

City of Miami

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DATE: March 31, 2016

TO: HONORABLE MAYOR AND COMMISSIONERS

FROM: THEODORE GUBA, CPA, CIA, CFE *Theodore P. Guba*

RE: ADDENDUM TO A REQUEST TO PERFORM A REVIEW OF INVITATION FOR BID 522382 FROM ENTERPRISE LEASING COMPANY FOR THE RENTAL OF VEHICLES, ON A CITYWIDE, AS NEEDED BASIS.
REPORT NO. 16-01A

On December 10, 2015, the City Commission requested that we work with the Procurement Department (Procurement) and perform an analysis of comparable rental contracts involving other governmental entities in order to support the reasonableness of the City of Miami's (City) Invitation for Bid (IFB) 522382 for the rental of vehicles from Enterprise Leasing Company (Enterprise), since substantial differences were noted for price comparisons performed between the City's IFB and a similar Miami Dade County (County) procurement.

During our review, we re-computed the difference between the County's contract and the City's IFB, based on the elimination of 31 SUV's from the City's solicitation; we performed an analysis of actual insurance claims and processing costs for calendar years (CY) 2014 and 2015, which can be used to evaluate contract pricing for rental cars; and, we analyzed and compared pricing information pertaining to three comparable government contracts.

It should be noted that on March 18, 2016, Enterprise notified City management that they are formally withdrawing their proposal for IFB NO. 522382. Additionally, they are terminating their current contract with the City on April 30, 2016. No further contract extensions will be provided. The information detailed in this report may be useful in providing direction for future vehicle rental procurements.

Our analysis, observations and conclusions are below:

1. SUV Usage Reduced – Revised Differences between the County's Contract and the City's IFB

As detailed in our previous report (Report No. 16-01), total rental car expenditures during the 5-year period of December 2010 through November 2015 were \$6 million, or \$1.2 million annually, and rental expenditures for SUVs across all departments totaled \$2.24 million, or 37.2% of the \$6 million in total rental car expenditures.

During the December 10th Commission meeting, City management stated that 31 SUVs would be purchased. Therefore, under the proposed IFB, we estimated that the City will rent 34 SUVs as opposed to the 65 SUVs indicated in our previous report. Consequently, as indicated in the following schedule, when we compared the monthly rental pricing for the same vehicles between the County's contract (\$2.99 million) and the City's proposed contract with Enterprise (\$3.47 million), the revised estimated price difference is \$481,272, or a difference of 16.1%. It should be noted that the estimated difference between City and County SUV prices is now \$260,304 rather than \$497,640, which is still a difference of 39% but now represents 54% of the total estimated price difference, as compared to the 67% mentioned in the previous report.

**Revised Estimated Price Comparison between City and County Contracts
Based on a Two Year Term**

SCHEDULE 1

City of Miami IFB 522382					Miami-Dade County Contract 8809-0/19			Estimated Difference between City and County	
Enterprise Leasing					Royal Rent-A-Car				
Vehicle Type	Term (months)	Est. Qty	Unit Price	Total Estimated Price (2 years)	Qty	Unit Price	Total Estimated Price (2 years)	Estimated Price Difference	% Price Difference
Compact Sedan (2 Door)	24	30	\$650	\$468,000	5	\$540	\$388,800	\$79,200	20%
Compact Sedan (4 Door)	24	30	\$650	\$468,000	5	\$648	\$466,560	\$1,440	0%
Mid-size Sedan (2 & 4 Door)	24	40	\$694	\$666,240	220	\$668	\$641,280	\$24,960	4%
Full-size Sedan (2 & 4 Door)	24	10	\$746	\$179,040	16	\$712	\$170,880	\$8,160	5%
Pick-up Truck	24	15	\$863	\$310,680	75	\$712	\$256,320	\$54,360	21%
Sports Utility Vehicle (SUV)	24	34	\$1,144	\$933,504	30	\$825	\$673,200	\$260,304	39%
Sports/Sporty Car	24	1	\$795	\$19,080	5	\$720	\$17,280	\$1,800	10%
Vans	24	15	\$787	\$283,320	23	\$712	\$256,320	\$27,000	11%
Large Van (14-16 Passengers)	24	1	\$844	\$20,256	22	\$742	\$17,808	\$2,448	14%
Luxury	24	5	\$1,005	\$120,600	16	\$825	\$99,000	\$21,600	22%
Totals		181		\$3,468,720	417		\$2,987,448	\$481,272 Note 1	14.6% (average)

Note 1: It should be noted that the \$481,272 price difference can be valued at \$111 of the monthly unit price for each vehicle ($\$481,272 \div 181 \text{ vehicles} \div 24 \text{ months}$).

