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F I S C A L I M P A C T R E P O R T

SPONSOR HAFC **ORIGINAL DATE** 1/30/18 **LAST UPDATED** 2/09/18 **HB** 86/HAFCS

SHORT TITLE School Bus Replacements and Contracts **SB**

ANALYST Liu/Lobaugh

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY18	FY19	FY20	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		($0.0 - $27,735.0)	($0.0 – $15,070.0)	($0.0 – $42,805.0)	Recurring	Capital Outlay Funds

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to SB 94, HJM 6
Relates to School Transportation Distribution in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files
Legislative Education Study Committee (LESC) Files

No Responses Received From
Public Education Department (PED)

SUMMARY

Synopsis of Bill

The House Appropriations and Finance Committee (HAFC) Substitute for House Bill 86 requires PED to grant a school district's or contractor's request to use a school bus in excess of 12 years, contingent upon satisfactory annual safety inspections.

FISCAL IMPLICATIONS

The bill does not contain an appropriation. The fiscal impact is dependent on how many school districts and contractors would request to use school buses in excess of the current 12-year school bus replacement cycle.

If no school districts or contractors request to use school buses in excess of twelve years, then the bill would have no fiscal impact. The statutory requirement to replace school buses within 12 years will remain, obligating the state to replace 315 school buses from the 2005, 2006, and 2007 cohorts at an estimated cost of $27.8 million in FY19. It is unlikely many school districts will

choose to exercise this extension option because school operations are indefinite and the state is obligated to replace these fleets. Some contractors may choose to exercise these options if buses are still in good condition after 12 years and strategic incentives exist to extend the replacement cycle.

In an analysis of a similar bill, PED notes the costs of maintaining older buses increases as school buses age. Districts note transportation expenditures will likely increase if school district-owned buses are not replaced after 12 years.

This bill may delay statutory requirements to replace 114 school-district owned buses purchased in 2007. Due to a backlog of school bus replacements, 201 buses from the 2005 and 2006 cohort are still waiting for replacement as well. PED estimates the cost of replacement for each bus to be about $85 thousand. See the following chart for additional detail:

School District-Owned Buses		FY19	FY20	FY21	FY22
Current 12-year replacement cycle	Bus cohort(s) scheduled for replacement	2005, 2006, 2007	2008	2009	2010
	Number of buses	315	158	95	44
	Estimated cost of replacement (in thousands)	$26,775.0	$13,430.0	$8,075.0	$3,740.0

Source: PED, LESC

The bill may delay statutory requirements to replace contractor-owned school buses. Contractor-owned school buses are rented, and fees are paid over a maximum period of five years; however, the buses are used for the entirety of the 12-year cycle. PED staff has indicated rental fees on contractor-owned buses are about $20 thousand per bus over a five-year amortization period.

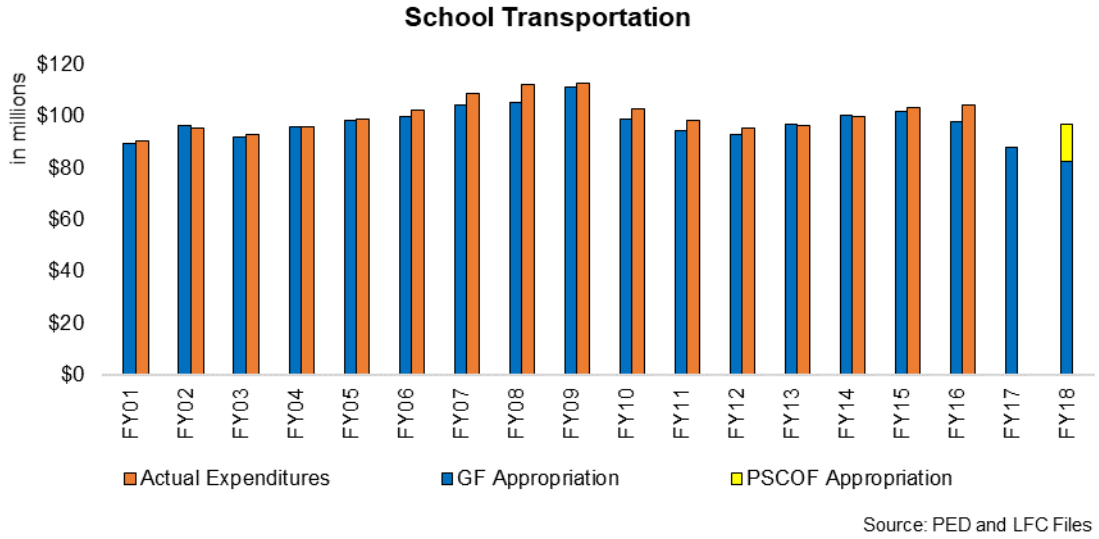
Contractor-Owned Buses		FY19	FY20	FY21	FY22
Current 12-year replacement cycle	Bus cohort scheduled for replacement	2007	2008	2009	2010
	Number of buses	48	82	106	148
	Estimated cost of financing (in thousands)	$960.0	$1,640.0	$2,120.0	$2,960.0

