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November 15, 2007

City Councilmembers
Oakland City Council
Oakland, California

RE: Legislative Analyst's Response to Fleet Utilization Report

Attached is the Legislative Analyst's response to staff's *Fleet Utilization Report*, as presented November 13, 2007 at the Finance and Management Committee.

The report also contains supplemental information, as requested by the Finance and Management Committee on November 13, 2007, on the cost to Departments for parking spaces in downtown City-owned garages.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Jean Quan'.

Jean Quan
District 4 City Council Member



CITY OF OAKLAND
CITY COUNCIL

LEGISLATIVE ANALYST REPORT

To: Finance and Management Committee
From: Sabrina Landreth, Legislative Analyst
Date: November 13, 2007
Re: **FLEET MANAGEMENT & UTILIZATION**

EXECUTIVE SUMMARY

An analysis of the current fleet management system in the City Oakland demonstrates that the City should find ways to manage its fleet more effectively, both to reduce costs and to support efforts to improve air quality and reduce petroleum consumption. Methodology included review of City policies and procedures, interviews with staff and other cities, review of best practices among other cities, and analysis of pertinent data.

Findings include the following:

- Excluding marked police cars, **85 sedans are driven an average of less than 3,600 miles per year**. 275 sedans are driven an average of less than 7,000 miles per year. 431 sedans are driven an average of less than 14,000 miles per year.
- Some City vehicles may be underutilized; this makes their cost per mile significantly higher than the IRS standard mileage rate of \$0.485. For example, **at 3,600 annual miles, it is \$2,663 more expensive to provide a City-owned sedan than to reimburse the employee for miles driven in his or her private vehicle.**
- There are **four mileage threshold levels** that determine the cost-effectiveness of providing one of the three modes of vehicle access typically used – a City-owned vehicle, auto allowance, or mileage reimbursement:
 - **Up to 5,257 miles/year** (438 miles/month; about 22 miles/workday), it appears to be less expensive to provide a \$137.55/month allowance plus mileage (Allowance Category III) than to provide a \$350/month allowance (Allowance Category II).
 - **Up to 7,420 miles/year** (618 miles/month; about 31 miles/workday), it is less expensive to provide a \$137.55/month allowance plus mileage reimbursement than to provide the City vehicle.
 - **Up to 8,660 miles/year** (722 miles/month; about 36 miles/workday), it is less expensive to provide mileage reimbursement than to provide a \$350/month allowance.

- **Up to 13,494 miles/year** (1,125 miles/month; about 56 miles/workday), it is less expensive to provide mileage reimbursement than to provide the City vehicle.
- There appears to be a lack of incentives for departments to implement effective fleet management practices, such as purging older vehicles or implementing car sharing strategies. From a Department's perspective, it is currently **more expensive on an aggregate basis to use the City-owned pool car than to have a dedicated City-owned car within the Department.**

Recommendations:

- Conduct an annual **break-even analysis** to determine the underutilization mileage trigger;
- Conduct an annual **report on employee mileage reimbursement**;
- Calculate the maintenance **cost of vehicles as they age**;
- **Eliminate charge to Departments for pool vehicles**; and
- Ensure compliance with the **IRS Commuting Rule** for take-home vehicles.

CURRENT POLICY

Sedan Utilization

Of the 1,727 pieces of City-owned equipment, including heavy duty trucks, fire engines, utility trailers, and sedans, 65%, or 1,122 are autos or lights trucks and vans. Most of these vehicles are assigned to Departments who because of their duties claim to have a constant and continuing need for a City vehicle.

