

IP Change
Requests

BY A DECISION ITEM
#1

**Schedule 6
FY 2005-06 Decision Item Request**

Department: Personnel & Administration
 Priority Number: DI #1 (Departmental)
 Division: Division of Central Services
 Program: Fleet Management Program & Motor Pool Services
 Request Title: Increase the Base Appropriation for Operating Expenses of the State Fleet Management Program

Dept. Approval: *[Signature]*
 OSPB Approval: *[Signature]*
 Statutory Citation:

Date: November 1, 2004
 Date: 10/20/04

		1	2	3	4	5	6	7	8	9	10
	Fund	Prior-Year Actual FY 2003-04	Appropriation FY 2004-05	Supplemental Request FY 2004-05	Total Revised Request FY 2004-05	Base Request FY 2005-06	Decision/ Base Reduction FY 2005-06	November 1 Request FY 2005-06	Budget Amendment FY 2005-06	Total Revised Request FY 2005-06	Change from Base in Out Year FY 2006-07
Total of All Line Items	Total	13,447,568	12,305,933	0	12,305,933	12,305,933	2,912,176	15,218,109	0	15,218,109	2,912,176
	FTE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	GF	0	0	0	0	0	0	0	0	0	0
	CF	0	0	0	0	0	0	0	0	0	0
	CFE	13,447,568	12,305,933	0	12,305,933	12,305,933	2,912,176	15,218,109	0	15,218,109	2,912,176
	FF	0	0	0	0	0	0	0	0	0	0
4) Division of Central Services, (C) Fleet Management Program & Motor Pool Services, Operating Expenses	Total	13,447,568	12,305,933	0	12,305,933	12,305,933	2,912,176	15,218,109	0	15,218,109	2,912,176
	FTE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	GF	0	0	0	0	0	0	0	0	0	0
	CF	0	0	0	0	0	0	0	0	0	0
	CFE	13,447,568	12,305,933	0	12,305,933	12,305,933	2,912,176	15,218,109	0	15,218,109	2,912,176
	FF	0	0	0	0	0	0	0	0	0	0

Letter Notation:

Cash Fund name/Number, Federal Fund Name: Fund 607
 IT Request Yes * No (If yes and request includes more than 500 programming hours, attach IT Project Plan)
 Change Request Criteria: Emergency Technical Error New Data Unforeseen Contingency
 Request for New or Replacement Vehicles: Yes No (If yes, a copy of the Schedule 6 should be forwarded to the OSPB analyst assigned to DPA)
 Request Affects Another Department(s): Yes No (If yes, Name of other Department(s))

Efficiency and Effectiveness Analysis FY 2005-06 Decision Item Request

Department: Department of Personnel & Administration

Long Bill Group/Division: Division of Central Services

Program: State Fleet Management Program & Motor Pool Services

Request Title: Increase the Base Appropriation for Operating Expenses of the State Fleet Management Program

Priority Number: DI #1 (Departmental)

Summary of Request

The Department of Personnel & Administration, Division of Central Services, Fleet Management Program and Motor Pool Services requests an increase of \$2,912,176 to the base for the Operating Expenses line item in FY 2005-06. This Decision Item includes additional appropriated spending authority needs associated with several components of the Operating Expenses line item, including increases in fuel and maintenance costs for fleet vehicles and miscellaneous business operating costs.

In recent years, the reserve balance of the Motor Fleet Management Fund (Fund 607) has been depleted through supplemental increases to spending authority that have not required increased appropriations to the departments that participate in the Fleet Management Program. This has resulted from significant increases in fuel prices at the end of FY 2002-03, and during FY 2003-04, along with increases in maintenance costs experienced due to minimal levels of vehicle replacements in recent fiscal years. While the rates established for FY 2004-05, and rates anticipated for FY 2005-06 should suffice to cover the majority of the revenues required to support the requested increase in spending authority, during FY 2005-06 additional appropriations to departments may be necessary.

Problem or Opportunity Definition

The base appropriation for Operating Expenses in the Fleet Management Program has not been increased since FY 2001-02, even while fuel prices have continued to rise, and average annual maintenance cost per mile has increased by over 6% per year. In an attempt to manage to the continuation level appropriation miles driven decreased by 2.4% in FY 2002-03. For FY 2003-04, the Joint Budget Committee (JBC) provided an informal mandate that directed agencies that participate in the program to reduce miles driven by 5% in FY 2003-04. Actual miles driven in FY 2003-04 decreased by approximately 1.5% statewide, and if the Departments of Public Safety and Transportation were excluded, the 5% reduction would nearly have been met. (Note that the critical nature of service provided to the public by the two outlier agencies noted above

make it extremely difficult for them to reduce miles driven.) Additional cost containment policies included implementation of a process during the past fiscal year to review all maintenance requests in order to eliminate any unnecessary or abnormally high cost expenses; this process resulted in approximately \$300,000 of avoided costs during the first year of implementation. Further a decrease in the overall size of the fleet by nearly 150 vehicles occurred in FY 2003-04 at the direction of the General Assembly and the JBC. This decrease is net of approved additions over the same period.

