State Fleet Right Sizing Case Study

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Following deep spending cuts enacted over the last two years states continue to face large budget shortfalls. In fiscal years 2009 and 2010, 48 states addressed large shortfalls and at least 46 states struggled to close gaps when adopting budgets for the current fiscal year (2011).

Facing the steepest drop in tax revenues since the Great Depression of the 1930s, states are cutting 2011 fiscal year budgets by as much as 19 percent in some cases, a number many expect will grow. In addition, 39 states are projecting gaps in fiscal year 2012.

While increased taxes and federal stimulus money have closed some of the state budget gaps, shortfalls must also be addressed with spending cuts. Budget difficulties have led at least 45 states to reduce services and additional drops in spending are highly likely.

State fleet operations are not immune to budgetary pressures that state governments are facing. Fleet managers at these operations, in turn, are closely addressing the need to “right size” fleets by reviewing and changing vehicle acquisition strategies, and evaluating trade cycles and factors that impact purchasing programs.

For FleetAnswers, four state fleet managers address how they are working to field fleets that meet operational needs within budgetary constraints.

Oklahoma Department of Central Services

“We’ve adjusted our vehicle replacement methodology to provide the right number and type of vehicles to agencies, which enables them to perform their missions,” says Clay Chandler, State Fleet Manager at Oklahoma Department of Central Services. “Our replacement program evaluates each vehicle by employing a range of selection criteria and using assigned weighting factors.”

Selection criteria in the Oklahoma fleet operation includes vehicle life-to-date maintenance expenditures, age, accrued mileage, projected fleet revenues and expenditures, mission analysis and potential vehicle downsizing, availability on the statewide automobile contract, alternative fuel vehicle replacement targets, and state and federal statutory and regulatory requirements.

“Our goals of replacing 20 percent of the fleet annually while fielding the right number and type of vehicles are being met through the use of flexible fleet replacement options,” Chandler continues. “Centralized control of the fleet also allows us to move vehicles between agencies to accommodate changes in mission and utilization requirements, such as seasonal needs and event-driven activities. We’re also creating a contract for a niche program that addresses vehicle utilization. Under that initiative, vehicles can be fielded in geographically dispersed locations to allow agencies to make data-driven decisions on utilization requirements.”

Oklahoma’s Department of Central Services is also working creating a long-term lease contract, and is increasing the use of remarketed vehicles to curb mileage reimbursement to state employees. “Our fleet rate structure provides for incremental decreases in vehicle lease rates that parallel depreciated value,” Chandler explains, “but allow for capital reinvestment when a vehicle is taken out of service. During lean years, remarketed vehicles and closed end long-term lease vehicles receive priority over the purchase of new fleet vehicles. The only exception is for police interceptors, which are purchased new.”

Current replacement strategies for the Oklahoma fleet include trade cycles of five years/90,000 miles for sedans and seven years/120,000 miles for pickups (whichever occurs last). New state-owned vehicles are purchased based on a five-year commitment, remarketed vehicles are on a three-year plan and a one-year commitment has been set for closed end long-term lease vehicles. In total, the fleet has increased its use of remarketed vehicles, increasing buying potential by 50 percent over comparably equipped new vehicles during the current fiscal year.

“Our right sizing decisions are also affected by the timing of model years, and by delivery timeliness by vendors,” Chandler relates. “Those factors also impact our decommissioning schedules. Oklahoma statute requires all state property be processed through our State Surplus office, but agencies receive 90 percent of the surplus revenue for decommissioned vehicles and equipment.”

For the 1,100 vehicles in the Oklahoma fleet, these initiatives have already yielded savings. For example, Chandler reports, the annual average cost of ownership, including capital, maintenance, fuel, insurance and administrative services, has dropped from $485 in fiscal year 2010 to a projected $465 in 2011.

“There are several reasons for that decrease,” Chandler says. “One is the value of leveraging the use of remarketed and long-term lease vehicles. For example, the cost of ownership for remarketed vehicles is 37 cents per mile compared to mileage reimbursement of 50 cents per mile. Overall as well, the estimated savings to the state annually from vehicle leasing is $1.5 million.

“Additionally,” Chandler continues, “all 1,100 vehicles in our state-owned monthly lease and daily rental fleets are equipped with Automatic Vehicle Location systems, which has created a significant decrease in miles driven, fuel consumed and reduction in maintenance required. In fiscal year 2008 the fleet ran 15 million miles. In 2009 the total was 14 million miles and in 2010 it was just 9.3 million miles. Based on a price of $2.40 per gallon and average annual performance of 20 MPG, the fuel savings alone in 2010 was $684,000 compared to the 2008 baseline and $564,000 compared to fiscal year 2009.

“Although these two fleet segments are internal service funds with a $7 million annual budget,” Chandler concludes, “our customers are not. They rely on appropriated funds, which are affected primarily by state revenue. Using a balanced approach to right sizing, based on agency mission and revenue projections, has provided the state with a modest fleet cash reserve, so we have not had to finance vehicle purchases and we've consistently exceeded our replacement methodology goals annually."

State of North Carolina Motor Fleet Management Division

“Due to budget constraints,” says Ron Allison, Fleet Service Manager/Deputy Director at the State of North Carolina, Motor Fleet Management Division, “we only ordered 98 vehicles in 2009 and 2010. Most recent purchases were mainly for law enforcement operations. Vehicle purchases will be curbed until all agencies have evaluated their mileage usage over a minimum six-month period.”

