

Office of Fleet Management's Comprehensive Statewide Fleet Improvement Plan

“Leasing program helps reduce the age of Georgia’s vehicles, lower transportation costs and improve reliability, service delivery, safety, and driver productivity.”



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CNG findings conclude State to use data and develop tools to choose best transportation options.

The Commission for a New Georgia (CNG) recommended the state focus its attention on several management initiatives for greater control over its large and loosely managed fleet operation. The CNG findings conclude the *state should use data to evaluate cost to lease versus purchase, versus cost to maintain owned vehicles*, use data to *develop tools evaluating* whether an approved trip by state employee should be taken using *a state vehicle, an outside rental vehicle, and/or personally-owned vehicle (POV)* and capture data to *make fleet decisions based on the total cost of operation (TCO)*.

The purpose of this white paper is to show findings of the DOAS assessment of current transportation alternatives utilized by agencies and to identify challenges with each solution and present cost savings opportunities related to using the DOAS pilot leasing program.

History

AGENCIES SPENDING MORE THAN NECESSARY FOR TRANSPORTATION

As DOAS embarked on this project, it discovered several agencies using expensive transportation alternatives to reduce costs. Citing existing policy and fiscal constraints preventing them from acquiring owned vehicles, agencies are simply making unwise fiscal decisions based on vehicle procurement limits and historical practices.

State reimbursed 8 people over \$11,000 with one person receiving \$29,535.

OFM found state *agencies* (on PeopleSoft) *spent about \$40 million in mileage reimbursements* and 8 people were reimbursed over \$11,000 with *one person receiving \$29,535 for 50,921 miles driven*.

DOAS found ten agencies spent over \$22.6 million over two years (Figure 1).

10 agencies spent over \$22.6 million in POV reimbursement over two years

POV Reimbursement

Rank	Agency	2008 Actual	2009 Projected	Grand Total
1	Human Resources	\$ 4,326,330.45	\$ 4,066,804.70	\$ 8,393,135.15
2	Education	\$ 1,682,494.59	\$ 1,340,416.74	\$ 3,022,911.33
3	Agriculture	\$ 1,437,966.33	\$ 1,440,976.44	\$ 2,878,942.77
4	DJJ	\$ 1,467,870.04	\$ 1,189,387.64	\$ 2,657,257.68
5	Public Defenders Council	\$ 825,497.50	\$ 505,892.60	\$ 1,331,390.10
6	DECAL	\$ 633,052.08	\$ 599,237.28	\$ 1,232,289.36
7	Revenue	\$ 509,430.53	\$ 618,414.66	\$ 1,127,845.19
8	Finance and Investment	\$ 429,595.19	\$ 237,729.18	\$ 667,324.37
9	Insurance Commission	\$ 368,492.62	\$ 348,497.86	\$ 716,990.48
10	Natural Resources	\$ 380,038.05	\$ 267,797.10	\$ 647,835.15
Totals		\$ 12,060,767.38	\$ 10,615,154.20	\$ 22,675,921.58

Figure 1- Top Agencies spend over \$22.6m over 2 years

Ironically, agencies were choosing daily rentals in an effort to save the higher POV costs. *A cost-effective alternative would be a leased vehicle for about \$5,759 dollars a year*. A complete understanding of the total cost of providing vehicle transportation aids in the selection of the best option. The chart below shows the cost breakdown of transportation options discussed in this white paper.

COMPACT SEDAN	MONTH COST	DAY COST	FIXED CPM	VAR CPM	TOTAL CPM	TOTAL COST YEAR
PURCHASE	\$ 328.00	\$ 16.40	\$ 0.10	0.18	\$ 0.28	\$ 3,936.00
LEASE (PILOT)	\$ 479.94	\$ 24.00	\$ 0.23	0.18	\$ 0.41	\$ 5,759.28
POV	\$ 641.85	\$ 32.09	\$ 0.37	0.18	\$ 0.55	\$ 7,702.20
RENT	\$ 876.00	\$ 43.80	\$ 0.57	0.18	\$ 0.75	\$ 10,512.00

Based on 14,000 miles annually (State Policy to justify vehicles)

Project Challenges

ALLOCATION POLICY HAS UNINTENDED CONSEQUENCE

The vehicle allocation limits set are forcing agencies to engage in unwise business practices costing the state more than necessary to provide transportation. The actual size of the state fleet is unknown because allocations force agencies to:

1. Acquire vehicles and leases surreptitiously (off grid) to avoid detection outside normal policy parameters for higher costs.
2. Unwisely use high cost POV reimbursement and daily rentals as solution to circumvent OPB vehicle allocation limits.
3. Retain vehicles longer than economically prudent incurring catastrophic maintenance failures causing higher direct and indirect costs.
4. Incur higher depreciation expenses due to excessive life cycles leading to hesitancy to dispose vehicles reducing salvage values by 22% in 3 years.
5. Involuntarily increase fleet size by hoarding backups, spare parts units and disrepair vehicles to augment unreliable frontline vehicles.

