



**Subject:** Fleet Replacement Program for Light Duty Vehicles

**Report Number:** OPD 21-41

Department: Operations and Development Department

Submitted by: Carlos Reyes, Director of Operations and Development

Meeting Type: Council Meeting

Meeting Date: Monday, September 27, 2021

## **RECOMMENDATION**

THAT report OPD 21-41 Fleet Replacement Program for Light Duty Vehicles be received as information;

AND THAT Council authorizes the transition of the Town's light duty in-house fleet management program to a corporate leased ownership, maintenance, and management program;

AND THAT Council authorizes the collaborative purchase award of a corporate leased ownership, maintenance, and management program to the Enterprise Fleet Management Leasing Program effective for a 10-year commitment subject to fleet management and inflation trends, funded from the Town's annual operating budget.

## **BACKGROUND**

The Town's Operations and Development department is responsible for the management of all Town fleet for both light and heavy duty vehicles, including specialized equipment such as plow trucks, bucket trucks, etc. Currently the Town fleet is comprised of 67 vehicles including light, medium and heavy duty vehicles, and off-road equipment utilized throughout all divisions. Of those vehicles, 23 are considered light duty vehicles and includes everything from one ton trucks to a dodge minivan, 74% of which are 4 x 4 pick-up trucks.

In 2016, Council enacted the Town of Tillsonburg Comprehensive Asset Management Plan; a plan outlining the fleet replacement strategy and standardization of vehicles replaced through the program. Since then, fleet management has based fleet replacement on a best practice approach of an 8-year useful life or 200,000 kms replacement cycle for light duty vehicles, 10 years for heavy duty vehicles, and 8-20 years for off-road equipment. The current replacement process involves procurement

annually of individual pieces of machinery and vehicles, and large capital investments at the time of replacement. Once vehicles meet their end of life cycle, they are sold for a marginal profit given the overall state they are in, including higher mileage or above normal wear and tear.

The current replacement program, where possible, requires that all light duty pick-up trucks be standardized to procure 4-wheel drive standard cab vehicles equipped with back rack and light bars which to ensure more efficient fleet management. Standardization allows the reallocation of vehicles between different yards and departments to ensure that all light duty trucks will reach the intended useful life target. There is a recognition that some fleet will not be standardized as they provide specific functions such as those outfitted with mini cranes, watering tanks, etc.

The entire fleet is maintained on a regular basis by in-house dedicated mechanics. These positions were intended to spend most, if not all, of their time servicing heavy fleet and specialized equipment, and would perform required maintenance on light fleet when it was needed. However, due to the maintenance demands of heavy and specialized equipment, as well as the direct services delivered by these pieces of equipment, requires that a majority of their time should be spent on heavy and specialized fleet. Any time not spent on repairs will allow the mechanics to complete preventative maintenance on these units, which will improve reliability for each piece of heavy and specialized equipment.

In 2021, The Town was made aware of the Enterprise Corporate Fleet Lease, Maintenance, and Management Program that is part of the Association of municipalities of Ontario (AMO) - Local Authority Services (LAS) Town group buying program. The buying program helps municipalities purchase products and services that they use on a regular basis. The group buying program brings all the local providers of those goods and services together so municipalities can access high quality, competitively priced goods and services and not have to go through the procurement process because it is completed for them in advance. All companies that are part of the group buying program have undergone a formal competitive bid process that ensures compliance with all purchasing bylaws and trade agreements.

The Town's intention of transitioning the Town's current in-house fleet management program into a formal Corporate Fleet Lease, Maintenance, and Management Program is to identify goals for fleet reliability, service delivery and stabilization of annual costs. The idea behind the Enterprise program is to analyze our fleet operations and current process to identify cost savings, lean the process of acquisition and resale, and keep the Town fleet expenses to a minimum with low fuel expenses.

Enterprise has completed an initial no-cost or commitment analysis of the Town's light duty fleet and has provided ample information surrounding the benefits of the Town making the transition to the program that they offer through AMO/LAS. The next section provides an overview of that analysis as it pertains to the Town.

