

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, DECEMBER 11, 2007**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, December 11, 2007, commencing at 7:00 a.m.

A. ROLL CALL

Present: Council Members – Hansen, Hitchcock, Johnson, Katzakian, and Mayor Mounce

Absent: Council Members – None

Also Present: City Manager King, City Attorney Schwabauer, and City Clerk Johl

B. TOPIC(S)

B-1 "Presentation on Revisions to Vehicle Replacement Policy"

City Manager King provided a brief introduction of the subject matter of the vehicle replacement policy.

Deputy City Manager Krueger and Consultant Marshall Eyerman provided a PowerPoint presentation regarding the vehicle replacement policy. Specific topics of discussion included the current policy of 1997 and status of vehicles, objectives and options associated with vehicle replacement, vehicle replacement fund and balances, costs, reserves, efficient use of vehicles, economic retention, initial funding, annual lease payments, use of prior public safety vehicles, fully and partially utilized vehicles, and draft replacement budget policy.

In response to Mayor Pro Tempore Hansen, Mr. Krueger stated the full accounting for vehicles by departments will include replacement costs and ongoing operations and maintenance. Mr. King provided an example of the \$14 million Police Department budget and how it would reflect the vehicle replacement to show the actual cost of operations.

In response to Mayor Pro Tempore Hansen, Mr. Krueger stated the cost of each vehicle would be reflected in the department budget to show exactly what the replacement and use costs would be.

In response to Mayor Pro Tempore Hansen, Mr. Krueger stated if a department works efficiently there is a mechanism by which the department may be able to use the additional funding or transfers may be made to a separate fund.

In response to Mayor Pro Tempore Hansen, Mr. Krueger confirmed that additional reserves may help take care of those special contingency and costly vehicles that need to be unexpectedly replaced.

In response to Mayor Mounce, Mr. King stated there are approximately 270 vehicles in the fleet according to the 2006-07 budget.

In response to Council Member Johnson, Mr. Krueger stated staff is attempting to enhance the existing policy, which has guidelines for vehicle replacement but does not have the necessary funding. Mr. King confirmed that the current policy and practices do not conform. Mr. Callahan stated the existing policy was set up as minimum guidelines and can be changed as Council wishes.

In response to Council Member Hitchcock, Mr. King stated discipline is needed to provide funding for replacement. He stated the current process of review is through a committee with a final sign off by the City Manager.

In response to Council Member Hitchcock, Mr. King stated vehicle costs would be proportionate and automatically assigned to each department as is the case for personnel costs.

In response to Mayor Pro Tempore Hansen, Mr. Callahan stated staffing is still short two employees from the level that it was approximately ten years ago. He stated this may affect the vehicle maintenance schedule. Mr. Krueger stated the goal is to have an effective policy, which encompasses best practices.

Discussion ensued between Council Member Hitchcock and Mr. King regarding the need for department heads to possess greater financial skills and the ability of the department to make decisions pertaining to the number of vehicles that are needed and by what method they are to be acquired.

In response to Council Member Johnson, Mr. Krueger stated the incentive would be to use an old vehicle and not incur any charges, or acquire a new vehicle with a lease payment and ongoing replacement costs.

In response to Council Member Johnson, Mr. Callahan stated the City does a good job of effectively using the older vehicles when the option exists.

A brief discussion ensued between Mayor Pro Tempore Hansen and Mr. King regarding the positive effect the proposed policy will have because it will provide an opportunity to replace vehicles when needed.

In response to Mayor Pro Tempore Hansen, Mr. Callahan confirmed that they inspect recycled vehicles for maintenance, appearance, and other needs before transferring from one department to another.

In response to Mayor Pro Tempore Hansen, Mr. Callahan confirmed that they are still using the Sheriff's Department for painting due to cost savings and the quality of work.

In response to Myrna Wetzel, Mr. Callahan stated that, if a vehicle no longer meets the needs of the City or any department, it is sent to auction.

Mr. Krueger stated the \$2.5 million will be applied to the oldest vehicles first and after that point it will be necessary to have a reasonable balance for ongoing replacement and operations and maintenance costs on vehicles.

