

Budget Brief – DAS Fleet Operations (ISF)

NUMBER CFGO-07-17

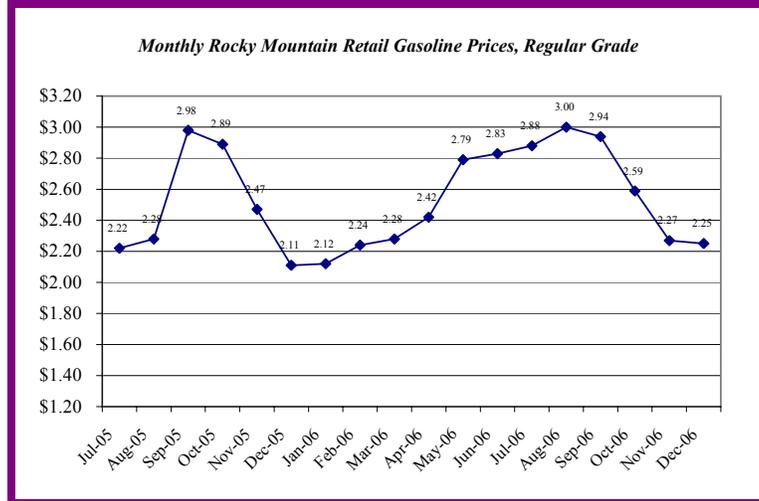
SUMMARY

The Division of Fleet Operations performs all administrative duties related to managing the state’s vehicles, coordinates all vehicle purchases, manages the fleet information system for all state vehicles, makes rules, runs a fuel dispensing service, and sets rates to recover costs. Further, the division includes the State and Federal Surplus Property programs, which were housed in the Division of Purchasing and General Services prior to 1997.

ISSUES AND RECOMMENDATIONS

No rate change for volatile fuel costs

As every motorist is painfully aware, gasoline prices rose steadily until August, reaching prices approximately equal to the spike that occurred in September and October of 2005 after Hurricane Katrina (see chart below). Today’s prices are lower but remain volatile due to geopolitical tensions, federal regulations, and supply/demand cycles. Rates adopted in the 2006 General Session included an expected rise in fuel prices, so the division was able to absorb the price spike in 2006. The Analyst recommends no change to the division’s rates for fuel costs.

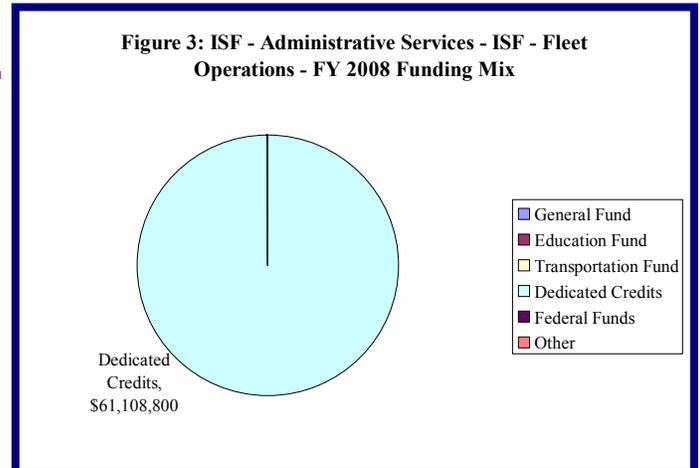
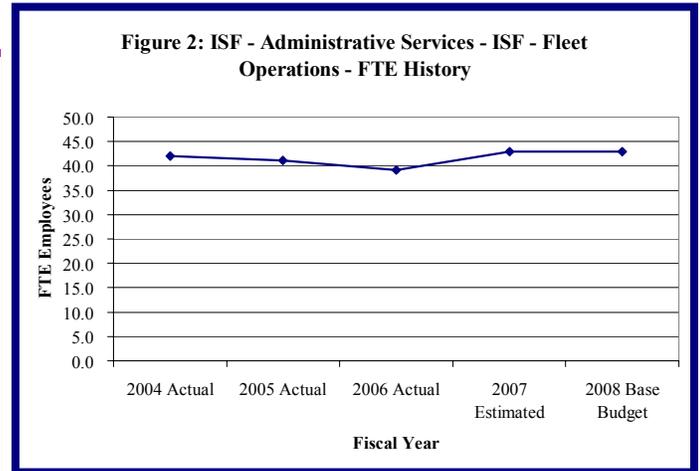
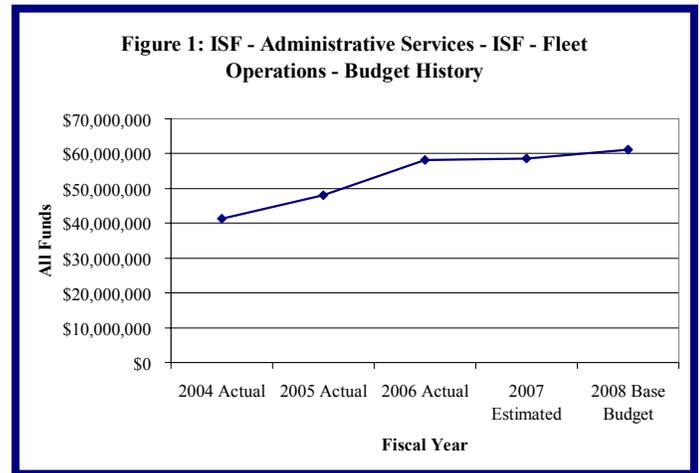


