

CITY OF MADISON, WISCONSIN

REPORT OF:	Motor Equipment Superintendent/Comptroller Staff	PRESENTED _____
		REFERRED _____

		REREFERRED _____

TITLE:	Oil Change Costs	_____
		REPORTED BACK _____
AUTHOR:	Bill Vanden Brook Tim Fruit	_____

DATED:	April 27, 2005	ADOPTED _____ POF _____
		RULES SUSPENDED _____
		ID NUMBER _____

TO THE MAYOR AND COMMON COUNCIL:

RE: 2005 budget narrative requesting detailed oil change costs.

A review of work orders for the first quarter of 2005 was conducted. A total of 194 repair orders for a "B" service which includes a oil and filter change, lubrication, and safety inspection yielded the following results for work preformed in house:

Automotive class vehicles: Average labor charge \$34.70 and average parts/fluids \$8.35 for a total average of \$43.05

Light truck class vehicles: Average labor charge \$44.60 and average parts/fluids \$12.17 for a total average of \$56.77

Of the total 194 repair orders generated for the service mentioned above, 169 vehicles required additional work. This amounts to over 87% of all repair orders for a "B" service requiring additional attention. The internal labor rate is \$54.00 per hour.

A survey of local repair shops show on the low end \$25.95 to \$34.18 on the upper end for the base oil change, filter and fluids. In most cases an additional environmental fee is assessed for filter and oil disposal. Some included a visual inspection of the vehicle, others charged \$30.00 to \$35.00 for an inspection. Additional charges for repairs as noted after inspection are billed at an average labor rate of \$83.78 per hour. The average labor rate of \$83.78 per hour is \$28.78 (52% higher) per hour higher than the Motor Equipment Division hourly rate of \$54.00 per hour.

Most of the independent repair facilities are using the "oil change" as a loss leader. The repair facilities are dependent upon additional work generated by the inspection. Additionally not all shops surveyed utilize ASE Certified Technicians nor do they comply with the City of Madison living Wage ordinance. Some of the quick service shops only offer base service and do not have the capabilities of performing additional work if an inspection notes a need for more service.

The internal labor rate of \$54.00 per hour represents an all-inclusive, fully burdened labor rate, which includes a number of overhead items ranging from miscellaneous indirect supplies (such as shop electricity, hand soap, electrical tape, etc.) all the way to management salaries and benefits (e.g., shop supervisors, parts managers, secretarial staff, and top management). In order to appropriately compare the cost of the internal versus contracted out oil change, it is necessary to divide the \$54.00 per hour labor rate into "avoidable" and "non-avoidable" components. If the City contracts out for oil changes, the direct costs related to such items as oil, filters, and direct labor (via layoffs) would disappear. Most of the

overhead related items, however, such as management salaries would likely remain. (It may be noted here that the term “unavoidable costs” is used in the narrow sense to indicate costs that would not be influenced by an out-sourcing of oil change services.)

The technician doing the majority of the automobile work actually accounts for about \$13.30 in direct labor and employee benefits costs per job, while the technician performing the light truck work actually earns \$18.39 per job in salaries and benefits. The “per job” costs of the operation may therefore be summarized as follows:

Vehicle Type	A Per Job Direct Labor and Benefits	B Per Job Direct Materials (Oil and Filters)	C = A+B Per Job Avoidable (Direct) Costs	D Per Job Unavoidable (Indirect) Costs	E = C+ D Per Job Total Costs
Automobiles	\$13.30	\$8.35	\$21.65	\$21.40	\$43.05
Light Trucks	\$18.39	\$12.17	\$30.56	\$26.21	\$56.77

Column C, entitled “Per Job Avoidable (Direct) Costs”, contains the numbers most useful for comparison to the private sector rates for the purposes of projecting cost savings. These are the costs that can be expected to “go away” if the oil change operation is out-sourced. These costs would then be supplanted with purchased service costs as contracted with the private sector supplier. Although the oil change cost may be less, retaining this service in-house would offset shuttling vehicles for this service and subsequent repairs.

Also note that additional “labor” charges may occur by utilizing vendors that cannot perform repairs noted upon inspection. Some of the vendors are not able to perform the work, and additional travel and transportation expense along with additional out-of-service time would occur. It should also be noted that the Motor Equipment Division believes that a more comprehensive and complete inspection of the vehicles/equipment is preformed in house along with a pride of ownership that presents a value added service, as well as a one stop service center.

