



Statement

Katherine Vigneau

For

NAFA Fleet Management Association

***Issues Facing Civilian and Postal Service Vehicle Fleet
Procurement***

**Committee on Oversight and Government Reform
U.S. House of Representatives
May 21, 2015**

I am here today on behalf of the NAFA Fleet Management Association.

I am Lieutenant-Colonel (retired) Katherine Vigneau, the former Fleet Manager of the Canadian Armed Forces, a NAFA volunteer since 1999 and currently NAFA's Director of Professional Development.

NAFA Fleet Management Association has been asked to give testimony regarding fleet management best practices as they may pertain to the acquisition practices of the United States Postal Service (USPS). From its creation in 1957, NAFA has become the world's premier not-for-profit association for professionals who manage fleets of sedans, law enforcement vehicles, trucks, and buses of all types and sizes, and a wide range of military and off-road equipment for organizations around the globe. NAFA is *the* association for the diverse vehicle fleet management profession regardless of organizational type, geographic location, or fleet composition.

NAFA has thousands of Full and Associate Members who are responsible for the specification, acquisition, maintenance and repair, fueling, risk management, and remarketing of more than 3.7 million vehicles including in excess of 1.2 million trucks. The vehicle fleets of passenger cars, vans, and SUVs managed by our Members total 1.4 million and account for \$45 billion in assets.

NAFA is also supported by fleet professionals who do not qualify for either Full or Associate Member status, yet have a great interest in the field. NAFA Affiliates represent companies that have products or services, such as vehicles, aftermarket equipment, and service shops, to offer to Full and Associate Members.

NAFA's purpose is to promote the highest levels of professional management of vehicles, enabling all members to improve their ability to contribute to an employer's success. We seek to accomplish our goals through quality educational endeavors, sharing of fleet expertise, government and industry relations, and a broad range of direct services to members.

I have reviewed the Office of the Inspector General (OIG) report entitled "Delivery Vehicle Fleet Replacement" and various press releases available in the public domain. I understand that the USPS is seeking to replace an aging fleet of vans and that their desired course of action is a one-time capital procurement of approximately 180,000 custom vans. I will concentrate my comments in 5 areas of fleet best practices. All of these areas are covered in NAFA's certification and education materials and are accepted industry practice in the areas of lifecycle cost analysis, capital replacement plan, centralization, vehicle selectors, and alternative fuels

In short, NAFA supports the following best practices:

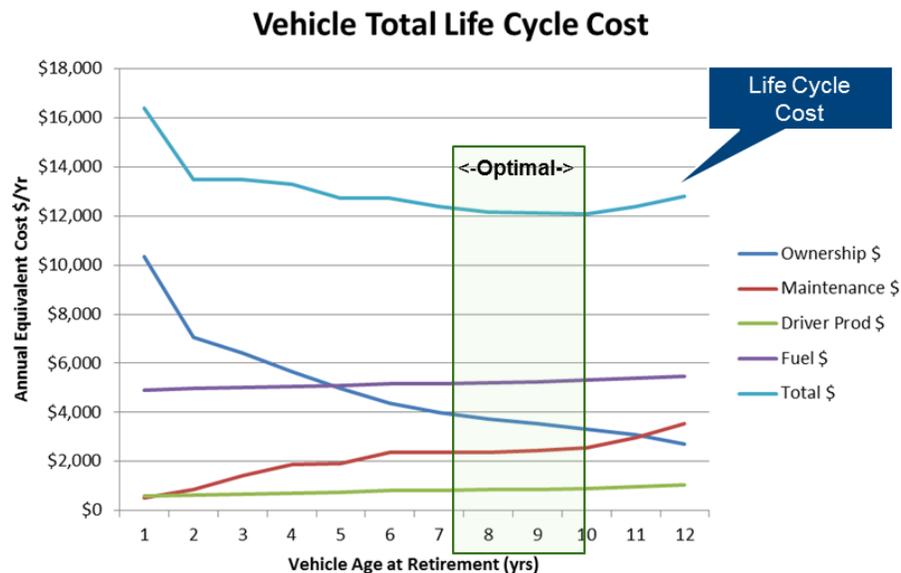
1. The organization uses NAFA's lifecycle spreadsheets (or similar) and defines and observes optimal vehicle lifecycles, avoiding the pitfalls of extended replacement.
2. A long-term capital procurement plan exists and is regularly reviewed and updated.
3. Management of fleet assets is centralized for efficiency, liability and control reasons.
4. A vehicle selector list is created taking into consideration lifecycle costs, safety and the environment as a minimum.

- The organization sets goals for fuel and emissions reductions in accordance with NAFA’s sustainability standard.