The state pays less than retail prices by avoiding 44 cents per gallon in taxes and negotiating volume discounts, but the trend line is similar.

Bring Department of Natural Resources on Rate Matrix

Since FY 2000, the Department of Natural Resources (DNR) and the Division of Fleet Operations (DFO) have managed the DNR fleet through a memorandum of understanding that old (1999 G.S.) legislative intent language requested.

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The MOU required DNR to pay all DFO overhead and information system costs, but allowed DNR to pay a “special lease” that recovered the costs of vehicles assuming a six-year useful life. The MOU also gave DNR administrative control over their vehicles. Since FY 2000 DFO has been purchasing DNR’s vehicles and leasing them to DNR under the “special lease” agreement. Since FY 2000 DFO has wanted to fold DNR into DFO’s Rate Matrix and DNR has resisted. DNR expressed willingness to make final adjustments for under- or over-depreciated vehicles at the time vehicles are turned in, but DFO considered that approach problematic. DFO’s rate matrix captures mileage increases/decreases over the life of the vehicle rather than assume a set useful life, but it is complicated for customers to understand and respond to. During the 2005 General Session the Analyst and the Legislature encouraged DNR and DFO to void the MOU and work out a new agreement (see Issue Brief CFAS-05-13, 2005 G.S.).

The Governor’s Office is now prepared to require DNR to fold their fleet management into DFO, close their departmental internal service fund, transfer all assets and liabilities to DFO, transfer/reassign personnel as necessary, and lease vehicles under the rate matrix. DNR is expected to transfer \$2.3 million in negative retained earnings, \$2.3 million in assets (contributed capital) and three of their five FTE to DFO. DFO has three vacancies in which to absorb the transfers. The Analyst supports the merger.

Pilot privatization of Capitol Hill daily pool

In 2006 the division embarked on a pilot program to privatize the Capitol Hill motor pool operation. Capitol Hill employees now reserve vehicles from Enterprise. Employees may have the vehicle delivered or pick it up at one of Enterprise’s locations. The program appears to have eased administrative burdens for the division, but also is more expensive. For employees accustomed to getting a vehicle on Capitol Hill, the program is less convenient, but for those wanting a vehicle delivered or available at another location, the program can be more convenient. The division is going to issue a formal Request for Proposals in January to see if Enterprise or another bidder will reduce their prices. If not, the division may have to end the program. The Analyst recommends the division brief the subcommittee on their experience and their analysis of the pros and cons of enlarging the program.

