



STAFF REPORT ACTION REQUIRED

Toronto Community Housing Corporation (TCHC) Vehicle Reserve – Transferring Fleet Management Responsibilities to Toronto Fleet Services

Date:	October 31, 2012
To:	Government Management Committee
From:	Acting Deputy City Manager and Chief Financial Officer Chief Executive Officer, Toronto Community Housing Corporation
Wards:	All
Reference Number:	P:2012\Internal Services\Fleet\Gm12005Fleet - (AFS 15935)

SUMMARY

This staff report addresses a request by City Council at its meeting on June 6, 7 and 8, 2012 for the Director of Fleet Services, City of Toronto and the Chief Executive Officer of the Toronto Community Housing Corporation (TCHC) to report to the Government Management Committee on a process to integrate TCHC's automotive fleet into the City's fleet.

Following consultations with City staff in Fleet Services; Legal Services and Corporate Finance, the City and TCHC have agreed that the City of Toronto should take over management of and assume ownership of TCHC's fleet and its subsidiary, Housing Services Inc. (HSI). Fleet Services' existing organizational structure will address TCHCs' fleet deficiencies such as internal controls and management oversight as identified in the Auditor General's review (February 6, 2012) and provide access to lower prices for vehicles, fuel, parts and insurance as well as established policies and procedures.

It is anticipated that transfer of management and ownership of TCHC's fleet to Fleet Services can commence on January 1, 2013 or as soon thereafter as possible.

RECOMMENDATIONS

The Acting Deputy City Manager & Chief Financial Officer and the Chief Executive Officer, Toronto Community Housing Corporation recommend that:

1. City Council authorize the transfer of management and ownership of all vehicles from Toronto Community Housing Corporation and its subsidiary, Housing Services Inc. to the City of Toronto.
2. City Council establish a reserve fund, "Vehicle Reserve – Toronto Community Housing Corporation" within the Vehicle and Equipment Replacement Group, to provide funding to purchase or acquire replacement vehicles and associated equipment to be used by Toronto Community Housing Corporation and its subsidiary – Housing Services Inc. Funding promotes efficiencies and provides budget stabilization by moderating large fluctuations in annual replacement costs and approve the amendment of the Municipal Code Chapter 227 (Reserves and Reserve Funds) by adding the "Vehicle Reserve – Toronto Community Housing Corporation" to Schedule '1' - Corporate Reserves – Vehicle and Equipment Replacement Group with criteria as set out in Appendix 1.
3. City Council delegate to the Director of Fleet Services Division the authority to enter into a Service Level Agreement with Toronto Community Housing Corporation on terms and conditions satisfactory to him and the City Solicitor outlining the responsibilities of each party including but not limited to vehicle purchases, corporate identity, repair, maintenance, rentals, disposal, fuel, training and overall fleet management commencing on January 1, 2013 or as soon thereafter as possible, and authorize the Director to amend and renew the agreement as and when necessary.
4. City Council direct that all Toronto Community Housing Corporation and its subsidiary – Housing Services Inc. drivers shall follow all Council and Fleet Services Division approved policies and procedures relating to fleet services.
5. City Council direct the Fleet Services Division to include the required funding and its associated recovery for assuming ownership and management responsibilities of the Toronto Community Housing Corporation and its subsidiary – Housing Services Inc. fleet in its annual operating and capital budgets.
6. City Council authorize and direct the appropriate City officials to take the necessary action to give effect to Council's decisions and leave be granted for the introduction of any necessary bills in Council to give effect thereto.

Financial Impact

Following City Council approval of the transfer of ownership and management of the TCHC fleet to City of Toronto, the required funding will be included in Fleet Services' annual operating and capital budgets, with full cost recovery from the TCHC. If the transfer is to commence on January 1, 2013, there will be no financial impact on the 2012 Approved Operating and Capital Budgets. Fleet Services and TCHC are currently working together to finalize the required funding for 2013 to be included in Fleet Services' 2013 Recommended Operating Budget and 2013 Recommended Capital Budget and 2014-2022 Recommended Capital Plan, with net zero impact to the Operating Budget and no new debt in the Capital Plan. Fleet Services will include TCHC requirements in subsequent capital and operating budget submissions.