Even with the combined impact of the cost controls identified above, significant increases in fuel prices and maintenance costs have outpaced the State's efforts to stay within budget. Further it is unlikely that additional decreases in mileage driven can be attained, given the level of reductions experienced to date, and the nature of programs of some departments (for example Public Safety, Natural Resources and Transportation) that require substantial vehicle usage. Due to budget constraints, vehicle replacements have also been limited in recent years, resulting in higher maintenance costs, though the value added of these repairs is diminished by the increasing average age of the vehicles. One factor of note is that the current projected shortfall in FY 2004-05, and the estimates supporting the requested base increase for FY 2005-06 forward are predicated on the assumption that maintenance expenses are actually projected to begin to decrease beginning in FY 2005-06, largely because of vehicle replacements approved/appropriated for in FY 2004-05. The impact is not realized in FY 2004-05 as only an average of two months of benefit associated with replacement vehicles are realized in the fiscal year in which they are replaced (with the annualized benefit realized in the out year), combined with the fact that there were no non-CSP vehicles replaced in FY 2003-04.

Emergency Supplemental appropriations have been approved to cover increased fuel, maintenance and other business operation costs over that period, specifically, \$220,000 in FY 2002-03, and \$954,591 in FY 2003-04. Even with the supplemental increase in spending authority in FY 2003-04, an appropriation transfer of approximately \$187,000 was still necessary at year-end to avoid over expenditure. (At this time, the projected shortfall in FY 2004-05 is anticipated to be approximately \$3.1 million.)

The supplemental increases referenced above only increased the Program's spending authority. Increased appropriations to departments were not necessary at those times since the balance in the State Fleet Operating Fund (#607) was sufficient to cover the difference. This may no longer be the case. It is possible that additional appropriations to departments may be needed in the request year to cover increased expenses. The chart below highlights these issues.

	FY 00-01	FY 01-02	FY 02-03	FY 03-04
Miles Driven	74,747,177	76,011,456	74,223,176	73,117,480
Fuel Price Per Gallon	\$1.23	\$1.04	\$1.17	\$1.32
Total Fuel Costs	\$4,581,759	\$4,830,145	\$5,463,378	\$6,013,166
Maintenance Costs Per Mile	\$.0695	\$.0755	\$.083	\$0.089
Maintenance Expenditures	5,193,000	5,737,000	5,929,000	\$6,508,006
Accident Expenses	\$700,653	\$842,710	\$730,000	\$733,000
Number of Vehicles in the Fleet	5,894	5,793	5,753	5,607

This request seeks to align the base appropriation for Operating Expenses with projected costs, reducing the need for supplemental and emergency supplemental requests in the future.

Assumptions

Actuals for maintenance costs, fuel costs, gallons used, accident costs and miles driven are all based on reporting from CARS and COFRS. See Attachment A also.

- FY 2003-04 figures have been finalized from that which was represented in the FY 2003-04 Emergency Supplemental presented to the Joint Budget Committee in June 2004.
 - The average cost per gallon for fuel in FY 2003-04 was \$1.316 per gallon.
 - 73,117,480 Fleet miles were driven in FY 2003-04.

- FY 04-05 assumptions are a preliminary estimate based on FY 03-04 actuals. This estimate for FY 04-05 is presented merely for exemplifying the FY 05-06 request.
 - Fleet miles driven and miles per gallon in FY 2004-05 are held constant at final FY 2003-04 levels.
 - For FY 2004-05 calculations an estimate of \$1.50 per gallon is assumed using most conservative assumptions, which equates to a commercial pump price of \$1.80 per gallon. This assumption remains unchanged from that presented to the Joint Budget Committee in the FY 03-04 Emergency Supplemental last June.
 - The FY 2004-05 forecast of maintenance cost per mile and total maintenance expenses assumes a 16.3% increase over FY 2003-04 based upon analysis of the impact of only replacing CSP vehicles during FY 2003-04.
 - The FY 2004-05 forecast of accident expenses assumes a 3% increase to incorporate the impact of higher repair costs associated with a newer fleet of cars plus inflation.
 - The FY 2004-05 estimate of auction fees assumes the sale of 500 vehicles (300 premium @ \$250 each and 200 inferior @ \$120 each).

- FY 05-06 assumptions follow. See also Attachment A.
 - Fleet miles driven in FY 2005-06 are held constant at the level of the FY 2003-04 actual.
 - Based on miles driven and miles per gallon, total gallons purchased will remain constant at the level experienced in FY 2003-04.
 - Gasoline prices are very volatile, however, the price per gallon is assumed to average \$1.50, as assumed for FY 2004-05.
 - Fuel expenses are calculated by multiplying estimated gallons by the projected price per gallon.
 - FY 2005-06 maintenance costs per mile are assumed to decrease incrementally by approximately 3.0% over FY 2004-05 due to FY 2004-05 vehicle replacements approved by the General Assembly.

