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

<table>
<thead>
<tr>
<th></th>
<th>Entire Fleet</th>
<th>Patrol</th>
<th>Other Light</th>
<th>Sanitation Automated</th>
<th>Sanitation Heavy</th>
<th>Other Heavy</th>
<th>SE Service Center</th>
<th>Central Service Center</th>
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<tbody>
<tr>
<td><strong>FVS Price</strong></td>
<td>$15.89M</td>
<td>$3.27M</td>
<td>$4.30M</td>
<td>$3.85M</td>
<td>$1.42M</td>
<td>$3.04M</td>
<td>$3.98M</td>
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<td><strong>Serco Price</strong></td>
<td>$18.73M</td>
<td>$3.97M</td>
<td>$4.91M</td>
<td>$3.76M</td>
<td>$3.16M</td>
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<td><strong>EBS Price</strong></td>
<td>$18.28M</td>
<td>$4.15M</td>
<td>$3.69M</td>
<td>$3.94M</td>
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<td>$2.42M</td>
<td>$2.95M</td>
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<td><strong>EBS - FVS Difference</strong> (Withdrawn)</td>
<td>$2.39M</td>
<td>$0.88M</td>
<td>($0.61M)</td>
<td>$0.09M</td>
<td>$2.65M</td>
<td>($0.62M)</td>
<td>($1.03M)</td>
<td>($0.27M)</td>
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<td><strong>EBS - Serco Difference</strong></td>
<td>($0.45M)</td>
<td>$0.18M</td>
<td>($1.22M)</td>
<td>$0.18M</td>
<td>$0.91M</td>
<td>($2.30M)</td>
<td>($2.83M)</td>
<td>($2.02M)</td>
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## Appendix C

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<tr>
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<th>Serco Group</th>
<th>EBS</th>
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<tr>
<td>Target Hours</td>
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<tr>
<td>Total Target Cost</td>
<td>$1,773,684</td>
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<td>Non-Target Hours (Est.)</td>
<td>12,231</td>
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<td>Non-Target Rate</td>
<td>$69.15 in-house</td>
<td>N/A</td>
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<tr>
<td></td>
<td>$93.00 outsourced</td>
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<tr>
<td>Total Non-Target Cost (Est.)</td>
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<tr>
<td>Total Hours (Est.)</td>
<td>22,022</td>
<td>44,565</td>
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<tr>
<td>Total Cost (Est.)</td>
<td>$3,155,653</td>
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Estimated Savings: $915,290