Source: PED, LESC

In 2017, the Public School Facilities Authority indicated $31.4 million from the public school capital outlay fund (PSCOF) was used to replace school buses during the previous five fiscal years. Extending the school bus replacement cycle to 15 years may alleviate pressure to use general fund, PSCOF, or other capital outlay appropriations for school bus replacement.

Appropriations for the school transportation distribution in the General Appropriation Act reached $111 million in FY09, but have since remained below that funding level. In response to revenue shortfalls during FY17, the Legislature began using PSCOF to supplant general fund appropriations for transportation and textbooks. Legislation from the October 2016 special session set aside $25 million from PSCOF each year until FY22 to be appropriated by the Legislature for school transportation and instructional materials and allowed school districts and charter schools to use prior year cash balances from the transportation and instructional materials allocations for operational purposes. Actual school transportation expenditures have typically fluctuated around the appropriated amount; however, school districts and charter schools have

increasingly supplemented these costs with operational state equalization guarantee (SEG) dollars.



Source: PED and LFC Files

Statewide data from PED suggests that maintenance and repair costs for buses through the transportation distribution and operational funds has increased in recent years. The HAFC substitute for HB2 and HB3 includes $98.8 million in general fund and PSCOF appropriations for the transportation distribution for FY19. This amount is a $2 million, or 2 percent, increase from FY18 operating levels. The substitute also includes a $33.4 million, or 1.3 percent, increase to SEG funding for general operational purposes.

FUND	FUNCTION	DESCRIPTION	FY12	FY13	FY14	FY15	FY16
Pupil Transportation	Student Transportation	Maintenance & Repair - Furniture/Fixtures/Equipment	$23,456	$17,405	$32,350	$24,253	$17,990
Pupil Transportation	Student Transportation	Maintenance & Repair - Buildings and Grounds	$34,062	$14,934	$154,121	$107,461	$187,398
Pupil Transportation	Student Transportation	Maintenance & Repair - Vehicles	$26,265	$37,212	$54,735	$36,014	$48,935
Pupil Transportation	Student Transportation	Maintenance & Repair - Buses	$464,116	$594,910	$630,791	$1,172,694	$1,080,479
Operational	Student Transportation	Maintenance & Repair - Furniture/Fixtures/Equipment	$10,245	$13,644	$14,089	$3,516	$4,493
Operational	Student Transportation	Maintenance & Repair - Buildings and Grounds	$5,514	$0	$6,171	$0	$0
Operational	Student Transportation	Maintenance & Repair - Vehicles	$29,845	$43,155	$42,159	$43,798	$42,110
Operational	Student Transportation	Maintenance & Repair - Buses	$249,523	$292,205	$252,443	$301,030	$363,685
TOTAL			**$843,027**	**$1,013,464**	**$1,186,859**	**$1,688,765**	**$1,745,091**

Source: PED

SIGNIFICANT ISSUES

Provisions of the Public School Finance Act require PED to establish a systematic program for the purchase of necessary school bus transportation equipment. Among its other provisions, statute requires that:

- PED provide for the replacement of school district-owned and contractor-owned buses on a 12-year replacement cycle;
- school districts requiring additional buses to accommodate growth or special needs petition the department for additional buses outside of the normal replacement cycle; and
- under exceptional circumstances, school districts may also petition the department for permission to:
    - replace buses prior to the completion of a 12-year cycle; or

- use buses in excess of 12 years contingent upon satisfactory annual safety inspections.

In PED administrative rule, provisions further specify that all school buses, including spare and activity buses, shall not be operated for any purpose once they have become 20 years of age from their manufacture date.

PED reports 2,038 to-and-from school buses traveled about 29.6 million miles in FY17. This averages to about 14.5 thousand miles for every bus annually. Extrapolating the average annual miles traveled to 12 years would equal about 174 thousand miles traveled. A number of districts, particularly those in the northwest corner of the state and in rural ranching communities, deal with unpaved roads and struggle to keep current fleets operational for 12 years. These districts must make significant investments in replacement parts. Some parts, like bus frames, cannot be replaced and are prone to cracking and failure after long-term usage, especially under challenging environmental conditions. PED notes these districts have made few requests for replacement cycle changes in the past.

