

Fleet Management Trends in State Government

**What's Happening In Other
States?**



State Fleet Management Overview, Reporting And Auditing Initiatives

- It's not uncommon today in various government circles to come across an opinion, article, press release, or another executive order calling for a thorough investigation or comprehensive fleet study.
- Taxpayers, elected officials, legislators, budget officers, and governors alike are being forced to take notice of their municipal fleet assets and equipment by their constituent base and voters.
- The trend toward fleet consolidation and centralization of significant fleet activities continues, as elected officials seek to become more accountable and save precious tax dollars they turn their focus toward centralization.

MERCURY

Centralization?

- Many states are seeking to flatten the management of the overall organization, which includes fleet operations. In the past, states operated a highly decentralized approach to fleet management, for example it was not uncommon for a state to have several separate fleet departments such as, a separate central services fleet manager, public safety fleet manager, natural resources fleet manager, DOT fleet manager and others.

MERCURY

Why Do Elected Officials Care?

- Elected officials are challenging this premise partly out of frustration to get a single source answer about fleet questions and partly to eliminate duplication of effort to increase efficiencies and reduce costs.
- Many states are changing this trend and consolidating the functions into one agency. At some states, these functions are being consolidated into a single fleet manager function.

MERCURY

State Of Wisconsin Studies Centralization Of State Vehicle Management Functions Into Department Of Administration

Provide that the respective plans could include provisions affecting DNR, DOT and/or the UW-Madison and relating to what are termed "vehicle fleet management functions" for any of the following items on the effective date specified in the respective plan:

Transfer of all assets and liabilities from the respective agency to DOA;

Transfer of all tangible personal property, including records, from the respective agency to DOA;

Transfer of all contracts of the agency from the respective agency to DOA with the provision that contracts that were in effect on the effective date of the bill would remain in effect until their specified expiration date or until they were rescinded or modified by DOA to the extent allowed in the contract;

MERCURY

Governor Ernie Fletcher Of Kentucky Orders Comprehensive State Vehicle Study

- Intensive review of the state's vehicle fleet inventory.
- Kentucky Transportation Cabinet will direct the effort to identify the most cost effective and efficient manner for managing the state's fleet of vehicles.
- Provide a true assessment of the state's vehicle usage .
- Identify better fleet management strategies

MERCURY

Introduce Competition Into Texas Government Through Centralization

- About 140 agencies own more than 29,000 vehicles ranging from sedans to heavy equipment such as tractors and bulldozers.
- Agencies operate their vehicle fleets independently.
- Periodic reports found the state's fleet to be poorly managed and in need of centralization or consolidation.
- Explore the possibility of opening the maintenance of the state's vehicle fleet to competition.
- Opportunities should be sought to privatize fleet maintenance.

MERCURY

State of California

- The revised standards set forth in memo 06-06 increased the mileage criteria for state vehicles from 4,000 miles in a six month period to 6,000 miles and frequency of use from 70 percent of business days to 80 percent.

MERCURY

Federal Government

The following guidelines may be employed by an agency requesting GSA interagency fleet management system (IFMS) services. Other utilization factors, such as days used, agency mission, and the relative costs of alternatives to a full-time vehicle assignment, may be considered as justification where miles traveled guidelines are not met.

(A) passenger-carrying vehicles. The utilization guidelines for passenger-carrying vehicles are a minimum of 3,000 miles per quarter or 12,000 miles per year.

(B) light trucks and general purpose vehicles. The utilization guidelines for light trucks and general purpose vehicles are as follows: (1) light trucks and general purpose vehicles, 12,500 lbs. Gross vehicle weight rating (GVWR) and under--10,000 miles per year.

(2) trucks and general purpose vehicles, over 12,500 lbs. GVWR to 24,000 lbs. GVWR--7,500 miles per year.

MERCURY

Fleet Management Trends in State Government

Controlling Fuel Costs
Record High Fuel Prices
Give Fleets a Sobering
Reality Check



Fuel Price Volatility Is Impacting Fleet Operations Budgets

- Approximately 60% of a fleet's operating costs are spent on fuel.
- For past three years, we've experienced a roller-coaster ride of ups and downs in price of gasoline and diesel.
- The increased cost of petroleum impacts other operating expenses. For instance, bridgestone raised tire prices 5% in june because it is paying more for petroleum to make tires and it is spending more on diesel to truck tires to dealers.

