State of California • Arnold Schwarzenegger, Governor
State and Consumer Services Agency
DEPARTMENT OF GENERAL SERVICES
Executive Office

August 21, 2006

Ms. Diane F. Boyer-Vine
Legislative Counsel
State Capitol, Room 3021, B-30
Sacramento, CA 95814

Dear Ms. Boyer-Vine:

Pursuant to the requirements of the 2005 Budget Act, Item 1760-001-0666, Provision 11 (b), the Department of General Services (DGS) is submitting the California State Travel Portal Report.

In keeping with our commitment to encourage conservation, we have posted this report to our website. The report can be viewed at http://www.legi.dgs.ca.gov/Publications/2006LegislativeReports.htm. The report is entitled California State Travel Portal.

If you wish to receive a printed copy of this report, please contact Debra Bouler, Chief, Office of Fleet Administration, Department of General Services, at (916) 327-2007.

Sincerely,

Original signed by Ron Joseph, Director

Ron Joseph
Director

cc: See attached distribution list #2
Debra Bouler, Chief, Office of Fleet Administration, Department of General Services

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Statewide Travel Program

A Report to the Legislature on Cost Savings Opportunities

Prepared by:

Rob Cook, Deputy Director, Interagency Support Division
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Executive Summary

This report responds to Budget Act Item 1760-001-0666, Provision II(b), of the 2005-2006 California State Budget. In this report, we detail progress to date in reducing State travel costs and we provide recommendations for further cost reductions.

The mission of the Department of General Services (DGS) Office of Fleet Administration (OFA) is to provide cost-effective transportation for State employees on official business. The OFA's Statewide Travel Management Program (Program) executes this mission by competitively bidding and managing the State's travel contracts for airlines, car rentals, travel agencies, and the State's travel payment system provider. This award-winning Program[1] maintains the twin objectives of providing flexibility to meet the business needs of the State while trying to capture best pricing on behalf of taxpayers.

This program has undertaken a number of initiatives to reduce travel costs for State agencies. These initiatives include introducing capacity-controlled airfares to reduce airfare costs, the rollout of Southwest Airlines SWABIZ program, leveraging our purchasing power to reduce car rental costs, and implementing online access to travel agencies to reduce booking fees.

With capacity-controlled seating, airlines set aside a limited number of seats at reduced fares on each flight. United, American, Japan, and America West Airlines won contracts to provide lower-cost service to 203 destinations. These new airfares are dramatically lower – as much as 63 percent lower – than our standard unrestricted contract airfares that have no limitations on the number of seats available to State travelers at the contract price.

The Statewide Travel Program continues to rollout access to the Southwest Airlines online business travel site known as SWABIZ (www.swabiz.com). There are now 20 State agencies using this program.

The State's effort to leverage our rental car spend is a success. At contract award in January 2006, full year savings were expected to reach $3 million. Savings through April hit $1.1 million. Full year savings will exceed the $3 million target.

In moving to online access to travel agencies, the State's average agency fees have dropped from more than $20 down to $14 per transaction. This will produce savings of more than $1 million in 2005-2006.

As envisioned, the State's travel portal was to unify the point of entry for travelers to simplify access to the State's travel vendors, to encourage behavioral changes, to reduce State travel costs, and to capture reports to reinforce best practices in travel. We expect our travel payment services provider to enhance the capability of the State's travel portal (www.travel.ca.gov) to meet these objectives during the 2006-2007 fiscal year.

Building on these successes will require the Program to focus on two objectives – keeping things simple and encouraging improvements in travel booking behavior. Access to travel services must be simple. If the path to savings increases complexity, program compliance will suffer. The DGS will work with State agencies to promote simplicity and to encourage the use of the most cost-effective options for State business travel.

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1 The Society of Government Travel Professionals recognized the Statewide Travel Program with the 2005 Government Travel Awards for Best Program for the car rental and travel agency innovations detailed in this report.

