THE FLORIDA LEGISLATURE
OPPAGA
OFFICE OF PROGRAM POLICY ANALYSIS & GOVERNMENT ACCOUNTABILITY

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Centralizing Vehicle Fleet Operations and Implementing Cost-Saving Strategies Could Reduce State Spending

at a glance

State law requires the Department of Management Services (DMS) to manage the state's vehicle fleet, but the department has delegated much of its authority to agencies and primarily serves an advisory role. This decentralized system hinders coordination, which reduces efficiency and increases costs. The current system also limits DMS's ability to optimize the use of the existing fleet, develop a uniform model for replacing the state's numerous aging vehicles, and implement statewide fuel and maintenance management contracts. In addition, some agency practices, such as assigning vehicles to employees that do not meet mileage use thresholds and providing mileage reimbursements to staff that extensively drive personal vehicles, may also increase state costs.

There are several options for improving fleet management and reducing costs, including centralizing all fleet operations under a single agency, centralizing some fleet operations under a single agency, requiring all agencies to use statewide fuel and fleet maintenance contracts, and outsourcing additional fleet services.

Scope

The Legislature directed OPPAGA to examine state agency fleet programs to identify options for reducing costs and centralizing vehicle fleet management, an operational model that has been used to varying degrees in other states.

Background

State agencies use vehicles to perform a range of activities to support their missions. The state owns over 26,000 vehicles, ranging from heavy construction equipment, trucks, and mowers to cars, vans, and pickup trucks. Employees use these vehicles to perform a wide variety of agency functions, including construction and road maintenance, regulatory activities such as child protective services and hotel and restaurant inspections, and law enforcement activities such as probation and parole supervision. This report evaluates the management of cars and light trucks used by agencies.

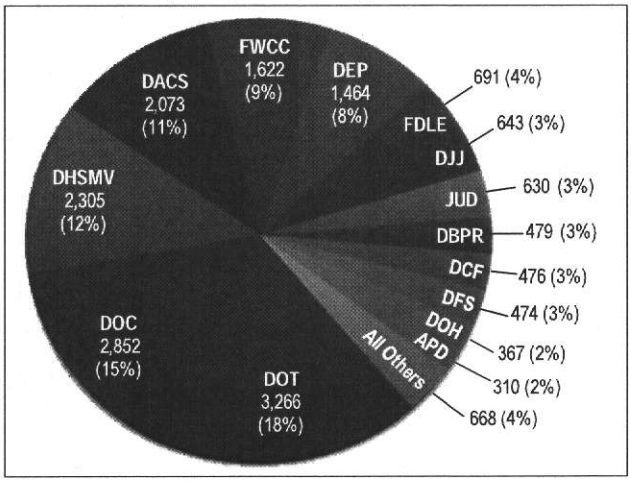
State law charges the Department of Management Services (DMS) with adopting and enforcing rules and regulations for motor vehicles.[1] The department's Bureau of Vehicles and Watercraft Management facilitates the acquisition of vehicles through state term contracts, approves vehicle purchases, develops fleet replacement criteria, and coordinates disposal of used and surplus vehicles. In addition, agencies record statewide information on vehicle location, usage, and maintenance in DMS's Equipment Management Information System (EMIS).

As shown in Exhibit 1, 30 agencies own 18,320 cars and light trucks.[2] The Department of Transportation owns the most cars and light trucks, with 3,266, while the Department of Citrus owns the least, with 1. The state spent $51,402,606 to operate agency vehicles in Fiscal Year 2009-10. During this period, agencies spent $12,619,107 to acquire 719 cars and light trucks. Agencies operate vehicle motor pools that serve employees on an as-needed basis and also assign vehicles to specified employees.

[1] Section 287.16, *F.S.*

[2] The inventory recorded in EMIS is as of February 10, 2011. Any vehicle up to one ton is considered a car or light truck, including SUVs.

Exhibit 1
Thirty State Agencies Currently Own and Operate More Than 18,000 Cars and Light Trucks



Acronym	Agency
APD	Agency for Persons with Disabilities
DACS	Department of Agriculture and Consumer Services
DBPR	Department of Business and Professional Regulation
DCF	Department of Children and Families
DOC	Department of Corrections
DEP	Department of Environmental Protection
DFS	Department of Financial Services
FWCC	Fish and Wildlife Conservation Commission
DOH	Department of Health
DHSMV	Department of Highway Safety and Motor Vehicles
JUD	Judiciary
DJJ	Department of Juvenile Justice
FDLE	Department of Law Enforcement
DOT	Department of Transportation

All others includes the following: Agency for Health Care Administration, Agency for Workforce Innovation, Department of Citrus, Department of Community Affairs, Department of Education, Executive Office of the Governor, Department of Legal Affairs, Department of the Lottery, Department of Management Services, Department of Military Affairs, Parole Commission, Public Service Commission, Department of Revenue, School for the Deaf and the Blind, Department of State, and Department of Veterans' Affairs.

Source: Department of Management Services' Equipment Management Information System.

Findings

The state's fleet program is decentralized across multiple agencies, which reduces efficiency and increases costs

State agencies independently manage their vehicle fleets. Although the Department of Management Services (DMS) has authority to manage fleet operations, it has delegated much of its authority to state agencies and serves only in an advisory role. This decentralized system hinders coordination, which reduces efficiency and increases costs.

