

**Commission on California State Government
Organization and Economy**

**FINDINGS AND RECOMMENDATIONS CONCERNING
AUTOMOTIVE FLEET MANAGEMENT**

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Assemblyman Milton Marks, Vice Chairman**

**Assemblyman John T. Knox
State Senator George Miller, Jr.
Manning J. Post
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**Richard E. Sherwood
Roy Sorenson
State Senator Vernon L. Sturgeon
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L. H. Halcomb, Jr., Executive Secretary

COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY

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Executive Secretary

June 24, 1963

LETTER OF TRANSMITTAL

and

SUMMARY OF FINDINGS AND RECOMMENDATIONS

Automotive Fleet Management

Honorable Edmund G. Brown
Governor, State of California

Honorable Hugh M. Burns
President pro-Tempore, and to Members of the Senate

Honorable Jesse M. Unruh
Speaker, and to Members of the Assembly

Gentlemen:

Attached you will find the report of the Commission on California State Government Organization and Economy on the subject of Automotive Fleet Management. This is the third and last report of the Commission to be presented to you during the current fiscal year. The report is the result of several Commission meetings and several months of staff study. Testimony has been received from many persons active in public and private fleet management and other phases of the automotive industry. Extraordinary leadership has been provided and much time and energy devoted by Commissioner Manning J. Post, who himself has had long experience in various phases of the automotive industry. In presenting this report, the Commission would express its special thanks to one of its members for his unusual contribution. The recommendations and findings are, of course, those of the entire Commission.^{1/} Commissioner Richard Sherwood, while

^{1/} Commissioner and State Senator George Miller, Jr. earlier expressed agreement with the general recommendations here set forth but, due to his unfortunate hospitalization, has not reviewed this final draft. Similarly, Commissioner Frank D. Tellwright was unable to participate in the final deliberations of the Commission inasmuch as he was out of the country during much of the study. However, he recognized the need for the proposed change of policy and was in general agreement with an earlier replacement schedule for the state government's passenger vehicles.

joining in this report, is of the opinion that the state government should further explore the purchase of automobiles directly from the manufacturer as is done for many other state purchases. His statement in this respect, which has the concurrence of Commissioner Sol Price, is appended to this report.

In brief, the Commission concludes that the State of California has one of the largest passenger automobile fleets in the world, in excess of 12,000 vehicles, but that it is operating under outmoded and uneconomic policies established during the war years of automobile scarcity. In proposing changes in policy, the Commission is recommending that the State of California engage in what has long been regarded as standard practice in private fleet management.

Specifically, the policy of retaining cars until they have reached 100,000 miles is no longer in the best interest of the State from the standpoint of either economy or service. Conditions have changed; the State's policies have not. The Commission has not been able to discover any other large fleet owner in the United States who pursues the same policies as does California. The 100,000 mile policy is inconsistent with the following facts:

1. Maintenance costs increase rapidly once the car has passed 20,000 miles, and this is increasingly true of currently produced automobiles.
2. Unlike private experience, the first-year depreciation on a state-purchased vehicle is the same or lower than is the depreciation in subsequent years. This results from the low purchase price which the State receives and the absence of the Federal excise tax.
3. Employee time-loss, safety, morale and other factors are all affected adversely by the policy of driving inefficient vehicles.

These findings lead the Commission to conclude that substantial savings, possibly in excess of one-million dollars annually, would result from a policy of more frequent replacement of the State's passenger fleet. The Commission recommends that careful consideration be given to an annual replacement policy, although it has been unable to obtain adequate information as to the cost of administering such a program. But there is no question that either an annual or, at most, a triennial replacement policy would result in significant savings and a great increase in efficiency.

These savings can be maximized if the State is permitted--consistent with the best practice in private fleet management--to be more flexible in its purchasing practices of new passenger automobiles. Testimony before the Commission has indicated that the depreciation on similar makes of cars varies considerably, particularly in the first few years. The important cost to the State is not the low bid but the net cost of owning the car--the difference between the purchase price of the new car and the sale price of the used car. It also appears true that the differential depreciation among makes is generally consistent over the years. Therefore, the Commission recommends that the State be permitted (not required) to take potential resale value into account in determining the

low bidder. Any dealer who disagrees with the State's determination of the resale value of his make can, with the cooperation of his manufacturer, still obtain the award by entering into a "guaranteed resale value" contract with the State. This is described in detail in the report. The Commission's proposal has been introduced as AB 2576 before the Legislature.