Statewide Travel Management

The mission of the DGS, Statewide Travel Program is to provide cost effective transportation for State employees on official business. The OFA's Program executes this mission by competitively bidding and managing the State's travel contracts for airlines, car rentals, travel agencies, and the State's travel payment system provider. The Program also maintains the State's Lodging Directory.

This Program has undertaken a number of initiatives in the last year to reduce travel costs for State agencies. These initiatives, discussed in this report, include the following:

- a new approach to reduce airline fares;
- the rollout of Southwest Airlines SWABIZ program;
- enhanced car rental services at reduced costs; and
- online access to travel agencies to reduce costs.

Travel Savings Initiatives

General Airline Travel

In 2004-2005, State employees made 164,584 airline trips on State business, spending more than $42 million. The State's dominant carrier is Southwest Airlines. Southwest provides 70 percent of the State's air travel and takes 53 percent of the State's spend. The annual volume of State employee trips on Southwest would fill more than 1,900 planes. United Airlines is a distant second – providing 18 percent of the State's air travel and taking 30 percent of our annual spend.

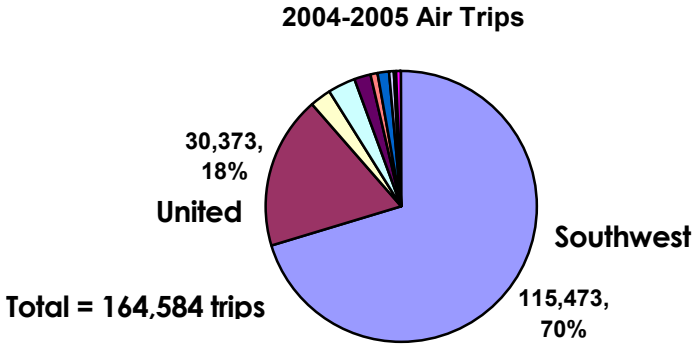

Chart 1 – 2004-2005 State Air Trip Data

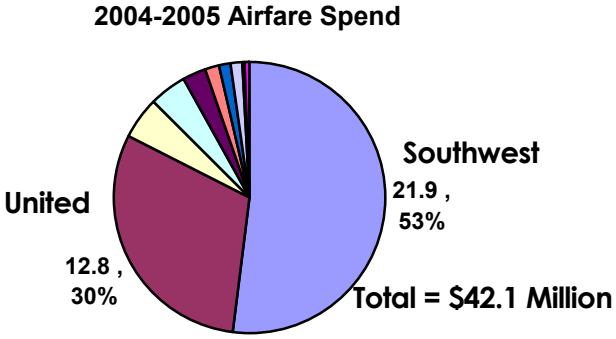

Chart 2 – 2004-2005 Airfare Spend in Millions

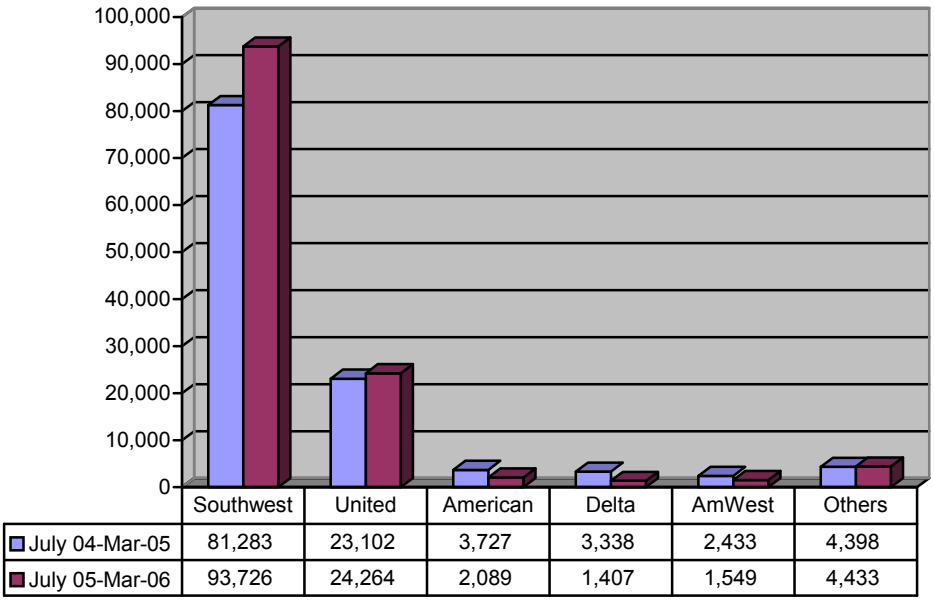

Chart 3 -- Year-Over-Year Travel Volume by Carrier

Chart 3 above provides a year-over-year comparison of State air travel from July 2004 through March 2005 and July 2005 through March 2006 – covering the first three quarters of the respective fiscal years. Current year airline trips have increased from 118,282 to 127,468 – a year-over-year increase of 7.7 percent. Despite the increase in trip volume, our spend is up only two percent – from $30,752,328 to $31,367,961. This indicates that the State is getting better value for its airfare spend. This is borne out by our experience with our two largest air carriers. Southwest's volume has grown 15.3 percent while our spending with Southwest has risen a little less at 14.4 percent. United's volume has grown approximately five percent while our spending with them has risen less than one percent.

Prior Practice

