



Managing POV Use to Reduce Costs and Optimize Fleet Utilization

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Mercury Associates

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Understanding POV Reimbursement

➤ Acronyms and Terms

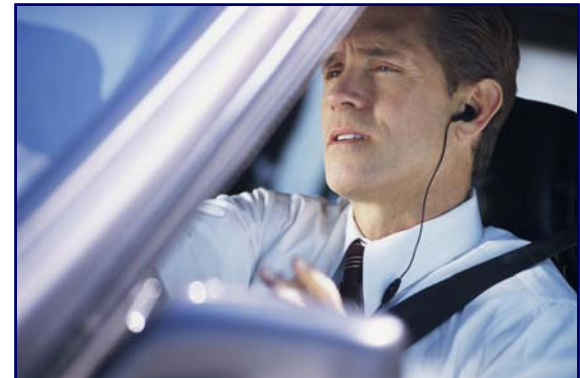
- POV = Personally/Privately Owned Vehicle
- POC = Personally/Privately Owned Conveyance (typically includes motorcycles/sometimes includes private aircraft)
- Reimbursement = Expense item claimed in arrears
- Allowance = Flat-amount paid at regular intervals, typically in advance

➤ Travel Issue? Fleet Issue? Or Both?



Rightsizing POV Use

1. Ensure POV reimbursement is the best value for a particular trip or ongoing mission
2. Set reimbursement rates appropriately
3. Verify mileage is reported accurately
4. Consider fixed and variable vehicle allowance as alternative to per-mile reimbursement
5. Implement POV policies that promote tax compliance and limit liability



Ensure POV is the Best-Value Option

- Compare cost to reimburse mileage with cost of other transportation options
 - State-provided vehicle (breakeven analyses)
 - Motor pool
 - Short-term commercial rental
 - Mid-term rental or mini-lease
 - Air/rail/mass transit
- Traveler and Supervisor need to be aware of relative costs before a trip is authorized
- Lowest Costs vs. Best Value...need policy and process for justifying use of higher-cost but better value options

Breakeven Analysis (BEA)

- State Vehicle vs. POV Formula Factors:
 - State Vehicle Monthly Flat Rate (MFR)
 - State Vehicle Mileage Charge (MC)
 - Personally Owned Vehicle Reimbursement Rate (POV)
- Sample BEA Calculation:

$$\text{MFR (12 Mos.)} + \text{MC (X)} = \text{POV (X)}$$

$$\$120 \text{ (12 Mos.)} + \$0.26X = \$0.45X$$

$$\$1,440 + \$0.26X = \$0.45X$$




$$\$1,440 = \$0.45X - \$0.26X$$

$$\$1,440 = \$0.19X$$

Breakeven Point = 7,579 Miles Per Year



Trip Calculator: Missouri OA

STATE FLEET MANAGEMENT																								
		State of Missouri Office of Administration																						
<p>ABOUT THE TRIP OPTIMIZER</p> <p>The Trip Optimizer assists state agencies in determining the most cost effective travel option for IN STATE single trips between the following options: rental, state vehicle, and mileage reimbursement in accordance with Section 37.450 RSMo. and the State Vehicular Travel Policy, SP-12.</p> <p>Trip Optimizer Last Update Date: 12/18/2006 Today's Date: 8/2/2007</p> <p>NOTE TO AGENCIES</p> <p>The State Vehicular Travel Policy (SP-12) states, "All relevant factors such as the urgency; nature of travel required; type of vehicle required for the number of passengers; tool or equipment load; employee time and effort; official domicile; proximity to rental or state vehicles; and other administrative costs should be considered when selecting the most cost effective travel option."</p> <p>NEW! Click here to view the State Vehicular Travel Policy, SP-12.</p> <p>Questions? This is a Microsoft Excel spreadsheet. More information is available on the Instructions & Data Assumptions worksheet tab below!</p>																								
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<p>ENTERPRISE RESERVATIONS AND INFORMATION</p> <p></p> <p>*Click on the Enterprise logo to make online reservations through the State Vehicle Rental Services Contract.</p> <p>*Compact/Economy rates are also available through Enterprise for \$30.40 per day plus the cost of fuel.</p> <p>*Rates included in the Trip Optimizer are for Daily Instate Only.</p> <p>*When the trip is 6 days or more in length please note that Enterprise Rent-A-Car will charge the weekly rate.</p>																								
<p></p> <p>Traveling to Jefferson City from Kansas City or St. Louis? Consider Amtrak for your travel needs. Go to the Amtrak Cost Comparison tab below!</p>																								

