



**BUSINESS OF THE CITY COUNCIL
CITY OF MERCER ISLAND**

**AB 5768 Addendum
October 20, 2020
Regular Business**

AGENDA BILL INFORMATION

TITLE:	AB 5768 Addendum: Follow-Up on 10-13-20 Budget Questions: Fleet & Equipment Replacement	<input checked="" type="checkbox"/> Discussion Only <input type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	No action required.	

DEPARTMENT:	Finance
STAFF:	Matthew Mornick, Interim Finance Director
COUNCIL LIAISON:	n/a
EXHIBITS:	<ol style="list-style-type: none"> 1. Fleet M&O Budget 2. Fleet Asset Listing 3. Fleet Replacement Listing
CITY COUNCIL PRIORITY:	2. Articulate, confirm, and communicate a vision for effective and efficient city services. Stabilize the organization, optimize resources, and develop a long-term plan for fiscal sustainability.

AMOUNT OF EXPENDITURE	\$ n/a
AMOUNT BUDGETED	\$ n/a
APPROPRIATION REQUIRED	\$ n/a

SUMMARY

This addendum to Agenda Bill 5768 is a follow-up to questions asked at the October 13, 2020 City Council meeting regarding the Fleet Fund and current equipment/vehicle replacement practices – see below and the attached documents. All other questions asked during the meeting last week were included at the end of [AB 5768](#).

Follow-Up on Fleet Fund and Equipment Replacement Questions from 10-13-20 CC Meeting

Why do we need an Equipment Rental Fund for fleet operations, maintenance, and replacement?

From the [State Auditors Office](#): All counties (RCW 36.33A.010) and cities with populations over 8,000 ([RCW 35.21.088](#)) are legally required to have an Equipment Rental and Revolving (ER&R) Fund for operating county road and city street departments. ER&R funds may be expanded to provide services to other departments including public works, utilities, fire, and police. These funds provide governments with an internal funding and budgeting mechanism to essentially charge “rent” to the government's various departments for use of vehicles and equipment. ER&R funds are internal service funds and operate on a cost reimbursement basis (without generating a profit).

Cost Reimbursement for fleet equipment Maintenance & Operations (the M&O Rate)

The M&O Rate is charged to the operating department that is the primary user of the vehicle or equipment. Operating costs include those typically associated with owning and operating a vehicle including fuel, routine maintenance, parts and mechanic labor, and insurance. The **Fleet M&O Budget** (see Exhibit 1) is the operating budget for the Equipment Rental Fund for 2019 through 2022. The M&O rate is established to recover the estimated expenditures of \$1.1 million over the biennium. The total cost is allocated to individual vehicles/equipment based on a three-year look-back of actual costs by vehicle and vehicle type.

Equipment Replacement Rate

The replacement rate, also referred to as a “sinking fund contribution,” charges the primary operating department an annual amount to cover the replacement of the vehicle at the end of its useful life. Much like depreciation, the rate is determined by dividing the estimated replacement cost by the useful life of the vehicle. The estimated replacement cost is reviewed and updated each biennium. On average, the useful life of vehicles is set at 10 years (patrol cars being the exception at 4 years). The useful life for specialized equipment is determined by the manufacturer and industry best practices.

Not all City owned vehicles and equipment contribute a replacement rate. There are many vehicles that are retained past the estimated useful life. For example, a number of fleet vehicles have been retained beyond the 10-year life to ensure we have vehicles to support seasonal Park and Utility maintenance crews. In addition, the Fire department (General Fund) is not charged a replacement rate for seven of the large fire apparatus (4 Velocity Pumpers, 2 Midi pumpers, and 1 Rescue Truck). This equipment is replaced using resources set aside in the Fire Apparatus Sinking Fund.

Equipment Rental Fund Assets

This list of assets supported by the Equipment Rental Fund is attached – see the **Fleet Asset Listing** attached as Exhibit 2. A key to the color coding in this document is summarized below:

- Equipment numbers highlighted in **GREEN** indicates the asset is funded by a Utility Fund (meaning M&O and replacement rate is charged to one or more of the Utility Funds)
- **VR** red highlights in the E/V column indicates no replacement contribution is being made for this asset.
- **EX** gray highlights in the E/V column indicates the asset replacement is funded via the Fire Apparatus Sinking Fund Reserve.
- Replacement year in **PURPLE** indicates useful life has been extended beyond standard, indicating asset continues to be in good operating condition and replacement can be delayed. (see 2021-2022 budget impacts)

2021-2022 Budget Impacts

- The Public Works Director and the Deputy Finance Director met with the Fleet Mechanic and reviewed the assets scheduled for replacement in 2020 through 2022. Based on the Fleet Mechanic’s operational assessment of the vehicles (including review of the asset maintenance history), the useful life was extended for **14 fleet vehicles**. Recall that following the Fleet Audit/analysis completed in 2015, the standard fleet vehicle replacement cycle is 10 years, 4 years for MIPD patrol cars. See attached **Fleet Replacement Listing** (Exhibit 3) which identifies the assets where replacement was recommended to be delayed (purple) and the detailed estimates of capital replacement costs for those assets scheduled for replacement in 2021 and 2022.

- In 2020 and as a result of the phase 3 expenditure reductions due to the COVID-19 Pandemic, the City Council elected to suspend \$277,200 in fleet replacement contributions. This reduction in sinking fund contributions has been mitigated by extending the useful life of multiple general government vehicles. Continuing to extend useful lives beyond the standard could have an impact on Maintenance and Operations costs in future years.
- VR vehicles (those older vehicles no longer in a replacement cycle) continue to be important assets for addressing social distancing needs during the Pandemic response as well as seasonal needs. Further analysis regarding the retention and use of the VR vehicles will be completed following the budget process and once causal labor staffing levels are confirmed.
- Contributions to the Fire Apparatus Sinking Fund total \$284,045 in 2021 and \$208,016 in 2022, the decline in 2022 reflecting the end of the Fire Station/Equipment Levy Lid Lift. Funds will be used to pay debt service on the apparatus capital leases of \$210,072 per year in 2021 and 2022. The next Apparatus Capital Lease Purchases are anticipated in 2024 with the replacement of a Midi Pumper and a Velocity Pumper. See pages E-22 and E-23 of the budget document.

RECOMMENDATION

No action required.