Budget Brief – DAS Fleet Operations (ISF)

NUMBER CFGO-08-17

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

Rate Decreases in Salvage Value

The current lease rates for all fleet vehicles are calculated using a 17 percent salvage value. Over the last few years Fleet has recognized gains on the sale of fleet vehicles over and above the 17 percent value. In order to reduce this gain and reduce the rate to users, Fleet proposes to increase the salvage value for sedans to 18 percent and for selected trucks, vans, and SUVs to 21 percent. This will result in a net reduction of $1,026,000 in revenues to Fleet and charges to users if approved. The Analyst recommends adopting this new rate.

New Rate for Seasonal Use Vehicles

The division requests a new rate to eliminate the over-charging of depreciation when vehicles are kept in service past their scheduled turn-in date. The main beneficiary of this new rate will be the Department of Natural Resources (DNR) which just recently integrated its fleet into the division's rate matrix. Wanting to make that transition as smooth as possible, as well as provide a benefit to other agencies, Fleet proposes charging a flat $150 per month rate for seasonal vehicles. The rate would go into effect at the scheduled turn-in date, while the vehicle is kept in service by the agency on a seasonal basis. The Analyst recommends adopting this new rate.

Capitalization Credit Program

After an agency receives authorization from the Legislature to purchase a vehicle, the agency must provide the upfront cash to purchase the vehicle (capitalization) in addition to an ongoing lease rate to replace the vehicle in the future. Currently if an agency decreases its vehicle count the agency looses the capitalization cost. If that same agency were to add an additional vehicle in the future it would have to upfront the cash to purchase another vehicle. This is a disincentive for agencies to reduce their fleet.

Figure 1: ISF - Administrative Services - ISF - Fleet Operations - Budget History

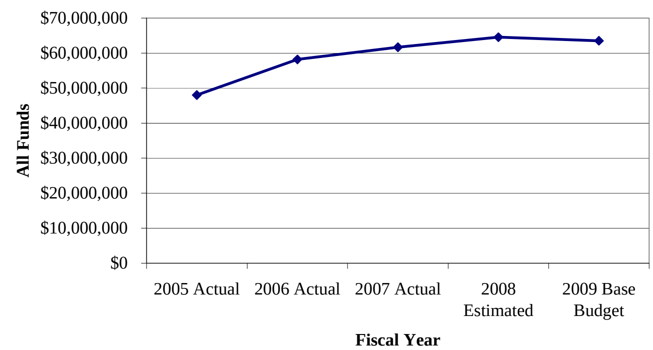


Figure 2: ISF - Administrative Services - ISF - Fleet Operations - FTE History

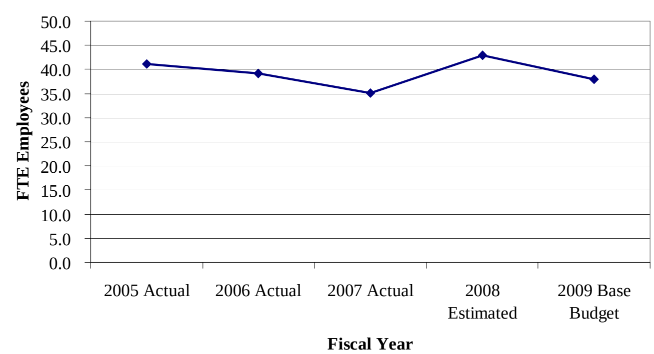
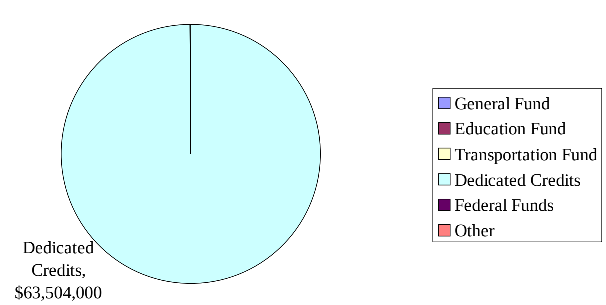


Figure 3: ISF - Administrative Services - ISF - Fleet Operations - FY 2009 Funding Mix



