



A8

ADMINISTRATIVE REPORT

Report Date: May 14, 2009
Contact: Mani Deo
Contact No.: 604.326.4792
RTS No.: 07866
VanRIMS No.: 08-2000-20
Meeting Date: June 2, 2009

TO: Vancouver City Council
FROM: Engineering Services
SUBJECT: Fleet Additions - Equipment Rentals Pool

RECOMMENDATION

- A. THAT Council approve the following:
- i. the allocation of \$372,000 from the Truck and Equipment Plant Account to add 14 vehicles and pieces of various equipment (units) to the Equipment Rentals Pool fleet to replace 14 duplicate units; and
 - ii. the allocation of \$105,100 from the existing Equipment Rentals Operating Budget to pay for annual operating costs associated with the new units, including repayment of the Truck and Equipment Plant Account.
- B. THAT Council approve the following:
- i. the allocation of \$957,000 from the Truck and Equipment Plant Account to add up to a maximum of 25 units to the Equipment Rentals Pool fleet on an on-going basis to replace external leases; and
 - ii. the allocation of \$245,100 from the existing Equipment Rentals Operating Budget to pay for annual operating costs associated with the new units, including repayment of the Truck and Equipment Plant Account.

COUNCIL POLICY

Council approves expenditures from Reserves, including the Truck and Equipment Plant Account.

Council approves all increases in service levels, including the addition of vehicles and equipment to the fleet.

PURPOSE

The purpose of this report is to seek Council approval to replace 14 vehicles and pieces of various equipment (units) with approved units in the Equipment Rentals Pool fleet and add up to 5 passenger vehicles, 10 pick-ups and 10 vans to the pool on an as-needed basis to cover longer term lease demands arising from special projects and seasonal work.

BACKGROUND

City Owned Vehicles and Equipment

The City owns and operates a fleet of approximately 4000 units for purpose of delivering City services. The Equipment Services Branch (EQS) provides fleet services for the City. EQS procures and manages the City's fleet. This business model allows for corporate control of the fleet through centralized procurement, budgeting, financing, analysis, inventorying and maintenance. The majority of City services are provided by the use of City owned vehicles and equipment as they cost less to operate than external leases and rentals.

Units are kept to a predetermined life based on when the capital and operating costs of the unit exceed the cost of purchasing and operating a new unit. All costs associated with the unit are recovered through a charge to fleet users; these costs include repayment of capital, maintenance, fuel, and insurance. Capital funding for new units is provided from the Truck and Equipment Plant Account.

Truck and Equipment Plant Account

The City has used a revolving fund to pay for vehicle and equipment replacement since the 1930's as it provides the City with a sustainable source of money. Except for periods of unexpected inflation, the account has generally remained self-sufficient since the 1970's. This type of fleet funding is generally accepted as a fleet industry best practice.

Every two years, Corporate Budgets and the Equipment Services Branch undertake a detailed analysis of the Plant Account to project the annual estimated fund balance based on the planned capital collections, equipment replacements, equipment additions and estimated resale values. The last review was completed in 2008 and there was a provision for the equipment funding listed in this report.

Equipment Rentals

Vehicle and Equipment Management was identified as one of the areas of study within the City as part of the Better City Government initiative in 1996. An Equipment Maintenance Service Delivery Enhancement Review was undertaken in 1997 as part of the initiative and one of the recommendations of the initiative called for an increase in pooled equipment. An Equipment Rentals Operation was introduced in year 2000 in response to this recommendation. A subsequent audit in 2004 by the Internal Audit Group suggested a number of improvements that have since been implemented.

A centralized rental operation allows for the consolidation of vehicle and equipment rental and lease activities. The benefits of a central renting/leasing group include:

- Convenient and fast access to a corporate pool of vehicles and equipment.
- Lower negotiated rates for external leases based on consolidated leasing demand.
- Monitoring of external lease demand and if demand exists, adding more cost-effective City-owned units.
- Summarization of rental and leasing activities.
- Increased clerical service efficiency across the organization via consolidated payment of invoices.

Rentals are defined as terms up to six months in duration and leases are defined as terms longer than six months.

DISCUSSION

There is currently an initiative underway by EQS to review all long term leases and the use of duplicate (held back predecessors of units that have been already replaced) fleet resources. The review examines the operational need for the units. When a review indicates that fleet additions are appropriate, staff will seek approval from Council for these additions to be funded from the Plant Account.

There are two distinct issues discussed in this report. The first issue deals with the replacement of duplicate units and the second deals with the addition of City owned units to replace long term external leases. Details are listed below and the financial impact of the justifications is listed in the Financial Implications section.