DMS engages in limited state-level fleet management, with day-to-day vehicle operations decentralized to agencies. State law authorizes DMS to establish and operate central facilities for the acquisition, disposal, operation, maintenance, repair, storage, supervision, control, and regulation of all state-owned motor vehicles.[3] However, historically the department has adopted the role of facilitator rather than manager, assisting agencies by determining motor vehicles to be included on state contracts; developing technical bid specifications; evaluating contracts; and generating vehicle replacement guidelines.[4] The department also approves agency requests for vehicle purchase and disposal and conducts breakeven analyses for deciding whether to assign state-owned vehicles to employees.

Due to DMS's approach to fleet management, decisions concerning operations and management of state-owned vehicles are delegated to 30 state agencies. This decentralized model gives agencies discretion on how to manage their fleets, which produces a wide variety of policies and procedures. According to an independent review of the state's fleet program, these inconsistencies result in poor overall management, unnecessary fleet expenditures, duplication of effort, and agencies spending resources on activities that are not central to their core missions.[5]

In addition, many agencies do not have fleet managers and often lack the expertise to effectively manage their own fleets. For example, a DMS survey found that there are only 19 fleet managers statewide, located at seven state agencies.[6] The number of fleet management personnel varies significantly by agency, ranging from one (the Department of Financial Services

[3] Section 287.16(2), *F.S.*

[4] For Fiscal Year 2009-10, the Legislature appropriated the Bureau of Vehicles and Watercraft Management $1,765,841 and seven full-time equivalent positions; three of the positions are for fleet management.

[5] *Report on Fleet Management for the Florida Department of Management Services,* Mercury Associates, Inc., April 2007.

[6] The agencies are the Department of Corrections (7), the Department of Financial Services (1), the Department of Highway Safety and Motor Vehicles (1), the Department of Juvenile Justice (1), the Department of the Lottery (1), and the Department of Transportation (8).

and three other agencies) to eight (the Department of Transportation).

The current vehicle funding approach is decentralized, limiting options for acquiring vehicles. The state has no strategic plan for acquiring vehicles for state use. DMS negotiates state term contracts for different classes of vehicles based on technical specifications provided by agencies, but each agency justifies its funding needs to the Legislature and can purchase vehicles outside the contract. In addition, agency requests to replace vehicles are independent of each other, and individual agencies are responsible for funding these acquisitions through the annual budget request process. The result is an uncoordinated series of incremental purchasing decisions.

The current system of financing acquisitions also uses a "pay-before-you-go" approach rather than "pay-as-you-go" options for acquiring vehicles. Such options include centralized fleet leasing and low interest financing that could be offered through the Department of Financial Services' equipment financing program.[7] The pay-as-you-go method, which the private sector often uses, would allow the state to pay for vehicles over time.[8] Taking advantage of these financing options would enable the state to use funding for other critical needs by reducing the upfront capital requirements for replacement vehicles.

Agencies are not always required to use statewide fuel and maintenance contracts. Two of the biggest cost drivers for fleet programs are maintenance and fuel. For example, two of the agencies with the largest fleets, the Department of Highway Safety and Motors Vehicles and the Department of Transportation, reported spending $9 million on maintenance and repairs for 5,571 vehicles and $13 million on fuel in Fiscal Year 2009-10.

Currently, each agency is responsible for independently obtaining maintenance and repair services. However, this system does not take advantage of possible volume discounts based on the state's fleet size and costs savings realized from professional management of maintenance services. Further, in tight budget years agencies may choose to defer maintenance, which can lead to higher future costs.

To help agencies lower these costs, DMS recently executed a statewide maintenance management contract and engaged a new fuel card vendor. The fuel card is available to all state agencies, while the department is implementing a pilot project to introduce the maintenance contract to three agencies before going statewide—the Department of Highway Safety and Motor Vehicles, the Department of Management Services, and the Department of Transportation. While savings from these efforts cannot yet be determined, the state may not achieve maximum savings because not all agencies use the fuel card and the maintenance contract is optional.

Data limitations reduce the usefulness of the centralized fleet information system for funding and operations decisions. DMS operates the Equipment Management Information System (EMIS), which it developed in 1974 and has updated over time. Agencies are responsible for adding all equipment to the system and reporting monthly on the condition, utilization, cost, fuel consumption, maintenance, and assignment of all motor vehicles. The department uses EMIS data to produce reports on the status of agency fleets. However, DMS staff reports that agencies do not always enter reliable data into the system, which diminishes its validity and usefulness to policymakers when making decisions about fleet program operations and funding.

In addition, DMS staff reports that EMIS contains some vehicles that are not being effectively utilized by agencies (e.g., vehicles with low annual mileage). However, the department has not used its existing statutory authority to regularly monitor the utilization data and request that agencies reassign underutilized vehicles to employees that drive more extensively or transfer them to other departments.

DMS staff also acknowledges that the department should develop a data system to track personal vehicle use when mileage is reimbursed for official state use and to monitor vehicle utilization. The department is statutorily required to calculate

[7] The Consolidated Equipment Financing Program is available to state agencies and universities for the purchase of equipment at low, tax-exempt interest rates (from 2.08% to 2.60% depending on the term), which are normally much lower than vendor or third-party financing. Cars and light trucks are not currently included in the program.

[8] Section 287.14(5), *F.S.*, states that agencies cannot acquire vehicles on deferred payment contracts without first getting approval from the Governor and Legislature.

a breakeven analysis to determine whether it is more cost-effective to use a state-owned vehicle or a personal vehicle, but there is no centralized system to monitor use.

