New Castle County, Delaware

Fleet Financing Options and Fleet Administration Management Study

April 2, 2019

Background

The Team – Faegre Baker Daniels Consulting ("Faegre" or "FBDC"), Whiteford Taylor Preston ("WTP") and Davenport & Company ("Davenport") worked collaboratively with New Castle County ("the County") and the County's Fleet Administration ("Fleet") personnel to accomplish three, primary tasks:

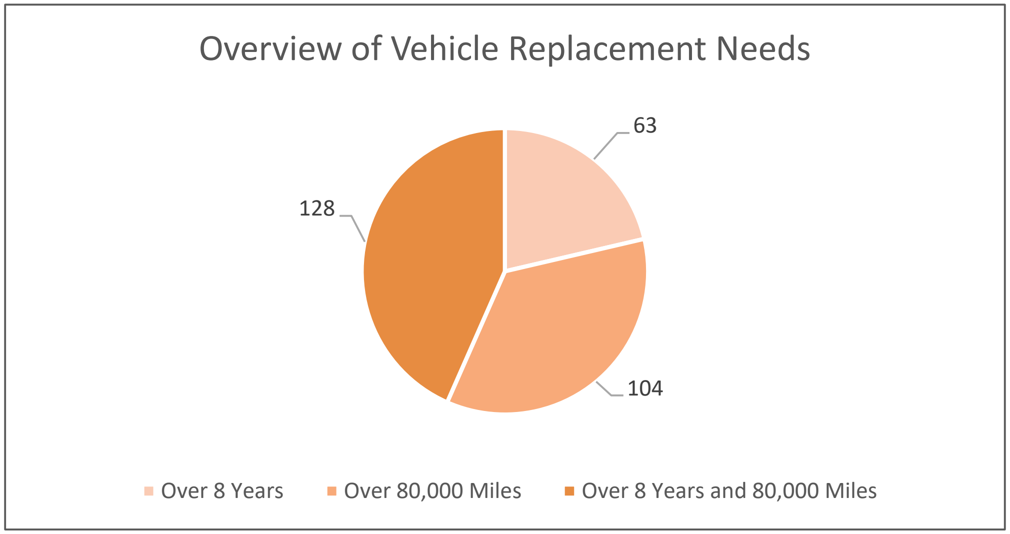
- Develop a long-term Fleet funding model;
- Review Fleet's life cycle management practices; and
- Identify other areas where Fleet or the County could capture cost savings or implement service improvements.

The Process – The Project formally kicked off on November 14th, 2018. The Project Team conducted on-site interviews and facility tours at the Public Works Department over a two-day period on November 14th and 15th, 2018.

The Scope (and Limitations) – Identify opportunities to reduce costs and improve service quality. Except for the deeper focus on fleet funding strategies and fleet replacement issues, this was generally a higher-level analysis of Fleet Administration. The review was not designed to provide detailed analysis of other Fleet Administration functions or other government activities. Therefore, some of the ideas, especially those related to Other Cost Savings Strategies, will require the County to conduct additional analysis. In some cases, adopting the strategies might also require negotiations with labor partners or a change to a law or ordinance.

Overview of Fleet Funding Needs

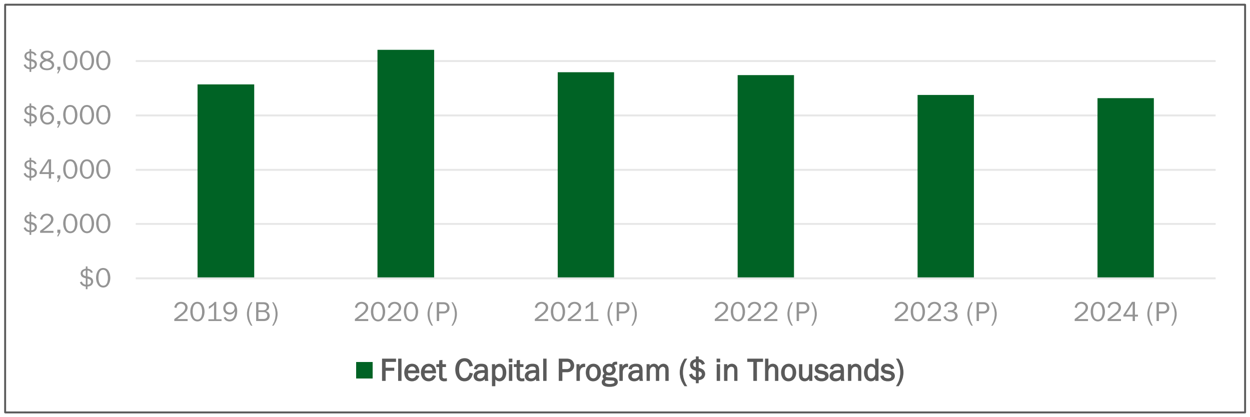
- As of October 2018, New Castle County's Fleet operation maintained approximately 1,869 assets, of which approximately 48% were vehicles.
- Fleet maintains an initial vehicle replacement benchmark that stipulates vehicles shall be inspected for potential replacement once they reach eight years of age or 80,000 miles.
  - At that time, Fleet will conduct a visual assessment to determine the vehicle's condition, urgency for replacement, and where it best fits in the lifecycle of the overall fleet operation.
- As seen below, the County maintains approximately 295 vehicles (16% of total assets) outside of its initial replacement benchmark.



