



AGENDA REPORT

SAN CLEMENTE CITY COUNCIL MEETING
Meeting Date: June 17, 2014

Agenda Item 6D
Approvals:
City Manager PA
Dept. Head ES
Attorney JD
Finance JW

Department: Finance & Administrative Services
Prepared By: Thomas Rendina, Business Services Officer

Subject: *FLEET MAINTENANCE SERVICES CONTRACT RENEWAL*

Fiscal Impact: None. Contract amount is included in the proposed 2015 Operating Budget.

Summary: Staff is requesting Council authorization to negotiate, execute and implement the final terms for a new contract with First Vehicle Services to perform Fleet Maintenance Services for the City not to exceed \$485,000.

Background: First Vehicle Services has been providing vehicle maintenance services for the City's Fleet since 1994, when the City switched from force account (in-house) to contract vehicle maintenance services. The original agreement provided for a five-year contract, with three additional extensions of five (5) years each. The final contract extension expires on June 30, 2014.

Staff presented a *Fleet Maintenance Services Evaluation* paper as part of the 2013 Long Term Financial Plan, with the objective of reviewing and analyzing the current delivery of fleet maintenance services for the City's fleet. The paper presented maintenance services alternatives and recommended further analysis be performed by an outside firm with expertise in the area of fleet maintenance operations. Council approved the paper's recommendations, and directed staff to prepare a Request for Proposal (RFP) to solicit bids to perform an analysis of the City's fleet maintenance operations. Alternatives to be considered in the study included;

- Bringing fleet services back in-house
- Develop an RFP and solicit new proposals from fleet maintenance contractors
- Negotiate a new agreement with First Vehicle Services
- Other alternatives

Mercury Associates, Inc. (Mercury), was subsequently selected and awarded the contract to perform the Fleet Maintenance Services Evaluation. They completed their analysis and submitted their findings in the attached report. Mercury Associates has recommended that the City negotiate a new agreement with First Vehicle Services.

Discussion: Mercury Associates, Inc., was selected in October, 2013 to conduct the Fleet Maintenance Services Evaluation based upon the background and experience of the firm in the operation and analysis of governmental and commercial fleet maintenance

services. Utilizing their industry expertise and current best practices, Mercury analyzed the following aspects of the City's fleet maintenance services for the City:

- Existing contract
- Contractor's Organization
- Financial elements of the charges for services
- Performance measures
- Facilities
- Fleet Replacement policies
- Other issues

Mercury performed their analysis based on the Vehicle Statistical Referencing System (VSRS) method, first introduced by the U.S. Air Force. This technique converts diverse vehicle types (tractors, trucks, sedans, etc.) into Vehicle Equivalent Units (VEU) which then allows for reasonable standards-based comparisons between fleet operations organizations.

The above analysis established a basis to compare the maintenance cost per vehicle (\$1,661 in San Clemente) to industry averages (\$1,000- \$1,500), the number of mechanic work hours required, and the facilities necessary to support the City's fleet size. Their report concluded that the City's cost-per-vehicle is higher than the industry benchmark, noting that this is largely a matter of economies of scale. While the available number of mechanic work hours (4,080 hours for 2 FTE's) exceeds the City's fleet requirement by 20%, it is not practical to staff less than two full-time mechanic positions without impairing service levels.

Mercury examined the two common approaches for fleet maintenance service delivery;

1. In-house fleet maintenance program, or
2. Contracted fleet maintenance program

Mercury concluded that the City would not save money bringing the fleet operation back in-house. The need to hire personnel, create management policies and procedures, provide management oversight, and develop in-house record keeping tools could easily increase the costs from the current level. Given that customer satisfaction with contract service levels is high, the effort and risk of service disruptions to convert to an in-house model were not recommended.

Mercury identified five contractors that provide fleet maintenance services nationwide, with First Vehicle Services being the largest of these on-site contractors. The San Clemente fleet contract is small in comparison to other agencies. Mercury believes that a new solicitation would generate at least one other bid, but that the costs to provide services would not be materially different than under the current contract. Mercury concluded that the City should not expect to save money by soliciting new proposals and recommends that the City negotiate a new contract with First Vehicle Services.

The current contract with First Vehicles Services is twenty years old and is lacking when compared to contracts used today by contract fleet maintenance services. Mercury recommends that a new contract be developed, as opposed to renewing the existing agreement. Mercury's evaluation has recommended a number of changes to be implemented into a new contract. For instance, the removal of fee incentivized performance measures and defined procurement processes and roles. It is anticipated these changes may provide some reduction in contractual costs. Mercury has provided a recent contract used by another client to serve as a template with these recommended changes, for when the City requests a new contract from First Vehicle Services.

