



Office of the City Manager

INFORMATION CALENDAR

February 19, 2013

To: Honorable Mayor and Members of the City Council

From:  Christine Daniel, City Manager

Submitted by: Andrew Clough, Director, Public Works

Subject: Status Report: Equipment Replacement Fund – Sustainability and Transparency

SUMMARY

In October 2010 the City Auditor issued an Audit Report on [Equipment Replacement Fund – Sustainability and Transparency](#)¹. The Audit objectives asked: 1) Are the City's equipment replacement reserves sufficient?; 2) Is the City adequately monitoring equipment replacement activity?; and 3) Do procedures provide reasonable assurance that replacement vehicles and equipment meet the needs of the users?

The Audit Report included 5 findings and 16 recommendations directed to Public Works, Information Technology, Finance, and the City Manager for implementation. The first status report was submitted to Council in [June 2011](#)², and the second status report was submitted to Council in [February 2012](#)³, at which time there were 7 outstanding recommendations. This status report includes 1 recommendation that is in part partially implemented and in part fully implemented; 1 that is partially implemented; 3 other fully implemented recommendations; and 2 recommendations not yet implemented. Another status report will be submitted by July 2014 on the recommendations that remain open.

CURRENT SITUATION AND ITS EFFECTS

The following information updates the implementation of recommendations since the last Audit Status Report in February 2012. Unless otherwise noted, these are for Public Works only.

¹ Equipment Replacement Fund – Sustainability and Transparency: www.cityofberkeley.info/uploadedFiles/Clerk/Level_3_-_City_Council/2010/10Oct/2010-10-26_Item_15_Audit_Equipment_Replacement_Fund_T_Sustainability_and_Transparency.pdf

² June 2011 Status Report: [www.cityofberkeley.info/uploadedFiles/Clerk/Level_3_-_City_Council/2011/06Jun/2011-06-14_Item_42_Status_Report_Equipment_Replacement_Fund\(1\).pdf](http://www.cityofberkeley.info/uploadedFiles/Clerk/Level_3_-_City_Council/2011/06Jun/2011-06-14_Item_42_Status_Report_Equipment_Replacement_Fund(1).pdf)

³ February 2012 Status Report: www.cityofberkeley.info/uploadedFiles/Clerk/Level_3_-_City_Council/2012/02Feb/2012-02-14_Item_17_Status_Report_Equipment_Replacement_Fund.pdf

Finding 1 Do We Know the Backlog and Cost?

Recommendation 1.2: Update Fleet Management records so that all backup equipment is identified as such in Fleet Management.

Status: Implemented. Records have been updated. All backup equipment will continue to be identified as such in Fleet Management.

Recommendation 1.3: In the equipment replacement schedules in the Equipment and Fleet section of the Capital Budget, identify the specific equipment proposed for replacement in the budget cycle, and year each piece of equipment was originally scheduled for replacement. Additionally, include a narrative disclosing the equipment replacement backlog. If the backlog is more than \$1 million, identify the reason and develop an action plan.

Status: Implemented. The Equipment and Fleet section of the Capital Budget (CIP) includes equipment replacement schedules with the specific pieces of equipment proposed for replacement in the budget cycle, and the year each piece of equipment was originally scheduled for replacement. Public Works prepared a brief narrative for the current CIP book that discloses the equipment replacement backlog, and an action plan for those items that will be scheduled for purchase.

Finding 2 How Sustainable Is the Fund?

Recommendation 2.1: (A) Develop a plan to significantly reduce the equipment replacement backlog by 50% to \$1.8 million within the next 5 years. (B) Develop a plan to increase the equipment replacement reserve fund to at least 10% of the replacement value of the fleet within the next 7 years. These written plans should be approved by the PW Director.

Status 2.1 (A): Partially Implemented. The backlog is identified in the 5-year Capital Improvement Plan, with a portion included in each year's replacement schedule, reducing the backlog by at least 50% in the next 2 years. Since the last report, the City purchased equipment costing \$2.5 million, including larger and more expensive vehicles that were not all in the backlog, some of which are part of implementing the change in curbside refuse collection. These purchases replaced 10 refuse trucks, 2 sweepers and 1 vactor truck, in addition to other light duty trucks and sedans that were part of the backlog. The result is a current backlog of \$2.4 million.

Status 2.1 (B): Implemented. The fund balance in the Equipment Replacement fund is \$7.8 million. The audit recommendation calls for a fund balance of \$5.2 million (10% of the estimated cost to replace all vehicles in the equipment replacement program plus \$2.4 needed to replace vehicles that are already past due for scheduled replacement).

Recommendation 2.2: Consider establishing new fees, such as an administrative fee, to pay for salaries and benefits currently paid for with equipment replacement funds. Also consider establishing a use fee to pay for car rental.

Status: Partially Implemented. A proposed plan has been drafted for fees related to the use of City CarShare. The recommended administrative fee is being considered, and a final plan will be adopted and implemented with the FY 2015 budget.

Recommendation 2.3 for City Manager: When equipment replacement reserves are used to balance the budget in another fund, such as the general fund, consider treating this transaction as a loan with a formalized repayment plan, where appropriate.

Status: Implemented. Loans from one fund used to balance another fund are approved by Council as part of the budget process, which would include a repayment plan. For example, in June 2011 Council approved a loan up to \$500,000 from the Worker's Compensation Fund for the Payroll Deduction Trust Fund to be paid back over 3 years. In the event that Equipment Replacement reserves are to be used as a loan to balance the budget in another fund, such as the General Fund, this transaction would be treated in a similar manner as the loan described above, from the Worker's Compensation Fund.

Finding 5 Are Departments Charged Correctly?

Recommendation 5.2: Provide department monitors with written procedures that explain how to check monthly replacement fees.

Status 5.2: Implemented. Public Works adopted written procedures to correspond with the new demand report developed by IT, and provided an orientation to the report for Departments so they can monitor these fees. Documentation will also be distributed at the Fleet Users Group meeting in March 2013.

Recommendation 5.3: To cover the ever increasing cost to replace a vehicle, once planned monthly replacement fees have been collected, a portion of the monthly replacement fee should continue to be collected until the replacement vehicle is purchased.

Status 5.3: Not Implemented. This recommendation will be implemented as part of the FY 2015 budget.

BACKGROUND

The Public Works Equipment Maintenance Division operates facilities at both the Corporation Yard and Transfer Station, managing the City's 662 fleet vehicles, heavy duty trucks and large equipment, including public safety, fire, and alternative fuel vehicles and equipment. The Division provides all related maintenance, repair and purchases; conducts annual safety inspection of taxis; and working with the Environmental Compliance Specialist, monitors underground fuel tanks. The Equipment Replacement Fund Audit focused on the sustainability, Fund status, and transparency, information records and ease of use for departments.

POSSIBLE FUTURE ACTION

Implementation of outstanding recommendations.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Specific fiscal impacts not already budgeted are unknown at this time.

CONTACT PERSON

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