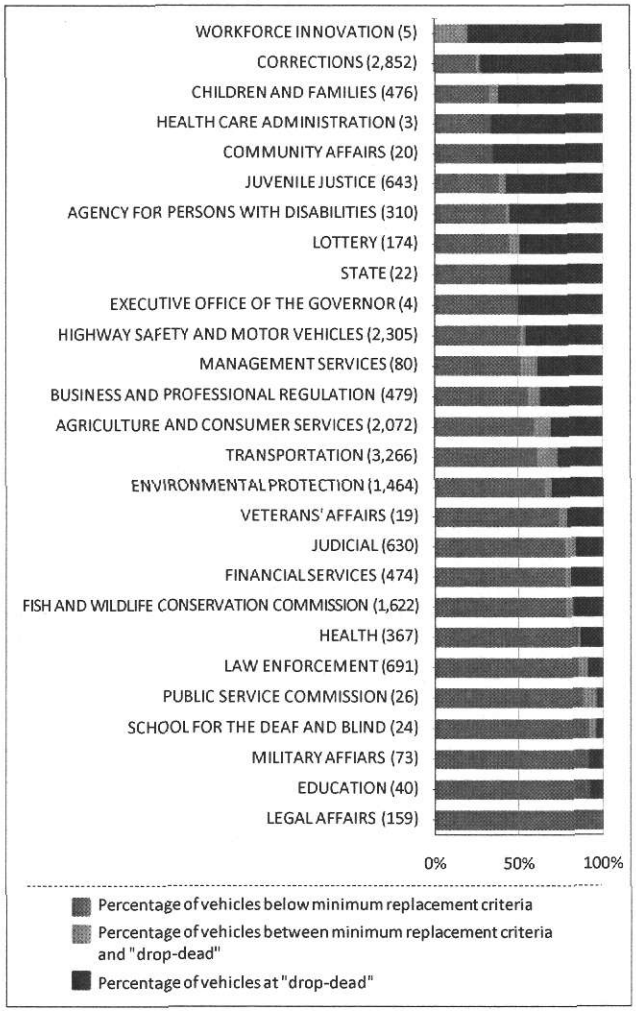
Several agency practices increase fleet costs

Some agency practices increase state fleet costs, including allowing vehicles to significantly exceed replacement criteria, assigning vehicles to employees that do not meet mileage use thresholds, reimbursing employees that drive extensively for the use of private vehicles, and allowing the use of vehicles for unwarranted commuting miles.

Many agency fleets exceed the recommended replacement criteria. The lack of a uniform approach for fleet replacement was the most pressing problem identified in a 2007 review of Florida's fleet. This issue remains unresolved, with DMS data showing that 7,932 (43%) of the state's cars and light trucks meet or exceed the minimum replacement criteria of 300 points based on a combination of factors such as age, mileage, and repair history. At least 6,849 (37%) of these vehicles are designated "drop-dead" status, meaning the vehicle is at or near the end of its life cycle.[9] Exhibit 2 shows the distribution of vehicles that meet or exceed replacement criteria, by agency. The Agency for Workforce Innovation has the highest percentage of vehicles that exceed replacement criteria, at 100%, while the Department of Legal Affairs has one vehicle that exceeds the replacement criteria.

DMS currently does not have a process to prioritize replacement of vehicles designated as drop-dead status.[10] Although the department has created replacement guidelines, the numerous agencies are in control of replacement priorities and funding requests. Furthermore, there are sometimes valid reasons for keeping a vehicle that exceeds the replacement criteria. For example, the Department of Corrections uses older vehicles for prison perimeter surveillance; these vehicles accumulate few miles but continue to operate cost-effectively because of limited mileage accumulation.

Exhibit 2
A Substantial Percentage of Agencies' Vehicles Exceed the State's Replacement Criteria[1]



[1] The number beside the agency name above refers to the number of cars and light trucks owned by the agency.

Source: Department of Management Services' Equipment Management Information System.

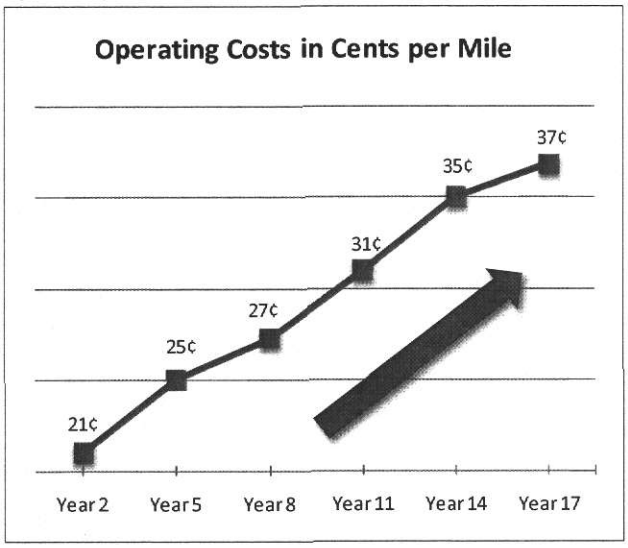
However, experts generally agree that as fleets age, per mile maintenance, repair, and fuel costs increase. Exhibit 3 shows that Florida's vehicle operating costs have risen as the fleet ages. Average operating costs during the second year of vehicle ownership are 21 cents per mile, but they steadily increase over time, with a 17-year old vehicle incurring costs of more than 37 cents per mile.[11]

[9] The criteria are 120,000 miles or 12 years for cars and light trucks and 80,000 miles or 8 years for pursuit vehicles.

