehicles in the City's fleet – will meet or exceed recommended replacement cycles in the first year of the plan (FY 2016-17). The estimated replacement cost of all the vehicles in the fleet is \$24.6 million. With our recommended cycles vehicles will be replaced on average every 9 years. To comply with this fleet-wide weighted average replacement cycle the average annual capital outlay for vehicle purchases would need to be \$2.7 million. However, this figure does not address the backlog in funding needs that has built up over the years. In other words, the City needs to average \$2.7 million per year in fleet replacement funding to keep the fleet current **after** it has replaced the 86-percent of the fleet that is currently due or overdue for replacement.

It took the City many years to develop the large backlog in spending requirements that currently exists and it would be impractical for the City to try to catch up in one year even if it had the financial wherewithal to do. Consequently, the plan we have developed would eliminate the backlog over several years by allocating a steady spending level around \$3.5 million each year for the first five years and the replacement of an average of 59 units per year. Details on the recommended replacement plan can be found in a later section of this report. We will also provide the City with an Excel spreadsheet with the final version of our report that shows vehicles slated for replacement in each year of the plan.

Like many government jurisdictions we have worked with in the past, the City has not kept up with renewing its fleet. Underfunding became an acute problem during the recent recession years and now the City is facing a crippling backlog in replacement funding requirements.

Operating a very old fleet is costing the City money – both in hard dollars and in indirect costs. The old fleet is undoubtedly causing employees to be less productive as unreliable

vehicles must be frequently driven to the shop rather than to work. The size of the fleet is likely larger than it needs to be as departments have secured extra vehicles to act as backups and spares so they can survive the increased unreliability of front-line vehicles¹. The older vehicles populating the fleet also use more fuel and emit more pollution because 1) standards for emissions and fuel economy were lower a decade or more ago when many vehicles were purchased and 2) the fuel and emission control systems of vehicles degrade over time. Finally, older vehicles are not as safe as new ones for the simple reason that they lack many of the advanced safety features that are standard with new cars such as:

- Passenger and side curtain airbags,
- Antilock brakes,
- Traction control,
- Stability control,
- Rearview cameras.

Achieving the benefits of fleet renewal and sustaining these benefits over time will require, in our opinion, that the City change its approach to replacing its fleet. One way to incentivize users to follow good fleet management practices is to confront them with cost of having vehicles at their disposal.

Given the magnitude of the backlog in fleet funding requirements, we believe the City will have little choice but to pursue the debt financing option. This option will make fleet renewal more affordable and, therefore, more likely to be sustained.

Based on our analysis and from our experience with many other fleets, we are confident that increasing fleet replacement spending so that our recommended replacement cycles can be followed will be of significant benefit to the City regardless of the method of funding chosen. Moreover, the indirect costs of fleet reliability, operational disruptions, and fleet safety are hard to quantify but are no less important to the City.

¹ Clients we have assisted rightsize their fleets in concert with fleet renewal have achieved fleet size reductions ranging from 5 to 10 percent. In 2012 we assisted the State of California cut the size of its light-duty fleet by more than 14 percent.