MERCURY

Difficult To Budget In Advance The Cost Of Fuel

- Cost of fuel is playing havoc with fleet budgets.
- The price increases occurred after many fleets had already finalized their operating budgets.
- This year's spike in fuel prices was much larger than anticipated.

MERCURY

Difficult To Decrease Fuel Consumption

- It is difficult for state fleets to decrease fuel consumption.
- Taxpayers demand that roads to be plowed, streets to be patrolled by the police, and shuttles to be operated on campus.
- In a tight budget year, government department heads will have to reduce spending in other areas. For fleet, this often means deferred capital expenditures for new-vehicle acquisitions. Which may always be an overreaction?

MERCURY

What Should You Do To Reduce Fuel Costs?

- Reduce unnecessary or underutilized fleet assets
- Purchase newer fuel efficient vehicles
- Downsize fleet size where practicable. (I.E. Replace SUV with compact)
- Implement a fuel hedging program
- Reduce idling (cab heaters, engine heaters)

MERCURY

Impact Of Selecting More Fuel-Efficient Vehicles

- Fleets are conducting lifecycle cost scenarios to determine how much they can lower fuel costs by acquiring more fuel-efficient vehicles.
- The savings can be substantial.
- A 500-unit fleet driving 10 million miles per year will burn 500,000 gallons of gas at 20 mpg.
- Assuming a cost of \$1.80 per gallon, an increase of only one mile per gallon in fuel economy will reduce fuel costs by nearly \$43,000 annually.

MERCURY

Fuel Hedging

- Mitigate Cash Flow Volatility
- Insure Against Financial Distress
- Reduce Earnings Volatility
- Minimize Long-term Fuel Expense
- Facilitate Improved Management Planning
- Create Value Through Effective Trading
- Reduce Budgetary Uncertainty (Price Hedging)
- Reduce Disruptions To Non-fuel Programs Caused By Unanticipated Requirements For Funds To Pay Higher-than-expected Fuel Bills (Price Hedging)
- **Caution: Fueling hedging is not generally a good strategy to reduce fuel costs.*

MERCURY

High Cost Of Fuel Is Causing A Reexamination Of Fleet Policy

- Closer management of fuel consumption.
- Reinforce restrictions on the grade of fuel used.
- Eliminating SUVs from fleet.
- Develop written fuel policy.

MERCURY

Actions Taken In Reaction To Higher Fuel Prices

- Fleet managers are influencing and changing driver behavior. (i.e. Penalty fees for abuse, neglect etc.)
- Educate drivers toward competitive shopping for fuel.
- Renewed emphasis on MPG in selector decisions.
- Encouraging drivers to be “street smart” and refuel at the most economical stations.
- Keeping a closer tab on personal mileage usage (POV) to avoid paying for non-business-related fuel expenditures.
- Some businesses are passing increased costs on to customers by adding fuel surcharges to products and services.

MERCURY

MERCURY

*Fleet Management
Trends in State
Government*

**The Impact Of Budgetary
Constraints On Fleet
Operations**



Impact Of Reduced Tax Revenues

- Shortfall in meeting capital & operating funding needs.
- Vehicle replacement is deferred.
- This results in increased maintenance costs & downtime.
- Less funds to train technicians.
- Hiring freezes or staff layoffs.
- Swings in fuel prices consume scarce budget dollars.

MERCURY

Common Cost-cutting Initiative Is To Defer Vehicle Replacement

- At public sector fleets the pressure is to defer capital expenditures by postponing the purchase of replacement vehicles.
- This is especially the case if a fleet depends on appropriations from its agency's general fund instead of a fleet replacement fund.
- However, legislators have been known to "raid" the fleet replacement fund to balance a budget. The fleet budget is not sacred.

MERCURY

Impact Of Deferred Vehicle Replacement

- Management and legislatures often do not understand the future impact of deferred vehicle replacement.
- Increased maintenance expenses.
- Increased vehicle downtime.
- Over-extending maintenance department personnel.
- Higher vehicle lifecycle costs.
- New vehicles forgive a lot of sins and overcome bad fleet management.

MERCURY

Shortage Of Vehicle Replacement Funds

- Shortage of vehicle replacement money (capital fund) over multiple years has caused fleets to steadily age, which is putting pressure on maintenance resources.
- How safe are vehicles as they start accumulating 150,000-plus miles.
- Fleet managers must make wise decisions on what to repair and how much to spend on a repair.