[10] Points are assigned for factors such as age, mileage, and repair history. If the vehicle exceeds the replacement criteria for miles and age (120,000 miles or 12 years for cars and light trucks up to ½ ton), it is designated "drop-dead" status and is eligible for replacement regardless of any other factors.

[11] Per mile costs includes fuel, maintenance, and repair. It does not include capital costs or insurance.

Exhibit 3
Operating Costs Increases as Vehicles Age



Source: Department of Management Services.

Agency vehicle assignments do not always make the most cost-effective use of assets. Two agency assignment practices increase state costs for providing vehicle transportation: assigning vehicles to employees that drive less than the breakeven point for use of personal vehicles and not assigning vehicles to employees that are required to drive extensively.

State law gives priority for assigning state vehicles to employees who drive over 10,000 miles annually.[12, 13] The Legislature established this requirement to help ensure that the state effectively uses its vehicle fleet. An agency head may waive this requirement on an annual basis if provided written justification for the assignment. DMS analysis of agency data shows that 30% (2,230) of the vehicles that are typically assigned to individuals (e.g., law enforcement and employees whose home is their office) were driven less than 10,000 miles during Fiscal Year 2009-10.[14]

Conversely, failure to assign vehicles to employees that extensively drive personal vehicles on state business can also increase state transportation costs. In Fiscal Year 2009-10, the state reimbursed $4.1 million to 761 employees that drove more than 10,000 miles in their personal vehicles. It is generally more cost-effective for the state to provide a state-owned vehicle to employees that drive their personal vehicles this extensively. DMS calculated the breakeven point for assignment of a state-owned vehicle at 7,448 miles driven for a 2010 Ford Fusion, the type of vehicle most state employees require.

However, some agencies allow state employees to use their personal vehicles on state business because of the age and condition of their fleet. For example, the Department of Children and Families allows its employees to drive personal vehicles because 89% of headquarters/region vehicles and 77% of institution vehicles meet or exceed the replacement criteria. In Fiscal Year 2009-10, the department spent $5.3 million on employee mileage reimbursement and over $1 million on auto insurance reimbursement for employees that use their personal vehicle to transport clients when conducting child and adult protective investigations.

Some employees use state vehicles for unwarranted commuting miles. Another cost driver for fleets is employees using assigned vehicles to commute from home to their offices. Most state vehicles are assigned to personnel that do not regularly commute to a work site; these employees either patrol assigned areas or work at various work sites during the day.

However, our analysis of agency commuting mileage data shows that some employees accrue more commuting miles than miles driven on official state business.[15] For example, of the 1,277 state vehicles assigned to individuals who use the vehicles for commuting, agency-supplied data shows that 344 vehicles (27%) were driven more commuting miles than official state miles. If these employees were required to reimburse the state for commuting miles at the current statutory

[12] Section 287.17, *F.S.*

[13] Commuting mileage incidental to the use of a vehicle must be excluded from calculating official state mileage.

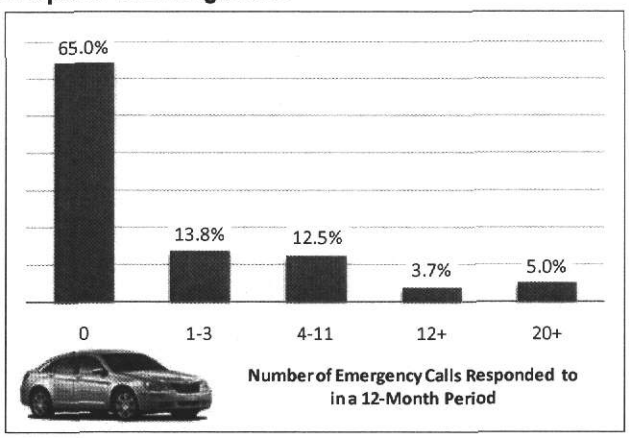
[14] Includes official state miles and other miles such as commuting for 7,413 assigned vehicles reported by agencies.

[15] Agencies reporting commuting mileage include the Department of Agriculture and Consumer Services, the Department of Business and Professional Regulation, the Department of Corrections, the Department of Environmental Protection, the Department of Financial Services, the Department of Highway Safety and Motor Vehicles, the Department of Legal Affairs, the Department of Management Services, the Department of Military Affairs, the Department of Transportation, and the Fish and Wildlife Conservation Commission.

mileage reimbursement rate (44.5 cents per mile), the state would have recovered more than $2.9 million based on 6.6 million commuting miles driven in Fiscal Year 2009-10.

Agencies report that one reason they allow employees to commute in state cars is so that they can respond to emergencies. However, agency-reported data shows that most of these individuals do not routinely respond to emergencies from their homes. Of the 1,277 vehicles used for commuting, 79% responded to three or fewer emergencies in a 12-month period (see Exhibit 4).[16]

Exhibit 4
Few Employees Who Use State Vehicles to Commute Respond to Emergencies



Source: OPPAGA analysis of agency-provided data.

The federal government and some states have centralized fleet management and adopted other cost-saving strategies

The federal General Services Administration (GSA) and several states have taken steps to centralize fleet management and adopted other strategies to reduce costs. Centralized fleet management has allowed these entities to implement cost-saving strategies such as consolidated vehicle acquisition through leasing and bank financing, bulk fuel purchasing, fuel cards, and outsourced maintenance. Several states also offer web-based tools for making decisions about the most cost-effective method to obtain a vehicle.

[16] In Georgia, to justify commuting miles from home to an office, an employee must show that he or she responded to 10 or more emergencies in a 6-month period.