2. Actual Insurance Claims Experience for Rental, Police and Other City Vehicles

The price difference between the City's IFB and the County's contract (\$481,272) is partly due to a monthly insurance cost, or "mark-up", which is included in the City's IFB pricing and is not included in the County contract. As indicated in Note 1, the price difference is valued at approximately \$111 for each vehicle's monthly unit price. Although Enterprise declined to provide us with an estimated markup percentage for insurance that is included in pricing, they provided us with the City's actual claims experience for vehicles rented during a two year period.

As summarized in Schedule 2 on the next page, according to Enterprise, claims costs for liability and damages to their vehicles for fiscal years (FY) 2014 and 2015 totaled \$1,174,390 for 97 claims; however, \$1,003,816 of this amount is attributable to one incident involving a police officer and a third party. It should be noted that if the City was responsible for this loss, pursuant to a Florida sovereign immunity statute, the City's liability exposure is capped at \$200,000 per person, \$300,000 per incident. Any claims payment exceeding this amount must be obtained via a claims bill (i.e., approved by the State of Florida Legislature).

We were also informed by Enterprise that 1,424 and 1,397 vehicles (a total of 2,821 vehicles) were rented during CY 2014 and 2015 respectively, or an average of 118 vehicles rented monthly. The average monthly claims cost per rented vehicle is estimated at \$415 ($\$1,174,390 \div 24 \text{ months} = \$48,933 \div 118 \text{ vehicles}$). Had the \$1,003,816 catastrophic claim been excluded from this calculation, the average monthly claim per vehicle rented would be \$60 ($\$170,574 \div 24 \text{ months} \div 118 \text{ vehicles}$). If the City were to absorb and process rental claims, we were informed by Risk Management (Risk) that the financial impact for administering these additional claims is approximately \$25,000 per year.

In addition, we were informed that under the City's self-insurance program, there are currently 670 "take home" Police Pursuit (patrol) vehicles and that 334 auto claims generated by the police department during FY 2014 and FY 2015 totaled \$1,744,676. Approximately 90% of these claims costs are attributable to patrol vehicles with the remainder attributable to other police-related operations. Therefore, the average claims cost per police patrol vehicle is estimated at \$98 ($\$1,744,676 \times 90\% = \$1,570,208 \div 670 \text{ patrol vehicles} = \$2,344 \div 24 \text{ months}$). It should be noted that the highest individual claim totaled \$215,000 (no catastrophic claims). Also, the calculation did not include the additional costs to process the claims in-house.

Finally, we were informed that the City currently has 462 administrative and general fleet "take home" vehicles that generated 447 claims during FY 2014 and FY 2015 totaling \$1,140,614. Therefore, the average monthly claims cost per vehicle is estimated at \$103 ($\$1,140,614 \div 462 \text{ vehicles} = \$2,469 \div 24 \text{ months}$). It should be noted that the highest individual claim totaled \$60,000. Also, the calculation did not include the additional costs to process the claims in-house.

It should be noted that since the City's self-insurance program only handles third-party claims, the calculation does not include vehicle collision repair costs which were \$361,589 and \$435,445 during FY 2014 and FY 2015, respectively (Note: According to the City's General Service Administration, "take home" vehicle repair costs could not be segregated between police and administrative and general fleet).

The claims experience information described above is summarized in Schedule 2 below:

**Actual Insurance Claims Experience for Rental and Other City Vehicles
CY 2014 and 2015**

SCHEDULE 2 (Note 1)

City Depts.	Procurement Method	Insurance Claims Experience	Claims Experience Time-span (months)	Vehicles Used Monthly	Average Insurance Claims Cost Per Vehicle (Note 2)
City wide	Rental	\$1,174,390	24	118	\$415 *
Police	Purchase	\$1,570,208	24	670	\$98
Admin Vehicles & General Fleet	Purchase	\$1,140,614	24	462	\$103

Note 1 - This analysis did not take into account the number of days vehicles were rented, mileage, the vehicle's final use and differences between the City and Enterprise in administering claims.

Note 2 - The average insurance claims cost per vehicle does not include in-house claims processing costs.

* Excluding the \$1,003,816 catastrophic claim, the average claims cost per vehicle totaled \$60.23.

CONCLUSION

If accident claims levels remain at the amounts experienced during the last two-year period, it would appear that the Enterprise IFB proposal to the City, that includes insurance coverage, is reasonable when compared to the County's contract. This can be supported by valuing the estimated price difference (\$481,272) between the City's IFB and the County's contract in terms of a monthly unit price for each vehicle (\$111 – See Schedule 1) and comparing the amounts to the actual insurance claims cost per vehicle (Schedule 2 - \$98 and \$103 for patrol cars and other City vehicles, respectively; also, the actual rental vehicle insurance claims experience without the catastrophic claim [\$60]).

3. Price Comparison between the City IFB and other Governmental Rental Contracts

We were provided with three additional rental contracts from Florida governmental entities for price comparison purposes as indicated in Schedule 3 on the next page. Additionally, we compared other key contract information for the same rental contracts including insurance coverage, expiration dates and other data (see Schedule 4).

