PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE

Minutes

September 13, 2019

Call to Order and Roll Call

The Program Review and Investigations Committee met on Friday, September 13, 2019, at 8:00 AM, in Room 131 of the Capitol Annex. Representative Rob Rothenburger, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Danny Carroll, Co-Chair; Representative Rob Rothenburger, Co-Chair; Senators Perry B. Clark, Reginald Thomas, Stephen West, Whitney Westerfield, and Phillip Wheeler; Representatives Lynn Bechler, Chris Fugate, Ruth Ann Palumbo, Steve Riley, and Walker Thomas.

Guests: Troy Robinson, Executive Director, Office of Administrative Services, Finance and Administration Cabinet; Tom Delacenserie, President and CEO; Kentucky Lottery Corporation; Mary Harville, Senior Vice President and General Counsel, Kentucky Lottery Corporation; Chip Polston, Senior Vice President, Communications and Public Relations, Kentucky Lottery Corporation; and Maggie Garrison, Vice President, Finance, Kentucky Lottery Corporation.

LRC Staff: Greg Hager, Committee Staff Administrator; Christopher T. Hall; Van Knowles; Jean Ann Myatt; Jeremy Skinner; William Spears; Shane Stevens; Susannah Stitzer; Joel Thomas; and Christy Young, Committee Assistant.

Minutes for August 23, 2019

Upon motion by Representative Thomas and second by Representative Fugate, minutes for the August 23, 2019 meeting were approved by voice vote without objection.

State Motor Vehicles

Mr. Robinson said that in December 2015, the new Governor Bevin administration wanted to look at fleet to understand how money was being spent and what any common complaints were. The administration had noticed that approximately $6 million, sometimes much more, was being swept from fleet each year.

A 1-year study that began in 2016 indicated four major issues to be addressed. First, there were many underutilized vehicles. Of the approximately 3,800 vehicles with GPS units, 574 had been driven less than 5,000 miles per year. The expectation is 13,000 miles. Staff contacted each cabinet to discuss this issue. The number of underutilized vehicles was reduced somewhat. Second, for over 20 years, Kentucky had been using the IRS commute rule for permanently assigned vehicles, charging a rate of only $1.50 for a one way commuting trip. At this time, an audit of the Colorado vehicle program identified problems with assigning tax-exempt benefits to employees, which caught the attention of Kentucky officials. The two other major issues were pricing of vehicles and the replacement cycle.

At the time, there were four categories of vehicles. The majority were agency-lease vehicles: an agency buys a vehicle, turns it over to Finance and Administration Cabinet (FAC) fleet, and then pays a monthly assessment to use the vehicle. Some vehicles are federal vehicles that are purchased with federal funds for which FAC provides services such as maintenance, fuel, and insurance. Schedule 2 vehicles are near the end of their life cycle and have been repurposed. Motor pool vehicles was the remaining category.

There were 183 classifications of vehicles that were compressed into 48 classifications. The $6 million sweep was stopped, with the intent of returning $4.2 million to agencies. For agency-lease vehicles, the rate agencies pay was reduced by 17.5 percent. The monthly mileage threshold was increased to 1,225, with a charge per mile for going over. These actions resulted in savings of $3.8 million for agencies. At the time, there were 3,459 agency-lease vehicles. The 467 federal vehicles were changed to a cents-per-mile system that resulted in savings of $396,000. Savings were also achieved for the 90 schedule 2 vehicles. Total savings for agencies were $4.2 million.

Vehicles were not being replaced effectively. An annual $6 million purchase was done through JP Morgan. Vehicles were being replaced at 190,000 to 200,000 miles, which has been reduced to 165,000. Once the contracts are in place, the state will be purchasing $6 million worth of vehicles.

It was a long-term process to install 4,500 GPS units in vehicles, which included replacing the previous GPS model in most vehicles. As this was occurring, Kentucky moved ahead of what Colorado was doing. After consulting the IRS, a hybrid leased value model was established with an assumed vehicle lifespan of 72 months. The Commonwealth Office of Technology designed an app that tracks personal miles in vehicles based on input from users.

In September 2018, it became apparent that 4.2 percent of newly installed 2G GPS units were unreliable. The vendor said that 100 percent accuracy was not possible with these units. So far, 1,000 4G units have been installed, with 3,500 to go.

In response to questions from Senator Carroll, Mr. Robinson said that purchase contracts are done annually. Vehicles are generally purchased relatively locally. The vehicles he has been discussing do not include state police. Other agencies can purchase vehicles through a FAC master agreement. Other agencies with their own fleet are responsible for the vehicles' maintenance. FAC fleet vehicles are maintained at the state T1 Garage. If a vehicle cannot be repaired there, it goes to an outside shop at which the state has a discount. Agencies with their own fleets are responsible for wrecked vehicles.

In response from a question from Senator Carroll, Mr. Robinson said that FAC generally replaces a vehicle with the same or similar vehicle, but agencies can request a different vehicle.

In response to a question from Senator Carroll, Mr. Robinson said that four electric vehicles were purchased several year ago.

In response to a question from Senator Carroll, Mr. Robinson said that underutilization is the biggest area of waste he has found.

In response to questions from Representative Palumbo, Mr. Robinson said that 4G GPS units are being installed in 4,853 vehicles, some replacing 2G units. The cost per vehicle is $23 per month, including fees. The vendor is AT&T.

In response to a question from Senator Westerfield, Mr. Robinson said that the lifespan of vehicles varies. The current goal is 165,000 miles or 7 years. Agency preferences may differ from this.

Senator Westerfield asked what the breakdown is between vehicle use on state business and personal use. Mr. Robinson said he does not have good data on that yet. Some people are not paying the $1.50 per one way commute. Some are taking vehicles home who should not be. The number of personnel classifications that are eligible to take vehicles home has been reduced. An annual report to LRC lists the people that agencies allow to take home vehicles.