- Multiplying the estimated miles driven in FY 2005-06 by the projected maintenance costs per miles results in maintenance expenses. Total maintenance expenses are calculated to be 3.0% lower than in FY 2004-05 under this scenario. Note, however, that this is 12.8% higher than FY 03-04. This estimate is based on the results of the State Fleet Management Program's Maintenance Analysis Model.
- The FY 2005-06 estimate for accident cost per mile is approximately 3.0% higher than the estimated FY 2004-05 cost. Multiplying this rate by the projected miles driven in FY 2005-06 results in accident expenses 3.0% higher than anticipated in FY 2004-05.
- State Fleet Management Business Operations costs are assumed to remain at the FY 2004-05 level.
- FY 2005-06 auction fees are assumed to increase by 20.4%, to \$118,000. This estimate assumes the sale of 600 vehicles of which 350 are classified as "premium" and will be auctioned for \$250 each. The remaining 250 vehicles will be auctioned for an estimate \$120 each.

Available Alternatives

Alternative A – Increase the base appropriation for the State Fleet Management Program Operating Expenses line item to meet projected costs.

The following table displays the components of this request.

	FY 04-05 Preliminary Estimate	FY 05-06 Request
Fuel Expenses	\$6,855,624	\$6,855,624
Maintenance Expenses	\$7,570,752	\$7,342,485
Accident Expenses	\$755,000	\$778,000
Business Operations	\$124,000	\$124,000
Auction Fees	\$98,000	\$118,000
Total Costs	\$15,403,376	\$15,218,109
Continuation Budget	\$12,305,933	\$12,305,933
Change Request Amount		\$2,912,176

Please see Attachment A for calculations.

As reflected previously, while the rates established for FY 2004-05, and rates anticipated for FY 2005-06 should suffice to cover the majority of the revenues required to support the requested increase in spending authority, additional appropriations to departments may be necessary in the upcoming fiscal year.

Alternative B – Spending authority for the State Fleet Management Program will remain at the FY 04-05 continuation level. – Status Quo.

Without the requested increase in spending authority, State Fleet Management will be unable to make payments to vendors for fuel purchased and maintenance expenses incurred. In addition, it

must be noted that many critical measures have already been adopted in attempts to mitigate cost increases over the past several fiscal years, including mileage reductions, cost controls, and reductions in total fleet size, leaving limited room left to achieve further efficiencies. Finally, Emergency Supplemental Requests of significant size will likely continue to be required annually under this alternative.

Recommendation

The Department of Personnel & Administration recommends Alternative A, an additional appropriation of \$2,912,176 cash funds exempt spending authority to cover the costs of increased operating costs for the State Fleet Management Program. Without the increased appropriations and spending authority, State Fleet Management will be unable to make necessary payments to vendors without annual Emergency Supplemental Requests of significant amounts late in each fiscal year.

ATTACHMENT A

Annual Comparisons and Assuptions for Operating Expenses FY 05-06 Request

	FY04	difference	%Diff	FY05 proj.	difference	%Diff	FY06 proj.	difference	%Diff
Miles Driven	73,117,480	(1,105,520)	-1.5%	73,117,480	-	0.0%	73,117,480	-	0.0%
Miles per Gallon	16.00			16.00			16.00		
Gallons	4,570,416	(115,584)	-2.5%	4,570,416	-	0.0%	4,570,416	-	0.0%
Price per Gallon	\$ 1.316	\$ 0.15	12.4%	\$ 1.50	\$ 0.18	14.0%	\$ 1.50	\$ -	0.0%
Fuel Expense	\$ 5,986,589	\$ 522,589	9.6%	\$ 6,855,624	\$ 869,035	14.5%	\$ 6,855,624	\$ -	0.0%
Maintenance Cost per Mile	\$0.0890	\$0.0091	11.4%	\$0.1035	\$ 0.015	16.3%	\$0.1004	\$ (0.003)	-3.0%
Maintenance Expense	\$ 6,505,673	\$ 349,673	5.7%	\$ 7,570,752	\$ 1,065,079	16.4%	\$ 7,342,485	\$ (228,267)	-3.0%
Accident Cost Per Mile	\$0.0100			\$0.0103			\$0.0106		
Accident Expense	\$ 733,321	\$ 3,321	0.5%	\$ 755,000	\$ 21,679	3.0%	\$ 778,000	\$ 23,000	3.0%
SFM Business Operations	\$ 126,910	\$ 2,910	2.3%	\$ 124,000	\$ (2,910)	-2.3%	\$ 124,000	\$ -	0.0%
Auction Fees	\$ 95,076	\$ 43,076	82.8%	\$ 98,000	\$ 2,924	3.1%	\$ 118,000	\$ 20,000	20.4%
Total Operating Expense	\$ 13,447,569	\$ 921,569	7.4%	\$ 15,403,376	\$ 1,955,807	14.5%	\$ 15,218,109	\$ (185,267)	-1.2%
Spending Authority	\$ 12,305,933	\$ -	0.0%	\$ 12,305,933	\$ -	0.0%	\$ 12,305,933	\$ -	0.0%
Required Increase	\$ 1,141,636			\$ 3,097,443			\$ 2,912,176		
Approved Increase	\$ 954,591								
	\$ 187,045	Transfer request as submitted to SCO							

FY04 Bus. Ops. Includes a one time charge for fuel line repairs at downtown motor pool. FY05 and FY06 reflect normal years.