In response to Mayor Pro Tempore Hansen, Mr. Krueger stated the policy is proposed to be implemented at the end of the current fiscal year and the \$500,000 for the 2008-09 year may change.

In response to Mayor Pro Tempore Hansen, Mr. Krueger stated the policy will provide more contingencies when a piece of major rolling stock does go down and needs to be replaced. Mr. King stated the full accounting of \$5 million to \$7 million is for all vehicles, but not all vehicles need to be replaced. He stated the \$2.5 million is good to start with and allows interest building.

In response to Council Member Hitchcock, Mr. Krueger stated on annual basis vehicle replacement costs are approximately \$100,000.

In response to Council Member Hitchcock, Mr. Krueger stated the policy will likely require approximately \$600,000 to \$700,000 when it is all worked out. He stated the term "lease" is used when the vehicle fund owns the vehicle and a lease payment is charged to a department for usage of the vehicle.

Discussion ensued between Council Member Hitchcock and Mr. King regarding the calculation of the costs of each vehicle by the vehicle division, the assignment of such costs to the individual departments, and the options for maintenance and lease payments by the departments.

In response to Council Member Hitchcock, the consultant stated the current trend in fiscally challenging times is to assign vehicle costs to each individual department to better track where the money is going.

In response to Council Member Johnson, Mr. Krueger stated \$1 million is the catch up amount and that amount will either come from the General Fund or be assigned to the individual departments.

In response to Mayor Pro Tempore Hansen, Mr. Callahan stated the City does not have a specific policy on which cars to buy as far as make and model are concerned. He stated historically they have bought American; although, that is changing based on the lifecycle and upfront costs of a vehicle.

Council Member Johnson asked the City Clerk to research what types of vehicles other cities purchase and use.

In response to Myrna Wetzel, Mr. King stated individual departments do not hold the vehicle fund as it is a separate fund in the budget itself.

C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None

D. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 8:10 a.m.

ATTEST:

Randi Johl
City Clerk



**CITY OF LODI
COUNCIL COMMUNICATION**

AGENDA TITLE: Presentation on Revisions to Vehicle Replacement Policy

MEETING DATE: December 11, 2007

PREPARED BY: Deputy City Manager

RECOMMENDED ACTION: No action needed.

BACKGROUND INFORMATION: The City of Lodi is getting much closer to reaching its goal of financial stability. As of June 30, 2007 the unobligated unreserved general fund balance is approximately \$5 million with a target of approximately \$7 million. The focus for the last three years has been to restore the general fund to good financial condition while maintaining services at current levels. Although we've been able to keep stable service levels during the time that budgets restraints have been in place, we have not kept pace in one very important area i.e. replacement of vehicles at the end of their useful lives.

The budget policy for vehicle replacements that was adopted in 1997 indicates that a minimum fund balance will be maintained in the Vehicle Replacement Fund to allow for:

- 1) Fluctuations in expenditures for vehicle replacements and at the same time level transfers into the vehicle replacement fund from the general fund
- 2) Emergency replacements of vehicles when warranted
- 3) Annual transfers to the Vehicle Replacement Fund that are based on an annual use allowance

Although the goals that were enumerated in the 1997 policy were intended to provide a healthy and stable Vehicle Replacement Fund, the fund was not maintained at appropriate levels. Hence many vehicles have been used well beyond their economic useful life. We are now faced with having to replace many vehicles that are worn out and cost much more to replace than the cash that is available to replace them. The primary elements of the new policy will include the following:

APPROVED: 
Blair King, City Manager

- 1) Include in departmental budgets the full cost of operating and replacing the vehicles utilized by each department.
- 2) Provide a funding mechanism that will allow for sufficient reserves so that those vehicles that have reached the end of their economic useful life are replaced when they should be.
- 3) Only that number of vehicles that is essential to support the primary services that are provided by each department will be retained.
- 4) Vehicles should not be retained any longer after they have reached a point where it is too costly to maintain them.
- 5) The Vehicle Replacement Fund will be funded at an initial level of approximately \$2.7 million, which includes a transfer of \$1 million from the general fund, as of July 1, 2008.
- 6) For every vehicle utilized by each department, an annual lease payment will be made to the Vehicle Replacement Internal Services Fund. When sufficient funding has been achieved for a vehicle, there will be no additional lease charges to the department for that vehicle. The annual lease charge for each vehicle shall be based on the original cost of the vehicle divided by the useful life of the vehicle. Interest that is earned on the cash balance in the Vehicle Replacement Fund shall be allocated to departmental accounts based on the accumulation of lease payments that will be credited to individual departmental accounts in the Vehicle Replacement Fund.
- 7) Vehicles that will be replaced with a new vehicle will be offered to all departments before they are traded in or sold at auction. Those vehicles which are acquired by departments in this fashion shall not be charged a lease payment.