Lifecycle Cost Analysis

In the past, items were purchased and used until it was no longer viable to use them. The only way a new piece of equipment or vehicle would come into a fleet would be if something could not be repaired or was so damaged that its intended function was no longer possible. While this is an easy way to determine when something really needs to be replaced, waiting until it breaks is the worst strategy to take. Optimally, a piece of equipment or vehicle should be replaced at the point right before it breaks. That way, the new piece of equipment can immediately take over for the old piece with no disruption in service.

Vehicles and equipment should be replaced at various points in their service lives depending on the type of vehicle, the nature and intensity of its use, and various other factors. Timely replacement is important for controlling vehicle availability, safety, reliability, and efficiency. The economic theory of vehicle replacement holds that vehicles should be replaced when the sum of ownership and operating costs is at its lowest historical point. The figure below shows the operating and capital cost curves. The capital cost curve (ownership\$) shows the decreasing cost over time of a fleet asset as it ages and depreciates. The operating cost curves (maintenance, driver productivity and fuel) illustrate the increasing maintenance, repair, and fuel costs for the same asset over its life cycle. The total cost curve combines the two. The optimal point at which to replace this asset from an economic perspective is when the “total cost” curve is at its lowest. That is, when the combined cost of owning and operating the unit is at a minimum, just before it begins to increase.



Besides figuring out which vehicle would be the most cost-effective to place in a fleet, a lifecycle analysis can also be used to:

- Determine Replacement Times – A lifecycle model can reveal the optimum time to remarket a vehicle based on various factors and costs.
- Lease vs. Buy – For many organizations, purchasing a vehicle may not be the most effective way to acquire the vehicle. A lifecycle model can compare the overall costs of owning versus leasing a vehicle, thereby showing the optimum decision for a particular set of circumstances.
- Alternate Fuels – Is placing a CNG truck in a fleet cost effective? Or would an electric vehicle make more sense? A lifecycle model can compare the options and give you a better picture as to which one may give a greater return on investment.
- Custom vs. commercial – The lifecycle model should be used to understand the full cost implications of buying a custom vehicle rather than one commercially available.

A recent survey found that 44 out of 50 states allow for LCA-based procurement practices. Seven out of 13 Canadian provinces and territories do the same.

Capital Replacement Plan

Fleet financial management strives to strike a balance between reducing costs without impacting the productivity of the fleet user groups. The fleet finance management attributes, which are common to best-in-class organizations, are:

- Fleet Services is responsible for the entire capital budget for new and replacement vehicles.
- Multi-year capital forecasts are done annually by Fleet Services. The capital approval and release for spending is an annual exercise and depends on the organization's resources.
- Fleet Services is responsible for operating costs and holds this budget.
- All cost details are captured at a vehicle or equipment level in the Fleet Management Information System (FMIS).
- FMIS is used for all fleet related cost data and it is the “system of record” for fleet-related costs, transactions and workflows.

Fleet Services should create a multi-year vehicle replacement capital forecast. From this, a capital budget is approved and a centralized capital fund is created for the purchase of vehicles and up fitting. Capital requirements for vehicle replacement can fluctuate greatly from one year to the next. Best practice in replacement planning is to smooth the peaks and valleys of fleet replacement so there is a predictable annual requirement. This takes skill and experience and an in-depth knowledge of finance options and vehicle remarketing.

Centralization

A dominant trend over the past twenty-five years is the consolidation of fleet management functions into one centralized service organization. Traditionally, it was believed that the effectiveness or responsiveness of a fleet management organization was highly correlated to its proximity to the fleet users it served. The result of this belief was the creation of numerous independent fleet management programs within an organization, each serving the purported unique needs of its own group of customers. Decentralization, however, creates redundancies

and dilutes the expertise needed to effectively operate the fleet. As a result, the trend in the fleet industry is towards greater consolidation of fleet management functions.

The move towards consolidation in the industry can be traced to the increasing cost and complexity of fleet management and a simultaneous increase in emphasis on efficiency. Developments in areas such as computerization, personnel management, professional development, risk management, regulation of environmental protection, occupational safety and health, and automotive technology have changed the definition of “effective” fleet management, making it prohibitively expensive for many independent fleet management organizations to keep up. In short, the complexity of fleet management today produces significant economies of scale that often can be captured only through collective effort. Fleet centralization, then, is being driven by costs, efficiencies, expertise, and liability.

Vehicle Selector

Organizations should use a formal process to decide what type of vehicle best meets requirements. In order to avoid a lengthy selection process for every vehicle replacement, they should have an approved selector list of frequently purchased assets.