Testimony before the Commission has revealed that there is an undisclosed and probably substantial amount of non-compliance with State purchasing specifications related to the pre-delivery service rendered by dealers. Pre-delivery service to a new car is of great importance in determining the future performance and maintenance requirements of the car. The Commission recommends that immediate attention be given to either insuring dealer compliance with bid specifications or to the State providing the service itself.

The Commission also recommends that the State investigate new procedures and practices for the disposal of its passenger fleet. This will become a major undertaking if a stepped-up replacement policy is adopted. The Commission commends for consideration the utilizing of the licensed wholesale dealer auctions as well as other programs set forth in the report.

The Commission brings to the attention of the Administration and the Legislature the fact that no less than 42 separate departments and agencies of State Government are now exercising varying degrees of control over the operation and maintenance of vehicles. An effective and efficient fleet-management program will require much more centralized authority and responsibility than is now being exercised, if the substantial savings here presented are to be realized. This is a prime task of the Department of General Services, the establishment of which has been previously recommended by this Commission.

In conclusion, the Commission commends the kind of inquiry which it has here undertaken as indicative of the type of investigation which should be regularly and aggressively undertaken by the Administration itself, utilizing the voluntary services of private citizens of great knowledge and experience in particular subject-matter areas as well as the talents of those within State Government. To such persons, inside and out of the administrative branch, who have worked with the Commission in this study, we express our sincere gratitude.

Respectfully,

Eugene C. Lee, Chairman
Assemblyman Milton Marks, Vice Chairman
Assemblyman John T. Knox
Manning J. Post
Sol Price
Richard Sherwood
Roy Sorenson
State Senator V. L. Sturgeon
Dair Tandy

AUTOMOTIVE FLEET MANAGEMENT

A Review of State Policies and Practices in the Acquisition, Maintenance, and Disposal of Standard Passenger Vehicles

The State of California owns and operates one of the largest fleets of passenger vehicles in the world. Records from the Department of Motor Vehicles indicate that in January 1963, 42 departments and other organizational units of the State Government, exclusive of the University of California, held title to 9,111 passenger cars and station wagons and 3,458 light passenger-type pickup trucks. These 12,569 passenger units are, of course, in addition to heavier trucks and miscellaneous work units such as fire trucks snowplows, cranes, trailers, tractors, and graders bringing the total to well over 20,000 units. The interest of the Commission on California State Government Organization and Economy is in insuring that this huge fleet of automotive equipment is maintained and operated as efficiently and economically as possible.

The scope of this report is limited to state policies and practices in the acquisition, maintenance, and disposal of standard passenger vehicles. Considerations related to departmental and employee use of such vehicles may well be the subject of a subsequent analysis. Similarly, this particular study does not encompass the operation of the State Government's fleet of heavy work vehicles nor does it include the acquisition and disposal practices for specialized automotive equipment utilized by the law enforcement agencies of the State Government. Over a period of several years it is believed that the Commission's recommendations would be applicable to at least 10,000 passenger vehicles. It is also believed that modified policies adjusted for specialized use requirements would be beneficial for the remainder of the fleet.

Because the State Government does not maintain a centralized inventory showing the various type of vehicles included in the state fleet, i.e. model, age, and type of passenger cars, pick-up trucks, tractors, etc., there is no way of determining the exact value of the fleet without making an exhaustive and time-consuming survey of each state agency and its records. The Department of Finance estimated in August, 1962 that the passenger car fleet represented a capital investment of about \$10,000,000 and the State's entire investment in automotive equipment was over \$20,000,000. This estimate was made on a most informal basis and there is evidence that the actual market value of the fleet may be substantially different from that indicated.

It is clear, though, that the size of the State's entire automotive fleet has increased by over 60 percent in the past ten years and the passenger fleet has nearly doubled. With the steady substantial growth of the population of the State together with proportionate increase in the demand for essential state services, continued expansion of the fleet can be reasonably expected. Capital and operating expenditures for the maintenance of such a fleet involve expenditures in the millions of dollars. It is essential, therefore, that administrative and management policies affecting the fleet be constantly reviewed. In California the maintenance practices havenot been altered basically nor has the length of time for which passenger vehicles are kept in service been changed, to our knowledge, in the past 25 to 30 years.

