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COMMONWEALTH of VIRGINIA
Department of General Services

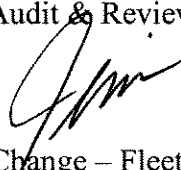
James T. Roberts
Director

November 2, 2005

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MEMORANDUM

TO: Mr. Phillip A. Leone, Director
Joint Legislative Audit & Review Commission

FROM: James T. Roberts 

SUBJECT: Request for Rate Change – Fleet Management

As we have discussed, enclosed please find a rate change request for vehicle mileage internal service fund charges. In summary we are proposing four changes to the current fleet rate structure.

1. Direct pass through of fuel costs to agencies for assigned and trip pool vehicles.
2. Decrease by 38% the operating rate charge through a .035 per mile reduction based on vehicle class.
3. Establishment of a flat capital monthly/daily rental cost based on vehicle class.
4. Introduction of a service fee for new agencies to be serviced by fleet as part of the Phase II fleet re-engineering initiative

We look forward to reporting to the Commission at the proper time. Please do not hesitate to contact me if you have any questions or need further information.

Enclosure

c: The Honorable Sandra D. Bowen



Virginia Department of General Services

Office of Fleet Management Services

Fleet Charge Rates

Executive Summary

In light of the escalating cost of fuel and vehicle repair and replacement costs since the last rate change was enacted (1999) DGS is proposing four changes to the current fleet rate structure.

1. Direct pass through of fuel costs to agencies for assigned and trip pool vehicles.
2. Decrease by 38% the operating rate charge through a .035 per mile reduction based on vehicle class.
3. Establishment of a flat capital monthly/daily rental cost based on vehicle class.
4. Introduction of a service fee for new agencies to be serviced by fleet as part of the Phase II fleet re-engineering initiative

These changes are requested temporarily (FY07 –FY08) until a comprehensive rate structure analysis can be conducted.

Introduction

The Office of Fleet Management Services (OFMS) is the administrative unit within the Department of General Services that manages the centralized fleet. Chapter 11, Title 2.2-1178 of the *Code of Virginia* designates the authority for the purchase, use, storage, maintenance, repair, and disposal of all vehicles within the centralized fleet to the Director of DGS. Executive Order 89 extends this authority to all vehicles owned by the Commonwealth. The mission of OFMS is to provide statewide vehicle management services using current best practices and technology to ensure safe, efficient, operation of vehicles owned by the Commonwealth. The OFMS operates as an internal service fund and receives no general fund appropriations. Its funding is generated from two sources: (1) fees charged to State agencies and institutions for use of fleet vehicles and (2) sale of surplus vehicles. The purpose of this report is to propose temporary changes in fleet's rate structure until a comprehensive study of the rate structure can be undertaken.

Overview

The Department of General Service's Office of Fleet Management is in the midst of a re-engineering effort to improve the safety and cost efficiency of the Commonwealth's fleet system. One component of this system change has been the introduction of a Vehicle Management Control Center which is supported by an off the shelf vehicle management software system called FASTER. JLARC staff was given an overview of the project and a thorough demonstration of the FASTER system in May 2005. A new rate structure was outlined to JLARC staff and DGS was instructed to draft a request for the temporary rate changes for submission to JLARC for review.

Background

The current rate structure is comprised of an operating component determined by vehicle class and a capital component based on vehicle class and utilization. The capital rates defray the costs for vehicle replacement and operating rates are the fund source for fuel, vehicle maintenance, parts and administrative overhead. The current rate structure is based on recommendations made in 1999 by the Virginia Transportation Research Council (VTRC) in their "An Investigation of Rental Rates for Centralized Fleet Vehicles (1999)". In summary, (VTRC) recommended:

- Fleet Management should replace passenger sedans and minivans at 105,000 miles and full size vans at 120,000 miles.
- Fleet Management should request that JLARC change the current rental rates to the rates suggested in the study.
- Fleet Management should reevaluate the rental rates every two years and/or after any significant change in vehicle purchase prices or in the composition of the fleet.