## **DISCUSSION**

The Enterprise Fleet Management program is an open ended lease program for light duty vehicles. The program would include all vehicle analysis, acquisition, outfitting, maintenance and final sale of the vehicle. Enterprise completes ongoing evaluations with a highly qualified team and utilizes analytics to pinpoint opportunities to continually improve fleet based on the Town's needs.

### **Impacts to the Town**

The Enterprise Fleet Management program has many benefits, including non-tangible items that will impact various departments throughout the Town. This type of program will allow for a reduction in time spent on internal fleet management, more reliable vehicles allowing for more productivity and greater safety for staff using them, increased fuel efficiency, vehicles tailored to each department's needs and allows for our in-house staff to focus on increased preventative maintenance of heavy duty and specialized fleet. From a bigger picture perspective, participation in the Enterprise Fleet Management program will also allow for the Town to utilize the buying and selling power as well as expertise of a company that solely focuses on vehicles. This program also benefits the community by utilizing certified local shops for all vehicle repairs that are included as part of the lease structure.

Vehicles will be able to be properly outfitted to match the Town requirements of each department and can be updated as levels of service or legislated requirements change. Currently a standard vehicle is purchased for most of our light duty fleet as they are utilized by multiple departments throughout 10 year time period to ensure that we can prolong the life of all fleet vehicles. This model is helpful, however does not allow for the vehicle to most effectively meet the needs of each department as vehicles needs to generally meet the Town's operational needs. By switching to the Enterprise Fleet Management program vehicles can properly match the exact use of the truck and have the exact equipment necessary to allow staff to more effectively complete their job. Additionally, if changes are made to the function of a vehicle either due to level of service, internal or legislated change, a vehicle can be procured to meet the needs of the Town without having to wait up to 12 years for the replacement of the vehicle as experienced under the current program.

Currently, each vehicle requires significant minor and major maintenance to allow the vehicles to reach its 10 year estimated lifespan. Due to the varying uses of the vehicle over its lifespan, the vehicle also deteriorates greatly over the 10 years, reducing the resale value of the vehicle to less than 10% of the original cost. The Enterprise Fleet Management program evaluates the value of the vehicle over time to determine the best point to sell the vehicle to get the optimal resale and limit risk. When a vehicle approaches certain milestones there is significant risk of major maintenance requirements and the safety of the vehicle is also reduced. This program reduces the risk and provides reliability as a beneficial side effect of reducing overall costs of vehicle maintenance by selling the vehicle prior to certain major maintenance being required. New technologies also allow for improvements to vehicles gas mileage and safety features. Improved gas mileage results in costs saving as well as a reduction in

greenhouse gas emissions and Town vehicles will continually meet the most up to date safety features as the car industry introduces new features.

Currently, in-house fleet management is the responsibility of the fleet supervisor with the assistance of the mechanics to help track vehicle usage and ensure each vehicle is transferred between departments to prolong the life of each vehicle. The fleet supervisor also works with the purchasing department and the manager of Public Works to assist all procurement requirements and deal with vehicle sales. The Manager of each department utilizing corporate fleet is also involved when vehicles are transferred between departments and when maintenance is required. All of these tasks involve staff time and would be greatly reduced under the Enterprise Fleet Management structure, especially at a management level. As well, the support and oversight completed by Enterprise would be superior to the in-house support as Enterprise staff are experts that only focus and deal with fleet programs.

As part of the program the Enterprise account managing team would meet with Fleet staff and the manager of Public Works four times a year to review the program, trends in the market, vehicle maintenance and vehicle use to re-evaluate the existing lease structure of each vehicle to determine if changes to the lease structure are warranted to ensure best financial benefit to the Town. As identified, the program is an open ended lease structure which would allow for changes in the lease to occur at any time without any penalties.

The vehicle maintenance included as part of the Fleet Management Program will be completed using local certified shops. This would allow the Town's in-house mechanics to focus on heavy duty and specialized equipment, and gives work on lighter fleet back to local shops who are part of the program with Enterprise. The annual operating and routine maintenance costs are built into the lease program, therefore reducing the risk of unexpected major repairs.

