

SALT LAKE CITY COUNCIL STAFF REPORT

BUDGET ANALYSIS – FISCAL YEAR 2010-11

DATE: May 25, 2010

SUBJECT: **FLEET MANAGEMENT FUND**

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KEY ISSUES

- For the past six months, the Fleet Management Division has been in a period of transition. The Division, under interim management, has been undergoing a Fleet Usage Study and the Public Services Maintenance Facility, sometimes referred to as the Fleet Facility, is in the final phases of construction. The FY 2011 annual revenue and expense budgets for the Fleet Division have not changed significantly from FY 2010. However, this budget may be amended during FY 2011 as the Fleet Usage Study findings and recommendations are finalized by the consultant and Administration.
- Fuel budgets reflect an increase in fuel prices over the prior year, but also reflect that 20,000 fewer gallons are planned to be purchased.
- The General Fund transfer for equipment purchases is \$4,000,000. An overall decrease of \$370,381 from the prior year.

The City's Fleet Management Internal Service Fund provides vehicles, fuel, and vehicle maintenance and repair services for all City departments. The only exception is the Department of Airport, which owns and provides for its own fleet services. General Fund departments and enterprise funds reimburse the Fleet Management Fund for these services to a significant extent, but Fleet has not implemented a full cost recovery system yet. 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 to be \$18,012,378, an increase of \$410,926 (2.00%) over FY 2010.

According to data provided by Fleet Management, there are approximately 3,300 total pieces of equipment which consists of approximately 1,500 rolling stock items/vehicles and 1,100 light vehicles, which include cars, pickup trucks, and sedans. The Fleet currently has 81 alternative fuel vehicles.

Fleet Management uses life cycle cost analysis to set replacement parameters within classes of equipment. The 15-point replacement component of FASTER (Fleet Management Software program) applies life cycle parameters to individual units. This vehicle replacement point system is designed to generate an optimum time (maximum use of vehicle at lowest cost) to replace a vehicle based on the following criteria: miles, vehicle condition, maintenance costs, depreciation, original purchase price, and anticipated resale value. For unmarked administrative and police cars this is likely to occur at seven years and for marked police cars this is likely to occur at five years. After the list is generated, items on the replacement list are

reviewed and prioritized based on department needs and the possibility of extending the life of particular vehicles a bit longer.

Fuel prices are in constant fluctuation and difficult to predict. The following information is intended to provide a bit of background on recent and current fuel prices. According to the AAA website, the highest recorded average retail prices for Salt Lake City residents were \$4.22 for regular unleaded gas which occurred in July of 2008 and \$4.81 for diesel which occurred in June of 2008. As of May 20, 2010, Salt Lake City consumers are paying \$3.28/gallon for regular unleaded and \$3.17/gallon for diesel – decreases of \$.94 and \$1.64 respectively from the 2008 peak prices, but increases of \$1.11/gallon for mid-level unleaded and \$.84/gallon for diesel from exactly one year ago.

The City's Fleet Management Fund purchases its fuel at cost and without tax from a state contract provider. As of May 14, 2010, the Fleet fuel prices were \$2.52/gallon for mid-unleaded and \$2.45/gallon for diesel. The Mayor's recommended budget for FY 2011 was prepared using \$2.33/gallon for unleaded and \$2.46/gallon for diesel. (See table below for past price and gallons purchased information used in preparing the budget.) City departments and enterprise funds are billed on a monthly basis using the average monthly fuel cost plus a \$.20/gallon overhead charge. According to the Fleet Management this overhead charge is reviewed annually, and adjusted as necessary to cover Fleet costs; including environmental testing, site maintenance, and distribution to 15 City owned fueling sites. For Fiscal Year 2010-11, Fleet Management has budgeted for the purchase of 1.11 million gallons. According to Fleet Management personnel, 670,000 (690,000 FY 2010) gallons of unleaded and 440,000 (425,000 FY 2010) gallons of diesel fuel are expected to be purchased in Fiscal Year 2011.

Fleet Fuel – Budget Projections – Gallons and Fuel Prices			
	FY 2009	FY 2010	FY 2011
Gallons – Projected Usage (Used to prepare budget)	1.12 million	1.13 million	1.11 million
Unleaded - Fleet Purchase Price (Used to prepare budget)	\$3.35	\$1.80	\$2.33
Diesel - Fleet Purchase Price (Used to prepare budget)	\$4.20	\$2.30	\$2.46

The following is the proposed Fleet Management Fund Budget for 2010-11:

FLEET MANAGEMENT FUND				
PROPOSED BUDGET				
	Adopted 2009-10	Proposed 2010-11	Difference	Percent Change
Revenue & Other Sources:				
Maintenance Fees	\$ 6,347,011	\$ 6,503,395	\$ 156,384	2%
Fuel Fees	2,487,280	2,874,800	387,520	16%
Sale of Vehicles	550,000	550,000	-	0%
General Fund Transfer (Note - includes increase for prior year reduction of \$865,000 (Fire Apparatus Not Funded in FY 2010))	4,370,381	4,000,000	(370,381)	-8%
Other Revenue - Sundry	18,000	25,000	7,000	39%
Interest Income	5,000	100	(4,900)	-98%
Lease Purchase Proceeds	3,000,000	3,000,000	-	0%
Total Revenue & Other Sources	\$ 16,777,672	\$ 16,953,295	\$ 175,623	1%
Expenses & Other Uses:				
Personal Services	\$ 3,232,942	\$ 3,300,886	\$ 67,944	2%
Fuel, Parts and Supplies	5,373,050	5,783,729	410,679	8%
Charges for Services	755,091	703,864	(51,227)	-7%
Debt and Interest Charges	2,421,727	2,685,863	264,136	11%
Equipment Replacement	2,050,000	1,700,000	(350,000)	-17%
Use of Lease Purchase Proceeds	3,000,000	3,000,000	-	0%
Use of Prior Year Lease Capital	350,000	351,000	1,000	0%
Other Capital Expenditures	80,000	140,000	60,000	75%
Transfer Out - Debt Service Fleet Facility	311,605	311,419	(186)	0%
Transfers Out - IMS	27,037	35,617	8,580	32%
Total Expenses & Other Uses	\$ 17,601,452	\$18,012,378	\$ 410,926	2%
Use of Reserves	\$ (823,780)	\$ (1,059,083)	\$ (235,303)	29%

BUDGET ITEMS AND POTENTIAL MATTERS AT ISSUE

Some of the proposed revenue and expenditure changes to the budget are highlighted below. The “►” symbol indicates questions that Council may wish to address or request additional follow-up information.

Revenues and Other Sources

1. Increase – Maintenance Fees - \$156,384 and Other Revenue \$7,000

- Labor Rate - The Fleet Management labor rate for service and repair is proposed to increase from \$78/ hour to \$80/hour. According to Fleet Management, the proposed rate of \$80/hour is still under market rates of approximately \$100 plus/hour charged by non-City service garages.

- Part and Supplies - According to the Administration, the markup on parts is 40% and 20% on work that is sublet.
- Other Revenue – Other revenue includes miscellaneous sources of revenue, including the sale of scrap metal and insurance claims. The sale of scrap metal is estimated to be \$5,000. Insurance claims are projected to increase by \$2,000 for a FY 2011 budget of \$20,000. Both revenue budget adjustments are based on recent activity.

- 2. Increase – Fleet Fuel Fees - \$387,520** – During the summer of 2008, fuel prices reached their peak. Regular unleaded gasoline reached \$4.22/gallon in July and diesel fuel was \$4.81 in June. During 2010, fuel prices have increased and the revenue and expenditure budgets reflect the higher prices. (See above table for fuel prices used in recent budget calculations.)

City departments and enterprise funds are billed for fuel costs based on the prior month's averaged actual costs with a \$.20/gallon overhead charge. This overhead charged is reviewed and adjusted annually, if needed. This charge is used to cover Fleet costs; including environmental testing, site maintenance and distribution to 15 City owned fueling sites.

- 3. Net Decrease – General Fund Transfer for Replacement Fund – (\$370,381)** The FY 2011 budget transfer from the General Fund to the Fleet Replacement account is \$370,381 less than in FY 2010. Details of the net overall reduction are as follows:

Decrease - Ongoing transfer to Fleet Fund for Fleet Replacement (\$1,235,381) For FY 2011, the base budget for fleet replacement has been reduced by \$1,235,381. The base or on-going budget is now \$4,000,000.

Increase – Restore the One-Time FY 2010 Reduction which had been identified for Fire Apparatus - \$865,000 During FY 2010 budget deliberations, the General Fund transfer to the Fleet Replacement Fund was decreased by \$865,000. The Administration planned to use \$365,000 of the funds for debt service for the purchase of two fire apparatus/engines. Additionally, there was a \$500,000 one-time reduction in the ongoing General Fund transfer for equipment replacement. This one-time transfer of \$865,000 has been restored.

The amount of the General Fund transfer for replacing items in Fleet is \$4,000,000 for FY 2011. The fiscal year 2010 adopted budget transfer from the General Fund was \$4,370,381.

► *The Fleet Study will be presented to the Council later this year. Recommendations on replacement and financing are expected to be included in the audit. It is likely that the recommendations will not be fully implemented during FY 2011.*

► *Council Staff has requested the Fleet Management Division's planned and approved equipment purchases for FY 2011.*

Expenditures

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

- 1. Increase - Personal Services - \$67,944** – In FY 2010, the Administration proposed a 1.5% salary suspension program to address the FY 2010 budget shortfall. Employees were given one personal holiday per quarter in exchange for the salary suspension. According to the Administration, this suspension was eliminated based

on comments received. Other personal services changes include insurance, pension, and base-to-base salary adjustments.