Current Automobile Acquisition, Maintenance, and Disposal Practices

The State acquires passenger vehicles on the basis of formal competitive bids as provided by the State Purchasing Act. All such equipment is purchased through central purchasing in accordance with specifications prepared with the advice of each of the 42 ordering departments and other units and reviewed by the Automotive Management Section of the Department of Finance. Passenger cars and

pick-up trucks are purchased in blocks ranging from 2 to 500 with deliveries staggered over a period of several months at the three metropolitan centers of Los Angeles, San Francisco, and Sacramento. For all practical purposes, awards are made solely on the basis of purchase price. No consideration is, or apparently can be under existing law, given to the probable recovery or resale price of the vehicle.

Pre-delivery service requirements are spelled out in detail in the purchase specifications. However, despite this fact this specified service is actually rarely provided by dealers delivering the automobiles. Only the Division of Highways provides the actual make-ready and adjustment service that is essential for making a vehicle ready for efficient and safe use.

Automobiles are maintained both in state garages and by private shops. Except for the Division of Highways' vehicles, most major repair or overhaul service is done on a job basis by private repair facilities. Maintenance and operating cost records are kept in varying degrees by the 42 separate departments holding title to the vehicles. The Division of Highways maintains detailed unit cost records for vehicles under their supervision; the Department of Finance maintenance accounting system accumulates costs by 10,000 mile segments by make of vehicle for the 2,452 vehicles in the central pool; and the other organizational units maintain records of the automotive vehicles to which they have title on a less formal basis. Valid comparison is difficult.

In accordance with administrative policy, passenger vehicles, except for Highway Patrol cars, must be driven 100,000 miles before the Department of Finance gives approval for their replacement. After receipt of this approval they are sold by Finance Department conducted public auctions and in the instance of Public Works and Highway Patrol cars by sealed bids. The dollar amount received for such vehicles has actually been quite good for vehicles that are seven to ten years old which have seen 100,000 miles of hard service and for which the demand is relatively limited.

Economic considerations affecting the purchase and replacement of state automobiles together with conditions in the automobile industry have changed considerably since existing state policies in these matters were established. Current replacement policies and practices were placed in effect during World War II, when the lack of new passenger cars required usage of vehicles far beyond that dictated by sound economics. Under today's market conditions, state policies do not reflect the most advanced thinking in fleet management. In fact, the Commission is unaware of any other publicly or privately owned fleet operating under such a policy. In addition the transportation service provided by the State Government for official use is, at times, inefficient and unsafe and the morale of the employee for which the service is provided is low.

Vehicle Depreciation Cost Considerations

Factors affecting the price paid by a state government or other large governmental user for automobiles include the advantage of purchasing on a fleet basis, public and sales relations considerations resulting in high factory and dealer interest, and the exemption from the 10 percent federal excise and in some instances certain state and local taxes. These factors result in a purchase price which is actually below an automobile dealer's normal cost. California automobile dealers have provided such vehicles to the State Government on a competitive bid basis at most favorable prices. In many instances the unit price paid by the State has been as low as \$15 over the dealer's actual cost.

It follows logically, that the State will experience a proportionately smaller depreciation cost when the vehicle is resold in a normal market than would be true of a typical private sale. This position must be recognized if the fleet is to be administered as economically and efficiently as possible.

Per-mile vehicle maintenance costs, discussed in the next section of this report, triple after the first 20,000 miles of use. Ordinarily, the large first-

year depreciation cost of an automobile does not permit a private user to replace a vehicle economically before these maintenance costs rise. This relationship of depreciation cost to maintenance cost, however, is different in the instance of the State Government since it does not experience a proportionately high first-year depreciation cost. In fact, this abnormal relationship results in a situation wherein the second year depreciation is actually greater than that of the first year. For example, according to the Kelly Blue Book Auto Market Report, a six cylinder 1961 model Ford Sedan purchased in the fall of 1960 on a state contract for \$1888.81 had a wholesale value of \$1600 in October, 1961. Depreciation cost to the State in this instance, if the vehicle had been sold at that time (13-14 months after purchase) for no more than the wholesale value, would have been \$288.81. In contrast assuming that a private user had paid the advertised delivered price for the new car of \$2645 his first year depreciation, based on the same wholesale value, would have totaled \$1045. Second year depreciation to the State as well as to the private user for this vehicle would have been an additional \$425.

