Agenda – Executive Policy Committee – September 10, 2019

REPORTS

Item No. 9 City of Winnipeg (Fleet Management Agency) Process for Acquisition of Specialized Vehicles and Equipment

STANDING COMMITTEE RECOMMENDATION:

On July 5, 2019, the Standing Policy Committee on Finance recommended to the Executive Policy Committee that Fleet Management be directed to provide an update to the Standing Policy Committee on Innovation by March 31, 2020 on discussions and joint efforts with the Province of Manitoba in coordination with the Vehicle and Equipment Management Agency (VEMA) to find efficiencies as well as opportunities for vehicle and equipment acquisition under the New West Partnership.

DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On July 5, 2019, the Standing Policy Committee on Finance recommended to the Executive Policy Committee that Fleet Management be directed to provide an update to the Standing Policy Committee on Innovation by March 31, 2020 on discussions and joint efforts with the Province of Manitoba in coordination with the Vehicle and Equipment Management Agency (VEMA) to find efficiencies as well as opportunities for vehicle and equipment acquisition under the New West Partnership.

STANDING COMMITTEE RECOMMENDATION:

On April 11, 2019, the Standing Policy Committee on Finance passed the following motion:

THEREFORE BE IT RESOLVED THAT the Winnipeg Public Service provide a report within 90 days on the City of Winnipeg's process and financial implications for the acquisition of specialized vehicles.

ADMINISTRATIVE REPORT

Title: City of Winnipeg (Fleet Management Agency) process for acquisition of specialized vehicles and equipment

Critical Path: Standing Policy Committee on Finance

AUTHORIZATION

Author	Department Head	CFO	CAO
J. Chammartin	D. Konowich	P. Olafson, Interim CFO	M. Ruta, Interim CAO

EXECUTIVE SUMMARY

The Fleet Management Agency (the Agency) utilizes fleet capital leases for budgeting and chargeback of vehicles and equipment for the City of Winnipeg. The use of one consistent practice increases transparency and comparability of fleet charges across the City of Winnipeg. It also avoids year-over-year variances in budgets and results in consistent operating charges to departments as the fleet lease is paid over the life of the vehicle.

The Agency defines specialized vehicles as those that are unique, purpose-built vehicles which are only available from a limited selection of vendors or manufacturers. On rare occasions, specialized vehicles and equipment have been procured and charged to other department capital and/or operating accounts. However, the Agency's standard practice is to acquire specialized vehicles though the same process as all other vehicles and equipment.

RECOMMENDATIONS

1. That this report be received as information.

REASON FOR THE REPORT

At its April 11, 2019 meeting, the Standing Policy Committee on Finance requested that the Winnipeg Public Service provide a report back within 90 days on the City of Winnipeg process and financial implications for the acquisition of specialized vehicles.

IMPLICATIONS OF THE RECOMMENDATIONS

There are no implications of the recommendations as the report is to be received as information.

HISTORY/DISCUSSION

On May 28, 2003, City Council adopted the Winnipeg Fleet Management Agency Selection Report. It recommended the Equipment and Material Services operation of the Public Works Department commence operations as a Special Operating Agency effective January 1, 2003.
The Agency provides economical, state-of-the-art, safe and eco-friendly fleet vehicle, equipment and other asset management services to The City of Winnipeg in support of their service delivery.

The Concept of Operations for the SOA per its Council approved operating charter is fair and efficient delivery of services to a diverse client base. The Agency shall provide fleet management services to a number of City of Winnipeg departments and agencies and may provide services to other public sector organizations. The Agency shall manage a fleet of approximately 1,700 units, ranging from riding mowers to heavy machinery. Life Cycle Cost Management shall be the model implemented to manage the operations.

The operating charter also indicates that The Agency shall provide full service leasing. The Agency may enter into lease agreements with the customers. The Agency shall have the right to provide services with or without lease agreements.

Since inception, Fleet Management Agency has been acquiring vehicles and equipment for all City of Winnipeg departments except Transit buses. Fleet capital leases have been used as a budgeting and chargeback mechanism for procurements of light, heavy & specialized vehicles and equipment. Fleet Management Agency incurs the capital cost in the Fleet Asset acquisition capital project which is financed primarily through external debt. Fleet charges a capital lease operating expense to the department to recoup the costs of the vehicle less residual value plus interest on debt and administrative costs. See Table A for a breakdown of fleet capital lease charges for an example vehicle over various lease terms (residual amounts vary depending of type of asset being procured).