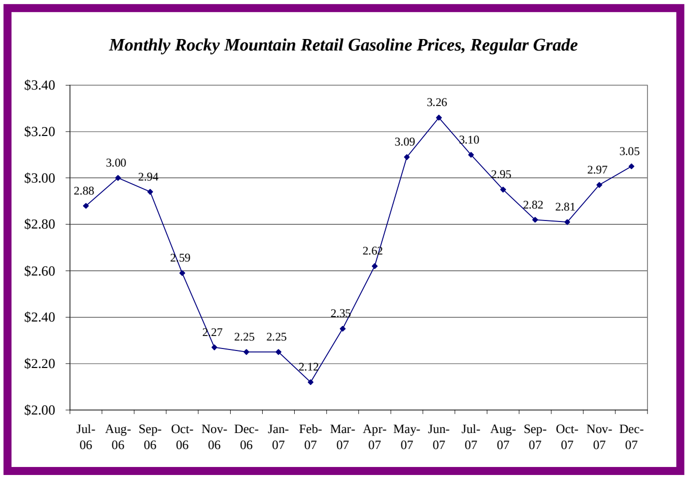
In order to incentivize agencies to reduce their fleet, the division is willing to create a capitalization credit program that would allow agencies to replace vehicles previously turned in without an upfront capitalization cost. To enable the division to effectively operate this program, the Analyst recommends intent language authorizing the division capital outlay authority for the amount of the capital credit (see pg 3).

Hybrid vehicles and Fuel Efficiency

The Governor has mandated that the division include a significant number of hybrid technology vehicles in its 2008 and 2009 replacement cycles. Each year the division replaces aging state vehicles using capital outlay authority granted by the Legislature. In order to meet the Governor's mandate, the division will need $1,300,000 additional capital outlay authority in FY 2008 and $1,540,000 in FY 2009 to pay for the higher cost of hybrid vehicles. The Analyst recommends the Legislature review this issue (see Issue Brief CFGO-08-11)

No rate change for volatile fuel costs

Today's gasoline prices are extremely volatile due to geopolitical tensions, federal regulations, and supply/ demand cycles. As the chart at right demonstrates, prices have risen and declined during the past eighteen months. Even though the state pays less than retail prices by avoiding 44 cents per gallon in taxes and negotiating volume discounts, the trend is similar. Rates adopted in the 2006 and 2007 General Sessions included an expected rise in fuel prices, so the division is currently able to absorb rate spikes. The Analyst recommends no change to the division's rates for fuel costs.

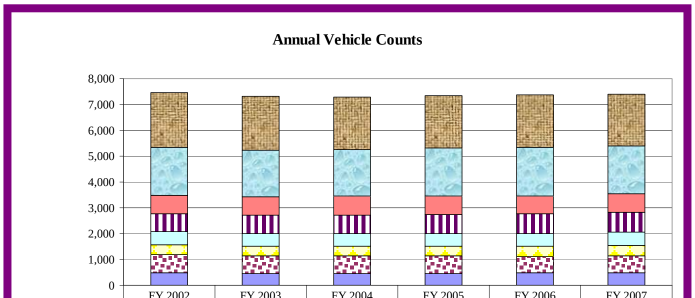


Nonlapsing Capital Outlay Authorization

Prior to FY 2005 the Fleet Operations was able to carry all unused capital outlay authority into the next fiscal year. The Legislature ended this nonlapsing authority in FY 2005 to provide more oversight of capital outlays. An unanticipated difficulty Fleet has encountered due to this change is that ISF accounting requires expenditures be booked at the time goods are delivered and every year some vehicles are not delivered in the fiscal year they were ordered. This results in several million dollars of capital outlay authority being used for previous year purchases – convoluting the division's annual capital outlay request. To mitigate this problem the Analyst recommends intent language (see pg. 3) allowing the division to not lapse an amount of capital outlay authority equal to the value of cars ordered in the current fiscal year but not received by June 30th of that same year.

Vehicle Count

Total vehicle count was up by 41 vehicles in FY 2007 to a total of 7,411 but still down from its peak in FY 2002 of 7,447 (source: State Vehicle Report). The chart below shows vehicle count by major agency (those having over 350 vehicles) per year.



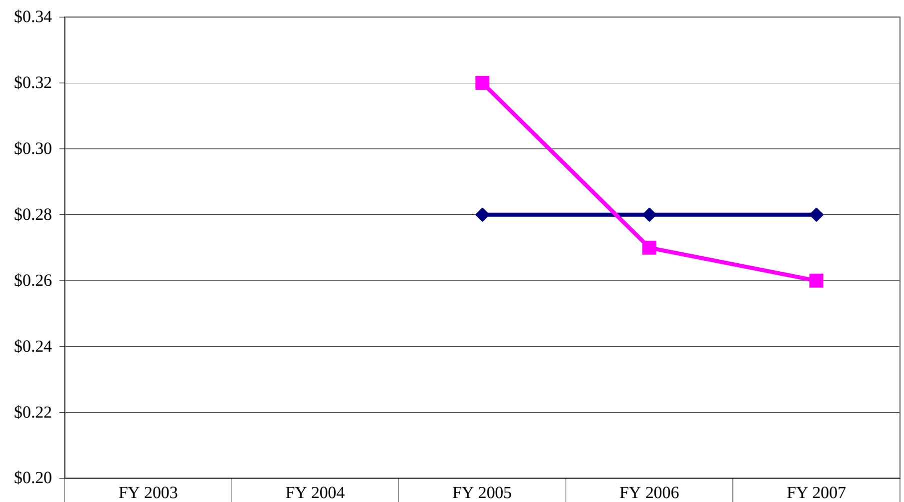
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Other	2108	2064	2049	2038	2019	2015
Transportation	1852	1797	1804	1838	1871	1843
Public Safety	718	714	718	711	695	714
Natural Resources	697	722	726	751	767	794
Human Services	489	479	481	482	502	497
Corrections	380	386	389	389	395	398
Utah State Univ	723	682	662	664	634	665
Univ of Utah	480	457	467	467	477	485

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.

