

INTERNAL AUDIT SERVICES

COUNTY FLEET MANAGEMENT
VEHICLE RATE COMPARISON AND ANALYSIS
AS OF JULY 2009



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County Fleet Management
Vehicle Rate Comparison and Analysis
July 2009

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INTRODUCTION

In conjunction with our Internal Control Review of Countywide Assigned Vehicles for Fiscal Year 2007/08, we performed a comparison and cost analysis of the vehicle rates charged by County Fleet Management for cost-recovery.

BACKGROUND

Fleet Management manages the County's vehicle and transportation needs (general and special purpose) through the County Vehicle Replacement Program consisting of two components: 1) The County Monthly Department Assigned Vehicles, which provides vehicles to departments for long term use, and 2) the County Daily Pool Vehicles, which provides a pool of rental vehicles for daily and short-term use.

County Monthly Department Assigned Vehicles Fleet Management purchases general and special purpose vehicles requested by and assigned to a specific County department for long-term, operational use. Fleet Management charges departments a monthly rate. The rate includes maintenance/repair costs, overhead allocation for each vehicle in the program, and replacement reserve. This component is critical to meeting and fulfilling departments' future vehicle and transportation needs for operating purposes.

County Daily Pool Vehicles Fleet Management maintains and provides a pool of 37 vehicles for daily rental and short-term use by all departments. Fleet Management charges departments based on the daily rate, number of days, and mileage for each vehicle rented. This component is critical in meeting and fulfilling the occasional short-term vehicle needs of departments.

OBJECTIVE

The objective of our review was to perform a comparison and cost analysis of Fleet Management's monthly and daily rates for vehicles in the County Vehicle Replacement Program and the County Vehicle Rental Pool to external agencies to determine if the rates are comparable and cost effective or if external agencies offered potential costs-savings.

METHODOLOGY

To effectively analyze Fleet Management's rates for vehicles in the County Vehicle Replacement Program, we compared the monthly rates charged for department assigned vehicles (for FY 2008/09) to: 1) monthly rates for two external vehicle rental agencies, Enterprise Rental Corporation and the Hertz Corporation, and 2) monthly rates for two lease programs, Ford Motor Credit Corporation's municipal lease program and a local Toyota dealer vehicle lease program.

In addition, we compared the daily rates Fleet charges County departments for vehicle rentals from the County Daily Pool Vehicles for FY 2008/09 to the daily rates of two external vehicle rental agencies, Enterprise Rental Corporation and the Hertz Corporation.

The comparisons outlined above represent the alternatives to the County Vehicle Replacement Program, which we determined reasonable for our comparison.

CONCLUSION

Based on our comparison and analysis, we determined Fleet Management's vehicle rates are comparable to external agencies and cost effective to meet the County's short-term (daily) and long-term (monthly) vehicle transportation needs. Our review did not identify any potential cost-savings through vehicles offered by the external agencies included in our review. The detailed comparison results and analysis are included in the following pages.

In performing our review, we identified other vehicle programs offered through external rental agencies which we were unable to analyze since Fleet did not have similar programs or services to compare costs. We have included a summary of these programs for further evaluation by Fleet Management on the final page of this report.

COMPARISON AND RESULTS
COUNTY VEHICLE REPLACEMENT PROGRAM

1) Monthly rental rate comparison to two external vehicle rental agencies, Enterprise Rental Corporation and the Hertz Corporation

To effectively compare and analyze Fleet Management’s monthly vehicle rates for assigned vehicles in the County Vehicle Replacement Program for FY 2008/09, we randomly selected two external vehicle rental agencies, Enterprise Rental Corporation and the Hertz Corporation, which offer rental services similar to Fleet Management. We then identified the services and performed the following:

- We contacted and interviewed respective agency representatives for detailed information on the various services and rates offered through their rental programs, such as general transportation rentals, types of vehicles offered, short-term and long-term rentals, mileage, fuel, etc.
- We selected two classes of general purpose vehicles used predominantly by County departments and offered by Enterprise and Hertz. The vehicle classes consisted of 1) compact car and 2) full-size car.
- We obtained and itemized the rental rates Enterprise and Hertz offer for these vehicles.
- We obtained the rates charged by Fleet and determined the equivalent rates per vehicle (including maintenance based on the average miles driven and the mileage rate).
- We compared the respective vehicle rates for each rental agency and Fleet.

