

# SALT LAKE CITY COUNCIL STAFF REPORT

## BUDGET ANALYSIS – FISCAL YEAR 2007-08

**DATE:** May 22, 2007

**SUBJECT:** **FLEET MANAGEMENT FUND**

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The City's Fleet Management Internal Service Fund provides vehicles, fuel and vehicle maintenance for the City except for the Airport, which provides its own fleet services. General Fund departments and enterprise funds reimburse the Fleet Management Fund for these services (excluding actual vehicle borrowing). Vehicle purchases for general fund departments are funded by a transfer from the Non-departmental budget. The operating budget for the Fleet Management Fund is proposed be \$19,004,589, an increase of \$2 million (11.9%).

<b>FLEET MANAGEMENT FUND PROPOSED BUDGET</b>				
	<b>Adopted 2006-07</b>	<b>Proposed 2007-08</b>	<b>Difference</b>	<b>Percent Change</b>
<b>Revenue &amp; other sources</b>				
Maintenance fees	\$ 4,798,978	<b>\$ 5,174,522</b>	\$ 375,544	7.8%
Fuel fees	2,787,400	<b>2,819,925</b>	32,525	1.2%
Sale of vehicles	570,000	<b>600,000</b>	30,000	5.3%
General Fund transfer	5,235,381	<b>5,546,181</b>	310,800	5.9%
Other revenue - sundry	50,000	<b>50,000</b>	-	0.0%
Interest Income	2,000	<b>10,000</b>	8,000	400.0%
Lease Purchase Proceeds	2,400,000	<b>2,400,000</b>	-	0.0%
Use of reserves	1,400,860	<b>2,403,961</b>	1,003,101	71.6%
<b>Total revenue &amp; other sources</b>	<b>\$ 17,244,619</b>	<b>\$ 19,004,589</b>	<b>\$1,759,970</b>	<b>10.2%</b>
<b>Expenses &amp; other uses</b>				
Personal services	\$ 2,689,299	<b>\$ 2,862,324</b>	\$ 173,025	6.4%
Parts and supplies	4,849,450	<b>4,973,416</b>	123,966	2.6%
Charges for services	695,749	<b>726,616</b>	30,867	4.4%
Debt and interest Charges	3,728,057	<b>3,449,704</b>	(278,353)	-7.5%
Equipment Replacement	1,950,000	<b>3,660,800</b>	1,710,800	87.7%
Use of lease purchase proceeds	2,400,000	<b>2,400,000</b>	-	0.0%
Use of prior year lease capital	850,000	<b>850,000</b>	-	0.0%
Other Capital Expenditures	62,000	<b>62,000</b>	-	0.0%
Transfers Out	20,064	<b>19,729</b>	(335)	-1.7%
<b>Total expenses &amp; other uses</b>	<b>\$ 17,244,619</b>	<b>\$ 19,004,589</b>	<b>\$1,759,970</b>	<b>10.2%</b>

## POTENTIAL MATTERS AT ISSUE

The major changes and some of the issues relating to the proposed budget are as follows:

- A. **Addition of positions** – The Administration is recommending the addition of 1 FTE, Fleet Compliance Coordinator (\$65,000). This position would coordinate environmental, LEED, safety, and fuel systems compliance.
- B. **Transfer of positions** – The Administration is recommending a 0.40 FTE transfer of the Financial Reporting Accountant/Analyst to the Golf Fund (\$28,240 savings). This position will handle the financial accounting for both Golf and Fleet (.6 Fleet/.4 Golf).
- C. **Capital Outlay** – The Capital outlay budget is proposed to increase by \$1.71 million. This is due to a one-time increase in the use of cash reserves for replacement of equipment. This reduces the total outstanding capital needed for fleet replacement to \$13.47 million. It also allows the Fleet Fund to stay ahead of the dramatic increases seen in the cost of equipment.
- D. **Use of Reserves** – The Administration is recommending that \$2.4 million be drawn from Fleet Fund reserves (an increase of approximately \$1 million over last fiscal year). \$850,000 of this is due to the Fire Department purchase referenced above. Adjusting for this “timing issue” the true operational draw from cash reserves is approximately \$1.55 million. As of June 30, 2006, there was \$4.5 million in Fleet Fund reserves. The Council may wish to inquire about true cash available in the Fleet Management Fund at any given time. The Council may wish to have further discussion regarding this strategy as a short-term budget fix.
  - Also at issue is the long-term status of the fleet fund balance in general. The Department has indicated that \$8.5 million will be needed annually over the next five years to cover costs of fleet replacement (based on a life-cycle analysis).
  - In the FY 2006 budget year discussion, the division indicated that the current funding levels were not sufficient to complete ideal life-cycle replacement needs of vehicles. The Council may wish to ask the Administration if there are now strategies in place to begin doing so.
- E. **Fuel Costs** – The fuel budget of the fund is expected to slightly decrease while fuel fees reimbursed to the fund are proposed to slightly increase. The Fuel budget is expected to decrease by \$6,300 (0.3%) compared to a 43.5% increase between fiscal years 2006-07. This is due to a projected decrease in usage by 10,000 gallons. Fuel fees charged (source of revenue) are expected to increase by \$32,525 (1.2%). Overhead costs are built into the fuel fees charged.