Some criteria to be considered in selecting the right vehicle for an organization are:

- Operational requirement or purpose of the vehicle. Vehicles should be acquired to best fulfill their primary role. Where pooling is the norm, flexibility of purpose should be kept in mind.
- Acquisition costs. While lifecycle costs may be a better indication of total costs, the acquisition cost of a vehicle may also play a role in selection.
- Disposal/resale value. The value and ease of disposal should be considered at time of purchase.
- Operating costs. Fuel and maintenance costs factor into the total cost of operating a vehicle and should be important purchase considerations.
- Vehicle availability. The availability of a vehicle in a specific area or the time required ordering it may influence the purchase decision.
- Warranties. The availability of maintenance warranties and the location where warranty work will be performed should be considered.
- Maintainability/reliability. The availability of replacement parts, ease of installation and level of complexity to repair affect the maintainability of the vehicle and the cost to keep it running, and reduce the opportunity cost associated with downtime. Repair history and recalls may also indicate engineering or quality problems with given makes and models of vehicles.
- Environment impact. Gas mileage and emissions are important considerations.

- Safety. A vehicle's safety rating is determined by its construction and add-on equipment such as airbags.
- Image or public perception. While a public fleet may need to purchase conservative, economical vehicles, CEOs of private firms may want more upscale vehicles to portray an appropriate image.
- Employee morale. The purchase of smaller, more economical vehicles may have a negative impact on morale especially if this is a departure from previous policy.

All factors may not be relevant for every acquisition decision. Potential vehicle choices can be compared using the selection criteria that are pertinent to the acquisition decision being made at that time.

Purchasing policy in the Public Sector differs from its Private Sector counterpart in some significant ways. The common perception is that governments usually publicly bid projects, services, supplies and equipment, including vehicles, and the private sector does not. In fact both the public and private sectors use a variety of purchasing options, including open bids, limited bids, quotes, requests for proposals and sole source procurement. The most significant difference is that the public purchasing process is more tightly regulated and proscribed by federal, state and local law.

The overriding factor that drives public purchasing policy and process is proper stewardship and accountability of public funds that are expended for needed services, supplies and equipment. Almost all public purchasing procedures are directed toward ensuring that the expenditure of public funds is done in an open and fair environment, thus demonstrating to the taxpayer that the best value was received at the lowest cost. A common misunderstanding is that this concept means the low bid is always chosen. In reality, purchasing codes require that the successful bid is the lowest responsive bid, i.e. the lowest bid that meets or exceeds the minimum requirements of the bid or request for proposal.

Since every acquisition decision is different, fleet managers must be able to develop and tailor selector lists for the decision at hand. There are four steps involved in developing a selector list:

- Step 1: Consider the specific acquisition decision to be made and decide which selection criteria (from the above list) are important.
- Step 2: Rank the selection criteria deemed important in order of importance.
- Step 3: Assign a relative rank to each of the selection criteria. For example, safety may be the most important criteria with acquisition cost ranking second. Safety, however, may be three times as important as cost so it needs to be weighted accordingly.
- Step 4: Conduct a trial run with your list and make any necessary adjustments.

Alternative Fuels

The fleet industry in general and USPS in particular have a unique opportunity to make a considerable environmental impact. NAFA's Sustainable Fleet Accreditation Program is the distinctive accreditation program that provides the tools that help automotive fleets measure and track improvements in their environmental impact. Sustainable does not simply mean an alternative fuel source, but can be achieved through a host of other initiatives such as:

- Purchasing smaller vehicles
- Reducing speed
- Better route planning
- Smaller engine size
- Eco-friendly driving

If the decision is made to pursue alternative fuels, a cost-benefit analysis should always be undertaken to demonstrate the financial impacts of this decision.

Conclusion

In accordance with NAFA best practice, the USPS has a definite requirement to replace a significant portion of their fleet. Lifecycle Cost Analysis has been used to demonstrate that operating costs are rising significantly. Extended replacement also has the disadvantages of not introducing important safety and technological improvements in the fleet. The lifecycle methodology should be used further to analyze custom vs. commercial purchase options and alternative fuel options.

The OIG report continually mentions the weakness in the long-term replacement strategy. Without a detailed strategy, the acquisition process cannot continue. The strategy should envision a smoothed replacement cycle with regular, predictable capital requirements. The strategy should also seek to provide a long-term solution to avoid being in this position as the replacement vehicles end their lifecycles in a further 25 years.

Fleet Management should be centralized and the individuals responsible should be trained in fleet management best practice. Centralization will give better control over the long-term replacement cycle.

A selector list should be built that considers lifecycle costs as well as safety and the environment. Although fleet standardization is highly desirable due to efficiencies in mechanic training, driver training and parts, it is possible that one vehicle will not meet every need. A possible solution is to have a few variants of the same model, potentially varying in size or configuration.

Alternative fuels and other sustainable initiatives should be considered in the acquisition decision and throughout the life of the vehicles.