The federal government and some states offer a range of fleet options, depending on agency need. Several states have centralized fleet management programs that offer options that Florida's decentralized system does not. One such option is the use of pay-as-you-go financing for acquiring vehicles for both short- and long-term use. Centralized procurement allows consolidated acquisition of all motor vehicle types to achieve maximum benefits and economies of scale. Bank financing or leasing reduces the amount of capital needed up front for acquiring vehicles so that states can use funds for other critical needs.

The GSA, Michigan, and Virginia all offer centralized pay-as-you-go options for acquiring or leasing vehicles.[17] Virginia's acquisition program finances vehicle purchases with significant savings due to economies of scale and then leases the vehicles to agencies, typically for 84 months. The program bills agencies fixed rates to recover all fixed and variable costs and to provide a revenue stream for vehicle replacement.

In addition, the GSA, Michigan, and Georgia use fleet leasing programs to supply agencies cars and trucks. The GSA acts as a third party for fleet leasing so that agencies can lease vehicles on a pay-as-you-go system for either short- or long-term use. Similarly, Michigan finances vehicles through leasing and recoups the lease costs through a chargeback system to agencies. Agencies lease the vehicles from fleet services through an internal lease program that allows the state to accumulate cash reserves for replacement vehicles. The rates charged to agencies include a fixed fee and per-mile rate. The fixed fee includes projected lease cost, new vehicle orders, projected resale proceeds, and self-insurance for liability claims. The per-mile costs reflect the variable operating costs of fuel, maintenance expenses, and administrative charges.

Georgia is currently piloting a program of leasing vehicles directly from a leasing company. In 2007, the state outsourced its in-house motor pool operation to a private vendor because some pool

[17] The GSA provides centralized fleet management for 75 federal agencies and 217,000 vehicles. The GSA is not an exclusive source of vehicles for federal agencies; agencies may also contract with a private fleet management firm or lease vehicles from commercial sources.

vehicles had high mileage and were unreliable. With the private vendor's continuous renewal of vehicles, unreliability is less of an issue. The state also implemented a pilot program at one agency for vehicle replacement through long-term leases (e.g., 60 months). The short-term lease for the motor pool program costs approximately 46 cents per mile, and the long-term program costs about 41 cents per mile.

Several states use a centralized model for fuel and maintenance; others use web-based tools to guide fleet decisions. The Virginia Office of Fleet Management Services has a fuel card contract for purchases from commercial retail providers and participates in the statewide bulk gasoline and diesel fuel program. Georgia has concentrated on increasing agency participation in its statewide fuel and maintenance contracts.[18] The state's fleet managers stress compliance with fuel cards and the maintenance contract and encourage accurate data entry in the state's new fleet data system.[19] In 2009, Georgia realized $555,335 in savings, with a 33% rate of agency compliance with the maintenance contract; the state also saves on discounted fuel purchases.

These states also offer web-based calculators to assist agency managers with determining whether it is more cost-effective to acquire a vehicle for long-term use, allow use of a private vehicle, or lease or rent a car for short-term use. For example, Virginia offers a calculator for determining whether to assign a vehicle to an employee based on its life-cycle costs or to have an employee use a private vehicle based on estimated mileage and reimbursement costs. Managers also monitor mileage usage quarterly; if an assigned vehicle does not meet the mileage threshold, it can be reassigned to another employee or agency. For short-term travel, Georgia, Michigan, and Virginia offer employees a web-based trip calculator to determine whether it is more cost-effective to rent a car or drive their own vehicle. If it is more cost-effective to rent, the employee is directed online to the contracted rental agency.

[18] Georgia statewide maintenance contract also includes the technical colleges and university system fleet of vehicles.

[19] Governor Sunny Perdue's Commission for a New Georgia Fleet Task Force Recommendations, April 13, 2004.

Several opportunities exist to improve fleet management and reduce costs

There are several options the Legislature could consider for improving state fleet management and reducing costs, including centralizing all fleet operations under one agency, centralizing some fleet operations under one agency, requiring use of statewide fuel and fleet maintenance contracts, and outsourcing additional fleet services. Each option has advantages and disadvantages, as described in Exhibit 5.

Option 1: Centralize all fleet operations under one agency. The Legislature could consider consolidating management of all state agency vehicles into one statewide fleet program with uniform standards for procurement, assignment, utilization, maintenance, and disposal. Centralization would improve efficiency and could reduce costs by leveraging the state's buying power.

Since the Department of Management Services currently has statutory authority to manage the fleet program, it may be the most appropriate agency in which to centralize statewide fleet management. The primary disadvantage of using DMS as the lead agency is that, historically, it has adopted a service rather than regulatory stance with other state agencies.

As an alternative, the Department of Transportation could oversee statewide fleet management; the department currently has the largest fleet (3,266 vehicles) and employs eight fleet managers. To perform this function, the Legislature would need to grant the department additional statutory authority.

If the Legislature were to consolidate fleet management, the designated lead agency would need to address several issues.

Policies, procedures, and data management. To improve fleet management, the lead agency should develop a comprehensive fleet improvement plan and uniform policies and procedures to cover all aspects of fleet management, and improve data collection and monitoring systems. The agency would need to implement uniform policies for vehicle acquisition, assignment, commuting miles, use of private vehicles, and reassignment of underutilized vehicles to agencies that need them.

Policies should also describe driver responsibilities for the care and operation of state vehicles.