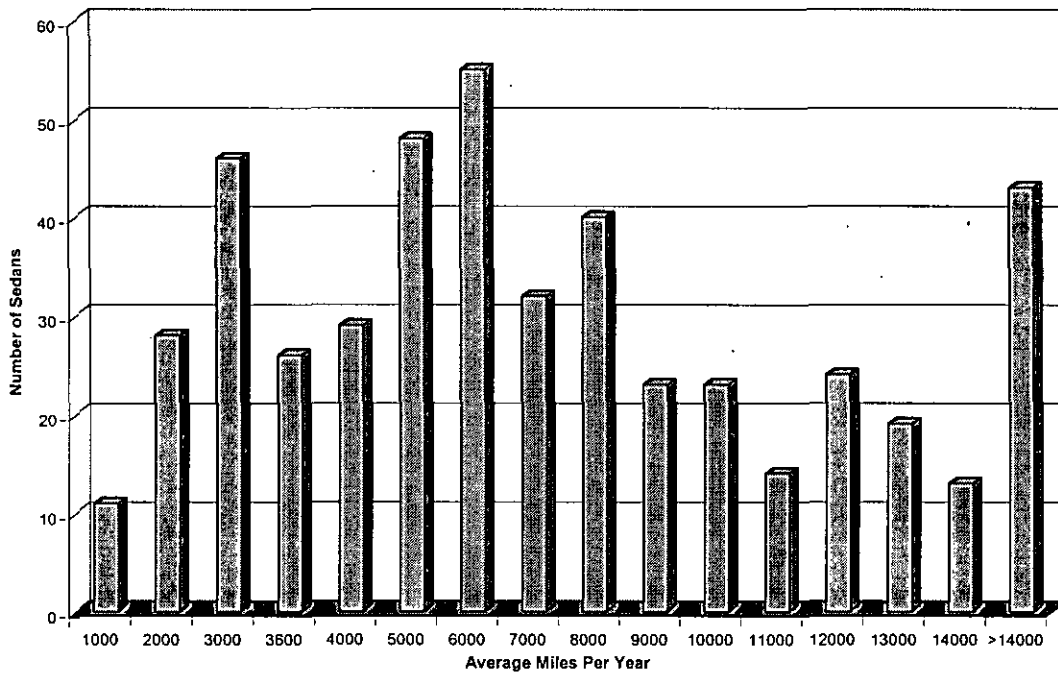
The following table reflects the number types of assigned passenger sedans distributed among departments:

DEPARTMENT	Fleet Sedans*	%
POLICE (marked/unmarked)	431 (221/210)	62%
PWA	95	13.7%
PARKING	54	7.8%
CEDA	44	6.3%
FIRE	33	4.7%
HUMAN SERVICES	17	2.4%
FMA	8	1.2%
OPR	4	.58%
MUSEUM	3	.43%
CITY ATTORNEY	2	.29%
IT	2	.29%
CONTRACTS	1	.14%
LIBRARY	1	.14%
TOTAL	695	100%

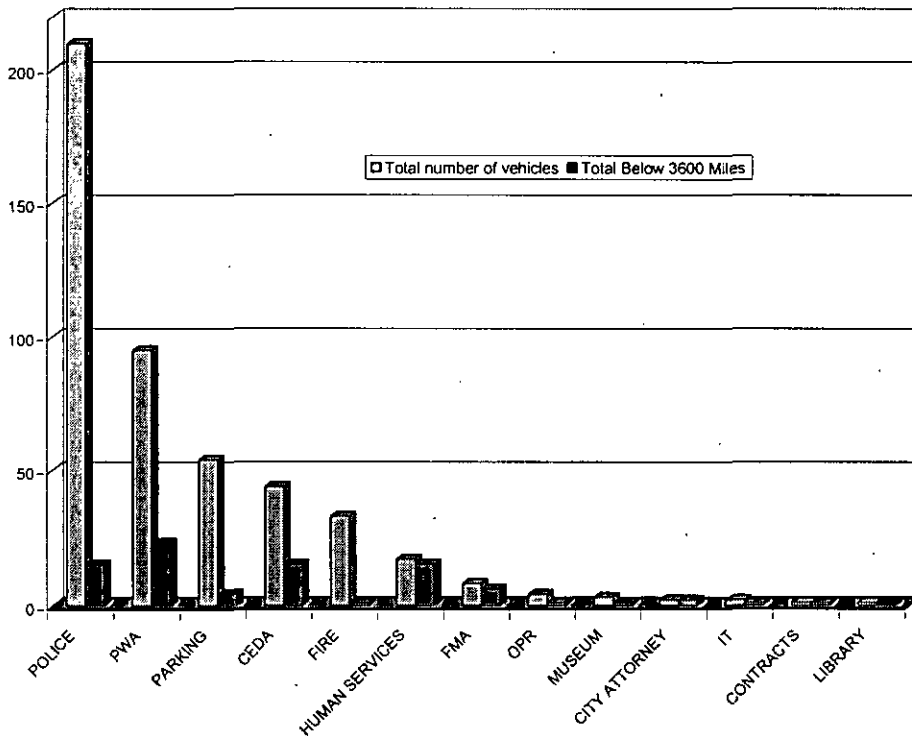
*The analysis in this report does not include vehicles with model year 2007 or 2008, or cars with zero total mileage. The number of vehicles in a particular Department may differ slightly from the number contained in the staff report, as there are several classes of vehicles that have both the new and the old vehicles they are replacing listed as active.

The following chart shows the City-owned sedans by their average miles per year. Sedans are driven an average of 7,700 miles per year.