The State of California has a long-standing practice of contracting with air carriers to provide low-cost travel for State business. The State issues annual bids for the lowest priced fare between a long list of starting and ending points – such as Sacramento and Burbank – these starting and ending points are known as city-pairs. Our contracted fares are available to State agencies, local governments, the California State University, and the University of California – including the Lawrence Berkeley and Los Alamos laboratories.

The State has historically asked airlines to offer bids on unrestricted and fully refundable airfares that provide a fixed price for any seat on a plane – whether the reservation is made two months in advance or on the way to the airport. These unrestricted fares provide some savings, predictability, and maximum flexibility for State travelers, but they do not capture best pricing.

New Approach – Capacity-Controlled Airfare

In July 2005, the Program issued an invitation to bid with the objective of obtaining best pricing. This bid asked for "capacity-controlled" airfares. "Capacity-controlled" means that airlines set aside a limited number of seats on each flight for State department, university, and local government travelers. United, American, Japan, and America West airlines won

contracts to provide lower-cost service to 12 intra-California city-pairs, 153 out-of-state city pairs, and 38 international city-pairs. Select one-way city-pair prices are noted in Table 1 below.

Select City-Pairs		Unrestricted	Airline	Capacity Controlled	Airline	Savings
Los Angeles	Fresno	$80.00	United	$55.00	United	-31%
Los Angeles	San Francisco	$120.00	United	$70.00	United	-42%
Los Angeles	Chicago-O'Hare	$275.00	United	$170.00	United	-38%
Los Angeles	Shanghai China	$1,020.00	Japan	$640.00	Japan	-37%
Oakland	Washington Nat'l	$310.00	United	$185.00	United	-40%
Sacramento	Eureka/Arcata	$190.00	United	$130.00	United	-32%
Sacramento	Mexico City	$350.00	American	$225.00	American	-36%
Sacramento	Austin	$350.00	America West	$298.00	America West	-15%
San Francisco	Santa Ana	$120.00	United	$90.00	United	-25%
San Francisco	NYC Kennedy	$499.00	United	$185.00	United	-63%
San Francisco	Shanghai China	$1,020.00	Japan	$640.00	Japan	-37%
San Jose	Chicago-O'Hare	$298.00	United	$180.00	United	-40%
Santa Ana	NYC Kennedy	$350.00	United	$200.00	United	-43%
Santa Barbara	San Jose	$160.00	American	$130.00	American	-19%

• Table 1 -- 2005-2006 A Sample of Unrestricted and Capacity-Controlled Airfares

Results

The capacity-controlled fares have been in place since September 2005. These new airfares are dramatically lower – as much as 63 percent lower – than the fares we obtain through our traditional approach. The only catch is that there are a limited number of seats available at the lower prices – State travelers must plan ahead and make travel arrangements early to capture the savings.