The outcome of this approach will result in avoiding unpredictable large cash outlays and produce greater financial stability. A representative from MuniFinancial Services, which prepared the cost of services analysis reviewed by City Council in October 2007, will make a presentation to City Council at the meeting.

FISCAL IMPACT: Not Applicable.



James R. Krueger, Deputy City Manager

OVERVIEW

This section outlines the basic policies and procedures that will be used in preparing budget requests for vehicles to be included in the City's Financial Plan and Budget. These instructions ensure conformance with the fiscal and administrative policies established by the City Council and City Manager.

At the time the Budget is prepared, specific instructions will be issued. Included in these instructions will be the budget calendar, funding targets, guidance for changes in service levels and specific budget formats to use in presenting significant expenditure requests and capital improvement requests. Accordingly, the policies and procedures described in this section provide the basic foundation for budget preparation.

Under the budget process described below, replacement vehicles are generally budgeted and funded from the Vehicle Replacement Fund for General Fund departments or from capital accounts for Enterprise Funds. Target levels will be established based on the current vehicle inventory for each department and confirmed by the City Manager and Deputy City Manager for each budget cycle based on projected replacement needs. As such, the target funding does not authorize specific replacements. Replacement vehicles will be specifically identified and listed in the budget. Vehicles will be replaced based on target funding for each department, provided in the budget if justified, and approved by the City Manager.

The establishment of Vehicle Replacement contributions by department will allow departments to account for specific costs attributed to each department. In addition, required funding for the Vehicle Replacement Fund will provide a mechanism for each department to appropriately set aside monies for future vehicle replacements. Future vehicle replacements for each department will be funded through the use of the Vehicle Replacement Fund and limited to the amount made available by each department **through** annual contributions plus interest earnings.

As part of the Financing Plan, to reduce excess operation and maintenance costs and to extend the period before vehicle replacement is required, each department shall review the following items:

1. Each department may authorize and allow City vehicles to be taken home based on a justified need and only if approved by the City Manager. All costs for the operation and maintenance of the vehicles will be allocated directly to the department.
2. If annual maintenance costs for a vehicle are in excess of ordinary maintenance costs, then the department shall review the need for potential replacement. Any

replacement vehicle must be justified by the department and approved by the City Manager.

3. Prior to replacing any vehicle the department shall look at acquiring vehicles from other departments if such acquisition will extend the useful life of the vehicle. Any replacement vehicle must be justified by the department and approved by the City Manager.

Requests to increase the size of the City fleet will be included in capital improvement requests. The vehicle requested will be described and specifically listed as a line item in the Budget. The request must include funding sources.

POLICY GUIDELINES

The following policies are to be used for programming and budgeting the purchase or lease of vehicles used to conduct City business and to deliver City services:

- A. Departments are responsible for identifying and budgeting for vehicles, which increase the size of the City fleet, or requests which significantly change a vehicle class in the current vehicle inventory (such as a pickup truck for a dump truck). The departments are also responsible for budgeting for the ongoing maintenance and operation costs of the vehicles.
- B. Department Heads are responsible for identifying and recommending replacement vehicles based on the City's vehicle utilization criteria.
- C. The City Manager will review all requests for vehicles that increase the size of the City fleet as well as for replacement vehicles. Approval will be based on the justification presented and the City's vehicle utilization guidelines.
- D. Budget requests for vehicles will include the total cost of a vehicle, delivery cost, vehicle modifications, and the cost of component equipment and installation, if applicable.
- E. The City Council must approve requests for additions to the vehicle fleet. Significant changes in class of vehicle (such as changing ~~from~~ a pickup truck to a dump truck), will be considered to be additions to the vehicle fleet. Changes in vehicle class which are intended to **serve** the same service delivery functions may be approved by the City Manager.
- F. The justification for additional vehicles must include a description of the change in **service** requirements of the department, the projected utilization criteria, the availability of existing vehicles, alternative transportation options and, when appropriate, a description of the special requirements that justify the purchase of a special-purpose vehicle as defined in the glossary.
- G. The Risk Manager is responsible for budgeting and securing vehicle insurance.

