

EFFICIENCY

Smart Lease Vehicle Program

Office of Administration, Department of Health and Senior Services, Department of Elementary and Secondary Education, Department of Corrections, Department of Social Services

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Each day, state agencies must use vehicles to transport employees and clients throughout Missouri. Agencies primarily use state-owned vehicles for transportation; however, personally owned vehicles are often utilized due to necessity or preference. The state's mileage reimbursement rate, tied to the federal rate, has increased sharply over the past few years, rising 36% since Fiscal Year 2003. Despite efforts to control travel, mileage reimbursement expenditures continued to rise and would have increased by one-third or over \$4.5 million in just four years without this team's intervention.

The Smart Lease Vehicle Program team developed an innovative approach to address annual increases in state mileage reimbursement expenditures. Data compiled through the Fleet Information System confirmed that the cost to operate a state vehicle per mile was considerably less than paying mileage reimbursement, and the difference was widening each year. In one example, a state employee was being reimbursed over \$19,000 per year when providing a state vehicle would have cost just \$9,500. Clearly, the state could save considerable money by placing certain employees in state vehicles.

Unfortunately, the state fleet is aging and funds had not been available to sufficiently replace existing vehicles, much less expand the fleet for this initiative. The team explored options, reviewed best practices, and developed a plan to implement a transition to more cost effective travel. Key to this program was finding a way to finance the purchase of the necessary vehicles. The team developed and implemented a new master lease program that cuts the financing costs of equipment more than 50% from prior lease-purchase programs.

Smart Lease has saved over 43% in travel costs by replacing business miles paid through mileage reimbursement with state vehicles. This team established two new innovative cost saving programs in state government through considerable research, advocacy and significant effort.

For additional information on this team's accomplishment please contact Mark S. Kaiser at 573-751-4656 or at Mark.S.Kaiser@oa.mo.gov.



State of Missouri
2007 Governor's Award for Quality and Productivity

NOMINATION FORM

I. GENERAL INFORMATION

Department:

1. Project or team name.

Smart Lease Vehicle Program

2. List the name of all team members, job titles and organization.

Mark S. Kaiser, Director, Office of Administration, Division of General Services
Cynthia Dixon, State Fleet Manager, Office of Administration, Division of General Services
Karen Harms, Assistant Director, Office of Administration, Division of Accounting
Mark A. Kaiser, Assistant Director, Office of Administration, Division of Accounting
Gary Eggen, Manager, Office of Administration, Division of Purchasing
Larry Burkhardt, Section Leader, Office of Administration, Division of Facilities Management, Design & Construction
Kevin Kolb, Fleet Manager, Department of Health & Senior Services
Bret Fischer, Director of Administration, Department of Health and Senior Services, Division of Administration
Debbie Klindt, Assistant Bureau Chief, Department of Health & Senior Services
Trudie Fletcher, Executive I, Department of Health & Senior Services
Rich Villmer, Assistant Director of Budget, Department of Elementary & Secondary Education, Division of Administrative and Financial Services
Janet Fitzwater, Administrative Assistant II, Department of Elementary & Secondary Education, Division of Administrative and Financial Services
Mandie Morris, Fleet Manager, Department of Corrections
Joan Hays, Administrative Coordinator, Department of Corrections, Division of Probation & Parole
Theresa McDonald, Deputy Director, Department of Social Services, Division of Budget & Finance
Iva McDaniel, Fleet Manager, Department of Social Services, Division of General Services
Thelma Gilpin, Fiscal & Administrative Manager, Department of Social Services, Division of Youth Services
Nancy Forbis-Bonnot, Budget Analyst III, Department of Social Services, Family Support Division
Elizabeth Kemple, Auditor II, Department of Social Services, Childrens Division

3. Nomination category.

(Check *only one*)

