



SAVINGS FOR SAN DIEGO:

VEHICLE FLEET MAINTENANCE / MANAGEMENT OUTSOURCING OPPORTUNITIES

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This policy brief is one of a series of papers intended to identify and analyze outsourcing opportunities covering a variety of city services for the city of San Diego. This brief takes a look at privatization opportunities for the city's vehicle fleet maintenance and management services.

Private vehicle fleet maintenance is widespread amongst local governments, and is becoming more popular with a growing number of states. As county and municipal governments have found, the private sector offers the potential for significant financial savings, improved quality, and greater timeliness of service. As well, the management of a vehicle fleet is a highly commercial activity, well suited for private provision. Outsourcing fleet maintenance services allows the private sector to focus on the fleet itself, and government agencies to focus on the services that fleet provides.

The city of San Diego maintains its vehicle fleet through the Fleet Services Division of the General Services Department. Beginning in fiscal year 2008, the Police Department and Fire-Rescue Department fleets were combined with the Equipment Division to form the current Fleet Services Division. The Division

is responsible for maintaining some 4,240 pieces of motive equipment.¹ As described in the city's *Fiscal Year 2010 Annual Budget*,

*The Fleet Services Division provides all City departments with motive equipment and a full range of fleet management services. These services include acquisition, fitting, maintenance and repair, the provision of parts and fuel, body repair, painting, metal fabrication, disposal services, and other motive equipment-related support services, such as machining, equipment rental, and operator training.*²

While the Fleet Services Division has improved its operations in recent years, in part due to the Business Process Reengineering efforts—in which project teams analyze city agencies' structure and strategies, benchmark methods and performance against other jurisdictions and service providers, and make recommendations to improve operations and service delivery—and garnered several government management awards, outsourcing fleet maintenance and management could provide even greater cost savings, efficiency and service quality improvements.

Approaches to outsourcing vehicle fleet operations vary depending on the policy goals of the government.

Initiatives should be structured around those goals, which should be clearly defined upfront. Those objectives could include:

- **Long-term operational savings.** Competitive sourcing lets government select the most cost-effective service provider on a continual basis as contracts come up for renewal. Cost savings through privatization typically range from 10 percent to 25 percent.
- **Structural changes.** Government can consolidate its inventory, sell its fleet, or change to some other management system utilizing the private sector.
- **Risk transfer.** Contracting out can shift the capital and long-term operations and maintenance exposure of the government.
- **Changing technology.** Over time, technological changes can supersede government mechanics' job skills. Contracting out allows government to tap the latest technological expertise in the private sector.
- **Address deferred maintenance.** Government vehicle fleets are just as prone to chronic deferred maintenance in the face of budget pressures as any other government-owned asset. Privatization offers an opportunity to address backlogs in deferred maintenance and the lack of rigorous preventive maintenance that drives increased maintenance and replacement costs over time.

Between 1982 and 1992, the use of private contractors for fleet management and vehicle maintenance increased 27 percent among state and local governments.³ Though there are no comprehensive recent surveys, industry executives are still seeing an upward trend toward outsourcing fleet operations. According to one executive with Penske Truck Leasing, “fleet maintenance and management are ancillary to the job of running the business of government. More and more, municipal fleets are turning to companies whose core competence is fleet maintenance, allowing them to focus more on the services that fleet provides.”⁴

Governments seeking to privatize fleet maintenance can employ several privatization techniques, including:

- Contracting out for specific services such as maintenance and repairs (most common);
- Selling the fleet and then leasing vehicles from a private company;
- Renting vehicles from a private company as needed; or
- Giving employees vouchers in exchange for using personal vehicles for state business.

Experiences from numerous jurisdictions demonstrate that contracting, when properly implemented, can result in substantial first-year cost savings and even greater savings in subsequent years. A 1988 study comparing in-house and contract services for motor vehicle maintenance found that contractor costs are 1 percent to 38 percent below municipal costs for equivalent or higher levels of service.⁵ In conversions to contracting, wage levels generally remain similar, but the number of operating and overhead employees is reduced because of greater productivity.

Using the 10 percent to 25 percent cost savings range referenced above, given the Division's FY 2010 fleet services budget of approximately \$51.4 million, this translates to ***estimated savings of between \$5.1 million and \$12.8 million per year***. In addition, the Division has a budget of about \$34.8 million for fleet replacement. Through a reduction in vehicles due to greater efficiency or lesser costs from leasing, employee vouchers, or other arrangements, many of these fleet replacement costs may be avoided as well, providing additional savings.

Prior to contracting out fleet maintenance, a thorough review of the costs and quality of the current government service should be undertaken so that the private contractor and state officials know in advance precisely what the job entails.

After a bid is accepted, it is important for the government to monitor services provided to ensure the contract is being followed. This accountability is important for the success of a contract.

