

Executive Summary

Lease Vehicle Pilot Project for Tennessee

The Department of General Services was challenged to assist the Department of Finance and Administration to reduce the top 500 reimbursements of mileage for employees that utilize their privately owned vehicles to perform their State duties. For a one year period, that total was \$4,590,807.65, an average of \$9,181.62 per employee per year. The rate of reimbursement per Finance and Administration policy is \$0.46 per mile.

Purchase of new vehicles, utilizing contracts issued by the Department of General Services, Purchasing Division would cost \$17,762.00 per vehicle for a total of \$8,881,000.00 for 2011 Ford Fusions. The cost for the State to operate these vehicles is priced at \$0.25 per mile by the Department of General Services, Motor Vehicle Management Division. This is a savings of \$0.21 per mile

The Purchasing Division looked at the lease of 500 vehicles with an estimated usage of 58,000 miles over the period of three years. The State's combined pool miles for all vehicles over that period is 29,250,000 miles. A solicitation was developed asking for pricing for the cost to lease a vehicle per month, pricing for the cost if the State were to go over the pool mileage amount per mile and a pricing for maintenance per mile.

The low bidder, meeting specifications, bid a 2011 Ford Fusion at the following:

- Lease: \$0.19 per mile
- Maintenance: \$0.03 per mile
- Total: \$0.22 per mile

Cost to Lease a Vehicle:	\$3,673.33 per year or \$11,020.00 for three years
Cost to Lease 500 Vehicles:	\$1,836,666.67 per year or \$5,510,000.00 for three years
Reimbursement Cost, Top 500:	\$4,590,807.65 per year or \$13,772,422.95 for three years
Savings from Leasing vs. Reimbursement:	\$2,754,140.98 per year or \$8,262,422.94 for three years

Lease Vehicle Pilot Project for Tennessee

Each state government is challenged with finding creative and cost effective ways of providing goods and services to the employees to do the tasks that each agency is assigned. These challenges have become even more important in this time of economic crisis that the nation and the states are faced with.

In February of 2011, the Department of General Services, Office of Financial Management, reported that the top 500 reimbursements of mileage for employees to utilize their privately owned vehicles to perform their State duties came to \$4,590,807.65 for one year. That is averaged out to \$9,181.62 per employee per year for those top 500 employees. The State of Tennessee pays mileage at a rate set by the Department of Finance and Administration of \$0.46 per mile.

The challenge faced by the Department of General Services was how to get employees out of their cars and into state vehicles which cost \$0.25 per mile, according to the Department of General Services, Division of Motor Vehicle Management.

The Department of General Services, Purchasing Division looked at several options. The first was to increase the state's fleet of mid-size sedans by 500 vehicles. The cost of each vehicle, at the current Statewide Contract price would be \$17,762.00 per vehicle for a 2011 Ford Fusion. The initial cost would be \$8,881,000.00, based on the contract price that was in effect at the time.

The other option was to lease the vehicles from a vendor for a period of three years and then turn the vehicles in. The State would not keep the vehicles at the end of the lease. The State initially estimated that each vehicle would be driven 60,000 miles per year.

The Purchasing Division invited vendors to a Pre-Bid Conference to see what lease options were available. Most of the traditional dealers could offer what they called a Municipal Lease, where the State would lease a vehicle for three years and the at the cost of \$1.00, take position of the vehicle at the end of the lease period. For all intents and purposes, that is the State purchasing a car and making payments, which was not an option the State was interested in at this time.

The leasing companies were able to offer a standard lease where the State paid a monthly rate for a vehicle and at the end of three years; the leasing company would regain possession of the vehicle. The leasing companies could also include maintenance, where the State would only be responsible for gasoline and tires for the vehicle.

With this information, bids were solicited. The first line was for the least of 500 vehicles. The pricing would be per month and the estimated annual mileage for the vehicle was set at 58,000 miles. The second line was to cover the cost of an overage of the pooled miles of the 500 vehicles. If the State used more than 29,250,000 miles when all the mileage for one year from all 500 vehicles were added up, then the State would pay a per mile rate. The third line was a cost per mile for the maintenance of the vehicle.

There is a downside to soliciting bids for vehicles in the last spring. One runs up against the end of model year cut off for new vehicles. The deadline of having vehicles in place for drivers to use on July 1 was now a race to solicit bids before the end order date for the brands and models that made up the mid-size sedan classification.

Four bids were received and the evaluation began. The end order date for the Chevrolet Malibu passed during the evaluation. The low bidder offered a 2011 Ford Fusion for \$0.16 per mile for the lease of the vehicle, \$0.03 per mile for maintenance on that vehicle for a total cost of \$0.19 per mile. This is a savings of \$0.27 per mile over the mileage reimbursement offered to State employees who utilize their private vehicles to conduct State business, per Department of Finance and Administration Travel Reimbursement Policy. This is a savings of \$0.06 per mile from the cost of the Department of General Services, Motor Vehicle Management Division to operate a mid-size sedan and charge the agency for the usage.

The cost to lease the vehicle for three years is \$11,020, based on usage of 58,000 miles over a period of three years, and the bid price for lease and maintenance of \$0.19 per mile. This is a cost of \$3,673.33 per year per vehicle. For all 500 vehicles, the cost is \$5,510,000 for the three years of the lease, or \$1,836,666.67 per year. This results in a savings of \$2,754,140.98 per year or \$8,262,422.94 over the period of the three year lease.

Leasing 500 Midsize Vehicles																
Line	Description	Automotive Rentals Inc			Bancorp Bank/Mears			Enterprise			Ted Russell					
		Vol Est	Bid	Ext	Bid	Ext	Bid	Ext	Bid	Ext	Bid	Ext				
Line 1	Lease 500 Sedans@58,500 miles for 3 Years	36	\$	10,332	\$	130,000	\$	4,680,000.00	\$	147,610	\$	5,313,960	\$	162,847	\$	5,862,492
Line 2	Excess Mileage Over 29,250,000	75,000	\$	7,500	\$	0.08	\$	6,000.00	\$	0.08	\$	6,000	\$	0.24	\$	18,000
	Total Bid			17,832				4,686,000				5,319,960				5,880,492
Line 3	Maintenance	29,250,000	No Bid	#VALUE!		0.031231	\$	913,507		0.033	\$	965,250		0.023	\$	672,750

Per Mile Analysis-36 Months																
		Bid	Ext	Bid	Ext	Bid	Ext	Bid	Ext	Bid	Ext					
Cost/mile-Lease				\$	0.16000			\$	0.18167			\$	0.20043			
Cost/Mile-Maintenance				\$	0.03123			\$	0.03300			\$	0.02300			
Total Cost of Lease/Mile					0.19123				0.21467				0.22343			

\$ 4,680,000
 \$ 130,000 Man Amount
 \$ 234,300.00 Protest Bond