

Driving Down Fleet Costs

by Peter Christensen and Susan Thorpe

Peoria, Arizona (pop. 153,000), has been hit hard by the current economic recession. The city had already cut \$6.5 million from the current fiscal year 2009 budget and is reducing the budget by an additional \$8.8 million for FY 2010. Departments are turning over every stone in an effort to bridge the budget gap without laying off employees.

Although painful, budget challenges do not come without a silver lining. Boom cycles sometimes create a culture of entitlement within government organizations and cause incremental bloating of department and program budgets. Economic downturns can give organizations the cover they need to trim fat out of their budgets and shift the focus from augmenting programs to providing core services and functions as efficiently and effectively as possible.

In Peoria, City Manager Carl Swenson has seized this opportunity. Even before the magnitude of today's budget problems became clear, he created a number of cross-functional teams to look for cost savings in specific areas. One that he believed held significant potential for savings was the city's fleet operation. This article explains how employees from departments across the city came together to find upward of \$1 million in ongoing savings.

BACKGROUND

Peoria spends some \$10 million annually on its fleet, including vehicle replacement (\$3.7 million), maintenance (\$3.2 million), fuel (\$2 million), and parts and tires (\$1.1 million). Its fleet comprises more than 500 vehicles, from police patrol cars to solid-waste-collection trucks. With the exception of vehicles and equipment used by the fire department and the Peoria Sports Complex (spring training baseball facility), all vehicles are serviced by the fleet services division.

A fleet reserve fund is used for accumulating money necessary to replace vehicles at the end of their useful lives. Departments pay into this fund based on the estimated replacement cost and the useful life of each vehicle they own. The replacement cost is discounted by 10 percent to account for salvage value and interest earnings.

The engineering department, for example, has a Toyota Tundra pickup with an estimated replacement cost of \$20,449 and a life of seven years. Dividing \$18,404 (90 percent of \$20,449) by seven means that the engineering department pays \$2,629 per year into the fleet reserve fund for the truck.

The fleet services division operates as an internal service fund, recovering its costs by directly charging user departments for services provided. Fleet's allocated share of indirect overhead costs (for purchasing, inventory, finance, facility maintenance, and information technology), which totaled just more than \$1 million for FY 2009, is factored into what is charged to the user departments.

Eighty percent of the fleet's indirect overhead costs is allocated to labor. Adding in direct labor and direct overhead comes to the hourly labor rate of \$135. Parts, fuel, and contract work also are marked up by a certain percentage to recover the indirect overhead allocated to those areas.

Although including indirect costs in the fleet rates and charges makes sense financially, this practice has fed the perception among other departments that fleet services is inefficient and out of line with the private sector. Departments complain that, although expensive, the quality of the work is often substandard and vehicles are down longer than they should be.

FLEET SOLUTIONS GROUP

Of all the task forces organized to identify cost savings, the one Manager Swenson believed had the most potential was the fleet solutions group. He gave this group a tall order at its first meeting in December 2008: review fleet operations from top to bottom

and recommend improvements before the management retreat scheduled for January 30, 2009. The city manager emphasized that this effort was a high priority and staff members needed to challenge the way they had been doing business.

Led by a deputy city manager, the solutions group included analysts and managers from police, fire, community development, engineering, utilities, community services, public works, and budget. Fleet services was represented by the public works director.

The solutions group was, not accidentally, an eclectic collection of staff with a broad range of knowledge and skills. The manager's office recognized the importance of having key stakeholders from the user departments represented in the group in order to help with the implementation of recommended actions.

To define a clear purpose to guide the work of the group and prevent

it from getting off track, the group adopted a statement of purpose at its first meeting: "To create the most lean, cost-effective, efficient, and environmentally sustainable fleet policies, procedures, and operations possible."

Group members quickly identified five major areas of emphasis—vehicle use, vehicle replacement, vehicle standards, service delivery, and cost allocation and rate setting—and divided themselves into five subgroups to analyze each area and formulate recommendations for improvement. The five subgroups met individually and reported back to the larger group every week or two.

The group involved fleet services staff and kept them informed about their thinking. Several subgroups interviewed the fleet manager to better understand specific fleet operations. The public works director and a group member also met separately with the



(Top) Different makes and models of light-duty vehicles in the city's fleet line the upper deck of the parking lot at the development and community services building on the city hall campus. **(Above)** Vehicles await maintenance and repair outside the fleet services facility at the city's municipal operations center.

fleet supervisors and mechanics to ask for their ideas on how to lower costs. Several of these ideas were ultimately incorporated into the final recommendations of the solutions group.

