

Performance Audit of Citywide Vehicle Rentals

September 2026 | OCA-27-02

Finding 1

The City underestimated vehicle rental spending under the initial Herc Rentals contract by over \$12.2 million, and did not effectively monitor actual rental costs.

Finding 2

The City relies on long-term rentals because vehicle planning does not fully account for operational needs, future demand, and cost effectiveness.

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The Office of the City Auditor would like to thank staff from the following departments and agencies for their assistance during this audit:

- Purchasing and Contracting Department
- General Services Department
- Public Utilities Department
- Stormwater Department
- Transportation Department
- Department of Finance



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Performance Audit of Citywide Vehicle Rentals

Why OCA Did This Study

The City of San Diego (City) needs vehicles and equipment to provide critical City services, such as clearing channels and repairing streets. Since 2019, the City has spent about \$42 million on vehicle and equipment rentals through its contract with Herc Rentals. In 2025, the City extended and increased the contract amount to \$66 million. City Councilmembers have expressed concern about rising costs and questioned whether the City's oversight of the contract and significant use of the rentals was efficient.

Given that the City's Five-Year Outlook estimates an average annual budget deficit of \$68 million from FY2028 through FY2031, it is important that public dollars of vehicle and equipment rental expenses are used effectively to avoid impacts on services now and in the long term. Therefore, we conducted a performance audit with the following objectives:

1. **Determine whether the City effectively plans and monitors vehicle rental spending to control costs and complies with contract terms;**
2. **Determine whether the City evaluates vehicle rental decisions, in accordance with best practices, to ensure renting is more cost-effective than owning or using City vehicles; and**
3. **Determine whether the City coordinates vehicle planning and uses vehicle utilization data to minimize unnecessary rentals and avoid impacts to services.**

What OCA Found

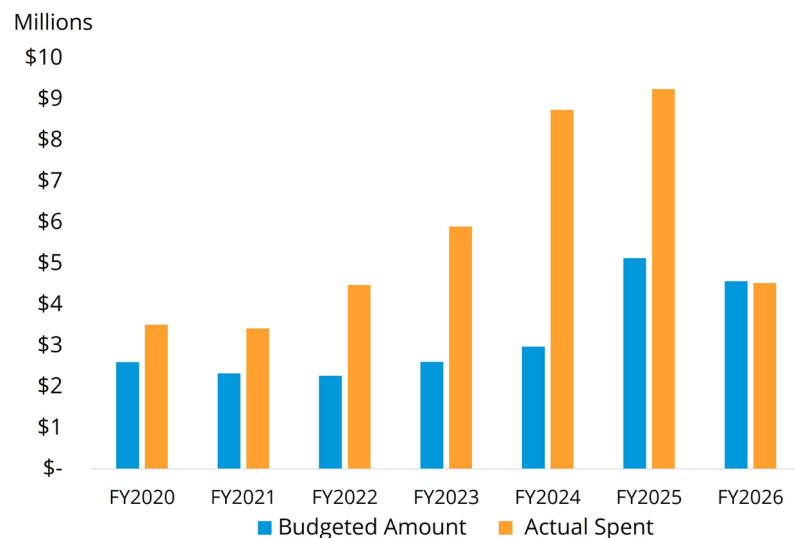
Finding 1: The City underestimated vehicle rental spending under the initial Herc Rentals contract by over \$12.2 million, and did not effectively monitor actual rental costs.

- In 2019, the City estimated it would spend approximately \$14.3 million over five years based on historical usage. However, actual spending over the five years, FY2020–FY2024, totaled

approximately \$26.5 million, exceeding the original 5-year estimate by \$12.2 million.

- **The City exceeded the Herc rentals contract spending limit before requesting Council approval** to increase the contract amount.
- The **City did not have coordinated processes to adequately monitor rental spending and contract usage** Citywide. As a result, City Management could not readily determine total spending and unpaid rental invoices.
- The City has implemented **new processes to improve oversight and ensure contract spending remains within approved amounts.**

Exhibit 7: From FY2020 Through FY2025, Highest Spending Departments Exceeded Their Equipment Rental Budgets by a Combined Total of \$17.4 Million But Remained Within Budget in FY2026



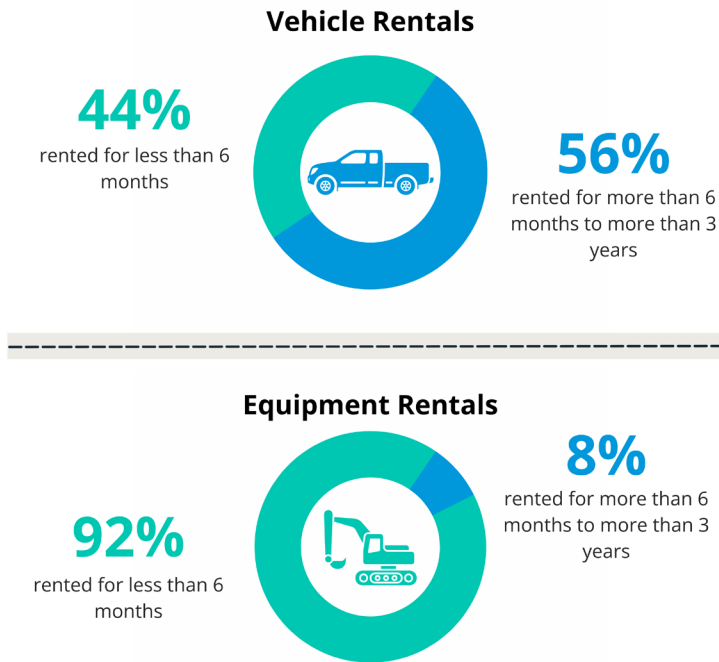
Source: OCA generated based on SAP data.

- Departments we reviewed used funds from other budget categories, such as supplies and external contracts and services, to cover rental costs that went over budget.

Finding 2: The City relies on long-term rentals because vehicle planning does not fully account for operational needs, future demand, and cost effectiveness.

- More than half of the City's vehicle rentals are long-term and make up most of the City's rental costs.

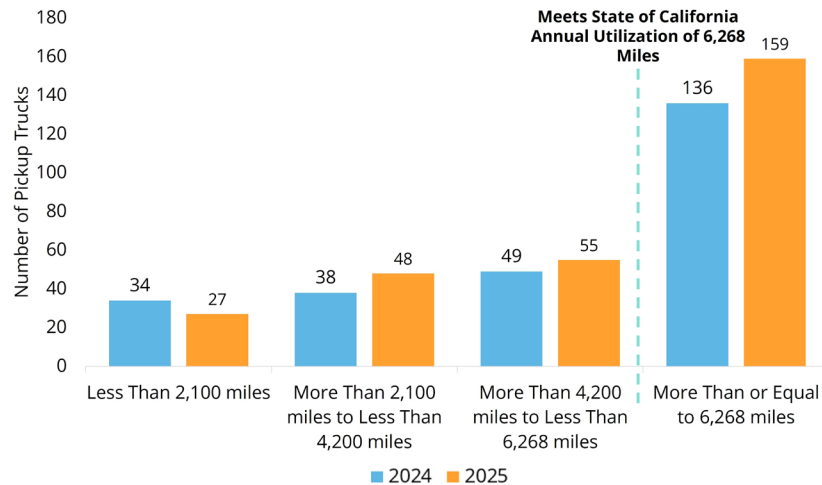
Exhibit 9: 56 Percent of Vehicle Rentals Were Rented for Longer Than Six Months, While 92 Percent of Equipment Rentals Were Rented for Less Than Six Months



Source: OCA generated based on data from Herc Rentals Inc.

- **Departments relied on rental vehicles to meet operational needs** due to lengthy acquisition timelines for City vehicles.
- Fleet is making efforts to improve delivery times through standardization of pickup and dump trucks.
- **The City's vehicle planning process does not fully account for its long-term vehicle needs.**
- The City can **improve vehicle planning by discussing vehicle and equipment rentals** at existing coordination meetings.
- **Some rentals may have not been needed** because it is unclear whether departments are using City-owned vehicles optimally and efficiently.
- **Owning dump trucks appears to be more cost-effective than renting** because the City uses them for 13 years, rather than the assumed 8-year lifecycle.
- Fleet does not currently base the vehicle replacement planning process on vehicle lifecycles and procurement timelines.

Exhibit 12: Most of the Stormwater, Transportation, and Public Utilities Departments' Pickup Trucks Meet Caltrans' Pickup Truck Annual Mileage Utilization Thresholds



Source: OCA generated based on the City's Geotab telematics data and State of California minimum utilization threshold data.

What OCA Recommends

We made **8 recommendations**. Key recommendations include:

- Conduct and document a needs assessment for anticipated vehicle and equipment rental needs as part of the budgeting process.
- Establish and document minimum vehicle utilization standards and review vehicle utilization to ensure that a rental or acquisition only proceeds if there are no underutilized City vehicles that could be used to fill the need.
- Establish a process to evaluate vehicle and equipment acquisitions and replacement based on long-term operational needs and whether they should be purchased, rented, replaced or reassigned based on a cost-benefit analysis.

The City Administration **agreed to all 8 recommendations**.

For more information, contact Andy Hanau, City Auditor, at (619) 533-3165 or cityauditor@sandiego.gov.

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Background

The City of San Diego (City) needs vehicles and equipment to provide critical City services, such as clearing channels and repairing streets. Since 2019, the City has spent about \$42 million on vehicle and equipment rentals through its contract with Herc Rentals. In 2025, the City extended and increased the contract amount to \$66 million. City Councilmembers have expressed concern about the contract's rising costs and have questioned whether the City's significant use of the rentals was efficient.

Given that the City's Five-Year Outlook estimates an average annual structural budget deficit of \$68 million from FY2028 through FY2031, it is important that public dollars spent on vehicle and equipment rentals are used effectively to avoid impacts on services now and in the long term. Therefore, in accordance with the Office of the City Auditor's FY2026 Audit Work Plan, we conducted a performance audit of Citywide Vehicle Rentals. We focused on the top three spending departments—the Public Utilities Department, Transportation Department, and Stormwater Department—which accounted for approximately 84 percent of the spending under the contract. The objectives of this audit were to:

1. Determine whether the City effectively plans and monitors vehicle rental spending to control costs and complies with contract terms;
2. Determine whether the City evaluates vehicle rental decisions, in accordance with best practices, to ensure renting is more cost-effective than owning or using City vehicles; and
3. Determine whether the City coordinates vehicle planning and uses vehicle utilization data to minimize unnecessary rentals and avoid impacts to services.

Given the expansion of vehicle and equipment rental usage, we audited rental spending and vehicle and equipment utilization, but not the terms of the contract itself. The scope of this audit focuses on vehicle and equipment rentals from June 2019 through December 2025.

The City owns and maintains a fleet of over 5,000 vehicles and equipment to deliver essential services, such as clearing channels and repairing streets.

The City owns and maintains a fleet of more than 5,000 vehicles and motorized equipment. The City's fleet includes a wide variety of vehicles, such as sedans, light- and heavy-duty trucks, trailers, tractors, electric vehicles, and miscellaneous motorized equipment. City departments use their vehicles and equipment to provide a variety of essential services, such as clearing channels, repairing streets, abating graffiti, clearing vegetation within the public right-of-way, and managing and maintaining the City's water and wastewater systems.

In addition to department-owned assets, the City also operates a motor pool consisting of approximately 100 vehicles that are available for use Citywide. The motor pool is intended to be used on an as-needed basis to meet departments' operational needs.

The City entered a contract with Herc Rentals in 2019 to supplement the City-owned fleet with rental vehicles and equipment.

In 2019, the City entered into a cooperative agreement contract with Herc Rentals Inc. for vehicle and equipment rentals in an amount not-to-exceed \$14.3 million. The contract was established through a cooperative purchasing process which, according to City Management at the time, allowed the City to access a wide range of equipment at discounted rates. According to City Management at the time, immediate access to rental equipment was necessary to support short-term and temporary projects, and without the contract, the City would have lacked equipment availability to meet operational needs.

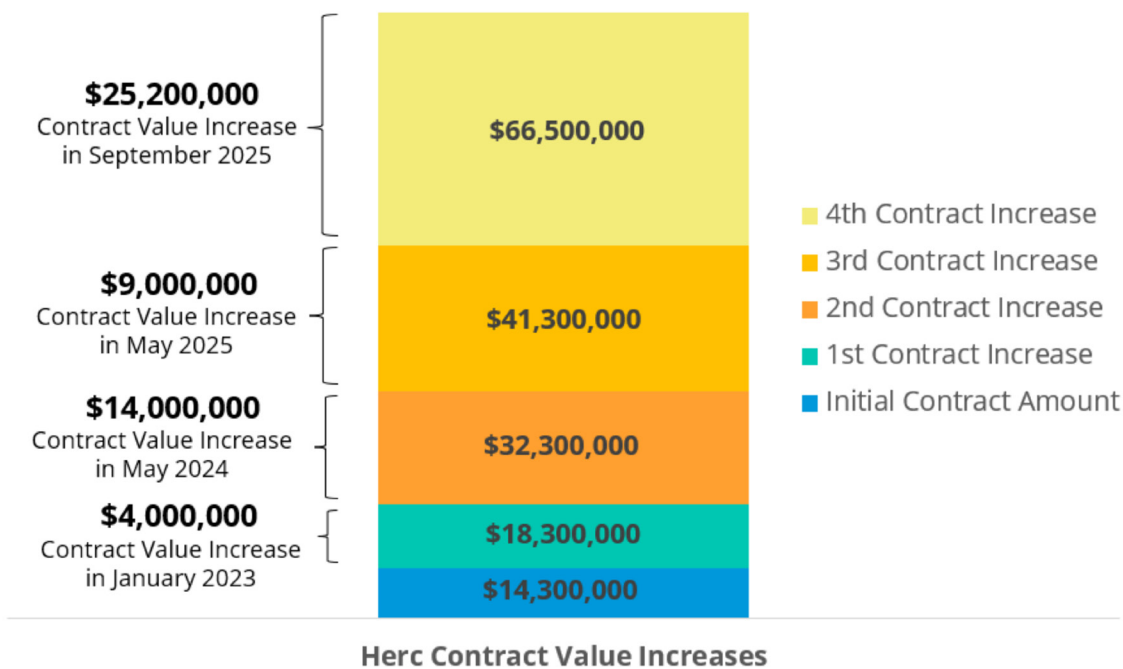
Throughout the duration of the contract, rental needs increased because of the COVID-19 pandemic. Social distancing requirements limited the number of staff permitted per vehicle and supply chain delays limited the availability of new vehicles and equipment. According to City departments, rentals are currently used for seasonal needs, emergency response, special projects, and interim use while vehicles are under repair, or while waiting for delivery of newly purchased vehicles.