The monthly vehicle rental rates charged by Enterprise Rental Corporation, the Hertz Corporation, and Fleet Management’s monthly rates are as follows:

Figure 1

Rate Comparison to Private Rental Agencies			
Vehicle Class	MONTHLY RATES PER AGENCY		
	Enterprise Rental Corp.	Hertz Corp.	County Fleet Mgmt
Compact	\$ 539.99	\$ 464.00	\$ 326.02
Full-size	799.99	534.00	490.89

Conclusion:

In comparing the monthly rental of vehicles with external agencies (see figure 1), Fleet Management's vehicle rates are lower than the vehicle rates charged by both Enterprise Rental Corporation and the Hertz Corporation. As a result, Fleet Management's vehicle rates are cost efficient.

2) Monthly rate comparison to external municipal lease programs, Ford Motor Credit Company and Toyota Vallejo

We selected two leasing agencies with established lease programs to effectively compare and analyze Fleet Management's vehicle purchase costs for assigned vehicles purchased in FY 2008/09. The leasing agencies selected were 1) Ford Motor Credit Company (municipal lease), and 2) Toyota Vallejo. To complete the comparison and analysis, we performed the following:

- We contacted and interviewed agency representatives for detailed information on their respective lease programs.
- We obtained formal lease quotes from Ford for the two vehicle classes (previously selected in our rental comparison) for a 5-year (60 months) lease period (i.e., the lease period currently offered).
- We obtained formal lease quotes from Toyota for the two vehicle classes for a 3-year (36 months) lease period (i.e., the lease period currently offered).
- We obtained Fleet's purchase prices for replacement vehicles for FY 2008/09.
- We converted Fleet's purchase prices using the same funding period as each lease quote.
- We compared the respective vehicle lease rates for Ford and Toyota to Fleet based on the relative monthly payments.

The vehicles lease rates charged by the external leasing agencies, Ford Motor Credit Company and Toyota Vallejo, compared to Fleet Management's vehicle rates (as converted) are as follows:

Figure 2

Rate Comparison to External Lease Programs							
Vehicle Class	Toyota Vallejo		Ford Motor Credit Corporation		Purchase Amount	County Fleet	
	(3 year) Lease Total	Monthly Payment Amount	(5 year) Lease Total	Monthly Payment Amount		3 year period	5 year period
Compact	\$8,181.98	\$227.28	\$17,485.60	\$291.43	\$13,694.61	\$158.18 *	\$228.24
Full-size	12,095.79	335.99	25,556.20	425.94	17,755.53	294.60 *	295.93

* Monthly cost adjusted for residual value at end of 3 yr period.

Under Ford Motor Credit Corporation’s municipal lease, the vehicle transfers title at the end of the lease period. Under both programs (Ford and Fleet), the County would end the five year period with a vehicle with comparable residual value. As such, no residual amounts have been included in the schedule above.

Under the Toyota Vallejo lease, there is no purchase option at the end of the lease period and the vehicle must be returned, as a result, there is no residual value. For a County vehicle purchase, ownership and title pass at the time of purchase, therefore, the vehicle carries residual value. As such, we obtained the Kelly Blue Book values to determine the residual values for a compact and full-size vehicle (i.e., Ford Focus and Ford Taurus, respectively), adjusted the cost of each vehicle for the residual value, and calculated the monthly cost.