In addition, because data analysis and feedback to agencies is essential to cost-effective fleet management, the current fleet data system should be improved. For Fiscal Year 2010-11, DMS estimates the cost of operating the Equipment Management and Inventory System will be $314,000. To substantially lower recurring costs, DMS plans to use existing resources to improve the system to make it web-based and more user friendly at a projected cost of $161,000.[20] A web-based calculator could also be added as part of system improvement to assist agencies in making choices about the most cost-effective vehicle choice.

Financial Management. To implement centralized control of the fleet and improve financial management, the Legislature could consider modifying the budgeting process so that funding for vehicle replacement goes to a central agency rather than individual agencies. This approach would simplify funding and would transfer control of the licensing and registration of all new state agency vehicles to the central agency, which would make it easier to reassign underutilized vehicles across agencies.

In addition, the lead agency should develop a fleet funding plan based on a business case analysis of options depending on required vehicle use. The plan may include a mix of funding alternatives, including cash purchases of some vehicles, financed purchases, and short- and long-term lease options (see Appendix A for an example of options).

The Legislature may also wish to create an internal lease model similar to that used by Virginia and Michigan to lease vehicles to agencies on a chargeback system. The internal lease model could be used to fund vehicle replacement with either bank financing (e.g., expanding the use of the Florida Consolidated Equipment Financing Program to car and light truck purchases) or leasing options. Virginia uses bank financing and Michigan purchases vehicles directly from the manufacturer using the government fleet price. The state then sells the vehicles to a private vendor at the government price and leases them back on a 5-year lease at interest rates that vary from 1.2% to 2%. At the end of the term, the vendor remarkets the vehicle and gives the proceeds to the state. The advantages of financing programs are that they leverage appropriated dollars, provide predictable vehicle replacement schedules, and lower operating expenses. However, fleet management experts report that leases typically incur a higher cost of capital than other debt financing approaches.

Option 2: Centralize some fleet functions under one agency. Rather than centralize all fleet operations at once, the Legislature may wish to use the approach that Georgia adopted, centralizing some operations for immediate cost savings.

Georgia was experiencing fleet issues similar to Florida's current situation–significant expenditures for maintenance costs on outdated vehicles and reimbursements for privately used vehicles. Recognizing the challenges of centralizing operations, including agency resistance, changing the budgeting process, and a lack of reliable data to perform accurate cost analysis, Georgia chose to primarily focus on improving its centralized tracking and oversight and lowering its operating costs. The state purchased an off-the-shelf fleet management data system to help determine the condition of the fleet as a whole before implementing a long-term improvement plan. State fleet managers also focused on improving agency use of statewide fuel and maintenance contracts. These actions saved the state $555,335 in 2009.

Option 3: Require agencies to use current statewide fuel and fleet maintenance contracts. The Legislature could require agencies to use the statewide fuel and maintenance contracts unless agencies are able to justify not doing so. The fuel card negotiated by DMS saves 1.45% off the total invoice before federal excise taxes (18.3 cents per gallon for gasoline and 24.3 cents for diesel) are deducted. Although there is no cost for agencies to use the current fuel card contract, some choose other alternatives. If all agencies were required to use the fuel card, DMS reports it could save the state $478,500 based on $33 million spent on car

[20] DMS estimates recurring costs would be approximately $40,000 annually.

and light truck commercial retail fuel costs in Fiscal Year 2009-10.

Similarly, the state would likely achieve savings on repairs if all agencies used the maintenance contract. For example, if the state attained reductions of between 10% and 20% in maintenance costs, we estimate that the state could have saved between $950,000 and $1.9 million in Fiscal Year 2009-10.[21] However, agencies using the maintenance program are required to pay $5.70 per vehicle per month to access a centralized call center to schedule maintenance with the vendor's statewide network of garages. Agencies also receive other services such as consolidated billing, discounts on repairs, follow-up on warranty work, and denial of unnecessary repairs. We estimate the annual enrollment costs for approximately 11,000 vehicles (60% enrollment) to be $752,400.[22]

Option 4: Outsource additional fleet services. The Legislature could consider outsourcing additional fleet services. For example, private vendors offer services such as vehicle leasing, short-term rental, fuel and maintenance management, and data management. Other states, like Michigan, achieved cost savings by contracting with one vendor for leasing services, maintenance, and fuel management.[23]

Leasing. Florida could replace aging vehicles by using a leasing program. Leasing decreases the state's upfront capital investment for vehicle replacement. However, a major disadvantage is that the state pays more for the vehicles over time because of capital costs.

If it wished to phase in a leasing model, the Legislature could consider piloting a lease program with the Department of Children and Families as an alternative to purchasing vehicles to refresh the aging fleet or continuing to rely on employees' use of personal vehicles. Through leasing, the department may improve the reliability of its fleet and save some of the $5.3 million in reimbursement costs and $1 million in costs for subsidizing staff car insurance.

Short-term rental. To reduce the age and size of the state's vehicle fleet, the Legislature could consider outsourcing short-term rentals for agency pool vehicles by directing DMS to obtain vehicles directly from a private vendor, bank, or commercial finance company. Georgia reduced the size of its pool fleet and improved vehicle reliability by outsourcing to a private rental company. The state pays 46 cents per mile for short-term rentals and 41 cents per mile for long-term rentals.

If Florida reduced the size of its pool fleet by 10% (902) by replacing state-owned vehicles with those from the state's current rental car vendor, for example, it could avoid spending $10.7 million in replacement costs in Fiscal Year 2011-12. However, in Fiscal Year 2012-13 and Fiscal Year 2013-14, the ongoing rental costs would be $1.9 million per year.