With the proposed transfer of ownership and management of TCHC fleet to the City of Toronto, the financial analysis reveals that TCHC could realize savings of approximately \$2.6 million in Operating and Capital expenses over a five-year period.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

Toronto City Council at its meeting of June 6, 7 and 8 2012 requested the Director of Fleet Services and the Chief Executive Officer of the Toronto Community Housing Corporation (TCHC) to report to the Government Management Committee on a process to integrate TCHC's automotive fleet into the City's fleet.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX20.21>

The Auditor General's review of Toronto Community Housing Corporation in 2011 included three separate reports dealing with: a) Procurement and Payment Functions at TCHC Subsidiary - Housing Services Inc.; (b) Strengthening of TCHC Oversight of Subsidiaries and Other Business Interests; and (c) Fleet Management Control Deficiencies.

<http://www.toronto.ca/legdocs/mmis/2012/ex/bgrd/backgroundfile-46602.pdf>

This staff report deals specifically with part (c) – Fleet Management Control Deficiencies.

COMMENTS

Staff from TCHC and Fleet Services Division began discussions in early 2012 regarding the transfer of fleet responsibilities for approximately 200 light-duty vehicles from the TCHC to the City. These discussions included consultation with the City's Corporate Finance and Legal Services Divisions. TCHC's current fleet required 153 light-duty vehicles, but TCHC is currently in the process of reaffirming their fleet requirements.

Vehicle procurement, disposal and rentals

TCHC's fleet needs in the areas of procurement, disposal and short-term rentals will be assumed by the existing Fleet Services Division. Fleet Services, working with TCHC, will establish a Vehicle Replacement Program, which will include requirement for business cases for all replacement and additional vehicles.

Vehicle Repair and Maintenance

Fleet Services has completed the inspection and condition assessment for 179 of TCHC's vehicles which included 57 vehicles currently on lease. In general, the vehicles were well used but were not well maintained and are therefore in poor condition. TCHC's fleet needs in the areas of vehicle repair and maintenance will be performed by the existing Fleet Services Division. Repair and maintenance costs for vehicles will be charged back to TCHC for all work performed.

Fuel and training

TCHC's fleet needs in the areas of fuel and training will be carried out by the existing Fleet Services Division. TCHC staff will be required to adhere to Council and Fleet Services Division approved policies and procedures relating to fleet services.

Vehicle Ownership, Insurance and Licensing

Based on consultation with the City's Legal Services and Corporate Finance Divisions, transferring ownership of TCHC vehicles to the City is required in order for the City to insure their vehicles. The *City of Toronto Act, 2006* allows the City to act as an insurer of a local board. The legislation which establishes TCHC as a local housing corporation provides that it is not a local board. Accordingly, in order to be covered under the City's insurance, TCHC vehicles must be owned by the City and this staff report seeks Council approval to transfer ownership to the City. Staff will investigate the optimum time to carry out the transfer of ownership considering any tax consequences, additional costs, potential insurance cost savings and licensing requirements. Any proceeds from the sale of TCHC vehicles no longer used in the fleet will go towards TCHC's vehicle reserve fund.

Staff estimates insurance cost savings to be \$13,504/year with improved liability coverage and \$0.00 deductible as shown in Table 1.

Table #1 – Insurance Coverage

Coverage Difference	TCHC's Existing Program	City's Insurance Program
Self Insured Retention on physical damage to vehicle (deductible)	\$500 (39 vehicles no coverage)	\$0 – all vehicles
Limit of liability coverage	\$2,000,000	\$95,000,000

Service Level Agreement

The Fleet Services Division maintains Service Level Agreements (SLA) with all its major clients. The SLA spells out the roles and responsibilities of each party and such an agreement should be entered into between the TCHC and the City. This SLA will include but not be limited to vehicle purchases, corporate identity for TCHC vehicles, repair, maintenance, rentals, disposal, fuel, training and overall fleet management commencing on January 1, 2013, or as soon thereafter as possible. The SLA will also include provisions associated with the transfer of the fleet.

Financial Implications for TCHC

Operating Costs:

The transfer of management of the TCHC fleet to the City of Toronto will result in substantial Operating Cost savings to TCHC assuming that they had implemented a maintenance program similar to the City's robust program. The cost savings assumed are mainly a result of the City's competitive advantage due to economies of scale and are estimated at about \$430K in total per year for TCHC. See Table #2.