The Division of Highways, on May 1, 1963, released a report of their current study of the optimum replacement period for the 2,150 standard sedans in the Highway passenger vehicle fleet. (See Attachment A.) That study indicated that savings of \$200,000 per year would be achieved by replacement during the second year of use, or even after the third year or upon reaching 50,000 miles, whichever comes first. In either case, the units would be replaced before increasing maintenance cost would offset the initial depreciation cost advantage. The study concluded that, while the savings of a one-year replacement program versus a three-year program are about the same, the possible instability of the first-year used car market combined with the change in organization needed to replace their 2,200 cars in their second year of use would make the three-year program more desirable.

While the Commission does not completely agree with these findings concerning the marketing of vehicles after 12 to 16 months of use, even the modified program as recommended by the Division of Highways would result in savings of at least one-million dollars per year when applied on a state-wide basis. It is difficult to sustain justification of the present 100,000 mile policy over either an annual or triennial replacement program.

Resale Value. The cost of replacing the fleet either during the second year or after the third is related directly, of course, to the actual cost to the State for purchasing new vehicles and their market value at the time of resale. The net cost of owning a vehicle, maintenance experience being equal, is the difference between these two price factors. Thus, it must be recognized that the net cost to an owner is affected not by only the purchase price but equally by the amount received for it upon its disposal. There is ample evidence that the acquisition of fleet automobiles solely on the basis of lowest bid price and disposal of the depreciated and worn-out vehicles at 100,000 miles does not provide a fleet at the lowest net cost to the State Government.

Department of Finance legal counsel has advised that the State cannot, by provisions of the State Purchasing Act, directly take into account the probable resale value of a motor vehicle in determining the lowest responsible bidder at the time of acquisition. This limitation has not had a particularly adverse effect on the net cost of a vehicle under the existing 100,000 mile replacement policy, inasmuch as the depreciation advantage which the State experiences in the initial years of ownership has been largely dissipated by the time the vehicle is finally sold. The seven to ten years it takes to achieve the 100,000 mileage fully depreciates the vehicle for most users and tends to equalize the market value of comparable used automobiles at the time of resale.

However, this tendency toward equalization of resale value among different makes does not exist in the marketing of late model good condition low-mileage vehicles. The actual market value of such a vehicle is determined not only by the initial cost but in large part by the public demand for a particular make and model. There are many instances where certain makes and models of a particular manufacturer have a substantially higher resale value than other comparable makes and models although the initial purchase price was quite competitive. For example, a recent study conducted by one of the nationally recognized states in the field of automotive management indicated that there was as much as 40 percent difference from year to year in depreciation costs of comparable competitively priced automobiles. That same study also showed-- consistent with the example shown above--that, in marked contrast to normal private experience, the depreciation cost to the State for the full second year of use was greater than that of the first.^{1/}

It is evident, then, that if the State is to receive the full fiscal benefit of replacement within the second year or even upon completion of three years or 50,000 miles of use, it should be permitted to take into consideration the probable resale value of a vehicle as a factor in determining who is actually the lowest responsible bidder. In short, the low bid should be realistically based on a net-cost basis which takes into account the fiscal realities of acquiring and disposing of the fleet. This can be accomplished by either estimating the probable resale value in advance or, with more certainty, by entering into a guaranteed resale value contract with the responsible low bidder as is done by many large private fleet operators and auto leasing firms.

^{1/} Staff Study of the Purchase and Contract Division, Department of Administration, State of North Carolina.

Estimating resale value in advance, although difficult, can be done with some accuracy when based on recent historical evidence of comparable sales and published used car market guides. The differences in the rate of depreciation among makes and models are quite constant over the years, and change only slowly, so much so that an objective and realistic prediction can be made as to future rates of depreciation for next year's model, even though it has not yet appeared on the used car market.