### **Evaluation of Fleet**

Throughout 2021 Town staff provided Enterprise with a general overview of our existing Fleet and provided specifics on the needs of the vehicle. Enterprise reviewed all available options that meet the Town's operational needs including make of vehicle, model of vehicle, length of lease period, anticipated end of life kilometers on vehicles, average maintenance, fuel costs, specialized needs for use, and best return on investment given the use of the vehicles.

As part of their Fleet Management program Enterprise reviewed 26 of the existing fleet vehicles that are identified as light duty and are eligible to be incorporated into their program. As part of the review they completed an evaluation of the replacement cycle and vehicle selection for each vehicle to determine the best lease structure.

It is recommended that the 26 light duty vehicles be transferred over to the fleet management program over the next 4 years to allow for the full benefit of the program to be realized.

## **Replacement Cycle**

As part of the Fleet Management program, Enterprise determines the optimal replacement for each vehicle based on the type of vehicle, use and mileage to ensure the lowest overall costs. Based on the Town fleet and the usage trends, Enterprise is suggesting that vehicles are replaced every 2 to 4 years depending on the vehicle to get the best return on investment.

Enterprise has evaluated operational considerations from fuel and maintenance costs but also what the Town would get back on the resale of our existing and future vehicle. The proceeds of the resale can either be rolled into the acquisition price on the next new vehicle or be provided directly to the Town's Fleet budget. Rolling the proceeds of the existing vehicle into the cost of the next acquisition makes the most sense from a reduction in cash outlay and results in the lowest average monthly cost, providing the highest market value and maintaining high reliability/safety of the fleet.

Enterprise will evaluate the Fleet Management program annually and recommend a revised replacement cycle if there are changes in the market that would cause a revision to the program to optimize costs. This will further reduce internal fleet management of vehicles being repurposed in different departments and over different seasonal uses.

## **Vehicle Selection**

Enterprise completed an assessment of each vehicle and its use patterns, to determine the best replacement option to optimize operations as well as vehicle costs, and provided an in-depth example of the top three truck replacement options for 2022 half-ton pick-up trucks. The assessment identified the preferred truck to replace the existing light duty pick-up truck to allow for the lowest cost to operate overall and greater return on investment for the Town.

From the analysis, the review went into specifics regarding the intended and ongoing use of each vehicle to determine a model that would best benefit the Town, and to confirm that staying with one brand would also provide cost savings to the Town. The preferred vehicle identified by Enterprise from the lowest cost to operate overall and the greater return on investment based on the existing fleet and usage trends was the Chevrolet Silverado 1500 4x4 crew cab in a white exterior color. The Town has 4 vehicles that will be replaced with regular cab vehicles as well, as they have implements in the back that require more bed space than cab space.

A similar evaluation has been completed for all light duty vehicles and would be updated on an annual basis. Staff have worked with Enterprise to include replacement of vehicles that are most practical to meet the Town fleet needs.

## **Program Evaluation**

Based on the fleet evaluation completed by Enterprise a financial model was created to determine the costs of switching to a lease, maintenance and management program.

The financial evaluation is compared with the Town's current light duty fleet costs in the Financial Impact section of this report.

Based on the financial and non-tangible benefits of the Enterprise Fleet Management Program it is recommended that the Town transition to the Enterprise program should begin in 2022 as it will allow for the full benefits of the program to be realized immediately. Commencing the transition to the Enterprise Fleet Management program in 2022 will result in significant financial savings to the 2022 budget as there are six light duty vehicles identified for replacement through the capital budget deliberation process. The Town will no longer be required to provide the vehicle costs upfront through the capital budget but instead pay a monthly fee through the annual operating budget over the replacement cycle with any cost savings being incorporated into the program following the sale of each vehicle.

Overall, transitioning to the Enterprise Fleet Management Program on the Town's light duty vehicles has numerous benefits. The Town fleet would always be safe, more reliable and fuel efficient and allow more time for the Fleet Mechanics to dedicate their efforts to the maintenance of heavy duty and specialized equipment.

Transitioning to a corporate leased ownership, maintenance, and management program for light duty vehicles will ensure that all vehicles are maintained according to best practices and as such will operate at a high level resulting in a greater return on investment for that costs and less capital expenditures annually.

