

LEGISLATIVE OVERSIGHT & INVESTIGATIONS COMMITTEE

Minutes of the 3rd Meeting of the 2022 Interim

August 11, 2022

Call to Order and Roll Call

The 3rd meeting of the Legislative Oversight & Investigations Committee was held on Thursday, August 11, 2022, at 1:00 PM, in Room 131 of the Capitol Annex. Representative Jason Nemes, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jason Nemes, Co-Chair; Senator Danny Carroll, Co-Chair; Representatives Lynn Bechler, John Blanton, Ken Fleming, Angie Hatton, Joni L. Jenkins, Steve Riley, and Scott Sharp; Senators Jason Howell, Morgan McGarvey, Michael J. Nemes, Wil Schroder, Brandon J. Storm, Reginald Thomas, and Max Wise.

Guests: John Ard, Executive Director, Office of Fleet Management and Pete McDonald, Division Director, Office of Fleet Management.

LRC Staff: Gerald W. Hoppmann, Committee Staff Administrator; Committee Analysts William Spears, Jacob Blevins, Joel Thomas, Jeremy Skinner, Shane Stevens, Chris Hall, Ryan Brown, Taylor Johnston, McKenzie Ballard; and Ashley Taylor, Committee Assistant.

Minutes for July 14, 2022

Upon motion by Senator Storm and second by Senator Howell, the July 14, 2022, meeting minutes were approved without objection. Representative Nemes noted that testimony on the unemployment insurance contracts is deferred until the September meeting.

Finance and Administration Cabinet Follow-Up to State-Owned Vehicles

John Ard introduced himself as the Executive Director of the Office of Fleet Management (Fleet) and Pete McDonald as his director of operations and administration. Mr. Ard stated he will be updating the committee on some of the improvements Fleet has made based on the findings and recommendations of both committee staff's report and the internal audit conducted by the Finance Cabinet's Office of Policy and Audits.

Mr. Ard noted that Fleet is responsible for providing safe, reasonably priced, necessary, and essential transportation to Kentucky state agencies and entities. This includes procuring, maintaining, and repairing vehicles in the fleet, as well as reserving, assigning, and distributing vehicles and reporting fleet mileage. He shared FY2022 data on the fleet specifically related to the number of vehicles used, maintained, insured, and retired.

He thanked the primary sponsors, including Senator Nemes, of SB 158 (RS 2022), which approved a new organizational structure for Fleet that elevated it from a division to an office with two new divisions. These changes allowed Fleet to improve its ability to meet statutory responsibilities of service and support.

Mr. Ard outlined some of the changes that have occurred since the passage of SB 158, including new leadership under Secretary Johnson, the creation of a new policy and compliance officer position, and the development of an automotive technician program that helps recruit and retain highly qualified technicians. He also noted that Fleet has developed a more accurate method of calculating vehicle rate projections that incorporate historical data and will analyze those outcomes for setting rates for the next biennium. Improvements in budget and accounting practices to review and create new accounting templates will also assist Fleet with tracking expenditures, according to Mr. Ard.

He said that Fleet is also working on statutory and regulatory proposals to eliminate conflicting language identified in both reports. The proposals will be submitted for review during the legislative session. Mr. Ard also noted that Fleet fully complied with reporting requirements for 2022 and is committed to continuing to do so moving forward. He specifically discussed the alternative fuel report, which indicated compliance with the 50 percent threshold for alternative fuel vehicles, and life cycle cost comparisons. It also included the 6-year strategic plan designed to meet the statutorily mandated decreased reliance on petroleum-based fuel in favor of alternative-fuel vehicles.

Mr. Ard stated that, in accordance with their 6-year strategic plan, Fleet ordered 38 electric vehicles in FY 2022, consisting of 32 Hybrids and 6 Plug-in Hybrids. However, due to manufacturer production shortages, Fleet only received 4 Ford Escapes and 8 Toyota Camrys. He stated that Fleet continues to establish the infrastructure needed to support an increased reliance on alternative-fuel vehicles, including the installation of charging stations at Fleet garages and state office buildings. Mr. Ard noted that additional funds will be required to build a sufficient infrastructure to meet future needs.

Mr. Ard noted that Fleet is also addressing the issue of vehicle utilization, which has resulted in reducing the motor pool inventory by 18 percent. He discussed how Fleet's new management software, called AssetWorks, improves the ability to effectively manage Kentucky's state vehicles. The new software provides robust reporting capability and will

significantly improve data integrity and logistical checks. It also will allow for the automation of online vehicle reservations, pick-up, and returns.

Mr. Ard noted that unexpected inflation and increased fuel prices are real concerns for Fleet because these figures must be estimated for biennium price projections. He said that underestimating these figures can impact Fleet's ability to purchase new vehicles in the future. Vehicle manufacturing constraints will likely negate the manufacturer incentives normally associated with traditional fleet pricing, which could dramatically increase average vehicle cost. Mr. Ard said the biggest challenge will likely be the lack of dealer inventory, which over the past 2 years has significantly limited dealers' abilities to fulfill many of the vehicle purchase orders.