Any automobile dealer or manufacturer who regard the prediction as to the future depreciation of their make as uncertain or unwarranted can still gain the award. As the low bidder he must only guarantee to the State as a part of the bid that he will--at the time of resale of the cars in question--make up the difference, if any, between the resale value of that make and the resale value of competing makes as determined by objective formulae which have been previously agreed upon. This "guaranteed value" plan has been in use for some time in private fleet management, and legal and binding agreements have been reached. For example, contracts of one major automobile manufacturer with private automobile leasing companies state that the "...Corporation guarantees, in the manner set forth in this plan, that the difference between the manufacturer's suggested retail price of any eligible vehicle and its wholesale value as a used car at the time the qualified leasing company sells it will not exceed the difference between the Manufacturer's Suggested Retail Price and the wholesale value of any comparable car manufactured by a U.S. passenger car manufacturer other than ... Corporation." The nature of this guaranteed liability as quoted from the same contract is that "...Corporation's liability under this plan, if any, will be to make payment in applicable cases, in accordance with the procedures set forth herein, to the extent that the

value differential of a ... Corporation built-car that a qualified leasing company sells as a used car in a given month is greater than the value differential during the same month of the comparable car any other U.S. manufacturer produced that has the smallest value differential of all such comparable cars."

There seems to be no question about the desirability of extending this practice to large public fleet. The Commission has recommended passage of AB 2576, co-authored by Assemblymen Marks and Knox and Senators Miller and Sturgeon, legislative members of this Commission, which allows the State to take such considerations into account in calling for bids for automobiles and in determining what actually constitutes the lowest net cost to the State. There is nothing compulsory about this proposed legislation. All it does is give the state government another factor to consider in making an award, a factor which may result, either directly or indirectly, in savings to the State of very large amounts of tax dollars.

Vehicle Maintenance Cost Considerations

From the foregoing it is clear that it would be to the State's benefit to adopt a policy of replacing its passenger fleet on an earlier basis on consideration of the depreciation factor alone. When the increasing cost of mechanical maintenance of a fleet after the first 20,000 miles of operation of a vehicle is taken into account, the logic appears even more conclusive. Maintenance cost for the first 20,000 miles of vehicle use, after proper pre-delivery service, are minimal. These costs rise steadily as the vehicle gets older, tires, clutches, batteries, brakes, and other parts wear out and mileage increases. In 1962, this cost for vehicles used for less than 20,000 miles in the Department of Finance pool was less than one-half cent per mile (.0040 cents per mile for preventive maintenance service, tires, batteries, non-collision mechanical repairs, lubrication and oil change.) For the same period the average cost of maintenance was more than three times that amount for the same service for vehicles that had

traveled from 20,000 to 100,000 miles (.015216 cents per mile). Expressed in another way, the Division of Highways reports that, on a basis of fairly uniform annual mileage, the average cost of mechanically maintaining a vehicle, exclusive of oil and lubrication, is about \$130.00 for the first year of service and rises steadily until the fifth year which averages \$336.00. Maintenance costs for Division of Highways' vehicles decrease after the fifth year because of considerably reduced usage. The Federal General Services Agency has stated that the excessive cost of maintenance of an automobile of over 60,000 miles justifies replacing a vehicle when it reaches that mileage.

Under the existing 100,000 mile policy the Department of Finance reports that accumulated maintenance costs average about \$200 per year for the vehicles in the Finance pool. The Division of Highways indicates that their maintenance costs, excluding gas and oil, average about \$250 per year for the 2,150 standard passenger automobiles in their fleet. Based upon these figures, the estimated total annual cost of maintenance of the 10,000 passenger vehicles included in this study is over 2.25 million dollars per year.

It is believed that, if an annual replacement policy (replacement in the succeeding model year between 16,000 and 20,000 miles) was applied to 10,000 vehicles, savings in maintenance costs over present practice would be between 1.25 and 1.75 million dollars per year. It is probable that the cost of maintenance of vehicles to be used for only 12 to 18 months should even be less than that quoted above for 20,000 mile maintenance service. The above figures are averages which include the cost of overhead and shop facilities, parts and services designed for 100,000 mile maintenance. They include current maintenance costs for automobiles still in service which were purchased in 1953 and earlier. These older automobiles pre-date the current manufacturer's service warranty practices and obviously require more extensive repair and maintenance

service and have higher operating costs than is true for automobiles in service for less than two years. The same logic differs only in degree for a policy calling for replacement at 50,000 miles or three years, whichever comes first.