Duplicate Units

An internal rental pool of vehicles and equipment gives City departments easy access to specifically outfitted equipment for City operations at lower rental rates than those charged by external rental agencies. EQS has historically used duplicate units and rented these units through a pool to City departments as a means of providing fleet assets for short-term use. While economically superior to renting from outside vendors, this method for acquiring vehicles and equipment for the pool is unsustainable as it does not allow for scheduled replacement of pool assets. Scheduled replacement of fleet assets is important as there is a point in an asset's life where the operating costs exceed the cost of purchasing and operating a new unit.

The current rental pool includes cars, vans, pick-up trucks, dump trucks, message boards, compaction rollers, plate tampers and a trailer. It also includes several types and sizes of small equipment such as chainsaws, pumps and trimmers.

The duplicate units were acquired between 1994 and 2005 and have been well utilized since that time. A historical utilization rate of 70% for these units demonstrates a consistent demand for these units. Staff recommend that the duplicate units listed in Table 1 be authorized and added to the Equipment Rentals Pool fleet.

Additions to Replace Long-Term Lease Vehicles

Departments from across the City lease vehicles and equipment for extended periods to supplement their City-owned fleets. In most cases, special projects or seasonal work create a demand for these longer-term leases. Currently, if the demand for the vehicles or equipment cannot be met from the short-term rental pool, EQS leases supplemental vehicles from external leasing agencies. However, these leases cost the City a premium. The City has an advantage in purchasing power, a lower cost for capital, and tax savings that result in lower costs when compared to external leasing agencies.

Between 2004 and 2006, the City has had on average 4 auto-passenger vehicles, 21 pick-ups and 15 panel vans on lease from outside agencies at any given time.

To reduce fleet costs across the organization, staff recommend that EQS be given authorization to supplement the rental pool with an additional 5 passenger vehicles, 10 pick-ups and 10 vans on an as-needed basis. The units would be procured and leased to City departments for project or seasonal work.

The pool units will be the first units used to replace existing non-pool units that require replacement in the event that demand for the internal pool decreases. The ability to quickly react to temporary fleet needs via a pre-authorized pool will give departments a less expensive leasing option than external lease agencies.

FINANCIAL IMPLICATIONS

This section of the report lists the financial implications of the *Duplicate Units* and *Additions to Replace Long-term Leased Vehicles*. Rentals and leases are not budgeted as specific line items but are included in overall operating and capital project budgets. Going forward, lower rental and lease rates will be reflected in future capital and operating budgets.

The cost of operating the equipment pool will be recovered by the revenues generated by Equipment Rentals through rental/lease activities.

Duplicate Units

Table 1 lists the 14 the units that staff are recommending be added to the Equipment Rentals Pool fleet. Also listed in Table 1 are the external lease/rental costs that would be incurred by the City without the operation of a rental pool, and the internal rental costs that would be incurred if the units were authorized and added to the rental pool.

Table 1: Potential Savings from Owning versus Leasing

Unit Number	Existing Class Description	External Lease/Rental Rate/Year	Proposed Class Description	Internal Lease/Rental Rate/Year (Capital)	Potential Savings Per Year
B0175	Auto, Passenger, Compact	\$6,800	Auto, Passenger, Micro Compact	\$2,900	\$3,900
B0285	Auto, Passenger, Compact (high use)	\$6,800	Auto, Passenger, Micro Compact	\$2,900	\$3,900
A8412	Auto, Passenger, Mid-size	\$9,200	Auto, Passenger, Compact	\$2,850	\$6,350
V10935	Compaction, Plate, Rev, Vib, Diesel	\$11,300	Compaction, Plate, Rev, Vib, Diesel	\$2,700	\$8,600
V11145	Trailer, Msg Board, solar, 48x96	\$15,500	Trailer, Msg Board, solar, 48x96	\$3,700	\$11,800
V11146	Trailer, Msg Board, solar, 48x96	\$16,800	Trailer, Msg Board, solar, 48x96	\$3,700	\$13,100
V11327	Trailer, Msg Board, solar, 48x96	\$16,200	Trailer, Msg Board, solar, 48x96	\$3,700	\$12,500
v11203	Trailer, Tilt, Single Axle	\$5,100	Trailer, Tilt, Single Axle	\$4,700	\$400
A1758	Truck, pickup, compact	\$6,000	Truck, pickup, compact	\$3,350	\$2,650
B7555	Truck, Pickup, Crewcab	\$9,600	Truck, Pickup, Crewcab	\$5,100	\$4,500
A7553	Truck, Pickup, Heavy	\$9,240	Truck, Pickup, Heavy	\$6,050	\$3,190
A1326	Van, Panel, Light	\$8,400	Van, Panel, Light	\$5,800	\$2,600
B1979	Van, Panel, Light	\$8,400	Van, Panel, Light	\$5,800	\$2,600
B1988	Van, Panel, Light	\$8,400	Auto, Passenger, Compact	\$2,850	\$5,550
		\$137,740		\$56,100	\$81,640
					TOTAL

