

GOVERNMENT SERVICES COMMITTEE**July 11, 2012****Roughrider Room, State Capitol****North Dakota Department of Transportation
Shannon L. Sauer, CPA, Financial Management Director**

Mr. Chairman and members of the committee, I'm Shannon Sauer, Financial Management Director for the Department of Transportation. I'm here today to provide information requested by the committee on the following:

1. The budgeted and actual State Fleet Services vehicle rates for the 2011-13 biennium.
2. The budget guidelines issued by the department for the State Fleet Services vehicle rates for the 2013-15 biennium.

1. Budgeted and actual State Fleet Services vehicle rates for 2011-13.

The budgeted State Fleet Service vehicle rates for the current biennium along with the current, actual rates being charged are shown in Attachment A. The charged rates are based on:

- Actual, historical operating costs.
- Depreciation.
- Recovery or refund of prior over or under-applied revenues.
- Replacement charge to cover the inflationary costs for replacement vehicles in excess of depreciation.

The process used to calculate the rates is in compliance with 2 C.F.R. Part 225 - *Cost Principles for State, Local, and Indian Tribal Governments*. Compliance with this regulation allows our State Fleet usage costs to be applied to federal programs as applicable. The rates are reviewed quarterly and, if necessary, adjusted to remain responsive to changing conditions.

2. Overview of Fleet budget guidelines for the 2013-2015 biennium.

The budget guidelines issued by the State Fleet for the 2013-2015 biennium are shown in Attachment B. These guidelines were prepared using the following criteria:

- Actual, historical operating costs from the 2011-2013 biennium.
- Projected usage for the coming biennium.
- Current average sale price of fleet vehicles sold at auction.
- Inflation factors as follows:
 - Repair parts – 10 percent.
 - Fuel – 15 percent.
 - Labor, shop and motor pool overhead – 4 percent.
 - Depreciation and additional replacement cost – 4 percent.

Fleet budget guidelines are prepared nearly 18 months before the start of the biennium to which they pertain. In preparing these guidelines, we attempted to be very conservative while at the same time adequately reflect the growth in costs that we have experienced and expect to continue into the future. It is difficult to project costs that will occur that far into the future, especially in the areas of fuel and repair prices. It is important to be aware of the huge impact these two cost components have on the State Fleet rates. Charts 1, 2, and 3 demonstrate the significance of fuel and repair costs on three of the largest fleet vehicle groups:

- Sedans – Fuel and repairs account for nearly 50 percent (31.58 and 17.37 percent respectively) of the group costs.
- Heavy pickups – Fuel and repairs account for 65 percent (41.67 and 23.33 percent respectively) of the group costs.
- Tandem axle plow trucks – Fuel and repairs account for more than 62 percent (26.45 and 35.64 percent respectively).

This concludes my testimony; thank you for the opportunity to present this information to the committee today.

Attachment A

North Dakota Department of Transportation

State Fleet Services

2011-2013 Fleet Budget Guidelines and Current Rates

Description	Group #	Current	Current	2011-2013
		Per Mile Rate	Per Hour Rate	Budget Guidelines
Mini Pass. Van	1	0.49		0.50
Sedan/Wagon	2	0.38		0.37
Light Pickup/Cargo Van/Full-Size Utility	3	0.62		0.60
Heavy Pickup/Van/Full-Size Utility	4	0.72		0.70
Highway Patrol	7	0.63		0.61
Game Enforcement/Special	9	0.52		0.53
Facility Service Vehicle	12	1.50		1.41
Compact Utility/All	13	0.50		0.58
Miscellaneous Truck/Mid-Size Bus	18		57.00	51.00
Distributor Truck	19		71.00	70.00
Sign Truck/Garbage Truck	20		56.00	38.00
Tandem Axle Truck/All	22		85.00	72.00
Truck Tractor	23		60.00	53.00
Rotary Snowplow	24		150.00	100.00
Motor Coach	26		115.00	115.00
Water Well Drill Truck	27		35.00	44.00
Lineworker Truck	29		31.00	46.00
Shuttle Bus	30		28.00	31.00
Fuel Truck	31		12.00	14.50
Drill Truck	32		78.00	93.00