Source: Fleet Performance Review Inventory Spreadsheet provided by County Staff; Interviews with County Staff

Overview of Fleet Funding Needs (continued)

- While Fleet's capital program has grown in recent years, County projections show capital funding for Fleet declining by an aggregate 7% through fiscal 2024.



- Because the capital budget is expected to decline over the coming years, it is important for the County to determine alternative financing mechanisms to help reduce, and ultimately eliminate, the number of assets that are potentially outside their current lifecycle.

- Consideration of these alternative financing mechanisms is essential in maintaining the County's triple-AAA ratings, as the rating agencies expect the County to keep up with funding its capital needs.

The alternative funding approaches seen on the upcoming slides have been adopted by several other highly rated governments without having negative credit rating impact.

Source: New Castle County Capital Program and Budget FY2019-FY2024

Current Fleet Funding Approach

- The County's current approach to funding Fleet is primarily through capital lease financings.

- As of June 30, 2018, the County maintained 78 separate capital leases for vehicles totaling $14.2 million in outstanding principal.
  - All leases are held by TD Bank, financed over five years (except for three that are financed over three years), and have interest rates that range from 1.41% to 3.15%.
  - The County has recently implemented a master lease program that will help streamline and simplify the process by which capital leases are obtained.

- While cash-funding can play an important role in funding fleet capital needs, typically this purchase method is only useful if a government has a sizeable liquidity position or has built a substantial reserve to fund fleet needs.
  - Given that the County does not currently maintain a fleet reserve to cash-fund fleet needs, and the level of funding for fleet is expected to decline going forward, we believe capital lease financing continues to be a sound funding approach for the County.

Source: Capital Lease Spreadsheet as of 6-30-18 provided by County Staff; Interviews with County Staff

Fleet Financing Option #1 (Capital Lease with Revised Terms)

- However, if the County continues financing fleet with capital leases, we believe the County should adopt vehicle-specific replacement guidelines that more closely match the useful life of an asset with the term over which it is financed, a practice that has been adopted by other highly rated governments.

This financing approach would result in annual budgetary savings that could be used to help replace vehicles that are potentially outside their current lifecycle.

- To illustrate the budgetary savings that could be generated by responsibly extending the term, we compiled a funding model that compares the County's debt service schedule with the traditional vehicle amortization (three-to-five years) to a revised debt service schedule that incorporates the extended amortization (three-to-seven years) for both the General and Sewer Funds.

- As a result of utilizing these revised financing terms, the County could save an estimated <u>$3.1 million</u> through fiscal 2024.

	General Fund Debt Service Comparison			Sewer Fund Debt Service Comparison			Total
FY	Traditional	Extended	Budgetary Cash Flow Savings	Traditional	Extended	Budgetary Cash Flow Savings	Budgetary Cash Flow Savings
2019	$5,703,955	$5,703,955	$0	$2,447,026	$2,447,026	$0	$0
2020	5,416,474	5,331,975	84,499	2,657,016	2,611,514	45,501	130,000
2021	5,457,287	5,145,929	311,358	2,297,706	2,171,167	126,539	437,897
2022	5,054,600	4,454,252	600,348	2,025,160	1,831,019	194,141	794,489
2023	5,340,745	4,641,986	698,759	2,133,437	1,856,137	277,301	976,060
2024	4,906,726	4,450,228	456,499	1,598,145	1,243,176	354,969	811,468
Total	$31,879,788	$29,728,326	$2,151,462	$13,158,490	$12,160,039	$998,452	$3,149,914

Note: Any change in the inputs and assumptions to the funding model could have an impact on projected savings.

Source: FY 2019 Estimated Vehicle Budget 10-4-2018 provided by County Staff

Fleet Financing Option #2 (General Obligation Bond)

- Another financing option that the County could utilize would be to include fleet purchases as part of the County's annual GO Bond issuance.
  - The County would have to amortize this portion of debt over a shorter period than its typical infrastructure projects to match the useful life of the fleet assets.

- This would allow the County to save an estimated $5.3 million through fiscal year 2024 if fleet assets were included in the County's GO Bond issuance utilizing a revised financing term.

	Public Sale Comp FY19-24 Projects - GF			Public Sale Comp FY 19-24 Projects - Swr			Total
FY	Traditional	Extended	Budgetary Cash Flow Savings	Traditional	Extended	Budgetary Cash Flow Savings	Budgetary Cash Flow Savings
2019	$5,224,235	$5,224,235	$0	$2,227,711	$2,227,711	$0	$0
2020	4,911,810	4,602,560	309,250	2,438,446	2,320,946	117,500	426,750
2021	4,772,027	4,168,777	603,250	2,113,042	1,889,542	223,500	826,750
2022	4,596,518	3,588,768	1,007,750	1,946,896	1,658,396	288,500	1,296,250
2023	4,896,784	3,971,284	925,500	1,919,981	1,555,481	364,500	1,290,000
2024	4,827,656	3,848,906	978,750	1,773,693	1,302,193	471,500	1,450,250
Total	$29,229,031	$25,404,531	$3,824,500	$12,419,768	$10,954,268	$1,465,500	$5,290,000

Note: Any change in the inputs and assumptions to the funding model could have an impact on projected savings.