- The division's proposed budget includes the purchase of 1.13 million gallons of fuel (compared to 1.14 million gallons in FY 2007) at the per gallon purchase price of \$2.00 for unleaded and \$2.35 for diesel (a \$.05 and \$.07 increase respectively). At the time of budget preparation, the average price of fuel for FY 2006-2007, was \$1.95 per gallon for unleaded and \$2.26 for diesel (\$.15 and \$.13 increase respectively).
  - The accounting report for the fleet fund includes a major increase in the "Other Fuel" category (from \$50,000 in FY 2007 to \$240,875 in FY 2008). This is due to a shift from diesel towards the usage of bio-diesel fuel.
- F. Fleet Facility – The Administration is recommending that the City issue sales tax revenue bonds to construct a new Fleet Facility, at a site purchased in FY 2006. The construction of the facility is expected to start by the end of calendar year 2007. Because of spend-down requirements the Treasurer's Office has recommended that the City hold off on selling of the bonds until closer to the end of FY 2008. This means that debt service on the facility (which will be partially covered by general fund, partially covered by the Fleet Fund) will not start until Fiscal Year 2009. Debt service would be split between the General Fund, the Refuse Fund, and the Fleet Internal Service Fund.
- The Administration has indicated that current planning for the new facility includes extra space for IMS to house redundant operations, to cover technological needs in case of an emergency. The Administration has estimated that because of the space requirements this may increase the project cost by \$250,000.
  - Continuing debt service, assuming a 20 year bond, would be approximately \$1.8 million per year (not including any other proposed projects included in the sales tax bond proposal). The Fleet Fund and Refuse Fund would be both eligible to contribute to debt service payments on this bond, the CIP 10 Year Plan has contemplated this. The Fleet Fund portion would be approximately \$235,000.
  - The Administration is currently reviewing programming and scope options for the new facility. The latest cost estimates for construction are at 27.6 million which represents a \$4.1 million increase due to rising material costs and also design changes to meet LEED certifications.

## **OTHER BUDGET-RELATED ITEMS**

- A. Police Vehicles – The Administration is not proposing the addition of any police officers. Should the Council consider additional police officers, vehicles would be needed. There are currently 30 vehicles that are considered "spare" allocated to the police department. The "spare" vehicles are used as loaners when other police vehicles are in the shop for maintenance or repair. Because there are multiple computer systems and mounts in the vehicles, more spare vehicles are needed than would be necessary if there was a single computer system vehicle mount. Fleet management and the Police Department are currently working to resolve this issue. Fleet has indicated that they have a need to maintain between 24 and 30 vehicles to use as loaners in the case of repairs (currently approximately 8-10 cars per day are brought in for repairs, minor and major). Each additional police vehicle costs \$25,000 (fully loaded).

## **LEGISLATIVE INTENT STATEMENTS**

A. In the Fiscal Year 2005-06 budget process, the Council adopted the following legislative intent statement with regard to the Fleet Management Fund:

- “It is the intent of the City Council that the Administration analyze the age of City-owned vehicles and maintenance costs associated with vehicles to determine the optimal replacement cycle. Options for adequately funding optimal replacement should be forwarded to the City Council for a joint discussion.”
- Administration’s Response: The Fleet Division has performed an analysis of this issue, taking into account the various factors with regard to fleet maintenance. The Department has indicated that \$8.5 million will be needed annually over the next five years to cover costs of fleet replacement (based on a life-cycle analysis).

B. *During the briefing on the proposed budget, the Council may wish to identify legislative intents relating to the Fleet Management Fund.*

## **SIX YEAR BUSINESS PLAN**

The following has been identified as specific and likely future changes to budget and/or staffing of the Fleet Management Division, as outlined in the Six Year Business Plan:

- Based on fleet “life-cycle” analysis, approximately \$4.9 to \$5.6 million will be needed annually over the next five years, for fleet replacement. The level of replacement will contribute an average of 2% to the Fleet fund balance, from which the Fund will draw heavily in FY 06-07 and 07-08. This life-cycle replacement reduces the overall cost of fleet operation. *The Council may wish to clarify with the Administration whether this will be met.*