MERCURY

Controlling Fleet Maintenance Costs

- Fleet managers struggle to keep maintenance costs down while labor costs are increasing.
- Fleet managers are considering more private options for non core maintenance functions.
- Some fleet managers are investigating extended warranty programs to budget maintenance costs.

MERCURY

Impact On Maintenance Costs

- Reduced funds to maintain an aging fleet.
- Efforts to maximize cost savings by getting cost reductions from suppliers.
- Fleet managers trying to decide where mandated cuts in maintenance operation will cause the least amount of damage.
- Are you competitive or more expensive than private sector service providers?

MERCURY

Struggle To Maintain Service Levels While Cutting Costs

- Balancing customer service requirements with pressure to cut costs.
- Although encouraged to “think outside the box” fleet managers are often locked into “how does everyone else do it?”
- Fleets are working with manufacturers and up-fitters to develop multi-use vehicles to move away from the ‘one agency, one-use only’ vehicle.

MERCURY

Other Options: Fleet Downsizing & Utilization

- Downsizing is an issue more public sector fleet managers are facing today.
- How long should vehicles be kept in service?
- How much should a vehicle be used to justify retention?
- Unknowledgeable decision-makers mandate fleet reductions.
- Fleet managers get an undeserved bad reputation among users as when they have to become the “utilization police.”

MERCURY

Competition For Scarce Resources

- Fleet operations is low on the priority list for most governments.
- New State roads, buildings, jails, bridge repairs, and other competing projects take priority over fleet.

MERCURY

MERCURY

*Fleet Management
Trends in State
Government*

Vehicle
Operating Costs



Vehicles Being Kept In Service For Ever-longer Periods

- Across the board, fleets have been extending vehicle service lives.
- Improved vehicle quality allowing extended replacement cycling.
- In other instances, lack of budget is the cause.
- Caution: almost 35% of a vehicle's lifetime operating costs occur in the 68,000 to 80,000 mile range.

MERCURY

Trucks Are Being Kept In Fleet Service For Longer Periods

- More fleets are operating trucks at higher mileages which increase likelihood of major component failure.
- Higher miles and engine hours result in across the board maintenance increase, plus increased risk of catastrophic failure.

MERCURY

Maintenance Costs Have Been Relatively Flat...

- Low inflation past couple of years is on the rise...
- Stable national account pricing.
- Extended PM service intervals
- Majority of expenses – approximately 68% -- continue to be in PM and replacing wear items, such as tires and brakes.