Miles Per Year (Excluding Marked Police Cars)



The following chart shows the number of sedans in each department with average mileage less than 3,600 (in comparison to their total). Again, marked police cars are excluded:



Approximately 85 sedans are driven an average of less than 3,600 miles per year.
Approximately 275 sedans are driven an average of less than 7,000 miles per year.
Approximately 431 sedans are driven an average of less than 14,000 miles per year.

Pool Vehicles

The City also maintains pool vehicles, which have not been assigned to departments or individuals. Employees may arrange to use a pool vehicle if required by their City duties. Because drivers reserve the cars only for the time they need and use, multiple drivers from different departments can easily use the same vehicles on the same day. Depending on patterns of usage and the size of the fleet, increased pool car use could reduce vehicle inventory. Departments are charged **\$25/day** for use of a City-owned pool car, regardless of mileage and fuel. In addition, the City began a pilot program in October 2006 with City CarShare, a local non-profit organization (see attached table).

Parking

According to a staff report from May 2006, 197 City-owned vehicles were parked in downtown garages (City Center West, Clay Street, and Dalziel). In addition, 195 private vehicles were parked in the downtown garages at City-expense. \$22/month is charged to each Department per parking space. These same spaces would generate \$160-\$180 per space if rented out to the public.

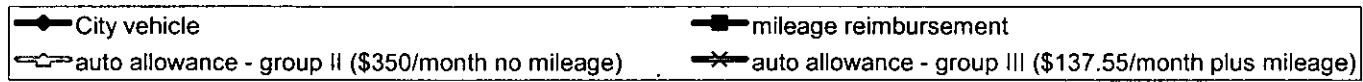
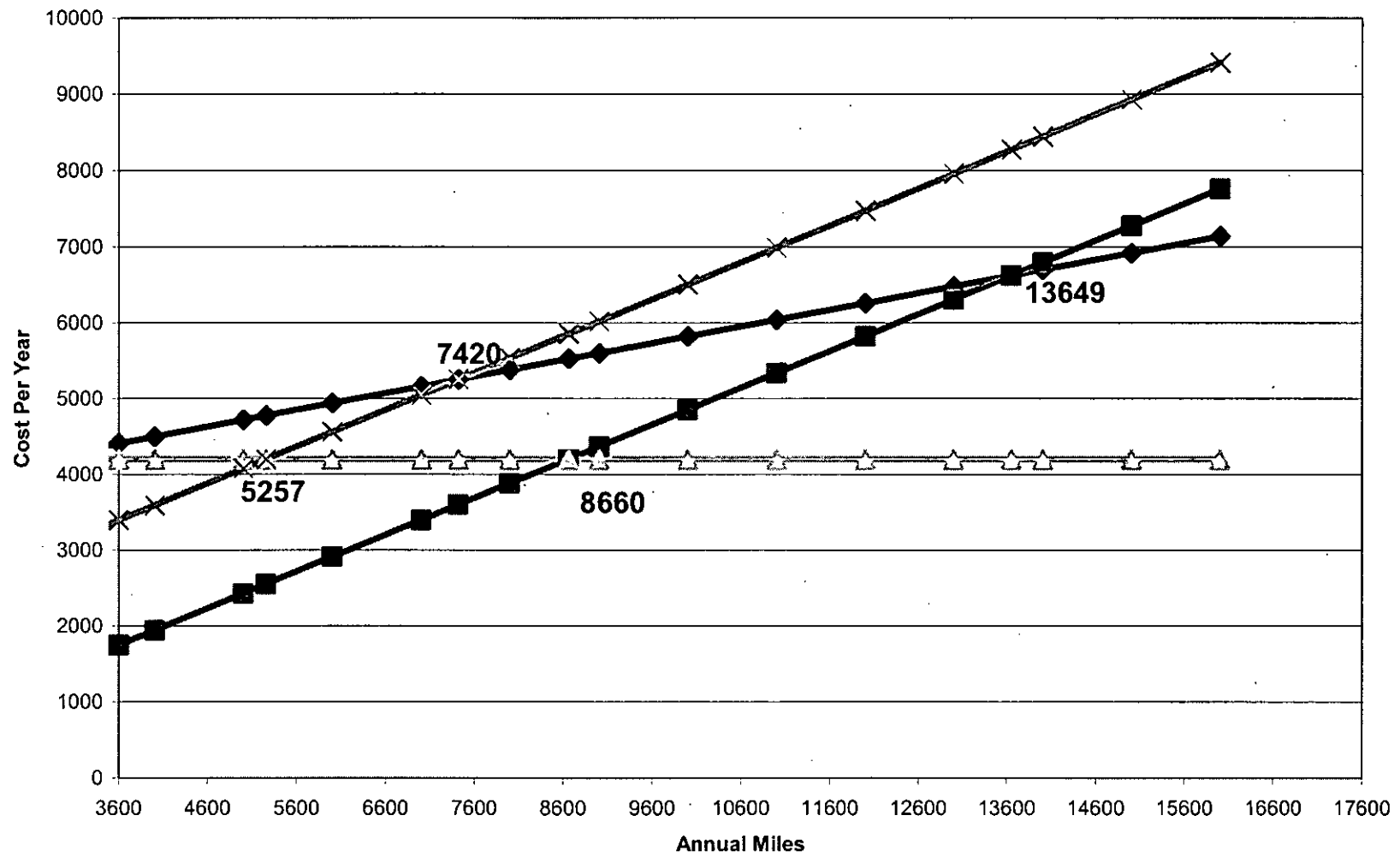
FISCAL/POLICY DISCUSSION