FUNDING POLICIES

- A. All vehicles will be requested through capital improvement requests.
- B. Funding for the purchase of both scheduled and emergency replacement vehicles damaged beyond repair will be from the Vehicle Replacement Fund, capital accounts for Enterprise Funds, or other sources, as applicable.
- C. A minimum fund balance will be maintained in the Vehicle Replacement Fund to meet the following goals:
 - 1. Allow for annual fluctuations in expenditures while maintaining the annual transfers to the fund based on the lease amounts; and
 - 2. Maintain a minimum balance to allow for emergency replacement purchases. The City recognizes that an annual transfer amount needs to be established based on the annual lease amount, experience and implementation of this policy. Therefore, the minimum balance and the annual lease amount shall be established as part of the budget process. The annual contribution to the funds will generally be based on annual use, which is determined based on the estimated service life of the vehicle or equipment and its original purchase cost. The Fleet & Facilities Manager and Budget Manager will establish an annual lease payment to be paid by each department for the purchase of replacement vehicles. These funds will be used to purchase vehicles, component equipment, and to make vehicle modifications necessary to replace an existing vehicle.
- D. In the event that funds budgeted for purchase of vehicles are not fully expended or encumbered during the year in which such funds have been appropriated, those unused funds shall be retained in the Vehicle Replacement Fund.
- E. To fund the Vehicle Replacement Fund, each department will contribute an amount equal to the following Lease amounts:
 - 1. Lease charges for new vehicles: Each vehicle which is not fully utilized based on the Guidelines for Utilization/Replacement (Table 1, Section 4) will pay a yearly lease amount until fully utilized. The annual lease amount is equal to the purchase cost (plus an estimated factor for inflation) divided by the useful life of the vehicle based on the utilization guidelines.
 - 2. Lease charges for fully utilized vehicles: Vehicles are considered fully utilized once they have contributed an amount equal to the original purchase cost to the Vehicle Replacement Fund plus an estimated inflation factor. When the vehicle is fully utilized it will no longer be charged a lease amount but will continue to be charged an inflation factor until replacement occurs.
 - 3. Transfers of vehicles between departments: The department which receives the vehicle will pay a lease charge until the vehicle is fully utilized based on the utilization guidelines.
 - 4. Replacement of vehicles: When a department replaces a vehicle, any unfunded replacement amount must be funded by the department.

5. Operations and maintenance: Each department must budget for the annual operation and maintenance for each vehicle within the department, including vehicles which have been fully utilized based on the utilization guidelines.
6. A finance charge (carrying charge) shall be charged for all vehicles that are not yet fully funded (the amount reserved less the reserve requirement) until the time that the vehicle is replaced.