Data management. Both fuel card and maintenance management vendors currently under contract with DMS can provide the state with extensive data to measure fleet performance. Data includes fleet size, fuel costs, maintenance and repair costs, and total miles driven. This data can be used to establish performance benchmarks for mileage per vehicle, total cost per mile, average miles per gallon, and average vehicle age. DMS should determine whether using these data management services would be less expensive than spending $348,880 in Fiscal Year 2011-12 to provide fleet information through the EMIS system.

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[21] The savings estimate is based on $15.8 million in maintenance and repair costs and assumes that 60% of state agencies comply with the maintenance contract. We used 60% because that was the level of compliance Georgia's mandatory program achieved.

[22] Both the Department of Transportation and the Department of Agriculture and Consumer Services' Division of Forestry have shop services and may not fully participate.

[23] Michigan requested bids for fuel, maintenance and leasing services and one company won the bids for all three services.

Exhibit 5

The Legislature Could Consider Four Options to Improve Fleet Management

Option	Advantages	Disadvantages
Option 1 – Centralize all fleet operations under one agency		
Assign fleet management responsibilities to one lead agency	▪ Eliminates inefficiencies, duplication, and inconsistent policies from 30 agencies managing independent programs ▪ Offers a statewide fleet program with one set of operating standards for procurement, assignment, utilization, maintenance, and disposal ▪ Leverages the state's buying power through centralized purchasing for all motor vehicle needs ▪ Increases acquisition options including bank financing and leasing for procuring vehicles on a predictable replacement schedule ▪ Allows central entity to reassign vehicles among agencies as needed	▪ Agency resistance to losing control over the budgets and vehicles used by their staff ▪ Time needed to create a comprehensive fleet improvement plan ▪ Costs to operate the data system ($348,880 for Fiscal Year 2011-12) to perform accurate cost analysis ▪ Requires change in the budget process to direct all funding to a central agency ▪ Effort required to create and enforce policies regarding acquisition, assignment, commuting miles, use of private vehicles, and reassignment of underutilized vehicles ▪ Requires reorganization of fleet staff across state agencies; some may be transferred from other agencies to the lead agency
Option 2 – Centralize some fleet functions under one agency		
Centralize and implement statewide fuel and maintenance contracts Improve centralized tracking and oversight functions through improved data management and feedback to agencies	▪ Increases potential for immediate cost savings from discounts on outsourced fuel and maintenance services ▪ Provides lead agency the opportunity to determine the condition of the fleet as a whole and then design an improvement plan ▪ Improves accountability for fleet operating costs and ensures the state's investment in vehicles is maintained	▪ Costs to operate the data system ($348,880 for Fiscal Year 2011-12) to perform accurate cost analysis ▪ Agency resistance to using maintenance and fuel contracts due to costs and inconvenience ▪ Policies regarding data input and use of fuel and maintenance contracts ▪ Need for agency staff training on use of statewide contracts and other fleet management processes
Option 3 – Require agencies to use statewide fuel and maintenance contracts		
Require agencies to use the current statewide fuel and maintenance contracts unless agencies are able to justify not doing so	▪ Allows for immediate savings on commercial fuel and maintenance services, potentially $478,500 for fuel and between $950,000 and $1.9 million on maintenance based on 10% and 20% reductions, respectively	▪ Some of the savings would be offset by $752,400 for annual maintenance enrollment costs of $5.70 per vehicle per month for approximately 11,000 cars and light trucks ▪ Need for fleet managers to monitor agency use and compliance of statewide contracts
Option 4 – Outsource additional fleet services		
Contract with vendors for fleet rental or leasing services	▪ Allows for rapid increases/decreases of vehicles to meet operational needs ▪ Increases potential for cost savings by not reimbursing employees for use of private vehicles ▪ Improves accountability and the ability to set benchmarks from better vendor data on operating costs ▪ Potential to reduce some administrative costs through outsourcing some services ▪ Improves reliability of vehicle fleets	▪ Costs of capital over time is generally more expensive for financing/leasing vehicles than cash purchase ▪ Outsourcing data management limits the state's ability to resume management if vendor prices rise ▪ Need for managers to create and enforce policies regarding acquisition, assignment, commuting miles, use of private vehicles, and reassignment of underutilized vehicles

Source: OPPAGA analysis.

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Appendix A

Vehicle Replacement Options

The Legislature could consider several options for financing vehicle fleet replacement. Many state agencies have aging vehicle fleets that include numerous cars and trucks that exceed Department of Management Services' (DMS) recommended replacement criteria. To address this issue, the Legislature may wish to consider several options related to vehicle acquisition, including

- continuing to reimburse employees for use of their personal vehicles;
- continuing to replace vehicles using annual appropriations (i.e., "pay before you go") as funds permit; and
- authorizing agencies to use the Department of Financial Services' Consolidated Equipment Financing Program (i.e., "pay as you go") as a primary method for acquiring new vehicles.

To illustrate how state costs can vary depending on how the state pays for the use of vehicles, we developed three scenarios that include the cash flow requirements and total cost of implementing these options. [24] Our scenarios are based on the state acquiring compact and mid-size sedans on an ongoing basis over a 12-year period. We identified life cycle costs for each scenario to allow a better comparison of cash flow requirements. Life cycle costing is an approach that focuses on all costs incurred during an asset's life through its disposal. We projected that these vehicles would be driven approximately 15,000 miles per year and sold at auction when they are six years old and reach 90,000 miles. We held all costs in terms of current dollars and assumed the reimbursement rate for personal mileage would remain at the current rate (i.e., 44.5 cents per mile).