The City has spent approximately \$42 million as of June 2026 on the Herc Rentals contract of an approved amount of \$66.5 million.

The City has spent a significant amount of public dollars under the Herc contract, approximately \$42 million. As shown in **Exhibit 1**, the City increased the value of the contract four times, with a current approved amount of \$66.5 million. Councilmembers have expressed concerns about rising costs and whether the City's reliance on rentals was efficient.

Exhibit 1

The City Increased the Herc Rentals Contract Value Four Times in Nearly Three Years by a Total of \$52 Million



Source: OCA generated based on cooperative procurement contracts with Herc Rentals and City of San Diego City Council meeting minutes.

Additionally, our 2024 audit of the City's Contract Management Process identified issues with the City's oversight of the Herc contract related to contract amendments.¹ We discuss these issues further in **Finding 1**. Although the contract is available for department use Citywide, the Public Utilities Department (PUD), Transportation Department (Transportation), and Stormwater Department (Stormwater) accounted for about 84 percent of contract spending. Therefore, we focused our review on these departments.

¹ Performance Audit of the City's Contract Management Process, issued July 2024: <https://www.sandiego.gov/sites/default/files/2024-07/25-02-performance-audit-of-the-city-s-contract-management-process.pdf>

The Purchasing & Contracting Department, Fleet Operations Division, and user departments have responsibilities related to managing City-owned and rental vehicles and equipment.

Responsibilities for managing City-owned fleet vehicles, rentals, contract oversight, and related spending are spread across multiple departments. The Purchasing & Contracting Department (P&C) is charged with overseeing the transactions for procuring and/or contracting goods and services, as well as contract management functions. P&C's prior and current Herc contract management and monitoring practices are discussed further in **Finding 1**.

The Department of General Services Fleet Operations Division (Fleet) manages the maintenance, repairs, replacement, and disposal of more than 5,000 City-owned vehicles and motorized equipment. Fleet is responsible for coordinating vehicle build specifications with user departments, ordering and placing the vehicles and equipment into service, and working with P&C to dispose of vehicles at the end of their useful life. According to City Management, there are four Fleet staff and zero P&C staff dedicated to the procurement and acquisition of vehicles.

While Fleet acquires and performs maintenance on departments' City-owned vehicles, user departments are responsible for assessing and monitoring their rental and City-owned fleet needs and usage, as well as budgeting for their rental needs. Currently, departments request rentals through the City's purchase order process, and Fleet and P&C review these requests.

Finding 1

The City underestimated vehicle rental spending under the initial Herc Rentals contract by over \$12.2 million, and did not effectively monitor actual rental costs.

Finding Summary

Although the City estimated it would spend \$14.3 million over the initial 5-year Herc Rentals contract, it actually spent \$26.5 million—exceeding the estimate by \$12.2 million. The contract also ran out of available funding multiple times before the City obtained City Council approval to increase the contract amount because the City did not have effective processes to monitor rental spending and determine total spending against the contract. As of June 2026, the City has spent approximately \$42 million in total under the contract.

In September 2025, the City implemented additional contract oversight processes and Herc Rentals contract spending decreased in fiscal year (FY) 2026. However, we found vehicle and equipment rental budgets from the top spending departments of the contract—the Stormwater Department, Transportation Department, and Public Utilities Department—have not consistently reflected actual rental spending. The top spending departments of the contract each exceeded their vehicle and equipment rental budgets in at least five of six fiscal years, totaling \$17.4 million in combined overages from FY2020 through FY2025. Though City departments can use funds from other budget categories to pay for vehicle and equipment rental overages, doing so redirects resources from their intended purposes and reduces the usefulness of the budget as a planning tool. Therefore, City Management, City Council, and the public do not have a complete view of departments' true vehicle rental needs or the full cost of rentals when making budgeting decisions.

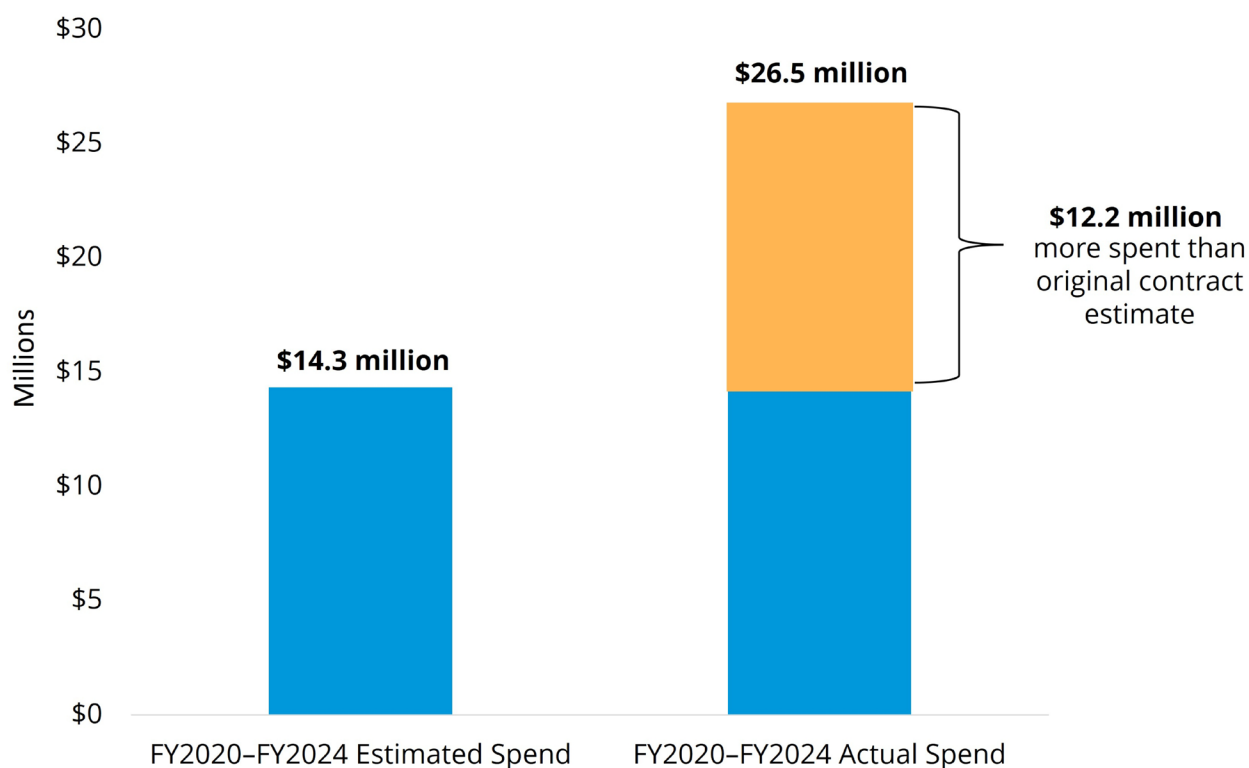
Throughout the course of the Herc Rentals contract, the City has implemented new processes to improve oversight and ensure contract spending remains within the approved amount. However, additional steps are needed to ensure City departments do not continue to spend more on rentals than they budget for each year and use funds from other budget categories to pay for rental costs. Therefore, we make recommendations for the City to effectively plan and monitor vehicle and equipment rental spending to control costs.

The City underestimated vehicle and equipment rental spending when entering into the 2019 Herc Rentals contract.

We found that the City underestimated how much it would spend under the Herc contract in its initial 2019 estimate. The estimate forecasted approximately \$14.3 million in spending over five years based on historical usage. However, actual spending over the five years, FY2020–FY2024, totaled approximately \$26.5 million, exceeding the original 5-year estimate by \$12.2 million as shown in **Exhibit 2**.

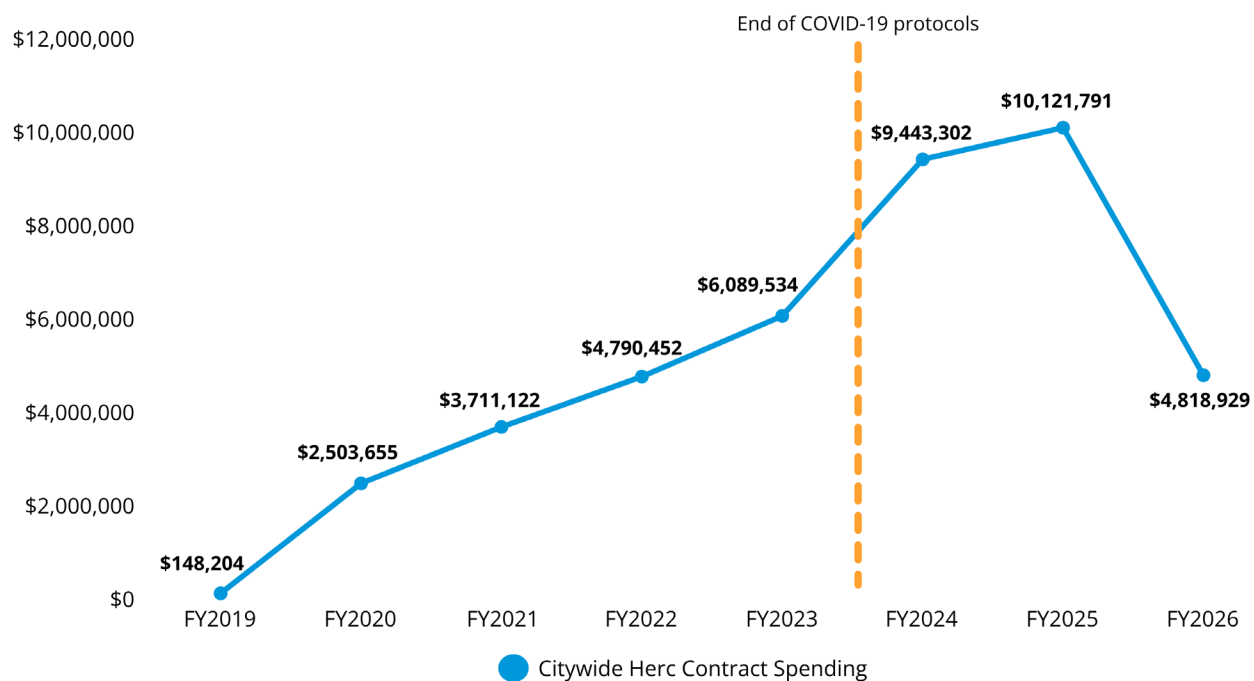
Exhibit 2

The City Underestimated Vehicle and Equipment Rental Spending Citywide by \$12.2 Million



Source: OCA generated based on staff reports from the Purchasing & Contracting Department and SAP data.

The original estimate was prepared in 2019 before the COVID-19 pandemic. COVID-19 had a significant impact because social distancing requirements increased the need for rental vehicles and equipment to maintain service levels. However, contract spending continued to increase after COVID-19 protocols ended in 2023 and peaked in 2025, as shown in **Exhibit 3**.

*Exhibit 3***Citywide Vehicle and Equipment Rental Contract Spending Continued to Increase After COVID-19 Protocols Ended in 2023**

Source: OCA generated based on SAP data.

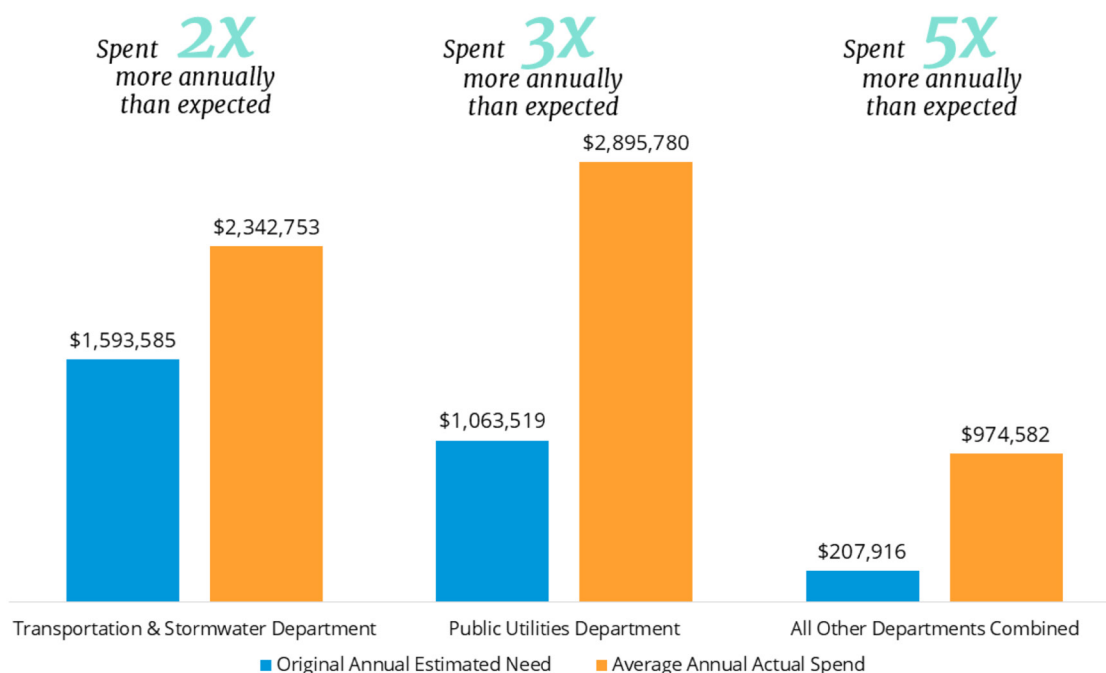
According to City Management, in some cases, initial rental needs and cost estimates were lower than actual, resulting in invoice adjustments to reconcile the difference between estimated and actual rental costs. Additional demand also resulted from temporary equipment needs while City vehicles were out of service for maintenance or repair, particularly due to staffing shortages at Fleet that extended downtime. The departments we reviewed that are responsible for infrastructure maintenance also experienced evolving service requirements, such as expanded workloads, increased service expectations, and new program needs, which drove greater reliance on rental equipment. In addition, departments may have relied more on vehicle rentals due to extended procurement and delivery timelines and because the City did not assess whether City-owned vehicles were used optimally and efficiently when determining the need for vehicle rentals, which is discussed further in **Finding 2**.

We also found that the contract was used more extensively and by more departments than originally planned. The 2019 estimate projected that the Public Utilities Department (PUD) and Transportation and Stormwater Department would account for 93 percent of all

contract spending to carry out channel clearing and water-related projects.² However, as shown in **Exhibit 4** below, spending significantly exceeded estimates Citywide, including departments that were not expected to be major users of the contract.