Additionally, TCHC has 30 light-duty vehicles that it has chosen to take out of service to arrive at 153 light-duty vehicles. These 30 light-duty vehicles will be transferred to the City of Toronto Fleet Services Division, and the proceeds from the sale of these vehicles will be used towards the vehicle reserve fund.

Table #2 – Operating Expense Comparison

Cost Breakdown (based on 153 vehicles)	Market Cost	City of Toronto Rates	Estimated Annual Savings	
Total Fuel Cost:	\$369,508	\$326,873	\$42,635	12%
Insurance Expense:	\$177,293	\$163,789	\$13,504	8%
Maintenance Cost:	\$825,797	\$463,406	\$362,391	44%
Fleet Administration Cost:	\$11,422	\$0	\$11,422	100%
Lease Costs:	\$84,157	\$84,157	\$0	0%
Plate Permits	\$17,145	\$17,145	\$0	0%
Total Operational Expense	\$1,485,322	\$1,055,370	\$429,952	29%

Capital Costs:

With respect to Capital Costs, it is estimated that over a 5-year period, TCHC would be able to realize cost savings of over \$408,000 for replacement of 106 of its fleet vehicles. This significant cost savings is due to the fact that the City is able to take advantage of the benefits of the Ontario Broader Public Sector discounts as shown in Table #3.

Table #3 – Five-Year Capital Cost Estimate

Replacement Year	Number of Vehicles to be Replaced	Estimated Replacement Cost (TCHC Rates)	Estimated Replacement Cost (City Rates)	Estimated Annual Savings	
2013	29	\$ 942,500	\$ 830,000	\$ 112,500	12%
2014	16	\$ 528,000	\$ 470,000	\$ 58,000	11%
2015	17	\$ 569,500	\$ 510,000	\$ 59,500	10%
2016	2	\$ 66,000	\$ 60,000	\$ 6,000	9%
2017	42	\$ 1,407,000	\$ 1,235,000	\$ 172,000	12%
Total	106	\$ 3,513,000	\$ 3,105,000	\$ 408,000	12%

Overall Impact:

It is estimated that over a 5-year period, TCHC would realize Operating and Capital cost savings of approximately \$2.6 million if its fleet is transferred to the City. Apart from the financial benefits, TCHC would greatly reduce its legal risks by ensuring that all of its fleet vehicles are road worthy and safe for employees to drive.

Administration of Reserve and Reserve Funds

Staff from Fleet Services and Corporate Finance is recommending the creation of a Vehicle Replacement Reserve Fund for the TCHC in order to collect contributions and pay for replacement vehicles and associated equipment. Funding promotes efficiencies and provides budget stabilization by moderating large fluctuations in annual replacement costs. The reserve will be called the Vehicle Reserve – Toronto Community Housing Corporation with criteria as outlined in Appendix 1. The vehicle reserve fund will include the funds associated with the sale of 30 vehicles.

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Appendix 1

Vehicle Reserve – Toronto Community Housing Corporation

Location within the Consolidated Reserves/Reserve Funds Schedule

This account will be included in Schedule #1 – Corporate Reserves as part of the Vehicle and Equipment Replacement Reserve Group.

1. Statement of Purpose

The account will be used to provide funding to purchase or acquire replacement vehicles and associated equipment to be used by the Toronto Community Housing Corporation and its subsidiary – Housing Services Inc. Funding promotes efficiencies and provides budget stabilization by moderating large fluctuations in annual replacement costs.

2. Designation of the Beneficiary Program Area

The Director of Fleet Services shall have primary responsibility for the account.

3. Rationale for the appropriate level to be maintained or target in the account, as appropriate

Nil

4. Initial Contribution

Nil

5. Contribution Policy

The funding for the reserve comes from a fee applied to each Toronto Community Housing Corporation/Housing Services Inc. vehicle and paid by the Toronto Community Housing Corporation on the basis of a formula which takes into consideration the replacement cycle of each vehicle type.

6. Withdrawal Policy:

Funds will be withdrawn as part of the normal Fleet Services capital or operating budget.

7. Review Cycle

The need for this reserve fund will be reviewed every five years.