
2014 BUDGET BRIEFING NOTE

Fleet Services – Vehicle & Equipment Capital Reserves

Issue/Background:

As part of the annual budget process, Fleet Services recommends and provides estimates on the minimal amount of budgeted contributions to the Vehicle and Equipment Replacement reserves to the City Programs and Agencies for the submission year. While most contributions have been consistent with Fleet Services' recommended amounts, some budgeted contributions have not kept pace with the recommended amounts.

At its meeting on September 9, 2013, The Government Management Committee requested the Chief Corporate Officer to report back to Committee on which divisions have not been committing sufficient capital reserve contributions for vehicle replacements and the replacement/sustainability concerns and increased costs.

The staff report was tabled at the Government Management Committee's meeting on November 21, 2013. Fleet Services in collaboration with Divisions and Financial Planning will develop a strategy to establish minimum reserve balances to be maintained by all City Programs and Agencies. (<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.GM26.14>)

Key Points:

- The Fleet Capital Replacement Plan is fully funded from the respective Division's Vehicle and Equipment Replacement Reserves. The Reserves are financed annually by the Division's budgeted contributions to their Vehicle and Equipment Replacement Reserves from their Operating Budgets.
- As part of the current annual budget process, Fleet Services will recommend and provide estimates on the minimal amount of budgeted contributions to the Vehicle and Equipment Replacement reserves to the Divisions for the submission year. Estimates provided for:
 1. The monthly replacement amounts for licensed vehicles, street sweepers and litter vacuums
 2. The estimated replacement cost of off-road equipment due for replacement

- In 2005, City Council directed all programs, commencing in 2006 to commit to the policy of contributing to the Vehicle and Equipment Replacement Reserve for all new purchases. Fleet Services established the reserve contribution amount based on the:

$$\frac{\text{Future replacement cost less end of life salvage value}}{\text{Projected useful life in months}}$$

- For fleet replacements managed by Fleet Services, monthly contribution rates have been established for licensed vehicles as well as street sweepers and litter vacuums.
- The majority of off-road equipment such as backhoes, tractors and mowers are funded through a one-time annual contribution as needed.
- There is no immediate financial impact on the 2013 and 2014 Budgets. The total balance of the total vehicle and equipment replacement reserves will be in a deficit position, \$(5.004) million at the end of 2017 based on current information and assumptions.
- At the end of 2023, assuming no corrective action taken, the total vehicle and equipment reserves will be in a deficit position of \$(54.868) million.
- The major programs that are affected are: Transportation Services, Fire Services, Parks, Forestry & Recreation, Solid Waste Management, Fleet Services and Toronto Water.
- Included in the staff report are three (3) recommendations to adjust funding shortfalls for the affected programs starting in 2015:
 1. In conjunction with Financial Planning and Divisions, develop a financing strategy to determine minimum vehicle reserve balances in time for the 2015 Budget Process. Options may include:
 - The utilization and rationalization of the current fleet complement
 - Extending vehicle life cycles
 - Increasing reserve contributions
 - A combination of the above

It should be noted that current and future service delivery plans will also impact fleet requirements. Part of the funding strategy must take these into account and determine whether the forecasted requirements are still appropriate.

2. Fleet Services in consultation with Financial Planning, establish a monthly replacement reserve contribution for all off-road equipment and determine the feasibility of including such contributions as part of the 2015 Operating Budget Process.

3. The Director of Fleet Services continue to lead and educate the program areas on proper use and maintenance of vehicles to maximize useful life, minimize operating costs and maintain safety standards.

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