Exhibit 4

Departments' Actual Annual Spending Significantly Exceeded the Original Annual Estimated Need From FY2020 Through FY2024



Note: In Fiscal Year 2021, the Transportation and Stormwater Department became two separate departments: the Transportation Department and Stormwater Department. The original estimated need is shown for the Transportation and Stormwater Department when it operated as a single department. The average annual actual spend reflects the combined average annual spending of the Transportation and Stormwater Departments during FY2020 through FY2024.

Source: OCA generated based on the 2019 staff report for the Herc Rentals contract and SAP data.

Specifically, between FY2020 through FY2024, PUD spent nearly three times more annually than expected, averaging approximately \$3 million actual vs. \$1 million estimated. The Transportation and Stormwater Departments combined spent nearly two times more annually than expected, averaging approximately \$2.3 million actual vs. \$1.6 million estimated. All other departments combined spent nearly five times more annually than expected, averaging approximately \$1 million actual vs. \$200,000 estimated. Given that departments other

² In Fiscal Year 2021, the Transportation and Stormwater Department became two separate departments: the Transportation Department and Stormwater Department. Throughout this report, the departments are discussed separately unless otherwise noted or information is presented for both departments combined.

than PUD and Stormwater do not generally perform channel clearing or water-related projects, their significant spending under the contract indicates that the contract was used more often and for a wider range of projects than described to City Council when it approved the contract in 2019.

P&C staff found limited documentation explaining how staff determined the initial contract value or what assumptions were used to estimate department usage.

In 2026, City Management stated that Purchasing & Contracting Department (P&C) staff conducted a review and found limited documentation explaining how staff determined the initial contract value or what assumptions they used to estimate department usage. City Management also stated that documentation regarding the methodology used to track contract utilization or spending patterns during the early years of the contract was limited.

Therefore, the City should develop a standardized process for preparing more accurate cost estimates to determine whether proposed changes to the Herc contract reflect the City's needs. To support more accurate cost estimates and improve transparency, P&C should include budgeted and actual spending amounts and anticipated needs in staff reports when presenting proposed vehicle and equipment rental contracts to City Council for approval.

The City exceeded the Herc Rentals contract spending limit before requesting Council approval to increase the contract amount.

We found that the Herc Rentals contract ran out of available funding multiple times before the City obtained Council approval to increase the contract amount. Our 2024 audit of the City's Contract Management Process found that the City exceeded the contract limit by \$6.7 million without Council approval, only obtaining approval four months after the contract limit was exceeded. Following this event, P&C has taken several actions to implement OCA recommendations to improve contract management and help ensure contracts are brought to Council timely. These actions can help the City manage the Herc Rentals contract by:

- Providing routine updates to Council on contract activities, including spending;
- Establishing and implementing a formalized contract alteration process; and
- Developing a report to monitor contract spending.

In February 2025, following the contract again reaching capacity, City Management directed departments to return non-essential rentals and reduce open purchase orders, while an amendment to increase the contract limit was being prepared for Council. Four departments returned 67 rentals, as shown in **Exhibit 5** below.

Exhibit 5

The City Returned 67 Rentals Between February 10, 2025 and February 13, 2025 Following Management's Directive

Department	Rentals Returned
Public Utilities	32
Transportation	19
Stormwater	14
Parks and Recreation	2
Total	67

Source: OCA generated based on data from Herc Rentals Inc.

The departments we reviewed reported differing operational impacts following City Management's directive to return rentals. According to the Stormwater Department, the directive to return vehicles and equipment resulted in minor, short-term operational delays primarily in channel maintenance. PUD reported no service impacts and stated that operations continued efficiently following the return to multi-person crews and some vehicles were no longer required once permanent fleet replacements became available. Transportation reported declines in some service level delivery, but noted multiple operational changes occurred at the same time as vehicle reductions, including overtime limitations and changes in work assignments and administrative cleanup efforts, making it difficult to isolate the extent to which vehicle availability affected service delays.

Although the departments we reviewed stated that they already assess vehicle needs based on operational priorities, the City does not have a documented process to consolidate those needs and to use that assessment to inform the Herc Rentals contract amount. Individual departments develop their own estimates of the contract funding they expect to need and submit those amounts to P&C. Consistent with the standard process for Citywide contracts, P&C takes the lead in bringing forward the total contract amount requested on behalf of the client departments. Therefore, to improve consistency and transparency, the City should direct operational departments using the Herc Rentals contract to conduct a needs assessment during the budgeting process to inform requested contract amounts. Requiring departments to document their rental needs could give City Management more accurate information to forecast rental spending and plan the contract amount. It could also provide the Department of Finance and P&C with greater visibility into departments' rental needs assessments, which could further enhance the City's existing budget and contract monitoring processes.

The City did not have coordinated processes to track, monitor, and manage rental spending across departments, but has since implemented new processes.

We found that the City did not have coordinated processes to adequately monitor rental spending and contract usage Citywide. As a result, City Management could not readily determine total spending and unpaid rental invoices.

To assess purchase order processes, we identified approximately 24,000 purchase orders opened from FY2019 through FY2026 in SAP and compared invoice amounts from Herc Rentals' records to City records using invoice numbers. Approximately 13,000 purchase orders had at least one invoice amount difference between Herc Rentals and City records. From this group, we randomly selected 50 purchase orders to review. Since the sample was not a statistical sample, the results are not projectable to the full population of purchase orders.

We found that 34 percent (17 of 50) purchase orders we reviewed were open purchase orders that were not itemized. This means that departments requested money for rentals without indicating the specific vehicles or equipment being rented, why they were needed, or for how long. Without itemization, City Management's ability to monitor rental spending is limited because it cannot readily:

- Verify that the vehicles or equipment charged against the purchase order are the same vehicles or equipment originally requested and approved; and
- Determine whether rental durations are approaching or exceeding the length originally planned.

Prior to September 2025, City department staff would contact Herc directly, without a purchase order, to initiate rentals.

Moreover, to meet City Charter requirements, the City's purchase order process is designed to ensure funds are available before purchases are made. However, 12 percent (6 of 50) purchase orders we reviewed were issued after rentals had already occurred. In one notable example, the Transportation Department requested a purchase order in May 2025 to pay 58 overdue rental invoices dating back to December 2024, totaling approximately \$200,000. Furthermore, prior to September 2025, City department staff would contact Herc directly, without a purchase order, to initiate rentals.

When City departments incur rental costs without first setting aside funds for those purchases, it increases the risk of funds not being available to pay for the rentals because doing so bypasses the City's financial system controls designed to ensure funds are available and limit spending to approved budget amounts.³ This increases the risk of the City entering financial obligations without the appropriate budget and limits City Management's ability to monitor rental spending and outstanding obligations as unpaid rental invoices accumulate.

In September 2025, P&C implemented many new processes to better control rental spending, as shown in **Exhibit 6**.

³ According to a 2019 memorandum from the City Comptroller, SAP, the City's financial system, includes an Availability Control (AVC), a budget control that prevents expenditures from being incurred when sufficient budget authority is unavailable. The memo states that the City's purchase order process serves as the mechanism for effective budgetary control and compliance with City Charter requirements that funds be available before obligations are incurred. The memo is available here: <https://docs.sandiego.gov/memooflaw/MS-2021-12.pdf>

Exhibit 6

P&C Implemented Additional Contract Controls to Better Track Usage of the Herc Rentals Contract

Prior Process



User departments submitted “open purchase requisitions” without itemized rental quantity, price, and duration or why the rental was needed.



In some instances, P&C verified that the rental rates matched contract pricing and then approved the purchase requisitions.



User department staff contacted Herc directly to initiate rental requests.



User departments drew funds from a single contract without rental spending tracking and monitoring from P&C.

Current Process



User departments submitting purchase requisitions must itemize rental quantity, duration, and price as well as including why the rental is needed.



User departments must upload Appointing Authority approval validating the purchase requisition request, budget availability, and reason why the rental is needed.



Fleet verifies whether a department's fleet equipment is in-shop for repairs or on order to ensure the rental requests are for similar equipment.



P&C staff review rental purchase requisitions from all City departments. P&C enforces that Herc only provide rentals to user departments with a valid purchase order.



P&C caps contract spending based on user department requested amounts to prevent overspending. P&C also provides monthly contract spending reports to City departments.

Source: OCA generated based on interviews and documents from the Purchasing & Contracting Department.

These processes include requiring departments to itemize purchase orders and use reason codes to track rental purposes. Though this process is not yet formalized, it can be further improved by requiring departments to review their existing fleet vehicles for availability prior to initiating a rental.

P&C has now established sub-contracts in the City's contract management system to limit department spending to approved amounts.

P&C has also assigned a dedicated staff member to review and approve related purchase orders, established sub-contracts in the City's contract management system to limit department spending to approved amounts, and required Herc to issue rentals only with valid purchase orders. Notably, department-specific subcontracts prevent overspending against the overall contract by limiting each department's spending to its allocated funding. Under the previous process, all departments could open purchase orders under the Citywide contract, and the contract management system only prevented additional purchase orders after the contract reached its total authorized amount. As a result, departments could use more of their anticipated share of contract funds, leaving less funds available for other departments than expected, and spending reached the contract limit.

P&C stated that it started establishing subcontracts with the 8th Herc contract amendment; however, this process is not formalized. Therefore, to ensure continuity and prevent overspending, P&C should formalize its process for establishing subcontracts for each department's identified vehicle and equipment rental needs and its process for initiating vehicle and equipment rentals. These changes address many of the information gaps that previously limited oversight and provide P&C tools to track contract usage and spending across departments.

While P&C has implemented changes to enhance oversight of contract use at a Citywide level, departments have also implemented process improvements to better track and manage rentals at a department level. For example, Transportation, Stormwater, and PUD have assigned Fleet coordinators to serve as single points of contact to review the departments' rentals. The departments also receive frequent reports from Herc Rentals about active rentals and use Herc's ProControl software to monitor rentals, view purchase order history, and rental utilization data. According to the departments, Herc rental reports are now also shared with the departments' executive management. We discuss additional opportunities to strengthen vehicle utilization reporting and data sharing across City departments to minimize unnecessary rentals in **Finding 2**.

Departments are following new processes to improve oversight, but it is too soon to assess their long-term impact on rental spending.

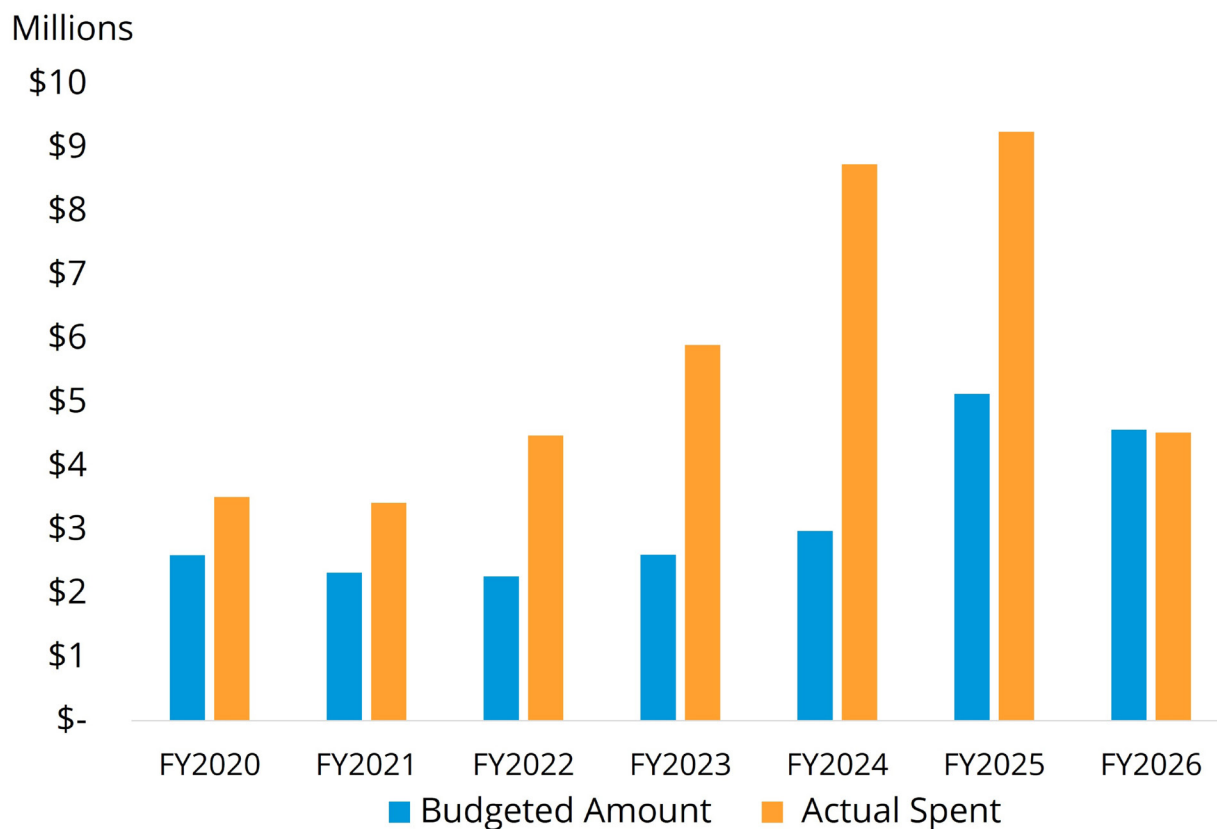
We reviewed another random sample of 20 purchase orders issued before and after the new P&C processes were implemented and found that departments generally followed the updated requirements. We also reviewed Herc Rentals contract spending and found that Citywide quarterly spending for October through December 2025 totaled approximately \$740,000, the lowest quarterly spending since the third quarter of 2020. However, because these processes have been in place for less than a year, it is too early to know the extent to which they will better control rental spending over the long term.

The City spent more on vehicle and equipment rentals than it budgeted for from FY2020 through FY2025, totaling nearly \$17.4 million in overages; however, rental spending decreased in FY2026.

We found that for six fiscal years, from FY2020 through FY2025, highest spending departments of the Herc contract together exceeded their equipment rental budgets by a total of \$17.4 million, as shown in **Exhibit 7**. However, rental spending dropped significantly in FY2026, decreasing by approximately \$4.7 million (51 percent) from FY2025, and stayed within budget.