This table shows that if these 14 duplicate units were retired, EQS would have to rent or lease vehicles and equipment from external agencies on behalf of the departments. This would cost the City approximately \$137,740. If these duplicate units were added to the pool and rented internally to departments, the internal rental rate per year would be approximately \$56,100. Therefore, the City can avoid \$81,640 in annual costs by authorizing these units and renting them through a pool instead of renting/leasing from external agencies.

There will be additional savings of approximately \$3,000 per year in vehicle operating costs as a result of right-sizing two units to more efficient models. Overall, this results in a combined cost avoidance of approximately \$84,640 per year.

The cost breakdown of the proposed conversions, including the estimated one-time capital costs and annual operating costs are shown in Table 2. There will be a one-time charge of \$372,000 for capital costs for the 14 units. The units will cost \$105,100 per year for capital repayment, fuel and maintenance and the costs will be covered by revenue generated from rental/lease activities.

Table 2: Anticipated Capital and Operating Costs for Proposed City-Owned Units

Vehicle Number	Proposed City-Owned Vehicle Class	Expected Vehicle Life (Years)	One-Time Capital Costs	City Annual Rental Rate		
				*Capital	Operating	Subtotal
B0175	Auto, Passenger, Micro Compact	8	\$20,000	\$2,900	\$2,400	\$5,300
B0285	Auto, Passenger, Micro Compact	8	\$20,000	\$2,900	\$2,400	\$5,300
A8412	Auto, Passenger, Compact	10	\$22,000	\$2,850	\$3,700	\$6,550
V10935	Compaction, Plate, Rev, Vib, Diesel, Medium	5	\$15,000	\$2,700	\$2,200	\$4,900
V11145	Trailer, Msg Board, solar, 48x96	10	\$20,000	\$3,700	\$1,300	\$5,000
V11146	Trailer, Msg Board, solar, 48x96	10	\$20,000	\$3,700	\$1,300	\$5,000
V11327	Trailer, Msg Board, solar, 48x96	10	\$20,000	\$3,700	\$1,300	\$5,000
V11203	Trailer, Tilt, Single Axle	10	\$10,000	\$4,700	\$1,400	\$6,100
A1758	Truck, Pickup, Compact	10	\$26,000	\$3,350	\$5,200	\$8,550
B7555	Truck, Pickup, Crewcab	10	\$40,000	\$5,100	\$6,700	\$11,800
A7553	Truck, Pickup, Heavy	10	\$47,000	\$6,050	\$7,200	\$13,250
A1326	Van, Panel, Light	10	\$45,000	\$5,800	\$5,100	\$10,900
B1979	Van, Panel, Light	10	\$45,000	\$5,800	\$5,100	\$10,900
B1988	Auto, Passenger, Compact	10	\$22,000	\$2,850	\$3,700	\$6,550
Total			\$372,000	\$56,100	\$49,000	\$105,100

*includes cost of interest less salvage value

Additions to Replace Long-Term Lease Vehicles

There can be further savings by replacing external leases with units from an internal pool. The units in the pool will eliminate the vast majority of the individual outside leases. Table 3 shows the types of vehicles leased by the City from external vendors and the maximum annual savings that could be realized through owning instead of leasing. Also shown in Table 3 is the anticipated number of vehicles of each type expected to be required on an ongoing basis. Operating costs such as maintenance, insurance and fuel are expected to be similar between external and internal vehicles and as such have not been included in the figures listed in the table.

