



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #547

### Fleet Rate Increase (DNR -- Departmentwide)

#### *Bill Agency*

[LFB 2007-09 Budget Summary: Page 396, #7]

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#### **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 \$1,702,100 beginning in 2008-09 for anticipated fleet rate increases affecting all programs. Expenditure authority would be provided as follows:

	<u>2008-09</u>
Program Revenue	\$59,500
Segregated Revenue	
Conservation Fund	1,560,700
Environmental Fund	54,800
Environmental Improvement Fund	600
Petroleum Inspection Fund	20,900
Recycling Fund	<u>5,600</u>
Total	\$1,702,100

## DISCUSSION POINTS

1. The Department's fleet operations are managed centrally through a segregated revenue appropriation. Fleet costs including vehicle depreciation, fuel, oil, repairs, insurance, and administrative costs are charged to this appropriation, 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 21¢ 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 2006-07 rates are based on 2004-05 actuals). The rates also take into account increases in fuel costs as well as inflation rates (based on U.S. Department of Energy estimates and the Consumer Product 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 2007-08 will be established in July 2007.

2. 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 SB 40.

**TABLE 1**

**Estimated Fleet Account Condition Under SB 40**

	<u>Actual</u> <u>2005-06</u>	<u>Estimated</u> <u>2006-07</u>	<u>Estimated</u> <u>2007-08</u>	<u>Estimated</u> <u>2008-09</u>
Opening Balance	-\$1,896,000	-\$20,531,700	-\$23,895,700	-\$26,928,300
Revenue	<u>-2,245,800</u>	<u>7,036,000</u>	<u>7,317,400</u>	<u>10,170,000</u>
Total Available	-\$4,141,800	-\$13,495,700	-\$16,578,300	-\$16,578,300
Capital Expenditures	\$10,128,700	\$4,114,900	\$4,000,000	\$4,000,000
Non-Capital Expenditures	<u>6,261,200</u>	<u>6,285,100</u>	<u>6,350,000</u>	<u>6,500,000</u>
Total Expenditures	\$16,389,900	\$10,400,000	\$10,350,000	\$10,500,000
Closing Balance	-\$20,531,700	-\$23,895,700	-\$26,928,300	-\$27,258,300

3. The Department's capital expenditures were unusually large in 2005-06 for several reasons. In 2003-04 and 2004-05, the Department was only able to replace law enforcement

vehicles. However, in 2005-06, the Department of Administration approved the purchase or replacement of 150 light trucks (pick-up trucks) in addition to 53 law enforcement vehicles. DNR also made significant heavy equipment purchases in 2005-06. The Department replaced 10 agricultural tractors costing approximately \$75,000 each. Agricultural tractors had not been purchased since 2001, and in many cases the tractors replaced were over 20 years old. In addition, the Department replaced construction equipment which had been purchased in the mid 1980's. The purchase of this equipment ranged from \$150,000 to \$260,000 each. DNR also purchased a newly developed brush mower to assist in the control of invasive species at a cost of approximately \$300,000. The mower is more efficient and can perform the work of several traditional rotary mowers more safely.

4. As shown in Table 1, the July 1, 2005, cash balance was -\$1.9 million, but the opening rate reserves balance (which takes into consideration the net book value of pool assets) was approximately \$18.1 million (Table 2). However, Department officials indicate that it is not desirable for the rate reserves balance to be that large. The Federal Office of Management and Budget, in circular A-87, suggests that a reasonable level of reserves would be equal to up to 60 days of cash expenses for normal operating purposes (approximately 17% of annual operating expenses, or approximately \$1.5 million). Therefore, DNR determined a \$1.5 million balance to be the goal for rate revenues in the fleet account in the future. Also, the large balance raised concerns that the fleet rate charges to federal appropriations may have been too high in previous years. Therefore, in 2005-06, almost \$8.8 million was credited from the fleet account to other DNR appropriations including \$1.6 million to federal appropriations and \$7.2 million to state appropriations throughout the agency, primarily to the balance of the segregated conservation fund.