A case study analysis was conducted of the break-even points for the City to provide a City-owned vehicle versus reimbursing an employee for use of their own vehicle versus providing an auto allowance. The analysis was conducted for a 2002 Honda Civic GX (CNG-powered) sedan, which is a typical make and model of the City-owned passenger sedans. Both fixed costs (such as finance costs, depreciation and insurance) and variable costs (such as maintenance and fuel) were included in the calculations.

Based on the following graph:

- **Up to 5,257 miles/year** (438 miles/month; about 22 miles/workday), it appears to be less expensive to provide a \$137.55/month allowance plus mileage (Allowance Category III) than to provide a \$350/month allowance (Allowance Category II).
- **Up to 7,420 miles/year** (618 miles/month; about 31 miles/workday), it is less expensive to provide a \$137.55/month allowance plus mileage reimbursement than to provide the City vehicle.
- **Up to 8,660 miles/year** (722 miles/month; about 36 miles/workday), it is less expensive to provide mileage reimbursement than to provide a \$350/month allowance.
- **Up to 13,494 miles/year** (1,125 miles/month; about 56 miles/workday), it is less expensive to provide mileage reimbursement than to provide the City vehicle.

The annual cost difference was calculated between providing mileage reimbursement, a vehicle allowance, or a City-owned car at the 3,600-mile level that ESD proposes as the "minimum utilization guideline." At 3,600 miles per year, it costs \$4,409 for a City-owned vehicle, \$4,200 for a \$350/month allowance, \$3,397 for the \$138/month allowance plus mileage, and \$1,746 for mileage reimbursement only. **At 3,600 annual miles, it is \$2,663 more expensive to provide a City sedan than to reimburse the employee for mileage.**



OTHER CITIES

In a review of other cities' fleet management processes, common challenges emerged such as deeply ingrained cultural obstacles, a lack of accountability due to a lack of data, and inefficient resource allocation of pool and passenger vehicles. However, many cities have been able to implement successful fleet management programs.

San Francisco

Recently, the City and County of San Francisco successfully took out of service 329 vehicles from the general-purpose light duty vehicles city wide, and 41 vehicles from the public safety departments for a total of 370 vehicles. The cost savings to San Francisco through the fleet reduction was approximately \$740,000 for maintenance and fuel. By removing the 370 vehicles from service they also avoided the replacement cost of \$1,480,000 in new vehicles.

Approximately 400 employees use San Francisco's 16 pool vehicles. The City Hall vehicle pool is funded by the general fund at no cost to the user departments. This provides a financial incentive to use the pool vehicles and reduces the departmental need to purchase vehicles. No car allowances are provided to San Francisco employees.

San Francisco has about 200 emergency response vehicles that are authorized to be taken home. Employees must justify this use by reporting how many times per month they actually used their vehicle for official business that necessitated the take-home car. The vehicle is taken away from the employee if they use it less than five times per month for emergency purposes. The Controller ensures that employees that take-home a vehicle pay the City \$3/roundtrip between home and work, as required by the IRS.

CONCLUSIONS & RECOMMENDATIONS

Recommendation One: Conduct an annual break-even analysis to determine underutilization mileage trigger

The City should periodically conduct a vehicle break-even analysis to determine the trigger points to evaluate when to provide a City-owned vehicle versus reimbursing an employee for use of their own vehicle versus providing an auto allowance. Although City staff recommends a 3,600 annual mileage criteria for assigning a City-owned vehicle, according to the break-even analysis conducted for this report and a review of other cities, this threshold could be too low. It is recommended that staff establish a formalized methodology in order to determine the threshold for "underutilization".