Exhibit 7

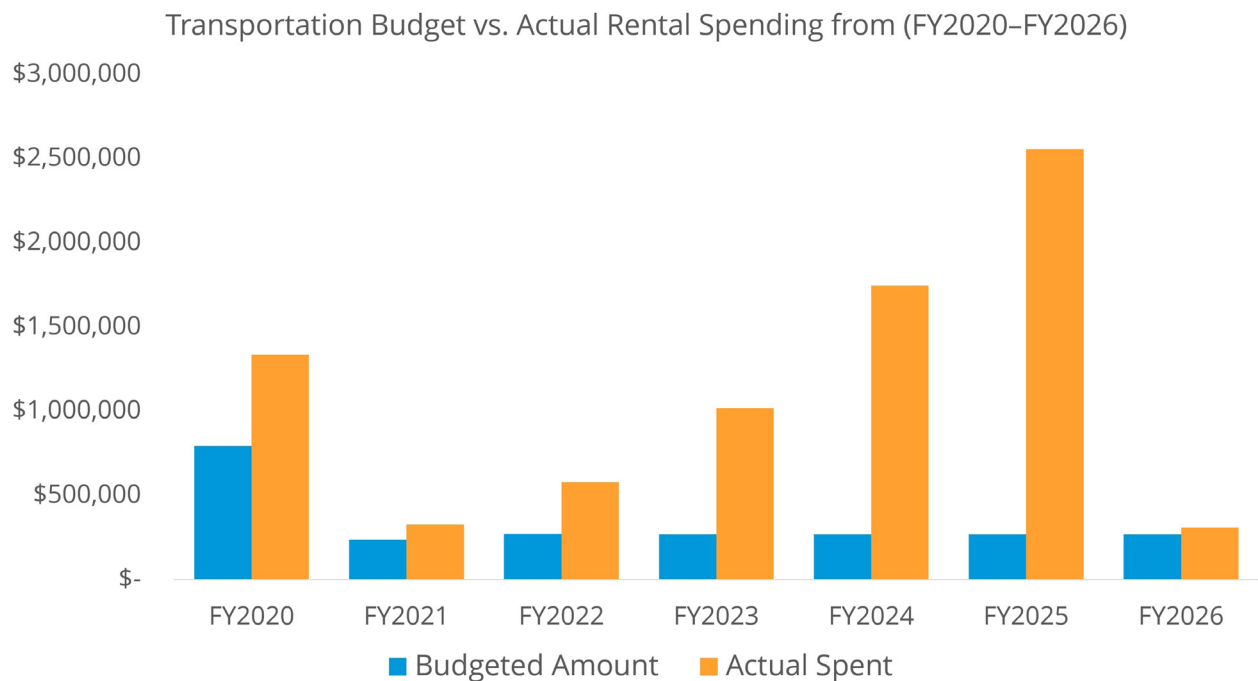
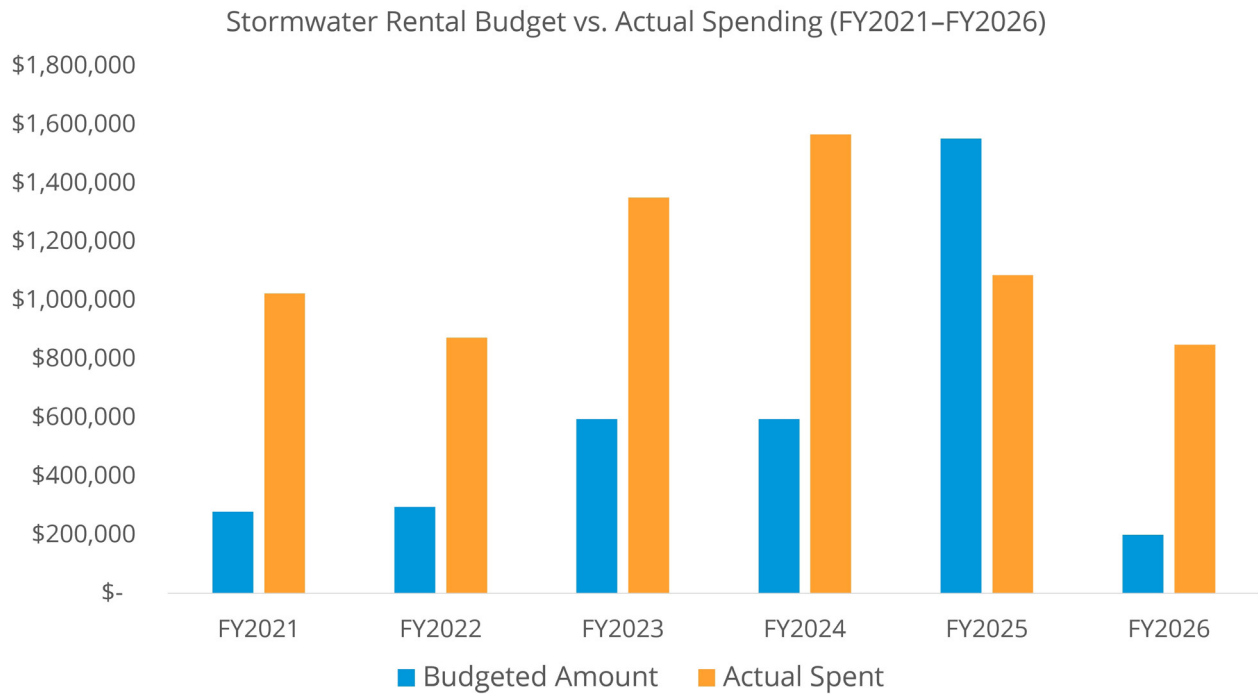
From FY2020 Through FY2025, Highest Spending Departments Exceeded Their Equipment Rental Budgets by a Combined Total of Nearly \$17.4 Million But Remained Within Budget in FY2026

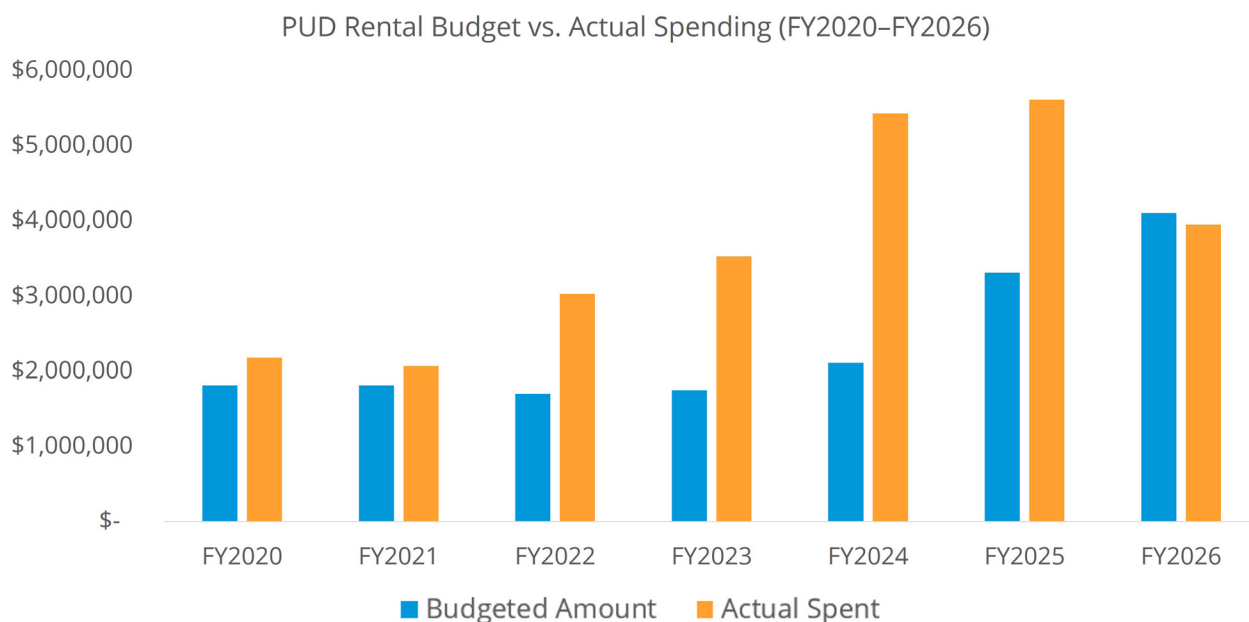


Source: OCA generated based on SAP data.

Vehicle and equipment rental budgets did not reflect departments' actual rental spending.

According to the Government Finance Officers Association (GFOA), governments should monitor budget vs. actual spending, analyze spending trends and variances, use spending information to forecast future budget needs, and implement processes to prevent overspending. However, we found that despite years of exceeding rental budgets, budgets of the highest spending departments of the Herc contract generally did not reflect their actual rental spending, as shown in **Exhibit 8**.

Exhibit 8**Each of the Highest Spending Departments of the Herc Contract Exceeded Their Equipment Rental Budgets in at Least Five of Six Fiscal Years**



Note 1: This exhibit shows spending for the Transportation and Stormwater departments from the General Fund only. Sewer Revenue, Sewer Utility, and Water Utility Funds are shown from the Public Utilities Department.

Note 2: In Fiscal Year 2021, the Transportation and Stormwater Department became two separate departments: the Transportation Department and the Stormwater Department.

Source: OCA generated based on SAP data.

The Department of Finance (DOF) monitors department spending throughout the fiscal year and prepares monthly and quarterly budget monitoring reports that identify variances. According to DOF, additional review is triggered when variances exceed established thresholds at the broader contract category level. For example, the FY2024 Third Quarter Budget Monitoring Report identified a \$5.3 million overage in the Transportation Department's Contracts and Services category, approximately \$2 million of which was for vehicle and equipment rentals. DOF also issues annual guidance to departments for preparing the budget.

The departments we reviewed stated they adjusted their budgeting methodologies to account for operational impacts. For example, PUD stated that it now uses more comprehensive and consistently tracked information to develop rental estimates, while Stormwater stated it adjusted its budgeting methodology to reflect ongoing constraints in equipment availability, repair timelines, rental market conditions, and actual expenditure trends.

Despite these changes, ongoing differences between budgeted and actual spending amounts indicate that budgets do not consistently align with actual rental spending. For example, Transportation's rental budget has remained nearly the same since FY2021 and the department exceeded its budget for five consecutive fiscal years. Transportation significantly reduced the gap between its budget and actual spend and PUD was within budget in FY2026. According to the Stormwater Department, the decrease in the FY2026 budgeted amount for vehicle and equipment rentals resulted from City Management directing general cuts to the external contract budget category. As a result, approved rental budgets may not reflect departments' actual rental needs. Budget monitoring is crucial to ensure accountability. Regular and comprehensive reviews can also help the City promote transparency by demonstrating spending trends that may impact future operations. Therefore, City Management should instruct operational departments to incorporate budget and actual spending for the vehicle and equipment rental commitment item in the City's existing quarterly budget monitoring process.

Departments using funds from other budget categories to absorb vehicle and equipment rental overruns reduces transparency in spending.

The Transportation Department overspent on vehicle and equipment rentals by \$2.2 million and underspent on traffic signal repairs.

We found that the departments we reviewed used funds from other budget categories, such as supplies and external contracts and services, to cover rental costs that went over budget. For example, in FY2023 and FY2024, the Transportation Department overspent on vehicle and equipment rentals by \$2.2 million and underspent on traffic signal repairs during those two fiscal years. According to the Chief Financial Officer, departments have discretion to use available funding within their overall appropriated budgets to manage operational needs under the Appropriation Ordinance. Additionally, budgetary control is maintained at the broader non-personnel expenditure category level, rather than the individual commitment-item level.

While using funds from other budget categories is permitted under the Appropriation Ordinance, it reduces transparency into the actual cost of rentals. When rental costs are paid for from other budget categories, it creates a risk that rental budgets understate actual rental needs and resources are redirected from their intended purposes. This practice also distorts program spending and limits visibility into the full costs of the programs because rental spending may be accounted for under various categories.

Furthermore, according to the Public's Guide to the Budget, the City's budget is a management and planning tool used to determine priorities and how City resources will be spent to maintain City services. Overestimating funds from other budget categories, while consistently underestimating vehicle and equipment rental budgets, reduces the usefulness of the budget as a planning tool because the amount budgeted for rentals does not reflect actual rental spending. Therefore, the budget becomes a less effective tool for planning and decision making and makes it more difficult for City leaders and the public to determine whether resources are being allocated and spent as intended.

Recommendations

To ensure the City effectively plans and monitors vehicle rental spending to control costs, we recommend:

Recommendation 1.1

(Priority 2)

The Mayor, in consultation with the Department of Finance, should issue direction to all departments that utilize vehicle and equipment rental contracts to conduct and document a needs assessment as part of the budgeting process.

Management Response: Agree [See full response beginning on page 46.]

Target Implementation Date: January 15, 2027

Recommendation 1.2

(Priority 2)

The Purchasing & Contracting Department should formalize and document its new process to establish subcontracts for each department that utilizes vehicle and equipment rental contracts. Each subcontract should reflect approved contract amounts based on each department's identified needs, as described in Recommendation 1.1.

Management Response: Agree [See full response beginning on page 46.]

Target Implementation Date: October 31, 2027

Recommendation 1.3

(Priority 2)

The Chief Financial Officer should issue direction to operational departments responsible for vehicle and equipment rental spending—including but not limited to Public Utilities, Transportation, and Stormwater—to regularly monitor budget vs. actual commitment item spending for vehicle and equipment rentals as part of the City's existing quarterly budget monitoring process.

The Department of Finance should incorporate variance explanations from departments for vehicle and equipment rentals into the City's quarterly budgeting monitoring report.

Management Response: Agree [See full response beginning on page 47.]

Target Implementation Date: January 31, 2027

Recommendation 1.4

(Priority 2)

The Purchasing & Contracting Department should establish, or include in existing policy, a requirement to include the following in staff reports for initial, extension, and amendment of vehicle and equipment rental contracts when presenting proposed vehicle and equipment contracts to City Council for approval:

- a. Three years of budgeted vehicle and equipment rental amounts by department;
- b. Three years of actual vehicle and equipment rental spending by department; and
- c. Anticipated vehicle and equipment rental contract needs by department for the contract term.

Management Response: Agree [See full response beginning on page 47.]

Target Implementation Date: October 31, 2027

Recommendation 1.5

(Priority 2)

The Purchasing & Contracting Department should formalize and document its new process for initiating vehicle and equipment rentals. In addition to the improvements already made to the process, there should be a requirement for departments to attest that there are no available City-owned or rented vehicles for the intended purpose of the rental.

Management Response: Agree [See full response beginning on page 48.]

Target Implementation Date: March 31, 2027

Finding 2

The City relies on long-term rentals because vehicle planning does not fully account for operational needs, future demand, and cost effectiveness.