Based on the analysis and recommendations by Mercury Associates, staff is seeking Council approval to execute a new contract for fleet maintenance services with First Vehicle Services.

Action: STAFF RECOMMENDS THAT the City Council to;

1. Approve and authorize the contracting of fleet maintenance services to First Vehicle Services,
2. Authorize the Mayor to execute a new contract by and between the City of San Clemente and First Vehicle Services for fleet maintenance services in an amount not to exceed \$485,000.

Attachments: Fleet Maintenance Services Evaluation (Mercury)

Notification: None.

FLEET MAINTENANCE SERVICES EVALUATION

For The City of San Clemente

Mercury Associates, Inc.

1/10/2014

Fleet Services Evaluation For The City of San Clemente

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Fleet Services Evaluation For The City of San Clemente

Introduction

The City of San Clemente has contracted with First Vehicle Services (hereafter FVS) for fleet related services since 1994. Prior to this, the City managed fleet services in-house, with dedicated staff providing a full-range of services including maintenance of emergency response and law enforcement vehicles. When Police and Fire services were subsequently outsourced, the City's fleet size and the complexity of fleet maintenance activities were reduced.

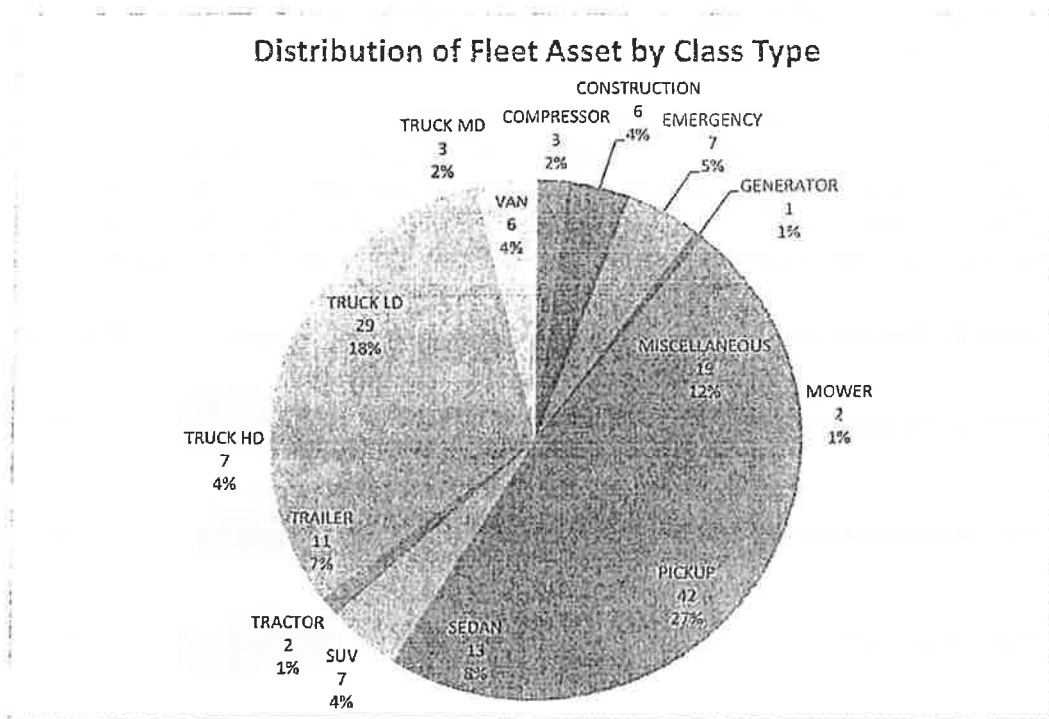
The contract with FVS has been renewed several times, which is a reflection of the City's overall satisfaction with FVS' performance. During this time there have been few changes to terms and conditions, although costs have gone down as the size of the fleet has continued to decline. The current five-year contract expires on June 30, 2014 and the City has decided that a review of the current contract structure and alternatives available to it were appropriate at this time. Mercury Associates Incorporated (hereafter MAI) was engaged to conduct this review and consider three possible scenarios:

1. Bring fleet services back in-house
2. Develop a RFP and solicit new proposals from contractors
3. Negotiate a new agreement with FVS

Background

The City's fleet includes 158 units as shown in the graphic below:

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Since San Clemente has outsourced several municipal functions to other governments and private contractors, the fleet is smaller than other comparable cities.