Increased Capital Outlay Authorizations

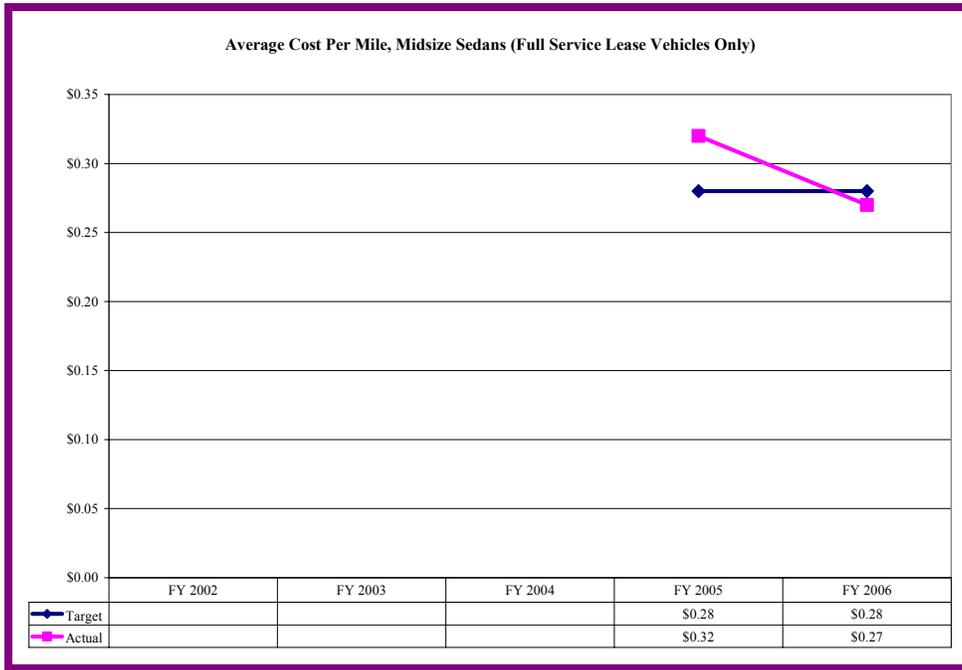
The division has requested a higher amount of capital outlay authority than in prior years (see table at the end of this document), from \$13.5 million in FY 2007 to \$16.3 million in FY 2008. The reason is twofold: First, the division changed its calculating method to begin with the amount they know they will need to replace vehicles in the upcoming year (which is all they previously requested), then they have added items such as class changes, upgrades, improvements and totaled vehicles (which they charge back to the agencies, but still need capital outlay authority to purchase). Second, \$1 million of the increase is for the DNR merger. The Analyst recommends the Legislature adopt the requested amount. This gives the division authority to purchase capital items if necessary, but does not necessarily mean the money will be spent.

Further, the Analyst recommends the Legislature increase the FY 2007 authorized capital outlay by \$2,921,500 as a practical solution to a technical problem. This amount represents authority that was expended in FY 2005 and FY 2006, but didn’t hit the accounting books until the following years. So expenditures in those years were \$2.9 million less than authorized, but with prior year expenditures bumping into FY 2007, the division may not have enough authority to make purchases it planned for FY 2007.

ACCOUNTABILITY DETAIL

Average cost per mile of midsize sedans

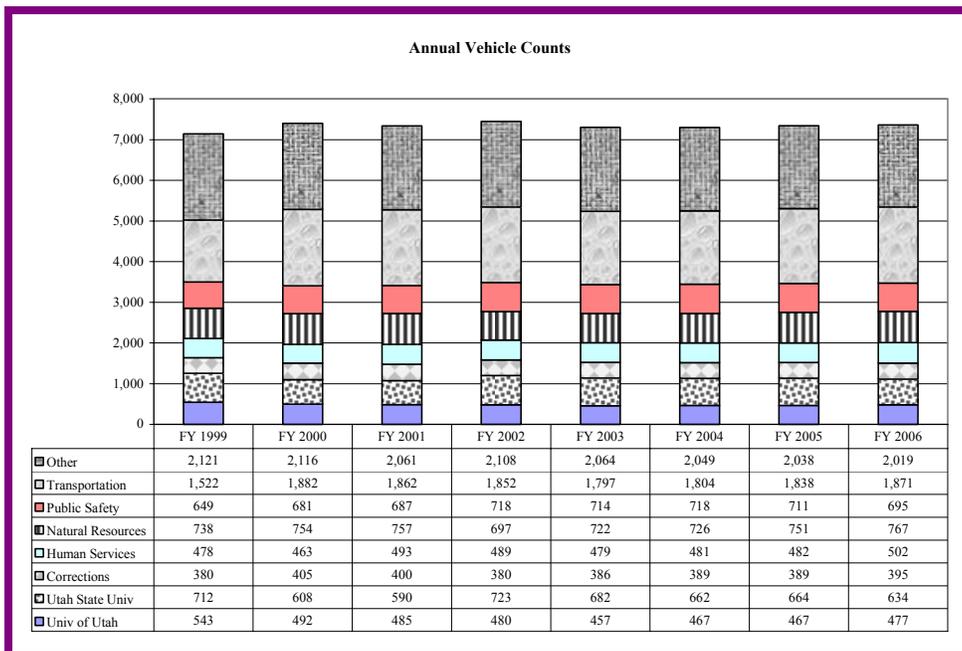
Measuring the cost per mile (CPM) for each vehicle class allows the division to track cost trends relative to increased vehicle costs and inflation factors. The “midsize sedan” is a good representative sample of the average fleet vehicle. The goal is to maintain the CPM at a level less than the private sector and IRS privately-owned vehicle reimbursement rates.



