Fleet Fund Policy and Analysis

Finance Committee Meeting
July 22, 2026

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Background

August 2024

Fleet Study Complete by Baker Tilley

October 2025

Fleet Fund Analysis & Policy Work by A. Maze, Inc. Commenced

April 2026

Fleet Fund Analysis& Policy Work Complete

July 2026

Fleet Fund Policy & Analysis Presented to Finance Committee

Fleet Fund is an Internal Service Fund

- **What is an Internal Service Fund?**
  - An Internal Service Fund (ISF) A fund used to account for centralized services provided to City departments, with costs recovered through charges to the departments that receive the services.
- **Why is a Fleet Fund ISF Important?**
  - Promotes cost recovery by charging departments for the actual cost of vehicle, including maintenance, fuel, and replacement.
  - Provides sustainable vehicle replacement funding by collecting replacement costs over the useful life of vehicles, reducing the need for large one-time capital requests.
  - Promotes consistent replacement schedule before maintenance costs become excessive.
  - Minimizes potential disruption to service delivery to the community.

Fleet Replacement: Challenges and Funding Needs

Ongoing Fleet Replacement Needs

- City Fleet
- Police Fleet
- Fire Fleet
- City Equipment

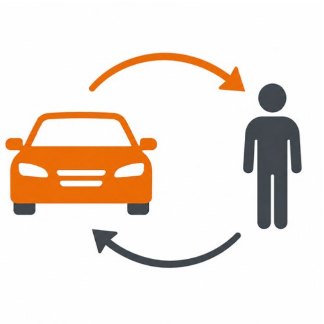
Ongoing Operational Needs for Core Services

- Procurement Challenges
- Public Safety Fleet Challenges
- Fire Fleet - Estimated date of delivery is approximately 4-5 years from date of order

Funding Challenges

- Budgetary challenges
- Historic practice of deferring fleet replacement
- Underfunding for future replacements

Why a Sustainable Fleet Fund Is Needed



Support Delivery of Core Services

Minimize Maintenance & Repair Costs

Improve Financial Stability

Key Policy Highlights

Creation of new funds for better accounting transparency

- Fleet Maintenance Fund
- Fleet Capital Replacement Fund

Reserve Targets

- ***Fleet Maintenance Fund*** – minimum reserve for this operating fund is hereby established with a reserve target of 20% for annual operating costs
- ***Fleet Replacement Fund*** - replacement fund will have a minimum reserve target of the calculated replacement costs that should be recovered by the end of the budgeted fiscal year. Reserve Target of 20%

New Assets

- Request for new asset must be provided to the Finance Director and Fleet ISF Administrator to be added to the ISF equipment inventory -- such requests will require the identification and approval of a funding source for the initial acquisition; replacement charges will be assessed; and ongoing operational expenses

Common Funding Approach

- Research yielded no local jurisdictions with a reserve policy for funding fleet capital replacement
- Fleet Capital Replacement Approach - “Pay-As-You Go” Model
    - Minimal fund balance maintained
    - Evaluation and prioritization of replacement needs during budget process
    - Replacement deferral due to budget constraints
    - Interfund transfers from operating funds to build reserves or fund current year replacement needs – Reliance on General Fund

PAY-AS-YOU-GO vs. FLEET REPLACEMENT RESERVE

COMPARING FLEET FUNDING APPROACHES

FACTOR	PAY-AS-YOU-GO (PAYGO)	FLEET REPLACEMENT RESERVE
HOW IT WORKS	• Vehicles are funded from current-year operating revenues or available funds when replacement is needed.	• Funds are set aside annually in a dedicated reserve to accumulate resources for future replacements.
FUNDING SOURCE	• Current revenues, fund balance, or other available funding at time of purchase.	• Annual contributions budgeted to a dedicated fleet replacement reserve or internal service fund.
ANNUAL BUDGET IMPACT	• Lower and variable. • Large, one-time costs when vehicles are replaced.	• Stable and predictable annual contribution. • Spreads costs evenly over time.
REPLACEMENT TIMING	• More likely to delay replacements during tight budgets.	• Supports timely replacement based on age, mileage, or condition.
MAINTENANCE COSTS	• Typically higher over time due to older vehicles remaining in service.	• Typically lower due to newer, well-maintained fleet.
BUDGET & OPERATIONAL RISK	• Higher risk of budget spikes, service disruptions, and reliability or safety issues.	• Lower risk with predictable funding and more reliable fleet.
FLEXIBILITY	• Greater short-term flexibility to use funds for other priorities.	• Less flexibility; funds are committed to future replacements.
FINANCIAL HEALTH & PLANNING	• Less predictable; harder to plan for large future needs.	• More predictable; supports long-term financial planning and asset management.

5-Year Fleet Fund Financial Forecast

	A	B	C	D	E	F	G
		FY 2027	**FY 2028**	**FY 2029**	**FY 2030**	**FY 2031**	**FY 2032**
1	Internal Service Fees	$2,500,000	$3,000,000	$3,090,000	$3,182,700	$3,278,181	$3,376,526
2	Interest Income	$333,600	$343,600	$353,900	$364,500	$375,400	$386,700
3	Interfund Transfer-In		$1,500,000	$1,500,000	$1,500,000		
4	**TOTAL REVENUE**	**$2,833,600**	**$4,843,600**	**$4,943,900**	**$5,047,200**	**$3,653,581**	**$3,763,226**
5							
6	Salaries & Benefits	$666,834	$686,800	$707,400	$728,600	$750,500	$773,000
7	Contractual and Other Services	$574,558	$591,800	$609,600	$627,900	$646,700	$666,100
8	Materials and Supplies	$708,625	$729,900	$751,800	$774,400	$797,600	$821,500
9	Other Operating Costs	$456,890	$470,600	$484,700	$499,200	$514,200	$529,600
10	***Operating Subtotal***	***$2,406,907***	***$2,479,100***	***$2,553,500***	***$2,630,100***	***$2,709,000***	***$2,790,200***
11	Capital Acquisition	$610,672	$1,938,793	$3,001,171	$3,656,192	$1,333,523	$2,762,372
12	**TOTAL EXPENSES**	**$3,017,579**	**$4,417,893**	**$5,554,671**	**$6,286,292**	**$4,042,523**	**$5,552,572**
13	Change in Net Position – (Use of Reserves) / Surplus	($183,979)	$425,707	($610,771)	($1,239,092)	($388,942)	($1,789,346)
14	Beginning Balance	$2,406,410	$2,222,431	$2,648,138	$2,037,367	$798,275	$409,333
15	Ending Balance	$2,222,431	$2,648,138	$2,037,367	$798,275	$409,333	($1,380,013)

Next Steps

August – September 2026

Accounting Changes - Rename / Add New Fleet Funds	Process entries to establish new account balances and budget appropriations

October – November 2026

Develop and refine financial forecast tool for reach new fund	Incorporate reserve targets to determine revenue needs, including General Fund impacts

December 2026

Finance Committee Update	Provide funding plan with the incorporation of reserve targets

January – March 2027

Incorporate financial planning for new Fleet Maintenance and Fleet Capital Replacement Funds as part of the FY 2028-2029 Biennial Budget Process

Discussion and Feedback

Provide feedback and direction on reserve targets for Fleet Maintenance Fund and Fleet Capital Replacement Fund

Feedback will be used to develop funding models and recommended funding plans