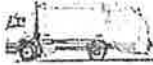
In evaluating key aspects of a fleet services organization, we use an analytical technique based on the Vehicle Statistical Referencing System (VSRS), which was introduced several decades ago by the U.S. Air Force. This technique allows us to compare statistics from diverse fleets by converting vehicle and equipment types to their equivalent in terms of the level of effort required to maintain a standard passenger sedan - which is used as a baseline and given a value of 1.0 Vehicle Equivalent Units (VEUs). By statistically reducing a fleet to its equivalent in terms of sedans, we can make reasonable, standards-based comparisons with the fleet operations of other organizations that have very different compositions.

Mercury maintains and constantly updates a database of VEU values for more than 600 vehicle and equipment classifications. The database includes the entire spectrum of vehicles and equipment found in a typical public sector vocational fleet, from push mowers to aerial ladder fire apparatus. Each class is given a VEU value as it relates to that of a passenger sedan (rated at 1.0 VEUs). A street sweeper, for example, may be assigned a value of 6.5 VEUs. A chain saw typically has a rating of 0.1 VEUs. A backhoe may be 4.5 VEUs. We can then use the total number of VEUs as the basis for identifying resource requirements (e.g., mechanic, parts management, supervisory, and

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support staffing levels, number of maintenance bays, etc.) and comparing these requirements with current program capacities.

A fleet of 100 police patrol cars, rated at 2.5 VEUs each, constitutes a fleet of 250 VEUs. The number of maintenance technicians required to maintain this fleet is greater than that needed to maintain a fleet of 100 passenger sedans, but far smaller than that needed to maintain a fleet of 100 dump trucks. Sample vehicle and equipment classifications and their associated VEUs are provided in the following table.

Vehicle Classification	Sample	VEU Value
Sedan, mid-size, administrative use		1.0
Law enforcement sedan, full-size, "hot seat" ¹		2.5
Pickup truck, LD		1.5
Backhoe, MD		4.0
Street Sweeper, HD		6.5
Refuse Truck		8.0

Our assessment of the City's fleet is that the 158 active units in the inventory at the time of our analysis are equal to 237 VEUs – the equivalent of a fleet of 237 sedans. We normally see a ratio of VEUs to vehicles of 2 to 1. However, as previously indicated, larger and more complex vehicles such as fire and refuse trucks are absent from the fleet. Thus the level-of-effort required to maintain the City's fleet is less than in comparable organizations.

¹ Hot seat refers to a vehicle being utilized on more than a single shift per day.

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Contract

The City's contract is now 20 years old and is based on a format developed by FVS' predecessor (Ryder Managed Logistic Services) whose operations FVS purchased in 1999. Services are designated as "target" and "non-target". Target services are all routine services required to maintain the fleet and are subject to an annual fixed price budget. Non-target services and costs are excluded from the base target contract amount and include activities such as repair of equipment damaged in accidents or by vandalism, and additional equipment installations. Under the City's contract labor is not charged for non-target services as the labor is provided for under the base contract. However, FVS does charge for parts and outside services associated with non-target services. With the City's permission, FVS has in the past provided services to other governments in the area for which the City received a credit. However, FVS currently has no outside customers.

FVS and the City share any savings produced from target operations and FVS can also earn bonuses for meeting certain performance standards included in the contract. As discussed later in this report, performance standards need to be updated and the City needs to develop an independent way to monitor FVS' performance. We will have more comments on the contract in the Analysis section of this report below.

Organization

At the time of our review the fleet services program reported to the Public Works Department. This is a typical organizational alignment for a fleet program. However, the Finance and Administrative Services Department is also actively involved in fleet service activities including management of the Internal Service Fund, billing and cost-allocation, and purchasing of new vehicles. We were recently informed that oversight of the fleet program now is the responsibility of the City Manager's office.

FVS has four employees located at the City's corporation yard – a General Manager, an Administrative Assistant, and two Technicians. The City refers to the General Manager position as its contract Fleet Supervisor. This is because the position does much more than manage contract fleet maintenance including replacement planning, soliciting bids for new vehicles, and acting as a general resource for all fleet related issues.

The General Manager is billed to the City at 0.8 of a full-time equivalent (FTE) position. This reflects the fact that the General Manager also is responsible for three other small contract fleet operations that FVS has in Los Angeles (the cities of Bellflower and Paramount, and the University of Southern California). The General Manager told us that he typically makes one trip per week to Los Angeles to visit these operations. This is the basis of the 80% allocation of the position's cost to the City (i.e. the City pays for 4 out of 5 days). However, it is logical to assume that that the General Manager spends

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some time each week offsite (i.e. in San Clemente) attending to issues related to these projects (such as fielding phone calls, reviewing budgets, approving purchases, etc.).

The Administrative Assistant position is allocated at .75 of an FTE. While we were told the position works part-time, it is unclear how many hours the incumbent spends each work supporting San Clemente versus the other three small contracts. There are also two full-time technicians. Consequently, FVS staffing for the City is as indicated in the table below.