Table 3: Potential Savings from Owning versus Leasing

Vehicle Description	External Lease/Rental Rate/Year (Capital Only)	Internal Lease/Rental Rate/Year (Capital Only)	Savings Per Vehicle	No. of Vehicles	Potential Savings
Auto, Passenger, Micro-Compact	\$6,900	\$2,900	\$4,000	4	\$16,000
Auto, Passenger, Compact	\$6,800	\$2,850	\$3,950	1	\$3,950
Truck, Pickup, Light	\$7,200	\$4,250	\$2,950	5	\$14,750
Truck, Pickup, Heavy	\$9,240	\$6,050	\$3,190	5	\$15,950
Van, Panel, Light	\$8,400	\$5,800	\$2,600	5	\$13,000
Van, Panel, Heavy	\$9,000	\$5,950	\$3,050	5	\$15,250
TOTAL				25	\$78,900

The City can save up to \$78,900 annually, based on capital costs, by purchasing and leasing internally rather than leasing from external vendors. There will be additional savings through reduced outfitting, decommissioning and refurbishing costs. Outfitting and decommissioning costs will be reduced as the units in the rental pool will only have to be outfitted and decommissioned once over the service life of the unit while leases will incur outfitting and decommissioning costs each time a lease is undertaken over that same period. Refurbishing costs are charged by external leasing agencies to cover costs for excessive wear and damage when units are returned at the end of a lease; these refurbishment fees can cost up to \$1,500 per lease return.

The cost breakdown of the proposed City-owned units, including the estimated one-time capital costs and ongoing annual operating costs are shown in Table 4. There will be an allocation of up to \$957,000 from the Truck and Equipment Plant Account for the 25 new units. The units will cost a maximum of \$245,100 per year to operate and will be funded by existing budgets of the users of the lease and rental pool.

The one-time capital cost will be repaid back to the Plant Account over the expected life of the units.

Table 4: Anticipated Capital and Operating Costs for Proposed City-Owned Units

Proposed City-Owned Vehicle Class	Expected Vehicle Life (Years)	Capital Costs per Vehicle	Number of Vehicles	Total One-Time Capital Costs	Annual Rental Rate		
					*Capital	Operating	Subtotal
Auto, Passenger, Micro Compact	8	\$20,000	4	\$80,000	\$11,600	\$9,600	\$21,200
Auto, Passenger, Compact	10	\$22,000	1	\$22,000	\$2,850	\$3,700	\$6,550
Truck, Pickup, Light	10	\$33,000	5	\$165,000	\$21,250	\$20,100	\$41,350
Truck, Pickup, Heavy	10	\$47,000	5	\$235,000	\$30,250	\$36,000	\$66,250
Van, Panel, Light	10	\$45,000	5	\$225,000	\$29,000	\$25,500	\$54,500
Van, Panel, Heavy	10	\$46,000	5	\$230,000	\$29,750	\$25,500	\$55,250
TOTAL				\$957,000	\$124,700	\$120,400	\$245,100

*includes cost of interest less salvage value

There are a number of units currently located at City Hall that will be made available when the City's Car Share Program begins this summer. These units will be integrated into the City's fleet where appropriate, including this rental pool, resulting in a downsizing of the overall City fleet.

SUSTAINABILITY IMPLICATIONS

In alignment with the Mayor's Green City Action Team and the City's Climate Change Action Plan, EQS right sizes all fleet additions and replacements. As such the City's default choice for a passenger vehicle is a micro-compact (e.g. Smart Car) due to its good fuel economy, low capital cost and minimal use of manufactured resources. Only if there is a demonstrated operational need is a larger or different vehicle chosen.

The proposed additions have gone through an environmental right-sizing review process. This is to ensure that not only will the vehicle meet the City's operational needs but that the vehicle has the best combination of fuel efficiency and cost effectiveness. The Equipment Rentals Pool is currently using duplicate units that have surpassed their service lives. Replacing these units with newer models will reduce tailpipe emissions.

CONCLUSION

Staff recommend the addition of 14 units of various types to replace existing duplicate units, which will allow the Equipment Rentals Group to meet increasing short-term rental demands and minimize work disruptions due to fleet unavailability for City departments. There will be a one-time charge of \$372,000 to the Truck and Equipment Plant Account for the purchase of these 14 units. Capital and operating costs of \$105,100 for the units will be recovered through rental fees charged to existing operating budgets of user departments.

Staff also recommend the addition of up to 25 new units to the Equipment Rentals Pool for longer term seasonal and project work needs of the City. The 25 units will eliminate the majority of current external leases. Savings of \$78,900 per year can be realized if all the units are rented internally. EQS will review the operational need for each vehicle before adding the vehicles to the fleet. This group of longer-term lease vehicles will fluctuate based on demand and staff are requesting authorization to add to the fleet on an as-needed basis up to a maximum of 25 units. The 25 units will cost approximately \$957,000 and will be charged to the Truck and Equipment Plant Account. Capital and operating costs, totalling up to \$245,100, will be recovered through lease fees charged to existing operating budgets of user departments.

* * * * *