Price Comparison between the City IFB and other Governmental Rental Contracts

SCHEDULE 3

City of Miami IFB 522382					Comparable Pricing								
			Enterprise		Southeast FL Governmental Coop			State of Florida			Broward Sheriff's Office		
Vehicle Type	Term (mos.)	Est. Qty	Unit Price	Total Est Price (2 years)	Unit Price	% Diff More (Less) than City's IFB	Total Est. Price (2 years)	Unit Price	% Diff More (Less) than City's IFB	Total Est Price (2 years)	Unit Price	% Diff More (Less) than City's IFB	Total Est Price (2 years)
Compact Sedan (2 Door)	24	30	\$650	\$468,000	\$570	-12.33%	\$410,292	\$613	-5.66%	\$441,504	\$715	10.00%	\$514,800
Compact Sedan (4 Door)	24	30	\$650	\$468,000	\$570	-12.33%	\$410,292	\$613	-5.66%	\$441,504	\$715	10.00%	\$514,800
Mid-size Sedan (2 & 4 Door)	24	40	\$694	\$666,240	\$604	-12.93%	\$580,070	\$654	-5.76%	\$627,840	\$715	3.03%	\$686,400
Full-size Sedan (2 & 4 Door)	24	10	\$746	\$179,040	\$634	-15.05%	\$152,090	\$1,188	59.25%	\$285,120	\$725	-2.82%	\$174,000
Pick-up Truck	24	15	\$863	\$310,680	\$634	-26.57%	\$228,136	\$1,248	44.61%	\$449,280	\$725	-15.99%	\$261,000
Sports Utility Vehicle (SUV)	24	34	\$1,144	\$933,504	\$634	-44.61%	\$517,107	\$1,452	26.92%	\$1,184,832	\$950	-16.96%	\$775,200
Sports/Sporty Car	24	1	\$795	\$19,080	\$634	-20.29%	NA	NA	NA	NA	\$725	-8.81%	\$17,400
Vans	24	15	\$787	\$283,320	\$634	-19.48%	\$228,136	NA	NA	NA	\$715	-9.15%	\$257,400
Large Van (14-16 Passengers)	24	1	\$844	\$20,256	\$860	1.86%	\$20,633	\$1,320	56.40%	\$31,680	\$725	-14.10%	\$17,400
Luxury	24	5	\$1,005	\$120,600	\$860	-14.46%	\$103,163	\$1,428	42.09%	\$171,360	\$950	-5.47%	\$114,000
Totals 181			\$3,468,720		Avg % Diff	-17.62%	\$2,649,919	Avg % Diff	26.52%	\$3,633,120	Avg % Diff	-5.03%	\$3,332,400

Note: NA = Information was "not available"

Rental Car Contract Information for the City’s Proposal and Various Agreements

SCHEDULE 4

Organization	Vendor	Vehicle Usage Estimated	Term	Date Expires	Insurance Provided
City of Miami	Enterprise	181 vehicles	2 years with 2 one-year renewal option periods	2020	Full Insurance coverage; Collision with \$100 Deductible
Miami-Dade County	Royal Rent-A-Car	417 vehicles	5 years - 2/17/15 through 2/28/20	2/28/20	None
Southeast Fla. Gov. Purchasing Coop (Coral Springs - lead agency)	2 nd Chance Holdings, Inc.	1,236 vehicles annually (11 municipalities)	2 years with 2 year renewal option commencing 9/1/13	8/31/17	None
State of Florida	Enterprise & National (EAN Services, LLC)	Cannot Determine	5 years - 9/30/15 through 9/29/20 with a 5 year renewal	9/29/25	Includes liability coverage and loss damage waiver
Broward County Sheriff's Office (BSO)	Enterprise	Cannot Determine	2 years commencing 2/1/15. Base rental subject to increases in previous year's CPI.	1/31/17	Includes full collision damage waiver with \$500 Deductible

The following summarizes our observations:

- The Southeast Florida Governmental Cooperative (SE Coop) contract, with a total estimated cost of \$2.65 million, was an average of 17.6% less than the City’s proposed contract with Enterprise. This is largely attributed to the fact that, as with the County’s contract, insurance coverage with the SE Coop is not provided. However, the contract only offers monthly rental rates; it does not include daily and weekend rates. It should also be noted that the agreement expires on August 31, 2017.
- The State of Florida (State) contract averaged 27% more than the City’s proposed contract; it offered insurance including liability coverage and loss damage waiver. The contract expires in September 2025.
- The Broward Sheriff’s Office (BSO) contract averaged 5% less than the City’s proposed contract, and offered insurance including full collision damage waiver with a \$500 deductible. However, the contract, which was not competitively bid, expires in January 2017.

We wish to express our appreciation for the cooperation and courtesies extended to us by the Procurement and Risk Department staff while conducting the review.

cc: Daniel J. Alfonso, City Manager
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