Statute requires PED to take the following actions regarding contractor owned buses:

1. establish a system for the use of contractor-owned buses,
2. establish a schedule for the payment of rental fees for the use of contractor-owned buses,
3. establish procedures to ensure replacement of buses on a twelve-year replacement cycle,
4. pay rental fees not to exceed five years,
5. calculate the remaining number of years that a bus could be used based on a twelve-year replacement cycle and calculate a value reflecting that use in the event a school bus service contract is terminated or not renewed by either party, and
6. ensure the school district deducts an amount equal to that value from any remaining amount due on the contract, or if no balance remains on the contract, the contractor shall reimburse the school district an amount equal to the value calculated.

ADMINISTRATIVE IMPLICATIONS

PED will be required to change the current rules and regulations to align with provisions of this bill. The department notes giving contractors the option to replace their buses beyond 12 years will change estimates of funding needs for future bus replacements. Extending the maximum life of a bus will also affect how PED calculates the overpayment on rental fees of a bus whenever a school bus contract is terminated or not renewed.

Extending the maximum number of years that a school bus can be used for transporting students to-and-from school increases the probability of safety components wearing out and will require more diligence on the part of safety inspectors to ensure parts that are more prone to failure such as brakes, steering components, and suspension parts are identified early and replaced.

RELATIONSHIP

This bill relates to Senate Bill 94, which includes $6 million to PED for school bus acquisitions statewide, and House Joint Memorial 6, which requests the use of funds from the Volkswagen settlement to purchase electric school buses. The bill also relates to the school transportation distribution of the 2018 General Appropriation Act.

OTHER SUBSTANTIVE ISSUES

In 2002, the National Association of State Directors of Pupil Transportation Services (NASDPTS) issued an informational report titled "School Bus Replacement Considerations," which considered factors in developing and implementing school bus replacement schedules. The report noted school bus replacement schedules can reduce the operating cost of a bus over its anticipated lifetime, improve the safety of buses through compliance with the latest federal standards, reduce emissions, and increase fuel efficiency. The NASDPTS report highlighted alternative replacement methodologies, including an approach that considered mileage, age, and environmental conditions.

NASDPTS highlights two independent 1980s studies from California and Washington that found annual operating costs of school buses began to increase significantly after 12 years of use. The association also cites a 2000 study of life cycle costs for similar school buses in South Carolina that indicated a 15-year replacement cycle was sufficient as long as analyses of school buses with greater average mileages were evaluated for replacement "based on mileage accumulation not age." According to the Federal Highway Administration, the average annual mileage for all school buses is approximately 8,000 miles; however, unique geographic factors and the availability of spare and substitute schools buses may result in individual school buses accumulating much higher annual mileage values than the national average. NASDPTS also cautions while higher annual mileage accumulation may be used as a criterion to shorten lifetimes of individual buses, lower than average annual mileage accumulation is not necessarily a criterion to use buses for an extended number of years. A 2013 LESC report advocated a blended age and mileage approach to school bus replacement funding. The report recommended including an age limit alongside a scaled mileage limit.

On September 25, 2016. a partial consent decree in the lawsuit entitled *In re: Volkswagen "Clean Diesel" Marketing, Sales Practices, and Product Liability Litigation* was finalized. The lawsuit addressed Volkswagen's admission of purposely, and over a sustained period of time, employing prohibited emissions defeat devices on their diesel passenger vehicles that resulted in excess emissions of nitrogen oxides (NOx). Under the consent decree, New Mexico is eligible to receive over $18 million to implement projects that reduce emissions of NOx from vehicles. Eligible mitigation projects include projects that reduce NOx emissions in freight trucks; school, shuttle, or transit buses; ferries and tugs; forklifts; electric or hydrogen vehicle charging stations; and airport ground support equipment.

Proceeds of the settlement can be used to provide reimbursements to replace or repower older class 4-8 trucks or buses. Eligible buses include class 4-8 school buses with a 2009 engine model year or older. New Mexico school buses with 2010-2012 engine model years may also qualify due to state regulations requiring upgrades to older model years. Funding is contingent upon scrapping or repowering the older bus. For buses owned by governmental entities, funding is authorized at up to 100 percent of the cost of a new replacement bus or repowered engine regardless of the technology type. For buses owned by non-governmental entities, the funding is up to:

- 25 percent of the cost of a new diesel or alternate-fueled bus;
- 40 percent of the cost of repowering the bus with a new diesel or alternate-fuel engine; or
- 75 percent of the cost of replacing or repowering the bus with electric vehicle technology.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The statutory requirement to replace school buses within 12 years will remain, obligating the

state to replace 315 school buses from the 2005, 2006, and 2007 cohorts at an estimated cost of $27.7 million in FY19.

SL/al