- | | |
|--|---|
| <input type="checkbox"/> INNOVATION | <input type="checkbox"/> CUSTOMER SERVICE |
| <input type="checkbox"/> PROCESS IMPROVEMENT | <input type="checkbox"/> TECHNOLOGY IN GOVERNMENT |
| <input checked="" type="checkbox"/> EFFICIENCY | |

4. Why did you select this nomination category?

The Smart Lease Vehicle Program (SLVP) will reduce mileage reimbursement expenditures by more than 43% and result in annual ongoing savings of more than \$660,000. Although this project could be nominated for either efficiency or innovation, the SLVP demonstrates a new and efficient solution for reducing the state's ever-increasing business travel costs. The SLVP allows agencies to transfer employee business

miles from high cost personal mileage reimbursement to much lower cost state vehicles. State agencies did not have the funds to purchase new vehicles; therefore, the team first had to identify and implement a new, cost effective financing strategy to purchase vehicles for business travel.

The State of Missouri has been in the forefront and extremely proactive in addressing escalating mileage reimbursement costs, while other states are just now beginning to recognize and explore ways to address this issue. The Smart Lease Vehicle Program will be featured in an upcoming fleet industry publication and at the 2007 National Conference of State Fleet Administrators where a representative from the premier fleet consulting firm in the nation will discuss methods to reduce mileage reimbursement expenditures and present the State of Missouri's SLVP as a novel approach for reducing reimbursement expenditures.

II. BACKGROUND

1. When did the team begin?

January 2005

2. When did the team implement this project?

February 2007

3. How long has the project been implemented?

☐ 0 - 3 Months

☒ 4 - 6 Months

☐ 7 - 9 Months

☐ 10 - 12 Months

☐ 12 or more

☐ On-going Project

III. RESULTS/ACCOMPLISHMENT

1. What did the team accomplish? (Use specific data and examples to identify accomplishments and whom benefited: i.e. agency, division, department, citizens, individuals, etc. Information must be included for nomination to be considered for GAQP.)

Over 3.2 million business miles were transferred from high cost mileage reimbursement to low cost lease purchased vehicles through the Smart Lease Vehicle Program, generating savings of 19.7 cents per mile which is a 43% reduction in mileage reimbursement expenses. Additionally, state employees benefit from this program because they no longer incur huge out of pocket expenses and excess wear and tear on their personal vehicles.

Background Information

The State of Missouri is already well ahead of other states in managing business travel expenditures due to numerous other cost reduction efforts spearheaded by the State Fleet Management Program, such as development and utilization of the Trip Optimizer travel cost estimating tool, promoting use of rental vehicles, reallocation of existing fleet vehicle resources and implementation of the State Vehicular Travel Policy.

By gathering data from the State Fleet Information System, SAM II and the state's rental services contractor, the team was able to see the overall "big picture" and was astonished to find that state employees travel over 190 million miles on official state business each year. As illustrated, business travel options are state vehicles, rental vehicles or personal mileage reimbursement which accounted for 20% of all the state's vehicular travel.

Travel Option	Business Miles Driven (in millions)			
	FY 03	FY 04	FY 05	FY 06
State Vehicles	145.3	149.4	149.	151
Rental Vehicles			1.0	1.6
Mileage Reimbursement	43.3	40.9	43.7	37.8
TOTAL	188.6	190.3	194.4	190.4

An employee with Department of Social Services, Children's Division touts the benefits of SLVP:

"Children's Service workers are faced with a profession of emotional work. The last thing they need to worry about is their personal vehicle breaking down in the middle of a rural highway on the way to a child abuse/neglect investigation or when transporting children....the Smart Lease vehicles provide safe, reliable means of transportation for themselves and children and families they may transport. Before the Smart Lease vehicles, employees covering large multi-county regions had huge out-of-pocket expense with rising gas prices and the wear and tear on their personal vehicles....The Smart Lease vehicles lend credibility to their jobs by offering a professional aspect portrayed to the families of the State of Missouri in their official state vehicles..."