Because contracting out for vehicle fleet operations, maintenance and management can take a variety of forms—and because public bureaucracies tend to avoid “outside the box” thinking—it may be difficult for policymakers to discern where to begin. The fastest and most effective way the city could solicit

a set of innovative vehicle fleet proposals would be to issue a request for information (RFI) from private service providers. The RFI should be specific in terms of outcomes desired but it should remain open-ended as to how these outcomes are achieved in order to spur innovation in proposals.

The state of Texas offers a good model in this regard. In May 2009, the Texas Council on Competitive Government (CCG) issued an RFI to solicit input from private firms regarding current best practices and opportunities for performance-based contracting in vehicle fleet and fuel management services.⁶ Of particular interest to the CCG were discrete and identifiable services that could be established and managed via contract with specified deliverables and service-level agreements. The CCG identified a number of potential areas of interest, including vehicle-fleet maintenance, fleet optimization, fleet needs assessments, car-share programs, fleet tracking and monitoring, roadside assistance, retail-fuel acquisition, bulk-fuel acquisition, fuel terminal design and maintenance, bulk fuel monitoring and control, idle-reduction technologies and vehicle retrofits.

By using an RFI process to solicit ideas, Texas is opening the door to creative ideas from the private sector on how to better manage the state vehicle fleet and fuel services. Nothing obligates the state to act upon any of the submissions it receives; rather, it is an exploratory look at the potential for savings from privatization.

The amount of cost savings from vehicle fleet services outsourcing San Diego can achieve will depend on a number of factors, including how soon it acts, how long the competitive bidding process takes, the condition of the city's vehicle fleet, and the outsourcing strategy it ultimately decides to pursue (i.e., whether it contracts out for specific services such as maintenance and repairs, leases vehicles from a private vendor, or engages in an asset sale and lease-back arrangement). But if the city were to act quickly in contracting out its vehicle maintenance services, for example, it should be able to realize some savings during the first year of the contract, and full cost savings levels in subsequent years. As noted above, these savings could be significant—likely totaling several million dollars a year or more. Given that the city

is struggling to plug a significant budget deficit, the sooner it acts to begin the competitive bidding process, the sooner it will be able to realize these benefits and use them to balance the budget and prevent program cuts in other areas.

VEHICLE FLEET PRIVATIZATION CASE STUDIES

A. Commonwealth of Virginia

In the late 1990s, the Virginia General Assembly transferred vehicle fleet maintenance from the Department of Transportation to the Department of General Services (DGS). DGS opened automobile maintenance to competitive sourcing and began saving approximately 25 percent through competition.⁷

In 2005, DGS contracted out for a new maintenance information management system called Vehicle Maintenance Control Center (VMCC). The VMCC system provides 24-hour, on-call service, and networks nearly 500 private maintenance facilities (and 77 state facilities) to provide repairs. The management system reduced preventative maintenance costs 16 percent, reduced average brake service costs from \$228 to \$81, and significantly reduced vehicle downtime.⁸

Virginia has also recognized the need to avoid costly expansions of its vehicle fleet by strategically contracting out for rented vehicles. DGS began a contract with Enterprise Rent-A-Car in 2006 to provide short-term rentals as needed to state employees, transferring capital and maintenance risks away from the taxpayers.⁹ A significant portion of state employee vehicle trips are of a short-term and fluctuating frequency, and to the extent that state-owned vehicles are used for such trips, it keeps the total size of the vehicle fleet artificially high. Shifting these trips to rented vehicles allows the opportunity to “right-size” the vehicle fleet.

B. City of Indianapolis: Managed Competition for Fleet Services

Under the administration of Mayor Stephen Goldsmith, the city of Indianapolis initiated a

comprehensive managed competition program in 1992. The Indianapolis Fleet Services (IFS) contract is widely regarded as one of the city’s most successful managed competitions and a model for cities and states nationwide.

In the spring of 1995, IFS (the city’s fleet division) was selected in a competition with three of the largest private-sector vehicle maintenance providers for the fleet services contract. Competition prompted IFS to streamline and make other operational and structural changes. It cut middle management positions and enabled employees to create self-managed work teams, giving mechanics more control over their work and allowing IFS to simultaneously shrink its workforce and improve quality.¹⁰

The union employees also agreed to forgo some automatic cost-of-living increases and take a portion of their compensation in performance bonuses, which could be offset by financial penalties if the department missed certain performance expectations outlined in the contract. To increase their productivity—and minimize downtime of vehicles—employees also asked to be able to keep some workers on the job during scheduled government holidays. (See Table 1 for comparative cost and performance data before and after IFS competition.)

| Table 1: Indianapolis Fleet Maintenance: Before and After Competition | | |
|---|-----------------------------------|---------------------|
| | Before | After |
| Annual Costs | \$5.3 Million | \$2.8 Million |
| Employee Compensation | Automatic Cost-of-Living Increase | Performance Bonuses |
| Ratio of Workers to Managers | 1.1 to 1 | 4 to 1 |
| Number of Employees | 119 | 82 |
| Number of Complaints | 24 | 5 |
| Number of Vehicles Serviced | 2,104 | 2,202 |