The Program has created an opportunity for savings – but we do not yet know the magnitude of the savings we are achieving. We are asking our travel agencies to report on the usage of the capacity-controlled airfares versus our unrestricted fares. As this report is going to publication, we do not yet have the results in.

The Program maintains the twin objectives of providing flexibility to meet the business needs of the State while trying to capture best pricing on behalf of taxpayers. Consequently, the Program's latest bid, awarded in May, invited airlines to offer unrestricted, capacity-controlled, and internet airfares.

Southwest Airlines Business Travel – SWABIZ

Pilot Project

In October 2004, the Statewide Travel Program initiated a pilot project with Southwest Airlines online business travel site known as SWABIZ (www.swabiz.com). There were two key findings from the pilot — first, the potential savings are substantial; and second, without disciplined adherence to best booking practices, the savings are difficult to attain. The analysis concluded that if airline tickets can be consistently ordered 14 days in advance using SWABIZ, the State could achieve compelling cost savings – adding up to millions of dollars for State and local governments.

Our rollout to date confirms the two findings from the pilot project.

SWABIZ Rollout

The rollout of SWABIZ involves two major activities – creating master Southwest accounts agency by agency to conduct travel transactions and converting individual State travelers to book their flights online instead of calling a travel agent. This is not revolutionary. Certainly, private citizens have been doing this since travel websites started in the 1990s – nevertheless, it is a big change for State agencies and State employees.

Southwest Airlines has partnered with the Program to train State travel coordinators and other employees on the new way of booking travel. As of June 1, 2006, the Program has rolled out the SWABIZ program to 20 State departments and one California State University campus.

Results

Table 2 below identifies the total volume, number of round trips, and the average airline spend for July 2005 through March 2006 on SWABIZ. The program has taken off slowly – only 2,186 round trips have been booked from July 2005 through March 2006. This is only 2.3 percent of our travel volume on Southwest. This slow takeoff is actually helpful in addressing rollout issues.

Date	Round Trips	Volume	Avg Spend
July 05	167	$35,392	$212
Aug 05	199	$44,186	$222
Sept 05	251	$55,765	$222
Oct 05	230	$52,607	$228
Nov 05	226	$51,117	$226
Dec 05	272	$64,611	$238
Jan 06	248	$60,288	$244
Feb 06	328	$77,381	$236
Mar 06	265	$64,202	$242
TOTALS	2,186	$505,549	$231

- Table 2 -- SWABIZ Rollout Activity 2005-2006

Access to State Contract Airfares

The State contract airfares with Southwest serve as a safety net for State travel costs – ensuring that the State pays no more than the contract rate. Southwest will make the State's contracted rates available as a booking option for State travelers on SWABIZ effective July 1, 2006. With direct access to the State's contract fares and Southwest's promotional fares, the State is now poised to save money.

Booking Behavior

Another key issue is the booking behavior of those using SWABIZ. The promise of SWABIZ lies in the ability to take advantage of airfares that are lower than the State's contracted rates. SWABIZ frequently offers low prices to key State destinations. Obtaining these lower rates requires early booking – 14 days in advance of the trip. Our limited experience with SWABIZ so far indicates that many employees are booking only a few days in advance – when the lowest price tickets are no longer available. The DGS will work with State agencies to encourage early booking when it is feasible for State business travel.

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Car Rental

State agencies require a high volume of rental cars to satisfy State business needs. At current usage rates, State employees will rent vehicles more than 106,000 times in the next 12 months. In January of this year, the Program leveraged the State's volume to get a better deal for taxpayers and State agencies. The results are exceeding expectations.

Prior Practice

For many years, the State of California awarded contracts to as many as seven rental car companies. Companies simply provided a maximum-capped rate that covered rental, insurance, local taxes, airport surcharges, and sales taxes. The State did not offer any incentives to use one provider over another. This practice provided maximum flexibility to State travelers, but it split the State's substantial business between a number of vendors. We were not giving enough business to any one company to attract the lowest price.