In considering the acquisition of a vehicle through municipal lease or purchase, the municipal lease and purchase amounts represent only initial costs incurred during acquisition of the vehicle (i.e., negotiated price, tax, interest, handling, processing, and dealer fees). Additional costs or other expenses¹, which would be incurred in the use of the vehicle adding to the overall costs, must be considered to properly compare and analyze the two options. We performed this additional analysis to determine if potential cost savings may exist, which may have an effect on the rates presented above. (We could not readily calculate or quantify these additional costs due to various dynamic factors, but identified and analyzed them as follows:)

- Mileage limit: Toyota charges extra for miles driven over 15,000 miles; Ford provides unlimited mileage; Fleet provides unlimited mileage.
- Maintenance: Both leasing agencies charge extra for standard maintenance at regular service intervals (i.e., oil/lube every 5,000 miles; tune-up at 30,000 miles) and costs would depend on service type, frequency, and agency's rates (including profit margin); for accident/damage repairs, costs will be incurred out of pocket when needed. Fleet charges standard maintenance (i.e., oil/lube and tune-ups at scheduled service intervals, incidental repairs when needed) based on mileage and predetermined rates for each vehicle class to recover cost, while accident/damage repairs are recovered from the County's insurance (i.e., Risk Management). We determined the cost of maintenance and repairs (based on estimated cost and average vehicle use) to be comparable under both lease programs.
- Loaner vehicles: Both leasing agencies charge extra for loaner vehicles used during service. Fleet provides loaner vehicles at no extra charge since cost is included in the maintenance charge.
- Destroyed/stolen vehicle: Toyota and Ford charge extra based on the remainder of the lease period; Fleet recovers the cost from the County's insurance when a responsible party has been identified (replacement for destroyed/stolen vehicles without a responsible party becomes a Fleet expense (i.e., through County Risk Management)).

¹ See Appendix I and II.

- Insurance: Costs are determined and based on the number of insured vehicles, lease/purchase price, and vehicle condition/age; as such, newer vehicles will draw higher insurance rates/premiums. The County currently utilizes vehicles well beyond the three-year and five-year lease periods offered by Toyota and Ford, respectively, and as such would incur higher insurance costs for newer vehicles, if leased.
- Overhead: Under both lease programs and Fleet, costs will be incurred for administrative overhead (i.e., staff and time in monitoring and tracking vehicles, scheduling repairs, processing and paying monthly invoices, delivering and picking up vehicles during service and repairs, etc.). We determined this cost to be comparable under both lease programs.

Conclusion:

In comparing the acquisition of vehicles by purchase and through lease programs, Fleet Management's monthly purchase costs are lower than the monthly lease costs quoted by both Ford Motor Credit Company and Toyota Vallejo under respective lease programs. As such, Fleet Management's monthly purchase costs are cost efficient.

COMPARISON AND RESULTS
COUNTY VEHICLE RENTAL PROGRAM (POOL)

To effectively compare and analyze Fleet Management’s daily vehicle rates for vehicles in the County Vehicle Rental Program for FY 2008/09, we compared the rates to two randomly selected external vehicle rental agencies, Enterprise Rental Corporation and the Hertz Corporation, which offer rental services similar to Fleet Management. We then identified the services and performed the following:

- We contacted and interviewed respective agency representatives for detailed information on the various services and rates offered through their rental programs, such as general transportation rentals, types of vehicles offered, short-term and long-term rentals, mileage, fuel, etc.
- We selected two classes of general purpose vehicles used predominantly by County departments and offered by Enterprise and Hertz. The vehicle classes consisted of 1) compact car and 2) full-size car.
- We obtained and itemized the rates Enterprise and Hertz offer for these vehicles (which included standard maintenance and mileage).
- We obtained the rates charged by Fleet and determined the equivalent rates per vehicle (including maintenance based on the average miles driven and the mileage rate).
- We compared the respective vehicle rates for each rental agency and Fleet based on daily rental/use.