Source: State of Missouri Office of Administration



Trip Calculator: Michigan VTS

Breakeven Analysis: Occasional Driver 5 Days per Month at 150 Miles per Day			Breakeven Analysis: Consistent Driver 12 Days per Month at 125 Miles per Day		
Assumptions			Assumptions		
Anticipated Vehicle Usage	Compact	Intermediate	Anticipated Vehicle Usage	Compact	Intermediate
Average Miles per Day	150	150	Average Miles per Day	125	125
Number of Days Used Per Month	5	5	Number of Days Used Per Month	12	12
Assigned Vehicle Cost			Assigned Vehicle Cost		
Monthly Lease Rate	\$244.00	\$265.00	Monthly Lease Internal Charge Rate	\$244.00	\$265.00
Per Mile Rate	\$0.21	\$0.21	Per Mile Internal Charge Rate	\$0.21	\$0.21
Mileage Reimbursement			Mileage Reimbursement		
Per Mile Reimbursement Rate	\$0.45	\$0.45	Per Mile Reimbursement Rate	\$0.45	\$0.45
Commercial Rental Car			Commercial Rental Car		
Commercial Daily Rental Charge	\$39.00	\$44.00	Commercial Daily Rental Charge	\$39.00	\$44.00
Rental Car - Fuel Cost per Mile	\$0.13	\$0.15	Rental Car - Fuel Cost per Mile	\$0.13	\$0.15
Cost per Day of Use			Cost per Day of Use		
Cost per Day of Use for an Assigned Vehicle	\$84.80	\$89.00	Cost per Day of Use for an Assigned Vehicle	\$50.33	\$52.08
Cost per Day of Mileage Reimbursement	\$66.75	\$66.75	Cost per Day of Mileage Reimbursement	\$55.63	\$55.63
Cost per Day of an Outside Rental	\$58.50	\$66.50	Cost per Day of an Outside Rental	\$55.25	\$62.75
Cost for the Month			Cost for the Month		
Cost per Month of an Assigned Vehicle	\$424.00	\$445.00	Cost per Month of an Assigned Vehicle	\$604.00	\$625.00
Cost of Mileage Reimbursement	\$333.75	\$333.75	Cost of Mileage Reimbursement	\$667.50	\$667.50
Cost of a Commercial Rental	\$292.50	\$332.50	Cost of an Commercial Rental	\$663.00	\$753.00

Source: State of Michigan Vehicle & Travel Services

Recent Success Story:

State of Missouri - Issue/Approach

- State employees were reimbursed over 37.8 million miles in FY'06 at a cost of over \$14.2 million
- Through BEA, identified current costs and savings potential
- Reviewed travel reports to identify POV miles to convert to Smart Lease

Travel Option	Cost Per Mile
State Owned Mid Size Sedan	22.5 ¢
Smart Lease Mid Size Sedan	23.3 ¢
Mileage Reimbursement (FY'07)	41.5 ¢
SAVINGS POTENTIAL	18.2 ¢

Recent Success Story: State of Missouri - Results

More than \$1.5 million in cost-avoidance savings over projected reimbursement costs. FY07 costs were reduced from \$15.6 million projected reimbursement cost to \$14.03 million in actual reimbursements cost.

Reduction resulted from a multi-pronged effort to reduce reimbursement expenditures, including:

- Adoption of a State Travel Policy that requires employees to utilize the lowest cost, available travel option and implementation of a reduced reimbursement rate
- Redirection of business miles from reimbursement to state and rental vehicles
- Promotion of the rental vehicle contract
- Administration Directive to reduce POV expenditures by 10%.

Cindy Dixon, State Fleet Manager, State of Missouri

Set Rates Appropriately

- IRS Rate
- Customized Rate
- Dual Rates



Effective Date	IRS Rate	% Increase Over Prior Yr	% Increase Over 2003
January 1, 2007	\$.485	9.0%	35.0%
January 1, 2006	\$.445	- 8.2%	24.0%
October 1, 2005	\$.485	19.8%	35.0%
January 1, 2005	\$.405	8.0%	12.5%
January 1, 2004	\$.375	4.2%	4.2%
January 1, 2003	\$.36	--	--

Verify Mileage is Reported Accurately

Most Typical Inaccuracies:

- Rounded Mileage
- Not Using Appropriate Rate
- Commuting Miles

How to Address:

- Trip Plan/Pre-Authorization
- Mapping Program
- Audit



No automated system to monitor/track POV mileage at this time.