It is anticipated that state maintenance facilities would be limited if the fleet consisted of vehicles replaced within the second year of use. Major repair (non-collision) or defective part replacements would be covered by the manufacturer's warranty. Service required would consist solely of lubrication, oil change (if necessary), minor adjustments, and perhaps one major tune-up at 10 to 12,000 miles for a total cost of not more than \$75 per vehicle. Engine overhaul, new tires and batteries, brakes relining, new transmissions and the like and the facilities to provide such service would not generally be required. Annual savings in maintenance cost alone would total between \$125 to \$175 per vehicle. Further, significant savings and benefits would be attributable directly to a reduction in the amount of time an automobile is not available for use since it is in the shop for repairs and the employee either waits or is issued another automobile. This "down time", has been estimated at seven to ten percent during working hours by one major department.

Furthermore, the Division of Highways estimates that an earlier replacement policy providing a more efficient fleet as herein recommended would permit a ten percent reduction in the size of their fleet of 2,150 automobiles. These significant savings are in addition to the intangible but salutary effect that new and efficiently operating safe automobiles would have on employees using such vehicles in the performance of their official duties.

Pre-delivery Service. A new automobile is not mechanically ready for service when first received from the factory. All automobile manufacturers request their franchised dealers to follow a prescribed routine of mechanical adjustments, modifications, and varied make-ready services before the new owner takes possession. The value of this pre-delivery service and its effect on the future service of the vehicle is recognized by factory management and dealers alike as well as by individual owners. The significance of this service is receiving greater emphasis now than ever before with the advent of factory warranties of two years or more for mechanical parts.

As noted above, purchase specifications include more than two pages of detailed service requirements which are to be performed prior to delivery of the vehicle to the using agency. Nevertheless, such service is not always being provided by the supplying dealers as required as a condition of sale.

In addition, the service as specified is neither being requested of the dealer by the receiving agency nor are the omissions being reported to the Purchasing Agent as a non-compliance with specifications. Although aware of such service omissions, the Automotive Management Section of the Department of Finance has taken no affirmative action to determine the extent of omission or to secure compliance. Further, they have instituted no program to provide the required service or in other ways to compensate for the service omission for the vehicles under their supervision before the vehicles are placed into use. In contrast, the Division of Highways has taken steps to insure that all of their vehicles receive proper pre-delivery service before their initial issuance to a user. Division of Highways' mechanics and servicemen spend about five hours on each vehicle providing the service required of the dealer by the purchase specifications. The Department of Finance spends less than two hours

in checking the vehicle against the purchase order, matching the dealer's report of sale, installing license plates, decals, operating instructions, travel logs, and in other ways placing the car into service. This very lax fleet management practice can result only in increased maintenance and operation costs, inefficient and unsafe vehicle performance and in an adverse effect on the performance of essential state services. The economic success of an earlier fleet replacement policy as recommended is dependent, in part, upon a mechanically trouble-free low-maintenance-cost service. Adequate pre-delivery service is an absolute prerequisite to such performance. Steps must be taken to see that it is provided. The Commission believes that this service can be provided most efficiently by delivering dealers in view of their specialized equipment and training. If the service is not so provided the requirement should be removed from purchase specifications and other arrangements provided for this essential service.

Sale of Replaced Vehicles

In the 20-month period from March, 1961 through October, 1962, the State of California sold 3,282 passenger vehicles. The Automotive Management Section of the Department of Finance disposed of 1,374 vehicles at public auction and the Division of Highways and the Highway Patrol sold 1,908 used automobiles and light trucks by means of sealed bids. With the exception of Highway Patrol vehicles which had traveled 75,000 miles, most of these automobiles had reached the 100,000 mile mark and were seven years in age or older. The State Government is, in fact, a large-scale dealer in thoroughly depreciated high-mileage passenger automobiles.

Although the cars are offered for sale on the retail market, the Assistant Director of Finance reported to the Sub-Committee on Capital Outlay of the Assembly Interim Committee on Ways and Means on August 30, 1962, that 90 percent of the units sold by Finance were purchased by used-car dealers. Prices received, therefore, relate directly to the market-established wholesale value for used automobiles of that age and mileage.

The Commission believes that with the adoption of an earlier replacement policy as recommended herein, it will also be necessary to revise existing practices followed for the sale of used vehicles. Accordingly, alternative procedures have been explored which we think meet all criteria for the disposal of the replaced fleet in an economic and publicly acceptable manner.

