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FISCAL IMPACT REPORT

ORIGINAL DATE 03/02/11
LAST UPDATED 03/15/11 **HB** 575/aHEC

SPONSOR Miera

SHORT TITLE School Bus Fuel Costs From Trans. Emerg. Fund **SB** _____

ANALYST Gudgel

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY11	FY12		
	NFI		

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriation in General Appropriation Act. Section 5 includes a \$1.2 million appropriation from the Emergency Transportation Fund to PED to cover increased fuel costs.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Education Department (PED)

SUMMARY

Synopsis of HEC Amendment

SEC amendment removed the requirement that reimbursements be based on miles traveled in order to eliminate distribution on a pro-rata share to all districts and state-chartered charter schools, and eliminates the requirement that districts and charter schools provide supporting documentation that they have incurred increased costs due to higher fuel prices.

Synopsis of Original Bill

House Bill 575 amends Section 22-8-29.6 of the Public School Finance Act. During the 2010-2011 school-year and the 2011-2012 school, PED shall make distributions from the Transportation Emergency Fund first to provide additional funding to school districts and state-chartered schools for increased school bus fuel costs. The distribution of funding shall be based on miles traveled to-and-from transportation of public school students. School districts and state-chartered charter schools shall request funds for fuel from the fund and provide supporting documentation that they have incurred increased costs due to higher fuel prices. PED shall approve request for funding for fuel cost increases and make distributions on a reimbursement basis.

This language was included in House Bill 3, requiring PED to prioritize distributions to cover increased school bus fuel costs. The language was adopted by HAFC in the General Appropriation Act.

Currently, the Transportation Emergency Fund can only be used to fund transportation emergencies that affect the safety of students receiving to-and-from transportation services.

FISCAL IMPLICATIONS

PED relies on the “Lundberg Survey Incorporated” to estimate annual fuel costs. The survey gives national average fuel prices based on the cost at pumps nationwide. The survey is used annually to project the funding needed by school districts and state-chartered charter schools for to-and-from transportation. According to this survey, the average wholesale price for diesel gasoline was \$2.56 per gallon during the first quarter of the current fiscal year. During the second quarter, the average price per gallon increased to \$2.76. According to PED fuel costs are continuing to increase, and could possibly increase to \$3.00 per gallon by the end of the third quarter.

For the 2010-2011 school year, school districts and school bus contractors have budgeted approximately \$9.2 million for fuel costs to drive an estimated 35 million to-and-from miles. According to PED, using these budgeted figures, the average price per gallon budgeted by school districts is approximately \$2.11. Based on these budgeted figures, the projected shortage to date is approximately \$2.1 million. If fuel prices reach the \$3 mark, the estimated shortage may be approximately \$3.3 million.

These projected shortages may be slightly low, however. Based on FY11 40th day data, school districts report an estimated 33.3 million to-and-from miles will be driven during the 2010-2011 school year. It is also unclear if the fuel estimates the department is using are reliable estimates. The Lundberg Survey provides an average of at pump fuel costs on any given day, and does not forecast future costs. The Department of Transportation is currently estimating diesel prices to range around \$2.38 per gallon for FY12. If the DOT estimate is correct, the projected shortfall would be closer to \$1.2 million.

The Transportation Emergency Fund currently has a balance of approximately \$2.2 million. The General Appropriation Act appropriates \$1.2 million of this balance to PED to cover increased school bus fuel costs. The General Appropriation Act also adopted language that requires PED to prioritize distributions from this \$1.2 million to cover increased school bus fuel costs.

PED has indicated that at least \$500 thousand of the balance in the Transportation Emergency Fund should be left for transportation emergency situations that are covered by the current language in Section 22-8-29.6 that allows the department to distribute funds to ensure the safety of students receiving to-and-from transportation services. Earmarking all balances in the fund will reduce the ability of PED to establish emergency spending priorities that fall outside increased fuel costs.

In addition to the \$1.2 million appropriation from the transportation emergency fund, the General Appropriation Act also includes a special appropriation to the Board of Finance for \$750 thousand for use in FY11 and FY12 for emergency loans or grants with priority for fuel costs for schools and state police vehicles

Enactment of this legislation will require PED to prioritize all distributions made from the transportation fund to cover increased school bus fuel costs.

SIGNIFICANT ISSUES

PED's provided the following analysis:

Language contained in the bill provides for the distribution of funds based on miles traveled for to-and from-transportation. This provision includes distribution through the formula regardless of need and does not take into consideration specific circumstances that may require more or less funding per mile. Distribution of funding should be considered based on an application process that requires the districts to demonstrate need rather than a straight distribution.

Transportation funding is similar to the SEG operational funds in that a school district receives an annual allocation calculated through a statutory formula, and then has the discretion to budget the funds wherever they are needed. Therefore, if a school district has under-budgeted for fuel costs, it has the flexibility to increase the budgeted fuel amount and decrease another line item within the transportation function in the uniform chart of accounts.

Private contractors may have less flexibility since they negotiate their contracts on an annual basis. Increased fuel costs will decrease the profit margin for contractors who may have negotiated contracts assuming lower gas prices than the current average price.

ADMINISTRATIVE IMPLICATIONS

The Transportation Bureau of PED will be required to review and approve requests to ensure that school districts and charter schools have incurred additional expenses due to higher fuel costs. The Bureau may also be required to establish a methodology for allocating these funds to ensure they are distributed objectively and equitably.

OTHER SUBSTANTIVE ISSUES

Section 22-8-26 of the Public School Finance Act allocates money in the transportation distribution of the public school fund for the purpose of making payments to each school district or state-chartered charter school for the to-and-from school transportation costs of kindergarten through twelfth grade students attending public school within the school district or state-chartered charter school, and three- and four-year-old developmentally disabled children, and for transportation of students to and from their regular attendance centers and the place where vocational education programs are being offered.

If a school district's or state-chartered charter school's transportation allocation exceeds the amount required to meet obligations to provide to-and-from transportation, three- and four-year-old developmentally disabled transportation and vocational education transportation, 50 percent of the remaining balance shall be deposited in the transportation emergency fund.

Districts and state-chartered charter schools are allowed to retain the other 50 percent so long as at least 25 percent is used for to-and-from transportation-related services, excluding salaries and

benefits, and up to 25 percent may be used for other transportation-related services, excluding salaries and benefits as defined by rule of the department.

ALTERNATIVES

Only include language in the General Appropriation Act to appropriation a portion of the Transportation Emergency Fund for increased fuel costs to ensure PED has sufficient funds remaining in the Transportation Emergency Fund to cover other emergencies.

RSG/bym