Position	FTE
General Mgr.	0.80
Admin Asst.	0.75
Technician	1.00
Technician	1.00
TOTALS	3.55

The Beaches, Parks and Recreation Department also has a mechanic who maintains golf course equipment including mowers and construction equipment. FVS maintains cars and pickups assigned to the golf course.

Finances

The current year target budget is \$474,000, which is less than the past few years and reflects the elimination of one FTE technician and the reduction in the General Manager from 1.0 to 0.8 of an FTE. The table below shows a history of target budget expenditures.

	2008	2009	2010	2011	2012	2013
Base Target	\$536,511	\$554,215	\$554,215	\$554,215	\$532,414	\$474,900
Actual	\$511,636	\$525,132	\$470,427	\$459,039	\$497,963	\$489,519
Savings	\$ 24,875	\$ 29,083	\$ 83,788	\$89,482	\$34,451	-\$14,619
50/50 Split	\$ 12,438	\$ 14,542	\$ 41,894	\$47,588	\$17,225	-\$7,310
Total paid	\$542,132	\$546,781	\$514,396	\$514,787	\$515,188	\$482,210

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In addition to target costs, FVS bills the City for non-target costs and performance incentives (known as AQR). For the last full year of data we were provided (fiscal year 2013) non-target services costs totaled \$5,300, AQR bonuses totaled \$10,300, and FVS credited the City \$3,300 in shared services costs.

FVS submits multiple invoices each month in keeping with the terms of the contract. An invoice is sent for 80-percent of the target services budget at the beginning of each month with the remaining 20-percent invoice at the end of the month. Separate invoices are also sent for non-target services and AQR bonuses.

Analysis

Organization

In most cities we have worked with, a single organization is responsible for management of the fleet program. This is not the case in San Clemente, as shown in the table below.

Function	Finance	DPW	FVS
Cost Allocation and Billing	Lead		Support
Replacement Fund Management	Lead		
Replacement Planning	Support and Oversight	Lead	Support
Acquisition	Support		Lead
Fleet Maintenance ²		Oversight	Lead
Fuel		Oversight	Lead

The City would be better served to consolidate oversight of all fleet related activities into one organization. As it now stands, the most appropriate location for this is likely the City Manager's Office. The City has FVS performing a mix of fleet maintenance and fleet management activities. For instance, while not spelled out in the contract, FVS not only writes technical specifications for new vehicles but it also solicits bids from dealers. This is a highly unusual practice in our experience.

FVS should write the specifications and the City should conduct the solicitation process. Best practices are to utilize cooperative purchasing agreements when ever possible such as the State of California Department of General Services contract, contracts established by Orange County, or those established by other government organizations

² Not including golf course equipment.

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in California. This practice lowers the administrative level of effort required to acquire vehicles, supports fleet standardization, and often leads to lower prices.

FVS is also providing services related to fueling operations even though these duties are not called for under the contract. FVS told us they do this as a free value added service.

Our standard for labor hours per VEU ranges from 10 to 15 depending on operating factors such as fleet age, annual utilization, mechanic skills, adequacy of shop space, etc. Our assessment is that conditions in the City are mostly positive. Consequently, we conclude that the VEU's per mechanic fall at the low-point of our productivity range – 10 labor hours per VEU. Therefore, the City's fleet requires 2,370 labor hours per year to maintain (10 hours per VEU x 237 VEU's in the fleet). Note that this does not include non-target work such as preparing new vehicles for service nor does it account for specialty work that may be sent to outside contractors such as transmission repairs. However, FVS does not perform much non-target repairs for the City nor do they routinely send work to outside vendors.

Our standard for mechanic productivity, measured in terms of annual hours available to turn wrenches (sometimes called billable hours) is 1,456 hours per year. This is 70% of standard 2,080 payroll hours. Consequently, the two technicians should be able to produce 2,912 productive hours per year. This is 542 hours more than is required to maintain the City's fleet. Looked at another way, FVS needs 1.6 technicians.

However, from the data provided to us by FVS, only 1,657 labor hours were charged to work orders (both target and non-target) in the twelve-month period we reviewed (October 2012 through September 2013). This is equivalent to 1.2 FTE technicians. When we asked FVS about this the General Manager stated that workload ebbs and flows and mechanics are performing other duties such as acquiring parts and managing fuel operations. In our opinion the low utilization of many units in the fleet also contributes to the lower demand for maintenance labor.