In response to questions from Senator Westerfield, Mr. Robinson said that all fleet vehicles have GPS. Tracking is done by WebTech, which gathers data and reports it to the FAC Office of Administrative Services. The data indicate that speeding by drivers of state vehicles can be a problem. Mr. Robinson said that his understanding is that the data collected by WebTech cannot be used for other purposes, but that he would check on this.

In response to a question from Senator Westerfield, Mr. Robinson said that one person is on call 24 hours per day to answer calls for roadside assistance.

In response to a question from Senator Westerfield, Mr. Robinson said that he would find out what the average daily operating cost is for the 4,800 vehicles.

In response to questions from Senator Westerfield, Mr. Robinson said that he could not say precisely how many vehicles agencies have outside the FAC fleet. A rough guess is 1,000. The major outside agency is the Public Protection Cabinet. He could not say for sure why agencies choose to remain outside the fleet. Agencies want autonomy to replace vehicles when they want. The savings from bringing outside vehicles into the FAC fleet would not be significant. He will try to put together numbers on the outside vehicles.

In response to a question from Senator Thomas, Mr. Robinson said that the average cost of the 4,800 vehicles is $22,500.

In response to questions from Representative Bechler, Mr. Robinson said replacement at 165,000 miles is not based on systematic data, but that he is comfortable with it.

In response to a question from Representative Bechler about what could be done to reduce the average price, Mr. Robinson said that there are a lot of trucks and SUVs; passenger cars would cost less.

Representative Rothenburger asked whether, since the average purchase price is good, there would be an advantage to selling vehicles at a lower mileage, which would reduce maintenance costs. Mr. Robinson agreed that the sale price would likely be higher and maintenance costs would be lower.

In response to a question from Representative Rothenburger, Mr. Robinson said that the Transportation Cabinet, which has approximately 1,800 vehicles, is not separate; his office works closely with staff there.

In response to a question from Representative Rothenburger, Mr. Robinson said that he did not know why the Public Protection Cabinet chooses to remain separate.

In response to a question from Senator Carroll, Mr. Robinson said that fuel services are bid out through Procurement Services. The state pays a reduced rate. Currently, Wex has the contract.

Kentucky State Lottery

Mr. Delacenserie’s presentation covered the background of the Kentucky lottery and the mission and attributes of the Lottery Corporation. He described lottery proceeds and the educational grants and scholarships funded with them. Instant and draw sales are available via more than 3,200 retailers. The online lottery is a small but growing share of sales. Of the more than $20 billion of sales since the lottery’s inception, 61 percent has been paid to winners and more than 26 percent is state revenue. He summarized the trend in sales and earnings for the state. He concluded by describing challenges facing the lottery.

In response to questions from Representative Rothenburger, Mr. Delacenserie said that the period to claim a winning Powerball ticket is 180 days. If there is no claim, the money is returned to the contributing states. Kentucky's portion goes to the KEES Reserve Fund [Kentucky Educational Excellence Scholarship]. The deadlines are shorter for other games, but unclaimed winnings also go to this fund. A ticket cannot be claimed after the deadline.

In response to a question from Senator Wheeler, Mr. Delacenserie said that the Lottery Corporation is capable of expanding into sports gaming. Direction would have to come from the General Assembly.

In response to a questions from Representative Bechler, Mr. Delacenserie said that the lottery has done research on the demographics of lottery participants, who are reflective of the population. Typical players are 35 to 55 and are high school graduates or have some college. Mr. Delacenserie said that he could provide more specific demographic information.

In response to questions from Representative Bechler, Mr. Delacenserie said that Kentucky's lottery proceeds per capita are average. Some states are just starting sports betting. Lotteries in states with casinos still seem to do well. According to gaming industry experts, there is a distinction between casino game and lottery players. He said that he could provide more detailed information on the competing sources of state gambling revenue.

Representative Bechler asked whether lottery revenue is set aside to help problem gamblers. Mr. Polston said that statute prohibits the corporation from providing direct services. For the past two decades, the corporation has worked with the Kentucky Council on Problem Gambling to push for legislation to allow direct services. In response to Representative Bechler's follow-up question, Mr. Polston said that if direct services were not prohibited, the most recent proposal from the council called for a $680,000 annual contribution from the lottery for treatment and awareness programs.

Senator Carroll noted that the Kentucky lottery gets only a 1.8 star rating. Mr. Delacenserie said that the corporation is aware of problems and is trying to improve the app.

In response to questions from Senator Carroll, Mr. Delacenserie said that GPS is used to determine whether someone buying a ticket online is located in Kentucky. Sales outside Kentucky are prohibited.

In response to questions from Senator Carroll, Mr. Delacenserie said that Vanna White is coming to Kentucky to promote a Wheel of Fortune ticket.

In response to a question from Senator West, Mr. Delacenserie said that annual marketing costs are about $8 million, operating costs are more than $200 million.

Senator Carroll asked about planned games. Mr. Delacenserie said that a new game called Fast Play is coming in October. There will be another $30 scratch-off ticket. The game Win Place and Show has been tested and will come out in April.

In response to a question from Senator Carroll, Mr. Delacenserie said that scratch-offs range from $1 to $30. The $1 ticket pays out the least to the player. The payout percentage increases as denominations increase.

In response to question from Senator Carroll, Mr. Delacenserie said that a vendor handles printing and security of scratch-off tickets and the calculations of what payouts should be.

In response to a question from Representative Bechler, Mr. Delacenserie said that for multi-state lottery games proceeds are based on each state's share of sales.

The meeting adjourned at 9:25 AM.