North Dakota Department of Transportation

Francis G. Ziegler, P.E.
Director

Jack Dabrymple
Governor

March 27, 2012

Ms. Pam Sharp, Director
Office of Management and Budget
600 East Boulevard Avenue
Bismarck, ND 58505

Dear Ms. Sharp:

Subject: State Fleet Services 2013-2015 Biennium Budget Guidelines

The State Fleet Services budget guidelines for the 2013-2015 biennium are attached and explained as follows:

1. The mileage/hourly rates consist of two components: Operating costs and depreciation.
 - a. Operating costs include parts, fuel, insurance, labor, shop overhead, and administration, divided by usage and charged back on a per-mile/hour basis.
 - b. Depreciation is the actual cost, less salvage value of the fleet, spread over the estimated useful life of the vehicle, divided by usage and charged back on a per-mile/hour basis.
2. The replacement rate is the difference between what is needed to purchase new vehicles, and the amount that is recovered through the depreciation portion of the rate. Because this rate is to fund replacement costs, it cannot be charged to federal programs. The replacement rate also funds additional vehicle needs. Agencies are to budget the total of the mileage/hour rate, and the replacement rate. The funding source for the replacement rate must be either general or special funds.

You will notice across-the-board increases because fuel costs, commercial repairs, and labor are anticipated to increase. In addition, after the 2011 legislative session increases in FTE's and state programs requiring additional travel forced us to increase the size of the fleet to meet those demands. This necessitates state fleet to collect additional replacement rate dollars to make up for the increased capital expenditures. State Fleet Services will continue to make every effort to contain the rising costs.

Attachment B

Ms. Pam Sharp
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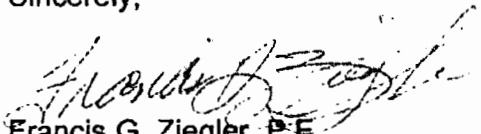
The attached budget guidelines reflect our best estimate of potential costs for the next biennium. The projected fuel prices were calculated with a 15 percent per year rise from the prices as of February 15, 2012, of \$3.19 for gasoline and \$3.77 for diesel fuel. The repair parts costs were estimated to rise at a rate of 10 percent annually and all other expenses were calculated with an inflationary factor of 4 percent annually. It was also assumed that there would be no further growth to the fleet size. Therefore, keep in mind that many factors, including greater than expected fuel prices or growth to the fleet can increase the actual rental rates to exceed these projections. On the other hand, if actual expenses fall below projections and/or we are able to eliminate some vehicles from the fleet, the rental rates will reflect accordingly and remain below these projections. Additionally, State Fleet Services adjusts rates on a quarterly basis to reflect changes in fuel and other costs.

All agencies anticipating changes in need for monthly rentals due to an increased number of FTE's or programs needing assigned vehicles must identify in writing the number of units, and which rental group will be affected so State Fleet Services can plan accordingly.

Each agency/institution's mileage may be determined by referring to the monthly billing report located in the billing and usage system (BUS).

Should you have any questions, please contact Paul Hanson, CAFM, State Fleet Services Director at 701-328-2543.

Sincerely,



Francis G. Ziegler, P.E.
Director

30/ph
Attachment
c: Paul Hanson, State Fleet Director

**STATE FLEET SERVICES
BUDGET GUIDELINES
2013-2015 BIENNIUM**

DESCRIPTION	GROUP NO.	RATE	REPLCMNT RATE	MILE/HOUR RATE
Mini Pass. Van	1	0.580	0.03	0.610
Sedan/Wagon	2	0.440	0.03	0.470
Light Pickup/Cargo Van/Full-Size Utility	3	0.710	0.02	0.730
Heavy Pickup/Van/Full-Size Utility	4	0.850	0.02	0.870
Highway Patrol	7	0.710	0.03	0.740
Game Enforcement/Special	9	0.630	0.02	0.650
Facility Service Vehicle	12	1.580	0.03	1.610
Compact Utility/All	13	0.610	0.01	0.620
Miscellaneous Truck/Mid-Size Bus	18	61.000	5.00	66.000
Distributor Truck	19	75.000	5.00	80.000
Sign Truck/Garbage Truck	20	40.000	10.00	50.000
Tandem Axle Truck/All	22	80.000	15.00	95.000
Truck Tractor	23	64.000	10.00	74.000
Rotary Snowplow	24	100.000	0.00	100.000
Motor Coach	26	150.000	27.00	177.000
Water Commission Truck	27	42.000	0.000	42.000
Lineworker Truck	29	21.000	15.00	36.000
Shuttle Bus	30	35.000	5.00	40.000
Fuel Truck	31	8.000	5.00	13.000
Drill Truck	32	75.000	0.00	75.000