While it is conceivable that FVS could handle maintenance of the City's fleet with one mechanic (particularly if the fleet is aggressively rightsized and renewed as discussed below) we would not recommend this approach to the City for several reasons. First, it is not safe to have only one mechanic in a fleet garage. Some maintenance activities require two mechanics to lift heavy components and to operate systems from inside a cab while the other mechanic observes from under the hood. Also, with only one mechanic the City could experience service disruptions during periods of peak workload and/or when the one mechanic is on leave or out sick. Finally, were the one mechanic on staff retire or resign, the City could also experience service disruptions until a new employee could be hired.

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For mechanic staffing, one solution the City should consider is to have FVS add maintenance of golf course equipment to its scope of services. It is likely that the level of effort to maintain this equipment is less than one FTE mechanic based on our experience. However, additional analysis would be required to verify this.

In terms of administrative staffing, it is our opinion that 0.5 of Fleet Supervisor (General Manager) and 0.5 of a, Administrative Assistant are sufficient to perform the duties required for the size and composition of the City's fleet. Note that this estimate presumes that the City will take-back some fleet asset management activities for FVS such as bidding for new vehicles.

Cost Performance

To analyze the cost of a fleet service organization we use the Vehicle Statistical Referencing System described earlier in this report. As previously noted, the City paid FVS \$482,210 for target services costs in FY 2013. To this total we added AQR bonuses of \$10,300 less shared service credits of \$3,300 for a total cost of \$489,210. Note that we do not include non-target services in our cost analysis, as these services are not routine maintenance.

To allocate costs among the services that FVS provides to the City we conducted an activity based cost of service analysis. Costs were allocated to activities based on the percentage of staff time expended on each, which was established through interviews with FVS. The following table illustrates the results of our analysis of the various functional costs.

Activity Based Cost Analysis

Position	FTE	FMA		Fleet Maintenance		Fuel	
		%	FTE	%	FTE	%	FTE
General Mgr.	0.80	40%	0.32	55%	0.44	5%	0.04
Admin Asst.	0.75	30%	0.23	55%	0.41	15%	0.11
Technician	1.00	-	-	100%	1.00	-	-
Technician	1.00	-	-	100%	1.00	-	-
TOTALS	3.55		0.55		2.85		0.15

Activity %		15%	80%	4%
Cost Allocation	\$489,210	\$75,104	\$393,090	\$21,015

Dividing fleet maintenance costs by 236.6 VEUs produces a cost per VEU of \$1,661. Our benchmark for costs per VEU is \$1,000 to \$1,500 depending on conditions such as the age of the fleet, annual utilization levels, operating and environmental conditions,

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the local market for labor and vendor services, etc. With favorable operating conditions, a relatively high cost of business, low utilization levels, and a somewhat older fleet³ we believe that the mid-point of our range - \$1,250 per VEU – is an appropriate benchmark for the City. Thus current costs are \$411 per VEU higher than our benchmark and \$97,243 higher overall (\$411 x 236.6 VEUs). This tracks with our finding that the shop is overstaffed. However, to be fair, as pointed out previously at least two mechanics are required to operate a viable shop. Thus the higher cost is largely a matter of the lack of economies of scale for the City’s fleet operation.

Contract

Since the current contract is 20 years old, it is not surprising that it is lacking when compared to contracts used by other municipalities. In general, the contract lacks specificity about services the contractor is to provide, how the contractor is to report the results of its activities to the City, and how the City will administer the contract. Performance standards also need adjustment to align with industry best practices.

Positive Aspects	Negative Aspects
There is no cost adjustment for non-target work as found in other contracts.	The KPIs that award monthly incentives are poorly defined and out of date.
There is no cost adjustment for vehicles operating beyond expected life cycles.	There is little accountability for poor performance.
	FVS is protected from high outside vendor costs for “specialty” repairs as its liability is capped at \$1,000.
	The language for managing costs is vague stating only the vendor will operate using good fleet management techniques.
	Reporting requirements are vague.
	The requirement to use the fuel system as the primary PM tool is not a best

³ The average model year for vehicles in the fleet is 2005, making the fleet an average of about 8 years old. Best practice for municipal fleets is to maintain an average age of five years, which corresponds to an average fleet turnover every 10 years.

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	practice
	The requirement for three separate invoices for various aspects of the work is cumbersome and unnecessary.
	The condition that the City pay 50% of any target services overrun up to 115% is not found in other contracts of this type.

Regarding the positive aspects, we find two important elements. First, in most other contracts that we have reviewed, labor costs are charged for non-target work. This approach has been used as control measure to manage the (sometimes) excessive use of shop resources for non-routine work such as modifications to equipment. Making non-target services expensive rather than nearly free can encourage user groups to exhibit good behavior (such as avoiding accidents) and discourage them from unnecessarily customizing their vehicles. Moreover, non-target labor charges are normally applied when the shop is directed to perform services in off hour emergencies to help offset the vendor's higher costs for call outs and overtime.