5. Expenditures from the fleet account are expected to exceed revenues (from chargebacks) by approximately \$3.4 million in 2006-07. This is primarily due to rising fuel costs (as well as inflationary increases for repairs and insurance) and the decision to reduce the account balance. Fleet rates were increased by approximately 10% in 2007. However, DNR anticipates that expenditures from the fleet account will continue to increase due to rising costs of fuel and maintenance. In order to raise sufficient revenue to cover expenditures and maintain the desired reserves balance in the fleet account, the Department anticipates raising fleet rates by approximately 4% in 2007-08 and by approximately 39% in 2008-09. However, recent data indicate that the level of revenue necessary to reach the Department's goal of a \$1.5 million balance on June 30, 2009 may require a fleet rate increase of approximately 15% in 2008-09 (primarily due to smaller anticipated increases in expenditures).

6. Under the bill, \$1,702,100 in state SEG and PR would be provided for the estimated 39% fleet rate increase in 2008-09 (the remainder of approximately \$1.1 million would come from federal funds). An alternative could be to provide \$692,200 in 2008-09, for a 15% fleet rate increase (the remaining \$405,400 would be paid from federal funds). Table 2 shows the estimated condition of the fleet account rate reserves (cash balance plus undepreciated value of equipment) through 2007-09 with a 4% increase in fleet rates in 2007-08 and a 15% increase in 2008-09.

**TABLE 2**

**Fleet Account Rate Reserves Condition (Alternative 2)**

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Opening Equity	\$18,095,500	\$6,801,700	\$4,697,600	\$2,665,000
Revenue (chargebacks)	6,387,500	7,036,000	7,317,400	8,415,000
Rate increase (%)		10%	4%	15%
Available Assets	\$24,483,000	\$13,837,700	\$12,015,000	\$11,080,000
Non-Capital Expenditures	\$6,261,200	\$6,285,100	\$6,350,000	\$6,500,000
Credit*	8,764,700	0	0	0
Net Capital Depreciation	<u>2,655,400</u>	<u>2,855,000</u>	<u>3,000,000</u>	<u>3,075,000</u>
Total Reductions	\$17,681,300	\$9,140,100	\$9,350,000	\$9,575,000
Closing Equity	\$6,801,700	\$4,697,600	\$2,665,000	\$1,505,000

\*Amount credited to state and federal sources to reduce balance toward goal.

7. DNR indicates that without adequate funding for the increased fleet rate charges, program operations would be adversely affected. Programs that would be significantly affected (and would reduce program expenditures by more than \$200,000) include forestry, fisheries, and law enforcement. As foresters must travel to do much of their work, the forestry division would reduce non-travel related work to pay for the increased fleet rate costs including: contract monitoring of sustainable forestry land management projects, surveying to identify and monitor potential forest insect and disease problems, and campground maintenance at Northern State Forests. Fisheries management relies on a fleet of trucks and heavy equipment to transport equipment for monitoring fish populations, stocking fish, and restoring fish habitat statewide. The fisheries management program would consider reducing these activities by 10 to 12% if no additional funding was provided. Law enforcement would use funding intended for warden non-fleet related operations (specialized training, equipment replacement and maintenance, evidence processing) to cover the shortfall in fleet rate costs. In addition, law enforcement indicates that warden vacancies would need to be maintained in order to provide an adequate level of funding for the existing wardens.

**ALTERNATIVES TO BILL**

1. Adopt the Governor's recommendation to provide \$1,702,100 in 2008-09 for anticipated fleet rate increases.

<b>ALT 1</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
PR	\$0	\$59,500
SEG	<u>0</u>	<u>1,642,600</u>
Total	\$0	\$1,702,100

2. Adjust the Governor's recommendation by deleting \$1,009,900 in 2008-09 (\$692,200 would remain).

<b>ALT 2</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
PR	-\$35,300	\$24,200
SEG	<u>-974,600</u>	<u>668,000</u>
Total	-\$1,009,900	\$692,200

3. Delete provision.

<b>ALT 3</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
PR	-\$59,500	\$0
SEG	<u>-1,642,600</u>	<u>0</u>
Total	-\$1,702,100	\$0

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