Chart 1

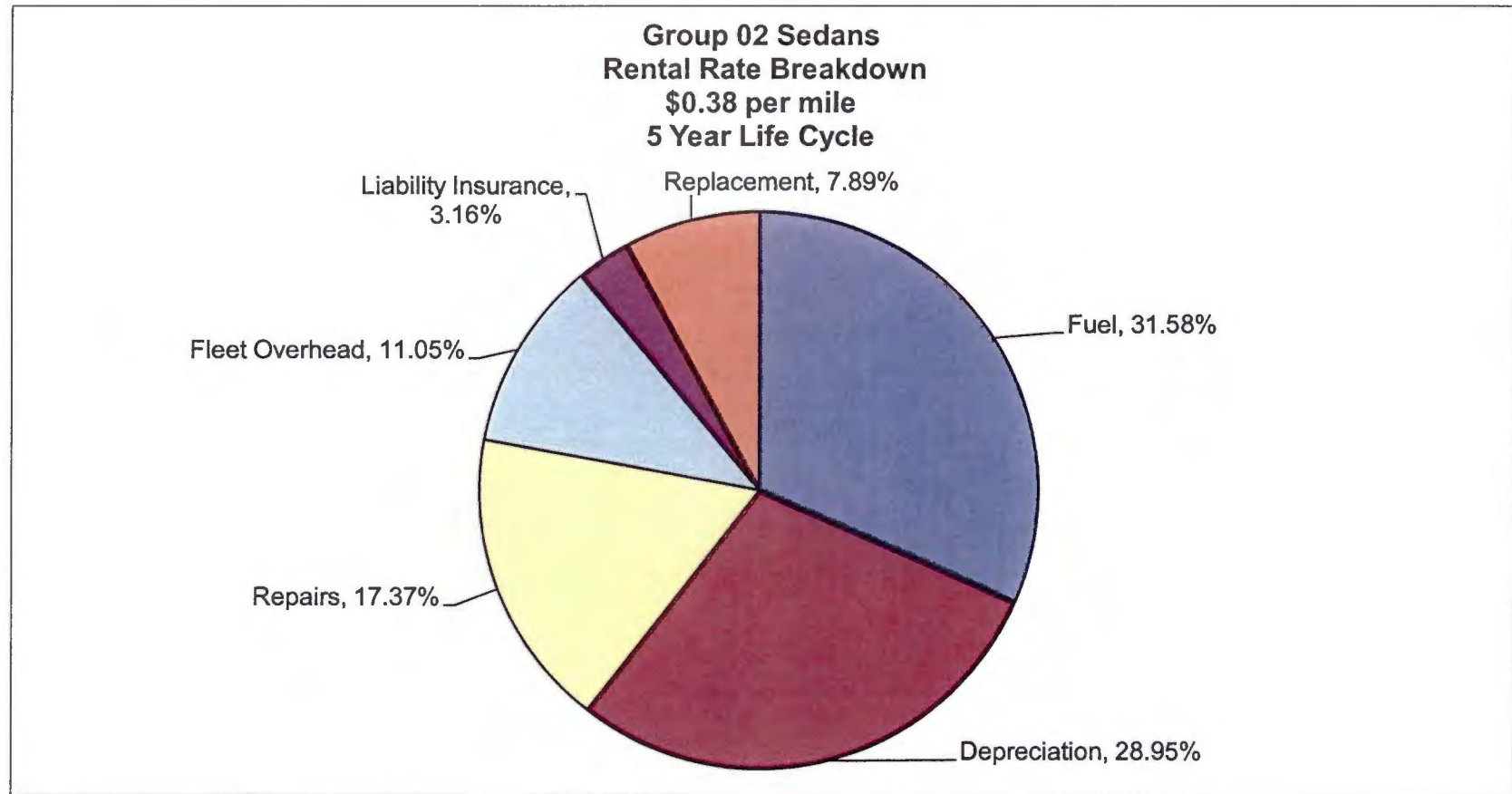