The second positive element that we see in the current contract is that there is no adjustment to service costs based on vehicles that are substantially beyond their expected life cycles. Older vehicles generally require more frequent repair resulting in higher costs. Fleet maintenance contractors make assumptions on repair costs based stated life cycles for each class of vehicle covered by a contract. When vehicles exceed this scheduled life, repairs are performed as non-target services. In this particular contract, there are no schedules for life cycles nor is there a higher rate charged. There is an option to recover unexpected costs but overall, the City is the beneficiary in this area.

On the negative aspects of the contract, there are several issues to note. To begin with, the Key Performance Indicators (KPIs) are out dated and add little to the value proposition. The table below shows current KPIs as well as several that are now common in the industry but not part of the current contract.

Key Performance Indicator	Current Status	Comment
Preventive maintenance	90 to 95% completed within 12 hours of delivery by customer.	Industry standard is 95% of services completed before scheduled due date.

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Fleet availability percentage	94 to 96% monthly for entire fleet	Standard is 90%-98% depending on vehicle type. Minimum of 95% for the entire fleet.
Rework rate	Less than 5%	Standard for most contracts is less than 1% per month
Road service response	98 to 99% initiated within 20 minutes of request.	Not commonly tracked.
Quick service response	98 to 99% completed within 60 minutes.	Not commonly tracked.
Rate of scheduled to unscheduled repairs	Not measured	Industry standard is 66 to 75% scheduled.
Mechanic productivity	Not measured	Standard is 70% based on annual direct labor
Maintenance turn-around time	Not measured	Standards for all repairs and services are: 80% in 24 hours 90% in 48 hours 95% in 120 hours

Several of the KPIs are out dated and do not reflect current standards used in the industry. Since they have not been updated in 20 years this is not surprising. An additional issue is that the City has no way to independently monitor FVS' claims that they are meeting performance measures and thus due incentive bonuses. Nevertheless; we recognize that overall the City is satisfied with FVS' performance and current services levels. Below we have provided a few additional comments regarding KPIs and other contract issues:

- *Fleet Downtime) must not be more than 5%. This very nebulous since the fleet is not well defined. If the inventory is used and includes such things as lawnmowers, trailers, and seasonal equipment then the KPI is diluted and far too easy to attain. In most contracts, the fleet is defined clearly such as "licensed"*

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vehicles and the range of performance is usually 96%-98% in any given week. We recommend that the KPIs are updated to current standards and that the old language be discarded in future contracts.

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KEY PERFORMANCE INDICATOR	STANDARDS
Shop Turn Around	80% in 24 hours
	90% in 48 hours
	95% in 120 hours
Rework	Less than 1% of work orders per month
CPM Compliance	95% monthly
Labor Productivity	70% monthly
Fleet Availability	96%-98% daily

ability for poor performance. Since compliance with the KPIs are assessed by FVS, there is no way that the City has the ability to ensure that performance is truly as stated. Moreover, we were not advised that there have been any instances of poor performance in the entire 20-year history of the contract, which seems somewhat unlikely. In most contracts, there is specific language that provides for proof from the vendor to the client that the performance was indeed factual. Usually this proof is in the form of reports of work orders, clock times on task, and other factual data. Also, payment of performance bonuses should be balanced by fines for poor performance.

- Cost management language is vague.* The current contract states “the Contractor shall perform the work and services under this Agreement in accordance with such standard of work and in accordance with the accepted standards of the professional disciplines involved...” In this same section, the City does hold certain rights to review the work and require that the Contractor complete it to the City’s satisfaction but generally this language does not ensure that the operation is managed in the most cost effective manner. We recommend that in any future contract, the City inserts specific language regarding cost management and controls and to also insert the methods by which the performance will be measured. For example, the City may choose to use the industry standard of “cost per VEU” as discussed elsewhere in this report to ensure that the Contractor delivers a service that is competitive.