Finding Summary

The City does not adequately plan for its vehicle needs, resulting in long-term reliance on vehicle rentals, specifically pickup and dump trucks. Understanding how many vehicles and equipment all City departments need to meet current and future operational demands is important to prevent overspending on rentals. Additionally, evaluation of fleet metrics, such as assessing vehicle utilization and whether it is more cost-effective to rent or buy vehicles, is essential for vehicle and equipment planning. However, we found the City has historically not accounted for current and future operational needs and cost-effectiveness to inform vehicle planning. Specifically, we found that:

- More than half of the City's vehicle rentals are long-term and make up most of the City's rental costs;
- Departments relied on rental vehicles to meet operational needs because City-owned vehicles were not available;
- The City's vehicle planning process does not fully account for its long-term vehicle needs;
- Fleet and departments can improve vehicle planning by discussing vehicle and equipment rentals during their existing coordination meetings;
- It is unclear whether departments are using City-owned vehicles optimally and efficiently because the City has not established vehicle utilization standards;
- The City has not previously evaluated when owning vehicles is more cost-effective than renting; and
- Fleet does not currently base the vehicle replacement planning process on data of vehicle lifecycles and procurement timelines.

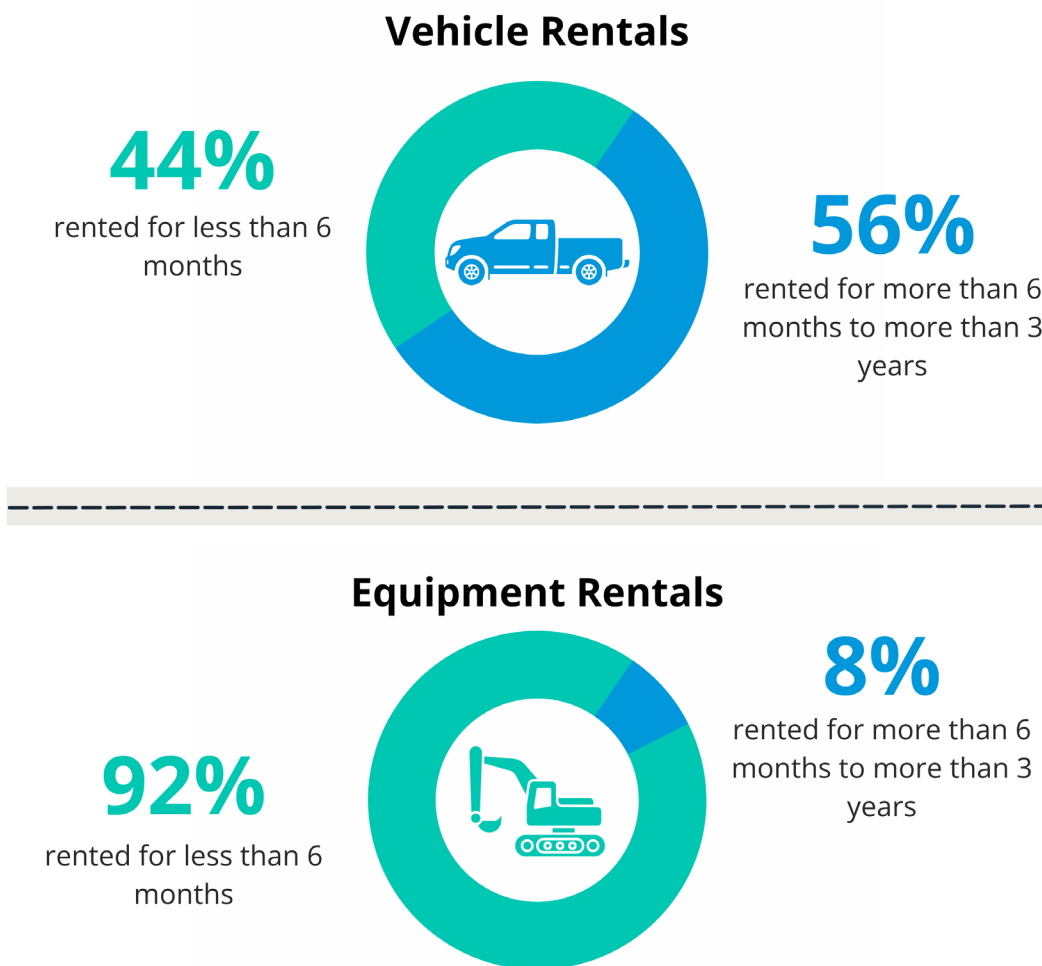
The City has taken steps to address the issues above by presenting a cost-benefit analysis of buying versus renting vehicles, based on ideal fleet maintenance conditions and replacing vehicles on their expected life, to the Budget & Government Efficiency Committee in June 2026, and by recently standardizing the upfitting of pickup and dump trucks to improve delivery times. However, additional steps are needed to improve the City's vehicle planning process to understand how many vehicles departments need to meet daily service demands and reduce reliance on long-term rentals. Therefore, we make recommendations to improve the City's needs assessment for the vehicle procurement and planning process.

More than half of the City's vehicle rentals are long-term and make up most of the City's rental costs.

We found that more than half of the City's vehicle rentals were for long-term use of vehicles. For example, as shown in **Exhibit 9**, 56 percent of vehicle rentals were rented for longer than six months, while 92 percent of equipment rentals were rented for less than six months. This supports statements from the departments we reviewed that they use equipment rentals for short-term operational needs or temporary projects. However, it appears that City departments use vehicle rentals to support routine operations.

Exhibit 9

56 Percent of Vehicle Rentals Were Rented for Longer Than Six Months, While 92 Percent of Equipment Rentals Were Rented for Less Than Six Months



Source: OCA generated based on data from Herc Rentals Inc.

We also found that vehicles make up most of the City's vehicle and equipment rental costs. From June 2019 through December 2025, the City spent approximately \$33 million on rentals;⁴ \$23 million (70 percent) of those expenses were for vehicle rentals and \$10 million (30 percent) were for equipment and attachment rentals. During that period, the City spent approximately \$15.3 million on dump and pickup trucks alone, making them the most frequently rented vehicle types.

Departments relied on rental vehicles to meet operational needs because City-owned vehicles were not available.

The departments we reviewed stated that they relied on rentals to maintain operations when City vehicles were unavailable due to procurement delays, extended repair timelines, and limited equipment availability. We found that it can take nearly two years for the City to receive vehicles after they are ordered, as shown in **Exhibit 10**.

Exhibit 10

The Average Days From Vehicle Order to Delivery Ranged From 179 Days to 602 Days

Year	Number of Pickup & Dump Trucks Ordered	Average Days Between Order and Delivery	Average Days Between Delivery and In Service*
2018	121	179	50
2019	130	316	26
2020	248	602	34
2021	109	491	36
2022	26	579	10
2023	98	415	78
2024	81	442	27
2025	17	215	50

*Excludes 18 pickup and dump trucks ordered between 2023 and 2025 that are not yet in service.

Source: OCA generated based on data from the Department of General Services Fleet Operations Division.

⁴ The City spent approximately \$33 million on base rental costs, which excludes taxes and other miscellaneous fees.

The average number of days from order to delivery peaked in 2020, which aligns with supply chain disruptions due to the COVID-19 pandemic. According to Fleet, while supply chain conditions have improved, they have not returned to pre-pandemic levels and still impact delivery timelines. Additionally, the City's fleet has 179 vehicle class types and many of these vehicles have customized features known as "upfitting" to help City staff perform their duties safely and effectively. Before delivery, vendors install the specialized equipment to the ordered vehicles. Upfitting often involves coordinating with multiple vendors to order and install specialized equipment, which can extend delivery timelines. After delivery, the City inspects the vehicle, installs the GPS, places decals, and performs any additional required upfitting. As a result, it takes on average 10 to 78 days for a newly delivered vehicle to be put into service.

Fleet is making cross-departmental efforts to improve delivery times through standardizing upfitting of pickup and dump trucks. Upfitting standardization can help the City identify the most common vehicles and specifications that can meet a range of departmental operational needs to reduce vehicle delivery times. Additionally, standardized upfitting can ease factory ordering; increase cost-savings, operational efficiency, and buying power; provides more flexibility to shift resources where needed; and reduces technician learning curves. According to Fleet, it began standardizing upfitting of these vehicle types in FY2026. Because this change is relatively recent, it is too early to determine whether the standardized upfitting will reduce delivery times over the long term.

The departments we reviewed also reported relying on rental vehicles when City vehicles were unavailable due to maintenance delays.

The departments we reviewed also reported relying on rental vehicles when City vehicles were unavailable due to maintenance delays. According to the departments we reviewed, which are the Stormwater Department, Transportation Department, and the Public Utilities Department, City vehicles were out of service for maintenance or repair particularly due to staffing shortages at Fleet that extended downtime and due to COVID-19-related impacts on parts availability, particularly for heavy-duty vehicles, such as dump trucks. This necessitated additional reliance on rental equipment to maintain service levels.

We also found that the City's motor pool may be insufficient to supplement departmental demand for short-term rental alternatives. We found that the departments we reviewed relied on the City's fleet motor pool long-term to fill operational gaps instead of using the motor pool for short-term use. Specifically, departments currently rent almost

all the City's motor pool assets and have been using some motor pool rentals for more than a year at a time. In fact, some motor pool rentals have been rented since 2019 and have not yet been returned.

Without established utilization thresholds for City vehicles, departments cannot ensure they are using their vehicles optimally and efficiently.

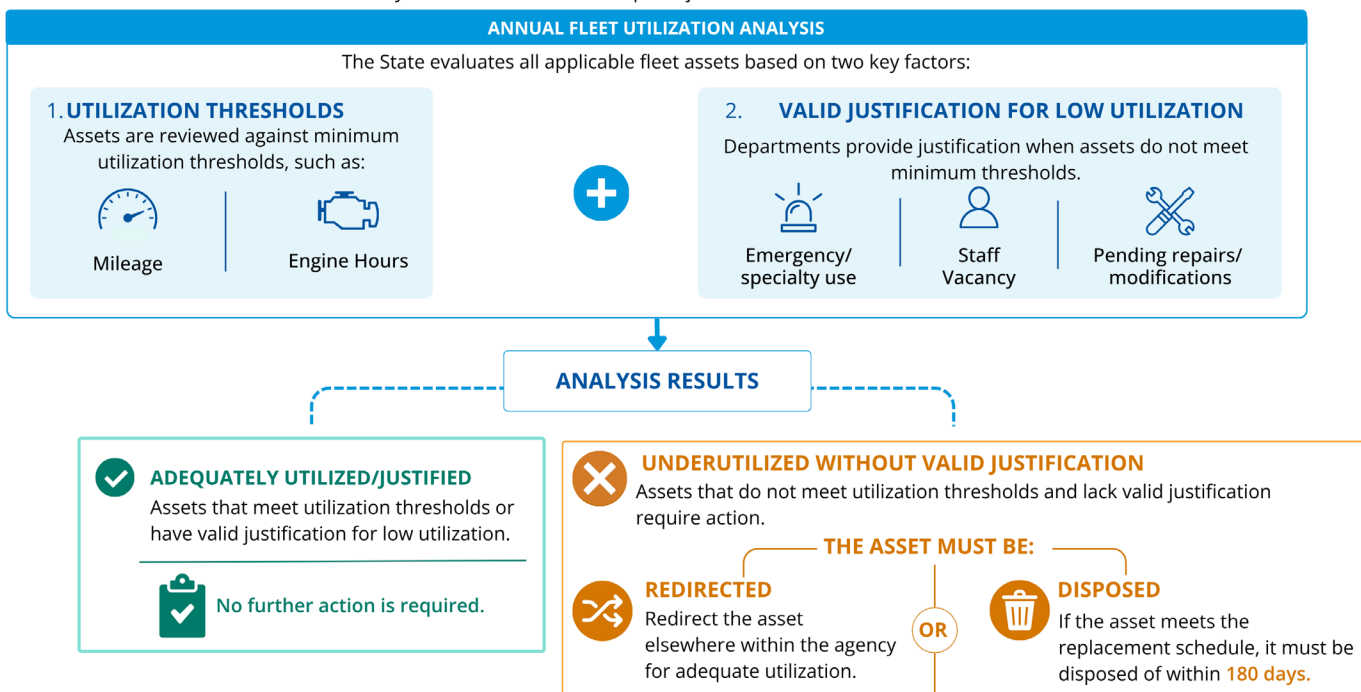
It is unclear whether the departments we reviewed are using City-owned vehicles optimally and efficiently because the City has not established vehicle utilization standards. The Government Accountability Office recommends establishing utilization standards because it can help determine if vehicles are utilized and mitigate the risk of retaining vehicles that are not needed. Similarly, the State of California also has utilization standards for all the State's fleet assets. These utilization standards establish a minimum threshold per vehicle and equipment within that classification by department. State departments need to provide sufficient justification to the State for vehicles that fall below the utilization standard before additional or replacement assets are approved, as shown in **Exhibit 11**.

Exhibit 11

The State of California Conducts Yearly Evaluations of All Agency Fleet Vehicles and Equipment

State of California Annual Fleet Utilization Analysis

The State conducts an annual utilization analysis of fleet assets and requires justification for assets that fall below minimum utilization thresholds.

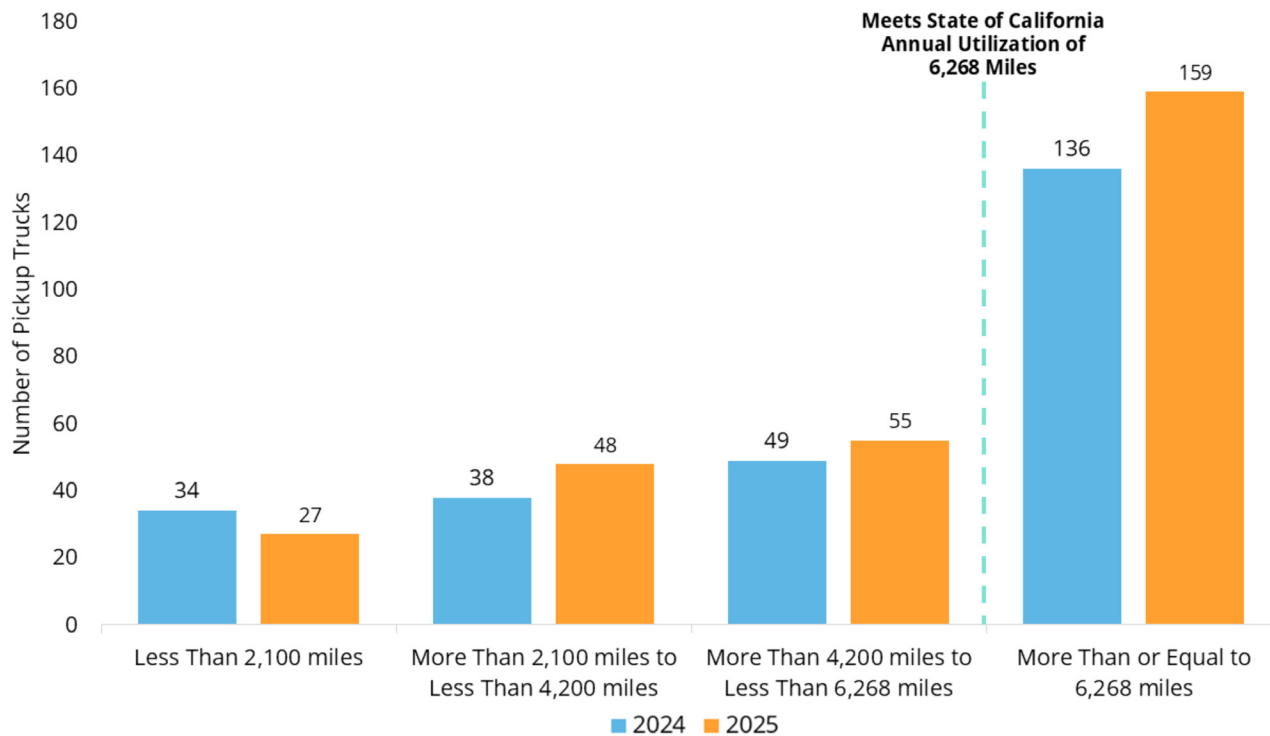


Source: OCA generated based on the California Department of General Services website.