The subgroups also interviewed public and private fleet managers, the owner of a local auto shop, and the city's materials manager. Each of these interviews produced ideas that evolved into recommendations or were targeted for further review and analysis. Particularly helpful was the information gleaned from the owner of a local auto shop, who described how private shops operate and the practices they use to maximize efficiency and minimize costs.

By the middle of January, each team had developed a set of recommendations to share. These were vetted by whole group, which then settled on a package of recommendations that members summarized and presented to the city manager.

Swenson commended the group, offered a few suggestions, and endorsed all of the group's recommendations. The group shared these recommendations with managers from all departments at a management retreat.

RECOMMENDATIONS

The solutions group arrived at 21 recommendations (see box on page 23).

Vehicle use. One of the first orders of business was to rightsize the city fleet; in other words, reduce the number of vehicles to reflect the city's true needs after a period of rapid growth.

To accomplish rightsizing, the group set a usage threshold of 7,000 miles per year. Approximately 150 light-duty vehicles fell below this threshold in 2008. To retain any of these vehicles, department directors would have to cite a legitimate business need to retain them.

The solutions group would review all departmental requests to retain vehicles that had accumulated few miles and would recommend which vehicles to eliminate. If disagreements

arose, the city manager would have the final say.

A separate but related issue involved take-home vehicles, which the group believed had evolved into a perk for certain employees, regardless of business need. The group's recommendation was to eliminate the assignment of take-home vehicles to particular employees and to limit their use to employees on call or on standby.

Finally, the group proposed the creation of small motor pools to meet the vehicle needs of city employees. Thus, although a department might lose all or most of its low-mileage vehicles,

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employees of that department would have access to vehicles in either a department or building motor pool.

If no pool vehicle was available to an employee when it was needed, that employee would be able to claim mileage reimbursement for the use of a personal vehicle for city business.

Vehicle replacement. Before the solutions group was organized, fleet services had proposed extending the replacement cycle for most light-duty vehicles from seven years to 10 years.

The group adopted this proposal as one of its recommendations.

In reality, vehicles were not replaced according to the scheduled useful life alone; fleet services has a point system to evaluate the condition of the vehicle and maintenance dollars spent. Still, estimated vehicle life was the basis for evaluating the replacement of any given vehicle.

The solutions group agreed that proper care and maintenance of vehicles should be emphasized and that a vehicle owner (each individual department) should be held accountable for a vehicle's condition. Under existing practice, if a vehicle had to be replaced early because of poor care and maintenance, the owner would not be penalized by having to pay extra into the fleet reserve fund.

Conversely, if the vehicle stayed in service beyond the estimated life, the owner still continued to pay into the fleet reserve fund. The solutions group recommended that this practice be changed to provide incentives for proper care and maintenance of vehicles and accountability for poor care.

The reserve fund had been generating more money than necessary, leading to a recommendation for an annual evaluation of the methodology for this fund. The budget office believed that the estimated replacement cost of vehicles could be discounted by 20 percent rather than 10 percent without jeopardizing fund sustainability. The annual reexamination will also consider whether the methodology is encouraging the right type of behavior by vehicle owners.

The city purchases most of its vehicles using a state contract, usually less expensive than other options. The fleet solutions group recommended, however, that the city evaluate purchasing from local dealers. The price would likely be higher, but it would provide a stimulus to struggling auto dealers and the sales taxes would benefit the city. Group members will also look into and evaluate leasing vehicles rather than purchasing them.

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Vehicle standards. One of the barriers to the ability of fleet services to efficiently maintain the city's fleet is the wide variety in the types of vehicles in service. 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, mechanics had to learn the idiosyncrasies of many different makes and models, thus undermining efficiency. Fleet services had had only limited ability to impose standardized models on individual departments.

The solutions group saw the current economic environment as an opportunity to impose standards for light vehicles and accessories on all departments. In the future, departments purchasing new vehicles or replacing old ones will be limited to standardized choices.

Fleet services had already proposed standards for seven types of light vehicles, which the solutions group endorsed. The group further created an interdepartmental committee to review and approve vehicle standards proposed by fleet services. This committee also evaluates requests for exceptions to the standards.

The final recommendation was to evaluate the environmental impact of vehicle choices consistent with the direction of the city manager and council. Although the purchase price of a hybrid vehicle may be higher than a traditional vehicle, for example, the city can opt to use the hybrid because of its lower carbon footprint. Fleet services has already recommended hybrid vehicles as the standard for small and mid-size sedans.

Service delivery. This was targeted specifically at addressing the negative perception among departments about the accountability, efficiency, and responsiveness of fleet services. One issue the group zeroed in on was that fleet charges departments based on the actual time spent servicing vehicles rather than on industry-standard flat rates used by private shops.