Adoption of their recommendations resulted in the first and last rate change since 1992. The current rates based on the VTRC analysis are provided in Appendix A. General fund transfers of fleet balances is provided in Appendix B

Fuel Pass Through

The current rate system has fuel costs imbedded in the operating rates. In 1999, the price of fuel ranged from 0.98 to 1.02 per gallon range. Current rates have fluctuated as much as .25 per gallon within a week. For FY07 \$3,419,528 has been budgeted for fuel, an increase of \$930,300 or 37% increase over actual FY05 fuel expenditures (\$2,489,258). Given the importance of fuel conservation and to aid agencies in tracking their fuel costs, the proposed rate structure will strip the fuel costs out of the operating rate charged to agencies and pass the fuel costs directly on to the agencies through monthly billing.

Capital Rate

The capital component of the rate structure and proceeds from vehicles sold at auction comprise the funding source for vehicle replacement. The Commonwealth's vehicle fleet currently consists of 3,705 vehicles. In FY05 493 new vehicles were purchased at a cost of \$6,416,190 (average cost per vehicle = \$13,015) and 458 were sold at auction for a total of \$497,083 in revenue. The VTRC study recommended replacement of vehicles at 105,000 miles for sedans and minivans, 120,000 miles for large vans. **There are currently 481 vehicles in fleet with over 105,000 miles and a waiting list for 98 vehicles to be assigned to agencies.**

The current capital rates are based on the 1999 vehicle costs and are weighed by utilization rates (see Appendix). From 1999 to present, the Consumer Price Index for vehicle purchases has increased 4.1%. The proposed rate structure institutes a flat monthly charge for agency assigned vehicles and a pro-rated daily charge for trip pool vehicles which reflect the 4.1% increase.

Vehicle Class	Old Capital Monthly Rate	New Capital Monthly Rate	Old Capital Daily Rate	New Capital Daily Rate
Compact	\$150 + .12 per mile	\$172	\$7.20 per day	\$8.18 per day
Mid-Size Sedan	\$175 + .14 per mile	\$198	\$8.40 per day	\$9.45 per day
Full Sedan*	\$212 + .17 per mile	\$237	\$10.20 per day	\$11.28 per day
SUV	\$200 + .19 per mile	\$222	\$9.60	\$10.58 per day

* Includes Large Sedans and Min-Vans

Based on FY05 mile and vehicle assignment rates the estimated the total Fleet Capital Revenue (Assigned Vehicle Monthly Capital plus the Daily Capital Fee for Trip Pool Vehicles) will total \$8,563,733. This represents an increase of \$372,114 over FY05 and will allow DGS to purchase additional vehicles in an effort to meet demand.

Operating Rate

The operational rate has historically covered the costs for fuel, vehicle repair, parts and OFMS overhead. To offset the direct pass through of fuel costs to the agencies, the operating rate charged for assigned and pool vehicles will decrease by .035 per vehicle class. This will result in a 39% reduction in the revenue generated from operating costs but through improved efficiencies will provide fleet the revenue needed to cover the total cost of vehicle repair, parts and overhead.

Assigned Vehicle Operating Rates			
	Current Operating Rate (per mile)	New Operating Rate (per mile)	New Operating Revenue (Based on FY05 Mileage)
Compact	.07	.035	\$ 886,273
Mid-Size	.08	.045	\$ 316,526
Full Size	.09	.055	\$ 618,984
SUV	.19	.155	\$ 508,786
Total			\$2,330,569
Trip Pool Vehicle Operating Rates			
	# In Pool	New Operating Rate (per mile)	New Operating Revenue (Based on FY05 Mileage)
Compact	.07	.035	\$62,895
Mid-Size	.08	.045	\$24,472
Full Size	.09	.055	\$ 0
SUV	.19	.155	\$ 3,665
Total			\$91,302

Based on the VDOT data system, the FY05 maintenance costs were \$1,373,528, and parts equaled \$191,247 totaling \$1,564,775. FY06 costs for maintenance is estimated to be \$1,037,008, parts \$194,671 and the contract to run the new call center \$536,318 totaling \$1,767,997. With the implementation of the automated FASTER system DGS will be able to provide accurate real time expenditure and revenue data.