We compared the City's pickup and dump truck annual mileage utilization to the State agency Caltrans' thresholds and found that the City's utilization varied, as shown in **Exhibit 12** and **Exhibit 13**.⁵ We selected Caltrans as an example since the agency manages and maintains critical infrastructure, similar to the three departments we reviewed. Though we selected this State agency's annual mileage threshold as a comparison point, the City should establish utilization standards that are appropriate to its own departmental missions and operations.

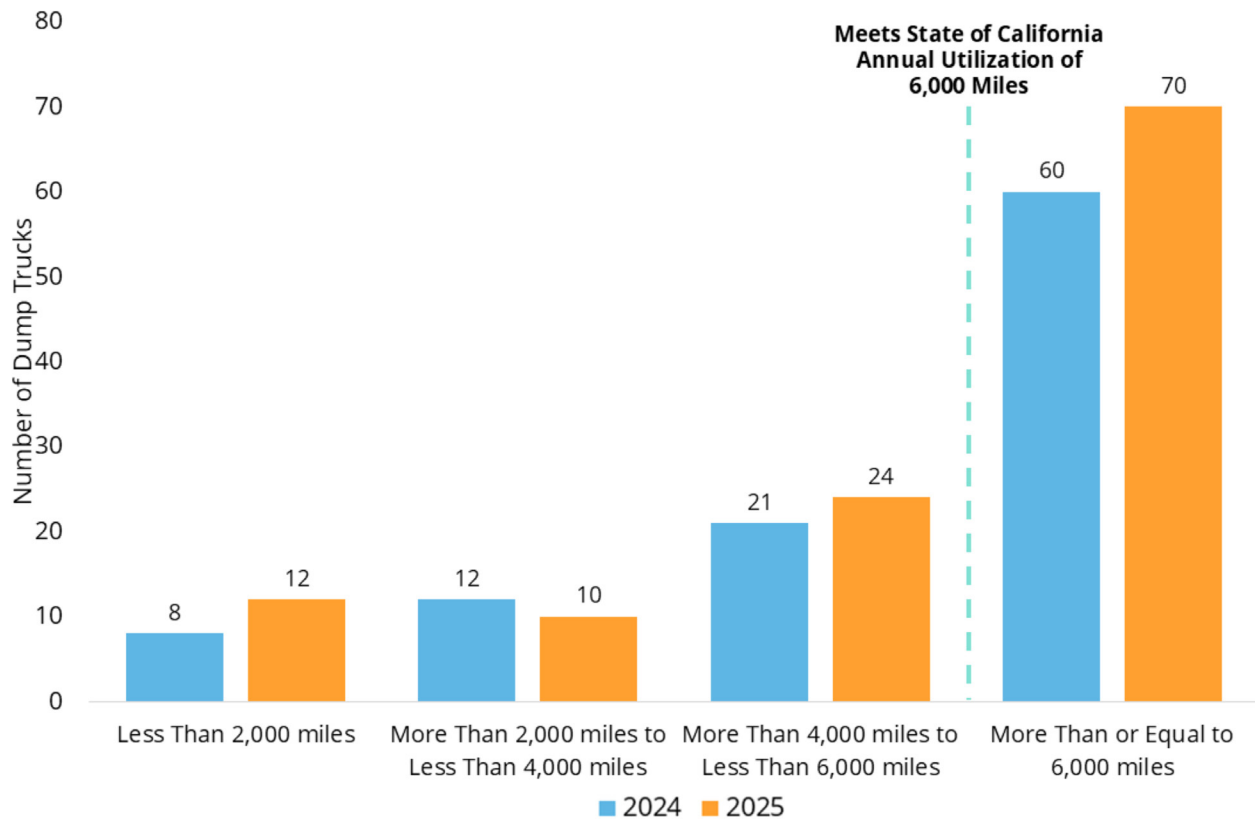
Exhibit 12

Most of the Stormwater, Transportation, and Public Utilities Departments' Pickup Trucks Meet Caltrans' Pickup Truck Annual Mileage Utilization Thresholds



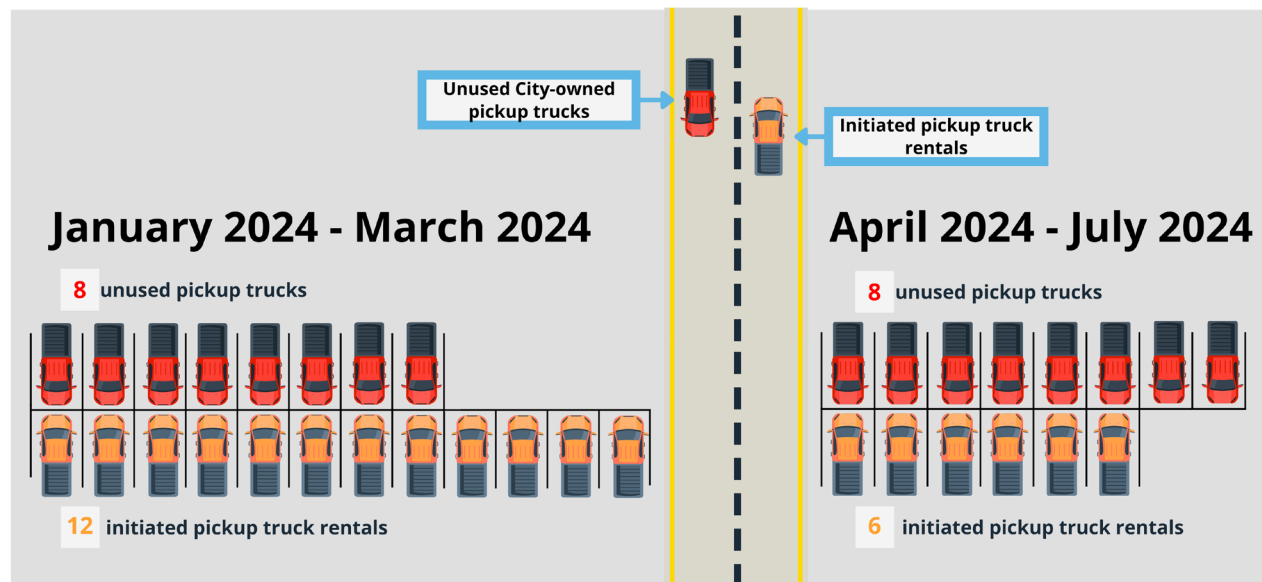
Source: OCA generated based on the City's Geotab telematics data and State of California minimum utilization threshold data.

⁵ We reviewed City vehicle maintenance and repair work orders and in service dates for vehicles that reported no utilization. We excluded vehicles from the distribution that had documented GPS, in service dates, or other maintenance issues that could have contributed to the lack of reported utilization.

*Exhibit 13***More than Half of the Stormwater, Transportation, and Public Utilities Departments' Dump Trucks Meet Caltrans' Dump Truck Annual Mileage Utilization Thresholds**

Source: OCA generated based on the City's Geotab telematics data and State of California minimum utilization threshold data.

Without utilization standards, departments and management have no benchmark to compare against to determine whether vehicles are being used optimally or efficiently. For example, between 2024 and 2025, PUD had more than 20 pickup trucks that were unused for periods between three months to one year that had no lengthy maintenance or repair issues. Specifically, during the first three months of 2024, PUD had 8 unused pickup trucks and initiated 12 pickup truck rentals. In the following three months of 2024, PUD also had 8 unused pickup trucks and initiated 6 pickup truck rentals, as shown in **Exhibit 14**.

*Exhibit 14***The Public Utilities Department Initiated Pickup Rentals Instead of Using Its Unused Vehicles**

Source: OCA generated based on the City's Geotab telematics data and Herc Rentals Inc. data.

The department could have potentially saved approximately \$100,000 in rental costs by using its unused vehicles or reallocating its vehicles to other work crews to avoid relying on rentals.⁶ However, there may be legitimate reasons for some vehicles to have little or no utilization, such as lengthy maintenance and repair downtime, primary operator vacancy, or seasonal use. Additionally, PUD stated that it had limited access to vehicle utilization data prior to 2024. According to PUD, improved access to utilization data, combined with the addition of a Fleet Coordinator position, has enhanced its ability to monitor vehicle utilization and manage its fleet.

The City should establish utilization standards for City-owned vehicles and regularly monitor utilization of both City-owned and rental vehicles.

Establishing utilization standards would enable the City to compare the usage of similar vehicle classes within and across departments to determine whether vehicles are appropriately supporting departments' operational needs. Analyzing vehicle utilization can help the City decide whether renting, owning, or using alternatives for vehicles is

⁶ We estimated approximately \$100,000 in pickup truck rental costs based on the number and duration of rentals and the base rental rate from Herc's 2024 price schedules. The estimate only includes base rental charges and excludes potential additional costs, such as delivery, taxes and other applicable fees.

the best and most cost-effective way to meet departments' needs and identify opportunities to reallocate fleet vehicles to other departments, if and as needed. Therefore, to inform vehicle needs, planning, and budgeting, the City should establish vehicle utilization standards based on appropriate measures.

Regularly reviewing utilization data for both City-owned and rental vehicles would provide the City with additional information to support optimized fleet data.

Similarly, monitoring rental vehicle utilization can help the City evaluate whether rental vehicles are being used efficiently and whether rentals are still appropriate. The departments we reviewed have access to Herc's ProControl software to monitor vehicle and equipment rental utilization data; however, according to Fleet, it is up to departments to monitor and manage their own vehicle and equipment rentals. According to best practices, management should develop procedures to determine if vehicles are utilized and mitigate the risk of retaining vehicles that are not needed. Regularly reviewing utilization data for both City-owned and rental vehicles would provide the City with additional information to support optimized fleet management decisions.

The City's vehicle planning process does not fully account for its long-term vehicle needs.

We found that the City's vehicle planning process does not fully account for its long-term vehicle needs due to a fragmented planning structure between Fleet and operational departments. Fleet develops a vehicle replacement plan every year and departments plan for new vehicles primarily through the annual budget process; however, new vehicle additions can occur throughout the year, creating an unsynchronized planning process. For example, when funding is available in City departments' budgets, they can make non-budget cycle requests for new vehicles and notify Fleet at any time during the fiscal year. Because new vehicle additions can occur at any time, procurement may not happen promptly, and vehicle planning can become more difficult to manage. According to Fleet, it is not always notified in time to place vehicle orders during the vendor's required ordering window, which may delay the vehicle purchase until the following year.

This process does not give City Management a clear view of the City's future vehicle needs. Changes in prioritizing vehicle orders can also make vehicle planning more difficult. For example, according to Fleet, it recently began prioritizing adding new vehicles to the City's fleet rather than replacing existing vehicles. This change in prioritization was

made due to mandates and initiatives rather than operational needs of individual departments. As a result, departments may spend more than they anticipated by using rentals to supplement the unreplaced vehicles and equipment.

The City's vehicle planning process also does not account for future operational demands. Departments use vehicles and equipment to provide a variety of essential services and meet operational demands. In addition to the existing fleet, departments use rentals to support daily operations, such as to respond to weather-related events and to address service backlogs. According to departments, staffing increases grew demand for rentals and some new positions were approved without funding for the vehicles needed to perform their duties. We also found that more vehicles were due for replacement each year than the City put into service, as shown in **Exhibit 15**. As replacement needs continue to outpace the number of vehicles put into service, the City may face increasing challenges to meet operational demands.

Exhibit 15

More Vehicles are Due for Replacement Each Year Than the City Puts into Service

Year	Vehicles Due for Replacement	City-Owned Vehicles put in service Citywide
2021	606	423
2022	594	310
2023	570	352
2024	591	439
2025	496	392
Total	2,857	1,916

Note: This exhibit compares vehicles due for replacement by fiscal year with vehicles placed into service Citywide. City-owned vehicles may include additions and replacements. In total, the City replaced 1,534 vehicles and equipment, while adding 382 vehicles and equipment to the fleet from FY2021 through FY2025.

Source: OCA generated based on data from the Department of General Services Fleet Operations Division and Herc Rentals Inc.

The City's planning process also does not account for changing regulatory and operational requirements. The City's Climate Action Plan establishes goals to transition the City's fleet to electric vehicles by 2030 and 2035; however, the City is unable to keep pace with these environmental goals. For example, the General Service's Fleet Electrification KPI in the City's FY2026 Adopted Budget is 5 percent, while the overall goal is 90 percent by FY2035. According to departments, State regulations may also delay repairs and vehicle procurement. Complying with environmental regulations may require the City to increase its fleet maintenance capacity, such as repair facilities, service technicians, and more. Additionally, the State of California limits the number of diesel engines sold in the State, which could limit the City's ability to procure certain trucks.

Without periodic assessments, the City may not have the information necessary to identify how current and future assets can meet service levels.

According to the Government Finance Officers Association, strategically assessing facilities and infrastructure is important to maintain their long-term value and identify projects that can help achieve service level targets. However, the most recent analysis focused on the City's daily operations, lifecycle analysis of fleet vehicles, and staffing and facility resources was in 2015. Without periodic assessments, the City may not have the information necessary to identify how current and future assets can meet service levels. These limitations demonstrate that the City's vehicle planning process needs to account for its long-term vehicle needs.

Fleet and departments can improve vehicle planning by discussing vehicle and equipment rentals during thier existing coordination meetings.