In summary, there are positive implications for all impacted parties upon entering into this agreement. The following is a summary of implications outlined above in the report:

- Town in-house mechanics can focus on heavy duty and specialized equipment;
- Light duty vehicle maintenance will be assumed by local certified shops that are partnered with Enterprise as part of the program;
- Light duty vehicle fleet replacements will be strategically poised to take place at the most lucrative time to give us the most return on investment;
- Newer fleet will allow for less downtime and focused on our fleet needs; and flexible to change with any changes in business;
- Provides Town capital budget expenditure availability for other various strategic initiatives and/or asset replacement demands; and
- More fuel efficient vehicles will allow for a reduction in overall fuel usage greenhouse gas emissions

## **CONSULTATION**

Communication between Enterprise, the Director of Operations, and the Director of Finance has taken place to understand their Fleet Management Program and how it could specifically be applied to the Town's light duty fleet.

## **FINANCIAL IMPACT/FUNDING SOURCE**

By partnering with Enterprise Fleet Management, the Town of Tillsonburg will be able to lower the total cost of ownership on its fleet of vehicles and cycle its fleet more efficiently. Leveraging an open-end lease maximizes cash flow, providing the Town the ability to “do more with less,” and recognizes equity from vehicles sold reducing the cost of future replacements. Furthermore, Tillsonburg will leverage Enterprise Fleet Management’s ability to sell vehicles through a public process at an average of 109% above Black Book value. By shifting from reactively replacing inoperable vehicles to proactively planning vehicle purchases, the Town will be able to replace all its vehicles over the course of 4 years at or below the current estimated fleet budget.

### **Existing Fleet Program**

The Town completes budgeting for the replacement and maintenance of vehicles based on historical costs and revises the evaluation based on changes in the market. For each type of light duty vehicle (half ton,  $\frac{3}{4}$  ton, one ton and smaller cars/SUV) there is a general evaluation of the costs completed to understand the funding requirement for each type of vehicle over the 8 year life span with the Town. The costs for each vehicle vary slightly depending on use and variation in required maintenance however are generally reflected by the analysis. Through the current Town fleet replacement cycle an average half ton light duty fleet vehicle costs the Town \$68,000 over a 10-year period. This includes the purchase and resale of the vehicle as well as all general vehicle maintenance. Costs for licensing and insurance were not included in the evaluation as they will be the same regardless of fleet management.

### **Enterprise Fleet Management Program**

Enterprise has completed a fulsome review of the Town’s light duty fleet vehicles to determine the annual costs of transition to a lease, maintenance, and management program with Enterprise. The evaluation reviewed current specifications and requirements for each vehicles and provided a price per vehicle under the lease structure. The lease would include costs of purchase, maintenance, resale of each vehicle and all service provided by Enterprise.

Through Enterprise’s evaluation it was determined that the annual lease costs would be \$238,144 (after 2026) once all 26 vehicles are on-boarded with annual inflation taken into consideration each year after. These costs will be offset by the sale of vehicles resulting in lower costs every other year as shown in Table 1. A more detailed breakdown of the costs of the Enterprise Fleet Management Program is included in Appendix A.

*Table 1: Annual Costs for Enterprise Fleet Management Program (including estimated fuel & maintenance)*

Fiscal Year	Fleet Mix			Fleet Cost						Annual		
	Fleet Size	Annual Needs	Owned	Leased	Purchase	Lease*	Equity (Owned)	Equity (Leased)	Maintenance	Fuel	Fleet Budget	Net Cash
Average	26	2.6	26	0	107,869	0	-6,500		38,962	49,725	190,076	0
'22	26	6	20	6	0	50,767	-11,645		33,297	47,430	119,849	70,228
'23	26	3	17	9	0	84,131	-10,500	-28,589	30,464	46,283	121,789	68,287
'24	26	9	11	15	0	168,633	-27,000	-29,878	24,799	43,988	180,542	9,534
'25	26	5	8	18	0	191,531	-22,500	-78,088	21,966	42,840	155,750	34,326
'26	26	14	0	26	0	238,144	-59,500	-49,866	14,413	39,780	182,971	7,105
'27	26	4	0	26	0	238,144		-108,105	14,413	39,780	184,232	5,844
'28	26	9	0	26	0	238,144		-156,806	14,413	39,780	135,531	54,544
'29	26	11	0	26	0	238,144		-95,471	14,413	39,780	196,866	-6,790
'30	26	8	0	26	0	238,144		-82,986	14,413	39,780	209,351	-19,275
'31	26	6	0	26	0	238,144		-151,398	14,413	39,780	140,939	49,137
10 Year Savings												\$272,940

To allow for the easiest transition into the program Enterprise would take responsibility for resale of all of the existing light duty fleet. The costs of the sale would be used to offset the lease costs every year.