- Because bonds would be sold in the competitive market, the interest rate obtained would most likely be lower than a rate provided by a bank under a lease.

Even if the County kept a traditional amortization term of three-to-five years, the County could save an estimated $3.5 million through fiscal year 2024 by simply including these projects in their competitive bond sale.

- Financing fleet utilizing GO bonds is a practice that has been implemented by numerous other highly rated governments without any negative rating impact.
  - In fact, funding fleet with GO bonds would be a positive credit factor given lower debt service projections.

Source: FY 2019 Estimated Vehicle Budget 10-4-2018 provided by County Staff

Fleet Life Cycle Management

Strengthen the County's Center-Led Fleet Model and Aggressively Adopt Industry Best Practices

- Create a County-wide vehicle steering committee (VSC) to control all vehicle replacement planning needs.
- Develop, adhere to, and regularly update service level agreements (SLAs) between Fleet and the user departments.
- Ensure that all Fleet procurement/leasing decisions are data driven to manage costs, including an accurate total cost of ownership (e.g., fuel costs, maintenance and repair costs, downtime and time unavailable costs, as well as residual value).
- Conduct a formal, multi-year fleet right sizing exercise to properly size and distribute the fleet across the County's using departments.
- Explore the use of inter-governmental agreements that allow for shared services between the County and other local governmental municipalities.
- Complete a full-spectrum, industry best practice review across the entire fleet organization, inclusive of maintenance and fuel.
- Initiate and develop a comprehensive vehicle utilization analysis and repeat the process annually.
- Analyze the profile of the maintenance function including, but not limited to, shop profile, mechanic productivity, downtime analysis, and specialty shop functions.

Other Fleet Cost Savings Strategies

- Implement Public Employee Gain Sharing
- Enhance Fleet Fuel Management
- Further Improve the Management of Take Home Vehicles/Pool Cars
- Evaluate the Benefits of Uber for Business and the Viability of Alternative Fuel Vehicles
- Complete the M5 Technology Deployment and Use all Available Functionality
- Enhance Fleet's Capability to do GM-Approved Warranty Work
- Better Manage and Document Fleet Availability and Improve Fleet Utilization Metrics
- Complete a Fleet Labor Productivity Analysis
- Analyze Heavy Tire Management (Internal versus External)
- Expand the Use of Fleet Telematics
- Evaluate the Efficacy of the Second Shift (Night Shift)
- Expand Consolidated Procurement Strategies Where Permitted
- Improve the Timeliness of Vehicle Preventative Maintenance

General Tactical Projects for the County

Leverage Specialized Reviews and Boutique Service Delivery Partners

- Continue and expand the County's work on Dependent Healthcare Eligibility Audits
- Continue and expand the County's work on Managed Print Services (MPS)
- Conduct a Utility Billing Audit
- Implement an Energy Savings Performance Contract (ESPC)
- Explore Tax/Fee Amnesty and Outsourced Collections
- Implement Office Supplies Strategic Sourcing and Rationalization
- Reengineer Abandoned Vehicles Management
- Continue and expand the County's work on Cell Phone/IT Equipment Audits
- Evaluate and Implement GoodRx
- Using a pilot, Monetize Access to Sewer and Stormwater Assets for Fiber Deployment
- Improve Time and Attendance Management and Explore Third-Party Payroll Processing
- Improve Management of Workers Compensation Claims and FMLA
- Improve Overall Time Management

Strategic Projects for the County

Manage People More Effectively

- Evaluate IT Outsourcing
- Explore Additional Civilianization Strategies
- Implement Managed Competition
- Evaluate Miscellaneous Compensation Changes
- Improve Overtime Analysis and Management
- Identify Lower Cost Retirement Strategies for New Hires
- Improve Park and Recreation Management and Maintenance
- Enhance Forestry Management, including Storm Response
- Better Manage Healthcare

Manage Assets More Effectively

- Increase Competitive Sourcing
- Implement Procurement Process Reforms and Strategic Contracts Review
- Improve Sewer Collection System and Treatment Operations and Management
- Accelerate Property and Facility Rationalization
- Enhance Property and Facilities Maintenance and Management
- Better Monetize Facilities

Proposed Next Steps

- Fleet and the County should carefully review the final Report and identify the specific projects that they believe have merit and are operationally viable.
- The parties can then review that list and develop a prioritization plan for implementing the identified subset of projects to maximize both efficiency and financial return.
- The parties can develop a proposed implementation plan, including a comprehensive timeline, proposed team members for each project, and a project-by-project implementation budget.
- The parties can then track and regularly report on progress (e.g., cost savings and service improvements).

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