MERCURY

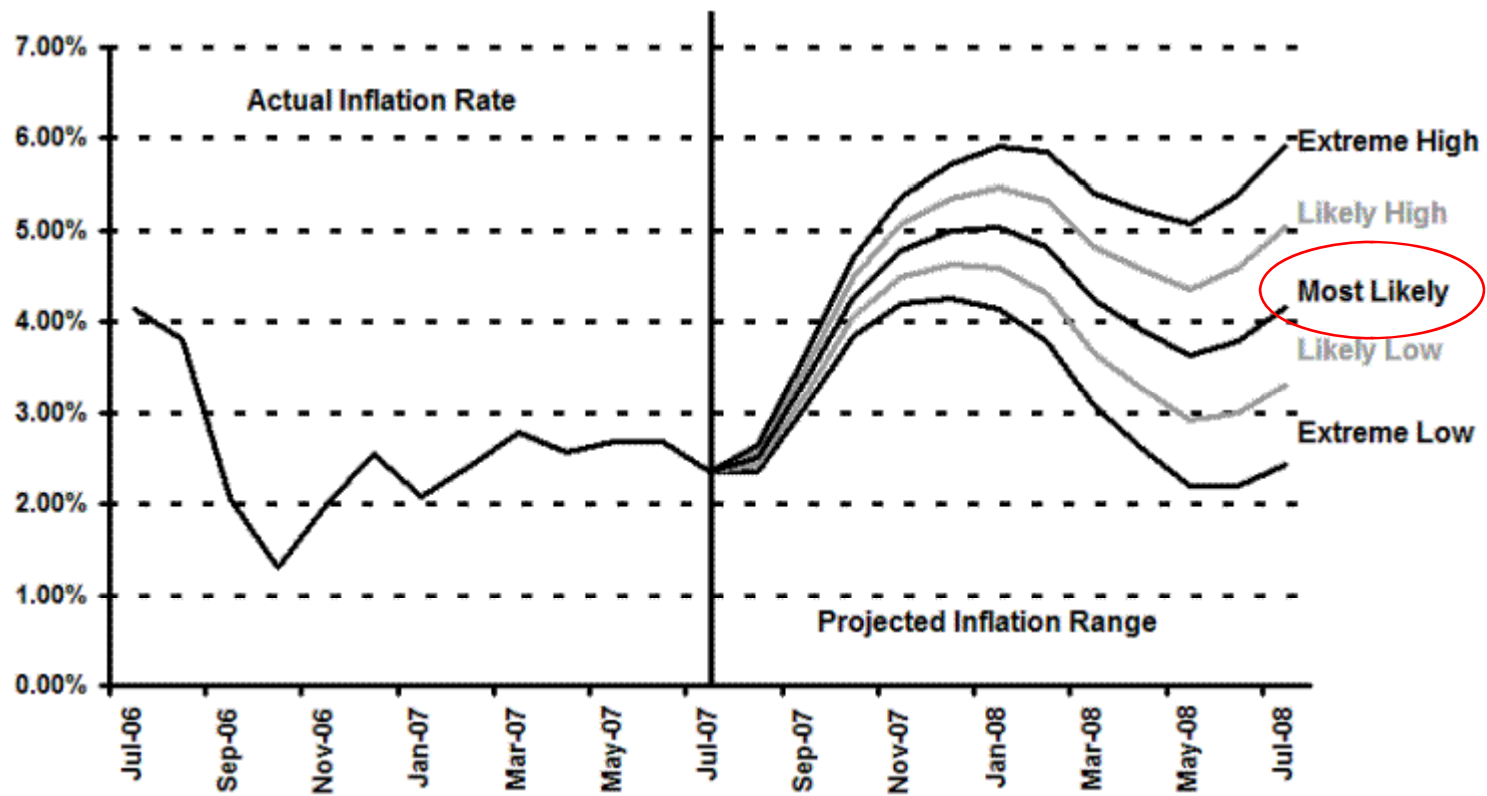
Moore Inflation Predictor (MIP)

© James Moore

Prepared By Timothy McMahon, Editor

Financial Trend Forecaster

Updated 8/15/2007



MERCURY

Best Practice For More Repairs In New-vehicle Warranty Period

- More repairs during the bumper-to-bumper warranty period. Current warranty issues are fuel pumps, AC, and alternators.
- Increased number of problems corrected under warranty is allowing fleets to run vehicles longer and to keep maintenance costs stable.
- Despite increase in warranty work, approximately 70% of all maintenance expenses are spent on PM and wear items such as tires and brakes.

MERCURY

Component Assembly Prompting Maintenance Cost Increase

- Best practice by manufacturers over past five years is to combine vehicle components into single modules.
 - Example: to replace a ball joint, you also have to replace a control arm since they are part of a single module.
 - Example: to replace a fuel gauge sending unit, requires replacing the fuel pump because they are a single module.

MERCURY

MERCURY

*Fleet Management
Trends in State
Government*

Fleet Tire Expenses



OEM Car Specs Are Increasing Replacement Tire Costs

- There are a growing number of vehicles equipped with larger diameter rims and lower profile tires as standard equipment to appeal to retail buyers.
- Lower profile tires cost about \$15 to \$20 more per replacement tire.
- Most standard tires run about 30,000-40,000 miles depending on how a person drives.
- Lower profile tires get about 5,000 to 7,000 miles less life.

MERCURY

Truck Tire Costs Are Increasing

- Manufacturers have migrated from 15-inch to 16-inch wheel diameters as standard equipment.
- As a result, replacement tires are more expensive.
- The increased cost of oil has also caused tire prices to increase.

MERCURY

Controlling Tire Expenses

- As a wear item, tires are second highest maintenance expense after normal PM.
- Average wear life for tires on intermediate size car is around 45,000 miles.
- Tire rotation critical to extending tread life. Recommended tire rotation interval is every third oil change or an average of every 15,000 miles.
- Drivers can extend tire life by maintaining recommended inflation pressures and performing walk-around inspections to examine tire wear pattern that may be caused by a worn suspension or an alignment problem.