Sample Trip Plan

File Edit View Favorites Tools Help

Address Go Links » Norton Internet Security Norton AntiVirus

Home > Employees > Travel Management Log Out

Welcome Julie Blanford

Travel Dashboard
Trip Scheduler
Trip Log
Approval Queue

Trip Reference ID: JBMV07142006A **Print Itinerary**

Trip Name : Mercury Visit
 Reoccurring Trip: Yes
 Departure Date : 07/12/2006
 Return Date: 07/14/2006
 Number of Stops: 1
 Start Location: Portland, Maine
 End Location: Manchester, New Hampshire
 Reimbursable Base Miles: 93.8
 Allowable Local Mileage: 60
 Total Allowable Mileage: 153.8

Time	Mile	Instruction	For	Toward
Summary: 93.8 miles (1 hour, 35 minutes)				
Highway construction information is out of date. Click this line to update.				
9:00 AM	0.0	Depart Portland on Boynton St (East)	43 yds	
9:00 AM	0.1	Turn LEFT (North) onto Weymouth St, then immediately t	0.2 mi	
9:02 AM	0.3	Keep STRAIGHT onto SR-22 [Park Ave]	0.3 mi	
9:02 AM	0.5	Keep STRAIGHT onto SR-22 [Congress St]	21 yds	
9:02 AM	0.6	Take Ramp (RIGHT) onto I-295	3.3 mi	
9:05 AM	3.8	*Toll road* At exit 1, stay on I-295 (West)	1.2 mi	
9:06 AM	5.0	*Toll road* At exit I-95, take Ramp onto I-95 [Maine Tpk	36.9 mi	

North America United States New Hampshire Cities

0 mi 10 20 30

East Holderness Tufonboro Ossioee Limington Little Falls Westbrink 295 Portland Yezmouth

My Computer

Consider Allowances

- Viable alternative to reimbursement when fleet acquisitions are prohibited
- Easier to budget than per-mile reimbursement
- More equitable for employee classes/job functions with varying territory sizes
- Can be non-taxable



Non-Taxable Allowances

To qualify as non-taxable to employees, an allowance must be:

- reasonably calculated not to exceed the amount of the expenses or the anticipated expenses
- provided on a uniform and objective basis with respect to expenses
- periodically paid at a rate that combines a fixed rate and a variable rate
- consistently applied and in accordance with reasonable business practice

Non-Taxable Allowance Options

➤ Accountable Plan [IRS Reg. §1.62-2(b)]

- Broad guidelines for calculating and documenting non-taxable vehicle allowances and reimbursements to substantiate “amount, time, place and business purpose of expenses”
- Based on geographic-specific fixed/variable costs customized by driver or group and paid periodically

➤ FAVR [IRS 2005-78]

- An accountable plan that is essentially an IRS-supplied *template* (a suggested method) for calculating/documenting vehicle allowances & reimbursements
- Guidelines include 21 data, program, and driver tests which all must be met for the approach to be considered “FAVR compliant”

Comparison of FAVR/Non-FAVR Accountable Plans

	FAVR	Non-FAVR Accountable Plan
Basis for calculation	Fixed and variable rate, based on geographic cost differences relative to vehicle standards	Fixed and variable rate, based on geographic cost differences relative to vehicle standards
Taxability	Presumed non-taxable if FAVR-specific criteria are followed to the letter (21 data, program and driver tests); must provide documentation of compliance	Justified as non-taxable by substantiating business use and structuring payments as reimbursements
Justification to ensure non-taxable status	Drivers must provide verification of vehicle age, ins. coverage, % business & personal use;	Drivers report bus. miles/ verify expenses; can fallback on IRS mileage reimb. safe harbor and report any over payment as taxable
Key benefit	Program criteria pre-approved by IRS	More flexibility in calculation and justification criteria
Biggest drawbacks	Highly restrictive criteria, limited execs. In program, drivers may fall out of compliance and not know until too late	"Reasonableness" standards may need to be defended in case of audit

POV Cost-Containment Policies and Procedures

- Employee Eligibility for Reimbursement (e.g., pre-trip authorization procedures, use of a breakeven analysis, car-pooling expectations when two or more employees attend the same function,)
- Dual Reimbursement Rate Amounts and Qualification Criteria
- Caps on “Vicinity” Miles
- Expense Reporting Procedures
- Audit Protocol



POV Liability-Limiting Policies and Procedures

- Requirement for Valid Driver's License
- Responsibility of Departments or Supervisors to Monitor Validity of Driver's Licenses
- Requirement to Report Accidents and Follow Accident-Reporting Procedures
- Requirement to Ensure POV Drivers Have Vehicle Insurance
- Oversight for Ensuring POV Drivers Adhere to Safe-Driving Standards
- Home-to-Work Policy

Websites for More Information

➤ Sample Trip Calculators

- State of Michigan:

http://www.michigan.gov/dmb/0,1607,7-150-9141_13133_13709-32861--,00.html

- State of Missouri:

<http://www.oa.mo.gov/gs/fm/index.htm>

- State of Virginia:

<http://fleet.dgs.virginia.gov/NewsLetters/TravelPlanningInst.htm>

➤ Missouri Travel Policy:

- <http://www.oa.mo.gov/gs/fm/statevehiclepolicy.htm>

Contact Information

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