



# National Conference of State Fleet Administrators (NCSFA)

**Mission:** "NCSFA provides its members with proactive networking and political forum, bringing State Fleet representatives together to educate, inform, problem solve and instruct members on current fleet management policies, procedures and exchange of ideas, solutions and technology..."

## 2008 NCSFA Officers

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## NCSFA Position Statement

### Overview

NCSFA supports regular and timely replacement of fleet vehicles and equipment in order to maximize organizational efficiencies and reduce the overall life cycle costs of owning and operating vehicles. Best management practices dictate that a sound replacement program includes one or more of the following characteristics:

- Replacement funds are expended annually by an organization to replace vehicles no longer cost effective to operate,
- Cost center is utilized to capture the total costs of vehicle ownership. (e.g. Internal Service Fund, Equipment Fund, Enterprise Fund, etc)
- Fleet Management Information System and an ongoing reporting process is in place to analyze vehicle cost data on a regular basis,
- Management policies and processes are in place to ensure the size of the fleet is appropriate and vehicle utilization is monitored regularly to right-size the fleet,
- Regular planning takes place to determine the appropriate life cycles for vehicles in the fleet and a long range replacement plan is in place,
- Processes have been implemented to smooth the peaks and valleys associated with funding future replacements and mechanisms are in place to meet the funding goals and objectives,
- Various funding mechanisms are explored and the organization uses the approach best suited to reduce the total cost of ownership. (e.g. cash appropriations, establish reserve funds, utilize debt financing, etc.),
- Replacement program is self sufficient (i.e. not subject to political whims) to avoid vehicle replacement deferral which may increase future vehicle operating costs.

### Background:

The management of fleet vehicles and equipment is a complex endeavor and should be taken seriously by government organizations to mitigate risks, increase safety, and reduce overall costs. The National Conference of State Fleet Administrators (NCSFA) is a non-profit organization with approximately 200 dedicated fleet professionals. The goal of NCSFA is to improve the overall effectiveness and efficiency of its members through education and ongoing peer-to-peer networking opportunities. Our professional organization serves the needs of members who manage fleets of automobiles, SUVs, trucks and vans, and a wide range of specialized mobile equipment for customers in the many state and university owned fleets throughout the United States. NCSFA provides its members a range of products and services, including member surveys, web site, analytical tools, sharing of statistical information, benchmarking, best management practices, quarterly newsletter publications, position papers, fleet professional recognition award programs, and an annual conference and trade show.

The organization was founded over 20 years ago in 1987 to promote communication, fleet management education, and individual growth among fleet professionals involved with the management of state and university fleet programs. State and university fleets account for more than 500,000 vehicles nationwide and represent annual purchasing volumes in excess of approximately \$17.7 billion. By nature of their positions in state governments, our members are the primary decision makers in their respective organizations on matters of fleet and fuel management. Our focus has been to concentrate on building both the professional and management skills of our members. We accomplish this, in part, by bringing together industry vendors to share what the services and products available to help the fleet managers become more effective and efficient in their job and coming together to learn what is available and new from our vendors to make the fleet job more effective and efficient.

### Discussion:

The economic theory of vehicle replacement is well known to most knowledgeable fleet administrators.



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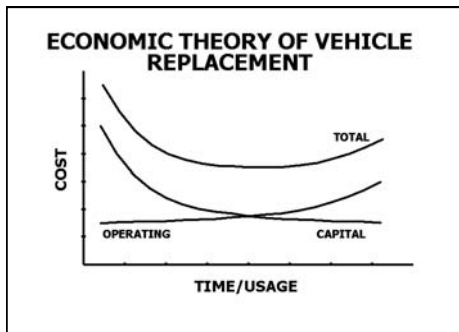
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As a vehicle ages, the capital cost of the unit decreases, and its operating cost increases. The combination of these two costs produces a U-shaped total cost curve. Ideally, a piece of equipment should be replaced around the time that its annual operating costs begin to outweigh its annual capital costs – that is, when the two cost curves intersect and the total cost curve begins to turn upward. (See sample graph above) Government organizations that have actually quantified the life-cycle costs of particular types of vehicles and equipment in their fleet generally find that the total cost curve is relatively shallow or flat at the bottom. This suggests that there is not a single point in time at which an asset should be replaced in order to minimize its total life-cycle cost, but a period of time – often lasting as much as two or three years in duration – during which it can be replaced. One important limitation of this graphical presentation is that considers only the direct costs associated with vehicle and not the indirect costs. Deferring replacement purchases for one or more years – as some government fleet organizations have chosen to do in economic downturns – in order to accommodate temporary budget constraints, will always drive up direct fleet operating expense (principally maintenance and repair) in the short term, and will generally drive up total fleet costs in the long term.

Decision makers who assume that cutting replacement purchases is a good way to help balance the budget need to understand that such cuts will not only transfer fleet costs from the capital to the operating side of the general ledger, but will usually increase the total cost of the fleet, and negatively affect overall governmental indirect costs. (e.g. reduced employee productivity, safety, increased cost of alternative transportation, etc.) The deferral of replacement purchases unquestionably increases future replacement spending needs, often resulting in growing and increasingly unmanageable equipment replacement backlogs.

#### Problem Identification:

A number of state budget driven decisions over recent years have identified vehicle replacements as a critical issue justifying a position statement by NCSFA on behalf of its members.

- **Even during good economic times, securing sufficient funds to replace vehicles and equipment in a timely manner is a challenge for many government organizations. This challenge stems in part from a lack of understanding of the interrelationship between fleet capital and operating costs (that is, the fact that reductions in fleet replacement spending are offset by resultant increases in fleet operating costs). In addition, some management decision makers do not fully appreciate the role the fleet plays in supporting a state or agency's primary mission, whatever it may be. Intellectually, they may not fully understand that vehicles and equipment are essential tools for directly or indirectly supporting the delivery of goods and services.**



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- Many government entities making decisions to extend vehicle life cycles during lean economic times often find themselves in a much worse financial position after the decision is made. This worsened condition translates into an aged and less reliable fleet and a backload of depleted assets so large that it is next to impossible to fund adequate replacements.
- During times of fiscal hardship decision makers may be quick to cut funding for vehicle replacements in the belief that the purchase of vehicles is at least to some degree a discretionary expense that can be deferred without serious operational consequences. Several government agencies around the nation have unwisely extended vehicle life cycles beyond reasonable levels in an effort to reduce costs. These decisions were usually made without fully understanding the effect on the total cost of the fleet operation.
- Decisions by government officials in most cases do not reflect an appreciation of the importance of vehicles as essential tools for providing services to their citizens, and they reflect a lack of understanding of the economic basis for regular vehicle replacements. They are driven all too often by the immediate need to cut capital without fully analyzing the overall impact of such cuts.

#### **Conclusions/Recommendations:**

It is NCSFA's opinion that ill-informed political decisions, that dramatically reduce regularly scheduled fleet replacements, not only fail to provide the anticipated budgetary savings but actually increase the total overall costs of operating fleet equipment.

The National Conference of State Fleet Administrators supports joint efforts at all government levels that enables elected/executive officials to work more closely with designated fleet administrators to arrive at more prudent vehicle replacement decisions. These decisions should be based on life cycle data produced by the fleet management agency, and if necessary, validated by auditors or reliable third-party unbiased contractors. Conversely, when a government entity initiates a vehicle replacement reduction based only on a short-term politically expedient decision to temporarily reduce fleet acquisition costs, they will almost always find themselves in a much worse condition in the future.