In addition to the mileage threshold, ESD should also take into account other criteria to consider when allowing the use of City-owned vehicles. For example, Philadelphia also uses the metric of how many hours/day the vehicle is in use, as mileage does not always demonstrate how that vehicle is being used for City-related business. For example, inspectors oftentimes drive to a property and stay there for several hours, accumulating little mileage. Many of the vehicles are used daily in vital city services that are inherently low-mileage jobs. The existence of low mileage alone is not a determining

factor in finding underutilization. It is a trigger. The vehicles need to be looked at on a case-by-case basis. The fact that a vehicle is driven 3,600 miles is not the only indicator of its use.

Recommendation Two: Conduct an annual report on mileage reimbursement

The City should track the total miles City employees claim for reimbursement to evaluate usage of personal vehicles for City-required business. For example, if an employee is claiming over 14,000 miles, it would be more cost effective to provide a dedicated City-owned vehicle or a \$350/month allowance. Controls over mileage reimbursement will be even more important if the City decreases the number of dedicated City-owned vehicles or monthly allowances, thereby potentially expanding the mileage reimbursement program. The report should include how many employees received mileage reimbursement in the previous fiscal year and the total amount reimbursed City-wide.

Recommendation Three: Calculate the maintenance cost of vehicles as they age

Departments do not have incentives to turn over older vehicles for which they have marginal need. Consequently, the fleets are comprised of older vehicles, which are expensive to repair. These vehicles require more frequent and expensive repairs which lead to excess downtimes. Several years ago, San Francisco calculated the maintenance cost of vehicles in their City's fleets as they age. The results were quite staggering. For the 10-year-old vehicles, the total average ten year life cost came to \$11,024, whereas the average life cost of the six year-old vehicles was \$4,317. These old vehicles are also generally the greatest polluters.

Recommendation Four: Eliminate charge to Departments for pool vehicles

Pool vehicles cost a Department \$25/day. If a Department used a pool vehicle every day, they would be charged \$6000/year, or \$500/month. At this rate, it is the equivalent to driving a City vehicle for 10,832 miles in a year, which is much more than most vehicles are driven. There is consequently no financial incentive for departments to relinquish a City vehicle in exchange for use of a pool car since it is currently more expensive on an aggregate basis to use the pool car than to have a dedicated City-owned car within the Department. It is recommended that the City provide pool cars at no additional charge Departments, in a similar model to San Francisco. This creates a financial incentive for Departments to encourage pool vehicle use, instead of holding onto Department-dedicated vehicles.

Recommendation Five: Ensure compliance with the IRS Commuting Rule

City should verify that any employees that are authorized to take-home a City-owned car, that is not a qualified nonpersonal-use vehicle, are in compliance with the IRS Commuting Rule. According to the Commuting Rule prescribed in IRS Publication 15-B, the taxable value of a vehicle provided to an employee to commute between home and work is calculated by multiplying \$1.50 by each one-way commute between home and work. Income exclusion is allowed only if the vehicle is a nonpersonal-use vehicle. A qualified nonpersonal-use vehicle is any vehicle that is not likely to be used more than minimally for personal purposes because of its design. Some of the vehicles that are qualified nonpersonal-use vehicles are: clearly marked police and fire vehicles and

unmarked vehicles used by law enforcement officers if the use is officially authorized. In several cities reviewed for this report, audits were performed during which it was discovered employees were not properly reimbursing the city the \$1.50 each way between home and work. Those cities have since implemented policies to ensure compliance with the IRS.

The following is a snapshot of the City of Oakland's City CarShare use for July, August and September 2007:

	7/1/07 – 7/31/07	8/1/07 – 8/31/07	9/1/07 – 9/30/07
Number of Employees signed up as members	30	31	32
Number of Employees utilizing vehicles	8	7	9
Number of Trips	35	22	19
Average number of miles per trip (Max/Min)	14.8 miles (45 miles/1.5 miles)	14.7 miles (27.9 miles/1.5 miles)	17.3 miles (56.9 miles/1.4 miles)
Average number of hours driven (Max/Min)	3.1 hours (7 hours/1.25 hours)	2.9 hours (6 hours/1 hour)	2.8 hours (7.5 hours/1 hour)
Monthly Costs Charged to Departments, not including fixed charges* (avg/trip)	\$805.72 (\$23/trip)	\$554.04 (\$25.2/trip)	\$395.84 (\$20.8/trip)

*Fixed charges include \$800/month/vehicle, \$250/month/vehicle for customer service. Total above also does not include one-time signage, website and design installation cost.