Nancy Forbis-Bonnot
Budget Analyst III
DSS/Children's Division

Several state agencies have already realized additional benefits through the Smart Lease Vehicle Program:

- ☐ The Department of Social Services had numerous employees incurring excessive amounts of mileage reimbursement which historically exceeded \$5 million annually. Caseworkers were making home visits and transporting clients in their personal vehicles. DSS simply did not have sufficient fleet vehicle resources to meet their considerable business travel needs. DSS fully embraced the Smart Lease Vehicle Program, acquired 120 new Smart Lease vehicles, transferred approximately 1.5 million business miles to the new vehicles, and as a result is saving approximately \$319,000 annually.
- ☐ An IT professional providing regional support for the Department of Health and Senior Services traveled over 46,000 miles annually in his personal vehicle. Through the Smart Lease Vehicle Program, the Office of Administration now provides a vehicle to accommodate his business travel needs and is saving over \$9,600 annually, just for this one employee, compared to mileage reimbursement expenses.
- ☐ The Department of Corrections, Division of Probation and Parole will save almost \$85,000 annually by acquiring twenty vehicles through the Smart Lease program. These vehicles were distributed statewide to various probation and parole office vehicle pools with the highest historical mileage reimbursement expenditures.
- ☐ The Department of Elementary & Secondary Education identified sixteen employees with excess mileage reimbursement and will save over \$63,000 annually by utilizing Smart Lease to acquire and assign sixteen vehicles to those employees.
- ☐ The Department of Health & Senior Services identified the need for eighteen vehicles to offset high mileage reimbursement and will save in excess of \$77,300 annually through the SLVP.

To date, the Smart Lease Vehicle Program has been an unquestionable success, transferring millions of annual business miles traveled by all state employees to new state vehicles purchased through the Master Lease Services contract and annually saving hundreds of thousand of taxpayer dollars.

4. Which of the following describes the benefits of the accomplishment? (Check all that apply and provide an explanation)

- | | |
|--|--|
| <input checked="" type="checkbox"/> cost reduction | <input type="checkbox"/> time savings |
| <input checked="" type="checkbox"/> improved process | <input type="checkbox"/> other: describe |

III. RESULTS/ACCOMPLISHMENT (continued)

5. Explain how the accomplishments of the team are beyond regular duties and responsibilities (150 words or less).

The team was determined to reduce mileage reimbursement expenditures and remained committed over a two year period to bring the Smart Lease Vehicle Program to fruition. This program was a new concept that was

brainstormed by team members from OA/General Services and to the best of our knowledge; no other states have addressed excessive mileage reimbursement expenditures in this fashion. The team members had to develop a new financing mechanism for the State of Missouri before the Smart Lease Vehicle Program could go forward. Additionally, team members advocated strongly for additions to the state fleet at a time when all vehicle purchases were and continue to be under a great deal of scrutiny.

IV. MEASUREMENT/EVALUATION

1. Explain how the team measured and evaluated this project (Describe in detail the process and results).

The savings measurement for the Smart Lease Vehicle Program is simply the difference between what it would have cost state agencies to continue paying mileage reimbursement and what it is now costing them to pay the expenses of a Smart Lease vehicle. Ongoing annual savings of over \$660,000 have been identified.

To date, over 3.2 million business miles were transferred through this program at a savings of 19.7 to 21.7 cents per mile (depending on the type of vehicle).

Additionally, the State of Missouri will derive significant savings from the new Master Lease contract that substantially lowers interest expenses on lease purchase equipment. In 2005, agencies' outstanding lease obligations were on average approximately 8%. At the end of May 2007, Smart Lease financing was at 3.66%, which is a significant reduction from the 8% agencies previously paid for lease purchase financings.

2. Are the benefits derived from this project: (Check only one.)

☒ Recurring ☐ One-time

3. Please explain in 300 to 500 words.

Savings through the Smart Lease Vehicle Program are ongoing. As agencies continue to utilize vehicles acquired through the program, their savings continue to grow because they are able to avoid high cost mileage reimbursement expenses for every year that they utilize the vehicle(s). Further, savings are expected to increase as mileage reimbursement rates rise much faster than the state's cost to own and operate its vehicle fleet.

