

Fleet Maintenance Privatization Update

Finance, Audit, and Accountability Committee – May 29, 2007



Overview

- Review year one of pilot privatization of fleet maintenance and repair services
 - Savings realized – anticipated approximately \$900K savings from privatization
 - Availability needs generally met – 88.8% overall fleet availability
- Discuss continuation of privatization of fleet maintenance at Southwest Service Center

Background

- City initiated RFB process in May 2005 to consider full or partial privatization of fleet maintenance and repair services
 - Target and Non-target repair classification system used (defined in appendix)
- Objectives of privatization
 - Reduce overall fleet maintenance costs
 - Maintain equipment availability level
- Process showed greatest savings with acceptable risk level to be pilot and partial privatization

Background

- Oct 2005, Council authorized 57-month contract with Serco Management Services, Inc. not to exceed \$16.43m
- Serco to maintain Sanitation Heavy Equipment class
 - 23% of total fleet maintenance cost
 - 6% of total fleet inventory
- Transition to Serco effective Jan 9, 2006
- Although 28 City positions eliminated, no employee lost City employment as result of privatization

Objective 1: Reduce Cost

- City saved about \$900K through privatization - Serco performing maintenance as compared to estimate for City to provide service
 - All Target repairs are included in set fee regardless of amount of work
 - Serco estimate hours - 9,791; actual hours - 22,314
 - More hours does not impact cost to City since contractor liable for excess Target hours/costs
 - Non-target cost based on actual labor and parts
 - Serco estimate hours - 12,231; actual hours - 4,178
 - Fewer hours results in more savings

Objective 1: Reduce Cost

- City planned to use part of savings for start-up and implementation tasks
 - Contract Administrator - \$75K
 - One-time cost to modify garage - \$55K
 - Anticipated one-time cost to construct parking - \$450K - Not needed – funds kept as savings
- Additionally, contract repair cost avoided
 - Reductions occurred in inventory assigned

Objective 2: Availability

- Serco generally met availability needs
 - Serco performing at 88.8% (through Apr 2007)
 - Contract specifies 90% availability per day
- Liquidated damage (\$200/day) charged when standard not met
 - \$32,000 to date
 - 160 (50.3%) days below required 90% level
 - 158 (49.7%) days above required 90% level

Lessons Learned Through Year One

- Maintain specific and detailed definition of Target vs. Non-target repair
- Increase specificity of availability requirements
 - By various types of equipment rather than one overall requirement
 - Accurately reflect operational needs
- Expand liquidated damages
 - Escalate charge – less availability results in greater charge
 - Escalate charge when requirements missed on consecutive days
- Increase specificity of how emergency and non-routine situations will be handled
 - Such as – ability to require increased work/hours of contractor; City staff assist in repair work, etc.
- Address staff/driver accountability expectations
- Better define pre-existing condition of fleet

City Auditor Report

- Audit of 9 months of contract showed:
 - City effectively monitors contract with Serco
 - City realized cost savings in excess of amount estimated
 - City did not incur start up cost at level estimated
 - Serco has performed repairs, but not met contract availability requirements
 - Liquidated damages resulting from availability issues not assessed timely
- Recommendations
 - Address availability requirements
 - Assess and collect liquidated damages

Summary of Year One

- Objective 1 – Reduce overall fleet maintenance costs
 - City did realize savings as result of pilot privatization
 - City benefited from Serco providing more repair service within fixed Target fee than estimated
- Objective 2 – Maintain fleet availability
 - Overall availability very close to 90% standard and generally met operational need
- Continue to closely monitor contract
 - Amount of labor hours (cost) compared to revenue may affect performance

Recommendation

- Consider additional privatization of fleet maintenance and repair services
 - Continue to seek cost savings while maintaining availability
 - Manage risk with phase-in approach
 - Select privatization of “site” over “vehicle class” due to logistic issue

Recommendation

- Recommend issuing RFB for possible privatization of Southwest Service Center maintenance facility
 - Currently serves 12 City departments and wide variety of City fleet – 684 units or 14%
 - Marked Squad – 113
 - Light Equipment – 416
 - Heavy Equipment – 155
 - Sanitation Automated – 0
 - Sanitation Heavy – 0 (already privatized)
 - Positions currently assigned to Southwest Service Center would be eliminated
 - 15 positions (eliminate 17; add 2 contract administrators)
 - During first phase, no City employee lost their job when 28 positions were eliminated

Next Steps

- Initiate procurement process with specifications written by EBS and bid closing in late July
 - Include “lessons learned” in RFB
- Evaluate bids for possible privatization of Southwest Service Center maintenance facility in FY 2007-08 budget recommendation

Appendix

Target Definition

- Target services are generally routine vehicle maintenance and repair activities that are reasonably predictable and lend themselves to projection and estimation
 - Types of maintenance and repair include, but are not limited to:
 - Preventative maintenance
 - Inspection activities
 - Failures due to wear and tear
 - Remedial repairs
 - Repairs necessitated by damage during proper operational use
 - Annual fixed cost for all target repairs
 - Contractor liable for all costs exceeding projected target fixed cost

Non-Target Definition

- Non-target services are generally variable in nature, and not predictable; generally dependent on the actions or decisions of individuals other than those who are providing maintenance services, such as vehicle operators and management personnel
 - Non-target services include repairs resulting from:
 - Accidents
 - Vandalism
 - Driver abuse
 - Acts of nature
 - Improper operational use
 - Modifications to vehicles and equipment
 - Non-Target cost are labor, parts, and commercial for whatever work is performed – no fixed fee