MERCURY

MERCURY

*Fleet Management
Trends in State
Government*

Initiatives to Reduce Fleet
Maintenance Costs



Fleet Maintenance Initiatives

- Extend maintenance intervals.
- Increased use of tire retreads.
- Controlling up-selling of vendors
- Oil testing to extend oil change intervals.
- Factory use of long-life parts and fluids.
- Obtaining accurate odometer readings from all user departments to ensure proper pm intervals for their vehicles.

MERCURY

Diagnostic Equipment Provides Greater First-repair Resolution

- Reduced cost and availability of diagnostic equipment is helping to control maintenance costs by increasing the instances of first-repair resolution.
- Eliminates past practice of “throwing parts at a repair” to fix a problem.
- Problems more easily pinpointed.

MERCURY

MERCURY

*Fleet Management
Trends in State
Government*

Extending Oil Drain
Intervals



Emerging Best Practice To Extend Oil Change Interval

- Some fleets are extending their oil change intervals as a cost-cutting measure.
- Some are relying on vehicle onboard oil monitoring systems to determine oil change intervals.
- The oil life monitor system is on 95% of the vehicles produced by GM. Currently there are 20 million vehicles on the road using an oil life monitor system.
- Fleet management companies are cautioning client fleets about risk of drivers missing other PM intervals by only watching the oil monitor light.

MERCURY

MERCURY

*Fleet Management
Trends in State
Government*

Extending PM Service
Intervals



Extended Service Intervals

- Vehicle manufacturers are extending their recommended service intervals such as with spark plugs, transmission fluids, anti-freeze.
- On-board engine analyzers will change way fleets schedule PM. Oil sensors to alert drivers when it is time to change oil.
- Concern that drivers may come to regard vehicles as being maintenance-free resulting in PM neglect.

MERCURY

MERCURY

*Fleet Management
Trends in State
Government*

Truck Maintenance Best
Practices



Truck Maintenance Expenses Are Increasing

- Traditionally, many operating costs for light-duty trucks were lower than cars.
- But as pickups, vans, and SUVs become more car-like in their components, their maintenance expenses are beginning to parallel those of passenger cars.

MERCURY

Re-examination Of Vehicle Type For Fleet Applications

- More truck fleets are investigating feasibility of using compact pickups instead of full-size pickups to minimize acquisition costs.
- Downsizing to a half-ton instead of three-quarter ton van.
- Overloading is a risk since the vehicle is smaller but payload is not.

MERCURY

Overloading Is # 1 Cause Of Truck Maintenance Problems

- More fleets are seeking to lower their acquisition costs by selecting lower GVW trucks.
- Fleets are spec'ing trucks with lower than 26,000 lbs. GVW to avoid having to hire drivers who have a CDL.
- Due to the driver shortage, there is a limited number of cdl drivers and those that have cdls command higher salaries.

MERCURY

Overloading Creates An Unsafe Vehicle & Increase Liability Exposure

- Emergency handling capabilities of an overloaded vehicle, which may result in an accident.
- Braking distances increase, which can cause drivers to misjudge stopping distance.
- Tire failure rates are higher, because tires run hotter.
- Roadside weight checks (if applicable) could result in overloading fines, and possibly have the vehicle impounded until the problem is corrected.

MERCURY

MERCURY

*Fleet Management
Trends in State
Government*

Driver/User Accountability



Driver Accountability

- Fleets are struggling to get more accountability from drivers to take better care of their vehicles.
- Increasing pressure to ensure fleet drivers are complying with fleet policies and procedures and the ability of the fleet department to track compliance.
- With corporate downsizing, at some companies a lack of field management to monitor drivers.

MERCURY

Successful Fleets Getting Users To Take Better Care Of Vehicles

- Ongoing issue of operator misuse, abuse, and neglect.
- Some fleets are requiring vehicle and equipment users to perform pre-trip inspections.
- Fleet departments are seeking to identify the individuals who are abusing equipment.

MERCURY

Effect Of Driver Increased Communication

- Increased use of company intranet and e-mail to get vehicle information to drivers.
- Goal to increase driver compliance with fleet policies and to increase end user satisfaction with fleet department.
- Attempts to keep drivers updated with e-mails, newsletters, and paper mail is difficult.
- However, drivers inundated with e-mails. Often they do not read e-mails from fleet department, which means new fleet policies may not be read or if it is, it is just skimmed..