New Approach – Leveraging the State's Spending

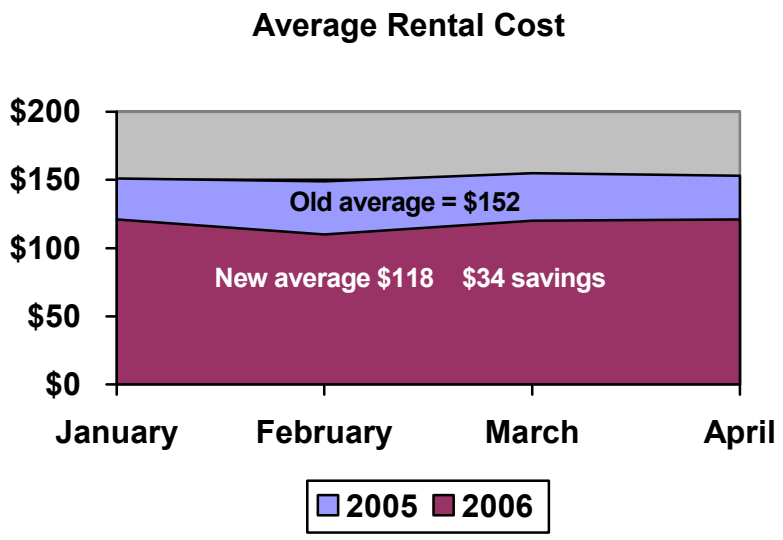
The Program issued an invitation to bid in December 2005 seeking to maintain flexibility on behalf of State travelers while obtaining best pricing. The structure of this competitive bid produced a primary rental car provider who would take the majority of the State's business, and a secondary provider who could serve the State when the primary provider could not do so.

In January, Enterprise Rent-A-Car won as the primary vendor – reducing their maximum-capped rate from $55 to $38.84 – a savings of more than 29 percent. Vanguard, which operates Alamo and National car rental companies, won the award as the State's secondary provider. If Enterprise is unable to provide service, then State employees will be able to go to the secondary vendor.

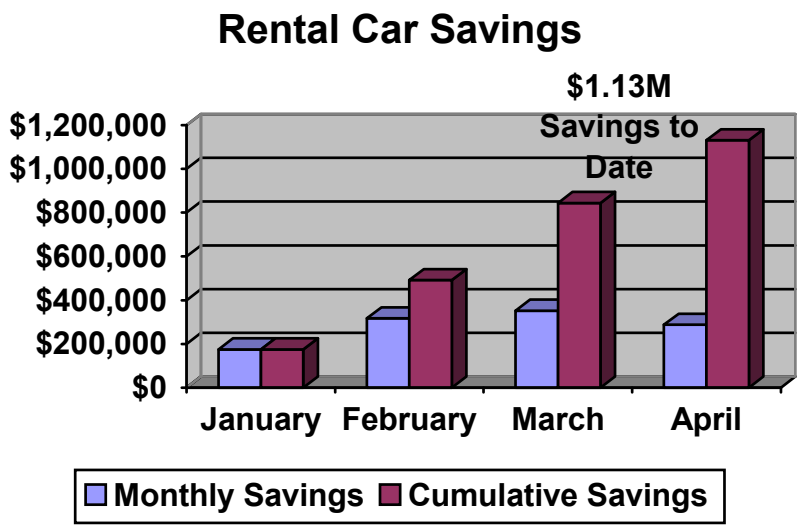
Results

The car rental contract went into effect in January 2006. Charts 4 and 5 below depict the savings that the State is capturing from the new contract. As shown in Chart 4, the State's average rental was for multiple days and the average transaction was $152 prior to the new contract. Today, the average rental transaction is $118 for an average savings of $34. Chart 5 shows the aggregate savings since the contract went into effect. At contract award, full year savings were expected to reach $3 million. Savings through April hit $1.1 million. Based on this run rate, full year savings will exceed the $3 million target.