Service Fee

Over the last eighteen months DGS has been developing and implementing a re-engineering plan for the management of fleet in a manner consistent with the recommendations made in JLARC's 2004 "Review of the State's Passenger Vehicle Fleet" report. The re-engineering of fleet is designed in two phases: Phase I involved implementing call center and Phase II will offer the other state agencies and localities the opportunity to be served by the Vehicle Maintenance Call Center.

Highlights of the re-engineering efforts to date are as follows:

- January 2005, OFMS solicited through the *RFP* process a vehicle maintenance and management services to include a call center and fleet management system.
- Installation of the FASTER system, an off-the-shelf fleet management system designed and tested for government fleet management.
- Implementation of a Vehicle Management Control Center through contract with TECOM which functions as a call center, managing the scheduled and unscheduled maintenance, breakdowns and accidents of centralized fleet owned vehicles 24 hours a day, 7 days a week, 365 days a year.

State agencies and localities have expressed an interest in being serviced by fleet's new system. Fleet's services will provide agencies access to a single point of contact to handle their maintenance, accident repair and emergency service needs 24/7. Agencies will receive one

monthly bill which will also include maintenance or part charges which have occurred. Agencies will also have the capacity to request customized fleet management reports. It is anticipated that DGS will be able to offer these services to state agencies and localities in FY07.

In servicing additional vehicles it will be necessary to increase the call center's staffing levels to insure adequate coverage. In addition to the fixed costs of expanded customer volume there are variable costs dependant upon the type of assistance offered, however for ease of administration a fixed monthly charge based on the number of vehicles served will be charged to agencies and localities based on volume of vehicles served. The rates are based on the industry standards for vehicle maintenance and management services.

Proposed Service Fee for Vehicle Management	
Number of Vehicles Served	
1-25	\$5.00 per vehicle per month
26-100	\$3.50 per vehicle per month
100+	\$2.00 per vehicle per month

Comprehensive Rate Study

With a new fleet management system in its early stages of implementation, it is not practicable to conduct the type of analysis necessary for a more extensive rate study; however DGS will perform this task in FY07 based on the new data being collected through the FASTER system.

Appendix
Current Fleet Rate Structure

1999 Fleet Rate Structure

COMPACT SEDANS		
	Monthly (Permanent)	Daily (Trip Pool)
	1,250 miles or more per <i>month</i>	1,250 miles or more per <i>day</i>
Capital	\$0.12 per mile	\$0.12 per mile
Operating	\$0.07 per mile	\$0.07 per mile
Total	\$0.19 per mile	\$0.19 per mile
	Less than 1,250 miles per <i>month</i>	Less than 1,250 miles per <i>day</i>
Capital	\$150.00 per month	\$7.20 per day
Operating	\$0.07 per mile	\$0.07 per mile
MIDSIZE SEDANS		
	Monthly (Permanent)	Daily (Trip Pool)
	1,250 miles or more per <i>month</i>	1,250 miles or more per <i>day</i>
Capital	\$0.14 per mile	\$0.14 per mile
Operating	\$0.08 per mile	\$0.08 per mile
Total	\$0.22 per mile	\$0.22 per mile
	Less than 1,250 miles per <i>month</i>	Less than 1,250 miles per <i>day</i>
Capital	\$175.00 per month	\$8.40 per day
Operating	\$0.08 per mile	\$0.08 per mile
UPPER MID-SIZE SEDANS, FULL SIZE SEDANS MINIVANS		
	Monthly (Permanent)	Daily (Trip Pool)
	1,250 miles or more per <i>month</i>	1,250 miles or more per <i>day</i>
Capital	\$0.17 per mile	\$0.17 per mile
Operating	\$0.09 per mile	\$0.09 per mile
Total	\$0.26 per mile	\$0.26 per mile
	Less than 1,250 miles per <i>month</i>	Less than 1,250 miles per <i>day</i>
Capital	\$212.00 per month	\$10.20 per day
Operating	\$0.09 per mile	\$0.09 per mile
FULL SIZED VANS		
	Monthly (Permanent)	Daily (Trip Pool)
	1,250 miles or more per <i>month</i>	1,250 miles or more per <i>day</i>
Capital	\$0.16 per mile	\$0.16 per mile
Operating	\$0.19 per mile	\$0.19 per mile
Total	\$0.35 per mile	\$0.35 per mile
	Less than 1,250 miles per <i>month</i>	Less than 1,250 miles per <i>day</i>
Capital	\$200.00 per month	\$9.60 per day
Operating	\$0.19 per mile	\$0.19 per mile