Katherine Vigneau, CAFM



Lieutenant-Colonel (retired) Katherine Vigneau spent 26+ years in the Canadian Army holding various positions in logistics and transportation in Canada and abroad. From 1998 to 2001 she held the post of Fleet Manager for the Department of National Defence, responsible for policy oversight and management of a fleet of 32,000 vehicles. She most recently spent four years at the Joint Warfare Centre in Stavanger, Norway leading the Logistics training of NATO forces before her retirement in October 2010.

She has been an active volunteer with NAFA – Fleet Management Association since 1999. She worked on education projects and has been the Vice Chair (2005-2007) and Chair (2007 to 2009) of the Certification Board, and Canadian Vice-President (2009-2010). For these volunteer efforts, she received NAFA's Excellence in Education Award in May 2010.

Expertise

- Bilingual (English/French)
- Project management
- Performance measurement and benchmarking
- Governance, organization structures and job descriptions
- Fleet rightsizing
- Activity-based costing and cost charge-back system design
- Vehicle life cycle cost determination
- Fleet management outsourcing feasibility assessment and facilitation
- Supply Chain Management and strategic sourcing
- Training and Development

Education

- MDS, RMC 2006
- MBA, RMC 2003
- CLP, 2001
- CAFM 1999
- PLog 1998
- BA in Military and Strategic Studies, RMC 1984

Organizations

- NAFA, The Fleet Management Association
- CPLI, Canadian Professional

Since 2010, LCol (retired) Vigneau has worked as a fleet and training consultant serving clients such as NATO, NAFA, the United Nations, the Canadian military, Natural Resources Canada and other government and corporate organizations in Canada and the U.S.. Along with consulting work, she is a regular columnist in Canada's Fleet Digest where she writes about fleet and training and development issues. She is currently the Director of Professional Development for NAFA.

Fleet Management Best Practices Studies

LCol (retired) Vigneau has directed evaluations of fleet management practices for large and small organizations across a wide array of industries. Most of these studies included the evaluation of procurement, remarketing, fuel, maintenance, risk, finance and information management:

- University of Western Ontario
- Cities of Saint John, Prince George, Medicine Hat, North Bay, Port Moody
- Region of Waterloo, Metro Vancouver
- York Regional Police
- York EMS
- Schneider Electric
- Epcor
- Suncor
- Biogen

Training and Development

LCol (retired) Vigneau has engaged in extensive training and development efforts not only in fleet management topics but in the wider domains of leadership, operations management, transportation and logistics. Some of her many contributions in these areas include:

- Course development and Instructor, Faculty of Business, Royal Military College
- Course development and Instructor, Automotive Business School of Canada, Georgian College
- Course development and Instructor, AEMP program, Ferris State University
- Course development, Instructor and Program Administrator, Certified Automotive Fleet Manager, NAFA
- Course development and Instructor, NATO School, Oberammergau, Germany
- Logistics Training Chief, NATO Joint Warfare Centre, Stavanger Norway

Katherine Vigneau, CAFM

(continued)

Logistics Institute

- CITT, Canadian Institute of Traffic and Transportation

Awards

Logistics Medal, 2003

George Bell Medal, 2006

NAFA – Excellence in Education Award, 2010

Years of Experience

30

Location

Midhurst, ON

Governance and Policy Foundation

LCol (retired) Vigneau has a solid background in evaluating organizational requirements and helping organizations create the necessary foundation documents of a sound organization. This includes overall governance and fleet policy as well as job descriptions, Service Level Agreements (SLA) and Request for Proposals (RFP). Her projects in these areas include:

- Fleet Management Policy for Department of National Defence
- Fleet policy, driver's agreements and SLAs for Saint John, North Bay and Waterloo
- Fleet utilization and take-home vehicle policies for Metro Vancouver
- Maintenance Services RFP review and development for Epcor
- Specification development for the United Nations and Suncor Energy
- Governance framework recommendations for Prince George and Saint John

Fleet Rightsizing Studies

LCol (retired) Vigneau has led and participated in fleet rightsizing studies in Canada and the United States. These studies assist fleets in determining the optimal number of vehicles for their organization based on criticality and usage. Recent studies include the following:

- University of Western Ontario
- Cities of Saint John, North Bay
- State of California
- Region of Waterloo
- York EMS
- Epcor

Committee on Oversight and Government Reform
Witness Disclosure Requirement – “Truth in Testimony”
Required by House Rule XI, Clause 2(g)(5)

Name:

Katherine Vigneau

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2012. Include the source and amount of each grant or contract.

None

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

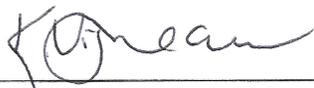
NAFA Fleet Management Association
Director of Professional Development

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2012, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

None

I certify that the above information is true and correct.

Signature:



Date: 17 May 2015