North Carolina’s Motor Fleet Management Division is the state’s leasing agent, supplying passenger vehicles to all agencies. At present, the fleet of 8,298 vehicles includes sedans, station wagons, SUVs, minivans and cargo vans, and law enforcement units.

“This year,” Allison explains, “every state agency has designated one person to serve as a vehicle coordinator. They are tasked with monitoring their agency’s vehicle usage, evaluating whether all units are being used correctly and looking for ways vehicles could be shared within their agency to reduce the number of pieces of assigned equipment.

“Another goal is to achieve the state’s mileage requirements of having the majority of our vehicles driven 3,150 miles per quarter,” Allison adds. “As a result, we are expecting vehicles to be returned from some agencies and reassigned to operations that can use them to achieve the mileage objective.”

Under normal established operating conditions the State of North Carolina, Motor Fleet Management Division trades out vehicles after 90,000 to 110,000 miles of service. Some law enforcement units that incur heavy usage are replaced after 75,000 miles. The state disposes of most of the equipment through its Surplus Division, selling the vehicles to the highest bidder.

All new vehicle purchases for North Carolina state agencies are purchased by the Motor Fleet Management Division off contracts that have been awarded to suppliers by Contract Division. Considerations include fuel economy, with purchases made only for vehicles that are rated in the top 15 percent of the MPG scale for their particular class.

“Budget restrictions are playing a large role in our fleet purchasing decisions,” Allison concludes. “We are supported only by funds that we receive from state agencies, not from the General Fund, so budget concerns impact the fleet and determine which vehicles we buy and how many will be purchased.”

Mississippi Department of Finance and Administration/Bureau of Fleet Management

“Agency budgets and types of vehicles on state contract impact our purchasing programs,” says Wayne Cranford, Director, Bureau of Fleet Management for the State of Mississippi. “Budgetary pressures we are facing are affecting our vehicle acquisition programs. Today, for example, we are eliminating large vehicles from the state contract. Our goal is to replace large vehicles with smaller, more fuel efficient models.”

The State of Mississippi fleet includes 7,521 vehicles. Nearly two thirds of those are classified as trucks. The next largest group, at 20 percent of the fleet, consists of sedans, another 12 percent are vans and the balance is SUVs and buses.

Vehicles in the Mississippi fleet are replaced when they reach established disposal criteria based on age or mileage. In general, sedans, SUVs, light trucks (8,600 lbs GVWR or below), passenger and cargo vans are operated for six years/120,000 miles before replacement.

Most vehicles taken out of service in the State of Mississippi fleet are sold in state approved dealer auctions. At times, some agencies hire an auctioneer to sell used vehicles and equipment on site at their locations. Other ways vehicles are disposed of in the operation are by bid, and some are sold through Mississippi Surplus Property.

The Bureau of Fleet Management meets with vendors at different times during the year. “Our suppliers keep us aware of new products that are available or will be in the next bid year,” Cranford says. “They also help us by encouraging agencies to buy more fuel efficient vehicles and purchase only units that meet their needs and fulfill their job requirements.”

For new vehicle and equipment purchases, the State of Mississippi has four agencies that use a Master Lease. “This is a small percentage of our total purchases,” Cranford concludes. “All other agencies purchase vehicles and equipment with money appropriated by the state legislature. Agency budgets that are approved by the legislature each year play a vital part in our vehicle and equipment purchases each year.”

Oregon Department of Transportation Fleet Services

"We're doing a number of things to address budgetary pressures," says Bruce Erickson, Fleet Services Manager, Oregon Department of Transportation (ODOT). "Among them are fostering increased awareness of utilization, equipment sharing and downsizing where possible. In some cases, we're also extending replacement criteria, purchasing used vehicles in lieu of new equipment and we're researching extended leases as a vehicle sourcing alternative."

In the ODOT fleet are 5,500 units. Of those, 3,500 are powered and have either tires or tracks. Light-duty vehicle types include about 1,100 sedans, station wagons, vans and minivans, and a variety of pickup and utility trucks. There are also heavier duty pickups and medium-and heavy-duty trucks outfitted for a range of applications as well as wheeled and powered equipment such graders, rollers, loaders and sweepers. The balance includes about 2,000 units classified as attachments, such as snowplows, sanders, de-icers, buckets and forks.

Replacement standards for the ODOT fleet are tracked closely for each class of vehicle. Established are age and usage standards. For example, light-duty units such as sedans, pickups and vans might have a set trade cycle of eight years/130,000 miles, while medium-duty diesel trucks could have an expected service life of 12 years/230,000 miles. Data tracked includes the number and percentage of units past the established standard, the number of units deemed to be in “very poor” condition, and the estimated replacement cost per vehicle.

Used vehicles and equipment in the ODOT fleet are mostly disposed of on eBay by the state’s Department of Administrative Services, Erickson reports. Meanwhile, ODOT is now considering reinstating a buy back option in its supplier contracts, an approach the operation has used in the past.

“We are also discussing whether extended leases are a cost effective approach to acquiring vehicles for the state fleet,” Erickson says. “We are currently purchasing mostly all new units but we have to consider customer needs, allocation budget, including the escalating cost of materials, new emissions standards, the availability of specialized equipment and timing of delivery.

“When we account for all of those factors and others,” Erickson concludes, “we are putting ourselves in a position to make the best long term decisions.”

MEETING NEEDS

As these state fleet managers have shown, addressing budget shortfalls is now part of developing and implementing acquisition plans. With additional spending and service cuts likely, setting effective goals for fielding the right number and types of vehicles and equipment is a challenge that all state fleet managers must now face.