Actual average CPM dropped slightly lower than the target of \$0.28 set by DFO. The decrease from \$0.32 in FY 2005 to \$0.27 in FY 2006 is not an indication of increased efficiency as much as it is an indication of better data collection. FY 2005 was the first year this data was gathered, and several vehicles that year had unusually high CPM, driving up the average. The data behind these vehicles has been fixed or the vehicles have been eliminated.

Vehicle Count

Total vehicle count was up by 20 vehicles in FY 2006 (after increasing by 44 vehicles in FY 2005) but still down from its peak in FY 2002 (source: State Vehicle Report). The chart shows vehicle count by major agency (those having over 300 vehicles) per year.



BUDGET DETAIL

Pursuant to recommendations in a legislative audit in 2005, the division transferred approximately 80 vehicles formerly in DFO daily pools to agency fleets. The audit found that agencies were using the daily pools as de facto agency fleets anyway.

Budget Recommendation for FY 2008:

- Estimated revenues of \$61,208,800
- Rates as presented separately
- 43.0 FTE
- Authorized Capital Outlay of \$16,300,000 mostly for replacement vehicles, but also to be spent, if necessary, to replace fuel tank monitors and card readers; also an increase of \$2,921,500 for FY 2007.

LEGISLATIVE ACTION

The Analyst recommends the Legislature adopt:

1. Estimated revenues of \$61,208,800 for the Division of Fleet Operations ISF
2. Rates as presented separately
3. 43.0 FTE
4. Authorized Capital Outlay of \$16,300,000 for FY 2008 and an increase of \$2,921,500 for FY 2007

BUDGET DETAIL TABLE

ISF - Administrative Services - ISF - Fleet Operations						
	FY 2006	FY 2007		FY 2007		FY 2008*
Sources of Finance	Actual	Appropriated	Changes	Revised	Changes	Base Budget
Dedicated Credits - Intragvt Rev	57,682,000	53,486,000	4,488,300	57,974,300	2,534,500	60,508,800
Sale of Fixed Assets	508,400	(40,000)	670,800	630,800	(30,800)	600,000
Other Financing Sources	4,500	0	0	0	0	0
Total	\$58,194,900	\$53,446,000	\$5,159,100	\$58,605,100	\$2,503,700	\$61,108,800
Programs						
ISF - Motor Pool	25,432,800	26,105,700	(266,300)	25,839,400	2,946,200	28,785,600
ISF - Fuel Network	31,876,600	26,250,000	5,626,600	31,876,600	(451,300)	31,425,300
ISF - State Surplus Property	870,400	1,075,000	(199,900)	875,100	8,700	883,800
ISF - Federal Surplus Property	15,100	15,300	(1,300)	14,000	100	14,100
Total	\$58,194,900	\$53,446,000	\$5,159,100	\$58,605,100	\$2,503,700	\$61,108,800
Categories of Expenditure						
Personal Services	2,582,100	3,217,900	(548,700)	2,669,200	122,600	2,791,800
In-State Travel	6,200	13,400	(7,100)	6,300	0	6,300
Out of State Travel	6,400	8,900	(300)	8,600	100	8,700
Current Expense	39,812,900	35,870,500	4,552,400	40,422,900	4,344,300	44,767,200
DP Current Expense	185,200	152,300	91,500	243,800	416,100	659,900
Other Charges/Pass Thru	100,700	120,600	(18,800)	101,800	(1,200)	100,600
Operating Transfers	78,300	0	0	0	0	0
Depreciation	11,603,400	13,217,600	(195,500)	13,022,100	430,000	13,452,100
Total	\$54,375,200	\$52,601,200	\$3,873,500	\$56,474,700	\$5,311,900	\$61,786,600
Other Data						
Budgeted FTE	43.0	43.0	(0.0)	43.0	(0.0)	43.0
Actual FTE	39.1	0.0	0.0	0.0	0.0	0.0
Authorized Capital Outlay	12,788,200	13,507,300	(531,800)	12,975,500	3,324,500	16,300,000
Retained Earnings	6,232,000	2,568,500	5,793,900	8,362,400	(677,800)	7,684,600
Vehicles	65	150	(85)	65	15	80

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.