Chart 2

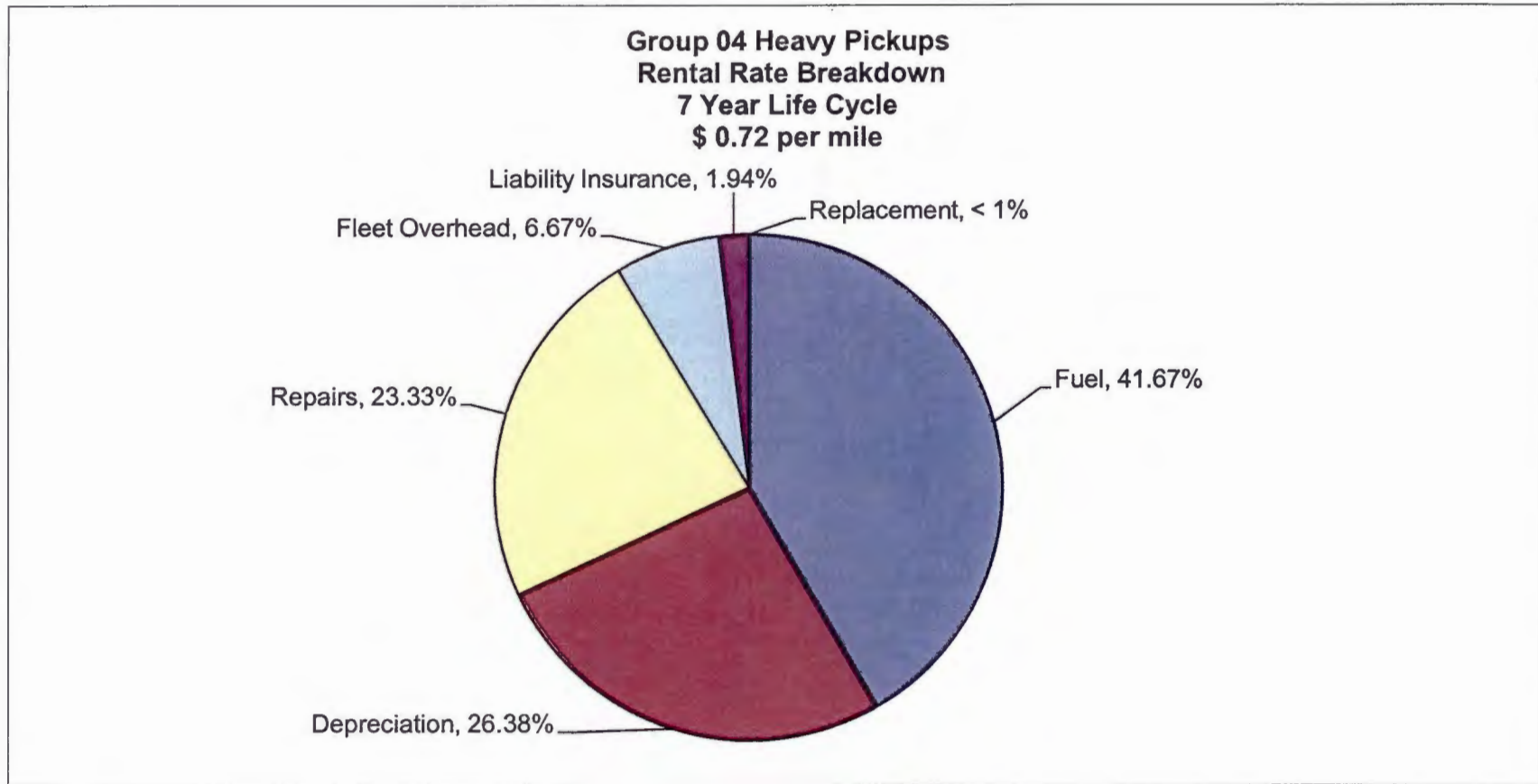


Chart 3