The ultimate sale of 10,000 one-year old passenger vehicles in a 12 to 18 month period is in itself a sizeable and specialized undertaking. This is an administrative task of major proportions even if the vehicles are kept for a full three years or 50,000 miles as proposed by the Division of Highways. Sales must be distributed chronologically and geographically in such a way that maximum prices are received and the cost of sale is kept at a minimum. The offering of such a large volume of vehicles for sale in a limited period of time or in a single geographical area would deflate their market value and significantly reduce the amount received for them. It is necessary, therefore, to sell the vehicles in the several metropolitan areas of the State where they are headquartered and used and to offer them for sale throughout the year in accordance with sound marketing practices.

One alternative sales procedure which has not been heretofore considered by the State is to utilize the wholesale licensed and bonded automobile auction facilities which are located in the major metropolitan areas of the State.

The approximate 40 percent of the total state fleet which is located in the Los Angeles-San Diego area could be sold through the Los Angeles auction facility; the Fresno facility could process the 13 percent of the fleet located in that area; the Oakland auto auction could handle state automobiles (21 percent of fleet) headquartered in the San Francisco Bay Area; and the remaining 26 percent of the fleet could be sold at the auction agency at Sacramento.

Would the sale of the State's used passenger fleet in this fashion and in this volume bring the highest net return to the State? The prices received for automobiles sold by such facilities for the past several years compare quite favorably with sales prices for comparable models auctioned directly by the State. Their performance in the sale of one, two or three-year-old cars, as contrasted to eight to ten-year-old vehicles would, it is felt, bring an even more favorable comparison. It is also estimated that the cost of sale under this procedure (not over \$20 to \$25 per vehicle) would not materially exceed actual present state costs when all factors are considered.

There are, of course, other methods for the disposal of used vehicles that might prove to be equally effective. These alternatives, which should also be explored, include sealed bids from wholesale dealers, open auctions conducted by a professional automobile auctioneer, further refinements of present methods as well as a combination of the several procedures. There is probably no one best method for all foreseeable conditions affecting vehicle resale. A flexible disposal policy based on actual best experience under specific circumstances should serve as a guiding principle. Detailed records of the net proceeds of each sale as well as other related considerations will need to be maintained for comparative purposes to insure that the State is always receiving maximum benefit from the revised replacement policy. Valid records

of the cost of acquiring, placing into service and disposing of automotive vehicles are not now maintained on a continuing basis.

The Commission has also considered the possible adverse effect on the used car market of the sale of such a large volume of vehicles as is here suggested. Discussions in both Southern and Northern California have convinced us that sale of automobiles purchased and disposed of in the manner proposed would in no significant way deflate their value or decrease the ability of the market to absorb them. In 1962, there were 6,837 licensed new and used automobile dealers in the State of California. These dealers sold 712,173 new cars and nearly 1,400,000 used cars in that year. Even an annual turnover of the entire passenger car fleet would constitute less than one half of one percent of the annual volume of automobile sales in the State. This small percent of total volume should not affect the market if sold in the manner set forth above. In addition, it is anticipated that the public demand for such good condition, late-model used automobiles would be well established in the automobile market by the four to five years it will take to fully implement the program of replacing approximately 10,000 vehicles on a more frequent schedule. Similarly, discussions with fleet representatives from all the major automobile manufacturers has given no indication that the adoption of such a policy would have an effect of any significant consequence on the new car price paid by the State.

Fleet Management

Efficient management of what is probably the second largest publicly owned passenger vehicle fleet in the world requires centralized management responsibility and authority. In the opinion of the Commission, it would be in the best interests of the State Government to centralize vehicle ownership and over-all fleet management control in the Department of General Services, when it is established. Efficient administration of a passenger

fleet which will represent an on-going capital investment of over \$20,000,000 makes flexible centralized management an absolute essential. This is not now possible with 42 separate departments and agencies exercising varying degrees of administrative control over the operation and maintenance of the vehicles to which they hold title and over which they have jurisdiction.

Although the scope of the Commission's analysis did not encompass all of the ramifications of a fleet management and administrative survey, certain changes in administrative procedure will be required if the State is to receive full benefit from the recommendations contained herein. If the policy is adopted calling for the replacement of a state vehicle with the following year model, it is anticipated that all vehicles at time of replacement at the end of 12 to 18 months will have been in use for at least 16,000 miles and in most instances not over 25,000 miles. (Three years or 50,000 miles if the Division of Highways' proposal is placed into effect.) This may well require an increase in the pooling of vehicles and on many occasions will necessitate transferring low-mileage vehicles to high-mileage users in the same geographical area during a current model year. This would also point to the advantage of standardized body models with standard factory colors and a uniform State of California decalcomania on the front door panels. Departmental designation may be provided, if desired, by windshield decals.