The vehicle rates charged by Fleet Management, Enterprise Rental Corporation, and the Hertz Corporation, are as follows:

Figure 4

Rate Comparison to Private Rental Agencies			
Vehicle Class	DAILY RATES PER AGENCIES		
	Enterprise Rental Corp.	Hertz Corp.	County Fleet Mgmt
Compact	\$ 30.39	\$ 39.00	\$ 32.82
Full-size	37.49	43.00	44.32

Upon initial analysis, potential cost-savings of \$2.43/day (or \$4,082/year) and \$6.83/day (or \$11,474/year) are possible if compact and full-size vehicles, respectively, are rented from Enterprise Rental Corporation; potential cost-savings of \$1.32/day (or \$2,278/year) is possible if full-size vehicles are rented from the Hertz Corporation. However, upon further analysis, the potential cost-savings would be offset by other items and costs² we considered and identified in renting a vehicle with external agencies, which would add to the daily rental costs. We identified these additional costs and analyzed them as follows:

- Mileage limit: Enterprise Rental Corporation charges extra for miles driven over 3,000 miles during the rental period; Hertz and Fleet offer unlimited mileage.
- Accident repairs: Both rental agencies will recover the cost of unscheduled maintenance and accident repairs through the customer's insurance; Fleet recovers accidental repair costs from the County's insurance (i.e., Risk Management).
- Insurance: Both rental agencies require adequate insurance coverage for relatively new vehicles (maintained at less than two years); extra cost is charged for collision waiver. The County currently utilizes vehicles beyond the two-year turnover rate used by Enterprise and Hertz and, as such, would incur additional insurance costs for using newer vehicles.
- Overhead: Under both rental agencies, cost will be incurred for administrative overhead (i.e., staff and time for renting vehicles, processing and paying invoices). Fleet includes administrative overhead in its daily vehicle rate.
- Vehicle pickup/delivery: Both rental agencies provide pickup and delivery of rental vehicles; County departments are responsible for pickup and delivery of Fleet pool vehicles.
- Extended daily use: Both Enterprise and Hertz charge per day for a vehicle rented under a daily rental contract. Depending on the number of days rented and used in a given month, the total daily rental charges can exceed the monthly rental rate for an external agency rental vehicle. Fleet will charge user departments the lesser of the total daily charges or the monthly rate, whichever is lower for the given month.

² See Appendix III

We also noted the following factors related to the County Vehicle Rental Program:

- The County Vehicle Rental Program is largely composed of seasonal use vehicles which departments return to Fleet during periods of low utilization. The seasonal use vehicles are then rented to other County departments to fulfill the occasional short term vehicle needs. This process ensures improved utilization of the County Fleet and cost savings to the County as the County does not incur additional costs for vehicles.
- The County Vehicle Rental Program is a vital tool necessary for effective management of the County Vehicle Replacement Program and ensures departments have immediate access to vehicles for both short and long term operational needs.

Conclusion:

Based on the analysis performed, we determined Fleet Management's daily rental rates to be comparable to external rental agencies, and after consideration of the cost-savings to the County for use of the seasonal vehicles to maintain the County Vehicle Rental Program, we identified no cost-savings to the County for the rental of vehicles through external rental agencies.

OTHER CONSIDERATIONS

As part of the rate comparison, we noted other services and programs offered by external rental agencies. However, we were unable to compare and analyze them since Fleet does not offer or provide similar services and programs. These services and programs should be considered for possible cost-savings options in the County's efforts to improve its vehicle and transportation needs. These services and programs are as follows:

- WeCar automated car-sharing program offered by Enterprise Corporation. Provides more fuel efficient (green) vehicles, rentals on an hourly basis with automatic tracking and monitoring services, vehicle pick up and delivery, maintenance and repairs, technology upgrades, fuel, and 800 miles/month maximum.
- Connect (car-share) program offered by the Hertz Corporation. Allows vehicles to be rented hourly, or by business day (7 - 7), by full days, or over weekends, with unlimited mileage and regular maintenance and service, automated tracking and monitoring, and vehicle pick up and delivery.