Fleet plans and coordinates monthly meetings with departments to review fleet maintenance metrics and the status of vehicles awaiting delivery. However, Fleet and City departments do not discuss active vehicle and equipment rentals in those meetings. According to Fleet, it does not discuss Herc rentals because it is up to departments to monitor and manage their own vehicle and equipment rentals. While Fleet developed a dashboard that contains fleet metrics, such as City-owned vehicle utilization, this information is not reviewed with departments to identify trends or inform vehicle planning. Additionally, Fleet sends monthly Fleet Executive reports that include active Herc rentals to departments to promote visibility into how resources are being managed, as shown in **Exhibit 16**. City departments have Fleet Coordinators, who serve as liaisons between departments and Fleet, receive rental reports from Herc, and have access to Herc's ProControl dashboard. However, we found that the Transportation Department,

Stormwater Department, and Public Utilities Department—the three largest users of the Herc contract—receive or send active rental reports at different frequencies, and some staff do not have access to Herc’s data.

Exhibit 16

The Fleet Executive Reports Provide City Departments with an Overview of Active Rentals with Herc



Source: Screenshot of the Department of General Services Fleet Operations Division monthly Fleet Executive Report.

Discussing rental activity during these meetings can provide City staff with real-time insights, decrease data silos, and promote better decision making. The Government Accountability Office (GAO) states that the number and types of vehicles truly needed can help inform cost-effective decision making. Additionally, thorough analyses of fleet maintenance metrics, such as lifecycle costs and vehicle utilization, can help City departments better evaluate whether vehicle and equipment rentals are needed to meet operational demands. According to departments, some have service level agreements to share vehicles with one another to meet

operational needs. Continuing to use regular meetings between Fleet and department Fleet Coordinators, and incorporating rentals into those meetings, could help departments identify opportunities to share vehicles and use the City's fleet more efficiently to minimize unnecessary rentals and avoid impacts to services. Therefore, Fleet should discuss all active vehicle and equipment rentals listed in the Fleet Executive Report during the monthly coordination meetings to ensure better identification of vehicle and equipment needs.

Other municipalities discourage long-term rentals and have proactive approaches to vehicle planning.

We found that other municipalities discourage long-term rentals and have proactive approaches to future vehicle planning purchases. For example, according to the City of Austin Fleet Mobility Services, it discourages city departments from relying on long-term rentals and begins meetings with departments when rentals last longer than six months. When department rentals last longer than a year, City of Austin Fleet Mobility Services meets with departments to evaluate their rental needs and requires appointing authority approval from an assistant or finance director for the rental. Additionally, the City of Austin Fleet Mobility Services has yearly meetings to review 5-year advanced vehicle planning; fleet performance, such as vehicle utilization trends; and equipment rental usage and spending with departments. According to the City of Austin Fleet Mobility Services, facilitating frequent conversations with departments and city management about fleet vehicles and equipment rental planning has been a helpful strategy to reduce long-term rentals.

Similarly, according to the City of Long Beach Fleet Services Bureau, rentals that last longer than a year should be purchased. The city evaluates rentals that reach a year to determine whether they reflect an ongoing operational need or a one-off circumstance. The City of Long Beach Fleet Services Bureau also periodically meets with departments to conduct 2-year advance planning and to evaluate the cost-effectiveness to rent or own the vehicle or equipment by comparing maintenance and rental costs. According to the City of Long Beach Fleet Services Bureau, its Fleet policy discourages long-term rentals and rentals for commonly used vehicles.

Fleet should periodically assess the vehicle replacement planning process based on data of vehicle lifecycles and procurement timelines.

Though Fleet manages the yearly replacement of the City's fleet assets, it currently begins the replacement planning process the same year a vehicle is scheduled for replacement. However, this approach does not account for procurement timelines that can take nearly up to two years. According to Fleet, to prevent falling behind replacement schedules, Fleet would have to conduct advanced replacement planning. For example, if a vehicle needs to be replaced in 2026, then Fleet needs to have identified a replacement by 2024 to ensure the replacement is put in service when needed.

Beginning the replacement planning process in the scheduled replacement year results in replacement vehicles not being put in service before the existing vehicle reaches the end of its useful life. As a result, departments may use vehicles past their planned lifecycle until replacement vehicles are delivered. Additionally, the departments we reviewed further continued using vehicle and equipment rentals to support ongoing operations due to delays in receiving the fleet vehicles. According to Fleet, staffing constraints limit its ability to begin the replacement planning process earlier. However, while earlier replacement planning may require additional staff resources, using vehicles beyond their planned lifecycles may result in increased maintenance costs, vehicle downtime, and potential safety risks associated with aging vehicles. Therefore, to have a more proactive vehicle replacement planning approach, Fleet should periodically assess the vehicle replacement process based on data that affects procurement timelines.

Fleet should periodically assess the vehicle replacement process based on data that affects procurement timelines.

The City has not previously evaluated when purchasing vehicles is more cost-effective than renting.

The City completed its first cost-benefit analysis of buying versus renting vehicles in June 2026. The City's analysis indicated that vehicles and equipment that experience consistent, year-round utilization are best suited to purchase while renting is the more cost-effective option for vehicles and equipment that are needed for short-term use.⁷ The City's analysis also indicated that purchasing certain vehicle types like

⁷ The cost-benefit analysis compares purchasing versus renting vehicles under ideal conditions, which may not reflect actual operations. It assumes the City uses and retires vehicles on their determined lifecycle, rentals are used because departments do not have equivalent vehicles available and are actively utilized, vehicle costs remain consistent with historical trends, and the City is fully staffed and equipped to maintain its fleet. It also assumes adequate storage and repair space, financing opportunities are available, and immediate availability of vehicles for purchase and delivery that support Climate Action Plan goals.

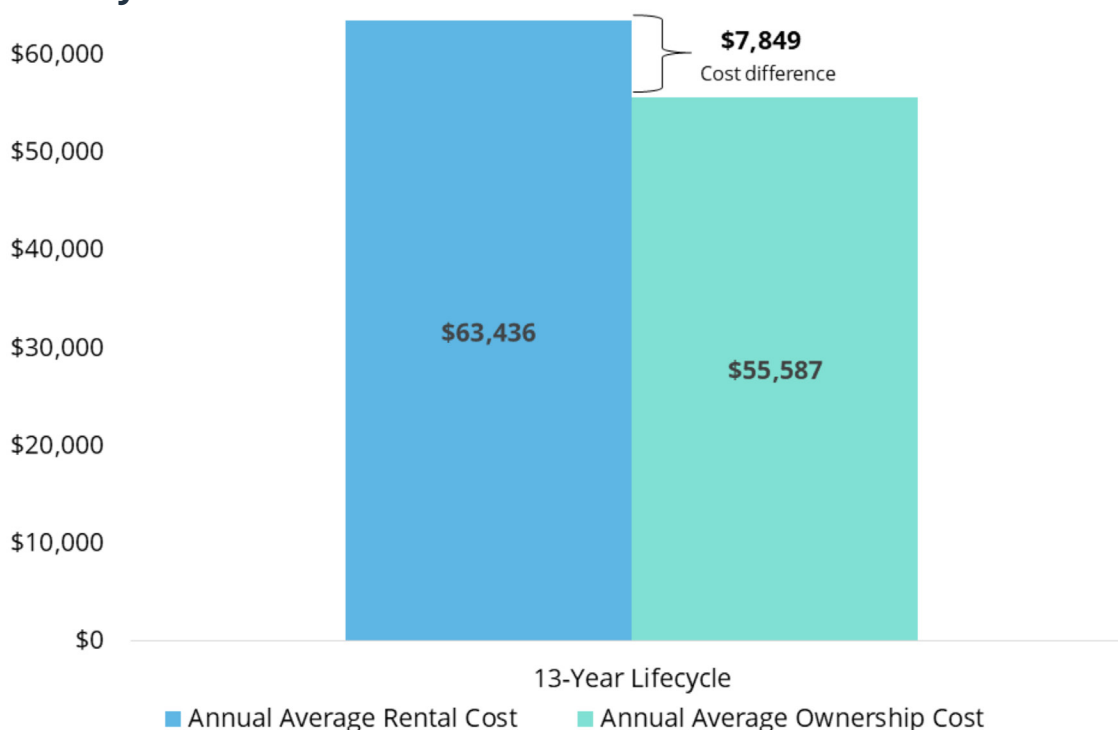
pickup trucks results in net cost savings, while renting dump trucks is more cost-effective over an expected 8-year useful life. After eight years, purchasing dump trucks becomes the more economical option.

We assessed the relative costs of owning and renting pickup trucks and dump trucks by estimating ownership costs and rental costs using different vehicle lifecycles. We selected pickup and dump trucks since these are the most rented vehicle types and comprise almost one-third of the fleets of the three departments we reviewed. Additionally, the City spent approximately \$15.3 million on dump and pickup trucks alone from 2019 through 2025.

Our analysis reached similar conclusions to the City's analysis for those two vehicle types but evaluated the City's actual operating conditions. Specifically, we found that the actual lifecycle of the City's dump trucks is approximately 13 years rather than the assumed 8-year lifecycle, which would result in annual average cost-savings of \$7,800 by purchasing rather than renting, as shown in **Exhibit 17**.

Exhibit 17

We Found That Owning Dump Trucks Appears to be More Cost-Effective Than Renting When They Remain in Service Longer Than the Assumed 8-Year Lifecycle



Note: We calculated the average annual ownership cost using the total estimated replacement cost for 12-yard (YD) dump trucks, which includes purchase cost, estimated maintenance and repair costs, and inflation adjustments. For rental vehicles, we used an estimated monthly price for Herc's 12-14 YD dump truck rental with 2024 through 2026 pricing schedules.

Source: OCA generated based on data from the General Services (Fleet) Department and Herc Rentals Inc.

Ownership costs are spread over the years the vehicles remain in service, so the average annual costs decrease as the lifecycle time increases. Alternatively, keeping vehicles in service longer could contribute to increased maintenance needs, downtime, and other risks with vehicle aging, which could lead to additional costs. City Management can use the City's cost-benefit analysis and our report as guidance to make informed decisions regarding vehicle ownership, rentals, and overall fleet composition and resources.

The City may face increasing challenges funding future vehicle costs, highlighting a need for a comprehensive long-term fleet strategy.

The City may face increasing challenges funding and managing its fleet as financial and operational demands continue to grow. According to Fleet, financial constraints, such as budgeting and payment options, are some of the main factors used in planning for replacement and new fleet vehicles. According to City Management, the City is reaching its debt capacity, which can hinder the City's ability to procure fleet vehicles. According to the City's Five-Year Financial Outlook, the City aims to maintain a debt ratio below 25 percent, and current projections show debt ratios increasing up to 24.8 percent over the next five years. The City's Five-Year Financial Outlook also identifies potential additional costs associated with future vehicle replacements, and City Management also identified staffing and facility capacity as factors that may affect future fleet planning.

Using information on departments' operational needs, vehicle utilization, procurement lead times, and historical vehicle lifecycle data, the City can better determine when to purchase, rent, replace, or reassign vehicles to deliver City services.

A comprehensive long-term Citywide Fleet strategy would provide City Management, City Council, and the public with a data-driven framework for making fleet and budgetary decisions. Using information on departments' operational needs, vehicle utilization, procurement lead times, and historical vehicle lifecycle data, the City can better determine when to purchase, rent, replace, or reassign vehicles to deliver City services and use public dollars as cost-effectively as possible.

Recommendations

To ensure vehicle planning accounts for operational needs, future demand, and cost effectiveness, we recommend:

Recommendation 2.1

(Priority 2)

The Mayor should direct operational departments, including but not limited to the Stormwater Department, Transportation Department, and the Public Utilities Department, to establish and document:

- a. Minimum vehicle usage to meet target service levels for programs;
- b. Minimum vehicle utilization standards, by vehicle class, based on mileage, hours of use, or other appropriate measures;
- c. Anticipated future staffing needs that will require vehicles and equipment to perform operations; and
- d. Upcoming statutory requirements that will require the use of vehicles and equipment.

Operational departments should use this criteria to determine their ongoing vehicle and equipment needs, inform operational planning, and support future budget requests for new vehicle and equipment acquisitions and replacements.

Management Response: Agree [See full response beginning on page 48.]

Target Implementation Date: April 30, 2027

Recommendation 2.2

(Priority 2)

The Mayor should direct the appropriate department or departments, such as the General Services and Purchasing & Contracting Departments, to formalize the new process to evaluate vehicle and equipment acquisitions and replacements based on the long-term operational needs identified by departments in Recommendation 2.1.

Vehicle and equipment additions and replacements should be evaluated to determine whether they should be purchased, rented, replaced, or reassigned. At a minimum, the evaluation should consider:

- a. The operational needs identified by departments in Recommendation 2.1;
- b. A cost-benefit analysis of renting vs. buying the vehicle and equipment to be acquired or replaced;

- c. Procurement lead times based on data, including timelines to acquire similar vehicles and place them in service, as well as market conditions that affect procurement timelines; and
- d. Whether purchasing, renting, replacing, or reassigning the vehicle or equipment is the cost-effective option based on actual historical lifecycle data and utilization, including a review of existing vehicles' utilization to ensure that a rental or acquisition only proceeds if it is determined that there are no suitable, underutilized City vehicles that could be used to fill the need.

Management Response: Agree [See full response beginning on page 48.]

Target Implementation Date: December 31, 2027

Recommendation 2.3

(Priority 2)

The General Services Department should ensure that all active vehicle and equipment rentals listed in the Fleet Executive Report are discussed during the coordination meetings with departments to support vehicle and equipment planning, including assessing departments' rental use to determine vehicle needs to plan additions where appropriate.

Management Response: Agree [See full response beginning on page 49.]

Target Implementation Date: Department reported as already implemented. OCA will review supporting evidence during our Recommendation Follow-Up process (for the period ending December 31, 2026) to determine whether this recommendation has been implemented.

Appendix A

Definition of Audit Recommendation Priorities

The Office of the City Auditor maintains a priority classification scheme for audit recommendations based on the importance of each recommendation to the City, as described in the table below.

While the City Auditor is responsible for providing a priority classification for recommendations, it is the City Administration's responsibility to establish a target date to implement each recommendation, taking into consideration its priority. The City Auditor requests that target dates be included in the Administration's official response to the audit findings and recommendations.

PRIORITY CLASS*	DESCRIPTION
1	Fraud or serious violations are being committed. Significant fiscal and/or equivalent non-fiscal losses are occurring. Costly and/or detrimental operational inefficiencies are taking place. A significant internal control weakness has been identified.
2	The potential for incurring significant fiscal and/or equivalent nonfiscal losses exists. The potential for costly and/or detrimental operational inefficiencies exists. The potential for strengthening or improving internal controls exists.
3	Operation or administrative process will be improved.

* The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation that clearly fits the description for more than one priority class shall be assigned the higher priority.

