



Date: February 3, 2015

To: Patrick H. West, City Manager *T.H.W.*

From: John Gross, Director of Financial Management *J.G.*

For: Mayor and Members of the City Council

Subject: **Vehicle Replacement Program Changes**

The Fleet Services Bureau of the Financial Management Department administers the fleet replacement program for City Manager departments. This memo provides a summary of recent, comprehensive changes made by Fleet Services to the replacement program, which are expected to have significant savings to the City in future years, as the program changes take full effect.

The changes update the replacement program that served the City well for years, but was not in accordance with current fleet management best business practices. Vehicle replacement programs, in general, depend on classification of vehicles by type (for example, ½-ton pickup trucks) and assignment of lifecycles to these classes. The City's fleet is varied, with 1,673 pieces of equipment in the City Manager departments. The size of the City's fleet was recently validated by a Management Partners study.

While the City did use lifecycle management for its fleet, it was not a total lifecycle management system and recent years' budget shortfalls led to an extension of most of those lifecycles, resulting in increased operating costs, both in maintenance and in fuel usage, with these costs typically occurring in the extended years of those lifecycles.

Fleet Services has upgraded this program with one in which vehicle lifecycles are computed using three factors: purchase cost, operational cost through the lifespan (maintenance and fuel), and finally, residual (sale) value (as determined by depreciation). The best combination of those three factors results in the least investment by the City and the lowest total cost of ownership. Extensive analysis was done as part of this upgrade to determine exact operating costs for six representative classes of vehicles in the Long Beach fleet. These results were then applied across the fleet, and combined with regionally-specific data on residual values to complete the comprehensive lifecycle analysis. This model of total lifecycle cost is the new Long Beach vehicle replacement model.

Returning to the example of the ½-ton pickup truck, selling it when it is younger (six-years old in this case) translates to higher sale value and less expense in operational costs, because it is auctioned at the point where warranty savings drop off and breakdown costs start to increase. This saves the City an average \$867 per ½-ton pickup truck. When applied across the fleet, savings are estimated to be over \$1 million annually (all funds). It will be six or more years, however, until these savings can be fully realized, as new vehicles must go through their full lifecycle in order to achieve these savings.

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Additionally, as fleet replacement funding was reduced from FY 07 until recently, there exists a significant replacement backlog, currently almost 600 vehicles. It will take three or more years of increased replacements to alleviate this backlog. On-hand funding is sufficient to support replacing these aged vehicles, and starting in FY 15, fleet recapitalization increases to 200+ vehicles annually for the next three to four years.

The combination of a total lifecycle management program for the fleet and significantly increased replacement of older vehicles and equipment will result in more efficient support, with reduced fuel and maintenance costs to departments across the City.

JG,DB,pd
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