The vehicle acquisition costs are significantly lower through Enterprise than the Town is currently receiving through competitive bid. Based on the cost of recent vehicle acquisitions and the costs provided by Enterprise there is more than a \$10,000 difference for the same type of light duty vehicle. The reason for this is that Enterprise has buying power through large scale acquisitions and industry connections and agreements that the Town would only have access to through this program. This is also the case for the resale of each vehicle. Enterprise provided an example that identified that they utilize not only the Ontario market for resale but other markets if necessary to ensure that the best value is received while selling vehicles.

The analysis completed by Enterprise to develop the lease structure utilizes conservative numbers to ensure that it represents the worst case scenario and accounts for potential fluctuations in the market. The calculations include the vehicle resale value at 80% of black book pricing however Enterprise on average received pricing 8.5% above the black book price. Following resale of the vehicle the Town will receive the additional sale funds above the amount identified in the lease agreement. These fund can be utilized for future fleet purchases further reducing the cost of the program.

The program also currently takes into account the purchase of all new specialty equipment, including storage box, back rack and light bars, each time a vehicle is purchased. Many of these pieces of equipment can be removed and reinstalled and therefore further cost reduction are anticipated.

### Program Comparison

A comparison of the 10-year costs of each program (excluding maintenance and fuel costs) was completed to understand the long-term favourable financial impacts of transitioning to the Enterprise Fleet Management Program as identified in Table 2.



*Table 2: Approximate Costs - 10-Year Comparison*

Year	Net Cost Current Light Duty Fleet Program (Town of Tillsonburg Asset Management Plan)	Net Cost Proposed Light Duty Fleet Program (Enterprise Fleet Management Program)	Estimated Net Fleet Savings
2022	\$ 274,000	\$ 39,122	\$ 234,878
2023	\$ 246,500	\$ 45,042	\$ 201,458
2024	\$ 149,500	\$ 111,755	\$ 37,745
2025	\$ 40,500	\$ 90,943	\$ (50,443)
2026	\$ 35,500	\$ 128,778	\$ (93,278)
2027	\$ 63,500	\$ 130,039	\$ (66,539)
2028	\$ 235,500	\$ 81,338	\$ 154,162
2029	\$ 176,000	\$ 142,673	\$ 33,327
2030	\$ 224,000	\$ 155,158	\$ 68,842
2031	\$ 332,000	\$ 86,746	\$ 245,254
<b>Potential Fleet Expenditure Savings (exluding fuel/maintenance expenditures)</b>			<b>\$ 765,406</b>

The cost comparison identifies the conservative cost saving through the Enterprise Fleet Management Program over a 10-year period. As identified, there are a number of factors that could help reduce the annual costs for light duty fleet through the Enterprise program that could not be realized if the Town continues with the current replacement cycle. These costs savings along with the non-tangible benefits of the program to the Town and Community help confirm the recommendation to transition to the Enterprise program over the next 4 years.

## CORPORATE GOALS

How does this report support the corporate goals identified in the Community Strategic Plan?

- ☐ Lifestyle and amenities
- ☐ Customer service, communication and engagement
- ☐ Business attraction, retention and expansion
- ☐ Community growth
- ☒ Connectivity and transportation
- ☐ Not Applicable

**Goal** – Tillsonburg residents and businesses will be connected to each other, regional networks, and the world through effective traditional and digital infrastructure.

**Strategic Direction** – Develop a robust, long-term asset management plan to inform evidence-based decisions on the maintenance, rehabilitation and replacement of municipal infrastructure.

**Priority Project** – Ongoing Projects – Asset Management Plan

## ATTACHMENTS

Appendix A - Town of Tillsonburg - Fleet Synopsis by Enterprise