Appendix B

Audit Objectives, Scope, and Methodology

Objectives

In accordance with the Office of the City Auditor's approved Fiscal Year (FY) 2026 Audit Work Plan, we conducted a performance audit of Citywide vehicle rentals. Our objectives were to:

1. Determine whether the City effectively plans and monitors vehicle rental spending to control costs and complies with contract terms;
2. Determine whether the City evaluates vehicle rental decisions, in accordance with best practices, to ensure renting is more cost-effective than owning or using City vehicles; and
3. Determine whether the City coordinates vehicle planning and uses vehicle utilization data to minimize unnecessary rentals and avoid impacts to services.

Scope

The scope of this audit was vehicle rentals and equipment rented from Herc Rentals and related rental spending from June 2019 through January 2026, and City-owned vehicle utilization.

Methodology

To address Objectives 1, 2, and 3, we:

- Analyzed spending towards the Herc Rentals contract from June 2019 to January 2026.
- Analyzed departments' budget vs. actual spending on equipment and vehicle rentals, including related budget commitment items, funds transfers and supporting justifications from FY2020 through FY2026.
- Analyzed vehicle acquisition timelines for pickup and dump trucks from FY2018 through FY2025.
- Analyzed the size, composition, and equipment lifecycle status of the City's fleet motor pool.
- Analyzed data from Herc Rentals regarding vehicles and equipment rented by the City from June 2019 through December 2025.
- Analyzed utilization data from Geotab to assess the utilization of City-owned vehicles between 2024 and 2025.
- Reviewed the State of California's fleet utilization standards and criteria.

- Reviewed a sample of purchase orders, including invoice and supporting documentation provided before and after the new rental process took effect to assess whether departments consistently follow the updated procedures.
- Reviewed a sample of purchase orders opened between FY2019 through FY2026 in SAP and compared invoice amounts from Herc Rentals records to City records using invoice numbers.
- Reviewed materials related to the Herc rentals contract including the contract, pricing schedule, amendments and staff reports.
- Reviewed the fleet equipment selected for standardized upfitting.
- Reviewed instructions and processes issued to operational departments regarding vehicle and equipment rentals and requests.
- Reviewed agendas from monthly coordination meetings between Fleet and operational departments.
- Interviewed staff in the Purchasing & Contracting Department, General Services Department, Public Utilities Department, Transportation Department, and Stormwater Department.
- Interviewed staff with Herc Rentals and observed a walkthrough of Herc Rental's data system, ProControl.
- Reviewed the ProControl system to determine whether staff in the Transportation Department, Stormwater Department, and the Public Utilities Department have access.
- Reviewed City documents to determine whether the City department has conducted an analysis of its fleet infrastructure (repair facilities, labor, equipment) to service the City's growing fleet.
- Reviewed prior audits and recommendations related to the City's contract management, fleet maintenance, and vehicle acquisitions processes.
- Reviewed best practices materials from the Government Accountability Office, Government Finance Officers Association, National League of Cities, and Government Fleet.
- Benchmarked Citywide fleet and vehicle and equipment best practices with other municipalities, including the City of Long Beach and City of Austin.
- Reviewed the City's cost-benefit analysis of purchasing vs. renting vehicles and equipment.
- Reviewed City budget documents including the Five-Year Financial Outlook, Public Guide to the Budget, and adopted budgets.
- Reviewed applicable City policies, procedures, and regulations relevant to vehicles and equipment and contracts for goods and services, including:
 - City of San Diego Climate Action Plan;
 - San Diego Municipal Code Section 22.3206;

- Administrative Regulation 30.20 for Fleet Equipment Replacement, Acquisition and Disposal; and
- Reviewed Fleet Monthly Executive Reports.

Data Reliability

The audit used data from the ProControl system by Herc Rentals to review equipment and vehicles rented by the City. We assessed the reliability of the data by: (1) interviewing Herc staff to determine internal processes; and (2) attending a ProControl walkthrough where we observed system controls. We also worked with vehicle utilization data extracted from GeoTab. We assessed the reliability of these datasets by reviewing existing information about the data and the systems that produced them. We determined the data were sufficiently reliable for the purposes of responding to our objectives.

We did not test the reliability of the City's financial reporting system as it is the system of record for preparation of the Annual Comprehensive Financial Report and is therefore audited each year by the independent audit firm for those annual statements.

Internal Controls Statement

We limited our review of internal controls to specific controls relevant to our audit objectives, described above.

Compliance Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



THE CITY OF SAN DIEGO

MEMORANDUM

DATE: September 28, 2026

TO: Andy Hanau, City Auditor, Office of the City Auditor

FROM: Rolando Charvel, Chief Financial Officer, Office of the Mayor
Bethany Bezak, Chief Performance & Logistics Officer, Office of the Mayor

SUBJECT: Management Response to the Office of the City Auditor's Audit of Citywide Vehicle Rentals

This memorandum serves as the management response to the Performance Audit of Citywide Vehicle Rentals (Performance Audit). At the time this response was written, the draft Performance Audit provided to management contains eight recommendations directed to three departments: Finance, Purchasing and Contracting, and General Services.

Department staff and management appreciate the Performance Audit prepared by the Office of the City Auditor and thank the staff involved. Management agrees with the recommendations within the Performance Audit. Management agrees that effective planning, monitoring, and coordination are important to ensure vehicle and equipment rentals are used appropriately, contract capacity is adequately managed, and City resources are used efficiently.

Prior to and during the audit period, the City implemented several improvements to strengthen oversight of vehicle and equipment rentals, including enhanced departmental review and approval requirements, standardized rental reason codes, Fleet review of rental requests, and department-specific allocations within SAP Ariba for the current vehicle and equipment rental contract. The audit recognizes that these processes have improved oversight, while also identifying opportunities to further formalize these practices and strengthen long-term vehicle planning.

The Department of Finance, Purchasing & Contracting Department, and General Services Department are collectively committed to addressing the recommendations outlined in the audit and strengthening the City's overall approach to vehicle and equipment planning, procurement, rental, and contract oversight. Where appropriate, the Departments will build upon existing processes and incorporate actions into broader Citywide policies and procedures rather than establishing requirements that apply only to the vehicle and equipment rental contract. These efforts will focus on improving planning and coordination,

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strengthening fiscal and contract controls, and ensuring City resources are used efficiently while maintaining the flexibility necessary to meet varying operational needs.

RECOMMENDATION

1.1

The Mayor, in consultation with the Department of Finance, should issue direction to all departments that utilize vehicle and equipment rental contracts to conduct and document a needs assessment as part of the budgeting process.

Management Response: Agree.

The Mayor will include direction to all departments to conduct and document a needs assessment for vehicles and equipment via the annual budget development guidelines call memo scheduled to be released in November 2026.

Target Implementation Date: January 15, 2027

1.2

The Purchasing & Contracting Department should formalize and document its new process to establish subcontracts for each department that utilizes vehicle and equipment rental contracts. Each subcontract should reflect approved contract amounts based on each department's identified needs, as described in Recommendation 1.1.

Proposed Management Response: Agree.

Purchasing & Contracting will formalize a written policy for the planning and administration of Citywide and multi-department contracts, including vehicle & equipment rental contracts. The policy will require departments to identify anticipated needs and projected expenditures before contract award when those needs can reasonably be quantified or forecasted. When appropriate based on the nature and anticipated use of the contract, P&C will establish a master agreement in SAP Ariba reflecting the total authorized contract value and create department specific sub agreements with allocated amounts based on identified departmental needs.

The policy will also recognize that department specific allocations are not appropriate for every Citywide or multi-department contract. Certain contracts have inherently variable, unpredictable, or as-needed usage for which departments cannot reasonably determine their needs in advance. Examples may include general office supply contracts, as-needed moving services, and maintenance, repair, and operations (MRO) contracts. For these contracts, fixed department specific sub agreements or allocations may not provide a meaningful control. The policy will require P&C to determine the appropriate contract structure and monitoring controls based on the nature of the contract, predictability of departmental usage, and ability to reasonably allocate anticipated contract capacity.

For contracts where department specific allocations are established, departments will be responsible for monitoring their allocated capacity, with overall contract usage monitored by the designated Contract Administrator. Requests for additional capacity will require documented justification and P&C review before departmental allocations are adjusted.

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Target Implementation Date: October 31, 2027

1.3

The Chief Financial Officer should issue direction to operational departments responsible for vehicle and equipment rental spending—including but not limited to Public Utilities, Transportation, Stormwater—to regularly monitor budget vs. actual commitment item spending for vehicle and equipment rentals as part of the City's existing quarterly budget monitoring process.

The Department of Finance should incorporate variance explanations from departments for vehicle and equipment rentals into the City's quarterly budgeting monitoring report.

Management Response: Agree.

The Department of Finance will include direction to all departments to regularly monitor spending for non-CIP funded vehicle and equipment rentals via the call memos for each of the budget monitoring reports (Mid-Year, Third Quarter, and Year-End Performance Reports). Explanations for variances that meet specific thresholds established for the budget monitoring process will be required to be submitted by operating departments and summarized in each budget monitoring report.

Target Implementation Date: January 31, 2027

1.4

The Purchasing & Contracting Department should establish or include in existing policy a requirement to include the following in staff reports for initial, extension, and amendment of vehicle and equipment rental contracts when presenting proposed vehicle and equipment contracts to City Council for approval:

- a. Three years of budgeted vehicle and equipment rental amounts by department;
- b. Three years of actual vehicle and equipment rental spending by department; and
- c. Anticipated vehicle and equipment rental contract needs by department for the contract term.

Proposed Management Response: Agree.

Purchasing & Contracting will establish a policy requiring that, where applicable, historical expenditures, budgeted amounts, and anticipated departmental needs be reviewed and documented for Citywide and multi-department contracts prior to processing a new contract action, including a new contract award or amendment. The policy will identify the information necessary to support the proposed contract value and demonstrate the basis for the requested contract capacity.

For contract actions requiring City Council approval, the applicable information will be included in the staff report presented to the City Council for consideration. This will provide greater transparency regarding historical contract usage, anticipated departmental needs, and the basis for the requested contract amount.

Target Implementation Date: October 31, 2027

1.5

The Purchasing & Contracting Department should formalize and document its new process for initiating vehicle and equipment rentals. In addition to the improvements already made to the process, there should be a requirement for departments to attest that there are no available City-owned or rented vehicles for the intended purpose of the rental.

Proposed Management Response: Agree.

Purchasing & Contracting, in coordination with the Department of General Services' Fleet Operations Division, will formalize the already implemented vehicle and equipment rental request process. The written procedure will document existing controls, including itemized purchase requisitions, rental reason codes, department approving-authority review, Fleet review, and P&C review. The process will also require confirmation that an appropriate City-owned or already-rented vehicle or piece of equipment is not reasonably available to meet the identified operational need before a new rental is initiated.

Target Implementation Date: March 31, 2027

2.1

The Mayor should direct operational departments, including but not limited to the Stormwater Department, Transportation Department, and the Public Utilities Department, to establish and document:

- a. Minimum vehicle usage to meet target service levels for programs;
- b. Minimum vehicle utilization standards, by vehicle class, based on mileage, hours of use, or other appropriate measures;
- c. Anticipated future staffing needs that will require vehicles and equipment to perform operations; and
- d. Upcoming statutory requirements that will require the use of vehicles and equipment.

Operational departments should use this criteria to determine their ongoing vehicle and equipment needs, inform operational planning and support future budget requests for new vehicle and equipment acquisitions and replacements.

Proposed Management Response: Agree

The Department of Finance and Department of General Services will issue a joint memo annually to the Stormwater Department, Transportation Department, and the Public Utilities Department outlining criteria to determine ongoing vehicle and equipment needs. The departments will use this information to develop and submit budget requests, as necessary, via the annual budget development process.

Target Implementation Date: April 30, 2027

2.2

The Mayor should direct the appropriate department or departments, such as the General Services and Purchasing & Contracting Departments, to formalize the new process to evaluate vehicle and equipment acquisitions and replacements based on the long-term operational needs identified by departments in Recommendation 2.1.

Vehicle and equipment additions and replacements should be evaluated to determine whether they should be purchased, rented, replaced or reassigned. The evaluation should consider:

- a. The operational needs identified by departments in Recommendation 2.1;
- b. A cost-benefit analysis of renting vs. buying the vehicle and equipment to be acquired or replaced;
- c. Procurement lead times based on data including timelines to acquire similar vehicles and place them in service, as well as market conditions that affect procurement timelines; and
- d. Whether purchasing, renting, replacing, or reassigning the vehicle or equipment is the cost-effective option based on actual historical lifecycle data and utilization, including a review of existing vehicles' utilization to ensure that a rental or acquisition only proceeds if it is determined that there are no suitable, underutilized City vehicles that could be used to fill the need.

Management Response: Agree

The Department of General Services is currently routing an update to Administrative Regulation 30.20 FLEET EQUIPMENT REPLACEMENT, ACQUISITION, AND DISPOSAL. This update provides language that when purchasing fleet equipment, the Department of General Services will consider the financial costs of owning versus renting.

The Department of General Services does not have the ability to conduct inter-departmental transfers of assets at its discretion, due to asset ownership at the individual department level, as opposed to ownership by Department of General Services. Department of General Services can continue to provide utilization information through the Citywide Dashboard and our telematics provider for department consideration and potential re-assignment within their own department.

Target Implementation Date: December 31, 2027

2.3

The General Services Department should ensure that all active vehicle and equipment rentals listed in the Fleet Executive Report are discussed during the coordination meetings with departments to support vehicle and equipment planning, including assessing departments' rental use to determine vehicle needs to plan additions where appropriate.

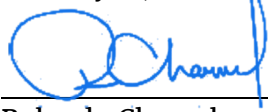
Management Response: Agree

The Department of General Services has added an item to the department monthly agenda to discuss rentals to ensure departments have awareness of their rentals.

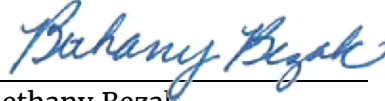
Target Implementation Date: Implemented

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September 28, 2026

Thank you,



Rolando Charvel
Chief Financial Officer



Bethany Bezak
Chief Performance & Logistics Officer

ED/cmg

cc: Paola Avila, Chief of Staff, Office of the Mayor
Charles Modica, Independent Budget Analyst
Rania Amen, Chief Community Services Officer & City Engineer, Office of the Mayor
Kris McFadden, Chief Infrastructure Officer, Office of the Mayor
Casey Smith, Chief Housing & Community Development Officer, Office of the Mayor
Matt Yagyagan, Director of Policy, Office of the Mayor
Ben Battaglia, Director, Department of Finance
Claudia Abarca, Director, Purchasing and Contracting Department
Naomi Chavez, Interim Director, Transportation Department
Drew Kleis, Director, Public Utilities Department
Todd Snyder, Director, Stormwater Department
Michel Tully, Director, General Service Department
Nicole Darling, Director, Communications Department



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