TABLE A

	5 Year lease	7 Year lease	12 Year lease	15 Year lease
Purchase Cost	$ 100,000	$ 100,000	$ 100,000	$ 100,000
Estimated Interest Rate	3.60%	3.80%	4.25%	4.50%
Admin (2% on 10 yrs or less, 1% if lease is over 10 yrs)	2%	2%	1%	1%
Estimated Residual Value	$ 5,000	$ 5,000	$ 5,000	$ 5,000
Monthly payment	$ 1,842	$ 1,403	$ 912	$ 799
Total of all payments over term	$ 110,540	$ 117,843	$ 131,397	$ 143,846
Total interest cost	$ 9,848	$ 14,674	$ 28,990	$ 39,189
Total admin cost	$ 5,692	$ 8,169	$ 7,408	$ 9,657
Purchase cost % of lease charges	85.9%	80.6%	72.3%	66.0%
Interest cost % of lease charges	8.9%	12.5%	22.1%	27.2%
Admin cost % of lease charges	5.1%	6.9%	5.6%	6.7%

The Fleet capital lease includes all costs related to the procurement of vehicles and equipment. A fleet replacement plan is reviewed with departments annually, and estimated capital lease costs are included in the respective department operating budgets. This is the recommended process for acquisition of all vehicles and equipment.

Specialized Vehicles

The Fleet Management Agency defines specialized vehicles as those that are unique, purpose-built vehicles which are only available from a limited selection of vendors or manufacturers. On rare occasions, specialized vehicles and equipment have been procured and charged to other department capital and/or operating accounts. In these cases, the entire invoiced cost of the vehicle is charged directly to the department at one time.

The Fleet Management Agency will also charge the department a specification fee in order to recoup its administrative costs, however interest charges on debt are avoided by the department if charged to its operating or “cash to capital” financed capital budget. Neither of these approaches is recommended by Fleet Management Agency. See Table B below for a comparison of chargeback methods:

TABLE B

	Cost of the vehicle charged over the life of the asset?	Accurately reflects the full cost of asset ownership to the City across multiple years?	Ensures comparability of fleet capital costs across departments and years?
Fleet Capital Lease	YES	YES	YES
One time charge to department capital budget	NO	NO	NO
One time charge to department operating budget	NO	NO	NO

As a standard practice, the Fleet Management Agency utilizes fleet capital leases for budgeting and chargeback of specialized vehicles and equipment for the City of Winnipeg. The use of one consistent practice increases transparency and comparability of fleet charges across the City of Winnipeg. It also avoids year-over-year variances in budgets which would occur if fleet vehicles were regularly included in department budget submissions and results in consistent operating charges to departments as the fleet lease is paid over the life of the vehicle.

Appendix 1 analyses and compares the operating budget impact of the upfront payment method as compared to the fleet leasing model for an example purchase in 2019.

The main implication of the upfront payment approach is that the Public Service will be required to fully fund at the time of the initial purchase. For example, if a department purchased a specialized vehicle in the amount of $100,000 in 2019 and paid for it with either 2019 operating funding or 2019 “cash to capital” funding, the City would be required to fully pay for the $100,000 in 2019.

Under the Fleet lease, assuming a 12-year capital lease and mid-year acquisition, the capital cost of the unit would be spread over 13 taxation years beginning in 2019. The Public service would be required to collect $5,472 in property taxes in 2019 and then $10,944 annually in years 2020 to 2030 and then $5,472 in the final year. Total payments over the lease term would be $131,328 in this example.

In summary, the Fleet lease charges departments over an extended period and matches the cost to the asset’s useful life. It is not until somewhere between year 9 and 10 that $100,000 has been funded.

The upfront payment method, in comparison, results in the total cost to the City over the life of the asset being reduced as no interest costs are incurred if payment is made upfront at the time of purchase. However, an increase in operating or cash to capital budgets would be required immediately.

FINANCIAL IMPACT

Financial Impact Statement **Date:** June 11, 2019

Project Name:

City of Winnipeg process for acquisition of specialized vehicles and equipment

COMMENTS:

There are no financial implications to the recommendations of this report.

"Original signed by J Chammartin, CPA, CGA"
Joseph Chammartin, CPA, CGA
Manager of Finance
Fleet Management Agency

CONSULTATION

This Report has been prepared in consultation with:

Corporate Finance Department

OURWINNIPEG POLICY ALIGNMENT

01-3 Prosperity Direction 1 Provide Efficient and Focused Civic Administration and Governance. This report supports demonstration of accountability by the City's public service through consistent practice regarding acquisition of fleet vehicles and equipment.

SUBMITTED BY

Department: Fleet Management Agency
Division: Finance
Prepared by: Joseph Chammartin
Date: June 11, 2019

Attachments:

Appendix 1 – Example Operating Budget Impact to the City