At the end of the vehicle's lease term, savings are even more substantial if the agency continues to utilize the vehicle to offset mileage reimbursement expenditures as they will no longer make lease payments and are only responsible for fuel and maintenance expenditures.

The following illustration demonstrates the savings with the Smart Lease Vehicle Program for one employee that was previously reimbursed for 20,000 miles annually. Savings for this employee is \$3,940 annually but total cumulative savings after year six will be \$26,500.

Year	Annual Savings	Cumulative Savings
1	\$3,940	\$3,940
2	\$3,940	\$7,880
3	\$3,940	\$11,820
4	\$3,940	\$15,760
5	\$3,940	\$19,700
6	\$6,800	\$26,500

The team found the State of Missouri had spent a staggering \$13.5 to \$15.1 million annually on employee mileage reimbursement alone between FY 03 and FY 05. Mileage reimbursement rates have increased more than 36% since FY 03 and even more dramatically in the past three fiscal years with an average annual increase of 10%. The state mileage reimbursement rate is tied to the federal rate which increases each year, and these annual increases were adversely impacting agency operating budgets. One agency, the Department of Social Services, incurred over \$5 million in mileage reimbursement expenditures annually which was approximately one third of the state's total business travel expenditures.

In-state & Out-state Mileage Reimbursement Data (State Employees Only)							
	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08
Reimbursement Rate	\$0.315	\$0.335	\$0.330	\$0.345	\$0.375	\$0.415	\$0.455
Expenditures (millions)	\$14.8	\$14.4	\$13.5	\$15.1	\$14.2	\$14.0	
Miles Reimbursed (millions)	47.1	43.0	40.9	43.7	37.8	33.8	

During FY 03 to FY 06, the state's cost to own and operate a sedan was between 19.2 cents and 22.5 cents per mile. While the state's cost to own and operate a sedan in the state fleet was increasing, the cost only rose 17% compared to the 36% increase in mileage reimbursement costs for the same period. The team concurred that changes must be made in the way employees conducted official state business to manage the escalating mileage reimbursement expenditures.

Research

It was obvious that state vehicles were, by far, the lowest cost travel option, but state agencies did not have funds to purchase vehicles. The team researched the pros and cons of leasing vehicles as an alternative to mileage reimbursement. Conventional leases were explored and determined to be a high cost option at \$.037 per mile and were also unattractive because annual mileage limitations and excess wear and tear provisions which would have exposed the state to a myriad of unexpected charges. A tax-exempt lease, however, is a financing mechanism available to government entities that allows for the lease-purchase of vehicles or other equipment at low tax-exempt interest rates, currently around 3.5%.

The State of Missouri had historically not embraced tax-exempt financing for lease-purchasing equipment or vehicles. Until the team's intervention, the state individually financed equipment purchases at rates averaging nearly 8% according to a survey of agency lease obligations conducted by the team in 2005. Under this decentralized approach, equipment vendors sought out third party finance companies to provide financing at rates much higher than tax-exempt financing. Team members contacted potential lessors to learn about their tax-exempt programs and received preliminary interest rate quotes in the range of 3% to 3.2%. The team then researched other states and found that other AAA bond rated states were utilizing centralized master lease programs based on tax-exempt financing. With this information at hand, the team determined that a comprehensive tax-exempt financing approach would be an excellent low cost solution and allow the state to acquire the vehicles needed to offset high mileage reimbursement expenditures.

The tax-exempt financing option was very attractive because the cost was only 1.3 cents per mile more than the cost to purchase a vehicle outright. The costs per mile for various financing options researched by the team are illustrated below. Savings from a master leased vehicle compared to mileage reimbursement were substantial at 19.7 cents per mile. It was clear to the team that mileage reimbursement had to be curtailed and that tax-exempt financing appeared to be the most viable, cost effective means of funding the state vehicles necessary to handle these business miles.

