RESOLUTION NO.____________

A RESOLUTION ADOPTING THE CITY OF KINGSPORT FLEET INTERNAL SERVICE FUND FINANCIAL MANAGEMENT POLICY

WHEREAS, the City of Kingsport owns and operates vehicles and equipment necessary to provide essential governmental services to its citizens; and

WHEREAS, the City recognizes the importance of maintaining a centralized and financially sustainable system for the maintenance, repair, management, and replacement of City vehicles and equipment; and

WHEREAS, the City has established a Fleet Internal Service Fund to provide centralized fleet maintenance and repair services and to ensure predictable and sustainable funding for the timely replacement of City vehicles and equipment; and

WHEREAS, the Fleet Internal Service Fund consists of two primary components: Fleet Operations, which provides centralized garage and related fleet services, and Fleet Replacement, which provides financial resources for the replacement of vehicles and major equipment at the end of their useful lives; and

WHEREAS, the proposed Fleet Internal Service Fund Financial Management Policy establishes the framework for the financial management, billing structure, replacement funding, inflation adjustments, accounting, governance, oversight, and periodic review of the Fleet Internal Service Fund; and

WHEREAS, the Board of Mayor and Aldermen finds that adoption of the Fleet Internal Service Fund Policy will promote responsible fleet management, transparency, long-term financial sustainability, and the timely replacement of City vehicles and equipment.

Now therefore,

BE IT RESOLVED BY THE BOARD OF MAYOR AND ALDERMAN AS FOLLOWS:

Section I. The Fleet Internal Service Fund Financial Management Policy is adopted as follows:

Fleet Internal Service Fund Financial Management Policy

PURPOSE

The purpose of this policy is to establish the framework for the financial management, billing structure, and operational responsibilities of the City’s Fleet Internal Service Fund (“Fleet Fund”). The Fleet Fund exists to (1) provide centralized fleet maintenance and repair services and (2) ensure predictable, sustainable funding for timely replacement of City vehicles and equipment.

SCOPE

This policy applies to all City departments that utilize vehicles or equipment maintained or replaced through the Fleet Fund. The Fleet Fund consists of two components:

1. Fleet Operations (Vehicle and Equipment Maintenance Services)
2. Fleet Replacement (Rental Fee)

STRUCTURE OF THE FLEET FUND

Fleet Operations Component

The Fleet Operations Component functions as a centralized garage responsible for:

- Preventive maintenance
- Repairs and diagnostics
- Parts procurement and inventory
- Fueling systems oversight (if applicable)
- Management of outsourced specialty repairs
- Fleet management and administrative costs
- Short-term vehicle rental

The Operations component is funded through internal service charges billed to departments based on:

- Actual labor hours and standard labor rates
- Parts and supplies used
- Overhead allocation
- Fuel charges (where applicable)
- Other various charges such as (Samsara, Telematics, Car Wash)
- Short-term vehicle rental fees

Fleet Replacement Component

The Fleet Replacement component provides financial resources to replace vehicles and large equipment at the end of their useful lives. The funding mechanism is a depreciation recapture charge, billed monthly to the renting department.

The rental fee includes:

- Straight-line depreciation based on the asset's original purchase price and expected useful life (depreciation recapture); and
- An inflation factor, when necessary, to ensure adequate funding for the future cost of replacement.

REPLACEMENT FUNDING AND INFLATION ADJUSTMENT

Replacement Reserve

All depreciation and inflation recovery charges are deposited into a Fleet Fund. Funds are restricted solely for:

- Vehicle and equipment replacement; or
- Major component overhauls that materially extend useful life.

Inflation Considerations

Market volatility, supply chain fluctuations, and long-term inflation trends may cause replacement costs to outpace replacement reserves and any investment growth on these replacement reserves. To ensure sufficient funding, the City will:

1. **Annual Inflation Review**
   Fleet staff, in coordination with Finance, will annually evaluate:
   - Manufacturer price indices
   - Recent bid results
   - Market trends by vehicle class
   - Impacts of emissions, safety, or fuel system technology changes
   - Heavy equipment cost trends
2. **Appy an Inflationary Adjustment Factor:**
   When projected replacement costs exceed available reserves including investment growth, an annual inflation adjustment may be added to the department's replacement charge. The adjustment may be:
   - An annualized inflation factor based on historical cost increases,
   - A CPI-based percentage surcharge,
   - A fixed annual surcharge, or
3. **Underfunded Assets:**
   When the depreciation recapture / rental fee has not been adequate to meet replacement cost (due to prior underfunding, emergency extensions, or extraordinary inflation), one or more of the following may be applied:
   - Adjusting charges for the remainder of the equipment's useful life
   - General Fund or department cost-sharing contributions
   - A multi-year catch-up plan for large equipment to recapture cost
   - Phased or deferred replacement plans

Periodic Full Cost Review

Every two years, Fleet and Finance will conduct a comprehensive review of:

- Useful life assumptions and depreciation schedules
- Reserve sufficiency
- Replacement backlog
- Inflationary trends

Recommended adjustments will be incorporated during the annual budget process.

REPLACEMENT CRITERIA

Items become eligible for replacement when any of the following occur:

- Schedule useful life is reached,
- Repair costs exceed economic thresholds,
- Parts availability becomes limited,
- Required safety standards can no longer be met

Fleet may modify life cycle criteria based on operational need, technological changes, or total lifecycle cost analysis.

BILLING AND ACCOUNTING

Replacement Charges

Departments will be billed monthly as part of the internal service charge allocation. Charges will be stable, predictable, and based on established cost allocation principles.

Fund Accounting

The Fleet Fund is accounted for as an Internal Service Fund under GASB standards. Replacement Reserve balances are tracked separately for transparency and compliance.

Surplus Proceeds

Proceeds from the sale of retired vehicles or equipment are deposited into the Fleet Fund Replacement Reserves, unless otherwise directed by the City Recorder and approved by the City Manager.

GOVERNANCE AND OVERSIGHT

Fleet Manager: Oversees daily operations, lifecycle planning, rate modeling, and replacement recommendations.

Budget Manager: Oversees Fleet Fund operational and replacement charges are incorporated into annual budget. Ensures adequate replacement funding is available for replacement equipment or vehicles.

Chief Financial Officer: Ensures rate methodologies are aligned with supporting long-term sustainability and accounting standards.

City Manager (or designee): Reviews and approves annual rates as part of the City's budget process.

POLICY REVIEW

This policy must be reviewed at least every two years or sooner if operational, economic, or regulatory changes warrant revision.

SECTION IV. That the board finds that the actions authorized by this resolution are for a public purpose and will promote the health, comfort and prosperity of the citizens of the city.

SECTION V. That this resolution shall take effect from and after its adoption, the public welfare requiring it.

ADOPTED this the 1st day of September 2026.

PAUL W. MONTGOMERY, MAYOR

ATTEST:

ANGELA MARSHALL, DEPUTY CITY RECORDER

APPROVED AS TO FORM:

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RODNEY B. ROWLETT, III, CITY ATTORNEY