Appendix I

RATE COMPARISON TO EXTERNAL LEASE PROGRAMS

Lease Factors - Compact Car	3-year Period		5-year Period	
	Vallejo Toyota lease	County Fleet purchase	Ford Motor Credit Corp lease	County Fleet purchase
Cost for Compact	\$8,181.98	\$13,694.61	\$17,485.60	\$13,694.61
Residual value:	-	\$8,000.00	\$6,025.00	\$6,025.00
Net cost	\$227.28/month	\$158.19/month	\$158.10/month	\$94.91/month
Additional/Other costs:				
Mileage limit	Extra at \$0.1547/mile over 15,000 miles	Unlimited	Unlimited	Unlimited
Fuel	Extra	Extra	Extra	Extra
Scheduled maintenance	Extra	Extra - per mile charge per vehicle class	Extra	Extra - per mile charge per vehicle class
Unscheduled maintenance or accident repairs	Extra	Included with maintenance	Extra	Included with maintenance
Replacement vehicle during repairs	One day on major repairs; Extra thereafter	Included with maintenance	Extra	Included with maintenance
Destroyed or stolen vehicle	Extra - pay lease remainder	Extra	Extra	Extra
Insurance	Extra	Department responsibility	Extra	Department responsibility
Overhead	Extra	Extra	Extra	Extra
Purchase option	NO	N/A	\$1 end of lease	N/A

COMPACT VEHICLE

Appendix II

RATE COMPARISON TO EXTERNAL LEASE PROGRAMS

Lease Factors - Full-size Vehicle	3-year Period		5-year Period	
	Vallejo Toyota lease	County Fleet purchase	Ford Motor Credit Corp lease	County Fleet purchase
Cost for Full-size	\$12,095.79	\$17,755.53	\$25,556.20	\$17,755.53
Less Residual value:	-	\$7,150.00	\$4,975.00	\$4,975.00
Net cost	\$335.99/month	\$294.60/month	\$343.02/month	\$213.01/month
Additional/Other costs:				
Mileage limit	Extra at \$0.1547/mile over 15,000 miles	Unlimited	Unlimited	Unlimited
Fuel	Extra	Extra	Extra	Extra
Scheduled maintenance	Extra	Extra - per mile charge per vehicle class	Extra	Extra - per mile charge per vehicle class
Unscheduled maintenance or accident repairs	Extra	Included with maintenance	Extra	Included with maintenance
Replacement vehicle during repairs	One day for major repairs only; Extra thereafter	Included with maintenance	Extra	Included with maintenance
Destroyed or stolen vehicle	Extra - pay lease remainder	Extra	Extra - pay lease remainder	Extra
Insurance	Extra	Department responsibility	Extra	Department responsibility
Overhead	Extra	Extra	Extra	Extra
Purchase option	NO	N/A	\$1 end of lease	N/A

FULL-SIZE VEHICLE

RATE COMPARISON TO EXTERNAL RENTAL AGENCIES

Rental Factors	External Rental Agencies					
	Enterprise Corp.		Hertz Corp.		County Fleet Management *	
	Daily rate	Monthly rate	Daily rate	Monthly rate	Daily rate	Monthly rate
Cost for Compact	\$30.39	\$539.99	\$39.00	\$464.00	\$32.82	\$326.02
Cost for Full-size	37.49	799.99	43.00	534.00	44.32	490.89
Additional/Other costs:						
Mileage limit	Extra - \$0.20/mile over 3,000 miles		Unlimited		Unlimited	
Fuel	Extra		Extra		Extra	
Accident repairs	Extra		Extra		Extra	
Insurance	Extra		Extra		Extra	
Overhead	Extra		Extra		Included	
Vehicle pickup/delivery	Included		Included		Department responsibility	
<p>* Includes maintenance rate charged per vehicle class mile at average miles/month: Compact: 598 miles Full-size: 790 miles</p>						