Table A-1 shows the 12-year annual cash flow requirements under the three scenarios. The table demonstrates that cash purchasing is the least expensive approach but requires significant upfront funding. Purchasing vehicles using the Consolidated Equipment Financing Program requires lower upfront cash outlays and is less costly than reimbursing employees for use of their personal vehicles. However, a drawback to financing vehicles is that it is more expensive over time due to required loan payments in future years. The most costly option is reimbursing state employees for the use of personnel vehicles to conduct state business.

[24] We also considered including long-term vehicle leasing in our analysis of potential options. However, direct comparisons of cash flows were not possible due to varying terms and conditions relating to the imputed interest rate, vehicle replacement criteria, and annual mileage usage. However, we concluded that annual leasing costs and cash flows would be similar to the state's use of the Consolidated Equipment Financing Program.

Table A-1
Financing Vehicle Purchases Provides the Greatest Cash Relief in the Early Years, but It Costs More Over Time Than the Cash Purchase of Vehicles[1, 2, 3, 4]

Year	Number of Compact Vehicles	Number of Mid-Size Vehicles	Total New Vehicles per Year	Annual Cash Requirements		
				Option 1 Personal Use	Option 2 Cash Purchase	Option 3 Finance Purchase
Year 1	400	600	1,000	$6,675,000	$16,587,342	$5,082,724
Year 2	400	600	1,000	13,350,000	19,122,283	10,165,449
Year 3	350	450	800	18,690,000	18,317,761	14,224,222
Year 4	350	450	800	24,030,000	20,341,538	18,282,995
Year 5	350	450	800	29,370,000	22,365,316	22,341,768
Year 6	350	450	800	34,710,000	21,589,094	23,600,255
Year 7	400	600	1,000	34,710,000	24,417,394	23,600,255
Year 8	400	600	1,000	34,710,000	25,007,394	24,190,326
Year 9	350	450	800	34,710,000	22,179,094	24,190,326
Year 10	350	450	800	34,710,000	22,179,094	24,190,326
Year 11	350	450	800	34,710,000	22,179,094	24,190,326
Year 12	350	450	800	34,710,000	21,589,094	23,600,255
Total Cash Outlays				**$335,085,000**	**$255,874,497**	**$237,659,228**
Future Obligations (Years 13 to 17)				–	–	31,037,718
Grand Total				**$335,085,000**	**$255,874,497**	**$268,696,947**

[1] Our life cycle cost analysis assumed that all vehicles would be purchased at the beginning of each fiscal year. Financing payments would be made monthly for a period of 72 months. We used a Consolidated Equipment Financing Program interest rate from the week ending February 11, 2011, of 2.81%, which included an additional 0.25% (2.56% plus 0.25%) interest charge because the financing period was extended an additional 12 months beyond the normal 60-month financing period. Therefore, loans in year two will be paid off in year seven; loans in year three will be paid off in year eight, and so forth.

[2] Vehicle purchase prices were from the state term contract for both a compact ($13,696) and mid-size (($14,290) vehicle.

[3] We used the Environmental Protection Agency combined fuel economy estimates and a $3.143 cost for a gallon of gasoline to estimate fuel costs. The cost for gasoline was the average price per gallon of regular gasoline in Florida for February 21, 2011.

[4] Department of Management Services staff provided salvage value estimates; actual salvage values may vary significantly from estimates depending on factors such as use, maintenance, and demand for vehicles at the end of their life cycles.

Source: OPPAGA analysis.

There are advantages and disadvantages associated with using different funding approaches for vehicle purchases. The three options for funding vehicle replacement that we examined have varying advantages, disadvantages, and fiscal impacts.

Reimbursing employees for personal vehicle use. The primary advantage of reimbursing employees for driving their personal vehicle for official state business is that the state does not have to purchase, buy, fuel, insure, or maintain state-owned vehicles. This option does not require initial cash outlays as compared to outright vehicle purchases. The occasional use of personal vehicles or the use of personal vehicles for relatively short trips at a reimbursement rate of $.445 per mile is also more cost-effective than buying vehicles. However, a major disadvantage is that excessive mileage significantly increases costs. When personal vehicles are used more extensively (higher mileage) for state business, the reimbursement costs are significantly higher than if a state-owned vehicle was used. For example, the state can own and operate compact or mid-size vehicles at an estimated cost of $.29 to $.30 per mile over its useful life compared to the personal mileage reimbursement rate of $.445.

Purchasing vehicles with annual appropriations. The primary advantages of using the lump sum cash purchase approach for buying vehicles is that it is the lowest life-cost option and does not commit future Legislatures to long-term funding. The primary disadvantage is that it requires high upfront cash outlays, which can be particularly problematic when there are revenue shortfalls. Another disadvantage is that lump sum cash purchase approach requires current taxpayers to fund all acquisition costs in advance for vehicles that will be used in subsequent years.

Financing vehicle purchases. The primary advantage of financing purchases is that it does not require a large upfront cash outlay. Agencies can acquire more vehicles without immediately incurring the full cost. In addition, the cash flow more closely aligns to a vehicle's useful life. The primary disadvantage is that the interest paid on the loans increases the total cost of vehicles. Furthermore, financing purchases reduces legislative flexibility in making future funding decisions because the state will be committed to funding payments over the financing term and future cash flow requirements will increase significantly before leveling off.