If the above, as well as other recognized fleet management practices, are to be implemented effectively throughout the state service it is necessary to provide the General Services Department with centralized authority and responsibility for the entire passenger fleet. It is also suggested that meeting such service responsibility to the operating departments of the state government efficiently and economically would be facilitated further through

the assistance of a citizen advisory committee of fleet management personnel from outside the state service. Consultations by this Commission with persons responsible for large private as well as publicly owned fleets have been of material assistance in the conduct of this study. Such assistance is available and would be most helpful to the State in keeping abreast of changing economic considerations affecting fleet management as well as with the latest methods and techniques found effective in the operation of other large fleets. With responsibility and authority clearly established in the proposed General Services Department, the entire state government passenger transportation needs would be reviewed continuously to insure that this necessary and costly service is provided both effectively and economically.

Previous Fleet Management Studies

This study was initiated by the Commission independently on its own motion. During the course of the analysis it was discovered that there have been studies in previous years which have reached conclusions similar to those contained herein. In a report released on November 18, 1952, the Legislative Analyst made recommendations for an annual replacement policy. Related recommendations were made in the same year in a Deputy Director's Conference report by Mr. Bert Foster, Deputy State Controller, as well as in a report of the Board of Equalization prepared by Mr. Thomas H. T. Morrow. Automotive management practices in the Department of Public Works were reviewed extensively, along with other matters, by the management consulting firm of Booz, Allen, and Hamilton in 1955. That report also contained recommendations similar to those set forth by the Commission. In contrast, the Department of Finance has also studied the state fleet replacement policy and in 1952, '53 and '55 released reports reaffirming the 100,000 mile policy.

Conclusion

In the opinion of the Commission, the rising cost of maintenance, coupled with the different operating conditions and requirements of today's passenger automobiles, require a major revision in the State's fleet replacement policy. This policy was originally placed into effect because of the unnatural supply and demand economy of World War II. Conditions have changed; the State's policies have not.

The Commission is recommending that the State of California engage in what has long been regarded as standard practice in private fleet management. To be sure, there are special requirements and policies to which the public agency must subscribe, but these are not such as to force the State to operate under outmoded practices.

The Commission is hopeful that this example of a study in depth of just one small phase of state government will indicate the kind of new programs and directions which should result from an imaginatively led Department of General Services. Implementation of the recommendations presented here offer the possibility of substantial tax savings for every citizen of California. But even more important, adoption in other areas of state administration of the spirit and method of inquiry here exhibited would--we are confident--result in improvements in service and efficiency and economies in the millions of dollars.

In conclusion, the Commission would express its appreciation to the many individuals--both in private business and in the state government--who met with the Commission and who otherwise cooperated in the conduct of this study.

Attachment A

Concurring Statement of Commissioner Sherwood
(With concurrence of Commissioner Price)

I agree with the report of the Commission so far as it goes, but in my opinion it does not go far enough.

Specifically, I recommend that the State seek to purchase automobiles by direct negotiations with the manufacturers. According to testimony before the Commission, the State is now paying \$300-\$400 more per car than the federal government now pays for the same car and than the State paid for the same car in 1955, after making allowance for general price increases and inflation. We were further advised that the additional amount being paid goes to the manufacturer, not to the dealer, and that the dealers receive no greater profit today than they did in 195__ when the manufacturers sold direct to the State and made arrangements for the dealers to be the instruments of delivery.

The result, then, of the present policy of buying only through dealers is that the State pays \$450,000-\$600,000 more per year than the federal government now does and than the State itself did in 1955 for the estimated 1500 new automobiles it purchases annually. The dealer's return is identical and the manufacturer pockets the difference. I regard this situation as indefensible, and urge that the State follow the practice of the federal General Services Administration in buying direct from the factory, with appropriate arrangements for dealer servicing, as was the case in California prior to 1955.

In taking this position, I am mindful of the report on Purchasing Practices and Procedures of the 1955 Senate Interim Committee, pages 35-39. The course of events since then, however, shows plainly that State automobile purchase from dealers has resulted in substantial overcharges to the State without consequent benefit to the dealers.