- 2. Increase - Parts and Supplies – Fuel - \$393,720 – Recent** fuel prices have increased and the fuel budgets reflect the increased cost to purchase fuel for the City's fleet.
- 3. Decrease – Operating Costs – (\$25,874)** The operating costs line item, includes electrical, natural gas, and water utility costs. This line item is budgeted for less than in FY 2010.
- 4. Capital Equipment Purchases** – The Administration indicates that the Fleet Replacement budget would allow for \$4.7 million in equipment purchases; \$1.7 million cash purchases and \$3.0 million in financed purchases. A Fleet Usage Study has been underway for some time. Findings and recommendations are expected to be presented to the Council in FY 2011. Additional details are as follows:

Increase – Capital Equipment – Debt Service Payments \$265,136 In FY 2010, the Administration increased the amount of equipment purchases that are financed from \$2.4 million to \$3.0 million. The increase to the debt service budget reflects this change. These equipment purchases are financed over a four year period.

Decrease – Capital Equipment – Cash Payments – (\$290,000) - The Administration is recommending that \$1.0 million be drawn from Fleet Fund reserves. The June 30, 2010 projected cash reserve is \$1.1 million. According to the Administration, the reserve ideally would provide for three months of operating expenses or \$2.6 million.

► *The Council may wish to ask the Administration about the Fleet Management Division's planned approach for fleet replacement.*

- 5. Fleet Facility** – The Administration indicates that the construction of the facility should be completed in mid-July. After construction, another 30 days will be needed to test systems and finalize the LEED certification. The Division is currently planning and organizing the relocation of the Fleet operations.

► *The Council may wish to ask the Administration for an update on this project.*

Other Budget-Related Items

- A. Alternative Fuel Vehicles** – Fleet Management has been utilizing alternative fuel vehicles since purchasing a Compressed Natural Gas (CNG) vehicle in the mid-1990s. Currently there are 81 alternative fuel vehicles. Alternative fuel sources used include: Compressed Natural Gas (CNG), Bio Diesel and Electrical.

► *The Council may wish to ask Fleet Management about how is it currently working with the various City departments in order to find solutions that address equipment needs, conservation efforts, and address environmental issues.*

- B. 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 older fleet vehicles that are considered “spare”, which are allocated to the police department. The “spare” vehicles are used as loaners when other police vehicles are in the shop for maintenance or repair and to replace vehicles that get totaled. 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). The loaner vehicles are older units held back from going to auction.

INTERIM STUDY ITEMS

Fiscal Year 2009-10

Fleet Usage/Replacement The final audit should be delivered to the City by the end of May. The Mayor will then be briefed and decide the timing of submittal to the City Council for their consideration.

LEGISLATIVE INTENT STATEMENTS

Fiscal Year 2009-10

2009-3: Fleet Fueling Stations Evaluation

It is the intent of the City Council that the Administration review the possibility of closing one or more of the Fleet Fund's fueling stations, as a potential cost saving measure. The analysis should consider cost/savings implications, operational efficiency opportunities, and emergency preparedness strategies and implications.

Administration Response

The Administration believes that operational efficiencies and emergency preparedness aspects from retaining each fuel site justifies the minimal, direct maintenance costs for each site. However, one fuel site has been identified for elimination when the new facility is operational. This is the Parks Division fuel site. The scope of the audit did not include a fuel site review as anticipated but we are confident that closure of any other sites would result in additional mileage and fuel usage. In fact, in order to eliminate travel for fueling the City is considering adding a fueling site at a Public Utility yard located in Murray. Opportunities to find other ways to fuel are being explored and the Administration will brief the Council if any of these come to fruition.

2009-4: Fuel Usage Reduction

It is the intent of the City Council that the Administration develop a plan for reducing fuel usage in city-owned vehicles and explore the use of alternative fuel vehicles, so that if fuel prices continue to rise, increases to the fuel budgets can be minimized or even reduced. This may include establishing an incentive program with the \$15,000 in one-time funds approved by the Council.

Administration Response

City Fleet is working with departments to explore every possibility to use alternative fuel vehicles. Refuse packers using CNG are in the purchasing process and the Streets Division has obtained three battery-operated vehicles for their use. The Police Department has purchased some hybrid vehicles for detectives and the Chief. Additional opportunities in other departments are being explored and are imminent but details and analysis are not ready for us to publicly announce at this point. The Administration and City Council will be briefed soon on the Fleet audit that includes information on this topic.