DEPARTMENT REQUIREMENTS

- A. Departments are responsible for identifying their need for replacement vehicles, additional vehicles, or significant changes in vehicle class required to conduct City business. Requests will be submitted by the Fleet Coordinator to the Department Head. If approved by the Department Head, the request will be forwarded to the City Manager for review and approval. This request will include the following information:
 1. Class of vehicle(s) to be replaced
 2. Number of vehicles to be replaced
 3. City vehicle number and Vehicle Identification Number (VIN) of the vehicles to be replaced
 4. Number of vehicles to be purchased
 5. Class of vehicles to be purchased
 6. Estimated cost of the replacement vehicles, modifications, component equipment, shipping cost, sales tax, and any other costs that will be incurred in acquiring the required vehicle
 7. Estimated operating cost per mile, including gas, lubricants, and maintenance, if appropriate
 8. Vehicle utilization criteria in years, miles, and hours of operation as appropriate (refer to Section 4, Utilization/Replacement Guidelines Table 1)
 9. Recommendation for disposal or second use
- B. Requests for vehicles that increase the size of the City fleet or result in significant changes in vehicle class will be submitted and justified during the budget cycle, including the information shown below, using the appropriate capital improvement request form. Only by exception will the City Council be requested to approve additions to the City fleet outside the normal budget cycle.
 1. Request Title - Short-form description of the ~~request~~ for easy reference
 2. Purpose - A description of the City ~~service(s)~~ or business for which an additional transportation or a special-purpose vehicle (or significant change in vehicle class) is required
 3. Vehicle Description - Class of vehicle required
 4. Required Modifications - A description of modifications required to place the vehicle into operation
 5. Component Equipment - A listing of component equipment required to place the vehicle into operation
 6. Utilization Criteria - Estimated miles and hours of operation per year

7. Alternatives - A description of other methods in meeting vehicle needs, such as leasing, use of existing **fleet**, or contracting of service requirement
8. Recommendation for disposal or second use
9. Cost Summary - A description of the estimated cost and funding source by element of cost, including but not limited to: basic unit, modifications required, component equipment, transportation, and any other costs projected to be incurred in acquiring the complete vehicle
10. Amount to be budgeted for annual budget requirements

Vehicle Replacement Policy Update

Presented
December 11, 2007
by
MuniFinancial
Marshall Eyerman

Vehicle Replacement Policy

- Current policy needs updating
 - Last policy updated 1997
- Many vehicles are worn out with no funding
- Objective is to have enough reserved when needed
- Option is to (1) not replace or (2) department pays full cost at time of replacement

Vehicle Replacement Policy

Vehicle Replacement Fund Fund Balances

	FY 03/04	FY 04/05	FY 05/06	FY 06/07	FY 07/08	FY 08/09
Beg. Fund Balance	204,955	379,933	205,137	345,658	1,152,849	2,566,823
Tranfers In	295,370	81,668	159,602	1,029,665	1,630,000	455,000
Interest Earnings	0	15,197	8,205	13,826	46,114	102,673
Replacements	<u>120,392</u>	<u>271,661</u>	<u>27,286</u>	<u>236,301</u>	<u>262,140</u>	<u>500,000</u>
End Fund Balance	379,933	205,137	345,658	1,152,849	2,566,823	2,624,496

Vehicle Replacement Policy

- Fully account for vehicle costs by department
- Sufficient reserves for replacement when vehicles wear out
- Promote efficient use of vehicles for primary services

Vehicle Replacement Policy

- Economic retention of vehicles
 - Maintenance versus replacement
- Initial funding of \$2.5 million (Includes \$1 million transfer from General Fund)
- Annual lease payments from departments
 - Est. replacement costs divided by useful life

Vehicle Replacement Policy

- Incentives to departments to utilize prior public safety vehicles
 - Beyond useful life for Police but useful for other departments.

Vehicle Replacement Policy

- Examples

- Fully utilized vehicle

- Existing fund balances
 - No future lease payments
 - Shortfall made up by department (if any)

- Partially utilized vehicle

- Existing fund balances
 - Future lease payments
 - Shortfall made up by department (if any)

Vehicle Replacement Policy

- Proposed Department Lease payments for fiscal year 2008-09
- Draft Vehicle Replacement Budget Policy

Vehicle Replacement Policy

Department	Original Cost	Fully Funded Replacement (100%)	Min. Funded Replacement (30%)	Estimated Annual Lease
COMM DEV Total	120,835	147,458	44,237	7,862
ENGINEERING Total	124,887	153,309	45,993	10,244
FACILITIES Total	57,282	77,065	23,120	2,171
FINANCE Total	76,994	104,247	31,274	1,282
FIRE Total	3,204,610	4,004,770	1,201,431	199,443
FLEET Total	56,100	79,111	23,733	1,906
MTR POOL Total	189,489	241,844	72,553	-
PARKS/REC Total	544,510	676,735	203,021	40,206
POLICE Total	1,702,932	1,919,145	575,744	192,611
TOTAL	6,077,639	7,403,686	2,221,106	455,725