Average Cost Per Mile, Midsize Sedans (Full Service Lease Vehicles Only)



	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Target			$0.28	$0.28	$0.28
Actual			$0.32	$0.27	$0.26

Actual average CPM dropped from FY 2006 to FY 2007 indicating an improvement in vehicle efficiency. The large decrease from FY 2005 to 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.

BUDGET DETAIL

Intent Language

The Analyst recommends the Legislature adopt the following intent language for FY 2009 with the stipulation that Fleet notify the CFGO co-chairs before using any additional capital outlay authority for the reinstatement of divested agency vehicles and that the division also provide to the co-chairs a list of all cars (and their values) ordered in the current fiscal year but not received before June 30 of that year for which the division requests non-lapsing capital outlay authority:

> *It is the intent of the Legislature that agencies divesting themselves of underutilized vehicles be allowed to participate in the Division of Fleet Operations capitalization credit program reserving future capitalization costs, to replace vehicles if necessary, for up to five fiscal years following the fiscal year vehicles are divested. Fleet Operations may expend additional capital outlay beyond the authorized level, if needed, for the amount of capital credit reserves requested by an agency for the reinstatement of a divested vehicle.*
>
> *It is the intent of the Legislature that the Division of Fleet Operations shall not lapse capital outlay authority granted within a fiscal year for vehicles not delivered by the end of the fiscal year in which vehicle purchase orders were issued obligating capital outlay funds.*

LEGISLATIVE ACTION

The Analyst recommends the Legislature consider adopting:

1. Estimated revenues of $63,504,100 for the Division of Fleet Operations ISF
2. Rates as presented separately in Issue Brief CFGO-08-03
3. 38.0 FTE
4. Authorized Capital Outlay of $14,494,000 for FY 2009
5. Intent Language as presented above.

BUDGET DETAIL TABLE

ISF - Administrative Services - ISF - Fleet Operations

Sources of Finance	FY 2007 Actual	FY 2008 Appropriated	Changes	FY 2008 Revised	Changes	FY 2009* Base Budget
Dedicated Credits - Intragvt Rev	61,119,400	60,531,300	3,467,600	63,998,900	(494,800)	63,504,100
Sale of Fixed Assets	552,300	600,000	(42,200)	557,800	(557,800)	0
Total	$61,671,700	$61,131,300	$3,425,400	$64,556,700	($1,052,600)	$63,504,100
Programs						
ISF - Motor Pool	26,583,700	28,801,900	990,400	29,792,300	(1,442,300)	28,350,000
ISF - Fuel Network	33,937,000	31,425,300	2,396,200	33,821,500	338,200	34,159,700
ISF - Fleet Administration	0	6,200	(6,200)	0	0	0
ISF - State Surplus Property	1,113,200	883,800	20,900	904,700	51,100	955,800
ISF - Federal Surplus Property	37,800	14,100	24,100	38,200	400	38,600
Total	$61,671,700	$61,131,300	$3,425,400	$64,556,700	($1,052,600)	$63,504,100
Categories of Expenditure						
Personal Services	2,218,900	2,814,300	(299,400)	2,514,900	0	2,514,900
In-State Travel	15,900	6,300	8,200	14,500	400	14,900
Out of State Travel	8,600	8,700	2,100	10,800	600	11,400
Current Expense	43,096,300	44,767,200	2,827,300	47,594,500	525,500	48,120,000
DP Current Expense	594,000	659,900	32,300	692,200	(29,100)	663,100
Other Charges/Pass Thru	113,300	100,600	9,200	109,800	0	109,800
Depreciation	11,257,200	13,452,100	(1,692,400)	11,759,700	736,600	12,496,300
Total	$57,304,200	$61,809,100	$887,300	$62,696,400	$1,234,000	$63,930,400
Other Data						
Budgeted FTE	42.9	43.0	0.0	43.0	(5.0)	38.0
Actual FTE	35.1	0.0	0.0	0.0	0.0	0.0
Authorized Capital Outlay	13,018,600	16,300,000	0	16,300,000	(1,806,000)	14,494,000
Retained Earnings	10,599,400	7,684,600	4,554,100	12,238,700	(426,300)	11,812,400
Vehicles	43	80	(37)	43	10	53

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