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Appendix B
General Fund Transfers from Fleet

Fiscal Year	Amount Transferred
2001	\$0
2002	\$0
2003	\$6,665,000
2004	\$2,250,000
2005	\$1,000,000
2006	\$500,000

New Rate Structure For Assigned

	# Assigned	% Assigned	FY05 Assigned Miles	Capital Rate (4.1% increase)	Capital Rates(4.1%) x # Cars	New Capital Rates X Miles	Combined New Capital Rate Revue	New Monthly Capital Rate	New Operating Rate	New Operating Revenue
Compact	2013	0.54	25,322,081	164 \$	3,961,584 \$	188,080 \$	4,149,664 \$	172	0.035	886,273 \$
Mid-Size	593	0.15	7,033,911	190 \$	1,352,040 \$	60,454 \$	1,412,494 \$	198	0.045	316,526 \$
Full Size	926	0.24	11,254,258	229 \$	2,544,648 \$	87,323 \$	2,631,971 \$	237	0.055	618,984 \$
SUV	27	0.07	3,282,492	215 \$	69,660 \$	2,351 \$	72,011 \$	222	0.155	508,786 \$
	3559	1.000	46,892,743	\$	7,927,932 \$	338,208 \$	8,266,140 \$			2,330,569 \$

Assigned miles 46,892,743

Pool miles 2,364,478

New Rate Structure For Pool Vehicles

	# Pool	% Pool	FY05 Pool Miles	Daily Rental Rates	Annual Rental Revenue	Operating Rate- (03 decrease)	New Pool Operating Revenue
Compact	111	0.76	1797003	8.18	217,923 \$	0.035	62,895 \$
Mid-Size	34	0.23	543830	9.45	77,130 \$	0.045	24,472 \$
Full Size	0	0	0	11.28	\$ -	0.055	\$ -
SUV	1	0.01	23645	10.58	2,540 \$	0.155	3,665 \$
	146	100	2364478		297,593 \$		91,032 \$

	Operating Revenue	Capital Revenue
Current	\$ 4,020,687	\$ 8,191,619
New	\$ 2,421,602	\$ 8,563,733
	\$ (1,352,799)	\$ 372,114

	FY06 Maintenance	FY06 Parts	Tecom	FY07 Fuel	Est. Gallons
	1037008	194671	536318	1767997	
				3,419,528	
					1,970,289



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MEMORANDUM

TO: Mr. Phillip A. Leone, Director
Joint Legislative Audit & Review Commission

FROM: James T. Roberts 

SUBJECT: Request for Rate Change – Fleet Management

I understand JLARC staff has finished review of our proposed rate change request involving Fleet Vehicles. We have reviewed your staff calculations and methodology and do not find any material difference in your approach and ours. Each approach assures that the operating rates will actually meet operating expense. We therefore support the JLARC staff recommendation, and hope you will communicate same to the members of the Commission.

c: The Honorable Sandra D. Bowen