Vehicle allocation limits forcing agencies to engage in unwise business practices

UNTIMELY VEHICLE REPLACEMENT PROVES COSTLY

Effective fleet replacement begins with the development of a long-term replacement plan. A sound replacement plan not only identifies when types of vehicles should be replaced to minimize life-cycle costs (including indirect costs resulting from vehicle downtime), but provides the basis for selecting a combination of replacement alternatives. *The state's vehicle replacement backlog is nearing \$500 million dollars.*

Agencies keep damaged and broken vehicles hoping for repair dollars.

Average repair costs for ten year old vehicles top \$526 against \$58 month versus using optimal life cycles

The average age of the state fleet tops ten years. As evidenced by **Figure 2** the average repair cost for ten year old vehicles top \$526 versus using optimal life cycles at \$58 a month, *nearly 10-fold increase*. These excessive costs are driven by deteriorating age and condition of the fleet.

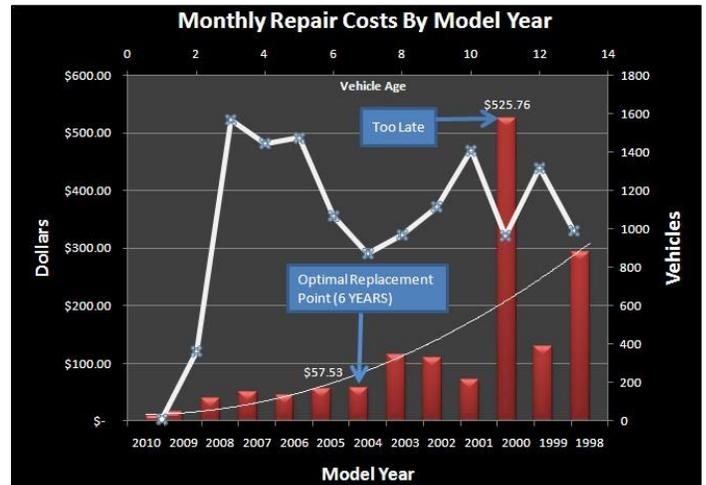


Figure 2- Optimal Life Cycles Reduce Repair Dollars

FLEET GROWS UNCONTROLLABLY WHEN PURCHASE FUNDS SUBSIDE

Historically, the state has not optimally replaced its vehicles. Thus, the state fleet has grown exponentially as agency hoarding behaviors emerged as a consequence to lack of capital funding. In fact, DOAS found agencies were engaging in salvage operations to keep spare parts on hand to repair unreliable vehicles. These behaviors are not surprising since the vehicle age is approaching 11 years and most manufacturers discontinue stocking replacement parts after 10 years.

State fleet grown exponentially as hoarding emerged to lack of capital funding

Simply stated, for the State to realize the financial benefits of a smaller more cost-effective fleet, it must take steps to renew its fleet and dispose its vehicles at optimum intervals.

WHAT IS THE REAL COST OF NOT REPLACING VEHICLES?

There are unintended consequences when timely vehicle replacement does not occur, the least of which is increased repair costs and downtime. Other significant direct and indirect cost factors are illustrated below:

- Increased fleet size.
- Increased administrative expenses.
- Increased parking facility, and shop space requirements.
- Increased insurance and litigation costs.
- Decreased service to state clients
- Decreased employee productivity
- Decreased personal safety of employees.
- Increased POV and daily rental expenses.
- Decreased agency reporting and policy adherence.
- Increased fuel and repair expenses
- Lower salvage proceeds.
- Decreased public perception and image.
- And more...

OWNERSHIP NOT ALWAYS LEAST EXPENSIVE OPTION

A general perception of leaders is vehicle ownership is the most cost-effective solution to operating an effective and efficient fleet. However, this is not always the case with government organizations paying for vehicles with ad hoc appropriations of cash and where untimely replacement occurs.

Most importantly, leaders do not consider that ownership means paying for a vehicle entirely upfront before it operates a single mile. Fleet experts coin this approach as “*pay before you go*” versus “*pay as you go*”. The second (and sometimes more prudent) approach uses a combination of transportation solutions that consist of long term leases, commercial rental vehicles, and POV reimbursements. These alternatives offer several benefits which among them are elimination of ownership’s sunk costs and vehicle entitlement. Additionally, *pay as you go* has cash flow advantages *pay before you go* does not - especially during poor economic times and when capital funding dries up.