Financing Options	Cost Per Mile
State Vehicle	\$0.245
State Vehicle - Tax Exempt Lease	\$0.258
Conventional Lease	\$0.37
Mileage Reimbursement (FY'08)	\$0.455

Master Lease Financing Contract

Team members obtained support from the Director of OA/Accounting, Commissioner of Administration, the Governor's Office and members of the House and Senate Appropriations staff to move forward with a new master lease contract for the State of Missouri. Team members submitted a draft Request for Proposal to OA/Purchasing, and after several rounds of negotiations with numerous vendors a new Master Lease Services Contract was awarded to Bank of America on July 1, 2006.

Through the procurement process, the team was able to secure more favorable terms in the master lease contract than under similar financing programs, in that the lessor did not retain a security interest in the equipment or hold title to vehicles during the repayment period.

The benefits of the master lease contract are numerous:

- ☐ Interest savings currently over 50% by combining the purchasing power of all state agencies
- ☐ A single contracted financing vendor, which simplifies the bid evaluation process for OA/Purchasing because they no longer need to individually analyze the financing component of bids
- ☐ State owns the equipment
- ☐ Financing not considered debt

Smart Lease Vehicle Program Implementation

In FY 07, team members again analyzed the most recent mileage reimbursement data and identified employees receiving high amounts of mileage reimbursement. The team also took this data a step further and determined thresholds where financing a vehicle through the new master lease contract would generate savings compared to what agencies were paying for mileage reimbursement.

The team implemented the Smart Lease Vehicle Program and purchased approximately 180 vehicles through statewide contracts, utilizing generous fleet incentives offered by auto manufacturers. Agencies were able to obtain financing at low interest rates through the master lease contract with Bank of America; thereby, purchasing and financing vehicles at the lowest possible cost to the State of Missouri.

Through the SLVP, agencies immediately save thousands of dollars by directing existing core appropriations to make lease payments and pay operational costs of a Smart Lease vehicle at 25.8 cents per mile rather than 45.5 cents per mile for mileage reimbursement.

To date, the following agencies are saving their expense and equipment funds through the Smart Lease Vehicle Program:

- ☐ Department of Social Services
 - Children's Division
 - Family Support Division
 - Youth Services
- ☐ Department of Corrections, Probation & Parole
- ☐ Department of Health & Senior Services
- ☐ Department of Elementary & Secondary Education
- ☐ Office of Administration, Information Technology Services Division

State employees also benefit from the Smart Lease Vehicle Program by avoiding excessive wear and tear on their personally owned vehicles and elimination of business riders on their personal automobile insurance, which can be costly additions to insurance premiums.

V. RECOGNITION/AWARDS

1. Has this project ever been nominated for the Governor's Award for Quality and Productivity? If yes, when?
No.
2. If yes, for which category was it nominated?
3. Has this project received any other awards or recognition in the past? If yes, describe.
No.

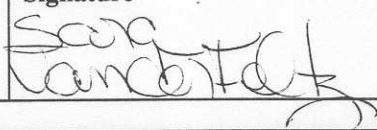
VI. NOMINATOR'S INFORMATION

NOMINATING DEPARTMENT

Name	Signature	Telephone Number	E-Mail Address
Mark S. Kaiser		751-4656	Mark.S.Kaiser@oa.mo.gov

VII. DEPARTMENT COORDINATOR INFORMATION

DEPARTMENT

Name	Signature	Telephone Number	E-Mail Address
Sara VanderFeltz		751-0357	Sara.VanderFeltz@ca.mo.gov

VIII. DEPARTMENT DIRECTOR APPROVAL

DEPARTMENT DIRECTOR'S

NAME

Michael D. Keathley

DEPARTMENT DIRECTOR'S SIGNATURE*



Nomination must be signed ONLY by the Department Director to be eligible for consideration.

Nominations not signed by the Department Director will be returned.