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Fleet Rate Increase (DNR--Departmentwide)

[LFB 2009-11 Budget Summary: Page 58, #9]

CURRENT LAW

The Department of Natural Resources (DNR) maintains a vehicle pool account (fleet account) for the purchase, use, and maintenance of cars, trucks, and heavy equipment utilized by the agency.

GOVERNOR

Provide $686,100 annually for fleet rate increases affecting various programs. Expenditure authority would be provided as follows:

	Annual
Program Revenue	$29,000
Segregated Revenue	
Conservation Fund	609,700
Petroleum Inspection Fund	16,300
Environmental Fund	29,300
Recycling Fund	1,800
Total	$686,100

DISCUSSION POINTS

Program revenues would come from a variety of programs, including water regulation and zoning, environmental quality, and solid waste management.

1. Under the bill, $609,700 conservation fund SEG would be provided annually as follows:

	Annual
Fish and Wildlife	$283,800
Forestry	233,100
Parks	51,700
Water Resources	7,400
ATV	7,900
Snowmobile	100
Boat	16,300
Endangered Resources	9,400
Total	$609,700

2. The Department's fleet operations are managed centrally through a segregated revenue account. Fleet costs including vehicle depreciation, fuel, oil, repairs, insurance, and administrative costs are charged to this account, and then recovered through chargebacks to programs. When DNR staff use a fleet vehicle, their program (such as law enforcement, wildlife management, or forestry) is charged a fleet usage rate, which they pay on a monthly or per-mile basis. Fleet rates vary depending on the vehicle class (such as car, light truck or heavy truck). For example, the current rate for a four-cylinder sedan is 22¢ per mile. Rates are formulated on an annual basis based on the most complete prior fiscal year of usage costs (for instance, the fiscal year 2008-09 rates are based on 2006-07 actuals). The rates also take into account changes in fuel costs as well as inflation rates (based on U.S. Department of Energy estimates and the Consumer Price Index), and the fleet balance. The fleet account also receives revenue from the sale of assets (used vehicles). The Department indicates that the fleet rates for 2009-10 will be established in July 2009.

3. The federal government allows states to recover annual costs of operating a fleet including depreciation and the gain or loss on the sale of assets. Section 20.903(2)(b) of the Wisconsin statutes allows the fleet account to carry a negative cash balance. The fleet account does not recover the full costs of capital expenditures (vehicle purchases) in the year they are incurred; therefore, the account carries a cash deficit. For example, if the fleet account were to purchase a heavy truck at a cost of $50,000, and the vehicle was projected to last for 15 years, the account would be set-up to recover the annual depreciated value of the vehicle from the programs (plus other operating costs such as maintenance and fuel costs). Therefore, the account is allowed to carry a cash deficit as long as the undepreciated (net book) value of fleet assets exceeds the cash deficit. The following table shows an estimated condition of the fleet account under the bill. The net book value of the fleet was $29,656,800 at the close of fiscal year 2007-08.

TABLE 1

Estimated Fleet Account Condition Under the Governor's Bill

	Actual 2006-07	Actual 2007-08	Estimate 2008-09	Estimate 2009-10	Estimate 2010-11
Opening Balance	-$20,531,700	-$24,183,300	-$28,479,600	-$28,579,600	-$29,079,600
Revenue	7,913,500	8,013,800	10,200,000	10,600,000	10,600,000
Total Available	-12,618,200	-16,169,500	-18,279,600	-17,979,600	-18,479,600
Capital	4,263,900	4,723,700	3,100,000	3,800,000	3,800,000
Non-Capital	7,301,200	7,586,400	7,200,000	7,300,000	7,300,000
Total Expenditures	11,565,100	12,310,100	10,300,000	11,100,000	11,100,000
Closing Balance	-$24,183,300	-$28,479,600	-$28,579,600	-$29,079,600	-$29,579,600

4. In their 2007-09 biennial budget request, DNR requested $1.8 million in 2008-09 in anticipation of a 39% fleet increase due to a decline in available reserve funds combined with increased fleet acquisition, fuel and maintenance costs. But, due to an anticipated decrease in non-capital fleet expenditures (fuel, maintenance, insurance), 2007 Act 20 provided $692,200 in 2008-09 to cover a 15% rate increase. However, actual non-capital expenditures in fiscal years 2006-07 and 2007-08 exceeded estimated expenditures by over $1 million, primarily due to increased fuel costs. DNR increased fleet rates by over 48% in 2008-09. For 2009-11, the Department requested $1,371,200 annually to bring expenditure authority in line with estimated fleet costs. The bill would provide $686,100 in annual expenditure authority.

5. According to the Department, the 48% increase in 2008-09 fleet rates has adversely affected program operations in all programs, but especially forestry, fisheries, and law enforcement. In order to cover fleet rate charges, these programs reduced expenditures in other areas such as forestry surveying and monitoring work and fish stocking. In addition, a conservation warden recruit class was not planned for calendar year 2009 in order to maintain warden vacancies to provide an adequate level of funding for existing wardens. Further, wardens have reduced the number of patrols conducted during fiscal year 2008-09 in order to decrease the number of miles driven (and resulting fleet charges). Current fuel prices have provided some relief from the level of expenses incurred in the summer of 2008. However, the Department sets the fleet rates based on the amount of revenue it expects to recover from the programs in a given year. Therefore, the reduced mileage driven by the program staff during fiscal year 2008-09 in response to the increased fleet rates may result in additional pressure to increase fleet rates in 2009-10 in order for DNR to recover the revenue needed to cover fleet costs (and not carry a negative cash balance in excess of the fleet's net book value). The Department indicates that if increased expenditure authority were not provided, programs would continue to operate at a reduced level. Therefore, some level of increased expenditure authority could be provided to limit the effect of the fleet rate increases on program operations.

6. The bill would provide approximately 50% of the total amount requested by DNR in each year. DOA argues that due to the unpredictable nature of fuel prices, some level of increased expenditure authority for fleet operations over the biennium is reasonable, but that the full amount might not be needed. The bill would not provide any GPR funding for fleet operations that was requested by DNR. The $686,100 annually provided under the bill would significantly alleviate the effect of the fleet rate increase however, it would be unlikely to eliminate the reduction of program operations altogether.

7. On the other hand, given the expected balance of the fish and wildlife account under the bill it is unclear how the increased expenditures would be supported. Further, the water resources account would have required lapses of over $500,000 each year under the bill. The bill also includes boat registration fee increases and environmental fund and recycling fund fee increases. An option could be to provide 50% of the amount provided under the bill ($343,100 annually) (Alternative 2). This option would represent approximately 25% of the amount requested by DNR. It would reduce the impact of the fleet rates increase on program operations to some degree, but would not increase expenditures as significantly.

8. If the increase under the bill is deleted, program reductions would continue to be required to meet fleet expenses (Alternative 3). However, primarily depending on fuel costs, the 2008-09 level of reductions might not be necessary.

ALTERNATIVES

1. Adopt the Governor's recommendation to provide $686,100 annually ($29,000 PR and $657,100 SEG) for costs related to increased fleet rates.

2. Provide $343,100 annually for increased fleet rate costs.

ALT 2	Change to Bill Funding
PR	- $14,500
SEG	- $328,500
Total	- $343,000

3. Delete provision.

ALT 3	Change to Bill Funding
PR	- $29,000
SEG	- $657,100
Total	- $686,100

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