One of the key criteria by which the performance of mechanics is

judged is the number of billable hours. The group believed that the combination of charging based on actual time and using billable hours as a performance indicator created an incentive for mechanics to spend more time working on vehicles than they should, thus increasing the costs for vehicle owners.

One of the group's first recommendations was to measure the time spent on service and repairs and compare it against flat rates recommended in industry-accepted guides such as All-data, Mitchell, and Chilton.

The group recommended the tracking of three additional performance standards:

- Percentage of vehicles requiring rework for the same problem should be less than 5 percent.
- Turnaround time on most repairs should be same day.
- Turnaround time on most parts should be no more than one hour.

The group advised that, when sufficient data became available on the performance of fleet services compared with these standards, the data should be used to make further adjustments to staffing and operations. Such performance information could go a long way toward making fleet services accountable to its customers, much as private shops are accountable to their customers.

Expanded use of service-level agreements was another recommendation intended to enhance accountability and underscore the responsibility of vehicle owners to care for their vehicles properly. A service-level agreement defines the responsibilities of both fleet services and departmental owners, and such agreements are used by several of the larger departments in the city. The fleet solutions group recommended expanding their use to any department that owns vehicles.

To further enhance customer service and mechanics' efficiency, the group recommended designating a "service writer"—a person who interacts with customers as vehicles are dropped off and picked up—from

Summary of Fleet Solutions Group Recommendations

Vehicle use:

- Require justification for vehicles driven less than 7,000 miles per year.
- Limit take-home vehicles to employees on standby or on call.
- Create interdepartmental motor pools.
- Use mileage reimbursement or stipends for business use of personal vehicles.

Vehicle replacement:

- Emphasize proper care and maintenance of vehicles.
- Extend vehicle life from seven years to 10 years for most light-duty vehicles.
- Evaluate annually the replacement fund methodology.
- Evaluate leasing options.
- Evaluate local purchase options.

Vehicle standards:

- Standardize light-vehicle types and accessories.
- Require justification and approval for exceptions to standards.
- Evaluate sustainability of vehicle choices.

Service delivery:

- Establish performance standards for fleet operations.
- Compare workload to service capacity and service levels.
- Expand use of service-level agreements.
- Create a "service writer" function using existing resources.
- Analyze contracting options for parts, tire work, and preventive maintenance.

Cost allocation:

- Use a flat rate charge system for services.
- Allocate indirect costs to a vehicle administration fee.
- Separate fuel from maintenance in department budgets.
- Evaluate the use of fuel cards instead of purchasing cards.

existing staff in fleet services. This person would coordinate the scheduling of maintenance and repairs and assist with moving needed parts from the parts counter to the mechanics on the floor. Each department also would be asked to identify one employee to be a liaison to fleet services.

Finally, the group questioned whether the city should be in the business of parts, preventive maintenance, and tire work. To save money, many governments outsource some or all of these functions. It was not known whether this would hold true for Peoria, but the group recommended that the city analyze local costs before it made an informed decision about such outsourcing.

Cost allocation. Several alternatives

to the existing rate model were evaluated. The most significant point of contention was whether to include indirect overhead costs. Some argued that the indirect overhead had to be included to reflect the true cost of fleet services and to facilitate comparisons with private shops; others argued that indirect overhead for a government agency is much higher than a private auto shop and thus distorts such comparisons.

The group decided to eliminate the indirect overhead from the rate calculations, which brought the labor rate down to about \$75 per hour from \$135. This lower rate would be applied against the flat rate for the type of work performed rather than against the actual time spent by the mechanic.

Because indirect overhead doesn't disappear even if it is removed from the rate calculations, the group recommended the creation of a vehicle administration fee, which is nothing more than the indirect overhead costs allocated over the total number of vehicles in the fleet.

The group also recommended that two different accounts be created for fuel and maintenance instead of continuing to lump these expenditures together in a single account. The goal was to create a financially sound, equitable, and transparent rate model that would eliminate most of the complaints about the existing method.

ONLY THE BEGINNING

The budget office estimates that these recommendations will generate a little more than \$1 million in ongoing savings beginning in FY 2010, which represents almost 12 percent of the city's expected \$8.8 million deficit for that year. More important, cost savings in the fleet area will likely spare some city employees from layoffs. As significant as this accomplishment may be, the work of the fleet solutions group is far from over.

The city would not realize any of the savings identified if the effort were to end with recommendations only. Implementing the recommendations promises to be a sizable challenge. The city, for example, must shake the entitlement mentality that prevailed during the boom years, and departments must cooperate in the effort to eliminate unnecessary vehicles.

Fleet services must come to terms with a new way of doing business. Modifications to policies, procedures, and systems must be made in a relatively short period of time. None of these changes will be easy, and some will be downright painful, but the magnitude of the challenges the city now faces mandates that they be made. **PM**

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