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- *Reporting requirements are vague.* Neither in the contract document nor the exhibits provided is there any language that specifically requires that the contractor provide regular reports with the exception of the monthly billing documents. We are aware of and examined some reports of performance and costs but there is little in this documentation that would ensure the City is well informed as to the operations in the shop, costs and expenditures during the month, performance measures, or other meaningful documentation. We strongly recommend that any future contract have specific language regarding the type, content, and timing of regular reports to the City. Moreover, the reporting process should the City with access to data as needed to validate the reports.
- *Use of the fuel system to forecast PMs.* It is unusual in our experience for a municipality to use a fuel system to manage scheduling of preventive maintenance services. These systems have limited functionality in this regard. It is well known that FVS is a global company that uses a highly sophisticated fleet management information system. This system is far more capable of developing multi-tiered, complex PM programs than the City's current fuel system (Trak). We strongly recommend that in any future contracts the vendor should be required to provide a fully featured software program for the purpose of managing the PM program, tracking repairs, and providing reports. The City should be provided read-only access to the system for contract administration purposes.
- *Requirement for separate invoicing of services.* Although this seems to be a minor issue, we do believe that streamlining this process will make future auditing much easier and will also avoid the additional City staff time required to process invoices. In return for submitting one invoice in Microsoft Excel format at the end of each month, the City should agree to process payment within 15 calendar days. Any exceptions that the City may have with the invoice could be investigated and adjustments included on the next invoice.

Our overall assessment of the current contract agreement is that while it may have been appropriate in 1994, it is now substandard and needs to be updated and strengthened so any the contractor can be held more accountable. Under separate cover we have provided a modern example of a contract between FVS and a municipality.

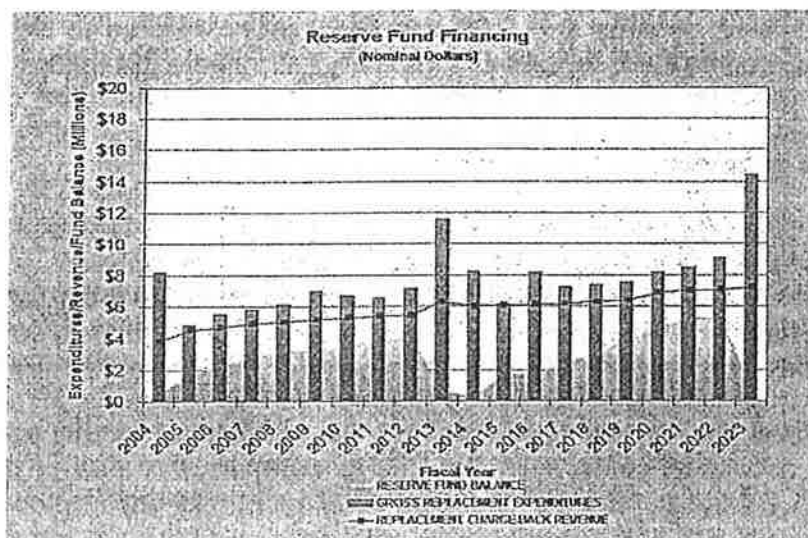
Other Issues

Below we provide a few notes on other uses that we noticed during our review.

- *Fleet Replacement.* The City has a capital reserve fund that sets aside money for the future replacement of vehicle and equipment. While this is a clear best

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practice for government fleets, the City's fund appears to be over-capitalized. According to the FY2014 Fleet Replacement budget request the reserve is 87% funded and had \$3.6 million in January of last year. However, reserve funds do not need this level of cash to function properly. Rather, annual replacement charges predominately pay for new vehicles each year. Like the Social Security Trust Fund, contributions by new vehicles are used to replace older vehicles. Cash in the fund balance is used as a cushion to supplement contributions during the inevitable peaks in spending requirements. The graphic below, from a replacement plan we prepared for another client, demonstrates this concept.



As can be seen, the fund balance never exceeds annual replacement changes (depicted by the blue line). This enables smooth and predictable replacement budgeting, timely replacement of assets, and effective cash management. The City should conduct a review of its long-term fleet replacement costs and funding requirements. While many units appear to be overdue for replacement, even after making required replacements it is still likely that excess cash is currently kept in the fund balance.

- Fleet size. As noted previously, several units in the City's fleet may be underutilized. The City should conduct a fleet rightsizing study that couples a review of vehicle utilization with a matching of vehicles to the mission critical activities of fleet user departments. In this way low use but highly critical vehicles can be identified and retained. On the other hand, low use vehicles that support low value operations should be designated for disposal. Pooling trucks, construction, and specialty equipment should also be investigated.

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- Reports. As noted several times, the City needs to develop the capability to analyze and report on fleet performance independent of its fleet maintenance contractor. This is critical both for effective contract administration and for effective fleet management. Report templates can be developed using tools such as Crystal Reports to access data from FVS' state-of-art fleet management information system.

Options

At the outset of this project, the City wished to consider three alternatives: continue with the current contractor, develop and RFP and allow other vendors to bid their services, or to bring the operation back in-house. To this end, we make the following findings and recommendations.

Bring Services In-house

In our opinion, the City would not save money bringing the fleet operation back in-house. The need to hire personnel, create management policies and procedures, provide management oversight, and develop in-house recordkeeping tools could easily increase the costs from the current level. Given that City departments are well satisfied with FVS' services, there would be no tangible gain for moving in this direction.