“Pay as you go” versus “pay before you go” lowers total cost of operation

QUANTIFYING LOW COST TRANSPORTATION SOLUTIONS

The most common method to determine which transportation solution presents the best option is via an industry metric called, cents-per-mile (*cpm*). Perhaps the best known application of *cpm* is the Internal Revenue Service’s (IRS) annual mileage reimbursement guideline found in Publication 15-B.

IRS rate allows fleet to compare alternatives to determine least expensive options

At present, *the IRS rate is fifty cents (\$0.50) and the standard used by Georgia to reimburse its employees.*

Using the IRS rate as a baseline allows management to compare alternative transportation determining the least expensive solution based on trip duration and total miles traveled. To strike the precise balance between effective and efficient fleet management entities must seek the least *cpm*.

LEASE PROOF OF CONCEPT SAVES BUDGET DOLLARS

OFM studied several transportation alternatives to reduce costs including daily rental, leased, and purchased vehicles based on the business needs and total miles traveled. As a result, DOAS outsourced its aged Capitol Hill motor pool operation in 2007 decreasing ownership costs, increasing reliability and improving productivity. Additionally, DOAS initiated a new pilot “walk away” lease program. This innovative leasing pilot allows state agencies to further lower transportation costs using customized leases to displace excessive costs associated with long-term daily rentals and POV expenses.

The purpose of the pilot program was not to expand existing fleet size - which runs counter to established vehicle allocation caps established by Office of Planning and Budget (OPB) - but rather to introduce a cost-effective transportation alternative lowering fleet size while reducing total expenses.

Pilot lease program cpm range between \$.29 and \$.41 cents.

DJJ PILOT PROVIDES EFFECTIVE SOLUTION ALLOWING:

- Acquisition of newer more suitable vehicles with lower repair costs.
- Reduced cpm versus POV and daily rental rates.
- Cost avoidance of \$1.4 million in four years using other options.
- Reduction in total fleet size to perform its mission.
- Improved worker morale and productivity serving clients.
- Improved fuel economy with newer technology.
- Improved employee safety and reduced liability via innovation.
- Reduced carbon emissions improving air quality and public health.

DJJ REDUCES TRANSPORTATION COSTS WITH LEASES

In November 2009, the Department of Juvenile Justice (DJJ) approached DOAS with internal analysis demonstrating their cost-avoidance technique using daily rental vehicles over paying excessive POV expenses. DJJ agreed to participate in lease pilot program as a *proof of concept* for DOAS to better evaluate its overall effectiveness. This involved relinquishing their long-term daily rental vehicles and replacing them with leased vehicles. The DJJ program consists of customized leases specifically tailored to individual mileage parameters used by employees to perform various services. Lease benefits include:

- Flexible leases with ranges from 11,600 to 35,000 plus miles annually.
- Leases amortized over a three-five year period with monthly costs declining in subsequent years if opted for renewal.
- Total lease *cpm* range between \$.29 and \$.41 cents versus \$.50 POV and \$.75 with daily rentals.

Figure 3 shows overall cost-effectiveness of the DJJ pilot program's success.

Department of Juvenile Justice lowers costs by \$1.4 million using leases vs. daily rentals.

Comparison of DJJ Transportation Options - 4 Years			
	Option 1	Option 2	Option 3
	POV Costs (\$.50)	Daily Rental Costs	Lease Costs
Option Total Costs	\$ 3,154,230.00	\$ 2,442,908.40	\$ 1,727,305.68
Difference		\$ 711,321.60	\$ 715,602.72
Total \$ Avoidance - Option 1 vs. 3			\$1,426,924.32

Figure 3- DJJ Cost Avoidance

LEASING LOWERS TRANSPORTATION COSTS

The average cost-avoidance savings over 60 month period on pilot program versus using traditional alternatives saves \$14,349 and \$18,513 per vehicle respectively compared to daily rental and POV use.

AGENCIES DESIRE TO REDUCE TRANSPORTATION COSTS

Due to the success of the DJJ project, agencies are contacting DOAS to participate in the lease program. DOAS placed agencies on hold until program approval is granted by OPB. The following is analysis for a few agencies desiring to participate on the pilot program:

- Department of Agriculture 58 leases with estimated cost-avoidance of \$1.3 million over 57 months.
- University of West Georgia's vehicle fleet can be reduced by 9% (i.e. 90 to 82 units) in a ten year period with estimated savings of over \$1.1 million dollars.
- Valdosta State University can save an estimated \$92,565 for 5 leased units over 60 month period.
- Department of Public Health's 90 drivers paid POV miles can lease vehicles for estimated cost-avoidance of \$1.4 million over 60 months.

Several other agencies are anxiously waiting to participate in the program to reduce transportation costs.

Department of Public Health's 90 drivers can avoid \$1.4 million over 60 months.