In addition to lower prices, Enterprise initiated a counter bypass service specifically for State employees to avoid waits in long lines at rental counters. This service reduces downtime for traveling employees, thereby increasing the productivity of State workers on out-of-town assignments.



• Chart 4 -- Average Rental Cost 2006



• Chart 5 -- Rental Car Savings

Travel Agencies

Travel agencies book travel on behalf of State travelers and then bill the State's travel payment system provider who, in turn, sorts and consolidates the charges and bills State agencies.

Under the State's prior practice, travel agencies were allowed to charge up to $25 per transaction to book travel on behalf of State employees. One hundred and fifty-five travel agents provided services to State agencies. Most, if not all, employees accessed travel services via telephone. The average fee charged was more than $20.

New Approach – Consolidation and Online Booking

After conducting an informal market survey of traditional and online travel booking services, it was determined that the rate the State allowed was too high. In the spring of 2005, a new request for qualification was issued that required our agents to provide an online reservation and booking system to reduce costs and then set the maximum rates at $10 per transaction for standard services. For special handling – such as for special needs children and adults, disaster response, and prisoner extradition – the service fee was set at $15. Twenty-seven travel agencies meet the State's requirements and provide services to State agencies.

Results

American Express[2] reports that travel agencies booked 102,275 transactions from July 2005 through March 2006 – for a total of $1.4 million. The State's average agency fees have dropped from more than $20 down to $14.00 per transaction. This creates annual savings of slightly over $1 million.[3]

Travel Portal

As envisioned, the State's travel portal was to unify the point of entry for travelers to simplify access to the State's travel vendors, to encourage behavioral changes to reduce State travel costs, and to capture reports to reinforce best practices in travel.

In developing requirements for the Travel Portal, we determined that our travel payment system provider is the appropriate host for this technology since they have all of the essential travel data in their payment data systems to meet the portal's objectives. As a result, our travel payment provider can develop and administer a much more powerful tool to manage the State's travel and can do so at no cost to State agencies. We expect our travel payment services provider to enhance the capability of the State's travel portal (www.travel.ca.gov) to meet our business objectives during the 2006-2007 fiscal year.

[2] American Express is the State's current travel payment system provider. The transactions noted here are not all of the State's travel transactions. Most travel agencies bill through this mechanism; however, some travel agencies bill their fees directly to State agencies.

[3] To compensate for fees directly billed to agencies, this figure is based on the total number of airline bookings from July 2005 through March 2006.

Recommendations

Achieving improved results will require the Program to focus on two objectives – keeping things simple and encouraging improvements in travel booking behavior. Access to travel services must be simple. If the path to savings increases complexity, program compliance will suffer. In order to achieve savings, the DGS will have to make it easy for State travelers to identify the lowest cost option and then work with State agencies to encourage early booking when it is feasible for State business travel.

Simplification

To simplify matters for State travelers, we must encourage Southwest Airlines to place links to Enterprise on the SWABIZ website to make rental car booking simpler for State travelers.

Culture Change

Achieving travel savings requires mechanisms to drive essential behavior. Agency management needs visibility into travel booking behavior to encourage change. The Program can assemble a Departmental Travel Cost Analysis Report. Such a report will be issued quarterly to department directors and agency secretaries. The report can identify travel activity and behavior for agency travelers and provide recommendations for reducing travel costs.

Another mechanism that may drive better booking behavior is to encourage travel agents and employees to book capacity controlled fares by better educating employees and travel agencies regarding the options.

In addition, positive reinforcement can play a role in changing the culture. The Program can institute an annual recognition program with two components — first, departmental innovations can be nominated for recognition to highlight and disseminate best practices; and second, recognition can be given to departments and agencies that are being cost-effective with their travel dollars.

New Category Opportunities

The State's lodging and hotel expenditures are an untapped frontier for reducing travel costs. The Program is investigating industry best practices, identifying the highest leverage opportunities, and will then execute an agreement to reduce lodging costs.