We also examined the review conducted by City personnel in the past year, which provided some estimated costs were the City to entertain the idea of pulling the fleet operations back in-house. Although the staff cost estimates are reasonable, we found two items that would have an impact on the potential savings. First, the assumption that parts costs would decrease if operations came back in-house is incorrect. Since FVS acts on behalf of the City for its parts provisioning, suppliers extend to them the same government discounts as would be offered to the City directly. Moreover, FVS also has corporate contracts for parts that carry a discount that are sometimes greater than those available to the City. Additionally, the City would have to manage the dozens of accounts payable transactions each month that parts activities would generate. Thus we believe that parts costs would be no less costly and perhaps slightly higher were the City to bring fleet operations back in-house.

The second item of cost was not recognized in the City's report. That is a fleet management information system that enables documentation of activities and parts, provide detailed histories of the vehicles, and manage workloads. FVS has such a system and were the City to operate the fleet it would need to purchase one. The cost of acquiring a system would be approximately \$25,000 for software and implementation and then an additional \$3,000 per year in user fees for two workstations.

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Even though the City would avoid certain costs such as the management fee, administrative fee, and the incentives paid to FVS, we believe that overall the operation would cost more when software and indirect costs are considered. Our thoughts are summarized in the table below. Note we assume that staffing would be the same as under the current contract.

Cost	Forecast if City Managed
Salaries	Same
Benefits	Slightly higher
Parts	Same
Sublet services	Same
Fleet software	Higher
Indirect costs	Slightly higher
Overall	Slightly higher

Bringing services back in house would also involve a transition period while the City recruits new staff, develops policies and procedures, and implements a fleet system. New staff would also require time to become familiar with the City's operations and each vehicle in the fleet. Given that customer satisfaction with service levels is high, the effort, risk of service disruptions, and likely higher costs are not worth serious consideration of bringing fleet services back in-house.

Rebid For Contract Services

While FVS is far and away the largest on-site fleet maintenance contractor, they are not the only company in this space. Other contractors include Penske, G4S Integrated Services, and VehiCare. While San Clemente represents a small contract, we suspect that were the City to issue a new solicitation for fleet services it would receive at least one other proposal. That said, unless a new contractor was to propose fewer staff (which could impact service levels) costs would not be materially different than under the current contract. We have been involved in a dozen procurements and it is remarkable how close vendors pricing is to one another. Consequently, in our opinion that City could not expect to save much money by soliciting new proposals.

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Moreover, as with bringing services back in-house, developing a new solicitation would involve substantial effort for the City. If FVS were not the successful proposer, a change in vendors would likely be disruptive to City operations during the transition period.

While developing a new solicitation would provide an opportunity to improve contract terms and conditions, clarity, and reporting services, this can also be achieved by renegotiating a new contract with FVS.

Negotiate a New Contract With FVS

This is the option that we recommend to the City as with minimal risk and effort it has the potential to lower costs, modernize contract terms, and improve reporting. We have provided a recent contract we helped another client (Wilmington, DE) negotiate with FVS for the City's information. Since this contract deals specifically with Wilmington's fleet and environment some work will be required to translate terms to meet San Clemente's needs.

Recommendations

Below we have listed our recommendations in order as subject issues appear in the report.

1. The City should consolidate management of fleet related functions into one organizational unit.
2. The City should conduct its own fleet purchasing activities rather than having its contractor lead this function.
3. The City should move maintenance of golf course equipment under the FVS contract to better capture economies of scale.
4. The City should develop a long-range fleet replacement and financing plan to address the advanced age of the fleet.
5. The City should conduct a fleet rightsizing study to insure that low use vehicles are critical to user operations.
6. The City should renegotiate a new contract with FVS rather than bringing the service back in-house or developing a new solicitation.
7. The new contract negotiated with FVS should include the following:
 - a. Updated terms and conditions;
 - b. More details about the contractor's responsibilities across all areas of service;

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- c. Requirements for FVS to use its fleet management information system for all fleet functions including forecasting preventive maintenance schedules;
 - d. Key Performance Indicators that are more meaningful and in keeping with industry best practices;
 - e. Better management reporting services including web-based and Excel reports;
 - f. Read only access to FVS' management information system;
 - g. Development of new performance bonuses balanced by fines for poor performance;
 - h. A reduction in cost of the General Manager and Administrative Assistant positions reflecting 0.5 full-time equivalent for each position;
 - i. Elimination of the requirement for the City to pay 50% of any target cost overruns; and
 - j. One invoice submitted at the end of each month payable within 15 days.
8. The City should develop more formal contract administration procedures.