

Fleet Privatization

Briefing to the
City Council Finance, Audit and Accountability Committee
City of Dallas
September 26, 2005

Purpose

- Review of the Request for Bids (RFB) process, bid pricing and City Manager's recommendation for privatization of fleet maintenance and repair services

Background

- Equipment Services division of Equipment & Building Services (EBS) department maintains City's 4,600-unit fleet
 - Most fleet services performed by City employees in five major service centers
 - Some specialized work (i.e., body repairs, transmissions) provided by private vendors
- In 2003, Equipment Services' bid was selected over those submitted by three private vendors in managed competition process
 - City staff committed to re-evaluate fleet services costs in subsequent years

Background

- Target/Non-Target Repair Classification System
 - Adopted by EBS in FY2003-04, this industry practice allows for more accurate pricing of predictable repairs and more insight and control of unpredictable repairs
 - Target Repairs
 - Normal, predictable repairs due to mileage, age, and usage and regularly scheduled preventive maintenance (PM)
 - Non-Target Repairs
 - Unplanned, unpredictable repairs necessitated by accidents, abuse, or misuse of equipment, as well as vandalism, acts of nature, and vehicle modifications

Background

- Equipment Services costs exceeded budgeted amount in FY03-04 by \$2.1M and are forecasted to exceed the FY04-05 budget by approximately \$0.7M
 - Budget overruns have been attributed to unexpected, unpredictable, non-target repairs
 - Equipment Services has exceeded availability performance requirements to satisfy user departments' needs
- In May 2005, City initiated RFB process for privatized fleet maintenance and repair services for five-year term
 - Equipment Services did not submit a competing bid
 - Objectives were to reduce overall fleet maintenance costs and increase overall fleet operating efficiencies while maintaining equipment availability levels provided by EBS

Key Elements of the RFB

- Classifies repairs using modified Target and Non-Target system
 - Modification adds wear/tear to target repairs
- Focus on Equipment Availability
 - Five equipment classes distinguished by needed availability
 - Availability requirements based on all repairs, not just target repairs, and increased to EBS-provided levels
- Total Cost Solution
 - Includes fixed target price, rates and estimated hours for non-target services, rates and estimated hours for outsourced non-target services

Key Elements of the RFB

- Bid Structure Options
 - Allowed for the comparison of complete and partial privatization of fleet services
 - Pricing for citywide fleet services for all equipment
 - Pricing by each of 5 individual equipment classes
 - Pricing for Central and/or Southeast service centers
- Displaced City Employees
 - Selected Contractor will interview displaced City workers for employment
 - Displaced workers who wish to continue working for the City will be assisted in searching for jobs in other areas of the organization
- Fleet Functions Retained by City
 - EBS will continue management of replacement program, specifications development, make-ready operations, fuel management, and outside fleet rental

Key Elements of the RFB

- Transition period
 - Vendors submitted implementation plans
 - Transition to Contractor services anticipated to be completed by December 31, 2005
- Fleet Assessment Period
 - Contractor must identify pre-existing conditions on initial visit by each unit and within first six months after startup and major repairs may be considered non-target
 - City retains right to approve all non-target repairs for identified pre-existing conditions, but should anticipate higher non-target costs during this six month period

Evaluation Process

- Best Value Criteria
 - Award of contract to bid determined to represent best value to the City
- Evaluation Criteria
 - Total Bid Price (40%)
 - Bidder's operational and management plan (25%)
 - Extent to which services meet City's needs (20%)
 - Reputation and quality of bidder services (15%)
- Evaluation Committee comprised of City staff, with advisory members from the Council's Commission on Productivity and Innovation (Appendix A)

Evaluation Process

- Bids received June 24, 2005
 - First Vehicle Services [FVS], Cincinnati, OH
 - Serco Group, Inc., Gibbsboro, New Jersey
- Evaluation committee scoring compared both vendor-submitted bids and identified the best value to the City as follows:
 - For full fleet privatization, FVS deemed best value over Serco
 - For equipment class privatization:
 - FVS bid deemed best value over Serco for Sanitation Heavy, Sanitation Automated and Patrol classes
 - Serco bid deemed best value over FVS for Other Light and Other Heavy equipment classes

Evaluation Results

- City Manager's recommendation developed based on vendor costs and experience, and risks to City services, as compared to current EBS performance and costs
- Identified greater annual savings potential through privatization of separate equipment classes (Appendix B)
 - Full fleet privatization option
 - FVS bid offered potential savings of \$2.39M over City's price
 - Equipment Class privatization options
 - FVS Patrol Class bid: potential savings of \$0.88M over City's price
 - FVS Sanitation Heavy Class bid: potential savings of \$2.65M over City's price
 - Serco Sanitation Automated Class bid: potential savings of \$0.18M over City's price
 - Vendor bid prices for Other Light and Other Heavy equipment classes, and Central and SE service centers did not offer any savings over City's costs