MERCURY

MERCURY

*Fleet Management
Trends in State
Government*

Recruiting, Training &
Retention Of Qualified
Technicians



Continued Shortage Of Qualified Technicians

- Ongoing difficulty in finding qualified technicians due to competitive job market.
- Loss of in-house technicians to private sector.
- Private sector pay tends to be higher.
- Government operations often lack the funds & resources to keep staff up-to-speed on technological changes.

MERCURY

Exodus Of Retiring Technicians

- Retirements. Some municipalities are reporting as much as 38% of technicians will be retiring in next 5 years.
- Operations lose institutional knowledge with these retirements.
- Difficult to replace retirees with qualified people.
- Biggest challenge is maintaining broad level of service in ever tightening labor market.

MERCURY

Technicians Not Keeping Pace With Technological Change

- Some fleet operations welcome technician retirements to replace those individuals who have become obsolescent by not keeping pace with technological changes.
- Ongoing struggle to keep trained and qualified mechanics, radio technicians, and emergency vehicle technicians on a government salary.

MERCURY

Coping With Shortage Of Qualified Workers

- Fleets are redoing technician job descriptions so that promotions and pay are based on performance and not seniority.
- Fleet are retaining retirees in a mentoring capacity. (i.e. Part time work)
- Encouraging older technicians to retire if they have not kept up with technology and their skills are becoming obsolete.
- Struggling to get additional dollars for continual training of personnel.

MERCURY

The Technician Shortage Will Only Get Worse

- The automotive industry loses approximately 60,000 technicians annually through attrition, retirement, promotions, or career changes.
- Only 2% of all high school students are interested in becoming an automotive technician.
- There will be an additional 35,000 new automotive service jobs created annually between 2003-2010.

MERCURY

New Technology Will Further Decrease Number Of Technicians

- The increasing integration of computers into automotive design is ratcheting up the skill set required by technicians.
- As vehicles become more high-tech there will be fewer qualified technicians on staff.

MERCURY

Budget Constraints Further Impact Staffing Difficulties

- Limitations on technician pay increases.
- Decrease in training funds.
- Decrease in tool allowance.
- All of this puts government agencies at a competitive disadvantage vs. Private sector in attracting technicians.
- Challenge to increase technician productivity.

Impact On Remaining Employees' Morale

- Minimum amount of money is spent on updating diagnostic tools. This has caused some younger technicians to leave for other jobs making it much worse for those who remain.
- Dealers are luring away the better mechanics with better wages and more comparable compensation and retirement packages.
- Many veteran technicians most likely would also leave but won't do so because they have invested so much in a non-portable retirement system.

MERCURY

Balancing Staffing Levels With Workload

- The challenge is keeping enough personnel to perform quality repairs at a reasonable cost with minimal downtime.
- Volume and type of service work varies by season and as you acquire new vehicles.
- Staffing is not about ratio of vehicles to technicians. It more important as to who the technicians are and their skill level.
- If you need a technician skilled for heavy-trucks, you need to recruit that kind of technician.

MERCURY

In-house VS. Outside Training

- New vehicle technology is creating training issues for technicians and managers.
- Balancing act. Do you send a technician out for training with every new piece of equipment?
- Manager must assess skills of staff and determine when training costs can be justified.
- Sometimes training aids and material can be requested during the bid/specification process.
- Developing an in-house program helps especially when a large number of employees would benefit or if there is a high attrition rate.

MERCURY

Manufacturer-provided Training

- Some manufacturers will bring their factory training class to your facility for little or no cost.
- Outside training should be saved for very specialized equipment and possibly reserved for only the more tenured employees.
- At very least, always remember to write into your specifications to require copies of the repair maintenance, parts, and operators manuals for each unit.

MERCURY

Advantages For Technicians To Work For The Public Sectors

- Attractive benefit packages.
- Better health insurance coverage.
- Pension plans.
- Greater number of paid holidays.
- A more stable work environment.
- In some cases, union membership.

MERCURY

Proactive Solutions To The Technician Shortage

- Develop strategic alliance with local community colleges and vocational training centers to find the best mechanics and nurture them as prospective future employees.
- Create mentoring programs.
- Some fleets have created scholarship programs for students interested in studying automotive and fleet maintenance.
- Creating multi-tier job descriptions.

MERCURY

MERCURY

Thank You!
Questions?

Steve Saltzgiver
ssaltzgiver@mercury-assoc.com