In response to a question from Representative Sharp regarding the cost difference between an alternative-fuel vehicle and a gasoline vehicle over time, Mr. Ard stated that the cost varies but there was a cost comparison done in the alternative fuels report. There is an average or anticipated number of years to reach a break-even point, the number of years for that to occur depends on the type of vehicle, with fully electric vehicles being the most expensive. However, he noted that it typically takes 7-8 years to reach this point. Mr. Ard confirmed Representative Sharp's statement that costs such as maintenance are figured into the equation when considering total vehicle cost. He also stated he would provide the committee with additional information regarding the cost differences.

In response to Representative Sharp's questions about whether manufacturers' data on vehicles allow for more accurate cost projections for Fleet vehicles, Mr. Ard said they have not had the electric vehicles long enough to determine the accuracy of their cost projections. However, he noted that he is confident the manufacturers' data will get them close to the real cost. In regards to Representative Sharp's question about the cost difference in procurement, Mr. Ard noted that it depends on the vehicles. He explained that moving from a gas to a hybrid vehicle is about \$2,000 - \$3,000; moving from gas to a plug-in hybrid is a couple thousand dollars more; then the fully electric vehicles are the most expensive. Fleet has not yet purchased any full-electric vehicles, so he was unable to provide an estimate for those. Representative Sharp questioned what happens when the state experiences long-term power outages. Mr. Ard noted that not being able to charge a full electric vehicle during a disaster is a valid concern and is shared with Fleet.

Mr. Ard confirmed Representative Nemes clarifying question that on average there was a 7-8 year period before Fleet breaks even on a purchase of an alternative-fuel vehicle. However, the Ford Lightning is much more expensive and the decision to purchase one is for test purposes. Their break-even number is beyond the useful life of the vehicle.

In response to Representative Blanton's question regarding how much increased gas prices are costing the state per month due to fuel usage, Mr. Ard stated he could do fuel comparisons and provide that information to the committee. Regarding Representative

Blanton's question about how Fleet tracks vehicle usage and gas purchasing, Mr. Ard stated they use WexFuel cards that allow vehicle users to purchase fuel. The bills come automatically to Fleet for payment. In regards to mileage tracking, Mr. Ard noted that most agency vehicles have GPS trackers on them where they can monitor mileage. There are some agencies that do not have GPS, but those agencies are required to provide beginning, middle, and end of month mileage data. Mr. Ard prefers however, that all agencies would use the GPS trackers, because it is very reliable for billing purposes.

In response to a question from Representative Nemes about Fleet's replacement schedule, Mr. Ard stated that KRS recommends considering vehicles for replacement at 7 years or when vehicles reach 140,000 miles. Fleet tends to use a vehicle's mileage as a more accurate measure for needed replacement. He stated that lack of funding kept them from being able to replace all vehicles with 140,000 plus miles.

In response to a question from Senator Howell, Mr. Ard explained that missing some of the inflation and fuel projections would probably affect the projected number of vehicles they can purchase and proportionately affect the number of alternative fuel vehicles purchased. Senator Howell noted that it typically costs more to maintain light and heavy duty utility vehicles rather than regular passenger vehicles. He asked if Fleet expects to see any greater savings in maintenance with the newly acquired vehicles. Mr. Ard clarified that Fleet had not yet received the Ford Lightning but that they have been ordered and that there is a significant predicted savings on maintenance.

In response to Representative Fleming's question about whether Fleet had conducted a cost-benefit analysis for outsourcing the state's procurement, management, or maintenance of vehicles, Mr. Ard said that such an analysis has not been done during his tenure, but that he would look to see what he can find. He noted that previous analyses had determined that it was a better option to keep things in-house as opposed to entering into a lease option model. Representative Fleming asked what criteria Fleet uses during the procurement process when it uses rental companies to meet vehicle needs. Mr. Ard stated that they use a Master Agreement with those companies, but would provide the committee with additional information.

Mr. Ard confirmed Senator Howell's statement that Fleet's mechanics and technicians are state employees. He also added that Fleet is working to hire and train new technicians and to cover costs related to certifications. However, he mentioned that Fleet does outsource most of its maintenance, since its main garage is located in Frankfort and vehicles are spread across the state.

Senator Howell asked if there are any other factors, besides fuel and maintenance that we should expect to see decreased as Fleet moves closer to alternative vehicles as opposed to traditional vehicles. Mr. Ard said that other than maintenance and fuel he is not

aware of any other factors. The federal Department of Energy site is the source that Fleet uses for comparatives for various costs.

In response to a question from Senator Howell regarding why more state vehicles do not have GPS tracking on them, Mr. Ard explained that there are valid reasons for not having GPS tracking on some of the vehicles. Some vehicles it is due to age, but more often it is that some vehicles are used for investigatory purposes; there is a concern about the vehicle being tracked if they are undercover or in surveillance of businesses or entities. Representative Nemes commented it is important to have accurate tracking on vehicles, since there have been instances in the past where state workers improperly reported mileage. He added that GPS tracking is a way to protect not only state employees, but also the taxpayer.

In response to a question from Senator Carroll regarding whether resale data on alternative-fuel vehicles were used with figuring projected costs, Mr. Ard stated it is factored in and they typically use 15 percent of the purchase price as the estimated resale value. Senator Carroll noted that there seems to be a lot more that needs to be considered long-term when making cost-projections. This is because issues with electric vehicles are different from issues with traditional fuel vehicles. Replacement batteries are an example, which could sway some from purchasing an electric vehicle. Mr. Ard concurred and stated he would try to provide some additional information to the committee.

Co-Chair Nemes adjourned the meeting.