Appendix 1 – Year-Over-Year Air Travel Volume and Spend

Airline Carriers	Dates	Trips	Spend	Average
Southwest	7-04 to 3-05	81,283	$15,516,237	$191
	7-05 to 3-06	93,726	$17,755,410	$189
United	7-04 to 3-05	23,103	$9,658,698	$418
	7-05 to 3-06	24,264	$9,739,568	$401
American	7-04 to 3-05	3,727	$1,398,555	$375
	7-05 to 3-06	2,089	$981,048	$470
Delta Airlines	7-04 to 3-05	3,338	$1,697,070	$508
	7-05 to 3-06	1,407	$683,414	$486
America West	7-04 to 3-05	2,433	$879,809	$362
	7-05 to 3-06	1,549	$647,812	$418
Continental	7-04 to 3-05	1,018	$444,152	$436
	7-05 to 3-06	1,426	$567,762	$398
Alaska	7-04 to 3-05	1,693	$465,983	$275
	7-05 to 3-06	1,634	$474,247	$290
Northwest	7-04 to 3-05	621	$359,716	$579
	7-05 to 3-06	461	$242,021	$525
US Airways	7-04 to 3-05	403	$168,689	$419
	7-05 to 3-06	369	$144,761	$392
Jet Blue	7-04 to 3-05	663	$163,419	$246
	7-05 to 3-06	543	$131,918	$243
TOTALS	**7-04 to 3-05**	118,282	$30,752,328	$259.99
	7-05 to 3-06	127,468	$31,367,961	$246.08
Year-over year increase (decrease)		**7.77%**	**2.00%**	

Appendix 2 – Enterprise Car Rental Expenditures 1st Quarter 2006

Rank	Department	Blue Card	Business Travel Account	Total
1	CORRECTIONS	$112,715.51	$172,971.31	$285,686.82
2	CALTRANS	-	$258,680.00	$258,680.00
3	SOCIAL SERVICES	$2,031.84	$149,312.33	$151,344.17
4	HEALTH SERVICES	$25,984.53	$124,346.78	$150,331.31
5	OFFICE OF EMERGENCY SERVICES	$1,757.20	$138,878.39	$140,635.59
6	BOARD OF EQUALIZATION	$3,622.73	$133,737.03	$137,359.76
7	EDUCATION	$12,144.96	$106,004.94	$118,149.90
8	EMPLOYMENT DEVELOPMENT	$8,431.12	$90,292.11	$98,723.23
9	JUSTICE	$8,017.78	$84,497.60	$92,515.38
10	DGS	$80,494.96	-	$80,494.96
11	FRANCHISE TAX BOARD	-	$65,999.97	$65,999.97
12	FORESTRY	$24,948.30	$31,606.06	$56,554.36
13	DMV	$7,532.25	$44,333.57	$51,865.82
14	CHP	$3,576.08	$33,358.83	$36,934.91
15	FOOD AND AGRICULTURE	$14,462.36	$19,165.40	$33,627.76
16	INSURANCE	$681.29	$28,089.57	$28,770.86
17	PARKS & RECREATION	$1,488.98	$24,258.87	$25,747.85
18	CONSUMER AFFAIRS	$24,134.13	-	$24,134.13
19	WATER RESOURCES	$14,782.78	$5,361.28	$20,144.06
20	INDUSTRIAL RELATIONS	$857.08	$16,168.69	$17,025.77
21	REHABILITATION	-	$16,659.06	$16,659.06
22	WATER RESOURCES CONTROL BOARD	$4,826.14	$11,433.56	$16,259.70
23	JUDICIAL COUNCIL	-	$15,987.22	$15,987.22
24	TOXIC SUBSTANCE CONTROL	-	$13,517.12	$13,517.12
25	AIR RESOURCES	$12,014.79	-	$12,014.79
	Top 25 Totals	$364,504.81	$1,584,659.69	$1,949,164.50
	All other Departments not in top 25			$416,956.13
	Total for all CSU/UC Accounts			$258,869.66
	Total for all City/County Accounts			$91,779.95
	Total Spend for All Accounts			$2,716,770.24

- Table 3 – Data provided by Enterprise Rent-A-Car