Evaluation Results

- Assessed high risks to City services for full, patrol and automated options
 - Largest comparable fleet maintained by FVS in Pittsburg, PA, is more than 75% smaller than Dallas fleet
 - Contingency plan issues for 4,600 unit fleet if vendor proves unsuccessful
 - Patrol class privatization has high risk to public safety services
 - Complexity of logistics to share space in all service centers with vendor reduces potential for full annual savings of \$0.88M for Patrol class
 - No experience with Sanitation automated truck maintenance
- Greatest benefit to City through single privatization of Sanitation Heavy equipment class

Privatization Option

- Equipment Class Privatization
 - City staff requested that FVS affirm their pricing for Sanitation Heavy class, as it offered the greatest benefit to City
 - FVS withdrew their bid effective Aug. 18, 2005
 - Stated pricing by equipment class was not firm because RFB omitted information on the number, location, configuration of service centers, as well as fleet assignments
 - Vendor did not request this information during the specified period for questions
 - Serco has affirmed all bid pricing as submitted
 - Potential yearly savings of \$0.91M for Sanitation Heavy class
 - Savings in FY05-06 likely lessened due to 9-month contract term, implementation costs in first contract year

Recommendation

- Council consideration for award of a 57-month contract with the Serco Group, Inc., for fleet maintenance and repair services of Sanitation Heavy equipment as a pilot fleet privatization program

Sanitation Heavy Class

- Units are 6.4% of total fleet, but costs account for 23% of total fleet maintenance expenses
- 293 units included in class:
 - 55 rear-loaders used for trash collection
 - 79 brush trucks and 77 trailers for brush trash pickup
 - 39 rotobooms for brush/bulky trash pickup
 - 19 transfer trucks and 24 trailers used for moving trash from three transfer stations to landfill
- Presently, equipment is maintained in five service centers throughout the city
- Availability requirement is 90% for all repairs

Potential Risks

- Limited vendor experience with similar equipment
 - Winter transition allows for learning curve while units are used for fewer brush/bulk trash pickups
 - Contingency services available through EBS heavy shop and Sanitation landfill shop
- Unknown cost for repair of pre-existing conditions
- Vendor bid to perform all repairs using half the total actual hours used by the City in preceding 12 month period (Appendix C)
- Vendor bid has significantly higher outsourced, non-target hourly rate (Appendix C)

Implementation

- Eliminate 28 positions
 - Actual number of RIF employees being determined
- Add one Contract Administrator, \$75,000
- Reassign all Sanitation Heavy units to SW service center for vendor maintenance
 - Approximate one-time \$50,000 cost to prepare separate facility space for Serco and City
 - One-time \$450,000 cost for additional paved parking
 - Sanitation Services equipment to be consolidated to three service centers from five

Schedule

- Briefing to Commission on Productivity & Innovation, September 26, 2005
 - CPI also briefed in June and August 2005
- Briefing to Finance, Audit and Accountability, September 26, 2005
- City Council consideration for award of contract, October 12, 2005
 - \$16.4M, fifty-seven (57) month contract
 - Initiate implementation, October 12, 2005
- Complete phase-in, December 31, 2005

Appendix A

- Evaluation Committee
 - Mary Nix, Director, Sanitation Services
 - Randy Payton, Fleet Manager, DWU
 - Sgt. Allan Brown, Fleet Manager, Police
 - Kris Sweckard, Director, Efficiency Team
 - Dewayne Jackson, Assistant Director, EBS
- Commission on Productivity & Innovation (CPI)
Advisory Members
 - Larry Davis, Chair
 - Don Herring, Jr.

Appendix B

First Contract Year Pricing								
	Entire Fleet	Patrol	Other Light	Sanitation Automated	Sanitation Heavy	Other Heavy	SE Service Center	Central Service Center
FVS Price (Withdrawn)	\$15.89M	\$3.27M	\$4.30M	\$3.85M	\$1.42M	\$3.04M	\$3.98M	\$4.47M
Serco Price	\$18.73M	\$3.97M	\$4.91M	\$3.76M	\$3.16M	\$4.72M	\$5.78M	\$6.22M
EBS Price	\$18.28M	\$4.15M	\$3.69M	\$3.94M	\$4.07M	\$2.42M	\$2.95M	\$4.20M
EBS - FVS Difference (Withdrawn)	\$2.39M	\$0.88M	(\$0.61M)	\$0.09M	\$2.65M	(\$0.62M)	(\$1.03M)	(\$0.27M)
EBS - Serco Difference	(\$0.45M)	\$0.18M	(\$1.22M)	\$0.18M	\$0.91M	(\$2.30M)	(\$2.83M)	(\$2.02M)

Appendix C

	Serco Group	EBS
Target Hours	9,791	N/A
Total Target Cost	\$1,773,684	N/A
Non-Target Hours (Est.)	12,231	N/A
Non-Target Rate	\$69.15 in-house \$93.00 outsourced	N/A
Total Non-Target Cost (Est.)	\$1,381,969	N/A
Total Hours (Est.)	22,022	44,565
Total Cost (Est.)	\$3,155,653	\$4,070,943
		Estimated Savings: \$915,290