According to a 1997 U.S. General Accounting Office report, Indianapolis’s managed competition for fleet maintenance produced significant results:

- Approximately \$4.2 million in total cost savings from 1995 to 1997;
- An estimated cost savings of 21 percent over government provision of service;

- Fewer labor grievances in first year of contract than in the preceding year; and
- A 66 percent reduction in workers compensation claims between 1994 and 1997.¹¹

In the first year of the contract, IFS surpassed its cost-containment goals. Even after deducting for penalties imposed for failing to fully comply with certain other performance goals, the employees earned over \$75,000 in incentive payments. Due to the financial incentives to save money, fleet maintenance employees began to propose outsourcing to save money. For example, the in-house unit was not competitive with private shops for auto body work, so it began outsourcing that work and moving the displaced employees into more competitive areas.

Unfortunately, in 1998, the union local and the city administration added a Memorandum of Understanding (MOU) to the contract that discontinued the use of performance bonus and returned to flat pay rates for employees with annual 3 percent increases. IFS employees supported this change, seeing little potential for additional performance bonuses once the city had realized the cost savings resulting from the original contract.¹²

By reducing their incentives for innovation, they went back to the “old way” of thinking about providing services. Nevertheless, the value of managed competition persists. Even though the city no longer competitively bids its fleet maintenance operations, IFS has continued to streamline its operations in recent years. Even as the number of vehicles maintained by IFS nearly doubled from 2,200 in 1995 to 4,200 in 2005, the number of employees dropped from 82 workers to 76 workers over the same period.¹³ To control costs, IFS continues to outsource some work to private vendors. It has also pursued federal grants to acquire more fuel- and cost-efficient technologies.

C. City of Dallas Fleet Maintenance

In 2003 as well, the city of Dallas undertook a managed competition process for the provision of fleet maintenance services. The bid received from the Equipment Services division of the city’s Equipment & Building Services department (which maintains the city’s 4,600-unit fleet) was selected over the bids



submitted by three private vendors. Consistent with best practices, city staff committed to monitor the cost of service and ensure that the department was meeting the goals it had stated in its bid.

In the first two years of its contract, Equipment Services's costs exceeded the budgeted amount by approximately \$2.8 million, largely due to unexpected, unpredictable repairs necessitated by accidents, abuse, or misuse of equipment, as well as vandalism, acts of nature and vehicle modifications.¹⁴

In May 2005, the city issued a request for bids for privatized fleet maintenance and repair services for a five-year term, and Equipment Services did not submit a competing bid. The objectives of this process were to reduce overall fleet maintenance costs and increase overall fleet operating efficiencies while maintaining equipment availability levels currently provided by Equipment Services.

Through this process, Dallas officials determined that taxpayers could receive the greatest benefit through contracting out only the maintenance and repair of heavy equipment class sanitation vehicles. While the 293 vehicles in this class represented just 6.4 percent of the total city fleet in 2005, they accounted for 23 percent of total fleet maintenance expenses.¹⁵

After evaluating bids, the city awarded a five-year, \$16 million contract for heavy sanitation vehicle maintenance and repair to Serco North America, Inc.¹⁶ The city expects this contract to produce an annual savings of approximately \$910,000, though savings in the first year of the contract were lower due to implementation costs associated with service center consolidation and upgrades.¹⁷

D. State of California Vehicle Divestiture

Sometimes governments may achieve savings by simply selling surplus vehicles. In July 2009, California Governor Arnold Schwarzenegger ordered the sale of 15 percent of the state's vehicle fleet—worth an estimated \$24 million—to reduce surplus and address complaints about the use of vehicles by state employees. *The Sacramento Bee* reported that Schwarzenegger wants to clean up potential “abuse of taxpayer dollars,” including allowing certain employees to take state vehicles home:

The governor said the order resulted from disclosures to a newly created “Waste Watchers Web site.” The complaints detailed allegations that some workers were storing state vehicles at home without apparent justification.

“Today I am taking action to get rid of waste and

abuse in the state's vehicle fleet ... eliminate all wasteful home storage permits, and sell surplus cars at our state garage sale next month," Schwarzenegger said in a statement. . . .

The state Department of General Services reported that the vehicle sell-off could save the state \$24.1 million over the next year.

Under the governor's order, the state will identify every light-duty vehicle under 8,500 pounds and determine which state employees are required to use the vehicles in their official duties. The governor's plan would then reduce by 20 percent the number of workers who are allowed to store state vehicles at home.

In the proclamation, the governor declares: "The state of California is committed to ensuring there is a significant business need for employees to use a state vehicle and, when required by state or federal law, that these employees are reporting such use for tax purposes."

The proclamation said the vehicle sell-off will also focus on removing "higher polluting vehicles from the state fleet and replacing them with newer, more fuel efficient models."¹⁸

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